



Sonata Software Ltd

Key Stock Indicators

NSE Ticker :	SONATSOFTW	CMP as on 29 Nov 2011-Rs/share :	25.4	Shares outstanding (mn) :	105.2
Bloomberg Ticker :	SSOF:IN	52 week range up to 29 Nov 2011 (Rs)(H/L) :	52.5/22.6	Free Float (%) :	56.7
Face value per share :	1.0	Market Cap as on 29 Nov 2011 (Rs mn) :	2,671	Average daily volumes (12 months) :	327,430
Div.Yield (%) :	7.9	Enterprise Value as on 29 Nov 2011 (Rs mn) :	1,487	Beta (2 year) :	1.1

Incorporated in 1986, Sonata Software Limited (SSL) provides IT services and solutions to customers in the US, Europe, the Middle East and India. Its operations comprise software development, technical services and product marketing.

KEY HIGHLIGHTS

Exports contribute ~57% of revenue

The company provides software products, IT services and business solutions to various clients in India and abroad. SSL, together with its subsidiaries, operates as an information technology (IT) consulting and services company in the US, Europe, the Middle East, and the Asia-Pacific. It has an established client base which mainly deals with software products of world leaders such as Microsoft, SAP, Oracle, etc. The company's Top 10 clients contributed 78% of revenue at the IT services division. Exports contributed ~57% of revenue in FY11.

Sets up centre for mobile applications

The company has established a centre of excellence (CoE) for mobile application development with a dual focus on supporting independent software vendors (ISVS) and enterprises. The CoE will enable faster development across platforms such as Android, Windows Mobile, Blackberry, iOS, J2ME and MEAP. This, coupled with the company's planned travel, transportation and logistics (TTL) solution accelerators, will strengthen existing offerings and help accelerate the pace of delivery of mobile application development projects.

KEY RISKS

- Fluctuations in forex rates — exports contributed ~57% to FY11 revenue
- Increasing competition from domestic and international players
- High employee costs and attrition level

Stock Performances vis-à-vis market

	Returns			
	YTD	1-m	3-m	12-m
SONATSOFTW	-40	-11	-15	-47
NIFTY	-18	-10	-2	-18

Note:

- 1) YTD returns are since Apr 1, 2011 to Nov 29, 2011.
- 2) 1-m, 3-m and 12-m returns are up to Nov 29, 2011

Growth Trends

NET SALES: 😞 PAT: 😞 EPS: 😞

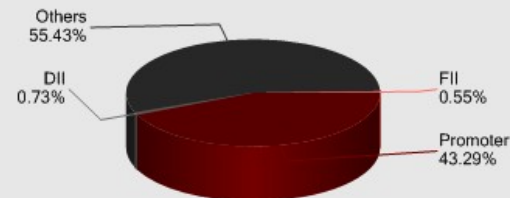
- 😊 Indicates CAGR for 3 years is greater than 10%
- 😐 Indicates CAGR for 3 years is between -10% to 10%
- 😞 Indicates CAGR for 3 years is less than -10%

Key Financial Indicators

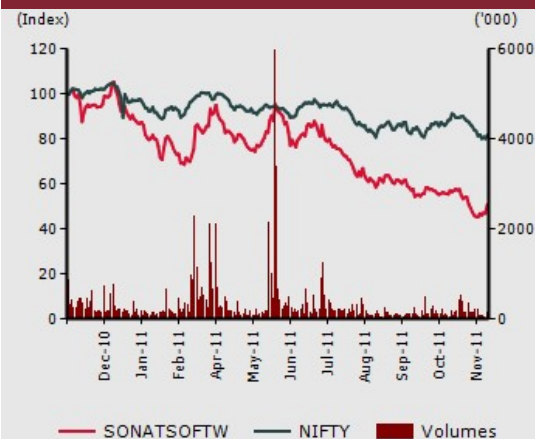
	MAR-09	MAR-10	MAR-11
Revenue (Rs mn)	15,938.3	13,937.3	14,048.0
EBITDA margins (%)	10.8	12.5	9.3
PAT (Rs mn)	906.9	938.9	902.9
PAT margins (%)	5.7	6.7	6.4
Gearing (x)	-	0.1	0.1
EPS (Rs/share)	8.6	8.9	8.6
PE (x)	1.8	6.3	5.0
P/BV (x)	0.8	2.0	1.4
RoCE (%)	76.6	51.1	28.6
RoE (%)	50.8	37.2	28.6
EV/EBITDA (x)	0.5	3.2	2.6

n.m. : Not meaningful

Shareholding (As on September 30, 2011)



