



Sonata Software Limited Conference Call FY2010 (Q2)

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CORPORATE PARTICIPANTS

B. Ramaswamy, President and Managing Director
Venkatraman N, Head – Strategic Finance & Risk Management
Sathyanarayana R, Head – Finance & Accounts
Swati Sengupta, Head – Corporate Marketing & Communications
Praveen Kumar D, Company Secretary

PRESENTATION

Swati - Moderator

Good afternoon, ladies and gentlemen. I am Swati, the conference coordinator. Welcome to the conference call of Sonata Software Limited. Mr. B. Ramaswamy will be your call leader today. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for the participants in the conference. Now, I hand over the floor to Mr. B. Ramaswamy. Thank you and over to your Mr. Ramaswamy.

Ramaswamy - President & Managing Director-Sonata Software Limited

Thank you Swati. Good afternoon everyone. I have with me around the table, Swati who is heading our Communications, Venkat who heads our Strategic Finance and Risk Management, Sathya who heads our Accounts and Finance and Praveen who is our Company Secretary. So let me begin with overview of our Q2 results, which we announced on the 14th of October. Once we have gone through the overview, I will open this for questions and an interactive session.

For Q2, the total consolidated profit was Rs.21.35 crores which saw a growth of 20% sequentially. In terms of the breakup broadly we are looking at three slices, one is the TUI InfoTec where we have a 50.1% stake and second is SITL where we have 100% stake, a company which is looking after our domestic business where products form a large part of the business, and third is Sonata Software Limited, which is the services arm and also the other two which is ODSI and Sonata Gmbh combined, so this will give you a picture in terms of what is our breakup in terms of services, German operations as well as Indian operations. As far as profits go, SSL which is the services arm, grew 8% sequentially. In SITL, which is the domestic arm, there was a decline of 11% and TUI InfoTec grew 70%.

In terms of revenue we had a revenue of Rs.347 crores and here again Sonata Software Limited grew

sequentially 4% and TUI InfoTec grew 7%, whereas the domestic arm had a decline of 27%. This was basically because in case of products we encountered last quarter, there was an increase in expectation of long-term credit and that increased our risk and exposure in terms of credit. We had to regulate that and make sure that the business is profitable and the risks are contained to an extent that we can handle. So to that extent I think we had to walk away from a lot of deals and that is why there was a decline of about 27%.

In terms of EBITDA we had a total of Rs.46.44 crores which grew 21% on a consolidated basis. Sonata Software Limited, for services business, grew at about 8%. There was a decline in SITL, but not as much as the revenue declined 27% while operating margin decline was only about 6%, to that extent, the margins percentage has shown some improvement and in case of InfoTec, the growth in EBITDA was almost about 37%.

Significant achievements during this quarter have been that we were ranked as one of the Top 10 Outsourced Product Development vendors by an independent consultancy firm Zinnov who tracked this phase. This I think is very important for us in terms of getting visibility and making sure that there is traction going forward in this space.

We had a stable offshore percentage, which was at about 74%. In terms of geographical spread of the services revenue, we had 43% coming in from US, 6% coming in from Asia Pacific and 51% from Europe. We had a client addition of 5 and there was very clearly a growth that we have seen in this quarter and also going forward, the horizon of our existing customers is much larger than what it was in the beginning of the year. Beginning of the year, they were looking at just next three months as the timeframe, whereas now, they are beginning to look at not only the entire year and they are looking at budgets for the next year and some of them are also looking at long-term kind of commitments in terms of CapEx. So, that I think there is a very distinct change as compared to the situation in the first quarter and this is clearly exhibited in the quarterly results as well.

With these few comments let me just open the question and answer, interactive session. Swati, can you open the discussion for question and answer session please?

Swati – Moderator

We will now begin the question and answer interactive session for the conference participants connected to audio conference service from Airtel. Participants who wish to ask questions may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press “*” “1” now. The first question comes from Mr. Srivatsa from Mumbai. You may ask your question now Mr. Srivatsa.



