Sonata Software (SONSOF)

CMP: ₹ 370 | Target: ₹ 430 (16%) | Target Period: 12 months | BUY

November 14, 2025

Steady margins amid domestic business overhang...

About the stock: Sonata Software (Sonata) provides IT services and product licensing services to its clients in BFSI, HLS (Healthcare & Lifesciences), R&M (Retail & Manufacturing) and TMT (Technology, Media and Telecom) segments.

Q2FY26 Performance: International IT services (IITS) revenue came at US$ 82 mn, up 1% QoQ/ down 2.9% YoY in CC terms. IITS EBITDA margin at 17.3%, up ~70 bps QoQ. Consol revenue came at US$ 242.8 mn, down 30% QoQ while in rupee terms it stood at ₹2,119.3 crores, a decline of 28.5% QoQ and 2.3% YoY with EBITDA margin of 8.1%, up ~280 bps QoQ. PAT stood at ₹120.2 crore, up 10% QoQ.

Investment Rationale

- **International momentum led growth amid domestic weakness:** Sonata's Q2 performance saw stable 1% QoQ CC growth in IITS and healthy traction in Europe (+13% QoQ) and RoW (+30% QoQ) which was weighed down by a sharp decline in Domestic Products & Services (down 39% QoQ in ₹ terms). Large BFSI and TMT client-specific headwinds also muted topline. However, management expects normalization by Q3 as ramp-downs get fully absorbed, with underlying client additions/ deal wins and strong non-big-tech TMT demand supporting broader stability. **We have baked in IT services growth CAGR of 5.6% over FY25-27E in US$ terms.**

- **Margin expansion driven by AI-led productivity & offshoring:** Despite revenue softness, consol EBITDA improved meaningfully (+280 bps QoQ at 8.1%) with IITS margin rising to 17.3% (+70 bps QoQ), despite wage hike impact of ~90 bps which was fully absorbed in Q2, aided by higher utilization, planned offshoring of large deals, & systematic AI adoption (AgentBridge, agentic workflows) across delivery & functions. With utilization at 87.3% and full-quarter benefits of Q2 initiatives flowing into Q3, Sonata remains on track toward its high-teens margin aspiration. **At the consolidated level, we model EBITDA margin of 6.5%/7.3% for FY26E/FY27E, as we expect a gradual margin recovery.**

- **AI-heavy pipeline and large-deal wins strengthen visibility:** Strategic focus on modernization engineering, AI-led partnerships, & scaling large deals is yielding visible outcomes as **AI orders now form ~10% of the book and 40% of the pipeline comprises large deals.** Cloud & data modernization accounts for 55% of the pipeline, supported by strong Microsoft ecosystem alignment. While domestic seasonality persists coupled with some risks from Microsoft's evolving GTM strategy favouring direct enterprise engagement with large enterprises, sustained deal conversion and diversified vertical traction improve medium-term growth visibility, albeit improvement is likely only at a gradual pace.

Rating and Target Price

- **With most headwinds being absorbed by this year end, we expect gradual recovery over FY26 & marked improvement only in FY27E. Thus, we maintain our BUY rating, with a revised target price of ₹430 (vs ₹440 earlier); at a multiple of 21x P/E on FY27E EPS.**

SONATA SOFTWARE

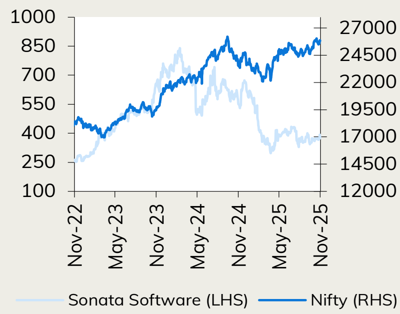
Particulars

Particulars	Amount
Market Cap (₹ Crore)	10,285
Total Debt (₹ Crore)	442
Cash and Invts (₹ Crore)	695
EV (₹ Crore)	10,032
52 week H/L	687 / 286
Equity capital (₹ Crore)	27.8
Face value	1.0

Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoters	28.2	28.2	28.2	28.2
FII	12.3	10.8	9.7	8.8
DII	24.3	25.9	25.6	26.3
Other	35.2	35.2	36.6	36.7

Price Chart



Key risks

- Prolonged weakness in large BFSI and TMT accounts;
- Slower than expected recovery in revenue and margins

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Net Sales	7,449	8,613	10,157	22.1%	10,971	11,886	8.2%
EBITDA	604	727	690	0.7%	731	865	12.0%
EBITDA Margin (%)	8.1	8.4	6.8		6.7	7.3	
PAT	452	308	425		484	570	
Adjusted PAT	452	483	425	4.8%	484	570	15.8%
EPS (Rs.)	32.6	11.1	15.3		17.4	20.5	
P/E (x)	11	21	24		21	18	
RoNW (%)	34.7	21.9	24.9		23.9	23.8	
RoCE (%)	25.9	31.4	27.4		26.1	26.5	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** International IT services (IITS) revenue in Q2 stood at US$ 82 mn, up 1% QoQ/ down 2.9% YoY in CC terms. Domestic Products & Services reported revenue of US$159.4 mn, down 40% QoQ while in rupee terms it came at ₹1391.3 crore, decline of 38.8% QoQ and 4.8% YoY. At the company level for the quarter, the revenue stood at US$ 242.8 mn, down 30% QoQ, while in rupee terms it stood at ₹2,119.3 crores, a decline of 28.5% QoQ and 2.3% YoY.

