

Global challenges weighing on verticals.

Sonata Software reported muted 1QFY26 results due to headwinds in key verticals but remains cautiously optimistic, supported by ongoing deal wins and full-year growth aspirations.

Key Result Highlights:

The company secured three large deals during the quarter, showcasing strength on that front; however, growth remained muted due to macro-driven softness in key verticals and client-specific challenges. While international margins were stable, the domestic business faced pressure amid weak demand.

Key Concall Highlights:

Large deals are progressing well, with three signed during the quarter and one already ramped up, reflecting healthy traction. However, the retail and manufacturing verticals continue to face softness due to ongoing macroeconomic uncertainties. In contrast, BFSI and healthcare are emerging as the primary growth drivers. The management remains focused on improving profitability and is targeting ~20% margins by the end of the financial year from its current 16% margins in the international business.

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	55,534	74,491	86,131	1,01,573	1,23,531	1,45,119
Margins	8.4	8.1	8.4	6.8	5.9	6.3
PAT (adj)	3,764	4,516	3,085	4,142	4,797	6,522
Growth (%)	54.3	20.0	7.0	-14.3	15.8	35.9
EPS	13.44	16.13	17.26	14.92	17.28	23.49
P/E (x)	30	25	23	27	23	17
P/B (x)	10	9	8	6	6	5
EV/EBITDA (x)	22	18	15	16	15	12
RoE (%)	34	35	34	24	25	30
ROCE (%)	46	34	35	29	32	38

Source: Dalal & Broacha Research, Company



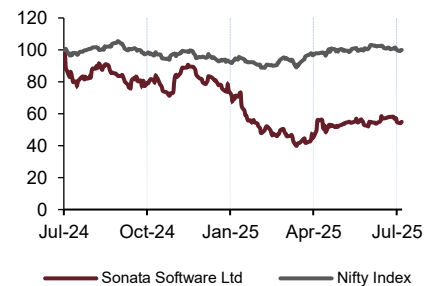
Rating	TP (Rs)	Up/Dn (%)
HOLD	414	0

Market data

Current price	Rs	414
Market Cap (Rs.Bn)	(Rs Bn)	116
Market Cap (US\$ Mn)	(US\$ Mn)	1,337
Face Value	Rs	1
52 Weeks High/Low	Rs	763.7 / 286.4
Average Daily Volume	('000)	601
BSE Code		532221
Bloomberg		SSOF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-25	Mar-25
Promoters	28.17	28.17
Public	70.83	70.83
Total	100.00	100.00

Source: Bloomberg

Bharat Gulati

+91 22 67141412

bharat.gulati@dalal-broacha.com

Concall Highlights

International Business Outlook:

International revenue growth remained muted during the quarter, impacted by challenges in key verticals.

1) There are challenges in the key vertical of retail and manufacturing which used to be ~45% of revenue is now ~30% of revenue. **2)** The BFSI segment saw strong 2 large deal wins, with a total of 10 large deals now in the pipeline. **3)** The healthcare vertical reported healthy growth and remains well-positioned going forward. **4)** The TMT segment also showed positive momentum, with one large deal signed and ramped up during the quarter. However, softness among large clients in both BFSI and TMT continues to pose near-term headwinds.

Domestic Business Outlook:

The business reported 13% revenue growth; however, this did not translate into higher gross contribution due to continued softness in the domestic IT sector. The partner is in talks to license its products directly in the market, but lack of clarity on this front continues to weigh on domestic business performance.

Operational Highlights:

Total net headcount increased by 49 during the quarter. DSO stood at 62 days for the international business, while domestic DSO was elevated at 63 days due to seasonal factors. Depreciation rose owing to the new Hyderabad facility. Three new large deals were signed, with large deals comprising ~48% of the overall pipeline.

Quant Business Update:

The quant business has outperformed its targets and the deal has been renewed for another 3 years. \$35Mn loan was taken to finance the payout as well.

AI for Next Leg of Growth:

The company has invested heavily in AI and is signing deals constantly in order to leverage it in this new era. The company has signed \$46Mn and expects AI deals to contribute to ~20% of revenue going forward.

