

Sonata Software

HOLD

Transforming enterprises with platformization/AI innovation

Summary

Sonata Software demonstrated a resilience performance with reported consolidated revenue at INR 2,119cr, reflecting a 2.3% YoY decline but stable order book growth with a book-to-bill ratio of 1.28x. International services revenue grew 3.2% YoY to USD 82mn, driven by strong demand in Healthcare, BFSI, and TMT verticals. EBITDA margin expanded by 70 bps QoQ to 17.3%, supported by higher utilization (87.3%), planned large-deal offshoring, and AI-led productivity improvements, partially offsetting salary inflation impact. Sonata secured one large multi-year healthcare deal and several mid-sized AI/CSP deals, boosting the AI order book to 10% of total order book value. Domestic business faced a 4.8% YoY decline but gross contribution improved marginally. Sonata's strategy focuses on AI modernization, scale in key verticals, and diversification across geographies, maintaining a strong pipeline despite headwinds from specific large clients. The company declared an interim dividend of INR 1.25 per share in line with quarterly payout policy. Overall, Sonata is on a steady growth trajectory with continued AI integration fueling operational efficiency and client acquisition. We maintain our rating to HOLD, valuing the stock at 21.2x FY27E EPS with a same target price of Rs 435.

Key Highlights and Investment Rationale

- Near term challenges, long term story remains intact:** Near-term challenges include managing uneven client demand, salary inflation, and macroeconomic pressures. Long-term, its AI-driven modernization and diverse global footprint support sustained growth and innovation leadership
- Deal TCV & Margin outlook:** Deal TCV remained strong with AI-driven multi-year wins; margin outlook favorable at 17.3%, supported by productivity and offshore delivery leverage.

TP	Rs435			Key Stock Data	
CMP	Rs390			Bloomberg/Reuters	SSOF IN / SOFT.BO
Potential upside	12%			Sector	IT Services
Previous Rating	HOLD			Shares o/s (mn)	280
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	7.2	6.1	(32.1)		
Rel to Sensex	4.6	1.2	(40.8)		
V/s Consensus					
EPS (Rs)	FY26E	FY27E		Shareholding Pattern (%)	
IDBI Capital	16.3	20.5		Promoters	28.2
Consensus	16.6	20.9		FII	8.9
% difference	(1.8)	(2.0)		DII	26.2
				Public	36.7

Year	(Rs mn)				
	FY23	FY24	FY25	FY26E	FY27E
Revenue	74,491	86,131	1,01,703	1,11,647	1,20,948
Change (yoY, %)	34.1	15.6	18.1	9.8	8.3
EBITDA	6,041	7,274	7,027	7,160	8,775
Change (yoY, %)	30.3	20.4	(3.4)	1.9	22.6
EBITDA Margin(%)	8.1	8.4	6.9	6.4	7.3
Adj.PAT	4,519	4,831	4,437	4,559	5,761
EPS (Rs)	32.6	17.2	15.8	16.3	20.5
Change (yoY, %)	20.0	(47.1)	(8.2)	2.8	26.4
PE(x)	12.0	22.6	24.6	24.0	19.0
Dividend Yield (%)	4.0	2.0	2.1	2.1	2.1
EV/EBITDA (x)	8.2	14.4	15.2	14.1	10.9
RoE (%)	37.7	35.7	28.5	25.1	27.4
RoCE (%)	26.7	23.4	25.1	26.9	35.9

Source: Company, IDBI Capital Research

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Con-call Highlights:

