“Sonata Software Q1 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Sonata Software Limited Q1 FY'22 Results Update Conference Call. 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy from Sonata Software Limited. Thank you. And over to you, sir.

P. Srikar Reddy: Yes, thank you, Lizan, and good morning, everybody who have joined us today for the analyst call post the announcement of our results for Q1 FY'22 yesterday. I have with me today, Mr. Jagannathan - our CFO; Mr. Sathyanarayana - Head of Finance; Mr. Raju -- Chief Delivery Officer; Mr. Sujit Mohanty – Head of our India Business and Mr. Ranganath Puranik -- Chief Growth Officer from the US.

Before I hand over the mic to Jagan to take you in greater detail the financial which have been already loaded and released to the stock exchanges yesterday, share some quick highlights and talking points for the business performance for the quarter.

So overall, in the quarter, I think the demand side has looked extremely robust. Our deal flow and pipeline across the board apart from the travel vertical is good. So overall, I think that looks promising. As I did mention last time that we had some supply side headwind both starting with the COVID-related and people falling sick and not being available to do work and managing the additional supply side dynamics of getting more people. Our attrition has been a little higher than the normal thing; it's been close to 20% last quarter. So, these have actually, I would say prevented us from delivering to the demand which was there in the quarter. We are absolutely bringing in plans to sort out the supply side both from retention and creation of capacity in advance and also opening up closer global delivery centers both from a risk minimization aspect which our clients are looking for and not wanting to be limited to one or two countries specific delivery centers, there are local regulations which are coming especially in Europe, which is preventing I would get some data to go out of Europe and third is get access to talent. So we have put together a very comprehensive plan to execute on the supply side dynamics.

We have a one-time revenue gain last quarter because of the provision we had made for the provident fund, which is no more required when we transferred the funds. But also we have had I think I would say based on whatever I just explained a lot of expenses which would be normal, which were both COVID-related capacity, expansion exercises and also additional expenses we had to incur, we took additional medical insurances, adequate additional life insurances for COVID stuff and a lot more support to our people over and above the insurance costs, which will be repaid on COVID. So, those I think one-time I would say cancel for the one-time gain which we have obtained on the reversal of the provision which we had made for the provident fund.

Looking forward as I said, the demand side looks robust and the focus for us is really to manage the supply better in the next two quarters. So I think that's where we are focused on as an organization.

We have hired, continue to invest in some senior resources; we've had Kartik Visweswaran as the Senior Vice President and Chief Digital Officer, driving both transformation of digital of our current clients and large digital opportunities going forward. So we're creating that unit around when we came on board. This month, we've had a head of sales for the Australia region; Biju Johnagain, very experienced professional, more than 20-years in the Australian market. And then, I think we have had another 10, 12 people onsite for pre-sales last quarter. So we continue to invest.

The other, I think, interesting aspect, which we announced last week, is the acquisition of Encore Software Services based out of San Jose in the US with the delivery center in Chennai. That's a very qualitative level. One is it's a very robust business solid clients. The management team is very experienced and veteran of the industry and having set up and run from the late 80s, early 90s, these kinds of operations, so very solid management team, gets us access into new industry verticals, mainly on the healthcare provider, and the logistics, and an access to a new delivery center in Chennai.

Overall, I think on a full quarter basis, that should be adding about US$ 3million to the revenue on a full quarter basis, maybe about 500K of EBITDA to the bottom line as we go forward.

The CX business, as I said last time, looks extremely promising. Obviously, they are impacted by the opening and closure of markets in different parts of the world. And they've had I think last quarter focus on I think ramping up capacity to serve the new clients acquired. So there was also an impact on their margins last quarter.

Our India business looks extremely promising, continues to grow, the cloud business starts to grow, the annuity business is growing and the new lines of alliances that we talked about, and like Amazon, Google and the SI business continue to show promise. So that looks extremely robust and should continue its growth trends.

So the net-net, I would say, as a summary, I think the demand side looks good. We are all focused in the next few quarters on ensuring that we have a good solid supply side and robust engine operational. And that's what we are focused on.

