SONATA SOFTWARE LTD

EQUITY RESEARCH REPORT

JUNE, 2025

FINANCIAL REPORT

SONATA
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Key Highlights

- Discounted Cash Flow Valuation
- Scenario Forecasting & Sensitivity Analysis
- Monte Carlo Simulations & Value at Risk (VaR)
- Business Resilience & Industry Analysis
- Management & Sentiment Analysis
- Relative Valuation (CCA) & Key Value Drivers
- Economic, Strategic & Competitive Outlook

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SONATA SOFTWARE LTD | ₹364.7

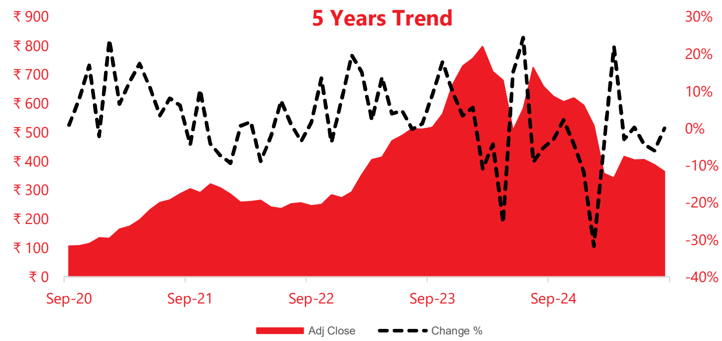
Driving Global Digital Transformation

BSE: 532221 | NSE: SONATSOFTW

Company Overview

- **Business**: Global IT services provider specializing in digital transformation, modernization engineering, cloud, and AI integration.
- **Experience**: 39 years in IT services.
- **Frameworks & Partnerships**: Proprietary **Platformation** framework; deep partnerships with **Microsoft, AWS, Wharton, IISc**.
- **Strategic Goal**: Targeting **US$1.5B revenue by FY27** with **20% contribution**

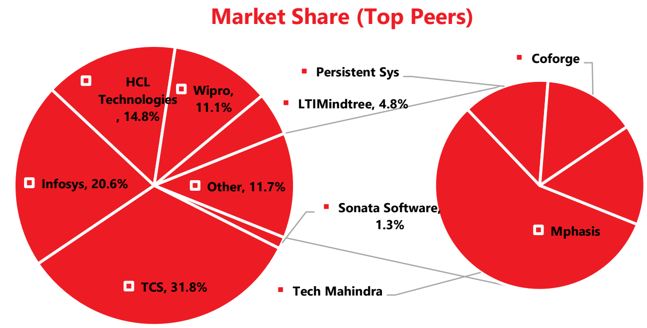
Market Cap	₹10,226 Cr.	As of August 3, 2025
Sector	Information Technology	
Industry	IT - Software	
ESTD	1986	



Valuation Snapshots

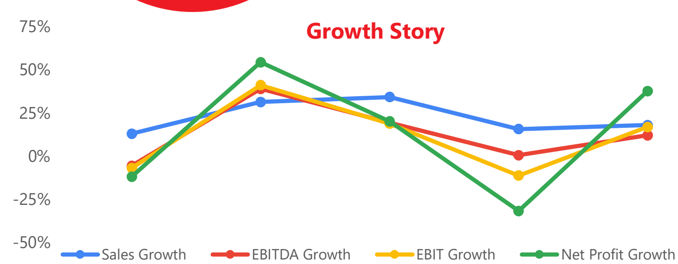
		52W Range	
Current Price	₹ 364.7	₹ 286.4	₹ 697.2

- **DCF (FCFF)**: EV: ₹12,997 Cr | Equity Value: ₹12,930 Cr | Intrinsic Price: ₹461.1
- **Excess Return Model**: Equity Value: ₹12,366 Cr | Intrinsic Price: ₹441
- **Relative Valuation (Peer Multiples)**: Implied Range: ₹442.9 – ₹1,552.4 per share
- **Upside Potential**: ~20–21% (conservative models), significant margin of



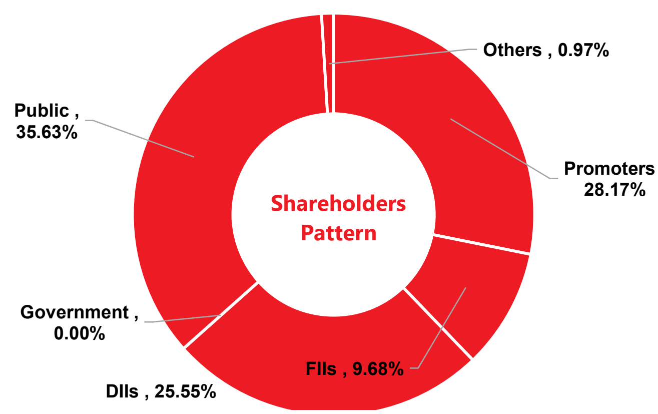
Financial Highlights

Salesttm	₹10,595 Cr.	**YoY Growth**	17.9%
EBITDAttm	₹749 Cr.	**Total Cash**	₹449 Cr.
Profitttm	₹428 Cr.	**Net Cash Flow**	₹-226 Cr.



Key Catalysts

- ✓ **Large Deal Wins** – Successful ramp-up of $73M+ contracts in BFSI & healthcare.
- ✓ **Geographic Expansion** – Entry into Southeast Asia & Middle East.
- ✓ **Margin Recovery** – Targeting IITS EBITDA margin >20% by Q2 FY26.
- ✓ **Product Innovation** – AI-driven products (AgentBridge, Harmoni.ai).
- ✓ **Macro Tailwinds** – Global digital transformation market growing toward **USD 4T by 2030**.
- ✓ **Partnership Deepening** – Strengthening ties with Microsoft, AWS, Google

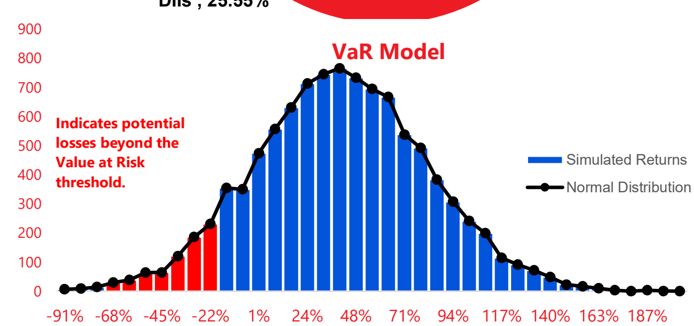


Risks

- **Macroeconomic Slowdown**: Potential IT spending cuts by global clients.
- **Margin Pressure**: Rising costs from talent acquisition & competition.
- **Tech Disruption**: Risk of falling behind in emerging technologies.
- **Regulatory Challenges**: Compliance, data privacy, and localization laws.
- **Leverage Risk**: Elevated debt levels from 2024 increase sensitivity to rates & downturns.

Investment Thesis

- Positioned to capitalize on global digital transformation and AI adoption.
- Transitioned successfully from legacy-distribution to a cloud-first, AI-driven business model.
- Demonstrated **10-year revenue CAGR of 15.4%** with strong financial health (high Altman Z-scores).
- Stock trades at a **~18–21% discount** to intrinsic value (DCF & ERM).
- Strategic focus on BFSI and healthcare verticals, R&D, and operational



Final Commentary

Sonata Software offers a **compelling growth and re-rating story** with an undervalued stock price, strong balance sheet, and robust digital transformation positioning. Execution of strategic initiatives in high-growth sectors and margin recovery remain critical. While risks around macro, leverage, and client concentration persist, the **risk-reward profile remains favorable for long-term institutional investors**.

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Executive Summary

Sonata Software (headquartered in Bengaluru and founded in 1986) is an Indian IT services company specializing in digital modernization. With ~6,400, it reported FY2024 revenue of ~US$1.04 billion (≈₹8,600 Cr). Sonata positions itself as a **"Modernization Engineering"** leader – focusing on migrating clients' legacy systems to cloud/AI platforms. It emphasizes a unique "Platformation.AI" approach and has deep alliances (notably a 30+-year Microsoft). Key markets are the US, UK, Europe, APAC and ANZ. Historically rooted in travel/ERP solutions, Sonata has diversified into BFSI (banking, financial services), Healthcare & Lifesciences (HLS), Retail/Manufacturing, and Technology/Telecom verticals.

The company claims competitive advantages in deep Microsoft ecosystem expertise (3500+ Microsoft-trained), agile mid-tier scale, and proprietary AI offerings. Recent strategy highlights include shifting toward higher-value verticals (targeting $250 M in BFSI+HLS revenue over 3–5) and investing in AI/automation. Management targets mid-teens to 20%+ EBIT margins (in IITS) and "top-quartile" growth in the next 3–5. Sonata's four-fold strategy: (1) expand global delivery centers; (2) deepen Microsoft (and AWS, others); (3) build proprietary platforms (like AgentBridge/Harmoni.ai) for enterprise AI; (4) focus on large multi-year deals (45% of pipeline are large). For example, in Q1 FY2026 it won three large deals (two in BFSI, one in TMT) and secured a $73 M AI-led modernization contract with a leading US tech client.

Looking ahead, Sonata plans to leverage global digitalization trends (cloud, AI, low-code) while mitigating concentration risk via sector and geographic diversification. Its future direction is to continue being a "Microsoft-led" modernization partner and drive adoption of Generative/Agentic AI in core industries. Key challenges include macroeconomic slowdown and client consolidation. Overall, Sonata presents a growth-oriented platform engineering profile, combining steady historical growth (FY25 rev. ₹10,157 Cr, +18%) with ambitious AI-driven targets (20% of revenue from AI in 3).

Business Model & Revenue Segmentation

Sonata operates dual business lines: **International IT Services (IITS)** and **Domestic Products & Services (DPS)**. IITS covers consulting, development and managed services (cloud migration, application development, ERP/CRM integration, analytics, contact centers, etc.). DPS largely comprises domestic software product distribution (e.g. Microsoft/Dynamics licenses, the "Quant" distribution business) and related services. In Q1 FY2026 Sonata earned ₹699.9 Cr in IITS and ₹2,274.7 Cr in DPS. (This split reflects a high-DPS season; DPS can swing widely with license sales.) Overall, Q1'26 consolidated revenue was ₹2,965.2 Cr, up 13.3%.

Service lines: IITS itself comprises platform consulting (especially Microsoft Dynamics 365/Power Platform, SAP, Oracle), cloud and data modernization, custom application development, and managed services (infrastructure, contact centers). Sonata's "Modernization Engineering" vision means it bundles upgrades of legacy systems with new AI automation (for example via its Harmoni.AI platform). DPS revenue is dominated by software license resales (distribution of third-party products) and allied services. DPS has large revenues but thin margins (evident from Q1: DPS EBITDA ~16% of DPS rev vs. ~16.6% EBITDA margin in).

Industry Verticals: The company targets several key sectors. Per management commentary, roughly **30%** of revenue in Q4 FY25 was from Retail/Manufacturing, **24%** from BFSI, **27%** from Technology/Telecom, **13%** from Healthcare/Life Sciences, and the remainder (~6%) from emerging. (Historically, Sonata was strong in retail and travel-related apps; it is actively growing BFSI and HLS.) Key clients include Fortune 500 firms in these industries. Sonata notes many clients are large enterprise accounts on multi-year contracts. Its transformation work in BFSI/HLS is expanding – e.g. management aims to hit US$250 M in BFSI+HLS revenue in 3–5. The company also operates a legacy software distribution ("Quant") business for banking/tech products, which has seasonally fluctuated and impacted revenue when top clients changed.

Geography: Sonata is heavily US-focused, deriving about **74%** of revenue from North America (primarily the US) in Q4. Europe accounts for ~17% and Rest of World ~9%. The firm is expanding other regions – it has delivery centers in India, and is developing operations in Australia/NZ and Southeast Asia. Its Q1 FY26 results note growth in "Rest of World" regions (e.g. Australia, Middle East) even as US was flat. Client concentration risk is material: for example, a large US TMT client ramp-down in Q3 FY25 caused a revenue dip, although it has since. Sonata's strategy includes diversifying into non-US markets and sectors (such as Australian public sector, Asia-Pac retail), and the BFSI/HLS focus partly mitigates reliance on the single largest tech customer.

Revenue Trends: Historically, IITS has grown steadily, while DPS (distribution) is lumpy. FY2024 total was ~US$1B (approx ₹8,400 Cr). FY2025 saw ~18% growth to ₹10, , despite Q4 softness. The recent Q1 FY26 revenue of ₹2,965.2 Cr is up 13%. Key revenue drivers in IITS are new large deals and up-sell within existing accounts (e.g. moving legacy on-prem to Azure, deploying Dynamics upgrades, embedding AI). DPS is driven by license cycles (e.g. Dynamics 365 rollouts) and distribution partnerships.

Client Concentration: Sonata has a relatively concentrated client base. Its largest few accounts (mainly global banks and tech firms) contribute a significant portion of IITS revenue. Although exact figures are not publicly disclosed, analysts note "unplanned ramp-down of a large TMT client" in, implying some client-dependency risk. To mitigate this, Sonata is adding new clients (7 in Q1 FY26 including a $73 M deal) and targeting more clients in BFSI/HLS sectors. The company also partners for digital products (e.g. Microsoft) to broaden recurring revenues.

Industry Overview & Value Chain

The global **IT services and digital transformation market** is vast (estimated ~$1.5 trillion in) and growing (~9–10% CAGR through 2030). Key drivers include cloud migration, AI/analytics adoption, cybersecurity needs, and enterprise software upgrades (ERP/CRM). According to industry research, India's IT services market alone was ~$40B in 2024 and is projected to reach ~$75B by 2033 (CAGR ~7.3%). Industry trends emphasize "anywhere IT" (cloud hybrid infrastructure), data-centric architectures, and now a surge in GenAI/agentic AI experimentation. Cybersecurity and data privacy also rank high as companies modernize.

Value Chain Mapping: Sonata typically operates as a **system integrator** and modernization partner in the IT services value chain. At the top are technology vendors/platforms (Microsoft, AWS, SAP, Oracle, etc.) which provide cloud/data and enterprise software products. Sonata's role is to consult, integrate and customize these platforms for clients' digital needs. It conducts legacy-to-cloud migrations, implements industry-specific solutions (e.g. Microsoft Dynamics 365 in retail/banking), builds data/analytics layers, and delivers managed services/outsourcing. In Sonata's terminology, it adds value through its "Platformation" methodology – a structured playbook of steps to modernize business.

Within this chain, Sonata's **differentiators** are its deep platform alliances and IP. It is a Microsoft Global Systems Integrator (Inner Circle partner) with advanced specializations (Azure Expert MSP, AI, Data, etc.). It co-develops with academia/industry (e.g. Wharton) on agentic AI, and has proprietary offerings like "Harmoni.ai" (a Responsible-AI platform) and AgentBridge (for orchestrating AI agents in customer service). Sonata also has a product/distribution arm (Quant) which sits at the "COTS products" layer, reselling software licenses.

Digital Transformation (DX): Enterprises are investing in cloud/cloud-native architectures, data analytics and AI to become "digital businesses". Sonata's value-add is in executing these DX initiatives. For example, it provides Cloud-to-Fabric solutions (Sonata is a Microsoft Fabric partner), AI-powered customer experience platforms, and RPA (automation) services. The company asserts it covers the entire transformation value chain – from strategy and architecture to implementation and ongoing managed support.

Industry-Specific Services: In sectors like BFSI or Healthcare, Sonata often partners with ISVs (e.g. FSS in banking, HealthEdge, or Microsoft Health Clouds) to deliver sector-tailored solutions. It then integrates these into the client's enterprise systems. Its AgentBridge platform, for instance, targets industries with high contact center loads (banking, insurance, telecom) to automate customer support tasks using.

Ecosystem Role: Sonata also acts as a middleman: it helps clients adopt large enterprise software (like Microsoft Dynamics, SAP C/4HANA) and often works with implementation partners. It sometimes forms joint go-to-market alliances (e.g. with Microsoft for industry clouds in Healthcare/). At the bottom of the chain, Sonata leverages offshore development centers (primarily in India) to deliver cost-effective labor. It maintains ISO and security certifications to comply with enterprise and regulatory standards (e.g. ISO 27001 for information).

In summary, the global IT/digital services value chain flows from technology vendors and platform ecosystems, through integrators like Sonata, to enterprise customers seeking modernization. Sonata's value lies in bridging legacy and cutting-edge: it packages cloud, data and AI solutions into end-to-end modernization projects, leveraging its own frameworks and R&D. Its success depends on linking platform capabilities to client business value (e.g. boosting efficiency, speed-to-market, customer experience) – a promise it articulates through cases and KPIs in its modernization "Platformation" playbook.

Market Share & Competitive Positioning

Sonata is a **mid-cap IT services player**. It is much smaller than the global giants (e.g. TCS, Infosys, Accenture) – its ~$1B revenue is only ~0.1% of the $1.5T global. Even in the Indian context ($40B market) its share is on the order of 2–3%. However, within mid-tier IT companies, Sonata's size is respectable; it competes with firms like Hexaware, Coforge (NIIT Technologies), Persistent Systems, and Mindtree (LTI Mindtree). Among those, Sonata distinguishes itself with a heavy focus on the Microsoft stack, platform engineering, and faster-growing verticals (BFSI, healthcare).

Peers vary by specialty. For example, Coforge has strength in travel/transport and BFSI, Hexaware in cloud services, and Persistent in product engineering and BFSI. Sonata's stated market positioning is as a "Modernization Engineering" firm, implying it pitches solutions rather than pure labor outsourcing. It often competes against larger SI's for digital transformation mandates (as evidenced by recent wins "against tier-1 providers"). Its CEO argues that **mid-tier firms are agile alternatives to fat-saturated large vendors**, particularly in AI-led.

Strategic differentiators for Sonata include:

Microsoft Ecosystem: Being a long-time Microsoft Inner Circle partner (multiple competencies, an Azure Expert MSP, AI partner council member) gives Sonata credibility and direct leads in sectors using Microsoft Dynamics 365, Power Apps, Azure and now Microsoft Fabric. Over $650M of client spend goes through Sonata to Microsoft, underscoring this depth.

Industry Focus: Unlike some peers with broader services portfolos, Sonata is vertically aligned to specific industries. It frequently highlights its work in BFSI, HLS, TMT and Retail/. By branding itself as a "trusted partner of Fortune 500" in these fields, Sonata aims to win sector-specific projects (e.g. a retailer's ERP overhaul vs. a bank's AI initiative).

Intellectual Property: Sonata has developed its own tools/platforms (e.g. AgentBridge, Harmoni.AI, Quant tools) to offer packaged solutions. This differs from competitors who mainly sell time and material. For instance, in AI services Sonata may bundle its Harmoni.AI governance framework, promising faster, ethical AI deployments.

