



“Sonata Software Limited Q1 FY18 Results Conference Call”

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Moderator:

Ladies and Gentlemen, Good Day, and Welcome to the Sonata Software Limited's Q1 FY18 Results Conference Call. As a reminder, all participant 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 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, Karuna. Good morning, everybody for the call proceedings, the announcement of our Q1 FY18 results which we did on Monday. Here with me on the call are CFO - Prasanna Oke; our Chief Delivery Officer - PVSN Raju, Head of our India business - Sujit Mohanty; Head of our Digital and Vertical business - Omprakash, Head of Finance - Sathya and Company Secretary - Kundan.

The results are there on the website, so all of you would have had a chance to go through it So, I will briefly cover the highlights of the quarter, and hand it over to Prasanna to take you through more detail on the financials and then we will reassemble back for questions which you may have.

So, in the last format of this call, we did the Analyst Day in Bangalore where I think some of you had visited us and spent some time seeing our facilities and then we had myself and our senior executives present about their respective operations where we had given you a flavor of business, shown you some of our IP. And what we covered in the last meeting when we were all here in Bangalore, we really said about where we see the industry today in terms of digital and more automation and people going to platforms, the technology partners more and more focusing on cloud and platform. And how we have aligned our strategy to this over the last few years, first from specialized services to IP lead services to now being what we are calling a platformation partner to our clients through three means, which is Sonata Ready, Sonata Accelerate and Sonata Custom. We also talked about the five growth engines which will drive our business as we go forward, which is our alliance lead growth, IP lead growth, vertically lead growth, growing existing customers and transforming our India business by becoming a digital infrastructure services partner.

So, net-net, I think we do believe that we have had a good quarter, primarily as I said driven by all these strategies which we have put in place over the last few years. And these things showing the kind of success which we were expecting them to show. So, at a high level, we showed at least in international a 6% dollar-on-dollar growth on a quarter-on-quarter basis and about a 27% growth in terms of PAT in the international services. And in the domestic business also we had a growth in the margin, but because of certain interest cost it was not really reflected in the corresponding profit in the domestic business and we will put in plans to ensure that the interest costs are back to where they should be on a go forward basis.

We have also had a success with the turnaround with one of our major subsidiaries which is I.B.I.S. which we have been talking about in the past few calls. And this quarter has shown really a good turnaround and gone positive, so that has been a good story of the last quarter. Going forward, as I said, I think we do believe we have a very clear strategy in terms of verticals, IP

lead, alliance lead platformation partner theme, we will continue to execute on that. Focus is really execution and execution and execution to ensure that we are able to do this faster and quicker so that we continue to have the advantage which we believe we have created for ourselves going forward.

So, at this stage I will hand over the mike to Prasanna to take you through some of the financials and we reassemble back for any questions you may have.

Prasanna Oke:

Srikar, Thanks so much. Everyone, wishing a good afternoon to all. Our results, post our Board meeting on Monday have been posted on our corporate website since the day before yesterday that is 14th of August. Our investor deck has also been uploaded on to the website. Let me provide you with some of the key highlights of the current quarter. Please note that from the current reporting period, the financials have been prepared as per the IndAS and the corresponding QoQ and YoY numbers have been stated accordingly. So, the numbers have been put, both for Q4 2017 and Q1 2018 under the IndAS.

On a consolidated basis, our revenue stood at Rs. 635 crores with a growth of about 4% on a year-on-year basis. PAT stood at Rs. 43 crores, sequential growth of 21% and ROCE at 27% and RONW at 29%.

Looking at the two segments of our business, first we start off with international IT services for Q1 FY17-FY18, revenues were Rs. 211.3 crores, sequential growth of 4%, year-on-year growth of 8%. This contributed about 32% to the consolidated revenues. Revenues in terms of US dollars, \$32.7 million during the quarter, sequential growth of 6%, year-on-year growth of 12%. Our revenues on a digital component are at 31% of our total revenues and the IP lead revenues as we talked about during the analyst meet are at about Rs. 28 crores for this quarter, which is roughly about total of 14%.

EBITDA stands at Rs. 49.8 crores, sequentially growth of 13%. PAT for the international business stands at Rs. 34.5 crores, sequential growth of 27% under the IndAS format of reporting. We added six new customers during the quarter, they came in from our various geographies, three came in from the US, one came in from Asia and two from Europe.

