



“Sonata Software Limited Q3 FY18 Results Conference Call”

February 08, 2018



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*Sonata Software Limited
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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Sonata Software Limited Q3 FY18 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: Thank you, Karuna. Good morning, everybody, and welcome to the Analyst Call post the announcement of our Results for Q3 FY18 which are there on our website. I have with me on the call, Prasanna – our CFO; Vikas – our COO; Raju – our Chief Delivery Officer; Sathya – our Head of Finance; Kundan – our Company Secretary.

I will quickly give a brief on the summary of the results before handing over to Prasanna.

Overall, the quarter has been good in terms of revenue growth both in dollar and Rupees, quarter-on-quarter and year-on-year, both in our international services business and domestic product and services business. Also had a good improvement in operating margins. Overall, we see a continued and good acceptance of our strategy, just I think went more intensely with our platformation theme, it was more of a conceptual kind of framework till last quarter, but last quarter first time we have actually gone and presented it to clients, partners, etc. And we are extremely heartened to see that it has been received well, so we have now leveraged on that as we go forward.

So, I will hand over the conference call to Prasanna to take you through the numbers. Thank you, all

Prasanna Oke: Thank you, Srikar. Good morning to all of you, and welcome to the Earnings Call. As Srikar mentioned, our results have been posted on our corporate website, including the filings since yesterday evening. I am sure you have chance to look at the numbers too.

Let me provide you with some key highlights of Q3 2017-2018 as we look at the numbers. As you are aware, we give consolidated numbers as also our two service lines of business, one is the international IT services segment and the domestic products and services. Our revenues stood at Rs. 767 crores on a consolidated basis. Our PAT was Rs. 49.3 crores, it was a sequential increase of about 9% quarter-over-quarter and a growth of 22% on a year-on-year basis. ROC at 31% and RONW at 33%.

Focusing on our international IT services segment, our revenues in USD stands at \$37.4 million during the quarter, a sequential growth of approximately 3% quarter-on-quarter and the growth of about 24% year-on-year. Revenues in rupee terms Rs. 241 crores, sequential growth of 3% and year-on-year growth of 17%, the gap between the INR growth and dollar growth on account of the dollar depreciating or rupee appreciating.

We have been talking about two parameters that we regularly measure, revenue from the digital component of business stands at about 32%. IP-led revenues, an indicator that we have been consistently giving for the last four quarters currently stands at about 15.2%. The PAT at Rs. 40.1 crores, that is

about 16.7% margin, a sequential growth of 9% and a year-on-year growth of 25%. It contributes about 80% to our consolidated PAT.

We continue to add new customers across our geos and verticals. We added four new customers during the quarter, two from the US, one from Europe and one from Asia to augment roughly 12-13 customers we added during the first half of the year. On the domestic products and services, revenues at Rs. 530.3 crores, PAT at Rs. 9.2 crores, quarter-on-quarter growth of 10% and year-on-year growth of 12%. This contributed roughly about 20% of the consolidated PAT.

With that we will pause on the financial highlights and hand it back to Srikar and the team out here so that we can take question. Karuna, back to you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Madhu Babu from Prabhudas Liladhar. Please go ahead.

Madhu Babu: Sir, congratulations on a strong set of numbers, especially the margins have been very strong this quarter. So was it driven by headcount reduction or more on the platform-led strategy of the company?

Srikar Reddy: Thank you, Madhu. The headcount reduction is actually not headcount reduction, we had ramped up temporary workers for one of our strategic clients as a short-term project to help them through let's say a crisis that they were going through. So we completed the project and then these contractors left, we show contractors as employees in headcount, we do not differentiate between them. So that was I think, so I just wanted to clarify there was no headcount reduction as such. But overall, yes, the margin improvement has been both on better utilization and better realization.

Madhu Babu: Okay. And second on the retail, I mean where there is a large set of customers for us, so how are we seeing traction, especially the platforms, and how have we been able to mine some of the retails, if you can illustrate on that? Thanks.

