Sonata Software (SONSOF)

CMP: ₹ 259 | Target ₹ 270 (4%) | Target Period: 12 months | HOLD

November 11, 2026

Gradual recovery ahead...

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.

Q2FY27 performance: International IT services (IITS) revenue came at US$ 82.8 mn, up 1% both QoQ & YoY in US$ terms (up 1.2% QoQ/ 1.3% YoY in CC terms). Consol revenue came at US$ 255.9 mn, up 26% QoQ; in rupee terms ₹2,445.2 crore, down 25.4% QoQ but up 15.4% YoY with an EBITDA margin of 7.3%, up ~213 bps QoQ/ down ~81 bps YoY. PAT stood at ₹116 crore, up 7.7% QoQ/ down 3.2% YoY.

Investment Rationale:

- **Revenue growth recovery expected, supported by AI-led offerings and account diversification:** Sonata's IITS business reported 1.2% QoQ growth in CC terms, marking an improvement after several quarters of subdued performance, despite a ramp-down in a large account. With company is transitioning from stability towards growth, supported by AI-native service delivery, legacy modernisation and AI-ready data offerings, it **expects sustained growth momentum in the coming quarters, although isolated headwinds in BFSI and TMT could impact Q3FY27. Domestic business is also expected to sustain its medium-term growth trajectory. Accordingly, we build in a measured recovery in IT services growth at a CAGR of 4.2% over FY26-28E in US$ terms.**
- **Margin recovery expected from current levels, although 18–20% aspiration remains a gradual journey:** IITS EBITDA margin stood at 15.5%, improving ~10 bps QoQ despite wage hikes, impacted by severance costs (~50bps) and proof-of-concept investments (~100bps). Improved utilisation (90.5%), pyramid optimisation and operational efficiencies supported the performance. **Management indicated that Q2FY27 represents the current margin base and expects positive margin momentum from here, reiterating its long-term aspiration of 18–20%.** However, the quantum and timeline of recovery remain unspecified, with continued investments in AI capabilities and customer acquisition potentially moderating near-term improvement. **At the consolidated level, we model EBITDA margin of 6.4%/7.3% for FY27E/FY28E.**
- **AI-led deal pipeline and strategic partnerships strengthen medium-term positioning: Sonata's AI-led order bookings stood at US$24.2mn, contributing ~25% of total order bookings, while the AI-led pipeline expanded to US$358mn**. The company is witnessing early traction from Harmoni.AI offerings, with client deployments demonstrating improvements in delivery productivity and modernisation outcomes. **Additionally, the five-year AWS strategic collaboration and three-year Google Gemini Enterprise partnership expand its addressable opportunities in cloud modernisation and managed services.** While these initiatives strengthen the medium-term growth opportunity, conversion into meaningful revenue and profitability remains the key monitor.

Rating and Target Price: Given subdued IITS growth, margin recovery still underway and delayed monetisation of initiatives, we retain our HOLD rating, at a target price of ₹270 at 14x P/E on FY28E EPS.

SONATA SOFTWARE

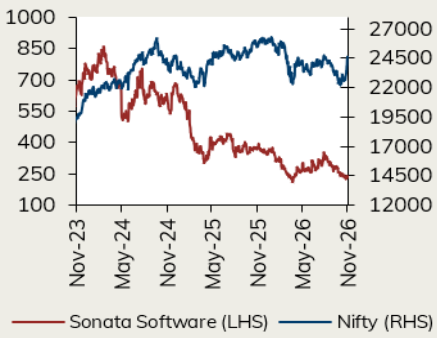
Particulars

Particulars	Amount
Market Cap (₹ Crore)	7,200
Total Debt (₹ Crore)	568
Cash and Invts (₹ Crore)	604
EV (₹ Crore)	7,164
52 week H/L	400/207
Equity capital (₹ Crore)	27.7
Face value	1.0

Shareholding pattern

	Dec-25	Mar-26	Jun-26	Sep-26
Promoter	28.2	28.2	28.2	28.2
FII	8.8	8.7	9.2	8.8
DII	26.3	25.5	24.7	24.9
Public	36.7	37.5	38.0	38.1

