

"Sonata Software Limited's Q2 FY'24 Earnings Conference Call"

October 25, 2023





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Sonata Software Limited October 25, 2023

SONATA

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Company

Moderator:

Ladies and gentlemen, good day and welcome to Sonata Software Limited Q2 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. A very warm welcome to this conference to all of you. We will "Discuss our Strategy and the Financial Results for the Q2-ended September 30th, 2023." I thank you for joining us today. I appreciate your valuable time and support.

We're proud and excited to deliver yet another quarter of industry-leading growth despite the macro geopolitical issues, economic challenges and slowdown of tech spending across geographies. Our big bets and continued investments are delivering outcomes and they're delivering very well. We are moving well to scale Sonata as per our vision. Team Sonata remains committed to judiciously accelerate the growth curve and build scale and scale in terms of large deals, clients, markets, partnerships, and talent.

With that, let me cover an update on our "Strategic Goals First":

As a recap, our objective is to be the fastest growing modernization engineering company powered by a unique platform machine framework with a goal to achieve revenue of 1.5 billion by the end of FY26 with an international EBITDA of low-20s. We called out this strategy about four to five quarters back.

We're very pleased to inform you that the international business crossed \$80 million run rate in Q2 FY24. This is right after crossing 75 million in Q1 FY24. In Q2, we delivered industry-leading growth of 4.6% quarter-on-quarter and 40% year-on-year, and that is at the back of 4% Q&Q last quarter and 4.5% QoQ prior to that.

Our India business is consistently delivering strong growth and industry-leading ROC. We're very proud of the achievements of our team in Q2.

Our strong focus on driving modernization engineering with sharp focus on cloud and data is driving a growth curve through large deals. We continue to deliver tremendous progress towards the strategic goals of consistently winning large deals, M&A focus and verticalization.

Let me provide you an "Update on the Progress on our Strategic Goals":

Let me start with M&A first:



Quant 3:00 Systems Inc., the company we acquired about a couple of quarters back, was an historic acquisition for Sonata. It provided a strong foothold into our interest verticals of Healthcare, Life Sciences and banking, financial services. Quant is now fully integrated to Sonata. Our investments in sales and marketing is enabling us to scale Quant accounts rapidly. The synergy pipeline is well over \$150 million now. We come along in the last two quarters with Quant.

As far as large deals are concerned, we're delighted to report our large deal pipeline is now 38% of our total pipeline, which is about three times jump compared to same time last year.

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

- Deal #1, this is a client as a premier third-party logistics company that provides supply
 chain solutions. We're going to build and maintain their logistics solutions across all
 lines of business, including transportation, distribution, fulfillment and warehousing.
 We won this contract against the competition by leveraging our strong data analytics,
 cloud, architecture and engineering capabilities. This is a US-based company and this
 is a multi-year contract.
- The second large deal we won in the quarter is a leading network service provider powering global connectivity for new media providers, telecom carriers and enterprises. We signed a large multi-year contract to transform their core business and financial processes leveraging our cloud data and Harmoni.AI platform. We're delighted that with this win, as our Harmoni.AI platform is our first multi-year AI win. Using our responsible-first AI approach, we differentiate against the competition.
- The third large deal is for a client which is a leading industrial steel and mill services steelmaker. Client wanted to modernize their existing trading platform with a scalable solution. Sonata proposed a solution to develop and implement the next-gen trading platform. This solution will be implemented over multi-years for the client, and we'll build a centralized platform for trade execution, position monitoring and risk management. If you recall, we have announced several large deals over the last four to five quarters, every quarter, at least two, maybe three, and this quarter we're proud to announce three large deals again.

With that, let me move to the third strategic area, which is the "Verticals and Geographies":

Let me provide you with an update on the key verticals that we're focused on.:

First, BFSI, with the interest rates on the rise and the mortgage and lending rate of the banks witnessing cost pressures, we're looking for innovative ways to really help our clients in that area. In the banking space, we're taking market share due to continued focus on data privacy, which was an offering we got through Quant acquisition. Efficiencies using automation and AI,



which is the capability that Sonata has built, and really consumer-facing applications work in the consumer space for the banks.

We're pursuing several large programs where clients want to drive rapid digitization for the consumer-facing applications and offerings. We're very bullish about our positioning in the banking space where we continue to take market share away from generation-one companies.

