



“Sonata Software Limited Q3 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Sonata Software Limited Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jagannathan - CFO, Sonata Software Limited. Thank you and over to you sir.

Jagannathan C.: Good morning all. Welcome to the earnings call Q3 2020 of Sonata Software. I have with me my colleagues: Mr. Raju - Chief Delivery Officer, Mr. Ranganath Puranik - Chief Growth Officer of Sonata Software Limited and my colleagues from Finance: Sathyanarayana and Premnath Murthy. We will now get into the details of the financials for this quarter. Mr. Srikar Reddy - CEO and Managing Director will join us in a few minutes, a little later. I will give an update about the numbers now.

The consolidated numbers for Q3 financial year 2019-20, the revenue stood at 1236.9 crores, a sequential growth of 75.9% on Q-on-Q basis and a growth of 46.6% on year-on-year basis. Our EBITDA at consolidated level was 118.3 crores, sequential growth of 6.2% Q-on-Q and year-on-year growth of 24.4%. Our PAT for the quarter was 75.9 crores, sequential growth of 5% and Y-o-Y growth of 18.4%. The consolidated headcount for us was 4177 employees as on 31st December 2019. The ROCE at consolidated level is 39% and return on net worth is 37%. The consolidated DSO is at 45 days as on 31st December 2019.

Now, the update on international business: Revenue for the quarter was Rs. 329.8 crores, a sequential growth of 5.5% and year-on-year growth of 16.1%. The revenue from international business contributed 26.7% of the consolidated revenue. Our revenue growth in USD is 46.8 million for the quarter which had a sequential growth of 3.1% and 5% on constant currency basis. The revenue from digital component stands at 38% and IP-led revenue stands at 25.1% of the services revenue. EBITDA for the quarter from international business is Rs. 91.6 crores. This reflects a 27.8% EBITDA percentage. The sequential growth of EBITDA was 2.4% and year-on-year growth of 20.6%. The PAT for the quarter was Rs. 57.8crores which is 17.5% of the revenue, the sequential growth of 3% and year-on-year growth of 11%. The rupee rate for the quarter was USD is 73.6 and Euro is 84.7 and GBP was 95. We added 9 new customers during this quarter. International headcount was 4,028 as on December 31st 2019. Return on capital employee was 42% and return on net worth is 40%. International DSO remains at 42 as on Q3 2020.

Now, the update on domestic products and services: Revenue for the quarter was 912 crores which reflected quarter-on-quarter growth of 128.5% and year-on-year growth of 61.9%. This contributed about 73.7% of our consolidated revenue. EBITDA for the quarter was Rs. 27 crores which is 3% of the revenue with a Q-on-Q growth of 19.7% and year-on-year growth of 38.3%. PAT for the quarter was Rs.18.1 crores which is 2% of revenue. The quarter-on-quarter growth was 12.1% and year-on-year growth of 50.1%. This contributed about 23.8% of the consolidated

PAT. Domestic headcount remains at 149 as on 31st December 2019. The return on capital employed was 33% and return on net worth was 30%. The domestic DSO is at 47 days as on Q3 2020.

With this, I complete the financial update for Q3 2020 for Sonata on consolidated basis both for international business and domestic business. I hand it over back for the questions from participants.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Krishna Parekh from Sameeksha Capital. Please go ahead.

Krishna Parekh: Can you tell us what portions of the international revenues are one-time versus recurring?

Jagannathan C.: No, there is no one-time revenue as such. This is like any other services business for us. This has two elements to it, sometimes IP-led revenue is there, IP-led revenue is a differentiator that can be the primary driver for the revenue from customer will be IP but there will be services component to that. We don't carve out separately for the subscription on IP revenue separately. We classify this as an IP-led revenue, so we may not be able to take it out as one-time revenue because this is a continuous revenue comes from customers.

Krishna Parekh: But would not when you acquire a new customer, there is a one-time portion generally that you have and then there is the maintenance annual contract, so you can't differentiate between the two?

Jagannathan C.: We don't differentiate that way. What is that is this revenue of an IP deployment with the customer, there will be additional revenues also coming in. This is the holistic contract in the digital transformation and we don't call out separately on what has led to IP and all because always there will be a multiple engagement with the customer, different types of contractual commitments will be there for the customer, so we don't call out this way.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Capital. Please go ahead.

