"Sonata Software Limited
Q1 FY2021 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2021 earnings conference call of Sonata Software Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikar Reddy, Managing Director and Chief Executive Officer Sonata Software Limited. Thank you and over to you Sir!

P. Srikar Reddy: Thank you Vikram and good morning everybody and welcome to the analyst call post the announcement of our Q1 FY2021 yesterday.

When we met about two months ago, I think everybody were going through very uncertain times both from a human perspective and obviously impact on business and in our commentary then I think we mentioned the facts of the situation as they were and as they were unfolding in terms of what had happened and what do you think will happen what is likely to happen? What will we do and a lot of things were still fluid though we did obviously give some estimates about drop of revenues, drop in estimated profits for the quarter, but fairly uncertain how different industries and behave how different customers will behave what is going to exactly transpire and how things will shape up.

As we stand today and speak today, I think the good news is that things for us have turned out to be better than what we thought they will be both from the quarterly performance, but actually really I think what the company did in the quarter to actually deal with the situation and be able to go about its business in a meaningful fashion.

While the revenues we had estimated could be anything between 18% and 20% down maybe the little bit more down also because some things might not have restarted some projects on time and there has been a shift from onsite revenues to offshore revenues I think which has also shown up in the margins, but more importantly I think what was that absolutely for the company to be able to do it worked well, I think now it is for five months and happy to inform you that 100% of our people work from home and they are working well and my team said yesterday I think our customer satisfaction actually last quarter was the highest in terms of the quality of deliverables and satisfaction of the customers. So, things are going well in terms of us being able to do work.

Second obviously was about how do you do the rest of the operations. Obviously, I mean internal operations and HR and all that I think we have to like somebody said we have to do so much of digital transformation that everything has become digital in the way we operate today from on boarding people to training them to on-boarding them on the project and everything new people and so on and so forth, but more importantly it was how we are going to deal with the external markets. I think good news is that teams have been able to adapt themselves well and actually I think work with both existing clients and actually more importantly I think new clients, I think our attraction the last quarter with new clients getting new opportunities into the pipeline, I think was extremely good.

From a qualitative perspective obviously, there was a big hit from our large clients. I think we are expecting a significant drop which happened last quarter but the client is coming back to life and hopefully it will not go back to where it was, but I think we will see some reasonable growth in the client and the other was obviously the non-essential retail we still not as good as where it should be. The other sectors I think where we are focused in the last few quarters was the Agri business, utilities, commodities, service industry and we call the others and the ISV kind of stuff. So, there we see traction and we can create interest. So the pipeline as we believe that the worst is behind us unless that is obviously there are some unforeseen circumstances.

What we are seeing either there are no further drops either customers are restarting or at least not delaying but there are no drops to what kind of work which is going on, which is good news. Going forward it is clear obviously, I mean the many things we are focused on ensuring we stay with the good with the current business, try to get back some of the business which has been reduced because of this effect, but for that customers need to come back, hoping for the deferred delayed projects restart, there are quite a few of them and then obviously go about trying to convert the current opportunities and while we do that to deliver on the services extremely well.

The cost reductions we had announced I think it implemented we actually now trying to cut them back so we made some changes this quarter of clawing back some of the costs of solving productions and things like that and hopefully we will do most of it by the middle of next quarter to go back to where we are. The number of people has decreased a little and I think for the current revenue stream that is good. So I think that will show up most probably full effect in the next quarter results so as I said in our press release yesterday, I think we can look forward to a more positive future with growth in the next quarter so that I think summary of our analysis of our common.

We also acquired GBW last quarter and integrated it. Unfortunately, I think their business was very heavily COVID affected because they provide customer experience services mainly to retail and quick service industries and so people could not go and do these kind of service so that got affected but we think that is a great platform and the good investment for the future and when things turnaround I think add to that the growth and strategic different session of the company, so I am not worried about that.

I think it is a good strategic investment in the right space in the customer experience base for the company while they business in the short term is impacted that so that is a net-net summary. I will hand over to Jagan I think he had a presentation for you, and we go through that and then, you know, very happy to take any questions and comments, and anybody else you may have.

J Chakravarthi: Thanks, Srikar. Good morning all. Welcome to our analyst call for Q1 FY2021. A brief presentation from our side on highlighting the financial performance this quarter, we had the entire organization move to work from home model. The second highlight for the quarter is we have acquired GAPbusters Limited this quarter Sonata made a strategic investment in Treeni sustainability related platform. Sonata won Microsoft Eagle Award for 2019-2020 from Microsoft. This one of the prestigious awards won by us. Six new customers are added in this quarter in spite of COVID situation we were able to add customers in this quarter, stronger cash conversion despite COVID headwinds although our DSO was gone up our net cash position has improved by about Rs.110 Crores this quarter.

