Saksoft Limited

February 02, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	30 [Enhanced from 21]	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	Reaffirmed
Short-term Bank Facilities	20	**CARE A3+ (A Three Plus)**	Reaffirmed
Total Facilities	**50 (Rupees Fifty crore only)**		

Details of facilities in Annexure - 1

Detailed Rationale

The ratings assigned to the bank facilities of Saksoft Limited (Saksoft) continue to derive strength from the company's long operational track record, vast industrial experience of the promoters with a well-qualified management team, strong client relationships and strong financial risk profile of the company marked by improving profitability and comfortable capital structure & coverage indicators.

The ratings are, however, constrained by the medium sized operations of the company with marginal growth in revenues during FY16 (refers to the period April 01 to March 31) and H1FY17 (refers to the period April 01 to September 30), customer & geographical concentration risk and intense competition present in the highly fragmented IT industry.

The ability of Saksoft to grow its revenues by adding new clients both in information management & testing segments, sustain its profitability levels and manage the revenue concentration risk are the key rating sensitivities.

Outlook: Positive

The outlook is "Positive" as CARE believes that going forward, with the shift in strategy of the company to move into higher margin services in the Information Management space, the company is expected to report higher operating profit and with low reliance on debt the capital structure is expected to remain comfortable. The outlook may be revised to 'Stable' if the company is not able to maintain its higher profitability levels or if there is any adverse change in the capital structure of the company.

Detailed description of the key rating drivers

Saksoft, founded by Mr Aditya Krishna (Chairman and Managing Director) 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). Over the years, Saksoft has expanded its business by acquisitions which have given it access to new markets and niche technologies. The promoter group has over five decades of industrial experience and Mr Aditya Krishna has about 30 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 geographies with a well-defined organisation structure.

Saksoft is present in the niche information management space within the IT industry and serves clients with turnover of about \$200 Million – \$2 Billion thereby resulting in medium scale of operations. Saksoft's total revenues have been in the range of Rs.224.37 crore – Rs.243.73 crore during the past three years ended March 2016. During FY16, the company grew by a marginal 5.53% and further at a rate of 5.03% y-o-y during H1FY17. However, going forward, the company is expected to cater to clients with turnovers in the range of \$200 Million up to about \$5 Billion, which is expected to improve the total income and profitability.

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

The company derives about 90% of its revenue from USA (58%) and Europe (32%) resulting in moderate geographic concentration of revenue. On the client concentration front, top 5 clients contributed to 31.29% of the total revenue in FY16 as against 34.76% in FY15. Though, the contribution from the top five clients has fallen during FY16, top two clients continue to contribute about 25% of the total revenues of Saksoft. During FY16, about 70-75% of the total revenues came from existing clients and new clients/orders made up to the balance portion.

During FY16, the PBIDT margin of the company improved to 15.41% from 11.71% reported during the previous year. The PBDIT margin during H1FY17 was at 14.72%. The improvement in profitability was mainly due to the company's strategy to let go off few of its low margin clients in the BI space and also due to first full year revenues coming from high margin testing services under Three Sixty Logica. The PAT margin increased to 8.88% during FY16 from 7.47% during FY15 and was at 8.61% in H1FY17.

The capital structure of the company remained comfortable with Debt Equity ratio of 0.27x and overall gearing of 0.28x as on March 31, 2016 as compared to Debt Equity ratio of 0.27x and overall gearing of 0.39x as on March 31, 2015. The recent acquisition of DreamOrbit for Rs.16.75 crore was funded by external debt of Rs.12 crore and unsecured loan from the promoters of Rs.3.00 crore and the remaining being funded by internal accruals. During the past, the company had financed most of its acquisitions through internal accruals and debt from group companies with minimal reliance in external debt. The coverage indicators also remain comfortable with interest coverage improving to 8.74 times in FY16 as against 6.47 times in FY15. Total Debt to GCA improved to 1.60 years as on March 31, 2016 as against 2.32 years as on March 31, 2015.

Factors like wage inflation, employee attrition levels and adverse changes in U.S. and U.K. laws, including those relating to outsourcing and immigration 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 can impact the growth prospects of Saksoft.

Analytical approach: Consolidated
CARE continues to take a consolidated view of Saksoft and its subsidiaries, considering the strong operational and financial linkages. All the companies are engaged in similar line of business under a common management.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: 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. Over the years, Saksoft has grown both organically and inorganically by acquiring various companies in complementary line of business expanding its product offerings. The company now 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 December 31, 2016, Saksoft had 5 subsidiaries (3 wholly-owned subsidiaries, one where the company holds 76% stake and DreamOrbit Softech Private Limited - a recent acquisition, where the company holds 60%) and 4 step-down subsidiaries across geographies like US, UK, and Singapore.

During FY16, the company reported a net profit of Rs.21.78 crore on total operating revenue of Rs.243.73 crore as against net profit of Rs.17.37 crore on total operating revenue of Rs.231.40 crore in FY15. During H1FY17, the company reported a net profit of Rs.10.79 crore on a total income of Rs.125.38 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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.

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	-	-	March, 2019	16.00	CARE BBB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	14.00	CARE BBB+; Positive

Annexure-2: Rating History of last three years

		Current Ratings			Chronology of Rating history			
Sr No	**Name of the Instrument/ Bank Facilities**	**Type**	**Amount Outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2016-2017**	**Date(s) & Rating(s) assigned in 2015-2016**	**Date(s) & Rating(s) assigned in 2014-2015**	**Date(s) & Rating(s) assigned in 2013-2014**
1.	Fund-based - LT-Term Loan	LT	16.00	CARE BBB+; Positive	1)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)	1)Suspended (04-Nov-14)	1)CARE BBB (16-Aug-13)
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A3+	1)CARE A3+ (14-Jul-16)	1)CARE A3 (14-Jan-16)	1)Suspended (04-Nov-14)	1)CARE A3 (16-Aug-13)
3.	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB+; Positive	1)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)	1)Suspended (04-Nov-14)	1)CARE A3 (16-Aug-13)

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