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15 October, 2008

Sonata Software Limited

CMP Rs. 20.0
BUY

Q2 FY2009
Result Update

Sonata Software has reported extremely good results for the 2nd quarter of FY09. First, the result highlights.

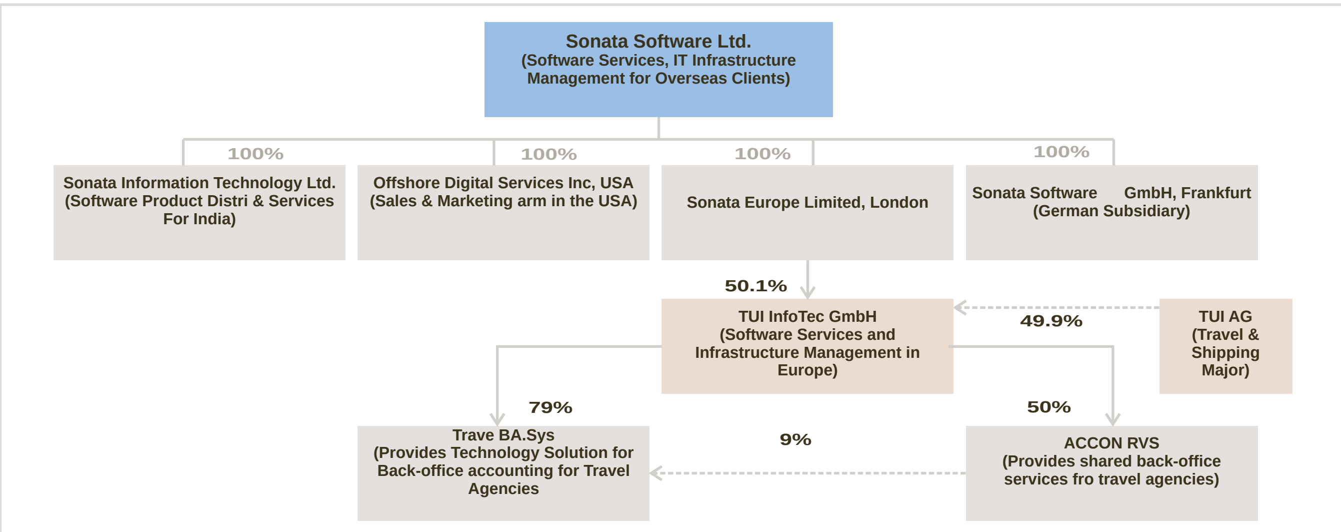
Result Highlights for Q209 :

Standalone	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q209			
Q209	602.5	169.4	134.8	28.1%	22.4%		Sales	EBITDA	PAT
Q109	564.7	166.6	132.7	29.5%	23.5%	Q-Q	6.7%	1.7%	1.6%
Q208	496.1	117.3	86.4	23.7%	17.4%	Y-Y	21.5%	44.3%	56.1%
Consolidated	**Revenues**	**EBITDA**	**PAT**	**EBITDA (%)**	**PAT (%)**	**Growth in Q209**			
Q209	4,220.6	464.9	216.3	11.0%	5.1%		Sales	EBITDA	PAT
Q109	4,086.3	376.4	178.1	9.2%	4.4%	Q-Q	3.3%	23.5%	21.4%
Q208	3,422.8	315.4	119.3	9.2%	3.5%	Y-Y	23.3%	47.4%	81.3%

This robust performance could be attributed to various factors internal & external to the organization. On the operational front, Sonata has added 5 new clients in its standalone IT services business. This segment had delivered exceptionally good performance in the Q1 quarter. While there has been some margin contraction, the reported topline growth has been healthy. TUI Infotech which had a difficult last quarter, has staged a decent recovery in terms of profitability. The number of outside contractors have now come down to 50. The repayment of loan for acquisition of TUI Infotech completed in the last quarter has brought about a sharp recovery in the profits of Sonata Europe Limited, the holding arm for TUI Infotech. The domestic low margin SITL business grew its revenues but suffered some margin contraction, largely on account of currency factor. However, net-net Sonata has been a beneficiary of the sharp INR depreciation.

