

# Inorganic growth agenda

## Sonata Software's growth strategy now becomes more relevant in the new normal

The mid-sized (₹3,743 crore: March 2020) Sonata Software Ltd (SSL), a global IT company, which enables platform-based digital transformation initiatives for enterprises in the retail, manufacturing and distribution, besides travel and software industries, saw development of Microsoft as a serious enterprise partner for its clients early on. The four pillars of Microsoft are BizApps-based around dynamics, cloud and infrastructure around Azure, Data and Analytics and modern work place around Teams and Office.

"Yes, our focus has been to build capability mainly on BizApps, Cloud and Infrastructure and Data Analytics," explains Srikar Reddy, MD & CEO, SSL. A member of the board of directors, he is from the Regional Engineering College (NIT, Trichy) and a postgraduate in management from IIM-Calcutta. Reddy has been with Sonata since 1986 and has been pivotal in building the company as a trusted and reliable IT solutions company. His philosophy of driving business growth through a single-minded focus on customer and investment in people and technology, has made SSL one of the fastest growing IT solutions company, "with a unique and differentiated strategy and value proposition", says Reddy. He has set SSL on a new growth path with a unique proprietary approach to creating digital businesses what he calls 'platformation'.

In the last two years, SSL has made two acquisitions – the Australia-based Scalable Data Systems (SDS) and the US-based Sopris Systems for A\$5.5 million and \$7 million respectively. With a history of more than 25 years, Scalable Data is a provider of business solutions in the Australian market. It has built a solid reputation in providing Microsoft Dynamics 365 F&O solutions for industry leading clients in Australia especially in the manufacturing and wholesale & distribution.

"Its IP for commodity trading



*Reddy: single-minded focus on customer, investment in people and technology*

'CTRM' has earned market leading reputation globally with due recognition accorded to the company as a Microsoft Gold and an ISV Partner. SDS brings great value in terms of Microsoft Dynamics 365 capabilities and resources to Sonata," adds Reddy. In the last six years, between 2012 and 2018 (since Reddy got to the post as the CEO), SSL has seen its revenues and profits multiply many times and its market capitalisation grow over 20 times, enabling the financial and industry analyst groups to recognise his focus to conceptualise and execute a unique growth strategy, based on IP. "This has helped Sonata to be a member of the group of unique Global

growth companies at the World Economic Forum (WEF)".

Sopris, a Microsoft Dynamics 365, Enterprise partner, specialises in helping project-centric and field services companies improve business performance. Sopris specialises in enterprise resource planning (ERP); customer relationship management (CRM), mobile field service, enterprise asset management (EAM) and professional service automation.

### Digital transformation

"This acquisition has strengthened Sonata's US Dynamics footprint and expanded the Dynamics 365 capabilities making Sonata one of the strongest

and largest Dynamics 365 partners globally, with depth of services and breadth of industries and IP,” adds Reddy. “Both these acquisitions reflect our strategic intent to invest in Microsoft technologies, especially Microsoft Dynamics 365, a rapidly growing platform of choice for companies wanting to digitally transform”.

On 4 March 2020 (before the advent of Covid-19 and the subsequent lockdown), SSL acquired GAPbusters (GBW), a Melbourne headquartered company that has been amongst the pioneers in the customer experience (CX) domain serving renowned brands globally for nearly 30 years, for \$4.8 million. “With companies increasingly focussing on measuring and managing customer experience to stoke their growth, CX solutions are playing a significant part in most organisations’ digital transformation initiatives,” says Amit Tyagi, Chief Marketing Officer, SSL, responsible for global marketing, solutions and bid management, besides strategic account management functions. Tyagi, an engineering graduate with a postgraduate degree in management from IMT, Ghaziabad, has 22 years of cross-functional, multi-industry and entrepreneurial experience in sales, marketing and business development with world leaders like GE, Dell, and Intel. He has worked across India, ASEAN and the US.

“This acquisition is exciting for Sonata, as it is a reaffirmation of its ‘platformation’-led approach to digital transformation,” explains Reddy. “It adds a major platform-led customer experience offering to its current solutions, creating substantial value to its existing and prospective clients by providing a more comprehensive digital transformation offering covering 360 degrees of the customer journey, possibly making Sonata unique in its ability to offer such a unified experience across the customer life cycle”.

