SONATA SOFTWARE

12th November, 2024

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

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

Dear Sirs/Madam,

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

Further to our disclosures dated 31st October, 2024 and 6th November, 2024, please find enclosed Transcript of Analyst/Investor call of the Company held on 6th November, 2024. The same is also made available on the website of the Company at https://www.sonata-software.com/about-us/investor-relations/quarterly/results.

Please take the same on record.

Thanking you,

Yours faithfully,
For **Sonata Software Limited**

Mangal Krishnarao Kulkarni

Digitally signed by Mangal Krishnarao Kulkarni
Date: 2024.11.12 15:14:32 +05'30'

Mangal Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above

"Sonata Software Limited Q2 FY'24-25 Earnings Conference Call"

November 06, 2024

MANAGEMENT **MR. SAMIR DHIR – SONATA SOFTWARE LIMITED**
MR. JAGANNATHAN CN – SONATA SOFTWARE LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Sonata Software Limited Q2 FY'24-25 Investor 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 the Management from Sonata Software Limited. Thank you and over to you, sir.

Samir Dhir: This is Samir here from Sonata Software and I have the Management Team along with me on this call. We all 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 the Q2 FY'25 that ended on September 30th. 2024."

I thank you for joining us today. We appreciate your valuable time and support. It is my pleasure to share our progress regarding our vision and growth for Sonata despite the macroeconomic challenges and geopolitical issues which are resulting in a slowdown that expanding across some of our verticals. I will update you on our "Strategic Goals" and post that we will Discuss our Progress in Q2 FY'25." So, let's talk about our "Goals" and "Strategy" first.

As you know, our objective is to be one of the fastest growing "Modernization Engineering Firm" powered by a "Unique Platformation Framework." We aim to achieve revenue of 1.5 billion by the end of FY'27 and international business at an EBITDA of low 20s.

From a growth point of view, we outlined a few critical bets:

1. We will continue to win multiple large deals building on a successful track record. If you recall in H1 of this fiscal year, we have closed six large deals.
2. We will deepen and diversify our partnership with Microsoft, AWS and other partners and continue to win new logos, working alongside with them and really create the next $10 million, $25 million, $50 million, and $100 million clients for Sonata through that channel.
3. Continue to scale the business through deeper capabilities, build out on delivering business results on M&As and diversify our client base by successfully integrating them.

And we want to achieve these goals in our four focused verticals, which is Healthcare Life Sciences, Banking Financial Services, Retail Manufacturing Distribution and Technology, Media, and Telecom and in the five geographies which are North America, UK, Europe, India, and Australia.

Leveraging our differentiated lighting tools, IP and offerings, we are steadfast in our pursuit of our 1.5 billion goal, assuring our clients of our commitment to their modernization needs.

With that, let me provide you "Update on the Large Deals first":

Our large deals pursuits are a significant part of our strategy, with 49% of our active pipeline dedicated to these high value opportunities across all our verticals. 36% of our large deal pipeline are with Fortune 500 clients.

I am delighted to share three significant wins we had in Q2 with all of you:

- The first one is with one of the top financial corporations in the US. Sonata has been chosen as a strategic partner to deliver its data modernization program, including migration from Netezza to Snowflake. This is a key multi-year data and cloud modernization program for this large US bank, which is in the top 10 of the US banks.
- The second large deal is with a US technology giant. Sonata will enable an optimum global delivery model to deliver on AI, cloud, and data services from our global delivery centers, including in India, Mexico, and Malaysia. We are absolutely thrilled about this win.
- The third win is with our client who is a leader in a personal facility in food safety systems, Sonata will be a strategic partner for designing, building, managing and continuously modernizing their consumer-facing automation platform using a combination of Microsoft, Android, and iOS technologies.

Apart from these three wins, we also had two strategic mid-sized deals. I am happy to share a summary of them:

- While they are mid-size deals, they are also net new logos for Sonata. The first one is our client is an Australia based wholesaler. We have been awarded a multi-year data modernization program as a strategic partner. And to note, this is our largest TCV-based Microsoft Fabric win in the data transformation space to-date. We are very excited about this win.
- And the second mid-sized deal is for a client which is the leading food service company in the US. Sonata has been awarded their multi-year ERP modernization and integration program. This is the second logo we closed in the quarter, which is also a mid-size deal. We are excited that our differentiated capabilities are now helping us win new logos along with mid-size deals.

With that, let me provide you an update on AI, which is our strategic bit:

If you recall, we had talked about the fact that 20% of our revenue will come from AI-enabled services by end of CY'27. We have now USD 67 million of our pipeline across 110 customers and are overly excited about the new wins that we have won in the quarter.

Happy to share with you, we closed a large pharma customer as our net new client using our GenAI capabilities in the course of the quarter. In addition, we exceeded our order booking in AI in the quarter compared to Q1.

We are enabling our clients to leverage AI in three ways:

1. Driving efficiencies for them.
2. Driving higher consumer experience and modernizing their sales platforms.
3. Driving innovative business models for them for better outreach for a larger number of consumers to increase their revenues.

