



annual report 2005-2006

Sonata Software Limited

P e r f o r m a n c e H i g h l i g h t s

Rs. in million

PARTICULARS	CONSOLIDATED		SONATA		CONSOLIDATED		SONATA	
	Quarter ended on 31.03.06	Quarter ended on 31.03.05	Quarter ended on 31.03.06	Quarter ended on 31.03.05	Year ended on 31.03.06	Year ended on 31.03.05	Year ended on 31.03.06	Year ended on 31.03.05
TOTAL INCOME	1,813.55	827.02	422.81	281.64	5,108.99	3,337.31	1,520.80	1,013.25
EXPORTS	477.64	356.20	412.08	270.64	1,735.81	1,319.95	1,486.74	970.10
EBIDT	129.47	76.70	109.65	61.61	440.78	269.98	359.22	217.08
PROFIT AFTER TAX BEFORE EXCEPTIONAL ITEM	77.78	45.39	83.04	45.20	275.41	160.87	261.60	164.01
FIXED ASSETS	334.07	301.35	291.25	228.74	334.07	301.35	291.25	228.74
TOTAL DEBT	-	51.14	-	-	-	51.14	-	-
NET WORTH - CLOSING	1,521.61	1,527.95	1,567.80	1,609.90	1,521.61	1,527.95	1,567.80	1,609.90
EQUITY	105.16	105.16	105.16	105.16	105.16	105.16	105.16	105.16

PARTICULARS	CONSOLIDATED		SONATA		CONSOLIDATED		SONATA	
	Quarter ended on 31.03.06	Quarter ended on 31.03.05	Quarter ended on 31.03.06	Quarter ended on 31.03.05	Year ended on 31.03.06	Year ended on 31.03.05	Year ended on 31.03.06	Year ended on 31.03.05
EXPORTS INCOME/TOTAL INCOME	26.34%	43.07%	97.46%	96.10%	33.98%	39.55%	97.76%	95.74%
DOMESTIC INCOME/TOTAL INCOME	73.10%	55.57%	-	-	65.27%	59.12%	-	-
OTHER INCOME/TOTAL INCOME	0.56%	1.36%	2.54%	3.90%	0.76%	1.34%	2.24%	4.26%
OPERATING EXPENSES/TOTAL INCOME	23.79%	41.83%	74.82%	78.73%	32.79%	38.91%	76.99%	74.43%
EBIDT/TOTAL INCOME	7.14%	9.27%	25.93%	21.88%	8.63%	8.09%	23.62%	21.42%
PAT (Before Exceptional Items)/ TOTAL INCOME	4.29%	5.49%	19.64%	16.05%	5.39%	4.82%	17.20%	16.19%
DEBT: EQUITY ¹	-	0.033	-	-	-	0.033	-	-
DEBTORS NO. OF DAYS	66	76	70	82	94	75	78	92
RETURN ON AVG. NETWORTH ²	19.02%	11.90%	20.08%	11.24%	18.06%	10.82%	16.46%	10.47%
RETURN ON AVG. CAPITAL EMPLOYED ³	19.17%	12.16%	20.08%	11.24%	18.19%	10.80%	16.46%	10.47%
EPS (Annualized) (on Rs. 1/- per share) ⁴	2.96	1.73	3.16	1.72	2.62	1.53	2.49	1.56
BOOK VALUE PER SHARE - (Rs) ⁵	15.55	14.51	15.73	15.29	14.50	14.13	15.11	14.90

EXPLANATORY NOTES:

¹ Debt divided by Closing Shareholders funds² Profits divided by Average Networkth³ Profit after tax + Interest on term loan divided by Average Capital employed (Capital employed = Capital + Reserves + Borrowed funds - Miscellaneous Expenditure)⁴ Profits divided by weighted average no. of equity shares⁵ Average Networkth divided by no. of equity shares

Think Customer

Growing markets, constantly evolving technologies, changing market dynamics and ever demanding customers - how do companies today address these fluid situations? **Think Customer** is Sonata's answer to this increasingly competitive scenario. With **Think Customer** as our credo, Sonata readily helps customers respond to these challenges and ensures success. **Think Customer** is the core of Sonata's business philosophy that helps our customers to retain the competitive edge in their markets. Our competence stems from the technology expertise and extensive domain knowledge - significant when it comes to understanding the clients' market spaces, delivering for their customers, anticipating industry trends, and quickly responding to emerging challenges and opportunities.

Think Customer further breaks away from the conventional problem/solution approach, to a more holistic, 360 degree understanding of clients and their needs. This approach also guarantees a synergy for a long-term relationship and growth, both for Sonata and the customer. **Think Customer** is our way of viewing the customer's business, for in it we see success – both for our clients and us. And that's the Sonata way.



