Softtech Engineers Limited (Revised)

December 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	6.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed and outlook revised to stable from positive
Short-term Bank Facilities	11.68	**CARE A3 (A Three)**	Reaffirmed and outlook revised to stable from positive
Total facilities	**17.68 (Rupees Seventeen crore and sixty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook factors in lower than envisaged profitability, cash accruals and moderation in liquidity position due to funds largely blocked in debtors and unbilled revenues

The reaffirmation of the ratings assigned to the bank facilities of Softtech Engineers Limited (SEL) factors in positive traction in execution of orders resulting in increase in scale of operations during FY19 (refers to a period from April 1 to March 31) albeit marginal decline in profitability margins for FY19.

The ratings further, continue to derive strength from extensive experience of the promoters of around three decades in the information technology consulting business, reputed and established client base, comfortable capital structure and debt coverage indicators.

The ratings however, continue to remain constrained by its relatively modest scale of operations along with customer concentration risk, stretched collection period emanating from a major chunk of revenues from various governments departments and a sizable portion of unbilled revenues. The rating is also tempered on account of project implementation and stabilization risk of the cap-ex for products under development, and 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) and profitability in H1FY20 (refers to a period from April 1 to March 31) and decline in the outstanding order book position, on the back of slowdown in securing fresh projects from various government departments during the year. However, a likely moderation in the same is expected due to the macro economic slowdown with the outbreak of Covid-19 and subsequent lockdown.

Key Rating Sensitivity

Positive rating sensitivities:

- Sustained improvement in TOI.
- Ability of the company to secure fresh orders amidst on going slowdown in the industry leading to increase in outstanding order book position and revenue visibility over the medium to long term.
- Sustained improvement in profitability led by healthy PBILDT margin of 29% and above.
- Improvement in liquidity profile marked by timely realization of debtors.

Negative rating sensitivities:

- Sustained decline in revenue and profitability margins.
- Any un-envisaged incremental borrowings, deteriorating its overall gearing ratio over 0.60x on a sustained basis and total debt to GCA above 2 years.
- Any incremental need based financial support extended to group companies deteriorating the financial risk profile of SEL.
- Deterioration in liquidity profile due to significant build up of funds largely blocked in debtors/unbilled revenues.

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 and has an experience of over 25 years in the development of complex BIM/CAD/CAE/Project Management enterprise software

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

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.

Reputed and diversified client base albeit concentration on government departments: SEL has a customer base of more than 75 customers based in geographically diverse locations majorly in India and has also executed orders in some parts of Nigeria, UAE and Oman. SEL major customers include Government Department viz. Municipal Corporation, 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. Further, contribution of top 5 customers to TOI has reduced from 46.43% during FY18 to 26.43% for FY19 reducing customer concentration risk.

Healthy profitability margins: The profitability margins remained healthy marked by PBILDT and PAT margins of 26.20% and 12.26% respectively in FY19 as against 30.30% and 13.79% respectively in FY18. The moderation in PBILDT margin was mainly due to increase in subcontracting expenses and also due to increase in general operational expenses. Although in absolute terms, the PBILDT has seen a Y-O-Y growth of 5.92% in FY19. Further, PAT margin also moderated because of increase in non-cash charges resulting from the cap-ex undertaken. Nevertheless, gross cash accruals increased and continued to remain healthy and stood at Rs.11.44 crore in FY19 (vis-à-vis Rs.10.17 crore in FY18).
Moreover, during H1FY20, the profitability margins further moderated marked by PBILDT and PAT margin to 22.49% and 9.21% respectively (as against 25.49% and 11.50% respectively during H1FY19) . The moderation was mainly due of lower absorption of fixed costs.

Comfortable solvency position: The capital structure of SEL improved and continues to remain comfortable with an overall gearing of 0.30x as on March 31, 2019 as against 0.50x as on March 31, 2018. Also, the overall gearing ratio further improved to 0.26x as on September 30, 2019. The improvement in gearing levels was mainly on account of net proceeds from IPO during H1FY19, accretion of profits to reserves and scheduled repayment of term loans.
Further, the debt coverage indicators has improved as at the end of FY19 vis-à-vis FY18 on account of improvement in cash accruals and capital structure although moderated during H1FY20 mainly due to lower profitability margins, as reflected by PBILDT interest coverage ratio of 9.89x as on FY19(6.54x as on FY18) and 8.66x as on H1FY20.

