

Saksoft Limited

September 07, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based)	15.88 (reduced from 17.57)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	15.88 (Rs. Fifteen crore and eighty eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Saksoft Limited (Saksoft) continues to take into account the stable revenues and profitability margins, comfortable leverage position and debt coverage indicators of the company. 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. However, the rating remains constrained by intense competition in the IT industry, risk of client and geographic concentration and foreign exchange risk.

Rating Sensitivities

Positive Factors

- Improvement in the scale of operations with reduced client concentration risk
- Improvement in profitability with PBILDT margins exceeding 20%.

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 has 6 verticals namely Fintech, Telecom, Transportation and Logistics, Retail/E-Commerce, Healthcare and Public Sector. Over the last few years, the company has been acquiring companies that cater to different verticals that they have now completely integrated into their business, strengthening their customer proposition. The integrated offering helps the company to upsell and cross sell services and not losing clients to competitors. 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.

Reputed client base: Saksoft started its services primarily aimed at BFSI (Banking, Financial Services, Insurance) clients. The company has worked with leading global banks and financial institutions. Currently the company is serving clients in the mid-range segment within turnover range of USD 200 million - 5 billion. Fintech and Telecom account for the largest share of the total operating income at 29% and 20% respectively in FY20 (refers to the period April 1 to March 31).

Stable revenue and profitability margins: During the year FY20, the revenue of the company remained stable at Rs.358.78 crore as against Rs. 358.05 crore in FY19. The flatness is attributed to a large customer selecting to move a portion of their business to a captive solutions centre in India from the start of FY20. Scaling up of business from other accounts and new client additions helped offset this loss in revenue. Despite the flatness in the revenue, the PBILDT margins improved from 16.88% in FY19 to 17.88% in FY20. The company booked a revenue of Rs. 93.75 Crore in Q1FY21 as against Rs. 92.90 Crore in Q4FY20 recording a 0.9% growth Q-o-Q. The PBILDT margins have improved marginally to 15.84% in Q1FY21 from 14.91% in Q4FY20.

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

Comfortable capital structure and debt coverage indicators: The overall gearing remained comfortable at 0.17 times as on March 31, 2020 as against 0.30 as on March 31, 2019. Interest coverage ratio remained comfortable at 11.19x as on March 31, 2020.

Key Rating Weaknesses

Geographic and client concentration risk: The company derived around 77% of its revenue from USA and UK in FY20. Both these countries are the largest markets in the IT Space. On the client concentration front, top 5 clients contributed 47% of the total revenue in FY19 as against 44% in FY18. The contribution remained fairly similar for Q1FY21 with 49% from the top 5 customers.

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. 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. However, Post-COVID, many mid-tier technology services have seen a boost since certain industry segments have started engaging with their IT partners to remain relevant.

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.

COVID impact and prospects: Over the years, Saksoft has seen steady growth in size due to their acquisitions that gave them good access to different geographies and verticals. However, the company being a mid-sized player in the IT industry, it would continue to face intense competition from industry giants. The company continuously sees improving trends in margins. During Q1FY21, despite COVID situation and flat revenue growth, the company saw an increased profitability. The company's operations have not been affected by the COVID and the associates are largely on a work from home mode. The company still actively looks forward for acquisitions that would strengthen their capabilities and give access to new segments. Going forward, the company's ability to retain customers and cross-sell other services to its clients will be critical.

Liquidity : Adequate

The liquidity position of the company is comfortable with the company having strong cash accruals of Rs. 44.75 crore for FY20 as against a repayment obligation of Rs. 6.92 crore (includes term loan repayment of Rs. 2.91 crore and operating lease liability of Rs. 4.01 crore). The total cash and bank balance of Rs.42.88 crore as on March 31, 2020. The company has a working capital facility of Rs.12 crore which had an average utilisation of 17.99% for the 12 month period ending July 31, 2020. On a standalone basis, the company had cash accruals of around Rs. 33 crore against a repayment obligation of around Rs. 6 crore (excluding unsecured loan repayments) for FY20. The company also had a cash and bank balance of Rs. 0.66 crore on standalone basis as on March 31, 2020.

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 are as below:

Name of subsidiaries	% of holding
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%
Name of step-down subsidiaries	% of holding
Electronic Data Professionals Inc.	100%
Faichi Solutions Inc.	100%
Acuma Solutions Limited	100%
Saksoft Ireland Limited	100%
ThreeSixty Logica Testing Services Pte.	100%
DreamOrbit Inc.	100%

Applicable Criteria[Criteria on assigning Outlook 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](#)[Liquidity Analysis of Non-financial sector entities](#)**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. 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, 2020, Saksoft had 5 wholly-owned subsidiaries and 6 step-down subsidiaries across geographies like US, UK, and Singapore.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	359.58	362.46
PBILDT	60.70	64.80
PAT	38.21	38.66
Overall gearing (times)	0.30	0.17
Interest coverage (times)	11.74	11.19

A: Audited

Status of non-cooperation with previous CRA: N/A

Any other information: N/A

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	-	-	Dec, 2021	3.88	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	3.88	CARE A-; Stable	-	1)CARE A-; Stable (14-Jan-20)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Positive (07-Jul-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A3+ (07-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	12.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Jan-20)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Positive (07-Jul-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: N/A

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

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

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About CARE Ratings:

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