

Company Report

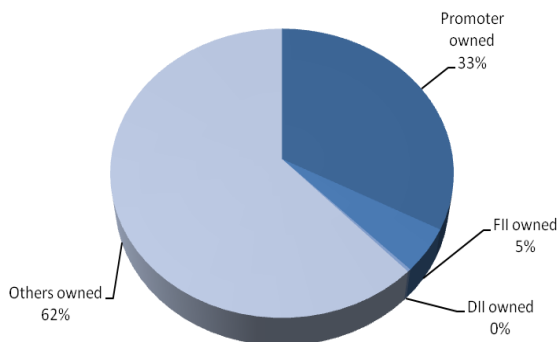
Sonata Software Ltd.

6th October, 2014**BUY**
CMP(As on 1/10/2014) **Rs.127.15**
Target Price **Rs.175.00**

BSE Code	532221
NSE Code	SONATSOFTW
Market Cap (Rs Cr.)	1337.62
52 Week High/Low	137.80/26.15
Industry	Information Technology
Face Value	Rs.1.00
Shares O/S	10.52 Cr.

EPS(TTM)	8.91
Book Value	35.60
P/E	14.27
P/B	3.57

Shareholding Pattern



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- Sonata Software, headquartered in Bangalore, India, is a leading IT consulting and services company. Sonata's customers are located across the US, Europe, Middle East and the Asia-Pacific region. The company has strategic alliance with Microsoft (Gold Certified Partner), SAP (Gold Partner), IBM (Business Partner), Oracle (Platinum Partner) and HP (Platinum Business Partner).
- The company has registered sharp results for the quarter ending June 2014. The revenues from operations grew by about 22% to Rs.417 crores vs. Rs.340.71 cr. in the preceding quarter while it remained flat on y-o-y. Operating profit climbed sharply by ~162% at Rs.39.10 crores as against Rs.14.93 crores in the previous year quarter. The adjusted net profit(before exceptional item of income tax refund of Rs.1.64 crores) stood at Rs.30.41 crore for the quarter as against Rs.7.69 crore; registering a growth of ~295% and 29% on a sequential basis. On the margins front, operating margin climbed about 576bps at 9.37% as against 3.61% while net profit margin expanded 543bps at 7.29% from 1.86% y-o-y.
- This is again another quarter of highest revenues and growth for us in terms of people, in terms of profits, in terms of utilization, realization and so on. Company continues to be debt-free and it only borrows for working capital requirements on a sporadic basis. As a part of expanding near shore service delivery capabilities the company has opened a Development Centre facility at Redmond, USA and has also opened operations in Australia.

Valuation

With improving operating metrics, restructuring process paying off, healthy balance sheet, large deal wins and improving margin profile; Sonata Software Ltd. growth prospects and profitability looks optimistic. We believe the company is trading at an attractive valuation at 11.88x and 8.94x of FY15EPS of Rs.10.70 and FY16EPS of Rs.14.22. We initiate a 'BUY' on the stock with a target price of Rs.175 (appreciation of about 37%) with the medium to long term investment horizon.

Business Details

Sonata is a global IT services company with a track record of serving leading Independent Software Vendors and Enterprise Customers around the globe. Its unrelenting focus on going deeper with domain knowledge, technology expertise and customer commitment, coupled with people skills, strong delivery mechanism and expanding global footprint makes it a strategic IT partner of choice for best of breed customers. Headquartered in the garden city of India -- Bangalore -- with a customer base spread across the globe, one can find Sonata offices in the US, Europe, Middle East and the Asia-Pacific. Sonata's services range from-

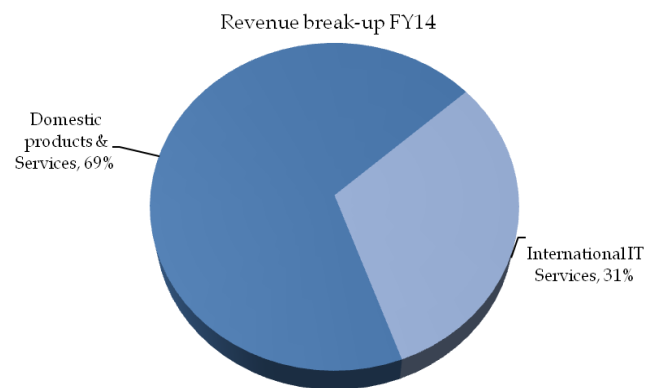
Product Engineering and Services- Sonata offers end to end product engineering services from high end technology consulting to product lifecycle management and professional services. Sonata's dedicated Centers of Excellence in the areas of Java, .NET, Cloud, Mobility and BI equip it with the right skills in technologies and processes, consolidate its experiences and develop thought leadership so that the company can effectively serve our customers.

