



**Sonata Software Limited
Conference Call**

Sonata Software Limited Conference Call FY2012 (Q2)

Event Date/Time: November 08, 2011 / 1130 hrs

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Company Secretary

Swati Sengupta

Head – Corporate Marketing and Communications

Moderator

Ladies and gentlemen good day and welcome to the Sonata Software Limited Q2 FY12 earnings conference call. Joining us on the call today from Sonata is Mr. Sanjay Viswanathan -- Chief Executive Officer and Managing Director. As a reminder all participants will be in the listen only mode and there would be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during this 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. Sanjay Viswanathan. Thank you and over to you, Sir.

Sanjay Viswanathan

Good morning and welcome to our results update call for Q2 2011-2012. I have with me my colleagues Srikar Reddy – COO and member of the board, Venkatraman – our newly appointed CFO, Sathyanarayana – our Head of Accounts and Finance, and Praveen – our Company Secretary. Thank you all for making the time for this call.

As I covered in my earlier call quite clearly the focus is going to be on really three things. Number one profitable growth, number two margins, number



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three velocity because after all the life blood of any company is going to come from growth and how we can drive it profitably. Now many of you know what the situation in the market is undoubtedly the outsourcing and off shoring market is going through one of the most impactful inflections in its history. There are some severe tailwinds that everyone is faced with including our peers and competitors and in a situation like these players like us have a choice to make. Either we batten down the hatches and wait for the storm to subside we soldier on bravely making the investment that is required. And we believe because the storm will clear and the clouds will disappear we have to invest for future growth and that's exactly what we are doing as we speak. The investments that we are making with respect to future growth is broadly in the areas that we know will impact our firm over the next several quarters these are investments that will run deep and broad. But firstly we are strengthening our management team by bringing in world class Chief Human Resources officer and a Chief Technology Officer. We are conducting a global search as we speak for hiring them and I am pleased to report excellent progress. And no question by the time we have our call next quarter you would have seen announcements to this effect. And we are confident that these two executives will make a difference to our firm going forward. Secondly we have also reorganized our management team to give clarity of accountability and focus in terms of execution. So in that regard we have Srikar Reddy, our COO taking on a bigger responsibility and I am grateful to him for that in addition to owning our delivery and our India business he will also own our global key accounts which is the top eight accounts which is in a sense driving growth for us over the next few quarters. I am also pleased to have Venkat step up as a CFO of our company and now within his responsibility and remit he will have all of Finance. In addition I will take direct responsibility for driving our new business and growth so we are in the process of adding our sales team - our front end sales team. I am pleased to report excellent progress in that regard. We are in the final stages of negotiation with some world class leaders in this area and we are certain that by the time of the next call you will see announcements to this effect. I have also taken responsibility for incubating innovation and technology and therefore the CTO who will own internal infrastructure and external technology will also report to me.

And thereafter we also believe that presale which is a key element of driving our sales engine we have carved out under a leader and we believe that



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presales will help give the engine for growth. I have with me Swathi here and Swathi as our Head of Marketing will also report to me directly and help to reshape our brand and what it means in terms of position and essence in the marketplace. We believe a combination of the new team as well as the existing team will help improve our presence in the market, will also help us raise our profile as a brand and more importantly help to bring value to our customers. So when we go to our existing customers we will be able to move up the value chain by delivering higher value work i.e. consulting and technology led to add to the services backbone that we already have. We are also strengthening our delivery capability under Srikar by having a new head of delivery reporting to him and this could be either an internal candidate or an external one. My preference as I have stated to you before to have a strong internal candidate because I think we have got a very good talent pool and I am sure Srikar will report progress on that in his segment and also when he speaks to you all in his next quarterly call.

And the final segment of investment is around entering new markets. Now we made some strategic bets. India is already a strong market for us because of our product distribution business, so the one of the biggest investments we are making behind our strong leader in Sujit Mohanty is to bring in consulting and technology people suffuse our proposition to the market therefore India is a growth market is a bet we make, i.e. the India to India business the second big market that we are making a bet on is China. Now China has been a growth story for years and many of our peers are already there; however we are picking some unique spots and on the back of our relationship with Microsoft we will be making some bet in that country. I will hopefully report some progress to you over the next few quarters.

