



Sonata Software Limited Conference Call FY2010 (Q3)

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CORPORATE PARTICIPANTS

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PRESENTATION

Shubha - Moderator

Good morning, ladies and gentlemen, I am Shubha, the moderator for this conference. 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 interactive session will be conducted for the participants in the conference. Now, I hand over the floor proceedings to Mr. B. Ramaswamy. Thank you and over to your Mr. Ramaswamy.

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

Thank you Shubha. Good morning everyone. At the outset, let me wish all of you a very Happy and Prosperous New Year. I have with me my colleagues Venkat, who is the Head of Strategic Finance and Risk Management, Sathya who is the Head of Finance, Swati who is the Head of Communications and Praveen who is our Company Secretary. We have just announced our results earlier on this week. We are very pleased with the results because overall we had a very good quarter, not only in terms of the results in the quarter itself, but also in this quarter we engaged in very intense discussions with our existing customers in terms of looking at next years' budgets. What stands out is that there is an increased confidence and visibility amongst our customers' businesses and they are able to look at plans for the entire year. This is very distinct from what was a year ago, where there was absolute uncertainty in terms of way forward. So that's good news. It does not mean that there is going to be a runaway increase in budgets; we are grappling with issues in terms of how do we satisfy their new business demands with limited or decreased budgets. So that is where I think we come in and we have had very fruitful discussions with our customers. We find that there is increase in propensity to look at how can they leverage the partnership better for their business goals, and that is something that is good for us. It is different with different customers and we have also reached a state

of the maturity in terms of the relationship. So roughly we have plans for next year, which is at the end of this quarter, which is good.

Let me take you through the results in a little bit of detail so that you can appreciate what has gone behind these numbers. When we look at the total companies we would look at three distinct businesses.

One is the software exports which is Sonata standalone plus the subsidiaries that is ODSi, Sonata Europe, Sonata GmbH and Sonata Dubai and this combined - will give a very good indication of the software exports business and the operation matrix thereof.

The second business would be the domestic business, primarily the SITL, Sonata Information Technology Limited.

The third is the joint venture where we have 50.1% share of the company called TUI InfoTec, based in Hannover and focusing on Germany and German-speaking countries.

To begin with, let us look at the consolidated picture. The net profit for the quarter was Rs. 21.98 Crores and this meant a growth of about 3% sequentially and 10% on a year-on-year basis. EBITDA at Rs. 46.42 Crores was a growth of 9% on a year-on-year basis. The total revenues were Rs. 336 Crores which was a marginal decline, but I will deal with the reasons as we go into each of these segments. The annualized EPS was 8.36, which showed a growth of 10% on year-on-year. The return on net worth and return on capital employed was 27%. The consolidated cash and cash equivalent at the end of the quarter was Rs. 154 Crores. Of course, a large portion of Rs. 59 Crores was to TUI InfoTec.

Coming to the software exports business, which we call SSL International, the revenues were at Rs 68.78 Crores which was a growth of 1% on a QoQ basis, but on a year-on-year basis there was a negative growth of about minus 2% (-2%), but in terms of foreign currency revenue, ie revenues denominated in US Dollars, the growth was 5% QoQ and 4% year-on-year, which means we had to take on certain forex losses because of the Rupee appreciation.

The profit after tax was Rs. 15.58 Crores which showed a growth of 8% quarter-on-quarter and also on year-on-year. The EBITDA at Rs.18.26 Crores showed a growth of about 4% and 8% on quarter-on-quarter and year-on-year respectively. The cash flow from operations was at Rs. 16.63 Crores and that was basically a result of the reduction from 73 to 72 days. The cash and cash equivalent at the end of the quarter was Rs. 65 Crores for this business. We added four clients and the employee utilization has been at 78% as compared to 74% in the previous quarter. So there has been a very conscious focus on improved utilization and that has paid results.

In terms of our Domestic Business, SITL, the overall net profit was Rs. 2.17 Crores, which showed a growth



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about 59% quarter-on-quarter and 62% on a year-on-year basis, but that is on a small base. The EBITDA was at Rs. 4.09 Crores showing a growth of about 41% QoQ, and 55% on a year-on-year basis. The reason for lower revenue growth or decline in revenue growth is basically because we have been very conscious in terms of risk management both in terms of need for higher credit period as demanded by the customers as well as higher discounts which reduces the margins. So we have been very selective in terms of our revenues and that is why we have a healthy operating margin as compared to just chasing revenue.

