

Creative approach to solutions

ANNUAL REPORT 2011 - 2012

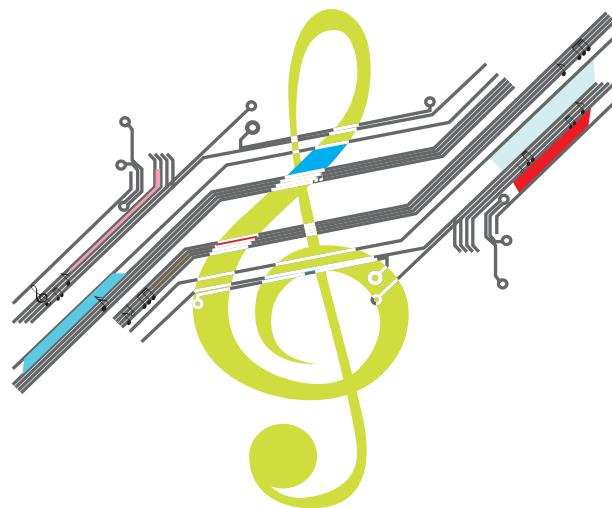
Change is a continuous phenomenon. But when economies and technologies change as fast as they do now, organizations, industries and indeed many nations have to find creative solutions to manage this change.

At Sonata, our customers are our priority. We help them accomplish business objectives in an increasingly competitive, complex and globalized business environment. We enable our customers to achieve operational excellence, create avenues for growing their business and ensure compliance with regulatory requirements by implementing technologies that are relevant and current. In an environment of rapid change, our clients are increasingly looking for more meaningful and profitable engagements with their customers and markets. And we recognize that our role and responsibility in this environment is to collaborate and be co-creators of business value as true partners in growth.

With renewed energy we focus on collaborating at multiple levels with our clients and often with their customers to ensure that we clearly understand their business challenges so we can co-create the most innovative solutions. This creative approach reflects in all aspects of our business be it in our engagement models, our alliances, technology solutions that we deliver, the processes we follow and in our investments in infrastructure, technologies and people.

As we look ahead into the future, we renew our commitment to sowing the seeds for sustained growth, to sharpening our focus on execution and to creating enduring value for each of our stakeholders. We will do this by leveraging on our experiences and embracing change with fresh and creative perspectives that energises every aspect of our business.

Sonata Software
Powering Creative Solutions.



Sonata Software Limited

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Sonata Software Limited

DIRECTORS' REPORT

TO THE MEMBERS OF SONATA SOFTWARE LIMITED

Your Directors have pleasure in presenting the Seventeenth Annual Report of your Company together with the Audited Statement of Accounts for the financial year ended 31st March, 2012.

FINANCIAL RESULTS

(₹ in Crores)

Description	Standalone		Consolidated	
	Year ended 31.03.2012	Year ended 31.03.2011	Year ended 31.03.2012	Year ended 31.03.2011
Total Income	233.73	255.97	1577.60	1410.95
Total Expenditure	213.45	191.68	1585.51	1298.24
Profit Before Tax	20.28	64.29	(7.91)	112.71
Total Tax Expense	5.37	2.43	9.42	16.71
Share of earnings in affiliates	-	-	2.32	0.40
Minority Interest	-	-	(12.42)	10.79
Net Profit	14.91	61.86	(2.59)	85.61
Appropriations:				
Proposed Dividend	2.63	10.52	2.63	10.52
Interim Dividend	5.26	10.52	5.26	10.52
Provision for Dividend Tax	1.28	3.45	1.28	3.45
Transfer to General Reserve	1.50	7.00	1.50	7.00

BUSINESS PERFORMANCE

Your Company is primarily engaged in the business of providing IT Services and Solutions to its customers in the US, Europe, Middle East and India. During the year, the Company faced challenges due to quick changes in top Management and the continued softening in the business environment in Europe where it has a significant presence through its Joint Venture with TUI InfoTec GmbH. Fluctuating currency trends also has had a role to play in the overall performance of your Company.

