



# “Sonata Software Limited 4<sup>th</sup> Quarter Results Conference Call”

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**Moderator** Ladies and gentlemen good day and welcome to the Sonata Software Limited 4<sup>th</sup> Quarter Results 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 ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy. Thank you and over to you Mr. Reddy.

**Srikar Reddy:** Thank you Shyma. Good morning everybody and welcome to the Analyst Call post the announcement of our 4<sup>th</sup> Quarter and Annual Results for Financial Year ‘15. Let me first take the pleasure of introducing to all of you Prasanna Oke who we announced as we announced yesterday has joined us as the CFO of the company has lot of experience and international experience in the IT services industry and we believe that his induction will bring in a huge fillip to our strategic growth plans so I will ask Prasanna to say a brief hello to you consider you just joined today you will not hear lot of stuff from him but I am sure we will all have opportunities to interact with him as we go forward.

**Prasanna Oke:** Srikar thanks a lot and everybody wish you a good morning. I am excited to be joining Sonata today is the first day, but impressed by what read, what we have been interacting and I am sure we get a chance to interact more with each other in the future. So I will hand it back.

**Srikar Reddy:** Thanks Prasanna. So apart from Prasanna we have here few other familiar faces like Sathya who heads our Finance and Accounting function, Priya – Company Secretary and Arun – Head of marketing and I think the detailed analyst financials are all uploaded on the website as is the norm.

So before I hand over to Sathya to take you through a more detail analysis of the financials I think based on the results we have announced and the press release we have done yesterday, we had a great year last year with significant growth across various parameters both in top line bottom line and margins and as I have been saying in the last many calls this has been primarily and purely driven out of a deep focus on growing our existing strategic accounts in terms of deep account management processes, cross selling and upselling, adding new technology to the business being very focused about how we add value to their business and whole lot of other things. The second has been a focused approach to market based on our verticals which is travel, retail and distribution and ISVs and a very specialized set of horizontal services where we think we have a good compelling and competitive value proposition so that is driven, let say

ability to access and enter new customer and a deep focus on being a globally efficient hi-tech, hi-quality and cost efficient delivery organization and building competencies in the relevant technology and domains we are interested in. Focus on ensuring efficiencies in terms of system processes which have then lead to better margins utilization and all that kind of stuff.

Continued focus on IP-led growth and in terms M&A, which we did small one last year, but that continues to be the focus in terms of how do we have a services which is lot of IP-led and an effort on transforming our India business and you have seen the results of that in the growth we have had in that business so that also has yielded good results. Going forward it will be continued to be the same focus on all these seven or eight areas in terms of being more strategic with strategic customers, leverage new market opportunity which are coming through with our focused approach with our alliances and vertical and technology focus, I forgot to mention I think last year we have initiated a much more deeper marketing engagement both in terms of physical events, marketing, seminars, would you announce some of them were last few month and a lot more active presence on the digital media so that will continue to be the focus, a continued focus on nurturing and getting a top talent and ensuring that we have sufficient top talent tool to drive our growth plans, more focused more investments on technology development, R&D, presales and strengthening our sales team looking at some more strategic geos we did make an entry last year in Australia which is starting to show some good results so look at more strategic areas for growth and we can go forward. So really in a nutshell it is about continuing to do whatever has got us here so far continue to do that better and identify areas within where we think we need to focus more on and improve upon them. So that is the high level summary of where we are and what we plan to do, at this point I will hand over to Sathya to take you through the numbers for the year and the quarter and then we will open it up for Q&A. Thank you all.

