

Saksoft Limited  
Annual report  
2015-16

THE GREAT  
DIGITAL TRANSFORMATION

# Opportunity

AND HOW SAKSOFT IS CAPITALIZING  
ON AN INDUSTRY INFLECTION POINT



Caution regarding forward-looking statements

This document contains statements about expected future events and financial and operating results of Saksoft Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management’s discussion and analysis of the Saksoft Limited Annual Report 2015-16.

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CORPORATE INFORMATION



<b>BOARD OF DIRECTORS</b> <b>Chairman &amp; Managing Director</b> Aditya Krishna  <b>Independent Non Executive Directors</b> R. Rajagopalan Amitava Mukherjee Ajit Thomas V.V.R. Babu  <b>Non-Executive Director</b> Kanika Krishna  <b>EXECUTIVE COMMITTEE</b> <b>Chairman &amp; Managing Director</b> Aditya Krishna  <b>Chief Financial Officer</b> Niraj Kumar Ganeriwala  <b>Senior Vice President, Human Resources</b> Annu Thomas  <b>Executive Vice President &amp; Global Delivery Head</b> Dhiraj Mangla  <b>Executive VP, Sales &amp; Marketing and CEO, Acuma Solutions</b> Amit Chatterjee  <b>Vice President – APAC Sales</b> Bhaskar Narayanan  <b>Senior Vice President and Business Head US</b> Ramanan Madhu  <b>Director UK Consulting Services</b> Jonathan Eeley  <b>COMPANY SECRETARY &amp; COMPLIANCE OFFICER</b> Vivekanandan Babu  <b>WEBSITE</b> www.saksoft.com • www.acuma.co.uk www.edprof.com • www.360logica.com	<b>EMAIL</b> info@saksoft.com; complianceofficer@saksoft.co.in; investorqueries@saksoft.co.in  <b>AUDITORS</b> M/s Suri & Co., Chartered Accountants No.4 (Old No.55A), Chevalier Sivaji Ganesan Salai, (South Boag Road), T. Nagar, Chennai 600 017  <b>BANKERS</b> IndusInd Bank., Chennai The Ratnakar Bank Limited, Chennai Citibank N.A, Chennai Deutsche Bank., Chennai State Bank of India, Chennai  <b>REGISTERED AND CORPORATE OFFICE</b> SP Infocity, Block A, 2nd Floor, #40, Dr. MGR Salai, Kandanchavadi, Perungudi, Chennai 600 096. Ph: 91 44 24543500 • Fax: 91 44 24543510  <b>SUBSIDIARIES</b> Saksoft Inc., USA Saksoft Pte Limited, Singapore Saksoft Solutions Limited, UK (Formerly Saksoft Investments Pvt Limited) Saksoft GmbH., Germany Saksoft FR SARL, France Electronic Data Professionals, Inc., US Acuma Solutions Limited, UK Acuma Software Limited, UK ThreeSixty Logica Testing Services Private Limited, India and, ThreeSixty Logica Testing Services, Inc., US  <b>REGISTRAR AND SHARE TRANSFER AGENT (RTA)</b> Cameo Corporate Services Limited Subramanian Building, No. 1, Club House Road, Chennai 600 002. Ph: 91 44 28460390 Fax: 91 44 28460129
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Digital Transformation.

Two of the most exciting words in today's technology universe.

Empowered to transform the way we work, transact and live.

Saksoft has a brief and simple message for its stakeholders.