Application Development and Management- Sonata provide application development and management services leveraging Open Source and Microsoft technologies. Its Application Development and Management services are strategic, in that it works closely with customer's business functions, understand the pain points, identify areas of improvement, and provide holistic solutions and support that translate to tangible business results.

Testing Services- Sonata offers specialized testing services like integration testing, Functional & Regression testing, Performance testing, Security testing, Enterprise Applications testing, Globalization / localization testing, Compatibility testing, Deployment testing, Product configuration testing, Web services testing, Mobility testing, Data migration / product upgrade testing etc.

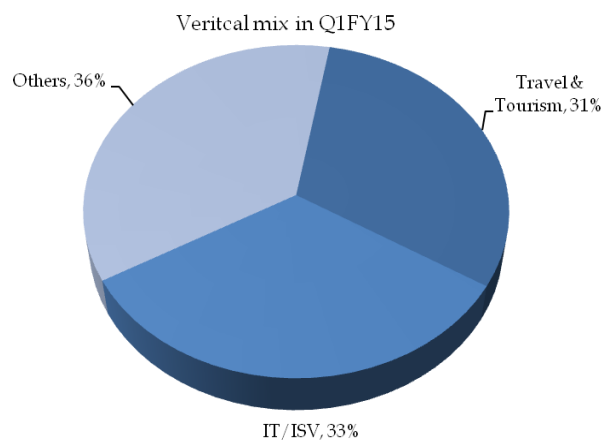
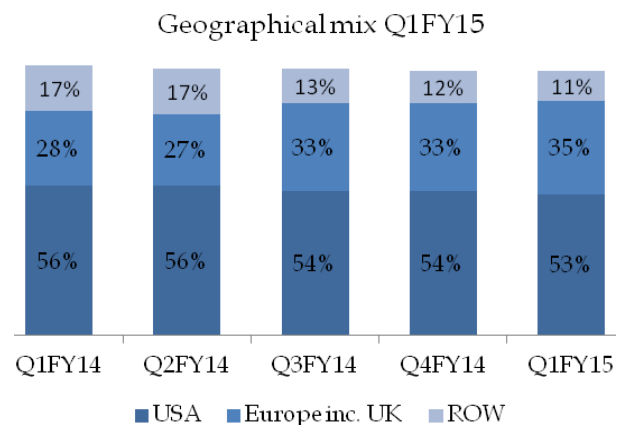
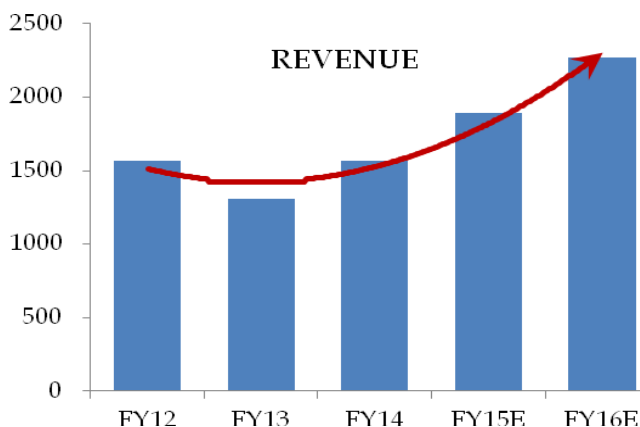
Cloud Computing- Sonata's Cloud computing specialists analyze customer's current IT application and infrastructure portfolio to Create a Cloud computing strategy, build a business plan and design a roadmap for Cloud adoption; Identify and recommend suitable Cloud Computing models for various IT and business needs - IaaS, PaaS, SaaS, Identify and recommend appropriate deployment models – Public Cloud, Private Cloud or Hybrid Cloud.

Infrastructure Management- Today, more than ever, developing thoughtful IT Infrastructure Management strategy and partnerships has become very critical for business success. With over 15years of experience and 30+ customer engagements, Sonata knows what it takes to derive the best from investments in IT infrastructure. It leverages its in-depth industry knowledge, best practices, technical expertise and Global Delivery Model to offer consultancy, design, implementation and Remote Infrastructure Management Services that matter.



