

Sonata Software

BUY

Striking gold with digital & software theme

Summary

We initiate coverage on Sonata Software Ltd. with a BUY rating and a target price of Rs 915 (valued at 30x PE FY26E EPS). New CEO has enabled the company to drive strong financial performance over the past few quarters. Sonata's focus on investing in sales and marketing, account mining & hunting and strong platformation framework are expected to be key long term growth drivers. This has led to the company aspiring to double its international services revenues by FY27E from FY23. We believe the company could achieve the same by FY26E (implying Service revenue CAGR of 27% over FY23-FY26E). Considering this we expect overall revenue (including domestic sales) and PAT to grow at a CAGR of 23% & 24% over FY23-FY26E. Further, strength in digital, traction in large deals, tier 1 hires & partnerships has prompted us to have positive view on Sonata.

Key Highlights and Investment Rationale

- Key differentiating factor:** The company's deep alliances with technology leaders like Microsoft, Oracle & IBM; and involvement in several early adoption partnerships, provides Sonata with an early mover advantage on newer technology and releases. This helps in driving digital transformation at various stages of client requirements. Further IP, platform & solution accelerators, presence in niche verticals, and access to top management has been key differentiating factors for the company to penetrate clients. Investments in Microsoft fabric & AI could also be long term tailwind.
- Outperforming Peers :** Sonata through partnership, large deals, partnership, capability building and refreshed CEO strategy has outperformed peers in revenues by 70-200 bps on QoQ basis and has better EBITDA margins than peers (~200-500 bps higher). Considering the size of the company and strategy we expect the outperformance to continue in the medium term.

TP	Rs915
CMP	Rs723
Potential upside/downside	27%

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.6	31.9	151.9
Rel to Sensex	2.4	28.8	140.6

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	18	23	31
Consensus	19	24	29
% difference	(6.7)	(3.5)	6.7

Key Stock Data

Bloomberg/Reuters	SSOF IN / SOFT.BO
Sector	IT Services
Shares o/s (mn)	280
Market cap. (Rs mn)	202,789
3-m daily avg Trd value(Rs mn)	32.5
52-week high / low	Rs775 / 261
Sensex / Nifty	69,585/ 20,926

Shareholding Pattern (%)

Promoters	28.2
FII	15.0
DII	15.7
Public	41.1

Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	55,534	74,491	93,197	1,12,890	1,36,996
Change (yoy, %)	31	34	25	21	21
EBITDA	4,638	6,041	8,069	10,029	12,741
Change (yoy, %)	22	30	34	24	27
EBITDA Margin(%)	8.4	8.1	8.7	8.9	9.3
Adj.PAT	3,765	4,519	4,959	6,443	8,623
EPS* (Rs)	27	33	18	23	31
Change (yoy, %)	16	20	(46)	30	34
PE(x)	27	22	41	31	24
Dividend Yield (%)	2.9	2.2	1.5	1.9	2.6
EV/EBITDA (x)	20	16	24	20	16
RoE (%)	38	38	35	40	45
RoCE (%)	35	27	24	33	49

Source: Company, IDBI Capital Research, * Bonus issued in FY24E

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Investment thesis

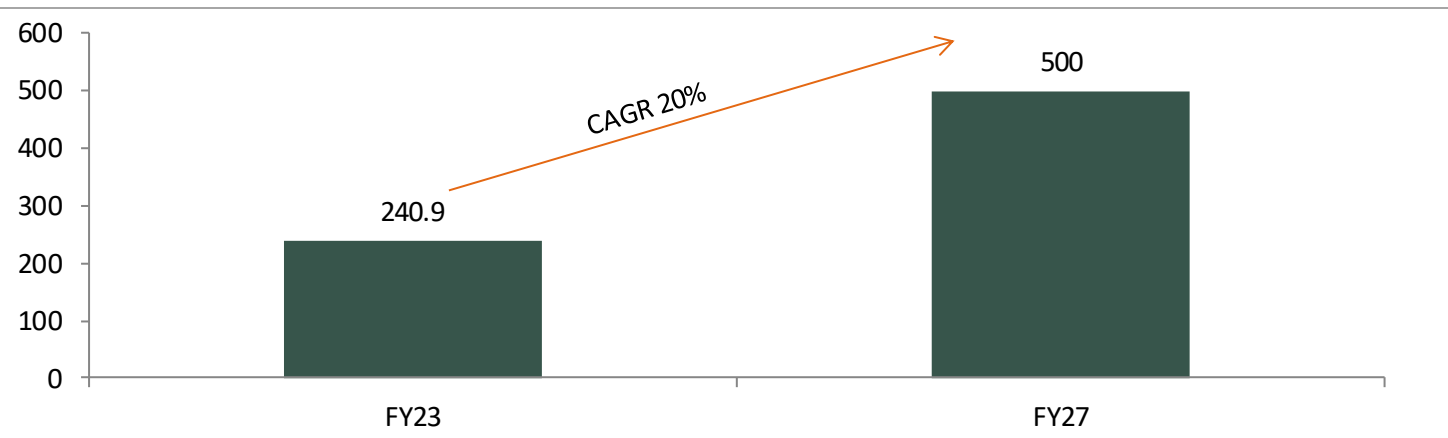
CEO's strategy moving in the right direction

- The CEO plans to double international revenues in next 4 years and be known in the industry as a specialized firm in modernization and digital engineering.
- To achieve the same the company plans to make investments in sales, investments in large deals, capability build, partner ecosystems (1.5%-2% of Sales). Further, the company will invest in building brand, with Analyst to move up in quadrants and invest in identified campus & lateral hires.
- In addition, the company has classified verticals in invest vertical and harvest vertical. BFSI, health care / life sciences are invest vertical and telecom, media, high-tech, retail & manufacturing are the harvest verticals. The company plans to double down to scale BFSI and Healthcare/Life Sciences verticals. It continues to build strong sales, delivery and domain capabilities in these verticals. Further in harvest verticals the company continues to see strong pipeline build and order book momentum across all the harvest verticals. In harvest vertical the focus is more on Dynamics with geo focus of West US, UK India & Australia and generate large deal pipeline in existing accounts. In invest verticals the focus is on East US & Nordics with central hunting team, global delivery centers, deal origination & deal desk.
- Apart from verticals the company plans to harvest the technologies in which Sonata is present and aims to grow the same. The company plans to tap on its strength in customer experience, data, AI, ML and security. Top 6 partners are MS (harvest), AWS, SDFC, Snowflake, ServiceNow and Google. Further the company has very strong platformation framework and aims to be strong in data cloud and automation side. This will help in building strength of the company and gain market share rapidly in the verticals that the company is focused in.
- Other key strategies 1) Increase depth of client relationship by increasing interaction & coverage with client execs, high responsiveness & call to action on red projects and highlight value delivered beyond contractual obligations. 2) Increase annuity mix by pivoting towards managed services contracts proactively for 3+ years (renewals + new business) 3) Improve sales vigor by focus on value differentiation layers; pipeline, deal desk and sales productivity 4) Large deal pipeline & conversion by proactively

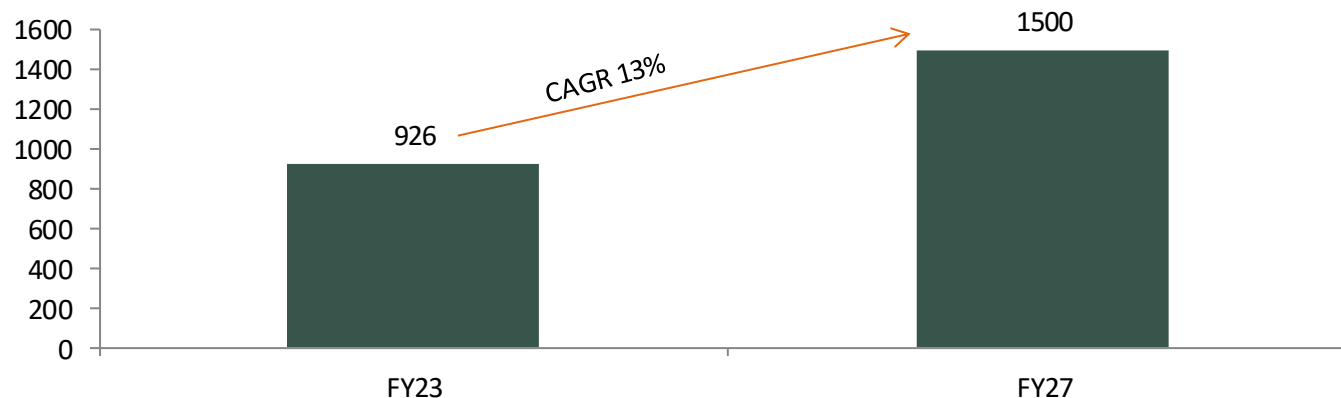
searching large deals & buying existing client centers, leveraging market connects (deal advisors, rainmakers, client connects) to increase sales pipeline, forging partnership with hyperscalers (Azure, AWS & GCP) and exploring partnership with PE firms to be their Digital System Integrator (OneVista, TrueNorth)
 5) Continuous focus on leveraging the MS sales channel to increase the order book and deal intake

- Further, the company plans to invest in strengthening sales and marketing across the globe, in U.S.A., Europe, and APAC. In addition, Sonata plans to strengthen account mining and hunting organization which will help in boosting long term growth. Considering all this the company aims to be in the top 25% quartile of revenue performance in the industry in time to come. In addition the company aspires to double its international revenues to US\$500 mn by FY27 (implying a growth of 20% CAGR) and on overall basis the company aspires to be a US\$1.5 bn by FY27 from US\$0.92 bn (implying 13% CAGR). However, considering recent acquisition & growth trajectory we expect the company to achieve the target in FY26E (a year earlier) implying Service revenue CAGR of 27% over FY23-FY26E. Considering this we expect overall revenue (including domestic sales) and PAT to grow at a CAGR of 23% & 24% over FY23-FY26E.

