8 November 2026

Sonata Software

Early Signs of Growth Revival, as margins remain a key monitorable; Domestic business the underdog…Retain BUY

Rating: **BUY**
Target Price (12-mth): Rs.304
Share Price: Rs.240

Sonata reported a modest improvement in Q2FY27, with International Services revenue at $82.8mn (+1.2%q/q & +1.3% y/y in cc) despite a programme ramp-down in a top account. International services EBITDA margin improved marginally by 10bps q/q to 15.5%, even as utilisation increased 200bps to 90.5%, partially offset by wage hikes, one time severance costs and AI investments. We believe the Q shows early signs of stabilisation translating into growth, although the recovery remains modest and uneven across accounts. Management's commentary suggests a gradual shift from defending the existing revenue base towards capturing incremental AI-led transformation spending. Legacy modernisation, AI-powered engineering and AI-ready data contributed ~61% of incremental pipeline, while AI-led order book increased 11.3% q/q to $24.2mn (~25% of total order book), with pipeline reaching $358mn (+5% q/q). Early monetisation of Harmoni.AI assets and demonstrated delivery efficiencies of ~35-40% validate the offering, although meaningful revenue conversion remains to be established. Domestic partnerships with AWS and Google strengthen medium-term opportunities, but AWS-led execution is expected to begin only in Q1FY28, suggesting a gradual contribution rather than an immediate growth driver.

Improving deal momentum; Smaller TCV, margin accretive deals gain traction: Book-to-bill remained healthy at 1.18x, supported by growing AI-led engagements. Management is prioritising $2-4mn deals to reduce dependence on prolonged large-deal decisions. While $3-5mn clients increased to 12 (vs. 9 in Q1), $5mn+ clients declined to 11 (vs. 12), suggesting improving diversification but limited progression into larger accounts.

Margin recovery expected; execution remains critical: International Services EBITDA margin improved just 10bps despite utilisation rising 200bps to 90.5%, impacted by ~50bps severance costs, ~100bps AI investments and wage hikes. Management reiterated its 18-20% margin aspiration without specifying timelines. With utilisation already elevated, sustainable margin expansion increasingly depends on revenue acceleration and monetisation of AI investments.

Outlook & Valuation: At CMP, the stock trades at FY28/29e P/E of 12.6x/11.6x. We have revised our FY27/28/29e $revenue & PAT estimates by +1.2/+1.2/+1.2% & +1.0/-1.5/-1.2%, with FY27-29e EPS CAGR at 11.2%. We retain a BUY rating, with a TP of Rs. 304, implying ~27% upside from CMP.

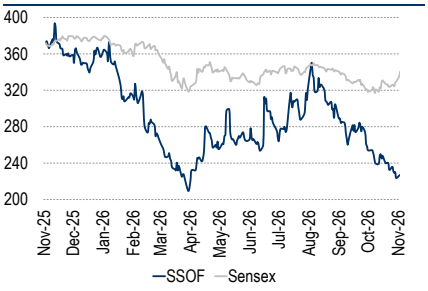
Key Risks: Further large-account ramp-downs, particularly in BFSI and TMT vertical; Delayed AI-led deal conversion and continued solution investments; Prolonged enterprise decision cycles and weak large-client progression; Continued Data and Retail weakness; and Slower monetisation of domestic hyperscaler partnerships.

Key Data	SSOF IN / SOFT.BO
52-week high / low	Rs400 / 209
Sensex / Nifty	81028 / 25030
Market cap	Rs66bn
Shares Outstanding	277m

Shareholding Pattern (%)	Sep'26	Jun'26	Mar'26
Promoters	28.2	28.2	28.2
- of which, Pledged			
Free float	71.8	71.8	71.8
- Foreign institutions	8.8	9.2	8.8
- Domestic institution	24.9	24.7	25.6
- Public	38.1	38.0	37.5

Estimates Revision (%)	FY27e	FY28e	FY29e
Sales ($)	1.2	1.2	1.2
EBIT	1.0	0.9	1.0
PAT	1.0	-1.5	-1.2

