



“Sonata Software Earnings Conference Call FY2014 (Q2)”

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Moderator

Ladies and gentleman, good day and welcome to the Sonata Software Second Quarter Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touch tone telephone. 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 sir.

Srikar Reddy

Thank you Inba. Good morning and welcome to everybody for the analyst call following the announcement of our Quarter 2 Financial Results and our board meeting yesterday. Here with me is Venkat, who is our CFO, whom you all know very well and Sathya who is Head of Finance and Accounts will also be party to most of these calls. Priya who is our Company Secretary, who you are also aware of.

So to begin with, I would like to say that we have a record quarter this time in terms of Financial Performance on a Stand Alone Basis. If you remove the effect of the investment we had made in TUI InfoTec, we have the highest ever profit before taxes. We have highest ever revenues. The highest ever number of employees, highest ever number of million dollar clients in our portfolio. So, to put it in a nutshell we had a great quarter in terms of financial performance. And this has been really a result of whatever we have been preaching about in the last 4 – 5 quarters in terms of what we want to do and focus on going forward.

As I said, result of the deep focus of the management team of getting a few simple things right. Firstly it's been focus on our existing clients both in terms of account management and delivery excellence, this being the corner stone of performance which you are seeing in our numbers. And our focus on new clients, basically in verticals of choice horizontals where we believe, we have strengths. So that's the second reason why we are seeing these numbers and along with working with our alliance partners in our go-to market initiatives. And lastly but not the least has been I think deep focus on talent development and Human Resources over the last 4 – 5 quarters. So that's really what's I would say the reason and would continue to be in focus as we go forward.

To put it in a nutshell, some of the significant achievements for the quarter, as we speak about in this call is we strengthened our management teams last quarter. I think we made an announcement. We now have Ankush Patel, who has come on board as head of our US sales. Ankush has been the Vice President at Infosys and has been with them for 14 years great track record. So he has come on board and we have had head of HR, Madhavi, who joined us, a seasoned professional lot of expertise in our multinational division bear a lot of human resource skills which we need as we go forward and build a great organization.

Apart from that, I think it was also announced that we just opened our office in Australia and operations with one of senior executive Dinesh, who is with us for a long time and has experience in that market to go and head our operations there. So these are some of the significant investments we have made last quarter and we do believe that now we have a fairly full management team for taking care of most of the activity we want to focus on.

So I think we start seeing the results of these investments as we go forward. And going forward, if it going to be the same focus, continued focus on our clients, account management, delivery excellence in selective verticals, Go To Market and focus on very selective horizontals, like Dynamics AX and hybrid of the new technologies like social mobile, analytical Cloud to drive revenues from new client and continue to focus on talent and I think what we see as major area for us. Continue to invest in talent both internally and new talent as we grow. That's it, I will hand over to Venkat who will take you to more detailed analysis of the numbers for the quarter and then we can have the questions following Venkat's briefing. Thank you again.

Venkataraman N.

Thank you Srikar. Good morning to all of you. Thanks for joining this call. I take you through the results. We had a slight issue. Normally we would have the investor presentation on the website prior to the call. So we are having it uploaded as we speak. So I try taking you through the results and essentially the press release would be my base for it. Like Srikar had mentioned, we have eliminated TUI Infotec, our erstwhile joint-venture subsidiary, from our discussion on press release which is actually part of the SEBI for the Clause-49 result because it is from a regulatory perspective, it is part of our quarter last year and the half year last year.

So what I am doing is, when I speak I am eliminating that, because that is not part of our continuing operations. We sold our stake in that company last September, it has moved out from there. So its been a very good quarter as Srikar said, we are essentially 2 lines of business that we talk about - one is the international IT services, the traditional IT export business and the second part is the domestic product and services where we focus on selling products, licenses and starting recently we have also started selling niche products like appliances and Cloud based licenses to our customers in India. So that is two segments the international IT services and domestic products.

