SONATA SOFTWARE

5th August, 2024

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Mumbai
Kind Attn: Manager, Listing Department
Stock Code – SONATSOFTW

BSE Limited
P.J. Towers, Dalal Street, Mumbai
Kind Attn: Manager, Listing Department
Stock Code - 532221

Dear Sirs/Madam,

SUB: TRANSCRIPT OF ANALYSTS/INVESTORS CALL
REF: REGULATION 46(2)(OA) OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Further to our disclosures dated 25th July, 2024, 29th July, 2024 and 31st July, 2024, please find enclosed Transcript of Analyst/Investor call of the Company held on 31st July, 2024. The same is also made available on the website of the Company at https://www.sonata-software.com/about-us/investor-relations/quarterly/results.

Please take the same on record.

Thanking you,

Yours faithfully,
For **Sonata Software Limited**
Mangal Krishnarao Kulkarni
Digitally signed by Mangal Krishnarao Kulkarni
Date: 2024.08.05 18:01:06 +05'30'
Mangal Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above

"Sonata Software Limited
Q1 FY 25 Results Update Conference Call"
July 31, 2024

MANAGEMENT: **MR. SAMIR DHIR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SONATA SOFTWARE LIMITED**
MR. JAGANNATHAN CHAKRAVARTHI NARASIMHAN – CHIEF FINANCIAL OFFICER – SONATA SOFTWARE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Sonata Software Limited Q1 FY '25 Results Update Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samir Dhir, MD and CEO, Sonata Software Limited. Thank you, and over to you, sir.

Samir Dhir: Thank you, moderator. Welcome to the conference. We will discuss our strategy, the progress we have made in the recent quarters, our strategic plan and the financial results for the quarter Q1 FY '25 that just ended on 30th of June 2024. I thank you for joining us today. We appreciate your valuable time and support.

It is my pleasure to share our progress regarding our vision and growth trajectory for Sonata, despite the macroeconomic challenges, geopolitical issues and slowdown of tech spending and decision delays across some of our verticals. Let me cover an update on our strategic goals first, and then I'll cover the progress we made in Q1 FY '25.

The first on strategic goals. As you know, our objective is to be one of the fastest-growing modernization engineering firms powered by our unique Platformation framework. We aim to achieve revenue of 1.5 billion by end of FY '26 for the international business with an EBITDA of low 20s. From a growth point of view, we outlined a few critical bits. We want to continue to win large deals. If you recall, we announced 14 large deals in FY '24, and we're making good progress in that direction.

We want to deliver strong M&A performance, and our most recent acquisition on Quant has been successfully integrated with our core business, and we want to leverage our partnership ecosystem with Microsoft, AWS and other key partners and continue to win new clients that can scale to 10 million, 25 million, 50 million clients for Sonata in time to come.

We want to achieve these three goals of winning large deals of doing successful M&As, and building strong partnerships in four verticals that we have called out, Healthcare Life Sciences, Banking, Financial Services, and Insurance, Retail, Manufacturing and Hi-tech TMT. With investments in Healthcare Life Sciences and BFSI verticals, we incubated these verticals in the second half of 2022, and we also have to focus on the five geographies, which is North America, UK, Europe, India and Australia.

As you know, we modernize our clients' technology infrastructure using our differentiated lightning tools, IP and offerings. We're pleased to report that we're making significant progress towards our stated goals. However, we will need a few more quarters to reach our goal of 1.5 billion, as we outlined earlier, we probably will need two to four more quarters to reach to those goals given the macroeconomic slowdown.

With that, let me provide an update on each of the strategic vectors I just talked about. So, let's talk about the large deal first. Our large deal pursuits are a significant part of our strategy, with

47% of our active pipeline coming from this high-value opportunities across our four verticals and geographies.

Let's take a moment to celebrate the three significant victories we had in Q1 FY '25. First deal is for a U.S.-based premier healthcare provider, Sonata will enable an optimum global delivery model and modernize their technology stack using hyper automation and AI. Our teams will deliver cloud infrastructure modernization services and operations in our managed services model. This is an AI model-driven deal for us to modernize their technology infrastructure. As the client starts to move to a more managed model, we will move work from on-site to offshore in the coming two to four quarters.

The second win we had is in the manufacturing and services industry in Australia. We have been chosen by the client as a partner to migrate legacy systems to the latest Microsoft technology platform for standardization and modernization, a move that will benefit the client in the long-term.

The third deal is for our banking financial services customer. We're very excited about this win. It's one of the top financial corporation in the U.S., Sonata has been chosen as a strategic partner to migrate on-prem-based applications to platform on Cloud. This is also a modernization deal. These three wins of large deals in this quarter underscore our commitment, our investments, both in the Modernization Engineering space and AI. The deals of Manufacturing and BFSI, I just talked about, are margin accretive for Sonata, both in the short and long-term.

The Healthcare deal is not dilutive long-term, but will have a short-term margin impact for the next two to four quarters, as we complete the transition and make the upfront AI investment needed for the deal. If we go to the second strategic vector that as we have talked about is an update on AI, if you recall, we expect 20% of our revenue to come from AI services in the next three years.

Currently, we have 65 million pipelines across 110 clients and are excited to have new wins towards an order book of about $1 million in the most recent quarter. In parallel, we're also driving AI adoption within the Sonata function from finance to CSR to operations to sales and presales.

We have invested in an AI cross-functional organization led by Sharmila Sherikar, who drives AI across Sonata and partners with CTO and sales organization to accelerate our go-to-market strategies, partnerships, research and continued strategy refinement as GenAI technologies are maturing.

To give you an example for the most recent win in healthcare for our Health-Tech client, we are harnessing the power of AI to ensure comprehensive and representative demographic coverage in clinical trials. Our clients aim to eliminate bias on the sample of people covered during clinical trials. We will use AI to ensure regulatory adherence for the client, drive demographic coverage, using GenAI to gather new regulations and automate the adherence process with requisite approvals in-built.

