2nd May, 2022

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Dear Sir/Madam,

SUB: Transcript of the Analyst / Institutional Investor Meeting

Please find attached herewith copy of the transcript of the Analyst / Institutional Investor Meeting held on 29th April, 2022. The audio recording of the same is uploaded on our website at https://www.sonata-software.com/about-us/investor-relations/quarterly/results

Please take the same on record.

Thanking you,

Yours faithfully
For **Sonata Software Limited**

Mangal Kulkarni
Company Secretary, Compliance Officer and Head-Legal

Encl: as above

“Sonata Software Limited's Q4 FY'22 Earnings Conference Call”

April 29, 2022

MANAGEMENT:	**MR. P. SRIKAR REDDY – MANAGING DIRECTOR, SONATA SOFTWARE LIMITED**
	MR. JAGANNATHAN CHAKRAVARTHI – CHIEF FINANCIAL OFFICER, SONATA SOFTWARE LIMITED
	MR. SAMIR DHIR – CHIEF EXECUTIVE OFFICER, SONATA SOFTWARE LIMITED
	MR. P.V.S.N RAJU – CHIEF DELIVERY OFFICER, SONATA SOFTWARE LIMITED
	MR. SUJIT MOHANTY – HEAD, INDIA BUSINESS, SONATA SOFTWARE LIMITED
	MR. SATHYANARAYANA R – FINANCE FUNCTION, SONATA SOFTWARE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'22 Earnings Conference Call of Sonata Software Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy -- Managing Director. Thank you and over to you,

P. Srikar Reddy: Yes, thank you, Steven, and good evening, everybody, and welcome to the analyst call post the announcement of our financial results for the fourth quarter for FY'22 in our board meeting today in the morning. The results and the analysis are already posted on our website and hopefully all of you had a chance to look at them.

So, I'll do a quick summary of the year first and maybe a little bit on the quarter that's gone past. So, if you look at the year, it's been very satisfying definitely on the quantitative terms. If you see all the numbers there's been a tremendous growth both in terms of top line and bottom line across both our two important businesses -- the international business and the India business. This is I would say a reflection of what we have been talking about all the while of executing a very focused strategy of being digital partner for our clients based on what we call our platformation methodology, using our IP as a differentiator, continuing to invest in the Microsoft Alliance which we have been doing over the last 10-years. More importantly, kind of the new quality clients we have acquired last year are far superior in terms of their potential to grow as compared to what we had in the previous year.

We also had an acquisition last year on core systems. We are pleased to announce that integration has done well and you can see the numbers are adding very well across all the metrics of the organization, apart from the fact that they also bring in some expertise in cloud and an access to the healthcare vertical.

We continue to invest last year in building our core capabilities, digital capabilities across the various technology stack. Last year where we said we also started focusing on the non-Microsoft technology stack and started seeding on the Amazon and Google Tech Stack. Of course, we continue to invest on the Microsoft Tech Stack. We also are investing very heavily on the cloud and data on the Microsoft Tech Stack apart from the apps platform and the dynamics platform where we have had a good leadership position based on a strategy which we have been executing over the last now seven, eight years.

We have launched our two global delivery centers; one in Canada, one in Ireland. They've been a little slow because of the pandemic, but we'll see these now being utilized greatly as we go forward, will definitely help us serve our clients better.

If you see our India business, it's shown a tremendous growth again on the absolute margin and the net margin, again driven by a huge focus on some key accounts, huge focus on expanding our cloud offering into Amazon and Google and also adding the new services like security and SI into the mix. So, the India business has done extremely well.

Looking at the last quarter, the overall results are satisfactory. The margin is a little low. As we had announced, we have done a fairly significant compensation increase in the month of Jan, so that has had a bit of a dampener on the margin, but overall all the other metrics look good for the quarter.

Coming to the future, as you know, we have announced Mr. Samir Dhir joining us as the CEO of the company. Samir has a huge track record of scaling organizations and we do believe that his addition to Sonata at this stage in our journey will be a tremendous boost to the overall growth agenda of Sonata as we go forward. Samir also is based out of the US. We believe that he is going to make a big difference to the way we will serve our clients in our major market. We are looking to continue to invest a lot more in senior talent. We'll soon be announcing the onboarding of a global sales officer based out of London who will be coming on board.

This year, we have actually been making investments continuously as in the past, but this year we will take it to another level of investment across the board, whether it's talent capability, marketing and really use this as a platform for achieving extraordinary growth in the future. So, that's the overall outlook for the future and an analysis of the quarter.

