



BODHI CAPITAL

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Sonata Software



Company Name: Sonata Software

Current Price: **Rs. 228.3 (BSE)**

Market Capitalisation: **2142.1 Cr**

Analyst Take: **BUY**

Date: **11th June, 3:30 pm**

Crisil Rating: **A+**



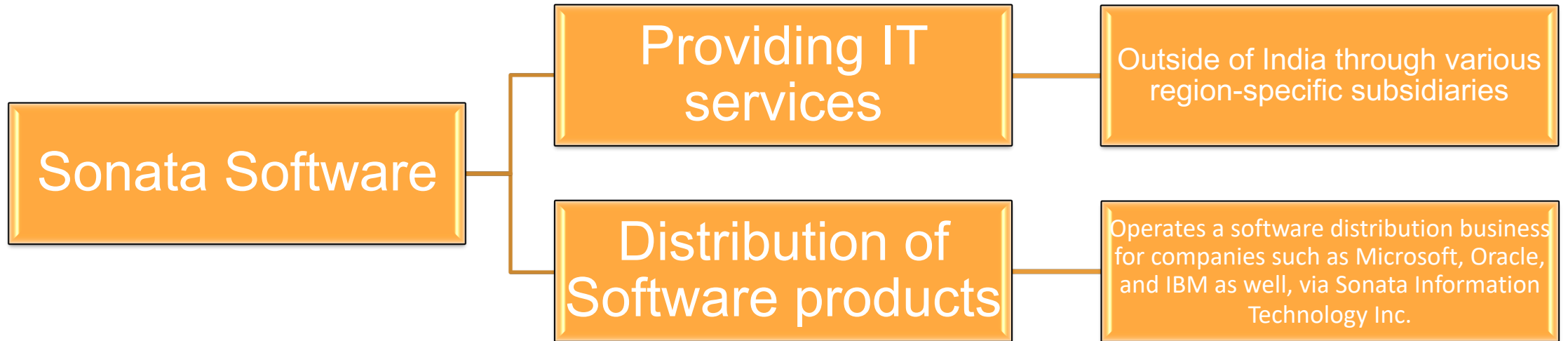
Company Overview

Sonata Software Limited (SSL) was incorporated in the year October 18th 1994. It was originally a division of Indian Organic Chemicals Ltd. and was established as a separate company in 1993, under growth related strategies of IOC.

It is primarily engaged in the business of providing Information Technology Services and Solutions to its customers in the USA, Europe, Middle East and India. Their business involves production and distribution of their own software products, and extending core capability services in Software Engineering, implementation and redistribution.



Key Business Segments



What IT services do they provide?

- ❖ Business Consulting
- ❖ Helping companies adopt Data Analytics
- ❖ Installing Microsoft Dynamics
- ❖ Cloud Transformation
- ❖ Enabling advanced technologies for other businesses
- ❖ Promoting customer engagement and commerce through technology
- ❖ Providing platform engineering services
- ❖ Providing digital assurance and managed services

Software developed by SSL itself and other platforms are used in its international IT services business, which deals with industries like:

- Retail
- Distribution and Manufacturing
- Travel, Transportation and Logistics
- Independent Software Vendors
- Service Industries



Retail

Providing digital interfaces for businesses engaged in FMCGs, hard goods and fashion & apparel. Sonata offers customised solutions to problems these type of brands face, by implementing software to modernise their in-store and warehouse operations.

Platforms:

Sonata's own "Brick and Click" : Unifies in-store and online operations

SAP Hybris: Software responsible for customer relationship management

Retail mobility: Engage anytime and anywhere with smart devices and enable retail associates in-store with enterprise mobility solutions

Retail analytics: Empowers business with the real-time analytics and data, related to operations and client management.



Distribution and Manufacturing

Through Sonata, manufacturers and distributors can now establish an adaptive distribution network through new distribution models and improvements in supply chain agility. They work with industrial manufacturers, wholesale distributors and consumer goods businesses.

Platforms:

Sonata's Modern Distribution: Provides advanced supply chain for operations and facilitates collaboration, enabled through mobiles and efficient management.

SAP Hybris Distribution: Manages end-to-end consumer interaction through personalized options for businesses.



Travel, Transportation and Logistics

Sonata offers digital solutions to travel companies that include tour operators, airlines, cruise companies and rail operators. Digitalisation of their business is facilitated in a tailored manner using social media, Big data, e-commerce, customer engagement models, data analytics, etc.

Platforms:

Sonata's Rezopia: Enables travel providers to create and modify travel packages and put in distribution for sale.

Sonata's Transit: A data analytics software which helps enterprises analyse uniform data from all their revenue channels.

Sonata's Halosys: Allows enterprises to build, deploy, secure and manage mobile apps seamlessly across devices

TravelPlus: Travel e-commerce website



Independent Software Vendor

Sonata offers end-to-end portfolio of solutions including Consulting, Architecture/Design, Engineering, Testing, Sustenance, customer on-boarding, operations and support to industries with their own software related to business, finance, education, retail, travel, etc. They provide help in modernizing and updating existing software.

Platforms:

- Platform engineering with Microsoft, and on cloud.
- Using cloud technologies, pre-built apps, analytics, testing platforms, etc.



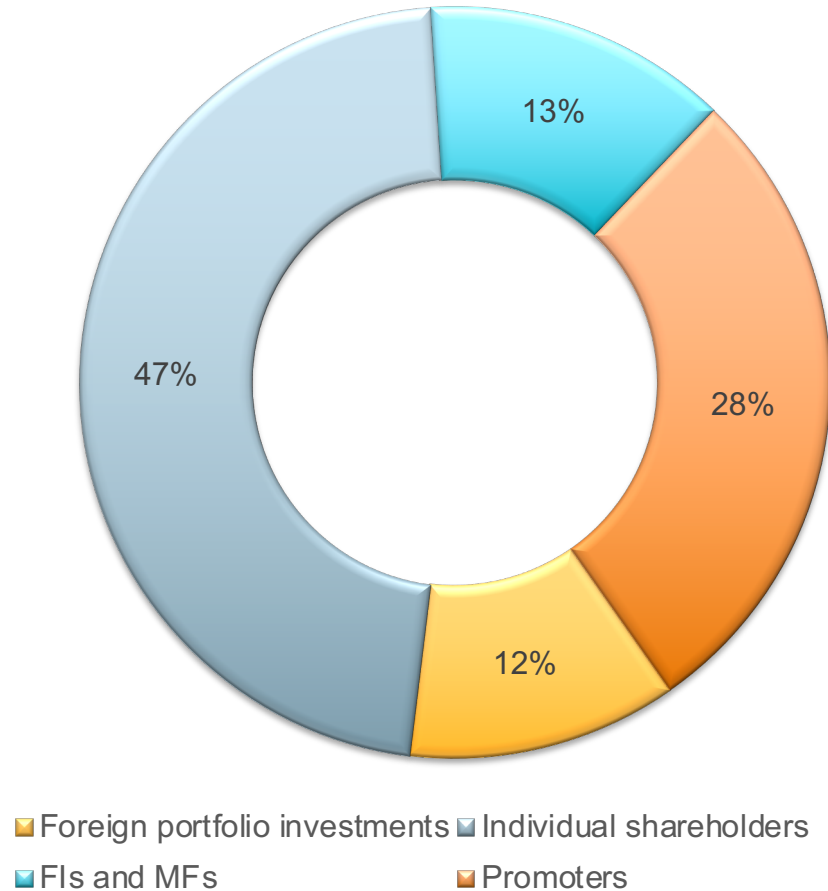
Other Service Industries

Integrates technological measures by digitalising and streamlining operations of service industries engaged in :

- Oil and Gas industry
- Energy and utilities
- Speciality Contractors
- Professional services



Shareholding Pattern



- Promoter holding had remained constant at 30.5%, decreased to 28.17% in 2018-19 and has remained constant from the past 2 years.
- Promoter Holding may be low as trends show that management prefers to choose equity over debt.
- Public shareholding has decreased over the years, while mutual funds have increased their share over the years.
- Out of the 28% promoter holdings, 26.81% are held by the Raheja family.