Indexed price chart



BACKGROUND

SSL offers a range of services such as IT consulting, product engineering services, application development, application management, managed testing, business intelligence, infrastructure management, packaged applications and travel solutions. The company also provides both on-site as well as offshore services in the area of ERP customisation/conversion and migration projects, data warehousing, business intelligence, web development, infrastructure management, amongst others. The company has an established product line in India, which mainly deals with computer software products of world leaders such as Microsoft, SCO, Lotus, Oracle and Computer Associates. It has established markets in the US, Europe, the Middle East and in the Asia-Pacific region.

COMPETITIVE POSITION

Peer Comparison

	Sonata Software Ltd Mar-11	Mastek Ltd Jun-11	NIIT Technologies Ltd Mar-11	Polaris Software Lab Ltd Mar-11
Revenue (Rs mn)	14,048.0	5,966.0	12,364.8	15,978.0
EBITDA margins (%)	9.3	-2.7	19.9	14.1
PAT (Rs mn)	902.9	-559.4	1,854.2	2,022.8
PAT margins (%)	6.4	-9.4	15.0	12.7
Gearing (x)	0.1	0.1	-	-
EPS (Rs/share)	8.6	-20.8	31.3	20.4
PE (x)	5.0	n.m.	5.9	9.3
P/BV (x)	1.3	0.8	1.6	1.9
RoCE (%)	28.6	n.m.	38.7	25.1
RoE (%)	28.6	n.m.	32.2	22.7
EV/EBITDA (x)	2.6	n.m.	4.0	7.7

n.m.: Not meaningful

FINANCIAL PROFILE

Revenue flat in FY11, PAT declines

SSL's top line remained flat at ~Rs 14 bn in FY11. mainly due to drop in exports by ~10% year-on-year. However, the decline was partially compensated by a 19% growth in domestic sales.

EBITDA margin dropped ~320 basis points, mainly on account of increase in employee costs and operating costs as a percentage of sales.

Despite decline in capital charges and higher other income, profit declined ~4% to Rs 902 mn in FY11 from Rs 938 mn in FY10, largely due to lower operating profit.

INDUSTRY PROFILE

IT services

Indian IT services revenues are estimated to be ~US\$ 44 bn in 2010-11, registering a CAGR of 20% from 2005-06 to 2010-11. During the same period, IT services exports, which accounted for 75% of the revenues, also grew at a CAGR of 20% to US\$ 33.5 bn in 2010-11. The industry is highly dependent on the US and the UK markets, which contribute to ~80% of export revenues. With IT services deriving a large portion of its revenues from exports, the sector's profitability is highly correlated to foreign exchange movements. An appreciating rupee is thus a key risk factor. Also, as human resource is the main input in IT services, issues related to non-availability of skilled labour, attrition and wage inflation would also impact Indian IT players.

Key Financial Indicators

	Units	Mar-09	Mar-10	Mar-11
Revenue	Rs million	15,938.3	13,937.3	14,048.0
EBITDA margins	Per cent	10.8	12.5	9.3
PAT	Rs million	906.9	938.9	902.9
PAT margins	Per cent	5.7	6.7	6.4
Revenue growth	Per cent	11.4	-12.6	0.8
EBITDA growth	Per cent	46.4	1.5	-25.4
PAT growth	Per cent	14.2	3.5	-3.8
Gearing	Times	-	0.1	0.1
RoCE	Per cent	76.6	51.1	28.6
RoE	Per cent	50.8	37.2	28.6

ANNUAL RESULTS

Income statement

(Rs million)	Mar-09	Mar-10	Mar-11
Net Sales	15,868.8	13,848.0	13,932.0
Operating Income	15,938.3	13,937.3	14,048.0
EBITDA	1,718.7	1,744.2	1,301.2
EBITDA Margin	10.8	12.5	9.3
Depreciation	435.0	491.7	386.9
Interest	197.0	134.3	-128.9
Other Income	21.0	16.1	60.2
PBT	1,128.5	1,150.9	1,072.7
PAT	906.9	938.9	902.9
PAT Margin	5.7	6.7	6.4
No. of shares(Mn No.)	105.2	105.2	105.2
Earning per share(EPS)	8.6	8.9	8.6

