



TM

30 July 2025

## Sonata Software

### Client Challenges Weigh on IITS Growth Outlook

#### RESULT UPDATE

Sector: IT &amp; ITES

Rating: HOLD

CMP: Rs 414

Target Price: Rs 423

#### Stock Info

Sensex/Nifty	81,482/24,847
Bloomberg	SSOF IN
Equity shares (mn)	278
52-wk High/Low	760 / 286
Face value	Re 1
M-Cap	Rs 114.9bn/USD 1.34bn
3-m Avg turnover	USD 20.5mn

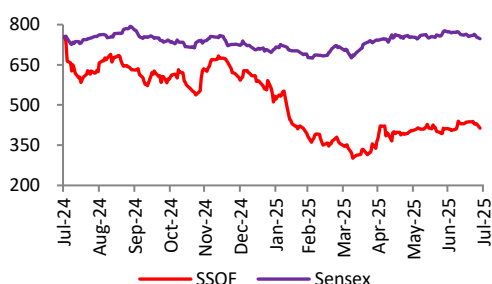
#### Financial Snapshot (Rs mn)

Y/E Mar	FY25	FY26E	FY27E
Net sales	101,573	110,177	124,825
EBITDA	6,896	7,737	9,584
EBITDA (%)	6.8%	7.0%	7.7%
PAT	4,247	5,012	6,515
EPS	15.3	18.1	23.5
P/E (x)	27.1	22.9	17.6
P/B (x)	6.7	6.0	4.7
EV/EBITDA (x)	15.0	13.0	10.0
RoE (%)	27.3%	27.6%	29.8%
RoCE (%)	27.6%	29.5%	32.8%

#### Shareholding Pattern (%)

	Jun'25	Mar'25	Dec'24
Promoter	28.2	28.2	28.2
- Pledged	-	-	-
FII	9.7	10.8	12.3
DII	25.6	25.9	24.3
Others	36.6	35.2	35.2

#### Stock Performance (1-year)



Sonata Software (SSOF)'s International IT services (IITS) business (~65% of EBITDA mix) reported a 0.9% QoQ CC revenue decline in 1Q. The company is facing headwinds from softness in retail and manufacturing verticals due to tariff-related uncertainty, discretionary budget cuts at two large clients (BFSI and high-tech), and potential risks from Microsoft's (their top client) pivot toward direct enterprise sales. Given the soft near-term outlook and client-specific challenges, we expect growth in the IITS business to moderate in FY26, with some recovery in FY27. Management withheld IITS revenue guidance (USD 500mn earlier) but reiterated its ambition to deliver top-quartile growth and ~20% EBITDA margin by FY26, supported by offshore mix optimization, improved utilization, and pyramid restructuring. We have reduced our revenue forecast to 10.7% CAGR in USD revenue over FY25-27E (vs 13.1% earlier), factoring in the weak outlook in their IITS business. Accordingly, EBITDA margin and EPS estimates for FY26E/FY27E are also cut by 49bps/33bps and 4.4%/6.5%, respectively. We maintain HOLD with a revised target price of Rs 423 (vs. Rs 452 earlier), based on an unchanged multiple of 18x FY27E EPS. Our estimate revisions reflect concerns around delayed deal conversions and material uncertainty from the ramp-down of its top client engagement. Upside risks include a rebound in top-client revenues, better-than-expected TCV wins, and sustained margin outperformance.

#### IITS business growth was weak

SSOF's 1Q consolidated revenue grew 13.3% QoQ in rupee terms, while international IT services revenue grew 0.6% QoQ in dollar terms and fell 0.3% in rupee terms. Europe market showed weakness, while markets in US and RoW (Rest of World) showed growth. BFSI and emerging verticals showed weakness, while healthcare, TMT, and retail & manufacturing grew in 1Q. In 1Q, the management did not comment on their previously given guidance of USD 1.5bn revenue by FY27.

#### Margins dropped sequentially

SSOF's EBITDA margin in IITS grew 10bps QoQ to 16.6% and fell 100bps QoQ to 1.9% in domestic products. Consolidated EBITDA margin fell 80bps QoQ to 6.2%. The drop in consolidated EBITDA margins is mainly due to muted revenue growth in IITS which carries higher margins (forms ~65% of EBITDA in absolute terms).

#### Valuation & Outlook

At 22.9x 1-year forward multiple, we maintain HOLD on SSOF, valuing it at an unchanged multiple of 18x FY27E EPS. We continue to maintain our cautious outlook amid ongoing execution challenges, including slower deal conversions and lingering uncertainty from the recent scale-down in the top client account. However, a stronger-than-expected recovery in revenue from this key client, improved deal momentum, and sustained margin strength could present meaningful upside risks to our current estimates.

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## What do the 1QFY26 result numbers say?

