SONATA

SONATA SOFTWARE

13th May, 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 disclosure dated 28th April, 2024 and 7th May, 2024, please find enclosed Transcript of Analyst/Investor call of the Company held on 7th May, 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: 2024.05.13 19:28:56 +05'30'

Mangal Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above

“Sonata Software Limited

Q4 FY'24 Earnings Conference Call”

May 07, 2024

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 Sonata Software Limited Q4 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Samir Dhir: Thank you, moderator. A very warm welcome to this conference. We will discuss Sonata's strategy, the progress we have made in the recent quarters, and the financial results for the quarter Q4 and the fiscal year FY '24, which ended March 31, 2024. I thank you all for joining us today. I appreciate your valuable time and support.

It is my pleasure to share the progress that we have made or continue to make concerning our vision and growth trajectory for Sonata. Despite the macroeconomic challenges, geopolitical issues, and slowdown of tech spending across geos and in a couple of our verticals. Let me start by reiterating our long-term strategic growth. As you are aware, our objective is to be one of the fastest-growing modernization engineering company with a goal to achieve a run rate of $0.5 billion for the international business by end of FY '26 at an EBITDA of low-20s.

From a growth point of view, we outlined a few critical blips. We wanted to win multiple large deals in a year; over-delivering on our M&As, to diversify our client base and successfully integrate these properties; and third, the new logos that can scale Sonata to be the next $10 million, $25 million, $50 million clients for Sonata as we move forward.

And we want to achieve these goals in 4 verticals, which is healthcare, life sciences, banking financial services and insurance, retail and manufacturing and technology, media, and telecom. Investments in healthcare life sciences and BFSI are significantly more than the other verticals, so we can scale these verticals rapidly. We wanted to modernize our clients take a state using our differentiated offerings, lightning tools, IPs, and other offerings that Sonata has. We are optimistic about our long-term vision despite the current macroeconomic environment.

With that, let me pick up the performance for Q4. As mentioned in the previous call, we had anticipated seasonal softness in the momentum for Quant and SITL during this quarter after a strong Q3. In addition, we had postponement in large deals, which were expected to be closed in Q4. We have seen longer cycles to close large deals, and if they continue for another 1 or 2 quarters. The seasonal factors, coupled with delays in the large deals, including holding costs for the large deals impacted us during the quarter. As a result, we had a quarter, where we saw a sequential decline in our revenue and had PAT quarter-on-quarter.

Let me provide some additional details for this decline. During the quarter, we stayed invested in a large deal for a healthcare client. The client decided to delay the decision for the deal due to their organizational changes and leadership changes. We were impacted both for the revenue and then quarter investments for this large deal. We plan to redeploy these investments over the next 1 or 2 quarters as we close other deals that are in the pipeline.

From a sector point of view, BFSI and retail sectors will continue to maintain flat-to-moderate growth during the quarter due to headwinds in the sector. During the quarter, we witnessed and continued to witness green shoots in high tech followed by health care business. In terms of numbers, the key outcomes for the quarter ending Q4 FY '24.

The International Services business degrew by 2.4% sequentially. It grew by 24.1% Y-on-Y. In constant currency terms, we have witnessed a 2.2% sequential decline, but a 24.3% Y-o-Y growth. We had a very strong order booking in the quarter despite the delay in the large deal. Our book-to-bill is 1.22 for international business. Our large deal pipeline is 34% up quarter-on-quarter.

Our utilization improved by 1.6% in the quarter. We have 16 clients with more than $3 million category of the annual run rate revenue of Sonata. Last year at same time, this number was 12. So we added about 4 clients, which exceeded the run rate of $3 million in the year. We also now have 11 clients with whom we do more than $5 million revenue annually. The overall attrition for the quarter was 14%. In SITL, the domestic business, our gross contribution business grew by 11% Y-on-Y.

Having spoken about Q4, despite the degrowth in Q4, FY '24 was still a very strong year for us. We delivered 34.3% revenue Y-on-Y, reflecting on our FY '24 performance, we are proud to share that we made significant strides during the year in the path of our long-term goal. Let me summarize some of those achievements that we made as a team in FY '24. #1, the large deal pipeline witnessed a 3.2x jump during the financial year FY24, and we closed during the year,14 large deals. We won 45 new logos, 7 of the 45 logos were Fortune 500 customers. We made 2 big new bets in the year, GenAI and Microsoft Fabric, and both of them are on a path to scale Sonata.

Our healthcare/life sciences business grew from 11% to 12% of our revenue in the year. Our Banking and Financial Services business grew from 8% to 17% of our revenue in the year. Our cloud and data revenue contribution increased from 49% to 59%, a 10% year-on-year improvement. Acquisitions in Quant and Encore, both overperformed and fully got integrated into Sonata's way of working.

During the year, we expanded our services in Mexico, Poland, Egypt, and Malaysia. A staggering 4 new geographies were added to expand our global reach, improving our responsiveness to our clients from a global footprint perspective. We consolidated our subsidiaries of GBW, Encore, and scalable under one Sonata company. We received several awards and recognition from analyst partners and the industry, including Microsoft Inner Circle partner; Most Preferred Workplace '23, '24 in IT-ITES; Best Governed Company at the 23rd ICSI National Awards for Excellence in Corporate Governance and EcoVadis ESG rating. We launched Sonata University in the year. In the most recent quarter, Sonata was also adjudged the Fastest Growing IT Service Providers as per the HFS Data Viewpoint of 2023 report.

