



“Sonata Software Limited Q2 FY 2018 Earnings Conference Call”

November 14, 2017



MANAGEMENT: MR. SRIKAR REDDY -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, SONATA SOFTWARE LIMITED
MR. PRASANNA OKE -- CHIEF FINANCIAL OFFICER, SONATA SOFTWARE LIMITED
MR. VIKAS GURUGUNTI -- CHIEF OPERATING OFFICER, SONATA SOFTWARE LIMITED
MR. RANGANATH PURANIK -- CHIEF GROWTH OFFICER AND PRESIDENT OF IBIS INCREASE. SONATA SOFTWARE LIMITED
MR. SUJIT MOHANTY -- HEAD (TECHNOLOGY INFRASTRUCTURE BUSINESS), SONATA SOFTWARE LIMITED
MR. R SATHYANARAYANA -- HEAD (FINANCE), SONATA SOFTWARE LIMITED
MR. KUNDAN K. LAL -- COMPANY SECRETARY AND HEAD (LEGAL), SONATA SOFTWARE LIMITED



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Moderator:

Ladies and Gentlemen, Good day and Welcome to Sonata Software's Limited Q2 FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Srikar Reddy from Sonata Software Limited. Thank you and over to you, Mr. Reddy!

Srikar Reddy:

Yes. Thank you. Good Morning, Everybody and thank you for joining the call today post the results of our Q2 FY 2018 which we announced yesterday.

Along with me on the call today are Prasanna Oke -- our CFO; Vikas Gurugunti -- who joined recently as Chief Operating Officer based out of U. S. which we had announced as part of the results Press Release yesterday. Our Chief Growth Officer -- Ranga Puranik and Sujit Mohanty who heads DISG business, Sathya -- who Heads Finance and Kundan -- who is the Company Secretary and Head of Legal.

So the results have been posted on our website and I hope you had a chance to look at it.

I briefly in the beginning cover the highlights of the quarter before I hand over to Prasanna to take you through some of the financial details and then we will be open to Q&A from all of you.

So as I mentioned in our last call and based on the Presentation we had done in the Analyst Day in Bengaluru (Bangalore) in May, we continue to execute what we said that time of what we call the transformation approach to digital transformation, I briefly touched upon in that meeting. So basically, that is the message, going forward in terms of what we mean to our clients or partners and that is supported by whatever has been working for us in past in terms of specialized services and our IP led growth and working strongly with our alliances has continued to help us in our growth endeavors.

At a summary level, we had 6%-7% dollar-on-dollar growth last quarter, there was an additional \$1.3 million of product sales, with that it is about 11 percent growth. If you remove that it is about 6.5% of dollar growth in our international services business and that has helped us both in terms of an EBITDA growth for the previous year and over the previous quarters.

On the domestic side, we have had a fairly sharp decline in revenues. But I have always said that we do not really manage revenues in our domestic business but really manage margins and that has happened because of certain changes in some of the structures of our principle which led to certain



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large deals which could not go through which we hope that would go through in the subsequent quarter.

So otherwise, even in the domestic business I do not think, we could continue to have that level of margins as we go forward. But I think you definitely see an uptick in the margin of our domestic business.

The other major story has been our continued turnaround of IBIS which I had mentioned a few quarters ago, last quarter we had turnaround and this quarter I think, we have had a very-very decent profit in IBIS, the turnaround of IBIS and its contribution to the overall Sonata's business from driving the Microsoft alliance in U. S. market is now a good story.

So that is really a high-level summary of qualitative analysis of the last quarter's performance. I will hand over now to Prasanna to take you through the financials in greater detail and I will come back for any questions you may have. Thank you all.

Prasanna Oke:

Srikar, thank you so much. Srikar, thank you and Good Evening to all of you and welcome to the earnings call.

As you are aware our results had been posted after the Board Meeting yesterday. They are available on our corporate website including the Investor Deck.

However, let me provide you some key highlights of what went through in the last quarter which is the Q2 FY 2017 - 2018.

On a consolidated basis our revenues stood at Rs. 427 crores an EBITDA of Rs. 66.1 crores which is a sequential growth of 3% and a total growth of 11% on a year-on-year basis.

PAT stood at Rs. 45.4 crores which is sequential growth of 5% and a growth of close to 19% on a year-on-year basis.

Our ROCE stood at 28%; RONW at 30%.

Looking at the segment wise revenues, again, a strong quarter for the International IT Services segment, revenue at Rs. 234.6 crores; sequential growth of about 11% and year-on-year growth of about 12%.

