"Sonata Software Limited
Q4 FY2021 Results Conference Call"

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Moderator: Good morning ladies and gentlemen, and welcome to the Sonata Software Limited Q4 FY2021 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy, Managing Director and CEO, Sonata Software Limited. Thank you, and over to you, Sir!

Srikar Reddy: Thank you, Lizann, and good morning, everybody and welcome to the analyst meeting post the announcement of our results for Q4 FY2021 and the financial year ending FY2021 which we did yesterday. The financials are all on the website and hope you all have had a chance to look at it. I have here today with me Mr. P. V. S. N. Raju, the Chief Delivery Officer; Mr. Jagannathan Chakravarthi, the Chief Financial Officer; Mr. Ranganath Puranik, the Chief Growth Officer; Mr. Sujit Mohanty, Head of India Business and Director of SITL; and Mr. Sathyanarayana, VP, and the Head of Finance.

Before I hand over to Jagan to take you through the details of the financials, I thought I will quickly sum up considering the year ending, sum up the year, I think when we were at the same place last year around the same time, obviously things were not very clear of the what the future held out for us and we did make some forward-looking statements of where we were, what we are going to do and what we would hope to get to by Q4, I had actually said that if it is not to our profits of Q4 last year which was I think a consolidated profit of about 54 Crores, I would be very happy, but I am very happy to say that we are actually in the Q4 this year we have had a record high, lifetime high profit after tax of close to 83 Crores. This has been our result. I think of a very focused execution on the various strategies especially led by our Platformation strategy, focus on industries, focus on the alliance, converting our services to Platformation digital services, converting our clients to digital clients, investing in IP, continued to invest in people, continued to invest in talent transformation, a whole lot of I think new initiative, I think which have helped us despite some our large clients who had downsized the business with us not even reached 40% of where they were. So overall I could say me and my team are extremely happy and pleased with where we have reached today as a company both qualitatively and quantitatively and if you see the results in Q4 too I think it has shown secular growth across different business units of our geography verticals, service lines, especially the digital services.

Our contribution to digital services are steadily growing quarter-on-quarter, margins are improving because of greater level of offshoring. In the last quarter, I have said we had also initiated a Comprehensive Compensation Review which had taken place effective January 1, so these results are after factoring in those cost increases.

Our India business continues to do extremely well on all metrics and now we are publishing more metrics on that in terms of number of annuity clients, number of clients with a gross margin of more than certain amount of rupees, number of years they have been with us, and their status in terms of their financial stability and then of course as I have said we have added some new alliances last year, Google and Amazon, we continue see some promise and we hope that they will start reflecting in the numbers in the current year.

We are also looking at broad based Commodities business in India, we had started that in a small way last quarter and we expect that to also show some growth. So overall very happy to see that what we have done over the year has brought us to this stage in terms of performance, stability, and a very robust foundation for the future. So we do expect to continue to see this growth unless there are some blips because of COVID especially in India right now and if things get worse, there may be some short-term impact, very marginal on the supply side but the demand looks extremely robust and then we are continuing to engage both with our current clients and continue to get access to newer clients, I think both look extremely robust as we sit here today and so that is where I would say where we are in terms of the company and what we do see going forward over the rest of the year.

So that is I would say overall qualitative analysis of the performance of the company whole of last year and the current quarter and state we are in and how do we see the future as we go forward. I would also like to mention that the acquisition we had made last year the same time GBW, that has now turned around and we see promise. They have signed some good marquee clients last quarter so we are seeing promise there. Overall, I think we are seeing a very good uptick in our business across all segments. So, I will hand over the microphone to Jagan and he will take you through the detailed financials and after that would be very happy to take any questions you may have. Thank you all again.

Jagannathan C: Thank you, Srikar. Good morning, all. Thanks for joining for this Q4 2021 financial update from our side. I will start with the financial update now.

If you see the consolidated financial performance continuously, we have done quarter-on-quarter. The CQGR growth has been 4.5% in terms of revenue and the EBITDA CQGR is about 4.1% and the PAT has also continuously growing. This is in spite of the impact of the COVID last year. All of you would know that the last year when we are closing the March quarter, we have updated that there will be an impact on our revenue and profitability. As

Mr. Srikar was updating we have done a record profit in this quarter at a consolidated level and a very solid growth in terms of revenue as well as in terms of the cash flows.

Getting into the international business, international business has continued to have very strong revenue growth and very strong EBITDA growth. We have reached this performance, we have CQGR growth of revenue of 2.2% for multiple quarters, last 12 quarters we are talking about continuous growth has been there in spite of the major impact in our international business.