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Srivatsa – Mumbai

Sir, congrats for a good set of numbers. Sir, it has been three years or so since you acquired TUI InfoTec. Can you highlight how much you have integrated and what is the portion we are doing in Sonata or have we taken some clients outside TUI, so that whatever we thought when we did the acquisition, has it come to light in the last three years sir?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Thank you Srivatsa. See, we had set out three or four broad objectives in terms of looking at TUI InfoTec and integrating it with Sonata. The first one was that there were a lot of onsite external contractors. Broadly there was a cost structure which we could impact, so there were about 120 odd consultants, external consultants and over the last three years we have reduced almost about 100 and today we have offshored quite a bit of software services and also a bit of infrastructure operations, IT operations to be done by Sonata. We have probably 40-45-people team which is working on Remote Infrastructure Management to InfoTec clients which was not there three years ago and we also have about 100 people working offshore for various projects in the IT Services area. That transition and integration has gone out well though it has been little delayed compared to what we originally envisaged. That has made a significant impact on the cost structure of TUI InfoTec, which is beginning to get reflected. Second is that we had this whole objective of adding external business and we had put together a new sales team because that was nonexistent and today we find that there are one or two accounts where we have won and which has large potential to grow because they are very, very large sized customers who have also some requirements but it is taking time to ramp up and the same pipeline is looking good. If I were to look back and say in three years to achieve all that we were set out to do, yes in the area of altering the cost structure as well as integrating the operations with Sonata, yes we have done that. In the external market we are a bit lagging behind by 9 to 12 months or so.

Srivatsa – Mumbai

Sir, you said that around 45 people are working in Sonata for TUI, is it in Sonata standalone they are working sir?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Yes, standalone, from our Hyderabad facility.

Srivatsa – Mumbai

Okay and sir what is the maximum potential of that?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

40-45 people are only for IT operations. There are 100 people working for the IT Services.

Srivatsa – Mumbai

Okay and can this grow up, still it will be at...

B. Ramaswamy – President & Managing Director – Sonata Software Limited

This I would say under phase 1 where it was possible to identify very clearly distinct kind of roles which could be transferred but there is still scope and phase 2 as you know is more difficult than phase 1. Srivatsa, if I may ask, which firm are you representing?

Srivatsa – Mumbai

UTI Mutual Fund.

Srivatsa – Mumbai

Sir, my second question relates to the stand alone business. You are big time into Product Engineering, so what has been the status there, I mean, are clients coming for more work or are they launching new products, if you could just highlight the ground environment in that segment?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

There I think, very clearly there has been an issue of budgets. They are contending with lower than what they would have liked it to be in terms of the total budgets they are given, so to that extent, I think the relationship with Sonata becomes paramount for them because they have to make this budget work for them.

So while we have seen some kind of overall reduction in volumes in certain cases, that has started picking up and in terms of percentage of spend on us, it is increasing as a percentage of total budget which is good because that means they are becoming more and more dependent on us.

Srivatsa – Mumbai

Sir, on this opportunity on this Infrastructure Management, since we have got good capabilities now after the acquisition of TUI, how much it is as a portion of our revenues and like what kind of account and what kind of pipeline we are seeing in this segment?



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B. Ramaswamy – President & Managing Director – Sonata Software Limited

The direct Infrastructure Management which we are doing from Sonata to let us say outside of Europe is very negligible, we have only one or two clients there, but we are beginning to extend that because all this while we were making sure that we have a very clear demonstrable story in terms of having done it successfully for a very fairly large sizable organization which in this case is TUI InfoTec, so we are beginning to extend this to other geographies.

Srivatsa – Mumbai

Okay, and sir as far as TUI InfoTec is concerned sir, is there a sunset clause for us to acquire the remaining 49% stake?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

No. As per the agreement, both of us very clearly know that we will stay at where we are.

Srivatsa – Mumbai

But, right now, still the management control is with us or there is an independent body who is managing this.

B. Ramaswamy – President & Managing Director – Sonata Software Limited

See, it is a three-tier kind of management structure. At the apex is the supervisory board which has four members, two from each and supervisory board is mainly Governance and it also embodies the shareholders and their duties. The second is the Executive Manager, whom we call the Managing Directors of the company. There are three Managing Directors, two from TUI group and one from Sonata. They are operational. They are responsible for the day-to-day functioning of the company and that is the executive level where we have some executives who are seconded from Sonata, majority of them are still German operations.

