

Saksoft Limited

November 11, 2024

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

Ratings assigned to bank facilities of Saksoft Limited (Saksoft) continue to derive strength from the promoter's vast experience in software industry and its focused presence in digital transformation space. Ratings also factor in sustained growth in revenue in the last few years across diversified industry verticals while maintaining stable margins.

Ratings continue to factor in the company's comfortable leverage and healthy liquidity position, integrated service capabilities/offerings, and strong relationships with its customers with history of repeat and regular business. However, ratings are constrained by competitive and fragmented Information Technology (IT) industry, risks associated with geographic concentration, particularly considering slowing growth in key markets where the company operates, and high client concentration risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations above ₹1000 crore while successful integration of recent acquisitions.
- Maintain profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins of over 20% on a sustained basis.
- Diversification in the customer base.

Negative factors

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

Analytical approach: Consolidated

Considering Saksoft's significant financial and operational linkages with its subsidiaries, 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.

Subsidiary	Percentage of Holding (as on March 31, 2024)
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%

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

Solveda UK	100%
Solveda LLC	100%
Solveda Software India Private Limited	100%

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes the company will continue to maintain its healthy financial risk profile, considering strong cash generation from operations.

Detailed description of key rating drivers

Key strengths

Focused digital transformation player

Saksoft is a niche technology specialist that provides a comprehensive suite of business transformation, information management, application development and testing services. Application development is the company's primary focus and has grown significantly in the last three years ending March 31, 2024, at a significant compound annual growth rate (CAGR) of 38%. This was accelerated largely by higher spending on digital transformation post-COVID. Although 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 and repeat business.

Presence in niche and 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 worked with leading global banks and financial institutions (FIs). Saksoft over the years diversified its services in verticals, including logistics, e-commerce, healthcare, telecom, public sector, and financial technology (fintech). In FY24, Saksoft restructured its business into four main verticals: Fintech, Hi-tech Media & Utilities (HMU), Transportation and Logistics, and Retail E-commerce, by consolidating several subsectors from the existing verticals.

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. The company has acquired two companies in the current year, Augmento Labs Private Limited in June 2024 and Ceptes Software Private Limited in September 2024. Augmento Labs is a digital engineering company with a customer base in the US, and Ceptes Software has expertise in the salesforce platform which is expected to enhance Saksoft's salesforce capabilities.

Consistent growth in scale of operations, albeit moderation in growth rate in FY24; margins continue to remain stable

The company recorded a CAGR of 25.45% over the last three years, reaching a total operating income (TOI) of ₹761.63 crore in FY24 from ₹385.81 crore in FY21. Year-over-year (y-o-y), Saksoft's revenue growth rate moderated to 13.6% in FY24 against 39% in FY23. In FY24, despite growing concerns about the US recession, high interest scenario in the developed countries and decreased spending in Europe due to wars, Saksoft posted growth in revenues mainly due to its focused presence in niche verticals and being in the mid-tier focused company. Growth was also further bolstered by the acquisition of Solveda Inc in August 2023, which contributed around ₹45 cores to FY24's TOI. In Q1FY25, the company registered consolidated revenue of ₹201 crore (Q1FY24: ₹183 crore), marking around 10% increase on a Y-o-Y basis. Newly acquired entities, Augmento Labs (acquired in June 2024) and Ceptes Software (acquired in September 2024) are expected to further support in continued growth in revenues.

The PBILDT margin has remained stable at 16-17% for the past few years with marginal improvement in FY24 to 17.91% (PY: 16.89%). Marginal improvement is considering better utilisation of resources, and better realisations considering weakening rupee and acquired companies operating at higher profitability levels thus improving overall profitability. 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. In the last five years, the company has increased its offshore mix from 53% in FY22 to 55% in FY24. The company plans to increase the offshore share for the next few years to reach a target of 60-40.

Comfortable financial risk profile

The company's capital structure continues to remain comfortable with overall gearing of 0.05x as on March 31, 2024. The total debt position of ₹26.35 crore is majorly considering lease liabilities and a term loan of ₹8.3 crore in the books of Saksoft Inc as on March 31, 2024. The overall gearing is expected to remain comfortable as the acquired companies are also debt free.

In June 2024, Saksoft acquired Augmento Labs Private Limited (Augmento Labs). Augmento Labs is a digital engineering company, headquartered in Bangalore, having enterprise clients across India and US and offers solutions across industries including Hi-Tech, automotive, healthcare, and industrial domains. Total purchase consideration for the acquisition stands at ₹100.00 crore

with an upfront cash consideration of ₹35 crore and the balance as earnout consideration based on performance over the next 24 months.

In September 2024, Saksoft acquired Ceptes Software Private Limited (Ceptes). Ceptes is a Bengaluru-based global salesforce service provider which accelerates the business value of customers salesforce investment through consultation, digitalisation, and innovation. This acquisition is expected to elevate and strengthen Saksoft's capability on the salesforce platform-related services and gain access to enterprise customers. Total purchase consideration for the acquisition stands at ₹61.50 crore with an upfront cash consideration of ₹31.05 crore and the balance as earnout consideration based on performance over the next 24 months. Ceptes' acquisition was partly funded by debt of around ₹29.4 crore (US\$ 3.5 million) which was availed in the current year.