The services element in the domestic market ie SITL, though small, is showing a lot of promise and we are focusing heavily in growing those businesses because that is not only a high margin business and makes eminent sense in terms of doing it as a standalone basis, but what it also provides is that the experience gained while working with the Indian clients is one we are trying to leverage for the international customers and we have developed prices and offerings around these client engagements.

Debtors were at 39 days which was a record low and cash position at the end of the quarter was Rs. 32 Crores, but this was basically because there was a delay in payment to some of our principals because of the delay in getting some exemptions or Tax clearances and that has been done and the payments have been made in the second week of January, so that is why there is an amount of cash that is shown at the end of the quarter.

Coming to the third aspect - TUI InfoTec, it has been a pretty stable quarter. There has been a marginal decline in terms of PAT of Rs. 8.38 Crores for this quarter before minority interest and what is very striking in this is we signed the first large external business for InfoTec, General Backup. In InfoTec, most of the revenues are coming from their group companies, which you know are in the Travel businesses. Our whole idea when we had invested in the company was to make sure that we improve the profitability of this business in the TUI Group, which we have done. In fact when we took over, the operating margin was about 7%, which has now increased to 14% in the quarter that just ended. So that is mainly because of the cost rationalization, offshoring and similar things that we have done. Now the second focus equally was on developing the external business, leveraging the so-called language capability and the onsite presence and also certain of the IPs that this company has. So we find the first large order almost about €5 million, which is going to be a contract for five years, to host the IT operations for a company in Germany. So this is a very significant thing and we are hopeful of capitalizing on this win going forward for such wins in future.

Our total manpower at the end of the quarter stood at 2710, of which 2041 was in software services business, i.e. excluding TUI InfoTec as well as SITL.

We have also provided a note in the accounts that we have published that there has been a contingent liability

on a net basis of about Rs. 15.96 Crores. This is on account of a high court judgment, which happened during this quarter. This was relating to deduction of TDS on payments to principals overseas on software imports. We had a demand in 2004 for the preceding years, the department contending that it is royalty and hence TDS is payable. So we were litigating it and we went to ITAT. With ITAT, there were four or five other companies. Together there was an order in favour of all of us which held that software is a copyrighted article and not copyright and hence not falling into the purview of royalty. The department went to High Court and High Court in a judgment covering cases of not only Sonata, but Samsung, IBM, GE, HP, opined in a combined judgment that this is not to give their opinion on the issue on royalty, but held that it falls under section 195 (2) where prior permissions would have been obtained before remittances and hence taxable. So following that we have all gone to the Supreme Court and our case is coming on the 25th but the others who have gone on earlier there has been stay on demand. So, based on that development, we have indicated that there is a contingent liability of Rs. 15.96 Crores net. So this more or less covers the broad highlights for the quarter, and I will now open up for questions from the audience. Shubha.

Shubha - Moderator

Yes, Sir. Thank you. Ladies and gentlemen, we will now begin the question and answer interactive session for the conference participants. 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. Subhendu Panda from Gurgaon. Mr. Panda, you may please ask your question now.

Subhendu Panda - IDC - Gurgaon

Mr. Ramaswamy, very good morning. This is Subhendu from IDC India. Sir, just wanted to ask two questions. Number one is in terms of your domestic focus. We can see that there is a continuous decline in quarter-on-quarter basis. If I see your Q1 financial year 2010 so it is Rs. 160 Crores and suddenly it has declined to Rs. 117 Crores and now it is Rs. 113 Crores. So in terms of your domestic focus you mentioned that you are heavily focusing on the domestic market and in terms of acquiring new customers or new clients engagements, so, how is Q4 looking like and what are the various initiatives that you are taking to mitigate this risk in the domestic market and increase your business? And number two, will be in terms of your vertical focus, so what are the various verticals in the domestic market you will be focusing and the future roadmap for Q4?



