



“Sonata Software Limited Q1 FY16 Results Conference Call”

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EXECUTIVE OFFICER**
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Moderator: Ladies and gentlemen, Good Day and Welcome to the Sonata Software Limited's Q1 FY16 Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy. Thank you and over to you, sir.

Srikar Reddy: Thank you Karuna and good morning everybody and welcome you back to our Analyst Call following the First Quarter Results Financial Year 2016. I have here with me Prasanna Oke – our CFO who you all got acquainted last time around and Sathya – Head of Finance and Accounts and Priya Jaswani – Company Secretary.

So before I ask Prasanna and Sathya to take you through a more detailed analysis of the financials which have already now been put up on our website, I will just give you a brief qualitative update on where we are as a company and this is more or less in line with whatever we have been saying on the last few quarters on our strategy of focusing on a few verticals that is travel, retail, distribution and ISBs and a very specialized, horizontal focus mainly around digital technologies combined with lot of alignment with our existing clients and a very structured go to market approach. We had also cautioned I think in the last this thing that we would be making more investments and we are quite actually happy to report the results for this quarter in terms of our growth on both top-line and bottom-line based on whatever we have done in the last few quarters, so we are quite happy with what we have achieved in the quarter.

The second aspect is that we made an announcement also yesterday that we have acquired a 100% of a company called Halosys based out of California in the US and that is completely aligned with the twin strategies we have of focusing on digital and focusing on an IP led services growth. We did one on our vertical focus which was Rezopia about nine months ago and that was aligned to our IP lead services growth and we have done this now which we announced yesterday that we have signed a definitive agreement. Now this is basically aligned to companies who want to engage in digital transformation, mobility is a very key element of most companies who want to go on the digital transformation path. We see that the trend more and more going forward is mobile first, that is enterprises are going to start deploying mobile technology within the enterprise, the trend so far as been mobile has been deployed outside the enterprise that is mainly on B2C applications kind of stuff. So we see this platform which really enables enterprises to go mobile ready through the pre-billed IP both in terms of application development, deployment, analytics, security, and integration will give a very strong differentiated value proposition to our overall digital transformation agenda and very specifically are enterprise mobility strategy.

I will now ask Prasanna and Sathya to take you through the financial highlights for the quarter and then we will be very happy to take questions which you may have.

Prasanna Oke:

Srikar thank you and good afternoon to all of you. Our results and investor deck have been on our website since last evening and I hope you have had a chance to go through it. I will take you through the highlights of the quarter. Just to update based on some of the feedbacks and inputs that we got from the last time, the conference we have added in some additional data which is there in the investor deck.

So this quarter has been good to us and you might have seen in the quarterly press release almost all the growth parameters are positive. We have been able to sustain some of the traction and growth that we have been seeing in the last few quarters. Our focus continues to remain to grow both from the organic and inorganic route and you are aware that we had the press release yesterday on a definitive agreement to acquire Halosys.

So quick look at our financial performance on a consolidated basis for quarter one FY15-16. This quarter saw the best revenues, EBITDA and PAT for us over the last few quarters, revenues stood at 479 crores with a growth of 22% sequentially and 15% over the previous year. EBITDA was at 56 crores, again sequential growth of 11% and 26% year-on-year, PAT at 38 crores against sequential growth of 10% and 19% of the previous year. Cash and cash equivalents are approximately about 220 crores.

On the international IT services that the way we breakup our business, we had the revenues of 166 crores Q-on-Q growth of 2%, Y-on-Y growth of 19%, this business contributes about 35% of our consolidated revenues. Revenue growth year-on-year has been 12% from the international IT services business, EBITDA at 42.3 crores, Q-on-Q growth of 8%, and year-on-year growth of about 19%. PAT close to about 30 crores, a quarter-on-quarter growth of 7%, year-on-year of 13% and this contributed about close to 78% of our consolidated PAT. One of our focus has been DSOs, for the current it is about 55 days as compared to 61 days in the previous quarter.

The part of the business, domestic products, and services. Revenues were about 390 crores, Q-on-Q growth of about 36%, EBITDA stood at 14.4%, Q-on-Q growth of 24%, PAT grew Q-on-Q by 19%. So these are financial updates and we can take questions. Sathya?

R. Sathyanarayana:

Yes, other thing is during the quarter we have received an Income Tax interest refund of about 2.72 crores.

Moderator:

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Amar More from India Nivesh Securities. Please go ahead.

Amar More:

Sir, I wanted to know, if you can add a bit more about the product engineering and what kind of services we are actually in to the product engineering?

