

Press Release

Silver Touch Technologies Ltd

January 24, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	55.00	IVR BBB+ / Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Total	55.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Silver Touch Technologies Ltd (STTL) derives comfort from its experienced promoters and qualified management team, long and successful track record in diversified IT service portfolio with state-of-the-art servicing facilities and reputed clientele resulting in low counter party risk coupled with satisfactory order book position. The rating also considers its satisfactory financial risk profile marked by moderate profitability, comfortable capital structure and satisfactory debt coverage indicators with adequate liquidity. However, the rating strengths are constrained by its moderate scale of operation, presence in a highly competitive industry coupled with business risk associated with tender-based orders, working capital intensive nature of operations and high receivable period and cyclicity in the IT industry coupled with technology obsolescence risk and country risk.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.

Downward Factors

- Dip in operating income or profitability impacting the debt coverage indicators, subdued industry scenario, deterioration in working capital management and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and qualified promoters and management team**

The promoters have vast experience in information technology domain. Mr. Vipul H. Thakkar, is the founder director of the company and a technocrat, having experience over two decades in the IT industry. The other directors are also highly qualified and having vast experience in IT and business operation. This apart, there is a group of experienced and adequately qualified personnel in various position of the company.

- **Long and successful track record**

The company started its business operation from 1995 in Ahmedabad (Gujarat), thus, enjoying over two decades of successful operational track record.

- **Reputed clientele resulting in low counter party risk coupled with satisfactory order book position**

Since inception, the company is engaged in providing Information Technology related services to various State Government, Central Government agencies and private organisations throughout the country. The company is empanelled service provider of National Information Centre, RITES (rated: IVR A1+), RAILTEL, STPI, BSNL, Industrial Extension Bureau, Gujarat Informatics Limited etc. This apart, the company also provides IT services to various big domestic private players engaged in banking, manufacturing and trading segments. The company maintains long term relationship with the clients and gets repeat orders regularly. Currently, the company has order book position of Rs.215.68 crore as on November 30, 2019, among which Rs.164.60 crore is envisaged to be completed during FY20.

- **Diversified IT service portfolio with state-of-the-art servicing facilities**

The company provides services like, communication & networking, system integration, software development, web designing & multimedia, e-commerce, SEO, mobile application development etc. Apart from head office at Ahmedabad, the company has its branch and support offices in the cities like Delhi, Mumbai, Lucknow, Baroda, Surat, Kolkata and Bangalore. The company maintains international standard for providing services and accredited with CMMi5, ISO 9001:2008, ISO 27001 and ISO 20000 certifications for quality

of service. These quality certifications helps the company to portray itself among prospective clients and fetch new and repeat orders regularly.

- **Satisfactory financial risk profile marked by moderate profitability, comfortable capital structure and satisfactory debt coverage indicators with adequate liquidity**

The total operating income of the company registered a CAGR of ~31% during FY17-FY19 with a y-o-y growth of ~24% in FY19. The growth was driven by gradual increase in execution of projects and increase in software applications and products sales. The EBITDA margin of the company remained moderate and hovering around 10% during the aforesaid period. The margins are remained subdued due to high competition in domestic IT service providers where companies are participating in tender based works contract. The PAT margin moved in tandem with the EBITDA margin during FY19 over FY18. The company earned gross cash accruals of Rs.14.29 crore in FY19 (Rs.11.25 crore in FY18) as compared to its debt obligation of Rs.8.27 crore in FY19. Financial risk profile of the company is satisfactory market by its comfortable capital structure as on the past three account closing dates, satisfactory debt coverage indicators and minimal debt repayment obligations. The company infused fresh equity from private placement of Rs.21.05 crore during FY18 and Rs.1.05 crore during FY19. The funds were used to repayment of its debt obligation and fueled the improvement in capital structure. Infomerics expects that the capital structure of the company will continue to remain comfortable in the medium term.