On a standalone basis, the Company has shown a drop in total income of 9% and drop in profits by approximately ₹ 47 crores. The drop in revenues was primarily due to the loss of a large customer for whom the Company had established a dedicated offshore development centre in India and also on account of reduction in business from Europe and its Joint Venture, TUI InfoTec GmbH. The sharp drop in revenues by about ₹ 22 crores, had an effect on utilization and consequently on the profits. People and other direct costs increased by about ₹ 7 crores, currency gains showed a negative swing of approximately ₹ 13 crores and overheads increased by approximately ₹ 5 crores contributing to the swing in profits by ₹ 47 crores.

During the year the Company underwent two major changes in its leadership. Mr B Ramaswamy resigned from his position as President & Managing Director and took on the role of a

Chief Mentor (Consultant). He was succeeded by Mr Sanjay Viswanathan, Managing Director & CEO with effect from 17th August, 2011. Subsequently, Mr Sanjay Viswanathan also resigned from the Company on 14th February, 2012 and the Board of Directors on the same day appointed Mr Srikar Reddy, a Company veteran, as the Managing Director & CEO of the Company. Srikar has been with the Company since inception and his mandate is to bring in stability followed by growth.

The Consolidated financials show a growth in total income of ₹ 167 crores a growth of 12% on a year over year basis. On a consolidated basis the Company has incurred losses primarily on account of the TUI InfoTec GmbH, the Company's German Joint Venture. The Consolidated financials cover the three business lines of the Company – (a) the Software Services business, (b) Domestic Products and Services and (c) our Joint Venture – TUI InfoTec, Germany. The three business lines of the Company have unique business rhythms, profitability and growth trends.

The Software Services business contributed approximately ₹ 21 crores (previous year ₹ 66 crores) of the total profits of the Company. The drop in profits in this segment is largely the same as what was explained for the Standalone financials above.

The Domestic Products and Services business showed a revenue growth of 32% contributing significantly to the overall revenues of the Company. However, during the year the Company restructured product business within this segment by re-aligning the product mix leading to some write offs and consequent losses. The products business had a drop in margins by about ₹ 18 crores. The Services business had revenues of ₹ 22 crores showing a growth of 50%. The Company is seeing significant traction in the services segment and this will be the area of focus going forward. The Interest burden in the Domestic business segment was at ₹ 10 crores an increase of almost 80%. The interest cost is primarily on account of domestic tax regulations which have a significant impact on the working capital of the business. The Company has made significant progress in addressing the above issues and is poised for a sustainable performance in 2013.

The third business segment of the Company is TUI InfoTec GmbH, the Company's Joint Venture in Germany. TUI InfoTec is the significant provider of service to the TUI Group which is a multi-billion euro enterprise focused on the European tourism sector. The continuing softening of the economy in Euro zone has had a direct impact on the tourism business and consequently on our Joint Venture. The Joint Venture showed revenue de-growth of ₹ 12 crores i.e. 2%. EBITDA of the Joint Venture was ₹ 16 crores a drop of ₹ 48 crores over the previous year. Costs, both direct and Indirect have shown an increase of ₹ 36 crores which coupled with drop in revenues have contributed to the EBITDA drop of approximately ₹ 48 crores. During the year, the Joint Venture undertook certain measures to manage costs and offered a voluntary retirement program as per German Laws. Costs of such program are not an immediate cash outflow and they are deferred over a period such that the savings and costs are matched. However, as per German accounting standards provisions have to be made in the financial statements as soon as an employee opts for the package. Provisions for such restructuring costs were approximately ₹ 12 crores. The other increase in costs were on account of increase in payroll costs, sub-contractor costs and other pass through costs such as purchased hardware and software. The revenue guarantee to the Joint Venture by TUI AG expired in December, 2011. Your Company is working alongside the Management of the Joint Venture to address the issues at the Joint Venture and is confident of reaching a solution.