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

Thanks Subhendu. Yes, you are right, we have. There is a very clear declining trend in the top-line. That is very conscious, as I said earlier, because of the liquidity position being what it is. There are customers' demands for extended credit, which to us in certain cases appears to be very risky. Also the margins being so low it is not going to be even covering the interest in certain transactions. So we remain conscious. Second is, if you are talking about the trend over six or eight quarters you also must realize that we have changed the business model in certain cases. For example, in case of Microsoft we were distributors, but we changed over to what they call as a Large Account Resellers (LAR) where we are dealing with large enterprises for their enterprise programs. So to that extent I think there was a change in the business model, which resulted in certain kind of revenue re-definition (ph). The thrust going forward is to make sure that we have value added services, which means that now that we have a portfolio of products which not only requires, let us say distribution, but also support, so we are focusing on certain core technologies from each one of these principals. For example, in Microsoft we are focusing on Unified Communications. So which means that we just do not stop at providing software but making sure that there is effective deployment, which we call Technical Services, which is at fairly good margins and that is across various principals. Second is that we are also adding relationships where we think that there was a gap. For example, in ERP we had Microsoft Dynamics and Oracle Applications for a long time and we felt that the SAP is a gap there and about 10 months ago or 12 months ago, we added SAP to our offering by becoming a partner for SAP. So that is broadly the strategy there. In terms of vertical focus what we are trying to do definitely is focusing on Travel vertical because as a group we have a strong focus on Travel, second is Manufacturing and third is IMS, Infrastructure Management as a practice, and focus area for the domestic market too.

Subhendu Panda - IDC - Gurgaon

Okay Sir.

Shuba - Moderator

Thank you, Mr. Panda. The next question comes from Mr. Ronak Omkar from PPFAS, Mumbai. Mr. Omkar you may please ask your question now.

Ronak Omkar - PPFAS - Mumbai

Hello. Hi good morning. I have a few questions; the first question is could you just reiterate the breakup of the business in terms of percentage of revenue, the SSL standalone, SITL and TUI InfoTec?

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

Okay. SITL was Rs. 113 Crores, SSL Services was Rs. 68.78 Crores and TUI InfoTec was Rs. 167 Crores. Total is Rs. 336 Crores.

Ronak Omkar - PPFAS - Mumbai

So in terms of the total growth going ahead, I mean, you said, you are going to focus more on the SITL part of the business?

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

No, sorry. The question earlier was what was the strategy for SITL, so I covered only SITL at that time. As a company or a group we are not focusing on SITL only. Sorry, if that is the impression I gave, I am sorry about that.

Ronak Omkar - PPFAS - Mumbai

It is okay. Then regarding your future growth plan and which of the three segments you are going to focus more on?

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

Each one is mutually exclusive. Obviously software services are the one where we get almost about 85-90% of our profits. So it is logical to focus on that. Now as I said there is an interrelationship of these two businesses also. TUI InfoTec very clearly speaks to our strategy in terms of focusing on German speaking geographies. Second it has a very robust infrastructure management practice focusing on Europe. So the idea is to leverage that, not only to focus on delivering the service in that geography, but leveraging that for other geographies. Similarly in case of SITL leveraging the relationships that we have built with some of these technology visionaries and also to leverage the kind of capabilities that we build in domestic market to other markets. So if you are asking me I feel that each one has - it so happens that we have dedicated groups who are distinctly focused on each one of these businesses and our strong measure for measuring the performance of each one of these business is Return on Capital Employed, because the operation matrix owing to the different kinds of businesses are very, very different. You cannot just use operating margin as a key matrix for evaluation and comparison. So these are all capital employed. These are very good measures because that also shows how we are using our capital, having established this distinct management team how efficiently we are using the capital. It so happens that all the three are showing up in good stead, as far as ROCE is concerned.



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Ronak Omkar - PPFAS - Mumbai

You said that the IMS in Europe that is one of the reasons you are going to focus more on, how about your competition? How are they scaling up in the same business, in the same geography right now?

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

In Germany, you said?

Ronak Omkar - PPFAS - Mumbai

In Europe, like you said IMS in Europe is a robust practice for you, so how do you see your competition scaling up in that same area?

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

IMS, in case of, TUI InfoTec is a very robust business as I said and I say that because it was a business that has been running for almost 20-25 years. They have three data centers in Hannover, which are ITIL-certified and they manage about four mainframes and about a 1000 servers. They are supporting about 5,000 to 8,000 desktops across Europe and the key factor is high availability. Now this is their business. The Travel business they are supporting out of \$20 billion and all applications are being hosted there, out of Hannover and mainly the Web applications which require 365 days, 24 hours a day kind of availability, they are turning around about €4 to €4.5 to €5 billion of business. The deals that we won recently from the external customers was basically because of the incumbent vendor, who is a large name but could only promise a 97.5% availability, while the customer wanted 98.5% availability. That 1% makes a difference to their business. But we were able to promise it because TUI InfoTec was able to promise it, because it was already doing a high availability business for supporting a consumer or a kind of a portal, I mean, application. So we got it in the same price; no deduction in price. So the USP is a high availability proven infrastructure, which is highly secure, and now which was open and used only for captive use is being thrown open to the external market. I think it has already established the processes for Infrastructure Management that is the icing on the cake.