Our consolidated result is addition of these two segments. So in terms of consolidated revenue they have shown a growth of 3%, quarter-on-quarter and year-on-year growth of 15%. That's on consolidated basis but it would really make a sense if I were to divide that and look at it from the segments. The first segment is International IT services, which is the IT export business. In rupee terms we have had quarter-on-quarter growth of 17% and a year-over-year growth of 48%. Yes, we had bit of support from the weakening rupee against the dollar but that said, however, in dollar terms, we have grown 6% quarter-on-quarter which is a volume growth and about 27% year-over-year. This is a significant number if you look at year-over-year basis. So

like Srikar said, the way that has been set over the last 3 quarters of foundation we have laid, is starting to pay dividends. When we come to EBITDA, the international IT services has shown a growth of quarter-on-quarter over 60% and year-over-year of 75%.

Now let me tell you here, we are not having a big upside in terms of foreign exchange because we were hedged as you would have known in the past up to 6 quarters, which has now been brought down to two quarters. But that said, our past hedges have hurt us a little bit. Suffice to say, we have actually got a realization of about Rs.57 per \$ for the last quarter and despite that we have made a large percentage increase in EBITDA, 60%, quarter-on-quarter and 75% year-over-year. When we come to the domestic products, my press release will show a negative 42%. Those of you, who were there on the last call, would realize that we had 6.8 crores of 1 time income which had come in, because we had our huge refund from the income tax authorities coming in about close to 85 crores. So the refund came in with an interest of 6.8 crores which if I adjust for the domestic product business also has shown a quarter-on-quarter growth of 36%.

On a consolidated basis, we are at 10% QoQ and 73% YoY. Again if I adjust the one time interest on income tax refund on last quarter, we are grown 54% quarter-on-quarter. So from a number perspective it is quite distinct. On PAT we have grown international IT services at 73% QoQ and as far as YoY concerned, is close to 200%.

On domestic product and services – I would straight go to the adjusted growth which is about 115% and YoY has been about 22%. Consolidated growth adjusted for the one time refund is about 80% on a quarter-on-quarter basis and YoY about 121%. We added about 8 new customers this quarter in our international IT services business and two of our existing customers have moved into the million dollar club taking to a total of 15 clients for whom we do more than a million dollar of billing in a year. That's based on the current run rate.

Our cash reserves stand at about 134 crores. That is net of what we give out as working capital support for the domestic product business. So if you adjust for that, we are just about in range of 180 plus crores of cash. So it's quite a healthy situation that we have. Our people and head count number like Srikar said, is the highest ever. Its time to about 2596 people and the net addition of 135 people, all of which have been in the IT services business.

So all said the quarter has been very good and one of the key drivers to this improvement in the margins was also the improved utilization and improved expansion in margin. So we have that 2% expansion in margin compared to the last quarter which is also, there is volume increase of 135 people like I mentioned last time. That is it.

Based on this good result, the board was happy to declare an interim dividend of Rs.1 which is about 100% on account of face value of Rs.1. So that will be paid out in due course. We have

made significant progress on our tax issues which has been a small little bugbear if I may say so in the past. But we have addressed that significantly which has also started showing dividends. We have started addressing them and we have been winning them over the last couple of quarters.

I think that's about it from me. Before I end the call, Happy Diwali to all of you and now I will turn it over to you for questions.

Moderator

Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Sudhakar Prabhu of Span Capital. Please go ahead.

Sudhakar Prabhu

First of all let me congratulate you guys for great set of numbers. I think you guys have done a great job over last 2 – 3 quarters. My first question would be I believe you told us that volume growth in this quarter was around 6%. How much of this would be because of existing clients and new clients because as I understand the growth has been largely because of mining of the existing clients. Is there more room for growth from your existing clients?

