



“Sonata Software Limited Q3 FY2021 Earnings Conference Call”

February 05, 2021



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LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to Sonata Software Limited Third 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, Managing Director and CEO, Sonata Software Limited. Thank you, and over to you, Sir!

Srikar Reddy:

Thank you, Bikram, and good morning, everybody, for joining the call today post the announcement of our Q3 FY2021 results yesterday. The results will have been posted on the website. I am sure you all had a chance to look at them. We will spend some time on that today. Today, I have with me Mr. P. V. S. N. Raju, the Chief Delivery Officer of the company; Mr. Jagannathan, the CFO of the company; Mr. Ranganath Puranik, the Chief Growth Officer; Mr. Sujit Mohanty, Head of India Business and Director of SITL; and Mr. Sathyanarayana, VP, Finance & Accounts, Sonata Software Limited.

I had said in our last call, I just mentioned that we have gone out of the uncertainty, and we are seeing a lot more clarity in our business and said that we are looking forward to growth as we go forward. I had also said that we had reversed back a lot of decisions on cost cutting, etc., we had done in last quarter and which we have also implemented this quarter. So as mentioned by me, I think the results speak for themselves. I think we have shown fairly secular growth in the international business across all our verticals. We have seen our profitability rise because of both in terms of utilization, change in the onsite/offshore mix and actually a better realization for the services we have provided.

We have seen a steady growth in our digital business continuing to show about our whole Platformation contract is working, incidentally it is now 4 years since we have actually announced and launched Platformation as a concept. We have seen, as I said, growth across the various geographies in which we operate. Going forward, I think we are going to continue to see this growth, got the visibility for that in terms of both our topline and profitability.

We had also announced a compensation revision across the board starting January 1, 2021. But whatever growth we are talking about is factoring the compensation increases we are planning effective January 1. Our India business has shown tremendous growth actually But as I said, our India business has shown tremendous growth and has had the highest margin driver in terms of historically, in terms of absolute terms.



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As I said, so overall, I see that we are on track in terms of what we have set a quarter back in terms of our growth and we also think, started adding back manpower, and continue to do that fairly intensely as we go forward. A big push on investments now across the Board, whether it is sales and marketing and M&A and IP and everything else, so overall, I think we are poised for growth. We use this opportunity to really create a very strong organization across the board and include our purchases and all that kind of thing. So that is in a nutshell from me. We will be quite happy to take questions. As we go forward, I will hand it over to Jagannathan to take you through the more detailed analysis of the numbers.

Jagannathan C:

Thank you, Srikar. Good morning, all. I will now highlight our financial performance and our details, both for the international business as well as the domestic business. This shows a consolidated performance of the revenue. The revenue performance has been really good, particularly the EBITDA performance of the international business. As Srikar was highlighting, the gross contribution we see from our India business has been one of the record highs in this quarter, where revenue also has grown very well. They have done a good performance.

On the International Services business, which you can see revenues quarterly growth for last 12 quarters have been consistently high and this international EBITDA percentage has been growing faster than the revenue growth. We have a record EBITDA of 29% this quarter. The PAT extension here is after the VSV scheme. Without the VSV Scheme, this percentage is somewhere around 19% for this quarter, which has been one of the best-performing quarters in terms of profitability for us and also consistent with consistent revenue growth.

Domestic business as we mentioned earlier, Domestic business needs to be measured on absolute gross contribution growth. Absolute gross contribution has been growing very steadily, Rs.30 Crores in last quarter to Rs.38 Crores, 26% growth quarter-on-quarter, a record growth in terms of the gross contribution. Considering all the challenges in the economy, we have done a very good performance

Two more metrics on the financial summary if there is any question, we have given what is the PAT before, VSV and after VSV also has been highlighted. This is to say that this is a onetime fulfillment we have taken on this. Without this, our performance has been, as seen as March of 2020, we have reached to that level at absolute PAT level. This has been one of the best-performing for a quarter for us. We are very, very confident of continuing our performance in the coming quarters.



