

Sonata Software Limited	CMP Rs. 30.70 BUY	Result Update Q1FY10
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Sonata posted flat results this quarter. Highlights are as follows:

Standalone	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)
Q1FY10	572.9	161.8	133.9	28.2%	23.4%
Q409	590.5	150.3	128.7	25.5%	21.8%
Q109	564.7	166.6	132.7	29.5%	23.5%
FY09	2,446.3	650.6	533.6	26.6%	21.8%
FY08	2,011.0	491.5	366.9	24.4%	18.2%

Growth in Q1FY10			
	Sales	EBITDA	PAT
Q-Q	-3.0%	7.6%	4.0%
Y-Y	1.5%	-2.9%	0.9%
Growth in FY09			
	Sales	EBITDA	PAT
Y-Y	21.6%	32.4%	45.4%

Consolidated	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)
Q1FY10	3,791.8	383.2	177.6	10.1%	4.7%
Q409	3,709.2	360.3	172.2	9.7%	4.6%
Q109	4,086.3	376.4	178.1	9.2%	4.4%
FY09	16,022.2	1,627.9	765.7	10.2%	4.8%
FY08	14,594.3	1,425.3	585.2	9.8%	4.0%

Growth in Q1FY10			
	Sales	EBITDA	PAT
Q-Q	2.2%	6.4%	3.1%
Y-Y	-7.2%	1.8%	-0.3%
Growth in FY09			
	Sales	EBITDA	PAT
Y-Y	9.8%	14.2%	30.8%

The company added 4 new clients this quarter & hasn't managed to lose any of the earlier engagements. The flattish quarter was predominantly because of an overall volume decline of 11% owing to delayed decisions by clients, for discretionary spends. But as per the management's comment, new customers added have more than averagely compensated for the falling margins resulting from the volume decline. Commenting on the travel industry, one of Sonata's primary focus verticals, the outlook seems good since the impact of the crisis is drying out which has shown some new business coming in. Travel industry vertical remains to be an area of growth for Sonata.

The management seemed optimistic about the FTO (First Time Offshorer) segment since most of these offshorers were previously apprehensive of the offshore model. But they seem to be more receptive to the idea of offshoring business now in times of cost over-runs. They have also seen good business from matured ISV's (Independent Software Vendors) who have been able to face the economic downturn better. SSL also enjoy some cross-selling opportunities from their packaged software implementation business (SITL).

For SITL, the business is basically classified into two segments, supplying software products & consulting in the enterprise solutions domain. The latest inroads for this business would be Government projects they are currently engaged in. So far it has only been on the lines of software supplying, but soon enough they intend to scale up on this vertical as well.

The company has chalked out an inorganic growth strategy, but their primary growth engines within the business are Independent Software Vendors, Remote Infrastructure Management, ERP (Enterprise Solutions), Managed Testing & most important, the Travel vertical.

The company has cash of ~Rs. 100 Crs, some of which might be directed towards inorganic growth efforts in the future. Sonata has recently ventured into a new geography, the Middle East, which looks very promising. The company has already engaged with a Saudi Arabian retailer for designing their e-commerce website as the client ventures into online retailing. As of now, Sonata caters to only four main geographies, US, UK, Germany, Middle East & also some amount of domestic work.

Overall the outlook appears to be good & at the same time the company says that it already has a good order pipeline going ahead. Furthermore, the company has faced no contract terminations but a few clients have deferred their budgets till conditions sweeten up. Nature of Sonata's engagements with the clients is also conducive for its business growth. They begin with engaging local subsidiaries of MNC's & then scale up to the parent. Owing to the company's healthy cash position, robust margins & low costs, we believe it's a good business to own.

The stock currently trades at 4.6X. At FY09 EPS of Rs. 7.28 the earnings yield is ~23%. Even if we factor in minimal or zero growth in the following year (FY10), expected EPS for the year might be around Rs. 5.6 anticipating Rs. 1.4 per quarter. The earnings yield then becomes ~18%. Although, the company is assuring growth through acquisitions & focusing on their growth engines which might make this scenario of de-growth / zero growth less probable. We can use this buffer for forex related adjustments to the EPS, which might ensue in a similar scenario. Out of all this, a company with good prospects, assured business from TUI AG, good order pipeline, inorganic growth prospects, good cash, we can clearly see an enticing opportunity to BUY.