Our Harmoni.AI infrastructure was pivoted enabling the deal win and subsequent AI model implementation. Our responsible first approach prioritizes ethics, trust, privacy, security and compliance and continues to empower our clients to make the right decisions.

Across several clients, we are enabling GenAI driven engineering scale, especially with our InteliQ Solution Accelerator, which drives efficiencies in the software development life cycle. Approximately 67% of Sonatians are now GenAI Level one trained, demonstrating our commitment to upskilling and potential to up AI across our operations.

With that, let me move to the third update, which is an update on scale. As you know, we have been focused on driving accelerated outcomes for our client's using modernization. Within that, cloud and data are a significant bet that we made. We have continued progress in the cloud and data pipeline. And that now stands at 52% of our pipeline. To put this in perspective, more than half of the pipeline of Sonata is now from cloud and data. That number was about 15% two years back.

Microsoft Fabric, as you know, Sonata is proud of being a feature and large part of Microsoft Fabric, a data analytics platform for the era of AI, which was made generally available in November 2023.

Our expertise and unwavering endeavor helped us win nine deals in Q1 of FY 2025. We continue to witness significant pipeline build for Fabric since its launch with a 46 million pipeline across 80-plus clients. A team of 450 plus Microsoft certified Azure data professionals, and 150-plus DP-600 certified professionals, enables our clients to leverage this new end-to-end analytics SaaS platform paradigm.

Microsoft Dynamics, which has been the cornerstone of our success for many years, we won five midsized deals in the most recent quarter. The quarter witnessed success in continuous modernization in Dynamics and green shoots are seen in the c-space and power platform pipelines.

For one of our clients with operations across 17 countries, 20,000 farmers members and 21 large retail stores, our CTRM.Ai IP, we will modernize their Agri platform, resulting in 27% more efficient operations, and 15% reduction in Farm-to-Fork time to consumer as part of Agro 365 Vision that we jointly created with the client.

Our second business, with its focus on annuity business, continues to deliver consistent strong growth with industry-leading ROCE of 47.3% in Q1. In the most recent quarter, Sonata made its debut in the Brand Finance India 100, 2024. We were adjudged as one of the top three fastest-growing Indian brands with an 83% increase in our brand value. Brand Finance is the world's leading independent brand valuation and strategy consulting firm.

Update on talent. We continue to focus our focus on attracting, engaging and developing high-caliber talent to help achieve our business goals. Sonata University has been at the forefront of our capability building, initiatives and saw increased usage in the acquisition of new skills such as GenAI.

We're very proud of the progress we made on gender diversity. We have now reached 31%, an increase of 2% in the last four quarters on gender diversity. Our employee engagement and D&I programs have been recognized by SHM in the most recent quarter.

With that view of the strategy and update on our strategic choices and investments, let me now provide an update on the Q1 FY '25 performance. We are proud to be quickly bouncing back to growth after a decline in Q4 in FY 2024 due to large deal delays and associated costs. In Q1, the International Services business grew 1.3% quarter-on-quarter. In constant currency terms, we have witnessed 1.4% quarter-on-quarter growth.

In the most recent quarter, we saw book-to-bill of 1.24 factors in the International Services business. We are still pursuing another 49 large deals, which is in addition to the three deals we closed in the most recent quarter. In Q1 FY '25, the three deals we closed had one of the Fortune 50 companies in the banking space.

Our EBITDA, before other income and forex grew sequentially 1.4%, a significant improvement from last quarter EBITDA, from 17.3% in Q4 to 18.7% in Q1. In SITL, our gross contribution in domestic business grew 7% quarter-on-quarter from INR64.8 crores to INR68.5 crores. Utilization remained steady at 87%. Quarter-on-quarter, our headcount increased by 198 FTEs with an overall accretion for the quarter being around 16%.

We have now at 21 clients, who have a run rate of more than 3 million annually at Sonata. Last year, same time, that number was 16, so increased by 5. We moved from 16 to 21 clients with more than 3 million annual revenue run rate. In addition, we now have 12 clients with more than 5 million revenue run rate.

In summary, we have diverse capability are optimistic about our long-term growth prospects. In coming quarters, we'll continue to face tailwinds and headwinds. The tailwinds will be due to the large deals and top client and HLS, Healthcare and Life Sciences. We are very bullish about the progress we are making in large deals. We're very positive about the progress we're making in our top line and Healthcare and Life Sciences.

There are headwinds too. On the headwind side, the deal decisioning continues to be delayed. The project completion at our clients in the U.K., Europe and retail manufacturing remain slow in the upcoming quarters. In addition, the large healthcare deal we just won will be dilutive for the first two to three quarters and will get the company profitability by end of the fiscal year.

Team Sonata remains committed to judiciously accelerate the growth curve and build scale in terms of large clients, deals, market, partnerships and talent. I want to take this moment to thank all Sonatinas globally for their commitment and hard work, work ethics and quality of outcome they deliver for our clients.

Thank you. And with that, let me turn it over to Jagan for his comments. Jagan?

J. C. Narasimhan: Thank you, Samir, for the overview. Good morning, good afternoon, good evening, all. Let me start with the update on International Services business for the quarter1, 2025. International business revenue for Q1 was $82.7 million. Q-on-Q grew by 1.3% and year-on-year, it was

6.9%. In Q1 rupee revenue stands at INR688 crores, which is also 1.3% quarter-on-quarter growth and year-on-year 8.5%. In constant currency terms, the revenue witnessed 1.4 percentage quarter-on-quarter growth and 7.5 percentage growth year-on-year.

Coming to profitability, International Services EBITDA before forex and other income stands 18.7% against 17.3% in Q4 2024. This reflects the 1.4%improvement in the profitability in the current quarter. The profit for international services stands at INR65.2 crores, which was mainly influenced by a forex loss and a change in the taxation because of SEZ moving from first 5 years to second 5 years bracket, resulting in impact on the overall profitability of the company also.

