"Sonata Software Limited Q3 FY24 Earnings Conference Call"

February 01, 2024

MANAGEMENT: MR. SAMIR DHIR – CEO & MANAGING DIRECTOR, SONATA SOFTWARE LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to Sonata Software Limited Q3 FY24 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Samir Dhir: Thank you, operator. Good evening, everyone and we thank you for joining us today. We appreciate your valuable time and support for Sonata.

In today's call, we will discuss our "Strategy, the Progress on our Strategic Plan and the Financial Results" for the quarter ending December 31st, 2023.

It is my pleasure to share our progress towards our vision and growth trajectory for Sonata, despite the macroeconomic challenges and geopolitical issues which are resulting in slowdown in tech spending across the globe. Our big bets and continued investments continue to deliver great outcomes for Sonata.

First, let me give you an update on our strategic goals and the progress we have made Y-o-Y on those goals:

As we stated in our earlier calls, our objective continues to be one of the fastest growing modernization engineering firm powered by a unique platformation framework. We aspire to achieve revenue of 1.5 billion by the end of FY26 at an international EBITDA level of low-20s.

From a growth point of view, we have outlined a few critical bets that we are making. Number one, win multiple large deals consistently every quarter; number two, over delivering our M&A; number three, win new logos that can scale for Sonata to be the next large account for Sonata leveraging our partnerships with our key partners like Microsoft, AWS and other partners. And we wanted to achieve these goals in four verticals that we have called out are strategic verticals, which is Healthcare, Life Sciences; Banking, Financial Services and Insurance; Retail Manufacturing and TMT and the five geographies which is North America, UK, Europe, India and Australia.

In the past four quarters, I will provide an update for the last four quarters together, we have won 16 large deals. We significantly over performed in our Quant and Encore acquisitions. We added 11 Fortune 500 clients in the last four quarters. Our Healthcare Life Sciences business, which was 9% of our revenue same time last year is now 12% of our revenue. So, as the platform grew, we added 3% more in Healthcare Life Sciences, which were a strategic bet for us. Our BFSI business, which was 7% of our revenue same time last year is now about 18% of our revenue now.

Our Modernization Engineering focus helped increase our cloud and data revenue contribution from 45% to 59%. Our teams have delivered these outcomes by sustaining EBITDA in the 20s. We are very proud to drive our top quartile both growth and EBITDA performance. It makes it special to drive this growth in this environment at a high EBITDA, which is almost in parallel at this point in time. Sonata software was just the fastest growing IT service provider in the most recent quarter as per HFS data viewpoint 2023 report.

Let me provide you an update on AI, which is a bit in investment we have made in the course of the year:

1. Sonata aims to lead the AI wave by modernizing tech and opts for a client. We are helping our clients on three dimensions, #1 leveraging AI to drive efficiencies for our clients, for example, our clients blended automation and AI to drive intelligent content generation with workflows to reduce manual effort.
2. The second dimension in which we are driving AI is by leveraging AI to drive higher consumer experience and modernize sales as an example, our teams are delivering insight from Rs. 60,000 for a high-tech client to enable contact center sale staff to drive cross sell and upsell opportunities.
3. And #3 is driving innovative business models, for example, generating new content from existing content using AI. We expect 20% of our revenue from AI services in the next 3 years. We have over $50 million pipeline on AI across 90 plus clients and prospects. In close collaboration with Microsoft, our teams are building solutions on Microsoft Fabric which is going to be infrastructure for AI as we move forward. Harmony.AI, the enterprise platform was responsible Gen AI adoption got listed on Azure and AWS marketplace and is now acknowledged by partners, industry bodies and our clients.

With that, let me provide an update on large deals and large deal pipeline:

We are delighted to report that our large deal pipeline is now 48% of our total pipeline, which is a 3x jump in dollar terms over last year. We now have 40 plus large deals under pursuit in the company.

Let me provide an update on the three large deals that we won in the most recent quarter:

Two of the three deals are for Fortune 25 clients:

1. Deal #1 this is a client in large home improvement retail corporation in United States. The client faced challenges in modernizing their core systems and generating efficiencies across their inbound and outbound supply chain due to non-performance

from an incumbent partner. The client evaluated multiple prospective vendors and chose Sonata is a strategic partner for standardization and modernization. This is a five-year tenure deal with continuous modernization to transform their supply chain operations.

2. Large deal #2 is for an American multinational technology corporation. The client was looking to improve and expand their end consumer experience and success using their products and services in modern data using AI and ML. Sonata partner with the customer to provide efficient solutions catering to the end user requirement leveraging strong domain and multilingual support for end customers.
3. Deal #3, the client is an American transportation services company specializing in shipping. The client was looking for reliable partners who could help maintain their applications and infrastructure footprint across all lines of business. Sonata will provide development and modernization services on cloud cutting edge technologies and automation. We are truly delighted to have yet another quarter with three large deals.

