"Sonata Software Limited Investor Conference Call"

February 24, 2023

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

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

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

Samir Dhir: Thank you so much. My name is Samir. Good morning, and good evening to all of you, and thanks for joining us today. I appreciate your time and support to Sonata. A very warm welcome to this conference to discuss our strategic acquisition of Quant Systems, Inc., that we signed on 22nd of February 2023.

We are indeed delighted and excited to announce this acquisition by Sonata Software North America, which is a wholly owned subsidiary of Sonata Software Limited, and we signed a definitive agreement with the shareholders of Quant Systems, Inc., a Texas USA-based IT solution and software company to acquire 100% stake. It is the biggest driver acquisition of Sonata the history, and it's a very proud moment for all of us.

And I also want to reiterate that this is all about growth. This acquisition is at the heart and center of the growth strategy of Sonata, and I'll explain to you in a few minutes why that is the case. In an all-cash deal, Sonata we'll make an upfront payment of $65 million and a deferred payout of $95 million paid until over two years. The acquisition is expected to close within 30 days, subject to customary closing conditions.

With that backdrop, let me give you a rationale why this acquisition is strategic for Sonata as we move forward. As you know, we aim to be the fastest growing mixed-in digital firm, delivering modernization and digital outcomes for enterprises through our Platformation framework. As a company, we are unrelenting towards doubling Sonata's international business to $0.5 billion in three to four years' period, much like we've outlined to you earlier. Now to achieve this vision, we have outlined some key strategic drivers to scale Sonata.

Number one, we want to get more large accounts and large deals, and we share some of those successes within the recent quarters of the deals that we have closed, the large deals that we have closed. Number two, we want to continue expanding our services portfolio and really develop a strong partner ecosystem to drive our modernization agenda. And number three, we want to invest in BFSI, which is the banking financial services and insurance vertical, and healthcare and licenses vertical as we move forward. Beyond our current and existing vertical that we are already scaled up.

Sonata's growth philosophy is based on making organic and inorganic investments to acquire talent, expertise, and scale. Quant Systems aligns to our strategic drivers and will enable us to win larger deals in our focus verticals. This acquisition has following benefits for Sonata. Number one, and foremost, two large accounts in the Top 5 accounts of Sonata from day one. One a banking client and another a healthcare client. Each of these two clients have annual spend pattern of IT outsourcing over a digital dollar -- digital billion dollar -- sorry, dollar, billion, one dollars of digital spend per annum.

It also stands in the presence in the recently announced verticals of BFSI in healthcare. Beyond this, our technical capabilities in enterprise data analytics, Cloud modernization, cyber security, salesforce and data privacy will get strengthened as part of this acquisition. And it also will bolster our partnership with Salesforce.com, Snowflake and multiple other data partners. Quant also has differentiated IPs in the area of Salesforce and Chatbot.

With that said, let me provide you the details about the company. Quant Systems was founded in 2008. And has shown tremendous growth year-on-year over the last few years. In CY '22, Quant delivered a revenue of $37 million, which is a 48% Y-on-Y growth, and with an impressive EBITDA of mid 30s. Quant has over 300 employees globally.

For CY '23, we expect Quant to grow from low to mid-30s on top line and continue to deliver EBITDA of mid-30s going into the year CY '23. Quant go for smarty logos and BFSI healthcare, life sciences, consumer retail. It has built a very strong partner ecosystem of industry leading players, including AWS, Adobe, Salesforce, Snowflake, and Google Cloud. Quant's innovative IPs, Workbox.io and Lisa Chatbot, which I earlier alluded to, broaden our offering as part of our platform mission strategy. Lisa enables a true omni-channel experience by integrating enterprise systems, contact center and support system solutions. While Workbox IP simplifies digital document management, which is integral for both banking and healthcare clients.