- SSOF's 1QFY26 consolidated revenue grew 13.3% QoQ and 17.3% YoY to Rs 29,652mn in rupee terms. IITS revenue (24% of total) was a) up 0.6% QoQ and down 1.1% YoY at USD 81.8mn in dollar terms, b) down 0.3% QoQ and up 1.8% YoY at Rs. 6,999mn in rupee terms, and c) down 0.9% QoQ and 2.4% YoY in CC terms. Revenue in the domestic products business (76% of total) grew 18.6% QoQ and 23% YoY at Rs. 22,747mn in rupee terms.
- In USD revenue terms, within the IITS business, Europe market fell 5.3% QoQ, while US and RoW markets grew by 0.6% and 11.8%, QoQ, respectively. BFSI, and Emerging verticals (over 35% of revenue mix) witnessed 12.5%, and 19.5% QoQ decline, respectively, while Retail & Manufacturing, Healthcare, and TMT verticals grew by 0.6%, 28.1%, and 3.9% QoQ, respectively, in USD terms.
- EBITDA margin in the IITS business grew 10bps QoQ to 16.6% and fell 100bps QoQ to 1.9% in the domestic products business. Consolidated EBITDA margin at 6.2% fell 80bps QoQ.
- Employee utilization fell 40bps QoQ to 86.6%, with 16% attrition. SSOF currently has 6,859 employees after having added 49 personnel.
- IITS order book stood at USD 105mn in 1Q representing a 1.28x book-to-bill ratio.
- DSO days for their IT services business remained flat at 62, while it increased from 46 to 63 for their domestic products business.
- SSOF has declared an interim dividend of Rs. 1.25 per share during the quarter.

## Earnings call highlights

- SSOF's International IT Services revenue grew by 0.6% QoQ to USD 81.8mn. This was mainly driven by the ramp-up of a large USD 73mn TMT deal, strong traction in healthcare and BFSI, and rising AI-led deal momentum. However, the company is facing headwinds from softness in the retail and manufacturing sectors due to tariff-related uncertainty, discretionary budget cuts at two large clients (one BFSI and one high-tech), and potential risks from change in Microsoft strategy (prioritizing direct sales to large enterprise clients).
- SSOF secured three large multi-year deals during the quarter, reinforcing its focus on modernization and AI-led transformation. These included a BFSI client for cloud-based lending platform modernization, a TMT software and cloud provider that expanded its partnership, and another BFSI client for core data platform and application modernization.
- Management chose to withhold quantitative revenue growth guidance and reiterated that its objective remains to consistently deliver top-quartile growth over the long term among mid-tier IT peers. SSOF reiterated its goal of reaching close to 20% margins by the end of FY26. Management cited multiple levers including offshore mix improvement, better utilization, and pyramid optimization to support margin expansion.
- SSOF's healthcare life sciences and BFSI verticals combined now contribute 30% to its revenue, up from 13% three years ago. Management expects these two verticals to generate close to USD 250mn revenue over the next 2-5 years. Despite budget pressures at one large client, the BFSI vertical witnessed positive momentum. Healthcare remained resilient, led by data and AI-driven solutions in

pharma and health tech. Retail and manufacturing remain weak due to tariffs and cautious client spending.

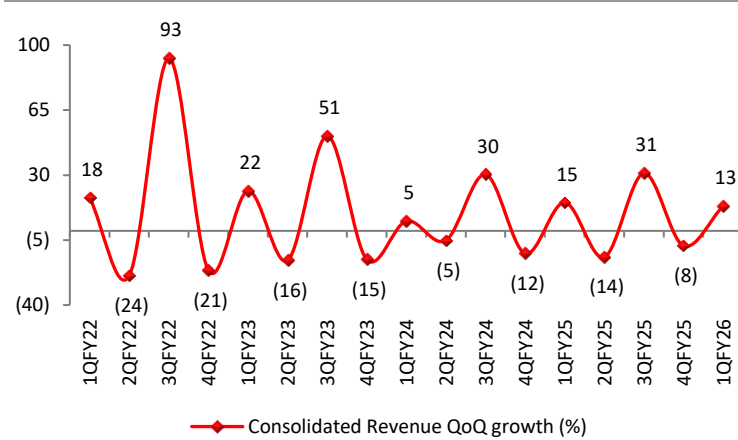
- SSOF now has a Gen AI pipeline of USD 46mn across 100+ customers. Management aims to generate 20% of revenue from AI-enabled services over the next three years. SSOF helps clients in leveraging AI in three ways: 1) improving operational efficiency, 2) enhancing customer experience, and 3) driving innovative business model transformation.
- SSOF is executing its AI strategy across three dimensions—engineering, industry solutions, and internal operations. This includes embedding AI in delivery using platforms like Harmoni.AI and IntellQA, launching domain-specific offerings like AgentBridge, and rolling out internal tools such as Sonata GPT and productivity bots. Management highlighted two strategic but smaller AI-led wins: one with a global agriculture leader to build an AI co-innovation lab and custom copilots, and another with a European client to transform their digital acquisition strategy from search engine optimization to answer engine optimization.
- SSOF's Microsoft Fabric pipeline now stands at USD 39mn.
- The concentration of revenue from the top 10 and top 20 clients was 56% and 71%, respectively, during the quarter. SSOF added 7 new clients in 1Q, down from 14 in 4Q. Management highlighted ~48% of its active pipeline consists of large deals, 32% of which are with Fortune 500 clients.
- Cloud and data now constitutes 63% of its overall pipeline, with the demand for data-driven deals surging. Revenue from data modernization has increased from 13% in FY23 to 24% in 1QFY26.
- Nearly 93.5% of SSOF's employees are now trained in AI. This progress reflects SSOF's strong commitment to upskilling and the vast potential of AI, ensuring the company is well-positioned for the future.
- Annual wage hikes are being implemented in a phased manner, with junior and mid-level employees receiving raises effective August 1, and senior leadership from October 1. Management highlighted that the margin impact is expected to align with prior years' increments.