Sonata: FY09 Performance Review

Particulars (Rs. Mn)	Standalone			Consolidated		
	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%
<i>RM Consumed</i>	15.7	15.7	0.0%	5,843.0	5,422.2	7.8%
<i>Other Expenditure</i>	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%
EBITDA	650.6	491.5	32.4%	1,627.9	1,425.3	14.2%
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%
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%
Reported PAT	533.6	366.9	45.4%	765.7	585.2	30.8%
EPS (in Rs.)	5.1	3.5	45.4%	7.3	5.6	30.8%
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

Q1FY10 Standalone Reported

(Rs. Mn)	Jun 09	Mar 09	Q-Q Chng	Jun 08	Y-Y Chng
Sales & Service	568.6	589.3	-3.5%	553.5	2.7%
Other Income	4.3	1.2	259.9%	11.2	-61.4%
Total Revenues	572.9	590.5	-3.0%	564.7	1.5%
Total Expenditure	411.1	440.2	-6.6%	398.1	3.3%
Operating Profit	161.8	150.3	7.6%	166.6	-2.9%
EBITDA	161.8	150.3	7.6%	166.6	-2.9%
Depreciation	18.2	18.0	1.3%	21.2	-14.2%
PBIT	143.6	132.3	8.5%	145.4	-1.3%
Interest	0.0	0.0		2.4	
PBT	143.6	132.3	8.5%	143.0	0.4%
Tax	9.7	3.6	170.4%	10.3	-5.6%
Reported PAT	133.9	128.7	4.0%	132.7	0.9%

Q1FY10 Consolidated Reported

(Rs. Mn)	Jun 09	Mar 09	Q-Q Chng	Jun 08	Y-Y Chng
Sales & Service	3,780.2	3,683.8	2.6%	4,056.2	-6.8%
Other Income	11.6	25.5	-54.3%	30.1	-61.3%
Total Revenues	3,791.8	3,709.2	2.2%	4,086.3	-7.2%
Total Expenditure	3,408.6	3,348.9	1.8%	3,709.9	-8.1%
Operating Profit	383.2	360.3	6.4%	376.4	1.8%
EBITDA	383.2	360.3	6.4%	376.4	1.8%
Depreciation	117.4	107.7	9.0%	104.8	12.0%
PBIT	265.8	252.6	5.2%	271.5	-2.1%
Interest	17.2	16.6	3.3%	20.5	-16.2%
PBT	248.6	235.9	5.4%	251.0	-1.0%
Tax	44.7	39.3	13.6%	53.8	-16.9%
PAT before MI	203.9	196.6	3.7%	197.3	3.4%
Share in Earnings of Affiliates	-	2.7		0.0	
Minority Interest	(26.3)	(27.1)	-2.8%	(19.1)	
Reported PAT	177.6	172.2	3.1%	178.1	-0.3%

Q1FY10 Performance

Q1FY10 (Rs Mn)	Revenue	Business Mix	PAT	Profit Mix	PAT Margin
International	2,177.62	57.61%	161.24	90.79%	7.40%
Domestic	1,602.56	42.39%	16.35	9.21%	1.02%
Consolidated	3,780.18	100.00%	177.59	100.00%	4.70%
Sonata Software Ltd.	568.57	14.29%	133.87	74.84%	23.54%
ODSi	156.80	3.94%	3.80	2.12%	2.42%
TUI InfoTec GmbH	1,645.90	41.37%	25.70	14.37%	1.56%
International	2,371.27	59.60%	163.37	91.33%	6.89%
SITL	1,607.30	40.40%	15.50	8.67%	0.96%
Domestic	1,607.30	40.40%	15.50	8.67%	0.96%

Sonata: Q1FY10 Segmental Analysis

Revenues (Rs Mn)	Q110	Q409	Q309	Q209	Q109	Q408	Q308	Q208	Q108
International	2,177.62	2,185.04	2,365.30	2,479.80	2,391.70	2,185.30	2,173.28	2,078.18	1,936.40
Domestic	1,602.56	1,498.73	1,512.20	1,706.90	1,664.50	1,657.30	1,437.71	1,262.40	1,582.22
Consolidated	3,780.18	3,683.77	3,877.50	4,186.70	4,056.20	3,842.60	3,610.99	3,340.58	3,518.62
Sonata Software Limited	568.57	589.30	584.50	600.00	553.50	538.30	500.64	487.34	461.95
ODSi	156.80	161.80	155.40	144.80	128.80	115.30	106.09	116.33	106.73
Sonata Software GmbH			40.90	35.40	18.80	15.30	15.85	17.63	13.70
Sonata Europe Limited			0.40	2.90	4.70	6.20	6.56	5.33	-
TUI InfoTec GmbH	1,645.90	1,645.50	1,826.90	1,930.20	1,891.50	1,657.10	1,692.27	1,610.70	1,493.99
International	2,371.27	2,396.60	2,608.10	2,713.30	2,597.30	2,332.20	2,321.41	2,237.33	2,076.37
SITL	1,607.30	1,500.50	1,514.50	1,706.90	1,664.50	1,657.30	1,437.71	1,262.40	1,582.22
Domestic	1,607.30	1,500.50	1,514.50	1,706.90	1,664.50	1,657.30	1,437.71	1,262.40	1,582.22