Overall, the results have increased our confidence on the company. Factoring the robust Q2 results and the changed currency scenario, we are increasing our earnings estimate for FY09 from Rs. 6.25 to Rs. 7.25 per share. We maintain our BUY call on the scrip, with a target of Rs. 44 based on 6x FY09E (117% Upside).

Sonata Group Structure



Sonata : Data Points

Mix	FY04	FY05	FY06	FY07	FY08	Q1 09	Q2 09
Onsite	38	26	26	30	27	21	21
Offshore	62	74	74	70	73	79	79
Geography	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**Q1 09**	**Q2 09**
US	41	50	45	45	37	39	37
Europe	59	50	55	55	62	60	62
Manpower Strength	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**Q1 09**	**Q2 09**
Number of Employees	932	1,251	1,606	2,242	2,546	2,599	2,676

Sonata : Segmental Analysis

Q209 (Rs Mn)	Revenue	Business Mix	PAT	Profit Mix	PAT Margin
Sonata Software Limited	600.00	13.57%	134.80	54.27%	22.47%
ODSi	144.80	3.28%	6.70	2.70%	4.63%
Sonata Software GmbH	35.40	0.80%	1.20	0.48%	3.39%
Sonata Europe Limited	2.90	0.07%	37.70	15.18%	
TUI InfoTec GmbH	1,930.20	43.67%	44.20	17.79%	2.29%
International	2,479.80	59.23%	192.50	89.00%	7.76%
Domestic	1,706.90	40.77%	23.80	11.00%	1.39%
Consolidated	**4,186.70**	**100.00%**	**216.30**	**100.00%**	**5.17%**

Revenues (Rs Mn)	Q209	Q109	Q208	Q-Q	(Q-Q)	Y-Y	(Y-Y)
Sonata Software Limited	600.0	553.5	487.3	46.5	8.4%	112.7	23.1%
ODSi	144.8	128.8	116.3	16.0	12.4%	28.5	24.5%
Sonata Software GmbH	35.4	18.8	17.6	16.6	88.3%	17.8	100.8%
Sonata Europe Limited	2.9	4.7	5.3	(1.8)	-38.3%	(2.4)	-45.6%
TUI InfoTec GmbH	1,930.2	1,891.5	1,610.7	38.7	2.0%	319.5	19.8%
International	2,479.8	2,391.7	2,078.2	88.1	3.68%	401.6	19.3%
Domestic	1,706.9	1,664.5	1,262.4	42.4	2.5%	444.5	35.2%
Consolidated	**4,186.7**	**4,056.2**	**3,340.6**	**130.5**	**3.2%**	**846.1**	**25.3%**

PAT (Rs Mn)	Q209	Q109	Q208	Q-Q	(Q-Q)	Y-Y	(Y-Y)
Sonata Software Limited	134.8	132.7	86.4	2.1	1.6%	48.5	56.1%
ODSi	6.7	6.5	6.1	0.2	3.1%	0.6	9.5%
Sonata Software GmbH	1.2	1.3	0.4	(0.1)	-7.7%	0.8	233.3%
Sonata Europe Limited	37.7	(12.6)	37.0	50.3	n.a.	0.7	2.0%
TUI InfoTec GmbH	44.2	25.0	49.5	19.2	76.8%	(5.3)	-10.7%
International	192.5	149.9	107.1	42.6	28.4%	85.4	79.8%
Domestic	23.8	28.2	12.3	(4.4)	-15.6%	11.5	94.0%
Consolidated	**216.3**	**178.1**	**119.3**	**38.2**	**21.4%**	**97.0**	**81.2%**

