

18th May, 2023

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 Sir/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 disclosure dated 11th May, 2023 and 15th May, 2023, please find enclosed Transcript of Analyst/Investor call of the Company held on 15th May, 2023. 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 Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above



“Sonata Software Limited Q4 FY23 Earnings Conference Call”

May 15, 2023



MANAGEMENT **MR. SAMIR DHIR – CHIEF EXECUTIVE OFFICER &
MANAGING DIRECTOR, SONATA SOFTWARE LIMITED**
**MR. SUJIT MOHANTY – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER, SONATA INFORMATION
TECHNOLOGY LTD.**
**MR. JAGANNATHAN CN – CHIEF FINANCIAL OFFICER,
SONATA SOFTWARE LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to Sonata Software Limited Q4 FY '23 and Full Year FY '23 Earnings 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Samir Dhir: Thank you, moderator. My name is Samir and a very good evening to all of you. A very warm welcome to this Conference Call to discuss our “Strategy and Goals and the Financial Results” for the Quarter 4, which ended on March 31, 2023, and the Full Year Updates. Thank you for joining us today. We appreciate your valuable time and support.

It's my pleasure to share that the progress that we have continued to make with respect to our vision and growth for Sonata. The executive team remains committed to judiciously accelerate the growth curve and build scale and as we've always talked about, build scale in terms of large clients, large deals, market, partnerships and talent. We had a very exciting quarter and delivered yet another quarter of industry leading growth and I'll share the numbers little later in the call. But before I do that, let me cover an update on our strategic goals first.

If you recall, we had stated in October 2022 that our international business will be \$0.5 billion in 4 years' time and we'll be known as a specialist firm in modernization and digital engineering and scale our India business aligned towards gaining market share with end-to-end contracts with data and cloud modernization opportunities. We have made tremendous progress towards our strategic goals of M&A, large deals and verticalization.

Let me cover M&A first. We acquired Quant Systems, a Texas-based IT services and software company in an all-cash deal in the quarter, the biggest ever acquisition in Sonata Software history. Quant had delivered \$37 million in revenue and mid-30% EBITDA in CY '22. Quant brings 2 large clients to Sonata, which will be Top 5 clients at Sonata from day 1 and this aligns to our strategy to invest in BFSI and health care. One of the clients is a BFSI client and the other is a health care client.

In the past 7 to 8 weeks, we have made significant progress in integrating Quant into Sonata. At this point in time, I'm happy to report that from a go-to-market perspective, the 2 teams are fully integrated. We're working judiciously to create large deals, midsized deals and really expanding our footprint into BFSI and health care, which was a strategic rationale of making the deal in the first place. And we'll report more on that as we move forward, but at this point in time the go-to-market teams are fully integrated between Quant and Sonata teams.



For the large deals, if you recall when I came on board, I had shared with you a sharp focus on large deals and we are very pleased with the progress we have made. Just to recap, we announced 2 large deals in Q2, 4 in Q3 and we're delighted that in the last quarter, we closed 3 large deals and 1 of them is the largest ever deal for Sonata.

Let me provide you commentary on the 3 large deals we closed in the quarter. First, the largest ever dealer of Sonata which was a \$160 million contract for 10 years. This client is backed by one of the largest private equity firms, have a very strong cash flow and generating double-digit profitability. The client, which is a net new logo for Sonata, will make a direct entry into our Top 5 client list of Sonata. This 10-year strategic modernization deal will entail Sonata taking over all the technology towers including people transfer, which supports our U.S. localization strategy and also, we will be responsible for end-to-end IT modernization and transformation. This is end-to-end and that's the key word to emphasize here. We are building a single platform for our future for the client to modernize and transform their core application suite, creating an omnichannel and connected organization with a customer 360-degree view.

We will bring that expertise and skills pertaining to Azure, AWS, enterprise data, automation, cloud optimization and CRM as we deliver this program. Beyond this exciting deal, which we have talked to you about earlier, there are 2 other large deals we closed in the quarter which increased over 12% from the prior quarter. The 2 other large deal we won, 1 is a large multiyear deal we won with a leading network service provider. Sonata signed a multiyear contract to partner on customer strategic business and technology transformation initiatives with a focus to deliver operational efficiencies and excellence leveraging our modernization capabilities. This is a multiyear contract. The third deal, which is a managed services deal of our Microsoft platform integrating Microsoft technologies and other IT solutions. This is a multiyear large deal as well with 1 of the largest manufacturers based outside of the U.S.

Customer selected us as a strategic partner to support them on their modernization journey. Our robust solution backed by our credentials with Microsoft product engineering and support really helped us win this deal. So, with that, our story just to recap of large deals continues to grow strong strength to strength, 2 deals in Q2, 4 in Q3 and again 3 in Q4 with one of the largest deals ever in Sonata's history.

