

Margin beat; near-term growth challenges persist

Information Technology ▶ Result Update ▶ November 14, 2025

CMP (Rs): 374 | TP (Rs): 400

Sonata reported a better-than-expected operating performance on margin beat. IITS revenue grew 0.2% QoQ to USD82mn (1% CC), in line with our expectations. Revenue growth was lopsided, with RMD driving growth while the rest of the verticals either reported muted revenue or decline on a sequential basis. IITS EBITDAM rose by 70bps QoQ to 17.3%, above our expectations, despite the wage hike. Sonata reported order bookings of USD105mn (10% were AI-led) and a book-to-bill ratio of 1.28x. Revenue growth was impacted by the continued ramp-down of a large BFSI client due to budget constraints, softness in the largest TMT client account, and domestic SITL headwinds, though partially offset by ramp-ups in large HLS and TMT deals and mid-sized AI wins. Despite the second phase of wage hike for mid-to-senior employees in Q3, the management expects IITS EBITDAM recovery to sustain in H2 on operating efficiencies, driven by higher utilization, offshore shift, pyramid rationalization, and AI-led productivity improvement. The company aspires to operate at a high-teen EBITDAM in the near term and aims for low twenties in the medium term. The management expects profit growth in H2 vs H1. Factoring in the Q2 performance and near-term growth challenges, we tweaked our FY26-28E EPS by -5% to 4%. We retain BUY, with an unchanged TP of Rs400, at 18x Sep-27E EPS.

Results Summary

IITS revenue grew 0.2% QoQ to USD82mn (1% CC), in line with our estimate. IITS revenue performance was skewed, driven by RMD (up 10.3% QoQ, aided by certain one-offs), while the other verticals reported either muted revenue or decline QoQ (Emerging 24.8%, BFSI 4.8%, TMT 2.9%, HLS flattish). Among geographies, the US declined 6.5% QoQ, while Europe/the RoW grew 12.8%/30.3%, respectively. IITS EBITDAM rose by 70bps QoQ to 17.3% on operating efficiencies, led by utilization, offshore shift, delivery efficiencies, and currency benefits (+160bps) negating the wage hike (-90bps). Overall EBITDAM grew by 280bps QoQ to 8.1%. IITS headcount fell 4.0% QoQ to 6,136. Gross contribution grew 0.3% QoQ in the domestic business. Sonata declared an interim dividend of Rs1.25/sh. **What we like:** Margin beat, steady deal intake. **What we do not like:** Revenue miss, continued client-specific issues in BFSI and TMT.

Earnings Call KTAs

1) Headwinds from the largest BFSI client, driven by organizational changes and budget constraints, impacted BFSI growth in Q2, with a residual impact expected in Q3 before growth resumes in the vertical. 2) In TMT, softness in the largest client account was partly offset by traction among smaller and mid-sized tech accounts. 3) The company also won a major multi-year large deal in Q2 from a leading US healthcare provider to modernize core platforms using automation and AI....(contd)...

Sonata Software: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	86,131	101,573	100,458	104,023	119,412
EBITDA	7,274	6,892	6,515	7,806	9,440
Adj. PAT	4,832	4,247	4,287	5,232	6,729
Adj. EPS (Rs)	17.2	15.1	15.3	18.7	24.0
EBITDA margin (%)	8.4	6.8	6.5	7.5	7.9
EBITDA growth (%)	20.4	(5.2)	(5.5)	19.8	20.9
Adj. EPS growth (%)	6.9	(12.1)	0.9	22.1	28.6
RoE (%)	35.7	27.3	23.2	24.1	26.0
RoIC (%)	46.5	34.1	24.1	27.1	33.9
P/E (x)	34.0	24.7	24.5	20.1	15.6
EV/EBITDA (x)	15.2	16.0	17.0	14.2	11.7
P/B (x)	7.5	6.2	5.3	4.5	3.7
FCFF yield (%)	2.5	5.2	3.4	4.2	5.8

Source: Company, Emkay Research

Target Price – 12M	Sep-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	7.0

Stock Data	SSOF IN
52-week High (Rs)	687
52-week Low (Rs)	286
Shares outstanding (mn)	280.4
Market-cap (Rs bn)	105
Market-cap (USD mn)	1,182
Net-debt, FY26E (Rs mn)	2,674.9
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	668.6
ADTV-3M (USD mn)	7.5
Free float (%)	69.2
Nifty-50	25,910.1
INR/USD	88.7