Sonata : Consolidated Quarterly Financials

(Rs. Mn)	Sept 08	Jun 08	Q-Q Chng	Sept 07	Y-Y Chng
Sales & Service	4,186.7	4,056.2	3.2%	3,340.6	25.3%
Other Income	33.9	30.1	12.9%	82.3	-58.8%
Total Revenues	4,220.6	4,086.3	3.3%	3,422.8	23.3%
Total Expenditure	3,755.7	3,709.9	1.2%	3,107.5	20.9%
Operating Profit	464.9	376.4	23.5%	315.4	47.4%
EBITDA	464.9	376.4	23.5%	315.4	47.4%
Depreciation	109.8	104.8	4.8%	107.8	1.9%
PBIT	355.1	271.5	30.8%	207.6	71.1%
Interest	16.5	20.5	-19.4%	4.5	266.5%
PBT	338.6	251.0	34.9%	203.1	66.7%
Tax	68.5	53.8	27.5%	33.1	106.9%
PAT before MI	270.0	197.3	36.9%	169.9	58.9%
Share in Earnings of Affiliates	-0.2	0.0		0.0	
Minority Interest	(53.5)	(19.1)	179.7%	(50.6)	
Reported PAT	216.3	178.1	21.4%	119.3	81.3%
EPS (in Rs.)	2.1	1.7		1.1	49.3%
OPM %	11.0%	9.2%	180.5	9.2%	180.2
EBITDA %	11.0%	9.2%	180.5	9.2%	180.2
PBIT %	8.4%	6.6%	176.8	6.1%	234.9
PAT %	5.1%	4.4%	76.6	3.5%	163.9

Sonata : Standalone Quarterly Financials

(Rs. Mn)	Sept 08	Jun 08	Q-Q Chng	Sept 07	Y-Y Chng
Sales & Service	600.0	553.5	8.4%	487.3	23.1%
Other Income	2.5	11.2	-77.5%	8.7	-71.1%
Total Revenues	602.5	564.7	6.7%	496.1	21.5%
Total Expenditure	433.1	398.1	8.8%	378.7	14.4%
Operating Profit	169.4	166.6	1.7%	117.3	44.3%
EBITDA	169.4	166.6	1.7%	117.3	44.3%
Depreciation	22.0	21.2	3.9%	24.6	-10.5%
PBIT	147.3	145.4	1.3%	92.7	58.9%
Interest	1.4	2.4		0.0	
PBT	146.0	143.0	2.1%	92.7	57.5%
Tax	11.1	10.3	8.6%	6.4	75.3%
Reported PAT	134.8	132.7	1.6%	86.4	56.1%
EPS (in Rs.)	1.3	1.3	1.6%	0.8	56.1%
OPM %	28.1%	29.5%	(139.1)	23.7%	445.6
EBITDA %	28.1%	29.5%	(139.1)	23.7%	445.6
PBIT %	24.5%	25.7%	(129.3)	18.7%	576.4
PAT %	22.4%	23.5%	(112.1)	17.4%	497.2

Sonata : Financials

Earnings Statement

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E
Sales & Services	5,070.3	8,977.2	14,283.7	16,569.1
Total Expenditure	4,668.2	8,189.2	13,169.0	14,918.4
- Purchase of traded goods	2,960.9	3,764.0	5,422.2	6,289.7
- Operating expenses	1,707.3	4,425.2	7,746.8	8,628.6
Operating Profit	402.1	788.0	1,114.7	1,650.7
Other Income	38.7	198.6	310.6	57.3
EBITDA	440.8	986.6	1,425.3	1,708.0
Depreciation	107.7	297.4	433.5	448.2
EBIT	333.1	689.2	991.8	1,259.8
Interest	6.6	27.7	49.6	70.0
PBT	326.5	661.5	942.2	1,189.8
Tax	51.1	83.5	125.2	267.7
PAT before MI	275.4	578.0	817.0	922.1
Minority Interest	-	107.3	237.8	160.0
Profit from Affiliates	-	9.6	6.0	-
PAT before EI	275.4	480.3	585.2	762.1
Extraordinary Items	(161.8)	-	-	-
Reported PAT	113.6	480.3	585.2	762.1

