13th February, 2025

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 31st January, 2025 and 6th February, 2025, please find enclosed Transcript of Analyst/Investor call of the Company held on 6th February, 2025. The same is also made available on the website of the Company at https://www.sonata-software.com/about-us/investor-relations.

Please take the same on record.

Thanking you,

Yours faithfully,
For **Sonata Software Limited**

Mangal Krishnarao Kulkarni
Digitally signed by Mangal Krishnarao Kulkarni
Date: 2025.02.13 17:25:48 +05'30'

Mangal Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above

"Sonata Software Limited

Investor Conference Call"

February 06, 2025

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

Moderator: Ladies and gentlemen, good day, and welcome to the Investor Conference Call of Sonata Software Limited. 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.

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

Samir Dhir: Thank you Chorus Team. Good evening to all the participants. I welcome you to this conference. Today, we will share our strategy, the progress we have made in the recent quarters, our strategic plan and the financial results for Q3 FY '25, the quarter that ended on December 31, 2024.

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 our growth trajectory for Sonata. First, I will provide you an update on our strategic goals and then we will discuss our progress for Q3 FY '25.

So let's talk about strategy and goals first. We aim to be one of the fastest-growing modernization engineering companies, powered by a unique platformation framework and AI. In the current context, while there are macroeconomic challenges, a slowdown of tech spending and decision delays, we continue to build for scale and drive towards our key bets. And our bets include number one, to continue to win large and midsized deals, building on our successful track record, YTD FY '25, we have won eight large deals so far.

Number two, deepen and diversify our partnership with Microsoft, AWS and other key strategic partners and to help win new logos of Sonata and scale those logos to be the next $10 million, $25 million accounts for Sonata. YTD FY '25, we have added 16 new enterprise-grade logos that will scale over the next 2 to 3 years.

And number three, scale our capabilities and continue to build out modernization engineering capabilities with the AI, across all our competency areas consistently. And we want to achieve our goals in our four verticals, which is Healthcare/Life Sciences, Banking, Financial Services, Insurance, Retail Manufacturing Distribution and TMT, which is Telecom Media and HiTech.

With investments in Healthcare, Life Sciences and Banking Financial Services verticals, which we incubated in the second half of 2022. And we want to do this across by geographies, which is North America, U.K., Europe, India and Australia. With our differentiated Lightning tools, IP and our offerings, we are steadfast in our pursuit of delivering value to our clients and their modernization needs.

With that, let me provide an update on large deals. Our large deals pursuits are a significant part of our strategy. 44% of our large pipeline is from Fortune 500 clients. I'm delighted to share with you two significant wins we had in Q3 FY '25. The first win is from a Finland-based mining and construction technology leader. Our teams will drive modernization and transformation by leveraging AI, Dynamics and our integration capabilities. Sonata will deploy the solution across 26 countries over the next 3 years.

The second large deal, we won in the quarter, where our client offers technology solutions for transportation and voice management data management and network optimization. We will be a strategic partner for modernizing our client's 20-plus year old SaaS-based platform through an AI-powered Cloud and data modernization stack. This is a net new client and a large deal for Sonata book.

In both these deals, our teams have leveraged Sonata's deep AI capabilities for process transformation, modern AI engineering tools and platform-driven data modernization. Let me provide an update on AI, which is our big bet. As stated earlier, we expect 20% of our revenue from AI-enabled services in the next 3 years. We have 58 million pipeline across 100-plus clients on AI.

We enable our clients to leverage AI in three different ways: number one, driving efficiencies for them. number two, driving higher consumer experience and modernizing sales for them; and number three, driving innovative business models for our clients.

Our Harmoni.AI platform is critical for our recent deal wins and subsequent AI model implementations. For Banking Financial Services and Healthcare, we're making significant progress in implementing GenAI, using Small Language Models for cost efficiency from fine tuning, we're implementing Agentic AI for driving hyper automation in our transformation programs.

Some of the key programs we are delivering include, for Healthcare client, we are building their GenAI platform, including forming their enterprise-wide CoE. On our travel clients, we're building a co-innovation AI lab and implementing modern engineering across their software development life cycle. For our financial services client, we're building AI-enabled intelligent document processing capabilities. We are delighted that Sonata has achieved AWS' Generative AI Competency.

By harnessing AWS' GenAI technologies and advanced AWS DevOps services, we are well positioned to elevate customer experiences and provide hyper personalized content. We are also a proud partner of Microsoft's Partner AI Council. In partnership with the Victorian government, we announced our commitment to set up an AI Center of Excellence in Melbourne, Australia to meet the growing demand for GenAI and Data Solutions. The center is expected to create around 100 skilled jobs in Melbourne over the next 3 years.

Approximately 87% of our organization is now GenAI trained. This improvement demonstrates our unwavering commitment to upskilling and the immense potential of AI across our operations, ensuring that we are well prepared for the future.

The fourth update on scale, and scale to build our capabilities in our verticals and technology capabilities. Our invest verticals of Healthcare, Life Sciences and Banking contribute now to 35% to 40% of our revenue up from 13.5%, 11 quarters ago. So in 11 quarters, we moved the dial on close to about 14% to close to about 40%, a significant movement, and that's above when Sonata has grown in the last 2 years significantly as well.