On the financial performance this highlights, revenue and EBITDA on the PAT growth. As mentioned, we had at the consolidated level both in India business as well as international IT services, India business has improved the revenue this quarter, international IT services as mentioned by Srikar in the month of March itself we have highlighted the second largest customer Europe based travel customer they have suspended operations so the revenue is expected to have an impact for us; however, we had given a warning on the profitability of about 40% drop. We were able to take strategic actions and able to bring down the reduction and the cost which resulted in the drop and EBITDA was only 24% this quarter.

It is very clearly that this is the kind of vicinity, but still we were able to maintain the EBITDA for the quarter and the PAT for the quarter, the growth has been, quarterly there is a degrowth on the EBITDA, but on the overall percentage, as a percentage we are still doing around 23.2% of EBITDA which is considering the current situation we have done well for this quarter on International IT services. We have continued to focus on delivering the better results in the coming days.

To tell about the domestic business, the revenue has grown compared to last quarter, quarterly revenue growth has been about 12.2%, quarterly EBITDA de-growth has been about 27.4% and the PAT has been about 29.8%. We continue to focus on improvement in the gross contribution as Srikar used to mention every time, he mentioned this business on gross contribution and we continue to focus on improvement in execution for this, this has been done very well considering the current situation in Indian economy and the performance of other businesses.

This is the financial summary and it is clearly mentioned here international business the revenue for the quarter-on-quarter there was a drop of about 15% and year-on-year there was a drop of 9% and domestic business, there was increased of 12 quarter-on-quarter and 19% in year-on-year, on EBITDA front, international business, there is a drop of about 10% and domestic business, there is a drop of littler more than that. The consolidated level, the EBITDA drop has been about 15%, year-on-year it has been little more compared to last year.

The PAT level, our international business has a drop of about 15% at PAT and domestic business had a drop of about 30%, but overall, the revenue had improved in the domestic business. So, this is some amount of operational metrics, this is just to give a summary of whatever we have given in the investor presentation.

Our US geography continued its position. About 64% of our revenue comes from US, the percentage has increased because of the drop in Europe all of you know that our bidding customer in Europe, the revenue has dropped that is one of the reasons, otherwise we have competency wise and we have given the revenue on each of the industry verticals also. Industry vertical, there has been a drop in the travel verticals for this quarters that is the highlight of this. Onsite cushion has come down because of the changes in the situation and it has been improving in the last couple of quarters and we continue to because of the situation in onsite, it has come back compared to last quarter. These are the broad financial metrics, which we want to share it through. Now, there are some more of this operational metric shared ahead with you. This will be uploaded in our website for you people to refer to, we will now hand it over for the question. Thank you.

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

Madhu Babu: Congrats on a strong execution at the margin level. Just on the travel vertical, so now assuming the operations can improve some October onwards post COVID, so how do we see the recovery in the top account and travel, can we expect a strong swing in the second half because the fall has been steep and second on the new account addition, because from the last three acquisitions Scalable, Sopris and GAPbusters most of them have addition client based so, how are we mining the new services in these accounts? That is, it from my side. Thanks.

P. Srikar Reddy: As I said last time Madhu that the client, we would be very happy would go back to 50% of where they were by Q4. As I said we have also seen some change and we will see some growth from the client even the current quarter as we speak and hopefully they will continue to do business because there are these continuous ups and downs because suddenly they have again stopped the travel back from Spain, I think they are now taking that as life as usual that the start and stop will continue, but the good part is as long as has been funded by the government and they believe the technology investments are where they should put their money right now and that will help them deliver a better product and much better customer experience at a lower cost in future, we will continue to do that, so I am expecting there is no untoward incident, we should see a steady growth from the top client, from this quarter onwards heading towards into Q4, but as I said I do not expect it will be more than 50% of what it was, it had come down to about 10%, 15% so we will see, I hope that we can go back to at least 40%, 50%, but obviously steady growth starting from this quarter and to answer your questions obviously the intent in all these accounts is to mine these accounts. Some accounts I think we have seen some mining which is showing up in the results both I think the couple of accounts are Scalable and I think one account from Sopris, GBW GAPbusters I think it is absolutely new and still integrating, and then figuring out what the customers will need and I said most of the customers are in the retail space and are in a low down mode right now it may not be the best active to go back to them with new offerings, but we see that as an opportunity when things change, we are also trying to take reverse, take the GAPbusters offering to our clients who are not affected sectors, because customer experience is a solution that is needed by every industry, so that I think what we are trying to do. I hope I have answered your question Madhu.

Madhu Babu: Yes Sir and just on GAPbusters at the annual revenue 10 million at the time of acquisition, so what was the current quarter contribution and they do a lot of surveys and all that so how that where align with that business at least from my understanding what I have seen in the website?