On our domestic products and services, our revenues stood at Rs. 434 crores, they contributed about 68% of the consolidated revenues. EBITDA stood at Rs. 15.1 crores, QoQ growth of 8%. Our overall PAT for the domestic products and services stood at Rs. 8.6 crores, QoQ growth of 2%.

Overall, these are from the numbers perspective. And I will hand it back to Karuna for the next questions.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Madhu Babu from Prabhudas Liladher. Please go ahead.

- Madhu Babu:** Sir, congrats on a good quarter. Do we have any hardware of pass through revenues in the IT services business for this quarter?
- Srikar Reddy:** No, there has always been about \$1 million of this always for I think last seven, eight quarters. So, when we have more than that we report it, Madhu.
- Madhu Babu:** Okay. So, I think there is a good momentum in IT services. So, can you explain which are the areas where we are seeing stronger traction and more about the IP led platforms, how the incremental traction is happening over there?
- Srikar Reddy:** I think if you take our five growth engines, I think in last quarter, our existing account growth engine was the one which really fired very well apart from the Microsoft alliance led growth engine. So, these were the two growth engines which fired well last quarter and these were, I would say, the primary drivers for growth in the last quarter, Madhu.
- Madhu Babu:** And regarding that alliance that we formed with Microsoft which we announced a couple of days back, so could you give us more details about how that will evolve into revenue?
- Srikar Reddy:** Sure. See, this is called the ISV Dev Center. So, there are about six or seven companies in the world who have got this status, we are the only Indian company, possibly the only Asian company. And this status is for people that is ISVs, who want to build products on the Microsoft platform. So, Microsoft has said that these six or seven companies have been evaluated by Microsoft, basically they had some criteria like 50 projects, 20 reference customers, x number of certified engineers, etc. So, they are telling those people that we have evaluated these companies and these companies are, I do not want to use the word certified, but are recognized by Microsoft as an ISV Dev Center. So, we have to use this now to go forward. This was announced only about a month or two back at the Microsoft Worldwide Partner Conference in Washington that was around in I think in July second week. So, obviously we have to take it to market, contact these people, work with Microsoft, etc. So, it is a fairly unique status, we believe that this gives us a competitive advantage. And then Microsoft has got a big program to move more and more people on to their Azure platform and app source platform. We think it is a great opportunity, but we have to make it work.
- Madhu Babu:** Sir, and last one from my side, if you exclude the other income the IT services margins are down 200 basis points quarter-on-quarter. Did we have wage hikes during the quarter or what were the margin frequency?
- Srikar Reddy:** Let me answer this at a high level and I will leave it to the finance team, both Prasanna and Sathya to answer this question. At a very high level, I know the revenue has dropped because the dollar has dropped from 68 to 64, fundamentally. Although some little bit has been made up by FOREX gain, that is the main thing, although it has been made up by little better utilization and so on and so forth. But I will pass on the question to the finance team, but this is at a high level, that is the main reason.

- Prasanna Oke:** Madhu, small changes in the other income we believe is part of the quarterly changes, which happen. And it is largely on account of operational reasons, Madhu.
- Moderator:** Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Sir, one is on the international IT services side. So, what particularly went right in this particular quarter? And if you could share some outlook in terms of how you are seeing it in terms of growth for FY18?
- Srikar Reddy:** Yes, as I said in the first question, the growth was driven by these two which is the existing account growth engine and we said the alliance growth engine. We would see both of them continue to drive growth as we go forward as we allow the other growth engines to kick in like the vertically lead and the IP lead growth engines. So, at a high level we are seeing good traction in the market, our pipeline looks good, our interest in our products and services look good. And as I said, it is really our ability to now execute and focus on highly result oriented actions to ensure we translate into firm kind of numbers kind of stuff. So, we do not see any headwinds in terms of business itself, I mean, so to that extent we believe that the overall market situation looks good for us.
- Mohit Jain:** And there is no one-time, as you mentioned earlier?
- Srikar Reddy:** No, if there is anything about that base line of one, we will announce it.
- Mohit Jain:** Sir, second is on the domestic side. Receivables seem to be on the higher side, so like this is the new normal for FY18 or do you think we can revert back to original receivable days like last year?
- Srikar Reddy:** I will ask Sujit to answer the question. But I think last quarter there was no GST business and so on and so forth, because it was moving away from non-GST to GST, so we had to do something to move people forward, because people were deferring otherwise their procurement into a GST arena and it was a little bit of a difference. But we are cognizant of this, we are putting some stricter norms to ensure this does not continue, but I will allow Sujit to answer that question.
- Sujit Mohanty:** So, last quarter besides GST, it was Microsoft's year end and usually this quarter lot of transactions are refreshed by Microsoft and we had six to seven very large contracts. And because the negotiation was going on and there was really market pressure, so we had to give some extra credit terms to close it before GST sets in and before Microsoft year end happens. So, because of that it little bit got influenced, we believe it is not a permanent feature and going forward I think we will bring it under control. Thank you.
- Mohit Jain:** I was comparing it YoY only, last year same quarter versus this year same quarter. So, Microsoft's contribution would have been similar or was it higher this year?
- Sujit Mohanty:** Yes. See, compared to last year this year... so if you look at Microsoft's business, a lot of these large contractors are from IT services company. And if you see this year, when Microsoft year

