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**P. Srikar Reddy,**  
CEO and MD of Sonata  
Software, is betting on digital  
transformation as the company's  
next growth driver.

# SONATA'S MELODY FOR SUCCESS

SONATA SOFTWARE, WHICH HAS BEEN AROUND FOR OVER 30 YEARS, IS PLANNING FOR THE NEXT LEVEL OF GROWTH IN THE NEXT FIVE YEARS, POWERED BY ITS 'PLATFORMATION' STRATEGY.

**BY ABHIK SEN**

RANK	COMPANY NAME	MARKET CAP*	REVENUE	PROFIT
50 2019	Sonata Software	₹3,367.73 CRORE (14.06%)	₹3,801.66 CRORE (13.81%)	₹276.93 CRORE (11.79%)
76 2021				

FIGURES IN BRACKETS ARE FIVE-YEAR CAGR IN %. DATA FOR FY20.  
\*ANNUAL AVERAGE M-CAP AS OF MARCH 31, 2021; SOURCE: PROWESSIQ, CAPITALINEPLUS

**When P. Srikar Reddy** took over as CEO of Sonata Software in 2012, the Bengaluru-based IT firm needed direction. Set up in the 1980s, the company listed on the bourses in 1999, and “stayed horizontal”, as Reddy puts it, for about 12 years, at which point its market value was around \$20 million. Today, a decade later, Sonata’s stock has soared by a multiple of 40-45, while the firm has gone from a loss-making entity to posting multiple years of profit.

The company veteran’s initial focus was on stabilising the organisation and then building Sonata’s areas of strength. “So, it was really doubling down and investing heavily in areas where we believed in because, for a company of our size, we didn’t have the luxury of spreading ourselves very broadly,” says Reddy. “And fortunately, I think we made the right bets.” One such bet was its relationship with Microsoft, which is now more than 30 years old and, according to a recent HDFC Securities report, accounts for around 50% of the company’s IT services revenue.

Sonata started its digital transformation strategy in March 2017, the backbone of which was building a unique model called ‘Platformation,’ a term it has trademarked. “Everything we do today is aligned to that. Whether we build new solutions, new capabilities, new IP, go to market, the training of our people, our branding, everything is aligned to one goal: ‘how do we become a Platformation partner to our clients,’” says Reddy. Whether plug-and-play or custom-designed, these platforms help clients “look at digital transformation in a more holistic fashion, rather than a very siloed fashion,” he says. As for the company, adds Reddy, Platformation helps it better compete with the big firms, rather than being their discount version. It hasn’t looked back since. Last year, Sonata was at No. 307 on the *Fortune India* 500 list.

Their digital transformation is a key reason for Sonata’s success in the mid-tier space, says Sanchit Vir Gogia, founder and CEO, Greyhound Research. He says many mid-tier firms are limited by their cash flows, capabilities, and the ability to reinvest into their business, but the likes of Sonata, which started their reinvention a few years ago, now have a “parallel software revenue of sorts.” What has worked for Sonata specifically, Gogia continues, is maintaining relationships with key partners such as Microsoft (Sonata makes a number of its solutions on Microsoft platforms), investing in open source technologies, and working alongside other independent software vendors (ISVs). These are the same factors that ICICI Direct Research pointed to, in a November 2020 report, as catalysts for Sonata’s revenue and margins growth in the future.

There is a reason why Sonata is betting on digital transformation. The World Economic Forum estimated in 2016 that the combined value of digital transformation across industries to industry and society would be upwards of \$100 trillion by 2026. That ties in quite well with the need of the hour. Quite a few companies today seek outcome-based solutions from their service providers, says P.N. Sudarshan, partner and technology leader, Deloitte India. “They are not looking at service providers merely as technology providers, but as firms which provide business solutions using technology.” Making this realignment has helped mid-tier IT firms in general, but more so during the Covid-19 pandemic when they surprised everyone with their resilience, says Nitin Bhatt, technology sector leader, EY India. “What we also see is that the mid-tiers have, in many cases, grown faster than their larger peers, which was not the case a few years ago,” says Bhatt. He pinpoints three reasons, also broadly at-

## A Platform to Create Wealth

SONATA SOFTWARE HAS SEEN ITS REVENUE RISE CONSISTENTLY OVER THE YEARS.

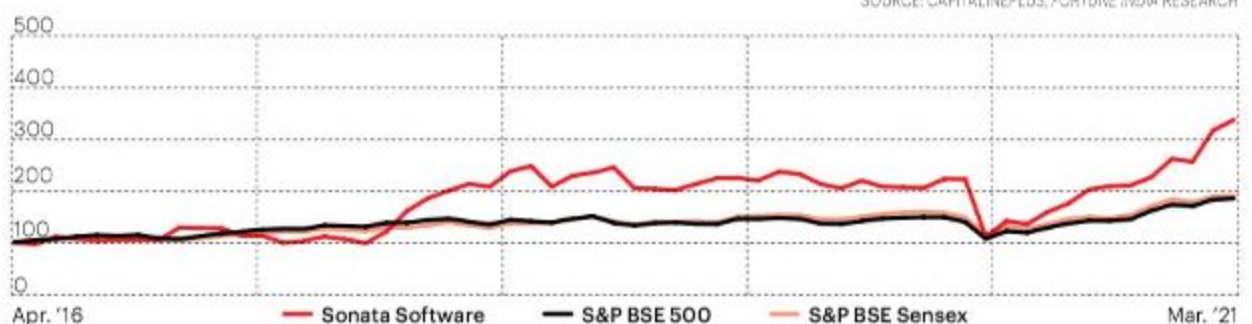
	FY16	FY17	FY18	FY19	FY20
<b>Revenue</b> (₹ crore)	1,990.64	2,415.60	2,500.54	2,990.91	3,801.66
<b>Net profit</b> (₹ crore)	158.59	156.30	192.53	249.26	276.93