The revenue in U. S. dollars \$36.4 million during the quarter, year-on-year growth of 17% from this INR growth of about 11% and a constant currency growth of about 10.8%.



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We have been measuring our revenues on a digital component that is from the BI-analytics mobility cloud side that has increased and stands at about 32% for this quarter. It was last four quarters its been growing sequentially.

IP led revenues are the parameters that we have been measuring and that is now stands at 15% which is up from the 14% which is there for the last quarter.

Our EBITDA stood at Rs. 52.7 crores, roughly about 22.5% and 23.4% excluding the one-times, sequential growth of 6%. PAT at Rs. 37 crores, sequentially growth of 7% and a year-on-year growth of 23%.

During the quarter we added about 10 new clients. 6 clients came in from the U. S.; 2 clients came from Asia and 2 clients from ANZ. One-time pass through revenues that Srikar mentioned, 1.3 million and accounted for about 3.8% growth. This is on the International IT Services segment side.

Domestic product and services revenues at close to Rs. 200 crores; Rs. 199.7 crores. EBITDA of Rs. 14 crores; and a PAT of Rs. 8.4 crores.

Overall, these are two segments detailed numbers and more statistics are on the Investor Deck which has been uploaded.

So, I will hand it back, Janis, take that for the rest of the call.

Moderator: Sure. Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah: Sir, just one query, last quarter if you could just I think, I may have missed that figure. In the last quarter and this quarter what was the one-time revenue in your International IT Services business? If you could just repeat that?

Srikar Reddy: See, we said that the last quarter was additional, we said that this quarter we have \$1.3 million extra.

Harit Shah: Okay. And that is what exactly related to?

Srikar Reddy: It is related to sale of certain hardware as part of our SI contract we don't make much margin.

Harit Shah: Sure. And sir, that is including the ITS revenue, right? And last quarter, was there any such figure?



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- Srikar Reddy:** Yes, that is included in the international.
- Harit Shah:** And last quarter was there any one time revenue that was there?
- Srikar Reddy:** No, there has been a certain amount which has been there for a long time. We have said that which is about \$ 800k to 1 million, we said, we will let you know anything above that figure has been there for the last 12 quarters.
- Harit Shah:** Sure. So this quarter was 1.3 million, above that last quarter is not there basically?
- Prasanna Oke:** Above that. Correct. So anytime we said that anytime it is above that threshold 1 million in the book.
- Harit Shah:** Right. So last quarter there was no such thing above 1 million, this quarter it 1.3 million.
- Srikar Reddy:** That is correct. And we are saying that the revenue growth is 6% not 11%.
- Harit Shah:** Yes, I got that. And secondly, as far as the DPS business is concerned, you had mentioned that there are changes on structure with your principle, because of which your revenue could not get booked in this quarter. But then, will this trend come through in the next quarter, so may be in the next one or two quarters, you could see revenue get back to the old level?
- Srikar Reddy:** Yes, that is what I said in my opening remarks. That we could see that revenue come back to wherever it did. But as I said, many times that we do not manage this business through revenues, we manage through margins but yes, the other revenue is concerned.
- Harit Shah:** Yes, of course, I got that. And can you just give the figure of IBIS the revenue and EBITDA margin last quarter you had given about \$2 million of revenue and about 5% quarter. So this quarter how much is the corresponding figures?
- Srikar Reddy:** 2.4 and maybe about, how much is that Prasanna.
- Prasanna Oke:** Srikar, it is about 11% on the EBITDA side. So to answer your question it is about 2.4 and about 11%, it will grow up on 5%.
- Moderator:** Thank you. We take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.



