

International recovery begins as Domestic headwinds rise.

The company continues to navigate macro pressures in BFSI and TMT caused by budget cuts and ramp-downs at large clients. While these challenges persist, management expects a turnaround from Q3. Recent large deal wins and steady traction across multiple smaller accounts have helped cushion the impact, partially offsetting the prevailing headwinds and indicating early signs of improvement.

During the quarter, the company secured one large deal with a major US healthcare client and maintained a book-to-bill ratio of ~1.3x, which remains at the upper end of its preferred range. A strong AI-led pipeline, including two AI deals won during the quarter, along with a broader funnel of large opportunities, is expected to support growth momentum. Margins expanded by 70 bps driven by improved utilization and efficiency benefits from AI initiatives, and this margin trajectory is likely to hold over the next few quarters as the business steadily progresses toward historical levels.

The domestic segment faced pressure as Microsoft entered the market as a direct seller, resulting in the loss of several renewal contracts. While the segment is expected to remain stable going forward, some uncertainty continues as revenues reset to a new base. The outlook will evolve over the next few quarters as the business adjusts to the new competitive dynamics and rebuilds from the current position.

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



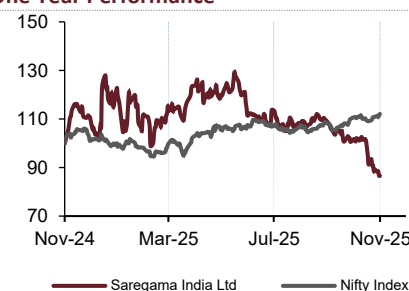
Rating	TP (Rs)	Up/Dn (%)
HOLD	414	7

Market data

Current price	Rs	388
Market Cap (Rs.Bn)	(Rs Bn)	75
Market Cap (US\$ Mn)	(US\$ Mn)	845
Face Value	Rs	1
52 Weeks High/Low	Rs	603.95 / 378
Average Daily Volume	('000)	869
BSE Code		532163
Bloomberg		SARE.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-25	Jun-25
Promoters	60	59
Public	40	40
Total	100	100

Source: Bloomberg

Bharat Gulati
+91 22 67141412
bharat.gulati@dalal-broacha.com

Concall Highlights

AI and Modernization Engine

AI is a strategic growth pillar, and the AI order book grew from 8% in Q1 to 10% in Q2 FY26. The TMT vertical shows the highest adoption of AI. Sonata has aligned its go-to-market strategy with the Microsoft AI CSP co-sell program and is replicating this model with other CSPs.

Key modernization efforts include:

- **Agent Bridge Platform:** Sonata launched this cloud-agnostic agentic platform designed to help clients build and deploy next-generation agentic solutions. The platform was recognized with CI AI awards for 2025 for best industry application. Internally, production-grade agents are now run by HR and finance teams.
- **Cloud and Data:** These opportunities account for 55% of the total pipeline. Sonata is an official Microsoft Fabric feature partner.
- **Talent Preparedness:** Sonata is heavily invested in future-focused talent, with 94.8% of the workforce and 80% of its managers now AI trained

Deal Wins and Pipeline

Large deals remain a cornerstone, comprising approximately 40% of the total pipeline. The company's desired book-to-bill ratio for overall business is between 1.2x and 1.3x, and Q2 FY26 achieved an order booking of \$105 million, resulting in a book-to-bill ratio of 1.28x. The number of clients with an annual run rate exceeding \$10 million is now eight.

Significant deal wins during the quarter included:

- One large, multi-year contract with a leading US healthcare provider client to modernize core platforms, leveraging automation and AI.
- Mid-size AI wins in the financial mortgage sector (migrating a legacy suite of applications) and the retail vertical (securing a strategic AI program with a US consumer product client for an enterprise playground)

Scaling Verticals and Geographies

- Sonata's strategy has successfully driven growth in focused areas:
- **Vertical Scaling:** Healthcare Life Sciences (HLS) and BFSI verticals together contribute 33% of total revenue, a significant rise from 13% just three years ago. The company remains confident that these verticals are on track to scale to \$250 million in revenue in about 3 to 5 years.
- **Geographic Scaling:** The North America business has scaled significantly and now represents over 70% of total revenue, up from approximately 54% three years ago.