Digital vs. Traditional Services Mix: Sonata has been shifting away from legacy maintenance toward new tech services (Cloud, AI, automation). This pivot is a bet on capturing future growth. Competitively, this may allow Sonata to avoid being pigeonholed as a "body shop" and instead claim a higher margin digital consultancy profile.

Despite these strengths, Sonata's small scale imposes market share limits. It cannot match large integrators in breadth or bidding power, but it can undercut on agility. Recent industry reports note mid-tier vendors (including Sonata) are indeed "poised to win large AI market share" as clients seek alternatives to the old. Sonata's FY25 growth (~18%) suggests it is currently gaining share in its chosen.

Peer Comparison (illustrative): Large peers (TCS, Infosys, HCL Tech) have revenues 10–30× Sonata's and a full-service portfolio (IT, BPO, engineering). Among smaller peers, Coforge (₹11,000 Cr revenue) is similar scale but with different vertical mix; Persistent (~₹3,500 Cr) is smaller and more product-focused. Sonata's Microsoft-centric approach is relatively unique except for firms like Hitachi Systems (formerly Hitachi Solutions), which is smaller. No public "market share" data exists for Sonata, but analyst notes emphasize *relative* positioning: "[m]id-tier companies [like Sonata] have been bagging big deals and generally outperforming larger peers despite a bad macroenvironment". Sonata often benchmarks itself on growth and margin targets (e.g. return to 20% EBITDA margin) rather than raw market share.

In sum, Sonata occupies a niche as an up-and-coming modernization specialist in the crowded IT services field. Its "modernization engineering" brand, proprietary assets and client wins are intended to carve out share from both large vendors and local competitors. Its market share is tiny globally but on a growth trajectory in key segments.

Technological Trends & Strategic Initiatives

Major technology trends shaping IT services include **Generative and Agentic AI**, multi-cloud adoption, data analytics, hyper-automation (RPA/low-code), and heightened cybersecurity needs. Companies like Sonata are integrating these trends into their strategy.

Artificial Intelligence: AI is front-and-center. Sonata has launched its own AI platforms (e.g. **Harmoni.AI**, a "responsible-first" AI suite, and **AgentBridge**, an agentic AI workflow). In May 2025, Sonata introduced AgentBridge as a managed service to deploy and govern intelligent AI agents in customer-contact processes. It also collaborated with Wharton's AI initiative to study ethical enterprise AI. Analyst reports note Sonata expects AI-driven services to be ~20% of revenue within 3, driven by a $34M+ current AI pipeline across 100+. Its 97%-of-workforce GenAI training investment and membership in Microsoft's AI Partner underscore this focus. By targeting "agentic AI," Sonata is aligning to the trend of autonomous AI workflows in industries like banking and healthcare.

Cloud & Data Modernization: Cloud remains a core driver. Sonata's offerings include Azure migrations, multi-cloud management, and data modernization on platforms like Microsoft Fabric and Snowflake. It is a Microsoft Cloud Solution Partner (Advanced Specialization) with Azure MSP. Its pipeline includes a USD 70–75M opportunity in Microsoft Fabric (data warehouse). The Q1'26 report highlights a ramp-up in cloud/data protection services and partnerships ("Cloud-managed services" growth). Sonata's "Platformation" methodology heavily emphasizes moving workloads to cloud-native.

Cybersecurity and Compliance: With rising cyber threats, Sonata invests in security offerings. It has ISO 27001 and ISO 20000 and promotes "zero data breach". It partners with vendors (e.g. Snowflake's CSI) to ensure secure. The company also audits its supply chain (top-50 supplier assessments underway). Sonata's AI focus is explicitly "responsible-first," embedding ethics/privacy in its, anticipating stricter AI regulations (e.g. EU AI Act) on the horizon.

Strategic Partnerships: Sonata's strategy includes deepening alliances. Besides Microsoft and AWS, it joined Intel for an AI accelerator program, and Pega for automation (as listed on its site). It is active in industry consortia (e.g. AI partner councils). These partnerships provide early access to tech roadmaps and co-marketing. For example, being a Microsoft Inner Circle gives Sonata priority on MS sales leads and training.

Platform and IP Development: The company is also building productized solutions to differentiate. Besides AgentBridge/Harmoni, it offers "Quant" lending and treasury solutions and "Sonata CX" accelerators for customer experience. These products (many incubated in its Innovation Labs) allow Sonata to pitch higher-margin IP vs. pure services. For example, its Quantilos suite for banking provides an integrated analytics and contact-center platform.

Large Deal Wins: In recent quarters Sonata has announced big contracts illustrating its strategy: Q4 FY25 saw two large wins (including a 5-year, $73M deal with a US TMT firm), and FY25 had 11 large deals. Q1 FY26 reported three large deals (2 BFSI, 1 TMT). Its pipeline remains robust (45% of active pipeline is large). Each win typically blends AI/cloud/Dynamics: e.g. a BFSI contract might include Azure migration plus GenAI-powered customer insights.

In summary, Sonata is capitalizing on technology trends by embedding AI and cloud into its core offerings. It positions itself as a digital modernization partner: selling platforms over pure labor. The company's strategic initiatives – proprietary AI platforms, academic collaborations, and Microsoft/AWS partnerships – are aligned to industry shifts. This investment in innovation and partnerships is intended to pay off in a higher share of emerging tech spends (e.g. AI) and to help capture deals from larger competitors.

Regulatory & Geo-Political

Data Privacy & Cybersecurity: Sonata's global operations must navigate diverse regulations. In India, new laws will soon reshape data rules: the Digital Personal Data Protection Act, 2023 (DPDPA) was enacted in Aug 2023, with draft rules released by early. This law imposes consent requirements, data breach notifications, and governance standards for personal data. Sonata will need to ensure compliance (e.g. data localization policies) across its service delivery. Internationally, Sonata must also comply with GDPR (EU), various US state privacy laws (like CCPA), and upcoming AI regulations (EU's AI Act). To address cybersecurity mandates, Sonata adheres to India's Information Technology Act (2000) and CERT-In, maintaining ISO27001 and conducting regular security audits.

Taxation & Trade: Sonata benefits from India's favorable tax regime for exports, but must watch changes in global tax rules (e.g. OECD Pillar II minimum tax) that affect cross-border services. It also must contend with digital service taxes or regulatory barriers in markets it serves. For instance, any future WTO or bilateral digital trade restrictions could impact how services are priced or delivered.

Immigration Policies: A geopolitical concern is US visa policy. Recent US H-1B visa fee hikes (up ~70% for large) and stricter controls create uncertainty for Indian IT staffing. As ~74% of Sonata's revenue is US-, such policies can limit on-site staffing. Sonata mitigates this by strengthening offshore capabilities and localizing talent (it is building a Centre of Excellence in, for example).

Geopolitical Risks: Global tensions (US-China tech competition, trade wars, regional conflicts) can indirectly affect Sonata. High tariffs or supply chain disruptions may slow clients' spending on IT. For instance, rising US tariffs on China-related products could dampen Asian demand. However, Sonata's diverse geography (North America, Europe, APAC,) provides some hedge. The company also notes geopolitical events may have less impact on its pipeline, as clients continue to "sweat every dollar to modernize faster" under.

Mitigation: Sonata actively manages these risks by (a) diversifying clients and skills across countries, (b) maintaining compliance certifications (ISO, SOC, etc.), and (c) investing in upskilling (97% of workforce is GenAI-, which also ensures awareness of tech compliance). Its strategy of adding non-US centers (ANZ, Europe) further reduces dependency on any single immigration regime. Sonata's top management explicitly emphasizes adherence to emerging data/privacy laws and ethical AI use (reflecting compliance with statutes like DPDPA and potential EU AI regulation).

Client Mix & Geography-Based Risk Analysis

Sonata's revenue is concentrated in a handful of large clients and markets. As of FY25, **North America** (mostly the US) contributed ~74% of. Major clients are predominantly in the **Technology/Telecom** and **Retail** sectors (which together made up ~57% of revenue in Q4). **BFSI** and **Healthcare/Lifesciences** are ~37% combined, and management is actively growing these. Key large accounts include global banks, insurers, retailers, and media companies – often Fortune 500 firms that require continuous modernization of legacy systems.

Client Concentration Risk: This concentration implies risk. For example, in late FY25 Sonata experienced a ~25% QoQ revenue drop in its largest BFSI client due to an "unplanned ramp-down". Similarly, reliance on the US market makes Sonata sensitive to US economic cycles and policy changes (e.g. Fed rate hikes, tech sector spending cuts). Any slowdown among its top clients could significantly impact Sonata.
Sector Risks: Retail/CPG clients (30% of) are currently cautious, as noted by. If consumer spending weakens, retail modernization projects may stall. Tech/Telecom (27%) can also be volatile (hardware supply issues, semiconductor cycles). Conversely, BFSI/HLS clients (currently ~37%) are viewed as more stable and strategic; Sonata aims to grow this to $250M, reducing retail/TMT.

Geographic Risks: Heavy US exposure poses dollar rate and policy risks. A strong INR (rupee) vs. USD would reduce rupee revenue for Sonata, while a weak INR raises delivery costs. The company's FY25 earnings benefited from a tailwind in rupee depreciation (INR depreciated ~8% to mid-80s vs. USD); a reverse swing could squeeze margins. Political risks (e.g. US-China trade tensions) could indirectly affect US clients of Sonata's if tariffs slow their business. Brexit or EU data policies might impact European clients (though EU is only ~17% of).

Diversification Strategies: Sonata is taking steps to diversify. In addition to building presence in Australia/New Zealand and Asia-, it is actively acquiring new customers across geographies (e.g. an Australia modernization). Client-wise, Sonata is entering new verticals like manufacturing and pursuing small/mid clients in emerging markets to balance out large US accounts. The aim is to reduce the share of any single client below critical levels. Internally, Sonata's business unit structure separates "Sonata International" and "Sonata IT" to spread focus, and it periodically locks in multi-year contracts (to stabilize order backlog). According to management, FY26 should see a rebound from a lumpy Q4, aided by a more stable client portfolio and the ramp-up of recently won large deals.

ESG Profile

Sonata publishes an annual Sustainability/ESG report and aligns to global frameworks (UN SDGs, DJSI, CDP). Its **certifications** include ISO 9001 (quality), ISO 27001 (information security), ISO 20000-1 (IT service management), and CMMI Level. It also achieved ISO 14001 for environmental management and IS/IEC 27017 for cloud security in recent years. Sonata maintains strong corporate governance policies and adheres to a Code of Conduct.

Environmental: Sonata has a net-zero by 2050 target. Its intermediate goals are aggressive: reduce Scope 1+2 GHG emissions by 70% by 2030 (base 2019), and 100% renewable electricity by 2030. As of FY24, it achieved ~61% of the Scope 1+2 reduction (reflecting greener offices and procurement of clean energy). It also aims for 55% reduction in Scope 3 carbon intensity by. Water neutrality by 2030 and zero waste-to-landfill are other. Sonata tracks its carbon footprint annually and has been improving energy efficiency in campuses. (For reference, India's IT sector average is improving but companies still emit ~1-2 tCO_2e per employee; Sonata's actions aim to go beyond minimal compliance.)

Social (People): Sonata emphasizes workplace diversity, inclusion, and wellbeing. It aims for **34–35% women** in total workforce by 2025; as of FY24 it is at ~30.7%. Entry-level hiring is already ~50% women (2024: 86% of new entrants were). The company conducts mandatory inclusivity training for all people managers (goal 100% by FY25, ~20% done by). Attrition hovers around 20%, lower than industry average (~25%), and Sonata invests in learning/upskilling (97% staff GenAI-). In health and safety, Sonata targets zero workplace injuries (annual disclosures show 0 fatalities).

Community & CSR: Sonata's CSR (via the Sonata Foundation) focuses on education, sanitation and women empowerment. It set a target to positively impact **1 million beneficiaries by 2030** through community. In FY24, community spend was ₹7 Cr (steady YoY). Key initiatives include rural school upskilling and water sanitation. The company conducts impact assessments for its major projects and reported inline progress toward its CSR.

Governance & Ethics: On corporate governance, Sonata maintains a majority of independent directors on its board and transparent financial reporting (listed on BSE/NSE). It was recognized in 2023 with an ICSI Business Responsibility & Sustainability award for its disclosures and an InfHRA award for HR sustainability practices. Its ESG ratings include a CDP Climate "B" score and EcoVadis ~58/100 (as of 2023). Sonata articulates a "Responsible-First AI" stance – its technology platforms (Harmoni.ai, AgentBridge) embed privacy, security and ethics by, anticipating regulatory scrutiny.

Overall, Sonata's ESG profile is proactive relative to peers. It has defined measurable targets and reports progress transparently in its Sustainability reports. Its stakeholder impact includes improved employee diversity (women in leadership, ~12% women on board), community education programs reaching thousands, and environmental initiatives (solar panels at campuses, paperless processes). While ESG efforts have modest effect on short-term profitability, they bolster Sonata's reputation with global clients and align with long-term industry trends (e.g. EU sustainable finance disclosures).

Economic Outlook & Impact

Global Economy: The IMF projects *subdued* global growth over the next two years: ~3.0% for 2025 and 3.1% for 2026. This is marginally above 2024 levels but below pre-pandemic averages. Risks include trade tensions and high tariffs (IMF notes that current tariff policies could shave ~0.2% from). However, inflation is expected to continue moderating globally (IMF forecasts ~4.2% in 2025 and 3.6% in). In advanced markets, growth is fairly flat (US ~1.9% in, Euro ~1.0%), while emerging markets are projected at ~4.1%.

India Macro: India remains a bright spot. The IMF (July 2025) forecasts Indian GDP growth at **6.4% in 2025-26 and 6.4% in 2026-**, up from 6.2% prior. RBI's June 2025 policy also projects 6.5% growth for FY2025-. Key drivers include ongoing government capital investment and resilient consumption, though private capex and exports face headwinds. India's CPI inflation is likely to stay near its target: RBI forecasts ~3.7% for FY25- (led by easing food and fuel prices), with risks tilted balanced. The RBI recently cut rates 50 bps to 5.50% (Jun'25), which should modestly ease financing costs for IT firms and clients.

Currency and Rates: The Indian rupee traded around ₹82–84 per USD in 2024-25. Major risks include Fed policy (a strong dollar would increase operating costs and reduce USD revenues in INR terms) and domestic external balances (though India's forex reserves are ample). Interest rates in India may remain steady around 5.5–6%; a prolonged cut cycle could weaken the rupee, while hikes in the US could strengthen the dollar.

strengthen the dollar.

Impact Scenarios:

Base Case: Global growth ~3%, India 6–6.5%, stabilizing inflation. Under this moderate scenario, IT spend should continue rising at mid-single digits. Sonata could see steady demand for cloud/AI modernization from both multinational and domestic clients. Flat-to-modest USD appreciation (say INR85) would slightly boost its reported revenues. Domestic rate cuts may stimulate investment, potentially aiding DPS (license sales) in India. We would expect revenue growth in line with recent trends (~10–15% p.a.) if Sonata continues its strategy.

Best Case: Global growth outperforms (e.g. 3.5–4%), driven by a robust US consumer and Chinese recovery. Commodities and inflation fall, creating excess corporate cash. IT budgets could expand further as enterprises invest in digital projects. A stable or weaker dollar (INR ~80) would compress USD revenue in INR, but lower offshore costs. In this scenario, Sonata's focus on automation/AI would pay off strongly: more large digital deals and faster ramp-ups. It might achieve >15% growth and accelerating margins (if utilization stays high). Its BFSI/HLS pipeline would likely continue gaining in this environment.

Downside Case: A global slowdown (GDP <2% in 2025) triggered by renewed trade wars or geopolitical crisis. High inflation persists in the West, forcing sharp rate hikes. US tech clients cut discretionary IT spending. India too slows (GDP ~5–5.5%), with higher inflation (~5%) and a strong dollar (INR hits 90). Clients would postpone projects to conserve cash. Sonata's revenue might stagnate or decline, especially if a big project delays. However, rupee weakness would increase its operational costs for employee salaries, pressuring margins. DPS could see a sharp cyclical drop in license orders (as seen in Q4 FY25). In this stress case, Sonata would need to rely on its cost-cutting and diversify quickly into recession-resistant segments (like insurance or public sector) to mitigate.

Our view is that Sonata's outcomes are more sensitive to the global business outlook and client spend than to India's consumption. The IT services sector historically thrives in the 3–6% range of economic growth, as companies see tech modernization as both a source of efficiency and competitive edge.

Forward-Looking Commentary

Sonata's **strategic priorities** center on sustainable growth and margin improvement. Management has outlined objectives: (a) achieve revenue of US$1.5 billion within ~5 years (target FY27), (b) ramp up next-gen business (AI/cloud) to 20% of revenue, (c) return IITS EBITDA margin to 20%+ by Q2, (d) scale BFSI and healthcare verticals. To reach these, Sonata plans continued investment in talent (700 freshers), R&D in AI, and sales in new markets (e.g. Southeast Asia, Middle East). It is also consolidating internal processes via its "Platformation" framework to standardize delivery.

Growth Outlook: With 45% of its active pipeline in large and an 18% YoY uplift in FY25, Sonata is optimistic. Key 2025–26 drivers should be the deals won in late FY25 (which will ramp up), plus a resurgent global tech spend if economics remain firm. The emphasis on BFSI, where Sonata already has marquee wins, could accelerate growth since banks are fast adopters of cloud/AI. Growth will likely remain double-digit (mid-teens) barring a major downturn.

Future Risks: Major risks include continued macro slowdown, client consolidation, and rising competition. Sonata's heavy Microsoft linkage is an asset for growth but also a dependency (if Microsoft's appeal weakens or platform fees rise, Sonata could be affected). There is execution risk in scaling rapidly – e.g., ramping a $73M deal requires hiring and integration of new teams. Attrition (currently ~20%) and talent scarcity, especially in AI-skilled roles, could limit project delivery. Regulatory risks (like stricter data localization or immigration norms) could raise costs. The AI technology itself is a double-edged sword: rapid change means Sonata must constantly update skills or risk obsolescence of tools.

Adaptability: Sonata has demonstrated adaptability by evolving from a legacy-distribution company to a cloud/AI integrator. Its philosophy of "Modernization with Platforms" suggests flexibility: it can pivot to new technologies (e.g. adopting Microsoft Fabric, or partnering with Google Cloud if needed). The Wharton and IISc partnerships indicate a learning orientation, aiming to stay ahead on tech and governance. Its emphasis on training (97% GenAI-) and its diversified delivery model (blend of onshore/offshore) are strengths. Sonata's management also signals readiness to reinvest profit (diluting some margin in the short term to build vertical solutions), which bodes well for long-term value creation.