Management

- The company is headed by Mr. Palem Srikar Reddy. There are no dynastic or family related management present. He has been with Sonata Software from its inception
- The average management tenure is 3 years with CEO having maximum tenure among the top management of 8.33 years and average age of top management team is 53 years. Shows talent is given more weightage over seniority.
- This is a good sign, especially for a company in a dynamic industry like IT.
- They have developed a Platformation strategy, that is uniformly used in all their IT services, and is a guide for all employees for operations.
- High dividend payout for FY 20 was an efficient decision, and must have helped in retaining shareholders. This shows that management is receptive to changes.



- Mr. Reddy's present total compensation is 4.5 Cr, and has decreased over the past 2 years and salary has remained constant, despite a rapid increase in company earnings.
- His salary was only 58 times the median remuneration of the average employee in his company in FY 2018-19, which is vastly lower than the average of 249 times of Nifty-50 companies.
- The total remuneration of the 7 directors is only 4.36% of the total net profit, quite less than the limit of 10% (as per Section 198 of the Companies Act, 2013)
- Although, the average increase of 14.3% in director's remuneration is quite high, compared to an increase of only 3% in the average employee remuneration in year 2018-19.



Managerial Ratios

- **Working Capital Turnover ratio= 8.71 for FY 20 and 5.1 for FY 19**, which indicates that working capital is employed efficiently.
- **Return on Capital employed= 52.22% for FY 20 and 44.6% for FY 19**, indicates that management is efficiently utilising capital by employing it in high return investments.
- **Return on Equity: 41.3% for FY 20 and 32.4% for FY 19**, which is pretty high especially when compared to the industry average of 12.3%.
- **Dividend Yield: 9.9%**, which is higher than the industry average of 1.8%.
- **Dividend Payout : 100.01%, and 53.1%** in FY 20 and 19 respectively. This ratio has generally been very high. Dividend out of earnings won't be a problem as retained earnings are pretty high, about 35% of total liabilities.



Subsidiaries

- Sonata Information Technology Ltd
- Sonata Software North America
- Sonata Software FZ LLC
- Sonata Software GmbH
- Sonata Europe Ltd. UK
- Rezopia Inc. **(Acquired in 2018-19)**
- Halosys Technologies Inc.
- I.B.I.S. Inc. a
- Interactive Business Information Systems Inc.
- Scalable Data Systems Pvt Ltd. **(Acquired in 2018-19)**
- GAPbuster Limited **(Acquired in 2019-20)**
- Sopris Systems LLC **(Acquired in 2018-19)**

- Sonata Software (Qatar) LLC- **49% Holding**
- Treeni Sustainability Solutions- **24% Holding**

100% Holdings



Qualitative Analysis



COVID 19 angle

- The company's travel sector (-12.7%) and retail sector(-5.1%) took a huge hit due to the lockdown, which are the main reasons of fall in revenues in Q4.
- Clients in the tech field, agro-commodities and utilities were least affected.
- “We are looking at a revenue reduction of about 15% to 18% in the first two quarters” – Mr. Srikar Reddy in Q4 call.”
- Fall in revenue in domestic would be less in coming quarters as markets will be open, and most clients have purchased licenses from SSL, so they won't be losing clients, atleast on the domestic side.
- No issue faced from 9 of the 10 top ten customers, which account for 65% of total IT services revenue. The one that decreased business by 85% was from travel industry.



Moats

1	Monopoly- govt order, resource scarcity.	0	20	-
2	Technological advantage - patents , R&D	10	20	Licenses that buyers in domestic business have bought that require them to buy software from SSL.
3	Cost - operating efficiency , economies of scale	6	10	Main costs are incurred in purchase of stock-in-trade, which is software purchased for resale. Thus, they are more or less stable.
4	Entry barrier - high capital investment, too many licenses, government order	8	15	Technical knowledge, and customer relations are moderately good barriers.
5	Switching costs- high switching costs, change in consumer behaviour, investment is already made	7	10	Distribution: High, due to licences IT services: Lower
6	Network effect - everyone is there and no one will leave as everyone is there.	2	15	Hasn't been able to make a big name in either businesses, but current clients are generally loyal.
7	Brand - synonym with trusts	5	15	Brand loyalty is present, as only 1 of top 10 customers left services due to Covid 19 panic



Porter's Five Forces

Competitive Rivalry

- Competition is faced by many large-cap companies like TCS, Infosys, HCL, Wipro, and mid-cap companies like MindTree, L&T Tech, Hexaware, etc.

Supplier Power

- Their suppliers for their distribution of software products are market leaders like Microsoft, IBM and SAP. SSL has a 25 year business relationship with them and is a “Dynamic inner circle” member of Microsoft, limited to 1% of Microsoft’s partners. Similarly, they have an excellent relationship with SAP. Therefore, the suppliers do have power to halt their software distribution from SSL, their relationships show otherwise.

Threat Of New Entry

- Low in value-added services like IT/Business Consulting(IT international services) where in-domain expertise creates a barrier. The size of a particular company/scalability and brand-image also creates barriers to entry; as such firms, have built up long-term relationships with major clients, applicable for domestic business as well.

Threat of substitution

- **Domestic:** Very low, due to licenses of purchase by buyers.
- **International:** Exists as there are no official barriers to entry. Clients can replace SSL, but over time have proven that they stick with the company.

Buyer Power

- Buyer power is high in international business as they can increase/decrease/exit business whenever they need to. For domestic business, quite low.



Industry Analysis and Macro Economic Trends



- Competition is global in nature and stretches across boundaries and geographies. It is expected to intensify due to the attempted replication of the Indian offshoring model by MNC IT majors as well as small startups.
- Abundant supply across segments, mainly lower-end, such as application data management. Lower supply in higher-end areas like IT/Business Consulting, but competition is very tough.
- Industry is set to see a decline in revenues in the FY 2021.



SWOT Analysis

Strengths

- Consistently high return on equity and capital employed, among competitors as well as market standards.
- P/E is < industry average
- Increasing/consistent growth in revenue and PAT.
- Low D/E, <0.5
- High dividend payout
- Reliable as well as contractually bound clients.

Weaknesses

- Client-revenue concentration
- Inconsistent cash flow from operations
- Competitive rivalry is high, due to its midcap nature

Opportunities

- High Relevance in the future due to upcoming trends of digitalization of businesses.
- Number of new cases every day declines in their international markets like USA, UK, etc.

Threats

- Revenues from India in IT services could be affected due to the pandemic, and if lockdown is imposed again.
- Default of trade receivables could create problems, as they constitute about 40% of total assets.

