

<h2 style="margin: 0;">Sonata Software Limited</h2>	<p>Strong BUY CMP Rs. 28.0 Target Rs. 44.0</p>	<p>Q1 FY09 Result Update</p>
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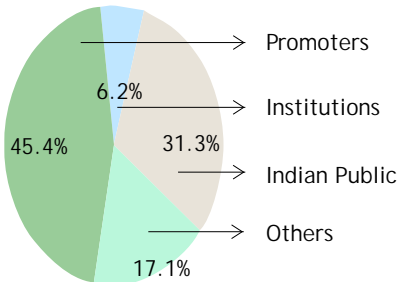
Stock Data

Bloomberg : SSOF.IN
Reuters : SOFT.BO
BSE Code : 532221
NSE Code : SONATSOFTW
BSE Group : B

Stock Codes

Benchmark : BSE SMCAP
52 W High : 64.5
52 W Low : 23.1
Mkt Cap : Rs. 2,944 Mn
Face Value : Rs. 1.0

Shareholding Pattern (as on June 08)

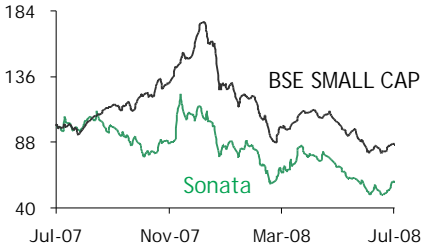


→ Promoters	45.4%
→ Institutions	6.2%
→ Indian Public	31.3%
→ Others	17.1%

Stock Returns

	1 Mth	3 Mths	6 Mths
Sonata	8.78	-25.59	-30.49
BSESMC	1.93	-22.41	-32.68

Price Comparison



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Sonata Software has reported exceptionally good standalone results. The topline for the quarter grew at a modest 3% Q-Q & 20% Y-Y. The PAT growth has been phenomenal with 26% Q-Q growth and 72% Y-Y growth led by a sharp margin expansion (~450 bps Q-Q and ~600 bps Y-Y), on account of various cost control measures, favourable currency environment & improving offshore utilization from 70% to 79%.

Sonata International Technology Limited (SITL), another important subsidiary of the company, focused on selling licenses in the domestic market, has been delivering excellent performance over the past few quarters. While, the share of this business in the consolidated revenues has remained steady in the range of 40-45%, its contribution in terms of profits has improved tremendously from 7% in Q108 to 15% in Q109.

The sparkling performance of the above two businesses has been offset by a struggling show on the front of TUI Infotech, the high profile acquisition made by the company in 2006. TUI continues to contribute ~40-45% of the overall turnover, but its share in the profitability has come down significantly from ~40% to just 15% in the past quarter. Various factors contributing to this difficult scenario include the increasing cost pressures, higher costs of external contractors, lower other income and also further investments made to tap new external clients. TUI Infotech managed just Rs. 25 Mn. f PAT in Q109 v/s. Rs. 73 Mn. in Q408 and Rs. 54 Mn. in Q108.

At the consolidated levels, the overall results have been decent. Q109 Topline growth has been 5.6% Q-Q and 15% Y-Y. PAT growth post minority interest has also been satisfying at 5.4% Q-Q and 27% Y-Y. The consolidated EPS for Q109 stood at very healthy Rs. 1.69, equivalent to Rs. 6.78 annualized. At just above 4x P/E, Sonata appears as one of the most attractive investment proposition, within the overall IT space.

Some other important developments & other takeaways from the recently held conference call are as follows.

- Sonata made a prepayment of the balance loan of Euro 4.5 million (taken for TUI Infotech acquisition) during the quarter. With this the entire 10 Mn. Euros of loan has been prepaid at no extra cost to the company. Temporary funding of Rs. 10 Crs was arranged by a short term debt through the parent company, Sonata Software Limited.
- TUI Infotech has added 6 new clients including Lycos