We expect our investment verticals to reach 250 million in revenue in the next 3 to 5 years' time. The following are the key bets to help scale our moderation offerings. Number one, Cloud and data. We have continued to progress in the Cloud and data pipeline. Now Cloud data is about 44% of our overall pipeline. We are seeing increased demand for our data-driven deals. Our revenue from data modernization has grown from 13% to 26% in the last 11 quarters.

Second, Microsoft Fabric, which we have talked to you about in earlier forums as well. Sonata is proud to be Featured and Launch Partner for Microsoft Fabric, a data analytics platform for the era of AI, which we call as infrastructure for AI, and it was made available in November '23. Since its launch, we have witnessed a significant pipeline build for fabric, which is at around about $70 to $75 million now from across 70 clients.

Dynamics in Q3 ‘25, we won one large deal, one I just now talked about earlier, is on Dynamics platform. And we are seeing a good momentum buildup in Dynamics, F&O, CE and Power platform across. SITL. our India business at ITM, which focus on annuity sales, continues to deliver strong, consistent growth and an industry-leading ROCE of 48.5% in Q3 FY '25.

Let me share with you some of the awards and accolades our team got in the course of the quarter. Sonata is now recognized as a Disruptor in HFS Horizons Azure Ecosystem Service Providers. Sonata is now also recognized as Disruptor in the HFS Horizons Quadfecta Services for the Generative Enterprise 2024. We're also recognized as an Aspirant in the AI Engineered Services in PEAK Metrics Assessment of 2024. We are also proud to share with you that recognized a disruptor in HFS Horizon, Best Service Providers for Commercial Banks in 2025.

With that, let me provide an update on talent. Our active head count increased to 7,000-plus up from Q1 FY '25 for 6,600, and we are pleased to cross the 7,000 mark. It's a significant moment for us to cross a 7,000 headcount mark globally. We added 182 people in the quarter. The last 12 months attrition was 14% and our gender diversity is at 31%.

During the course of the quarter, we implemented a compensation increase for our mid and senior management effective Q3. In addition, we continued with our campus hiring plans despite the market conditions and onboarded nearly 100 campus graduates during the quarter. Sonata University, which has been at the forefront of our capability building initiatives and continues to enable increased usage and acquisition of new skills such as GenAI.

Sonata SPARK Hackathon, our annual event to celebrate technologists at Sonata continues to celebrate creativity, collaboration and innovation at our firm. After months of hard work, our talented Sonatians, brought game-changing ideas to life using the power of AI and modernization engineering to drive value for our clients.

With that, now let me provide an update on our Q3 '25 performance. Let me start with the International Services business first. In constant currency terms, we have witnessed 4.4% Q-on-Q growth. Dollar terms, revenue grew by 2.8% quarter-on-quarter. Order booking for the quarter, book-to-bill is at 1.23 for the International business.

In the Q3 quarter, we have witnessed a tale of two cities for us. On one hand, we're delighted with the 4.4% constant currency Q-on-Q growth and robust broad-based growth in sectors like BFSI, HLS, and US. As a percentage of our overall revenue, BFSI and HLS have grown significantly Q2 to Q3.

However, on the other hand, during the quarter, we had unplanned ramp downs and one-time discounts for a large high-tech client. As a result, our TMT vertical de-grew due to sudden ramp downs and one-time discounts. This TMT large client ramp down and one-time discount has two impacts on our performance, and I want to share that with you.

First, on our Q4 revenue growth, we will have a full quarter impact of these ramp downs which happened during the course of the quarter. In prior quarters, we have indicated to you that Q3 and Q4 would grow strongly. While Q3 has been a strong growth quarter for us, we now expect Q4 to be a de-growth quarter for Sonata due to sudden ramp downs in this high-tech client and Quant seasonally weak quarter.

The second impact of this sudden ramp down is on our Q3 margins. Our EBITDA for Q3 quarter has a negative 3.5% one-time impact due to sudden ramp downs, one-time discounts, and the severance payoffs which we had to make. These costs are related to one-time discounts, and we do not expect them to occur in the upcoming quarter.

Let me provide an update on EBITDA. We talked about EBITDA earlier. EBITDA has sequentially declined to 14.6% in Q3. Utilization remained steady at 87%. Quarter-to-quarter, our headcount increased by over 150 FTEs in International Services. SITL business, the gross contribution in our domestic business grew 16.7% quarter-on-quarter. We are very pleased with our performance in SITL business.

The newly formed security operations center in our SITL business will be 20% of our gross contribution in the next three to five years' time. In summary, we were and are very optimistic about a long-term growth prospect. In the coming quarters, we will continue to face the tailwinds and headwinds, the tailwinds due to our large deals, our success in healthcare life sciences, banking, and the headwinds due to the sudden ramp down in the high-tech customers, specifically in Q4, and general slowdown in retail manufacturing.

Team Sonata remains committed to judiciously accelerating the growth curve and building scale for Sonata. I want to thank all the team members globally for their commitment, hard work, work ethic, and the quality of outcomes they delivered to our clients day in and out. Thank you. With that, let me turn over to Jagan for his comments on our financial performance. Jagan?

Jagannathan CN: Thank you, Samir, for the overview. Good morning, good afternoon, good evening to all of you. Let me start to update with international services business for Q3 '25.Our International Services revenue for Q3 in terms of dollar stood at INR87 million, which is quarter-on-quarter growth of 2.8 percentage, and in constant currency terms, it is 4.4 percentage. Our rupee revenue stood at INR731.7 crores, which is quarter-on-quarter growth of 3.4 percentage.