## Exhibit 1: Sonata Software - Quarter results (Consol.)

(Rs mn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
<b>Revenue INR mn</b>	<b>25,274</b>	<b>21,698</b>	<b>28,428</b>	<b>26,172</b>	<b>29,652</b>	<b>17.3</b>	<b>13.3</b>
Raw Materials	17,873	13,990	20,323	18,632	22,086	23.6	18.5
Employee costs	3,692	4,048	4,043	4,194	4,180	13.2	(0.3)
Other expenses	1,948	1,888	2,426	1,620	1,789	(8.1)	10.5
Other income	189	192	215	112	242	28.4	116.1
<b>EBITDA</b>	<b>1,950</b>	<b>1,964</b>	<b>1,851</b>	<b>1,839</b>	<b>1,839</b>	<b>(5.7)</b>	<b>0.0</b>
Depreciation	333	329	323	230	261	(21.6)	13.2
<b>EBIT</b>	<b>1,618</b>	<b>1,635</b>	<b>1,528</b>	<b>1,608</b>	<b>1,578</b>	<b>(2.5)</b>	<b>(1.9)</b>
Finance costs	200	192	160	101	51	(74.6)	(49.7)
Exceptional Items	-	-	-	-	-	-	-
<b>PBT</b>	<b>1,417</b>	<b>1,443</b>	<b>1,368</b>	<b>1,508</b>	<b>1,527</b>	<b>7.7</b>	<b>1.3</b>
Tax	361	379	318	432	434	20.1	0.3
<b>PAT</b>	<b>1,056</b>	<b>1,065</b>	<b>1,050</b>	<b>1,075</b>	<b>1,093</b>	<b>3.5</b>	<b>1.7</b>
EPS (Rs)	3.8	3.8	3.8	3.9	3.9	3.5	1.7
<b>As a % of Revenue</b>						<b>YoY (bps)</b>	<b>QoQ (bps)</b>
Raw Materials	70.7	64.5	71.5	71.2	74.5	377	329
Employee costs	14.6	18.7	14.2	16.0	14.1	(51)	(193)
Other expenses	7.7	8.7	8.5	6.2	6.0	(167)	(15)
Other Income	0.7	0.9	0.8	0.4	0.8	7	39
<b>EBITDA margin</b>	<b>7.7</b>	<b>9.1</b>	<b>6.5</b>	<b>7.0</b>	<b>6.2</b>	<b>(152)</b>	<b>(82)</b>
Depreciation	1.3	1.5	1.1	0.9	0.9	(44)	(0)
<b>EBIT margin</b>	<b>6.4</b>	<b>7.5</b>	<b>5.4</b>	<b>6.1</b>	<b>5.3</b>	<b>(108)</b>	<b>(82)</b>
Finance costs	0.8	0.9	0.6	0.4	0.2	(62)	(21)
<b>PBT</b>	<b>5.6</b>	<b>6.7</b>	<b>4.8</b>	<b>5.8</b>	<b>5.2</b>	<b>(46)</b>	<b>(61)</b>
Effective Tax Rate	25.5	26.2	23.2	28.7	28.4	292	(27)
<b>PAT</b>	<b>4.2</b>	<b>4.9</b>	<b>3.7</b>	<b>4.1</b>	<b>3.7</b>	<b>(49)</b>	<b>(42)</b>

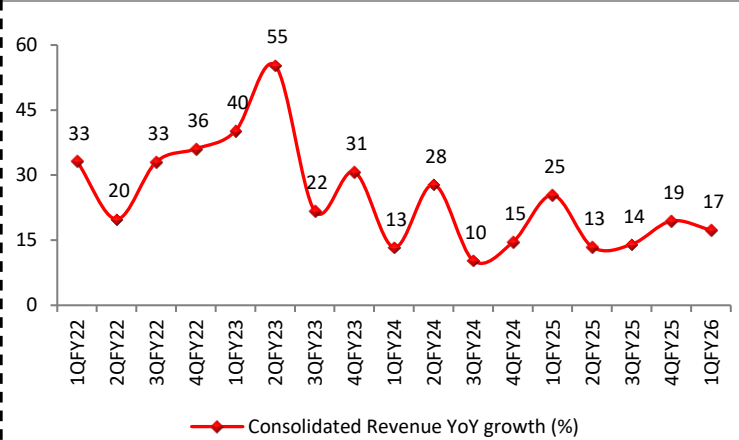
Source: Company, Systematix Institutional Research