“In fact, in the retail, service & travel verticals, which has been SSL’s focus areas, given its own IPs, Sonata will now be able to offer a one-stop-shop,” reveals Reddy. “Its CX solution offers to go with the IPs and all Sonata clients and prospects, which are constantly looking to monitor, measure, garner insights and improve their services. They need not go looking for proven, trustworthy and best in class CX solutions with deep

industry insights as a big plus”. According to Reddy, SSL’s strategic approach to its merger & acquisition (M&A) initiatives is based upon building strategic advantage for the Microsoft-led services business, acquiring IP in chosen verticals, strengthening footprint in chosen geographies and accessing talent in different parts of the world, apart from over-all strategic alignment with platformation.

These two acquisitions – Scalable Data System and Sopris Systems – are aligned to strengthen the Microsoft Dynamics footprint in different geographies, apart from getting SSL entry into two new industry verticals – agri businesses, because of scalability and utility and service industry from Sopris, giving access to talent IP for commodity trading and risk management and connected field service automation respectively.

“We have now built domain expertise in both verticals and scaled the ability to take these to other geographies,” adds Reddy. “We have seen faster traction with the agri business in terms of geographic expansion and are now poised to address the utility and services industries in other geographies apart from the US. We have continued to invest in further developing both the IPs”. He points out that these two verticals have been relatively unaffected during the Covid crisis and have helped Sonata with its growth agenda when two of the verticals – travel and non-essential retail were badly affected.

**‘Platformation’ strategy**

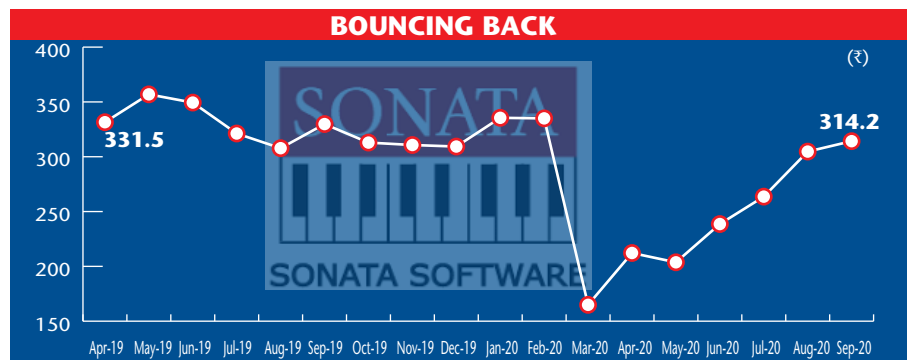
SSL’s Platformation concept, evolved having looked at the lack of success of most digital transformation initiatives, which were mainly technology-focussed and applying technologies like cloud, data analytics, artificial intelligence (AI),

mobile, etc, to transform themselves. The concept was to look at the success of digital companies and their ability to create highly successful and scalable digital businesses and see if such concepts can be adapted to incumbent businesses wanting to conceptualise and execute on digital business strategies.

“The fundamental principles were that digital businesses were conceptualised holistically, creating what were called platform based businesses that open, scalable, connected and intelligent,” observes Rajsekhar Datta Roy, global head, Microsoft Dynamics, digital platforms, SSL. “Hence the theme Platformation – platform-based digital transformation – which we trademarked”. Roy has over two decades of deep expertise in developing and deploying digital transformation solutions for global clients in the retail, consumer and distribution industry. He has been leading the growth of SSL’s Dynamics practice to be one of the largest global practices, across multiple releases, industry solutions and services, leading across strategy, solution development, delivery and GTM.

“Obviously, it had to be tailored to incumbent businesses, who have both legacy technology and business processes and models to contend with and having embarked on a digital transformation journey have large investments ongoing in both technology and business transformation,” adds Reddy. “So, SSL’s offering had to contend with the reality in terms of how to deliver Platformation irrespective of the state where the client is in”.

This meant that the services had to be designed from conceptualising the platform business model maturity and technology maturity of the client, understand and conceptualise the digital agenda of the client, apply a



Platformation road map to the two contexts of platform maturity and technology maturity, identify long-term business or technology architecture of the client. “We call this marchitecture and map the current status to the marchitecture, while also identifying big impact initiatives and converting them on to programs for platform execution, and deliver digital services”, says Reddy. To deliver to Platformation, SSL has developed its own digital platforms for different industries – Brick and Click for retail, Modern Distribution for B2B companies, commodity trading for agri businesses and Rezopia for travel businesses.

“So, SSL has transformed all its service portfolio of Microsoft Dynamics, Data and Analytics services and Platform engineering services to Platformation services aligned to Platformation concepts. People have been transformed to deliver to Platformation from digital architects, digital client partners, digital strategists and unified full stack engineers across technology stacks. Additional consulting services have been developed to align to Platformation. SSL’s objective has been to convert all its relationships to Platformation relationships,” says P.V.S.N. Raju, Chief Delivery Officer, SSL. Formerly, Raju had headed the core research group at Sonata, where he was responsible for new technology-based research activities. Raju holds a postgraduate degree in Industrial Engineering from NITIE, Mumbai.

