



“Sonata Software Limited Q2FY20 Earning Conference Call”

**October 31, 2019**



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*Sonata Software Limited  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Sonata Software Limited Q2 FY'20 Earning 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 – Managing Director and CEO, Sonata Software Limited. Thank you, and over to you, sir.

**Srikar Reddy:** Thank you, Janis, and good afternoon, everybody and welcome to the analyst call post the announcement of our financial results for the second quarter financial year 2020 which we did yesterday, the results are up on our website, hope you all had a chance to look at it.

Today, I have with me Mr. Jagannathan Chakravarthi who has just come onboard yesterday as our CFO.

**Jagannathan C:** Hello to all. This is Jagan here. Thanks, Srikar for introducing me. We like to hear from you in the coming days.

**Srikar Reddy:** Great. So, we hope you have more interaction with Jagan as he said as days go by. I also have here Mr. Sujit Mohanty, who is the Director on the board of Sonata Information Technology Limited, who is responsible for our India business. I have here Sathyanarayana, Head of Finance. Also, here Premnath Murthy – Head of Strategic Finance and Risk Management who have been interacting with you since Prasanna left.

So, before I hand over to my colleagues, to discuss with you on the financials, for the quarter, I like to give you a brief highlights of the performance for the quarter. Overall, the International Services, we had a revenue growth of about 2.3% and about 3% at constant currency. Like I told you all last time that we would get back to this growth in our organic revenue, and that what has happened this quarter and you would have had a better growth but for some last minute let us say glitches with the company we acquired. Sopris, where their business is more license-driven and because of the deferment of a few projects would impact the growth in that business. Otherwise, we would have had the steady growth which we spoke about in the last call.

Our India business as you know is more based on margin, while there has been a drop in the revenue, the margins have gone up and that has reflected in the group's profitability on the business both with gross margin and net profit. In the India business, we have also taken the benefit of a new tax regime. So, that net amounting could have improved our PAT by about Rs.2-2.1 crores.

On the International Services, last quarter have been good in terms of the quality of new logos we have won. We have seen a greater traction on a whole platformation this year with a lot more new clients and existing clients being onboarded on to the platformation platform. The Microsoft alliance post the acquisition of these new companies has been further strengthened and we are

also moving away from a purely dynamic-based growth markets to other services like data, cloud and, of course, overall digital transformation through platformation.

So, overall, I think the platform look lot more robust than what was some time ago on all parameters which is the key alliance, platformation, new logo wins and the tenure with our current customer.

So, at this stage I will hand over to Sathya who will take you through the financials for the quarter and then we will come back to the Q&A. Before that over to Sathya.

**Sathyanarayana R:**

Thank you, Srikar. For the quarter-ended, the consolidated revenue stood at Rs.703.1 crores, the growth of 18.5% on year-on-year basis. EBITDA at Rs.111.4 crores. Sequentially we had a growth of 4.6% and year-on-year 22.8%. PAT for the quarter stood at Rs.72.2 crores, sequentially we have grown 7.7% and year-on-year 16.2%. ROCE stood at 37%. RONW at 35%. Consolidated DSO we had 44 and looking at the other segments of international business we had revenue of Rs.312.6 crores, sequentially we have grown in rupee terms 2.7% and year-on-year 13.6%. On the consolidated, 44% of the revenue coming from the international business. Revenue in dollar terms is 45.3 million and sequentially we have grown 2.1%. In terms of constant currency it is at 3%, year-on-year there is a growth of 15.8%. Revenue from digital components stood at 37%. IP-led revenue has increased to 24.2%. EBITDA for the quarter stood at Rs.89.5 crores, sequentially we have grown 6%, year-on-year there is a growth of 21.6%. PAT stood at Rs.56.1 crores, sequentially we have grown 5.2% and year-on-year 9.7%. Out of the overall consolidated PAT, 78% comes from the international business. We have added seven new customers during the quarter; from the APAC region, three, Europe two and US two. ROCE stood at 39% and RONW at 38%.

Coming back to the Domestic Products and Services Segment: Revenue for the quarter stood at Rs.399.1 crores, year-on-year we have a growth of 22.4%, EBITDA were at Rs.22.5 crores, sequentially, we have grown on 0.7%, year-on-year 27.4%. PAT stood at Rs.16.1 crores, sequentially we have grown 17.5% and year-on-year 46.5%. RONW for the domestic stood at 29% and ROCE at 30%.

