



Sonata Software reported a mixed Q3 FY25 performance with international services revenue growing 2.8% QoQ in dollar terms, while the domestic business grew 16.7% QoQ. Margins were impacted by one-time costs from ramp-downs and wage hikes, leading to a 360 bps decline. Despite challenges from a high-tech client ramp-down and seasonal weakness, the company remains optimistic about long-term growth, driven by large deal wins, success in healthcare and BFSI sectors, and an expanding AI pipeline. Q4 is expected to see a 2.5-3.5% revenue decline, with margin recovery anticipated.

International \$ revenue: \$87 Mn, +2.8% QoQ / +3.9% YoY and inline with our estimates.

International INR revenue at 7,317 Mn, +3.4% QoQ / +5% YoY inline with our estimates.

Domestic INR revenue at 21,111 Mn, +44.4% QoQ / +17.3% YoY and +5% above with our estimates

Consolidated INR revenue at 28,428 Mn, +31% QoQ / +14% YoY.

EBITDA (before FX & OI): INR 1,636 Mn, -7.7% QoQ / -21.3% YoY and 16% below our estimates

EBITDA margins: 5.8%, vs 8.2% / 8.3% in Q2FY25 / Q3FY24 respectively

International EBITDA margins: 14.6%, vs 18.2% / 22.6% in Q2FY25 / Q3FY24 respectively

Domestic EBITDA margins: 2.7%, vs 3.3% / 2.8% in Q2FY25 / Q3FY24 respectively

PAT: INR 1,050 Mn, -1.4% QoQ / -18.3% YoY and 12% below our estimates

EPS at INR 3.78 in Q3FY25 vs 3.84 / 4.63 in Q2FY25 / Q3FY24 respectively and versus our estimate of INR 4.3

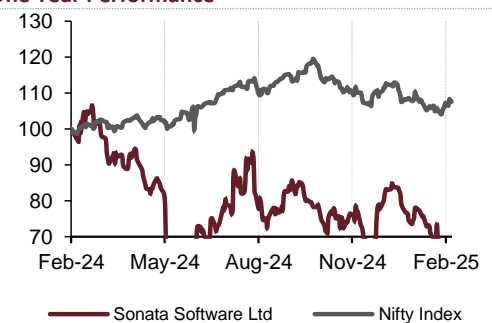
Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	616	12

Market data

Current price	Rs	552
Market Cap (Rs.Bn)	(Rs Bn)	155
Market Cap (US\$ Mn)	(US\$ Mn)	1,769
Face Value	Rs	1
52 Weeks High/Low	Rs	870 / 469.05
Average Daily Volume	('000)	280
BSE Code		532221
Bloomberg		SSOF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-24	Sep-24
Promoters	28.17	28.17
Public	70.83	70.83
Total	100.00	100.00

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	55,534	74,491	86,131	99,341	110,125	126,356
Margins	8.4	8.1	8.4	7.0	7.7	8.3
PAT (adj)	3,764	4,516	3,085	4,246	5,996	7,759
Growth (%)	54.3	20.0	7.0	-12.1	41.2	29.4
EPS	13.44	16.13	17.26	15.14	21.38	27.67
P/E (x)	41	34	32	36	26	20
P/B (x)	14	12	11	10	9	7
EV/EBITDA (x)	31	25	21	22	18	14
RoE (%)	34	35	34	27	33	36
ROCE (%)	46	34	35	30	38	43

Source: Dalal & Broacha Research, Company

Neel Nadkarni
+91 22 67141412
neel.nadkarni@dalal-broacha.com

Concall Highlights

Key Discussion Points:

- High-tech clients reallocating AI budgets toward hardware, impacting software spending.
- Ramp-down in their largest HiTech impact is significant due to client size.
- Margins affected by one-time employee settlements and salary increases.
- Growth expected to resume in a couple of quarters.

Strategy and Goals:

- Sonata aims to be a fast-growing modernization engineering company using a platformation framework and AI.
- Key strategies include winning large/mid-sized deals, deepening partnerships with Microsoft and AWS, and scaling modernization engineering with AI.
- Focused on healthcare, life sciences, BFSI, retail, manufacturing, telecom, and high-tech across North America, UK, Europe, India, and Australia.

Large Deals & AI:

- 44% of the large deal pipeline is from Fortune 500 clients.
- Key Q3 FY25 wins include:
 - > Deal with a Finland-based mining and construction tech leader.
 - > Engagement with a tech solutions provider for transportation, invoice, and data management.
- \$58 million AI pipeline across 100+ clients; Sonata aims for 20% AI-enabled revenue in 3 years. 87% of employees trained in generative AI.