Srivatsa – Mumbai

Okay, but are we getting dividends from them or whatever investments that we have made, are we getting regular dividends from them?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

There dividend policy is they will declare the interim dividend after 6 months and annual dividend after 12 months and policies up to 60% of the net profit of the

company will be distributed. That has happened about the last six years.

Srivatsa – Mumbai

Okay, sir as far as the domestic business is concerned, when do you see this bottoming out? Do you see this trend continuing or do you see that growth will return? In your case will growth return in the next couple of quarters?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

See, in case of domestic operations our focus is on managing margins, net profitability, return on capital employed and managing the risk of that business. Top lines can fluctuate depending on some of the year end growth in margins as the first priority, they would like to maximize their revenues etc., and there will be schemes and so on and so forth. So to that extent, quarter to quarter there will be variations on the top line, this is in terms of only the product I am talking about whereas what we want to do is make sure that we do not have undue exposure in terms of credit that we are calculating. Secondly, I think our focus is on growing the service of the business which is relatively small as compared to the product distribution, high margin.

Srivatsa – Mumbai

Okay. How much is the services business sir, in domestic?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Today it is in single digit as compared to the total turnover. The point is I think, that is where we want to grow and make sure that there is a significant contribution in terms of absolute margins from that business.

Srivatsa – Mumbai

But the services would pertain more to implementation of packages, that kind of a business.

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Yes, it will be ERP, Business Intelligence and IT Consulting.

Srivatsa – Mumbai

Okay, that is mostly for the domestic clients.



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**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

Yes.

Srivatsa – Mumbai

Sir, have you added any more principles in the last couple of years or is it a Microsoft-led business.

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

Microsoft is one of them. With SAP, we have a country partnership that we signed last October which is a significant addition.

Srivatsa – Mumbai

Sir, what is the outlook on the domestic software business in general? Do you see growth coming of big time in the next two- three years because lot of players have been very positive on the domestic industry and do we ramp up this services business big time given the opportunities in this segment.

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

Yes, I think we have done that in the sense we have strengthened the team there and we are investing in terms of presales and also in the sales. We feel a lot of opportunity in the area of let us say SME and that is coming in for both ERP as well as other consulting services and that is a growth area which we are very bullish about.

Srivatsa – Mumbai

Sir, in the last year you opened a new branch in the Middle East, what has been the status of that? Have you seen any good business traction coming from that?

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

Yes almost 6% that I said, which is rest of the world, is coming from Middle East. There have been some significant wins there in the Middle East which we are trying to ramp up.

Srivatsa – Mumbai

Okay and this is quite a profitable business, we are not having any big losses in terms of start up losses in this business.

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

No, because it is a small marketing team that we have based there and rest of it is supported from India.

Srivatsa – Mumbai

Okay. Thank you sir.

Swati – Moderator

Thank you Mr. Srivatsa. We have the next question from Mr. K. Raunak from Mumbai. Mr. Raunak, you can ask your question now.

K. Raunak – Mumbai

Any news about the acquisition that you have planned for the last quarter that you mentioned?

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

Is it Raunak?

K. Raunak – Mumbai

Yes, it is Raunak.

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

From?

K. Raunak – Mumbai

From Parag Parikh Financial Services.

**B. Ramaswamy – President & Managing Director –
Sonata Software Limited**

No. We have targets on our radar, but nothing is fixed.

K. Raunak – Mumbai

You had mentioned a small news item, I think a couple of months back that you had started Oracle SAP application. What is your strategy regarding these SAP application, how do you see the SAP market developing?



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B. Ramaswamy – President & Managing Director – Sonata Software Limited

Today, I think there is an increase. The partnership that we announced at that time was towards the Oracle for enabling ISV, that is the Independent Software Vendor to SAP-enable their products. So, to that extent I think it was something which we want to focus on as a segment because we are already in the ISV segment.

K. Raunak – Mumbai

How much percentage of revenue do you think it is going to be?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

It is in early days as far as that is concerned.