Our EBITDA has been having a CQGR growth of 3.5% and PAT growth of 2.5%. We are a very, very profitably, strong growth company in terms of international business. This quarter, our quarterly dollar revenue has grown 7% quarter-on-quarter. This is the industry leading performance on constant currency of 6.2%, which is also industry leading growth in terms of dollar performance. We have a very, very strong profitability in this quarter, which has been highlighted to you by Mr. Srikar Reddy. Our international business had continued to have a very, very strong pipeline and strong growth. As he said, we are expecting the strong performance to continue in the coming quarters also.

The domestic business has been a really stellar performance from their side in spite of all the COVID impact and in spite of all the uncertainties, they have done a solid growth of revenue of CQGR of 5.7% in the last 12 quarters and EBITDA growth of 6% in the last 12 quarters and PAT CQGR growth 7.3%. There has been a very, very solid performance from their side in spite of all the COVID impact across the businesses.

This one important point to be highlighted is in all the four quarters in this year, this business has turned out to be a positive cash flow and there is no zero investment on working capital from our side in all the four quarters in this year. Very strong cash performance, very strong revenue growth and profitability performance from this business.

Now coming to the financial summary if you see here the international business has a solid growth. This is in terms of rupees. I have covered the dollar growth already. You have EBITDA of 90 Crores in international business, 90.5 Crores and PAT of around 60.5 Crores, compared to last year the same time was only 45 Crores we have solid performance 34% growth in PAT in this quarter year-on-year growth.

Domestic business is having 22.6 Crores compared to 18 Crores last year and last quarter after adjustments of Vivad se Vishwas, it was around 18 Crores, we are still solid performance of more than 25% growth quarter-on-quarter also in domestic business. The consolidated profit is record high of 83 Crores compared to the 62 Crores what we did last year. For the whole year, we have done around 244 Crores of profitability in spite of all the COVID impact. Our revenue had been 4228 Crores consolidated compared to 3743 Crores a solid 13% growth year-on-year.

Coming to the operational performances, our US business has contributed 51%, 54% of last year to 51% current year. The UK has solidly maintained at a 25% contribution and Rest of World is about 24%. The revenue by industry our ISV has continued to be at good performance, of around 33% has been contributed by ISV industry and the travel continues to be at around 10% after the huge impact from the second largest customer. The distribution and manufacturing has been solid performance from last year 4% to 8.5%, retail essential is about 8.5% from 4% and retail nonessential continued to do well this quarter. It has also performed well. Commodity business has contributed around 7% it is at the stable level.

The revenue by competency if you take the various competencies, the services if you see here the dynamics and the digital services are solid. The rest of the business the other service lines have been mentioned here, if you see here, we are continuing to have a solid contribution from Open-Source digital platform services, all the platform services are fully built.

The second has been the data analytics contributing about 12% which has been maintained from the last quarter, compared to last year Q4'20 at 8.4%. Digital and data and analytics have grown more than 50% in this period. The key revenue metrics offshore is the majority revenue, knowing all the COVID impact of, offshore has become 68% and onsite is around 32% for us. The fixed price revenue has been going up from us which is contributing to a larger profitability for us. Our IP-led revenue continues to grow. It is about 34% in this quarter. The other operating metrics we are continuing to grow. Our 1 million more than a million-dollar client from 30; we have added one more client this time. Our 5 million- and 10-million-dollar customer continue to remain same and 25 million dollar this year but we are having a solid pipeline and we were able to add the customers. If you see the total number of active customers it has gone up by 10. 10 clients we have added during this quarter.

Total employee headcount is around 4102 compared to 3997. We are strongly focusing; the vision is mostly coming from delivery. We have also added in the S&M side of it. We have onsite and offshore headcount, onsite is around 375, offshore is around 3727. This is reflected in our revenue share also.

With this my update on the financial are completed, I am handing over for the questions back to you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We have a first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Srikar and Jagan good morning and congrats on an exceptional quarter. Hope the team is doing well? Couple of questions, first up what your conversation with your European travel clients telling you on the demand environment today and especially TUI how much of the 20% would you reckon these managed to claw back and as things TUI with today what is the outlook on their demand and IT spends for year ahead?

