

Saksoft Limited

September 16, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------------|---|---|---|
| Long Term Bank Facilities | 12.00 | CARE A; Stable (Single A; Outlook: Stable) | Revised from CARE A-; Positive (Single A Minus; Outlook: Positive) |
| Short Term Bank Facilities | 3.00 | CARE A1 (A One) | Revised from CARE A2+ (A Two Plus) |
| Total Bank Facilities | 15.00 (₹ Fifteen Crore Only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to the bank facilities of Saksoft Limited (Saksoft) factors in the improved business risk profile characterised by continued improvement in the scale and accruals. The company has capitalised on the strong relationships with customers and increased focus on its clients across all verticals and geography with effective upselling and cross-selling thereby leading to increased revenue per client. The rating continues to derive strength from the company's long operational track record, long relationship with reputed customers evidenced by repeat orders, vast industrial experience of the promoters with a well-qualified management team and Saksoft's integrated capabilities arising out of past acquisitions. However, the rating remains constrained by competitive and fragmented nature of IT industry, risk of client and geographic concentration.

Rating sensitivities

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

- Improvement in the scale of operations above Rs.750 crore with lower client concentration
- Improvement in margins over 20% on sustained basis

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

- Any large debt-funded acquisitions impacting the capital structure of the company with overall gearing exceeding 0.5x
- Any sustained drop in profitability margins (PBILDT) below 14%

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 completed his MBA from Northeastern University, Boston, USA, and has over two decades years of experience in the banking and financial services industry, having served in senior positions in Chase Manhattan Bank, New York, and Citibank North America. 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: Saksoft specialises in enabling customer to transform their business digitally through legacy modernisation and intelligent automation. Application development remains the focus of the company and has grown significantly over the past three years at a CAGR of 18%. Post-COVID, digital transformation activities were accelerated which led to better opportunities in the application development segment which has improved by 48% in FY22. Though the initial contracts are for one year, through effective data mining, product improvements and migration the company continues to support and manage the application which ensures consistency in the revenue and repeat business.

Continued growth in TOI and stable profit margins: The company has seen continued growth in scale over the past few years. The TOI has grown at a CAGR of 13% over the past 5 years. In FY22, post COVID, the company has seen a significant growth of 25% in its TOI while maintaining similar margins. This trend is continuing in Q1FY23, with the company posting a PBILDT of 16% on a TOI of Rs. 148 crore representing an annualised growth of 25% over FY22. PBILDT margins have been stable at 16%-17% for the past few years.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The key determinants in margins are employee cost and third-party service costs. The company strikes a judicious combination of these two factors to ensure optimal utilisation, a proactive workforce pool for new projects/customers and effective cost optimisation. In terms of employee costs, the company maintains utilisation of employees above 80%. Although the number of employees has increased in proportion to the growth, the cost per employee has remained at similar levels in recent years. The margins are also aided by company gradually moving more towards offshoring model. Over the 5 years the company has increased its off-shore mix from 47% in FY18 to 53% in FY22.

Focus on select niche verticals to enhance revenue growth: Saksoft, with its rich experience of the promoters in Banking, Financial Services, Insurance (BFSI) domain, started its services primarily aimed at BFSI clients and has worked with leading global banks and financial institutions. Saksoft has diversified its services into verticals, namely, logistics, e-commerce, healthcare, telecom, public sector, and Fintech. The company serves clients within turnover range of USD 200 million – USD 2 billion. There has been growth in all the sectors it operates in. The verticals it operates in also has seen its importance grow after Covid. Logistics, Fintech, and Telecom sector has seen good growth in the past few years. The interconnected nature of verticals also allows the company to cross-sell offerings to their clients.