end was approaching, most of these IT services companies have wanted these contracts to be renegotiated and they wanted the bill of material to be reduced because of the various market conditions they are going through. So, this was the difference between what was last year and what it was this year. And because of that it was a little bit of both Microsoft as well as **son us** to do something little different.

Mohit Jain: You do expect this to come down, 2Q, 3Q?

Sujit Mohanty: See, now what will happen, assuming and hoping that the market is going to stabilize, we are not expecting this kind of negotiation or this kind of reaction from both vendor and manufacturer going forward. So, once it stabilizes then that will be the normal condition.

Mohit Jain: Okay. Last is also on your revenue growth in the domestic business, that seems to be exhibit more volatility than usual, even on a YoY basis. So, what is the plan for FY18, like this is something which we should expect or you think it will be more normalized kind of a growth curve?

Srikar Reddy: No, I think as we said many times revenue is not what we look at, we look at margins and the contracts get defined by conditions in the market. So, I think we should continue to look at margin only. And as I said, definitely look at the other operating parameters like days or collection and all that which can have an impact on the margin. But absolute top-line is highly dependent on the available transactions in the market, which we cannot even predict.

Mohit Jain: Sir, the point was, you were discussing this in the analyst meet, that time it seemed like this is a structural 20% - 30% kind of a growth trajectory that we are looking at, at least for FY18?

Srikar Reddy: Margin, not revenue.

Mohit Jain: So, that is absolute EBITDA growth?

Srikar Reddy: Correct, yes. That is what we should be looking at, I agree with you, correct.

Mohit Jain: Okay. Because this adds unnecessarily volatility to our top-line, minus 8 to 40 in one quarter was like...

Srikar Reddy: Yes, but as I said I think people who understand the business should, at least this business should just look at the margin only or EBITDA and not the top-line.

Moderator: Thank you. Our next question is from the line of Ayush Khetan, an individual investor. Please go ahead.

Ayush Khetan: I have a couple of questions. Firstly, we had seen a rise in our human capital, it is 3,575, so increase in employee cost will result in higher revenue and profitable growth or it is just for this quarter only?

- Srikar Reddy:** No, increase in people fundamentally is based upon business. So, absolutely, the number of people is directly proportional to the revenues kind of stuff. So, our other parameters have not changed in times of billability, percentage utilization percentage.
- Ayush Khetan:** So, in this quarter we have seen any new project commencement because of which we had done the hiring?
- Srikar Reddy:** yes, it is. I mean, as I said the growth has been driven by two fundamental things, the alliance lead growth with Microsoft and growth in existing customers. So because of that we have had these people to staff in those projects.
- Ayush Khetan:** And sir, second question is, we had changed our result accounting standard, so if our accounting standard would not have been changed, we had still registered a growth on QoQ and YoY basis?
- Srikar Reddy:** . We would have had a similar growth.
- Ayush Khetan:** And lastly, when we talk about breakeven of subsidiaries at operating level we do not include finance cost. So, is there any finance cost in I.B.I.S. or something?
- Srikar Reddy:** No, the finance cost is only the investment we made right which is shown as the capital investment from Sonata. There is no finance cost within the company.
- Ayush Khetan:** Okay. So, I.B.I.S. has made on PAT level positive contribution?
- Srikar Reddy:** That is right.
- Moderator:** Thank you. Our next question is from the line of Abhishek G from Vision Capital. Please go ahead.
- Abhishek G:** Sir, I just wanted you to elaborate a bit more on this Microsoft collaboration, partnership which you have been shortlisted for. So, you said only five or six companies have been given this particular privilege, right, to develop a particular product on this Microsoft platform?
- Srikar Reddy:** No, others can also develop. Microsoft has said that we recognized these people, anyone can develop, noone can prevent anyone from developing.
- Abhishek G:** Okay. So, what you mean by recognizing, are there any additional benefits you get or any kind of, what do you exactly mean by that recognition as such?
- Srikar Reddy:** That is what I am saying that they have made an announcement, so once they put out a website and say that these are the ISV development partners, we will be one of them, others will not be there. They would be at some point some marketing support when we want to reach out together to certain customers. The Microsoft executives in the various parts of the world would be aware of it, so if somebody comes to them and say we need some help, then they will say here are list