Exhibit 2: QoQ - Revenue growth (%)



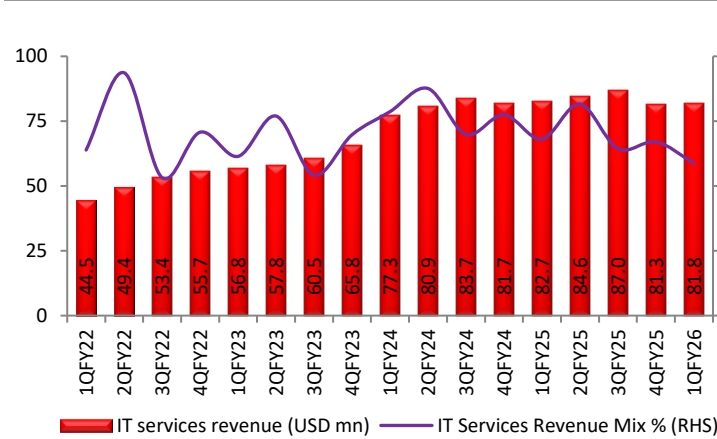
Source: Company, Systematix Institutional Research

Exhibit 3: YoY - Revenue growth (%)



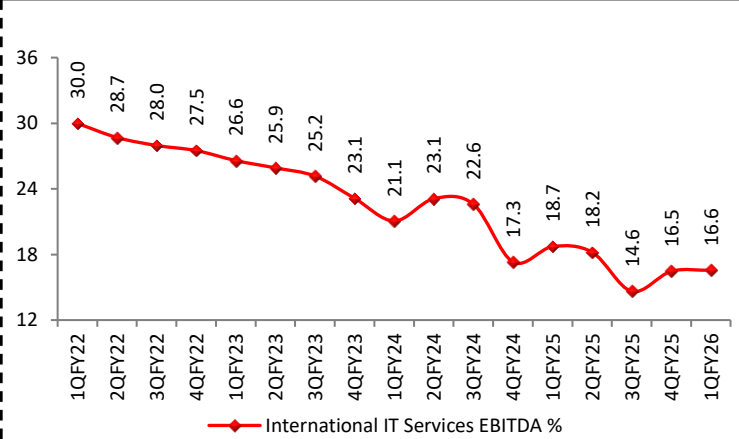
Source: Company, Systematix Institutional Research

Exhibit 4: IT Services - Revenue trend



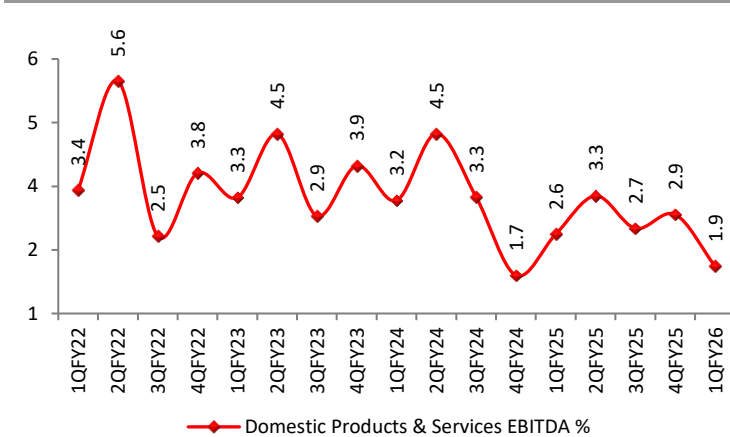
Source: Company, Systematix Institutional Research

Exhibit 5: IT Services - EBITDA trend



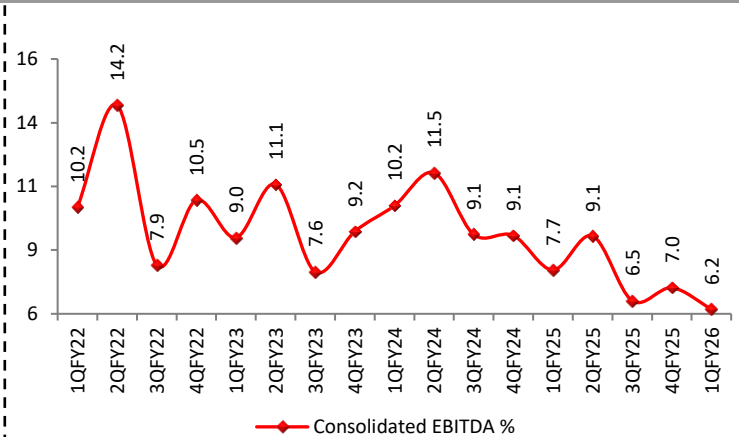
Source: Company, Systematix Institutional Research

