



Momentum Building with Strong Deal Wins....

The international business is back on a growth trajectory along with margin improvements. This quarter, Sonata closed 3 large deals and added 14 customers. Tailwinds are coming from large deals, top clients, and the healthcare vertical. However, headwinds include delayed deal closures, a slowdown in retail and manufacturing, and a margin-dilutive new large healthcare deal for a couple of quarters. Management expects H2FY25 to be stronger, with margins reaching the low 20s again by the end of the year for the international business.

- International \$ revenue: \$82.7 Mn, +1.2% QoQ / +7% YoY and inline with our estimates
- International INR revenue at 6,878 Mn, +1.3% QoQ / +8.5% YoY and inline with our estimates
- Domestic INR revenue at 18,494 Mn, +22.1% QoQ / +32.9% YoY and +19% above with our estimates
- Consolidated INR revenue at 25,274 Mn, +15.3% QoQ / +25.4% YoY.
- EBITDA (before FX & OI): INR 1,762 Mn, +22.2% QoQ / -1.2% YoY and +1% vs our estimates
- EBITDA margins: 7.0%, vs 6.6% / 8.8% in Q4FY24 / Q1FY24 respectively
- International EBITDA margins: 18.7%, vs 17.3% / 21.1% in Q4FY24 / Q1FY24 respectively
- Domestic EBITDA margins: 2.6%, vs 1.8% / 3.2% in Q4FY24 / Q1FY24 respectively
- PAT: INR 1,056 Mn, -4.3% QoQ / -12.1% YoY and -4% vs our estimates
- EPS at INR 3.81 in Q1FY25 vs 3.98 / 4.33 in Q4FY24 / Q1FY24 respectively and versus our estimate of INR 4.0
- Book to Bill for international business stood at 1.24x in Q1FY25 vs 1.22x in Q4FY24.

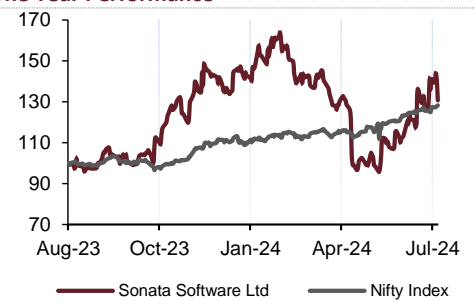
Rating	TP (Rs)	Up/Dn (%)
BUY	920	39

Market data

Current price	Rs	664
Market Cap (Rs.Bn)	(Rs Bn)	186
Market Cap (US\$ Mn)	(US\$ Mn)	2,224
Face Value	Rs	1
52 Weeks High/Low	Rs	870 / 469.05
Average Daily Volume	('000)	1,188
BSE Code		532221
Bloomberg		SSOF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	28	28
Public	71	71
Others	1	1
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	55,534	74,491	86,131	97,030	112,289	131,868
Margins	8.4	8.1	8.4	8.1	8.8	9.3
PAT (adj)	3,764	4,516	3,085	5,354	7,070	9,211
Growth (%)	54.3	20.0	7.0	10.8	32.0	30.3
EPS	72.46	65.11	17.41	19.09	25.21	32.85
P/E (x)	9	10	38	35	26	20
P/B (x)	3	4	13	11	10	8
EV/EBITDA (x)	28	30	25	23	18	14
RoE (%)	34	35	34	33	37	41
ROCE (%)	46	34	35	36	42	48

