



# “Sonata Software Limited Q4 FY'16 Earnings Conference Call”

**May 24, 2016**



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**Moderator:** Good day, Ladies and Gentlemen, and Welcome to the Sonata Software Limited Q4 FY'16 Results Conference Call. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Prasanna. Thank you and over to you, sir.

**Prasanna Oke:** Malika, thanks and good afternoon to all of you. Firstly, a little bit of announcement, Srikar was planning to be on this call, unfortunately he had to leave for Australia late last night, he is on for a business related trip. So I will be starting off with the call. We have with us Mr. Raju who is the Chief Delivery Officer; we have Sathyanarayana who is Heading Finance and Accounts for us, we have our Company Secretary Ms. Priya and let us start with the call.

So I think we had a good and important quarter and a successful year. We did built upon the IP lead, tech lead strategy that we have had, we have also done our acquisitions and we posted QoQ growth, sequential growth. So this just where we are.

I'll basically take you, our results have been posted on our corporate website after the board meeting yesterday, some of the key highlights of the current quarter. So on a consolidated basis for Q4 FY15-16 we recorded the highest EBITDA and PAT for the quarter with the revenue standing at Rs.541 crores and sequential growth of 4% and 38% growth year-on-year basis. Again, we had highest EBITDA for this quarter at about Rs.60.4 crores and a growth of 20% over the previous year. PAT stood at Rs.40.8 crores with a sequential growth of 1% and 17% for the previous year. ROCE and RONW were respectively at 28% and 34%.

Looking at our results for the entire year 2015-16, revenues stood at Rs. 1,941 crores with 15% year-on-year growth. EBITDA stood at Rs.239 crores with a 25% year-on-year growth. PAT stood at Rs.158.6 crores which was a growth of about close to 19% year-on-year basis.

As you all know, we have our business split up into two parts and so we will get into those numbers also. So the international IT services side for quarter four again recorded a highest revenues and PAT for the quarter with revenues at Rs.189 crores and sequential growth of 4% quarter-on-quarter, year-on-year growth of about 17%. This business line contributed about 35% of our consolidated revenues.

Revenue in the U.S. dollars is worth about \$28.5 million during the quarter with a sequential growth of 4%. Revenues from digital components which is one of the measures that we have been giving for the last four quarters have been steadily increasing, they stand at about 31% of our quarterly revenues. PAT stood at Rs.32.3 crores, sequential growth of 2%, year-on-year growth of 16% and this contributed close to 79% of the consolidated PAT for the business as a whole.

During the quarter we added ten new customers, five of them came from the U.S., three came in from Europe and two from Australia & New Zealand. We continue to focus on our DSOs, average DSOs for the current quarter is 56 and the quarter end DSO is 55 days. we did show a growth year-on-year with the total revenue standing at about Rs.707 crores, 17% year-on-year growth, EBITDA at Rs.184 crores which grew by 22% on a year-on-year basis.

Our second part of the business which is our domestic products and services business which we do out of India, revenues at Rs.356 crores, quarter-on-quarter growth of 3% and year-on-year growth of 52%. EBITDA being Rs.14.9 crores, QoQ growth flattish, year-on-year of 28%.

Again for the entire year of domestic products business, revenue stood at about Rs. 1,250 crores, 14% year-on-year growth, PAT stood at Rs.34 crores, growth of 34% on a year-on-year basis.

These were the financial numbers. So I will hand it back to Malika and we will take the questions.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

**Madhu Babu:** Sir, what is the IBIS revenues for the quarter and what was it last quarter?

**Prasanna Oke:** Yes, so Madhu, IBIS revenues were in the range of about 2.2 million for this quarter. Last quarter if you remember, we had only a partial quarter, it was about 1.2 million.

**Madhu Babu:** So what would be the next year IBIS revenue, run rate for next annually, because when we bought it was around 10 million to 12 million, if I am right. So would it grow or would it be pruning some parts of the business and what would be the growth from IBIS for next year approximately?

**Prasanna Oke:** So Madhu to answer your question and again we are not trying to look at growth from IBIS which is accretive on the revenues, right, so what you have today is about \$2.2 million, so the growth will happen, probably the same range should be higher. But I think that key story out here is that we are trying to leverage the IP that we have with IBIS we will be able to sell to our other Ace and Microsoft customers across geographies including our business in the U.S. Moreover, when you look at IBIS and the acquisition that we have made it gives us an opportunity to offer the key customers of IBIS some of the offering that we at Sonata have across the portfolio. So at a certain point of time you would see that some of these revenues would also be coming into Sonata as a whole. So probably the way to look at this, and we are also trying to look at this is that even as we are trying to grow IBIS but we are trying to look at the force multiplier effect of adding in their offering into what Sonata was currently selling and Sonata offerings to their existing customers.