Investments & Capabilities:

- Healthcare, life sciences, and BFSI now contribute 35-40% of revenue, up from 13.5% eleven quarters ago.
- Cloud and data make up 44% of the pipeline, with data modernization revenue rising from 13% to 26%.
- Featured launch partner for Microsoft Fabric.

Talent:

- Active headcount crossed 7,000.
- Mid and senior management received compensation increases in Q3.
- Attrition at 14%

Q3 FY25 Performance:

- International services revenue grew 4.4% QoQ in constant currency (2.8% in dollar terms).
- Book-to-bill ratio of 1.23 for international business.
- Domestic business grew 16.7% QoQ.

Challenges:

- Unplanned ramp-downs and one-time discounts negatively impacted the TMT vertical.
- 360 bps margin impact due to ramp-downs and discounts, which included the 75 bps impact from wage hikes.
- Q4 expected to witness 2.5-3.5% revenue degrowth.

Operational Metrics:

- Utilization remained steady at 87%.
- 11 new customers added in Q3.

Guidance:

- Q4 revenue expected to decline by 2.5-3.5% due to ramp-downs and seasonality.
- Margin expected to recover as one-time expenses subside.

Quarterly Deviation Sheet

(Rs.Mn)	Q3FY25	Q2FY25	QoQ Growth (%)	Q3FY24	YoY Growth (%)	Q3FY25E	Deviation
International Revenue (\$ Mn)	87.0	84.6	2.8%	83.7	3.9%	87	0%
International Revenue (Rs Mn)	7,317	7,079	3.4%	6,968	5.0%	7,335	0%
Domestic Revenue (Rs Mn)	21,111	14,619	44.4%	18,003	17.3%	20,089	5%
Consolidated Revenue (Rs Mn)	28,428	21,698	31.0%	24,934	14.0%	27,424	4%
Other Income	215	192	12.0%	195	10.1%	137	
COGS	20,323	13,990	45.3%	17,621	15.3%	18,648	
Employee Benefits Expense	4,043	4,048	-0.1%	3,374	19.8%	4,353	
Other Expenses	2,426	1,888	28.5%	1,861	30.3%	2,468	
Total Expenses	26,792	19,926	34.5%	22,856	17.2%	25,469	
Domestic Gross Contribution	819	702	16.7%	713	14.9%		
International EBITDA (Excl. OI)	1,071	1,289	-16.9%	1,575	-32.0%		
Domestic EBITDA (Excl. OI)	564	484	16.5%	503	12.1%		
EBITDA (Excluding Other Income)	1,636	1,773	-7.7%	2,077	-21.3%	1,955	-16%
Depreciation and Amortisation	323	329	-2.0%	337	-4.3%	308	
EBIT / PBIT	1,528	1,635	-6.6%	1,935	-21.0%	1,784	
Finance Costs	160	192	-16.7%	219	-27.2%	164	
EBT/ PBT (Before Exceptional)	1,368	1,443	-5.2%	1,716	-20.2%	1,619	-16%
Exceptional Items	-	-		(1,747)		-	
Tax Expense	318	379	-16.0%	431	-26.1%	425	
Net Profit after Tax	1,050	1,065	-1.4%	(462)	NA	1,195	-12%
Adj. PAT	1,050	1,065	-1.4%	1,285	-18.3%	1,195	
Earning Per Share	3.78	3.84	-1.4%	(1.66)	NA	4.3	
Adj Earning Per Share	3.78	3.84	-1.4%	4.63	-18.3%	4.3	-12%
No of Shares Diluted (mn)	277.6	277.6		277.5		277.6	
Margins Analysis (%)			bps		bps		
Gross Margins	28.5%	35.5%	-701	29.3%	-82	32.0%	-349
International EBITDA Margins (Excl OI)	14.6%	18.2%	-357	22.6%	-796		
Domestic EBITDA Margins (Excl OI)	2.7%	3.3%	-64	2.8%	-12		
EBITDA Margins (Excl OI)	5.8%	8.2%	-241	8.3%	-258	7.1%	-137
EBIT Margins	5.4%	7.5%	-216	7.8%	-239	6.5%	-113
Adj PAT Margins	3.7%	4.9%	-120	5.1%	-145	4.3%	-67
Effective Tax Rate %	23.2%	26.2%	-297	25.1%	-185	26.2%	-297
Cost Analysis (%)			bps		bps		
COGS as a % to sales	71.5%	64.5%	701	70.7%	82	68.0%	349
EE Cost as a % to sales	14.2%	18.7%	-443	13.5%	69	15.9%	-165
Other exps as a % to sales	8.5%	8.7%	-17	7.5%	107	9.0%	-47