From large deals, we could move on to provide an update on the verticalization. As you recall, we had talked about driving sharper focus into new verticals as well as harvesting the existing verticals. The invest verticals we called out was the BFSI and health care, life sciences. And the harvest verticals were TMT, which is telecom, media and high-tech, and retail manufacturing. Let's talk about the invest verticals.

On the Invest vertical side, we continue to build strong sales, delivery and domain capabilities in these verticals. The BFSI vertical is constantly evolving and adapting to new technology regulations and customer preferences. Our growth in banking industry in time to come will really be pivoted off these vectors. The banking industry has recently been facing some challenges, but



the area that we are focused on, which is in the consumer banking space and the regulatory space and data privacy space, the demand patterns continues to be robust even now.

On the health care side, the industry is expected to continue to grow in the coming years driven by demographic changes, technological advancements and changing health care delivery models. The shift towards value-based care and technological advancements have led to the development of new treatments and medical equipment, which are some of the key factors leading to overall positive outlook in the health care industry.

On the harvest vertical side, we saw the strength of Sonata for a long time which is TMT, retail and manufacturing. We continue to see strong pipeline build and order book momentum across all the harvest verticals. Having said that, we are seeing some softness in the high-tech industry, which is close to about 25%, 30% of our overall business. In a few select niche clients where growth rates have reduced, we're still growing but the growth rates have come down in the high-tech industry. But we remain overall positive even in the high-tech sector despite of those few clients that have showed some slowdown.

With that, let me move to provide you an update on the scale. It is indeed a pleasure to inform that Suresh HP has joined us from Mindtree as the Delivery Head of Sonata or Chief Delivery Officer for Sonata overall. With his rich experience, Suresh will enable Sonata to continue building an innovative and delivery organization that inspires our clients and team members to deliver high quality outcomes.

This is a strategic hire for us especially given our focus on large deals. We believe the capabilities and skills that Suresh brings to the table will really help us accelerate our large deal journey from a solution and capability point of view. Beyond that, we are increasing our investments in Generative AI. We're very excited about this space in Generative AI and we continue to make significant inroads in the Generative AI area. And we're happy to report that we won our first contract in the Generative AI space in the past quarter. This is a marquee engagement for us to modernize the productivity requirements of our clients using Generative AI.

We will continue to grow our India business with a sharp focus on annuity business. Our endeavor is to move up the value chain and make Sonata a preferred partner for everything related to cloud and data and really continue to drive end-to-end contracts with these clients.

We have kicked off our endeavor to build trusted partnerships with leading hyperscalers and other key players who can strengthen our modernization play. Happy to report with Microsoft, we are now a Microsoft cloud solution partner and have completed 13 more advanced specialization with Microsoft. With AWS, we continue to grow strength-to-strength and really working with them to drive a high level of 'Join with the Market' jointly with them.

With that, let me move on to the talent. People success remains core to our success as we move forward as we scale the company. We launched Sonata Career Academy to offer access to vast



content and opportunities to Sonataees to learn the latest technology and continue to remain a value-added provider to our clients. We're very happy with the progress we're making at Sonata Career Academy.

On the diversity and inclusiveness, we formed a global council for D&I in the company and we are really pleased with the progress we're making on our D&I charter as well. From a women empowerment perspective, we were delighted that we hosted or partnered with the Women's T20 cricket franchise and really it helped us strengthen our brand as well as our commitment to the D&I initiative. Based on the above updates and progress we have made; whether it is the M&A which is largest ever acquisition, whether it is the large deal which is the largest ever deal in Sonata's history, whether it is the D&I investment that we are making, our teams have come up with this theme called Play Big and this is the Play Big Sonata that you have seen and we're very delighted with the progress overall we're making.

With those broad strategic goal updates, let me move on to Q4. In Q4, our international services business grew by 8.6% overall. Within that, organic grew 4.5% quarter-on-quarter. Well pleased with the progress with those numbers. Our yearly numbers growth in the international business was 18.7%. In constant currency terms we witnessed 8% quarter-on-quarter and 23.1% full year Y-on-Y growth. Our operating margins were 23.9% normalized after the onetime M&A related costs, which were Rs. 17.1 crores pre-tax. But with those incorporated, our operating margins are at 20.7%. The gross contribution in our domestic business grew 2.9% sequentially and 28.8% full year Y-on-Y. FY '23, our PAT grew 20%. Consolidated PAT grew 7.8% normalized if you back out the M&A related expenses in the quarter.

We had a net headcount growth of over 702 employees within the company and that excludes Quant. We really grew the headcount significantly in the course of the quarter and this also includes the 140 freshers that joined the organization in Q4. We continue to make steady progress on reducing our attrition. In the quarter, the attrition came in around 12%.

