



“Sonata Software Limited Fourth Quarter Results Conference Call”

May 27, 2014



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Sonata Software Limited
May 27, 2014

Moderator

Ladies and gentlemen good day and welcome to the Fourth Quarter Results Conference Call of Sonata Software Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. P. Srikar Reddy. Thank you and over to you Mr. Reddy.

P Srikar Reddy

Thank you Shyma and good morning to everybody and welcome to the analyst call following our results for the Q4 and financial year 2014 announced yesterday. I have here with me Venkatraman Narayanan – Our CFO, R. Satyanarayana – Head of Finance & Accounts, Priya Jaswani Company Secretary and Arun Sriram – Head of Marketing and as you know all of them from prior interactions. So, I think based on numbers which are now there on our website and the press release that we made.

As you might have noticed that we have made significant progress in terms of our financial parameters across our revenues, profits, margins, EBITDA. So I will allow Venkat to take you through the detailed financial and to cover this in greater detail. What I will do is to take you through the fact of the qualitative change we have undergone as an organization over the past 12 months and that is what we believe is driving this growth and then obviously tell you what is the way forward. So, I mean typically there are about 13 – 14 different parameters on which we think we are qualitatively become much stronger company. First is in terms of how strategic we have become to our current accounts in which we operate to strong account management processes and cross selling and up selling our services.

Secondly I think we believe we have tied up with more potential strategic accounts from which we can leverage in the current financial year. Thirdly we believe that we have a more structured and disciplined go to market approach what we call master accounts, target accounts kind of an approach that we have put in place over the last six months. We have strengthened our senior management team last year by hiring top talent from across the industry in marketing, HR, sales, product management and deliveries so that's been a significant addition to our top management team last year. We had top talent from premier business schools last year and I did mentioned it is one of my corporate calls, to really strengthen the depths and breadths of the management team last year. We would have a stronger with our vertical focus especially on the retail vertical where we were about 12 months ago and where we are today. I think in terms of both the domain expertise and the kind of solutions we have developed, the kind of customers we acquired, the kind of go to market we have and our partnership in alliance and in this space I feel a lot stronger with our vertical story. In select horizontals, we become much more competitive and much more strategic to our client especially four areas, Retail, Hybris, Mobility and Cloud. Based on horizontals, I think we have a lot more competitive and compelling story in these four select horizontals. We have our third upwards global delivery center which we opened last year in Redmond which we announced it. We have also expanded geographically last year, we have opened up our office in Australia so overall I would say that apart from the quantitative results I

think qualitatively we have moved on significantly as an organization which we believe is now going to lay us very, very sound platform for our future growth and really looking forward it's really I think more of the same thing we believe that you think we have a very sound strategy which is really based upon what we call focus on select verticals, select horizontal, work with some select partners and build what we call key strategic accounts in which we can grow the geographies in which we operate in and align with some immediate strategy to support it. The long term vision of the company is what we call is to become IP lead services growth company and that's where we are heading and all our strategies are really lying to drive in this growth forward. So, having covered the qualitative aspects and I am sure there would be some questions after Venkat finishes his detailed financial analysis of the quarter and year's performance, we will deal with them and handover the mic to Venkat.

Venkatraman Narayanan Thank you Srikar. Good morning to all of you. Just to start the year has been very good, the results have been very positive and most of the financial details that typically the analysts and the investment community asked for has been put on the website we are trying to consistently improve the information that is shared with you, so we have got most of the data that's out there in terms of the investor presentation and the press release. So, what I will do is I will quickly try to take you through the numbers and then start off from there. It's been a very, very satisfying year I think we can say that the turnaround has been kind of complete because on all metrics in terms of whether it is revenues, EBITDA, PAT the growth numbers are in high double digits and this is in comparison to the last year and as you realized last year we did have some issues in terms of the joint venture and how we came out of it, how we were trying to turnaround the domestic products business, while trying to set the base for the services business all of that was work in progress and like Srikar mentioned last year there was quite a bit of investment and time spent on that which was finally I think have proved and that's showing up in the results.

