Silver Touch Technologies Limited

October 08, 2018

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	10.00 (enhanced from Rs.5.00 crore)	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	**Reaffirmed**
Long-term/Short-term Bank Facilities	45.00 (enhanced from Rs.10.00 crore)	**CARE BBB+; Stable / CARE A3+ [Triple B Plus; Outlook: Stable / A Three Plus]**	**Reaffirmed**
Total Facilities	**55.00 (Rupees Fifty Five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Silver Touch Technologies Limited (STTL) continue to derive strength from its well qualified & experienced promoters along with an established track record of operations of more than two decades in the IT industry. The ratings further derive strength from STTL's extensive product & service offering, reputed clientele consisting of various state and central government organizations along with moderate revenue visibility. The ratings also positively factor in STTL's steady operating margins along with equity infusion in FY18 leading to comfortable capital structure, liquidity and debt coverage indicators.

The ratings, however, are constrained by STTL's modest scale of operations as well as working capital intensive nature of operations with an elongated collection period due to high proportion of government related projects. The ratings are also constrained on account of STTL's presence in a highly competitive IT industry.

The ability of STTL to grow its scale of operations while maintaining its healthy operating profit margin, effective management of its working capital and receipt of repeat orders from its already existing client base would be the key rating sensitivities.

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 2 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 along with receipt of various quality certifications

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. STTL has received various quality certifications which signify its competitive advantage over its peers in IT industry.

Reputed client base with low counter party risks

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 has led to repeat business from key customers. As on May 31, 2018, STTL had an order book position of Rs.179.93 crore out of which orders worth of Rs.121.70 crore are envisaged to be executed in FY19. Further, STTL receives repeat business from clients wherein it is empanelled thus providing fair revenue visibility from additional orders during the year.

Steady operating margins along with infusion of equity during FY18 by private placement leading to comfortable capital structure, liquidity and debt coverage indicators

The PBILDT margin of STTL has remained steady over the past 5 years in the range of 9-11%. The PAT margin of STTL during FY18 has improved on account of increase in scale of operations and reduced interest expense on the back of reduced borrowings.

The capital structure of STTL is comfortable marked by debt-equity ratio and overall gearing of 0.04 times as on March 31, 2018. There is improvement in the capital structure of STTL due to preferential allotment, wherein STTL raised additional equity of Rs.15.46 crore via private placement during FY18. Subsequently these funds were utilized in reduction of

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

outstanding bank borrowings. As on March 31, 2018, there was no major outstanding term debt. 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. Considering this as part of debt, the adjusted overall gearing of STTL stood at 0.51 times as on March 31, 2018 (PY: 0.91 times). The debt protection indicators of STTL are comfortable marked by total debt / GCA and interest coverage ratio of 0.23 times (PY: 1.96 times) and 12.85 times (PY: 4.15 times) as on March 31, 2018.

Key Rating Weaknesses

Modest scale of operations

STTL was incorporated in year 1995 and its scale of operations has remained modest over the years. However, during FY18 there was healthy growth in its scale of operations wherein STTL's TOI grew by ~38% during FY18 due to increase in the revenue from Sale of Services division.

Elongated collection period due to high proportion of government related projects

STTL has a concentrated customer base with approximately ~47% of its revenue in FY18 contributed from its top five customers. However, majority of these customers are government organizations which results into elongated payment cycle for STTL.

Working capital intensive nature of operations and high receivables

STTL's operations are working capital intensive in nature primarily on account of the profile of its clientele. The receivables of STTL have increased from Rs.34.04 crore as on March 31, 2017 to Rs.64.15 crore as on March 31, 2018 primarily on account of delayed payment from few government entities and increase in the scale of operations. However, STTL has received payments during April and May 2018 which has led to reduction in the receivables by May 31, 2018.

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

Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-financial sector
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Service Sector Companies

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)	FY17 (12M,A)	FY18 (12M, A)
Total operating income	119.24	164.83
PBILDT	13.01	17.69
PAT	4.21	8.55
Overall gearing (times)	0.44	0.04
Interest coverage (times)	4.15	12.85

A= Audited

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
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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Annexure-1: Details of 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	-	-	-	10.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	45.00	CARE BBB+; Stable / CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	18.00	Suspended	-	-	-	1)Suspended (22-Mar-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	13.00	Suspended	-	-	-	1)Suspended (22-Mar-16)
3.	Fund-based - LT-Term Loan	LT	2.02	Suspended	-	-	-	1)Suspended (22-Mar-16)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	1)CARE BBB+; Stable (29-Aug-18)	-	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	45.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (29-Aug-18)	-	-	-

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