- International services revenue grew 0.2% QoQ to USD 82 mn, and in constant currency increased 1% QoQ; INR revenue was INR 730.3 cr, +4.3% QoQ and +3.2% YoY. Domestic business revenue declined 38.8% QoQ and 4.8% YoY to INR 1,391.3 cr, reflecting normalization post Q1 spikes. Consolidated revenue stood at INR 2,119.3 cr, down 28.5% QoQ and 2.3% YoY. EBITDA margin improved to 17.3% (vs. 16.6% in Q1) supported by utilization gains, planned offshoring and AI-driven productivity.
- Consolidated PAT rose to INR 120.2 cr (+10% QoQ, +12.9% YoY). International PAT was INR 78 cr (+10.3% QoQ). Domestic PAT came in at INR 42.2 cr (+9.3% QoQ) aided by better gross contribution despite revenue degrowth. DSO increased to 68 days in international business (vs. 62 in Q1) due to billing cycles; domestic DSO improved to 42 days.
- International business softness was driven by ongoing ramp-down at the largest BFSI client, which will have a residual impact in Q3 before stabilizing. TMT softness persisted only in the largest tech client, while mid-tier tech showed strong growth, helping offset concentration headwinds.
- Large deals: One large healthcare modernization deal was won in Q2, adding to earlier TMT and BFSI wins. Order book stood at USD 105 mn with book-to-bill of 1.28x. AI order book increased to 10% of total, with two mid-sized AI+CSP deals and multiple AI-led modernization engagements across BFSI, retail, healthcare and TMT.
- Microsoft risk: Management clarified that Microsoft is selectively moving a very small set of large enterprise accounts globally to direct billing. Impact on Sonata will be limited to a few accounts over multi-year renewal cycles. No new customer is expected to transition to Microsoft-direct in the next six months. Diversification via other ISVs (Oracle, IBM, OpenText) and cloud partnerships is underway.
- Vertical commentary:
 - BFSI: Major drag due to one large account; bulk of impact absorbed in Q2, with a small tail effect expected in Q3; growth to resume from Q4 driven by other logos.
 - Healthcare & Life Sciences: Strong traction; key large and mid-sized AI modernization deals.
 - Retail-Manufacturing: Industry-wide softness continues; recovery expected by Q1 next year.

TMT: Renewals completed without shrinkage; new budgets delayed due to client re-org, with improvement expected in Q4–Q1.

- AI/Agentic AI: AI remains a central strategy with growing adoption across 100+ clients. AgentBridge (agentic AI platform) deployed internally for HR and Finance, delivering measurable productivity. Sonata formed collaborations with IISC and Wharton for agentic AI research. Cloud & data opportunities form 55% of pipeline, with rising Microsoft Fabric adoption.
- Operational metrics: Utilization improved to 87.3% (vs. 86.6%). Offshore mix increased to 57% from 53%, driven by planned offshoring from large deals. Headcount stood at 6,649 vs. 6,859, attrition at 14%. Eight clients now exceed USD 10 mn annual run-rate. Six new customers were added in the quarter.
- Margins: EBITDA benefited from 160 bps of operational improvement (utilization, offshoring, AI-led productivity), offset by 90 bps wage hike impact. Management expects further margin accretion in Q3 as full-quarter benefits flow through. Long-term aspiration remains high-teens EBITDA trending towards 20%.
- Domestic SITL business: Gross contribution remained stable despite revenue fluctuation; diversification strategy (SMC channel, non-Microsoft ISVs, SI deals, cloud offerings) is helping neutralize Microsoft policy changes. GC growth remains a structural priority.
- Outlook: Management expects H2 FY26 to be stronger with revenue uplift from large healthcare/TMT deals, AI-led wins and BFSI recovery post Q3. TMT new spending expected to revive post budget dissemination in early 2026. Company remains confident of maintaining 1.2–1.3x book-to-bill and delivering continued EBITDA improvement.
- Dividend: Company declared INR 1.25 per share interim dividend, maintaining its quarterly dividend policy.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
International Revenue (US\$mn)	82	82	0.2	85	(3.1)
Revenues	21,193	29,652	(28.5)	21,698	(2.3)
COGS	18,010	26,266	(31.4)	18,038	(0.2)
Gross profit	3,183	3,386	(6.0)	3,660	(13.0)
SG&A	1,456	1,789	(18.6)	1,888	(22.8)
EBITDA	1,727	1,597	8.2	1,773	(2.6)
Depreciation & amortization	263	261	0.7	329	(20.2)
EBIT	1,464	1,336	9.6	1,443	1.5
Other income	314	242	29.5	192	63.5
PBT	1,636	1,527	7.1	1,443	13.3
Tax	434	434	0.1	379	14.7
Minority interest					
Adjusted net profit	1,202	1,093	9.9	1,065	12.9
Extraordinary items	0	0		0	
Reported net profit	1,202	1,093	9.9	1,065	n.m
Recurring EPS (Rs)	4.3	3.9	9.9	3.8	n.m
<hr/>					
As % of net revenue					
Gross profit	15.0	11.4		16.9	
SG&A	6.9	6.0		8.7	
EBITDA	8.1	5.4		8.2	
EBIT	6.9	4.5		6.7	
Reported net profit	5.7	3.7		4.9	
Tax rate	36.1	28.4		26.2	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (Rs mn)	1,11,647	1,10,957	1%	1,20,948	1,24,273	-3%
EBIT (Rs mn)	5,727	6,801	-16%	7,224	8,291	-13%
EBIT margin (%)	5.1%	6.1%	-97 bps	6.0%	6.7%	-73 bps
PAT	4,559	5,324	-14%	5,761	6,969	-17%
EPS (Rs)	16.3	19.0	-14%	20.5	24.9	-17%