Ratio Analysis

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E
OPM (%)	7.9%	8.8%	7.8%	10.0%
EBITDA (%)	8.7%	11.0%	10.0%	10.3%
PBIT (%)	6.6%	7.7%	6.9%	7.6%
PAT (%)	5.4%	5.3%	4.1%	4.6%
EPS (Rs.)	2.6	4.6	5.6	7.2
P/E (x)	7.6	4.4	3.6	2.8
P/BV (x)	1.4	1.1	0.9	0.7
BVPS (Rs.)	14.5	17.8	21.8	27.7
Market Cap (Rs. Mn.)	2,103.2	2,103.2	2,103.2	2,103.2
M Cap/Sales (x)	0.4	0.2	0.1	0.1
EV (Rs. Mn.)	2,103.2	2,684.4	2,386.6	2,103.2
EV/EBITDA (x)	4.8	2.7	1.7	1.2
EV/Sales (x)	0.4	0.3	0.2	0.1
ROCE (%)	21.9%	26.2%	34.9%	37.7%
RONW (%)	18.1%	25.7%	25.6%	26.1%
Inventory T/o Days	5.4	2.3	3.7	4.0
Debtors T/o Days	94.1	79.0	61.0	60.7
Advances T/o Days	29.8	17.6	10.8	13.7
Creditors T/o Days	93.5	127.7	79.1	49.0
Working Cap T/o Days	71.8	17.2	13.8	23.1
Fixed Assets T/o (Gross)	6.9	1.3	2.0	2.2
DPS (Rs.)	1.0	1.1	1.1	1.1
Dividend Payout (%)	38.2%	24.1%	19.8%	15.2%
Dividend Yield (%)	5.0%	5.5%	5.5%	5.5%

Balance Sheet

YE March (Rs. Mn.)	FY06	FY07	FY08	FY09E
Equity Capital	105.2	105.2	105.2	105.2
Reserves	1,416.4	1,762.4	2,183.4	2,810.2
Shareholders Funds	1,521.6	1,867.6	2,288.5	2,915.3
Minority Interest	-	184.9	269.1	429.1
Borrowed Funds	-	581.2	283.4	-
Deferred Tax Liabilities	0.9	0.6	1.1	1.1
Total Liabilities	1,522.5	2,634.2	2,842.2	3,345.5
Fixed Assets				
Gross Block	736.7	6,922.4	7,173.7	7,416.9
Accumulated Depn.	418.6	5,074.8	5,410.5	5,666.6
Net Block	318.2	1,847.7	1,763.2	1,750.3
Capital WIP	15.9	49.5	74.1	80.9
Investments	75.7	143.1	238.7	238.4
Current Assets				
Inventory	75.5	56.1	144.7	182.7
Sundry Debtors	1,307.4	1,941.9	2,386.9	2,754.1
Loans & Advances	414.2	432.1	424.5	620.7
Cash & Bank Balance	571.1	1,212.5	764.4	857.5
Current Liabilities				
Sundry Creditors	1,298.8	3,141.7	3,096.2	2,222.5
Provisions	71.9	77.9	85.4	1,143.8
Net Current Assets	997.5	423.0	539.0	1,048.7
Deferred Tax Assets	115.3	171.0	227.2	227.2
Total Assets	1,522.5	2,634.2	2,842.2	3,345.5

Cash Flow

Particulars	FY06	FY07	FY08	FY09E
Opening Cash & Bank	166.9	571.1	1212.5	764.4
Profit After Tax	113.6	480.3	585.2	762.1
Investment Income	(38.7)	(198.6)	(310.6)	(57.3)
Depreciation	107.7	297.4	335.8	256.1
Others	192.5	175.6	(55.6)	0.0
Change in Working Cap	239.8	1081.5	(564.1)	(416.7)
CF - Operating Activities	614.9	1836.1	(9.3)	544.2
Change in Fixed Assets	(140.1)	(1860.6)	(275.9)	(250.0)
Change in Investments	61.7	(67.3)	(95.6)	0.3
Investment Income	38.7	198.6	310.6	57.3
CF - Investing Activities	(39.7)	(1729.3)	(60.9)	(192.4)
Increase in Equity	0.0	0.0	(28.9)	(0.0)
Changes in Borrowings	(51.1)	581.2	(297.8)	(283.4)
Changes in Minority Hldg	0.0	87.1	84.2	160.0
Dividend Paid	(119.9)	(133.8)	(135.3)	(135.3)
CF - Financing Activities	(171.0)	534.6	(377.8)	(258.8)
Net Change in Cash	404.2	641.4	(448.1)	93.0
Closing Cash & Bank Bal	571.1	1212.5	764.4	857.5

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