For one of the health tech clients, we are harnessing the power of AI to ensure comprehensive and representative demographic coverage in clinical trials. Our client aims to eliminate bias from the sample of people covered during clinical trials. We are using AI to ensure regulatory compliance for the customer. Our Harmony.AI. AI infrastructure is critical to our recent deal wins and subsequent AI model implementations. By leveraging Harmony.AI across multiple clients, we enable GenAI-driven engineering scale and test acceleration. Our teams are truly at the forefront of this technology revolution.

With some of the Healthcare, Life Sciences and Banking customers, we are making significant progress in implementing GenAI using small language models for cost efficiency, which also results in fine-tuning of their cloud spend and we are also implementing an agentic AI approach in these clients.

We have invested in AI Cross-Functional Org led by Sharmila Sherikar to drive AI across Sonata and partner with technology, delivery, sales to accelerate our GTM efforts across our partnership, research, and continuous strategy refinement in GenAI. Approximately, 83% of our engine are now GenAI trained, which is a significant increase from 67% that we shared with you last quarter. This improvement demonstrates our unwavering commitment to upskilling and the immense potential AI has across our operations and our customer operations.

With that, let me provide you an update on the scale that we are building:

For our investment verticals, which are Healthcare, Life Sciences and Banking, they now contribute 32% of our revenue, which is up from 13% 10 quarters back, let that sink in, HLS and BFSI now contribute 32% of revenue, which was about 13% 10 quarters back. So, our strategy to invest in these verticals has really paid dividends quite significantly in our growth journey. These verticals added nearly 18% of our client revenue, which did not exist 2.5 years back. We expect our invest verticals of Healthcare, Life Sciences and Banking to reach about USD 250 million revenue in three to five years from now. We are very excited about the growth that we are seeing in front of us in these two verticals.

The following key bets are helping us scale our offerings in the modernization stack:

1. On Cloud and Data – We have continued to progress in the cloud and data pipeline which is now 51% of our overall pipeline. To remind you, this pipeline was about 15% of our pipeline about two and a half years back, has now jumped to 51% of our pipeline. We are seeing an increased demand for our data-driven deals. This has now grown more than 120% over the previous year. So, we had 120% increase in our order book in data-driven deals YoY. Our revenue from data modernization has grown up from 13% to 23% in the last 10 quarters. Overly excited about the progress, our teams are making in our growth Journey from a data modernization perspective.
2. Microsoft Fabric, which is a strategic bet we made working with Microsoft and we are a featured and launch partner for Microsoft Fabric. From Microsoft perspective which this is the data analytics platform for the AI and went to GA in November '23. Since this launch, we have witnessed a significant pipeline build of our Fabric which is now USD 91 million pipeline across 110 clients of Sonata. We are overly excited again with the progress we are making on the Fabric platform working alongside with the partners.
3. Microsoft Dynamics has been the core pillar of our growth for many years. In Q2 FY'25, we won one large deal with the hi-tech customer and one mid-size deal with the Retailer. During the quarter, we witnessed continuous modernization success, and we are now seeing green shoots in the Dynamics CE space to take out the competing SaaS platforms and the Power Platform space to take out competing RPA platforms for our customers. We are overly excited again on our growth in Dynamics CE and Power Platform combined.
4. Our Sonata Information Technology Limited (SITL) business continues to deliver solid performance quarter-on-quarter and in this quarter delivered a ROC of 78.4% in Q2. On a normalized basis, it will be 45.2%, but we had some exceptional item in the quarter.
5. **Now coming to the Awards:**

We were recognized as a major contender by Everest Group for a “Low Code Application Development Area,” and we were recognized by HFS as the “Fastest Six Service Provider” from a growth point of view in Q2 over FY'24. We are overly excited about our progress in our capability build and the fact that we are the fastest six growing company in the market today.

Update on Talent:

Sonata University has been at the forefront of our capability build initiatives and it saw increased usage and acquisition of new skills such as GenAI. Our active headcount in the quarter increased to

6,908 people, which is compared to 6,619 a quarter before. So, we added about 289 people net in the quarter. The last 12 month trailing 12-months attrition was at 13% and a gender diversity is at 31% We continue to make satisfactory progress on our gender diversity initiatives.

During the quarter, we also implemented salary increase for a junior management effective July. We are planning to implement another increase for a mid and senior management effective Q3. In addition to that, we continue even in these times on our campus hiring programs and we onboarded 150 campus graduates during the course of the quarter, goes on to show that we continue to build up scale in the current environment as well.

With that, let me provide you an "Update on the Q2 FY'25 Performance":

The key outcomes for the Q2 FY'25 despite the industry headwinds. For international business, our revenue grew 2.3% QoQ much in line with our forecast that we gave at the beginning of the year of 1% to 3% growth, it came in at 2.3%. We had a strong order booking of 1.23 book-to-bill for the international business. In Q2 FY'25 we won three large deals and six mid-size deals, this is a very noticeable achievement. We now have eight clients which do more than USD 10 million revenue on a run rate basis annually for Sonata. That number was about four, less than two years back. Our EBITDA remained at 18.2% in Q2. Our utilization remains steady at 87%. For the SITL business, the domestic business, our gross contribution in the business grew 2.5% sequentially.