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Apart from this profitability, also, we wanted to highlight to all of you that our cash generation has been really positive for us. We have a very, very strong cash generation during this quarter. The free cash flow as a percentage of EBITDA has been really good. We have done an additional cash generation of almost Rs.80 Crores in both the businesses put together, very, very strong. Profitability growth, very strong revenue growth, industry rated revenue growth in dollar terms and a very good performance on the gross contribution, absolute gross contributions from Domestic and also a strong cash generation during this quarter.

On operation metric, as Srikar was mentioning, this U.S. geography continues to be doing well. Their contribution in the overall revenue at 52%. Europe has gone up in this quarter. We are bouncing back in Europe. We were expecting a strong trajectory in the coming quarters in Europe also. In terms of industry by industry, if you see, ISV revenue contribution is continuously going up.

The travel vertical remains at the same. We have mentioned earlier also that we can remain at the same level as we had in Q2 of 2021. We will update later whenever we get an update on this. Distribution manufacturing, retail essentially going up as a percentage this has been a really good performance for us doing. This vertical has been showing a very, very strong signal.

Apart from it, the commodity and service industry, we have highlighted in last quarter also the service industry is bouncing back very strongly. So this is also doing well. In terms of competencies, if you see, our focus on ERP, cloud and data actually is helping us. All our revenues in terms of dynamics or in terms of other digital platforms or managed cloud services have been growing very, very strongly apart from data and analytics. That is also growing strongly.

The onsite mix for this quarter has once again come down. This helped us to increase the profitability strongly apart from the utilization and billability in this quarter. This has helped us to perform in a best of the sales in the industry.

We have added 8 new clients in these period, very strong performance for a quarter and our headcount is also going up. Our headcount has been added by 100-plus people particularly in the delivery side. We have also added the people headcount, this is an investment as Srikar was highlighting we will be investing more in the coming days very, very strong trajectory for people addition in the coming quarters. We are expecting a strong performance in the coming quarters for Sonata, as such.



Now with this, I complete my update, we will take up the questions in the coming time. Handing over back to you for questions.

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

Baidik Sarkar: Good morning Srikar and Jagan, congrats on a strong pull back in the operations. The lead indicators from the top client Microsoft are significantly ahead of what you have reported as a vendor proxy and are 32% of the business. My question is how should we understand this lag in business? Are we missing some part of the growth? And given the rate at which Microsoft is committed to grow, how should we predict the rate of your growth here and in the services business overall?

Srikar Reddy: I did not understand your question. Baidik, you are saying the growth in the ISV is a proxy for our Microsoft account, is that the question?

Baidik Sarkar: I am assuming that Srikar.

Srikar Reddy: Okay. And the second question is that we are growing higher than Microsoft, is that the second part to the question?

Baidik Sarkar: Well, unless I have gotten my numbers wrong. My second part of the question was Microsoft's guidance in their managed cloud business, significantly high double digit?

Srikar Reddy: Again, I think I have mentioned it in the past, right? We have two notions with Microsoft. One is what we go to the market with Microsoft that will reflect in our more or less other verticals. More or less, it will reflect in retail and distribution, commodity and service and so forth. Second is what we do with Microsoft. The ISV revenues we report are the revenues we get from Microsoft and Microsoft like accounts of services we provide to such companies where we provide platform or products building services even if they are enterprises kind of stuff, okay? So first is I am saying, yes, it is not 100% proxy of Microsoft increased spend on partner kind of thing. So I would not use that as a metric kind of thing. So I mean I would like to correct that stuff. So as Microsoft guidance is, I guess, across the sectors, right? I do not think they give specific guidance by business unit and business line. Anyway, the dynamics business unit gets merged under a much larger business unit when they report their numbers because it is still not like a significant number for them kind of stuff. So to answer the question, one is in the market, we are seeing a lot more now interest as companies are coming back, companies that pulled back spends on investing in new platforms and so on and so forth. So we actually see more interest now.



While they use the pandemic to invest on immediate stuff like cloud and Teams, and which had to do with some immediate response to the pandemic and how do you get things, so we saw a bump there and this actually took a backseat because people said let us wait and watch for the big-ticket items. So right now we are actually seeing more interest coming back from clients. That is on the market side. Other one is I would not use it as a proxy for just Microsoft as an account. So we are seeing basically secular growth across people who are wanting to invest in creating new platforms for themselves.