DIVIDEND

Your Directors are pleased to recommend payment of a final dividend of ₹ 0.25/- per equity share (@25% on par value of ₹ 1/- each), subject to the approval of shareholders at the forthcoming Annual General Meeting, which along with the interim dividend of ₹ 0.50/- per equity share adds upto a total dividend of ₹ 0.75/- per equity share (Previous year - ₹ 2/- per equity share of ₹ 1/- 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 2nd July, 2012 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.

QUALITY

During the year under review, your Company has been assessed at SEI CMMI-Level 5 (v1.2) for its delivery operations. The assessment recognizes your Company's capability to provide high quality software solutions through robust software development processes and signifies the commitment towards delivery excellence, process maturity and service quality ensuring timely and best-in-class solutions for its customers globally.

The quality organization has been re-organized into Delivery Excellence teams, enabling improvement in delivery and customer satisfaction within each Business Unit and Corporate Quality Assurance team driving organizational initiatives and excellence in Support Functions. The delivery processes have undergone substantial refinement, so as to be lean, flexible yet effective.

Risk Management process has been enhanced to minimize the adverse impact of risks related to delivery.

The sustenance of quality culture has been demonstrated during surveillance audits under the standards ISO 9001:2008, ISO 20000-1:2005 and ISO 27001.

Your Company plans to formalize its processes towards Environmental Management (EMS), by aligning to the best practices prescribed by ISO 14001.

LISTING / LISTING FEES

Your Company's equity shares are listed on Bombay Stock Exchange Ltd and National Stock Exchange of India Ltd., exchanges having nation-wide terminals.

The Annual listing fees for the year under review has been paid to Bombay Stock Exchange Ltd and National Stock Exchange of India 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 except for Abisko Development Ltd, Cyprus which is being wound up voluntarily as there have been no transactions in that Company for the last several years. The Consolidated Accounts of your Company and its subsidiaries viz., Sonata Information Technology Ltd, Sonata Software North America Inc., USA (formerly known as Offshore Digital Services Inc.), Sonata Software GmbH, Germany, Sonata Europe Ltd, UK, Sonata Software FZ LLC, Dubai, Sonata Software (Qatar) LLC and TUI InfoTec GmbH, Germany duly audited by the Statutory Auditors are presented as part of this Report in accordance with Accounting Standard 21 and the Listing Agreement with the Stock Exchanges, wherever applicable.

Your Company has been exempted by the General Circular No. 2/2011 dated 8th February, 2011 issued by the Ministry of Corporate Affairs from attaching the audited accounts of subsidiary companies for the financial year ended 31st March, 2012. 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 have been made available for inspection by any shareholder at the Company's Registered Office and at respective Registered Offices of overseas subsidiary companies. Copies can be made available, on request to the shareholders of the holding and subsidiary companies at any point of time.

Your Company has incorporated a wholly owned subsidiary company, Sonata Technology Solutions India Limited on 12th April, 2012, for the purpose of starting new services and products business for Asia-Pacific Region, primarily in India.

RECOGNITION

Zinnov Management Consulting Pvt. Ltd., a leading globalisation advisory firm, has recognized your Company for its excellence in providing Software / ISV R&D and Cloud Computing Services to global customers. Based on a comprehensive study conducted across R&D service providers, Sonata featured both under the Software / ISV as well as Cloud Computing verticals in Zinnov's "Execution Zone".

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 along with the Auditors' Certificate on the compliance thereof.

During the year under review, your Company has not specifically adopted the voluntary guidelines of 'Corporate Governance Voluntary Guidelines 2009', though the Company has been practicing some of them.

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 2011-12, 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 a manner to give a true and fair view of the state of affairs of the Company as at the end of 31st March, 2012 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.

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

Particulars of employees as required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Amendment Rules, 2011, is attached to this Report.