Srikar Reddy: What GAPbusters and the customer experience is, there have a platform from designing the survey like a Caltrix or a SurveyMonkey or whatever it is from designing a platform to delivering the survey, the survey can be done either self or by a third party who visits the location and then does the survey and automatically the survey results gets uploaded into the platform and then there is an analytics platform which is there where this data goes in and then the clients can then online view the survey results, so the largest client I think has about 10000 locations which they view, it is a large oil company worldwide and they have every single retail and gas station on this system and so they can see at an area level what is the analytics on different parameters and the second things is then they are able to take it and connect it to the operational data to see the correlation between customer experience, and actual operational performance and then they are using it actually metric to measure the performance of their employees and so and so forth and on top of it, there is an action tracking system, so where it fits in for us is like to be able to combine the customer experience data with operational data which we are already having today and offer a unified customer experience management solution to our clients. I think that is why we are heading, both investing into the platform and building on the capability of the platform and going some of these existing clients and offering this. I will ask Jagan to give you the numbers of what there were this quarter and what was the annual revenues last quarter. Jagan, can you answer the question?

J Chakravarthi: For the quarter is about $800,000 in terms of Australian Dollar is about $1.3 million.

Madhu Babu: Thanks.

Moderator: Thank you Sir. We have a next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Thanks for the opportunity and good morning Srikar during circumstances, very good set of numbers. Two broad questions, the ex-travel business seem to been almost flattish, Q-O-Q, if you just give a sense of what is driving traction here, and also explained what is your definition of retail essential and what has been the experience of claw back and say June, July and August, the ex-travel business?

Palem Srikar Reddy: Okay. Many questions. I will take essential retail growth, quick service kind of food kind of people mainly and pharma retailers and then specialty retailers like in Agri, cement and so and so forth, these are what we club in the essential and non-essential are jewellery and fashion governments and all the others, shoes and so and so forth. So that is the nonessential retail so that is how we definite it. The second question was really what is driving that there is degrowth in the existing non-travel accounts, so what is driving as I said is that our ability to engage with these clients, in this time actually offer them solutions to those people who are obviously wanting to invest, there are people, in between there are people who want to invest and who cannot invest kind of stuff, actually to the people who can invest with very proactive ideas about how they can start some new things to get more value out of their investments especially those who have put in the dynamic systems because there is now lot of data available to do analytics and then putting surround systems on power platform and stuff like that, so that is what is one which is driving. Second is obviously last quarter, I think we had a more of strategic I would say tie up with Microsoft to drive what is called the dynamics modernization program, which is moving current clients to cloud and I think we have seen few traction there, which starts with the initial assessment which is funded by Microsoft, which we execute and then obviously if the client then wants actually execute on the project then there is a reasonable chance that we will get the project kind of stuff. So, I guess the second major driver, I would, and then the others category has been steady secular growth because those customers continuing to investment and have not flattened out.

Baidik Sarkar: Sure. That is really very helpful Sir. In the India product, we are seeing business traction has been run strong, so if you could give a sense what is the split here, Cloud, GRP, OEYS, Microsoft and otherwise and how much of this India business would say is recurring in terms of monthly licence fee payable and stuff like that.

P Srikar Reddy: Okay. I will ask Mr. Sujit Mohanty is on the call to answer your question, Sujit are you on the call?

Sujit Mohanty: Today the total business we do out of that almost 37% is on the Cloud and for the Microsoft side, one of the total Microsoft business we do, out of that 44% is on the Cloud, so that is a cloud and on premise mix. Is that the question?

Baidik Sarkar: Yes. That is helpful Sujit. Can we assume that given the Microsoft side and the overall pie to 37%, about 37% of the revenue will be recurring quarter-on-quarter because there will be subscription that you will collect every month, is that a fair enough?

Sujit Mohanty: The way we measure our recurring business is two ways, one is obviously on the Cloud, which can be a monthly or quarterly subscription, besides that most of our Microsoft or even otherwise other businesses, what we focus is what you call the multiyear contracts, so almost 70% of our total business actually annuity business that means we have multiyear contract on a particular date, automatically you renew it unless and until there is something wrong, which happened, but otherwise as far as we are concerned 70% of our business is annuity business.

Baidik Sarkar: Sure. So just to understand, the element of the multiyear contract well, I mean kind of licenses are these? Are these enterprise licenses or even simple O365 kind of licenses, I mean they just want to understand the peculiar of this business?

Sujit Mohanty: Yes. Got your question. The question was divided into enterprise, then what you call SMC corporate and SMB, if you see most of the manufactures, they divide the customer base into these three categories, so we will operate in all three categories, we cater to enterprise, we catered to SMC, we cater to SMB as well and coming to the O365 but that is a Microsoft terminology. So, in Microsoft terminology, they have focused that yet, what they call is modern desktop then they have Azure and then they hen business application then they have data and we operate in all the four areas.

Baidik Sarkar: Okay. Sure, and how much for the non-Microsoft portion of our foreign business will be?

Sujit Mohanty: Currently the Microsoft and non-Microsoft will be almost like 63 to 37.