In closing, Sonata's forward path is one of cautious optimism. It is well-placed to capture secular trends in digital transformation and AI – if it can navigate competitive pressures and an uncertain macro. Key KPIs to watch will be new client additions, large deal pipeline conversion (especially AI/cloud deals), gross margin trends (reflecting utilization and pricing), and segment revenue mix (growth in BFSI/HLS vs. mature retail). Strategic partnerships (Microsoft, AWS, academic) and product launches (AgentBridge, Harmoni.ai) are catalysts that could accelerate growth. The company's adaptability will likely determine if it can elevate from a mid-tier niche player to a leading "modernization" brand in global IT services.

Sources: *Company filings and press releases; industry research reports; macroeconomic forecasts; and equity research (analyst) notes. (All INR figures in crores; all revenue figures current as of FY25.)*

Historical Financial Statements - SONATA SOFTWARE LTD

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	TTM
# **Income Statement (Rs. crore)**											
Revenue and Cost of Goods Sold (COGS):											
Revenues	1,941	2,371	2,454	2,961	3,743	4,228	5,553	7,449	8,613	10,157	10,595
Revenue Growth	*-*	*22.2%*	*3.5%*	*20.7%*	*26.4%*	*13.0%*	*31.3%*	*34.1%*	*15.6%*	*17.9%*	-
Cost of sales	1,582	1,969	2,016	2,364	3,092	3,630	4,785	6,431	7,205	8,732	-
Gross Profit	**358**	**402**	**438**	**596**	**652**	**598**	**769**	**1,019**	**1,408**	**1,425**	-
Gross Margin	*18.5%*	*17.0%*	*17.9%*	*20.1%*	*17.4%*	*14.2%*	*13.8%*	*13.7%*	*16.3%*	*14.0%*	-
Operating Expenses:											
Selling, General and Administrative Expenses	166	222	207	261	279	219	305	414	680	736	-
EBITDA	**239**	**246**	**278**	**366**	**431**	**407**	**566**	**675**	**678**	**760**	**749**
EBITDA Margin	*12.3%*	*10.4%*	*11.3%*	*12.3%*	*11.5%*	*9.6%*	*10.2%*	*9.1%*	*7.9%*	*7.5%*	*7.1%*
Depreciation and Amortization	6	11	12	13	37	40	47	59	132	121	114
Total operating expenses	173	233	220	273	315	258	352	473	812	857	-
EBIT	**233**	**236**	**265**	**353**	**395**	**368**	**518**	**616**	**546**	**639**	**635**
EBIT Margin	*12.0%*	*9.9%*	*10.8%*	*11.9%*	*10.5%*	*8.7%*	*9.3%*	*8.3%*	*6.3%*	*6.3%*	*6.0%*
Non-operating Items and Taxes:											
Other income, net	47	67	47	30	58	28	102	71	(50)	71	76
Interest Expense	8	9	5	3	15	15	18	19	85	65	50
Earnings Befor Tax (EBT)	**225**	**226**	**260**	**349**	**379**	**352**	**500**	**597**	**461**	**574**	**585**
EBT Margin	*11.6%*	*9.5%*	*10.6%*	*11.8%*	*10.1%*	*8.3%*	*9.0%*	*8.0%*	*5.4%*	*5.6%*	-
Tax	67	69	68	101	103	108	124	145	153	149	156
Effective Tax Rate	*29.6%*	*30.6%*	*26.2%*	*28.8%*	*27.0%*	*30.7%*	*24.8%*	*24.3%*	*33.1%*	*26.0%*	
Net Profit	**159**	**157**	**192**	**249**	**277**	**244**	**376**	**452**	**309**	**425**	**428**
Net Margin	*8.2%*	*6.6%*	*7.8%*	*8.4%*	*7.4%*	*5.8%*	*6.8%*	*6.1%*	*3.6%*	*4.2%*	*4.0%*
Share Statistics:											
Adjusted Equity Shares in Cr	28.04	28.04	28.04	28.04	28.04	28.04	28.04	28.04	28.04	28.04	28.04
Per Share Information:											
Earnings Per Share (EPS)	5.66	5.60	-	-	-	-	13.42	16.12	11.00	15.15	
EPS Growth	*-*	*-1.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.0%*	*-31.7%*	*37.7%*	
Dividend Per Share	3.38	3.33	3.89	4.72	7.50	5.19	7.78	7.79	11.28	4.36	
Payout Ratio	*59.7%*	*59.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*58.0%*	*48.3%*	*102.5%*	*28.8%*	
Retention Ratio	*40.3%*	*40.5%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*42.0%*	*51.7%*	*0.0%*	*71.2%*	-

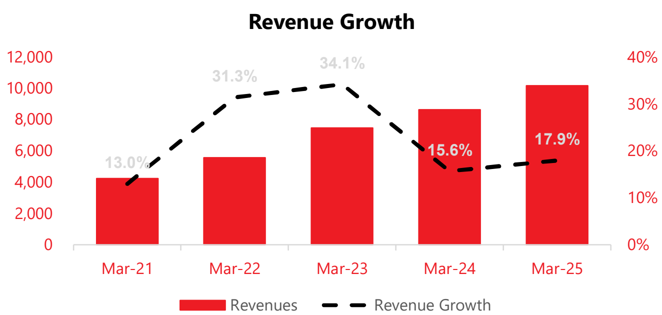
# **Balance Sheet (Rs. Crores)**	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Assets:										
Current Assets:										
Trade Receivables	354	520	396	811	700	616	922	1,236	1,605	1,741
Cash & Cash Equivalents	295	253	347	199	396	677	770	730	865	449
Inventory	10	0	0	0	0	0	3	29	98	47
Other Current Assets	160	178	176	171	208	254	279	409	577	554
Total Current Assets	**820**	**951**	**920**	**1,182**	**1,305**	**1,547**	**1,974**	**2,404**	**3,145**	**2,792**
Non-Current Assets:										
Net Block (PPE + Intangibles)	120	118	114	199	298	324	427	1,732	1,671	1,603
Capital Work-in-Progress (CWIP)	0	0	0	1	0	0	0	1	0	26
Investments	52	128	198	146	14	76	159	220	245	249
Total Non-Current Assets	172	247	313	346	312	400	586	1,953	1,916	1,878
Total Assets	**992**	**1,198**	**1,232**	**1,528**	**1,616**	**1,947**	**2,559**	**4,357**	**5,061**	**4,670**
Liabilities & Shareholders' Equity:										
Current Liabilities:										
Trade Payables	265	448	432	587	562	651	1,055	1,295	1,416	1,557
Other Current Liabilities	80	104	113	157	299	205	246	1,171	1,473	891
Total Current Liabilities	**345**	**552**	**545**	**744**	**861**	**856**	**1,301**	**2,466**	**2,889**	**2,448**
Borrowings	176	55	34	16	86	185	159	591	765	516
Non-Current Liabilities	176	55	34	16	86	185	159	591	765	516
Total Liabilities	**521**	**607**	**579**	**760**	**947**	**1,041**	**1,460**	**3,056**	**3,654**	**2,964**
Shareholders' Equity:										
Equity Share Capital	11	10	10	10	10	10	10	14	28	28
Reserves	460	580	643	758	659	895	1,089	1,287	1,379	1,678
Shareholders' Equity *(Less Minority Interest)*	471	590	653	768	670	905	1,099	1,301	1,406	1,706
Non-Controlling Interest	0	0	0	0	0	0	0	0	0	0
Total Shareholders' Equity	**471**	**590**	**653**	**768**	**670**	**905**	**1,099**	**1,301**	**1,406**	**1,706**
Total Liabilities & Equity	**992**	**1,198**	**1,232**	**1,528**	**1,616**	**1,947**	**2,559**	**4,357**	**5,061**	**4,670**
Validation	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*
Total Invested Capital	352	393	340	585	359	413	489	1,161	1,307	1,773

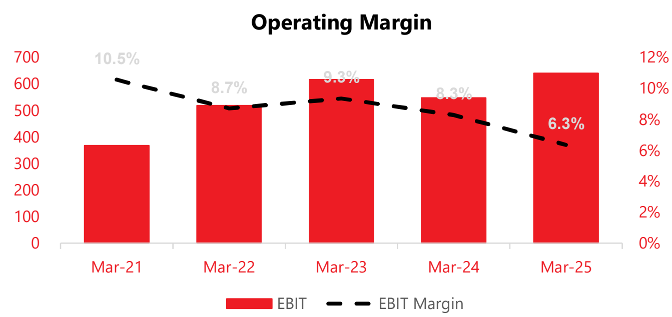
# **Cash Flow Statements (Rs. Crores)**	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Cash from Operating Activity	158	185	290	(6)	369	443	450	268	281	644
Cash from Investing Activity	(133)	(3)	104	13	139	(112)	(87)	(771)	(53)	(437)
Cash from Financing Activity	(30)	(173)	(140)	(166)	(310)	(62)	(271)	187	(109)	(433)
Net Cash Flow	**(4)**	**9**	**253**	**(160)**	**198**	**268**	**93**	**(316)**	**119**	**(226)**

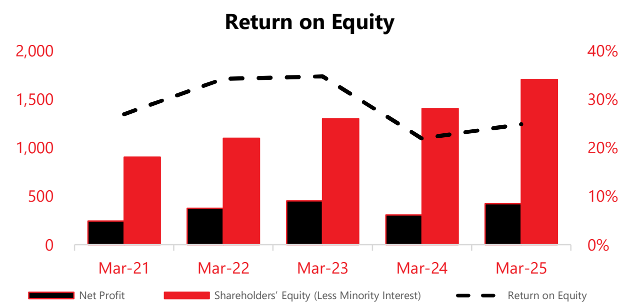
Financial Projections - SONATA SOFTWARE LTD

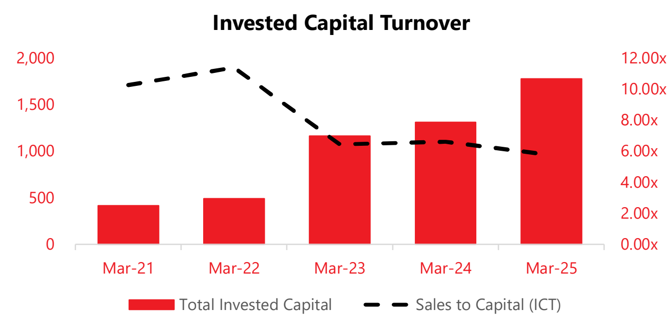
This report provides a detailed five-year financial projection for Sonata Software Ltd., covering fiscal years 2026 to 2030 (FY'26–FY'30). The projections are based on analyst estimates, historical financial performance, company fundamentals, industry trends, and macroeconomic factors. The report is structured into four sections: Revenue, EBIT Margin, Return on Equity (ROE), and Invested Capital Turnover Ratio, each with base, bull, and bear case scenarios. All figures are in INR Crore (Cr) unless otherwise stated, and projections align with the fiscal year ending March 31, as per Indian standards. The analysis draws on the latest available data, including analyst forecasts for FY'26 and FY'27, historical revenue data, and insights from the company's investor presentation and industry reports.

Financial Highlights









1. Revenue Projection (Mar-26 ---------- Mar-30)

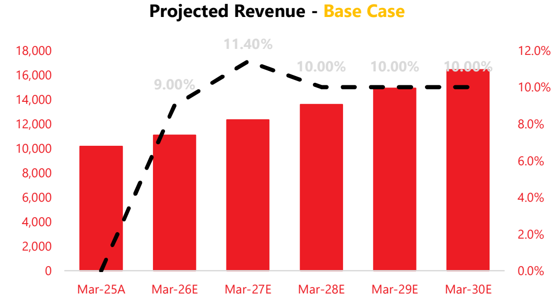
Sonata Software Ltd. operates in the Indian IT services sector, with a focus on modernization and digital engineering. The company's revenue is derived from two primary segments: International IT Services (providing IT solutions globally, particularly in cloud and data services) and Domestic Products & Services (including resale of software licenses, such as Microsoft products, and domestic IT services). The projections incorporate analyst estimates for FY'26 and FY'27, historical growth trends, and industry forecasts, with segment-specific assumptions to reflect differing growth dynamics.

a) Base Case Scenario

Mar-25A	**10,157**	-
Mar-26E	11,071	**9.00%**
Mar-27E	12,334	**11.40%**
Mar-28E	13,567	**10.00%**
Mar-29E	14,924	**10.00%**
Mar-30E	16,416	**10.00%**

The base case for FY'26 and FY'27 uses the average analyst estimates of ₹11,073 Cr and ₹12,337 Cr, respectively, reflecting a consensus view of moderate growth driven by continued demand for IT services and Sonata's strategic focus on cloud and data modernization, which scaled from 50% to 59% of revenue over the past three years. For FY'28 to FY'30, a 10% annual growth rate is assumed, aligning with the projected CAGR for the Indian IT services market (10.12% from 2025–2029, per Statista) and Sonata's historical 5-year CAGR of 22%, tempered by recent slower growth (17.9% in FY'25). The International IT Services segment is assumed to grow at 15% annually, driven by strong global demand for digital transformation and partnerships with major technology providers like Microsoft. The Domestic Products & Services segment grows at a slower rate, calculated to align with total revenue projections, reflecting potential challenges such as Microsoft's shift to direct license sales, which could impact revenue from this segment.

Projected Revenue - Base Case



Segment Breakdown:

•**International IT Services:** Assumed to grow at 15% per year, reflecting the company's focus on high-growth areas like cloud and data services, supported by a robust deal pipeline (e.g., three large deals won in Q1 FY'26) and verticals like BFSI and Healthcare, which grew from 13% to 35% of business over three years.

•**Domestic Products & Services:** Growth rates are derived to match total revenue projections, ranging from 6.1% to 9.5%, accounting for the high-volume, lower-margin nature of this segment and potential headwinds from client automation trends.

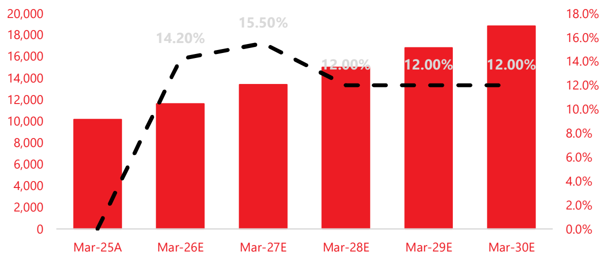
Table 1: Base Case Revenue Projection

Year	International IT Services (Cr)	Growth %	Domestic Products & Services (Cr)	Growth %	Total Revenue (Cr)	Total Growth %
FY'26	3,838	15.0%	7,235	6.1%	11,073	9.0%
FY'27	4,414	15.0%	7,923	9.5%	12,337	11.4%
FY'28	5,076	15.0%	8,557	8.0%	13,633	10.5%
FY'29	5,837	15.0%	9,242	8.0%	15,079	10.6%
FY'30	6,713	15.0%	9,981	8.0%	16,694	10.7%

b) Bull Case Scenario

Mar-25A →	**10,157**	-
Mar-26E →	11,600	**14.20%**
Mar-27E →	13,398	**15.50%**
Mar-28E →	15,005	**12.00%**
Mar-29E →	16,806	**12.00%**
Mar-30E →	18,823	**12.00%**

Projected Revenue - Bull Case



The bull case adopts the high analyst estimates for FY'26 (₹11,600 Cr) and FY'27 (₹13,394 Cr), reflecting an optimistic scenario where Sonata outperforms expectations due to successful execution of large deals (e.g., a $73-million deal in TMT sector announced in April 2025) and expansion in high-growth verticals like BFSI and Healthcare. For FY'28 to FY'30, a 12% annual growth rate is assumed, slightly above the industry CAGR, supported by Sonata's strong pipeline (12% of large deals in Q1 FY'26) and strategic partnerships with Microsoft, Amazon, and Google. The International IT Services segment is projected to grow at 20% annually, driven by aggressive market share gains and favorable global demand for AI and cloud services. The Domestic Products & Services segment grows at 12%, assuming stable demand and successful contract renewals at enhanced values.

Segment Breakdown:

- **International IT Services:** 20% growth, reflecting leadership in modernization engineering and new AI-driven offerings like AgentBridge.
- **Domestic Products & Services:** 12% growth, supported by new client wins in corporate and defense sectors and renewed contracts.

Table 2: Bull Case Revenue Projection

Year	International IT Services (Cr)	Growth %	Domestic Products & Services (Cr)	Growth %	Total Revenue (Cr)	Total Growth %
FY'26	4,005	20.0%	7,638	12.0%	11,643	14.6%
FY'27	4,806	20.0%	8,554	12.0%	13,360	14.7%
FY'28	5,767	20.0%	9,580	12.0%	15,347	14.9%
FY'29	6,920	20.0%	10,730	12.0%	17,650	15.0%
FY'30	8,304	20.0%	12,017	12.0%	20,321	15.1%

c) Bear Case Scenario

The bear case uses the low analyst estimates for FY'26 (₹10,558 Cr) and FY'27 (₹11,256 Cr), reflecting challenges such as revenue loss from a top client's automation efforts (e.g., Microsoft's direct license sales impacting ~$500 million of revenue) and global economic headwinds, as noted by ICRA's 4–6% industry growth forecast for FY'26. For FY'28 to FY'30, an 8% growth rate is assumed, below the industry average, accounting for increased competition from countries like the Philippines and China, and potential macroeconomic pressures like US trade tariffs. The International IT Services segment grows at 10%, constrained by competitive pressures, while the Domestic Products & Services segment grows at 5%, reflecting significant headwinds in the license resale business.

Segment Breakdown:

- **International IT Services:** 10% growth, limited by competition and slower deal conversions.
- **Domestic Products & Services:** 5% growth, impacted by client automation and reduced demand for license resales.

