



Q1FY25 Sonata Software Ltd



Sonata Software Ltd

Earnings in line with estimates; new deals locked in Q1FY25

CMP INR 640*	Target INR 694	Potential Upside 8.4%	Market Cap (INR Mn) INR 1,79,529	Recommendation ACCUMULATE	Sector Internet Software & Services
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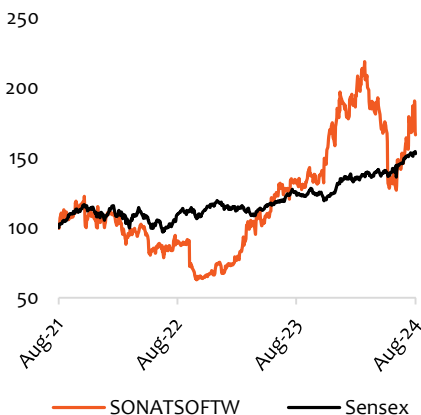
Result Highlights:

- In Q1FY25, Sonata Software reported revenue of INR 25,274 Mn, up 25.4% YoY (+15.3% QoQ). The revenue beat our estimates, driven by growth in domestic business.
- The Company reported EBIT of INR 1,429 Mn, down 2.8% YoY (+29.4% QoQ), largely in line with our estimates, driven by higher than anticipated raw material costs partially offset by higher reported revenue.
- The Company reported an adj. profit of INR 1,056 Mn, down 12.1% YoY (-4.3% QoQ), in line with our estimates.
- We increase our FY26E EPS to INR 26.7 (previously: INR 25.1) and raise our PE multiple to 26.0x (previously: 24.0x), reflecting higher than anticipated revenue in Q1FY25, materialization of new deal wins, and optimism on improved margins in FY26E. Accordingly, we increase our target price to INR 694 (previously: INR 603). However, since our last update, the stock has yielded a return of 22.9%, limiting the scope for potential upside. Accordingly, we downgrade SSOF to “ACCUMULATE” from “BUY”.**

MARKET DATA

Shares outs (Mn)	280
Mkt Cap (INR Mn)	1,79,529
52 Wk H/L (INR)	870/469
Volume Avg (3m K)	1,458
Face Value (INR)	1
Bloomberg Code	SSOF IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

INR Millions	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue	25,274	21,916	20,155	15.3%	25.4%
EBIT	1,429	1,105	1,471	29.4%	(2.8%)
Adj. PAT	1,056	1,104	1,201	(4.3%)	(12.1%)
OPM (%)	5.7%	5.0%	7.3%	61bps	-164bps
NPM (%)	4.2%	5.0%	6.0%	-86bps	-178bps

Source: Company, KRChoksey Research

Sluggish growth across the board; longer deal-closing cycles

- International Services revenue Q1FY25 stood at USD 82.7 Mn, up 7.0% YoY (+1.2% QoQ).
- EBIT margin stood at 5.7%, down 164bps (+61bps QoQ) with PAT margin at 4.2%, down 178bps (-86bps QoQ).
- Book to bill stood at 1.24x vs 1.22 in Q4FY24.
- All the geographical regions witnessed sequential growth, with the USA growing by 18.6% QoQ, Europe up by 7.1%, and RoW up by 8.1% QoQ.
- In the vertical mix, Technology, Media, and Telecom (TMT) was a key growth driver registering a growth of 73.6% YoY, Retail and Manufacturing up 15.2% YoY, BFSI up 11.5%, but healthcare was down 10.4% YoY.

Update on the demand outlook, headcount, and deal wins

- The management anticipates that reaching the USD 1.5 Bn revenue target will be delayed by a couple of quarters, and margins will be diluted in the near term.
- The recovery in Healthcare and BFSI sectors is expected to take longer, with early signs of improvement gradually appearing.
- The ramp-up of large deals and investment in AI and hyper-scaler projects will contribute to margin dilution in the near term.
- The employee headcount stood at 6,201, a net addition of 185 employees QoQ; however, the base was reduced by 66 YoY.
- The Company secured a major deal with one of the largest commercial banks in the US to form a strategic partnership and migrate its on-prem SAS Grid to SAS Viya on the cloud.
- SSOF also won a significant contract in the manufacturing and services industry to upgrade legacy systems to the latest Microsoft Dynamics 365 platform for standardization and modernization.