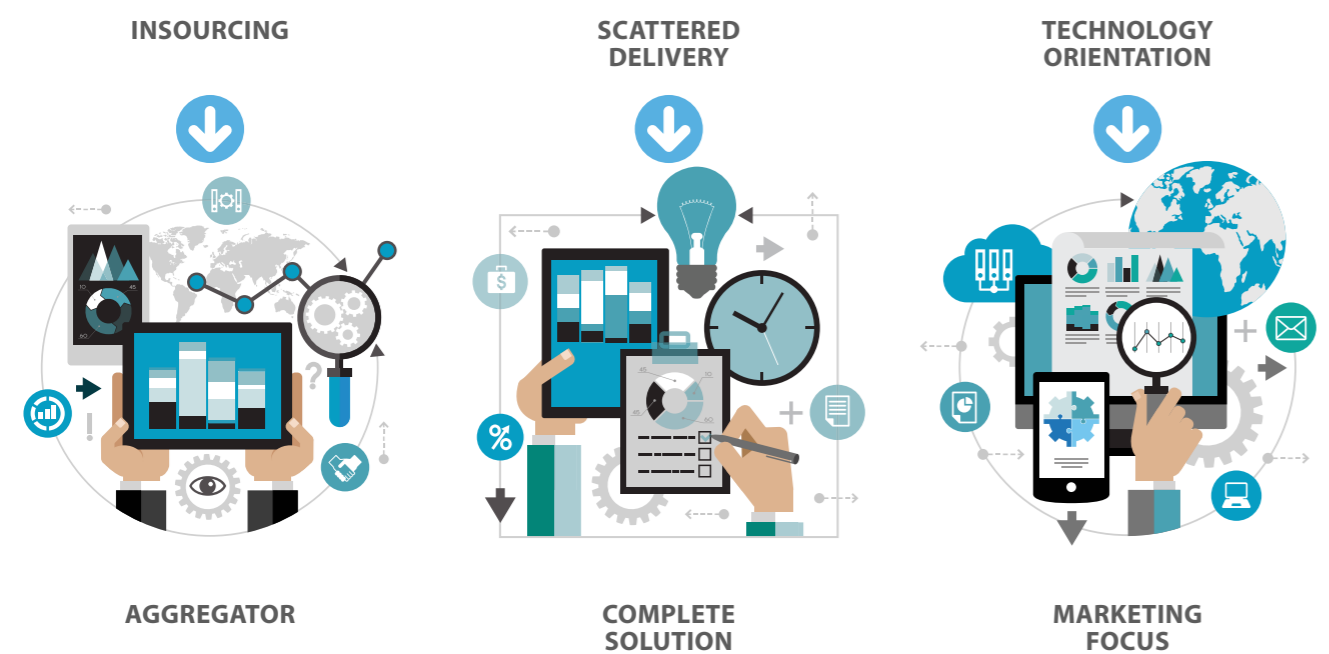
*We are prepared.*



Rapidly-changing consumer demands, fast-evolving technologies and altering competitive spaces are some of the business realities of today. To succeed in this challenging space, enterprises require something more than business strategy.

They need a Digital Transformation roadmap.

Saksoft is truly a Digital Transformation solutions provider. We possess the ability to envision market opportunities. We have realigned our go-to-market approach by graduating from a conventionally insourced business model to that of an aggregator. Building competencies to offer comprehensive Digital Transformation solutions, taking outside-in technology and market approaches.



## Digital Transformation...

...And how it is already transforming our everyday lives.

Each time you conduct an online banking transaction, create a personal profile on a website or even drive on a highway, you are contributing to the growing quantum of data that needs to be analyzed and classified by diverse businesses engaged in comprehending consumption patterns and trends.

With the ultimate objective to provide superior customer service.

Competitive and successful organizations decode this rich data to analyse customer habits, provide personalized services and enhance customer loyalty.



## Why Digital Transformation is the new business imperative.

It provides personalization of content, experience, pricing, recommendations and service.

It caters to the growing need for customer engagement systems to drive consumer loyalty and advocacy.

It helps in increasing the number of applications needing real-time responsiveness, leveraging preferences, insights, contexts and locations.

It addresses a growing need for real-time data and insights - over intuition - to drive businesses.

It services a need for service providers to moderate costs through process automation.

# Digital Transformation...

...and why this is an idea whose time has come

The global Digital Transformation story is a large technology wave.

Representing a convergence of four of the most powerful developments.

Social. Mobile. Analytics. Cloud.