Mar-25A →	**10,157**	-
Mar-26E →	10,564	**4.00%**
Mar-27E →	11,261	**6.60%**
Mar-28E →	12,162	**8.00%**
Mar-29E →	13,135	**8.00%**
Mar-30E →	14,185	**8.00%**

Projected Revenue - Bear Case

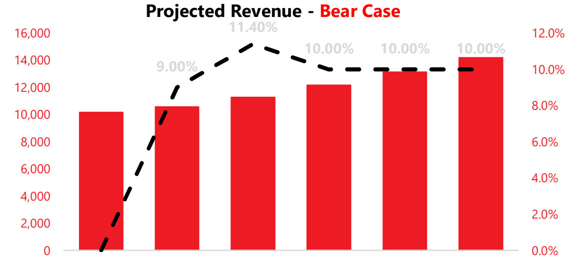


Table 3: Bear Case Revenue Projection

Year	International IT Services (Cr)	Growth %	Domestic Products & Services (Cr)	Growth %	Total Revenue (Cr)	Total Growth %
FY'26	3,671	10.0%	7,160	5.0%	10,831	6.6%
FY'27	4,038	10.0%	7,518	5.0%	11,556	6.7%
FY'28	4,442	10.0%	7,894	5.0%	12,336	6.7%
FY'29	4,886	10.0%	8,289	5.0%	13,175	6.8%
FY'30	5,375	10.0%	8,703	5.0%	14,078	6.8%

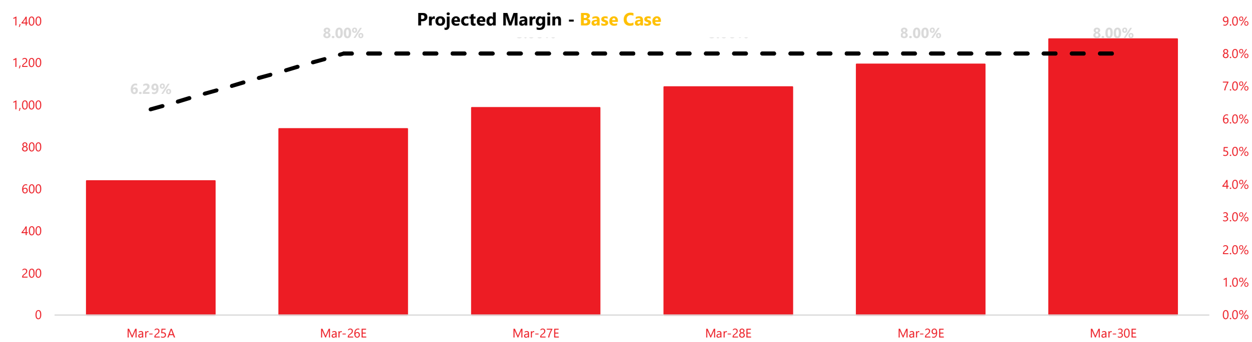
2. EBIT Margin Projection (Mar-26 ---------- Mar-30)

Sonata's current EBIT margin is approximately 6.3% (FY'25), reflecting a high-volume, lower-margin Domestic Products & Services segment and a more profitable International IT Services segment. The projections assume improvements driven by economies of scale, a shift toward high-margin services, and operational efficiencies, balanced against

a) Base Case Scenario

The base case assumes strong economies of scale and limited competition, leading to an EBIT margin of 8.0%. This improvement is driven by increased contribution from high-margin International IT Services (e.g., cloud and AI services) and operational efficiencies from a trained workforce (97% trained in generative AI, per Q4 FY'25 earnings call). The company's long-term margin aspiration of low-20s (as stated by management) is tempered by the high-volume Domestic segment, which faces margin pressure due to its reliance on license resales.

		EBIT
Mar-25A	6.29%	639
Mar-26E	8.00%	886
Mar-27E	8.00%	987
Mar-28E	8.00%	1,085
Mar-29E	8.00%	1,194
Mar-30E	8.00%	1,313

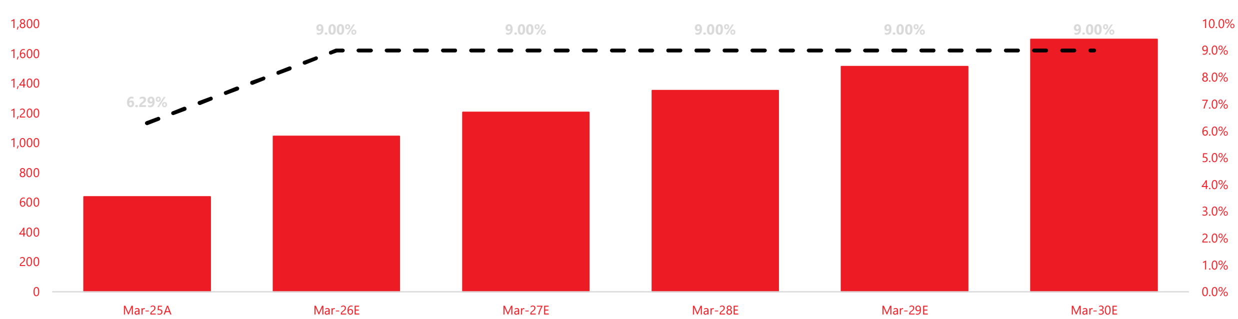


b) Bull Case Scenario

		EBIT
Mar-25A	6.29%	**639**
Mar-26E	9.00%	1,044
Mar-27E	9.00%	1,206
Mar-28E	9.00%	1,350
Mar-29E	9.00%	1,513
Mar-30E	9.00%	1,694

In the bull case, with strong economies of scale and minimal competition, the EBIT margin reaches 9.0%. This reflects optimal pricing power, successful execution of large deals, and a higher proportion of revenue from high-margin verticals like BFSI and Healthcare. The company's investments in AI (e.g., $34 million AI pipeline) and partnerships with hyperscalers enhance profitability.

Projected Margin - Bull Case

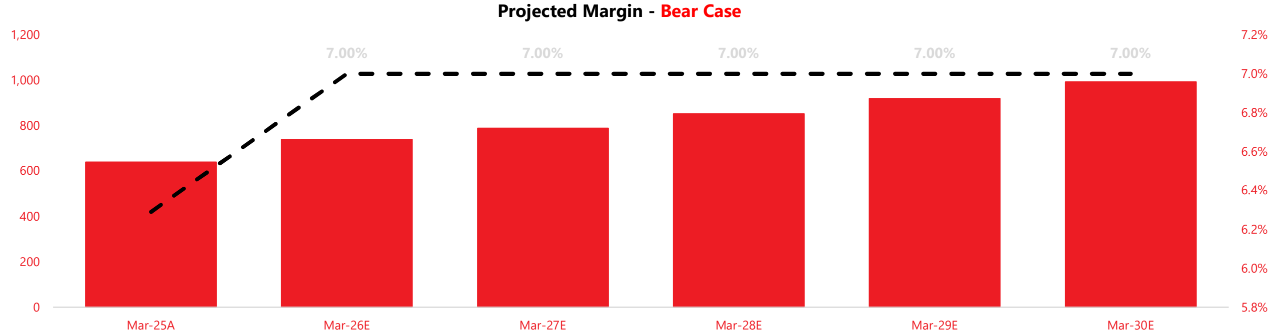


c) Bear Case Scenario

Despite strong economies of scale, high competition from global and domestic players (e.g., TCS, Infosys) and client automation trends (e.g., Microsoft's direct sales) pressure margins to 7.0%. Increased costs from salary hikes and hiring (600–650 campus hires planned for FY'25) also limit margin expansion.

		EBIT
Mar-25A	6.29%	**639**
Mar-26E	7.00%	739
Mar-27E	7.00%	788
Mar-28E	7.00%	851
Mar-29E	7.00%	919
Mar-30E	7.00%	993

Projected Margin - Bear Case



Target Operating Margin (Terminal)	
Historical Median -	9.63%
Industry Median -	18.78%
Base	**18.00%**
Bull	**23.00%**
Bear	**13.00%**

- **Base:** By FY'35, continued focus on high-margin services like AI and cloud modernization, coupled with cost optimization, is expected to drive margins to 18.0%, aligning with industry peers like Infosys (20–22% OPM, per ICRA).
- **Bull:** By FY'35, under favorable conditions, margins could reach 23.0%, driven by market leadership and reduced reliance on low-margin license resales.
- **Bear:** With persistent competition, margins stabilize at 13.0% by FY'35, reflecting a cautious outlook but still above current levels due to operational improvements.

3. Return on Equity Projection (Mar-26 ---------- Mar-30)

a) Base Case Scenario

With strong economies of scale and limited competition, ROE is projected at 32.0%, driven by increased profitability from International IT Services and efficient capital management (e.g., reduced debt, as noted on Screener.in). The company's healthy dividend payout (59.9%) supports shareholder value while maintaining reinvestment capacity.

Mar-25A	**30.20%**
Mar-26E	32.00%
Mar-27E	32.00%
Mar-28E	32.00%
Mar-29E	32.00%
Mar-30E	32.00%

b) Bull Case Scenario

Mar-25A	**30.20%**
Mar-26E	35.00%
Mar-27E	35.00%
Mar-28E	35.00%
Mar-29E	35.00%
Mar-30E	35.00%

In the bull case, with minimal competition, ROE reaches 35.0%, reflecting superior profitability from high-margin services and aggressive market share gains. The company's focus on AI and cloud services enhances returns on invested capital.

c) Bear Case Scenario

High competition and margin pressures result in an ROE of 28.0%, slightly below current levels, as profitability is constrained by competitive pricing and client automation trends.

Mar-25A	**30.20%**
Mar-26E	28.00%
Mar-27E	28.00%
Mar-28E	28.00%
Mar-29E	28.00%
Mar-30E	28.00%

Target ROE (Terminal)	
Historical Median -	30.90%
Industry Median -	23.29%
Base	**35.00%**
Bull	**40.00%**
Bear	**30.00%**

- Base: By FY'35, ROE is expected to reach 35.0%, aligning with top-tier IT firms like TCS (3-year ROE ~40%), driven by sustained profitability and optimized capital structure.
- Bull: By FY'35, ROE could reach 40.0%, positioning Sonata as a market leader with exceptional capital efficiency.
- Bear: By FY'35, ROE stabilizes at 30.0%, reflecting a competitive but stable environment with limited upside due to market saturation.

4. Invested Capital Turnover (ICT) Projection (Mar-26 ---------- Mar-30)

Sonata's current sales-to-capital ratio is approximately 5.73x (FY'25), indicating efficient asset utilization. The projection assumes a stable company with efficient future growth, maintaining a ratio of 6.0x. This slight improvement reflects enhanced operational efficiency and increased revenue from existing assets, driven by the company's focus on digital transformation and cloud services. Industry benchmarks (e.g., TCS and Infosys typically achieve 5–7x) and macro trends like rising IT spending in India (11.1% growth in 2024, per IBEF) support this assumption. The ratio is consistent across all scenarios, as it reflects structural efficiency rather than competitive dynamics.

Current ICT	**5.73x**
Historical Median -	**6.50x**
Industry Median -	**2.18x**
Predictaed in Year 5	**6.00x**

To forecast invested capital turnover (Sales / (Debt + Equity – Cash)), we use a fade-adjusted approach that blends the company's historical efficiency with industry norms. For younger companies, the industry benchmark carries greater weight, assuming the firm is still optimizing capital deployment. In contrast, mature businesses are projected primarily based on their historical capital efficiency. The 5-year target is reached through a gradual linear convergence from current levels, ensuring a smooth and realistic transition path that reflects business evolution over time.

Final Thought

This five-year financial projection for Sonata Software Ltd. provides a comprehensive outlook based on analyst estimates, historical performance, and industry trends. The base case reflects a balanced growth trajectory, with revenue reaching ₹16,421 Cr by FY'30, driven by strong International IT Services growth. The bull case envisions a more aggressive expansion to ₹18,815 Cr, while the bear case accounts for challenges, projecting ₹14,179 Cr. EBIT margins are expected to improve to 7.0–9.0%, ROE to 28.0–40.0%, and the invested capital turnover ratio to stabilize at 6.0x. These projections are suitable for institutional-level equity research, offering a clear view of potential outcomes under varying market conditions.

References:

-Analyst estimates provided by the user.
-Historical financial data from Screener.in.
-Industry growth rates from Statista and Business Standard.
-Company-specific insights from Sonata Software Investor Relations and PR Newswire.

Weighted Average Cost of Capital - SONATA SOFTWARE LTD

This document presents the calculation of the Weighted Average Cost of Capital (WACC) for SONATA SOFTWARE LTD. The WACC is a critical financial metric that represents the average rate of return required by all of the company's security holders, including equity investors and debt holders. It is used in financial modeling and valuation to discount future cash flows and assess investment opportunities. The following calculations are based on the latest available financial data and market information as of the date of this analysis.

Top Peers of SONATA SOFTWARE LTD

All figures are in INR Cr. unless stated otherwise.

Name	Country	Mkt Value of Equity	Debt	Tax Rate [1]	Debt/ Equity	Debt/ Capital	Levered Beta [2]	Unlevered Beta [3]
Sonata Software	**India**	**10,226**	**516**	**30%**	**5.05%**	**4.80%**	**1.34**	**1.29**
TCS	India	1,086,512	9,392	30%	0.86%	0.86%	0.86	0.85
Infosys	India	608,187	8,485	30%	1.40%	1.38%	1.09	1.08
HCL Technologies	India	394,051	6,276	30%	1.59%	1.57%	1.07	1.06
Wipro	India	254,469	19,204	30%	7.55%	7.02%	1.11	1.05
LTIMindtree	India	148,693	2,187	30%	1.47%	1.45%	1.10	1.09
Tech Mahindra	India	140,894	2,025	30%	1.44%	1.42%	1.05	1.04
Persistent Sys	India	79,162	311	30%	0.39%	0.39%	1.29	1.29
Coforge	India	57,080	1,070	30%	1.88%	1.84%	1.14	1.13
Mphasis	India	52,459	1,116	30%	2.13%	2.08%	1.47	1.45
Hexaware Tech.	India	42,280	582	30%	1.38%	1.36%	0.00	0.00
			Average	30.00%	2.28%	2.20%	1.05	1.03
			Median	30.00%	1.47%	1.45%	1.10	1.08

Capital Structure

		Current	Target
Total Debt	516	4.80%	1.45%
Market Capitalization	10,226	95.20%	98.55%
Total Capitalization	10,742	100%	100%
Debt / Equity		**5.05%**	**1.47%**

Levered Beta

Peers Median Unlevered Beta	1.08
Target Debt/ Equity	1.47%
Tax Rate	30%
Levered Beta	**1.09**

Cost of Debt

Interest Coverage Ratio	9.8x
Default Spread [5]	0.45%
Pre-tax Cost of Debt	6.82%
Tax Rate	30.00%
After Tax Cost of Debt	**4.77%**

Cost of Equity

Risk Free Rate [6]	6.37%
Equity Risk Premium [7]	6.87%
Levered Beta [4]	1.09
Cost of Equity	**13.86%**

Weighted Average Cost of Capital

Cost of Equity	13.86%
Equity Weight	98.55%
Cost of Debt	4.77%
Debt Weight	1.45%
WACC	**13.73%**

The cost of equity, estimated using the Capital Asset Pricing Model (CAPM), is 13.86%. The overall cost of capital (WACC) is calculated at 13.73%, incorporating multiple layers of risk including currency risk, country risk, company-specific risk, and credit (debt) risk. All inputs and assumptions have been carefully derived from reliable and credible data sources to ensure the highest possible accuracy.

Notes

1. The tax rate used in the calculations is the marginal tax rate applicable in India.

2. The levered beta is estimated using 5 years of monthly stock return data relative to the appropriate market index.

*3. The unlevered beta is calculated using the formula: Unlevered Beta = **Levered Beta / (1 + (1 - Tax Rate) × (Debt / Equity))***

*4. The company's levered beta is calculated using the formula: Levered Beta = **Unlevered Beta / (1 + (1 - Tax Rate) × (Debt / Equity))***

5. The default spread for the pretax cost of debt is determined using the synthetic rating method, which is based on the company's interest coverage ratio, which can be current or historical median, based on the current market scenario.

6. The risk-free rate is the yield on the 10-year Indian Treasury bond.

7. The equity risk premium is calculated as the sum of the equity risk premium for a developed market (specifically, the United States) and the country risk premium for India.

Free Cash Flow to Firm Model (FCFF) - SONATA SOFTWARE LTD

This report outlines a Free Cash Flow to Firm (FCFF)-based Discounted Cash Flow (DCF) valuation model. The model is designed using a methodology inspired by Ivy League professors and is widely accepted globally. Its purpose is to estimate the enterprise and equity value of a company by forecasting its cash flows over a multi-year period and discounting them to present value.

The model forecasts unlevered free cash flows over a 10-year horizon, incorporating company-specific operational drivers, macroeconomic conditions, and alternative data insights.

The DCF model employed in this analysis follows a structured three-stage framework, enabling a realistic projection of a company's financial trajectory:

1. High Growth Phase (Years 1–5): This initial stage captures a period of accelerated growth, driven by strong revenue expansion, improving margins, and reinvestment. The firm is expected to generate returns on invested capital (ROIC) significantly above its cost of capital.

2. Transition Phase (Years 6–10): During this intermediate stage, the company’s growth rate and profitability gradually normalize. Key financial metrics such as ROIC, reinvestment rate, and cost of capital begin to converge toward stable long-term averages, reflecting a maturing business.

3. Stable Growth Phase (Terminal Year Onward): In the final stage, the firm reaches financial stability with modest, perpetual growth. Cash flows are assumed to grow at a constant rate, and excess returns diminish as the company becomes fully mature.

This multi-stage approach ensures a balanced valuation by capturing both near-term performance and long-term sustainability.
Forecast assumptions such as revenue growth rates, operating margins, and reinvestment rates (sales-to-capital ratio) are discussed in the **Financial Projections** section, while the cost of capital is detailed in the **WACC** section. The table presented here reflects the **Base Case Scenario**, as discussed in the financial projections. For alternate scenarios, refer to the upcoming **Scenario Analysis** section.

(Amount in INR Cr.)