Quant has strong leadership team, which has rich experience and a successful track record in delivering excellence and technology innovation to its clients over the years. So in summary, we're very optimistic about Sonata's long-term prospects and addition of Quant System to Sonata will only further accelerate our journey as we aspire to become the top 25% growth company in the revenue performance in the industry. My executive team and I are continuously working and judiciously working to accelerate growth curve of Sonata as we move forward.

With that, we'll open up for discussion for questions.

Moderator: The first question is from the line of NGN Puranik from Enam Holdings.

NGN Puranik: Congratulations on this acquisition. It's a quite relevant and timely in the context of new service clients that we need to add and the analytics, which is going to be a great space. So the question I have is about what are the new service lines you're adding? And how will you expand your $1 billion accounts? And also the current $1 million portfolio of systems, so if you can take us through and then are there are complementarity or overlap in the current Sonata and Quant System?

Samir Dhir: Thank you. It's a great question, Puranik, and thanks for your wishes. There are two parts to your question. I think let me take the first part, what new capabilities we are adding as part of this acquisition. From our capabilities perspective, you should think in two dimensions. Number one, we are adding and strengthening, not adding our capabilities in Healthcare, Life Sciences and Banking Financial Services as part of this acquisition. Sonata had make progress over the years in both BFSI and Healthcare, and this does augment and accelerate our journey in that area.

Specifically, the Fortune 500 client is convinced and the headroom to grow in those accounts is absolutely exciting for us.

On the second part of this, the second product capability that we added is really around enterprise. As you know, in today's environment, every customer is looking to monetize data, modernize their data platforms, draw insights on data, AI ML models on top of data. And beyond that, making sure that the data privacy within the parameters of cybersecurities insured is a really strong offering that Quant System has, and we believe that will really augment our capabilities and go-to-market efforts from a data strategy perspective and data privacy, and data security perspective. So very bullish about that.

And beyond the data discussion, because Quant has built some significant IPs in the salesforce area, which is a strong growth area for us going forward and we called it out earlier in the earlier quarters. They have built some strong IPs and differentiation from a salesforce perspective, which should also be accretive from a capability set perspective.

Now the second part of your question, how do we jointly work together and take this discussion forward? Clearly, we are not standing at ground zero ourselves in defense and healthcare. So Sonata over the years have made progress on both defense and healthcare. If you think about the capabilities that we built in healthcare, life sciences around provider space and the pharmacy space, we believe we can take those offerings to the clients and the Quant's capabilities on the data side and data services side through our existing clients within the Sonata ecosystem.

And likewise, in banking, financial services and insurance, we have done, over the years, a significant amount of work, especially on the insurance side, with the lending organizations. And we believe the capabilities that we have built on the lending side, we can take it extends route to the customers of Quant and the again, the data capabilities of Quant we can cater to our existing clients. We believe a fair amount of overlap from a synergies perspective and the gross leverage of our joint capabilities will help us accelerate the growth curve for Sonata and as well as Sonata's existing clients.

Moderator: Mr. Puranik, may we request that you return to the question queue for follow-up questions. We'll take the next question from the line of Samyak Shah from Sameeksha Capital.

Samyak Shah: I just wish to know that the profit, how the company has achieved like Quant System. So is it completely organic? Or the growth is comprised of inorganic component?

Samir Dhir: Yes, the growth over the recent years has been completely organic. They build partnerships to build some IP, but that has not led to any revenue acquisition. They have some partnerships that they've built over the years from an IP perspective, but the revenue growth has been organic in the recent years.

Samyak Shah: And how do you see the growth rate coming forward in the longer run for Sonata with respect to this acquisition?

Samir Dhir: So like we've earlier alluded, our growth rate trajectory continues the same. We have talked about that we want to get to $0.5 billion mark for international business in three to four years' time. And we are steadfast towards that goal. We are working hard and our entire IT team is working very judiciously to make sure that we can get to that goal. As far as Quant is concerned, like I alluded earlier, the CY '23, we expect to be in low to mid 30s growth rate.