Srikar Reddy

I think you have to understand in this business, the definition of existing client is the client who has been with you at the beginning of the year. Typically I don't know for the industry it can't be more than 5-7%. So that's what it is and then obviously it will become the existing client the next year kind of stuff. So that's how numbers start driving so to answer your question, we see tremendous headroom in our existing client base. And obviously whatever new client we get, then become the existing client in which we see head rooms. So we see huge demand of headroom in our existing client base not only in services we currently deliver to them but under new services which we offer to them. And that's the systematic strategic account management process. We have put in the company over the last few quarters. So we not only identify drive revenues in existing services but potentially how we identify opportunities in newer areas and then obviously there is no rocket science but technology demonstrators and all that kind of stuff to enter and grow in obviously select areas where we believe we have a competitive differentiator and we think we are compelling value proposition. Whatever I am saying is no rocket science. It's fairly common sense.

Sudhakar Prabhu

Right, and now that you are back on the growth track, you think margins can improve from here? Is there any more scope for improvement?

Srikar Reddy

Somebody asked me about 3 quarters ago, we were about 9% and they asked me when do I get to 12-13%. So I see that we are already now to 15%.

Sudhakar Prabhu

I understand you guys have done a great job in terms of revenue growth there is margin improvement also.

Srikar Reddy There is room. I don't think I should say there is no room for improvement. There is room. But as you understand I think we are making investments in growth not only in sales, marketing, technology, development etc. So I think we would continue to do that. So at this stage that's more critical for us because we need to grow and we need to invest and we want to make use of the good times to invest and then grow for the future. But there is head room but it also depends on the onsite offshore mix and other things. Billing rate and utilization are not only the two lever, there are other lever which comes in place here which is as I said onsite-offshore mix and investments we make in our business.

Sudhakar Prabhu What will be the current level of utilization?

Srikar Reddy 84% is utilization. Billability is 74%

Sudhakar Prabhu Last 2 questions, one would be on the current hedges, what are the total hedges outstanding and at what rates?

Sathyannarayana R currently what we have done is 63%, 63% coverage for the next 2 quarters coming in at an average rate per dollar is about 57 and GBP is 89 and Euro 75.

Sudhakar Prabhu This is you said for next 2 quarters?

Venkataraman N. Yeah like I mentioned Sudhakar, we have come down from 18 months to 2 quarters, we ramped down that was for our advisors and the board do the risk management process had suggested. So we have come down to 2 quarters and if you look at it we are also ruling about 63% hedged as we see for Q3 and Q4. So hopefully the current devaluation we would make use to top it up.

Sudhakar Prabhu And henceforth you will follow the same strategy right of hedging at least only for 2 quarters forward?

Sathyannarayana R We will generally go with the advice from our FOREX Consultants, according to their advice we will change.

Sudhakar Prabhu And slightly from a longer perspective, now that you are back on growth terms and things are looking good, slightly from 3 – 5 years point of view, what is the strategy for growth, how do you think you can grow from current 80 million to lets say may be 100 – 120 million over next 3 - 5 years, do you have a strategy in place?

Srikar Reddy We have actually put a 3 year plan in place. We are actually executing on that and again it is not rocket science. We focus on existing customers and drive growth to new customers. New customers include our new verticals, new horizontal services, newer geographies, alliance based marketing, go to market there is certain amount of inorganic growth which we have built into this strategy, obviously the key is that I think we have a fairly good strategy as I said we got

more or less. The quality of management and bandwidth of management we need for this growth. So the focus is on execution and I think if we execute well, we should be able to get to whatever you just suggested or even possibly more than that. So I think the key focus is execution, the way we see it as there is a huge head room, there is a huge opportunity, I think we got right tools and levers today now with us in terms of advantage of this opportunity. So obviously we need to execute well and execute a lot better because of where we are than some of our peers but I think we are quite confident that today is lot of self belief, self confidence in the organization is very critical and we will see that increasing as we see more and more success going forward. It is really lot of momentum and we need to take advantage of this momentum. We are doing the right thing but obviously time will tell but I think we are doing right thing.

Sudhakar Prabhu Last question would be on your dividend policy, you had declared a Rs.1 dividend this quarter. Do you have any stated dividend policy?

Srikar Reddy We do have an informal stuff which is about 40% of consolidated profits.

Sudhakar Prabhu So 40% of your consolidated profit?

Srikar Reddy That's right.