The third market that we are making a bet on that is emerging fast growth and is one of the areas of investment in that country is Qatar - as we all know this is one of those countries in the Middle East region that has been unaffected by Arab spread. And given a joint venture that we have forged with the Qatari Royal Family we believe we have the right springboard to drive new revenue growth in that country. In addition, as you may recall one of our top global accounts is Qatar Airways. Being the offshore vendor of choice to Qatar Airways makes a logical next step for us to deepen and strengthen our footprint in that country. And the final piece of the new market jigsaw is Turkey. As you know Turkey is again one of those pockets of excellence in



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Europe that is growing. You may recall that Turkey reported 9% growth in the current quarter and therefore we are making some bets by exploring partnerships and alliances that allows us to a) grow in Turkey, and b) leverage Turkey as a springboard for other markets in that region. So in effect the combination of these means a) investments that need to be made in the business and b) patience and I believe that if you can demonstrate that patience with us given the strong execution capability we have, in that we will strengthen, the results will be there for all to see.

There is no question that the next few quarters growth is going to come from existing accounts and from what I have seen so far in the two and a half months that I have been here one of the strongest pockets of excellence we have is our strong relationships with existing clients. Clients like Microsoft, Johnson & Johnson, Qatar Airways, PepsiCo, Red Prairie, Hewlett Packard, Aquent I mean these are and of course you have got TUI in UK which is an account we serve outside of our joint venture. So these are accounts that have significant growth potential not only because of our relationships with them which is based on trust and has been built over time but also because these clients are now beginning to plan for growth, their own growth, the business growth, and that essentially means that a lot of that growth will come from a technology background. And we believe that given our presence we can expand our footprint in those accounts, for instance in Microsoft - a lot of our growth in Microsoft has come because of sell-to. Our strategy going forward will be to expand our footprint to sell with so we are making some investments and engaging and hiring alliance managers from Microsoft who will work with us to expand their footprints in areas that we are competitively advantaged. For instance, dynamics - as a platform there is no other Indian offshore player who has a dynamic footprint as we do; second, share point - again extremely strong domain and operating capability in share point that allows us to expand our footprint in Microsoft. And thirdly Azure, again made on the Azure platform. A combination of all this and our top ten expertise essentially means what we are doing - and Srikar will allude to this in detail - is how we are going after the Microsoft technology platform as a horizontal that we believe will be an engine of growth for us.

I also want to make a reference to our InfoTec joint venture many of you will recall this was and continues to be one of the game changing moves that Sonata made five years ago. There are not too many Indian players who



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meet the kind of bets in Germany as Sonata did then. And you will all see that now with Germany is being the only strong country in the EU this is a prescient move and we will definitely want to leverage this as we go forward. So the joint venture so far has been focused in a few areas within the TUI world approximately 70% of the business comes from infrastructure i.e. remote infrastructure and onsite infrastructure management and second about 30% comes from application services. We are in the process of restructuring the joint venture under the leadership of Heinz Kreuzer who is a long time TUI executive. He formally used to be the CIO of TUI AG now is the CEO for our joint venture. And as a sole Managing Director responsible for this JV going forward reporting to the supervisory board that I chair I am pleased to report progress. We have looked at pockets of opportunity within the TUI group and we will now further analyze over the next quarter to see where we can grow and second we are looking at ways of how we can rationalize our existing operation without doubt this is a joint venture that is poised to grow and over the next four quarters as we make investments in it you will begin to see results emanate from them.

No question that our consolidated results from the quarter has shown a drop in profit. And this is really because as a business in a consolidated manner we are really three peas in a pod. We have got the IT services business, we have got the domestic business and the joint venture business. Now given that these are three diverse businesses they require process or courses in terms of strategy we need to take and also execution we need to make, it is all about execution now as we speak. And secondly given the market, i.e. the economic headwinds they are not helping us either so it's really that combination I think which is pushing us back in terms of where we are but these are no excuses for the current leadership team in the quarters ahead. You can be rest assured that we are taking some difficult decisions. Cost optimization is one of that I mean we have relooked at our own internal cost and we have taken out a few hundreds as we go ahead. Right, it will come through optimization facilities consolidation and people rationalization.