COMMUNITY SERVICE

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

- New Year e-Greeting Cards made from paintings done by students at Rasoolpura Government High School and the Hope Foundation. This initiative served the dual objective of a green, pollution - free environment by saving on paper, as well as supporting the cause of the NGOs.
- 'Literacy-Palooza - a Book Donation Campaign with a mission to give children from low-income families the opportunity to read and own their own books.

- Aging hardware devices which consume more power are being replaced with new energy efficient devices – in order to reduce overall consumption of energy.
- Work spaces and common areas in our buildings are fitted with environment-friendly material. Wood interiors are minimized to 11% of the total project at Global Village, Sonata's Development Centre in Bangalore.
- Rainwater harvesting is being implemented at Global Village & Richmond Road Offices.
- Sonata's Development Centre at Global Village, Bangalore, leverages sewage treatment plant and water recycling facilities in the campus.
- Inter-office shuttle vehicles / buses between Sonata offices are deployed to ensure employees use a common transport system and avoid the use of individual vehicles.
- In an endeavor to make its offices paperless and save paper, use of paper cups has been discontinued and replaced with reusable demitasse cups.

ACKNOWLEDGEMENTS

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from all its clients, vendors, bankers, financial institutions, business associates, advisors, regulatory and government authorities.

Your Directors also take this opportunity to thank all its shareholders and stakeholders for their continued support and all the Sonatians for their valuable contribution and dedicated service.

For and on behalf of the Board

Place : Mumbai
Date : 24th May, 2012

Pradip P Shah
Chairman

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 Annual General Meeting (AGM). Brief profiles of these Directors are given in the notes to the Notice of the ensuing AGM.

During the year, Mr B Ramaswamy, President and Managing Director resigned from the services of the Company on 16th August, 2011. Mr Sanjay Viswanathan was inducted as an Additional Director and designated as Managing Director & CEO with effect from 17th August, 2011. Subsequently, at the meeting of the Board of Directors held on 14th February, 2012 citing personal reasons Mr Sanjay Viswanathan resigned. The Board of Directors at the same meeting appointed Mr P Srikar Reddy who was then the Deputy Managing Director & COO as the Managing Director & CEO with immediate effect, subject to approval of the shareholders.

AUDITORS

M/s N M Rajji & Co., Chartered Accountants, Mumbai, Statutory Auditors of the Company, retire at the forthcoming AGM and have expressed their willingness to continue as Statutory Auditors for the financial year 2012-13 and accordingly, a resolution proposing their appointment is being submitted to the AGM.

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

Though the Company does not have energy intensive operations, it continues to adopt energy conservation measures. Adequate measures have been taken to conserve energy by using energy-efficient computers and equipments with the latest technologies, which would help in conservation of energy. Other energy Management measures include installing sensors at work space area, control measures at HVAC vertical to create advanced air cooling since HVAC contributes 70% of the energy utilization and installing control device at panel levels to manage and arrest power pilferage. During the year under review, consolidation of facilities and replacement of CRT monitors with LCD have been some measures taken by your Company towards the above. 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 competency groups focused on building Technology in competencies in Mobility, Analytics and Cloud 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) Mobility

During the year, your Company has developed several frameworks around popular technology platforms namely SAP Mobility stack, IOS, Android and Windows Mobile (Mango), besides investing in creating own Solution accelerators. Some of the notable work is in the areas to ensure single code base runs on multiple platforms and processes, connecting to heterogeneous data sources, reporting and dashboards on multiple platforms and security of using the devices.

(ii) Cloud

During the year, your Company focused its R&D efforts on building frameworks around Azure platform from Microsoft and Force.com platform from Salesforce.com. Some of these frameworks and methodologies are targetted at software product companies to help to migrate their products onto Windows Azure.

(iii) Business Intelligence and Analytics

Your Company believes that BI and Analytics solutions will add significant value to its customers and during last year your Company has developed competencies and methodologies in this area specifically for Manufacturing, Retail and Distribution companies.

