Softtech Engineers Limited

April 1, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	1.26	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	12.00 (Enhanced from 6.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	11.68	CARE A3 (A Three)	Reaffirmed
Total Facilities	24.94 (Rs. Twenty-Four Crore and Ninety-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Note: Cash credit facility has been reclassified from Long term to Long term/Short term on account sublimit of Bank Guarantee

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Softtech Engineers Limited (SEL) continues to derive strength from extensive experience of the promoters of around three decades in the information technology consulting business, diversified and established client base, healthy profitability margins, comfortable capital structure and debt coverage indicators and adequate liquidity profile.

The ratings however, continue to remain constrained by its relatively modest scale of operations along with customer concentration risk, moderate order-book position, stretched collection period emanating from a major chunk of revenues from various governments departments and a sizable portion of unbilled revenues. The rating is also tempered on account of project stabilization risk of the software products related cap-ex undertaken, and moderate outstanding orderbook position. The rating is further constrained due to susceptibility of profit margins to Forex rates, propensity of SEL to support it subsidiary in turn impacting the financial risk profile of SEL and significant dependence on government spending on IT infrastructure and participation in arduous tender driven process.

The rating further, takes note of the moderation in total operating income (TOI) during H1FY21 (refers to a period from April 1 to March 31) due to slowdown in execution of orders amid pandemic. However, comfort can be drawn from improvement in PBILDT margins during H1FY21 on account of lower employee expenses due to developed software product base. Also, likely moderation in the cashflow is expected due to the macro economic slowdown with the outbreak of Covid-19 and subsequent lockdown.

Key Rating Sensitivity

Positive factors - Factors that could lead to positive rating action/upgrade

- Sustained improvement in TOI above Rs.90 crores supported by healthy PBILDT margins of 37% and above
- Improvement in liquidity profile marked by timely realization of debtors with average collection period(including unbilled revenues) to less than 130 days.

Negative factors: Factors that could lead to negative rating action/downgrade

- Sustained decline in revenue below Rs.45 crore and PBILDT margins below 28%
- Any un-envisaged incremental borrowings, deteriorating its overall gearing ratio over 0.60x on a sustained basis and total debt to GCA above 2.6x.
- Deterioration in liquidity profile due to significant build-up of funds largely blocked in debtors/unbilled revenues as reflected by average collection period over 400 days.

Detailed description of the key rating drivers

Key Rating Strengths

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Long track record of operations and extensive experience of the promoters and management: SEL has an established track record of over two decades and is promoted by Mr. Vijay Gupta, Chairman and the Managing Director of the company who has an experience of over 32 years in the development of complex BIM/CAD/CAE/Project Management enterprise software in the architecture, engineering and construction (AEC) domain. He holds a master's degree in Technology in the stream of Civil Engineering from the Indian Institute of Technology, Mumbai (IIT, Bombay). He is ably supported by Ms. Priti Gupta who is a qualified B.Sc. (Physics) and MBA, and is responsible for human resource and administration Department having an experience of over about one decade. Further, the board of directors (BOD) forms an integral part of SEL in the form of decision making and management of the company. Being in the industry for such a long time along with extensive experience of promoters benefits SEL in acquisitions of new clientele and smooth operations of the company.

Reputed and diversified client base albeit concentration on government departments: SEL has a customer base of more than 75, based in geographically diverse locations majorly in India and has also executed orders in some parts of Nigeria, UAE and Oman. The major customers include Government Department viz. Municipal Corporation, Urban local bodies PWD etc. and the company is also a software partner to the governments across India under various schemes like JNNURM, smart city, in improving the country's Ease of doing Business Ranking through Automation etc. SEL continues to get repeat orders from these clients. The contribution of top 5 customers to TOI has increased to 28.05% for FY20 as against 26.43% for FY19. However, over the years SEL has reduced the customer concentration risk as indicated by contribution of top 5 customers to TOI at 46.43% for FY18 to 33.84% during H1FY21.