With that, let me provide you an update on the new logo wins:

During the quarter, we added marquee logos which include a Fortune 20 client, a Fortune 22 client and a Fortune 150 client, an update on scale with following a key bet to power us to scale up fast. Microsoft Fabric, which we outlined earlier is a data analytics platform for the era of AI. It went in general availability by Microsoft during the most recent quarter. During the event, Sonata was the only Indian SI among three other global partners explicitly mentioned in Microsoft Azure Data CVP in the launch note. Our team of over 300 data engineers enables the client to leverage this new end-to-end analytics platform paradigm. We continue to witness significant pipeline build for Fabric since its launch and we now have over $50 million of pipeline across 100 plus clients.

Microsoft Dynamics for enterprises as they go through digital transfer journey and attempting to revamp how they operate, support customers and create business opportunities. Sonata continues to aim to transform such enterprises by undertaking complex migration as part of our modernization services for F&O, CE, power apps and power platform. Our joint GTMs with ecosystem partners and hyperscalers continue to make rapid progress.

We are proud to share during the quarter some outstanding awards and accolades our team won in the quarter. I am going to talk about four awards that we won in the course of the quarter:

1. We received the prestigious recognition in the form of “Most Preferred Workplaces for 2023 & ‘24” in IT and ITeS by team Marksmen. This award is a testament to our ongoing commitment to creating a people-centric workplace.
2. We were adjudged as the “Best Governed Company” at the 23rd ICSI National Awards for “Excellence in Corporate Governance”.

3. Everest Group featured Sonata in their "PEAK Matrix Assessment" for blending IT services for 2023, strengthening our BFSI presence in the marketplace. HFSH Research featured Sonata in their HFS Horizons for Generative AI Enterprise Life Sciences and Low Core Services for 2023. We continue to scale our India SITL business with a sharp focus on annuity revenue.

With that, let me provide you an update on talent:

Sonata is a people focused and talent conscious enterprise. We onboarded our engineer trainees for engineering campuses for FY2024 in December '23. This batch consisted of 93% women engineers from campuses just going on to show our commitment to DNI diversity and inclusivity in the company. With that, let me provide you an update on our quarter performance. In the most recent quarter, our international services revenue grew by 3.5% quarter-on-quarter, 38.3% Y-o-Y.

In constant currency terms, we witnessed 3% quarter-on-quarter growth and 37% Y-o-Y growth. In Q3, we had a strong order booking of 1.24 book-to-bill in the International Services business. We have over 40 plus large deals in pipeline and a large deal pipeline continue to grow. We improved our utilization in the quarter by 1.6%. Our quarter-on-quarter headcount increased in international business by 42 people. We now have 17 clients with over 3 million annual revenue at Sonata. Same time last year, this number was 9 clients, so almost double the number of clients with more than 3 million revenue now in about a year's time. In addition, we now have 12 clients with more than 5 million revenue run rate. Our overall attrition for the quarter stood at 16%. In SITL, the domestic business, the gross contribution in domestic business grew 25.8% Y-o-Y, a very strong performance in a seasonal quarter in the SITL business. Q3 consolidated PAT grew by 3.5% quarter-on-quarter. Operating margins for the international business were at 22.6% before FX and other income.

As mentioned earlier, we are proud of the performance from our most recent acquisitions from both Encore and Quant. They both exceeded our expectations and really driven significant synergy revenue together. As you know, our acquisition premise was to drive synergy growth by leveraging deep Sonata offerings, our technical capabilities and resources, our corporate investments to accelerate growth. We are proud that both Sonata Quant and Encore is better together and our combined teams have delivered exceptional outcomes. Due to this over performance, both these acquisitions are now entitled for additional earn outs resulting in an exceptional item in our quarter P&L. Jagan will provide details shortly on these onetime exceptional items for Quant and Encore in the recent quarter.

In Summary:

We continue to remain optimistic about our long-term growth prospects. In the coming quarters, we will continue to have tailwinds and headwinds, the tailwinds of multiple large deals that we have announced and we continue to win and the headwinds in the short run due to softness in

BFSI vertical seasonally soft quarter from Quant and large deal decision delays that we have seen in the last one or two months.

Our focus on moderation engineering and platformation at the core of and our industry-lead approach is paying, helping us win large deals and opening new enterprise grade logos. Overall, we expect to continue to stay in the top quartile performance fueled by our strategic investments we continue to make in our business. We want to continue to drive this growth at the top end of the industry leading EBITDA performance from Sonata. Thank you.

With that, let me turn it over to Jagan for his comments on the financial performance.

Jagannathan C N: Thank you, Samir for the overview. Good morning, good afternoon, good evening all. We had a very exciting quarter and delivered yet another quarter of industry-leading performance. It is my pleasure to present the Q3 Financials along with covering the exceptional items.

As mentioned by Samir, we have acquired 2 entities, Quant Systems and Encore System. Both these acquisitions have outperformed in their performance than what was estimated by us last year. This has resulted in an exceptional situation for us, where the outperformance leads to revaluation of the acquisition cost, which has been at the accounting standard that we routed through the P&L, we can cover the details of the same.