Source: Dalal & Broacha Research, Company

Neel Nadkarni

+91 22 67141412

neel.nadkarni@dalal-broacha.com

Concall Highlights

- The company reported strong M&A performance, successfully integrating Quant Systems into their core business.
- In Q1FY25, Sonata closed three significant deals:
 - a. Sonata signed a large 7-year deal in healthcare, one of the largest deals in recent times, where Sonata will modernize their technology stack using hyper-automation and AI, transitioning to a managed services model. Initially, it includes the rebadging of on-site employees, with plans to increase offshoring over the next few quarters. This deal will see more on-site employees and increased AI investments which should be margin dilutive for the next couple of quarters. Overall, it is above the company's average margins and partners with a key premier provider in the US market, which opens up new opportunities in the US provider market.
 - b. A deal in the manufacturing and services sector in Australia to modernize legacy systems.
 - c. A BFSI project for a top US financial corporation to migrate on-premise applications to a SaaS platform via cloud. The manufacturing and BFSI deals are expected to be margin accretive in both the short and long term.
- Sonata secured new AI-related wins worth \$1 Mn in Q1FY25 taking the \$64 Mn spread across 110+ customers, anticipating that 20% of revenues will come from AI over the next three years. Sonata's expertise in Microsoft Fabric contributed to nine deals in Q1FY25, supported by a team of 450+ Microsoft certified Azure data professionals. The Microsoft Fabric pipeline stands at \$46 Mn spread across 80+ customers. While the cloud and data pipeline has increased to 52% of the total pipeline, up from 15% two years ago.
- The management expects growth momentum to pick up from Q3 onwards, with H2 anticipated to be stronger, supported by positive trends in the Hi-Tech vertical and the Healthcare vertical. Additionally, green shoots are observed in the BFSI sector, particularly in retail banking. However, the Retail vertical is expected to remain soft over the next 2 to 3 quarters.
- The Large deal pipeline remains strong, Sonata continues to focus on winning large deals, with 47% of its active pipeline coming from such opportunities, and 49+ large deals under pursuit (22 in RMD, 12 in HLS, 11 in TMT and 4 in BFSI).
- Headcount increased by 203, including a campus addition of 150 offshore employees. The quarter's utilization rate decreased to 87% from 87.4% in Q4FY24 due to campus additions.
- The DSO stood at 45 days (vs. 45 days in Q4FY24) for international business and 35 days (vs. 36 days in Q4FY24) for the domestic business.
- The customer count increased by 14. \$1mn-\$3mn (41 customers up by 1), \$3mn-\$5mn (9 customers up by 4) & 5mn+ buckets (12 customers up by 1). Sonata aims to leverage its partnership ecosystem to attract new clients capable of scaling to \$10 million, \$25 million, and \$50 million.

Outlook:

- Management is on track to achieve \$1.5 Bn in the next 8-10 quarters, with margins to be in the low 20s.

Quarterly Deviation Sheet

(Rs.Mn)	Q1FY25	Q4FY24	QoQ Growth (%)	Q1FY24	YoY Growth (%)	Q1FY25E	Deviation
International Revenue (\$ Mn)	83	82	1.2%	77	7.0%	83	0%
International Revenue (Rs Mn)	6,878	6,790	1.3%	6,338	8.5%	6,888	0%
Domestic Revenue (Rs Mn)	18,494	15,145	22.1%	13,917	32.9%	15,517	19%
Consolidated Revenue (Rs Mn)	25,274	21,916	15.3%	20,155	25.4%	22,405	13%
Other Income	189	547	-65.5%	281	-32.9%	224	
COGS	17,873	14,869	20.2%	13,607	31.3%	15,236	
Employee Benefits Expense	3,692	3,312	11.5%	3,261	13.2%	3,403	
Other Expenses	1,948	2,294	-15.1%	1,504	29.5%	2,016	
Total Expenses	23,513	20,475	14.8%	18,373	28.0%	20,655	
EBITDA (Excluding Other Income)	1,762	1,441	22.2%	1,783	-1.2%	1,751	1%
Depreciation and Amortisation	333	337	-1.2%	312	6.6%	330	
EBIT / PBIT	1,618	1,652	-2.1%	1,752	-7.7%	1,645	
Finance Costs	200	216	-7.2%	208	-3.9%	200	
EBT/ PBT (Before Exceptional)	1,417	1,436	-1.3%	1,544	-8.2%	1,445	-2%
Exceptional Items	-	-		-		-	
Tax Expense	361	332	8.7%	343	5.4%	347	
Net Profit after Tax	1,056	1,104	-4.3%	1,201	-12.1%	1,098	-4%
Adj. PAT	1,056	1,104	-4.3%	1,201	-12.1%	1,098	
Earning Per Share	3.81	3.98	-4.3%	4.33	-12.1%	4.0	
Adj Earning Per Share	3.81	3.98	-4.3%	4.33	-12.1%	4.0	-4%
No of Shares Diluted (mn)	277.6	277.5		277.5		277.6	
Margins Analysis (%)			bps		bps		
Gross Margins	29.3%	32.2%	-287	32.5%	-320	32.0%	-271
EBITDA Margins (Excl OI)	7.0%	6.6%	39	8.8%	-187	7.8%	-84
EBIT Margins	6.4%	7.5%	-114	8.7%	-229	7.3%	-94
Adj PAT Margins	4.1%	4.9%	-76	5.9%	-173	4.9%	-70
Effective Tax Rate %	25.5%	23.1%	234	22.2%	329	24.0%	148
Cost Analysis (%)			bps		bps		
COGS as a % to sales	70.7%	67.8%	287	67.5%	320	68.0%	271
EE Cost as a % to sales	14.6%	15.1%	-50	16.2%	-157	15.2%	-58
Other exps as a % to sales	7.7%	10.5%	-276	7.5%	24	9.0%	-129