Also, to diversify the risk of concentration of revenues from Indian Government departments, the company has bid for international orders. However, successful conversion of international orders in pipeline is a key rating monitorable

Healthy profitability margins: The PBILDT margin continues to remain healthy and has consistently improved to 37.1% for H1FY21 as against 27.64% for FY20 and 26.20% for FY19 due to lower employee expenses on account of developed software product base. Furthermore, the PAT margin also moved in tandem and improved to 14.76% for H1FY21 as against 13.12% for FY20 and 12.26% for FY19.

Comfortable capital structure and debt coverage indicators: The capital structure of SEL though deteriorated continues to remain comfortable with an overall gearing of 0.48x as on March 31, 2020 as against 0.30x as on March 31, 2019. The deterioration in gearing levels was mainly on account of optionally convertible loan availed during December 2019 to support development of products. However, the overall gearing ratio improved marginally to 0.46x as on September 30, 2020 on account of accretion of profits of H1FY21 to reserves. Further, the debt coverage indicators of the company has moderated marked by interest coverage ratio and total debt to GCA of 8.87x and 2.49x respectively for FY20(as against 9.89x and 1.38x respectively for FY19) and subsequently stood at 6.39x and 2.80x respectively for H1FY21. The moderation in debt coverage indicators is due to increase in debt levels and subsequently increasing interest charges.

Key Rating Weaknesses

Modest scale of operations: The major portion of revenues of the company(contribution to around 77% of TOI for FY20) is highly dependent on execution of orders (related to approval of building plans, tender approvals, management and related workflows system etc.) using its trademarked products AutoDCR and PWIMS majorly for government departments. The execution of orders was impacted during FY20 leading to decline in TOI by 7.61% from Rs.63.56 crore for FY19 to Rs.58.72 crore for FY20 due to external factors such as overall slowdown in real estate and infrastructure sector. Also, during H1FY21, the TOI of the company declined to Rs.19.65 crore (as against Rs.27.35 crore for H1FY20) on account of Covid-19 pandemic induced lockdowns during Q1FY21 impacting tendering and building plan approval activities.. *Despite, the moderate capital employed of Rs.86.46 crore as on March 31, 2020, the scale of operations continues to remain modest with significant unbilled revenues and debtors outstanding to the tune of Rs.66.75 crore as on March 31, 2020, which may hamper financial flexibility of the company during stress and is a key rating monitorable.*

Stabilisation of cap-ex for products under development: The company over the years of operations has developed software products namely AutoDCR, PWIMS, OPTICON and BIMDCR which are currently commercialized. Further, Rule Buddy and CIVIT(name changed from IBPS) was launched in Q2FY21. Rule buddy is an E-commerce platform to analyse and assess the feasibility of any construction project in a particular area by checking for building by-laws and applicable guidelines. Further, CIVIT integrates all the existing product line of SEL under one platform. Also, the company incurred CAPEX to the tune of Rs.3.50 crore for relocation of office premises and related fitouts at the new location during 11MFY21 majorly funded by internal accruals(which is expected to be replaced by the disbursement of term loan).

Stabilization software products related cap-ex will remain crucial for the overall business risk profile of the company.

Moderate outstanding order book position providing revenue visibility in the medium term: As on September 30, 2020, SEL has outstanding order-book from 58 customers pegging orders to sales ratio for FY20 to 1.31x (as against 1.01x for FY19 as on December 31, 2019) signifying revenue visibility over the medium term. The increase in orderbook to sales ratio is majorly due to lower base for FY20 vis-à-vis FY19 and partially supported by fresh orders. *Majority of the customers are related to government departments in turn increasing the risk of timely collection of receivables with change in focus of expenses of major states towards healthcare infrastructure amid pandemic.* However, SEL also generates revenue by various other models like

SaaS, Subscription to various private players which is not captured in the orderbook and constituted around 12.07% of TOI for FY20 and the company has also implemented two new products RuleBuddy and CIVIT majorly focussed towards private companies giving comfort to some extent in terms of cash flows.