Srikar Reddy:

Yes, basically we are on a complete gamut of product engineering services but our focus is really what we call take the product of companies to be able to work in the new digital world, so that

is our core offering saying we will build you or transform your product or products for the future, so that means how do we enable the product to move on to the cloud, how can we build a modern analytics platform around it, how can we do a mobile enable those platforms. So those become our let's say, and then we have got a couple of new offerings which is DevOps, DevOps is becoming a cloud management more a product engineering firm. So these are the services where we go with what is called a cutting edge offering and obviously we will do then what we call is our 360 degree offering that is we say we do everything around and that's where our India business comes and plays a big role because we are also able to offer them a marketing engine for them to access the Indian market apart from building, deploying, professional services, support and maintenance and testing kind of stuff. But that is like really the underlying and then followed by very strong engineering processes which are specifically designed for product engineering firm. As you know, there are two different processes which get applied when you build products or when you do enterprise services.

Amar More: Correct. So sir we are also into the mechanical designing, right?

Srikar Reddy: No, we are purely into application software product engineering.

Amar More: Okay, Application and software product engineering.

Moderator: Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: On the IT services side are we seeing any significant slowdown as far as this year is concerned?

Srikar Reddy: Not really, I think we have had some let's say slowdown with a few key clients but I think the good part is that we have been able to ride over that this quarter and this is something which I had mentioned sometime ago, I think that is a good part. We have also had a very healthy pipeline build up last quarter, it is one of the better quarters we ever had in building up pipeline. So at an overall level we are very happy with qualitatively what we have achieved last quarter both in terms of pipeline buildup and deal closures, although in a couple of places because of strategic reasons we have seen some slowdown but nothing to do as a generic trend in the industry.

Mohit Jain: So should we expect, because your growth if I look at it in the last few quarters has slowed significantly in 1Q, on a QoQ it was flattish, so should we expect this more like a quarterly thing and do you expect this growth to accelerate going forward or do you think these project delays or ramp downs may continue to impact you for another few quarters?

Srikar Reddy: I would think that at least another quarter we will have this kind of a challenge and then we believe that whatever pipeline we have in the deal closure we look to have should be able to take us back to a steady growth rate on top-line.

- Mohit Jain:** Alright. Second is on the margins, on the IT services piece again, do you think that this is the likely level of margins or do you think further investments required and then if that is the case what is the steady state margin we should expect in the IT services business?
- Srikar Reddy:** No, I think I did say that when it was about 24 or 25 of that about 21 or 22 I think net of all FOREX kind of stuff is where we should be and I think we are more or less there, I do not see, then there could be a variation to the theme, I think this quarter we have had a little higher on sight portion to our revenues so that dropped our margins a little bit but that is more of a temporary kind of a quarterly phenomenon and not a long-term secular trend.
- Mohit Jain:** So the current 22% is what you reported?
- Srikar Reddy:** 21, 22, yes we should be comfortable, yes.
- Moderator:** Thank you. Our next question is from the line of Pritesh Vora from Incendo. Please go ahead.
- Pritesh Vora:** Sir, how do you break your horizontal and verticals percentage wise?
- Srikar Reddy:** I think we have put that information out on the analyst deck, I can ask Prasanna to again read out the numbers again.
- Prasanna Oke:** Yes, so if we look at the verticals, I mean the OPD travel, CPG and retail, so on the OPD side we are about 34%, on a travel we are about 32% and CPG and retail distribution is about 16%, about 15% to 16% comes from all the others. So that is how we are spread on the verticals. Again, on the horizontals we have got the service lines and investor deck so we got ADM testing, ERP, IMS, BI. So we have a spilt there, ADM is about 26% and then we have E-Comm, mobility, cloud, Rezopia top of that roughly about 20% or so.
- Pritesh Vora:** Right. And what will be our digital space, what is the percentage what we saw on the digital side?
- Srikar Reddy:** Roughly what we are seeing is about 26% of our revenues come in from the digital space.
- Pritesh Vora:** 26% revenue?
- Srikar Reddy:** Right.
- Pritesh Vora:** And what growth rates it is growing at?
- Srikar Reddy:** If we look at the horizontal standalones, if you look at some of the investments that we are doing, some of the focus that we have we expect this to be growing. Again, it depends on what it is but I think a lot of our focus is here so we can expect it to grow faster.