Having given you an update on FY '24, let me also provide you an update on the large deals for the most recent quarter. We continue our trend to close large deals. During the most recent quarter, we're proud to announce, that we closed another large deal for our banking client. We won this deal with the largest banking firm -- one of the largest banking firms in the U.S. for building Customer 360 across all LOBs of our client. This will help our client to consolidate, aggregate and create a common customer 360 platform that will serve across their multiple LOBs. This bank is a top 10 asset under management bank for the United States.

Our large deal pipeline looks healthy, and our data and cloud pipeline looks healthy as well at about 40% of our total pipeline. We continue to see a significant number of large deals in our harvest and invest verticals. Let me give you a flavour of that. Our biggest pursuit right now is with one of the largest telecom companies in Europe. Our biggest pursuit in HLS, healthcare/life sciences is for a private health care org based out of London.

Our biggest pursuit in retail manufacturing is for an Australian heavy equipment supplier. Our biggest pursuit in BFSI is sort of Fortune 200 company in U.S. We are very excited about the momentum that our teams have created in creating this large funnel of large programs for the company.

New logo wins. During the quarter, we added marquee logos that included a Fortune 22 health care client, of Fortune 150 client and Fortune 500 bank. Update on AI and our big bets in AI and Fabric. On AI, we have over $65 million pipeline across 90-plus clients and prospects. We expect 20% of our revenue to come from AI services in 3 years' time. We had another key win in the quarter on GenAI. As part of the program, we're implementing modern engineering enabled by GenAI, improving clinical trials productivity and quality, leveraging GenAI, and building governance framework for the clients for GenAI. This is a multiyear GenAI program.

Our teams are building solutions using Microsoft Fabric as infrastructure for AI in close collaboration with Microsoft. We are proud that we featured as a launch partner for Microsoft Fabric, the data analytics platform for the era of AI. Our team of over 300 data engineers are enabling our clients to leverage this new end to end analytics SaaS platform for our clients. We continue to witness significant pipeline build for Fabric, since its launch about 3 quarters back, and our pipeline is about $42 million now across 75-plus clients.

Within Fabric, we're happy to report another win that we had for a high-tech client. We won a deal to implement Fabric for a SaaS enterprise. We are creating and configuring Fabric environment for the client, which will enable them to create advanced automated reporting and visualization for customer proprietary products. Sonata Harmoni.AI, enterprise platform listed on Azure and AWS marketplace. We announced the integration of Amazon Bedrock and related services to Sonata Harmoni.AI.

For SITL, we continue to scale our business -- India business with a sharp focus on annuity business. We're proud to share our outstanding achievements and awards for the quarter. Our CHRO won India's greater CHRO Award for '23-'24 at a recently concluded 22nd Asian Business and Social Forum. Our company Secretary and Head of Legal won the prestigious Governance Professional of the Year Award at the 23rd ICSI National Awards for Excellence in Corporate Governance.

With that, let me provide a brief update on talent. With the objective of making Sonata GenAI company, GenAI certifications were launched for, and more than 50% of Sonatians are now Level 1 certified, and we are well on our path towards Level 2 and Level 3 certifications. We made significant strides in furthering our D&I charter under the able guidance of the D&I consolate we formed last year. The SWAN Group, which is an acronym for Sonata Women Advocacy Network has now gone global with chapters being opened in every continent, where Sonata is operating. We continue to onboard young talent from campus with over 80% of the talent being women engineers in the most recent freshers' batch.

In summary, we continue to remain confident about our medium and long-term growth prospects. In the next 1 or 2 quarters, we expect to redeploy the investments we made in the last quarter for the large deal and redeploy those people as we win new contracts. However, our largest pipeline, our investment partners, AI, and Fabric, are strategic bits that give us a lot of confidence for our continued momentum. We had a blip, but we are very optimistic about the future. Team Sonata remains committed to judiciously accelerating the growth curve and building scale, scale in terms of large deals clients, markets, partnerships, and talent.

Thank you. With that, let me turn to Jagan for his comments on our financial performance. Jagan?

Jagannathan CN: Thank you, Samir. Good evening, good afternoon, good morning all. We're giving a financial update to you for this Q4 2024. In international business, as Samir mentioned, we had a year-on-year growth of 34.3%, although the quarterly growth has been a negative of 2.4%. On a constant currency basis, we declined by about2.2% The revenue in INR degrew by 2.6% QOQ and for the year, it was 39.5%.

The important other metrics in the international business is our utilization was around 87.4%. We have added 18 new customers. The top 10 clients in Q4 contributed 52%, and in Q3, it was actually 53.6%. The number of clients, more than $3 million in Q4 is 16 customers. The TMT business contributed 36% of revenue. Retail manufacturing is 35%, and HLS is 12% and BFSI is 14% and the emerging has been 4% in Q4.

In terms of our offerings, data has been 22%, Dynamics is 24% and cloud is 36%. And in the order booking, as mentioned by Samir, , we had a book-to-bill of 1.22x in the international business. The DSO was 45 days with a strong collection of more than $80.5 million. The headcount has been 6,416 in Q4 net of attrition for the company. Importantly, in terms of profitability, the consolidated PAT for the quarter has been INR110.4 crores from INR128.4 crores in Q3. The international EBITDA before ForEx and other income has been 17.3%. This is mainly because of a drop in revenue.

The drop in profitability was majorly contributed by, as Samir mentioned, the large deals, and the delay in closing the large deal, which was a major impact for us in this quarter. consolidated EPS for the quarter has been INR4 this is after the bonus issue adjustment of 1:1. In Quarter 3, it was INR4.6 here. At the year's end the consol level ROCE stood at 25.4%., and RONW stood at 31.4%, still the best in the industry.

