



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

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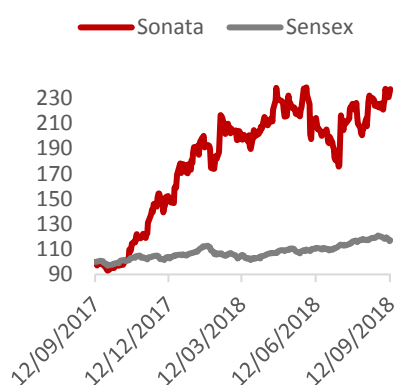
Not Rated

Current Price	372
Target Price	Not Rated
52 Week Range	148/395

Key Share Data

Market Cap (Rs.bn)	40.51
Market Cap (US\$ mn)	563.78
No of o/s shares (mn)	105.16
Face Value	1
Monthly Avg. Vol(BSE+NSE) Nos	426.56
BSE Code	532221
NSE Code	SONATSOFTW
Bloomberg	SSOF:IN

Price performance



We recently met with **Sonata Software** and following are the key takeaways:

- **International IT Services** - 37% to total revenue – **contributes ~80% to profitability** whereas **Domestic Products and Services** – 63% of revenues – **contributes 20% to overall profitability**
- International IT Services mainly includes IP-Led revenues, i.e. licensing revenues from IPs such as Rezopia, Brick & Click and Advanced Supply Chain Software and services revolving around them. IP business is de-linear and >80% of revenues flow directly into EBITDA. Services revolving around IP platforms usually enjoy operating margins of 25%.
- **Domestic Products and services (mainly product reselling) are estimated to grow at industry average of 10% yoy** and enjoy a 3-5% operating margin. Sonata is currently putting efforts in introducing their platforms in the domestic market and trying to repeat the success of their International Services segment
- **International IT Services is estimated to report a strong high-teen growth rate (>15% yoy) going ahead, which in turn is expected to contribute to margin expansion from current 11-12%**
- Company is present in high growth industries such as Retail, Transportation and Travel and Distribution ; these industries are undergoing a massive digital transformation wave, which has coincided with Sonata's 'Platformation' strategy
- Company is experiencing strong demand in the Retail offerings from US & Asia and Travel & Transportation offerings from Europe & Asia
- Company's strategy of packaging services around IP offerings has paid off well
- No immediate plans of penetrating new Verticals
- Company has healthy cash balance of INR 334 Cr (as of FY18). No active plan to acquire new IPs but open to inorganic opportunities.
- Company has witnessed a complete revamp in senior management over the last 5 years which has paid off well

Valuation & Outlook

We believe that increase in International/IP-led revenues and penetration of 'Platformation' in the domestic market can be major triggers for industry leading revenue growth (>15%) and margin expansion. At CMP of INR 372, Sonata is trading at a PE of 18.6x on a TTM basis. We are positive on the long term prospects of the company and will be releasing a detailed note shortly.

% Shareholding

	Jun-18	Mar-18
Promoters	30.95	30.95
Public	67.76	67.73
Others	1.29	1.32
Total	100	100



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YE March (INR Mn)	FY14	FY15	FY16	FY17	FY18
Total Revenue	15662.2	16882.6	19431.8	23607.7	24539.4
<i>Growth YoY</i>	19%	8%	15%	21%	4%
Operating Expenses					
Cost of Traded Software Packages	10061.7	10238.1	11626.7	14883.3	14880.7
Operating Expenses	56.4	63.8	66.3	79	78.6
Employee Cost	3109	3527.2	4097.8	4559.9	5137.4
Power/Electricity Charges	55	54.6	58.1	62.7	61.5
Selling and Administration Exp.	1120.1	1124.1	1414.9	1742.6	1748.3
Miscellaneous Expenses	264.9	198.4	249.1	364.7	323.1
Total Expenditure	14667.1	15206.2	17512.8	21692.2	22229.6
EBITDA	995.1	1676.4	1919	1915.5	2309.8
Interest	24.3	27.6	79.5	92.8	48
Gross Profit	970.8	1648.8	1839.5	1822.7	2261.8
Depreciation	79.6	60.7	61.6	108.8	124.1
Other Income	179.7	230.9	474.6	548.3	466
Profit Before Tax	1070.9	1819	2252.5	2262.2	2603.7
Tax	359.4	465	707	680.1	712.5
Deferred Tax	-65.9	21.1	-40.4	12.9	-30.1
Net Profit	777.4	1332.9	1585.9	1569.2	1921.3
Minority Interest	-0.4	-4.2	0	6.2	-4
Net Profit after Minority Interest	777.7	1337	1585.9	1563	1925.3
Extraordinary Items	40.1	23.4	33.1	82	44.5
Adjusted Net Profit	737.6	1313.6	1552.8	1481	1880.8
EPS after Minority Interest (Adj)	6.72	11.33	13.25	15.07	18.55
EBITDA Margin (%)	6%	10%	10%	8%	9%
PAT Margin (%)	5%	8%	8%	6%	8%

YE March (INR Mn)	FY14	FY15	FY16	FY17	FY18
Source of Funds					
Share Capital	105.2	105.2	105.2	103.7	103.8
Reserves Total	3638.8	4179.1	4604.8	5800.2	6429.2
Total Shareholders Funds	3744	4284.3	4710	5903.9	6533
Minority Interest	0.1	0	0	3.6	-0.4
Secured Loans	56.9	53.2	1180.6	325.3	186.8
Unsecured Loans	0	191.1	579.7	226.9	150.5
Total Debt	56.9	244.3	1760.3	552.2	337.3
Other Liabilities	7.4	19.6	161.6	140.5	126.8
Total Liabilities	3808.4	4548.2	6631.9	6600.2	6996.7
Application of Funds					
Gross Block	928.8	1051.1	2131.1	1291.6	1372
Less: Accumulated Depreciation	762.6	816.9	932.6	108.8	232.9
Net Block	166.2	234.2	1198.5	1182.8	1139.1
Capital Work in Progress	3.1	1.9	2.9	4.2	2.8
Investments	576.7	638.6	522.5	1279.9	1984.2
Current Assets, Loans & Advances					
Inventories	12.1	73.3	100.1	0	0
Sundry Debtors	2083.9	3101.7	3544.3	5199.1	3964.4
Cash and Bank	1864.8	1998	2952.2	2530.4	3472
Loans and Advances	433.4	1017.5	811.6	933.4	800.7
Total Current Assets	4394.1	6190.5	7408.3	8662.9	8237.1
Less : Current Liabilities and Provisions					
Current Liabilities	2297	2797.6	3039	5031.9	4796.2
Provisions	484.8	735.7	248.9	344.8	542.7
Total Current Liabilities	2781.8	3533.3	3287.9	5376.7	5338.9
Net Current Assets	1612.3	2657.2	4120.4	3286.2	2898.2
Deferred Tax Assets	104	88.7	129.2	45.4	124.4
Net Deferred Tax	104	88.7	129.2	45.4	124.4
Other Assets	1346.1	927.5	658.5	801.7	848
Total Assets	3808.4	4548.1	6631.9	6600.2	6996.7
Contingent Liabilities	4073.7	5407.5	5572.9	6414.3	6608.2



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.CharulataGaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. AvinashKumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141439	Mid Cap
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT/Media/Telecom
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com