



# “Sonata Software Limited Q4 and Full Year FY2019 Results Conference Call”

**May 31, 2019**



**MANAGEMENT:** **MR. SRIKAR REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**  
**MR. PRASANNA OKE – CHIEF FINANCIAL OFFICER**  
**MR. VIKAS GURUGUNTI – CHIEF OPERATING OFFICER**  
**MR. PVSN RAJU – CHIEF DELIVERY OFFICER**  
**MR. R SATHYANARAYANA – VICE PRESIDENT - FINANCE & ACCOUNTS**  
**MR. RANGA PURANIK – CHIEF GROWTH OFFICER**  
**MR. SUJIT MOHANTY – HEAD, SOUTH INDIA BUSINESS**  
**MR. PREMNATH MURTHY – STRATEGIC FINANCE**



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**Moderator:**

Good day, ladies and gentlemen. And welcome to the Q4 and Full Year FY2019 Results Conference Call of Sonata Software Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy – MD & CEO, Sonata Software Limited. Thank you and over to you, sir.

**Srikar Reddy:**

Thank you. Margaret. Good morning, everybody. Welcome to the analysts’ conference call post the announcement of our results Q4 FY19 and for the whole year FY19. As you are all aware now, the results have been posted on our website and hopefully you would have got a chance to look at.

I have today with me our CFO – Prasanna Oke; Our Chief Operating Officer – Vikas Gurugunti; our Chief Delivery Officer – PVSN Raju; the Head of India business and board member of our subsidiaries – Sujit Mohanty; we also have from New York our Chief Growth Officer – Ranga Puranik; and then we have Sathyanarayana – Head of Finance; and Premnath Murthy, who has just recently joined us as head of what we call Strategic Finance, so possibly you will be having an opportunity to interact with him as we go forward.

So, as I said, the results have been posted on the website. I will quickly sum up the whole year, the fourth quarter and look at where we are and what our strategy is going forward. Then I will hand it over to Prasanna to take you through the detailed financials, and then we will open up the call for questions which you may have.

So, as we mentioned in the press release, the year I think has been extremely fruitful and significant in terms of qualitatively moving the company forward. I think you are all aware of our strategy to focus on verticals, IP-led, alliance-led, and we have overlaid on top of it our digital transformation strategy called Platformation in terms of how do we help our clients, both the existing and new with their digital transformation agenda and underneath it do either our IP-led or alliance-led or what we call custom-built solutions.

So, we continued to execute on that strategy last year. Some of the major highlights, apart from really the acquisition of some solid names as new clients, there was a steady growth with some of our key clients who have been there with us, but also making some significant investments in talent, both in market-facing and the back-end. We have invested both in Europe and in the U.S. very senior talent both in sales and presales. And we have also recently brought on-board a couple of digital consulting specialists to drive our digital business, both are based in London, but one person, Sridhar, is responsible for the global digital business; and the other person, Ali, is responsible for the European digital business. We have also recently brought on board Gyana Pattnaik, who has been earlier with us, as senior leader of delivery, heading our digital competencies and some key clients and there are whole lot of other investments in sales and pre-sales globally, along with the talents we brought with the acquisitions we made.



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I think we spoke last time about the paperwork we have done with the acquisitions and since then we have closed the paperwork and closed the transactions both with Sopris and Scalable. So, you see some of the numbers reflected in the financials for the last quarter, though I have mentioned that in the beginning, they will be EBITDA neutral as we engage with these acquisitions and transform them to actually do a lot more than what they are currently doing. We also made an announcement of a strategic investment in a retail platform called R10x based out of California, which is in line with our overall Platformation initiative and our industry verticals.

So, as I said, overall, the year has been good. the quarter I think in terms of the execution of our key strategies has been good. So, the platform is a lot more solid as we look forward to the current year, both in terms of the client base and the talent investment and the potential to leverage these acquisitions and investments we have made towards the fag end of last year. So, overall, the execution strategy will continue to remain sustained. It is going to be Platformation led in terms of the whole digital transformation agenda of our clients. And with the differentiation coming from our IP and the alliances we have with Microsoft.