of Microsoft ISV dev centers, there are others you can go to where you want kind of stuff. So, definitely it is creative.

Abhishek G: Okay. So, you are like a preferred partner, if any of the request comes to them actually you will be a name which would be suggested first?

Srikar Reddy: We will be one out of six or seven.

Abhishek G: And can you quantify how much, you are saying you are seeing a good potential in this particular deal with the Microsoft or may be preference given by Microsoft. Can you quantify it within three or so.

Srikar Reddy: No, not at this stage, because we are still working through in terms of the potential target segments, because there are dynamic ISVs, non-dynamic ISVs. So we are doing all that analysis. And yes, obviously the delta is positive and not negative, but we have not absolutely put a quantity to it.

Abhishek G: You are seeing a strong traction coming from this particular segment going forward? Not yet concretized it but still you are seeing much more of opportunities.

Srikar Reddy: Sure. Actually our Chief Growth Officer, Ranga Puranik, is also on the call, so maybe he can give you a quick briefing on our overall Microsoft alliance. I will pass on to Ranga.

Ranga Puranik: So, Abhishek, as Srikar was mentioning, I think this whole Microsoft partnership over the last couple of quarters, both I.B.I.S. and Sonata we have done a lot of work to build relationships in the channel resulting actually in some good wins. What had happened was I.B.I.S. had built a very strong IP but had not exactly developed long-term recurring customer base, while they were well known in the Microsoft channel as such. So, now with Sonata's breadth and also its own depth over the last several years, we were able to bring both of them together and really build this alliance to a level where hopefully we will start seeing significant growth going forward. And both the distribution, manufacturing and retail segments which are both important target segments for Microsoft are well addressed with our IP in both the segments. So, when you talk about the Microsoft ISV center, so there are two kind of customer groups that we can address, one is software companies that want to develop products or migrate their products to Microsoft Stack where we obviously would be a preferred partner to work with. Second is enterprise customers who want to do a lot of this development on a Microsoft platform would obviously potentially come to us as well. As Srikar was mentioning, when they talk to Microsoft and ask for references we would definitely be one of them that Microsoft will connect them to and we should be able to build on that.

Abhishek G: And last question from my side, in the previous question it was said that you are looking at EBITDA margin of 30% going forward or incremental EBITDA of 30%?

Srikar Reddy: No, 15% to 20% EBITDA margin growth in our India business.

Moderator: Thank you. Our next question is from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: Will it possible to give I.B.I.S. revenue and EBITDA for this quarter and comparable figures for last financial year?

Srikar: **Sure, I will ask Prasanna or Sathya to give the information to Mr. Shah.**

Prasanna Oke: So, Vipul, I.B.I.S. revenues in dollar terms were about \$2 million for this quarter with EBITDA of close to about 5% which is where we moved further.

Vipul Shah: And comparable figure for the full financial year last year?

Prasanna Oke: Comparable figures, we were probably roughly about \$ 6.5 million for the entire year and overall it was slightly negative.

Vipul Shah: EBITDA negative?

Prasanna Oke: Yes.

Vipul Shah: So, we have moved from EBITDA negative to 5% EBITDA positive?

Prasanna Oke: Yes.

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

Jay Daniel: Sir, now you have cash net of debt and net of dividend that will have to be paid out of around Rs. 28 per share. You are not actively looking at an acquisition strategy at this point in time. So, why does not the company pay it out to the shareholder? Or look at that particular option.

