Qualiance International Private Limited

November 23, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - PC/ PCFC/ FBP/ FBD/ FCBP/ FCBD	12.00	12.00	[ICRA]A4; Reaffirmed
Non-fund Based - Inland Letter of Credit	3.00	(12.00) **	[ICRA]A4; Reaffirmed
Total	**15.00**	**12.00**	

**Instrument details are provided in Annexure-1*
*** Non-fund based limit is a sublimit of fund based facility*

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 12.00-crore[1] (reduced from Rs. 15.0 crore) fund-based and non-fund based facilities of Qualiance International Private Limited (QIPL)[2].

Rationale

The rating reaffirmation factors in QIPL's small scale of operation (which limits economies of scale), high client concentration risk (with more than 90% of sales from various agencies of the Government of Switzerland) and reduced pricing flexibility (due to competition from other low cost countries). The rating remains constrained by the company's stretched capital structure with a gearing of 6.9 times as on March 31, 2018 and high working capital intensity of operations, due to increased inventory holding. However, a significant proportion (49%) of the total debt comprises unsecured loans from related parties, which provide some comfort. The company needs to comply with the quality and environmental standards as stipulated by the Government of Switzerland to secure orders from its various agencies. Also, the risk of tender renewal exists, as the company is dependent on other countries for the procurement of certain high-quality technical textile fabrics.

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, favourable payment terms and low counterparty risk (as its primary customer is the Government of Switzerland).

Going forward, the company's performance would be dependent on its ability to sustain orders from the Government of Switzerland. Further, its ability to optimally utilise its installed capacity at its newly set up plant in Tirupur, Tamil Nadu, will be critical to ramp up its scale of operations. Also, improving its return indicators and profitability levels along with the judicious management of working capital would remain the key rating sensitivities.

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[1] *100 lakh = 1 crore = 10 million*

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

Key rating drivers

Credit strengths

Promoters' extensive experience in textile business - QIPL is promoted by Mr. Vipul Badani, who holds a diploma in Knitting Technology and is involved in the garment manufacturing business for the past 30 years. The long experience of Mr. Badani has helped the company establish strong relationships with its customers as well as suppliers.

Favourable payment terms and low counterparty credit risk - QIPL derives more than 90% of its revenues from the various agencies of the Switzerland Government, which have a strong credit standing. Hence, the counterparty payment risk remains low.

Credit challenges

Small scale of operations - QIPL is a modest-sized player in the highly fragmented and competitive textile industry. The company's operating income (OI) increased by 9% to Rs. 17.9 crore in FY2018 from Rs. 16.5 crore in FY2017, followed by the company's diversification of sales in the domestic market as well. Further, in FY2018, it commenced operations at its factory in Tirupur, which was earlier subcontracted to another company. Hence, it garnered higher margins in FY2018 against the earlier years.

Stretched capital structure - The company's total debt as on March 31, 2018 consisted of working capital borrowings of Rs. 10.7 crore and unsecured loan from promoters and their relatives of Rs. 10.9 crore (51% of the total debt). The unsecured loans were used by the company for the setting up of its factory at Tirupur. The increase in the company's gearing to 6.9 times as on March 31, 2018 from 6.5 times as on March 31, 2017 was mainly on account of increase in the working capital requirements as well as the unsecured loans infused by promoters to fund the construction activity at the Tirupur factory. Although the capital structure remains leveraged, ICRA notes that 49% of the total debt comprises unsecured loans from related parties.

Risk of tender renewal; strict adherence to quality standards - The company remains exposed to the risk of annual renewal of tenders, which the Switzerland Government floats every year, post parliamentary approval of budget indicating the requirement. QIPL's major competitors include local traders (based in Switzerland), who import materials from other low cost countries, like Taiwan and China. Further, it needs to strictly comply with the quality and environmental standards as stipulated by the Government of Switzerland to qualify as a supplier to its various agencies.

High client concentration risk - The company's client concentration risk remains high, with the top two customers (agencies of the Switzerland Government) accounting for more than 90% of the sales in the last few years. In FY2018, the company had diversified its sales in the domestic market as well, though the contribution remained low. The client concentration risk is partially mitigated by the established relationship of the promoter with the Swiss Government's procurement team.

High working capital intensity of business due to increased inventory holding - The company's inventory comprises yarns, fibres and different types of accessories. The raw materials are procured against confirmed orders from the clients. As on March 31, 2018, the inventory levels were high, which were earmarked against fixed orders worth Rs. 10.00 crore from Switzerland that are expected to be completed by the end of June 2019. The higher inventory led to the increase in its NWC/OI to 70% in FY2018 from 53% in FY2017.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Indian Textiles Industry – Apparels]

About the company

Qualiance International Private Limited (formerly Qualiance Exports), formed in 1994, produces woven and knitted garments, which are mainly marketed to several Government 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 a very high level of quality standards. The company earlier existed as a partnership firm and was converted to a private limited company in 2008.

Till FY2017, the entire manufacturing process was outsourced to a third party, while QIPL provided the technological know-how and other assistance in production. With the setting up of its own manufacturing facility at Tirupur in July 2017, the company manufactures garments at its own unit.

In FY2018, it reported a net profit of Rs. 0.7 crore on an OI of Rs. 17.9 crore, compared to a net profit of Rs. 0.2 crore on an OI of Rs. 16.5 crore in the previous year.

Key financial indicators

	FY2017 Audited	FY2018 Audited
Operating Income (Rs. crore)	16.5	17.9
PAT (Rs. crore)	0.2	0.7
OPBDIT/OI (%)	9.6%	14.0%
RoCE (%)	9.1%	9.7%
Total Debt/TNW (times)	6.5	6.9
Total Debt/OPBDIT (times)	9.9	8.6
Interest Coverage (times)	1.7	2.3

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) Nov 2018	Date & Rating Nov 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 May 2016	Date & Rating in FY2016 Mar 2015
1	PC/ PCFC/ FBP/ FBD/ FCBP/ FCBD	Short Term	12.00	-	**[ICRA]A4**	[ICRA]A4	[ICRA]A4	[ICRA]A4
2	Inland Letter of Credit	Short Term	-	-	**-**	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Inland Letter of Credit*	Short Term	(12.00)	-	**[ICRA]A4**	-	-	-

**sublimit of fund-based facility*

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	PC/ PCFC/ FBP/ FBD/ FCBP/ FCBD	-	-	-	12.00	[ICRA]A4
NA	Inland Letter of Credit*	-	-	-	(12.00)	[ICRA]A4

**sublimit of fund-based facility*

Source: Qualiance International Private Limited

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About ICRA Limited:

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