Exhibit 1: International Revenue target US\$500 mn (implied CAGR of 20% from FY23-FY27)



Source : Company, IDBI Capital Research

Exhibit 2: Overall Revenue target of US\$1.5 bn (implied CAGR of 13% from FY23-FY27)


Source :Company, IDBI Capital Research

Large deals driving robust growth

- The company is targeting large deals which are in the range of US\$5 mn – US\$50 mn with a 3-4 year range. This would be multiyear and annuity kind of a deal and margin profile would improve over a period of time.
- Post the new CEO the company has seen spat of large deal namely 2 large deals in Q2, 4 in Q3 and 3 large deals in Q4 (of which 1 of them is the largest ever deal for Sonata). The largest ever dealer of Sonata is a \$160 million contract for 10 years. This client is backed by one of the largest private equity firms, have a very strong cash flow and generating double-digit profitability. The client, which is a net new logo for Sonata, will make a direct entry into Top 5 client list of Sonata. This 10-year strategic modernization deal will entail Sonata taking over all the technology towers and people transfer (which supports in U.S. localization strategy). Further, the company will be responsible for end-to-end IT modernization and transformation. The company is building core application suite, creating an omnichannel and connected organization with a customer 360-degree view.
- In Q1FY24, the company won two new additional deals, large deals. The large deal pipeline is now 40% of the company's total pipeline. The company's synergy pipeline is US\$100 mn. This number was in mid-teens, same time last year, indicating phenomenal progress under the new CEO. Hence, we believe large deal will be an integral part of company's strategy and will be key driver of growth in the longer run.

- In Q2FY24, Large deal pipeline is 38% of the total pipeline and the Synergy pipeline of Quant & Sonata is \$150 million plus. Co has 3 large deals from Transportation, Leading steel manufacturer & Telecom network service provider. The logistic deal is worth US\$12.6 mn over 3 years, Communication deal is US\$6.5 mn over 7 years and Steel deal is worth US\$5.7 mn over 6 years. There has been a significant pipeline build on Microsoft fabric where over 300 data engineers are enabling the clients by leveraging the fabric end-to-end SaaS platform. Co has 32 large deals in pipeline and they continue to remain optimistic about the long term growth prospects. The company has 5 fortune 50 clients and 10 Fortune 500 clients in pipeline. It has won 6 fortune 50 clients and 8 Fortune 500 clients in H1FY24.

Exhibit 3: Number of deals – post New CEO

	Deals	Larger deal	Description
Q3FY23	4	1	U.S.-based large electric utilities client with operating revenue of nearly \$15 billion and over 13,000 employees. Here, client delivers power to 15 million consumers in the U.S. Client wanted to provide an enhanced experience to their consumers by ensuring efficient field management, service management and also wanted to automate mobile workforce management to improve service optimization and scheduling. Company's teams judiciously works with the client and propose a solution to develop, build & implement a new platform to transform the client servicing model and improve field workforce & productivity immensely.
Q4FY23	3	1	One of the largest ever dealer of Sonata which was a \$160 million contract for 10 years. This client is backed by one of the largest private equity firms, have a very strong cash flow and generating double-digit profitability. The client, which is a net new logo for Sonata, will make a direct entry into Top 5 client list of Sonata. This 10-year strategic modernization deal will entail Sonata taking over all the technology towers including people transfer, which supports U.S. localization strategy and also, company will be responsible for end-to-end IT modernization and transformation. The company is building a single platform for future for the client to modernize and transform their core application suite, creating an omnichannel and connected organization with a customer 360-degree view

	Deals	Larger deal	Description
Q1FY24	2	1	It is a transformation and modernization deal which Sonata closed in Europe. The largest deal for Sonata in the Europe geography to date. This deal will enable Sonata to transform and implement Microsoft Dynamics across all lines of business for a manufacturing client across their 49 legal entities. The scope includes finance, supply chain management, production, and integration across their systems. The scope also includes application support, post the company completing the transformation program in the next couple of years.
Q2FY24	3	2	<p>Deal 1 It is from a leading network service provider powering global connectivity for new media providers, telecom carriers and enterprises. Co. has signed a large multi-year contract to transform the core business & financial processes leveraging the cloud, data and Harmoni.AI platform. It is the first multi-year AI win for Harmoni.AI platform.</p> <p>Deal 2 It is a deal from leading industrial steel and mill services steelmaker to modernize the existing trading platform with a scalable solution. Co. proposed to develop and implement the next-gen trading platform. This solution will be implemented over multi-years for the client, and to build a centralized platform for trade execution, position monitoring and risk management.</p>

Source: Company, IDBI Capital

Quant acquisition will help company in driving transformational changes

- Quant was founded in 2008 by Srinivas Veeravelli, who is based in Texas. Quant has expertise in enterprise data analytics, cloud modernisation, cyber security, and data privacy. It has partnerships with top hyper scalers like AWS & GCP and major tech companies like Adobe and Snowflakes. It also has differentiated IPs for Salesforce (workbox.io) and Chatbot (Lisa) technologies. Quant clocked revenue of US\$ 37mn in CY22 and has grown at a CAGR of ~115% over CY20-22. It has ~300 employees (onsite ~125) across India, Mexico and Costa Rica. The revenue/employee is impressive at ~USD 123K due to its IP and consulting capabilities resulting in higher billing rates. The acquisition is one of the milestone in achieving the targeted milestone of US\$500 mn in international revenues in next four years. The acquisition is one of the largest announced by the company and involves a cash payout of USD 65mn and an earn-out of USD 95mn payable over the next two years. The deal is valued at P/S of 4.3x (1.8x excluding earn out). We believe the acquired entity has robust cash flow and the earn outs will be paid from internal accruals. In addition the acquisition is in line with the company's strategy to expand in invest verticals like BFSI & healthcare, drive large deals via cross sell and drive growth via partnership beyond Microsoft. The acquisition will also add two new clients to the top-5 list of Sonata's. Hence, this is a right strategic acquisition for the company and will drive transformational changes for the company.
- Apart from Quant the company has acquired various entities with the goal of either expanding its service & product offerings (i.e capabilities) or to gain access to wider customer base & geography. Some of the acquisitions are Scalable Data Systems based in Australia, US-based Sopris Systems, GAPbuster Limited (GBW) and Encore Software Services. Scalable and Sopris were acquired for augmenting its Dynamics capabilities across the areas of F&O and Field Service respectively. Sopris and Scalable bring great value in terms of Microsoft Dynamics 365 capabilities and resources to Sonata, giving additional services capabilities in the industries of field service and commodity trading, providing a strong stimulus to Sonata's Platformation™ strategy. GAPbuster Limited (GBW), the Melbourne headquartered company that has been amongst pioneers in the CX domain serving renowned brands globally for nearly thirty years. The company was able to offer a one-stop-shop with the CX solution offering to go with the IP's. GBW has strengthened Sonata's footprint in Australia and opening up new geographies in South East Asia & Europe. GAPbusters' proprietary customer experience platform leverages advanced AI and ML capabilities to

deliver actionable recommendations that help brands deepen customer loyalty and improve satisfaction. It has also helped in gaining a foothold in newer markets in Japan and South East Asia while consolidating in Europe and US. In addition, the company has acquired Encore Software Services, Inc, a company with expertise in cloud services, user experience, data insights, and real-time collaboration services to clients in the Healthcare, Supply-chain / Logistics, and ISV industries.

- Going forward, the company plans to grow majorly through organic growth and might just do tuck in kind of acquisition (if need be) to improve capabilities or expand geographically.

Exhibit 4: List of acquisitions

Acquired	Consideration (USD mn)	Rationale
Quant Systems Inc.	Upfront \$65mn and based on earn-out \$95mn	The acquisition is in line with Sonata's strategy to accelerate the growth curve and build scale. It will accelerate Sonata's capabilities in Enterprise Data Analytics, Cloud modernization, Cyber security, Salesforce, Data Privacy, Adobe, and Digital & Mobile App solutions, including differentiated IPs for Salesforce (workbox.io) and Chatbot (Lisa) technologies. It will expand Sonata's domain expertise in Banking and Financial Services, Healthcare & Life Sciences, Consumer/Retail and others. It's strong leadership team with rich experience and successful track record in client services, and technology innovation in the areas of Digital transformation, Enterprise Data, Salesforce, Data Privacy, Snowflake and Adobe. EV/Sales 4.3x (including earn out)
Scalable Data Systems	\$3.53mn	The acquisition of Scalable was to combine the strength of both companies to make a significant impact on the Australian market. This has come to fruition with proven success of addressing a broader set of industries; like Retail, Manufacturing, Distribution, Agri business and Service industries, engaging in larger transformation initiatives spread across a more broad based technology stack including Dynamics, Data and Cloud. Sonata Scalable brought together Scalable Data Systems' deep understanding of local markets and customer needs and Sonata's unique Platformation™ approach, global presence, strong track record of delivering technology solutions at scale and partnerships and alliances with software majors. EV/Sales 1.1x