**Strategic partners**

“Sonata is and has been a key platform engineering partner in creating and rolling out the platform through the engineering expertise, process and tools,” says Pantulu Avasarala, VP, technology, DayMark Safety Systems, a division of CMC group. DayMark is a leader in food and safety systems, providing FDA and USFDA compliant labels and health and safety solutions that adhere to HACCP guidelines. With DayMark’s operations expanding, delivery kitchens faced major challenges because of decentralised communication processes. The food labeling industry also has been facing challenges in profitability in traditional processes, so the industry is looking at adopting digital channels and processes.

“SSL helped DayMark execute on its



Raju: spearheading research

vision and bring digital technologies to many kitchens in the US, through its platform engineering offering, creating an Open, Scalable, Connected and Intelligent Platform to redefine various business processes to realise their modern kitchen platform. SSL participated in creating Foundational Data Strategy and Cloud Platform, defined Unified Digital Experience, engineered and rolled out the Platform through a well-defined roadmap, along with its Platform Engineering IP, Halosys,” says Raju.

Crawford is the largest publicly listed independent provider of claims management and outsourcing solutions globally with nearly 9,000 employees in over 70 countries around the world. A solutions provider specialising in servicing the claims needs of corporations, brokers and insurers.

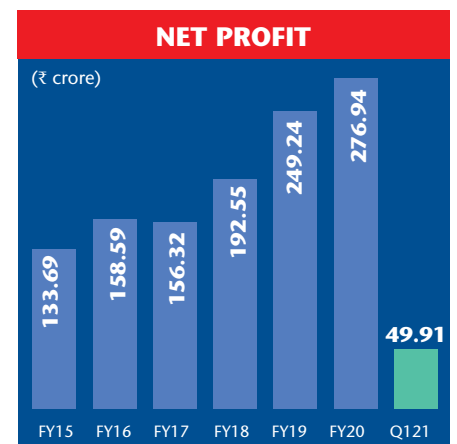
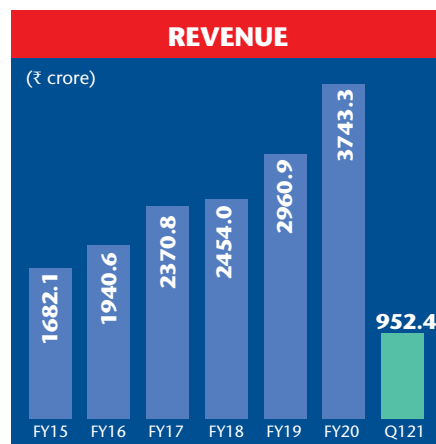
Claims intake is one of the most

important customer touch points in insurance. To enhance and rationalise our current intake solutions, we were interested in creating a global claims intake platform leveraging our claims fabric framework hosted in the Microsoft Azure cloud. This platform needed to support multiple digital intake channels to include responsive web, API, digital assistants, messaging platforms and IoT, while establishing a foundation for data transformation, enrichment and routing.

“SSL has helped us in this digital journey, building the Digital First Notice of Loss (FNOL) platform using their Platformation approach to drive the solutioning of open, connected and scalable platforms,” says Daniel Volk, SVP & Chief Information Officer, Crawford & Co. “The result has positioned us as a premier provider of digital claims intake solutions globally; connecting Crawford, its clients and its client’s customers in support of our goal to be the benchmark of quality, expertise and simplicity for loss resolution and mitigation”.

Meanwhile, the UK-based CPL Aromas, a large fragrance house and home to some of the world’s leading perfumers, “was looking for a strategic partner, who could help them support their current landscape and also help them digitally transform their operations over the next few years,” informs Roy. CPL A is trusted by the world’s top brands to translate their creative vision into the finest fragrances available. And, it creates fragrances for use in personal care and household products serving the customers in over 100 countries.

“SSL has been a strategic partner to us and has helped in our journey, by



stabilising our key business systems along with digital transformation based on Platformation,” explains Alfred Muthunathan, Chief Information Officer, CPL Aromas. “We have successfully deployed customer portals for improved customer experience and using data and analytics for better insights on our business and key decision making”.

“Today, as Microsoft is becoming more industry-led and digital transformation-led with its catalyst approach we see further synergies with our investment in IP in different industry verticals aligned to Microsoft GTM and our Platformation approach that’s closely aligned to Microsoft catalyst led digital transformation approach,” adds Raju.