For Quant, the target revenue for Calendar Year ‘23 they had, it is done on calendar year basis for them because we acquired them, their financials are on calendar year. Calendar year 23 and Calendar Year ‘24, their revenue performance was expected to grow by 60% and 36% and EBITDA was supposed to grow by 32% and 33% in the two years. However, the revenue performance already happened in CY23 was 62% with EBITDA performance of 127%. Our estimate in the current or based on the current order book and the current year position, we expect them to grow by 65% in revenue for next year and 45% in EBITDA for next year. The revenue projection has achieved 1.2x of the target over the period of two years and EBITDA is 1.8x of the target estimate over 2 years. Against the initial valuation of 160 million, we are estimating additional earn out of 17.1 million due to significant overperformance in their revenue and EBITDA enabled by the IP, work box IP has enabled this for Quant.

With regard to Encore, their target for revenue growth for three years, just to recollect, this was the acquisition during COVID period and post COVID their performance, they were expected to grow the revenue because it was acquired during COVID period their performance was expected to reach revenue to be growing at 10.3%, 9.8% and 9.6% for three years, and EBITDA was supposed to grow by 9.8%, 10% and 9.4%. However, they have outperformed from year one. Year one revenue performance was 87.2% compared to 10.3. The second year was 21.5% compared to 9.8% and the third year estimated 16.6% compared to 9.6% on revenue term and in EBITDA term, they had an 89% growth compared to 9.8% and 34% growth in second year compared to 10% and third year is 16.2% compared to 9.4%. The revenue production for them has achieved 1.9x of the target achievement over the three years and EBITDA projection is 2x of the target achievement over the three years. Against the initial valuation of 13.75 million, we are estimating an additional payout of 3.9 million due to overperformance in revenue and EBITDA enabled by the timing of acquisition with the post COVID. With both these things, an expected payout of 21 million is taken to P&L as an exceptional item as per the accounting standards.

Here, coming to the quarterly performance now, the revenue has grown by quarter 3 PAT and post exceptional item although reported as negative our PAT for the current quarter grew to Rs. 128.5 crores, which was again a very healthy 3.5% quarter-on-quarter growth and 9.2% year-on-year growth. This Q3 international services EBITDA before Forex and other income as Samir mentioned is 22.6% against 23.1%. Revenue for the quarter, international services, revenue grew by 3.3% quarter-on-quarter and 38.3% year-on-year. Rupee revenue grew by 4% quarter-on-quarter and 42.3% year-on-year. In constant currency terms, the international services revenue witnessed 3% quarter-on-quarter growth and 37% year-on-year. The other metrics here is consolidated EPS post exceptional item was a negative for this quarter; however, the consolidated EPS in Q3 before the exceptional item was Rs. 4.60 paisa per share. At console level, the ROCE has been very strong at 31.4% for this quarter.

The domestic business had a GP of Rs. 71.3 crores. It grew 14.2% quarter-on-quarter and 25.8% year-on-year. The PAT grew by 5.3% quarter-on-quarter and 17.4% year-on-year. The utilization for the quarter stood at 85.8%, we have added 30 new customers, the top 10 customers revenue has been 56% in this quarter compared to 61% last quarter. In this current quarter, the number of clients, more than 3 million is 17 customers as Samir mentioned last year, it was 8 at the same time. The TMT was 31% of our revenue. Retail manufacturing is 34. HLS is healthcare services is 11% and banking financial services is 17%. Emerging is 8% of time. We have also covered the various go to market, what we have achieved. Data is 24% for us, dynamics is 23% and cloud is 36% for us. The order book is 1.24x of the revenue just book to bill what I covered in this. International DSO is 45 days and domestic DSO was around 35 days. The total headcount for the quarter is 6,494 in Q2 to 6,532 in Q3. We have an addition of about 42 employees in this quarter.

So, coming back to this point, this overperformance of what we have acquired, this is a testament of the acquisition strategy to drive this energy growth by leveraging deep Sonata offerings and technical resources and corporate investment. This is very positive for us. This led to a strong ROI and our payback period has halved during this quarter. This has also is in a way increasing our return on capital employed continuously. This is very appreciable. As a CFO, I believe that the payback period for this acquisition of Quant is actually half, and last two acquisitions has been very successful. This reiterates our strategy and focus and drive. This quarter has been one of the best quarters for us, again this is the fifth quarter we are reporting industry leading revenue growth and a strong profitability. This has also helped us to get our growth stories intact and we are very confident of continuing to have the industry leading growth.

Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Baidic Sarkar from Unifi Capital. Please go ahead.

Baidic Sarkar: Couple of questions. Anecdotally, it looks like except Quant and perhaps the large deal ramp-up, the rest of the business that grew at about 2% sequentially, is it the right interpretation and just triangulating your opening remarks Samir, is this the direction of growth expected say in the next few quarters? And secondly, in terms of closure of large deals, Samir, are the timelines moderately better than what they were say the previous 12 months, how are you reading this?

