

Growth acceleration ahead after temporary blip

Information Technology ▶ Initiating Coverage ▶ December 5, 2024

TARGET PRICE (Rs): 780

We initiate coverage on Sonata Software (SSOF) with BUY and TP of Rs780, at 30x Dec-26E earnings. In its International IT Services business, SSOF delivered ~26% revenue CAGR over FY21-24 and ~4.3% CQGR over the last 10 quarters which remain among the top quartile revenue growth performances. Revenue growth moderating in the last 3 quarters is, we believe, just a temporary blip and growth is likely to rebound strongly with improvement in the spending environment. Anticipated uptick in demand, particularly discretionary spending in CY25, should augur well for SSOF's growth acceleration; we remain positive on its medium-term growth prospects. The management shared its aspiration of achieving revenue run-rate of USD1.5bn (~USD1bn from SITL; USD0.5bn for the International IT Services business, implying ~4% CQGR) by FY27E, with International IT Services business EBITDAM in the low 20s. SSOF trades at ~45%/30% discount to PSYS/Coforge which we believe will narrow with rebound in growth momentum.

Sonata Software: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	74,491	86,131	98,336	112,514	128,614
EBITDA	6,041	7,274	7,477	9,434	11,553
Adj. PAT	4,519	4,832	4,539	6,032	7,691
Adj. EPS (Rs)	16.1	17.2	16.2	21.5	27.4
EBITDA margin (%)	8.1	8.4	7.6	8.4	9.0
EBITDA growth (%)	24.1	20.4	2.8	26.2	22.5
Adj. EPS growth (%)	21.2	6.9	(6.0)	32.9	27.5
RoE (%)	37.7	35.7	29.8	32.9	34.1
RoIC (%)	75.2	47.1	36.3	35.0	38.8
P/E (x)	41.0	38.3	40.8	30.7	24.1
EV/EBITDA (x)	30.8	25.7	25.4	20.4	16.4
P/B (x)	14.2	13.2	11.3	9.2	7.4
FCFF yield (%)	(1.6)	1.1	(1.3)	0.0	3.3

Source: Company, Emkay Research

Temporary blip in revenue growth momentum; expect rebound in H2

SSOF's International IT Services (IITS) revenue CAGR stood at ~26% over FY21-24 and CQGR at ~4.3% over Q4FY22-Q2FY25, one of the top quartile growth performances. But revenue growth momentum has moderated in the last 3 quarters due to weak discretionary spends and slower decision-making amid macro uncertainty. Quant seasonality amplified the overall impact, particularly in Q4FY24. Mgmt expects revenue growth and margin to rebound in H2, and margin to ricochet to the low 20s by Q4FY25 /Q1FY26 owing to ramp-up of the recently signed healthcare deal and deal pipeline.

Aims reaching USD0.5bn revenue run-rate in IITS by FY27

Sonata has shared its ambition to achieve revenue run-rate of USD1.5bn (~USD1bn from SITL, and USD0.5bn for IITS) by FY27. The company has delayed its earlier timeline of FY26-end, considering the softness in discretionary spending and slower decision making amid near-term macro uncertainties. It expects delivering EBITDAM in the low 20s. The company aspires to be known as a 'specialized firm' in modernization and digital engineering. It expects revenue growth to be driven by its traditionally strong verticals (TMT, RMD), while scaling the BFSI and HLS verticals.

Strong partnership with Microsoft augurs well for growth prospects

SSOF has a long-standing partnership with Microsoft, and is recognized as the 'Microsoft Inner Circle Partner' (among the top 1% partners of Microsoft). Also, it has achieved the 'Microsoft Cloud Solution Partner' status by attaining all the new six Microsoft Solutions Partner Designations. SSOF has consistently aligned its growth strategy and investments with Microsoft, to strengthen its relationship and participate in growth opportunities. It was the launch partner for Microsoft Fabric, a data analytics platform. We believe SSOF is well placed to benefit from its partnership with Microsoft and from the growth in its ecosystem. SSOF expects AI Services to contribute ~20% to revenue in coming 3 years.

We initiate coverage with BUY; growth rebound to drive stock re-rating

After growth deceleration in the last 3 quarters, revenue growth is expected to rebound in H2 with margin recovery. We expect revenue/adj profit CAGR of ~14%/17%, respectively, over FY24-27E. We initiate coverage on Sonata Software with BUY and TP of Rs780, at 30x Dec-26E earnings. **Key risks:** Concentration risk, delay in deal closures amid macro and geopolitical uncertainties, potential transformative impact of AI.

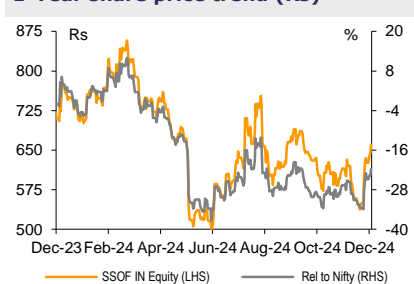
Target Price – 12M	Dec-25
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	18.0
CMP (04-Dec-24) (Rs)	660.8

Stock Data	Ticker
52-week High (Rs)	870
52-week Low (Rs)	469
Shares outstanding (mn)	280.4
Market-cap (Rs bn)	185
Market-cap (USD mn)	2,187
Net-debt, FY25E (Rs mn)	4,690
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	469.3
ADTV-3M (USD mn)	5.5
Free float (%)	44.0
Nifty-50	24,467
INR/USD	84.7
Shareholding, Sep-24	
Promoters (%)	28.2
FPIs/MFs (%)	12.1/23.4

Price Performance

(%)	1M	3M	12M
Absolute	8.3	(1.2)	(6.2)
Rel. to Nifty	6.2	1.8	(20.7)

1-Year share price trend (Rs)



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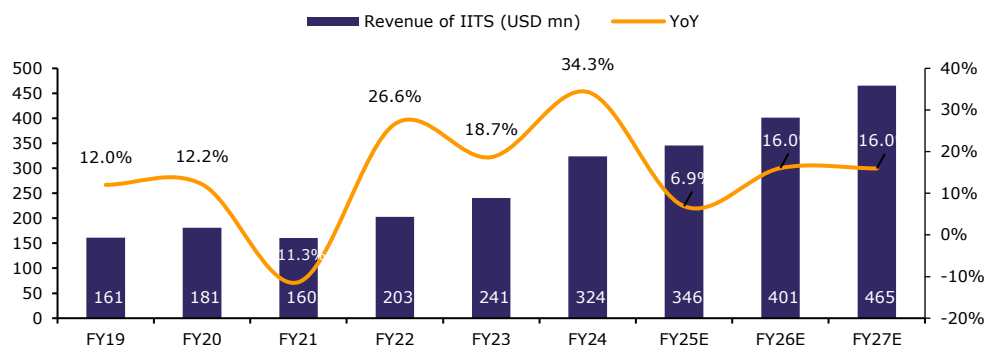
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Table of Contents

	Page No.
Investment Thesis.....	7
Company profile	17
Financial Analysis.....	20
Valuation	23
Key risks.....	25
Management details	26

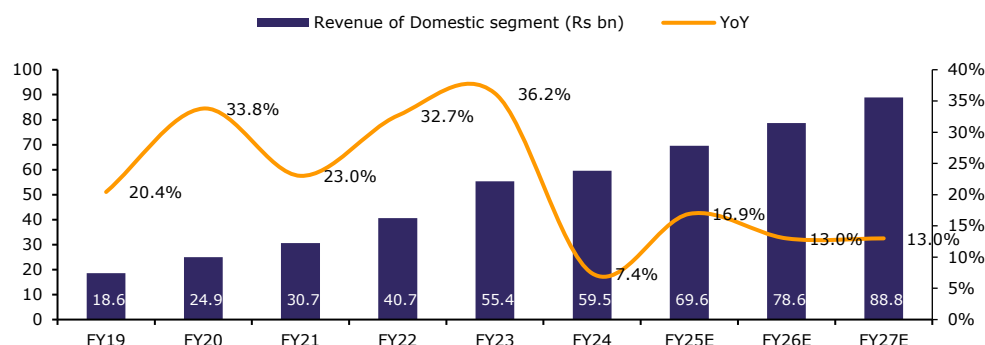
Story in Charts

Exhibit 1: International IT Services (IITS) revenue CAGR stood at 15% over FY19-24; growth rate even more impressive during MD & CEO Sameer Dhir's tenure; expect IITS revenue CAGR at ~13% over FY24-27E



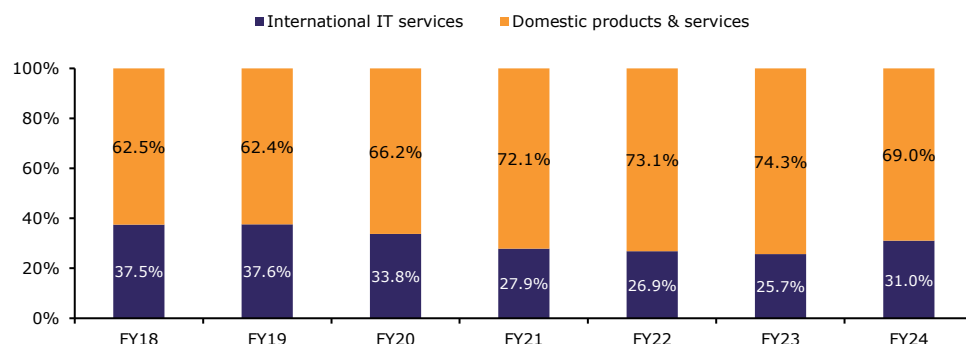
Source: Company, Emkay Research

Exhibit 2: SITL revenue saw ~26% CAGR over FY19-24; expect domestic revenue to register ~14% CAGR over FY24-27E

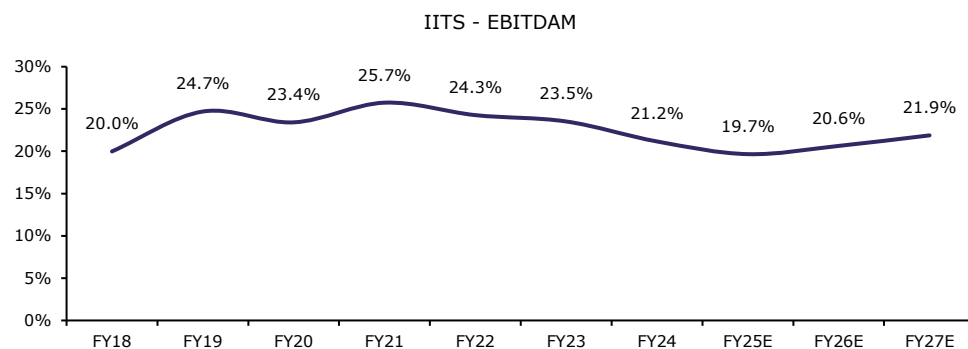


Source: Company, Emkay Research

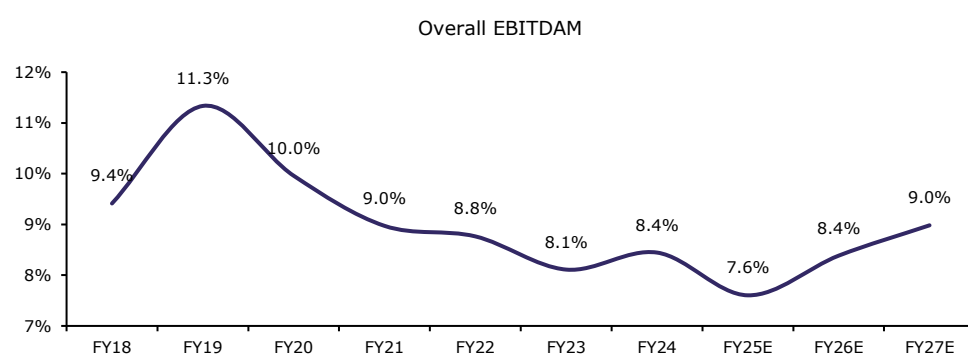
Exhibit 3: Company derives ~31% of its FY24 revenue from the IITS business