### Game-changer

SSL has adopted a two-pronged strategy. One aimed at growth of existing clients and second on accessing new clients. “The strategy has been a mix of adapting the service value proposition to suit the needs of clients in the pandemic, such as addressing immediate digitisation opportunities to facilitate more touch less and contact less operations for clients and continuing to pursue long-term strategic opportunities with clients aligned to the Platformation concept,” says Reddy. He has been looking at that, since there’s more availability of clients’ time now and opportunities to visualise new needs and present value propositions and ROI has become fairly easier.

“Since everything is remote now, clients are more willing to look at propositions in a remote model and we are able to deliver more compelling value proposition as now the resource can be anywhere and work and not necessarily physically present at the client location. Account marketing using digital channels have become more attractive”, adds Tyagi, for whom accessing new clients, the alliance led strategy has turned out to be the most effective. “We are jointly able to look for opportunities to invest in, while digital channels have proven to be effective in brand building. Webinars have proven to be an effective marketing tool,” says Tyagi.

Under Reddy, SSL has logged a compounded average growth rate (CAGR) of 17.3 per cent in terms of revenues in the last five years -- from ₹1,682.10 crore in 2014-15 to ₹3,743.3 crore in 2019-20. During the same time, the net profit has



Roy: digital transformation solutions

moved at a CAGR of 15.7 per cent, from ₹133.69 crore to ₹276.43 crore. Now, for the first quarter of this year ended June 2020 (during Covid time), the top line and bottom line is ₹952.4 crore and ₹49.91 crore respectively.

“Travel, to recover from now,” states Mohit Jain, research analyst, Anand Rathi, upgrading SSL stock to a ‘Buy’. “Hurt by the steep fall in its travel vertical (4 per cent of revenue, down 85 per cent quarter on quarter) and 87 per cent year on year. Sonata’s \$36.5 million Q1 revenue has slid by 18 per cent q-o-q and y-o-y. Cost optimisation and an 8.2 per cent EBITDA margin (down only 211bps q-o-q, 205 bps y-o-y), helped arrest the profit decline to 26 per cent y-o-y. Sonata believes that Q1 was a bottoming-out quarter and that steady growth would ensue from Q2 2020-21. We are trimming our 2020-21E/22E revenue, while raising 2020-21/22E profit 7-10 per cent on higher margins and currency. We have also raised our target multiple to 12.5x 2021-22E EPS (11x earlier), resulting in a higher target of ₹330 (₹270 earlier) and upgrade our rating to a Buy”, states Jain in his report.

Centrum Finance, speaking on the company, states that “steep decline in travel vertical has hurt growth. SSL has delivered a mixed bag for 1Q 2020-21, with revenue miss negated by margin and PAT beat. Organic US revenue decline for 2020-21 would be 18 per cent, as acquisition of GAPBuster would

lead to lower reported decline in revenues. While 2020-21 is a washout year, Sonata’s acquisitions over the past one year (Scalable, Sopris, GBW) have opened new logo addition and vertical expansion. Ability to mine and cross sell in some of these accounts is key for revenue growth revival in 2021-22. Margin beat in 1Q 2020-21 leads us to raise EPS estimates by 12.8 per cent for 2020-21/2021-22E. Revival in growth is key”.

“Sonata has adequate capital and financial resources to meet any exigencies,” says Reddy. “Our cash position, net of debt, is ₹399 crore, as of end of June 2020. Our Q1 2020-21 profit was ₹49.9 crore. We continue to be profitable and don’t see major risk to our balance sheet, owing to Covid-19, unless there is a worsening of the situation that we are not aware of”. He continues to invest in further developing both the IPs, “supported by an aggressive inorganic strategy. There are continuous investments in building on new areas like power platform and stay ahead of the curve”.

“One of the main themes of the company is to provide a world class experience to Sonatians,” affirms Reddy. “This has been the focus of the organisation for long and revolves around creating an environment where peoples’ aspiration can be met and continue to build on core DNA of the organisation focussed around depth of thinking, taking intuitive, execution excellence, result orientation, encouraging diversity and a winning mindset”.

In the remote model of working as 100 per cent work from home all human resources processes have been transformed to digital from on-boarding, to training, to induction. “The level of connect with the people have gone up significantly and we are using the GBW platform we acquired to do our frequent employee pulse surveys. Yes, the pandemic has affected a couple of industry verticals we have focussed on, such as travel and non-essential retail and the new industry verticals – agri-business and utilities – but service industry have filled in the gap. Now, the need is to further diversify,” sums up Reddy, suggesting that healthcare is one of the verticals he is looking at, main strategy “could be inorganic”.

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