13th May, 2025

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Mumbai
Kind Attn: Manager, Listing Department
Stock Code – SONATSOFTW

BSE Limited
P.J. Towers, Dalal Street, Mumbai
Kind Attn: Manager, Listing Department
Stock Code - 532221

Dear Sirs/Madam,

SUB: TRANSCRIPT OF ANALYSTS/INVESTORS CALL
REF: REGULATION 46(2)(OA) OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Further to our disclosures dated 30th April, 2025 and 7th May, 2025, please find enclosed Transcript of Analyst/Investor call of the Company held on 7th May, 2025. The same is also made available on the website of the Company at https://www.sonata-software.com/about-us/investor-relations.

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,

For Sonata Software Limited

Mangal Krishnarao Kulkarni
Digitally signed by Mangal Krishnarao Kulkarni
Date: 2025.05.13 18:29:25 +05'30'

Mangal Kulkarni
Company Secretary, Compliance Officer and Head Legal

Encl.: As above

"Sonata Software Limited

Q4 FY 2024-'25Earnings Conference Call"

May 07, 2025

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

Moderator: Ladies and gentlemen, good day and welcome to the Sonata Software Limited Earnings Call for Q4 FY 2024-25. 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 touch-tone phone.

Please note that this conference is being recorded. Today we have with us on the call Mr. Samir Dhir, CEO and Mr. Jagannathan Chakraborty, CFO. I now hand the conference over to Mr. Samir Dhir, CEO of Sonata Software Limited. Thank you and over to you, sir.

Samir Dhir: Thank you, moderator. Welcome and thank you for joining us today. We appreciate your time and continued support. In this session, we will walk you through Sonata's strategy, the progress we have made over the recent quarters, our strategic roadmap and the financial results for Q4'25 which ended on March 31, 2025.

It's a pleasure to share the momentum we are building around our long-term vision and growth trajectory. I'll begin with an update on our strategic priorities and goals followed by a review of our performance in FY '25 and take a closer look at our Q4 performance.

First things first, let's talk about our strategy and goals. Our ambition is to be a differentiated modernization engineering firm powered by a proprietary platformation framework, AI-driven solutions and modern technologies. We continue to scale and execute across our strategic focus areas of four key verticals which is healthcare life sciences, banking financial services, retail manufacturing and Technology, Media and Telecom which is TMT.

And across five core geographies which is North America, UK, Europe, India and Australia. We continue to drive relentless investment in modernization engineering with our differentiated IP, lightning tools and robust offerings. We remain focused on delivering transformative value aligned to our client's modernization priorities.

FY '25 was a defining year. We deepened our capabilities in data, AI and modernization engineering. We expanded our presence in BFSI and healthcare life sciences and we continue to run large deals, deals which are strategic to Sonata.

We made this progress despite facing headwinds in retail and manufacturing verticals, budget cuts in the second half of the year from our largest client and broader macroeconomics uncertainty. While we didn't grow at the pace of the prior two years, we have built a strong foundation for growth as we continue to diversify our business.

Looking ahead to the next three to five years, our ambition is to be a top quartile growth company, helping clients achieve their modernization goals. We see significant potential at the intersection of AI and modernization and we believe this is our pathway to industry-leading growth. We aspire to be in the top quadrant of growth in the four industries that we compete in as a firm.

With that, let me give you a progress update on our strategic goals. Our success is anchored on three strategic pillars. First, relentless focus on winning large deals. In FY '25, we won 11 large deals, underscoring our growing relevance and transformation impact that we create for our clients.

Number two, sharp execution across the strategic verticals and geographies. Through our partnerships with Microsoft, AWS, and other ecosystem players, we opened 13 new enterprise-grade logos in FY '25, expanding our strategic client base. And number three, scaling Sonata for the next phase of growth through continued investments in AI, building our AI talent, while spending our frontline sales and solution experts in the company.

With that, let me give you an update on the large deals. Large deal pursuits remain a cornerstone of our growth, which you have seen over the last four years of our strategy. With 33% of our large deal pipeline comprising of Fortune 500 clients, I am truly pleased to share two marquee wins from FY '24 in the recent weeks.

Win number one, which is a very large deal and a material deal for Sonata to go forward. Our client is a leading American TMT company, which delivers programs for its clients on a technology platform. Sonata has been selected as a strategic technology partner to lead a comprehensive modernization program across their platforms, data services, platform transformation, Workday, Salesforce, and cybersecurity.

This marks the second-largest TCP win in Sonata's 40-year history. Let me repeat, this marks the second-largest TCP win in Sonata's 40-year history, a proud milestone for all of us Sonatians. The second win is for a global BFSI leader, who has chosen Sonata as a strategic partner to modernize and consolidate its data platform and drive application development and quality improvements.

And quality improvement here includes modernization, tech debt reduction, and evolution to AI. In both engagements, our teams differentiated with our AI-led transformation capabilities, leveraging modern engineering tools and platform-driven data modernization to deliver tangible business value.

With that, let me provide you an update on our strategic verticals, geos, and SITL business. We remain confident that our investment verticals of healthcare, life sciences, and banking and financial services will scale to $250 million of revenue in the next three to five years' time. These two verticals now contribute to 35% of our total revenue of the international business, which is up from 13% 12 quarters ago. So we have traveled the journey of 13% contribution of revenue from these two verticals to 35% of our revenue now, a testament to our focused execution and strategic investments.

Highlights of performance in these verticals, we closed 11 large deals. Out of the 11 large deals, four are in BFSI and healthcare. We've closed 13 enterprise-grade logos. Out of that, four are in healthcare and bank BFSI verticals. Industry recognition in healthcare life sciences, HFS recognized Sonata as an enterprise innovator for payer transformation capabilities. In BFSI, we were named a disruptor among the best service providers for commercial banks.