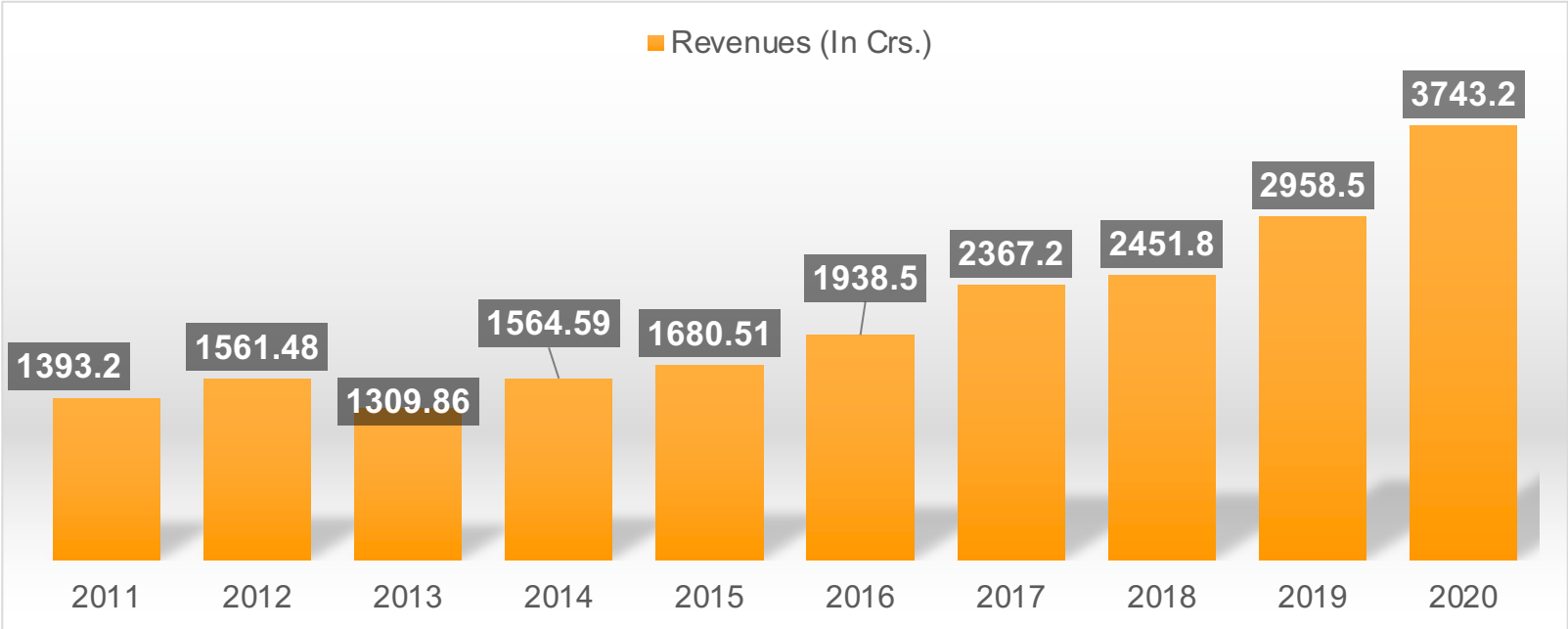


Quantitative Analysis

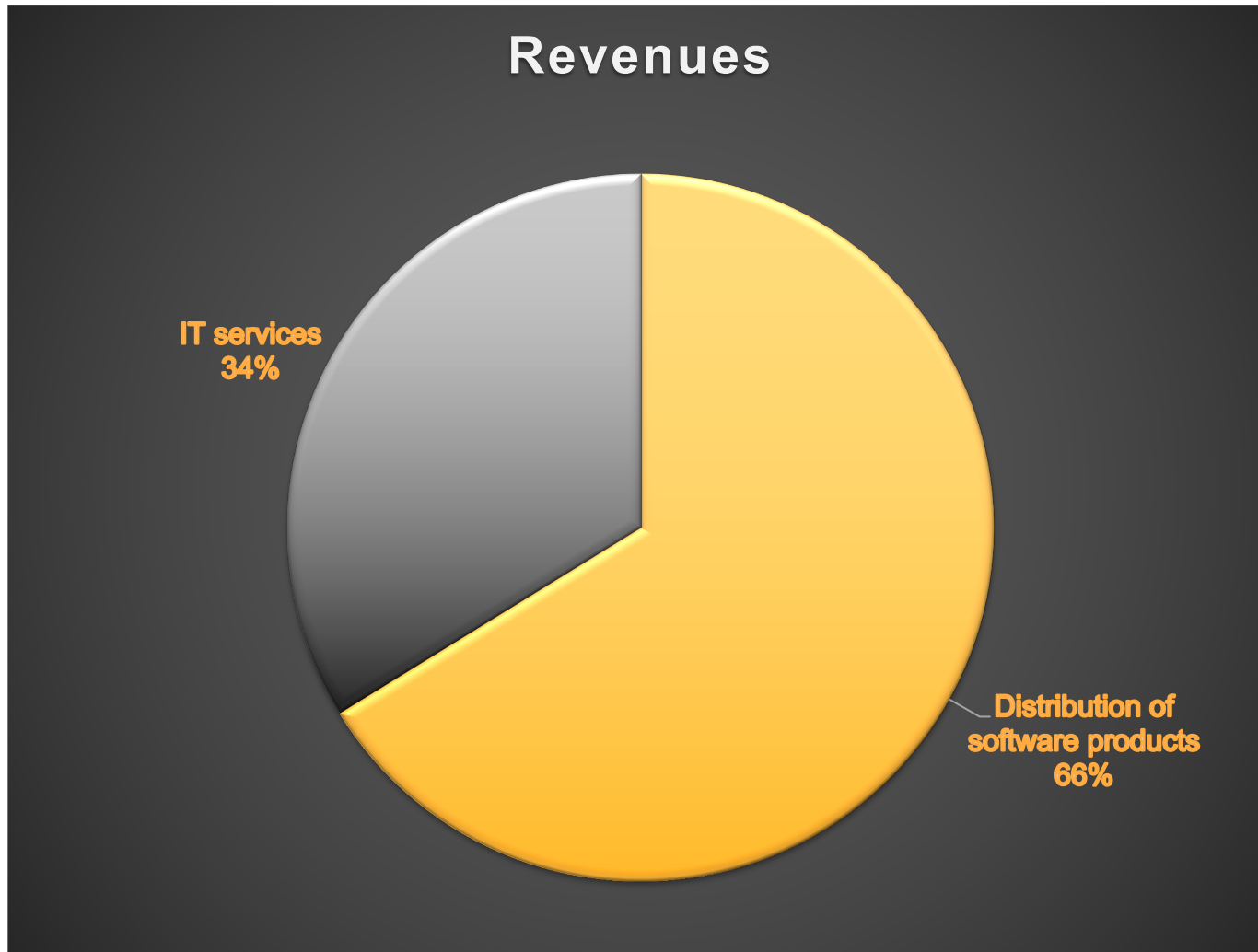


Revenue Growth and Break-Up of Business

- In the past 10 years, there is a total increase of **168.9%** in revenue from operations. Revenues decreased only in 2012-13, and all years showed growth.
- The highest jump in revenues was in 2019-2020, of 26.5%, despite a decrease in revenues in Q4 due to Covid 19 lockdown.
- This rapid increase in revenues show that Sonata Software is a fast growing company.



Revenue Segmentation for FY 2020:



Change in annual revenue: (FY 2019 vs 2020)

- **DSP** : 34%
- **ITS**: 14%
- **Consolidated income** : 26%

Effects of Covid 19 in Q4: (Q3 vs Q4 FY 2020)

- **DSP**: -33% (Due to the lockdown)
- **ITS**: -1%

- For FY 20, the top 10 customers accounted for 65.25% of SSL's revenue. This client concentration leaves it vulnerable to buyer power.

IT services geographic segmentation:

