

Saksoft Limited

July 07, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	28.75 [reduced from Rs.30 crore]	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short-term Bank Facilities	20.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	48.75 (Rupees Forty Eight crore and Seventy Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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 stable revenue growth, healthy, albeit moderated profitability levels and comfortable capital structure.

The ratings are, however, constrained by the medium sized operations of the company, customer & geographical concentration risk and intense competition present in the highly fragmented IT industry.

The ability of Saksoft to improve its revenues by adding new clients both in information management & testing segments, improve its profitability levels and manage the revenue concentration risk are 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 profitability levels or if there is any adverse change in the capital structure of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Vast industrial experience of the promoters and long track record of operations

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.

Stable revenue growth, healthy profitability levels and comfortable capital structure

During FY17, the company reported a total operating income Rs.261.34 crore indicating a growth of 6.50% from total operating income of Rs.245.39 crore reported during FY16. The profitability levels of the company moderated to 13.61% during FY17 from 15.41% during Fy16 due to increased share of outsourced third party services and adverse exchange rate movement. Acquisition of Dreamorbit during Q3FY17 also had an impact on the margins.

The capital structure of the company remains comfortable with Debt Equity ratio of 0.32x and overall gearing of 0.33x as on March 31, 2017, as compared to Debt Equity ratio of 0.27x and overall gearing of 0.28x as on March 31, 2016.

Key rating Weakness

Medium sized operations with focus on niche Information Management space

Saksoft is a medium sized IT company with presence in the niche information management space within the IT industry. Within the segment, the company is present across the spectrum providing end to end services. Over the years, the company has been improving its scale of operations backed by organic and inorganic growth. Furthermore, from FY16, the company has started targeting clients with turnover of up to USD 5 Billion as against the earlier target of USD 2 Billion.

Geographic and client concentration risk

The company derives about 91% of its revenue from USA (58%) and UK (34%) resulting in moderate geographic concentration of revenue. On the client concentration front, top 5 clients contributed 38.34% of the total revenue in FY17

as against 31.29% in FY16, mainly due to increased revenue from the top 2 clients. During FY16, about 60% of the total revenues came from existing clients and new clients/orders made up to the balance portion.

Intense competition in the IT industry

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 FY17, the company reported a net profit of Rs.20.84 crore on total operating income of Rs.261.34 crore as against net profit of Rs.21.78 crore on total operating revenue of Rs. 245.39 crore in FY16.

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	14.75	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

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	14.75	CARE BBB+; Positive	-	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)	1)Suspended (04-Nov-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A3+	-	1)CARE A3+ (02-Feb-17) 2)CARE A3+ (14-Jul-16)	1)CARE A3 (14-Jan-16)	1)Suspended (04-Nov-14)
3.	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB+; Positive	-	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)	1)Suspended (04-Nov-14)

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