- Pritesh Vora:** Okay. And what can be our growth rate in the Indian business, we have a large Indian business right?
- Srikar Reddy:** Yes, the Indian business is more or less in line to the overall growth rate of the sector in India, so I mean grow about 10%, 12% kind of stuff and that is what we have been achieving over the last 13, 14 quarters and you got to look at it as a purely as I said return on capital employed and a margin and EBITDA business and not percentage of top-line business. So that has been about on an average about 15%, 18% kind of thing, we expect that trend to continue and as we go and do newer thing there could be addition to that as we go forward as we add newer types of businesses to our Indian business.
- Moderator:** Thank you. Our next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, this digital, are we selling it mainly to our existing top 10 accounts or are we adding new clients there and what are the current deal sizes?
- Srikar Reddy:** Our majority of our new wins are really driven by digital, about 80% of our new client wins are through digital either through our hybrids or dynamics modern retail or mobility, so these are what are driving new client wins for us, not the traditional services.
- Madhu Babu:** Okay. So I am asking within our top10 accounts also are we seeing traction in our digital offerings?
- Srikar Reddy:** Yes, absolutely, we see traction in both our existing client and majority of new wins are through digital.
- Madhu Babu:** And sir could you talk about your deal sizes in digital as well as how you are retaining a skill set considering that you are most a south centric company and the kind of attrition we are seeing in the market?
- Srikar Reddy:** Our attrition as we said has increased about 18% and in most of these things we are building ourselves in skill and the scale because a lot of it is not available. And then we have, we believe we have a fairly good entry level attraction and retention of talent at least for the first five years of peoples journey and that is important for us that we build scale and skill in these spaces kind of stuff. So and I think we have been able to do that quite effectively over the last few years, so that is what we are doing really from a talent management perspective. It is not a much of a lateral stuff for us, a lot of it we have built it over some of it from scratch kind of thing but now we have got some descent scale so we are able to expand that further.
- Madhu Babu:** Okay. And the deal sizes and any downstream revenues from the digital side which is an opportunity for us?

- Srikar Reddy:** Sure yes, absolutely, I think while digital is a great way to enter there is obviously a lot of scope for cross selling other services and that is really the strategy for us, it is not just enter through digital and stay digital but then to see at least get one or two service lines additional into an account and that is what we are doing and then actually we are investing a lot more on that in terms of more dedicated kind of a client champions and how do we once we get in what can we do with these accounts. So that is something we are focusing on a lot more now this quarter onwards.
- Madhu Babu:** Okay. And sir lastly on the sales, can you give us the headcount and how many are hunting and farming, any data on that?
- Srikar Reddy:** Well, for us I would say about more than 60% would be your definition of farming, 40% would be hunting.
- Moderator:** Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Hi sir, just a follow-up on the acquisition, are you sharing any financial details in terms of revenues and margins and people transferred, etc?
- Srikar Reddy:** Okay. We did share some details I think in SEBI, stock exchange release, the deal size is \$5 million, \$2 million upfront, \$3 million earn out. The company is fairly new so they have been focused on actually creating a platform so the revenues are less than a \$1 million. We do not expect the first quarter to be revenue accretive, for us as I said it is a lot more strategic to make our whole offering compelling. We have not factored any indirect service revenues which may get because we have something like this and we may get other mobility services we have not factored that into any kind of ROI kind of stuff, we are really right now looking at how much we can get actually from licensing the platform kind of stuff. So and the total company size is about 20 people, 10 people are based out of the US and they have a small back end in India of another 10 people.
- Mohit Jain:** And all of them are joining you now as part of the deal?
- Srikar Reddy:** Yes, yes they are joining and selling to.....
- Mohit Jain:** And I guess this entire 1 million would be licensing revenue?
- Srikar Reddy:** There are services revenues on the licensee revenues, the company has invested a lot of money in building the platform over the last 1.5 years, so they have been in the market with the platform for about 3 to 6 months. I think it needs a little bit more infusion of funds to scale up the platform to be able to do something more because we actually compete with fairly decently large size players in this space, so we need to invest more in building this thing. So because of that there are some services revenues in the \$1 million.

