



Sonata Software Limited Conference Call FY2012 (Q4)

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CORPORATE PARTICIPANTS

P. Srikar Reddy

Managing Director & Chief Executive Officer

N. Venkatraman

Chief Financial Officer

Sathyanarayana R.

Head - Finance and Accounts

Swati Sengupta

Head – Corporate Marketing and Communications

Moderator

Ladies and gentlemen, good morning and welcome to the Sonata Software Limited Q4 FY2012 earnings conference call. Joining us on the call today from Sonata are Mr. Srikar Reddy - Chief Executive Officer and Managing Director and Mr. N.Venkatraman - Chief Financial Officer along with other members of the management. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference call, please signal an operator by pressing "*" and 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

Good Morning everybody, apart from Venkat, I also have here with me Sathya who heads our Finance and Accounting Function and Swati Sengupta who heads our Corporate Marketing function. Before I start as you all know we have had a fairly challenging year last year both internally and externally. Internally we have seen some top level changes, two of them last year. Externally we have had to face a very challenging market in terms of both the currency fluctuations and some of the statutory implications we have had mainly in the domestic market. Venkat will take you through some of the



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financial implications of some of these in his detailed analysis of the financials of the Company. Overall there were a couple of things which, apart from the change, we have to face which internally we have to deal with last year. One was that we did see one or two clients of ours, who, for their own internal reasons had to downsize their work with us and some of the clients we were expecting to grow last year really didn't grow the way we expected them to grow. This led to us having expected this growth buildup of some capacities which have actually reflected on the drop in margins and which Venkat will cover in detail. And as you have seen, we had joint ventures with TUI in Germany - we had to undergo some restructuring to bring the company back to a normal size and they had to take some non-cash impact on their books because of the restructuring; again which Venkat will cover in greater detail.

Having said that, we have come through a fairly difficult year with most of our clients intact and that is the good part, and we have been able to retain most of our key management so that has been the good part despite going through the challenges. And over the last few months at the top management level we have been able to put our heads together and actually bring the focus back on to the business and growth. We do see already some of the results of the actions we have taken and as we go forward we will continue see the results of these actions. The focus for us remains really 3-4 folds; one is to grow our existing clients – we see a lot of headroom in each of them and some of the actions we are taking will start showing results. Secondly, is to improve the efficiency of our operations so that we get better realization, better utilization, better billability which we will again see going forward. Third is to strengthen our sales engine in most of the key markets which we are starting to do, hopefully we will have this in place by the end of the quarter or the middle of the next quarter and the results of that you will see going forward in the subsequent quarter. Our focus on investing in newer technologies will continue, some of them are showing good progress in the area of mobility and cloud and that will continue and that we will leverage to cross sell and up sell to our existing client apart from getting new clients. Our focus on allying with our top alliances like Microsoft, SAP, Oracle, IBM, HP will continue and we will put more emphasis on growing this relationship as we access the global market and we see some traction with some of the strategies we are employing with some of these alliances. And in the medium to long-term it is really how do we verticalize our offerings, as we build clients using our



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alliances and using specialized horizontal services in medium to long term to verticalize currently we have two verticals of those product development, and travel & tourism and as we work with our alliance and try and verticalize more of these offerings in the medium to long-term. At this I will now hand over to Venkat to take you through in more detail the financials first both the quarter and the year and after that we are more than happy to take any questions you have. Thank you.

N. Venkatraman

Good morning to all of you. The results and the investor presentation has been on our site since last Thursday, I hope you have all had a chance to look at it. If you want any specific information we will be glad to add that to the slide deck as we go forward.

On the positives we have actually shown consolidated revenue - 1568 crores which is a 13% growth on a year-over-year basis, this is for the year. And as regard for the other aspects of financial performance I would prefer to look at it from the business segment that we operate in. As has been in past, I will try to analyze in the three business segments of the international services which is software services export business, the second is the domestic products and services business which we do through our subsidiary in India called Sonata Information Technology Ltd and the third business segment being our JV in Germany, TUI InfoTech, where we hold 50.1% share. The international services revenue for the quarter was 66 crores and for the year was 280 crores - these have actually shown a de growth of 9% and 3% on a year-on-year basis. Primarily reason being what Srikar mentioned we had certain drop in project revenues from 1 or 2 customers who were giving us a million-dollar plus revenues in the last year. We ended the year with the PAT of 21 crores versus the 66 crores in the previous year. The swing of Rs. 45 crores is largely explained by a revenue drop of 15 crores year over year, FOREX loss of 12 crores and certain other discretionary expenditure which went up like Srikar mentioned we had built capacity for a larger operation which didn't materialize and so that was the balance of 10 crores. So largely FOREX, drop in revenues and capacity cost hit our bottom line as far as the international services goes.

