



Soft Quarter for Sonata, but Strategic Wins and Strong Deal pipeline...

Sonata Software's Q4FY25 performance was impacted by a sharper-than-expected ramp-down from its largest client and seasonal weakness in the Quant and domestic businesses, leading to a sequential revenue decline. However, the company remains optimistic about recovery from Q1FY26, backed by strong deal wins—including a \$73Mn TMT contract (its second-largest ever)—and momentum in BFSI, Healthcare, and AI-led modernization. With a healthy pipeline, improved cloud and data capabilities, and stabilization expected from key accounts, Sonata is confident in achieving its long-term growth and margin goals.

International \$ revenue: \$81.3 Mn, -6.6% QoQ / -0.5% YoY and -2% vs our estimates.

International INR revenue at 7,023 Mn, -4% QoQ / +3.4% YoY and -1% vs our estimates.

Domestic INR revenue at 19,182 Mn, -9.1% QoQ / +26.7% YoY and +17% above with our estimates.

Consolidated INR revenue at 26,172 Mn, -7.9% QoQ / +19.4% YoY and +11% above with our estimates.

EBITDA (before FX & OI): INR 1,727 Mn, +5.6% QoQ / 19.8% YoY and 7% above our estimates

EBITDA margins: 6.6%, vs 5.8% / 6.6% in Q3FY25 / Q4FY24 respectively

International EBITDA margins: 16.5%, vs 14.6% / 17.3% in Q3FY25 / Q4FY24 respectively

Domestic EBITDA margins: 3%, vs 2.7% / 1.7% in Q3FY25 / Q4FY24 respectively

Domestic gross contribution: INR 784 Mn, -4.3% QoQ / +21% YoY and +16% above with our estimates.

PAT: INR 1,075 Mn, +2.4% QoQ / -2.6% YoY and 5% above our estimates

EPS at INR 3.87 in Q4FY25 vs 3.78 / 3.98 in Q3FY25 / Q4FY24 respectively and versus our estimate of INR 3.7.

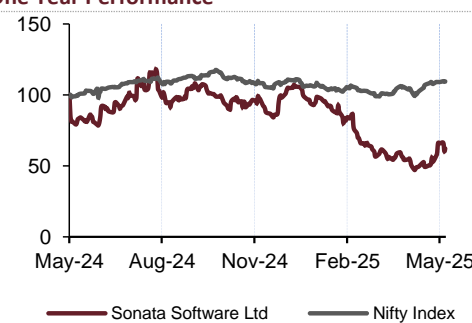
Rating	TP (Rs)	Up/Dn (%)
BUY	486	23

Market data

Current price	Rs	396
Market Cap (Rs.Bn)	(Rs Bn)	111
Market Cap (US\$ Mn)	(US\$ Mn)	1,316
Face Value	Rs	1
52 Weeks High/Low	Rs	763.7 / 286.4
Average Daily Volume	('000)	15,797
BSE Code		532221
Bloomberg		SSOF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-25	Dec-24
Promoters	28.17	28.17
Public	70.83	70.83
Total	100.00	100.00

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	55,534	74,491	86,131	101,573	113,168	125,290
Margins	8.4	8.1	8.4	6.8	7.3	7.7
PAT (adj)	3,764	4,516	3,085	4,142	5,837	6,946
Growth (%)	54.3	20.0	7.0	-14.3	40.9	19.0
EPS	13.44	16.13	17.26	14.92	21.03	25.02
P/E (x)	30	25	23	27	19	16
P/B (x)	10	9	8	6	6	5
EV/EBITDA (x)	22	18	15	16	13	11
RoE (%)	34	35	34	24	30	31
ROCE (%)	46	34	35	29	36	39

Source: Dalal & Broacha Research, Company

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Concall Highlights

Key Discussion Points:

- Sonata Software strengthened its position as a modernization engineering firm, leveraging proprietary platforms, AI capabilities, and differentiated engineering.
- FY25 marked significant large deal wins, increased AI engagements, and strategic expansion despite facing headwinds in the retail sector and budget cuts from its largest client.
- Cloud, AI, and data modernization emerged as critical growth drivers for the future.

