



## Press Release

### Silver Touch Technologies Limited

February 01, 2022

#### Ratings

| Facility                                    | Amount<br>(Rs. crore)                                  | Ratings  | Rating<br>Action | Complexity<br>Indicator |
|---|--|--|------------------|-------------------------|
| Long Term<br>Bank Facilities                | 10.00  | IVR BBB; Under Credit Watch with<br>Developing Implication<br>(IVR Triple B Under Credit Watch<br>with Developing Implication)                               | Reaffirmed       | Simple                  |
| Long-<br>term/Short-term<br>Bank Facilities | 45.00  | IVR BBB/IVR A3+; Under Credit<br>Watch with Developing Implication<br>(IVR Triple B /IVR A Three Plus;<br>Under Credit Watch with<br>Developing Implication) | Reaffirmed       | Simple                  |
| <b>Total</b>                                | <b>55.00</b><br><b>(Rs. Fifty-Five<br/>crore only)</b> |  |                  |                         |

Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Silver Touch Technologies Ltd (STTL) takes into account moderate financial performance in FY21(A) due to covid 19 pandemic during the year though it has witnessed improvement in its profitability during H1FY22. 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. Further, 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 cyclical in the IT industry coupled with technology obsolescence risk and country risk. The ratings are remained 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



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the above on the credit risk profile of the company are clear with its Q3FY22 and Q4FY22 results.

### **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



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

- **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 unexecuted order book position of ~Rs.160 crore which are executable within next 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 0.01x as on March 31, 2021. Moreover, the overall gearing ratio and TOL/TNW also remained comfortable at 0.01x and 0.53x respectively as on March 31, 2021. The debt protection metrics marked by the interest coverage ratio and DSCR remain comfortable. Though interest coverage ratio has declined in FY21 due to decrease in EBITDA level vis-à-vis interest charges and continue to remain satisfactory at 2.65x in FY21. Total debt to GCA also has significantly improved to 0.16x as on March 31, 2021, as compared to 1.06x as on March 31, 2020.



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### **Key Rating Weaknesses**

- **Moderate scale of operation with moderation in performance in FY21 albeit improvement in performance in H1FY22**

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 ~22% in FY21 on account of lesser sale of IT products due to lower economic activities on spreading of pandemic followed by nationwide lockdown. The EBITDA margin of the company also moderated in FY21 due to bidding in lower rate due to high competition coupled with impacted operations in March 2021. The PAT margin moved in tandem with EBITDA margin and hovered around 0.66% in FY21. The company earned gross cash accruals of Rs.2.98 crore in FY21 (Rs.9.83 crore in FY20) vis-à-vis negligible debt repayment obligation of Rs.0.09 crore in FY21. The performance of the company have improved in H1FY22 with improvement in profitability attributable to cost optimisation measures, reduced interest outgo coupled with execution of few high margin contracts. The company has achieved a turnover of Rs.60.54 crore and PAT of Rs.2.56 crore in H1FY22. Infomerics will continue to monitor the movement of profitability of the company in the coming quarters.

### **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



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owing to procedural delays. The average collection period stood elongated at 138 days for FY21. 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 ~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.2.98 crore vis- a- vis its low debt repayment obligations of ~1.65 crore in FY22. 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 is low during the past 12 months ended December 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



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(though there is no meaningful operation) in the countries like USA (Silver Touch Technologies INC), UK (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) |            |
|-----------------------------|-------------|------------|
|                             | 31-03-2020  | 31-03-2021 |
|                             | Audited     | Audited    |
| Total Income                | 180.29      | 141.12     |
| EBITDA                      | 13.42       | 4.06       |
| PAT                         | 5.53        | 0.94       |
| Total Debt                  | 10.44       | 0.48       |
| Tangible Net worth          | 76.46       | 77.29      |
| EBITDA Margin (%)           | 7.48        | 2.90       |
| PAT Margin (%)              | 3.07        | 0.66       |
| Overall Gearing Ratio (x)   | 0.14        | 0.01       |

\*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 2021-222) |                                |   | Rating History for the past 3 years                                     |   |   |
|---------|---------------------------------|--------------------------------|--------------------------------|---|---|---|---|
|         |                                 | Type                           | Amount outstanding (Rs. Crore) | Rating  | Date(s) & Rating(s) assigned in 2020-21                                 | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
| 1       | Cash Credit                     | Long Term                      | 10.00                          | IVR BBB; Under Credit Watch with Developing Implication | IVR BBB; Under Credit Watch with Developing Implication (March 23,2021) | IVR BBB+; Stable (January 24,2020)      | -                                       |
| 2       | Bank Guarantee                  | Long-term/Short-Term           | 45.00 <sup>#</sup>             | IVR BBB /IVR A3+; * Under Credit Watch with Developing  | IVR BBB /IVR A3+; * Under Credit Watch with Developing                  | IVR BBB+; Stable (January 24,2020)      | -                                       |



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| Sr. No. | Name of Instrument / Facilities | Current Rating (Year 2021-222) |                                |             | Rating History for the past 3 years     |   |   |
|---------|---------------------------------|--------------------------------|--------------------------------|-------------|---|---|---|
|         |                                 | Type                           | Amount outstanding (Rs. Crore) | Rating      | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
|         |                                 |                                |                                | Implication | Implication (March 23,2021)             |   |   |

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

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

### Name and Contact Details of the Rating Analyst:

|  |  |
|--|--|
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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.

**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.

### Annexure 1: Details of Facilities



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| Name of Facility   | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook                                |
|--|------------------|------------------|---------------|------------------------------|---|
| LT Fund Based Limits – Cash Credit                         | -                | -                | -             | 10.00                        | IVR BBB; Under Credit Watch with Developing Implication |
| LT/ST Fund-based/ Non-Fund-based Limits – Bank Guarantee * | -                | -                | -             | 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*

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

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Silver-Touch-lenders-feb22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated in 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](http://www.infomerics.com).