Relative Price Performance



Source: Bloomberg

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Quick Glance – Financial and Valuations (Consolidated)

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Revenues (US$ m)	**1,203**	**1,209**	**1,252**	**1,366**	**1,518**
Growth (%)	15.5	0.5	3.5	9.1	11.1
Net revenue (Rs m)	1,01,573	1,07,013	1,20,241	1,34,614	1,52,638
Employee & Direct Costs	86,795	93,606	1,06,365	1,19,399	1,36,526
Gross Profit	14,778	13,406	13,876	15,215	16,112
Gross Margin (%)	14.5	12.5	11.5	11.3	10.6
SG&A	7,881	5,994	6,471	6,621	6,819
EBITDA	**6,896**	**7,412**	**7,405**	**8,594**	**9,292**
EBITDA margins (%)	6.8	6.9	6.2	6.4	6.1
- Depreciation	1,215	1,043	1,202	1,224	1,224
Other income	708	417	512	306	236
Interest Exp	653	514	537	556	556
PBT	5,737	6,273	6,177	7,120	7,748
Effective tax rate (%)	26	26	25	26	26
+ Associates/(Minorities)	-	-	-	-	-
Net Income	**4,247**	**4,644**	**4,637**	**5,268**	**5,733**
WANS	278	278	278	278	278
FDEPS (Rs/share)	15.3	16.7	16.7	19.0	20.6

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Share capital	278	277	277	277	277
Net worth	17,059	19,046	21,492	24,271	27,295
Total debt (incl. Pref)	4,416	5,682	4,262	3,196	2,397
Minority interest	-	-	-	-	-
DTL/(Asset)	-2,360	-2,437	-2,328	-2,207	-2,075
Capital employed	**19,115**	**22,291**	**23,426**	**25,260**	**27,617**
Net tangible assets	1,036	2,049	2,221	2,411	2,654
Net Intangible assets	13,052	14,722	14,121	13,510	17,673
Goodwill	2,207	2,207	2,207	2,207	2,207
CWIP (tang. & intang.)	-	-	-	-	-
Investments (Strategic)	-511	-1,268	-1,358	-1,458	-1,567
Investments (Financial)	3,880	2,351	235	24	2
Current Assets (ex Cash)	20,372	21,683	23,598	25,561	28,220
Cash	3,100	3,725	7,968	11,041	8,909
Current Liabilities	24,021	23,178	25,566	28,036	30,481
Working capital	-3,649	-1,495	-1,968	-2,475	-2,261
Capital deployed	**19,115**	**22,291**	**23,426**	**25,260**	**27,617**

Fig 3 – Cashflow Statement (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
PBT	5,737	6,273	6,177	7,120	7,748
+ Non-cash items	1,312	926	1,228	1,474	1,544
Operating profit before WC	7,049	7,199	7,405	8,594	9,293
- Incr./(decr.) in WC	-1,030	96	-473	-507	214
Others including taxes	-1,636	-1,723	-1,340	-1,632	-1,774
Operating cash-flow	**6,443**	**5,380**	**6,538**	**7,469**	**7,305**
- Capex (tang. + Intang.)	685	1,136	773	802	854
Free cash-flow	**5,758**	**4,244**	**5,765**	**6,667**	**6,451**
Acquisitions	-5,919	-2,993	-	-	-4,775
- Div. (incl. buyback & taxes)	1,226	2,232	2,191	2,489	2,709
+ Equity raised	-	-	-0	-0	-0
+ Debt raised	-488	-	-1,421	-1,065	-799
- Fin Investments	-1,595	-1,860	-2,115	-212	-21
- Misc. Items (CFI + CFF)	1,980	253	26	250	321
Net cash-flow	**-2,260**	**625**	**4,242**	**3,073**	**-2,132**

Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
P/E (x)	**15.7**	**14.3**	**14.4**	**12.6**	**11.6**
EV/EBITDA (x)	10.1	9.4	9.4	8.1	7.5
EV/sales (x)	0.7	0.6	0.6	0.5	0.5
P/B (x)	3.9	3.5	3.1	2.7	2.4
RoE (%)	**27.3**	**25.7**	**22.9**	**23.0**	**22.2**
RoCE (%) - After tax	18.0	18.4	16.4	18.2	18.5
RoIC (%) - After tax	29.3	24.7	21.9	26.7	26.8
DPS (Rs per share)	4.4	7.9	7.9	9.0	9.8
Dividend yield (%)	1.8	3.3	3.3	3.7	4.1
Dividend payout (%) - Inc. DDT	28.8	47.3	47.3	47.3	47.3
Net debt/equity (x)	-0.2	-0.0	-0.2	-0.3	-0.2
Receivables (days)	66	67	66	66	66
Inventory (days)	-	-	-	-	-
Payables (days)	60	66	66	66	64
CFO:PAT%	**152**	**116**	**141**	**142**	**127**

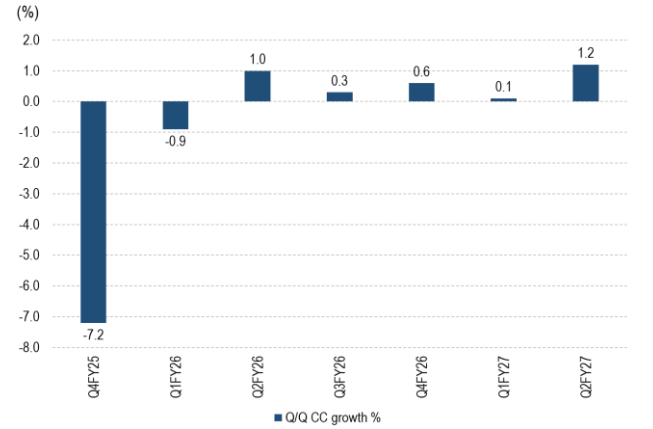
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – IITS Quarterly CC Revenue Growth (q/q)



Source: Company

Result and Concall – Key Highlights

- International IT Services revenue grew 1.0% q/q and 0.9% y/y to $82.8mn (+1.2% q/q and +1.3% y/y CC), marking the first meaningful sequential improvement in 4–5 quarters despite client-specific headwinds.
- Management believes the business is transitioning from stabilisation towards growth, supported by AI-led offerings, improving client engagement and selective demand recovery. However, the revenue inflection remains modest.
- International EBITDA margin improved 10bps q/q to 15.5%, aided by utilisation increasing 200bps to 90.5% and delivery efficiencies, partially offset by wage hikes covering ~60% of employees.
- Severance expenses impacted margins by ~50bps, while AI-related proof-of-concept investments contributed another ~100bps headwind. Management expects some AI investments to continue into Q3FY27.
- Management reiterated its 18–20% EBITDA margin aspiration, supported by revenue growth and operating efficiencies, but provided no timeline. With utilisation already at 90.5%, further margin expansion will increasingly depend on operating leverage.
- Consolidated PAT increased 7.7% q/q to ₹116.4cr, while international services PAT increased 11.1% q/q to ₹69.1cr.
- International headcount declined to 5,680 from 5,795 q/q, while attrition improved to 10% from 13%. The onsite-offshore revenue mix remained stable at 30:70.
- International DSO improved to 52 days from 60 days, partly due to advance collections, although management expects normalisation towards ~60 days. Domestic DSO improved to 47 days from 65 days.
- Consolidated gross cash declined to ₹426.3cr from ₹567cr, with net cash moving from +₹67cr to -₹69.3cr. International ROCE improved to 19.2% from 14.9%.

AI Strategy, Order Book & Deal Wins

- Sonata is repositioning itself as an AI-native engineering company, focusing on business transformation, legacy modernisation and AI-native service delivery. Three of its six horizontal offerings—legacy modernisation, AI-powered engineering and AI-ready data—accounted for ~61% of incremental pipeline generation.
- Harmoni.AI now includes enterprise delivery workbenches, Migration Studio and AgentBridge, supporting AI-led engineering, modernisation and process transformation. Management indicated that its workbench is already being monetised through customer engagements.
- Sonata is investing in AI-certified talent, proprietary solutions and delivery capabilities to build a scalable execution model. However, the revenue and margin contribution from these investments remains undisclosed.