This is the update.

**Srikar Reddy:**

Okay. So, thank you, Sathya. Janis, you can open the platform for questions.

**Moderator:**

Sure. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anand Bhadnani from Unifi Capital. Please go ahead.

**Anand Bhadnani:**

Sir, my first question is in terms of margins in our services business, how do you see sustainability of the margin going forth and is there any risk to the margins from here on?

- Srikar Reddy:** No, as we have said in many times in the past calls of last five, six quarters, we do not see too much of an upside to the margin, the margin growth should come from growth in revenue, but the sustainability thereabout at the current level is something we look forward to, obviously, it is depending on whole lot of things like currency and other things, but otherwise, yes.
- Anand Bhadnani:** Given the two acquisitions that we had kind of fully integrated, what is the ramp up in revenues possible in H2 and what is the broad outlook for these?
- Srikar Reddy:** As we said, When we acquired them, if you take about three or four quarters to really get them fully integrated and up to speed and leverage all the trends that Sonata has got, so for the first three to four quarters they will continue to perform at the same level at where they are performing. So, we would really see the upside to the acquisitions more like next fiscal year.
- Anand Bhadnani:** the percentage revenue in services from platform, if you can help us understand the growth potential you are expecting and if the potential for this platform business is higher than general IT Services?
- Srikar Reddy:** At overall level, as we have said in the past, platformation is Sonata's proprietary model for doing digital transformation. So, that is the only thing we do currently. Whatever we do underneath it, whether it is IP-led, services-led, alliance-led goes under the umbrella of platformation. So, we believe that with the increasing adoption of the digital businesses, the whole platform-led approach to doing digital transformation will see more traction and that's where we see all our growth coming from.
- Anand Bhadnani:** Any breakup you can give in terms of Sonata READY versus Accelerate versus Custom, what kind of revenues come from the specific sub-areas that you have identified, how exactly the margins would be differing across each of these sub-segments?
- Srikar Reddy:** So, Sonata READY is what we report as IP-led services growth. The rest would fall under Custom. Typically the IP-led services growth would have a higher margin than the Custom Services. So, that is the breakup there.
- Anand Bhadnani:** What would be the revenue from Sonata READY versus Accelerate versus Custom?
- Srikar Reddy:** Accelerate has really been robust with our platforms of our alliance partners, but we still do services on top of custom on top. So, to that extent you can mix, we Accelerate and Custom as one is easier to understand where IP is not driving that business. So, we have just put the piece into two buckets; one is IP-led and the second is non IP-led platformation business.
- Anand Bhadnani:** What percentage of our revenue would be from Sonata READY?
- Srikar Reddy:** That is what we have reported, right? 24.2% or something, yes, IP-led.

- Moderator:** Thank you. The next question is from the line of Harit Shah from Reliance Securities. Please go ahead.
- Harit Shah:** I just wanted to enquire about, Srikar you mentioned something about some last minute issues with the acquired company and deferment of some projects. So, if you could elaborate a little bit on that and maybe explain those projects are now back on track or is there any...?
- Srikar Reddy:** No, what I said was their business is project and license-led because they are Microsoft partner, portion of their revenues come from the sale of the dynamic license. So, if that license get slipped to the next quarter, then the revenue slips because it is not a project, project you have to do work, this is just direct booking of revenue based on the sale of the license.
- Harit Shah:** So, it is of Sopris?
- Srikar Reddy:** Yes, so that is where there was actually degrowth from the previous quarter. We do expect that to go back to where it was in the previous quarter.
- Harit Shah:** So, there is no fresh deferment or delay of any projects in any vertical, is that correct?
- Srikar Reddy:** No-no, there is no delay, just that the revenue predictability will be little different from our services business, that is what I am trying to say.
- Harit Shah:** If you could give some idea as to how much percentage of Sopris revenue would be project-led versus annuity, any such ...?
- Srikar Reddy:** As I answered to the previous questionnaire, 100% of these businesses are project-based. There are nothing which is annuity. That's what I told that it has taken us about four to six quarters to start converting some of that business into annuity. The second part of the business is license-based, that means they reach out to license on the dynamics. While everything is project, in the project, there are services and there are licenses.
- Harit Shah:** Secondly, you have mentioned about the tax rate. I think in domestic business you have doctored the tax rates with the latest corporate tax rate. So, are you all trying to do any such thing in the IT Services business also or there is no such plan on that?
- Srikar Reddy:** Right now, there is a benefit available to us. If we take it, that we are obviously looking at our long-term plans of the company, we have time till middle of next year to actually make a decision. So, we are looking at it very carefully but at a very high level. There is a benefit available currently for us if you want to take it because our current tax rates are higher than what is being offered.
- Harit Shah:** About the retail vertical, I saw out of 5% kind of really dip in retail for you, this is just because of the Sopris issue only or there are some other...?