So that's, I would say in a nutshell summary of the performance for the quarter and where we are and some of the highlights for the quarter. I'll hand it over to Jagan to take you through the detailed financials and then have answers to any questions you may have. Thank you all again very much.

Jagannathan C N: Thank you, Srikar. Good morning, all. Nice connecting with all of you today morning. Thanks for joining the call today morning. I will now take you through the brief Financial Performance for the Quarter for our Business, after those questions will start

The consolidated financial performance for the quarter, we had a revenue CQGR growth of 5.2 percentage and EBITDA CQGR growth of 3.7 percentage and PAT CQGR of 3.5%, our PAT has grown when compared to the revenue growth for this quarter on a consolidated basis.

The International Services revenue growth CQGR was 1.8% and in dollar terms it was 1.5% and in constant currency it was about 1%. The EBITDA growth was 3.2% and PAT growth was 2.5% for the quarter.

The domestic business, revenue growth was 6.6%. EBITDA, CQGR growth was 5.7%. If you see interestingly, Srikar has been highlighting that domestic business has to be measured on gross contribution, not on the revenue and gross contribution has grown by 3.8% CQGR for this quarter. Our PAT has grown on a healthy 6.8% quarter-on-quarter.

Financial Summary: This is uploaded also. We have broadly highlighted the revenue growth. We had the revenue of Rs.323.9 crores in INR terms this quarter and the domestic business was Rs.946.2 crores this quarter. The PAT for this quarter has been Rs.86.7 crores compared to Rs.83.1 crores last quarter.

Operational Performance: US business continue to be at 51 percentage of our total revenue and Europe including UK is about 25% and the rest of world remains at 24%, there is no change in this. This quarter if you see the contribution from ISP industry continue to be at 33% and travel vertical continues to be at 10%, not much of change in this quarter for any of these major verticals other than others, others is the rest of verticals like utility services, agritech and all those things are there. The common our key verticals have remained at the same level as Q4. The revenue competency wise has also been given here. So the strong revenue potential is reflected in that. Digital services have contributed to the business growth for this quarter also. The Microsoft Services and the Digital Platform services continue to be the focus area which has contributed to the major revenue for us.

The onsite/onshore mix for this quarter remained at the same level and there is no change on the mix between T&M and fixed price project for this quarter.

The IP-led revenue continues to be growing for us. It is remaining strongly at 35% for this quarter.

The operation metrics, new customer additions if you see we had a strong customer addition during this quarter. This quarter, we see the potential, as Srikar was highlighting the demand side, continues to be good. There have been some constraints on utilization and people addition for us on the supply side, which we are addressing in the coming quarter. The client addition has been very healthy for us in this quarter. We have added 13 clients during this quarter. The top five clients continue to contribute more. However, the headcount addition has also been healthy; we have added around 148 people in this quarter, which is almost like a five percentage of our headcount on this quarter. As Srikar was mentioning, we have also added on onsite and sales headcount has been beefed up during this quarter.

With my update on financial comes to an end. I hand it over back for the question-answer session. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is top ten and top five clients have grown well; top five essentially have done very well, but if you look beyond top ten there was a big decline in the quarter. The point was is there something specific that happened in that segment where we saw a big decline for the quarter or some completion, some client loss or something of that sort, so that is one regarding this quarter which is 1Q'22? And then what kind of recovery should we expect in IT services from second quarter onwards?

P. Srikar Reddy: We have to analyze the individual details of each client and what happened, whether it was a supply side issue or whether it was some project ending and then we're waiting for the ramp up for the next one to start. So we can give you that detail analytics but as I said for us the demand side looks extremely robust and if we manage the supply side well we should go back to the kind of top line and bottom line growth even factoring in for additional cost which may come in to get our supply side correct and manage it well. So as we sit here today I think the growth going forward looks promising based on the deal flow we have currently and actually orders which have booked, which are waiting to be executed and the supply chain and the demand pipeline which we are visualizing kind of stuff. So overall I would say we're quite optimistic about getting back to about a 3% or 4% growth quarter-on-quarter.

