



“Sonata Software Limited Q1 FY 17 Results Conference Call”

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MANAGEMENT: **MR. SRIKAR REDDY – MANAGING DIRECTOR AND CHIEF
EXECUTIVE OFFICER, SONATA SOFTWARE LIMITED
MR. PRASANNA OKE – CHIEF FINANCIAL OFFICER,
SONATA SOFTWARE LIMITED
MR. R. SATHYANARAYANA – HEAD - FINANCE, SONATA
SOFTWARE LIMITED
MR. P.V.S.N. RAJU – CHIEF DELIVERY OFFICER, SONATA
SOFTWARE LIMITED
MS. PRIYA M. JASWANI – COMPANY SECRETARY, SONATA
SOFTWARE LIMITED**

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Sonata Software Limited Q1 FY'17 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Srikar Reddy. Thank you and over to you, sir.

Srikar Reddy: Thank you, and Good Morning, Everybody and Welcome to the Analyst Call post our First Quarter Results for Financial Year 2016-17 which we announced yesterday.

I have here with me Prasanna Oke – Chief Financial Officer; Sathyanarayana – Head of Finance; P.V.S.N. Raju – Chief Delivery Officer and we have Priya Jaswani – Company Secretary on the phone from Mumbai.

The 'Investor Data' has now been posted on our website and I am sure you all had a chance to look at it.

So what I will do is give you the qualitative highlights and analysis of the first quarter results and then hand over to Prasanna to take you through the Financials for the quarter and then we will come back and take questions at the end of the session.

So at a high level, I think we have had a good quarter in terms of our top line growth both in our India business and the Services business especially the Services business at a constant currency. The margins have been affected by about four reasons – One is that we have had a compensation increase last quarter, we had a one-time visa expenses last quarter, we have also had certain FOREX losses because of the Brexit phenomena and we have also spoken about in the past about investing more in our both IP development and marketing and people and I think those have also added to the drop in margins. But the good qualitative parts for the last quarter has been a level of success with our IP-led go-to-market, we have started to see wins because of that. We have also now been hosted on the Microsoft AppSource. As you all know, it is a major initiative for Microsoft to drive their Azure consumption and we are probably one of the first few to have two full products on the app load which is our (ASCS) Advanced Supply Chain Solutions and the Brick & Click Retail Solutions. So we believe that will add significant momentum and market image and go-to-market both along with Microsoft and directly with customers. We have also had not seen the level of growth which we have wanted with our acquisition I.B.I.S. which has also added to the margins being lower, but we believe that we have taken now sufficient actions there for that to have stability and we will see the results of our action in I.B.I.S. starting to show in Q3 onwards.

There were some questions both from, I think, last quarter and some of the analysts calls. So, I thought we will just fundamentally explain the business model and the IP and how does that fit in and where does it really help us go forward with the whole digital initiative. As we said, we are in four verticals – Retail, Travel, Distribution and ISV. What we are saying is that we will

help companies be the modern companies in this industry whether it is a modern retailer, modern distributor, future of travel or build future ready products. We are saying we will do it by building Digital-ready platforms. The way to approaching this is three ways – one is by keeping people our own IP led platforms which is the industry platform; two is deploy global lead popular platforms like Dynamics or Hybris or Power BI or Cortana or Azure kind of stuff; and the third is to create world-class platforms. There we are saying that the fact that today we have really Cloud products of our own with the domain skills and running large critical businesses. We are able to then add value and be able to create solutions for enterprises which are scalable and which are Cloud-ready and which will help them what we call “Go the digital way” through adoption of platform. So I thought I will just cover that because there have been some queries in the recent past about this model. I am just reclarifying the model about where do we see our IP-led services growth, we have said it is not IP ways to grow that means we are a licensing company but we believe that our IP provides the differentiator in key customers because of the coreness of the IP in the business and the fact that it is on modern technology and that is where we think that we can help customers achieve these digital transformation.

One more thing I would like to add is that I think we have now invested significantly over the last six months on talent; we have just got onboard Ranganath Puranik this quarter; Ranga used to be the President and Global Head of Sales for Persistent; we have got on Rajiv Puri – Head of our US Sales, he has come from Mindtree. So we continue to invest on front-end sales and growth and retail.

