

Sonata Software Limited



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Robust revenue growth continues, accelerating investment in AI

CMP INR 1050	Target INR 1148	Potential Upside ~9.31%	Market Cap (INR Mn) INR 1,47,440	Recommendation ACCUMULATE	Sector Internet Software & Services
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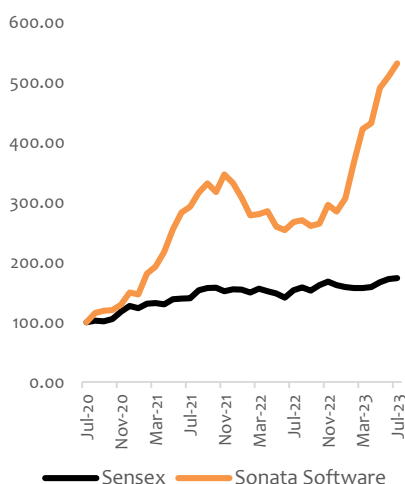
Synopsis:

- Sonata Software reported a consolidated revenue of INR 20,155 mn as against INR 17,788 mn, registering a growth of 13.30% on a YoY basis and on a sequential basis it grew by 5.33% from INR 19,135 mn. International IT services revenue stood at USD 77.3 mn as against USD 60.5 mn in Q1FY23.
- EBIT for Q1FY24 stood at INR 1,471 mn, registering a growth of 14.39% on a YoY basis from INR 1,286 mn and on a QoQ basis it grew by 10.85% from INR 1,327 mn. The operating margin stood at 7.30%, which expanded by 7 bps YoY and 36 bps QoQ.
- PAT for the quarter came at INR 1,201 mn, which showed an improvement of 11.51% from INR 1,077 mn and on a sequential basis it grew by 5.63% from INR 1,137 mn. PAT margin for the quarter stood at 5.96%, which showed a decline of 9 bps on a YoY basis and improved marginally by 2 bps on a sequential basis.
- EPS for Q1FY24 came at INR 8.65 as against INR 8.20 sequentially and INR 7.78 on a YoY basis.

MARKET DATA

Shares outs (Mn)	140
Mkt Cap (INR Mn)	1,47,440
52 Wk H/L (INR)	1094/487
Volume Avg (3m K)	268.4
Face Value (INR)	1
Bloomberg Code	SSOF IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,310
NIFTY	19,690

KEY FINANCIALS

(INR Mn)	Q1FY24A	Q4FY23A	Q1FY23A	QoQ	YoY
USD IITS Revenue	77.3	65.8	56.8	17.48%	36.09%
Revenue	20,155	19,135	17,788	5.33%	13.30%
EBIT	1,471	1,327	1,286	10.85%	14.39%
PAT	1,201	1,137	1,077	5.63%	11.51%
OPM (%)	7.30%	6.94%	7.23%	36 bps	7 bps
NPM(%)	5.96%	5.94%	6.05%	2 bps	-9 bps

Source: Company, KRChoksey Research

Industry-leading Growth to continue

Sonata Software reported revenue of USD 77.3 mn in Q1FY24 as against USD 56.8 mn in Q1FY23, registering a robust growth of 36.09% on a YoY basis and on a sequential basis it grew by 17.48% from USD 65.8 mn. The growth was mainly attributed to large deal wins and the acquisition of Quant Systems. Management remains committed to reaching the revenue target of USD 1500 mn in the next 3-4 years from the current run rate of USD 920 mn. The hi-tech segment continues to perform weakly, whereas all other segments registered healthy growth driven by strong acceleration from clients for customer experience to improve operational efficiency. Management remains optimistic about long-term growth prospects and expects to perform ahead of industry growth.

Margins to improve on a sequential basis

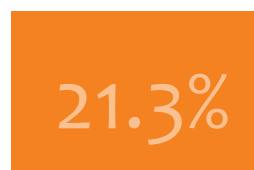
The operating margin for Q1FY24 stood at 7.30%, which marginally improved by 7 bps on a YoY basis and 36 bps on a sequential basis. International IT services margin came at 21.1% in Q1FY24, which showed a decline of 330 bps on a YoY basis and 40 bps on a sequential basis. The decline was mainly led by higher salary expense, an increase in interest costs and a slowdown in revenue recognition, however, management expects that margins will improve sequentially owing to a decline in interest cost, increase utilization rates and by improving operating efficiencies. The company also plans to increase revenue shares from the IITS segment, which is further expected to boost the margins going ahead.

Investment in Gen AI and modernisation platform to drive growth

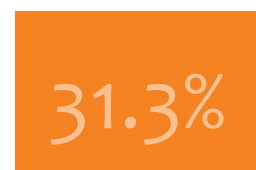
Sonata Software expects huge growth opportunities from Generative AI, Microsoft Fabric and cloud solutions and the company will invest 1.5%-2% of EBITDA going ahead. The company recently launched a Responsible First AI platform- Harmoni.AI for enterprises. Management expects strong client interest in enhancing customer experience, launching new business models, and enhancing productivity.