Coming to profitability, International Services, EBITDA before forex and other income stood at 14.6 percentage, down from 18.2 percentage in Q2 '25. The 360 basis point decline was mainly explained with the following factors. Large tech client, sudden ramp down in Q3, and one-time discount given to them. Impact of salary hikes was offset by SG&A savings and leverage we got in this quarter.

EBITDA after forex and other incomes stood at 16.1 percentage in Q3 ‘25. PAT for International Services stood at INR56.9 crore, against INR62.2 crore in Q2 ‘25. International services PAT decline was mainly explained by the following factors. EBITDA dropping by 360 basis point. Benefits include forex one-time tax benefits, unwinding of interest on debit consideration, and volume increase. At International Services level, Q3 2025 ROCE stood at 16.9 percentage, Q2 was 20.3, and Q3 RONW stood at 19 percentage, Q2 ‘25 it was 23.5 percentage.

Now moving on to the update on domestic business, our revenue in Q3 2025 stood at INR2,111.1 crore, which is 44.4 percentage quarter-on-quarter, and 17.3% year-on-year. Gross contribution for Q3-25 stood at INR81.9 crore, with 16.7 percentage Q-on-Q growth, and 14.9 percent year-on-year growth. PAT for Q3 2025 stood at INR48.1 crore, again INR44.3 crores in Q2, with 8.5 percentage quarter-on-quarter, and 12.8 percentage year-on-year growth.

The DSO for Q3 ‘25 is 41 days, compared to 35 days in Q2. DSO increased due to 28% of invoicing being in the last month of the quarter. ROCE for Domestic business improved to 48.5% in Q3, compared to 45.2% in Q2 ‘25. Consolidated EPS for Q3 ‘25 was INR3.78 per share, Q2 was INR3.84 per share, decreased by 1.5 percentage quarter-on-quarter. At console level, Q3 ‘25 ROCE stood at 23.1%, compared to 24.7% last quarter, and RONW stood at 26.3%, compared to 28.4% last quarter.

Now coming to cash flow updates, this quarter we delivered exceptional collection of INR3,138 crores, including 100 dollar million and in INR842 crores. Collection was achieved in the international services. As a result, our gross cash balance stood at INR672 crores and the net cash balance stood at INR176 crores.

Coming back to the update on operational metric. Total headcount moved from 6,908 in Q2 '25 to 7,090 Q3 '25, net headcount addition of 182. Utilization in Q3 '25 stood at 87%. Q2 was also 87%. We added 11 new customers in Q3 '25. Top 10 clients contributed 66 percentage in this quarter compared to 63% last quarter. Number of clients greater than 3 million run rate in Q3 '25 is 21 customers compared to 22 last quarter.

Vertical mix is as follows. TMT is 29%, retail and manufacturing is 25%, HLS is 11%, BFS is 30% and emerging is 5%. Revenue by top go-to-market, our data is 26%, Dynamics is 24% and Cloud is 37%. Q3 '25, order book bookings stood at 114 million and 1.23x of International Services revenue. Our International Services DSO for Q3 '25 is 47 days compared to 45 days last quarter. In summary, we remain optimistic about long-term growth prospects.

Thank you. With that, let me turn back to the moderator for question-and-answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from Mihir Manohar from Carnelian AMC.

Mihir Manohar: So I wanted to understand this. I mean when we see the international revenue, the CC growth is at 4.4%. Now there is a client ramp down, which has happened this quarter because of which the margins are in effect. So how to understand this? I mean, why is the revenue not down despite the ramp-down being there and there is only margin impact?

Jagannathan CN: Yes, the ramp down happened towards the end of the quarter. And this is going to have a one month impact we had in the customer for this quarter in revenue terms. But we had a cost impact because for the actions we have to take to reduce the cost. This will have a full run revenue impact in the next quarter.

Mihir Manohar: Okay. But the margin impact was for the full quarter?

Jagannathan CN: No, the margin is one time because we have to do a settlement to the employees.

Mihir Manohar: Understood. Okay. Because 350 basis points kind of an impact, I mean, more closely, INR20 crores kind of a number as an impact was there. Is that understanding correct?

Jagannathan CN: Yes. The revenue growth had a one month impact, and next quarter is going to be a full quarter impact. Margin had one-time because of the one-time cost we incurred in -- particularly in the nearshore location. We had an impact on the margin.

Mihir Manohar: Okay. Also if you can just broadly…

Jagannathan CN: We had a salary increase also.

Mihir Manohar: How Large would be this accounting with geography, hat kind of challenges are there in this account? I don't know why is it ramping down? Is it completion of a program or some vendor change? How do you understand that?

Jagannathan CN: No, this is a decision taken by the customer to cut down their cost due to the AI implementation and optimize it like 25 percentage, 30 percentage of cut -- bringing down the cost, they have taken an action on that.

Mihir Manohar: Okay. Understood. And my last thing was just on when you see…

Moderator: Can you use the handset mode, please? Line is not very clear.

Mihir Manohar: I wanted to broadly know, I mean when we see the healthcare at the start of the year, the June quarter, healthcare vertical had a client ramp down, now TMT vertical is facing some challenge. So what broader set of learnings or how to understand that we will try to mitigate such kind of ramp downs going ahead? So if you could provide some clarity around that?

Jagannathan CN: Yes, these are all very large -- the healthcare client was a new client, and we were investing to get the customer and then we had a challenge on that. But this is like an existing customer, one of the largest customers. So because of the size and because of our size, the impact is felt immediately for us.