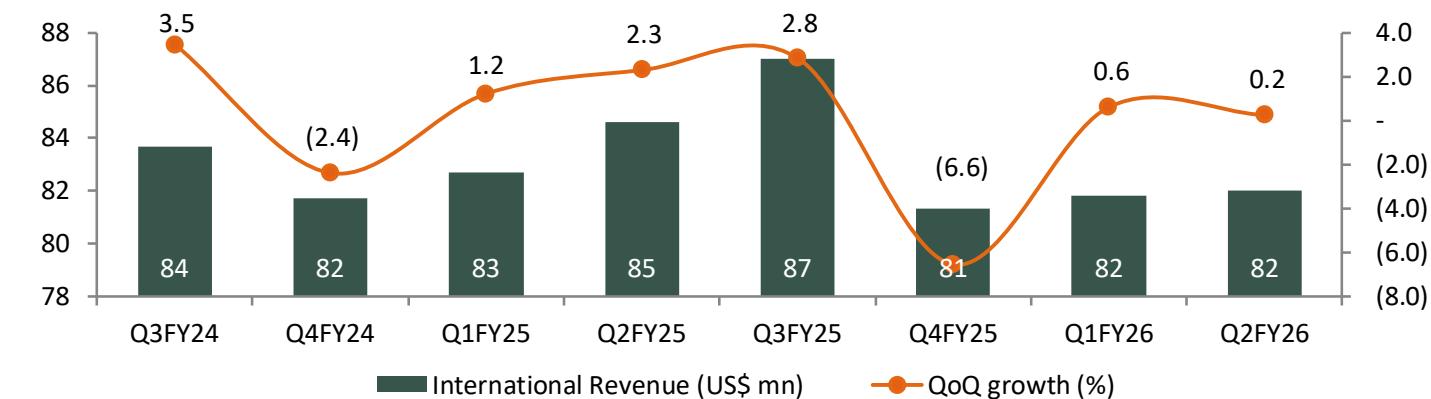
Source: Company; IDBI Capital Research

Exhibit 3: Large client metrics

Year-end: March	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Top 10	61	56	52	50	63	66	61	56	53
Top 20	70	69	61	60	77	78	73	73	70
Top 10-20	9	13	9	10	14	12	12	17	17
Non top 20	30	31	39	40	23	22	27	27	30