**R. Sathyanarayana:**

Thank you Srikar. Good afternoon to all our results have been posted on the corporate website yesterday. I would provide key highlights for the current quarter along with the achievements for the financial year. We have been able to sustain the growth performance in last six quarters. Our key matrix's and target that we have set out on ourselves. You would have noticed in the press release and our investors' presentation wherein we have bettered all our previous records on majority of the matrix's this quarter as well. Before we jump into financial matrix I am glad to share that we have crossed 3000 mark in employee strength in this quarter and grew 18% over the previous year. Further the board has recommended a final dividend of Rs.4.25 for the year

subject to approval of the shareholders. This takes total dividend for the year to Rs.7 per share highest ever we believe that we have posted the best growth in industry segments that we operated. The highlights basically for the consolidated results for the year, we have grown best in terms of revenue, EBITDA and PAT in both our international and domestic segment. Revenue stood at Rs.1,682 Cr for the year, a growth of 7% over the previous year. EBITDA at Rs.191 Cr a growth of 62% and PAT at Rs.134 Cr a growth of 72% year on year basis. Our total cash and cash equivalent at consolidated level stood at Rs.239 crores. ROCE seems to be stable at 32.8% and RONW at 33.3%.

The highlights for the international segment for Q4 mainly record revenue for the quarter both in terms of rupee and dollar term. Revenue was at Rs.162 crores, a growth of 21% year on year basis. This contributes about 41% of the consolidated revenue. Revenue growth in dollar terms also has grown year on year 21% and quarter on quarter 4%. EBITDA has grown year on year at 45% compared to the previous year. Compared to previous quarter there was a swing in the foreign exchange to the extent of Rs.3.3 crores that is the reason for de-growth of about 4% in EBITDA this quarter. PAT stood at Rs.28 crores year on year growth of 50% which contributes about 79% of the consolidated PAT, we have added 8 new customers during the quarter.

Coming to domestic products and services business revenue for the quarter was Rs.234 crores year on year we have grown on 13%, GC was also at 6% for the quarter. EBITDA year on year we have grown 43%, quarter on quarter we have grown 1%. PAT stood at Rs.7 crores and DSO have improved from 82 day to 79 days. These were the key highlight for both international and domestic segment.

**Srikar Reddy:**

Shyma it's back to you for opening up the platform for questions.

**Moderator:**

Thank you sir. Participants we will now begin with the question and answer session. We have the first question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

**Manish Ostwal:**

My first question on your domestic product and service revenue compared to last year it's flat and profitability also very meager in that segment so could you highlight the reason why this segment is not growing and secondly what is the prospect of profitability improvement and growth prospect in this segment going ahead.

**Srikar Reddy:**

I am little unclear, I think we have mentioned it quite a few times the domestic product business is not a top line business but we measure the business purely based on the

gross margin the business generates. And if we see the PAT and EBITDA I think we have shown significant growth in that in terms of the previous year so to restate my earlier statement the business can vary because of certain deals which happen and sometimes very large deals which happen at a little lower gross margins percentage can bring the revenue up kind of stuff but our focus there is we measure and incentivise everything based on the absolute gross margin we generate on the business after obviously assuming that we take of all the potential risk which can happen there.

**Manish Ostwal:** Secondly, debtors' days has increased from 48 days in last year to 67 days so any specific reason for that? Receivable days has increased from 48 days to 67.

**R. Sathyanarayana:** Yes, in domestic basically it has come down from 82 days to 79 days and consolidated if you look at it has come down from 74 days to 72 days.

**Manish Ostwal:** I am talking of FY14 versus FY15 number.

**R. Sathyanarayana:** FY14 is it?

**Manish Ostwal:** Yes.

**R. Sathyanarayana:** That is mainly on the domestic business the receivable number of days have gone up because it can vary between quarters on account of big deals.

**Manish Ostwal:** Okay, lastly the concentration of revenue of top 10 clients and what is the retention trend in that segment could you highlight that thing that is it for my side.

**Srikar Reddy:** Sorry I didn't understand your....

**Manish Ostwal:** My question is you have a 74% or 75% of revenue from top 10 clients.

**Srikar Reddy:** 72% is from top 10 yes its okay.

**Manish Ostwal:** What is the client retention ratio in that and what is our strategy to diversify more in terms of revenue so that the risk of client going will not have an impact on revenue meaningfully going ahead.