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- Madhu Babu:** Sir, our client additions have been strong, the new client additions. So I mean over the last two years I think we have added a good bunch of clients. So how many are you seeing scale up to a next level into certain cut off of revenue and are likely to be more sticky with us?
- Srikar Reddy:** Yes, I think, typically we are seeing on an average between about 20% to 30% of these clients scale up to the next level.
- Madhu Babu:** Okay. And these are all we have got the through the platform led strategy and after that we are cross selling other services, if I am right?
- Srikar Reddy:** Mainly the IP led and specialized. The transformation strategy is still where we are in the process of communicating which is interesting to people. It is a lot more resonated with the existing clients and we are seeing some traction because of them back there I think, we will give it a couple of more quarters before we see the true benefit of the platformation strategy impact on our revenue going forward.
- Madhu Babu:** Okay. And sir, in terms of the senior level hiring. We have been adding a good number of senior hires. So how is the outlook? I mean are we full as of now or we would be adding more employees at the senior level?
- Srikar Reddy:** I mean, at this level I think we are more or less there. We might add some on the back end in terms of the strengthening our delivery capability. In the frontend at this level of seniority, I do not think we are going to add any more. We definitely add more people but not in this level of seniority. We may look at adding some more on the back end senior resource.
- Madhu Babu:** Okay. So the Mr. Vikas would be looking after the retail CPG vertical also, considering this?
- Srikar Reddy:** No, Vikas is responsible for all our customer facing operations. He is actually on the call, maybe he will say some words. So he is responsible for all our global customer facing operations, sales and marketing operations, Madhu.
- Madhu Babu:** Okay, sir. And just last one, sir, good show on the margins for the IT services. So what have been the level? Because I think, we had a wage hike also this quarter, but still the margin performance has been very good.
- Srikar Reddy:** I think, one is I think there has been a little better utilization and I think, it will get try a read there very decent kind of rate for our services, let me put it that way. And IBIS turnaround a bit.
- Moderator:** Thank you. We take the next question from the line of Rohit Balakrishnan, Individual Investor. Please go ahead.



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- Rohit Balakrishnan:** So sir, I just wanted to understand, I had three questions broadly. So first is from a numbers point of view. When we talk about the EBITDA on the International IT Services being Rs. 53 crores or thereabouts, we tend to include the other income on this, right?
- Sathyanarayana. R:** Yes, inclusive of other income.
- Prasanna Oke:** Yes, Rohit. So we have been doing this for all the quarters before. So it includes the other income, it includes the FOREX also. Each of them is roughly in the range of about 2% so that is where it stands for this quarter.
- Rohit Balakrishnan:** So in your overall consolidated numbers, your other income is about Rs. 11 crores, right? So of this Rs. 11 crores, how do you break that up for IT Services? How do you allocate that?
- Prasanna Oke:** So if we are talking about our IT Services...
- Sathyanarayana. R:** Yes, the break-up is basically Rs. 1 crores in domestic services and the balance will be international services.
- Rohit Balakrishnan:** Okay. So about Rs. 10 crores would be yours. And this other income will also include foreign exchange or that is separate?
- Sathyanarayana. R:** Yes, it includes foreign exchange.
- Rohit Balakrishnan:** Includes foreign exchange. Understood.
- Srikar Reddy:** So it is right to say Sathya most of it is FOREX?
- R. Sathyanarayana:** Yes, most of it is FOREX, correct. Rs. 7 crores is FOREX.
- Srikar Reddy:** Yes, so it is purely arbitrage is the way I look at it, Rohit.
- Srikar Reddy:** Yes, these are all real earnings, they are not other income.
- Rohit Balakrishnan:** Right.
- Srikar Reddy:** Just a nomenclature of the Accounting Standard kind of stuff. But this is all planned and organized way of obtaining income. It is not like just happen by chance.
- Rohit Balakrishnan:** Right. And just related on this, I mean last two quarters - three quarters we have been slightly lower on the margin side and this time we have increased it a bit. So and if you go back few quarters, you were saying that those margins were slightly higher and may we not sort of see them again. We are



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very close to those margins again. So, just wanted to see are you comfortable with these margins or you would be sort of again saying some I mean there are things which could sort of upset the uphill the cart here?

Srikar Reddy: Yes. It is a function of the dollar, right? So I mean because the margin is computed that the current dollar and not the hedged rate. So that is why the rest of its other income.

Srikar Reddy: So I think, just look I would say that it is a purely a dependent on the dollar, let me put it that way, the dollar goes up our margins goes up.

Rohit Balakrishnan: Okay. All right. And sir, just in terms of the stated target to sort of double or reach about \$200 margin IT Services revenue by FY 2020. So, I mean this quarter has been good. And the earlier couple of quarters were sort of tepid especially the last two quarters of FY 2017. So the first two quarters have been good in that sense for this year. So do you sense that I mean these is sustained momentum that we are getting or do you want to sort of again guide something differently?

Srikar Reddy: No. I think. As I said last time also. I think, we see definitely an uptick trend and unless something unforeseen or untoward happens. But there are general trend we are seeing is that we are seeing healthy upward trend as at barring on unknown and stuff based on traction with our client and based on our ability to interest new clients and bring new clients and growth. So I think, yes, I mean as I said last time we do feel there is a bias towards positive.