So, at this stage, I will hand over the mic to Prasanna who will take you through some of the financial highlights of the year and the quarter. And then we will be very happy to take any questions you may have.

**Prasanna Oke:**

Thanks, Srikar. Hi, everybody. Our results have been posted onto our corporate website yesterday after the Board meeting. Let me just put in some key highlights for the quarter which just closed and for the full year FY19. I will start with consolidated numbers and then give you the breakup by the segments.

On a consolidated basis, our revenue stood at Rs. 835.5 crores, which was a growth of about 33.5% on a year-on-year basis. the PAT was Rs. 65.4 crores, which was a 19% year-on-year growth. Overall, as a company, we increased our headcount in the last quarter by 75, and so our total headcount for the company is 4,042 employees. We just crossed the 4,000 mark. But at full year, our revenues stood at Rs. 2,960 crores, 21% year-on-year growth, and a PAT growth of about 29% year-on-year.

Looking at the International IT Services segment. Our revenues were Rs. 304 crores, a sequential growth of 7.1%. Out of this, 4.2% came in from the inorganic, 2.4% came in from the organic side. Year-on-year growth of 26%. Our revenues in U.S. dollars stood at \$43.5 million, a sequential growth of 6.6% and a year-on-year growth of 16.2%. The revenues from our digital component of revenues grew to about 36%. Our IP led revenues, which we have started reporting for the last six quarters, now stand at 21.7%. EBITDA is roughly at 25% of revenues, and the overall PAT at Rs. 52.5 crores, which is a year-on-year growth of 16.4%.

We added three new customers during this quarter. And the ROCE stood at about 38%. For the full year, our revenues on a constant currency basis were Rs. 156 million, a growth of 21% on a year-on-year basis. PAT at Rs. 203 crores, a growth of 30% on a year-on-year basis.

Our Domestic business, revenues for the quarter, Rs. 536 crores. Full year revenues at Rs. 1,862 crores. Full year PAT at Rs. 46.3 crores, that's about a 29% growth on year-on-year basis. During the last quarter, we completed the acquisition of Sopris, so we got about half-a-quarter of revenues from Sopris. We also made an investment in R10x, as Srikar has mentioned.

So, that was the result for the last quarter and the full year and the financial highlights. Margaret, we will hand it over back to you for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Shah from Reliance Securities. Please go ahead.

**Harit Shah:** Yes, Harit here. I have a question regarding your debtor days or your debtors. What is the reason for the substantial surge in that? So, at the consolidated level your debtors stand at about 100 days compared to 59 last year. So, is it like a timing issue, or what is the reason for the same?

**Srikar Reddy:** I think, Aditya, you should look at our debtors, both in our services business and our India business separately. So, I will ask either Prasanna or Sathya to answer that analysis and then if you have a follow-on query, we will deal with that.

**Prasanna Oke:** So, Aditya, basically if you look at the debtors and you split it between the business, which is the India business and the domestic business, we had a significant billing towards the end of the quarter, which has since been collected. But if you look on 31st March, that is where it has grown up by about Rs. 110 crores, Rs. 120 crores. On the international business, we have seen a small uptick in the number of days from 40 to 41, 42, and that's been a small reason, but not significant, its largely coming on the increasing debtors from the domestic business, which is basically a timing issue. So, that spike which happened on 31st March has since been collected.

**Harit Shah:** Okay. Secondly, I heard you say you have achieved a 21% constant currency growth. So, was that for the IT business in the fourth quarter? I think I missed something there.

**Prasanna Oke:** No, Aditya, that was the IP led growth. So, when we have got our stable of six to seven IPs, we look at the revenues which are coming from that. And we have been tracking this for the last six-odd quarters, we said it's about 12% to 13%. And for the quarter Q4 which ended, 21.7% of our revenues have come in because of the IPs that we have got in IP led revenues.

**Harit Shah:** Okay, sure. And finally, just you have given the breakup of your delivery and SG&A employees, so that is at the consolidated level. So, can you do that break up purely for the IT services business?

**Prasanna Oke:** Yes, sure. So, IT services business is roughly about 3,900 headcounts, out of which about 11% is from SG&A and , 89% is from delivery.