There has also been a delay in some of the projects that were meant to start on a client site. I will be transparent and open in sharing with you that we were expecting a major project to start with TUI UK which unfortunately has got delayed on their side and given the major transformation that they are embarking on we empathize with them and therefore we are partnering with



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them closely to see how we can help them get this project right back on track. All told, we hope that if we get it back on track in the next quarter then hopefully we will begin to see benefits of that in the early next year fiscal.

Second is Microsoft - we had planned for a couple of projects in Microsoft that were due to tender out in the quarter gone by but unfortunately they pulled the projects back and that again meant that we were sitting on a bench of people which is the bench that we were actually getting rid of but also more importantly that was the project that we did not have access to going forward. And, then the Ontario an important client for us in North America who unfortunately have suspended their project due to their own internal financial difficulties. So these are the kind of headwinds that we are faced with in the market specific to accounts that has set us back. And in essence the combination of this means that utilization has dipped to about 72%. And that I think gives us a burning platform to go after the cost cut and optimization that I referred to earlier. Now the good news in all of this is the fact that we have added five new customers. I am pleased to report that we added the Armanino McKenna LLP, Verdande Technology AS, Swiss International Airlines, **Sage** Software and BMC Group. And there will be some more in the pipeline that I hope we can convert in the next quarter. On this note I am pleased to handover to my colleague Srikar who will address aspects of the domestic business, allude and discuss the delivery excellence aspect that I referred to thereafter he will hand over to Venkat who will talk about financials and give you an update of the tax case that we are faced with. Over to Srikar.

Srikar Reddy

Thanks, Sanjay. Well, our three or four aspects - one as Sanjay referred to our key accounts strategy, the second is the delivery excellence in our horizontal strategy third is our focus on building new technology capability and strategy for the India business. The key accounts are accounts which as you know at least 80% of our business comes from customers who have been more than five years with us; they have been growing, some of them faster than the others, but they have all stayed with us. With the new integrated approach to managing these accounts we believe there can be a greater traction in all of them. Myself and Sanjay have visited all these clients in the last quarter and some of them have plans for growth obviously they are expecting a lot more from their partners at this difficult time and we are aligning ourself to ensure we deliver the kind of value they expect from us.



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We are also moving and the clients expect from us to a newer delivery models in terms of both output and outcome based models, fixed price models, and we have also had success with these models with some big accounts and we are today we are able to productize them and package them into offerings to be taken to these clients.

So as we go forward our focus is to ensure two things; one, that the existing clients to get the value they expect from us they are measuring what we deliver to them on a quarter on quarter basis we have internal systems and process now to ensure that we showcase the value we deliver to them and as we go forward to expand our footprints in this line. The footprints will come from both from our existing matured offering on the four horizontals we have which is the Microsoft Technology, Java Open Source technology testing, enterprise solution and remote infrastructure management and new offerings which we are building in the space of mobility, cloud and analytics.

We are also going to invest in these three technologies that I have talked about which is mobility, cloud and analytics - we have started showcasing some of these to our existing clients in terms of how they can add value into their existing business we have started a few pilot with a few clients on some of these areas and as we go forward with the maturity of these offerings to get some of the work from these clients and which will also be our cutting edge into getting new customers. This overall really defines our key accounts and our delivery excellence strategy and as we go forward as we see more traction in this we will report to you. On the India business as I have mentioned in the last two or three hearings, one is that we continue to de-risk our products business and ensure that we don't have any other statutory issue in that business, we are far more risk averse in this business than any of our competitors, our ability to do business but we are fine with it and we will continue that approach. The second is on the services business I am pleased to announce that we have a 30% growth quarter on quarter on our services business in the domestic business line which means that we are doing things right we see a lot of traction on the enterprise solutions business and some of our services like testing services and IP based services. We have started our journey like Sanjay mentioned on implementing nonlinear models which we believe are the right models for growing in an emerging market which we will then take to other markets once we are successful here. We already have a solution launch called Internet in a Box which has been able to offer internet



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solution or an internet shop to anybody who wants to take to market very quickly or based on the standard open source platform, we have one client and we believe going forward we can expand some business we are looking for more platforms in this space to be able to offer non linear models as we go forward and the third is that we want to leverage now and right now our deal size is 60 to 70 lakhs average deal size as we go forward we want to shift to 1.5 crore, 2 crore deal sizes for both based on our collaboration with our principals and also some strategic alignment where required. With this I will end my segment of the presentation and handover to Venkat for more detailed financial analysis of all our operations.

