

May 30, 2017

Qualiance International Private Limited

Summary of rated instruments

Instrument	Rated Amount (in crore)	Rating Action
Fund based – Packing Credit	12.00	[ICRA]A4; Reaffirmed
Non Fund based – Letter of Credit	3.00	[ICRA]A4; Reaffirmed
Total	15.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four)¹ on the Rs. 15.00-crore² bank facilities of Qualiance International Private Limited (QIPL or company).

Rationale

The re-affirmed rating continues to remain constrained by QIPL's small scale of operation which limits economies of scale; this coupled with high client concentration risk with almost 100% of sales being generated from various agencies of the Government of Switzerland and reduced pricing flexibility due to competition from other low-cost countries. The rating also factors in company's weak profitability at net levels and its stretched capital structure with gearing of 6.18 times as of March 2017. However, significant proportion (63%) of loan has been funded by related parties which provide some comfort. The rating remains constrained by the strictness in terms of adherence to quality and environmental standards coupled with risk of renewal of tenders given the fact that the company is dependent on other countries for the procurement of certain high quality technical textile fabrics.

The rating, however, continue to favourably factors in the vast experience of the promoters in the textile industry with long and established relationship with the procurement arm of Government of Switzerland, favourable payment terms and low counter party risk as its primary customer is the Government of Switzerland and the stable demand for military uniforms due to mandatory military service in Switzerland.

Going forward, the ability of the company to sustain orders from the Government of Switzerland would define its performance over the medium term. The company's ability to optimally utilize its installed capacity at its newly setup plant in Tirupur will be critical to ramp up its scale of operation while improving its return indicators and profitability levels alongwith judicious management of working capital will be critical and hence would remain the key rating sensitivities.

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

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- Long standing experience of promoters in the textile business; established relationship with the procurement arm of the Government of Switzerland;
- Stable demand for materials for uniforms in Switzerland due to mandatory military service requirement;
- Favourable payment terms and low risk of bad debts since counter party is the Swiss Government having strong credit standing;
- Presence in niche segment and its established relationship with the Swiss Government has enabled it to ward off competition

Credit weaknesses

- Small scale of operation;
- Stretched capital structure with gearing of 6.18 times as on March 2017 however significant proportion (63%) of loans have been funded by related party which provides some comfort;
- Weak profitability at net level owing to high borrowing and depreciation cost;
- Risk of renewal of tenders, dependence on other countries for certain high quality technical textile fabrics;
- Strict adherence to quality standards as well as need to import certain fibres and fabrics which are unavailable domestically;
- High client concentration risk with ~100% of sales being generated from various agencies in the Government of Switzerland

Description of key rating drivers:

The company deals in various high technology based fabrics which include Antimicrobial, Hydrophilic, Hydrophobic, Fire Retardant, High Visibility fabrics etc. The product profile comprise of various products such as Uniforms and Equipment for Military and Civil Services of Government of Switzerland, Functional Clothing, Protection Wear, Work wear, Underwear, Active Sportswear, Luxurious Cotton T-shirts and Polo Shirts, Outerwear Jackets (Also with Seam Sealing and Ultra Sonic Bonding). It also specializes in three layer sweat management clothing which is suitable for work wear in extreme weather conditions. About 90% of the materials are purchased within India while 10% of the materials which require niche fibers and accessories are imported from countries like Taiwan, Egypt and China. The company has an in-house quality assurance team at its manufacturing facility in order to ensure adherence to stipulated quality standards.

QIPL has completed the construction of the manufacturing facility in Tirupur which has a total area of ~40,000 sq.ft. spread on 4 floors. Construction of the new facility is compliant with all the international standards required by the company's clients. The factory will be certified for different quality standards once it completes six months of full-fledged operations. The company has installed around 120 new machines imported from middle-east and Japan and plans to commence full operations by June 2017. The total investment towards plot for the factory is Rs. 2.31 crore which was funded through unsecured loans from promoters. Further investment of ~Rs. 4.00 crore was done towards construction of factory and Rs. 2.50 crore towards machine. The entire funding for setting up the factory was done through unsecured loans from promoters which has an interest rate of 6% per annum. The existing factory at Tirupur will be used as a warehousing facility post the commencement of operations in this new factory and the old machines (80) will be disposed off.



In October 2016, the company has launched an in-house brand “SilverTraq”, which deals with casual and sports-wear products catering mainly to Indian market through online sales. The company has engaged into social media promotions and digital marketing in order to promote its own web platform where it sells its products. The brand products are also made available on ecommerce portals however major turnover is derived from its own website. Currently, the company is able to clock revenue of ~Rs. 9 lakh per month from sales of SilverTraq products, which is expected to grow to Rs. 30 lakh per month once the Tirupur factory is fully operational.

The company’s operating income has witnessed de-growth of 28% to Rs. 16.49 crore in FY2017 from Rs. 22.92 crore in FY2016. This is attributable to social campaigns organised in Switzerland, promoting the local government to only buy from actual manufacturers and eliminate subcontractors from the value chain. Since QIPL had the entire manufacturing operations subcontracted to another company (related party), QIPL lost most of its orders, resulting in decline in sales. The old clients had already raised this concern in the past, on account of which the company had started construction of the new factory at Tirupur which is expected to commission from June 2017.

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

Links to applicable criteria:

[Corporate Credit Rating – A Note on Methodology](#)

[Rating Methodology for Indian Textiles Industry-Apparels](#)

About the company:

Qualiance International Private Limited (formerly known as Qualiance Exports), formed in the year 1994, is a producer of Woven and Knitted garments, which are mainly marketed to several Government Procurement Agencies and various brands in Switzerland and a few other European Countries. The company caters to a niche segment of customers (mainly various agencies in the Government of Switzerland) and has to adhere to very high level of standards in terms of delivery. The company earlier existed as a partnership firm and was converted to a private limited company in 2008

In FY2017, as per the provisional figures, the company reported a net profit of Rs. 0.33 crore on an operating income of Rs. 16.49 crore, as compared to a net profit of Rs. 0.17 crore on an operating income of Rs. 22.92 crore in FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				May 2017	May 2016	Mar 2015	Jun 2014
1	Packing Credit	Short Term	12.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
2	Letter of Credit	Long Term	3.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

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

Instrument	Date of Sanction	Interest Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating
Packing Credit	-	10.60%	-	12.00	[ICRA]A4
Letter of Credit	-	-	-	3.00	[ICRA]A4

Source: Qualiance International Private Limited

Contact Details

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com**Suprio Banerjee**

+91 22 6114 3443

supriob@icraindia.com**Srinivas Menon**

+91 22 6169 3354

srinivas.menon@icraindia.com**Rahul Gogawat**

+91 22 6114 3453

rahul.gogawat@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

About ICRA Limited:

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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