Mihir Manohar: And what could be the impact in 4Q from...?

Jagannathan CN: These kind of events in the uncertainty in the market and uncertainty with the customer can happen if it is, but very rarely. It's not that it has happened in the -- regularly, it happens, but the TMT customer is like a one-time happening.

Mihir Manohar: Sure. And what sort of impact should we consider for 4Q for this account?

Samir Dhir: Mihir, this is Samir. I think there are multiple questions here -- part of your question. So this is a client that we are going pretty steady in the first half of the year. And in second half of the year, they decided to take some cost optimization efforts for their own budgetary reasons. And hence we had an unplanned ramp-down.

Mihir Manohar: I am sorry, Samir. You are not audible. If that's the problem with me only, I'm sorry.

Samir Dhir: Is this any better here or no?

Mihir Manohar: Yes, this is better, yes.

Samir Dhir: Okay. So I was saying that for this large customer, we were in a pretty good growth trajectory in the first half of the year. In the second half of the year, we started seeing some ramp down, which is due to largely because of their cost containment effort that they wanted to do to manage their own cost. So we had a ramp down mid to late November, early December timeframe. And now we'll see a full quarter impact.

This is a very stable customer, but we're going through sort of a seasonal change with them at this point in time. We think this effect will last fully for Q4. It might spill over to Q1, but we can't comment on it today. But this will come back on growth trajectory in a couple of quarters back again. This is not a permanent damage. This is a short-term blip that we're facing right now.

Mihir Manohar: Sure. So point taken. What could be the impact in 4Q because of this account?

Samir Dhir: Like we said, I think we'd expect a degrowth right now because this customer is still in a very much decision-making mode. So, it's very hard to predict how much is the impact.

Jagannathan CN: Yes. Overall, we are expecting about 2.5 percentage to 3.5 percentage of degrowth next quarter, including a seasonal impact.

Mihir Manohar: Okay. At the company level?

Jagannathan CN: Company level, correct.

Mihir Manohar: For the international IT services?

Jagannathan CN: Yes, yes, yes.

Moderator: We'll take the next question from the line of Hasmukh Devji Vishariya from Tata Mutual Fund.

Hasmukh Vishariya: Thanks for the opportunity. Just to follow up on the previous question, right? So here, if we look at all these high-tech customers are spending huge money on AI, right? So in that case, how one should predict all letdowns coming in -- this looks like one time, but probably because of future investment, we may ask for further discounts or cost rationalization. So how one should think about that?

Samir Dhir: Yes, thank you. Hopefully, I'm audible. So this customer, like I said earlier, was going quite well for us in the first half. Very stable customer, one of the large -- it is the largest customer for us in the high-tech space. We don't anticipate this effect to last long. We think it's one or two quarters' discussions that they're having.

And then post that, the growth will resume in this customer. But having said that, the reality remains in this current market, industries are going through cyclical effects. If you recall 1 year back, banking was in a slowdown. Now banking is up. 1 year back, TMT or high-tech customers are doing well, not TMT is down.

So we are definitely seeing in a year cyclical effects of some of these industries. And that's 1 of the reasons that we have diversified Sonata over a period of time, so we can have multiple bets in the market. That's why the 4 verticals that we have talked about is really important and core part of our strategy.

But right now, the impact because it is the largest client of Sonata, the impact is pretty deep for 1 or 2 quarters for us from a growth perspective. But are we worried about long-term prospects of the growth from this account? Absolutely no. We know we'll bounce back to growth either in later part of Q4 itself or maybe sometime in Q1, hard to predict exact timeline, but in the next 4 to 5 months, we should be back on growth.

Hasmukh Vishariya: Got it. So because let's say after DeepSeek these high-tech customers or large high-tech customers might have been taken back, as far as the huge amount they are spending on, let's say, Gen AI. So in that case, there may be in future a possibility of rationalization of costs, additionally, to what they have done in last 1 or 2 quarters.

Samir Dhir: It is possible. I mean, what you said is absolutely right, but it's also possible that they can decide to ramp up and fight the DeepSeek democrats harder. So it's really hard to predict, Hasmukh, to be honest, but it is possible. That's why the industry is going through technical cycles right now, because as you know, the innovations are happening literally every 1 or 2 months. So people are adjusting and adapting their strategies in almost real time basis right now.

Hasmukh Vishariya: Got it. Thanks a lot.

Moderator: Thank you. We'll take our next question from the line of Vipulkumar Anopchand Shah from Sumangal Investment. Please go ahead.

Vipul Shah: Sir, employee cost has also gone up substantially quarter-to-quarter and year-over-year also. So that is due to -- it is attributed to this client. So what explains that?

Jagannathan CN: Exactly. This explains to the one-time settlement to the employees for this client. And also, there is a salary increases there.

Vipul Shah: So can you quantify both the factors, sir, if it is possible?

Jagannathan CN: Yes. Salary increase had an impact of around 75 bps in this quarter in our EBITDA, the rest comes from this onetime settlement.

Vipul Shah: So onetime shuttle management, the employees, which were earmarked for this project -- so you let them go with onetime payment? I mean how it worked?

Jagannathan CN: Yes. They are in a different geography, near shore geographies. So as per the regulation, we have to give a notice period for them, and we have to pay the money for them in one time. To rescue the impact of the downtrend, we have settled with the employees and giving them the money.

