



## *SECOND*\_MOVEMENT

annual report 2006-2007

# Performance Highlights

Rs. in million

PARTICULARS	CONSOLIDATED		SONATA		CONSOLIDATED		SONATA	
	Quarter ended on 31.03.2007	Quarter ended on 31.03.2006	Quarter ended on 31.03.2007	Quarter ended on 31.03.2006	Year ended on 31.03.2007	Year ended on 31.03.2006	Year ended on 31.03.2007	Year ended on 31.03.2006
TOTAL INCOME	3,594.10	1,813.55	498.98	422.81	9,144.35	5,108.99	1,882.34	1,520.80
EXPORTS	2,147.12	477.64	498.69	412.08	4,892.81	1,735.81	1,858.29	1,486.74
EBIDT	360.94	129.47	102.76	109.65	986.64	440.78	443.51	359.22
PROFIT AFTER TAX <sup>1</sup>	128.24	77.78	72.54	83.04	480.28	275.41	351.29	261.60
FIXED ASSETS	1,897.15	334.07	313.67	291.25	1,897.15	334.07	313.67	291.25
TOTAL DEBT	581.22	-	-	-	581.22	-	-	-
NET WORTH - CLOSING	1,867.57	1,521.61	1,785.31	1,567.80	1,867.57	1,521.61	1,785.31	1,567.80
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 31.03.2007	Quarter ended on 31.03.2006	Quarter ended on 31.03.2007	Quarter ended on 31.03.2006	Year ended on 31.03.2007	Year ended on 31.03.2006	Year ended on 31.03.2007	Year ended on 31.03.2006
EXPORTS INCOME/TOTAL INCOME	59.47%	26.34%	99.94%	97.46%	53.51%	33.98%	98.72%	97.76%
DOMESTIC INCOME/TOTAL INCOME	38.10%	73.10%	-	-	44.32%	65.27%	-	-
OTHER INCOME/TOTAL INCOME	2.16%	0.56%	0.06%	2.54%	2.17%	0.76%	1.28%	2.24%
OPERATING EXPENSES / TOTAL INCOME	54.62%	23.79%	77.03%	74.82%	48.33%	32.79%	74.30%	76.99%
EBIDT/TOTAL INCOME	10.04%	7.14%	20.59%	25.93%	10.79%	8.63%	23.56%	23.62%
PAT/TOTAL INCOME	3.57%	4.29%	14.54%	19.64%	5.25%	5.39%	18.66%	17.20%
DEBT: EQUITY <sup>2</sup>	0.31	-	-	-	0.31	-	-	-
DEBTORS NO. OF DAYS	50	66	66	70	79	94	71	78
RETURN ON AVG NETWORTH <sup>3</sup>	27.87%	19.02%	16.25%	20.08%	28.34%	18.06%	20.95%	16.46%
RETURN ON AVG CAPITAL EMPLOYED <sup>4</sup>	23.70%	19.17%	16.52%	20.08%	25.59%	18.19%	21.25%	16.46%
EPS (Annualised) ( on Rs. 1/per share) <sup>5</sup>	4.88	2.96	2.76	3.16	4.57	2.62	3.34	2.49
BOOK VALUE PER SHARE -(Rs) <sup>6</sup>	17.50	15.55	16.98	15.73	16.11	14.50	15.94	15.11

## EXPLANATORY NOTES :

<sup>1</sup> Profit After Tax for quarter and year ended 31<sup>st</sup> March, 2006 is before exceptional items.

<sup>2</sup> Debt divided by Closing Shareholders funds.

<sup>3</sup> Profits divided by Average Networkth.

<sup>4</sup> Profit after tax + Interest on term loan divided by Average Capital employed (Capital employed = Capital + Reserves + Borrowed funds).

<sup>5</sup> Profits divided by weighted average no. of equity shares.

<sup>6</sup> Average Networkth divided by No. of equity shares.

***sonata:** In Western classical music, a sonata is a large-scale instrumental work, organised into several movements. Each movement is discrete, and complete in itself... yet musical themes are sustained and carried forward from one movement to the next, giving the entire composition its own unique identity and unity.*

## SECOND\_MOVEMENT

Report

At Sonata Software, growth is a concerted effort. It's the sum total of long-running processes. Such as building a presence in the right domains and markets. Excelling in them. Developing the most fruitful resources and relationships. Creating and stimulating the right culture of innovation, productivity and knowledge-acquisition. Putting in place the most relevant and reliable delivery models and operational processes. Attracting and motivating the smartest minds with the sharpest expertise.