USA- 54% revenue

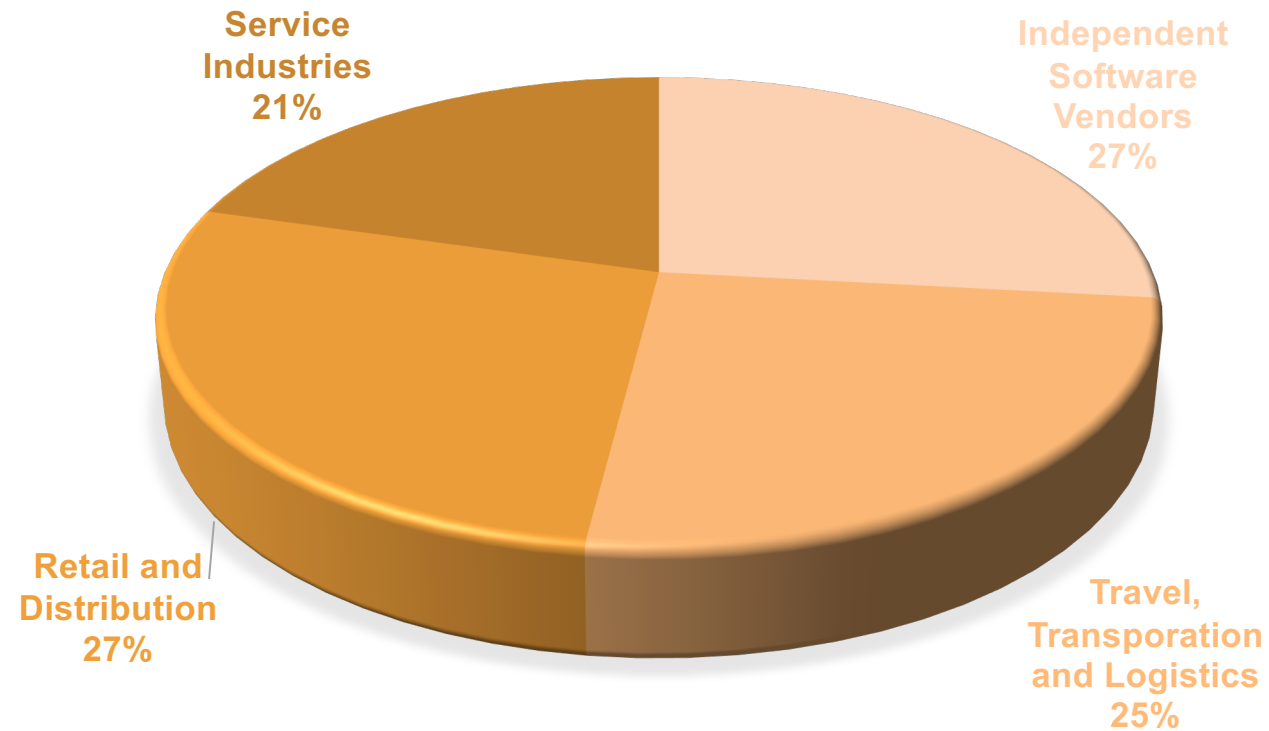
UK- 30%

Rest of the world- 16%



IT Services Horizontal Revenue Segmentation

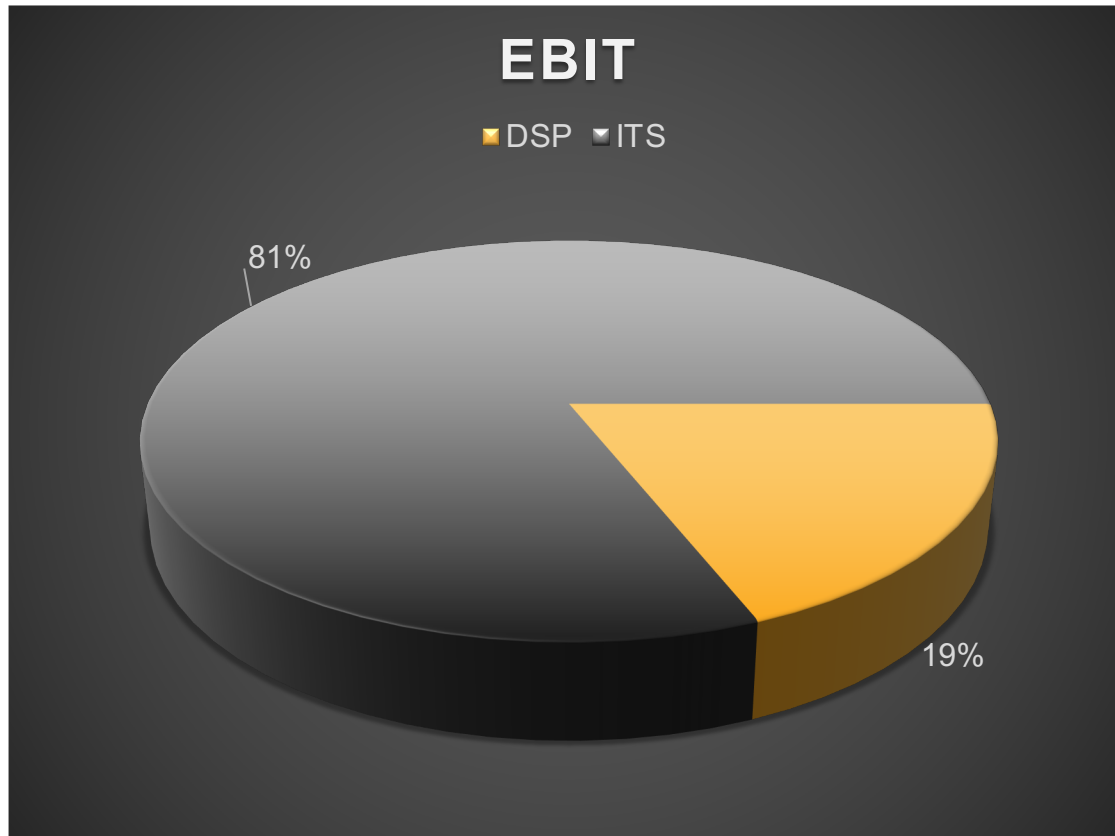
REVENUES



- There is a nearly equal distribution between all the industries involved in the IT services business.
- In Q4, travel declined by 2% due to the pandemic.



Profit segmentation for FY 2020



- Although domestic distribution accounts for 66% revenue, it accounts for only 19% of the profits.
- This is due to low EBITDA margins (3.8%) of domestic business, as it is not very skill-intensive. Moreover, as software of other companies are distributed.



Profit and Loss Statement

Sl No.	Particulars	Year ended	
		March 31, 2020	March 31, 2019
		(Audited)	(Audited)
1	Revenue from operations	374,326	296,090
2	Other income	5,840	2,725
3	Total Revenue (1 + 2)	380,166	298,815
4	Expenses		
	(a) Purchases of Stock-in-Trade	241,579	178,036
	(b) Employee benefits expense	66,031	56,886
	(c) Finance costs	1,518	339
	(d) Depreciation and amortization expense (Refer Note 5)	3,654	1,274
	(e) Other expenses	29,435	27,607
	Total expenses	342,217	264,142

Stock-in-trade:

70% of total expenses incurred is purchase of stock-in-trade, which means the software they buy from Microsoft, IBM and Oracle for resale. There is an increase of this particular expense mainly due to increase in scale of operations, rather than an increase in price of the software. Nearly 80% of this expenditure is incurred by Sonata Information Technology Ltd., responsible for distribution for software in India only, according to results of FY 19.

Other expenses:

Nearly 7% of total expenses incurred, which consist of all indirect expenses, like rent, power, professional fees, etc. According to FY 19 notes to financial statements, about 50% of these expenses are incurred due to professional and technical fees, majority of it insourced from the organisation itself. This can be justified due to a higher degree of technical competence required to run such a business.



j. Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. When acquired, such assets are capitalized at fair value or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognised as an expense on a straight line basis in the Consolidated Statement of Profit and Loss over the lease term except where the lease payments are structured to increase in line with expected general inflation.

Increase in depreciation and amortization:

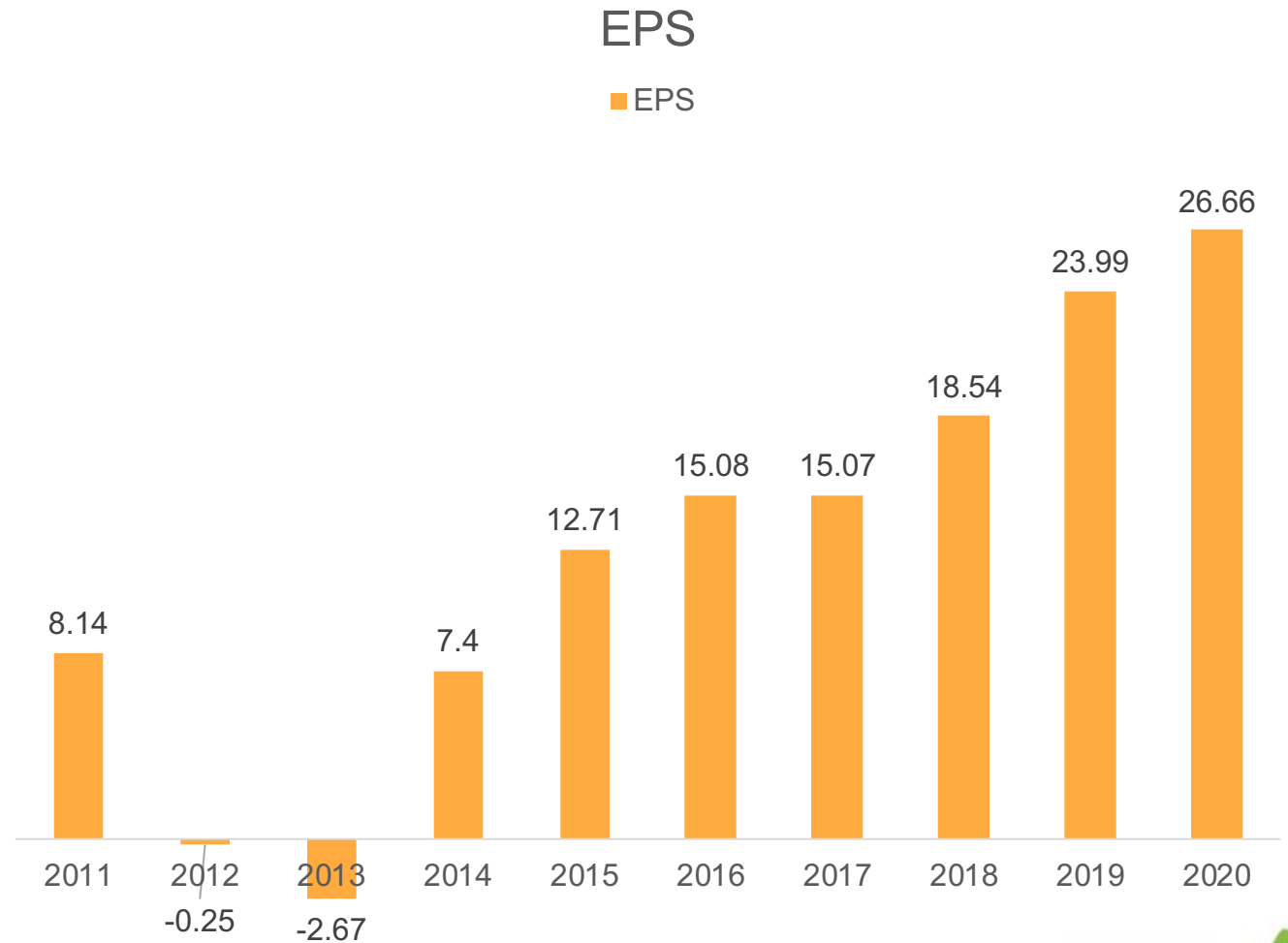
“Effective April 1, 2019, the Group adopted Ind AS 116 "Leases", applied to all lease contracts existing on April 1, 2019 using the modified retrospective method and has recognized Right of use (ROU) asset measured at the present value of the remaining lease payments discounted using incremental borrowing rate with corresponding lease liability, on the date of initial application.”