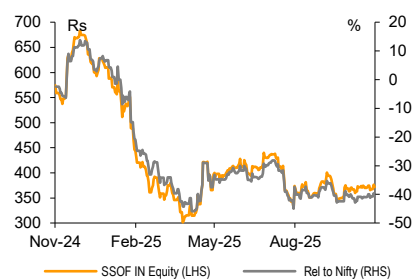
Shareholding, Sep-25

Promoters (%)	28.2
FPIs/MFs (%)	8.9/26.3

Price Performance

(%)	1M	3M	12M
Absolute	2.9	4.0	(33.1)
Rel. to Nifty	(0.1)	(1.1)	(39.2)

1-Year share price trend (Rs)



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...(contd)...4) RMD growth rebounded in Q3, largely on the back of certain one-offs. Excluding one-offs, performance remained muted due to industry-wide slowdowns and tariff-related challenges; however, the management expects stabilization and a return to growth within two to three quarters. 5) The company aims to scale up HLS and BFSI verticals to USD250mn revenue in 3-5 years. 6) The mgmt highlighted that Sonata continues to benefit from three tailwinds: i) large TMT and healthcare deals ramping up with wider scopes, ii) HLS and BFSI seeing healthy demand, supported by data-led and AI-led wins, iii) operational efficiency improving through higher utilization (87.3% in Q2 vs 86.6% in Q1), planned offshoring (57% in Q2 vs 53% in Q1), and greater AI and agentic adoption. 7) It noted that large deals remain central to the company's strategy, representing ~40% of the pipeline, with 28 large deals (RMD:14, TMT:7, BFSI:5, HLS:2) in the pipeline (expected to take around 4-6 quarters to close). 8) Overall, the pipeline is heavily geared toward modernization, with cloud and data initiatives accounting for ~55% of total opportunities. 9) AI momentum continues to build, with AI-led deal pipeline of ~USD293mn in Q2 and an AI order book of USD10.8mn. The AI order book grew from 8% to 10% of the overall order book sequentially. The company is actively pursuing AI opportunities across 100+ clients, helping them unlock value through operational efficiencies, time-to-market, and transformative business models through AI innovation. The pipeline for Microsoft Fabric stood at USD45mn. 10) 94.8% of the workforce and 80% of managers are AI-trained. The company also rolled out WIPE coding training, with 78% of the employees successfully completing it. 11) In SITL, Sonata continues to execute its three-pillar strategy: i) driving growth in Microsoft SMC (small, medium, corporate) accounts, ii) expanding AI-led partnerships with other ISVs such as Oracle, IBM, OpenText, etc, and iii) securing large system integration deals. 12) Quant Systems' founder, Srinivas Veeravelli, decided to pursue opportunities outside of Sonata. The company has hired a new sales leader for Quant Systems to drive the next phase of growth. 13) The mgmt has stated that it intends to adopt a quarterly interim dividend policy starting this year. 14) Gross cash stood at Rs3.23bn, while net debt stood at Rs2.8bn.

Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
IITS revenue (USD mn)	82.0	81.8	0.2	84.6	(3.1)
Net sales	21,193	29,652	(28.5)	21,698	(2.3)
Operating expenses	19,466	28,055		19,926	
EBITDA	1,727	1,597	8.2	1,773	(2.6)
- Margin (%)	8.1	5.4	280.0	8.2	-
Depreciation	263	261		329	
EBIT	1,464	1,336	9.6	1,443	1.5
- Margin (%)	6.9	4.5	240.0	6.7	30.0
Interest paid	142	51		192	
Other income	314	242		192	
Pre-tax profit	1,636	1,527	7.1	1,443	
Tax provided	434	434		379	
Profit after tax	1,202	1,093		1,065	
Emkay Net profit	1,202	1,093	9.9	1,065	12.9
EPS (Rs)	4.3	3.9	9.9	3.8	12.9