As for the quarter we have shown a loss of Rs. 2 crores and primarily the reason being the exchange loss of 5.2 crores and drop in revenue and transitional factors like the change in management, the two big changes that



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happened in the top management in the last two quarters has had its impact on the financials.

The international business is a key focus to us because that brings the substantial part of our consolidated profits and so that will be our focus going forward in 2012-13. Stability and growth are the main words or the main things to for the next year and that will be the focus area going into '12-13. The risk of sounding like making a forward-looking statement I can say firstly that my confidence levels in achieving the growth and profit targets for '12-13 is very high and I am very positive on the current internal environment. We may face certain issues in terms of exchange rates fluctuation which all of us are seeing right now. But business growth and controls that we have in place in terms of forwards and in terms of how we hedge these risks are pretty well in place and so that should take care of these fluctuations. In the standalone business, despite of difficulties that we face in the international services we ended the year with positive operating cash flows and we have generated approximately 15 crores of cash.

Coming to the domestic products and services business last year was again little challenging because of the multiple factors in domestic regulatory environment. One was we were expecting GST to come in and there were quite a few other additional distributors and companies that were set up by competition to take on the other leaders in the market. So in the year of the stiff competition we had to really push through but now we have come out a very strong and we are looking at 12-13 to come out much stronger.

For the quarter we showed a net loss of 4 crores in the domestic business and for the year it was 9.7 crores. In the same quarter we had shown a profit of 37 lakhs last quarter and the previous year it was 8 crores. So the real shift in the swing has been on a year over year basis from a profit of 8 crores we swung to a loss of 9.7 crores. The swing is primarily on account of two factors, as I have been explaining earlier we have been reconfiguring our business lines and we have to take one-time non-cash cost of about 12 crores which we have taken over the entire year and the second aspect was the change in regulatory environment. But as we move forward in 12-13 what we are seeing is our competition has also figured out that there is no point in trying to do business in India by doing tax planning because it finds its way to its bottom line at some point in time. So now it is almost like a level playing field going forward and we should be coming out stronger. In this business we



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had positive cash flows despite the loss because I mentioned that the write-offs were essentially non-cash in nature. We have had approximately 13 crores of cash being added in this line of business.

Coming to our third line of business which is the joint-venture with TUI Germany, as far as reporting goes we do business with TUI InfoTech on an arm's-length basis. So the international services segment does business from the TUI joint-venture and these revenues are classified as part of the international services so that is the kind of disclosure and these are accounted on an arm's-length basis in the international services business. On the financial results TUI InfoTech adjusted revenues for the quarter were 114 crores which has been relatively flat on a sequential basis, essentially it's a drop of one percentage point. On the profit for the quarter really took a provision for restructuring expenses of about Rs. 7.7 crores after which EBITDA stood at a loss of 4 crores. Net loss for a quarter was 7.3 crores. The restructuring expenses are in the nature of a provision that we made for a voluntary retirement scheme that has been announced for the staff in the JV. So essentially as per German law what tends to happen is whenever a person accepts a VRS scheme, we have to make provision for the entire cost of retirement in the books in the period in which the person is given or tendered his retirement. But essentially this retirement happens four or five years from today and the money that is payable becomes payable only at that point in time, and there are lots of savings which comes on account of taking this voluntary retirement. As per the German GAAP we are not allowed to take the benefit or the credit for the savings, nor are we supposed to take the costs when the cash flows become certain. So that is why we are making these provisions in the books as we go quarter-on-quarter. Savings on account of the JV is currently focused on both shareholders, both TUI group and Sonata and we are trying to bring in stability there through the production or restructuring of the workforce. Simply consolidating the joint-venture on the line by line basis, our research shows the impact of above losses of the provisions but from an accounting perspective rather. From a cash flow perspective the JV is still generating cash. You will notice that our board has recommended a final dividend of 25 paisa per share taking the total dividend for the year to 75 paisa, i.e. 75% on the face value. The fact that dividend has been declared and is payable shows the strength of our cash flows so essentially that reiterates the point that the losses that we have been taking our non-cash charges. Our continued strong cash and debt free position in



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the international services business and the confidence that the board has on our plans for 2012-13. If the plans were not in place and if we are not likely to achieve that I am sure the board would not have done or would not have declared a dividend at this juncture.