Samir Dhir: So, the way to think about this is this. In our core business as well as acquisitions, we really have been working to create these large deals momentum. As you quite have noted, I earlier mentioned about 40 plus large deals that we are chasing in pursuit right now and in the last one year, we have closed close to about 16 large deals and that just is in both organic side as well as the acquisition that we made, and it is becoming now most more or less the muscle memory of Sonata to go create these deals and win those deals comprehensively against the competition. So, yes, I think if you back out the large deals, the growth rate has been largely driven by the large deals in the course of the year and that was our status strategy that in the year which is rather muted, most of the competition has grown in single digit or low single digit, we have outperformed the market really on the back of the large deal. So, I think that assessment is a fair assessment. As far as the deal cycle is concerned, I think in the marketplace it is quite unpredictable that there is no real systemic pattern. So, if you go back in time, I think we were seeing a good deal closure in Q1. We saw some slowdown in the beginning of Q2, but it picked back up in Q2 second half. Then in Q3, the early part it was pretty high. Then in Q3 later part and Q4 beginning part, it has been slow. It has been going a little bit like a sinusoidal curve. So, honestly, we don't see a trend, but the delays are about a couple of months, maybe 2.5 months. It is not indefinite delays, but you do see sometimes when you are ready to go, customers are delaying some of these deals by a month or two. So, that has been the general trend, and it happens once in a quarter here and there. I hope I answer the question, Baidic.

Baidic Sarkar: Yes, is there anything you would like to point out in the behavior, perhaps ramp up of our largest client, who is historically largest client in high-tech, like there has been some software’s as we got into this fiscal year, any turnaround, what your conversations indicate and I am sorry in your opening remarks, did you say that we will continue to perhaps be acquisitive in the medium term?

Samir Dhir: Yes, let me cover both the questions. So, I think from a high-tech industry in general, we are beginning to see green shoots now. We are beginning to see the turnaround. If you notice my comments, now we are seeing some softness in banking, but the high-tech is back on the growth trajectory at this point in time, including the largest client, I think in the second half of the year is much stronger growth compared to the first half and at this point in time, we are in a ramp up mode. So, the revenue full quarter effect will probably be visible from the next quarter, which is end of Q4 or Q1, but yes, absolutely the green shoots are visible, and we are in the ramp up mode in the high-tech side including the largest client, Baidic. As far as the acquisitions are concerned, if you recall, we have always maintained that we will do acquisitions for the right reasons. We are not looking actively to acquire at this point in time, but if there is the right property that comes up which has the right reasons, we will not hesitate to make a decision, but our core motive continues to be the growth business organically and if something makes sense along the way we will make those acquisitions, Baidic.

Baidic Sarkar: Just one last bookkeeping question, if I may. Jagan, in terms of margins, the last few quarters probably had the impact of ramp up in MS Fabric and of course, monetization and that might be two quarters away, as that perhaps comes into play in FY25, is it fair to expect that operating margins will inch up? And I also understand that we have had a few non-cash charges in the P&L that were acquisition related, I reckon they probably begin to come off this calendar year, could you please quantify by how much and by when?

Jagannathan C N: Baidic, on the operating margin front, the large deals will have a benefit probably and now the benefit may come in Q1 of next year, but as mentioned to all of you, we will continue to do our investment. In the medium-term, we want to stick to the guidance of low-20s EBITDA margin without other income and Forex. We will continue to explore the opportunity for the growth; hence we need to continue to investment. That is my operating margin answer for that your question. The second element is yes, once the payout happens in this which is going to happen in the month of April, first quarter of next year there will be a reduction in the interest cost, it is not a bank interest cost or accounting interest. That amount will come down by roughly about half of it. So, this is going to benefit, we will get a benefit because of that.

Baidic Sarkar: So, our amortization run rate as we have reported will continue, there are no changes in that, right?

Jagannathan C N: Amortization run rate will come down from first quarter of next year.

Baidic Sarkar: Sorry, so did you say both interest cost and amortization will come off by Q1 FY25?

Jagannathan C N: There are three components in that. One is amortization that is on all your intangibles, there should be amortization that will continue.

Moderator: Thank you. We have our next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is as a follow up, so you are saying high-tech growth, we should expect to continue in Q4 as well, is that understanding correct?

Samir Dhir: Yes, so let me let me characterize a little bit more. So, as you know, the first half of the fiscal year was soft on high-tech, but in the second half, Q3, we closed deals and in Q4 we have ramp up mode. So, yes, in the second half compared to first half is going to be sequentially growth in first half, but we will see a full quarter impact of it going into Q1, because we are right now in the ramp up mode in high-tech.

Mohit Jain: The second one was BFSI we saw this decline during the quarter, now is that something we are say ramped our project completions are behind this, or should we expect that to continue in Q4 as well?

Samir Dhir: I think from the current visibility, the news that we knew has been absorbed in the current run rate, but the banking is soft, at this point in time we do not expect any further impact in the current quarter, but it is a dynamic environment, Mohit, we will continue to monitor it closely.