Acquired	Consideration (USD mn)	Rationale
Sopris Systems LLC	\$7mn	The acquisition will help the company grow presence in the United States. It will enhance Sonata's capabilities in Microsoft 365 Stack. Sopris specializes in enterprise resource planning (ERP); customer relationship management (CRM), mobile field service, enterprise asset management (EAM) and professional service automation. Enterprise consulting, dedicated support and Microsoft Dynamics, provide robust solutions that help Sopris customers win more profitable business, deliver higher-quality projects and improve company-wide performance. EV/Sales 1x
GAPbuster (GBW)	\$4.8mn	GAPbuster is a specialized company in the Customer Experience Management space. The GBW customer experience platform leverages advanced AI & ML capabilities to deliver actionable recommendations that help brands deepen customer loyalty and improve satisfaction. This acquisition is an extension of Sonata's Platformation™ play that further strengthens singular focus of becoming a digital transformation partner of choice in retail, distribution, CPG and travel verticals by leveraging IPs and platforms. With this acquisition Sonata will be able to offer additional value to its customers, while GAPbuster will be able to expand in newer geographies. EV/Sales 0.5x
Encore Software Services, Inc.,	Upfront \$6.37mn and based on earn-out \$8.25mn	The acquisition will help Sonata enhance its capabilities in Cloud engineering, application development and maintenance and data management and domain expertise in healthcare and pharmacy. EV/Sales 0.53x (based on earn-out)

Source: Company, IDBI Capital

Partnership & capability enabling early mover advantage & market share gain

- The company's deep alliances with technology leaders like Microsoft, Oracle & IBM; and involvement in several early adoption partnerships with them, provides Sonata with an early mover advantage on newer technology platforms and new releases of packaged applications. Apart from Microsoft, company has further partnered with Google & AWS. This will help them in smoothening the digital transformation process at various stages in terms of from a single cloud to multi-cloud. Through the acquisition of Quant the company will also have access to Salesforce and related projects.
- Apart from partnership the company is also building capabilities like building talent ahead of time training and combining lateral with freshers to scale effectively. Further, it will also help demonstrating its capability and gain market share. The company is investing in Tier2 & 3 cities to build talent and rein cost.

As a result of all the above strategies the company has been outperforming peers over past few quarters

- Sonata through partnership, large deals, partnership, capability building and refreshed strategy of CEO aims to be in top 25% quartile of revenue performance in the industry in time to come. Some of the improvement in growth trajectory is already visible in past few quarters. As seen in the table below the company has consistently been ahead of its peers from Q3FY23 onwards. Considering the company's size, large deal pipeline and strategy we believe the company is well poised to outperform peers in coming years.

Exhibit 5: Revenue growth comparison with peers

QoQ growth	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Sonata software (organic)	1.8%	4.7%	4.5%	4.0%	4.6%
Persistent (organic)	4.8%	3.4%	3.9%	3.0%	3.9%
Coforge	3.4%	1.9%	5.0%	2.8%	2.5%
Zensar	-0.6%	-5.9%	1.1%	1.2%	1.1%
Birlasoft	0.1%	-0.3%	0.5%	3.0%	3.7%

Source: Company, IDBI Capital

Industry leading margins despite significant investment in the near term

The company over the years has developed IP's and accelerators which has helped in gaining market share and higher pricing. Apart from this company's presence in experience side has helped the company in commanding superior EBITDA margin profile of 23-25%. However, the company plans to invest some part of profitability in geography expansion and 1.5-2% in go-to-market, large deals capabilities and general capabilities. This investment will enable the company in driving growth and achieving US\$500 mn over next 4 years. Despite this growth the company aims to maintain its margins at low 20% which is far superior than most of its peers.

Exhibit 6: Margin comparison vs peers table

EBITDA margins (Services)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Sonata software	23.5%	21.8%	18.5%	19.9%	22.2%
Persistent	18.0%	18.5%	18.5%	18.2%	16.8%
Coforge	17.6%	17.6%	18.8%	14.9%	15.3%
Zensar	8.5%	11.3%	14.5%	18.8%	18.6%
Birlasoft	14.8%	13.0%	13.6%	15.3%	15.8%

Source: Company, IDBI Capital

Key differentiating factor and growth drivers of the company

The company has been able to penetrate and get a foot in the client's door led by company's ability to 1) cross sell IP, Platform & solution accelerators to other clients 2) higher annuity of ~65%, 3) presence in niche verticals like payment, lending, niche retailers (chemist, & furniture companies) 4) presence in fortune 500 clients and 5) access to top management. Apart from this the company in recent times has been able to win large deals under the new CEO mainly led by company's ability to stitch end to end deals. Further, apart from Microsoft the company has expanded partnership with Salesforce, AWS & Google which will help in driving all round growth in cloud, data and application modernization. In addition, the company has done right acquisition, which has helped in penetrating geos verticals and capability. Further, the company's investment in hiring of tier 1 leader across verticals will be key to its growth in coming years. Apart from this Microsoft fabric and AI could be potential long term tailwind for the company.

Exhibit 7: Sonata Software is well recognized by its partners

Partner	Awards and Recognitions
Nutanix	Emerging partner of the Year for West Region
Freshworks	Emerging partner of the Year
HCL	HCL Software best partner of the year
Micorfocus	Best Partner

Source: Company, IDBI Capital

Exhibit 8: Sonata Software is well recognized by the industry analysts

Analyst	Area	Ranking
Everest Group	Cloud Services peak Matrik	Star Performer
Microsoft	Microsoft Business Applications	Inner Circle
Institute of Director	Corporate Governance	Golden Peacock Award for Excellence in Corporate Governance

Source: Company, IDBI Capital

Exhibit 9: Company's partnership and investment focus

Cloud Apps Modernization	Data & Analytics	Microsoft Business Apps	Service Experience Transformation	Hyper Automation	Managed Services

Source: Company, IDBI Capital

Exhibit 10: Hires from Tier 1 and Tier 2

Name	Designation	Description
Sathish Nuggu	SVP - Client Services Delivery Portfolio	Sathish brings 24 years of experience and is responsible for Global Delivery for Microsoft sell with client service portfolio. His previous roles were in KFIN as Chief Operations & Technnology, Director for Cloud delivery at Cloud4C Services.
Manu Swami	Head of Technology	Manu is an B.Tech graduate brings 24+ years of experience in the field and now responsible for Digital Transformation, Automation & Data Analytics. His previous role was at Virtusa as Head of Healthcare & lifescience consulting, solutions and Technology.
Santos Jha	Head of Sales, BFSI, US	Santos comes with 15+ years of experience in Business Development & Sales and is now responsible for BFSI sales segment for North America. He has previous worked with Dell as Sales head, at Infracsoft as AVP Business Development.
Raghav Dave	Head of Sales, HLS, US	Raghav is an MBA graduate from Institute of Management Technology, Ghaziabad. Has an proven expereince in Business development for several years with co. such as Stanely Black & Decker, Virtusa as VP - Business Head. He is now responsible for Healthcare & Lifescience Sales in US in Sonata.
Rajashekhara Tavarakere	Delivery Head, UK, Ireland & Europe	Rajashekhara has 23 years of IT experience spanning across Delivery, client relations, etc.and is now appointed as Delivery Head for UK, Ireland & Europe. He has previous worked with Coforge, Infosys, Mindtree in the Delivery space.
Keerthi Rannore	Head of Global Talent Acquistion	Keerthi is an MBA graduate in Human Resource from Symbiosis and comes with several years of the experience and expertise in the field. He has worked with some reowned organisations Cyient, KPIT, Myntra as HR Head.
Anand Nair	Head of Sales, APAC	Anand is appointed as Sales head for APAC region and is responsible for accelerating growth of business services in the region. He has previous worked as Sales Director in UST, Regional Sales Manager for HCL
Murthy Mulugu	Head of IP Engineering	Murthy is responsible for IP engineering of E-commerce, travel & customer experience platform such as Storez, Rezopia, GBW. He comes with an expertise in managing & leading large scale software development through Agile & Iteration, Business Transformation, Global IT delivery, etc.
Sharvari Lingayat	Head of Global Business HR	Sharvari brings 20 years of experience in Human Resource and is appointed as Head of Global business HR. She has an proven expertise and experience with various organisation such as LTI Infotech, Miles Software Solution, Syntel, Mastek, etc.

Source: Company, IDBI Capital

Valuation

At CMP of Rs 723, the stock is trading at P/E of 23.5x FY26 EPS. We believe the company is well poised to grow its revenues & PAT at a CAGR 23% & 24% over FY23-FY26E mainly led by strong annuity revenues, partnership, large deals, partnership, capability building and refreshed strategy of CEO. This has prompted the company to aspire to be in top 25% quartile of revenue performance in the industry. The company also aspires to double its revenues in next 4 years. However, we expect the company to double its revenues in 3 years (over FY23-26E). This coupled with investment in Microsoft fabric and AI could be potential long term tailwind for the company. Hence, we initiate coverage on the stock with a target price of Rs. 915 (PE of 30x on FY26E EPS)

Sonata's IT services revenues and PAT is expected to grow at a CAGR of 27% and 26% respectively and is anticipated to outperform its peers during FY23-26E. Growth is expected to be better than the average of its peers. This should result in the stock commanding premium valuations in medium to longer term.

