

08 December 2022

## Saksoft Ltd. – BUY

**CMP** : Rs.123.0  
**Target Price** : Rs.150.0  
**Upside** : 22%+  
**Stop Loss** : Rs.103.0 (Closing basis)

### Investment Thesis

Recently, the stock price of Saksoft Ltd. (Saksoft) corrected by ~10% from 52-week high of Rs.137.45 despite reporting good set of numbers by Saksoft in the recent quarters.

Saksoft is a leading digital transformation partner that assists customers to automate, modernize and manage IT systems through a combination of domain specific technology and solution accelerators from consulting to support. Saksoft offers a gamut of services including strategic consulting, information management, application development, digital testing, robotic process automation (RPA), cloud, mobility and internet of things (IoT). Saksoft has recently acquired Terafast Networks, a Chennai-based IT consulting service provider with nearly two decades of experience in cloud engineering solutions, which provide a wide range of technology service offerings such as cloud, containerization, devops, virtualization services to various industry verticals. Enterprise cloud is an essential component of Saksoft's digital transformation offerings and the acquisition will strengthen its capabilities.

Saksoft has identified 5 key verticals, viz, fintech, telecom & utilities, transportation & logistics, retail & health care and public sector. In these verticals, Saksoft possesses its technological capabilities, domain acumen and execution capability to aid growth under its 'inch wide mile deep' strategy which differentiates it from mainstream companies. The strategy helps Saksoft to position itself as domain expert with established track record in these industries. We believe, these verticals are at an inflection point post the pandemic driven by increased digital interactions by customers and the need for efficient infrastructure increasing demand for automation/ digital transformation. Change in customer behavior/buying habits with the advancement of technology is leading to higher online transactions thereby driving growth in the addressable market for Saksoft.

### Financials

- During the past 5 years, revenue of Saksoft grew at a CAGR of 13.1% while PAT grew at a CAGR of 29.9% in the same period.

Consol. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,588	3,858	4,804	6,246	7,495
EBITDA	610	644	790	933	1,100
% growth	3.1	5.6	22.7	18.0	18.0
PAT	384	454	633	748	882
EPS (INR)	3.9	4.6	6.3	7.5	8.8
P/E (x)	31.8	27.0	19.5	16.5	13.9
RoE (%)	18.8%	17.7%	20.0%	21.5%	23.2%

- Saksoft has reported 10.7% QoQ and 42.8% YoY growth in revenue in Q2FY23 to Rs.1,638mn led by its continuous focus on digital service offerings across selected industry verticals.

### Stock Data

Market Cap (Rs. Mn)	12,966
Market Cap (\$ Mn)	157.1
Shares O/S (in Mn)	100.1
Avg. Volume (3 month)	512,000
52-Week Range (Rs.)	137.45 / 68.70

### Shareholding Pattern

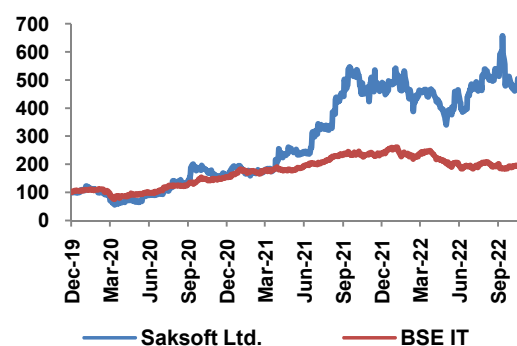
Promoters	68.15%
FII's	3.83%
Institutions	0.28%
Others (incl. body corporate)	27.74%

### Key Ratios

Div Yield	0.5%
TTM PE	18.6x
ROE	20.4%
TTM EPS (Rs.)	6.6/-

### Stock Performance

Performance (%)	1M	6M	1Yr
Absolute	22.7%	27.4%	24.0%
BSE IT	1.9%	-2.7%	-16.9%



- Saksoft's EBITDA improved by 12.5% QoQ and 49.2% YoY to Rs.289mn in Q2FY23. Despite the challenging environment, Saksoft's EBITDA margin improved by 52bps QoQ to 15.7% in Q2FY23 mainly due to 78bps QoQ decline in employee cost to sales.
- Saksoft has added two new customers in \$0.5Mn and one customer in \$1Mn revenue segment in Q2FY23.

## Key Business Highlights

- Saksoft is engaged in providing business intelligence and information management solutions predominantly to mid-tier companies across various countries.
- Saksoft is a leading digital transformation partner for clients, providing services like application development, testing & quality control and solutions based on cloud, mobility and Internet of Things (IoT) and Business Intelligence (BI) solutions.
- Saksoft provides domain specific services in the verticals of Fintech, Retail/E-Commerce, Telecommunication, Healthcare, Transportation & Logistics and Public Sector.