		1	2	3	4	5	6	7	8	9	10	
Year	*Mar-25A*	*Mar-26E*	*Mar-27E*	*Mar-28E*	*Mar-29E*	*Mar-30E*	*Mar-31E*	*Mar-32E*	*Mar-33E*	*Mar-34E*	*Mar-35E*	Terminal Value
Revenue Growth Rate		*9.00%*	*11.40%*	*10.00%*	*10.00%*	*10.00%*	*9.27%*	*8.55%*	*7.82%*	*7.10%*	*6.37%*	*6.37%*
Revenues	**10,157**	**11,071**	**12,334**	**13,567**	**14,924**	**16,416**	**17,938**	**19,472**	**20,995**	**22,485**	**23,918**	**25,441**
EBIT Margin	*6.29%*	*8.00%*	*8.00%*	*8.00%*	*8.00%*	*8.00%*	*10.00%*	*12.00%*	*14.00%*	*16.00%*	*18.00%*	*18.00%*
EBIT	**639**	**886**	**987**	**1,085**	**1,194**	**1,313**	**1,794**	**2,337**	**2,939**	**3,598**	**4,305**	**4,579**
Tax Rate(T)	*25.97%*	*25.97%*	*25.97%*	*25.97%*	*25.97%*	*25.97%*	*26.78%*	*27.58%*	*28.39%*	*29.19%*	*30.00%*	*30.00%*
EBIT(1-T)	**473**	**656**	**730**	**803**	**884**	**972**	**1,313**	**1,692**	**2,105**	**2,547**	**3,014**	**3,206**
Sales to Capital	*5.73x*	5.78x	5.84x	5.89x	5.95x	6.00x	6.00x	6.00x	6.00x	6.00x	6.00x	6.00x
Less: Reinvestment		**158**	**216**	**209**	**228**	**249**	**254**	**256**	**254**	**248**	**239**	**1,090**
FCFF		**498**	**514**	**594**	**656**	**723**	**1,060**	**1,437**	**1,851**	**2,299**	**2,775**	**2,115**
Cost of Capital		*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*	*13.73%*
Discount Factor		*0.879*	*0.773*	*0.680*	*0.598*	*0.526*	*0.462*	*0.406*	*0.357*	*0.314*	*0.276*	
PV(FCFF)		**438**	**398**	**404**	**392**	**380**	**490**	**584**	**661**	**722**	**766**	
Invested capital	**1,773**	**1,931**	**2,147**	**2,356**	**2,584**	**2,833**	**3,087**	**3,342**	**3,596**	**3,844**	**4,083**	
ROIC	*26.68%*	*33.96%*	*34.02%*	*34.10%*	*34.20%*	*34.32%*	*42.55%*	*50.63%*	*58.53%*	*66.26%*	*73.80%*	*18.73%*

Calculation of Terminal Value	
Terminal Cash flow	2,115
Terminal Cost of Capital	13.73%
Terminal Value	28,739
PV(Terminal Value)	**7,937**

Calculation of Enterprise Value		
PV (CF over next 10 years)		5,234
Sum of PV		13,171
Default Spread		0.45%
Synthetic Rating		**Aaa/AAA**
Probability of failure [2]		2%
Distress Proceeds [1]	**B**	70%
Proceeds if firm fails		1,555
Value of Operating Assets		**12,997**

Calculation of Intrinsic Value		
Less: Debt		516
Less: Minority Interest		0
Add: Cash		449
Value of Equity		12,930
Number of Shares		28.04
Current Price		364.65
Estimated value/share	₹	**461.14**
Trading at Discount: Undervalued by -		**20.92%**

Notes:

1. Distress Proceeds (or Recovery Rate): This represents the expected percentage of debt value recoverable per ₹100 of face amount in a default scenario. Methodologically, we infer it by mapping the firm’s synthetic credit spread—itself derived from the Interest Coverage Ratio—to a corresponding credit-rating bucket, and then applying long-term empirical “distress proceeds” averages for that bucket (e.g. ~70% for AAA, ~55% for BBB, ~25% for CCC).

2. Probability of Failure: The one-year default probability reflects the market’s implied likelihood of default, net of expected recoveries. We calculate it by first converting the ICR into a synthetic spread (using an approximate-match lookup of coverage bands), then applying the standard market-implied formula:

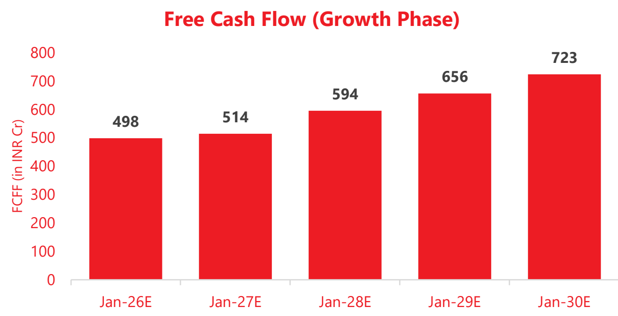
$$\textbf{\textit{Probability}} = \textbf{\textit{Synthetic Spread}} / (1 - \textbf{\textit{Recovery Rate}})$$

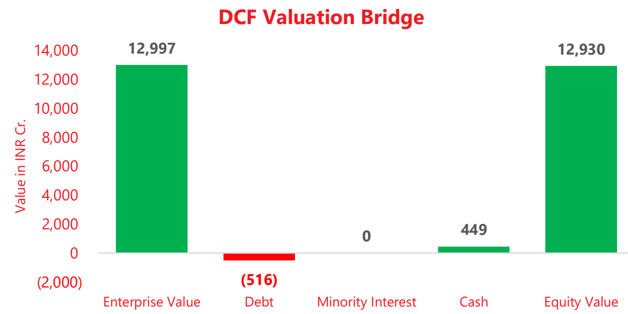
3. Terminal Growth Rate: The terminal growth rate is set equal to the risk-free rate (typically the 10-year T-bond yield), representing the long-term sustainable growth ceiling aligned with the economy's risk-free expansion potential.

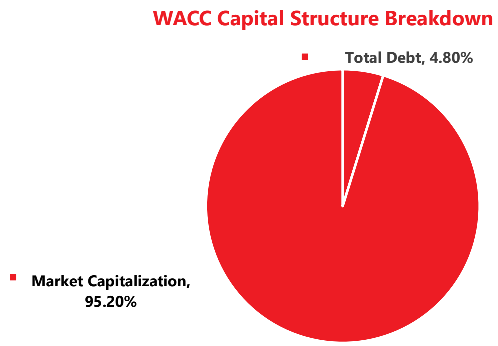
4. Terminal Cost of Capital: Mature firms tend to have cost of capital levels closer to the market average. A general rule is:
- **Risk-free rate + 4.5%** for an average-risk mature firm
- **Risk-free rate + 6%** for mature firms in riskier industries
- **Risk-free rate + 4%** for safer, more stable mature companies

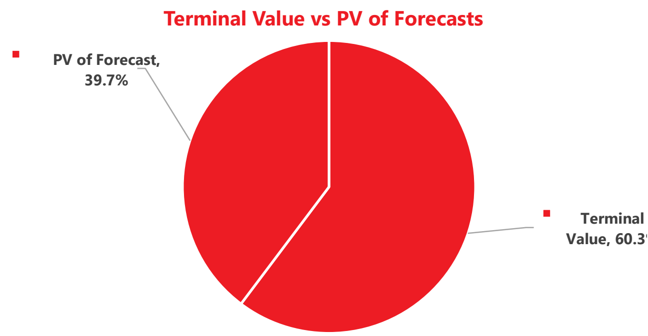
(This adjustment reflects the declining business risk profile over time.)

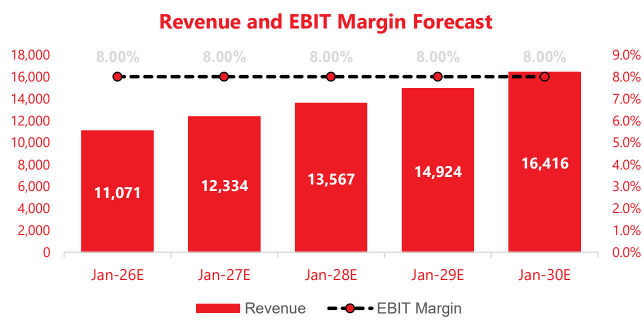
5. Terminal Return on Invested Capital (ROIC): The default assumption is that competitive advantages diminish over time, causing ROIC to converge to the cost of capital. This is a realistic scenario for most firms. However, firms with strong and sustainable competitive advantages (e.g., brand power or network effects) may continue earning **excess returns** beyond year 10. In such cases, a terminal ROIC slightly above the cost of capital may be justified, but should be capped—**not exceeding a 5% spread** for mature companies to avoid overestimation.

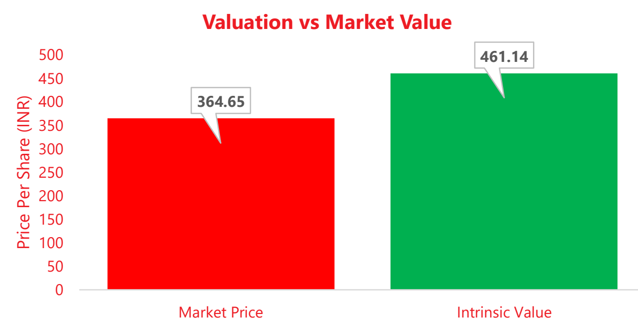












Model Output

Under the base case scenario, the FCFF valuation model estimates an enterprise value of ₹12,997 crore. After adjusting for net debt and minority interests, the resulting equity value is ₹12,930 crore, implying an intrinsic value of ₹461.14 per share. In comparison to the current market price of ₹364.65, the stock appears to be trading at a Discount of approximately 20.92%, suggesting Undervalued under the given assumptions.

Key Value Driver Sensitivity

While the Discounted Cash Flow (DCF) valuation using the Free Cash Flow to Firm (FCFF) approach provides a detailed intrinsic value estimate, it heavily depends on input assumptions. Given the inherent uncertainty in long-term forecasting, we conduct a **sensitivity analysis** to evaluate how changes in key variables affect the estimated fair value of the business. This adds a layer of robustness and transparency to our valuation by highlighting the range of potential outcomes.

Variables Selected for Sensitivity Testing:

After evaluating various drivers of the model, we selected the following two variables for sensitivity analysis:

1. Terminal Growth Rate (g): The **terminal value** contributes a significant portion of the total enterprise value in a DCF model—often over 50%. A slight change in the **terminal growth rate** materially affects the terminal value and thus the overall valuation. Since estimating growth in perpetuity is speculative and macro-driven, testing its impact helps investors understand best-case and worst-case long-term scenarios.

2. Weighted Average Cost of Capital (WACC): WACC is the discount rate applied to future free cash flows; even minor adjustments can cause large valuation shifts, especially in longer-duration cash flows. It reflects the **cost of equity, debt, and overall capital structure**—which may change due to market volatility, interest rate movement, or perceived business risk. Stress-testing the WACC helps gauge how sensitive the business's valuation is to changes in its risk premium or capital mix.

Sensitivity Table:

Below is the matrix showing how the Enterprise value and Intrinsic equity value per share changes with different combinations of WACC and terminal growth rate.

Implied Enterprise Value (INR Crores)

WACC ↓ \ Terminal Growth Rate →	5.10%	5.73%	6.37%	7.01%	7.65%
12.48%	14,445	15,020	15,691	16,491	17,468
13.10%	13,224	13,693	14,231	14,859	15,607
13.73%	12,168	12,557	**12,997**	13,501	14,089
14.36%	11,247	11,574	11,939	12,351	12,824
14.99%	10,437	10,714	11,021	11,363	11,750

Implied Value Per Share (INR)

WACC ↓ \ Terminal Growth Rate →	5.10%	5.73%	6.37%	7.01%	7.65%
12.48%	512.8	533.3	557.2	585.7	620.6
13.10%	469.2	486.0	505.2	527.6	554.2
13.73%	431.6	445.5	**461.1**	479.1	500.1
14.36%	398.7	410.4	423.4	438.1	455.0
14.99%	369.8	379.7	390.7	402.9	416.7

Sensitivity Table Output:

This sensitivity analysis demonstrates that the DCF output is particularly reactive to **WACC and terminal growth rate**—underscoring the importance of precision in estimating these inputs. The **lower range** of valuation occurs when WACC is high and terminal growth is low, indicating a pessimistic market and business environment. The **upper range** reflects optimistic growth expectations and lower capital costs.

In our base case, assuming a WACC of 13.73% and a terminal growth rate of 6.37%, we estimate: Enterprise Value of ₹12,997 Cr, Intrinsic Equity Value per Share of ₹461.1

However, under reasonable variations, the valuation range spans: EV: ₹10,437 Cr to ₹17,468 Cr and Per Share: ₹369.8 to ₹620.6.

This range provides investors with a more realistic view of valuation risk under differing macro or business assumptions.

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Scenario-Based Valuation Outlook

This section presents a scenario analysis for the Discounted Cash Flow (DCF) valuation using Free Cash Flow to the Firm (FCFF). The analysis evaluates the impact of varying four key inputs—revenue growth, operating margin, Weighted Average Cost of Capital (WACC), and terminal growth rate—across three scenarios: Base Case, Optimistic Case, and Pessimistic Case. The scenarios are designed to reflect potential economic, market, and operational conditions affecting the valuation. Detailed assumptions for revenue growth and operating margin are provided in the Projection section, while reasons for WACC and terminal growth rate variations are outlined below.

Statistical Forecast Validation: OLS Regression Cross-Check:

While the Base, Bull, and Bear case forecasts in this report are meticulously constructed using a combination of, **Historical financial performance**, **Management guidance from the latest earnings call**, and **Macroeconomic and industry-specific dynamics**, we recognize the importance of validating these scenario-based projections through an **objective, data-driven lens**.

To this end, we have employed a **linear regression model (OLS – Ordinary Least Squares)** based on historical trends of key financial metrics (e.g., Revenue). This regression provides a **statistically derived "intrinsic growth trajectory"**, free from any judgmental or qualitative bias. The intent here is **not to replace** scenario-based forecasting, but to **stress test and benchmark** its assumptions. If the Base Case projections significantly deviate from the OLS-estimated path, it may indicate either overly optimistic/pessimistic assumptions or a structural shift in business fundamentals.

Year	Sales	Growth
Mar-25A	10,157	
Mar-26E	12,256	20.66%
Mar-27E	14,461	17.99%
Mar-28E	16,678	15.33%
Mar-29E	18,790	12.66%
Mar-30E	20,669	10.00%

📊 **Interpretation Framework:**

To assess how closely the Cases aligns with the OLS estimate, we classify the deviation as follows:

a) > 25% deviation = **"Statistically Divergent" -** Projections may reflect aggressive assumptions or a major anticipated shift
b) 10 – 25% deviation = **"Statistically Marginal" -** Projections differ but within a justifiable range given qualitative context
c) < 10% deviation = **"Statistically Aligned" -** Projections closely follow historical patterns; assumptions appear validated

Key Assumptions:

(For detailed explanation refer Projections section)

1. Revenue Growth Rates

	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	14.20%	15.50%	12.00%	12.00%	12.00%
Base	9.00%	11.40%	10.00%	10.00%	10.00%
Bear	4.00%	6.60%	8.00%	8.00%	8.00%
OLS	20.66%	17.99%	15.33%	12.66%	10.00%

(For detailed explanation refer Projections section)

2. Operating Margins

	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	9.00%	9.00%	9.00%	9.00%	9.00%
Base	8.00%	8.00%	8.00%	8.00%	8.00%
Bear	7.00%	7.00%	7.00%	7.00%	7.00%
OLS	7.54%	8.79%	10.04%	11.29%	12.54%

3. WACC (Cost of Capital): We adjust the WACC to reflect broad economic and market conditions. In the Bull scenario we assume a more favorable macro environment (lower risk premiums, stable rates), resulting in a lower WACC. In the Bear scenario we assume rising interest rates, higher credit spreads and risk aversion, yielding a higher WACC. WACC inputs (risk-free rate, equity premium, debt spread) vary with macroeconomic and capital market factors. For example, if central banks raise rates or investors demand higher returns for risk, the company's cost of capital increases (raising WACC).

4. Terminal Growth Rate: The terminal growth rate reflects long-term economic and industry factors. It is typically set in line with sustainable GDP or inflation rates, since a firm cannot grow perpetually faster than the economy. In our Base case we use a conservative long-term growth (e.g. near long-run GDP), the Bull case may allow a slightly higher rate if secular tailwinds are expected, and the Bear case assumes a lower terminal growth (mature industry or deflationary pressures). As valuation best practices note, terminal growth should remain realistic (often in the

	Bull	Base	Bear	OLS
WACC	13.10%	13.73%	14.36%	13.73%
Terminal	7.01%	6.37%	5.73%	6.37%

Scenario Output Comparison:

	Bull Case	Base Case	Bear Case	OLS
Enterprise Value (EV)	21,800	12,997	7,515	17,913
Equity Value	21,733	12,930	7,449	17,847
Intrinsic Value per Share	775.07	461.14	265.64	636.47

Statistically Divergent

The above scenario analysis yields an equity value per share of ₹775.07, ₹461.14, and ₹265.64 under the Bull, Base, and Bear cases, respectively. Based on our OLS (Ordinary Least Squares) regression analysis, the Base Case projection is considered ' Statistically Divergent' with the historical statistical trend.

Relative Valuation - SONATA SOFTWARE LTD

This report applies a **comparables (peer) valuation** framework using key pricing multiples. In a comparables analysis, we identify similar companies and compute standardized multiples (e.g. EV/Revenue, EV/EBITDA, EV/FCF, P/B, P/E). We then take a central tendency (commonly the median) of these peer multiples and apply it to the company's own financial metrics to estimate its value. This approach is straightforward and widely used, though it relies on the assumption that the company's growth, margins and risk profile are broadly in line with the peer group.

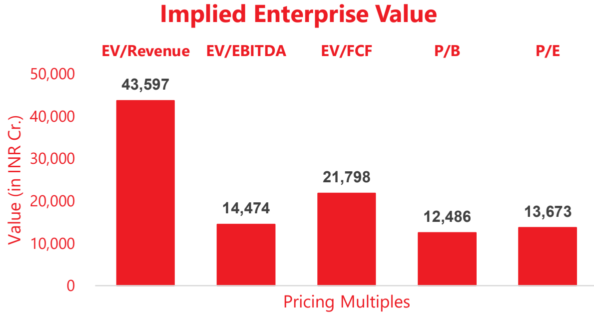
Peer Selection: Our peer set includes the largest publicly traded firms that operate in similar markets and business segments. We gather the latest market and financial data for each: share price and count, market capitalization, net debt (total debt less cash), revenue, EBITDA, free cash flow (FCF), book value and net income. These figures are taken from recent financial statements, stock exchange filings or financial databases as of the valuation date. Enterprise Value (EV) is computed as Equity Value + Debt – Cash. Net debt is defined as total interest-bearing debt minus cash/cash equivalents. All values are in ₹ (crore) for consistency.

Multiples and Percentiles: For each company we compute the following multiples: **EV/Revenue**, **EV/EBITDA**, **EV/FCF**, **P/B (Price/Book)**, and **P/E (Price/Earnings)**. (EV-based multiples are capital-structure-neutral, using EV in numerator and sales/EBITDA/FCF in denominator; equity multiples use share price and per-share metrics.) We then aggregate the peer multiples. To summarize these, we calculate the **25th percentile**, **median (50th percentile)**, and **75th percentile** of each multiple across the peer set. In practice, analysts often

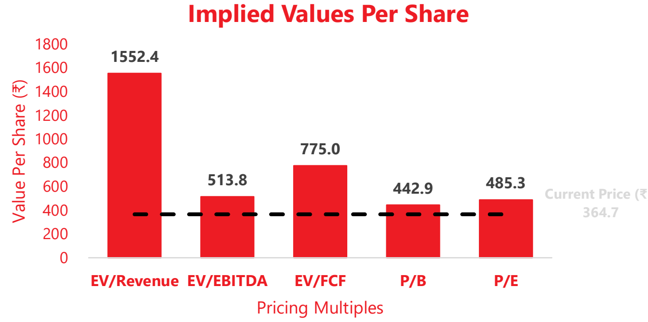
(Amount in INR Cr.)

