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Sonata Software Limited

CMP Rs. 58.0
BUY

Result Update
Q3FY10

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Standalone	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)		Growth in Q3FY10		
Q3FY10	609.5	188.9	163.7	31.0%	26.9%		Sales	EBITDA	PAT
Q2FY10	604.3	175.2	146.5	29.0%	24.2%	Q-Q	0.9%	7.8%	11.7%
Q3FY09	586.2	164.3	137.3	28.0%	23.4%	Y-Y	4.0%	15.0%	19.2%
							Growth in FY09		
FY09	2,446.3	650.6	533.6	26.6%	21.8%		Sales	EBITDA	PAT
FY08	2,011.0	491.5	366.9	24.4%	18.2%	Y-Y	21.6%	32.4%	45.4%
Consolidated	**Revenues**	**EBITDA**	**PAT**	**EBITDA (%)**	**PAT (%)**		**Growth in Q3FY10**		
Q3FY10	3,378.4	464.5	220.1	13.7%	6.5%		Sales	EBITDA	PAT
Q2FY10	3,498.2	464.4	213.5	13.3%	6.1%	Q-Q	-3.4%	0.0%	3.1%
Q3FY09	3,897.6	426.4	199.0	10.9%	5.1%	Y-Y	-13.3%	8.9%	10.6%
							Growth in FY09		
FY09	16,022.2	1,627.9	765.7	10.2%	4.8%		Sales	EBITDA	PAT
FY08	14,594.3	1,425.3	585.2	9.8%	4.0%	Y-Y	9.8%	14.2%	30.8%

Sonata Software reported a 13% YoY dip in its topline yet showed a 10% growth in PAT. This is on account of margin improvement by 3% over the same quarter last year. The company has also reported the empolyee utilization of their standalone business at 78%. This also contributes to the bottom line. From the consolidated profit of ~Rs. 220 Mn, ~73% is contributed by the standalone business. The dip in revenue seems more like a quarterly aberration than a trend to be worried about.

Some hiring can be observed with an addition of 61 employees across their businesses, making the total group headcount to 2710. Most of the software services companies have resumed hiring on account of better order visibility. Sonata added 4 clients this quarter which is about the average addition of clients every quarter.

A notable client addition was an external contract with a German retail chain (apart from TUI business). This is a five year 5 Mn Euro deal, which reinforces their capability to get external clients in a difficult to penetrate European market.

The group has cash & cash equivalents as at Q3FY10 of ~Rs. 1540 Mn, and standalone of ~Rs. 650 Mn. The management of the company had declared their wish to grow inorganically, although when this cash would be put to such use has to be seen. They have identified several areas of acquisition but focused mostly in growing witin the Travel, Tourism and Logistics vertical. There are several micro verticals within this segment such as Airlines, Hotels, e-Commerce as well as integrated BPO. Their vertical focus going ahead would be mainly on TTL, Manufacturing & IMS (Infrastructure Management Services).

Valuation

Sonata trades at a P/E multiple of 9 times TTM. Eventhough the markets have given their due credit to the business by revising the valuation over such a short span, the standalone business still has plenty of capacity to grow. All the reasons that we used to justify the quality of this business, still hold true. The high return, high margin business along with penetration in the European market and also partnership with a leading player in their vertical, all lead to a high probability of good growth coming in. The chances are very high that the company will adapt to its own growth and entrench itself deep within its vertical. There is no fixed time line for these events to appear, but it is a good probabilistic bet nevertheless.

We recommend a BUY for Sonata Software.