It doesn't just touch businesses; it runs completely through them (from operating model to infrastructure).

It doesn't just improve businesses; it transforms competitiveness.

It doesn't replace what exists; it leverages IoT and connected devices to integrate seamlessly into (and upgrade) existing IT systems.

It doesn't just strengthen; it empowers by connecting people with machines (or information).

It doesn't just make customers competitive; it transforms their consumer experience.

Source: Forbes, MIT Sloan and Capgemini



33

The percent of all data likely to pass through Cloud (network of servers connected over the Internet) by 2020



15

Percentage of CEOs executing a digital strategy



90

Percentage of CEOs who agree that the digital economy will impact their industry



9

The percentage growth in revenues by early adopters of Digital Transformation



26

The percentage growth in profitability among early adopters of Digital Transformation



12

The percentage growth in market capitalisation among early adopters of Digital Transformation



1.7

The quantum of megabytes of new information that will be created every second for every human being on the planet by 2020



40,000

The number of Google searches every second



31.25

The number of million Facebook messages every minute



300

The number of hours of video uploaded to YouTube every minute



50

The number of billion smart connected devices in the world (collect, analyze and share data) in five years



Saksoft is India’s leading stock market-listed information management (IM) and business intelligence (BI) enterprise.

Background

• Saksoft was founded and promoted by Mr. Aditya Krishna, an ex-CITI veteran with over 30 years of experience in the banking and technology vertical

Services

- The Company provides integrated solutions (following the acquisition of Acuma in 2006, EDP in 2013 and 360Logica in end of 2014) across multiple verticals, customers and geographies
- The Company provides services across verticals (banking, insurance, public sector, education, travel / tourism, retail, telecom, logistics and distribution, automotive and technology)

People and partners

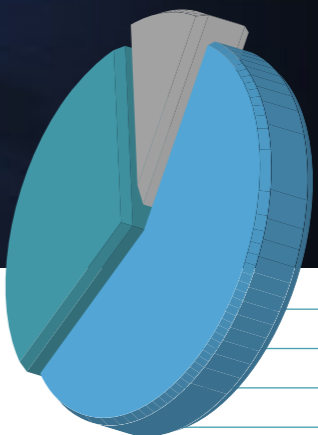
- The Company’s technology partners include SAP, SAS, Microsoft, Birst, Qlik, TIBCO Jaspersoft, TIBCO Spotfire, Logi Analytics and Talend
- The Company’s headcount was 781 as on 31 March 2016; the ratio of men-women employees stood at 4:1 (as on 31 March 2016)

Financials

- Saksoft has remained profitable and dividend-paying since inception
- The Company’s revenues and profits have grown at an 18% and 30% CAGR, respectively, in the five years ending 2015-16
- Saksoft is listed on NSE (ISIN: INE667G0101) and BSE (code: 590051) under permitted trading category; the Company’s market capitalization was ₹235.76 crore (31 March 2016)

