# "Sonata Software Limited
# Q1 FY 24 Earnings Conference Call"
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**Moderator:** Ladies and gentlemen, good day and welcome to Sonata Software Q1 FY'24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir Dhir, CEO and Managing Director from Sonata Software Limited. Thank you and over to you, sir.

**Samir Dhir:** Thank you, Aman, and good morning, everybody. My name is Samir, and a very warm welcome to all of you to this conference to discuss our strategy, our goals and the financial results for the Q1 quarter ended June 30th. Thank you for joining us today. I appreciate your valuable time and support. It is my pleasure to share our progress towards our vision for Sonata. We are excited to deliver yet another quarter of industry-leading growth, despite the growing macroeconomic geopolitical challenges that industry has talked about.

Our big bets and continued investments are delivering and delivering well. The executive team remains committed to judiciously accelerate the growth curve and build scale, and scale in terms of large deals, markets, partnerships, and talent.

Let me cover and update on our strategic goals first. As you're aware, our objective is to be one of the fastest growing modernization engineering company, powered by our unique platform mission framework, and our goal is to achieve revenue of 1.5 billion consolidated by end of FY'26 at an EBITDA of early 20s. We are very pleased to inform you that we have crossed INR300 million mark annualized run rate in the most recent quarter for the international business and our India business continues to deliver strong growth and industry leading ROCE for the business.

Let me provide you an update on the progress we are making on multiple fronts. First things first Quant acquisition. As you know, Quant acquisition was historic for Sonata and it provided us a strong foothold in our invest verticals of Healthcare Life Sciences and BFSI. We are very pleased that Quant delivered quarter-on-quarter 7.2% revenue growth at an EBITDA of 32%. As expected, in a short span of time, our teams have built a synergy pipeline of well over USD100 million, including some large deals across top clients.

During the past several months, we have invested in sales and marketing to scale Quant. As we had planned, Quant is now fully integrated into Sonata from a sales, delivery, operations, and bench aspects. So, at this point in time, Quant acquisition is fully integrated into Sonata.

Let me provide a cover on the large deals. As you recall, we had reported our largest ever deal in Sonata with a total contract value of INR160 million in Q4 last fiscal, that transition of the deal is progressing very well. This deal will fully get ramped up as planned during the course of this calendar year. In Q1, we are delighted to report that our teams have now won two new additional deals, large deals, within the quarter. The large deal pipeline is now 40% of our total pipeline. We are very pleased with the progress we are making to winning some large deals in the market.

Let me provide a summary on the two large deals we won in the most recent quarter. Number one is a transformation and modernization deal which we closed in Europe. It is the largest deal for Sonata in the Europe geography to date. This deal will enable Sonata to transform and implement Microsoft Dynamics across all lines of business for a manufacturing client across their 49 legal entities. The scope includes finance, supply chain management, production, and integration across their systems. The scope also includes application support, post us completing the transformation program in the next couple of years.

The second deal is building out a digital hub for a large tour operator in Europe. The scope includes cloud and data modernization, application modernization, and implementation of transformation programs, and innovation through Sonata solution and innovation hubs. These two exciting deals and the megadeal we announced last quarter are in different stages of transition now. These transitions are expected to be completed in the next two quarters. With that, let me move to our strategic updates on verticals and geos.

On the vertical side, our invest verticals, which is banking financial services, and healthcare. We are continuing to invest in building our strong sales and delivery engine and domain capabilities in these verticals. In the recent times, BFSI industry has shown challenges in mortgage and lending segments while the technology spent on the consumer banking is stable, at least in our client base.

We have delivered innovative solutions to leading financial institutions, including building our digital wallets, data privacy, cloud and data modernization platforms, which is helping our BFSI clients continue to transform their consumer banking area.

In the healthcare Life Sciences industry, consumer and legal forces are requiring healthcare players to increase collaboration and partnership. The shift towards value-based care and technological advancements have led to the development of new treatments and medical equipment leading to overall positive outlook for healthcare Life Science industry. We continue to remain bullish for healthcare Life Sciences and in the consumer space in banking financial services.

On the harvest verticals, which have been the core strength of Sonata in the prior times, which is retail manufacturing and distribution and TMT, we will continue to leverage our strengths build over the many years and we are excited that our teams won our first Gen AI project for a Fortune 25 technology company to accelerate their ability to bring new products and features to the market and be right first time in a complex engineering environment.

As I mentioned last quarter, we are seeing softness in high tech industries for a few select clients, both large and mid-size, where the growth has have reduced. For TMT sector, we remain positive, but are monitoring these decision delays that have hit us and the industry in general.

Let me provide an update on scale. We're making significant bets in AI and Gen AI. Gen AI has the potential to transform the way companies interact with customers and drive business growth. However, business needs to adhere to regulations relevant to their respective industries, and there are legal, financial and ethical implications in the content generated when it is inaccurate, inaccessible, hallucinating or offensive.

Our clients are looking for a trusted way to use these technologies. As such, we have recently launched Harmony.AI, a responsible first AI offering with a bouquet of industry solutions, service delivery platforms, and accelerators using generative AI techniques. The responsible by AI design approach ensures uncompromising ethics, trust, and privacy. Sonata has trained over 20% of its engineers to deliver tailored solutions to clients and services to its clients. Second, Microsoft Fabrics. Sonata is Microsoft's only SI launch partner from India for their recently launched Microsoft Fabric.