- International services order bookings stood at ~$98.5mn, with book-to-bill remaining stable at 1.18x, reflecting steady booking momentum despite subdued reported revenue growth.
- AI-led order bookings increased 13.5% q/q to $24.18mn, representing ~25% of total bookings, while the AI-led pipeline increased 5% q/q to $358mn.
- Sonata reported three key deal wins, including one large deal involving a US food safety solutions provider for cloud-based kitchen automation and data transformation.
- Large deals account for ~35% of the active pipeline, while ~30% of the large-deal pipeline involves Fortune 500 customers, with opportunities spanning RMD, TMT, BFSI and HLS.
- Management is deliberately expanding its focus towards $2–4mn deals rather than relying solely on large deals (>$5mn), which face longer decision cycles. A $4.2mn engagement secured during Q2 illustrates this strategy.
- Microsoft partnership traction is improving across sell-to and sell-with engagements, supported by Frontier Partner status, Copilot specialisations and Inner Circle recognition. Management highlighted recovering Dynamics demand and growing cloud modernisation opportunities but did not disclose Microsoft's international IT Services revenue contribution.

Demand Commentary

- The Q2 decline in a top account resulted from a specific programme ramp-down following renewals. Management has completed leadership restructuring and shifted focus towards adjacent spending opportunities, expecting positive momentum from Q3FY27.
- Management expects isolated headwinds in 1-2 large BFSI and TMT accounts during Q3FY27. However, it expects overall top 10 client growth to remain positive despite these pressures.
- Another TMT account could experience a Q3 revenue decline despite a significantly higher order book, with revenues now spread over a longer period. Management remains constructive on the engagement over the next 8-10 quarters.
- Top 10 revenue concentration remained at 51%, while top 20 concentration declined to 66% from 70% q/q. Approximately 30% of large-deal opportunities are associated with existing top 10 accounts.
- Mid-sized accounts are scaling faster through AI-led engagements, typically following 2–3-month validation periods. Larger enterprises continue to face longer decision-making cycles due to security, regulatory and governance requirements.
- **TMT:** Weakness remains concentrated in select large accounts rather than reflecting broad-based demand deterioration. Management expects positive momentum despite potential near-term account-specific headwinds.
- **BFSI:** Demand improved during Q2 following earlier Quant-related ramp-downs. Management expects medium-term growth, although isolated account pressures could affect Q3FY27.

- **HLS:** Healthcare continues to demonstrate consistent growth, while pharmaceuticals and MedTech are emerging as additional opportunities. Life sciences currently has the most mature pipeline among the targeted new sub-verticals.
- **RMD:** Retail remains under pressure and could take another 1–2 quarters to recover. However, logistics is showing early improvement, while agribusiness has already secured wins.
- **Service-line mix:** Cloud increased to 63% of revenue from 62% q/q, while Dynamics improved to 23% from 21%, supported by recovering Microsoft-related engagements and new customer wins.
- **Data and Emerging:** Data's revenue mix declined to 10% from 11% q/q and 20% y/y, while Emerging declined to 2% from 3% q/q and 11% y/y. Data weakness reflects Quant-related and other large-account ramp-downs, although management highlighted an improving AI-ready data pipeline.
- **Geographical mix:** US revenue contribution increased to 74% from 71% q/q, while Europe declined to 19% from 23% and Rest of World increased to 7% from 6%.
- **Sub-vertical strategy:** Sonata is targeting pharmaceuticals, MedTech, mortgage and lending, and agribusiness through specialised AI propositions. While life sciences is closest to monetisation and agribusiness has secured wins, meaningful incremental revenues are expected over the medium term.

