

3D PLM Software Solutions Limited

January 12, 2018

Summary of rated instrument

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Redeemable Preference Shares	450.00	208.57	[ICRA]AA(S)(Stable); Reaffirmed
Total	450.00	208.57	

Rating action

ICRA has reaffirmed the rating of [ICRA]AA(S) to the Rs. 208.57 crore (reduced from Rs. 450.00 crore) Non-Convertible Redeemable Preference Shares (RPS) of 3D PLM Software Solutions Limited (3D PLM)¹. The letter 'S' in parenthesis suffixed to a rating symbol denotes that the rating is supported by a Letter of Comfort. An (S) rating does not represent ICRA's opinion on the general credit quality of the issuer concerned. The outlook on the long-term rating is Stable. The rating is based on the letter of comfort provided by Dassault Systèmes for timely payment of the aforementioned instrument.

Rationale

The rating reaffirmation continues to favourably factor in the strong parentage of 3D PLM, with Dassault Systèmes (DS) being one of the leading project lifecycle management (PLM) companies in the world, as reflected in its market standing across key segments and its strong financial risk profile. DS enjoys a strong presence across end-user segments of transportation and mobility, aerospace and defence. ICRA also factors in the geographic diversity in DS's revenues and increasing share of diversified industries that aid its business risk profile. DS's strong financial risk profile is reflected in its more than 60% recurring revenues, robust operating profitability and low debt to equity ratio of 0.26 as on September 30, 2017. Further, it enjoys a strong liquidity position with cash and equivalent of 2.7 billion Euros (as on September 30, 2017). 3D PLM would continue to need liquidity support from its parent to service the rated instrument. The rating factors in the letter of comfort provided by the parent company, DS.

3D PLM is a captive center for DS and its group entities, providing software development services based on an offshore development model. 3D PLM is integral to DS's operations as its second largest laboratory globally, providing access to low cost talent within the DS Group and lending significant cost advantage to the parent. Approximately 15% of the DS Group's total workforce of 15,133, as on December 31, 2016, was from India. Following the scheme of arrangement and amalgamation, and subsequent purchase of equity shares from non-resident shareholders of Geometric Limited by DS, 3D PLM became its wholly owned subsidiary with effect from April 2017. DS being a scientific company, research and development (R&D), accounting for 17.7% of its CY2016 revenues, is critical for maintaining its market standing and hence ICRA expects it to support 3D PLM in future.

¹ For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

The strengths are, however, partially offset by the moderate financial risk profile of 3D PLM and its dependence on its parent to service the outstanding redeemable preference share issue. Timely transfer of funds from the parent or its affiliates to 3D PLM by way of issuance of securities will continue to remain critical for meeting the balance redemption of preference shares as and when required.

Outlook: Stable

ICRA believes 3D PLM will continue to benefit from the support of its parent group by way of outsourcing R&D work as well as by way of the letter of comfort issued for redemption of the preference shares. The outlook may be revised to Negative if there is any adverse change in DS's credit risk profile due to a large sized acquisition or if any technical or regulatory barrier arises due to which the funds shortage, if any, for redeeming the preference shares is delayed resulting in liquidity constraints.

Key rating drivers

Credit strengths

Strong parentage providing significant financial flexibility - Parent company, DS, has provided a letter for comfort for redeeming the preference shares, thus extending financial flexibility to 3D PLM. DS is one of the leading PLM companies in the world, as reflected by its robust financial profile and large market cap.

Strong operational and financial linkages with parent company - 3D PLM is now a wholly owned subsidiary of DS, following the scheme of arrangement and amalgamation, which is critical to DS's overall R&D operations. DS has acquired the unlisted equity shares of 3D PLM from the non-resident shareholders of Geometric Limited who were allotted such shares pursuant to the scheme of arrangement and amalgamation, which reflects the significance of 3D PLM for the DS Group. India has the second largest R&D laboratory in the Group after France, and provides access to low cost talent within the Group, leading to significant cost advantage to the parent. Approximately 15% of the DS Group's total workforce of 15,133 is from India

Remote possibility of winding up - Considering that R&D is a critical function for an innovative scientific company such as DS, there is a remote possibility of any winding up of 3D PLM. Total R&D spends account for almost 18% of DS's revenues.