- Srikar Reddy:** Sopris is not in retail, they are more in what we call the services industry.
- Harit Shah:** Sorry, sorry. Is there anything to do with scalable or there is any client-specific issues here?
- Srikar Reddy:** Not really, I mean, a lot of our business comes from the Microsoft Dynamics-led business. So, there can be some variations on a quarter-to-quarter basis on these industry verticals. But overall as I told last time, we don't see at a very secular basis across the board we do not see lack of demand, let me put it that way, and there could be intermediary different growth in different verticals, but overall we are not seeing that one vertical is showing greater subvention for demand as compared to other verticals.
- Harit Shah:** Your overall consolidated level of debtors have reduced quite substantially from let us say the end of FY'19, because of some timing issue in your domestic business, your debtors have risen a lot, right, so reduced a lot in the first half by about Rs.100 crores, but it is still much above what the level was at the end of FY'18. So, is there any further reduction likely in your total debtors in absolute term or is that more or less done with?
- Srikar Reddy:** What I meant was at the high level on the international services side, I think the average, we need to look at average and the total numbers have overall decreased by bit and the average debtors in the Indian business has gone up by a bit. So, we have to think that will stay that way because we have all know that the Indian economy is not in a great shape. So, we would think that in the short-term till the economy turns around, we have raised debt period maybe bit higher, but I have told many times, our bad debt ratio is less than 0.1% and that will continue to be the case and that has been our track record now for over 25-years. So, we are not worried about any bad debt, but there could be a little bit higher collection this thing, but we also negotiate with our principals to ensure that they also support us by giving us some extra credit and so on and so forth.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil:** My question is actually relating to the previous participant which is on your working capital in the domestic piece. Do you expect your working capital to be stretched for a couple of years because of whatever happening in the domestic economy and can you cover that up with your margin, I mean, is there a scope to increase margin because your margins have improved this particular quarter to almost five and is that sustainable?
- Srikar Reddy:** As I said, we are negotiating when we get this thing with our principals to get extended. There would be a marginal stuff, I do not see there would be any stretch on the working capital. The margins, as I said, have improved this quarter, but that is also depending on the revenue mix in a quarter. So, if we go to next quarter, we will have a single large quarter which would then dilute the margins kind of stuff, but on an overall we are seeing steady improvement of margin in the domestic business.

- Vimal Gohil:** But sustainable margin for the domestic piece is around 3.5%-4%, would my assessment be correct?
- Srikar Reddy:** That is what I said. If there is some large disproportionate order, then that can dilute those margins. But yes, you can say at a steady state, your statement is correct.
- Vimal Gohil:** One data point sir: Your presentation does not include the headcount mix this time. Can you give me the domestic and the international headcount for the quarter?
- Premnath Murthy:** 4,181 is the total headcount and international headcount is 4,036.
- Vimal Gohil:** How much is delivery and SG&A in the international piece?
- Premnath Murthy:** We will come back to you on this question while we look at it.
- Vimal Gohil:** My last question was on the growth in US. If you see in this particular quarter, ROW has contributed a major portion while US has lagged and it has lagged for maybe two, three quarters now. Do you see any issues over there in the US particularly, do you see it bouncing back in subsequent quarters, how is it?
- Srikar Reddy:** In the term sheet where you get the numbers from. The only dip if at all any could be a dip because of Sopris. Otherwise, we have seen a little steady increase in the US revenue and Europe is where we saw a bit of challenge because of the depreciation of the pound to the dollar.
- Vimal Gohil:** Sir, just last question on your travel and transport vertical. From large player now probably not there in the market and the largest customer TUI will benefit, right, any conversations that you had with...?
- Srikar Reddy:** Obviously, they are not focused on business right now. So, we will see a downstream effect of their growth in IT. Everybody is out there buying airplanes, hotels and other things. So, they are just buying the business. So, they are all doing that. Obviously, it will translate into IT maybe six months down the line. They are trying to see how they can maximize this opportunity for themselves.
- Vimal Gohil:** If you can just me your revenue from scalable and Sopris this quarter?
- Premnath Murthy:** Revenue from scalable and Sopris for the quarter is Rs.10.2 crores and Rs.9.5 crores respectively.
- Moderator:** Thank you. The next question is from the line of Sivakumar from Unifi Capital. Please go ahead.
- Sivakumar:** In terms of the revenues from IT Services, if we see the PAT growth is lower than the EBITDA growth. Can you help us understand the reason for it?