Rohit Balakrishnan: Because one question that I was thinking about was that I mean retail in U. S., the traditional retail is undergoing a lot of stress. So does that sort of rub to you in terms of their spends getting either delayed or protracted or are you seeing something different there?

Srikar Reddy: No, that is what I asked because we are in the forefront of their transformation through our brick and click and other kind of, we are not coming in to some maintenance or something like that. We are seeing a tremendous amount for traction of these people definitely wanting to do something for their business I mean they want to realize where they are, they are going to die. So there huge refurbish of technology kind of stuff and that is where with our own brick and click kind of an end-to-end digital platform we are seeing let me put it that way.

Rohit Balakrishnan: Got it. And just two questions. One is related to this, was that I mean this has always been a question to me a lot of the IT companies that are out there in India they also retail and retail is big portion for a lot of these companies mid-sized and also bigger companies and we have sort always maintained that we typically do not compete with them. Now given that the incremental revenues are sort of coming for the kind of revenues that you are specializing, or your focus is, are you seeing increased competition where the other guys are also sort of coming in and trying to do what you want to do or what you are doing?



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- Srikar Reddy:** As I said, there is competition where we operate, not your typical Indian IT Services Company. There is no competition, there is a huge amount of competition. I said the profile of the competition is different, I said, there is competition.
- Rohit Balakrishnan:** Right. So that is what I was asking. So has that profile also now expanded to the Indian IT companies or those companies are still sort of not trying.
- Srikar Reddy:** No, we have not seen that where we are playing, we have not seen that.
- Rohit Balakrishnan:** The reason for that question is sir, I mean is there a pressure on pricing or those things are sort of not really I mean those things are not worrying you at this point of time?
- Srikar Reddy:** No, I think because proposition is value, so we are not seeing that kind of pricing pressure because value proposition as I said is value I mean so it is like what value are you able to give to the business. So if I able to do that then it is a very different value so it is not a typical I want 100 people what is the price kind of stuff.
- Rohit Balakrishnan:** Got it. And last question is can you just help me with the debt and the cash figures?
- Srikar Reddy:** I will ask Sathya.
- R. Sathyanarayana:** Yes. So we have a net cash of Rs. 268 crores in the book, this is after our borrowing in terms of the loan for acquisition that we have done is about Rs. 42 crores.
- Rohit Balakrishnan:** How many, sorry? What is the debt, sorry.
- R. Sathyanarayana:** Debt is Rs. 42 crores.
- Rohit Balakrishnan:** Rs. 42 crores?
- R. Sathyanarayana:** Yes, net of that is Rs. 268 crores.
- Rohit Balakrishnan:** Okay.
- Moderator:** Thank you. Next question is from the line of N. Puranik from Enam Securities. Please go ahead.
- N. Puranik:** One question, you have an impressive client win this quarter. So if you can tell us how will the account planning, account management growing large account? I mean, \$5 million to \$10 million more account with the platform stabilizing, digital share of revenue growing, how do you look at this happening in the next couple of years?



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Srikar Reddy: Good question, Puranik. So, the intent is to take these accounting we won through this IP led or transformation led strategy and then grow them through account development processes. And so we are making investment in that in terms of more seeing than the account management talent and also putting in people with more solutioning kind of architecture kind of background towards with these clients and then I have very-very solid accounts strategy, I mean we also use a tool called DemandFarm for our account planning

N. Puranik: What it called demand?

Srikar Reddy: DemandFarm, DemandFarm.

N. Puranik: Okay.

Srikar Reddy: So that is what we use for our account strategizing and growth kind of stuff. So as you said rightly that the ability to win customer is not any question any more. We need to ensure that at least as I said 20% to 30% of them become long-term sustainable growth accounts. And that is what we internally have a formula called by 60 by 5, we are all focused on getting 60 clients of \$5 million each is roughly that is how we look at the whole business right now.

N. Puranik: And how many of this 16 will move to \$5 million - \$10 million club?

Srikar Reddy: The average is about five, what we are seeing in this thing upwards of two, we will qualify to be the 60 accounts, but there are some accounts today which are fairly large kind of stuff. So as long as it is about 5.

