



# “Sonata Software Limited Third Quarter Results Update Conference Call”

**February 06, 2017**



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*Sonata Software Limited  
February 06, 2017*

**Moderator:** Ladies and gentlemen, Good day and Welcome to the Sonata Software Limited Third Quarter 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. In case you need assistance during the conference, please signal an operator by pressing "\*" 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, sir!

**Srikar Reddy:** Thank you, Aman and good morning everybody and welcome to the Analyst Call post the announcement of our Q3 results for FY 2017 which we did on Friday. I have here with me Prasanna Oke – who is our CFO, Sathyanarayana, who Heads Finance Accounts; and Kundan who is the Company Secretary and Omprakash who Heads our Digital and Vertical and Strategy.

We have uploaded the investor presentations and shared the results with all of you post the announcement of the results they are all on the website. I will briefly take you all through the qualitative and some of the quantitative highlights for the quarter.

The last quarter we saw on the international services side a marginal growth of about 3%-3.5% growth in terms of top-line after we adjusted what I spoke to you last time as an SI revenue of about \$1 million - \$1.2 million which were there last quarter, so that additional revenue was not there this quarter. So, after adjusting for that we had about 3% to 3.5% growth in top-line. The interesting part is also we have seen last quarter that our mix from onsite and offshore has changed. So, we have moved our revenues to about 60% offshore and 40% onsite, that has led to better margins in the overall business.

I also spoke about last time that we will turn around the I.B.I.S. business which we had acquired where we have started the restructuring of the business to break even last quarter and we are pleased to announce at an EBITDA level we are now breakeven on I.B.I.S.

Focus continues to be as we call IP led go-to-market. We did mention last time that, we continue to see traction there in terms of developing both our existing clients and access to new clients apart from working from our strategic partners two of them worldwide and where we have said that our IP is making them strategic in certain key verticals like retail distribution and travel. So, we are seeing more joint go-to-market initiatives along with both these strategic partners globally in each of the select verticals and which is what I had mentioned last time.

We continue to hire new talent. We have just hired a new head of Europe called Tridip Saha. Tridip Saha use to be the Head of Sales for CSC, Computer Sciences Corporation in London and before that was the Head of Europe New Sigma and then Mindtree. He has come on board about a month back. So, we continue to add new challenge into the company to drive growth

going forward. So, this is a high level quantitative analysis and qualitative analysis of the quarter for which we had announced our results last Friday.

I will hand it over to Prasanna to take you through the quantitative aspect of the financial numbers and then we will be happy to answer call

**Prasanna Oke:**

Srikar thank you, and a good afternoon to everyone. We will look at some of the financial numbers. As mentioned, these are already uploaded on Friday immediately after the board meeting including the Investor deck, you should be having the numbers.

In short when we look at our business on a consolidated basis the revenue stood about Rs. 612.6 crores with a sequentially growth of about 17%. EBITDA stood at Rs. 62.2 crores, with a sequential growth of 5%; and PAT stood Rs. 38.7 crores, a sequential growth of 2%.

Looking at the break-up of two key parts of the business, the focus was on the international IT services business. Revenue stood at Rs. 206.5 crores. As mentioned, if we exclude the one-time on Q2 we have sequential growth of 3.5%. The revenues from the digital component stood at 31% which is what we have been giving in the last few quarters. PAT stood Rs. 30.5 crores, a sequential growth of 3%.

We added three new customers during this quarter two of them came in from the U.S., one from Europe, overall across the year we added 15 new clients.

Domestic products and services, another key part of the business, revenue stood at Rs. 416 crores, quarter-on-quarter growth of 31%. They contribute about 66% of our consolidated revenues. EBITDA stood at Rs. 14.9 crores, quarter on quarter growth of 5%.

These were the numbers and we will take questions after this. Thank you.

Aman, back to you.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Harit Shah from Reliance Securities. Please go ahead.

**Harit Shah:**

I think, I may have missed the initial remarks that you had made, I may have logged on a little bit late. Could you please specify this one time in the IT services business that you had mentioned in the second quarter exactly, what was that regarding?