Vimal Gohil: Sir, I just missed the headcount numbers, could you just give me the domestic headcount and the international headcount once again please?

Jagannathan C.: Yes, the total headcount is 4,177 with international headcount is 4,028.

Vimal Gohil: Sir, two questions on the IT services space. One is, what explains the weakness in the travel vertical for this quarter and what is your outlook over there for the medium term?

Srikar Reddy: This is Srikar Reddy here. So, as I said many times, travel vertical is primarily driven by one large client, so as such there is no weakness.

- Vimal Gohil:** Do we expect this to come back or what is leading to this may be weakness in growth?
- Srikar Reddy:** What is your definition of weakness in growth?
- Vimal Gohil:** So, if I were to check, your travel and transport vertical has actually degrown this quarter by 7%, so I just wanted to understand what has led to this?
- Srikar Reddy:** I have said it as it is primarily driven by one large client and we have said that is stable, so there is no reason to be having any concerns on the revenues per se from that vertical.
- Vimal Gohil:** Very strong performance from the domestic space this quarter, was there any onetime element over here, I know this is a project specific business, but?
- Srikar Reddy:** No, it is not project specific, as you know our domestic business mainly comes from reselling software and as we mentioned in our results as such that the big growth in revenues is on account of one single large transaction which has driven the huge growth in revenue, but overall I don't think I was there at the beginning of the meeting, so overall I think the shining star for our performance last quarter was our domestic business and we will continue to see that trend in our domestic business as we go forward and as I said especially major of the business on our growth margin and we have seen an extremely healthy growth in the gross margin in our domestic business.
- Vimal Gohil:** Sir, could you give me what was the contribution from Scalable and Sopris, how have they panned out? What is the progress there?
- Srikar Reddy:** That is more or less I guess Scalable has been flat. We have seen some growth in Sopris. As I have said, these businesses are more project based businesses, we need to convert them into more account oriented businesses, I said that will take about 18 months from the time of acquisition. So, we will see this continuous waviness in these revenues, but overall I think at least in the Scalable business, we are seeing good traction. I think we have got some good new clients in Australia last quarter and the commodity trading platform which we acquired from them is showing promise, not only in Australia but in the rest of the world. Sopris as I said is still very heavily, still US focused, we are yet to take their service industry capability to the rest of the world and I think we have done much better with the global delivery model with Scalable, so we will start seeing better margins there and Sopris, it take a little bit more time but I think both are in the right direction.
- Moderator:** Thank you. The next question is from the line of Harit Shah from IndiaNivesh Securities. Please go ahead.
- Harit Shah:** I just wanted to get a sense on the main driver for the growth that you saw in your retail vertical generally in a quarter where generally a lot of your admittedly much larger peers have called out, you have generally seen some sort of slowness in this vertical, you have seen a fairly healthy

growth in double digit growth, so what is the main drivers out there? Does it have anything to do with the mix between the CPG and retail? Is it that there is a higher ...

Srikar Reddy:

I think as I have said many times it is a very different company. We are IP-led, we are Platformation-led, most of our business is growth business, we don't have too much of legacy commodity business in our portfolio, so we don't have to replace large losing revenues in our portfolio with new revenues. So, I think we are very different company in terms of what we value proposition to clients, our strength with our alliance. It is nothing to do with the verticals we operate in it, it is really our value proposition.

Harit Shah:

As far as your OPD business is concerned, that is apart from travel, that business had also seen fairly steep decline in this quarter, so anything to call out there on that front?

Srikar Reddy:

No, I think the way you should look at our overall businesses is some of the verticals are more broad based and some of the verticals are more narrow based because the travel vertical is really what we have said is, it is really focused on mainly leisure travel, so the revenues could be lumpy when we get clients, they will be large in nature and the revenues go up substantially. OPD business is primarily driven based on our Microsoft alliance and so the way we are monitoring growth of strategy is growth across all the vertical, so it is not that we are saying every vertical should grow at the same proposition and if you see our investments in IP and so on and so forth and acquisitions and all that, there are lot more in these other verticals. So, it is not a relative business for us, it is just where we are making investment, where we are seeing growth. You may see sometimes some verticals being flat and some other verticals growing much faster but that is the nature of the company we are really. It is not anything to do with lack of growth or lack of traction or whatever it is, so I would rather look at the overall growth of the company.