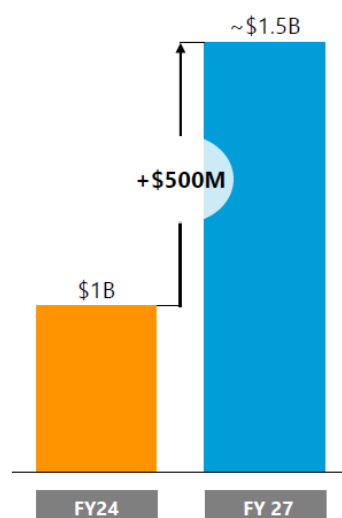
Source: Company, Emkay Research

Exhibit 4: IITS EBITDAM to expand by 70bps over FY24-27E

Source: Company, Emkay Research

Exhibit 5: Overall EBITDAM expansion will mirror company performance in IITS

Source: Company, Emkay Research

Exhibit 6: Targets revenue run-rate of USD1.5bn by FY27**Revenue Growth** (In \$M)**SCALE – Key Drivers****Harvest**

Microsoft sell-to; Dynamics
Sustain SITL momentum
Retail, Manufacturing,
Travel and TMT

**Invest**

Sales, Large deals,
BFSI, Healthcare Life
Sciences and technical
capabilities (AI)

**Diversify**

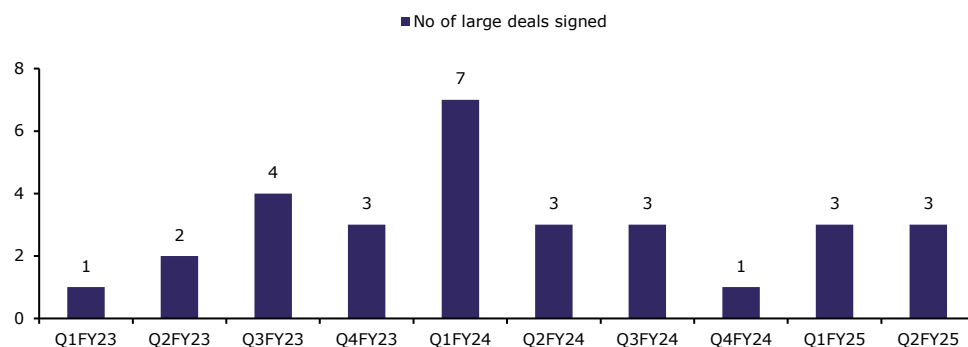
Clients:

**Build multiple
large accounts**

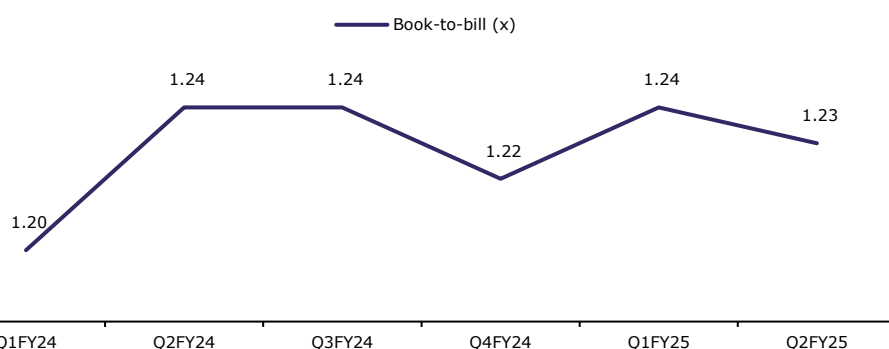
Brand:

**Global brand in
Modernization**

Source: Company, Emkay Research

Exhibit 7: Focus on large deals reflects in the number of large-deal wins

Source: Company, Emkay Research

Exhibit 8: Book-to-bill largely steady at around 1.2x over the last 6 quarters

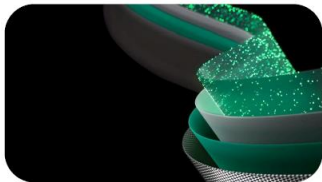
Source: Company, Emkay Research

Exhibit 9: GTM aligned with partners and investment focus

Cloud Apps Modernization	Data & Analytics	Microsoft Business Apps	Experience Transformatio	Hyper Automation	Managed Services
Microsoft aws	Microsoft aws snowflake	Microsoft	Microsoft	Microsoft	Microsoft aws
Google Cloud ORACLE	Informatica Google Cloud databricks	blueprint IZARA <small>PEACE OF MIND. ASIA SERVICE</small>	SAP salesforce	UiPath™	ORACLE IBM
NUTANIX paloalto NETWORKS	Profisee Qlik PKWARE	MSFT Market Place Partners	ORACLE servicenow		servicenow

Source: Company, Emkay Research

Exhibit 10: Key future bets



Microsoft Fabric

\$91 M pipeline created across 110+ customers
Key Deal win for an ANZ based Retailer



AI & Gen AI

\$67 M Pipeline created across 110+ customers
Key Deal win for an US based HLS client



Joint GTM

MS GTM funding
AWS – Rescale Program
VMWare->Cloud Migration
Compete deals

Continued focus

Verticalization

Focused GTM

Large Deals

Large accounts

Source: Company, Emkay Research

Investment Thesis

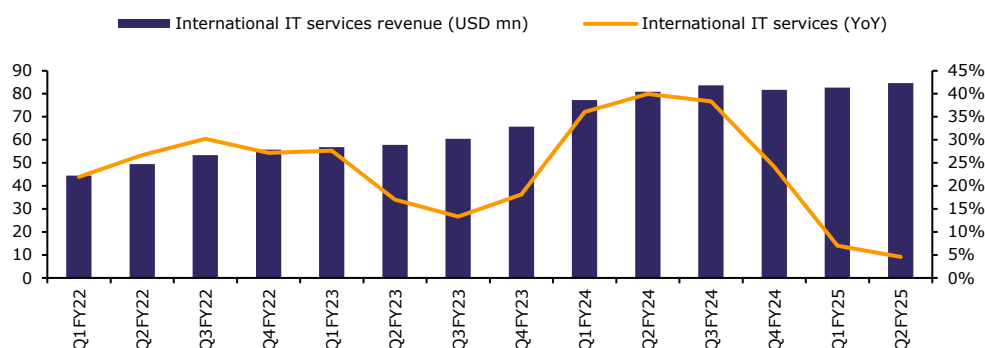
Aims to achieve USD0.5bn revenue run-rate by FY27-end at EBITDA in the low 20s

SSOF has shared its aspiration of achieving revenue run-rate of USD1.5bn (~USD1bn from SITL, and USD0.5bn for the international business) within 3 years. Considering the softness in discretionary spending and the slower decision-making amid near-term macro uncertainties, the management deferred its revenue target timeline by 4 quarters, but remains confident of growing in top quartile in the industry. It expects to deliver EBITDAM in the low 20s. The company aspired to be known as a specialized firm in modernization and digital engineering. It aims to reach overall revenue run-rate of USD1.5bn by at least FY27-end, with the international IT Services (IITS) business run-rate reaching USD0.5bn. It expects domestic business gross contribution to grow 12% YoY. SSOF aspires to be in the leadership category on Modernization and Great Places to Work over the same period. It expects revenue growth to be driven by its traditionally strong verticals (TMT, RMD), while scaling the BFSI and HLS verticals. It expects the 'invest' verticals of HLS and BFSI to reach ~USD250mn combined revenue in 3-5 years from the slightly lower than USD100mn H1FY25 annualized run-rate.

International IT segment revenue growth momentum has moderated in the last 3 quarters due to weak discretionary spending and slower decision-making amid macro uncertainties...

The company has experienced growth moderation and margin weakness in the last 3 quarters due to weak discretionary spending and slower decision making amid macro uncertainties. Quant seasonality amplified the overall impact, particularly in Q4FY24.

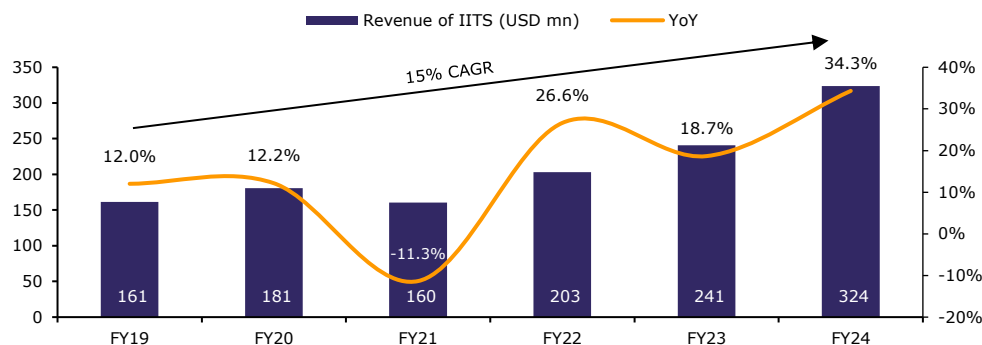
Exhibit 11: IITS revenue growth has moderated over the last 3 quarters



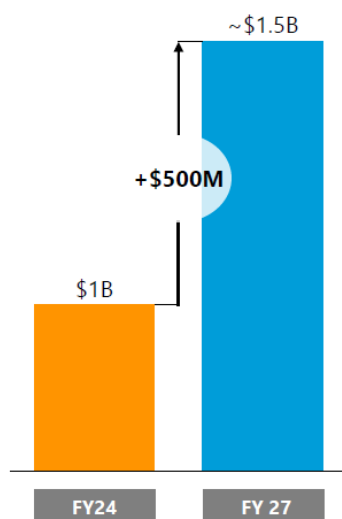
Source: Company, Emkay Research

...however, growth momentum is likely to pick up once the demand environment improves; expect the top quartile growth to continue

Sonata's IITS business has delivered ~26% revenue CAGR over FY21-24/~4.3% CQGR over Q4FY22-Q2FY25 which is among the top quartile growth performances. The management expects revenue growth and margin to rebound in H2FY25, and margin to ricochet to the low 20s by Q4FY25/Q1FY26 on the back of ramp up of the recently signed healthcare deal as well as the overall deal pipeline. The company has started investing in the modernization engineering leveraging Platformation framework to address the unique duality in technology adoption in the market to optimize and innovate simultaneously. Tech spending continues to see duality, wherein clients' continue focusing on innovating their digital storefronts to attract consumers and, at the same time, to optimize other spending areas. To achieve a sustainable top-quartile growth performance, the company is betting on factors such as focus on large deals, deriving synergies with acquired entities, client mining, diversifying the client base, and winning new logos. The company's efforts to build a large-deal team and its solution capabilities have started yielding results, as reflected in the steady improvement in large deals (TCV of >USD5mn): 10 in FY23, 14 in FY24, and 6 in H1FY25. It will improve growth predictability as well as the cross services index. We expect the company to return to top-quartile revenue growth, once demand normalcy returns.