Sonata: FY09 Performance Review

Particulars	**Standalone**			**Consolidated**		
(Rs. Mn)	**FY09**	**FY08**	**Y-Y Chng**	**FY09**	**FY08**	**Y-Y Chng**
Sales & Service	2,435.8	1,988.2	22.5%	15,912.7	14,283.7	11.4%
Other Income	10.5	22.8	-53.9%	109.5	310.6	-64.7%
Total Revenues	2,446.3	2,011.0	21.6%	16,022.2	14,594.3	9.8%
Total Expenditure	1,795.7	1,519.6	18.2%	14,394.3	13,169.0	9.3%
RM Consumed	*15.7*	*15.7*	*0.0%*	*5,843.0*	*5,422.2*	*7.8%*
Other Expenditure	*1,780.1*	*1,503.9*	*18.4%*	*8,551.3*	*7,746.8*	*10.4%*
Operating Profit	650.6	491.5	32.4%	1,627.9	1,425.3	14.2%
Other Income	0.0	0.0		0.0	0.0	
EBITDA	650.6	491.5	32.4%	1,627.9	1,425.3	14.2%
Misc Write off	0.0	0.0		0.0	0.0	
Depreciation	81.3	94.5	-14.0%	435.0	433.5	0.3%
PBIT	569.2	396.9	43.4%	1,192.9	991.8	20.3%
Interest	3.9	1.2	237.6%	66.9	49.6	35.0%
PBT	565.4	395.8	42.8%	1,126.0	942.2	19.5%
Tax	31.8	28.9	10.0%	221.6	125.2	77.0%
Current Tax	*31.8*	*28.9*	10.0%	*221.6*	*125.2*	77.0%
FringeBenefit Tax	*0.0*	*0.0*		*0.0*	*0.0*	
Deferred tax	*0.0*	*0.0*		*0.0*	*0.0*	
PAT before MI	533.6	366.9	45.4%	904.4	817.0	10.7%
Share in Earnings of Affiliates	0.0	0.0		2.5	6.0	-58.1%
Minority Interest	-	-		(141.3)	(237.8)	-40.6%
PAT	533.6	366.9	45.4%	765.7	585.2	30.8%
Extra-ordinary Income	0.0	0.0		0.0	0.0	
Reported PAT	533.6	366.9	45.4%	765.7	585.2	30.8%
Profitability						
OPM %	26.6%	24.4%	215.6	10.2%	9.8%	39.5
EBITDA %	26.6%	24.4%	215.6	10.2%	9.8%	39.5
PBIT %	23.3%	19.7%	353.2	7.4%	6.8%	65.0
PAT %	21.8%	18.2%	356.8	4.8%	4.0%	76.9

Sonata: Financials

Q3FY10 Standalone Reported

(Rs. Mn)	Dec 09	Sept 09	Q-Q Chng	Dec 08	Y-Y Chng
Sales & Service	3,360.4	3,473.3	-3.3%	3,877.5	-13.3%
Other Income	18.1	25.0	-27.6%	20.1	-10.0%
Total Revenues	3,378.4	3,498.2	-3.4%	3,897.6	-13.3%
Total Expenditure	2,913.9	3,033.9	-4.0%	3,471.2	-16.1%
RM Consumed	*950.3*	*1,029.7*	*-7.7%*	*1,383.3*	*-31.3%*
Other Expenditure	*1,963.6*	*2,004.2*	*-2.0%*	*2,087.9*	*-6.0%*
Operating Profit	464.5	464.4	0.0%	426.4	8.9%
Other Income	0.0	0.0		0.0	
EBITDA	464.5	464.4	0.0%	426.4	8.9%
Misc Write off	0.0	0.0		0.0	
Depreciation	125.2	129.1	-3.0%	112.7	11.1%
PBIT	339.3	335.2	1.2%	313.7	8.2%
Interest	16.4	16.6	-1.1%	13.2	23.7%
PBT	322.9	318.7	1.3%	300.5	7.5%
Tax	61.0	60.2	1.3%	59.9	1.8%
Current Tax	*61.0*	*60.2*	1.3%	*59.9*	1.8%
FringeBenefit Tax	*0.0*	*0.0*		*0.0*	
Deferred tax	*0.0*	*0.0*		*0.0*	
PAT before MI	261.9	258.5	1.3%	240.5	8.9%
Share in Earnings of Affiliates	0.0	0.0		-	
Minority Interest	(41.8)	(44.9)	-7.0%	(41.5)	
PAT	220.1	213.5	3.1%	199.0	10.6%
Reported PAT	220.1	213.5	3.1%	199.0	10.6%

Q3FY10 Consolidated Reported

(Rs. Mn)	Dec 09	Sept 09	Q-Q Chng	Dec 08	Y-Y Chng
Sales & Service	605.2	599.5	0.9%	584.5	3.5%
Other Income	4.3	4.8	-9.6%	1.6	165.8%
Total Revenues	609.5	604.3	0.9%	586.2	4.0%
Total Expenditure	420.6	429.0	-2.0%	421.8	-0.3%
RM Consumed	*0.0*	*0.0*		*3.9*	*-100.0%*
Staff Cost	*294.9*	*262.8*		*271.2*	
Other Expenditure	*125.7*	*166.3*	*-24.4%*	*146.7*	*-14.3%*
Operating Profit	188.9	175.2	7.8%	164.3	15.0%
Other Income	0.0	0.0		0.0	
EBITDA	188.9	175.2	7.8%	164.3	15.0%
Misc Write off	0.0	0.0		0.0	
Depreciation	19.8	19.4	2.2%	20.1	-1.6%
PBIT	169.1	155.9	8.5%	144.2	17.3%
Interest	0.0	0.0		0.1	
PBT	169.1	155.9	8.5%	144.1	17.3%
Tax	5.4	9.4	-42.2%	6.8	-20.0%
Current Tax	*5.4*	*9.4*	*-42.2%*	*6.8*	*-20.0%*
FringeBenefit Tax	*0.0*	*0.0*		*0.0*	
Deferred tax	*0.0*	*0.0*		*0.0*	
PAT	163.7	146.5	11.7%	137.3	19.2%
Extra-ordinary Income	0.0	0.0		0.0	
Reported PAT	163.7	146.5	11.7%	137.3	19.2%