- Srikar Reddy:** This EBITDA, is been a change in the accounting standard since the last time. So, certain things which were earlier in the depreciation or wherever it is, have now moved to EBITDA computation. That is why we better look at PAT there maybe such as an accounting.
- Sathyanarayana R:** Basically, it is a lease accounting standard. So, what has happened it is classified under depreciation and interest amount. Earlier it was coming under operating expenses part.
- Sivakumar:** In terms of retail vertical, can you throw some sense of the revenue from the US and EU respectively?
- Srikar Reddy:** Majority of our revenues would be from Europe.
- Sivakumar:** So, more like 80...?
- Srikar Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, two questions: One is on the platform. So, how is the current team size, I mean, which are the new platforms which are seeing good traction, I mean, the incremental investments which are going on that? And second, other income, what is the break-up of that this quarter?
- Sathyanarayana R:** Other income, in case of consolidated financials it is exchange of Rs.16.2 crores and the balance is interest and dividend which is Rs. 4.6 crores.
- Srikar Reddy:** We are seeing the traction; one is the new commodity platform we acquired, we are seeing good traction on that. That was a scalable acquisition. Our next larger, I would say is our retail and distribution platform. As I said the travel platform has longer lead cycle but they have larger value transaction. So, I would say this would be the sequence in which we are seeing traction currently.
- Madhu Babu:** On the pass-through revenues which we said about the scalable and Sopris, we do not book much of pass-through revenue, right, so is it new for those acquired entities that is taking pass-through revenue?
- Srikar Reddy:** They are purely a dynamic partner, and their business model are based upon that. And so, their own contract would continue then. Sooner or later, there is no pass-through, but you would get reimbursement or referral bonus from Microsoft. So, the pass-through revenues would decrease.
- Moderator:** Thank you. The next question is from the line of Princey Bansali from Anand Rathi. Please go ahead.



- Princey Bansali:** Two questions from my side: What is your average realization of USD/INR rate this quarter?
- Sathyanarayana R:** Average USD/INR realization was 70.7 and Euro was 78 and GBP was 86.6.
- Princey Bansali:** The second question is like who takes care of the credit risk (or) the write off in your domestic business?
- Srikar Reddy:** Write-off we take. But as I said, our track record over the last 25-years is less than 0.1%.
- Princey Bansali:** Your international business seemed lower this quarter if we calculate it?
- Sathyanarayana R:** Because of the pound I think the earlier it was higher but now it has come down.
- Princey Bansali:** So, 70.7 is the USD-INR and what was the next figure?
- Sathyanarayana R:** Euro was 78 and GBP was 86.6.
- Moderator:** Thank you. The next question is from the line of Shriram from Karma Wealth. Please go ahead.
- Shriram:** Sir, how do you see the slowdown in the IT spending in the global economy in different segments?
- Srikar Reddy:** As I said, there is digital transformation and digital business model is across the board in all industry, and what aspects of digital do they want to go after, could vary from industry-to-industry. So, we are focused on both the clients where we see bigger for digital transformation and that's where we see greater chances of success.
- Moderator:** Thank you. The next question is from the line of Anubhav Mukherjee from Persistent Capital. Please go ahead.
- Anubhav Mukherjee:** In terms of number of million dollar accounts in your presentation mentioned growth of 28 in last quarter to 25 this quarter. So, is there anything to look into that like any challenges?
- Srikar Reddy:** No, it is 28.
- Anubhav Mukherjee:** Sure, maybe I will come back to you.
- Moderator:** Thank you. The next question is from the line of Vipul Shah, individual investor. Please go ahead.
- Vipul Shah:** What is the FOREX component in other income?
- Sathyanarayana R:** At the consolidated level it is Rs.16.24 crores gain.

