

## Silver Touch Technologies Limited

December 14, 2018

### Ratings

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

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Silver Touch Technologies Limited (STTL) takes into account elongation of the receivable period which has resulted into moderation in liquidity profile of the company during H1FY19 (Unaudited). The revision in ratings also takes into account higher than previously envisaged receivable as on September 30, 2018.

The ratings however continue to derive strength 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 positively factor in STTL's steady operating margins, comfortable capital structure and debt coverage indicators.

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

The ability of STTL to grow its scale of operations while maintaining its profitability margins, early realization of outstanding large size receivables and consequent improvement in its liquidity profile, effective management of its working capital and receipt of repeat orders from its already existing clients are 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 have led to repeat business from key customers. Further, STTL receives repeat business from clients wherein it is empanelled thus providing fair revenue visibility.

##### **Steady operating margins, comfortable capital structure and debt coverage indicators**

The PBILD 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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 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 ratio and PBILDT interest coverage ratio of 0.23 years (PY: 1.96 years) and 12.85 times (PY: 4.15 times) respectively as on March 31, 2018.

As on September 30, 2018, STTL's capital structure and the debt coverage indicators continued to remain comfortable with the overall gearing ratio of 0.18x, PBILDT interest coverage ratio of 14.61x and Total debt/GCA ratio of 1.74 years.

### **Key Rating Weaknesses**

#### ***Liquidity Analysis; higher than envisaged receivables leading to moderation in liquidity***

Although there is increase in the scale of operations, the receivables of STTL have elongated higher than expected from Rs.64.15 crore as on March 31, 2018 to Rs.91.49 crore as on September 30, 2018. This coupled with higher utilization of working capital limits during H1FY19 has resulted in moderate liquidity.

#### ***Modest scale along with working capital intensive 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.

STTL's operations are working capital intensive in nature primarily on account of the profile of its clientele. Majority of STTL's customers are government organizations which results into elongated payment cycle for STTL. Also, STTL has a concentrated customer base with ~47% of its revenue in FY18 contributed from its top five customers.

#### ***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

During H1FY19 (Unaudited), STTL reported TOI of Rs.105.67 crore and PAT of Rs.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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## 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	10.00	CARE BBB; Stable	1)CARE BBB+; Stable (08-Oct-18) 2)CARE BBB+; Stable (29-Aug-18)	-	-	1)Suspended (22-Mar-16)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	45.00	CARE BBB; Stable / CARE A3	1)CARE BBB+; Stable / CARE A3+ (08-Oct-18) 2)CARE BBB+; Stable / CARE A3+ (29-Aug-18)	-	-	1)Suspended (22-Mar-16)

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