Think Customer is evaluated on five critical parameters. Team Sonata is customer-lifecycle oriented and every interaction is evaluated against these parameters, to ensure a positive outcome for the client.

Business Value Delivered

Consider the story of one of our UK-based ISV clients. Seeking to provide business advantage every step of the way, Sonata began developing the core product for this client. Through this exercise, tangible and consistent business benefits were demonstrated via faster time to market and product quality improvements, all at dramatically reduced cost levels – a compelling argument in favor of Sonata. And as expected, the results were overwhelming. Prompted by Sonata's customer-centric work ethos, the relationship with the client has now expanded to include professional services as well.

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Problem Solving Ability

One of Sonata's US-based clients wanted a significant addition to their product functionality. The product required a module that would recognize containers or tankers containing hazardous materials (HAZMAT). Sonata developed an innovative solution - a unique Image Recognition System, designed to read placards placed on the sides of containers or tankers with the sign 'HAZMAT'. The module, once added, allowed cameras to detect all such cargo, with the information promptly relayed to security personnel for necessary action. In effect, the handling time for such shipments was minimized, and the client appreciated the ease of operation.

Winning Attitude

At Sonata, every challenge is an opportunity in disguise. And this spirit is embedded in every Sonatian. This is also the primary reason why the Company's greatest investments lie in its people. After all, as clients around the world will testify, Sonata symbolizes commitment and sterling technical expertise, crowned with an indomitable can-do spirit. In illustration, a Sonata client was evaluating a solution partner with capabilities centered around 'Infrastructure Management and Outsourcing'. In this instance, Sonata demonstrated execution capability, calculated risk-taking nature and the ability to dynamically add new service offerings.

Partnering Capability

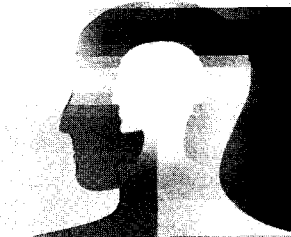
At Sonata, we take pride in our ability to build enduring, mutually enriching relationships. By consistently exceeding client expectations, the Company graduates from being just a vendor to a trusted partner. This journey is fuelled by Sonata's in-depth domain knowledge, backed by a renowned and extended IT expertise. Regardless of the size of opportunity, we at Sonata go that extra mile for our clients. It is this very vision that has earned Sonata the confidence of clients across the globe.

Best-of-Breed Alliances

Over the years, Sonata has built an enviable position among leading technology providers and industry experts. Today, the Company possesses an ensemble of technological and marketing alliances that have grown steadily over the last decade. These alliances have been instrumental in garnering knowledge that powers our solutions. Sonata's partnership with Microsoft, for instance, has seen numerous awards and citations, and the experience gained has been continually harnessed to deliver more for clients. These accolades represent more than just milestones on the Company's path to progress. They represent the Sonata way.

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Sonata Software Limited

DIRECTORS' REPORT

TO THE MEMBERS OF SONATA SOFTWARE LIMITED

Your Directors have pleasure in presenting the Eleventh Annual Report of your Company together with the Audited Statement of Accounts for the financial year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS

(Rs. in million)

Particulars	YEAR ENDED 31.03.2006	YEAR ENDED 31.03.2005
1. Total Income	1520.80	1013.25
2. Total Expenditure	1161.58	796.17
3. Profit before Interest, Depreciation & Tax	359.22	217.08
4. Interest	-	-
5. Depreciation	69.63	33.62
6. Profit Before Tax	289.59	183.46
7. Provision for Tax	27.99	19.46
8. Profit After Tax before Exceptional items	261.60	164.00
9. Exceptional Items (net of tax)	183.80	-
10. Profit After Tax after Exceptional items	77.80	164.00
11. Appropriations:		
Proposed Dividend	63.10	36.81
Interim Dividend	42.06	31.55
Provision for Dividend Tax	14.75	8.93
Transfer to General Reserve	10.00	17.00

DIVIDEND

Your Directors are pleased to recommend payment of a final dividend of Re. 0.60/- per equity share (@ 60% on par value of Re.1/- each), subject to the approval of the shareholders, which along with the interim dividend of Re. 0.40/- per equity share adds upto a total dividend of Re. 1.00/- per equity share (Previous year - Re. 0.65/- per equity share of Re. 1.00/- each).

If approved, the final dividend will be paid to all those equity shareholders whose names appear on the Register of Members of the Company on 15th June, 2006 and to those whose names appear as beneficial owners in the records of National Securities Depository Ltd. and Central Depository Services (India) Ltd. as on the said date.

EXPANSION OF DEVELOPMENT CENTRES

During the year under review, your Company was allotted eight acres of land in the bustling IT hub of Poppalguda, Hyderabad by the Government of Andhra Pradesh for setting up an IT campus

under the Information and Communications Technology policy of the Government.

