

Sonata posted yet another quarter of weak operating performance in Q1. IITS revenue was below our estimate, declining 0.9% QoQ CC. IITS EBITDAM inched up by 10bps QoQ to 16.6%, albeit below expectations. Sonata secured three major deals in Q1, including the USD73mn TCV with a US-based TMT client. It reported total order bookings of USD105mn and book-to-bill ratio of 1.28x. Growth during Q1 was led by a large TMT deal ramp-up, continued strength in HLS, and demand for data and AI services. However, performance was impacted by softness in retail and manufacturing, budget pressures at a key BFSI client, and broader macroeconomic slowdown. Domestic business faced the impact of a slowdown in the IT/ITeS sector, and several OEMs planned the shift to a direct engagement model for large clients. The management refrained from providing specific growth outlook, citing challenges in RMD, a large BFSI client, and macro uncertainty. However, it remains hopeful of positive revenue growth in IITS in FY26. It expects to achieve near-20% EBITDAM in IITS by FY26-end, led by large deal ramp-ups, improved utilization, offshore shift, and pyramid rationalization. Factoring in the dismal Q1 performance, we cut FY26-28E EPS by 1-9%. We retain BUY with unchanged TP of Rs475 at 22x Jun-27E EPS.

Results summary

IITS revenue grew 0.6% QoQ to USD81.8mn (down 0.9% CC), a tad below our estimate of USD82mn. Among verticals, TMT and HLS grew 15.0% and 17.4%, while RMD, BFSI, and Emerging declined 2.6%, 12.5%, and 32.9% QoQ, respectively. Among geographies, Europe declined 5.3% QoQ, while the US and RoW grew 0.6% and 11.8%. IITS EBITDAM was up by 10bps QoQ to 16.6%. Overall EBITDAM declined by 120bps QoQ to 5.4%, missing our estimate by 6.6%. IITS headcount grew 0.4% QoQ to 6,393. LTM attrition inched up QoQ to 16% (vs 14% in Q4). Gross contribution fell 12.6% QoQ in the domestic business, mainly due to seasonality, softness in IT and ITeS, and margin pressure from focus on new customer acquisition, as a large OEM plans to go direct. SSOF declared an interim dividend of Rs1.25/sh. **What we like:** Deal intake, TMT growth. **What we do not like:** Revenue/margin miss, client-specific issues in BFSI and Hi-tech.

Earnings call KTAs

1) The BFSI vertical faced growth challenges due to budget-related constraints and cost pressures from a large client. The management expects weakness to persist in a large client in Q2 as well, which could weigh on BFSI growth. It indicated that apart from this client-specific issue, BFSI is doing well. However, it refrained from providing any outlook on BFSI growth, considering the uncertainty over recovery in the large client. 2) The RMD vertical continues to face challenges due to tariff uncertainties and regulatory changes, with potential for further negative impact...(contd)...

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.7

Stock Data	SSOF IN
52-week High (Rs)	764
52-week Low (Rs)	286
Shares outstanding (mn)	280.4
Market-cap (Rs bn)	116
Market-cap (USD mn)	1,328
Net-debt, FY26E (Rs mn)	3,125.8
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,933.3
ADTV-3M (USD mn)	22.1
Free float (%)	69.2
Nifty-50	24,855.1
INR/USD	87.4

Shareholding, Jun-25

Promoters (%)	28.2
FPIs/MFs (%)	9.7/25.6

Price Performance

(%)	1M	3M	12M
Absolute	1.0	(1.8)	(45.0)
Rel. to Nifty	3.6	(3.9)	(45.0)

1-Year share price trend (Rs)



Sonata Software: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	86,131	101,573	105,578	116,443	132,616
EBITDA	7,274	6,892	6,679	8,855	10,069
Adj. PAT	4,832	4,247	4,259	5,902	7,084
Adj. EPS (Rs)	17.2	15.1	15.2	21.0	25.3
EBITDA margin (%)	8.4	6.8	6.3	7.6	7.6
EBITDA growth (%)	20.4	(5.2)	(3.1)	32.6	13.7
Adj. EPS growth (%)	6.9	(12.1)	0.3	38.6	20.0
RoE (%)	35.7	27.3	23.0	26.8	26.7
RoIC (%)	46.5	34.1	24.9	30.9	35.6
P/E (x)	37.6	27.3	27.3	19.7	16.4
EV/EBITDA (x)	16.1	17.0	17.6	13.3	11.7
P/B (x)	8.3	6.8	5.8	4.8	4.0
FCFF yield (%)	2.4	4.9	2.8	4.4	5.5