**Srikar Reddy:** Yes, that is what I explained in the beginning one is the attrition in the top 10 customers is zero percent so nobody has gone away. So the second most important thing is the focus as I said while we focus on growing our existing strategic accounts the whole focus is trying to get new accounts through a very focus strategy on the select vertical

and horizontals we spoke about through marketing and events and more sales people expanding in newer geographies, etc., and I think in the last quarter we added 8 new customers if you see our results chart which has been put up on the website so the next step is how do we then scale up these customers into larger clients so that every one of them can possibly become a top 10 client for us.

**Manish Ostwal:** And I don't know whether you are giving a guidance for revenue and profitability going ahead, if can you provide.

**Srikar Reddy:** No, we don't give guidance for revenue and profitability.

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

**Sachin Kasera:** Sir this is Sachin Kasera here. Good afternoon and congrats on a good set of numbers, if you see the investor presentation on a quarter on quarter basis the revenue is up by 4% both in rupee and in dollar terms, can you just quantify for what was growth in constant currency because large part of revenue comes from Euro and there has been lot of headwinds in the current quarter.

**Srikar Reddy:** It is constant currency only.

**R. Sathyanarayana:** It is in dollar terms, we can provide you the details in constant currency.

**Sachin Kasera:** Secondly sir quarter on quarter the EBITDA margins have declined by around 200 bps in the IT services global IT services business.

**R. Sathyanarayana:** That is the reason we said there is an exchange swing about Rs.3.3 crores during the current quarter mainly because of the Euro depreciation.

**Sachin Kasera:** But if we see sir the slide number 24 then quarter on quarter we don't see any change in the realization that you have it is reported as almost flat €85 to €85 as Euro and £104 to £105 so.

**R. Sathyanarayana:** This is the realization rate but that is mainly on account of the translation because we have about Euro 4 million receivable in foreign currency in Sonata Europe books every quarter we need to translate that, so the primary reasons for the exchange variation is on account of that.

**Sachin Kasera:** Secondly sir how are we hedged in terms of both Euro and dollar for the coming year.

- R. Sathyanarayana:** What we do is basically 12 rolling month coverage so we have covered about USD 80% at 65, GBP at 103 and Euro at 81.
- Sachin Kasera:** For the next quarter?
- R. Sathyanarayana:** Yes, basically a year.
- Sachin Kasera:** So the realization will come down in that case as compared to 85 that we had seen in this quarter?
- R. Sathyanarayana:** Yes, because this is covered sometimes back in terms of the cover currently both GBP and Euro has gone down compared to earlier quarter.
- Sachin Kasera:** Does it mean that the operating margins could see some more correction in the next two quarters because almost I think close to one third of our business is in Euro and Pound?
- R. Sathyanarayana:** But dollar seems to be better off, it will compensate.
- Sachin Kasera:** Sir the offshore onsite mix has seen some change this quarter of around 3% so was there any hit because of that also on the operating margins?
- Srikar Reddy:** Yes, surely if the mix changes the margin can change and this is the function of client requirement sometimes the project start there are huge need to start off with more people on site and then they will transition the work offshore so that can happen and yes you are right we observed that as that changes that can have an impact on the operating margin.
- Sachin Kasera:** Sir our utilization for the quarter is around 85% it's really high so in order to sustain growth what is the type of hiring plans we have for the next year?
- Srikar Reddy:** I think we made these statements in the past one is that, I did say that we are over efficient so we need to invest more in people and I did say that, that could actually lead to some reduction in the operating margin because we need to invest and we have grown too fast and too quickly for us to cause and make the relevant investments for the future. So based on **that** we have an annual plan which has worked out based on various inputs in terms of the pipeline and the likelihood of growth and so on so forth according to which we make our manpower, plan and schedule like 180 days in advance and we will accordingly then execute based on that.

**Sachin Kasera:** So what is the level of utilization will be more comfortable with, would be more close to 80-82%?

**Srikar Reddy:** I think so, yes you are absolutely right.

**Sachin Kasera:** Final question sir, you don't provide any guidance but can you give us a sense of the type of pipeline you have right now what is your sense on the outlook in the sense last two years had been very good in dollar term growth so you think for the current year also you see the moment of sustaining.

