



Sonata Software Ltd

Q2FY26



Sonata Software Ltd.

A steady quarter with mild growth and stable margins.

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 365	INR 400	9.6%	INR 1,02,200	ACCUMULATE	Internet Software & Services

Result Highlights

Revenue:

Sonata Software Q2FY26 revenue declined by 2.3% YoY (-28.5% QoQ) to INR 21,193 Mn, primarily due to significant sequential degrowth which was primarily driven by the domestic business (SITL) revenue, which witnessed a degrowth of 38.8% QoQ to INR 13,913 Mn. In terms of USD, revenue declined by 6.3% YoY (-29.9% QoQ) to 242.8 Mn, primarily driven by strong reduction in domestic business, down by 4.8% YoY (-38.8% QoQ) to USD 159.4 Mn, while the international business declined 3.1% YoY (+0.2% QoQ) to USD 82.0 Mn. In constant currency terms, IITS revenue witnessed a de-growth of 3.9% YoY (+1.0% QoQ).

Margins and Profitability:

EBIT increased by 1.5% YoY (9.6% QoQ) to INR 1,464 Mn, below our estimates while margins expanded by 26bps YoY (+241bps QoQ) to 6.9%. The sequential expansion in margin was majorly driven by improvement in the International IT Services (IITS) EBITDA margin, which improved sequentially by 70 bps to 17.3%, while EBITDA margin for Domestic Products improved by 140 bps to 3.3%.

Vertical/Regional Performance:

Within verticals, Retail and Manufacturing grew by 10.3% QoQ., partially offset by weakness in BFSI vertical (-4.8% QoQ) led by budgetary cuts by a key client and decline in TMT by 2.9% QoQ.

From a regional standpoint, the U.S, Sonata Software's largest market, declined by 6.5% QoQ, followed by a robust 30.3% QoQ expansion in Rest of the World (RoW), and in Europe (12.8% QoQ).

Deal Wins:

Sonata Software secured one large multi-year strategic deal. The large deal was won with a leading US healthcare provider for the modernization of core platforms utilizing automation and AI. The company also added six new enterprise-grade clients, demonstrating healthy new logo momentum amidst a soft macro environment. Additionally, the company secured several midsize AI deals, including a super-sized AI win with a financial mortgage leader (BFSI) and a strategic AI program with a US-based consumer product client (Retail). The overall deal pipeline remains robust, with approximately 40% comprising large strategic opportunities. The AI order book grew from 8% in Q1 to 10% of the total order book in Q2, reflecting increasing client traction in next-gen digital and data-driven engagements.

Valuation:

Growth is expected to recover gradually as the impact of large-account headwinds tapers off and ramp-ups from recent wins begin to contribute more meaningfully. Steady momentum in Healthcare, BFSI, and AI-led modernization programs, along with improving delivery efficiencies, should support a measured uptick in revenue and margins over the coming quarters.

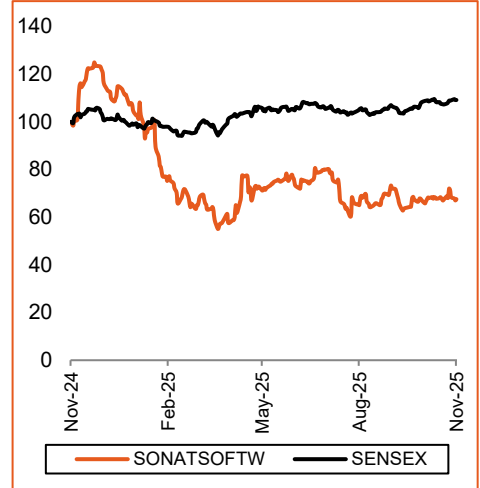
We have rolled forward our valuation to Sept'27 estimates. We value Sonata Software at 18.0x Sept'27 EPS, implying a target price of INR 400. We reiterate our "ACCUMULATE" rating on the stock.

KEY FINANCIALS

INR Millions	FY24	FY25	FY26E	FY27E	FY28E
Revenue	86,131	1,01,573	1,03,281	1,09,882	1,21,755
EBIT	5,955	5,678	6,507	7,129	7,512
EBIT Margin	6.9%	5.6%	6.3%	6.5%	6.2%
Adj. PAT	4,832	4,247	5,066	5,823	6,115
EPS	17.4	15.1	18.1	20.8	21.8

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (Mn.)	280
Mkt Cap (INR Mn.)	1,02,200
52-Week H/L (INR)	687 / 286

*Based on previous closing

Note: All the market data is as of previous closing

SHARE HOLDING PATTERN (%)

Particulars (%)	Sept-25	Jun-25	Mar-25
Promoters	28.2	28.2	28.2
FIIIs	8.9	9.7	10.8
DIIIs	26.3	25.5	25.8
Others	36.6	36.6	35.2
Total	100.0	100.0	100

4.0%

Revenue CAGR
between FY25-27E

17.1%

Adj. PAT CAGR
between FY25-27E

Sonata Software Ltd.