Vipul Shah: So in fourth quarter, employee costs will normalize?

Jagannathan CN: Yes. Except for the salary increase impact, other things will normalize.

Vipul Shah: Okay sir. Thank you very much.

Moderator: Thank you. We'll take our next question from Surabhi Saraogi from Smifs Capital. Please go ahead.

Surabhi Saraogi: Sir, my question is, can you quantify the onetime expenses incurred during the quarter and also, can you give some revenue and margin guidance for the next quarter and next financial year?

Jagannathan CN: Yes. The total impact, we said is 3.6% impact this quarter. index 75 bps is because of salary increase, the balance is because of this onetime settlement. And next quarter, just now added that we have a revenue degrowth, degrowth is at the company level. This is because of this particular customer full quarter impact as well as quant seasonal impact. So we will have a degrowth of 2.5% to 3.5% for next quarter degrowth. So margins, all this onetime, we are expecting it to bounce back next quarter.

Surabhi Saraogi: Okay. And for next year?

Jagannathan CN: Next year, we will comment during the year end time, madam.

Surabhi Saraogi: Thank you.

Moderator: Thank you. We'll take the next question from the line of Mayank Babla from Enam AMC. Please go ahead.

Mayank Babla: Thank you for taking my question. Sir, given the recent unfortunate and unforeseen developments in the ramp-down, by how many quarters can we expect the USD500 million aspiration to be pushed back by, earlier it was FY26 and after mid FY27, now that could be delayed, right??

Samir Dhir: Yes, Mayank, great question. I think candidly we will provide an update after the quarter, we're just waiting for these customers ramp down to stabilize right now. I think there will be a 1 or 2 quarter impact we expect. But we probably will provide you with a more formal answer on both the next earnings call back. We think at this point, start of the quarter, it will impact.

Mayank Babla: And my second question would be these large high-tech sorts of plant that we've seen impacting our business, these companies are with very deep pockets. So can you help us reconcile that, why would they cut down IT spends and shift them to sort of capex on AI? If you can help us reconcile or understand that.

Samir Dhir: Yes, it's a great question, again, Mayank. I'll tell you, I think actually what we think it is happening, we're not sure, but I can give you our estimate on this. So most of these high-tech customers are buying hardware to drive AI from an NVIDIA chip buying perspective and processing power bank perspective. The consumption is really going there. So they are paying a lot of capital on the opex side to buy the hardware capability because it's a race to build a hardware engine at this point in time for many of them.

Now given what has just happened recently, the question that came up earlier on DeepSeek how will that impact? How will they calibrate? It's hard to predict. But that's the cyclical nature of the world we are living in right now, that at one end, they got to accelerate their spend to improve their customer experience using AI. On the other hand, they want to buy hardware to have more capability to from a processing power perspective.

So right now, we are on a cycle that the hardware purchase has a bigger premium in their world for the next 1 or 2 quarters, but we're pretty sure that at some point in time the tide will turnover on the software development side yet again. But that's candidly, the situation as we see. These are cash rich companies. They're not customers in distress or in trouble. They are just diverting their investment dollars to a pocket of investment that they want to make in the short term.

And they're really recalibrating, I'm sure you're seeing it, they are recalibrating across literally every quarter. And that's why companies like us have to adapt to the needs -- and unfortunately, while in the first half of the year, we gained in this second half of the year, we're going to lose out, but that's the nature of doing this business.

Mayank Babla: Okay. Got it, sir. Thank you for answering my question.

Moderator: Thank you. We'll take our next question from the line of Prolin Nandu from Edelweiss Public Alternatives. Please go ahead.

Prolin Nandu: So a lot of contradiction, Samir, on the call. At one side we want to be leaders in AI. On the other side, we are losing customers because of their spends in AI. So do you think this is something which will continue going forward or does it require a very critical assessment of our clients, the quality of our clients because see this unfortunate event has happened twice one on the new deal side, now on the existing client side.

So we understand that you are a smaller company in overall scheme of things versus our peers. But such kind of things we haven't heard from any peers that high tech is slowing down or customer doing a certain kind of a withdrawal. So how should one think about it and does it require a very deep internal introspection about the quality of clients that we have and at the same time, how do we think about new deal wins as well what -- how should one deal with this contradiction?

Samir Dhir: Yes. So I don't know that I would call it contradiction. I think I will call it uncertainty candidly. The client that we're talking about has been with Sonata for over 30 years. This is not a new client. Now as you know, every enterprise in the marketplace is really figuring out their strategy with AI. Did we -- any one of this new DeepSeek four weeks back? The answer is no. Did any one of us, Autonomous CoPilots 3 months back? The answer is no.

So I think as these newer technologies coming, customers are going to adapt and we have to react with them. This is a sprint and not -- is not -- this is a marathon and not a sprint for us. We have to stay in the game with the customers for the long term because some of these customers when they go back, you tend to enjoy.

And companies of our size and scale, we are relatively a smaller sized company compared to many other countries that you calibrate against. But also keep in mind that we have grown faster than many of the industry peers, but anything that lead to grow faster, you will have odd quarter and I know this one, too many bumps in this year earlier with the healthcare client and now with the high-tech client.

But those are expected, if you want to play in that league, but if you have to play safe, then I think there are there are other ways to play safe out. And like I said earlier, this is not a net new client. It's not like we're adding to the risk profile of the business. It's unfortunate that in a year, we had two customers, one at the beginning of the year, one at the tail end of the year where we had some ramp down.