Before I conclude. I want to take this moment to thank all our Sonatians globally for the commitment, hard work, and the quality of outcomes they deliver to our clients day in and out. We are immensely proud of our team members thank you to the team Sonata.

With that, let me turn it to Jagan for his Comments on our "Financial Performance." Jagan?

Jagannathan CN: Thank you, Samir, for the overview. Good morning, good afternoon, good evening, all.

Let me start the "Update on International Business Services for Q2 2025":

In international Services, Revenue was $84.6 million with QoQ it grew by 2.3% and YoY by 4.6%. In rupee term, the revenue stood at 708 crores which was 2.9% QoQ growth and YoY 5.7%. In constant currency terms, revenue grew by 1.5% QoQ and 3.7% YoY.

Now, the "Comment about the Profitability in International Business":

EBITDA before FOREX and other income stood at 18.2% against 18.7% in Q1 2025. The major reason for this was the salary increase given during this quarter had an impact by about 1.1%; however, we were able to compensate that through the savings achieved through operational improvements and SG&A leverage what we got during this quarter. Hence, our EBITDA dropped only by 50 bps in this quarter.

The PAT for international Business stands at INR 62.2 crores. It had a 4.4% degrowth QoQ from the last quarter. The revenue growth driven by the main top clients and Quant customers. In international Services, the Q2 ROCE stood at 20.3%, Q1 was at 18.8% and Q2 RONW stood at 23.5% compared to 21.6% for the quarter.

Now, the "Update about the about the Domestic Business":

Gross contribution in Q2 stands at INR 70.2 crores grew by 2.5% QoQ, 12.4% YoY. PAT for domestic business in Q2 was 44.3 crores, grew by 9.5% QoQ and 9.5% YoY. The DSO in domestic business stood at 35 days, same as last quarter. The ROCE in domestic business is 45.2% compared to 47.3% last quarter. The reported ROCE was much higher due to the one-time factors impact that happened during this quarter. The DSO of international business continues to stand at 45 days.

Comment about the "Consolidated Business":

PAT for consolidated business stood at Rs.106.5 crores, growth of 0.8% QoQ and 14.3% degrew by YoY. The consolidated EPS for the quarter stood at 3.84 per share compared to 3.81 per share last quarter. At consol level Q2 '25 ROCE stood at 24.7% and RONW stood at 28.4%.

Now, the comment about the "Cash Flow":

This quarter there were major movements on the cash payout. The first one was earn-out paid to Quant. The second payment to Quant after the acquisition was INR 116 crores. The second one was paid for Encore, the third year and final earnout payment of INR 59.4 crores. We have also paid the incentive and the increments for the employees during this quarter. We had repaid the loan to the extent of INR 48.9 crores during this quarter. We also had the final dividend payout for the shareholders in this quarter. The benefit positive cash inflows for us were, we had a decent amount of IT refund coming for us against the old assessment which were pending for long time.

Moving to "Other Some Important Operating Metrics":

The total headcount moved from 6,619 in Q1 to 6,908 in Q2, the net headcount addition of 289. Utilization of Q2 stood at 87% compared to the same level of Q1 '25.

We have added eight new customers in Q2. The top 10 clients contributed revenue share of 63% compared to 50% last quarter. The number of clients more than USD 3 million run rate in Q2 were 22 customers compared to 21 customers' last quarter.

The vertical mix for Q2 is as follows:

TMT is 32%, Retail Manufacturing is 31%, HLS is 10%, BFS is 22%, and emerging is 5%.

Revenue by top go-to-market was Data was 23%, Dynamics was 23% and cloud was 41%. The Q2 order booking stood at USD104 million, which is 1.23xof the international services revenue. Our international business continue to have a good collection of about $86.7 million in this quarter.

In Summary:

We continue to remain optimistic about the long-term growth prospects and thank you all for attending this call.

With this, I hand over the call to the moderator for a question-answer.

Moderator: We will now begin the question-and-answer session. Our first question comes from Rakesh Agarwal from Rakesh Mangal & Co. Please go ahead.

Rakesh Agarwal: What is the reason for degrowth in domestic business? This is a 21% reduction, Q1 was 1,849 crores whereas Q2 was 1,461 crores.

Jagannathan CN: We have always mentioned to you that in domestic business you should not see the turnover, you should always consider the gross contribution. Gross contribution has grown from INR 68.5 crores to INR70.2 crores this quarter. Turnover depends on the contract what we sign and contract what we close. Some of these contracts may be large, some contracts may be less. So, please don't see the revenue or turnover of this business, just measure it only on the absolute amount of gross contribution.

Rakesh Agarwal: Sir, I don't follow it. Can you throw some light, even if the revenue has been dropped, how this gross contribution had been increased?

Jagannathan CN: . It depends upon what is the kind of deals we have. In this quarter, we have a couple of deals where the gross contribution percentage was better for us. Average we run between 3.9% to 4.1% of the gross contribution as a percentage of revenue. But some of these deals we had a higher contribution in this quarter. Hence, the gross contribution amount grew, despite turnover degrowth. This business, we will have a bumpy ride in in terms of turnover.