And the emphasis here is on only a SI launch partner from India because we believe we are in a unique position and a pole position as they build out their Fabric infrastructure. Fabric is a data analytics platform for the era of AI. Our teams of over 300 data engineers are enabling customers of Microsoft and hours together to leverage this new paradigm of end-to-end analytics to its SaaS platform. We are witnessing significant pipeline build in the area of fabric.

Third, join go-to-market with hyperscalers, keeping large deals focused for Sonata. We're excited to take our relationship with leading hyperscalers like Microsoft and AWS, Snowflake and Salesforce to the next level. These joint GTMs are enabling Sonata to increase and strengthen our footprint across cloud, data, and generative AI.

Our SITL business, the India business, we continue to scale our business with a sharp focus on annuity business. We are winning multi-cloud management deals in the region. We continue to hit above our expectations in the region. We're delighted with the progress you're making. In the most recent HFS Horizon report, Sonata was rated as a disruptor for data modernization services.

Let me provide an update on talent. Sonata University was launched a few quarters back and we witnessed 45% increase in enrollment and 42% employees are now Sonata Unified Engineer Program certified. To continue to build Sonata as a global firm, diversity and inclusion is a high focus area for us. Our global D&I Council continues to drive towards our goals and to increase the gender diversity for Sonata and reach a goal of 35% gender diversity by FY’26, with a special focus, and I reiterate the special focus on increasing gender diversity in senior management roles. We have work to be done there.

With that, let me provide an update on the quarter's performance. In Q1 FY’24, our international services business grew 17.5% quarter-on-quarter, which is 36.1% Y-o-Y and truly an industry leading growth. Organically 4% quarter-on-quarter and 15.8% Y-on-Y. In constant currency terms, we witnessed 17.4% quarter-on-quarter, 36.4% Y-o-Y, organically constant currency 3.8% Q-o-Q and 16% Y-o-Y. Q1 24 consolidate PAT grew at 5.5% sequentially. Operating margins before FX and other income for the business -- international business were at 21.1% and gross contribution from a domestic business grew 6.4% sequentially and 21.8% Y-o-Y.

In Q1, we now have 11 clients generating more than 5 million revenue for Sonata. And that number is significant for us because that number stood at five clients, more than 5 million, same time last year. So, we have added six clients with an annual rate of more than 5 million for Sonata in the last one year.

As promised, from this quarter onwards, we will share our order book performance. So, in Q1, we had a strong order booking of 1.2 book-to-bill in the international services revenue and that is after normalizing the large deals. We felt if we add large deals, the book-to-bill ratio will look very high. So, normalizing them, we did 1.2 factor of book-to-bill. We added 237 net headcount in the company in the course of the quarter.

So, in summary, we continue to remain optimistic about our long-term growth prospects. In FY24, we will have two tailwinds and one potential headwind. The tailwind of multiple large deals, which are in transition now, will continue to accelerate Sonata. The Quant system acquisition will continue to propel our growth. The potential headwind, which is in the softness in TMT vertical in our some select clients, will continue to be a headwind, at least for now.

All in, we expect to stay in the top 25 quartile performance, which is what we have promised to you, go forward as well. Our focus on modernization is enabling us to win large deals and opening enterprise-grade logos, which enabled the 5 million revenue of large accounts to grow from 5 to 11. This is the PlayBig sonata. We are working judiciously towards our stated goals and we are very excited about it. Thank you. With that, let me turn it over to Jagan for his comments on our financial performance. Jagan.

**Jagannathan CN:** Thank you, Samir. Thank you for the overview. Good morning, good afternoon, good evening all. We had a very exciting quarter, delivered yet another industry-leading performance. It's my pleasure to present the Q1 financial performance. So, in Q1 revenue grew, dollar revenue grew by 17.5 percentage and year-on-year, this was quarter-on-quarter growth and year-on-year was 36.1 percentage.

In rupee term it was 18.8 percentage quarter-on-quarter and 45.1 percentage year-on- year and in constant currency term we have witnessed 17.4% quarter-on-quarter growth and 36.4% year-on-year. Other metrics, consolidated EPS in quarter 1 was INR8.66 paisa per share, in Q4 it was INR8.2 per share, which grew 5.6% quarter-on-quarter and 11.3% year-on-year.

At console level, ROC stood at 37% and return on net worth stood at 36.5% percentage, both have increased respectively. Profitability, the consolidated profits, the consolidated profit grew -- consolidated profit grew quarter-on-quarter 5.5 percentage and year-on-year 11.4. And coming to the international services, international services, the EBITDA before forex and other income was 21.1 percentage against 20.7% in quarter-on-quarter and we have at present in this quarter, we have also given, because there were a lot of movements in last quarter and current quarter, particularly with the acquisition, acquisition costs involved.

To give a clarity, we have given a walkthrough, both in PAT at the consolidated and international level. The exceptional headwinds related to M&A, full quarter net amortization impact was about INR26 crores including loan amortization and other things and so that interest on loan will be reduced -- will have to be reduced in two quarters, three quarters after the repayment comes into play. The interest on deferred consideration will come down after the first payment in February of 2024. And coming to this international, from international to domestic business, the domestic business continues to grow very, very strongly.