Key Concall Highlights:

Execution challenges amid macro and client-specific headwinds

- The company faced a significant reduction in its largest BFSI account due to organizational restructuring and budget constraints, causing material revenue impact during Q2 and expected to trickle into Q3 as well. Some verticals, especially large tech and BFSI, experienced delayed decision-making and spending cuts, moderating overall growth momentum.
- Continued delays in new program budgets due to internal reorganization at the major TMT customer affected deal flow and new project wins.
- RMD vertical remained soft, reflecting broader sector-level weakness; the quarter had an aberrational one-time revenue but underlying demand is still subdued.
- Microsoft's selective shift to direct billing for a limited set of large accounts may pose potential revenue risk in coming years, although no impact expected in the next 6 months.

Tailwinds supported by deal ramp-up, vertical momentum, and AI traction

- Sonata won another large, multi-year healthcare modernization deal in Q2, while earlier large wins in TMT and healthcare continue to ramp up well.
- AI TCV share rose from 8% in Q1 to 10% in Q2, with strong adoption in TMT and healthcare. Sonata also closed two midsize AI + CSP deals during the quarter. The "AgentBridge" platform is being deployed internally (HR, finance) and across multiple client engagements, enhancing operational efficiency and delivery leverage.
- Vertical momentum in Healthcare & BFSI (excluding top client): These two priority verticals now form 33% of revenues, up from 13% three years ago, clocking healthy growth across multiple new logos.
- Higher utilization (87.3%, up from 86.6%), Planned offshoring from large deals (offshore mix rose to 57%), AI-driven productivity across delivery & operations. Together, these delivered ~160 bps gross accretion, even after absorbing wage-hike drag.

Revenue Mix

- During Q2FY26, Sonata Software's revenue profile continued to reflect the strategic shift toward higher-quality, modernization- and AI-led services. North America remained the dominant growth engine, contributing over 70% of consolidated revenue, a sharp structural increase from ~54% three years ago, underscoring the company's deeper penetration across priority accounts. The remaining mix was distributed across the UK, Europe, India, and Australia
- From a vertical standpoint, the company's strategic bets in Healthcare & Life Sciences and BFSI continued to scale well, together accounting for 33% of total revenues, compared to 13% three years ago. TMT delivered a steady performance, supported by strong traction in mid-tech clients even as one large technology client continued to witness decision delays. In contrast, the Retail, Manufacturing & Distribution (RMD) vertical remained relatively soft, mirroring the broader slowdown seen across the sector. Service delivery mix showed further improvement in cost leverage, with the onsite-offshore ratio enhancing to 43:57, compared to 47:53 in Q1, driven by planned offshoring from large deals. The shift towards a more offshore-heavy execution model contributed meaningfully to margin accretion during the quarter.
- On the client metrics front, Sonata maintained healthy execution momentum, posting a book-to-bill of 1.28x, while expanding the number of \$10 million+ annualized clients to eight. The company also added six new enterprise-grade clients during the quarter. Notably, AI-led deals accounted for 10% of the overall order book, reflecting rising customer adoption of data, cloud, and AI modernization programs.