Mohit Jain: And as a follow up like the top ten client revenue movement that we are seeing is that the reasons are same as because of that BFSI side and high-tech the same clients are showing up in top 10?

Samir Dhir: Yes, I think the top 10 by and large continues to be the same. We are ramping up on a few clients which will probably enter into the top 10 I would say in a couple quarter. There are some new clients if you see my earlier comments we mentioned there are some Fortune 20 companies, Fortune 100 companies that we recently acquired and are in a ramp up mode, so they will get full ramped up by Q1 or early Q2. So, they will break into our top 10 maybe 2 to 3 quarters from now.

Mohit Jain: So, broadly, we are looking at a similar kind of a growth outlook for the next quarter, but then we are expecting some ramp ups to happen in Q1 next year?

Samir Dhir: Yes, so I think overall the growth momentum is solid, but the rest is as I said earlier, this is a seasonally soft quarter for Quant while the Quant overall will do well in the calendar year, we run calendar year, but the current quarter is seasonally soft quarter for Quant, but the rest of the business will be on the same trajectory, but for Quant alone this will be a soft quarter, while the overall year will be fine.

Mohit Jain: And sir last, this is related to your opening remark. Did you say there is some delayed large deal ramp ups, or did you say large deal ramp ups are on time for us?

Samir Dhir: It is seasoning delays, so deals that we are winning they are which were supposed to close in December are now getting closed in end of January, so we are seeing like a 45 days to 60 days decision delays some of the deals.

Mohit Jain: That is from pipeline to TCV or from TCV to revenue?

Samir Dhir: Pipeline to TCV.

Moderator: Thank you. We have a next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Congratulations on good set of numbers, quite wonderful numbers in this environment. Sir, largely I wanted to understand on the TMT vertical, I mean you made a commentary that the ramp ups are expected to continue and the 4Q and coming quarters will also be strong. I just wanted to understand what is it driving the growth exactly over the large client that would be helpful? My second question was on the large retail deal I mean we had a $160 million deal, which was there last year. We were expecting a ramp up to happen in 3Q, so what is update over there because our retail number didn't move this quarter, so just wanted to get an understanding around that? And the third question was around the cash outflow, so for the acquired entities that is both Quant as well as the other company I mean when is the cash outflow going to happen? And should one consider any further increase in provisioning from here on or should one not considered that?

Samir Dhir: Sure, I will take the first 2 I will request Jagan to take the third one. So, on the TMT side really it is a manifestation of the investments we are making in AI. I think a lot of turnaround we have seen in the TMT side is because of our investments in AI and data. So, the ramp up that we are doing is essentially to leverage Gen AI and AI capabilities for these high-tech customers, including our largest high-tech customer. So, that is really helping us well. The investment strategy that we have outlined 2 to 3 quarters back is paying us dividends and this business continues to ramp up from data and AI perspective both. So, that is really where the TMT question was. On the retail deal that we announced about a year back, let me just give you a perspective on that. If you recall, in Q1 we said we are in ramp up mode, our Q1 margins in the current fiscal year were dropped because we ramped up fully, but the full revenue didn't come. In Q2 we fully ramped up the deal and hence our margin picked back up again because the staffing was done in Q1 and the revenue started picking up in Q2. So, that large deal at this point in time was fully ramped up and it is in the numbers. So, in Q3 it was in a steady state. Of course there was some incremental revenue on that deal, but by and large the deal is fully ramped up at this point in time. The third question I request Jagan to take.

Jagannathan C N: Can you repeat the third question please?

Samir Dhir: Cash flow has fully absorbed.

Jagannathan C N: The cash outflow for the acquired entities, no, that will happen in April of this year and then July of this coming year and same way in the April of 2025 and the July of 2025 is one**.** Encore will also be closed, and it will happen somewhere in July of coming years.

Samir Dhir: The provisions fully done.

Jagannathan C N: Yes, provisions are all fully done. This is all done completed, everything is done.

Mihir Manohar: So, even if the performance, let us say, goes up from here and there will be no further provision which will happen?

Jagannathan C N: No further provision is required; we have considered all the performance and then made a once for all we have done for everything.

Mihir Manohar: And just a clarification, sir, you also made a comment that the payback period for Quant has gone half versus what you were estimating earlier, so is this after considering the increased payout or is it before that?

Jagannathan C N: Yes, after considering the increased payout.

Moderator: Thank you. We have a next question from the line of Mayank Babla from Enam AMC. Please go ahead.

Mayank Babla: My first question is towards Jagan, sir. Sir, in the beginning of the call, you had mentioned that the target for Quant was around 60% growth in CY23 and 36% growth in CY24, but it ended up, the expectations are much better than what you had earlier targeted. So, for CY24, if I am not mistaken, you said that the target is 64% revenue growth?

Jagannathan C N: Yes, CY25 also, CY24 also they were expected, the target was 36% growth, but the estimate of our achievement is going to 65%.

Mayank Babla: And in terms of EBITDA?