On the cash balance we have ended the year 31st March with cash and cash equivalent on the consolidated books of about 147 crores. On the international services side we have about 127 crores of this cash.

On the headcount in the international services business we have 2169 people, on the domestic products and services 126 and TUI 440. We have had net addition which is a drop of close to 100 people on quarter-over-quarter basis. These numbers are available on our website.

What I will do now is open up the call for questions. Please feel free to ask and we will be happy to answer them. Thank you.

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| Moderator | Thank you very much Sir. We will now begin the question and answer session. We have the first question is from the line of Chetan Wadia from JHP Securities, please go ahead. |
| Chetan Wadia | The concern is more on the pace of the fall, if I look at the year-on-year revenue for all the three businesses what are the steps that the company is taking to control the fall of the revenue and profitability in all three divisions? |
| Srikar Reddy | Your question is that there has been a drop in revenue in the last quarter in the three businesses is that the question? |
| Chetan Wadia | Yes that is one question as well as the profitability and one side you said that the most of the provisions are non-cash and all those things but in the press release you are making a statement that the company is doing significant progress in addressing above issues and they are poised for a sustainable performance in 2013. So my question is essentially what are those steps in the in spite of this kind of performance that the company has delivered for the FY12, you are bullish on the FY13? |
| Srikar Reddy | I think we did cover on FY12 in terms of we have gone through a lot of change and while the organization has grappling with the change which was obviously very difficult to focus on business as usual. However, clichéd it may |



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sound that we are focused on the business as usual. So what I have said is over the last three months we are focused on a few things, one is to grow our existing clients both by cross-selling and up-selling and I did say that we have seen some result of our efforts bear fruits in terms of the kind of traction we have seen with them. Second is I said we will build our sales engine in most of key geographies where we have not been able to build our sales engine over the last year for focusing on getting the new logos. Third is I said we are going to focus on operational efficiency, I think Venkat did mention that there is net reduction of about 100 people, and this is not any layoff but it is just natural trim and we do see that about 200 people less and actually we feel that that is more than sufficient to actually meet our requirement for the current quarter in terms meeting our revenues - maybe a little bit more than even last quarter. So these three will immediately translating that on our financials and as I said going forward we will work with our alliances a lot more strongly. And we are going to verticalize on our offerings so that as we work with some of our key clients and with our key partners and with our some of the key horizontal services, however, we verticalize some of these offerings to make us lot more attractive to get new clients.

Chetan Wadia On this restructuring cost in TUI, all the provisions needed to be made has already been done or there is something left for Q1 FY13 as well?

Venkat The restructuring is something which will continue in TUI InfoTech, I think it is got a lot more caught and which needs to be dealt with and it will continue.

Chetan Wadia So how much provision to be made in FY13?

Srikar Reddy We cannot give you a figure. Basically we are allowing ourselves to the amount of business we expect from the main customers and we are in the process of understanding what is the amount of business we can expect from the main customers.

Venkat Just give you feel, what happens is the scheme is offered, it has to be taken by the people so it is available to people who are offered. So as and when they take it we make a provision for it in the books.

Chetan Wadia So how many people did opt for it in FY12?

Srikar Reddy 20 odd people.



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- Chetan Wadia** For how many people the offer is still open?
- N. Venkatraman** Maybe another 18 and there are some other means.
- Chetan Wadia** What is the consolidated cash in the books?
- N. Venkatraman** 146 crores as of 31st March, out of which 126 is with Sonata and its subsidiaries.
- Moderator** Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu** My first question is regarding the international IT services business, you said that there was drop in revenue from one or two clients in the previous year which led to fall in revenue. Could you quantify the amount please?
- Srikar Reddy** About 10-15 crores was the drop in year-over-year revenues.
- Sudhakar Prabhu** And if you could also tell us about the nature of the client and as the fall stabilize can you see growth coming forward in this year?
- Srikar Reddy** The clients actually have been one-off. They are no more there with us. So whatever the loss which was there because of loss of that one major client has actually been made up through other clients already.
- Sudhakar Prabhu** If you could also tell us what are the steps are you are taking in the current year to see growth in this particular segment?
- Srikar Reddy** I can say that there are few of those, one is that we have a base of - the data is there on our website - I think of about 23 clients of which at least sort of 8 or 10 of them we are going to focus on and through various processes which are really standard in terms of - like I said more account management, more focus, more depth and breadth, increase our span of offerings and all the other standard things to grow them and we have seen the headroom and we are seeing the traction there. Second is as I said we are going to work with our alliances which as I said Microsoft being one of them and then SAP, IBM, Oracle, HP to see where their focus is in terms of new technology investment and we are putting our investment aligned with them and we have got few places where we are going to go-to market with them in certain geographies. Third, I said is we want to strengthen our sales team in some of the key



