

Fourth Dimension Solutions Ltd.

April 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term /Short-term Bank Facilities	100	CARE BBB-/CARE A3 [Triple B Minus/A Three]; Under credit watch with Negative Implications	Revised from CARE BBB-; Stable/CARE A3 [Triple B Minus; Outlook: Stable /A Three]
Total facilities	100 (Rupees Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Fourth Dimension Solutions Ltd (FDSL) are put on credit watch with negative implications in view of significant amount of funds of the company being held under litigation post-disassociation with Ricoh India Ltd which has affected its liquidity. However, the position is expected to improve with infusion of funds through QIP issue to the extent of Rs.240 crore which is proposed to be completed in April 2018. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating when more clarity emerges in these matters.

Nevertheless, the ratings continue to derive strength experienced promoters and management team, reputed clientele along with FDSL's association with reputed Original Equipment Manufacturers (OEMs) and comfortable capital structure.

The ratings, however, continue to remain constrained by the lower order book, stretched operating cycle, low profitability margins and intense competition from other players in IT industry.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management

FDSL is promoted by Mr Amalendu Mukherjee who is the Managing Director of the company. He holds an executive MBA degree from Concordia College and University of Delaware, USA and has over 11 years of experience in the field of IT and IT related services. He is assisted by a team of qualified professionals.

Comfortable capital structure

The capital structure of the company remains comfortable with an overall gearing of 0.07x and debt to equity ratio of 0.05x as on March 31, 2017. Interest coverage improved from 2.36x in FY16 to 8.08x in FY17 primarily due to lower interest payments. Going ahead, the capital structure of FDSL is expected to improve further in Q1FY19 due to QIP issue to the tune of Rs.240 crore. The company has already filed DHRP for the same and is expected to receive the money in April 2018 and the funds shall be utilized for boosting working capital and other operational activities

Reputed client base and association with various OEMs

FDSL has established relationship with numerous reputed customers in different industries. Furthermore, the company is associated with various OEMs like HP, Dell, IBM, Acer, Micromax, etc. The association with reputed OEMs ensures the quality of products sold by the company and results in higher revenue visibility and increased presence in the market.

Key Rating Weakness

Lower order book along with low profitability margins

In FY17, FDSL reported a total income of Rs.1490.85 crore. However post disassociation with Ricoh India Ltd, the total income reduced in 9MFY18 to Rs.411.75 crore and the company now has an outstanding order book of 137.49 crore as on September 2017.

Moreover, the company trades in the IT and electronic products which yield lower margins due to trading nature of business while the company fetches better margins from the service segment. The PBILDT margin was 2.91% in FY17 as

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

the company generates significant portion of its revenue from the sale of products (89% during FY17 and 91% during H1FY18). The PAT margin stood at 1.47% in FY17.

Working capital intensive operations

The working capital cycle of the company increased to 69 days in FY17 primarily owing to higher collection period due to direct billing to government clients and PSUs (which was earlier discounted by Ricoh). However, the current ratio improved to 1.08x as on March 31, 2017 (PY: 1.03x).

Intense competition

The IT services market is highly competitive with the presence of domestic, global as well as small and mid-sized IT service providers. Moreover, the IT solutions market has seen significant capacity expansion over the past few years to tap the potential of the growing IT solutions market. The presence of large and small industry players have resulted in an increased competition within the IT solutions market. Further, the IT service industry also remains to be highly cyclic in nature and is vulnerable during economic slowdown.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Methodology for Short-term Instruments](#)

[Rating Methodology-Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Fourth Dimension Solutions Limited (FDSL) was incorporated in June, 2011 and was converted into public limited company in May, 2015. The company is listed on NSE EMERGE (SME Exchange Platform of NSEIL) w.e.f January 22, 2016. FDSL is an India based Information technology (IT) company engaged in sale of IT products and services. Its business activities include trading of IT & electronic products and providing infrastructure support services, technical support services and operations outsourcing services.

FDSL caters to various verticals including smart governance projects, education, telecom, power & utilities, security & surveillance, etc. The customer base of the company comprises private corporates spread across various industries and also government bodies. The government projects with order value of more than Rs.500 crore are undertaken by the company in consortium with other bigger companies in the industry. The company also has a wholly owned subsidiary; Thumbspeed Tech Solutions Private Limited which is engaged in IT related business.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1401.54	1490.85
PBILDT	55.56	43.39
PAT	20.08	21.96
Overall gearing (times)	0.07	0.07
Interest coverage (times)	2.36	8.08

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ST-BG/LC	-	-	-	70.00	CARE BBB- / CARE A3 (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB- (Under Credit watch with Negative Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ST-BG/LC	LT/ST	70.00	CARE BBB- / CARE A3 (Under Credit watch with Negative Implications)	1)CARE BBB-; Stable / CARE A3 (11-Apr-17)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB- (Under Credit watch with Negative Implications)	1)CARE BBB-; Stable (11-Apr-17)	-	-	-

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