"Sonata Software Q4 FY'20 Earnings Conference Call"

May 12, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'20 Results 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: Yeah, thank you, Margaret and good morning everybody and welcome to the analyst call post the announcement of our financial results FY'20, yesterday. We have our CFO – Jagannathan Chakravarthi; Head of Finance – Sathya; Head of Strategic Finance and Strategic Risk management – Premnath Murthy; Chief Growth Officer -- Ranganath Puranik – and our Chief Delivery Officer -- PVSN Raju and Sujit Mohanty -- Head of our India and Asia Business on the call.

We announced the results yesterday quite late at the evening and they are out there on the website and we sent out the press release too, to all of you.

But before, yes, I get started obviously the last two months or so have been quite dramatic in terms of what has transpired, I mean, I am sure that all of you have also been observing it, experiencing it etc. First and foremost, it has been obviously a huge, humanitarian crisis and then it has had a huge business impact and when you hear the various experts talk about it, it is a health crisis combined with both the supply side crisis and a demand side crisis and on top of it whole lot of dynamic, government imposed regulations on what can be done or not done. So, it has been quite unprecedented in terms of the speed and evolution of these events and its impact it has had on ourselves and our ability to do business and our customers' ability in their own issues, as I said, both demand side, supply side and government imposed restrictions kind of stuff. So, obviously, we had to act early and we had to act quickly. The first and foremost issue was completely the safety of our people, wherever they were in the world and ensuring we put the right work environment and right rules and guidelines and all the other things which needed to be done to ensure that people did not take any risk in trying to do their work and get exposed to anything which they should not be, kind of stuff. So, that was priority really number one and we dealt with that, I should say, very actively. Happy to inform that there is nobody from the Sonata family who have been affected by this virus.

The second was this whole thing which was driven by both from our customers and work regulations, lockdowns, etc., to be able to move work and do it from our respective homes and the speed at which these regulations were brought in. Very happy to inform that over a matter of two or three days the whole, the Sonata team all over in India, it was easier to do in other parts of the world because the regulations were less severe. But at least in India to move this thing and implement work from home, very happy to inform that today we have 100% of Sonata people whatever function they are in, working from home, connected to the Sonata networks and able to deliver work. Also, happy to inform that these people have been productive and been able to do different kinds of work, either it is sustenance work, project work, agile development work, ERP implementation work, a whole lot of different services have been delivered over the last about 45-days by these teams, people have been put in different systems, processes, tools, methods to both collaborate with client and collaborate internally to be able to deliver this work very effectively over the last 45-days and very happy to report that and say that kudos to the whole Sonatian team who have been able to rise to the cause and been able to do this very effectively. Obviously, we had to form an emergency response team and to looking at various aspects of our business and what do we need to do given the situation which was unfolding and obviously without any clarity on how it is unfolding and where it is going to unfold to kind of stuff. So, Step #1 was to really, as I said protect our existing business, that is the business which was going to continue given the circumstances, depending upon the industry in which the client was in the nature of work and so on so forth. So, the initiative around reaching out to clients, ensuring communication was well done, ensuring communication about what we are doing to support the work was done and there are things which needs to abandon in the short term to help and support them, offer those kind of facilities so that that could be done. So that was really step #1.

Step #2 was to do a serious analysis of the different businesses that the industries we are working on and the kind of different projects we were doing, what is the likely impact and what is going to happen and then prepare plans and act accordingly. At least from our experience, there have been different industries which have been affected very differently obviously the worst hit has been the travel and hospitality industry to which we have a fairly large exposure to.

The second was the non-essential retail industry, whether people were in fashion, jewelry and so on and so forth. So the first depending upon where they were, their business was coming down to zero, there is just the cost and no revenue that is the travel industry. So they would act a lot more severely and instantaneously to retail who still were waiting for the things to open up and still kept some bare minimum essential services going, so that they could still continue.

Third were really manufacturing, obviously hit by either supply side or demand side issues. The other industries that we are operating was the tech industry which I think at least some of the companies we are working with, were less affected. And then there are the utilities industry which we had with the acquisition of Sopris, not so much affected and industry which we got access to by the acquisition of scalable, which is the agri business commodity this thing, again not affected. And there were some other companies more than the mortgage processing and so on and so forth not affected.