Moderator Our next question is from Ramnath Subramaniam of Goldman Sachs. Please go ahead.

Ramnath Subramaniam I have couple of questions, one is that, if you could kindly draw upon this, you talked about some additions to the team in terms of regional presence of new guys coming into the business. So what do you think in terms of the strategy, would that help us from a growth perspective in terms of say for example, this 6% growth that you talked about, how do you see that actually spanning in the next few quarters? Probably I will take an answer for each and then move forward.

Srikar Reddy As I said we had this quarter Ankush to head our US sales, last quarter we had added Rajeev to head our European sales who has come from Infosys, Rajeev was before that in Accenture. So the great talent, a lot of experience, expertise in the market, bringing in some new ideas and some relationships. As I just answered question previously, it's all about execution I think as we have the team in place we bought arsenal, looking forward in terms of services, offering and partnership and other things. We need to work and pack in this is fairly strong. Obviously we don't give guidance, if you are looking for a number, we don't give guidances.

Ramnath Subramaniam Fair. But just to get a sense from about \$80 million currently, do you think in the next 2 – 3 years we will be at about \$300 million or something, how does that span out in terms of overall strategy? I don't want a number but generally to get a sense.

Srikar Reddy I understand, correct. Intention is obviously to at least double through inorganic route, that's the intention.

- Ramnath Subramaniam** Double in 3 years through organic would be the strategy or the target that you would probably look at?
- Srikar Reddy** That is the intention, that will probably what we do in so many things people, process, technology, go-to market, marketing, branding, alliances, partnership, all that kind of stuff with strategy and then obviously we need to execute it. As I said because we got the element of strategy, we just need to execute.
- Ramnath Subramaniam** As a part of the incentive that you give to the employee ESOP would also be a part of that right?
- Venkataraman N.** Not really, we had long back. We haven't done much on that front today.
- Ramnath Subramaniam** So is that something which you as the management team would look at in terms of incentivizing your employees. Is that something you would look at or how would that be?
- Venkataraman N.** We have changed. We have fairly new aggressive incentive schemes for performance which we have introduced in the last 6 – 9 months. So that's what we are looking at. I don't want to say yes and no to your other question in terms of stock option.
- Ramnath Subramaniam** The other thing was, you talked about 60% being hedged about 57 and then you get to top it up with spot which means the average currency blend should be about 58.5 – 59 as we go into next 2 quarters. Is that a fair assumption?
- Venkataraman N.** Yeah.
- Ramnath Subramaniam** The third thing was, you talked about tax issues being handled well and refund that you already got last time, I remember that you still had some amount of money to be received from the government. So how are we on that, is that what you were hinting at when you talked about?
- Venkataraman N.** One was the litigation issue in earlier calls we had mentioned that we were actually an isolated case, but now it has become an industry issue and has caught a lot more attention including the commission that was set up by the Prime Minister and all of those things. That's really helped us. And precedence is very important in all these kind of litigation issues and precedence is slowly coming in our favor. So that's what has changed the trend in getting our refund of about Rs. 80-85 crores which was stuck for a very long time. Now it is about Rs. 40 crores which is there, which is refund due I should say, you know that assessments are done in 3 years in arrears. So the immediate release that we can look at that we are targeting is Rs. 10 – 15 crores.
- Ramnath Subramaniam** And this would be in the next 2 quarters or so, by the end of financial year?
- Venkataraman N.** That would be our target but one never knows.

Ramnath Subramaniam

Then I come to the point of this acquisition that you talked about, you have been talking about this for the last couple of quarters now. Even if we assume from our top line that we have today about \$80 million and even if we were set aside certain amount for acquisition, we would still be left with quite a substantial amount of cash with us. And if you look at it, this definitely is distorting the return ratios. Not only for you but I think for a lot of midcap tech companies today in the overall frame of things. The other way also is that market also probably looks at cash very differently until it is put for good use. My question was that why is that management is not looking at buyback as an option? If there is really so much of growth left and won't that be really intelligent way of creating market cap, one and better use of cash than just allowing it to be where it is.