Cash flow

(Rs million)	Mar-09	Mar-10	Mar-11
Pre-tax Profit	1,107.7	1,134.3	1,103.4
Total tax paid	-193.3	-170.7	-179.8
Depreciation	435.0	491.7	386.9
Change in working capital	-329.2	-1,038.8	164.6
Cash flow from operating activities	1,020.2	416.5	1,475.1
Capital expenditure	-507.6	-428.8	-274.5
Investments and others	157.7	-376.9	266.1
Cash flow from investing activities	-349.9	-805.7	-8.5
Equity raised/(repaid)	0.0	0.0	0.0
Debt raised/(repaid)	-249.7	265.6	8.3
Dividend (incl. tax)	-184.5	-208.8	-244.8
Others (incl extraordinary)	-183.1	246.0	-469.5
Cash flow from financing activities	-617.3	302.8	-706.0
Change in cash position	53.0	-86.4	760.6
Opening cash	764.4	817.4	731.1
Closing cash	817.4	731.1	1,491.7

n.m.: Not meaningful

QUARTERLY RESULTS

Profit and loss account

(Rs million)	Sep-11	% of Rev	Sep-10	% of Rev	Jun-11	% of Rev	Sep-11	% of Rev	Sep-10	% of Rev
No of Months	3		3		3		6		6	
Revenue	3,900.5	100.0	3,987.0	100.0	3,395.1	100.0	7,295.7	100.0	7,358.3	100.0
EBITDA	234.7	6	432.4	10.8	281.4	8.3	516.1	7.1	808.8	11
Interest	31.8	0.8	14.3	0.4	18.2	0.5	50.0	0.7	30.9	0.4
Depreciation	115.7	3	95.5	2.4	105.2	3.1	220.9	3	192.0	2.6
PBT	87.2	2.2	322.6	8.1	158.1	4.7	245.3	3.4	585.9	8
PAT	120.7	3.1	274.8	6.9	56.5	1.7	177.1	2.4	484.5	6.6

