

CMP: ₹314

Target: ₹ 350 (12%)

Target Period: 12 months

HOLD

February 9, 2026

Domestic business drives revenues; IITS remain muted

About the stock: Sonata Software (Sonata) provides IT services and product licensing services to its clients in BFSI, HLS (Healthcare & Lifesciences), R&M (Retail & Manufacturing) and TMT (Technology, Media and Telecom) segments.

Q3FY26 Performance: International IT services (IITS) revenue came at US\$ 82.3 mn, up 0.3% QoQ/ down 6.8% YoY in CC terms. IITS EBITDA margin at 19.5%, up ~220 bps QoQ. Consol revenue came at US\$345.8 mn, up 42% QoQ while in rupee terms it stood at ₹3,080.6 crores, up 45.4% QoQ and 8.4% YoY with EBITDA margin of 6.5%, down ~165 bps QoQ. Adjusted PAT stood at ₹127.5 crore, up 6.1% QoQ.

Investment Rationale

- Domestic strength offsets, but does not replace IITS weakness:** Revenue growth in Q3 was largely supported by seasonally strong Domestic Products & Services segment, while IITS, remained flat QoQ & declined YoY. Growth was concentrated in US (+6.2%QoQ) & Europe (+11.5% QoQ), with weakness in RoW (-46% QoQ), reflecting uneven demand conditions. This indicates that consolidated growth momentum is mix-led rather than demand-led, & a broad-based revival in IT services still remains pending. **Moreover, with management guiding for muted growth in IITS for 1-2 quarters due to client-specific ramp-downs in BFSI, TMT, & Retail (3 of Top 10 clients), we turn cautious & bake in IT services growth CAGR of 8% over FY26-28E in US\$ terms with recovery from H2FY27.**

- Margin expansion driven by AI-led productivity & offshoring:** IITS margins expanded meaningfully (+220 bps QoQ at 19.5%) on better utilization & delivery efficiencies, demonstrating execution strength. However, company-level EBITDA margin declined sequentially (-165 bps QoQ at 6.5%) due to higher contribution from low-margin domestic business & seasonal factors. While long-term IITS EBITDA margin aspirations of high teens & low 20s (18-21% range) remain intact, near-term expansion appears capped as utilization is already near peak. **At the consolidated level, we model EBITDA margin of 6.8%/7.1%/7.3% for FY26E/FY27E/FY28E.**
- Strong pipeline and AI traction, but growth recovery to be gradual:** Large deal momentum (40% pipeline is large deal led), rising AI-led order book share (14% of the order book) and rising exposure to regulated verticals provide structural positives. The pipeline mix, including Fortune 500 participation (37% of large deal pipeline), cloud/data opportunities (57% of pipeline) and 2 large multi-year BFSI deals, supports medium-term visibility. **With recovery expected to be gradual rather than sharp, earnings momentum is likely to build slowly.**

Rating and Target Price

- With revenue recovery expected to take 2-3 quarters, we cut our FY26/FY27 earnings estimates by 1.2%/7% and downgrade to HOLD with a target price of ₹350 vs ₹430 earlier; valuing it at a revised multiple of 16x P/E on FY28E EPS. We shall turn constructive once there is material recovery in revenue momentum and deal conversion.**

Key Financial Summary

(₹ Crore)	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Net Sales	7,449	8,613	10,157	22.1%	10,998	11,562	12,562	7.3%
EBITDA	604	727	690	0.7%	751	819	915	9.9%
EBITDA Margin (%)	8.1	8.4	6.8		6.8	7.1	7.3	
PAT	452	308	425		478	530	610	
Adjusted PAT	452	483	425	4.8%	509	530	610	12.8%
EPS (Rs.)	32.6	11.1	15.3		17.2	19.1	22.0	
P/E (x)	9	18	20		17	16	14	
RoNW (%)	34.7	21.9	24.9		23.7	22.4	22.1	
RoCE (%)	25.9	31.4	27.4		27.3	25.4	25.6	

Source: Company, ICICI Direct Research



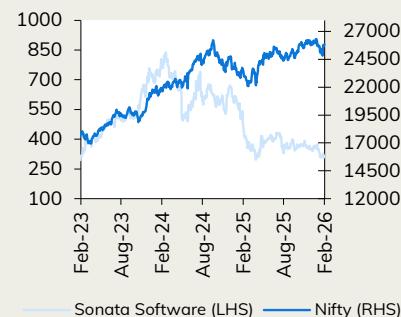
Particulars

Particulars	Amount
Market Cap (₹ Crore)	8,529
Total Debt (₹ Crore)	442
Cash and Invts (₹ Crore)	695
EV (₹ Crore)	8,276
52 week H/L	557 / 286
Equity capital (₹ Crore)	27.8
Face value	1.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoters	28.2	28.2	28.2	28.2
FII	10.8	9.7	8.8	8.8
DII	25.9	25.6	26.3	26.3
Other	35.2	36.6	36.7	36.7

Price Chart



Key risks

- Prolonged weakness in large BFSI TMT and Retail accounts;
- Faster than expected recovery in revenue, margins & pipeline conversion