Source: Company, Emkay Research

Dipeshkumar Mehta

dipeshkumar.mehta@emkayglobal.com
+91-22-66121253

Jimit Gandhi

jimit.gandhi@emkayglobal.com
+91-22-66121255

Shivang Bagla

shivang.bagla@emkayglobal.com
+91-22-66242491

...(contd)...3) In the healthcare vertical, Sonata is able to disintermediate and dislodge incumbent vendors, especially on the pharmacy side, due to its capabilities in data and AI. 4) It has recently hired heads of its retail and manufacturing vertical as well as its BFSI vertical in the US, for strengthening its sales leadership. 5) Sonata has significantly increased its contribution in the BFSI and HLS verticals, both now comprising over 30% of revenue (up from 13% three years ago). 6) The management is focusing on i) consistently securing large deals and large accounts, ii) expanding in BFSI and HLS, and iii) deepening capabilities in data AI and modernization engineering. 7) Pipeline for AI was ~USD46mn in Q1. AI order book stood at USD8.2mn. Pipeline for Microsoft Fabric is USD39mn. 8) To negate the impact of a large OEM planning to go direct, the company is making progress across four strategic areas, which are: a) new partnerships and wins with AWS, Google, Oracle, etc; b) scaling security operations center for India-based clients; c) accelerating growth through the Microsoft SMC channel; and d) winning large integrated SITs that combine platform engineering and services. 9) Quant performance exceeded the original target, although it was lower than the revised target. It has signed a new agreement with incremental performance obligations for three years. 10) As of Q1FY26, cash stood at Rs6bn, down from Rs7bn in Q4, mainly due to Quant earnout payout and loan instalment repayments. Net cash was negative at Rs625mn. The company has taken an additional USD35mn loan in the quarter. 11) It plans to pay a quarterly interim dividend from this year. 12) Wage hike will be implemented in phases – junior/middle management from Aug-25, and senior management from Oct-25.

Update on AI/Gen AI

1) The company expects AI-enabled services to contribute 20% of revenue over the next three years. It is actively pursuing AI-led opportunities across >100 clients and is working toward AI opportunities across engineering, industry differentiation solutions, and internal operations. 2) Sonata launched AgentBridge, making it one of the first mid-tier firms with enterprise-grade agentic AI workflows. 3) In engineering, Sonata deploys its platform Harmoni.AI workbench to embed AI into client delivery, and uses IntellQA, an AI-powered automated test-case generation platform. 4) Around 95% of the workforce is trained in AI.

Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
IITS revenue (USD mn)	81.8	81.3	0.6	82.7	(1.1)
Net sales	29,652	26,172	13.3	25,274	17.3
Operating expenses	28,055	24,445		23,513	
EBITDA	1,597	1,727	(7.5)	1,762	(9.4)
- Margin (%)	5.4	6.6	(120.0)	7.0	(160.0)
Depreciation	261	230		333	
EBIT	1,336	1,496	(10.7)	1,429	(6.5)
- Margin (%)	4.5	5.7	(120.0)	5.7	(110.0)
Interest paid	51	101		200	
Other income	242	112		189	
Pre-tax profit	1,527	1,508	1.3	1,417	
Tax provided	434	432		361	
Profit after tax	1,093	1,075		1,056	
Emkay Net profit	1,093	1,075	1.7	1,056	3.5
EPS (Rs)	3.9	3.8	1.7	3.8	3.5

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

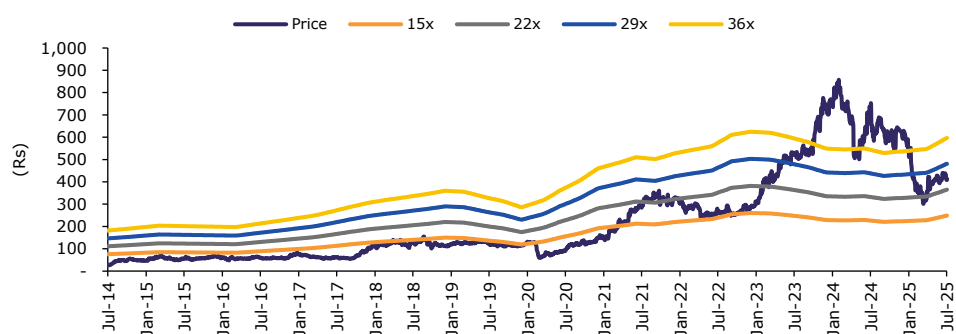
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	82	82		-0.4%		Revenue came ahead of expectations due to beat in the domestic business. However, IITS revenue missed estimates.
EBIT	29,652	27,318	27,385	8.5%	8.3%	
EBIT margin	1,336	1,523	1,400	-12.3%	-4.6%	Margin missed estimates due to pricing pressure in the domestic business and the margin miss in IITS.
PAT	4.5%	5.6%	5.1%	-110 bps	-60 bps	Profit missed estimates due to the operating performance miss.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
IITS - Revenue (USD mn)	344.3	336.3	-2.3%	388.9	376.7	-3.2%	439.8	425.5	-3.2%
Revenue	103,910	105,578	1.6%	114,995	116,443	1.3%	130,999	132,616	1.2%
EBIT	6,274	5,577	-11.1%	7,796	7,758	-0.5%	8,992	9,001	0.1%
EBIT margin	6.0%	5.3%		6.8%	6.7%		6.9%	6.8%	
Net profit	4,683	4,259	-9.0%	6,057	5,902	-2.6%	7,185	7,084	-1.4%
EPS (Rs)	16.7	15.2	-9.0%	21.6	21.0	-2.6%	25.6	25.3	-1.4%