- Vipul Shah:** Regarding tax rate, I did not get your comment, means, are we opening for different tax rate for domestic business and international IT Services, is my understanding correct?
- Srikar Reddy:** Yes, What we have done is that we have accepted the new norms for the domestic business. In the international business we are studying our future business needs before we adopt the old system or before we continue with the old system or adopt the new system. But yes, obviously, because of that the tax rates are different, that's correct.
- Vipul Shah:** Lastly sir, your slide #21, utilization 88% and billability means it is utilization minus trainees?
- Srikar Reddy:** Yes, utilization is like people are productive and billability is what we charge to the clients, yes.
- Vipul Shah:** But still I cannot understand the difference between the two. So, is it utilization with trainees and without trainees or is it like...?
- Srikar Reddy:** There can be people who are there right, expect people they have been utilized but they are not billable.
- Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, my question is related to the Microsoft relationship. Largely work with Microsoft has been related to the Dynamics 365 portfolio and we are seeing the healthy growth in the past many quarters. But in this quarter, I see the AX growth slowing down a bit and you also mentioned that we are focusing on expanding our engagements with Microsoft like into digital and the other engagements. Can you please throw some light how the new relationship will shape up and the investments required for that?
- Srikar Reddy:** Your First question was, there is a slowdown in the growth in the Dynamics business. I told you there is a small dip in one of the acquired entities, Sopris at the Dynamics side. And the other whole market are in different stages of engagement with Microsoft in different geographies. So, as Microsoft operates in each geography with different entity, so we are at a different levels of engagement on each of these go-to-market with Microsoft in different geographies. So, we have seen traction in some geographies in some of these areas and we expect that will get better as we go forward, but all this take time.
- Amit Chandra:** In terms of investment, are there any investments planned in terms of expanding this?
- Srikar Reddy:** The investments are really one is on the back end. So, that's we continue to do in building up capability, competency, framework, tools, methods, etc., on this technology. And the front end is really the investments will be on pre-sale which we need to do.

- Amit Chandra:** My second question is on the IP-led business. So, the IP-led business have now reached a scale and in this quarter also we are seeing the IP-led business growth has moderated a bit in terms of the quarter-on-quarter growth. So, how do you see the IP-led revenues from here because the base has increased and, on this base, can we see like healthy growth above the company average and IP-led business from here also?
- Srikar Reddy:** As I said, one of our differentiators when we go to market and we expect that to really drive the growth of the company as we go forward kind of stuff. So, beyond that, I cannot say much more than that because from a strategic perspective that where we have invested continue to invest, and that is what gives us differentiation in the market when we go to market. So, at a very philosophical level, we expect that to drive the growth of the company.
- Amit Chandra:** Last question is on the ADM piece of the business. So, we are seeing right now very healthy growth on the ADM side. What is driving this, and is it like some one-off projects in the ADM which has been introduced in the quarter or is like new trend or the process that we are backing up mostly on the ADM side?
- Srikar Reddy:** I think from next quarter we will reclassify this. Actually, it's now what we call is "Platform Engineering." So, it is part of our platformation. When we do custom, somebody asked me previously, right, "What is the Custom Platformation?" So, we are seeing a lot more better traction in the platform engineering aspect of our business and that's been classified here as ADM and as we go forward hopefully we put it in the right bucket, so we will really know what is driving the growth because ADM gives us a feeling of some legacy stuff
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.
- Rohit Balakrishnan:** In 2016, you had broadly said that you want to double the IT Services revenue and we are almost sort of 80% - 85% of that we will achieve. So, first of all, congratulations on that sort of meeting what your target was. For the next three, four years, from here on how do you see like you see a similar kind of growth in terms of opportunity and what would be the driver in that Microsoft as a platform, so would that still continue or for the incremental growth we will have to add on other platforms as well for the growth?
- Srikar Reddy:** Good question. I think it is a mix of all these things you said. As we said last time that there are these whole concept called 60x5. So, that is one main strategy which will drive growth. The second obviously you mentioned this whole Microsoft alliance, the investments we have made, the IP we have got, the go-to-market we have in different places, that will be the second growth driver of this as we go forward. The third of course is platformation which we have said that in our umbrella, go-to-market offering. So, as we become more strategic, the platform partner for our clients, we will see growth in larger traction from that. Obviously, we will continue to do inorganic growth aligned to what we have done in verticals, platform-based businesses, etc., that

will continue to drive growth as we go forward. So, I guess, four really pillars of growth : platformation, the alliance, IP-led and continue to do more strategic M&A as we go forward.