The domestic business gross contribution has been at INR64.8 crores. This year-on-year growth of 18.6% for us. For the whole year, they have made a very good GC of INR260.4 crores. The domestic PAT for the quarter degrew 5.9%, but the year-on-year, there has been strong growth of 15.7%. We have declared a dividend of INR4.40 as a final dividend apart from the interim dividend what we have given earlier. The other metrics and are given in my presentation, and this will be uploaded in your website. we can take your questions now. Thanks for this opportunity, Samir. Thanks.

Moderator: Thank you very much. We'll take our first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Congrats on an eventful year overall. A couple of questions. Given your expected deal softness to continue over the next 2 more quarters, how are you imagining FY '25 to pan out? Is it going to remain flattish? Or will you only have clarity by the end of Q2, or Q3? Do we have enough levers to accelerate? And then also the specific weakness, which is related to the large $160 million deal that you won a few years back. If you could just help us imagine FY '25 better?

Samir Dhir: Yes, sure, Baidik, thanks. I think the overall market is changing quite rapidly, Baidik right now. And our large deal pipeline continues to be robust. So we believe that as time progresses, we'll continue to close. Of course, there are decision delays. Deals that were taking 3 to 6 months to close are now taking 6 months to even a year to close. So the cycle has just gone longer in the market.

Having said that, I think, we think we will grow in the next 1 or 2 quarters flat-to-slightly modestly up. It won't be in the earlier zone that you were thinking about. That's where our current expectation is, but things are changing literally by the month right now. So I don't know whether we can give you a guidance for the full year. Will still be a growth year, and I believe we'll be growing ahead of the industry. The industry is forecasting about 5% to 6%. We believe we'll grow higher than that. But how much higher we will be able to go than that, Baidik, we cannot answer that question we'll, of course, keep you guys posted as the year progresses. That will be definitely be significantly higher than the industry, for sure, but how much we don't know.

The next 2 quarters are interesting for us because we made investment in this large deal in the last quarter. So we have -- as we close more business, we have to redeploy the talent, and the talent is largely on-site we have hired. It was a very senior talent we hired ahead of time. So I'll redeploy the talent and put our profitability up and put that growth back in the current quarter. That's really the focus for the next 1 or 2 quarters right now.

Baidik Sarkar: Sure. What's the status on your large clients in hi-tech, has that bottomed out? And give me a disclosure of change in last fiscal? Could you please perhaps call out the degrowth that we've seen in your #1 client in IT services alone?

Samir Dhir: So I think that's good news. The largest client, the high-tech client is back on growth. If you recall, last quarter, we shared with you guys that we are seeing green shoots of growth. And I think those green shoots of growth have become a mini plant. And I think that's a positive side because we are continuing to scale back that account. And I think our scale in the coming quarters will go back to our original run rate. And in the course of the year, we'll probably go back to our highest ever run rate in the course of the year is our expectation right now. So it really continue to make good progress on that client specifically, Baidik.

Jagannathan CN: Baidik, just to add a point, the revenue growth in the largest customer is strong, and we have a lot of opportunity to come. But that comes with a different mix than last time. It's going to be in a different use also. So that's a change in the mix that we are seeing here, but plenty of opportunity.

Baidik Sarkar: We imagine margins, the talent that we've onboarded last quarter, is that's fungible? And -- or would you reckon margins will be under pressure for few more quarters? How are you thinking of margins?

Samir Dhir: Yes. So I think the margins will really be a function of how quickly we can redeploy these people that we have invested in for the large deal. They are fungible talent Baidik, it's not like it's not fungible. And the margin uptick will really see, we expect between a quarter or 2, 2 being the outermost limit from now to put that back on track. That's our current expectation to be sooner, but that's our current expectation range, Baidik.

Baidik Sarkar: And just one more question with domestic business, Q4 has historically seen growth sequentially for last many years, right? Could you perhaps follow up on what exactly happened here? Was that a fall in our base of existing volumes versus a repricing of existing clients? If you could please point that out.

Samir Dhir: Yes. So I'll start and then there is Sujit. He is on the call; he can build on this. I think the -- our Q3, Vedic the October, December quarter traditionally has been the strongest quarter in the year because that's the time the annual contract we've closed. So if you look at the past several years, our beat quarter, the super beat quarter is the Q3 quarter. And because that beat is so significant at Q4, no matter what happens is a decline quarter. It has been a trend for the last several years.

And this year has been no exception that Q3 was such a big beat that Q4 was a slow quarter for us. And it's a seasonal variation. We're not concerned about it, but it is -- it was expected. If you recall our guidance when we spoke in the last quarter's call, we did say both Quant and SITL will have some seasonality factored into the quarter. So that's exactly how it panned out.

Jagannathan CN: But however, as GP has been having a strong year-on-year growth Baidik. We have got a gross contribution level. Year-on-year, the growth has been very strong. We have always maintained that please track year-on-year growth, and please track the yearly growth. We are very confident of meeting that. This Q3 versus Q2, Q4 versus Q1, this variation will be there for different quarters.

Baidik Sarkar: So I'll close with the bookkeeping question, we've had a few acquisition-related costs in FY '24, mainly on the financial front. How should this pan out in the coming year? I mean it's possible if you just call out the amortization, acquisition, and finance costs that you expect on a quarterly basis?

Jagannathan CN: Yes,. The finance cost in a quarterly basis, right? As mentioned earlier, the -- we have mentioned, we will be uploading the presentation which gives the breakup of amortization and interest on the acquisition loan as well as the unwinding of interest on the deferred payout. The unwinding of interest on deferred payout will come down after the payout happens in this quarter.

This quarter, , the payments will happen. So from Q2, the unwinding of interest will come down,. However, for the earnout payout purpose we have taken additional loan and our RBI issue is still work in progress. So the additional borrowing costs will also be there. So that we continue for another couple of quarters.

