

January 31, 2022

Sasken Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-Term Non-Fund Based	40.00	35.00	Reaffirmed at [ICRA]A1+
Total	40.00	35.00	

*Instrument details are provided in Annexure-1

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. Its revenues have declined in the recent quarters amidst high employee attrition and gradual reduction in number of clients which had impacted onsite billing. Nevertheless, the cost control measures taken by the company (including rationalization of employee costs, travel costs, rental costs etc.,) coupled with robust execution of margin – accretive contracts has resulted in healthy expansion in profit margins and earnings.

Going forward, Sasken's business prospects is expected to be supported by refilling of employee force and 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 ratings also consider 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 107 clients in Q1 FY2019 to 66 clients in Q3 FY2022), 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, Europe and rest of the World contributing 29%, 25% and 46% respectively to revenues in Q3FY2022. Revenues from North America has witnessed sharp contraction in recent quarters which has been partly compensated by growth in other geographies. 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 have improved steadily with operating margins improving to 30.2% in 9M FY2022 from 14.1% in FY2019. Its financial profile remains healthy supported by nil debt and net worth of Rs. 626.3 crore as on December 31, 2021. Cash balance and liquid investments of Rs. 537.9 crore as on December 31, 2021 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. 260 crore in FY2021 is a key monitorable.

Credit challenges

Moderate scale of operations; operations impacted by reduction in number of clients and higher employee attrition in recent quarters - The domestic IT industry is characterised by large players enjoying scale benefits and higher bargaining power. With a top line of Rs. 444.8 crore in FY2021 and over 65 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 the recent quarters amidst high employee attrition and gradual reduction in number of clients which had impacted onsite billing. The impact of Covid-19 on end-user industries, budgetary spend at client end and high levels of attrition in recent quarters also moderated the revenue growth. 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 FY2021 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.

Liquidity position: Strong

Sasken has cash and cash equivalents balance of Rs. 537.9 crore as on December 31, 2021. 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	Corporate Credit Rating Methodology Rating Methodology for entities in Information Technology industry
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.

Established in 1989, Sasken employs around 1400 people, operating from state-of-the-art centers in Bengaluru, Pune, Chennai, and Kolkata (India), 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 and Bombay Stock Exchange Ltd. in Mumbai, India since its initial public offering in 2005.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	492.2	444.8
PAT (Rs. crore)	78.8	114.5
OPBDIT/OI (%)	17.9%	29.3%
PAT/OI (%)	12.0%	23.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	124.9	279.1

Source – Company and ICRA Research' PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	27-Nov-2020	25-Oct-2019	07-Jan-2019
1	Non-Fund Based	Short Term	35.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Fund Based	Very Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Non-Fund Based Limits	-	-	-	35.0	[ICRA]A1+

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sasken Communication Technologies Mexico	100.00%	Full Consolidation
Sasken Communication Technology (Shanghai) Co. Ltd.	100.00%	Full Consolidation
Sasken Finland Oy	100.00%	Full Consolidation
Sasken Inc., USA	100.00%	Full Consolidation

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