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The Trick Is To **Spot Them** At The **Larval Stage**

Saksoft Ltd. **Reach Cloud 9 via Bumper Profits**

Our Tiny Treasure for the month of December is Saksoft Limited. It is a niche technology specialist that provides a comprehensive suite of business transformation, information management, application development, and testing services to mid-tier companies based out in the USA and Europe. The company initially catered to the banking, financial services & insurance (BFSI) segment before diversifying to other verticals. It now offers associated services like application development, testing and quality control & solutions based on cloud, mobility, and internet of things (IoT) along with information management (IM) & business intelligence (BI) solutions. In H1FY21, its geography mix included USA-49 per cent, Europe-30 per cent and Asia-Pacific (APAC) & others-21 per cent whereas, its revenue mix in terms of verticals included FinTech-28 per cent, telecom-23 per cent, public sector-13 per cent, retail & healthcare-10 per cent, logistics-9 per cent and others-17 per cent.

Growth driving verticals

FinTech : FinTech is the fastest-growing segment within the BFSI sector. The emergence of cutting-edge technologies (such as the internet of things, artificial intelligence, robotic process automation, etc.) has brought numerous transformations across the sector. In FY20, Saksoft generated a large proportion of revenues from the USA, which is the largest FinTech market in the world. It also forayed into European and Asian markets over the last few years. It entered new segments like microfinance and compliance, widening its presence across larger credit score segments. North America, Europe, Middle East, Africa, and Asia-Pacific are the countries, where a large number of FinTech startups are coming up. The growing demand for digital payments with growth in e-commerce industries, growing investments in regulatory technology (RegTech) are some of the factors, which would further drive this sector. Saksoft already generates 28 per cent revenue from this vertical and with its presence in the US & Europe market, it is in a sweet spot to grab better opportunities.

Telecom : The global telecom sector is evolving rapidly, following the advent of new technologies like 5G, data analytics, cybersecurity, and information management. Saksoft has widened business services through application development, infrastructure, analytics, testing, and information. In FY20, it strengthened

revenues across Asia-Pacific and Europe, riding service deliveries, and network areas. Mergers and acquisitions have been a growth driver of the telecom industry. Vast growth in the mobile ecosystem and supportive government initiatives would continue to drive the telecom sector.

Healthcare : One of the most promising global growth sectors for technology-enabled services is healthcare. The diverse requirements have been addressed by cutting edge technologies, reflected in superior efficacy, accuracy, treatment speed, health records documentation, and transparency. Saksoft works with multi-year customers across the USA and India, reinforcing its position as an extension of their businesses and plans to deepen its presence in the UK and Asia. Lifestyle-induced diseases have recently generated a high demand in the healthcare sector. Strict regulations, support from the government for advanced technologies, virtual clinical trials are some of the growth drivers for this sector. Also, due to the COVID-19 pandemic, the importance of healthcare has increased ever than before.

Logistics : The increasing needs for just-in-time delivery, product traceability, multi-modal transportation solutions, and other business imperatives enhanced the room for technology-enabled business-strengthening solutions. Saksoft provides customised technology solutions across various transportation modes (roads, air & sea). It intends to strengthen its solutions capability through predictive analytics and other domain-cum-technology insights. Focus on safety for warehouses and workplaces, new transportation initiatives would boost the logistics sector in the years to come. Also, with the invention of a new vaccine for the COVID-19, the logistics sector would play an important role in its distribution across the world.

Strategic acquisitions boosted growth

Over the years, the company made some strategic acquisitions, which empowered it with a holistic digital customer proposition. The investments that it made in the companies have now been completely integrated into the business and have become its subsidiaries. It had acquired the UK-based Acuma, a business information enterprise, in 2006. Acuma reported revenues of 10.17 million GBP during FY20. It had acquired 360Logica in 2015. The

Continued On PG 2...