Most recently, as of last week, HFS included us as the fastest growing firm in both BFSI and HLS during the last 12 months. Our recent new logo wins the momentum. In healthcare life sciences, we onboarded one of the blues as a client to deliver a multi-year modernization program.

In BFSI, we are partnering with a leading global investment banking firm to build an AI and automation COE. In SITL, we continue to deliver strong energy-driven growth with an industry-leading ROCE of 43.2% in Q4 FY '25. We are making rapid progress in SI-driven deals, security operations center offerings, compliance programs, AI adoption across client operations.

The newly established SOC business in SITL is projected to contribute 20% of growth contribution within the next three to five years. With that, let me provide you an update on scaling of Sonata. Scale here means scaling our capabilities and our talent.

So let's talk about update on our AI and modernization. We expect AI-enabled services to contribute 20% of our revenue over the next three years, reflecting strong market traction and focused execution. We're currently pursuing $34 million pipeline in AI programs across 100 plus clients, helping them unlock value through operational efficiency gains, enhanced customer experience, and innovative business model transformation.

This year, Sonata proudly achieved AWS Generative AI Competency and became a member of the Microsoft Partner AI Council, reinforcing our leadership in enterprise-grade AI adoption. Some of our key wins in AI in the recent quarter. We opened a new logo in healthcare insurance space for a solution that comprehensively enhances consumer experience using GenAI.

One of our existing travel clients chose us to improve IT support and efficiency for their regional service desk. For a technology company undergoing transformation, AI is an integral part of a solution to automate contract loading, flexible audit rules, and operational analytics. Let me move on to our investments in cloud and data.

Cloud and data deals now continue to make 60% of our total pipeline. Demand is accelerating, particularly around Microsoft Fabric. Sonata is an official Microsoft Fabric feature partner, supporting data analytics for the AI era. Since its general availability in November 23, we have built 31 million Fabric pipelines across 70 plus clients.

Microsoft Dynamics will continue to collaborate closely with Microsoft on programmatic plays across ERP-complete, SAS-complete, and low-code, no-code-compete deals. These deals involve us migrating customers from legacy technologies to modernized Microsoft dynamic platforms.

With that, let me provide you an update on our talent and leadership capability. Our active headcount increased to 6,800 plus, up from 6,619 in Q1 of FY 25. Our LTM attrition rate stands at 14%, and we maintain a gender diversity of 31%. Despite the macroeconomic industry uncertainties, we remain committed to the future talent investments, and we on boarded 95 campus graduates during the quarter.

We have restructured our technology leadership by expanding the roles of Hanumanth and Manu Swami to jointly lead our global technology practices. This two-in-a-box model strengthens our focus, combining deep internal capability, building with sharp execution on client-specific AI transformation initiatives. This change is executed within the CTO organization. Both Hanu and Manu will continue reporting to Raj.

Sonata University continues to drive our upskilling agenda, especially in AI. Today, 97% of our workforce is trained in Gen AI, underscoring our commitment to future-ready skills and broad applicability of AI across our delivery, engineering, and consulting operations. We also scale our near-shore presence in Mexico, Malaysia, with both the centers now exceeding 100 professionals together, enabling us to serve our clients with greater agility and geographical flexibility.

During the most recent quarter, we achieved a silver rating on Ecovadis sustainability, which is awarded to the top 15% of the company. We were also recognized as the official Microsoft Fabric feature partner. Updated on M&A, Quant, which is fully integrated into Sonata now and operates as a business unit, Q4 is a seasonally weak and declined quarter for Quant, and we expect them to bounce to growth in Q1 and scale by Q2.

With that, let me provide an update on our Q4 performance. In the Q4 quarter, we witnessed de-growth in both international and domestic business. As mentioned in our previous call, we had anticipated impact of regrowth due to TMT's last client. The impact was significantly more than what we expected. As they continued budget cuts in Q4, our forecast is that from Q4 onwards, our largest client will come back to marginal growth. Seasonal softness is the momentum for Quant and SITL following a strong Q3.

For international services business, we witnessed 6.6% QoQ degrowth. However, on a full-year basis, revenue grew by 3.7% YoY. Order booking was strong. It closed book-to-bill 1.25, which is over 100 million of booking in the course of the quarter for international business.

In Q4 FY25, we won two large deals. We now have eight clients with more than 10 million revenue run rate at a company level. Our EBITDA grew sequentially as expected, grew by 1.9% to 16.5% in Q4, which is up from 14.6% in the prior quarter. We had guided for that as we announced the results last quarter. Utilization remained steady at 87%. SITL contribution degrew by 4.3% due to the seasonally weak quarter, and it was anticipated as per our readout earlier.

In summary, we remain optimistic about a long-term growth trajectory. While the upcoming period will present a mix of tailwinds and headwinds, we are well-poised to navigate both. Tailwinds include the ramp-up of our large TMT deal over the next two to three quarters, along with strong momentum in our healthcare, life sciences, and banking verticals.

At the same time, we are mindful of the headwinds, such as longer deal closure cycles and continued softness in the retail and manufacturing sectors. At Sonata, we are committed to accelerating our growth judiciously, building scales through strategic client relationships, larger deal wins, new market expansion, deeper partnerships, and continued investments in our talent.

I want to take a moment to sincerely thank all Sonatians across the globe for their dedication, hard work, and relentless focus on delivering high-quality outcomes for our clients.

With that, let me hand it over to Jagan to walk you through our financial performance, and then we'll come back to take questions. Jagan?

Jagannathan CN: Thank you, Samir, for the overview. Good morning, good afternoon, good evening, everyone. Let me walk you through our financial performance for the fourth quarter and the financial year 2025, first starting with the international services.

In financial year 2025, our international services dollar revenue stood at $335.5 million, registering a growth of 3.7% in the reported currency and 3.9% in the constant currency. Rupee revenue stood at INR2,829.7 crores, showing a growth of 5.6 %. EBITDA margin for FY25 stood at 17 %, compared to 21 % in FY24.