The growth driven by top client and the Quant profitability offset by transition and the AI investment in the large deal in the new healthcare deal, what Samir mentioned. At the international services level, the Q1 2025 ROCE stood at 18.8%, Q4 was 24%. And Q1 2025 RONW stood at 21.6% compared to 26.7% last quarter. This major impact is because of borrowings have increased for us from $43 million to $75 million. That was the reason for the impact. The returns have not reflected in spite of increasing the profitability because of the loan amount increase in this quarter.

Now I will talk about the domestic business. Our revenue for Q1 stands at INR1,849.4 crores, grew by 22.1 percentage quarter-on-quarter and 32.9% year-on-year. The gross contribution in Q1 '25 stands at INR68.5 crores grew 5.8% quarter-on-quarter and 10.7% year-on-year. PAT for Q1 was INR40.5 crores, which grew 0.9% grew Q-on-Q, at 0.6% year-on-year.

The DSO continues to be very strong in domestic business, it is 35 days compared to 36 days previously. The ROCE for domestic business has increased to 47.3% percentage from 41.7% mainly because of improved profitability as well as one of the loan amount, which was taken for a working capital purpose has been repaid. In the consolidated business, our revenue for Q1 stands at INR2,527.4 crores. It grew by 15.3% quarter-on-quarter and 25.4% year-on-year.

PAT at consolidated business stands at INR105.6 crores. It reflects a degrowth of 4.3% quarter-on-quarter and 12.1% year-on-year. Consolidated EPS for the quarter 1 was INR3.81 per share compared to INR4.33 per share last quarter. At consol level, ROCE stands at 23.5% and RONW stands at 27.7% this quarter.

Moving on to some important operating metrics. Total head count moved from 6,416 in Q4 '24 to 6,619 in Q1 '25. Net addition for the quarter has been 203. This head count addition compromises of campus addition of 150 people in offshore and ramped up on-site towards a large health care deal.

Utilization in Q1 '25 stood at 87 percentage, last quarter it was 87.4%, drop in utilization is mainly due to campus additions, added 14 new customers in quarter 1, 2025. Top 10 clients contributed revenue share of 50 percentage compared to 52% last quarter. The number of clients, more than 3 million run rate in quarter 1 '25 is 21 customers compared to 16 last quarter. The vertical mix in Q1 '25 is as follows: TMT's 36 percentage. Retail and manufacturing are 34%. HLS is 10% and BFS is 16% and emerging is 4%. Revenue by top GTMs, data is 16 percentage, dynamics is 25% and cloud is 39%.

As mentioned by Samir, our data and cloud also occupy more than 50 percentage of our pipeline opportunities. The Q1 '25 order books stood at 1.24 times of International Services revenue. Our International Services DSO for Q1 was 45 days, it is same as the last quarter. In summary, we continue to remain optimistic about our long-term growth prospects. Thank you.

With that, let me turn to moderator for questions.

Moderator: The first question is from the line of Dhiraj Dave from Samvad Financial Service. Please go ahead.

Dhiraj Dave: Yes. So, my one question is basically, we've seen this healthcare deal kind of resulting into EBITDA margin and management also suggested that it would like margins would be resuming to normal by end of FY '25. Can you basically say what are the factors basically why we have seen the decline in profitability? And by what time we shall expect previous levels, whether we are striving to reach that. Management gives some color. Maybe what is the basis point decline in EBITDA margin, which can be explained by new deals?

J. C. Narasimhan: This is Jagan here. This is a large 7-year deal. It is one of the largest deals in the recent time. What we have agreed with the customer is to do modernization, and this involves the development of AI platform in the initial period and that will be deployed in -- continuously in their system for some time and then hand over the IP to them. In this model, secondly, they have their own employees also. We are re-badging their Onsite employees, in the initial period.

And over the next few quarters, we will be doing more offshoring. So, these two components of more on-site in the initial days, and the investment for the AI platform development is going to decrease the profitability from this deal. It will recover back towards the company average after the three or four quarters. Overall, the deal is very much above the company's average margins also.

Dhiraj Dave: And secondly, Jagan, basically, we do get the C-suite link also and there we find a couple of slides which are not appearing in presentation. So, my suggestion would be if you can integrate and give one presentation because every time I get confused in finance income, we have four or five slides, which are not part into the main debt.

So rather than having two presentations in two ways, why can't we have a consolidated presentation, and that will make everyone basically we can focus on con call as well. Otherwise, we are looking at one presentation, something like data points, which you talk, they come in second presentation, but that's not available in the main presentation. So, my request is if you can integrate one and give only one presentation, that would be good. Wish you all the best.

J. C. Narasimhan: Thank you, definitely we'll consider that.

Moderator: Next question is from the line of Akshada from Vivog Commercial.

Akshada: Hi. I have a couple of questions. So first, your international growth has still kept, and it's been a little under what we would -- or I would have expected. So why is that the case? I do understand there were some deferments, but are we expecting those to continue? And my second question is regarding the guidance. Do we maintain the guidance for FY '26?

J. C. Narasimhan: Okay. I want just to give a clarification on that. I'll start with the guidance for the year. Our guidance has been -- our growth will be more than the industry growth. We have not given any specific numbers for the growth in this year.

Akshada: No, I mean the FY '26 guidance.

J. C. Narasimhan: Meeting of 0.5 billion and 1.5 billion target.

Akshada: Correct.

J. C. Narasimhan: That will be delayed -- I've been telling for the last one quarter that the achievement of our goal will be delayed at least by a couple of quarters more. That is our expectation now.

Akshada: Okay.

J. C. Narasimhan: Coming to the question of momentum and the revenue growth, pipeline is strong Order book is strong, as we've said, the revenue momentum particularly for BFSI and for healthcare will bounce back, but BFSI will take a little while. So, we expect the momentum in the revenue growth to come by Q3 of this year. But it will be a positive growth for Q1 and Q2.