Domestic Business, Quant Acquisition & Outlook

- The domestic growth strategy focuses on expanding core reselling, multi-cloud managed services, enterprise IT services and GCC-focused professional services, supported by new hyperscaler partnerships.
- Sonata signed a five-year AWS strategic collaboration agreement, targeting an approximate doubling of its AWS-related business over time. Capability-building is underway, with meaningful execution expected from Q1FY28.The company also signed a three-year Google Gemini Enterprise partnership, while multi-cloud managed services are gaining traction across BFSI, manufacturing and enterprise customers.
- Management expects sustained medium-term domestic growth as OEM disruptions recede and newer service offerings scale, although it declined to provide specific revenue or gross contribution growth guidance.
- **Quant acquisition:** Management indicated that no impairment was currently identified despite the historical decline in a large BFSI account. The March 2026 impairment assessment identified no requirement for a charge, while a potential merger with Sonata remains subject to legal and regulatory processes.
- **Outlook:** Management expects improving revenue and margin momentum, supported by recovering large accounts, AI-led bookings and new service offerings. However, Q3 client-specific headwinds, uncertain AI pipeline conversion and continued investments remain key near-term monitorables.

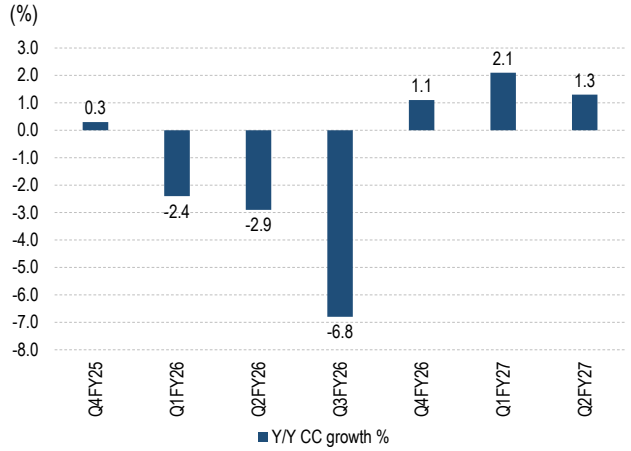
Quarterly Snapshot

Fig 7 – Quarterly Performance (Rs m)

