



Press Release

Tera Software Limited (TSL)

January 28, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple / High / Complex)
Long Term Fund Based Facilities – Cash Credit	43.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Revised	Simple
Long Term Non-Fund Based Facilities – Bank Guarantee (Sub-limit LC)	78.00 (18.00) (Reduced from INR109.14 Crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Revised	Simple
Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	5.00 (Increased from INR 1.56 Crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Revised	Simple
Long Term Fund Based Facilities-Working Capital Demand Loan/working capital (under COVID-19)	4.30*	--	Withdrawn*	Simple
Total	126.00 (One Hundred Twenty-Six Crores only)			

*Withdrawn as the debt has been paid in full.

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in ratings takes into account continued decline in revenues and moderation in profitability in FY21 & H1 FY22, deterioration in debt protection metrics, 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 company's operations.

However, the rating continues to derive support from experienced promoters and management of the Company, comfortable capital structure, healthy order book, geographically diversified operations and strong product profile.



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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 company in successfully bidding and winning important contracts from the Government as also, steering the company in volatile times.

Comfortable capital structure

Overall gearing of the company stood at comfortable level for the year ended 31st March 2021 on account of absence of any major term loans. The overall gearing ratio stood comfortable at 0.52x in FY21, though slightly deteriorated from overall gearing ratio of 0.28x in FY20 on the account of substantial increase in short term borrowing and unsecured loans from directors.



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Healthy Order book

The Company has unexecuted orderbook of ~ 754.40 crores, which is ~ 4.69x times FY21 revenues giving them medium term revenue visibility. Out of unexecuted order book of INR 754.40 crores, INR 167.75 crore is to be executed in FY22 (i.e. till FY22) and rest INR.586.65 crores 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). Also, the Company is executing projects relating to fiber net and fiber grid. With such a wide range of products and good execution capabilities, TSL is able to bid and execute different types of projects.

Key Rating Weaknesses

Continued decline in revenues and moderation in profitability in FY21 & H1 FY22

TSL's revenue substantially declined about ~ 40% in FY21 to INR 160.72 crores from INR 268.97 crore in FY20. The same was led by cancellation of order by AP State Fibernet worth INR 112.00 crores and the overall economic slowdown in FY2021 due by the temporary disruption caused by the onset of Covid-19 pandemic and the subsequent nationwide



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lockdown which staled its project execution to an extent. The topline witnessed similar pressures in H1 FY22 as envisaged by a ~ 27% decline in revenues to INR 51.69 crores from INR 71.01 in H1 FY21. Besides, its profitability also witnessed sharp deterioration in FY2021, whereby its EBITDA margin stood at 4.63% as compared to 6.30% in FY2020. EBITDA margins slightly improved in H1FY 22 to 2.63% compared to 1.61% in H1 FY21.

Deterioration in Debt Protection Metrics

Subsequent to the decline in its EBITDA margins, the Company witnessed worsening of its debt protection metrics as indicated by ISCR or interest service coverage ratio. The ISCR for FY21 of the Company was at 0.88x compared to 1.83x in FY20, signifying the fact that the companies operating profit is not sufficient to meet its annual interest liabilities. However, the company has earned rental income of INR 1.92 crore (FY20: INR 1.94 crore) and interest income of INR 1.12 crore (FY20: INR 1.07 crore). After considering the same interest coverage was at 1.26x in FY21. (FY20: 2.31x)

Client Concentration Risk

In FY21, the top five clients of TSL comprised of ~ 100% of its total revenue, with the contribution of its top client alone being ~ 73%. 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 96% of company's revenue comes from government projects that are awarded through closed bidding processes. There is always an uncertainty as 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 exist.



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Working Capital Intensive Operations

The average collection period for FY21 is 428 days implying working capital intensive operations where much of the company working capital is locked up with the customers. However, the company is gradually receiving the payment and had received around INR 76.37 crore in H1FY22 of the outstanding debtors as on March 31st, 2021. The total gross outstanding debtors as of 31st March 2021 were at 203.50 crores out of which INR 133.69 crores (~ 66%) are more than 180 days as of date.

Analytical Approach: Standalone

Applicable Criteria (Please add Hyperlink to the respective criteria):

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation Non- Financial Sector

Policy on Withdrawal of Ratings

Liquidity – Stretched

The Liquidity of the Company is stretched. The average Bank Limit utilization of the Company for the past twelve months ending December 2021 is on higher side at ~ 88% . There were instances of intermittent over utilization of Cash Credit account in the past twelve months. The same was however regularised in within 30 days. The overall BG utilization is at around 85% during the same period. The operating capital cycle is stretched for FY21 at 124 days. The Cash & Cash equivalents including unencumbered fixed deposit receipts of the Company for year ending 31st March 2021 stood at INR 15.38 crores.

About the Company

Tera Software Ltd. (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. 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 6



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Register) etc. Also, the Company is executing projects relating to fiber net and fiber grid. Around 96% of business comes from government bodies whereas private projects constitute the remaining part of its revenue.

Financials: Standalone

For the year ended/ As On*	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	268.97	160.72
EBITDA	16.94	7.44
PAT	6.52	0.84
Total Debt	29.48	54.61
Tangible Net-worth	106.23	105.32
EBITDA Margin (%)	6.30	4.63
PAT Margin (%)	2.40	0.51
Overall Gearing Ratio (x)	0.28	0.52

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: India Ratings and Research (Ind-Ra) in its press release dated March 03, 2021, has migrated the rating on bank facilities of TSL to "Issuer Not Cooperating" category.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (October 29, 2020)	Date(s) & Rating(s) assigned in 2019-20 (August 22, 2019)	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	43.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	--
2.	Long Term Non-Fund Based Facilities – Bank Guarantee	Long Term	78.00 (18.00) (Reduced from	IVR BB+/Stable (IVR Double B Plus with	IVR BBB-/Stable (IVR Triple B Minus	IVR BBB-/Stable (IVR Triple B	--



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	(Sub-limit LC)		INR109.14 Crore)	Stable Outlook)	with Stable Outlook)	Minus with Stable Outlook)	
3.	Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	Long Term	5.00 (Increased from INR 1.56 Crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	--	--
4.	Long Term Fund Based Facilities- Working Capital Demand Loan/working capital (under COVID-19)	Long Term	4.30	Withdrawn	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	--	--

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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 Facilities – Cash Credit	--	--	Revolving	43.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)
Long Term Non-Fund Based Facilities – Bank Guarantee (Sub-limit LC)	--	--	Revolving	78.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)
Proposed Long Term Non- Fund Based Facilities – Bank Guarantee	--	--	Revolving	5.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)
Long Term Fund Based Facilities- Working Capital Demand Loan/working capital (under COVID-19)	--	--	--	4.30	Rating Withdrawn

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



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Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Tera-Software-lenders-jan22.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.