Therefore, pre-existing leases and leases acquired this year have been converted to right-of-use assets this year and all lease payments from a retrospective perspective have been charged as an expense this year.



Earnings growth

- 64% is the average annual growth in earnings per share of Sonata Software.
- Earnings of Q1-Q3 increased continuously, but there was a 18.5% fall in Q4 profits, due to the lockdown.



Balance Sheet

Consolidated Balance Sheet			
SI No.	Particulars	As at March 31, 2020	As at March 31, 2019
	ASSETS		
1	NON-CURRENT ASSETS		
	(a) Property, Plant and Equipment	2,130	2,203
	(b) Right-of-use assets	9,729	-
	(c) Capital work-in-progress	-	55
	(d) Goodwill	15,578	14,519
	(e) Other intangible assets	2,377	3,220
	(f) Financial assets		
	(i) Investments	873	621
	(ii) Other Financial Assets	3,655	1,912
	(g) Deferred tax assets (net)	2,439	1,190
	(h) Other non-current assets	5,906	4,412
	Total	42,687	28,132
2	CURRENT ASSETS		
	(a) Financial assets		
	(i) Investments	480	14,015
	(ii) Trade receivables	70,000	81,111
	(iii) Cash and cash equivalents	37,220	17,432
	(iv) Bank balances other than (iii) above	2,424	2,489
	(v) Other Financial Assets	4,326	6,854
	(b) Other current assets	4,509	2,775
	Total current assets	118,959	124,676
	TOTAL ASSETS	161,646	152,808
	EQUITY AND LIABILITIES		
3	EQUITY		
	(a) Equity Share capital	1,039	1,039
	(b) Other equity	65,928	75,787
	Total	66,967	76,826
4	LIABILITIES		
	NON-CURRENT LIABILITIES		
	(a) Financial liabilities		
	Other Financial Liabilities	12,785	3,284
	(b) Other non-current liabilities	-	1,066
		12,785	4,350
5	CURRENT LIABILITIES		
	(a) Financial liabilities		
	(i) Borrowings	8,600	1,562
	(ii) Trade payables	56,186	58,733
	(iii) Other Financial Liabilities	4,389	388
	(b) Other current liabilities	6,833	4,842
	(c) Provisions	2,293	1,850
	(d) Current tax liabilities (net)	3,593	4,257
	Total current liabilities	81,894	71,632
	TOTAL EQUITY AND LIABILITIES	161,646	152,808



Right-of-use assets:

Leasehold land and improvements have been converted into right-of-use assets. Value of leased items in FY 2019 were 7.98 Cr, and right of use assets for FY 20 are 97.29 Cr.

The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor. Therefore this value is inflated due to its retrospective nature. In actuality SSL has leased property worth of 7.98 Cr, plus any new leases purchased and acquired in FY 20.

Goodwill:

Goodwill accounts for 9.5% of total assets. Sonata Software has made a lot of acquisitions in companies that have helped increase the scale and quality of their operations. Along with these acquisitions, it has made investments in companies like Retail10X, GapBuster and Xyka. These companies add value to SSL by increasing effectiveness of their business consulting service, and scale of operations as well. Acquisitions like GapBuster and Scalable Data Systems have helped SSL to expand business to Australia.

Other Intangible assets:

Category	Useful Life
Computer Software	3 years
Internally generated - Software	2 years
Intellectual property acquired through business combinations	5 years
Non competent covenant	4 years
Vendor relationships	7 years
Customer relationships	7 years



- The company has no long-term debt.
- They have a substantial capital redemption reserve, general reserve, and retained earnings, as other equity.
- The 96% decrease in current investments is due to the fact that they were collateral against a loan made by their subsidiary, and the loan was paid out in FY 20.
- Increase in cash and cash equivalents in FY 20 from FY 19 is 113%.
- Increase in other equity i.e. reserves and surplus is 117% in the past 10 years.
- Dependence on trade receivables is high, although current default rate is 0.07%.