Exhibit 11: Revenue, PAT and margin comparison with peers

Company Name	Revenue (Rs Mn.)						PAT(Rs Mn.)						PAT margin(%)				
	FY22	FY23	FY24E	FY25E	FY26E	CAGR (%) (FY23-26E)	FY22	FY23	FY24E	FY25E	FY26E	CAGR (%) (FY23-26E)	FY22	FY23	FY24E	FY25E	FY26E
Coforge	64,320	80,146	93,384	1,08,815	1,23,266	15	6,618	9,590	9,376	12,118	14,101	14	10	12	10	11	11
Persistent	57,108	83,506	97,746	1,13,112	1,32,140	16	6,999	9,209	11,275	14,032	17,142	23	12	11	12	12	13
Zensar	42,437	48,483	50,051	56,257	61,614	8	4,162	3,275	6,316	6,513	7,326	31	10	7	13	12	12
Birlasoft	41,304	47,948	52,731	60,298	67,909	12	4,637	3,316	5,844	7,140	8,096	35	11	7	11	12	12
Average	51,292	65,021	73,478	84,621	96,232	13	5,604	6,348	8,203	9,951	11,666	26	11	9	11	12	12
Sonata	55,534	74,491	93,311	1,12,890	1,36,996	23	3,765	4,519	5,073	6,443	8,623	24	7	6	5	6	6

Source: Company, Bloomberg, IDBI Capital

Exhibit 12: EBITDA Margin, EV/EBITDA and P/E comparison with peers

Company Name	EBITDA Margin(%)					EV/EBITDA					P/E				
	FY22	FY23	FY24E	FY25E	FY26E	FY22	FY23	FY24E	FY25E	FY26E	FY22	FY23	FY24E	FY25E	FY26E
Coforge	17	18	17	18	18	32	26	23	18	17	55	52	40	30	27
Persistent	17	18	18	19	19	37	23	29	24	20	53	38	46	37	30
Zensar	16	11	18	17	17	17	20	12	11	11	28	36	19	18	17
Birlasoft	16	14	16	17	16	29	27	22	18	14	40	38	32	26	24
Average	16	15	17	18	18	29	24	21	18	16	44	41	34	28	24
Sonata*	22	22	21	21	22	20	16	24	20	16	27	22	41	31	24

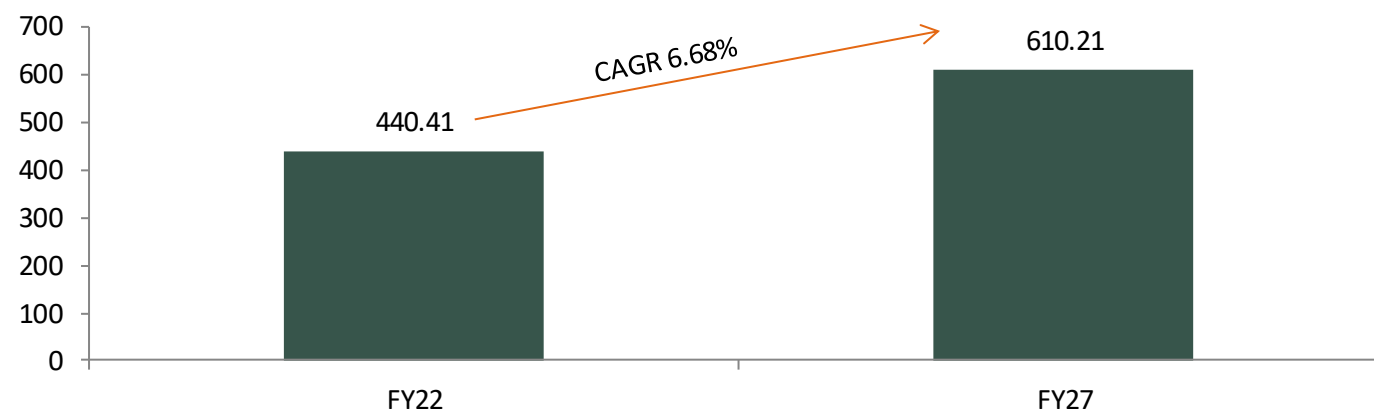
Source: Company, Bloomberg, IDBI Capital, *services (excl. OI)

Industry overview

Growth in IT outsourcing

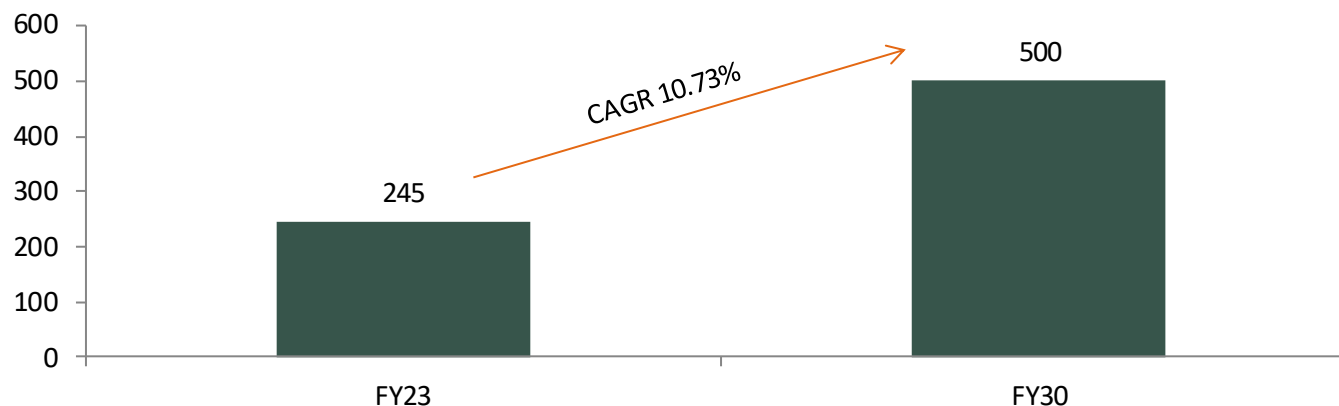
According to ResearchAndMarkets, the global IT outsourcing market was valued at \$ 440.41 bn in 2022 & is projected to expand at a CAGR of 6.68% to reach \$ 610.12 bn by 2027. This growth would be led by increasing investments being made in cloud to drive both top line and bottom line expansion.

Exhibit 13: Global IT outsourcing (in USD bn)



Source : IDBI Capital Research, Statista

Given the fact that India has the largest and affordable pool of trained tech talent, good chunk of the outsourcing is expected to be received by Indian IT companies. As per Nasscom revenue of India's technology industry at \$245 billion in FY23 and \$500 billion by 2030.

Exhibit 14: India's technology industry (in USD bn)

Source : IDBI Capital Research, NASSCOM

Digital Transformation

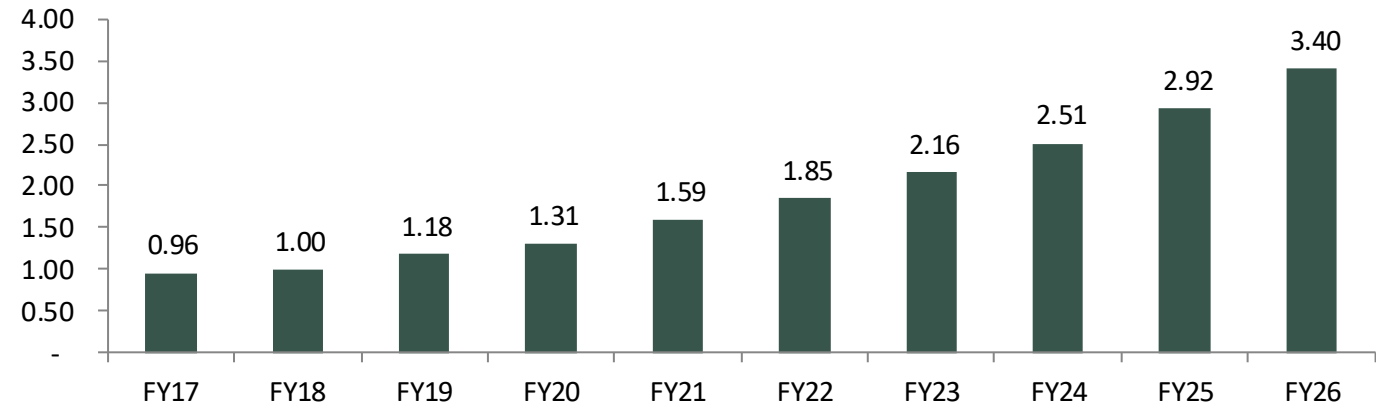
According to Statista, global spending on digital transformation is expected to grow to \$3.4Tn by 2026. This growth translates into a CAGR of ~16%. Given Sonata's strong relationship with hyper scalers like Microsoft and Google, this can be a significant area of growth. We believe that we are in the first phase of a multi-year technology transformation phase. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core. In subsequent phases, enterprises will see new age technologies like artificial intelligence, augmented reality, virtual reality, data analytics and Internet of Things (IOT) to be developed around cloud leading to a multi-year technology spends. In the next four to five years every major company is expected to migrate to cloud and use of Artificial Intelligence (AI), which is at a very nascent stage, will gather pace. In the last phase, there will be emergence of new business models and leverage of technology to drive growth in ancillary business. This, coupled with vendor consolidation opportunities, acquisition of captives and offshoring & automation (for cost take out deals) could lead to double digit revenue growth for IT companies in the longer term.

