

## Rating Advisory November 30, 2018 | Mumbai

### FCS Software Solutions Limited

#### Advisory as on November 30, 2018

This rating advisory is provided in relation to the rating of FCS Software Solutions Limited

The key rating sensitivity factors for the rating include:

- Operating income and profitability
- Investment in group companies
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from FCS Software Solutions Limited (FCS) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If FCS continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the Group

FCS, incorporated in 1993 as a private limited company, was reconstituted as a public limited company in 1999. It is an integrated IT services and solutions provider. The Noida-based company has subsidiaries in the US, Germany, the UAE, and China.

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## Rating Rationale

February 07, 2018 | Mumbai

### FCS Software Solutions Limited

Rating removed from 'Watch Negative' ; Rating reaffirmed

#### Rating Action

Total Bank Loan Facilities Rated	Rs.9 Crore
Short Term Rating	CRISIL A4 (Removed from 'Rating Watch with Negative Implications'; Rating reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has removed its rating on the short-term bank facilities of FCS Software Solutions Limited (FCS; part of the FCS group) from '**Rating Watch with Negative Implications**' and reaffirmed the rating at 'CRISIL A4'.

The rating was placed on negative watch on August 14, 2017, following a circular issued by the Securities and Exchange Board of India (SEBI), which suspended trading in FCS's stocks, on suspicion that it was a shell company. SEBI had placed FCS under Stage VI of the Graded Surveillance Measure (GSM) with immediate effect. SEBI's action followed communication from the Ministry of Corporate Affairs (MCA), listing several companies as suspected 'shell companies'.

In an announcement dated January 31, 2018, SEBI revoked the action envisaged in its letter dated August 7, 2017, and the consequential actions taken by stock exchanges against FCS, its promoters, and directors. Trading in securities of the company have reverted to their status before the SEBI letter dated August 7, 2017, with effect from February 1, 2018.

The rating reflects decline in operating margins, working capital intensive operations and average financial risk profile. These rating weaknesses are partially offset by extensive experience of the promoters.

#### Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of FCS and its subsidiaries, including FCS Software Solutions America Ltd, FCS Software Middle East FZE, Insync Business Solutions Ltd. The entities, collectively referred to as the FCS group, are in the same business and have financial linkages.

#### Key Rating Drivers & Detailed Description

##### Weaknesses

\* **Continuous decline in operating income:** Operating income declined sharply to Rs 36.6 crore in fiscal 2017 from Rs 134 crore in fiscal 2014, due to muted overseas demand. High employee cost and fall in operating income have resulted in operating loss since fiscal 2013.

\* **Working capital-intensive operations:** Gross current assets were at 159 days as on March 31, 2017, because of large loans and advances to affiliates.

\* **Average financial risk profile:** Debt protection metrics may remain weak due to operating loss and expected slow revival in profitability. However, financial risk profile should be supported by low total outside liabilities to tangible networth ratio, expected below 1 time over the medium term.

##### Strength:

\* **Extensive experience of the promoters:** The group will continue to benefit from the promoters' experience of two decades, and established relationships with customers in the US and India (contributed 60% and 40%, respectively, to revenue in fiscal 2017). Revenue streams are diversified across information technology (IT) consulting and software development, infrastructure management, and E-learning and digital content services.

## About the Group

FCS, incorporated in 1993 as a private limited company, was reconstituted as a public limited company in 1999. It is an integrated IT services and solutions provider. The Noida-based company has subsidiaries in the US, Germany, the UAE, and China.

## Key Financial Indicators

As on /For the period ended March 31	Unit	2017	2016
Revenue	Rs crore	36.60	42.49
Profit after tax (PAT)	Rs crore	-45.50	-98.56
PAT margin	%	-124.31	-231.97
Adjusted debt/Adjusted networth	Times	0.05	0.01
Interest coverage	Times	-10.63	-2.19

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)
NA	Export packing credit & export bills negotiation/foreign bill discounting	NA	NA	NA	8
NA	Bank guarantee	NA	NA	NA	1

## Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015	
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based Bank Facilities	LT/ST	8	CRISIL A4		No Rating Change	14-08-17	CRISIL A4/Watch Negative		No Rating Change		No Rating Change
						01-03-17	CRISIL A4				
Non Fund-based Bank Facilities	LT/ST	1	CRISIL A4		No Rating Change	14-08-17	CRISIL A4/Watch Negative		--		--
						01-03-17	CRISIL A4				

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1	CRISIL A4	Bank Guarantee	1	CRISIL A4
Export Packing Credit & Export Bills Negotiation/Foreign Bill discounting	8	CRISIL A4	Export Packing Credit & Export Bills Negotiation/Foreign Bill discounting	8	CRISIL A4
<b>Total</b>	<b>9</b>	<b>--</b>	<b>Total</b>	<b>9</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Software Industry](#)

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