

## Softtech Engineers Limited

April 02, 2019

### Rating

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	6.00	<b>CARE BBB-; Positive (Triple B Minus; Outlook: Positive)</b>	Revised from CARE BB+; Stable; Issuer Not Cooperating* (Double B Plus; Outlook: Stable; Issuer Not Cooperating*)
Short-term Bank Facilities	11.68	<b>CARE A3 (A Three)</b>	Revised from CARE A4; Issuer Not Cooperating* (A Four; Issuer Not Cooperating*)
<b>Total facilities</b>	<b>17.68 (Rupees Seventeen crore and Sixty Eight lakh only)</b>		

Details of instruments/facilities in Annexure-1

*In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the rating of Softtech Engineers Limited (SEL: erstwhile Softtech Engineers Private Limited), and in line with the extant SEBI guidelines, CARE had revised the rating of bank facilities of the company to 'CARE BB+; Stable/A4+; ISSUER NOT COOPERATING\*'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the rating and the rating now stands at 'CARE BBB-; Positive; CARE A3'.*

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Softtech Engineers Limited (SEL) take into account the overall improvement in the financial risk profile marked by growth in scale of operations, improved profitability and strengthened solvency position during FY18 (*Audited: refers to a period from April 1 to March 31*). The revision in the ratings further takes into account the infusion of capital and withdrawal of all buyback related clauses on company or promoter, pursuant to the Initial Public Offering (IPO) during H1FY19 (*Unaudited: refers to a period from April 1 to September 30*).

The ratings, further, continue to draw support from the extensive experience of the promoters of around three decades in the information technology consulting business, reputed and established client base, comfortable profit margins and healthy outstanding order book position providing revenue visibility over the medium term.

The ratings, however continue to remain constrained on account of its relatively modest scale of operations along with customer concentration risk and working capital intensive nature of operation emanating from a major chunk of revenues from various governments departments resulting in a stretched collection cycle and a sizable portion of unbilled revenues. Further, the company has to participate in the arduous tender driven process with concentration and dependence on government contracts and spending.

The ability of the company to further increase its scale of operations while maintaining its profitability and capital structure along with improvement in liquidity position with better debtor management are the key rating sensitivities

Further, the ability of the company to bag new orders, timely execution of its existing order book and commercialisation of the new products in the pipeline will be crucial for the overall growth prospects.

### Outlook: Positive

The outlook is revised to 'Positive' from 'Stable' on account of CARE's expectation of further improvement in the financial risk profile of SEL on the basis of its outstanding healthy order book position with addition of new products, timely execution of which shall be critical. The profit margin is expected to remain stable over the medium term. The outlook may be revised to 'Stable' if the company is unable to ramp up the scale as envisaged, or any deterioration in cash accruals or liquidity position

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Long track record of operations and extensive experience of the promoters:**

SEL has an established track record of over two decades and is promoted by Mr. Vijay Gupta, who is the Promoter, Chairman and the Managing Director of the company and has an experience of over 25 years in development of complex

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

BIM/CAD/CAE/Project Management enterprise software in the Architecture-Engineering-Construction 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 is a qualified B.Sc. (Physics), and MBA, is responsible for the human resource and administration Department having an experience of about one decade

**Reputed and diversified client base albeit concentration on government departments:**

SEL has a customer base of more than 50 customers spread across India and some parts of Nigeria, UAE and Oman. Major customers largely include government organizations and corporations, PWD departments, Industrial Development Corporations planning departments. SEP is a software partner to the government 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. Government Departments contributed to about 70% to total operating income in FY18, thereby exposing the company to concentration risk.

**Healthy profitability and comfortable solvency position:**

The profit margins of the company have remained comfortable and further improved in FY18, remaining in the range of 25% - 30% during last three years. The improvement over the years was mainly on account of a change in the product mix, with higher income from products developed in-house. The PAT margin moved in tandem with PBILDT and further improved during FY18. The solvency profile of SEL remained comfortable with an overall gearing of 0.51x as on March 31, 2018. The same is further expected to improve on account of repayment of higher interest bearing unsecured loans and strengthened capital base from the IPO proceeds in H1FY19. With a healthy profitability and low gearing the debt coverage indicators remain comfortable.

**Healthy outstanding order book position providing revenue visibility for medium term:**

SEL has an order book consisting of 62 orders amounting to of Rs.200 crore as on December 31, 2018 with outstanding orders of approximately Rs.100 crore, pegging the orders to sales ratio for FY18 to 2x signifying a revenue visibility over the medium to long term. The expected completion period for the current order book ranges from one year to five years.

**Key Rating weakness**

**Modest scale of operations and capitalization:**

The income from operation of the company grew at a compounded annual growth rate (CARG) of approximately 13% in the last three years ended FY18, with a y-o-y growth of 10% to Rs.51.88 crore in FY18. The growth was mainly on account of quicker executions along with a strong order book position over the years, supported by favorable government policies. Despite the growth in the scale of operations, it remained modest with a tangible net worth of Rs.29.71 crore as on March 31, 2018 thus restricting financial flexibility of the entity to an extent. However, the same has improved with infusion of funds and stood at Rs. 56.78 crore as on September 30, 2018 (UA)

**Moderate liquidity position with funds been blocked in receivables and unbilled revenue:**

The operations of the company are highly working capital intensive in nature with funds largely blocked in debtors and unbilled revenues. The working capital requirement is met by a cash credit limit, and internal accruals. The utilization of working capital limits however, remained moderate at ~60% during the last 12 months ended February 28, 2019. The company is directly dependent on recovery of funds from various Government departments.

**Stabilization of cap-ex for products under development:**

SEL, in the past has developed three products namely AutoDCR, PWIMS and OPTICON. The proceeds from the IPO will be used partly for the enhancement of these products by introduction of new features. The total cost of enhancement of existing products is estimated to be Rs.4.82 crore. Apart from this, the company intends to utilize the funds for three new products namely BIMDCR (extension of AutoDCR), IBPS and RuleBuddy. The total cost of development of new products is estimated to be Rs.3.46 crore. Stabilization and implementation of the said cap-ex will remain crucial for the overall business risk profile of the company.

**Exposure to tender driven process and dependence on government spending:**

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.

**Analytical Approach:** Standalone

**Applicable criteria**

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

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

[CARE's Methodology for Service Companies](#)

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

[Criteria for Short term Instruments](#)

### Background

Softtech Private Limited (SEL: erstwhile Softtech Engineers Private Limited, was converted into a public limited company 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. During FY19, pursuant to the Initial Public Offering (IPO), equity shares were allotted comprising of fresh issue and an offer for sale.

Brief Financials (Rs. crore)	FY17	FY18
	12M, A	12M, A
Total operating income	47.03	51.88
PBILDT	13.41	15.72
PAT	4.92	6.79
Overall gearing (times)	0.73	0.51
Interest coverage (times)	5.38	6.54

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (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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### About CARE Ratings:

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.

#### Disclaimer

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### 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-; Positive
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 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	6.00	CARE BBB-; Positive	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE BB+; Stable (24-Apr-17)	1)CARE BB+ (26-Apr-16)	-
2.	Non-fund-based - ST-BG/LC	ST	11.68	CARE A3	1)CARE A4+; ISSUER NOT COOPERATING* (04-Apr-18)	1)CARE A4+ (24-Apr-17)	1)CARE A4 (26-Apr-16)	-

\*Based on best available information

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CIN - L67190MH1993PLC071691