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

Your Company has gained considerable mind share in the industry by venturing into niche solutions.

These concerted efforts also helped your Company in acquiring new customers in the focus geographies. Your Company is presently marketing services in Mobility, Analytics and ADM services in Cloud Computing area.

c) Future Plan of action

Focus of competency groups in the current year is to continue to work on Cloud Computing, Mobility and Analytics for certain verticals and develop frameworks for key business processes.

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 / 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, UK, Australia, Germany, UAE, Japan, Iceland, Denmark.

Foreign Exchange outgo on account of travelling, professional charges, subsistence / living costs, overseas salaries, capital goods, etc. was ₹ 33.18 crores and foreign exchange inflow on account of export of software services (net) was ₹ 223.40 crores.

Financial Year 2011-12 has seen a slight revival in the technology outsourcing spend. As per the data released by the National Association of Software and Services Companies (NASSCOM), Indian IT-BPO services exports expected to grow by 11-14 per cent during the year (source: NASSCOM website). Your Company has been successful in growing the size of existing teams, as well as branch into newer divisions within these customers.

During the year under review, your Company has made a conscious decision to expand its presence into new geographies like Qatar, which are experiencing rapid growth and are relatively untapped markets for offshore services. In June 2011, we announced a Joint Venture in Qatar under the name of Sonata Software (Qatar) LLC, with Mohammad Nasser Abdullah Al MISNAD. This is in addition to the growth we have been experiencing in some of our existing large customers, most of which are trusted multi-year relationships. We have also invested in strengthening new competencies and practice areas like Mobility, Analytics and Cloud Computing - where customers are likely to invest significantly in the coming year and beyond, to tap that demand. Our new business growth strategy is also linked to our collaboration & "go-to-market" initiatives with alliances like Microsoft, SAP, IBM, HP and Oracle, another area where we have been focusing on.

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

For and on behalf of the Board

Place : Mumbai
Date : 24th May, 2012

Pradip P Shah
Chairman

Information u/s 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules 1975 as amended and forming part of the Directors' Report for the year ended 31st March, 2012.

Sl. No.	Name	Age (Years)	Qualification	Designation & Nature of Duties	Remuneration (₹)	Experience (Years)	Date of Joining	Previous Employment
1	Mr. P Srikar Reddy	54	BE (Electrical) PGDBM (IIM)	Managing Director & CEO With effect from 14 th February, 2012	11,667,757	30	02.04.1986	Manager - Systems & Projects Betamatics Pvt. Ltd.
2	Mr. B Ramaswamy *	58	M.Sc. (Agri.) PGDBM (IIM)	Managing Director & President Resigned on 16 th August, 2011	6,973,849	35	01.10.1986	General Sales Manager - Voltas Limited
3	Mr. Sanjay Viswanathan *	41	B.A. (Eng.), P.G. Diploma in Advt. & PR MBA; AMP	CEO and Managing Director Resigned on 14 th February, 2012	5,899,072	15	17.08.2011	Independent Advisor
4	Mr. Ramesh Shastri *	56	BE (Electrical & Electronics)	Chief Innovation Officer Resigned on 31 st December, 2011	5,597,456	31	11.10.2010	Managing Director - Spike Source India
5	Mr. Uma Maheshwar Shastri *	45	MBA	Senior Vice President Head - Transport Travel Logistics Resigned on 31 st January, 2012	7,304,685	23	01.09.2008	Senior Vice President - NIIT Technologies

* Employed for part of the year.

Notes:

1. Remuneration includes Basic Salary, Allowances, Incentives, Commission, Company's contribution to PF, Superannuation Fund and taxable value of perquisites.
2. All appointments are contractual.
3. None of the employees are related to any Director of the Company.
4. During the year Mr. B Ramaswamy (alongwith his spouse) held more than 2% shares in the Company. None of the other employees own more than 2% of the outstanding shares of the Company as on 31st March, 2012.