Samir Dhir: Akshada, let me just add to what Jagan said. So, if you recall back in May, when we talked about, we guided that will be between 1% to 3% for Q1 and Q2, which was our expectation, and I think we come within the range of what we have guided for in the first half of the year. We fully expect to come back on growth to our old growth rates by the third quarter of this year. I think that's something that we're working on. We're very excited about the pipeline and the order book that we have.

For the first two quarters of the year, we had seen that back in January, March quarter that these will be a little softer quarter for us. That's point number 1. Point number 2, when we guided for being a $1.5 billion company that was about two years back that time the market scenarios were different. So, we do expect about two to four quarters delay on the original plan. But we are still very much pushing and working towards getting to the 1.5 billion with maybe about two to four quarters delay on the overall run rate, we talked about earlier, Akshada.

Akshada: So, as we are able to book more contracts, it's just that we are facing a little bit of delay in order to start those said contracts and because we're also making expenditure to fulfill the contract. That's why margins have also been a little hampered and revenue has been pushed back a couple of quarters at least, as in the -- it has been what you've been facing so far?

Samir Dhir: That is correct. So, if you recall, our earlier large deals were closing in about one to two quarters, average was about two quarters. This time for closing has now become about three to 3.5 quarters. So, we are definitely seeing that decision delays impacting our ability to close large deals from a longevity perspective or duration point of view. However, because we have, like I said earlier, we have 49 large deals. So, we're still very optimistic about the momentum to keep catching up as we address this decision delays that we have been seeing in the marketplace.

So that's what is explaining the Q1, Q2 softness that we have seen compared to our own run rate. That's what we guided earlier. We have seen that coming. That's why we guided the market for two quarters, we'll see slightly lower-than-expected growth of our own run rate. As far as the margins are concerned, clearly, the healthcare deal that Jagan alluded to, this is a transformation deal with AI built in.

So, we're going to make an investment in the deal itself in the next three quarters to make sure that we can transform the AI built-in state, and also, this is a largely on-site deal right now and work to move from on-site to offshore. And as we move the work from on-site to offshore, our profitability will kick back in latest by Q4 of this year. That's what our expectation is right now.

Akshada: So, what is the expected revenue for the U.S. based healthcare deal that you were just talking over?

Samir Dhir: We can't disclose, unfortunately, the revenue size of the deal, but in our parlance, it's a large deal, Akshada.

Akshada: Okay. Can you...

Samir Dhir: Important just one more quick point. It's a very important deal. It's a 7-year program. We took a conscious call to take a short-term hit for the long-term benefit of the company. We think it's a strategically important deal. It's one of the key premier providers in the U.S. market. So, it opens up the whole provider market for Sonata as we move forward.

As you know, healthcare vertical was incubated by us about two years back. For us to open a 7-year large contract, it's very significant step for us. Yes, it's a dilution for three quarters, maybe two to three quarters, but we fully expect this will be accretive to company byQ4 and definitely Q1.

J. C. Narasimhan: This is the largest deal in the recent past for us.

Akshada: Okay. That's great. My last question is the decision delay that you've been facing, and the industry has been facing. Do we have any data or any momentum that can tell us that in the next two quarters things would get better? Or is it more of an industry assumption so far?

Samir Dhir: It's largely the industry headwind -- it basically drawn some -- for the markets and the industries that we operate in, the verticals we operate in, which is healthcare, banking, retail and hi tech. We're definitely seeing some delays. And we think in the client base and verticals that we operate in, is catching up -- the delay cycle is catching up. And as the pipeline builds up, we'll be back on our old growth rates.

Akshada: Okay. Okay. Thank so much.

Moderator: Next question is from the line of Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: Can you maybe provide what is the employee expense --

Samir Dhir: Suraj, can you speak a little louder, please.

Suraj Malu: Yes. Can you please share the -- for the domestic business what is the employee expense, other expense and other income for this quarter?

J. C. Narasimhan: There is no exceptional other income or other expenses for this quarter in domestic business. It's a regular one, normal investment income and forex gains or losses.

Employee expenses is in line with the business growth. We have added a few more people in the business. So, this cost is in line with the revenue growth normally.

Suraj Malu: Got it. Is it possible to share the absolute amount?

J. C. Narasimhan: Difficult. We don't share it outside because that -- for one quarter if I share, I have to share for every quarter. There is nothing to hide, but for that business, the product cost is more important than the employee cost. So, we continue to hold that stand.

Suraj Malu: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead. Mihir, may I request you to unmute your line and go ahead with your question please.

Mihir Manohar: I mean, sir, I wanted to understand on the absolute EBITDA. I mean, when I see the press release, are the press release for international business, the EBITDA is INR143 crores. The EBITDA for 1Q FY '25 for the international business in the press release is INR129 crores. So, in that context there appears to be a 9.9% growth versus the 9.5% growth that you have mentioned in the press release. So how to understand it, is there any typo or anything like that?

J. C. Narasimhan: Can you come again on the question?

Mihir Manohar: Yes. So basically, I mean, when we see 4Q '24 press release, the international business EBITDA is INR143 crores. And this particular quarter, international business EBITDA is INR129 crores?

J. C. Narasimhan: Okay. That is one important change we have done, we have put a star and given that. This is what we have started giving EBITDA before other income and forex, because everywhere else, we disclose only EBITDA before other income and forex. We synchronized this in line with all other presentations. Hence, we changed this also.

Mihir Manohar: Okay. Understood. So last quarter, INR143 crores had other income and forex.

J. C. Narasimhan: Other income and forex. This quarter, it doesn't have.

Mihir Manohar: Okay. Understood. Sure. Second question was on the fact last time there were -- we were saying that there were some undeployed resources, which were there on the on-site because of the healthcare deal, one of the healthcare deals that did not ramp up on the expected lines. So, I mean, have we deployed resources which were there? Or is there any some part of the impact still pending?