Baidik Sarkar: That is very helpful and if I just squeeze in more question because I come back to the queue. Srikar, this is to you within the TUI business, how much have we clawed back from a light on business to the actual services delivery say between July and August. If you just give a rough estimate?

P. Srikar Reddy: We would have clawed back about 15%.

Baidik Sarkar: That is sequential.

P. Srikar Reddy: From the first the quarter that is correct.

Baidik Sarkar: Okay. Thank you, Sir. Best wishes.

Moderator: Thank you Sir. We have next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is I just wanted to confirm you said the top client revenue in the fourth quarter could be 50% of the third quarter, is that correct, third quarter of last year?

P. Srikar Reddy: No. I said the revenues from TUI could go back to 50% of what they were in the Q4 of last quarter because they will not much drop in Q4 in TUI. The Q4 of this year we can get back 50% of where we were in Q4 of last year.

Mohit Jain: Which means you are looking at a sequential growth from 2Q onwards, is it?

P. Srikar Reddy: That I have answered. We have seen the sequential growth in this quarter itself in TUI.

Mohit Jain: In this quarter, meaning Q2?

P. Srikar Reddy: Q2 yes.

Mohit Jain: Okay. That is what I wanted to make sure and Sir second thing on the margin side, if you could give some outlook like sustainable is like IT services margins?

P. Srikar Reddy: I think they are very sustainable.

Mohit Jain: So, we will continue to run at 23% to 24% despite revenue drop?

P. Srikar Reddy: Yes, because I think we have seen a little shift from onsite to offshore this augur well that is the reasonable stuff on the cost. I think you are very confident that as I said unless and until some disasters happen, we are quite confident that will maintain these margins.

Mohit Jain: Lastly your all price related negotiations are built in to the 1Q numbers and therefore those things are behind us in some sense?

P. Srikar Reddy: Yes. We have absolutely been conservative in reporting of our numbers.

Mohit Jain: Not reporting Sir what I mean to ask is in terms of discounting etc., which you had to give to the clients?

P. Srikar Reddy: Discounts that we have earned, we would ensure that it reflects in the numbers is all I can say.

Mohit Jain: It is already built.

P. Srikar Reddy: Yes.

Mohit Jain: Thank you Sir. That is all from my side. Thank you.

Moderator: Thank you Sir. We have next question from the line of Sarvesh Gupta from Maximal Capital, please go ahead.

Sarvesh Gupta: Sir first question on some of the numbers in the presentation, I think we have seen some spike in that bad debts and DSOs and we have seen some fall in the DC percentage for our domestic business, so if you can comment on these three data points Sir?

P. Srikar Reddy: I will answer the last one first. I mean the markets are now again driven to people ask for more discounts and price pressures and so and so forth on the customers side because I think the Indian economy is still not in a great shape and so that means that the principal have to discount it and when they are discounted, we have to also pass on some of the discounts to the clients, so it has been huge market pressure reacting to the situation in the market, so that is why the margins in the Indian business are lower than normal. Can you repeat the other question?

Sarvesh Gupta: Yes. The bad debts and the DSOs?

P. Srikar Reddy: This is on the overall result?

Sarvesh Gupta: Overall as well as DSO we have gone up in both the business and bad debts?

P. Srikar Reddy: Yes. That is because as I said expectation from the customers to get more credits and so and so forth so that is being the reason for the DSOs going up. I will ask the finance team to answer the question on the bad debt.

J Chakravarthi: Now the initial impact of COVID on the first month that is in the month of April was more. Our DSO we gave this as a weighted average of the last three months is our DSO reporting which is the most conservative methods of reporting and in the month of April the collection period was more towards the end of the quarter it started improving although some few customers have asked for more credit period particularly in India for the India business they have been large customers asking for more credit period in this. The cash flow has towards the collection towards the end of quarter has substantially improved for us and we see a good amount of momentum coming in the month in the second quarter if you would have seen our total cash position has been improved by about one-third of it was in the last quarter about 110 Crores of improvement in positive cash generation what we have done for this quarter.

Sarvesh Gupta: The second question Sir if you can throw some guidance for the exit quarter for this financial year would we able to reach similar level in terms of gross contribution from the domestic business and in terms of revenues from the international business as Q4 FY2020 with exit of this financial year with similar at least compared to last financial year.

P. Srikar Reddy: That said I think we will steady growth. The intent is to get there. I cannot at this stage say whether it will be a bit a plan to get there because we actually get there then our profits will be lot higher than what they were before given the cost structure and revenue mix so I think we will a steady growth in both the topline and bottomline as we go forward not too sure whether I can comment or get to where we will although the intent is to get there but I cannot, it still looks like an uphill plan if you do that actually the numbers look dramatically different compared to Q4 of last year so at least the intent is to get to Q4 PAT if not Q4 revenues.

Sarvesh Gupta: Are we seeing any inorganic opportunities in this environment given that we do have a healthy cash balance?