Source: Company, Emkay Research

Exhibit 4: SSOF – One-year forward PER

Source: Company, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

Sonata Software: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	86,131	101,573	105,578	116,443	132,616
Revenue growth (%)	15.6	17.9	3.9	10.3	13.9
EBITDA	7,274	6,892	6,679	8,855	10,069
EBITDA growth (%)	20.4	(5.2)	(3.1)	32.6	13.7
Depreciation & Amortization	1,319	1,215	1,102	1,097	1,068
EBIT	5,955	5,678	5,577	7,758	9,001
EBIT growth (%)	9.3	(4.7)	(1.8)	39.1	16.0
Other operating income	-	-	-	-	-
Other income	1,256	712	584	495	678
Financial expense	850	653	413	384	234
PBT	6,360	5,737	5,748	7,869	9,445
Extraordinary items	(1,747)	0	0	0	0
Taxes	1,529	1,490	1,489	1,967	2,361
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	3,085	4,247	4,259	5,902	7,084
PAT growth (%)	(31.7)	37.7	0.3	38.6	20.0
Adjusted PAT	4,832	4,247	4,259	5,902	7,084
Diluted EPS (Rs)	17.2	15.1	15.2	21.0	25.3
Diluted EPS growth (%)	6.9	(12.1)	0.3	38.6	20.0
DPS (Rs)	7.8	4.4	4.9	6.3	7.5
Dividend payout (%)	71.0	28.9	32.6	30.1	29.8
EBITDA margin (%)	8.4	6.8	6.3	7.6	7.6
EBIT margin (%)	6.9	5.6	5.3	6.7	6.8
Effective tax rate (%)	24.0	26.0	25.9	25.0	25.0
NOPLAT (pre-IndAS)	4,524	4,203	4,133	5,818	6,750
Shares outstanding (mn)	280	280	280	280	280