Srikar Reddy: Thank you. TUI, they were expecting business to resume to some kind of normalcy by July this summer season, but I think because of continued lockdowns in some of the markets and then non-priority on travel restrictions and with the rules on quarantine and what happens, do you need a vaccine or do you need test and all that, and the cost of the test, who is going to bear. I think are now looking at a more deferred business. I think they are looking at a most later summer kind of thing, maybe September, October; so given that their spend continuous to be on the future right now and we will see only an uptick on the volumes when business comes back because that is when the revenues from running the current systems will bump up. Right now otherwise we are engaged with creating systems and platforms for the future so I guess my feeling is that we could look at Q3, Q4 of this year before we see uptick coming from the running the operations of that business and that is the overall view on that.

Baidik Sarkar: On Microsoft, Srikar you know they have had a very strong year especially on Dynamics and their own outlook going forward continuous to be very strong, but as OPD partner I am not sure if we mirrored that rate of growth. My question really is, is it fair to expect us to mirror that rate of growth going forward and what is your ramp up with Microsoft and OPD vertical next year?

Srikar Reddy: On Microsoft as I said there are two Motions we have; one is ongoing to market with them and the other them providing services to them. So I am assuming your question is aimed at, we go to market right?

Baidik Sarkar: Sure.

Srikar Reddy: We continue to see traction as I said last time on the Dynamics go to market side. Obviously, considering that these are projects-based businesses and they are not annuity businesses so you need to continuously get more projects kind of stuff and then the annuity out of that drops to a not a large sum of the original amount kind of thing. So we continue to see a good traction in the market on the Dynamics side and we engage in different industries, whether it is retail or service industry or agri business, manufacturing distribution and the modernization which I spoke about last time. So we continue to see good traction there and I think our growth is also aligned in the Dynamic side, is aligned to the kind of growth with Microsoft is seeing on the Dynamic side.

Baidik Sarkar: Lastly how should we see your offshore metric progress from here on? To reckon on existing business we might have maxed out or last hope for further offshoring given the environment?

Srikar Reddy: I mentioned it last time too, I am assuming that now that the markets are opening back in the developed countries, I would guess that we should have maxed out but that is like I am just giving a very recent view of what it can look like because in the past it did not matter where the person got, but people are now a little bit more open to people coming, meeting and talking in the western world, I would think that we may have maxed out but that is where I would like to say.

Baidik Sarkar: So Srikar, should that worry us from a margin defense perspective or are we comfortable defending a margin even if that were to come back?

Srikar Reddy: I have been always talking about a margin of whatever 18% there, one or two percentage more if we are doing I mean but baseline margin we are now talking about in the last five to six years and we continue to deliver those margins to about 22% to 23% or whatever kind of thing so I do not see a risk to that.

Baidik Sarkar: Fine Sir. Best wishes.

Moderator: Thank you. We have our next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir it is a followup to the previous one so if I look at OPD segment, now OPD segment is doing very well for us for the last few quarters and you are accelerating, so what kind of outlook do you have there and in this particular segment are you seeing that is like because I am assuming you are in May, so you would have more clarity on the budgets etc., but the spends are likely to increase for the rest of the year or how it should look more like normalization and then you will go back to 3% to 4% kind of a sequential growth rate?

Srikar Reddy: Yes, I think one thing I think we had also done was that reclassified some of the revenues because, I said some of the others were really platform development and we said that that is more like akin to OPD kind of thing. So definitely we would like to continue to see a steady growth in the OPD sector because it is still very heavy on client and so that would not go in the same proportion kind of stuff, so we would continue to see a steady growth, I mean that is what would be more reasonable to expect.

Mohit Jain: What is the quantum of reclassification like did it happen in Q4 or was it happening throughout the year?

Srikar Reddy: It has really happened in Q4, there has been some reclassification of revenues from a purely platform development perspective so that is I think would be one of these things, otherwise there is a fairly steady growth in that market.

Mohit Jain: Sir how much like can you quantify? Could it be like 1 million could it be like 0.5 million?

Srikar Reddy: I can ask my team to give you that.

Mohit Jain: The growth numbers will change depending on how much you are reclassifying from others to ISV and OPD segment?

Srikar Reddy: Yes, we can ask our finance team to share that number with you. Jagan and others can you share that.

Jagannathan C: Yes, around 1.5% reclassification has happened in between Q3 and Q4, Mohit.

Mohit Jain: 1.5% of IT services revenues have been reclassified?

Jagannathan C: Yes, from the other industries to ISV industry.

Mohit Jain: For both third quarter as well as fourth quarter.

Jagannathan C: Both quarters yes.

Mohit Jain: Sir second is on the hiring plan last time we obviously shared our plans for the rest of the year and now that you guys are turning more positive incrementally on demand environment. So from a full year perspective FY2022 what kind of hiring are you looking at and is it going to be like front loaded or will you wait for the demand to actually materialize?