So, if we look at the consolidated numbers in terms of revenues, EBITDA and PAT, Revenues we are up 19%, EBITDA up 97% and in terms of PAT up 160% so that's really speaks about what we have done during the year. Consolidated EBITDA at Rs.117.5 crores. This is the highest ever company has done and this is including those passed days when we had TUI InfoTec as part of our subsidiary and the results of TUI used to be consolidated into our financial. So, those of you who have been tracking us for the last many years, this is really one of the best results that we have posted until date. The same goes for PAT, another point that you need to note in PAT is there were the days when the average tax rate for the IT industry used to be 10% or below. Today we are at about 29% average, 28% of ATR despite that we have shown and post at the highest ever PAT of 78 crores.

As far as the quarter is concerned we are at the consolidated EBITDA of about 35 crores and we are at run rate of about 24 crores in terms of PAT. Coming to the international services we started the year with an EBITDA percentage of about between the range of 13% to 16% and we were consistently looking to see how that could be improved. Q3 we touched 20%, during the call we did mentioned that we were a little circumspect whether that could be maintained to be honest because we were looking at how that could be maintained but it was actually satisfying to

see that Q4 we also entered with a similar EBITDA percentage of 20% so that in fact in a way sets the tone for the coming year.

As far as utilization is concerned we are at about 83%, the billing rate have perked up to a certain level which really has helped us in achieving higher EBITDA percentage. Because of higher utilization, better management or the recruitment just in time and better and improved billing rates because of our specialized service offering, that Srikar referred to, because we have a lot more focused then generic services that we used to earlier provide, so all of these put together have ensured that our realization has become a little better contributing to the better EBITDA percentage. We added four new customers and one customer who is hitting the dollar million mark the ROCE in that business of international services was about 22%. In terms of dollar growth we had grown year-over-year by about 29% for the year we have touched run rate of about \$80 million so that's the services revenue in dollar terms.

Coming to the products business the other business which people used to be a little circumspect about. But we are very happy to say that in all metrics again that business has also come up top. We managed to get some income tax refund which has added, which gave us interest of about 7 crores from the refund so even if you adjust for that we have come up with a very good EBITDA of about 35 crores for the current year and PAT of about 19 crores.

The interesting part of this business has been the ROCE we are at about 24%. So for every rupee that we put into this business we are generating 24% of return. We continue to manage that business as we have been mentioning on relatively negative working capital basis. The DSOs on this business have improved to about 59 days, so this is where we are for the quarter and for the year. Now, that we have posted these good results, board also have reaffirmed their confidence on the results and their ability to continue this which is also shown up on the highest ever dividend payout of the company as 375%. So that's about Rs.3.75 paise per share. Rs.1 has been paid as interim dividend so balanced Rs.2.75 would be payable after the book closure and the approval of the same by the AGM. We continue to retain healthy cash balances as at year end we had about effectively 240 crores of cash, adjusted for the dividend we would again start with, we would have to build it up over the next year as we go forward. Now, cash will be deployed as we have said in the earlier calls both for our organic growth, the setup of the onsite development centers and also looking at inorganic growth parts where we are looking at companies in Europe and US. I will turn it over to Srikar.

P Srikar Reddy

Thank you Venkat and yes I think Shyma you can throw the platform open for questions.

Moderator

Sure sir. Participants we will now begin with the question and answer session. We have the first question from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia

My first question is on the domestic market. I think on the absolute we have improved the profitability. In terms of margin front that how much could do you think the improvement in FY15?