Jagannathan C N: In terms of EBITDA the target was supposed to be 33%, but the expectation is 45% achievement.

Mayank Babla: And could you please give us the contribution of Quant so far in 9 months FY24?

Jagannathan C N: The contribution from Quant right, you are expecting?

Mayank Babla: Yes.

Jagannathan C N: That is actually completely integrated Mayank, so we have a lot of synergy elements inside this, so have not disclosed this separately.

Mayank Babla: And my second question is to Mr. Samir sir, you earlier mentioned that the Fortune 20, 22 and150 client that are there in your kitty, they are expected to ramp up by Q1 of FY25 and they will be added to the top 10 clients. So, how will this change the client pyramid in terms of $3 million to $5 million and $5 million plus client?

Samir Dhir: Mayank, I think there are 2, 3 parts, so these clients that we are now winning will gradually ramp up and like as I said in Q1, Q2 of next year they will be fully ramped up for the business that we have won. And we are of course going to incrementally in business from here on because of the pipeline behind these clients as well. So, our long-term goal is to have the top 10 contribute in low 50% of our overall revenue. Today, that number is about 56% or 57% Mayank. We think it will be about 50% to 53% and even in 3 years out as we move forward. Now the name of the client will change because we are bringing in high quality logos, but the contribution of the top 10 will be in the 50% to 53% range even in couple of years out.

Moderator: Thank you. The next question is from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah: Congratulations for very good set of numbers. So, Jagan sir, would you repeat your comment regarding interest and depreciation for the coming years? I could not understand what will be the interest and amortization for the next 2 years?

Jagannathan C N: We have explained this amortization and interest in our earlier slides also we have given the details of it. What is that is there are 3 components are there one is the bank loan interest amount which is payable to the Bank there. The second is because we have an earn out payment for next 2 years, as per the accounting standard, you have to discount it and bring it to the present value. The difference between the present value and amount what you pay accounted as an interest cost. The third element is amortization of Intangibles Assets, so the amortization of Intangible Assets will continue to be there for 7 years to 10 years next 7 years to 10 years because that is how the life of the asset is. The interest component to the bank will continue, but interest on which is the accounting entry for the payouts at the later payout, that portion will come down by half after the first-year payout. What we are going to do in the month of April and July once it is completed the interest amortization amount will come down. So, that is what I said at least it will come down by half. The details and information of how much is the amount, all these things we have given in the presentation last quarter also the details are available there.

Moderator: Thank you. We have a next question from the line of Sanjaya Satapathy from Ampersand. Please go ahead.

Sanjaya Satapathy: Can you just tell me again that the margin decline in the international business on a sequential basis, what was the reason for that, sir?

Jagannathan C N: This is a quarterly small change as last time we had some benefits flowing through the utilization and the scaling up in the large deal. Samir was mentioning that last year last quarter the large deal what we won in March started taking off in the last quarter hence we got a benefit of that. That adjustment has come down in this quarter, hence, the margin looks like it has dropped by 50-60 basis points. What we have also mentioned is in the medium term we will continue to focus to achieve the EBITDA without other income and for us at low 20s, low 20 is between 20 to 22 we will continue to achieve in the medium term, but we still are doing well and compared to last quarter there was some benefit because of the large deal actually taking off last quarter.

Sanjaya Satapathy: And sir the second question that one clarification, you mentioned that this Quant business is slow in this quarter you were talking about Q4 or Q3?

Jagannathan C N: Q4.

Sanjaya Satapathy: So, while Quant business will be slow because of your tracking a ramp up in your this high-tech vertical, you were confident of sustaining this kind of growth is what the guidance is. Is that correct?

Jagannathan C N: Yes, your understanding this right.

Sanjaya Satapathy: The last thing is that the payout, the fair value changes that you have made. So, essentially you have given part of the benefit of achieving better growth in your acquisitions back to the guys who sold it to you, and you are saying that still the payback has improved even after making this additional thing?

Jagannathan C N: Yes, payback period has come down by half. The EBITDA to the fair value of that was almost like 10 to 11 when we acquired has come down to 6 and the payback period has also come down to half.

Sanjaya Satapathy: So, currently it is 6 times EBITDA?

Jagannathan C N: Correct.

Sanjaya Satapathy: As far as the payments are concerned you will continue to do that through your bank loans etc., that is there you still have not received the permission to use your cash reserve out here to make the payment for that?

Jagannathan C N: Yes, but as mentioned to all of you during the acquisition, due to some operational procedural RBI issue reason we are not able to utilize our money which is there in India majorly. So, we have borrowed some money in U.S. So, for that temporary purpose of this rollover we may take a short-term loan in U.S. for the acquisition, but in the long and the medium term once the RBI issue is fully resolved, we will be able to come out of that.

Sanjaya Satapathy: And very last question is like, if I can squeeze? For the Q3, was there any kind of furloughs or any such things because of the number of working days or anything which were there and which will not be there in quarter 4 and when you are talking about that everything will fire beautifully in quarter 1, so are you definitely looking at a much better quarter 1 of FY25?

