

Silver Touch Technologies Limited

January 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable [Triple BBB; Outlook: Stable] and Withdrawn
Long-term/Short-term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable/CARE A3 [Triple BBB; Outlook: Stable/A Three] and Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Silver Touch Technologies Limited (STTL) continues to derive strengths from STTL's well qualified & experienced promoters along with an established track record of operations in the Information Technology (IT) industry, its extensive product & service offering, reputed clientele consisting of various state and central government organizations along with moderate revenue visibility. The ratings also continue to take into account moderate operating margins, comfortable capital structure and debt coverage indicators.

The ratings, however, continues to be constrained by STTL's modest scale of operations, elongation of receivables leading to working capital intensive nature of operations and STTL's presence in a highly competitive IT industry.

Hence, CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3' [Triple B; Outlook: Stable/ A Three] assigned to the bank facilities of Silver Touch Technologies Limited ('STTL') with immediate effect. The above action has been taken at the request of STTL and 'No Objection Certificate' received from the lenders that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with well qualified and experienced promoters

STTL has a long and established track record of operations of more than two decades. STTL is promoted by Mr. Vipul Thakkar, Mr. Palak Shah, Mr. Jignesh Patel and Mr. Minesh Doshi, who are actively engaged in the business operations. The promoters are well supported by an experienced and well-qualified management and technical team.

Range of diversified IT services offered

STTL is an end-to-end IT service provider which offers various software development and system integration. STTL's offerings are classified under two major heads viz. sale of products and sale of services. Sale of products includes IT equipment and software licenses whereas sale of services includes software development, software export, AMC maintenance and IT infrastructure and related services.

Reputed client base with low counter party risks and moderate revenue visibility

Over the years, STTL has established good relations with its customers. STTL is empanelled with many state governments and various state & central government organizations. Over the years, STTL has offered high quality services / products which have led to repeat business from key customers.

STTL has outstanding orderbook position of Rs. 204.54 crore as on October 01, 2019, translating order book to sales at ~1 times giving moderate revenue visibility. Further, STTL receives repeat business from clients wherein it is empanelled thus providing moderate revenue visibility.

Moderate operating margins, comfortable capital structure and debt coverage indicators

The Profitability margin of STTL has remained moderate over the past five years in the range of 9-11%. During FY19, PBILDT margin decline by 104 bps to 9.69% over FY18. Further, during H1FY20, PBILDT margin also decline marginally by 60 bps to 9.39% on y-o-y basis. Consequently, PAT margin is decline marginally by 62 bps to 5.37% during H1FY20.

The capital structure of STTL remained at comfortable level marked by overall gearing of 0.12 times and TOL/TNW of 0.60 times as on March 31, 2019 which deteriorated marginally to 0.24 times and TOL/TNW of 1.04 times as on September 30, 2019 with increase in debt levels to fund the high receivables period. The debt protection indicators of STTL are also comfortable marked by total debt / GCA ratio, total debt/PBILDT and interest coverage ratio of 0.58 times (PY: 0.23 times), 0.42 times (PY: 0.15 times) and 11.21 times (PY: 12.85 times) respectively as on March 31, 2019.

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

Key Rating Weaknesses

Modest scale operations

STTL was incorporated in year 1995 and its scale of operations has remained modest level marked by TOI of Rs.204.22 crore in FY19 which grew by ~24% over FY18. However, during H1FY20, STTL reported total operating income of Rs. 101.79 crore; decline by 4% on y-o-y basis.

Elongation of receivables position leading to working capital intensive nature of operations

STTL's operations are working capital intensive in nature primarily on account of the profile of its clientele i.e. government entities wherein the receivables are usually elongated (~2-4 months payment receipt period). Majority of STTL's customers are government organizations which results into elongated payment cycle for STTL. Operating cycle had increased to 64 days in FY19 as compared to 58 days in FY18. However, during mid-year, the working capital requirements continue to remain high marked by high receivables position of Rs. 89.01 crore as on September 30, 2019 as against Rs. 91.49 crore as on September 30, 2018 while same was Rs. 59.63 crore as on March 31, 2019. Average fund based working capital utilisation remains at moderate level of 49% during past twelve month ended October, 2019. However, due to the nature of industry in which STTL operates, the company is required to issue bank guarantees at various stages of project execution especially for government contracts. Average non-fund based working capital utilisation remained high at 89% during past twelve month ended October, 2019.

Intense competition in the IT industry along with its susceptibility to risks associated with exposure to Government projects

The Government of India has helped in giving impetus to e-governance initiatives, through its 'Digital India' scheme, both at the Centre and the State level. While significant growth opportunities exist, there is intense competition in the segment with presence of relatively large and major IT/ITES companies in the industry. The industry faces intense competition due to low entry barriers along with challenge from rapid technological changes which may lead to obsolescence of certain software/services. Further, any change in the political environment can also have negative effect on the entities that are dependent on government contracts.

Analytical approach: Standalone

Applicable Criteria:

[CARE's policy on withdrawal of ratings](#)

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for service sector companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non- Financial Sector](#)

About the Company

Ahmedabad based STTL was incorporated on February 2, 1995 and is promoted by technocrats Mr. Vipul Thakkar, Mr. Palak Shah, Mr. Jignesh Patel and Mr. Minesh Doshi. The company got listed on SME platform of NSE on December 01, 2017.

STTL is engaged in providing end to end Information and communication Technology (ICT) solutions in terms of hardware, software and network integration to various state as well as central government authorities and other private organizations. It is also engaged in the business of software development, web designing & multimedia, e-commerce solutions, e-governance, search engine optimization, mobile application development, business software services etc. The headquarters of STTL is located at Ahmedabad with regional offices in Delhi, Rajkot, Gandhinagar and Vadodara. STTL has been accredited with CMMi5, ISO 9001:2008, ISO 27001 and ISO 20000 certifications for observing international standards.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	164.83	204.22
PBILDT	17.69	19.80
PAT	8.55	10.25
Overall gearing (times)	0.04	0.12
Interest coverage (times)	12,85	11.21

A: Audited; All Financial figures are classified as per CARE Standards

During H1FY20, STTL has reported TOI of Rs. 101.79 crore with PAT of Rs. 5.47 crore as against Rs. 105.67 crore with PAT of 6.33 crore.

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated July 26, 2014 on account of non-cooperation by STTL with CRISIL's efforts to undertake a review of the outstanding ratings.

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	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB; Stable (14-Dec-18) 2)CARE BBB+; Stable (08-Oct-18) 3)CARE BBB+; Stable (29-Aug-18)	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BBB; Stable / CARE A3 (14-Dec-18) 2)CARE BBB+; Stable / CARE A3+ (08-Oct-18) 3)CARE BBB+; Stable / CARE A3+ (29-Aug-18)	-	-

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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About CARE Ratings:

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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