- P Srikar Reddy** Sorry, what is the question, how much more can we improve the margins in the domestic business?
- Chetan Wadia** Yes.
- P Srikar Reddy** Yes, I think right now we are above 3% that is our net margin and I mean so even if you grow another 10% they will be actually 0.3% kind of stuff. I think you should understand it is absolutely not a big margin business and as Venkat said it is business which is based on high return on capital employed and that we don't employ too much cash in the business. So, I think it will be more based on a very secular growth in the market. We are looking at some value added products in the domestic business which should uptake the margin a little bit but our traditional business will still continue to be of significant portion of that so I think the growth there will really come from more from a generally secular growth.
- Chetan Wadia** Okay and my second question is on the international market. I think last year you opened couple of offices in Australia and Singapore so how has been the business response from there and any plans to open more offices in FY15?
- P Srikar Reddy** No, last year as I said, I think in my previous call, these are all investments and we do believe that it takes time for them to actually start yielding financial results and especially we will be very happy with the progress we have made in the Australian market and got a few clients we have done a few partnership. So I think the Australian thing is working very well so but as I said before it starts being a significant dent in numbers will be a matter of year or two kind of stuff.
- Chetan Wadia** Okay, so anymore offices to be open in FY15?
- P Srikar Reddy** Yes, we may look at one or two countries in Continental Europe, but we are really driven by some customer demands or to some M&A, so really can't say which one but there would be a possibility of expanding in the one more geography in Continental Europe.
- Chetan Wadia** And last question is on this the new initiative that would take the social mobility cloud data relative. How much of this contributes revenue in FY14 and what are the expectations for FY15?
- Venkatraman Narayanan** Chetan we had not started tracking at that level because most of this business was new technology in SMA field it is coming from existing customers and new customers but as I said approximately new technology is about 15% of our revenues it is about 15% if you include BI, Analytics and Cloud Mobility. So, it's about 15%, it could be plus or minus 3% to 5% I would it says plus is the most likelihood of it would be.
- Chetan Wadia** And what are the expectations for this financial year?
- Venkatraman Narayanan** We don't give growth expectations but yes that's where lot of investment is growing in terms of looking for companies to acquire both for inorganic growth part, so that's where most of our

investments headed and that's the key sales differentiator for us focus approach to the new technologies that we have taken in the areas or the verticals of our focus.

Chetan Wadia

All the best management, that's it from my side.

Moderator

Thank you. We have the next question from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.

Shubhankar Ojha

Two questions, one this consolidated margin that you have seen in March quarter, how sustainable this margin is going forward and if there is a scope for improving the same?

Venkatraman Narayanan

Shubhankar, essentially we look at the business in two bits like we said one is the services business and the other one is the product business so we believe that both the service and products they have reached a level of sustaining themselves so now the next one is about growth, so each of them have their own growth whatever growth trajectories as we can call it so the international services we track, what we will track is the services market which is our peers are showing so we will have to better that or whatever so we will have to meet the expectations on that front. On the domestic front we are market leaders in that business and like Srikar said the focus is always on return on capital employed and make sure that we have that at a healthy 24% plus while doing same business out there because that business has its own what you call nuances, so it's not that you can actually maybe improve margins but that would also improve take the risk for that business higher so it's obviously we will look at that business from the perspective of seeing how to improve margins as a percentage how to grow the business, how to become lot of more strategic for our customers on that front. So, both put together should give you a decent healthy reasonable growth of margins going forward next year as well in absolute terms.

Shubhankar Ojha

Alright, sir because last two quarters we have been able to maintain the similar level margins which is a good sign. Secondly, if you are on the utilization of cash which you had just mentioned is there anything that we have finalized on as far as the inorganic growth is concerned or have you been able to identify any geography or any service segment we are talking about the inorganic growth?

Venkatraman Narayanan

Yes, I mean our inorganic growth strategy is really based upon the three dimensions we talked about the verticals we operate in travel tourism and the retail and the technologies we have focused on which is like modern technologies which we just talked about and the geographies we are interested in. So, this is to sustain our growth, so we have put together a strategy and said that we need such kind of asset which can add to our value proposition in terms of active client, increasing our technology capability, better management, talent and some IT which they may have. So, having said all these, I mean so I am talking to lot of people but when it happens we will announce.