Ronak Omkar - PPFAS - Mumbai

So in terms of the other geographies you are going to expand in, what do you see in the future? Which geographies you want to grow up into?

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

Obviously, we want to diversify our bets as far as geography is concerned. Today, we have 5% share in the rest of the world, which is mainly Middle East, 45% or 48% in case of the US and 52% or 55% in case of Europe. Now if you ask me, going forward what we would like it to be, it should be 30, 30, 20 in other South East Asian geographies, but that is some time to come. But we need to make sure that for each one of these geographies, we have mainly risk-free business by ensuring that we have client engagements wherein we have a very strong relationship and we can see multiyear visibility.

Ronak Omkar - PPFAS - Mumbai

Okay. Could you also elaborate on that BPO acquisition that you made for the Insurance vertical I presume?

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

No.

Ronak Omkar - PPFAS - Mumbai

There was some news item about some BPO in the Insurance vertical, I suppose?

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

It was not an acquisition. What we did was we have forged an alliance with a company called Maximum Processing. Is that what you are talking about?

Ronak Omkar - PPFAS - Mumbai

Yes.

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

They are a Product Company, they also provide hosted services in the B&C segment. So we have entered into an arrangement with them for providing engineering and support services for this product. It is not an acquisition.

Ronak Omkar - PPFAS - Mumbai

Okay. So in terms of acquisition, have you planned anything or which areas have you identified?



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

We have identified the areas. We are in touch with various investment bankers and we also have very clear plans in terms of what we can afford on the size, etc., and as you know, our effort is to make sure that the organic piece generates the cash that is required, not only to fund its own CapEx but also leave enough and more for funding the acquisition.

Ronak Omkar - PPFAS - Mumbai

Okay and my final question is, how do you see your competition scaling up in the same areas that you are working at right now?

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

We are looking at certain very clear verticals, but the point is, we are also working on the strategy of focusing on micro verticals. For example TTL, the Travel vertical itself is huge, so what we are saying is we will be focusing on tour operators and that kind of segment, where we have a very unique value add story and the same is the case of airlines. Airline is a huge vertical by itself, but we are focusing on micro verticals there in terms of the so-called e-commerce or price rate (ph) or crew management, so that is where what we are trying to do is evolving solutions rather than just saying that I have an ODC, I can give you all bodies. Today nobody will buy those stories. They want basically a solution and where have you done it before or can you show me, they don't want resumes, they do not want people, they do not want facilities, so that is how we are trying to build our competitive advantages in making sure that we have very clearly articulated value proposition for each one of this in micro verticals and in this case, the competition could even be in tier I guys. We have had this case in the last quarter itself where there have been two three RFPs, where all the other contenders were our tier I guys.

Ronak Omkar - PPFAS - Mumbai

Okay, so who won the deal? Tier I guys or you won?

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

In one case a couple of tier I won and in the other cases, we were in the final shortlist of three.

Ronak Omkar-PPFAS, Mumbai

Okay, well that is all from me. Thank you so much for answering my questions.

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

Thanks.

Shubha-Moderator

Thank you Mr. Omkar. Next question comes from Mr. Vinay Bhandari from Reliance Industries, Mumbai. Mr. Bhandari you may please ask your questions now.

Vinay Bhandari- Enam securities - Mumbai

Good afternoon Sir, this is Vinay Bhandari here from Enam Securities. We had a few clarifications in the TTL segment; it has shown basically a drop in terms of contribution, so why is it so, Sir? If you compare QoQ also and YoY also, the travel tourism segment has stood at 43.08%.

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

Yes, yes, I am just - see it is for 45.0.

Vinay Bhandari- Enam securities - Mumbai

Sir it is 43.08 for Q3 FY'10?

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

43.08 as compared to 45.62?