Venkatraman

Thank you, Srikar. Our results, detailed results have been published on our website on 3rd November and I hope all of you have had a chance to take a look at it. As has been the practice I will quickly take you through the results by the three segments in which we operate, that is, one is our export software export business known as the international IT services, the second segment of domestic products and services which is done through our subsidiary SITL and the third is the joint venture TUI InfoTec in which we hold an interest of 50.1%. First I will take you through the consolidated numbers for the quarter we have reported consolidated revenues of 385 crores which has shown a growth of 15% quarter over quarter while a slight decline of 2% on a year over year basis. In constant currency we have shown a year over year growth of about 5%; consolidated PAT for the quarter stood at 9.1 crores, which is a growth of 3% on a quarter on quarter basis. What I will do is when I break it on by the segments you will be able to understand the nuances of the numbers - we ended the quarter with cash and cash equivalents of about 87 crores. 48 crores of that has been with the international services, 12 crores in the domestic segment and the joint venture holds about 27 crores. We have certain domestic - certain borrowings - working capital borrowings on a domestic business which is about 28 crores the consolidated headcount was 2902 as we enter the quarter. Coming to the international IT services segment this segment contributes 17% of the consolidated revenues but 67% of the profit to the company so it's a critical piece of the puzzle. Revenues in this business was 66 crores versus 75 crores a year ago which is a de-growth of 13% on a year over year basis and a 11% on a quarter on quarter basis. Like Sanjay alluded to the main reason for this drop is loss of one of the large



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projects which we were doing for one of our top ten customers because they stopped budget as they did not have budget to progress; the second was also the delay that we faced in two of our large customers in large projects that they had started work with us. The revenue drop coupled with the carrying of additional manpower impacted our EBITDA which for the quarter stood at 9.5 crores. Similarly PAT was 6.8 crores which is down 61% on a year over year basis and 49% sequentially in this business and as you can imagine this being a significant part of the total profit to the company it did impact our consolidated profits. We were 7% down on utilization which stood at 72% for the quarter and our DSO was 68 days in this business we have focused on improving utilization which should drive our revenues and profits. In this business we had a closing headcount of 2335 at the end of the quarter. Now coming to the domestic services which we do through our subsidiary Sonata Information Technology - for the quarter this business contributed to 49% of our consolidated revenue. The revenues were 187 crores which showed an increase of 48% on a sequential basis and on a year over year basis we were relatively flat.

EBITDA was 2.5 crores showing a significant improvement on a sequential basis. PAT showed a loss of 60 lakhs, this as explained by Srikar was primarily on account of adjusting the sales mix and also providing for certain one time write-offs and a higher interest cost that we are bearing because we had certain tax issues which went against us this quarter. There were refunds which we were expecting to get from the government that is getting slightly delayed and which is impacting our interest cost. Domestic service again as Srikar alluded to has been the focus area for our improvement and for this quarter we showed revenues of 5.1 crores which is a year-over-year growth of 35%. DSO was 89 days and we are focused on bringing that to the normal levels of 60. DSO was higher because of the quarter end we closed couple of very large deals transactions which really impacted the overall receivable status. We ended the quarter with a headcount of 142 people in this business.

On the joint venture TUI InfoTec in Germany we have 50.1% in this joint venture with TUI AG holding the rest. Our international services do offshore work for TUI InfoTec in arms length basis and in our interest segmental analysis and our presentations we have eliminated the intersegment movement. Now the financial results; TUI's adjusted revenues for the quarter were 132 crores which is the year-over-year growth of 4% and it has been flat



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on a sequential basis. EBITDA stood at 11.5 crores and has shown a quarter on quarter growth of 16% and the JV's PAT stood at 5.9 crores which is a positive swing of 186% on a quarter on quarter basis. This large swing is primarily on account of the one-time tax adjustment that we had to take in the last quarter which no longer continues as we go forward.