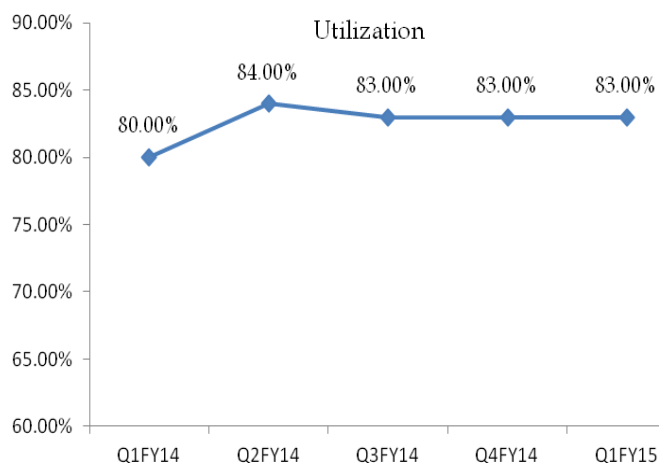
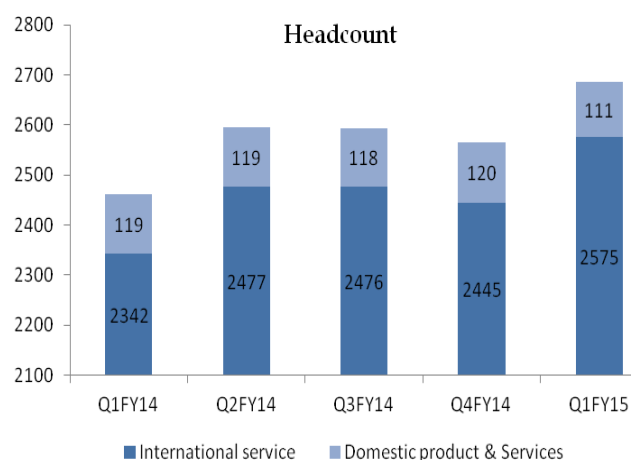
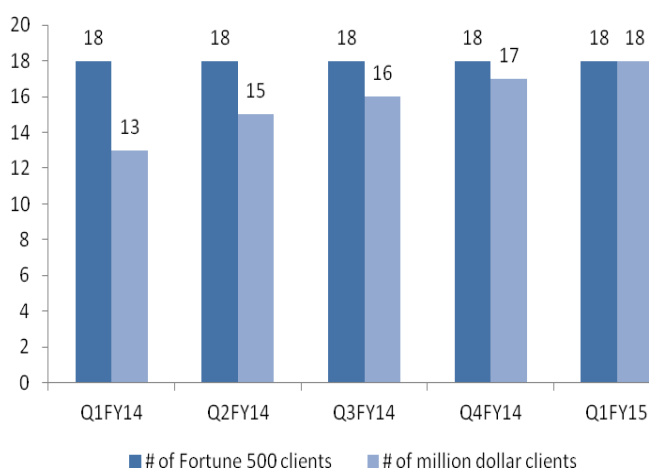
Restructuring has started paying off

Sonata has undergone a major internal restructuring process in FY12. The company has revamped its sales team with the focus on its core business along with hiring of new managers. During the year the Company underwent two major changes in its leadership. Mr B Ramaswamy resigned from his position as President & Managing Director and took on the role of a Chief Mentor (Consultant). He was succeeded by Mr Sanjay Viswanathan, Managing Director & CEO with effect from August, 2011. Subsequently, Mr Sanjay Viswanathan also resigned from the Company in February, 2012 and the Board of Directors on the same day appointed Mr Srikar Reddy, a Company veteran, as the Managing Director & CEO of the Company. The company has revamped its sales team and hired sales head across geographies like US, UK and Australia along with hiring managers from top B schools under the new management. Smart investment in sales team and go-to market strategy has started paying off to the company in terms of growth in revenues and margins. International IT services have grown with a CAGR of about 32% in FY12-14. EBIDTA margins too expanded 500 bps at 17.5% in FY14 from 12.5% in FY12. Further, the company exited from the Joint Venture and sold its 50.1% shareholding in its step-down subsidiary TUI InfoTech GmbH (a loss making unit at the net level). The JV was providing IT services to the parent company TUI Travel which still continues to be a big client in the IT services segment post JV exit by Sonata.