**Srikar Reddy:**

Okay, sure. We have said that not one time but it could happen, we have this SI which is system integration revenues where we supply sometimes the hardware of the software needed for the business at a very low margin of 6% to 7%. So, in the Q2 we had additional one of about \$1 million \$1.2 million in Q2 which we do not have this quarter. So, while it affects the

top-line, it does not really affect the margin of the business. But I just wanted to ensure that and we have told that last time also that we will continue to share this information transparent.

**Harit Shah:** Sure. And so from the as far as the organic growth is concerned is this Q4 looking a little bit better then may be third quarter how is that panning out going forward and at this point how would you comment about the IT budgets for the year given the developments especially in the United States and Brexit and such other major disruptive events. So, if you can give some color on that that would be quite helpful. Thanks.

**Srikar Reddy:** Sorry, I did not get your question. So, you are saying that there was an organic growth of 3%-3.5% this quarter that is correct. I did not understand the second part.

**Harit Shah:** So my question is basically how fourth quarter panning out so far based on your initial indications and more importantly how are the IT budgets looking for this year giving the disruptive events globally such like Brexit and U.S. President elections so some sort of color on that would be hopeful that is essentially what I was trying to ask.

**Srikar Reddy:** Okay. I mentioned last time, at least in our opportunity space the way we are operating, opportunity is not an issue, we continue to see opportunity, and we see a healthy growth in both opportunity pipeline and which is what I had mentioned last time. So, I think at a high level we do not see the impact and the Presidential election I mean expected the American economy will actually grow so, which is actually good. But yes, there are other issues of statutory and regulatory issues we have received what happens to that. And Brexit also has led to actually a growth in the UK economy and they are growing a little more than, faster than the rest of the continental Europe. So, we are not seen an impact on the local economy although it has impacted the FOREX and that is already now factored into our top-line numbers which we are forecasting.

**Harit Shah:** Sure. And just some understanding about what is happening in your travel vertical for this quarter obviously there was almost a 10% sequential decline and you know that is of course, the a main focus area for you specifically with Rezopia. So, was it that the SI project was in this vertical is that the only reasons or is there something else that we should understand about this?

**Srikar Reddy:** No, I think, one of the main has been Brexit affect, our large travel lines is based out of UK and that revenue has shown up in this quarters drop in top-line in the travel vertical mainly. And as I mentioned, there has been some shift from onsite model to an offshore model and that has led to some decrease in the absolute top-line. While our travel vertical growth is not purely based on Rezopia. Rezopia is one of our offering for the travel vertical, otherwise we work with SAP Hybris as a partner for the travel vertical. So, these are the two fundamentally primary offering apart from any standard offerings which are there in terms of digital transformation and things like that. So, as I said across the sector we see opportunities whether it is travel or retail or ISV or distribution. We do not see a problem with that.

- Harit Shah:** Okay, sir. So, any update as far as the situation of this client is there any further possibility of may be cut backs or we are back on track out here?
- Srikar Reddy:** This is not a cut back I said, it is a currency drop. Currency drop not a cut back, there is no cut back.
- Harit Shah:** Okay. So, just to clarify again, sorry for interrupting but you are saying this is more a factor of the GBP depreciation.
- Srikar Reddy:** That is right to dollar and yes, correct.
- Harit Shah:** Okay. So, not necessarily a volume decline is what you are saying?
- Srikar Reddy:** No, it has been a shift not a volume decline, no decline in volume, it is a shift from onsite to offshore and currency drop.
- Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir, retail has been showing strong growth over last four quarters. I think, could you explain on more what is driving the growth on the retail vertical?
- Srikar Reddy:** I think so, I did mention last time but we have now launched this product called Brick & Click which is an omni-channel, e-Commerce platform and we had then started marketing around it, we have done some events in New York, London and in the Middle East and working very closely with our partner along with their retail go-to-market. So, we have seen that coming to let us say yielding results because they are fairly differentiated omni-channel, e-Commerce platform so, that is what is driving our retail growth. It will albeit on a smaller base, our base was not high in the retail vertical.
- Madhu Babu:** Yes, but now it is almost coming to 27% and is it even the Hybris, Dynamics was gaining good traction, the retails.
- Srikar Reddy:** That is what I am saying, our IP is on Dynamics it is called Brick & Click Dynamics Retail.
- Madhu Babu:** Okay. So, what is your TCV of this kind of deal on the Brick & Click.
- Srikar Reddy:** The total deal size could be anything between \$1.5 million to about \$3 million.
- Madhu Babu:** Okay, fine. And second on the H1B what is your local employee risk because that is one hot thing in the sector now. And how are we fared to handle the situation?
- Srikar Reddy:** There are three or four issues, right one is they need to build, they need to go through their own process and what happens we have to see first. Assuming whatever is there in bill will