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%	11,648	12,455	7.9%
EBITDA	727	690	741	3.9%	740	909	10.8%
EBITDA Margin (%)	8.4	6.8	6.9		6.4	7.3	
PAT	308	425	464		451	534	
Adjusted PAT	483	425	527	16.7%	451	534	0.7%
EPS (Rs.)	11.1	15.3	16.7		16.2	19.2	
P/E (x)	15	17	14		16	13	
RoNW (%)	21.9	24.9	24.4		20.5	21.0	
RoCE (%)	31.4	27.4	27.0		21.3	22.8	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** International IT Services (IITS; 32.6% of mix) reported revenue of US$82.8mn, up 1% QoQ/1% YoY in US$ terms and 1.2% QoQ/1.3% YoY in constant currency terms. In rupee terms, revenue stood at ₹797.9 crore, up 2.7% QoQ/9.3% YoY (+0.6% QoQ/ flat YoY). Domestic Products & Services (67.7% of mix) revenue stood at ₹1,655.6 crore, down 33.9% QoQ but up 19% YoY. Consolidated revenue stood at ₹2,445.2 crore, down 25.4% QoQ but up 15.4% YoY.
- **Geography performance:** Geography wise on a QoQ basis, RoW (7% of the mix) and USA (74% of the mix) increased by 17.8% and 5.2% while Europe (19% of the mix) declined by 16.6%.
- **Margin performance:** IITS EBITDA margin (before forex and other income) stood at 15.5%, up ~11bps QoQ but down ~179bps YoY. Sequential improvement was supported by higher utilisation (90.5% vs 88.5%), improved operational efficiencies, pyramid optimisation and SDN day savings, partly offset by wage hikes, severance costs (~50bps) and proof-of-concept investments (~100bps). Domestic EBITDA margin stood at 3.4%, up ~100bps QoQ/~10bps YoY. Consolidated EBITDA margin stood at 7.3%, up ~213bps QoQ but down ~81bps YoY. PAT stood at ₹116.4 crore, up 7.7% QoQ but down 3.2% YoY.
- **Segment Performance:** Segment wise on a QoQ basis, Emerging (4% of the mix), Healthcare (16% of the mix) and BFSI (16% of the mix) grew by 34.6%, 7.7% and 7.2% while TMT (32% of the mix) and Retail (31% of the mix) declined by 5% and 2%.
  - **TMT:** Management indicated that performance was impacted by a ramp-down in one large account, while business across other accounts remained healthy. Another account could witness a slight ramp-down in Q3FY27; however, management highlighted that its order book has increased, extending revenue visibility over the next 8–10 quarters. Overall, management expects TMT to remain a growth contributor, supported by improving traction across existing accounts and AI-led offerings.
  - **BFSI:** Management indicated that the YoY performance was impacted by the ramp-down of a large customer, which had a significant data services component. While some headwinds are expected in Q3FY27, management highlighted improving traction in the vertical and remains confident about its medium-term growth prospects.
- **TCV, Deal Wins and pipeline:** IITS order book stood at US$98.5mn, with a book-to-bill ratio of 1.18x. AI-led order bookings stood at US$24.2mn, contributing ~25% of total order bookings, up 13.5% QoQ. AI-led pipeline stood at US$358mn, up 5% QoQ. The company added 4 new customers during the quarter and secured 3 key deals, including 1 large cloud modernisation deal. Management highlighted that 35% of the active pipeline comprises large deals, while 30% of the large-deal pipeline is from Fortune 500 clients.
- **Headcount/Attrition and Utilization:** IITS headcount stood at 5,680 employees (down 115 QoQ), while total headcount, including domestic business, stood at 6,214. LTM attrition improved to 10% from 13% in Q1FY27. Utilisation improved to 90.5% from 88.5% QoQ, supported by completion of ramp-up of a large deal.
- **Outlook:** Management expects positive revenue growth momentum in the coming quarters, supported by AI-led offerings, legacy modernisation, AI-ready data and increasing traction across mid-sized accounts. The company is focusing on three key offerings contributing ~61% of incremental pipeline. **Management highlighted continued traction in HLS, BFSI and TMT, while flagging isolated headwinds in BFSI and TMT during Q3FY27. IITS EBITDA margin is expected to improve from current**

levels, with a longer-term aspiration of 18–20%. Domestic business is expected to sustain its medium-term growth trajectory, supported by multi-cloud managed services and strategic partnerships. **AWS execution is expected to commence from Q1FY28 following capability build-out.**