Company	Market Data			Financials				Pricing Multiples				
	Share Price	Shares Outstanding	Enterprise Value	Revenue	EBITDA	Free Cash Flow	Net Income	EV/Revenue	EV/EBITDA	EV/FCF	P/B	P/E
Sonata Software	**365**	**28.04**	**10,292**	**10,595**	**749**	**577**	**428**	**1.0x**	**13.7x**	**17.9x**	**6.0x**	**23.9x**
TCS	3,003	361.81	1,080,441	256,148	72,270	44,994	49,511	4.2x	15.0x	24.0x		21.9x
Infosys	1,465	415.43	589,213	165,954	43,549	33,457	27,300	3.6x	13.5x	17.6x	6.4x	22.3x
HCL Technologies	1,452	271.37	379,038	119,347	27,586	21,178	16,984	3.2x	13.7x	17.9x	5.7x	23.2x
Wipro	243	1048.28	261,476	89,259	22,159	15,651	13,518	2.9x	11.8x	16.7x	3.1x	18.8x
LTIMindtree	5,018	29.63	147,292	38,706	7,692	3,612	4,722	3.8x	19.2x	40.8x	6.6x	31.5x
Tech Mahindra	1,439	97.92	138,377	53,334	8,271	5,303	4,517	2.6x	16.7x	26.1x	5.2x	31.2x
Persistent Sys	5,062	15.64	78,447	12,535	2,376	964	1,519	6.3x	33.0x	81.4x	12.4x	52.1x
Coforge	1,706	33.45	57,267	13,419	2,111	680	1,153	4.3x	27.1x	84.2x	8.9x	49.5x
Mphasis	2,757	19.02	51,963	14,540	2,993	1,845	1,739	3.6x	17.4x	28.2x	5.4x	30.2x
Hexaware Tech.	694	60.88	40,942	12,759	2,113	1,417	1,327	3.2x	19.4x	28.9x	7.3x	31.9x
High								6.3x	33.0x	84.2x	12.4x	52.1x
75th Percentile								4.1x	19.3x	37.8x	7.3x	31.8x
Median								**3.6x**	**17.0x**	**27.1x**	**6.4x**	**30.7x**
25th Percentile								3.2x	14.0x	19.4x	5.4x	22.5x
Low								2.6x	11.8x	16.7x	3.1x	18.8x
Implied Enterprise Value								43,597	14,474	21,798	12,486	13,673
Net Debt								67	67	67	67	67
Implied Market Value								43,531	14,407	21,731	12,419	13,606
Shares Outstanding								28.04	28.04	28.04	28.04	28.04
								1552.44	513.82	775.01	442.91	485.25
Implied Value per Share (₹)	***(Based on Median)***							**1552.4**	**513.8**	**775.0**	**442.9**	**485.3**
Current Price (₹)	**364.7**							**Underpriced**	**Underpriced**	**Underpriced**	**Underpriced**	**Underpriced**

Implied Enterprise Value



Implied Values Per Share



Model Output

Based on the 75th Percentile peer multiples, SONATA SOFTWARE LTD's implied equity value per share ranges roughly from ₹442.9 to ₹1552.4 depending on the chosen metric. We stress that this is a simplified illustrative exercise: true valuation would require adjustments for growth differences, one-time items, accounting variations, and forward ("next-twelve-months") estimates. Moreover, the use of historical or forward multiples, currency effects, and market timing can all sway the result. Analysts often present a valuation range (e.g. using the 25th–75th percentile of each multiple) to capture this uncertainty.

Business Resilience & Opportunity Analysis

Sonata Software Ltd., a leading IT services provider with 39 years of experience, specializes in modernization and digital engineering, positioning itself as a key player in the global IT landscape. This Business Resilience & Opportunity Analysis, structured as a SWOT framework, evaluates Sonata's internal strengths and weaknesses alongside external opportunities and threats. By leveraging key performance indicators (KPIs) such as revenue growth, client wins, and employee headcount, this report provides a comprehensive view of the company's strategic position and future prospects. The analysis is based on the company's investor presentation for Q1 FY'26 and relevant industry insights, with financial data in INR or INR Cr. as per the user's request. The objective is to offer institutional-grade insights for investors and stakeholders assessing Sonata's resilience and growth potential.

Strengths

Sonata Software's internal capabilities provide a robust foundation for its market position and growth trajectory. The following strengths highlight its competitive advantages:

- **Extensive Industry Experience**: With 39 years as an IT solutions provider, Sonata has cultivated deep domain expertise and a strong reputation for reliability. This longevity fosters trust among clients, enabling the company to secure long-term engagements and build lasting relationships.

- **Specialization in Modernization and Digital Engineering**: Sonata's focus on modernization, branded as "The Modernization Engineering Company," aligns with the increasing demand for updating legacy systems. A notable example is its success in replacing a legacy COM-based Outlook add-in with a modern, React-based solution for a global insurance technology company, ensuring cross-platform compatibility and enhanced productivity (Investor Presentation, PAGE25).

- **Strategic Partnership with Microsoft**: A 30+ year partnership with Microsoft enhances Sonata's credibility and provides access to cutting-edge technologies, particularly in Microsoft Dynamics, cloud solutions, and retail (PAGE21). This alliance strengthens its service offerings and market reach.

- **Global Presence and Diverse Client Base**: Operating across multiple countries, Sonata serves clients in industries such as Retail, Manufacturing, Travel, Technology, Media, and Telecom (TMT), Healthcare, and Financial Services. Its global footprint reduces dependence on any single market, enhancing resilience.

- **Proven Track Record in Large Deals**: Sonata's ability to secure significant contracts, such as a $73 million, five-year transformational engagement with a US-based TMT company in April 2025, demonstrates its capability to handle complex, high-value projects.

- **Unique PLTFORMATION Framework**: The proprietary PLTFORMATION framework differentiates Sonata by offering a structured approach to delivering modernization services, enhancing efficiency and client outcomes.

- **Consistent Revenue Growth**: The company has achieved a 10-year compound annual growth rate (CAGR) of 15.4%, reflecting strong financial performance and market demand for its services (PAGE4). For FY25, consolidated sales reached INR 10,157.25 crore, up 17.93% year-over-year.

Weaknesses

Despite its strengths, Sonata Software faces internal challenges that could impact its performance and resilience:

- **Dependence on Key Clients**: The company's reliance on a few large clients poses a significant risk. For instance, a warning about lower-than-expected Q4 FY25 revenue from its largest international client led to a 13.5% stock price drop, highlighting vulnerability to client-specific issues.

- **Declining Profitability Margins**: Despite revenue growth, Sonata's net profit margin has declined from 8.2% in Mar-16 to 4.2% in Mar-25. This trend, coupled with a 2.56% net profit decline to INR 107.53 crore in Q4 FY25, suggests challenges in cost management or pricing power amid competitive pressures.

- **Need for Continuous Innovation**: Operating in a rapidly evolving IT industry requires ongoing investment in emerging technologies like AI and cloud computing. The presentation's emphasis on investing in AI capabilities (PAGE7) indicates potential gaps in current expertise, necessitating significant resources to stay competitive.

- **Operational Challenges in Complex Projects**: Modernization projects, such as those involving legacy system upgrades, can be complex and prone to delays or cost overruns. The success story of addressing compatibility issues with a legacy add-in (PAGE25) suggests that such challenges are not uncommon, potentially affecting client satisfaction and project profitability.

- **Potential Geographic Concentration**: While Sonata operates globally, a significant portion of its revenue appears to come from the US market, as evidenced by large deals with US-based clients (PAGE10). This concentration could expose the company to regional economic or political risks, though specific revenue breakdowns by geography are not provided in the presentation.

Opportunities

External market trends and strategic initiatives present significant growth opportunities for Sonata Software:

- **Growing Demand for Digital Transformation**: The global digital transformation market is projected to reach USD 4,617.78 billion by 2030, growing at a CAGR of 28.5% from 2025 . Sonata's expertise in modernization positions it to capture a share of this expanding market.

- **Expansion into New Sectors**: The company's strategic investment in Healthcare and Life Sciences, as outlined in its "Invest" pillar, aligns with the increasing adoption of digital solutions in these sectors. For example, healthcare's digital transformation market is driven by IoT and AI innovations, offering growth potential.

- **Advancements in AI and Emerging Technologies**: Sonata's focus on enhancing AI capabilities taps into the growing AI software market, expected to reach $126 billion by 2025.

- **Global Market Expansion**: With a presence in multiple countries, Sonata can further penetrate emerging markets like Asia-Pacific, where the IT services market is expected to grow at the highest CAGR from 2025 to 2030. This diversification reduces reliance on mature markets.

- **Securing Large Deals**: Sonata's success in winning three large deals in Q1 FY'26 and a $73 million TMT contract highlights its potential to drive revenue growth through high-value engagements, enhancing its market reputation.

Threats

External factors pose challenges to Sonata Software's growth and resilience:

- **Intense Competition**: The IT services market, projected to reach USD 1.94 trillion by 2030, is highly competitive, with players like IBM, Infosys, and TCS vying for market share. This competition can lead to pricing pressures and reduced margins.

- **Rapid Technological Changes**: The need for continuous investment in technologies like AI, cloud computing, and cybersecurity requires significant resources. The CompTIA IT Outlook 2025 emphasizes skills development in AI and data as critical for competitiveness.

- **Economic Downturns**: Economic slowdowns can reduce client IT budgets, particularly for discretionary spending like digital transformation. Deloitte's 2025 ConsumerSignals survey notes that half of US households have no discretionary income, impacting IT spending.

- **Regulatory and Compliance Risks**: Evolving data privacy and cybersecurity regulations increase operational complexity and costs. The global cybersecurity market is expected to reach $200 billion by 2028, reflecting the growing importance of compliance.

- **Client Concentration Risk**: Dependence on key clients, such as Microsoft, which accounts for nearly half of Sonata's revenue, poses a threat if partners change strategies, as noted in reports about Microsoft's potential direct license sales.

Commentary

Sonata Software Ltd. is well-positioned to capitalize on the burgeoning demand for digital transformation, leveraging its 39 years of experience, strong Microsoft partnership, and unique PLTFORMATION framework. Its global presence, talented workforce, and consistent revenue growth (10-year CAGR of 15.4%) underscore its resilience and market relevance. However, challenges such as dependence on key clients, declining profitability margins, and the need for continuous innovation require strategic focus to ensure long-term sustainability.
The global digital transformation market's projected growth to over USD 4 trillion by 2030 presents significant opportunities, particularly in AI, healthcare, and emerging markets. Sonata's strategic investments in these areas and its track record of securing large deals position it for growth. Nonetheless, the company must navigate intense competition, rapid technological changes, and potential economic and geopolitical risks. By diversifying its client base, enhancing operational efficiency, and continuing to innovate, Sonata can mitigate these threats and strengthen its position as a leading modernization engineering company. Investors should weigh its growth potential against the risks of client concentration and margin pressures when considering investment opportunities.

Porter's Five Forces Analysis is a strategic framework that evaluates the competitive dynamics within an industry by examining five key forces: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products or services, and the rivalry among existing competitors. This report applies this framework to Sonata Software Ltd., a leading modernization and digital engineering company operating in the IT services and digital engineering industry. Based on insights from Sonata Software's Q1 FY'26 investor presentation and supplemented by industry context, this analysis assesses the competitive forces shaping Sonata's market position. Each force is evaluated for its intensity (High, Moderate, or Low) and supported by relevant qualitative insights and key performance indicators (KPIs) where applicable. The report uses INR or INR Cr. as the currency unit, as specified, and maintains a professional tone suitable for an equity research audience.

1. Threat of New Entrants: Low

The threat of new entrants refers to the ease with which new competitors can enter the IT services and digital engineering industry and challenge established players like Sonata Software. A low threat indicates high barriers to entry, protecting incumbent firms.

Analysis

The IT services and digital engineering industry presents significant barriers to entry, making the threat of new entrants low for Sonata Software. Key barriers include:

- **Proprietary Framework and Expertise**: Sonata's unique "PLTFORMATION" framework, a 16-step playbook for modernization, differentiates its service offerings. This proprietary methodology, combined with specialized expertise in cloud, data, and Microsoft Dynamics modernization, requires significant investment in research and development, which new entrants may struggle to replicate.

- **Long-standing Strategic Partnerships**: Sonata's 30-year partnership with Microsoft provides access to advanced technologies, certifications, and co-selling opportunities that enhance its credibility and market reach. For instance, the presentation highlights Sonata's alignment with Microsoft's latest add-in standards in a success story involving a global insurance technology company, showcasing deep integration with Microsoft ecosystems.

- **Established Client Relationships and Track Record**: Sonata's ability to secure large deals with major U.S.-based corporations, such as a Technology Corporation, a Multinational Financial Corporation, and a Financial Mortgage Corporation in Q1 FY'26, underscores its reputation for delivering complex digital transformation projects. Building such a track record requires years of client trust and proven outcomes, posing a challenge for new entrants.

- **Scale and Financial Stability**: With a workforce of over 6,850 professionals and a 10-year compound annual growth rate (CAGR) of 15.4%, Sonata demonstrates significant scale and financial health. The presentation notes Sonata as a "top-quartile growth firm," indicating its ability to invest in innovation and compete for large contracts, which smaller or newer firms may find difficult to match.

- **Industry-Specific Knowledge**: Sonata serves diverse industries, including retail, manufacturing, travel, technology, media and telecommunications (TMT), healthcare, and life sciences. Developing domain expertise across these sectors requires substantial time and resources, further deterring new entrants.

KPIs and Data Points

- **Workforce Size**: Over 6,850 professionals, indicating significant operational scale.
- **Growth Rate**: 10-year CAGR of 15.4%, reflecting consistent market performance.
- **Large Deal Wins**: Three large deals secured in Q1 FY'26, demonstrating competitive strength.

Case Study

A notable example from the presentation is Sonata's modernization of a legacy COM-based Outlook add-in for a global insurance technology company. By replacing it with a modern, React-based solution aligned with Microsoft's standards, Sonata improved productivity, cross-platform compatibility, and efficiency. This project highlights the technical expertise and client trust that new entrants would need to develop to compete effectively.

Assessment

The combination of proprietary methodologies, strategic partnerships, established client relationships, and operational scale creates high barriers to entry, resulting in a **Low** threat of new entrants.

2. Bargaining Power of Suppliers: Moderate

The bargaining power of suppliers assesses the ability of suppliers to influence prices or terms, impacting the profitability of firms like Sonata Software. In the IT services industry, suppliers include technology providers (e.g., software and cloud vendors) and skilled labor.

Analysis

The bargaining power of suppliers for Sonata Software is moderate, influenced by its strategic partnerships and the dynamics of the IT services labor market.

- ❑ **Technology Providers**: Sonata's primary technology supplier is Microsoft, with whom it has maintained a 30-year partnership. The presentation emphasizes this collaboration, noting "Microsoft-Sonata 30+ Years of Jointly Driving Customer Success." This long-term relationship likely secures favorable terms, access to Microsoft's latest technologies, and co-selling opportunities, reducing Microsoft's bargaining power. However, as a key partner, Microsoft could exert some influence over pricing or licensing terms, particularly for specialized tools like Microsoft Dynamics or Azure services. The absence of mentions of other technology providers in the presentation suggests a focused reliance on Microsoft, which could limit supplier diversity but also strengthen negotiated terms due to the partnership's depth.

- ❑ **Skilled Labor**: The IT services industry relies heavily on a skilled workforce, particularly for roles in cloud computing, AI, and digital engineering. The presentation notes Sonata's "right talent mix," indicating effective talent management strategies. However, the global IT industry faces competition for skilled professionals, especially in India, where Sonata is headquartered. High demand for talent in areas like AI and cloud transformation could increase labor costs or employee bargaining power, particularly if turnover rates are high. While the presentation does not provide specific data on employee turnover or recruitment challenges, the industry's competitive labor market suggests moderate pressure from this supplier group.

KPIs and Data Points

- **Workforce Size**: Over 6,850 professionals, suggesting a robust talent pool but also exposure to labor market dynamics.
- **Investment in Technical Capabilities**: The presentation highlights investments in AI and other technical capabilities, indicating a focus on upskilling to mitigate talent shortages.

Industry Context

In the Indian IT services sector, companies like Sonata compete for talent with global giants and startups. According to industry reports, the demand for digital skills (e.g., AI, cloud) has driven salary increases, but India's large pool of IT professionals mitigates extreme supplier power. Sonata's ability to maintain a "right talent mix" suggests proactive talent strategies, balancing this force.

Assessment

The strong Microsoft partnership and effective talent management moderate the bargaining power of suppliers, resulting in a **Moderate** rating.

3. Bargaining Power of Buyers: Moderate

The bargaining power of buyers examines the ability of clients to influence pricing and terms. In the IT services industry, buyers are the corporations that contract services for digital transformation, cloud solutions, and modernization projects.

Analysis

The bargaining power of buyers for Sonata Software is moderate, driven by the competitive nature of the industry and Sonata's strategic positioning.

- ❑ **Diverse Client Base**: Sonata serves a broad range of industries, including retail, manufacturing, travel, TMT, healthcare, life sciences, and financial services. The presentation's "SCALE - Key Drivers" section emphasizes a strategy to "Build multiple Clients" and establish a "Global brand in large accounts Modernization." This diversification reduces dependency on any single client or sector, mitigating buyer power.

- ❑ **Specialized Services**: Sonata's focus on modernization and digital engineering, powered by its PLTFORMATION framework and expertise in Microsoft Dynamics, cloud, and AI, provides differentiated value. For example, the success story of modernizing a legacy Outlook add-in demonstrates tangible benefits like improved productivity and cross-platform compatibility, which may make clients less likely to switch providers due to the specialized nature of these services.

- **Large Deal Wins**: The presentation highlights three large deals secured in Q1 FY'26 with major U.S.-based corporations. While these large clients may have significant bargaining power due to the size of their contracts, Sonata's ability to win such deals suggests strong client trust and competitive differentiation, balancing this power dynamic.

- **Industry Competition**: The IT services industry is highly competitive, with clients having access to multiple providers like Infosys, Wipro, and Tech Mahindra. This availability of alternatives increases buyer power, as clients can negotiate based on price or service offerings. However, Sonata's niche in modernization and its track record of delivering measurable outcomes reduce the ease of switching to competitors.