Srikar Reddy: So, I think as you said we are seeing extremely good traction with the retail clients, because I think I mentioned last time also there are a lot of mid-sized, upper mid-sized retailers who are in the technology refresh cycle and we are able to offer them along with our brick and click platform based on dynamics, a very, very compelling straight through to digital kind of an option by taking the platform end-to-end from us. So, while that is good and these tend to be favorably decent sized kind of stuff, we need to continue to leverage these accounts for mining them, for other services, so that is something we need to do better than where we are at, so that we are heavily focused on now in terms of, we have acquired quite a few I think over the last few quarters. So the immediate focus would be on mining these clients for ongoing revenues.

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

Mohit Jain: The question is on revenue per employee, that number is consistently going up for the last three, four quarters. So is there any specific reason for FY18, some client specific things or some ramp-ups that

have happened, or do you think this number can go up because it is on the back of platformization strategy and therefore we should expect such increase in FY19 also?

Srikar Reddy: Overall, I think it has been more of a secular trend in terms of the services mix kind of thing, so that is what has led to better realization on revenues. And as we continue to execute a lot more strongly with our platformation strategy, I mean if that works out very well, we will definitely see better realization. So it is highly dependent upon the success of the platformation strategy in terms of adaptation from customers.

Mohit Jain: But in terms of FY18 this number is mostly, because utilization is flattish over the last three, four quarters, so is it mostly attributed to your strategy or is it also because the kind of service mix, or it is still service that you are able to deliver.

Srikar Reddy: It is both, one is the platformation strategy in terms of adaptation of some of our platforms and resultant revenues from that. Second is that as you rightly said a change of services mix leading to more digital or digitally equivalent kind of services. So it is a combination of both factors.

Mohit Jain: Okay. Second is on OPD, OPD revenues were flattish this time, so how are things looking because I think Q1, Q2 and Q3 we are more or less at 10 million odd quarterly run-rate, so what is the outlook there?

Srikar Reddy: So, as I said last time, I think we had got this Microsoft ISV DevCenter status, so which was I think done in July or August of last year. So, we have started to now see the results of that and so I think we expect even the OPD also start showing growth in the following quarters. We have had some wins at the tail-end of the end of last quarter in the OPD space.

Mohit Jain: Okay. Last is on new clients, there is some drop in revenue I think on a sequential basis, the top clients continue to do well but then we are not able to capitalize on the new accounts that we are getting. Typically, it should be other way around, client concentration?

Srikar Reddy: I agree with you, that is what I had said. So we need to I think the focus has been a lot on new logo acquisition, so we have to focus on account mining also. So, that is the focus, we understand that.

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

Vipul Shah: My question is, what is the revenue and EBITDA for IBIS for this quarter?

Prasanna Oke: We did continue to show growth in IBIS we probably grew by about 2% to 3%, however the growth was not as high because this was largely US driven. And so we were impacted by the furloughs and traditional weakness which happens in Q3 in the US. However, having said that, IBIS continues to be growing and we had EBITDA roughly in the range of about 14% - 15%.

Vipul Shah: EBITDA 14% to 15%, right?

- Prasanna Oke:** Right. These are more onsite kind driven, so that is where it is, but we continue to see good traction and the offerings that we have on the onsite dynamic space.
- Vipul Shah:** But what was revenue for IBIS in last quarter?
- Prasanna Oke:** Well, roughly it was in the range of about 2.2 million - 2.3 million, that has gone up to about 2.4 million. So there is a growth of about 3% to 4%.
- Moderator:** Thank you. Our next question is a follow-up from the line of Madhu Babu from Prabhudas Liladhar. Please go ahead.
- Madhu Babu:** Sir, on the OPD vertical again, so there are a total of around 13 accounts and of course Microsoft is one of the largest among that. So how should we see this on a two, three-year perspective, would we have more of additions and scale up or it would be few clients who would be continuing to drive growth?
- Srikar Reddy:** It is both Madhu, as I said one is whole focused execution with the ISV Devcenter concept, so that should increase the bandwidth. And we are starting some other newer initiative in terms of licensing some of our IP to be sold along with some leading ISVs. So if that works then you will start seeing some revenues do that stream also. So overall I think there are a couple of initiatives which we think hold promise to drive this growth up.
- Madhu Babu:** So, after this Microsoft recognition which were the typical kind of clients who started to show interest in terms of working?
- Srikar Reddy:** Namely, these are clients who want to do two things, people who want to move on to the Azure platform on to the cloud. And secondly are people who want to move their product on Dynamic 365 platform. So these are the two types of clients.
- Madhu Babu:** Okay, these could be enterprises also?
- Srikar Reddy:** Enterprises, we do not treat them as ISVs, enterprises are also moving to the clouds but those revenues are going to the enterprise revenue stream. These are ISVs because Microsoft's now whole strategy is to drive Azure consumption.
- Madhu Babu:** Okay, understood. And sir in terms of the travel, I think Rezopia has helped at least win some large clients in Australia on the railroad side, so how is the traction, we have upgraded the platform substantially, so how are the new deal wins on the Rezopia side, if you can elaborate?
- Srikar Reddy:** I think we have at least have one closure in this quarter now. We have seen another rail company in the Middle East now have signed up with us to run the reservation system. So, based on that I think we would start seeing some traction now from rail companies in at least I would say developing economies, I mean that is where we are seeing traction for product like this because we need right performance ratios extremely well.