Baidik Sarkar: So net-net, there is no change downwards. Is this not the takeover Jagan, net-net?

Jagannathan CN: Net-net, you may not see a big difference in the cost in the immediate quarters because of the -- we are not able to close the loan because of RBI issues. That's an operational issue. We are in the process of that -- closing that. Once that happens after a couple of quarters, we expect it to be closed so that costs may come down.

Moderator: We'll take the next question from the line of Abhishek Shindadkar from InCred Capital.

Abhishek Shindadkar: Congrats for the full year. My question is regarding the quarter when you had a sense about the miss on the quarter. So was it towards the end? Or you are anticipating the ramp-up would happen and then it didn't happen? So first, any color on that? And I have a follow-up.

Samir Dhir: So we had ramped up literally from January onwards. There was a verbal agreement with the customer to move forward, but we got to know that the deal is not happening towards the mid-March time frame.

Abhishek Shindadkar: Got it. Got it. And should we -- what I'm trying to understand here is that, if I look at the stand-alone business, that's down 4% revenue, the reason I'm asking this is the last quarter, we revalued the payments towards these acquisitions. So what I'm trying to understand is this growth or there still was a function of those two acquisitions and thereby, with the change, would there be any change in the fair value assumption that we de-risk last quarter?

Jagannathan CN: No, man. There is no change in the growth estimated based on whatever we had the information on December closing. That remains the same because we also mentioned that for particularly Quant, which is the largest acquisition that there is a seasonal impact for in the January, March quarter.

So they are expected to bounce back slowly from the April, June and then July to September quarter, they are supposed to recover back and then cover the shortfall that happened during this time. So there is no change in the fair valuation of whatever we havetaken.

Moderator: The next question is from the line of Mayank Babla from Enam AMC.

Mayank Babla: Sir, just to reconfirm, directionally for FY '25, you mentioned that in the first half, we will be flat-to-positive. And for the full year, we will be higher than the industry growth rate of 5% to 6%. Am I right?

Samir Dhir: Yes. We'll be higher than the industry for sure in the full year, but the first half will be flat to marginally up.

Mayank Babla: Sure. And then you see quarter-on-quarter sequentially, you see improvement from Q3 onwards. Am I right?

Samir Dhir: It's hard to put a number, Mayank. It could be in Q2 also. But yes, it will be -- Q1 will be flat-to slightly up, and we'll see how Q1 pans out, and then we'll give you an update in July time frame when we talk again about Q2. Right now, it's very hard to predict. But we feel confident that for the whole year, we'll be ahead of the industry for sure that confidence we have.

Mayank Babla: Sure. And sir, apart from the impact in the Healthcare segment, was there any blip or one-off in any other verticals?

Samir Dhir: No, I think the Healthcare segment had, the overall healthcare segment has done well, just to put this in perspective. The overall healthcare sector still grew. But this deal also happened to be in the healthcare segment, which got delayed. And had a full quarter impact for us. But that's the only sector that we saw the deal delay of that side that impacted us in the quarter. Otherwise, I gave the commentary earlier, we continue seeing good momentum in our high-tech domain as well as the healthcare domain and flattish- to slightly-moderate growth in retail and banking domains.

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

Dipesh Mehta: Just want one clarification, about the large deal delay that we indicated in health care. Whether that deal is now canceled kind of thing? Or are you -- it is getting delayed and maybe in the next 2 quarters, you expect it to get closed?

The second related question is if I look at your headcount and utilization. Now your headcount has declined quarter-on-quarter. Utilization has jumped up, and we are referring to the delay in deal close, one of the reasons why revenue weakness was there. So you can help us reconcile some of it because utilization jump is and you indicated mid-March is where we get some clarity about some delay. So if you can help me understand about optimal utilization, which we generally plan.

Samir Dhir: Yes. Dipesh, so I think to your first question, the deal is still active, and it might kick up any time, hopefully in this quarter, the next quarter. So we're still in pursuit of that deal. Now as far as the headcount discussion, this deal had a significant on-site presence. So the overall utilization percentage has improved for the company because we did not need that many people offshore. The on-site headcount was expected to be higher. So it impacted us from a cost perspective more than it impacted us from a utilization perspective. Jagan?

Jagannathan CN: Yes. And we are also being managing it optimally now, moderating it between the on-site increase and the offshore headcount addition because the market uncertainties, we will be balancing this for some time.

Dipesh Mehta: I understand. Just on the last part, these on-site resources. It is on subcontractor kind of thing, or do we hire employees there?

Jagannathan CN: Yes. This is the mix of both are there,. there is some amount of hiring some amount of contractor both are there. It's not that if contractor that we would have confidently shown that and we may not have been speaking about the redeployment, there are own our employees' hires are also there.

Moderator: We'll take the next question from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Sir, I wanted to understand this deal, has it been completely canceled? Or has it been delayed by a couple of quarters? Just a clarification around that?

Samir Dhir: Yes, Mihir, as I said earlier to Dipesh's question, the deal has been delayed at this point. We're still pretty much in active pursuit of getting the deal closed out. It's just a delay given the -- as I said, the odd changes that customers had to go through, who is waiting for the new management team to settle down, and then the deal is very much active. They are still in continuous dialogue with us.

Mihir Manohar: Sure. Sure. Do you expect the digital change in its original structure, and maybe kind of the work that was given to you, can it get curtailed down? Any indication around that?

Samir Dhir: No, we don't expect the value of the deal to change. The timing of the deal is a little bit up in that question right now, but we do expect it's very much and still an active deal, that deal value will not change substantially.

Mihir Manohar: Okay. So, is it driven only by the organizational restructuring, or let's say, the client itself has entered into weakness, which has resulted in the deal getting deferred?