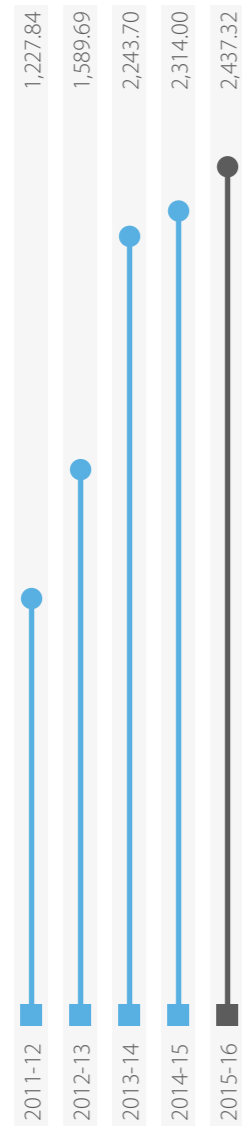
Sales footprint

Percentage of 2015-16 revenues	
USA	58
UK	32
Asia-Pacific	10



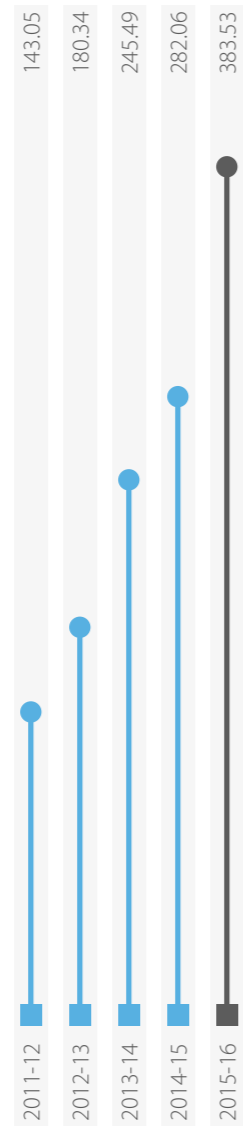
# Our financial journey

Turnover  
(₹mn)



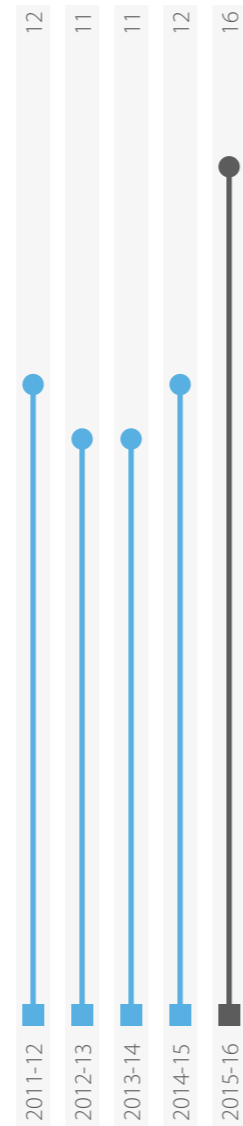
Our increasing turnover is supported by a growing customer wallet share and customer addition...

EBIDTA  
(₹mn)



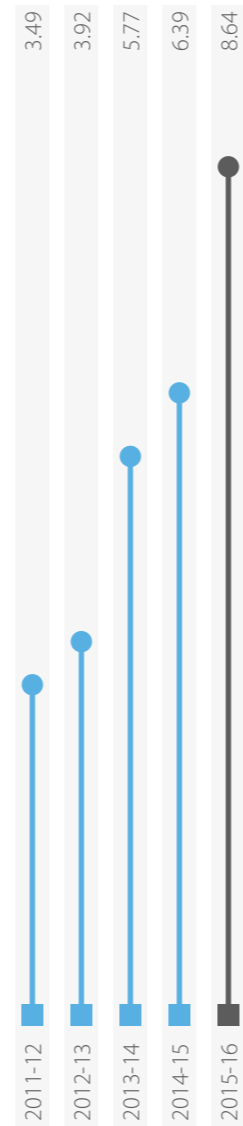
Strong efficiencies and cost management have strengthened (pre-interest and depreciation) over the years...

EBIDTA margin  
(%)



... This has resulted in industry-attractive operating margins, growing 35% in five years

Interest cover  
(X)



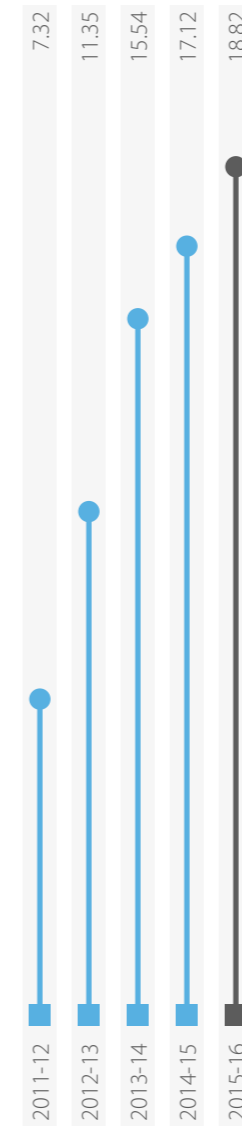
A growing EBIDTA and tightening interest outflow have enabled comfortable debt servicing, resulting in improving interest cover