**Harit Shah:** Okay. So, that is more or less similar proportion even from the previous quarters?



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**Prasanna Oke:** Yes, absolutely. I mean a small uptick in the headcount on both the fronts, we grew by about 75 headcounts, a part of it came in to the acquisition which was largely on-site, Sopris, and a part came in to offshore, but the percentage is more or less the same.

**Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

**Madhu Babu:** Sir, if you see this year, the full year growth is around 12% for the IT services business in dollar terms, that's a kind of a deceleration compared to last year where we did 18% kind of growth. Continuing the small base at which we are, I mean, could we again aspire to be the 15%-plus kind of growth in the dollar terms? Can we move to...

**Srikar Reddy:** Some of it is to do with the currency fluctuation, Madhu, the GBP drop has had a lot to do with that. So, I think if you take it, constant currency would be at about 15%, if you don't factor in for the GBP drop of 14.5% to 15%. But yes, in getting your question loud and clear. And so I mean, as we have said that, although it's obviously better than the industry average, both in the large and some of the mid-sized, we are internally obviously aimed at doing a much higher growth in terms of our revenues. So, the strategies are in that. As you know, we don't give forward-looking statements in terms of how much we will grow by. But as I said, I think we continue to build a much stronger company and platform, both in terms of what we have to offer to the market and the investments we are making, both organically and inorganically. So, the platform continues to get stronger. So, the expectation is that the future will be better kind of stuff. But as I said, we don't give quantitative forward-looking statements.

**Madhu Babu:** And sir, in terms of the new hires we have had, you said that we have had a new team as well, could you brief on that? And digital, which are the sub-segments where we require more investments and who are the clients where we are selling our digital offerings? Just briefly on that.

**Srikar Reddy:** Okay. So, the two hires we have made are basically people who have been running a digital consulting practice. So, this is Sridhar Vedala and Ali **Toure 17:16.7**, they have been both based out of Europe and been running consulting practices both in terms of advisory services and advising IT services firms to build capabilities and go-to-market strategies over the last, I would say, 20 years. And have had exited their consulting business to a fairly large management consulting firm. So, basically, they have come on-board to drive the digital services business, both globally and in Europe.

So, as I said, the other person who has come on board is Gyana Pattnaik who was with, I think, L&T Engineering Services. Before that he was with us and before that with Persistent. Again, very strong capabilities in digital technologies. So, that's him. And then, as I said, there are senior leaders like Ashish Pant, who joined us as Head of Sales in the U.S. East Coast, and then the next level of sales leaders.

So, in the digital technology space, Madhu, there are, as I said, there are three dimensions we have. One is our own platforms, we continue to invest in them, both organically and inorganically. As you know, we got one more platform with our acquisition of Scalable in the commodity trading space. The second is, as I said, on our partners' platforms and effectively the digital platform. And the third is services. So,

in the services, this is mainly in what we call platform engineering, data analytics, I wonder what people call that, artificial intelligence, machine learning and so on and so forth. And the third is, started investing in IoT as part of our Sopris investment in the area of what is called connected field service. And then there is, we have internally created what we call digital consulting team focusing more on digital business processes and digital agendas of clients.

So, continuing to invest in all the four areas, and as I said, the clients in the digital space is across the four spectrums, they are either coming in, which could be the mid-sized clients at the digital consulting level. There are some who are coming at the digital platform level or users of our digital platform. And the rest are well on their way of implementing their digital strategy, but looking at really digital partners. And that's where, I think, we have seen our Platformation. We are doing digital transformation. We are resonating well with them, so we will see some differentiation in the way we are going about executing on that. So, then we are looking at services. So, we are seeing, as I said, clients across all the four spectrums where we are engaged, Madhu.

**Madhu Babu:**

Yes. Sir, and last one, on the Sopris and Scalable acquisitions, I mean, both on-site kind of, so how is the cost structure and margins and how do you see the synergies on that?