Experienced promoters and well-qualified management team

Saksoft was founded by Aditya Krishna in 1999. Aditya Krishna, chairman and 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. Saksoft's day-to-day affairs are overseen by experienced IT professionals heading technologies and geographies, with a well-defined organisation structure.

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 and many small or local players, leading to intense competition in the industry. The industry also faces challenges from rapid technological changes, which may lead to obsolescence of certain software or services. IT being a labour-intensive industry, availability and retention of a skilled workforce, attrition levels, and wage inflation poses challenges.

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, contribution of the US market in revenues earned by Indian IT companies is around 40% and another major share comes from Europe. In case of recession, IT spending in these regions will be impacted and the companies' margins will be under pressure. IT being discretionary spend, cost reduction initiatives will result in a reduction in IT spends by clients.

Concentration in US and UK markets

The company derived 76% revenue from USA and UK in FY24 and Q1 FY25. The revenue share from APAC region has increased driven by many global players setting up centers in India. Saksoft's contracts are also routed through Indian entities of the US and UK players.

Further, the IT sector has been facing several challenges globally, with significant headwinds in the U.S. market. Overall recessionary pressures, high inflation and high-interest rate scenario in the US and Europe have significantly impacted the IT spending of companies. Additionally, the upcoming US elections have led companies to defer IT expenditures. These challenges have impacted growth rates and created a more competitive environment. Despite these headwinds, Saksoft managed to report modest growth in FY24 owing to its mid-tier focused position and niche service offerings.

Since most revenue is from USD or GBP, the company also has a risk of forex fluctuations. Margins and revenue would be exposed to fluctuations in the current movement. The company also has hedging policies in place to mitigate such risks by which the company hedges up to 50% of entire receivables for the upcoming 12 months.

Concentration in client base, mitigated to a certain extent by strong relationships and reputed client base

On the client concentration front, top five clients contributed to around 44% of the total revenue in FY24 with more load (27%) from the top two customers. The top five customers share has further moderated to 40% in Q1 FY25. The revenue concentration has been moderating over the recent years with addition of new clients and growth in the smaller clients. Also, strategic acquisitions done by the company is also adding new customers. The revenue concentration among top customers is expected to continue with top 20 customers is expected to contribute to maximum share of around 70% of total revenue, however, the tail end of customers is long with 60-70 smaller companies. Client concentration risk is somewhat mitigated by the varied scope of work performed for the same customer, long-term relationships with key clients.

Liquidity: Strong

Saksoft provides a credit period of around 60-70 days for its customers aligned with industry benchmarks. The company's liquidity position is comfortable with strong gross cash accruals (GCAs) of ~₹108.2 crore in FY24 and cash bank balance of ₹192.5 crore as on March 31, 2024. The company has a working capital facility of ₹15 crore, which remained unutilised for the last 12 months, and is maintained as a standby limit to meet emergency cash requirements.

Environment, social, and governance (ESG) risks

Environment: Being a software company, the impact on environment is minimal. The company has also invested in Carbon Credits associated with United Nations Framework Convention on Climate Change and achieved complete carbon neutrality for 2022-23 emissions and is carbon neutral from June 2023.

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 consists of seven Directors, with five Independent Directors making up over half of its total strength. Mandated committees, including Audit, Remuneration, CSR, Stakeholder Relationship, and Risk Management, are in place. The Audit Committee is exclusively composed of independent directors and has sufficient financial expertise.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic 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 the BFSI segment before diversifying to other sectors such as Fintech, Hi-tech Media & Utilities (HMU), Transportation & Logistics, and Retail/ E-commerce. The company now offers associated services like application development, testing and quality control, and solutions based on Cloud, mobility and Internet of Things (IoT) and Information Management (IM) and Business Intelligence (BI) solutions. As on March 31, 2024, Saksoft had five wholly owned subsidiaries and eleven step-down subsidiaries across India, USA, UK, and Singapore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1 FY25 (UA)
Total operating income	670.70	761.63	201.01
PBILDT	113.25	136.39	35.03
PAT	81.98	96.17	25.59
Overall gearing (times)	0.03	0.05	NA
Interest coverage (times)	51.90	38.68	28.62

A: Audited UA: Unaudited; NA: Not available Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Sep-21)
2	Fund-based - LT-Cash Credit	LT	12.00	CARE A; Stable	-	1)CARE A; Stable (22-Nov-23)	1)CARE A; Stable (16-Sep-22)	1)CARE A-; Positive (07-Sep-21)
3	Fund-based - ST-Bank Overdraft	ST	3.00	CARE A1	-	1)CARE A1 (22-Nov-23)	1)CARE A1 (16-Sep-22)	1)CARE A2+ (07-Sep-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 detailsTo view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Saksoft Inc, USA	Full	Similar line of business & common management
2	Saksoft Pte Ltd., Singapore		
3	Saksoft Solutions Ltd., UK		
4	Three Sixty Logica Testing Services Pvt. Ltd., India		
5	DreamOrbit Softech Pvt. Ltd., India		
6	Nanda Infotech Services Inc		
7	Faichi Solutions LLC		
8	MC Consulting Malaysia SDN		
9	MC Consulting Pte Ltd		
10	Saksoft Ireland Limited		
11	Acuma Solutions Limited		
12	Terafast Networks Private Limited		
13	DreamOrbit Inc		
14	Solveda UK		
15	Solveda LLC		
16	Solveda Software India Private Limited		

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

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About us:

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