PAT (Rs Mn)	Q110	Q409	Q309	Q209	Q109	Q408	Q308	Q208	Q108
International	161.24	152.88	185.70	192.50	149.90	148.40	141.32	107.07	130.03
Domestic	16.35	19.35	13.30	23.80	28.20	20.60	15.50	12.27	10.01
Consolidated	177.59	172.23	199.00	216.30	178.10	169.00	156.82	119.34	140.04
Sonata Software Limited	133.87	128.70	137.30	134.80	132.70	105.70	97.50	86.35	77.37
ODSi	3.80	1.80	7.60	6.70	6.50	5.90	5.68	6.12	5.97
Sonata Software GmbH			1.10	1.20	1.30	0.20	0.40	0.36	0.36
Sonata Europe Limited			5.50	37.70	12.60	47.30	41.27	36.97	11.20
TUI InfoTec GmbH	25.70	26.50	41.80	44.20	25.00	73.60	71.04	49.48	53.62
International	163.37	157.00	193.30	224.60	152.90	232.70	133.35	179.28	126.12
SITL	15.50	19.50	13.50	23.80	28.20	20.60	15.50	12.27	10.01
Domestic	15.50	19.50	13.50	23.80	28.20	20.60	15.50	12.27	10.01

Revenues (Rs Mn)	Q110	Q409	Q109	Q-Q	(Q-Q)	Y-Y	(Y-Y)
International	2,177.62	2,185.04	2,391.70	(7.42)	-0.34%	(214.08)	-8.95%
Domestic	1,602.56	1,498.73	1,664.50	103.83	6.93%	(61.94)	-3.72%
Consolidated	3,780.18	3,683.77	4,056.20	96.41	2.62%	(276.02)	-6.80%
Sonata Software Limited	568.57	589.30	553.50	(20.73)	-3.52%	15.07	2.72%
ODSi	156.80	161.80	128.80	(5.00)	-3.09%	28.00	21.74%
Sonata Software GmbH			18.80			(18.80)	
Sonata Europe Limited			4.70			(4.70)	
TUI InfoTec GmbH	1,645.90	1,645.50	1,891.50	0.40	0.02%	(245.60)	-12.98%
International	2,371.27	2,396.60	2,597.30	(25.33)	-1.06%	(226.03)	-8.70%
SITL	1,607.30	1,500.50	1,664.50	106.80	7.12%	(57.20)	-3.44%
Domestic	1,607.30	1,500.50	1,664.50	106.80	7.12%	(57.20)	-3.44%

PAT (Rs Mn)	Q110	Q409	Q109	Q-Q	(Q-Q)	Y-Y	(Y-Y)
International	161.24	152.88	149.90	8.36	5.46%	11.34	7.56%
Domestic	16.35	19.35	28.20	(3.00)	-15.52%	(11.85)	-42.03%
Consolidated	177.59	172.23	178.10	5.35	3.11%	(0.51)	-0.29%
Sonata Software Limited	133.87	128.70	132.70	5.17	4.01%	1.17	0.88%
ODSi	3.80	1.80	6.50	2.00	111.11%	(2.70)	-41.54%
Sonata Software GmbH			1.30	0.00		(1.30)	-100.00%
Sonata Europe Limited			-	12.60	0.00	12.60	-100.00%
TUI InfoTec GmbH	25.70	26.50	25.00	(0.80)	-3.02%	0.70	2.80%
International	163.37	157.00	152.90	6.37	4.05%	10.47	6.84%
SITL	15.50	19.50	28.20	(4.00)	-20.51%	(12.70)	-45.04%
Domestic	15.50	19.50	28.20	(4.00)	-20.51%	(12.70)	-45.04%

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
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Sonata

- NO
YES
YES

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