- Madhu Babu:** Okay. And the last one from my side, there was a small acquisition on the European side, Denmark side somewhere, so what is the rationale and what are the recent new client wins?
- Srikar Reddy:** It was not an acquisition, it was just an investment we made with a dynamic partner in Denmark. I mean dynamics is a big strategy for us globally, and so we want to really go global. And one of the strategies is to do strategic partnerships. So it was a good strong partner, when I say strong partner it is not in terms of size but their market reputation and their skill and capability. So it was keen it will be good to show to the market that there is a very strong commitment to the success of the partnership. So we made a token investment in the company to actually show commitment to the market, it is about \$100,000 or something.
- Madhu Babu:** And sir, I mean just from the sequential drop of 5%, though it is including temp staffing guys but on the headcount side there is nothing to worry on the growth outlook for 4Q and nothing to worry on that front?
- Srikar Reddy:** No
- Madhu Babu:** Because the magnitude of drop towards.
- Srikar Reddy:** I also got very worried when I saw the report, I do not want any of our people to see. We are in a growth mode, we are definitely not in the headcount reduction mode.
- Moderator:** Thank you. Our next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, I want to ask questions regarding IP-led revenues. So the IP-led revenues growth has been very strong in the last three quarters, so which IP is typically driving this growth or all IPs or some particular IPs are driving this growth?
- Srikar Reddy:** Mainly three, our IP on the Microsoft dynamic platform which is Brick & Click and ASCS, Advanced Distribution Solutions apart from IBIS. The second is the mobility platform Halosys, and third is Rezopia, the travel platform. So we have three other called Kartopia on ecommerce, RAPID which is our DevOps platform, there we have started to see traction.
- Amit Chandra:** So the traction is from all the verticals or mainly from retail.
- Srikar Reddy:** See, the three of them are really vertical specific, so ASCS is distribution CPG, brick and click is retail and Rezopia is travel, Halosys is more generic, it is broad based, that is across sectors.
- Amit Chandra:** So we can expect the growth in IP-led to continue. And the expansion in margins in the last three quarters has been very significant, so can we attribute that to IP-led revenues?
- Srikar Reddy:** That is what I just answered the previous question, actually there are three things, one is the platformation strategy, second is platform system which is being deployed, and the third is change in service mix. All three are contributing to this, it is not just one factor.