Mohit Jain: And second was on the IT services segment margin, in terms of cost increases and utilization has just started coming off a bit, should we expect that margins structurally will be like a little lower this year and therefore our historical numbers may not give us the correct picture or do you think that this quarter had enough one-off for the structure of any potential data headwind?

P. Srikar Reddy: I would say that the top line and bottom line may have a more linear growth, earlier we could have a little more non-linear growth and every percentage of top line could have had maybe a 1.1% increase in bottom line kind of stuff. Even if you have these one-time adjusted for this quarter because I think we are going to be doing two or three or four things actually; one is all these global centers we are going to be opening up, will add to the initial ramp up cost, I mean, once they stabilize they'll start driving the revenues but there will be initial ramp up costs as we create a certain capacity in each of these places. Secondly, as I said we are going to be hiring in advance so that we don't get surprised by this kind of stuff going forward and preparing talent rather than waiting for goodness and then getting challenged. So that could add to some kind of cost pressure. So I would as we sit here today would look at a more linear relationship between absolute margin growth and absolute revenue growth. So that's what I would forecast here today.

Mohit Jain: Something on the acquisition side like what are the details there in terms of any growth number, it appears that you got it at a very good price, so any details that you can give in terms of growth or margin?

P. Srikar Reddy: As I said, I guess about a $15 million, $14 million annuity business. I think it has an EBITDA of about 15%, 18% and it's a very steady business annuity and so on and so forth. So the growth really comes from two or three possibilities; one is what else can we do to these clients because these clients could have earlier been restricted by the size of the company to expand and grow into more areas and do more, so that's one possibility. The second possibility is for them now with a bigger balance sheet and a larger company behind them to go for larger deals in their same verticals which they are currently operating in. So these are the two things. We are not seeing any cost to us that means we will take any of theirs to our clients but these are the two I guess big growth drivers to that business. But as I said the business is a very robust business, it's a very solid business, a very-very-very experienced management team business has been in existence for more than 12, 13-years, they've all as I said ran these big, big operations for companies like Syntel and so on and so forth. So overall it's very sound management team, very experienced in running this kind of business and as I said there's access to the whole channai, now in the current context of supply side will hopefully reduce the pressure on that. I hope I've shared enough information with you, Mohit.

Mohit Jain: Yes, so there is no change in working capital or anything of that sort when you acquire that entity that is pretty much…?

P. Srikar Reddy: No-no-no, they were cash surplus actually, return cash, so no working capital.

Mohit Jain: Last on domestic side, this quarter obviously you saw this expansion because of the depressed last quarter as well. What growth you're looking at for the domestic business on…?

P. Srikar Reddy: The margin we grew I think on the gross contribution side, my feeling is we almost go 8% to 10%. We'll continue to look at that. I think at least 5% to 6% gross margin growth, this quarter maybe 3% to 4% but I think Q3 looks extremely promising and Q4 may not be as good as Q3 but still far better than Q2. I think that business looks very solid. So we should grow like 4%, 5% quarter-on-quarter.

Mohit Jain: Four, five per cent when you look at absolute EBITDA of the domestic business is that what you're referring to?

P. Srikar Reddy: Yes absolutely.

Moderator: The next question is from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: I'm sorry if this is a repetition and I missed this in your opening comments. The sequential growth in our Microsoft services is sharply below Microsoft's own growth. I'm just trying to understand is this a supply side issue …?

P. Srikar Reddy: That's what I made at the beginning; it is a supply side issue, not a demand side issue.

Baidik Sarkar: What are the commentaries from TUI coming on in the context of what's happened in Q1?

