

Softtech Engineers Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	4.35 (Enhanced from 2.53)	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 ratings assigned to the bank facilities of Softtech Engineers Limited (SEL) derives strength from long track of operations in the industry along with experienced management and reputed customer base. The ratings further derive strength from healthy profitability margins, comfortable capital structure, satisfactory debt coverage indicators and adequate liquidity position.

The rating strengths, however, continue to remain constrained by the company's moderate order book position, modest scale of operations, working capital-intensive nature of operations emanating from high collection cycle and sizeable portion of unbilled revenues and exposure to tender-driven process and dependence on government spending.

CARE Ratings Ltd. has withdrawn the rating assigned to a bank facility of SEL with immediate effect, as the company has repaid the term loan in full and there is no amount outstanding under the loan as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in 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%.
- Deterioration in overall gearing above 0.60x and total debt to gross cash accruals (TDGCA) above 3.50x on a sustained basis.
- Inability of the company to improve collection period (including unbilled revenue) below 375 days.

Analytical approach: Consolidated

The analytical approach is changed to Consolidated from Standalone considering incremental investments by SEL in its subsidiaries and significant management, operational and financial linkages between SEL and its subsidiaries and step-down subsidiaries. The list of subsidiaries consolidated is given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company shall sustain its comfortable financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

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

SEL has an established track record of over two decades in the industry and is promoted by Vijay Gupta, who has over three decades of experience in developing complex BIM (Building Information Modeling) /CAD (Computer-Aided Design) / Project Management enterprise software within the architecture, engineering and construction (AEC) domain. He is ably supported by Priti Gupta, who oversees the human resources and administration department having an experience of over a decade. Furthermore, the board of directors plays a crucial role in SEL's decision-making and management processes. The company's long-standing presence in the industry, combined with extensive experience of its promoters, benefits SEL in acquiring new clients and ensuring smooth operations.

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

Reputed and diversified client base; albeit concentration on government departments

With over two decades of operations in the industry, the promoters of SEL have developed long-standing and established relationships with its reputed clientele, leading to repeat orders. 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), among others. The company is also a software partner to the governments across India under various schemes. However, the customer base remains concentrated with the top 5 clients contributing to around 44% of TOI in FY24 (refers to period April 01 to March 31) vis-à-vis 42% in FY23. The counterparty risk is mitigated by association with reputed clientele.

Healthy profitability margins

In FY24, the PBILDT margin continued to remain healthy but declined to 27.81% from 30.56% in FY23 owing to higher employee costs and professional fees for technical consultants. The PAT margins also declined in line with the PBILDT margin to 4.22% in FY24 from 5.52% in FY23. Going forward, the PBILDT and PAT margins are expected to remain stable at similar levels.

Comfortable capital structure and satisfactory debt coverage indicators

The capital structure of SEL improved and continued to remain comfortable with an overall gearing of 0.31x as on March 31, 2024 (PY: 0.47x) owing to scheduled repayment of term loans and improvement in networth base with inflow of ₹18.75 crore against fully convertible warrants. Going forward, the capital structure is expected to improve and remain comfortable with overall gearing remaining below unity.

Due to improvement in GCA and lower total debt outstanding as on balance sheet date, TDGCA improved to 2.40x in FY24 (PY: 3.35x). Further, the interest coverage ratio deteriorated marginally to 4.66x (PY: 4.93x) due to lower profitability in FY24.

Key weaknesses

Moderate order book position

As on June 30, 2024, SEL has an outstanding orderbook of ₹166.25 crore, translating into an orderbook to TOI of around 2.11x of FY24 (as compared to order book to TOI of around 1.99x of FY23 as on August 31, 2023). This indicates revenue visibility in the medium term. However, the top 5 orders accounted for around 73% of the outstanding orderbook, reflecting concentration risk. Majority of the orders are from government authorities, increasing the risk of timely collection of receivables.

Modest scale of operations

The scale of operations of SEL have reflected a growing trend from FY22 to FY24, with growth largely driven by government-spending activities. TOI increased by around 20% to ₹78.78 crore in FY24 (PY: ₹65.50 crore) on account of growth in the 'pay per use' services segment. Furthermore, SEL has already booked TOI of ₹19.75 crore during Q1FY25 (refers to period April 01 to June 30).

Despite the long track record of operations, the scale of operation of SEL has remained modest which limits its financial flexibility to meet any exigency.

