



## Press Release

### Tera Software Limited [TSL]

**October 29, 2020**

Sl. No.	Instrument/Facility	Amount (INR Crore)	Current Ratings	Rating Action
1.	Long Term Fund Based Facilities – Cash Credit	43.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
2	Long Term Non- Fund Based Facilities – Bank Guarantee	109.14 (Reduced from INR133.13 Crore)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
3	Long Term Fund Based Facilities- Working Capital Demand Loan/working capital (under COVID-19)	4.30	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
4	Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	1.56	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
	<b>Total</b>	<b>158.00</b>		

#### **Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The rating continues to derive strength from company's experienced promoters, Y-o-Y improvement in revenue and EBITDA, comfortable capital structure, and healthy order book with low counterparty risk, geographically diversified operations and strong product profile. However, the rating strengths are partially offset by client concentration, uncertainty involved with the number of projects, volatile profitability, working capital intensive operations.

The agency also takes the note of COVID induced delay in LC payment

#### **Key Rating Sensitivities:**

##### **Upward Factor**

- Substantial growth in scale of operations with improvement in profitability
- Steady flow of orders & timely execution of the same on a sustained basis



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### **Downward Factor**

- Any decline in revenue & profitability
- Elongation in working capital cycle

### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths**

##### ***Experienced promoters and Management***

Mr. Gopichand Tummala who is a Vice Chairman & Managing Director has more than three decades of experience in the industry. He is supported by the Board of directors having vast management experiences from their stints in various government and private agencies. Mr. Koteswara Rao SSR, a member of the Institute of Chartered Accountants of India, has served as the President of the Federation of Andhra Pradesh Chamber of Commerce & Industry. Currently, he is a board member for various companies from different industries like textiles, automobiles, IT/ITes, etc. Dr. T. Hanuman Chowdary is the former CEO of VSNL (now Tata Communications). He has served as Information Technology Advisor to the Government of Andhra Pradesh and Director of the Centre of Telecom Management and Studies. He was the governor of INTELSAT in Washington and executive councilor of INMARSAT, London

##### ***Y-o-Y Improvement in revenue and EBITDA***

There has been a constant improvement in the performance of the company in terms of growth in revenue and EBITDA during FY18 to FY20. Total operating income had increased to INR268.97 Crore in FY20 (FY19: INR 176.45 crore; FY18: INR145.72 crore) at a CAGR of around 36% from FY-18 to FY-20. EBITDA has increased to INR 16.92 Crore in FY20 as compared to INR9.80 Cr in FY18

Though, nationwide lockdown due to Covid-19 had impacted the financial performance in Q1FY21, However, based on resumption of activities from June onwards coupled with unexecuted order book, orders of O&M for 3-7 years, proven execution capability IVR expects that the financial performance of TSL will be rebound in the H2FY21.



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### ***Comfortable capital structure***

Overall gearing of the company was comfortable as on account closing days of last three years in absence of any major term loans. The overall gearing ratio stood comfortable at 0.28x in FY20 having improved from 0.51x in FY19 on the account of decrease in short term borrowing.

### ***Healthy Order book with low counterparty risk***

TSL has unexecuted order book of Rs 766.94 crores as on April-20 which is 2.85 times FY20 revenue. Out of unexecuted order book of INR. 766.94 crores , INR307.98 is to be executed in FY21( i.e. till FY21) and rest INR.458.96 is to be executed in coming years. With the strong credentials and execution capabilities company expects to receive such orders on regular basis. The focus of TSL is to bag orders with O&M for 3-5 years and increasing its service income in the coming years, this help in bringing steady top line and good profits. Being dealing with Government entity, the counterparty risk is low for the company

### ***Geographically Diversified operations***

TSL has its headquarters in Hyderabad and operations in many Indian States providing its extensive knowledge of the ground reality of the geography it operates and thus the opportunity to develop tailor-made solutions keeping the local needs in mind. Such diverse geographical presence helps TSL to avoid geographical concentration risk. Also, having a pan India presence provides TSL advantages over other small players.

### ***Strong Product Profile***

Over a time TSL has built a strong product and technical team. TSL is providing services in e-Governance and development of enterprise information systems for Sales Tax, Public Distribution System, Registration, Education, Road Transports, Electricity Billing, UIDAI (AADHAAR) & NPR (National Population Register). With such a wide range of products and good execution capabilities, TSL is able to bid and execute different types of project.



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### **Key Rating Weaknesses**

#### ***Client Concentration Risk***

In FY20, the top five clients of TSL has shared around 96.89% of its total revenue, with the contribution of its top client alone being 62.71%. A similar trend has been observed in previous years as well. The concentration risk is high for the company with dependence on a small group of clients.

