"Sonata Software Limited Q2 FY 2021 Earnings Conference Call"

November 09, 2020

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Moderator: Ladies and gentlemen, good day. And welcome to Sonata Software Limited Second Quarter FY 2021 Results Update Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. 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 and CEO, Sonata Software Limited. Thank you and over to you, sir.

Srikar Reddy: Thank you, Vikram. And good morning, everybody. And welcome to the Analyst Call post the announcement of our results for quarter two FY 2021. The results are all posted on the website with the necessary analytics.

Today I have with me, Mr. Jagannathan – the CFO of the company; Mr. PVSN Raju – the Chief Delivery Officer, Mr. Ranganath Puranik – the Chief Growth Officer, and Mr. Sujit Mohanty – the Head of our India Business, apart from Mr. Sathyanarayana – the Head of Finance Function.

So, quickly getting to an analysis of the results and the outlook for the future.

As I mentioned last time, in the call we had, I think we just come out of the uncertainty with the pandemic at face, and we have set in a motion a lot of actions to deal with the immediate issues facing the company. And I also said that, as we saw it then that things were changing for the better and we believe that the worst was behind us and we would be looking forward to growth as we go forward. And if you see the numbers this quarter, that's I think an absolute reflection of what I have said then. So, obviously, things continue to get better in the market as we see. So, while there is still caution, there is a more openness to spend, as we go forward. And as I said, obviously, the strategy was twofold, to see how much of the business which we had lost we could get back, and also look at growth from both existing clients and new clients.

Look at the market and if you look at the industries overall, we continue to see the travel and non-essential retail, still badly affected apart from some non-essential manufacturing and we generally see there is secular growth across the different industry verticals.

We had also initiated some cost reduction measures last quarter, about some voluntary pay cuts for the senior management, mainly, apart from the other costs which were not there because of the nature of the way we are operating of travel and some office administration expenses.

This quarter we have reinstated part of those salary voluntary cuts and we will reinstate all of it back in the next quarter. We did not add to the manpower last quarter, we did not replace the people who had left the company last quarter. So, that we have the right level of people for the volume of business we had last quarter. The other trend we have seen last quarter is a greater shift to offshore and we will continue to see that as we go forward.

So looking at the future, and I think this time have tried to present our India business in a more analytical fashion so that you all can get a better understanding of the business, not just from a top-line, bottom-line part but from the cloud and non-cloud mix, the revenue margin distribution by clients, the number of clients and what they contribute, the annuity and non-annuity nature of the business. And we will give more details as we go forward in terms of analysis by product clients and the number of years customers have been with us and so on and so forth to get a much better representation of the business than just the top-line and bottom-line and margin kind of stuff. So, going forward, as I said, we will continue to see the same trend in growth in both top-line and bottom-line in the next half of the year, overall a secular growth. And we will start adding people back into the business in the subsequent quarters.

The GBW, which is the company which we had acquired, obviously, continues to be affected by the pandemic. But I think we should see growth in that business in Q4 of this year. So overall, I think now going forward, the strategy is to focus on aggressive growth post things settling down, whether April or July next year. So we will be starting to invest very aggressively in sales, marketing, pre sales, consulting, etc., from now to March, to prepare the organization for growth as we go forward.

So that's a high-level summary of an analysis of the performance of the business last quarter and the way we see it going forward, and what we plan to do as we go forward. I will be very happy to take questions later on in the session. I now hand it over to Jagan, to take you briefly over the numbers and analysis for the quarter.

Jagannathan C.N.: Thank you, Srikar. Thank you for your brief outlook update. Good morning, all. I will now take you through the key highlights of this quarter. Are you able to see the presentation? This talks about the consolidated financial performance of the revenue as well as the EBITDA and PAT growth rate. If you see, it has been a very, very solid performance compared to what it was last quarter. We have grown the revenue by 7% ($ Mn Revenue Growth) and the CAGR has been consistently growing quarter-on-quarter, our revenue growth has been 5.4% CQGR. So, the EBITDA has been growing solidly, we have a solid performance growth in terms of EBITDA also, 11.2% has been the growth now. This is again a solid growth which with CQGR of 2.6% EBITDA of growth and PAT CQGR of 2.0% growth. Again, the profitability has grown faster than the revenue growth overall.

The international services, this is to highlight the performance of the international services. The Q2 has been very good for international services with the revenue growth coming in with a solid performance and the EBITDA and PAT growth has also been very solid. We have an EBITDA percentage of 24.4% and PAT percentage as 15.1%, which has been the industry beating EBITDA and PAT percentage for us.