Strategy and Goals:

- Sonata aims to achieve top-quartile industry growth across its four strategic verticals.
- Plans include scaling BFSI, Healthcare and Life Sciences verticals combined to \$250Mn+ within 3–5 years.
- Commitment remains strong towards enhancing AI and modernization engineering capabilities, targeting large and enterprise-grade deals.

Large Deals & AI:

- Sonata secured 11 large deals during FY25 (4 are in BFSI and Healthcare); Sonata closed 13 enterprise grade logos of which 4 are in Healthcare and BFSI; 33% of the deal pipeline consists of Fortune 500 clients.
- Key wins include:
 - Comprehensive modernization program with a leading American TMT client, the second-largest deal in the company's history of \$73 Mn TCV for 5 years.
 - Major BFSI contract involving data platform consolidation and AI-led transformation.
- AI-led pipeline stands at \$34Mn across 100+ clients, with 97% of the workforce trained in Generative AI.; Sonata aims for 20% AI-enabled revenue in 3 years. In FY25 Sonata achieved AWS Gen AI competency and became a member of Microsoft partner AI council, reinforcing their leadership in enterprise grade AI adoption.
- Recent significant AI engagements involved improving customer experience, IT support, and contract automation.

Investments & Capabilities:

- Developed a Microsoft Fabric pipeline worth \$31Mn spanning 70+ clients.
- Cloud and data solutions represent approximately 60% of Sonata's total pipeline.

Talent:

- Sonata's employee strength grew to over 6,800, with 95 campus graduates hired in Q4; Attrition rate remained stable at 14%.
- The technology leadership structure was reorganized, and the nearshore presence expanded to over 100 professionals across Mexico and Malaysia.

Q4 FY25 Performance:

- Book-to-bill ratio of 1.25 for international business.
- The impact of degrowth in their largest client which was significantly higher than expectation along with seasonal softness in quant and the domestic business, led to a disappointing quarter.

Challenges:

- Sonata encountered challenges due to softness in the retail and manufacturing sectors, exacerbated by significant budget cuts from its largest client in Q4.
- Specific ramp-downs primarily impacted onsite revenues, notably in Mexico; stabilization and marginal recovery expected by Q1 FY26.
- Broader economic uncertainty, extended deal cycles, and emerging OEM-direct risks in domestic business are being closely monitored.

Vertical-wise:

- **BFSI & Healthcare:** Anticipated to drive strong growth in FY26, supported by significant recent deal wins and robust deal pipeline. BFSI vertical is expected to fully recover and scale up starting from Q2 FY26 onwards
- **TMT:** Large TMT modernization deal (\$73Mn) expected to significantly ramp-up over the next 2–3 quarters, providing strong revenue and margin accretion from Q2 FY26 onwards.
- **Retail & Manufacturing:** These sectors remain challenging; management expects continued softness and has factored degrowth into projections for H1FY26. A cautious outlook remains due to macroeconomic headwinds.

Guidance:

- The management remains optimistic about achieving a sustainable recovery in growth starting from Q1 FY26, supported by stabilization of its largest client and a rebound in the Quant business segment.
- Sonata remains confident of achieving its margin recovery target (20%+ EBITDA) but notes potential delays by one quarter, contingent on revenue stabilization and growth from the largest client. Long-term goal of reaching \$1.5 billion in the next 2 to 3 years remains intact as a directional strategic target, underpinned by large deal momentum, AI-driven modernization engagements, and robust cloud and data pipelines.