N. Puranik: 5 out of 16 will move into \$5 million - \$10 million club?

Srikar Reddy: No, what I have said is that we have client we need 60 clients, six-zero totally on average of \$5 million price. We have some already, we are getting some so the whole planning around to say that how do we make each on these customers one of those 60, six-zero. Roughly all were measured against how many of the 60 do we have with us today in the company and how many more do we need so that is the only metric we are looking at.

N. Puranik: See, you have enough number of solution architects who can go and sell solution and the account mining team to make this growth happen.

Srikar Reddy: I can say there is never enough of anything but I would say that at this stage sufficient.



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N. Puranik: So Srikar, how can you please tell me how is the re-skilling program happening in the context of moving into digital and how much of automation is at work at Sonata, how will the legacy business that you have.

Srikar Reddy: Actually we have rolled out an internal program for design thinking in the whole organization, so we are now trained about 300 people in the organization. The plan is to train most of the organization on the 12 months. So that is one thing that is driving force of cultural change inside the organization in terms of how do we think large platformation kind of stuff.

So the end of a lot of plans in terms of automaton of our delivery processes and automation of our services through our client so that is the continuous process we have a three phase customer value addition program where we made our IT performance, business performance and strategic value kind of stuff, so that is what we measured. So when we do our account planning for our client. So, yes, more importantly I think this whole design thinking is going to be driving how the organization is going to change itself to meet up with the plant formation.

N. Puranik: And these are typically one-month program or how does it happen?

Srikar Reddy: No, these are the two-day program and then there are a lot of bigger in terms of applying it inside the organization in most of the year.

N. Puranik: How does the application part happen

Srikar Reddy: We take projects across the board whether it is sales, pre-sale submission customer engagement, then we actually run workshops to say how do we apply design thinking to solve your problem kind of stuff. So that is where it can become institutional.

N. Puranik: So how do you measure the absorption of this the application skills with the people and measuring the outcome, client project outcome?

Srikar Reddy: Yes, the outcome is definitely client satisfaction.

N. Puranik: No, I am taking about the design thinking program extension, how do you get measurement of people input, output?

Srikar Reddy: That is one, so the output is really how are we engaging differently with clients. It is a very collaborative way of engaging client rather than a let us say an old way of engaging with clients. So that is a one, I think much better solutioning and ability to work with the client in a more collaborative way rather than a very medium way that is coming.



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Moderator: Thank you. We take the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Can you give the revenue and EBITDA of Halosys, Rezopia, and IBIS in this quarter? And first quarter as well?

Srikar Reddy: IBIS we just gave.

Vipul Shah: Sorry.

Srikar Reddy: IBIS we just gave, I said.

Vipul Shah: Yes. But I was not able to note down, if you can repeat that

Srikar Reddy: Okay, can you give the numbers again Prasanna?

Prasanna Oke: Yes. So, Vipul for IBIS which we are tracking distinctly as an entity our revenue for this quarter were 2.4 million

Vipul Shah: 2.4 million is the revenue, right?

Prasanna Oke: 2.4 million and an EBITDA of 11% on this.

Vipul Shah: What was it last quarter, Mr. Prasanna?

Prasanna Oke: Last quarter it was about 2 million the EBITDA was 5%.

Vipul Shah: Okay. So would you be open to giving the same figures for Rezopia and Halosys also?

Prasanna Oke: Yes, now we are not measuring Rezopia and Halosys independently. We have integrated that into our numbers. So, it is not remaining a separate entity any longer.

Vipul Shah: And sir, you have 15% of revenues coming from platforms, IP led, right?

Prasanna Oke: Yes, Vipul.

Vipul Shah: So that will be coming mainly from which verticals, is it retail or is it across all the verticals?

Prasanna Oke: So Vipul, it is coming all, we have got six IPs which includes ASCS, we have got Brick and Click, we got Rezopia, we got Halosys, these are leading the revenues which are coming, we have seen revenues come from each of IPs for us for this quarter.



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Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan, Individual Investor. Please go ahead.

Rohit Balakrishnan: I just wanted to know on IBIS, we have seen a very sharp increase in the margins. I mean, are we close to the optimum level or there is some more juice left in that, any sense on that will be helpful

Srikar Reddy: Yes, there is I think because the fixed cost income more or less there, so it is now on variability so if we get a much steep of increase in revenue we can see a better margin.

Rohit Balakrishnan: It will be equivalent to what we do at Sonata or that will be...

Srikar Reddy: No, a lot of it is online business, IBIS. So it will not be the same as what we see in the national services, but there is a scope for improvement.