This is a domestic business; domestic business has also done well. The profitability has gone up in domestic business. If you see here, the revenue growth as we have been mentioning, we have to measure the business on gross contribution, absolute amount of gross contribution. Again, we maintain in spite of change in the absolute revenue value, we have maintained the same profitability hence the overall EBITDA as well as the PAT has gone up. PAT has gone up from Rs. 11.6 crores to Rs. 13.6 crores this quarter. Domestic business has been consistently performing and maintaining the profitability and increasing quarter-on-quarter.

This is a financial summary of all the businesses. If you can see here, the international services quarter-on-quarter growth has been 4%, year-on-year we have a dip of 8%. And the consolidated revenue has also been growing. Again, as mentioned earlier, the domestic business we should not see it on the revenue performance, we should see it on the gross contribution. The EBITDA has been solid performance for us. The domestic profitability has also gone up and the PAT has also gone up for us in the international as well as the domestic business.

There are some operational metrics, we will leave it to you on this because these are all covered in our investor presentation itself. This is just a summary of this operational performance. Consistently we have been growing on the change in a little bit of travel and ISV probably because of the base effect. Otherwise, we continue to have the performance and ISV continues to be strong and distribution and manufacturing and retail continue to be strong for us. And there is a change in the onsite mix, it is coming down because of whatever the change due to the COVID. We see this is helping us to improve our profitability in future also.

As I mentioned, this is all covered in the investor presentation. Again, this is just a breakup of the same and put it in the presentation for you. There have been new client additions, about 10 customer additions are there. We continue to keep growing on the customer front. And we have a solid pipeline coming in this period.

As Srikar was mentioning about it, we have not replaced the people attritions in the last quarter. That's the reason why there has been some drop in the headcount.

This is a brief update. With this, I conclude my presentation. I hand it over back for the questions from the analysts on this. Thank you all. Thank you for all the support.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: Srikar, congrats on a very tight quarter again. A couple of questions. First up, there seems to be some moderate weakness from your Microsoft accounts, which is quite contrary to Microsoft's own performance in dynamics and other portfolios of theirs, like Azure. If you could have some colour on what exactly is happening there and how does the future look out there?

Srikar Reddy: Yes, the revenue for on this thing is twofold. One is what we directly sell to customers and what we sell to Microsoft as a customer on the dynamic side. On the dynamic side, there has been a bit of a, let's say, based on the pandemic across the board there was a little conservatism in the overall spends across the board. And we will see that coming back in the future quarters. But the growth, the second growth is the growth in the market where we sell customer, that doesn't show up as Microsoft or whatever, it shows up as industry vertical. And we are seeing good growth there. So you need to look at it, the growth in the market will drive the growth in the industry business, and the growth in the Microsoft account will drive growth in the ISV business.

Baidik Sarkar: Sure, that's helpful. Given how the situation is panning out in Europe again, do we foresee any weakness with the TUI account or will the recovery continue to be more like this?

Srikar Reddy: Yes, I mean, as we see today, we don't see further weakening but we definitely see that more growth will be stifled till there is more visibility. Everybody's expecting some kind of a vaccine or whatever it is in the first quarter. And so based upon that, then there could be first quarter as in fourth quarter for us. So we won't see any growth, neither we see today because they have got now a second tranche of funding, so they are adequately now funded to tide over through all these things. So whatever they have, apart some related spend we don't see any reduction, while obviously there is absolutely no business for them because of all these lockdowns. They were expecting to do some business in this quarter, but because of the lockdown there is more or less no business. So yes, the summary is that we don't expect growth, at least this quarter, I mean, maybe beginning of Q4, and we neither, as we speak, expect any shrinkage. But whatever growth forecast we are giving, is assuming that we will see no growth in that account.

Baidik Sarkar: Sure. And lastly, we understand the India product business needs to be seen from an absolute earnings perspective and not margins. But even the absolute numbers from a Y-o-Y perspective has been weak. We understand there is some pricing pressure given the environment, do you expect this to deteriorate further?

Srikar Reddy: No. As I said, we are now going to see growth across the board.

Baidik Sarkar: In the domestic product business as well?

Srikar Reddy: Yes, absolutely. We proved from the first quarter to the second quarter from, I guess, Rs. 11 crores to Rs. 13 crores, it is like 17% growth in PAT. We expect to see that kind of growth as we go forward.

Moderator: Thank you. We have next question from the line of Harit Shah from KR Choksey Shares and Securities. Please go ahead.

Harit Shah: Congratulations on a decent execution to the management. Just had a query regarding the U.S. geography. So in a quarter where most of your larger peers have seen decent growth in that geography, your revenue has come down quite substantially by about double-digits. Could you give some color on what is going on out there, that would be helpful?