Samir Dhir: They had a change of leadership. So the new leader wanted to come and reassess the -- all the programs and then evaluate where they want to spend. It's an organizational leadership issue.

Mihir Manohar: Okay, sure. My second question was on the margin work. The margin has come down this quarter running quite substantially. If you can just provide a walk around that, what part of that was contributed by this deal getting delayed it will be helpful.

Jagannathan CN: Yes. We have beefed up the on-site employees for the deal that had -- a definite impact was. I will not be able to share the details of the numbers now. But definitely impact that was one of the major impacts for us. The second and the other large deals, which has led to the revenue not growing, so that was also the reason for the margin impact.

The revenue and the cost, the margin they related. We also continued our investment, as mentioned by Samir, we are very, very optimistic about the medium term. So we continue our investment in AI and Microsoft Fabric. So, that investment will also have some impact because we have not scaled down the investment aspresent. After all, we see a lot of opportunities in these two.

Mihir Manohar: Sure, sir, sure. Because the decline was 300 basis points, it was quite substantial. So just wanted to check how to understand the margin difference, which has come in this quarter. It was something. Sure. And just lastly, I mean these 3 components of the acquisition cost, interest, depreciation, and finance cost, if you can break down what was the number, each of these 3 numbers in FY '24? And how would they change going ahead in FY '25, and FY '26, that will be helpful.

Jagannathan CN: We have given the breakup in one of the presentations, which we will upload to the website soon, you can see the details of the breakup. But what is happening is that as I mentioned, the amortization of intangibles is not going to come down. It's just a factor of the amortization over some time,.

There can be a short-term upside in the interest cost because we are still working on the RBI issue to close for remittance of money, we have net positive cash, because of that RBI issue, we're not able to remit the money, hence the interest cost will continue for some time. The unwinding of interest on deferred consideration will come down by half after June of this year. Then by next year, when the final payout happens for Quant that will godown, which is running at around INR11 crores now per quarter, it will come down.

Mihir Manohar: Okay. Sure. And just one last question on the BFSI side. BFSI revenue was $21 million, 2 quarters back sorry, $17 million. That has come down to $11 million, $12 million now. So how should one read this? Why has that happened? Because of the deal deferment, which has happened on the healthcare side, how has the BFSI been impacted, specifically, I think 2 quarters back, we were having $17 million as a revenue and now around $11.5 million?

Samir Dhir: Yes. Maybe I may take this question. So that's the seasonality part for Quant if we talked about it. So I think in Jan-March quarter, it's a seasonally soft quarter for the large banking client for Quant. I think that number will pick back up in the April-June quarter quite substantially and fully by the July quarter. It's a short-term blip that we anticipated, and we had communicated in our October call as well that we are expecting a seasonality, again that will happen every year in the Jan-March quarter will be...

Mihir Manohar: Sure. So the entire $2.5 million is driven by seasonality?

Samir Dhir: It's a seasonality factor, yes. It will get significantly, get recovered in this quarter and the last part will get recovered fully by Q2.

Moderator: We'll take our next question from the line of Tushar from InCred Capital.

Tushar: Wage hike postponed due to the transformation. So any outlook on the wage hike for FY '25?

Jagannathan CN: . We are implementing a new performance management system, as we mentioned last quarter. The process is on, and it should be completed by Q2 of this year. We will be deciding upon the increment cycle by then. We will be able to announce by the end of quarter 1, what is the quantum and when we are going to do that. But the process is on already, and this performance management system will be completed by Q2 of this year.

Tushar: And so my next question is related to gross profitability in the American business. So in this quarter, we have seen, I mean, growth moderation on the Y-o-Y business. So going there, we expect -- do we expect 10% to 15% growth will be sustainable?

Jagannathan CN: We're talking about domestic business?

Tushar: Domestic business, yes correct.

Jagannathan CN: Yes,. This will be definitely, as we mentioned last quarter also, the impact on turnover growth is mainly because of IT companies, because the IT industry constitutes about 40 percent of the domestic business turnover, that was the impact. Our year-on-year FY '23 to FY '24 growth has been solid, but the quarter 4, there has been a small blip in that. This will be our commitment to yearly year-on-year growth on GC of 15%, which we are maintaining.

Moderator: The next question is from the line of Vipul Kumar Anopchand Shah from Sumangal Investment.

Vipul Shah: Can you give the onshore/offshore mix for the quarter and what was the same for the third quarter?

Jagannathan CN: we have not yet disclosed that in the presentation, Vipin. We have decided to hold that because we are in a transition phase at present and hence not able to share the same with you.

Vipul Shah: I think previously, you used to share this detail in your presentation earlier.

Jagannathan CN: Yes, we used to share earlier. But from Q2 of this year, we have not been sharing that.

Vipul Shah: So, you are not calling out the margin impact, you are not calling out for the -- this mix, then how do investors conclude, what impact this delay in the deal had? And what will -- what its impact on profitability will be in the coming quarters? I think you should share it, sir.

Jagannathan CN: we are taking your input. We will review it internally and then come back to you on that.

Moderator: We'll take a question from the line of Devang Bhatt from IDBI Capital.

Devang Bhatt: Just one thing in this quarter, if we exclude SITL and Quant seasonality, what could be our growth? Second is that you highlighted that in FY '25, Quant will grow by 65%. That's why you had taken that one-time hit. So are we still on that track that we'll grow by 65% Y-o-Y in FY '25 as well?

Jagannathan CN: Yes, , man, whatever we have taken in December, we continue to hold that growth in Quant. If there is a change in that, we'll come back and update on that. At present, we see that this year they will catch up for the growth, whatever we estimated in December.