Quarterly Deviation Sheet

(Rs.Mn)	Q4FY25	Q3FY25	QoQ Growth (%)	Q4FY24	YoY Growth (%)	Q4FY25E	Deviation
International Revenue (\$ Mn)	81.3	87.0	-6.6%	81.7	-0.5%	83	-2%
International Revenue (Rs Mn)	7,023	7,317	-4.0%	6,790	3.4%	7,126	-1%
Domestic Revenue (Rs Mn)	19,182	21,111	-9.1%	15,145	26.7%	16,455	17%
Consolidated Revenue (Rs Mn)	26,172	28,428	-7.9%	21,916	19.4%	23,582	11%
Other Income	112	215	-47.8%	547	-79.5%	236	
COGS	18,632	20,323	-8.3%	14,869	25.3%	15,772	
Employee Benefits Expense	4,194	4,043	3.7%	3,312	26.6%	4,111	
Other Expenses	1,620	2,426	-33.2%	2,294	-29.4%	2,087	
Total Expenses	24,445	26,792	-8.8%	20,475	19.4%	21,970	
Domestic Gross Contribution	784	819	-4.3%	648	21.0%	675	16%
International EBITDA (Excl. OI)	1,157	1,071	8.0%	1,175	-1.5%	1,201	-4%
Domestic EBITDA (Excl. OI)	570	564	1.0%	265	114.9%	411	38%
EBITDA (Excluding Other Income)	1,727	1,636	5.6%	1,441	19.8%	1,612	7%
Depreciation and Amortisation	230	323	-28.6%	337	-31.6%	323	
EBIT / PBIT	1,608	1,528	5.3%	1,652	-2.6%	1,525	5%
Finance Costs	101	160	-36.8%	216	-53.2%	160	
EBT/ PBT (Before Exceptional)	1,508	1,368	10.2%	1,436	5.0%	1,365	10%
Exceptional Items	-	-		-		-	
Tax Expense	432	318	35.9%	332	30.1%	341	
Net Profit after Tax	1,075	1,050	2.4%	1,104	-2.6%	1,024	5%
Adj. PAT	1,075	1,050	2.4%	1,104	-2.6%	1,024	
Earning Per Share	3.87	3.78	2.4%	3.98	-2.6%	3.7	
Adj Earning Per Share	3.87	3.78	2.4%	3.98	-2.6%	3.7	5%
No of Shares Diluted (mn)	277.6	277.6		277.5		277.6	
Margins Analysis (%)	bps			bps			
Gross Margins	28.8%	28.5%	30	32.2%	-335	33.1%	-431
International EBITDA Margins (Excl OI)	16.5%	14.6%	184	17.3%	-83	16.8%	
Domestic EBITDA Margins (Excl OI)	3.0%	2.7%	30	1.7%	122	2.5%	
EBITDA Margins (Excl OI)	6.6%	5.8%	84	6.6%	2	6.8%	-24
EBIT Margins	6.1%	5.4%	77	7.5%	-139	6.5%	-32
Adj PAT Margins	4.1%	3.7%	42	4.9%	-82	4.3%	-21
Effective Tax Rate %	28.7%	23.2%	542	23.1%	553	25.0%	367
Cost Analysis (%)	bps			bps			
COGS as a % to sales	71.2%	71.5%	-30	67.8%	335	66.9%	431
EE Cost as a % to sales	16.0%	14.2%	180	15.1%	91	17.4%	-141
Other exps as a % to sales	6.2%	8.5%	-235	10.5%	-428	8.9%	-266