On the Healthcare and Life Sciences side, the shift towards value-based care and technological advancements have led to development of new treatments and medical equipment, leading to overall positive outlook for the HLS industry. We're taking again market share in the Healthcare Life Sciences space to modernization and automation focus.

In the Retail and Manufacturing vertical, after the historic win of \$160 million TCV that we announced earlier this year, that continues to power our growth. But in addition, we're winning large deals in this segment with the need to innovate across the board to these clients to accelerate the supply chain and time to market efficiencies really bringing digital as the core of their business.

In the TMT vertical, as we mentioned earlier, we are seeing some softness in the hi-tech industry in select few clients and the softness has continued in Q2 as well. For TMT sector overall, we remain positive as they turn to spend later this year. We expect we will continue to grow with them.

We continue to collaborate with the Fortune 25 technology clients to accelerate their ability to bring new products and features to the market. We are cautiously optimistic as companies are adopting newer AI technologies in the core engineering areas as well.

With that, let me move to provide an update on scale. We are making key bets, especially in the AI and generative-AI space. Sonata aims to lead the AI wave from the front with its AI power solutions of Harmoni. AI and we expect that to be a 25% of our revenue in two to three years' time from now.

Responsible-First AI is gaining significant attention from our clients because our proposition and offerings are unique. We have had 50 clients show some active interest in working with us in addition to the large deal or multi-year large deal we just talked about.

Our Harmoni.AI is a bouquet of industry solutions service delivery platforms and accelerators using gen-AI capabilities.

In the most recent quarter, Sonata assisted a Fortune 25 technology client's integration of open source GenAI model to Azure ML. The solution helped their AML team make a view into the model health performance and status to decide on onboarding, provided scalability to process thousands of models in less than a week instead of multiple weeks earlier.



The second bet we have made on scale is Microsoft Fabric. If you recall, Sonata is the only India-based SI partner that has been called out by Microsoft to lead the launch for Fabric platform for Microsoft. Our team of over 300 data engineers are enabling our clients to leverage this new paradigm of Fabric end-to-end analytics SaaS platform. We continue to witness significant pipeline build on Fabric as we move forward. We are in active conversations with 70 clients as they embrace and adopt Fabric as we move forward.

The third key bet on scale is partnership ecosystems. We continue to make rapid progress with our partnerships with Microsoft AWS, Google, UiPath, SAP, Salesforce and ServiceNow in addition to MetricStream which is our BFSI partner.

I'm proud to share with you outstanding accolades that our teams won in the quarter. We won a Partner Award with Microsoft. Everest Group announced us as the Leading Global Analyst as the Leading Provider for Cloud Services in North America and Europe. And Sonata also recently won Infra Awards for Outstanding Demonstration of Sustainability and we will continue to remain committed to our ESG and Diverse as we move forward. We will scale our India business with a sharp focus on entity business.

With that, let me provide you an "Update on Talent":

Sonata University that was launched a few quarters back which witnessed a sharp jump in enrollments now, five out of every six Sonatians is engaged in active learning within Sonata using Sonata university infrastructure. To continue to build Sonata as a global firm, diversity and inclusiveness is a high focus area for us to grow. Our current diversity ratio is 30:70 and our global DNI Council Charter is to make strides towards making it 35:65 in three to four years' time from now.

With that, let me provide you an "Update on the Quarter's Performance":

In Q2, our international service business grew 4.6% quarter-on-quarter, 40% year-on-year. In constant currency terms, we witnessed 5.2% quarter-on quarter and 38.5% year-on-year growth. Our Q2 consol PAT grew 3.4% quarter-on- quarter. Operating margins before FOREX and OI for the international was at 23.1%. Gross contribution in domestic business grew 16.5% YoY. In Q2, we had a strong order booking with the book-to-bill of 1.24 in the international business. We have 32 large deals in pipelines and a large deal pipeline is 25% up quarter-on-quarter.

From an operating efficiency perspective, we improved our utilization by 1.4% in the quarter. As we mentioned in the last call, we had hired people in Q1 and that gave us a full quarter impact in Q2.

Our large deal of \$160 million that we announced earlier in the year is fully ramped up now and the transition at this point in time is completed.