In summary:

We continue to remain optimistic about the long-term growth prospects, the progress that we are making whether it's large deals, M&A integration as well as driving capabilities in the company. In FY '24, as we start the new fiscal, we have 2 tailwinds 1 potential headwind. The 2 tailwinds are the large deal that we announced and the Quant acquisition we announced. And then there is a potential headwind on the TMT softness in few select clients. All-in, we expect to deliver a strong upcoming quarter and expect to stay bullish about our growth prospects in FY '24 and we expect to deliver a Top 25% quartile performance in the industry. With that, we remain on course for our \$500 million goal and deliver a high growth in FY '24 and this growth will be higher than FY '23 in dollar terms.

With that, thank you and let me turn it over to Jagan for his comments on our financial performance. Jagan?



Jagannathan CN:

Thanks, Samir. Thanks for your update. Good morning, good afternoon, good evening, all.

We had a very exciting quarter and delivered yet another quarter of industry-leading growth. It's my pleasure to present you the Q4 '23 Financial Performance.

The revenue for the quarter grew by 8.6% quarter-on-quarter and 18.1% year-on-year. In rupee terms, it was 9% quarter-on-quarter and 28.9% year-on-year.

In constant currency terms, we have witnessed 8% quarter-on-quarter growth and 21.2% year-on-year growth. Other metrics. Consolidated EPS for Q4 was Rs. 8.10 per share and Q3 was Rs. 8.40. Financial year '23 was Rs. 32.60 compared to Rs. 27.2 per share last year. At the consol level, ROCE stood at 36.8%. There was a small drop in the ROCE compared to last quarter. This was due to the additional capital employed of 4% during the quarter. 6% increase in the network and 3% drop in consol PAT presented in the decrease of RONW from 40% to 36.5% in this quarter.

Profitability in Q4 PAT grew quarter-on-quarter 7.8%. Normalized for onetime M&A-related costs of Rs. 17.1 crores gross pre-tax and the reported PAT declined by 3.3% quarter-on-quarter. For the financial year '23, year-on-year PAT grew by 23.5% on a normalized basis and 20% on a reported basis. Q4 consol PAT percentage was 5.8% against 5.2%. Normalized basis Q4 PAT stood at 6.8% compared to 5.2% reported last quarter. Q4 consol EBITDA percentage was 7.9% against 6.9% in Q3, on a normalized basis, consol EBITDA stood at 8.8%. The International services EBITDA before ForEx and OA reported was 20.7% against 23.8% last quarter. However, on normalized basis, we have improved 10 basis points and the EBITDA before ForEx and OA is actually 23.9% for this quarter. 350 bps quarter-on-quarter drop mainly because of salary increment had a net impact of 97 basis points, onetime M&A costs and related costs was 330 basis points, exchange realization and working days have given us a benefit of 56 basis points and Quant profitability impact was around 46 basis points.

Here in the exceptional segment for the index due to M&A was actually the full quarter amortization impact was about what we are expecting from the next quarter. Just for the update of the analysts. We will have an amortization impact of around Rs. 9.5 crores per quarter. Then interest on the loan what we have borrowed is roughly around Rs. 505 crores. And the interest on deferred consideration, which is an accounting entry as per the Ind AS and equal to IFRS, this amount is about Rs. 8.5 crores and the total is about Rs. 23 crores impact every quarter.

The interest on loans will come down once we start repaying the loan and we are expecting to completely repay the loan in 12 to 15 months' time. And the interest on deferred consideration will sharply drop after the first payment happens in the January, February of 2024 and further it will keep coming when the amount is paid fully, this amount will completely go off.

However, the net amortization amount may continue for a slightly longer period of time when the intangible assets are amortized. The domestic gross contribution grew 2.9% sequentially



from last quarter and full year was 28.8% year-on-year. Key update apart from these financials what I have given, the utilization moved from 84.2% to 86.4% led by optimization of the headcount and higher deployment. Added 50 new customers compared to 20 customers' last quarter. Top 20 client concentration sustained at 66%. Number of million-dollar customers have increased in Q4. \$1 million to \$3 million was 43, Q3 was 37; and 4 increase from Quant additions happen during this quarter. \$3 million to \$5 million customers are 7, 3 increase and out of that, 3 was due to from Quant. And more than \$5 million customers are 8, 5 in last quarter, 2 increase from Quant. We have mentioned about the new industry vertical classification in the previous earning call.

TMT vertical has contributed to 31% of the revenue, Q3 was 33% followed by 26% in retail, CPG and travel and hospitality industry, which was 21% in Q3. Cloud and dynamic competency have contributed 36%, which was 35% in the last quarter and 37% of the revenues, respectively. So, total headcount moved from 5,727 in Q3 to 6,429 in Q4. The net headcount growth of 700 employees within the company. Excluding Quant, it was 209 additions.