So really 2, 3 spikes of industries and obviously within some of these industries and of course there was the oil and gas sector. And within these there are obviously companies of different scale and size, people whose instant reaction was to protect and reduce their cost to as little as possible depending upon the industry they were in and obviously there were some who had deep pockets were still looking at this as an opportunity to continue to do something although their belief is that their industry in the short-term is negatively affected, but continue to at least invest in some of the strategic initiatives so that when this whole thing ends, they come out being competitive. So, obviously there are different types of customers, different types of responses to this situation. And the others were really how do we, obviously cash preservation, predominant preservation of cash ensuring some of the costs were automatically reduced like travel and other related costs and then there are some other costs related like work from home and obviously to look at also internally in terms of what are the kind of costs we do not need to incur as an organization. So the whole lot of analysis and implementation of that kind of stuff.

What are we seeing in the market obviously after these initial things and the reaction to it. There are now people waking up and looking at it differently. Most people are obviously still looking at what can be done immediately with immediate ROI kind of investments rather than very long-term investments which have an ROI period of two years, three years kind of stuff. So that is definitely something which we are seeing.

Obviously, you may all be keen in terms of what is the whole impact going forward and we had made an announcement to the markets I think towards the end of. March because I think we had just one single large client in the travel sector who was contributing between 15% to 20% percent of the revenues of the company and they had to more or less suspend the majority of their operations. So we had to make the announcement to the market which we did. And as I said we have had some negatives and some positives depending upon the industry and I think we are seeing as far as we can state about it that some stability is emerging in terms of at least we believe that most of the bad news is behind us. But as I said, everybody's guess is as good as everybody else', but this is what we are seeing. If we see that based on what we have said that, I mean, we are looking at a revenue reduction of about 15% to 18% in the first two quarters and we are still looking at the various cost implications, as still some of our people are stuck in different parts of the world and unable to come back because of the government regulations. So that has had an impact on the cost structure. So I think we should have a much better visibility on the cost structure. I think my feeling is our cost structure will be a little bit more than what was anticipated in this quarter and we will have a much better visibility and stability towards the end of Q1 in terms of a more realistic cost structure. In between the top management and senior management company have taken a voluntary pay reduction. I really appreciate all those people. So we are putting all this together and as I said, yes, based on this in at least definitely in the first quarter the cost structure would be a little bit higher because of these issues of people being stranded in different parts of the world, still paying them local salaries, unable to come back and so on and so forth. So that is what the outlook looks like.

Starting from then second half, as everybody says whatever it is the kind of recovery, whether we or you or we are rather estimating it to be more of you than we and any other alphabet like 'W' I do not know. But if you have the model and we think that things come back to some reasonable normalcy and we are modeling that at least 30% to 40% of the business we have lost should come back by Q4 and then we could look at overall 5% to 10% impact on our revenue and profit by then, but that is as I said everybody's guess is as good as mine. But that is the expectation than this what we are seeing as we sit today in terms of where we are.

Similarly, we have had the same challenges with our domestic business although the business is more stable because these are licenses which people need to buy, obviously they are looking for more deferment, less reduction in the amount of licenses they want to consume and so on and so forth. So the stability of the business is a lot better obviously although it will as I said shrink kind of stuff and it is not a business where people can do away with kind of thing. So that is I think the way we are seeing the domestic business quite well covered for credit exposure both through insurance and kind of companies we are dealing with and the arrangements we are having with our principal to ensure that we both share it together rather than alone kind of stuff. So, that is I think on the domestic business. In between I think we have started this acquisition of GBW and we had announced it sometime in February. So we completed that acquisition last week or about two, three weeks ago and so that we are integrating. Obviously, their business is also affected by this crisis as a lot of the customers are in the retail quick service restaurants and so on and so forth. But the space they are in, customer experience I think is really fast growing based on whatever little we have spoken about the acquisition to different clients, there is a lot of interest one has to feel, we can translate that into opportunity and business. And because of people like GBW, we have a fairly reasonable visibility of the world, I mean, we are definitely seeing GBW business like China, Japan, Australia where we do have. So, to that extent I think they are geographically, reasonably distributed and we are seeing business coming and so on and so forth, business coming back to a little bit more normal than where we are and of course the western part of the world is little slower including India. So that I guess is a very high qualitative view and a view of where we think we will be in the first two quarters and following that. I will hand it over to Jagan to take you through the financials for the quarter which went by and then at this stage I think a very detailed analysis of this thing we need to do to get everything correct and because of the dynamic nature of the various things which are happening, but I will ask him to share that with you and we will take questions after that, yeah, thank you.