Employee Headcount, attrition and wage hike

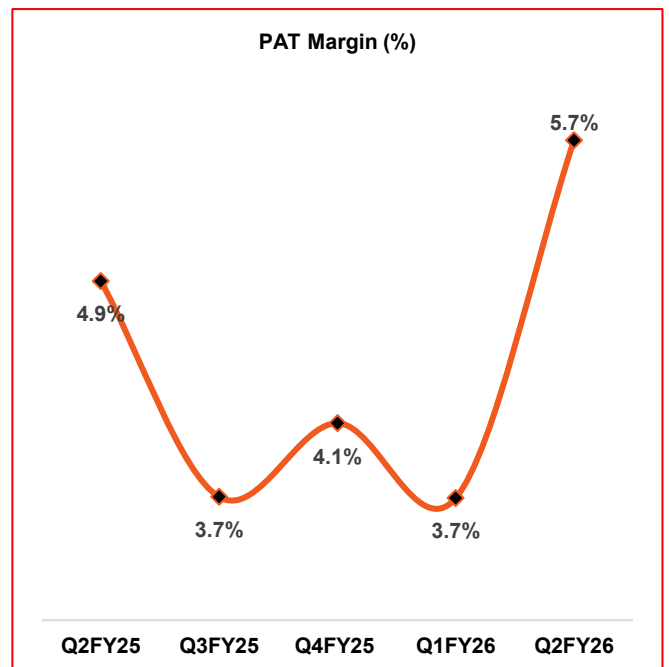
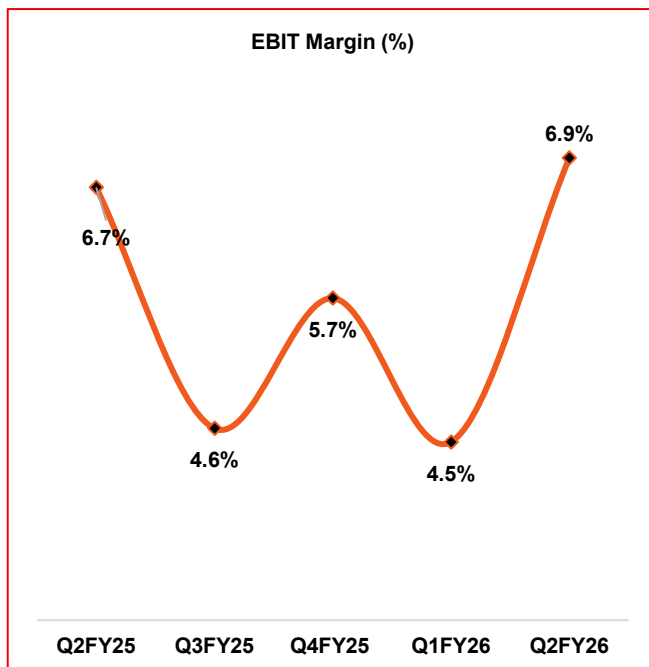
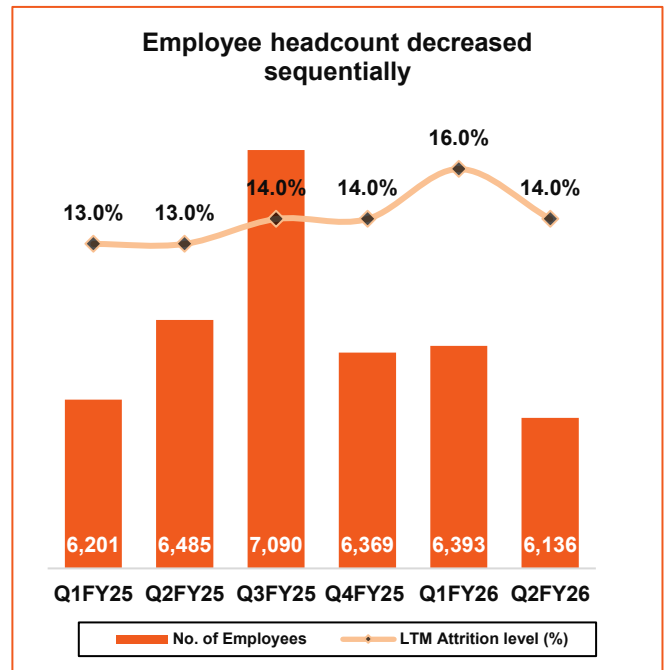
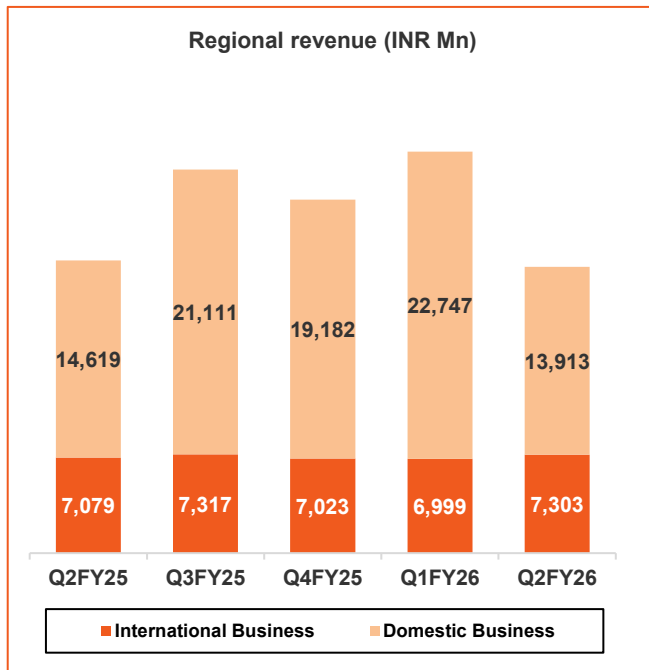
- Q2 headcount was 6,136, down from 6,393 in Q1 due to productivity-led efficiencies and AI deployment. 12-month attrition at 14%, stable and industry-competitive.
- AI Talent & Upskilling: 95% of workforce and 80% of managers are AI-trained under Sonata University. VIP coding program was rolled out; 78% employees have completed it
- Annual compensation revisions rolled out in Q2 and continuing into Q3. Wage hikes had a 90 bps margin impact this quarter, which the company largely offset through utilization gains and AI-led efficiencies