Profit before tax  
(₹ mn)



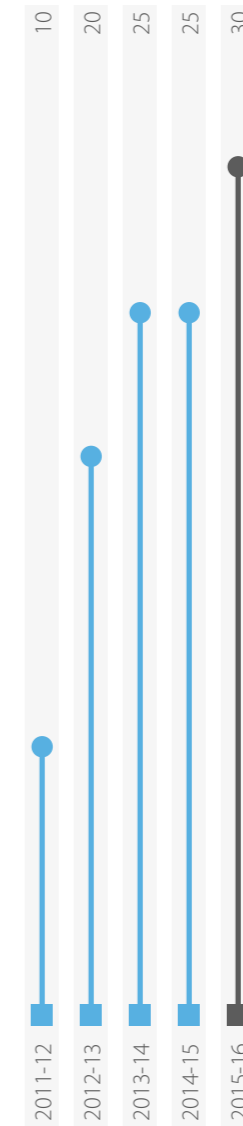
Our focus on growing revenues and moderating costs resulted in profitable growth; our net profit margin increased 85% in the five years leading to 2015-16

Earnings per share  
(₹)



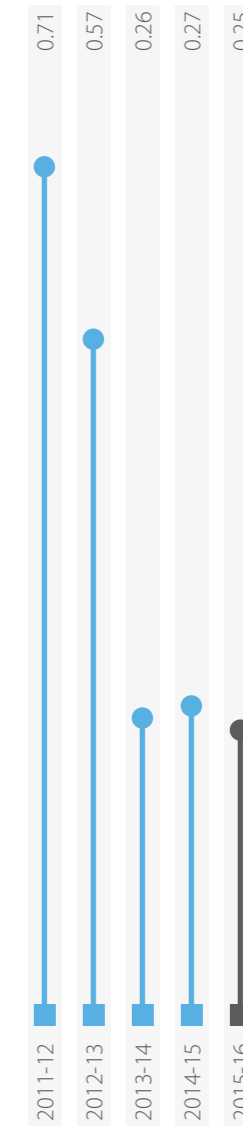
Our focus on growing shareholder value was reinforced through an undiluted equity and rising net profits

Dividend per share  
(%)



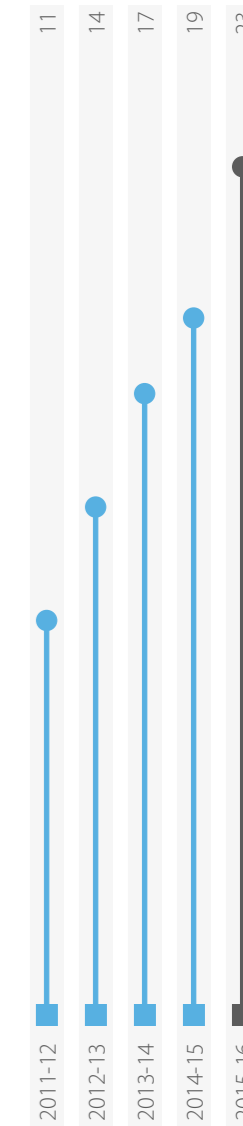
Consistent with our shareholder reward philosophy, we consistently disbursed dividends

Debt-equity  
(X)



Our asset-lightness and increasing use of accruals strengthened our gearing to 0.25

RoCE  
(%)



Our prudent capital allocation maximized reinvestment in high-margin services; our blended return on capital employed rose 108% in five years to 23% at the close of fiscal 2016

# Chairman and Managing Director's overview



*Dear fellow shareholders,*

I am pleased with the performance of Saksoft in 2015-16 for a number of reasons.

Some of the pride-enhancing initiatives will only translate into visible numbers in the coming years. And yet, a considerable underlying traction made the year under review a watershed in our existence.