Key rating weaknesses

Intense competition and industry risk: Saksoft is a relatively moderate-scale player in the IT services industry which is dominated by large multinationals with deep pockets. The industry faces intense competition due to low entry barriers. The IT industry also faces challenge from rapid technological changes, which may lead to obsolescence of certain software/services. Further, revenues and margins are exposed to forex risks, however, it is mitigated to a certain extent with company's hedging mechanisms. IT being a labour-intensive industry, the availability and retention of a skilled workforce, attrition levels and wage inflation poses a challenge. The players in this industry is also exposed to macro-economic factors like adverse changes in U.S. laws, including those relating to outsourcing and immigration inherent to the IT services sector remain challenges in the future. In case of recession, the IT spending would be impacted in these regions and margins of the companies would be under pressure. IT being discretionary spend, any cost reduction initiative would result in reduction in IT spends by the clients. However, the verticals and client segment that Saksoft operates in would minimize the impact of such recession.

Client and geographic concentration: The company derived 77% of its revenue from USA and Europe in FY22. Both these geographies are the largest markets in the IT Space. Saksoft also has managed to add some domestic customers over the years as well, however the share of US and UK remains high at 77-78% over the past 3 years. Going forward, acquisition of MC Consulting Pte in Singapore would also help in enhancing the revenue from APAC markets. The client concentration on top five clients has remained high over the years and has increased from 42% in FY18 to 48% in FY22 with top two customers contributed to a significant share of TOI of about 31% in FY22. However, it is noted that the client base of the company has reputed players in respective industry and the company is also able to generate revenue from repeat customers due to strong relationships.

Industry Prospects

Digital transformation initiatives by enterprises grew manifold during the pandemic, with much greater realization of the need for digitization. The Covid-19 crisis has reshaped the globe significantly. It has resulted in years of change in the way organizations in all sectors and regions do business with a huge shift in technology adoption and digitization across the globe. The driver of long-term growth is the structural shift within the technology market, leading to growing primacy of IT services. Robotics, artificial intelligence, cybersecurity, Internet of Things (IoT), among others are expected to be the key technology focus areas in the medium term. While the IT spending forecasts remain positive, a slowdown in the US and UK economy would impact the IT spending of the clients in these geographies. The company's ability to add and diversify its customer base while maintaining stable margins remains key to the prospects of the company.

Liquidity: 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.70 crore and total cash and liquid investments of Rs.105 crore as on March 31, 2022, against minimal repayment obligation and cash and bank balances of Rs. 10 crore on a standalone basis. The company has a working capital facility of Rs.15 crore, which remained unutilized for the past 12 months, and is maintained as a standby 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 |
| Nanda Infotech Services Inc. | 100% |
| Faichi Solutions Inc. | 100% |
| Acuma Solutions Limited | 100% |
| Saksoft Ireland Limited | 100% |
| Three Sixty Logica Testing Services Pte | 100% |
| DreamOrbit Inc. | 100% |
| MC Consulting Pte Ltd, Singapore | 100% |
| MC Consulting Malaysia SDN | 100% |

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

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 initially catered to the BFSI segment before diversifying to ecommerce, manufacturing, public sector and education verticals. The company now offers associated services like application development, testing and 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, 2022, Saksoft had five wholly-owned subsidiaries and seven step-down subsidiaries across geographies like US, UK, and Singapore.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | Q1FY23 (Prov.) |
|----------------------------|--------------------|--------------------|----------------|
| Total operating income | 385.81 | 481.72 | 148.02 |
| PBILDIT | 64.43 | 80.31 | 25.65 |
| PAT | 45.45 | 63.27 | 17.80 |
| Overall gearing (times) | 0.14 | 0.06 | NA |
| Interest coverage (times) | 18.70 | 28.92 | 52.35 |

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 12.00 | CARE A; Stable |
| Fund-based - ST-Bank Overdraft | | - | - | - | 3.00 | CARE A1 |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|----------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT* | - | - | - | 1)Withdrawn (07-Sep-21) | 1)CARE A-; Stable (07-Sep-20) | 1)CARE A-; Stable (14-Jan-20) |
| 2 | Fund-based - LT-Cash Credit | LT | 12.00 | CARE A; Stable | - | 1)CARE A-; Positive (07-Sep-21) | 1)CARE A-; Stable (07-Sep-20) | 1)CARE A-; Stable (14-Jan-20) |
| 3 | Fund-based - ST-Bank Overdraft | ST** | 3.00 | CARE A1 | - | 1)CARE A2+ (07-Sep-21) | - | - |

*Long term; **Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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