Sonata Software (SONSOF)

CMP: ₹ 319 | Target ₹ 310 (-3%) | Target Period: 12 months | HOLD

August 10, 2026

Muted IT services performance, AI pipeline momentum a solace...

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.

Q1FY27 performance: International IT services (IITS) revenue came at US$82 mn, down 0.5% / up 0.2% YoY in US$ terms (up 0.1% QoQ/ 2.1% YoY in CC terms). Consol revenue came at US$ 346.6 mn, up 25% QoQ; in rupee terms ₹3,279.1 crore, up 29.3% QoQ and 10.6% YoY with an EBITDA margin of 5.2%, down ~300 bps QoQ/ ~18 bps YoY. PAT stood at ₹108.1 crore, down 17.2% QoQ/ 1.1% YoY.

Investment Rationale:

- **Large-deal traction and improving execution support medium-term growth:** International services remain temporarily muted, but management highlighted 7 new customer wins, including a three-year multimillion-dollar deal spanning application development, modernisation and managed services. The large-deal ramp-up that impacted Q1 utilisation is largely behind. Strengthening leadership at key accounts and shifting towards AI-led adjacent spends are already improving pipeline, while top-5 accounts have stabilised and are expected to return to growth over the next few quarters. **Accordingly, we build in a measured recovery in IT services growth at a CAGR of 5% over FY26-28E in US$ terms.**
- **Domestic recovery and sharper vertical focus improve earnings visibility:** The domestic business has successfully navigated the earlier OEM direct-billing headwinds, with management indicating that several customer renewal risks are now behind and expressing confidence of sustaining growth momentum. Sonata is sharpening its focus across nine micro-verticals where it already has domain strengths rather than entering entirely new areas, enabling concentrated investments and stronger GTM. **With international margins expected to improve sequentially and domestic growth recovering, we see scope for earnings recovery and margin expansion over the medium term as management expects positive EBITDA trajectory from Q2FY27 onwards as one-offs normalise and utilisation improves. At the consolidated level, we model EBITDA margin of 6.8%/7.8% for FY27E/FY28E.**
- **AI-led transformation to strengthen its positioning:** Sonata is accelerating its transition into an AI-native, engineering-led organisation, **and AI-led pipeline expanding to US$340 mn (+21% QoQ) with cloud & data now contributing 51% of pipeline, AI-led order book at US$21.73 million (+27% QoQ), representing 18% of the total order book,** while the company has launched its enterprise-grade Workbench platform and is focusing on six AI value pools across agentic transformation, legacy modernisation, AI-ready data and AI-native service delivery. Its selection among only ~40 global organisations for Microsoft's Copilot Agents & Platform Engineering Depth Program further strengthens its AI positioning.

Rating and Target Price: We maintain HOLD rating with target price of ₹310 at 16x P/E on FY28E EPS.

SONATA SOFTWARE

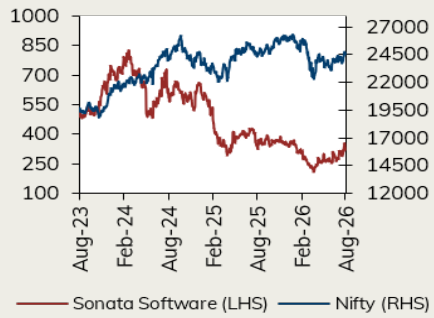
Particulars

Particulars	Amount
Market Cap (₹ Crore)	8,868
Total Debt (₹ Crore)	568
Cash and Invts (₹ Crore)	604
EV (₹ Crore)	8,831
52 week H/L	421/207
Equity capital (₹ Crore)	27.7
Face value	1.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	28.2	28.2	28.2	28.2
FII	8.8	8.8	8.7	9.2
DII	26.3	26.3	25.5	24.7
Public	36.7	36.7	37.5	38.0

Price Chart



Key risks

- Slower than expected revenue growth;
- Faster than expected recovery in revenue, margins & pipeline conversion

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
Net Sales	8,613	10,157	10,701	20.4%	11,424	12,239	6.9%
EBITDA	727	690	741	3.9%	753	893	9.8%
EBITDA Margin (%)	8.4	6.8	6.9		6.6	7.3	
PAT	308	425	464		457	536	
Adjusted PAT	483	425	527	16.7%	457	536	0.8%
EPS (Rs.)	11.1	15.3	16.7		16.5	19.3	
P/E (x)	18	21	17		19	17	
RoNW (%)	21.9	24.9	24.4		20.8	21.0	
RoCE (%)	31.4	27.4	27.0		21.4	22.6	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** International IT Services (IITS) revenue (24% of mix vs 30.7% in Q4FY26) stood at US$82 mn, up 0.1% QoQ/2.1% YoY in CC terms. In US$ terms, revenue declined 0.5% QoQ and grew 0.2% YoY. In rupee terms, IITS revenue stood at ₹777.2 crore, down 0.3% QoQ/11% YoY. Domestic Products & Services (76% of mix) revenue stood at ₹2,505.6 crore, up 42.4% QoQ/10.2% YoY. At the consolidated level, revenue stood at ₹3,279.1 crore, up 29.3% QoQ/10.6% YoY.