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	4,614	5,737	5,748	7,869	9,445
Others (non-cash items)	2,908	1,312	1,102	1,097	1,068
Taxes paid	(2,623)	(1,636)	(2,417)	(2,690)	(2,943)
Change in NWC	(2,094)	1,030	(404)	(633)	(512)
Operating cash flow	2,805	6,443	4,029	5,643	7,058
Capital expenditure	1	(678)	(702)	(522)	(642)
Acquisition of business	(726)	(5,919)	(4,093)	0	0
Interest & dividend income	332	213	0	0	0
Investing cash flow	(543)	(4,356)	(4,451)	(522)	(642)
Equity raised/(repaid)	36	35	0	0	0
Debt raised/(repaid)	1,726	(2,465)	703	(1,500)	(2,500)
Payment of lease liabilities	(334)	(293)	0	0	0
Interest paid	(324)	(384)	0	0	0
Dividend paid (incl tax)	(2,189)	(1,226)	(1,388)	(1,777)	(2,110)
Others	0	0	0	0	0
Financing cash flow	(1,085)	(4,333)	(685)	(3,277)	(4,610)
Net chg in Cash	1,177	(2,246)	(1,107)	1,844	1,806
OCF	2,805	6,443	4,029	5,643	7,058
Adj. OCF (w/o NWC chg.)	4,900	5,413	4,433	6,276	7,570
FCFF	2,806	5,766	3,327	5,121	6,416
FCFE	2,289	5,326	2,913	4,738	6,182
OCF/EBITDA (%)	38.6	93.5	60.3	63.7	70.1
FCFE/PAT (%)	74.2	125.4	68.4	80.3	87.3
FCFF/NOPLAT (%)	62.0	137.2	80.5	88.0	95.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	278	278	278	278	278
Reserves & Surplus	13,785	16,782	19,653	23,778	28,752
Net worth	14,063	17,059	19,930	24,056	29,029
Minority interests	0	0	0	0	0
Non-current liab. & prov.	355	137	(791)	(1,514)	(2,097)
Total debt	6,743	4,416	5,119	3,619	1,119
Total liabilities & equity	22,073	22,357	25,003	26,905	28,796
Net tangible fixed assets	1,327	1,036	969	1,008	1,066
Net intangible assets	4,248	3,862	3,528	2,915	2,430
Net ROU assets	810	636	577	595	651
Capital WIP	0	0	0	0	0
Goodwill	11,135	11,397	11,397	11,397	11,397
Investments [JV/Associates]	5,740	3,880	3,536	3,536	3,536
Cash & equivalents	5,360	3,100	1,993	3,838	5,644
Current assets (ex-cash)	22,796	23,421	24,446	26,998	30,366
Current Liab. & Prov.	28,534	24,339	20,867	22,786	25,642
NWC (ex-cash)	(5,738)	(918)	3,579	4,212	4,724
Total assets	22,073	22,097	24,883	26,905	28,796
Net debt	1,383	1,316	3,126	(219)	(4,525)
Capital employed	22,073	22,357	25,003	26,905	28,796
Invested capital	10,163	14,481	18,777	18,937	18,966
BVPS (Rs)	50.1	60.8	71.1	85.8	103.5
Net Debt/Equity (x)	0.1	0.1	0.2	-	(0.2)
Net Debt/EBITDA (x)	0.2	0.2	0.5	-	(0.4)
Interest coverage (x)	8.5	9.8	14.9	21.5	41.4
RoCE (%)	37.2	30.2	26.5	31.3	33.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	37.6	27.3	27.3	19.7	16.4
EV/CE(x)	5.6	5.5	4.7	4.2	3.9
P/B (x)	8.3	6.8	5.8	4.8	4.0
EV/Sales (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	16.1	17.0	17.6	13.3	11.7
EV/EBIT(x)	19.7	20.7	21.1	15.1	13.1
EV/IC (x)	11.6	8.1	6.3	6.2	6.2
FCFF yield (%)	2.4	4.9	2.8	4.4	5.5
FCFE yield (%)	2.0	4.6	2.5	4.1	5.3
Dividend yield (%)	1.9	1.1	1.2	1.5	1.8
DuPont-RoE split					
Net profit margin (%)	5.6	4.2	4.0	5.1	5.3
Total asset turnover (x)	4.3	4.8	4.6	4.6	4.9
Assets/Equity (x)	1.5	1.4	1.2	1.2	1.0
RoE (%)	35.7	27.3	23.0	26.8	26.7
DuPont-RoIC					
NOPLAT margin (%)	5.3	4.1	3.9	5.0	5.1
IC turnover (x)	8.9	8.2	6.3	6.2	7.0
RoIC (%)	46.5	34.1	24.9	30.9	35.6
Operating metrics					
Core NWC days	(24.3)	(3.3)	12.4	13.2	13.0
Total NWC days	(24.3)	(3.3)	12.4	13.2	13.0
Fixed asset turnover	4.9	5.7	5.7	6.2	6.9
Opex-to-revenue (%)	24.0	23.5	23.0	23.0	23.0

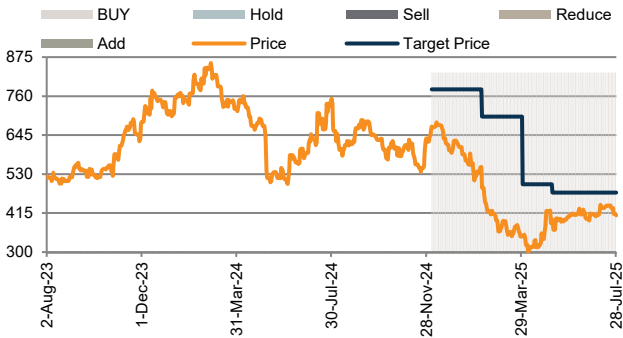
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-25	410	475	Buy	Dipeshkumar Mehta
08-May-25	393	475	Buy	Dipeshkumar Mehta
31-Mar-25	346	500	Buy	Dipeshkumar Mehta
07-Feb-25	489	700	Buy	Dipeshkumar Mehta
01-Jan-25	605	780	Buy	Dipeshkumar Mehta
05-Dec-24	670	780	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions.com)

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

This report is intended for Team White Marque Solutions (team.emkay@whitemarquessolutions)

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