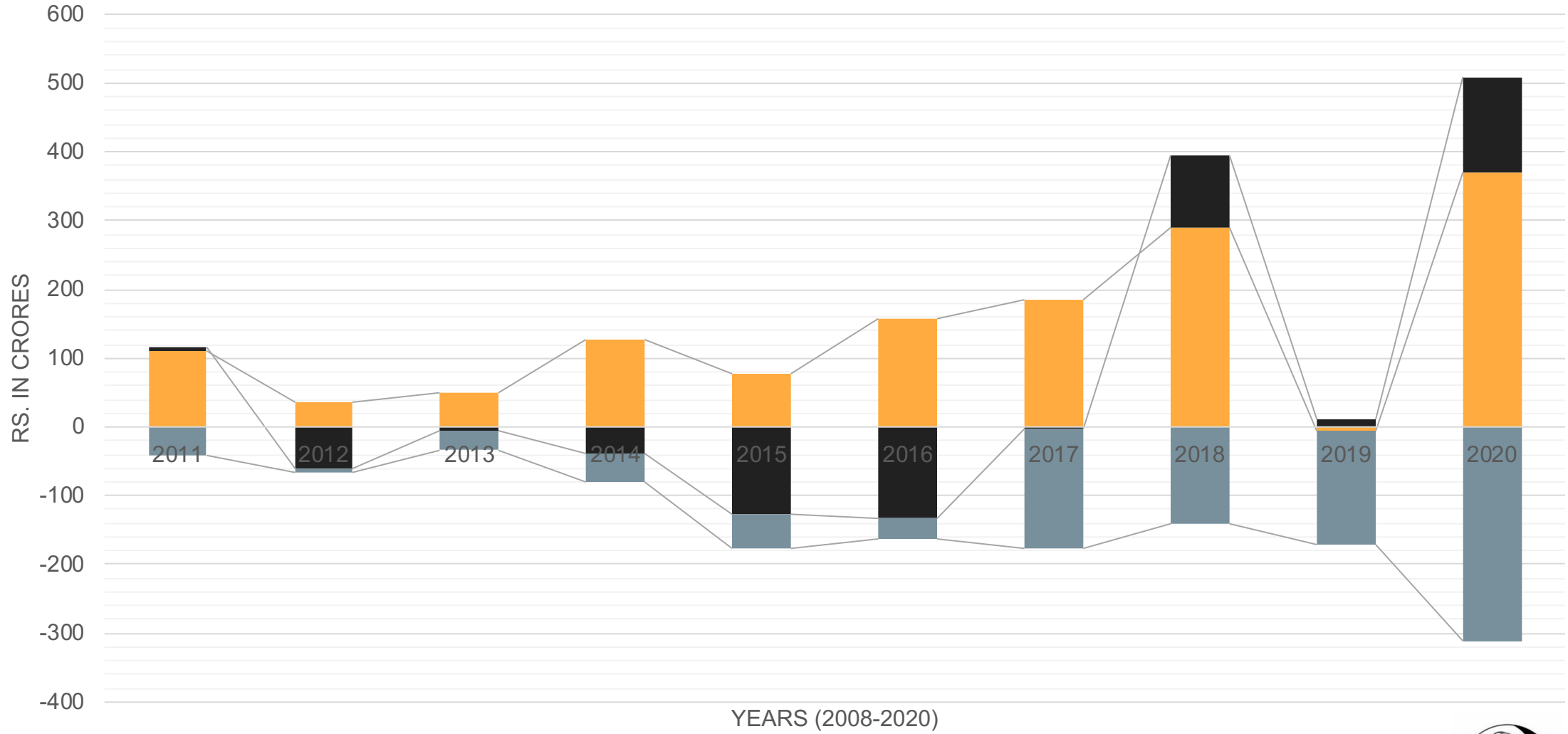
Cash Flow Statement

	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020
Cash from Operating Activity +	111	37	50	127	77	158	185	290	-6	369.75
Cash from Investing Activity +	4	-62	-6	-39	-126	-133	-3	104	12	139.07
Cash from Financing Activity +	-40	-4	-28	-41	-51	-30	-173	-140	-166	-311.01
Net Cash Flow	76	-28	15	46	-100	-4	9	253	-160	197.81



Cash Flow

Operating Activities Investing Activities Financing Activities



- Cash flows have been inconsistent from the past 10 years.
- Operating activities were negative only in the year 2019-19. This is primarily due to a dramatic decrease in trade receivables and an increase in trade payables. Earnings growth whatsoever have been increasing constantly.
- This isn't a major red flag, as clients are concentrated and reliable. Due to this, fluctuations in trade receivables and trade payables aren't that big of a problem, especially considering its bad debt to sales ratio is 0.07%.
- Investing activities have been negative in nearly all years. This is majorly due to investments bought and sold by the company. SSL actively invests in companies related to their field of functioning, and mutual funds.

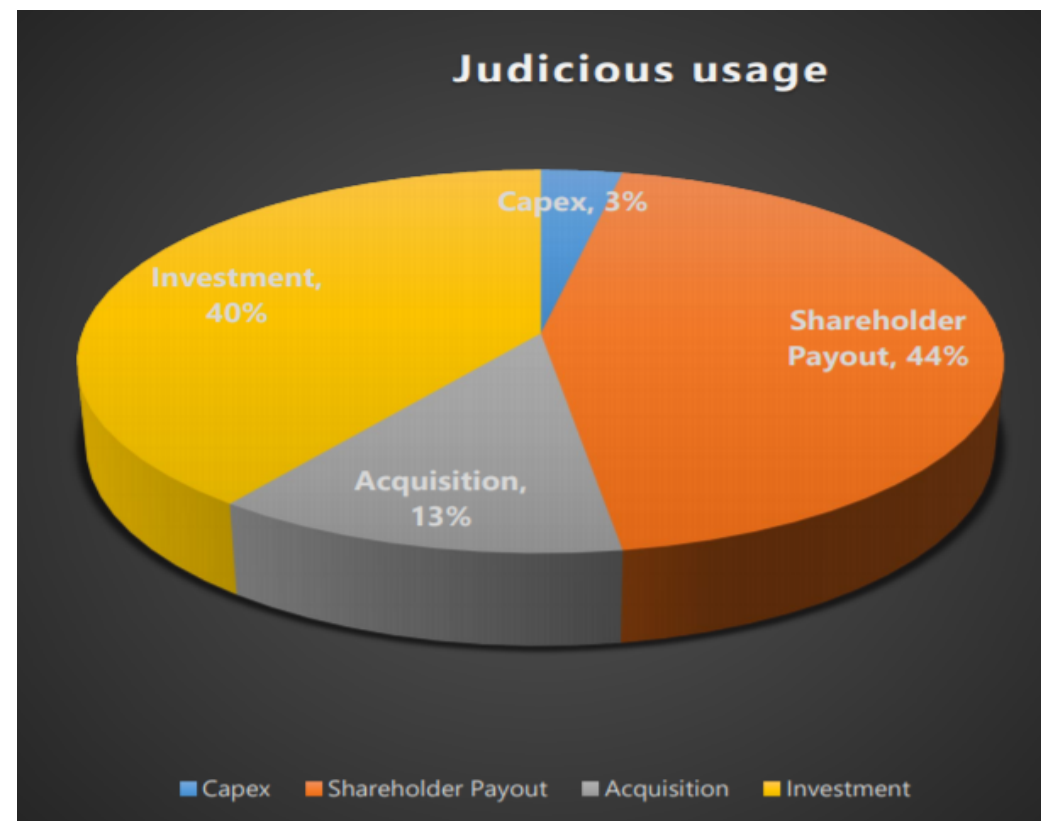
Investments purchased	-177	-71	-38	0	-5	0	-37	-6	0	-492	-1,311	-1,192
Investments sold	168	86	0	27	0	0	0	0	12	430	1,250	1,256

- Financing activities have been negative in all of the past 10 years, this is primarily due to payment of dividends. Also, SSL facilitated its repayment of borrowings in the past 3-4 years, which contributed to the negative cash flows.



Capital Allocation

- From the past 5 years, acquiring investments have been given priority over acquiring assets. With a return of return on investments averaging 35% over the past 5 years, this practice is efficient for the company.
- With its high dividend payout ratio, it is obvious that majority of capital will come to use in this.