P. Srikar Reddy: Yes, we are seeing opportunities. We are not distressed asset. Yet but we are seeing opportunities and we are continued to look at that very actively.

Sarvesh Gupta: Congratulations again and all the best for the coming quarter.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Good morning everyone. Sir my question is more on the broader side and in the long run although near term disruption is caused by COVID but say five years down the line what will be the levers in terms of that will lead us to further margin expansion although I know IP and platformization, you have said.

P. Srikar Reddy: Five years down the line is a long way to the future, Siddharth.

Siddharth Rajpurohit: Near time is very uncertain. We can talk about levers Sir, levers that you see as a company.

P. Srikar Reddy: That is what I would say there will be obviously the levers are there will be digitalization there will be more automation, levers for growth is how do you get an opportunity to participate in that by tailoring yourself and to ensure that your current being able to meet the market needs as you go forward the rest of the lever will remain constant in terms of how much of IP do you have and you are delivery models and ability to monetize some of these things and so on and so forth. Beyond that I think it is very difficult to put five-year outlook.

Siddharth Rajpurohit: What will be, if you could give some color what will be the differential of margin in CNIP during these results?

P. Srikar Reddy: The difference in margin of true IP business to this business can be 30%.

Siddharth Rajpurohit: Okay on operating levels.

P. Srikar Reddy: Yes, true IP business, IT businesses like Microsoft or whatever it is.

Siddharth Rajpurohit: Second is on the receivable, generally our receivables if we compare is slightly on the higher side although we have improved a lot there was a lot of improvement in the last year, we have seen that, but is this an intentional thing of the business is it because of the client concentration or some other reason as that we are working or are we working to reduce this?

P. Srikar Reddy: Receivables in which business are you talking about?

Siddharth Rajpurohit: On the software side?

P. Srikar Reddy: Software business, I will ask the finance team to answer your question.

J Chakravarthi: Can you repeat this question?

Siddharth Rajpurohit: My question is one the receivable side, the duration is longer than the normal so is it something intrinsic of the business or the clientele profile or anything and how are we working to reduce this?

J Chakravarthi: The AR on an overall basis for this quarter there was a little delay from the customer during the first month of this quarter, maybe spilled over to the second month a little bit also towards the end of the quarter it started improving the cash flow, the collection the momentum started improving towards the end of the quarter and see much more momentum in the Q2 of this year. In a long run basis I do not think we are above average of other companies on the receivable side, there are one or two companies who talk about 45 days or 50 days but if you take large players like Infosys also they talk about 60 to 65 days of DSO. I have seen other midsized IT companies also running at this range between 60- and 70-days DSO depending on a quarter what they have I feel this is a normal average level for this kind of business.

Siddharth Rajpurohit: Lastly do we have any long-term internal targets in terms of reducing the concentration of clients and any numbers over there, Sir?

P. Srikar Reddy: There is obviously. We have been talking about this and it has been changing and luckily now with this obviously the concentration is going to change, the intent is to diversify and reduce the risk and that continues that does not mean that we will refuse business from large clients but obviously the intent is to make it as diverse and as risk spread as possible as business. So that is the intent but as I said we cannot refuse business from clients.

Siddharth Rajpurohit: Any internal targets set Sir in the long run?

P. Srikar Reddy: There are internal targets set to reduce the dependence and get more clients and grow themselves in stage and all that and then the incentivisation is also along the same line and so on and so forth so internally obviously very strong plans to get this done.

Siddharth Rajpurohit: Would you like to share some numbers around it?

P. Srikar Reddy: No.

Siddharth Rajpurohit: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Sir, I am new to the company overall. Our partnership with Microsoft is kind of perpetuity or is it for some specific period, how is it?

P. Srikar Reddy: In which business are you asking?

Ronak Vora: The domestic business with Microsoft where we sell the software?

P. Srikar Reddy: I can ask Sujit Mohanty to answer your question.

Sujit Mohanty: Not only Microsoft for any kind of partner space it is for the reselling of the products in India most of the manufacturers they have what they call is annual contract, you keep on signing the annual contract like if you see for most these OEMs what we are dealing with the contract is almost for last 18 to 20 years so that is how it happens and none of the manufacture have contract which is in perpetuity most of these contracts are actually annually renewable.

Ronak Vora: Earlier I read the annual reports and every time we used to sell products of Microsoft that you know always specific packaging and everything but now everything is being online and on Cloud so do we see any contract that might lost going ahead?

Sujit Mohanty: You are talking of the customer contract?

Ronak Vora: Not the customer from the vendor contracts?

Sujit Mohanty: Most of the vendors earlier most of them have products only what you call on premise product so now this on premise products the line items have been shifted to what you call on the Cloud products so the same contract is valid and in this product mix keeps changing.

Ronak Vora: Thank you Sir. That is, it.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from DoorDarshi Advisors. Please go ahead.