Baidik Sarkar:

Thank you Srikar. That is comforting. The operating leverage through offshoring has moved very well over the last five quarters. Have you maxed out on that lever? Or is there more to come? In other words, are these margins dependable given your peak utilization as well?

Srikar Reddy:

I mean there are some costs which will come back, right, like travel and office costs and all that. So I mean you have to also factor in that while there are a lot of levers which have been operating, one is there is a general reduction on costs, which will come back sooner or later; so the second is, at a high level, yes, we can say that it has maxed out. There may be a little bit left. What we did was in this time was because of whatever issues of travel and other things; we convinced clients that we can actually do it from here instead of coming on site. So as things changed, some of those may revert back to saying, yes, I think you can come here and do those kinds of things. So to answer your question, yes, I mean maybe it may max out in a quarter. But after that, it may go back to and then the trend could change. The second is, as I said, there are costs which will come back, I mean, in terms of travel and office costs and so on and so forth.

Baidik Sarkar:

My last question, in H2 of last year, we had a nonoperating provision from IL&FS and this year, again, there is a prior period tax impact. What else should be brace for on the nonoperating times?

Srikar Reddy:

Okay. I mean I should get rid out of the way. See, I think we took a very prudent decision on this tax because the government offered this scheme. We had these old things where we have won at every stage, which we have been telling all of you that we do not believe it has got absolutely any risk to the company. But then we said if I think net of, I think, we could write off a contingent liability of more than Rs.100 Crores. So we said, okay, if we spend Rs.20 Crores and right of Rs.100 Crores contingent liabilities, it looks like a prudent decision. We continue to insist that whatever we have talked about in the past in terms of the strength of our cases, are absolutely as I said, we have won at every stage. They are all in our favor. But we felt that the government has offered the scheme that shift take it rather



than spend our time on litigation and so on and so forth. The cost benefit looked very attractive.

Baidik Sarkar: So the contingent bracket now on taxes is 0?

Srikar Reddy: No, it is not 0. I am saying there are things, but I am saying we felt that it was how do you say, right, I mean a return versus how much I pay kind of stuff. Rest of it, we said, anyway, we have got good case. I mean we do not need to worry about it, kind of stuff. This we said that I think it is just possibly.

Baidik Sarkar: Is there anything else on the nonoperating front that we need to worry about?

Srikar Reddy: Not at all. I think in my feeling is we have absolutely taken a very prudent decision, we could have stayed this way. We did not know that, it was not that we had lost a case and we settled it, right? We have won all the cases. So I think I would actually ask all of you to say that it is absolutely a very prudent and definition because I have just not done it. I mean let me be very clear about it, despite the advice of my consultant, but we actually said that. Let us go and do this kind of stuff. So I think we have been ultraconservative, if you want to call that that way. But otherwise, I would assure you that there is nothing we need to have.

Baidik Sarkar: Just a closing question from my side your question on the momentum on TUI and the domestic product business?

Srikar Reddy: Yes. As I said, I mean we'll wait and watch. I think, now the second wave, third wave vaccination, etc., we will get a much better visibility in three months' time, in April. While the value is about one-third, I think the volume is about, I think, 40% because of the movement to offshore. I think by April timeframe, we will see whether it stays at this level or there could be a reasonable bump to it once they are very clear about their business and because I cannot say that bookings are not there. So once the booking starts, right now, we are helping them with build for the future. So once their bookings start, we will continue to go back to actually supporting their current business. Right now, that is not much.

Baidik Sarkar: The domestic stuff?

Srikar Reddy: Domestic, yes, I mean, we'll continue to see the momentum. I think we have added, as I said, new product lines, Amazon, Google, some press release we have made. System integration as a business unit, some managed services located with it. So, we see that continuing to I mean, okay, this quarter might have been 25%, 30% growth on a quarter-on-



quarter, maybe an aberration, but we will continue to see absolutely steady growth in that business.

Baidik Sarkar: Thanks, Srikar. Best wishes.

Moderator: Thank you. We have our next question from the line of Harit Shah from KRChoksey Securities. Please go ahead.

Harit Shah: Thank you for the opportunity. I just wanted to understand your nonessential retail segment has been low for the last four quarters in a row, now revenue has been falling quite substantially. In fact, this quarter, I think it was down more than 60% year-on-year. So, what is the outlook out there? Any sign of revival are you seeing? How is the outlook looking out there at the moment?