happen whenever it happens then there are two implications in terms of clients and people. So, we are starting the process and we do not have, we have only 60 people. So, that is our problem size.

**Madhu Babu:** Okay. You have only 60?

**Srikar Reddy:** On H1 yes.

**Madhu Babu:** H1, okay.

**Srikar Reddy:** Because our acquisitions locally, we have a lot of local people.

**Madhu Babu:** Okay. So, you are onsite and visa dependency is not an issue.

**Srikar Reddy:** Although for our size there will be some impact so, we have to figure out what to do but it is a manageable thing where we can go and talk to the individual client and individual employee rather than making a circular kind of stuff and deal with it. We can deal with it very quickly.

**Madhu Babu:** Okay, sir. And on the Halosys platform it is one that patent I mean we have announced it during the quarter. Could you talk about what is the monetary opportunity from that and...

**Srikar Reddy:** Yes, I think Prasanna I think went onto our call after that there is no monetary or financial benefit it already was there a feature of the product, we have just applied for a patent and got a patent for it. Overall it is still the Halosys platform only it is not the patent is monetizable kind of stuff. It is an additional feature which was part of the product when we bought the product where the patent was pending and we got the patent kind of thing. So, the overall monetization continues to be the monetization of the Halosys platform which we bought. It is not the value of the platform has increased because of this patent.

**Madhu Babu:** Okay, fine. And just last two questions on the top ten accounts how are they fairing for this year? I mean how is the outlook in your top 10 accounts? Any signs of winning share or any signs of losing on vendor consolidation

**Srikar Reddy:** Yes, I mean at least on the data they are more or less where we are in terms of we have seen actually relatively more growth in the top ten account about from 67% I guess which was blip last year, last quarter, otherwise we at the 70% level I mean as an overall company kind of thing.

**Madhu Babu:** I am asking on the outlook for next year I mean on the top ten accounts how is the outlook?

**Srikar Reddy:** No, we do not give very absolute quantitative forecast but outlook looks good.

**Moderator:** Thank you. We have the next question from the line of Rahul Jain from Systematix Shares. Please go ahead.

**Rahul Jain:** Just try to understand the profitability roadmap for us, if I just see the slide 29 for the domestic product and services it shows good gain on the revenue front. But PAT or EBITDA are similar as it was five quarters back. Very similar things I can say in the IT services international as well. So, how you explain this as well as how you see this moving forward?

**Srikar Reddy:** Okay. I think on the domestic side we have said many times that we do not measure top-line but we measure the absolute margin gross margin kind of stuff and not top-line. So, do not look at the top-line just look at the gross margin. So, having said that, I think there are two factors there has been higher interest cost component in the domestic business because of certain factors in the Indian market and there was a certain increase in the absolute operating cost based on some investments kind of stuff. So, that eaten up some of the margins in the domestic business, the same is in terms of the international business. As I mentioned while the gross margin has increased some of it got eaten up by the increase in compensation apart from the investments we have made in marketing and sales and in IP development as taken some of the margins out and if you include the FOREX into the whole thing they have a borrowing which we made for the acquisition of I.B.I.S. so the FOREX loss and the interest cost of that has affected the PAT margins of the international services business. So, that is a very high level summary while absolute gross margins in the business have gone up some of it got consumed by certain increases and compensation, some by some very conscious investment and some by the borrowing cost.