P. Srikar Reddy: Maybe now there's this delta variant and markets are opening up, shutting down, again opened up, again shut down. So it still looks let's say vary. My feeling is as I said last time second half now we are looking at even January kind of stuff but it's finally the disease has to either stabilize or has to easily go away, otherwise obviously people are not that keen on taking holidays, either they go to the other side and they are quarantined or come back or quarantined in their home country kind of stuff and those rules are still extremely unpredictive as we speak today. As I said they continue to invest in that thing. That's stable. So what I said last time is the growth will come when their operations start, right now they're not running any systems more or less, they're like 20% operations. So the revenue from the operational system and support of that, that's what is going to give the bump up and that we are doing. Otherwise whatever they're investing for the future, that's carrying on.

Baidik Sarkar: Just a book-keeping question for Jagan. What was the EBITDA before other income and FX for our International Services business? Going forward if it's possible to kind of report this on a standalone basis pre-other income to make interpretation really that much better?

Jagannathan C N: Pre-other income, the EBITDA margin will remain at the same level, in fact, there can be a little improvement also from that. So the business as such in spite of all the cost increases as Srikar was mentioning, we are trying to beef up the resources to back up for the existing people to protect the revenue and the customer…

Baidik Sarkar: My question was what's the margin?

Jagannathan C N: Reported EBITDA is somewhere around 27.1%, it should be close to 25%, 26%.

Baidik Sarkar: 25% ,26% , this is pre-impact of other income?

Jagannathan C N: Yes, without other income impact, FOREX impact without that. This quarter it maybe a little more as Srikar was telling the PF reversal was there, on a normalized basis this would be the margin, around 25% you can take.

Baidik Sarkar: I'm just trying to understand in terms of the annuity business in your domestic product reselling, what are the gross margins we make on that business, how should we understand the profitability of this better?

P. Srikar Reddy: Assume that it's the same gross margin. Instead of saying that one has got a higher gross margin than the other. It's just that one has more predictability than the other.

Baidik Sarkar: And is it fair to assume that the ramp up in your annuity and the cloud is almost similar in terms of salience, so is the interpretation right that whatever is annuity is necessarily driven by cloud ramp ups and that obviously has a long runway of growth going forward?

P. Srikar Reddy: Yes, at a high level, I mean, even earlier the contracts were for three years but now the cloud contracts are a little bit more thicker than a purely volume licensing contract, even both were for the long term kind of thing. So that's a good assumption to make by the way.

Baidik Sarkar: What would our cloud mix be? I am assuming Azure would be number one?

P. Srikar Reddy: Azure is still way about it, I mean, Amazon and Google are just something we started like six to nine months ago, I mean, they're like the huge runway businesses, but the Azure and the Azure-related cloud would still be significant.

Moderator: The next question is from the line of Prakash Chellam from Marathon Edge. Please go ahead.

Prakash Chellam: In the domestic business we are seeing a huge shift towards cloud globally and in India given where we have a strong relationship with Microsoft, can you just give me a sense of what is the contribution of Microsoft Cloud, Azure reselling within your domestic business, what sort of growth you're seeing on it and there's a profitability profile there, extremely different from the rest of your domestic business if you could just comment on that please?

Sujit Mohanty: With most of the customers whether it's Microsoft or partners like us, for us MS Azure business is one of the key drivers. So anytime we go for a contract MS Azure is a very critical component of the contract and most of the volume growth will come from that because the consumption of the cloud is one of the very key things which OEM like Microsoft will always focus on. So that will always be a growth driver. Now, coming to the profitability, there is nothing very specific about this particular product line, I mean, in Microsoft they have four business lines, this is one of them. So when you sign a contract that the overall profitability there is nothing specific that we have to mention about this particular business line. In future, as I said we continue to believe that this is one of the growth drivers and in most of our large contracts Azure will have a major play as far as the percentage of that business from the customer is concerned.

Prakash Chellam: If I could just progress on that a little further, do you do any other cloud reselling apart from Azure, do you sell AWS or Google …?

Sujit Mohanty: Yes, AWS and Google

Prakash Chellam: Wouldn't that business be sub-10% sort of EBITDA margins with credit risk or is it higher than that and if it's substantially higher than the rest of your distribution business for domestic India business from a margin perspective?