Srikar Reddy: I think we have to wait for another couple of quarters because it is unlike travel, it is really buyer behavior, and nobody is clear how the consumers will behave. Travel is very clear. People say that once things come back, people will travel at least for leisure, if not for business. But nonessential physical retail is something which people are still waiting and watching whether when they have got used to this current listing, how much footfall will come back, etc. So things have to stabilize, I mean. And before people open up their pockets and invest kind of stuff, I would give it a couple of quarters at least.

Harit Shah: Okay. Sir, just as a clarification typically, what will you classify under the essential and nonessential retail?

Srikar Reddy: Essential retail is like daily requirement goods, whether it is grocers, pharmacies and I would also add furniture, mattresses. Now with this pandemic, actually, electronics has become essential and all that. Nonessential is luxury goods from cosmetics, jewelry, and leather bags and all that kind of stuff.

Harit Shah: Secondly, there is a vertical breakup if you see your other segment has been tracking on the second largest vertical for quite some time now. So would you, at some point, be looking to possibly break that up a little bit further because I mean others, it is larger than probably most of them would be larger than maybe retail, something like that some sort of color on that?

Srikar Reddy: I think so. Yes, I think a lot of people actually reported as ISV because what we do for these others is actually what we will do for ISV, which we actually help them build platforms and stuff like that. So, it is not a domain-led business unit so maybe we will figure it out. And



yes, for your sake, I would possibly say that assuming this is an extension of, a lot of other companies, I know use these even if they do platforms for a retail company, they use it as ISV or a product engineering services kind of stuff. So, it is not a domain led. So that is why we are not breaking it up. We are not going to somebody and saying, I know insurance very well to give you business kind of stuff. It is really I know technology very well give you business.

Harit Shah: Right. So this is probably more of a horizontal based kind of a product.

Srikar Reddy: Horizontal based, yes, so it like really a service we provide to an ISV, I mean, a platform building and that kind of stuff and less of IT claims processing very well, and I can do that for you.

Harit Shah: One final question. So what was the attrition rate this quarter on IT services?

Srikar Reddy: The attrition rate this quarter would have been about 14%.

Harit Shah: So slightly lower than last quarter. Last quarter, was I think 15%?

Srikar Reddy: Yes, last quarter, there was a lot of, I mean, whatever you may want to call it, because there we are trying to get the right mix of people, yes, both voluntary and involuntary.

Harit Shah: Sure. Okay. Good. I will come back in the queue if I have any further questions.

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

Mohit Jain: Sir, I had 2 questions. One is on your million-dollar client now that number seems to be stagnant for last, I think, four, five quarters. So what is happening there? And how do we plan to accelerate? That is one. Second, in terms of our Y-o-Y revenue performance, now that one year almost is about to be passed, and we are still 18% down on a Y-o-Y basis?

Srikar Reddy: Yes, I think you have to understand, we were down on the travel and other things by the side. If you take that out, I think it is almost like 30 million, right? I mean, if you take that out, we are actually shown absolutely net growth kind of stuff.

Mohit Jain: If I take that out and if I also take GAPbuster out that it would still be flat to down on a Y-o-Y basis. If I take the GAPbuster revenues out, it would flattish to marginally down on a Y-o-Y basis, excluding travel. So how do we plan to fill this by when do you think now that three quarters have passed now, and you are probably seeing more clarity?



Srikar Reddy: Let me take myself very clearly. What I had said in Q1 of this year, is that by Q4 of this year, we will get back to Q4 of profit of last year, right? Now we have achieved actually, if you take the tax out, our profits are equal to our highest ever this company has ever done closely. Our volumes are getting better. So I am saying to look at volumes, not values because we have moved onsite to offshore, okay? So I think you better start looking at profitability and other things too rather than just a pure topline number, which can be obtained through a lot of other means kind of stuff. So it is really profitable growth. So we have done about Rs.61 Crores, I think, Q4 of last year. And this quarter, we have done Rs.75 Crores we have done. So I think if you look at the growth is going to be profitable growth, and we are continuing to add topline. As I said, the revenue mix has changed from onsite to offshore. So if you look at volume growth, actually, it is much better to do volume rather than value. So look at some other metrics, and we will get the right picture.