Source: Dalal & Broacha Research, Company

Valuation & Outlook

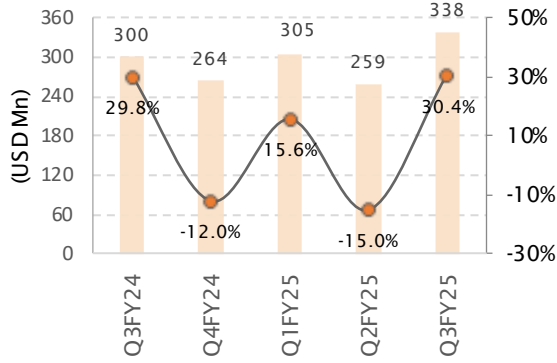
Sonata Software is currently trading at 36.5x / 25.8x / 20x FY25e / FY26e / FY27e EPS respectively.

Sonata Software anticipates both tailwinds and headwinds in the coming quarters. They expect a revenue degrowth of 2.5% to 3.5% in Q4 due to ramp-downs from a high-tech client and seasonal weakness. However, growth is likely to be driven by large deals and continued success in the healthcare, life sciences, and banking sectors. While a one-time impact negatively affected Q3 margins, these costs are non-recurring, and margins are expected to recover in Q4. The company remains optimistic about its long-term growth prospects and is committed to scaling its operations.

We believe that until there is clarity on the return of spending from their largest HiTech client, the stock is likely to remain under pressure. Considering these factors, we recommend a Neutral rating and using a SOTP valuation method. **We have downgraded our estimates and assign a target multiple of 27x FY27e P/E for the international business and 12x FY27e P/E for the domestic business, arriving at a target price of INR 616.**

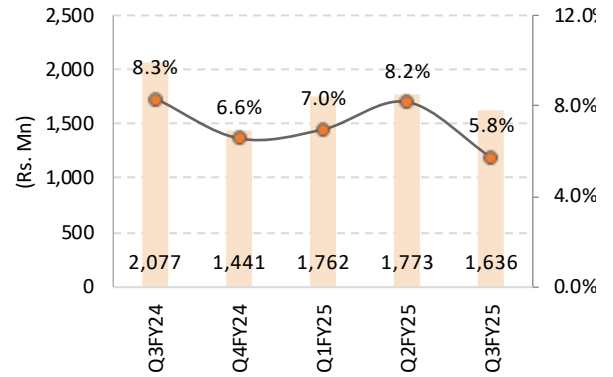
Vertical	Multiple	TP
International	27x	508
Domestic	12x	108
	Target Price	616

Consol Sales Trajectory (USD Mn)



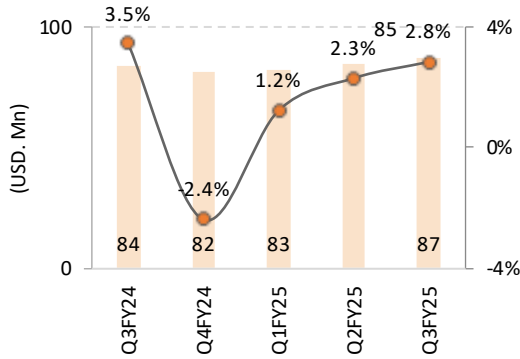
Net Sales (USD Mn) Growth QoQ %

Consol EBITDA Trajectory (Rs Mn)



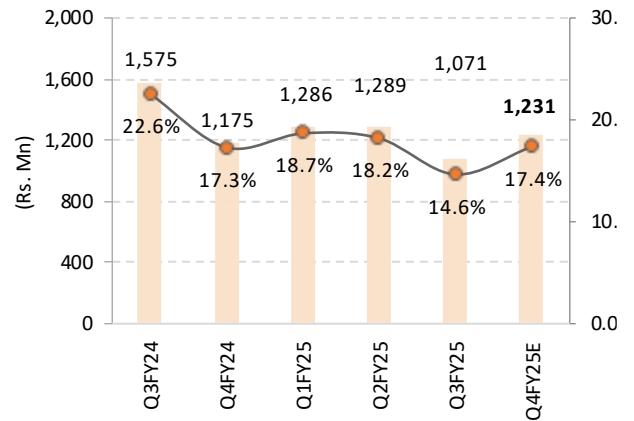
EBITDA EBITDA Margin (%)

International Sales Trajectory (USD Mn)