- Significant dip in other income at TUI Infotech on account of new investments in infrastructure
- Erstwhile 120 contractors at TUI Infotech have now been reduced by 30 in the IT Services division. The transition process has been further delayed by another six months
- US contribution declined to <32%. Top 5 clients contributed 65% of sales and offshore contribution in SSL improved to 79%
- Total employee strength at 2599 (2181 Excl. TUI Infotech). Salary hikes to come from 1st October.
- Sonata has hedged 70-75% of its cashflows at Q109 average rates of USD = Rs. 40.72, GBP = Rs. 84.58 & EUR = Rs. 58.52
- Rentals to increase w.e.f. 1st October

We maintain an overall optimistic view on the company. Despite the contrasting inter-segment performance, the overall progress by the company has been encouraging. More than anything else, the scrip is trading at unduly undemanding valuations. We estimate Sonata to deliver an EPS of Rs. 6.3 for FY09. At under 4.5 P/E, the scrip is very cheap, given the 20% + sustainable returns and also ~4% dividend yield. We recommend BUY with a price target of Rs. 44 (56% upside), derived at 7x FY09E earnings.

Summary Financials

Standalone Financials

Standalone	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q109			
Q109	553.5	166.6	132.7	30.1%	24.0%		Sales	EBITDA	PAT
Q408	538.3	137.2	105.7	25.5%	19.6%	Q-Q	2.8%	21.5%	25.6%
Q108	462.0	108.1	77.4	23.4%	16.7%	Y-Y	19.8%	54.1%	71.5%
							Growth in FY08		
FY08	1,988.2	491.5	366.9	24.7%	18.5%		Sales	EBITDA	PAT
FY07	1,858.3	443.5	351.3	23.9%	18.9%	Y-Y	7.0%	10.8%	4.4%

Consolidated Financials

Consolidated	Revenues	EBITDA	PAT	EBITDA (%)	PAT (%)	Growth in Q109			
Q109	4,056.2	376.4	178.1	9.3%	4.4%		Sales	EBITDA	PAT
Q408	3,842.7	343.9	169.0	8.9%	4.4%	Q-Q	5.6%	9.4%	5.4%
Q108	3,518.6	354.1	140.0	10.1%	4.0%	Y-Y	15.3%	6.3%	27.2%
							Growth in FY08		
FY08	14,283.7	1,425.3	585.2	10.0%	4.1%		Sales	EBITDA	PAT
FY07	8,977.2	986.6	480.3	11.0%	5.3%	Y-Y	59.1%	44.5%	21.8%

Segmental Financial Summary

Q109 (Rs Mn)	Revenue	Business Mix	PAT	Profit Mix	PAT Margin
International	2,391.70	58.96%	149.90	84.17%	6.27%
Domestic	1,664.50	41.04%	28.20	15.83%	1.69%
Consolidated	4,056.20	100.00%	178.10	100.00%	4.39%
Sonata Software Limited	553.50	12.99%	132.70	73.27%	23.97%
ODSi	128.80	3.02%	6.50	3.59%	5.05%
Sonata Software GmbH	18.80	0.44%	1.30	0.72%	6.91%
Sonata Europe Limited	4.70	0.11%	(12.60)	-6.96%	
TUI InfoTec GmbH	1,891.50	44.38%	25.00	13.80%	1.32%
International	2,597.30	60.94%	152.90	84.43%	5.89%
SITL	1,664.50	39.06%	28.20	15.57%	1.69%
Domestic	1,664.50	39.06%	28.20	15.57%	1.69%