In summary, we continue to remain optimistic about our long-term growth prospects. And for the quarter and for the year, the final dividend we have declared is Rs. 8.75. With this, the total dividend comes to Rs. 15.75 for the whole year. And we continue to be very, very optimistic on the growth and, as Samir mentioned, we are very positive in the direction of achieving the \$0.5 billion in the next 3 years.

Thank you all. Hand over for the questions.

Moderator: We will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital.

Baidik Sarkar: Congrats to you and the team on a very good print. A couple of questions. Samir, basically your conversations today and notwithstanding the deals that you've already won, what is your level of satisfaction around the quality of the large deal pipeline conversations that you're having and how do you feel about conversions going forward? And on the same line, Samir, over the last couple of quarters you are on track and especially since you've come in last year. There's been a good amount of qualitative discourse on the new areas of growth in the future. My question is how the legacy part of our business doing, right? What's the outlook on the Microsoft part of our business that has gotten us here so far? So, your comments on these and then I'll come back with the follow-on points.

Samir Dhir: Thanks for the question, Baidik. I think the 2 parts. On the large deals, qualitatively the way to think about it is 2 stages. Number 1, as you know, we have invested significantly in the modernization engineering aspects. We continue to see a strong demand pattern on the modernization side especially all industries, which are consumer facing, whether it is retail, whether it is health care we continue to see that momentum come through from a modernization perspective. Even in these times while customers are more calibrated, but they have continued



to spend and invest in these consumer facing modernization initiatives. So, we don't see any significant slowdown on that front. Of course, there are some decisioning delays here and there, but by and large the momentum is pretty robust.

On the cost takeout side, the second bucket, I think there are conversations happening. But really seeing the adoption of emerging areas, whether it is the Generative AI area, whether it is the modernization automation story of hyper automation. I think that's the second bucket that we see. At a high level, I would say about 70% to 80% of our deals are much more modernization oriented and only 20%, 30% of the deals are perhaps more on the cost takeout side. So, that's the way to think about it. And I think we're pretty bullish about this because as customers continue to spend and refine their front stores, we believe we have an opportunity to look at that capability and drive that acceleration from a large deal perspective.

On the second part of your question about the Microsoft relationship that Sonata has enjoyed over 30 years. I think that continues to grow quite well. We are very happy about the progress we're making and let me give you some color on that, Baidik. There are 2 parts. So, there is of course a dynamic, which has been the strong suite of Sonata over the years. We are continuing to see a good pipeline build because Microsoft is themselves making good progress on the dynamics side to very good relationship.

And the second part is we are beginning to see adoption of power platforms, which is their low-code/no-code version of the tools. We continue to see good momentum and for one of the telecom clients, we've been commissioned to create a flurry for them in the power platform to drive the low-code/no-code adoption. Early days, we can't declare a full success on the low-code/no-code power platform from a go-to-market perspective. But what we're seeing right now is quite tremendous progress investment as well.

Baidik Sarkar:

That's helpful, Samir. In terms of the large \$160 million deal that we've won, the very basic math such as starting Q4, the ramp-up works out to about 6% and sequential revenue growth. Is that math assumption right or would you caution us on that assumption?

Samir Dhir:

So, I think the \$160 million 10-year deal, I think it's pretty linear in nature. I think the first 1 or 2 quarters the ramp-up will begin gradually and then it will fully get ramped up by later in this year sometime in second half. So, I think we'll continue to see that come through in the next, I would say, 1 to 2 quarters, that will ramp up and scale of the deal coming through. Beyond that, it should be pretty linear by and large. Of course, some seasonal effects happen with retailers so we do continue see some seasonality effects in this deal also perhaps slightly more uptick in the Christmas period and seasons like that. But apart from that, it should be linear.

Baidik Sarkar:

I'm sorry, do you say we'll begin to see a ramp up in Q2 or was it Q1? I'm sorry.

Samir Dhir:

It's already ramping up now, but the full ramp-up of the deal will happen in Q2. It's already ramping up right now.