Exhibit 12: IITS revenue CAGR at 15% over FY19-24; growth rate even more impressive during Sameer Dhir's tenure

Source: Company, Emkay Research

Exhibit 13: Targets revenue run-rate of USD1.5bn by FY27**Revenue Growth (In \$M)****SCALE – Key Drivers****Harvest**

Microsoft sell-to; Dynamics
Sustain SITL momentum
Retail, Manufacturing,
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**Invest**

Sales, Large deals,
BFSI, Healthcare Life
Sciences and technical
capabilities (AI)

**Diversify**

Clients:

**Build multiple
large accounts**

Brand:

**Global brand in
Modernization**

Source: Company, Emkay Research

Strengthening sales organization and partnerships to support growth

The company invested in key GTMs (Cloud, Data, Dynamics, Managed Services, and Contact Centre) – all focused on Modernization and Automation in the major markets of USA, UK, the Nordics, India, and ANZ. It strengthened solutions for key verticals—TMT (Technology, Media and Telecom), RMD (Retail, Manufacturing, Travel and Distribution), BFSI (Banking, Financial Services and Insurance), and HLS (Healthcare and Life Sciences). The company made significant investments in Generative AI capabilities. Strategic partnerships have played a pivotal role in shaping the company's revenue pool, accounting for more than 50% of the total pipeline in FY24 which is twice the amount compared with the previous year. The company continues to expand strategic partnerships with key industry hyperscalers, such as AWS, Salesforce, Google, and Snowflake, thus enabling it to secure high-quality clients and large-scale deals. It plans to expand its partner landscape by onboarding 50 or more partners across a diverse range of large ISVs, platforms, and startups. This broadened network will enable it to leverage the expertise, joint GTM strategies, and access to specialized talent offered by partners. While Sonata's partnership with Microsoft has significantly contributed to its growth, it plans to gradually diversify by building capabilities in Salesforce, ServiceNow, etc. Top priorities include building joint IP and solutions, and securing access to domain expertise and local market talent. The company is focusing on the transformation and growth of Cloud and Digital Services. These services forms 51% of the overall pipeline (compared with 15%, two years ago). It has doubled its revenue from Cloud and Data in FY24. The management expects these services to contribute to ~60% of the total services revenue by 2027. By strengthening partnerships, it will be able to leverage their expertise and market presence for accelerating the adoption of these services, ensuring sustained growth and a competitive edge in the market. It has four Fortune500 clients in its top-10 clients, as of Q2FY25.

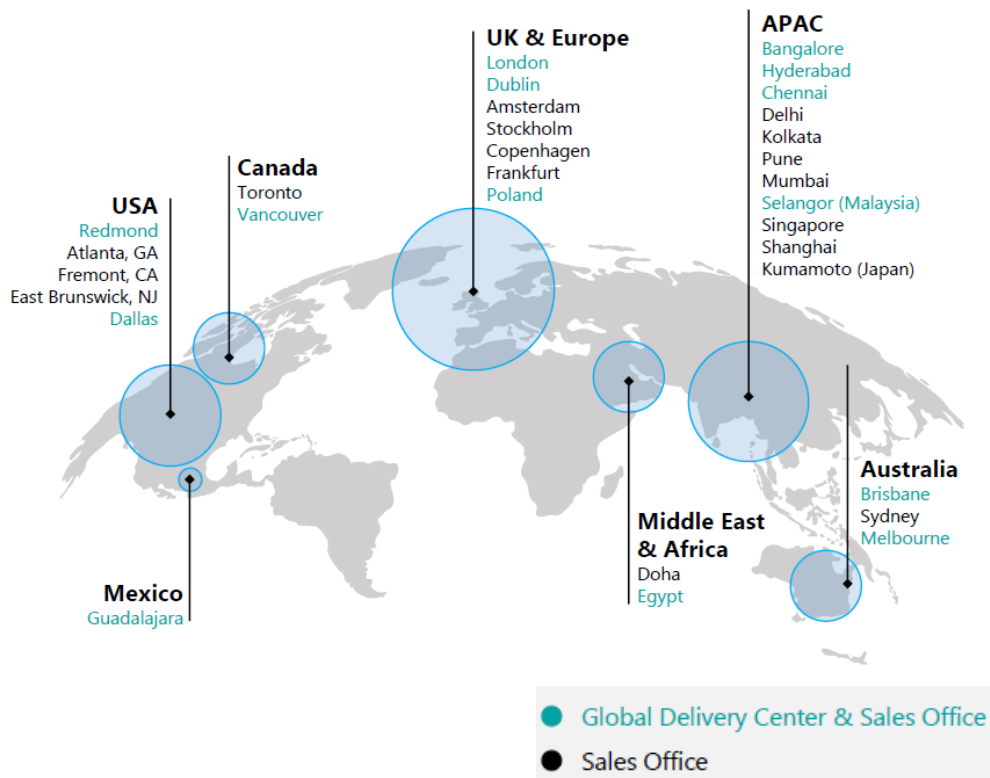
Exhibit 14: GTM aligned with partners and investment focus

Cloud Apps Modernization	Data & Analytics	Microsoft Business Apps	Experience Transformation	Hyper Automation	Managed Services

Source: Company, Emkay Research

Expanding its delivery footprint to cater to the growing demand and to gain access to talent

The company has established delivery centers in Mexico and Malaysia for meeting the time-zone needs of clients. It is ready to start operations in Poland and Egypt as well. These nearshore centers will support the growing demand for business transformation, modernization, and cost optimization initiatives for its global clients. Customers expect it to deliver modernization programs at scale with Agility, which requires engineering teams to adapt, learn, unlearn, and learn quickly.

Exhibit 15: Global footprint – Right mix of global and local talent for efficiently serving clients

Source: Company, Emkay Research

'Play big' through modernization

Sonata's modernization services help create digital businesses with connected ecosystems to improve business agility, experience and productivity. Clients are addressing the triple mandates of efficiencies, agility/growth, and future readiness in today's rapidly changing world. Sonata is enabling clients to 'play bigger' through Modernization. Its unique modernization engineering approach can help clients create digital businesses, connected platforms and ecosystems, while delivering measurable outcomes across efficiency, agility/growth, and

future-ready pivots. It helps clients take a three-pivot approach to modernization: a) Value discovery by unlocking efficiencies through levers such as right-shoring, cost take-outs and effectiveness, spend optimization, productivity enhancements, etc. b) Re-invest savings from efficiency gains, to foster agility and growth. Prominent modernization themes here include customer and employee experience modernization, modern operations, service delivery modernization. c) Co-create/Co-invest in a responsible AI-first strategy that can create the future generative enterprise and ecosystem through AI-led continuous modernization, and hyper automation, among others. The Modernization value proposition is uniquely anchored in a design thinking-led Platformation AI approach—from value assessment to value delivery, measurement and governance. This is further differentiated through Sonata's platform IPs and assets (such as Harmoni.AI, IntellQA, Lightning.AI), industry aligned playbooks, value creation methods/frameworks, and track record of at least 50 modernization customers. The company aims to deliver ~USD180mn of modernization programs in FY25, targeting 25-30 customers globally.

Sonata's unique proprietary model of digital transformation for enterprises – Platformation was conceptualized a few years ago, based on understanding and applying how successful born-digital companies have been able to create highly scalable and rapidly growing digital businesses. Platformation: its unique approach has helped incumbent businesses achieve their digital transformation mandates, leveraging the power of platforms to create and implement platform-based business models. By combining a design thinking-led approach with a platform mindset, it helps anchor clients' platform journey end-to-end. This, combined with its industry and engineering experience, niche horizontal expertise, platform assets and IPs, has helped companies build open, connected, intelligent, and scalable platforms, which form the core of modern digital businesses today.

Exhibit 16: Digital engineering-led platform modernization

Modernization			Adoption	Optimization	
Cloud Apps Modernization	Data & Analytics	Microsoft Business Apps	Service Experience Transformation	Hyper Automation	Managed Services
<ul style="list-style-type: none"> Application Modernization and Cloud Native Digital Engineering Cloud Infrastructure Modernization Application Migration to Cloud 	<ul style="list-style-type: none"> Data Platform Modernization Database migration to Cloud Data Strategy and Consulting Data Privacy, Governance and Compliance MDM – Customer, Supplier and Product Advanced Analytics and Adaptive AI 	<ul style="list-style-type: none"> Business Apps Modernization- AX, GP, NAV, CRM, Legacy Industry Transformation – Consulting, IP led Engineering Services App innovation and automation on Power Platform Managed Services and Support 	<ul style="list-style-type: none"> Digital Contact Center Intelligent IOT Driven Field Service Customer Experience Assessment and Measurement Omnichannel Customer Experience Human Centered Design and UX services 	<ul style="list-style-type: none"> Business Process Automation – AI & RPA Multi-Cloud Devops Implementation IT Process Optimization Digital Assurance and Testing Automation 	<ul style="list-style-type: none"> Infrastructure and Operations Application Managed Services Microsoft Cloud Support (Expert MSP Partner)

Source: Company, Emkay Research

Aims to garner 20% of revenue from AI-enabled services by CY27

Sonata expects ~20% of its revenue to come from AI-enabled services by the end of CY27. The management has not shared specific numbers on revenue from AI-enabled services currently, but has indicated that this is not material. It is focusing on investment in talent, capabilities and building its pipeline. The company has invested in AI across functions led by Sharmila Sherikar, for driving AI across Sonata and partners, with technology delivery sales for accelerating GTM efforts across partnership research and continuous strategy refinement in Gen-AI. Almost 83% of the engineers are Gen-AI trained as of end-Q2FY25 compared with ~67% in the previous quarter. The company is enabling clients to leverage AI in three ways: a) driving efficiencies for them, b) driving higher consumer experience and modernizing their sales platforms, and c) driving innovative business models for better outreach for a larger number of consumers to increase their revenue. Currently, it has a pipeline worth USD67mn across over 110 clients in AI and Gen AI. It closed a deal with a large pharma customer as a net new client using Gen-AI capabilities in Q2.

Strong partnership with Microsoft augurs well for medium-term growth prospects

Sonata has a long-standing partnership with Microsoft, and is recognized as a Microsoft Inner Circle Partner (among <1% of Microsoft partners). It has also achieved the Microsoft Cloud Solution Partner status by attaining all six New Microsoft Solutions Partner designations. Sonata has offered a wide range of services and solutions for Microsoft, across various domains and technologies. These include Business Applications, Data & AI (Azure), Digital & App Innovation (Azure), Infrastructure (Azure), Modern Work, and Security. Sonata has consistently aligned

its growth strategy and investments with Microsoft's, to strengthen its relationship and participation in growth opportunities. Sonata was launch partner for Microsoft Fabric, a data analytics platform for the era of AI. Sonata previewed Microsoft Fabric for six months pre-launch. It closely collaborated with Microsoft's IT, industry solutions, and product engineering teams for providing feedback, identifying product bugs, and contributing to multiple new features as part of the launch partnership. It has created a USD91mn deal pipeline in Microsoft Fabric across over 110 customers. We believe it is well placed to benefit from its partnership with Microsoft and growth in its ecosystem.