**Srikar Reddy:**

Correct. As I said that, right now they are heavily on-site based. I think in the last quarter maybe this quarter, it will be almost EBITDA neutral, although we may see some positive movement on Sopris. Scalable, you have to look at very differently because of their IP that is being now licensed through Sonata. So, some of the revenues will flow into Sonata and won't show up in Scalable's. While the Scalable business in Australia will continue to be, for a little bit more time, EBITDA neutral. And then we are in the process of doing two things, trying to move them to a more, I would say, optimal delivery model, which will take some time, because there is change management involved both within their internal organizations and with the clients. And then obviously looking at what else we can do with those clients of theirs and grow other businesses.

So, I guess a good time would be the October quarter to actually see some good, solid value coming from these two acquisitions. Though this spin-off benefit with the alliance is huge, I mean because the strategic positioning they are able to drive with Microsoft with all this investment is extremely, I would say, valuable in terms of engaging with them globally in various parts of the world because of the investments we are making. And also, when we actually do work with them kind of stuff.

So, the spin-off benefits of commitment, investments to the alliance, I think, is extremely huge which won't directly you will see flow into the numbers of these two entities, but overall will flow into the overall corporate in terms of the benefits we are getting from these acquisitions. So, you should look at it two ways, one is what they bring in and second is what they bring in overall to the Sonata brand and its partnership with Microsoft.

**Moderator:**

Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.



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- Princy Bhansali:** A few questions. Firstly, on the Scalable and Sopris, how much of revenue was integrated in this quarter? And in which vertical these acquisitions pertain to?
- Srikar Reddy:** Okay. I will answer the second question first and then I will leave it to my team to answer the actual number. So, Scalable, you can call it, is integrated into our consumer goods distribution industry vertical, because of their IP for the commodity trading, risk management, distribution platform. So, you can take as that vertical.
- And Sopris is actually a new industry for us. They are more into what I call field services oriented organizations. So, it's a brand-new kind of industry vertical for us. But the acquisition has been driven by expanding and completing our Microsoft platform footprint in the Dynamics 365 space. So, that has been the fundamental, you should take it more as a horizontal investment rather than a vertically driven investment. Although there is a potential for us to drive the vertically driven revenues in this new vertical, which is what we call field services-driven enterprises, which are utility, Telcos, oil and gas and so on and so forth. So, that's where their clients are.
- So, I will hand over to Prasanna or Sathya to answer the question on how much revenues were integrated in the quarter in question.
- Prasanna Oke:** Princy, so Scalable, we got about \$1 million. And Sopris was just about half a quarter, we got about \$0.7 million, so about \$1.7 million.
- Princy Bhansali:** And in terms of wage hike, like when is the next wage hike planned? And like what is the quantum of it?
- Srikar Reddy:** Okay. The next wage hike is likely to be in two tranches. One is going to be in the July quarter, which is I think similar to what we did last year. And the next one would be in the October quarter. Yes, so those are the two wage hike plans for us, Princy.
- Princy Bhansali:** Okay. And how much like you plan it to be?
- Srikar Reddy:** That's what we said, it is similar to what we did last year. So, obviously I cannot tell you the exact percentages, because I need to announce it internally before I announce to you on a press conference. But yes, the numbers would be similar to what we did last year. So, if you can see the quarter-on-quarter percentage growth cost, you will get an idea of what the cost implications to us would be on a quarter-on-quarter basis, given everything is the same.
- Princy Bhansali:** Yes. Okay. That's helpful. And on the FOREX gain side, how much was the gain or loss this quarter?
- R. Sathyanarayana:** Yes. Current quarter on a consolidated basis, I think there was a loss of Rs. 3.3 crores, including the restatement.
- Princy Bhansali:** Sorry?

