

Saksoft Limited

September 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	12.00	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	3.00	CARE A2+	Assigned
Long-term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	15.00 (Rs. Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Saksoft Limited (Saksoft) takes into account the comfortable financial risk profile of the company marked by minimal debt, comfortable debt coverage indicators and adequate liquidity. The rating continues to derive strength from the company's long operational track record and vast industrial experience of the promoters with a well-qualified management team and Saksoft's integrated capabilities and strong relationship with customers enabling repeat orders. However, the rating remains constrained by intense competition in the IT industry, risk of client and geographic concentration.

The outlook has been revised to positive as CARE Ratings believes that the shift towards digital transformation post COVID would augur well for the company's growth improving scale and diversification of revenue base.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations to more than Rs.500 crore and improvement in margins over 20%
- Reduction in client concentration level

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any large debt-funded acquisitions impacting the capital structure of the company with gearing exceeding 0.5x
- Any sustained drop in profitability margins (PBILDT) below 12%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and well-qualified management team: Saksoft was founded by Mr Aditya Krishna in the year 1999. Mr Aditya Krishna, Chairman & Managing Director of Saksoft, has over 25 years of experience in the banking and financial services industry and the promoter group has over five decades of industrial experience. The day-to-day affairs of Saksoft are overseen by experienced IT professionals heading various technologies and geographies with a well-defined organisation structure.

Focus on being a Digital Transformation Partner for its clients: Saksoft specialises in enabling customer transform their Business digitally through legacy modernisation and intelligent automation. The emergence of COVID has led to better opportunities in application development segment – including accelerated transformation of on-premise to cloud. Over the last few years, the company has done five acquisitions that have helped strengthen their capabilities and add to the customer proposition. The integrated offering helps the company to upsell and cross sell services.

Growth in revenue and stable profit margins: The company recorded a 7% growth in the revenues during FY21 (refers to the period April 1 to March 31). With decline in discretionary spending after COVID-19 the revenue growth was slower. The PBILDT margins have remained stable at 16%-17% over the past 3 years. Saksoft also outsources some of the managed services to smaller third-party service providers to reduce costs in developing capabilities in-house for technologies which has lower demand. In Q1FY21, the company has recorded a revenue of Rs.102.14 crore showing a 16% increase YoY and a PBILDT margin of 20%. The company reported a PAT of Rs.17.68 crore in Q1FY22 as against Rs.10.12 crore in Q1FY21.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Reputed client base: Saksoft, with its rich experience of the promoters in Banking, Financial Services, Insurance (BFSI) domain, has worked with leading banks and financial institutions. It has now diversified into logistics, e-commerce, healthcare, telecom, public sector and Fintech and works with reputed companies in the corresponding verticals. Currently, the company is serving clients within turnover range of USD 200 million – USD 2 billion. Telecom sector has seen growth with increased revenue from its existing client. Fintech vertical and telecom were largest contributors to revenue in FY21 accounting for at 27% and 23% share, respectively.

Key Rating Weaknesses:

Intense competition: Saksoft is a relatively small player in the IT services industry which is dominated by large multinationals with deep pockets. Factors like wage inflation, employee attrition levels and adverse changes in U.S. laws remain challenges in the future. IT being discretionary spend, any cost reduction initiative resulting in reduction in IT spends by the clients will impact the prospects of Saksoft.

Client and geographic concentration: The company derived 78% of its revenue from USA and Europe in FY21, both of which are largest markets in IT. Saksoft also has managed to add some domestic customers also during FY21. On the client concentration front, top five clients contributed less than half of the total revenue in FY21 with more load (Around 30%) from the top two customers.

Industry Prospects: Digital transformation initiatives by enterprises grew manifold during the pandemic, with much greater realization of the need for digitization. The driver of long-term growth is the structural shift within the technology market, leading to growing primacy of IT services. Global technology spends are expected to continue being upbeat in FY22. Robotics, artificial intelligence, cybersecurity, IoT, among others are expected to be the key technology focus areas in the medium term.

Liquidity analysis - Adequate

The company provides a credit period of about 60-75 days for international clients and about 90 days for clients within India. The liquidity position of the company is comfortable with the company having strong cash accruals of Rs.50 crore and total cash and liquid investments of Rs.100 crore as on March 31, 2021. The company has a working capital facility of Rs.15 crore, which remained unutilized for the past 12 months, and is maintained as a stand by limit to meet any emergency cash requirements.

Analytical approach: Consolidated

Considering the significant financial as well as operational linkages of Saksoft with its subsidiaries, the consolidated financials of Saksoft have been considered for analysis. The subsidiaries account for the largest share of Income of the company and the business model entails a high amount of integration with the subsidiaries.

Name of subsidiaries	% of holding
Saksoft Inc, USA	100%
Saksoft Pte Ltd., Singapore	100%
Saksoft Solutions Ltd., UK	100%
Three Sixty Logica Testing Services Pvt. Ltd., India	100%
DreamOrbit Softech Pvt. Ltd., India	100%
Name of step-down subsidiaries	% of holding
Eletronic Data Professionals Inc.	100%
Faichi Solutions Inc.	100%
Acuma Solutions Limited	100%
Saksoft Ireland Limited	100%
Three Sixty Logica Testing Services Pte	100%
DreamOrbit Inc.	100%

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Short term instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

Established in 1999 by Mr Autar Krishna and his son Mr Aditya Krishna, Saksoft is engaged in providing business intelligence and information management solutions predominantly to mid-tier companies based out of USA and UK. Saksoft offers associated services like application development, testing & quality control and solutions based on cloud, mobility and Internet of Things (IoT) along with Information Management (IM) and Business Intelligence (BI) solutions. As on March 31, 2021, Saksoft had five wholly-owned subsidiaries and six step-down subsidiaries across geographies like US, UK, and Singapore.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	362.46	386.60
PBILDT	64.80	65.21
PAT	38.66	45.44
Overall gearing (times)	0.17	0.14
Interest coverage (times)	12.61	18.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instrument / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE A-; Positive
Fund-based - ST-Bank Overdraft	-	-	-	3.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT*	-	-	-	1)CARE A-; Stable (07-Sep-20)	1)CARE A-; Stable (14-Jan-20)	1)CARE BBB+; Positive (03-Sep-18)
2.	Non-fund-based - ST-Bank Guarantees	ST**	-	-	-	-	-	1)Withdrawn (03-Sep-18)
3.	Fund-based - LT-Cash Credit	LT*	12.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Sep-20)	1)CARE A-; Stable (14-Jan-20)	1)CARE BBB+; Positive (03-Sep-18)
4.	Fund-based - ST-Bank Overdraft	ST	3.00	CARE A2+	-	-	-	-

*Long-term; ** Short-term

Annexure-3: Detailed explanation of covenants of the rated instrument – Not Applicable

Annexure-4 Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Bank Overdraft	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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