It's many moves that add up to a movement. And this year, by forming an alliance with a Europe-based global IT giant, we reach the finale of the first. And launch into a second, at a higher pitch and tempo.

# *four beneficiaries of growth*

Sonata regards growth not as an end in itself, but a means towards meeting the aspirations of its key constituencies and stakeholders. Growth is thus founded on four principal pillars: thoughtfully and proactively delivering solutions aligned to our customers' needs; sustaining a rich and rewarding working environment and career enhancements for employees; offering business partners a continually profitable relationship; and enhancing shareholder value by every parameter.

Over the years, Sonata has plotted its growth path along three axes: the scope and breadth of services we offer, our capability in our chosen domains, and the geographical reach and coverage of our presence.

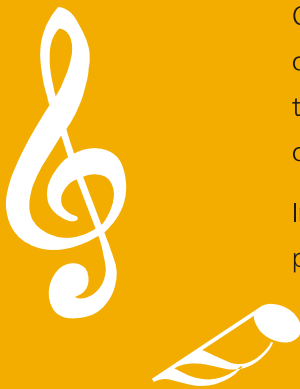
It's a sustained strategy which clearly defines where we go and how we grow, based on what we are. Founded on a mind-set that lies at the heart of everything we do. A way of being whose essentials are customer care, agility in response, and the spirit of partnering.

## *care is at our CORE*

Customer alignment has always been our guiding principle. The star by which we steer a path through a complex business environment.

Our competencies and technologies are those which closely address the needs of our clientele - to help them face their challenges, enhance their businesses, partner them in their endeavours and initiatives, and sustain a relationship founded on offering the right solutions to their business problems.

In a global business milieu in constant flux, customer-alignment remains our fixed point of reference.



# *reflexes & reflections*

Like a violin string vibrating in sympathy with the pitch of a tuning fork, we at Sonata are tuned to react to the many and varied vibrancies of our environment.

Our operations, policies, decisions, directions are all responses to – and reflections of – fast-developing technologies, accelerating growth trends, evolving convergencies and synergies taking shape all around us.

Keeping an eye on that bouncing ball is a continuing challenge. One which we meet through processes in place for acquiring knowledge, developing human potential and building capabilities; for alertness as a mind-set and agility as a habit; and an ear to the ground as part of our infrastructure. It helps us sound the right note at all times.

## *growth by association*

Through the years, Sonata has formed lasting linkages with partners of world-class capability and world-wide prominence. Relationships that form the basis of steady growth in scale, scope and spread. Our key strategic partnerships are with Microsoft, Oracle and IBM, along with a diversity of solution alliances across the spectrum.

Now Sonata enters a new phase of higher-order growth, by becoming a majority shareholder of TUI InfoTec GmbH of Germany. An alliance which places Sonata in a dominant position in the European market – principally in travel, tourism, hospitality and shipping, in which TUI has a giant presence.

## *being valued is our validation*

As much as its business implications, our alliance with TUI is the most recent of many affirmations from our clientele and partners through the years, testifying to the soundness of our strategies, directions and choices through the years. The rightness of our core identity and developmental paths. Our credibility in the eyes of customers such as TUI themselves, who experienced at first-hand all the capability in which we take such pride. Thus approved and proved, Sonata goes on and grows on. Because more than any particular noteworthy moment, what matters is the movement.



## Sonata Software Limited

---

Directors' Report -----	5
Management Discussion & Analysis -----	10
Corporate Governance -----	13
Secretarial Compliance Report -----	16
Auditor's Report -----	17
Balance Sheet -----	20
Profit & Loss Account -----	21
Schedules 1-15 -----	22
Cash Flow Statement -----	32
Section 212 Statement -----	34
Consolidated Financial Statement -----	35
Sonata Information Technology Limited -----	54
Shareholders' Information -----	72



## Sonata Software Limited

### DIRECTORS' REPORT

#### TO THE MEMBERS OF SONATA SOFTWARE LIMITED

Your Directors have pleasure in presenting the Twelfth Annual Report of your Company together with the Audited Statement of Accounts for the financial year ended 31<sup>st</sup> March, 2007.