- R. Sathyanarayana:** Rs. 3.3 crores compared to last quarter of Rs. 6.4 crores.
- Princy Bhansali:** Okay. And there is the component of other liabilities that totals Rs. 435 million on the balance sheet, what that pertains to?
- R. Sathyanarayana:** This is basically on the acquisitions, etc, the payables which would be considered for now.
- Princy Bhansali:** Okay. And lastly on the cash flow side, how much is the operating cash flow?
- R. Sathyanarayana:** Operating cash flow, we have a International Services of Rs. 150 crores.
- Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, my question is related to the margins. So, on the last FY19 we have seen pretty solid margin performance, especially on the IITS front. But from hereon, seeing the margins lever which are available, so the utilization is at the peak and the on-site wage inflation risk from hereon, and also you are doing some investments in sales and marketing in the U.S. So, what is the margin outlook from hereon? So, is it at the peak level of margins? Or we can see some improvement in the margins in the IITS business from hereon?
- Srikar Reddy:** No, I think we have always been saying that the margins have peaked, and the levers are really revenue growth and not the levers of margin kind of stuff. So, we continue to maintain that, Amit, the main margin lever should come from revenue growth only. And we have been seeing that for some time, although there has been some tailwinds which have helped us with a little better margins than what we have forecasted. But overall, we continue to stay with the thing that the margins have peaked and the levers will be revenue growth.
- Amit Chandra:** And sir, also on the IP led part of the business, so we have been seeing for the last 10 quarters the IP led business has been growing like pretty steadily, and it is now like 21% of the revenues. But as we have mentioned that IP led is a higher margin business and where the productivity is also better. But if I see the revenue per employee number for FY19 versus FY18, for the IITS business I am talking about, so it's mostly the same or like a 1.5% up. So, where I am getting this from, so is it not reflecting on the...
- Srikar Reddy:** No. I think, as I have mentioned in a lot of past calls, IP led is not IP business. Our IP license business will be about 2% or 3%. So, that is very high margin kind of stuff. The IP led services is the services coming to us because of the IPs. It's more like a differentiation we are offering to our clients to get the business kind of stuff. So, that is like services only, I mean, the margins cannot be dramatically different from any other services business. So, I mean, I just want to re-clarify, don't confuse IP-led services with IP business. The IP business if it was 21%, you would have seen very dramatically different kind of margins kind of stuff. Yes. So, just take this as a differentiator of your offering in terms of being able to get the services. And where we offered the IP, so that is where we are getting other services in those clients. Otherwise, we won't have got those services.

- Amit Chandra:** Right. So, why I was mentioning this because the margin expansion that we have seen in the IITS business, it was like colliding with the growth that we are seeing in the IP business. So, that's why I thought that with the IP business growing, so we are seeing that on the margins also. So, that's why I was asking this.
- Srikar Reddy:** Yes, I understand what you are saying. But I just wanted to clarify that the IP led services business is not IP business, but it's services business. The margins cannot be significantly different, whereas an IP business the margins can be completely different kind of stuff. So, that's where I am saying that if there is a, let's say, non-clarity, I just was trying to say that, the IP led services is closer to the services business but with a differentiation. And the IP business, which is not significant, which is like a 2% or 3% is where if we do a lot more of it, then the margins can be significantly different.
- Amit Chandra:** Okay. And sir, lastly on the AX part of the business. So, we have been seeing like pretty solid performance there also, so what is the outlook there? So, can we expect...
- Srikar Reddy:** What was the question, what is AX?
- Amit Chandra:** AX?
- Srikar Reddy:** Dynamics, Microsoft 365?
- Amit Chandra:** Yes.
- Srikar Reddy:** Okay. So, we just call it Microsoft 365, okay? So, because Microsoft 365 is the whole lot of things, which is both F&O, CE which customer experience, which is our investment in the Sopris. And then there is business platform which is probably iPower app, power-flow and so on and so forth. So, that business is doing well globally for Microsoft. And also, our growth and our investments have been, a lot of our M&A has been focused around that. So, we see that as a lot of opportunity for growth, a lot of our new client additions are coming through that route. Obviously, we need to leverage that to drive more revenue from that. But overall, I think for Microsoft itself, I think that platform has been growing much faster than their competitors. Obviously, that means given the investments we have made into that platform, we should get some share of it.
- Amit Chandra:** Sir, so my question was regarding the investments related to the AX. What kind of growth are you expecting there? And in terms of investment on sales and marketing investments, are we through with that or still we can see some round of investments there?
- Srikar Reddy:** The investments are two, right? One is organic and second is inorganic. Inorganic is the acquisitions we have done in the past whether it is IBIS, or now it is Sopris or Scalable. And the organic is our own investment in building capability, IP and taking it to market kind of stuff. So, we continue to make both. But they are all both in line with the growth we are having. I mean if you do a P&L of that business, the P&L will look every year better than the previous year. So, the returns are always better than the investments we have been making. So, they are not sucking in margin out, they are actually adding margin to the business.