- Mohit Jain:** Okay. Any other liability that you have taken along with it?
- Srikar Reddy:** No, nothing, this is clean whatever valuation I am talking about is on a debt free liability free basis.
- Mohit Jain:** Okay. And lastly on the domestic business, what kind of margins should we expect there?
- Srikar Reddy:** This is like, even if we do a 10% growth it will go to 5.5%, so it is a big number so the needle will move very slowly, I think that is a business one should look at, it would not become from 5% to 6% to any quickly kind of stuff because it has got a large base kind of thing. The EBITDA will grow steadily and as I said the other way to look at it is to look at the return on capital and return on net worth. It will take some time for the needle to move and it will as I said to move it by 1% is like a 20% growth in margin, so it is a significant number kind of stuff. So it will take some time for that to show kind of stuff from an absolute margin perspective.
- Mohit Jain:** Directionally you will keep moving like 20, 40 basis points whatever depending on the quarter?
- Srikar Reddy:** Yes, the intent is that, we are looking at more cloud and appliances, we are looking at security consulting and a whole lot of stuff but they will all, the basic licensing volume is so high that whatever we do on the other part, overall then otherwise soon within the domestic business we will start reporting a segment result to you so then you may get a better idea.
- Mohit Jain:** Right. And on the IT side as you said one more quarter of flattish sort of growth, on a full year basis are you looking at any growth number compared to the industry?
- Srikar Reddy:** I do not know what is your definition of industry, there are a lot of people.
- Mohit Jain:** Let's say 12%?
- Srikar Reddy:** You will be definitely better than majority of them.
- Moderator:** Thank you. Our next question is from the line of Samrat Dasgupta from SKS Capital Advisors. Please go ahead.
- Samrat Dasgupta:** My question was, you claim to be very strong in the retail domain and there is so much ecommerce boom happening in India yet you do not seem to be that optimistic about the India business, so is it not a lucrative market for you?
- Srikar Reddy:** I think we have to find a different way I think for, because the big guys spend their own money, the Flipkarts of the world are like equivalent to the Amazons or whoever it is, they have their big teams and they are actually hiring people from Silicon Valley and all that to drive the technology.
- Samrat Dasgupta:** So they are building their own systems, is it?

- Srikanth Reddy:** Absolutely, I am sure each of them are investing upwards of \$100 million and building their own platform. So really then our solution is for really what we call the brick to click that is take the retailers in India who want to go digital and who cannot really afford to spend \$100 million. So but that needs to go through a platform kind of a strategy, services strategy won't work there because then it becomes very expensive. We are looking at it, we have done a couple of things this last quarter, we have done two transformations, taken two big size retailers in India to digital, so possible we can make that as a product size kind of thing, maybe we have a pan India otherwise as a purely services it will be a big challenge to be able to serve the Indian market.
- Moderator:** Thank you. Our next question is from the line of Abhishek Shindadkar from ICICI Direct. Please go ahead.
- Abhishek Shindadkar:** Could you give a color on what happened especially in the domestic business this quarter in terms of the revenue growth?
- Prasanna Oke:** Yes, thanks Abhishek. See our domestic business again while we do see variances across quarters on the revenues on account of some of the large deals, etc coming through. So if you really look at the revenues we do have a fairly large jump of about 60 crores, 70 crores so it is not consistent across any quarters, we do see the EBITDA, and we do look at the returns that we get on capital employed. So I think we are on track with that, obviously we will see a little bit of the changes what you have been seeing but we hope to keep it somewhere in this range.
- Abhishek Shindadkar:** And secondly on the services business, as to reiterate what Mohit was asking, given what we have seen in the past two quarters in terms of dollar growth, do we still believe that we will be able to achieve at least 12% to 14% kind of dollar number growth for the full year? And given that you are saying that Q2 again could be a soft quarter?
- Srikanth Reddy:** Yes, as I said our current pipeline and deal status we do believe that we can achieve that. So possibly better positioned to tell you as we get more clarity next quarter but we still think that we could, I think we did about \$98 million last year so we need to do 10% is \$106 million, \$107 million, so we are about \$104 million run rate today. So yes, I think yes.
- Abhishek Shindadkar:** Okay. And the client weakness that you are talking about, is it specific to any particular vertical or maybe if you can give some color about what is happening in the top 10 clients.
- Srikanth Reddy:** Yes, it was not a specific to any vertical, it is more to do with their own internal strategies, some one of them was an ISP client who for whatever reason wanted to restrict the number of product they want to keep in their portfolio. So basically they said that they do not want 10 products they are more than happy to deal with five products kind of stuff, so the expected transformation of the other five products did not happen so it was more a strategic decision from the client kind of thing, not anything to do with any general trend kind of stuff.