Sonata : Financials

Earnings Statement

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09
Sales & Services	5,070.3	8,977.2	14,283.7	15,912.7
Total Expenditure	4,668.2	8,189.2	13,169.0	14,394.3
- Purchase of traded goods	2,960.9	3,764.0	5,422.2	5,843.0
- Operating expenses	1,707.3	4,425.2	7,746.8	8,551.3
Operating Profit	402.1	788.0	1,114.7	1,518.4
Other Income	38.7	198.6	310.6	109.5
EBITDA	440.8	986.6	1,425.3	1,627.9
Depreciation	107.7	297.4	433.5	435.0
EBIT	333.1	689.2	991.8	1,192.9
Interest	6.6	27.7	49.6	66.9
PBT	326.5	661.5	942.2	1,126.0
Tax	51.1	83.5	125.2	221.6
PAT before MI	275.4	578.0	817.0	904.4
Minority Interest	-	107.3	237.8	141.3
Profit from Affiliates	-	9.6	6.0	2.5
PAT before EI	275.4	480.3	585.2	765.7
Extraordinary Items	(161.8)	-	-	-
Reported PAT	113.6	480.3	585.2	765.7

Ratio Analysis

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09
OPM (%)	7.9%	8.8%	7.8%	9.5%
EBITDA (%)	8.7%	11.0%	10.0%	10.2%
PBIT (%)	6.6%	7.7%	6.9%	7.5%
PAT (%)	5.4%	5.3%	4.1%	4.8%
EPS (Rs.)	2.6	4.6	5.6	7.3
P/E (x)	22.5	12.9	10.6	8.1
P/BV (x)	4.1	3.3	2.7	2.2
BVPS (Rs.)	14.5	17.8	21.8	26.3
Market Cap (Rs. Mn.)	6,204.4	6,204.4	6,204.4	6,204.4
M Cap/Sales (x)	1.2	0.7	0.4	0.4
EV (Rs. Mn.)	6,204.4	6,785.6	6,487.8	6,238.1
EV/EBITDA (x)	14.1	6.9	4.6	3.8
EV/Sales (x)	1.2	0.8	0.5	0.4
ROCE (%)	21.9%	26.2%	34.9%	38.3%
RONW (%)	18.1%	25.7%	25.6%	27.7%
Inventory T/o Days	5.4	2.3	3.7	1.3
Debtors T/o Days	94.1	79.0	61.0	63.7
Advances T/o Days	29.8	17.6	10.8	29.3
Creditors T/o Days	93.5	127.7	79.1	91.6
Working Cap T/o Days	71.8	17.2	13.8	21.1
Fixed Assets T/o (Gross)	6.9	1.3	2.0	2.1
DPS (Rs.)	1.0	1.1	1.1	1.5
Dividend Payout (%)	38.2%	24.1%	19.8%	20.6%
Dividend Yield (%)	1.7%	1.9%	1.9%	2.5%

Balance Sheet

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09
Equity Capital	105.2	105.2	105.2	105.2
Reserves	1,416.4	1,762.4	2,183.4	2,662.9
Shareholders Funds	1,521.6	1,867.6	2,288.5	2,768.0
Minority Interest	-	184.9	269.1	308.1
Borrowed Funds	-	581.2	283.4	33.7
Deferred Tax Liabilities	0.9	0.6	1.1	1.0
Total Liabilities	**1,522.5**	**2,634.2**	**2,842.2**	**3,110.9**
Fixed Assets				
Gross Block	736.7	6,922.4	7,173.7	7,474.9
Accumulated Depn.	418.6	5,074.8	5,410.5	5,621.3
Net Block	318.2	1,847.7	1,763.2	1,853.6
Capital WIP	15.9	49.5	74.1	56.3
Investments	75.7	143.1	238.7	81.0
Current Assets				
Inventory	75.5	56.1	144.7	54.7
Sundry Debtors	1,307.4	1,941.9	2,386.9	2,777.5
Loans & Advances	414.2	432.1	424.5	1,278.9
Cash & Bank Balance	571.1	1,212.5	764.4	817.4
Current Liabilities				
Sundry Creditors	1,298.8	3,141.7	3,096.2	3,994.7
Provisions	71.9	77.9	85.4	12.8
Net Current Assets	997.5	423.0	539.0	921.1
Deferred Tax Assets	115.3	171.0	227.2	198.9
Total Assets	**1,522.5**	**2,634.2**	**2,842.2**	**3,110.9**

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Disclosure of Interest Statement	Sonata
1. Analyst Ownership of the scrip	YES
2. PPFAS ownership of the scrip	YES
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