The JV ended the quarter with a headcount of 425 people compared to 431 in the previous quarter. As Sanjay talked about, the focus of the JV will be improving efficiency, billability and also befitting our relationship within the TUI world.

Before I close, as you may have read in the press, the High Court of Karnataka verbally pronounced a judgment on the royalty issue that we have been keeping you abreast on. This is an issue which has been plaguing the industry and from what we could understand was read from the court the decision has gone against the industry. Essentially it holds that payments made for software from overseas buyers is held as royalty and while we treated them as goods, the court is saying that we should have treated them as royalty and deducted tax from the sale. This is not the first time that we have had this. We have gone at Appelatte levels and as of the case we are waiting for the final judgment from the court and we are ready with our petition to the Supreme Court, so the moment we get our orders in hand the entire industry there are about 15 of us who will approach the Supreme Court for the next step.

And because of this change in status it has led to a delay in refund of our TDS which is what we were banking on. We have got about close to 80 crores in our domestic business which is stuck up as TDS. So we were banking on that. Second is we had earlier disclosed some amounts as contingent liability which when we won the case at Supreme Court was removed from contingent liability. Now again thanks to the pronouncement of the judgment by the High Court we have again reported as of contingent liability and you can find that in our detailed financials.

Thanks for hearing me out. We will now open the call for questions.



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Moderator	Thank you very much, Sir. We will now begin the Q&A session. We have the first question from the line of Gaurav Singh from Ethos Advisors please go ahead.
Gaurav Singh	Good morning, Sir. My question was essentially on the cash position of the company there has been significant decline in the cash positions since the previous quarter and when we look at the cash flow statements as well all the three segment of the cash flow statement is reporting negative cash flow so if you could just throw some light on this please, it will be really helpful?
Srikar Reddy	Venkat, you want to take that?
Venkatraman	We had given the ICD to the Sonata Information Technology Limited, okay, so the cash from operations and we were not able to collect it as the money is stuck with the income tax department so cash from operations is coming negative and consolidated also as we did a huge deals in terms of the Products Business and subsequently we have collected so that is also coming as negative.
Srikar Reddy	Did that answer your question?
Gaurav Singh	And overall the cash position has declined from roughly 150 crores to close to 80 odd crores any specific reasons for such a sharp fall I see it's across the spectrum but if you could just delve into that especially investing and financing activities?
Srikar Reddy	See, essentially what ended up happening is we have been funding the domestic business through ICDs that's one of the reasons. The other reason is our interest cost has also gone up because we have not got the refunds that we have talked about 80 crores of our money which is stuck. Yeah these are the two primary reasons as to why cash has gone down. Post quarter end the large transactions where we invested in because we have got huge transactions which we are talking about those got collected.
Gaurav Singh	Sir, quickly wanted to understand the decline in the total cash position as well, especially cash which has gone into investing and financing activities?



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- Venkatraman** Yeah, Gaurav the reason is they are saying there is couple of large transactions as the quarter ended in as SITL which normally we collect before the end of the quarter the last quarter the money was collected as of today, so as of today the cash position is back to where it was before - which you asked about, so it's just for that particular date and timing issue; overall the cash position has not decreased. The other reason they are mentioning is that because of the tax issues some of the tax refunds have not come so those are amounts is being built up for the tax department so at least I can call it as our own cash but lying with the tax department. So if we add that there is no change in the net cash position of the company.
- Gaurav Singh** Understood. And quickly one other one, the finance costs for this quarter have increased a fair bit from what I have seen the numbers - on a consolidated basis they are close to 3.1 crore compared to...?
- Srikar Reddy** Borrowing, this is the interest cost on the borrowing as well as the currently what we are doing is the finance cost we are even the exchange is clubbed and shown under the finance cost but in the new disclosure requirement of schedule VI says that exchange also, you need to disclose the finance cost.
- Gaurav Singh** Understood. And finally the other income amount for this quarter as well was about over 5 crores similar to previous quarters, so is the reasoning similar to the last quarter itself that's why the provisions were...?
- Srikar Reddy** No, income tax refunds of about 3.7 crore from the information technology - that is the primary reason.
- Venkatraman** Interest on the Tax Refunds, see what happens is, they passed an order and they gave us the interest but they have not yet given the principal.
- Gaurav Singh** This relates to the royalty one itself or is this?
- Srikar Reddy** Whatever taxes held back by them when an assessment is completed and it becomes payable as a refund what they do is that they give you interest as well on the amount and then they hold back the principal and adjust it against some earlier liability which they think is due from our side which is primarily on account of the royalty.
- Gaurav Singh** Understood. So that's it from my side.