The gross contribution has been INR61.8 crores, which grew 6.4% quarter-on-quarter, and 22% year-on-year. Domestic, the OAT business has grown 3% quarter-on-quarter, and 26% year-on-year, the PAT growth. So utilization and transfer business stood at 82.7%. We added 10 new customers. We had a 20 client concentration, improved to 69% in quarter one. And million one to three million, we have 45 customers now. Three to five million is five. As Samir mentioned, more than five million is about 11 customers.

We have shared the details of all these things, including the headcount. Headcount, as Sameer mentioned, is now 6,429 in Q4, so 6,666 in Q1. Net headcount addition of 237. This indicates a very strong growth in the coming days. We have three large deals that is going on. That large deals are in transition stage and this transition is expected to get into a normal revenue growth mode in the couple of quarters coming now.

So we have a very, very strong, we have given the details of vertical mix, revenue by vertical mix and revenue by go to market mix also in our presentation, which will be uploaded in our website in the coming days. We continue to do the good performance, industry leading performance with our investments in the growth and as mentioned by us, we continue to invest in the growth areas particularly AI and other new areas that is coming in, fabric particularly, which is going to help us to continue to be having in the top 25 percentile growth in the industry. Thank you. Handing over back for the questions.

**Moderator:** Thank you very much. First question is from the line of Baidik Sarkar from UNIFI Capital. Please go ahead.

**Baidik Sarkar:** Samir, gentlemen, good morning and congrats on a fantastic quarter. Great numbers. A couple of questions. First off, Samir, you mentioned the last time we interacted that, your ability to grow was irrespective of the macros and purely a function of your bottom up and that seems to be playing out it before. My question is, would you still stand by that statement as the macros stand today? What is your sense?

And B, if you could give us a sense of what the large deal pipeline in our network looks like today and the incremental conversations that you've had for them and that's the direction of those conversations in terms of closure and size and how things given what's happening in the last 90 days?

**Samir Dhir:** Baidik, thank you and yes, I still stand by what we said earlier I think clearly there are macroeconomic headwinds but as you can see even in even in the most recent quarter, organically also we have grown 4% quarter-on-quarter. And if you compare that to results across our competitors, we feel pretty happy about what we accomplished. And we believe, given the momentum that we have built on modernization engineering, AI, and large deals, we can continue in the top 25% quartile performance of the industry and keep getting better at it.

As far as the question about large deals is concerned, these, our large deal pipeline now stands about 40%. This number was in mid-teens, same time last year. So we moved quite significantly in that sense. And the deals that we have won are of different shades and sizes, Baidik. Some of the deals, for example, the mega deal, we announced is a 10-year deal. The large tour operator deal is about a five-year deal. And the European largest deal ever that we just announced is nearly a 2.5 years-three-years deal.

So these are multi-year contracts and the transition is going on right now and like I said in about two quarters or so we think as the transition is completed, we'll start to see those numbers come in our revenue. And that's one of our significant vectors to really go against the industry green because as we close these large deals as there's fatigue sinking in with the generation run companies, we believe we can take a wallet share aggressively, Baidik.

**Baidik Sarkar:** Lovely. That's good to know. Just a couple of good follow-ups. You know, is it then fair to assume that the transition that's underway across most of the large deals, they may not be a significant part of this 4% that we've grown this quarter? Or would you caution against that?

**Samir Dhir:** There is some revenue in this quarter, but they will progressively ramp up in Q2 and Q3 all the three deals. They will continue to progress as ramp up but there's some revenue in the current quarter as well.

**Baidik Sarkar:** So that basically means that, even if you go to net off the softness coming from your TMT's coming from your high-tech vertical. It would still not tinker materially with a systemic growth rates of the genre. Is that triangulation then right?

**Samir Dhir:** That's how we are thinking about it, Baidik. The reason we think we can continue with the top 25% quartile is really at the back of the deals that we are winning, which are pretty substantive in nature. And we believe if there is any headwind, we can offset through a large deal. But you know, we are watching the market closely. The market is rapidly changing. But actually our belief right now Baidik and be feel very confident about where we're heading with this.

**Baidik Sarkar:** Sure. I'm sorry if I missed this in the opening remarks, but the new project in the domestic product business towards larger deals. Could you please flesh out that, that time, could you please flesh out the opportunity again? My apologies if I missed it in the opening comments.

**Samir Dhir:** Yes. we've talked about, we want to get into multi-cloud engagements in the domestic business. And Sujit and his team are really focused on building that capability out to help us pivot in that side. And that's a refresh of the strategy we did last year. But let me request Sujit to chime in that, Sujit, if you can just some further color on that, please.

**Sujit Mohanty:** Yes, can you hear me, please?

**Samir Dhir:** Yes, Sujit, go ahead.

**Sujit Mohanty:** Yes, so basically, as most of the business is now shifting to the cloud, if you have to get into the larger deals and make good profit out of it, what we need is larger consumption. Because the more the consumption, you get more money out of it and most of the large OEMs also try to incentivize on that. And that is the reason why we are not only just selling the platform, we are also trying to get into the engagement with customers, where we manage the platforms.