Mohit Jain: Sir, on the million-dollar client?

Srikar Reddy: No, there is no interest on not getting million-dollar clients, but there would be a churn there. Some would have gone, and some would have come, so actually, gross, we are actually adding. Maybe next time onwards, we'll report that, so that will be a better indicator.

Mohit Jain: Thank you.

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

Sarvesh Gupta: Good morning Sir. Thanks a lot for taking the question. Sir, first question is on your International Services revenues. So ex of travel and ex of GAPbusters like the previous question a questioner he asked, what kind of growth do we see, sir, going forward? And if you can split that into growth coming from newer clients and the growth coming from existing clients.

Srikar Reddy: Sorry, I did not get the question. I mean?

Sarvesh Gupta: Sir, going forward on your International Services revenue?

Srikar Reddy: Yes, I said at the beginning of my call, I said we look forward to achieving similar growth as we go forward is what I said, right.



Sarvesh Gupta: That is number one and secondly, on the margin side, you alluded that as economies open up, there will be some costs which will come back. So are we guiding for similar international business margin as earlier with pre-COVID or do we have some sustainable cost savings or accretion to the margin levels?

Srikar Reddy: One lever was the onsite, offshore mix. If it stays this way, obviously, there is accretion to the margin, so the margins will get added. So I am assuming the mix would not change dramatically in the short term. So that should help in the margins being sustained. There are some costs that will come back and some costs which were pre-COVID will not be there, so with some work from home and so on and so forth. So overall, we can look for a little better than pre-COVID margins as we go forward, at least in the near future, yes.

Sarvesh Gupta: But I think the commentary from a lot of IT companies have been that because of this pandemic, they have been able to convince and you were also rightly saying, they have been able to convince that a lot of work has been done from offshore. But I mean what is your sense, I mean given how scenario is, when these things open up, do you think that such kind of a behavior, where most of the work is being done from offshore, will continue as it is? Or it will revert to the pre-COVID sort of a scenario?

Srikar Reddy: That is why I said we will settle something in between is what I am trying to say, right? Right now, I have no option. So maybe because there is no option, I would rather do this rather than do anything else. It is working. In some places, it may be still saying there is still some in tricks, so maybe we will get back to some in-between models. So my view on this is it will be somewhere in between. It will not be where it is today and it will not be where it was yesterday.

Sarvesh Gupta: On your domestic business gross contribution, which was at an all-time high this time, so are there some one-offs? Or is it just because of a higher scale of revenues? Or are there some one-offs, I mean, how we should look at those margins going forward?

Srikar Reddy: As I said, I think we will continue to see growth in that business. Maybe this quarter, as I said, yes, at 27%, 28% quarter-on-quarter is not something distinct. But we will see a steady growth, so it is not a massive aberration. So Rs.35 Crores, upwards of Rs.35 Crores, we had an average of, I think, Rs.31 Crores, Rs.32 Crores kind of crores in the past. But we think we can move to an average of about Rs.35 Crores rough contribution per quarter. So that is, I think, what we can look at so while this quarter specifically could be onetime, but the average has gone up from about Rs.31 Crores, Rs.32 Crores to about Rs.35 Crores.

Sarvesh Gupta: Thanks a lot for answering all the questions. All the best for the coming quarters.