Srikar Reddy: We are looking at front loading. We are right now; I mean net at least we are right now net we are looking at net hiring at least another 300 people in the next couple of months.

Mohit Jain: Sir from a full year perspective because your utilization was running high and there is an industry concern on supply side, so the total number for you is there a possibility for us to bring down utilization and hire little more so that you can…?

Srikar Reddy: That is why I said I am looking at a net of 300.

Mohit Jain: For FY2022.

Srikar Reddy: For the next quarter.

Mohit Jain: Okay so that is why we obviously would be much, much, much bigger.

Srikar Reddy: Yes, that is why I said I am going to do front loading, so we are going to be fairly aggressive in the next few months.

Mohit Jain: Lastly, on your revenue side and dividend side is there a change in payout now that last year obviously we paid out little less thinking that it was a COVID year. So what are your thoughts or reducing M&A will continue to be only tuck in?

Srikar Reddy: M&A, we did one last year, we continue to do M&A.

Mohit Jain: Similar size, because payout is likely to be in the 65%, 70% kind of a range is that a fair assessment Sir.

Srikar Reddy: Correct, yes even I think this year the payout was about at 60% of the consolidated profit. So we will continue to do that. So that is not going to change. We still have a plenty of free cash which is being generated year-on-year and from the past to support our M&A and other investments, so we will continue with the same similar kind of a payout model.

Mohit Jain: Last one on your second largest client. So you said in one of the questions that you expect 4Q to be similar to last year is it what you meant by them is scaling up your dividend?

Srikar Reddy: The revenue uptick will happen when they come back to full business volumes. Right now the work is for investing for the future.

Mohit Jain: So the uptick that we are seeing right now like I am looking at Q3 growth?

Srikar Reddy: Yes, because they got down to zero then they said okay let us invest for the future, let us create platforms which will transform our business and implement new business models for the future, right.

Mohit Jain: Should we expect this Q-o-Q investment into future platforms etc., to continue and you think it will plateau and then see how the revenues will play out.

Srikar Reddy: It will plateau. See the investment in future will plateau. The uptick will come when the business will come back and then the support of the existing operation spend will increase and that is how out uptick will happen.

Mohit Jain: So first half we should expect more or less flattish and then depending on how things pan out they may look at that.

Srikar Reddy: Yes, that would be a very good reasonable expectation.

Mohit Jain: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: Congrats on a good quarter. Sir just on this other income which was grown this quarter so what was the breakup because that has driven the PAT?

Srikar Reddy: I do not know Jagan, Sathya, can you answer that question.

Sathyanarayana: Yes, other income for this quarter 10 Crores to the account of forex. Other thing is the interest income.

Madhu Babu: So the margin adjusted margin in IT services which has declined quarter-on-quarter that was because of the wage hikes?

Jagannathan C: No, there is a small drop in this, this is also because of the little changes in the year end cost, some cost catch up is there but it is a very, very, small minute change and this is also because of the other income.

Madhu Babu: But wage hikes were given right this quarter.

Srikar Reddy: Yes. That is right. Wage hikes were given this quarter, correct.

Madhu Babu: Yes, yes, because if I remove that and see the adjusted EBITDA I think we are almost like 500 BPS drop quarter-on-quarter, and second Sir in terms of the growth outlook for next year, so in terms of the dynamics implementations etc., so I think there is some obviously some travel restrictions still going on and India is facing its own issues. So any disruption because of that which we are seeing on that front dynamics implementation of those kinds of service offerings?

Srikar Reddy: No, not because of the travel restrictions because we live through last year where there were more travel restrictions kind of stuff so that is not, this thing that is not going to be a consideration or a constraint, no.

Madhu Babu: Sir how has been these acquisitions, I think GBW we have done this year so how has been that cost Sir, because initially we had faced some challenges so how is it shaping up now and the other two acquisitions which we have done last year so how are those synergies playing out? Thanks.

Srikar Reddy: That is what I have said that the GBW has started turning around last quarter and will continue to do so while we go forward. They have had some good large marquee clients in the last two quarters. We continue to invest in building the platform and offering newer services in the customer experience space and so on and so forth, so that looks extremely promising. The other two scalable is showing up in our ANZ business so that is doing very well. Sopris by itself had a difficult last year because of the sector they were operating in, but otherwise that sector is now showing more promise, the energy, and utility, professional services sector. So we do think that that should do well this year but they are all like as I said I mean the underlying premise of each of these things continues to be strong in terms of the segment we operate and the value they bring into that segment.

