Sonata Software Ltd
Q2FY26

Result update

21st Nov 2025

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:

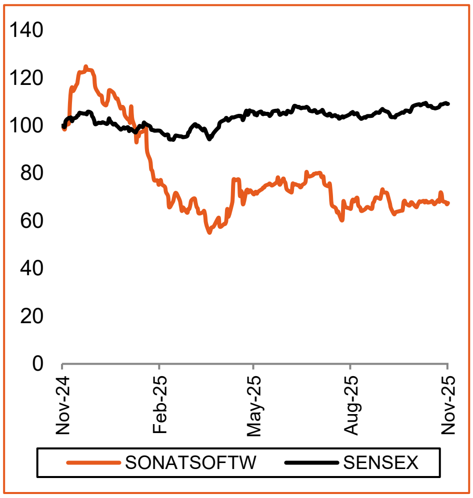
Sonata Software secured one large multi-year strategic deal. The large deal was won with a leading US healthcare provider for the modernization of core platforms utilizing automation and AI. The company also added six new enterprise-grade clients, demonstrating healthy new logo momentum amidst a soft 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.

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
FIIs	8.9	9.7	10.8
DIIs	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

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

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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.

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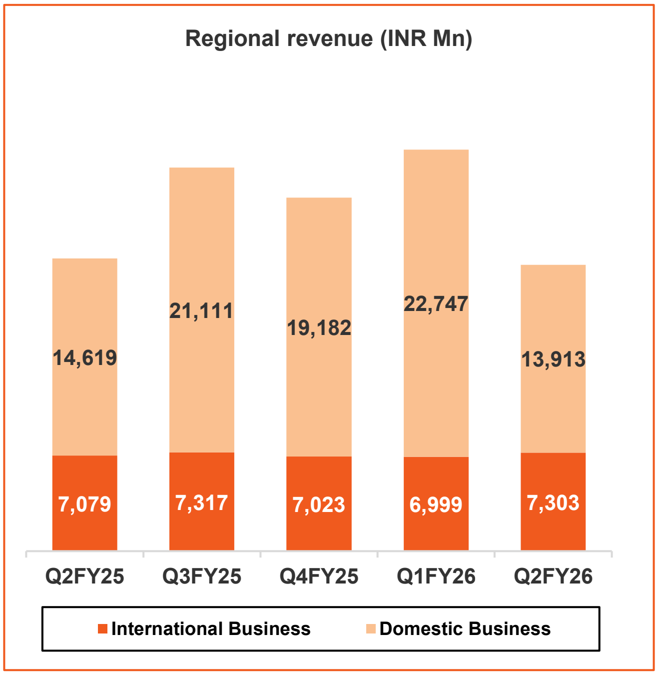
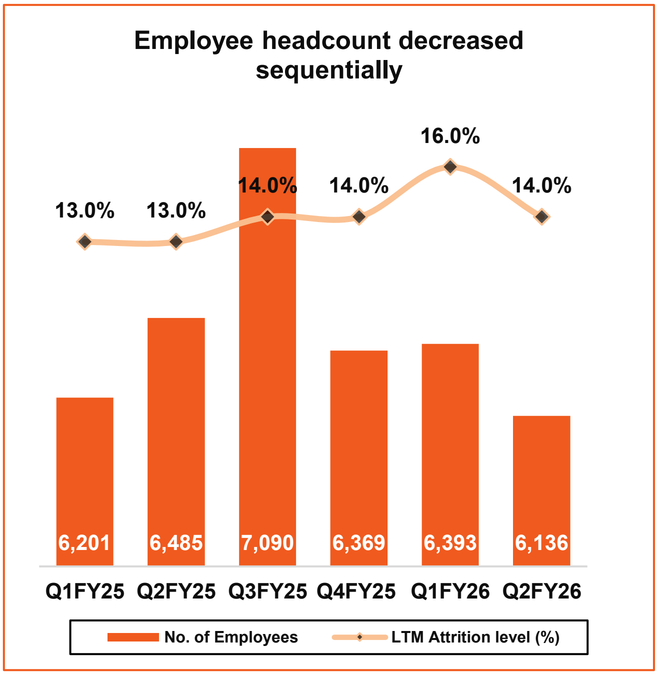
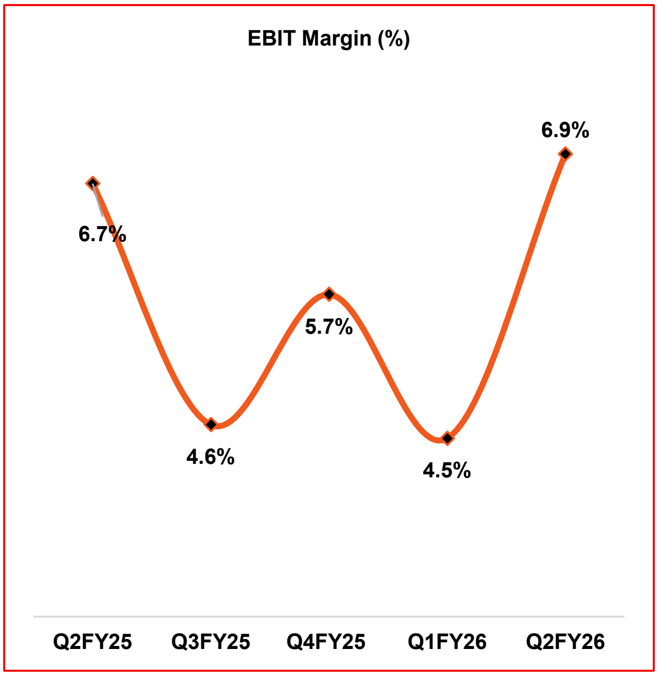
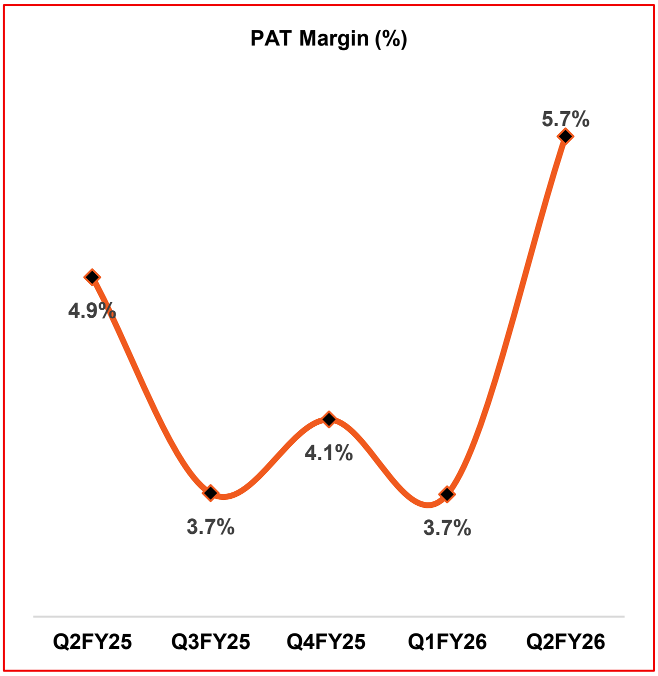
STORY IN CHARTS









Source: Company, DevenChoksey Research

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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

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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

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
Oher 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**

Source: Company, DevenChoksey Research

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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%

•Please send your feedback to research.retail@devenchoksey.com

DRChoksey FinServ Private Limited

CIN Number -U67100MH2020PTC352816

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