Rajeev Agarwal: Thanks for taking my question my first question is to understand a little bit more on our acquisition strategy. Actually we have done some previous acquisition and it seems to me that they have been successful so can you just talk about how you look at acquisition and also if you can elaborate on how those acquisitions have done, if you could give us some history around the acquisitions that you have done but also how you look at them type of acquisitions while looking and the synergies we are looking?

P. Srikar Reddy: I we have said it in the past the acquisitions strategies have always been strategic that means we are looking for value in the acquisition rather than straight forward revenues and margins. In the past, the strategies have been if you take travel also, because we are in the travel vertical, we bought IP in that vertical and when digital transformation was really picking up and mobility was a key aspect we have brought in enterprise mobility platform which could used to deliver mobile apps so that become strategic to our digital transformation offering and then of course we started focusing on the Microsystem dynamics ecosystem about five, six years ago and I think we have made free acquisitions there to strengthen both the horizontal, vertical, local talent, two in the US, one in Australia, so that was really very strategic to become a big player in the dynamics ecosystem globally and then the last one in the customer experience again driving digital transformation are our old platform.

Rajeev Agarwal: How do you have the pipeline, are you actively scouting, and you are working with companies who are in this pipeline?

P. Srikar Reddy: So the last one I was talking about GAPbusters again aligned to our platformation using platforms through our digital platformation and so what attracted us a customer experience was fast growing area in the digital transformation arena and they had platforms which they were driving it so to net to net all acquisitions have been strategic that means they are aligned to the strategy of the company and then obviously see whether we can combine it with current offerings of the company to give a more unified holistic offering in a particular space at clients so that has been the thinking and we believe it has worked well because as I said in the past the numbers are looked at separately, there are some revenues which flow directly through to us when we take the service offering of an acquired company to another geographies and the business into Sonata, then it goes through that so when we look at the figures and if we look at both and I think that is what we are trying to share this time. I think it has helped us definitely in all the areas to prove to clients we are serious players in that industry vertical because of the IP definitely in the dynamic space to prove that we are serious player we are investing in both Microsoft and the customers. So, all of them I think have really helped us to get where we are today to where we were about 8 or 9 years ago. I do not know you knew the company then, so I think it really helped us to move the company forward to very dramatic situations where we were about 8 or 9 years ago.

Rajeev Agarwal: Second question and this is more sort of numbers I believe that this time we have broken the segments slightly differently than what we have in the past is there a way to correlate what we have segmented this time to what we have done in the past just to better understand what numbers have been put into what segment?

P. Srikar Reddy: Is this segment on the services side or vertical side?

Rajeev Agarwal: On the vertical side, I think we have broken down by the domains like the retail, essential retails, and non-essentials, those things are relatively new, I think. I would not see that.

P. Srikar Reddy: They were not new. Last time, I think the same call, people wanted to see that otherwise they were all combined in distribution and retail as one vertical, so that is why we split it, but the finance team can maybe answer your question.

J Chakravarthi: That is the intention. Last time, the feedback from the analysts was about a question on what the retail is essential and retail non-essential and, they wanted to know what the distribution is and what is retail separately. So that is why we split on this and commodity and business and other service industry has actually given us generally as others, included in others, now we have given a split on this also because that was an acquisition investment we have done in the last few years. We wanted to showcase how it has been moving on this. So, same case that your competencies also, we have realigned our competencies to the requirement of the market from the beginning of this year when we did the new planning for the current year, so we have aligned the competencies to that and we have also given the last quarter's numbers towards that and this is what we are going to follow in the coming days.

Rajeev Agarwal: Sure. I will take it offline with you just to correlate. Thanks.

Moderator: Thank you. We have the next question from the line of Jay Daniels from Entropy Advisors. Please go ahead.

Jay Daniels: In the investor presentation now, there is a greater depth of information that is provided a lot more data is provided. So, I just wanted to know there are certain points, which I wanted some additional clarification that I needed. So, to whom should I reach out to offline, I just wanted to know that?

J Chakravarthi: You can reach out to me. This is Jagannathan here. You can reach out to me.

Jay Daniels: I will reach out to you Sir. Sir, this domestic business has kind of fared quite well. We were expecting quite, it to be worse in the two months of lockdown, but actually have grown QOQ, you have mentioned that 70% of the business is annuity, but still what is that we have missed out, I am trying to understand this business, the strengths of the businesses, if I were to put it?

Sujit Mohanty: As you said very rightly our focus has been to make sure that the annuity business is strong because in our results that is what we like to do most. On top of it, please understand that in April when this whole thing started, COVID thing started, there was a trough to have this work from home and the only thing each and every organization and sourcing in the organizations to be beautiful to work from home, you leave certain techniques, you need certain services and in that implementation, we also need a lot of additional tools to buy so that your security, your connectivity, all these things are perfect and it is as looking at when you checking in so that creates certain opportunity to get into certain new businesses that is what we have done in the first quarter and that is what we can see in the results of not only we retain our 70% of the customer by doing very proactive engagements not only the customer, but also in the back-ended, the manufacturers so whatever the immediate customer needs are addressed and we make sure that all the contracts which are supposed to be renewed got renewed, we also got into this new business and acquired certain things. That is how we could manage these numbers last quarter.