- Amit Chandra:** Okay. And sir regarding this service lines, so the growth in testing has been very strong, so in the last three, four, five quarters the testing growth has been very strong, so what is actually driving this testing growth?
- Srikar Reddy:** See, ours is a fairly specialized kind of thing, so it will be like dynamics testing only kind of stuff or hybrid testing, we are not in the general or manual testing kind of stuff, so that is where we are seeing growth.
- Amit Chandra:** Okay, so the growth has been, like in nine months also the growth has been pretty strong in testing and AX, so AX as I understand that it is totally driven by Microsoft.
- Srikar Reddy:** Yes, because sometimes there are third party to do the implementation and customers want somebody else to do the testing for large AX implementation.
- Amit Chandra:** Okay. So is there any risk to testing revenues because largely we have seen automation and all is impacting testing.
- Srikar Reddy:** No, now it is automated only, we have now manual business.
- Moderator:** Thank you. Our next question is from the line of Arun Kedia, an individual investor. Please go ahead.
- Arun Kedia:** Sir, I have two questions. One is, now that the US and European markets are going at faster speed, our revenues have been growing at approximately 3% every quarter. Would it fair to assume that from now onwards we should be growing at around say 5% in revenues in those international markets?
- Srikar Reddy:** Mr. Arun, see we do not give quantitative forward-looking statements.
- Arun Kedia:** No, I am not asking to give any projections, I am only speaking about expectations, would it be fair to assume that with a faster growing American markets our revenues should also grow at a faster pace?
- Srikar Reddy:** All I am trying to say is that we have a strategy which we think is working, we are not linking it to the economic growths of these nations.
- Arun Kedia:** Okay. And the next question is regarding domestic market, with increased digitalization in India when do you expect the India, if at all, the Indian clients to become more mature and move on to the higher margin and better products and order books?
- Srikar Reddy:** It is a very difficult question that you are asking me, Mr. Arun.
- Arun Kedia:** No, because Modi everyday shouts India is digitalizing, so India must be progressing. So do you see any improvement in the client business on that line?
- Srikar Reddy:** No, India also wants services at a very nice price point, so there is a challenge. It is a market which is growing, I agree with you, but will it be a high margin market, I think it will be sometime when it becomes a high margin market because it is a different nation with different set of problems, I guess we

all have to focus on delivering solutions at a much better price point, because the conditions are very different. The same rule will apply I think when we try to deal with India as an opportunity.

Arun Kedia: Okay. So it will basically continue to be volume driven and low margin.

Srikar Reddy: Because of nature of business, as we put more and more cloud and services the margins can improve marginally. But will India be a similar margin market as it is.

Arun Kedia: No, I am not speaking of a similar margin, let us say even if the margins improve by 1% it makes a huge difference because our revenues are higher in the domestic market.

Srikar Reddy: That is the agenda.

Arun Kedia: So, by when do you expect the margins in India to start improving, that is what I was asking. When do you expect the Indian markets to mature slightly better?

Srikar Reddy: So, I think we will see gradual improvement in the margins over the next 12 to 18 months as we start focusing more on services and cloud in the India market.

Moderator: Thank you. Our next question is a follow-up from the line of Madhu Babu from Prabhudas Liladhar. Please go ahead.

Madhu Babu: Sir, just on the product business which has been very lumpy at least in this quarter, very strong growth, so what is the mix of product business as of now, how much is Microsoft and how much is other products on the distribution side?

Srikar Reddy: Microsoft, we have fairly large amount, I think close to about 65%.

Madhu Babu: And other products which are the biggest ones as of now?

Srikar Reddy: Oracle, HP, SAP, Symantec & Hardware.

Madhu Babu: Okay. And just on the cash conversion, I think that has been very strong this quarter, debtors have come down substantially.

Srikar Reddy: Yes.

Madhu Babu: Any outlook on that, is it just going to be...

Srikar Reddy: No, we are completely focused on this whole operation, Madhu. Cash is a very big focus, control on debtors, AR is all a huge focus. So, it is a very, very serious kind of continued event to ensure that we do not lose sight of it.

Madhu Babu: And sir I think there have been good amount of senior additions over the last 12 to 18 months, in this quarter has there been any further addition or just status quo as of now?

- Srikar Reddy:** We continue to add senior additions to the management team, I think Vikas joined us last quarter, after that we have had another, not at the same seniority level, we continue to strengthen our management team. We have strengthened in the last quarter also by not asking but another three or four people have come on board in the last quarter.
- Moderator:** Thank you. Our next question is from the line of N Puranik from Enam Securities. Please go ahead.
- N Puranik:** I like the transformation journey and the Microsoft centricity and the digital strategy where you are trying to become a purist. My question is about the transformation, how significant is the cloud migration in the transformation journey, is it still the cloud migration playing a big role or you are doing lot more on the UX focus?
- Srikar Reddy:** It is a more comprehensive approach, Puranik. You see our platformation approach, I mean that is why we said we will differentiate from the market, everybody said smack and other thing. So we have said platform based business is the way to go if you do digital transformation. So it is a more comprehensive thing. So one of the element is cloud, next is UI, UX, IoT, machine learning, artificial intelligence, ecommerce, mobility, multi-channel, etc. So we are saying you need to do all this if you want to really be digitally transformed, and the only way to do it is to build platforms which are capable of doing all these things, you can take any which path you want to do for achieving it, but you need to take a path which will help you create digital platform which have various characteristics. So that is the approach we are taking. And one of the models as we said is that you can use our own digital platform which are end-to-end created, which is our own retail, travel, distribution product or we will build on our partners platform or we will custom build it kind of stuff, but end of the day we will get you to platformation. So that is the approach we are taking. And within that we are seeing a significant interest now in cloud migration, at the same time we are also doing completely end-to-end digital technology refresh. So there are various situations, context in customers. So I cannot generalize a very secular trend saying what is a bigger trajectory from our exposure kind of stuff.
- N Puranik:** And cloud migration would be 50% - 60% of the revenue?
- Srikar Reddy:** Of our digital revenue?
- N Puranik:** Yes, digital revenue.
- Srikar Reddy:** No, it will be about 20% - 25%.
- N Puranik:** And the platform?
- Srikar Reddy:** The platform is about 15%.
- N Puranik:** And growth in platform is going to be stronger going forward?
- Srikar Reddy:** Yes, I think we have seen very steady growth in the platform-based revenues. And yes, as we focus more and more investments in taking these platforms to the market faster, I do expect that to show greater growth.