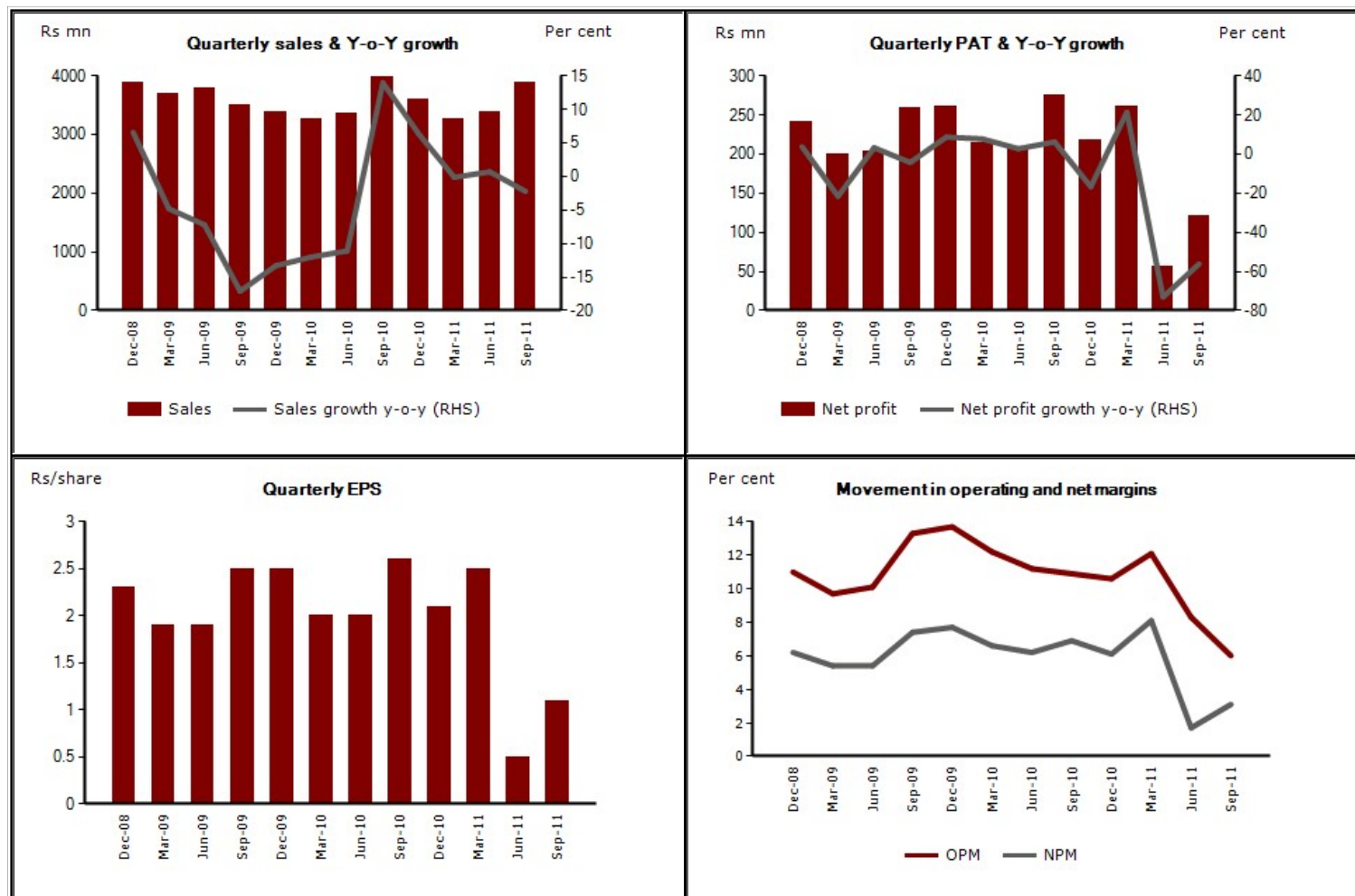
Balance Sheet

(Rs million)	Mar-09	Mar-10	Mar-11
Equity share capital	105.2	105.2	105.2
Reserves and surplus	1,939.5	2,901.1	3,198.3
Tangible net worth	2,044.7	3,006.3	3,303.5
Deferred tax liability: asset	-197.9	-156.5	-166.6
Long-term debt	33.7	299.4	307.6
Short-term-debt	0.0	0.0	0.0
Total debt	33.7	299.4	307.6
Current liabilities	3,994.7	2,193.9	2,266.7
Total provisions	12.8	707.8	888.7
Total liabilities	5,888.0	6,050.9	6,599.9
Gross block	6,277.2	6,723.9	6,575.2
Net fixed assets	878.5	817.7	783.2
Investments	81.0	457.9	191.8
Current assets	4,928.6	4,775.3	5,625.0
Receivables	2,777.5	1,939.3	2,043.7
Inventories	54.7	147.3	101.8
Cash	817.4	731.1	1,491.7
Total assets	5,888.1	6,050.9	6,600.0

Ratios

	Mar-09	Mar-10	Mar-11
Revenue growth(%)	11.4	-12.6	0.8
EBITDA growth(%)	46.4	1.5	-25.4
PAT growth(%)	14.2	3.5	-3.8
EBITDA margins(%)	10.8	12.5	9.3
Tax Rate(%)	16.9	16.5	16.3
PAT margins(%)	5.7	6.7	6.4
Dividend payout(%)	17.4	19.0	23.3
Dividend per share(Rs)	1.5	1.7	2.0
BV(Rs)	19.4	28.6	31.4
Return on Equity(%)	50.8	37.2	28.6
Return on Capital employed(%)	76.6	51.1	28.6
Gearing(x)	-	0.1	0.1
Interest coverage(x)	8.7	13.0	-
Debt/EBITDA(x)	-	0.2	0.2
Asset turnover(x)	2.6	2.1	2.1
Current ratio(x)	1.2	1.8	1.8
Gross current assets(days)	101	101	114

FOCUS CHARTS AND TABLES



Shareholding pattern (Per cent)

	Dec 2010	Mar 2011	Jun 2011	Sep 2011
Promoters	43.2	43.2	43.2	43.3
FII	0.7	0.8	0.6	0.6
DII	1.1	0.8	0.8	0.7
Others	54.9	55.2	55.4	55.4

Board of Directors

Directors Name	Designation
Pradip Panalal Shah	Non-Executive Chairman
Sanjay Viswanathan	Wholtime Director, Managing Director
Mukund Dharamdas Dalal	Promoter-Director, Executive Vice-Chairman
Shyam Bhupatirai Ghia	Promoter-Director
Viren Rajan Raheja	Promoter-Director
Palem Srikar Reddy	Wholtime Director, President & Chief Operating Officer
Brijendra Kumar G. Syngal	Non-Executive Director
Suresh Narsappa Talwar	Non-Executive Director

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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