There can be small changes in the plus or minus percentage, but we expect that directionally that number we expect even today. The first question is on the Quant and our base business. As we mentioned earlier, we have integrated the company very, very strongly. So it is very difficult for us to split , but there is a lot of cross-selling or a lot of cross-business has been there in between these two organizations. So difficult to split and give it to you on that basis.

Devang Bhatt: Okay, sir. And one more thing, sir. We said that Quant was going to grow 64% this year. So now considering this Quant seasonality. Now are we have we still grown at 64% or there has been a miss over there?

Jagannathan CN: You are talking about FY '24 or '25?

Devang Bhatt: FY '24. he --

Jagannathan CN: FY '24. Yes, they have grown.. As I mentioned to you, whatever was an assumption that, the assumption was for CY '23 because their assumption based on CY basis, we have estimated for CY '23. But this FY '24 also remains the same.

Moderator: We'll take our next question from the line of Harsh Chaurasia: from Vallum Capital Advisors.

Harsh Chaurasia: One question. The number of million-dollar customers category, the data you gave. So from last quarter, there has been a significant decline in the $1 million to $3 million category and the same for $5-plus million clients. Throw some light on that?

Jagannathan CN: As Samir mentioned, our focus has been on the large deal, $5-plus million has been steadily in our pipeline as well and the order book has been steadily growing there. That's one of the positive news. The other area is there are plenty of opportunities in the new technology areas. now the initial order values, which is slightly less than $1 million may come in because of the new technology areas, both in AI as well as in Microsoft Fabric. We expect these deals to convert into large deals in the coming years, coming quarters. But for us customer addition momentum has been very, very strong, 13 customers in Q3, but 18 in Q4, very, very strong customer addition.

Harsh Chaurasia: Okay. Understood. So just one more question from the Microsoft Fabric side. So, can you explain a bit more from a layman's perspective, like how GenAI can complement Microsoft Fabric or how Microsoft can go vice versa? What would be the relation between...

Samir Dhir: Yes. Let me try for you. So essentially, the GenAI is dependent upon using the data in a right and meaningful way for you to reduce any insights that are meaningful for the business, that's the way it will work. So as an example, the GenAI win that we announced today for a clinical trial company, they're using the data to determine what kind of patients will get a drug tested on.

And they want to have ethnic diversity and regional diversity for those patients. Now the data comes and has to be used so that they can make some intelligent decisions and predict, who they want to have on a drug trial basis. Now the data per se resides in multiple systems for their organization, their partner organization. That's where really Fabric comes in because it can pull in data from multiple sources. It's a SaaS-based platform, and it can provide and host the data and provide the data to the AI engine. So think of it like a 2-tier thing. AI becomes the front end and Fabric becomes the infrastructure, which supports the front end.

Harsh Chaurasia: So is it like more of a data lake where all the data is structured in a structure like it will be in a structuralized format?

Samir Dhir: Yes. You can take that as a working model, yes.

Harsh Chaurasia: Just one more question from a data point regarding, I think I missed your opening statement. There was a mention that we will do 20% of the revenue in GenAI or something of that sort?

Samir Dhir: Yes, that's right. We said in 3 years, we expect our revenue to be from GenAI and support infrastructure about 3 years from now, yes. Those are the bets we are making, if you think about the 2 bets that we made in the last year, one is in AI and the second is in Fabric and those businesses are nicely scaling for us. So we think that could be a significant part of our business in 3 years. Yes.

Moderator: We'll take the next question from the line of Prolin Nandu from Edelweiss Alternate Public Equity.

Prolin Nandu: Your comments on Q1 and Q2 being weaker than -- I mean maybe flattish or some growth. Is this largely because of the deal that has been delayed? Or are there any other deals also, which we are expecting to be delayed? So I mean, just wanted to understand whether this delay of this deal has allowed us to reassess whether this thing can happen in some of the other deals as well, which we're expecting to start ramping up in Q1 and Q2?

Samir Dhir: I think it's a letter you're spot on. It's the latter. Because we saw a deal that was pretty much done getting delayed, we are taking an approach to just reassess all other deals to make sure that we factor that in. And we think it's more prudent at this time, given all the decisions that is related that we've been seeing to just calibrate ourselves to that level of investment cycle. In Q4, what happened to us was a blip, and that's why I keep saying it was a blip and very confident of the future. But we just want to calibrate ourselves for the next 2 quarters so that our investments run in line with the large deal expectations that we have.

It's a very deliberate strategy we are taking to make sure that we invest the dollars wisely. And as we close the deals that's when we start to put these investments back on. So first, the first order of task for us is to redeploy the people that we hired for this large deal, of course, towards the large dealer itself. And as more large deals closed, we continue to put the momentum back in the business that we got a little bit sidetracked last quarter.

Prolin Nandu: Okay. So Samir, to understand it, I mean, it's largely one deal that is impacting our outlook on Q1 and Q2, if I understand it correctly.

Samir Dhir: Yes, we're just thinking about a calibrated approach, yes. And we are seeing in general, there has been a delay like, as I said in my comments as well, deals which were taking 3 to 6 months are now taking 9 months to maybe sometimes a year. So just taking our calibrated approach given what has happened on this one similar deal.

Prolin Nandu: So Samir, that was my second question right? If I look at your GTM mix, right, I mean, emerging tech, dynamic data, these are all in a way part of these spends by clients are, in a way, nondiscretionary right, I mean, in terms of the way of doing business, etcetera, etcetera. So why are we facing such kind of a challenge in terms of modernization, we have a play there as well.

So what is it that is happening in the kind of GTMs that we operate in, which is leading through delays from the client and in terms of closing the deal?