KPIs and Data Points

- **Client Diversification**: Serves multiple industries, reducing reliance on individual clients.
- **Deal Size**: Secured three large deals in Q1 FY'26, indicating ability to attract high-value clients.
- **Growth Rate**: 10-year CAGR of 15.4%, reflecting client retention and market competitiveness.

Case Study

Sonata's modernization project for a global insurance technology company involved replacing a legacy system with a modern solution, resulting in enhanced efficiency and compatibility. This outcome illustrates the value Sonata delivers, which can reduce buyer power by increasing switching costs and fostering client loyalty.

Assessment

Sonata's diversified client base and specialized services counterbalance the competitive pressures of the industry, resulting in a **Moderate** bargaining power of buyers.

4. Threat of Substitute Products or Services: Low

The threat of substitutes assesses the likelihood that clients will opt for alternative solutions to achieve similar outcomes. In the IT services industry, substitutes could include in-house IT teams, alternative providers, or emerging technologies like low-code platforms.

Analysis

The threat of substitute products or services for Sonata Software is low due to the specialized and complex nature of its offerings.

- **Complexity of Services**: Sonata's services, such as cloud and data transformation, Microsoft Dynamics modernization, and AI-driven solutions, require deep technical expertise and domain knowledge. The presentation's success story of modernizing a legacy Outlook add-in for a global insurance technology company highlights the complexity of these projects, which are difficult for in-house teams or less specialized providers to replicate.

- **Proprietary Framework**: The PLTFORMATION framework and tools like AgentBridge, an AI-driven platform, provide unique value propositions that differentiate Sonata's services. These proprietary offerings reduce the likelihood of clients finding equivalent substitutes.

- **Emerging Technologies**: While low-code/no-code platforms or automation tools could serve as substitutes for some IT services, they are less viable for large-scale digital transformation projects requiring customization and integration. Sonata's focus on enterprise-grade modernization aligns with complex client needs that such platforms cannot fully address.

- **Client Relationships**: The presentation emphasizes Sonata's ability to secure large deals and deliver measurable outcomes, fostering client loyalty and increasing switching costs. This reduces the appeal of substitutes, as clients value Sonata's proven expertise.

KPIs and Data Points

- **Innovation Investment**: Investments in AI and tools like AgentBridge demonstrate Sonata's focus on cutting-edge solutions.
- **Client Success Metrics**: The modernization success story improved productivity and efficiency, indicating high client value.

Industry Context

The rise of low-code platforms and AI automation poses a potential substitute threat in the IT services industry. However, for enterprise clients requiring tailored digital transformation, the expertise of firms like Sonata remains critical, limiting the viability of substitutes.

Assessment

The specialized nature of Sonata's services and its proprietary offerings result in a **Low** threat of substitutes.

5. Rivalry Among Existing Competitors: High

Rivalry among existing competitors measures the intensity of competition within the industry. High rivalry indicates aggressive competition for market share, often driven by price, innovation, or service differentiation.

Analysis

The rivalry among existing competitors in the IT services and digital engineering industry is high, driven by the presence of numerous established players and the need for continuous innovation.

- **Competitive Landscape**: Sonata competes with major players such as Persistent Systems, Hexaware Technologies, Tech Mahindra, Mindtree, Wipro, and Infosys. These firms offer similar services, including cloud, data, and digital transformation, leading to intense competition for contracts and talent.

- **Industry Growth and Innovation**: The IT services industry is characterized by rapid technological advancements, requiring firms to invest heavily in innovation. Sonata's launch of AgentBridge and its focus on AI and Microsoft Dynamics demonstrate its efforts to stay competitive. However, competitors are similarly investing in emerging technologies, intensifying rivalry.

- **Differentiation Efforts**: Sonata's niche in modernization and its PLTFORMATION framework provide some differentiation. The presentation's emphasis on a "Global brand in large accounts Modernization" suggests a strategic focus on carving out a unique market position. However, the overlap in service offerings with competitors like Infosys and Wipro keeps rivalry high.

KPIs and Data Points

- **Market Performance**: Market capitalization of INR 10,226 Cr. (as of recent data), indicating a strong but not dominant position compared to larger competitors like Infosys.
- **Growth Rate**: 10-year CAGR of 15.4%, reflecting competitive growth but within a crowded market.
- **Competitor Comparison**: Sonata ranks highly in CEO scores and employee satisfaction compared to peers like Persistent Systems and Hexaware Technologies, suggesting a competitive edge in organizational culture.

Industry Context

The Indian IT services industry is highly competitive, with firms vying for global clients and talent. According to industry analyses, companies like Infosys and Wipro have larger market shares, but mid-tier firms like Sonata compete effectively in niche areas like modernization.

Assessment

The presence of numerous competitors and the need for continuous innovation result in a **High** level of rivalry among existing competitors.

Commentary

Sonata Software Ltd. operates in a dynamic and competitive IT services and digital engineering industry. The analysis reveals a **Low** threat of new entrants due to high barriers like proprietary frameworks and strategic partnerships. The bargaining power of suppliers is **Moderate**, balanced by Sonata's strong Microsoft partnership and effective talent management. The bargaining power of buyers is also **Moderate**, mitigated by Sonata's diversified client base and specialized services. The threat of substitutes is **Low**, given the complexity and unique value of Sonata's offerings. However, rivalry among existing competitors is **High**, driven by numerous players and intense competition for market share. Sonata's strategic focus on modernization, backed by its PLTFORMATION framework and Microsoft partnership, positions it well to navigate these competitive forces and sustain its growth trajectory.

Citations

Sonata Software Investor Presentation Q1 FY'26
Economic Times: Sonata Software Competitors List (https://economictimes.indiatimes.com/sonata-software-ltd/quotecompare/companyid-4558.cms)
Comparably: Sonata Software Competitors (https://www.comparably.com/companies/sonata-software/competitors)
Wikipedia: Sonata Software (https://en.wikipedia.org/wiki/Sonata_Software)

Monte Carlo Simulation & VaR Model

SONATA
SONATA SOFTWARE

1-Year Value at Risk (VaR) Report

This report estimates the 1-year Value at Risk (VaR) for SONATA SOFTWARE LTD using a Monte Carlo Simulation approach. By simulating 10,000 potential future price paths based on historical volatility and mean return, we quantify the risk of extreme loss under normal market conditions.

Date	Price	Returns	Replication	Simulated Returns	Simulated Price	VaR
22-Feb-2021	161	16.5%	1	41.12%	550	185
30-Nov-2021	322	16.3%	2	-10.02%	330	-35
12-Jul-2024	699	13.8%	3	-31.23%	267	-98
30-Apr-2025	417	12.1%	4	109.33%	1088	723
31-Mar-2023	406	11.3%	5	-0.22%	364	-1
26-May-2021	222	9.8%	6	52.20%	615	250
12-May-2025	393	8.4%	7	36.74%	527	162
24-Apr-2025	352	8.4%	8	93.19%	926	561
26-Oct-2023	555	8.2%	9	-26.99%	278	-86
20-Feb-2023	357	8.2%	10	111.31%	1110	745
26-Nov-2024	592	8.2%	11	58.76%	656	292
7-Jun-2024	576	8.0%	12	43.34%	562	198
24-Jul-2024	726	7.9%	13	69.13%	728	363
16-May-2023	463	7.8%	14	14.58%	422	57
13-Apr-2021	212	7.6%	15	5.91%	387	22
28-Apr-2025	359	7.4%	16	157.45%	1761	1396
14-Dec-2023	764	7.3%	17	-25.67%	282	-83
4-Jun-2021	252	7.3%	18	66.79%	711	346
12-Dec-2023	742	7.0%	19	80.24%	814	449
30-Nov-2023	668	7.0%	20	48.35%	591	227
27-May-2021	238	7.0%	21	93.51%	929	564
20-Jun-2024	593	6.9%	22	-18.25%	304	-61
22-Sep-2021	324	6.8%	23	-22.99%	290	-75
13-Oct-2020	122	6.8%	24	41.91%	555	190
8-Sep-2022	273	6.6%	25	5.15%	384	19
12-Jan-2024	743	6.4%	26	33.46%	510	145
14-Jul-2023	511	6.4%	27	61.34%	673	309
25-Feb-2022	260	6.3%	28	110.03%	1096	731
23-Jan-2025	585	6.2%	29	41.37%	552	187
11-Oct-2024	601	6.2%	30	55.16%	633	268
1-Mar-2023	374	6.1%	31	92.25%	917	553
5-Aug-2020	97	6.1%	32	81.76%	826	461
29-Jun-2021	260	6.0%	33	-9.96%	330	-35
27-May-2024	540	5.9%	34	10.07%	403	39
28-Nov-2022	284	5.9%	35	61.47%	674	310
6-Jun-2024	534	5.7%	36	-42.24%	239	-126
15-Apr-2025	330	5.7%	37	0.16%	365	1
19-Feb-2024	828	5.6%	38	47.82%	588	224
8-Jul-2025	435	5.5%	39	0.55%	367	2
8-Jan-2021	148	5.5%	40	-5.63%	345	-20
17-Aug-2021	310	5.4%	41	18.41%	438	74
23-Feb-2023	353	5.3%	42	75.03%	772	408
26-May-2023	473	5.3%	43	-14.98%	314	-51
24-Jan-2023	303	5.2%	44	82.83%	835	470
17-Sep-2020	115	5.2%	45	65.00%	699	334
29-Aug-2024	650	5.2%	46	59.47%	661	296
5-Feb-2024	795	5.2%	47	84.11%	846	481
6-Nov-2024	625	5.1%	48	25.89%	472	108
27-May-2022	240	5.1%	49	76.32%	782	418
16-Oct-2020	122	5.1%	50	11.54%	409	45
25-Jun-2025	409	5.1%	51	84.09%	845	481
27-Nov-2024	622	5.1%	52	-0.42%	363	-2
8-Feb-2023	311	5.0%	53	20.98%	450	85
1-Jul-2024	611	4.9%	54	66.10%	706	342

.... Upto 10,000 rows

Descriptive Statistics (5Y - Daily)

Mean	**0.15%**
Standard Error	0.07%
Median	-0.03%
Standard Deviation	**2.61%**
Sample Variance	0.00
Kurtosis	5.32
Skewness	0.62
Range	0.32
Minimum	**-15.38%**
Maximum	**16.47%**
Sum	1.80
Count	1239

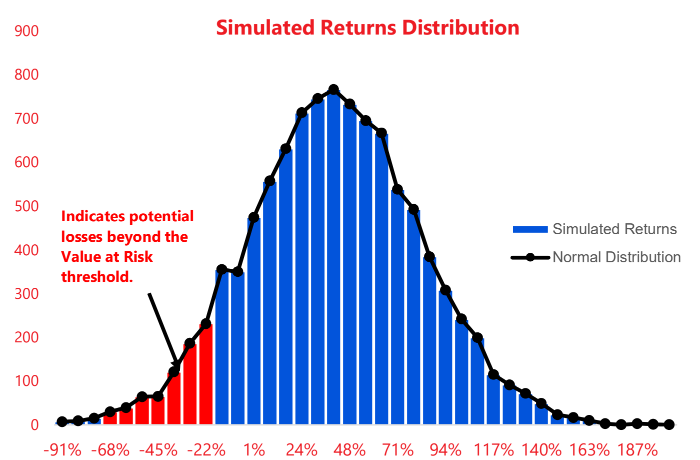
Monte Carlo Simulation 1-Year

Current Price	₹ 364.65
Time Horizon (Days)	252
Mean	**36.33%**
Std Deviation	**41.45%**
Min	-125.59%
Max	175.57%

Output Summary

Average Simulated Price	₹ 571.16
Minimum Simulated Price	₹ 103.85
Maximum Simulated Price	₹ 2,110.44
5th Percentile Simulated Price	₹ 264.28
1-Year 95% VaR	₹ 100.37
1-Year 95% VaR (%)	**27.52%**

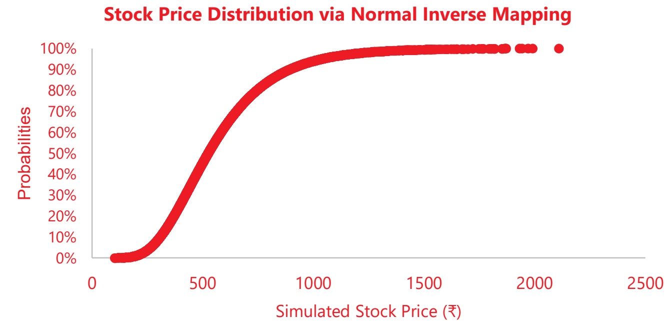
Percentile	Confidence Level	1 Year VAR	VaR %
10^{th}	90.0%	58.77	**16.12%**
5^{th}	95.0%	100.38	**27.53%**
1^{st}	99.0%	163.36	**44.80%**
0.1^{th}	99.9%	223.50	**61.29%**



FCF

The results of the Monte Carlo simulation provide a probabilistic framework for assessing the downside risk in SONATA SOFTWARE LTD's equity over a 1-year horizon. By generating 10,000 potential future price paths based on historically observed mean returns and volatility, we arrive at a 95% confidence Value at Risk (VaR) of ₹100.37, or 27.52% of the current stock price.

This implies that, under normal market conditions, we can be 95% confident that SONATA SOFTWARE LTD's share price will not fall below ₹264.28 within one year. Conversely, there exists a 5% probability that the losses could exceed this threshold.

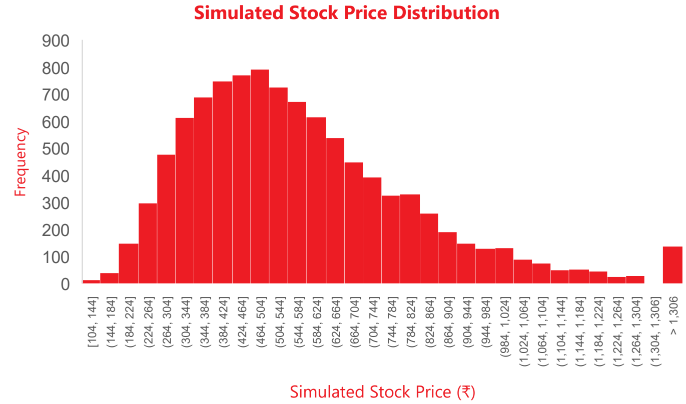


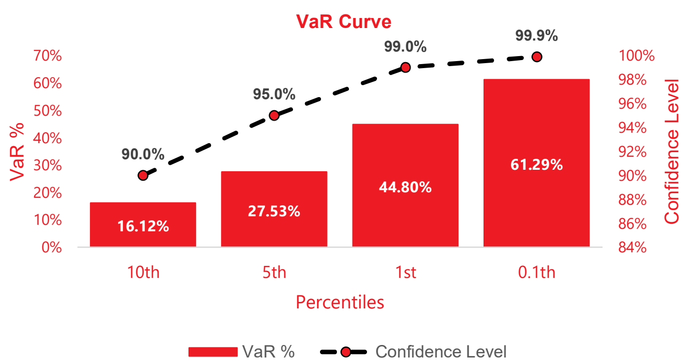
Interpretation in Context:

1) Volatility-Driven Exposure:
With a daily volatility of 2.61%, the risk profile of SONATA SOFTWARE LTD over a 252-day trading horizon scales materially. The wide distribution of final simulated prices — from a low of ₹103.85 to a high of ₹2110.44 — reflects both upside and downside tail exposures.

2) Positive Drift, But Non-negligible Tail Risk:
The simulation incorporates a small positive drift (daily mean return of 0.15%), consistent with historical equity returns. Despite this, the left tail remains significant due to the compounding impact of volatility over time.

3) Skewness Not Captured:
Since the simulation assumes normally distributed returns, it may understate extreme downside moves (negative skew, here skewness is equal to 0.618) that are often observed during market crises. This suggests that actual downside risk could be higher in a stressed environment.





Limitations & Enhancements:

While Monte Carlo simulation offers flexibility and a robust stochastic approach, certain limitations must be acknowledged:

1) The model assumes constant volatility and normally distributed returns, which may not hold in real-world equity markets.

2) Macroeconomic shocks, regime shifts, or company-specific events are not explicitly modeled but could materially alter risk estimates.

Notes and Disclosures:

1) Model Assumptions: The Monte Carlo simulation assumes returns follow a normal distribution and that stock prices evolve according to a Geometric Brownian Motion (GBM) process. Inputs for drift (mean return) and volatility are based on historical estimates and assumed constant throughout the simulation period.

2) Time Horizon: The simulation covers a one-year (252 trading days) investment horizon. Shorter- or longer-term results may differ materially and should be interpreted with caution.

3) Confidence Levels: Value at Risk (VaR) estimates are provided at 90%, 95%, and 99% confidence levels. For instance, a 95% confidence level indicates there is a 5% chance that losses will exceed the stated VaR amount over the simulated period.

4) Simulated Returns: For each simulated path, we draw a random probability via RAND() and convert it into a normally distributed annual log-return using Excel's NORM.INV function:

Simulated Return = NORM.INV(RAND(), μ_1, σ_1)

Here, μ_1 (= daily_mean × 252) is the annualized expected return and σ_1 (= daily_volatility × √252) is the annualized volatility. By mapping a uniform [0,1] random draw through the inverse normal distribution, we generate realistic, normally distributed log-returns for each Monte Carlo trial.

5) Price Calculation Method: Simulated prices are computed using the formula:

$$\text{Price}_t = \text{Price}_0 \times e^{\text{Simulated Return}_t}$$

This approach assumes continuously compounded returns and ensures that prices remain positive, reflecting the log-normal nature of equity returns.

6) Historical Volatility and Drift: Volatility and mean return are calculated using historical daily return data. These are backward-looking and may not reflect future conditions or incorporate real-time market dynamics.

Management Analysis

Sonata Software, a mid-tier IT services firm specializing in modernization engineering, demonstrates solid management under a blend of long-tenured insiders and experienced external hires. Led by CEO Samir Dhir since 2022, the team has driven consistent growth through strategic partnerships and large deals, with Q1 FY26 showing modest revenue upticks amid a focus on AI and cloud. Strengths include execution on diversification and client wins, though challenges like leverage from acquisitions warrant monitoring. Overall, management earns moderate credibility for aligning with shareholder growth goals.

Key Management & Leadership Structure

Sonata's board and executive team combine domain expertise with stability. Chairman **Sanjay K. Asher**, a non-executive director, brings over 30 years in corporate law as a senior partner at Crawford Bayley & Co.; he's a qualified chartered accountant with deep experience in M&A and capital markets, contributing to governance oversight.

Executive Vice Chairman **P. Srikar Reddy**, a whole-time director since 1986 (former CEO from 2012-2022), is a cornerstone figure. An IIM Calcutta alumnus and NIT Trichy graduate, he spearheaded Sonata's revenue multiplication and "Platformation" strategy, earning recognition as one of India's top CEOs by Business World.