2015 to 2020



Ratio Analysis

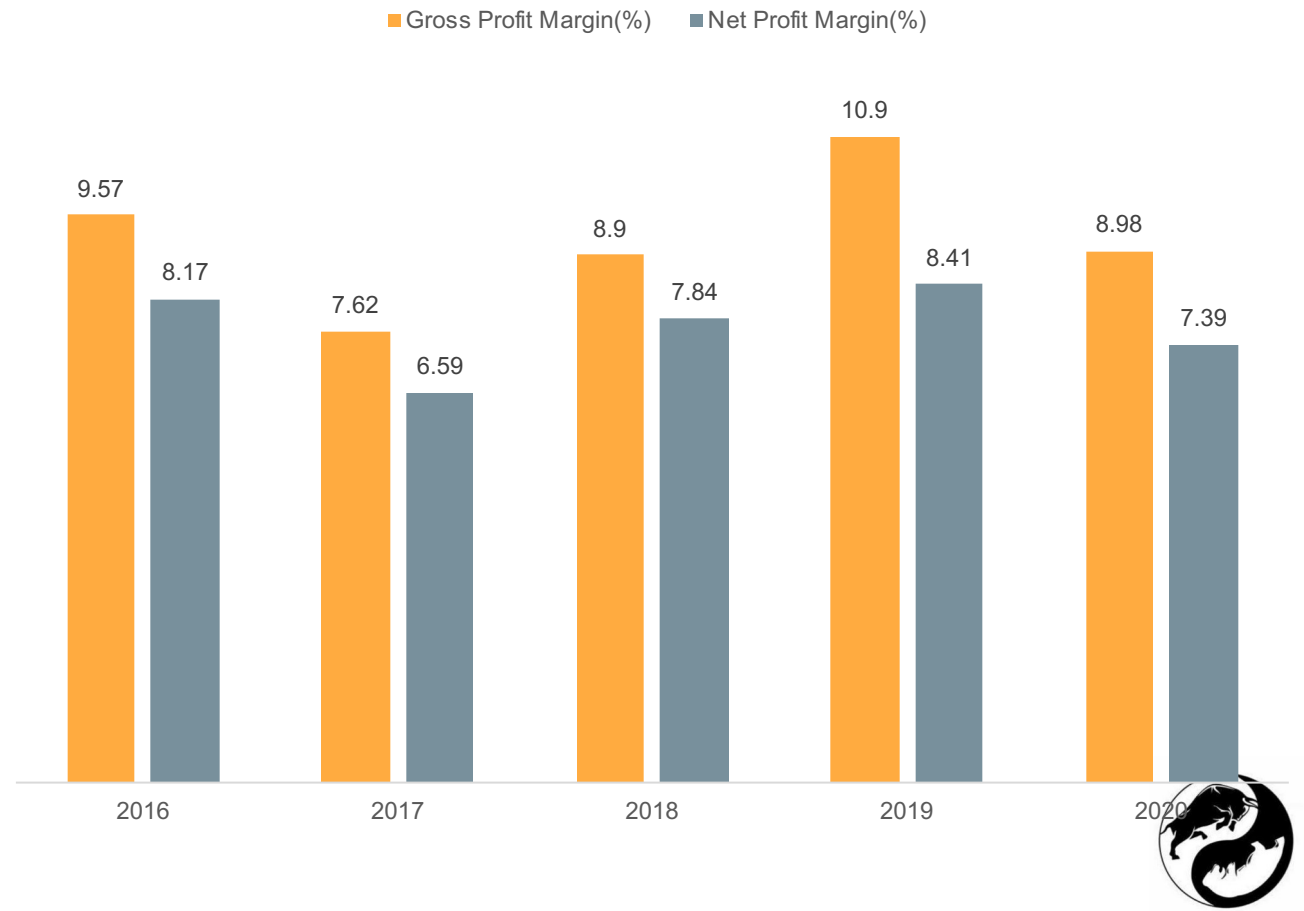
Profitability Ratios

Over the past 5 years:

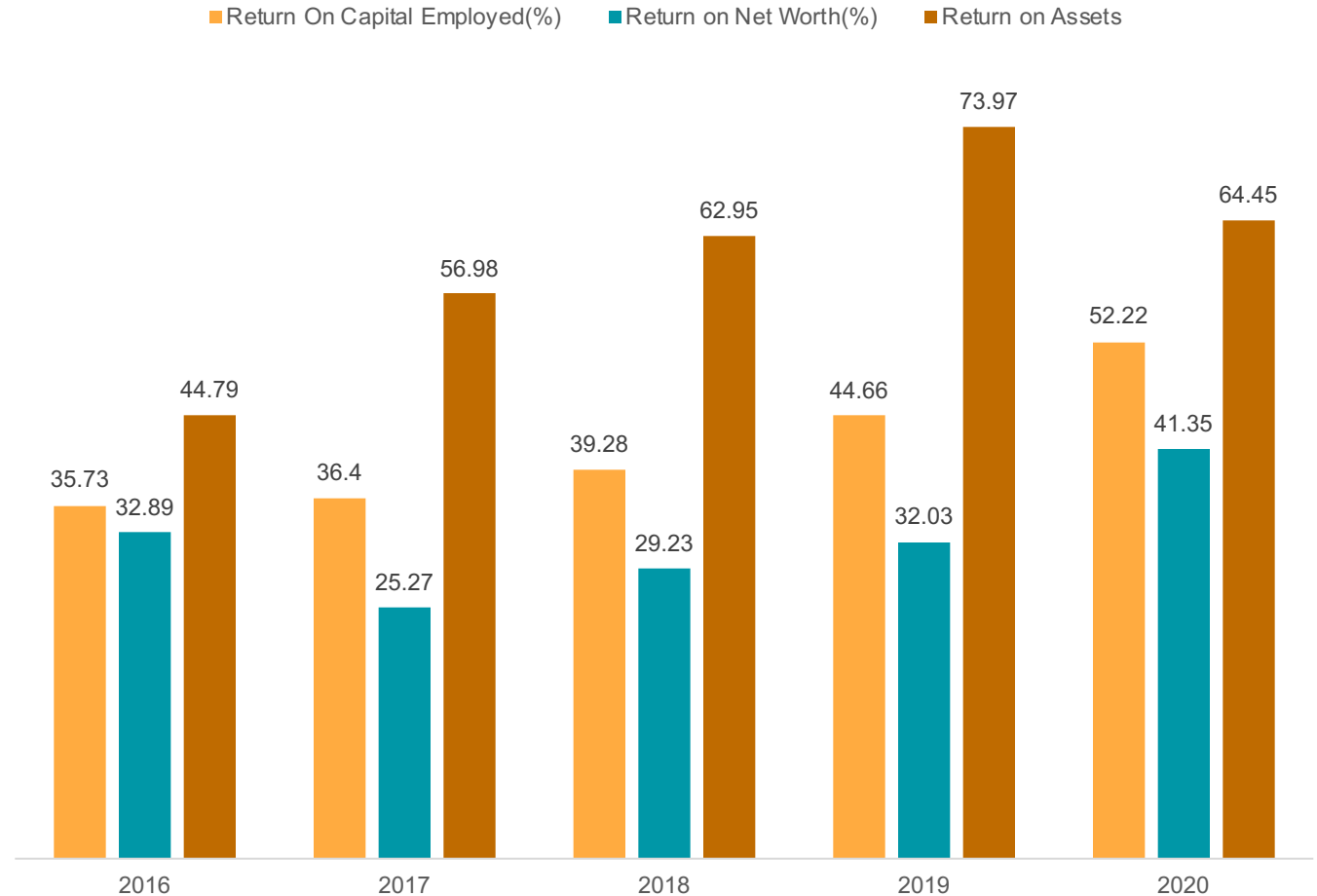
- 0.32% average growth of gross profit margin
- -1.3% average fall in net profit margin

This may be due to an increase in scale of operations which has led to increase in employee benefit expenses and purchase of stock-in-trade.

Gross Profit Margin and Net Profit Margin

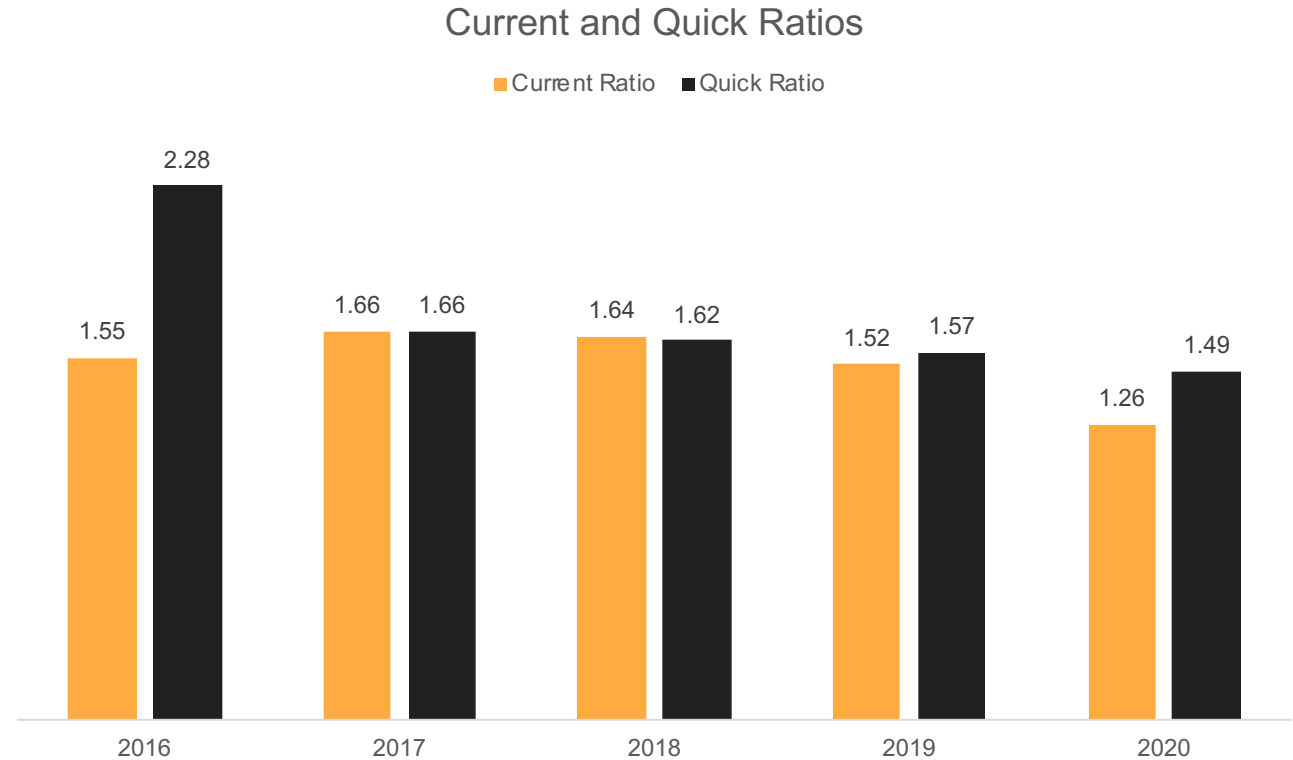


- ROCE has increased consistently over the past 5 years with an average growth rate of 10.1%
- ROE/Net worth has always remained above industry standards, giving an average growth rate of 7.8%.
- Return on assets has increased with a 10.58% annual average. Its decrease in 2020 can be accounted to the increase in fixed assets.