And while doing so, if you see the current market scenario, most of the enterprise customers, they are not only depending on one kind of cloud, they are going for multiple cloud platforms. And when they go for multiple cloud platforms, there is a little bit of more challenge in terms of managing this whole cloud infrastructure, managing the cost structure, and making sure that, the customer exactly know in which of the business areas, what kind of cost is being incurred on the cloud, or how it is being managed.

So this is something which most of the customer expect a good partner to work with them. And that is what the GTM currently we're working out. And that is one of the way to get into the much larger deal, not only get into it, but also hold on to the deal for a longer time and manage it. Is that clear?

**Baidik Sarkar:** So that sounds good. Thank you so much, gentlemen. You know, great quarter and my best wishes ahead. Thank you.

**Sujit Mohanty:** Thanks.

**Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** Hi, sir. Good morning. First is on the retail CPG manufacturing vertical. So we were hoping that the large deal which we announced earlier would ramp up and contribute significantly to this vertical, the 160 million I'm referring to. So is the ramp up complete there? And if yes, where do we see the movement in your vertical break up there?

**Jagannathan CN:** Mohit, as mentioned by Samir, this is an ultra large deal. So it will take a couple of quarters for the ramping up, full ramping up to happen. This quarter, from quarter one, there has been a transition going on. Three tracks of transitions are there in that. The first two tracks of transition are going on in that. So the ramp up is going to take a couple of quarters more. There is a revenue, as we mentioned, definitely there is a revenue from them but the full run will start only after couple of quarters mostly that. That is the reason why that retail has not seen the full impact of that.

**Mohit Jain:** Okay and adjusted for that whatever benefit you have got, how is the movement in retail and what is the outlook there?

**Jagannathan CN:** See, we have not seen any major negative Mohit, on that, we are going on because the retail sector is actually for us earlier had a lot of dynamics business in that, couple of large projects have gotten over so which is like an abrasion, we will continue to do that because we are very, very strong in that area, we will continue to grow in that vertical, not seeing any major negative at present.

**Mohit Jain:** Okay and sir, second was on the margin front for IT services. There was this drop on a Y-o-Y basis say around 300 basis points on the IT services margin. Now I am assuming wage hike etcetera, are behind us, given that we follow a little different strategies. So how should we see, and is there a one-off this quarter, meaning in this quarter margins as well, as far as M&A integration costs are concerned, and how should we see the trajectory going forward?

**Jagannathan CN:** Yes, okay. So what is the movement at the EBITDA level for the international businesses, which I'll be uploading in the website soon, is actually the merit salary increases had about 60 bps of impact. And there was a positive impact from last quarter's one-time mess and incremental EBITDA growth. These two gave about 4.08% positive.

And we had the large deal transition, whatever is the three large deals that are going on now and their transition is happening, which had about 1.5% of impact for this quarter and this may continue as we mentioned, maybe continuing for the next couple of quarters. After that, this we will be recovering back these large deal impact.

And the strategic investment, we have announced our AI initiatives as well as the Microsoft Fabric. So our investment on this is continuing. That had an impact of around 1.6% on this, on our EBITDA movement. We will be uploading the details, Mohit, in the website. You can take it from there.

**Mohit Jain:** Right, so going ahead now, this is a new base for EBITDA and we'll gradually improve from here. I'm assuming AI investments will continue for some time. AI is largely…

**Jagannathan CN:** Yes, AI and fabric investment is going to continue for some time, but the large deal after a couple of quarters will improve. We'll come back.

**Mohit Jain:** All right, sir. Thank you. That's all from my side.

**Moderator:** Thank you. The next question is from the line of Tushar from Incred Capital. Please go ahead.

**Tushar:** Hi, thank you for the opportunity. So I have a couple of questions. So my first question is related to the color on the normalized book to bin, how it has grown as compared to last quarter, and even on a Y-o-Y basis. And what is the benchmark related to the large deal, any quantum will be great. And my third question is related to headwind on the TMT vertical.

So is that headwind specifically to high-tech vertical, or is it also pertinent to media and telecommunications vertical also? And my last question is regarding Microsoft Dynamics. Sir, in this quarter, the sequential weakness was pretty sharp, it seems. So the weakness is x retain, or is there anything more to have it?

**Samir Dhir:** Yes, thank you, Tushar. I think there are a few points I'll make, and then turn it over to Jagan to add additional. So the order book, as you know, is a new framework we put in place in the company in the last couple of quarters. And we don't have a reference point of our performance last year because this is a full tracking we have put in place.

This is a request for all of you, so we put that in place now. Now we expect the order book to be in the zone of 1.2 to 1.3 even go forward. This quarter we came in around 1.2, which I think is a pretty strong outcome for us and we have normalized it for large deals because one large deal can skew that metric up quite significantly.

To the second part of your question on TMT, yes, the short answer is the weakness we are seeing or the softness we are seeing in decision delays is only in high-tech, not in media and telecom. I think our softness is primarily high-tech oriented, and that too is centered in the US. The third point on dynamics, it's a seasonal effect as you know Microsoft financially year runs and completes in June end and then they start the new wave of investments in July.

