

March 28, 2017

MFX Infotech Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	6.00	[ICRA] AA- (SO) (Stable) assigned
Proposed Fund Based Limits	4.00	Provisional [ICRA] AA- (SO) (Stable) assigned
Total	10.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long term rating of [ICRA]AA- (SO)¹ (pronounced as ICRA double A minus structured obligation)² to the Rs. 6.00 crore fund based facilities of MFX Infotech Private Limited (MFX / the company). The letter SO in parenthesis suffixed to the rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. “SO” ratings do not represent ICRA’s opinion on the general credit quality of the issuers concerned.

ICRA has also assigned the long term rating of Provisional [ICRA]AA- (SO) (pronounced as ICRA double A minus structured obligation) to the Rs. 4.00 crore proposed fund based facilities of MFX. The outlook on the long term rating is ‘Stable’. The rating assigned is provisional as of now (as denoted by the prefix “Provisional” before the rating symbol) and is subject to the fulfillment of all conditions under the structure and review of final documentation pertaining to the facility by ICRA, besides the executed documentation being in line with ICRA’s expectations.

Rationale

The rating is based on the strength of the corporate guarantee provided by Qess Corp Limited Limited (QCL / the guarantor, rated [ICRA]AA- (Stable) / A1+) towards the rated bank facilities of MFX. The rating addresses the servicing of the loan to happen as per the terms of the underlying guarantee arrangements and the rating assumes that the guarantee will be duly invoked in case there is a default in payment by the borrower.

Key rating drivers

Credit Strengths

- Corporate guarantee provided by QCL towards the rated bank facilities of MFX
- Strong parentage with 100% shares held by QCL which is engaged in offering end-to-end business solutions like recruitment, temporary staffing, skill development, integrated facility management and industrial asset management services to clients across sectors
- Strong market position of MFX US in the property & casualty insurance industry expected to support in scaling up of business of the company going forward

¹ The rated instrument does not involve a structured payment mechanism.

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

Credit Weakness

- Relatively small scale of operations limits scale benefits
- Expansion of capacities through setting up operations in a new office in Whitefield, Bangalore strained margins and cash flows of the company during FY2016
- High working capital intensity

Description of key rating drivers highlighted above:

With a turnover of Rs.34.7 crore during 9M FY2017, MFX is a relatively small-sized player in the software support services industry. ICRA has taken comfort from the corporate guarantee provided by QCL towards the rated facilities of MFX. QCL operates across various segments such as recruitment, temporary staffing, skill development, integrated facility management and industrial asset management and also has a strong promoter background with several years of experience in the aforementioned industries. The company also derives majority of its revenues from MFXchange US Inc. (MFX US) which has a very strong position in the US insurance market thereby supporting MFX's business prospects going forward.

While current scale of operations of the company remains quite small with services being offered only to two clients, company is expected to witness healthy revenue growth momentum over the next 2-3 years on back of steady increase in number of projects being outsourced by MFX US to MFX India. While the company currently has about 270 employees, it had expanded its capacities by setting up a new office in Whitefield, Bangalore during FY2016. On account of minimal capacity utilization of the aforementioned office space, the margins of the company were constrained during FY2016. However, same had revived during 9M FY2017 wherein operating margins of the company stood at 16.7%. This was primarily on back of increase in scale of operations and better utilizations of the aforementioned office property. Going forward, ICRA expects the margins of MFX to improve over the next 2-3 years supported by healthy revenue growth. The company's working capital intensity (WCI) was high at about 80.9% during FY2016 primarily on account of high credit period offered to MFX US. During 9M FY2017, the company's WCI improved wherein the debtor days reduced to 115 as against 261 during FY2016. Going forward, the company's working capital intensity is expected to gradually reduce with steady improvement in scale.

Analytical approach: For arriving at the ratings, ICRA has taken into account, inter alia, the explicit support provided by QCL to MFX in the form of a corporate guarantee.

Links to applicable Criteria

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the Company:

MFX Infotech Private Limited, incorporated on June 20, 2014, is a wholly owned subsidiary of Quesst Corp Limited. The company is currently engaged in rendering software support services to corporate customers in India and Egypt and derives most of its revenues (more than 90%) from MFXchange US Inc. (MFX US). As on FY2016, the company had around 266 employees.

MFXchange US Inc. (MFX US) is a specialist vertical system integrator for the insurance Industry providing end-to-end services leveraging strong capabilities in PaaS (Platform as a Service), IaaS (Infrastructure as a service), ADM (Application Development & Maintenance), BPO, Analytics and GRC (Governance, Risk and Compliance) services in an integrated services delivery model (iSDM). Headquartered in Morristown, New Jersey, MFX US has additional locations and data centers in Virginia, Texas, Toronto, Ireland, and multiple development centers under MFX in India under MFX.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	-	-	-
1	Fund based facilities	Long Term	6.00	[ICRA]AA- (SO) (Stable)	-	-	-
2	Proposed Fund based facilities	Short Term	4.00	Provisional [ICRA]AA- (SO) (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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based facilities	2015	-	-	6.00	[ICRA]AA- (SO) (Stable)
Proposed Fund based facilities	-	-	-	4.00	Provisional [ICRA]AA- (SO) (Stable)

Source: MFX Infotech Private Limited

Name and Contact Details of the Rating Analyst(s):

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com



About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500