- Shubhankar Ojha** Alright and secondly so this year you had 50% payout ratio like 375% dividend and earnings of Rs.7.5 almost so is this a standard payout ratio which is going to be maintained going forward of is there any one off year as far as the payout is concerned
- Venkatraman Narayanan** So, we have actually said that in the past that we look at something between 40% to 50% as payout of our consolidated profits so it's keeping in line with that the board has declared
- Moderator** Thank you. Our next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.
- Sachin Kasera** My question was regarding the rupee dollar realizations, so your presentation mentions it is around Rs.57 roughly for the last two quarters. So, does it mean that there are certain hedges that we had and in case is there some hedge loss that we have booked can you just explain that how it has been accounted for?
- Sathyanarayana R** What we are doing is as our policy we are covering forward for four quarters now, okay we are covering 60% overall so whatever hedge losses basically last year we had covered at 57 – 56 etc all that which has come into the books already.
- Sachin Kasera** And where are these losses booked, hedged losses, the income that you received-?
- Sathyanarayana R** FOREX exchange variation basically.
- Sachin Kasera** Okay and how are we placed for the year in terms of hedges for FY15?
- Venkatraman Narayanan** We have covered around Rs.61 basically but 60% of our net revenues which come into India has been covered for the next rolling 12 months and the average is about 61 to the dollar. The primary currency is a dollar, euro and GDP and all at the same hedge pattern. There was a change based on the way the dollar rupee movement happened over the last couple of quarters, we got in touch with our advisors and based on the board recommendation on board advice we looked at it and we are doing coverage at closed to rolling 12 months.
- Sachin Kasera** So, is it a fair assumption that as we think remain static next year your margins could get a big upside in currency because this year you are something like(+60) against 57 for the last year?
- Venkatraman Narayanan** Yes the average realization was about Rs.56 to Rs.57 on one side you will have revenue but also there will be also an increase a manpower cost right so you will have to assume so if you are saying all things remaining constant or it cannot be that you would only make gains on the rupee dollar exchange rate.
- Sachin Kasera** Yes but that would be like-
- Venkatraman Narayanan** The increase in your input cost in terms of people cost.

Sachin Kasera What is the type of increase that we were looking on the manpower front sir, what is the type of increments we are planning to give and from where it is going to be effective from?

Venkatraman Narayanan I think what he is saying is not increment, he is saying that the rupee depreciates right then our FOREX cost for people it goes up with what he is saying, he is not talking about an increase in compensation.

Sachin Kasera But are we also planning to give any increments at the India level?

P Srikar Reddy It is a standard process, our review cycle happens in Q4, so we did won last year in January and one actually in April, so the next review cycle for the majority of the people will be next January.

Sachin Kasera Your utilization levels are fairly high 83% - 84% and you are pretty optimistic about the growth for the next year so what is the type of hiring plans you have for FY15 and do we have enough infrastructure to accommodate or we will need to invest in that?

P Srikar Reddy No, I think we have mentioned it our earlier call. Today we still have about 500 or 600 seats available in infrastructure in our facilities both in Hyderabad and Bangalore, so to that extent I think we are okay for the current year. I think our ability to hire the talent as I had just spoken in the beginning of the meeting has dramatically improved as we are able to get the kind of top talent which we want so that's not a problem. We will be able to go to best schools for the engineering and management and get the kind of people we want so that's also not a problem. So, yes so there is a plan. I understand the point that you are trying to make in terms of and the focus a little bit too much on efficiency, but it will also be based upon the kind of visibility we had I think as we get more and more better visibility I think we will be able to expand our intake a lot more aggressively.

Sachin Kasera What would be your attrition rate sir as of now?

P Srikar Reddy Attrition rate is about 16% - 17%.

Sachin Kasera And has that improved in the last three years or it has been the same?

P Srikar Reddy It has gone down, yes.

Sachin Kasera And are you comfortable with this or you would be looking at even better levels in next one-two years?

P Srikar Reddy I think maybe yes, 12 – 15% is a good number going forward.

Sachin Kasera And so coming back on hiring net we can look at like 300 – 400 people addition in the current that's something that we can look at?

- P Srikar Reddy** Yes, net that's what one should look at in a very realistic fashion. That's what we did last year if you see.
- Sachin Kasera** Just one question on you mentioned that the cash you may look in terms of doing inorganic what are the geographies or the areas in which you are looking to add to the capabilities and what would roughly be band size? Are they going to be large ticket like \$40 million or we are looking more at the niche like \$5 - \$10 million type of acquisition.
- P Srikar Reddy** I had answered the first question I think what we are looking for I think about 10 minutes ago, I think we are looking for our verticals like Retail, Travel-Tourism or such Products Development, more advanced technologies in which we operate whether it's Retail, Analytics, e-commerce, Digital that kind of stuff and in the geographies in which we are interested in. So, yes we would be looking at a more midsize ticket item. I doubt we may be looking at this point of time anything a \$40 million kind of ticket item.
- Sachin Kasera** More like (+/-10) million.
- P Srikar Reddy** But may not be 40 but around half the number is something we have the appetite for.
- Sachin Kasera** And just one last, what is the type of deal pipeline you are looking from your top 10 – 15 customers and is that good enough to give you confidence that next year you can sustain the growth momentum that we have sat on in the last couple of years.
- P Srikar Reddy** I think I am very cautious when we make the statement. We don't give forward-looking statements so but I think as I said at the beginning I think our whole account management, strategic account management, relationship management, and top level connects are all dramatically and significantly improved last year so I think we believe today we are lot more strategic to our top accounts and as the windows open for more investments I think we will get our fair share of what we need to get in those areas we operate in. So, I would say that we are fairly confident in terms of we are able to continue to be strategic with our current accounts.
- Sachin Kasera** Is there any four or five year vision that the company is looking to look for FY to achieve either in terms of any of the key metrics if you could share something like that with us?
- P Srikar Reddy** Internally we have set a benchmark for ourselves but it's more qualitative. Our vision statement says that we want to be a catalyst to transform our clients business through deep commitment, through technology, client concentricity, employee relation, and serving the society which we will operate in. So, end of the day I think we want to be recognized in our verticals in the technologies we operate in and have a leader in that space and that's our vision.
- Moderator** Thank you. We will take the next question from the line of Manik Taneja from Emkay Global. Please go ahead.

