

Saksoft Limited

January 14, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	17.57 (reduced from 20.82)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Total Facilities	17.57 (Rs. Seventeen crore and fifty seven lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Saksoft Limited (Saksoft) takes into account the increase consistent improvement in the scale of operations of the company with improved profitability over the last few years, with sharp growth observed in FY19 (refers to the period April 1 to March 31). The rating revision also takes into account the comfortable leverage position and debt coverage indicators over the years. The rating continues to draw comfort from the company's long operational track record with established client relationships and vast industrial experience of the promoters with a well-qualified management team.

Rating Sensitivities

Positive Factors

- Improvement in the scale of operations and profitability.

Negative Factors

- Any large debt-funded acquisitions impacting the capital structure of the company with gearing exceeding 1.0x.
- Any sustained drop in profitability margins (PBDIT) below 12%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and well-qualified management team

Saksoft Limited, founded by Mr Aditya Krishna (Chairman & Managing Director of Saksoft) in 1999, offers Information Management (IM) and Business Intelligence (BI) solutions and associated services like application development, testing & quality control and solutions based on cloud, mobility and Internet of Things (IoT). The promoter group has over five decades of industrial experience and Mr Aditya Krishna has about 25 years of experience in the banking and financial services industry. 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 niche Information Management space with integrated capabilities arising out of past acquisitions

The company focuses on six verticals, viz, Fintech, Telecom, Transportation and Logistics, Retail/E-Commerce, Healthcare and Public Sector. In the past few years, Saksoft has expanded its business by acquisitions which have given it access to new verticals and niche technologies that will help to leverage opportunities arising in the above industries. Saksoft has also established a managed services division to provide Reporting as a Managed Service (RaaS) where the company takes over end-to-end information management and Business intelligence solution. The integrated offering helps the company to upsell and cross-sell services.

Reputed client base

Saksoft, with its rich experience of the promoters in BFSI (Banking, Financial Services, Insurance) domain, started its services primarily aimed at BFSI clients. The company has worked with leading global banks and financial institutions. Currently, the company is serving clients within turnover range of USD 200 million - 5 billion.

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

Improvement in scale of operations and Profitability margins

The total operating income grew by 25% in FY19 to Rs. 359.58 crore and a CAGR of 12% for the last five years. The increase in income in FY19 has been driven by higher business from existing clients and new client additions and favourable exchange rates during the year. The PBILDT margin improved to 16.88% in FY19 from 14.17% in FY18. The overall gearing² remained comfortable at 0.30 times as on March 31, 2019.

Key Rating Weaknesses***Geographic and Client concentration risk***

The company derives over 85% of its revenue from USA and UK. Both these countries are the largest markets in the IT Space. The share of Europe has been declining over the last few years from about 48% of income in FY15 to about 30% in FY19. On the client concentration front, top 5 clients contributed 44% of the total revenue in FY19 as against 42% in FY18.

Intense competition in the IT industry

Saksoft is a relatively small player in the IT services industry which is dominated by large multinationals with deep pockets apart from the smaller players operating in niche technology areas with ability to quickly adapt to changing technologies. Factors like wage inflation, employee attrition levels and adverse changes in U.S. laws, including those relating to outsourcing and immigration inherent to the IT services sector remain challenges in the future. IT being discretionary spend, any cost reduction initiative would result in reduction in IT spends by the clients and the same will impact the growth prospects of Saksoft.

Foreign exchange risk

The company's exchange risk arises from its foreign currency revenues (primarily in U.S. Dollars, British Pound Sterling/ Euros and Singapore Dollars). A significant portion of the company's revenue is in these foreign currencies, while a significant portion of its corresponding costs are in Indian Rupee. In the FY19, the rupee depreciated against both USD and Pound and was beneficial for the company.

Liquidity: Adequate

Adequate liquidity characterised by sufficient cushion in accruals vis-à-vis repayment obligations and a cash balance of Rs.40 crore. A large part of the debt (Rs.27 crore as on March 31, 2019) is in the form of unsecured loans from a group company and has no fixed repayment schedule. However, during the current year (FY20), the company has paid an amount of Rs.4 crore of the unsecured loan. The company has working capital facility of Rs. 12 crore, utilisation of which stood at about 73% for 12-month period ending September 2019. Of the total debt of Rs.53 crore (including Operating Lease Payable of Rs.12.44 crore), Rs.48 crore (including Operating Lease Payable of Rs.7.81 crore) is on the standalone books of the company. The company on a standalone basis had accruals of about Rs.17 crore for FY19 as against a repayment obligation of about Rs.3-4 crore (excluding unsecured loan repayments) on a standalone basis.

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 companies which have been consolidated with Saksoft for analysis purpose is attached as below:

² Including operating lease payable as debt

Subsidiaries of Saksoft	% of holding as on March 31, 2019
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	80%
Step down subsidiaries of Saksoft	
Electronic Data Professionals Inc.	100%
Faichi Solutions Inc.	100%
Acuma Solutions Limited	100%
Acuma Software Limited	100%
Three Sixty Logica Testing Services Inc.	100%
DreamOrbit Inc.	100%

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Service Sector Companies](#)

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

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. As on March 31, 2019, Saksoft had 5 subsidiaries (4 wholly-owned subsidiaries and one subsidiary in which holding is 80%) and 6 step-down subsidiaries across geographies like US, UK, and Singapore. Subsequent to the FY19, the company acquired the remaining 20% stake in one of its subsidiaries, thus making it a wholly-owned subsidiary.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	286.93	359.58
PBILDT	40.65	60.70
PAT	24.40	38.22
Overall gearing (times)	0.23	0.30
Interest coverage (times)	7.24	11.75

A: Audited

Note:

1. Unsecured loan from related party of Rs.21.50 crore (out of total unsecured loan of Rs.27.00 crore) which was earlier considered as Quasi Equity is considered as debt as on March 31, 2019.
2. Non operating income includes miscellaneous receipts and profit on sale of assets.
3. Overall gearing ratio computation includes Operating Lease Payable of Rs.12.44 crore as debt.

Status of non-cooperation with previous CRA: - Not Applicable

Any other information – Not Applicable

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

Annexure-1: Details of Instruments/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	-	-	December 2021	5.57	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE A-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	5.57	CARE A-; Stable	-	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Positive (07-Jul-17)	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A3+ (07-Jul-17)	1)CARE A3+ (02-Feb-17) 2)CARE A3+ (14-Jul-16)
3.	Fund-based - LT-Cash Credit	LT	12.00	CARE A-; Stable	-	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Positive (07-Jul-17)	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)

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

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