Some of the key emerging trends of digital are as follows:

- **Infrastructure modernisation:** The adoption of cloud has accelerated due to Covid 19 crisis. E-commerce, virtual collaboration requirements, shift from capex to opex, flexibility and ability to scale IT operations has led to increasing spend by enterprise on cloud adoption.
- **Virtualisation of work:** The balancing of work from home and office has led to hybrid work environments. This has led to more spending on systems and tools for virtual communication and collaboration.
- **Contactless customer experience:** The demand for transaction via App or contactless experience is expected to continue even after the pandemic. Investment in technology as enablers for the new digital business model is therefore expected to improve in coming years.
- **Operational efficiency:** Data is becoming very important for forecasting demand, optimizing supply chains, maximizing ROI from promotional spending, predicting fraud and machine failures. Hence, analytics and automation are gaining prominence across industries.

Across all industries, companies are investing in IT Services providers to implement latest technologies for

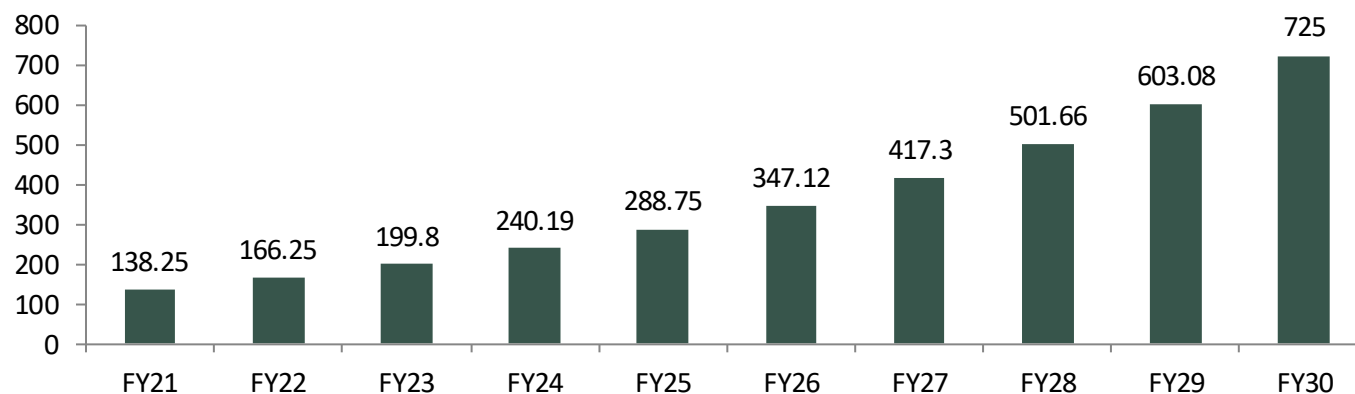
- **Personalized Solutions** — bridge conceptualization with user experience design and graphics to develop bespoke, user-friendly applications accessible anywhere across a variety of devices;
- **Data and Analytics** — convert raw business data from internal teams, business partners and end customers into actionable insights;
- **Digital Automation** — reduce unnecessary human intervention in business processes which increases efficiency across the organization, lowers costs and enables employees to focus on more complex assignments;
- **Artificial Intelligence and Machine Learning** — enhance the speed, precision and effectiveness of human efforts such as improved product recommendations and virtual assistant interactions; and
- **Cloud Computing** — enable businesses to access servers, data and applications through the Internet (“the cloud”) rather than private, local storage devices, which reduces costs and increases speed, performance and security.

Exhibit 15: Spending on Digital Transformation (USD trillion)

Source : IDBI Capital Research, Statista

Mobile Apps bringing tremendous change to lifestyles

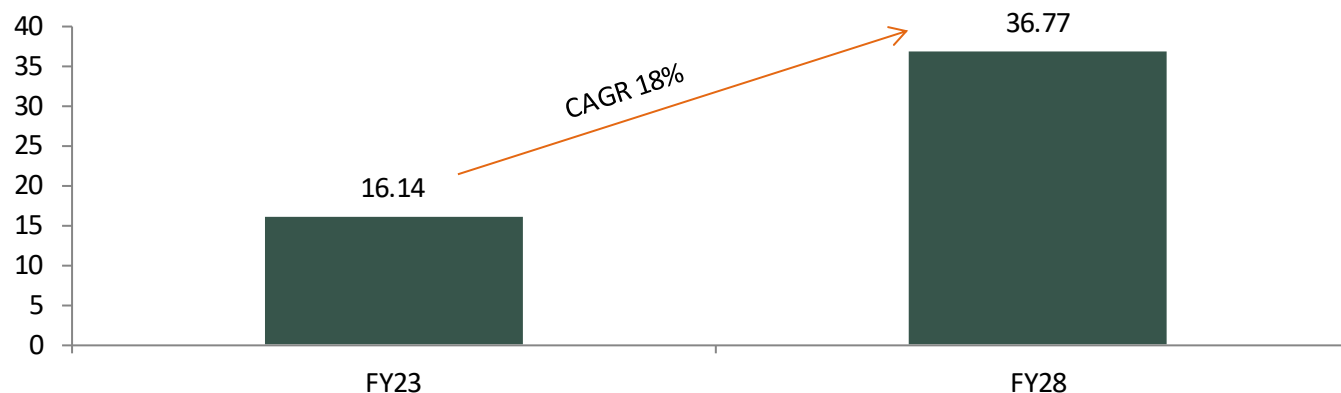
Mobile Applications are changing the way of doing business. Factors such as the expanding consumer base in the e-commerce industry and the widespread adoption of smartphones contribute to the growth of the mobile application market. The market's growth is driven by the continued expansion of enterprise applications, increased focus on health and fitness apps, thriving e-commerce, and the high demand for gaming apps with substantial downloads and in-app purchases.

Exhibit 16: Mobile Application market size (USD mn)

Source : Sigma Solve presentation, IDBI Capital

Customer Experience

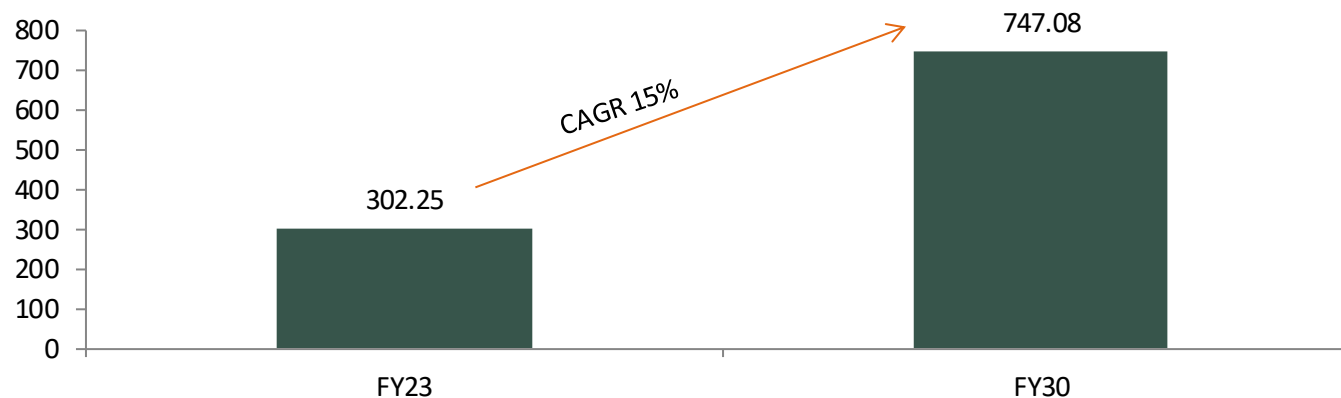
According to Mordor Intelligence, the Customer Experience Management Market size is expected to grow from USD 16.14 billion in 2023 to USD 36.77 billion by 2028, at a CAGR of 17.90% during the forecast period. Increasing adoption of digitalization, technological advancements in cloud and artificial intelligence solutions, rapid integration of multi-channel touch points into a single platform and the increasing need to analyze customer data to draw business insights to increase revenue are some primary factors boosting the customer experience management market. Customer experience solutions help organizations in lowering customer churn rates and in improving customer loyalty. They also assist organizations in enhancing their brand awareness. The growing digitization and the surging adoption of Artificial intelligence (AI) and Augmented reality (AR) are anticipated to improve the market growth. The increased use of digital platforms for shopping and other purposes has boosted the demand for advanced customer experience solutions. In early FY2022, Sonata GBW had launched 'CXe', a unique enhanced integrated CX management solution. This is a compelling offering from Sonata designed for customers worldwide looking for comprehensive end-to-end CX solutions in the post-pandemic world that addresses the challenges with traditional solutions. The Company will continue to invest in its CX platform offering a 360 degree customer experience measurement and integrated insights into what drives CX.