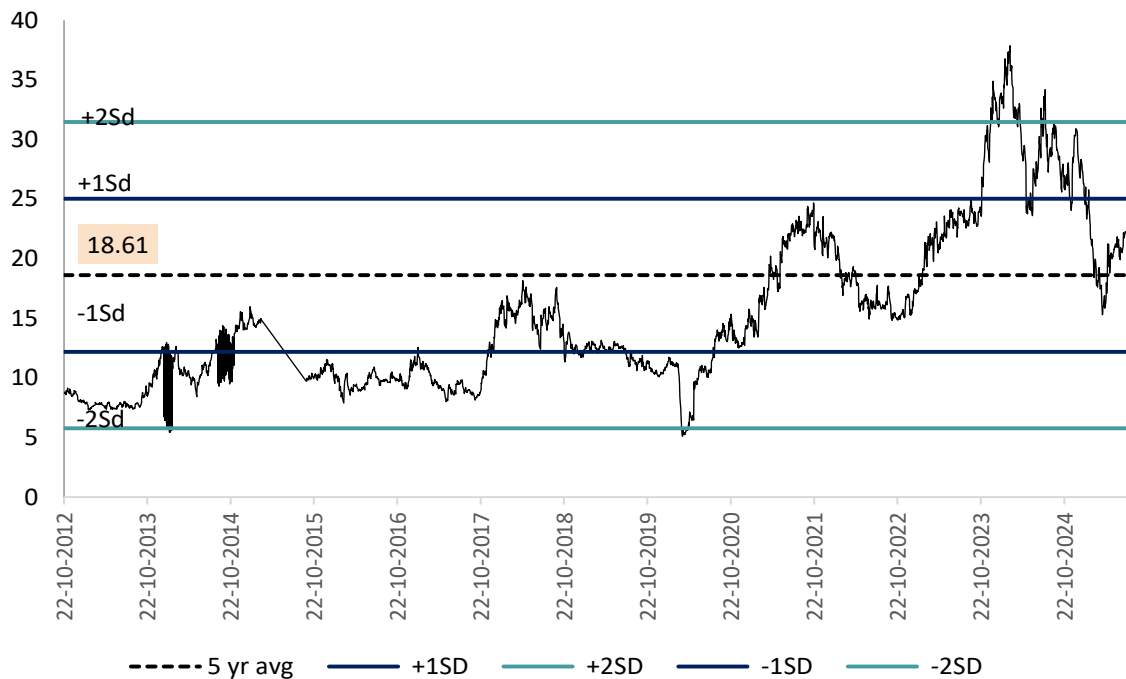
Valuation & Outlook

Sonata Software continues to position itself at the forefront of AI with its proprietary Harmoni AI platform, aiming to establish leadership in this space. However, near-term challenges persist, particularly in its high-margin international business, which has been impacted by macroeconomic disruptions, altering demand patterns and discretionary spending.

We remain cautious on the stock as there is weakness in the retail and manufacturing segment which is causing slowdown in revenue. Large banking client having budgetary issues is also facing challenges currently along with some softness seen in a large TMT client. All this is causing near and mid term headwinds for the company. The large deal signings still remain strong and continue to help drive growth with quick ramp up of deals and a target to get close to ~20% margins in the international business.

Currently we recommend a 'HOLD' rating on the stock with a target price of Rs.414 arrived at by the SOTP methodology of providing a target multiple of 25x to the international business and 10x to the domestic business. The stock trades at a P/E of 23x/17x as of FY26e/FY27e.