So I wouldn't call it contradiction. I just think it's an uncertainty that we face. And it's also visible, like I said earlier. If you recall, a year back the entire industry was talking about banking is slowing down and there was a big discussion on banking. I'm sure you recall that. Now including our commentary, banking is going well for us, but can anyone else us predict in 6 months, where banking industry will be?

I think it's really hard to predict right now because the demand pattern and the industry patterns are changing quite dramatically. That's how candidly, we see. We don't think it is adding to the risk profile like you illustrated it. I think it's the nature of the business that we are and the industry that we serve.

Jagannathan CN: And the client also is not a small client, they are one of the largest clients in high-tech space.

Prolin Nandu: Yes. I appreciate that, Samir. So just give a sense, let us say, we heard from this client, have we been able to talk to some of the other clients and assess that is a risk which might be developing in some of the other clients, some of our other relationships as well? Have you been able to do that since we have heard from this client on the direction in which they want to go?

Samir Dhir: No, it's a great question again. See, in our TMT vertical, we have a total of five clients. So we don't have -- again, based on our size, it's not a big spread. Now the other four that we have, we don't see that risk right now because this is the largest client in that TMT sector, but have we assessed the same risk for other clients? We have.

But to be honest, if you look at our largest banking customer, our largest healthcare customer, tomorrow they want to build up their own data center and start buying immediately. Of course, their strategy can change and hence it can have still a trickle-down impact on us. Candidly, can you predict that? I don't think the answer is yes, because it is a very customer-specific decision at this point in time.

Do we expect AI to continue to have a little bit of this impact of and on in some clients? We do think it will happen, especially for the larger companies. Most of the clients are Sonata candidly by and large the mid-tier market customers. So we don't see those customers having this impact, but the larger customers will, of course, have been in fact, as they calibrate and recalibrate and recalibrate the strategy.

Prolin Nandu: All right. Samir. That's it from my side. Thanks a lot and all the very best.

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

Dipesh: I have a couple of questions.

Moderator: Dipesh please use your handset mode. You are not very clear.

Dipesh: Yes, just want to get first about the demand environment. I think if you can help us understand any change in weakness in demand environment. And it would be preferable if you can give sector-wise some comments about demand compared to, let's say, 3 months there? Second question is about the margin. Now the top -- one of the large clients which you said in Hi-tech is likely to face some headwinds because of their AI productivity kind of thing.

Any implication you're expecting margin on a sustainable basis in that account? And how one should expect your Q4 margin trajectory compared to where we are? And last question is about our expectation about, let us say, earlier H2 to be better than H1 and then growth to actually entering into FY '26 and returning to low 20% margin. If you can give some sense around it, how you expect growth to play out overall?

Samir Dhir: Thank you, Dipesh. Let me cover, I think there's lots of questions and then let me try and answer one by one. So from an industry point of view, the demand pattern is very different Dipesh. If you look at our current results as well as if you look at slightly one or two quarters ahead, we think Healthcare Life Sciences and banking financial services will continue to do well for us. So we feel pretty good about those verticals right now.

And Healthcare Life Sciences, we have maintained that trajectory for at least three, four quarters. We think for the foreseeable future, we don't see any significant headwinds coming our way, in fact, good growth coming out way in Healthcare Lifesciences. Banking Financial Services, we think we are going to have a solid growth in the next one or two quarters.

So that sector is looking pretty well for us. Keeping aside the quant seasonality of Q4, in general the banking will continue be strong for us, there be a short-term impact in Q4 because of quant seasonality. But going into Q1, I think banking will be in a solid platform game. Retail industry is candidly under a lot of pressure right now.

The retailers are talking about it. They are essential retail sales are down. The high inflation impact continues to within the retail industry. So we don't expect retail to bounce back any time soon. I think we'll continue to see flattish or marginally up growth in the retail sector. The fourth sector is TMT.

TMT for us is a tale of two cities. We have one large client and maybe four or five other smaller clients. In the smaller clients, we expect growth to continue the way we have been growing. But the large clients, at least for a quarter out with Q4, we think there's a demand pressure. And hence, what Jagan talked about minus 2.5% to 3.5% growth for the company to next quarter.

It is premature for us to talk about what will happen to this client in Q1. But we think sometime late Q4, early Q1, they should come back on track, but we'll probably provide a more finite update in the next quarter. So that's on the first part of the question, Dipesh. The second part of your question around the margin profile for Q4 like Jagan said, I think we expect the large part of the margin recovery happened next quarter, except for the compensation related that we have seen this quarter.

The large part of the onetime impact will not be there next quarter. So we should be coming back on high-teens EBITDA profile going into next quarter. And that should be pretty -- that should be doable for us. As far as the H2 is concerned, yes, you're right. I think we talked about in H1 that H2 will be stronger.

And candidly Q3, we have a 4.4% constant currency Q-on-Q growth, which I think is -- we're pretty pleased about that -- had this large client not ramp down, which was an unexpected thing to happen in mid- to late November. We would have probably clocked a very strong Q4 as well. But minus of this large client, we have pretty good growth going into next quarter, but this 1 significant impact is diluting the overall results of the company, which is unfortunate, and we couldn't have predicted it, but that's what we're faced with.

You have many parts of your question. I hope I answered all of them. If I miss anything, please follow-up.