Harit Shah:

And my last question from my side, apart from these three key verticals are focus of yours, you also have a fourth vertical which is classified as others, that vertical has seen a very healthy growth in this particular quarter, in fact that has grown by almost 20% sequentially, so what would be the components of this particular ...

Srikar Reddy:

Component is any all other verticals for all other companies, whether it is financial services or healthcare or service industry and so on and so forth and typically those other sector client's in this space tend to be larger with the larger footprint to grow kind of stuff. So, it is a mix of various all the other clients we have which we just put it into this other vertical.

Harit Shah:

Sir, would you consider, may be breaking this out little but later on may be in future quarters, because other...

Srikar Reddy:

No, as we said I think we have started not yet reporting separately our commodity vertical, our service industry vertical which are the two acquisitions we made, maybe we will do that when they get to a certain scale and both of them again tend to be larger footprint client as opposed to let us say the OPD clients or may be the retail clients. So, we will do that at an appropriate time.

At this stage, they are not significant in numbers to report separately, but we will do that. We will definitely note the reporting financial services or whatever separately. Because it is not a focus vertical, we are not making investments and so on and so forth.

Harit Shah: So, I am saying that in your IT services business, generally I think your comfortable margin range so this quarter you have done well above that range, so my question is are you planning to reinvest some of those gains back into the business, what is the outlook out there?

Srikar Reddy: No, I think we have put our investments into key areas in our business in our investors' deck which is either R&D, IP, sales and marketing. We continue to invest money into our business, so yes, it is not based on that we make extra margins we will invest in our business.

Harit Shah: So, you mean to say that 25% or thereabouts is a sustainable range?

Srikar Reddy: No, as I said all the levers which are in our control are in the 22-23% range. If there is a swing in the Forex or whatever it is, then these margins can go up. That is what I have said in the past.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: My question is on active clients like what is your decline in this quarter versus last quarter in the client count?

Srikar Reddy: Not in the, I would say what you call material clients, I am not too sure if there are some tail kind of clients or increase or decrease, but overall I think we are seeing much better quality client acquisitions, if you saw about 9 clients we acquired in last quarter. The quality of clients that we acquired last quarter in terms of their potential for growth is lot healthier than the previous quarters. I am not too sure about this total client this thing and they are definitely nonmaterial clients, they have decreased in number.

Mohit Jain: And second sir on the quality of client, so you disclosed this Fortune 501 million plus accounts, one million plus is more or less, count is same?

Srikar Reddy: I know because when we only earn, we tell you, we are not going to base it based on potential.

Mohit Jain: Sorry I missed that. This is based on?

Srikar Reddy: This is actually that we earn 1 million of these clients, it is not based on that the client has a potential to earn 1 million, so what I have said is the client of clients we acquired in the last 2 or 3 quarters have a lot more potential than in the past but they won't be reported here because they haven't yet earned 1 million on a run rate basis to the company.

Mohit Jain: Right but in 1Q we had these 28 clients which is now at 25 odd levels, so we have lost some 2-3 clients in 1 million plus record in the last 6-9 months?