#### FINANCIAL HIGHLIGHTS

(Rs. in million)

Particulars	Year ended 31.03.2007	Year ended 31.03.2006
1. Total Income	1882.34	1520.80
2. Total Expenditure	1438.83	1161.58
3. Profit before Interest, Depreciation & Tax	443.51	359.22
4. Interest	5.01	-
5. Depreciation	91.06	69.63
6. Profit Before Tax	347.44	289.59
7. Provision for Tax	(3.85)	27.99
8. Profit after Tax before Exceptional items	351.29	261.60
9. Exceptional Items (net of tax)	-	183.80
10. Profit after Tax after Exceptional items	351.29	77.80
11. Appropriations :		
Proposed Dividend	63.10	63.10
Interim Dividend	52.58	42.06
Provision for Dividend Tax	18.10	14.75
Transfer to General Reserve	40.00	10.00

#### 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 shareholders, which along with the interim dividend of Re.0.50 per equity share adds upto a total dividend of Rs.1.10/- per equity share (Previous year - Re.1/- per equity share of Re.1/- each).

If approved, the final dividend will be paid to all those equity shareholders whose names appear in the Register of Members of the Company on 5<sup>th</sup> June, 2007 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.

#### INVESTMENTS

During the year under review, your Company invested Euro 18 mn through its wholly owned subsidiary Sonata Europe Ltd., UK to acquire 50.1% stake in TUI InfoTec GmbH, Germany to enable your Company to achieve its strategic objective of entering new geographies in the European market.

TUI InfoTec is the IT service provider for TUI AG and its subsidiaries in Germany, France, Sweden, UK, Spain, and other parts of Europe. It develops, maintains and supports applications and IT infrastructure systems for TUI Group companies. TUI InfoTec has outstanding capabilities in remote Infrastructure Management and domain knowledge in verticals like travel, tourism, airlines and hospitality, as well as expertise in horizontals like Enterprise Applications, Web Applications, Business Intelligence, and Legacy Applications Management. Its subsidiary Travel BA.sys provide a technology platform services for travel agencies.

TUI AG, with revenues of around Euro 20 billion (approx Rs.120,000 crore), is listed on the Frankfurt Stock Exchange and is among the companies that constitute the German blue chip stock market index DAX, along with other companies like Adidas, BASF, Bayer, BMW, Deutsche Bank, Siemens, DaimlerChrysler, and Volkswagen.

For the purpose of funding acquisition of 50.1% stake in TUI InfoTec GmbH through Company's subsidiary Sonata Europe Ltd., your Company has invested Euro 10 million in Sonata Europe Ltd. (Euro one million in equity capital stock and Euro nine million in preferred capital stock).

#### QUALITY

Your Company continues to foster the culture of process orientation that has been its hallmark. External auditors from the certifying agency have appreciated the "high degree of focus on process compliance" and "excellent management commitment". Even as your Company takes up newer types of projects and service offerings, the quality system is evolving to keep pace with them.

In line with the quality mantra of continuous improvement and your organization's "Think customer" theme, the processes for internal auditing and customer satisfaction surveys have been enhanced. Easy accessibility of organizational data has also been given a great deal of importance. Your Company is continuing its quality journey with the help of more and more automation tools and is all set to cross a few more exciting milestones in the near future.

**SEBI REGULATION & LISTING FEES**

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Shareholding Pattern, etc on website [www.sebidifar.nic.in](http://www.sebidifar.nic.in), 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 viz., Sonata Information Technology Ltd., Offshore Digital Services Inc., USA, Sonata Software GmbH, Germany, Sonata Europe Ltd., UK and TUI InfoTec GmbH, Germany are presented as part of this Report in accordance with Accounting Standard 21.

Your Company has been exempted by the Ministry of Company Affairs, vide letter No.47/47/2007-CL-III dated 23<sup>rd</sup> February, 2007 from attaching the audited accounts of overseas subsidiary companies for the financial year ended 31<sup>st</sup> March, 2007. Accordingly, the audited accounts of above mentioned overseas subsidiary companies are not attached. However, they are available on the Company's website [www.sonata-software.com](http://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.

**RECOGNITION**

During the year under review, your Company was a winner in the Deloitte Technology Fast 50 India 2006 program. This program recognizes the fastest growing technology companies in India in terms of their revenue growth over three financial years and is part of a truly integrated global program recognizing the world's fastest growing and most dynamic technology companies.

**CORPORATE GOVERNANCE**

As required under Clause 49 of the Listing Agreement with 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 2006-07, 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 31<sup>st</sup> March, 2007 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 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 & outgo are set out in the annexure attached to this Report.





## Sonata Software Limited

Directors' Report (Contd.)