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

Exhibit 1: Quarter Performance

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)
Revenue	2,445	2,119	15.4	3,279	(25.4)
Employee expenses	383	423	(9.5)	351	8.9
Purchase of stock-in trade	1,725	1,378	25.1	2,594	(33.5)
Gross Margin	338	318	6.1	333	1.3
Gross margin (%)	13.8	15.0	-121 bps	10.2	365 bps
Other expenses	158	146	8.7	163	(2.7)
EBITDA	179	173	3.9	171	5.1
EBITDA Margin (%)	7.3	8.1	-81 bps	5.2	213 bps
Depreciation & amortisation	31	26	16.5	28	7.6
EBIT	149	146	1.7	142	4.6
EBIT Margin (%)	6.1	6.9	-82 bps	4.3	175 bps
Other income (less interest)	8	17.15	(50.9)	(5)	(260.7)
PBT	157	164	(3.8)	137	14.8
Tax paid	41	43	(5.7)	29	41.2
PAT	116.4	120	(3.2)	108	7.7

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	335	333	-0.6	361.8	357	-1.4
Revenue	11,424	11,648	2.0	12,239.4	12,455	1.8
EBITDA	753	740	-1.6	893.5	909	1.8
EBITDA Margin (%)	6.6	6.4	-23 bps	7.3	7.3	0 bps
PAT	457	451	-1.4	535.7	534	-0.3
Diluted EPS (₹)	16.5	16.2	-1.4	19.3	19.2	-0.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Total Revenues	**10,701**	**11,648**	**12,455**
Growth (%)	5.4	8.8	6.9
Total Op Expenditure	9,960	10,907	11,545
EBITDA	**741**	**740**	**909**
Growth (%)	7.5	(0.1)	22.8
Depr & Amortization	104	136	187
Other Income	105	43	48
Interest costs	51	54	56
PBT before Excep Items	690	593	714
Growth (%)	20.3	(14.0)	20.4
Tax	163	142	180
PAT before Excep Items	527	451	534
Exceptional items	(63)	-	-
PAT before MI	464	451	534
Minority Int & Pft. from associates	-	-	-
PAT	**464**	**451**	**534**
Growth (%)	9	(3)	18
EPS	16.7	16.2	19.2
EPS (Growth %)	9	(3)	18

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Net profit before Tax	**627**	**593**	**714**
Depreciation & Amortization	104	136	187
WC changes	(16)	(11)	(9)
Other non cash adju.	(12)	11	8
Income taxes paid	(166)	(142)	(180)
CF from Operations	**538**	**587**	**720**
Capital expenditure	(113)	(41)	(44)
Δ in investments	(113)	-	-
Other investing cash flow	8	43	48
CF from Investing Activities	**(217)**	**2**	**4**
Issue of equity	(0)	-	-
Δ in debt funds/lease liablities	26	(24)	(24)
Dividends paid	(222)	(158)	(187)
Other financing cash flow	(70)	(54)	(56)
CF from Financial Activities	**(266)**	**(236)**	**(267)**
Δ in cash & cash bank balance	54	354	457
Effect of exchange rate changes	8	-	-
Opening cash	310	421	775
Closing cash	**421**	**775**	**1,232**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Equity	28	28	28
Reserves & Surplus	1,877	2,170	2,517
Networth	1,905	2,198	2,545
Minority Interest	-	-	-
LT liabilties & provisions	270	270	270
Total Debt	568	568	568
Source of funds	**2,742**	**3,036**	**3,383**
Assets			
Net fixed assets	630	559	439
Goodwill	1,268	1,268	1,268
Long term loans	-	-	-
Other non current assets	421	447	470
Loans and advances	-	-	-
Inventories	37	40	43
Current Investments	183	183	183
Debtors	1,849	2,013	2,152
Cash & Cash equivalents	421	775	1,232
Other current assets	282	307	328
Current liabilities	2,263	2,463	2,634
Provisions	85	93	99
Net current assets	424	762	1,205
Application of funds	**2,743**	**3,036**	**3,383**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
EPS-diluted	16.7	16.2	19.2
Cash per share	15.2	27.9	44.3
BV	68.5	79.1	91.6
DPS	5.8	5.7	6.7
Operating Ratios (%)			
EBITDA Margin	6.9	6.4	7.3
Adjusted PBT Margin	6.4	5.1	5.7
Adjusted PAT Margin	4.3	3.9	4.3
Return Ratios (%)			
RoNW	24.4	20.5	21.0
RoCE	27.0	21.3	22.8
RoIC	29.8	29.1	36.7
Valuation Ratios (x)			
P/E	13.7	16.0	13.5
EV / EBITDA	9.7	9.2	7.0
Price to Book Value	3.8	3.3	2.8
EV/Total Revenues	0.7	0.6	0.5
MCap/Total Revenues	0.7	0.6	0.6
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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