

Saksoft Limited

Spetember 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	20.82 (reduced from 28.75)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	-	-	Withdrawn[#]
Total	20.82 (Rs. Twenty crore and eighty two lakh only)		

¹Details of facilities in Annexure – 1 [#]facility was unutilized

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 promoters with a well-qualified management team, strong client relationships and strong financial risk profile of the company marked by stable revenue growth, healthy 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 and ability to cross sell services with recent acquisitions, the company is expected to report higher operating profit. The reliance on debt is low and 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). 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 FY18, the company reported a total operating income Rs.286.93 cr. indicating a growth of 10.2% from total operating income of Rs.260.35 cr. reported during FY17. The operating income grew at a CAGR of 5.35% over the past 3 years. Business Intelligence services generally have a relatively lower profit margin and the PBILDT margin of the company was in the range of 10.77% to 11.71% during FY13 – FY15. The company's PBILDT margin improved to 14.17% in FY18. The capital structure of the company remains comfortable with Debt Equity ratio of 0.13x and overall gearing of 0.15x as on March 31, 2018 as compared to Debt Equity ratio of 0.16x and overall gearing of 0.17x as on March 31, 2018.

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. Further, from FY16, the company has started targeting clients with turnover of upto 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 (32%) resulting in moderate geographic concentration of revenue. On the client concentration front, top 5 clients contributed 42% of the total revenue in FY18 as

against 38.34% in FY17, mainly due to increased revenue from the top 2 clients. During FY18, about 90% 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 March 31, 2018, Saksoft had 5 subsidiaries (4 wholly-owned subsidiaries, DreamOrbit Softech Private Limited - a recent acquisition, where the company holds 60%) and 6 step-down subsidiaries across geographies like US, UK, and Singapore.

During FY18, the company reported a net profit of Rs.24.4 crore on total operating income of Rs.286.93 crore as against net profit of Rs.20.11 crore on total operating revenue of Rs. 260.35 crore in FY17.

Brief Financials(Rs Cr.)	FY 17(A)	FY 18(A)
Total Operating Income	260.35	286.93
PBILDT	33.78	40.65
PAT	20.11	24.40
Overall Gearing(times)	0.17	0.15
Interest Coverage(times)	7.26	7.79

A-Audited

Note:

- (i) Company has adopted IndAS in FY18 and FY17 figures are restated as per IndAS.
- (ii) Subsequent to the 51% acquisition in 360 logica during FY16, during June 2016, Saksoft acquired additional 25% and during July 2017, the balance 24% was acquired. Also, during Q4FY17, 60% of Dreamorbit was acquired and the subsequent year, FY18, takes into account the full year impact of Dreamorbit acquisition. On account of the above mentioned reasons, FY16, FY17 and FY18 are not comparable.

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	9.26	CARE BBB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	11.56	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	9.26	CARE BBB+; Positive	-	1)CARE BBB+; Positive (07-Jul-17)	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A3+ (07-Jul-17)	1)CARE A3+ (02-Feb-17) 2)CARE A3+ (14-Jul-16)	1)CARE A3 (14-Jan-16)
3.	Fund-based - LT-Cash Credit	LT	11.56	CARE BBB+; Positive	-	1)CARE BBB+; Positive (07-Jul-17)	1)CARE BBB+; Positive (02-Feb-17) 2)CARE BBB+ (14-Jul-16)	1)CARE BBB (14-Jan-16)

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