Rakesh Agarwal: What is the revenue impact of these new major three deals we have finalized this quarter in international?

Jagannathan CN: These are large deals for us and these deals which have between three to five years timeframe. So, with the large deals coming in, we will have a good impact on the revenue growth in the coming quarter but may not be immediate all large deals will take a little time of transition because most of the deals have transition impact also. Once the transition is done, the revenue will come on a normalized mode on the. We cannot particularly give about a particular contract, we do not disclose that, but we will have a positive impact on our revenue growth.

Rakesh Agarwal: From which quarter are we expecting this will impact our revenue?

Jagannathan CN: It depends on each of the contract and what is the tenure of the contract, what is the complexity of the deal and all these things. So, on a, very large deal or a mega deals we generally give how much impact will happen and which quarter normalize revenue flow will happen. These are all regular large deals. There will be more and more large deals coming every quarter. Always we win three to four deals every quarter. Hence, I cannot specifically talk about how much impact this will give. We will continue the process of winning the large deals and it will continue to help us to grow the revenue quarter-on-quarter.

Moderator: The next question comes from Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Samir, wanted to understand, having the deal pipeline overall which has been there quite good, cloud, data pipeline or even on the MS Public and Dynamics side, the breakup indicates that it is happening quite strong. You mentioned 51% of our pipeline is now cloud and data versus 15% three years back. But how should we see this particular part of the business translating into revenue growth, should we see any historical growth rate that we used to have, 3% to 5% kind of growth, which was like one of the top quartile growths among the industry, should we see that growth coming back given the deal wins which have and the growth in the pipeline?

Samir Dhir: So, there are two things happening in the market, Mihir. So, these deals that we are winning are helping us incrementally take our revenue up. If you recall, we had said when we had a degrowth in Q4, that first half of the year we will see 1% to 3% growth and the second half will be better than the first half. These deals are all adding up to us to deliver a better second half of the fiscal year compared to what we had in the first half of the year, this is point #1. Point #2, as you know, there are headwinds in the market right now, especially in the Retail and Manufacturing side, because that is about 30% of the business which is under pressure because of the industry headwinds. So, these deals are in some ways offsetting the pressure that is getting created and Sonata deliver higher than industry average industry growth rates about which we are talking. So, that is a two way to think about it. Our second half will be better than the first half comparatively and second, this is also offsetting us to take to take the headwinds from the Retail and the Manufacturing sector and offset the downswing.

Mihir Manohar: How do we see these deals come from a largest perspective given the fact that there's I think will be more on the discretionary side, data, cloud. So, how should we see margins from thereon?

Samir Dhir: So, if you think of the mid-size deals, they are at par with our standard margins of the company, they are overall at par and they will start at par and they will stay at par. Some of the large deals while their overall margin profile in the term of three or five years will be at par with the company. For the first few quarters, there might be some impact because we are ramping up, etc., But in general, there's not any negative headwind expected from any of these large deals. The one that we announced in May-June timeframe had an impact and we told you all that that will have an impact in Q2, Q3 and Q4, but that's already baked into our numbers, right. These we do not expect to have any significant impact even in the short run. They will be at par or slightly accretive.

Mihir Manohar: Second question was on the finance cost. You have given particularly good bifurcation of the finance cost in the presentation this time. So, I think if we can get an understanding as to how should one see each of these components of the finance cost for the balance part of the year, because I believe we were expecting that unwinding to come down and even the interest on acquisition going to come down, how should we see these three components for the balance part of the year?

Jagannathan CN: So, this unwinding has already come down. If you see the investor deck in slide #24, we have given it, how much is the unwinding has come down compared to Q1 and last year what was the Q2 number and what is this year's Q2 number. And next year when the next payment happens, it will be fully closed, Interest costs on acquisition loan what we have, it's SOFR plus the margin is what we have taken from the bank. SOFR is quarterly reset hence it will come down from next quarter by 50 bps. Then our interest costs also will start coming down.

Mihir Manohar: When are we going to repay the loan which we have taken for acquisition?

Jagannathan CN: The loan what we have taken till now, will be repaid by Financial Year 2027.

Mihir Manohar: Should we building 5 crores from next year onwards?

Jagannathan CN: You are talking about interest costs, right?

Mihir Manohar: Interest on acquisition loans.

Jagannathan CN: Interest on acquisition loan, it is not 5 crores. It is interest on deferred consideration that has already come down by 5 crores from Q4 to Q1 and then Q2. Interest on loan will come down by 50 basis points, but that impact will happen from Q3.

Mihir Manohar: So, 50 basis points would be, I mean 2.5 crores kind of reduction per quarter?

Jagannathan CN: 50 basis points and the loan amount were 75 million, we are repaying that. Now whatever was outstanding the interest cost will come down on it. To clarify, it will not have a 50-basis points impact on profitability. I am talking about interest rate. SOFR plus margin in this SOFR is coming down by 50 bps.

Mihir Manohar: Last question was on the quarterly variation. I understand that you have a small company when we see international business. But however, the quarterly variation for us across verticals and across segments, TMT or Retail for that matter is quite stark when we compare that to others, BFSI 15% growth, last quarter, this quarter 30% growth. So, why there is such a stark variation which is there for us versus the others?