- Srikar Reddy:** I think we said that last time and I think I have told my team to correct it. It is wrong information, I will ask them to correct it.
- Mohit Jain:** And similarly for Fortune 500, the number is not moving up so to say, so is there a strategy to move towards slower accounts?
- Srikar Reddy:** No, I just said our sweet spot is like would be Fortune 2000 rather than Fortune 500. I have said that in the past clients up to like \$8 to \$10 billion, there is a sweet spot, we are operating in, so they will tend to be not in the 500 but in the 2000 category.
- Mohit Jain:** Sir and lastly on utilization, what is the number currently and to what level you think it can operate on given our current visibility?
- Srikar Reddy:** I think the utilization as I said, the levers are more or less fully utilized. I mean they could be very marginal 1 or 2% at best.
- Mohit Jain:** Is it like close to 89% for third quarter?
- Jagannathan C.:** Yes, utilization is on the same range, exactly, it has not varied from last quarter to current quarter. It remains at that level.
- Mohit Jain:** It remains at same level as last quarter?
- Jagannathan C.:** Yes.
- Mohit Jain:** So, is there an increase in pricing because then our headcount is more or less similar but you are showing good growth on the IT services side?
- Jagannathan C.:** Yes, if you see the average revenue per person, it is going up.
- Mohit Jain:** So, this is more like, because we missed the regional split as well, so it is more like portfolio play or you think pricing in itself is sort of moving up?
- Jagannathan C.:** No, this is seasonal impact, you would have seen in the quarter 3 the total efforts will come down, but the billing will continue to happen, so that is the reason why the rate will be little higher. This will always happen in Q3.
- Mohit Jain:** So, we should assume headcount addition to resume as growth comes back from fourth quarter onwards right?
- Jagannathan C.:** Yes.
- Moderator:** Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

- Sangeeta Purushottam:** This is Sangeeta Purushottam. Actually, what I wanted to understand was that our PAT numbers, the growth has been lower for the first 9 months in the international services as compared to the revenue growth, just wanted to understand what were the dynamics that play here, why is this happening because the EBITDA growth is stronger but at the PAT number, the growth rates are lower. The second thing is that in terms of the tax rate, the effective tax rate seems to be about 27-28%, if you could just guide us as to what kind of tax rate we are likely to see going forward?
- Srikar Reddy:** I think that you have answered your question, Sangeeta. I think effective tax rate has gone up by about 4%, was about...
- Sathyanarayana:** 26%, it moved up to 29%.
- Sangeeta Purushottam:** And why has the tax rate gone up and do you not benefit from the current....
- Srikar Reddy:** As I said, you are not in the last call, we are exploring with our tax advisors about opting for the lower tax rate, so considering the business growth and so on and so forth, so we will make a call on that hopefully this quarter but let me just warn you right now that even we make the call, we may not make a big difference this year on the PAT number because there will be a fairly large amount of deferred tax. So, it won't be significant the PAT number for this quarter but going forward next year onwards if we opt for the lower tax rate, one would be start seeing some better PAT numbers as compared to the past.
- Sangeeta Purushottam:** And related question was that you know because of the accounting change for leases, there has been some shift, right, the interest cost has gone up and I think depreciation has...
- Srikar Reddy:** Yes, you have answered your question yourself Sangeeta that the other reason why there is difference between the EBITDA growth and the PAT growth because of the accounting of the leases as it treated as finance cost, so it goes after EBITDA.
- Sangeeta Purushottam:** So, my question was that at the PBT level, has the accounting change made any difference at all?
- Srikar Reddy:** At the PBT level, I will share that. If you have any other question, otherwise somebody will just mention that number before the call ends.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, firstly on the Microsoft strategy, we have been obviously investing in more areas other than dynamics, so could you give us some view on that and currently what is the team size in the other areas and how much is in the team size in dynamics and all, broadly on the Microsoft strategy?

- Srikar Reddy:** Totally about I think 2400-2500 totally in Microsoft, 1100 is dynamics, the rest is cloud, Azure, data, AppDev so on and so forth.
- Madhu Babu:** In other areas also, we would be attaining a preferred partner status gradually?
- Srikar Reddy:** The other preferred partner that is not a challenge but obviously one needs to work on these things. That takes time because obviously there are other partners too, so we are trying to expand it to both data and what we call platform engineering using our Platformation approach as a digital partner, so that is the part of the plan for the current year Madhu, so because end of the day I think the only way we can see much larger deal sizes is that we do all the three pillars.
- Madhu Babu:** Sir and just on the others vertical, it is almost double in revenues, almost in 4-5 quarter perspective, not double but very significant growth, so is it that some of these subverticals we are entering through Microsoft unable to get there and?
- Srikar Reddy:** That is one, some of the acquisitions like service industry etc., are going into that Madhu like Sopris and so on and so forth. They are in the service industry which is not a vertical which we report separately.
- Madhu Babu:** And another one is the good conversion on the cash, if you see there is a good improvement in the cash
- Srikar Reddy:** Yes, I think that we were unnecessarily worried last time, our cash conversion has always been good. Only thing unfortunately on the quarter ending, it did not show up well, but if you see our interest payments and all that, they are decreasing steadily over the year. So, actually we were cash positive throughout the year on more than 200, 250, 260 days kind of stuff. It is just that large transactions at the end of the quarter were tending to show the cash lower but I think you should look at other metrics rather than the pure cash in the books at the end of the quarter, I think they have asked our team to start sharing more details about cash positions on a more frequent basis, so actually this quarter it has happened, at the end of the quarter the cash position is much better but overall as a company I think the cash position was always good.
- Madhu Babu:** Last time, we said the domestic economy was a bit so that is behind?
- Srikar Reddy:** No, that is what. I said despite this, we have to give a little but it is not the things were going bad or we are putting more this thing. That is why I have said you need to see it more frequently and not as one single end of the quarter figures because that may not give the correct picture.
- Madhu Babu:** Sir and lastly the dollar revenue growth in IT service, I missed that and CC growth for the quarter in the IT services?
- Srikar Reddy:** The dollar revenue was \$46.8 million, I think which is about 3.1% in dollar terms and constant currency is 5%.