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N Puranik: Sir, what more needs to be done to get the platform to the next level, say \$50 million platform opportunity, \$100 million platform company? I am saying, if it is not possible it is not a relevant question, if you think it is possible then it makes sense to proceed with the question even, because I think the platform has the potential.

Srikar Reddy: I think the \$50 million platform per customer, I think we are far away from it.

N Puranik: Far away.

Srikar Reddy: Yes, one customer paying us \$50 million for a platform.

N Puranik: No, I am saying the total platform revenue.

Srikar Reddy: Oh, that way. Sure, that I mentioned, yes we can get there in about two years time.

N Puranik: Yes, I am not saying per customer, overall platform revenue.

Srikar Reddy: Overall platform kind of stuff, yes. So we are about I think \$15 million. So I think in another two years it is not difficult to imagine that.

N Puranik: But more needs to be done, is it the partnership

Srikar Reddy: All aspects of the business process, Puranik, marketing, consulting-led stronger go-to-market with the alliance partners. But I think these are I would call, there will be an inflection point also, we have not reached inflection point anywhere.

N Puranik: And on a scale of one to ten where is the maturity hitting in terms of platform, each of these platforms where have they matured in terms of customer satisfaction, ease of implementation?

Srikar Reddy: I would say they would all be between four to six.

N Puranik: So it can reach up to eight as well in the next three years?

Srikar Reddy: That is the plan, absolutely. We continue to invest, we continue to put more into it. So, that is the plan. And the maturity also comes with adaptation and we are doing something with it. So both need to work together.

N Puranik: Maturity is as good as the usage.

Srikar Reddy: Absolutely, correct. You have got it right.

N Puranik: Training, the implement may be the key aspect of this, isn't it?

Srikar Reddy: That is right.

- N Puranik:** So, the other question is about the testing business. I heard that testing business has been doing pretty well. Is it because of the deep technology domain and Microsoft technology or is it because of India centricity where the margins can be higher?
- Srikar Reddy:** No, it is more on the specialized platform testing, because we are testing platforms-led dynamics or hybrids and then we are also using our own platform for testing kind of stuff. So that is what has been driving the testing business. And these are more, we have got our own automated tools for each of these products. So, we have a separate test feed for dynamic there, we have a separate test feed for SAP hybrid kind of stuff. It is very, very specialized and automated tool
- N Puranik:** And go-to-market on Microsoft platform, Microsoft services, product testing, it requires lot more investment?
- Srikar Reddy:** No, investment is all done, I think as you know Microsoft changed their business model in July last year and I think we have made good progressing in aligning ourselves to the new business model, I think there is a very complex business model they have put in place now. And so we have aligned in different geographies to different levels, so hopefully that over the next few months would reach the same maturity level in various geographies. But we are very happy with the progress we have made in aligning ourselves to the new Microsoft strategy.
- N Puranik:** And you will expect stable and superior growth in Microsoft?
- Srikar Reddy:** It is a big focus, yes Microsoft-led growth is a big focus.
- Moderator:** Thank you. Our next question is from the line of Rohit Balakrishnan, an individual investor. Please go ahead.
- Rohit Balakrishnan:** Sir, I just wanted to understand three, four things from you. So, we have been adding about five, six clients, and last quarter was about 10 clients, so this quarter was slightly lower. So anything specific or you would not read too much into it?
- Srikar Reddy:** It is just that the way we account for it, if we do not raise an invoice on a customer we do not call it a customer, we might have signed a contract but we do not invoice the customer if we do not include it as a customer. There is nothing, actually I think last quarter I believe was a great quarter in terms of new customer acquisition.
- Rohit Balakrishnan:** And just on the other domestic business, you have been saying earlier and the revenues is not the right way to look at it and you should look at may be the margins, so just want to understand these kind of margins are sort of steady state margins or do you expect something to sort of change, do you think there are operational levers there or...
- Srikar Reddy:** No, there are no operational levers, the quality of business has to change, I think we run one of the best businesses there. So the lever is change of revenue mix only.
- Rohit Balakrishnan:** So is there anything that you think will be visible in the couple of years?