Exhibit 1: 12 Month Forward PE Multiple Chart



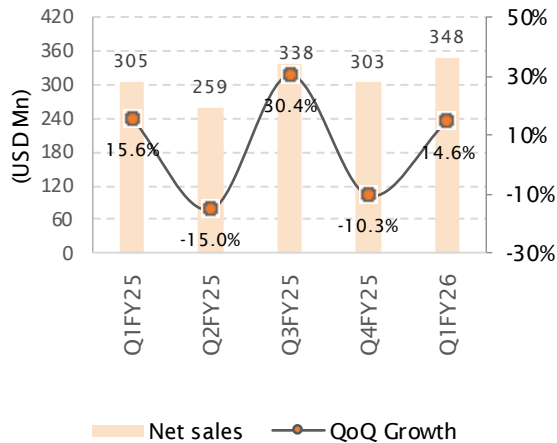
Quarterly Result Analysis

Quarterly Result Analysis						D&B Est	
(Rs.Mn)	Q1FY26	Q4FY25	QoQ Growth (%)	Q1FY25	YoY Growth (%)	Q1FY26E	Deviation
International Revenue (\$ Mn)	81.8	81.3	0.6%	82.7	-1.7%	81.3	1%
International Revenue (Rs Mn)	6,999	7,023	-0.3%	6,878	2.1%	7,023	0%
Domestic Revenue (Rs Mn)	22,747	19,182	18.6%	18,494	3.7%	19,182	19%
Consolidated Revenue (Rs Mn)	29,652	26,172	13.3%	25,274	3.6%	26,172	13%
Other Income	242	112	116.1%	189	-40.6%	112	
COGS	22,086	18,632	18.5%	17,873	4.3%	18,632	
Employee Benefits Expense	4,180	4,194	-0.3%	3,692	13.6%	4,194	
Other Expenses	1,789	1,620	10.5%	1,948	-16.9%	1,620	
Total Expenses	28,055	24,445	14.8%	23,513	4.0%	24,445	
Domestic Gross Contribution	685	784	-12.6%	685	14.5%	784	-13%
International EBITDA (Excl. OI)	1,162	1,157	0.4%	1,286	-10.0%	1,157	0%
Domestic EBITDA (Excl. OI)	440	565	-22.1%	473	20.4%	570	-23%
EBITDA (Excluding Other Income)	1,597	1,727	-7.5%	1,762	-2.0%	1,727	-8%
Depreciation and Amortisation	261	230	13.2%	333	-30.8%	230	
EBIT / PBIT	1,578	1,608	-1.9%	1,618	-0.6%	1,608	-2%
Finance Costs	51	101	-49.7%	200	-49.6%	101	
EBT/ PBT (Before Exceptional)	1,527	1,508	1.3%	1,417	6.4%	1,508	1%
Exceptional Items	-	-		-		-	
Tax Expense	434	432	0.3%	361	19.7%	432	
PAT	1,093	1,075	1.7%	1,056	1.8%	1,075	2%
Earning Per Share	3.94	3.87	1.7%	3.81	1.8%	3.87	
Adj Earning Per Share	3.94	3.87	1.7%	3.81	1.8%	3.87	2%
Margins Analysis (%)			bps		bps		
Gross Margins	25.5%	28.8%	-329	29.3%	-48	28.8%	-329
International EBITDA Margins (Excl OI)	16.6%	16.5%	13	18.7%	-223	16.5%	
Domestic EBITDA Margins (Excl OI)	1.9%	2.9%	-101	2.6%	41	3.0%	
EBITDA Margins (Excl OI)	5.4%	6.6%	-121	7.0%	-37	6.6%	-121
EBIT Margins	5.3%	6.1%	-82	6.4%	-25	6.1%	-82
Adj PAT Margins	3.7%	4.1%	-43	4.1%	-6	4.1%	-43
Effective Tax Rate %	28.4%	28.7%	-27	25.5%	319	28.7%	-27
Cost Analysis (%)			bps		bps		
COGS as a % to sales	74.5%	71.2%	-329	70.7%	48	71.2%	5%
EE Cost as a % to sales	14.1%	16.0%	-193	14.6%	141	16.0%	-12%
Other exps as a % to sales	6.0%	6.2%	-15	7.7%	-152	6.2%	-2%

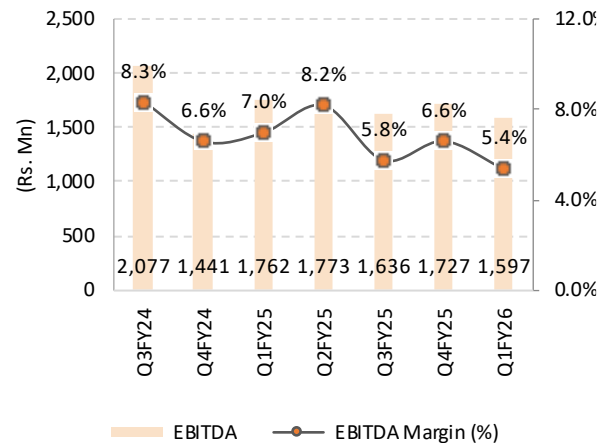
Source: Dalal & Broacha Research, Com pany

Exhibit 2: Quarterly Performance Analysis

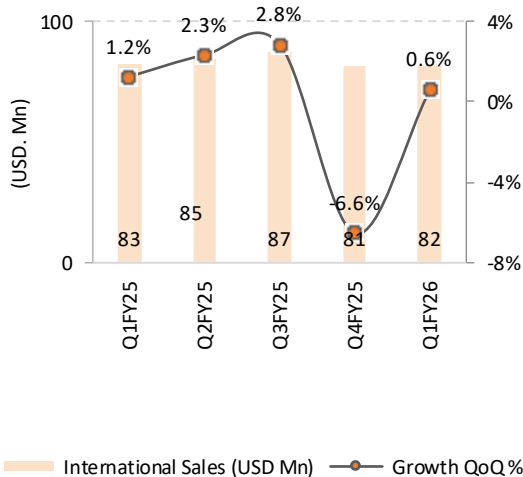
Consol Sales Trajectory (USD Mn)