Madhu Babu: Sir I think obviously, last year has been a low base year for us and across the industry so this year I think even large cap for looking at 15% growth so on our base would we be comfortable to see a 22%, 23% kind of dollar term growth is it that we have gunning?

Srikar Reddy: Yes, I mean that is what we are gunning for absolutely.

Madhu Babu: Thanks and all the best and stay safe.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Thank you for the opportunity. Sir as you earlier have mentioned about the investment in sales and marketing especially in the Microsoft channel so what is the update there, like what kind of hiring we have done in and on the sales and marketing and also on the Microsoft channel, now hopefully the Microsoft direct billing plus this thing go to market, now our revenue with Microsoft is around now like 50% of the hiring revenue so what is the growth visibility here especially in the next two years but here we have seen uptick in the last two quarters especially and also related to the opportunity that you earlier mentioned about this in Dynamics Upgradation Program and also if you can talk about the supply related concerns especially in the Microsoft related services. Thanks Sir.

Srikar Reddy: Lot of questions, so let me remember all of them and so the first is on the Microsoft go to market, as I have told somebody earlier on and on that that looks extremely promising in terms of accessing new clients that is the new clients who are buying new dynamics or modernizing current dynamics. As I said our sweet spot currently still look very strong on the modernization that is you do not need to do a past versions and who have to upgrade to the cloud that looks extremely promising and across geographies, industries and so on and so forth and pipeline looks good. We continue to sign good deals in the last quarter and so that looks extremely good from the growth perspective. Obviously, the Microsoft tells you is, that is a different business and we do different things in there IT the port and product development that should from our existing show a steady growth kind of class. With the growth we expect we were really in the go to market business and that is I think and that is looking good. Yes, supply is a challenge but I think we had not done any preparation at the beginning of last year, so we are trying catch up so that is what I was telling somebody that we are going to now preparing in advance and create capacity so while we may have a short-term stress on supply and we are doing a lot of things to bridge that gap but the plan we are making and made to ensure that we create sufficient capacity in advance should be okay I mean at least from Q2, Q3 onwards.

Amit Chandra: Thank you.

Moderator: Thank you. The next question is from the line of Meet Makadia from Mohanlal Investments. Please go ahead.

Meet Makadia: Good morning Srikar Ji. My question is I remember having met you in 2016 AGM and my question, I mean you were suggesting that you want to get into Allianz led business in a very big way and five years down it is playing out. So my question is a very basic one as to what is that unique thing that Sonata brings in, in this Allianz led business apart from being one of the preferred partners for Microsoft. So what is the unique thing about us and what is the entry barrier for others maybe. I wanted to get a sense of this.

Srikar Reddy: Yes, many things one is like we have earned up relationship now about 30 years number one. We have a fairly 360-degree model, that is one of the few partners who have all of that in the geographies selling their product, and then our product development and was aggressively goes to market along with them in that market and if you take specifically the dynamic side, what we have done from 2014, I mean we have started making investments. We did that acquisition in the Dynamic space. We have made three of them. I do not think many Indian companies have done it let me put it that way there may be some international competitors who have done bigger things, but so we went and made those investments in acquiring these Dynamics partners in different geographies mainly in the US and Australia. We invested in creating our own products on Dynamics and we today have the possibly the largest number of products on Dynamics across industries whether it is retail, distribution, commodity trading, franchise selling, revenue accounting for service industries, connected free services and so on and so forth we have proactively known and invested in all these IPs which as you differentiate yourself in the market. We have worked and created this whole very proprietary model for modernization that is moving customers from old versions to new versions. That is what we have invested in. I guess yes it is our investment, it is our commitment, it is foresight we had is going and had been investing before the curve. I think this has created a fair amount to differentiation and uniqueness in the market as compared to a lot of people and we continue to do that. I mean we are now sitting on our laurels and saying that that maybe continue to see what else can we do to keep the edge sharper.

Meet Makadia: So every time I ask a basic question to you I get more insights about Sonata. Thank you that is more than answers my question. Srikar Ji second question is what according to you can derail your growth plans what you have for maybe in the next two, three, four years apart from the COVID waves that we have been having across the globe what else you think can derail your plan? You know like one of the things that comes to my mind as an investor is dearth of talent especially in the digital and the cloud space so can you give some sense of that.

Srikar Reddy: Sumit, you have answered. You asked the question and you have answered it yourself. So it is not dearth part. I think there is more demand for talent of a particular kind. So now everybody has to figure out their own way to address that problem kind of thing. I do not think it is an impairment of a problem. So it is not going to derail anything kind of stuff but obviously one needs to be extremely care about that that is going to be a very fundamental requirement to finally execute even as it one becomes more and more viable, visible and there could be automatic demand because of all that, so we have made our and we have done that now over the last many years because there was no dynamic talent when we said that we will have to go and invest in this business kind of stuff so we have now got a fairly good model of creating our own talent.