So, I will end at this stage. I will ask Prasanna to take you through the detail of the Financials and we will take Questions at the end of it.

Prasanna Oke:

Thanks, Srikar. Good Afternoon to all of you. Our Results have been posted in our corporate website yesterday. Let me provide you some key highlights for the current quarter. On consolidated basis for Q1 FY’17, our revenues were an all-time high at Rs.678 crores, a sequential growth of 25% and 41% growth year-on-year basis. Our EBITDA stood at Rs.58.5 crores and a growth of 4% year-on-year basis. ROCE and RONW was about 24% and 30%.

Going into our two separate lines of businesses, which is international IT Services business, key highlights are: Revenues for the division; revenues were Rs.195.7 crores, there is a sequential growth of 4% and year-on-year growth of about 18%. Overall this segment contributed to close to about 29-30% of consolidated revenues. Revenues in USD stood at 29.2 million. Consolidated revenues from Digital side which we have been tracking for the last four quarters were at an all-time high of 31%, consolidated PAT was Rs.28 crores, contributed 76% of overall PAT.

We added six new customers during the quarter; two from the US and four from the APAC side. Our DSOs, we continue to measure and control, average DSOs for the quarter stood at about 45-days.

Going on to Domestic Products and Services part of the business, revenue stood at Rs.489.3 crores year-on-year growth of 53%, quarter-on-quarter growth of 38%. EBITDA stood at Rs15.3 Cr, again quarter-on-quarter growth of 2% and year-on-year growth of 6%, PAT at Rs.8.8 crores. DSO in this segment had a quarterly average of 46-days. Our cash and cash equivalents for the company stands at roughly about Rs.200 crores for this quarter.

Overall, this quarter I think we have got the highest revenues in both the segments which is where Srikar was mentioning that lot of efforts in trying to get to higher revenues are paying off.

These are the financial highlights. I will now stop and we can take questions.

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 Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, could you talk about the role of Mr. Ranga Puranik would be and how has been the addition of the clients from the recent senior hires of the company?

Srikar Reddy: Madhu, Ranga has just come on board end of May. He is called as Chief Growth Officer of the company; he is responsible for two of our acquisitions in the US, i.e., I.B.I.S. and the Halosys Mobility Platform; he is also responsible for growth initiatives across the world in terms of finding new growth initiatives and identifying growth opportunities in our existing customers. So he works across geographies, across competencies, across verticals, apart from really focusing on the two acquisitions in the US.

Madhu Babu: Secondly, on the margin for the IT Services business, that has been a bit softer for last two quarters. So are the wage hikes done or would we have any headwinds over the remaining part of the year in terms of margins?

Srikar Reddy: I guess we will have one more marginal one this quarter on wage hike. Otherwise, there are no other headwinds in terms of wage hikes on the margin. I guess our investments are also now at the peak. So I do not think that should contribute to any more further depreciation in margins.

Madhu Babu: Would we retain our dividend policy considering the recent changes in the dividend tax structure, 50% of PAT is the recent dividend payout ratio, because recently the dividend tax on individuals have been hiked after certain limit?

Srikar Reddy: I might have been passed this question, we will deal with it when we come to interim dividend end of next quarter's results, so we will let you know, I would not prematurely answer this question.

Madhu Babu: On the GBP exposure because of the Brexit...?

Srikar Reddy: About 18% of our revenue this GBP.

Madhu Babu: So that part would have some headwinds because of the fall in GBP?

Srikar Reddy: Yes, that is right.

Moderator: Thank you. The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.

Chetan Vaidya: My question is on the client addition. You added six new clients for the quarter. Are these clients on the Digital side or other business areas?

Srikar Reddy: They are mainly on the Digital side.

Chetan Vaidya: Not the quantum, but qualitatively the kind of investments that you just touched upon in the opening remarks in terms of people and infra, that capability that you have created, do you think you will be able to add around more than 10-clients per quarter?

Srikar Reddy: I think more than quantity, Chetan, I think it is the quality of clients, I think that is our focus now. Closure of clients is based on pipeline when they close kind of stuff. But yes, I think the current number is a good number to have.

Moderator: Thank you. The next question is from the line of Gaurav Lohia from E&R Advisors. Please go ahead.

Gaurav Lohia: Sir, apart from this visa cost, was there any other one-offs in Q1 margins and can we see some improvement in margin going forward if these one-offs are not there like marginal wage hike?