- Manik Taneja** Just wanted to understand a couple of key things with regards to our margins so when I am looking at your BSE filing for exchanges there is a net exchange loss that you include as part of your expense element. So does that include both the translation on monetary assets as well as the actual hedging gains and losses that's question number one?
- Sathyanarayana R** It includes all basically the forward contract as well as the restatement and translation losses. If I were to give you high level numbers Rs. 15.8 crores comes from realized losses and about Rs. 11.6 crores comes from restatement gains of foreign exchange assets that is at a consolidated levels.
- Manik Taneja** Sure the other question was with regards to the improvement in margins that we have seen for the international services side. On a full year FY14 basis your margins have improved by about 4.5% from about 13% to about 17.5% and that's increased about 450 bps. Could you help us to understand what's driving the improvement in margins over there? If you could give us a sense on what's the total impact of currency depreciation on a full year basis to margins over there plus the change in mix in business that would have also helped margins?
- Venkatraman Narayanan** It is largely coming in from two elements one is utilization and the other one is the improved rate. We had not gone back to such quantitative reconciliation over the last year but our internal analysis shows that we were at an average offshore rate of something like \$20 - \$21 which is has moved to \$24 in terms of the realization we have been able to get. Second thing is our onsite rates are significantly moved up because the areas where we work in like AX Retail, specialized technologies like Mobility we are charging rates which are comparable to the big consulting firms AX for example is a very hot skill and we are market leaders or we are reasonably very large in that business and today there is more demand out there than supply. So for example if you quote \$120 or \$150 an hour they will still take us and we have still not able to backfill our delivery capabilities and that worry us in many cases. So that and the high utilization is what really has moved margins. So, if you look at it our onsite-offshore so if you have actually skewed itself little bit to the onsite. We are right now if I remember right it's about 36% onsite and balance is offshore whereas earlier years we used to be a lot more focused on offshore. So I would say that that has neither pulled down margins effectively nor it has had a negative impact on the margins. So, over the last couple of quarters 60-40 was the onsite-offshore ratio, 40 being onsite and 60 being offshore it's improved towards 36% onsite and about 64% offshore so that I think it could have had add to a little bit of margin percentage. The third thing is as far as exchange is concerned that's only brought down margin because we do take into account foreign exchange loss in to margin calculations. So even if though top line is accounted as the prevailing margin on the date of accounting we do account for the losses on realization. So, essentially the better utilization, tightening of the processes, taking out of the excesses which we may have been there at the delivery level, focused technology getting better rates, and maybe even moving away from some of the commodity business has helped us to improve our margins significantly.
- Manik Taneja** So, just to clarify that 13% to 17.5% margins of the international services side would include these hedging losses is that correct?