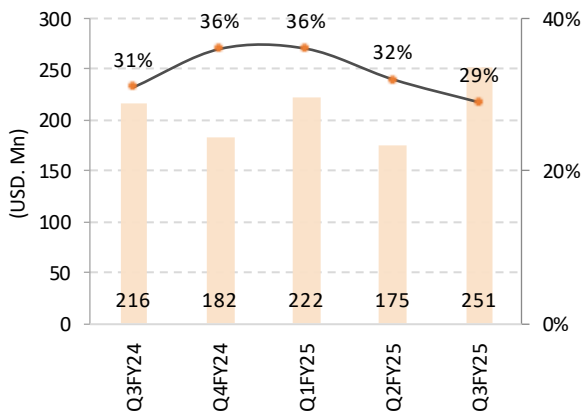
International Sales (USD Mn) Growth QoQ %

International EBITDA Trajectory (Rs Mn)



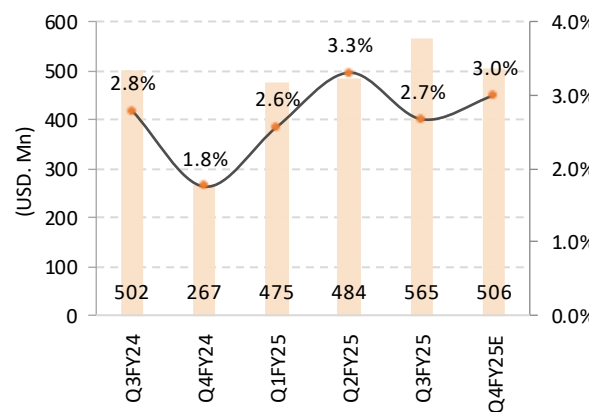
International EBITDA EBITDA Margin (%)

Domestic Sales Trajectory (USD Mn)



Domestic Sales (USD Mn) Growth QoQ %

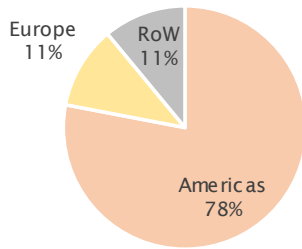
Domestic EBITDA Trajectory (Rs Mn)



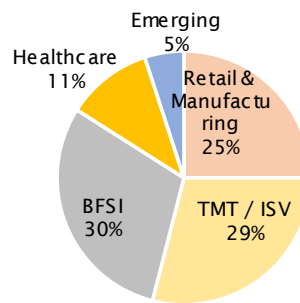
Domestic EBITDA EBITDA Margin (%)

Source: Dalal & Broacha Research, Company

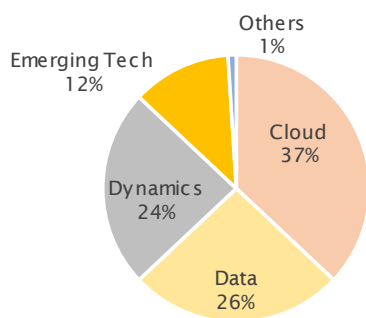
Geography wise (International)



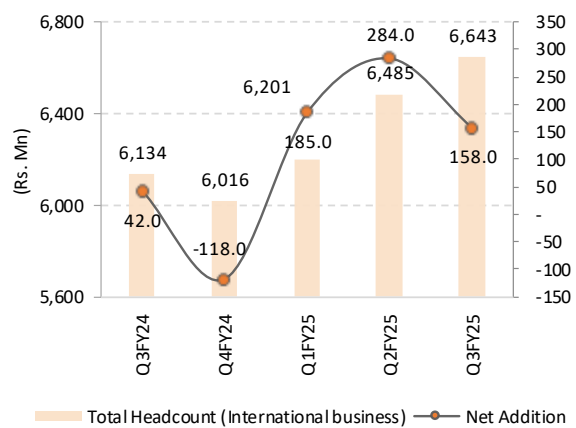
Vertical wise (International)



GTM Segmentation (International)



Headcount



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	55,534	74,491	86,131	99,341	110,125	126,356
Operating Expenses	-40,231	-54,557	-58,197	-68,106	-73,786	-83,522
Employee Expense	-7,370	-9,331	-13,346	-15,935	-18,489	-22,327
Other Expenses	-3,295	-4,565	-7,314	-8,392	-9,366	-10,042
Operating Profit	4,638	6,038	7,274	6,907	8,485	10,466
Depreciation	-473	-591	-1,319	-1,279	-937	-1,031
PBIT	4,164	5,447	5,955	5,628	7,547	9,435
Other income	1,020	708	1,255	715	881	1,205
Interest	-181	-185	-850	-721	-539	-431
PBT	5,004	5,969	6,360	5,623	7,890	10,209
exceptional)	5,004	5,970	4,614	5,623	7,890	10,209
Provision for tax	-1,239	-1,454	-1,529	-1,377	-1,894	-2,450
Reported PAT	3,764	4,516	3,085	4,246	5,996	7,759
Owners PAT	3,764	4,516	3,085	4,246	5,996	7,759
Exceptionals)	3,764	4,516	4,832	4,246	5,996	7,759