So what softness we have seen is found on two counts. Number one, some of our large programs came to an end in Dynamics and second, the new programs haven't really kicked off in last quarter. But the large deal we just announced in Europe, which is the largest European deal, is a dynamics deal and that will start to kick off in Q2 and Q3 timeframes. So that will bring the numbers back up. So it's a seasonal effect that we are seeing in dynamics numbers, Tushar. Jagan, if you want to add something.

**Jagannathan CN:** On the order book, as Samir mentioned, we have normalized for the large deal, means we are not including the entire amount. We have just taken the revenue instead of that and added. So it's a conservative method of publishing the order book. And we continue to do very well in that. We are one of the leading in that trend. Compared to last quarter, which we had a track, we had a very, very strong presence in this quarter. In spite of last quarter, we're getting a large deal also. The few mega deals, we got last quarter. Still this quarter, again, we have done well.

On this dynamics program, we are not concerned, because the dynamics is generally a good. We are doing well there consistently for many quarters now. This quarter, we do large programs, and ANZ got it towards the end of completion stage of projects are. Hence, there seems to be a small change in that. We are very confident, we will bounce back in that. That's what we will do well.

**Tushar:** Thank you, sir and best wishes.

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

**Vipilkumar Shah:** Hi sir, congratulations for a very good set of numbers. Can you give the net debt at the end of the quarter?

**Jagannathan CN:** What is that?

**Vipilkumar Shah:** Net debt?

**Jagannathan CN:** Net debt is around USD52 million in US.

**Vipilkumar Shah:** USD52 million US. So what should be penciling in steady state finance cost per quarter?

**Jagannathan CN:** The finance cost, there are two elements of finance cost is there. One is the loan interest on loan, which is about INR5 crores per quarter. And we also have the accounting entry that is for a deferred payment amount, which we are going to pay as an earn out for in February of 2024 and February of 2025 and August of 2025.

Three payments are there. That amount, we have to accrue interest because we have to discount that amount to the present value. That will also be shown as an interest cost for us. That amount is actually about INR11 crores, in that INR10.5 crores, INR11 crores is there. And amortization amount is there. Total, all put together, it's about INR33 crores impact in PAT.

**Vipilkumar Shah:** So this will be steady per quarter going forward?

**Jagannathan CN:** INR33 crores steady till January of 2024, February of 2024 that quarter it will get from next year Q1. The interest on the deferred payment will come down as well as the loan interest amount will come down as we start paying, repaying the loan.

**Vipilkumar Shah:** And sir, I missed your margin walk comments that 300 basis point reduction in margin, so would you repeat the main factors, main positive and negative factors which...

**Jagannathan CN:** Yes. The WACC on EBITDA for international business, we grew from 20.7% to 21.1%. The major headwinds were salary increase with 60 bps. We had large deals because of the large deals, there is a, no, the revenue has not ramped, cost as we continue to incur, that is about 150 bps, 1.5% and our investment in AI and Microsoft Fabric is about 1.6%. This large deal in couple of quarters, it will get un-winded.

**Vipilkumar Shah:** Okay, and sir, lastly means in absolute numbers, what should be our investment in this Microsoft Fabrics and Gen AI?

**Jagannathan CN:** We will at least for some couple know few quarters our expectation is at least this is going to continue for about 18 months. One quarter is over another four quarters to five quarters of investment is going to continue in this space because there is a huge opportunity. What we believe is both Gen AI as well as Microsoft Fabric will be the next selling point after Dynamics for us.

**Vipilkumar Shah:** That means what should be the total investment in rupees of crores, if you can quantify that figure, if it is possible?

**Jagannathan CN:** We have already highlighted, it's going to continue to be 1.5% to 2% of EBITDA, every quarter-on-quarter.

**Vipilkumar Shah:** Okay, sir, thank you and all the best.

**Moderator:** Thank you. The next question is in the line of Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** Yes. Hi, sir. And thanks for the opportunity. Sir, my question is, if you can quantify the contribution from Quant in this quarter, because if I calculate, the revenue from Quant that we have in this quarter, so the run rate seems to be a little lower than the revenue like the run rate that we had for Quant. So that is the first question.

Second is in terms of order books, some more clarity that is required is that, how do we define the order book? So, based on the calculation, the order book is around 93 million. So is it the total TCV number, which includes the renewal plus the new deals or is it only the net new wins that we are announcing? And as you mentioned that, we have normalized the order book, so is it fair to assume that, this number is executable over the next 12 months?

**Samir Dhir:** Yes, Amit, thanks for the question. There are multiple questions. Let me go one-by-one. So as far as Quant is concerned, like we earlier said, Quant grew about 7.2% sequentially quarter-on-quarter. But there's a very important point to note there that the Quant accounts that are scaling up for us are being driven from a sales and marketing and delivery perspective by the Sonata teams now.

So at this point in time, it's very hard for us to segregate the numbers between Quant and Sonata because, as you know, Quant had just one salesperson in the whole team, so we had to invest a lot of Sonata manpower into scaling that part of the business. And the good thing is we have seen in the last three months or four months now about a USD100 billion pipeline build and some fairly large deals inside that USD100 billion as well, which I think is a good sign for us collectively. So at this point in time, it's a truly integrated entity for Sonata from a go-forward perspective.