Your Company already has a presence in Hyderabad and operates a facility with a capacity to house 800 people. The proposed new campus/development center will function as a dedicated facility for global clients, and further fuel Sonata's growth and presence in the region.

QUALITY

Your Company's commitment to an organized system of quality that is compliant with industry standards - ISO 9001:2000 and SEI-CMM-Level 5 - is maintained during the year under review. Special focus has been given in aligning the mature processes with the needs of customer specific offshore development centers. Routine surveillance audits by the certifying agency are conducted as per schedule. Clarity on the processes and service levels has been appreciated in the audit findings. Customers and prospects have appreciated the quality discipline and see value in it.

Your Company's processes are periodically reviewed and refined to align with operational needs and to meet customer expectations. Internal audits and reviews bring in continuous improvements in the processes for quality and efficiency. Formal customer satisfaction surveys to collect feedback on the products, people and processes help us to align processes with customer needs all the time.

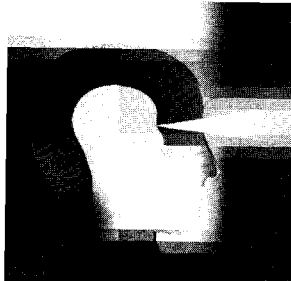
SEBI REGULATION & LISTING FEES

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Shareholding Pattern, etc., on its website www.sebidifar.nic.in, the statements of your Company can also be accessed at this website.

The annual listing fees for the year under review has been paid to Bombay Stock Exchange Ltd., National Stock Exchange of India Ltd. and Bangalore Stock Exchange Ltd., where your Company's shares are listed.

SUBSIDIARY COMPANIES

The statement pursuant to Section 212 (1) (e) of the Companies Act, 1956 in respect of subsidiaries, is attached. The Consolidated Accounts of your Company and its subsidiaries are presented as part of this Report in accordance with Accounting Standard 21.



Sonata Software Limited

Directors' Report (Contd.)

Your Company has been exempted by the Ministry of Company Affairs, vide letter No.47/81/2006-CL-III dated 20th March, 2006 from attaching the audited accounts of overseas subsidiary companies viz., M/s Abisko Development Limited, Cyprus, Offshore Digital Services Inc., USA (ODSI) and Sonata Software GmbH, Germany for the financial year ended 31st March, 2006. Accordingly, the audited accounts of the above mentioned overseas subsidiary companies are not attached. However, they are available on the Company's website www.sonata-software.com.

The audited accounts of overseas subsidiaries are also kept for inspection by any investor at the Company's Registered office, and copies will be made available on request to the investors of the holding and subsidiary companies at any point of time.

CORPORATE GOVERNANCE

As required under Clause 49 of the Listing Agreement with the Stock Exchanges, a Report on Corporate Governance is provided elsewhere in this Annual Report alongwith the Auditors' Certificate on the compliance thereof.

SECRETARIAL COMPLIANCE REPORT

As a reflection of your Company's commitment to transparency, the Board is pleased to enclose the Secretarial Compliance Report for the financial year 2005-06, as part of this Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors, to the best of their knowledge and belief, state that the Company maintains proper accounting records which disclose with reasonable accuracy, the financial position of the Company.

Further, your Directors state that these accounting records have formed the basis for the preparation of financial statements of the Company in compliance with the provisions of the Companies Act, 1956, including any amendments thereto.

Your Directors also confirm that the financial statements of the Company are prepared in such manner to give a true and fair view of the state of affairs of the Company as at the end of 31st March, 2006 and of the profit of the Company for the year to that date.

Your Directors state that, in preparing the aforesaid financial statements of the Company, appropriate accounting policies

have been consistently applied and supported by reasonable and prudent judgements and estimates, whilst applicable accounting standards have been followed, and that these financial statements have been prepared on a going-concern basis.

Further, your Directors to the best of their knowledge and belief, state that appropriate internal control systems are in place which are reasonably expected to safeguard the assets of the Company and to prevent and detect fraud and irregularities.

ENERGY CONSERVATION, RESEARCH & DEVELOPMENT, FOREIGN EXCHANGE

The particulars, as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, with regard to conservation of energy, research & development and foreign exchange earnings and outgo are set out in the annexure attached to this Report.

Your Company has nothing to report on technology absorption, adaptation and innovation.

PUBLIC DEPOSITS

Your Company has not accepted any deposits from the public during the year under review.

PERSONNEL

Information required to be furnished under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended is annexed to this Report.