Client Headwinds and Offsets

Sonata is navigating near-term challenges:

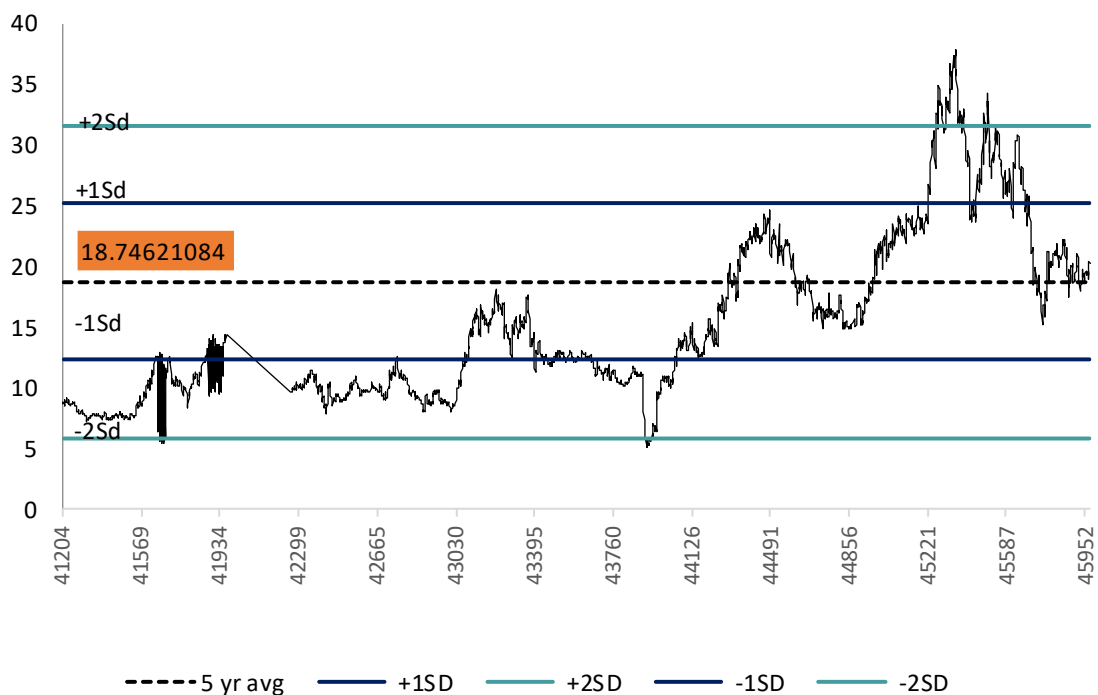
- **BFSI Client:** The largest BFSI client underwent organizational changes and budget constraints, leading to a significant ramp-down during Q2. This impact is expected to be largely absorbed by the end of Q3.
- **TMT Client:** Decision delays continue with the largest TMT customer and global R&D. TMT renewals expected in the June-August timeframe were secured, but the challenge lies in winning new business due to budget dissemination delays resulting from a reorganization.

Valuation & Outlook

We remain cautiously optimistic on the stock as domestic business uncertainties continue, driven by Microsoft's entry as a direct seller and the resulting loss of renewal contracts. While the segment should remain stable, revenues are resetting to a new base, and the outlook will evolve over the coming quarters. At the same time, macro pressures in BFSI and TMT persist due to budget cuts and client ramp-downs, though early signs of improvement are visible through recent deal wins and growth across smaller accounts.