Srikar Reddy: That is what we said, yes, wage hike and visa was one and the second is because of the FOREX the sudden drop of pound.

Gaurav Lohia: But if I exclude FOREX and other income part, the margins have declined significantly. So was there any other one-off like I think you mentioned some product cost was there and ...?

Srikar Reddy: Yes, those are the investments in building R&D, so that has peaked, so that will not increase further. Whatever investments...

Gaurav Lohia: They will still be there in ...?

Srikar Reddy: Absolutely.

Gaurav Lohia: In Annual Report it would be mentioned as insourcing professional cost. What are they?

Sathyanarayana R: This is basically instead of having a regular employment we take people on consultancy role. If that is required for the project, we take them.

- Prasanna Oke:** What happens is when you are trying to go in for revenues and we have projects where we need resources very fast, we have to go in for a contractor, sometimes the contractor is a little bit more expensive, that is the reason that the contractor costs you have seen that there is an increased.
- Gaurav Lohia:** In Q4, you had said that there was a statutory bonus provision of some Rs.3.2 crores, right, but was there one-time reversal as well, which would have offsetted loss of that bonus provision?
- Srikar Reddy:** No, we have not reversed it, the provision is still there in the book.
- Gaurav Lohia:** So if I have to look at the margins, what I am trying to understand is that if I remove that bonus provision of Rs.3 crores should I be removing that reversal part as well, what kind of margins should I be looking at for Q4, Q1 comparison? So, in Q4 you had said that there was a bonus provision of Rs.3.2 crores. So let us say if I give the benefit of that, if I add that back to my EBITDA, should I be removing that 3.2 crores of reversal provision of HMRC that you have made?
- Srikar Reddy:** That is correct, those two one-time things of Q4.
- Gaurav Lohia:** What I meant to say is that EBITDA would remain same, right, if I remove that provision thing...?
- Srikar Reddy:** That is correct they are both one-time, absolutely.
- Gaurav Lohia:** Sir, we have been saying that our focus is on to increase revenues from non-top-10 clients and smaller accounts, but this quarter we have actually degrown in our non-top-10 clients side, around 7% decline. So how should we read into it, what was the issue or was this any specific change or something like that?
- Srikar Reddy:** All I can say is I think you have to look at these on a more long-term perspective and not on a quarter-on-quarter perspective, because it can happen that in one quarter somebody decreases and one top-10 customers increases kind of stuff. So, I think while we want to grow our top-10, we do not want to stop not growing them. We also want to grow the others and the potential to grow the others in terms of percentage terms is higher than in terms of top-10.
- Gaurav Lohia:** Sir, I am not talking about the percentage contribution. So let the percentage contribution be whatever it is, but in the USD revenue terms, they have actually declined 7%. So I am saying that are we seeing any issues over there in non-top-10 clients because...
- Srikar Reddy:** That is what I am saying, do not look at it on a quarterly basis as a trend is all I am saying.
- Gaurav Lohia:** Our I.B.I.S. revenue have declined in this quarter compared with last quarter. Is there any seasonality in that I.B.I.S. business?

- Srikar Reddy:** Not really. As I said that we took some time to integrate the company into our fold. We believe that now we have got full control of the management of the company. As I said, we have just hired Ranga, he is the CEO and President of I.B.I.S. So we think that whatever we have done now and we will be doing now, we will start seeing a fairly good turnaround performance of I.B.I.S. starting from Q3.
- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Have you given any outlook in terms of margins for the Domestic business as well as for the IT Services business?
- Srikar Reddy:** We said that there were a few things which were I believe one-time this quarter, one was the increase in compensation which we implemented in April, there was a one-time visa charge, there was a one-time peak drop in the pound because of Brexit, we just added some more I would say than what would have been a normal kind of stuff and there was a one-time bump in terms of the investments we have made both in products development and marketing and sales and hiring of people kind of stuff. That is I believe is constant, it is not going to decrease, but I do not see that bumping up.
- Mohit Jain:** If you can quantify that how much would the impact be on EBITDA because of wage and visa?
- Srikar Reddy:** All this is I guess about Rs.8 crores, visa plus investments plus FOREX plus compensation increase.
- Mohit Jain:** Because I am assuming wage hikes is already done within the first quarter. So that will not recur. Visa will also not recur, whereas other expenses may continue.
- Srikar Reddy:** Nothing will bump up next quarter, that will remain at that level.
- Mohit Jain:** Second, on the products side also, what has happened why there is a decline in margin after like 4-5-quarters?
- Srikar Reddy:** No, as I mentioned many times, the products business is a fundamental derivative of the size of the deal. That is why you have seen a huge bump in top line, almost Rs.130 crores kind of stuff. Now, what happens is that on large deals, last quarter we had a single deal of Rs.100 crores and as I said many times if you do Rs.10 crores you make 5%, you do Rs.100 crores, you make only 2%, and many times let us just look at the gross margin and not the top line. The PAT as a percentage of gross margin and not PAT as a percentage of top line. So that is a good way to look at this business.
- Mohit Jain:** Because of like one deal therefore 2Q can possibly come back to 3.4, 3.5?
- Srikar Reddy:** Unless there is another Rs.100 crores deal in Q2.