Other Highlights

- Utilization improved to 87.3% vs 86.6% in Q1. International services EBITDA after forex improved to 19.9% (up 150 bps QoQ). PAT grew 10.3% QoQ / 25.5% YoY. Consolidated EPS at INR 4.33, up 9.9% QoQ. Domestic Business revenue grew 38.8% QoQ.
- Microsoft's potential shift to direct billing expected to affect only a small subset of very large accounts over multi-year renewals; impact gradual, not immediate. Strong renewals with large TMT client despite delays in new
- Cash & equivalents: INR 3.23 Bn (vs 6 Bn in Q1).
- Announced INR 1.25/share second interim dividend; moving to a quarterly payout policy.

Sonata Software Ltd.

STORY IN CHARTS



Source: Company, DevenChoksey Research

Sonata Software Ltd.

RESULT SNAPSHOT

Particulars (INR Mn)	Q2FY26	Q1FY26	Q2FY25	QoQ	YoY
Revenue	21,193	29,652	21,698	(28.5%)	(2.3%)
Total Expenditure	19,466	28,055	19,926	(30.6%)	(2.3%)
COGS	13,785	22,086	13,990	(37.6%)	(1.5%)
Employee Costs	4,225	4,180	4,048	1.1%	4.4%
Other Expenses	1,456	1,789	1,888	(18.6%)	(22.8%)
EBITDA	1,727	1,597	1,773	8.2%	(2.6%)
EBITDA Margin (%)	8.1%	5.4%	8.2%	276bps	-2bps
Depreciation & Amortisation	263	261	329	0.7%	(20.2%)
EBIT	1,464	1,336	1,443	9.6%	1.5%
EBIT Margin (%)	6.9%	4.5%	6.7%	241bps	26bps
Interest Costs	142	51	192	179.7%	(25.9%)
Other Income	314	242	192	29.5%	63.5%
Exceptional items	0	0	0	NA	NA
Profit before tax	1,636	1,527	1,443	7.1%	13.3%
Tax Expenses	434	434	379	0.1%	14.7%
Net profit	1,202	1,093	1,065	9.9%	12.9%
Net profit margin (%)	5.7%	3.7%	4.9%	198bps	76bps
Adj. Net profit	1,202	1,093	1,065	9.9%	12.9%
Adj. Net profit margin (%)	5.7%	3.7%	4.9%	198bps	76bps
Adj. EPS	4.3	3.9	3.8	9.9%	12.9%

Source: Company, DevenChoksey Research

Sonata Software Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY25	FY26E	FY27E	FY28E
Revenue	1,01,573	1,03,281	1,09,882	1,21,755
Op expense	94,680	95,750	1,01,652	1,12,942
EBITDA	6,892	7,530	8,229	8,812
Depreciation	1,215	1,023	1,100	1,300
EBIT	5,678	6,507	7,129	7,512
Other income, net	712	866	916	961
Finance costs	653	362	250	211
Exceptional Items	0	0	0	0
Pre-tax Income	5,737	7,011	7,795	8,263
Income tax expense	1,490	1,945	1,972	2,148
PAT	4,247	5,066	5,823	6,115
Adj. PAT	4,247	5,066	5,823	6,115
EPS (INR)	15.1	18.1	20.8	21.8

Exhibit 3: Cash Flow Statement

Particulars (INR Mn)	FY25	FY26E	FY27E	FY28E
CFFO	6,443	10,137	7,073	7,879
CFFI	-4,356	-1,756	-1,868	-2,070
CFFF	-4,333	-1,853	-2,397	-2,439
Net Inc/Dec	-2,246	6,528	2,808	3,370
Forex	-15	0	0	0
Opening Balance	5,360	3,100	9,628	12,437
Closing Balance	3,100	9,628	12,437	15,807