Srikar Reddy: Sorry, what was the question?

Jay Daniel: See, you have cash net of debt and net of dividend that will have to paid out now of around of Rs. 28 per share. So, you do not have an active acquisition strategy at this point in time, so why does not the company pay it out to the shareholders?

Srikar Reddy: Okay, you are saying through some buyback or whatever?

Jay Daniel: Or dividend.

Srikar Reddy: No, dividend, think we have paid out almost 60% to 65%.

Jay Daniel: Right, this is excess cash that is on your books actually.

Srikar Reddy: We do have, I do not want to say an aggressive M&A strategy, we definitely have an M&A strategy. And as I said last time, I think we had done three, we took some time to digest it, there were a lot of learning's. So, we are quite actively in the market.

Jay Daniel: Okay. And I had a few bookkeeping questions, what was the USD currency revenue for IIT for this quarter and corresponding quarter and the previous one?

Prasanna Oke: USD currency in international services, we were close to 32.7 for this quarter, on the previous quarter we were 30.7. And if you take in the first quarter of last year it was 29.2.

Jay Daniel: And what was IP lead revenues in USD for the quarter?

Prasanna Oke: IP lead revenues in USD was about 4.3 Million , we had about Rs. 28 crores of IP lead revenues.

Jay Daniel: You have other income that has been reconfigured, for the quarter it was Rs. 8.82 crores, previous was Rs. 10.32 crores and year-on-year it was Rs. 4.89 crores, that is corresponding. What is the FOREX component in this?

R Sathyanarayana: FOREX component is roughly about Rs. 5 crores.

Jay Daniel: For this quarter?

R Sathyanarayana: Yes.

Jay Daniel: And for previous one?

R Sathyanarayana: Previous one is about Rs. 3 crores.

Jay Daniel: And year-on-year? Corresponding?

R Sathyanarayana: Corresponding is about Rs. 7 crores.

Jay Daniel: Okay. This other income is included in the IIT EBITDA right, but it is not included in revenues?

R Sathyanarayana: It is included in EBITDA.

Jay Daniel: It is included in EBITDA but not in revenue?

R Sathyanarayana: That is right.

Jay Daniel: And you have given a reconciliation, this would include FOREX movement pertaining to foreign Operations as well as mark-to-market impact on forward contract, foreign exchange will include that?

R Sathyanarayana: Yes, foreign exchange basically on the restatement part, it will come to the OCI i.e., other comprehensive income. What is actually cash realized will go to the P&L.

Jay Daniel: Okay. So, this entire thing is reconciliation that will only come in other comprehensive income?

R Sathyanarayana: Yes, other comprehensive as in basically the restatement part of the foreign operations for subsidiary and branches based on the functional currency will come in the OCI.

Jay Daniel: That is a 3.4 negative and 7.7 positive?

R Sathyanarayana: Yes, that is right.

Jay Daniel: So, that is not included in EBITDA, it is included only at PAT level?

R Sathyanarayana: No. You are referring to the previous year?

Jay Daniel: Yes.

R Sathyanarayana: Yes.

Jay Daniel: Because your EBITDA in June 2016 was Rs. 43 crores as per Indian GAAP but now it is Rs. 51 crores, so what accounts for this difference then?

Srikar Reddy: Let me answer this question There was a Rs. 7 crores FOREX loss we took in that quarter, Jay, which they have said under IndAS is not allowed and it should go to OCI. So, what was going through P&L went through OCI, so that is why there is a Rs. 7 crores increase.

Jay Daniel: Okay, now I got it. And gross profit margin in the domestic business for the quarter was how much?

R. Sathyanarayana: Domestic will be 5%.

Jay Daniel: Gross profit margin?

Srikar Reddy: No, you are talking about absolute number?

Jay Daniel: No, I am talking of the percentage. Because the gross profit margin normally is around 6.4% in March 2017 quarter. So this quarter it is 5%?

Srikar Reddy: Jay, it can vary based on the transaction, we have talked about that. So, we have looked at only the gross profit only and not the margins.

Jay Daniel: Okay. What is the gross profit then?

Prasanna Oke: Gross profit would be about Rs. 23 crores I think.