Sujit Mohanty: From a margin perspective, if you see, any of the cloud business in Indian market the retention margins are almost same in each of the business, whether it is AWS, whether it is Google, whether it is Microsoft. As far as risks are concerned, it's the customer risk, it has nothing specifically to do with any OEM. So when you get into a business that due diligence and that evaluation process which you do before making in to a contract, whether we should go with this contract or not, that remains same irrespective of the technology or the OEM which the customer is looking for.

Prakash Chellam: Could you give me a sense of the margin profile similar across the three providers, cloud providers if you do reselling and value-added reselling, could you give me a sense of what sort of EBITDA margins are we talking about, are we talking about five, seven ten percent? And second when you say you're seeing tremendous potential there, are we talking about 100%-plus sort of growth rate which you're seeing in India year-on-year or more like 50% on the cloud component reselling? And third how much of cloud today for you in this $300 million that you do?

P. Srikar Reddy: Our EBITDA margins are published, is about 2%, 2.5% in the business.

Prakash Chellam: For the cloud portion, it is that higher than the overall business or is it…?

P. Srikar Reddy: No, it is not significantly higher, it could be marginally higher but it's not like 2.5% and 5% no.

Prakash Chellam: What component of your business is it and what sort of growth rates are you enjoying of the domestic business, cloud…?

P. Srikar Reddy: That 70%-odd is cloud business now, Baidik, that's in the investor deck, 76% or whatever.

Prakash Chellam: 76% when you say, cloud hosting reselling or includes cloud software products?

P. Srikar Reddy: The cloud software products also, all the three, IMS, SAAS, PaaS.

Prakash Chellam: What would the cloud just the hosting platform portion be out of this because there's just demand for people just shifting space under the cloud, so is this a launch portion of the 93% or…

P. Srikar Reddy: Large portion is still the IR part, infrastructure as a service.

Prakash Chellam: Which is the hosting piece, is that…?

P. Srikar Reddy: That's right.

Prakash Chellam: So the overall growth rate of domestic business probably mirrors that growth in the industries?

P. Srikar Reddy: Yes.

Moderator: The next question is from the line of N G Puranik from Enam Securities. Please go ahead.

N G Puranik: Nice to see you bringing in some interesting changes to your businesses. I want to understand the Encore acquisition. What that will do to you? One is they bring the current relationships and current businesses to you. So in terms of service lines will they add to your service line because at the end of the day when you go and sell your services the larger deal is a function of number of service lines you have and that too high spend service lines, mission critical service lines, new services combination will make the deal larger and that will in turn help you grow your million dollar account and creates a platform for size and skill. So I want to understand this will add to any services, then the vertical also will have a greater mix?

P. Srikar Reddy: All the things you said are all correct that they are a robust business, they bring the client, they bring the vertical knowledge, and they get our access to these vertical industries. One thing they bring which we already have, I think which can be a good combination at least in the US market is their cloud horizontal capability. I think that should combine the story of the overall cloud services strategy in the US market.

N G Puranik: What do you mean by cloud horizontal, is that cloud migration services?

P. Srikar Reddy: Cloud development, cloud migration, they are both in the Azure space and the Amazon space.

N G Puranik: So, when you say cloud development, what exactly happens there?

P. Srikar Reddy: People want to build either modernize their current on-prem app on the cloud so that means you need to re-architect those apps, one is a lift and shift, they're just moving target to structure cost.

N G Puranik: You are building applications and cloud or is it…?

P. Srikar Reddy: Yes, in these cases, either we architect the applications on the cloud or building brand new application on the cloud.

N G Puranik: So, the larger percentage of their business comes from what, cloud development?

P. Srikar Reddy: Development and testing, yes. It's in the implementation and other things.

N G Puranik: So, in a way it will add to your new service line?

P. Srikar Reddy: That's correct.

N G Puranik: So that can add to what kind of a service for contract size, for example, if you are bidding a customer for 2 million to 5 million will that takes you to 5 million to 10 million?