PAT for FY25 stood at 246.6 crores, compared to 319.8 crores in FY24. In Q4 2025 USD terms, revenue stood at $81.3 million, a degrowth of 6.6% in QoQ and 0.5% in YoY. In constant currency terms, it represented a degrowth of 7.2% QoQ and 0.3% YoY. Rupee revenue stood at INR702.3 crores, showing a degrowth of 4 % in QoQ and 3.4 % growth YoY.

QoQ de-growth is due to the seasonality in quants and weaker-than-expected performance from our largest client. Despite revenue decline sequentially, we were able to improve the EBITDA in Q4 2025. EBITDA before other income and Forex reported basis improved to 16.5 %. Q4 reported PAT stood at 62.3 crores. For the international services, ROCE stood at 16.3 % in Q4 2025, against 16.9 % in Q3 2025. The RONW stood at 19.3 % in Q4 2025, against 19 % in Q3 2025.

Starting Q4 2025, the methodology for calculating DSO has been revised to align with industry practice. Under the revised approach, DSO is calculated using trailing 12-month revenue and the current debtors balances. Our international services DSO for Q4 2025 is reported at 61 days, which is 3 days improvement from 64 days in Q3 2025.

Now let me provide you an update on domestic business. In FY25, our domestic business revenue stood at INR7,340.6 crores, which is a YoY growth of 23.4 %. Gross contribution for FY25 stood at 299.1 crores, compared to 260.4 crores in FY24, a growth of 14.8% YoY. PAT for the full year stood at INR178.1 crores, compared to 163.4 crores in FY24, YoY growth of 9 %. Domestic business revenue for Q4 '25 stood at INR1,918.2 crores, with a degrowth of 9.1% QoQ and a growth of 26.6 % YoY.

Gross contribution for Q4 '25 stood at INR78.4 crores, with degrowth of 4.3 % QoQ and growth of 21.1 % YoY. PAT for Q4 '25 stood at INR45.2 crores against INR48.1 crores in Q3 '25, with a degrowth of 6 % QoQ and growth of 12.7 % YoY.

For our domestic business also, we have updated the methodology of DSO calculation in line with industry practice. Based on the new methodology, DSO for Q4 '25 is 46 days as compared to 51 days in Q3 '25. Reported ROCE and RONW for the quarter stood at 43.2 % and 41.8 %, respectively.

Update on consolidated business. In FY'25, our consolidated business revenue stood at INR10,157.2 crores, depicting a YoY growth of 17.9 %. PAT before the exceptional item for the full year stood at INR424.7 crores compared to INR483.2 crores in FY'24. PAT post-exceptional items full year stood at INR424.7 crores in FY'25 compared to INR308.5 crores in FY'24. Consolidated EPS reported for FY'25 stood at INR15.3 per share against last year INR11.12 per share. Final dividend we have announced. We have recommended INR 4.4 per share.

Cash generation for the year continued to be strong, with operating cash flow to EBITDA improved to 93.3 %. The closing balance of cash stood at INR 707 crores for the year. For the quarterly update, consolidated revenue of Q4 stood at INR2,617.2 crores, with a degrowth of 7.9% QoQ and growth of 19.4% YoY. PAT before the exceptional item for consolidated business stood at INR107.5 crores against INR105 crores in Q3'25, growth of 2.4% QoQ and 2.6% degrowth YoY.

Consolidated EPS for Q4 '25 was INR3.87 per share, and Q3 it was INR3.78 per share, increased by 2.4% QoQ. Reported ROCE and RONW for the quarter stood at 21.9 % and 25.2%, respectively. Update on some of the operating metrics. Total headcount moved from 7,019 by end of Q3 '25 to 6,810 at the end of Q4 '25, with attrition remaining at 14 %, which was same in Q3 '25 also. Onsite offshore revenue mix has changed to 51 % and 49 % in Q4 versus 56 and 44 in Q3 '25.

Utilization remains flat at 87 % QoQ. We have added 14 new customers in Q4 '25. Top 10 clients contributed a revenue of 61 % compared to 66 % last quarter. The number of clients more than 3 million run rate in Q4 '25 is 21 numbers. It remains the same as it was in Q3 '25. For Q4 '25, order book stood at 101.6 million, which is the book to bill ratio of 1.25x. In summary, we remain confident in our long-term strategy and committed to driving sustainable growth and shareholder value. Thank you.

With that, let me turn to moderator for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mihir Manohar from Carnelian Asset Management. Mihir, I am sorry, we cannot hear you.

Mihir Manohar: Is this audible?

Moderator: Yes, now it is. Please go ahead.

Mihir Manohar: Yes, sure. So, congratulations on the deal. I mean, a couple of good deal wins over there. Lastly, I wanted to understand on this, I mean, a large TMT client which we have. So, I mean, publicly different TMT clients have called out the AI investments that they have made in. As of now, I mean, 20% to 30% of the product codes are written by the AI investments which they have made in.

They are talking about taking this automation to 80% to 90% over a period of 5 to 7 years. Now, fundamentally, does this pose challenge to us from the business model that we are operating in?

I just wanted to get some clarity around that, you know, from a 3-4 year perspective. If these high-tech companies are talking of increasing their coding from AI investments that they are making, how does our business model is placed in that situation? Some color on that would be really helpful.

Samir Dhir: Yes, a good question, Mihir. I think there are two ends of the spectrum here. Clearly, if you think of the deal that we just won, the second largest deal that we just announced, the AI investments and AI differentiation is part of the deal. So, that is very much locked in from a differentiation perspective and one of the reasons we won a very competitive deal in a very tough environment against some stiff competition. So we're very proud of our capabilities in AI that we have been able to create and differentiate in the market.

