Saksoft Limited

November 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	12.00	CARE A; Stable	Reaffirmed
Short-term bank facilities	3.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Saksoft Limited (Saksoft) continue to derive strength from the vast experience of its promoters in this industry and its focused presence in the digital transformation space. The ratings also factor in the sustained growth in the revenue over the past few years across diversified industry verticals while maintaining stable margins.

Saksoft has, over the years, also relied on inorganic means to fuel growth and expand across verticals and competencies. In line with this, the company has, through its wholly owned subsidiaries, acquired Solveda Software India Private Limited and Solveda LLC (collectively 'Solveda'). This acquisition is expected to strengthen its presence in the e-commerce vertical. The successful integration of operations with Solveda remains key for the profitable scaling up of the business.

The ratings continue to factor in the comfortable leverage and healthy liquidity position of the company, albeit a marginal drop in free cash, as the acquisition was entirely funded out of internal generation.

The ratings remain constrained by the competitive and fragmented nature of the Information Technology (IT) industry, risks associated with geographic concentration, particularly in light of the slowing growth in key markets where the company operates, and the high risk of client concentration.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations above ₹800 crore with margins above 20%.
- Diversification of the client base.

Negative factors

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

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 the income of the company and the business model entails a high amount of integration with the subsidiaries.

Subsidiary	Percentage 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%
Step-down Subsidiary	**Percentage of holding**
Nanda Infotech Services Inc	100%
Faichi Solutions LLC	100%
MC Consulting Malaysia SDN	100%
MC Consulting Pte Ltd	100%
Saksoft Ireland Limited	100%
Acuma Solutions Limited	100%
Terafast Networks Private Limited	100%
DreamOrbit Inc	100%
Solveda Software India Private Limited	100%
Solveda LLC	100%

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company will continue to maintain its healthy financial risk profile.

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

Detailed description of the key rating drivers

Key strengths

Experienced promoters and well-qualified management team

Saksoft was founded by Aditya Krishna in the year 1999. Aditya Krishna, Chairman & Managing Director of Saksoft, has completed his MBA from Northeastern University, Boston, US, and has over two decades 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 customers to transform their business digitally through legacy modernisation and intelligent automation. Application development, which is the primary focus of the company, has grown significantly over the past three years at a significant CAGR of 35%. This was accelerated largely by higher spending on digital transformation post-COVID. Although the initial contracts are for a year, through effective data mining, product improvements and migration, the company continues to support and manage the application, which ensures consistency in revenue as well repeat business.

Presence across diversified verticals with capabilities arising out of acquisitions

Saksoft, with its rich promoters' experience in the banking, financial services and insurance (BFSI) domain, started its services primarily aimed at BFSI clients and has worked with leading global banks and financial institutions (FIs). Saksoft has diversified its services into verticals, namely, logistics, e-commerce, healthcare, telecom, the public sector, and financial technology (fintech). Over the years, the company has been able to build on its capabilities in the verticals with a series of acquisitions targeted at growth in verticals and competencies. Along this line, in August 2023, the company, through its subsidiaries – ThreeSixty Logica Testing Services Private Limited and Saksoft Inc – has acquired Solveda Software India Private Limited and Solveda LLC respectively (collectively 'Solveda') for strengthening its presence in the e-commerce vertical. Solveda is a software design and development company with expertise in e-commerce applications catering to business-to-business (B2B) and business-to-consumer (B2C) customers.

Sharp growth in FY23, which has slowed down in H1FY24; margins continue to remain stable

The company has grown at a CAGR of 19% over the last five years; in FY23, Saksoft grew by 34%. However, in H1FY24, the company recorded a total operating income (TOI) of ₹373.8 crore as against ₹665.60 crore in FY23. The growth rate has tapered down to about 11% on an annualised basis and the quarter-on-quarter (q-o-q) growth over the last three quarters ended September 30, 2023, has remained flat, with lower spending in its key markets due to slowdown in their economies. The acquisition of Solveda in August 2023 is expected to fuel growth in FY24. The successful integration of operations with Solveda remains key for the profitable scaling-up of Saksoft's business.

The PBILDT margin has, however, remained stable at 16-17% for the past few years. The key determinants in the margin 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 and customers, and effective cost optimisation. Furthermore, Saksoft is gradually moving towards more offshoring for controlling employee costs. Over the past five years, the company has increased its offshore mix from 53% in FY22 to 55% in FY23.

Comfortable financial risk profile

The company continues to maintain a comfortable financial risk profile with a healthy capital structure, marked by zero bank debt as on September 30, 2023. In August 2023, Saksoft acquired Solveda through its subsidiaries and the cost of acquisition was US$ 18.8 million (approximately ₹156 crore), of which the company has made an upfront payment of about US$ 10 million (approximately ₹83 crore) completely out of internal accruals. With no debt in the acquired company as well, going forward, the financial metrics are expected to be in line with past trends and remain healthy, backed by revenue growth and a healthy liquidity position.

