

Q2Q Solutions Private Limited

June 27, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Proposed Limits	70.0	[ICRA]BB- (Stable); assigned
Total	70.0	

*Instrument details are provided in Annexure 1

Rating action

ICRA has assigned long-term rating of [ICRA]BB- (pronounced ICRA double B minus)¹ to the Rs. 70.0-crore² proposed bank facilities of Q2Q Solutions Private Limited (Q2Q). The outlook on the long-term rating is Stable.

Rationale

The assigned rating derives comfort from the extensive experience of the company's technical team in the high-precision component sector across various industries such as aerospace, automobile and defence, among others. It has been able to garner several leads even before commencement of operations and expects to receive confirmed purchase orders from renowned clients in the engineering sector. The rating also positively factors in the partial completion of the project, which provides capacity for part-execution of the expected orders to be received in FY2019. The rating also positively factors in the healthy net-worth position of the promoter and the strong financial support extended to the company in form of unsecured loans and equity.

The assigned rating, nevertheless, is constrained by the nascent stage of business and the company's limited operational track record in the precision-component segment. The rating factors in the limited orders-in-hand as on April 2018 resulting in limited revenue visibility in the near-term. Nonetheless, it has generated significant leads from renowned entities and is awaiting finalisation of sizeable orders. The rating also takes into account the susceptibility of Q2Q's operating profitability to several factors including capacity utilisation, contract pricing and labour cost, among others and the same is likely to impact the coverage indicators. Given the nascent stages of operations, with customer orders yet to gain momentum, lower-than-expected order execution and profitability may lead to reliance on promoter's fund infusion for servicing the proposed debt. The rating also takes into consideration the funding risk associated with the unexecuted portion of the project, as the financial closure is yet to be achieved for the same.

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

²100 lakh = 1 crore = 10 million

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Q2Q will benefit from the extensive experience of the technical team in the precision-component space and the financial support extended by the promoters. The outlook may be revised to Positive if the company achieves reasonable revenues and adequate cash flows by successfully materialising and executing sizeable orders from the customers. The outlook may be revised to Negative, if there are any delays in materialisation of orders and timely execution of the same, which deters the ability of the company to generate adequate cash flows to meet the debt obligations.

Key rating drivers

Credit strengths

Extensive experience of the technical team in the precision-component sector – The technical team of Q2Q has an extensive experience spanning more than a decade in the precision-component manufacturing industry. The Director of the company, Mr. James Ranjith Jeyakumar, has vast experience of over two decades across various segments such as engineering design services, precision-parts manufacturing and assembly in the aerospace sector. Due to the established contacts and the company's sophisticated facilities, Q2Q is awaiting orders from several reputed entities in the engineering sector such as Larsen & Toubro, Brakes India Private Limited, Bharat Heavy Electricals Limited, Airbus and Boeing among others.

Healthy net-worth position of the promoters and financial support extended by them – Mr. Chandresan, the Managing Director of Q2Q, has an extensive experience in the heavy mineral mining industry and has established several companies to undertake the exports of heavy minerals. The company is likely to benefit from the high net-worth position of Mr. Chandresan and the other promoters. The promoters have already extended strong financial support to Q2Q in the form of equity infusion (Rs. 4.0 crore as on March 31, 2018) and non-interest bearing unsecured loans (Rs. 43.6 crore as on March 31, 2018) and the same is likely to continue in the near term.

Credit challenges

Nascent stages of business and funding risk associated with further capacity enhancement – The project of setting up a precision-component manufacturing facility is being executed in four phases. The company, through promoter funding, has completed a major portion of phase 1 and at present the trial-run of machineries is under way. As the installed plant and machinery may not be adequate for execution of large orders, it is planning to add on to the existing capacity. With the term loan yet to be tied-up, Q2Q faces funding risk for further capacity enhancement. Nonetheless, the financial support from the promoter is likely to mitigate the funding risk to an extent.

Limited operational track record – With full-fledged commercial operations yet to commence, Q2Q has a limited track record of operations in the precision-components manufacturing sector. Nevertheless, the extensive experience of the technical team in the precision-machined components industry provides comfort to an extent.

Low order-book position – Q2Q started the execution of sample orders for customers only from February 2018. As on April 30, 2018, the company had confirmed orders of Rs. 0.63 crore providing limited revenue visibility in the near term. Nonetheless, it has sizeable orders in the finalisation stage and these orders once materialised are likely to aid in significant revenue growth.

Dependency on promoter support for future funding requirements – The company’s profitability in the near term will hinge upon the scale of operation, capacity utilisation and contract realisation. With the proposed facility of Rs. 60.0-crore term loans, adequacy of future cash flow for term loan repayment will hinge on achieving the desired scale of operations and profitability. Any adverse movement in profitability due to lower-than-anticipated realisations or any under-performance in achieving the anticipated operating income (OI) is likely to impact the debt protection metrics. In such cases, Q2Q may have to rely on promoter support for meeting the repayment obligations on the proposed bank facilities.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Q2Q Solutions Private Limited was incorporated in 2010 by Mr. Chandresan S., with an objective to set-up a precision-component manufacturing facility. The factory is located at Madras Export Processing Zone (MEPZ), Tambaram - Chennai and is spread over an area of 75,000 square feet. The precision-components to be manufactured by the company will cater to the aerospace industry and auto industry, among others. Apart from precision-machined components, the factory is also equipped for manufacturing sheet metal components and to undertake sub-assemblies of precision parts. The trial run started in February 2018 and the full-fledged commercial operation is yet to commence.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	0.2	0.0
PAT (Rs. crore)	0.0	(0.1)
OPBDIT/ OI (%)	1.1%	-
RoCE (%)	0.0%	-0.9%
Total Debt/ TNW (times)	2.0	6.7
Total Debt/ OPBDIT (times)	3000.0	(355.0)
Interest Coverage (times)	-	-
NWC/ OI (%)	-	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2015
				June 2018	-	-	-
Proposed facilities	Long term	70.0	-	[ICRA]BB-(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
NA	Long-term – Proposed facilities	-	-	-	70.0	[ICRA]BB- (Stable)

Source: Q2Q Solutions Private Limited

ANALYST CONTACTS

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Rathina Pradeep R
+91 80 4297 4307
rathina.r@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Vinodhini M
+91 44 4297 4313
vinodhini.m@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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