J Chakravarthi: Thank you, Srikar. Good morning, all. I will now give an update on the financial numbers for the consolidated numbers Q4 financial year '19-20. Revenue stood at Rs.928.7 crores. Sequentially there was a de-growth of 24.9%, this is basically because of our India business that revenue will be up and down in that business. There is a growth of around 11.1% on year-on-year basis. EBITDA for the quarter at consolidated level is Rs.95.2 crores, sequentially, this had a de-growth of about 19.5% and year-on-year there was a de-growth of about 1.7%. The PAT for the quarter is Rs.61.8 crores, sequentially, there was a de-growth of 18.6% and year-on-year there was a degrowth of 5.5%. Consolidated headcount is 4,211 as on 31st March 2020. The return on capital employed at consolidated level is 33% and return on net worth is about 33%. The consolidated DSO, there was a little increase to 50-days in this quarter. For the whole year, the revenue stood at Rs.3,743.3 crores, there is a sequential growth of 26.4%. EBITDA for the whole year is Rs.431.2 crores, there is a year-on-year growth of about 17.9%. PAT is about 276.9 crores and the year-on-year growth is about 11.1%.

The International IT services: The breakup for Q4 revenue is around 325.5 crores. There is a sequential de-growth of 1.3% and year-on-year is 7% growth. This contributed about 35% of our consolidated revenue. Revenue in USD is 44.4 million for the quarter, there is a de-growth of 5.1% and on constant currency it is (-3.9%). INR de-growth is 1.3% quarter-on-quarter. Revenue from digital stands at 38%. IP-led revenue have increased to 24.4% of the services revenue. EBITDA for the quarter is Rs.72.3 crores. There is a sequential de-growth of 21.1% and year-on-year de-growth is about 4.6%. Rupee realization rates are USD is 73.9, Euro is 86.6 and GBP is 99.4. PAT for the quarter is 45.2 crores, sequential de-growth of 21.8% and year-on-year de-growth of 13.9%. This contributed to 73.2% of consolidated PAT. We have added six customers during the quarter. International headcount is at 4,066 as on 31st March 2020. The return on capital employed is 35% and return on net worth is 35%. The DSO has changed a little bit to 47-days.

And for the financial year, the revenue was Rs.1,272.6 crores, there is a sequential growth of 13.6% and year-on-year this contributed 34% of consolidated revenue. Revenue in USD is 180.8 million for the year. EBITDA for the year is 337.8 crores which is a year-on-year growth of 15.7%. The PAT for the year is 212.5 crores. There is a year-on-year growth of 4.7%. The domestic business revenue for the quarter is Rs.607 crores. This compared to last quarter, there is a de-growth of 33.4%. EBITDA for the quarter is Rs.23.2 crores quarter-on-quarter there is a de-growth of 13.9%. Year-on-year, there is a growth of 9.3%. PAT is Rs.16.6 crores, there is a quarter-on-quarter de-growth of 8.2% and year-on-year growth of 28.9%. Domestic business headcount is 145 people as on 31st March 2020. Return on capital employed is 30% and return on net worth is 29%. The domestic DSO increased to 52-days. For the whole year, the revenue from domestic business is Rs.2,492.2 crores, there is a year-on-year growth of 33.8%. This contributed to 66.6% of the consolidated revenue. EBITDA for the year is Rs.95.1 crores, the year-on-year growth is 26.6%, PAT is Rs 64.4 crores. The year-on-year growth is about 39.2%. This contributed to the overall PAT of 23.3%.

With this I conclude my financial update. Hand it over back for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: My question is to Srikar, over the last 45 days we have seen how governments especially Western Europe have really come out in support of their domestic travel and tourism and the airlines business, right, TUI, Lufthansa, all the large travel and airline groups in Europe have got a lot of government goals and support. Keeping that in perspective over the last 45-days, have you seen any change in outlook from your clients and would you reckon that would reflect on the ramp up in the times to come?.