Samir Dhir: I think it's really a function of the deals that we are pursuing. See, on a small base, we closed two mid or large deals. We see a strong percentage jump and that is what is really happening. And I think that's part of the strategy we are building out because we want to build scale in these. But if you look at a slightly longer duration, which is what I shared earlier, our Healthcare and Banking business together were about 13% of our business ten quarters back, they are about 32% of our business now. So, over the last 10 quarters, as Sonata has grown, these businesses have grown faster than the rest of Sonata, which just gives you the sense of how this business is looking like for us. That's why we are excited, and it was part of the strategy to diversify the business because Retail, Manufacturing was about 30% to 35% of the business and that's pretty much flat line for the last four quarters, large deals are actually helping us offset that. But on a secular basis, we think this business will continue to grow faster than the rest of Sonata.

Mihir Manohar: You mentioned the second half to be better than first half. Given the deal wins which are there, should we expect the second half to be better than first half?

Samir Dhir: Well, it is a relative word, substantial, but we do expect the second half to be better than the first half. Look let's not forget it, we still have some headwinds in the business because of Retail and Manufacturing. But I think it will be better than the first half. How better, we will report back when we come to the next quarter.

Moderator: The next question comes from Dhiraj Dave from Samvad Financial Services LLP. Please go ahead.

Dhiraj Dave: Basically, I have a Retail investor for almost like eight years with Sonata Software. This is the first time when company is doing everything good, at least cash flow wise, acquisition wise we have paid something which is incentive toward the companies which we acquire, we have paid to employees, but we find there is no dividend declaration. Is there any change in policy?

Jagannathan CN: There is no change in policy as such, but the Board has decided to evaluate the dividend payment in the coming quarters. The reason is because of our loan repayment and many other reasons, but the board is going to evaluate in the coming quarters.

Dhiraj Dave: Does it not sound something which is kind of when we were looking at acquisition funded by debt and we are paying incentives and we are paying increment when acquisition rate is 13% to employees, which is fine, We are a manpower company, we should pay more to that part. We have liquidity and we are paying dividend in fact from the turnaround time. We have started paying two dividends. Today we are in great shape, and we are still deliberating. So, are you looking at acquisition or something that you need to hold back the cash reserve? Otherwise, it's not making sense. Why change the policy. In fact, there was no communication. If you check discussion sometime back whatever last 5-6 quarterly discussion, categorically I ask if there is any change in dividend payout policy, it will say no, it will not increase because we have done acquisition, but it would be maintained. And basically, what happens is this gives discomfort to the investor community because we are used to certain kind of pattern with the company. And if you are changing that and without any communication, it's not fair, right?

Jagannathan CN: Sir, this is not a change in the capital allocation policy -

Dhiraj Dave: Yes, there is no change, but the point is that you are paying every six months, and you are the CFO. Since how long Sonata paying six months dividend? It is almost 5-6 years.

Jagannathan CN: Everything is subject to evaluation by the board on the business condition and our strategic priorities and decisions are taken at the board level. This is not a decision by the management alone.

Dhiraj Dave: Please pass on the feedback how it is concerned. And at least it should be communicated to the investors that henceforth you will be getting or not because IT companies have tendency, good companies have tendency. So, that is fine. Your board have certain consideration. Second part I like fail to understand is that we did acquisition, we are paying incentive to acquisition company, we have IT refund which is giving us a 10 crores of extra dollar in the other income in that kind of thing which was not there in last quarter and despite that we find all these revenue growth and all that is coming, why there is no cash flow or cash growth? In fact, you see the condition of the company, we have 700 crores cash and marketable equivalent which is reduced to 500 crores. Why is that happening? See, the growth is fine to talk about all these big numbers. Why are you not saying that we will be paying X amount of dividend or we will have a free cash flow target? Why to look at growth if growth is not as remunerative? In fact, if you look at the ten quarters result, the dividend has been paid, which has remained the same for last 10 quarters. It was Rs.7.5 or something, it has remained that only. So, all this growth, while it makes sense for all the stakeholders as a financial investor, it does not make sense for me. It is fine, we must look at long term growth, I appreciate all that. But at the same time, you need to balance all stakeholders with growth and cash flow distribution, free cash flow needs to be taken into consideration. We cannot tell in isolation, okay, we will grow 1.5 billion. What is the point? Your margins are coming out in the pressure. If you look at IT service business in the international market, even the reason given by Samir that we have got 30% Retail and Manufacturing which has a headwind, but you've got BFSI which has increased by 6% and Healthcare also increased by that. So, basically what it means is that we have taken a lower margin business, or we have some one-time cost in building up for this. So, if that is the case, please explain what is the kind of one-time cost about the new deals which will help us over a period of time because that will help us elaborating because for the last four quarters we have been constantly getting that things will improve, things will improve, things will improve, but we don't find any kind of results.