**Rohit Balakrishnan:** So, do you see the sort of \$180, \$190 million of IT Services which you probably end in this year, you can again probably look at doubling that in four, five years, is that the run rate?

**Srikar Reddy:** Yes, first I mark it 300, we will try to get that in three, four years' time.

**Rohit Balakrishnan:** The second question was sir in the domestic business. You have seen expansion of EBITDA as well there in terms of margins, and in that sense look at over the last few years, we can understand that is more to do with the product mix, etc., and those sort of things. So, I mean, 3-4% kind of EBITDA margin on that vertical, is that what you sort of should aim at on the scalable basis or has there been any improvement on that side as well over the last year or so?

**Srikar Reddy:** I think the business should be looked at gross margin, not the revenue because revenue is really an incidental number kind of stuff. So, I think we are seeing fairly steady growth in our gross margin and that is being translated into our net profit. I think it's almost this year it's almost now about I think at 20%-odd growth on the net profit side. So, focus obviously is to improve margins, because the number is so large anything we do will not show up even decimal place improvements of margins are actually big percentage movements of margin. So, there are a lot of initiatives and steps internally to drive margin growth in that business as more of that business goes to cloud, little bit more to services, with go margins available. But as I said because of mix of certainly large transaction can dilute the overall margin, but yes, I can only ask you to look at the overall gross margin growth in that business. As I said, our ability to manage the receivables and bad debts has been outstanding as I said less than 0.1% in our track record over 25-years. So, if at all anybody should be worried, they should be worried about that, but I guess because of very strong system we have, that is not a concern.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

**Pritesh Chheda:** Just taking forward from the last comment, so there is margin expansion that we have seen in IT Services business side. So, if you could comment specifically there the margin outlook? I think in the past calls, you were mentioning about 24%- 25% margin. So, is there any deviation on the higher side from there? And if you could comment on the billing rate in this business?

**Srikar Reddy:** As I said last time, in almost seven, eight quarters. Our margins are good and we continue to start expecting higher good challenge actually, we have to get some secular revenue growth. I will ask my colleague to give you average billing rates for onsite, offshore.

**Premnath Murthy:** Billing rates typically, onsite average is about \$75 and offshore is about \$30.

**Pritesh Chheda:** There is some improvement from the \$24 that you used to call out in the past call?



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**Srikar Reddy:** Yes.

**Premnath Murthy:** You can take the range for offshore; it would range between 25 and 28.

**Moderator:** Thank you. The next question is from the line of Rishit Shah from Dhanki Securities. Please go ahead.

**Rishit Shah:** About the seven new customers assigned, I just wanted to ask if you could throw a number on total contract value.

**Srikar Reddy:** As I said earlier, the average contract value would be about \$500,000.

**Rishit Shah:** Secondly, on the domestic front, so we have seen a reduction in the revenue quarter-on-quarter, but we are able to maintain the EBITDA. So, what have you done to maintain the efficiency over there?

**Srikar Reddy:** The domestic business is depending upon the product mix and the contract mix. So, we do not look at top line, we only look at the gross margins and I am just telling the previous person, we have been steadily growing the gross margin. The top line can vary because of some individual things in transaction which can have a big top line but not much to the bottom line kind of stuff. So, all we are saying is look at the domestic business more from a gross margin business, not from a top line business. So, that is one aspect and that is how we manage the business.

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

**Madhu Babu:** Particularly a bit on the bad debt, I mean, so we said that economy is slowing, I think first time we are discussing on the call, so what are the risk measures or which are the typical clients where there is a chance of a bad debt coming – is it like SMEs and all that or in that case can you take the products back or how do you address such kind of situation?

**Srikar Reddy:** As I said, we have managed all kinds of economies over the last 25-years, Madhu and our track record is 0.1%.

**Madhu Babu:** So, nothing to worry much on that?

**Srikar Reddy:** Nothing to worry, yes-yes.

**Madhu Babu:** Second question on the scalable wins, I mean, within the new logo additions in the last 1.5-2-years, so have we seen at least couple of accounts move into scalable and multi-service offerings, can you illustrate a bit on that?