Meet Makadia: Fair enough and all the best on the health and the business front to all of you.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Thanks for providing me an opportunity. My question is, every time we all try to figure it out the correlation between the Microsoft growth and your company's growth and there are the two segments in that so is it possible for you to kind of a new breakup of these two segments so they could have been easy for us to understand Sonata further?

Srikar Reddy: Good point. We will get that done in terms of what are the segments we operate in and how are they linked to the Microsoft growth and how are Microsoft growing and what is Microsoft getting from segments. We will share that going forward. That is a good point. We will share that. Otherwise we will share that going forward.

Rajesh Kothari: Sir within the Microsoft business you said go to market has taken this basically service is to Microsoft what will be the current breakup will look like?

Srikar Reddy: The breakup is one has shown up in the ISV business of ours and the rest will show up in the other industry sectors. The total market is not, where a lot of majority is not to ISV. These are to industries whether it is retail, distribution manufacturing, agri business, service industry and so on and so forth so that is where we provide solutions to this.

Rajesh Kothari: The second part which is the one is of curse very high growth and second part is basically the annuity kind of a thing so when you say steady growth is in that segment how much that growth is basically?

Srikar Reddy: Sorry I did not understand the question what is the annuity?

Rajesh Kothari: What is basically go-to market correct where the growth is of course very high as you have already mentioned it is a very promising business and second is which is to Microsoft like a steady growth so when you say a steady growth means is it like what the high teens or is it double digit?

Srikar Reddy: Yes, it will be like not high teens but about 10% to 12%.

Rajesh Kothari: Great fine. Last question from my side you have mentioned about the margins in the earlier question when you said 20 or 22 or something like so this basically what you are looking is that the consolidated margins you are talking about or individual margin they are talking about?

Srikar Reddy: No, not consolidated margin that specific is industry margin. So we had always been saying that between 22 and 24 is where I think we are happy with and then because of various mix changes and there are last year there are some costs which were not there like travel and other things the margins can be a little higher and kind of stuff so what I have been maintaining now, I have been maintaining this now for five or six years because that is how long or maybe longer we have had these kind of margins and have continue to maintain that we are comfortable with this 22% to 24% margins, I mean we will not have statement I am making today have been making it for the last five, six years.

Rajesh Kothari: Yes I understand. So what is your FY2021 margins compared to this 22%, 24%?

Srikar Reddy: What is the FY2021 margin on the services? Jagan can you answer that?

Jagannathan C: Yes Srikar. International business the margin has been about 28.4%.

Rajesh Kothari: Correct, so are you seeing 22%, 24% for international because that is why again I am asking this question.

Jagannathan C: 22%, 24% EBITDA margin is for the international business 22% to 25%.

Rajesh Kothari: But currently we are at 28% am I right so that 22%, 24% that has now moving, am I right so I am little bit confused when you say that the increase?

Srikar Reddy: No we have been taking that this 22% to 24% margin is sustainable is what I have said for the last five, or six years but sometimes it was there in the cost…

Rajesh Kothari: No, see Srikar the last five years is out of move correct we all are looking for the next five years am I right? The orbit of the company whether it has changed.

Jagannathan C: Srikar also told, I am just clarifying that Srikar also told that the offshore is maxed out at present offshore percentage and it will get an order it will get a little bit more normalized in the coming quarters. So that can because our offshore percentage is 68% at present and onsite is 32% that is the maxed-out situation with the western world opening up and more and more the offshore percentage can come down and onsite can increase in the coming days. Is that the margin we are talking about in next five years stable margin of between 22% and 25% that is what we were highlighting? So you have to go back to that as a normalized pre-COVID period it is talking about 22% to 25% consistently we have done for last five years that is what we have. That is in the normal circumstances that is what we are speaking that it will normalize at some point of time back to the pre-COVID stages since the margins will be in this range. At present it is very high because our offshore percentage have grown up from 60% to 68%.

Rajesh Kothari: Basically you are saying in next 12 to 18 months that the situation evolves, we realized what it should marginalize because at least in the near-term you do not see any risk to these margins? See next five years I think at times it is too difficult to predict the margins, right I mean we will cross the bridge as it comes correct, so I think five years back we would have never thought that travel become so big and then you will probably not have that customer because of this lockdown so the situations is still evolving, five years is actually very long-term I am saying since when we are talking about 12, 24 months perspective do you see any risk to these margins?