Jagannathan CN: We take your feedback. We have explained to you about the margin in the large deals that three to four quarters impact will be there because we are doing an investment and we have also done a rebadging of people onsite, that impacts our margin, and we also told about salary increase in this quarter because we are an employee-oriented company, we need to compensate our employees. So, considering these two, we talked about the impact on margin until Q4 of this year. Secondly, when the acquisition happens, we disclose what is the total acquisition price and what is the amount we have to pay and based on what is the performance. we have also given a clear clarity last December when they exceeded the performance , we have given all the details of that, we are giving breakup of all these payouts in our investor deck every quarter. We have taken your input, sir. Thanks for your input. We will definitely take it up and discuss internally sir.

Moderator: The next question comes from Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Sir, my question is on the demand environment. You mentioned that we have won three large deals in the quarter and the large deal pipeline continues to remain strong. But especially, we have also maintained our long-term FY'27 target of 1.5 billion for the IT services business. But that assumes a significant acceleration in our revenue growth from what we have been doing in the last two or three quarters. So, if you can explain how the large deals will help us in achieving that and also your comments on post the like US elections is now behind, how the demand environment is shaping up especially after the elections, and in terms of the ask rate for achieving the 1.5 billion, like is it totally organic or is there some inorganic compound also into it?

Samir Dhir: There are multiple parts of your question. So, let us just talk about the macroeconomics. So, I think like we said earlier, the industry that we service, the four industries we serviced, it is duality in those two regions. So, for example, Healthcare and Banking are doing well for us, Retail and Manufacturing is not doing that well for us because of the current consumer discretionary spend slowdown that has had and hi-tech while the large client has done well for us, but the other part of the hi-tech has not done that well for us. So, that is really two parts of the equation that we are balancing out right now. As far as the large deals, how they are helping us? Really, like I said earlier, it's helping us offset some of the reductions that we are seeing in Retail, Manufacturing side. These deals are helping us compensate and still deliver (+2%) the type of growth that we just announced in this most recent quarter. What is the third part of the question? I missed one part of the question.

Amit Chandra: After the US elections, do you see changes that would help us?

Samir Dhir: Look, it's very, very, very recent right now. But if you look at all the industry analyst's forecasts, they are all talking about US inflation will still be high, go forward as well. Very early to say whether it will happen or not. But the election results till yesterday the messaging was the industry inflation will be high. So, all consumer-facing industries, Retail and Manufacturing included, we don't think there will be any uptick for at least two or three quarters, but our diversification strategy to help grow in Banking and Healthcare is really what is offsetting that slowdown.

Amit Chandra: On the margins part, obviously, we had the impact of wage hike, but there was also the impact of rebadging from the large deal that we won last quarter. So, like if you can quantify the impact of what was the rebadging and has the rebadging has been completed or is it still like work-in progress?

Samir Dhir: Rebadging is fully baked-in into our current quarter, so all rebadging is fully behind us, it's fully baked into the quarter numbers now.

Amit Chandra: And the margin aspirations, obviously what we have is of like low 20s and we are currently at 18%, 18.5%. So, the margin expansion like mostly will happen with these large deals coming or is there some like more headwinds that are still there in terms of margins? And, if you can also explain the Quant seasonality because Quant is having like better margins and in terms of seasonality Q3 is the strongest quarter for Quant, so how to see the margins and the growth in like context of Quant?

Samir Dhir: Let us talk about the seasonality of Quant and I will come to the margins right after that. So, the Quant, the current quarter, the Q3 is one of the stronger quarters and the Q4 is the weakest quarter of the year. So, Q3 will be very strong for them and Q4 will be muted for them. So, that's how we see the business which is what we have shared with you earlier also and now we are reinforcing that point. So, we are not worried about the current quarter, but we do expect Q4 will be soft, but they will come back on track in Q1 again, which is our April-June quarter. That is how the revenue cycles work. And the reason that the way it works, that because they work in the Banking space and the new year contracts take effect from January and they don't get signed till end of January and then the ramp up for the new deals takes time. So, really the full quarter impact comes in April timeframe. That is how the Quant business cycle works. I hope that answers the one part of the question. Second part of the question, from about 18.5%or so of our EBITDA to getting to 20%, I think there are two levels at play, and we talked about it earlier also. So, we expect close to about half a percent to come back slightly more as we get over the large deal hump that we have invested in for the next two quarters. Jagan talked about it earlier that by end of Q4 we expect those large deal-related investments to come out of the business and we will be back on track nearly about 60 to 70 bps coming back from the large deal impact. And second, the wage hike we have done, has a cumulative effect of about a 1.1%, somewhere in that zone, and that that takes us typically about two quarters to recover that. So, by end of Q4, early part of Q1, we should be able to get to our aspiration number that we have always talked to you all about.

Amit Chandra: Like just to understand, obviously when we acquired Quant it was an extremely high margin business and after we have seen very strong growth coming from Quant and most of the deals that we are winning is Quant-led. So, like despite that the margins have come off significantly from say 22% to 18%, so is it fair to assume that the core margins which was ex-Quant has come down quite substantially?