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- Moderator** Thank you. The next question is from the line of Anuj Sharma from ASK Investments please go ahead.
- Anuj Sharma** Yeah, hi, I think my question has been continuation to the earlier question what I see is from the year 31st March I see a decline of cash balance of a 80 crores also I see you earning a profit including depreciation a total cash flow of 40 crores during the half year ended so there is 120 crores which is lower. Now what you said is there is something which has to be received from the tax department - where is that reflected in the current balance sheet?
- Venkatraman** Loans and advances.
- Anuj Sharma** Okay, but as I see the loans and advances from March to the current period is roughly the same, so if I see as of 31st September the loans and advances figure is 180 crores while as of 31st March it was again 180 in fact 188 crores?
- Venkatraman** The interest whatever is 3.7 crores that is shown in the other income.
- Anuj Sharma** No, I am saying the loans and advances figure - if the receivable is classified under that then that number for loans and advances should have increased as compared to 31st March, it incidentally reflects the same number as of today as well?
- Venkatraman** Are you talking about the consolidated cash position or the company?
- Anuj Sharma** The consolidated number.
- Srikar Reddy** Consolidated cash position, okay, is there a significant drop on the TUI InfoTec dividend payment. Yeah, we will have to get back to you with this.
- Venkatraman** Yeah, there was a special dividend paid out of TUI InfoTec which was €8 or €9 million so out of which 50% will go to the other partner so if you take that out if you just look at it SITL and SSL cash position and take out the JVs cash position out of the equation I don't think there is any change in whatever you have said apart from some dividend payout that we have done there is...and the lower operating profits for this quarter...
- Srikar Reddy** So you can take out any dividend payment I think net-net we should be somewhere about... Anuj, I think the cash position should match with whatever is your computation.



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- Anuj Sharma** All right, Sir. Thank you, Sir.
- Moderator** Thank you. We have the next question from the line of Chetan Vadia from GHP Securities, please go ahead.
- Chetan Vadia** Hello sir, my question is regarding the TUI InfoTec and there is a change in approach I believe data comprising more than on a year on year so is the 2.8 crore of PAT that we have done for the quarter what was the key reasons for this for improvement in profitability sequentially and is this sustainable for the next two quarters as well?
- Srikar Reddy** Sequentially like I said the improvement was because of the artificial depression in PAT last quarter; we had written-off close to \$3.5 million, our deferred tax write-off as per Germany GAAP. So it depressed our profit last quarter.
- Chetan Vadia** So is this 2.8 crores that you have given in Q2 can we expect in the next two quarters as well?
- Srikar Reddy** We don't give a guidance but we do expect the current status to continue; attempts are being made to ensure that.
- Chetan Vadia** Efforts are being made to I mean I did not get the last part?
- Srikar Reddy** What I was trying to say is attempts are being made to ensure that we retain the profits and operating profits at the current level. The challenges are obviously there like Sanjay mentioned about the headwinds in Europe and the requirements from the TUI World to keep pushing down cost; as such we are trying to maintain at the same level.
- Chetan Vadia** Okay, and Sir, my second question to you is on the domestic product and services - we have been seeing a good traction on the revenue front and the profitability but do you believe therefore the FY12 as a whole you will be able to end the year on the positive note?
- Venkatraman** We will be more or less on this because what is essentially happening is we have changed the product mix as what Srikar mentioned we are focusing more on the services element. Due to the interest cost the delay in refund of TDS which is really hurting us - not able to - the funding of the business is costing us money. And of this refund of the income tax was almost between



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2.5 to 3 crores a quarter then definitely you can see that will get turnaround in the volume for the company.