Dipesh: Yes. So broadly, let's say, on the margin part. Now we indicated by Q1, at least will be -- are we confident to return that to low 20s kind of margin profile in Q1 or because of the client-specific challenges what we say, now low 20 may get delayed. And last part is about earn-out related thing. If you can give some sense about, let's say, what kind of revenue you made in calendar -- and 1 should look on now kind of thing. If you can provide some clarity because considering the target, what we said for earnout when revision earlier, whether we expect any reversal to happen.

Jagannathan CN: Okay. For the first part of the question, Dipesh about early 20s margin, we are still making an assessment of the impact of the large client. We will get a clarity during the course of Q4. We will keep you posted about that when we are coming back in Q4 results, about the Q1 reaching the margin level. At present, we will, as I mentioned earlier, the onetime impact we will recover back in Q4, but reaching to the early 20 because of the large client impact, we will wait for the full impact to be known in Q4 and then come back to you and update you on that Dipesh.

The second part is about Quant earnout. We are still working with Quant's earlier management to extend the SPA. We are literally negotiating with them. We will give an update once the negotiation is over and we get into a concrete area about their near future impact. We will also come and update you on what they have achieved.

Since the process is not complete, we are waiting for that process to complete. The SPA is still March 2025 already the old one. So we will wait for the full completion of the SPA negotiation and give an update to you on that. The third question, can you repeat again Dipesh?

Dipesh Sir, I just want to understand what would be the revenue of Quant calendar '24 because that is what we indicated 100 million kind of target what we gave to get the earnout. If you can give us what is the number the achieved?

Jagannathan CN: No, it is still -- the audit is going on Dipesh. Once it is completed, we will give an update to the quantum for the quant purposes, limited review, but they have seen it. But for the whole year, the audit is going on. So once the audit is complete, we'll give an update on that. This also depends on the future negotiation Dipesh. So let both be completed before March, we are expecting it to complete. So we'll come back and update you in Q4 results time, we will give a full update on that.

Moderator: We take the next question from the line of Mihir Manohar from Carnelian AMC.

Mihir Manohar: I wanted to understand this, I mean, how does it work coming. There is this? So we have the employees are going out, which are there for those particular plant, we are paying them one time cost. Now does it get reimbursed to us or it doesn't get reimbursed because ideally, there could have been any of the basic question. But there should have been a notice period or a reimbursement happening. So how does that work?

Jagannathan CN: Yes. Actually, the client doesn't compensate for this because that's how the model works for it. We have to -- whenever the opportunity comes in, we will be able to deploy people and take it up with the people. It's not exactly a P&L model. It is actually like a fixed price kind of a model.

So there will be -- when the project is ramped down our project is stopped. So we will have a very short notice period time. But this is being a foreign geography and near shore geographies. They are a regulatory requirement. So we have to settle with the employees. That is a kind of risk embedded in the margins of the projects whenever we have taken -- and this is how the operations happen. So we have been to abide by the regulatory requirements of that particular geography.

And for the best practices, we have taken a settlement with employees and then flow that. And there will be some notice period and some amount of benefit flow also for us in this. That is why the revenue was not that much impacted in this quarter from the customer. The full quarter impact will be known only by next quarter.

Mihir Manohar: Sure, sure. You mentioned next quarter, 2.5% to 3.5% degrowth, considering Quant as well as this account going down ex of this account going down, what would be the growth?

Jagannathan CN: Pardon?

Mihir Manohar: I mean how could we see the growth next quarter ex of this ramped up? I mean considering the Quant seasonality -- but without considering ramp down of this account, what can be the growth in fourth quarter?

Jagannathan CN: No. This is like difficult to tell you now, what will be the total impact of it. We have made an estimate as of whatever data, we have access in. The Quant will be the major portion of it in this and this customer will be also have an impact on this 2.5% to 3.5%. If not, it must have been much lesser, the impact is.

Mihir Manohar: Okay. So the impact is more driven by Quant also here?

Moderator: Mihir, I request you to join back the queue, please, as we have other participants waiting.

Jagannathan CN: Quant definitely had an impact, which we know, without this customer, we may not have bought this kind of degrowth.

Moderator: Ladies and gentlemen, in interest of time, we request you to restrict to two questions at a time, please. We'll take our next question from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Okay. My first question is to Samir. So just wanted to understand the timeline in terms of the communication from the large client in terms of ramp down and projects cancellations and so on and so forth. Can you just help us understand the timelines? Was it like towards the start of the quarter, mid or towards the end? That is first -- the second question is to Jagan sir. Is this a new margin reset for the company? And -- or do you think margins can go back to at least 17%, 18%? Just third bookkeeping question is -- was there any deal transition cost that we incurred for the business that grew in the quarter? Thank you for taking my question.

Samir Dhir: Let me take the first part, Abhishek. So the timeline of this was pretty much very progressively in the course of the quarter. We started seeing the discussions start in November time frame. And then we were, of course, negotiating with them because there was a round down as well as a discount.

And it built up progressively I would say this impact started trickling in towards the latter part of November and a full quarter in December. That's a broad way to think about it because it was, like Jagan said, on-site geography is not in India. -- we have to handle the employee and their severance-related costs in the course of the quarter. So that's how it's progressed.

I'll turn it to Jagan, to take in for the second and the third question.