We now have 17 clients with more than 3 million in annual revenue at Sonata. Last year, at the same time, this number was nine. We have almost doubled more than 3 million revenue clients in the last year. In addition, we have 11 clients with greater than 5 million run rate for Sonata now.

I'm also pleased to announce the bonus shares. In the last one year, our back-to-back industry-leading financial performance has yielded stock returns of over 100% for our shareholders and recognition of the support and confidence of our esteemed investors in the company, it is our pleasure to announce that the board has approved issue of bonus share at a ratio of 1:1. We look forward to your continued belief and support in our journey to achieve 1.5 billion by end of FY26.

In summary:

We continue to remain optimistic about the long-term growth prospects. In coming quarters, we will continue to have two tailwinds and one potential headwind, the tailwinds of multiple large deals that we talked about earlier and the pipeline that we have. The tailwind of Quant Systems acquisition and the logos that we got from them and the proposition that we have with them and the synergy benefits that we're driving through Quant. And the potential headwind is the softness of TMT vertical, which continued into Q2, but we're hoping that as we move forward, the spend pattern will resume in the TMT vertical as well. All in, Sonatians are very excited to where we are, in terms of our journey. We expect to stay in the top quartile performance fueled by strategic investments we have made in the business. Our focus on modernization with platformation at the core of our industry-leading approach is paying, winning large deals and opening enterprise grade logos.

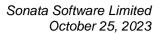
Thank you. With that, let me turn to "Jagan for his Comments on our Financial Performance." Jagan?

Jagannathan C N:

Thank you, Samir. Good morning, good afternoon, good evening, all. We had another top performance in this quarter, which is the industry-leading in terms of revenue growth and in terms of the other aspects of the financial results also.

Coming to this international business:

The performance that we had a 4.6% quarter-on-quarter growth, which is on constant currency terms, it is 5.2% quarter-on-quarter growth and 5.7% in rupee terms. It is also reflecting about 40% year-on-year growth and in rupee terms it is 45.5%. We have consolidated EPS for the quarter is Rs.8.96 per share compared to Rs.8.66 per share last quarter. This is again continuing to be a strong growth compared to the market situation. The ROCE for consol level stood at 31.1% and for return on net worth was 34.5% for this quarter. The PAT grew for the quarter at 3.48% quarter-on-quarter and year-on-year 10.2%. The major reason for the PAT movement has been updated in the presentations. If there are any questions, we can cover that also. We have





also given the GAAP of what is the amortization and interest that has hit the P&L. This is for further clarification on the questions that have been raised on what is related to Quant acquisition and what was the other cost in deck, complete information has been provided for. We have also given the breakup of other income and products for the reference of the investors.

Coming to this performance:

Domestic business has continued to have a solid GP of Rs.62.4 crores. This is above 0.9% quarter-on-quarter growth, but year-on-year a very strong growth of 16.5%. Domestic PAT has grown by 0.7% quarter-on-quarter and 18.7% year-on-year. In domestic business, as you know this, there is a seasonal impact on this quarter. Next quarter being the major quarter for them.

In international business:

Other operating performance utilization has increased to 84.2% compared to 82.7%. We have added four new customers. Top ten clients are 61% and clients greater than 1 million are 65 customers. TMT contributed 27%, Retail, Manufacturing 36%, HLS at 11%, BFS at 21% and emerging 5%. The data constitutes 22% of the revenue and cloud is 39% of the revenue for us.

The Q2 order booking stood at 1.24x, that is book-to-bill, has been industry-leading 1.24x of that. Our DSO continues to be very good; international DSO has come down to 45 days compared to 46 days last quarter and domestic DSO has come down to 35 days compared to 36 days last quarter. The headcount for the quarter end has moved from 6,666 in a quarter to 6,490 for this quarter.

In summary:

We are very, very happy as mentioned by Samir to announce a 1:1 bonus shares for the shareholders as well as we have declared Rs.7 interim dividend in this quarter also.

We continue to do perform very well and also; we want to thank the shareholders for their continued confidence. Thank you.

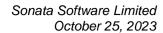
We will now begin the question-and answer session. We have our first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Could you give us a flavor on how your large client looks specifically? There was a sense of weakness in the previous quarter. I understand there have been some pullback maybe like the macros. How are you reading this specific engagement with Microsoft, any flavor will help? And also, on the large deals, have we added to this kitty, did you say your pipeline is at 25% or was it the order book?