Samir Dhir: So let me take that. And just on the first point as well, Mihir, the EBITDA for international business is up by 1.4% quarter-on-quarter. So, in terms of percentage, we definitely gained ground on EBITDA, just to clarify that point.

On the point about the deal in itself, so while we have closed the healthcare deal, there was another healthcare deal that we mentioned in the last quarter. That deal has actually gone on hold at this point in time. So, customer is not taking any decision at this point. So, we have withdrawn all the investments on the deal. And those investments have been redeployed into other areas, including this new large deal that we just announced.

Mihir Manohar: Sure. Understood. Just I mean just two questions. one -- I mean, is the wage hike impact there for the full part of the year? I mean, when will the wage hike be given?

And last question was on the margins for the domestic business. Now when we see margins in domestic business, as I said, 2.6% which is like close to, I mean, 11, 12 quarters low. So how to understand the margins in the domestic business, why they have corrected this particular year, when you see the absolute EBITDA for domestic, it was 16% down. So how to see margins for domestic? And, yes, those are the questions.

J. C. Narasimhan: Yes. Please don't measure the business as a percentage of margin, you have to take the absolute amount of gross contribution. It was around INR 64.5 crores last quarter, and at INR 68.4crores this quarter. The absolute contribution has grown up. So that is the way we measure the business. We don't see the percentage of margin for this business, absolute amount of margin will grow only with volume.

So, if you see last quarter, the revenue was somewhere around INR1,515 crores. Now this is INR1,849 crores we have got. So, you have to measure this business only on the absolute amount of gross contribution. We don't see a percentage of profit. This is volume-driven, high-volume business with low margin. So, depending on the mix of the product, each quarter, margin should vary. You can't measure it exactly with percentage of margin.

Mihir Manohar: Sure. Sure.

J. C. Narasimhan: Other question?

Mihir Manohar: Yes. Wage hike, when is the wage hike effective from?

J. C. Narasimhan: Pardon.

Mihir Manohar: For wage hike?

J. C. Narasimhan: In Q2, we are planning for wage hike for the junior management and Q3 will be for middle managers and senior managers.

Mihir Manohar: Sure, sir. Understood. Okay. That’s it from my side.

Moderator: Thank you. Next question is from the line of Chirag from Ashika Institutional Equities. Please go ahead.

Chirag: Hi. Just one question. You mentioned that three years down the line, we are expecting 20% of the revenue from generative AI and all. So, what sort of margin and operating profile of work we are looking in this area?

Samir Dhir: Yes. So, I think the margin for the current wins and the pipelines that we have is accretive to the average margin. So, we are definitely seeing an uptick because these are generally speaking, more business-driven deals and IT-driven deals because most of the sale and projects that we're winning is really working with the business stakeholders directly. Example I talked about, the HealthTech client is also sell into the business side of the house. So, margins are accretive to the average and other margins.

Chirag: Okay. And one more question. As we expect H2 is likely to be better than H1 which vertical and geos do you think will push the growth or accelerate the recovery in comparison to H1?

Samir Dhir: There are two points. I think we expect H2 the growth to be higher than H1 based on our recommendation, but we'll see gross margin pressure because of the large deal we just talked about, we'll see some pressure on that for only for two, three quarters, like we mentioned earlier, but revenue definitely will be higher than the first half is our current estimate at least.

As far as the verticals are concerned, we are seeing very good momentum in the high-tech vertical. I think overall, in the high-tech, especially with the largest client of Sonata, we're seeing good momentum there. I think the momentum, we fully expect to continue going into the second half of the year as well. The healthcare vertical is definitely in the up right now for us. We had a good successful first quarter. We expect it to continue to grow as we move forward.

And then banking and financial services, not insurance so much, but the banking side of the business, we are definitely beginning to see some green shoots there. I think that will kick up us again. On the not-so-good side, like I said earlier, the retail business is going to be soft in the next two quarters to three quarters.

Chirag: So generally, what I've seen in the commentary of the other years in the market that more experience a stability kind of trending from -- stable kind of spending from an insurance set of client and where we see some sort of muted sort of vision in your commentary. So why such divergence is there?

Samir Dhir: Because our portfolio on insurance is relatively small. If you look at our BFSI portfolio, I think the insurance portal will be of 20% of it. So, we are not a very scaled insurance provider. So, our comment is very specific in that sense. But banking side, we're definitely seeing the momentum coming back up, including the large deal we just announced.

Chirag: And within banking, can you highlight the...

Samir Dhir: Sorry, you're breaking up.

Chirag: I mean within banking which areas do you think accelerate the momentum?

Samir Dhir: Within banking the bulk of the work we're doing from a technology perspective is in the data and cloud side, but on the -- if you look at the division of banking, it's largely the retail banking side of the equation.

Chirag: Okay. Thank you.

Moderator: Thank you. Next question is from the line of from Prolin Nandu from Edelweiss Public Alternatives. Please go ahead.

Prolin Nandu: Yes. Hi, Samir and Jagan. Few questions. So, when you say this new deal is margin dilutive for first few quarters, what is the base that you are assuming to be margin dilutive from? Because in last two quarters, we are trending at a lower than Sonata's average in terms of margin in our international business. And this quarter, you have changed the definition of EBITDA margin as well the way you report it. So, when you say dilutive, are we looking at dilutive from mid -- sorry, low 20% kind of a number or from the current levels of margins, if you can clarify that?

J. C. Narasimhan: Yes. See couple of points I have to share with you. We have not changed the way that EBITDA is reported. EBITDA was reported in all the places investor presentation earnings presentation everywhere, it was reported as EBITDA before forex and other income. This was also an input from couple of analysts like you, who earlier gave us the input that we measured only by EBITDA before other income and forex. So, we started reporting in that way. It is almost like more similar to EBIT, what you people measure on that. So, we are synchronized. We thought that press release alone is having after other income and forex, so we've standardized that.