- Mohit Jain:** Which again reflects into revenue bump up?
- Srikar Reddy:** Bump up or it will be at Rs.440 crores kind of stuff instead of back to Rs.350 crores kind of thing.
- Mohit Jain:** Because my calculation compared to 4Q your EBITDA from domestic business declined on an absolute basis, which therefore any incremental business should have actually resulted into increase in EBITDA?
- Prasanna Oke:** If you follow the press release that we have given, it has actually increased from 14.9% to 15.3%.
- Mohit Jain:** No, but you adjust for the benefit that you had in exceptional income?
- Prasanna Oke:** Right, so we have interest income on both of them, yes, that would have been very marginal decrease, again as Srikar said, it is based on the deal, so we could have got two or three large deals which maybe giving a slightly smaller margin, again it is more deal-based.
- Mohit Jain:** So we should not read it as a structural little bit slower kind of market wherein you are okay to be at a lower margin but get revenue growth on the domestic side?
- Srikar Reddy:** No, I think what happens is that in a strategic deal, we have been with the client for many years, so he come for renewal, you renew it.
- Mohit Jain:** On the sub-segment of IT Services, you have shown good growth in OPD now after a gap of 3-4-quarters but this Travel vertical seems to be slowing down further. So what is happening there and what should we expect for FY17 in that sub-vertical?
- Srikar Reddy:** On the Travel vertical, I think we now have a new way of positioning the IP we have as a more broad-based platform rather than just one segment, I think we believe that that should help us drive more growth as we go forward.
- Mohit Jain:** But is it like the weakness that you are seeing over last two quarters, is it like to do with some particular clients slowing down or budget cuts or...?
- Srikar Reddy:** No, again, as I told in the beginning, we should do it more on a long-term basis rather than a quarter basis kind of stuff.
- Mohit Jain:** Do you think this can still grow on a YoY basis?
- Srikar Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Can you quantify that Rs.8 crores into four different visa, wage hike, FOREX and investments?

Srikar Reddy: I think about Rs.2.5-3 crores on wage hike, about Rs.1.5 crores on account of visa, about Rs.1.5 crores on account of FOREX, about Rs.1.5 crores on account of investment in people and IP.

Vipul Shah: Of this four, which will be recurring in subsequent quarters?

Srikar Reddy: The IP and obviously the wage hike will continue, visa will not be there and hopefully the one-time steep depreciation of the pound will not be there.

Vipul Shah: What is the total Digital revenue as a percentage of ...?

Prasanna Oke: As a percentage of the total it is 31%.

Vipul Shah: What was that last quarter sir?

Prasanna Oke: Actually over the last four quarters you will see a change from 25% to 27%, 29% and 31% now. So, we are seeing that as we are getting more and more deals, the component of Digital is increasing.

Vipul Shah: Where should we end the Digital revenue means this year as a percentage of IT Services?

Prasanna Oke: We do not have a target point. We are trying to get the deal. A lot of our focus is on the platforms, on Digital growth, IP-led growth, so whatever we would get. It is very hard to put an estimate for where we would be ending the year at as a target.

Vipul Shah: If you can give any indication regarding EBITDA margin for the remainder of this year?