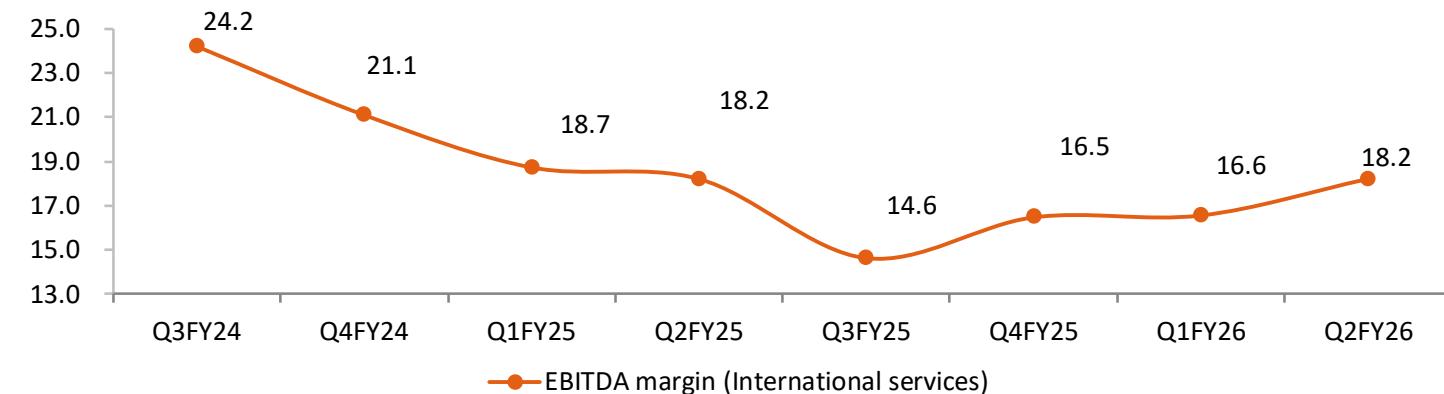
Source: Company; IDBI Capital Research

Exhibit 4: Q2FY26 International revenue stayed flat at +0.2% QoQ to USD 82mn

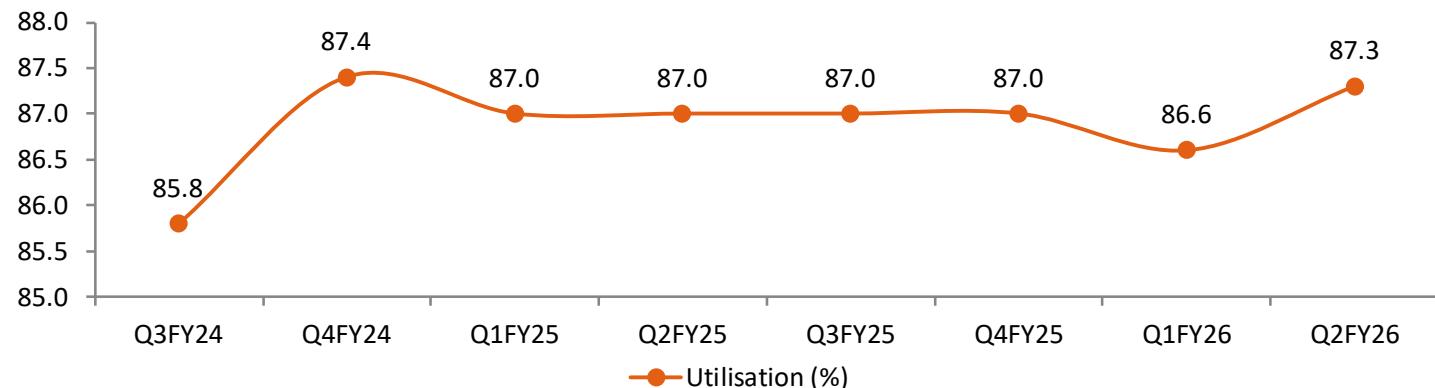


Source: Company; IDBI Capital Research

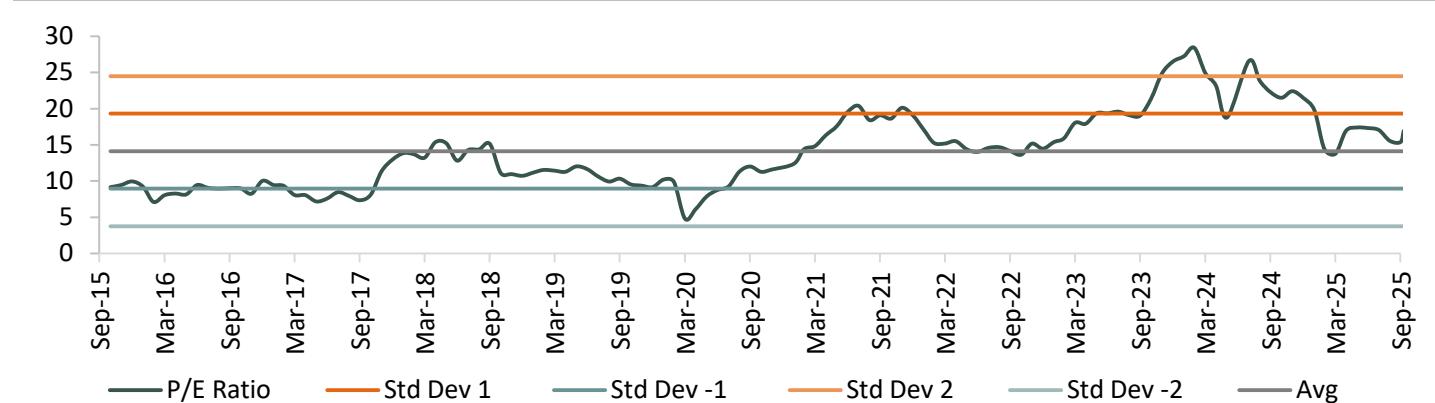
Exhibit 5: Q2Y26 International services EBITDA margin improved by 165 bps to 18.2%



Source: Company; IDBI Capital Research

Exhibit 6: Utilization (*International Services*) increased to 87.3%


Source: Company; IDBI Capital Research

Exhibit 7: One-year forward PER trend


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	55,534	74,491	86,131	1,01,703	1,11,647	1,20,948
<i>Change (yoY, %)</i>	31.3	34.1	15.6	18.1	9.8	8.3
Operating expenses	(50,896)	(68,450)	(78,856)	(94,676)	(1,04,488)	(1,12,173)