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testing services business under 360Logica reported revenues of approximately Rs 33 crore during the year under review. Also, it had acquired Dream Orbit Softech, a Bengaluru-based IoT specialising company addressing the logistics domain, in December 2016. This acquisition delivered approximately Rs 54 crore revenue in FY20. Also, in 2018, it acquired Faichi Solutions LLC, which is a healthcare-focussed start-up, providing outsourced product engineering, open-source development and 'Drupal' consulting & development services. These acquisitions have further strengthened its base across various verticals like the public sector, logistics, and healthcare industry.

Financial performance

Saksoft's consolidated revenue for the quarter Q2FY21 came in at Rs 97.19 crore as against Rs 87.18 crore in the corresponding quarter last year, registering an 11.5 per cent YoY increase. EBITDA for the quarter grew by 2.1 per cent YoY to Rs 16.49 crore as against Rs 16.15 crore in the corresponding quarter last year, with a corresponding margin contraction of 156 bps. EBITDA margin for the quarter stood at 17 per cent. PAT for the quarter came in at Rs 10.72 crore as against Rs 9.75 crore in the corresponding quarter last year, with a YoY increase of 9.9 per cent.

The company's revenue and net profit have grown at a CAGR

of 11 per cent and 24 per cent, respectively, over the last three years. It has been consistently paying out dividends to its shareholders over the years. It is a cash-rich company, having negligible debt in books with a debt-to-equity ratio of 0.12x.

Valuation

The company is trading at a TTM P/E of 8.7x with a TTM EPS of Rs 38.36. In FY20, it delivered ROE and ROCE of 29.8 per cent and 29.6 per cent, respectively. FinTech and telecom verticals will continue to be the growth drivers for the company. Considering the current situation, the demand for technology in the healthcare and logistics sectors is significantly rising. Also, as the company's scope is spread across different verticals, over-dependence on a particular sector is reduced. This reduces the impact of the risk of volatility faced by any particular industry. The recent acquisitions of technology-based companies across various sectors have also strengthened its base, which is reflected in the financial performance of the company. It has also been successful in adding up new clients across the USA and Europe. The growth in the top-line and profitability has been consistent and it is trading at an attractive valuation. Considering all these factors, we see a potential upside of 31 per cent with a target price of Rs 495 for a period of one year.

Inc/Exp Statement (Consolidated)

| Description | 202003 | 201903 | 201803 | 201703 | 201603 |
|-------------------|--------|--------|--------|--------|--------|
| Net Sales | 358.78 | 358.04 | 285.87 | 259.50 | 243.73 |
| Total Income | 362.68 | 360.23 | 288.18 | 261.43 | 245.90 |
| Total Expenditure | 297.76 | 298.88 | 246.27 | 226.59 | 207.54 |
| PBIDT | 64.92 | 61.34 | 41.90 | 34.84 | 38.35 |
| PAT | 38.65 | 38.21 | 24.41 | 20.09 | 21.78 |
| Dividend % | 45.00 | 40.00 | 35.00 | 30.00 | 30.00 |
| Adj. EPS(Rs) | 38.67 | 36.66 | 21.96 | 16.35 | 17.77 |

Quarter On Quarter (Consolidated)

| Particulars | 202009 | 202006 | Q on Q Var % | 201909 | Y on Y Var % |
|-------------------|--------|--------|--------------|--------|--------------|
| Net Sales | 97.19 | 93.75 | 3.67 | 87.19 | 11.47 |
| Total Expenditure | 80.70 | 78.90 | 2.27 | 71.03 | 13.61 |
| PBIDT (Excl OI) | 16.50 | 14.85 | 11.08 | 16.16 | 2.07 |
| PAT | 10.73 | 10.13 | 5.95 | 9.76 | 9.93 |
| PBIDTM% (Excl OI) | 16.97 | 15.84 | 7.13 | 18.53 | -8.42 |
| PBIDTM% | 17.12 | 16.93 | 1.12 | 19.1 | -10.37 |
| PATM% | 11.04 | 10.8 | 2.22 | 11.19 | -1.34 |
| Adj. EPS(Rs) | 10.79 | 10.18 | 5.99 | 9.82 | 9.88 |

Continued On PG 3...



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Continued On PG 4...

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- **Hold:** The intended audience is being informed that they can consider to neither purchase or sell but continue to hold, if any, the shares of the said company