Working capital intensive nature of operations

The operations of the company remain working capital intensive in nature emanating from high collection cycle and sizeable portion of unbilled revenues. The operating cycle improved in FY24, however it remained high at 350 days (PY: 369 days).

SEL derives a major proportion of its revenues from government contracts, where the collection period is high due to delay in validation, quality checks and approval of invoices by customers. Furthermore, the billing schedules agreed with customers include periodic performance-based payments or milestone-based progress payments, leading to unbilled portions of revenue. Although the average collection period improved in FY24, it remained high at 401 days (PY: 429 days). Timely realization of receivables is critical from credit perspective.

Exposure to tender-driven process and high dependence on government spending

The company primarily caters to orders received from various government entities and other government establishments. The high reliance on government contracts makes the company susceptible to any changes in the government policies regarding the awarding of tenders to contractors. SEL has to participate in tenders floated by various government agencies, which can sometimes be lengthy. Moreover, the company depends on government spending for the total capital expenditure outlined in the annual union budget.

Liquidity: Adequate

The liquidity position remains adequate as marked by annual gross cash accruals of ₹15-20 crore against annual repayment obligations of around ₹5 crore over FY25-FY27. As on March 31, 2024, free cash and liquid investments (mutual funds) stood at ₹11.21 crore. The average maximum utilization of fund-based limits and non-fund-based limits stood at around 97% and 57% respectively for the twelve months ended June 30, 2024. Cash flow from operations stood at ₹18.12 crore in FY24.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

[Consolidation and Combined approach](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Information Technology	Information Technology	IT - Services	IT Enabled Services

In 1996, Vijay Gupta established Softtech Engineers Private Limited, which was reconstituted as a public limited company, SEL in May 2018 with listing on the SME portal of NSE. The company later migrated to the main board of the NSE and BSE w.e.f. February 25, 2022.

SEL is an information technology and software services company, delivering end to end solutions in AEC space, catering to government bodies, municipalities, property developers, contractors, architects, among others. Currently, SEL has a portfolio of 7 products including AutoDCR, PWIMS, Opticon, BIMDCR, Rule Buddy and CIVIT. These products cover the entire value chain of the construction industry, from pre-construction to during construction and then to the post construction stage.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	65.50	78.78	19.75
PBILDT	20.01	21.90	6.01
PAT	3.62	3.32	0.57
Overall gearing (times)	0.47	0.31	NA
Interest coverage (times)	4.93	4.66	4.73

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Brief Financials (₹ crore) - Standalone	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	65.34	78.61	19.74
PBILDT	21.40	25.25	6.90
PAT	5.80	6.97	1.59
Overall gearing (times)	0.44	0.29	NA
Interest coverage (times)	5.29	5.40	5.43

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	3.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31-08-2026	1.35	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 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 2024-2025	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
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 (13-Nov-23)	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)
2	Non-fund-based - ST-Bank Guarantee	ST	11.68	CARE A3	-	1)CARE A3 (13-Nov-23)	1)CARE A3 (06-Oct-22)	1)CARE A3 (27-Aug-21) 2)CARE A3 (06-Aug-21) 3)CARE A3 (01-Apr-21)
3	Fund-based - LT-Term Loan	LT	1.35	CARE BBB-; Stable	-	1)CARE BBB-; Stable (13-Nov-23)	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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
4	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (13-Nov-23)	1)CARE BBB-; Stable (06-Oct-22)	1)CARE BBB-; Stable (27-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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](#)

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	SoftTech Finland OY	Full	Wholly owned subsidiary of SEL
2.	SoftTech Engineers Inc.	Full	Subsidiary of SEL
3.	AmpliNxt Private Limited	Full	Wholly owned subsidiary of SEL
4.	SoftTech Digital Pte. Ltd	Full	Wholly owned subsidiary of SEL
5.	SoftTech Government Solutions Inc.	Full	Subsidiary of SoftTech Engineers Inc.
6.	SoftTech Digital Software LLC	Full	Wholly owned subsidiary of SoftTech Digital Pte. Ltd

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Akhil Goyal Director CARE Ratings Limited Phone: +91-22-6754 3590 E-mail: akhil.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Ashish Kashalkar Assistant Director CARE Ratings Limited Phone: +91-20-4000-9009 E-mail: Ashish.Kashalkar@careedge.in
	Aashvi Shah Lead Analyst CARE Ratings Limited E-mail: Aashvi.Shah@careedge.in

About us:

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