Samir Dhir: So, the furloughs were not any significant numbers Sanjaya, I think in our business, we do not see that much candidly. However, having said that, last quarter, we did see distinct delays in some of the deals, so we did carry some people in the bench. But overall, our utilization has still moved in the right direction. And we believe that the momentum that if you are not generative in TMT, we are still in ramp up mode. And by March time, we should be fully ramp-up and hence we will see an uptake on those numbers in Q1 quarter fully loaded.

Moderator: Thank you. We have a next question from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Congrats on a good quarter, sir. Just a clarification regarding the comments made earlier by Samir you mentioned about green shoots in the high-tech vertical and also for the large client. So, just wanted to clarify was there any challenge especially that we are calling out as a green shoot, because I remember in the last quarter we had mentioned that because of the fiscal year end for our large client, there was a delay in terms of the bookings and conversion?

Samir Dhir: Yes. So, Abhishek first of all thank you for complimenting us. I think in summary, we did see decision delays and in Q2 we did not book the order book to our satisfaction in the TMT vertical. But going into Q3, we started closing the deal as per the norm that was earlier. And the large client specifically started seeing some momentum. And what is happening is that we are winning the new work in the AI space, and that is what we are ramping up right now, which I did earlier. So, it wasn't like a pause, but the decision delays were holding us, given holding pattern for about, I would say, quarter and half or so. That is behind us and now we are in a ramp up mode.

Abhishek Shindadkar: Jagan, sir, if you can just clarify what you said about the payment challenges and because of which you are raising debt that would be helpful. Thank you again for taking my question and best wishes for you.

Jagannathan C N: You are asking about the payment challenges correct?

Abhishek Shindadkar: Yes.

Jagannathan C N: As mentioned towards all of you during the acquisition, we have some procedural RBI issue. So, we are not able to remit the money what we have in the parent to the subsidiary for the acquisition. So, we have borrowed money during the acquisition, and we may require to borrow money a little bit more for short-term reasons. However, the net debt will be positive, will have money in the parent book and so that is what I was explaining to you. Once the RBI issue is addressed and solved, we will be able to remit money from the parent to the subsidiary and the loans can be closed.

Moderator: Thank you. We have our next question from the line of Devang Bhatt from IDBI Capital. Please go ahead.

Devang Bhatt: Congratulations on a good set of numbers. Just one bookkeeping question, since you have increased your payout, so last quarter your unwinding of interest was Rs. 11 crores. So, now since your payout has increased, what would be your increased unwinding of interest, if you could?

Jagannathan C N: There is no increase in the unwinding of interest Devang because we have now taken the routed that has gone through the P&L fully, so there is no increase in that. After the amount is paid out in the quarter 1 in April and July of the coming year, the unwinding of interest will come down almost by half.

Moderator: Thank you. We have a next question from the line of Tushar from InCred Capital, please go ahead.

Tushar: This question is for Jagan, sir. So, Jagan sir, last year we had a wage hike in Q4 and 1Q of FY24, so any color regarding the wage hike for this fiscal or in this calendar year?

Jagannathan C N: Yes, we are still evaluating Tushar. We are still evaluating, and we will do whatever is there in the industry norm we definitely will consider and then take a measure in that direction. But we are still in the process of evaluating and also we are now trying to bring in a performance management system which is benchmark to the Industry. We are in the process of doing, once the performance management is launched and completed then we may consider the salary increment for the people. At present we are still in the process now.

Tushar: My next question is regarding the business in the European geography, any color on that would be helpful?

Jagannathan C N: The European customer?

Tushar: No, European geography revenue we have seen business for the last 2 to 3 quarters, so any color on that will be helpful?

Jagannathan C N: Nothing specific on that Tushar. They were one of our leading customers, the couple of projects got over this is an abrasion for a couple of quarters. Otherwise, the European geographies will start recovering probably next quarter.

Moderator: Thank you. We will take our next question from the line of Prolin, an Individual Investor. Please go ahead.

Prolin: I have 2 questions. One is on Fabric and second is on our aspiration to have 20% of revenue coming from AI. So, firstly on Fabric, right I mean, I was reading the transcript of Microsoft, and they are quite bullish, right they mentioned that in terms of data stored on Fabric Lake, there is a 46% increase Y-o-Y. And in the past conference call, we have also mentioned that we have been working with them to help them build the product or build Fabric and test the product and so on and so forth. So, just wanted to understand as Microsoft has now made Fabric available how will the ramp up in revenue take place over the next few quarters? And which are some of the other products which we are working on with Microsoft, especially on this whole Microsoft, focusing a lot on copilot and that being one of the key offering when it comes to AI across their products way? Do we have any play when it comes to copilot or any other product that you want to specifically call out on?