Jay Daniel: Rs. 23 crores for this quarter?

Prasanna Oke: Yes.

Jay Daniel: And can the GP margin be provided for IIT division also, because that is not normally provided.

Srikar Reddy: Gross profit in the IT services division?

Jay Daniel: Yes, right.

Srikar Reddy: Yes, we can show that, absolutely.

Jay Daniel: And in IIT is this dollar run-rate sustainable?

Srikar Reddy: We do not give forward-looking statements. As I said, I think if you look where we are today and the opportunity, we see growth opportunities, so let me put it that way.

Jay Daniel: And in IP lead revenues of 14% for the quarter, now this was targeted to get to 20% for the year, so would it mean that by the last quarter of the year IP lead would be around 25% - 26% of revenue?

Srikar Reddy: Yes, if we achieve our 20% target, that is correct.

Moderator: Thank you. Our next question is from the line of Kaustubh Bhubna from SKS Capital and Research. Please go ahead.

Kaustubh Bhubna: Just wanted to get an understanding, so USD INR is volatile but let's assume that rupee will keep appreciating, this is just an assumption, and we have the domestic business where we are focusing on improving our margins. So that is one lever which should help adjust margins based on the headwinds you are facing from the USD. But on the IIT business how are we looking at maintaining margins or improving margins keeping in mind that the rupee will appreciate? So, I mean, I.B.I.S. is one thing where there is obviously I am assuming scope for further EBITDA margin improvement because we are only at 5%. So, what are things like this where I would get confidence that the company is focusing on improving core margins in IIT as business, irrelevant of the rupee really depreciating?

Srikar Reddy: Sure, that is like a highly fantastic place to be in. But I think at this stage if there is a further erosion of the dollar I think we will see our margins being hit at this stage. So, while we can put any kind of plans, those plans will take time to operationalize, because the only way we can then do it is to improve, utilization we are more or less there where we need to be, so only improve realization kind of stuff. So, in the short-term I do not think, if there is a further erosion of the dollar then it would be a challenge on margins. And our Indian contracts today are already in rupees, most people sell to us in rupees only, so there is no extra benefit of the dollar in our India business.

Kaustubh Bhubna: No, what I was trying to say was that you are aiming to improve your margins in your domestic business, right?

Srikar Reddy: Yes, I know. What I am saying is that we do not import in dollars, we buy locally in rupee from our principle.

Kaustubh Bhubna: Yes. So, just on I.B.I.S., what was your PAT loss last year compared to breakeven this quarter?

Srikar Reddy: Sorry, what was the question?

Kaustubh Bhubna: On I.B.I.S. what was the PAT loss last year in FY17?

Srikar Reddy: PAT loss means what was the loss?

Kaustubh Bhubna: Yes.

Srikar Reddy: Overall for the year it might have been net of about minus \$500K - \$600K .

Kaustubh Bhubna: Okay. This year you are obviously that will go and you will be in the positive territory?

Srikar Reddy: That is correct.

Kaustubh Bhubna: And what margins do you think we can expect, because right now we are only at 5%, at best what EBITDA margins from I.B.I.S. can we expect in this year, next year?

Srikar Reddy: May be about, because it has reasonable amount of onsite business, so may be between 12% to 14% is a good expectation.

Kaustubh Bhubna: And what about your other IP lead acquisitions, there are small contributors, they are small portion to your total financials, but where are we in terms of breakeven for those?

Srikar Reddy: So, what I have said is that you should not look at some of these other subsidiaries like Halosys or Rezopia as individual subsidiaries because the business of those companies is being directly contracted by Sonata. So, internally we present them as what we call as one of IP lead revenues, it is revenues which are being driven by these things but being contracted directly by Sonata. So, the revenues are not flowing through those companies, so you should never look at those companies as individual subsidiaries and that is how our auditors look at it is saying that, otherwise we would have had to provide for them to say that these are all business units and what are the revenues they are driving. So all of them today are net cash positive in terms of their impact on our business.

Kaustubh Bhubna: So, I think to clear that out, could you give this data.

Srikar Reddy: Yes, let us look at it and we will give it out. To say that what is the business which Rezopia is driving for Sonata as a whole, and not what is the business which it is driving through Rezopia.

Kaustubh Bhubna: So, I mean, earlier I think you had given us a soft guidance for your IIT business of about 15% to 20%.