- Madhu Babu:** And sir second, travel has been weak this quarter and Europe simultaneously on top ten, so has TUI account has been weak for the current quarter and so it was going to be recover from here on?
- Prasanna Oke:** So Madhu to answer your question, yes, TUI is one of our critical accounts, we do not disclose account but that has been one of our accounts in Europe which has been there, we continue to maintain a strong relationship with them and yes this account continues to be on the growth phase, we continue to have a strong relationship with them. There could be a little bit of up and down in the quarter but that is not material that the way we are looking at in view of our relationship over the last decade and the kind of continued work that we trying to do with them.
- Madhu Babu:** So this quarter if we say top ten is 67% and top ten has declined if you see quarter-on-quarter we are around 3.5%.
- Prasanna Oke:** Yes, so that is because of IBIS acquisition we got other clients, Madhu. So because of that slight concentration of top ten is decreased.
- Madhu Babu:** And sir, just last one, I will come back again, but the margin side if you see adjusted margins almost at 16.7% for IT Services, almost 600 basis points drop. If I see the expenses, employee expenses have gone up from Rs.100 crores to Rs.110 crores and to other expenses from Rs.44 to Rs.51 crores, so what were the reasons for that margin drop in IT Services.
- R. Sathyanarayana:** one is onsite - off shore mix in terms of the employees, the other thing is also we had to take a bonus provision on account of a retrospective amendment in the Bonus Act which is effective from 2014 . On account of both we had a slight drop in the margin in the current.
- Madhu Babu:** What is the amount sir for the bonus provision?
- R. Sathyanarayana:** That is Rs.3.4 crores.
- Madhu Babu:** Rs.3.4 crores?
- R. Sathyanarayana:** Yes.
- Madhu Babu:** So from hereon I think would the margins recover and what would be the wages hikes and when it would be given?
- Prasanna Oke:** So Madhu if you look at it during the interaction process over the last three, four quarters, what we have been saying is that we want to continue to invest in the IP and technology in terms of our people, we want to invest in the marketing & sales. So a lot of these investments are happening which is what you see as a perceived dip in the margins, in reality this is an investment that we are doing. Now just to add on some of the investment that we have been doing has been the addition of the key personnel's, one of the key persons who have joined us is our Chief

Growth Officer for Sonata who has joined very recently in May. He has come to us from Persistent, he was President of Geo USA, his name is Ranga Puranik. We also had a Head of Sales, USA, Rajiv Puri who has joined us. We continue to invest in our leadership and the vertical and delivery side also. So we have to take the margins holistically as we have been talking that the investment that we are continuing to make.

**Moderator:** Thank you. Our next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

**Chetan Wadia:** Sir, good to see revenue from top 10 customers dropped below 70 after six years and also the million dollar clients have climbed to 21, but if I see the Fortune 500 accounts have remained steady at 18 since last four years, so as a one way indicator Sonata has managed to hold on to its clients with consistent quality service but what more is required to be done according to you in order to increase this number by at least a couple of accounts every one or two years?

**P.V.S.N. Raju:** To add to question Chetan, what we did is, what senior people Prasanna mentioned, added into our sales and marketing, people like Ranga and Rajiv coming in, we believe that we can see growth both in terms of size of our accounts and number of that we have seen over last three quarters we have seen them increasing steadily. I think whatever investments we made today and the IP based strategy what we have these all leads us to get into these account now.

**Chetan Wadia:** So when do you see that to add to Fortune 500 accounts within Sonata?

**Prasanna Oke:** See, the Fortune 500 and our million dollar accounts, so we are adding accounts which are giving us \$1 million in revenues, so those accounts are rising. Now our objective is also to add companies which come in the Fortune 500 but we are more interested in getting accounts generate million dollars of revenue for us. So I do not think that we should match that together, yes it is a good parameter that we have traction in the Fortune 500 but we would like to have many more \$1 million accounts even if they are not Fortune 500 and which is where we are working towards.

**Chetan Wadia:** Secondly, for the domestic market what is the scope for revenue growth in EBITDA margin expansion from current levels?

**Prasanna Oke:** So that is what we keep on saying that our market on the domestic side, we are already one of the market leaders out here. What you can expect and we do not give forward-looking forecast but the market by analysts, etc., is expected to grow at a certain rate, we would expect to meet that rate of growth. Added to that, what we are also doing in the domestic market is getting into high end services like license consulting so on so forth to help us to get some more business, quality of business of this type.

**Chetan Wadia:** And sir lastly, if I may, is the Company kind of working on any three to five-year revenue growth target that you would like to achieve?

**Prasanna Oke:** Yes Chetan, we have been saying we would like to double our revenues in the next four years, so we continue to work towards that, you have seen that in the past also. So, yes that is the objective we would definitely be working towards and that is what we build into our plans and into the strategy and effort that we put in.