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geographies that means add more people. I did say that we will be opening up them all on board by the middle of next quarter and we will see the efforts or their efforts going forward in the further quarters. So these are the three major things apart from as I said that we are going to get more operationally efficient in terms of utilization of our people and billability and margin and so on and so forth. So these are for things which we believe they will help us immediately in showing a better performance in our international services.

Sudhakar Prabhu And I know that you guys do not give guidance but if you tell us when can we see stability in terms of revenue and growth coming back in next six months-nine months, one-year?

Srikar Reddy Hopefully in this quarter.

Sudhakar Prabhu And in terms of margins can we see some improvement?

Srikar Reddy Yes both margin and revenue growth are more hand-in-hand at least for the next few quarters.

Sudhakar Prabhu What kind of sustainable margins are you seeing in your international services business?

Srikar Reddy Given the way foreign currency is moving, we wouldn't like to take a stab on that number but we are pretty confident that we should have reasonably good margins. Sounds clichéd if I say industry level margins, but yes, that what we are targeting for.

Sudhakar Prabhu How are you placed in terms of hedges?

N. Venkatraman As far as hedges are concerned, the board mandate is to do forward covers for the next six quarters in advance. So our average hedge rate for the US dollar is about 49.7 and for the GBP it is about 78.8 and for the Euro it is about 68. So as you see just like the entire industry, pretty much we have been brought by little bit of a surprise of the dollar front but that is something which will come as book entry or notional loss as compared to the spot rate as we go forward. And a part of it will get also mitigated by the benefits that we would see from translation perspective because we have got overseas assets and those kinds of things so from an accounting perspective you will see gains, on the translation perspective you will see losses, on account of



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spot versus forward and you would see a net entry which is going forward. It is something that we have to deal with in the coming quarters. And we are also changing our forwards or the hedging strategy, we are in discussion with our consultants and we have board approvals to change this as well.

Moderator Thank you. We have a follow up question from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia My question would be how much is the FOREX loss or gain that you have accounted for in FY12? Consolidated numbers - how much of FOREX loss that you have been booked in....

N. Venkatraman Let me look it from the international services perspective, we have got a gain of 6 crores compared to 18 crores of gained last year. In the first two quarters of FY12 which is Q1 '12 and Q2 '12, we have had about 12 crores of foreign exchange gain which has been then it has become a loss of 50 lakhs in Q3 and about 5.3 crores in Q4 so, effectively 6 crores of gain in FY12 compared to gain of 18 crores last year. So that's what I used FOREX as a mechanism to explain the swing of profits.

Chetan Wadia You follow a practice in the FOREX realization revenue on adjusting calculating operating margins in re-adjustment of debtors against the PAT so there are two policies of accounting function that you are following.

Srikar Reddy We have two policies for two subsidiaries, for Sonata Software Ltd...

N. Venkatraman We are following AS-30 where the cash flow hedges are, mark-to-market at the balance sheet date and the gains/losses are taken to hedging reserve in the Balance Sheet and later reclassified into profit and loss account upon the occurrence of the hedged transaction..

Srikar Reddy There are two types of hedges, just to clarify. In our software services business we have normal forwards that we take, post our accounted forex normal cash flow hedges. So normal cash flow hedges and that is about it. And on the domestic side we have for imports and that is mark-to-market.

Moderator Thank you. As there are no further questions I would now like to hand the floor over to Mr. Reddy for closing comments.



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Srikar Reddy

Thank you all for joining the call and we look forward to your support. Thank you very much.

Moderator

Thank you very much Sir. On behalf of Sonata Software Limited that concludes this conference. Thank you for joining us.
