November 27, 2020

Sasken Technologies Limited: Rating Reaffirmed

Summary of rating action

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

**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 also support the rating. Sasken's scale of operations remain moderate and its revenues have largely been flattish with a CAGR of 2.8% for the past five years ending in FY2020 as it was focused on executing high margin contracts. The revenues declined in the recent quarters due to the impact of Covid-19 pandemic on end-user industries. Nevertheless, the cost-control measures taken by the company coupled with focus on execution of high margin contracts has expanded its operating profit margins. Going forward, Sasken's business prospects shall be supported by the expected improvement in segmental diversification and its reputed customer base. The ratings continue 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 product engineering and digital services business - Sasken has more than 30 years of experience in semiconductor and communication verticals. It offers integrated circuit (IC) design, hardware design, board support packages, modem software solutions, connectivity services, multimedia solutions, smartphone software, testing, etc.

Improving segmental diversification and reputed customer base lend stability to revenues - Historically, the company has largely focused on the semi-conductor and telecom segments. With subdued performance of some of its clients in these domains and to achieve business diversity, the company has identified verticals like automotive electronics, semiconductor, communication, industrial automation and consumer segment for growth. Most of these segments are margin accretive in nature and have been supporting Sasken's earnings growth.

Long-standing relationship with reputed customer base - Although the company has reduced new customers additions in the recent quarters, its existing clientele has a strong reputation.

Diversified revenues across geographies: Sasken enjoys a diversified mix with North America, Europe and rest of the World contributing ~33%, 18% and 49% respectively to revenues in Q2FY2021. Geographical diversification aids Sasken in mitigating any region-specific or country-specific risk factors.

Financial profile characterised by debt-free status and strong cash reserves - Despite lower scale of operations, the company's operating profits have improved steadily in the recent quarters. Its financial profile remains healthy supported by nil debt and net worth of Rs. 535.6 crore as on September 30, 2020. Cash balance and liquid investments of Rs. 417.7 crore as on September 30, 2020 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.

Credit challenges

Moderate scale of operations with muted revenue growth in last five years - The domestic IT industry is characterised by large players enjoying scale benefits and higher bargaining power. With a top line of Rs. 492.2 crore in FY2020 and a five-year CAGR of 2.8%, the company's scale of operations remains moderate, restricting its ability to enjoy scale benefits and pricing flexibility. The impact of Covid-19 on end-user industries has affected the company's revenues in the recent quarters. That said, with focus on margin-accretive contracts and several cost measures, Sasken's profit margins have expanded (reaching highs of 27.0% in H1 FY2021).

Vulnerability of earnings to demand in end-user industries and foreign exchange fluctuations - With more than 80% of its revenues 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.

Moderately high customer concentration with top five customers generating ~55% of revenues in FY2020 - Sasken has around 80 customers and is exposed to moderately high customer-concentration risk with top five customer contributing ~55% to revenues in FY2020 (though down from ~60–65% a decade back). With traction across new verticals and addition of new logos, customer concentration can be expected to reduce going forward.

Liquidity position: Strong

The company's liquidity continues to remain **strong** supported by healthy cash balance and liquid investments of Rs. 417.7 crore as on September 30, 2020. Sasken has no repayment obligations and has access to non-fund based working capital limits of Rs. 40 crore.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on Sasken's ratings could arise with sharp deterioration in financial risk profile arising from weak earnings, large acquisition, or sharp increase in dividend payout. Significant reduction in cash and liquid investments resulting in weakening of liquidity profile shall also be a trigger for rating downgrade.

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

Incorporated in 1989, Sasken Technologies Limited is a small-sized IT/ITeS company that is primarily involved in providing product engineering and digital-transformation services. The company's service offering spans across development, life-cycle extension and sustenance of semi-conductors, platforms, network elements (voice and data), including terrestrial and satellite, customer-owned equipment like handsets, set-top boxes and lifestyle/consumer products. The company caters to a wide range of domains such as semi-conductors, automotive, enterprise-grade devices, smart devices and wearables, industrials, retail, public safety, satcom, and telecom. With about 1,800 employees spread across Bangalore, Pune, Chennai and Hyderabad (India), Kaustinen and Tampere (Finland), Beijing (China), Tokyo (Japan), the UK, the US and Mexico, Sasken caters to a large base of 91 customers as on September 30, 2019. Sasken is a publicly listed company with its promoter, Mr. Rajic Mody and family holding ~451.% stake as on March 31, 2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	504.3	492..2
PAT (Rs. crore)	90.4	78.8
OPBDIT/OI (%)	14.1%	17.9%
RoCE (%)	16.8%	13.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.3
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	NA	124.9
DSCR	NA	118.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	FY2017
					27-Nov-2020	25-Oct-2019	7-Jan-2019	22-Jan-2018	21-Sept-2017
1	Non-fund based limits	Long Term	40.00	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non Fund based limits	09.04.2018	NA	-	40.00	[ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sasken Communication Technologies Mexico	100%	Full Consolidation
Sasken Communication Technology (Shanghai) Co. Ltd.	100%	Full Consolidation
Sasken Finland Oy	100%	Full Consolidation
Sasken Inc., USA	100%	Full Consolidation
TACO Sasken Automotive Electronics Limited	50%	Equity Method
ConnectM Technology Solutions Pvt. Ltd.	50%	Equity Method

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