Vinay Bhandari- Enam securities - Mumbai

Yes sir, over QoQ, exactly.

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

Right and this is including TUI? This is mainly because there has been a certain amount of reduction in one of the clients. That was basically because this client had gone in for a merger and there were some projects, which were commissioned because of this merger that got over and that lasted for about four to five quarters that got over.

Vinay Bhandari- Enam securities - Mumbai

So you mean to say the merger was called off or what?



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

Merger happened. There was a need for integrating the IT systems of these two companies. So for the last one and a half years or five quarters at least, there was a lot of work, over and above the normal work that we were doing for merging these IT systems. That back project got over and that is possibly the reason why we had a dip in this quarter in terms of percentage.

Vinay Bhandari- Enam securities - Mumbai

Sir, do you mean to say that majority of the revenue from this segment has come in the second quarter that is why it is showing a dip? That gets over and so that is why it gets normalized at 43%?

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

43%, that is right, that is normalized at 43%.

Vinay Bhandari- Enam securities - Mumbai

But if you saying four to five months, then in quarter first also it should have shown some improvement instead of 42% it would have gone to 43% or 43.50%?

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

No, see what I am saying is it was 45.3 for the whole of last year, 2008-2009; and that was when that work was going on, so gradual ramp down was there and it got over in Q2 completely.

Vinay Bhandari- Enam securities - Mumbai

Okay and how do you, what is your view on this segment particularly going forward, any improvement that is showing or what exactly and what would be the mix of all three segments; Travel Tourism, IT and others, would it remain stable at these levels or basically just wanted to have your view on these things?

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

See, the TTL segment comprises multiple sub-segments. Airlines are at the top. There are many other segments, and for example rental cars or catering and cargo, etc. Now it so happened that it is only the Airlines for maximum bleeding in terms of profitability

because of the extreme competition and high capacity. Alright, but if you look at geographically there are certain new airlines, which are growing as compared to established airlines. That is very apparent if you compare Middle East Airlines with North American Airlines. So our focus clearly is on airlines with high IT spend. Second is that most of these airlines having very high legacy and maintenance kind of IT spend. So that is the optional for them if they want to do it then they will have to spend, I mean high, heavy CapEx and the return on investments will be over a period of time, but they have to take a hit on the current profitability. If they do not they will continue to do worth just to keep the lights on and they may not really change. So that is where I think we are focusing on Airlines with solutions which are modular, which is not a Big Bang approach, so that they can just incorporate on a progressive basis. The third are the opportunities that you see where they have to do something. For example, PCI DSS compliance is something that they have to do for the credit card companies and certify the websites for transactions. So some of the opportunities, which we find within this so-called - that is why I said it is hardly more of the micro vertical kind of thing rather saying vertical. Second is that tour operators segment is where we have the bigger trend and that is highly IT dependent and there they have to make sure that the systems are absolutely something which can cater to the so-called changing consumer preferences, because more and more people instead of going to travel shops are going to the Web. Right, so if it cannot be on the Web and dynamic then they are going to lose heavily in terms of market share. So that is where I think, the technology comes in and they would like to see vendors like us who have some pre-built frameworks or solutions rather than saying that I will start doing the business scoping, system enhancements, etc.

Vinay Bhandari- Enam securities - Mumbai

Got it. Sir, in the geographical revenue you have also shown some improvement, whereas Europe including UK has gone down. So is there a change in the mix or what would you be attributing this to?

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

One of the things is also the Sterling Pound. Till the last quarter, we were realizing it at about 79, this quarter it dropped to 73, as far as the revenue, i.e. the forex recognition goes, we have hedging for about six quarters.

Vinay Bhandari- Enam securities - Mumbai

You have, sorry?



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

We do hedging for about six quarters forward, six cash flow hedges. So that is the reason why in this quarter the revenues from Europe went down. This was because we had already hedged the Pound at 73 though its current value is about 76, 77, while our conversion rate was only at about 73.

Vinay Bhandari- Enam securities - Mumbai

Current is about 77?

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

These are the two quarters, which were around 79. Two of the reasons why we have the UK and the Europe dropping significantly apart from the fact that there is.

Vinay Bhandari- Enam securities - Mumbai

Do we actually see the growth in US coming down the line right now Sir?

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

See we have had in this quarter 33% increase year-on-year on US dollars revenue.

Vinay Bhandari- Enam securities - Mumbai

23%, sorry sir I could not get you?