Srikar Reddy: The U.S. geography, I think some of them would be because of the acquisitions we have made, would be projects kind of a business, so that can be wavy. But overall, at a consolidated level, we don't see a concern there and we will continue to see growth going forward.

Harit Shah: You are referring to GAPbuster?

Srikar Reddy: Not GAPbuster, these are like so for instance Sopris and Ibis, and these are all the dynamic kind of partners. So they can get wavy results based on projects and license margins and so on and so forth but from quarter to quarter.

Harit Shah: Yes, sorry, my mistake again, GAPbusters I think is more Australian. Just to clarify, you had given out salary cuts so have you partially restored that in the third quarter or will it be entirely restored…

Srikar Reddy: Yes, we have done quite a bit in the second quarter, and we will do most of it in the third quarter. But as I said, all our forecasts are assuming based on growth, or based on assuming that we will do all this kind of stuff. We have factored in all this in the growth forecast.

Harit Shah: Yes, you said second and third quarters, so I am assuming that third and fourth actually led?

Srikar Reddy: No, no, we did some of it already in the second quarter.

Harit Shah: Okay, some of it was restored in the second quarter.

Srikar Reddy: Yes. That means that will balance in the third quarter.

Harit Shah: Right. So we can assume that that by December the entire salaries would be restored to be earlier levels?

Srikar Reddy: That's right. And we possibly will look in the January quarter for some kind of at least a compensation revision for some people in the company.

Moderator: Thank you. We have next question from the line of Dhiraj Dave from Samvad Financial Services. Please go ahead.

Dhiraj Dave: Sir, I was going through your results and in the other comprehensive income, particularly consolidated, we see significant amount of basically exchange variation. So can you just explain what exactly it is, there is a Rs. 13.2 crores and Rs. 23.78 crores of some exchange variation. Because that if you see, comprehensive income is Rs. 87 crores vis-à-vis Rs. 64 crores last year, while profit for the year is Rs. 57 cores vis-à-vis Rs. 72 cores, and I think broadly can you give some color what exactly this is?

Srikar Reddy: Okay. I will ask my finance team to explain that questions.

Sathyanarayana R.: Yes, so this is mainly a mark to mark on forward contract, basically. So whatever it is there, it will come into the other comprehensive income, and flow back to the P&L as amended contracts are cornered.

Dhiraj Dave: Okay. So just to clarify, so next quarter we shall envisage around Rs. 33 crores…

Sathyanarayana R.: No, not next quarter, basically we have contracts spreading over more than one year. So this is all contracts put together.

Dhiraj Dave: Fair enough. So that part I understand that accounting wise it is required. Because what is happening is that if we look number in isolation, we see a deterioration in the profit. So, if I have to contribute something like that, well, it would be over a period of time but mostly would be expanding in three to six months' time or it will be like stretching over, say 60% 70% would be expanding in three to six months' time, if you can put some time line?

Sathyanarayana R.: Yes, it would be spread over six to 12 months' time basically.

Dhiraj Dave: So that was one part. So, we shall see some kind of this getting booked in three to six or three to 12 months' time?

Sathyanarayana R.: Yes. You are right. That depends on exchange rate, basically.

Dhiraj Dave: Yes. So that was one part. And the second part, we see some kind of provision for doubtful debt in Slide 31 which you had put on exchange as well as on your website. So that has increased, in fact, that has gone up highest to 0.65% kind of it. So, can you give some more color, what was the reason? I mean, this is the highest ever write-down as per that slide also, whatever is available data you had provided. So can you give some color on that?

Srikar Reddy: Okay, let me just answer the question first, and they can give you the thing. Basically, it's not a write-down, it's just a provision based on some accounting norms.

Dhiraj Dave: My apologies, yes. So provision for doubtful debt.

Srikar Reddy: Okay. I can ask the team to explain.

Sathyanarayana R.: Yes, this is the expected credit loss model, under that we provide for doubtful debt. It's based on that logic as per the accounting standard.

Dhiraj Dave: But we envisage we shall recover basically based on business, whatever talk we had with clients, etc.?

Jagannathan C.N.: Yes, yes, this will be closed in that subsequent quarter.

Dhiraj Dave: And last one from my side. Basically this time dividend of full interim, if even we compare, while we understand the environment is challenging, but numbers are reasonably robust. So what was the factor management considers, in fact, if I look at last year interim dividend, it was something like Rs. 4.50 to Rs. 5.15 kind of in last two years, interim dividend specifically. So, what is your thought process on dividend distribution and why we see some kind of reduction, if I may say so?