I'll hand it over to Jagan to take you through some of the key financial metrics and we're very happy to answer any questions you may have at the end of the call.

I forgot to introduce my team on the call; we have Samir, the CEO of the company on the call; Jagan, our CFO, Raju, our Chief Delivery Officer; Sujit Mohanty, who heads our India business and Sathyanarayana, who is in our Finance function. So, they're all on the call. Over to you, Jagan.

J Chakravarthi: Thank you, Srikar. Good evening, all. I'll take you through the financial performance presentation for this earnings call. This talks about the consolidated financial performance of the company. We are happy to share a couple of key milestones during this quarter. This quarter in dollar terms we have crossed $200 million mark in international business. India business in revenue crossed Rs.4,000 crores growth mark. And India business crossed the PAT of more than Rs.100 crores for the year and our cash and cash equivalent has touched about 1,000 crores of mark. So, this is an important key achievement for us in this quarter. On this basis, if you see the consolidated revenue, CQGR growth is 4.8%, EBITDA for the last 12 quarters, growth is about 3.9% and PAT quarterly CQGR growth is about 3.7%.

International services, on a quarter-on-quarter, revenue CQGR is 2.6% and Rs.413.9 crores for Q4, PAT CQGR 2.7% for the last 12-quarters.

Domestic business has been very-very solid; the revenue growth has been 5.8% CQGR, EBITDA is 5.3% and gross contribution CQGR is 4.1% and PAT CQGR is of 6.8% for the last twelve quarters.

This is a financial summary, broadly covering the revenue both for international and domestic business in the consolidated, same way with the EBITDA and the PAT numbers, I have mentioned to you this. If you see here, we have a solid revenue growth in rupee terms of 36.1% year-on-year growth has been there. In terms of EBITDA performance and PAT performance also has been very-very wonderful for this. Before this, our quarterly dollar revenue growth has been on constant currency basis it is 4.7%.

And the broad operational metric, US has improved by 2% for this quarter and hence Europe and the rest of the world has come down by a percentage dip. The revenue by industry has been given. As we know that ISV has been doing very well; it is holding strongly at around 32% and our distribution and manufacturing continue to do well at the same level in the last quarter. Travel remains at the same level as last quarter. Retail has gone up in this quarter.

Broadly, I'm covering the major industry verticals where we have got the contribution from. And for the revenue by competences as social dynamics services have done well; it's about 31% contribution. Microsoft digital platforms have been continuously increasing their contribution with 21% now. And broadly, all the digital services, cloud and data services also have been doing well. It is holding on the same levels of the previous quarter, but has been continuously doing well.

The onsite-offshore mix has changed; our offshore has increased by 2% which has also helped us to improve the operational efficiency and able to compensate the margin pressure due to the salary increases in this quarter to the majority expense on this. And revenue by fixed price and T&M, slight changes is there. There is a little aberration, but it will be in this range for the coming days.

This is the broad outlook on this operation metric and a few more operation metrics like top five clients and top new clients have been mentioned, and also those metrics are remaining in the same level, not major changes are there in this, 1% in a quarterly momentum will be there. We have got around 130 employees added during this period. The onsite-offshore details are also given here.

With this I conclude my update for the financial and any further questions you can take there. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: This is a relative question just given the strong trend that you guys posted in Q3 and the momentum that we continue to see in Microsoft. The sequential growth numbers this quarter seem a tad on the lower, again, just a relative comparison. How should we read this number -- were there any large one-off project closures and how do you reckon we imagine the quantum of growth for the coming year?

P. Srikar Reddy: The only way to read it is it's not a demand issue, but I've been taking a bit of a supply issue, if we could have got the supply lined up, we would have had a better quarter-on-quarter on the revenue front. It's not a factor of lower demand or tapering of demand or tapering of projects.

Baidik Sarkar:: So, how do you reckon we address this because I think in Q1 of this year also, I think we had a supply side issue and –

P. Srikar Reddy: The whole industry has a supply side issue, it's not just us. So, as I said, a few quarters back we have put in a fairly robust plan of creating capacity. It is working but it can work better. So, we're going to do more on that front of more aggressively creating this capacity and making that capacity functional quickly so that we could deploy them meaningfully in projects. So, like everybody else, we are doing a lot of things about sourcing talent and cross-training and going to tier-2 centers, even the near shore centers we have opened, we are looking at them as a strategy to meet some of these demand and of course apart from doing the routine things about increasing the talent hiring capacity, partnering and all that other kind of stuff.