For the last few years, Saksoft delivered some components in the overall Digital Transformation niche, a space of growing importance. It was only during the last financial year that we were able to finally provide the complete services complement and account for a larger solution ownership for customer

benefit. During the last few years, Saksoft strengthened its solutions around the delivery of services related to analytics, digital testing and applications. By adding Cloud and Mobility services during the last financial year, Saksoft is empowered to now provide the complete Digital Transformation solution.

There were two ways in which we could have added the missing complements – one, the longer insourcing route that would have warranted prudent and timely recruitment, training and retention; two, a partnership-centric approach, whereby Saksoft would engage with external specialists and provide absolutely contemporary solutions to customers from Day One.

Given the backdrop of rapidly evolving technologies, urgency and specialisation, Saksoft selected to partner. The result is that we have engaged with some of the most competent and like-minded corporate partners, providing us with engagement flexibility and responsiveness to adapt to evolving customer needs.

What has been particularly satisfying is that this restructuring is not theory; it is already a reality. This restructuring is not something likely to only translate into future wins; it has already started generating positive traction.

Saksoft generated attractive wins in the last quarter of 2015-16 when our full-service Digital Transformation offering was

in evidence. This approach validated our positioning as a company with inch-wide but mile-deep competence, strengthening our brand and recall among prospective customers.

## These are some of the realities that excite me about our prospects

- **New verticals:** The Company reported attractive wins with public sector projects in the UK in the municipality vertical. We are optimistic that after these projects have been successfully completed, the company will be able to showcase its Digital Transformation competence in this vertical and account for a larger share and higher bidding strike rate.

- **Project mapping:** The projects of around \$500,000 represent an attractive niche; too small for larger companies with similar competencies and too large for smaller companies with limited bandwidth, resulting in a sweet spot.

- **Digital Transformation partner:** Delivery of the complete Digital Transformation scope has been validated by a sharp increase in our strike rate of such projects bid for in the last quarter of 2015-16. The objective is to increase this strike rate through a larger investment in front-end marketing, widening our presence among prospective customers and strengthening our brand as a dependable Digital Transformation partner.

- **Large, untapped market:** The UK represents a large market relatively under-penetrated by Indian IT companies, an attractive opportunity. With our pre-qualification credentials falling into place through live projects with public sector organisations, we will have a successful showcase to present to peer councils.

What is heartening is that there is a greater consideration being provided for the robustness of one's global delivery model over one's cost-competitiveness, which strengthens our ability to deliver a world-class solution without compromising our margins.

## Industry inflection

Today's Digital Transformation promise is built around the integration of Social, Mobile, Analytics and Cloud (SMAC) technologies. The synergic ecosystem makes it possible for businesses to enlarge operations and reach with minimal overheads, strengthening competitiveness.

This SMAC typically represents the 'fifth wave' of IT architecture and unfolding faster than anything we have seen earlier. By 2020, 100 billion computing devices are likely to be connected to the Web; companies are likely to be managing 50x the data they presently do. Accenture estimates that digital technologies in the world's top 10 economies can add a combined \$1.36 trillion to their GDP by 2020. The inference then is that SMAC will have a multiplier effect on businesses and productivity.

The result is that SMAC will not just address scale; it will replace the longstanding blueprint of value chains to create new distributed and virtualized business models, emerging as the essential building block of a new platform for digital business initiatives.

## The Digital Transformation space

The principal point that one need to make is that Digital Transformation is no longer an option; it is an imperative. A number of businesses critically need Digital Transformation for the personalization

of content, experience, pricing, recommendation and service; real-time and aware applications need to leverage preferences, insights, context and location; systems or processes need to facilitate deeper customer insights that enhance loyalty and advocacy; an omni-channel approach needs to provide customer choice and flexibility that enhance organizational responsiveness and widen offerings and business models.