	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	Q/Q %	Y/Y %
Revenue ($ m)	**337**	**302**	**348**	**241**	**346**	**275**	**347**	**256**	**-26%**	**6%**
Growth Y/Y %	12%	14%	14%	-7%	3%	-9%	0%	6%	0 bps	0 bps
Revenue (Rs m)	28,428	26,172	29,652	21,193	30,806	25,362	32,791	24,452	-25%	15%
Effec. exchange rate	84.1	86.4	85.6	89.1	89.7	94.6	94.8	96.4	2%	8%
Rev($m) – IT Services	**87.0**	**81.3**	**81.8**	**82.0**	**82.3**	**82.4**	**82.0**	**82.8**	**1%**	**1%**
Rev($m) – Reselling Services	**251.0**	**221.5**	**265.8**	**159.4**	**263.3**	**192.3**	**264.9**	**173.2**	**-35%**	**9%**
Employees (EoP)	7,090	6,810	6,859	6,629	6,404	6,283	6,293	6,214	-1%	-6%
Rev. prod. ($ '000/employee)	**13.3**	**12.5**	**12.8**	**13.1**	**13.7**	**14.1**	**14.2**	**14.4**	**2%**	**10%**
CoR (excl. D&A)	(24,366)	(22,826)	(26,266)	(18,010)	(27,718)	(21,613)	(29,457)	(21,074)	-28%	17%
As % of revenue	-86%	-87%	-89%	-85%	-90%	-85%	-90%	-86%	365 bps	-121 bps
SG&A	(2,426)	(1,620)	(1,789)	(1,456)	(1,086)	(1,662)	(1,627)	(1,583)	-3%	9%
As % of revenue.	-9%	-6%	-6%	-7%	-4%	-7%	-5%	-6%	-151 bps	40 bps
EBITDA	**1,636**	**1,727**	**1,597**	**1,727**	**2,002**	**2,087**	**1,708**	**1,795**	**5%**	**4%**
EBITDA margins %	5.8%	6.6%	5.4%	8.1%	6.5%	8.2%	5.2%	7.3%	213 bps	-81 bps
IT Svcs EBITDA margins %	14.6%	16.5%	16.6%	17.3%	19.5%	20.2%	15.2%	15.3%	12 bps	-198 bps
EBIT	**1,313**	**1,496**	**1,336**	**1,464**	**1,737**	**1,833**	**1,423**	**1,489**	**5%**	**2%**
EBIT margins %	4.6%	5.7%	4.5%	6.9%	5.6%	7.2%	4.3%	6.1%	175 bps	-82 bps
Other income (incl. forex)	204	98	227	297	95	355	45	199	338%	-33%
Interest expenses	(160)	(101)	(51)	(142)	(130)	(191)	(120)	(139)	16%	-2%
PBT	1,368	1,508	1,527	1,636	1,408	1,702	1,371	1,573	15%	-4%
PBT margins %	4.8%	5.8%	5.2%	7.7%	4.6%	6.7%	4.2%	6.4%	225 bps	-129 bps
Taxes	(318)	(432)	(434)	(434)	(364)	(397)	(290)	(409)	41%	-6%
ETR %	-23.2%	-28.7%	-28.4%	-26.5%	-25.9%	-23.3%	-21.1%	-26%	-487 bps	52 bps
Net income	**1,050**	**1,075**	**1,093**	**1,202**	**1,044**	**1,305**	**1,081**	**1,164**	**8%**	**-3%**
Net margins (IT Services) %	7.8%	8.9%	10.1%	10.7%	10.9%	10.8%	8.0%	8.7%	66 bps	-202 bps
EPS (Rs)	4	4	4	4	4	5	4	4	8%	-3%

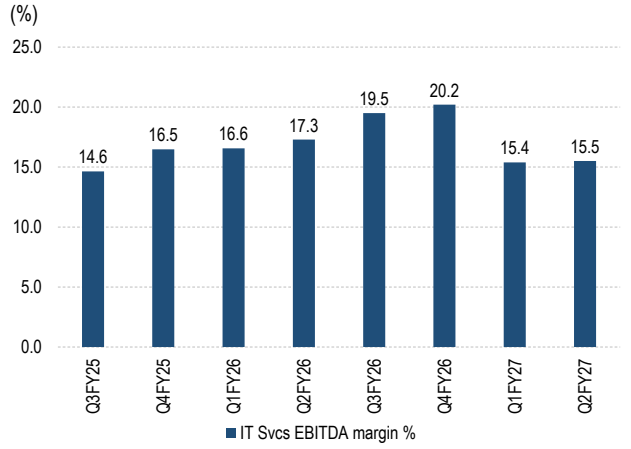
Source: Company

Fig 8 – IITS Quarterly CC Revenue Growth (y/y) (%)



Source: Company, Anand Rathi Research

Fig 9 – IITS EBITDA Margin (%)



Source: Company, Anand Rathi Research

Valuation

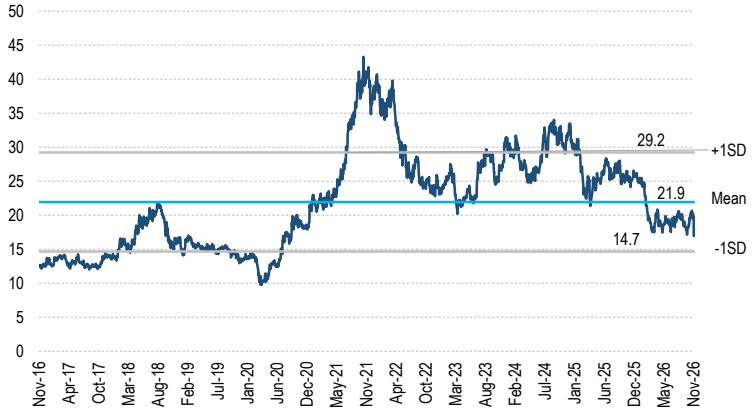
At CMP, the stock trades at FY28/29e P/E of 12.6x/11.6x. We have revised our FY27/28/29e $revenue & PAT estimates by +1.2/+1.2/+1.2% & +1.0/-1.5/-1.2%, with FY27-29e EPS CAGR at 11.2%. We retain a BUY rating, with a TP of Rs. 304, implying ~27% upside from CMP.

