



## **Investment Idea**

**Sonata Software Limited** is an information technology (IT) services and solutions company. The Company's primary segments are based on geographical areas, and include Domestic (India) and International (Rest of the world). Its secondary segment comprises business segments, products and services. It provides solutions for travel, retail and distribution, and software product companies by integrating technologies, such as Omni-channel commerce, mobility, analytics, cloud and enterprise resource planning. Its operations include software development, technical services and product marketing. It is involved in the provision of IT services and solutions to its customers, and distribution of software products in India. Its services include application lifecycle services, which deliver application management with facilities, such as application development and application migration; retail IT services, such as Dynamics AX retail, and technology infrastructure services.

## Key Triggers:

- Comfortable business risk profile, driven by established market position:** Sonata Software has an established position in the IT services sector, and is one of the leading players catering to the travel, tourism, and logistics verticals. It also services the manufacturing, retail, and consumer packaged goods verticals, and offers outsourced research and development services to independent software vendors. The company is also building capability to cater to the fast-growing social, mobility, analytics, and cloud (SMAC) solutions space. It operates a software distribution business for companies such as Microsoft, Oracle, and IBM. It has longstanding relationships with customers and has been actively adding clients.
- High dividend payout:** Sonata Software is one of the highest dividend payers in the market, with current dividend yield standing at 6.5%. SONATSOFTW has also been regularly increasing its dividend payments to shareholders over the past decade.

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## NBFC

|                           |            |
|---------------------------|------------|
| CMP (Rs.)                 | 321        |
| <b>Target Price (Rs.)</b> | <b>425</b> |
| NIFTY                     | 11450      |
| 52 Week H/L               | 354/148    |
| Market Cap (Cr.)          | 3380       |
| P/E (ttm)                 | 13         |
| EPS (ttm)                 | 25         |
| P/BV (ttm)                | 4.9        |
| Book Value (ttm)          | 63.6       |
| Industry                  | IT         |

## Shareholding Pattern (%)

|                          | June 20    | March 20   |
|--------------------------|------------|------------|
| Promoters                | 28.17      | 28.17      |
| Non Promoter- Non Public | 1.19       | 1.19       |
| Public                   | 70.64      | 70.64      |
| <b>Total</b>             | <b>100</b> | <b>100</b> |

Source: BSE

**3. Strong financial risk profile.** Sonata Software has a net worth of 670 cr with a debt to equity ratio of 0.13. as on mar'20 sonata software has a free cash flow from operations of 369 cr which sustains its intention to expand through acquisitions in complementary service lines. Also, company has an above average ROCE and ROE at 57% & 37% respectively, reflection effective capital allocation by management.

### Growth drivers:

1. Platform led digital transformation
2. Alliance with Microsoft

### Valuation & View:

With a Strong liquidity position along with its free cash flows to fund the capital requirements and strategic alliance with premium IT companies stock commands a premium financial valuation. **At the market price of 321, stock is trading at a ttm P/E multiple of 13 times. We maintain a positive view with target price of Rs 425 in medium to long term supported by recovery in orders from key customers, moderate client addition and strong financial risk profile.**

### Risk & concerns:

- Volatility in Currency
- Geographical Revenue concentration

### Peer Comparison:

| Company                | CMP         | P/BV       | P/E         | Market cap  |
|------------------------|-------------|------------|-------------|-------------|
| <b>Sonata Software</b> | <b>321</b>  | <b>4.9</b> | <b>12.7</b> | <b>3380</b> |
| <b>ZENSARTECH</b>      | <b>179</b>  | <b>2.5</b> | <b>16.1</b> | <b>4035</b> |
| <b>KPIT</b>            | <b>91.7</b> | <b>2.4</b> | <b>17.8</b> | <b>2514</b> |

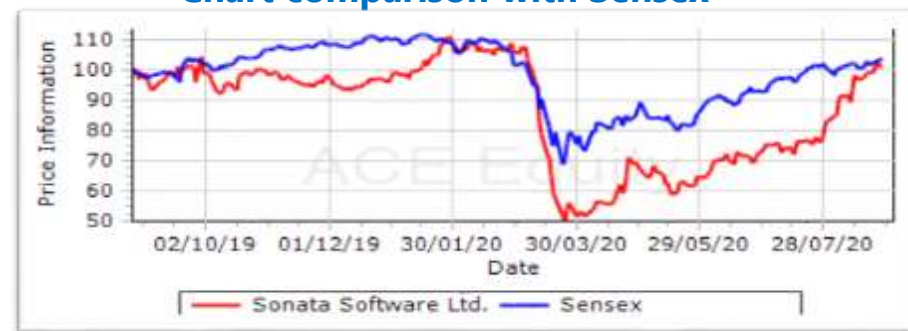
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| TRENDS:             | 10Yr | 7Yr  | 5Yr  | 3Yr  | TTM  |
|---------------------|------|------|------|------|------|
| <b>Sales Growth</b> | 12%  | 16%  | 17%  | 16%  | 2%   |
| <b>OPM</b>          | 9%   | 10%  | 10%  | 10%  | 9%   |
| <b>Avg. PE</b>      | 10.5 | 11.2 | 11.7 | 12.5 | 12.7 |

### EBITDA, PBT and PAT – last 12 quarters



### Chart comparison with Sensex



Source: Ace Equity

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