**Chetan Wadia:** So four years from now you will like to double up the revenues?

**Prasanna Oke:** Yes, and this is on the international services side Chetan.

**Chetan Wadia:** And for the Company as a whole?

**Prasanna Oke:** No, see again as I told you, you have to split up this business into two sides right, so when you look at the domestic part of the business it will be growing at the normal rate of growth what is there, I do not give a forecast on it but we expect them to grow at what way the market grows, there could be upsides because of the value added services that we are giving in but the international part of the business which is close to 79% - 80% of profitability, 35% of our revenues is what we are working towards doubling in the next four years, I mean that is as good as we can get on a forecasting side Chetan.

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

**Mohit Jain:** My question is on top 10 client, while you mentioned that the drop is because of new revenues coming in, but if you look at absolute dollars also there is this sequential drop in revenues after stagnation in growth rates for the last two or five quarters, if you could help us understand what is happening in top 10 clients and should we continue this kind of weakness to continue in to 2017?

**Prasanna Oke:** So Mohit, when you are trying to look at the top 10 clients you are seeing there is a drop, now there are two reasons for it. One is that when you add in the acquisition revenues, and these are not among the top client's percentage to drop. The second is, what we have been also trying to do is to increase our revenues from the other clients which are there, so when those revenues increase as in absolute terms you are always going to see a 1% or 2% drop in those revenues, so that is absolutely fine with us because this is as a percentage of our total revenues what our top 10 clients are by themselves each of our top 10 clients are growing.

**Mohit Jain:** Sir, if you look at the percentage, percentage drop I can understand, but if you multiply let's say your IT services revenue the revenue is flat for the last five quarters and then there will be a sequential drop in dollar million earned in the last one quarter which is fourth quarter. So what I was trying to understand is why the growth in top 10 is zero when they contribute almost 70% to our top-line because the overall growth rate for IT services segment is coming off because of this weakness.

- Prasanna Oke:** So to answer your question Mohit, again when you look at our top 10 you are aware that one of our large clients what we had who was in our top 10 actually dropped out, so that is being filled up by the other clients. So even as you are increasing your remainder of the top 10 under the new inclusion you are trying to cover up for the significant drop in revenues of one of the top 10 clients, so that is the reason why although the numbers would seem that way, each of our top 10 clients is doing. one of the large top 10 clients went out, it was among the top five.
- Mohit Jain:** So the impact is fully there in fourth quarter or you think it will remain flat for one or two quarters both before showing the growth?
- Prasanna Oke:** No, this client is off, there is no more impact of the client going to happen going ahead.
- Mohit Jain:** So from 1Q onwards this number will start showing the kind of growth you are talking about in terms of top 10, growing at a decent pace, right?
- Prasanna Oke:** Yes, whether it will replace in percentage it is a different matter but also our top 10 client are looking good.
- Mohit Jain:** Sir I am talking about absolute numbers.
- Prasanna Oke:** Yes, yes, and Mohit they have been continuing to grow any way.
- Mohit Jain:** I understand that but this quarter the growth was favorably driven by acquisition and then by the non-top 10 clients so to say and also on the domestic side, because domestic side you surprised positively.
- Prasanna Oke:** Domestic side, yes last quarter it was good.
- Mohit Jain:** should we expect growth to continue in the current phase?
- Prasanna Oke:** See, Mohit as we continue to tell on our call that we do not try to look at our domestic business on a revenue front, we try to look at it from a margin front. So it could so happen that we could have a couple of large deals or we might have a smaller deal with a higher margin percentage. So revenue may not be the best comparator for the domestic business. But having said that, we do continue to see that, we are having traction with our clients as our domestic business we continue to have other services which you are offering to the clients and so therefore we expect that it would carry on in the same kind of growth trajectory.
- Mohit Jain:** Any development on the cloud side you are planning offer some of these domestic license based products for cloud?
- P.V.S.N. Raju:** We have started offering cloud based services to domestic clients and primarily around the technologies from Microsoft and it has been received quite well, in fact over last year we also

got awarded for being the Cloud partner of the year for Microsoft. So that thing has taken up and we can see much more traction has started.

**Mohit Jain:** What percentage would it be for domestic piece?

**Prasanna Oke:** It will be very negligible Mohit because this is the value added services that we continue to offer to them, large part of it is largely coming from the licenses side. So it is not significant at this point of time to start measuring and reporting on those.

**Mohit Jain:** Sir last is on margins, on the IT services you have been telling us for last few quarters about the investments required to be done in the business, Q4 the new base adjusted for your bonus payout which was one time and should we start looking at it in terms of stabilization in margins for IT services?

**Prasanna Oke:** Yes Mohit, in Q4 if you look at it Sathya talked about the one-time impact of the Q4 bonuses, so if you adjust for that yes there will be a minor decrease but we will continue to invest in it. As I keep on telling and Srikar and myself have told on the previous couple of calls that we would like it in the lower 20s. So we are looking towards that, all we are trying to say is that we will continue to invest because coming back to our story of IP and technology lead growth that is going to be a differentiator, so we will continue to invest into our platforms, into the investments in IP to building our solutions on brick and click and various competencies that we have. And you have got to look at it on an adjusted basis and then take it we are going continue to invest more.