Fig 10 – Change in Estimates

	FY27e			FY28e			FY29e		
(Rs m)	New Estimate	Old Estimate	Change (%)	New Estimate	Old Estimate	Change (%)	New Estimate	Old Estimate	Change (%)
Revenue ($ m)	1,252	1,238	1.2	1,366	1,350	1.2	1,518	1,501	1.2
Revenues - IT ($ m)	335	335	0.1	354	353	0.1	369	369	0.2
Revenue	1,20,241	1,18,090	1.8	1,34,614	1,31,541	2.3	1,52,638	1,49,118	2.4
EBITDA	7,405	7,277	1.8	8,594	8,440	1.8	9,292	9,122	1.9
EBITDA margins (%)	6.2%	6.2%	0 bps	6.4%	6.4%	-3 bps	6.1%	6.1%	-3 bps
EBIT	6,203	6,140	1.0	7,370	7,303	0.9	8,069	7,985	1.0
EBIT margin (%)	5.2%	5.2%	-4 bps	5.5%	5.6%	-8 bps	5.3%	5.4%	-7 bps
PBT	6,177	6,051	2.1	7,120	7,129	(0.1)	7,748	7,741	0.1
Net profit	4,637	4,591	1.0	5,268	5,346	(1.5)	5,733	5,805	(1.2)

Source: Anand Rathi Research

Fig 11 – 1-Year Fwd. PE



Source: Bloomberg, Anand Rathi Research

Key Risks

- Further large-account ramp-downs, particularly in BFSI and TMT vertical
- Delayed AI-led deal conversion and continued solution investments.
- Prolonged enterprise decision cycles and weak large-client progression.
- Continued Data and Retail weakness.
- Slower monetisation of domestic hyperscaler partnerships.

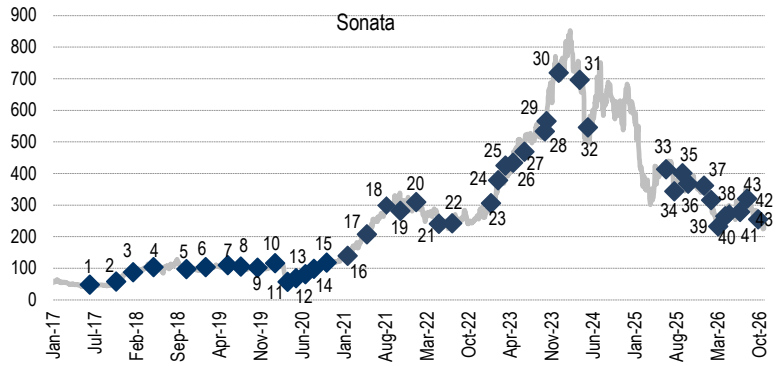
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 6 November 2026)



	Date	Rating	TP (Rs)	Share Price (Rs)
31	10-Apr-24	Hold	780	738
32	10-May-24	Hold	600	519
33	09-Jul-25	Hold	472	438
34	19-Aug-25	Hold	407	357
35	06-Oct-25	Hold	385	350
36	28-Nov-25	Hold	419	358
37	05-Jan-26	Hold	409	361
38	08-Feb-26	Hold	352	307
39	12-Mar-26	Hold	287	245
40	03-Apr-26	Hold	232	251
41	12-May-26	Buy	379	299
42	06-Jul-26	Buy	277	374
43	10-Aug-26	Buy	404	318
44	04-Oct-26	Buy	322	254

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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