As far as your point about order book is concerned, let me make sure we get this clear. So this includes both renewals and net new business, Amit. What we have done is the large deals, because we have closed three or four large deals recently, and one of them is Mega, they can skew the numbers in a positive way significantly. So the revenue expected from these deals is equal to order book, so that we don't have an exceptional balloon going in the numbers. But apart from that, it does include renewals as well as net new business in the numbers that we're talking about. So hopefully that answers, Jagan, if you want to add something?

**Jagannathan CN:** No, that Quant perspective, but just to give a confirmation, what we mentioned last quarter when we acquired was, they will have a yearly growth of more than 30 percentage annual growth, plus EBITDA of more than 30 percentage. It continues to be there. No doubt about that.

**Amit Chandra:** Okay. And sir, like, one more question on the Microsoft Dynamics part. So now typically the Microsoft renewables happen in the month of July. So any color you can give on how the renewal cycle has been there because I think, in terms of their budgeting, it is already being done?

**Samir Dhir:** Yes, so Amit, let me repeat it again. I think the Microsoft Dynamic side, the process is actually happening as we speak. July 1, they announced their new fiscal year and the sales teams in Microsoft go through some changes. So by mid-August, that whole thing will settle down and post that, the contract, etcetera, will get accelerated from there on. So we are not worried. This is a seasonal cycle. It generally is Q1 soft for us and in Q2 back half it sort of picks up the whole order book side. Like I said, in spite and despite of that the pipeline that we had with Microsoft already is also closing out. So the large deal we just announced in Europe is a dynamics deal, which is the largest ever deal for Sonata.

So it's a mixed bag the net new pipeline addition is a back a back half of Q2 activity, but the pipeline we already had will continue to flow as planned.

**Amit Chandra:** Okay, sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

**Jay Daniel:** Yes, sir. This is more of an accounting question. I kind of missed it. So in case of finance cost and depreciation, can you give a breakup of, there are some accounting related non-cash items that you are adding there. So if you could give us a break up of what is there in finance cost and what is there in depreciation, please? Finance cost is 20.83 and a depreciation is 31. I think, there are some like, your deferred revenue -- deferred payment, all these are non-cash and more of accounting. So if you could give us a break-up? And even in depreciation, I think there's some amortization and stuff there?

**Jagannathan CN:** Yes. One second. Depreciation, it's amortization of intangible is about INR16.8 crores every quarter. Interest on acquisition loans, what actual loan what we have taken last quarter, that is about INR6.5 crores.

**Jay Daniel:** Because you said, INR5 crores sometime back?

**Jagannathan CN:** Yes, that is interest on acquisition loan actually it has an impact of -- sorry for that number it INR6.5 crores it is. And unwinding of interest on deferred consideration is INR10.6 crores. So the total impact is INR33.8 crores.

**Jay Daniel:** INR33.8 crores is what? I mean, including both depreciation and finance cost?

**Jagannathan CN:** Actually, we have to understand a little bit of accounting part of it in this. When we capitalize, when we acquire a company, the net asset of the services company will be lower. So the balance amount earlier used to be called as goodwill. Now you can't call everything as a goodwill. You have to recognize the intangible assets which is lying there, including customer contracts, IPs and other things whatever is there. So that's a valuation methodology, external value does that and arrive at the intangible assets. That intangible assets has a life. So which the valuer gives to you, based on that you have to amortize over the life of that whatever he has given it. It is not -- it has nothing to do with what we do, it's an external value as certificate. Apart from it…

**Jay Daniel:** So this INR31 crores includes how much of that? INR16.8 crores?

**Jagannathan CN:** INR16.8 crores, you are right.

**Jay Daniel:** Okay, and the balance is normal depreciation?

**Jagannathan CN:** No, one second. The balance is, there is a loan interest, which I paid to the bank.

**Jay Daniel:** So that will come as interest finance cost?

**Jagannathan CN:** Finance cost, that will come as finance cost. INR6.5 crores.

**Jay Daniel:** No, I am talking of this INR31.2 crores as INR16.8 crores of write-off intangibles, right? Amortization…

**Jagannathan CN:** Yes. INR16.8 crores is amortization and there is an unwinding of interest on deferred consideration. That is INR10.6 crores.

**Jay Daniel:** That is also included under depreciation.

**Jagannathan CN:** That is also included in the amortization in the interest cost only that is comes under interest cost.

**Jay Daniel:** That so in this INR31.2 crores minus INR16.8 crores is removed so the balance is your normal depreciation, correct?

**Jagannathan CN:** It will be a normal depreciation. I have to give you the breakup. I don't have a breakup with me. I'm not seeing the depreciation amount but these are the costs is lying between interest and depreciation.

**Jay Daniel:** Okay. And in finance cost is INR20.83 crores, you're saying actual interest is only INR6.5 crores and the balance is deferred…

**Jagannathan CN:** Differed revenue, correct.

**Jay Daniel:** So only INR6.5 crores is actual interest cost that you will have to pay out?

**Jagannathan CN:** Correct. The depreciation amount, what you said, may have amortization from our earlier acquisitions also. We have acquired Encore, we have acquired Scalable and all these things, right? They also have amortization coming in.