- **Geography performance:** Geography wise on a QoQ basis, USA (71% of the mix), Europe (23% of the mix) and RoW (6% of the mix) declined by 0.5% each.

- **Margin performance:** IITS EBITDA margin stood at 15.4%, down ~481 bps QoQ/ ~117 bps YoY, impacted by a one-time benefit in the previous quarter (~200 bps), lower utilisation due to delayed large-deal ramp-up, AI talent/advisory investments and impact from cross-currency movements (-50 bps). **Management expects positive EBITDA traction from Q2FY27 onwards as one-offs normalise, deal ramp-up completes and utilisation improves.** Domestic EBITDA margin came at 2.4% (down ~50 bps QoQ/ up ~50 bps YoY). Consolidated EBITDA margin came at 5.2%, down ~300 bps QoQ/ ~18 bps YoY. PAT stood at ₹108.1 crore, down 17.2% QoQ/ 1.1% YoY impacted by forex losses of ₹6.8 crore during the quarter.

- **Segment Performance:** Segment wise on a QoQ basis, BFSI (16% of the mix) grew by 22.5% while TMT (34% of the mix), Retail (32% of the mix) Healthcare (15% of the mix) and Emerging (3% of the mix) declined by 6%, 3.5%, 0.5% and 0.5%.

- **TCV, Deal Wins and pipeline:** The company indicated that AI-led pipeline has expanded to US$340 mn (+21% QoQ) with cloud & data now contributing 51% of pipeline. AI-led order book stood at US$21.73 million (+27% QoQ), representing 18% of the total order book. The company added seven new customers, including 1 three-year multimillion-dollar deal spanning application development, modernisation and managed services.

- **Headcount/Attrition and Utilization:** Total employees for the IITS business stood at 5,795 employees, a net increase of 1 employee QoQ. Attrition for the quarter stood at 13%, up ~200 bps QoQ. Utilisation declined to 88.5% from 91.8% QoQ, primarily due to delayed ramp-up of a large deal and AI capability incubation. **Management expects the delayed ramp-up to be completed in Q2FY27, supporting utilisation recovery**.

- **Outlook:** Management remains confident in the medium-to-long-term growth trajectory, driven by its transition towards an AI-native, engineering-led organisation, increasing AI order bookings and pipeline, and sharper focus on select micro-verticals. The company has launched Workbench, its enterprise-grade agentic AI service delivery platform, and has been selected among ~40 organisations globally for Microsoft's Copilot Agents & Platform Engineering Depth Program. **Management expects revenue and EBITDA to improve gradually, with the large-deal ramp-up largely behind and margin trajectory turning positive from Q2FY27 onwards. The domestic business has also moved past several OEM-related headwinds, with management confident of sustaining its growth momentum.**

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

Exhibit 1: Quarter Performance

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
Revenue	3,279	2,965	10.6	2,536	29.3	International IT Services (IITS) revenue (24% of mix vs 30.7% in Q4FY26) stood at US$82 mn, up 0.1% QoQ/2.1% YoY in CC terms. In US$ terms, revenue declined 0.5% QoQ and grew 0.2% YoY. Domestic Products & Services (76% of mix) revenue stood at ₹2,505.6 crore, up 42.4% QoQ/10.2% YoY.
Employee expenses	351	418	(15.9)	318	10.4	
Purchase of stock-in trade	2,594	2,209	17.5	1,843	40.8	
Gross Margin	333	339	(1.5)	375	(11.1)	
Gross margin (%)	10.2	11.4	-125bps	14.8	-461bps	
Other expenses	163	179	(9.1)	166	(2.1)	
EBITDA	171	160	7.0	209	(18.2)	
EBITDA Margin (%)	5.2	5.4	-18bps	8.2	-302bps	IITS EBITDA margin stood at 15.4%, down ~481 bps QoQ/ ~117 bps YoY, impacted by a one-time benefit in the previous quarter, lower utilisation due to delayed large-deal ramp-up, AI talent/advisory investments and ~50 bps impact from cross-currency movements. Domestic EBITDA margin came at 2.4% (down ~50 bps QoQ/ up ~50 bps YoY).
Depreciation & amortisation	28	26	9.0	25	12.0	
EBIT	142	134	6.6	183	(22.4)	
EBIT Margin (%)	4.3	4.5	-16bps	7.2	-289bps	
Other income (less interest)	(5)	19.14	(127.4)	18	(128.4)	
PBT	137	153	(10.2)	202	(32.0)	
Tax paid	29	43	(33.2)	40	(26.9)	
PAT	108.1	109	(1.1)	131	(17.2)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

