



Sonata Software Limited Conference Call FY2011 (Q4)

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CORPORATE PARTICIPANTS

B. Ramaswamy

President and Managing Director

P. Srikar Reddy

Executive Vice President, Director and COO

N. Venkatraman

Head of Strategic Finance and Risk Management

Sathyaranyana R.

Head - Finance and Accounts

Praveen Kumar D.

Company Secretary

Swati Sengupta

Head – Corporate Marketing and Communications

CONFERENCE CALL PARTICIPANTS

Roshan Jain

Way2Wealth – Mumbai

Yash Gadodia

Sunidhi Securities - Mumbai

PRESENTATION

Pooja - Moderator

Good morning ladies and gentlemen. I am Pooja, the moderator for this conference. Welcome to the conference call of Sonata Software Limited. Mr. B. Ramaswamy will be the call leader today. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Now I hand over the call to Mr. B. Ramaswamy, thank you and over to you Mr. Ramaswamy.

B. Ramaswamy - President and Managing Director - Sonata Software Limited

Thank you Pooja. This is Ramaswamy. Good morning everybody and welcome to the results call. I have with me Srikar who is the Executive Vice President, Director and COO, Venkat who is the Head of Strategic Finance and Risk Management, Sathya who is our CFO, Praveen who is the Company Secretary and Swati who is the Head of Corporate Marketing and Communications.

I will start off with the highlights of the quarter's performance, especially in the International IT Services and hand it over to Srikar to cover the Domestic and the TUI InfoTec business. From there on Venkat will cover

the detail financials and later on we will take questions from all of you.

We had a fairly good quarter. Our profit at a consolidated level was Rs. 23 crores which is grown 23% on a year on year basis and 20% on sequential basis. In the same period our International IT Services, the PAT (Profit after Tax) was Rs. 18 crores which again showed a growth of 15% on a year on year basis and 13% on a sequential basis. The full year profit (consolidated) was Rs. 86 crores showing a growth of about 7% on a year on year basis. For the same period the PAT in International IT Services was Rs. 66 crores showing a growth of about 8%. We continue to build on our strengths in the Travel, Tourism and Logistics (TTL) vertical and in the Outsource Product Development (OPD) vertical. We have successfully completed a business transformation exercise and as a part of this, we have restructured to begin sharp focus on customer intimacy and bring in specialization in focus areas mainly in the TTL as well as OPD in terms of verticals, and in terms of offerings which are in the areas of ERP, e-Commerce, Business Analytics, Mobility and in the emerging areas of Cloud Computing as well as Open Source and .Net. These are the areas that we have been focusing on and the whole idea of this business transformation exercise is to make sure that we have the requisite specialization built-in the company and more importantly prepare the organization to scale up for the next phase of growth. At the same time, we continue to look aggressively for inorganic opportunities for growth as we have about Rs. 167 crores of cash in the consolidated books. Now I hand over to Srikar to cover the Domestic business as well as TUI InfoTec.

Srikar Reddy - Executive Vice President, Director and COO - Sonata Software Limited

Good morning everybody. I will give you a brief update on TUI InfoTec, which is a joint venture between Sonata Software Ltd. and TUI, Europe's largest tourism group and also Sonata Information Technology Limited (SITL) which is Sonata's 100% subsidiary in India. The TUI InfoTec business as you all know has three parts, one is the TUI Group's internal business, second is the external business from the general market, and third is what we jointly do to address the requirements of the Travel and Tourism businesses worldwide.

The TUI group business continues to be steady. As we go forward we see some interesting opportunities emerging out of the TUI group, reviewing their core tour operator business model and because of that changing the IT infrastructure which is required. As far as the external business is concerned, we are seeing some good opportunities mainly coming out of the application hosting space, considering our success in striking a deal with ATU. We are now addressing the requirements of the worldwide Travel and Tourism market as we have been able to attain the knowledge required from the TUI group and that is where we see some interesting opportunities emerging, especially in the Middle East and the Asia Pacific Region. In the SITL business we continue our drive to move towards more value added business with more focus on



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services, leveraging our alliances with the global players with whom we represent in India. We have got some good wins this quarter, especially in the SAP implementation business and as we go forward we foresee leveraging and building upon the success we had this quarter. Now I will hand over to Venkat to give more detail analysis of the operations.