**Srikar Reddy:** I think so, as I said we see the outlook as good because we believe we are doing the right things in the right way and while we do that then we are open to a lot of vagaries of the market on which we have no control what kind of stuff, but we believe we see that wherever we are focused on in terms of the kind of services and verticals then there is appetite, there is traction in the market so that is a very high level that is a good sign so how compelling we continue to be and how we convert this to our benefit and we are confident of, but we have to wait and see.

**Sachin Kasera:** Just last question on dividend payout you have done almost more than 60% for the current year, so have you seen it sustaining as you go ahead?

**Srikar Reddy:** Yes, I think both believe is that I think if you don't have too much of immediate requirement for the cash or M&A or the thing is to return it to the shareholders so that is the philosophy we are going by.

**Sachin Kasera:** Thank you so much sir and wish you all the best.

**Moderator:** Thank you. Our next question is from the line of Hardik Verma from ICICI Direct. Please go ahead.

**Hardik Verma:** Sir I just have a few questions, first is regarding the other expenses debt and the net exchange loss it's restated for the last quarter. So if you compare for this, this quarter than the previous quarter can you just explain what is the difference between the two sir?

**R. Sathyanarayana:** Last quarter was one, you are looking at the consolidated level or?

**Hardik Verma:** I am looking at the console number.



**R. Sathyanarayana:** Console numbers I think what is the upload in the latest one basically we have an exchange gain of Rs.1.48 crores last quarter versus loss of about Rs.84 lakh in the current quarter.

**Hardik Verma:** Okay, sir what I am looking at it if you just look at the audited results for this quarter for the December quarter what you reported other expenses are around Rs.26 crores while when we have published our unaudited results in the last quarter those other expenses were around Rs.37 crores so the Rs.10 crores.

**R. Sathyanarayana:** The other expenses for the quarter is Rs. 38 crores compared to previous quarter Rs.36 crores.

**Hardik Verma:** Okay, sir but in your current audited results it shows that Rs.26 crores is other expenses.

**R. Sathyanarayana:** I think you should look at the latest one uploaded basically.

**Hardik Verma:** Okay, I will just check that sir thank you. And sir just one more question, sir the EBITDA margins have come to a 5% for the domestic business this quarter so are we seeing more adoption of the cloud software's, cloud solution being sold in the domestic business and how you see the margin sustaining going ahead?

**Srikar Reddy:** What is the question sorry?

**Hardik Verma:** Sir my question is regarding the domestic business the margins have improved around 5% this quarter compared to around 3.5% last quarter so are we seeing more adoption of the software cloud solutions being sold in the domestic business because that would aid your margin profile despite your significant drop in your revenues margins has been flat, EBITDA has been flat.

**Srikar Reddy:** Okay, I got that. As we said last time our focus on cloud, cloud consulting appliance and SI kind of stuff is there but as of today they are still constituted a fairly small percentage of total business I am saying, so that has been a long term secular where you can drive the absolute margins upward. Sometimes at the beginning of the meeting there would be couple of deals which can change the nature where the revenue can remain flat and the margin can go up kind of stuff.

**Hardik Verma:** Okay, so can you explain this kind of 5% margin sustaining going ahead?

**Srikar Reddy:** The margin will go up, so will it be 5% as I said it will depend on the deals we do in the quarter but will it grow up from the 3.5 gradually based on the core improvement

in the business that it will grow kind of stuff, the other is the little thing which sits on top which can vary the margin which specific deal depends that is all I am saying but overall we will see that there is a growth and as I said in the beginning and I have said it many times that there are three reasons why we do the business one is it's absolutely zero capital employed business so the return on capital employed is phenomenal we just need to manage most of the time it's negative working capital we just need to manage the risk and the business. The second is it gives us strategic advantage in terms of alliances with this top global player which we are leveraging to go-to-market and other parts of the market. And then it gives us access to technology much faster than others and given all that our focus is really the gross margin or the business rather than the top line so I think we should continue to see how we are growing our gross margin rather than a percentage of the top line that is the way I would request you to look at this business.

