

October 25, 2019

Sasken Technologies Limited: Rating Reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------|--------------------------------------|-------------------------------------|-----------------------|
| Fund-based Limits | 50.00 | 0.00 | [ICRA]A1+; withdrawn |
| Non-fund Based Limits | 40.00 | 40.00 | [ICRA]A1+; reaffirmed |
| Total | 90.00 | 40.00 | |

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Sasken Technologies Limited's (Sasken) established presence as an information technology (IT) service provider in the product engineering and digital transformation space, supported by its long-standing relationships with a reputed customer base spread across various geographies. The company's revenue profile has undergone changes with its entry into newer segments like automotive electronics, industrial automation, consumer segments, etc., The traditional segments – semiconductor and telecom including satellite communications – have continued to garner a large share of revenues. While this did not result in sharp revenue growth, Sasken's operating margins expanded in the recent quarters with execution of margin-accretive orders, higher contribution from fixed-price contracts and cost optimisation efforts. The ratings remain supported by Sasken's debt-free status and strong cash and liquid investments of over Rs. 550 crore as on June 30, 2019. ICRA notes that the company has announced a share buyback in the current fiscal, which shall result in an outflow of ~Rs. 170 crore, to be funded by its cash reserves.

Going forward, Sasken's business prospects shall be supported by improving segmental diversification and reputed customer base across geographies, lending stability to revenues. However, the ratings continue to be constrained by Sasken's moderate scale of operations in a highly competitive industry marked by the presence of relatively larger players, which restricts its pricing flexibility to a certain extent. The company continues to be exposed to industry-specific 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, and 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 lends stability to revenues: Historically, the company largely focuses on semi-conductor and telecom segments. With subdued performance of some of its clients in these domains and to achieve business diversity, Sasken identified five focus areas for growth in June 2017 – automotive electronics, semiconductor, communication, industrial automation and consumer segments. Accordingly, it is investing to build solutions within these focus areas for growth. Most of the segments identified are margin accretive in nature and hence, shall support Sasken's earnings growth.

Long-standing relationship with reputed customer base: Sasken's customer profile is relatively well spread (with ~100 clients as of June 2019) and includes many players of strong repute. While the company continues to add new customers, its share of revenues from the top 10 customers largely remain the same.

Diversified revenues across geographies: Sasken enjoys a diversified mix with North America, Europe and rest of the world contributing ~39%, 22.9% and 10%, respectively to the revenues in FY2019. Geographical diversification aids Sasken in mitigating any region-specific or country-specific risks.

Financial profile characterised by debt-free status and strong cash reserves: The company's debt indicators continue to remain healthy, supported by nil debt and net worth of Rs. 698 crore as on March 31, 2019. Cash balance and liquid investments of Rs. 552.1 crore as on June 30, 2019 supports the company's liquidity profile. While the company continues to have steady dividend payouts, 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. 504.3 crore in FY2019 and five-year CAGR of 3.4%, the company's scale of operations remains moderate, restricting its ability to enjoy scale benefits and pricing flexibility. That said, with focus on profitable growth, the profit margins are likely to expand, as witnessed in the last two quarters. With around 65% of its revenues derived through exports, Sasken is exposed to foreign exchange risk. However, the company enters into derivative 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: Sasken has around 100 customers and is exposed to moderately high customer-concentration risk with the top five customers contributing ~54% to revenues in FY2019 (though down from ~60-65% a decade back). With traction across new verticals and addition of new logos, the customer concentration is likely 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. 552 crore as on June 30, 2019. Of this, Rs. 170 crore is likely to be used to funding the share buyback programme of the company in FY2020. Sasken 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 rating could arise with any large acquisition impacting the overall financial risk profile or significant reduction in cash reserves resulting in weakening of the company's liquidity 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

Incorporated in 1989, Sasken Technologies Limited (Sasken) is a small-sized IT/ITeS company, primarily involved in providing product engineering and digital-transformation services. Sasken's service offerings span 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, digital public safety, satcom, and telecom. The company has recently diversified into digital and the industrial segment, In the digital segment the company's work includes platform development and IOT sustenance amongst others. In the industrial segment, the company's offering includes Android and Linux for Industrial Rugged devices. With about 1,800 employees spread across Bengaluru, Pune, Chennai and Hyderabad (India), Kaustinen and Tampere (Finland), Beijing (China), Tokyo (Japan), the UK, and the US, Sasken caters to a large base of 91 customers as on September 30, 2019. It is a publicly listed company with its promoter, Mr. Rajiv C Mody and promoter group holding 42.4% stake as on June 30, 2019.

Key financial indicators (audited)

| | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore) | 503.0 | 504.3 |
| PAT (Rs. crore) | 82.4 | 90.4 |
| OPBDIT/OI (%) | 13.8% | 14.1% |
| RoCE (%) | 16.9% | 16.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.2 | 0.1 |
| Total Debt/OPBDIT (times) | NA | NA |
| Interest Coverage (times) | NA | NA |
| DSCR | NA | NA |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | |
|-------------------------|-------------------------|--------------|--------------------|-----------------------|-------------------------------------|--------------------|------------------|
| | Type | Amount Rated | Amount Outstanding | Rating 25-Oct-2019 | FY2019 07-Jan-2019 | FY2018 22-Jan-2018 | FY2017 Sept-2017 |
| 1 Fund based limits | Long Term | 0.00 | 50.00 | [ICRA]A1+ / withdrawn | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 2 Non-fund based limits | Long Term | 40.00 | 40.00 | [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 (under Liquidation) | 50% | Equity Method |

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Srikumar Krishnamurthy

+91 44 4596 4318

srikumar.k@icraindia.com

Mythri Macherla

+91 80 4332 6407

Mythri.macherla@icraindia.com

Pooja Bavishi

+91 80 4332 4605

pooja.bavishii@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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