



Invest Smart

Long-term Fundamental Pick

Sonata Software Ltd



Company Name: Sonata Software Ltd

BSE CODE: 532221 NSE CODE: SONATASOFTW
Sector: IT Industry: IT-Software

CMP (Rs): 624 | Buy Range: 615-625| Target Price: 710| Potential Upside: 14%

Duration of Recommendation: 9-12 Months

BUY

| Company Data | |
|---------------------------|---------|
| Market Cap (Rs. Cr) | 17501 |
| Enterprise value (Rs. Cr) | 17402 |
| 52-week high / Low | 870/469 |
| EPS (TTM) (Rs) | 10.5 |
| P/E (x) | 42.4 |
| Industry P/E (x) TTM | 40.4 |
| EV/EBITDA (x) TTM | 20.7 |
| P/BV (x) TTM | 12.4 |

| Shareholding % | Dec 2023 | Mar 2024 | June 2024 |
|----------------|----------|----------|-----------|
| Promoters | 28.17 | 28.17 | 28.17 |
| FII's | 14.47 | 13.94 | 12.41 |
| DII's | 17.60 | 19.05 | 21.56 |
| Public | 38.71 | 37.80 | 36.85 |
| Govt | 0 | 0 | 0.00 |
| Other | 1.03 | 1.02 | 1.00 |

| Financial Performance (Consolidated) | | | | |
|--------------------------------------|--------|--------|-------|--------|
| INR(Cr) | FY23 | FY24 | FY25E | FY26E |
| Revenue | 7449.1 | 8613.1 | 9965 | 11,610 |
| Growth% | 34.1% | 15.6% | 15.7% | 16.5% |
| EBITDA | 604.4 | 727.8 | 807.2 | 1068.1 |
| Growth | 30% | 20.4% | 10.9% | 32.3% |
| Margin | 8.1% | 8.4% | 8.1% | 9.2% |
| Net Profit | 451.9 | 308.5 | 518 | 708 |
| Growth | 6.1% | -31.7% | 68% | 36.7% |
| Margin | 6.1% | 3.6% | 5.2% | 6.1% |
| EPS | 16.1 | 11.0 | 18.5 | 25.3 |
| BVPS | 46.4 | 50.2 | 62 | 82 |
| P/E (x) | 26 | 65.1 | 33.4 | 24.8 |
| P/BV (x) | 9.0 | 14.3 | 10 | 7.6 |
| EV/EBITDA | 18.8 | 27.3 | 21.4 | 16.2 |
| ROE | 34.7% | 21.9% | 29.8% | 30.8% |
| ROCE | 28.8% | 27.4% | 26.7% | 29.2% |

1-YEAR PRICE PERFORMANCE



Our Recommendation: Sonata Software is focusing on ramping up large deals & investing in AI projects as key growth drivers. AI is expected to contribute significantly to revenue over the next three years. These strategic initiatives aim to drive long-term growth and differentiate the company in the market. Stock is currently trading at 24.8x its FY26E earnings. We value the stock at 28x its FY26e earnings. **We recommend BUY in price range of 615-625 with target price of 710 (valuing stock at 28x its FY26e EPS) with potential upside 14%.**

About Company: Sonata Software Ltd is a global IT services company that provides digital transformation, modernization engineering, and platformation services. The company offers solutions in areas such as cloud transformation, AI, data analytics, and industry-specific platforms across various sectors including healthcare, BFSI, retail, and manufacturing.

INVESTMENT RATIONALE

Strong Growth Prospects: Sonata Software has outlined ambitious goals, including targeting a revenue of \$1.5 billion by FY '26 with an EBITDA in the low 20s, reflecting the company's strong growth trajectory. The company has a solid pipeline of large deals, including recent significant wins in healthcare, manufacturing, and banking, which are expected to contribute to future revenue growth.

New large deal wins & client additions will drive the growth: Company achieved several large deal wins recently, including three major contracts in healthcare, manufacturing, and banking, highlighting their strength in modernization and cloud services. The company added 14 new customers in Q1 FY '25, reflecting strong client acquisition. Sonata is actively pursuing a robust pipeline with 47% of their active opportunities consisting of high-value large deals, indicating a strong future growth trajectory.

Strategic Acquisitions: Recent acquisitions, like that of GAPbusters Ltd (GBW) and the expansion into healthcare with the acquisition of Sopris Systems, have strengthened Sonata’s market position and opened up new revenue streams, particularly in high-growth areas like healthcare and BFSI.

Positive Industry Outlook: The IT services and digital transformation sectors are expected to continue growing, driven by increasing demand for cloud services, AI, automation, and digitalization across industries. Sonata’s positioning within these high-growth areas aligns with broader industry trends, making it a strong candidate for future growth.

Expansion into High-Growth Sectors: Strategic focus on high-growth areas like healthcare and BFSI positions the company well for future demand.

Financial Performance Q1FY25: Company showed mixed performance due to macroeconomic & geopolitical challenges, which led to slowdown in tech spending. Consolidated Revenue/EBITDA/PAT were +25.4%/-1.2%/-12% YoY respectively. EBITDA margins reduced by -187 bps to 7.0% from 8.8% last year. On QoQ basis, Revenue/EBITDA/PAT were +15.3%/+22.2%/-4% respectively.

Key Risks: Management noted macroeconomic challenges, geopolitical issues, and slow tech spending impacting decision-making.

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