Key weaknesses

Intense competition in a fragmented market 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 also faces intense competition due to low entry barriers as well as faces challenges from rapid technological changes, which may lead to obsolescence of certain software or services.

IT being a labour-intensive industry, the availability and retention of a skilled workforce, attrition levels, and wage inflation poses challenges. The players in this industry are also exposed to macro-economic factors such as adverse changes in the US laws, including those relating to outsourcing and immigration inherent to the IT services sector, which remain future challenges. In the Indian IT industry, the contribution of the US market in the revenues earned by Indian IT companies is around 40% and another major share comes from Europe. In case of recession, the IT spending in these regions will be impacted and the margins of the companies will be under pressure. IT being discretionary spend, any cost reduction initiatives will result in a reduction in IT spends by clients.

Geographical concentration and client concentration

The company derived 72% of its revenue from the US and Europe in FY23, with almost half of the revenue coming from the US. Both these geographies are the largest markets in the IT space. Saksoft has seen an uptick in revenue from Asia-Pacific (APAC), however, this is also largely from UK and US entities routing their contracts through their APAC counterparts.

The company mainly serves clients in the mid-size segment within a turnover range of US$ 200 million – US$ 2 billion and the order size from each company remains at a sub US$ 1 million. However, there is a gap between the top clients and the rest, as some large and reputed players contribute to more than US$ 1 million of the revenue. Due to this, the client concentration on the top five clients has remained high over the years and was at 46% in FY23, with the top two customers contributing to a significant share of the TOI of about 28% in FY23. However, it is noted that the client base of the company has reputed players in the respective industries and the company is also able to generate revenue from repeat customers due to strong relationships spanning many years.

Industry prospects

India is the world's largest outsourcing destination with the largest qualified talent pool. The IT industry accounts for nearly 8% of the country's GDP, contributes to more than half of services exports, and 50% of the foreign direct investment (FDI). The COVID pandemic that began over two years ago hurled many organisations into the future, rapidly accelerating their digital transformation initiatives. Furthermore, it was supported by the change in environments, as seamless remote working became a commonplace. That said, the headwinds in the form of geopolitical risks, high inflation, macroeconomic volatility, supply chain disruptions, and the after-effects of the high spending in the pandemic will impact the growth going forward. While the IT spending forecasts remain positive, a slowdown in the US and UK economies will impact the IT spending of clients in these geographies. The company's ability to add and diversify its customer base while maintaining stable margins remains key to its 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. Saksoft is virtually debt-free, except for minimal lease liabilities as on September 30, 2023. This apart, the company has an earnout liability for the acquisition of about ₹73 crore to be paid over the next two years based on the profitability milestones. Against this, the company maintains a comfortable liquidity position, with strong cash accruals of ₹80-90 crore and total cash and liquid investments of ₹123 crore as on September 30, 2023. Additionally, a working capital facility of ₹15 crore has remained unutilised for the past 12 months, serving as a standby limit to address any emergency cash requirements.

Environment, social, and governance (ESG) risks

Environment: Being a software company, the impact on the environment is minimal. It is to be noted that In FY24, Saksoft achieved a carbon-neutral status.

Social: The company prioritises labor laws and maintains a positive work environment with no reported discrimination complaints. Saksoft promotes inclusivity, with one-fourth of the workforce being females.

Governance: The Board, comprising six directors, includes the presence of four independent directors. Mandated committees, including Audit, Remuneration, CSR, Stakeholder Relationship, and Risk Management, are in place. The Audit Committee is exclusively composed of independent directors, demonstrating financial expertise.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information technology	IT – Services	IT-enabled services

Established in 1999 by Autar Krishna and his son, Aditya Krishna, Saksoft is engaged in providing business intelligence and information management solutions, predominantly to mid-tier companies based out of the US and the UK. Saksoft initially catered to the BFSI segment before diversifying to the e-commerce, 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, 2023, Saksoft had five wholly owned subsidiaries and seven step-down subsidiaries across geographies like the US, the UK, and Singapore.

Brief financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	481.72	670.70	373.88
PBILDT	80.31	113.25	70.34
PAT (After def Tax)	63.27	81.98	54.03
Overall gearing ratio (times)	0.06	0.03	0.03
Interest coverage (times)	28.92	51.90	55.83

A: Audited; Prov: Provisional. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 2023-2024	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
1	Fund-based - LT-Term loan	LT*	-	-	-	-	1)Withdrawn (07-Sep-21)	1)CARE A-; Stable (07-Sep-20)
2	Fund-based - LT-Cash credit	LT	12.00	CARE A; Stable	-	1)CARE A; Stable (16-Sep-22)	1)CARE A-; Positive (07-Sep-21)	1)CARE A-; Stable (07-Sep-20)
3	Fund-based - ST-Bank overdraft	ST**	3.00	CARE A1	-	1)CARE A1 (16-Sep-22)	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 the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - ST-Bank overdraft	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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