Jagannathan C.N.: See, we continue to follow the same dividend capital allocation and dividend payment policy. There is no change on that, it depends on the particular circumstances, what are the opportunities coming in the market, what are the investment needs of the company, and what are the business support required. And there can be a small change on that. However, our dividend policy continues to remain the same.

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

Madhu Babu: So some more clarity on the top account in the ISV space. So, we said that there has been some softness in Microsoft related work in the OPD side. So how is outlook or any other new opportunities? Because that vendor is fairly competitive and a lot of large players are there in that account, in the OPD space itself. So how should we see this accounting more on a two, three-year perspective?

Srikar Reddy: Yes. As I said, in the overall R&D spend, there has been a general slowdown in the end of Q1 and the beginning of Q2, we see that coming back. So, as I said, we are very uniquely positioned, mainly from our strength in the dynamic space. And as we see, I think we see more spend and less spend as we go forward. So, to that extent, we see us position competitively compared to others, is relatively strong, both from a fact that obviously we make investments in the market too, and that is an important thing for that partner that the partners also helps in the sale of the product and not just deliver services to the company kind of stuff. So we see ourselves positioned very well. And as I said in my statement at the beginning, we do see reasonable growth coming back in Q3, Q4 from that account.

Madhu Babu: Okay. And second, sir, in terms of both the acquisition, Scalable and Sopris, I think this time the others vertical was also weak, obviously, it could be something around that weakness from one of the acquisitions. So how is the integration with the top management? Is that progressing well in terms of the retention of the top management, etc.? And your views on both acquisitions, how are they spread out?

Srikar Reddy: Yes, both the top managements are there, it's almost now coming to two years since the acquisition, but all the founders are there, top management is there. In Scalable, we have seen a lot better performance. And in Sopris, I think going forward we will see that, because the combined value prop for the energy and service vertical is much stronger. And I think as we go forward, we will see a much stronger performance coming from Sopris. But Scalable, today is well integrated, and their original strengths were agri commodity, but they are now going after retail and distribution clients, in that market, which is mainly Australia. And then, obviously, the rest of it is how we take the agri business to the rest of the world. Similarly, as I said, the value prop now is more comprehensive in the U.S. market with Sopris, and we have to take it to the rest of the world.

Madhu Babu: Okay. So we are now confident more about the growth coming back and on the hiring and the sales level and all, so would it be fair to assume that on our base, like 5%, 6% Q-o-Q growth momentum can come back in FY 2022 or maybe right from Q4 onwards?

Srikar Reddy: 5% to 6% year-on-year or quarter-on-quarter?

Madhu Babu: Q-o-Q, quarter-on-quarter growth on a run rate basis?

Srikar Reddy: That's like some 30% growth year-on-year. So some of the mid-caps are growing at 18% now, so I think market is expecting a bigger momentum. Anyways, you are focused on that.

Srikar Reddy: I definitely see solid growth in the next two quarters, and then we will see, based on that base what the growth will look like. But as we see today, I mean, I think if we continue with the same growth, I don't know whether it would be 30% growth, but I think we grew about 4.5%. 5% quarter-on-quarter. But definitely, yes, 3.5% to 4% looks reasonable.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, for your travel, largest account in your travel segment, now with the continued shutdown in the European markets due to the COVID, second wave of COVID. I mean, earlier itself the business was majorly hit and now it seems like they have gone into the ICU. So how do you envisage your revenues from this account going forward? And if you can comment on whether that business can stand on its own leg at some point of time, how do you feel the client is doing?

Srikar Reddy: Yes, that's what I said, that it had come down drastically in the first quarter and it's come back to a certain level, I think it has come back to about 25% to 30% of where it was. As I told the person who had asked this question previously that we don't see a reason for this to be further reduced. Earlier there was a thinking that this could increase it Q4 but based on all these lockdowns we may not see that happen also. So we will have to wait and watch, but overall as far as the company is concerned, as I have said, they have now I think got an infusion from, I think, mainly various governments of EUR3 billion to EUR4 billion. So I guess they are now in the position of too valuable to fail kind of company. And leisure travel is something which is expected to get back on its legs when all these things settle down. Maybe business travel could be affected, but leisure travel, like people are obviously expecting a lot more growth, both from pent up demand kind of stuff. So as a segment, I think leisure travel is solid. And as I said, the company now has enough financial might go through this. It is a question of when they want to invest, how much they want to invest for growth as they go forward. But the current level of investments with us we believe will continue.

Sarvesh Gupta: Okay. And within your travel segment, as it was like maybe one year back, any sense on what could be the split between leisure and business?

Srikar Reddy: In our segment…

Sarvesh Gupta: As it was one year back, like maybe 25% of the revenues were coming from this segment.

Srikar Reddy: Yes, it would have been about 80% or 75% would have been leisure, 25% business.