Exhibit 17: Customer Experience to grow at a CAGR of 18% over 2023-2028 (USD billion)

Source : IDBI Capital Research, Mordor Intelligence

ISVs (Independent Software Vendors)

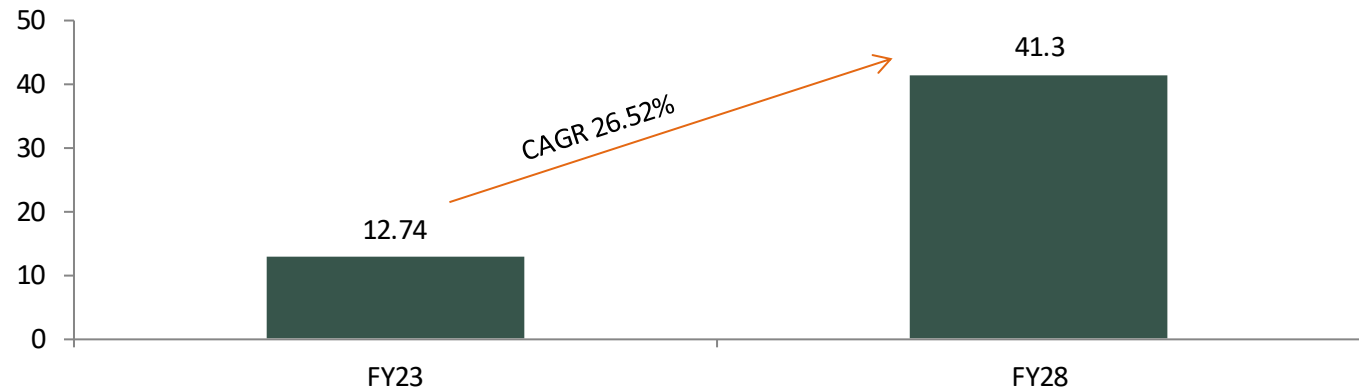
The global independent software vendors market size was valued at \$302.25 billion in 2023 and is expected to reach US\$ 747.08 billion by 2030, grow at a compound annual growth rate (CAGR) of 13.8% from 2023 to 2030, according to a new study conducted by Coherent Market Insights, Inc. The growing adoption of Software-as-a-Service (SaaS) and increasing demand for multi-cloud and hybrid cloud systems are key growth drivers of the ISVs market. SaaS is one of the key cloud computing models which is expected to gain traction in the near future. The growing adoption of modern technology solutions and rising business outsourcing of software and services are also expected to propel the growth of SaaS. ISVs are pushing their boundaries of innovations to create value through products for customers. Thus, creating huge growth opportunities for ISVs. Sonata's Platform engineering DNA built on Platformation™ methodology assists ISVs in this transformation journey. Sonata offers digital platform engineering, modern engineering and sustenance engineering solutions to address the challenges faced by ISVs. Sonata has been working with many marquee customers in Azure and AWS cloud and has its engineering DevOps platform for building and delivering products. Sonata has vast experience in building capabilities in advanced technologies and cloud solutions ensuring seamless delivery.

Exhibit 18: ISV to grow at a CAGR of 15% over 2023-2030 (USD billion)

Source : IDBI Capital Research, Coherent Market Insights

Low Code

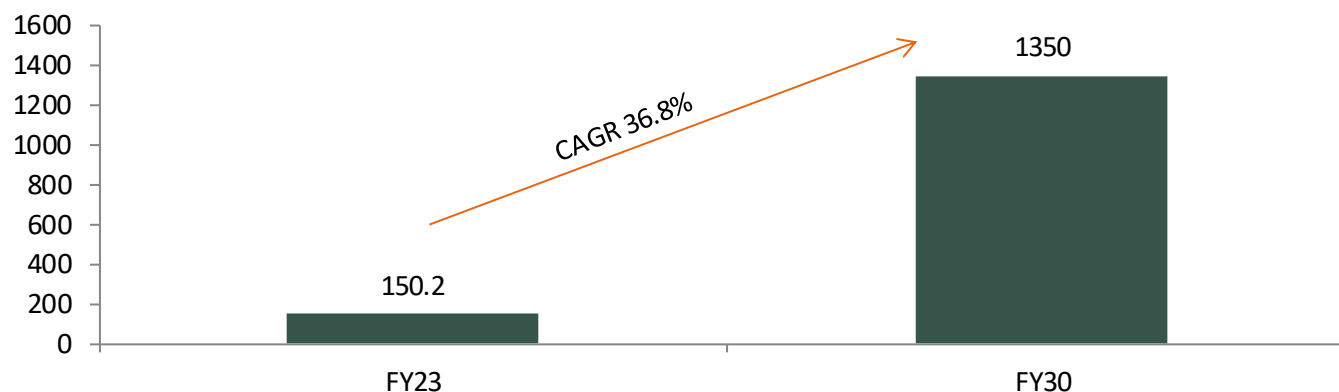
As per Mordor intelligence, the Low Code Development Platform Market size is expected to grow from US\$ 12.74 billion in the current year. It is expected to reach US\$ 41.30 billion by the next five years, registering a CAGR of 26.52% during the forecast period. The rapid growth of low-code adoption happened after businesses moved to digital modernization, which included improving user experiences, automating processes, and upgrading critical systems. Due to their low cost, low-code development platforms proved ideal. The advantage of low code is its drag-and-drop interface, which saves time. In low code, every single process is shown visually with the help of a graphical interface that makes everything easier to understand. It is easier for developers to create their applications. Although low-code solutions are not new, the demand for the technology soared in the last two years as companies were challenged to meet stakeholder demand for more digital transformation. Through faster business application delivery, companies can expand digital transformation efforts with low-code tools. In addition, the time it takes to innovate is dramatically reduced with low-code tools. Low-code solutions allow organizations to produce working solutions and integrations with more speed and agility than traditional on-premise developments. Integration used to be a labor-intensive IT process requiring custom development on both sides.

Exhibit 19: Low Code to grow at a CAGR of 26.52% over 2023-2028 (USD billion)

Source : IDBI Capital Research, Mordor Intelligence

Artificial Intelligence

As per MarketsandMarkets, the global artificial intelligence market size was valued at US\$ 150.2 billion in 2023 and is expected to grow at a CAGR of 36.8% from 2023 to 2030. Artificial Intelligence (AI) is revolutionizing multiple industries, positioning itself as a key driver for emerging technologies such as big data analytics, robotics, and the Internet of Things (IoT). Furthermore, the rise of generative AI tools such as ChatGPT and AI art generators highlights its mainstream prominence. Sonata offers solutions with sophisticated & large-scale models that combine Artificial Intelligence, Machine Learning, and NLP techniques to recommend actions for the efficient business outcomes. It enables enterprises make informed, intelligent and faster data driven decisions. The company believes Generative AI is going to set a new paradigm in solving clients' business challenges and enabling their success. They have created industry use cases and are investing in building innovative solutions that leverage Generative AI.

Exhibit 20: Artificial Intelligence to grow at a CAGR of 36.8% over 2023-2030 (USD billion)


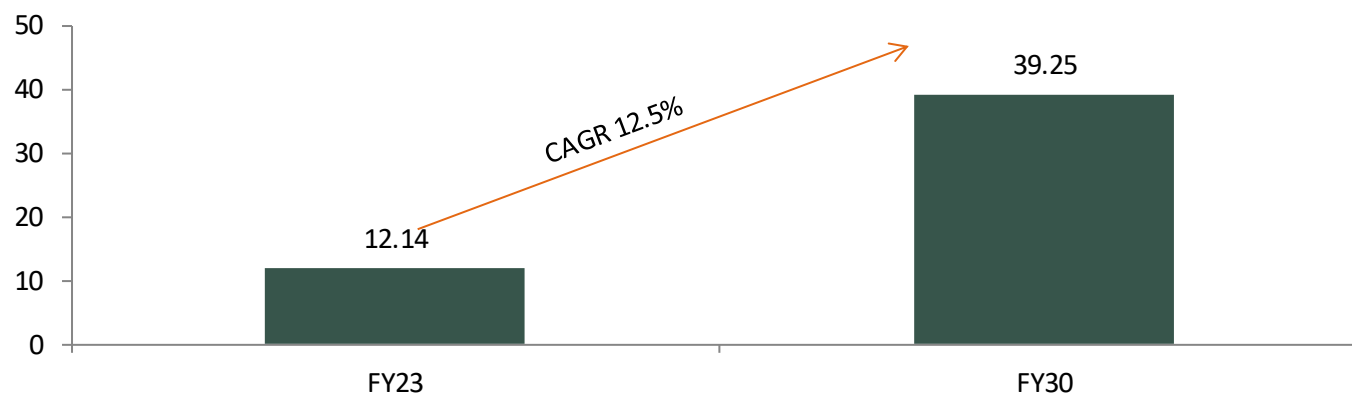
Source : IDBI Capital Research, Markets and Markets

Data Integration

As per Precedence Research, the global data integration market size was evaluated at US\$ 12.14 billion in 2022 and is expected to hit around US\$ 39.25 billion by 2032, growing at a CAGR of 12.5% from 2023 to 2032. Businesses have recognized that integrating data is the only realistic strategy for optimizing its potential. When businesses have all the information they need in one place, they can find and use the most relevant and true ideas within it. They have an edge over rivals because of their capacity to strategically incorporate these findings into their corporate operations. A crucial use case for data integration goods and services is managing business and customer data. Data integration, which provides integrated data into data warehouses, supports business intelligence, corporate reporting, and sophisticated enterprise analytics. With the most recent updates, businesses now have access to a single data platform that allows them to ingest, store, transform, and control all data in order to carry out different analytical workloads from any source. In addition, the platform has built-in tools for rapidly transforming and uploading data from a user's device to the cloud, support for property graphs, and easy access to data lakes. Sonata successfully integrated Quant Systems into the company, its largest acquisition to date. Quant brings deep Enterprise data capabilities. Company continues to invest in their own business. Company invested in key GTMs (Cloud, Data, Dynamics, Managed Services, and Contact Centre) – all focused on Modernization and Automation. These partnerships enable

Sonata to provide its clients access to cutting-edge technologies and expertise, enabling them to seamlessly migrate to cloud-based solutions, transform their workplaces and business models, leverage data analytics for better decision-making, implement enhanced cyber security controls, and optimize their IT cost structures. Sonata's approach to data modernization is centered on helping the enterprises extract value from their data and transform their data infrastructure to make it more agile, scalable, and responsive to business needs. They have extensive experience in data modernization, having worked with clients across a range of industries, including finance, healthcare, retail, and manufacturing. Their data modernization services are powered by its partnerships with leading technology providers.