But broadly speaking, for our largest tech client and other tech clients that we see, yes, there is more adoption of AI on two fronts. There is definitely an adoption getting into the customer support side of the equation where the adoption of AI is increasing and we are definitely seeing that. And across our large clients in the TMT space, we are seeing as an AI company, so we are really leading the way for them as they double down on AI investments in that area. We are definitely leading the chart there in our mind and we are doing well.

The second side, I would say, is still marginal. It is the adoption of AI in the software development lifecycle from an engineering perspective. That is still very much early days right now. It is not fully mainstream. We do see adoption in automation type of things, testing type of equations, GitHub co-pilot adoption in development cycles, but it is not a very significant part of the push from the customer because there are concerns around security, there are current concerns around compliance, etc, with the customers. So it has not gone fully deep as yet, but we think in about six months to one year's time, this might go deeper than what it is today.

But definitely, as we sit here right now, clearly the customer support side of the equation, the more manual type of equation, people are really adopting the agentic architectures and agentic frameworks that Sonata has to offer to differentiate. And that is really part of the reason that we won the second-largest deal that we just recently announced. I hope that answers your question.

Mihir Manohar: Sure, understood. So, basically, I think the biggest issue to be clear, from an FY '26 perspective, I mean, there's one of the broadcasters, can I take a 4% on the revenue terms for FY '26? And on the other side, we have a very large account.

Samir Dhir: Mihir, we can't hear you. May we cut? May we cut? Here you go. You're buffering.

Mihir Manohar: So, I mean, on the larger account, we are having a footprint. On the other side, this particular new deal that has been there, it can add 3% to 4% if you assume a given the distribution. So, from FY '26 perspective, can we have mid-single digits to high-single digits kind of a growth for the international IT business? How to see that?

Samir Dhir: May -- I'm having a really hard time to your question, but I think I probably get the broad sense you're asking. So, let's just divide it into two parts. So, the deal that we won recently that we announced, the $73 million deal, that will scale up over the next two to three quarters. We started ramping up gradually in Q1, but Q1 will have a very small effect of the deal, but largely will be in Q2 and fully in Q3. That's how we see the deal 6 months time. The largest client, I'm sorry, go ahead.

Mihir Manohar: Yes, please. Yes, sir.

Samir Dhir: Yes. Just completing a thought here. The largest client that we discussed with you guys last time around, where we see success in second half of last fiscal year. And in Q4, that result we just announced has a full impact of that ramp down and impact of that whole issue that we had back in November. I think we believe that we are going to turn the corner in Q1.

Unless there is something new that we don't know at this point in time, we think we'll turn the corner in Q1 and back to marginal growth, back to marginal growth from this quarter onwards. So, the headwinds of that, the worst case, hopefully has been absorbed at this point. At this point in time, we think we'll be back on growth on that account as well.

Mihir Manohar: Understood. Sure. Yes. That's it from my side. Thank you so much, sir.

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

Dipesh: Yes. Thanks for the opportunity. Yes. So, I have a couple of questions starting with Q4. I think beginning of I think -- at the end of quarter three, we indicated some range for quarter four. And in April, we indicated about some further weakness. So, if you can help me understand how much is fully attributed to top client-related softness and how much would be, let's say, outside of top client, particularly on quant seasonality, just want to understand. And in top client, what factor led to, let's say, incremental weakness, if you can give some color around it. That is question one.

Question two about quarter one. How one should look, let's say, now quarter four is behind, where we have a sizable dip. How one should look quarter one playing out for us, considering the deal intake, what we have seen, as well as some of the seasonality of quant returning back. If you can give some sense about quarter over and subsequent period. Similarly, on margin side, we earlier indicated about returning back to 20 plus margin in Q1 and Q2. Are we on track for that margin shift?

And last question about domestic business. Now, Microsoft also likely to, let's say, cater to some of the top client. How one should look gross contribution profit outlook for next fiscal. Earlier, we always used to say, mid-ten is a good range to look at it. But considering some of these things, how one should look gross contribution outlook in domestic business. Thank you.

Jagannathan CN: Now, Dipesh, the first question about the impact of the revenue de-growth. What contributed more? From that % of de-growth, what we guided earlier to what has been reported, majority portion was from the large client. There is a small portion on some quant customers also, but majority of the portion was with the large client.

And your second question on quarter one outlook. The large client, as Samir was mentioning, we have reasons to believe that we are turning around and start -- will start a small amount of flattish or a small amount of growth in quarter one. That de-growth, at least, we believe that half of now, whatever it stands, we believe that the de-growth has turned around for us in the large client.

Your question on the margin. We have at present we will year outlook for reaching back to the earlier growth. We may think there can be a one quarter of delay to that, but we are in the track of reaching there. This is particularly due to the uncertainty in the market at present. However, based on the recovery, whatever is the recovery with the large customers in quarter one, we will be able to comment about the 4 years on the EBITDA recovery path.

Regarding the quant customers recovery, as Samir mentioned, we are, quarter one will be, will be, will be better than quarter four. And quarter two will be, start scaling up to reach the revenue growth, whatever they are planned for. On the security business, the current outlook is, there is -- we are also waiting and watching on it. As of today, we have also taken various measures to manage the risk for the business. We have mentioned it earlier also. We are also in the process of seeing the impact of any, any, any impact that comes in.

In case the execution or implementation of the change strategies happen, we expect there can be some short-term impact for it. The size of the impact we will be able to give in the coming days to this.

Dipesh: So let's say two questions follow up. First about quarter one, you indicated about one client only. I just want to get things about the overall company on international IT services side. Considering we have a sizable decline in quarter four, whether some of those weakness, particularly let's say retail and manufacturing remain fairly weak. Similarly, delayed decision making cycle and other things which you indicated. Are we now confident on, let's say, bouncing back sharply or do you expect very gradual recovery from where we ended in quarter four?

