



Press Release

Silver Touch Technologies Ltd

March 23, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	10.00	IVR BBB; Under Credit Watch with Developing Implication (IVR Triple B Under Credit Watch with Developing Implication)	Revised from IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)
2	Long-term/Short-term Bank Facilities	45.00	IVR BBB/IVR A3+; Under Credit Watch with Developing Implication (IVR Triple B /IVR A Three Plus; Under Credit Watch with Developing Implication)	Revised from IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook) and Reclassified
	Total	55.00 (Rs. Fifty-Five crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Silver Touch Technologies Ltd (STTL) takes into account significant deviation between its projected performance for FY20 with actual performance as per FY20(A) results along with moderation in revenue in FY20 and in 10MFY21. However, the aforesaid ratings continue to drive comfort from its experienced and qualified promoters with strong management team, long and successful track record of operations, reputed clientele resulting in low counter party risk coupled with satisfactory order book position indicating revenue visibility, locational advantage coupled with availability of skilled manpower and satisfactory financial risk profile marked by comfortable capital structure & satisfactory debt coverage indicators. However, these rating strengths continues to remain 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 marked by high receivables, exposure to cyclicity in the IT industry coupled with technology obsolesce risk and country risk. The ratings are moved to under credit watch with developing implications owing to uncertainty in the operating scenario amidst Covid-19 pandemic and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.



Press Release

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

- More than expected dip in operating income and/ or moderation in profitability impacting the debt coverage indicators.
- Moderation in overall gearing to more than 1x and/or moderation in debt protection metrics
- Elongation in receivable period and/or increase in working capital intensity impacting the liquidity

Detailed Description of Key Rating Drivers

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. During this long tenure, the company gradually diversified its service portfolio in IT field and expanded to other states and countries for rendering IT service. 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.



Press Release

- **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.236.94 crore as on January 31, 2021 which are executable within three to twelve months.

- **Locational advantage coupled with availability of skilled manpower**

The head office of the company is at Ahmedabad. This apart, the company has its branch and support offices in the cities like Delhi, Mumbai, Lucknow, Baroda, Surat, Kolkata and Bangalore. All the locations are major cities in India and have adequate education facilities for higher studies, which ensure regular supply of skilled manpower for IT industry. This apart, the locations are well connected by air and road and having other required facilities for IT industry.

- **Satisfactory financial risk profile marked by comfortable capital structure and satisfactory debt coverage indicators.**

Financial risk profile of the company continued to remain satisfactory marked by its comfortable capital structure. With minimal long-term debt in the capital structure, the debt equity ratio remained comfortable at 0.02x as on March 31, 2020. Moreover, the overall gearing ratio and TOL/TNW also remained comfortable at 0.14x and 0.65x respectively as on March 31, 2020. The debt protection metrics marked by the interest coverage ratio and DSCR remain comfortable. Though interest coverage ratio has declined in FY20 due to increase in interest expense on higher utilisation of bank borrowing continue to remain satisfactory at 6.68x in FY20. Total debt to GCA also remained satisfactory at 1.06 years in FY20 though deteriorated from 0.58 years in FY19 due to higher utilisation of bank borrowing facilities to fund the working capital needs.



Press Release

Key Rating Weaknesses

- **Moderate scale of operation with moderation in performance in FY20 and in 11MFY21**

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. Further, the total operating income of the company has declined by ~12% on account of lesser sale of IT products during last quarter of FY20 due to lower economic activities on spreading of pandemic followed by nationwide lockdown. Infomerics expects moderation in its scale of operations further in FY21. The EBITDA margin of the company also moderated in FY20 due to bidding in lower rate due to high competition coupled with impacted operations in March 2020. The PAT margin moved in tandem with EBITDA margin and hovered around 3% in FY20. The company earned gross cash accruals of Rs.9.83 crore in FY20 (Rs.14.29 crore in FY19) as compared to its total debt obligation of Rs.10.44 crore in FY20. The operations of the company was impacted in first two quarters of FY21 due to nationwide lockdown and muted economic operations. However, the company have witnessed improvement in its operations since October 2020 and till January 2021 achieved a revenue of ~Rs.109 crore.

- **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 marked by 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 75-90 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 elongated at 121 days for



Press Release

FY20. 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 obsolescence 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 ~7% of its turnover of FY20 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.8 crore vis- a- vis its low debt repayment obligations of ~0.09 crore in FY21. Further, the company has no planned capex except some system upgradation and has sufficient gearing headroom due to its comfortable capital structure. Moreover, average cash credit utilisation of the company remained satisfactory at ~70% during the past 12 months ended February, 2021 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. The company has started wholly owned subsidiaries (though there is no meaningful operation) in the countries like USA (Silver Touch Technologies INC), UK



Press Release

(Silver Touch Technologies UK Ltd) and France (Silver Touch Technologies SAS). 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):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Income	204.88	180.29
EBITDA	19.28	13.42
PAT	10.25	5.53
Total Debt	8.27	10.44
Tangible Net worth	71.69	76.46
EBITDA Margin (%)	9.47	7.48
PAT Margin (%)	5.00	3.07
Overall Gearing Ratio (x)	0.12	0.14

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Cash Credit	Long Term	10.00	IVR BBB; Under Credit Watch with Developing Implication	IVR BBB+; Stable (January 24,2020)	-	-
2	Bank Guarantee	Long-term/ Short -Term	45.00 [#]	IVR BBB /IVR A3+;* Under Credit Watch with Developing Implication	IVR BBB+; Stable (January 24,2020)	-	-

*reclassified from Long term to Long-term/Short-term

[#]Sublimit-Cash Credit of 5.00, WCDL of 5.00 and LC of 2.00



Press Release

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
LT Fund Based Limits – CC	-	-	-	10.00	IVR BBB; Under Credit Watch with Developing Implication
LT/ST Fund-based/Non-Fund-based Limits – BG*	-	-	-	45.00	IVR A3+; Under Credit Watch with Developing Implication

*Sublimit-Cash Credit of 5.00, WCDL of 5.00 and LC of 2.00