Key Rating Weaknesses

- **Moderate scale of operation**

The size of a player's operation in the IT services industry directly impact economies of scale benefits and its ability to sustain headwinds in terms of pricing pressure, attrition and loss of key clients. STTL is relatively a moderate player in IT service business with total operating income of Rs.203.70 crore and PAT of Rs.10.25 crore, respectively, in FY19. Furthermore, the total capital employed was also modest at Rs.84.99 crore as on March 31, 2019. During H1FY20, the company has achieved a PAT of Rs.6.33 crore on total operating income of Rs.105.67 crore. The moderate scale restricts the financial flexibility of the company in times of stress. Infomerics expects that the scale of operations of the company will continue to remain moderate in the medium term.

- **Highly competitive industry coupled with business risk associated with tender-based orders**

IT/ITES industry is very competitive and mostly organised in India. STTL faces direct competition from many organised and established players in the domestic market. There are various players catering to the same market which leads to limit the bargaining power of the company and consequent pressure on its margins. Though the company is empanelled for various Government agencies for IT needs, but the orders are majorly awarded through the tender-based system. The growth of the business depends on its ability to successfully bid for the tenders and appear as the lowest bidder. Any changes in the government policy and spending on projects are likely to affect the revenues of the company.

- **Working capital intensive nature of operations and high receivables**

The operation of the company is working capital intensive. The company raises bills after the completion of work contract. The company allows credit period of up to 75 days. The company's client base is majorly government entities, where in the payments is elongated owing to procedural delays. The average collection period stood at 111 days for FY19. The company makes payment to the creditors as and when the payments are realized. The procurement remains majority contract backed. Therefore, the company maintain minimal inventory in form of work in process for the work under execution.

- **Cyclicality in the IT industry coupled with technology obsolesce risk and country risk**

IT industry is cyclical in nature which leads to fluctuation in demand. This apart the industry is highly technology oriented which keeps changing time to time. Thus, the company has to keep upgrading its work procedure according to the needs of the clients. Furthermore, as the IT industry is largely dependent on offshore projects (STTL earns ~ 4% of its turnover of FY19 from export of service and products), any turmoil in the foreign market leads to loss of projects.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity-Adequate

The liquidity profile of STTL is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.22.14 crore vis- a- vis its low debt repayment obligations of ~0.09 crore in FY20. Further, the company has no planned capex and has sufficient gearing headroom due to its comfortable capital structure. Moreover, average cash credit utilisation of the company remained moderate at ~70% during the past 12 months ended November, 2019 indicating a satisfactory liquidity cushion.

About the Company

Incorporated in February 1995, Silver Touch Technologies Ltd (STTL) was promoted by Ahmedabad (Gujarat) based technocrat Mr. Vipul H Thakkar along with other three promoters. Since inception, the company is engaged in providing Information Technology related services to various State Government, Central Government agencies and private organisations throughout the country. Apart from head office at Ahmedabad, the company has its branch and support offices in the cities like Delhi, Mumbai, Lucknow, Baroda, Surat, Kolkata and Bangalore. On December 01, 2017, the company got listed on SME platform of National Stock Exchange. Day-to-day affairs of the company are looked after by Mr. Vipul H Thakkar, CMD, along with other eight directors and a team of experience personnel.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	164.03	203.70
EBITDA	16.89	19.28
PAT	8.55	10.25
Total Debt	2.64	8.27
Tangible Net worth	65.13	75.66
EBITDA Margin (%)	10.30	9.47
PAT Margin (%)	5.18	5.00
Overall Gearing Ratio (x)	0.04	0.11

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based & Non-Fund-Based Limits	Long Term	55.00	IVR BBB+ / Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	10.00	IVR BBB+/Stable
Long Term Fund Based/ Non-Fund Based Limits – Cash Credit/Bank Guarantee	-	-	-	5.00*	IVR BBB+/Stable
Long Term Non-Fund Based Limits –Bank Guarantee	-	-	-	40.00	IVR BBB+/Stable

**Cash Credit is sublimit of Bank Guarantee*