- Moderator:** Thank you. Our next question is from the line of J Daniel from Corporate Database. Please go ahead.
- J Daniel:** Sir, you have an IP based growth strategy that you have been thinking off, acquisition of the Rezopia platform was I think part of that. How has the experience been till date on this and what percentage of your sales is IP lead as of now and what percentage of your sale do you foresee this to be in the next three years?
- Srikar Reddy:** Good question. I think Rezopia is similar to what we are doing with Halosys, the platform was we needed to invest more in making the platform more complete so that it could deal with the requirements both from a scale perspective and segment perspective which we have done quite a bit and then which we are adding. The second is that again because of the lack of their previous ability to spend money on marketing it didn't come with a large pipeline so we have invested a fair amount in the last six to nine months in marketing, we have participated in about six travel events now globally in the last six to nine months. The response to the platform has been good, our pipeline has grown up quite steadily for that, we are also able to interest our non-even Rezopia platform potential customers with the fact that we have this platform, we are able to get us entry strategy and conversations with clients. So going forward our strategy will be significantly driven by this IP lead, I mean that's what is going to be a differentiated led strategy but they may not all lead to a revenue for the IP, so let me make myself very clear but the differentiated strategy is going to be very heavily IP lead and very specialized led. So it has got to be because we have no other story to tell kind of stuff, so you keep getting more and more about our messaging and the way we target customers and market and kind of stuff. But it could lead to revenues in aligned spaces, it need not be exactly that there will be revenues for the IP or services around the IP.
- J Daniel:** Okay. And what percentage does it account for on a broad basis?
- Srikar Reddy:** Right now it is fairly small, a slight less than six to nine months in the company now, it is less than 10%. This is slight long-term and we are focused, we believe that that's the way to go and that's a call we have made and that is going to continuingly our focus going forward, it is a long-term strategy, a lot of people have tried it, it will take time but we are focused and committed to it.
- J Daniel:** And where do you see it, say three years from now how do you see it panning out?
- Srikar Reddy:** I believe that is 30%, 40% of our revenues four years from now should be driven by this kind of a strategy, that is our belief.
- J Daniel:** And what would it's impact be on margins and what would be its impact on staff linearity to revenues?

- Srikar Reddy:** Right now we have not factored both of them into it, we have purely factored a competitive differentiating positioning, we have not factored that it will lead to non-linearity or we have not factored it will lead to higher margins, we have not factored that at all that's the reason why we are doing it, we are just doing this to be more competitive.
- J Daniel:** Okay. And I think last year I think Sonata held out a broad strategy of doubling sales in next three years through both organic and inorganic, does that FY18 targets still stand?
- Srikar Reddy:** Yes, that is the intent yes.
- J Daniel:** That still holds out?
- Srikar Reddy:** Yes.
- J Daniel:** And would be looking at more acquisitions in the current year or...?
- Srikar Reddy:** Yes, we are and I mentioned it, it is again aligned to IP platform focused, wherever we are focused in the horizontals, that's the strategy, all the verticals we are looking at. So we will continue to look at that which can give us a front end and access to customers and or IP kind of stuff. So it is going to be a continuous process.
- J Daniel:** What would be the kind of money that you would put in, I mean the maximum for a deal what would...?
- Srikar Reddy:** That is a difficult question to answer, right now we are look at about \$25 million to \$30 million.
- J Daniel:** Okay. And will you be able to sustain last year's revenue growth in IT services in the current year?
- Srikar Reddy:** That's what I said, I just answered somebody's question so that we have one or two quarters of where we are today kind of stuff, we believe that based on what we see today that leads a 10% on annual growth over what we have achieved in the last year it is possible.
- Moderator:** Thank you. Our next question is from the line of Prakash Dua, Independent Analyst. Please go ahead.
- Prakash Dua:** Mr. Srikar we have got result for quarter Q1, we have 2 new clients in this quarter compared to eight clients last quarter. Secondly, can we know as to how many countries we are entering now because France we opened but there is no mention on that, France we have opened an office, how many countries we are opening the offices? And second is about the average rate of realization, how much these in dollar term per hour and the headcount we will be adding or what is the waiting period for the investment we can think of like six months or 1 year or 18 months, I would like to know. Thank you.