**Mohit Jain:** So from our perspective could be around 50 to 100 basis points on a year-on-year basis.

**Prasanna Oke:** Yes, I mean one could take it that way, as I said it would be in the low 20s.

**Moderator:** Thank you. Our next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

**Ravi Naredi:** Sir, my most of the questions have been answered but one request was there, whatever you have given the investor presentation if it could be colorful from next time it will be very nice, it is my suggestion. It will be better to understand each and every thing where is the U.S. and where is the Europe and everything that's the reason sir

**Prasanna Oke:** Yes, just delighted to know and we can incorporate if there is something specific which is required, but thanks that you liked the presentation and we will stick to it.

**Ravi Naredi:** It is nice presentation but it will be colorful then next time onwards it will be very good, sir.

**Prasanna Oke:** Sure, we take your input Ravi, thank you.



- Moderator:** Thank you. Our next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** My question is regarding the vision that you mentioned of maybe looking at doubling the IT service revenues in the next four years. If you could tell us this is that you are referring in dollar terms or in rupee terms? And secondly, does it build in a substantial growth from inorganic because this year last quarter the growth has come from inorganic.
- Prasanna Oke:** So Sachin, yes I mean this doubling with the growth we are talking about from an organic basis that we would be doing it. So the reason we feel that kind of a growth is that differentiators that we are trying to build in into the kind of services we are offering whether it be on the mobility side on the analytics side, on the ecommerce side, which is the digital transformation strategy that we are trying to do which is IP lead and technology lead. So we believe that this will act as a differentiator and thereby have traction with the clients, as you are seeing we are adding the number of new clients, we have a fairly robust pipeline at this point of time. What we are trying to do is to leverage on that and in the next every quarter going ahead.
- Sachin Kasera:** And sir this growth of doubling you are referring is in the dollar terms or in rupee terms?
- Prasanna Oke:** The chart which is showing the constant currency.
- Sachin Kasera:** Assuming constant currency basically.
- Prasanna Oke:** Right.
- Sachin Kasera:** So basically you are saying organically constant currency vision is to double the revenues in four years, anything other than that from inorganic will be over and above that, is that understanding correct sir?
- Prasanna Oke:** Right, Sachin you are absolutely right.
- Sachin Kasera:** Sir second question was regarding our both the diligence, since the characteristics of both the divisions are pretty different, the domestic business as well as the IT services business and considering the fact that both of them have self- sustaining generated a lot of cash flows, do you think it would make some sense at some point of time to look in terms of demerging the company into two parts so that investors can, can be invested in business of their choice.
- P.V.S.N. Raju:** But though they look like two different businesses Sachin, actually they are seeing lot of synergies between those businesses. For example, the airlines partner whom we represent in India are the people who help us to take to their customers internationally. So we see lot of synergies and make sense to go ahead together for time being.

- Prasanna Oke:** So Sachin we have answered this question a number of times, we see there is value in this business and we think that both these business complement each other from the situation where we are in and I think there is no immediate plan for that what you are talking about.
- Sachin Kasera:** And follow-up question was regarding the cash flow generation this year and the dividend payout, if we see the net cash for the first time in last two, three years has gone down because of obviously the acquisition that we have done and also because this year the payout ratio has been much higher. So I wanted to figure out is the payout much higher this year because of the dividend distribution tax of additional 10% that has come in, so the payout for FY17 may be lower than FY16 or this is the new number in terms of payout that we are looking at?
- R. Sathyanarayana:** As a policy we have said the dividend will be within 50% of the profits., so we are maintaining that basically in terms of as a policy.
- Prasanna Oke:** Yes, typically board decision Sachin, if you really look at it you know what our policy is.
- Sachin Kasera:** No, I know that, I am just saying this year the payout has been much higher than 50%, so I was trying to figure out that was because this year the additional 10% tax has come in, so is it that we have given our higher payout this year and that is why in FY17 the payout may be little lower or you will still look at sustain at 50%, this is the only query I had.
- Prasanna Oke:** We will carry on this dividend policy and again it will be a board's decision.
- Moderator:** Thank you. Our next question is from the line of Prakash Bhuva who is an Individual Investor . Please go ahead.
- Prakash Bhuva:** I have been disappointed by the performance of Sonata for the last five quarters, the growth is not coming, though the investments are going in the growth is not coming to that extent and the market cap of the Company is very low, the share size is around Rs.150 only, we are bored to see this share price. Now bonus is a board decision which has been discussed for the last two three years I believe, so can we think of immediate bonus to give the reward to the shareholders because market appreciation is very important, why the Company is not properly rated by that market that I want to understand. Secondly, what is the addition I the last two months, since April and May how many clients were added, can you provide? And our manpower addition is very limited I believe, is there going to be any more manpower addition to the Company? These are my questions, please reply.
- Prasanna Oke:** So I will answer both these questions. Again, the payouts and the bonuses as we said it is a board decision, so there is not much I would be able to comment on that. With regard to the clients which are being added, what we are giving us the number of clients being added in the quarter January to March.