Prasanna Oke: EBITDA margin for this quarter, if you look from the international side of the business, has been in the range of about 22.5%. We have been average in the range of about 25%. So, this is all the investments which have led to. We have talked a number of times also that our investments continue to be there and we would be in the lower-20s, that is where we are there at this point of time.

Vipul Shah: So you are comfortable with this around 22% margin, right, should I assume that way?

Prasanna Oke: That is what we have got, we would love it to be better, but again what we see is that the investments that we make and where we look at mid-size companies of our range, I think this is where we would be happy with it as well as we continue to put in the investments and try to grow the top line more of the focus for us.

Vipul Shah: Can you give the revenue from recent acquisitions like Rezopia and other two acquisitions in this quarter separately, all three?

- Prasanna Oke:** I.B.I.S. we had revenues roughly in the range of about \$.1.8-1.9 mn. As Srikar said, what we are trying to do is I.B.I.S. integration is going on, we are trying to look at some of the larger deals which are happening. So the integration process as we said took a little bit of time, we expect it to be starting to grow from Q3 onwards.
- Vipul Shah:** What is the revenue from Rezopia sir this quarter?
- Srikar Reddy:** Rezopia we have fully merged the company into Sonata, where we are driving it has two parts to it – there is Rezopia revenues and Rezopia-driven customer revenue. So we have two large clients today who are fundamentally driven because of the Rezopia platform at a very high level, our annualized revenue from both these customers would be about \$5 million.
- Vipul Shah:** 100% due to Rezopia only?
- Srikar Reddy:** That is right, because they used the core platform of Rezopia to do their business but they are using when we have built old order functionality on top, it is almost like say using it as a white label platform and customizing it or doing many things for their business and because we have built the platform, we become the partner who will then help grow the platform for the client. That is what I mentioned sometime back saying we are now trying to find a more innovative model for both of our other acquisitions to white label it and then OEM made and things like that rather than purely deploying it.
- Vipul Shah:** Of all your recent acquisitions, which one looks the most scalable as of today sir?
- Srikar Reddy:** I.B.I.S. is a business which has been in existence for a long time with customers relationship. So that is a natural immediate scalable opportunity whereas Halosys is an enterprise platform, both we have to build the brand and grow the business. So that will take the longer and Rezopia will be somewhere in between.
- Moderator:** Thank you. The next question is from the line of Kaustubh Bhuvna from SKS Capital. Please go ahead.
- Kaustubh Bhuvna:** Your domestic products and services business has shown really good revenue growth but I see a marginal decline in PAT margins over there too. So is that only because of high SG&A expenses took over your revenue and also based on a SaaS-based model I believe that over long-term your margins should increase, right, in this business. So do you have any margin target?
- Srikar Reddy:** That is what I said. I do not know whether you were on the call. I said that the domestic absolute margins is based upon the size of the deal. So in those quarters where we have a single large deal, the absolute margin drop. So that is why I said do not link it directly to the absolute revenue, but link it to the gross margins in the business. So that is the reason why the absolute percentage margins are lower on the domestic business. As you rightly pointed out, as things move more to the SaaS or Cloud model, the margin should increase but the revenues will drop. That will be

gradual phenomena because then the compensation is based then on what is called consumption and not based on licensing. So, consumption margins are typically higher than licensing margins. So your analysis is correct but it is going to be a slow trend and will take time.

Kaustubh Bhuvna: But what is the gradual process like?

Srikar Reddy: No, we do not have the planning to do, it is our principals who are already doing it. So it is not our product, right, it is Microsoft or Oracle or IBM or HP or whatever and they would want to move to the SaaS model. Then as I said, the partners get compensated based on consumption. That will increase as time goes by. It is not what we are doing.

Kaustubh Bhuvna: I believe that is happening pretty well from the companies I have been tracking in the US, from the principal side.

Srikar Reddy: Principal, yes, directly they take all the margins. So I do not think we should compare ourselves with the principal. You have to look at us as a partner who gets the margin on what we sell for the principal.

Kaustubh Bhuvna: On the IT Services side, just to clarify, you would expect EBITDA margins and PAT margins to remain like what it was, right, for the rest of the year like it was in this quarter?

Srikar Reddy: That is right, we expect not to change too much a drop, has been about 3% I guess, we should be there.

Kaustubh Bhuvna: But after this year in the long-term do you see PAT margins going back to 9% to 10% levels?