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Hi Good morning. This is Venkat. Our financial results have been uploaded on our website after the Board Meeting on the April 20th. I hope you had a chance to look at it. It is time to now give a quick overview. First I will talk about the business structure of Sonata Group. This is what I have been doing in the last conference calls as well. Sonata Software, the consolidated entity has three distinct business units. First is the software export business which includes Sonata Software and all its subsidiaries in the US, Europe and Middle east, all of which together we refer to as International IT Services. So this is what can be compared to the Indian IT Services arena. The second segment is the Domestic Products and Services which is essentially the product trading business which Srikanth just talked about and is done out of India through a separate subsidiary called SITL (Sonata Information Technology Ltd). The third is the Joint Venture that we have with TUI in Germany, in which we hold about 50.1% along with TUI AG. I will now first take you through the annual results and then the quarterly for each of the segments. First in the consolidated revenues we have shown a moderate increase of 1% on a year over year basis. We close the year with Rs. 1393 crores and it is an increase of 1% over the last year. Consolidated profits were Rs. 86 crores which have again shown an improvement of 7% on year over year basis. For the quarter, revenue on a consolidated basis was Rs. 321 crores which has shown a growth of 1% on a year over year basis and PAT was Rs. 23 crores which has shown year over year growth of 23% and 20% on a sequential basis. Now that consolidated is behind, I will try to segment this into three segments that we talked about and explain the results. The International IT Services had a total turnover for the year of Rs. 290 crores which is a revenue growth of 9%. PAT for this business was Rs. 66 crores and has shown a growth of 8% on a year over year basis. This business is only 21% of the revenues where as it contributes to 77% of the profits. So you will see how important it is to the overall consolidated hold. Whereas for the quarter the revenue in the International IT services was Rs. 73 crores showing a year over year growth of 11% and a sequential growth of 1%. Foreign currency variations have been in our favour during the quarter. In the international IT services business, we added 33 customers and 7 of them were during this quarter. We ended the year with a head count of 2317 people in this business compared to 2205 at the same time last year. Utilization was at 79% for the quarter and DSO was 55 days. Now we come to the second segment which is the Domestic Products and Services which essentially includes business done through SITL, which is trading

of products and domestic services. Revenue was Rs. 599 crores for the year which is a growth of 19% over the previous year. Profit was Rs. 8.5 crores which has shown a growth of 11% over the previous year. For the quarter, revenue in the Domestic Products and Services was Rs. 119 crores which is a growth of 6% on a year over year basis. Profit after Tax was Rs. 37 lakhs compared to the Rs. 2.6 crores in the immediately preceding quarter and Rs. 2.5 crores in the same quarter last year. Now this quarterly drop was primarily on account of business being pushed to Q1 of FY 11-12. As we take on business only when we have a lower withholding order for the sale so what could be done at 31st March has been pushed to April the next quarter and essentially its pushing of business. The key focus area on Domestic Business is Working Capital Management, DSO and Profitability. DSO at the year end was 69 days and return on capital employed for the year was 16% much ahead of the cost of capital and the funds deployed. Focus in this business, as Srikanth mentioned, will be to ramp up our services in the domestic market. We ended the year with a head count of 135 in this business.

With reference to TUI InfoTec, the third business segment which is our Joint Venture (JV) with TUI AG, we bought the 50.1 share in the JV in 2006 for about 18 million Euros. Our International Services which I talked about earlier does the offshore business for TUI InfoTec and this is at an arm's length basis (price basis) and these have been eliminated while I am talking about this segmental presentation. From a consolidation perspective 100% of the JV's revenues are considered, where as only 50.1% of the profits are considered. For the year that just ended, the JV recorded revenue of Rs. 504 crores. This is a drop of 17% on a year over year basis and the largest contributor for the drop in our consolidated revenues. As I have been consistently saying, the improvement of profits is depending on the third party business out of TUI world, which has been the focus at the JV. Despite turbulence in the economic scenario in the European region last year, the JV has maintained its profit at Rs. 11 crores for the year. Now coming to the quarter, the JV revenue was Rs. 129 crores a drop of 9% on year over year basis and an increase of 7% on a sequential basis. Our share of PAT was Rs. 4.6 crores compared to Rs. 52 lakhs a year ago and Rs. 66 lakhs in the immediately preceding quarter. So, foreign currency translation played a large role in this profit swing in our favour during the quarter. For the quarter it has actually been a gain of Rs. 1.75 crores compared to a loss of Rs. 1.88 crores in the same quarter last year and a loss of Rs. 1.78 crores in the immediately preceding quarter. In the JV we ended with a head count of 431 a drop of 21 over the previous year. Now during the quarter the JV declared a special dividend of 3.5 million Euros and a final dividend of 1.1 million Euro to each of the two share holders. So we have received a total of 4.6 million from the JV as dividend. The other points that I would like to cover up, our consistent policy of talking six quarters forward for six quarters on rolling basis as paid dividends and it has shown its dividend in the IT services business that we talked about. We ended the year with a consolidated cash and cash equivalent of Rs. 167 crores. Out of Rs.



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167 crores, Rs. 97 crores is with the International IT services business, Rs. 10 crores is with the Domestic Business and Rs. 59 crores with TUI InfoTec. As Mr. Ramaswamy mentioned, we are currently engaged in the business transformation exercise which involves arranging the business into distinct verticals and the benefits of which should be visible in the coming year. On the dividend the Board has recommended a final dividend of 100% at the Board Meeting held on April 20th coupled by the 100% Interim dividend the total dividend for the year will be 200% or Rs. 2/- per equity share. Thanks for hearing me out and we will now open the call for questions.