- Moderator:** Thank you. The next question is from the line of J Daniel from Entropy Consultants. Please go ahead.
- J Daniel:** I had some bookkeeping entry clarifications that I wanted. Your audited report on consolidated numbers mentions the three subsidiary accounts were not audited, and sales from those three subsidiaries are Rs. 124 crores and profit of Rs. 20.26 crores. In the corresponding nine months, the sales were Rs. 5.91 crores and Rs. 0.53 crores. So, this quarter, as per the audited report, Rs. 119 crores of sales were added and Rs. 20 crores of PAT was added from these three subsidiaries. So, I don't know. I mean I'm trying to...
- R. Sathyanarayana:** No, this I think they are giving report for the year basically. And also the subsidiaries, what they have not audited, they will be audited by a different auditor. Yes.
- J Daniel:** Correct. So, that number for the three subsidiaries for March ended Rs. 124.54 crores, total revenue for these three subsidiaries?
- R. Sathyanarayana:** Yes.
- J Daniel:** And the total profit is Rs. 20.26 crores for the three subsidiaries for the year?
- R. Sathyanarayana:** Yes.
- J Daniel:** Now I have the audited report for the nine months ended that is the previous quarter, which mentions the total sales is Rs. 5.91 crores and PAT of Rs. 0.53 crores. So, the difference would mean that in this quarter Rs. 119 crores of sales and Rs. 20 crores of profits have come in from these three subsidiaries into consolidated accounts. In fact, in December quarter there was just one subsidiary. By March quarter there are three subsidiaries, which I presume is Scalable and Sopris.
- R. Sathyanarayana:** Yes. In Q3, normally we give only for the quarter numbers.
- J Daniel:** No, nine months is also mentioned.
- R. Sathyanarayana:** The nine months ended report of Deloitte was a review report, they have reviewed the financials of all subsidiaries for the nine months period excluding Sonata GMBH which is reviewed by other auditor. The revenue/PAT numbers mentioned by them pertaining to Sonata Software GMBH. The year-end report of Deloitte is audit report for the year where they mentioned that the 3 subsidiaries are not audited by them for the year it is audited by other auditor's i.e. Sonata Europe Ltd, Sonata FZ LLC, and Sonata Qatar LLC.
- J Daniel:** Okay. And the other one was new staff additions have been made. How much have these been on replacements and how many of them are new, I mean, are taking a new role in the company? I mean, are these people who have left who are getting replaced or...
- Srikar Reddy:** To which question is this? Is it the staff I just spoke about?



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- J Daniel:** Yes, staff which you spoke about at the beginning.
- Srikar Reddy:** Okay. So, I would say about 70% of the additions are net new additions, that means they are performing the roles in this company which were not being performed by anybody else in the past. And 30% have been replacements. Yes.
- Moderator:** Thank you. The next question is from the line of Shikhar Mundra, an individual investor. Please go ahead.
- Shikhar Mundra:** So, most of my questions have been answered. So, just one question, looking at your International IT Services new customer additions, so it has been only three this quarter and the number of new customers used to be much higher in the previous quarters. So, just want to understand, are we looking at a bit of slowdown in the IT service segment?
- Srikar Reddy:** No, I mean things are really based upon when we make the first invoice to the client. It's really just a timing issue kind of stuff, and not anything to do with a slowdown in the business. Our pipeline continues to be as healthy and our conversion continues to be what it was kind of stuff. So, we are not seeing any slowdown, both in pipeline addition and conversion. But sometimes it can get purely technical in terms of timing issue, because clearly to do with the invoicing, I mean it's not even that they have agreed to do business with us, more people would have signed, let's say, an agreement to work with us. But we wouldn't have raised that invoice in that quarter.
- Shikhar Mundra:** Right. And so just wanted to understand like how big is the opportunity size in the IT segment, like the International IT Services? And how do you see yourself growing in the next four to five years?
- Srikar Reddy:** The opportunity is significant. I mean in the verticals we are playing, the horizontals we are playing, and the digital transformation landscape we are trying to operate in, I don't see our problem is opportunity. I also don't see our problem is strategy. As I have been saying so many times, we just need to execute well. And if we execute very flawlessly in terms of our go-to-market, sales, presales delivery, I see a huge opportunity for growth for the company.
- Moderator:** Thank you. The next question is from the line of Vinod Makadia, an individual investor. Please go ahead.
- Vinod Makadia:** Sir, I missed the figure for IP led revenues for FY19.
- Srikar Reddy:** Vinod, the figure was 21.7%. For the full year it stands at about 20%.
- Vinod Makadia:** Okay. My second question is, since it's a business-to-business, all IT businesses are. So, just wanted to understand what is your go-to-market strategy? And how your scale helps you, means, apart from the low base, is it that for the Platformation or the IP-led revenue business or the businesses that Sonata is in, does it give Sonata an edge over the large scale players? Just some flavor, just some idea about how it works in the marketplace.