**Rahul Jain:** Okay. So, what is the revenue size of this acquired entity and what is the debt we have taken?

**Srikar Reddy:** Okay. So, you are absolutely new to the call. There is company called I.B.I.S. we bought last October for about \$9 million and I think we have borrowed \$8.6 million.

**Rahul Jain:** This is the acquisition cost you said \$9 million.

**Srikar Reddy:** Yes.

**Rahul Jain:** And I was asking revenue of this business.

**Srikar Reddy:** The revenue is currently now doing at about \$1.7 million a quarter, so it is about \$6.87 million run rate and that is what I mentioned at the beginning saying that was a negative EBITDA and now that has turned around this quarter which is what we have said. So, it is now EBITDA neutral this quarter.

**Rahul Jain:** Okay. So, this company has added \$1.7 million to the quarterly run rate and this was consolidated since which quarter?

**Srikar Reddy:** Since Q3 of last year.

**Rahul Jain:** Q3 of last year, it is fourth quarter or fifth quarter for that?

- Srikar Reddy:** That is right.
- Rahul Jain:** Okay. And you have been talking some FOREX has also affected. Slide #30 says that your GBP realization has been same as 105 so...
- Srikar Reddy:** No, That is the hedging, so that is what we hedged but this is a borrowing where it is not what we are realizing, it is when we borrow and dollar drop we have to book a loss.
- Sathyanarayan R:** Yes, it is a restatement in the book basically.
- Rahul Jain:** Yes. But if I have to go by this slide, have we realized all the GBP revenues at Rs.105 in the current quarter as well?
- Sathyanarayana R:** Yes, the forward cover whatever we have done we have realized at this rate.
- Rahul Jain:** Okay. And how our GBP would be pegged now on the portfolio hedges that we may have on GBP?
- Sathyanarayana R:** What we do is rolling 12 months cover in terms of forward contract. Current rate of forward contracts impact rates have come down in terms of the rate what we have covered. So, we have average rate of Rs.95 approx.
- Rahul Jain:** So, may be is it right way to interpret that next 6 months to 12 months, we would see a further rupee reported number to be weak on the revenue which are GBP denominated for this?
- Prasanna Oke:** So, Rahul this is Prasanna here. See, if you really look at it these are the forward covers that we are taking for the receivables. If you look on the top-line on quarter-on-quarter compared to last quarter we had about GBP 350k to GBP 400k more impact on the top-line. That has already factored in. So, if there is a further drop in the pound then obviously, that could come what we are saying that has already been factored in at this point of time.
- Moderator:** Thank you. We have the next question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.
- Kaustav Bubna:** I was just wondering about the Halosys platform how much revenue does that make out of your IITS?
- Srikar Reddy:** There are two ways we show it, one is all the revenues are now booked to the main entity and to the acquired entity. So, the derived revenues from that platform this year would be about \$2.5 million that is not just the license fee but the license plus services.
- Kaustav Bubna:** So, this would be for last year you were saying?
- Srikar Reddy:** No, this year.



- Kaustav Bubna:** For this year, okay. So, I just wanted to know where we are on monetization on this platform and what efforts are we taking.
- Srikar Reddy:** This is all, I have said that this is all like a three years to five years, what it meant was that positions our self as an enterprise mobility partner. We are not licensing this as an IP to the mass market this it is just driving our own services growth that is what we call and IP led services growth. So, the whole thing is how can we differentiate ourselves to client and get client. So, right now the model is can it get us over the next three years to five years, five client to six client which we would have otherwise have not got and will those client give us \$20 million of business. So, that is the way we have done this. We are not absolutely monetizing the IP to a completely licensing model, which has not factored into any of the growth plans which we are talking about.
- Kaustav Bubna:** Okay. Just wanted to talk about your quarter four because I mean we have seen this let us say in the last one year or so, we have seen your domestic product and service business is showing spurts of growth not every quarter but it is lumpy as I would say and just wanted to know, so, going into quarter four since you make less proportion of your revenues from IITS we should obviously expect a de-growth in revenues quarter-on-quarter because of the product business being lumpy And how would we look at EBITDA going forward into quarter four and because it has been stagnant nine months compared to 2016 to 2015, so what are the levers to improve margins apart from I.B.I.S. which is small amount of total revenues from IITS so, what are the levers to improve EBITDA margins in FY 2016 or FY 2017 in the IITS business
- Srikar Reddy:** What is IITS business? International IT services not the domestic products and services.
- Kaustav Bubna:** No, I am specific to IITS to International IT services.
- Srikar Reddy:** Yes, IITS as I have said the main lever for quarter is revenue growth.
- Kaustav Bubna:** But I mean we saw revenue growing at 18% and EBITDA de-growing 1% so, how does this change moving forward?
- Srikar Reddy:** Correct, when we told what are all the underlying theme by why there was a growth in revenue there is a drop in the absolute margin kind of stuff. So, those costs are now factored in and any further revenue growth which will lead to EBITDA growth.
- Kaustav Bubna:** Okay. Got it,
- Moderator:** Thank you. We have the next question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.
- Rohit Balakrishnan:** For this quarter, can you share what is your IP led revenue?