Samir Dhir: Prolin, good question I think just let us take the questions 1 by 1. So, on the Fabric side we were **with** Microsoft on the engineering side and then testing their product in Sonata as a test bed as well about year and a year and a half back. So, we really had an early advantage and that is what we are capitalizing. They have just launched the product in November, their pipeline from a scale perspective is just beginning to build up because right when they announced the product in November end, then there was Christmas period in January just started. However, having said that, we have built ourselves over 50 million all over the pipeline and that is largely coming from the new logos that we are able to get in because a very differentiated offering and most of these larger clients are very interested to understand the Fabric offering from our team specifically. So, early days candidly to give a forward-looking view on this, but we know as Microsoft is scale B, we will absolutely win the bus with them to maximize the revenue for Sonata, we will continue to provide an update to all of you in every quarter how the pipeline build is happening. And if you look at the commentary, I think about a quarterback we probably had about 25 to 30 clients. That number has gone up to about 50, but the scale is still in front of us. We are still in the process of building a pipeline. Of course, we have had about 7 or 8 customers which have signed up and we started the work. But the POC work itself lasts about 8 to 10 weeks. So, I think by a meaningful numbers will start to trickle into this in Q2, Q3 onwards of next fiscal year. That is the first part of your question. The second part of your question on Copilot, the short answer is absolutely, yes. The green shoots that I talked about in TMT, have largely come from our work in data and AI, and Copilot is an integral part of that. And all the work on data and AI one side, but even in traditional work on dynamic side, whether it is F&O or CE, we continue to leverage the power of copilot for our existing and new deals that we are winning on the dynamic side as well. As far as the new products that we are working with, we can't talk about that much because those are confidential products, but specifically the 2 that we can talk about we will discuss and share the details with you.

Prolin: The second question is on AI, right. And you mentioned that overall you want 20% or 25% of revenue from AI in 3-years-time and one of the offering there is Harmony AI, right and which is where we have built a bunch of services, RPA services, Integration services, so on and so forth around the LLM and so just wanted to understand that and one of the unique selling points of Harmony AI as told responsible AI or for that matter privacy of customers data, so is that the only use case which we have in AI and can you help us understand which are the some of the other things which are like an overlay over the existing LLM? And how do we ensure that some of these offerings are not inbuilt in any of these LLM in the future right so that our offerings stay relevant for the market?

Samir Dhir: So, if you go back to the comments I made earlier Prolin, I think there were 3 different dimensions of AI that I talked about earlier. Just making a quick recap for you. The first was to drive efficiencies for our clients and the example I quoted there was to use intelligent content generation with workflows to reduce manual effort. This is for automating a lot of manual efforts at customer's end are going. The second dimension of this is to drive modernized sales and consumer experience, and the example there is that they were used AI to glean information from 60,000 wikis, for a contact center implementation, and then provided information so that the cross sell and upsell can happen. And the third is to really generate new business models for our customer because now with Gen AI specifically, you can generate new data from existing data. So, as an example for one of the media clients we are in conversation with, they can generate new books from existing books that they have. So, those are some interesting use cases coming out of it. And we are leveraging the power of our Harmony AI using that. Now our differentiation is not in building LLM as we have talked about earlier, our differentiation is to really build the wrapper services around LLMs which continue to provide responsible first framework from a customer data privacy standpoint on one end. Second from a consumption and compute reduction, so that there it is environment friendly because AI services can be quite heavy on the computer side and hence had to cost, that is the second side and then the third is really bring in industry flavored solution from an AI point of view whether it is a Healthcare AI or Banking AI or Contact Center AI to really bring in domain specific flavor to those is really what we are building out and that is not a native LLM capability just a wrapper services and that is where we are differentiating Prolin.

Prolin: Just an add on to it, I mean in future can some of these services be built in the core LLM and how do we ensure that our product then stays relevant even if that happens in the future?

Samir Dhir: Well, I will be guessing if I can give you an answer in future, but I can tell you we will have to continue to innovate. We think we have about a year ahead of the competition. We will have to of course wanted to push ourselves to continue innovate, but some of these services might move to a different layer, which I can't predict honestly. But right now, we believe about a year advantage over the competition that is why we are winning in the TMT sector, so the green shoot I talked about earlier.

Prolin: What I was alluding to is that maybe a similar sort of transition happened during this whole cloud from one premise to cloud as well, right? Many of the services were inbuilt in the package with some of the hyperscalers provided, so that is where I came from. But I take your answer that we need to continue to innovate and thanks a lot for that and all the best.

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

Samir Dhir: Thank you, operator. We want to just use this opportunity once again for your support and time for Sonata. We continue to be optimistic about our business like we have always said our aspiration is to be the top quartile growth company. Of course, there will be some seasonal variations like we talked about in Quant coming up in this quarter. But in general, we are very optimistic about the future and if you can see that last 4 or 5 or 6 quarters now, we have continued to hit in the top quartile performance both on the top line. And what is endearing to us is that we are also maintaining our EBITDA line, which is also industry leading, so both on top and bottom line, we continue to be in the top quartile, and we are very proud of the achievements of our teams globally. So, I use this opportunity to thank our team members globally as well for their outstanding work that they continue to do for us. And thank you to all of you.

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