

July 20, 2022

## Qualiance International Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short -term – Fund based Limits	12.00	12.00	[ICRA]A4 reaffirmed
<b>Total</b>	<b>12.00</b>	<b>12.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in Qualiance International Private Limited's (QIPL) relatively smaller scale of operation, which limits economies of scale, high client concentration risk with more than 40% of sales made to various agencies of the Government of Switzerland and limited pricing flexibility due to competition from other low-cost countries. The rating also remains constrained by the company's stretched capital structure, modest coverage indicators and high working capital intensity of operations. However, a significant proportion (~54%) of the total debt comprises unsecured loans from related parties, which provides some comfort to the rating. ICRA also notes the high working capital intensity of operations due to the lead time in manufacturing and its considerable dependency on imports of raw materials, leading to increased inventory holding. Further, the company needs to comply with the quality and environmental standards – as stipulated by the Government of Switzerland – to secure orders from various agencies of the Swiss Government. Also, the risk of tender renewal exists as most of the revenue is generated through the tender-bidding process.

The rating, however, continues to derive comfort from the promoters' vast experience in the textile industry as well as the long and established relationship with the procurement arm of the Government of Switzerland, which have low counterparty credit risk. The rating also factors in the addition of new customer, Coolibar Inc., which resulted in customer diversification to a certain extent.

### Key rating drivers and their description

#### Credit strengths

**Long experience of promoters in the textile business; strong customer-supplier linkage** – QIPL is promoted by Mr. Vipul Badani, who holds a diploma in knitting technology and is involved in the garment manufacturing business for almost three decades. Long experience of Mr. Badani has helped the company establish strong relationships with its customers, mainly the procurement arm of the Swiss Government as well as the suppliers.

**Low counterparty risk** – QIPL derives more than 40% of its revenues from various agencies of the Swiss Government, which indicates a low counterparty risk.

**Stable demand for uniform materials in Switzerland due to mandatory military service requirement** – The military conscription eligibility screening age for men is usually 18. As compulsory military service applies to all male Swiss citizens, with women serving voluntarily, there is a stable offtake of uniforms from various Swiss Government agencies, which are the key customers of the company.

## Credit challenges

**Small scale of operation, high client concentration risk** – QIPL is a small-sized company manufacturing woven and knitted garments with revenues in the range of Rs. 16-30 crore during the last five years. The existing scale of its operation constrains QIPL's ability to benefit from the economies of scale and weighs on its competitive position vis-à-vis the larger entities. The operating income (OI) of the company improved by ~84% to ~Rs. 30 crore in FY2021 from Rs. 16.75 crore in FY2020, primarily due to spillover of revenue by ~Rs. 6-7 crore to FY2021 from FY2020. The company's client concentration risk remains high, with the top five customers (agencies of the Switzerland Government and Coolibar Inc.) accounting for around 70% of its sales in FY2022.

**Stretched capital structure, however, funding of a major portion of long-term debt from related party provides some comfort** – The gearing level of the company has been high and has remained stable at around 6.57 times as on March 31, 2021, indicating a stretched capital structure. The Total Debt/ OPBDITA remained weak at 13.65 times in FY2021 (11.97 times in FY2020) on account of high debt levels. The interest coverage ratio has marginally deteriorated in FY2021 to 1.33 times (2.03 times in FY2020). However, the total debt of the company as on March 31, 2021 consisted of unsecured loans from promoters and their relatives of up to Rs. 14.28 crore (~54% of total debt), which provides some comfort.

**Risk of renewal of tenders, dependence on other countries for certain high-quality technical textile fabrics** – The company remains exposed to the risk of renewal of tenders, which the Switzerland Government floats every year, post the parliamentary approval of the Budget, indicating the requirement. QIPL's major competitors include local traders (based in Switzerland), which import materials from other low-cost countries like Taiwan and China.

**High working-capital intensive nature of business** – The raw materials are procured against confirmed orders from clients. However, the lead manufacturing time is elongated with a production cycle of 4-5 months. The working capital intensity of the company increased from ~70% in FY2021 to ~90% in FY2022 primarily due to a relatively high inventory level in March 2022.

**Margins susceptible to key raw material prices and forex fluctuations, accentuated by limited pass-on arrangements in contracts and any change in the export incentive structure** – The company has to be competitive in pricing to ensure that it qualifies for tenders, and is selected, which directly impacts the margins. The movement in forex rates and impending developments in international trade, like change in the export incentive structure, freight rates etc determine the competitiveness of apparel exporters like QIPL.

## Liquidity position: Stretched

QIPL has Covid loans in its books as on March 2021 and March 2022 amounting to Rs. 2.98 crore and Rs. 5.17 crore respectively, unsecured loan of Rs. 14.05 crore as on March 2022 which does not have any fixed repayment schedule. Profitability and coverage indicators of the company has remained fluctuating during the last five years. Also, the average utilisation of the fund based limits stands at ~80% during the last 12 months ended June 2022. The company has free cash of ~Rs 0.24 crore and unutilised FB limits of Rs. 3.55 crore indicating a stretched liquidity position.

## Rating Sensitivities

**Positive factors** – ICRA could upgrade the rating if QIPL's scale and profitability improve on a sustained basis along with improvement in working capital management primarily inventory management, as well as improvement in net worth position. Specific credit metrics that could lead to a rating upgrade include interest cover above 2 times.

**Negative factors** – Increase in working capital intensity leading to stress in liquidity profile and issues related to debt servicing will be the negative factors for the downward rating movement.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Indian Textile Industry - Apparels</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

## About the company

Qualiance International Private Limited (formerly known as Qualiance Exports), formed in 1994, is a producer of woven and knitted garments, which are mainly marketed to several Government procurement agencies in Switzerland and few brands in the United States. The company caters to a niche segment of customers (mainly various agencies in the Government of Switzerland) and adheres to very high level of standards in terms of delivery and quality of products. The company earlier existed as a partnership firm and was converted into a private limited company in 2008. Its manufacturing facility is located in Tirupur, Tamil Nadu.

## Key financial indicators (audited)

Qualiance International Private Limited	FY2020	FY2021
Operating income (Rs. crore)	16.8	30.9
PAT (Rs. crore)	0.3	0.3
OPBDIT/OI	12.3%	6.3%
PAT/OI	1.6%	1.0%
Total outside liabilities/Tangible net worth (times)	7.0	7.1
Total debt/OPBDIT (times)	12.0	13.7
Interest coverage (times)	2.0	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jul 20, 2022	Apr 08, 2021	-	Feb 10, 2020
1	FBP/FUBP/FCBP/FCBD/PC/PCFC/UFBP/PSDL, Fund based	Short term	12.0	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4

working capital limits							
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### Complexity level of the rated instruments

Instrument	Complexity Indicator
Short -term – Fund-based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	FBP/FUBP/FCBP/FCBD/PC/PCFC/UFBP/PSDL, fund-based working capital limits	-	-	-	12.00	[ICRA]A4

*Source: Company*

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis: NA**

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