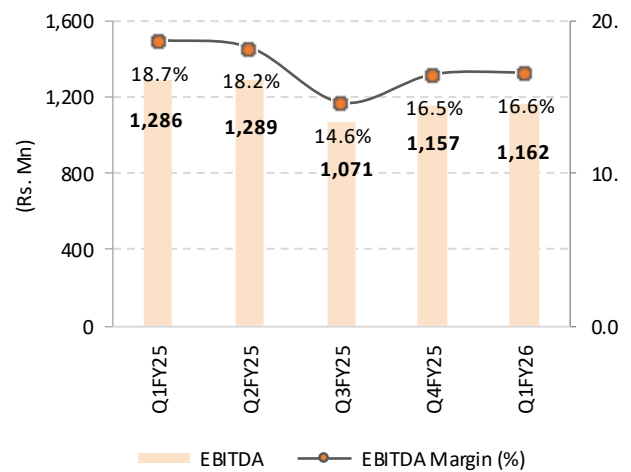
Consol EBITDA Trajectory (Rs Mn)



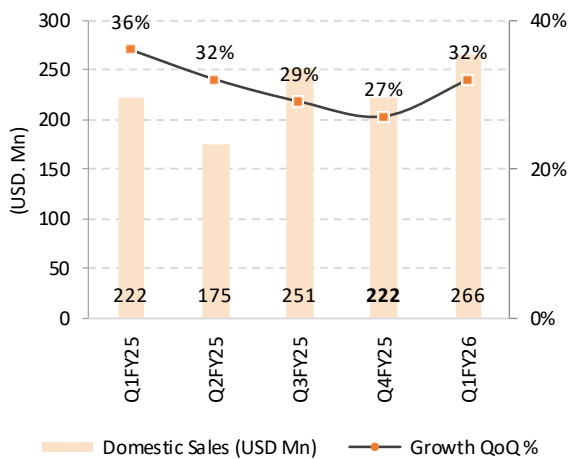
International Sales Trajectory (USD Mn)



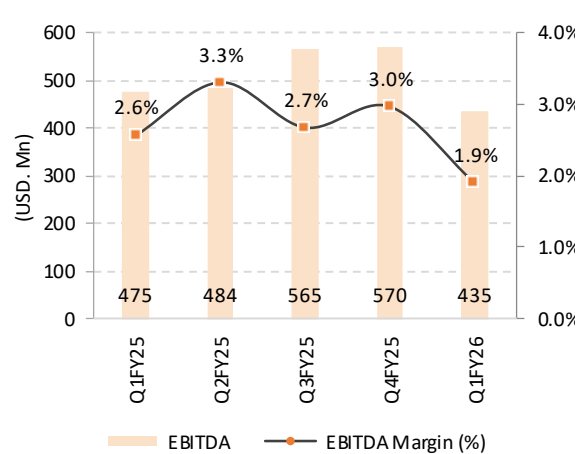
International EBITDA Trajectory (Rs Mn)



Domestic Sales Trajectory (USD Mn)



Domestic EBITDA Trajectory (Rs Mn)



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	55,534	74,491	86,131	1,01,573	1,23,531	1,45,119
Operating Expenses	-40,231	-54,557	-58,197	-70,818	-87,948	-1,01,539
Employee Expense	-7,370	-9,331	-13,346	-15,977	-19,296	-23,722
Other Expenses	-3,295	-4,565	-7,314	-7,881	-8,964	-10,704
Operating Profit	4,638	6,038	7,274	6,896	7,324	9,154
Depreciation	-473	-591	-1,319	-1,319	-1,196	-1,140
PBIT	4,164	5,447	5,955	5,577	6,128	8,014
Other income	1,020	708	1,255	708	1,009	1,016
Interest	-181	-185	-850	-653	-460	-335
PBT	5,004	5,969	6,360	5,632	6,676	8,695
PBT (post exceptional)	5,004	5,970	4,614	5,632	6,676	8,695
Provision for tax	-1,239	-1,454	-1,529	-1,490	-1,879	-2,174
Reported PAT	3,764	4,516	3,085	4,142	4,797	6,522
MI	-	-	-	-	-	-
Owners PAT	3,764	4,516	3,085	4,142	4,797	6,522
Adj. PAT (excl Exceptionals)	3,764	4,516	4,832	4,142	4,797	6,522

