Softtech Engineers Limited

December 4, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	6.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	11.68	**CARE A3 (A Three)**	**Reaffirmed**
Total facilities	**17.68 (Rs. Seventeen Crore and Sixty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

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.

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 implementation and stabilization risk of the cap-ex for products under development, and dependence on government spending on IT infrastructure and participation in arduous tender driven process.

The ratings further take a note on missed payment of monthly installment of the term loan (not rated by CARE) due to administrative issue. The aforementioned term loan is backed by fixed deposit receipts (lien marked). Furthermore, the company had sufficient liquidity to timely service its debt obligations.

The rating also takes note of the likely moderation of the financial risk profile of SEL in FY21 (refers to a period from April 1 to March 31) due to macro-economic slowdown with the outbreak of Covid-19.

Key Rating Sensitivity

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

- Sustained improvement in Total Operating Income(TOI)
- Ability of the company to secure fresh orders amidst ongoing slowdown in the industry leading to increase in outstanding order book position and revenue visibility over the medium to long term.
- Sustained improvement in profitability led by healthy PBILDT margin of 29% and above.
- Improvement in liquidity profile marked by timely realization of debtors.

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

- Sustained decline in revenue and profitability margins.
- Any un-envisaged incremental borrowings, deteriorating its overall gearing ratio over 0.60x on a sustained basis and total debt to GCA above 2 years.
- Any incremental need-based financial support extended to subsidiaries deteriorating the financial risk profile of SEL.
- Deterioration in liquidity profile due to significant build-up of funds largely blocked in debtors/unbilled revenues.

Detailed description of the key rating drivers

Key Rating Strengths

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 25 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.

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

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, 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. Further, contribution of top 5 customers to TOI has reduced from 46.43% during FY18 to 26.43% for FY19 reducing customer concentration risk.

Healthy profitability margins: The PBILDT margin improved by 144Bps in FY20 vis-à-vis FY19 and continues to remain healthy in the range of 26% to 31% for last three years ended FY20. The PAT margin of the company also improved by 86 Bps and stood healthy at 13.12% for FY20 as against 12.26% for FY19. Moreover, the profitability margins further improved marked by PBILDT and PAT margin to 37.10% and 14.76% respectively during H1FY21, (as against 22.41% and 9.18% respectively during H1FY20) on account of change in product mix with reduction in overheads and contract employee expenses.

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 deterioration in debt levels and subsequently increasing interest charges.

Key Rating Weaknesses

Modest scale of operations: TOI of the company declined by 7.61% from Rs.63.56 crore for FY19 to Rs.58.72 crore for FY20. Also, during H1FY21, the TOI of the company moderated to Rs.19.65 crore (as against Rs.27.35 crore for H1FY20). The decline in TOI is mainly due to lower orders and contracts executed on account of Covid-19 pandemic. The scale of operations stood relatively modest coupled with moderate tangible net-worth base of Rs.58.33 crore as on March 31, 2020 (vis-à-vis Rs.53.42 crore as on March 31, 2019) and the same limits the financial flexibility of the company during stress and industry downturn.

Implementation and stabilization risk 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 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. Furthermore, IBPS is under development and is expected to be launched during Q4FY21. *Stabilization and implementation of the said 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 December 31, 2019, SEL has outstanding order-book from 51 customers pegging orders to sales ratio for FY19 to 1.01x (as against 2x for FY18) signifying revenue visibility over the medium term. The decline in outstanding orders for execution as on December 31, 2019 vis-à-vis December 31, 2018 is mainly due to overall slowdown in awarding new tenders by government departments. The expected completion period for the current order book ranges from 1 to 18 months.

Exposure to tender driven process and dependence on government spending and likely 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 moderate, due to the outbreak of COVID-19 amid slowdown in construction and tendering activities. However, the impact is highly dependent on the depth of the outbreak, its spread and its duration.

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient cushion in accruals of Rs.11.27 crore for FY20 vis-a-vis repayment obligations of Rs. 0.24 crore for FY21. The same is sufficient to meet it's modular Capex requirements along with support from external borrowing. The utilization of working capital limits remained high at approximately 90% during the last 12 months ended October 31, 2020. The unutilized line of credit is approximately 9.5% as on November 24, 2020. The company has liquid investments of Rs.7.59 crore as on October 31, 2020.

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. 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 (Not rated by CARE). Furthermore, the company has already repaid the Funded interest term loan (due for the moratorium period availed) in September and October 2020.

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
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
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	11.68	CARE A3

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.	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable	1)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-BG/LC	ST	11.68	CARE A3	1)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)

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-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	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.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ms. Prateechee Misra
Group Head Contact no.: 020 - 40009026
Group Head Email ID: prateechee.misra@careratings.com

Business Development Contact
Name: Mr. Aakash Jain
Contact no. : 020 - 40009090
Email ID: aakash.jain@careratings.com

About CARE Ratings:

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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