Sarvesh Gupta: Okay. And secondly, sir, your digital revenues as a percentage of overall have grown a lot. So is it only because the travel segment was not in the digital side?

Srikar Reddy: Yes, there are two things, one is the revenues which went away and the revenues which are getting replaced are more digital. Second, even if you see dynamic earlier was an on-prem kind of a solution, now it's cloud, so it's more digital. So as we see growth, we will see more. So it's being driven by both the factors, the revenues which went away are getting now replaced by digital services. And one of our main service lines is now more digital, because it's now on the cloud kind of stuff. So both are driving the digital revenues.

Sarvesh Gupta: Okay. And on the domestic side, if you can just give some color on, earlier I think there was some pricing pressure. But now, in your conversations with your clients, both existing as well as potential, what are you hearing in terms of their ability to sort of invest more on this side, as well as the pricing side?

Srikar Reddy: As I said, depending upon the sector, variability, quite high to very aggressive growth to lets invest back to let's wait and watch kind of stuff. So that’s the overall thing. But overall mood in the market is lot more positive than what it has been across the board kind of stuff. Pricing pressure, we are not seeing any pricing pressure.

Sarvesh Gupta: But do you see any upside from the last quarter where we had seen some compression?

Srikar Reddy: Yes, absolutely. That I think if you see, I think there are the 4% or 5% growth on the top-line, I think 5%, 5.5%, whatever that is. So yes, absolutely we are seeing upside in the market, not only last quarter but going forward.

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

Mohit Jain: First is on your capital allocation. Like you guys mentioned it in the PPT as well. But is there a change in the payout versus M&A investments that you are planning for the next 12 months?

Srikar Reddy: Okay, the payout, I think we have a policy, we will stick to that. M&A is really, obviously, we have an appetite for acquiring more, obviously, there are a lot of factors which are dependent on it, finding the right fit and at the right value and valuation. So there is no allocation as such, but the appetite to invest is there and that can vary from year-to-year based upon when we get the transaction done kind of stuff. But there is an appetite to invest more, so that's for sure. But the payout is more or less affected, we have a fixed policy of whatever 50% or whatever it is of the consolidated profit.

Mohit Jain: Okay. So you are saying, when you say appetite meaning the size of the target that you are looking at that may go up, is that correct?

Srikar Reddy: The size of the target, yes. That was always high, it was never constraining factor, it's just that obviously I mean, as I said, both value and valuation are important. So if one of them don't work out then there is no appetite kind of stuff. But the appetite was for more, as I said, to do more M&A. The appetite for size was never a constraint.

Mohit Jain: Okay. And sir second was in the travel vertical, like you said top clients may be slow or depending on how Europe pans out eventually. But given that our investment historically and our capability was very strong in travel, so what are we trying to do there, both in terms of investments and also in terms of margins, like if travel comes back, let's say, 12 months from now, will we see further increase in margins? And currently your margins are depressed because travel is not turning out to be a revenue accretive thing for us.

Mohit Jain: Right. I mean, when things come back, obviously, that will lead to both growth in top-line and growth in margins. I think there is no doubt about that thing. It's a question of when is the question really.

Mohit Jain: So the connected thing is utilization. Now that is it like the people are getting deployed somewhere else, because utilization also shot up last quarter and you are seeing growth in other verticals, I guess, for the next two, three quarters.

Srikar Reddy: Yes, because utilization has shot up because the number of people decreased also. So that's why it shot up. But as we go forward, we are planning to hire more people. So the utilization will be normal.

Mohit Jain: Which is 85% odd levels?

Srikar Reddy: That's right.

Mohit Jain: Okay. And sir, what is the hiring plan for the next 10, 12, or whatever you have frozen on?

Srikar Reddy: We are looking at about, I think about like 500 people in the next two quarters.

Mohit Jain: 500 gross?

Srikar Reddy: 500 gross, that's right.

Moderator: Thank you. We have next question from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Sir, my question is related to the Microsoft account. So earlier, you have mentioned that the Microsoft Dynamics program is an opportunity and we have been doing pretty well there. So if you can elaborate on how that opportunity is panning out and how we are placed there in terms of competition and how we have played along with in terms of the SIs like Microsoft for tapping this opportunity. And roughly, what will be the opportunity, say, in the next two years from this program?

Srikar Reddy: No, as I answered another person, there are two opportunities here. One is what we do with Microsoft in the market, so it is not an invoice raised through Microsoft, but an invoice raised to the customer. The second is the opportunity with what we do with Microsoft, that is the invoice is raised on Microsoft. As I said, there was a general across the board, let's say, constraint on spending, we see that opening up, so that will lead to grow to Microsoft. But the larger opportunity is what we can do in the market. I mean, I think that opportunity itself can be like $50 million to $75 million for us in the next two years.