Revenues (Rs Mn)	Q109	Q408	Q108	Q-Q	(Q-Q)	Y-Y	(Y-Y)
International	2,391.70	2,185.30	1,936.40	206.40	9.44%	455.30	23.51%
Domestic	1,664.50	1,657.30	1,582.22	7.20	0.43%	82.28	5.20%
Consolidated	4,056.20	3,842.60	3,518.62	213.60	5.56%	537.58	15.28%
Sonata Software Limited	553.50	538.30	461.95	15.20	2.82%	91.55	19.82%
ODSi	128.80	115.30	106.73	13.50	11.71%	22.07	20.68%
Sonata Software GmbH	18.80	15.30	13.70	3.50	22.88%	5.10	37.23%
Sonata Europe Limited	4.70	6.20	-	(1.50)	-24.19%	4.70	#DIV/0!
TUI InfoTec GmbH	1,891.50	1,657.10	1,493.99	234.40	14.15%	397.51	26.61%
International	2,597.30	2,332.20	2,076.37	265.10	11.37%	520.93	25.09%
SITL	1,664.50	1,657.30	1,582.22	7.20	0.43%	82.28	5.20%
Domestic	1,664.50	1,657.30	1,582.22	7.20	0.43%	82.28	5.20%
PAT (Rs Mn)	Q109	Q408	Q108	Q-Q	(Q-Q)	Y-Y	(Y-Y)
International	149.90	148.40	130.03	1.50	1.01%	19.87	15.28%
Domestic	28.20	20.60	10.01	7.60	36.89%	18.19	181.72%
Consolidated	178.10	169.00	140.04	9.10	5.38%	38.06	27.18%
Sonata Software Limited	132.70	105.70	77.37	27.00	25.54%	55.33	71.51%
ODSi	6.50	5.90	5.97	0.60	10.17%	0.53	8.88%
Sonata Software GmbH	1.30	0.20	0.36	1.10	550.00%	0.94	261.11%
Sonata Europe Limited	(12.60)	47.30	(11.20)	(59.90)	-126.64%	(1.40)	12.50%
TUI InfoTec GmbH	25.00	73.60	53.62	(48.60)	-66.03%	(28.62)	-53.38%
International	152.90	232.70	126.12	(79.80)	-34.29%	26.78	21.23%
SITL	28.20	20.60	10.01	7.60	36.89%	18.19	181.72%
Domestic	28.20	20.60	10.01	7.60	36.89%	18.19	181.72%

Sonata : Quarterly Financials

Consolidated Quarterly Financials					
(Rs. Mn)	Jun 08	Mar 08	Q-Q Chng	Jun 07	Y-Y Chng
Sales & Service	4,056.2	3,842.7	5.6%	3,518.6	15.3%
Other Income	30.1	48.1	-37.5%	153.2	-80.4%
Total Revenues	4,086.3	3,890.8	5.0%	3,671.8	11.3%
Total Expenditure	3,709.9	3,546.9	4.6%	3,317.7	11.8%
Operating Profit	376.4	343.9	9.4%	354.1	6.3%
EBITDA	376.4	343.9	9.4%	354.1	6.3%
Depreciation	104.8	103.1	1.7%	110.9	-5.5%
PBIT	271.5	240.8	12.8%	243.3	11.6%
Interest	20.5	16.8	22.2%	21.0	-2.4%
PBT	251.0	224.0	12.0%	222.2	13.0%
Tax	53.8	-23.8	-326.1%	54.5	-1.3%
PAT before MI	197.3	247.8	-20.4%	167.7	17.6%
Share in Earnings of Affiliates	0.0	6.0		0.0	
Minority Interest	(19.1)	(84.8)	-77.4%	(27.7)	
PAT	178.1	169.0	5.4%	140.0	27.2%
Reported PAT	178.1	169.0	5.4%	140.0	27.2%
EPS (in Rs.)	1.7	1.6		1.3	20.7%
Standalone Quarterly Financials					
(Rs. Mn)	Jun 08	Mar 08	Q-Q Chng	Jun 07	Y-Y Chng
Sales & Service	553.5	538.3	2.8%	462.0	19.8%
Other Income	11.2	14.3	-21.7%	0.4	2524.4%
Total Revenues	564.7	552.6	2.2%	462.4	22.1%
Total Expenditure	398.1	415.4	-4.2%	354.3	12.4%
Operating Profit	166.6	137.2	21.5%	108.1	54.1%
Other Income	0.0	0.0		0.0	
EBITDA	166.6	137.2	21.5%	108.1	54.1%
Depreciation	21.2	23.0	-7.9%	23.6	-10.0%
PBIT	145.4	114.1	27.4%	84.5	72.0%
Interest	2.4	0.0		1.2	
PBT	143.0	114.1	25.3%	83.4	71.4%
Tax	10.3	8.5	21.1%	6.0	70.4%
PAT	132.7	105.7	25.6%	77.4	71.5%
Reported PAT	132.7	105.7	25.6%	77.4	71.5%
EPS (in Rs.)	1.3	1.0	25.6%	0.7	71.5%

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