- Srikar Reddy:** IP led revenues would be about Rs. 25 crores.
- Rohit Balakrishnan:** And what was it last quarter if you can share?
- Srikar Reddy:** I think Rs. Rs.23 crores or Rs. 24 crores.
- Rohit Balakrishnan:** Okay. And I think few quarters back, five quarters back you had mentioned the metric also tracked to you would be the million dollar clients. So, if I look at the presentation, so that has been flat for five quarters, six quarters now. So, just want to understand what is the thought process and I mean, if you can share some thoughts around how can we scale up that from the current 21 which has been there for last four quarters?
- Srikar Reddy:** So, I did mention that end of second-half we will see may be two more added to this list so, please wait.
- Rohit Balakrishnan:** Sure. If we take a three year or four year view or stated objective was going from \$100 million in the IT services we go through around \$200 million. So, that comes to be around annualized 18% growth. So, if I annualize that, if I just try to annualize that growth over FY 2017 over FY 2016 so, we should come to close to around \$127 million/ \$128 million kind of numbers which would make Q4 a very unrealistic kind of 20% kind of growth over Q3. So, just want to understand I mean how taking that long-term view of \$200 million you had three quarters or four quarters of tepid growth if you exclude the last quarter. Just want to understand does that long-term story still remain or are we seeing some sort of softness in that?
- Srikar Reddy:** The long-term story still will remain as I said, the strategy and the market opportunity for the strategy the long-term story still remains. And I think I would leave it at that, yes.
- Rohit Balakrishnan:** So, I mean if I can just may be persist on that question in terms of Q4 and may be three or four more quarters again going forward what kind of growth should one be looking at because if we do not get that number in a couple of quarters then our overall growth would then become higher because we have lagged for two quarters, three quarters now. So, just want to understand that.
- Srikar Reddy:** No, I agree with you, and as we said last time, I think we have to look between this 4% to 6% growth quarter-on-quarter on top-line.
- Rohit Balakrishnan:** So, that still remains.
- Srikar Reddy:** That remains, yes.
- Rohit Balakrishnan:** Got it. And sir, just one question, I think last participant asked for EBITDA, I think if one adjust for your FOREX and other income on your IT services, I think you have seen some margin expansion.