Baidik Sarkar:: So, on the domestic front, how far do you think we are from fixing this – do you think this will again split into H2 of next year or do you think this is something that can be addressed starting in Q1 itself the supply side challenges in India?

P. Srikar Reddy: By Q2 next year, we should get this fixed.

Baidik Sarkar:: So, on the margin side, given the wage hikes again starting in Jan, do you reckon margins have plateaued or should we expect further softness coming into H1 of this fiscal, how should we read it?

P. Srikar Reddy: As I said, we're going to invest a lot more disproportionately this year, Samir coming on board and our chief revenue officer coming on board, investments in global delivery centers more onsite, sales, retails, marketing, more offshore capability building, competency and all that kind of stuff. I would say possibly tamper margins a bit as we go forward because the wage hike my feeling is at least the dollar depreciation has taken care of a bit of that.

Baidik Sarkar:: That's all right because we've come off a very large base. So, when we say that margins will moderate, what the range that we are really looking at?

P. Srikar Reddy: We've always said that net off, forex and I guess other income 20% to 22% is a good range.

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

Mohit: First is on the international IT headcount addition. We started on a very strong note, but then during the year we have moderated in the last two quarters. So, following up on where Baidik left, what is the outlook that you guys have for FY'23? Second was, this thing was also reflected in this million dollar accounts which I think have shrunk a bit in Q4 versus Q3, while revenues have still grown. So, what could be the reason there from the existing setup which actually –?

P. Srikar Reddy: We need to add about 1,000 people. It's just that we need to add them fast enough. It's not like –

Mohit: What is the plan for FY'23, like what kind of addition are you looking for?

P. Srikar Reddy: That's what I just told Baidik. We will get this fixed by Q2 of this year.

Mohit: We're looking for a number like what is the plan, like fixing is one thing, but how much do you think for '23 what should be the hiring numbers of fresher graduate numbers?

P.V.S.N Raju: Mohit, we have increased 45% more than last year.

Mohit: How much was it last year?

P.V.S.N Raju: Last year, we hired around 405 people, Mohit. We're hiring 45% more this year…we hired already, they are coming board from 1st July'22.

Mohit: Second was related to these existing million dollar accounts. There was some drop QoQ in international IT.

J Chakravarthi: One or two customers the contracts have come to a close. Although, the total TCV is more than a million, their run rate for the year because of two quarters, we couldn't make it like a million dollar, they will become a million dollar in this quarter.

Mohit: So, it is not a loss, it is just that they delayed it so to say to FY'23?

J Chakravarthi: Yes.

P. Srikar Reddy: What they are saying is that they're not using potential basis, they're using a multiplier basis, they're just taking the revenue in the quarter and I think annualizing it is what they're saying. It's not the customer has gone away or the revenue has gone away. So, maybe if you just look at the way we report these things together.

Mohit: Last one is for Samir, sir. So, now that there is a change and it is after a long time at Sonata. So, what should we expect going forward, where are the gaps or any areas that he has identified where you guys could invest more or something like that?

P. Srikar Reddy: Maybe in the next call we'll answer this. I do think that it's great for the company and –

Mohit: Understand sir. I'll ask the same thing next quarter then.

P. Srikar Reddy: Yes, please.

Moderator: The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: You have given this guidance of 20% to 22% of margin. So, this is just to confirm that it is EBITDA margin, right?

P. Srikar Reddy: That's right, yes.

Sanjay Awatramani: What will be the revenue guidance sir, if you can help me with that?

P. Srikar Reddy: We don't give a quantitative revenue guidance. We give a qualitative guidance. We do expect our growth to be on the better side in the next year.

Sanjay Awatramani: Can you mention the attrition rate, I mean, if you can highlight for this fiscal year and quarter?

P. Srikar Reddy: It's about 27% for full year FY'22.

Sanjay Awatramani: What would be for Q4?

P. Srikar Reddy: Q4 was about 30%.

Sanjay Awatramani: Are we looking at any expansions or any CAPEX plans in the near future sir, I mean, you said that you will be hiring 45% more talent, so any location for investment --?

P. Srikar Reddy: We have already taken a new space in where we are today, so that's being built out. As we said we have opened some delivery centers in Ireland and this thing, so we'll expand those.

Sanjay Awatramani: So, this will be only overseas, not in domestic anything, I mean -?

P. Srikar Reddy: In domestic, I said, we have taken a new facility where we are currently located, we are actually fitting it out as we speak.

Moderator: The next question is from the line of Vinod Makharia from Mohanlal Investment. Please go ahead.

Vinod Makharia: I didn't get time to refer to the note #10. What's the other income addition that has happened in this quarter?