International performance has yet to show meaningful traction, but the outlook is supported by a healthy book-to-bill of ~1.3x, strong AI-led deal momentum, and sustained margin expansion of 70 bps driven by better utilization and efficiency gains. With these headwinds expected to ease over the next few quarters and margins progressing toward historical levels, a gradual recovery in revenue and earnings appears likely. **We maintain a HOLD rating with a target price of ₹414.**

Exhibit 1: 12 Month Forward PE Multiple Chart



Source: Dalal & Broacha Research, Company

Quarterly Result Analysis

(Rs.Mn)	2QFY26	1QFY26	QoQ Growth (%)	2QFY25	YoY Growth (%)
International Revenue (\$ Mn)	82.0	81.8	0.2%	84.6	-3.1%
International Revenue (Rs Mn)	7,303	6,999	4.3%	7,079	3.2%
Domestic Revenue (Rs Mn)	13,913	22,747	-38.8%	14,619	-4.8%
Consolidated Revenue (Rs Mn)	21,193	29,652	-28.5%	21,698	-2.3%
Other Income	314	242	29.5%	192	63.5%
COGS	13,785	22,086	-37.6%	13,990	-1.5%
Employee Benefits Expense	4,225	4,180	1.1%	4,048	4.4%
Other Expenses	1,456	1,789	-18.6%	1,888	-22.8%
Total Expenses	19,466	28,055	-30.6%	19,926	-2.3%
Domestic Gross Contribution	687	685	0.3%	702	-2.1%
International EBITDA (Excl. OI)	1,263	1,162	8.7%	1,289	-2.0%
Domestic EBITDA (Excl. OI)	464	440	5.4%	484	-4.2%
EBITDA (Excluding Other Income)	1,727	1,597	8.2%	1,773	-2.6%
Depreciation and Amortisation	263	261	0.7%	329	-20.2%
EBIT / PBIT	1,778	1,578	12.7%	1,635	8.7%
Finance Costs	142	51	179.7%	192	-25.9%
EBT/ PBT (Before Exceptional)	1,636	1,527	7.1%	1,443	13.3%
Exceptional Items	-	-		-	
Tax Expense	434	434	0.1%	379	14.7%
PAT	1,202	1,093	9.9%	1,065	12.9%
Earning Per Share	4.33	3.94	9.9%	3.84	12.9%
Adj Earning Per Share	4.33	3.94	9.9%	3.84	12.9%
Margins Analysis (%)			bps		bps
Gross Margins	35.0%	25.5%	944	35.5%	-57
International EBITDA Margins (Excl OI)	17.3%	16.6%	70	18.2%	-91
Domestic EBITDA Margins (Excl OI)	3.3%	1.9%	140	3.3%	2
EBITDA Margins (Excl OI)	8.1%	5.4%	276	8.2%	-2
EBIT Margins	8.4%	5.3%	307	7.5%	85
Adj PAT Margins	5.6%	3.7%	193	4.9%	72
Effective Tax Rate %	26.5%	28.4%	-187	26.2%	31
Cost Analysis (%)			bps		bps
COGS as a % to sales	65.0%	74.5%	-944	64.5%	57
EE Cost as a % to sales	19.9%	14.1%	584	18.7%	128
Other exps as a % to sales	6.9%	6.0%	84	8.7%	-183