Exhibit 21: Data integration to grow at a CAGR of 12.5% over 2023-2030 (USD billion)



Source : IDBI Capital Research, Precedence Research

About the company

Specializes in cloud and data modernization, Microsoft Dynamics Modernization, Digital contact center setup and management, managed cloud services and digital transformation services.

Sonata Software Limited is a leading modernization engineering company, headquartered in Bangalore.

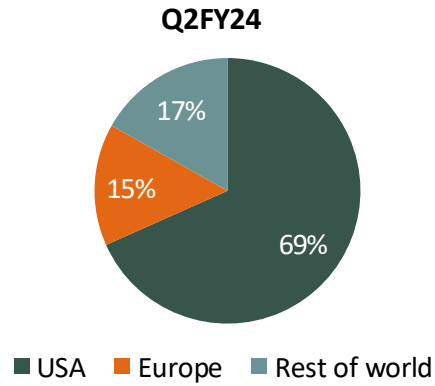
Sonata provides modernization services using its proprietary Platformation™ approach. It specializes in cloud and data modernization, Microsoft Dynamics Modernization, Digital contact center setup and management, managed cloud services and digital transformation services. Founded in 1986, the company now has presence in North America, Europe, ANZ and Asia-Pacific. In terms of industries, Sonata's revenue mix is as follows – 27% from TMT, 36% from retail, 21% from BFSI, 11% from healthcare and balance 5% from emerging sectors. Sonata has partnerships with leading technology providers such as Microsoft, Amazon, Google, among others.

Company initially made software package product and was spun off into a separate company for a consideration in 1993. The company has hugely benefited from its partnership with Microsoft. The company's business can be broadly divided into two segments International IT Services (IITS) and Domestic Products and Services (DPS).

In Domestic Products and Services (DPS) the company is engaged in the business of buying and selling packaged software in India.

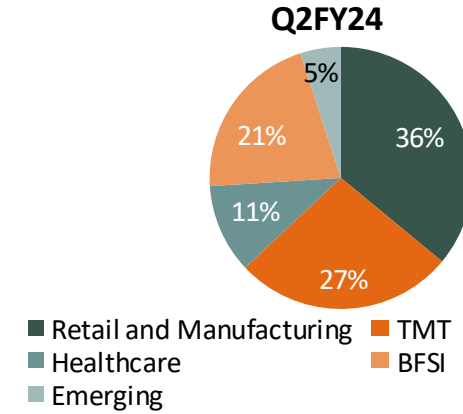
In International IT Services (IITS) the company is engaged in Cloud, Data, Dynamics, Managed Services, and Contact Centre catering to US, UK, Europe and Rest of the World (RoW). The US contributes 69% to IITS revenues; Europe 15% and 17% is from ROW. In terms of verticals 36% of revenues comes from Retail & Manufacturing, 27% from Tech Media & Telecom (TMT), 11% from Healthcare, 21% from BFSI and 5% from emerging verticals.

Exhibit 22: Geography- wise revenue (International revenue)



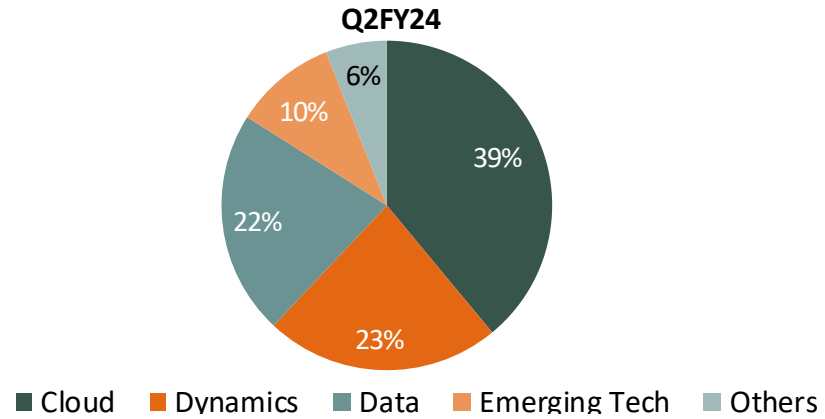
Source: Company, IDBI Capital Research

Exhibit 23: Revenue by vertical (International revenue)



Source: Company, IDBI Capital Research

Exhibit 24: Revenue by top GTM (International revenue)



Source: Company, IDBI Capital Research,

Few case studies

Retail

- Enabling digital transformation for a global jeweller through retail industry and dynamics expertise

Sonata brought in Dynamics & Retail Industry expertise and helped the firm in achieving its Transformation agenda. Proposed a strategy for Transition from Legacy Systems. Deployed Dynamics 365 Finance & Operations & Point of Sale (POS) and enabled ecommerce. Monitoring Dynamics 365 operations & Monitoring performance through real-time Retail POS scenario Simulations apart from this, a dedicated Point of Sale (POS) testing lab, Product information management application, Testing marketing campaigns.

The engagement provided the client with better visibility on the Business Operations and helped transform Retail Store experience, supported their store expansion strategy, better order fulfillment, an improved customer experience, Enhanced productivity, reduced deployment time, Hassle-free performance monitoring.

ISV

- Sonata helps a Global Enterprise Software firm Modernize their Legacy ERP and Improve User Experience

Sonata's solution brought in highly scalable and available multitenant platform architecture on Azure, REST based .Net API Platform exposing all the Functionality, Modern SPA using Angular with rich & intuitive user interactions, Common UX/UI Framework to build multiple applications uniformly for consistent UX, Virtual Agent bot to provide better app interactions.

Business benefit such as Higher scalability, Improved usability and consistency across the portfolio of applications, High accessibility across various form factors, Reduced user on-boarding time, Reduced cost of ownership for customers.

Exhibit 25: Management Profile

Name	Designation	Details
Samir Dhir	Managing Director & Chief Executive Officer	As a business leader and technologist, Samir has a proven track record for scaling and leading large businesses and expanding into new industries and markets. He is a client-focused leader who has built and managed business in BFSI, Healthcare Life Science, Telecom, Media, and Hi-Tech industries. Before joining Sonata Software, Samir was the CEO – Global Markets and Industries of Virtusa Corporation and was responsible for developing and executing Virtusa's growth strategy and company P&L of over \$1.6B across markets and industry groups worldwide.
Sujit Mohanthy	Managing Director & Chief Executive Officer (Domestic Business CEO)	Sujit has been with the company since 1991 and has 3 decades of experience in the IT industry. He served several leadership roles heading Product Marketing and Product Support Services Groups. Now he is responsible for providing leadership & strategic direction to India's business.
Muralee Bhaskar	Chief Executive Officer (Encore Software Services)	Muralee is a B.tech graduate from IIT, Madras and has 33 years of experience in the IT industry. He was working with Computer science corporation and was responsible for global applications management of technology, retail and consumer product business. He worked with various clients in the roles of Software Design & Development, Consulting, Project & Program Management and Client Relationship Management.
Jagannathan CN	Chief Financial Officer	He has more than two decades of experience as finance professional. He also holds experience in the fields of enterprise risk management, procurement, travel and immigration operations, global taxation, treasury, investor relations, internal audit, IT function and company secretarial compliances. Prior to this, he was the CFO of the Carborundum Universal.
Anthony Lange	Global Partner Officer	He has more than three decades of industry experience; Anthony brings a proven track record and expertise in building vertical businesses. He has built vertical businesses for global SI's and early-stage startups. In addition, Anthony has built industry partnerships with hyperscalers (AWS, GCP, Azure) and leading platform providers (SFDC, Pega, IBM). At Sonata Software, he will leverage this experience to scale partnerships and drive growth.

Name	Designation	Details
Rajsekhar Datta Roy	Chief Technology Officer	He has over two decades of deep expertise in developing and deploying digital transformation solutions for global clients in the retail, consumer, and distribution industries. He led the growth of Sonata's Dynamics practice to be one of the largest global practices across multiple releases, industry solutions and services, leading across strategy, solution development, delivery & GTM.
Suresh HP	Chief Delivery Officer	He responsible for spearheading Sonata's global delivery strategy and enabling delivery excellence across all verticals and businesses. He has a wealth of experience in strategy, planning, budgeting, business operations.
Sharmila Sherikar	SVP, Head - Corporate Development	She brings in-depth knowledge in anchoring and executing transformation initiatives for strategic corporate goals ensuring seamless transitions. Her extensive familiarity in leading change management during mergers and acquisitions, and building capabilities and talent during high-growth phases, will be of immense value in enabling Sonata's hyper-growth.
Balaji Kumar	Chief Human Resource Officer	Balaji comes with more than two decades of strategic and operational experience in the people and talent function across industries. Prior to joining Sonata, he was the CHRO for L&T Infotech heading the functional globally.
Hemant Bhardwaj	Chief Marketing Officer	For Hemant Kumar Bharadwaj, marketing is about gaining the mindshare of target audiences by creating an indelible impact through the power of creativity backed by big ideas. His work history spans marketing, advertising, and sales. He has worked with companies as diverse as HTC Global Services, iGATE, Polaris, Ogilvy, Lintas, Mudra DDB, Studio 18, ITC.

Source: Company, IDBI Capital Research

Company's Solutions

According to Gartner, "A platform is a product that serves or enables other products or services." Platformization means a platform which focuses on business solutions to serve their clients and to supply other platforms. Platforms brings together all aspects of the business such as technology, governance, processes, and people management together on one single platform to derive analysis.