Exhibit 6: Domestic business - EBITDA trend



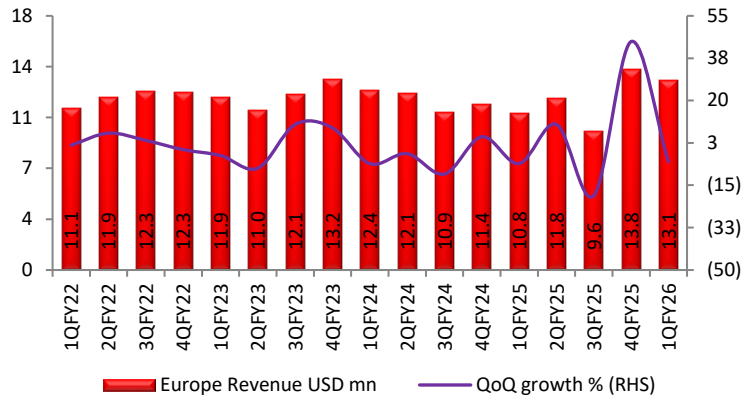
Source: Company, Systematix Institutional Research

Exhibit 7: Consolidated - EBITDA trend



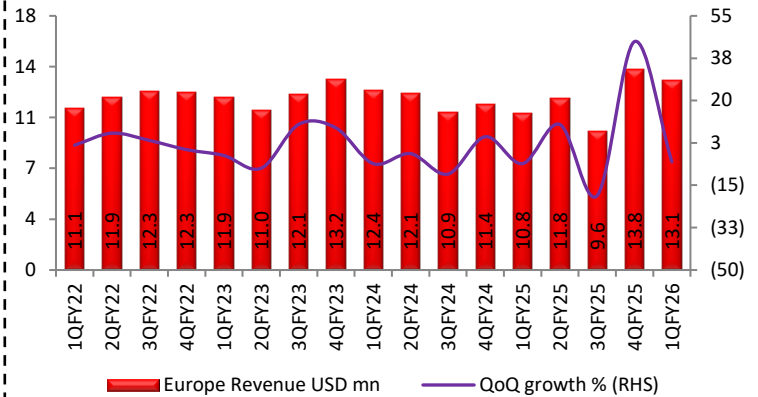
Source: Company, Systematix Institutional Research

Exhibit 8: US – Revenue trend



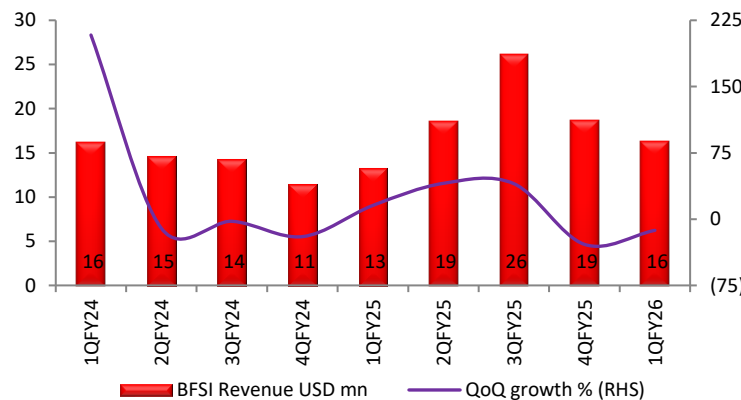
Source: Company, Systematix Institutional Research

Exhibit 9: Europe – Revenue trend



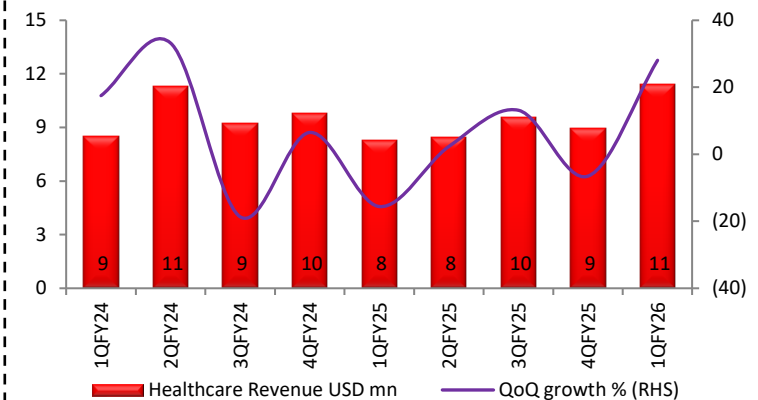
Source: Company, Systematix Institutional Research