Exhibit 17: SSOF enjoys an over 30-year old relationship with Microsoft

AI/Gen-AI Industry Partnership	400+ Clients Across The Globe USA, Europe, Asia, India, Australia, Middle East	\$650+ Million Per Annum Revenue To Microsoft
3500+ Team On Microsoft Technologies	Microsoft Cloud Solution Partner - Asure Expert MSP Competencies. 10 Advanced Specialization in Dynamics 365, Data Analytics, Teams, CAF, M365, Asure	Joint Execution Microsoft Fasttrack, Global Delivery, Microsoft Consulting Services
Catalyst Led Sales Process Industry Point Of View, Business Value Assessment, Envisioning Workshops, Design Thinking	Industry Clouds Go To Market Healthcare, Retail, Sustainability, Manufacturing	Industry Digital Transformation Retail, CPG, Manufacturing, Telecom, Healthcare, Hi-tech, BFSI

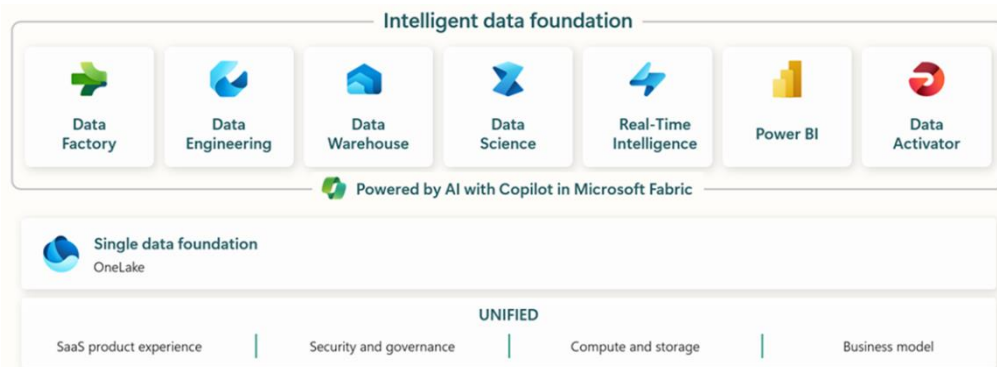
Source: Company, Emkay Research

Exhibit 18: SSOF shares a strong partnership with Microsoft; is member of the Microsoft Inner Circle


Source: Company, Emkay Research

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Exhibit 19: Microsoft Fabric – Data platform for the ongoing era of AI

Source: Microsoft, Emkay Research

Strong leadership team in place

Samir Dhir joined the company as CEO and MD in Apr-22. Over the past few years, Sonata has made substantial investments toward strengthening its leadership team by hiring experienced leaders in key roles, including CRO, CMO, CHRO, and CDO. The company has a structured organization around the four verticals of TMT, RMD, BFSI, and HLS. We believe the company is well-positioned to participate effectively in growth opportunities with revamped hunting and mining organization.

Exhibit 20: Leadership further strengthens with Samir Dhir joining SSOF as MD and CEO in 2022

Name	Designation	Prior experience
Samir Dhir	MD & CEO	Samir Dhir was CEO - Global Markets and Industries of Virtusa Corporation, and was responsible for developing and executing Virtusa's growth strategy and company P&L of over USD1.6bn across markets and industry groups worldwide. Dhir previously worked with Wipro, managing its SAP business and running the managed services practice. Before Wipro, he held key leadership positions with Avaya and Lucent Technologies in the UK.
Anthony Lange	Chief Revenue Officer	Anthony Lange has played several roles at large system integrators, in executive management, sales, and delivery capacities.
Suresh HP	Chief Delivery Officer	Suresh HP has over 30 years of experience in the IT industry. His extensive background includes leadership positions in companies such as Infosys, Motorola, and LTIMindtree.
Srini Veeravelli	Chief Executive Officer, Quant Systems Inc	Srini Veeravelli has more than 15 years of experience, working with major corporations in the technology and consulting industries. During his tenure as a key strategic partner with Ominto (now Mad Rewards), a leading E-Commerce cashback firm, Veeravelli played a pivotal role in taking the company public and rang the closing bell at NASDAQ. He subsequently founded Quant Systems, a company that is renowned for its excellence in client services, delivery, and innovation.
Sharmila Sherikar	SVP, Head - Corporate Development	Sharmila Sherikar has worked with Virtusa for over 19 years as Head of Human Resources.
Balaji Kumar	Chief Human Resource Officer	Balaji Kumar was the CHRO for L&T Infotech, heading the function globally.
Hemant Kumar Bhardwaj	Chief Marketing Officer	Hemant Kumar Bhardwaj has worked with companies as diverse as HTC Global Services, iGATE, Polaris, Ogilvy, Lintas, Mudra DDB, Studio 18, and ITC, and has had a distinguished career as a marketing consultant as well. He was the CEO & MD of a start-up that he co-founded in the health-tech space.

Source: Company, Emkay Research

Expansion into the invest verticals, along with investment in joint GTM, for driving growth

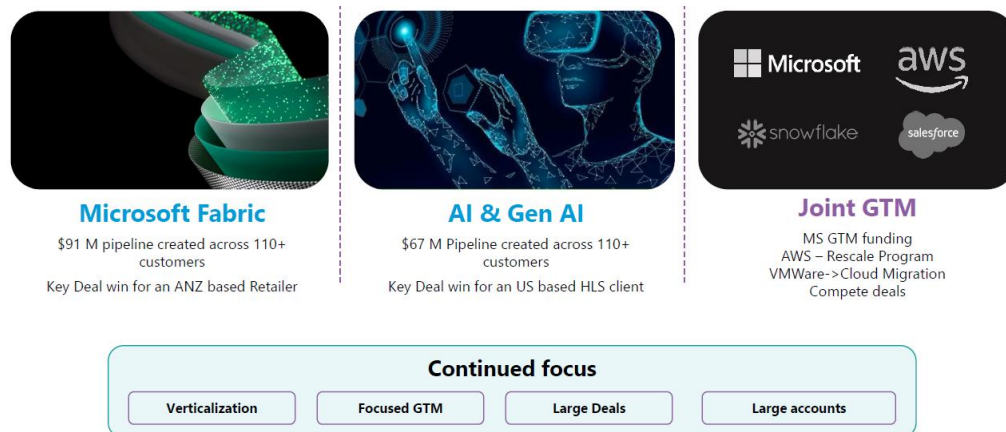
Sonata has been traditionally strong in the TMT and RMD verticals. It is investing in the BFSI and HLS verticals for scaling these. It is investing in sales organization for strengthening its hunting and mining organization across the US, Europe and APAC. As part of its growth strategy, it continues to focus on modernization (platforms, customer experience, etc), solutions and platformation framework, data, cloud, and automation. The company is seeing 3 secular trends in the market: a) enterprise modernization – clients modernizing their digital

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platforms, improving their customer experience on their platforms, and unlocking the power of data through analytics, and AI and ML; b) leveraging technology to strengthen compliance and security; c) continue to build deep engineering talent, which is specialized and not generic. Sonata is well positioned to capitalize on these trends and drive accelerated modernization programs for clients using its platformation framework and tools and solutions. The company has invested in two new big bets—AI/Gen AI and Microsoft Fabric—for leading the market ahead. AI/Gen AI has a USD67mn pipeline across over 110 clients, while Microsoft Fabric has a USD91mn pipeline across over 110 clients.

Exhibit 21: Key future bets



Source: Company, Emkay Research

Focus on large deals and steady client mining to drive growth

The company is aiming for large deals valued at USD5-50mn, spanning 3-4 years. These will be multi-year, annuity-type agreements, with the margin profile expected to improve over time. Under the present MD's leadership, the company has secured a series of substantial deals in FY23 (2 in Q2, 4 in Q3, and 3 in Q4, including the largest deal in Sonata's history – USD160mn deal spanning over 10 years). After a strong order book in FY23, the large deal pipeline witnessed a 3.2x YoY jump in FY24, closing the year with 14 large deals. It won 45 new logos, of which 7 were F500 customers. We believe large deals to be an integral part of the company's strategy and will be a key driver of growth in the longer run. The number of clients generating over USD1mn in revenue has increased, from 37 in FY22 to 59 in FY24. As Sonata continues to scale its revenue, we expect a gradual transition to clients within larger revenue brackets.

Exhibit 22: Number of clients with accounts worth >USD1mn

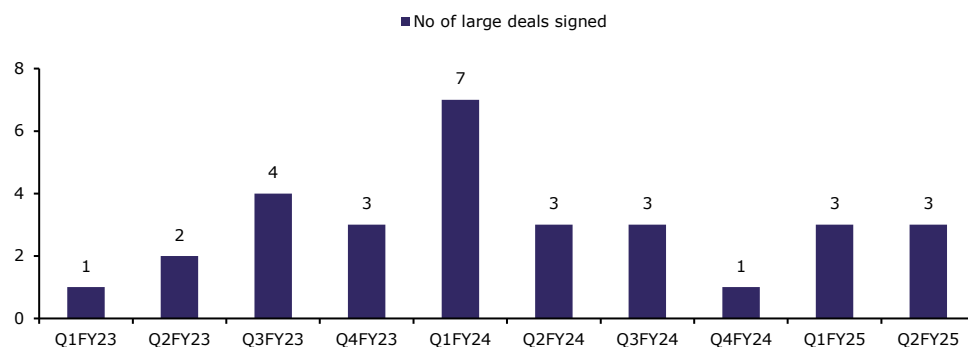
No of >USD1mn accounts	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
SSOF	38	NA	46	58	61	65	66	56	62	63
BSOFT	82	76	83	83	86	85	83	87	88	89
PSYS	130	146	152	160	167	175	176	178	178	184
MPHL	105	104	107	112	113	115	134	135	135	140
COFORGE	141	142	142	145	147	150	156	160	166	231
HAPPSTMN	38	40	40	43	43	44	45	48	58	59

Source: Company, Emkay Research

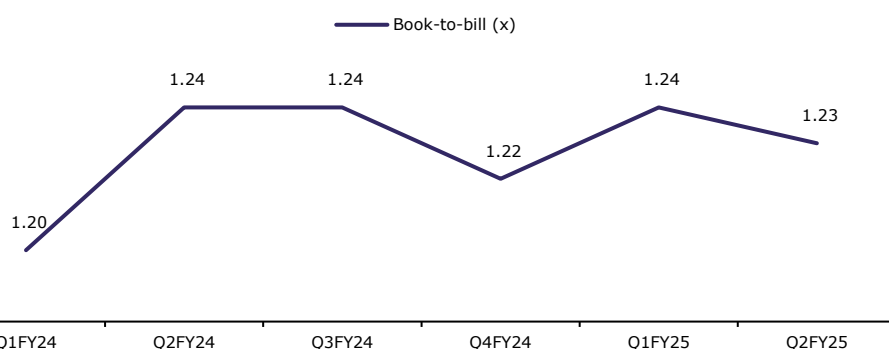
Exhibit 23: Number of clients with accounts worth >USD5mn

No of >USD5mn accounts	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
SSOF	5	NA	5	8	11	11	12	11	12	11
BSOFT	25	27	24	26	27	27	26	26	23	24
PSYS	26	30	34	34	38	39	38	40	41	43
MPHL	44	45	46	46	47	46	46	47	48	51
COFORGE	43	45	44	44	45	46	47	48	48	58
HAPPSTMN	6	6	6	7	7	9	9	9	12	11

Source: Company, Emkay Research

Exhibit 24: Focus on large deals reflects in the number of large-deal wins

Source: Company, Emkay Research

Exhibit 25: Book-to-bill is largely steady, at ~1.2x over the last 6 quarters

Source: Company, Emkay Research

Note: For contracts with TCV over USD25mn, the company considers only annual revenue to be part of the book-to-bill

M&As remain integral part of growth strategy

M&A remains an integral part of Sonata's growth strategy. Acquisitions helped the company acquire talent, expertise (expand its offerings/capabilities), scale, and access to clients and markets. The company has seen healthy new logo additions in its Quant and Encore acquisitions in FY24. Its acquisition of Quant Systems Inc provided a strong foothold in the HLS and BFSI verticals, enhancing the company's capabilities in enterprise data analytics, cloud modernization, cyber security, Salesforce, data privacy, Adobe, and digital & mobile App solutions. Quant's differentiated IPs for Salesforce (workbox.io) and Chatbot (Lisa) broadens the company's offerings as part of its Platformation strategy. Lisa enables true omni-channel experience by integrating enterprise systems, contact center and support system solutions, while Workbox simplifies digital document management, which is integral for both—banking and healthcare clients. The Encore acquisition helped Sonata enhance its capabilities in cloud engineering, ADM and data management, and domain expertise in healthcare and pharmacy.