Chetan Vadia Yeah, I take that. Yes Sir, that's it from my side

Moderator Thank you. We have the next question from the line of Jigar Walia from OHM Group; please go ahead.

Jigar Walia Yes sir good afternoon to everyone. Sir you had mentioned that there has been some debtors outstanding for as far as SITL is concerned and you gave some explanation for that the cash the lower cash at the end of the quarter but for all the other businesses also the outstanding the days outstanding have increased significantly for international services, for TUI, even at a consolidated level and so if you can just throw some more color in terms of the overall delay in collections?

Srikar Reddy Yes, international services businesses we have it is gone up by about 8 days we were at 60 if I am right it has gone to 68 days for the quarter so that's also obviously as you said, have had an impact on our cash balances at the quarter end nothing significant there its about we keep bobbing between 60 it has gone up to 72 earlier we have given that data as well in the presentation - it keeps bobbing up.

Jigar Walia But it's probably higher than any of the previous quarters so the current levels are in terms of the days outstanding. So anything that we need to read into it or if you can give some color in terms of the client behavior or something of that in terms of the because of the economic situation or something like that? Or are there any specific accounts which are contributing to this increase?

Venkatraman Most of this has been collected subsequently that is the issue this is a timing issue. We have changed our billing cycles as well to... it is what we did on an internal processes when initial days when you make the changes obviously it will lead to some delay but overall... will be lower 60 day margin.

Jigar Walia So the line got just muted in between if I have to understand correctly the billing cycles has changed in that case should we assume that the every quarter end these would be the levels?



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- Srikar Reddy** No, no billing cycle has not changed we are making our billing cycle tight so that we are able to bring down the number of days receivables to down to 60 days intention is to keep it below 60. Absolutely, you are right, it is a blip and the intention is to keep it at 60.
- Jigar Walia** Perfect and just one more thing in terms of as far as our international services is concerned if you can give some more color in terms of timeframe by which we can bounce back at least to the earlier level in terms of top line EBITDA?
- Srikar Reddy** Can you repeat your question please?
- Jigar Walia** Yes my question was on the IT services; if you can give some more color in terms of time line by which we can at least come back to the previous levels in terms of EBITDA?
- Sanjay Viswanathan** Yeah, well I would say you need to give this at least four quarters because EBITDA is eventually a function of three things. Number one, our top line growth; number two, ensuring that we can get into higher margin services within our existing accounts and the third is how quickly we can open new accounts, right, so given the investment that are alluded to earlier in terms of strengthening our delivery so we can move up the value chain with the existing accounts and second embedding a stronger sales force so that we can open newer businesses and what I essentially means that the EBITDA will be depressed for some time. So you must give us at least four quarters before you begin to see an uptick in those areas.
- Jigar Walia** Just to understand the EBITDA decline as far as international services you give to one is the one big client ramp down that we had and the other is little bit of manpower addition that we had in anticipation of two projects was there anything else or in terms of the overall margins coming down?
- Srikar Reddy** No otherwise no I think the billing rates have been constant actually we have seen a slightly better billing improvement in the billing rate so it's basically a couple of clients got ramp down and the thing we have had invested in more resources assuming that these clients will ramp up so both of them have affected the margins negatively.
- Jigar Walia** So, just because of these reasons this will be the new sustainable EBITDA at least for the next few quarters till we see improvement?