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

33%.

Vinay Bhandari- Enam securities - Mumbai

Right sir. How is TUI segment progressing Sir? Overall?

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

TUI in Germany, you are saying?

Vinay Bhandari- Enam securities - Mumbai

Right sir.

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

See, there our whole strategy was that we wanted to make sure that the revenues in the TUI Group were formed for 5 years, so we got the commitment for the revenue and within that, we wanted to make sure that we impact it through the cost price from the rationalization, which is mainly because of offshoring, so we improved the margins from 6% or 7% to 14%. And we built up what was non-existent, which was in Sales and Marketing operations to look at the external market. That was an additional call. Now what we are stuck with is some kind of headwinds because of the economy and so we took a longer time than what we would have envisaged and today we are breaking into large deals. I said we will sign the first large deal last quarter, which was for hosting of IT applications for a very large retail chain there. It is about a €5 million contract for 5 years. So going forward the strategy is to make sure that as far as the TUI Group is concerned, we will do whatever revenue commitment they make but that is flat. That is not going to increase because they are under pressure in terms of cost rationalization. But as far as future growth is concerned, we need to look at the stable basis that we have of the captive revenue; we need to build the external revenues. So that is the whole strategy there.

Vinay Bhandari- Enam securities - Mumbai

Right Sir, what would be our cash level, current?

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

I said cash level is Rs.154 Crores consolidated, of which about Rs. 59 Crores or so is with TUI InfoTec and Rs. 65 Crores is with Sonata.

Vinay Bhandari- Enam securities - Mumbai

55 is with Sonata?

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

65 is with Sonata.

Vinay Bhandari- Enam securities - Mumbai



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Okay and consolidated 154. And TUI is how much, Sir?

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

Rs. 59 Crores is with TUI and Rs. 32 Crores with SITL.

Vinay Bhandari- Enam securities - Mumbai

Right, Sir. What are your terms of CapEx in terms of organic and inorganic like any acquisition, which you are planning since we are having cash and lots of opportunities would be available, I presume in European region or US region. So I just wanted to have your view on that also, which may envisage or canvass opportunities going forward and portfolio?

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

Definitely, I think in the last three quarters also, we have had a cash generation of about Rs. 15 Crores in the last quarter and Rs. 16.6 Crores on the standalone basis and we have Rs. 65 Crores of net cash with us and after funding the CapEx, which is for normal growth that would have given dividends substantially. We have given 90% interim dividends. Now, the whole idea as you rightly said, is to make sure that we have an organic piece overlay on the inorganic strategy. We had made an investment of €18 million three years back. We also took some loan of €10 million for that. We prepaid it in 20 months. So we have digested one of the major as far as we are concerned in terms of proportion for our balance sheet. That looks like a major move. So we have digested that. Now going forward, I think we are looking very actively at opportunities in four or five areas.

Vinay Bhandari- Enam securities - Mumbai

Which would be those, Sir, and what would be the regions?

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

One of them would be in terms of TTL.

Vinay Bhandari- Enam securities - Mumbai

Sorry sir?

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

Travel vertical. So that we strengthen our claim to fame in that vertical through a very highly specialized annual output. For example, I am just saying for example, but it is something which is on the anvil. For example, we do not have competence in hotels.

Vinay Bhandari- Enam securities - Mumbai

In which, Sir, sorry.

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

Hotels. There is a big component within the Travel vertical for integrated BPO operations, so that is an area that we will be very interested in, if there are any good prospects or candidates there. We will be interested in looking at acquisitions in Germany, because we also need to piece together beyond Travel and Infrastructure Management and certain other specializations. SAP, for example. We will be very interested in looking at acquisitions within the so-called ISV space. That is another vertical line we are focusing on, where we are focusing on the business applications that are pieces, which are gaps, like the engineering services, where we would be looking at inorganic route for filling the gap. We would be interested in looking at Infrastructure Management. Now that we have a very strong beachhead in Europe, we need a similar kind of a beachhead in US, if we want to address that geography very effectively because to serve US from Hannover will not be very practical. While we can still do till Remote Infrastructure Management, but in terms of hosting and managed services, we need to look at a local outfit. So these are five or six areas which we are actively looking at. We are in active dialogue with several of the investment bankers.

Vinay Bhandari- Enam securities - Mumbai

Sir, what is your view in billing rates going forward, the offshore and onshore any improvements, which you see in the near future?