Second question was about margin, where you indicated about a quarter delay kind of thing. So whether it would hinge on, let's say, your growth returning back to some level, then 20 is possible. And last question about depreciation and amortization. This quarter is a sizable decline, whether this is a new run rate. Thank you.

Jagannathan CN: So the first is quarter one. The banking financial services, we expect a recovery from Q4 to Q1, but the full recovery will happen -- only it start happening only from Q2. Q1 may not have the full recovery of BFS. Your second question on the margin improvement, as we mentioned, it will be at least one quarter delayed, but it also depends on the revenue growth and the impact of the turnaround in our large customers.

So we have to see how much of turnaround happens and that will actually influence the margin, what we are able to achieve and how fast we are able to achieve the recovery of margin. The third question is about the depreciation and amortization. It will not be to that extent that the amount of reduction what we have, this is the fair valuation of the liability, hence the reduction happens.

However, in the coming days, the current position, the one-time impact of that, because the fair valuation is normally we do in the year-end time and quarterly, it may not have some amount of increase can happen and that will, if not, this will go back to the old number will not happen. It will be somewhere in between that. But there can be an increase in the depreciation and amortization value from here because we had a lot of credit coming in this quarter. There can be some amount of increase from here in the immediate quarters.

Dipesh: Is it linked with the Quant or not? Because last time you -- whether now we have finalized Quant or not?

Jagannathan CN: Yes, it depends on that and based on that total liability and total valuation, whatever we have to do depends on that valuation only it depends.

Dipesh: Yes, but can you provide some detail? What is the Quant turnout we finalized?

Jagannathan CN: No, Quant turnout for December 2024 period, it is in the process of we are discussing with the current CEO. We still the discussion is going on. Along with the discussion, we will also be able to finalize the amount payable for December 2024. As I mentioned, this is also we are planning to have at least three years extension of contract. Hence, depending on the extension contract, the value of the liability will also change. It is still under negotiation. Once it is finalized, we will be able to update you in Q1.

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

Vipulkumar Shah: So, my first observation is your call was going to start at 5.30 and till 5.35 results were not uploaded on the exchange website. So, how can investors be prepared to ask the questions when you have not posted results and presentation before the call starts? This is not a very healthy practice and this has happened in one quarter results last year also I recall. So, I would request management to look into this and possibly keep the call on next day if you are not able to post the results in time before the call. And so, it is very difficult.

So, I cannot understand such a large decline in international revenue because I have not been able to go through the results. So, would you explain once again in detail what has gone wrong? Why such a large decline in international revenues? And this is on top of already you had downgraded the guidance once in last year.

Jagannathan CN: Okay. So, thanks for your input. We will definitely take your input and work on it. We will avoid this kind of last minute updates in the coming quarter sir. We will definitely act on that. Thanks for your input. The question is about the international business de-growth. We have updated in December quarter itself when we had an analyst call that there will be a de-growth in this quarter. And about 15-20 days back we have given a press release also saying that the de-growth in revenue is more than what we expected. The reasons are two-fold. One is seasonal impact for the customers of one customer.

Every year January to March quarter they will have a regrowth. And because of the nature of the contract signed with the customer which will be low in January to March quarter because by the time they get the PO, they get the contract, it will be almost like a middle or end of February. Hence, they are not able to harvest the full revenue of the contract whatever they have achieved with the customers. Every year this happens. Hence, that was one of the first major reason for us for de-growth. The second reason was as mentioned by Samir, quarter 3 in FY25 we had an impact of ramp down in our large customer.

And in quarter 4, the de-growth was increased, incremental de-growth happened because of the ramp down was more than what we estimated during the end of quarter 3. That we have given a press release also before the Board meeting that it is more than what we expected. So, that ramp down is also impacted us. These two coming together in January to March quarter, hence the de-growth is substantial.

Vipulkumar Shah: So, are you witnessing any other ramp downs from any other customers in view of the ongoing tariff uncertainties and due to that the collapse in consumer and corporate confidence in US? So, are you witnessing any ramp downs in any of your other large deals? What are your comments, sir?

Jagannathan CN: Okay. So, the largest customer is an impact, industry-wide impact. Many, many players have mentioned about the large customers ramp down. The other customers, there are uncertainties in the market. As of today, we are not expecting anything. But with this uncertainty, there can be a new development happening in the coming month. And because of this, that can also happen. I am not ruling out that. But as of now, whatever information we have as of today we do not expect any major regrowth in other customers. But situation is uncertain. Anything can develop in the coming months.

Vipulkumar Shah: But I would request you to schedule your call next time in such a fashion that everybody gets a chance to look through the results and presentation. And please do not take this as a criticism. This is a suggestion, sir.

Jagannathan CN: Definitely, sir. We will definitely take it in a positive way and work on that to avoid this kind of challenges, sir.

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

Amit Chandra: So, my first question is on the large deal win that you had. So, if you can provide some more color in terms of the client from which we have won this deal. It's a net new spend for that client. And also, is there any rebadging element involved in this deal? Also, can we see some margin impact associated with a typical large deal?

Because in other large deals also, we had some margin impact or initial investment that actually goes into. So, how to read the margins in conjunction with the ramp-up of this deal? And also, you can comment in terms of the pipeline. Are we having such large deals in the pipeline? And how is the pipeline looking?

Samir Dhir: Amit, let me try and take your question one-by-one. So, the work involved here, Amit, has multiple parts. So, this customer has a technology platform that they provide in a B2B environment to their other customers. And there are two, three parts of this work. So, part one of the work is to re-platform that technology into a more modernized platform. So, part one is to re-script it out, rebuild it out as a new platform, which is more futuristic-ready, AI-ready, etcetera. That's one part of the work. The second part of the work is to -- as we build a new part out, hold the old part.