- Srikar Reddy:** Absolutely, at least there are four or five logos which have moved into the about \$2-3 million annuity revenues in the last 24-months.
- Madhu Babu:** Anything on the incremental hiring we have done in the last six months, of course, CFO addition has been discussed in the press release, any other additions we have done?
- Srikar Reddy:** Additions I think I have talked about the digital people, we have hired in UK, we have continued to strengthen our US sales team, that is where we are focused, we will add a few more people there in the next six months but otherwise in the rest of onsite, we have sufficient this thing, we also add senior delivery people, I did mention in the last call about Gyana Pattnaik who joined us, so there could be one or two other senior people in the delivery side in the back-end, yes, we will continue to add.
- Madhu Babu:** On the sales side, how are we incentivizing for cross-sell, when we get into the account, I mean, to scale into the next two, three years into multiple service offering, so we get annuity stream, because we start with project-based work and after that to build that annuity business and stick into that account?
- Srikar Reddy:** Yes, we have a three dimensional incentive scheme: One is for acquiring a new logo of a particular value over a period of time is one incentive and any new logo in the initial periods has a differential incentive and then all other incentives are based on growth and is unlimited, so, there is no limit, more growth you obtain, the more is the incentive because there is no limit there on that.
- Madhu Babu:** In the second half can we see some acceleration sir on the growth? I think this quarter was steady, but I think further momentum compared to like 4%, 5% kind of growth sequentially.
- Srikar Reddy:** our intention is to get there, Madhu.
- Moderator:** Thank you. The next question is from the line of Anubhav Mukherjee from Persistent Capital. Please go ahead.
- Anubhav Mukherjee:** Sir, if we look at the contribution of your top-10 or top-20 customers given in your 'investor presentation', it seems like their contribution has been falling somewhat and growth has also been slower than the overall company growth. So, any specific reason for that?
- Srikar Reddy:** No, overall because the base is high, I think the growth need to be a huge number for the growth to continue to be there. So, some of these accounts started at like 8, 10, now they have touched 30. So, even a percentage growth that is huge number in millions of dollars. So, that is it.
- Anubhav Mukherjee:** Sir, just as a follow up to that. I understand growth on larger accounts is difficult and also as a follow up to like the previous participant, how is the focus of even marketing on growing the accounts like, is there separate team for like...?

- Srikar Reddy:** Yes, absolutely, there is a standard account plan, account strategy, there is a separate team only for this account, there is a governance model, there are monthly operating review, quarterly review, there are senior management, there are operating executive sponsors for accounts. So, that is our whole line yard. That is the old thing which is like the whole focus is on growing existing accounts... really about 80%- 90% of the effort of the organization is focused on growth with existing accounts.
- Moderator:** Thank you. The next question is from the line of Anand Bhadnani from Unify Capital. Please go ahead.
- Anand Bhadnani:** The question is related to the traction in the commodity trading platform which you said that we were giving the first priority. So, how it is getting organized? So, we will give it to one institution and who in turn will provide the platform to the end users or how it is done and how the revenue stream would be – whether it would be based on the number of users using accessing the platform or the number of contracts stated on the platform?
- Srikar Reddy:** No-no, what I meant was that is not first priority, I said that we are seeing greater traction from that platform, we are seeing a lot more interest. Right now it is being given license to end users, people who are in commodity businesses, mainly in the agri and animal feed and those businesses who buy and sell commodities or largely do processing of commodities before they sell it. So, that is the thing where we are focused on. That is the context which is because it is fixed on the Microsoft dynamic platform, there are underlying services opportunity on the dynamic platform which we call IP-led services revenue and then we license this platform and the number of traders on the platform.
- Anand Bhadnanai:** Since most of the revenues are coming from licensing, so is there any renewal period for those licenses where we upgrade the platform and we charge in say four years or five years cycle or we move them into annuity mode of revenue?
- Srikar Reddy:** Most of these on cloud, they are all on monthly subscription model. I think we are done, Janis?
- Moderator:** Yes, sir. I hand the floor back to you for closing comments sir.
- Srikar Reddy:** Alright. Okay, thank you all. Sorry, we could not give you more time. I think we are all available offline but thank you all for your participation, your continued support, continued interest. We look forward to staying in touch and seeing you in the next call if not before. Thank you all again for joining the call today.
- Moderator:** Thank you. On behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us. You may disconnect your lines now.