P. Srikar Reddy: No, I think it is a good question. What the governments have done is really supported them to keep the employment on so that these companies do not do anything drastic with their employees. So obviously to start operations, you need three things, I mean I do not know, I am not an expert, but one is lockdown by the respective governments have to be lifted. Today, there is nobody allowing flights to come from any other place to any other place, if you want to send people from Germany to Spain you cannot send them. Secondly, obviously the whole thing about consumer confidence, about wanting to travel, will it be safe and so on and so forth. So, I guess this whole thing is actually just keeping their employees going, not their operations going because for TUII mean the business is absolute zero. So for the business to come back, it is about the three things: One is governments have to open up lockdown. Second is consumer confidence has to go up a little bit, and hopefully somebody finds a cure or vaccine or whatever it is to increase the consumer confidence. So these three will define how quickly these businesses will come back and to what scale and size and so on and so forth. But right now it is like they are all being funded to just keep the employment on, I mean, that is where it is.

Baidik Sarkar: In your non-travel vertical especially OPD, retail you did touch upon, but OPD and others, are you seeing things being neutral or is there weakness there as well?

P. Srikar Reddy: Depending upon the kind of nature of the business. If you are in a purely application software kind of stuff, obviously that is a slowdown because most people are just keeping the lights on and rather not going and buying brand new applications, software licenses kind of stuff. But if you are in the infrastructure space, collaboration space, cloud space, that business is obviously going through the roof. So it is doing extremely well. So yes, we are seeing both, but impact is not significantly negative at best; neutral to minutely negative to with some of these companies we are working with supremely positive in terms of the business. Essential retail, fashion, jewelry, these are some of the companies we have had obviously both in Europe, Australia and the US have scaled down some of their work. There are clients of us who manufacture luxury boats headphones, hearing aids, they have scaled down a little bit kind of stuff. But we have people in the mortgage industry, utilities industry who are actually starting new projects and there are some who are okay and actually investing into new projects kind of stuff. We actually have an exception of a retailer for whatever reasons have had a change in management who want to use this opportunity to put in a brand new system before it opens. But that is more of an exception than a rule.

Baidik Sarkar: Would you quantify the fixed cost levers that you touched upon in opening remarks, what kind of levers we might see in H1? And on the dividend basis, I understand it is early days, but would you reckon the board will still maintain 6% dividend payout or would you be looking at maintaining the dividend per share at an absolute basis?

P. Srikar Reddy: I think we would have to look at it from the new rules on dividends. So we might have to find some other means to compensate our shareholders. So at this stage we are not looking at that. I think as a good rational as I said cash conservation, we want to keep the cash, we do not know where it is all heading. So we would rather keep the cash and see what to do with it once we see a reasonable stability outlook to world economy and as we see I think the highest rate of unemployment in the US since the Great Depression. So we do not know what the implications of these are on economy. At this stage we are saying keep the cash and then look at what we want to do with it when we see some stability

. **Baidik Sarkar**: And on the fixed cost part, could you have a guess on how much of reduction one can expect in H1?

P. Srikar Reddy: On fixed cost, we are working on it. As I said, some is directly onsite cost. Offshore, we have done some changes to compensation as I said some restructuring. We have not laid off anybody apart from performance reasons like that is a bit of 1% or 2% of the company. Hopefully we would like to keep it that way unless we need to take some other action. And of course, as I said, that cost on account of all, work from home and travel and so many other things, we are just getting handle of all this right. So I said at the end of first quarter I think we will have a far better handle of how the cost structure is. Tactically, I think one should get to a place where one should be able to make the same margin on the revenue to make kind of stuff that should be the intent ideally. And hopefully we will have a better view of it by the end of Q1.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Sir, I joined the call a bit late. I am not sure if you have touched upon this. But my first question was on the domestic business. If you could just highlight how you are managing your working capital out there in this time of stress and how that business would get impacted? The second portion of your business is something that you touched upon in the previous question about OPD business. How much of the OPD business is coming from the new application base, discretionary projects and how much is coming from cloud, collaboration, etc.?

P. Srikar Reddy: I think the first question I addressed in my, this thing saying that the India business is obviously stable because it's license business and people have to pay for licenses, they cannot stop it kind of stuff. Obviously, they are all talking about better payment terms and some discounts and so on and so forth. So, we are working with our principal to ensure that we deal with this. So we are working with them collaboratively and that is why we would see that and then I said we have had this insurance based credit, so a reasonable proportion of our receivables are insured. So given all this and as I said working very closely with our partners and principals, we do not see a challenge on working capital or negative that is going bad. Obviously, we will see a shrinkage in business to some extent and its impact on profits, but we do not see any risk as we speak today to the accounts receivable and credit. To your second question on OPD, most of our OPD is really either on the sustenance side, management side of operations and also in the collaboration and cloud side. So it is all you can talk either essential or lights on work basically.