Moderator: Mr. Shah, may we request that you return to the question queue for follow-up questions. Next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Chirag Kachhadiya: Congratulations on this acquisition. Sir, a couple of questions. First, you explained about the synergy with -- in context of the BFSI and healthcare verticals. Now I want to know, how this acquisition will help in platform business. And also our viewpoint on reducing the volatility in the platform business we have, does this acquisition will help in that context also?

Second, are there any other acquisitions in pipeline in near term? And third, what revenue synergy we are expecting in coming years with the help of this acquisition?

Samir Dhir: Sure. They have multiple questions there. Let me take one-by-one. So beyond the discussion we had just on the synergy revenue, I think we believe that the capabilities that Quant Systems we've built are truly differentiated unique, especially on the enterprise data and data privacy side, which we believe we can take aggressively forward to our existing client base, and that's a pretty high demand area. So we believe that will accelerate our growth rate as we move forward on one end.

And on the second end, and we are a broad services provider ourselves, and our extended capabilities around automation, around Platformation, etcetera, we can take to Quant's clients and hence extend the pie of Quant's client base. From a volatility perspective, let me address that point. So what Quant System brings to the table really essentially is deep expertise on the data side and data analytics side. And we believe as we go forward, the data platforms and data projects are going to be multiyear programs. So as we build the pipeline collectively together, we believe we will be able to generate more annuity pipelines.

Now they may not get signed as long-term contracts, but we know once you get it inside the data program, they tend to be two to three years, sometimes five-year programs. We believe that the annuity business will take an upswing as we move forward given the capabilities of Sonata heritage and Quant System Inc.

Your third point about M&A, like this outlined earlier, we will continue to look forward assets in the market, depending on based on our strategy that we have outlined to you. At this point in time, we had focused to get this acquisition integrated into Sonata and we try the synergy revenue as we move forward. Thank you.

Moderator: Mr. Kachhadiya, may we request that you return to the question queue for follow-up questions. The next question is from the line of Balakumar B from HDFC AMC.

Balakumar B: Samir first, congrats on the acquisition, and thanks for hosting the call. Could you just provide some sense on the delivery and the pricing model of the company because the revenue per capita as well as the margin profile seems very strong. And just to follow up, how should we think about growth in the margins for the company beyond CY '23? Thanks.

Samir Dhir: Thank you. Thanks for your question, Bala. Jagann, can I request you to take this question, please?

Jagannathan Narasimhan: First, I'll answer the second question, Bala. The growth, we continue to expect the growth to be in the lower 30s to mid-30s and the margin also in the lower 30s to mid-30s kind of a margin -- EBITDA margin for them, even in FY '24. The margin rate for them is onsite their -- like out of 300 people, 125 people at onsite. And their rates are pretty high.

The average rate is much, much higher than that particularly, they're lower, if you take the onsite as a benchmark, the lowest rate, it's the highest rate for us, very close to highest rate for us. That's the kind of profile they have, particularly because of the services in data in the cloud space and then salesforce rate also. Even in salesforce, they have a very, very unique solution to the customer satisfaction. One of their IPs helped them doing that solution to the customer. So this is pretty strong in that aspect. Did I answer your question?

Moderator: The next question is from the line of Amit Chandra from HDFC Securities.

Amit Chandra: So my question is specifically on the, if I see the Quant Systems, it is a 15 year old company. So in last three years it has grown at 100% plus CAGR and from 8 million to 37 million. So if you can throw some light on how the journey of the company has been the last 15 years and what happened the last three years, why it has grown so fast?

And also just to add on to the margin question, in terms of the revenue per employee appears to be very high. And what exactly is different in terms of offerings and in terms of the effort and also in terms of the vertical mix and the client mix so that we can understand better what is actually leading to this higher margin profile.