Source: Dalal & Broacha Research, Company

Valuation & Outlook

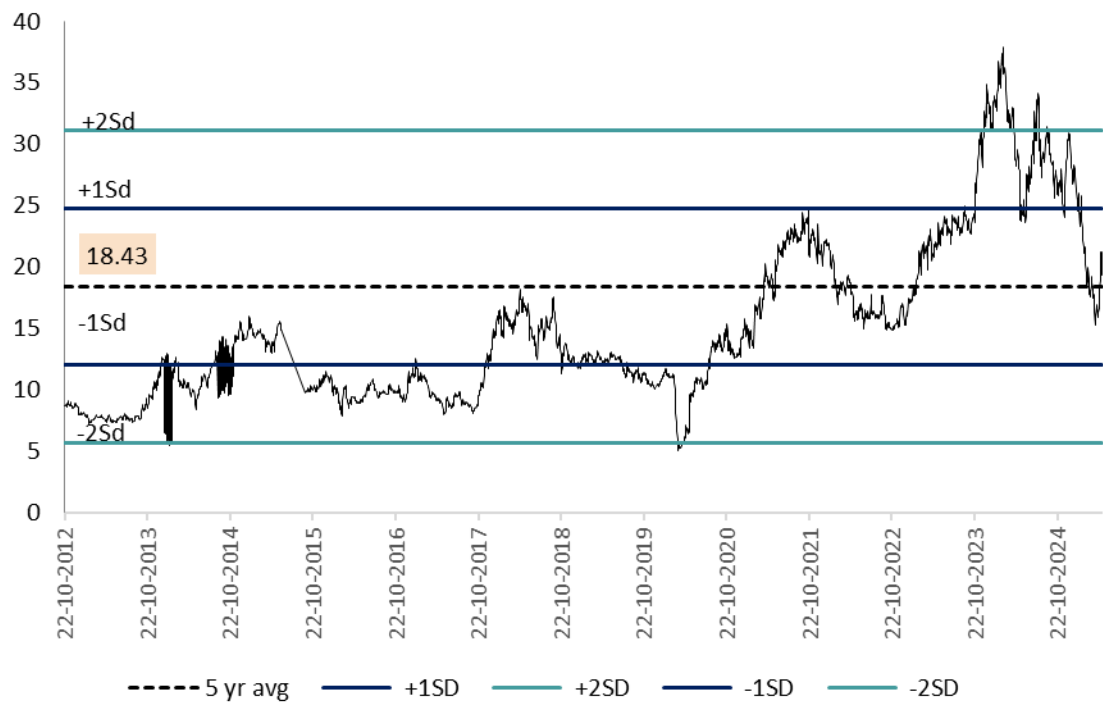
Sonata Software is currently trading at 26.6x / 18.9x / 15.9x FY25 / FY26e / FY27e EPS respectively.

Sonata Software maintains a balanced outlook, clearly navigating through headwinds and tailwinds. In Q4 FY25, the company experienced revenue pressures primarily due to softness in the retail and manufacturing sectors and significant budget cuts from its largest client, resulting in a sequential revenue decline. Despite these near-term challenges, Sonata remains optimistic about recovery from Q1 FY26 onwards, supported by strategic factors such as robust growth in the Healthcare & Life Sciences and BFSI verticals, strong momentum from recent large deal wins, and expansion of its AI and modernization pipelines.

Notably, Sonata secured its second-largest deal in history—a comprehensive modernization program with a leading American TMT client—which is expected to ramp up significantly in the next few quarters, positively impacting both revenue and margins. Additionally, the company recently achieved AWS DevOps Competency status, enhancing its market positioning and further validating its capabilities in modern engineering and cloud-driven transformation. Continued investments in cloud technologies, data modernization, and generative AI, along with a strong pipeline (33% from Fortune 500 clients), provide strong visibility and underpin Sonata’s strategic objective of achieving industry-leading growth. Management remains committed to scaling the business sustainably, with margin improvements expected as ramp-down impacts subside and large-deal contributions accelerate. Considering these factors, **we recommend a BUY rating and using a SOTP valuation method. We assign a target multiple of 25x FY27e P/E for the international business and 10x FY27e P/E for the domestic business, arriving at a target price of INR 486.**

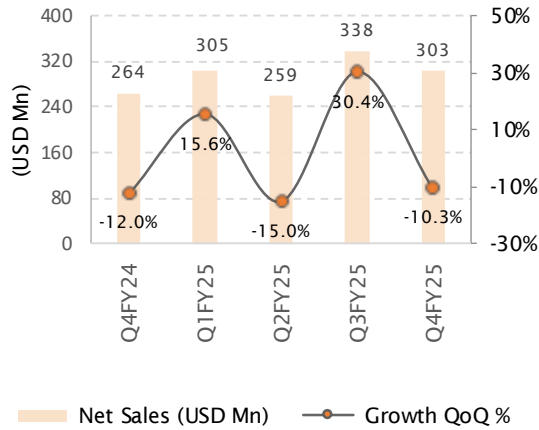
Vertical	Multiple	TP
International	25	393
Domestic	10	93
	Target Price	486

