

Press Release

Tera Software Ltd.

August 22, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term – Cash Credit	43.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2	Long Term – Bank Guarantee	133.13	
	Total	176.13	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from company's experienced promoters, comfortable capital structure and a healthy order book with negligible counterparty risk involved. The rating however is constrained by volatile profitability, client concentration risk and the working capital intensive operations. Client Concentration, Sales Growth, Leverage and Working Capital Management are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and Management

Mr. Gopichand Tummala, M.Tech, has 38 years of experience in the industry. He is supported by a team of qualified Board of Directors having vast management experiences from their stints in various government and private agencies. Mr. Sree Rama Koteswara Rao, a member of the Institute of Chartered Accountants of India, has served as the President of Federation of Andhra Pradesh Chamber of Commerce & Industry. Currently, he is a board member for various companies from different industries like textile, automobiles, IT/IT-es etc. Dr. T. Hanuman

Chowdhary 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 the Washington and executive councillor of INMARSAT, London.

Comfortable capital structure

Overall gearing of the company was comfortable as on account closing days of last three years. It saw a marginal increase in FY19 to 0.51x from 0.46x in FY18 on account of increase in short term borrowing. Long term debt-equity ratio stood at 0.01x as on March 31st 2019 with interest coverage ratio of 1.85x for the same period.

Healthy Order book with negligible counterparty risk

The company has recently been awarded two projects from state government bodies due to which it has a healthy order book worth value Rs. 1100 Cr. out of which projects worth value Rs. 700 Cr. are expected to complete by FY 2021. Being dealing with government bodies clients, the counterparty risk is negligible for the company.

Key Rating Weaknesses

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 overrunning 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 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.

Client Concentration Risk

In FY19, the top five clients of the company constituted around 90% of its total revenue with the contribution of its top client alone being 48%. Same trend has been observed in previous years as well. The concentration risk is too high for the company with too much dependence on small group of clients.

Working Capital Intensive Operations

The average collection period for FY19 is 260 days and inventory holding period is 27 days. This implies working capital intensive operations where much of the company cash is locked up with the customers. The cash conversion cycle for the company is around 130 days for FY19.

Liquidity

The company has so far an average liquidity position. However they expect large execution of orders with GCA at higher levels. Even if we prone down the GCA to existing margins, the cash generation would be adequate to service the debts subject to realisations of debtors as envisaged. With comfortable cash accruals and no term debt repayments, liquidity seems satisfactory. Though existing limits are fully utilised, with increased turnover, there would be head room for additional working capital limits to provide additional liquidity.

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

Financials (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	145.53	176.45
EBITDA	9.66	13.10
PAT	1.57	3.68
Total Debt	44.16	50.57
Tangible Net worth	96.69	100.12
EBIDTA Margin (%)	6.64	7.43
PAT Margin (%)	1.06	2.05
Overall Gearing ratio (x)	0.46	0.51

* Classification as per Infomerics' standards

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term - Cash Credit (CC)	43.00	IVR BBB-/Stable Outlook	--	--	--
Non - Fund Based Facilities	Long Term - Bank Guarantee	133.13	IVR BBB-/Stable Outlook	--	--	--
	Total	176.13				

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. 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

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	43.00	IVR BBB-/Stable Outlook
2	Long Term Non Fund Based (BG)	--	--	--	133.13	
Total					176.13	