Madhu Babu: But GBP will be a tailwind sir, so constant currency will be how much because GBP has appreciated this quarter, so we get around 20% from GBP?

Jagannathan C.: Correct.

Madhu Babu: So, CC would be around 2.5% right if I am right?

Jagannathan C.: Yes.

Moderator: Thank you. The next question is from the line of Vipul Shah, an Individual Investor. Please go ahead.

Vipul Shah: What are the IP-led revenues in percentage of?

Srikar Reddy: I think it is about 25 odd percent

Vipul Shah: So, is it part of the digital revenue or it is over and above digital revenue?

Srikar Reddy: No, it is part of digital revenue, actually most of it should be digital revenue unless some IP is still on-prem or something like that.

Vipul Shah: So, it is part of the digital revenue, right?

Srikar Reddy: Yes, you are right, most of it.

Moderator: Thank you. The next question is from the line of Rishit Shah from Dhanki Securities Private Limited. Please go ahead.

Rishit Shah: Two questions. One is, regarding the breakup revenue between US, Europe and the rest of the world?

Srikar Reddy: It is not there in the investors' deck.

Jagannathan C.: Geographical revenue, you are asking about, right?

Rishit Shah: Yes.

Srikar Reddy: If it is not there and it was there earlier, I think we will just add it to the investor, they can publish it.

Jagannathan C.: We will add it and give it to you.

Rishit Shah: And the second thing, regarding the one large deal that we have done in the DPS segment, so what is the kind of margin profile over there and what is the margin?

- Srikar Reddy:** Not retail segment, we said one large order in the domestic segment we said.
- Rishit Shah:** Right, in the domestic segment only, so what is basically the margin profile over there in the domestic segment?
- Srikar Reddy:** Margin profile there would have been about 2-3%.
- Rishit Shah:** 2.5 to 3%?
- Srikar Reddy:** Yes.
- Rishit Shah:** And going forward in the domestic segment only, so what is the margin that we expect sir, it will be around...
- Srikar Reddy:** Gross margins only right, so I said don't look at net margins, I have said it many times in the past, the only way we will measure that business is gross margins, not net margins. I think we grew gross margins quarter-on-quarter almost by about 10-15%, so we will not see that kind of growth but definitely we are extremely bullish about our domestic business and we will see steady growth in the absolute margin in that business.
- Moderator:** Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.
- Ashish Aggarwal:** Sir, most of my questions have been answered, just wanted to get one clarification, so what was the CC growth in the IT services business?
- Srikar Reddy:** I think we just answered Madhu, it is about between 2.7 to 2.9% or something like that.
- Moderator:** Thank you. The next question is from the line of Vinod Makadia, an Individual Investor. Please go ahead.
- Vinod Makadia:** Sir, I have three questions. The first one is, in the domestic product business, is it restricted to pure refilling or is there any other value addition also?
- Srikar Reddy:** Yes, there is value addition but I think I mean if we were doing this business in any other market in the world, we would have got a lot more value for what we deliver. It is not purely refilling. There is no such concept called refilling, nobody will buy anything from you. It is just that there is value added more than license consulting, advising on what to buy, when to buy, how much to buy, all that kind of stuff. There is also some amount of rebates etc., we get for providing proof of concept and so on and so forth but because the volumes are so large, we think it won't make a big dent to the margin but it is not a pure distribution business like distributors like Ingram Micro, we are not in that business. We are a value added reseller. That is what we are called, a large account resell.