And sunset the old part or take significant features down from the old part and build a new part. That's the second part of the work. And third is essentially doing continuous modernization for the other application stack that they have. That's the scope of the work. It is under transition right now, and we expect the transition will go in waves.

That's why we think the deal will fully ramp up in the next two to three quarters. Starting this quarter, some marginal revenue will trickle in, but I think it will be fully backed up by end of Q2, early Q3 timeframe at this point in time. To your question about margins, the deal is a five-year contract.

It is a creative deal to Sonata over the term of the five years. But in year one, there might be some marginal impact. We don't expect any significant impact to margins in this year. But there will be, because of the transition involved, there will be some marginal impact in the course of the first, especially in Q2 and very partly in Q1. But that's the extent of it. It's not going to be a significant impact.

There might be some marginal impact because of the margins. As far as the question about pipeline is concerned, yes, we do have other deals that are under pursuit right now. Clearly, not as large as this one that we announced. We have a couple of them of this scale as well. But generally speaking, we calibrate our large deals to be above 5 to 10 million range TCV. There are several of those deals in the pipeline.

Like I mentioned earlier, about 35% of our total pipeline is large deals. So that gives us confidence that we have a few other deals which are under pursuit. But as you can imagine, we're seeing an industry-wide pattern right now, Amit. The retail manufacturing customers are much more measured in taking decisions. So we're seeing some delays there. But the tech customers, the banking customers, the healthcare customers are slightly more aggressive and more agile in taking decisions.

So it's an industry sector model that is going on given the tariffs that are coming from the US. But that's really what we're seeing at this time. I hope that answers your question.

Amit Chandra: Yes. And then my second question is on the ram-down that we had with the top client. So whether the ram-down was more broad-based or it was with a specific program that had an impact? And in terms of the recovery that we are anticipating in this large client, so is it based on the confidence that we have some newer engagements or we are working on certain newer projects with that client or is it just an assumption that the worst is over and maybe it will recover from here?

Samir Dhir: Yes. So I think the ram-down was in a particular area, not the broad-based ram-down. It was one particular area where the ram-down had taken place. And especially because it was in newer geography that we started, especially Mexico, where we see ram-down, it had a bigger top-line impact because it was more onsite revenue that went out. The second part of your question, where are we with the client and what momentum we see?

Like we mentioned for this client, in several of their LOBs, we are now getting into the preferred status. So we believe that they consolidated the vendors so that Sonata will gain out of it. Their fiscal reset happens on 1st of July. So as they get into the new fiscal year, we expect our wallet share to increase gradually as we went business from -- quarter, unless something new happens that we don't know at this point in time. We think we bottomed out in Q4.

This quarter will be a flat to be marginally growth quarter, somewhere in that neighborhood. And from Q2 onwards, we should be getting back into more growth as we move forward. So that's really with the current outlook. And we'll be like always, keep you guys posted as to how we make progress.

Amit Chandra: Okay, sir. Thank you and all the best.

Moderator: Thank you. The next question is on the line of Ashis Dash from Mirae Asset Capital. Please go ahead.

Ashis Dash: Hi, thank you for giving me the opportunity. So my question is on your outlook. I just wanted to understand your FY26 revenue growth, because you are mentioning that your Q1 would be a weak quarter, a flattish quarter. Now, what I see that retail and accounting remains weak. And your large team would ramp up from Q2 and Q3 onwards. And Q1 will have a seasonality in Q4. So here, I want to understand your FY26 growth would be better than FY25 and if yes, what are the verticals would drive the growth?

Samir Dhir: Good question, Ashish. I'll start and Jagan can add to it. So the way you think about this, Ashish, is it's very much an industry story. We think in the FY26, the healthcare business will continue to scale and will be a significant part of the growth to go forward as well. What was a significant part of the growth in FY25 will continue to scale. We feel pretty strong and good about where we are in the healthcare business.

We also believe our banking business in general will scale, although the ram from here on will be slightly slower, but will scale and get to peak numbers in Q2, Q3. May not have a full impact in Q1, but will scale from Q2 onwards in a significant way. That's the two sectors on the growth side. The retail manufacturing is really hard to predict. And as you know, the tariffs are still very much out there.

The current US administration is working deals out. When those deals will pan out, what impact it will have on the retailers is very hard to predict. But at this point in time, it looks like a tough days ahead in retail market in general or retail clients in general. So we are really factoring in degrowth in the retail sector in Q1 and Q2 at least.

Things might change, but right now that's what we think will likely to happen. On the tech side, given the large deal that we have won, we think that tech sector will do well for us, given the large deal as well as the largest client of Sonata that we have, which is bottomed out in Q4. So I think the tech sector will also do well for us. So in general, as we look at getting into the year, we're reasonably confident about healthcare. We're quite confident about banking. Tech sector is doing well.

Retail is the uncertainty right now that we don't know really about. We're factoring in our estimates that retail will degrow in the first half and as market and situation evolves, we'll be sharing with people. Hopefully that answers your question.

Ashis Dash: Yes, that helps. Just wanted to understand one thing. See, in FY23, we also announced a large deal, $168 million. Also in Q2 FY25, if I'm not wrong we also announced a deal in the manufacturing vertical from Australia, I believe, but I don't see any growth in the retail. Though currently, we see the weakness in the retail and manufacturing vertical, but even if I look at the quarters numbers for the last five, seven quarters, I don't see any growth. So could you just explain to me what happened in the retail and manufacturing vertical?

Samir Dhir: Yes, so the deal that we announced in manufacturing vertical was in Europe and that is factored into our numbers now. It's fully ramped up at this point in time. But we have seen in the last one or two quarters, the retail manufacturing vertical has been under stress. So that has offsetted the ramp downs or the project closures have almost offsetted the new wind that we had, and hence we are seeing those things almost cancelling out to marginal growth numbers in the retail side.