Sonata's Platformization offering does the same for their clients. It has 16 parameters/ components to provide solutions on, for their clients. It gives the flexibility to their clients to access their platformization on premise or on cloud.

'Platformation' has three variants:

- 1) **Sonata Ready:** It is company's own IP (Intellectual property) based end-to-end solution with fast implementations and proven processes for businesses and customers. It has 3 industry specific platforms:
 - **Brick click:** It is a store & e-commerce solution based platform which includes solutions from inventory management to logistics & delivery (end-to-end). It provides actionable insights & recommendations into customer engagements & business operations with pre-built platform enabled functionality.
 - **Rezopia:** It is a travel platform which is solution enabled for booking & distribution across various channels like web, mobile, reservation kiosk and call center for tour operators, rail operators, airlines holidays & tourism board.
 - **Digital supply chain solution:** It is a distribution platform which provides solutions from inventory management to dispatching for B2B and dispatching to delivery for B2C.
- 2) **Sonata Accelerate:** It deploys and manages the platforms from technology partners like
 - **Microsoft (Microsoft Dynamics 365):** It enables to co-create with Dynamics++, migrating the current ERP systems to cloud, modernization services and global implementation. It helps in providing platform to integrate softwares on premise to cloud network.
 - **SAP (SAP Hybris):** Sonata deals with the SAP ERP stack and the SAP Commerce Cloud Platform which brings implementation, customization, integration with third-party systems, and ongoing support.

- 3) **Sonata Custom:** It provides completely custom-built solution based on either company's own platforms, which customers can white label it or source code the license and build on top to it. It has digital capabilities with custom engineered proprietary platforms. It has 3 different platforms:
- **Halosys:** It is a platform on which mobile applications can be build for industries such as manufacturing, customer service, human resources, field sales, logistics, retail.
 - **Rapid:** It is a platform on which software engineering process can be automated such as building integration through deployment, mitigating infrastructure bottlenecks, maintenance & monitoring.
 - **Kartopia:** It is an E- commerce platform which provides a package of functional capabilities that addresses the Product, Cart, Order management, and fulfillment. It helps to offer a wide range of products and services under one umbrella and caters to increased business operational efficiency thereby creating value. It offers to industry like automotive, fashion & retail, food & beverage.

Exhibit 26: Microsoft chose Sonata Software as 1st partner to launch Microsoft fabric

Source: Latentview blog

Microsoft fabric is a cloud based SaaS offering that brings together several data and analytical tools that organisations need. Microsoft Fabric is an all-in-one analytics solution for enterprises that covers everything from data movement to data science, Real-Time Analytics, and business intelligence. It offers a comprehensive suite of services, including data lake, data engineering, and data integration, all in one place. Microsoft fabric provides multiple services (components) related to data & analytics on one platform in a user friendly way.

It is based on SaaS(Software as a Service) foundation. It has components from Power BI, Azure Synapse, and Azure Data Factory into a single integrated environment. These components are then presented or derived in various customized user experiences.

Fabric allows creators to concentrate on producing their best work, freeing them from the need to integrate, manage, or understand the underlying infrastructure that supports the experience.

Recession in developed markets could hamper near term growth

Key risks

- **Risk of revenue growth slowdown:** We expect Sonata to record revenue CAGR of 23% over FY23-26E led by ramp up in large deals and new strategy. In case the developed nations which contribute 80% of total revenue see any slowdown, Sonata's future growth will be hampered.
- **Acquisitions may impact financials:** We believe Sonata will grow organically and inorganically as seen in the past. In the journey to achieve US\$500 mn, the company might use inorganic growth which if not integrated effectively could hamper financials of the company.
- **Large deals not ramping up as expected:** The company winning large deal on consistent basis and improving annuity revenues are key drivers of growth. If the company is unable to scale its existing logos or win fresh large deals, it could hamper the company's long term growth trajectory.
- **Investments to drive growth may impact margins:** The company is investing in sales, capabilities and partnership to drive long term growth. However, if the investments do not fructify as expected it could impact sales and margin growth assumptions.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	42,281	55,534	74,491	93,197	1,12,890	1,36,996
<i>Change (yoy, %)</i>	13	31	34	25	21	21
Operating expenses	(38,487)	(50,896)	(68,450)	(85,128)	(1,02,861)	(1,24,255)
EBITDA	3,794	4,638	6,041	8,069	10,029	12,741
<i>Change (yoy, %)</i>	2	22	30	34	24	27
<i>Margin (%)</i>	9	8	8	9	9	9
Depreciation	(396)	(473)	(591)	(1,342)	(1,356)	(1,371)
EBIT	3,398	4,165	5,450	6,727	8,674	11,370
Interest paid	(154)	(180)	(185)	(804)	(488)	(166)
Other income	277	1,020	708	632	292	141
Pre-tax profit	3,522	5,004	5,973	6,555	8,477	11,346
Tax	(1,082)	(1,239)	(1,454)	(1,596)	(2,034)	(2,723)
<i>Effective tax rate (%)</i>	31	25	24	24	24	24
Minority Interest	-	-	-	-	-	-
Net profit	2,440	3,765	4,519	4,959	6,443	8,623
Exceptional items	-	-	-	-	-	-
Adjusted net profit	2,440	3,765	4,519	4,959	6,443	8,623
<i>Change (yoy, %)</i>	(12)	54	20	10	30	34
EPS	23.5	27.2	32.6	17.7	23.0	30.8
Dividend per sh	14.0	21.0	15.8	10.6	13.8	18.5
<i>Dividend Payout %</i>	60	77	48	60	60	60

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	9,055	10,992	13,007	14,990	17,567	21,016
Share capital	104	104	139	280	280	280
Reserves & surplus	8,951	10,888	12,868	14,710	17,287	20,736
Total Debt	897	380	4,936	3,086	1,046	(0)
Other liabilities	1,021	1,660	9,876	9,876	5,311	1,576
Curr Liab & prov	8,497	12,560	15,750	19,705	23,820	28,906
Current liabilities	8,225	12,275	15,440	19,317	23,349	28,335
Provisions	272	285	311	389	471	571
Total liabilities	10,415	14,600	30,562	32,667	30,177	30,482
Total equity & liabilities	19,469	25,592	43,569	47,658	47,744	51,498
Net fixed assets	3,238	4,269	17,331	16,694	16,142	15,695
Investments	1,350	1,619	2,087	2,576	3,091	3,721
Other non-curr assets	189	261	-	-	-	-
Current assets	14,692	19,443	24,151	28,387	28,511	32,082
Inventories	-	-	288	361	437	530
Sundry Debtors	6,158	9,220	12,362	15,467	18,735	22,735
Cash and Bank	7,425	9,144	9,361	9,883	6,097	4,881
Loans and advances	1,109	1,051	2,140	2,677	3,243	3,935
Total assets	19,469	25,593	43,569	47,658	47,744	51,498

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,522	5,004	5,973	6,555	8,477	11,346
Depreciation	(396)	(473)	(591)	(1,342)	(1,356)	(1,371)
Tax paid	(1,027)	(1,311)	(1,193)	(1,596)	(2,034)	(2,723)
Chg in working capital	2,009	973	(212)	778	770	993
Other operating activities	892	1,788	6,772	(679)	(5,131)	(4,427)
Cash flow from operations (a)	5,791	6,927	11,932	6,400	3,437	6,558
Capital expenditure	(652)	(1,505)	(13,653)	(705)	(803)	(924)
Chg in investments	(307)	(268)	(469)	(489)	(515)	(630)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,565)	(2,567)	(14,732)	(1,194)	(1,318)	(1,554)
Equity raised/(repaid)	-	-	35	142	-	-
Debt raised/(repaid)	37	(517)	4,556	(1,850)	(2,040)	(1,046)
Dividend (incl. tax)	(1,457)	(2,917)	(2,185)	(2,975)	(3,866)	(5,174)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(1,419)	(3,435)	2,406	(4,684)	(5,906)	(6,220)
Net chg in cash (a+b+c)	2,807	925	(394)	522	(3,787)	(1,215)

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	87.2	79	94	53	63	75
Adj EPS (Rs)	23.5	27.2	32.6	17.7	23.0	30.8
Adj EPS growth (%)	-12	16	20	-46	30	34
EBITDA margin (%)	9.0	8.4	8.1	8.7	8.9	9.3
Pre-tax margin (%)	8.3	9.0	8.0	7.0	7.5	8.3
Net Debt/Equity (x)	-0.7	-0.8	-0.3	-0.5	-0.3	-0.2
ROCE (%)	34.3	35	27	24	33	49
ROE (%)	31.0	38	38	35	40	45

DuPont Analysis

Asset turnover (x)	2.4	2.5	2.2	2.0	2.4	2.8
Leverage factor (x)	2.3	2.2	2.9	3.3	2.9	2.6
Net margin (%)	5.8	6.8	6.1	5.3	5.7	6.3

Working Capital & Liquidity ratio

Inventory days	0	0	1	1	1	1
Receivable days	53	61	61	61	61	61
Payable days	62	76	69	69	70	70

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	31	27	22	41	31	24
Price/Book value (x)	8.3	9.1	7.7	13.5	11.5	9.6
EV/Net sales (x)	1.6	1.6	1.3	2.1	1.8	1.4
EV/EBITDA (x)	18	20	16	24	20	16
Dividend Yield (%)	1.9	2.9	2.2	1.5	1.9	2.6

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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