

Strong revenue growth backed by acquisitions

We maintain our "BUY" rating and target price of Rs. 335. Saksoft delivered a beat on topline growth as we saw full impact of the Ceptes acquisition. EBITDA was in-line with our estimates, but margins came in lower on account of higher employee costs. Utilization continues to be at 84% despite the increase in employee count. Fintech and T&L continued to show recovery in Q3, while retail had a seasonally weak quarter and Hi-tech showed flattish growth. Management has indicated that discretionary spends continue to be bleak and expects some pick up by Q1FY26E. We believe improvement in discretionary spends in the US & APAC region for SMB's will be a positive catalyst for the company.

- Strong topline growth on the back of acquisitions** - The company posted a 5.4% QoQ growth (Ceptes contributed Rs 40-50 mn). Furloughs impacted overall growth especially for the retail segment while Fintech was the least impacted by furloughs. The company added one 1 mn\$+ client taking the total to 18 clients with 1 mn\$+ revenue. Company expects demand to rebound in Q4 in America as the elections are now behind us. Revenue from top 5 clients reduced to 40% in 9mFY25 vs. 44% in FY24 and contribution from top 10 clients reduced to 57% vs. 59%. This is line with the company's efforts to improve their tail & increase wallet share among top 50 clients.
- EBITDA margins to remain in the range of 17-17.5%**- Margins declined by 35 bps QoQ on the back higher employee cost (hikes given to some employees from October). Ceptes currently has lower margins compared to Saksoft and that has dented margins slightly. We expect Ceptes margins to improve considerably over the next one year. We believe margins will stabilize in the range of 17-17.5% over the next few quarters. Saksoft added 206 technical employees in Q3FY25 and 437 employees in 9mFY25 on the back of new acquisitions and strong hiring.
- Outlook:** Saksoft continues to build on its "string of pearls" strategy by acquiring companies which add capability, scale and show great potential. The recent acquisitions of Ceptes and Zetechno will enable the company to improve its offerings in Salesforce and ServiceNow, in-line with what the management has guided. We regard Saksoft as a compelling investment opportunity, benefitting from sustained IT expenditure in the niche sectors its services and improving discretionary spends driven by interest rate cuts.
- Valuation:** We expect 21%/22.4%/24.6%Revenue/EBITDA/PAT CAGR between FY24-27E. We value the company at 25x FY27E PE, resulting in a TP of Rs335 and an upside of 71%. Key risks: 1) Slower than expected rate cuts 2) discretionary spends continue to lag in FY26.

Target Price	335	Key Data	
		Bloomberg Code	SAK:IN
CMP	196	Curr Shares O/S (mn)	131.7
		Diluted Shares O/S(mn)	131.7
Upside	71%	Mkt Cap (Rsbn/USDmn)	26.0/298.7
Price Performance (%)		52 Wk H / L (Rs)	320/168
	1M 6M 1Yr*	Daily Vol. (3M Avg.)	184.53
SAK:IN	-9.6 -15.3 -19.2		
NIFTY	-1.1 -4.0 8.6		

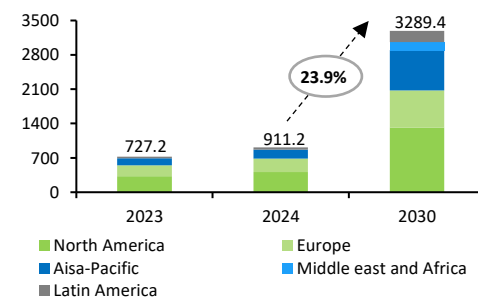
Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Mar-24	Jun-24	Sep-24	Dec-24
Promoters	66.6	66.6	66.6	66.6
Sak industries	45.7	45.7	45.7	45.7
Aditya Krishna	20.9	20.9	20.9	20.9
DILs	0.0	0.0	0.0	0.0
FPIs	4.0	3.5	3.2	2.9
Public	24.3	25.2	25.8	26.4
others	5.0	4.6	4.3	4.1

Source: BSE

Digital engineering to grow at 23.9% CAGR till 2030



Source: Company, MNCL Research

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE	RoCE	P/E (x)	EV/EBITDA (x)
FY22	4,804	24.5%	790	16.45%	633	13.2%	6.33	19.9%	24.0%	39.7	23.4
FY23	6,656	38.6%	1,082	16.25%	820	12.3%	8.12	20.3%	27.0%	30.6	16.9
FY24	7,616	14.4%	1,366	17.94%	962	12.6%	9.53	19.0%	27.2%	26.1	13.0
FY25E	8,987	18.0%	1,546	17.20%	1,121	12.5%	8.76	18.5%	24.7%	22.4	14.9
FY26E	10,784	20.0%	1,876	17.40%	1,386	12.9%	10.83	18.9%	25.0%	18.1	11.6
FY27E	13,157	22.0%	2,316	17.60%	1,741	13.2%	13.60	19.3%	25.8%	14.4	8.5