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	15,493	17,891	20,995
Net worth	10,992	13,007	14,063	15,773	18,172	21,275
Non Current Liabilites	1,660	8,929	6,496	5,860	5,038	4,281
Current Liabilites	12,940	21,633	30,933	29,839	31,413	34,868
Non Current Assets	6,149	19,418	20,736	20,575	21,032	21,593
Fixed Assets	1,006	5,519	4,766	4,511	4,877	5,300
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	584	632	704
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	30,897	33,590	38,831
Current investments	1,448	2,058	2,321	2,553	2,808	3,089
Trade Receivables	9,220	12,362	16,051	18,780	20,818	23,887
Cash & Bank Balances	7,337	4,174	5,360	5,598	5,621	6,945
Other bank balances	359	3,129	3,290	-	-	-
Loans and Advances	-	253	-	-	-	-
Assets	532	141	546	573	602	632
Other Current Assets	518	1,746	2,209	2,547	2,824	3,240
TOTAL ASSETS	25,593	43,569	51,491	51,472	54,623	60,424

	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	14.7	10.4	9.4	8.2	11.0	12.8
Current Assets	10,659	17,919	23,075	22,746	25,161	28,796
Net Debt	-8,764	-4,425	-4,227	-2,608	-4,287	-6,721

Source : Dalal & Broacha Research, Company

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,004	5,970	4,614	5,623	7,890	10,209
Depreciation	473	591	1,319	1,279	937	1,031
Net Chg in WC	175	2,089	3,547	-3,587	-396	-281
Taxes	-1,559	-1,754	-2,623	-1,377	-1,894	-2,450
Others	409	-4,212	-4,051	1,701	1,302	1,655
CFO	4,502	2,684	2,805	3,638	7,839	10,164
Capex	-1,032	-13,062	407	27	-533	-607
Net Investments mad	-847	-651	-216	-13	-	-
Others	1,046	5,159	-734	-	-	-
CFI	-833	-8,553	-543	14	-533	-607
Change in Share capi	-	35	139	-	-	-
Change in Debts	-517	4,556	1,807	-1,335	-1,522	-938
Others	723	-538	-839	469	-2,163	-2,640
CFF	-2,706	1,868	-1,085	-3,414	-7,283	-8,233
Total Cash Generated	963	-4,002	1,177	238	24	1,324
Cash Opening Balance	6,407	7,337	4,174	5,360	5,598	5,621
Cash Closing Balance	7,369	3,335	5,351	5,598	5,621	6,945

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	8.4	8.1	8.4	7.0	7.7	8.3
NPM	6.7	6.0	5.5	4.2	5.4	6.1
Tax rate	-24.8	-24.4	-33.1	-24.5	-24.0	-24.0
Net Sales	31.3	34.1	15.6	15.3	10.9	14.7
Operating Profit	22.2	30.2	20.5	-5.0	22.8	23.3
PBIT	22.6	30.8	9.3	-5.5	34.1	25.0
PAT	54.3	20.0	7.0	-12.1	41.2	29.4
Per Share (Rs.)						
Net Earnings (EPS)	13.44	16.13	17.26	15.14	21.38	27.67
Cash Earnings (CPS)	15.13	18.24	15.73	19.70	24.73	31.35
Dividend	21.00	15.75	7.90	9.08	12.83	16.60
Book Value	39.26	46.45	50.22	56.25	64.80	75.87
Valuation Ratios						
P/E(x)	41	34	32.0	36.5	25.8	20.0
P/B(x)	14	12	11	10	9	7
EV/EBIDTA(x)	31	25	21	22	18	14
Div. Yield(%)	3.80	2.85	1.43	1.65	2.32	3.01
FCF Yield(%)	1.83	-4.12	6.34	1.27	3.71	4.73
Return Ratios (%)						
ROE	34%	35%	34%	27%	33%	36%
ROCE	46%	34%	35%	30%	38%	43%
RoIC	175%	54%	64%	36%	46%	56%

Source: Dalal & Broacha Research, Company

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

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