K. Raunak – Mumbai

I am sorry. I did not get you.

B. Ramaswamy – President & Managing Director – Sonata Software Limited

Early days. We are talking about a very big number there. We have launched that initiative.

K. Raunak – Mumbai

Okay and how does the Travel and Tourism industry look for you going ahead for a couple of years or more than that?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

That is what I am saying that our customers, especially TUI, they have a market leading position. They are also under pressure in terms of the overall volumes but they have been able to hold out on the margins, so that I think it gives us confidence but the other clients that we have added are hopefully looking at not just three or six months, but much beyond, so there is a fairly good visibility on this segment.

K. Raunak – Mumbai

Okay. That is all. Thank you.

Swati – Moderator

Thank you, Mr. Raunak. Participants who wish to ask questions may please press “*” “1”. The next question

comes from Mr. Yash Gadodia from Mumbai. Mr. Gadodia you may ask your question now.

Yash Gadodia – Mumbai

Good afternoon. You said the domestic product business has seen a ‘slump.’ Is the bottom reached or do you still see a ‘slump’ happening in the near term?

B. Ramaswamy – President & Managing Director – Sonata Software Limited

See I would rather comment on the margins rather than the top line of the products business. The margins declined by about 8% or so, which I feel would be more or less the bottom, I do not think that is very significant so to say, but in terms of top line, it will fluctuate that is what I mentioned even earlier.

Yash Gadodia - Mumbai

Where do you see - I think in the near term the pressure would be there so are you looking at FY11 where the growth kicks in or beyond?

B. Ramaswamy - President & Managing Director- Sonata Software Limited

You are talking about overall or you are talking about just products business?

Yash Gadodia - Mumbai

Primarily the products and then overall.

B. Ramaswamy - President & Managing Director- Sonata Software Limited

Overall, I think, what is very significant of Q2 Result is that there is a significant growth, which has come in Q2 itself sequentially as compared to any of the three or four quarters before. So that is something that we feel is going to be the turning point and we are looking forward to the growth every quarter from now on.

Yash Gadodia - Mumbai

Right. In terms of other businesses you have expanded margins; you know, how much scope do you have more to further expand margins?

B. Ramaswamy - President & Managing Director- Sonata Software Limited

There are several levers, one is the so called utilization that is something that everybody is looking at and we are about 73% and there is still a lot of headroom on



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utilization front, all right? And second is, in case of business like ours where we have, a fixed cost, which goes in the form of test function and any improvement in the top line straightway goes into the operating margin so to that extent we are able to sweat out our asset better. So, these are the two main levers that I see in terms of improving our margins.

Yash Gadodia - Mumbai

In real sense when do you think the growth will kick in, by next year or immediately in this quarter?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Progressively from now on.

Yash Gadodia - Mumbai

Thank you.

Swati - Moderator

Thank you Mr. Gadodia. The next question comes from Mr. Neerav Dalal from Mumbai. Mr. Dalal, you may ask your question now.

Neerav Dalal - Mumbai

Good afternoon sir. What you said was the net PAT margins would be close to 8% is that what you are saying?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Overall consolidated.

Neerav Dalal - Mumbai

And would you be seeing increase in revenues from this quarter on?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Right.

Neerav Dalal - Mumbai

Okay. What is the cash and debt in the books sir?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Net is Rs.33 crores.

Neerav Dalal - Mumbai

Net cash?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Yes, net cash. Do you want breakup in terms of cash?

Company Speaker - Sonata Software Limited

Cash we have is Rs.14.88 crores in Sonata Software Limited.

Neerav Dalal - Mumbai

Consolidated cash?

Company Speaker - Sonata Software Limited

Consolidated, we have Rs.72.47 crores, this primarily comprises Sonata Software, TUI about Rs.32 crores, SITL Rs.6 crores and Sonata Europe Ltd Rs.11.88 crores.

Neerav Dalal - Mumbai

Debt?

Company Speaker - Sonata Software Limited

Debt, we have borrowing about Rs.39 crores.

Neerav Dalal - Mumbai

Debtor days?

Company Speaker - Sonata Software Limited

Debtor days Sonata is 73 days.