Source: Dalal & Broacha Research, Company

Valuation & Outlook

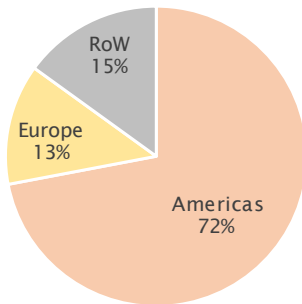
Sonata Software is well-positioned to capitalize on opportunities in the growing digital transformation landscape domestically and the high-margin, cutting-edge technology space internationally. The international business is back on a growth trajectory with positive momentum seen from three large deal wins in Q1FY25. Management remains on track to achieve their guidance of \$1.5 billion in the next 8-10 quarters, with margins expected to be in the low 20s.

The Gen AI pipeline remains strong at \$64 million, spread across 110+ customers, and management anticipates that 20% of revenues will come from AI over the next three years. Additionally, Microsoft Fabric contributed to nine deals in Q1FY25, supported by a team of 450+ Microsoft certified Azure data professionals, with a pipeline of \$46 million spread across 80+ customers.

Margins should gradually improve from current levels and reach the low 20s by the end of this year, with positive momentum from large deal closures, which make up 47% of the current pipeline, with 49+ large deals under pursuit. The cloud and data verticals are key contributors, making up over 50% of the current pipeline.

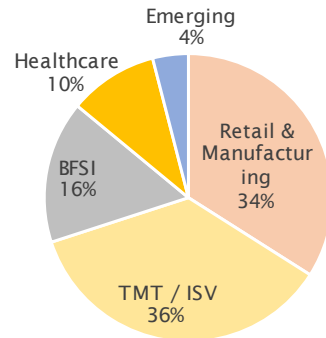
Sonata Software is currently trading at 34.8x / 26.3x / 20.2x FY25e/FY26e/FY27e EPS respectively. Considering these factors, we recommend a BUY rating with a target multiple of 28x FY27e EPS, arriving at a target price of INR 920.

Exhibit 1: Geography wise (International)



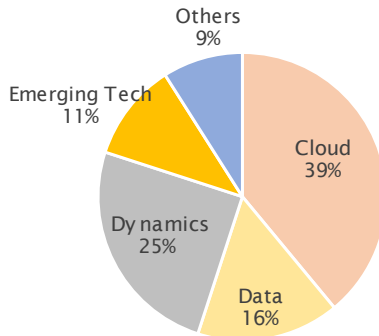
Source: Company, Dalal & Broacha Research

Exhibit 2: Vertical wise (International)



Source: Company, Dalal & Broacha Research

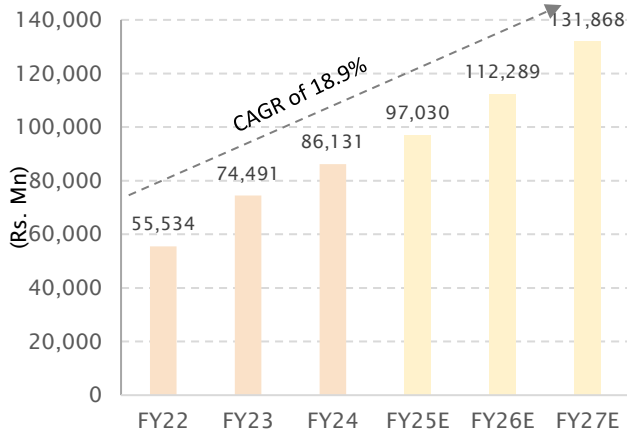
Exhibit 3: Go To Market Strategy (GTM) Segmentation (International)