Thanks, Baidik. So, on the large client the spend pattern has resumed on newer area, especially around AI and GenAI which is where the bulk of our focus is and winning that business. Like

Moderator:

Baidik Sarkar:





we announced last time, we already have closed one deal with them in that area and we continue to make progress on that. So, in general, the market within the environment from a Microsoft perspective is looking up. The results were also pretty strong. We believe that we will continue to grow back with them as they come out and start the spend pattern. So, the future looks relatively strong as we move forward with them. So that's on Microsoft. On the large deal, Baidik, the single large deal we announced \$160 million deal is fully ramped up now. What I talked about was in general pipeline improvement that we have seen in the large deals, it's up by 25% quarter-on-quarter and the total pipeline of all large deals put together.

Baidik Sarkar:

In the domestic products business, I understand every now and then, there will be a quarter of consolidation. So, should we read Q2 as one of those quarters or is there a caution in the demand ecosystem specifically, any flavor from you would help?

Sujit Mohanty:

Q2 has always been over the years has been a little bit weak quarter for us because a lot of these are large contracts to where they have been structured across the quarters. That's how Q2, Q4 is a little bit of an issue as far as the numbers are concerned in terms of the top line. This is not an exact indication of how the market is and, from the profit point of view, how we're going to do quarter-on-quarter. Just that historically this quarter has been all this like from the revenue point of view.

Baidik Sarkar:

But getting into Q3 Sujit, should we expect a flush, I mean, there's been years in the past where flush happened in Q3. I'm just trying to understand what your broad sentiment is?

Sujit Mohanty:

Q3 is a good quarter for us.

Baidik Sarkar:

And then lastly on the margin front, is it fair to assume we'll hold these levels? I'm just trying to understand how we read our investment levels into the business given what our growth momentum is?

Jagannathan C N:

The margin for international business or domestic business?

Baidik Sarkar:

International.

Jagannathan C N:

International business, as we mentioned, we will continue to be at the lower 20s before FOREX and other income. We will continue to maintain that. Depending on the quarterly requirement and our investment plans, it can vary from quarter-to-quarter, the investments will continue in our focus areas where we have announced already. So, the medium term it will be only lower 20s of margin.

Moderator:

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



Mohit Jain: As a follow up to the previous one, so when you say large deal ramp up, \$160 million is

completely built into revenues now. You also announced one large deal with TUI. So that part

should we expect to ramp up in second-half or that part is also built into the revenue?

Samir Dhir: No, that will continue to ramp up. Those are early days of that ramp up right now, part of it is

already inside, part of it will go into Q3, Q4 and some part of it in Q1 as well.

Mohit Jain: So, with that, what is the general outlook for second half like I was initially anticipating a sharp

ramp up in Q3 and Q4 given our deal signing, so is that the trajectory or do you think the usual Q2 is strong and Q3, Q4 little on the slower side given furloughs and all, that's how we should

look at for our international business?

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Samir Dhir: We don't give quarterly guidance, but I think in general what we have said we will grow in high

teens this year YoY and I think that's the trajectory we are on, and I think we'll be very confident again organically, we're very confident of getting to the same trajectory during the course of the year. So, yes, the business momentum is pretty strong as you can see this quarter, last quarter

also, 4.6% reported currency. We expect to be in the same high-teens growth YoY.

Mohit Jain: Last is on headcount reduction like there was I think some reduction in the quarter which was

like we were expecting some addition given this ramp up etc., So, is that a quarterly aberration

or do you think headcount is something which may lag behind revenue?

Samir Dhir: Not even aberration or a correction. If you recall, last quarter we had talked about we fully

ramped up for two large deals in the quarter and they were in transition. So, this quarter we had the benefit of having them give full quarter revenue and hence it impacts the utilization as well favorably because those people were all billable this quarter. Secondly, this quarter also, we could not hire in time for AI. We wanted to ramp up more. We just couldn't get that hiring done.

So, that full quarter impact will come into next quarter. So, I think it's just a delayed hiring a

little bit that happened for us this quarter, it will catch up in next quarter.

Mohit Jain: Q3, Q4 when we look at the numbers, potentially you will start adding again?

Samir Dhir: Absolutely.

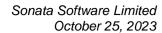
Moderator: We move on to our next question from the line of Mayank Babla from Enam AMC. Please go

ahead.