Samir Dhir: So, let me just qualify some of the statements you made. So, while Quant has been a significant growth driver, the deals that we announced even today, not all of them are Quant, in fact, most of them are not Quant-related. So, the Retail deal we just talked about, the Fabric deal we just talked about, the hi-tech deal we talked about, they are all in the organic business, just to clarify that point first. Having said that, in the base business, the organic Sonata business, the greens are happening in Healthcare, Life Sciences and the hi-tech space, we have not seen any big wins in the Retail space after the mega deal we announced a year and a half back. So, that is on that point. On the margin side, if you go back, we had EBITDA of about 22%, we diluted EBITDA by about 2% to 3% and we had shared with you all because we want to invest in the newer capabilities. And what are these newer capabilities? We invested in Fabric, we invested in AI, we invested in leadership in sales across geographies, we invested in newer areas within Microsoft Stack vis-a-viz Power platform and within Dynamics also in the CE side. So, we made some strategic bets to invest in these areas because the F&O space was working well for us, but we wanted to open up new doors from a growth investment perspective. So, part of that 22% dilution to20% was a very planned dilution. The other 2% that we diluted was because of the large deals which we expect fully to recover by Q4 and Q1 timeframe.

Moderator: The next question comes from Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: I just want to clarify one thing like since there is seasonality from Quant side, so the ideal way to look at the business is YoY, right, for example, if I look at the revenue from top ten clients, it has grown 29% QoQ, but YoY it is 8%, so just want to confirm the right way to look at it.

Samir Dhir: I think your point is right. The way to look at the business is YoY basis not only Quant even for Sonata also. But I think on the top ten clients, Suraj, keep in mind that the top ten clients that we had last year are not the same this year. We have had new additions in that mix. So, we added new customers in that mix and some of the older clients of Sonata are no longer in the top ten because they have fallen off the run rate basis. If you recall some time back, I just shared with you that about eight customers are more than 10 million in Sonata on a run rate basis. So, our mix of top 10 is changing. So, YoY is not a like-to-like comparison to what you are seeing YoY basis, not an apple-to-apple comparison because the base clients are different now.

Suraj Malu: One thing I just wanted to understand is on the sharp increase in employee expense like because for the past two quarters it has jumped like 10%, 11% QoQ. So, I just want to understand the split like how much is due to wage hike and like what is the reason for such high jump?

Jagannathan CN: I have explained to you that the wage hike has impacted about 1.1% at the EBITDA level for us this quarter.

Suraj Malu: If you can explain, why in the absolute terms the increase in employee expense?

Jagannathan CN: The absolute number, it is difficult to share details. It is confidential numbers now. But what happened is it had a 1.1% EBITDA level for us. Normally the total increase with junior management, mid management and senior management will be 1.6% to 1.75% every year. This year we have done only junior management now; hence it is 1.1% of the EBITDA.

Suraj Malu: And will the balance impact be in the next quarter as you had mentioned?

Jagannathan CN: Yes, balance impact will be in the next quarter.

Moderator: The next question comes from Chirag Kacharia from Ashika Institutional Equities. Please go ahead.

Chirag Kacharia: I have a couple of questions. So, in the second half you mentioned you are expecting to be better than H1. So, which vertical do you think to drive better performance in comparison to H1? And second, what furlough impact you are expecting in third quarter?

Samir Dhir: I will take the first part; Jagan will take the second part. On the vertical side, we continue to expect our Healthcare business will grow, we are expecting the Banking business to grow. So, those are the two businesses from a vertical perspective we think the growth will from. In addition, from a geography perspective, we think the US geography will grow faster than the other geographies as well. So, that is the two ways to think about it from a growth perspective.

Jagannathan CN: The furlough will have a very, very minimal impact for us, we do have an impact, but it is not going to be very substantial. Impact for us, except for one or two customers in the Banking space, it is not expected to have much bigger impact on the other customers for us.

Chirag Kacharia: From a capability perspective as you mentioned we are investing and there will be some margin band from a quarter perspective. So, in H2, the margin band will be on the lower side, or one should consider margin be like what we had witnessed in H1?

Jagannathan CN: I did not get your question. Can you repeat your question?

Chirag Kacharia: What I am asking here in H2, the margin band will remain in the same range as H1 or slightly better than H1?

Jagannathan CN: Q3 will have an impact of salary increase, but operational improvements will also come in there. We will have an improvement in the second half compared to H1, but to reach back to the early-20% level what we were mentioning, it may happen only by Q1 of next year.

Chirag Kacharia: And at consol level what basis point margin impact we are expecting due to wage hike in the third quarter?

Jagannathan CN: This quarter it was 1.1 percentage, normally the total impact in a year will be about 1.6 to 1.75 percentage because of the total increase on a normal year when the increments are given, this year balance impact will come in the Q3. We are yet to finalize the total number, but around that number can happen for mid managers and senior managers,

Moderator: The next question comes from Harsh Chaurasia from Vallum Capital. Please go ahead.

Harsh Chaurasia: Sir, I have two, three questions. So, first is when I see your Retail segment vertical, it has been degrowing from the last couple of quarters. I know there is a business condition, but when you speak about your deal pipeline, so can you give us some idea about like what percentage of the deal pipeline is contributed by Retail and Manufacturing, so what I am implying is so when the overall business condition improves, the run rate in the QoQ growth will be much faster than our peers? My second question is from a margin perspective. This is a clarification. So, when I see on YoY basis, your cloud and IMS revenue has been the major contributor in the international business. So, are we doing a lot of pass-through revenue type of deals which is impacting our margins? And third is basically when you say the 22% to 20% margin dilution was planned, so can you give the breakup of 200 bps which we have invested in business, so like what have we done investment on the large deal size and on the geographical expansion side from that perspective?