Amit Chandra: Okay. And sir if you can provide any additional color on the number of enterprises that are actually looking to upgrade their existing Microsoft Dynamics installations?

Srikar Reddy: The number is large, there are I think 10,000 customers who are on older versions, 2009, 2012, etc. So even if 50% do that, the market is 5,000. Even if you break up that market again into small, medium, large, if we just take the medium and large, they could be about 1,000 clients.

Amit Chandra: And in terms of an average enterprise, like what will be the size of the opportunity?

Srikar Reddy: It could be between $3 million to $15 million.

Amit Chandra: Okay. And sir, the second question is on the investments that you mentioned that you are going to step up investment. So, in our existing portfolio, what kind of gaps are there which has to be addressed, both on the Microsoft side and on the non-Microsoft side? And as you mentioned that acquisitions have always been on the Microsoft, like enhancing the Microsoft capability. So, acquisition is one thing, and apart from the acquisitions what kind of investments we need to have in the short-term and in the medium to long-term? And will these investments have impact on our margins, or we have significant operational leavers in-house like offshoring, and higher utilization, which can offset the investment that you are planning to do?

Srikar Reddy: As I said, the investment is in pre-sales, consulting, marketing, so it's really across the board, across geographies kind of stuff. So that's the investment we are talking about, apart from getting more, I would say, strength in the technology and that kind of thing. So that's the investments. At least for the next few quarters these investments have been factored into whatever we are forecasting as bottom-line growth. So, those have been factored in into the growth plans of the company.

Moderator: Thank you. We have next question from the line of Pinkesh Jain from Way2Wealth. Please go ahead.

Pinkesh Jain: I just have one question. In the international business, can we see like this watermark of $200 million turnover next year? And our profits being at all-time highs, like even exceeding your FY 2019, like what are the management thoughts on that?

Srikar Reddy: We don't give quantitative forecast. As is said, we are looking at growth for you to put the numbers together kind of stuff. But yes, if we see the current trends, we could have quarters sometime next year where we make more profit than we have ever made in a single quarter.

Moderator: Thank you. We have the next question from the line of Vinod Mohanlal from Mohanlal Investments. Please go ahead.

Vinod Mohanlal: Srikar ji, I just have one question. Earlier also we had discussed about what is the thought process that the management has in terms of reducing client concentration risk, and also sector risk in terms of over reliance on travel? Of course, this is from hindsight, because travel got affected due to COVID. But in the last six, eight months, is there anything that management is thinking? Can you give some color on that?

Srikar Reddy: Yes, absolutely. Right. I mean, if you see our number, the client concentration can vanish by itself because of what happened to the travel clients. And sort of we have now more larger focus on other industries, you see that you are giving a larger set of industry verticals. So absolutely, I think, whatever has happened has changed that mix of dependence and client concentration and industry risk. So all of them have, yes, I mean, whatever has happened actually has led into the right mix and right analytics as we go forward. So that's been taken care of.

Vinod Mohanlal: Okay. And I would like to slip in my second question as well, in terms of currently I have heard, if I am not mistaken, I heard that the onshore offshore has shifted a bit naturally because of restriction of movement of people. So do you see that when we are over this entire thing, maybe 12 months, 15 17, 18 months from here, do you see that the mix will again go back and will it compress the margins, any colour on that, I mean?

Srikar Reddy: Okay, it's a good question. I think see, obviously, the mix will get better as we go forward in the short term. There will be more offshore than on site. And then once things settle down the mix will change, but it will never go back to where it was, because now there is a lot more acceptability that some of these models actually work, without having so many people on site. So where it will settle down is somewhere in between to what it was and where we are today. Where we are today, most people are saying, Okay, I need to get my work done and this is the best way to get it done, let's do it. Although it may be 100% not as effective, but they are also saying that a lot of things I was incurring money on need not have been done that way so I don't have to do it that way. So we will do more offshoring in the immediate couple of quarters. And then once all things change, we will get back to a little higher on site. But we will never go back to what it was before this thing happened.

Moderator: Thank you. We have next question from the line of Vipulkumar Nnopchand Shah, an investor. Please go ahead.

Vipulkumar: Congratulations for good set of numbers. So my first question is, why there is a sudden reduction in the headcount quarter over quarter?

Srikar Reddy: Yes. As I said, the volumes of the business needed only that many people, we didn't find the need to replace the people who have left. And as also said, we are going back to hiring people so you will see those numbers growing back. Because if you see, the volumes had come down by 10%, 15%, or whatever it is of business in the first quarter especially, and then second quarter. So we didn't see it prudent to add back people in that quarter. But as I said in the call earlier, going forward, we are going to go back to having a greater number of people.