Vinod Makadia: And is any of our IP or Platformation initiative mainly in the international IT services business, also driven by the learning we have from our alliance with Microsoft or other alliances?

Srikar Reddy: Other way around, we are working with Microsoft to take our Platformation to market because Platformation as you all know is Sonata's proprietary approach to doing digital transformation. So, today that is the only singular way where we are going to market and every service or IP or whatever in the company gets offered under the Platformation umbrella. So, when we go with Microsoft to the market, it is saying let's go apply Sonata's Platformation approach to getting some clients together and when we do that, your technology will sell.

Vinod Makadia: And my last question is, while I understand that you are different from others, you do IP Platformation alliance that is different but especially in the IT services business, what makes you earn more margin, is it like on the pricing front because your offering is unique or you are different from others or is it in the operation front like because of the Platformation, because of your IP or whatever there is?

Srikar Reddy: I think it is a mix of all these things. Obviously, as I said earlier we are in certain services, we are in premium services not because we are charging premium, because the market is paying premium to those services. It is not to just me but anybody else also. It is not that I am charging a premium to the market, I am not. It is I am in premium services, so that is an easier way to look at it. Second is obviously, yes because of Platformation and then there is some IP usage in delivering some of the services, there is obviously little better margin and third is the overall management of utilization and cost of resources and all that kind of stuff. So, that is the third really if you want to look at it.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir, I have two questions. One was sir on your margin both in IT services and in the domestic part, both of them have expanded IT services around 27-28 and you always said that it is closer to 20-22% that range is more comfortable, so just want to understand is there anything specific that is leading to this and also on the domestic side while it was more, may be specific order driven and things like that but just want to get a sense what is your guidance or what should be we look at as a sustainable margin on both these businesses?

Srikar Reddy: But I think the domestic business, actually our percentage margin is lower than last quarter because of this single large transaction at a little lower margin percentage. So, that is why I said last many times, don't look at the margin percentage but look at the absolute margin growth and as I said just before, we have seen on a quarter-on-quarter growth have almost 10 to 12% I think in the domestic business, margin and I said that is not sustainable. We were earlier doing like 1.5-2%, I think quarter-on-quarter growth, but I think as I said, we are bullish, we could see more like a 3 to 4% margin growth on the domestic business this quarter as I said one large transaction was an aberration, but overall we see a lot more traction because we have expanded

our business now to include system integration and hardware so on and so forth with same client base, little better margins, so I think that is why we are a little bit more optimistic there. And international business as I said is in a mix of so many things, so that 22% whatever is a good metric to have. Anything more, we will take it as a bonus but we are not doing anything specific now as what we have not done in the past, so there is no new margin improvement program in the company kind of stuff. We are just doing whatever we are doing and sometimes it may just yield better margins but it is not a very heavily, management is up to the 22-23% range, after that we take a bonus whatever we get.

Rohit Balakrishnan: And sir, the second question that I had was that if we look at the client addition over the last may be 10-11 quarters, it has been quite robust and if you look at the revenue contribution from the new clients, it is about 15% as of last year and I think similar number 16-17% as of 9 months. So, I had two questions here, so one was, what is driving the strong addition of client addition and I must definitely congratulate you because 3-4 years back you had talked about this as your strategy point and you have strongly executed on that so if you can just may be talk a bit about this, what has led to this strong addition and also sir, if you can may be give a broad idea of what is the share of new customer revenue would be, maybe let us say 2-3 year hence?