Samir Dhir: Let me take that. Thanks for your question and thanks for the question as well. So if you think this in that context when Quant started, history really was to provide consulting services, which was almost like a boutique offering on data privacy. So the first five to seven years of their journey, they were really focused on doing small projects, small consulting perspective to do data privacy assignments. These are typically projects between 100 to 50k type of projects when they started.

It was a build out from scratch, but the founder, Shimi, was really focused on that activity. In the last four or five years, they really added scale to it. What that means is when they do data consulting assignments, they're also picking up work which is downstream to do engineering work. It was not just a consulting work, they started picking up follow-on engineering work which surrounds itself with doing data engineering, data modernization, data transfer from on-prem to cloud.

The services capability of Quant System has expanded in the last five years. And that's what they're beginning to see and we've gone to see with them that in the last five years, the growth has been accelerated largely because the first five years to build the trust with the customer that they can do a high-end consulting assignment. And because of the trust and kept these clients going, they can now break into larger enterprise clients and do the end-to-end work as far as data platforms are concerned.

That's really the critical pivoting point that they arrived at, we believe, like three to four, maybe five years back, and hence the scale has much more tip over in that sense. That's what explains the growth rate. And that also explains the margin profile of the company. Because when you come from consulting down to explain to a client that you can take care of your data privacy requirements and hence modernize your application infrastructure, that's how they have approached the market. They have not gone bottom up. When you go bottom up, your rate card is always under pressure. So they've come consulting down.

Moderator: Thank you. Mr. Chandra may we request that you return to the question for follow-up questions. Sorry to interrupt this summer, sir, your audio is slightly getting muffled.

Samir Dhir: Okay. Thank you.

Moderator: We'll take the next question from the line of Mohit Jain from Anand Rathi.

Mohit Jain: Sir, one question. I think it was asked before by Bala as well. But this revenue per employee, is there a proportion of revenue that you get purely as IP-driven revenues, so to say, because it seems way too high and that basically flows through to the margins as well. So how should we look at it? Is it really IP revenue? Or do you think it is more like revenue per FTE, which is the correct model to look at it?

Samir Dhir: Jagann, can I request you to take this question, please?

Jagannathan Narasimhan: Yes, Mohit there is a mix of it. The IP revenue, this is mainly driven by the services revenue, but IP revenue is also there in this total element of it. But the FTE revenue, why the revenue per person is there, I mentioned to you the rates are very high. And comparable as what Sameer was mentioning about the consulting driven, the premium services to them with some amount of IP revenue is the reason why the revenue per person is very high there.

Mohit Jain: But sir, contractually you are doing it as revenue per head count kind of metric or do you sell it as say some percentage of revenue as IP?

Jagannathan Narasimhan: No, this is three elements of it is there. One is the outcome based total offering to the customer. The second is on the per T&M as such for them is not very high. The major portion is on outcome driven revenue per person. So this is like more on that. The reason is the revenue was high and comparable competitors on all these things will be the high consultant services offered by Deloitte or Accenture kind of people who will be serving, who can be selling to the customers the high-end type of it. So that's the reason why it's not a typical man per person kind of a revenue. You have to see in this context. Is the overall revenue, which we give to the customer for the outcome based offering to the customers.

Moderator: Thank you. Mr. Jain, may we request that you return to the question for follow-up questions. The next question is from the line of Vipulkumar Shah from Sumangal Investment.

Vipulkumar Shah: Congratulations for this acquisition. So my question is how are we going to finance this? And what are the profitability metrics for the acquired entity? Because I don't find any information regarding the financials of the acquired company on your website. So where do I get the financials for the acquired entity. And are we going to take any debt for this acquisition?

Management: Thank you, Ravi. I'm going to request Ravi to take a question. Actually, these financials of this company, we have broadly given the EBITDA number and the revenue number. When annualized annual reports are published at times whatever the subsidiary financials is required as per our policies will continue to publish that. If not, this is a private limited company, hence, like any other subsidiary for me, we will include in the business and to that extent of it. Or we say that the funding is completely from the internal accruals.