- Venkatraman Narayanan** Yes.
- Manik Taneja** Okay so the real margins would essentially be better?
- Venkatraman Narayanan** Our concept of real is including hedging loss Manik.
- Manik Taneja** And your strategy of becoming more important to your top clients if you could talk about that strategy in greater detail across the two big focused verticals for us?
- P Srikar Reddy** Obviously, as I said I think it comes from what we call is three-dimensional approach to our clients. One is how deeply we understand our client's business processes, how deeply we understand our client's technology landscape, and how deeply we understand our client's ID process. So whatever we have acquired over a period of time and I think I have mentioned it in the past and I think we have got a unique concept for the client centric center of excellence concept. Our center of excellence are sustained and built around our client's strategies and business processes, etc. So based on these three pillars we select the technology, we select the business process we operate in and then there is obviously the framework in terms of account management, we have a new product management team which understands what are the trends in the industry and what kind of illusions you can help them add value to their business. We proactively do proof of concepts so we work with our technology partners. So it is like a huge amount of stuff and it's like I can give you three hours lecture on strategic account management kind of stuff but it is nothing which is very I would say not rocket science but I think we have done a lot better at it so I think today our clients consider they are more like technology consultants who can really fundamentally make a significant difference to their business as they go forward.
- Moderator** Thank you. Our next question is from the line of Shweta Seth from Stewart & Mackertich. Please go ahead.
- Shweta Seth** I just have two questions. On your new customers add it, you have added on four customers this quarter. Can you just throw some light on which geography and as on which vertical you have added that, I mean in terms of TCV even as an approximately?
- Venkatraman Narayanan** Yes, so these are very large names one is from the Energy sector if I recollect the name, the other two of them are in Retail and the third one is into Manufacturing and Retail so these are the four names that we have added. I can assure you that these are very large names, people would give an arm and a leg to get to these accounts. That said every entry is important and we have to grow it to the next level.
- Shweta Seth** And idea of the TCV if you could just help us?
- Venkatraman Narayanan** TCV is something which is we don't disclosed it because there are requirements but that said and that is more for the multiyear, multimillion dollar contract that is really get into TCV we will get

into reasonably size projects first and then we grow into it so it's essentially like Srikar had earlier said the terminology used is land and expand. So we are not talking about going and bidding for \$500 million for five year TCV kind of a deal.

Shweta Seth Second question would be on your domestic business. FY14 we have seen some sort of consolidation in terms of exiting low margin business and everything so is that consolidation phase over for your domestic business and could we see a growth on a top line going into FY15.

P SrikarReddy I think so because I think I mentioned it many times, domestic business we really focused on margin not very top line so it can some time happen that we may do some large transactions with a little margin which can affect our top line but the focus the people are incentivized on really margins. We have a large sales team which operates in our domestic team almost upwards of 70 – 80 people so that will incentivize the margins so that's the focus is on margins.

Shweta Seth And sir just last question on your IT refund, can you just update me or what amount would be left right now?

Venkatraman Narayanan We should be having closed to 40 crores which is there so that's something which is now part for the course as we say and we are pursuing on our regular basis and hopefully some of which should come in the current year as well.

Shweta Seth That's it from my side thank you.

Venkatraman Narayanan It is on our date on our assessment which is about four or five years scenario.

Moderator Thank you. Our next question is from the line of Twinkle Gosar from Angel Broking. Please go ahead.

Twinkle Gosar What has been the realization rate USD-INR for the fourth quarter?

Venkatraman Narayanan 57.

Twinkle Gosar And of the total revenue how much would be coming in from TUI?

Venkatraman Narayanan We don't give out percentages by customers but TUI is a large customers for us in the top 10.

Twinkle Gosar And what will be the status of the payout of the deals of the joint ventures with the TUI, have we received the payment or what?

Venkatraman Narayanan There is another additional €4 million which is yet to be receive. It is linked to some payment terms from TUI UK or the company which bought back the shares so that should be coming in the current, the forthcoming year 2015 – 16.



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Moderator Thank you. Our next question is from the line of Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia My question pertains to the size of our absolute size of our services business, the size that we are currently, are there any restrictions in terms of economies or scale in terms of competing for the larger businesses?

P Srikar Reddy Yes, obviously there will be as Venkat just said if you go and bid for \$100 million outsourcing deal but that I think the beauty of our size and our focus today is that we have defined as what is our sweet spot, even in these kind of deals. So our sweet spot we say is what we call TCV of between \$15 to \$25 million so for that we had a lot more competitive in terms of the relationship we bring in the domain expertise and top management detention and all that kind of stuff. So, obviously I mean it's quite obviously that we don't go and compete for the really mega deals which you keep reading in the newspapers about.

Nisarg Vakharia And of our top 10 clients how many of them are in our chosen verticals?