Exhibit 26: M&As are an integral part of the company's growth strategy

Target	Month	Consideration (USD mn)	Revenue (USD mn)	EV / Sales	Description
Quant Systems	Feb-23	160.0	37.0	4.3	Quant Systems is an Enterprise Data Analytics and Cloud modernization service provider for leading Fortune500 clients. It adds expertise in enterprise data analytics, cloud modernization, cyber security, Salesforce, data privacy, Adobe, Snowflake, and digital & mobile App solutions, including differentiated IPs for Salesforce (workbox.io) and Chatbot (Lisa) technologies.
Encore Software Services Inc	Jul-21	14.6	15.5	0.9	Encore Software Services provides user experience, data insights, and real time collaboration services to clients in the financial services, hi-technology, life sciences, retail and logistics verticals. The acquisition will help SSOF enhance its capabilities in Cloud engineering, Application development and maintenance, and data management and domain expertise in the Healthcare and Pharmacy space.
Encore IT Services Solutions Private Limited	Jul-21	1.2	4.7	0.3	Encore IT Services Solutions Private Limited is engaged in providing user experience, data insights, and real time collaboration services to clients in the financial services, hi-technology, life sciences, retail and logistics verticals. The acquisition will help SSOF expand into a new development center in Chennai, thus giving access to a wider talent pool. It will give access to a 300-person technology talent pool focused on cloud engineering, ADM, and data management, as well as domain expertise in healthcare pharmacy and logistics.
GAPbuster	Mar-20	USD4.8mn	GBP8mn	0.5	GAPbuster (GBW) is a specialized company in the Customer Experience Management space. The GBW customer experience platform leverages advanced AI and ML capabilities to deliver actionable recommendations that help brands deepen customer loyalty and improve satisfaction. This acquisition is an extension of Sonata's Platformation play that further strengthens its singular focus of becoming a digital transformation partner of choice in the retail, distribution, CPG, and travel verticals by leveraging IPs and platforms.
Sopris Systems	Dec-18	7.0	7.0	1.0	Sopris is global gold certified Microsoft Dynamics solution provider specializing in ERP and CRM software for engineering, construction firms, specialty contractors, field services companies and a variety of professional services firms. The acquisition will help expand the company's presence in USA. It will also enhance Sonata's capabilities in Microsoft 365 Stack.
Scalable Data Systems	Dec-18	AUD5.5mn	AUD5mn	1.1	Scalable Data Systems is a leader in providing Dynamics 365 F&O solutions, with an impressive track record in solutioning ERP systems for more than 30 years and, with due recognition accorded to the company as a Microsoft Gold Partner and an ISV Partner, in Australia. The acquisition will increase Sonata's footprint as a Microsoft Dynamics 365 leader, making the combined entity a Digital Transformation partner of choice for customers in Retail, Distribution, Manufacturing, Commodities, and Travel.
IBIS	Oct-15	14.0	NA	NA	IBIS (Interactive Business Information Systems) is a leading Distribution and Supply Chain solutions provider on Dynamics ax in the US. The acquisition strengthens the company's footprint as a world class SI on dynamics ax and also expands its footprint in the US.
Halosys	Aug-15				Halosys provides a single Unified Enterprise Mobile Enablement platform that enables businesses to build, secure, manage, and deploy an enterprise-wide mobile applications portfolio. The Halosys acquisition will help Sonata provide end-to-end mobile solutions to customers.
Rezopia	Aug-14	2.4	1.5	1.6	Rezopia has pioneered the development of a cloud-based PAAS travel IT solutions platform, allowing large and small travel companies to gain flexibility, faster time to market, and lower TCO in meeting customer needs with the latest technology innovations. Sonata strengthens its Travel vertical capabilities with the acquisition of stake in travel PAAS Rezopia.
Xyka Software Private Limited	Aug-14	Rs36mn	NA	NA	Sonata has, under a business transfer agreement, acquired almost the whole business of Xyka Software Private Limited, Bangalore, the primary service provider to Rezopia's Inc, as well as 60+ employees of Xyka Software, related assets, and customer contracts.

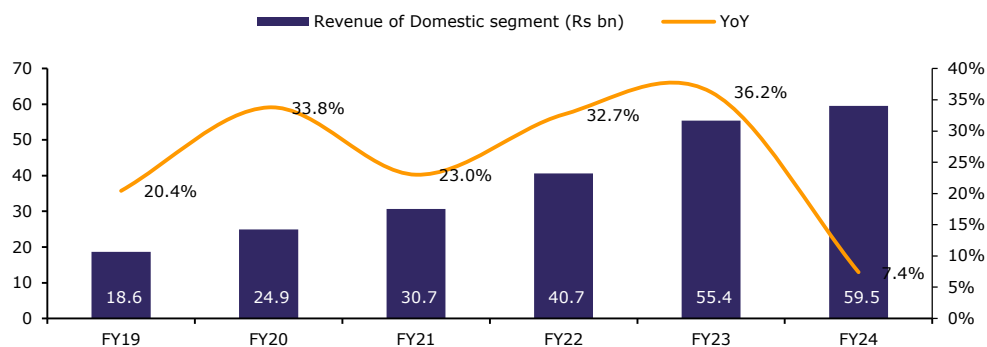
Source: Company, Emkay Research

Focusing on growing contribution profit in the India business

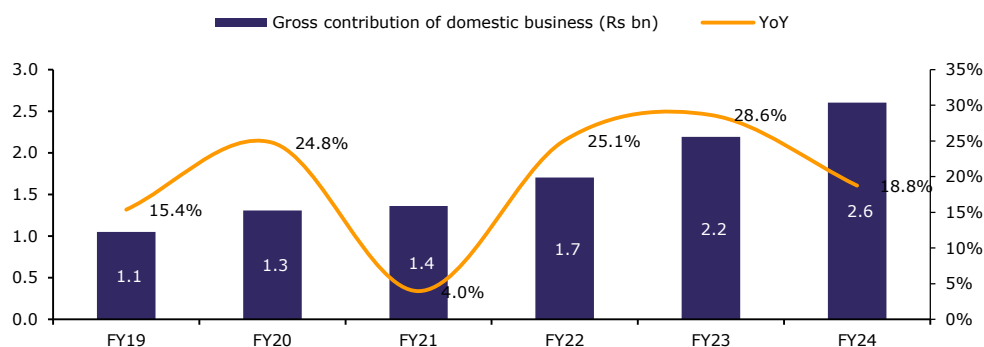
The DPS (domestic product and services) business, housed under wholly-owned subsidiary SITL, focuses on distribution of packaged software/applications, including resale of cloud hosting of tech majors like Microsoft, Oracle, and SAP. While SITL has non-exclusive arrangements for the distribution of these software/applications, the company benefits from its established position and long-tenure relationships with tech majors, among others. The company aspires to scale its India business driving market-share gain with end-to-end contracts, with data and cloud modernization opportunities. The management is focused on growing gross contribution rather than revenue in this business, with focus on cash generation. SITL reported 7.4% revenue growth and 18.6% gross contribution growth in FY24. Enterprises, PSUs, and startups select SITL as their preferred partner for procuring, setting up, integrating, and utilizing their hyperscaler platforms to set up SMART Workplaces, to build their business platforms, to move their businesses to cloud platforms, to run their business 24/7 on cloud/hybrid environment, and to improve their organization's efficiency. SITL is a leading cybersecurity consulting partner with expertise in securing customers hybrid and multi-cloud environments. It expects gross contribution profit to grow 12% YoY in this business.

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Exhibit 27: SITL revenue CAGR at ~26% over FY19-24

Source: Company, Emkay Research

Exhibit 28: Gross contribution CAGR at ~20% over FY19-24

Source: Company, Emkay Research

Company profile

Sonata Software (SSL), headquartered in Bangalore, is a leading modernization engineering company with strong global presence, including key regions like the US, UK, Europe, APAC, and ANZ. Its bouquet of modernization engineering services encompasses a wide range of areas, including cloud, data, dynamics, contact centers, and other emerging technologies like Generative AI, Microsoft Fabric, and other modernization platforms. SITL, the company's wholly-owned subsidiary, primarily distributes software products and is focused on the Indian market.

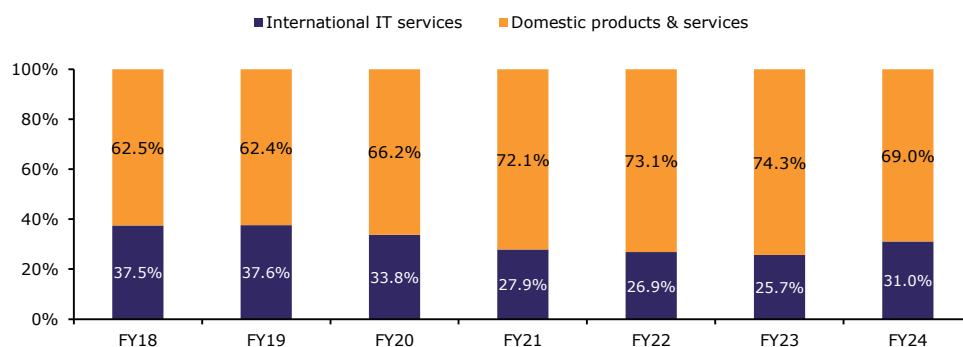
Sonata was initially set up as a division of Indian Organic Chemicals, which was spun off into a separate entity in 1994. The company then subsequently went public in 1998. The Rajan Raheja Group is the promoter of the company.

The business operations are primarily categorized in 2 segments: 1) International segment and, 2) Domestic segment. Majority of the revenue is derived from the domestic segment (~69% of FY24 revenue), while adjusted PAT contribution is mainly led by the International segment (~2/3rd contribution).

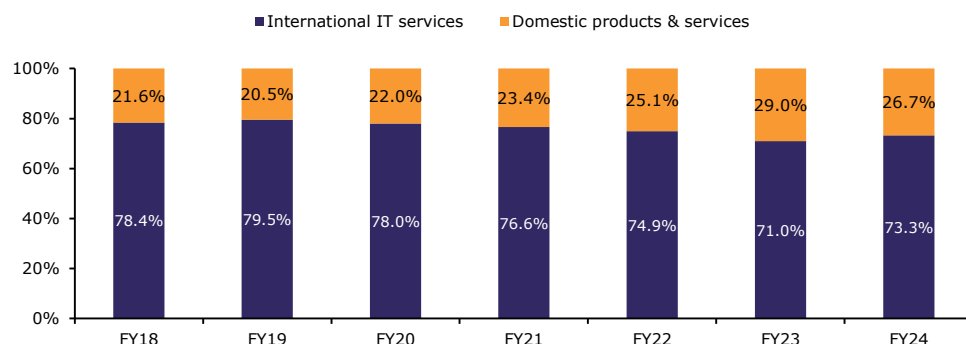
■ **International IT Services business (IITS; ~31% of FY24 revenue):** The IITS business is housed under SSL and SSL's international subsidiaries, and is present predominantly in international markets (USA, UK, Europe, Asia Pacific, and ANZ). Given its high-margin profile, this segment contributes ~3/4th of consolidated EBITDA. The group has built and acquired tools and frameworks around technology platforms like Microsoft Azure, Microsoft Dynamics AX, Microsoft Dynamics 365, and SAP Hybris, among others, to cater to sector-specific needs of its customers such as Brick & Click (retail platform), Rezopia (digital travel platform), Kartopia (e-commerce platform), Halosys (mobility platform), and CTRM (commodity platform), enabling it to maintain a strong position in the IITS business.