EBITDA	4,638	6,041	7,274	7,027	7,160	8,775
<i>Change (yoY, %)</i>	22.3	30.3	20.4	(3.4)	1.9	22.6
<i>Margin (%)</i>	8.4	8.1	8.4	6.9	6.4	7.3
Depreciation	(473)	(591)	(1,319)	(1,215)	(1,432)	(1,552)
EBIT	4,165	5,450	5,955	5,812	5,727	7,224
Interest paid	(180)	(185)	(850)	(653)	(648)	(587)
Other income	1,020	708	1,255	708	930	969
Pre-tax profit	5,004	5,973	4,614	5,867	6,009	7,605
Tax	(1,239)	(1,454)	(1,529)	(1,430)	(1,450)	(1,844)
<i>Effective tax rate (%)</i>	24.8	24.3	33.1	24.4	24.1	24.3
Minority Interest	-	-	-	-	-	-
Net profit	3,765	4,519	3,085	4,437	4,559	5,761
Exceptional items	-	-	(1,747)	-	-	-
Adjusted net profit	3,765	4,519	4,831	4,437	4,559	5,761
<i>Change (yoY, %)</i>	54.3	20.0	6.9	(8.2)	2.8	26.4
EPS	27.2	32.6	17.2	15.8	16.3	20.5
Dividend per sh	21.0	15.8	7.9	8.0	8.2	8.2
<i>Dividend Payout %</i>	77	48	46	51	50	40