- Baidik Sarkar:** So, in terms of Q4, how many deals impact would that have? I'm just trying to see what the variability in Q1 will be.
- Samir Dhir:** So, Q4 was almost negligible.
- Baidik Sarkar:** Sorry, come again?
- Samir Dhir:** Q4 was almost negligible. I think you continue to see a big impact in Q1 and the final one in Q2.
- Baidik Sarkar:** And the final question for Jagan. Just to understand, did I hear it right, the noncash impact starting Q1 will be about INR23 crores a quarter. Is that right?
- Jagannathan CN:** Correct. You're right. That is below the EBITDA due to acquisition. And this was like except for the interest on the loan, the rest is more of an accounting entry, a noncash item.
- Baidik Sarkar:** I understand. I missed the third component of FY '23. So, Rs. 9.5 crores on amortization, Rs. 8.5 crores on interest. What was the third component of that?
- Jagannathan CN:** This is interest on loan is Rs. 5 crores.
- Moderator:** The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Sir, I missed the initial part, but did you say there is softness in travel vertical for 1Q. So, first is how should we read 1Q outside the large deal ramp up and Quant acquisition? And second was related to this headcount, was there some reclassification between domestic and international IT because now our number looks like 300 plus? Initially it used to be around 170, 180.
- Samir Dhir:** Let me take the first part and I'll let Jagan to take the second part of the question. On the first part, we continue to see good demand pattern across our industry. What I was alluding was on the high-tech side, Mohit. We have seen in few clients, there is some softness in decision delay. That's the headwind I was talking about. But apart from that whether it is retail manufacturing, health care, life sciences, even banking; we continue to see a good strong demand momentum going on there. It was not travel.
- Mohit Jain:** TMT is like almost 1/3 in that sense so we should expect some impact there in the first half. Is that a fair assumption?
- Samir Dhir:** Few clients, yes, but not overall. The growth rates have come down, it's not that the growth is coming down. It's not about degrowing, but the growth rate has come down in the high-tech vertical.
- Mohit Jain:** And you do not see challenges in the rest of the verticals like retail manufacturing?



- Samir Dhir:** No, we are not seeing. We are not seeing any challenges right now. Jagan, do you want to take the second part, please?
- Jagannathan CN:** Yes. Mohit, can you repeat the second part of the question?
- Mohit Jain:** So, I was looking at the headcount split between international IT and domestic so it looks like there is some reclassification of headcount between the 2 segments. Domestic now shows close to 400, but earlier it used to be around 200, 180 kind of level. So, some employees have moved from here to there?
- Jagannathan CN:** Yes. Originally the services part of it was with the international services side of it. We have moved some people who are providing service, which is integrated with the license sales, they were in the international business. Now they have completely been aligned to the India business only.
- Mohit Jain:** So, when you say services business, you're referring to the cloud part of it?
- Jagannathan CN:** I'm referring to the entire for the licenses whatever is required to be done. There are some technical support required for that portion.
- Mohit Jain:** Okay. So, when we are trying to calculate your, say, productivity, et cetera, we should only consider the headcount which is now disclosed in international IT, right?
- Jagannathan CN:** Correct. Yes, you're right.
- Moderator:** The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.
- Chirag Kachhadiya:** Sir, couple of questions. I start with the international vertical first. What challenges do we see for FY '24 and '25 vertical-wise and geography-wise? Second, the acquisition which we have done, I guess it's the largest one in the entire Sonata's history. So, are there any couple more acquisitions you would consider in the near future to expand our international services business? Third question on supply side pressure, what catalysts or a positive tailwind we are expecting in FY '24 versus what we have experienced in FY '22 or in '23?
- Samir Dhir:** Let me take the questions one by one. So, on the overall growth forecast and the pipeline that we are seeing at this point in time, across verticals and geographies we continue to see a good pipeline build for us. Like I said, the only area we've seen some softness in the high-tech space for a few customers where there are decision delays and the growth rates have come down to what it used to be. But beyond the high tech or the TMT sector of Sonata; whether it is retail manufacturing, whether it is banking, health care, life sciences and emerging; all across we're not seeing any softness at this point in time. Across geographies, the same story continues whether it is U.S., Europe, Far East, Australia, New Zealand and India; the growth momentum



is relatively robust across all geographies. So, we can't call out any particular geography, which is either underperforming or completely not to our satisfaction. So, we don't see that pattern as yet on that first question.

On the second part of M&A, we've said this before. We will you continue to look for assets and properties which are going to cover our white spaces in the modernization engineering space and the verticals that we are going after. At this point in time, we just announced an acquisition. We are really head down integrating that asset and like I said earlier, we're fully integrated from a go-to-market perspective point already. We want to maximize that integration and really deliver to the promise that we feel is in front of us after integrating it. But beyond that, if there are good possibilities available, we're absolutely happy to consider and take it on value as long as it meets our strategic objective on modernization engineering. And the third, let me hand it to Jagan on the supply side. Jagan, do you want to answer the supply question.

Jagannathan CN:

On the people supply side, your question was more on people supply side, right? So, the market has stabilized a little bit more now compared to what it was last year and we are continuously improving the process and the attrition levels have come down dramatically across the industry segment. There are particular segments, which is like a specialized segment where still there are some shortages and we are still looking out for hiring people. But it is far, far better than what it was in the last year, substantial improvement that we are seeing and that reflects in the attrition, that reflects in the headcount and all this area. So, we continue to invest in people and add people and these campus hires also, which are continuous process for us now. Last year, we have honoured the complete campus additions what we promised, we have completely taken them onboard.

Chirag Kachhadiya:

Okay. Sir, I have 1 follow-up question on domestic business side. The margin profile of this business is relatively low compared to the international. So, what levers are there? And also, from 3 years' perspective, what's planned there for the domestic business?