- Srikar Reddy:** I did answer the question to the previous gentlemen, I said about another 12 to 18 months.
- Rohit Balakrishnan:** I am sorry, actually I just joined. And sir, just wanted to get your sense in terms of IT services revenues in next two, three quarters. So, last two quarters have been stellar in terms of dollar revenue growth on a YoY basis. So I just want to understand do you think we have enough visibility which can sort of continue this kind of trajectory going forward?
- Srikar Reddy:** Yes, as I said, again we do not give these forward-looking statements but overall, we are very happy with where we are today and what is the opportunity we see in front of us, let me put it that way.
- Rohit Balakrishnan:** No, I mean we had stated an aspiration of doubling the revenues over the next four years, so at that point of time the revenues were about \$108 million in dollars, so that takes it to about \$200 million - \$210 million. So in next two years, this was stated two years back, so I just want to understand from that perspective is that aspiration more realistic now?
- Srikar Reddy:** What I am trying to say is that that was an aspiration, I think we are more or less okay as far as aspiration is concerned. So we believe we are on the right track in terms of strategy and so on and so forth. But as I said, we do not give a statement saying this will be our growth, there is an aspiration, there is a strategy and there is an opportunity. And I think as I said we are happy with where we are and what we see in front of us.
- Rohit Balakrishnan:** And any other changes in the team that has happened in the last couple of quarters in terms of senior people coming or any key hires?
- Srikar Reddy:** Vikas has joined us as Chief Operating Officer based out of Houston, he has joined us from DXC Technologies.
- Vikas Gurugunti:** Hi, Rohit. I am here in the room. Glad to meet with you.
- Rohit Balakrishnan:** Hi, Vikas. All the best.
- Vikas Gurugunti:** And as Srikar mentioned, I have joined here last October as COO and I am based out of US in Houston, in frontal core of the international business.
- Rohit Balakrishnan:** Thanks, Vikas. Looking forward to talk to you in the future. All the best.
- Vikas Gurugunti:** So, I have been in the industry for last 29 years now.
- Moderator:** Thank you. Our next question is from the line of Abhishek Agarwal from Prithvi Finmark. Please go ahead.
- Abhishek Agarwal:** Sir, my question is related to employee cost which has increased in this quarter compared to year-on-year and quarter-on-quarter. What is the reason, because last quarter if I remember you said that because we hire some people in the marketing side and higher-level side, so why a further increase in this quarter?