■ **Domestic segment (~69% of FY24 revenues):** The Domestic Products & Services (DPS) segment, housed under SITL, is primarily the domestic business of the group that enjoys an established position. The DPS business focuses on the distribution of packaged software/applications, including resale of cloud hosting of tech giants such as Microsoft, Oracle, and SAP. While, the company operates under non-exclusive marketing and distribution arrangements for these software/applications, the group benefits from its established position in the industry and over 3 decades of relationship with Microsoft and Oracle Corporation, among others. The company provides several essential services such as implementation and integration of licensed software to customers.

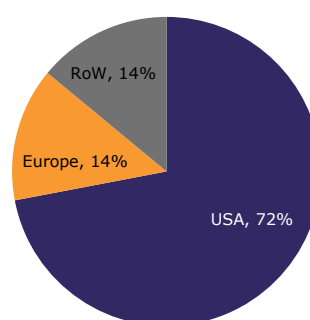
Exhibit 29: Company derives ~31% of its FY24 revenue from the IITS business...



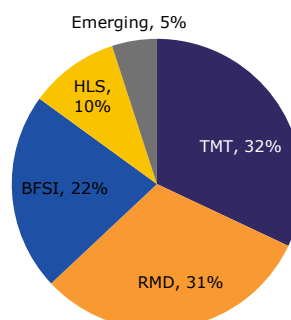
Source: Company, Emkay Research

Exhibit 30: ...however, it contributed ~73% of the consolidated EBITDA

Source: Company, Emkay Research

Exhibit 31: Geographical mix of SSOF's IITS business (Q2FY25)

Source: Company, Emkay Research

Exhibit 32: Company derived ~63% of Q2FY25 IITS revenue from the TMT and RMD verticals

Source: Company, Emkay Research

Exhibit 33: Board of Directors

Name	Designation
Sanjay Asher	Chairman, Independent Director
P Srikar Reddy	Executive Vice Chairman, Executive Director
Samir Dhir	MD & CEO, Executive Director
Viren Raheja	Promoter, Non-Executive Director
SB Ghia	Non-Executive Director
Mona N Desai	Independent, Non-Executive Director
Surin Kapadia	Independent, Non-Executive Director

Source: Company, Emkay Research

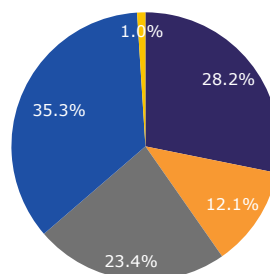
Exhibit 34: Key IPs/Platforms

IP / Platform	Description
LISA chatbot	Provides omnichannel experience by integrating enterprise systems, contact center, and support system solutions; deployed on premises using cloud infrastructure
Workbox	A digital document management solution
Platformation	A digital IP based technology led framework for digital transformation
LightningCloud	Set of tools and accelerators for cloud and data migration
AtonomIQ	A cloud platform using AI/ML for autonomous testing solutions
Halosys	Set of backend connectors for building and managing mobile and web apps
StoreEz	SaaS based e-commerce product to build, manage, and grow the digital presence
Brick & Click	Digital Retail platform
Rezopia	Digital travel platform
Kartopia	e-commerce platform
Halosys	Mobility platform
CTRM	commodity platform
Modern Distribution Platform	Multi-channel digital distribution platform

Source: Company, Emkay Research

Exhibit 35: Shareholding pattern

■ Promoters - Raheja family ■ FIIs ■ DIIs ■ Public ■ Others



Source: Company, Emkay Research

Financial Analysis

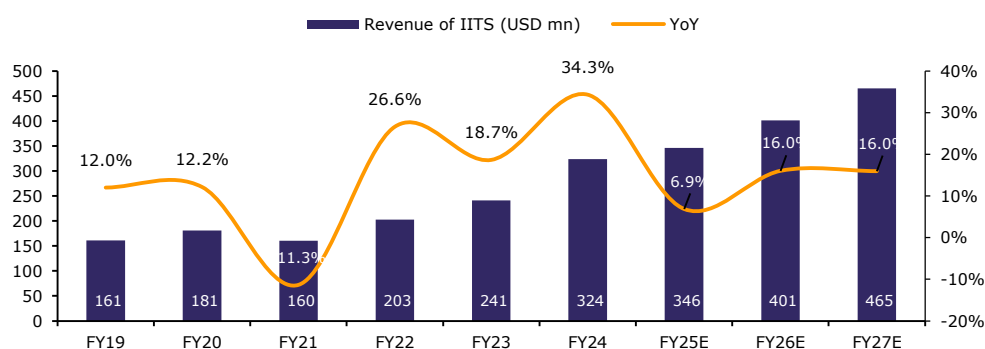
Revenue growth slows down a tad; expect strong rebound from H2FY25

Sonata's international IT Services business has delivered ~26% revenue CAGR over FY21-24/~4.3% CQGR over Q4FY22-Q2FY25 which remains among the top quartile growth performance, reflecting the initial success of the new strategy rolled out at the beginning of FY23. Sonata was able to deliver more value to its clients by focusing on 4 verticals—harvest verticals (includes RMD and TMT), and invest verticals (BFSI and HLS). This change helped the company scale its business with existing clients and acquire new logos on the back of investments in domain expertise.

During FY24, the large deal pipeline witnessed a 3.2x jump YoY, closing 14 large deals (10 large deals in FY23). Current pipeline is robust, with 40% consisting of large deals. It won 45 new logos, of which 7 were F500 customers. On AI, Sonata currently has a pipeline worth over USD67mn across more than 110 clients and prospects, and expects 20% of the revenue to come from AI services within 3 years.

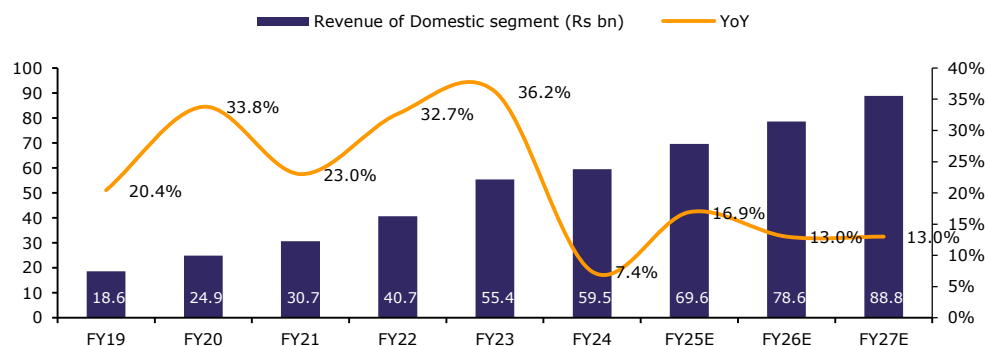
We expect IITS revenue CAGR of ~13% over FY24-27E, considering the anticipated moderation in growth in FY25 as well as growth bouncing back to the mid-teens over FY25-27 on the back of anticipated recovery in demand, strong pipeline, expansion into new verticals, increased focus on large deals, and traction in big bets taken in AI and Fabric. The Domestic business continues to grow strongly, with sharp focus on contribution profit growth. We expect Domestic business segment revenue CAGR at ~14% over FY24-27E.

Exhibit 36: We expect IITS revenue to register ~13% CAGR over FY24-27E



Source: Company, Emkay Research

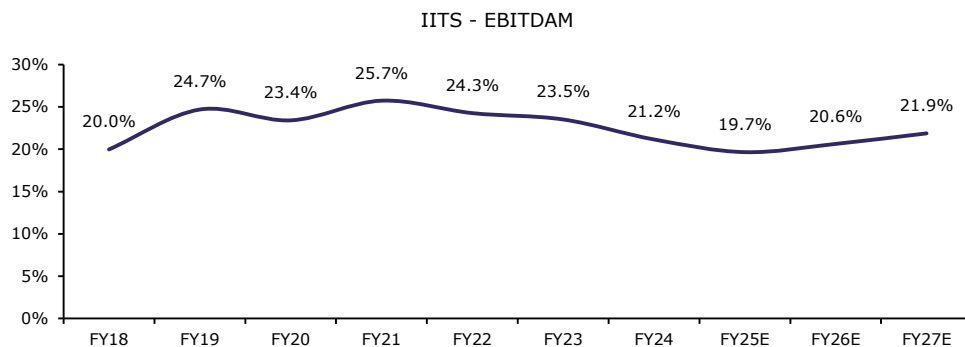
Exhibit 37: We expect Domestic revenue to register ~14% CAGR over FY24-27E



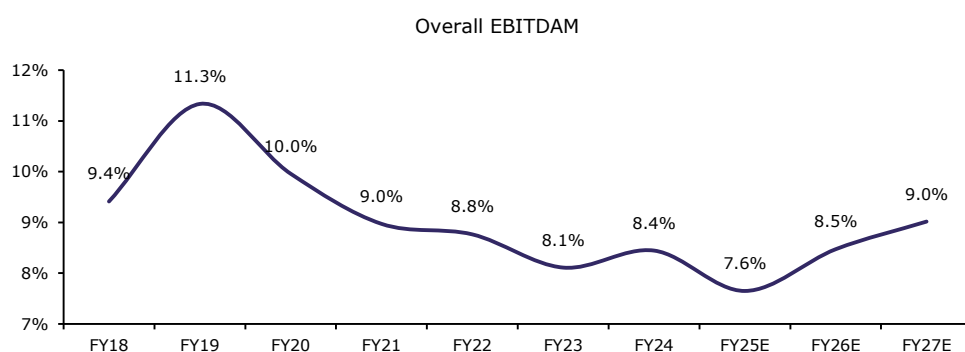
Source: Company, Emkay Research

IITS margins to recover by end-FY25; expect it to sustain at around the low 20s

Sonata's IITS business delivered over 20% EBITDA margin during FY22-24. Margins, though, declined to 18.2% in Q2FY25 on account of growth moderation, large-deal ramp up, and salary hike. However, margin is expected to bounce back by the end of FY25, with anticipated recovery in growth. We expect EBITDA margin to expand by 70bps to 21.9% by FY27E. The Domestic business operates at ~3% EBITDAM (2.8-3.1% EBITDAM range over FY22-24). Consolidated EBITDAM has been hovering at 8-9% in last 3 years, and is expected to return back within range from FY26 onward. Overall EBITM averaged at 7.4% over FY22-24, and we expect it to be ~9% in FY27E.