P. Srikar Reddy: Yes, they can themselves go and bid for those now because that's in the balance sheet side. They have been tied of going to larger customers because somebody is saying you're only 15, 18 million though how can I recognize this.

N G Puranik: So, what are the kind of names they are bringing to you?

P. Srikar Reddy: Their names are on their website, Puranik. They're all in the midsize provider space, $1 million to $5 million revenue

N G Puranik: How many clients they have in $1 million to $5 million?

P. Srikar Reddy: They will have about six clients.

N G Puranik: One other question in this connection I have is you said they're in the business from 80s to till now which is nice to staying relevant for so many years, being a legacy player and modernize yourself and stay current and relevant but I want to understand why after 30 years their revenue is only $15 million?

P. Srikar Reddy: No-no, I said they ran Syntel and all that. They set up one other business which they sold off to somebody. This is their third venture.

N G Puranik: How old is this venture?

P. Srikar Reddy: This venture is 11 years old.

N G Puranik: Not bad. $15 million, a million dollar per year. I want to know from a platformization perspective. You have a range of services you offer in the platform. So are they total platform service or is it components of various services…?

P. Srikar Reddy: They are mainly on the custom development of platform services.

N G Puranik: So, for you it comes under the P&L side or on the revenue side, does it go to reduce your effort of value of services delivered or you create as license revenue to license your platform services?

P. Srikar Reddy: Our platform have three components like I said; one is our own platform if people take it we like the space. Otherwise we are using let's say Microsoft Dynamics or whatever and deploying and building on top, that is the second service. Only in the first one do we get a license, Puranik.

N G Puranik: And your platform is also your own productivity tool?

P. Srikar Reddy: The platformation service will use our productivity.

N G Puranik: And that you charge it to the client, is it…?

P. Srikar Reddy: No, it's hidden, I mean, we don't separate.

N G Puranik: Separately or in aggregate?

P. Srikar Reddy: No, if we license our platform, then we charge, but if we use our tool frameworks we don't charge, its quality and faster time and all that add to our margin.

N G Puranik: As far as India business, is there a cloud-based services, all the cloud licenses you sell, the service…?

P. Srikar Reddy: Yes, because of the license values being so high, the services gets lost, that's all I'm saying, it can never catch up, even if the services doubles every quarter, you can actually make on the margin or the revenue is going to take a long time.

N G Puranik: So, it won't be a significant percentage, say, it can't be 5% because what you are saying license value is high, but even if it's 4%, 5% of license value, it will show up in your bottom line?

P. Srikar Reddy: Yes, would show up in the margins, that's all I am trying to say.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: I just want some color how you define this platformation service, digital service, means every company defines it differently, so if you can give some color it will be very helpful?

P. Srikar Reddy: Platformation service only we can define because it's a trademark item of Sonata, nobody else can do this. So when we say platformation customer, that means the concept of platformation has been sold to the customer, so the customer has bought platformation from us. So when we deliver platformation, under platformation either we have to deliver our IP services or we have to deliver digital services. So that's why we are showing our platformation clients separately and the digital services revenue separately and IP-led services revenue separately. Did I communicate?

Vipul Shah: Still couldn't understand. If you would elaborate it will be highly useful sir?

P. Srikar Reddy: All digital services and IP services need not be platformation services. Clear? But all platformation services will definitely be digital services.

Moderator: Thank you. The next question is from the line of Rajiv Venkatesh, individual investor. Please go ahead.

Rajiv Venkatesh: I have one question on the business side. Is my understanding right, we onboard the customer for digital platformation services and I just want to understand what percentage of the customers get converted to data and analytics and other services where we push our products like SaaS and multi-annuity licenses? My assumption here is we are working here with the top of the margins when it comes to our own products. So can you just comment on this particular thing?

P. Srikar Reddy: So as I said, when we have a platformation customer we can do either of three things to them; either we license our platform to them or we deploy another platform on the cloud like Microsoft Dynamics or Azure or whatever. And the third is that we can build custom apps for that. So when we onboard a customer, we can get all three revenue streams but typically the biggest revenue streams will come from pillar-2 which is deploying a cloud or cloud-based platform for the customer or developing platform services for the customer, whether it could be data analytics or platform engineering or IoT or whatever it is. So these are the two services which the customer will procure from you.

