

Softtech Engineers Limited

August 27, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	5.61 (Enhanced from 1.11)	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 Facilities	29.29 (Rs. Twenty-Nine Crore and Twenty-Nine 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 & 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 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 susceptibility of profit margins to foreign exchange rates, 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.

The rating further, takes note of the moderation in total operating income (TOI) as anticipated during FY21 (refers to a period from April 1 to March 31) due to slowdown in execution of orders amid pandemic.

Key Rating Sensitivity

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 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.

¹Complete 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 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 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 increased to 33.52% for FY21 as against 28.05% for FY20. 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 33.52% during FY21.

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 30.04% for FY21 as against 27.64% for FY20 due to lower employee expenses on account of developed software product base. Furthermore, the PAT margin declined to 9.28% for FY21 as against 13.12% for FY20 and 12.26% for FY19 mainly due to lower absorption of fixed costs and increase in interest expenses on account of fresh borrowings availed from RIB ITWO software Private Limited. Further, the PAT was also impacted due to increase in non-cash expenses capitalized related to the software platforms developed during the year. 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.2.98 crore as on March 31, 2021 located at USA and Finland to support the operations related to acquisition of customers and orders for SEL. 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 FY21, the company has posted foreign currency gain of Rs.0.01 crore (vis-à-vis gain of Rs.0.03 crore in FY20).

Comfortable capital structure and debt coverage indicators: The capital structure of SEL though deteriorated continues to remain comfortable with an overall gearing of 0.57x as on March 31, 2021 as against 0.48x as on March 31, 2020. The deterioration in gearing levels was mainly on account of term loan availed for the CAPEX incurred to the tune of Rs.3.50 crore for relocation of office premises and related fitouts at the new location during FY21 and availment of Emergency Guaranteed Line of Credit of Rs.1.95 crore during FY21 to support operations. Further, the debt coverage indicators of the company has moderated marked by interest coverage ratio and total debt to GCA of 4.99x and 3.53x respectively for FY21(as against 8.87x and 2.49x respectively for FY20). 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 84% of TOI for FY21) 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 FY21 leading to decline in TOI by 27.95% from Rs.58.72 crore for FY20 to Rs.42.31 crore for FY21 due to Covid-19 pandemic resulting in overall slowdown in real estate and infrastructure sector impacting tendering and building plan approval activities. *Despite, the moderate capital employed of Rs.88.53 crore as on March 31, 2021, the scale of operations continues to remain modest with significant unbilled revenues and debtors outstanding to the tune of Rs.71.58 crore as on March 31, 2021 (reduced to Rs. 63.63 crore as on June 30, 2021) 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 June 30, 2021, SEL has outstanding order-book from 41 customers pegging orders to sales ratio for FY21 to 1.66x (as against 1.31x for FY20 as on September 30, 2020) signifying revenue visibility over the medium term. The increase in orderbook to sales ratio is majorly due to lower base for FY21 vis-à-vis FY20 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 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.

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 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 cash and liquid investments (Mutual funds etc.) of Rs.5.23 crores as on June 30, 2021. Working capital requirements are met by a cash credit limit of Rs.12 crore, which was utilized at ~90%, during the last 12 months ended July 31, 2021. Further, the operating cycle of the company is high as at the end of FY21 on account of stretch in collection period mainly due to funds largely blocked in debtors and unbilled revenues. The collection period deteriorated to 591 days as at the end of FY21 as against 347 days as at the end of FY20. 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.1.95 crore during FY21 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. 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 (Rs. crore)	31-03-2020	31-03-2021
	12M, A	12M, A
Total operating income	58.72	42.31
PBILDT	16.23	12.71
PAT	7.71	3.93
Overall gearing (times)	0.48	0.57
Interest coverage (times)	8.87	4.99

A: Audited

Status of non-cooperation with previous CRA: Nil

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-Term Loan	-	-	August 2026	4.61	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	1.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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-Aug-21) 2)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)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-Apr-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	11.68	CARE A3	1)CARE A3 (06-Aug-21) 2)CARE A3 (01-Apr-21)	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)
3.	Fund-based - LT-Term Loan	LT	4.61	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Aug-21) 2)CARE BBB-; Stable (01-Apr-21)	-	-	-
4.	Fund-based - LT-Cash Credit	LT	1.00	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 – Term loan	Simple
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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