Mayank Babla: I just had one question, and this was around this quarter we lost one of the seniors to a peer. So,

I wanted to understand from you if there was any key man risk at all over there and if yes, has it changed or derailed our vision of international revenues doubling in the next four years or any

sort of vision changes there?





Samir Dhir:

Fair question. I think. Yes, we had one senior exit, but like I've always said, we have built our organization for scale, and you'll be delighted to know that we could fulfill that position from within and Anthony, who you met has taken that as an additional responsibility. So, as far as Sonata is concerned, onward and forward, we're moving forward and stronger and I think we have enough leadership that we have built that we feel we can take the company to the goals that we have outlined for ourselves.

Moderator:

Thank you. We have our next question from the line of Vipul Kumar Shah from Sumangal Investment. Please go ahead.

Vipul K Shah:

Hi, sir, is it possible to give revenue and EBITDA for Quant Systems separately?

Jagannathan C N:

Difficult to disclose that because we are fully integrated at present and there are quite a lot of cross selling opportunities happening. So, for the purposes of earnout, we will have a financial, but it's difficult to publish it outside.

Vipul K Shah:

Sir, a lot of your large peers have given very cautious commentary due to recent macroeconomic and geopolitical situation. So, are you experiencing any consciousness on part of your clients, are you experiencing any ramp downs or delays in projects start, so your comments will be highly useful sir?

Samir Dhir:

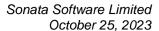
The market like I said at the beginning of my comments is macroeconomic headwinds are still there, the tech spending is still low. So, this situation is notwithstanding. As far as Sonata is concerned, I think our proposition around modernization engineering continues to resonate with the customers. Across verticals, we continue to see good demand build up, our large deal pipeline is up, our overall pipeline is up, the confidence in Sonata value proposition is quite high as far as we can see. Now, are there pockets where we see some softness? Yes, we see softness in hitech industry, we've seen softness in two clients in Healthcare in the most recent quarter, but those are isolated pockets of softness that we've seen, but in general the overall momentum is looking pretty good as far as the industries and geographies we operate in with the proposition that we operate in, Vipul.

Vipul K Shah:

And lastly, sir, Microsoft published results last night only, and they are relatively very ahead in the generative-AI. And since you are their sole partner in India, so do you expect a comparative advantage from that relationship?

Samir Dhir:

Let me qualify the question first. We are not the sole partner for GenAI, we are the sole partner for the Fabric offering, which is a SaaS-based offering from India. So that's the one qualification. As far as GenAI is concerned, our proposition on Harmoni.AI resonates well with the customers and that's what is reflecting in the multiple 70-odd clients conversation that we've been involved in now to really take that proposition on. That proposition, Vipul, candidly is platform-agnostic to some extent because whether it's an LLM from Microsoft or any other partner, our offering stand on top of these industry-leading LLMs out there. So, that's how we are seeing it and we're





very excited about the investment we made. We were probably one of the first ones to come out with the offering with the responsible-first and we continue to take that advantage ahead as we move forward. And the large deals we announced with another telecom companies has Harmoni.AI as the base infrastructure to really drive automation using GenAI in that business operations area.

Moderator:

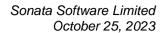
We have a next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar:

Sir, largely wanted to understand Harmoni.AI. I mean you mentioned that you are looking to get 20%, 25% of your revenue in the next two to three years from this particular offering. I know you provided one example of the telecom side. If you can provide some more examples as to what is the solution exactly that you're trying to target here, which are the areas which will be primarily focused that will be helpful? My second question was on the MS Fabric. Are you the sole SI partner at the global level or at the Indian level, I mean just wanted to have a clarification around that and how important is this product, I mean looks quite interesting, so how to understand business from MS Fabric in the next two to three years? My third question was on the deal wins. There were three large deals which were there. One, the \$160 million and another two which were there in 1Q. So, you have provided clarity on two deals. Is the third deal also ramping up as per the expectation, just wanted to get the clarification around that, I mean are all the deals ramping up as per expectation or is there a slowness there in the ramp up itself?