Moderator: Sir, in first half, our dollar revenues were $75 million as against $90 million in the preceding period of the last quarter. So I am not asking for guidance, but directionally how do you think second half will pan out as compared to second half of previous year?

Srikar Reddy: Okay, there are two components there, there is a India business, so there we don't manage by top-line, but by margin.

Vipulkumar: No, I am talking only about the international IT services.

Srikar Reddy: You are talking about the 75 consolidated not just last quarter?

Vipulkumar: Yes, in first half.

Srikar Reddy: Yes, as I said, in H2 we are hoping to see the similar kind of growth, as has happened quarter-on-quarter last H1, that's what I had said earlier in the call on the international services. On the India business, we are hoping to see similar growth in margin, as we have seen in the quarter-on-quarter in the first two quarters.

Vipulkumar: And sir lastly, how are our recent acquisitions performing, the Scalable…

Srikar Reddy: Yes, scalable I had told, Sopris I had told, GBW is brand new and they are reasonably right now affected by the pandemic, but we expect them to get back to growth in Q4 of this year of Sonata. And I have given a fair amount of detail on both the Scalable and Sopris where we are.

Vipulkumar: I joined a little late, so I am extremely sorry if I repeated it. But if you can give me some broad colour, it will be helpful.

Srikar Reddy: Yes. As I had said, Scalable is fully operational and working very well. Sopris, we are seeing a better integration and we will see that going forward. GBW I just mentioned that they were affected by the pandemic, but we see growth coming back in the Q4 of this year.

Moderator: Thank you, sir. We have next question from the line of N. Puranik from Enam Securities. Please go ahead.

N. Puranik: I have a couple of questions; one is relating to your service line today. So are they, from your experience of what last few months, few quarters, as earlier times, do you think you need to expand your service lines to make it more meaningful for a customer wallet and increase the bill share and get the $1 billion account? That is the one important question because that is in the context of, see what happens is, if you have a strong horizontal you can build a few more verticals. One vertical that you are missing which has happened is BFSI. So I think you need to strengthen your vertical a little bit, those verticals so that you can de-risk your concentration, a few of this retail, travel and tourism.

Srikar Reddy: Okay. Thanks, Puranik. So, a good question. So I think what we have done and been doing is to transform the horizontal. So the horizontal, as we see, and we describe it in the report, which is like the data analytics, the platform, engineering and cloud transformation. But those are being transformed from a competency level in terms of what goes into it, what are the additional frameworks and IP which needs to be built in and how to deliver, how to deliver digitally, how do we align those things to our platform concept. That's a big process in terms of transforming not only the services but we also have what is called a unified engineer program in the company. So people are getting more unified, not what is otherwise called full stack engineers and some other terminologies. So there is a huge transformation to not only transform the services but transform the people who can deliver the services. The second is, if it can get us to financial services, we have to see, but I think we have expanded at least to two other verticals because of the acquisition, which is agri business and the utility and service industry. And that I think itself is taking away the dependence from the travel vertical. So that's fine, I mean, the BFSI or healthcare or one of these, let's see, I mean, it's a horizontal-led vertical kind of M&A can get out there.

N. Puranik: Sir, when you say transforming this service lines and horizontal, what does that mean, in terms of tracking client opportunity, expanding of client revenue? What will that mean going forward, does that significantly expand your ability?

Srikar Reddy: Yes. So like if you have one service line, let's say, we do Dynamics today with a client, then the other two adjacencies, even assuming the client is a very heavily Microsoft shop, then there is a big data opportunity and then there is a big cloud opportunity, especially with the Microsoft Power platform, and so on and so forth. So there are two horizontal, and each of them are large enough horizontals, like the Dynamic horizontal. So that's what I meant, Puranik.

N. Puranik: So what do you do with the data? When you say data, what is your data service?

Srikar Reddy: This is from end to end, right, from creating the cloud platform infrastructure, using the data, and then providing the analytics, and business decision making, and so on so forth. So it's end to end, take the Dynamics data, put it into a data leg, data warehouse, using the full stack of Microsoft, and then how do you leverage that to either build new applications or provide new analytics. And that's where this whole Power platform and all is playing a big role now, to develop apps very quickly, using this data infrastructure provided by Microsoft.

N. Puranik: So your data revenue can be significantly better going forward?

Srikar Reddy: Yes, and we are seeing that.

N. Puranik: And how many people work on data, data set, data warehousing today?

Srikar Reddy: I guess about 400 to 500.