SOURCE: CAPITALINEPLUS, FORTUNE INDIA RESEARCH

### Sonata Software vs. key indices

Note: The adjusted closing price of the company, and the closing values of the indices are monthly averages. All the three values are rebased to 100.

SOURCE: PROWESSIQ, FORTUNE INDIA RESEARCH



tributable to Sonata, for this: a focus on established niches, relentless customer centricity, and agility in responding to the changing business environment, which triggered, for instance, the need for contactless commerce and operations.

Nonetheless, the pandemic did affect Sonata, whose clients span the retail, consumer goods, travel, agribusiness, commodities, utilities and energy services industries. Reddy says the company's agribusiness, as well as energy and utilities services, made up for the drop in its travel and non-essential retail verticals. While true, that also highlighted Sonata's lack of customer diversity. The travel industry accounted for 23% of its revenue, while retail accounted for 28%, according to an ICICI Direct report in May last year. Centrum Broking estimates Sonata's top 10 clients contributed roughly 60% of revenue in the first half of FY21. A large chunk of that 60% likely comes from Microsoft solutions, or, more specifically, from Microsoft Dynamics 365, an enterprise resource planning (ERP) and customer relationship management (CRM) application.

"Its heavy concentration in customers, high exposure to travel and retail verticals, and its huge dependency on domestic businesses, which are commoditised, is a huge weakness," says V. Balakrishnan, chairman, Exfinity Venture Partners, and former CFO and board member, Infosys. Sonata, however, refutes this.

EY's Bhatt adds that scaling and low margins are a challenge for mid-tier IT firms, while Greyhound Research's Gogia says Sonata should improve the speed at which it develops IP. Both also highlight the struggle at such firms to attract talent, especially in middle management. Reddy counters by saying Sonata has an initiative to create next-generation leaders and claims "the longevity of our leadership team is unparalleled in the industry."

Gogia also points out that Sonata's relationship with Microsoft is a double-edged sword. While a source of revenue concentration, he notes the contract gives Sonata access to the Windows Dev Center, which allows them to work with other ISVs to build platforms and ready solutions. He suggests the company should work with "a little more modern applications" like Salesforce, but concludes, "The entire pivot from being a mature services company to a platform company, I would say, is playing out very well."

That seems to be the case with its M&A strategy as well. Take the case of Australia-headquartered Scalable Data Systems and of U.S.-based Sopris Systems, both acquired with the explicit aim of strengthening the company's Microsoft Dynamics footprint in different geographies. But, explains Reddy, the deals also gave Sonata an entry point into two new verticals: agribusinesses via Scalable, and the utility and service industry through Sopris. And these two verticals turned out to be lifesavers during the pandemic.

But Deloitte India's Sudarshan says that M&As aren't the only option for mid-tier firms to go to the next level of growth. Instead, he identifies a combination of levers they



**"MID-TIER IT [COMPANIES] SHOW SUPERIOR GROWTH COMPARED TO TOP-TIER FIRMS. BUT THEY TEND TO HAVE CLIENT AND INDUSTRY CONCENTRATION RISKS. THEIR MARGIN PROFILE IS ALSO INFERIOR."**

**V. BALAKRISHNAN**  
CHAIRMAN, EXFINITY  
VENTURE PARTNERS



**"COMPANIES LIKE SONATA, WHICH STARTED THEIR INTERNAL TRANSFORMATION A WHILE AGO IN TERMS OF... BUILDING PLATFORMS... HAVE A PARALLEL SOFTWARE REVENUE OF SORTS."**

**SANCHIT VIR GOGIA**  
FOUNDER AND CEO,  
GREYHOUND RESEARCH

probably need to pull: looking at non-linear growth, or "outcome-based revenue models"; tapping the gig economy and having a mobile workforce; targeting tech-based acquisitions; and collaborating within the ecosystem.

Reddy has a plan in place. "We have an internal [target] to double our business in three years' time, both organically and inorganically. The root for that is Platformation." The inorganic strategy is to continue scouting for companies with either good talent, access to new markets, a good customer base, or one that can open up a new industry vertical. On the organic front, the plan is simply to get more clients and continue investing in R&D, which he estimates is currently about 5%-6% of revenue. But whether acquisitions or new clients, the key, he says, is a deep focus on executing Sonata's Platformation strategy.

"Five years from now we visualise ourselves as a unique digital transformation partner to our clients," says Reddy. "And that, I think, is the journey we are on, and that's where I think we see this as the next platform for growth for the next at least three to five years or so."

Will Sonata grow to the next level? It has certainly built the platform for it. ■