

Softtech Engineers Limited

November 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2.53 (Reduced from 3.71)	CARE BBB-; Stable	Reaffirmed
Long-term / Short-term bank facilities	12.00	CARE BBB-; Stable / CARE A3	Reaffirmed
Short-term bank facilities	11.68	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings to the bank facilities of Softtech Engineers Limited (SEL) continues to derive strength from promoters' extensive experience, diversified and established client base, healthy profitability, comfortable capital structure and debt coverage indicators. The ratings also factor in likely improvement in SEL's liquidity position resulting from inflow of funds corresponding to the fully convertible warrants issued by SEL.

The ratings, however, continue to remain constrained by SEL's relatively modest scale of operations along with customer concentration risk, moderate outstanding orderbook position, and elongated operating cycle emanating from sizable amount of unbilled revenues. The ratings are further constrained by propensity of SEL to support its subsidiaries 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: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the total operating income (TOI) above ₹135 crore along with improvement in gross cash accruals (GCA) and return on capital employed (ROCE).
- Improvement in the liquidity profile led by healthy cash flows from operations, with collection period (including unbilled revenues) of less than 130 days.

Negative factors

- Sustained decline in revenue below ₹45 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins below 25%.
- Overall gearing ratio over 0.60x on a sustained basis and total debt to GCA (TDGCA) above 3.5x.
- Further deterioration in the liquidity profile due to significant build-up of funds largely blocked in debtors/unbilled revenues as reflected by average collection period.
- Significant incremental outflow of funds to support subsidiaries, impacting the liquidity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company shall sustain its credit risk profile in the near to medium term with growth in the scale of operations, along with healthy profitability and comfortable capital structure.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations and extensive experience of the promoters and management

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

SEL has an established track record of over two decades and is promoted by 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 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. Furthermore, 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 the promoters benefits SEL in acquisitions of new clientele and smooth operations of the company. CARE Ratings expects the company to benefit from its long track of operations.

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, Public Works Departments (PWD), etc., and is also a software partner to the governments across India under various schemes. SEL continues to get repeat orders from these clients. The contribution of top five customers to TOI increased to more than 40% for FY23 (refers to the period April 01 to March 31) as against 33% for FY22, exposing the company to customer concentration risk.

Healthy profitability

SEL's profitability continues to remain healthy. During FY23, the PBILDT margin improved by 419 bps to 32.76% (28.57% in FY22) as a result of lower consultation charges for the year. Interest cost was seen higher as a result of new loans availed during the year. This coupled with higher depreciation and amortisation charges resulted in lower profit after tax (PAT) margin at 8.87% in FY23 as compared with 10.05% in FY22. CARE Ratings notes that SEL is likely to maintain its profitability over the medium term, benefitting from better fixed cost absorption.

Comfortable capital structure and debt coverage indicators

The capital structure continues to remain comfortable with an overall gearing of 0.44x as on March 31, 2023 (0.40x as on March 31, 2022). The marginal deterioration was on account of incremental bank borrowings availed during the year, mainly to fund the working capital requirements. The debt coverage indicators of the company also stood satisfactory with interest coverage ratio and TDGCA of 5.29x and 2.71x as at the end of FY23, respectively (5.46x and 2.92x for FY21). The capital structure is likely to improve further led by inflow of funds to the tune of ₹18.75 crore during H1FY24 (refers to the period April 1 to September 30) against fully convertible warrants.

Key weaknesses

Modest scale of operations, moderate order book position

SEL's scale of operations continues to remain modest with TOI of ₹65.34 crore during FY23 (₹57.46 crore in FY22), with growth largely driven by government-spending activities. The growth in TOI during FY23 was mainly driven by SEL's Public Works Information Management System (PWIMS) solutions segment, where the revenue more than doubled during FY23.

During Q1FY24 (refers to the period April 01 to June 30), SEL has achieved a TOI of ₹19.37 crore (₹12.59 crore during Q1FY23). As on September 30, 2023, SEL had an outstanding order book of around ₹130 crore 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. CARE Ratings notes that the scale of operations of SEL continues to remain modest with significant unbilled revenues and debtors which may hamper financial flexibility of the company during stress and is a key rating monitorable.

Propensity of SEL to support its subsidiaries

In order to diversify the operations, SEL has formed overseas subsidiaries in USA, Finland, and Singapore. SEL has subscribed to debentures issued by its subsidiary companies located at USA and Finland to support the operations related to acquisition of customers and orders for SEL. As on March 31, 2023, the investments in subsidiaries in the form of equity/ debentures stood at ₹8.44 crore. CARE Ratings notes that the subsidiaries are yet to scale up meaningfully and rely on SEL for funding support, and will continue to monitor any significant incremental outflow that could impact SEL's liquidity.

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. Furthermore, 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 ₹10.60 crore as on August 31, 2023. Working capital requirements are met by a cash credit limit, the average utilisation of the same stood at around 81% during 12 months ended June 30, 2023. The operating cycle of the company continues to remain elongated as at the end of FY23 on account of large amount of debtors and unbilled revenues. The collection period continued to remain high at 429 days (PY: 457 days). SEL generated CFO of ₹8.89 crore during FY23. The liquidity during FY24 will be additionally supported by inflow of funds corresponding to the fully-convertible warrants issued by SEL, which will be utilised towards debt repayments and working capital management.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

SEL (erstwhile Softtech Engineers Private Limited, was converted into a public limited company in March 2018 with subsequent listing on National Stock Exchange [NSE]-SME exchange in May 2018). The company has migrated to 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. Furthermore, 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)- Standalone	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	57.46	65.34	19.38
PBILDT	16.41	21.40	5.96
PAT	5.78	5.80	1.11
Overall gearing (times)	0.40	0.44	NA
Interest coverage (times)	5.46	5.29	4.97

A: Audited UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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	2.33	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 2023-2024	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
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 (06-Oct-22)	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)
2	Non-fund-based - ST-Bank guarantee	ST	11.68	CARE A3	-	1)CARE A3 (06-Oct-22)	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)
3	Fund-based - LT-Term loan	LT	2.33	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Oct-22)	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 (06-Oct-22)	1)CARE BBB-; Stable (27-Aug-21)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Akhil Goyal Director CARE Ratings Limited Phone: +91 - 22-6754 3590 E-mail: akhil.goyal@careedge.in</p> <p>Ashish Kashalkar Assistant Director CARE Ratings Limited Phone: +91-20-4000 9009 E-mail: Ashish.Kashalkar@careedge.in</p> <p>Sachita More Lead Analyst CARE Ratings Limited E-mail: Sachita.More@careedge.in</p>
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**