Jay Daniels: Sir, in platform driven revenue there is a slide on page 24, which shows it to be flat over the last five quarters.

J Chakravarthi: I came to know about this very late in the evening yesterday. I will update that.

Jay Daniels: There is a sharp increase in IP led revenues to 33%, is it because TUI is largely legacy solutions?

P. Srikar Reddy: No, because TUI was not using our IP, Jay. Those customers who use our IP, the revenues from them is what we book there. So, while the others paid, this reduced, so automatically the percentage increase.

Jay Daniels: It is because of the travel vertical coming down?

P. Srikar Reddy: Basically, the percentage increase is because of the reduction in revenues. The other revenues stayed constant, but the overall revenue decreased so that percentage increased.

Jay Daniels: Thanks. Sir, one more question on billability there has been a sharp drop. It was 79% in Q3 2020 and now it is 70%. Does it mean that a large part of the staff is involved in R&D activities?

P. Srikar Reddy: No, because the number of people released from TUI increased the number of people in the company. I mentioned it in my last call.

Jay Daniels: They are on bench.

P. Srikar Reddy: Correct, absolutely. So that is what we hopefully some of them will go back to something and some of them are leaving or whatever, so we will see some better numbers in terms of billability from Q3.

Jay Daniels: Because this billability is despite a 3% decline in absolute numbers of delivery staff. So that is why?

P. Srikar Reddy: That is right because the revenue dropped by almost 18%. We did not decrease our staff by 18%. That is why the billability is lower. So, once we see that come back, it will also show up in the margins.

Jay Daniels: For the other queries I have, I will write to Mr. Jagannathan. Thank you.

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

Vipul Shah: This reduction in expenses how sustainable it is?

P. Srikar Reddy: The employee related some expenses there will be natural drop because the number of employees have dropped otherwise, mainly reduction is on account of travel that will be sustainable, the rest of them I do not think anyway they have been significant kind of stuff and then the shift from onsite to offshore is sustainable because that costs will decrease automatically. So that is sustainable. So, I guess these are the I would say three sustainable cost reductions going forward.

Vipul Shah: Sir, once air travel becomes normal, travel related expenses will be very low as compared to pre-COVID days?

P. Srikar Reddy: Very difficult to predict that. I do not know in who wants to travel or the clients want to meet you physically and when all this will happen, how comfortable everybody is to meet each other and all that. So, we have absolutely no idea today. We must wait and watch. Whatever the comfort level of the world to be very social with each other, kind of stuff, it is a psychological issue, I cannot predict that.

Moderator: Thank you Sir. We have the next question from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Thanks for the opportunity. My first question is on the domestic product services, we have seen a sharp increase in the revenue sequentially and YOY both, but if I see the EBITDA on the absolute, absolute EBITDA that I am seeing that has seen a drop of 27% quarter-on-quarter, as we understand that if we take some larger contracts then it actually comes at a lower margin, or we have certain one-offs like what is the strategy here in details, are we actually going for more larger contracts, which is having a lower margins, because this increase in revenue is not translating to EBITDA? That is the first question. The second question is on the IATS cost reduction in the last question also it was mentioned that we have seen 20% sequential drop in the costs, so that is around a cost that is about 50 Crores in absolute amount basis, so out of this how much will reverse and how much of this 50 Crores is related to salary cuts and because we are not seeing any significant reduction in the head count, so maybe it is like the furloughs of salaries and certain costs can they come back, so if you can quantify that how we have achieved this cost reduction? Thank you.

P. Srikar Reddy: The first question I have answered saying that the business in the market is now taking place at lower margins, because customers are wanting higher discounts, it is not going to larger deals, every customer as I said because of the economy have gone back and said that I cannot afford to pay this, so I need a discount, so between ourselves and the principal then we have to share the discounts, so basically the customers have come back and said that till all these things last, you please reduce my price for my bill of material. So that is why while you are trying to keep your market share that will increase your market share, the margins has to be decreased and because that is a market phenomenon kind of stuff and that is the reason why the margins are lower because the overall business because of the whole situation, the business is being done at lower margins as they are very highly competitive. So that is the answer on that. I had already answered the question at the beginning. The second is on the costs, I can ask the finance team to answer, but I have answered the previous person the cost levers are coming from one is shift from onsite to offshore, so that is like about if you take the Q4 costs and Q1 costs and even if you did furloughs so that is about 10 Crores, so that is going to be permanent in terms of cost reduction. Then there is the travel cost that we talked about to whatever that is then there will be some general overhaul people reduction by I guess a few hundred people or whatever it is could be another 7 Crores, 8 Crores, 10 Crores kind of stuff. I will ask the finance department to answer your math of 50 Crores. I do not know where you got the 50 Crores from, and then there was onetime cost in Q4 which we do not have now of the IL&FS of 12.5 Crores. So, if you want to take that that is not going to be there ever. So that is a big number. So, I think that accounts for the 50 Crores that you are talking about.