- Srikar Reddy:** Okay. I think there are three, four questions in that. So one is you are talking about, you just mentioned that there are 8 customers last quarter and 2 customers this quarter, so you just mentioned that as a fact. So you talking about how many new offices and countries are we going into? France, I think we mainly did to really enable us to do business in France, we have not yet done that as a major investment to put people and grow the market we already have business, we needed to have an entity kind of thing. And otherwise most of the markets we want to be we are already there, we have done Australia and I think we did Singapore, we did Middle East. So we believe that we are in the market where we want to be, we may do some strategic partnership or something to enter new markets, but I think we are in the markets we want to be in. About the question on rates, I will ask my colleagues to share with you the rates, average realization rate for both onsite and offshore in terms of dollars. And then you got a question on investment, can I hear the last question again please?
- Prakash Dua:** Yes, sir. Sir investments how much do we intend to make and what is the payback period, it is six months or 12 months or 18 months for results to grow IPR of investments make?
- Srikar Reddy:** Investment in what kind, investments in account management should grow...
- Prakash Dua:** For infrastructure if we make some building platform as you said, so how much it will be?
- Srikar Reddy:** Got that, okay. I think each kind of investment has got a different return period for us and investing in an account we expect that to be in six months. If we invest in a completely new technology or platform that we will be doing in two to three years, investing in completely new geography that will be 18 months to 24 months, so the varying period of measurement of investment for us.
- Moderator:** Thank you. We have a follow-up question from the line of J Daniel from Corporate Database. Please go ahead.
- J Daniel:** Sir I just wanted to revisit number of 10% which you gave for international IT services growth for the current year, because year-on-year in the first quarter you have grown 19%, I am referring to your sheet year.
- Srikar Reddy:** Right, I know that. But the question was on dollar terms.
- J Daniel:** Okay, so dollar terms you are saying you will grow 10% for the year?
- Srikar Reddy:** Correct.
- J Daniel:** But in rupee terms you will be able to sustain last year's growth?
- R. Sathyanarayana:** Yes, rupee terms will be much better than that.
- J Daniel:** So rupee you should be able to sustain last years IT services growth right?

- Srikar Reddy:** See, it will depend a lot on the FOREX also and seeing that USD is kind of little bit appreciating so we do get some tailwind from there but what we are also focusing is on the true growth which as mentioned and you've quoted the numbers, so that is something that we will be working towards.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** My first question is regarding the Rezopia, can you give me the revenue in this quarter from Rezopia?
- Prasanna Oke:** It is there on the investor deck, so we are talking about 3% to 4% of what, it is probably about \$1 million plus in this quarter.
- Vipul Shah:** Okay. And second question is regarding sir, can you give average offshore and onshore rate?
- Prasanna Oke:** Yes, so when we are looking at a realization with offshore we get roughly about \$25 per hour onsite is in the range of \$60 to \$65 is what we could get, so that is on a kind of a average that we have.
- Vipul Shah:** Okay. And lastly, FOREX is around 6.5 crores gain in this quarter, right?
- R. Sathyanarayana:** Yes.
- Vipul Shah:** So in your presentation has FOREX been included in your EBITDA of 42.28 crores or is it separate?
- R. Sathyanarayana:** Yes, it is included.
- Vipul Shah:** Okay. So minus FOREX your EBITDA come down, any reason?
- Srikar Reddy:** Yes, as we said that there is a higher percentage of onsite revenues and then we had increase in compensation cost last quarter. But I think it seems to be we are taking this as business as usual, last quarter we had a loss and people felt that there was a profit after tax loss although there was a FOREX loss kind of stuff. I think we should just take it as business as usual.
- Moderator:** Thank you. Our next question is from the line of Puranik from Enam Securities. Please go ahead.
- Puranik:** I have a question relating to your recent acquisition, the Santa Clara company, I just want to understand is it a horizontal infrastructure, horizontal application services provider and is it development platform or is it a SAAS based platform, what exactly is this and how does it fit into Rezopia how do you combine these two or is it just a development platform?

Srikar Reddy: No, lot of questions there Puranik, good questions. So it is a horizontal deployment platform that means when enterprises want to go mobile and want to develop mobile applications, one is you develop it using Android or iOS or whatever it is. Now to deploy it what you need is you need to take care of the security of these applications so that means who can use it and all that kind of stuff. So those components come built into the platform. The second is you need to be able to integrate it to different back end systems in the enterprise, so those come part of SAP and we did all that stuff, and we are going to build more of it. And the third is, how do you manage these applications, who gets access to it and the fourth is usage analytics, what is the analytics on the mobile app and so on and so forth. So typically what happens is that when you build an application then sometime the developer has to take care of all this and built into it. So what we saying is we come with a readymade platform so that you do not have to worry about all this, we can just then now focus on building more and more and so that you can deploy them and it has also got a development tool kit, it is also a mobile application development platform but that is not the strongest aspect of the platform. So that is I think, so we are able to then more like a thought leadership and resulting approach then we go to enterprises saying we can define for you what your enterprise mobility strategy should be.

Puranik: So that means your scope of your service offering will get expanded, you are not just developing an application you are putting it on the mobile platform and also integrating the relative ecosystem enterprise application, is that this thing?

Srikar Reddy: Yes, it is. So B2C is what most people are focused on, we believe now that there B2E and B2B applications will be the focus going forward. So for that enterprises need something more than just a pure app dev which can be hosted on an iTunes store or whatever kind of stuff.