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

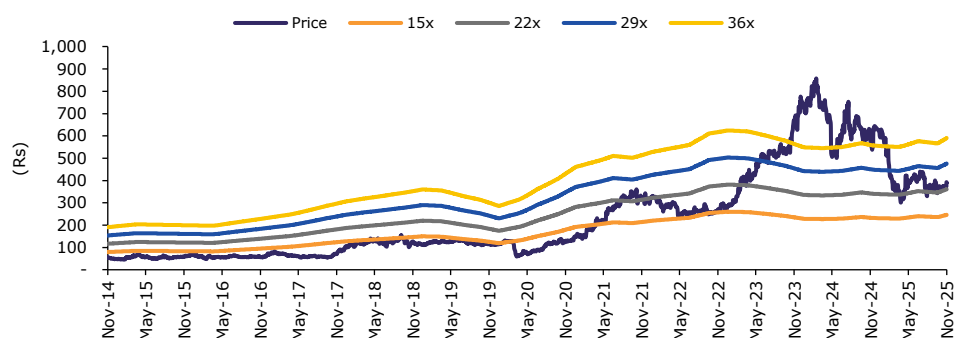
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	21,193	23,938	25,807	-11.5%	-17.9%	Revenue missed expectations due to a miss in the domestic business, however, IITS revenue came broadly in line with estimates.
EBIT	1,464	1,173	1,210	24.9%	21.0%	
EBIT margin	6.9%	4.9%	4.7%	200 bps	220 bps	Margin beat estimates across IITS and domestic business.
PAT	1,202	878	1,002	36.9%	20.0%	Profit beat estimates due to margin beat.

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)	333.7	328.6	-1.5%	370.4	361.6	-2.4%	418.4	408.8	-2.3%
Revenue	106,649	100,458	-5.8%	115,652	104,023	-10.1%	130,261	119,412	-8.3%
EBIT	5,388	5,413	0.5%	7,258	6,708	-7.6%	8,714	8,371	-3.9%
EBIT margin	5.1%	5.4%		6.3%	6.4%		6.7%	7.0%	
Net profit	4,130	4,287	3.8%	5,503	5,232	-4.9%	6,803	6,729	-1.1%
EPS (Rs)	14.7	15.3	3.8%	19.6	18.7	-4.9%	24.3	24.0	-1.1%

Source: Company, Emkay Research

Exhibit 4: SSOF – One-year forward PER

Source: Company, Emkay Research

Sonata Software: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	86,131	101,573	100,458	104,023	119,412
Revenue growth (%)	15.6	17.9	(1.1)	3.5	14.8
EBITDA	7,274	6,892	6,515	7,806	9,440
EBITDA growth (%)	20.4	(5.2)	(5.5)	19.8	20.9
Depreciation & Amortization	1,319	1,215	1,102	1,097	1,068
EBIT	5,955	5,678	5,413	6,708	8,371
EBIT growth (%)	9.3	(4.7)	(4.7)	23.9	24.8
Other operating income	-	-	-	-	-
Other income	1,256	712	819	625	819
Financial expense	850	653	413	358	218
PBT	6,360	5,737	5,818	6,976	8,973
Extraordinary items	(1,747)	0	0	0	0
Taxes	1,529	1,490	1,531	1,744	2,243
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	3,085	4,247	4,287	5,232	6,729
PAT growth (%)	(31.7)	37.7	0.9	22.1	28.6
Adjusted PAT	4,832	4,247	4,287	5,232	6,729
Diluted EPS (Rs)	17.2	15.1	15.3	18.7	24.0
Diluted EPS growth (%)	6.9	(12.1)	0.9	22.1	28.6
DPS (Rs)	7.8	4.4	4.9	5.9	7.5
Dividend payout (%)	71.0	28.9	32.4	31.8	31.3
EBITDA margin (%)	8.4	6.8	6.5	7.5	7.9
EBIT margin (%)	6.9	5.6	5.4	6.4	7.0
Effective tax rate (%)	24.0	26.0	26.3	25.0	25.0
NOPLAT (pre-IndAS)	4,524	4,203	3,988	5,031	6,279
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	5,818	6,976	8,973
Others (non-cash items)	2,908	1,312	1,102	1,097	1,068
Taxes paid	(2,623)	(1,636)	(2,185)	(2,417)	(2,533)
Change in NWC	(2,094)	1,030	(256)	(388)	(487)
Operating cash flow	2,805	6,443	4,479	5,268	7,021
Capital expenditure	1	(678)	(702)	(642)	(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)	(642)	(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)	(1,387)	(1,664)	(2,108)
Others	0	0	0	0	0
Financing cash flow	(1,085)	(4,333)	(684)	(3,164)	(4,608)
Net chg in Cash	1,177	(2,246)	(656)	1,462	1,770
OCF	2,805	6,443	4,479	5,268	7,021
Adj. OCF (w/o NWC chg.)	4,900	5,413	4,735	5,656	7,508
FCFF	2,806	5,766	3,777	4,626	6,379
FCFE	2,289	5,326	3,364	4,268	6,161
OCF/EBITDA (%)	38.6	93.5	68.8	67.5	74.4
FCFE/PAT (%)	74.2	125.4	78.5	81.6	91.5
FCFF/NOPLAT (%)	62.0	137.2	94.7	91.9	101.6