Moderator: Thank you. The next question is from the line of Anubhav Mukherjee from Prescient Capital. Please go ahead.

Anubhav Mukherjee: Apart from the large travel client, are you seeing any issue with any of the other top-10 clients?

P. Srikar Reddy: Not really. As I said that we have seen in some clients in retail and manufacturing and all that. They are not in the top this thing, but yes, we have not seen any issues. Actually, we have seen some positive movement with some of these clients.

Anubhav Mukherjee: In the domestic business in the past one and half months of lockdown, have you seen any spike of like bad percentage of receivables or something like that?

P. Srikar Reddy: As I just mentioned, we have insurance on our receivables and we are working with our principals to deal with this in a collaborative fashion that we do not take all the burden that is we are doing work with them on their behalf. So if there is something that happens, then we share it mutually or we deal with the problem mutually together kind of stuff. So to answer your question we have not seen anything. Our collections are good, our cash flows, as we speak today are better than at the end of the quarter. So, I do not see any risk to that. Neither have we seen it in the last 45-days nor we see it today.

Anubhav Mukherjee: Sir, on the large travel client, as of now do you have any visibility of the recovery that you could see post the Q2 of this year?

P. Srikar Reddy: That is what I just answered the person previous. So it is all dependent upon three things -- One is the lockdowns, etc., being lifted by the respective governments to allow free movement of people. Two is the consumer confidence that I want to travel. And the three is that these companies have an operating capability to operate. So on the third one, there is no problem because as I said they are being funded by the governments and so on and so forth so they could do that. The first is your guess is as good as mine when they will allow free travel of people. And second is consumer confidence saying, I really want to do this and take a holiday and do all this kind of stuff. So, for it to get back to 100% percent of what they were doing would take at least a year I guess. But even if they come to 30%, 40%, then there is some amount of work back to be done which could be as I said our assumption is that it could be 30%, 40% of the work which has been reduced will at least get 30% of that back to all this happen. But as I said, I mean, there are many variables and even these companies themselves are unclear about when is it all going to change because most of the decisions are not in their hands.

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

Mohit Jain: This is a repetition on the earlier one, but people are talking about this new application development for automatic check in and things like that which may start in 2Q if you are planning for a reopening in 3Q. So is there a possibility of you guys getting some new work in second quarter given that 1Q will be a steep fall? And, second, on the order book, order backlog anything that you could share which gives you some visibility on second half revenue or any talk that is tangible?

P. Srikar Reddy: Yeah, that is what I said that whatever we have, we are seeing a visibility, but very difficult to predict how people are going to behave because everybody is taking almost a day at a time kind of stuff. So I think one needs to see how the situation evolves. Yeah, that is on the future. If you see our interest, I mean, we are having more conversations today than before, but we do not know when this will materialize into anything meaningful, reasonable. That is what I was telling our team that I have seen more conversations opened up in the last two or three weeks than before. But these are all about conversations, they are not about saying I want to start tomorrow morning, I mean, it is all about I want to do this kind of stuff. So if things move for the better and everybody's view of the future is better, then I guess one can see a lot more action in this. But it is all about as I said business confidence, consumer confidence, ability to invest and so on and so forth.

Mohit Jain: Sir, as a follow up, now our client Microsoft and related technologies are seeing significant growth as per your TBD also for Sonata. So is there a possibility of for example, travel stays let us say 15% lower from 1Q, is there a possibility of deploying people and margins to return back to some level in the second half even if travel continue to be weak?

P. Srikar Reddy: Obviously, people are not fungible. I think you need to know that. You cannot just take a travel person and put him on OPD projects kind of stuff. So there are plans to do that and deploy these people into opportunities which will come up for retaining and reskilling people, that is going on as we speak. As I said there is significant growth on retail businesses, these people can be deployed.

Mohit Jain: But OPD, you do not sound that optimistic in the previous question because I thought given that our alignment is towards Microsoft, our growth rate in OPD should significantly offset or at least partly offset decline in travel?