Samir Dhir: I think it's two things. One, like in the example we just talked about the large deal. It was an organizational change that the customer went in. And as you know, when a new leader comes in, they take their time to reassess the priorities and investment cycle. So that's what happened in that case.

And another example is the customer had a corporate event on their site. So they just put a pause on all programs because they want to look at their quarter end. So it's multiple shapes, candidly, it's not one. And it's a culmination of these 2 things that happened in the last quarter, if you said, okay, let's just take a more calibrated approach on these deals and the timing of closure. And I guess, as I said at the beginning the cycle has changed, I would say, the last 3 months, the deals which are closing between 3 to 6 months and now closing between 6 to 9 months or further ended, so...

Prolin Nandu: Understood. So things have worked from our go-to-market kind of a thing in the last 3 months, am I correct?

Samir Dhir: From a decision and cycle perspective, yes.

Prolin Nandu: Sure, sure. And lastly, you have this aspiration of 20% revenue coming from AI in the next 3 years. Maybe can you give us some range of what percentage of our deal pipeline is related to GenAI?

Samir Dhir: Yes. I think I gave the number, let me look at the...

Prolin Nandu: You mentioned $65 million, right? I mean, total AI pipeline, and out of that...

Samir Dhir: Think of it like a 5% of our pipeline, somewhere in that zone around I think about it right now.

Prolin Nandu: Sure. And when you mentioned $65 million of GenAI pipeline and $45 million of Fabric, that GenAI, I mean Fabric forms part of GenAI. Am I correct?

Samir Dhir: No, they are independent. So combined is about 10% of our total pipeline.

Moderator: We'll take our next question from the line of Krupa Desai: from Electrum Capital.

Krupa Desai: My question was on the goal of achieving $1.5 billion by 2026. So do we stay stuck on that goal because seeing the weakness in the near term, will we be able to achieve this target?

Samir Dhir: Yes. It's a great question. I think something that we keep thinking about. I think, yes, in the long term, we think we are still rooting for that goal and gunning for that goal. There might be a quarter or 2 delay in our current calibration, but we're still running for that goal. As you know, it was an aspirational goal that we announced ourselves for 2 years back. And I think we still want to run for that goal. As I said, there would be a couple of quarters of calibration I was reminded to do. But we'll do that calibration later in the year, once we have more further view of the year itself.

Krupa Desai: So will we be able to achieve it by FY '27?

Samir Dhir: As I said, we are still running for FY '26. There might be a couple of quarters delay now, is our thinking. So yes, to answer your question, '27 should be doable, but there might be somewhere in the zone of 1 or 2 quarters delay is what we're expecting right now.

Krupa Desai: That would be inorganic and organic because organic growth at this rate could be a challenge in the current environment. So how much of that you are targeting to be inorganic?

Samir Dhir: We did not plan for inorganic when we had put it out. Like we always said we'll do inorganic for the right reasons. Right now, for at least for this fiscal year, we're not planning any M&A activity, at least for this calendar year. We will look at looking at some M&A equity to start sometime next year. And that too is dependent largely on the right property. I've always said that we will do acquisitions for the right reason, not for several reasons.

Krupa Desai: So, sir. Just looking at the industry, which could be like single-digits or lower single-digits. This is targeting about 23%, 24% kind of growth. So what could drive that kind of growth for Sonata?

Samir Dhir: I think the investment that we have talked about and the large deal momentum that we have seen, while there is a delay, the deals have not evaporated. If you look at even now, more than 50% of our pipeline is large deal centric. And that is what has catapulted us last year also. If you look at last year, including Quant, we delivered about 34%, 35% Y-on-Y growth. So we have done this in the last fiscal year. We believe through a combination of large deals and maybe some acquisition, if it makes sense for us in the course of the next 2 years, we still want to run for that FY '26 end run rate goal with plus or minus 2 quarters variance.

Moderator: We'll take our next question from the line of Siddhant Punjabi from Way2Wealth.

Siddhant Punjabi: So sir, I just have one last bookkeeping question. If I see our consolidated results, would it be fair to say that the other expenses have jumped significantly in this quarter if I look at it on a sequential basis, it's gone up to almost INR230 crores from INR186 crores. So would it be fair to say that a large part of it has come from the deal that it didn't go through and the expenses on that? Or is there something else that's being baked in over here? Because I see our employee cost has reduced on a sequential basis to about INR330 crores. So just wanted to try and get an understanding over here.

Jagannathan CN: Yes. As we mentioned earlier, the utilization has gone up. So our total headcount has come down and offshore has come down, whereas the on-site impact has gone up. So we have been calibrating to balance between these two. The other expenses is actually, which constitutes various elements into it including the deal cost as well as the other costs will be there. There are some reclassification accounting requirements, and all these things are there. We will give you if you need further information, we will give you that offline because it's a little lengthier breakup, I have to share the same.

Siddhant Punjabi: Okay. Yes, it will be really because that's a big jump right now we're seeing on a quarter-on-quarter basis. So the explanation on this will be really...

Jagannathan CN: Yes, it's a financial year-end. So you have to compare that with the financial year of last year, but I can share the details with you offline.

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

Dipesh Mehta: A couple of questions. Just on the health care deal, we have booked any TCV in the prior quarter from that deal? And is it an existing or new client where we are, let's say, the income delay? The second question is about the top 10 and top 20 clients. If I look at showing sizable weakness, not for this quarter, even last quarter, it was weak. So if you can give some sense of how one should look at it because our preference was always to see progress on client money, which is not visible at least in the top 10 to 20 for a couple of quarters. So if you can give some sense.

Samir Dhir: Yes. To your first question, I'll take, and Jagan can take the second question. It's an existing client and the deal was not booked. We were planning to book that deal in January, and it got deferred to beyond Q4 now. So it was not in one of the deals that we announced or anything we are still in the pursuit stage, and it's an existing client. To your second question, Jagan, do you want to take that?