## Valuation

- Fintech vertical is major revenue contributor for Saksoft as it generated 28% of revenue in FY22. Under fintech, Saksoft provides integrated and comprehensive solutions, driving analytics and cloud migration. Fintechs are leveraging technology to redefine customer experiences and Saksoft helps these companies achieve desired outcomes driven by leveraging its domain expertise, proprietary framework and delivery models, industry specific products and ability to align with customer goals along with digital strategy.
- Saksoft, through its 6 acquisitions, has added defined capabilities and newer service verticals along with increased exposure to dominant geographies. It acquired companies for capabilities in analytics (Acuma), testing (Three Sixty Logica), business intelligence (EDP), IoT in transportation (DreamOrbit) and Healthcare (Faichi) under its 'String of pearls' strategy. Bundling of capabilities enabled Saksoft to offer bouquet of complementing services under one roof which are scalable and relevant across long-term.
- With the acquisition of Faichi Solutions LLC in 2018, Saksoft forayed into delivering healthcare solutions in development, integration, analytics, chronic-care management and compliance services. Currently, Saksoft offers platform solutions to healthcare companies assisting in transformation of data into actionable insights, which empower customers in expediting innovative product development. The sector is witnessing tailwinds in terms of increased spending on IT and this could benefit players like Saksoft.
- With a leading digital transformation partner, recent acquisition of Terafast Networks, capability to aid growth under its 'inch wide mile deep' strategy, helping fintechs to achieve desired outcomes, 6 acquisitions to add capabilities and newer service verticals and forayed into delivering healthcare solutions, we value Saksoft at 17.0x FY24E EPS of Rs.8.80 to arrive at target price of Rs.150.00, an upside of ~22%.

## Risk & Concern

- Saksoft's top 5 clients contribute ~50% to its revenue thereby losing a top client may significantly impact revenues.
- Recently, IT industry is facing high attrition rate. Any further increase in attrition rate may negatively impact margins of Saksoft going ahead.
- Due to expected recession in the US and the Europe, clients are tightening their IT budgets, any further downsizing of IT spend may be negative for Saksoft.

## Graphs & Charts

Figure 1: Net Sales Trend

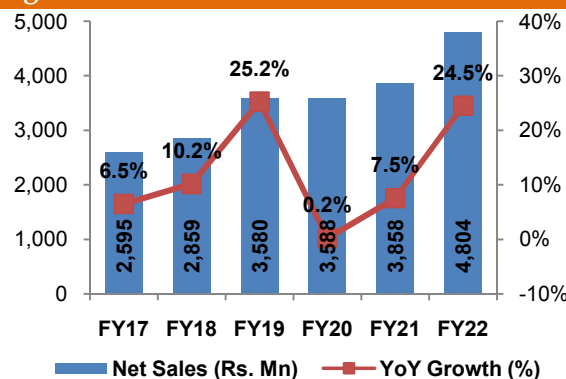


Figure 2: EBITDA & EBITDA Margin Trend

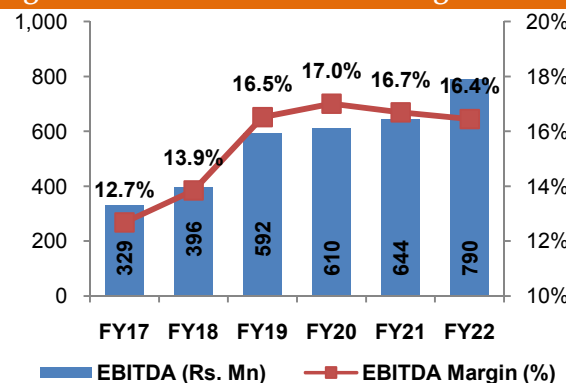


Figure 3: PAT Trend

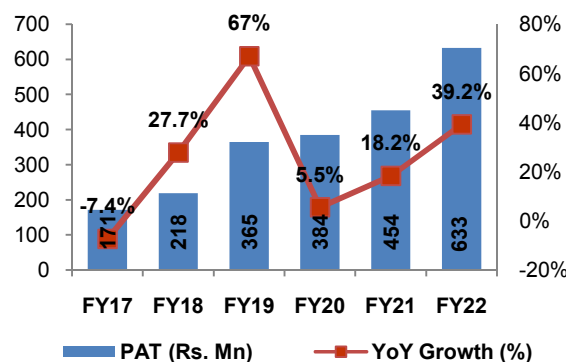
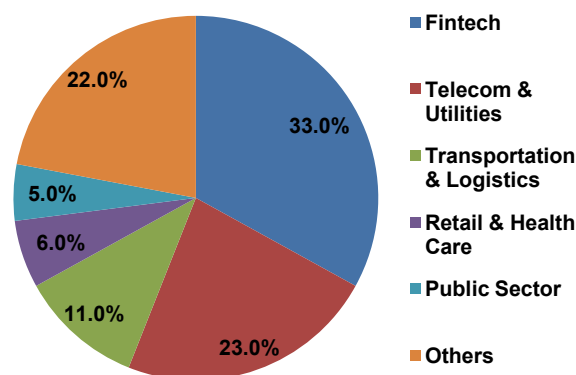


Figure 4: Vertical-wise Revenue (Q2FY23)



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