**Prakash Bhua:** Yes, I am asking from March to date what is the development, how is the trend of the business because you are sitting on the front seat, not that you should not report or comment anything. But for the things that have happened you can provide a healthy guidance to the investors I believe of the things happening. How is the trend looking, are the margins improving at all, is the business far more than your expectations, are there any further acquisitions in the pipeline because what is in the pipeline we do not know?

**Prasanna Oke:** So Prakash, I think the entire call where we are trying to talk about is that we continue to differentiate our offerings to our client. We are seeing a fairly high traction not only in our pipeline but the acquisitions that we have made as I talked in the beginning of the call which has added a significant IP to us., we have talked about our advance supply chain software. We have been in the Microsoft space for a while. Now what is happening is that we are also taking this IP into our various other clients and other geographies also, so it is not constrained to the U.S. At the same time with this acquisition we are also offering them a variety of Sonata products also to be able to build a partnership with the client and this is not specific to any way only IBIS but to all our clients because as we invest we will see this as a differentiator as compared to the other companies. So therefore what we are trying to do here is to look at how we can leverage these clients, we keep on adding new clients, how we can leverage it to become bigger clients and increase the number of million dollar clients. So that is our objective, on a broad basis strategy basis we see no reason at this point of time to feel that there is something which is not going right with this strategy, we will continue to work on that and we are seeing the traction.

**Prakash Bhua:** But by 2017-18, by the financial year ending 2018 what kind of international businesses should double we have not come to our target level as yet I think, because two years have gone, four years means from which you calculate the four years? I calculated it from the year 2014, so by 2018 four years' time I think half the time is over now, in the remaining half the time is this possible to double our international turnover by our own growth I want to ask.

**Prasanna Oke:** See Prakash, we are trying to look at different time scales. Obviously you are aware that market has a record of what we are doing in the last four years. All we are saying is that even as we do not give advance forecast on a year-on-year basis, our goal is to double our revenues in the next four years which are of organic revenues based on where we are at this point of time. So it will not be possible for me at this point of time to tell you what we are going to be two years later, one years later.

**Prakash Bhua:** Can you give a vision for this quarter and next two quarters, one or two quarters, not commitment wise but from vision wise, are we receiving proper return on investment or we are just bending our platforms and making investments, when will the returns flow and how they will flow, you can provide some insight?

**Prasanna Oke:** So Prakash as we keep on saying, these are long-term investments and strategies, what we are put in to play as we are going along. We are talking about acquisition of Rezopia two years down

the line, that is a significant number of clients which are growing in size. Similarly, when you do a Halosys kind of acquisition, we are trying to say that we have got a mobility platform in place, which we are taking and this one of the key dynamics of our digital component of our revenues. So now Halosys we acquired about two quarters back, right, in September we acquired, and IBIS we acquired less than four months back before this quarter ending. So all these are strategies which we have been trying to tell you is trying to have a differentiation on this and that strategy is paying off, that is where we are seeing traction with more customers. Now that will lead to new customer acquisition which will then lead to growth in revenues, so that's is the process.

**Prakash Bhua:** You expect couple of quarters to be more healthy and see robust growth than we are shown in the last two, three quarters? Very-very direct question, I know, again you will come to that we do not make forward-looking statements?

**Prasanna Oke:** We do not that, yes, absolutely we do not do that.

**Prakash Bhua:** Last question, if you take a pipeline as a nerve and measure it, what kind of feeling you have of that pipeline, what growth it can, can it give us a robust growth that I want to ask you, can you give us robust growth?

**Prasanna Oke:** Yes, absolutely. So Prakash what we are trying to do is that when we are growing with this bouquet of offering on the mobility side, digital side, supply chain software side, AX side or our retail side, we are going to with this bouquet of offering to our clients. Now some of these clients, if you look segment wise sector all of them require mobility. So whenever we are talking of kind of a pipeline you go to a customer apart from what he wants we have a bouquet of offers to give him. So obviously when you are looking at the pipeline we see there is a huge potential for growth which is what we are trying to work on. So to answer your question, yes we have no problems with the pipeline at this point of time, obviously any more pipeline is always helpful but we are satisfied with the pipeline that we have right now, we continue to work on building it up and gaining penetration in to a customer that we will get from this pipeline.

**Prakash Bhua:** And what about the manpower we are going to employee more 500 people or some bigger input manpower planning?

**Prasanna Oke:** So as we have said before, if you really look it is there on the chart, we have grown by about 250 people in this year. We continue to plan for our growth which means that we are constantly looking at laterals, fresh hires, etc., and that is a continuous process on a demand forecasting process that we have, it is a fairly robust process, let me assure you we will not lose revenue because of people, we always hire people in time and get them.

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

**Madhu Babu:** Sir, in terms of OPD is the worst behind us because this year that was a drag on our organic growth, so assuming that is behind so next year organic growth should be at least on the industry's NASSCOM growth rate of 10% to 12%, is it a fair assumption?