Puranik: So in the absence of this, or you are missing out on some of the opportunities today?

Srikar Reddy: In the absence of this, we are not missing out on opportunities but our ability to get into more opportunities would go up I think significantly, it will grow up to the order of four or five times the magnitude.

Puranik: So that means you will be able to get into relatively largest scope of your services?

Srikar Reddy: That is right, we could position ourselves as the enterprise mobility partner of choice because we are going with a complete suite now not only an ability to develop the app but a complete fleet in terms of deployment, management, security and everything else and it is our own platform and today some of these platforms, I mean there are other platforms but they cost a bomb, they cost huge amount of annual licensing fee kind of stuff. So we are saying it is almost, it is a package deal kind of thing. So I think both from a competitive cost percentage the perception of enterprises of somebody who actually thought through all this because when we explain what is behind it then it shows thought leadership saying these people have thought through what it means to go mobile. So looked at all the angles and we have already taken care

of it with some readymade platform and it is a cloud platform so it can be deployed inside the facility or it runs on the cloud so we can run it for the enterprise.

- Puranik:** So it can be a SAAS based offering or it is typical IT services project or what is that exactly?
- Srikar Reddy:** This platform is both available on the cloud and we can also license it on premise or within the firewalls of the enterprise, depending up on their needs.
- Puranik:** So what kind of customers would be the licensing customers in this?
- Srikar Reddy:** The big enterprises who do not want their mobile apps to be on a public cloud, but there are some who are quite happy with sharing the platform where we manage everything for them, their apps and everything else then those clients meet and run the hosted platform.
- Puranik:** So how much more time it would require to get a large enterprise to get a licensing contract with you, when will that happen?
- Srikar Reddy:** These are again solid evaluations because enterprises are going to be evaluating these platforms so it could take anything between six months to nine months if you start today. We have actually before we did the deal we have got into two places.
- Puranik:** So what is the current customer profile of this company?
- Srikar Reddy:** The current customer profile is there is a company which is a large hosting provider where they want to offer this platform to their client, so large cloud infrastructure hosting provider who wants to license this platform so that their clients can put their mobile apps and manage it kind of stuff. And there is another healthcare provider who is actually using the platform to deploy and manage their approximately.
- Puranik:** So how many clients this company has?
- Srikar Reddy:** For the platform it has got only three clients.
- Puranik:** And the client current revenue base?
- Srikar Reddy:** Well, revenue base as I said is less than \$1 million.
- Puranik:** And the deal size for your enterprise mobility offering can get better now with this \$2 million plus?
- Srikar Reddy:** You mean the deal sizes?
- Puranik:** Deal sizes, see the scope of your services that is changing today. So you are building the connector, you are getting into the enterprise connectivity, SAP and suite everything so there is

an additional services scope, there is additional IP scope. So in combination it should give you better revenue per customer?

Srikar Reddy: That's right, in the mobility space, our belief is that the strategy will help us play a larger role in enterprise mobility strategy, you got that right Puranik.

Puranik: From the scope of the services, can you define how would a new service offering on this mobility by acquiring the Santa Clara company would look like compared to what it is today, what exactly you do today and what will be the new scope of service?

Srikar Reddy: So today what we say is that we may develop app for you on whatever platform, so we say we can develop native, we can develop cross platform, we can develop HTML5 whatever it is, we have our few of our apps also so we say we can white label that, for retail and travel we have our own app so we say we can white label them for you. So tomorrow what we are saying is that, now if you want these are all B2C apps typically so tomorrow what we are telling enterprises is that you guys need to seriously think about enterprise, mobility and mobile first becomes where enterpriser starts first developing for the mobile and then for the desktop that you need to have a strategy and while you put a strategy then you need to think of 1, 2, 3, 4, 5 elements of development, deployment, management, security, integration, etc and we have some kind of a thought leadership on this, we can not only help you achieve your goals we have our own platform so you do not have to invest in anything more so you get more platform and service from a single partner and we take care of your complete enterprise mobility strategy. So that is what how our offering will change going forward.

Puranik: And your clients would include what vertical and what kind of client opportunity?

Srikar Reddy: Ideally we will go with our current client base in our verticals of travel, retail.

Puranik: So lot of cross selling will happen now?

Srikar Reddy: Yes, cross selling and going to market afresh. We have not look at whether we want to license it with third party for other verticals, so because it is a platform anybody can use it. So that is something we have to figure out in terms of how do we monetize this platform for verticals where we do not want to go to the market direct?