Rajiv Venkatesh: What percentage of the customers get converted to these second line verticals where our margins are very high, I mean to say, we have say around 100 customers, how many of them will move towards the data and analytics and other high value businesses where our margins are high?

P. Srikar Reddy: There's no formula to that. It's depending on the client and their needs and which data, technology platform they're deploying and whether our service is mature or good enough for that client. So there's no formula here I mean that every platformation client will buy data analytics service from us, there's no formula there, that's what we are looking for.

Moderator: The next question is from the line of Devang Bhatt from ICICI Direct. Please go ahead.

Devang Bhatt: I just wanted to know that our international IT services that you said that you're going to grow from hereon 3% to 4% QoQ, that is purely organic or it includes that inorganic…?

P. Srikar Reddy: That is organic.

Devang Bhatt: Your domestic business will grow in line with what you guided that 4% to 5% QoQ EBITDA growth?

P. Srikar Reddy: That's correct.

Moderator: The next question is from the line of Vinod Makharia from Mohanlal Investments. Please go ahead.

Vinod Makharia: Two questions: one, the hiring part which I had asked even the last time that what are we seeing on the hiring side because a lot of these big IT companies are hiring and all sorts of IT companies are hiring software engineers. So can you give some clue about what are you seeing on the hiring side of things?

P. Srikar Reddy: As I said the focus is that. So definitely we are looking at a net hiring of at least 250 to 300 people a quarter.

Vinod Makharia: But are you seeing any trouble in hiring or you're having to face more than…?

P. Srikar Reddy: As I said this model of lateral horizontal hiring will not work. So we have to anticipate capacity, create capacity in advance, that's the only model which will work. In the mean time we'll all join the race and try to grab the talent which is available at whatever is the price point kind of stuff but that's not our long-term strategy, that's all I said.

Vinod Makharia: Encore is the latest acquisition and normally I've seen that usually we don't go for too many in a year, but are you looking at something in the next 12 to 24 months or are you always on the lookout?

P. Srikar Reddy: Yes, we are always on the lookout and there's no quota for the year.

Moderator: The next question is from the line of Anil Jain from Equity Passion Capital. Please go ahead.

Anil Jain: I missed I think that part. When will the Encore acquisition will be completed and when the revenue flow will come in the company?

P. Srikar Reddy: I think we announced the stock exchanges that it has been completed as of July. So we should consolidate the financial starting from August. I don't know. I'll hand it over to Jagan.

Jagannathan C N: Yes, Srikar, you are right, 31st July we have completed the closing formalities also and announced the stock exchanges from 1st of August it is consolidated with Sonata.

Anil Jain: What sort of numbers do Encore have?

P. Srikar Reddy: That's what I said, I said on a full quarter basis it could be $3 million or something and EBITDA of about $500k.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: I refer to your slide #24. I cannot understand means what is the difference between billability and utilization, generally all IT companies report only utilization, can you elaborate please?

P. Srikar Reddy: Utilizationmeans /which are actively working on meaningful work. And out of that what percentage is being charged to the customer is billability.

Moderator: The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Wanted to understand little bit on the dynamic upgrade. Many times you had indicated that this is a multi-year opportunity and big enterprises are still looking for the cloud dynamic upgrade.

So in that context like what is our strategy, how we are investing to capture that opportunity and who are the other SI partners …?

P. Srikar Reddy: All SI partners are playing the game, so we are not the only people. Only thing I said is that we have a unique differentiator because of our automation of this whole modernization thing which we had done. So we are a differentiator from a tool perspective. So that's what I said was the thing. So the opportunity continues to be there and being strategically two-fold work with Microsoft and be part of their assessment services because Microsoft is offering to these clients free assessment services they pay for, because they finally want these people to migrate to the cloud. So you should become a member of the club which then goes which can be taken to the client saying, here is a person who will do this free assessment service for you. After that you get access to the customer. There's another partner is already there sometimes. So after that it's then up to you what you can make all of it

Amar Mourya: So any targets like what kind of 5%, 7%, 10% kind of revenue which we can get from this whole opportunity, what kind of the quantum we can capture into this market size?