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Sales	55,534	74,491	86,131	1,01,573	99,053	1,06,101
Operating Expenses	-40,231	-54,557	-58,197	-70,818	-69,030	-73,079
Employee Expense	-7,370	-9,331	-13,346	-15,977	-16,817	-17,772
Other Expenses	-3,295	-4,565	-7,314	-7,881	-6,668	-7,702
Operating Profit	4,638	6,038	7,274	6,896	6,538	7,548
Depreciation	-473	-591	-1,319	-1,319	-1,281	-1,293
PBIT	4,164	5,447	5,955	5,577	5,257	6,255
Other income	1,020	708	1,255	708	1,269	743
Interest	-181	-185	-850	-653	-460	-305
PBT	5,004	5,969	6,360	5,632	6,066	6,692
PBT (post exceptional)	5,004	5,970	4,614	5,632	6,066	6,692
Provision for tax	-1,239	-1,454	-1,529	-1,490	-1,695	-1,673
Reported PAT	3,764	4,516	3,085	4,142	4,371	5,019
MI	-	-	-	-	-	-
Owners PAT	3,764	4,516	3,085	4,142	4,371	5,019
Adj. PAT (excl Exceptionals)	3,764	4,516	4,832	4,142	4,371	5,019
Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity capital	104	139	278	278	278	278
Reserves	10,888	12,868	13,785	16,782	18,662	20,670
Net worth	10,992	13,007	14,063	17,059	18,940	20,947
Non Current Liabilities	1,660	8,929	6,496	4,147	2,994	2,075
Current Liabilities	12,940	21,633	30,933	26,345	21,495	22,131
TOTAL LIABILITIES	25,593	43,569	51,491	47,552	43,429	45,153
Non Current Assets	6,149	18,590	19,926	19,599	19,050	18,817
Fixed Assets	1,006	4,691	3,956	3,627	3,271	3,117
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	282	299
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	24,096	26,323
Current investments	1,448	2,058	2,321	2,451	2,696	2,966
Inventories	29	288	980	472	284	300
Trade Receivables	9,220	12,362	16,051	17,409	16,283	17,441
Cash & Bank Balances	7,337	4,174	5,360	3,100	2,590	3,222
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	1,783	1,910
TOTAL ASSETS	25,593	42,741	50,682	46,916	43,146	45,140

Cashflow (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Operating profit before WC change	4,638	6,038	7,274	6,896	6,538	7,548
Net Chg in WC	968	2,953	3,556	-4,824	-2,788	-289
Taxes	-1,559	-1,754	-2,623	-1,636	-1,695	-1,673
Others	455	-4,553	-5,402	6,007	319	96
CFO	4,502	2,684	2,805	6,443	2,374	5,682
Capex	-1,505	-12,825	-717	-1,078	-573	-869
Net Investments made	-847	-651	-216	94	-239	-287
Others	499	4,214	-865	-4,079	-	-
CFI	-833	-8,553	-543	-4,356	458	-413
Change in Share capital	-	35	139	0	-	-
Change in Debts	-517	4,556	1,807	-2,327	-1,300	-1,050
Div. & Div Tax	-2,911	-2,185	-2,192	-1,221	-2,622	-3,012
CFF	-2,706	1,868	-1,085	-4,333	-4,736	-4,636
Total Cash Generated	963	-4,002	1,177	-2,246	-1,904	632
Cash Opening Balance	6,407	7,337	4,174	5,360	4,494	2,590
Cash Closing Balance	7,369	3,335	5,351	3,114	2,590	3,222
Ratios	FY22	FY23	FY24	FY25	FY26E	FY27E
OPM	8.4	8.1	8.4	6.8	6.6	7.1
NPM	6.7	6.0	5.5	4.0	4.4	4.7
Tax rate	-24.8	-24.4	-33.1	-26.5	-27.9	-25.0
Growth Ratios (%)						
Operating Profit	22.2	30.2	20.5	-5.2	-5.2	15.5
PBIT	22.6	30.8	9.3	-6.3	-5.7	19.0
PAT	54.3	20.0	7.0	-14.3	5.5	14.8
Per Share (Rs.)						
Net Earnings (EPS)	13.44	16.13	17.26	14.92	15.74	18.08
Cash Earnings (CPS)	15.13	18.24	15.73	19.67	20.36	22.74
Dividend	21.00	15.75	7.90	4.40	9.45	10.85
Book Value	39.26	46.45	50.22	61.45	68.23	75.46
Free Cash Flow	10.70	-36.22	7.46	19.33	6.49	17.34
P/E(x)	30	25	23.0	26.6	25.2	22.0
P/B(x)	10	9	8	6	6	5
EV/EBIDTA(x)	22	18	15	16	17	14
Div. Yield(%)	5.29	3.97	1.99	1.11	2.38	2.73
FCF Yield(%)	2.70	-9.12	1.88	4.87	1.63	4.37
Return Ratios (%)						
ROE	34%	35%	34%	24%	23%	24%
ROCE	46%	34%	35%	29%	30%	30%
RoIC	175%	54%	64%	32%	28%	31%

Source: Dalal & Broacha Research, Company

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

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