

India

May 27, 2025 - 3:49 PM

ADD (no change)

Consensus ratings*:	Buy 9	Hold 1	Sell 0
Current price:	Rs400		
Target price:	Rs399		
Previous target:	Rs399		
Up/downside:	-0.2%		
InCred Research / Consensus:	-12.7%		
Reuters:			
Bloomberg:	SSOF IN		
Market cap:	US\$1,317m		
	Rs112,058m		
Average daily turnover:	US\$26.3m		
	Rs2236.2m		
Current shares o/s:	277.8m		
Free float:	70.8%		

*Source: Bloomberg

Key financial forecast

	Mar-25A	Mar-26F	Mar-27F
Net Profit (Rsm)	4,386	5,321	6,093
Core EPS (Rs)	15.78	19.11	21.88
Core EPS Growth	3.0%	21.1%	14.5%
FD Core P/E	25.33	20.91	18.27
Recurring ROE	28.2%	29.2%	29.2%
P/BV (x)	6.52	5.76	4.98
DPS (Rs)	9.90	13.32	15.89
Dividend Yield	1.25%	2.75%	2.75%



Price performance	1M	3M	12M
Absolute (%)	18.3	1.4	(22.9)
Relative (%)	14.0	(7.9)	(29.2)

Major shareholders	% held
Hemendra M Kothari	9.1
HDFC Mutual fund	7.1
Tata Equity Savings Fund	3.5

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Sonata Software

Takeaways from non-deal roadshow

- TMT & BFSI to drive FY26F revenue recovery while retail vertical could be soft.
- SPA extension-associated cost/wage hikes to impact FY26F margin.
- Debt repayment remains a near-term priority while M&A takes a backseat.

Revenue growth and visibility across verticals

- We hosted Jagannathan CN, the chief financial officer (CFO) of Sonata Software, in a non-deal roadshow (NDR) in Mumbai. Commentary suggests the qoq revenue could stabilize (6.6% qoq decline in 4QFY25) led by bottoming out of customer-specific challenges. From a FY26F perspective, technology, media and telecom (TMT) vertical's growth could be led by ramp-up of mega deal & recovery in a large customer (~7% yoy in US\$ terms in FY25), BFSI momentum could continue (~37%), healthcare may recover (-4.8%) while manufacturing & retail (-12.5%) could remain soft.

Deal pipeline encouraging but uncertainty impacting conversion

- The ramp-up of the company's second-largest deal, worth US\$73m TCV over five years, signed in Apr 2025 could aid the TMT vertical's growth and we expect six-to-seven-month contribution in FY26F. Discussion suggests that deal pipeline & client conversations are encouraging but tariff-led uncertainty continues to impact conversion.

Margin could bottom out in 1HFY26F

- As a reminder, IT services' EBITDA margin declined by ~480bp in FY25 primarily driven by growth moderation & large deal-related employee rebadging costs. As for FY26F, SPA extension & wage hike (2Q/3QFY26F) are key headwinds to margin while operating leverage, offshoring and large client stability are tailwinds.

Domestic business and potential impact

- We did highlight the potential impact of policy change on the domestic business in our [16 Mar 2025](#) update and the company reiterated the interventions undertaken to minimize the impact. Please call InCred sales or me for a detailed discussion

Other key takeaways

- On 18 May 2025, Sonata Software executed an amendment to the original stock purchase agreement (SPA) agreement to defer certain payments due under the SPA and provision for additional payments over 2025-2027, on achieving performance milestones. The provision could impact the EBITDA margin in the current year and an update on the quantum could be provided at the earliest. Although debt repayment (Rs4.4bn) remains a near-term priority, BFSI & healthcare, US geography, and artificial intelligence (AI) are key M&A focus areas, with US\$20-100m size as the sweet spot.