		FY27E			FY28E	
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	340	335	-1.5	367.2	362	-1.5
Revenue	11,309	11,424	1.0	12,109.4	12,239	1.1
EBITDA	800	753	-5.9	920.6	893	-2.9
EBITDA Margin (%)	7.1	6.6	-49bps	7.6	7.3	-30bps
PAT	481	457	-4.8	558.7	536	-4.1
Diluted EPS (₹)	17.3	16.5	-4.8	20.1	19.3	-4.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Total Revenues	**10,701**	**11,424**	**12,239**
Growth (%)	5.4	6.8	7.1
Total Op Expenditure	9,960	10,671	11,346
EBITDA	**741**	**753**	**893**
Growth (%)	7.5	1.5	18.7
Depr & Amortization	104	128	184
Other Income	105	27	57
Interest costs	51	49	50
PBT before Excep Items	690	603	716
Growth (%)	20.3	(12.6)	18.8
Tax	163	145	180
PAT before Excep Items	527	457	536
Exceptional items	(63)	-	-
PAT before MI	464	457	536
Minority Int & Pft. from associates	-	-	-
PAT	**464**	**457**	**536**
Growth (%)	9	(1)	17
EPS	16.7	16.5	19.3
EPS (Growth %)	9	(1)	17

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Net profit before Tax	**627**	**603**	**716**
Depreciation & Amortization	104	128	184
WC changes	(16)	(8)	(9)
Other non cash adju.	(12)	22	(6)
Income taxes paid	(166)	(145)	(180)
CF from Operations	**538**	**599**	**704**
Capital expenditure	(113)	(40)	(43)
Δ in investments	(113)	-	-
Other investing cash flow	8	27	57
CF from Investing Activities	**(217)**	**(13)**	**14**
Issue of equity	(0)	-	-
Δ in debt funds/lease liablities	26	(24)	(24)
Dividends paid	(222)	(160)	(188)
Other financing cash flow	(70)	(49)	(50)
CF from Financial Activities	**(266)**	**(233)**	**(262)**
Δ in cash & cash bank balance	54	353	456
Effect of exchange rate changes	8	-	-
Opening cash	310	421	774
Closing cash	**421**	**774**	**1,230**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Equity	28	28	28
Reserves & Surplus	1,877	2,174	2,523
Networth	1,905	2,202	2,550
Minority Interest	-	-	-
LT liabilties & provisions	270	270	270
Total Debt	568	568	568
Source of funds	**2,742**	**3,040**	**3,388**
Assets			
Net fixed assets	630	566	449
Goodwill	1,268	1,268	1,268
Long term loans	-	-	-
Other non current assets	421	441	464
Loans and advances	-	-	-
Inventories	37	39	42
Current Investments	183	183	183
Debtors	1,849	1,974	2,115
Cash & Cash equivalents	421	774	1,230
Other current assets	282	301	323
Current liabilities	2,263	2,416	2,589
Provisions	85	91	98
Net current assets	424	765	1,207
Application of funds	**2,743**	**3,040**	**3,388**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
EPS-diluted	16.7	16.5	19.3
Cash per share	15.2	27.8	44.2
BV	68.5	79.2	91.7
DPS	5.8	5.8	6.7
Operating Ratios (%)			
EBITDA Margin	6.9	6.6	7.3
Adjusted PBT Margin	6.4	5.3	5.9
Adjusted PAT Margin	4.3	4.0	4.4
Return Ratios (%)			
RoNW	24.4	20.8	21.0
RoCE	27.0	21.4	22.6
RoIC	29.8	30.0	35.9
Valuation Ratios (x)			
P/E	16.8	19.4	16.6
EV / EBITDA	11.9	11.3	9.0
Price to Book Value	4.7	4.0	3.5
EV/Total Revenues	0.8	0.7	0.7
MCap/Total Revenues	0.8	0.8	0.7
Turnover Ratios			
Debtor days	63	63	63
Creditors days	61	61	61
Solvency Ratios			
Debt/EBITDA	0.8	0.8	0.6
Total Debt / Equity	0.3	0.3	0.2
Current Ratio	1.2	1.3	1.4
Quick Ratio	1.2	1.3	1.4
Debt / EBITDA	0.8	0.8	0.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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