Srikar Reddy: Yes, consolidated. I think you need to look at the two businesses separately. Our India business is India business, our Services business is Services business. Doing a consolidated PAT margin will not be the right picture because I said India business do not look at top line, services businesses look at top line, so India business just purely look at profit of gross margin. So do not combine both. We have been saying that the net margins in the Services business should be around 20%-odd kind of stuff and the India business is about 30-35% of gross margin.

Moderator: Thank you. The next question is from the line of Gaurav Lohia from E&R Advisors. Please go ahead.

Gaurav Lohia: If I have to come and meet someone in company, whom should I contact?

Prasanna Oke: This is Prasanna here. You can contact me.

Gaurav Lohia: Can I have your e-mail address now?

Prasanna Oke: I got your contact details, I will get in touch with you and be in touch, you can also be in touch with Diwakar Pingle from Christensen who are our Investor Relations.

- Moderator:** Thank you. The next question is from the line of Prakash Buha, an individual investor. Please go ahead.
- Prakash Buha:** The recent presentation for Q1, you have given the names of tier-1 and tier-2 companies and given the performance of Sonata and presented in a chart form. I would like to point out that the figures are not clear and readable absolutely. What is the thing exactly we want to prove from the three-four slides of interfirm comparison, I would like to know? Secondly, what are the events of marketing that were planned in the pipeline in the next six months?
- Prasanna Oke:** What we will do is that I will be in touch with you separately and give you more clarity on some of the charts that is talked about.
- Srikar Reddy:** With reference to the marketing events, as we said, there are two kinds of events we participate in – we participate in principal led event, that is event led by Microsoft or SAP and vertical led events that is Retail, Travel. As we speak, we are actually conducting an event tomorrow morning in San Francisco on the 11th in that industry ISV along with a company called Zinnov. There is Retail events we are participating in September in the US maybe it is in New York, so we are one of the co-sponsors of the event along with Microsoft, they called us to speak along with them. There will be some more such events as they come up over the course of the year.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.
- Rohit Balakrishnan:** Can you please give me the IP-led revenue that you have done in Q1?
- Srikar Reddy:** IP-led Services revenue was Rs.23 crores in previous year i.e., FY 15-16, in this quarter it is Rs.8.3 crores.
- Rohit Balakrishnan:** What was that in Q4 FY'16?
- Srikar Reddy:** Rs.8.1 crores.
- Rohit Balakrishnan:** I have been reading your transcripts. Can you talk a bit about your IP strategy, what gives you an advantage let us say with a similar company which is a smaller start-up, which focuses on that product only or let us say a mid-size IT Services which is also trying to focus on Digital Services, so can you talk a bit about how do you differentiate and what gives you that comfort of your stated aspiration of doubling your revenues in the next four years?
- Srikar Reddy:** I think there are four or five factors which come into play: One is that we have said that it is based upon our deep experience in working with these verticals in creating this. Two is that there are typically based on a core underlying platform which we have packed on to kind of stuff, like let us say for example, Microsoft Dynamics AX. Then the third is the deep partnership once we tie up. So we are today at ISV as I was mentioning yesterday that we are on a app and a much

more tighter integration with their go-to-market and we are an industry partner programs. So whole lot of things where we are today. The fourth is that very focused approach to market of marketing the solutions rather than get very distracted by very multiple approaches to market. So if you see us in any digital or event whatever we say the same thing which is like brick and click or omni channel commerce for retail. So we are almost building a brand and that kind of stuff. So, I think these are the four fundamental reasons where we believe. Apart from the fact that we have actually put money and bought companies with IP. So, as I said, I am not too sure how many companies are actually are showcasing this and showing real stuff instead of PPT way and with real customers. That is the other question I ask. That we are executing on what we are saying and put money and continuing to drive that kind of a growth to that strategy. I think that is what I think gives us the confidence that we have a differentiated approach and a reasonable shot....

Rohit Balakrishnan: I think last year we had a customer leaving us. In terms of USD revenues we grew about 10%. So if you exclude that what was the overall growth rate in the company?

Srikar Reddy: About 24-25% last year in USD revenues at constant currency.

Rohit Balakrishnan: So if one has to look at your standalone numbers, that is reflective of the IT Services, right?