Source: Company, Dalal & Broacha Research

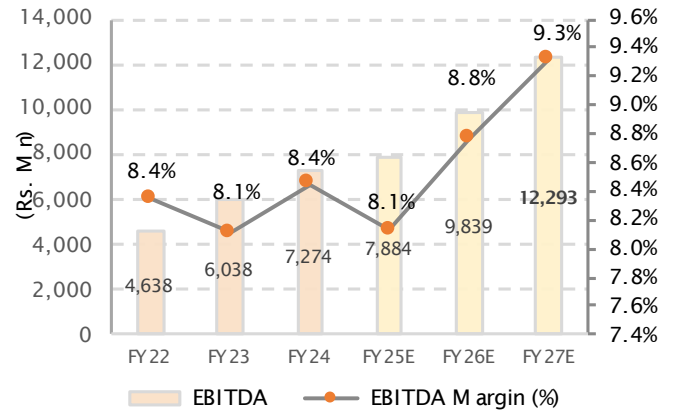
Financials

Exhibit 4: Sales Trajectory



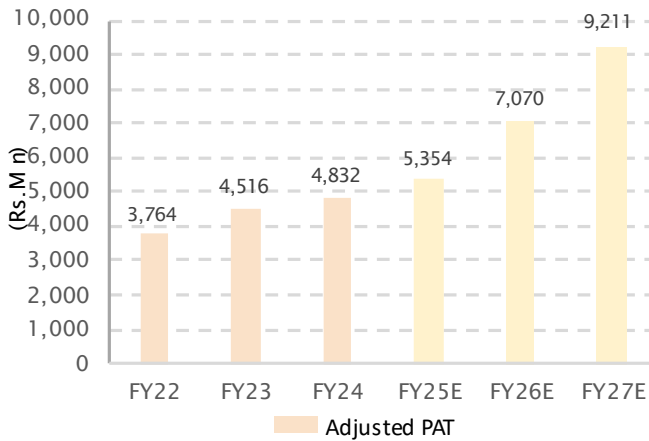
Source: Company, Dalal & Broacha Research

Exhibit 5: EBITDA Trajectory



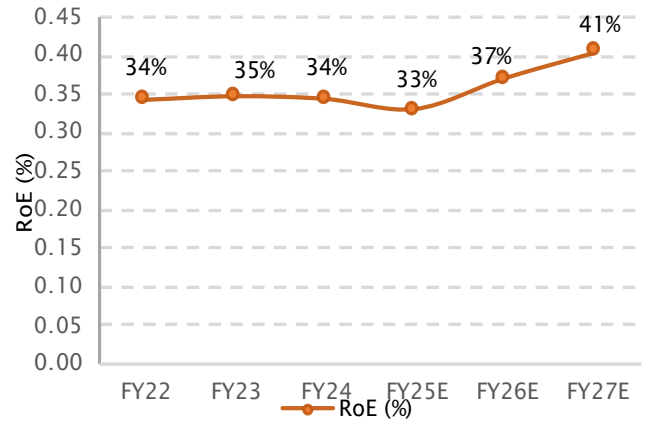
Source: Company, Dalal & Broacha Research

Exhibit 6: Adj PAT Trajectory



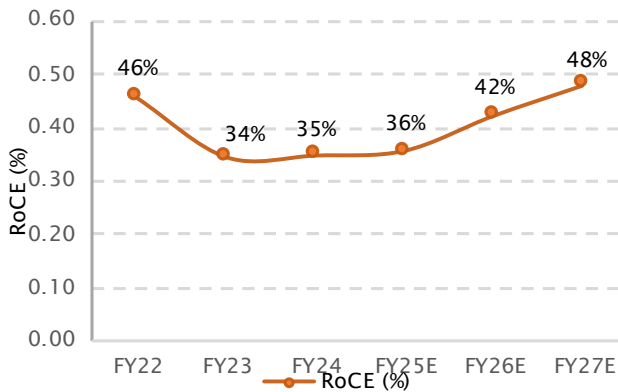
Source: Company, Dalal & Broacha Research

Exhibit 7: ROE % Trajectory



Source: Company, Dalal & Broacha Research

Exhibit 8: ROCE % Trajectory



Source: Company, Dalal & Broacha Research

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	55,534	74,491	86,131	97,030	112,289	131,868
Operating Expenses	-40,231	-54,557	-58,197	-66,174	-75,944	-88,351
Employee Expense	-7,370	-9,331	-13,346	-15,426	-17,523	-21,365
Other Expenses	-3,295	-4,565	-7,314	-7,546	-8,983	-9,858
Operating Profit	4,638	6,038	7,274	7,884	9,839	12,293
Depreciation	-473	-591	-1,319	-1,052	-937	-1,031
PBIT	4,164	5,447	5,955	6,832	8,901	11,262
Other income	1,020	708	1,255	906	898	1,255
Interest	-181	-185	-850	-665	-497	-398
PBT	5,004	5,969	6,360	7,073	9,302	12,120
PBT (post exceptional)	5,004	5,970	4,614	7,073	9,302	12,120
Provision for tax	-1,239	-1,454	-1,529	-1,718	-2,233	-2,909
Reported PAT	3,764	4,516	3,085	5,354	7,070	9,211
Adj. PAT (excl Exceptionals)	3,764	4,516	4,832	5,354	7,070	9,211

Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	104	139	278	280	280	280
Reserves	10,888	12,868	13,785	15,936	18,764	22,448
Net worth	10,992	13,007	14,063	16,217	19,044	22,729
Non Current Liabilites	1,660	8,929	6,496	5,860	5,038	4,281
Current Liabilites	12,940	21,633	30,933	29,223	32,052	36,376
TOTAL LIABILITIES	25,593	43,569	51,491	51,300	56,135	63,386
Non Current Assets	6,149	19,418	20,736	20,791	21,268	21,844
Fixed Assets	1,006	5,519	4,766	4,737	5,103	5,527
Goodwill	2,207	10,984	11,135	11,135	11,135	11,135
Right of Use Assets	1,056	828	810	675	553	445
Financial Assets	518	559	512	574	641	728
Deferred Tax Asset	261	-	884	911	938	966
Other Assets	1,101	1,528	2,629	2,760	2,898	3,043
Current Assets	19,443	24,151	30,756	30,509	34,866	41,542
Current investments	1,448	2,058	2,321	2,553	2,808	3,089
Inventories	29	288	980	822	944	1,098
Trade Receivables	9,220	12,362	16,051	18,343	21,227	24,928
Cash & Bank Balances	7,337	4,174	5,360	5,729	6,406	8,413
Other bank balances	359	3,129	3,290	-	-	-
Loans and Advances	-	253	-	-	-	-
Other Financial Assets	532	141	546	573	602	632
Other Current Assets	518	1,746	2,209	2,488	2,879	3,381
TOTAL ASSETS	25,593	43,569	51,491	51,300	56,135	63,386

Source : Dalal & Broacha Research, Company

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,004	5,970	4,614	7,073	9,302	12,120
Depreciation	473	591	1,319	1,052	937	1,031
Net Chg in WC	175	2,089	3,547	-3,683	-152	-164
Taxes	-1,559	-1,754	-2,623	-1,718	-2,233	-2,909
Others	409	-4,212	-4,051	1,446	1,646	1,910
CFO	4,502	2,684	2,805	4,169	9,501	11,989
Capex	-1,032	-13,062	407	-134	-533	-607
Net Investments made	-847	-651	-216	-13	-	-
Others	1,046	5,159	-734	-	-	-
CFI	-833	-8,553	-543	-147	-533	-607
Change in Share capital	-	35	139	-	-	-
Change in Debts	-517	4,556	1,807	-1,335	-1,522	-938
Others	723	-538	-839	894	-2,528	-2,910
Cash Opening Balance	6,407	7,337	4,174	5,360	5,729	6,406
Cash Closing Balance	7,369	3,335	5,351	5,729	6,406	8,413

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	8.4	8.1	8.4	8.1	8.8	9.3
NPM	6.7	6.0	5.5	5.5	6.2	6.9
Tax rate	-24.8	-24.4	-33.1	-24.3	-24.0	-24.0
Net Sales	31.3	34.1	15.6	12.7	15.7	17.4
Operating Profit	22.2	30.2	20.5	8.4	24.8	24.9
PBIT	22.6	30.8	9.3	14.7	30.3	26.5
PAT	54.3	20.0	7.0	10.8	32.0	30.3
Per Share (Rs.)						
Net Earnings (EPS)	72.46	65.11	17.41	19.09	25.21	32.85
Cash Earnings (CPS)	81.57	73.64	15.87	22.85	28.55	36.52
Dividend	21.00	15.75	7.90	11.46	15.13	19.71
Book Value	211.59	187.55	50.68	57.83	67.91	81.05
Valuation Ratios						
P/E(x)	9	10	38.1	34.8	26.3	20.2
P/B(x)	3	4	13	11	10	8
EV/EBIDTA(x)	28	30	25	23	18	14
Div. Yield(%)	3.16	2.37	1.19	1.73	2.28	2.97
FCF Yield(%)	8.19	-13.82	5.32	1.29	3.77	4.74
Return Ratios (%)						
ROE	34%	35%	34%	33%	37%	41%
ROCE	46%	34%	35%	36%	42%	48%
RoIC	175%	54%	56%	43%	53%	65%

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations 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 including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, 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 or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | : equity.research@dalal-broacha.com