#### ***Uncertainty involved with the number of projects***

Nearly 90% of company's revenue comes from government projects that are awarded through closed bidding processes. There is always an uncertainty to the number of projects that would come up in any financial year. The company saw a negative growth in 2017-18 owing to the same reason - It did not have any substantial value of work order with it. This risk would persist in future as well. Also, as the projects are funded by the government bodies, the risk of delays and cost overrun too exist.

#### ***Volatile Profitability***

As the profitability of company hinges on the number of projects that it successfully acquires, the company profits have been volatile. It saw a sizeable reduction in its PAT in FY18 and FY19 owing to less number of projects it had. Going forward, the profitability is expected to grow in next two years owing to the ongoing projects but in long term, the uncertainty would still persist.

#### **Working Capital Intensive Operations**

The average collection period for FY20 is 210 days implying working capital intensive operations where much of the company cash is locked up with the customers. The average Creditors day has increased from 89 days in FY19 to 153 days in FY20. On average, the company takes more than three months to make payment of their suppliers. However, the company is gradually receiving the payment and had received around INR 110.00 crore in H1FY21 of the outstanding debtors as on March 31<sup>st</sup>, 2020.



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### COVID induced delay in LC payment

LC payment due date was on 26<sup>th</sup> march, 2020. Generally, TSL receive major funds from their customers in last two weeks of financial year as their majority clients are central and state governments. However, TSL was not able to collect funds from their customers during the last weeks of FY-20 due to Covid-19 induced lockdown as all the central and state governments offices were closed at that time. LC of Rs 0.9 crores was devolved because of this reason and this amount was regularized on May 02<sup>nd</sup>, 2020. The agency is not treating this as a default **as per the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020**. The same is being treated as lockdown induced delay in servicing of debt obligation..

### Analytical Approach & Applicable Criteria:

Standalone Approach

Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

### Liquidity: Adequate

The liquidity Position of the company is adequate supported by current ratio of 1.36x and quick ratio of 1.34x as on 31st march, 2020. With comfortable cash accruals of INR. 7.15 Crore in FY-20 and no term debt repayments obligations. The average fund based utilisation remained at around 92% during the last twelve months ended September 2020. The overall BG utilization was remained comfortable at around 75% during the same period. Furthermore, BG to the extent of around Rs.30 crores is scheduled to realized in the next 6 months.

### About the Company

Tera Software Ltd. (TSL) was founded in year 1994 by Mr. Gopichand Tummalala. The company is into e-governance - developing and implementing technological solutions for different government bodies in India. TSL provides services in e-governance and development of enterprise information system for sales tax, public distribution system, registrations, education, road transports, UIDAI (Aadhar) & NPR (National Population



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Register) etc. Around 90% of business comes from government bodies whereas private projects constitutes the remaining part of its revenue.

### Financials: (Standalone)

(INR Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	176.45	268.97
EBITDA	13.10	16.92
PAT	3.68	6.52
Total Debt	50.56	29.48
Tangible Net-worth	100.12	106.23
EBITDA Margin (%)	7.43	6.29
PAT Margin (%)	2.05	2.40
Overall Gearing Ratio (x)	0.51	0.28

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** India Ratings & Research in its press release published on March 06, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information

**Any other information:** N.A

**Rating History for last three years:**

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) &Rating(s) assigned in 2019-20 Aug 22, 2019	Date(s) &Rating(s) assigned in 2018-19	Date(s) &Rating(s) assigned in 2017-18
1.	Fund Based Facilities – Cash Credit	Long Term	43.00	IVR BBB- /Stable	IVR BBB- /Stable	--	--
2	Non- Fund Based Facilities – Bank Guarantee	Long Term	109.14 (Reduced from INR133.13 Crore)	IVR BBB- /Stable	IVR BBB- /Stable	--	--





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3	Non- Fund Based Facilities – Bank Guarantee	Long Term	4.30	IVR BBB- /Stable	--	--	--
4	Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	Long Term	1.56	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](http://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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



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### Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Cash Credit	43.00	NA	NA	--	IVR BBB-/Stable
Long Term Non-Fund Based Facilities – Bank Guarantee	109.14 (Reduced from INR133.13 Crore)	NA	NA	--	IVR BBB-/Stable
Long Term Fund Based Facilities-Working Capital Demand Loan/working capital (under COVID-19)	4.30	NA	NA	--	IVR BBB-/Stable
Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	1.56	NA	NA	--	IVR BBB-/Stable

**Annexure 2: Facility wise lender details:** <https://www.infomerics.com/admin/prfiles/Lenders-TSL-29-10-2020.pdf>