



Press Release

Tera Software Limited (TSL)

May 18, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facilities – Cash Credit	30.00 (Decreased from 43.00)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Rating Revised and removed from ISSUER NOT COOPERATING category	Simple
Long Term Fund Based Facilities – Bank Guarantee	68.30 (18.00) (Decreased from 78.00)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Rating Revised and removed from ISSUER NOT COOPERATING category	Simple
Proposed Long Term Non-Fund Based Facilities – Bank Guarantee	-	-	Withdrawn*	Simple
Total	98.30	(Rupees Ninety-Eight crores and thirty lakhs)		

*The client did not avail the proposed facility as envisaged.

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in ratings reflects reversal in operating performance in Q3FY23 which is expected to continue in Q4FY23 & beyond. Total operating income increased from Rs. 26.49 crore in Q2FY23 to Rs. 30.44 crore in Q3FY23. The improvement is expected to sustain as the company recently has received new orders of around Rs. 80.00 crores with a lower gestation period of 18 months. Furthermore, the ratings continue to derive support from experienced promoters and management of the Company, comfortable capital structure, healthy order book, geographically diversified operations, and strong product profile. However, client concentration risk, uncertainty involved with the number of projects due to bidding nature of the Company's revenue sources and working capital intensive nature of the company's operations are the rating constrain.

The rating was migrated to ISSUER NOT COOPERATING category as Tera Software Limited (TSL) had not submitted all the required information for surveillance under the stipulated



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timelines. Subsequently, TSL has cooperated and provided the information leading to removal of the rating from ISSUER NOT COOPERATING category.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- Any further decline in revenue & profitability leading to deterioration of debt protection metrics.
- Elongation in working capital cycle.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and Management

Mr. Gopichand Tummala is Vice Chairman & Managing Director of TSL and 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. 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. Highly experienced management helps the company successfully bidding and winning important contracts from the Government as also, steering the company in volatile times.

Comfortable Capital Structure



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Overall gearing of the company stood at Comfortable level for the year ended 31st March 2022 on account of absence of any major term loans. The overall gearing ratio stood comfortable at 0.58x in FY22 though slightly deteriorated from overall gearing ratio of 0.52x in FY21 due to substantial increase in short-term borrowing and unsecured loans from directors.

Healthy Order book with low counterparty risk

The Company has unexecuted orderbook of ~ 300.20 crore, which is ~ 2.36x times FY22 revenues showing medium term revenue visibility. Out of unexecuted order book of Rs. 300.20 crore, out of which Rs. 152.76 crore is estimated to be executed in coming years. With the strong credentials and execution capabilities company expects to receive such orders on regular basis. 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 time TSL has built a strong product and technical team. TSL provides 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.

Key Rating Weaknesses

Client Concentration Risk



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In FY22, the top five clients of TSL has shared around ~ 96% % of its total revenue, with the contribution of its top client alone being ~ 59%. 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 due to bidding nature of the Company's revenue sources

Nearly 94% of company's revenue comes from government projects that are awarded through closed bidding processes. There is always uncertainty to the number of projects that would come up in any financial year. 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 exists.

Working Capital Intensive Operations

The average collection period for FY22 is 550 days implying working capital intensive operations where much of the company cash is locked up with the customers. The average creditors days has decreased from 312 days in FY21 to 286 days in FY22. On average, the company takes more than three months to make payment of their suppliers. Around 72% of the debtors in FY22 stood in the age bracket of more than 365 days.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Service Sector Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Guidelines on what constitutes Non-Cooperation by Clients](#)

Liquidity – Stretched

The liquidity position of the company remains stretched as cash accruals are expected to match tightly with debt repayment obligations. The Cash and Cash Equivalents including



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unencumbered fixed deposits receipts as on March 31, 2022, stood at Rs. 10.04 crore. The current ratio stood at 1.48 times as on March 31, 2022. The operating cycle is stretched for FY22 at 272 days. The fund-based bank limit is around 77.19% utilized by the company during the last twelve months ended March 2023.

About the Company

TSL was founded in year 1994 by Mr. Gopichand Tummala. The company is into e-governance - developing and implementing technological solutions for different government bodies in India. Around ~ 96% of business comes from government bodies whereas private projects constitute the remaining part of its revenue. Having its headquarters at Hyderabad, 3 currently TSL has its operations in around 22 Indian states. It went public in the year 2000. 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 Register) etc. It is ISO 9001:2015, ISO 20000-1:2011 and ISO 27001:2013 certified for its processes across the organization.

Financials (Standalone):

For the year ended / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	160.72	127.14
EBITDA	7.44	7.55
PAT	0.84	(1.30)
Total Debt	54.61	60.54
Adjusted Tangible Net-Worth	108.75	108.39
Ratios		
EBITDA Margin (%)	4.63	5.94
PAT Margin (%)	0.51	(1.00)
Overall Gearing Ratio (x)	0.52	0.58

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

India Ratings and Research continued to maintain the ratings assigned to TSL's bank facilities in the 'Issuer Not Cooperating' category vide Press Release dated August 24, 2022, due to non-submission of information by the company.



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Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (March 6, 23)	Date(s) & Rating(s) assigned in 2021-22 (Jan 28, 22)	Date(s) & Rating(s) assigned in 2020-21 (Oct 29, 20)
1.	Cash Credit	Long Term	30.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	IVR BB/ Negative; Issuer Not Cooperating*	IVR BB+/ Stable	IVR BBB-/ Stable
2.	Bank Guarantee (Sub-Limit LC)	Long Term	68.30 (18.00)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	IVR BB/ Negative; Issuer Not Cooperating*	IVR BB+/ Stable	IVR BBB-/ Stable
3.	Working Capital Demand Loan/working capital (under COVID-19)	Long Term	-	-	-	Withdrawn	IVR BBB-/ Stable
4.	Proposed Bank Guarantee	Long Term	-	Withdrawn	IVR BB/ Negative; Issuer Not Cooperating*	IVR BB+/ Stable	IVR BBB-/ Stable

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External



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Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com

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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
Cash Credit	-	-	-	30.00	IVR BB+/ Stable
Bank Guarantee (Sub-Limit LC)	-	-	-	68.30 (18.00)	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-TeraSoftware-may23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.