Exhibit 10: BFSI - Revenue trend



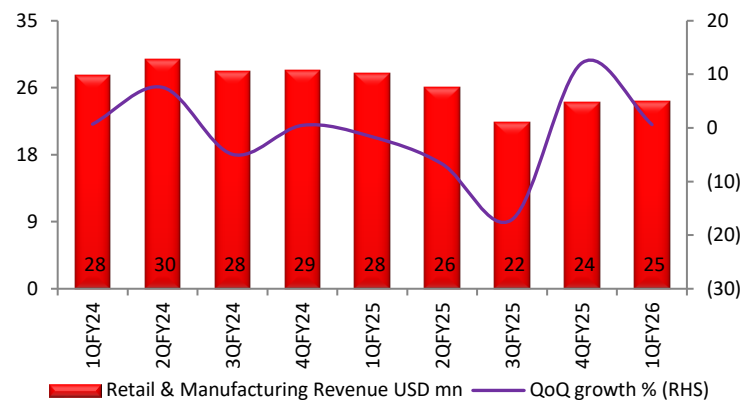
Source: Company, Systematix Institutional Research

Exhibit 11: Healthcare - Revenue trend



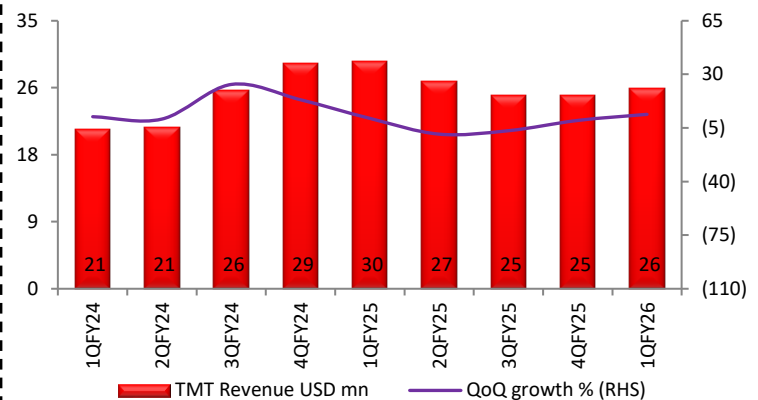
Source: Company, Systematix Institutional Research

Exhibit 12: Retail &amp; Manufacturing - Revenue trend



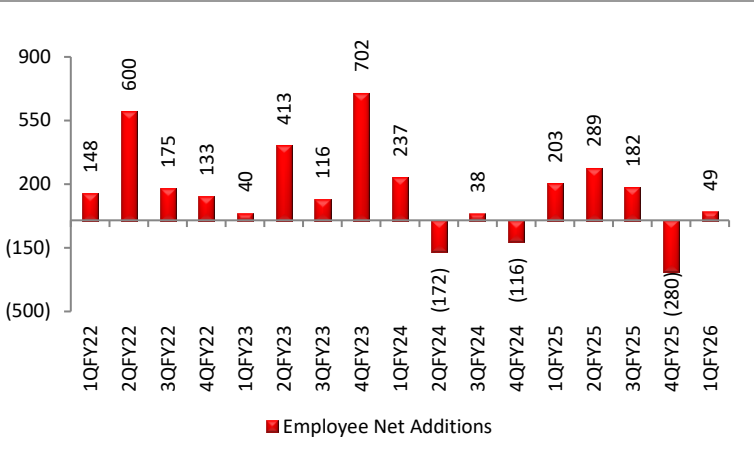
Source: Company, Systematix Institutional Research

Exhibit 13: TMT - Revenue trend



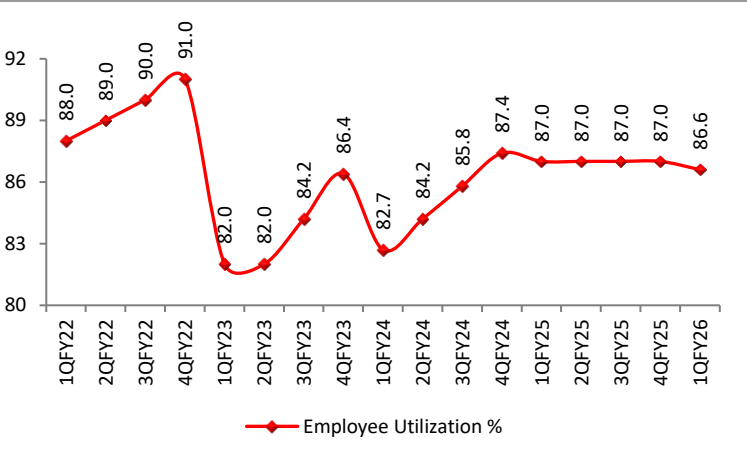
Source: Company, Systematix Institutional Research