**Hardik Verma:** Sir one last question I have, sir regarding the new deals wins can you give us some color on which verticals are we seeing more deal traction which geographic or services it will be really helpful sir thank you.

**Srikar Reddy:** We are seeing traction in all the geos we are operating on whether it's US, Europe, Middle East Asia and Australia, across the vertical which is travel retail and distribution and ISV or OPD kind of stuff, as I said the services which we are focused on which is Omni-channel commerce, Microsoft dynamics, SAP Hybris mobility we are saying and cloud development on certain platforms this is where we are seeing traction for.

**Moderator:** Thank you. Our next question is from the line of Pritesh Cheddha from Emkay Global. Please go ahead.

**Pritesh Cheddha:** Seeing the balance sheet and the presentation I could not figure out why has been the cash conversion so low this year with lot of incremental cash probably looking to be in the working capital?

**Srikar Reddy:** Cash flow statement, can you give some numbers where are you reading it from?

**Pritesh Cheddha:** If you just see the balance sheet the debtors seems to have increased both on standalone and console and more so in the consolidated so if you could highlight.

- R. Sathyanarayana:** That is because the domestic business is basically the debtors numbers of days is 79. It can vary because of few big deals, subsequently we will receive the money in the next period.
- Pritesh Cheddha:** Sir it seems to be also happening in the IT services business also, seems to be sir is there anything that you want to highlight?
- R. Sathyanarayana:** No, nothing specific as of now.
- Pritesh Cheddha:** Okay. And my second question is on pricing involvement what is your comment and what is our realization as of now?
- Srikar Reddy:** Pricing as we said last time I think based on the services we are offering I think we are seeing good offshore rates in the 24 to 25 kind of dollar average offshore rate kind of stuff and we will continue to see that kind of a pricing as we go forward so we don't see, we have no concerns on pricing in the market.
- Pritesh Cheddha:** And I missed out what kind of employee hiring plan that we have in fiscal '16 and what is the wage growth rate that you foresee?
- Srikar Reddy:** We possibly not mentioned it we did our annual salary increase in last quarter.
- Pritesh Cheddha:** And what is the wage inflation?
- Srikar Reddy:** On an average it would have been about 8%.
- Pritesh Cheddha:** And what is the hiring plan?
- Srikar Reddy:** Hiring plan as I mentioned is based on our visibility for the next 180 days so and we have done with our campus hiring or the years obviously we will have a staggered joining dates for those people so most of that has been done kind of stuff, so it's really based upon a 180 day plan in terms of our pipeline and so we do are close to possible just in time kind of planning system.
- Pritesh Cheddha:** I said for budgeting is it wise to assume at 20 to 25% count addition?
- Srikar Reddy:** As I said we don't give any forward-looking statements, I will leave it to you.
- Moderator:** Thank you. We have the next question from the line of Shweta Seth from Stewart & Mackertich. Please go ahead.

**Shweta Seth:** Sir I may have missed one thing but in your opening remarks you mentioned that you have planned out some strategic geos going forward and inside into Australia is going very last year so can you please throw some more light that what is driving growth there and second thing going forward say in FY16 have you planned something more going to some new geos or something.

**Srikar Reddy:** Yes, as I said strategic deals when I meant strategic deals were more from strategic deal from client not M&A kind of stuff. We did go into Australia about 18 months ago and last year was the first full year of operation and I think today we have about 8 accounts there, which we feel is a great kind of achievement for completely new geography and as I said it's primarily driven through a couple of verticals retail and travel mainly and some very specific services which have been focused on as I said dynamics, hybrids kind of stuff. So that is I think what is seeing and we also had a couple of clients through our acquisition called Rezopia like Queensland Railway in Australia so that is I think what has helped us I think grow in that market, we are looking at some more market and at this stage we are making fairly tentative plan so as we have more clearer plan in terms of our entry in to these markets we will share those with you. At this stage we are exploring one or two newer geography markets which are fairly large in terms of size but where we are completely not present today.

**Shweta Seth:** Okay, sure sir. And sir this would include some investments to be made right so this is the main reason like margins were to remain flattish going forward?