There are some remarkable ways in which companies have transformed. Armour has transformed from its popular athletic brand incarnation marketing shoes and apparel; by connecting 38 million people across its digital platform, the company is poised to emerge as a major lifestyle advisor and health consultant.

The Port of Hamburg has fused facility, weather and traffic conditions with vehicle availability, shipment schedules and enhanced container handling capacity 178% - without expanding physical space at all.

Uber is transforming how urban logistics operates through the technological convergence of big data, Cloud and mobile.

## Outlook

Given this landscape and our preparedness, I am pleased to state that Saksoft enjoys attractive prospects.

I am optimistic that this does not just indicate an attractive 2016-17; it indicates the start of a new journey for our company.

**Aditya Krishna**  
*Chairman & Managing Director*

# Creating a robust business model



The IT services business is one of the most challenging.

The sector is marked by rapidly-transforming realities on the one hand and growing need for sustained increase in stakeholder value on the other.

The number of variables are many. Customer needs. Technology realities. New inventions. Consumer preferences. Technology integration. Globally dispersed customers. Premium on partnership (over vendorship).

At Saksoft, we graduated to a business model that we believe is likely to generate multi-year growth across industry cycles.

## Vision

In a sector marked by scale, the company resolved to be a contrarian: not the largest with the biggest Balance Sheet but the best with the most attractively sized Balance Sheet. This perspective influenced the company's vertical selection, technology complement and capital allocation, virtually defining the company's personality. As a result, the company is progressing towards improved margins, strengthening corporate stability.

## Commitment

The promoters of the company continued to invest in broadening its technology complement within the Digital Transformation space, perhaps the most significant technology reality of the day. During the financial year under review, this complement was finally completed, strengthening the Company's consolidated offering, brand and profitability.

## Brand

The Company has gradually evolved its personality from a conventional IT services company (commodity) into a Digital Transformation partner (value-added). The 'digital' highlights the space that we are in; the 'transformation' highlights our capability; the 'partner' signifies the intensity of our engagement translating into domain and customer knowledge on the one hand and solutions quality on the other.

## Integrated

The Company has integrated its SMAC offerings. This has made it possible for the company to provide a consolidated value for its customer that would be larger than the standalone value of its offerings. This integration translated into a higher strike rate of wins during the last financial year, larger value per contract and the possibility of this successful delivery translating into repeated engagement with the customer or more such projects within the vertical.

## Geographic coverage

The Company selected to market its services in developed countries marked by a receptivity for such projects and where Indian companies are relatively under-penetrated. Nearly 58 per cent of the company's 2015-16 revenues were derived from US; the rest was derived from UK, Europe and APAC.

## Customer profile

The Company marketed its Digital Transformation services directed at urban municipal corporations marked by extensive legacy and manual systems on the one hand and a need for systemic digital transformation to service citizens better on the other. This vertical is visible, large and relatively under-penetrated. The company selected to address a niche (\$ 500,000 to \$ 5 bn in revenues) that is too small for large IT service providers and too large for small technology companies. The

company possesses just the right size to deliver responsive specialized solutions.

## Aggregator model

The Company has selected to combine an insourcing cum partnership approach, compatible in addressing the wide range of technology competencies on the one hand and rapid technology evolution on the other. The company's engagement with technology partners is making it possible to access best-in-class competencies without investing directly in increasing people recruitment and training. This approach is also likely to enhance the company's responsiveness in addressing rapid marketplace changes.

## Fiscal conservatism

The Company has selected to pursue an incremental model, preferring to plough accruals into building its sales teams. This approach is also likely to reduce the company's indebtedness – gearing decline from 0.20 in 2014-15 to 0.14 in 2015-16.

## Sales-driven

The Company is in the process of transforming from a technology recruitment focus to a sales and marketing orientation. This is likely to strengthen the company's asset-lightness: from a position when it invested extensively in technology training with a corresponding attrition risk, the company is likely to aggregate these competencies from diverse sources and reach wider and deeper through a stronger sales thrust.

## Company partnerships

Saksoft is working with industry leading service providers to add value to customers.