Srikar Reddy

I think I have answered this question in the past. We as a management, I keep on saying, we are trying to build a great company, great people, great technology, great clients, great access to market. Company where people would love to work with and so and so forth. That's what we are focused on. On the other question like bonus and buy back is something really something we leave on to the board to look at. So I will leave it at that. I do understand obviously that sometime it is distorted numbers in terms of return ratios, I do understand that but I can't claim expertise on really on what's good for the stock price.

Ramnath Subramaniam

Fair enough. I was more looking at it not from a stock price perspective but more from a shareholder return perspective. So just wanted your thoughts on the same because if you typically look at it, today midcap IT companies are all trading at PE of 7x and 8x and they do have huge amounts of cash and I think market clearly keeps looking at companies from the perspective of utilization of cash that they have on their balance sheet and you have been paying out dividends. I think there is no reason to complaint about that and if that's the philosophy of 40% payout, I think that's reasonably okay. But the thought was that incase the message goes out, this buy back is also a measure of utilizing cash in a prudent manner. I think it really helps in terms of the valuation perspective or the way people look at the company more than anything else.

Srikar Reddy

Sure point taken but as I said that's something which really the board will look at it.

Moderator

Our next question is from Chetan Vadia of JHP Securities. Please go ahead.

Chetan Vadia

My question is on the domestic side. On the domestic front we have seen a good improvement of 36% this quarter in terms of profitability. But what is the ground reality at this point in time in terms of what are the efforts that you are trying to put into, so that the profitability improves much more from here on. Second question domestically also, it was pointed out in earlier con calls that you are trying to push services element as well. So what kind of efforts have been made in that direction?

Srikar Reddy

I think if you say the domestic business was not good or good, what did you say?

Chetan Vadia

I said it is growing currently, my question is what kind of effort you are putting at this point in time to improve the profitability from domestic business from hereon and in earlier con call it was said you were trying to push service element as well and not just a product.

Srikar Reddy

I think we should start looking at our business a little differently now and we don't want to call it domestic business. We give it a different name, you will have a different name for our business by the next time we talk. We really want to call it technology deployment and system integration or something like that, that's the nature of business which we have. That's the business right now we do in India. We are thinking whether we can expand the same business in other markets. So that's one strategy in terms of expansion of that business because we believe that we have a particular IP or way of doing that business. We seem to regulate and add value to the kinds of market. So that's what we see as one growth strategy to drive this kind of business into other market where they are not in and in the existing market of India, what we are looking at it is apart from adding new lines of business, as Venkat briefly mentioned, we are getting into what is called appliances is one area where we got into, we are getting into Cloud licensing and kind of business. So that's what has improved the quality of that business in terms of diversification and value adds to our existing customers. I think the second part was services – services continues to be our focus and what we are doing is, we starting to move now our services into our Indian IT services because then we are correctly in business in terms of their services business and as I said there are these other businesses. We start looking at it that way and hopefully we start reporting it that way. Our services business in India, Asia whether it is India, Singapore, Middle East, that's one geography we are looking at. That's looking quite promising and we see growth in that.

Chetan Vadia

In the opening remark you touched upon this Social, Mobile, Cloud and Big Data, the focus areas for you, so what kind of capability you have created so far for you in these three elements and what kind of growth or what kind of revenue potential do you see from these in FY14 and FY15?

Srikar Reddy

It's obviously all of them are fairly nascent and this is what most of the analyst reports if you look at Gartner, Forrester whoever it is talking about potential of credit revenues to potential for future opportunities. So I think the thing is all about future opportunity and to answer your question it is something like mobility, now we have built up a fairly good practice both in terms of partnerships and development capability and size of team and just now Rajeev started to get engaged in a few clients with some serious projects. So that's something which I think is starting to kick off. The other one which is being talked about but still see that big, let's say popularly called new scale is for implementation is Big Data, that's where we have made some investments but we see that as a big runway before it starts really getting into mainstream.