- Srikar Reddy:** Correct.
- Rohit Balakrishnan:** So, do you see further scope there?
- Srikar Reddy:** No, I mean the only scope is if more revenue move offshore but let us not factor that in. Otherwise it is purely revenue growth.
- Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir, the key on the digital side which is 31%, I mean currently how have the deal sizes increase to about last two years and whether we are able to generate good amount of downstream revenues from that? That is question number one. And second we had senior recruits already over the last three quarters. So, how have we seen the deal generation from their side and how is the momentum there?
- Srikar Reddy:** Okay. Let me answer the second question first. I think typically in my general estimate now this the experience is that about 12 months is what it takes for a new senior to start making an impact on the organization. So, while qualitatively there is a lot of improvement but yes, to actually start seeing numbers I think may be one quarter or two more quarters. But overall, I would say that is working well in terms of the senior hire across the board. Now, two questions you had I think one is the digital itself growth, I will ask Prasanna to answer that question in terms of what is the growth there and then we will take on the second question in terms of the downstream revenue.
- Prasanna Oke:** Hey, Madhu, Prasanna here. So, what we have been seeing, we started about four quarters back and that is where we were measuring our component of digital revenues, we were about 25% currently reached fact about 31%. So, quarter-on-quarter as we are getting these deals the component of it is there in those new deals and that is the reason why you are seeing it move up from 25% to 31%, that is the growth that we have been seeing obviously every deal has its component of digital revenues we talked about in the analytics side, in mobility side, including in some of our regular business where we work with our platforms, right even on the testing side etc. So, that is what we keep on measuring and that is why we did not see the growth. And again, as you get into this kind of a digital deal, obviously you have got into the client and there are various IP led services that we can offer which fulfill the digital component it. So, yes, this is an objective of us as we get into any client to expand it and then a lot more comes on the digital side then normal legacy systems.
- Madhu Babu:** Okay. Under downstream revenues?
- Srikar Reddy:** The downstream revenues in terms of as we see our stickiness to the client is there what is the new business we are going to get as I said obviously part of our offerings are IP led and so therefore, we do see that there is bound to be growth in that. Now, we will have to see as we go

in the next quarters as to how we increase that but the expectation and efforts are to increase that.

**Moderator:** Thank you. We have the next question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

**Rohit Balakrishnan:** Sorry, coming back on the same question on quarterly growth and our dollar revenue growth. So, you mentioned that this quarter we grew by 3.5%. If you take out the one-time, right?

**Srikar Reddy:** One-time and the Brexit effect, yes.

**Rohit Balakrishnan:** Okay. So, one-time was how much last quarter?

**Srikar Reddy:** The additional was about \$1 million-\$1.2 million.

**Rohit Balakrishnan:** Okay. So, essentially then last quarter the growth that we saw was actually lower, right?

**Srikar Reddy:** No, we did talk, right because we said constant currency we grew to 6%-7% that is what we have said last quarter.

**Rohit Balakrishnan:** Yes, correct. Okay, so there was again the impact of...

**Srikar Reddy:** Correct.

**Rohit Balakrishnan:** Okay. So, sir, actually FY 2016 we did about \$108 million, right and if you just annualize the broad numbers upwards of about \$127 million. So that gives us around \$36 million in Q4 which is pretty steep number given what we have seen in the last seven quarters, eight quarters, ten quarters.

**Srikar Reddy:** Correct. But we are not talking about that, right we are saying 7% to 6% quarter-on-quarter.

**Rohit Balakrishnan:** Are we looking at some sort of strong growth in the next few quarters because you are still maintaining that guidance is what I am trying to say. Because this year we have been 4%, 2%, 7%, minus 3, I am talking about last four-five quarters, I am not talking about constant currency here, I am talking about the numbers that are reported in terms of absolute dollar numbers.

**Srikar Reddy:** Right.

**Rohit Balakrishnan:** So, last quarter we grew 7% and the quarter before that 2% then 4% and then 5%. Obviously, we helped with the acquisition here but even if you exclude that the growth has been around that 2% to 5% kind of numbers in the broad range. So, if one were to then take that number every quarter now with deviations around this range then that \$1 million would get pushed by a few quarters, is that correct or you assuming...