Broad based growth

Sonata has posted highest ever revenues & PAT in \$ terms in International IT Services segment. The company has registered a growth of 36% in international IT Services revenues in Q1FY15 at Ra.139.61 crores from Rs.102.33% in Q1FY14 while it stayed flat sequentially. Domestic Product and Services revenues grew 37% at Rs.283.59 crores as against immediate preceding quarter of Rs.206.78 crores whereas it fell ~9% on a y-o-y basis. There has been a sharp uptick in offshore contribution to revenues at 64% in Q1FY15 from 57% in Q1FY14. Europe revenue contribution has seen a sharp rise at 35% in Q1FY15 from 28% in the like quarter last year. USA revenues fell at 53% from 56% in Q1FY14. The company has added 7 new customers in the quarter ended June 2014 as a result of restructuring process getting paid off. Top 10 customers contributed 73% to the total revenues in Q1FY15 from 79% in Q1FY14 on account of jump in new deal wins. Company is seeing traction in core business with number of million dollar clients reached at 18 in Q1FY15 from 13 in Q1FY14. Utilization improved sharply at 83% in the latest quarter as compared to 80% in Q1FY14.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	1567.74	1310.94	1565.97	1894.83	2270.00
Growth		-16.38%	19.45%	21.00%	19.80%
Expenditure	1519.17	1258.08	1466.29	1733.77	2056.62
EBITDA	48.57	52.86	99.68	161.06	213.38
Growth		8.84%	88.56%	61.58%	32.48%
EBITDA margin	3.10%	4.03%	6.37%	8.50%	9.40%
Other income	13.13	4.14	10.65	12.32	14.76
Depreciation & Amortisation	45.91	10.08	7.96	10.03	11.35
EBIT	15.79	46.93	102.36	163.35	216.79
EBIT margin	1.01%	3.58%	6.54%	8.62%	9.55%
Interest	11.81	5.89	2.43	2.61	3.13
PBT	3.98	41.04	99.93	160.74	213.66
Tax	9.42	13.56	29.35	48.22	64.10
PAT	(5.44)	27.48	70.57	112.52	149.56
Minority interest	(12.42)	-0.04	-0.04	0.00	0.00
Share of profits in Associates	(2.32)	0.00	0.00	0.00	0.00
Adjusted PAT	9.30	27.52	70.62	112.52	149.56
Growth		195.76	156.63	59.34	32.92
Net Profit margins	0.59	2.10	4.51	5.94	6.59
Exceptional item	11.89	55.57	(7.15)	0.00	0.00
Reported PAT	-2.59	-28.05	77.77	112.52	149.56
Equity Shares	10.52	10.52	10.52	10.52	10.52
Adjusted EPS	0.88	2.62	6.72	10.70	14.22

Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	2.48	8.05	18.86	25.29	27.08
Return on Capital employed	3.78	13.09	26.93	36.19	38.70
Debt/Equity	0.12	0.05	0.02	0.01	0.01
Asset turnover	1.94	2.37	2.37	2.41	2.42
Current Ratio	1.51	2.59	2.05	2.03	2.15
Book value per share	35.62	32.50	35.60	42.30	52.52

Balance Sheet

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Share Capital	10.52	10.52	10.52	10.52	10.52
Reserves & Surplus	364.02	331.22	363.88	434.32	541.80
Shareholders' funds	374.53	341.73	374.40	444.84	552.32
Borrowings	43.33	16.78	5.69	6.53	7.83
Deferred tax liability	0.00	0.00	0.00	0.00	0.00
Minority Interest	5.18	0.05	0.01	0.00	0.00
Sources of funds	423.04	358.57	380.10	451.37	560.14
Gross block	720.23	95.48	93.23	111.46	126.11
Accumulated Depreciation	627.31	73.85	76.61	86.64	97.99
Net block	92.92	21.64	16.62	24.82	28.12
Capital WIP	2.04	0.00	0.31	0.56	2.02
Investments	24.15	21.77	57.67	70.10	84.52
Deferred tax assets	10.92	3.82	10.40	10.40	10.40
Goodwill on consolidation	94.99	0.00	0.00	0.00	0.00
Inventories	40.41	0.79	1.21	2.04	3.25
Sundry debtors	196.41	141.30	208.38	251.94	300.96
Cash and bank balance	121.73	135.49	187.46	217.89	252.16
Other current assets	12.72	38.94	45.38	54.47	65.07
Loans and advances	212.64	190.55	134.21	154.57	191.97
Total current assets	583.90	507.08	576.64	680.91	813.42
Current liabilities and provisions	385.88	195.73	281.54	335.42	378.33
Net current assets	198.02	311.34	295.10	345.49	435.08
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	423.04	358.57	380.10	451.37	560.15

Quarterly Financial Highlights

Rs. Crore

Particulars	Q1FY15	Q4FY14	Q1FY14	YoY%	QoQ%
Revenues	417.18	340.71	413.17	0.87	22.44
Expenditures	378.08	310.71	398.24	(5.06)	21.68
Operating Profit	39.10	30.00	14.93	161.89	30.33
Adjusted Net Profit	30.41	23.57	7.69	295.45	29.02
Exceptional item	1.64	0.00	6.84	----	----
Reported PAT	32.05	23.57	14.53	120.58	35.98
OPM%	9.37	8.81	3.61	576bps	56bps
NPM %	7.29	6.92	1.86	543bps	37bps
Adjusted EPS	2.89	2.24	0.73	295.89	29.02

*Adjusted for current no. of equity shares

Past Price movement of the stock



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GROUP COMPANIES

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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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