Social very complex way to describe it because from implementing social media solutions to actually using Social Media and Analytics and stuff like that, so the second part is something I think where we see some growth but the deployment of social solutions inside and outside the organization is something that we see, let's say runway but it will take time. Within capability, we announced we have signed up with Tibbr as a partner. We ourselves use Tibbr in the organization 3000 users so that's the investment we have made in that area.

Chetan Vadia

So can that be taken as a kind of base for the growth to be driven by this elements in the upcoming quarters?

Srikar Reddy

As I said, I think one is definitely we need this to drive entry and access to new clients and stay relevant in existing clients. I think it almost will become hygiene factor at some point of time. So basically as I said these are interesting conversations we can have we are going to drive new business. Our relationship with new clients and then you look at growth or you want to enhance your relationship with your existing accounts. They want to hear what you bring to the table and what is the advice you are giving, what is the stability to consult in these areas, and that kind of stuff I think what it is? So it is really becomes the oxygen which you need to really grow kind of stuff. Very difficult at this point of time to say how much revenue we will drive. To become I am a member of the NASSCOM counsel, so it is become a significant numbers to any IT Services Company in terms of revenues, we are still a few years away.

Chetan Vadia

Last a bookkeeping question, what is the FOREX element in the P&L for the quarter and for the first half?

Venkataraman N.

At consolidated, it is a gain of Rs. 3.8 crores and for the quarter it is Rs. 67 lakhs gain.

Moderator

Our next question is from Amit Baid. He is an individual investor. Please go ahead.

Amit Baid

So what we are observing, company has got a good track record of dividends. Company is also good in the corporate governance. Company has got sales of around Rs. 1600 crores every year. But when we look at the market view of the company, we feel it is bit undervalued. So what's your view on this?

Srikar Reddy

I agree with you Amit. We all believe it then it will have a different share of....honestly I cannot answer that question.

Amit Baid

When there is good management, good dividend trend record, and the IT companies are peaking on the map with the CFOs and good respect, good environment, then our company is undervalued sir that is what we see. Our revenue is Rs. 1600 crores per year and our market capitalization Rs. 330 crores is on date?

Srikar Reddy You are right, your arithmetic is right that's what I am saying.

Amit Baid Yeah, so from a CFO perspective, CFO's responsibility to keep the value.

Srikar Reddy I will ask our CFO to answer this question.

Amit Baid Next question please you reply sir, what about the potential buyer you are listing for before half year or before one year you were looking for a potential buyer what are the themes and what are the concepts behind that?

Venkataraman N. We didn't get your question. Are you talking about.

Amit Baid Earlier you wound up your loss making subsidiaries in Japan, these are debt free companies, next time we have heard these announcement that you are looking for a potential strategic partner.

Venkataraman N. We have not made any such announcements. So I am not too sure.

Amit Baid I think the company approves for some stake sales.

Venkataraman N. The company cannot be doing such thing Amit.

Amit Baid So as a CFO, by when we can expect sir?

Venkataraman N. The intention is to be as transparent as possible, give as much information to the investment community and to the analyst community. And we will also do more of the meetings in person and through telecon so that's the way we want to educate because there is a little bit of confusion about whether we are a product company or a software services company but I think over the past 5 – 6 quarters or even more, we have clearly articulated the way we have published our results to clearly differentiate the multiple segments that we operate in and what each segment contributes the total consolidated profit and the company's bottom line. So it will take time but I believe that with performance we should see some realizing happening and I hope that it happens very soon.

Amit Baid One more question, what is the ranking of Sonata is terms of sales and profit like in Indian market?

Srikar Reddy I don't know, there are a lot of people have ranked us. We have no idea but maybe I think only thing is Data Quest ranking last time we were 47 or 48 or something like that.

Amit Baid Because we are very trustful for Sonata for last so many years as a family, so we trust upon and it is a great management so we expect the same thing from Sonata also.