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	19,681	23,248	27,870
Net worth	14,063	17,059	19,959	23,526	28,147
Minority interests	0	0	0	0	0
Non-current liab. & prov.	355	137	(517)	(1,190)	(1,480)
Total debt	6,743	4,416	5,119	3,619	1,119
Total liabilities & equity	22,073	22,357	25,306	26,700	28,531
Net tangible fixed assets	1,327	1,036	969	1,008	1,066
Net intangible assets	4,248	3,862	3,528	3,035	2,550
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	2,444	3,906	5,676
Current assets (ex-cash)	22,796	23,421	23,394	24,412	27,616
Current Liab. & Prov.	28,534	24,339	19,963	20,593	23,310
NWC (ex-cash)	(5,738)	(918)	3,431	3,819	4,306
Total assets	22,073	22,097	25,186	26,580	28,411
Net debt	1,383	1,316	2,675	(287)	(4,557)
Capital employed	22,073	22,357	25,306	26,700	28,531
Invested capital	10,163	14,481	18,629	18,544	18,549
BVPS (Rs)	50.1	60.8	71.2	83.9	100.4
Net Debt/Equity (x)	0.1	0.1	0.1	-	(0.2)
Net Debt/EBITDA (x)	0.2	0.2	0.4	-	(0.5)
Interest coverage (x)	8.5	9.8	15.1	20.5	42.2
RoCE (%)	37.2	30.2	26.8	28.1	32.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	34.0	24.7	24.5	20.1	15.6
EV/CE(x)	5.3	5.1	4.4	4.1	3.8
P/B (x)	7.5	6.2	5.3	4.5	3.7
EV/Sales (x)	1.3	1.1	1.1	1.1	0.9
EV/EBITDA (x)	15.2	16.0	17.0	14.2	11.7
EV/EBIT(x)	18.6	19.5	20.4	16.5	13.2
EV/IC (x)	10.9	7.6	5.9	6.0	6.0
FCFF yield (%)	2.5	5.2	3.4	4.2	5.8
FCFE yield (%)	2.2	5.1	3.2	4.1	5.9
Dividend yield (%)	2.1	1.2	1.3	1.6	2.0
DuPont-RoE split					
Net profit margin (%)	5.6	4.2	4.3	5.0	5.6
Total asset turnover (x)	4.3	4.8	4.4	4.1	4.4
Assets/Equity (x)	1.5	1.4	1.2	1.2	1.0
RoE (%)	35.7	27.3	23.2	24.1	26.0
DuPont-RoIC					
NOPLAT margin (%)	5.3	4.1	4.0	4.8	5.3
IC turnover (x)	8.9	8.2	6.1	5.6	6.4
RoIC (%)	46.5	34.1	24.1	27.1	33.9
Operating metrics					
Core NWC days	(24.3)	(3.3)	12.5	13.4	13.2
Total NWC days	(24.3)	(3.3)	12.5	13.4	13.2
Fixed asset turnover	4.9	5.7	5.5	5.5	6.2
Opex-to-revenue (%)	24.0	23.5	23.6	25.0	24.7

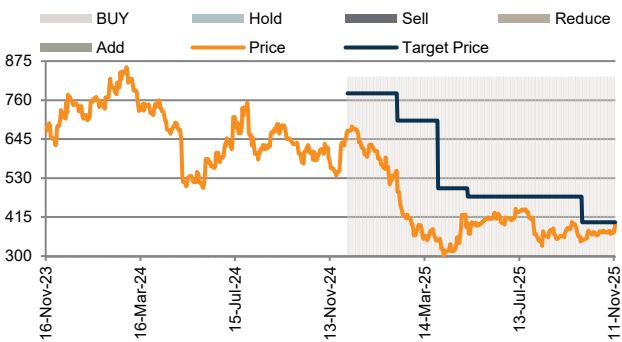
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
01-Oct-25	348	400	Buy	Dipeshkumar Mehta
31-Jul-25	392	475	Buy	Dipeshkumar Mehta
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)

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ADD	5-15% upside
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