Source: Company, MNCL Research estimates

Concall key highlights

- **Guidance for upcoming quarters:** Company expects topline for FY25 to be in the range of Rs 8.7 bn to Rs 9 bn vs Rs 7.6 bn in FY24.
- **Margins to remain stable:** Margins are expected to be in the range of 17-17.5% going ahead. Utilization levels are expected to peak at near 85% levels.
- **Client addition:** The number of clients spending over USD 1 million has increased from 17 to 18, driven by the movement of one customer from the USD 0.5 million to the USD 1 million category.
- **Acquisitions:** Saksoft Ltd has announced the acquisition of Ceptes Software, a Bangalore-based entity specializing in Salesforce solutions. Ceptes Software caters to 1000+ clients across US, India & UAE and has a team of 200+ certified Salesforce specialists, offering a comprehensive range of services including Salesforce implementation, managed services, product development, and consultancy & advisory. Saksoft has acquired Ceptes Software at 1.85x FY24 Sales (in line with historical acquisition price of 1.8x – 2x). Saksoft Ltd also announced the acquisition of ZeTechno products & services, a Hyderabad-based entity specializing in ServiceNow. The company is a ServiceNow Premier Consulting and Implementation Partner.
- **Business segments:** Fintech and T&L continues to see recovery in Q3. Hi-tech saw flattish growth, while retail de-grew for the first time in over 3 quarters on account of Q3 being a weak quarter for retail and furloughs added to the weakness.
- **Employee addition:** Headcount for technical resources have moved from 1,838 in FY24 to 2,275 as on 9MFY25, adding 437 technical employees on a global level.
- **Optimistic Outlook for Hi-Tech & ISVs:** The Hi-Tech vertical contributes 42% of revenue, with strong opportunities in the ISV segment. With a large number of ISVs to target in the US, the company is focusing on AI-led product development, maintenance, and enhancement to expand its presence in this high-growth market.

Quarterly financials

Exhibit 1: Quarterly Financials

Y/E March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Particulars								
Net sales	1,821	1,835	1,904	1,928	1,949	2,010	2,153	2,268
Employee cost	800	842	878	886	866	901	1,005	1,101
Other expenses	696	647	668	712	750	759	780	787
EBITDA	325	345	358	330	333	350	368	381
Other Income	7	16	18	12	25	28	39	36
Depreciation	27	27	29	29	34	30	32	31
EBIT	305	334	347	313	324	348	375	386
Interest	6	5	8	11	11	12	22	26
Profit Before Tax	299	329	339	302	313	336	353	361
Tax	49	77	86	76	81	80	91	90
Profit After Tax	250	252	253	225	232	256	262	270
Growth (%)								
Revenue	6.0%	0.8%	3.8%	1.3%	1.1%	3.1%	7.1%	5.4%
EBITDA	18.6%	6.2%	3.7%	-7.8%	0.8%	5.2%	5.0%	3.5%
PAT	25.9%	0.7%	0.5%	-10.8%	2.9%	10.3%	2.2%	3.3%
Margin (%)								
Operating EBITDA	17.9%	18.8%	18.8%	17.1%	17.1%	17.4%	17.1%	16.8%
EBIT	16.7%	18.2%	18.2%	16.2%	16.6%	17.3%	17.4%	17.0%
PAT	13.7%	13.7%	13.3%	11.7%	11.9%	12.7%	12.2%	11.9%

Source: Company, MNCL Research

Financials

Exhibit 2: Income Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,804	6,656	7,616	8,987	10,784	13,157
Employee cost	2,095	2,979	3,472	4,134	4,939	6,026
% of revenues	44%	45%	46%	46%	46%	46%
Support / Third party charges	1,639	2,243	2,339	2,768	3,322	4,052
% of revenues	34%	34%	31%	31%	31%	31%
Others	279	353	438	539	647	763
% of revenues	6%	5%	6%	6%	6%	6%
EBITDA	790	1,082	1,366	1,546	1,876	2,316
EBITDA margin (%)	16.5%	16.2%	17.9%	17.2%	17.4%	17.6%
Depreciation & Amortisation	69	100	119	130	150	175
Other income	111	94	70	140	175	225
EBIT	832	1,076	1,317	1,556	1,901	2,366
Finance cost	28	22	35	60	50	45
PBT	804	1,054	1,282	1,496	1,851	2,321
Taxes	171	235	320	375	465	580
Effective tax rate (%)	21%	22%	25%	25%	25%	25%
Reported PAT	633	820	962	1,121	1,386	1,741