- Srikar Reddy:** It is a big question you are asking. So, I will just quickly summarize it, because I mean the opportunity for us is our existing clients and then there are new clients. So, existing clients are quite obvious, existing clients are coming from directly our clients or the clients of companies we have acquired. And our go-to-market is direct and alliance-led. And in the direct and alliance-led, the IP which we have in our Platformation agenda is a differentiator, both with the big and small players. So, that is at a high level. Apart from that, obviously, there is in the digital marketing events, direct marketing and salespeople, their networks and connections and all that kind of stuff. But our value proposition is definitely coming from our IP and the investments we have made through organically and inorganically and our whole Platformation story for digital transformation.
- Vinod Makadia:** Okay. And I have a fair idea now. My last question is, I am sorry, moderator, I mean the moderator has asked to stick to two questions. So, my third and last question is, is there any inflection point that is normally there in a product business? You invest in a product in the Platformation strategy, so is there any inflection point in terms of margins wherein the return you get, the revenue you generate, is far more than your cost, because the fixed cost involved in a Platformation or a product strategy is normally on the higher side, I mean whatever little I understand about IP business. So, when do you see that inflection point...
- Srikar Reddy:** Yes, very good question. But I think as I told the gentlemen before you, that inflection point is a good example if we are a purely product company. Our Platformation strategy is still a services strategy, not a product strategy. We don't have a, let's say, a purely product-led strategy in the company saying we will become a lot of IP led business. Then this inflection point, definitely this comes from product business, the inflection point comes based on the number of users for the product. So, there are some benchmarks for that. So, when the users exceed that number, then there is a hockey-curve effect after that kind of stuff. So, we are not in that, so I don't want to mislead you to say that we are going to get to that inflection through our product this thing. So, our products are being used currently to differentiate ourselves in our Platformation strategy. And the Platformation strategy is becoming a digital transformation partner to our clients' kind of stuff. So, that can have a much smaller inflection point. So, it's not the same as the product. So, I don't want for you to be in the impression that we are a products company.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Can you give me the turnover and EBITDA for IBIS, Halosys and Rezopia for this quarter?
- Srikar Reddy:** Okay. I think I should just answer this question saying I have said long back that at least Rezopia and Halosys have now been shell companies for a long time, all the business has been done through Sonata. And actually, we will merge those two companies into Sonata. Even IBIS, we have a plan to merge into Sonata one of these quarters, so we are also transitioning some of the contracts from IBIS into Sonata. But we can share, IBIS for this quarter also that when we get enough information you just see through this lens. But definitely, Halosys and Rezopia numbers are all flowing through directly into Sonata. So, these companies have been existing as that. And as I said, we are going to actually merge them into



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Sonata either this quarter or next quarter kind of stuff. But I cannot share the IBIS. But please be, as I said, with the caveat that we are planning to merge it into Sonata and shifting contracts from IBIS into Sonata.