**P.V.S.N. Raju:** That is a good assumption Madhu.

**Madhu Babu:** So OPD is a weakness which was there for the last three, four quarters now that is behind us?

**P.V.S.N. Raju:** Yes, that is because of the client which Prasanna has told, that was our weakness and I not see that happening going forward.

**Madhu Babu:** And sir Puranik has come from Persistent, I think would he be working on the OPD side of the business because that is what in Persistent he was doing there?

**P.V.S.N. Raju:** Yes, he would be Chief Growth Officer and looking at multiple growth opportunities we have and he is working across multiple growth opportunities across verticals, across horizontals.

**Prasanna Oke:** You further build up upon it, I mean again as Chief Growth Officer he is going to look across the verticals. If that is going to help on the ISP side of OPD side we are more than happy and I am sure there will be advantage there, but that is not his role, his role is to help us to grow across our verticals and across large accounts.

**Madhu Babu:** And the other person is Rajiv you said, right, he has joined us from which firm?

**Prasanna Oke:** His name is Rajiv Puri.

**Madhu Babu:** From?

**Prasanna Oke:** He is from Mindtree.

**Madhu Babu:** And just on the cash sir, if I see the debt position has gone up, I mean even short-term debt, so my calculation net cash is coming at Rs.160 crores, if I am right, if I take so am I reading something wrong in that?

**R. Sathyanarayana:** No, basically the packing credit finance which we have taken at lower r interest rate for our working capital operations.

**Madhu Babu:** Okay, that Rs.119 crores?

**: R.Sathyanarayana** Yes, it is about about Rs.70 crores and the other thing is packing credit finance facility.

**Prasanna Oke:** So Madhu on overall basis we do not see any cash issues from where we are seeing, at least part of the cash on a very-very macro level it goes out as dividend and the other what we use to

acquire a company. But having said that, we do not foresee any issues in cash, in fact accretive as we tended to grow through the year.

**Madhu Babu:** And sir we have mentioned Rs.228 crores of net cash in the press release, but if I am calculating from balance sheet it is coming at Rs.160 crores, if remove that long-term debt, long-term debt to other long-term liabilities and short-term borrowings, if I remove all these the net cash is at Rs.160 crores.

**R. Sathyanarayana:** Yes, Rs.228 crores is without excluding the long-term.

**Madhu Babu:** So net cash you have shown in our press release without excluding long-term debt?

**R. Sathyanarayana:** Yes, that is right.

**Madhu Babu:** Okay, sir that long-term Rs.52 crores debt has come in at what, is this a FOREX loan?

**R. Sathyanarayana:** When we say FOREX loan what we have taken abroad and it is at a good rate.

**Madhu Babu:** So that is for funding that IBIS acquisition?

**R. Sathyanarayana:** Yes, that is right

**Prasanna Oke:** Right, we did that and again we tried to leverage our U.S. size to get a better interest kind of stuff on that.

**Madhu Babu:** Sir and just last five-six quarters onsite has been steadily rising in revenue but delivery center, so whether offshore will come in as next year as a margin lever or onsite will remain high, anything on that?

**Prasanna Oke:** Yes, so I think it was driven by the business, one component of that onsite which has been of IBIS, you are right we are definitely seeing that there is more onsite component of the business, I think it is a trend which is happening in the industry. But having said that, we have factored that into our margins as you are seeing now, our objective would be anyway to grow the company irrespective of whether it is onsite offshore kind of a mix. So we will see, but we do not expect to win, dramatic changes in this to happen right now.

**Moderator:** Thank you. Our next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** Regarding this vision of doubling of constant currency over the next four year, is this a vision statement or we have a detailed roadmap how to planning to achieve the same?

- Prasanna Oke:** Sachin, again we keep on getting ask for forecast right, and we do not give forecast at this point of time.
- Sachin Kasera:** I am just seeing this vision of doubling revenues in four years, it is an aspirational statement or you have internally a detailed roadmap that you have worked out which gives you very high confidence that you can achieve, that is the only thing I wanted to understand.
- Prasanna Oke:** So yes, so Sachin definitely we go through this annual planning process, so all our targets, goals, strategies are devised getting towards this number, so that detailed plan we made four years plan, we have fairly good three-year plan but a very-very detailed one-year plan.
- Sachin Kasera:** Sir, one of the themes from some of the best companies in the industry are now saying is that they are looking at a significant improvement in productivity per employee because of the automation and artificial intelligence that they are focusing on. So what is our vision for this next four years and we are looking to double the revenue, are we also looking at a significant improvement in productivity per employee?
- P.V.S.N. Raju:** Yes, we are looking at two or three initiatives to improve the productivity of employees, one is definitely with the solutions what we have and when we go with this solution and if it wins the market itself, it is not linearly dependent on the cost, so that is one lever we are looking at it. Second is for the Application Maintenance Service we are working on automation to improve the realizations there. These are the two primary stuff, internally we are also looking at processes that leans to get the remaining improvement in realization and that's is the big one we are working on it.
- Sachin Kasera:** Will you be able to give any sense over the next two, three years what is the type of productivity improvement we are targeting, sir?
- P.V.S.N. Raju:** Sachin, we could not get it, in terms of productivity improvement talking of what we are offering our clients or internally?
- Sachin Kasera:** I mean what productivity or revenue per employee, that is what I wanted to know.
- Prasanna Oke:** Yes, I mean see, to answer that question we do not see the revenue per employee dropping.
- P.V.S.N. Raju:** let us put it simply, we do not see the revenue per employee dropping.
- Sachin Kasera:** Sir one follow-up regarding this top-10 clients' growth, you did mention that it was mainly because one of the Top 5 clients dropped out, so from what I can assume that 11th client is now come in the top 10 because one of the top 5 has moved out, so can you give us a sense if we remove the client which has dropped out, the remaining top 10 clients in that case is there a growth there on this top 10 client?