MARKET INFO

SENSEX	79,468
NIFTY	24,298

SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	28.2	28.2	28.2
FIIIs	12.4	14.0	14.5
DIIIs	21.6	19.0	17.6
Others	37.8	38.8	39.7
Total	100	100	100

*Based on previous closing

18.5%

Revenue CAGR between FY24 and FY26E

55.8%

PAT CAGR between FY24 and FY26E

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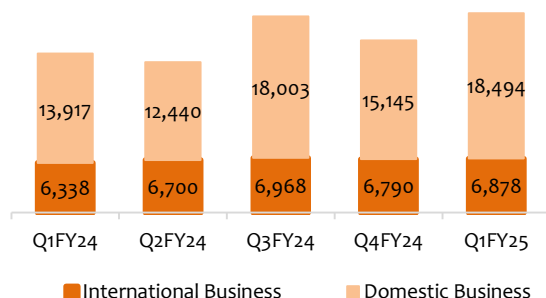
Key Concall Highlights:

- In Q1FY25, the Company added 14 new customers.
- The Company has won three large deals during Q1FY25, including a healthcare deal.
- Since its launch, Fabric, a new end-to-end analytics platform, has seen a significant pipeline build, with a \$46 million pipeline across over 80 clients.
- For a US-based medical & mental healthcare firm, SSOF intends to develop cloud & infra operations.
- SSOF intends to develop a cloud modernization setup for a top financial corporation based out of the US.
- SSOF "responsible first" Harmoni.AI offering drives growth and secures new client acquisitions within the quarter.
- Sonata Software expects 20.0% of its revenue from AI services in three years.
- The Company has a USD 65.0 Mn pipeline for AI services, spanning 110 clients.
- The utilization rate for Q1FY25 stood at 87.0% vs 82.7% in Q1FY24.
- Headcount stood at 6,201 in Q1FY25 with a net addition of 185.
- SSOF has pushed its USD 1.5Bn revenue target by FY27E, diluting the earlier target by 2-4 quarters.
- The Company has a strong liquidity cash position at INR 7367.0 Mn in Q1FY25.
- The Company is initially focusing on revamping on-site employees, with plans to increase offshoring in the coming quarters.
- Salary increases are expected to depend on factors such as new hires, attrition, and other variables.
- Cloud services account for 39% of Sonata's revenue from its top go-to-market strategies.
- The Company is heavily focused on the cloud sector, particularly in data and cloud solutions for banking.
- Additionally, over 52% of Sonata's pipeline is related to data and cloud initiatives.
- The revenue is anticipated to be higher in H2FY25E compared to H1FY25E, even with gross margin pressure from a major deal.
- The healthcare deal will reduce margins in the short term for the next two to four quarters but won't dilute long-term profitability, returning to average margins after that period.
- Conversely, the manufacturing and BFSI deals enhance margins both in the short-term and long-term.
- The healthcare deal exceeds the Company's average margin, and profitability is expected to recover in Q4 as the Company shifts work from on-site to offshore.

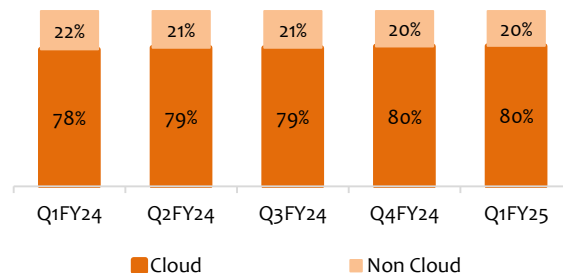
Valuation and view:

Sonata Software Ltd Q1FY25 earnings were in line with our estimates despite a beat on revenue. The Company would continue its focus on ramping up large deals and investing in AI projects. In the long term, key growth drivers are expected to include traction in AI, with the Company projecting 20.0% of its revenue from AI in 3 years, progress in Microsoft Fabric, strong growth in Quant, large deals, and effective client mining. We increase our FY26E EPS to INR 26.7 (previously: INR 25.1) and raise our PE multiple to 26.0x (previously: 24.0x) reflecting higher than anticipated revenue in Q1FY25, materialization of new deal wins, and optimism on margin improvement in FY26E. Accordingly, we increase our target price to INR 694 (previously: INR 603). However, since our last update the stock has jumped significantly (+22.9%), limiting the scope for further upside. Accordingly, we downgrade SSOF to "ACCUMULATE" from "BUY".