P. Srikar Reddy: It cannot offset 20% of all the companies therein, that we know OPD business has to go up 100%, so that will make up one-fourth of the business loss. That is why we are, otherwise we should be in a much different situation if these growth were not there kind of stuff. But there would not be a 100% growth is all I am trying to say.

Mohit Jain: One for Jagan. So what margin levels you are looking at after these pay cuts and all the corrective measures that you have announced like is it likely that you will go back to let us say 8%, 9% consol margin in second half or do you think it will remain low for most of FY'21?

P. Srikar Reddy: As I said, we are trying to do this analysis and I will have a better visibility on this at the end of Q1…yeah, we are doing all this analysis. Little premature right now to say what will it be in Q4.

Mohit Jain: Your guidance up to 40% drop stays for first half?

P. Srikar Reddy: Actually a little bit more because of this whole. I thought that some cost structure could be rationalized by people coming back. That has got delayed. So the first quarter it could be a little bit more and then second quarter that one figure looks reasonable.

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

Vipul Shah: Can you give more details about that IL&FS write-off? I think I have read it first time. I do not think it was mentioned in any earlier quarters.

P. Srikar Reddy: It is in our provident fund account, there was an exposure to IL&FS and obviously based on the advice which was being given by our advisors and consultants and evolution of this whole IL&FS saga with the government appointed board, liquidation of assets, distribution of the proceeds, then there was this whole thing that government may say that the PF people should be paid first and all that. We were prudently and conservatively taking small bites and providing for it. Because it was not material, we did not disclose it and still waiting for proper resolution of it. So, we were providing maybe Rs.2, 3 crores a quarter or whatever it was. It was not material, it did not affect anything. So we were told that we do not have to explicitly disclose it. So we did not. But now given the current situation and all that we have been told it is a lot more prudent given this situation the resolution of this kind of thing obviously going to be really remote. So, we have provided for it and obviously we have to know because it is material we are going to show it separately in our financial. So that is the only reason you did not see it because we were providing small bites of it, did not think that we thought that it may come back, all that kind of stuff. Right now I think given this I think we have taken a decision to provide for it totally and as I said and it is a lot more material we disclose it.

Vipul Shah: So, what is the total figure for FY'20?

J Chakravarthi: It is somewhere around Rs.23.23crores.

Vipul Shah: Will it come again in current year also or this is one-off?

P. Srikar Reddy: It is done; it is a one-time.

Vipul Shah: Lastly, Srikar sir, can you comment on ramp down and cancellation of the projects by clients due to COVID?

P. Srikar Reddy: I did comment on it saying depending upon what industry, what kind of project, there have been ramped down, there have been ramp up and I talked about one of our large clients ramping down very significantly and depending on kind of work and industry you are in, there have been ramp downs and I touched upon it and the impact on revenues also, I did do that.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: So, on your travel space, if you can give some more color operationally what are we doing right now compared to what you were doing pre-COVID, how are we billing the clients, are we getting the payments, to what extent the ramp down has been, so if you can throw some more color on what work is being done on that side?

P. Srikar Reddy: As I said, our largest client we have had I think almost at about 15, 18, 20% of our revenues, it ramped down by about 85% and continuing at 15% lights on kind of work, keeping the systems on so that they can take cancellations and refunds and still keep the bookings open hoping that somebody will book holidays and our visibility effects, analytics and so on and so forth, so basically really essential work. And then we have another airline signed similarly have a ramp down on new projects and continuing with maintenance of their existing financial systems, retail systems and so on and so forth. We have a couple of other clients in the travel who are using our IT, they obviously are using it because there rail reservation space and they continue to use it and pay us, even if one person travels, then the system to be operational, so we are seeing that. We are not seeing any payment problems with any of these clients as we speak.

Sarvesh Gupta: And on the domestic side, now there are certain all these movement towards digitalization, work from home should possibly mean higher spends on IT as well as enterprise software side, even for Microsoft, for example, I think Teams is sort of becoming very popular amongst many corporate, I was seeing a chart about how they are growing versus Slack. So, are we also participating in this sort of journey wherein a lot of software is being sold which will enable people to work from home and push towards digital, etc..?