Exhibit 14: Net employee addition



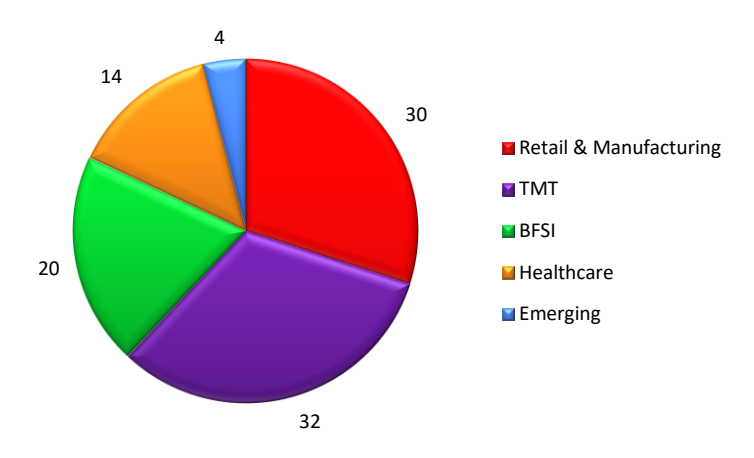
Source: Company, Systematix Institutional Research

Exhibit 15: Employee utilization trend



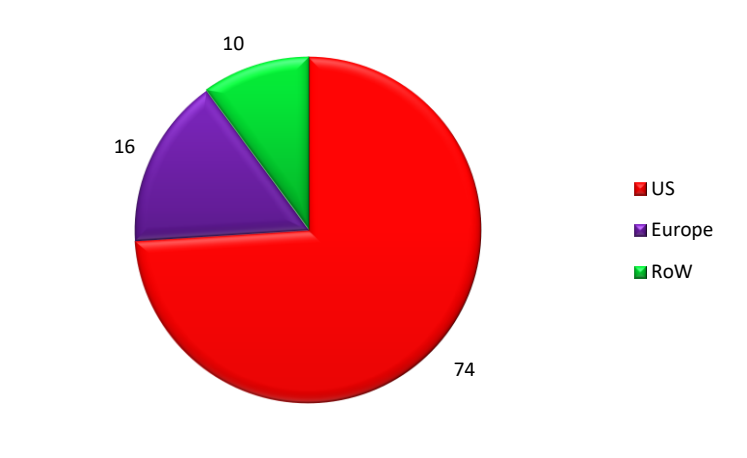
Source: Company, Systematix Institutional Research

Exhibit 16: 1QFY26 vertical mix (%)



Source: Company, Systematix Institutional Research

Exhibit 17: 1QFY26 geography mix (%)



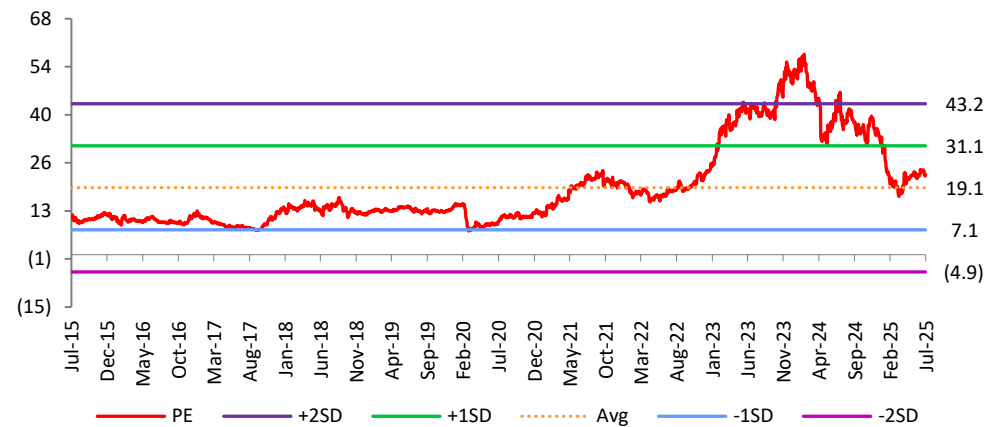
Source: Company, Systematix Institutional Research

## Valuation

Exhibit 18: 1-year forward PE

Average PE			
Particulars	3-year	5-year	10-year
Min	16.7	9.5	6.7
Max	57.3	57.3	57.3
Avg	34.4	27.2	19.1

Source: Company, Systematix Institutional Research



Source: Company, Systematix Institutional Research

Exhibit 19: Change in estimates

(Rs mn)	Old Estimates		New Estimates		% Variance	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Total Income	112,744	132,254	110,177	124,825	(2.3)	(5.6)
EBITDA	8,472	10,590	7,737	9,584	(8.7)	(9.5)
EBITDA margin (%)	7.5	8.0	7.0	7.7	(49 bps)	(33 bps)
PAT	5,245	6,971	5,012	6,515	(4.4)	(6.5)
EPS (Rs)	18.9	25.1	18.1	23.5	(4.4)	(6.5)