Srikar Reddy: I will get you that last one kind of stuff. So, I think it is a combination again of various factors, it has been the combination of our investments in more sales, presales, these things take some time, so there is a much more robust now sales engine which is operating. The alliance which we have kick-started and made investments etc., that is working much better. Our value proposition is getting better both from an IP-led and Platformation where we track record as we win and word of mouth is also yielding to these things. So, whole lot of factors, I think. End of the day as I said it is finally what is your value prop and what is it that you are offering to the market, I mean to whatever extent I believe we are offering currently what the market want, let me put it that way and seeking to invest more in, I have said this many times in the past that we are more in spaces where we believe the market is growing rather than shrinking.

Rohit Balakrishnan: And on the other part sir like you said about the new revenue from new guys, how that would shape up, let us say in couple of years in the 3 years?

Srikar Reddy: I think I should give you a quick definition of how we define new clients, right otherwise, so for us it is a cumulative of what we have acquired in the last 3 years kind of stuff. So, obviously that 3 years will keep changing as time goes by, so I think this current trend of about 20-25% in any 3-year period before they become old clients, then obviously I think all of you need to understand that there is obviously a churn, there are sometimes some client shrink and I think what we are doing is that despite the traditional shocks or whatever of client shrinking or not so big clients stopping business etc., we are showing this growth. So, without adding these new clients, we wouldn't have been able to do this if we were only depending on steady client who have been with us for long periods of time.

Rohit Balakrishnan: And sir, again on this point, there would be sufficient opportunity to grow with these client...

- Srikar Reddy:** Yes, there is, that is why I said once they become the 3-year mark, they will then go back into the old client reporting if you want to report it that way. The two buckets are people who have been recently acquired that is over the last 3 years and then people who have been there before that. I mean that is the way we look at it.
- 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 increase in margins that we see in the third quarter. So, over the third quarter, there is a sharp increase in the margins, improvement in productivity and you said that there is some seasonality to it, so if you can explain what the seasonality is a little better and what margin levers we have from here apart from the IP-led revenues because all other metric seems to be operating at the peak levels?
- Srikar Reddy:** Right, I think I have answered this question to 2 or 3 people who have asked me before. So, all I said is that we are managing up to 23%, we will also dig into it why Q3 is more than others, we will get back to you because from our side there is no extra lever or whatever happens in Q3. Otherwise, as I said the levers for us have been that the kind of services we are offering, IP-led, Platformation, utilization, automation, and so on and so forth and don't see too much levers available there to increase it. The percentage significantly we have always been saying that the margin growth should come from our revenue growth and apart from it, there is a huge currency benefit which is obtained, then that can help but given the currency being flat then I think we have exhausted all our levers more or less to increase our margin percentage. If there is something better happened, I mean it is not some heavy management of that but it is just that has happened but we are quite happy to look at this 23 or 22% and focus is on growing revenue at those margins.
- Amit Chandra:** Sir, in terms of seasonality, is there any kind of seasonality with...
- Srikar Reddy:** That is what you asked me, we will find out, but there is none as far as I know, I mean if there is some mystery there, we will let you know.
- Amit Chandra:** And sir, the second question is on the revenue from Microsoft. So, typically we see that lastly we have seen that the OPD revenue and the AX revenues were actually growing in sync. So, as you have mentioned that you are now expanding the Microsoft services to other verticals also, so that is leading to the strong growth in the other verticals apart from OPD, so can you mention these sub-verticals within travel or within retail or within others where you are seeing increased adoption of the Microsoft offerings?
- Srikar Reddy:** Yes, OPD is like also with Microsoft but that is as I said then we have retail which you mentioned. Travel is not very significant in the Microsoft portfolio. Microsoft doesn't really travel as a separate vertical, so whatever growth we need to drive, we need to drive ourselves with our IP, Rezopia and so on and so forth and rail and things. All other verticals, the service

industry which we acquired from Sopris is a focus. Commodity which we have acquired, it is not expressly explicit vertical for Microsoft, but we are talking to them, explaining to them the potential in the vertical to see whether we can do joint go-to-market. Then CPG distribution as where we have a vertical is again, while it is mixed up with the retail that is again a focus vertical.

Amit Chandra: And sir, the last question would be on the retail vertical, so as you have mentioned that there has been a strong growth in the retail vertical but if you see the number of client, it has fallen down significantly and this trend has happened for the first time if I am not wrong, so is there any kind of a planned pruning exercise that we are doing here or any change in strategy with the tail accounts into....

