

May 24, 2019

Quadgen Wireless Solutions Private Limited: Ratings reaffirmed

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – CC	20.00	20.00	[ICRA]BBB- (SO) (Stable); reaffirmed
Short Term – Non-Fund Based	200.00	200.00	[ICRA]A3 (SO); reaffirmed
Short Term – Unallocated	280.00	280.00	Provisional [ICRA]A3 (SO); outstanding
Total	500.00	500.00	

Rationale

ICRA had, in January 2019, assigned a Provisional [ICRA]A3 (SO) [pronounced as Provisional ICRA A three Structured Obligation] rating to the Rs. 280.0 crore short-term unallocated limits of Quadgen Wireless Solutions Private Limited (QWSPL/ the company). QWSPL is yet to secure sanction from banks for the Rs. 280.0 crore unallocated limits. The above ratings remain provisional and would be converted into final upon execution of the necessary transaction documents being in line with ICRA's expectations. ICRA would keep it under review in line with its published methodologies/policies.

Outlook: Stable

The outlook may be revised with change in credit profile of Quadgen (both USA and India). ICRA believes Quadgen India will continue to benefit from its association with - Quadgen Wireless Solutions Inc (Quadgen USA) which has its presence across industries (such as telecommunication, education, sports and entertainment etc.). In addition, both parent and subsidiary company operate in the same industries, enabling Quadgen India to utilize and benefit from the rich experience of the management team of Quadgen USA. The outlook may be revised to 'Positive' if there is a significant improvement in financial risk profile supported by healthy growth in revenue and profitability of Quadgen (both USA and India). The outlook may be revised to 'Negative' if the cash accruals are lower than expected, or if there is a stretch in the working capital cycle, leading to deterioration in liquidity position of Quadgen (both USA and India).

Key Rating Drivers

Credit strengths

Corporate guarantee and undertaking from Quadgen USA towards the rated bank facilities of the company – The ratings derive comfort from the irrevocable and unconditional corporate guarantee from Quadgen USA and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date. Quadgen India is a 99.06% subsidiary of QuadGen Wireless Solutions Inc (Quadgen USA), which has its presence across industries. Strong operational, financial (in the form of interest free loan) and management support from Quadgen USA acts as a key differentiating factor for Quadgen India.

Strong order book lends revenue visibility - As on December 31, 2018 Quadgen India has a strong order book of Rs ~ 3,000 crore (to be executed over the next five to seven years). In addition to two smart city projects and BSNL Wi-Fi contracts secured by the Quadgen India in Q4 FY2018, the company has secured three fiber grid projects (worth ~Rs.

2,000 crore) on back of its abilities to execute orders in a timely and efficient manner. Growing market share (by way of securing new orders) in the areas of operation is expected to support the company's future growth.

Favourable long-term revenue growth prospects – Quadgen India has several opportunities under Wi-Fi, smart city and fiber grid projects. With strong technology, optimisation, integration and implementation expertise of the company, ICRA expects Quadgen India to generate healthy revenues going forward.

Reputed client profile of Quadgen India - The company has a highly reputed client base which lends support to its revenues. During H1 FY2019 Quadgen India has added 10 new customers to its portfolio. Some of the major customers of the company are Telecommunication Consultants India Limited, Power Grid Corporation of India, Larson and Turbo Limited, BSNL, Spid Info Media Private limited, etc. Quadgen India has established relationships with its clients and partners such as Honeywell, BSNL etc. which supports the company in participating in tenders and successfully securing the orders.

Credit challenges

Small scale of operations – Quadgen India's modest scale of operations restricts its operational and financial flexibility to an extent. For few of the smart city projects tenders Quadgen India was not shortlisted as an eligible bidder to participate in the tender due to turnover criteria. However, with new orders secured by the company, improvement in scale of operations is expected going forward.

Stretched working capital cycle – The operations are working capital intensive on account of high debtor days. During FY2018, debtor days stood at 117 days and creditor days stood at 123 days for FY2018. The company has a long receivable period linked to completion of milestones, resulting in high working capital cycle. The company procures its raw materials from its suppliers against letter of credit (LC). While most of the suppliers provide significant credit period to the company, (in accordance with the completion of project cycle) any delay in actual implementation of the project or collections could lead to a stretch in the company's liquidity position.

Quadgen India requires sizable non-fund-based facilities in the form of bank guarantees and letter of credit to participate in the tenders floated by Government of India and private enterprises for smart city, Wi-Fi and fiber grid projects. Ability of the company to secure increased non-fund-based facilities would be a key growth determinant.

Revenue deferment and time over-run risk associated with the business – As the company depends on Government of India and PSUs for finalisation and approval of tenders, revenues are susceptible to deferment despite the high build up in the order book. In addition, Quadgen India faces time over-run risk as witnessed in the past owing to delay in receipt of the work orders, procedural delays, delay in budget approval etc. For example, the company had secured two smart city projects in January 2018; however, the work orders were received only in the month of April 2018.

Large customers with significant bargaining power, restricts the pricing flexibility to an extent – The company's customers are large and reputed corporations with significant bargaining power, thereby impacting pricing flexibility to an extent.

High competitive intensity – Quadgen India faces intense competition from several industry majors impacting its pricing flexibility, in addition to the ability of the company to acquire new customers.