**Jay Daniel:** Correct.

**Jagannathan CN:** Yes, so depreciation should be lesser than that. I can give the breakup offline for that.

**Jay Daniel:** Okay, thank you very much.

**Jagannathan CN:** Yes, sure.

**Moderator:** Thank you. We have a follow-up question from the line of Jay Daniel from Entropy Advisors. Please go ahead.

**Jay Daniel:** Sir, just a suggestion. I mean, if you could give this breakup as part of a presentation because it has a material impact on your PAT growth. So you know, we could adjust it to find out actual PAT movement if it's possible?

**Jagannathan CN:** Sure, sure. We can give that.

**Jay Daniel** Thank you very much.

**Moderator:** Thank you. The next question is a follow-up question from the line of Vipilkumar Shah from Sumangal Investments. Please go ahead.

**Vipilkumar Shah:** Hi sir, so you define large deals as deal with more than 50 million, sir?

**Samir Dhir:** No, we haven't really defined the large deal threshold because they range in shape and size and color. But generally speaking, they are multi-million dollar -- multi-year contracts, multi-million dollar contracts. As you know, the largest one we announced was 160 million but large single digits is really what you think of as a cut-off and as a large deal that we think about. But it could be anywhere between 5 million to 20 million to 50 million they can all be of different shapes and sizes but they are essentially multi-year contracts.

**Vipilkumar Shah:** And just for the sake of repetition, so these large deals, you have not considered in your, this bill to book ratio, right sir?

**Samir Dhir:** We have considered only to the extent we expect revenue in the quarter, but the overall TCV is not taken into book to bill, yes.

**Vipilkumar Shah:** And final question for Mr. Jagan. So I'm a little confused because I'm not an accounting guy. So what will be the cash charge in the finance, which will be debited to P&L and what will be non-cash per quarter?

**Jagannathan CN:** No, there are multiple elements in the cash and non-cash elements, okay. But if you ask the elements what I called out, in that only the interest on bank loan which will be about INR6.5 crores, that is only cash element. The rest of the things are amortized, no accounting entries.

**Vipilkumar Shah:** Okay, thanks for the clarification sir.

**Moderator:** Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

**Mihir Manohar:** Yes, sure, thanks for giving the opportunity. So just lastly, wanted to understand, I mean, on this amortization part, I mean, there are three details that you gave. One is the amortization intangibles, which is INR16.8 crores, the interest on loan, INR6.5 crores, and unwinding of interest of INR10.5 crores. So I mean, if you can just clarify, you mentioned that till January '24, certain part of this cost will sit and after January '24, a certain part will go out. So, if you can provide just some clarity as to what part will sit for how much period, that will be helpful?

I mean, the second question was on the M&A front, I mean, beyond acquiring -- after acquiring Quant Systems, what are the areas that we are looking to acquire capabilities that will be really helpful? So just wanted to understand those three parts.

**Samir Dhir:** Mihir, I'll take the second question and I'll let Jagan respond to the first one. This is Samir. On the M&A side, our strategy is really straightforward. As you know, we're building a modernization engineering company as we move forward, which is essentially focused on app modernization, data and cloud modernization. So a core part of that lookout is in that area.

And second, we are looking also for companies who have clients in the InvITs vertical specifically, which is healthcare life sciences and BFSI. And lastly, in the geographies of predominantly US, UK and Europe, would be a prominent focus in those three axis, Mihir. With that, let me turn it to Jagan for the first part of the question, Mihir.

**Jagannathan CN:** Okay. On the -- there are three elements to this intangible assets that will take time to wind down here. So it is going to be like an average age of these intangible assets will be somewhere between seven years to 10 years. So it will take time over a period of time, it will get unwinded and but once the unwinding happens after some stage the amount of amount which is deferred can also little modify get a little bit modified on this over a period of time, but it will continue to be there. Interest on -- the unwinding of the interest on deferred consideration almost like a 50% of that will be paid in February 2024.

So this amount will start coming down from Q1 of next year by a decent amount of money. And once the -- all the acquisition cost has been paid off, this amount will get completely unwinded. So this is question of two years for this to be unwinded. One major portion will get unwinded in this after Q1 -- in Q1 of the coming next year, means April '25 after that it will get unwinded, one major portion.

On the interest on loan amount, as mentioned by us, we are planning to repay the between 12 months to 15 months' time, what we have taken initially for the acquisition, that interest also will come down. But the cost of that will start coming down once we start repaying the loan.

**Mihir Manohar:** Sure, sir. Understood. That's it for my side. Thank you very much, sir.

**Moderator:** Thank you. The next question is in the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta:** Thanks for the opportunity. Two, three questions. First about the book-to-bill. You try to give some explanation, but I am yet not clear. So in book-to-bill generally, or order book is the numerator and then the revenue you have is in denominator. You said, you adjust quarterly revenue in terms of denominator. So similar quarter revenue you are subtracting from numerator that's what you are trying to convey in a way you are doing ACV adjustment that is right understanding? That is question one.

Question two is about I think, we mentioned 10 mega account kind of focus and all those things. If you can help us understand what kind of investment which we are making in the account related thing? So if you can provide whichever way you can give some color about this 10 mega account focus? And how we want to widen the number of account there?