Exhibit 38: IITS EBITDAM to expand by 70bps over FY24-27E

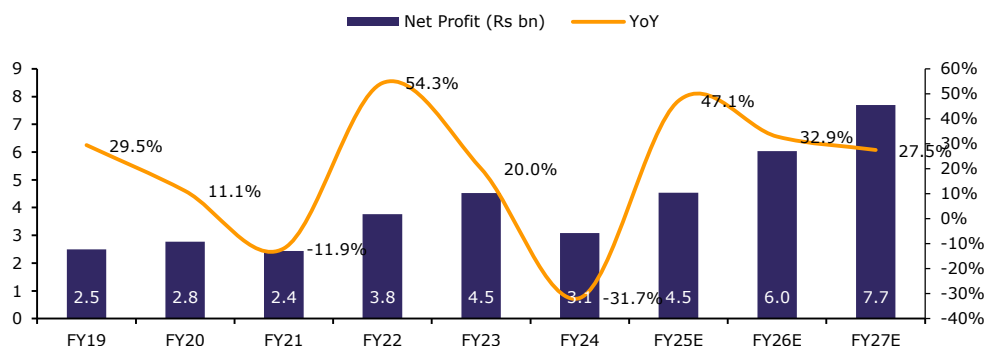
Source: Company, Emkay Research

Exhibit 39: Overall EBITDAM expansion will mirror the company's IITS performance

Source: Company, Emkay Research

Profitability to move in line with top-line growth

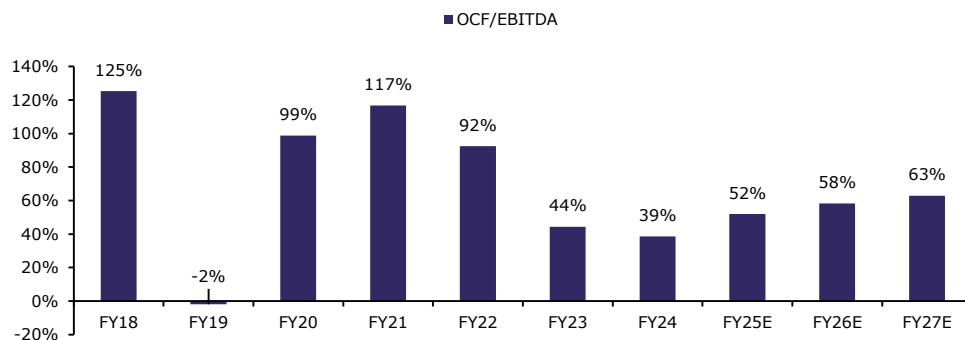
We build in 16.8% profit CAGR over FY24-27E, led by healthy top-line growth (CAGR of 14.3% over FY24-27E) with 60bps improvement in EBITDA margin. NPM will, though, be lower (averaging 5.3% over FY24-27E) than the historical trend (averaging at 6.2% over FY21-24) largely on account of lower other income, as cash balance reduced after the M&A-related cash outgo.

Exhibit 40: We expect net profit CAGR at ~17% over FY24-27E

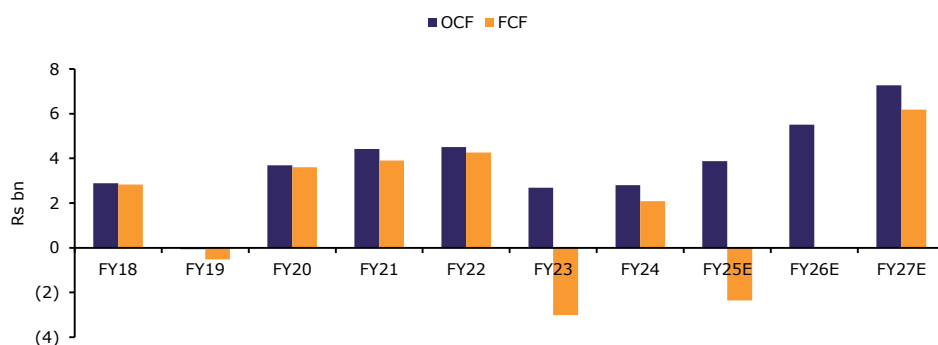
Source: Company, Emkay Research

Cash conversions to inch up gradually

SSOF's OCF/EBITDA conversion has moderated in the past 2 years, from 93% in FY21 to 39% in FY24, due to increase in the number of billed and unbilled receivable days. Weak OCF and M&As also weighed on FCF conversion in FY24. We expect cash conversion to improve over FY24-27E, as receivable days stabilize.

Exhibit 41: Gradual improvement in OCF/EBITDA

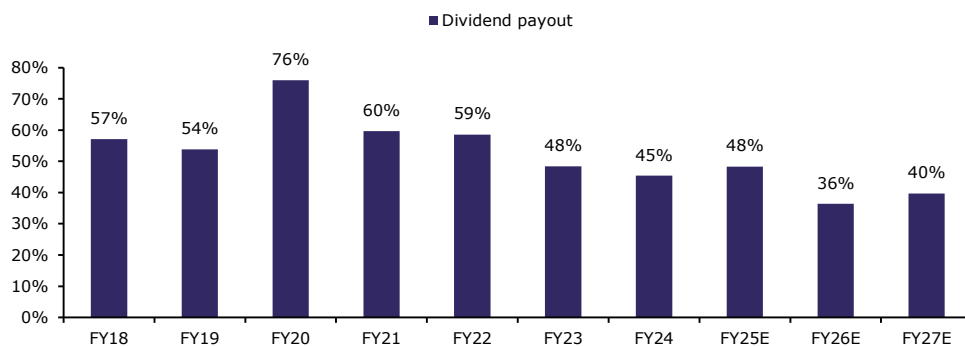
Source: Company, Emkay Research

Exhibit 42: Cash generation to steadily improve

Source: Company, Emkay Research

Likely to maintain absolute dividend outgo in the near term, considering the M&A related cash outgo

The company remain consistent dividend paying and has broadly retained pay-out within a narrow range. Post Quant acquisition, the management indicated its intention to retain absolute dividend payment for the next couple of years to balance dividend payment and cash requirements in the business, factoring in the potential earnouts outgo. We expect dividend pay-out to rebound to ~60% over the medium term.

Exhibit 43: Absolute dividend to be maintained in the near term

Source: Company, Emkay Research

Valuation

We initiate coverage on Sonata Software with a BUY recommendation and target price of Rs780, valuing the company at 30x on Dec-26E EPS. We remain positive on its medium-term growth prospects, and expect Sonata to be a beneficiary of the anticipated uptick in demand, particularly discretionary spending in CY25. Sonata's international IT Services business has delivered ~26% revenue CAGR over FY21-24/~4.3% CQGR over the last 10 quarters; this is among the top-quartile growth performance. Sonata's international IT Services revenue growth momentum has moderated in the last 3 quarters on the back of softness in discretionary spending and slower decision making amid macro uncertainties. Revenue growth moderation has also weighed on margin in recent quarters. The management guided to recovery in international IT Services revenue growth and margin in H2, with EBITDAM returning to ~20% by Q4FY25/Q1FY26.

Domestic business is expected to sustain strong revenue and EBITDA growth momentum (~25% CAGR over FY18-24) aided by steady market share gains. It also generates healthy RoE/RoCE (last 5-year average at ~40% for SITL). The Domestic business is expected to contribute ~30% of profit, while international IT Services is likely to contribute the balance. Considering the strong consistent earnings growth, return ratios, and steady cash conversion profile of the domestic business, we see no material variation in valuation if we value the business separately.

The company has expanded its capabilities through M&As, augmented its leadership team for driving superior execution, reorganized its GTM, and strengthened partnerships with hyperscalers which would augur well for participation in growth opportunities. We expect the company to return to its top-quartile growth profile by the end of FY25. Sonata's management has shared its ambition to achieve revenue run-rate of USD1.5bn (~USD1bn from SITL, and USD0.5bn for the international IT Services business) by FY27, with international IT Services business EBITDAM in the low 20s. Sonata aspires to be the fastest-growing IT Services firm in the next 3-4 years.

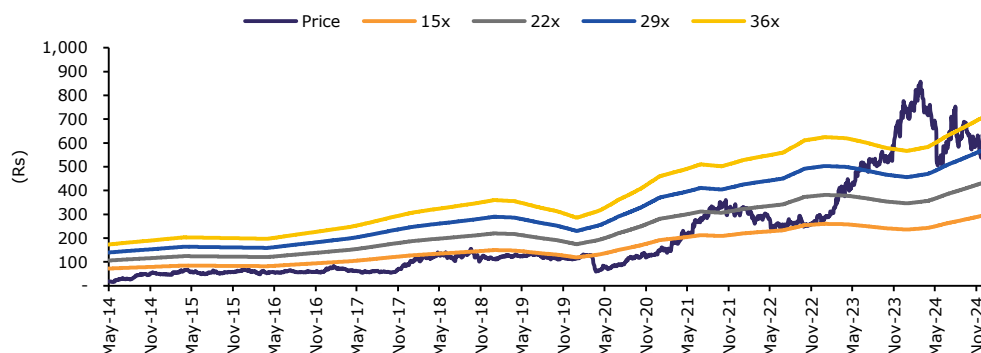
The stock is trading at 31x/24x its FY26E/FY27E (traded at ~29x on average basis since Samir Dhir joined Sonata). We expect ~14% and 17% CAGR in revenue and adj profit, respectively, over FY24-27E. Sonata's current valuation is at a ~45% discount to that of PSYS and ~30% discount to Coforge's which we believe will narrow as the growth momentum bounces back.

Exhibit 44: Key revenue assumptions

Particulars	FY24	FY25E	FY26E	FY27E
IITS - USD revenue growth	34.3%	6.9%	16.0%	16.0%
USD/INR	82.8	83.7	85.0	86.0
INR revenue growth	15.6%	14.2%	14.4%	14.3%
EBIT margin	6.9%	6.2%	7.2%	7.9%
EPS growth	14.0%	-6.0%	32.9%	27.5%

Source: Company, Emkay Research

Exhibit 45: SSOF – One-year forward PER



Source: Company, Emkay Research

Exhibit 46: Peer Comparison – Financials

Particulars (Rs mn)	FY24						FY24-27E CAGR (%)		
	Revenue (USD mn)	Revenue	EBIT	EBITM (%)	Adj Profit	RoE (%)	Revenue	EBIT	Adj Profit
Sonata Software - IITS	323.6	26,796			3,198		14.3		18.0
Sonata Software	1,040.2	86,131	5,955	6.9	4,832	35.7	14.3	19.4	16.8
Mphasis	1,602.8	132,785	20,115	15.1	15,548	18.6	9.8	11.8	12.4
Persistent Systems	1,186.1	98,216	13,663	13.9	10,935	24.5	18.6	24.1	23.9
Coforge	1,118.7	91,790	11,091	12.1	8,080	24.1	23.4	27.8	26.6
Birlasoft	637.1	52,781	7,512	14.2	6,238	22.7	10.0	9.4	9.7
Zensar**	592.3	49,018	7,377	15.0	6,649	18.7	10.2	8.6	8.2
Mastek**	368.4	30,548	4,188	13.7	3,094	14.7	14.8	19.7	19.3

Source: Company, Emkay Research; **Bloomberg Consensus

Exhibit 47: Peer Comparison – Valuations

	CMP (Rs)	M Cap (USD bn)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sonata Software	661	2.2	40.8	30.7	24.1	25.1	20.1	16.2	1.9	1.7	1.5
Mphasis	3,018	6.8	34.2	29.8	25.9	20.9	18.2	16.0	3.8	3.4	3.0
Persistent Systems	6,011	11.1	70.4	55.8	45.0	46.5	37.1	30.4	7.8	6.5	5.5
Coforge	8,766	6.9	57.8	43.4	35.7	29.7	23.6	19.9	4.8	3.9	3.4
Birlasoft	604	2.0	32.1	26.4	20.7	20.9	16.6	12.8	2.7	2.3	2.0
Zensar**	771	2.1	27.4	23.5	19.6	19.6	17.9	15.6	3.1	2.8	2.5
Mastek**	3,251	1.2	27.9	23.2	19.9	17.8	14.9	13.1	2.9	2.5	2.2

Source: Company, Bloomberg, Emkay Research; **Bloomberg Consensus

Key risks

Concentration risk

Sonata derives ~60%/70% of revenue from its top-10/20 clients. Client concentration poses risks to growth prospects, with any slowdown/cut in spending in any major account.