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	28.2	28.2	28.2
FIIIs	13.6	12.9	12.9
DIIIs	14.3	13.9	13.8
Others	43.9	45.0	45.1
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

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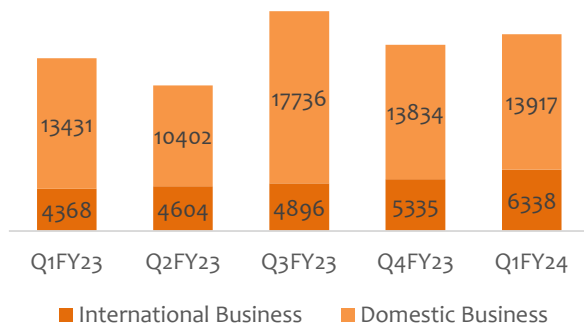
Key Concall Highlights:

(i) Despite the macro uncertainty, Sonata software continues to see robust performance owing to Tailwinds like the acquisition of Quant System, multiple large deals wins etc. (ii) The company continue to invest in cloud, AI and Generative AI, and expects that there is a huge opportunity for the company to grow (iii) Softness is primarily seen in Hi-Tech segment, whereas media and communication segments continue to perform well (iv) Large deal pipeline stands at 40% of total deal wins and have a multi-year contract (v) Management expects that interest cost will decrease going ahead (vi) International IT business EBITDA margins declined to owe to increase in salary expense, the slowdown in revenue recognition and investment in AI and Generative AI (vii) The company expects that European deal will see revenue pick up from next quarter onwards (viii) Goal to reach revenue of \$1.5B by FY26 end is still intact with margins of the early '20s. (ix) Sonata Software launched its first-AI offering for enterprise scale. (x) Management remains optimistic about the long-term story and expects to grow ahead of industry growth.

Valuation and view

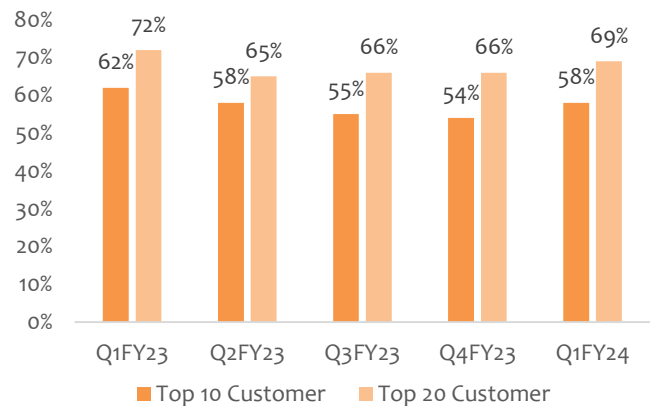
Sonata Software is currently trading at a valuation with a P/E multiple of ~23.3x/~18.3x on FY24E/FY25E earnings. We expect strong deal momentum across geographies, a higher focus on Enterprise clients, and a tailwind in Managed Cloud Services will aid growth over the medium to long term in the future and hence we are assigning a P/E multiple of 20x to the FY25 estimated EPS of INR 57.4 to arrive at a revised target price of INR 1148 (Prev. target 1122) per share, an upside of ~9.31% over the CMP. Accordingly, we have changed our rating to “ACCUMULATE” from “BUY” to stock.

International/Domestic Business (INR Mn)



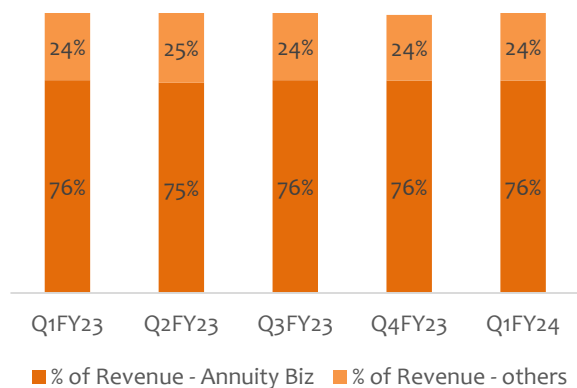
Source: Company, KRChoksey Research

Client Concentration



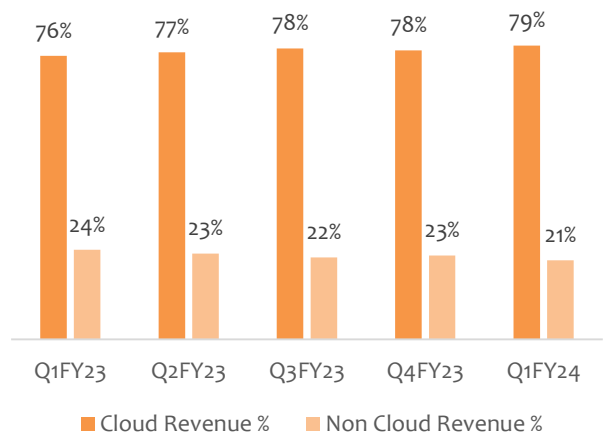
Source: Company, KRChoksey Research

Domestic Revenue (Annuity/Others)