Susceptibility of profit margins to Forex rates along with propensity of SEL to support its subsidiary: SEL is exposed to foreign exchange fluctuation risk, given it exports software services to international locations. Also, SEL has invested in the debentures of its subsidiary companies to the tune of Rs.2.26 crore as on September 30, 2020 located at USA and Finland to support the operations related to acquisition of customers and orders for SEL. Hence, there is significant increase in susceptibility of profit margins to adverse fluctuation in Forex rates. However, the export markets present better opportunities to SEL to diversify its customer base along with generating higher margins on account of lower cost of development of the software products in India vis-à-vis developed markets. During FY20, the company has posted foreign currency gain of Rs.0.09 crore (vis-à-vis gain of Rs 0.03 crore in FY19).

Exposure to tender driven process and dependence on government spending and llikely moderation of growth in the short to medium term due to the impact of COVID-19: The company mainly caters to orders received from various Government entities and other Government establishments. The high concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. SEL has to participate in the tenders floated by various government agencies which can be lengthy at times. Moreover, the company is dependent on government spending for the total capital expenditure presented in the union budget every year. Further, the majority of the contracts received by SEL are awarded by central and state government bodies through tender process and are milestone based which results in high collection period. This apart, the performance of SEL is expected to be moderately impacted due to the outbreak of COVID-19 amid slowdown in construction and tendering activities.

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient cushion in accruals to repayment obligations for FY21 and free healthy cash and liquid investments(Mutual funds etc.) of Rs.14.25 crores as on December 31, 2020. The same is sufficient to meet it’s modular capex requirements. Working capital requirements are met by a cash credit limit of Rs.12 crore, which was utilized at 93%, during the last 12 months ended February 28, 2021. Further, the operating cycle of the company is high as at the end of FY20 on account of stretch in collection period mainly due to funds largely blocked in debtors and unbilled revenues. The collection period deteriorated to 347 days as at the end of FY20 as against 252 days as at the end of FY19. The collection period is high due to delay in customers validating the data through comprehensive quality checks, and then approve the invoice, which then becomes payable with a credit period of 30 days. SEL has not availed moratorium (Covid-19 Regulatory scheme) for deferment of interest payments for the cash credit account. However, moratorium for deferment of principal and interest portion was availed for the term loan. Furthermore, the company has already repaid the Funded interest term loan (due for the moratorium period availed) in September and October 2020. Also, the company has availed Emergency Guaranteed Line of Credit of Rs.0.97 crore during August 2020 to support operations.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Service Sector Companies

About the Company

Softtech Private Limited (SEL: erstwhile Softtech Engineers Private Limited, was converted into a public limited company in March 2018 with subsequent listing on NSE SME exchange in May 2018). SEL based out of Pune, was incorporated in the year 1996 with a view to develop software solutions for architecture, engineering and construction (AEC) vertical of government bodies and construction enterprises. The products developed by SEL cater to the entire lifecycle of construction i.e. from planning a lay out, approval for the same, budgeting, area calculation, execution of plan etc. SEL has also incorporated subsidiaries in USA and Finland for international penetration.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020	30-09-2020
	12M, A	12M, A	6M, UA
Total operating income	63.56	58.72	19.65
PBILDT	16.65	16.23	7.29
PAT	7.79	7.71	2.9
Overall gearing (times)	0.30	0.48	0.46

Brief Financials (Rs. crore)	31-03-2019	31-03-2020	30-09-2020
	12M, A	12M, A	6M, UA
Interest coverage (times)	9.89	8.87	6.39

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: CRISIL via press release dated December 19, 2014 had suspended the ratings of Softtech Engineers Private Limited (Name changed to Softtech Engineers Limited in March 2018) on account of non-cooperation for the information required to undertake review.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	12.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	11.68	CARE A3
Fund-based - LT-Proposed fund based limits	-	-	-	1.26	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	12.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable (04-Dec-20) 2)CARE BBB-; Stable (08-May-20)	1)CARE BBB-; Positive (02-Apr-19)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE BB+; Stable (24-Apr-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	11.68	CARE A3	1)CARE A3 (04-Dec-20) 2)CARE A3 (08-May-20)	1)CARE A3 (02-Apr-19)	1)CARE A4+; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE A4+ (24-Apr-17)
3.	Fund-based - LT-Proposed fund based limits	LT	1.26	CARE BBB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Proposed fund based limits	Simple

Sr. No.	Name of the Instrument	Complexity Level
2.	Non-fund-based – ST-Bank Guarantees	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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