Ashis Dash: Okay, got it. Thank you so much for answering the question.

Moderator: Thank you. The next question is from the line of Abhishek Gupta from Axis Asset Management. Please go ahead.

Abhishek Gupta: Hi, sir. So my question was with the margin improvement which we saw, which was very good like what were all the levers which drove this margin improvement in international services?

Samir Dhir: Great question, but I think like you said in Q3, when we gave you the ramp down news, we told you that there was a one-time discount sitting that time. So part of the recovery was because it was a one-time impact in Q3, so that impact went away in Q4. So part of the recovery happened there, and it's about 40% to 50% was like that. And other was largely the operational improvement that we have done, because as the ramp down hit us for the largest client in Q3, we had cost but no revenue.

And in Q4, we were able to operationally correct that out and hence that cost went away as much in Q3 itself.

There were a few big items, but there are small other items from operational efficiency, etcetera. So those are two big parts that really helped us recover the margin of 2%. And we're very confident, if you recall, in our Q3 commentary, Jagan ji was talking about that we will be able to recover about 60 to 70% of this margin impact in Q4, which is what exactly happened.

Jagannathan CN: So the idea was last time there was a one-time cost of settlement for a near shore location. As well, there were people we couldn't complete the ramp down that was completed in this quarter. Hence, we were able to save the cost, and that helped us to improve the margin. And as expected, we also were able to improve the margin in a decent shape in this quarter.

Abhishek Gupta: Got it. So on the domestic side, I see there is a very robust growth YoY on Q4. But I've seen this margin seems to be declining around 52, like 5 to 10 bps on QoQ, like earlier it used to be around

3.5 to 4. But now in this year, full year we have been seeing a lower end of the margin on the domestic side. So what kind of sales or software we are doing that is impacting our margin there?

Jagannathan CN: Okay. Please don't see the margin %. As mentioned earlier, we have to measure this business on the gross contribution, absolute amount of gross contribution. Because depending on the product mix, depending on the requirement, and depending on the change in the requirement of customers and also product offered by the OEM, this is also can change. There is a lot of changes happening in the market, and a lot of new requirements are also coming in. So with this, the % is not a measurement at all for us.

This is the absolute amount of gross contribution growth. That's what we monitor. Plus, we will continue to focus on the ROCE, what is the business needs. If it is above 40%, it is good for us. So that's a broad view we have.

Abhishek Gupta: Got it. So that's it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Prolin Nandu from Edelweiss Public Alternative. Please go ahead.

Prolin Nandu: Yes. Hi, Samir and Jagan. I'm sorry, there would be some noise in the background. I hope I'm audible.

Moderator: Hello? Yes, Yes. You are audible.

Prolin Nandu: Yes. Thank you so much. Yes. So just one thing. So two questions, right? On the domestic part, right? I mean, to the earlier question on what is happening on the gross state rate, so to say. Now, what we understand is that, again, there also your large client is thinking of going directly to the client, right? In some sense, so when you say that you are in discussion, is this discussion happening with that large vendor? Or is it happening with our clients? And how much of the revenue is this proportion going to be for us, right?

Because we understand it's substantial. So what are the negotiations which are going on? And when can we get the clarity on this? Because it's a very high ROC business for us, right? So how should one think about this risk of the vendor going directly to our clients on the domestic side of it?

Jagannathan CN: Okay. That's a good question. I also like to have a clear view now. But it is an emergent view. They have broadly taken a strategic position. But there is a gap between the strategic position and the execution.

And the execution, only when it happens, we will be able to exactly know what will be the position. It may take a couple of more quarters for us to have a clarity. As of now, we expect that we continue to do business, we continue to expand with new customers, we continue to expand the product and license now from OEMs, different OEMs also.

But having said that, we have taken measures for the management of this risk. However, the actual execution by the OEM will decide the impact for us. We have to wait and watch for a couple of more quarters.

Prolin Nandu: Right. Is my understanding correct that this OEM that we are talking about and execution that we are thinking about and how it will play out is like at least a 50% of our domestic revenue and that is where the picture is emerging yet? Is that quantification of the revenue correct?

Jagannathan CN: Not exactly. We cannot comment about the %. There will be an impact because it's going to be a few large customers for them, for us also. However, this is not the numbers what you mentioned. I'm not able to comment because that is not the number what we are looking for.

As I mentioned, there is not a very clear, I cannot completely say that this is a number or this is going to happen. It is still, there is a gap between the strategic intent of the OEM and execution. We have to wait and see how it emerges.

Prolin Nandu: Sure. Thank you. Also, on the services or international part, now you mentioned that this issue that we had with a large client was largely worked out. So, we wanted some assurance from you that this is nothing to do with, let's say, a client asking you to pass on some of the productivity gains, which is probably going to be the very core nature of any new engagement or any existing engagement that we have.

So, could you just let us know a little bit more in detail as to why do you think this is a one-off and not a structural issue that might not crop up in the future, not with just this client, but with other kinds of engagement also that we have. Can you please help us to probably get some assurance on this part, please?

Jagannathan CN: No. Again, these questions, as of now, what we expect is we are seeing that that opportunity, any of these kind of changes, threats, always comes with an opportunity also. So, what we see is there are more opportunities, some green shoots are there. We believe that we have turned around from the regrowth to a flat-ish or a mild growth in the coming quarters. Having said that, will that not happen in the future?

Nobody can answer that. The market is very uncertain, and we don't know what will be the situation emerging in the future. As of now, what we have information, we have updated you. We are not seeing this kind of threat coming in the near future as of today, what information we have. But you cannot comment about what will happen in the future now.