Source: Systematix Institutional Research



## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
<b>Revenue</b>	<b>74,491</b>	<b>86,131</b>	<b>101,573</b>	<b>110,177</b>	<b>124,825</b>
Purchases	54,557	58,197	70,818	78,126	90,278
Employee expenses	9,331	13,346	15,977	17,358	19,067
Other expenses	4,561	7,314	7,881	6,956	5,896
<b>EBITDA</b>	<b>6,041</b>	<b>7,274</b>	<b>6,896</b>	<b>7,737</b>	<b>9,584</b>
<b>EBITDA margin</b>	<b>8.1%</b>	<b>8.4%</b>	<b>6.8%</b>	<b>7.0%</b>	<b>7.7%</b>
Depreciation	591	1,319	1,215	1,285	1,383
EBIT	5,450	5,955	5,682	6,452	8,201
EBIT margin	7.3%	6.9%	5.6%	5.9%	6.6%
Interest expense	185	850	653	383	297
Other income	708	1,256	708	683	782
Exceptional item loss/(gain)	-	(1,747)	-	-	-
<b>Profit before tax</b>	<b>5,973</b>	<b>4,614</b>	<b>5,737</b>	<b>6,752</b>	<b>8,687</b>
Taxes	1,454	1,529	1,490	1,740	2,172
Tax rate	24.3%	33.1%	26.0%	25.8%	25.0%
<b>PAT</b>	<b>4,519</b>	<b>3,085</b>	<b>4,247</b>	<b>5,012</b>	<b>6,515</b>
<b>EPS</b>	<b>16.3</b>	<b>11.1</b>	<b>15.3</b>	<b>18.1</b>	<b>23.5</b>

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	139	278	278	278	278
Reserves & Surplus	12,868	13,785	16,782	19,019	24,147
<b>Net worth</b>	<b>13,007</b>	<b>14,063</b>	<b>17,059</b>	<b>19,296</b>	<b>24,424</b>
Deferred Tax Liability	707	1,240	993	993	993
Long term debt	3,051	4,310	2,279	2,279	2,279
Trade payables	12,949	14,160	15,570	16,602	17,783
Other Provisions	311	370	428	473	536
Other liabilities	13,546	17,349	11,223	17,605	19,111
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>43,569</b>	<b>51,491</b>	<b>47,552</b>	<b>57,248</b>	<b>65,126</b>
Net block	1,316	1,327	1,036	1,102	1,107
Goodwill/Intangible assets	16,015	15,383	15,259	15,944	16,070
Other Non-current asset	1,948	3,896	3,905	3,905	3,905
Investments	2,198	2,451	2,486	35	35
Cash and Cash Equivalents	4,174	5,360	3,100	7,284	12,547
Bank balances other than above	3,129	3,290	1,395	-	-
Debtors	12,362	16,051	17,409	18,111	18,809
Other current asset	2,428	3,734	2,963	10,867	12,654
<b>Total Assets</b>	<b>43,569</b>	<b>51,491</b>	<b>47,552</b>	<b>57,248</b>	<b>65,126</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
PBT	5,973	4,614	5,737	6,752	8,687
Exceptional Item	-	1,747	-	-	-
Depreciation	591	1,319	1,215	1,285	1,383
Interest	185	850	653	383	297
Others	-545	739	-555	-	-
<b>Operating Profit before WC Changes</b>	<b>6,205</b>	<b>9,269</b>	<b>7,049</b>	<b>8,420</b>	<b>10,366</b>
Change in WC	1,766	2,094	-1,030	-3,198	-766
Others including taxes	1,754	2,623	1,636	1,740	2,172
<b>Operating Cash-Flow</b>	<b>2,684</b>	<b>4,552</b>	<b>6,443</b>	<b>9,878</b>	<b>8,961</b>
Capex	411	254	685	1,351	1,387
<b>Free cash-flow</b>	<b>2,273</b>	<b>4,298</b>	<b>5,758</b>	<b>8,527</b>	<b>7,573</b>
Fin Investments	79	-208	160	-	-
Misc. Items (CFI + CFF)	(1,868)	1,085	4,333	4,343	2,310
<b>Net Δ in cash</b>	<b>4,062</b>	<b>3,421</b>	<b>1,265</b>	<b>4,184</b>	<b>5,265</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY23	FY24	FY25	FY26E	FY27E
Revenue growth	34.1%	15.6%	17.9%	8.5%	13.3%
EBITDA (%)	8.1%	8.4%	6.8%	7.0%	7.7%
RoCE	33.4%	30.8%	27.6%	29.5%	32.8%
RoNW	37.7%	22.8%	27.3%	27.6%	29.8%
EPS (Rs)	16.3	11.1	15.3	18.1	23.5
DPS (Rs)	8	8	4	5	5
BVPS (Rs)	47	51	61	70	88
Debtor days	61	68	63	60	55
Creditor days	63	60	56	55	52
P/E (x)	25	37	27	23	18
P/B (x)	9	8	7	6	5
EV/EBITDA (x)	17	13	15	13	10

Source: Company, Systematix Institutional Research

## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

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