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Performance highlights and outlook

- Revenue Performance:** International IT services (IITS) revenue in Q3 stood at US\$ 82.3 mn, up 0.3% QoQ/ down 6.8% YoY in CC terms. Domestic Products & Services reported revenue of US\$263.3 mn, up 65% QoQ while in rupee terms it came at ₹2,346 crore, up 68.6% QoQ and 11.1% YoY, with QoQ growth driven by the seasonality. At the company level for the quarter, the revenue stood at US\$345.8 mn, up 42% QoQ, while in rupee terms it stood at ₹3,080.6 crores, up 45.4% QoQ and 8.4% YoY.
- Geography performance:** Geography wise on a QoQ basis, the growth was led by US (60% of the mix) and Europe (16% of the mix) which grew by 6.2% and 11.5% while RoW (6% of the mix) declined by 46%.
- Margin performance:** IITS EBITDA margin at 19.5%, up ~220 bps QoQ and 486 bps YoY post absorbing 70 bps impact from wage hike. Domestic products & services margin came at 2.4%, down ~90 bps QoQ. At the company level EBITDA margin came at 6.5%, down ~165 bps QoQ and up 74 bps YoY.
- Segment performance:** Segment wise on a QoQ basis, Emerging (4% of the mix), Healthcare (16% of the mix), Retail (36% of the mix) and TMT (31% of the mix) grew by 34%, 14.7%, 9.5% and 0.4%. While, BFSI (13% of the mix) declined by 31%.
 - Ramp down in BFSI, TMT and Retail clients:** Largest BFSI client continued to see organizational changes & budget constraints which led to ramp downs in Q3. No more impact is expected from this client going ahead & management expects BFSI to pick-up growth Q4 onwards. On the other hand, large TMT client on non-engineering side continued to see budget pressures. The retail segment saw an unexpected ramp down in one large retail client which shall impact Q4 revenues as well. Management expects retail to remain under pressure for 1-2 quarters. Notably, the impact from these three clients was largely offset by growth in large TMT and healthcare deals and a large payment tech deal in BFSI.
 - Management noted that outside these three clients, the rest of the portfolio delivered healthy growth,
 - The company aims to gain market share significantly in the BFSI and Healthcare segments which together contribute ~31% of revenue.
- TCV, Deal Wins and pipeline:** It has 32 large deals in the pipeline i.e., 40% of active pipeline consists of large deals. Notably, AI wins accounted for US\$ 13.7 mn and AI order book rose from 10% to 14% QoQ with pipeline now consisting of US\$335 mn worth AI led opportunities. The company won 2 large deals including a Fintech & Payments deal for Platform and Data modernisation and a cloud modernisation deal from Mortgage services company in Q3.
- Headcount/Attrition and Utilization:** Total employees for the IITS business stood at 5,903 employees, a net decrease of 253 employees QoQ. Attrition for the quarter stood at 11%, down ~300 bps QoQ. Moreover, 92% of its workforce and 80% of its managers are now AI trained.
- Outlook:** Management expects current trajectory of IITS to continue & is guiding for a muted 1-2 quarter revenue growth; it expects positive YoY momentum only from Q2FY27 in domestic business post normalisation of high base in FY26. While on the margins front it expects to continue to achieve high teens & low 20s (18-21% range) EBITDA margins. In IITS, it continues to execute its 3-pillar strategy: a) driving growth in Microsoft SMC segment, b) expanding AI-led partnerships with other ISVs, & c) securing large SI deals.
- Dividend:** The company declared an interim dividend of ₹1.25 per share.

- Microsoft's changing GTM strategy:** Management highlighted that Microsoft has transitioned to a direct billing policy with one large account which impacted Q3 revenues, but management expects recovery within 2-3 quarters, driven by SMC expansion, system-integration-led deals, and new OEM partnerships.