N. Puranik: That number will go to what?

Srikar Reddy: I think that god knows Puranik.

N. Puranik: No, what time, I am saying opportunity wise, one is…

Srikar Reddy: Opportunity is vast, I mean, that can double.

N. Puranik: Because that is a big opportunity.

Srikar Reddy: Yes, it is, because Dynamics customers need data at some point or the other.

N. Puranik: So, data, right analytics and DI, and ML can be a huge opportunity, isn't it?

Srikar Reddy: By itself, yes. Third is what we call platform engineering, others call cloud. Then using something like Power platforms to build a new cloud application using all these infrastructures. So that's the third option, as a horizontal.

N. Puranik: Sir, you have talked about utilities and agri as verticals, in your current new horizontal services, horizontal and the resultant services that you create, is it enough to get significant share of revenue from utilities and agri?

Srikar Reddy: Yes, because the driving there is still dynamic, because we are seeing commodity trading IP for agri, and with Sopris we have, what is called, a connected field service IP for the utilities industry. So the driving force is still Dynamics into these sectors.

N. Puranik: So derivative, service and the top layer is Dynamics, around that you get all the service?

Srikar Reddy: Yes, once we do the dynamic which itself is largely, which somebody had asked that itself depending on the size of the client, the opportunity could be 3 million to 15 million. And then the other horizontal. Fourth, the transformation of the core infrastructure of the company.

N. Puranik: Do we need to expand the leadership in Dynamics team?

Srikar Reddy: Yes. I had answered the question, so I think we are planning to invest a lot more in hiring people in the next two to three quarters. Yes, absolutely.

N. Puranik: So these skills would be what, Dynamics focused skills?

Srikar Reddy: Yes, these are people who know the industry well, who know Microsoft and understand the ecosystem in the respective markets and are also pretty good knowledge of the product.

N. Puranik: Excellent. So another question I have is, in terms of your experience in M&A, so over time you have done many acquisitions, what's your sense, in terms of targeting, integrating and making it work? So that there would always be a mix of good and bad, and what is the learnings?

Srikar Reddy: Yes, absolutely agree with you. I think the key is cultural fit with the leadership and management. And integrating into working together, into, let's say, common way of working, I think. Because these tend to be very new business led, very project led kind of stuff. They don't have a culture of account management, account mining, account growth, and so on and so forth. And then expanding into other services. And it takes time, I mean, it's not like it's not very logical to say why can't you do it? I think you have to get into the basic understanding of that this is another way to do business.

N. Puranik: Correct, another way to do business, right. Sir, Scalable data acquisition, is it a Dynamics platform?

Srikar Reddy: Yes, Scalable is Dynamics, that's where we got the agri business, CPR IP from, and mainly in Australia, and we have seen that business grow, I think our Australian business has doubled, I think. And the Sopris is the utility and pre-service. Both are Dynamics partner.

N. Puranik: So, truly stands to its name, Scalable. I am asking, is scalable really scalable in terms of opportunity for you?

Srikar Reddy: Yes, as I said, our Australian business has more or less doubled or even I think will grow up more than like 20%, 30%. And then how do we take that to the rest of the world is the other one, the agri business kind of stuff.

N. Puranik: So this is what, data warehousing universe or what exactly is that?

Srikar Reddy: They have an IP which sits on top of Dynamics to facilitate large commodity based industries, agri businesses, to manage their commodity buying cycles, to ensure that they have a good visibility on cost, so that they can price their end product better.

N. Puranik: I see, interesting. So this is basically the pricing engine?

Srikar Reddy: Yes, it is a lot more than a pricing engine, it is contracting, it is risk management, it is alternative raw material, procurement to creating an end product, all that kind of stuff. And then using all that to price the end product.

N. Puranik: Sir, it can work on multiple vertical platform actually, it's not just single vertical?

Srikar Reddy: No, it just works on dynamics.

N. Puranik: But different business verticals it can work?

Srikar Reddy: No, agri business mainly, you have to be in the business of buying a commodity and using it to manufacture something.

N. Puranik: So, the business across is all about agri?

Srikar Reddy: Yes, mainly I think, agri, animal feeds all these are where you buy commodities, mix it and then you sell it kind of stuff, or processing and so on and so forth. Not like steel and other things.

N. Puranik: And you are seeing a lot of opportunity in that?

Srikar Reddy: We are seeing traction, yes.

Moderator: Thank you. We have next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, my question has been answered. Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir.

Srikar Reddy: All right. Thank you, Vikram. Thank you everybody, again, for joining and a very lively conversation. Thank you for your support. Look forward to seeing all of you in our next call. Thank you all, again.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Sonata Software Limited, that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.