- Srikar Reddy:** So, we grow like 6% quarter-on-quarter, so we are okay. And that 15% to 20% was year-on-year. So, we just need to do 3% now, we will be there, that number will be achieved.
- Moderator:** Thank you. Our next question is from the line of Rohit Balakrishnan, an individual investor. Please go ahead.
- Rohit Balakrishnan:** Sir, we have had very good growth in the top-line for IIT business, but just want to understand, margins have been flat so what happened, can you just explain?
- Srikar Reddy:** Correct. I have just explained it previously right, the dollar has dropped from Rs. 68 to Rs. 64, so the Rs. 4 of top-line has gone. And some of it has been made up by FOREX gain, but not fully. So, that is what has affected the margins.
- Rohit Balakrishnan:** So, when we say that our international IT services EBITDA is Rs. 50 crores and our domestic EBITDA is Rs. 15 crores and we have other income of about Rs. 15 crores this quarter, so within that international EBITDA that Rs. 15 crores is included, right?
- Srikar Reddy:** Yes, it is included absolutely. I will ask Sathya to answer it.
- R Sathyanarayana:** Yes, it is included in EBITDA.
- Rohit Balakrishnan :** All of it?
- R Sathyanarayana:** Yes, all of it.
- Rohit Balakrishnan:** And when we say that Rs. 15 crores is our other income, I am assuming FOREX is part of that?
- R Sathyanarayana:** Yes, FOREX is part of that.
- Rohit Balakrishnan:** Okay. So, if you look at our core operating EBITDA excluding other income and excluding foreign exchange, so it is about 16.5% while in the earlier quarters we were at about 18% - 20%. So, I just wanted to understand the context of what you are talking about to the previous person asking the question, about I.B.I.S. turnaround and also growth coming back. So, in the context of both these things and the fact that our margins are almost at one of the lower ends in the last so many quarters, so as growth comes up do you see this margin coming up or given the currency situation there is difficulty? Because when I am talking about 16.5% it is only talking about the core business, I am taking other income, I am taking FOREX.
- Prasanna Oke:** So, very quickly, yes you are right. When we talk about this EBITDA and then we take out the other income of about 4% and FOREX of about 4% and other income we are coming to about 17% odd. This has been in that range of 16% to 17% and as we had talked about last year also that for a company mid-size our segment overall consolidated EBITDA we were trying to look in the range of about low-20s. Some of the investments that we have baked in, we have made through the year including some of our onsite costs, etc, having gone up. As we look at it now is that most of the cost seems to be baked in to this number of 17% that you talked about.

Rohit Balakrishnan: Okay. So, you can expect to sort of inch up if the growth comes? Is that a fair assessment?

Prasanna Oke: Yes, on overall basis we believe that the costs are baked in unless there is something exceptional which happens. It will be the regular investments and sales and marketing and as we grow our revenues. But our understanding at this point of time is that some of these large investments that we had made in people, in IP, etc are baked in to the system.

Moderator: Thank you. Our next question is from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: Sir, what was the outstanding FOREX hedges, how many dollars?

R Sathyanarayana: Normally when we take 12 months rolling forward contracts , we take up to 70% cover of the overall net receivables appearing in the balance sheet on a regular basis.

Vipul Shah: So, 70% of rolling 12 months revenue you generally hedge?

R Sathyanarayana: Yes, net receivables after all the expenses basically what comes into India we take a cover on that.

Vipul Shah: But can you give the absolute figure and at what strike price it will be converted?

R Sathyanarayana: Yes, basically what we do is we take it on a quarterly basis rolling, the average rate what we have taken across the next one year roughly varies between 70 to 67 in terms of US dollar.

Vipul Shah: 70 to 67, so between 67 and 70 there are hedges are different points?

R Sathyanarayana: Right, different points of time.

Vipul Shah: And what is the absolute amount?

R Sathyanarayana: In absolute terms, we covered about \$22 million.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference to Mr. Srikar Reddy for his closing comments. Over to you, Mr. Reddy?

Srikar Reddy: Alright. Thank you, Karuna. Thank you all very much for participating on the call. As usual, it is a very dynamic, very interactive, very lively, and animated conversation. Thank you all for your support and your interest in us. Look forward to talking to all of you next call. Thank you again and we will close the call. Thank you, Karuna.

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.