- P.V.S.N. Raju:** There is a growth in the remaining nine clients Sachin.
- Sachin Kasera:** Any sense of that number sir that you can give us what would that be?
- Prasanna Oke:** We have not really worked it out Sachin at this point of time because we are just trying to take the top 10 and we did not kind of think about it, but it is a fairly large client, which I will not be able to tell you that because then the question of revenue is coming from that one client which is not we are trying to do.
- Sachin Kasera:** And there was no contribution from the client in this quarter, the client that has dropped?
- Prasanna Oke:** No, we had no contribution from that client.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah who is an investor. Please go ahead.
- Vipul Shah:** Sir my question is on your Slide #28, so you have mentioned that 31% revenue is from digital side, right?
- Prasanna Oke:** 31% Vipul.
- Vipul Shah:** But then can you give the individually five services which are Ecommerce, Mobility, Cloud, Rezopia. I think only four are shown here?
- Prasanna Oke:** See, inside the segments and the competencies also you have small percentage of digital revenues also, so just adding the top five is not going to become 31, there are components which are embedded within the ERP side also and the analytics side which have got a digital component of the revenues.
- Vipul Shah:** So what was the figure for March quarter 2015 as far as digital goes?
- Prasanna Oke:** So just to answer, we have been reporting this for the last four quarters, so in quarter one of last year it was 25%.
- Vipul Shah:** So it has moved to 31%?
- Prasanna Oke:** It has moved to 31% in three quarters, yes.
- Vipul Shah:** So very broadly if I may ask, what should be the hourly rate difference between digital revenue and conventional IT services if you can give any ballpark figure?
- Prasanna Oke:** Of the percentages you are saying or, I could not get that question.
- Vipul Shah:** In digital revenue per hour revenue or per employee is how much higher in terms of percentage?



- Prasanna Oke:** See what we are seeing at this point of time is definitely that when you are adding the value and doing the transformation to the customer, you are able to realize better rates. Having said that, we are not giving the exact rate on the delta versus x.
- Vipul Shah:** So all you can say is digital revenue productivity is higher than conventional IT service?
- Prasanna Oke:** Yes, again we do not see any pricing pressure on a digital side of the revenues.
- Vipul Shah:** And sir forgive me for my ignorance, OPD what it stands for?
- P.V.S.N. Raju:** OPD stands for Outsourced Product Development i.e. services we provide to software product makers like Microsoft and so on by developing and designing the product.
- Vipul Shah:** Yes, that has turned weak over the last two, three quarters?
- P.V.S.N. Raju:** Yes, one of the large customer in that space has gone.
- Vipul Shah:** And what is our blended revenue productivity per year per employee?
- Prasanna Oke:** Per revenue, I mean I think we keep on telling our average bill rates are roughly in the range of about 70 per hour for onsite and about 26 for our offshore.
- Vipul Shah:** And where do you see this digital revenue in next year sir, I mean by next March?
- Prasanna Oke:** We expect them to keep on growing because our offerings are centered around this, lot of our pipeline and traction is centered around this, so we would like them to continue growing. Again, it is very difficult to put in a number but if you are able to reach about 40% - 45% in the next two years we would be feeling good about it.
- Vipul Shah:** And sir lastly, out of your four acquisitions which one has given you the maximum result till date?
- Prasanna Oke:** First of all, we have made three acquisition Vipul and I think each of these acquisitions had a very good logic and a rationale for it, nothing has made us look at saying that one of them is not working out, we continue to invest in all of them. As a standalone entity we often do not measure them because we see spin off benefits happening so we have our own Travel so Rizopia adds flavour to some of the offerings that we have. When we look at the mobility side we did have entries of number of clients. Today all those clients are talking to us, they lead to revenues into Sonata and obviously we are not measuring this entity by itself. So to put it short, all our three acquisitions we are very happy with what we have acquired and how we are building up on them.
- Moderator:** Thank you. Our next question is from the line of J Daniel from Entropy Advisors. Please go ahead.