Jagannathan CN: Abhishek, as we mentioned earlier, the onetime costs that we will recover back in Q4. To that extent, the market margin recovery will happen. So as I mentioned, out of 3.6% drop in margin this quarter, 0.75% is because of salary increase. And the balance is because of onetime cost that will be expecting it to come recover back in Q4. What was your third question, Abhishek? Any deal cost we've incurred...

Abhishek Shindadkar: Third question was about…

Jagannathan CN: No, we have not incurred anything…

Abhishek Shindadkar: Was there any...

Jagannathan CN: No, we are not incurred. Abhishek.

Moderator: We'll take our next question from the line of Jalaj from Svan Investments.

Jalaj: One thing more so with regards to the vertical split. I do see there is some slowdown specifically in retail and manufacturing also. Could you talk about what is exactly happening there? And in the headcount, if I were to see sequentially, it has increased. So were these people not are payrolled? Or how should I understand specifically for the projects which have been ramped down?

Samir Dhir: Yes, Jalaj. So like I said earlier, in the retail, so step-back, health care and banking are on a good growth trajectory for us. We have maintained that. And I think we continue that growth momentum to continue for the foreseeable future. Retail because of the high inflation, we have continued to talk about that at retails going slow for us.

And retail manufacturing, by and large, given the portfolio that we are, they're pretty much intertwined, and we think that will contribute under-stressed and pressure in time to come as well. Will it degrow? No, but will it grow significantly now. I think it will be a marginal growth in retail.

We'll see significant growth in health care and we continue to see significant growth in banking. That's how we think about the industry pattern. There was a second question that you had, the sorry I forgot. What's the second question?

Jalaj: As to the headcount. So I see sequentially the international business, there has been a growth, but those people who have been ramped down or have moved out? But then not only payrolls or how could I...

Samir Dhir: They were very much part of the payroll. They were pretty much part of the payroll, especially in out-site geographies. If you recall, we talked earlier around in the second half of the year will grow well for us. So while you're seeing 150 FTE increase, it would have been significantly more if this unplanned headcount unplanned -- didn't happen, and that would have continued to contribute for a full quarter impact of our growth.

That's what the -- what we are seeing. But in the last 1 or 2 months, we started seeing this range hitting us. So what you see is a net ramp-down after this impact. Otherwise, the headcount would have been slightly higher than what you're seeing right now.

Moderator: We'll take the next question from the line of Dipesh from Emkay Global.

Dipesh: Jagan, just want to understand from business operated higher margin than company average. Considering the seasonality what we are highlighting about next quarter, do you expect the margin benefit will not be fully reflective of the one-off cost recovery concerning the corn seasonality?

Jagannathan CN: Yes, Dipesh, there will be an impact of revenue drop on the margin to some extent. But we are not able to make a full assessment of that now. But most of the onetime costs we will require it back, Dipesh.

Dipesh: So considering the margin trajectory, I think where we are already real, how one should look at it? Because low 20s is what we aim for. Now single client-related plus minus, 1 or 2 quarter is fine, but your headcount addition is let's say, way ahead of your revenue growth. If I look from that perspective.

Utilization also I'm not sure how to look at it, but you added Q-o-Q headcount while you expect significant growth next quarter in terms of revenue. And some of the other lever also in terms of on-site offer another mix if I look at it. So considering some of those things, how 1 should look your margin trajectory.

And you also say low 20s, we will revisit enter end of Q4 kind of thing. But over medium term, do you think any risk to low 20s kind of margin profile would we always aspire to be? Or you are comfortable for medium term, low 20 kind of margin profile?

Jagannathan CN: Dipesh, One thing we have to want to highlight to you is the on margin profile was there, the stuff or because of this particular customer ramp down, our on-site revenue portion is onset mixes coming down and offshore is going up. That will also help us to recover some margin back next quarter debate.

So secondly, is the onetime cost is going to help us some bounce back, which is almost like a major portion of the 3.6 in that. So that -- we are expecting that recovery to fully happen in the next quarter. Some impact of the quant revenue degrowth for next quarter can be there on my margin, but we don't expect that to be a major element on the recovery part of it.

But thereby, there can be some impact, some small impact can be there. The -- so we expect that we will come very, very close to the quarter to EBITDA margin levels in Q4. Very close to that, plus or minus 50 basis points is the range debate. We are expecting that to come near date.

And from there, we will be able to we will be able to grow the margin in Q1. Once we know the exact situation of the particular customer, where are we heading? We will give an update towards the early 20s by end of this quarter Q4.

Moderator: We'll take a last question from the line of Vipulkumar Anopchand Shah from Sumangal Investment.

Vipulkumar Shah: So my last question is regarding -- we don't have any legal protection regarding this ramp down, sir?

Jagannathan CN: No. This is a customer regular commercial contract on all these -- because they are a very large customer, they will these kinds of protection may not have. And we are the prospect with the customer is very high. We don't want to do a short-term problem by doing something until the business in the long-term angle.

Because they are going to continue to be a large customer for us, and they will continue to grow in the good prospect for us in future. These are all very, very short term and impact of that. We expect this will settle down in a quarter or 2 and then we may recover back the business soon from the customer.

Moderator: Thank you. Ladies and gentlemen, we'll take that as a last question for today. I now hand the conference over to Mr. Dhir for closing comments. Over to you, sir.

Samir Dhir: Thank you, Yash, and sure to thank all the participants for dialing in today. And I also want to take this opportunity for all the Sonata teams globally for their hard work and diligent efforts to keep moving Sonata forward. And we'll connect with all of you in a quarter's time again. Thank you all.

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