- Prasanna Oke:** Yes. Vipul, so I mean we used to report IBIS, but scenario has changed. IBIS was about \$0.9 million for the last quarter. Or basically, as Srikar said, lot of contracts getting changed, this business coming in into the international services. On a normalized basis, the EBITDA was about 15%.
- Vipul Shah:** Okay. Sir, \$0.9 million you said, right?
- Prasanna Oke:** \$0.9 million, yes.
- Moderator:** Thank you. The next question is from the line Aditya Shah from Reliance Securities. Please go ahead.
- Aditya Shah:** I just had a question regarding your, as far as your client concentration is concerned. So, I noticed that your clients number 6 to 10, that revenue has been static to falling over the last many quarters now. So, your 4Q FY19 revenue was probably lower than was about almost three years ago. So, if you could just give some color on what is happening on that front, that will be helpful.
- Prasanna Oke:** Yes. So, Aditya, our top 10 is roughly about 69%, 70%, that's where it has remained. Your question is valid, but at the same time, as a company for our size we need to have certain anchor customers. And a good part is that when large customers who are being with us continue to grow at a certain pace. So, you will not see that much of a percentage change in the top 10 and 5 customers. But as...
- Aditya Shah:** Prasanna, I was referring clients number 6 to 10.
- Srikar Reddy:** Yes, I understand your question, it's a very valid question. And obviously there is some level of churn in the clients. And some of them actually, there are newer clients and that mix because where they were kind of stuff. So, yes, so we are not, let's say, I mean worried about that churn in terms of, as you said, 6 to 10. But there good part is that there are actually newer people who are entering into that 6 to 10. So, that's what I think we are focused on.
- Aditya Shah:** Okay. So, it would be fair to say that maybe your top two, top three clients will remain the anchor for your growth in the next at least two to three years?
- Srikar Reddy:** Yes. There will be a churn in that some of level, we all have to be open to that. But I think the good part is that the churn is getting replaced by a similar size kind of opportunity. And yes, I mean, I understand your question, but for us that's not an issue as we speak, because the good part is we are seeing new entrants into that mix.
- Aditya Shah:** Fair enough. And just one more thing, what are your likely tax rate for FY20 expected?
- R. Sathyanarayana:** It will be around 28%.



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**Aditya Shah:** For the coming fiscal, right?

**R. Sathyanarayana:** Yes.

**Moderator:** Thank you. The next question is from the line of Deepti Tayal from ICICIdirect. Please go ahead.

**Deepti Tayal:** Sir, I have two questions. So, first is if you can share the quantum of your new deal signings, because the same number you gave was \$1.5 million in H1 2019.

**Prasanna Oke:** Deepti, would just clarify the question? The new deals that we signed...

**Deepti Tayal:** Yes. So, the quantum for the new deals signings, because you said that you won around \$1.5 million new deals in H1 FY19 in the last quarter.

**Prasanna Oke:** So, you are talking about TCVs?

**Deepti Tayal:** Yes.

**Prasanna Oke:** We grew both with our organic and new deals. But as we also mentioned, we have our list of customers. The first step is to try to get them to be \$1 million customers. So, that is we try when we try to get a new customer. And obviously, the objective is to try to get a TCv which is over three to five years. So, it could be very difficult to talk about just trying correlate to the revenue growth, which has happened in the last quarter.

**Prasanna Oke:** Yes. But I think we never gave any figures of any new deals signed, so just wanted to clarify.

**Deepti Tayal:** Sir, the second question is that the margin decline which took place in this quarter in IITS business. Was the reason being the costs related to acquisition, integration and currency or there has been other reason also?

**Prasanna Oke:** Yes, Deepti, these are two reasons. Even as we grew this time we had the revenues of Scalable and Sopris, which are EBITDA neutral. So, that got down the percentage. The second part is we also had some onetime cost of visas, etc, which typically all the companies would have in Q4. So, these are two reasons. So, today if you really look at it, we are about 25% EBITDA and stripped down of cash and other income about 22.5%.

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

**Srikar Reddy:** Yes. Thank you, Margaret. And thank you, everybody, for joining the call. And as usual, for your interest and incisive analysis into our performance and wanting to know more about us, qualitatively and quantitatively. So, thanks for your support. Look forward to working with you and talking to you all. And I will see you in the next call. Thank you again for your support.



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**Moderator:**

Thank you. On behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.