

# Shubh Nivesh



## Healthy long term growth outlook...

**About the stock:** Sonata Software (Sonata) provides IT services and product licensing services to its clients in BFSI, HLS (Healthcare & Lifesciences), RMD (Retail, Manufacturing, Travel & Distribution & TMT) segments.

### Investment Rationale:

- Robust long-term growth outlook:** The company expects Q2 to be stronger than Q1, with accelerated growth momentum anticipated from H2FY25. The management remains confident in achieving their \$1.5bn target by FY27, albeit delayed by 2-4 quarters. The IITS (IT services) pipeline is healthy, supported by 3 large deals won across Healthcare, Manufacturing, and BFSI. Long-term growth is driven by AI, large deal traction & key client contributions. We expect IT services to grow at a 12.8% CAGR over FY24-26E in dollar terms with ~8.9% growth in FY25.
- Large deal wins, pipeline & client additions continue to sustain momentum:** Sonata has faced some challenges in terms of delayed conversion of pipeline. However, it sustained its growth momentum with 3 large deals and 14 new clients in Q1FY25. Another 49 large deals are under pursuit with 47% of active pipeline consisting of large deals. With a strong large deal pipeline, the company is poised for growth in the future with execution being key. Management has also reiterated that **20% of the revenue is expected to come from AI services in the next three years.** Approximately, **67% of their employees are GenAI level 1 trained.**
- Margin recovery likely in FY26:** The management highlighted that it would continue to face headwinds from delayed decision making, project completions in UK/Europe & softness in retail & manufacturing as well as a large deal won in healthcare which would be margin dilutive over the next 2-3 quarters due to the onsite model & upfront AI investment made. Further, the margins in Q2/Q3 are expected to be impacted by wage hikes. Nonetheless, IITS margins are likely to recover by FY26 to the normalised mid-20s levels vs. low 20s likely in FY25.

### Rating and Target Price

- Sonata's long term growth momentum hinges on its large deal wins, robust pipeline, and advancements in AI. We have a positive outlook on the company, factoring in the near-term margin challenges and ongoing growth initiatives
- We have a BUY rating, **valuing it at a target price of ₹ 770, with a multiple of 28x P/E on FY26E EPS.**

### Key Financial Summary

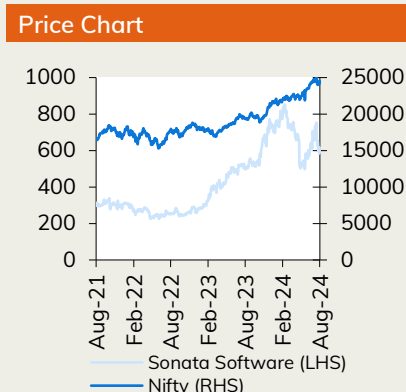
(₹ Crore)	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	5,553	7,449	8,613	23.8%	9,905	11,375	14.9%
EBITDA	464	604	727	3.5%	837	1,112	23.6%
EBITDA Margin (%)	8.4	8.1	8.4		8.4	9.8	
PAT	376	452	308		528	760	
Adjusted PAT	376	452	483	14.4%	528	760	25.4%
EPS (Rs.)	27.2	32.6	11.1		19.0	27.3	
P/E (x)	23	19	35		32	23	
RoNW (%)	34.2	34.7	21.9		31.0	34.6	
RoCE (%)	39.8	25.9	31.4		29.6	34.2	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Cap (₹ Crore)	17,114
Total Debt (₹ Crore)	674
Cash and Invt (₹ Crore)	1,097
EV (₹ Crore)	16,691
52 week H/L	870 / 469
Equity capital (₹ Crore)	27.8
Face value	1.0

Shareholding pattern	Sep-23 Dec-23 Mar-24 June-24			
	Promoters	28.2	28.2	28.2
FII	15.0	14.5	13.9	12.4
DII	16.4	17.6	17.6	21.6
Other	40.5	39.8	40.3	37.9



- ### Key risks
- Lower than expected revenue and margin growth;
  - Continued delay in deal closure

### Research Analyst

Bhupendra Tiwary, CFA  
 bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma  
 anjini.sharma@icicisecurities.com

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

## ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance), Anjini Sharma, CA, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

### Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Bhavesh Soni Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.