Exhibit 1: Quarter Performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue	3,081	2,843	8.4	2,119	45.4	International IT services (IITS) revenue in Q3 stood at US\$ 82.3 mn, up 0.3% QoQ/ down 6.8% YoY in CC terms. Domestic Products & Services reported revenue of US\$263.3 mn, up 65% QoQ
Employee expenses	371	404	(8.2)	423	(12.1)	
Purchase of stock-in trade	2,401	2,032	18.1	1,378	74.1	
Gross Margin	309	406	(24.0)	318	(3.0)	
Gross margin (%)	10.0	14.3	-426 bps	15.0	-500 bps	
Other expenses	109	243	(55.2)	146	(25.4)	
EBITDA	200	164	22.4	173	15.9	
EBITDA Margin (%)	6.5	5.8	74 bps	8.1	-165 bps	IITS EBITDA margin at 19.5%, up ~220 bps QoQ and 486 bps YoY Domestic products & services margin came at 2.4%, down ~90 bps QoQ.
Depreciation & amortisation	27	32	(17.8)	26	1.1	
EBIT	174	131	32.3	146	18.6	
EBIT Margin (%)	5.6	4.6	102 bps	6.9	-127 bps	
Other income (less interest)	(2)	5.52	(128.8)	17	(109.3)	
PBT	172	137	25.8	164	5.2	
Tax paid	36	32	14.5	43	(16.1)	
PAT	104.4	105	(0.6)	120	(13.2)	Adjusted PAT stood at ₹127.5 crore, up 6.1% QoQ/21.4% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	337	329	-2.3	374	348	-7.1	384
Revenue	10,971	10,998	0.2	11,886	11,562	-2.7	12,562
EBITDA	731	751	2.8	865	819	-5.3	915
EBITDA Margin (%)	6.7	6.8	17 bps	7.3	7.1	-19 bps	7.3
PAT	484	478	-1.2	570	530	-7.0	610
Diluted EPS (₹)	17.4	17.2	-1.2	20.5	19.1	-7.0	22.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E
Total Revenues	10,157	10,998	11,562	12,562
Growth (%)	17.9	8.3	5.1	8.7
Total Op Expenditure	9,468	10,247	10,743	11,648
EBITDA	690	751	819	915
Growth (%)	(5.2)	8.9	9.1	11.7
Depr & Amortization	121	107	119	126
Other Income	71	78	58	77
Interest costs	65	45	50	50
PBT before Excep Items	574	677	708	816
Growth (%)	(9.8)	18.0	4.6	15.2
Tax	149	168	178	206
PAT before Excep Items	425	509	530	610
Exceptional items	-	(31)	-	-
PAT before MI	425	478	530	610
Minority Int & Pft. from associates	-	-	-	-
PAT	425	478	530	610
Growth (%)	38	13	11	15
EPS	15.3	17.2	19.1	22.0
EPS (Growth %)	38	13	11	15

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E	
Net profit before Tax	574	646	708	816	
Depreciation & Amortization	121	107	119	126	
WC changes	103	7	4	8	
Other non cash adju.	10	(33)	(8)	(27)	
Income taxes paid	(164)	(168)	(178)	(206)	
CF from Operations	644	558	645	717	
Capital expenditure	(68)	(38)	(40)	(44)	
Δ in investments	(389)	-	-	-	
Other investing cash flow	21	78	58	77	
CF from Investing Activities	(436)	39	18	33	
Issue of equity	0	-	-	-	
Δ in debt funds/lease liabilities	(276)	(24)	(24)	(24)	
Dividends paid	(119)	(167)	(185)	(214)	
Other financing cash flow	(38)	(45)	(50)	(50)	
CF from Financial Activities	(433)	(236)	(260)	(288)	
Δ in cash & cash bank balance	(225)	362	403	462	
Effect of exchange rate changes	(1)	-	-	-	
Opening cash	536	449	811	1,215	
Closing cash	449	811	1,215	1,677	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E
Equity	28	28	28	28
Reserves & Surplus	1,678	1,989	2,333	2,730
Networth	1,706	2,017	2,361	2,758
Minority Interest	-	-	-	-
LT liabilities & provisions	187	187	187	187
Total Debt	442	442	442	442
Source of funds	2,334	2,645	2,989	3,386
Assets				
Net fixed assets	490	445	390	333
Goodwill	1,140	1,140	1,140	1,140
Long term loans	-	-	-	-
Other non current assets	394	419	436	466
Loans and advances	-	-	-	-
Inventories	47	51	54	58
Current Investments	245	245	245	245
Debtors	1,741	1,885	1,982	2,153
Cash & Cash equivalents	449	811	1,215	1,677
Other current assets	249	270	283	308
Current liabilities	2,378	2,575	2,707	2,941
Provisions	43	46	49	53
Net current assets	311	641	1,023	1,447
Application of funds	2,334	2,645	2,989	3,386

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
EPS-diluted	15.3	17.2	19.1	22.0
Cash per share	16.2	29.2	43.7	60.3
BV	61.4	72.5	84.9	99.2
DPS	6.7	6.0	6.7	7.7
Operating Ratios (%)				
EBITDA Margin	6.8	6.8	7.1	7.3
Adjusted PBT Margin	5.6	6.2	6.1	6.5
Adjusted PAT Margin	4.2	4.3	4.6	4.9
Return Ratios (%)				
RoNW	24.9	23.7	22.4	22.1
RoCE	27.4	27.3	25.4	25.6
RoIC	34.6	40.5	45.8	53.9
Valuation Ratios (x)				
P/E	20.1	16.8	16.1	14.0
EV / EBITDA	12.0	10.5	9.2	7.7
Price to Book Value	5.0	4.2	3.6	3.1
EV/Total Revenues	0.8	0.7	0.6	0.6
MCap/Total Revenues	0.8	0.8	0.7	0.7
Turnover Ratios				
Debtor days	63	63	63	63
Creditors days	56	56	56	56
Solvency Ratios				
Debt/EBITDA	0.6	0.6	0.5	0.5
Total Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	1.1	1.2	1.4	1.5
Quick Ratio	1.1	1.2	1.4	1.5
Debt / EBITDA	0.6	0.6	0.5	0.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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