Source: Company, MNCL Research estimates

Exhibit 3: Key Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratio (%)						
Revenue	25%	39%	14%	18%	20%	22%
EBITDA	23%	37%	26%	13%	21%	23%
Adjusted PAT	39%	29%	17%	16%	24%	26%
Margin Ratios (%)						
EBITDA	16%	16%	18%	17%	17%	18%
EBIT	17%	16%	17%	17%	18%	18%
Adjusted PAT	13%	12%	13%	12%	13%	13%
Return Ratios (%)						
ROE	20%	20%	19%	18%	19%	19%
ROCE	24%	27%	27%	25%	25%	26%
Turnover Ratios (days)						
Debtors	81	64	78	75	75	70
Creditors	22	14	17	20	22	25
Cash conversion cycle	58	50	60	55	53	45
Solvency Ratio (x)						
Net debt-equity	0.01	0.00	0.02	0.04	0.02	0.01
Current Ratio	2.2	2.3	1.9	1.8	1.9	2.0
Per share Ratios (Rs)						
EPS	4.9	6.4	7.5	8.8	10.8	13.6
BVPS	25	32	39	47	57	71
Valuation (x)*						
P/E	39.7	30.6	26.1	22.4	18.1	14.4
P/BV	7.9	6.2	5.2	4.1	3.4	2.8
EV/EBITDA	30.4	21.8	16.9	14.9	11.6	8.5

Source: Company, MNCL Research estimates

Exhibit 4: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	100	100	101	128	128	128
Reserves & surplus	3,085	3,945	4,954	5,941	7,225	8,902
Shareholders' fund	3,185	4,045	5,054	6,069	7,353	9,030
Total Debt	40	-	84	262	115	70
Other Liabilities	1,794	2,398	3,988	5,097	6,482	8,258
Total Liabilities	4,615	5,681	7,864	9,708	11,648	14,476
Gross Block	663	751	838	950	1,150	1,200
Less: Acc. Depreciation	3,752	4,763	5,432	6,175	6,900	7,440
Net Block	287	274	295	333	460	456
Goodwill	1,665	1,903	3,270	4,050	4,100	4,300
Sundry debtors (current)	1,062	1,164	1,620	1,847	2,216	2,523
Cash	949	1,436	1,925	2,258	3,410	5,402
Loans & Advances	1	2	17	35	40	45
Other assets	402	563	472	909	1,071	1,284
Total Current Asset	2,518	3,255	4,178	5,089	6,791	9,354
Trade payables	295	257	359	492	650	901
Other current Liabilities	679	858	1,157	1,477	1,920	2,523
Net Current Assets	2,097	2,426	3,685	4,618	4,856	5,121
Total Assets	4,615	5,681	7,864	9,708	11,648	14,476

Source: Company, MNCL Research estimates

Exhibit 5: Cash Flow Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating profit bef working capital changes	834	1,177	1,410	1,546	1,876	2,316
Trade and other receivables	-418	-102	-455	-227	-369	-307
Inventories	0	0	0	0	0	0
Trade payables	25	-38	102	132	271	195
Current/ non-current financial and other assets	-134	-153	84	-395	-167	-219
Changes in working capital	873	1,127	1,493	1,523	2,347	2,811
Direct taxes	-171	-286	-326	-375	-465	-580
Cash flow from operations	701	841	1,167	1,148	1,882	2,231
Net Capex	-194	-74	-17	-112	-200	-50
Others	-433	-520	-620	-210	-225	-25
Cash flow from investments	-627	-594	-638	-322	-425	-75
FCF	508	767	1,150	1,036	1,682	2,181
Increase/(decrease) in debt	-160	-40	84	176	-153	-55
dividend	-55	-65	-75	-102	-102	-64
Others	-21	-2	2	-60	-50	-45
Cash flow from financing	-236	-107	11	14	-305	-164
Net change in cash	-161	140	540	840	1,151	1,992

Source: Company, MNCL Research estimates

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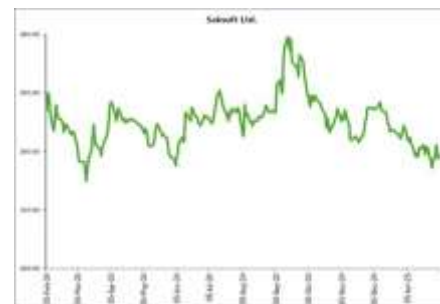
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