Samir Dhir:

So, let me go in the reverse order, Mihir, so I can cover all the three parts. So, the deal wins that we had, we are seeing a ramp up as planned and, in some cases, slightly faster than planned, but not delayed at this point in time. So that's on the deal win side. All the deals that we have announced so far are moving as per the plan. On the second point, on Fabric, they have six or seven partners globally. Sonata is the only India-based SI which is headquartered in India in that list. Others of course are the general global partners that they have that are part of the list. We are excited with them in this partnership specifically because we are working with them to help them build a product, test a product and so on and so forth. So, we're really much ahead of the journey. Fabric is really Microsoft's attempt to provide a SaaS-based offering on a data platform. So, we believe that the market will keep growing for them as they launch the product in November. So, this will give us some accelerated growth not in the next one or two quarters, but it will take about a year for it to really fully ramp up. But we are investing in the area where we believe the future investments, the future growth will come from. So that's on Fabric. On your point about Harmoni.AI, our proposition is really simple, Mihir. We are not in this space of building an LLM. We have built a bunch of services, service delivery platforms, wrapper services, integration services around the LLMs which are there in the industry to provide responsible-first peace of mind to the customers. To give an example, if you're a Healthcare company and you want to make sure that your data privacy is ensured of your consumers or your members, our wrapper services ensures that that we have built out. So, anything which really provides responsible-first from a consumer perspective that they feel secure that their data, their information is not in wrong hands is what we're really after as a proposition. So that's really what





happens at AI is, we're not competing with Google or Microsoft or any of these big tech companies. Our offering is really a bolt-on as a service offering, service delivery platform which augments the capabilities of the native LLMs in a very simple way.

Mihir Manohar:

Just two extensions. On the book-to-bill part, you mentioned 1.24x. Is this book-to-bill ex of the large deal wins because last time the number that you have given, it was ex of large deals. So, I mean even this quarter is it ex of large deals or including large deals?

Samir Dhir:

It's the same framework that we had last time, so same methodology what we explained last time.

Mihir Manohar:

Lastly on the synergy pipeline of \$150 million, which is there with Quant Systems, I understand it is difficult, but what can be the potential wins out of this, I just wanted to get an understanding on that?

Samir Dhir:

These are, in general, us taking Quant offerings into Sonata accounts is one part of it, as you know Quant was very strong in data privacy area and enterprise data in general, sales force as a third area. So those offering into Sonata account is one part. The second part is to take broader capabilities of Sonata into account the accounts that Quant had which is a second dimension of it. And third is that in the newer clients we're seeing some accelerated growth that either Quant could not have won alone, or Sonata probably wouldn't have won alone. So, we're seeing some deal build up in that area because of our joint proposition for a net new customer as well. So, those are three broad areas.

Moderator:

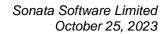
We have a question from the line of Tushar Wavhal from InCred capital. Please go ahead.

Tushar Wavhal:

My first question is regarding the weakness in the Dynamics business. Anything to read into it? My second question is, what will be the average deal size for the large pursuits which we are having in the pipeline? My last question is related to Travel vertical. Any outlook and what are the current size in the overall services?

Samir Dhir:

Let's just start with the first one, the dynamics. I think we explained last quarter, the Microsoft year turns over in June and July timeframe. So, it takes us a quarter or two to build the pipeline and continue projects going. So, we're pretty confident that starting next quarter or current quarter now we will start to see an uptick coming to the Dynamics business. It's a seasonality effect that you see in the numbers that is probably it has in last quarter. So, we're not worried about the dynamics. I think we'll get back to growth in the coming quarter onwards on Dynamics question. The second question was on the deal size. I think we are not willing to give a deal size. I know that's been a common ask, but the things of these are multi-year contracts, which are anywhere between high single digit to multiple of double digit, \$1 million of contract in multi-year. It's a pretty broad range so we can't give a single or number to you, but these are multi-year contracts which can only grow from there because once you get into these digital programs and cloud transformation programs, you're there for the long haul. As far as the Travel is





concerned, I think the Travel client that we have is doing well. We announced a deal last quarter also and that ramp up is moving well and we believe that it's time to come that business will continue to grow on us.

Moderator: We have a question from the line of Sanjaya Satapathy from Ampersand Capital. Please go

ahead.

Sanjaya Satapathy: Can you just help me understand the EBITDA margin changes in this quarter compared to last

year as well as year-on-year?

Jagannathan C N: So, what are EBITDA margin changes from last quarter?