- J Daniel:** Sir your EBIT margins for the year in IT services was 26%, you are guiding towards low 20s as an EBIT margin going forward. So does this imply that if you are going to double sales in four years your EBIT will lag or the growth will lag?
- Prasanna Oke:** Yes, we got about 24% on this year.
- J Daniel:** 26% for the year and 24% for the last quarter, I am going based on Rs.707 crores sales and Rs.184 crores EBITDA.
- Prasanna Oke:** So what is the question?
- J Daniel:** So the EBIT margin is 26% for FY2016
- Prasanna Oke:** Right.
- J Daniel:** You are saying the ballpark number will be in the low 20s EBIT margin going forward. So would it imply that you will be able to double sales in four years but profit growth will be less than double, I mean that will lag.
- Prasanna Oke:** No Daniel, I do not think we need to take it that way, see because what we are trying to do is that we believe that we should be investing more, so even as we are trying to invest more at this point of time we are not trying to drop the overall EBIT through and through because our objective is to be able to invest more so you can get more returns later. And after four years, it will be very difficult to say but no we are not trying to say that after four years also we will be getting at that level.
- J Daniel:** So you are saying doubling of sales in four years means compounding sales at 20% per annum roughly, so you are saying EBIT will not lag the compounding of sale, that is what you are mentioning?
- Prasanna Oke:** Our objective is not to make the EBIT lag, at the end of it all our investments and results that we are dropping EBIT or we would like to drop the EBIT as we keep on saying is to make investments which will help us to get better realization going ahead. So definitely not four years later I just want to give a kind of a thing it is going to increase but again the objective would not be to drop it.
- J Daniel:** Because it is a slight dichotomy, 26% and low 20% is a big difference there, so close to 400 - 500 basis points difference.
- Prasanna Oke:** Yes, because see these are some of the investments Daniel that we are trying to make in the people, marketing, IP, etc. So this is the investment that we would need to make as we have been talking for the last two, three quarters.

- J Daniel:** No I understand the investment part. I am just saying in pure profit numbers would it mean that four years down the line your sales will double but your profits will not double?
- Prasanna Oke:** No, I do not think so, I would not like to go there. Four years later as to what my margins are going to be, but the objective is not that.
- J Daniel:** And this low 20 that you are saying, will it be a sudden drop or it will be more of a gradual thing?
- Prasanna Oke:** It is a gradual thing.
- J Daniel:** So gradually expect the margins to drop?
- Prasanna Oke:** Yes.
- J Daniel:** Then it is very difficult for you to double your profits, in a declining margin environment how will you double your profits, your margins this year are 26%, EBIT margins, you are saying it is going to decline over time, your sales are going to compound at 20%, I am just saying if you double sales in four years it means 20% compounding over four years.
- Prasanna Oke:** Yes, I get that, no that is not how it is going to work, right, I mean again that could be an investment that we are making but the objective of the investment, 26% is not sustainable, we need to continue to invest in order to be on the higher side, this is the investment that we would need to be able to have the management investment revenues, IPs so on so forth. The objective is not that after four years you would want to keep it, we definitely want to increase right. But very difficult at this point of time to tell what we are shooting for but obviously the intent is not to drop it after four years.
- J Daniel:** So this 26% is peak margins according to you?
- P.V.S.N. Raju:** Yes, 26% is peak. I think we are overstretched but it is not sustainable for longer term, that is what we are saying for last few quarters.
- J Daniel:** So the sustainable part you are saying is low 20s, what I am trying to figure out is that there is a huge difference between 26% and low 20s.
- P.V.S.N. Raju:** Now if you look at quarter four already we are 24%, it is almost there.
- J Daniel:** So 24% is what you are aiming at when you say low 20s?
- P.V.S.N. Raju:** No, I think there still might be looking at slight drop is what we are saying.



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- J Daniel:** Because pure arithmetic I am saying if you double sales in four years and you are saying drop in margins then your profits cannot double in four years that is what I am getting to.
- P.V.S.N. Raju:** Yes you are right, so we are not moderating our profit for four years as of now. In the medium term we are saying that we are looking at the margins around low 20s.
- J Daniel:** The second part is your debt, short-term borrowings are Rs.119 crores and you are holding cash of Rs.295 crores, what is your rationale, why don't you use your cash to fund your working capital requirement, I mean I am not able to understand the rationale for your substantial jump in short-term borrowings?
- R. Sathyanarayana:** No what we are doing is, some of this is packing credit finance facility that we have availed which is at a low interest rate and also what we have done is the fixed deposits, etc., we have locked in for a year at good rate.
- Prasanna Oke:** See, it does not make sense to break our FD and lose it versus getting it at lower interest rate.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the speakers for the closing comments.
- Prasanna Oke:** Okay. So thanks so much for the call and the interest. We are trying to carry on with our strategy what we have outlined a number of time and we are looking forward to good coming year. So thanks so much for joining the call.
- Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Sonata Software Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.