Strong domestic business drives the revenue growth



Cloud business gained share against non-cloud business YoY



Sonata Software Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	55,534	74,491	86,131	101,755	120,960
Total operating Expenses	50,896	68,450	78,856	93,627	109,586
Reported EBITDA	5,657	6,750	8,530	9,095	12,644
Adj. EBITDA	4,638	6,041	7,274	8,128	11,374
Depreciation	473	591	1,319	1,456	1,759
EBIT	4,164	5,450	5,955	6,672	9,615
Other income, net	1,020	708	1,256	967	1,270
Finance costs	181	185	850	953	900
Exceptional Items	0	0	1,747	0	0
Pre-tax Income	5,004	5,973	4,614	6,686	9,984
Income tax expense	1,239	1,454	1,529	1,671	2,496
PAT	3,764	4,519	3,085	5,014	7,488
Adj. PAT	3,764	4,519	4,832	5,014	7,488
Adj. EPS (INR)	13.4	16.3	17.2	17.9	26.7

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	4,502	2,684	2,805	8,916	9,778
Net Cash Flow from/(used in) Investing Activities	-833	-8,553	-543	-2,965	-3,652
Net Cash Flow from Financing Activities	-2,706	1,868	-1,085	-922	-1,396
Net Inc/Dec in cash equivalents	963	-4,002	1,177	5,029	4,731
Others	0	876	0	66	0
Exchange rate difference	-32	-37	9	0	0
Opening Balance	6,407	7,337	4,174	5,360	10,455
Closing Balance Cash and Cash Equivalents	7,337	4,174	5,360	10,455	15,186

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBIT Margin (%)	7.5%	7.3%	6.9%	6.6%	7.9%
Tax rate (%)	24.8%	24.3%	33.1%	25.0%	25.0%
Net Profit Margin (%)	6.8%	6.1%	5.6%	4.9%	6.2%
RoE (%)	37.6%	37.7%	22.8%	33.1%	41.8%
RoCE (%)	31.3%	34.4%	33.4%	33.0%	40.3%
RoA (%)	14.7%	10.4%	6.0%	8.6%	11.0%
EPS (INR per share)	13.4	16.3	17.2	17.9	26.7

Source: Company, KRChoksey Research

Sonata Software Ltd

Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Property, Plant and Equipment	177	488	518	625	922
Right-of-use Asset	1,056	828	810	891	980
Intangible Assets	829	5,031	4,248	4,248	4,248
Goodwill on consolidation	2,207	10,984	11,135	11,135	11,135
Non-current Investments	139	140	130	143	157
Deferred tax assets	261	0	0	0	0
Other non-current assets	1,480	1,948	3,896	4,675	5,610
Total non-current assets	6,149	19,418	20,736	21,716	23,052
Inventories	29	288	980	1,078	1,186
Cash & equivalent	7,696	7,303	8,650	13,745	18,476
Trade Receivables	9,220	12,362	16,051	15,891	18,227
Current Investments	1,448	2,058	2,321	2,785	3,342
Other Current Assets	1,051	2,140	2,754	3,305	3,966
Total current assets	19,443	24,151	30,756	36,804	45,197
Total Assets	25,593	43,569	51,491	58,520	68,249
Equity Share Capital	104	139	278	278	278
Other Equity	10,888	12,868	13,785	15,981	19,261
Equity Attributable to Owners	10,992	13,007	14,063	16,259	19,538
Total Equity	10,992	13,007	14,063	16,259	19,538
Long term Debts	0	3,051	4,310	4,353	4,397
Other Long-Term Liabilities	1,660	5,878	2,185	3,966	6,660
Total non-current liabilities	1,660	8,929	6,496	8,319	11,057
Trade Payables	10,547	12,949	14,160	16,930	19,816
ST-Term Borrowings	380	1,885	2,433	2,506	2,581
Other Current Liabilities	790	1,052	2,411	2,387	2,363
Others	297	294	242	246	251
Other Payables	59	4,222	10,016	10,116	10,217
Provision	868	1,232	1,672	1,756	2,425
Total Current Liabilities	12,940	21,633	30,933	33,941	37,654
Total liabilities	25,593	43,569	51,491	58,520	68,249

Source: Company, KRChoksey Research

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Sonata Software Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
08-Aug-24	640	694	ACCUMULATE	Buy	More than 15%
14-May-24	510	603	BUY	Accumulate	5% – 15%
07-Feb-24	823	870	ACCUMULATE	Hold	0 – 5%
24-Nov-23	652	702	ACCUMULATE	Reduce	-5% – 0
31-Jul-23	525	574	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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