Neerav Dalal - Mumbai

Okay. How much will be the product revenue of the total consolidated business?



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Company Speaker - Sonata Software Limited

About Rs.117 crores for this quarter.

Neerav Dalal - Mumbai

That is the product business?

Company Speaker - Sonata Software Limited

Yes, product business.

Neerav Dalal - Mumbai

Okay, thanks a lot.

Swati - Moderator

Thank you Mr. Dalal. Participants who wish to ask question may please press "*" "1." The next question comes from Mr. Rajesh Kannan from Singapore. Mr. Kannan, you may ask your question now.

Rajesh Kannan - Singapore

Hello sir. How are you guys doing?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Fine.

Rajesh Kannan - Singapore

I just want to ask a question about cash flow. I notice that the cash flow operations is actually a big negative and also the receivables seem to have increased a bit and the payable seem to follow it. Why has this happened?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

If you look at Sonata stand alone, the cash from operations is Rs.8 crores positive, okay? But that is also down from Rs.18 crores in the first quarter which is basically because our debtor days have gone up from 68 to 73 days, all right? In case of Sonata Information Technology Limited that is where the big negative is, it is almost Rs.60 crores because the debtors have remained at Rs.120 odd crores even though the sales have gone down from Rs.160 to Rs.117 crores. So, the debtors have sucked up the cash back.

Rajesh Kannan - Singapore

What this Sonata Information Technology basically?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

See I will tell you what is happening Rajesh, it is that there is an income tax element wherein customers deduct 10% of payment towards TDS. If I make a sale of Rs. 100 they pay me Rs. 90, all right? And for the Rs.10 I am supposed to file returns to the income tax department, which will be refunded. Today I have about Rs.53 crores, which is TDS by various customers and to be claimed from the income tax department. So, the margins being what they are, we are really funding the income tax department here. So what we have done is that we have applied to the income tax department and transferred our jurisdiction to what is called the LTU, Large Taxpayer Unit, where the processing and refund is much faster. Just about three or four weeks back we had an approval from the Income Tax department to transfer our files to this LTU and we are hoping to get the refunds by around January or February, which apparently will be the working capital.

Rajesh Kannan - Singapore

How will you counter this issue?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

Rs.53 crores relates to the past, but what we did was around May-June we applied to the Income Tax department and we have got an exemption from them such that from future sales customers do not have to deduct tax.

Rajesh Kannan - Singapore

Okay, that is good.

B. Ramaswamy - President & Managing Director-Sonata Software Limited

We have to go for this exemption every year and in April-March they give you that permission – so that is the whole issue why we have had this situation in SITL where lot of money is stuck.

Rajesh Kannan - Singapore

Okay, Rs.530 million is actually the cash that is solely due to the income tax thing?

B. Ramaswamy - President & Managing Director-Sonata Software Limited

That is right, absolutely.



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Rajesh Kannan - Singapore

That would mean it would make you cash positive?

**B. Ramaswamy - President & Managing Director-
Sonata Software Limited**

Yes, absolutely.

Rajesh Kannan - Singapore

Also, the creditors seems to have come down quite a bit?

Company Speaker - Sonata Software Limited

Current quarter, has come down to Rs.58 crores and in turn we have made mainly the principal payments, which are due.

**B. Ramaswamy - President & Managing Director-
Sonata Software Limited**

Rajesh, I feel this lead to the revenues, which have come down from Rs.160 to Rs.117 crores that means we have bought less so to that extent the creditors will also be less.

Rajesh Kannan - Singapore

Yes, I guess. Thank you so much.

**B. Ramaswamy - President & Managing Director-
Sonata Software Limited**

Thank you.

Swati - Moderator

Thank you Mr. Kannan. Participants who wish to ask question may please press "*" "1." At this moment there are no further questions from participants, I now hand over the floor back to Mr. B. Ramaswamy for the final remarks.

**B. Ramaswamy - President & Managing Director-
Sonata Software Limited**

Thank you Swati. I thank all of you who taken the time off to participate in this con-call. I hope we have been able to provide answers to some of the questions that you had and thank you once again.

Swati - Moderator

Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening ahead.