Key Rating Weaknesses
Modest scale of operations: The total operating income (TOI) of the company grew at a Compounded Annual Growth Rate (CAGR) of approximately 16.25% in the last three years ended FY19, with a y-o-y growth of 22.51% to Rs.63.56 crore in FY19 (P.Y Rs.51.88 crore). The growth was mainly on account of increase in number of orders executed supported by favorable government policies along with enhanced functionality of the existing products to meet the criteria of wide range of customers in the AEC domain. However, the TOI of the company declined by 8.81% during H1FY20 (referring to period from April 1 to September 30) to Rs.27.35 crore as against Rs.30.01 crore during H1FY19 mainly due to lower execution of contracts. Moreover, the scale of operations stood relatively modest coupled with moderate tangible net-worth base of Rs.53.42 crore as on March 31, 2019 (vis-à-vis Rs.29.71 crore as on March 31, 2018) and the same limits the financial flexibility of the company during industry downturn.

Implementation and stabilisation risk of cap-ex for products under development: The proceeds from the IPO set off for product development of Rs.6.62 crore of which Rs.3.84 crore was used for enhancement of the existing product line namely AutoDCR, PWIMS and OPTICON. Further, the remaining Rs.2.78 crore was used for development of new products BIMDCR, Rule Buddy and IBPS. BIMDCR product has been launched and Rule Buddy will be launched after the lockdown period imposed on account of COVID-19. Moreover, IBPS is under development and will be launched during Q4FY21. Stabilization and implementation of the said cap-ex will remain crucial for the overall business risk profile of the company.

Moderate outstanding order book position providing revenue visibility in the medium term: As on December 31, 2019, SEL has outstanding order-book from 51 customers pegging orders to sales ratio for FY19 to 1.01x (as against 2x for FY18) signifying a revenue visibility over the medium term. The decline in outstanding orders for execution as on December 31, 2019 vis-à-vis December 31, 2018 is mainly due overall slowdown in awarding new tenders by government departments. The expected completion period for the current order book ranges from 1 to 18 months.

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, 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 moderate, due to the outbreak of COVID-19 and subsequent lockdown in the country along with shut down of construction and tendering activities. However, the impact is highly dependent on the depth of the outbreak, its spread and its duration.

Liquidity: Adequate
The liquidity position of the company is adequate marked by the sufficient cushion in accruals vis-a-vis repayment obligations, and moderate cash flow from operating activities of Rs.1.74 crore during FY19(as against 3.80 for FY18). The same is sufficient to meet it's modular capex requirements along with support from external borrowing. The working capital requirement is met by cash credit limit and internal accruals. The utilization of working capital limits remained moderate at approximately 46% during the last 12 months ended December 31, 2019. Further, the operating cycle of the company is high as at the end of FY19 on account of stretch in collection period mainly due to funds largely blocked in debtors and unbilled revenues. Cash and bank balance of SEL stood modest at Rs.1.26 crore as on September 30, 2019. Further, the company has liquid investments of Rs.11.90 crore as on April 29, 2020. .

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Service Sector Companies
Financial ratios - Non-Financial sector

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. SEL has also incorporated subsidiaries in USA and Finland for international penetration.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019	30-09-2019
	12M, A	12M, A	6M, UA
Total operating income	51.88	63.56	27.35
PBILDT	15.72	16.65	6.14
PAT	6.79	7.79	2.51
Overall gearing (times)	0.51	0.30	0.26
Interest coverage (times)	6.54	9.89	8.66

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

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	-	-	-	6.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	11.68	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable	-	1)CARE BBB-; Positive (02-Apr-19)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE BB+; Stable (24-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	11.68	CARE A3	-	1)CARE A3 (02-Apr-19)	1)CARE A4+; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE A4+ (24-Apr-17)

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.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ms. Prateechee Misra
Group Head Contact no.: 020 - 40009026
Group Head Email ID: prateechee.misra@careratings.com

Business Development Contact
Name: Mr. Aakash Jain
Contact no. : 020 - 40009090
Email ID: aakash.jain@careratings.com

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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