P. Srikar Reddy: It is a valid question. I think we are participating. We are the largest part of Microsoft in India by a huge margin. But these clients have bought these licenses. It is not that they do not have these. The only thing is they are using it a lot more, so probably lead to do more consumption and consumption related revenues. But everybody had a license. It is just that people are using it. And those people, I mean, I do not want to comment, people are using it or not using it but paying for it. So, I guess somehow we need to find out how to get them to pay for it, but otherwise the large majority of the large corporates have already signed onto these things and are using these tools kind of stuff. So as I said, counter also is that they may say, reduce my bill of material for some other tool and move it to Teams and so on and so forth. These are the discussions and negotiations which are going on.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: My question is related to travel vertical. So as you said that the impact on the travel vertical is mostly from one large client. So if I do my calculations, then the impact on the revenue from this large client is to the extent of around 60%-to-70%. So is it correct the calculation? And also as the impact is pretty significant, so what proportion of the revenues you expect to come back in the second half?

P. Srikar Reddy: That is what I said, Amit, that if things come back to normal we have modeled about 30% to 40% percent to come back if things are okay. For fully to come back, I would see more like 12 to 18-months.

Amit Chandra: My second question is on the total number of clients. So we have seen sharp fall in the total number of clients in this quarter largely in the ANZ region. So can you please explain what the reason was for the fall in the total…?

P. Srikar Reddy: Yeah, I think maybe that thing we disclose it. What I told them is to remove the clients from doing less than like $50,000 a year kind of stuff out of the list of clients because it just was getting unnecessarily bloated list. So these could be people who are paying some license fee for entry for Microsoft licenses and so on and so forth. We said take them all out and at least let us give a correct picture of what do active clients mean. Those clients are still there, they are not gone.

Amit Chandra: So, in terms of the revenue, there is no impact from fall in the number?

P. Srikar Reddy: They are extremely small and there the revenue is also there, but like as I said less than $50,000 a year.

Amit Chandra: In terms of the total number of FTEs that we have, what will be the exposure of FTEs towards in travel client if you can give some number?

P. Srikar Reddy: FTEs was about 500 people I think.

Moderator: Thank you. The next question is from the line of Shriram Srinivasan from Ksema Management. Please go ahead.

S Srinivasan: Sir, actually, we have been confident on wherever the opportunities are finding and over the period we have grown very well on inorganic basis by acquisitions**.** And even as examples is of Scalable and Sopris now being productive in this down scenario. They are almost holding Rs.315 crores of cash. Is there any way that we are finding an opportunity in any other sectors like in this COVID-19 scenario for example, divesting our client base even in edu-tech or pharma or cloud-based services because Sonata has done very well in the last 2-2.5-years, we have done a lot of mergers and acquisitions and we have been purposed on doing wherever we are finding the best opportunity, that is what I am asking?

P. Srikar Reddy: Good question. I think there will be a lot of opportunity at the end of year. So we are not going to rushing through it in this current situation because we do not know what the visibility will be like. But, I think there will be a lot of opportunity for the good strategic actions when things settle down and we are looking at it very closely in terms of what are the opportunities which would come our away and we are looking at it.

S Srinivasan: Is there any cut down in head counts over a period of time?

P. Srikar Reddy: I said we did not, we are not looking at it right now, we are looking to do only restructuring of compensation and we are not looking for any drastic headcount reduction at this stage, no.

S Srinivasan: We have been looking for any hikes over a period or we are deferring the incremental to the employees?

P. Srikar Reddy: No, no, no, we are not looking at any increments at this stage. We might have some very creative variable structures incentivized to drive growth, but definitely not looking at any compensation.

Moderator: Thank you. We will take one last question from the line of Vinod Makaria, an individual investor. Please go ahead.

Vinod Makaria: So, my question is Mr. Trump has been hitting the headlines with all the proposed restrictions on H-1B, renewals and all. So how many people do we have on H-1B working in US?

P. Srikar Reddy: As I have told many times we are not a very heavily H-1B-dependent company because our acquisitions and other things we have had a fair amount of local people. So, this is something which is not going to affect us.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

P. Srikar Reddy: Right, yeah, thank you everybody for joining us and obviously we wish we could have had this call in better times, but I think we all have to go through this and at least myself and team at Sonata are really confident that I think we have a good model and we have taken all appropriate actions to come out of this more strongly than before. So thank you all for your time today.

Moderator: Thank you. On behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.