Sathyanarayana R: Other income pertains to the earn out payment pertain to the Sopris where no longer payable about Rs.26 crores.

P. Srikar Reddy: I should just add on to that, in contra to that, we've taken a write-down on the value of the asset of a similar value. So, while the other income has gone up, I don't know some expenses… Where does this sit, Sathya?

Sathyanarayana R: It's in the impairment of goodwill basically, that's both income and the other expenses.

P. Srikar Reddy: There is another expenses. Not that they're big, but yes, there has been an upside on one side and there will be a downside on the other side.

Vinod Makharia: The entire industry is facing high attrition rates and Srikar mentioned that we also face something like 30% in Q4. You said you intend to hire more. But any other strategy that you are going to deploy, I mean, are you going to go for another round of wage hike in Q1, Q2 or what's the plan in terms of retaining people or ensuring that the supply side issue subsides?

P. Srikar Reddy: Good question. I think the wage hikes we will do as and when we think they are needed. I think we almost did three or four wage hikes in the last five quarters, some very formal and some very tactical. So, if need be, we will do that. So, that's given. We believe that's an instrument for retention. I think greater employee engagement and all the other things one needs to do. I think should go a long way in having a better retention wage hike is just one instrument set. We will do that and we've done it in the past and we'll do it as a tool, but as I said, I think to be prudent it'll be good to build capacity in advance.

Vinod Makharia: But you see no demand side issue at all? Let's assume that the supply side issue is controlled as you estimate by Q2 or in this fiscal, so what kind of demand, maybe not a number or a percentage, but what would your comment then be on the demand scenario?

P. Srikar Reddy: Right now, the demand looks healthy. We are not seeing any signals of any of these supply chain or war or recession or whatever it is showing up that's as we speak today. If that continues, as I said, we should see a more healthy growth this year.

Moderator: The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Can you expand on that Sopris write-back and goodwill write-off?

P. Srikar Reddy: They are part of the acquisition of Sopris. There was an earn out which was there as a part of the acquisition cost. And if they achieve certain goals after three years, that money will be paid. So, those goals were not achieved. So, that amount, which was whatever taken as we paid, was reversed. Don't ask me the logic of accounting entries. That became other income. So, then we looked at it and then prudently scaled down the internal goodwill given the lower revenue growth. And not that they will link, we use scientific methods and then we wrote down a goodwill amount which actually turned out to be in the same range.

Jay Daniel: The goodwill amount is nearly the similar amount of the -?

P. Srikar Reddy: Yes, similar, but we didn't copy each other, it's just came out to a model of recalibrating the goodwill value.

J Chakravarthi: This is like a valuation model we follow, that future revenue growth, profitability, cash flow generation and then discounting cash flow is arrived at a value for this. This is a separate process, completely different from what has happened in the reversal of the earn out.

Jay Daniel: So, what is the goodwill rate of amount?

J Chakravarthi: About 2.5 million will be there.

Jay Daniel: 2.5 million and the other income is 26 crores?

Sathyanarayana R: Rs.26 crores is other income and Rs.23 crores goodwill impairment.

Jay Daniel: Your view on that acquisition remains, or I mean you have kind of tampered down what you?

P. Srikar Reddy: Revenue potential has been scaled down because of the COVID issues, but otherwise given the acquisition.

Jay Daniel: Because of the supply side issues, were there delays in delivery or did you fill the gap through subcontractors and because of that cost went up?

P. Srikar Reddy: That we have done anyway. So, that's not might have had to the cost, but more importantly, as we said, could not deliver, so could not recognize that.

Jay Daniel: This normally doesn't result in any unhappy customers, right?

P. Srikar Reddy: I think customers are also now fully aware of what's happening in the world. So, it's a lot more easier now to talk to customers than in the past.

Moderator: The next question is a follow-up from the line of Vinod Makharia from Mohanlal Investment. Please go ahead.

Vinod Makharia: This is a very generic question. How do we rate ourselves versus competitors in terms of complexity of projects that we execute? Some flavor on that would be helpful.

P. Srikar Reddy: I will ask Raju to something explain the level of complexity we deliver, so you'll get an idea of the depth of what we offer to our clients. I don't want to put down anybody, better than these guys, but that we do very core work and we do deep work and ready I would say strategic work, transformative work.