Sanjaya Satapathy: Yes, and the key positives and negatives, if you can just walk me through the bridge?

Jagannathan C N: For international business, right?

Sanjaya Satapathy: Yes.

Jagannathan C N: International business, the major benefit for us is the large deal and the utilization both has

improved for us, which is giving about 1.3% benefit to us, and operational improvement is about

 $80\ bps$ for us. So that's the movement from 21.1% to 23.1% in this quarter.

Sanjaya Satapathy: Any headwind basically on the staff cost that was done in Q1?

Jagannathan C N: No, the headwind is at PAT level on consolidated level. Although we had the operational

improvements and the large deals were a tailwind, we had our tax cost going up because our

ETR went up by 100 bps compared to last quarter. So that's the impact at the PAT level.

Sanjaya Satapathy: Why is that sir?

Jagannathan C N: That is because our ratio of onsite US revenue has gone up compared to previous year and last

quarter was the first quarter of consolidation. So, we had the benefit of some carry-forward losses in in Quant in the earlier years. Now, this quarter that benefit is not flowing through. Hence, our

average rate in US tax rate is 26% compared to 25% in India. So, our ETR has also gone up.

Sanjaya Satapathy: Lastly, this amortization expense and this interest expense, which is there, if you can just remind

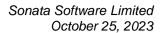
like for how long this amortization will continue and I can see that your debt level has come down even this quarter even though you might not have paid for the point bill. So, are we going

to see moderation in interest cost from here?

Jagannathan C N: No, there are three elements to that amortization, which we have given and the presentation we

will be uploading now that will have all the details of the amortization and interest. There are three components to it. One is the regular bank loan interest that will be coming down once the

loan is repaid anytime. The second is there are some unwinding of interest. It is an accounting





standard requirement for the deferred payment. So, when I pay the deferred payments this year it will substantially come down, and when I pay next year, it will fully get knocked off. But amortization of intangibles is a little longer tenure. As per the IND AS which is equivalent to IFRS you have to make an assessment of the life and the life normally varies from seven to 10 years. So that's a little longer amortization.

Sanjaya Satapathy: Overall, you have about Rs.23 crores of such expenses on a quarterly basis, right, sir.

Jagannathan C N: Correct, you're right.

Sanjaya Satapathy: Will that come down to somewhere around to 12, 15 crores next year by this time in the quarterly

basis and further reduction in the subsequent year to a negligible -?

Jagannathan C N: In that no unwinding of interest. These two constitute almost like Rs.17 crores out of the Rs.33

crores

Sanjaya Satapathy: That will go away by this time next year?

Jagannathan C N: By next year, yes.

Sanjaya Satapathy: While you are showing such a strong growth in your revenue, your headcount has come down a

bit and you are again looking at a pretty decent amount of growth, it looks a large. So, is it an

aberration on this headcount reduction and it will start improving from next quarter, how should

one look at it?

Jagannathan C N: That's what Samir explained no to an earlier question that our large deals, the revenue ramp up

and the earlier investments have been closed in this quarter, our investment in AI is continuing,

but we couldn't complete the hiring in this quarter, that's the reason why this has happened in

this quarter. We'll continue to invest on AI in future.

Sanjaya Satapathy: But still your headcount will go up because the hiring which you could not complete this quarter

will happen by next quarter or something?

Jagannathan C N: We have continued to focus on investments in AI and wherever the business requirement based

on that, our hiring will continue. That's nothing to do with anything related to the opportunity

that comes in.

Moderator: We have our next question from the line of Santosh Kumar Keshri From Keshri Finance. Please

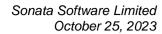
go ahead.

Santosh K Keshri: My question was that though we can see that there's a good increase in the revenue year-on-year

as well, but there is a degrowth quarter-on-quarter. But what we can see is that there's a huge

increase in the employee cost; it has gone up almost by 50% year-on-year. And that's the reason

the PAT has not so much moved, it is hardly up by 10%-odd. So, what's the reason that we have





such a great increase in employee costs, is it because of new acquisition or there is some other reason, I just wanted to understand a little more in detail?

Jagannathan C N: What cost? I couldn't hear that.

Santosh K Keshri: The employee cost has gone up from Rs.222 crores in Q2 of '22 to Rs.339 crores in Q2 of '23.

Jagannathan C N: Domestic business you are talking about?