The second point is, we have headwinds in the Q2 and Q3 due to salary increase, The third point is, this deal is also a little dilutive on the margin compared to company margin. It's not a loss-making deal, but it is a little dilutive compared to the company average margin level.

Hence, we said there will be an impact of it. Coming to the EBITDA margin, we said the last quarter margin will be muted till end of this financial year we have improved this quarter, and we are trying to be in this range of margin. But we may not be at early 20s margin, we will reach there by end of this financial year, that how we have committed earlier, and we are still positive towards that plan. The EBITDA will be a range between what we reported in Q4, and early 20s.

Prolin Nandu: Jagan, that clarifies. Now coming to the point of -- you mentioned there are some green shoots in BFSI domain, retail banking. This is a thing that most of the other of your peers have also highlighted. They have also highlighted that there are some green shoots even in discretionary spend.

But going by your comment, it feels like the decisiveness in terms of closure of deal is pretty much at a similar level where it was in last quarter. So, is there any reason for this divergence, one is that? And secondly, related to BFSI, we had a deal in Quant also, which -- fintech deal, if I'm not wrong, which was delayed, so where are we on Quant? And are we completely on top of how the seasonality works in that acquisition? So yes, a few questions, but you'll get the gist of it.

Samir Dhir: Yes. Let me see if I can answer each of them one by one. So, the large deal that we just announced is the joint Quant and Sonata bill. To answer your question, that's the one that we just announced the third deal. We're very excited about it. Now as far as your question is concerned of seasonality, I think, yes, absolutely, we have factored in seasonality. If you recall, in Q4 January, March quarter, we did see softness in the Quant business, and that's a largely seasonality driven.

And I think even in the next Q4, our Q4, January, March, we'll see a seasonality effect in Quant again. That's just the cycle of the business at Quant run. So that's on the seasonality side. The third question that you had was on the discretionary spend. So, the growth that we're seeing in banking is largely on the discretionary side.

What my comment was on the large deals. So large deals are taking still longer time across verticals, but the discretionary spend is opening in small to midsized projects. But we still continue to see large deals taking time as much as it's not closing as fast as they were probably closing earlier. So, it's consistent to that extent from industry, the discretionary spend has definitely opened up, may not be in big deals, but definitely, the signs are there, it's opening up in banking.

Prolin Nandu: Great. Last question is on Microsoft, right? I mean, that's one of the biggest clients for us in terms of selling to and selling through Microsoft. Now if I listen to the conference call of Microsoft, I see a 20% kind of a jump in terms of Fabric paid customers for Microsoft on a quarter-on-quarter basis.

So, when we think about monetization of this relationship that we have specifically on Fabric, how should we look at these paying customers for Microsoft and monetization opportunity for us? That is one. And on the Dynamics also, if I'm not wrong, what happened last quarter was the F&O vertical, which is finance and operations, there were some headwinds there while sales are doing better, what is the situation there? If you can highlight some bit on Microsoft, that would be very helpful.

Samir Dhir: So let me take the second part of the question, then come to the first part. So, the Dynamics as far as F&O is concerned, we're definitely seeing a stronger order book in Q1. And I think that will reflect in our coming quarters in Q2 and Q3, both. So, I think the business is back on the growth rate if we had anticipated. So, we are not concerned about the Dynamics part per se.

As far as the question is concerned on the Fabric side, now what Microsoft has done is they are really combined their Power BI and Fabric businesses largely, and the number that you're seeing is a combination of Power BI and Fabric. What we are talking about is the Fabric on its own, not Power BI included. And we have continued to see some good momentum in the Fabric side. So, some of the new logos that we opened recently, we announced a few last quarters, even this quarter, we opened several new logos, Fabric is helping us open those logos with very differentiated Sonata offering at this point in time. So, it is helping us scale it out.

Now with Fabric, what happens as you get into a client, a new client, you do a proof of concept, it takes about two to three quarters. And then you start to piece up to a larger deal of data transformation overall. So, we're still in the phase of the first part of the data projects coming up. In fact, we just closed another midsized deal on Fabric, which is a multiyear contract on data modernization because of Fabric. So, the Fabric initial momentum is beginning to build up. To be honest, I would not say that we are seeing very large deals on Fabric right now, but it's beginning to see some deals coming up of midsize at this point in time for us.

Prolin Nandu: Great. Thank you. That's it from my side. And all the best.

Moderator: Thank you very much. Next question is from the line of Vipul Kumar from Sumangal Investments. Please go ahead.

Vipul Kumar: Hi, thanks for the opportunity. So, my question is what should be a sustainable margin for the company because we are trending lower and lower as far as margin is concerned from low 20s. Now we have reached around 18.5%. So, what should be the sustainable margin for the company?

J. C. Narasimhan: First, we have clarified this that the medium-term outlook is low 20s only. We will continue to aim to achieve the low 20s. We are expecting that by end of this year, our plan continues to be there for that. The second point is, we are not trending lower compared to last quarter, we have improved by 140 bps this quarter, which is like a significant jump for the EBITDA front. And we have been telling from last quarter that it will take two to three quarters for us to improve the margin.

This year, because of a couple of large deals as well as the investments for our long-term growth and our continued investment in AI and Microsoft Fabric, it has impacted the margin over a period of time, plus the softness in the growth of Quant, particularly with the high-margin customer, it was also not helping us in improving the margin. However, like in the past, just to give a confirmation for you, the company margin will be in low 20s only and in couple of quarters we will see it scale.

Vipul Kumar: And sir, how do you define a large deal, it is more than $5 million...

J. C. Narasimhan: Yes. More than $5 million is what we have internal metrics for large deals. That's the criteria.

Vipul Kumar: Would it be possible to share total TCV like all your large share.

J. C. Narasimhan: No, we have not disclosed, but we said out of the total pipeline, more than 49 percentage is constituted by large deals. And what we have announced at the healthcare deal, it's the largest deal in the recent past.