- **Geography performance**: Geography wise on a QoQ basis, the growth was led by RoW (13% of the mix) and Europe (18% of the mix) which grew by 30.3% and 12.8% while USA (69% of the mix) declined by 6.5%.

- **Margin performance**: IITS EBITDA margin at 17.3%, up ~70 bps QoQ. Domestic products & services margin came at 3.3%, up ~140 bps QoQ. At the company level EBITDA margin came at 8.1%, up ~280 bps QoQ.

- **Segment performance:** Segment wise on a QoQ basis, Retail (33% of the mix) and Healthcare (14% of the mix) grew by 10% and %0.24%. While, Emerging (3% of the mix), BFSI (19% of the mix) and TMT (31% of the mix) declined by 25%, 5% and 3%.

  – **BFSI & TMT**: Largest BFSI client underwent organizational changes and budget constraints and led to significant ramp down in the quarter. However, the impact from the BFSI client was largely offset by the large deal wins in healthcare and TMT segments and the mid-sized AI wins. On the other hand, large TMT client saw continued decision delays which created headwinds; however, non-big-tech TMT, healthcare, and other BFSI accounts showed healthy growth offsetting some of the impact.

  – **Retail and manufacturing:** The segment continues to see industry-wide softness, but expected to stabilise by Q1 next year.

- **TCV, Deal Wins and pipeline:** It has 28 deals in the pipeline i.e., 40% of active pipeline consists of large deals. Notably, AI wins accounted for US$ 10.8 mn and AI order book rose from 8% to 10% QoQ with pipeline now consisting of US$293mn worth AI led opportunities. Sonata bagged 1 large deal during the quarter with a Healthcare client. Additionally, its Microsoft Fabric-related pipeline now stands at US$45 mn. Order book at 1.28x book-to-bill for new business, was partially offset by ramp-downs in two large accounts in BFSI and TMT.

- **Headcount/Attrition:** Total employees for the IITS business stood at 6,136 employees, a net decrease of 257 employees QoQ. Attrition for the quarter stood at 14%, down ~200 bps QoQ. Moreover, 95% of its workforce and 80% of its managers are now AI trained.

- **Wage hike:** The company rolled out wage hike in Q2 which impacted the margins to the tune of 90 bps this quarter. Wage revisions to continue in Q3 with similar impact on margins, albeit without derailing EBITDA accretion.

- **Outlook:** Large BFSI and TMT client headwinds to be fully absorbed by end-Q3 and management remains confident of continued EBITDA accretion in H2 and has an aspiration to reach high-teens margins.

- **GenAI:** AgentBridge platform deployed internally across HR and finance. Pursuing AI opportunities across 100+ clients.

- **Dividend:** The company declared an interim dividend of ₹1.25 per share.

- **Microsoft's changing GTM strategy:** Management highlighted that Microsoft is experimenting with a direct contracting model for maybe 10–

15 large enterprise accounts in India/APAC, which may include a few Sonata clients. While this introduces short-term GTM uncertainty within the domestic business, Sonata does not expect material near-term (6 months) revenue impact and is actively diversifying within and beyond Microsoft's ecosystem. The company believes the intervention is limited in scope and is building parallel service and platform opportunities to offset any potential future disruptions.