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

In the FY 2005-06, your Company and its employees had taken up the cause of rehabilitation of tsunami-affected citizens and had contributed an amount of Rs.15,31,430/- (Rupees Fifteen Lakhs Thirty One Thousand Four Hundred and Thirty) to HOPE FOUNDATION, an NGO for constructing a English Medium School at Tharangambadi in Nagapattinam District of Tamil Nadu. The school co-funded by Sonata, called the "Hope Foundation English Medium School" has been imparting English medium education since June 2005. We take immense pride in giving you a current update on the same :

- There are currently 260 students enrolled in various classes from LKG to Std. IV. Almost all these kids come from the local fisherman community.
- Located just 700 meters away from the shore, the school has five classrooms, one library, one play-area, one computer lab and an administrative office.
- There are about 30 teachers, hailing from the local or nearby areas, with qualifications ranging from graduation to masters and Ph.D.

During the year under review your Company and its employees were part of the following activities :

- Donated Clothes and Medicines to RK Foundation's Vastra & Arogya division (an NGO from Bangalore) who distributed the same to the needy.

- Conducted an exhibition cum sale for the articles, cards, diyas, and handmade paintings etc., made by children associated with NGO's like 'Dream and Dream' and 'Shristi'.
- Associated with charitable activities at Mother Theresa Missionaries of Charity at Hyderabad.
- Scholastic Society was given opportunity to conduct a Book fair for our employees. Certain percentage of money collected on each book was used by Scholastic society for funding social initiatives.

### DIRECTORS

Mr.Rajan B Raheja, Mr.M.D.Dalal and Mr.B.K.Syngal, 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.Raiji & 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 2007-08 and accordingly, a resolution proposing their appointment is being submitted to the Annual General Meeting.

### ACKNOWLEDGEMENTS

Your Directors take this opportunity to thank all its clients, vendors, investors, bankers, financial institutions, business associates, advisors, regulatory and government authorities for their assistance and 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 : 3<sup>rd</sup> May, 2007

**S.B.GHIA**  
Chairman



## 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 equipments 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 during the year under review was on technologies in the areas of the new web technologies - OpenXML, Web 2.0 and on the new collaboration and portal technologies launched by Microsoft. Your Company has developed commercial applications based on Web 2.0 technologies and deployed them in high-transaction web applications. This has helped to ensure your Company stays ahead in the technology curve in terms of web development. Your Company obtained technology leadership in the OpenXML and is one of the few companies worldwide to have in-depth competencies on OpenXML. Your Company has also developed high level of competency on MOSS (Microsoft Office SharePoint Server) that was launched by Microsoft and due to this competency your Company is one of the preferred partners for Microsoft in the collaboration and portal space.

###### (ii) Vertical solutions

Your Company has developed vertical solutions in the construction space. With infrastructure being a focus area in developing countries and this industry starting to embrace automation on a large scale, your Company during the year under review launched Sonnetconstruct, that is an add-on to MS Dynamics.

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

Your Company was selected as a preferred partner for Microsoft owing to the competencies in the new technologies and has got few Go-To-Market initiatives jointly with Microsoft which are giving access to new markets and clients. Due to Sonnetconstruct, your Company was able to launch an offer set and get initial wins in this market. OpenXML competency has given access to work with larger technology community and also helped in developing opensource application to convert powerpoint presentation files accessible from any platform vide ODF (Open document format).

##### c) Future Plan of action

Focus of CRG in the current year is to continue to work on Web 2.0 and SOA (Service Oriented Architecture). We are also planning to focus on niche technologies in the travel domain.

##### d) Expenditure on R&D

R&D is carried on by the Company as a part of ongoing software development activity and the expenditure thereon 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 / INITIATIVES TO IMPROVE EXPORTS

During the year under review, 100% of the revenue came from exports of developed software and related services to clients in USA, U.K, Australia, Belgium, Finland, France, Germany, Iceland, Italy, Japan, Netherlands and Romania.

Foreign Exchange outgo on account of Travelling, Professional Charges, Subsistence/Living cost, Overseas salaries, Import of capital goods, etc was Rs.467.07 Mn and foreign exchange inflow on account of export of software services (net) was Rs.1858.29 Mn.

Your Company has during the year under review strengthened its offerings and alliances. Your Company's investment in TUI InfoTec GmbH, Germany has helped in expanding new offerings, new geographies, domain expertise and client base. Your Company has also set up its marketing office in Chicago, IL to serve clients in the Central and Mid-West regions of USA.

#### 4. A detailed Management Discussion and Analysis Report is attached.

For and on behalf of the Board

Place : Mumbai  
Date : 3<sup>rd</sup> May, 2007

**S.B. GHIA**  
Chairman