Rohit Balakrishnan: And in terms of revenue growth there so just wanted your sense, I mean, it was \$2 million last quarter is about 2.4 obviously the base is small but what is kind of driving this growth and can it sort of continue in this trajectory?

Srikar Reddy: It is really IBIS is a purely micro flopped dynamic business. So there is a big traction of focus from Microsoft itself on the business and now with earlier they were mainly the solution vertical, now we have added the retail vertical to that business and then additional services from Sonata like upgrades and other things and that is what in that growth but it still tends to be a project business so the step is to how do we convert these customers IBIS to more long-term sustainable account. That is when we do that and you see a more steady uptick to the whole business, otherwise today tends to be a lot more project basis.

Rohit Balakrishnan: And sir, where do you think, I mean in terms of the transition, this transition is still a long way out or we have made good steady progress there?

Srikar Reddy: Yes, basically focused right. We are at the right track. Yes, it will take some time.

Moderator: Thank you. We take the next question from the line of Shekar Mundra, Individual Investor. Please go ahead.

Shekar Mundra: See, your domestic business the receivables daily sales outstanding have gone up to 135, so your comments on that as in what is the reason behind that?

Srikar Reddy: I do not know whether it is an average number or that is a last days number because revenue was very low quarter that is my understanding. I will ask the finance department. I do not know think, it is an average of the quarter saying.



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- Prasanna Oke:** Yes, Shekar, just to answer your question, this is the quarter end figure so because the denominator on the revenues has come down that number has gone up. Our average DSO are about 58 days.
- Shekar Mundra:** All right. And you have been taking about a chain in the principle structure of your domestic business, can you throw some light on that?
- Srikar Reddy:** The change in their structure not our relationship with them. That have changes in the way they are because now they went to the market and all that. So that extent there was some let you say I would call it slow down but because of that there was a little slow down and able to grow some transaction, yes.
- Moderator:** Thank you. We take the next question from the line of Daniel Jay from Entropy Advisors. Please go ahead.
- Jay Daniel:** Sir, at the moment how many \$(+5) million customers you have I mean as on date?
- Prasanna Oke:** So, Jay, we have got about four customers who are in the \$(+5) million and total of 21 customers who are more than \$1 million.
- Jay Daniel:** So the target is to increase this four to 60?
- Prasanna Oke:** Yes, so it is look at it greater than \$5 million about \$4 but between \$2 million to \$5 million are about \$8 million. Yes, so first of all, these 8 would start to move into the (+5) million.
- Jay Daniel:** Okay. And the 60 by when do you tentatively think you will get 60 customers with (+5) million?
- Srikar Reddy:** Not \$(+5) million on average. So it could be a minimum of two or three overall. It is just that 60 long-term plan for strategic kind of stuff. It is not all of them are going.
- Jay Daniel:** Okay. So this you expect to do it by when?
- Srikar Reddy:** The plan is next three years - four years.
- Jay Daniel:** Okay. You had a target of 20% IP-led revenues for the current year. In the first-half it has been 14%. So to get to that 20% you will have to be 25% of revenue in the second-half you are in line to that?
- Srikar Reddy:** No, I do not think so. You said 25% can be a bit steep. But I think, we are happy with the progress we are making with the IP kind of stuff. So overall, I think the IP-led strategy is working but yes we are not seeing that 20%.



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- Jay Daniel:** Okay. And margins in IP-led will be higher than your normal conventional margins of 20% - 21%.
- Srikar Reddy:** Margins on IP led as long as they are based on the core IP will be higher. But if they are surrounding the IP, that would be difficult, yes.
- Jay Daniel:** Okay. And I miss this on SI revenues, in the current quarter, you said it is \$1.3 million.
- Srikar Reddy:** That is right.
- Jay Daniel:** And in September 2016 also it was \$1.2 million.
- Prasanna Oke:** Yes. Of last year yes, it was similar quarter.
- Jay Daniel:** Okay. So you had \$1.2 million and now you have \$1.3 million.
- Prasanna Oke:** Yes.
- Moderator:** Thank you. We move on to the next question, it is from the line of from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, my question was related to the OPD vertical. So like we have seen recovery in the OPD since last two quarters, but it has been below the company average and in the last quarter you also mentioned that we have been preferred vendor for Microsoft ISV Development Center. So just the outlook on the OPD how do you see it say for the next two quarters? And what is the like update on the Microsoft ISV Development Center? Thanks.
- Srikar Reddy:** So we are seeing some good traction on that on the ISV dev center. So that is what will help us drive the growth in the OPD vertical.
- Amit Chandra:** So, any kind of new engagement of what we were seeing like say, like three quarters before? So, any kind of new engagement or some new kind of work that you're seeing that is flowing through that partnership?
- Srikar Reddy:** Yes, there is. That's what I'm saying. So, we are seeing traction. And that's what we are going to drive the growth of that vertical, yes, that's what I said.
- Amit Chandra:** Okay. And sir, the second question will be related to the IMS service line. So in the last two quarters, we are seeing that the IMS has been pretty soft or it has been growing below the company average. So, if you see the IMS growth say in the last three, four years, so it was the important