Retain ADD rating and target price

- We had updated our earnings estimates and rating in our 16 Mar 2025 update note with a target price of Rs399, valuing the business at ~18x FY27F EPS. We continue to maintain our earnings estimates and the target price.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	74,491	86,131	101,209	101,894	110,903
Operating EBITDA (Rsm)	6,041	7,274	7,028	7,948	8,928
Net Profit (Rsm)	4,519	3,085	4,386	5,321	6,093
Core EPS (Rs)	16.3	15.3	15.8	19.1	21.9
Core EPS Growth	20.0%	(5.9%)	3.0%	21.1%	14.5%
FD Core P/E (x)	24.54	35.95	25.33	20.91	18.27
DPS (Rs)	15.8	7.9	9.9	13.3	15.9
Dividend Yield	1.97%	1.97%	1.25%	2.75%	2.75%
EV/EBITDA (x)	17.31	14.33	14.69	13.29	11.36
P/FCFE (x)	48.77	43.46	16.08	22.53	17.50
Net Gearing	(48.5%)	(47.4%)	(46.1%)	(29.4%)	(44.2%)
P/BV (x)	8.53	7.89	6.52	5.76	4.98
ROE	37.7%	31.4%	28.2%	29.2%	29.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	86,131	101,209	101,894	110,903
Gross Profit	14,588	15,561	16,303	18,022
Operating EBITDA	7,274	7,028	7,948	8,928
Depreciation And Amortisation	(1,319)	(1,304)	(1,384)	(1,463)
Operating EBIT	5,955	5,724	6,564	7,465
Financial Income/(Expense)	405	125	531	658
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)				
Profit Before Tax (pre-EI)	6,360	5,849	7,095	8,124
Exceptional Items	(1,747)			
Pre-tax Profit	4,613	5,849	7,095	8,124
Taxation	(1,529)	(1,463)	(1,774)	(2,031)
Exceptional Income - post-tax				
Profit After Tax	3,085	4,386	5,321	6,093
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	3,085	4,386	5,321	6,093
Recurring Net Profit	4,253	4,386	5,321	6,093
Fully Diluted Recurring Net Profit	4,253	4,386	5,321	6,093

Balance Sheet

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	10,971	10,087	6,945	11,137
Total Debtors	16,051	16,801	17,118	18,632
Inventories				
Total Other Current Assets	3,734	3,734	3,734	3,734
Total Current Assets	30,756	30,622	27,797	33,503
Fixed Assets	5,575	4,521	3,379	2,196
Total Investments	512	512	512	512
Intangible Assets	11,135	11,135	11,135	11,135
Total Other Non-Current Assets	3,513	3,513	3,513	3,513
Total Non-current Assets	20,736	19,681	18,539	17,356
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	14,160	17,205	16,813	18,299
Other Current Liabilities	16,773	11,628	6,752	6,752
Total Current Liabilities	30,933	28,833	23,564	25,051
Total Long-term Debt	4,310	2,225	1,260	1,260
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	2,185	2,185	2,185	2,185
Total Non-current Liabilities	6,496	4,410	3,446	3,446
Total Provisions				
Total Liabilities	37,428	33,243	27,010	28,497
Shareholders Equity	14,063	17,060	19,326	22,363
Minority Interests				
Total Equity	14,063	17,060	19,326	22,363

Cash Flow

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	7,274	7,028	7,948	8,928
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(2,094)	2,296	(711)	(27)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	1,098			
Other Operating Cashflow				
Net Interest (Paid)/Received	(850)	(703)	(284)	(229)
Tax Paid	(2,623)	(1,463)	(1,774)	(2,031)
Cashflow From Operations	2,805	7,159	5,180	6,641
Capex	(254)	(250)	(241)	(280)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(289)	(4,318)	(3,953)	887
Cash Flow From Investing	(543)	(4,568)	(4,194)	607
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(2,189)	(1,389)	(3,056)	(3,056)
Preferred Dividends				
Other Financing Cashflow	4,487	(1,774)	(284)	(229)
Cash Flow From Financing	2,298	(3,163)	(3,340)	(3,285)
Total Cash Generated	4,560	(572)	(2,354)	3,963
Free Cashflow To Equity	2,552	6,909	4,939	6,361
Free Cashflow To Firm	3,112	3,293	1,269	7,477

Key Ratios

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.6%	17.5%	0.7%	8.8%
Operating EBITDA Growth	20.4%	(3.4%)	13.1%	12.3%
Operating EBITDA Margin	8.4%	6.9%	7.8%	8.0%
Net Cash Per Share (Rs)	24.00	28.23	20.41	35.46
BVPS (Rs)	50.68	61.26	69.39	80.30
Gross Interest Cover	7.00	8.15	23.13	32.63
Effective Tax Rate	33.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	45.3%	31.7%	57.4%	50.2%
Accounts Receivables Days	60.20	59.24	60.75	58.83
Inventory Days				
Accounts Payables Days	69.15	66.83	72.53	68.99
ROIC (%)	37.6%	47.3%	45.3%	36.6%
ROCE (%)	26.3%	22.8%	24.7%	25.3%
Return On Average Assets	9.5%	8.4%	10.2%	11.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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