P. Srikar Reddy: See, the market as I said last time from a purely an opportunity service perspective is about at least $100 million per year. Now what one can anticipate is get out of something like this at least like a 10%.

Amar Mourya: Secondly sir, in terms of this Microsoft channel, as you indicated there were some supply side issues, but overall on a steady state perspective going forward should we expect something around a 4% kind of a dollar revenue growth in the overall Microsoft business?

P. Srikar Reddy: In general, I said 3-4% organic growth is possible.

Moderator: The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Sir, as regards the supply side issue you stated that for the time being we'll have to kind of run around for talent but that can't be a long term kind of solution and we would have to look at more non-linear kind of things, so what exactly do you mean by that?

P. Srikar Reddy: Build capacity in advance, that means either take people who have experience but not in these digital areas kind of stuff and prepare them to be able to deliver in advance. So that one obviously look at having more engineers from campuses. So these are the two models. Work wise I think some there are now some creative very good partners who are willing to build capacity for you, very top kind of companies not just. So how can you work some models out with that and especially some remote locations and so on and so forth? There are a lot of options which we are looking at talking to executing on and so on and so forth.

Jay Daniel: Our partners for talent?

P. Srikar Reddy: Partners who will hire, train and deploy talent… Yes, absolutely the complete supply chain, not just…In terms of specifications, they have the engine.

Jay Daniel: They'll develop the capabilities for you?

P. Srikar Reddy: That's right. That will be our capacity, I mean whether we use them or not, we'll pay them.

Jay Daniel: So they will have the talent and you will utilize them…?

P. Srikar Reddy: We make them hire and train and all that. If you want to scale you need scaling in every aspect, you need enough people to train, quality control, capacity, retention strategy a whole lot of things. So how do you scale it up is what we are looking at.

Jay Daniel: So the partner will do that for you I mean?

P. Srikar Reddy: One of the options. I'm saying, we do it, we look for partners, we're looking for centers outside India where we can cap talent, we said we have now an access to a new center in Chennai, a whole lot of other models, I mean, I'm saying it's not one strategy, there are many strategies we are putting into place, not just go out and find who are in the market and get them onboard kind of stuff.

Jay Daniel: This is kind of basic but you said all platformation revenue is digital, but all digital revenue need not be platformation revenue and within platformation you have those three segments, Sonata really accelerate and custom, and within that you said accelerate contributes the most.

P. Srikar Reddy: Accelerate and custom.

Jay Daniel: But the Ready one is your IP one, right?

P. Srikar Reddy: IP licensing, I mean IP-led services will again come into item-2.

Jay Daniel: That will also come in item-2?

P. Srikar Reddy: Yes, first one is that you take my IP and pay me a license fee for it.

Jay Daniel: And second one also uses your IP but it's built on Microsoft Dynamics?

P. Srikar Reddy: Correct.

Jay Daniel: Your margins will be highest in Sonata Ready, right?

P. Srikar Reddy: Our margins will be the highest in Sonata Ready, absolutely.

Jay Daniel: So the platformation revenue that you show separately includes all the three components?

P. Srikar Reddy: All the three components, yes, but the customer have not come to us and said, I just want digital services and we are providing it. Here are the customers we have said that here is our platformation concept, we want to implement for you. They said, okay this is interesting. You can start wherever in this tree of the supply chain but Yes I like your concept, please come and implement for me. That's how we are differentiating it.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Srikar Reddy for closing comments.

P. Srikar Reddy: Thank you, Lizan and thank you all again. So as usual very good interesting involving conversation. Thanks for all your comments, questions, thoughts. So thanks for joining today and look forward to meeting you in the next conference and take care all of you.

Moderator: Thank you. 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.