COMMUNITY SERVICE

"We will be conscious of our responsibilities to the society in which we live and the environment in which we operate" - A value which has been jointly arrived, believed and practiced by all Sonatians was demonstrated yet again through the contributions extended by all our employees towards rehabilitation of tsunami-affected citizens. Your Company has scored no less by announcing a matching grant.

During the year, an amount of Rs.15,31,430/- (Rupees Fifteen Lakhs Thirty One Thousand Four Hundred and Thirty) thus collected has been donated to Hope Foundation, an NGO for constructing a English Medium School at Tharangambadi in Nagapattinam District of Tamil Nadu. The locals at Tharangambadi, who earn their livelihood by fishing, wanted to build a school to get their children educated, thus decreasing the dependency on fishing alone and encouraging future generations to move away from the devastating sea. The school is expected to be operational shortly.

**Sonata Software Limited**

Directors' Report (Contd.)

During the year, your Company also donated six computers to Makkala Jagriti, an NGO in Bangalore, that works with underprivileged children in the area of education. With the computers received, Makkala Jagriti has started a 'Learning Center' at Hosur Road, Bangalore for children from economically disadvantaged backgrounds.

DIRECTORS

Mr. S. B. Ghia and Mr. Pradip P. Shah, Directors, retire by rotation and being eligible, offer themselves for re-appointment at the ensuing AGM. Brief profile of these Directors are given in the notes to the Notice of the ensuing AGM.

AUDITORS

M/s N. M. Rajji & Co., Chartered Accountants, Mumbai, Statutory Auditors of the Company retire at the forthcoming Annual General Meeting and have expressed their willingness to continue as Statutory Auditors for financial year 2006-07

and accordingly, a resolution proposing their appointment is being submitted to the Annual General Meeting.

ACKNOWLEDGEMENTS

Your Directors express their appreciation for the co-operation and support extended by its clients, vendors, investors, bankers, financial institutions, business associates and advisors. Your Directors also wish to place on record their sincere thanks and appreciation to the regulatory and government authorities for their assistance and support provided during the year and look forward to their continued support.

Your Directors also acknowledge the dedicated services rendered by all Sonatians of the Company.

For and on behalf of the Board

Place: Mumbai
Date: 24th April, 2006

S. B. GHIA
Chairman

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Sonata Software Limited

ANNEXURE TO THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988.

1. CONSERVATION OF ENERGY

The operations of your Company do not consume high levels of energy. Adequate measures have been taken to conserve energy by using energy-efficient computers and equipment with the latest technologies. Your Company is on the constant look out for newer and efficient energy conservation technologies and introduces them appropriately. As the cost of energy consumed by the Company forms a very small portion of the total costs, the financial impact of these measures is not material.

2. RESEARCH AND DEVELOPMENT (R&D)

During the year under review, your Company's CRG (Core Research Group) focused on newer technologies that will have a major impact on the global technology landscape with the objective of increasing the sales volumes and improving delivery capability.

a) Specific areas for R&D at Sonata :

(i) New technology competency

Your Company's focus for the last year was on technologies surrounding Vista that are coming out of Microsoft stable, packaged Analytics and Dashboard solutions to extend the unique capabilities of Microsoft Dynamics AX and Microsoft Dynamics CRM, new Business intelligence and scorecarding solutions from Microsoft and newer web technologies like Ajax.

(ii) Vertical solutions

Your Company has developed vertical solutions like SonnetBI Analyzer Suite for Business intelligence (BI) needs built around newly launched Business Scorecard server and SQL Server 2005. Your Company has also developed add-on solutions for Microsoft Business Solution (MBS) Dynamics products thereby extending their functionality

b) Benefits derived as a result of the above R&D

The competence built in the areas of MS BI, MBS and Vista helped your Company to strengthen the relationship with Microsoft and also win new clients in overseas markets in the ISV market segment.

c) Future plan of action

Focus of CRG in the current year is to continue to work with new technologies from Microsoft, IBM and Oracle in the area of high-transaction web applications, Security and Service Oriented Architecture.

d) Expenditure on R&D

R&D is carried on by the Company as a part of ongoing software development activity and the expenditure thereof is considered as part of operating expenditure. Hence, there is no amount that can be shown separately under the head of R&D expenses.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review, 100% of the revenue came from exports of developed software and related services to clients in USA, UK, Belgium, France, Germany, Ireland, Japan, Italy and Netherlands. Your Company has during the year under review strengthened its overseas marketing offices in UK, USA, Singapore and Germany and has participated in various international exhibitions to promote its services.

(Rs. in million)

Total Foreign Exchange Earnings and Outgo	
Foreign Exchange earnings	1486.74
Foreign Exchange outgo	505.31

4. A detailed Management Discussion and Analysis Report is attached

For and on behalf of the Board

Place: Mumbai
Date: 24th April, 2006

S. B. GHIA
Chairman