Exhibit 1: 12 Month Forward PE Multiple Chart

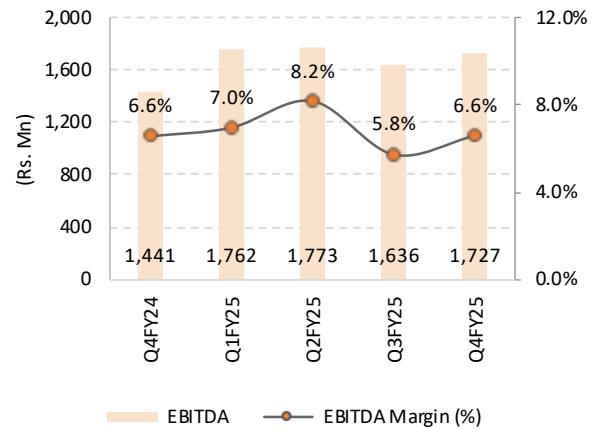


Source: Dalal & Broacha Research, Bloomberg

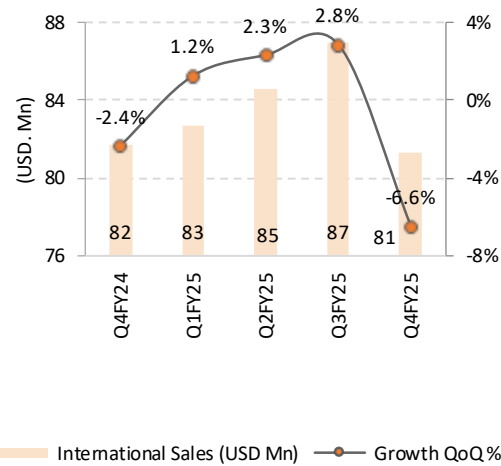
Consol Sales Trajectory (USD Mn)



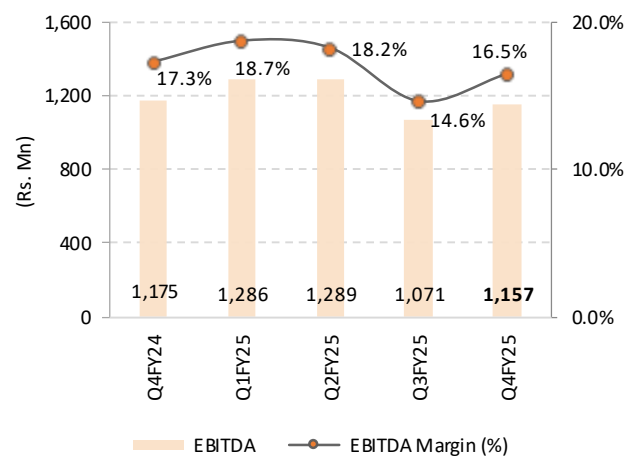
Consol EBITDA Trajectory (Rs Mn)



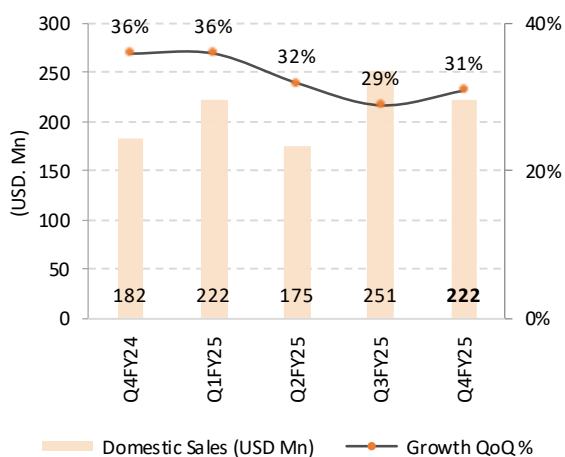
International Sales Trajectory (USD Mn)