P Srikar Reddy Our top 10 clients I would say 60% are in our chosen verticals.

Nisarg Vakharia So, what about the balance four clients?

P Srikar Reddy Others four are prize clients that's what we call them.

Nisarg Vakharia So, are those four clients also growing or not so much as the top 6?

P Srikar Reddy They are growing.

Nisarg Vakharia And is Infrastructure Management an area of growth for us as far as horizontals are concerned?

P Srikar Reddy Infrastructure management I think has grown last year so I think at a very high level we look at our services now what we call lead-in services and what we call our cross-sell and up-sells services our lead-in services are seven or eight. I have spoken about it in the earlier calls so that's what we are lead-in with and then once we lead-in with it then we go into what we would call traditional services like ADM, testing, and IMS etc.

Nisarg Vakharia My last question sir. Do our top 10 clients have the ability to kind of take us to maybe two three times the size that we are currently at?

P Srikar Reddy Yes, they have that ability absolutely.

Moderator Thank you. We will take the next question from the line of Sunil Lotia, an Individual Investor. Please go ahead.

- Sunil Lotia** Two questions, first is it's a fantastic performance and dividend payout seems to be almost at 50% of your earnings. Can we expect this in future also, this is a company policy now?
- Venkatraman Narayanan** As I stated earlier Sunil the policy has been between 40% to 50% of our consolidated profits is what we would obviously subject to the board approval so that's been what we practiced.
- Sunil Lotia** And the second question is, that is that promoters stakes are up for sale?
- P Srikar Reddy** You are asking the wrong people. I said I am not the promoter I said. We are doing well I think the company is turned around there is a lot more faith from all sides.
- Sunil Lotia** Definitely, I actually appreciate what you are saying and hopefully the company will continue to do well like this only in the future too, all the best thank you.
- Moderator** Thank you. We have the next question from the line of Damodar Kabra, an Individual Investor. Please go ahead.
- Damodar Kabra** First let me congratulate you on the very good numbers. In fact I am a shareholder in the company for almost now 10 years and I think this is the best performance as you rightly mentioned. Only one issue we had some income tax issues in the last couple of years the refunds indicates that the issues have been resolved, are there any pending issues and if there are at what levels and what are the chances company expects?
- Venkatraman Narayanan** Damodar very, very apt question in fact we have answered it partly. The income tax issues that we have had in the past we have been able to consolidate them into logical heads and what we have done is the approach the litigation around that has also been on the same basis. We have had significant amount of positive outcomes in many of the cases leading to the refund. Today we have been able to bring them to a level where they are in our favor that said that department in their own case may go and appeal so when they go and appeal we do disclose them as contingent but we continue to give them a hard and a tough fight. The second thing is we have done is earlier we may have been alone in this whole fight and we were identified as the lone person who was battling it out but what we have managed in the past three – four years has been is the industry issue and we have got lots of support from NASSCOM, the government authorities and the tax department themselves and if you see most of the positions that we have taken have been held in our favor in the reports of Rangachary Committee, Parthasarathi Shome Committee and those kind of committee reports which have come in, in fact they have also referred to us by names in their reports which were our active representation made to these committees in the past. So, the issue which used to be at boiling points earlier have been if I can use the word diffused to a great extent and we have also managed to cover most of them through our victories at the appellate level but for every assessment year the same issues taken up and then we go and appealed it at the appellate level so that's how the progress have been and that's how we are managed to get closed to 80 - 90 crores 100 crores of income tax refund also because if there was



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a pending litigation which was threatened on a completely the department will be no more to give any money back to us.

Damodar Kabra

Now that the pending refunds are as you mentioned I think in earlier questions 40 crores?

P Srikar Reddy

Yes that will be about closed to 40 crores and as you would know that we are about four years is in progress.

Moderator

Thank you. Participants that was the last question. I now hand the floor back to the management for closing comments.

P Srikar Reddy

Alright thank you all again for joining the call and all the interaction and lot of good questions, we appreciate your feedback and the support and we look forward to looking the huge support and look forward to speaking to again to you, thank you all again.

Venkatraman Narayanan

Thank you.

Moderator

Thank you sir. Ladies and gentlemen on behalf of Sonata Software Limited that concludes this conference call. Thank you for joining us, you may now disconnect your lines.