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driver for growth, but IMS has been slowing down. So, any thoughts on that and is there any change in the business model or something that is happening there?

Srikar Reddy: There is just a general shift to the cloud. So we have to see whether that and then we are now getting engaged in that area. So yes, I don't think there is basically an industry kind of sales, there is more shift to the cloud and that's what is happening.

Amit Chandra: Okay, so from here on like the AX has grown very strongly in the quarter, so the growth from here on will be mostly retail focused and Microsoft Dynamics AX focused, so what's the focus area?

Srikar Reddy: That's been a focus, that's how we invested into these companies and strong partnership with Microsoft, we are seeing good traction. So, we definitely see that particular line of business will continue to add very strongly to our growth.

Moderator: Thank you. We take the next question from the line of Shekhar Mantra, individual investor. Please go ahead.

Shekhar Mantra: Yeah, sir, I wanted to understand, when you say you want to scale up a client to, let's say, more than \$5 million. So, is it like the client is using IT services worth that much and you're snatching someone else's market share or is it you're persuading the client to use more of the services you provide in this business. So, what is it as in, or you're hoping the client to grow bigger?

Srikar Reddy: Very good question. It's actually all three, but it mainly one and three.

Shekhar Mantra: So, you also have to bank that the client has to grow bigger.

Srikar Reddy: Client has to grow bigger in the areas in which we are in.

Shekhar Mantra: All right.

Srikar Reddy: That's not that the total spent of the client is increasing dramatically, it's just that the shift is happening.

Shekhar Mantra: Okay. So, you're basically transforming his business model, trying to persuade him to transform his business model, is it?

Srikar Reddy: Yeah, you can call it that, but yes, the tendency is to spend more on change and less on run the business. So, let's say, we have a better story on change the business than run the business.

Moderator: Thank you. Next question is from the line of Rajath, individual investor. Please go ahead.



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Rajath: Sir, we have around I think 250 crores of net cash on our books, which is more than 10% of our current market cap. So, just a question that given we are expecting to double our revenues in next 3-4 years. So, have you ever not thought of buying back our own shares and utilize the cash and because we see probably, if what you are targeting to achieve your stock and potentially double or triple from current levels. So don't you think it could be a good investment opportunity for the company itself to buy back the shares?

Prasanna Oke: Rajath, again, it's something a trend that we've seen, but one there are two things, one is largely a Board decision on any kind of a buyback which will happen. I think the second thing is that as you have seen, we've had acquisitions in the past and we continue to have an appetite for them in our areas of interest in the verticals and horizontals that we are focusing on. So, we do have uses for the cash at this point of time and I think at the end of it, I'll say it's a Board decision.

Rajath: Sure. So I agree that it's a Board decision, but I mean is there any discussions around that in the Board or not?

Prasanna Oke: I will not be able to comment on that, unfortunately, Rajath, but we do have our plans. We do continue to look for suitable targets and that's what we had used previously also through the self-accrual kind of basis. So, we believe that is something that we will need. And it's just different views that when the Board decides, we will let it be known.

Moderator: Thank you. We take the next question from the line of Arun Damodar Ketia, individual investor. Please go ahead.

Arun Damodar Ketia: Yes. This is regarding your ERP. You have mentioned you have gone through the Beta 1 phase and you are about to launch it. What kind of revenue do you expect from this ERP and what would be the margins expected over, let's say, next 12 months?

Prasanna Oke: Arun, just I didn't get the question. Are you saying that on the ERP side?

Arun Damodar Ketia: Yes. On the ERP side you have mentioned that Beta 1 phase is almost done with, and you are entering the launch phase. So, over the next 12 months, what kind of revenue do you expect from that line of business?

Prasanna Oke: I didn't get it. What phase are we ending. I don't know where, I mean, if you can just clarify a bit.