- Prasanna Oke:** Abhishek, as we had talked about from the employee cost increased because our wage hikes are already completely built into it, that is one part. Obviously, we do augmentation on the SG&A side as we just talked about, there are some senior management which have come in institution not only as seed level but have come in to augment on the capabilities that we need from delivery, etc, side. So these are the two reasons where we are seeing, obviously we continue to look at better utilization to drive the margins better. So that is where it stands, Abhishek.
- Abhishek Agarwal:** Okay. Sir, can we say that this employee cost is base employee cost as of now in the next financial year we can take this quarterly number for the next financial year also?
- Prasanna Oke:** Yes, I think it is based on number of headcount that we have, Abhishek, at this point of time. And if that increases then obviously in absolute terms it will increase. But yes, this is the base as we were saying that the hikes etc.. already baked in to the system. So what will increase will be directly related to the revenues.
- Abhishek Agarwal:** Okay, sir. And sir my second question, which vertical do you think can contribute in the revenue growth in the next financial year or after that?
- Prasanna Oke:** So, we are seeing traction in all these verticals, as Srikar has mentioned in quite a few of the earnings call that we believe that each of these verticals has got tremendous capacity to grow. We have got solutions in all these verticals, our platformation, our digital content runs across all these verticals. To be honest there are no favorites, we are seeing good conversation happen with clients on all these verticals. We believe each of these verticals has got a tremendous potential to grow.
- Abhishek Agarwal:** Okay. And sir because right now we are having good growth quarter-on-quarter and year-on-year because of greater realization in revenue compared to the industry, so how do you think that over the period and by 2020 and after that how the competition will span out in this segment, in your products and services business?
- Prasanna Oke:** As we talk we do have aspirational rule of doubling in next four years, we continue to implement our strategy around platformation, around growing in this vertical. And so yes, we are very much abreast and keenly looking at what the markets requirements are, we tune our offerings broadly to be meeting the customer requirement. So we hope to be around leading edge of the curve. Now what exactly happens in the environmental changes, that we have not been able to talk about in FY20, but broadly we are on top of the market and trying to understand key trends and working towards that.
- Abhishek Agarwal:** And sir my last question if I can, what is about our loss-making subsidiary, when do you think that they will breakeven, like Rezopia, Halosys is there?
- Prasanna Oke:** No, all these acquisitions that we have made, and the subsidiaries are doing very well themselves. Let me assure you that each of them are contributing significantly to the overall revenues and the traction that we are seeing with our clients. So, let me clarify there is no loss-making subsidiary that we have.
- Abhishek Agarwal:** Okay. Because I was referring your annual report, it was showing loss that is why.

- Srikar Reddy:** Correct, see I think I mentioned this last time, the business is done through Sonata and should not be looked at as a subsidiary. There will be some marginal revenues lost and all that, and we publish all our results, they are all available to every subsidiary, so we give all results.
- Moderator:** Thank you. Our next question is from the line of Arun Kedia, an individual investor. Please go ahead.
- Arun Kedia:** Sir, one more question, again it is a generic one. The tax rates in US have been cut from 33% to 21%, any adverse or favorable impact on our working or benefits?
- R Sathyanarayana:** In terms of tax benefit I think it will have marginal impact on us, basically in US in terms of tax.
- Arun Kedia:** Sorry, I cannot hear you.
- R Sathyanarayana:** We will have marginal benefit in terms of tax where the rate has been cut from 39% to 25%.
- Arun Kedia:** And would it also have any effect on our competitiveness vis-à-vis US based companies?
- Srikar Reddy:** No, there is no affect on our competitiveness.
- Moderator:** Thank you. Our next question is from the line of Rohit Balakrishnan, an individual investor. Please go ahead.
- Rohit Balakrishnan:** Sir, just two more questions. One was, what is the cash on the books and what is the debt on the books right now?
- R Sathyanarayana:** The net cash is Rs. 394 crores, the debt is about Rs. 39 crores.
- Rohit Balakrishnan:** Okay, got it. And a few quarters back, four, five, six quarters back you mentioned that there are two ways to look at if a strategy is working fine, one if the platformation revenues from our IP-led services and how the traction of million dollar client sort of goes up. So, one, on the IP-led revenues we are seeing, it is also mentioned in the PPT so that is visible, that is on the upswing, but on the ramp-up of million dollar sort of clients any sense if you could give some comments on that, because you have signed up a lot of clients.
- Prasanna Oke:** Rohit, so we do give that in terms of customer category, the Fortune500 and million dollar clients. We have seen the growth in one of our clients which is...
- Srikar Reddy:** I think the number has gone up from 21 to 22.
- Rohit Balakrishnan:** And do you think this kind of momentum should build up because we have signed a lot of clients and I understand it takes a lot of time tie to scale up.
- Srikar Reddy:** Yes, correct. I mentioned that also in the beginning that we have done a great job of acquiring new logos, we have to do a better job in mining in them, so there is a lot of focus now on that. That is what I have mentioned.



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

Srikar Reddy: Thank you, Karuna. Thank you all everybody. Thanks for your interest, thanks for your continued support. And look forward to speaking to all of you soon in our next call. Thank you all again for joining today.

Moderator: Thank you very much, sir. 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.