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

See, I have always maintained, and this is what I have experienced that we, in our sphere of business, people are not asking for 4%,5%, and 6% billing rate cut or whatever it is. What they are saying is, "I do not want to pay for capacity, I do not want to pay for efforts, but I would like to pay only for results. I would like to pay for outcomes." And they believe that that is something which is going to benefit them much more than getting some percentage points of your rate card, which is again going to be billed on effort basis. So last quarter, we had as much as 20% as our revenue from fixed priced contracts. The focus for us is, we used to look at that as an opportunity for improving our margins



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because we see a lot of scope for utilization of tools and automation, productivity and innovative delivery processes, etc. So, in fact, last quarter, our offshore percentage has moved by almost 3-4% in favour of offshore, because we said, if we are going to take responsibility, we will decide where the work is going to be done, you do not have to tell us that we need so many onsite people. So these are the levers that we are trying to use and customers are completely on board with that.

Vinay Bhandari- Enam securities - Mumbai

Right sir. Thank you so much sir.

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

Thanks.

Shubha - Moderator

Thank you, Bhandari. Next question comes from Mr. Mitul Mehta from Lucky Securities, Mumbai. Mr. Mehta you may please ask your questions now.

Mitul Mehta- Lucky Securities - Mumbai

Good afternoon Sir. Sir, actually I logged in a little late, so you know if you can just take me through the TUI InfoTec part of your business, how many people are currently on to that account and what is the mix between offshoring, just to get a broad flavor of this particular segment and who are your potential clients at this point in time in this particular account and how are they ramping up? And you did mention about signing of deals in the last quarter. If you could just repeat how big is that deal and what is the future pipeline looking in that and can we expect growth in that segment going forward?

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

I think you are asking about TUI InfoTec?

Mitul Mehta- Lucky Securities - Mumbai

Yes.

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

Okay. TUI InfoTec is a company, which is based in Hannover. We made our investment in November 2006. We invested about €18 millions for getting 50.1%

market share. It had a turnover of about €110-€120 million per year, all of which was in the group company, which is held by TUI AG. There were about 450 people; roughly the business of 60:40, 40% of their revenue used to come from the software services and 60% of the revenues from the TUI Infrastructure Management. There were about 120 contractors to begin with and what we did over the years, is to reduce the onsite contractors and increase offshoring, thereby giving them better leverage. Some of these savings have been passed on to the customers in terms of better offshore mix that was possible for certain of these projects and so far we have been able to preserve the business from the TUI customers, anyway with the guarantee, but apart from that, I think, we have been able to make sure that with the ownership change or whatever it is, nothing is different, wherein its business is usual and there are no issues in terms of keeping up to the commitments of these customers. At the same time, we invested in developing and building Sales and Marketing within the organization because it was non-existent and we needed to have a local Sales and Marketing organization. So which we have built and we have started addressing the external markets, with some of the services, which are from Sonata's table, and some of the others from TUI InfoTec itself. So it is basically a proposition to the local customer saying that you have a local entity with a global footprint. Last, what I was mentioning was we signed a deal with one of the large retail chains -- a five-year, €5 million contract -- for hosting their entire applications; it is a contract in the area of IT operations.

Mitul Mehta- Lucky Securities - Mumbai

How is the pipeline looking at this point apart from this?

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

In TUI InfoTec?

Mitul Mehta- Lucky Securities - Mumbai

Yes.

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

Pipeline is better than what it was about six to nine months ago, but still far from where we wanted to be, let me be honest with you.

Mitul Mehta- Lucky Securities - Mumbai

And sir rest of the other verticals, who are you on the million dollar client, I mean just you work with your Church's Chicken and there is a couple of them to work with so, you know, how is that account growing?



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

Church's Chicken is stable. There has been a change in ownership. The PE which was owning that for the last three years has changed and it is anyway a five year contract and still about one and a half or two more years more to go and ISV is a space where we are finding a lot of traction. In the Travel vertical, we have TUI Travel PLC., as our customer. I can talk about the names of customers who are public knowledge. We have PepsiCo, HP, Dell, Johnson & Johnson, Microsoft, Ontario Systems, Ports America, Red Prairie, Arenco and so on.

Mitul Mehta- Lucky Securities - Mumbai

Sir, going forward, will you like to give us guidance for this year and next year?