Prolin Nandu: Sure, sure. Can I just push for one more, right? Just one thing you mentioned that you're thinking about new opportunities, right, that there might be some emerging opportunities which might come out of whatever challenges that we or the industry is facing. Is it fair to comment that maybe for, I mean, when it comes to all the service providers, maybe most, I mean, not all of them will be able to capitalize on this new opportunity that you're talking about. And then probably that would be something to look at as a positive side of this disruption that we are talking about. Is that the right way to look at it?

Samir Dhir: Let me answer that part. So, look, we cannot comment what others are doing. We can comment what we are doing. In this time, we are clearly seen as a partner who is leading the AI journey for them. To your first question, the impact that we saw was definitely one-off. And you can see that in our margin recovery as well.

We're not overly concerned. Yes, it was a setback for us in second half of the year, which none of us are happy about. But we think in coming times, in coming quarters, we'll be back to growth. And given that we have seen as very favorable AI adopting partners for them and really in the top class for AI adoption, we think we'll have some growth in others. That's our current view. And we're generally speaking more optimistic about what will happen in the course of this year in this client.

Now, the only thing which is unknown at this point in time is what the ramp is from here. Will we see a full recovery in 1 or 2 quarters? Very hard to say. But in general, we are more positive about what will happen in this client in the coming quarters. That's the Broad picture we can paint for you.

Prolin Nandu: No, Samir, thank you so much. Samir and Jagan, thank you for this. All the very best.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Meet Makadia, an Individual Investor. Please go ahead.

Meet Makadia: So, Samir, you happened to mention the guidance for HLS and BFSI 3, 5 years out. So, I missed the figure. So, can you please repeat the same?

Samir Dhir: Yes. So, it's not a guidance. I think what we're saying is we feel that this business, which was about 13% of our business about 2.5 years to 3 years back, is now about 35% of our business, banking and healthcare combined. We feel that in time to come, 3 to 5 years time, this could be about a quarter of a $1 billion type of a business, $250 million type of business in about three to 5 years time.

So, we are very optimistic where we are in this business. We are taking market share away. And that's what I was talking about earlier. This is not a guidance, but this is more of a directional statement. We think this business can scale for us. And we're quite, given the market history, we think we'll gain more market share, more wallet share compared to the competition.

And that's what our past trend has been. Just to level set, this was not a business Sonata was in formally about 3 years back. This was a new two verticals we created. And given these are new verticals, we have been quite successful and we're very pleased with the response.

Meet Makadia: Okay. And where are we on the, I mean, $1 billion plus $0.5 billion, estimate that we had for FY '27. So, where are we on that? I mean, of course, we have a broad picture from the IT Services, but are you that confident from the domestic products service, domestic products as well now? I mean, given the concerns raised by earlier participants?

Samir Dhir: So, we are basically, look, we put out 3 years back, a directional number at that point in time that we want to be $1.5 billion in about three to four years time. That's a directional long-term goalpost that we have been working to. But candidly, if you really paid it down, the way we think about it is that in a year, at least more quarters than not, we want to be in the top quarter, which is what we have been talking about several quarters now.

So, our view is as market goes up or market goes down, irrespective of the market, we want to be in the top four or five publicly listed midsize companies. We want to be in that zone. And that's really what our aspiration is. Now, if we consistently perform in that zone of being a top quarter company, we believe in 4 to 5 years time, which is what we said when we started this, we will be able to build in the half.

So, that's a long-term aspirational goal. But in the short term, I think the way you think about it is, are we coming in the top 4 or 5 top quarter companies in the market, in the publicly listed companies?

Clearly, in the second half of last year, we did not. But we believe as we turn around some of these headwinds that we had, in the coming quarters, we will probably catch up and be in the position we were in for the first 2 years when I came on Board.

Meet Makadia: Okay. And just one last question for Jagannathan sir. Yes. Thank you, Samir. So, one last question, I mean, for both of you, that earlier, I mean, earlier years, I've been holding Sonata for the last 10 years or so. So, earlier, we had a payout ratio of upwards of 50%, 60%. And as we declare the dividend for this year, I'm seeing that it has kind of dropped to half.

And I also happened to watch an interview of Samir, in which he had mentioned that there are no acquisitions on the anvil. So, I mean, has there been any change in the dividend distribution policy? And what is the thought process there? Because we have INR700 crores of cash, and we will be distributing, I think, INR120 crores, INR125 crores of dividend this year. So, I mean, correct me if my numbers are wrong, but...

Jagannathan CN: No. As far as the policy aspect, we have not changed it. However, considering the debt we have taken for the acquisition of Quon, the Board decided that let us manage the cash in such a way that we are able to pay off the debt as early as possible. That's the idea we have.

So that the interest cost and all this, no impact of that will be less for us in the coming medium term. This is like a few couple of years, the pressure on cash flow will be there because of the debt. The second aspect to it, as mentioned to us, to all the investors during the acquisition of Quon, we had a procedural issue with RBI, because of which I'm not able to remit money from India.

So that also actually has stopped us from utilizing the cash for the debt. So that's where we were carrying a debt, we were carrying a cash also. But net of debt, we are still in positive zone, but the size of the net cash may come down substantially because of the debt what we carry.

Our focus is to repay the debt as early as possible. And this RBI issue, we are in the far end of the issue. And we may come out of the issue probably in a quarter time. So we believe that this is the right strategy to focus on, so that we are not hampering the investments, what we need in the era of fast technology changes. So that's the idea.

Meet Makadia: Okay. Thank you for this RBI update as well. Thank you, Jagannathan sir. Thank you.

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

Samir Dhir: Thank you, operator. And thank you for all the participants for joining in and listening to our results. I just want to take this opportunity to thank all of you for your patience. And the feedback that we got of posting our results slightly earlier is well noted. We'll take care of that. And I also want to take this opportunity to thank all the Sonata globally for their extreme amount of hard work and really keep the Sonata flag flying high as we aspire to become the fastest growing company in the top quartile. Thank you all of you. We'll speak to you in a quarter's time.

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