- Moderator:** Thank you. We have next question from the line of Ravi Menon: from Motilal Oswal Financial Services. Please go ahead.
- Ravi Menon:** Srikar, just wanted to get a sense of this growth recovery. Good job on recovering so well. Is this coming primarily from new clients or are you seeing a recovery in the clients who are the worst affected?
- Srikar Reddy:** As I said, the worst affected, some of them have come back a little bit, okay? We have seen some on the way of coming back. There are some, I think, which are very badly affected, and they are more or less a lot of other internal structural reasons and all that, they have gone kind of thing. So we are seeing, I think, the quality of client addition this year has been pretty good. I would think, overall, if we see the client mix, I think it will be a lot more stable and steadier as compared to when we entered the pandemic.
- Ravi Menon:** Right. Do you think that we are seeing broader kind of growth? So we are seeing a broader set of clients participate in the demand versus earlier, you think?
- Srikar Reddy:** Yes, we are definitely now seeing everybody talking about wanting to do stuff. So the number of clients who had earlier said that we do not want to do anything, we will wait and watch, etc., are now talking about let us talk about doing something, and some are actually starting to do something. So there are these 2 clients. As I said, some are structural and other have gone. So we have got two kinds of clients. One is let us start talking and the other is let us start doing.
- Ravi Menon:** And both of these new clients are Microsoft Dynamics?
- Srikar Reddy:** Yes, a lot of it is Microsoft Dynamics led. Yes, a significant amount, at least 70%, yes.
- Ravi Menon:** Thanks.
- Moderator:** Thank you. We have next question from the line of Vinod Makharia from Mohanlal Investments. Please go ahead.
- Vinod Makharia:** Srikar Ji, this particular question is specific to the international IT services business. How does this Platformation and alliance-led model play out differently both in the offshore, where all the work happens, and in the marketplace, where you actually go to sell your services?
- Srikar Reddy:** It is a very good question, Makharia Ji, but yes, I will try to answer it in a very short way. It may take me like a long time to answer this question but let me. So Platformation is the way



we go-to-market with the alliance. So what we are telling the alliance is that Sonata has got this unique proprietary model to do digital transformation, so let us go and offer it to your clients. Instead of just saying, I will give you Dynamics or I will give you Azure or I will give you data, we go and say that we will apply Platformation and when we deploy these things, you will get Platformation. So that is the go-to market. And obviously, out of that, then whatever services we get rendered is can be offshore, can be onsite. And we are retooling, as I said, all our services and people to be able to deliver the Platformation. So that is the impact we are doing on both the front end and the back end and how do we then commit and promise to somebody saying is when you do a Dynamics implementation, actually, we are helping you with digital transformation and not just doing a package implementation and this is our method by which you will achieve it. Then how are the people who are engaged and actually delivering it can actually deliver the promise. So that is this implication. So the two parts to your question in terms of how do we engage in the marketplace and how do we prepare to deliver to the services we promise.

Vinod Makharia: That is pretty much. I get good clarity on that. Sir, my second question is in the M&A space, which sector or space are you specifically looking at? Or what are the spaces you are looking at?

Srikar Reddy: We are looking at, one is continuing to strengthen our Dynamics footprint because we see established leadership, continue to maintain that. Secondly, we are looking at Europe as geography. We have not done much there. We want to invest there. Third, is we are looking at some associated data and cloud kind of stuff and if you can get it with some other industry verticals which are the growth sector like healthcare or something but aligned to what some of these area of cloud or data, we are looking at that. Obviously, we are looking at some broad consolidation, global, whatever, captive centers, in our areas of interest and so on and so forth

Vinod Makharia: Just one comment. This is not a question that Rs.22 Crores of Vivad Se Vishwas and knocking out almost close to Rs.50 Crores of contingent liabilities is a very smart move as far as I am concerned.

Srikar Reddy: Thank you very much. Yes, I mean that is the way we thought about it. Yes, thank you very much for that.

Vinod Makharia: Thank you. All the best.

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



- Dhiraj Dave:** So on bad debt, actually, if we look into from FY2013 to FY2020, your kind of 7, 8 years history, we find this year being the largest with 25 BPS being written off. Any specific like this is a onetime cleanup? Why we see this jump? Otherwise, it was like virtually nil in some years, couple of years, and it was very low. So can you throw some light exactly what we have?
- J.C. Narasimhan:** This is not a write-off, Sir, this was a provision made. We had some large deals on this. So on our policy basis, we have made a provision for that because that it was taking a long time for the completion of the implementation of the project, which is they are large organizations. We are not worried about the recovery of these projects or these receivables. But considering that it is more than 180 days, as per our policy, we made our provision for it. That is it. Otherwise, it will come back to the normalcy.
- Dhiraj Dave:** I have a second question. The second question, on Slide 22, we see the manpower addition, now just one part where we find total head count addition. If I compare Q3 to kind of it, we see that delivery addition has been low. It is kind of approximately 200. But we see kind of a major jump into this general and administration. So can you get some idea about like what we are?
- Jagannathan C:** You are talking about?
- Dhiraj Dave:** Slide 23.
- Jagannathan C:** 23. Okay.
- Dhiraj Dave:** If you look into the delivery, basically, if I take Q3 as a base, Q3 2020. Okay. So if we see reduction into our delivery people or delivery team, but we see addition into general and administration people. So any idea basically and we see also decline in sales and marketing team as well if I look into Q3 to Q3.
- Jagannathan C:** Q3 to Q3, this is last year to this year.
- Dhiraj Dave:** Yes, Q3 to the Q3.
- Jagannathan C:** Okay. Last year, it is not apple to apple comparison for them because during this period we have mentioned, there has been a change in mix because people do differently for different kind of things. But if you see Q2 to Q3, you will see on additions, whatever we have, 112 additions, have come back, some only in the delivery. But sales have gone up also. S&M has also gone up. So the comparable is in the year's quarter rather than last quarter.