Srikar Reddy: The standalone numbers are purely IT Services, absolutely without I.B.I.S. and without anything.

Rohit Balakrishnan: Is that the reasons why if we look at this quarter I think we made PAT of Rs.34 crores in that business, but if we look at consolidated level we made Rs.36 crores. So, should one conclude that I.B.I.S. and all at PAT level negative?

Srikar Reddy: Yes, I.B.I.S. and others bring that down, some other subsidiaries are there, but you can include that as part of the IT Services business, we have subsidiaries in Dubai and Europe and all that, but they are part of the Services business, but yes, you will just exclude the I.B.I.S. and the other business.

Rohit Balakrishnan: So how do you see that moving, because large part of your IP revenue would be from others and I.B.I.S. if I am not wrong, as you increase that, do you think that profitability should also increase from here?

Srikar Reddy: That is right. Once they turn around, that will automatically feed into the consolidated, add to the standalone.

Rohit Balakrishnan: Because you mentioned in the previous concalls that these margins are at a fairly elevated level, I am talking about just the segmental of IT Services. If you were to assume that your IP-led revenue would grow and as a result of which these segments will also become profitable, do you not think there is a lever for margin improvement from here?

- Srikar Reddy:** It is a long-term picture you are painting because I am still talking about IP-led Services revenue, and you are talking about IP-led revenue, very different. So purely IP-led revenues, I completely agree with you that the margins mix will change. But that is like a really long-term...three years from now kind of stuff, not anytime in the near future. A significant portion would be IP itself and that will drive margin but otherwise it gives us a competitive differentiator and advantage when we go for getting Services business itself. It is a very simple way of looking at this business.
- Rohit Balakrishnan:** Anybody within the current fold of IT Services in India or abroad who you would typically either run into or respect in terms of their Digital strategy, just specific to maybe the verticals that you are in?
- Srikar Reddy:** There are different companies who follow different strategies and they do not call me to their board room and present their strategy. I really do not know the nitty-gritty, nobody explains that because these are all proprietary confidential information, you will not really talk about it.
- Rohit Balakrishnan:** No, I am just talking from a competitive landscape point of view, do you run into a lot of these...?
- Srikar Reddy:** We do run into both Indian and international competition and local competition. A lot more today because of the nature of our business is local competition, that is local specialized partner in that particular area kind of stuff, not Indian, not large global kind of. You can Google a company called K3, that is UK publicly listed company.
- Moderator:** Thank you. The next question is from the line of J Daniel from Entropy Advisors. Please go ahead.
- J. Daniel:** A couple of book-keeping questions. There seems to be a spike in your finance cost this quarter.
- Sathyanarayana R:** Yes, this time because we have regrouped in terms of the accounting standard requirement in terms of exchange on the PCFC finance etc., all that. That is the reason.
- J. Daniel:** Can you give us a breakup of the components of consolidated other income of Rs.8 crores, is there any one-time included in this?
- Sathyanarayana R:** Yes, Rs.8 crores compared to Rs.10 crores previous, a drop compared to that.
- J. Daniel:** Year-on-year it is Rs.5 crores, so?
- Sathyanarayana R:** Yes.
- J. Daniel:** Is there any one-time included in this?

Srikar Reddy: What happens is that one-time of one quarter becomes one-time of the next quarter, the nature of one-time keeps changing, it is not the same one-time, that much I can guarantee you.

J. Daniel: In this product-driven revenues, you mentioned is Rs.23 crores for this quarter, right?

Srikar Reddy: That is correct.

J. Daniel: This you are expecting it to double year-on-year or quarter-on-quarter?

Srikar Reddy: Year-on-year.

J. Daniel: The quarter to look out for us is the third quarter of the current year?

Srikar Reddy: Absolutely right.

J. Daniel: That is when I.B.I.S. and all starts kicking in?

Srikar Reddy: Yes, correct.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, if you can just give us some flavor of the new order wins and the logo wins and the enquiries based on that, how do you see the underlying growth rate of the company, I guess you do not guide but just to understand what is the underlying growth of trends? Also given that you have GBP exposure of 18%, whether the Brexit impact even if we include how is that ...?

Srikar Reddy: Yes, both the pipelines and the customers we have closed in the recent past, I think we have let us say more potential, let me put it that way. Brexit, we have only talked about the pound dropping, but right now we are not seeing British customers saying we want to spend less. The impact we have not seen.