Sujit Mohanty:

This is Sujit this side. As you said rightly that obviously the margins are not comparable to international business, that's true. That is the characteristics of the business and that is known. As far as the levers are concerned, see, there are 2, 3 things what we do to maintain or increase our margin. One is obviously to make sure that we get involved in the customer implementation process and the adoption process, which gives a little bit of advantage to us in terms of managing and increasing our margins or to run some of the transactions.

And the second thing what we do is that there are various skills which comes out from the OEMs, that means the hyperscalers or other OEMs whose product and technology we sell to the customers and we make sure that all our GTMs are aligned to these new skills and the new rebate programs which are there and that helps us in building our margin.

And the third thing what we do is that to enhance the competency level and to make sure that we are qualified and certified in the areas in which the OEMs are promoting their products. So,



these are the 3 things what we do to make sure that we maintain and increase our margins. And regarding the future view of the business, I think it's a growing market in India. And as Samir has already explained, we have put lot of effort to have a very large market share in terms of the annuity business. Currently, we are almost having 75% of our business as annuity business and that gives us the levers to have a much larger growth because once the base is there, we can focus little bit more on the new accounts and the new customer status and that is what we continue to do.

Moderator: The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Couple of questions. First question is about the international business outlook. We aspire to reach \$500 million by '26 end which maybe implies 4.5% kind of number. So, just want to get sense or overall thought process about M&A versus organic growth as far as in this 4.5% kind of number? Second question is about vertical-wise. You partly alluded about the challenges in high-tech in some of the accounts. So, what's your sense about that stickiness continuing or whether you expect it to be temporary or you think some of those things may continue or prolong?

Samir Dhir: So, let me take both the questions. So, the first one first. Yes, we have talked about \$500 million in about 4 years' time in October 2022, which is still our goal to get there and I think all the indications are we might get there slightly sooner than the 4 years that we had outlined. But keeping that aside from an M&A and organic perspective, our philosophy is right now to drive mostly organic. But if an inorganic acquisition comes through, we are not going to be shy of that. But our plan is at this point in time to drive this with all the acquisition that we've done to date and really set them out. But if there are some tuck-ins we need to do along the way, we'll take them on and integrate them fast with the base business and move forward. That will be the philosophy that we'll follow, Dipesh, on that.

The second point about the high-tech. I think the trend we are seeing is the pipeline continues to be strong in high-tech. We are seeing some decisioning delays in few clients. Our sense is as far as we can see, we should start to see an uptick latter half of this current fiscal, mid part of Q2 to late part of Q2 I think the high-tech sector should come back to its original growth curve that we are anticipating. So, we think it's about a couple of quarters of the slowdown in decisioning delays at this point in time. It's hard to predict. But as far as I sit here right now, that's our current best estimate, Dipesh.

Moderator: The next question is from the line of Sameer from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Just 1 clarification. We have also highlighted that our total revenue on Sonata level is \$900 million. This will reach \$1.5 billion in next 3 to 4 years. So, if I look at the implied growth for domestic business, this is only 10% to 15% growth versus the 30% growth that we are currently growing. So, is there something I'm missing out on for the growth profile for domestic business for the next 3, 4 years?



Samir Dhir: Sameer, good question. I think you should continue look at these 2 businesses separate. Unfortunately, or fortunately, we provide consolidated numbers, but keep that consolidated numbers aside. The international business will get to \$500 million mark in 4 years from October 2022 or sooner and we're pretty bullish about the fact that that should happen. And we feel there is very low to limited risk unless the core market conditions do not change, we feel pretty strongly positive about getting to the point. On the domestic business, as we've always outlined and I think Sujit answered this question earlier as well, we should really look at the gross contribution in absolute numbers perspective. Our focus is to drive DC gross contribution on an absolute number perspective. Of course, from a consolidated perspective, they will look at the overall revenue. But those are the 2 broad metrics that we continue to focus and drive as such.

Sameer Dosani: And secondly, I mean I think you would have answered, sorry if I missed it. Any indication around how should be the growth profile in the domestic business from a gross contribution point of view or any commentary around that? That would help.

Sujit Mohanty: So, if you see for the last 2 financial years, we have maintained a very healthy growth and this year also year-on-year, I think we are around 23% of gross contribution growth. And going forward, we believe that should be maintaining this growth momentum. Have I answered your question?

Sameer Dosani: Yes, it does. And Samir, if you can speak about the average size of these deals. We have seen 9 large deals excluding the 1 large deal that you have quantified already. What is the average size of the deals? That is one. And second, if I look at the large deal \$160 million deal that you have pointed out, is this margin diluted at the start because that's how large deals typically work? So, if you can comment around that line.