Puranik: So will there be partnership approach to go to market?

Srikar Reddy: Yes absolutely, that is what we will look at very seriously, I mean this company has some current partnership with one or two fairly large big names. So we will look at that very seriously and that will be a strategy as we go forward, as we create more and more platform because you may not be able to read the whole world ourselves so we need to have a partnership strategy.

Puranik: And the typical profile of partner would be what?

Srikar Reddy: Partner could be an SI, could be a national partner, could be an infrastructure provider who owns it and runs it as a platform for its clients. We got to think through various kinds of partnership model.

Puranik: It could be someone like Red Hat too?

Srikar Reddy: Yes, could be Red Hat, could be Accenture.

Puranik: Could be Accenture, because that's a large enterprise.

Srikar Reddy: Yes.

Puranik: So would a platform of this size attract Accenture, would it be big enough for them?

Srikar Reddy: We believe so.

Puranik: Oh, I see! Interesting. That will be good, I think your deal sizes can get better.

Srikar Reddy: Yes, but as a services they may take but we are quite happy licensing the platform to them.

Puranik: So your total deal consideration is about \$5 million for this, isn't it?

Srikar Reddy: Totally, 3 million on earn outs over the next three years, 2 million upfront.

Puranik: So that means what is the multiple of this 5 million revenue we would be expecting?

Srikar Reddy: Over the next three years?

Puranik: Next three years, multiple of 5 million I am asking.

Srikar Reddy: Indirect and direct I think at least three times.

Puranik: So this is over a period of three years?

Srikar Reddy: Yes.

Puranik: So \$15 million kind of revenue can come?

Srikar Reddy: Yes.

Puranik: So this will be more robust than Rezopia in terms of opportunity?

Srikar Reddy: Because it is a much broader thing, Rezopia is vertical this is more horizontal yes, so the scope is much more.

Puranik: But how will they talk to each other Rezopia and this?

Srikar Reddy: If we build app which connects to Rezopia then this platform will host those apps and then it shall be managed, that's about it.

Puranik: Is there any vertical that can be built on this horizontal?

Srikar Reddy: Yes, any app you build for any vertical we can deploy on this and manage it.

Puranik: It is a little too early to do that until you get a size of operation?

Srikar Reddy: Yes, whether we become a mobile app poster for particular vertical and run it all and all, there are a lot of possibilities, we have just bought it like...

Puranik: Interesting, I think you are going to be a large platform company going forward because on the building all characters in place.

Srikar Reddy: Large I do not know but I think...

Puranik: Significant, large in terms of your revenue as a percentage of your revenue I am saying.

Srikar Reddy: Yes, absolutely. We are executing whatever we are thinking, basically that's what I wanted to communicate, yes.

Puranik: Sir you Microsoft dynamics and Hybris focus that bring specialty in technology horizontal learning so with that I think you... interesting, thanks a lot.

Moderator: Thank you. Our next question is from the line of Sumit Poddar from Birla Sun Life Insurance. Please go ahead.

Sumit Poddar: Apart from the client that we spoke about which is actually has impacted this quarter and even next quarter we are expecting some weakness in the client, anything that you are seeing that is, I mean how are the things apart for x this particular client as such?

Srikar Reddy: Overall I think as I said that the trend is looking healthy and good both in our existing clients and in fact as I said our new deal pipeline has been lot better last quarter. So overall the kind of names we are talking to and our ability now with all these kind of platforms will be lot better to be able to go after newer clients including existing clients. So I should say we feel confident, yes.

Sumit Poddar: But sir ideally once you have reached this \$100 million mark in the international revenue things should actually start accelerating given that you would be able to enter much larger set of clients, so on a two to three horizon how do you see things once this first half is behind so from second half can we see a large acceleration in our growth?

- Srikar Reddy:** That is what we have said, three four years we want to double our revenues that is what we have said and we continue to maintain that organic and inorganic.
- Sumit Poddar:** Sure. And this 10% number that we are thinking about, this includes the acquisition as well?
- Srikar Reddy:** this is anyway less than \$1 million, we would not include any other acquisition.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Srikar Reddy for his closing comments. Thank you and over to you, sir.
- Srikar Reddy:** Thank you Karuna. Thank you all, been a very interesting and animated and exciting discussion. Thank you all for your support and all the questions. So going forward we will continue to be able to give you more information so we are taking some of the feedback, we will ensure that our future report, our analyst data will cover more information that you had asked for. Thank you all again very much and look forward to seeing you all in the next call.
- Moderator** Thank you very much sir. Ladies and gentlemen, on behalf of Sonata Software Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.