Amish Kanani: So what type of the customers are there in GBP within these four verticals that we discussed?

Srikar Reddy: GBP is Travel and Consumer Goods, the rest are in Continental Europe.

Amish Kanani: Those guys are not yet talking about freezing or something like that?

Srikar Reddy: No.

Amish Kanani: The FX impact that you said about one-time, was it the mark-to-market, in the sense that even if pound were to remain at this level for a foreseeable future, the impact of one-time will not recur, right?

- Srikar Reddy:** That is right, it was one-time of the drop of almost 18%.
- Amish Kanani:** So if I were to add back the Rs.8 crores that you mentioned has a cumulative impact of these one-time, despite pound staying at this level, the EBITDA margin will reflect the underlying trend?
- Srikar Reddy:** Yes, out of it we said some will continue, we are not saying that was a one-time and go away kind of stuff, a couple of things we did as one-time, salary will continue, whatever we have put people on IT, it is only the visa and the FOREX which will be one-time.
- Amish Kanani:** Is it possible for us to quantify that part which will actually....?
- Srikar Reddy:** We said that is about Rs.3 crores.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** For this year the full year growth outlook would we see acceleration from here on and would we see like 15% kind of growth for the full year including I.B.I.S. impact, that is organic maybe say 10% kind of growth?
- Srikar Reddy:** We do not give quantitative guide, Madhu, but as I said sometime time back, growth in terms of top line we believe is back.
- Madhu Babu:** On the large deal perspective, what would we define in terms of size for a large deal and whether we have any multi-year deals in our pipeline?
- Srikar Reddy:** We have a couple of large deals as you may want to call it multi-year or whatever it is in the pipeline, but as you know they are competitive, they are not like 100% dedicated to you. Otherwise, most of our opportunities are what we call land and expand. So we get in with whatever is the deal size and grow the account.
- Moderator:** Thank you. The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.
- Chetan Vaidya:** Again, the question is on the interest. Rs.4.23 crores interest you said because of change in the accounting treatment that you have applied from Q1, should we take this as a quarterly run rate for the interest?
- Sathyanarayana R:** I think about Rs.1 crore is mainly on account of the exchange coming into this.
- Chetan Vaidya:** What is the debt on the books right now and for what purpose and what is the cash consolidated?

Sathyanaryana R: Consolidated we have Rs.200 crores cash. Debt is acquisition, funding, whatever we took for I.B.I.S. \$8.6 million.

Moderator: Thank you. The next question is from the line of J Daniel from Entropy Advisors. Please go ahead.

J Daniel: Sir, you just mentioned that removing the customer leaving you grew 24-25% last year and this quarter QoQ constant currency growth was 5% and you are saying you are back on your growth track. So broadly this is the takeaway from what you are trying to convey?

Srikar Reddy: Yes, constant currency, pound at 1.5, not at 1.3.

Moderator: Thank you. The next question is from the line of P Venkatesh from Optimum Securities. Please go ahead.

P Venkatesh: Sir, I would like to know what would be the peak ICD support in this quarter to Sonata Information Technology in case you have a bump up in revenues on the products side?

Sathyanarayana R: Inter corporate deposit basically was given instead of borrowing from the bank, the peak will be maximum about Rs.90 crores.

P Venkatesh: But last year also it was the same, right?

Sathyanarayana R: Yes.

P Venkatesh: Secondly, would like to understand the goodwill comes in as Rs.93 crores in the consolidated balance sheet. This is on account of both the I.B.I.S. and Halosys acquisition?

Sathyanarayana R: Yes both and Rezopia also.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: I think somebody had just asked about your comments on overall growth in this year.

Srikar Reddy: No, the question was that if we had taken out the last year's one-time customer going away the growth was 24%, so we grew constant currency terms 5-6% in the first quarter. I said, yes, that is the growth curve. If you take constant currency it is pound at 1.5 instead of 1.3, that is what I meant.

Moderator: Thank you. That was the last question in the queue.



Sonata Software Limited
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Srikar Reddy:

Thank you all very much, thanks for your support, thanks for all the questions and look forward to seeing you in the next call. so from myself and my colleagues here would like to now close the call. Thank you all again.

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.