Vipul Kumar: Okay. And lastly, sir, I mean, I think that if you leave out Quant, we have degrown organically. is that observation, correct?

J. C. Narasimhan: Not exactly. We have told multiple times that you cannot take Quant separately. That's a legal entity reported for the purpose of this earnout calculation. However, we have integrated both Quant and Sonata very, very tightly now. there are project papers signed in Sonata delivered by

Quant and Quant papers signed and delivered by Sonata. It is very difficult to split this and then measure the growth in the revenue.

Vipul Kumar: Okay. Thank you, sir and all the best.

J. C. Narasimhan: Thank you.

Moderator: Next question is from the line of Dipesh from Emkay Global. Please go ahead.

Dipesh: Yes. Thanks for the opportunity. A couple of questions. First about the healthcare deal, which you referred. So just want to understand ramp-up plan because it is fairly large on a 7-year deal kind of thing. So how one should look from a ramp-up perspective because it is rebadging, obviously, it would be immediately revenue contribution kind of thing.

But as we develop AI platform, how do you expect revenue model to be on that platform side for us, and then subsequent how you expect it to trend? Second question is about the large deal, so overall TCV, which we said 1.24 times, considering healthcare deal might be disproportionate to the way we give order book 1.24 times. Any adjustment made pertains to it or it is including that healthcare deal in the number? Third question is about Quant. Now Quant has some one out linked performance, right? That is how we have taken some hit in the last year, whether it is striking those expectations? Thanks.

J. C. Narasimhan: I'll take the third question first. Quant has come back to the growth trend now compared to last quarter. However, we have the major growth as in past years is in the second half of the calendar year for them. So quarter two and quarter three, we expect them to bounce back in the growth trajectory. your second question was on order book of 1.24 times of revenue, what we do is any deal beyond $25 million, we take only the annual revenue for the purpose of calculating book-to-bill. In this 1.24 times also, we have factored only that much for the purpose of calculation. The first question, Samir will take that.

Samir Dhir: Yes. So, I think your question about large deal ramp up. It was a rebadging deal. So, the rebadging activity has happened in late June and early July. So that is behind us at this point in time. But we are ramping up offshore now and ramping up the AI delivery model for them so that we can build the engine out for them. So that ramp-up is happening. I would say a large part of the deal is going to be fully baked into the Q2 run rate as we move forward.

Dipesh: My question was about because I think, subsequently, you are supposed to develop AI platform for the client. What would be the revenue model for us? So, it is like any T&M kind of project and then we will not benefit from the activity on the platform, or we have some upside to the platform activity?

Samir Dhir: We have upside to the platform. That's why the margin will accrete in about two to three quarters from now because we are investing upfront, but come Q1 of next year, that will be accretive to the company, so it will accrete. For two reasons, one, we are moving work from on-site to offshore, that's one vector. And second point is that the AI power will kick in, and hence, we'll be able to do the work more efficiently. So, both the factors will then benefit Sonata.

Dipesh: Understand. And in seven years, any other subsequent uptick is expected or then it would be more steady state deal kind of?

Samir Dhir: There is an uptick expected because they are a part of their business being hived off to a new entity. So, we are in conversations with them to be a service provider to the new height of entity as well, but that will probably take another couple of quarters to materialize. Yes, there is upside.

Dipesh: Understand. Thanks.

Moderator: Thank you. Next question is from the line of Mayank Babla from Enam Asset Management. Please go ahead.

Mayank Babla: Good evening, Samir and Jagan sir. Thank you for taking my question. Hope you're doing fine. First question is to Samir, regarding your comment on retail and manufacturing. So, you said we are expecting some softness for the -- quarter. I wanted to understand the softness will be with respect to -- in perspective with the Q4 -- and/or Q4 FY 2024 growth…

Moderator: Mayank, sorry, we are losing your audience in between.

Mayank Babla: Your comment on year-end manufacturing. I wanted to understand the softness in growth will be if you meant that it will be softer compared to Q1 2025 growth or Q4 FY 2024 growth?

Samir Dhir: Yes. So, I think there are two parts. It's not with reference to one particular quarter, Mayank. I think we -- our other businesses are, like, especially in high-tech and healthcare are in a nice pace growing up. We are seeing sometimes flattish; some quarters are declining. Some quarters are marginally up.

So, we're now seeing the kickback of growth in retail and manufacturing at this point in time. The comment was not respect to one quarter or two quarters, a general trend that we are seeing. Retail, if you recall, four quarters back, was one of the strongest growing vertical for us, but has definitely slowed down since. But the good news is TMT and Healthcare are back on the growth sides.

Moderator: Next question is from the line of Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: Sir, for the international services business, if we look at EBITDA, including other income, it's around INR138 crores and the net profit after tax is INR65 crores, can you help reconcile these numbers, like the line items between this EBITDA and net profit, can you just give -- help with the numbers for those?

J. C. Narasimhan: Yes, there will be definitely forex and other income will be there. The amortization of intangibles is there, then depreciation is there, and tax is there. So, amortization and intangibles, we have given in our earnings presentation every quarter, we give that how much is the amount is there.

You can take it from there. That is a major portion because its acquisition related because of Quant acquisition and earlier acquisition, the amortization amount will be there. It's almost like a INR55 crores, of amortization will be there apart from depreciation tax and forex and other income. This quarter, forex and other income would have been -- other income will be positive, but forex will be a negative impact.

Suraj Malu: And net-net, that total other income will be around INR 9 crores, right?

J. C. Narasimhan: Other income was, I don't remember offline the number. But the forex, there is a loss for this quarter. One second, I'll just tell you. The total other income and forex together is about INR 9 crores, correct.

Suraj Malu: Got it. Okay. Got it. Thank you.

Moderator: Thank you. Next question is from the line of Tushar from Incred Capital. Please go ahead.

Tushar: Sir, regarding the AI engagements with the top client. So, it is predominantly with the sell to? Or are you seeing engagement with the sell with segment also? And regarding the rebadging. So most large part of the rebadging is done in the monthly employee days, or some rebadging will be coming in 2Q?