Moderate financial risk profile - 3D PLM enjoys adequate financial position as reflected by its consolidated capital structure (0.4 time as on September 30, 2017), comfortable profitability and moderate debt protection metrics (total debt/OPBDITA of 2.4 times for H1 FY2018).

Credit challenges

Dependence on DS Group for ensuring timely repayment – Since 3D PLM is dependent on its parent for ensuring timely redemption of preference shares, any regulatory or technical barriers that can impede the transfer of funds to 3D PLM, may lead to a liquidity constraint. DS has already infused Rs. 132.8 crore successfully through Compulsorily Convertible Preference Shares (CCPS) up to Q3 FY2018 for the timely redemption of Rs. 171.2 crore redeemable preference shares during the redemption cycles till Q3 FY2018.

Any adverse impact on credit profile of DS – Since 3D PLM's rating is supported by the letter of comfort provided by DS, it is pertinent to consider DS's credit profile to ascertain its ability to infuse funds, if and when needed. Accordingly, any adverse development on the credit profile, such as a large sized acquisition, may pose a challenge on its ability to infuse funds into 3D PLM. ICRA, nevertheless, acknowledges that the amount of RPS outstanding for 3D PLM as on December 31, 2017, is modest compared to the cash and equivalents on the balance sheet of DS as on September 30, 2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Information Technology \(Services\) Industry](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About Dassault Systèmes SE

Dassault Systèmes SE (DS) provides end-to-end software solutions and services, designed to support the innovation processes of companies, right from the specification and design of a product to its manufacturing, supply and sale to customers, through all stages of digital mock-up, simulation and realistic, virtual 3D experiences for end-users. The company's global customer base includes companies in 12 industrial sectors—aerospace and defence; transportation and mobility; marine and offshore; high-tech; industrial equipment; architecture, engineering and construction; consumer goods & retail; consumer packaged goods; life sciences; energy, process and utilities; financial and business services; and natural resources.

To serve its customers, DS has developed a broad software applications portfolio, comprising 3D modelling applications, simulation applications, social and collaborative applications, and information intelligence applications that are run on its 3D experience platform. The company's core brands include CATIA, SOLIDWORKS and ENOVIA, contributing nearly 67% to its total revenues, while the rest is contributed by new product segments and services.

About 3D PLM Software Solutions Limited

Incorporated in 2001, 3D PLM Software Solutions Limited (3D PLM) was a 58:42 JV between Geometric Limited and DS (including one of its affiliate companies) until March 2017. Pursuant to the scheme of arrangement and amalgamation between 3D PLM, Geometric Limited and HCL Technologies Limited, and the subsequent purchase of unlisted equity shares of 3D PLM from the non-resident shareholders of Geometric Limited by DS, 3D PLM became a wholly owned subsidiary of the DS Group, jointly held by DS and its affiliate, Dassault Systèmes Americas, Corp. The company is a software development services firm operating on an offshore development centre model, a captive unit for DS and other DS Group entities. The company provides software development solutions, services and professional consulting, development services to the DS Group and is not present in any market as it does not provide any product/service in any market.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	336.4	408.1
PAT (Rs. crore)	58.9	69.1
OPBDIT/ OI (%)	22.9%	26.1%
RoCE (%)	44.7%	22.5%
Total Debt/ TNW (times)	0.0	1.2
Total Debt/ OPBDIT (times)	0.0	3.6
Interest coverage (times)	938.8	755.9
NWC/ OI (%)	0.0%	6.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date Rating	&	Date Rating FY2017	& in	Date Rating FY2016	& in
Instrument	Type				Jan 2018		Dec 2016			
1 Non-Convertible Redeemable Preference Shares	Long Term		208.57	208.57	[ICRA]AA(S) (Stable)		[ICRA]AA(S) (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE657W04017	Non-Convertible Redeemable Preference Shares	Mar-17	7.00%	Jun-18	208.57	[ICRA]AA(S) (Stable)

Source: 3D PLM Software Solutions Limited

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