Quarter Performance

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Revenue	2,119	2,170	(2.3)	2,965	(28.5)	International IT services (IITS) revenue in Q2 stood at US$ 82 mn, up 1% QoQ/ down 2.9% YoY in CC terms. Domestic Products & Services reported revenue of US$159.4 mn, down 40% QoQ
Employee expenses	423	405	4.4	418	1.1	
Purchase of stock-in trade	1,378	1,399	(1.5)	2,209	(37.6)	
Gross Margin	318	366	(13.0)	339	(6.0)	
Gross margin (%)	15.0	16.9	-185 bps	11.4	360 bps	
Other expenses	146	189	(22.8)	179	(18.6)	
EBITDA	173	177	(2.6)	160	8.2	
EBITDA Margin (%)	8.1	8.2	-2 bps	5.4	276 bps	IITS EBITDA margin at 17.3%, up ~70 bps QoQ. Domestic products & services margin came at 3.3%, up ~140 bps QoQ.
Depreciation & amortisation	26	33	(20.2)	26	0.7	
EBIT	146	144	1.5	134	9.6	
EBIT Margin (%)	6.9	6.7	26 bps	4.5	241 bps	
Other income (less interest)	17	0.01	1,71,400.0	19	(10.4)	
PBT	164	144	13.3	153	7.1	
Tax paid	43	38	14.7	43	0.1	
PAT	120	106	12.9	109	9.9	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Revenues	**8,613**	**10,157**	**10,971**	**11,886**
Growth (%)	15.6	17.9	8.0	8.3
Total Op Expenditure	7,886	9,468	10,241	11,021
EBITDA	**727**	**690**	**731**	**865**
Growth (%)	20.4	(5.2)	6.0	18.4
Depr & Amortization	132	121	117	119
Other Income	126	71	78	54
Interest costs	85	65	44	50
PBT before Excep Items	636	574	647	750
Growth (%)	6.5	(9.8)	12.8	15.9
Tax	153	149	163	180
PAT before Excep Items	483	425	484	570
Exceptional items	(175)	-	-	-
PAT before MI	308	425	484	570
Minority Int & Pft. from associates	-	-	-	-
PAT	**308**	**425**	**484**	**570**
Growth (%)	(32)	38	14	18
EPS	11.1	15.3	17.4	20.5
EPS (Growth %)	(66)	38	14	18

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Net profit before Tax	**461**	**574**	**628**	**763**
Depreciation & Amortization	132	121	116	121
WC changes	(209)	103	8	7
Other non cash adju.	159	10	(22)	(3)
Income taxes paid	(262)	(164)	(155)	(183)
CF from Operations	**281**	**644**	**575**	**705**
Capital expenditure	0	(68)	(39)	(42)
Δ in investments	(88)	(389)	-	-
Other investing cash flow	33	21	57	53
CF from Investing Activities	**(54)**	**(436)**	**18**	**11**
Issue of equity	14	0	-	-
Δ in debt funds/lease liablities	139	(276)	(24)	(24)
Dividends paid	(215)	(119)	(166)	(203)
Other financing cash flow	(46)	(38)	(35)	(50)
CF from Financial Activities	**(109)**	**(433)**	**(225)**	**(277)**
Δ in cash & cash bank balance	118	(225)	368	439
Effect of exchange rate changes	1	(1)	-	-
Opening cash	417	536	449	818
Closing cash	**865**	**449**	**818**	**1,257**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity	28	28	28	28
Reserves & Surplus	1,379	1,678	1,993	2,363
Networth	1,406	1,706	2,020	2,391
Minority Interest	-	-	-	-
LT liabilties & provisions	219	187	187	187
Total Debt	674	442	442	442
Source of funds	**2,299**	**2,334**	**2,649**	**3,019**
Assets				
Net fixed assets	558	490	435	382
Goodwill	1,113	1,140	1,140	1,140
Long term loans	-	-	-	-
Other non current assets	403	394	418	446
Loans and advances	-	-	-	-
Inventories	98	47	51	55
Current Investments	232	245	245	245
Debtors	1,605	1,741	1,880	2,037
Cash & Cash equivalents	865	449	825	1,256
Other current assets	275	249	269	291
Current liabilities	2,813	2,378	2,569	2,783
Provisions	37	43	46	50
Net current assets	226	311	655	1,052
Application of funds	**2,299**	**2,334**	**2,649**	**3,019**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS-diluted	11.1	15.3	17.4	20.5
Cash per share	31.1	16.2	29.7	45.2
BV	50.6	61.4	72.7	86.0
DPS	7.9	6.7	6.1	7.2
Operating Ratios (%)				
EBITDA Margin	8.4	6.8	6.7	7.3
Adjusted PBT Margin	7.4	5.6	5.9	6.3
Adjusted PAT Margin	3.6	4.2	4.4	4.8
Return Ratios (%)				
RoNW	21.9	24.9	23.9	23.8
RoCE	31.4	27.4	26.1	26.5
RoIC	49.5	34.6	38.9	49.2
Valuation Ratios (x)				
P/E	21.3	24.2	21.3	18.0
EV / EBITDA	13.6	14.5	13.2	10.7
Price to Book Value	7.3	6.0	5.1	4.3
EV/Total Revenues	1.1	1.0	0.9	0.8
MCap/Total Revenues	1.2	1.0	0.9	0.9
Turnover Ratios				
Debtor days	68	63	63	63
Creditors days	60	56	56	56
Solvency Ratios				
Debt/EBITDA	0.9	0.6	0.6	0.5
Total Debt / Equity	0.5	0.3	0.2	0.2
Current Ratio	1.1	1.1	1.3	1.4
Quick Ratio	1.0	1.1	1.2	1.4
Debt / EBITDA	0.9	0.6	0.6	0.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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