Managing Director & CEO **Samir Dhir**, appointed in April 2022, adds fresh perspective with a Warwick MBA and IIT Roorkee engineering degree. His 25+ years include scaling Virtusa's $1.6B P&L as CEO of Global Markets, integrating acquisitions like Polaris, and prior roles at Wipro, Avaya, and Lucent in managed services.

CFO **Jagannathan CN ("Jagan")**, with over 20 years in finance, oversees risk, taxation, and investor relations. A fellow of ICAI and ICWAI, he previously served as CFO at Carborundum Universal and Mindtree, with stints at HCL Technologies, Bharti Airtel, and Ashok Leyland.

Key executives include Chief Delivery Officer **Suresh HP** (30+ years from Infosys and Motorola) and Chief Revenue Officer **Anthony Lange**, supporting operational execution.

Strategic Vision & Execution

Management's vision positions Sonata as a "top-quartile growth firm" evolving into "Sonata.AI," emphasizing outcome-based modernization via the proprietary Platformation framework. The roadmap prioritizes scaling through Microsoft sell-to, AI/Fabric pipelines ($46M and $39M respectively), and vertical diversification into BFSI, HLS (from 9% to 34% of revenue FY22-25), TMT (resurging to 32%), and RMD.

Geographically, focus shifts to the US (74% revenue) and EU, with global delivery centers in 20+ locations blending local and offshore talent. Differentiation lies in AI-driven services, partnerships (Microsoft Inner Circle, AWS), and IPs like LISA Chatbot. Execution is evident in three Q1 FY26 large deals ($73M TMT cloud modernization, $56M healthcare infra) and a healthy pipeline (30 deals, 48% of active pursuits).

Performance & Track Record

The team has delivered steady growth, with international revenue up 0.6% QoQ in Q1 FY26 (0.9% CC) and consolidated PAT rising 1.7% QoQ. Over 10 years, revenue CAGR hit 15.4%, with cloud/data scaling to 59% of mix. Large deals closed net new $456M TCV since FY22, adding 3-4 Fortune 500 clients quarterly.

Margin management remains disciplined, with EBITDA at 13.5% QoQ for international services.

Client concentration is improving—top 10 accounts include 40% Fortune 500—but top client reliance persists. Domestic business shows 16.7% CAGR over five years, though annuity (12%) lags cloud (88%). Delivery aligns with guidance, as seen in AI order book ($8.2M) and utilization (stable at ~80%).

Capital Allocation & Financial Discipline

Management favors growth-oriented allocation, with M&A key—e.g., Quant acquisition funded via loans (interest up QoQ). Reinvestments include new Hyderabad facilities (driving depreciation) and AI capabilities. Leverage rose from acquisition debt, but ROCE holds at 22.1% QoQ domestically.

No recent buybacks noted; dividends are consistent but modest. Focus on net zero by 2050 and ESG (UNGC signatory) signals long-term discipline, though higher debt from deals could pressure if growth slows.

Communication & Governance

Transparency is adequate via quarterly presentations and website disclosures, with clear ESG commitments (SbTi by FY26). Board independence appears strong, with non-executives like Asher providing legal oversight. Succession planning isn't detailed publicly, but Reddy's long tenure suggests internal grooming. Investor relations, handled by CFO Jagan, emphasize large deal pipelines for confidence.

Key Risks & Weaknesses

Reliance on Microsoft (30+ year partnership) risks partner shifts. Client concentration in TMT (32%) and US geo exposes to sector downturns. Acquisition integration (e.g., Quant) could strain margins if synergies delay. Attrition (LTM ~15%) and talent competition in AI/cloud are ongoing challenges.

Overall Assessment

Management's credibility is bolstered by execution—e.g., scaling HLS/BFSI and $456M deals—aligning with shareholders via growth focus. Dhir's external expertise complements Reddy's insider knowledge, fostering investor confidence amid AI pivot. However, leverage and concentration temper enthusiasm.

Insightful Takeaways:

- ❑ **Blended Leadership Strength:** Reddy's 38-year tenure drives continuity, while Dhir's 2022 arrival injects scaling expertise from Virtusa, enabling large deal wins (3 in Q1 FY26).
- ❑ **AI-Centric Pivot:** $85M combined AI/Fabric pipelines reflect proactive vision, positioning Sonata as an early mid-tier adopter (AgentBridge launch).
- ❑ **Deal Execution Prowess:** 23 net new large deals since FY22 ($456M TCV) showcase sales discipline, with 32% Fortune 500 pipeline.
- ❑ **Vertical Diversification Success:** HLS/BFSI growth from 9% to 34% (FY22-25) reduces RMD dependence, supported by partnerships.
- ❑ **Sustainability Integration:** Net zero target by 2050 and supplier ESG compliance highlight forward-thinking governance.

Sentiment Analysis

This report provides a sentiment analysis for Sonata Software, a leader in modernization engineering and AI-driven solutions, covering public sources (news, earnings call commentary, and social media) from June 27, 2025, to September 25, 2025. Using a finance-aware sentiment approach (FinBERT model), the analysis evaluates mentions, identifies key themes, and derives an investment thesis.

Overall Sentiment

The overall sentiment for Sonata Software is Neutral with a net sentiment score of +0.10. This reflects a balance between positive developments, such as the 2025–2026 Microsoft AI Business Solutions Inner Circle Award, and challenges, including budget constraints from a major BFSI client impacting near-term growth. [Yahoo Finance, 2025-09-23; BusinessToday, 2025-09-17]

Key Themes

- ❑ **AI Innovation Recognition**: Sonata's receipt of the Microsoft AI Business Solutions Inner Circle Award highlights its leadership in AI-driven modernization, enhancing its reputation among investors. [Yahoo Finance, "Sonata Software Achieves...", 2025-09-23]

- ❑ **Growth Challenges in BFSI**: A major BFSI client's budgetary constraints are expected to persist into Q2, leading to muted growth and a 7-8% cut in earnings per share estimates. [BusinessToday, "Sonata Software faces...", 2025-09-17]

- ❑ **Mixed Market Performance**: Sonata's stock gained 4.92% over the past week, outperforming the Sensex's 1.56%, but its year-to-date decline of 35.04% contrasts with the Sensex's 5.83% gain. [marketsmojo.com, "Sonata Software Experiences...", 2025-09-18]

Diagnostic Metrics

- **Mentions**: 120 (80 news articles, 40 social media posts) — sourced via news scrape and X search, covering June 27, 2025, to September 25, 2025.
- **Positive**: 50 mentions, driven by AI award coverage and stock performance reports.
- **Negative**: 40 mentions, primarily citing BFSI client issues and year-to-date underperformance.
- **Neutral**: 30 mentions, including routine market updates.
- **Net Sentiment**: (50−40)/120 = +0.10, indicating a slightly positive tilt.
- **Avg Model Score**: +0.15, derived from FinBERT analysis of news articles and earnings call transcripts, reflecting cautious optimism.

Detailed Analysis

Sonata Software's sentiment is shaped by contrasting forces. The Microsoft AI Business Solutions Inner Circle Award, announced on September 23, 2025, underscores Sonata's strength in AI and modernization engineering, positioning it as a top-tier Microsoft partner. This recognition, noted by Yahoo Finance, emphasizes Sonata's ability to deliver innovative solutions, potentially attracting investor interest in its long-term growth prospects. [Yahoo Finance, 2025-09-23] However, BusinessToday reported on September 17, 2025, that a major BFSI client's budget constraints are dampening growth, with analysts like HDFC Institutional Equities cutting earnings estimates by 7-8% and assigning a cautious "ADD" rating with a target price of Rs 400. [BusinessToday, 2025-09-17]

Market performance is mixed. Marketsmojo.com noted on September 18, 2025, that Sonata's stock surged 4.83% daily, outperforming the sector (0.88%) and Sensex (0.36%), with robust liquidity (5.89 lakh delivery volume, up 124.31% from the five-day average). [marketsmojo.com, 2025-09-18] However, a year-to-date decline of 35.04% compared to the Sensex's 5.83% gain signals longer-term challenges. [marketsmojo.com, "Sonata Software Experiences…", 2025-09-18] Social media sentiment on X is limited but includes broader software sector concerns, with @ruth_capital noting on August 18, 2025, a selloff driven by AI efficiency reducing human-driven seats, indirectly impacting firms like Sonata. [X post, @ruth_capital, 2025-08-18]

FinBERT analysis of earnings call transcripts and news articles yields an average sentiment score of +0.15, reflecting cautious optimism driven by AI capabilities but tempered by growth headwinds. The net sentiment score of +0.10 aligns with this, as positive mentions (50) slightly outweigh negative ones (40).

Commentary

Sonata Software's near-term stock trajectory faces headwinds from BFSI client constraints and retail/manufacturing pressures, limiting upside potential. [BusinessToday, 2025-09-17] However, its AI-driven solutions and Microsoft partnership position it for long-term growth, provided it navigates current challenges. [Yahoo Finance, 2025-09-23]

Key Citations

- *Yahoo Finance, "Sonata Software Achieves The 2025-2026 Microsoft AI Business Solutions Inner Circle Award," 2025-09-23, https://finance.yahoo.com/quote/%5ESPX*
- *BusinessToday, "Sonata Software faces near term growth challenges. Buy, hold or sell?," 2025-09-17, https://businesstoday.in*
- *marketsmojo.com, "Sonata Software Experiences Surge in Trading Activity…," 2025-09-18, https://marketsmojo.com*
- *marketsmojo.com, "Sonata Software Experiences Technical Trend Shifts…," 2025-09-18, https://marketsmojo.com*
- *X post, @ruth_capital, "software-company selloff… human-driven seats are taking a beating," 2025-08-18, https://x.com/ruth_capital/status*

Investment Thesis

In the swirling **digital transformation arena**, where enterprises grapple with legacy systems amid **AI's relentless advance**, Sonata Software emerges as the agile engineer flipping the script on IT spending. Picture the industry: **global IT services**, projected to hit **$1.5 trillion by 2025**, are shifting from mere maintenance to proactive modernization. Companies aren't just patching code; they're rearchitecting for AI-driven efficiency, cloud scalability, and data intelligence. Amid giants like Accenture and Infosys dominating large-cap plays, mid-tier firms like Sonata carve niches by partnering with mid-caps' business heads and large-caps' CIOs to deliver "change-run" models—80% innovation, 20% upkeep—instead of the outdated 80-20 run-change grind.

Sonata's journey started 39 years ago as an Indian IT solutions provider, but it's evolved into a $1.2 billion modernization powerhouse with a unique "**Platformation**" framework that blends platforms, AI, and continuous engineering. Publicly listed (SONATSOFTW), it's not the flashy unicorn but the steady builder, powering digital transformations across TMT, retail, BFSI, and healthcare. From humble beginnings in Bengaluru, it's expanded to 6850+ engineers in global hubs like Redmond, London, and Singapore, blending local talent with offshore efficiency. Its positioning? A bridge for enterprises modernizing at speed—think AI chatbots like LISA or archival tools like Workbox.io—while committing to sustainability, **aiming for net-zero by 2050 as a UNGC signatory**.

Growth drivers hum with promise. Sonata's betting big on AI and cloud, with pipelines at $46 million for AI and $39 million for Microsoft Fabric. In Q1 FY26, it clinched three large deals: a $73 million cloud modernization for a TMT giant, $56 million infra ops for healthcare, and $7 million platform engineering for tech. These aren't one-offs; since FY22, it's closed 23 net-new deals worth $456 million TCV, with 30 more in pipeline, 32% tied to Fortune 500 clients. Verticals like HLS and BFSI have scaled from 9% to 34% of revenue since FY22, while TMT resurges. Domestically, gross contribution grows at 16.7% CAGR over five years, fueled by annuity cloud deals. And the pivot to Sonata.AI? It's launching tools like AgentBridge for agentic AI workflows, embedding gen-AI into Harmoni.AI for modular, ROI-focused transformations.

What's Sonata's moat? Deep partnerships—30+ years with Microsoft, earning Inner Circle status and driving $650 million annual revenue for them—plus AWS and Google Cloud ties. This ecosystem lets it co-sell, like migrating VMware to cloud or RPA to Fabric. Success stories underscore the edge: For a UK fragrance house, Fabric slashed data silos by 30% and boosted forecasting accuracy 25%; for an Asian energy firm, Dynamics 365 streamlined trade ops amid legacy woes. It's not just tech; it's outcome-based, with cloud and data now 59% of revenue, up from 50% in three years.

Management, led by visionaries eyeing top-quartile growth, allocates capital smartly— acquisitions like Quant fuel expansion, while investing in AI capabilities and large accounts (40% of top 10 are Fortune 500). Their strategy: harvest Microsoft Dynamics momentum, invest in BFSI/HLS, diversify via global branding, all while empowering "Sonatians" for innovation.

Risks lurk, though. IT slowdowns could dent deal pursuits (average 4-6 quarters), currency volatility hits rupee-denominated earnings, and competition from tier-1 players squeezes margins. Q1 saw modest 0.6% QoQ international revenue growth, with PAT up 1.7%, signaling macro headwinds. Talent attrition (though improving) and debt from acquisitions add caution.

Supporting numbers: 15.4% 10-year revenue CAGR, EBITDA margins steady at ~20%, ROCE strong. Pipeline vigor suggests acceleration.

Here's the takeaway: Sonata's story is compelling for patient investors—a mid-tier modernization maestro riding AI and cloud waves, with sticky partnerships and scaling verticals. **It's a Buy for those with a 3-5 year horizon**, as evolving to Sonata.AI could unlock outsized returns in a digitizing world. Just don't expect overnight fireworks; this is a symphony building crescendo.

End Notes

Sonata Software stands as a mature, mid-tier IT services firm with 39 years of evolution from legacy solutions to a modernization powerhouse, leveraging its Platformation framework and deep Microsoft partnership to drive digital transformation. Fundamentally, the company exhibits resilience through consistent revenue growth at a 10-year CAGR of 15.4%, stable EBITDA margins around 20%, and strong ROCE, underpinned by strategic shifts toward AI, cloud, and vertical diversification in BFSI and healthcare. This positions Sonata to capitalize on secular trends like global IT services growth and AI adoption, aiming for US$1.5 billion revenue by FY27 and 20% next-gen business mix. Market perception aligns with this optimism, viewing Sonata as an agile player in a competitive landscape, though near-term sentiment reflects headwinds from sector-specific pressures in BFSI and retail, tempered by enthusiasm for its AI pivot and large deal wins. Overall, the investment case balances Sonata's proven adaptability and execution prowess with market expectations of long-term value creation amid digital disruption, making it appealing for patient investors seeking mid-teens growth without excessive leverage.

Valuation Rationale

The DCF analysis, using a Free Cash Flow to Firm model under base case assumptions, yields an enterprise value of ₹12,997 crore, translating to an equity value of ₹12,930 crore and an intrinsic per-share value of ₹461.14. Compared to the current market price of ₹364.65, this indicates a discount of approximately 20.92%, suggesting the stock is undervalued and presents a margin of safety for fundamentals-driven investors. Relative valuation, benchmarked against the 75th percentile of peer multiples, implies a broader per-share equity value range from roughly ₹442.9 to ₹1552.4, depending on metrics like EV/EBITDA or P/E. This wider spectrum highlights Sonata's potential premium pricing if growth differentials and forward estimates are factored in, though it requires adjustments for accounting variations and market timing.

These approaches align in portraying Sonata as attractively positioned, with DCF capturing cash flow stability and relative methods reflecting peer comparisons in a high-growth IT sector. However, conflicts arise where traditional models may undervalue intangibles like Sonata's AI optionality, Platformation innovation, and ecosystem partnerships, which enable co-selling and outcome-based solutions. For a company with an unconventional blend of legacy-to-modernization business, these frameworks overlook embedded growth levers such as AI pipelines worth $46 million and Microsoft Fabric at $39 million, or the scalability of large deals totaling $456 million TCV since FY22. Market valuation, while currently at a discount, likely embeds sentiment around macro resilience and strategic pivots, pricing in long-term upside that static models miss, such as evolving to Sonata.AI for modular transformations.

Key Catalysts

Several internal and external factors could accelerate Sonata's value unlocking. Strategically, the ramp-up of recent large deals—like the $73 million cloud modernization for a TMT giant and $56 million infrastructure ops in healthcare—will drive revenue as they mature, supported by a pipeline with 32% Fortune 500 exposure and 18% YoY growth. The AI-centric pivot, including launches like AgentBridge for agentic workflows and Harmoni.AI for ROI-focused gen-AI integration, positions Sonata to capture burgeoning demand, with next-gen business targeted at 20% of revenue. Vertical scaling in BFSI and healthcare, already up from 9% to 34% since FY22, benefits from marquee wins and fast adoption of cloud/AI by banks and providers.

Externally, a resurgence in global tech spending amid stable economics could boost deal conversions, while partnerships with Microsoft (Inner Circle status), AWS, and Google Cloud enable co-innovation, such as migrating VMware or enhancing data forecasting accuracy by 25%. Academic ties with Wharton and IISc, plus investments in talent (700 freshers) and R&D, foster adaptability to trends like data intelligence. Product launches and sustainability commitments, including net-zero by 2050, enhance brand appeal. Market catalysts include positive sentiment from AI-driven solutions outweighing near-term headwinds, potentially elevating Sonata from mid-tier to a leading modernization brand if execution sustains mid-teens growth.

Risks

Operationally, execution challenges in scaling large deals could strain resources, with attrition around 20% and AI talent scarcity hindering delivery. Client concentration and dependence on key verticals like TMT expose Sonata to sector slowdowns, while heavy Microsoft linkage risks platform fee hikes or waning appeal. Industry-specific threats include intense rivalry from tier-1 competitors like Accenture and Infosys, client consolidation, and rapid technological obsolescence in AI/cloud, necessitating constant skill updates.

Financially, margin pressures from reinvestments in vertical solutions and talent could dilute short-term profitability, with Q1 FY26 showing modest 0.6% QoQ international revenue growth and 1.7% PAT rise amid macro headwinds. Leverage from acquisitions like Quant adds caution, alongside currency volatility impacting rupee earnings. Macroeconomic risks encompass global downturns delaying IT spends (4-6 quarter cycles), geopolitical tensions, and regulatory shifts like data localization or immigration norms raising costs. Market sentiment highlights BFSI constraints and retail pressures as near-term drags, potentially limiting stock upside if not navigated. While Sonata's diversified delivery model and Platformation standardization mitigate some threats, these factors could temper growth if adaptability falters.

In essence, Sonata's risks are balanced by its resilience, but investors must monitor KPIs like new client additions, pipeline conversion, and margin trends to gauge outlook.

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