Jagannathan C:We are very confident even with the new changes coming in to defend the margin what we have spent on a stable mode margin, we are confident of defending that.

Rajesh Kothari: That is all my questions. Thank you Sir. Thank you very much wish you all the best.

Moderator: Thank you. The next question is from the line of Harit Shah from KRChoksey Shares & Securities. Please go ahead.

Harit Shah: Thank you very much for the call. I just wanted to get a sense you had mentioned, I think some time ago that perhaps your onsite share now starts to increase obviously we will had a very, very good run in terms of offshoring in the last many quarters now would it be visible kind of that we make that some sort of pause on that front maybe for the next one or two years given by obviously, from the time that we are existent maybe there might see some sort of starts on onsite and how could you look at the set of order level not necessarily I am asking for quarter-to-quarter perspective but maybe over the next one or two years what is the kind of broader sense we should see on this?

Srikar Reddy: Sorry I did not get the question Harit what are you saying.

Harit Shah: Sir, my essential question was obviously as far as the onsite share is concerned we had a very stellar run-in terms of increasing offshoring in the ITS business right so now going forward is it now you had mentioned that possibly that I think the onsite share might increase going forward, so is that something at a broader level that we panic over in the next couple of years?

Srikar Reddy: Yes, that is right of course as I said that the offshoring also increased because of the COVID because then the customers did not see any difference between a person sitting next to them in the same city or somebody is sitting far away apart from the time zone issue, the physicality issue was missing so to that extent if somebody said hey I cannot send these five people to come and work on your location but they can come and work from here they said that is fine it does not matter for the time being kind of stuff so that is why I said that it should go back to some reasonable level of what it was, because while customers have got used to this same I would say it should settle somewhere in between they might still want a certain percentage of people still need to be in close proximity to them or in their own offices and so on and so forth so that shift will happen but now that they are used to getting certain kinds of work done in a different way it will not be the same percentage.

Harit Shah: That is very helpful. Secondly maybe I am less speaking of this but for this quarter I saw finally and after a very, very longtime that your non-essential retail business has started to see some sort of a growth so what would you attribute this, as to some sort of recovery here or you think that maybe we will go back to volatile performances because that segment obviously been under little bit of stress for the last many quarters now so how would you look at on that.

Srikar Reddy: As the developed markets are opening up more so these sectors are opening up more and we should see a better traction in the nonessential retail as we go forward.

Harit Shah: One last question couple of the data points Sir, so what is the IT attrition in this particular quarter?

Srikar Reddy: Sorry what is the question?

Harit Shah: IT services attrition in this quarter it was about 14% last quarter?

Srikar Reddy: It is about I think 18%..

Harit Shah: 18% to 19% and what was the debtor days for the ITS business do you have that available with you.

Srikar Reddy: I think so. The finance guys can share that. He is asking for debtor days for I guess the services business.

Harit Shah: Yes.

Jagannathan C: DSO is 36 days.

Harit Shah: Okay so the same as the last quarter basically.

Jagannathan C: Yes, I am saying as last quarter for international business, you are right. Domestic business has come down. Domestic business was 57 days last quarter it has come down to 49 days this quarter.

Harit Shah: Okay great. Thanks gentlemen. That is it from my side. I will come back if I have any further questions.

Moderator: Thank you. The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: What is the hedge position and possible hedging over the next two, three quarters if you can give?

Jagannathan C: I will cover that. I am just taking the data, one second. We have covered about 80% to 90% for the last next two quarters and about 60% to 70% for the next other two quarters and about 20% to 30% for the two quarters after that. This is the kind of policy what we have and our average rate looks like for the next two quarters is USD will be $77 plus and quarter two is about $76 plus, $76.5 something like that and for the whole year is about $77 the whole year.

Madhu Babu: So we will had hedge gains in the coming quarters as well if the rupee stays at the current level?

Jagannathan C: Yes.

Madhu Babu: Sir one more thing on the wage hike, I think some of the mid caps are giving two consecutive wage hikes to stem the attrition like L&T Infotech has given in January and again in April they announced wage hikes even large caps are giving the second wage hike in a span of six months so for us how do you see that wage cycle and how are we supposed to handle that margin level.

Srikar Reddy: See we did a very large wage hike, I think almost on an average of I think 11% or 12%, normally it is about 6% kind of stuff. So I think we combined into one and we will watch it closely. I think internally we have now a very dynamic compensation review mechanism so we are not very large. So internally we have said that we will continue to review this on a monthly basis and we will get action as and when needed so that is where we are currently.

