

Softtech Engineers Limited (Revised)

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.71 (Reduced from 5.61)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	12.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	11.68	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	27.39 (₹ Twenty-Seven Crore and Thirty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 outstanding orderbook position, stretched collection period emanating from a major chunk of revenue from various government's departments and a sizable portion of unbilled revenues. The rating is further constrained by propensity of SEL to support its subsidiary in turn impacting the financial risk profile of SEL, significant dependence on government spending on IT infrastructure and participation in arduous tender driven process.

Rating sensitivities

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

- Sustained improvement in TOI above Rs.90 crores alongwith improvement in gross cash accruals and return on capital employed
- 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 25%
- Any un-envisaged incremental borrowings, deteriorating its overall gearing ratio over 0.60x on a sustained basis and total debt to GCA above 3.6x.
- Further deterioration in liquidity profile due to significant build-up of funds largely blocked in debtors/unbilled revenues as reflected by average collection period.

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 three decades 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 a 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 clients, 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 Departments viz. Municipal Corporations, 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

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

orders from these clients. The contribution of top 5 customers to TOI increased to 38.39% for FY22 (refers to the period April 01 to March 31) as against 33.52% for FY21. 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 38.39% during FY22.

Healthy profitability margins: The PBILDT margin continues to remain healthy and stood in the range of 25%-30% over the last three years ended in FY22. During FY22, PBILDT margin declined by 108 bps mainly due to increase in employee expenses. However, the PAT margin improved by 92 bps in FY22 and stood in the range of 9%-13% during the aforementioned period. Furthermore, 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.3.39 crore as on March 31, 2022 located at USA and Finland to support the operations related to acquisition of customers and orders for SEL. During FY22, the company has posted foreign currency gain of Rs.0.19 crore (vis-à-vis gain of Rs 0.01 crore in FY21).

Comfortable capital structure and debt coverage indicators: The capital structure of SEL improved and continues to remain comfortable with an overall gearing of 0.54x as on March 31, 2022. The gearing levels improved on account of increase in networth base, with schedule repayment of loans and accretion of profit to reserves. Further, the debt coverage indicators of the company also stood satisfactory with interest coverage ratio and total debt to GCA of 5.52x and 2.58x as at the end of FY22 respectively (4.80x and 3.85x for FY21).

Key rating weaknesses

Modest scale of operations: The major portion of revenues of the company 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. TOI of the company improved by ~39% to Rs.57.65 crore for FY22 as against Rs.41.59 crore for FY21. The growth in revenue was mainly attributable to revival of economy which was impacted by pandemic in previous year. During FY22, the revenue growth was also contributed by the pay per use services. Further, during Q1FY23 (refers to the period April 01 to June 30), the company has achieved a TOI of Rs. 12.59 crore. Despite, the moderate capital employed of Rs.121.99 crore as on March 31, 2022, the scale of operations continues to remain modest with significant unbilled revenues and debtors outstanding to the tune of Rs.74.08 crore as on March 31, 2022 which may hamper financial flexibility of the company during stress and is a key rating monitorable.

Moderate outstanding order book position providing revenue visibility in the medium term: As on July 31, 2022, SEL has an outstanding order book to sales ratio for FY22 to 1.62x (as against 1.66x for FY21 as on June 30, 2021) signifying revenue visibility over the medium term. Majority of the customers are related to government departments in turn increasing the risk of timely collection of receivables. SEL has majority of its orders for AutoDCR, which comprises 50% of the outstanding order book position. Further, over the years, the company has focused & shifted towards recurring based revenue model, which is expected to give comfort to some extent in terms of cash flows.

Exposure to tender driven process and dependence on government spending: 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.

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient cushion in accruals for repayment obligations due in FY23 and free cash and liquid investments (Mutual funds etc.) of Rs.3.69 crores as on August 01, 2022. Working capital requirements are met by a cash credit limit, the average utilisation of the same stood at ~95%, during the last 12 months ended August 31, 2022. Further, the operating cycle of the company continues to remain high as at the end of FY22 on account of stretch in collection period mainly due to funds largely blocked in debtors and unbilled revenues. The collection period though improved in FY22 to 458 days from 601 days in FY21, still continues to remain at higher side. The slow approval process, led to a considerable increase in funds blocked in the unbilled revenue.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[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). The company has migrated to National Stock Exchange (NSE) and Bombay Stock exchange (BSE) w.e.f February 25, 2022 from NSE- SME platform. 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. Further, the company has over the years developed software products like AutoDCR, PWIMS, Opticon, BIMDCR, Rule Buddy and CIVIT. SEL has also incorporated subsidiaries in USA and Finland for international penetration.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	41.59	57.65	12.59
PBILDT	12.43	16.61	4.31
PAT	3.78	5.78	0.81
Overall gearing (times)	0.65	0.54	-
Interest coverage (times)	4.80	5.52	5.99

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.20	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	August, 2026	3.51	CARE BBB-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	12.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	11.68	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
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 / CARE A3 (27-Aug-21) 2)CARE BBB-; Stable / CARE A3 (06-Aug-21) 3)CARE BBB-; Stable / CARE A3 (01-Apr-21)	1)CARE BBB-; Stable (04-Dec-20) 2)CARE BBB-; Stable (08-May-20)	1)CARE BBB-; Positive (02-Apr-19)

2	Non-fund-based - ST-Bank Guarantee	ST	11.68	CARE A3	-	1)CARE A3 (27-Aug-21) 2)CARE A3 (06-Aug-21) 3)CARE A3 (01-Apr-21)	1)CARE A3 (04-Dec-20) 2)CARE A3 (08-May-20)	1)CARE A3 (02-Apr-19)
3	Fund-based - LT-Term Loan	LT	3.51	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Aug-21) 2)CARE BBB-; Stable (06-Aug-21) 3)CARE BBB-; Stable (01-Apr-21)	-	-
4	Fund-based - LT-Cash Credit	LT	0.20	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Aug-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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