Dhiraj Dave: Appreciate. Now just one more, if I can squeeze. Basically, what is the reason since cash flow and everything, even business side we are positive. So last year, when we declared Rs.5.50 as interim dividend, what was the reason this time to reduce this to Rs.4? Can you just throw some light and whether you intend to do some buyback or something, whatever is the management thought?

Srikar Reddy: No, I mean let me answer the question. So it was based upon a percentage of the profits in the half year. So last year's profit was higher. This year's profit was lower. And we do not estimate of future profit. So once we finish the year, you will see what the dividend is. But leave the last year's final dividend because we did it because of the tax and which was coming because so but we will go back to our principle of 50% or whatever that we have said. We will go back to that, yes.

Dhiraj Dave: Should you not look into buyback? You should look into it.

Srikar Reddy: Yes.

Dhiraj Dave: Thanks a lot. Wish you all the best.

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

NGN Puranik: Wonderful results, from almost the pressure state that you are in, it is a fantastic comeback.

Srikar Reddy: Thank you, Puranik.

NGN Puranik: Great effort from all your team members. My question is about see now the digital is what everybody eats, drinks and sleeps today; getting businesses are moving into digital in a big way, large, medium, and small. Where are you on the digital curve in terms of cloud migration to customer experience to analytics? So in that space, where you see a lot of opportunity still in cloud migration that means we must be mining a lot of new accounts. So if they get more into maturity, you must be doing a lot of customer experience activity and more enduring work. It will be a lot more analytics, which will last longer than the business, the business itself, a huge opportunity there. So where are you positioned yourself in terms of capability, internal capability, in terms of market focus and your client focus? And the potential \$5 billion to \$10 billion account that you have heard about it, some thoughts?

Srikar Reddy: Yes, I mean at a high level, I think we have been digital. Like I said, our whole Platformation concept is now four years old, where we have said we have a very unique



way of doing digital transformation or building platforms. We then acquired platforms to support it, build platforms to support it in the industries of choice, which was retail, travel, and distribution. We have now done two more, which is agri business and service industries. So apart from ISV, these are the industries we are focused upon. So our positioning is that a domain-led, IP-led transformation. Right now, our significant go-to market is still based upon the Microsoft Dynamics platform, which, because of its nature of being on the cloud, people are using and their surrounding stuff like power platform and power BI and everything is being treated as a transformational platform change. So we are driving that and then using that to do other things like data and cloud and so on and so forth. So going forward, we are also seeing how we can have the second much stronger direct entry using data and cloud rather than Dynamics as the digital platform entry. So that is the overall strategy, Puranik. Otherwise, as I said, we have retooled all our people with what we call, a concept called Unified Engineering Program. We are making everybody a full stack engineer. A whole lot of internal stuff is going on to prepare the organization.

NGN Puranik:

You are seeing a lot of activity around cloud migration or the complete all the elements of the platform. Is there any elements of platform that you see, bigger focus and some elements are still growing in the early stage?

Srikar Reddy:

That is what I said, so the Dynamics migration is itself a cloud migration because it is a very fundamental shift. You are moving from on-prem to cloud. So we have got a separate program called Modernization of Dynamics Customers. There are 10,000 of them in the world who are still on old on-prem stuff. So that is a big push for us, and we have a very strategic relationship there. So we are not just doing like a lot of others who are legacy or data migration or to the cloud. So we are doing fundamental. So that is our stuff and then using that stack which has been created to build other services.