- Moderator** Our next question is from Rohan Patki of Himalayan Funds. Please go ahead.
- Rohan Patki** I just wanted to get a question from you that might be hypothetical. But just wanted to get an idea of what your expectations are over the next year or two on your US business overall and what this immigration bill, the effect of the bill would be on yours and overall industry.
- Srikar Reddy** Your question is really on the US market. Is it?
- Rohan Patki** It's on the US market as well as what?
- Srikar Reddy** It's effect on the company and overall IT services industry in general?
- Rohan Patki** Your company specifically and more importantly with perspective to this immigration bill.
- Srikar Reddy** So let me answer the second question first. The US immigration bill I don't know, there are actually two bills which I am aware of it. One is with the Congress and one with the Senate. They are two different bills and what is there is those bills are very different. I will get my stuff right but it will be the one which is there I think in the Senate or Congress and other one is not there. The next step for them is to really put together a common bill and obviously it has to go through a process. And as we understand we are supposed to be introduced this December in the session but considering what happened in US with the shutdown of government and all that, we understand it is not going to go through this time. So having said that, obviously we it has got an impact in terms of whichever finally whatever form it gets approved but there is obviously certain ratios one needs to maintain in the US employee basis in terms of visa based employees that is L1 and H1 base employees versus the **resident** kind of stuff. So which will require obviously companies to take different approaches to how you want to deal with it. So right now our own ratios because of the kind of hiring we have done in the US are pretty healthy. We are like almost currently equal to whatever is required in terms of ratios but that could be an aberration in terms of industry so we are alright in terms of ratio. And then as we said, we will look at any of the M&A options and that we will ensure that our ratios are alright. First the visa part and as far as I think US market we are seeing definitely a shift forward, upward, positive, whatever is the adjective we use as a market so I think we do see that I think we will have a positive trend going forward in terms of customer's spending ability as a geography.
- Moderator** Our next question is from Deepak Agarwal of Impetus Advisors. Please go ahead.
- Deepak Agarwal** My question is on contingent liabilities, as on 31st March, 2013, we had Rs. 318 crores of disputed taxes and you mentioned these are being coming in favor of company. So what is the contingent liability in disputed taxes as of now?

- Venkataraman N.** Deepak, contingent liability we are showing it from a good disclosure practice right now because what happens is there are multiple levels at which you have litigation on the tax departments. So as of today most of them, or I would think 90% of them we have won and the case is in our favor, but the Tax Department might go and file an appeal and that point in time we disclose as a contingent liability. But we have been winning like I said, quick number because it has quite a bit of a detail inside it so without getting into details, so about 90% of the case is in our favor if you look at it today.
- Moderator** Our next question is from Nikunj Mehta of Corporate Database. Please go ahead.
- Nikunj Mehta** Just wanted one little clarification on the balance sheet numbers. The trade receivables looked to have gone up from Rs. 141 crores at FY13 end to about Rs. 378 crores and also there is a significant decline in long term loans and advances from Rs. 163 to about Rs. 110, so can you just explain a little bit on this please?
- Venkataraman N.** The long term loans and advances is basically on account of tax refund we got Rs. 85 crores. And trade receivables in domestic business basically has slightly gone up because one of our customers have subsequently paid. In domestic business is very spikey so we have got couple of very large customers. When we speak of volumes we are talking in terms of billing in the range of Rs. 80 – 120 crores, so we had 2 large deals which we had closed just at the end of the quarter. Business happens based on the end of the quarter, for the principal as well. Because there, we are harmonized or linked with their quarter as well and there were 2 large deals which we closed and then that was subsequently collected.
- Nikunj Mehta** So as on date it is settled on back?
- Venkataraman N.** That's right which is why if you recollect I did say that as the financial statement date cash was Rs. 135 crores but now if you adjust for the intercompany receivables or deposits that we have given to the domestic business to need this, we are in the range of Rs. 180 – 200 crores of cash.
- Moderator** As there are no further questions for the participants, I now hand the floor back to the management for closing comments.
- Srikar Reddy** Thank you all. I think with tremendous participation, lot of good questions, hope we have dealt with them to the best of our ability. Thank you all for your support. Look forward to seeing you in future. I would like to close and thank you all again.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.