Samir Dhir: Yes. So let us take the AI question first will then answer the Healthcare deal question. So, on the AI side, we're seeing good momentum both on the sell to and sell with. On the sell to side, we are helping our clients transform their customer support operations using AI and enabling the efficiency of the customer support desk of our customers. We're also helping them move other data sources and enabling from a Microsoft AI perspective, the other data sources are coming up and enabling that whole infrastructure for them. So, it's a significant part of the work.

A significant volume of work being done with -- from a sell-to perspective at this point in time. From a sell with perspective, like I said, we work with both AWS and Microsoft will sell with the clients on an AI and the HealthTech example that we just talked about earlier, the travel example, if we have talked about in prior quarters, they are all examples of the telecom is granted the quarter before. They are all examples that the sell with is kicking in to help us transform the customer estate using AI again. That's on the AI side of the question. On the rebadging side, like I said earlier, the large part of the rebadging is behind us at this point in time. There might be a few pieces left, but largely late part of June and early quarter July, the rebadging is done.

Tushar: That’s it from my side and best of luck.

Moderator: Thank you. Next question is from the line of Vikrant Gupta from ICICI Prudential Life Insurance. Please go ahead. Vikrant, may I request you come in a better reception area, your voice is raising. Vikrant, we are unable to hear you. May I request you to come in a better reception area please. We have the next follow-up question from the line of Mayank Babla from Enam Asset Management. Please go ahead.

Mayank Babla: Yes. Thanks. I got the answer to the first part of my question. Samir, if you could highlight which subsegments are you seeing softness in the retail and manufacturing, please?

Samir Dhir: Yes. So, I think on the retail side, generally, consumer-facing retailers, mostly online, is where we have seen the softness, Mayank. And manufacturers, I would say, across the board, we have seen some softness.

Mayank Babla: Okay. Okay. Sure. And sir, my second question was to Jagan sir. There was a loan taken for the Quant acquisition, and we had planned to gradually pay it off through FY '25 and '26. Could you give us an update on that?

J. C. Narasimhan: Yes, we have taken a loan of around $55 million, when we acquired Quant. We were expecting the RBI issue, which is a procedural issue to be completed, but it is still going on and it may take a couple of quarters more for us to come out of that issue for us. Hence not able to use the corporate pool of money here in India to repay the loan.

So, we are continuing the loan, and we have to take an additional borrowing now in the month of March 2024 to pay second installment of earn-out, which is about, very close to $55 million. So, we have increased the loan. $55 million was paid, The net balance was $43 million by end of Feb last year when we converted the loan to a $75 million loan, which helped us to pay the earnout and the balance amount was funded internally.

Mayank Babla: Okay. Fair enough. Sir, thank you for taking my question. Best of luck.

Moderator: Thank you. Next question is from the line of Jay Daniel from Entropy Capital Advisors. Please go ahead.

Jay Daniel: Yes. So, you have given your long-term vision of going from $1 billion to $1.5 billion. Earlier, you said you'll get there by FY '26. But your presentation now says it will be three to four years, which means FY '28. That is just a 10% CAGR over four years. So, I mean can you reconcile these two numbers?

J. C. Narasimhan: No, it was three to four years, sometime back. Originally, when we put that slide, we have not amended it. The FY '26 target and what we have updated it, it will be delayed by a couple of quarters.

Jay Daniel: Okay. And sir, in respect of your pipeline, what is the total value of your pipeline?

J. C. Narasimhan: We have not disclosed the total value of pipeline.

Jay Daniel: Yes. Because last quarter, I think you said $60 million was your pipeline for AI, right?

J. C. Narasimhan: Correct.

Jay Daniel: And that was some 20% of your total pipeline. So, the pipeline comes to around INR1.1 billion.

J. C. Narasimhan: We have not given the percentage as such. Neither we have given the absolute value of the pipeline. And that pipeline has grown a lot this quarter. It definitely has been growing. This quarter, we have mentioned that more than 52 percentage of our pipeline in data and cloud, we have not mentioned the value for the same.

Jay Daniel: And your conversion rate is 35% to 40%.

J. C. Narasimhan: Conversion rate is 35% to 40%, correct.

Jay Daniel: Okay. And in respect to the salary, you're saying there's going to be a hike in Q2 and Q3 of this year, correct? But your salary is already up 13% QoQ and 11% YoY, 11% QoQ and 13% YoY.

J. C. Narasimhan: So, the total salary increase for the year, as we mentioned, we have added 150 campus additions during the quarter as well as the attrition replacement plus the on-site rebadging of the people. So, all these things have added to the cost of salary for us.

Jay Daniel: So now in Q2 and Q3, this will go up from the INR369 crores that you mentioned?

J. C. Narasimhan: It will go up depending on the salary increase is one component, and also on how much addition we have, attrition we have, various other factors also play a role, but it will go up.

Jay Daniel: Okay. And in respect of the deals that got delayed, one was a large healthcare deal, which now you're saying it's put on hold and not likely to be revived. There were other deals also which had got delayed in Q4. Any updates on that?

Samir Dhir: Those are some of the deals that converted this quarter. So, the healthcare deal just announced today, while the second healthcare deal got parked right now, it's not lost, but it's parked. Further deals that we announced are in the pursuit in Q4, they got closed in Q1. And like I said, there are other 49 deals that we are still in pursuit for.

Jay Daniel: Okay, sir. Thank you. Thanks.

Moderator: Thank you very much. As there are no further questions, I'll now hand the conference over to Mr. Samir Dhir for closing comments.

Samir Dhir: I just want to take this moment to thank all of you for joining us today. We appreciate all the support and your time today. And I also want to take this moment to thank all the Sonatians globally for their commitment and hard work to keep moving Sonata in the right direction in terms of our strategic vision. Thank you all for joining us today. We'll speak to you in a quarter's time.

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