Exhibit 4: Key Ratios

Particulars	FY25	FY26E	FY27E	FY28E
EBIT Margin (%)	5.6%	6.3%	6.5%	6.2%
Tax rate (%)	26.0%	27.7%	25.3%	26.0%
Net Profit Margin (%)	4.2%	4.9%	5.3%	5.0%
RoE (%)	27.3%	28.6%	30.6%	29.8%
RoCE (%)	27.0%	26.6%	28.0%	27.1%
RoA (%)	8.9%	9.6%	10.2%	9.7%
EPS (INR per share)	15.1	18.1	20.8	21.8
P/Ex	22.8	19.9	17.3	16.5

Source: Company, DevenChoksey Research

INR Millions	FY25	FY26E	FY27E	FY28E
Equity				
Equity Share Capital	278	278	278	278
Other Equity	16,782	18,048	19,504	21,033
Total Equity	17,059	18,326	19,782	21,310
Long term Debts	2,279	2,279	2,279	2,279
Other long term non-current liabilities	1,868	3,813	5,784	7,931
Total non current liabilities	4,147	6,092	8,063	10,210
Trade Payables	15,570	17,314	18,381	20,422
Short Term Borrowings	2,137	2,137	2,137	2,137
Other Current Liabilities	8,638	9,097	9,175	9,386
Total Current Liabilities	26,345	28,548	29,692	31,945
Total liabilities	47,552	52,966	57,537	63,466
Property Plants and Equipments	400	1,133	1,901	2,671
Right of use of Assets	636	636	636	636
Intangible Assets	3,862	3,862	3,862	3,862
Goodwill	11,397	11,397	11,397	11,397
Other current assets	3,940	3,940	3,940	3,940
Total Non-Current Assets	20,235	20,967	21,735	22,505
Current Assets				
Inventories	472	472	472	472
Cash & Cash Equivalent	4,494	11,023	13,831	17,201
Trade Receivables	17,409	15,563	16,558	18,347
Other current assets	4,941	4,941	4,941	4,941
Total Current Assets	27,317	31,999	35,802	40,961
Total Assets	47,552	52,966	57,537	63,466

Sonata Software Ltd.

Sonata Software Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
21-Nov-25	365	400	ACCUMULATE
04-Aug-25	359	400	ACCUMULATE
09-May-25	366	448	BUY
07-Feb-25	489	517	ACCUMULATE
06-Nov-24	632	679	ACCUMULATE
06-Aug-24	627	694	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, **Yogesh Tiwari (MBA)**, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

DRChoksey FinServ Private Limited (hereinafter referred to as DCFPL) is a registered member of SEBI as a Research Entity vide Registration No. INH000011246 under SEBI (Research Analyst) Regulations, 2014, Portfolio Managers Entity vide Registration No. INP000007906 under SEBI (PORTFOLIO MANAGERS) Regulations, 2020 & Investment Adviser Entity vide Registration No. INA000017903 under SEBI (INVESTMENT ADVISERS) REGULATIONS, 2013.

The information and opinions in this report have been prepared by DCFPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DCFPL. While I would endeavor to update the information herein on a reasonable basis, DCFPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent DCFPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or DCFPL policies, in circumstances where DCFPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. DCFPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. DCFPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions 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.

I submit that no material disciplinary action has been taken on DCFPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

DCFPL prohibits its associate, analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, I, **Yogesh Tiwari** Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

DCFPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report other than investment banking or merchant banking or brokerage services from the subject company

DCFPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. DCFPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DCFPL nor Research Analysts his associate or his relative, have any material conflict of interest at the time of publication of this report.

It is confirmed that **Yogesh Tiwari**, Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

DCFPL or its associates (Group Companies) or its research analyst has may been engaged in market making activity for the subject company.

The securities quoted are for illustration only and are not recommendatory.

DCFPL (Research Entity) and its research analysts uses Artificial Intelligence tools.

DCFPL and or its Research analysts shall be solely responsible for the security, confidentiality and integrity of the client data, use of any other information or data for research services, research services based on output of Artificial Intelligence tools and compliance with any law for the time being in force.

This report is not directed 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, regulation or which would subject DCFPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restrictions.

Investment in securities are subject to market risks, read all the documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

*Please send your feedback to research_retail@devenchoksey.com

DRChoksey FinServ Private Limited

CIN Number -U67100MH2020PTC352816

Registered Office and Corporate Office:

5th Floor Abhishek Building, Behind Monginis Cake Factory, Off New Link Road, Andheri West, Mumbai-400058