Samir Dhir: Sameer, so let me take the second question first and come to the first part. So, the large deal which we announced is a really marquee client in the retail space. They are highly profitable, double-digit profitability and a very strong cash flow. Our margin profile on the deal itself is actually accretive in the 10-year period, which is better than the average margin profile at Sonata. Having said that, in year 1, there will be dilution because we are doing transition and investments are there in the deal. But beyond that in second year onwards, it will pick up and as time progresses will continue to increase the margin profile in the deal. So, that's on the large deal.

From the other deal that the 8 or 9 deals that we announced in the course of the year, Sameer, I think these are all multimillion contracts and it's hard to put a number because they start as modernization programs, but they are multimillion and multiyear contracts. And they are in multiple millions product and where we can share numbers, we shared with you. For example, the \$160 million we could share were very definitive under the clients end up with. But most of these are in that zone of couple of million a year, year 3 we see the deal turn slightly bigger, sometimes 3-year annual contract and 3-year deal. So, it's very hard to put a number, but it's in that zone of multiyear multimillion deals.

Sameer Dosani: And if you can comment around the growth rate or the run rate that Quant is running at? We saw we had the CY '22 number that you disclosed. But if you can comment around the current growth rates in the Quant business, how it's trending right now?

Samir Dhir: It's pretty much aligned to what we outlined when we announced the acquisition 2-3 months back, Sameer. I think they are in that zone of low 30% growth rate and low 30% EBITDA, I think that momentum will continue. There is a lot of synergy that we are driving on top of it, which will be on top of it that will drive collectively with them. Think of Quant on a stand-alone basis, which is although too hard to differentiate now because it's fully integrated at this some in time. But we are confident they will deliver low 30s growth on their own as it was.

Sameer Dosani: And lastly, just to clarify, our wage hike is behind us, right? Q4 was a wage hike quarter and that's behind us.

Samir Dhir: Jagan, you want to answer that, please?

Jagannathan CN: Pardon, your question again?

Sameer Dosani: Wage hike is already behind us, right?

Jagannathan CN: No. There is 1 part of wage hike we have done in the quarter 4. There is 1 more part of wage hike and that is for senior management is still there. It will be roughly half of the 50%, 60% of the wage hike impact of what we have done in January.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Congratulations on a good set of numbers. Largely I mean I wanted to understand the Quant Systems company that we acquired. There were 2 clients, I mean 1 on the health care side and on the BFSI side, these 2 large clients which we are looking at. So, just wanted to understand what is our strategy in mining these accounts specifically and what kind of mining are we going to have in these 2 large accounts? That was my first question.

The second question was on the EBITDA margins. I mean currently the international part of the business we are having 23%, 24% kind of EBITDA margins and we are mentioning about EBITDA margins looking at early 20s kind of a number when we are looking at \$500 million kind of a business. So, just wanted to understand what kind of investments are we going to make for this EBITDA margins to get compromised? And how are you looking at the trade-off between growth and margins specifically in that context? And my third question was on the domestic part of the business. I mean is the domestic part of the business seasonally weak in 4Q? So, I just wanted to have an understanding. I mean is 4Q a seasonality for domestic part of the business and why is it so? So, those were the questions.



Samir Dhir:

Maybe try and answer one by one. So, on the Quant side, there are more logos beyond the 2 or the 2 are very large logos. Our strategy is fairly simple. If you think of Quant, they are experts in enterprise data and data privacy. What we are doing is working with them to create larger deals, which are more end-to-end in nature to really bring Sonata capabilities whether it's in automation, whether it's on modernization, whether it is on front-end engineering. We're really taking the entire suite of Sonata capabilities into these 2 large accounts and other accounts with Quant as well in creating mid-sized and large deals both. And we're very happy with the progress that we have made. We put investments from Sonata side into Quant business to drive some of these deals as well to really integrate the go-to-market like I talked about earlier.

So, our strategy is fairly simple. Take our capabilities into all accounts of Quant and likewise the enterprise data and data privacy capabilities of Quant, take them into Sonata accounts and really drive a full end-to-end integrated business. And like I said, we are very pleased with the progress that we have made in the last 6, 7 weeks. At this point in time, the go to market is fully integrated. On the EBITDA side, I think we have talked in the call about this earlier as well. We will invest 1.5% to 2% of our EBITDA in terms of our go-to-market, large deals capabilities and general capabilities broadening for Sonata as well. It's something that we've outlined about 6 months back as well. And hence we believe fairly confident we can still deliver this type of investments low 20s EBITDA go forward as well. When you think of us, it will be a low 20s EBITDA company in about 3 years' time as we get to the \$500 million mark, I'm talking international business alone in that sense, which I think is a pretty good trade-off because we're really investing the cash we're generating and investing back in the business to really drive growth and take market share aggressively. But we know we've probably seen competition commentary. Most of the competition is declaring slowdown in the coming years, but we hopefully learned about what is in front of us in the year. And that's really driven by our large deals' investment, our M&A investments and another investment we made today broadened services. Of course, we are cautiously watching the high tech space and I alluded to this earlier. The next 2 quarters we are seeing some softening in few clients in high-tech. But beyond that, it's a pretty solid momentum that we contribute to. That's the second part of the question.