Jagannathan CN: Yes. The top 10 and top 20 were a little moderated during the last 2 quarters because of our top customer performance . But they are picking up, and we are expecting that at least the top 10 customers will grow faster in the coming days. But the possibility also that we are expanding with many new customer opportunities coming in, this look, this is like an aberration for the time being for 1 or 2 quarters because of the differential growth in few top customer, which we expect it to settle back to the earlier levels.

Dipesh Mehta: So it is only one client-related issue, or the rest of the 19 clients, we are....

Jagannathan CN: No, We have the second largest travel customer in Europe, plus there are 3 or 4 customers in the top 10, who have a little moderation there. That was reflected in the top 10 and top 20 customers. We are expecting the top customer to grow. So automatically, things are going to change in the coming quarters.

Moderator: We'll take our next question from the line of Mayank Babla from Enam AMC.

Mayank Babla: Sir, I just wanted to understand from you that given the current order book that we have and that Quant, the expectation largely remains unchanged. And on the healthy pipeline that we have in your experience and as per annum total evidence, what sort of means can we achieve at least reach double digits in FY '25? Or you don't have that sort of visibility yet?

Samir Dhir: As I said earlier, we expect to be higher than the industry exactly whether it will be high-single-digit or low-double-digit or mid-teen growth. We don't know that right now, honestly. We will give you a readout as soon as we have the calibration. And the reason largely is not because we're not in the order book or pipeline. We have a sufficient pipeline reservation order book. But things are changing at this point quite significantly every quarter. This sort of gives us another quarter or 2 before we can give you some firm answers. But we are sure that we will grow more than the industry. With that much confidence, we can leave you with it.

Jagannathan CN: Mayank, the opportunity is not an issues at all. Plenty of opportunity in the market even today. We'll say our pipeline remains to be very strong. The closure of the deals is uncertain and closing the deal is the point to be addressed. So we hope that in a quarter or 2, we'll get more clarity, and we will be able to do our best.

Mayank Babla: Fair enough. And sir, my last question is about the pipeline. Typically, what percentage of the pipeline gets converted into an order book?

Samir Dhir: I think our win ratios are about 35%, 40%. So that is probably the way to think about it from a TCV closure perspective.

Moderator: We'll take our next question from the line of Mihir Manohar: from Carnelian Asset Management.

Mihir Manohar: Sir, I wanted to understand the margin side. I mean, given the fact that we are expecting flattish growth going ahead for the next 2 quarters. So how should one see margins? I mean I understand that, that will be -- we will also be related to redeployment of the people that we had grown onshore for this particular deal. But how should one see margins, I mean, it should see once the margins recover over a bit of 2 quarters or immediately recover back in the next quarter itself?

Jagannathan CN: This is a little related to revenue as well as the other factors that are there to factor in. One is how fast the revenue bounces back, recovery happens, it also depends on the margins, what we can do, and how we can redeploy the resources that were taken for the last blip, that also very, very important for us in the margin journey. As we mentioned earlier, we are implementing our performance management system, and we will be able to take a call at the end of Q1, and the beginning of Q2 about the salary increase also. So we have to factor that also in the coming quarters. So at least in a couple of quarters, the margin may remain at a similar level and the improvement we can see probably in the second half of the year towards the Q3 and Q4, probably we can expect some improvement.

Mihir Manohar: Sure. And just one question on the emerging vertical side. I mean emerging vertical this quarter is like $3.5 million versus $6.7 million last quarter. So what led to the decline for those verticals?

Jagannathan CN: It depends on the project closure, nothing to specifically read about it because these are all other verticals, other emerging technologies, and other projects are there. This relatively always will be very time-specific or project -specific. Most of the large deals are in the 4 major verticals for us. So those 4 verticals are doing well, you can see that our focus is reflected in thatperformance . Emerging willautomatically moderate over some time.

Moderator: We'll take our next question from the line of Harsh Chaurasia: from Vallum Capital.

Harsh Chaurasia: So one question from our like capability side. In Microsoft Dynamics services, we have seen on a Y-o-Y basis, a double-digit decline. But at the same time, if I compare it to like globally Microsoft, they have posted a double-digit growth rate on a Y-o-Y basis. So can you help me explain this divergence? And my follow-up for this question would be, are we -- like would it be fair to assume that we are losing market share in Microsoft Dynamics versus implementation?

Jagannathan CN: No, not exactly because there will be a lag between what Microsoft does and what we do because of the implementation which is aservices, and they are the license providers. And there is always a gap that happens. During the year, some of the deals that are pending to be closed, , delay in closure of the deal. Otherwise, we expect that this may be a couple of quarter phenomena. And after that, probably we'll pick it up on that.

Harsh Chaurasia: Just on a follow-up. What would be the last period between Microsoft Dynamics and with numbers we are posting?

Jagannathan CN: It will be like a couple of quarters, . But overall opportunity in Dynamics is still there and then the growth possibilities are there. This 1 or 2 quarters later, the project will pick up, and we expect that the growth trend back to normal..

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

Samir Dhir: Yes. Thank you, operator. So, we thank all of you who joined us today. Like we always said, we thank our global team members for working extremely hard to keep Sonata on a growth trajectory. We're extremely proud of the overall FY '24. Of course, we had a blip in the last quarter, but we're overall proud of the FY '24 performance. It was an extraordinary year in many ways a defining year, but based on the outcome that we achieved. We want to continue the trend. Sincere thanks to all of you for giving us your time and your support. Thank you once again, and we'll speak to you in a quarter. Thank you.

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.