NGN Puranik:

The migration tool you have is the on-prem or proprietary?

Srikar Reddy:

Proprietary.

NGN Puranik:

Proprietary, yes, so how does it compare with others in terms of migration?

Srikar Reddy:

It is the best in the world for Dynamics, the #1, I say.

NGN Puranik:

So how fast that is to migrate to process?

Srikar Reddy:

It depends on the complexity and number of instances people have and so on and so forth. So we are like the primary assessment partner where we go into a consulting first for a



client saying that if you do this, what is the benefit, etc., and then we take it on and then do. There is a technical migration, and there is a functional migration. It all depends upon client to client premises. Something can take three years, big project, something that say, quickly, put me, I do not care, you put any improvement to my functionality and all that, just move me to the cloud, that can be three months.

NGN Puranik: What you are saying that the tool itself has seen significant improvement in its productive?

Srikar Reddy: Yes. Absolutely the tool itself is three years old.

NGN Puranik: Yes, yes. I mean over three years. You have seen a lot of implementing in terms of productivity.

Srikar Reddy: Yes, absolutely, there is. Yes, there is a huge amount of investment. Yes.

NGN Puranik: So when do you see the data analytics contributing for us?

Srikar Reddy: It is pretty good right now. So I mean if you see our numbers, I think they are good. So as I said, it is not the primary entry stuff. It is a secondary service, the second service which goes in after the initial service. So that is pretty good. I think we are quite happy with where we are with our data analytics. But right now, we are only focused on the Microsoft stack. So that is why not as expected.

NGN Puranik: So you have intention to go beyond that?

Srikar Reddy: Yes, we just signed up with Amazon and Google, and then we will see where that takes.

NGN Puranik: Interesting. Have a great time ahead. Thank you. All the best.

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

Harit Shah: Thank you. I think you had mentioned something about potential M&A opportunities, especially in terms of acquiring captives of clients. We have seen a lot of our large-cap players do that in the last two or three months. So are there any interesting opportunities that are there on the anvil that maybe that could possibly materialize going forward?

Srikar Reddy: Yes, there is nothing on the board. There is nothing we are discussing with anybody. I just said somebody asked what our interest areas are. I said these are the things and there a lot of



initiatives and cycles and so on and so forth. But I cannot say that there is anything on the plate. But that is where we are focused and one of the focus areas that is what I said.

Harit Shah: Secondly, one clarification so from this quarter, you have broken up your IMS business into managed cloud and IMS. So could you just exactly explain specifically the services you provide in each of these?

Srikar Reddy: IMS are the old services like database, on-prem, I mean, so whatever IMS services on-prem, server monitoring, server management, database management, database migration, etc., Cloud-managed services, the same thing on the cloud, managing cloud instances, administration, data migration onto the cloud and so on and so forth.

Harit Shah I just wanted that clarification. Thank you.

Moderator: Thank you. We have next question from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: You had just mentioned that your migration tool for Dynamics was the best in the market at the moment and that there are potential 10,000 clients which is your targeted market. Is there any external validation that Sonata is doing, where it is mentioned that?

Srikar Reddy: Yes, it is. The external validation has been done by Microsoft.

Jay Daniel: Okay. So Microsoft put forward Sonata as the best in this particular thing?

Srikar Reddy: Yes. We are the preferred partner for that. I mean they would not advertise it, but that is what we are.

Jay Daniel: Any other data points that you can provide to back to the picture because it seems to be quite a material?

Srikar Reddy: It is, but all the 10000 would not move, Jay. Yes, I mean they might stay where they are, then they may go to another platform and then some we may not do because they are too small and so on and so forth.

Jay Daniel: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference back to the management for closing comments. Over to you, Sir!



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Srikar Reddy:

Thank you, Bikram. Thank you all, everybody. Thanks for joining. Thanks for your continued support. Thanks for all the good questions. Look forward to your continued interest and support and look forward to talking to you all soon. Thank you all again.

Moderator:

Thank you very much, Sir. Ladies and gentlemen, on behalf of Sonata Software Limited, that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.