Macro, geopolitical uncertainties may weigh on pace of decision making, growth

Sonata has experienced revenue growth moderation and margin weakness in the last 2 quarters due to weakness in discretionary spending and slower decision making amid macro uncertainties. It aspires to achieve USD0.5bn revenue run-rate by end-FY27 in the international IT Services business, implying ~4% CQGR over the period which may turn out to be a tough ask if macro challenges persist and decision making remains slow.

Potential transformative impact of AI

GenAI has brought in human-like ability, and is poised to transform many areas of business. Sonata has taken significant steps to build differentiated capabilities, IPs, and partnerships in AI/GenAI. GenAI, while entailing significant opportunities, also brings a new set of challenges for enterprise-wide adoption, primarily around data privacy, IP, ethics, and trust, among others.

Earnouts to weigh on FCF conversion and dividend payout

Quant and Encore acquisition earn-outs will weigh on FCF conversion in FY25E and FY26E. The potential earnouts outgo post the Quant acquisition is expected to restrict the growth in absolute dividend payment for the next couple of years. The company made additional provision (~USD21mn in Q3FY24) for potential additional payout on acquisitions due to better than expected operating performance. However, since then, performance is lagging behind new targets.

Exhibit 48: Acquired entities delivered better than targeted performance leading to higher earn-outs

QUANT SYSTEMS					encore						
	Target Growth		Projected Growth		Target Growth			Projected Growth			
	CY 23	CY 24	CY 23	CY 24	2021-22	2022-23	2023-24	2021-22	2022-23	2023-24	
Revenue \$M	60%	36%	64% ↑	65% ↑	10.3%	9.8%	9.6%	87.2% ↑	21.5% ↑	16.6% ↑	
EBITDA \$M	32%	33%	127% ↑	45% ↑	9.8%	10.0%	9.4%	89.0% ↑	34.0% ↑	16.2% ↑	

Source: Company, Emkay Research

Management details

Samir Dhir, Managing Director & Chief Executive Officer

Samir Dhir has a proven track record for scaling and leading large businesses and expanding into new industries and markets. He has built and managed business in BFSI, Healthcare Life Science, Telecom, Media, and Hi-Tech industries. Before joining Sonata Software, Dhir was the CEO - Global Markets and Industries of Virtusa Corporation, and was responsible for developing and executing Virtusa's growth strategy and company P&L of over USD1.6bn across markets and industry groups worldwide. Before this, as the Chief Delivery Officer, Dhir led the global delivery and practices organization at Virtusa. He has previously worked with Wipro, managing its SAP business, and running the managed services practice. Before Wipro, he held key leadership positions with Avaya and Lucent Technologies in the UK.

Jagannathan CN, Chief Financial Officer

Jagannathan CN has more than two decades of experience as a finance professional. He also has experience in the fields of enterprise risk management, procurement, travel and immigration operations, global taxation, treasury, investor relations, internal audit, IT function and company secretarial compliances. Prior to this, he was the CFO of Carborundum Universal. He has also worked with companies such as Ashok Leyland, Hindustan Powerplus, HCL Technologies, Bharti Airtel, and Mindtree, where he was the CFO.

Sujit Mohanty, Managing Director & CEO, Sonata Information Technology

Sujit Mohanty is the Head of Sonata India Business. He also heads the product business for India. Sujit has been with Sonata since 1991 and has over three decades of experience in the IT industry. He has spent close to twenty years in various leadership roles in Sonata, including heading the Product Marketing and Product Support Services Groups. Before joining Sonata, Mohanty worked at ACE, Hyderabad.

Anthony Lange, Chief Revenue Officer

Anthony Lange has more than three decades of industry experience; he brings a proven track record and expertise in building vertical businesses. He has built vertical businesses for global SIs and early-stage startups. In addition, he has built industry partnerships with hyperscalers (AWS, GCP, Azure) and leading platform providers (SFDC, Pega, IBM). Before Sonata, Lange held several roles at large system integrators in executive management, sales, and delivery capacities. He led teams responsible for business growth, client, and employee satisfaction.

Suresh HP, Chief Delivery Officer

Suresh HP has over 30 years of experience in the IT industry. His extensive background includes leadership positions in companies such as Infosys, Motorola, and LTIMindtree. As Chief Delivery Officer, Suresh is responsible for spearheading Sonata's global delivery strategy and enabling delivery excellence across all verticals and businesses. He has a wealth of experience in strategy, planning, budgeting, and business operations. He is also passionate about setting up innovation hubs, transforming delivery, and leadership training.

Rajsekhar Datta Roy, Chief Technology Officer

Rajsekhar Roy has over two decades of deep expertise in developing and deploying digital transformation solutions for global clients in the retail, consumer, and distribution industries. He led the growth of Sonata's Dynamics practice to be one of the largest global practices across multiple releases, industry solutions and services, leading across strategy, solution development, delivery & GTM. Roy has over a decade of experience in product engineering for ERP solutions and in building Sonata's industry digital platform IP, Brick & Click Retail, and Modern Distribution Platform.

Sonata Software: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	74,491	86,131	98,336	112,514	128,614
Revenue growth (%)	34.1	15.6	14.2	14.4	14.3
EBITDA	6,041	7,274	7,477	9,434	11,553
EBITDA growth (%)	24.1	20.4	2.8	26.2	22.5
Depreciation & Amortization	591	1,319	1,350	1,348	1,412
EBIT	5,450	5,955	6,126	8,086	10,141
EBIT growth (%)	24.0	9.3	2.9	32.0	25.4
Other operating income	0	0	0	0	0
Other income	708	1,256	769	663	679
Financial expense	185	850	810	707	565
PBT	5,973	6,360	6,085	8,042	10,255
Extraordinary items	0	(1,747)	0	0	0
Taxes	1,454	1,529	1,546	2,011	2,564
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,519	3,085	4,539	6,032	7,691
PAT growth (%)	20.0	(31.7)	47.1	32.9	27.5
Adjusted PAT	4,519	4,832	4,539	6,032	7,691
Diluted EPS (Rs)	16.1	17.2	16.2	21.5	27.4
Diluted EPS growth (%)	21.2	6.9	(6.0)	32.9	27.5
DPS (Rs)	7.8	7.8	7.8	7.8	10.9
Dividend payout (%)	48.3	45.4	48.3	36.4	39.7
EBITDA margin (%)	8.1	8.4	7.6	8.4	9.0
EBIT margin (%)	7.3	6.9	6.2	7.2	7.9
Effective tax rate (%)	24.3	24.0	25.4	25.0	25.0
NOPLAT (pre-IndAS)	4,123	4,524	4,570	6,065	7,606
Shares outstanding (mn)	280.4	280.4	280.4	280.4	280.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,973	6,360	6,085	8,042	10,255
Others (non-cash items)	233	2,908	1,350	1,348	1,412
Taxes paid	(1,754)	(2,623)	(3,371)	(3,615)	(3,867)
Change in NWC	(1,766)	(2,094)	(182)	(267)	(529)
Operating cash flow	2,685	2,805	3,882	5,508	7,270
Capital expenditure	(5,705)	(726)	(6,235)	(5,470)	(1,080)
Acquisition of business	0	0	0	0	0
Interest & dividend income	381	332	0	0	0
Investing cash flow	(8,553)	(543)	(4,996)	(5,470)	(1,080)
Equity raised/(repaid)	0	36	0	0	0
Debt raised/(repaid)	4,535	1,726	1,735	1,840	(2,500)
Payment of lease liabilities	(326)	(334)	0	0	0
Interest paid	(18)	(324)	0	0	0
Dividend paid (incl tax)	(2,324)	(2,189)	(2,193)	(2,193)	(3,054)
Others	0	0	0	0	0
Financing cash flow	1,868	(1,085)	(458)	(353)	(5,554)
Net chg in Cash	(4,001)	1,177	(1,572)	(315)	637
OCF	2,685	2,805	3,882	5,508	7,270
Adj. OCF (w/o NWC chg.)	4,451	4,900	4,064	5,775	7,800
FCFF	(3,020)	2,080	(2,353)	38	6,190
FCFE	(2,825)	1,562	(3,163)	(669)	5,625
OCF/EBITDA (%)	44.4	38.6	51.9	58.4	62.9
FCFE/PAT (%)	(62.5)	50.6	(69.7)	(11.1)	73.1
FCFF/NOPLAT (%)	(73.2)	46.0	(51.5)	0.6	81.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	139	278	278	278	278
Reserves & Surplus	12,868	13,785	16,132	19,970	24,607
Net worth	13,007	14,063	16,409	20,248	24,885
Minority interests	0	0	0	0	0
Deferred tax liability (net)	707	355	(1,470)	(3,075)	(4,378)
Total debt	4,936	6,743	8,478	10,318	7,818
Total liabilities & equity	18,649	21,161	23,417	27,491	28,325
Net tangible fixed assets	1,308	1,327	1,310	1,373	1,455
Net intangible assets	5,031	4,248	3,755	3,315	2,901
Net ROU assets	828	810	801	837	907
Capital WIP	8	0	0	0	0
Goodwill	10,984	11,135	11,135	11,135	11,135
Investments [JV/Associates]	5,326	5,740	4,501	4,501	4,501
Cash & equivalents	4,174	5,360	3,789	3,474	4,110
Current assets (ex-cash)	16,738	22,796	25,092	28,277	31,894
Current Liab. & Prov.	24,920	29,446	26,164	24,583	27,671
NWC (ex-cash)	(8,182)	(6,649)	(1,072)	3,695	4,224
Total assets	18,649	21,161	23,417	27,491	28,325
Net debt	762	1,383	4,690	6,844	3,708
Capital employed	18,649	21,161	23,417	27,491	28,325
Invested capital	9,141	10,061	15,128	19,517	19,714
BVPS (Rs)	46.4	50.1	58.5	72.2	88.7
Net Debt/Equity (x)	0.1	0.1	0.3	0.3	0.1
Net Debt/EBITDA (x)	0.1	0.2	0.6	0.7	0.3
Interest coverage (x)	0.0	0.1	0.1	0.1	0.1
RoCE (%)	41.4	36.2	30.9	34.4	38.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	41.0	38.3	40.8	30.7	24.1
P/CE(x)	36.3	30.1	31.5	25.1	20.4
P/B (x)	14.2	13.2	11.3	9.2	7.4
EV/Sales (x)	2.5	2.2	1.9	1.7	1.5
EV/EBITDA (x)	30.8	25.7	25.4	20.4	16.4
EV/EBIT(x)	34.1	31.3	31.0	23.8	18.6
EV/IC (x)	20.4	18.6	12.6	9.8	9.6
FCFF yield (%)	(1.6)	1.1	(1.3)	0.0	3.3
FCFE yield (%)	(1.5)	0.8	(1.7)	(0.4)	3.0
Dividend yield (%)	1.2	1.2	1.2	1.2	1.6
DuPont-RoE split					
Net profit margin (%)	6.1	5.6	4.6	5.4	6.0
Total asset turnover (x)	5.0	4.3	4.4	4.4	4.6
Assets/Equity (x)	1.2	1.5	1.5	1.4	1.2
RoE (%)	37.7	35.7	29.8	32.9	34.1
DuPont-RoIC					
NOPLAT margin (%)	5.5	5.3	4.6	5.4	5.9
IC turnover (x)	13.6	9.0	7.8	6.5	6.6
RoIC (%)	75.2	47.1	36.3	35.0	38.8
Operating metrics					
Core NWC days	(40.1)	(28.2)	(4.0)	12.0	12.0
Total NWC days	(40.1)	(28.2)	(4.0)	12.0	12.0
Fixed asset turnover	6.4	4.7	5.2	5.8	6.3
Opex-to-revenue (%)	18.6	24.0	24.0	23.9	24.0

Source: Company, Emkay Research

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