Balance Sheet							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Shareholders' funds	10,992	13,007	14,063	17,059	19,319	22,781	
Share capital	104	139	278	278	278	278	
Reserves & surplus	10,888	12,868	13,785	16,782	19,042	22,504	
Total Debt	380	4,936	6,743	4,416	1,856	-	
Other liabilities	1,660	9,876	2,185	1,868	(1,867)	(1,867)	
Curr Liab & prov	12,560	15,750	28,500	24,209	36,943	40,021	
Current liabilities	12,275	15,440	28,130	23,781	36,464	39,501	
Provisions	285	311	370	428	479	519	
Total liabilities	14,600	30,562	37,428	30,492	36,932	38,154	
Total equity & liabilities	25,592	43,569	51,491	47,552	56,251	60,935	
Net fixed assets	4,269	17,331	16,710	16,295	15,437	14,487	
Investments	139	140	130	35	35	35	
Other non-curr assets	1,741	1,948	3,896	3,905	4,759	5,084	
Current assets	19,443	24,151	30,756	27,317	36,021	41,330	
Inventories	29		980	472	1,270	1,376	
Sundry Debtors	9,220	12,362	16,051	17,409	20,806	22,539	
Cash and Bank	9,144	9,361	10,971	6,945	10,375	13,547	
Other current assets	1,051	2,140	2,754	2,490	3,570	3,868	
Total assets	25,593	43,569	51,491	47,552	56,251	60,935	

Cash Flow Statement							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Pre-tax profit	5,004	5,973	4,614	5,867	6,009	7,605	
Depreciation	(473)	(591)	(1,319)	(1,215)	(1,432)	(1,552)	
Tax paid	(1,311)	(1,193)	(2,413)	(1,401)	(1,450)	(1,844)	
Chg in working capital	973	(212)	8,369	(5,142)	8,540	1,239	
Other operating activities	1,788	6,772	(9,321)	(5,459)	(4,853)	(1,296)	
Cash flow from operations (a)	6,927	11,932	2,568	(4,921)	9,679	7,255	
Capital expenditure	(1,505)	(13,653)	(698)	(800)	(574)	(602)	
Chg in investments	(33)	(1)	10	95	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(2,332)	(14,264)	(952)	(835)	(574)	(602)	
Equity raised/(repaid)	-	35	139	0	-	-	
Debt raised/(repaid)	(517)	4,556	1,807	(2,327)	(2,560)	(1,856)	
Dividend (incl. tax)	(2,917)	(2,185)	(2,215)	(2,243)	(2,299)	(2,299)	
Chg in minorities	-	-	-	-	-	-	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	(3,435)	2,406	(269)	(4,571)	(4,859)	(4,155)	
Net chg in cash (a+b+c)	1,161	73	1,347	(10,326)	4,246	2,499	

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	79	94	50	61	69	81
<i>Adj EPS (Rs)</i>	27.2	32.6	17.2	15.8	16.3	20.5
<i>Adj EPS growth (%)</i>	15.6	20.0	-47.1	-8.2	2.8	26.4
<i>EBITDA margin (%)</i>	8.4	8.1	8.4	6.9	6.4	7.3
<i>Pre-tax margin (%)</i>	9.0	8.0	5.4	5.8	5.4	6.3
<i>Net Debt/Equity (x)</i>	-0.8	-0.3	-0.3	-0.1	-0.4	-0.6
<i>ROCE (%)</i>	34.7	26.7	23.4	25.1	26.9	35.9
<i>ROE (%)</i>	37.6	37.7	35.7	28.5	25.1	27.4
DuPont Analysis						
Asset turnover (x)	2.5	2.2	1.8	2.1	2.2	2.1
Leverage factor (x)	2.2	2.9	3.5	3.2	2.9	2.8
<i>Net margin (%)</i>	6.8	6.1	5.6	4.4	4.1	4.8
Working Capital & Liquidity ratio						
Inventory days	0	1	4	2	4	4
Receivable days	61	61	68	62	68	68
Payable days	76	69	66	60	64	65

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	14.3	12.0	22.6	24.6	24.0	19.0
Price/Book value (x)	4.9	4.2	7.8	6.4	5.7	4.8
EV/Net sales (x)	0.8	0.7	1.2	1.0	0.9	0.8
EV/EBITDA (x)	9.8	8.2	14.4	15.2	14.1	10.9
<i>Dividend Yield (%)</i>	5.4	4.0	2.0	2.1	2.1	2.1

Source: Company; IDBI Capital Research

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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