Third question is about large deal win. I think in one of the slide, you mentioned seven large deal in flight. I'm not clear what it means, whether it means that they are in pipeline or if you can provide some color? And if they are in pipeline, if you can provide some sense about overall opportunity? Thanks.

**Samir Dhir:** Thank you, Dipesh. There's a lot of questions, parts of that. So number one, on the book-to-bill, the way you described it is exactly right. That's what we said earlier. We have normalized it for the order book as well as the revenue line. So both numerator and denominator are normalized to that extent so that we don't have a spike to show in the numbers. The book-to-bill will look more than two or three. It will look very, very high. So that's the first part.

The second part on the 10 investment account, I think there are two, three parts there. As you know, we changed significantly our top 10 accounts already this year because of the Quant acquisition. But beyond that, we made investments in our sales and marketing, we made investments in our partner relationships, and we made investments in what Jagan talked about earlier, in AI and Fabric.

So a combination of these factors will help us propel and change significantly our top 10 that we see today to the top 10 that will be there next year or in time to come. And that color has been changing in the last 10 months, 12 months as well. We think we are on a trajectory. We'll continue to change that. And our expectation is that in several quarters' time, we'll as we scale the platform to be a USD500 million platform, we have top 10 which are predominantly speaking multi-billion dollar revenue companies in our top 10.

And the last part on the large deal, you're absolutely right, the seven large deals which are on horizon, they are pipeline deals, they are beyond the three deals we just talked about. So the two wins in this quarter and the one mega deal are already won. The seven that are mentioned in the document are in the pipeline stages. Now these deals are progressively win. Generally speaking, the large deal closure cycle is between 2.5 quarters to 3 quarters. So over the next two quarters to three quarters, we'll see some of these deals trickle in depending on where they are in their cycle. Hopefully that clarifies, Dipesh.

**Dipesh Mehta:** Yes that clarifies, just on the mega account and account related thing. So if you can help us understand because it appears we might have a changing account which will happen over next few quarter before it's stabilized when we are let's say, have exposure to relatively large client and then it will be more steady kind of finding. That is the right way to understand it?

**Samir Dhir:** That's right, correct. In short, yes.

**Dipesh Mehta:** Okay. And to achieve that, if you can help us, how we are expanding our service offering? Because that is one crucial thing. If you can provide some maybe short answer to that? Thanks.

**Samir Dhir:** Yes. So, much like, if you think of the core areas of Sonata today, Microsoft technologies is a core part of our focus area. That's point number one. Point number two, we are very strong in AWS, which is what we're building out. Third and fourth in the same category is Snowflake and Salesforce.com. So those are the top 4 in that order. But beyond that, our capabilities in GenAI and Fabric is what we are really excited about. As we move forward, we want to invest in them so we can take disproportionate amount of market share in these areas.

**Moderator:** Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

**Sameer Dosani:** Hey, thanks. Thanks for the opportunity. Just one thing to clarify. So if you look at the normalized margins last quarter, I think it was around 24.3% for international IT services business. And now we are operating at 19.3. Correct me if I'm wrong. And if you can just clarify the breakup, 60 basis point is from salary hike, 160 is due to the investment? Can you just give us the break again for this 5 percentage drop?

**Jagannathan CN:** See last quarter, our reported EBITDA was 20.7 percentage, Sameer. From that, we had a salary increase, it had a 60 basis point impact and the strategic investment was 160 basis point and mega large deal which is in the transition stage that had a 1.5 percentage impact. The benefit what we have got out of this, the incremental revenue growth that has given us 140 bps of plus whatever we acquired entity all put together, it has given about 140 bps of benefit to us. That's a tailwind. And one time or last time we had an impact of 2.68 percentage, one time as we have mentioned last time. So if I --that is a tailwind for us. So the total tailwind is about 4.08% and total headwind is about 3.7 percentage.

**Sameer Dosani:** Understood. And how should we think about the margins from here? I mean, we have in the past spoken about 20% to 22% margin band. Now how should we think about this margin now? Thanks.

**Jagannathan CN:** Yes, the strategic investment is going to continue for about five quarters to six quarters, Sameer. We have mentioned that earlier also and we continue to invest because it is a great opportunity for us in both these areas, AI and Fabric. We will continue to invest on that. And with regard to this large deal transition it may be there for two quarters, three quarters. By end of this year, it will get unwinded or get into the benefit zone. So we may not have the impact after two quarters, three quarters on the large deal. So that's how it works.

**Sameer Dosani:** Understood. Thanks for this clarification and good luck.

**Jagannathan CN:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Samir Dhir for closing comments. Thank you and over to you, sir.

**Samir Dhir:** So, thank you and really appreciate you all joining us today. Like I said earlier, we are very excited about what's in front of us. Clearly, the market, especially in the high-tech sector, there has been distinct delays, but beyond that, we continue to see good momentum in our business, really backed by the large deals that we are winning, and excited about what future holds for us. We expect to be in the top 25% quartile performance like we have maintained in the last four quarters. We believe that's where we will be in the course of this quarter. So once again, thank you for your support and we'll speak to you in a quarter's time. Thank you.

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