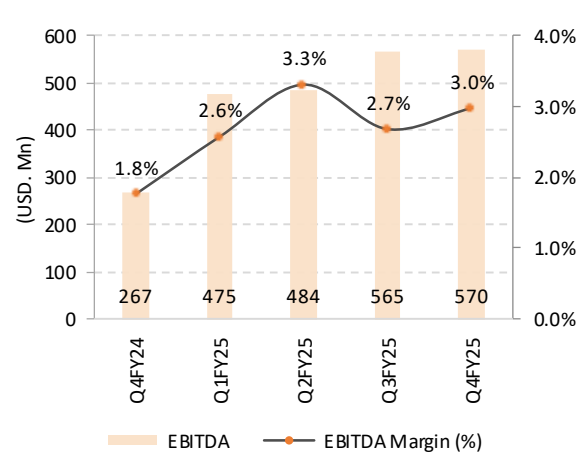
International EBITDA Trajectory (Rs Mn)



Domestic Sales Trajectory (USD Mn)

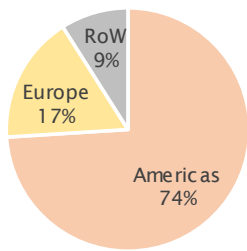


Domestic EBITDA Trajectory (Rs Mn)

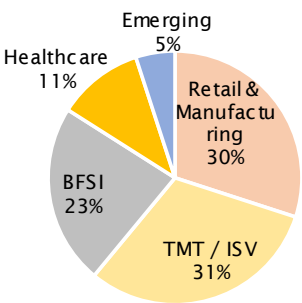


Source: Dalal & Broacha Research, Company

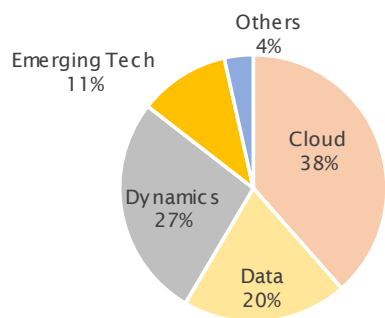
Geography wise (International)



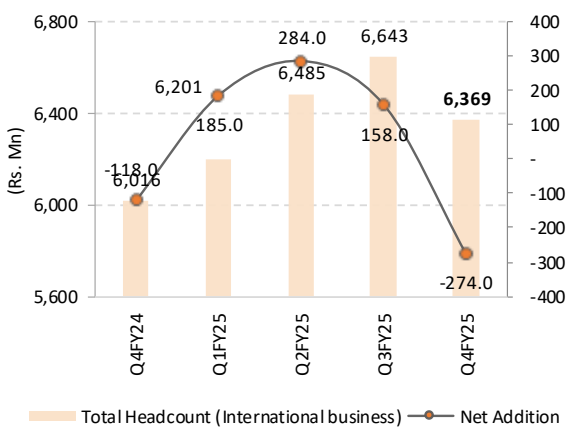
Vertical wise (International)



GTM Segmentation (International)



Headcount



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	55,534	74,491	86,131	101,573	113,168	125,290
Operating Expenses	-40,231	-54,557	-58,197	-70,818	-76,390	-83,309
Employee Expense	-7,370	-9,331	-13,346	-15,977	-18,779	-21,545
Other Expenses	-3,295	-4,565	-7,314	-7,881	-9,737	-10,731
Operating Profit	4,638	6,038	7,274	6,896	8,261	9,705
Depreciation	-473	-591	-1,319	-1,319	-883	-928
PBIT	4,164	5,447	5,955	5,577	7,378	8,777
Other income	1,020	708	1,255	708	792	726
Interest	-181	-185	-850	-653	-490	-364
PBT	5,004	5,969	6,360	5,632	7,680	9,139
PBT (post exceptional)	5,004	5,970	4,614	5,632	7,680	9,139
Provision for tax	-1,239	-1,454	-1,529	-1,490	-1,843	-2,193
Reported PAT	3,764	4,516	3,085	4,142	5,837	6,946
MI	-	-	-	-	-	-
Owners PAT	3,764	4,516	3,085	4,142	5,837	6,946
Adj. PAT (excl Exceptionals)	3,764	4,516	4,832	4,142	5,837	6,946

Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	104	139	278	278	278	278
Reserves	10,888	12,868	13,785	16,782	19,117	21,895
Net worth	10,992	13,007	14,063	17,059	19,394	22,172
MI	-	-	-	-	-	-
Current Liabilities	12,940	21,633	30,933	26,345	23,547	25,121
TOTAL LIABILITIES	25,593	43,569	51,491	47,552	46,228	49,785
Non Current Assets	6,149	19,418	20,736	20,235	19,781	19,892
Fixed Assets	1,006	5,519	4,766	4,262	3,773	3,827
Goodwill	2,207	10,984	11,135	11,397	11,397	11,397
Right of Use Assets	1,056	828	810	636	476	331
Financial Assets	518	559	512	288	317	347
Deferred Tax Asset	261	-	884	855	881	907
Loans and Advances	-	-	-	-	-	-
Current Assets	19,443	24,151	30,756	27,317	26,448	29,894
Current investments	1,448	2,058	2,321	2,451	2,696	2,966
Inventories	29	288	980	472	314	342
Trade Receivables	9,220	12,362	16,051	17,409	18,603	20,596
Cash & Bank Balances	7,337	4,174	5,360	3,100	2,337	3,252
Other bank balances	359	3,129	3,290	1,395	-	-
Loans and Advances	-	253	-	-	-	-
Other Financial Assets	532	141	546	439	460	483
Other Current Assets	518	1,746	2,209	2,052	2,037	2,255
TOTAL ASSETS	25,593	43,569	51,491	47,552	46,228	49,785

	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	14.7	10.4	9.4	8.7	12.6	14.0
Current Assets	10,659	17,919	23,075	21,766	21,414	23,677
Net Debt	-8,764	-4,425	-4,227	-2,530	-1,718	-3,752

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,004	5,970	4,614	5,632	7,680	9,139
Depreciation	473	591	1,319	1,319	883	928
Net Chg in WC	175	2,089	3,547	-4,954	-3,686	-758
Taxes	-1,559	-1,754	-2,623	-1,636	-1,843	-2,193
Others	1,429	-3,503	-4,543	6,789	923	583
CFO	5,522	3,392	2,314	7,151	3,957	7,698
Capex	-1,032	-13,062	407	26	63	-235
Net Investments made	-847	-651	-216	94	-	-
Others	26	4,451	-1,989	-5,184	-	-
CFI	-1,853	-9,262	-1,799	-5,064	63	-235
Change in Share capital	-	35	139	0	-	-
Change in Debts	-517	4,556	1,807	-2,327	-1,260	-995
Others	723	-538	908	187	-20	-1,386
CFF	-2,706	1,868	662	-4,333	-4,782	-6,549
Total Cash Generated	963	-4,002	1,177	-2,246	-763	914
Cash Opening Balance	6,407	7,337	4,174	5,360	3,100	2,337
Cash Closing Balance	7,369	3,335	5,351	3,114	2,337	3,252

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	8.4	8.1	8.4	6.8	7.3	7.7
NPM	6.7	6.0	5.5	4.0	5.1	5.5
Tax rate	-24.8	-24.4	-33.1	-26.5	-24.0	-24.0
Net Sales	31.3	34.1	15.6	17.9	11.4	10.7
Operating Profit	22.2	30.2	20.5	-5.2	19.8	17.5
PBIT	22.6	30.8	9.3	-6.3	32.3	19.0
PAT	54.3	20.0	7.0	-14.3	40.9	19.0
Per Share (Rs.)						
Net Earnings (EPS)	13.44	16.13	17.26	14.92	21.03	25.02
Cash Earnings (CPS)	15.13	18.24	15.73	19.67	24.21	28.36
Dividend	21.00	15.75	7.90	7.90	12.62	15.02
Book Value	39.26	46.45	50.22	61.45	69.86	79.87
Valuation Ratios						
P/E(x)	30	25	23.0	26.6	18.9	15.9
P/B(x)	10	9	8	6	6	5
EV/EBIDTA(x)	22	18	15	16	13	11
Div. Yield(%)	5.29	3.97	1.99	1.99	3.18	3.78
FCF Yield(%)	2.54	-5.73	8.81	0.45	2.60	5.99
Return Ratios (%)						
ROE	34%	35%	34%	24%	30%	31%
ROCE	46%	34%	35%	29%	36%	39%
RoIC	175%	54%	64%	32%	35%	39%

Source: : Dalal & Broacha Research, Company

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