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- Srikar Reddy** No, see this quarter the investments that we are making right, that will hit us in the coming quarters right, the investment in putting together a sales team, putting together the new geography entry all of this will come in the next quarter.
- Venkatraman** Yeah, business as usual is expected to remain constant. Considering we are going to make more investment I think we need to get the business in the two segments really - business as usual, and the new investments we are going to be making for growth going forward.
- Jigar Walia** And if I just to understand the strategy correctly and completely - you are focused in terms of internal growth and not really focusing on any inorganic growth prospects right now?
- Sanjay Viswanathan** Yeah, well I would not say we have closed the door on inorganic growth I think we want to be opportunistic about it. I mean we are not pursuing a specific mandate where we need to find specific assets - not at all. But you never know if a good asset comes along its going to add value to our existing accounts or strengthen our horizontals so we can go after new business, absolutely. The timing is everything – it can end up as what we will focus on.
- Jigar Walia** Okay and just last question from my side is just hypothetically on the tax refund case should the higher court uphold as it is what happens to the business model?
- Srikar Reddy** There are a couple of issues the tax issue it's not a complete straightforward way. It's not binary - there is a royalty issue, the royalty issue leads to a certain consequential demands so each of them have their own legal process so its a two-course rather there is something called section 195 and the section 40A1. We are more... the Karnataka High Court judgment was in terms of Karnataka High Court judgment of whether its royalty or not and the larger outcome from the question of 40A1 which is a disallowance so it's a consequential kind of a damage that we are talking about or a demand that we are talking about - each have their own merits on at the time of argument and this is the entire industry issue so in the past as well lots of the other industries have had this issues they have been able to get the sorted out with the tax department - right now that is what we are also trying to make it look like. It's just an industry issue and we are all in it together so that is a tax issue of royalty and then there is a disallowance issue of 40A1.



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- Jigar Walia** Okay so it is not just the withholding tax withholding tax pertains to royalty and then there is also this disallowance?
- Srikar Reddy** Correct, as a disallowance is sort of multiple years and they are at multiple states of litigation and each of the litigation has its own merits and demerits so the arguments have to be made - they go through the typical process of commissioner, High Court, Supreme Court, kind of a thing.
- Jigar Walia** Sir wanted to understand this from an incremental perspective what happens to the new business after this?
- Sanjay Viswanathan** Because since the year 2008 we have been deducting all taxes, paying all taxes because till the year 2006 this issue was raked up the entire industry was clearly under the impression that we were dealing in....
- Jigar Walia** Okay post 2008 anyways we have been deducting taxes and functioning the way the departments wants us to function?
- Srikar Reddy** Correct, correct even though we are not completely in agreement. That nobody knows how the department will react.
- Sanjay Viswanathan** I just want to say one more thing Jigar to reassure you and our investors that the thing about tax and liabilities needs to be seen in perspective because if you look at other high value or value creation driven firm and you look at Microsoft or Google or Apple or Oracle or HP or IBM, the top six or seven technology firms that have created real value for investors, just look at the amount of contingent liability they have on their books. The average firm of these firms on an average have anywhere between \$2 and \$5 billion of contingent liability, right? I think as investors we would urge you to look at the growth engines that we are beginning to invest in, in this firm and what we see as the future and if you gave us that four quarters odd of patience and faith, you will begin to see the results bear fruit.
- Jigar Walia** Thank you, Venkat and thanks.
- Moderator** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Sanjay Viswanathan for closing comments.
- Sanjay Viswanathan** Thank you. Once again I want to thank you all for making the time for us. We recognize that we are mid-market stock, a mid-tier firm in effect that is facing



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significant headwind that it has not been used to before. So my request you to all is to keep the faith, view us in different light and most importantly, keep the perspective. I want to reaffirm that as a firm going forward Sonata is going to focus on profitable growth, margin and velocity. We'll make this happen and becoming a leaner and more efficient organization. We are strengthening our management team, we have restructured our leadership to give it a more articulate focus, we are building our front end sales engine, and we are making some bets on emerging markets. We believe a combination of these plus the focus on nonlinear growth is going to ensure that we begin to see an uptick. Having said all that, I want to manage your expectations. This is not a story that is going to happen overnight, just like Rome was not built in a day or a night, this is going to take a few quarters. You will definitely see openness, transparency and integrity from this leadership team as we convey and communicate with you on a regular basis. We want to enhance the dialogue with you and hopefully that we are confident that the strategy that we are beginning to execute on, will show results in the market. There is no question the jury is out on us and we would like you to follow our progress closely. On that note I would like to draw this call to a close. Thank you.

Moderator

Thank you very much, Sir. On behalf of Sonata Software Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.