**Srikar Reddy:** Yes, thank you very much for asking I didn't say that, we will make these investment which will have little bit of an impact on our percentage of margins as we invest for growth this year.

**Shweta Seth:** Okay. So sir this investments as well as Euro depreciation going forward so how would it impact as in if you could just quantify in terms of margins?

**Srikar Reddy:** Very difficult because we are seeing an appreciation in the dollar so it got to be a really a foreteller to be able to, my high level guess is possibly the currency may not have too much of an impact on margins, something will go up, something will come down I think it's really our investment which will have an impact on the margin.

**Shweta Seth:** Okay. And sir about your IT refund what would be the amount which is outstanding still now?

- R. Sathyanarayana:** Basically we have got about Rs.40 crores still pending to be received from the department, what will happen is every year the assessment happens we get refund so it will be spread across year.
- Shweta Seth:** Okay, sure sir. And sir last thing about your M&A strategy anything on advance stages right now because sir cash in books is high at around Rs.40 crores.
- Srikar Reddy:** I think we have given some good dividend but.
- Shweta Seth:** Yes sir, but investors would be more happy on that.
- Srikar Reddy:** Yes, sure we are looking at it we are talking to people as I said last time we are focused on source M&A which will strengthen our current offerings in verticals and horizontals, we are going to look at more strong IP-led kind of thing rather than a purely bulk up kind of stuff so it's very difficult to say what is advanced and what is not so advanced after having now done this for a few years but we are in active dialogue.
- Shweta Seth:** Okay, and sir any size in mind as in?
- Srikar Reddy:** No, as said its' really quality size and we will not do anything more than \$20-25 million anyway.
- Shweta Seth:** Okay sure sir. Sir some details on eight clients I have added in this quarter would it be in which vertical and it would be in which geography?
- Srikar Reddy:** Yes, as I said some of the question from somebody else it has been secular across all the geos and the verticals and some of them are marquee name but as I said our previous calls to our strategy is land and expand so we get into a fairly specialized compelling serving line and then it's really dependent on how well we can then scale up that account kind of stuff.
- Moderator:** Thank you. We have the next question from the line of Siddharth Vora from Motilal Oswal Securities. Please go ahead.
- Siddharth Vora:** Sir I had a few doubts regarding our currency realization for this quarter when we said that we have a Rs.3.3 crores impact in margin realization there has to be something on the top line as well will you quantify that?

**R. Sathyanarayana:** No, whatever swing of Rs. 3.3 crores is mainly account of receivables in Sonata Europe Limited about €4 million there was a depreciation of Euro, it's primarily on account of that. This is not on the sales but what we have to receive on our divestment in TUI Infotech the balance about €4 million it's on account of that.

**Siddharth Vora:** So that also gives me my another question, the rupee realization rates are abnormally high for you compared to others in the sector so the way you report them is it the hedge gain of translation that are taken into it and shown or is it..

**R. Sathyanarayana:** No, this basically gives the realization because translation will be separate.

**Siddharth Vora:** Okay, then I will take this offline because the number seems invariably high.

**R. Sathyanarayana:** Yes.

**Siddharth Vora:** Okay. And sir another part of it, I wanted to speak on the client concentration sir, in terms of our client concentration that has gone down from 77 to 72% while I understand our view that we are client centric and we are looking for growth it also gives you that concentration risk where if the client is facing a problem in his own core business there will be a huge impact on you as well, so going forward what is our view in terms of growth coming forward will it be more from the top clients or may be the new accounts which we are adding?

**Srikar Reddy:** No, you are correct. So as I said that the focus is obviously to grow existing customers because that is the greatest in terms of our perception there and all the other kind of stuff and the second is acquire new customer if you see the total for the year is around 20-25. Now it's how can we take some of these client and then grow them and may be you won't see it here because some of these clients can change that means the mix of the top 10 can change that means newer client who have been acquired in the past have come in to the top 10 and somebody else might have got out of the top 10 because they have not grown as much but as I said nobody has dropped out. So I think that you are not able to see that, so I think that is the interesting part it's not that the same top 10 are continuing kind of stuff it's just the top 10 clients are giving so much business.