Samir Dhir: Multiple parts of the question. So, on the Retail large deals, they are in line with other verticals, Harsh. However, the difference in Retail and other verticals is that we are seeing closure than other verticals, we are not seeing the closures come through in Retail vertical and Manufacturing vertical. The clients are delaying the decisions that the cycles are longer. Our ability to close is limited not because our capabilities are just because the way the business cycles are with customers. They are delaying every quarter, the next quarter the discretionary spend side of the equation. So, from a pipeline perspective, do we have the same pipeline as other verticals? The answer is yes from a large deal point of view. But are we seeing closure? The answer is no. The second part of the question where we have grown in the cloud, I think is on the data on cloud. These are not pass-through deals, these are all data-enabled deals through the cloud platform which are hybrid deals which has some components of cloud and some components of data inside, but these are not pass-through deals by any measure, they are not the impact from a dilution perspective, the only dilution we have in the business from a gross margin perspective is because of the large deal we have already shared with you guys, that will continue for two, three quarters and then will get normalized again. And the third point of your question about from 22% to 20%, that investment was baked in, if you recall, even two years back we shared with you, it's largely in the capability side of the company because we are trying to create new capabilities of GenAI, Fabric, newer sales team members in some of the geographies that we invested especially in Europe, especially in the Banking and Healthcare vertical, especially in the newer areas that we outlined to you as part of our strategy. So, that is where the investments of 2% have gone in from 22% to 20%, which is our target end state we want to get to from a margin point of view.

Moderator: The next question comes from Prolin Bharat Nandu from Edelweiss Public. Please go ahead.

Prolin B Nandu: Couple of questions and let me start with where the previous question ended on this 200-bps investment that we had done two years back. Now, if I see we have already won a mid-size, not a large deal but a decent size deal in data, fabric as well and AI is something that we have been investing in, we have been winning deals in BFSI domain as well. So, when do you think that this 200 bps of investment, we will recover, I mean would it be '26 or when do you think this you know we can plough back some of the investments that we have made.

Jagannathan CN: So, this investment will continue for at least another three years' time. The reason is because we have to bring in a scale for continuing the growth that can come in for the business. Secondly, there is a big technology changes and with the opportunities are unfolding in front of us, unless we invest and bring the scale to this, we may not be able to capture the opportunity for growth that can emerge in the market in the coming future. So, we have to continue to invest this 2% and at least for three years, we may not be able to recover this.

Prolin B Nandu: Jagan, you mentioned this technology change, right? So, what we have typically seen is that whenever technology changes happened, it happened at DevOps at that time, whenever the implementation happened or whenever the benefits of that technology change percolated down to IT services company, it become more of a commodity, right, everybody started doing it and right now also the same thing is happening, everybody's talking about AI, right, in some sense and investment there and deal wins also happening. So, do you think that this AI and we talk about Harmony, we talk about our very esteemed partnership with Microsoft, do you think that that will give us an advantage and going forward when it comes to the service part of the GenAI thing, would it accrue to only a few players or all the service players will benefit and there how do we differentiate ourselves versus the rest of the pack?

Samir Dhir: I think look, for every time there is a technology change that has happened in the market. There are two, three companies which gained. If you go back 15-years back, you can see when the digital came, few companies came from behind and took the marketplace. Of course, everybody got a part of it, but some companies benefited more from this than the others. And what we are trying to do in the modernization space is exactly that. We are trying to capitalize that investment. Large will depend upon how well we execute as a team and the company. From the excitement perspective and the opportunity perspective it is in fact there, but we have to execute well. We made the investment; we are executing to our strategy and some of these journeys are not very linear. So, some quarters will be better than the others, some years will be better than the others, some years will be worse than the others. We are building a long-term business, and we believe what our teams are doing is really the right thing to do for building a long-term viable business out. And as you know, Sonata has many waves of growth, and we really want to make sure that the AI wave that is in front of us we capitalize on that as we move forward.

Prolin B Nandu: So, just to conclude, right, I mean our top quartile growth is something that we want to come back to in the second half of FY'25 and the margin that we were let's say before the start of this year, 20%-odd is something that we aspire to reach in Q1 FY'26 is that the fair conclusion on growth and margin?

Samir Dhir: Let me just qualify a little bit. I think we will have a better second half than the first half. We may not end up in the top quartile, just in the second half, it might be H1 of next fiscal year, but time will tell how we deliver to that, but that's how our current calibration, but second half will be better than first half for sure from a growth perspective. As far as the margin is concerned, as Jagan said, by end of Q4 or Q1 timeframe, we do expect to be 20% EBITDA company.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Samir Dhir: Well, thanks all of you for joining us today and listening to the prepared comments from the management team and for your questions. We just thank you for your continuous support and cooperation with Team Sonata and we take this opportunity to thank all the Sonatians globally for their untiring efforts to scale the company. Thank you, all.

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