Amit Chandra: I will take it offline. Sir, my next question is on the Microsoft ecosystem. As we have in the near reporting the Microsoft related services that we have mentioned is roughly around 20 million for this quarter which is around 53% of the total revenues, so roughly the Microsoft FI business, the Microsoft Product Engineering Business and the Microsoft Upgradation, which is the Dynamics Upgradation, so all these three services comes under this and what is the opportunity here on a TDM basis, if you see that it is roughly around 80 million kind of revenue from Microsoft direct billing plus Microsoft Surround. We have 80 million what is the addressable opportunity here and where we stand in terms of competition here and who are the competitors here and what is the addressable opportunity. So, where we can see this 80 million say in the next two years?

P. Srikar Reddy: For one is Microsoft account whatever that number is if you take is aside, the balance is the business which is obtained working with Microsoft and serving customers, so the addressable opportunity, as I have been telling all of you is upwards of a few million dollars on the Dynamics and Surround Ecosystem that the business platform is trying to start. The big competitors as I said are people like Avanade, Hitachi, maybe HSO and Columbus and DXC are the big players in this globally. Well global footprints can deliver service in every geography, the world and getting stuff. So, the addressable opportunity is vast. We believe that with our IP and our own tooling around the modernization program, I think we got a good differentiator to get some decent chunk of this vast opportunity.

Amit Chandra: Thank you.

Moderator: Thank you. We have the next question from the line of Devang Bhatt from ICICI Direct. Please go ahead.

Devang Bhatt: Thank you for taking my question. I had just a data related question; like one question was for Q4 FY2020 the vertical wise the breakup that you have done it totals up to 102%. Your top client that was earlier contributing 20% now it has dropped to 2% and going forward you are saying that 2% will grow in this Q2 you have seen a growth of 15%. Is it?

P. Srikar Reddy: What was your second question?

Devang Bhatt: Your top client that contributes 20%.

P. Srikar Reddy: It dropped by almost 85%, out of that 85% the 10%, 15% clawed back in Q2.

Devang Bhatt: That is all. Thanks.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Just on the vertical alignment, now that travel has become much smaller vertical so, which are the areas of course these acquisitions any new verticals which you would like to subvertical where you expect to focus much higher?

P. Srikar Reddy: Right now, I think our focus is on the Agri and commodity business and the service industries and utility. These are the two things which we are focused on and of course the manufacturing and distribution. So, travel I guess there will be a challenge as we go forward and non-essential retail, but essential retail again I think is looking interesting especially pharma retailing and stuff like that, so I guess these will be the focus as we go forward and with the GBW I think there will be more of horizontal approach to customer experience, so that I guess the way we will use that going forward.

Madhu Babu: Like utilities, there will be lot of other ITs as well. So, we will go through the Dynamics platform?

P. Srikar Reddy: That is right, Dynamics, free service utilization is what, our market is finally limited to the utilities player who are going to invest in the dynamics platform for doing remote service management of their equipment, so that is our focus and that is our service offering for that industry.

Madhu Babu: How easy it would be for them to open to traditional services like infrastructure management and all, which are not directly related?

P. Srikar Reddy: Infrastructure management will be a little far away, Madhu. There can be surround, surround could be data and analytics, surround could be custom services using power platform, these are the opportunities I think which we are seeing, and they are opening up, infrastructure and all will be many steps will be moved and those are not the immediate opportunities we see for ourselves. There will be surround to the core solution which is as a data or as I said custom services using the power platform.

Madhu Babu: Just one more on the ISV vertical, now which is the largest vertical, so could you talk about the opportunities within the top account and the other major accounts could you just give a view on what is the kind of work we are doing in the ISV side? Thanks.

P. Srikar Reddy: At least this year maybe a little flattishness on the top accounts and then obviously the opportunities as I have told about is also working in the field with this account to move some of the other ISVs on to that platform, so we are seeing traction. There are some ISVs who are also unfortunately in the affected industry verticals, so we are hoping that they will come back and that should give us growth kind of stuff in the Q4 timeframe.

Madhu Babu: Thank you.

Moderator: Thank you. We have the next question from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: Thanks. My question has been answered. Thank you very much.

Moderator: Thank you. Sir there are no further questions in the queue. As there are no further questions from the participants, I would like to hand the conference over to the management for closing comments. Over to you gentlemen.

P. Srikar Reddy: Thank you Vikram. Thank you everybody for joining. Thank you for an interesting conversation. Look forward to meeting all of you post the next quarter's results. Thank you for your support. Thank you all. Have a good day. Stay safe.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Sonata Software Limited that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.