On the third on domestic, I'll start and then Sujit can build on this. The business in itself has seasoned contracting and billing cycle, it generally come around in Q3 of the fiscal year and Q4 seasonally also is a relatively different quarter compared to others. But if you really look at Q4 Y-on-Y, we have done very well in the domestic business as well. I think Y-on-Y our business will be 31% plus or higher. So, if you take the seasonality factor piece here, the business continues to be robust and we're feel pretty bullish about it. With that, maybe Sujit wants to add a few points on that. Sujit?

Sujit Mohanty:

Just to add what Samir said, yes, there is some kind of seasonality in the sense that especially on the revenue side what happened, there can be some quarters as we are seeing especially in the Q3, there are multiple very large contracts which are there in that particular quarter. And because our annuity business is so high, what happened year-on-year, the same large contracts get built in that particular quarter. And it also depends on our OEM with whom we were working. A lot



of times what happened based on their financial year-end, lot many large deals can get concentrated on a particular quarter. So, that is what you see specifically between Q3 and Q4 what Samir was explaining. And in our business, we don't have too much of control in the revenue. So, what basically we try to make sure that we focus on the margin and return on capital employed because it is little bit difficult to control the size of the contract what you are getting, what the business what we really focus is having good contract and good margin. Hope I have answered your question?

Mihir Manohar: Sure, yes. That's really helpful. And best of luck for the overall journey.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Sir, just wanted to understand on the acquisition side, are we looking to do more acquisitions and what is the timeline for the same?

Samir Dhir: Thank you for your question. I think our strategy is to really look for properties, which help us clear the white spaces in the modernization engineering space and we'll continue to do so. But at this point in time, like I alluded earlier, we've just done the largest acquisition ever in Sonata. We are head down making sure that we maximize the opportunity in front of us in the Quant integration and go-to-market and that's really where our focus is. Having said that, if we do intersect a company which is of interest and helps us sell our white spaces and from a modernization engineering perspective or vertical point of view, we'll be happy to consider it. But that will be more whether it meets the need rather than we look for an acquisition proactively out there. We'll continue on that same strategy. Does that answer your question?

Pallavi Deshpande: Yes, that answers that question. I have a second question if I may. On the Generative AI side, you mentioned earlier the contract size. I was wondering if you could share what was it?

Samir Dhir: We're very excited about the Generative AI space. So, I think there are 2 ways to look about it. First of all, we have implemented several use cases within Sonata on Generative AI ourselves working with some of our partners. But beyond that, we have had 2 significant wins in the Generative AI space. One, which is more on driving the productivity in our customer support area for our customers to use Generative AI to drive high level of productivity using the Generative AI capabilities. That's 1 contract that we have won. And the second is in the health care space, which is what we call a safe GPT, which is really providing the security cover using the Generative AI content. So, that's the second one that we won in the course of the quarter.

Moderator: Next question is from the line of Dhvaneet Savla from DN Trading. Please go ahead.

Dhvaneet Savla: I have just 1 question. It's on our employee cost. As I heard earlier in the call that only a part of the increment has been processed in this results. I just wanted to know that when will the other



half be seen in the results, I mean which quarter and to what tune does it actually affect our margins or our productivity?

Jagannathan CN: Yes, I'll take the question. The increment for the second part of the senior management will be in Q1 of this year and it will be roughly about half of the impact what we have given for the -- what increment in Q4 what it had.

Dhvaneet Savla: So, I mean apart from that, there are no out of the cycle increases in the employee cost which we are featuring right now, right?

Jagannathan CN: Yes, that's what I was mentioning also. The people supply side of it has improved dramatically compared to what it was last year. So, we are not giving out-of-cycle kind of thing at present. The people supply side and attrition has come down and people supply side has improved a lot this year compared to last year. So, there is no expectation of out-of-cycle increments for anybody now.

Dhvaneet Savla: That's great. All the best for the coming quarters. Wonderful set of numbers.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Samir Dhir for closing comments. Thank you and over to you, sir.

Samir Dhir: Thank you, operator. And thank you all of you for joining the call and for your valuable time. Like I said earlier, we are very excited about the quarter that we just closed. So, some very exciting things happened in the quarter. We closed the largest contract, we closed the largest M&A and we continue to see good momentum. There are 2 strong tailwinds behind us based on the large deals and the M&A and then there is a small headwind of this high-tech for the couple of quarters will be in front of us. But overall, we continue to be very bullish about our business momentum both on the domestic side and the international side. And we really thank you for your support in the journey. Thank you. With that, you can close the call.

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