**Siddharth Vora:** Okay, and sir if related to that will you say that our client exposure in terms of the top ten clients are they doing well in their industry in your view for the next two years?

**Srikar Reddy:** Yes. All our clients are doing well in their businesses.

- Siddharth Vora:** We don't see any possible headwinds coming from there a possibility may be next two to three years.
- Srikar Reddy:** Two to three years will be difficult for this year no.
- Siddharth Vora:** Okay, and sir at any point in time what will be our focus list of clients which we will be looking at may be some number like 40-50 or something?
- Srikar Reddy:** Yes, the total number of clients we will be servicing will be 40-50 and then we will have a pipeline of about another 20-25 at any given time so that would be the universe at any given time of the company.
- Siddharth Vora:** Okay. And sir in terms of our investments in S&M spend we have a joint go-to-market strategy for the various platform implementation so it will be via the ISV is my understanding correct?
- Srikar Reddy:** No, not at all. Our go-to-market strategy is direct along with them not through them.
- Siddharth Vora:** So we do have our own S&M spend which happens which is for implementation.
- Srikar Reddy:** Yes, 100%.
- Siddharth Vora:** Okay, to sustain this current level of growth you think there are accelerated investments required in terms of S&M or...
- Srikar Reddy:** Absolutely needs to be accelerated and as I said that we grew too fast and we didn't have the time to invest in these things for future growth and we are going to spend that this year.
- Siddharth Vora:** Okay, and sir any restructuring that you have planned in terms of your sales approach, maybe in the last one year where you said that in terms of marketing presence which you have increased.
- Srikar Reddy:** Sorry what is your question is, is there a change in our sales approach or the question?
- Siddharth Vora:** Any changes which are you looking to do in terms of your sales strategy and approach for that next phase of growth in terms of increasing your size and scale?
- Srikar Reddy:** I think our sales strategy at a high level is good. It's obviously we need to fine tune and that I think we believe is a continuous process of every element of the whole sales supply chain in terms of from the time and the way we access our client, to the way we

communicate a value proposition, to what we call covert that lead into an interest and interest into opportunity and an opportunity to closure every single aspect of that I feel that we have scope to improve and we are focused on that. At a very high level strategic go-to-market in terms of what verticals, what services they want to go with, how do you want to go with, what kind of events, what kind of partner models, that I think is in place and that will not under grow any fundamental changes it's really I think how well we can executive this and I believe that we have a room for improvement.

**Siddharth Vora:** That is good to hear. In terms of our salary hike which we have taken in this quarter these are already in the number an average rate of 8%.

**Srikar Reddy:** That is right.

**Siddharth Vora:** So if I just add back your Rs.3.3 crores of EBITDA decline which came from currency it gives you more or less a flattish margin for this quarter so it basically says that you were able to absorb the entire salary hike impact which will be roughly around 200 to 250 basis points from the growth you saw in the quarter.

**Srikar Reddy:** You are absolutely right.

**Siddharth Vora:** Sir in terms of our domestic DSOs does it have any bad debt provisioning or are we confident of receiving all of them in the next six months?

**Srikar Reddy:** If you see our track records we have not been doing this today, we have been doing it now for about 30 years, our average annual write-off has never been more than 0.1%. So we know how to manage this business and we are very-very tight controls who we deal with and what are the measures and all. We also have a risk insurance cover for most of our receivable.

**Siddharth Vora:** Okay, so in the sense from what it has moved from the 60 days level to may be.

**Srikar Reddy:** Yes, I think I don't know despite what everybody is saying I think last year was a little bit of a difficult time for Indian economy I think.

**Siddharth Vora:** Okay. But we don't do any bad debt provisioning which would be a doubtful debt over there.

**Srikar Reddy:** No, wherever if it goes beyond a certain time we provide for it and that is already gone through to the bottom line.



**Moderator:** Thank you. Next question is from the line of Gokul Shah from Sumangal Investments. Please go ahead.

**Gokul Shah:** I just want to have an overview of our domestic business what exactly we are doing in domestic business, what type of software packages we are distributing if you can give me a brief color of that.