Santosh K Keshri: No, I'm talking about consolidated.

Jagannathan C N: What cost? I didn't get that.

Santosh K Keshri: Employee benefit expensive.

Jagannathan C N: The number of employees has also gone up and there was salary increase in January as well as

in the month of April last year, and the demand was actually very high last year, so the average cost also went up during this one year. The market situation has changed only in the last two quarters and before that the situation remained very volatile for us with the market demand was

high. So that's the reason why the cost has gone up.

Santosh K Keshri: So, what is the employee turnover now in just closing quarter, if you can just share that number?

Jagannathan C N: Attrition we had about 16.1% in this quarter.

Santosh K Keshri: That's mostly large even with the larger peers the same attrition. So, can we expect the employee

benefit expenses to go down or it will stay at the same level for future.

Jagannathan C N: I don't think it will go down, but the dramatic increase may or may not happen in the coming

next couple of quarters.

Santosh K Keshri: Are we getting better pricing for the new contract or the pricing pressure still persist? As you

can see, there is a chance of recession in advanced economies so it could be that on the pricing

you may not much pricing power, what's your view?

Samir Dhir: Let's just clarify a few points before we answer your last question, Santosh. Our revenue is up

talked about the numbers earlier, YoY 40% up and QoQ is 4.6% up. Domestic business we don't track revenue, Santosh, because it's a gross contribution business we don't track the revenue

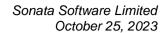
on international level, which is what we monitor YoY as well as QoQ quite significantly, we

really as far as our performance is concerned. Point #2, our EBITDA for international business this quarter is above 23%, which has really improved in the last two, three quarters and it is

pretty much what it used to be two, three, four quarters back also, our EBITDA performance is high. As far as PAT is concerned, that is low because of the amortization and interest that Sanjay

also asked about because of the acquisition that we have done. So that's the three, four parts just

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to keep in mind. Now, coming back to your question specifically on pricing, we're not seeing any pricing pressure. I think our pricing is pretty solid and holding up. Of course, there are some pockets with one or two clients it can always happen. But in general, our pricing is pretty solid. In fact, even in the most recent quarter, we got some price increases also. It's not a big concern in our mind at least at this point in time.

Moderator: We have our next question from the line of Vipul Kumar Shah from Sumangal Investment.

Please go ahead.

Vipul K Shah: This question is for Mr. Jagan. He has already clarified, but I'm not able to understand. So, this

finance cost of Rs.20 crores means what it relates to, although I think we have net cash on the

balance sheet. So, would you explain it again, Mr. Jagan, please?

Jagannathan C N: So, when we acquired Quant, we borrowed about \$55 million in US. That was because of some

interest cost of that is also there which is resulting in about 6.5 crores to 6.75 crores of cost every quarter. And there is an interest for future payment is that they have an earn out in the next two years to be paid, one in March '24 one in March '25 and one in August '25. So, as per the

operational issues with RBI and money transfer. We have explained that time. So, there is an

accounting standards, it's called unwinding of interest. We have to accrue some interest cost for

the deferred payment and bring it to the current value when I am capitalizing that. So that

 $unwinding \ of \ interest \ has \ about \ Rs. 10.75 \ crores \ to \ Rs. 11 \ crores \ impact \ every \ quarter. \ So \ that's$

what I was saying.

Vipul K Shah: And Rs.6.5 crores for that 55 million, so roughly around Rs.18, 19 crores it works out, right?

Jagannathan C N: Roughly around Rs.17 crores of impact will be there in every quarter.

Vipul K Shah: That will go away approximately this time next year, is that understanding, correct?

Jagannathan C N: No, it will go away once the loan is repaid, which we are planning to do sometime in the next

year, then we have this interest unwinding will happen will reduce substantially after the first-time payment in March '24 and substantially reduce after March '25 payment, but finally go with

the August '25 payment whenever we are paying in August of 2025.

Moderator: I now hand the conference over to Mr. Samir Dhir for closing comments. Over to you sir.

Samir Dhir: Thank you, operator, and thanks all of you for joining us today. We really appreciate your time

and your questions today and look forward to talking to you in the quarter again and thanks for

your support for Sonata.

Moderator: On behalf of Sonata Software Limited, that concludes this conference. Thank you for joining us

and you may now disconnect your lines.