Srikar Reddy: Yes, I think in the retail vertical, I think as you all know, there are companies which are struggling. So, while we see growth, we will also see these threats to these companies who are struggling to meet up to the challenges faced by internet companies, so you would see that. While there is a huge potential for growth, there is a potential of certain people going away kind of stuff, so what you have seen this quarter a while there may be growth in revenues and you might see the numbers may keep changing a little bit.

Moderator: Thank you. The next question is from the line of Vipul Shah, an Individual Investor. Please go ahead.

Vipul Shah: Sir, my question pertains to slide 27 where you have mentioned IP-led revenue is 22% while in slide 24, it is mentioned as 25.1%, so what I am missing here?

Jagannathan C.: 25.1% is the right one.

Vipul Shah: So, in Slide #27, figure is not correct, right?

Jagannathan C.: Yes, correct.

Vipul Shah: And which are the verticals we consider in OPD?

Srikar Reddy: OPD is Outsourced Product Development, ISV.

Vipul Shah: Which businesses you consider under the head OPD? That is my simple question.

Srikar Reddy: OPD is like companies like software product companies, that's our OPD.

Moderator: Thank you. The next question is from the line of Vimal Goyal from Union Mutual Fund. Please go ahead.

Vimal Goyal: Sir, just one clarification. When you said that you are very positive on the domestic piece and you are also looking to expand your service offerings to maybe system integration and other hardware related services, hopefully sir, this should not really impact our working capital, right?

- Srikar Reddy:** No. All I said is we already started that is why you see this growth, otherwise if we had just done the business, we were doing given the situation in the Indian economy, we would have had a degrowth, so we have made up for this by actually expanding our product and service line. That is the only way we could grow. So, all I said is that has been done is all I am trying to say and we are then seeing the response and that is why we are confident of going forward.
- Vimal Goyal:** And just to clarify once again, IP-led revenues is 25.1%?
- Srikar Reddy:** Yes, that is correct.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, just on the IP, Rezopia has it got any big wins in the recent one or two quarters?
- Srikar Reddy:** No, the last one was I guess last quarter, first quarter this year, nothing in this current year Madhu.
- Madhu Babu:** Because I remember one of the theme parks has also taken it if I am right?
- Srikar Reddy:** No, the last one was the railway in the Middle East.
- Madhu Babu:** Sir and incrementally the other IPs, any recent wins if you can give a small update on the Brick & Click or the Kartopia which of them are doing well in the retail...
- Srikar Reddy:** The IPs which we are seeing traction, Brick & Click and CTRM, the commodity trade.
- Madhu Babu:** And just one more thing on the data base, there are 3-4 metrics which we are unable to get clearly, revenue from onsite and revenue from offshore because that is shown in the graph but we are unable to get the number because earlier it was 44%. That number for this quarter if you can give?
- Jagannathan C.:** The onsite revenue for the quarter will be around 42% and the remaining is the offshore revenue.
- Madhu Babu:** 42.
- Jagannathan C.:** Correct.
- Madhu Babu:** The last quarter it was around 44?
- Jagannathan C.:** Correct.
- Moderator:** Thank you. We have one more question that is from the line of Amit Chandra from HDFC Securities. Please go ahead.



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- Amit Chandra:** Sir, just few book keeping questions, can you please provide the attrition number, what has been the attrition number for the quarter?
- Jagannathan C.:** 15.1%.
- Amit Chandra:** So, we are seeing easing of the attrition, earlier quarter it was 16.2%, now it is 15.1%. And sir on the revenues from US, Europe and ROW if you can provide?
- Jagannathan C.:** We will update that. We will update the presentation and upload it.
- Moderator:** Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for their closing comments.
- Srikar Reddy:** Alright. Thank you all very much for joining and all your questions, thanks for your support. Sorry, I was not there at the beginning of the call, but I think I covered most of what I wanted to say in terms of we are seeing good traction on all our strategic initiatives. As I said, our domestic business has been a shining star in last quarter and we are very optimistic and what it does. I think the cash flows look much better than what they were. So, yes, so I wanted that would have been my opening remarks but thanks all, everybody and look forward to seeing you soon in any analyst conference or the next analyst call. Thanks again.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Sonata Software Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.