

Sonata Software

Deal wins to drive growth

Sonata posted a good quarter with revenue growth of 1.5% QoQ CC and a margin decline of ~50bps QoQ, which were in line with our estimates. The revenue growth was led by BFSI (retail banking) and TMT verticals (Microsoft sell-to and Fabric). We expect IITS to be back on the growth trajectory based on healthy deal wins and a strong book-to-bill of 1.23 (TCV of USD 104mn). The deal pipeline has increased ~5% QoQ, and ~49% of the active pipeline consists of large deals, with over 36% of the large deal pipeline involving Fortune 500 clients. The company won three large deals from (1) a TMT client in the US for consumer experience modernisation, (2) a data modernisation deal with a large US commercial bank, and (3) a cloud modernisation deal from a retail client in the US. The key growth bets for the future are Microsoft Fabric (USD 91mn pipeline) and Gen AI (USD 67mn pipeline), along with investment in the BFSI and healthcare verticals. The company maintains its FY27 revenue aspiration of USD 1.5bn (USD 500mn for IITS) and an EBITDA margin in the low 20s for the IITS business. We cut our EPS estimate for FY26/27E by 1.8/1.2%, factoring in near-term margin challenges. We maintain our ADD rating with a target price of INR 690, based on 26x Dec-26E EPS. The stock is trading at a P/E of 27/23x FY26/27E EPS and generates an RoE of ~36%.

- Q2FY25 highlights:** IITS revenue stood at USD 84.6mn, +2.3% QoQ growth vs our estimate of USD 83.8mn. Among the verticals, BFSI grew +40.7% QoQ, Healthcare +2.3% QoQ, emerging +27.9% while TMT vertical de-grew by -9.1% QoQ and Retail & Manufacturing de-grew by -6.7% QoQ. Cloud and Data are now 64% of the revenue. IITS EBITDA margin stood at 18.2%, declined -54bps QoQ, in line with our estimate of 18.2% impacted by wage hike (-110bps) for junior level which was partially offset by operational efficiencies. Q3 margin will also be impacted by wage hike for mid & senior management. Utilisation stood at 87% (flat QoQ) and the IITS headcount improved by 284 to 6,485. DPS EBITDA margin stood at 3.3% (+75bps QoQ). Consolidated revenue declined 14.1% QoQ due to decline in DPS revenue (-21% QoQ). The company had three large deals, six mid-sized deals and two significant deal (AI & Fabric) wins in Q2FY25. IITS Onsite/offshore mix was 54/46%.
- Outlook:** We expect IITS growth of 6.5/14.2/15.7% and DPS growth of ~18.6/15/15% for FY25/26/27E respectively. IITS margin will be at 18.7/20.1/20.9% and DPS margin at 3.2/3.5/3.5% for FY25/26/27E respectively. IITS revenue/consolidated EPS CAGR for FY24-27E is expected to be +12/21%.

Quarterly Financial Summary

YE March (INR bn)	Q2 FY25	Q2 FY24	YoY (%)	Q4 FY24	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
IITS Revenues (USD mn)	84.6	80.9	4.6	82.7	2.3	241	324	345	393	455
Net Sales	21.70	19.13	13.5	25.27	(14.1)	74.49	86.13	99.24	114.39	132.26
EBIT	1.44	1.64	(12.0)	1.43	1.0	5.45	5.96	6.33	8.15	9.91
APAT	1.06	1.24	(14.2)	1.06	0.8	4.52	4.39	4.97	6.43	7.76
Diluted EPS (INR)	3.8	4.4	(14.2)	3.8	0.8	16.1	15.7	17.7	22.9	27.7
P/E (x)						39.2	36.7	35.6	27.6	22.8
EV / EBITDA (x)						30.5	25.6	24.1	19.0	15.6
RoE (%)						37.7	35.7	32.5	35.4	35.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %
IITS Revenue (USD mn)	343	345	0.6	396	393	(0.7)	462	455	(1.4)
Revenue	98.13	99.24	1.1	113.56	114.39	0.7	132.39	132.26	(0.1)
EBIT	6.42	6.33	(1.4)	8.23	8.15	(1.0)	10.11	9.91	(1.9)
EBIT margin (%)	6.5	6.4	-16bps	7.2	7.1	-12bps	7.6	7.5	-14bps
APAT	5.20	4.97	(4.4)	6.54	6.43	(1.8)	7.86	7.76	(1.2)
EPS (INR)	18.5	17.7	(4.4)	23.3	22.9	(1.8)	28.0	27.7	(1.2)

Source: Company, HSIE Research

ADD

CMP (as on 6 Nov 2024)	INR 632
Target Price	INR 690
NIFTY	24,484

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 700	INR 690
EPS %	FY25E -4.4	FY26E -1.8

KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	280
MCap (INR bn) / (\$ mn)	177/2,102
6m avg traded value (INR mn)	742
52 Week high / low	INR 870/469

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.7)	(4.3)	1.2
Relative (%)	(5.0)	(13.1)	(22.5)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	28.17	28.17
FIs & Local MFs	21.56	23.37
FPIs	12.41	12.13
Public & Others	37.86	36.33
Pledged Shares	0.00	0.00

Source: BSE

Pledged shares as % of total shares

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