Arun Damodar Ketia: In your note you have mentioned that Beta 1 phase has been completed almost.

Prasanna Oke: Beta 1 phase?



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- Arun Damodar Ketia:** Yes. Where you have mentioned the ERP, over there you have mentioned that Beta sales is almost complete and we are entering the launch phase, preparing for the launch of the ERP.
- Prasanna Oke:** I'm sorry, Arun. I don't see that anywhere that we are, finished the Beta.
- Arun Damodar Ketia:** You have entered into a partnership with some SNB organization for ERP, right?
- Prasanna Oke:** No, I think there is some confusion out here. Arun, I think that question is probably not relevant to us.
- Arun Damodar Ketia:** Am I saying it wrong, instead of ERP, is it EPR?
- Prasanna Oke:** No.
- Arun Damodar Ketia:** Okay. I don't know. I will go through again.
- Prasanna Oke:** Yes, please do. In case you need, you can get in touch with the investor relations and we will be more than happy to clarify it.
- Arun Damodar Ketia:** Okay.
- Moderator:** Thank you. We take the next question from the line of Shekhar Mundra, individual investor. Please go ahead.
- Shekhar Mundra:** I wanted to understand about the contingent liabilities issue as in, so, how much is the contingent liability as of now, as of today?
- R. Sathyanarayana:** Yes, it's about 464 crores, Shekhar. The contingent liability basically comes out of, one is withholding tax issue. That basically, I think where our liability is because Microsoft has already paid the tax concerned. So, our liability is limited on account of that. The other thing is the corresponding disallowance on account of the withholding tax. That also, there are deciding cases where the Mumbai High Court has decided a lot of cases in favour.
- Prasanna Oke:** Shekhar, it's more a disclosure, and I think it's not moved much from quarter-on-quarter. These are all the industry issues, and in quite a few of the cases where this has come up, we have won in quite a few of the Appellate and High Court.
- Shekhar Mundra:** So when was the last contingent liability issue, as in raised because, I see, as in last couple of years we don't have any contingent...
- Prasanna Oke:** These are issues relating to 2002, 2003.



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R. Sathyanarayana: Yes, these are in the past period basically.

Prasanna One: These are all past period, very old issues.

Shekhar Mundra: And we are fairly confident of winning them as in, not paying the liability. So, is that right?

R. Sathyanarayana: There are lot of the decided cases, etc. all that which are in our favor.

Moderator: Thank you. We take the next question from the line of Naresh Ranka, individual investor. Please go ahead.

Naresh Ranka: I was reading about this Platformation, this technology. And I mean, Sonata is focusing on Platformation. Can you throw some more thing on what is actually the Platformation? Have you got any client on this new Platformation technology? And I mean Sonata is focusing big thing on this Platformation thing. So, what is the future of this Platformation and what are we looking at in this Platformation?

Srikar Reddy: No, as I have said last time, it's not a technology. We have said it's a concept. Everybody was saying digital transformation, we said we will find a unique way of doing digital transformation and we coined this term called Platformation. We've actually taken a trademark on this term now. We own the trademark on Platformation. And we said that if there is digital transformation through creating platforms and that's how you can achieve digital transformation. So, we are having a structure to buy with the platforms that we created and we are saying one of the options for Platformation is to use our platform. So, that's what we are saying. So, it's not a technology. It's a concept for digital transformation.

Naresh Ranka: It's a concept thing, and this Platformation will be applicable only for the verticals that we are into, right?

Srikar Reddy: This can be applied to any vertical, but we are not in those verticals. It's more of a horizontal concept.

Naresh Ranka: Sir, one more thing, among the verticals that we are into, so what do you think which vertical will be like scalable and can grow in a bigger way, that is retail distribution or the travel, your BD?

Srikar Reddy: I think all of them have potential. So, I would say that one is more than the other.

Naresh Ranka: Because in terms of number of clients, I think in retail you have maximum number of, so you think there is still lot potential in the retail front, sir, retail vertical?



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Srikar Reddy: That's because we are very solidly aligned with Microsoft and we have a retail IP. And they have a big focus on retail. So, that's how we are seeing a lot of traction on the retail side. It's not the market for other business.

Moderator: Thank you. Well, sir, that seems the last question for today. I now hand the floor over to management for their closing comments.

Srikar Reddy: All right. Okay. So, thank you all again for joining and thank you for your support. And we look forward to seeing you in our future calls and meetings. Thank you all again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sonata Software Limited, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines. Thank you.