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	18,833	21,441
Net worth	10,992	13,007	14,063	17,059	19,110	21,719
Non Current Liabilites	1,660	8,929	6,496	4,147	2,994	2,075
Current Liabilites	12,940	21,633	30,933	26,345	25,891	29,060
TOTAL LIABILITIES	25,593	43,569	51,491	47,552	47,996	52,854
Non Current Assets	6,149	18,590	19,926	19,599	19,196	19,152
Fixed Assets	1,006	4,691	3,956	3,627	3,356	3,355
Goodwill	2,207	10,984	11,135	11,397	11,397	11,397
Right of Use Assets	1,056	828	810	636	283	13
Financial Assets	518	559	512	288	343	397
Deferred Tax Asset	261	-	884	855	881	907
Other Assets	1,101	1,528	2,629	2,796	2,936	3,083
Current Assets	19,443	24,151	30,756	27,317	28,517	33,688
Current investments	1,448	2,058	2,321	2,451	2,696	2,966
Inventories	29	288	980	472	361	417
Trade Receivables	9,220	12,362	16,051	17,409	20,307	23,855
Cash & Bank Balances	7,337	4,174	5,360	3,100	2,469	3,354
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	2,224	2,612
TOTAL ASSETS	25,593	42,741	50,682	46,916	47,713	52,840

	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	14.7	10.6	9.5	8.8	10.1	12.3
Current Assets	10,659	17,919	23,075	21,766	23,352	27,368
Net Debt	-8,764	-4,425	-4,227	-2,529	-2,050	-4,054

Source: Dalal & Broacha Research, Company

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating profit before WC change	4,638	6,038	7,274	6,896	7,324	9,154
Net Chg in WC	968	2,953	3,556	-4,824	-2,934	-647
Taxes	-1,559	-1,754	-2,623	-1,636	-1,879	-2,174
Others	455	-4,553	-5,402	6,007	319	96
CFO	4,502	2,684	2,805	6,443	2,830	6,429
Capex	-1,505	-12,825	-717	-1,078	-573	-869
Net Investments made	-847	-651	-216	94	-300	-323
Others	499	4,214	-865	-4,079	-	-
CFI	-833	-8,553	-543	-4,356	137	-176
Change in Share capital	-	35	139	0	-	-
Change in Debts	-517	4,556	1,807	-2,327	-1,300	-850
Div. & Div Tax	-2,911	-2,185	-2,192	-1,221	-2,878	-3,913
CFF	-2,706	1,868	-1,085	-4,333	-4,992	-5,367
Total Cash Generated	963	-4,002	1,177	-2,246	-2,025	885
Cash Opening Balance	6,407	7,337	4,174	5,360	4,494	2,469
Cash Closing Balance	7,369	3,335	5,351	3,114	2,469	3,354

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	8.4	8.1	8.4	6.8	5.9	6.3
NPM	6.7	6.0	5.5	4.0	3.9	4.5
Tax rate	-24.8	-24.4	-33.1	-26.5	-28.1	-25.0
Growth Ratios (%)						
Operating Profit	22.2	30.2	20.5	-5.2	6.2	25.0
PBIT	22.6	30.8	9.3	-6.3	9.9	30.8
PAT	54.3	20.0	7.0	-14.3	15.8	35.9
Per Share (Rs.)						
Net Earnings (EPS)	13.44	16.13	17.26	14.92	17.28	23.49
Cash Earnings (CPS)	15.13	18.24	15.73	19.67	21.59	27.60
Dividend	21.00	15.75	7.90	4.40	10.37	14.10
Book Value	39.26	46.45	50.22	61.45	68.84	78.24
Free Cash Flow	10.70	-36.22	7.46	19.33	8.13	20.03
P/E(x)	30	25	23.0	26.6	23.0	16.9
P/B(x)	10	9	8	6	6	5
EV/EBIDTA(x)	22	18	15	16	15	12
Div. Yield(%)	5.29	3.97	1.99	1.11	2.61	3.55
FCF Yield(%)	2.70	-9.12	1.88	4.87	2.05	5.05
Return Ratios (%)						
ROE	34%	35%	34%	24%	25%	30%
ROCE	46%	34%	35%	29%	32%	38%
RoIC	175%	54%	64%	32%	30%	38%

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | : equity.research@dalal-broacha.com