Liquidity Ratios

- Quick ratio has constantly been >1 .
- Current ratio is <2 , yet company has always been able to meet its short term financial obligations.
- Absence of long-term obligations from the past 3 years compensates for lower liquidity.



Solvency Ratios

- Debt to equity ratio that includes short term debt has always been <0.4.
- There has been no long term debt in the past 2 years, and negligible long term debt before that.
- Management does not show signs of inculcating debt in the future as well, as debt has been on the low end.

	2016	2017	2018	2019	2020
Debt Equity Ratio	0.36	0.06	0.03	0.02	0.13
Long Term Debt Equity Ratio	0.11	0.06	0.03	--	--
Interest Cover	28.87 times	24.55 times	55 times	103.28 times	26 times



Valuation Ratios

- ❑ Current P/E= 8.67
 - ❑ PEG (Last 5 years growth rate)= 0.52
 - ❑ Price/Book= 3.59
-
- Low PEG shows that stock is undervalued.
 - P/E is lower than industry average of 13.2.
 - Price/Book is high, but profitability ratios are quite high, which justify the lower asset value.



Competitor Analysis

- Competitive rivalry is high, but no other company is involved in all the industries in which SSL operates.
- In midcaps, for example, overlapping industries of SSL and Mastek are independent software vendors. For LTI it is retail and manufacturing. For Mphasis it is transportation and utilities.
- Compared to market leaders and comparable firms, P/E has been lower than the median, and Return on Equity has been significantly higher.
- In terms of market capitalisation, SSL doesn't stand anywhere.

Company	MCap (Rs bn)	CMP(Rs)	P/E (x)		RoE (%)	
			FY19	FY20E	FY19	FY20E
TCS*	7,310	1,948	23.2	22.6	36.1	37.3
Infosys*	2,917	687	18.5	17.8	24.3	25.2
HCL Tech*	1,430	527	14.1	12.9	26.0	23.8
Wipro*	1,064	187	11.8	10.9	17.3	17.3
TechM*	514	532	10.9	11.0	22.0	20.2
LTI	286	1,646	18.9	19.1	34.6	28.2
Tier-1 Median			13.0	11.9	21.7	20.6
Mphasis	160	860	14.1	13.4	20.0	20.5
L&T Tech	137	1,319	16.6	14.6	32.0	29.8
Mindtree	150	920.6	20.1	21.9	24.9	19.5
Hexaware	95	321.55	13.2	12.0	26.5	24.9
Persistent	45	590.5	10.9	11.1	15.7	14.4
Cyient	24	219.75	4.7	6.1	20.0	14.5
Zensar	26	117.2	5.6	7.7	17.6	11.5
Sonata	20	228	8.3	8.6	32.0	41.4
Mastek	7	292.95	6.5	6.5	15.9	15.0
Tier-2 AVG			11.1	11.3	22.7	21.3
Tier-2 Median			10.9	11.1	15.7	14.4



Valuation



Comparable Company Analysis

Comparable Companies	Market Data			Financial Data			Valuation			
	Price	Market Cap (in Rs. Cr)	Enterprise Value	Sales	EBITDA	EBIT	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Mphasis	860	15984.31	11881.81	8,843.54	1828.2	1,596.57	1.343558123	6.499184991	7.44208522	13.4
Mindtree	920.6	15157.27	13614.62	7,764.30	549.5	274.1	1.75348969	24.77637853	49.67026633	21.9
L&T Tech	1319	13772.3	11943.88	5,619.10	1319.6	1,136.70	2.125585948	9.051136708	10.50750418	14.6
Hexaware	321.55	9594.05	9909.49	5,582.52	889.6	786.25	1.775092611	11.13926484	12.6034849	12.0
Persistent	590.5	4501.43	3918.43	3,565.81	624.63	458.67	1.098889172	6.273201735	8.543026577	11.1
Cyient	219.75	2413.87	1942.45	4,427.40	707.2	519.4	0.438733794	2.746677036	3.739795918	6.1
Zensar	117.2	2648.65	1889.69	4,181.68	595.48	436.3	0.451897324	3.173389534	4.331171212	7.7
Mastek	292.95	701.97	1052.18	1,033.21	156.87	139.52	1.018360256	6.707337286	7.541427752	6.5
Mean		8096.73125	7019.06875	5127.195	833.885	668.43875	1.25070086	8.795821332	13.0473453	11.6625
Median							1.44	8.71	10.57	11.55
Sonata Software	228.3	2402.89	2116.69	3,743.26	431.21	394.67	0.565467	4.908722	5.36319	8.6

Median EV/Sales: 1.44x

Median EV/EBITDA: 8.71x

Median EV/EBIT: 10.57x

Median P/E: 11.55x

SSL EV/Sales: 0.56x

SSL EV/EBITDA: 4.91x

SSL EV/EBIT: 5.36x

SSL P/E: 8.6x

All comparables are less than median of 8 other similar companies. This shows that SSL is undervalued.



DCF Analysis

Moderate

CASE 1

Discount Rate	4.24%
Growth Rate	28.08%
Terminal Growth Rate	4%

Conservative

CASE 2 (Conservative, especially due to coming years, that would be affected due to COVID 19)

Discount Rate	4.24%
Growth Rate (FY 21-23)	5%
Growth Rate (FY 24-230)	20%
Terminal Growth Rate	4%

Risk Free Rate= 4.11%

Beta= 0.748

Equity Risk Premium= 11.24%

Country Risk Premium: 2.63%

Company Default Spread= 0.63% (Interest Coverage Ratio = 26 times)

Reinvestment Rate= 0.67

Return on Capital (Average for 5 years)= 41.66%



Method 1

DCF	Figures in Cr													
FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	PV of Terminal Value	Sum of PVs		
	93.882166	115.3588779	141.7486544	174.1754203	214.0202	262.97999	323.139935	397.0622099	487.8951	599.5072	736.6519	324821.0002	3546.421702	

Adjustment for Cash Balance

Cash and Cash Equivalents	372.2
Other Bank Balances	242.4
Current Investments	4.8
Total	619.4

Status: Undervalued ; Rating: Buy

Final Step

Value of Company (Sum of FCF + Cash Balance) =	4165.821702	In Cr
No of shares=	10.39	In Cr
Face value=	Rs 1	
Intrinsic Value per share=	400.9453034	
CMP	Rs. 228	

Method 2

CASE 2 (Conservative, especially due to coming years, that would be affected due to COVID 19)

Discount Rate	4.24%
Growth Rate (FY 21-23)	5%
Growth Rate (FY 24-230)	20%
Terminal Growth Rate	4%

DCF	Figures in Cr													
FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	PV of Terminal Value	Sum of PVs		
	93.882166	94.57040572	95.26369084	95.96205836	164.9072	189.84694	218.5584947	251.6122545	289.6649	333.4725	383.9053	169280.0824	2211.645818	

Final Step

Value of Company (Sum of FCF + Cash Balance) =	2831.045818	In Cr
No of shares=	10.39	In Cr
Face value=	Rs 1	
Intrinsic Value per share=	272.477942	

Status: Undervalued ; Rating: Buy