Madhu Babu: Thanks and all the best.

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

Devang Bhatt: Thank you for the opportunity. Sir in the previous question you answered that you are aspiring to achieve 22%, 23% growth in FY2022 so what would be the growth verticals and what in terms of geography if you can help us and did you say that your sustainable growth is 10% to 12%?

Srikar Reddy: Somebody said is there an aspiration to grow? I said yes that is what we are aspiring kind of stuff. The other question was on a particular client when I said it will grow steadily what does that mean? For that I mentioned was 10% to 12%, two different answers.

Devang Bhatt: Sir what would be key growth driver in terms of vertical or geography going forward for you and what would be since your domestic business margins have been volatile what would be your sustainable margins for them?

Srikar Reddy: See the domestic business as we said we look at gross margins and on absolute sense not as a percentage of margins the percentage of margins can swing violently because of the size of the deal. When we can have extremely large deal and the margins there are not very large so we do not manage the business on absolute margins. We manage the business on gross margin. So I have said it in many other calls, so we will continue to show extremely steady growth in that business from an absolute margin perspective and then slowly controlling that how much of capital we put into that business and that we have been managing extremely well and so that will do very well going forward. Now the sectoral growth I think our plan is we have and our visibility is that we are investing all the markets we operate in, we are investing on the verticals we are operating in and we are investing on the horizontal we are operating in. The expectation is to see a very secular growth across all these segments. Now because of effectiveness of one over the other if it gives very little different results, we will take that kind of stuff but our strategy and the opportunity is that to go in each of the verticals geographies and technology services we operate in and we are making all the right investments across the board.

Devang Bhatt: Thank you Sir.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: Thank you for the opportunity. Congrats on a great quarter. Just alluding to some of the references you made that because of the work from home environment offshoring have increased and you also mentioned that post the pandemic there could be a normalization of the same. Could you just highlight from a service's standpoint which services would have seen a higher offshoring during the pandemic and maybe they could go back to more on onsite nature as the pandemic closes? Thank you.

Srikar Reddy: I think one big service which I have seen that is it the dynamic implementation services typically in that customers would normally expect a certain percentage of the resources to be near them and that is in mind where they work kind of stuff because of this that ratio has changed so we will see that may not be shifting back to the same order which it was but we will definitely see a more upward shift in that particular service line.

Abhishek Shindadkar: Thank you for taking my question and best wishes for 2022.

Moderator: Thank you. The next question is from the line of Aman Morya from AlfAccurate Advisors. Please go ahead.

Aman Morya: Thank you for the opportunity. Sir my question is on the two segments; if I see the modern validation in development engineering services segment and others ERP and other services consistently there has been a degrowth so wanted to understand when we can see the turnaround in these three verticals?

Srikar Reddy: Other ERP services that is not strategic for us that is like Oracle and SAP and other things, so it is not something we are going aggressively and with more clients, so that is very difficult. So that is not our strategic area and it is almost by design that is going down. Model validation and verification is what was called earlier testing and there is increase in that and getting replaced by more like DevOps kind of stuff so that will take some time to pickup because I do not think we will go back to having the old kind of testing services which were there. So it is almost the service itself was going down.

Aman Morya: Secondly Sir in terms of the growth vertical, if I look the Open Source Digital Platform, Microsoft Dynamics and the Data Analytics so primarily on the Microsoft Dynamics the growth which is happening in the Dynamic space is it like now going to get visible so last quarter 6% growth this quarter 11% growth, so should we expect this kind of momentum to continue from here on because as you indicated that normally there is a lag effect between our growth and the Dynamic growth?

Srikar Reddy: Other way round, their growth and our growth.

Aman Morya: So should we expect this trend to continue now?

Srikar Reddy: Yes that is a big focus area for us and we see the traction very strong there and whether it is the 11% or 7% but definitely we could look at our 6% to 8% growth in that sector.

Aman Morya: Secondly this Open-Source Digital Platform will again be the momentum vertical for us right because the shift is happening from testing to this?

Srikar Reddy: Yes that should be the other one and then see Microsoft Digital Services which is the Microsoft Cloud and so on and so forth, the momentum is there.

Aman Morya: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now had the conference over to Mr. Srikar Reddy for his closing comments.

Srikar Reddy: Thank you Lizann and thank you everybody for joining the call and a very interesting discussion. All of you had wished as I think I am also hoping and wishing all of you are well and your families are well and everybody is staying safe. We look forward to meeting you in the next call, but in the meanwhile pleas take care of yourselves. Thank you all.

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