P.V.S.N Raju: If you look at complexity perspective, most of our projects are engaged. For example, for one of the largest software product vendor, we are building the whole of their legacy product onto the cloud with all the latest indicators of the architecture. So, we're doing very, very core work, at the same time they have the customers in the existing system. So, you need to ensure that there's continuity for them in terms of the US. Similarly, for large healthcare companies through our subsidiary, we're doing similar type of projects, most of them either are core when the companies are going through digital transformation, they're looking at either the customer experience facing applications or engagement processes or the core infrastructure itself are changing. So, most of the programs we're dealing with are on that side, even on Microsoft Dynamics. Even the talent what we have…supply side constraint is because of that, because these people are not available in the market. So, you have to either create them at a very-very high cost point. So, that's the challenge we are facing today.

Vinod Makharia: We have almost Rs.800 crores net of the dividend that the board declared and we are generating Rs.400 crores plus almost every year… more than that in fact. So, any change in the dividend distribution policy going ahead or are you looking at a significant acquisition, what's the game plan on cash management, can you highlight on that?

P. Srikar Reddy: Dividend policy right now is fairly aggressive. I think we give almost 60% of our consolidated net profit as dividend. But, as we said, cash we want to use it prudently, but we are looking to see if we can get quality assets which meet our requirements. We're not desperate for anything, but yes.

Vinod Makharia: Srikar bhai, thanks to you, I mean, my understanding of the entire sector from 2016, I owe a lot of it to you. We've been investors in Sonata ever since then and so thank you for this entire journey, thank you so much.

P. Srikar Reddy: My pleasure. Thank you.

Moderator: The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: My question is on the Microsoft revenue. So, for the full year FY'22, the Microsoft related services has grown at around 28.5% for the full year. So, how much of like this would be organic? And also, in terms of investments how do you see the Microsoft investments from here on, whether we will be still investing in Microsoft or we will move from here on like what we have been doing around Microsoft? And also, on the travel vertical, if you could give some color, how the travel is like recovering and how the health of the top client is there? Lastly on the utilization part, we are at 91%. I know there is huge like surprise that comes on. So, is it like a sustainable range or do you expect that to come down?

P. Srikar Reddy: Let me answer the last question first, because that's easy to answer. So, that's going to come down; we can't operate at this level, we can't satisfy demand and build capability, capacity and all that, because of the supply side that keeps such a high level, so that's going to come down. Second question is how is our travel client doing? The business is back to more or less normal and we expect that business to grow for us next year. So, that's the statement on the travel client. Second part I can ask Jagan to answer. On Microsoft investment, there will be definitely some inorganic because that would have come from on core, so they would be, I don't know how much percentage. Jagan, maybe you can answer that question. But, yes, the investment will continue to be there. As I said, greater focus on cloud and data. We will continue to invest of course on the biz apps, but a bigger focus on cloud and data. So, that's going to be a big bet for us this year. A lot more investment on all front. Jagan, I don't know, maybe if you have a quick answer, you can answer, Amit, in terms of what percentage of that is coming from on core, on product growth, I would think out of that 28%.

Amit Chandra: Last question is on the onsite-offshore mix. So, we have seen more shift in offshore and onsite has been declining. So, is it because of a particular client or is it more to do with across clients we are seeing more offshore shift?

P.V.S.N Raju: In the last six months, what we are seeing is we are having the difficulty in people to travel to some of these onsite locations particularly Australia and we are doing that work from offshore. But what we see going forward is I think over time it will get corrected back to the older numbers. And with now the centers coming in Ireland and Canada, we will be taking back to the onsite. Nothing to do with the customers moving, they will be coming back.

Amit Chandra: The centers that we have opened in Ireland, Canada, how big are these centers?

P.V.S.N Raju: We have just started taking a space. We just sent some people and got all the registrations done as of today. In Canada, we have 11 or 12 people. In Ireland, we have just started.

Moderator: The next question is from the line of Aditi Patil from Prabhudas Lilladher. Please go ahead.

Aditi Patil: Whether this supply side issue will limit growth especially in first two quarters of FY'23?

P. Srikar Reddy: Possibly in the first quarter of FY'23, we don't think that it should affect beyond that.

Aditi Patil: In this quarter like can you quantify how much of the revenues were missed because of not able to deliver?

P. Srikar Reddy: At least 2% to 2.5%.

Moderator: As there are no further questions, I now hand the conference over to Mr. Srikar Reddy for closing comments. Over to you, sir.

P. Srikar Reddy: Thank you all for joining the call today. Thanks for all your support to us over the last 20-years. We look forward to your continued support. Look forward to talking to you soon. Thanks again for joining us today. Thank you, Steven.

Moderator: Ladies and gentlemen, on behalf of Sonata Software Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.