However, we are taking a debt for short-term operational reasons. We have some operational reasons with RBI approval and other thing. Hence, we have money in India, but we are not able to transfer that to US because of this is operational reason, which we are going to address in the next 6 months to 9 months time it will take to address the issue. So for the time being, we are taking the short-term debt to for the initial payout.

Over a period of time, this debt will be written as a very short period of time, about 1 year to 15 months time. This will be completed this does not receive paid out. And the company generates a very, very strong cash flow. We have considered the cash flow of the acquiring company acquired entity as well as the current requirement of next 3 years and then plan for the cash flow.

Moderator: Mr. Shah, may we request that you return to the question queue for follow-up questions. The next question is from the line of Dhiraj Dave from Samvad Financial Services.

Dhiraj Dave: Thanks for opportunity one question basically...

Moderator: Sorry to interrupt you, Mr. Dave, the audio is low from your line. Please...

Dhiraj Dave: Yes. So my question is basically, since whatever is the kind of cash which we have on our balance sheet, most likely that is getting utilized to fund the acquisitions first phase of payment. So how that will be impacting over, say, 2 to 3 years, how we see dividend payment because your company is one of the very good dividend payout ratio. So how exactly management sees? And what would be your guidance on dividend payment for next medium-term kind of perspective that we shall expect same payout ratio or it would result in some reduction...

Jagannathan Narasimhan: This is Jagann here. I'll take this question. The current cash position, as I mentioned to you, we are going for a short-term debt to fund the initial payout because of an operational reason. Over a period of time, that loan will be repaid and subsequent payment 2 years payment will be funded from internally. As of now, the dividend absolute amount, we are planning to maintain the dividend absolute amount. But the payout as a percentage may come down in the next 2 years alone, it may come down. But this is the final decision is we will discuss with the cash position with the board and decided the course of time...

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: Sir, just one question on how the impact will be there on the depreciation, right? And if you can throw some light how you see the existing goodwill coming on the books and how long it will be amortized. So roughly, what would be the impact on the depreciation number. So we can actually get the EPS impact roughly what can be there for FY '24, '25?

Management: I'll take the question, Amit. The total amount of goodwill, this businesses all IT businesses, you know that intangibles is the maximum amount because the asset value will be relatively lesser. However, is this intangible, there is 2 elements are going to be there. One is goodwill and other other intangibles. This company has a big amount of IT customer, customer relations and all these intangibles are there. It will be a amortized over a period of time.

And goodwill will be the other major portion of it. In a cross high-value company, gentle goodwill tend to be more element of it. So the intangible is goodwill would be only tested for impairment over a period of time. Only intangibles will be amortized over the period of time. The valuation on the amortization and the split is only estimated internally at present. We will be finalizing the numbers in the, because there's an external valuation person has to do that. I can't, I have, it's an estimated number what I have.

It may not be the absolute number. Somebody external value has to confirm that. The period of amortization will be a little longer because of this IP driven and it continues to generate very strong cash flow. Even in the DCF method, the average period will be upwards of seven years on total. Very close to 10 years probably. So the valuer has to decide. Valuer has to decide. This is all based on the past experience. I'm just commenting. Please don't take this alone. Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Sameer Dhir for closing comments.

Sameer Dhir: Thank you, moderator. Thank you all of you for joining us today. Like I said earlier, we're very excited about this acquisition. It clearly provides us into a high-growth trajectory from a data services perspective to clients, specifically as it comes to BFSI, healthcare life sciences and retail consumer verticals, and we strongly believe that it diverts us into the direction of what we have outlined to earlier to date on other international business in 3 to 4 years' time. Once again, thanks for your support, and we'll continue to keep you updated as we make progress. Thank you for joining me today. Thank you...

Management: Thank you all. Thank you.

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