**Srikar Reddy:** Okay. We represent most of the top companies in the world like Microsoft, Oracle, SAP, IBM, HP, Adobe, Symantec, and so and so forth. And we have been doing oracle and for the last whatever it is now 22-23 years kind of stuff. So we are their one of the primary partners but we don't do cured model like lot of other people we are direct with clients and we are called value added partners we are not distribution partners that means we go and explain these things these clients and sometimes also deployed and do license management and so on and so forth. Now as some of these clients are moving to more towards cloud and other things we are helping them with those kind migrations from on-premise to cloud and so and so forth. We continued to look for new models, new partners who want to access the Indian market and wherever there are newer and more niche players then the fact that our value add to their business is higher than the margins tend to be higher kind of stuff where there are matured business the margins tend to be lower. So that is at a very high level and so we work with these principals in the country to access the market.

**Gokul Shah:** So sir your international IT service and this domestic business they are totally different type of business so any plan to separate this domestic business?

**Srikar Reddy:** While they may be in its nature different businesses they are strategic that we work with these big players worldwide to go-to-market along with them in the other markets for our international services business we work with the same technology provider and what he provides for us is the fact that if we are their largest partner in India it gives us a very-very different status in their corporate headquarters saying that these are our largest partners in India so it gives, our ability to converse and deal with higher level management of these companies is very different for a company of our size so that is what we are leveraging today to go-to-market with. Though the businesses are separate they have got very strong strategic tie-up and synergy between both of them. And as I also said we get access to technology because they tell us that these are the new launchers, there are few things, we train our people and a whole lot of other benefits of these partnerships.

- Gokul Shah:** And what will be the dividend policy what percentage of that profit will be distributed as divided in future if you have divulge.....
- Srikar Reddy:** As I said typically it has been on 40 to 50% and as I said sometimes we see in the short term there may not be too much need for the cash we may decide to do a little bit more.
- Gokul Shah:** And sir you may find it little funny but in your vertical OPD stands for what? Because I am an investor, I am not an analyst.
- Srikar Reddy:** OPD stands for “Outsource Product Development” that means technology companies who have ideas who want their products to be developed by somebody. So that is the service which we deliver.
- Moderator:** Thank you. Next question is from the line of Pinkesh Jain from Way2Wealth. Please go ahead.
- Pinkesh Jain:** Sir may I have the contribution from top 5 clients?
- R. Sathyanarayana:** We publish only top 10.
- Pinkesh Jain:** Okay and my last question is, if you could throw some light on Rezopia’s performance.
- Srikar Reddy:** Rezopia I think we acquired at about six months it was like August-September last year right so the main there has been three focus area – first was the integrated into the company, second was obviously to build on the product to make it more suitable and more robust for the segments it’s operating in and we continue to do that and third was to take care of some of their larger clients in that space and so that is where we are. We possibly added two new clients since we acquired and those would have been in the numbers they must be about \$300 – \$400,000 kind of stuff. And then I think today we have a pipeline of another four or five names but what it has done for us it has given us access to earlier into travel accounts though we may not sell Rezopia that has given us an access to accounts which we would not have got access to earlier because we have a very interesting conversation open up saying we have a platform to run your business which is not many people can say so I think that is what has been exciting about so far. So I don’t see another 12 months before we have a completely robust platform and all because there was no marketing of this product earlier it was a startup, it was just being managed by the founders, we have hired the sales team now, we have hired a person called Konrad Empacher whose 18 hour European office to run the sales out of Europe so we have dedicated some people in other parts so we will see the results update over the next 12 to 18 months starting to show.



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**Moderator:** Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Srikar Reddy for any closing comments. Thank you and over to you sir.

**Srikar Reddy:** I thank you Shyma, than you all very much for joining again and it's always great to see your interest and the interaction in the company, tremendous to talk to all of you and great set of questions. To look forward to the continuous dialogue with you and now that we have Prasanna he will also be available for future conversations. So thank you all again for joining and look forward to seeing you again in the new future.

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