Pooja - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press “*” “1” now. First question comes from Mr. Roshan Jain from Mumbai. Mr. Jain you may please ask your question now.

Roshan Jain – Way2Wealth – Mumbai

Sir, one thing about employee cost. Employee cost has gone up in the last two quarters from 105 to 106, overall at a percentage of revenue. In Q2 it was 26% of the revenue and Q3 it was 30% and this quarter it is 33%?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

This is primarily on account of the cost increases due to wage increase that we have faced. As you might have heard all the IT companies are going through the same trend and we in an effort to ensure that we get best talent and also retain our talent, have increased our salaries and the impact for the whole year is about Rs. 24 crores, out of which most of it has come in the third and the fourth quarter.

Roshan Jain – Way2Wealth – Mumbai

About depreciation, can we expect the same trend to continue, like the depreciation is falling year-on-year, it has come down from Rs. 50 Crores to Rs. 38 crores, which is mainly because of TUI InfoTec?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Yes, this is mainly on account of TUI. In TUI we do the Infrastructure Management business, which is essentially taking over the infrastructure of the client

and then delivering service. Now that business which is basically a pass through business is on the decline so we will not be adding much on that front. So yes, it would be a fair assumption to make that depreciation would be on a lower trend but if required by the customer we will have to again ramp up the requirement for servers and we are also going through the leasing route increasingly, we are not taking it on our books because it is leveraging our services for the TUI group. Now we are increasingly taking the leasing route so the depreciation should come down but lease rentals would be slight increase.

Roshan Jain – Way2Wealth – Mumbai

That tax rate was lower to around 200-basis points, 240-basis points in fact, any reason for that because it was only 14.8% this year, last year it was around 17%?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

I will hand over to my colleague, Mr. Sathya.

Sathyanarayana R. - Head - Finance and Accounts

It was a deferred tax. Basically we are coming out of the STPI benefits from this year on it is not there so we need to recognize basically the depreciation as of that day 31st March in the books.

Roshan Jain – Way2Wealth – Mumbai

Okay so from next year, tax would again come around 17% -18% rate?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

Yes, around 16%-17% for the software services business. For the software services business, it should be about 16%-17%, because we do have a significant part of our operations in SEZ, and as you know the recent budget they have brought the SEZ into MAT tax bracket so that coupled with the benefits should keep you in the range of about 16% to 18%.

Roshan Jain – Way2Wealth – Mumbai

Thanks a lot sir.

Pooja – Moderator

Thank you sir. Participants who wish to ask questions may please press “*” “1”. Participants who wish to ask



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questions may please press “*” “1”. Next question comes from Mr. Yash Gadodia from Mumbai from Sunidhi Securities. You may ask your questions please.

Yash Gadodia – Sunidhi Securities - Mumbai

This is related to the Sonata Software Limited on a standalone basis. You have a tax write back of Rs. 59 lakhs? Could you just explain it?

Sathyanarayana R. - Head - Finance and Accounts

We just explained to you that it is basically on account of deferred tax.

Yash Gadodia – Sunidhi Securities - Mumbai

Your write back last year was Rs. 94 lakhs and this year it is Rs. 59 lakhs?

Sathyanarayana R. - Head - Finance and Accounts

That is because of the deferred tax what we have recognized in the books, because we are coming out of the STPI scheme. That will get recovered over. It is a timing difference, which gets recognized and we move it from the P&L to the balance sheet. So that is what is happening.

Yash Gadodia – Sunidhi Securities - Mumbai

Now as far as the cash in the International business is concerned what are you trying to do with that is there any plans for that?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

That is about Rs. 97 crores Yash as I accounted earlier. One is obviously net of dividend. The dividend gets paid out of this for the current quarter and for the year, but whatever is left we are continuously looking at inorganic growth opportunities, just that the landscape has become a lot more competitive for companies and we are continuously evaluating that.

Yash Gadodia – Sunidhi Securities - Mumbai

But then if you bring that cash here there will be the tax implication right?

N Venkatraman - Head of Strategic Finance and Risk Management - Sonata Software Limited

The structuring is that most of the shares in our subsidiaries are held through a preference capital route where majority of the amount is part. So we will do a redeemable preference share for it. They are all through redeemable preference shares so the redemption will carry on.

Yash Gadodia – Sunidhi Securities – Mumbai

Okay. Thanks.

Pooja - Moderator

Thank you very much sir. Participants who wish to ask questions may please press “*” “1”. At this moment, there are no further questions from participants. I would now hand over the call proceedings with Ramaswamy for the final remarks. Over to you sir.

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Thanks Pooja. Thanks everyone for participating in the conference call. If you have more questions, even later on, you can always get in touch with us. Thank you very much.

Have a good day.

Pooja - Moderator

Thank you sir. Ladies and gentlemen this concludes the call. You may now disconnect your lines. Thank you for connecting to conference service from Airtel and have a pleasant day.