Source: Company, KRChoksey Research

Domestic Revenue (Cloud/Non Cloud)



Source: Company, KRChoksey Research

Sonata Software Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	152	178	488	585	701
Right-of-use Asset	849	1,056	828	911	1,002
Intangible Assets	477	829	5,031	5,534	6,641
Goodwill on consolidation	1,759	2,207	10,984	13,825	12,216
Non-current Investments	106	139	140	153	168
Deffered tax assets	189	261	0	0	0
Other non current assets	1,245	1,480	1,948	2,338	2,972
Total non current assets	4,777	6,150	19,419	23,345	23,700
Inventories	0	0	288	317	348
Cash & equivalent	6771	7696	7303	7183	8042
Trade Receivables	6,158	8,926	12,362	13,775	16,811
Current Investments	654	1,448	2,058	2,161	2,593
Unbilled Revenues	408	607	0	1,018	1,796
Other Current Assets	701	726	2,139	2,267	2,721
Total current assets	14,692	19,403	24,150	26,721	32,311
Total Assets	19,469	25,553	43,569	50,066	56,011
Equity Share Capital	104	104	138	138	138
Other Equity	8,951	10,888	12,868	15,732	18,787
Equity Attributable to Owners	9,055	10,992	13,006	15,870	18,925
Non controlling Interest	0	0	0	0	0
Total Equity	9,055	10,992	13,006	15,870	18,925
Long term Debts	0	0	3,051	3,204	3,236
Other Long TermLiabilities	1,021	1,660	5,878	6,172	6,480
Total non current liabilities	1,021	1,660	8,929	9,375	9,716
Trade Payables	6,510	10,547	12,949	15,788	17,917
ST-Term Borrowings	897	380	1,885	1,942	2,000
Other Current Liabilities	990	760	1,051	946	936
Others	0	297	294	300	306
Other Payables	282	49	4,222	4,264	4,307
Provision	715	868	1,233	1,581	1,904
Total Current Liabilities	9,394	12,900	21,634	24,820	27,370
Total liabilities	19,469	25,552	43,569	50,066	56,011

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	42,281	55,534	74,491	93,107	1,09,571
Total operating Expenses	38,487	50,896	68,449	84,743	99,087
EBITDA	3,794	4,638	6,042	8,364	10,484
Depreciation	396	473	591	708	687
EBIT	3,398	4,164	5,451	7,656	9,796
Other income, net	278	1,020	708	957	1,076
Finance costs	154	181	185	334	322
Pre-tax Income	3,521	5,004	5,974	8,279	10,550
Income tax expense	1,082	1,239	1,454	2,028	2,585
Net profit Before MI	2,440	3,764	4,520	6,251	7,965
Minority Interest	0	0	0	0	0
Net profit After MI	2,440	3,764	4,520	6,251	7,965
Diluted EPS (INR)	23.48	27.12	32.56	45.03	57.39
Shares in Million	104	139	139	139	139

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	5,758	6,062	4,441	9,195	9,024
Net Cash Flow from/(used in) Investing Activities	-1,141	-834	-8,553	-382	-761
Net Cash Flow from Financing Activities	-181	-837	1,866	209	90
Others	-1,773	-3,429	-1,754	-5,415	-7,496
Net Inc/Dec in cash equivalents	2,664	963	-4,000	3,607	858
Opening Balance	3,964	6,406	7,591	3,577	7,183
Closing Balance Cash and Cash Equivalents	6,628	7,369	3,591	7,183	8,042

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBIT Margin (%)	8.0%	7.5%	7.3%	8.2%	8.9%
Tax rate (%)	30.7%	24.8%	24.3%	24.5%	24.5%
Net Profit Margin (%)	5.8%	6.8%	6.1%	6.7%	7.3%
RoE (%)	31.0%	37.6%	37.7%	43.3%	45.8%
RoCE (%)	29.9%	31.3%	34.4%	40.0%	42.5%
RoA (%)	12.5%	14.7%	10.4%	12.5%	14.2%
EPS (INR per share)	23.5	27.1	32.6	45.0	57.4

Source: Company, KRChoksey Research

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Sonata Software Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
31-July-23	1050	1148	ACCUMULATE	Buy	More than 15%
16-May-23	887	1122	BUY	Accumulate	5% – 15%
25-Jan-23	624	732	BUY		
19-Oct-22	501	587	BUY	Hold	0 – 5%
26-July-22	684	791	BUY	Reduce	-5% – 0
02-May-22	736	931	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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