- Srikar Reddy:** That is correct, absolutely, correct.
- Moderator:** Thank you. We have the next question from the line of Arjun Goel from Motilal Oswal Securities Limited. Please go ahead.
- Arjun Goel:** Sir, I just wanted a clarification on the IT services business. Sir, just correct me if I am wrong, I believe the profit after-tax after the subsidiaries based out of the U.S. and Europe etc., the loss in these segments has widen, right in this quarter?
- Srikar Reddy:** Yes.
- Arjun Goel:** All right, so going ahead I mean is there a strategy to turn these around independently or will they continue to work sort of via Sonata Software Limited the standalone entity?
- Srikar Reddy:** No, the strategy for them to work to Sonata Software. So, that is the plan because independently they becoming the contracting entities, they being small will have some impact with larger client's kind of stuff. While you also may want to give it a feel of a startup and continue to run it like that and drive that business but any kind of large opportunity we will drive through Sonata and that is how we will showcase this kind of stuff. So, look at the whole thing only.
- Arjun Goel:** So, we should look at it only from the consolidated point?
- Srikar Reddy:** Absolutely, individually running each of them while it can be a start-up which we are trying to run it like that but when you are doing the contract then they would like to deal with the larger entity.
- Moderator:** Thank you. We have the next question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.
- Kaustav Bubna:** You were talking about 4% to 6% quarter-on-quarter growth in the international IT services business. Just wanted to know since there is lumpiness in the product business, how much de-growth I mean what level should we see in quarter four, should we see similar to quarter two and quarter one I mean how would you compare your product business traction going into quarter four compared to this quarter.
- Srikar Reddy:** I am saying the product business please only look at the margin and not the top-line is what I have been saying because the top-line is a function of certain large deals which get signed and sometimes they get signed in lower than the average margin kind of thing. We measure the business by absolute margin and not by the top-line and that is what I have been saying so, very difficult to forecast revenues but easier for us to manage margins.

**Kaustav Bubna:** So, if we talk about margin you expect it to be around in improvement from here on or same levels?

**Srikar Reddy:** Around the same levels for next quarter I guess maybe there will be marginal growth in the absolute margin. It is not percentage margin it is absolute margin you just pointed.

**Kaustav Bubna:** And since your concentration now is on I am assuming in FY 2018 as to improve operating performance should we be fairly confident to see return on equity going back about 30%?

**Prasanna Oke:** Yes, if you look at absolute margins going up that we wanted our EBITDA percentage being lower 20 as we invest. To talk about as we keep on increasing the revenues all things remaining the same you can expect a little bit of percentage increase, obviously it will have a direct impact on that.

**Moderator:** Thank you. We have the next question from the line of Prakash Buva, he is an Individual Investor. Please go ahead.

**Prakash Buva:** I want to understand, how the IT industry is growing in the sectors that we are, a lot of saturation we are seeing for the last one year or two years and in the context of Donald Trump's policy around that. How do you see the man power impact in terms of attrition rate, in terms of costing, what thought or strategically how we are prepared for it? And I think our marketing should give us the result now because we are almost stagnating for the last five quarters, six quarters, so just give the vision for that. We do not want any commitment but please give us some vision for that. How strong is Sonata internally to face that? Thank you.

**Srikar Reddy:** One is I think we answered to the Donald Trump question earlier on the call about saying that we do not have that big an exposure to the number of H1 visas kind of stuff from the visa perspective. As we have said in the past I think, we compare ourselves relatively to companies in the same kind of size or verticals I think we have done I would say relatively better than a lot of companies. So, that is coming from our strategy and differentiated strategy and we hope that continues to be that lever for us to differentiate ourselves and grow faster than the relative company. I think end of the day comparative analysis of most of the companies in this space also would be good to see how our strategy is panning out.

**Prakash Buva:** How is growth in our sectors in future our particularly four -five sectors that we are operating. That is what we said in the explanation in the beginning of the call we see an opportunity in our sector, we see opportunity for what we are doing,

**Moderator:** Thank you. We have the next question from the line of Harit Shah from Reliance Securities. Please go ahead.

**Harit Shah:** Just one clarification. So, as you had mentioned that the SI revenue was about \$1 million to \$1.2 million in the last quarter. So, if I were to adjust that then even after adjusting it we only



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get about 1% kind of a sequentially revenue growth in USD terms in this quarter whereas I think you have been saying that it is about 3.5%. So, am I missing something or is it 3.5% constant currency and this is reported dollar revenue if you could just clarify that.

**Srikar Reddy:** Yes, that is what we said right last time 6%-7% was also at constant currency.

**Harit Shah:** Okay. That is about some 200 bps, 250 bps impacted because of the pound depreciation.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Srikar Reddy for closing comments. Thank you and over to you, sir.

**Srikar Reddy:** Right, thank you, Aman, thank you all for joining the conference call for analyst post our results. So, thank you for your support and look forward to seeing you on our next call after our annual results. Thank you all again.

**Moderator:** Thank you very much, members of the management. 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.