

March 16, 2023

## Sasken Technologies Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Non-Fund Based	35.00	29.00	Rating reaffirmed at [ICRA]A1+
Short Term Unallocated	-	6.00	Rating reaffirmed at [ICRA]A1+
<b>Total</b>	<b>35.00</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating factors in the established presence of Sasken Technologies Limited (Sasken) in the information technology (IT) sector, wherein it provides services in the product engineering and digital transformation space. The company's long-standing relationships with its reputed customer base spread across various geographies and its presence across end-user industries providing business diversity continue to support the rating. Sasken's scale of operations remain moderate, and its revenues have largely been flattish in recent years. Margins have been marginally lower in recent quarters on account of increase in employee costs driven by delivery capacity creation and investments in sales. Sasken continues to have a strong liquidity profile marked by healthy cash and liquid investments balance and zero debt.

Going forward, Sasken's business prospects are expected to be supported by likely improvement in segmental diversification and customer base. The rating continues to be constrained by Sasken's moderate scale of operations in a competitive industry marked by the presence of relatively larger players, which restricts its pricing flexibility to a certain extent. The rating also considers the inherent business risks and vulnerability of earnings to factors such as wage inflation, attrition, exchange rate fluctuation, etc.

### Key rating drivers and their description

#### Credit strengths

**Established presence in the product engineering and digital services business** – For over 30 years and with multiple patents, Sasken has an established presence in Product Engineering and Digital Transformation providing concept-to-market, chip to cognition R&D services to global leaders in semiconductor, automotive, industrials, consumer electronics, enterprise devices, satcom, telecom, and transportation industries.

**Longstanding relationships with a reputed customer base lend revenue visibility to Sasken** – Although the company has reduced number of active customers in recent quarters (from 66 clients in Q3 FY2022 to 61 clients in Q3 FY2023), Sasken has clientele with strong reputations and enjoys longstanding relationships with them thus providing revenue visibility.

**Diversified revenues across geographies insulates the company from country-specific risks** - Sasken enjoys a diversified revenue mix with North America, EMEA, and rest of the World contributing 42%, 24% and 34% respectively to revenues in Q3FY2023. Revenues from North America has witnessed relatively higher business growth in recent quarters which has resulted in it becoming the largest geography in terms of revenue. Geographical diversification aids Sasken in mitigating any region-specific or country-specific risk factors.

**Financial profile characterized by healthy earnings, debt free status and strong cash reserves** - Despite sustained reduction in its operating income since FY2019, Sasken's earnings before interest, tax, and depreciation (EBITDA) has remained healthy at over 25% in 9M FY2023. Its financial profile remains healthy supported by nil debt and net worth of Rs. 698.3 crore as on December 31, 2022. Cash balance and liquid investments of Rs. 568.0 crore as on December 31, 2022 supports the company's

liquidity profile. While Sasken continues to make steady dividend payouts, the absence of debt-funded capex plans and improving margins are expected to keep the financial profile stable going forward. However, sizeable contingent liabilities comprising tax demands of ~Rs. 273 crore in FY2022 is a key monitorable.

### Credit challenges

**Moderate scale of operations** - The domestic IT industry is characterised by large players enjoying scale benefits and higher bargaining power. With a top line of Rs. 344.1 crore in 9M FY2023 and 61 clients, the company’s scale of operations remains moderate, restricting its ability to enjoy scale benefits and pricing flexibility. Sasken’s revenues have been impacted in FY2022 amidst high employee attrition and gradual reduction in number of clients which had impacted onsite billing. However, attrition has reduced in recent quarters with refilling of employee force through fresher induction programs. ICRA will continue to monitor the progress on client additions/exits, employee attrition rates etc., and its impact on revenues and earnings profile.

**Vulnerability of earnings to demand in end-user industries and foreign exchange fluctuations** – With over two thirds of its revenues in FY2022 derived through exports, Sasken is exposed to foreign exchange risk. However, the company enters into forward contracts to hedge its exposure in dollars and euro. Nevertheless, industry-specific risks like wage inflation and attrition levels remain a challenge.

### Environmental and Social Risks

**Environmental considerations** - Given the service-oriented business, Sasken's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

**Social considerations** – Like other Indian IT service companies, Sasken faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, Sasken remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled workforce and may have an adverse impact on profitability.

### Liquidity position: Strong

Sasken has cash and cash equivalents balance of Rs. 568.0 crore as on December 31, 2022. With nil repayment obligations, and minimal capex requirements, liquidity remains strong.

### Rating sensitivities

**Positive factors** – Not Applicable

**Negative factors** – Negative pressure on Sasken’s ratings could arise with inability to scale up revenues or with any large reduction in cash and liquidity investments resulting in weakening of the company’s overall liquidity risk profile.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for entities in Information Technology industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

## About the company

Sasken has an established presence in Product Engineering and Digital Transformation providing concept-to-market, chip-to-cognition R&D services to global leaders in Semiconductor, Automotive, Industrials, Consumer Electronics, Enterprise Devices, SatCom, Telecom, and Transportation industries. For over 30 years and with multiple patents, Sasken has serviced the requirements of 100+ Fortune 500 companies, powering more than a billion devices through its services and IP.

Established in 1989, Sasken employs around 1674 people (as at 31<sup>st</sup> December, 2022), operating from state-of-the-art centers in Bengaluru, Pune, Chennai, and Kolkata (India), USA, Kaustinen and Tampere (Finland), and München (Germany). Sasken also has a presence across Japan and UK. Sasken has been listed in the National Stock Exchange of India Limited and BSE Limited. in Mumbai, India since its initial public offering in 2005.

## Key financial indicators (audited)

Sasken Consolidated	FY2021	FY2022
Operating income	444.8	433.9
PAT	114.5	128.2
OPBDIT/OI (%)	29.3%	29.7%
PAT/OI (%)	25.8%	29.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	279.1	2,855.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 16, 2023			
1	Non-Fund Based	Short Term	29.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Unallocated	Short term	6.0	-	[ICRA]A1+	-	-	-
3	Fund-based	Short term	-	-	-	-	-	[ICRA]A1+ withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term Non-Fund Based	Very Simple
Long Term/Short Term - Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Non-fund based limits	-	-	-	29.0	[ICRA]A1+
-	Short Term Unallocated	-	-	-	6.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Sasken Communication Technologies Mexico	100.00%	Full Consolidation
Sasken Finland Oy	100.00%	Full Consolidation
Sasken Inc., USA	100.00%	Full Consolidation

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