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

We stopped the guidance about six years ago and we have on and off debated this issue in the board and the stand has been the same that we would not want to give that. Not today, but six years ago.

Mitul Mehta- Lucky Securities - Mumbai

But the business certainly is looking up compared to...?

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

The reason for not giving guidance is not because the business was looking bad six years ago and we were confident that we will turnaround in spite of the dot com burst or whatever it is, but it was a very different reason. The wisdom of the board said that I do not think it is in the interest of the shareholder to give this set of guidance; it is a philosophical and mythological issue.

Mitul Mehta- Lucky Securities - Mumbai

Currently who would become your top three customers at this point in time?

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

We would not name the customers.

Mitul Mehta- Lucky Securities - Mumbai

And also in terms of size?

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

Yes, we would not name them, but what we can do is that we will tell you the revenue composition of the top 5, top 10. You want that? Top 5 is the 61% and the top 10 is the 75%.

Mitul Mehta- Lucky Securities - Mumbai

Okay, great. Thank you, so much and wish you all the best.

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

Thank you.

Shubha- Moderator

Thank you, Mr. Mehta. Participants who wish to ask further questions may please press "*" "1". The next question comes from the line of Mr. Subhendu Panda from IDC, Gurgaon. Mr. Panda, you may ask your question now.

Subhendu Panda - IDC - Gurgaon

Just wanted to ask Mr. Ramaswamy, you have mentioned in terms of your India focus, you will be focusing on your infrastructure maintenance services. Sir just wanted to understand, is it a complete end-to-end kind of solutions you are expecting to provide or is it a particular security server, storage and what it is exactly and what would be your play between remote versus onsite?

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

Initially what we are trying to offer is the Remote Infrastructure Management, not so much of day-to-day processions. And you know this would be covering all the management services that we can do by the remote facility in Hyderabad. And we also have one deal which is in the nature of remote desktop management.

Subhendu Panda - IDTC - Gurgaon

Okay, very good. I got the answers. Thank you.



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Shubha-Moderator

Thank you, Mr. Panda. Participants who wish to ask further questions may please press "*" "1". Next question comes from Mr. Roshan Jain from Way2Wealth Securities, Mumbai. Mr. Jain you may please ask your questions now.

Roshan Jain -Way2Wealth Securities - Mumbai

Hello. Can you please clarify me on debtor days like what are the debtor days last year, this quarter because in the presentation you have mentioned that the debtor days was 182 consolidated?

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

Which presentation are you talking about?

Roshan Jain -Way2Wealth Securities - Mumbai

That quarterly update presentation you have posted on the website.

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

Let me just check. See what we have posted in our website is number of days 68 and 73 for Q1 and Q2 and 71 for Q3.

Roshan Jain - Way2Wealth Securities - Mumbai

Pardon 71 in?

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

Q3

Roshan Jain -Way2Wealth Securities - Mumbai

Q3. What was that in Q2?

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

Q2 is 73.

Roshan Jain -Way2Wealth Securities - Mumbai

73 days. Consolidated. This is consolidated?

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

No, it is a standalone.

Roshan Jain -Way2Wealth Securities - Mumbai

Oh! It is a standalone.

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

Sundry debtor value is Rs. 182 Crores. This is the graph you are referring to.

Roshan Jain -Way2Wealth Securities - Mumbai

Got it, got it. Thank you.

Shubha-Moderator

Thank you Mr. Jain. At this point moment there are no further questions from the participants. I would now hand over the floor back to B. Ramaswamy for the final remarks. Thank you and over to you. Mr. Ramaswamy.

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

Thank you Shubha. Before I sign off, I just wanted to give some data points because there has been a lot of discussion and questions on SITL and TUI InfoTec, but what I want to present as a perspective is out of a profit of Rs. 21.98 Crores, the breakup is that Rs. 4.19 Crores is from TUI InfoTec, Rs. 2.17 Crores is from SITL, and Rs. 15.58 Crores is a consolidated profit, out of Rs. 21 Crores is from Sonata Services business. So I think we need to have that proportion in mind. So, having said that, I enjoyed the interaction today and wish you all the very best in the New Year and thank you very much for the participation.

Shubha-Moderator

Thank you, Sir. Ladies and Gentlemen, this concludes the conference call. You may now disconnect the lines. Thank you for connecting the conference services from Airtel and have a pleasant day.