Liquidity Position:

Quadgen India's liquidity remained adequate with positive cash flow from operations during FY2018 and H1 FY2019. The company had a cash and liquid investments of Rs. 18.8 crore and undrawn lines of cash credit of Rs. 2.2 crore (out of sanctioned limits of Rs. 20.0 crore) as on September 30, 2018. The company also has sanctioned non-fund-based facilities of Rs. 200.00 crore, out of which Rs. 139.8 crore has been utilised (69.9% of the sanctioned limit) as on November 30, 2018. For the non-fund-based facilities availed by Quadgen India, Quadgen USA (holding company) has provided a standby letter of credit covering 23% of the total sanctioned amount of Rs. 200 crore

Quadgen India has no repayment obligation owing to the absence of term loans on its books barring repatriation of prior loans taken from the parent. Quadgen India has not outlined any major capital expenditure plans for the next two- three years. The company is expected to incur a normal maintenance capex of Rs. 8-10 crore per annum in the near term which is to be funded through internal accruals and liquid investments. Quadgen India business is expected to improve over the medium term with healthy order book position, limited or no repayment obligation and lower capex relatively to the healthy cash and liquid investments of the company.

However, Quadgen India requires substantial non-fund-based facilities in order to participate in the tenders for smart city, Wi-Fi and fiber grid projects. Ability of the company to secure increased non-fund-based facilities would be a key revenue driver. In addition, any elongation in receivables for the contracts carried out could stretch the working capital cycle, leading to deterioration in liquidity position of the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Policy on Assigning Provisional Ratings Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Quadgen Wireless Solution Inc. (USA) - holding company
Consolidation / Standalone	Rating is based on consolidated financial statements of the holding company.

About the company:

Quadgen Wireless Solutions Private limited (Quadgen India/ the company) is a private limited company incorporated in 2007. Quadgen India is 99.06% subsidiary of (QuadGen Wireless Solution Inc. USA). Quadgen India initially started as a back-end support to its holding company (Quadgen USA) and later diversified into Wi-Fi and smart city business. Quadgen India builds, owns, operates, maintains, sells and markets Wi-Fi services on carrier overlay partnership with BSNL. Quadgen India is also a maintenance service provider (MSP) partner to global Master System integrators (MSIs) for smart city and fiber grid projects. The company also offers system integration (SI) and MSP for Wi-Fi/data centre/ optical NW/ collaboration/ RAN optimization and cyber security domains.

About the holding company:

QuadGen Wireless Solution Inc. (Quadgen USA) is the holding company of Quadgen Wireless Solutions Private Limited. Quadgen USA started in the year 2007 and has its headquarters in King of Prussia, Pennsylvania USA. Quadgen USA partners with Tier 1 telecom carriers and OEMs to build high quality, reliable network service, from wired, wireless to broadband. The company provides network-agnostic and platform-agnostic services in the areas of radio network integration service, carrier Wi-Fi solutions, operation support management, RF (radio frequency) engineering services etc. Industries to which the company provides solutions are: telecommunication, utility companies, education, sports and entertainment venues etc.

Key financial indicators (audited)

Quadgen Wireless Solutions Private Limited – India Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	22.3	52.7
PAT (Rs. crore)	-8.2	-10.6
OPBDIT/OI (%)	-9.7%	3.1%
RoCE (%)	-31.1%	-27.1%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	-5.2	6.4
Interest coverage (times)	-32.3	5.0

Key financial indicators (audited)

Quadgen Wireless Solutions Inc. (USA) – Holding company	CY2016	CY2017
Operating Income (Rs. crore)	332.3	326.3
PAT (Rs. crore)	20.1	63.7
OPBDIT/OI (%)	34.0%	35.5%
RoCE (%)	35.8%	62.6%
Total Debt/TNW (times)	0.1	0.0
Total Debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	99.0	449.1

Status of non-cooperation with previous CRA:

CRISIL, vide its rationale published in February 22, 2018 has stated that Quadgen Wireless Solutions Private Limited rating was due for annual review; however, the rating was not reviewed as the company did not provide the required information for carrying out the review exercise.

Any other information: None

Rating history for last three years:

Current Rating (FY2020)						Chronology of Rating History for the Past 3 Years		
						Date & Rating in FY2019	Date & Rating in FY2019	Date & Rating in FY2019
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Jan 2019	July 2018	May 2018	
1 Fund based facilities	Long Term	20.00	20.00	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)	Provisional [ICRA]BBB-(SO) (Stable)	
2 Non-fund-based facilities	Short Term	200.00	200.00	[ICRA]A3 (SO)	[ICRA]A3 (SO)	[ICRA]A3 (SO)	Provisional [ICRA]A3 (SO)	
3 Unallocated	Short Term	280.00	-	Provisional [ICRA]A3 (SO)	Provisional [ICRA]A3 (SO)	-	-	

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 - Fund based facilities	May 2018	10.5%	-	20.00	[ICRA]BBB- (SO) (Stable)
NA	Short Term - Non-fund-based facilities	May 2018 / Nov 2018	-	-	220.00	[ICRA]A3 (SO)
NA	Short Term - Unallocated	-	-	-	280.00	Provisional [ICRA]A3 (SO)

Source: Quadgen

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Quadgen Networks Private Limited	100.00%	Full Consolidation
Quadgen Engineering Solutions Private Limited	100.00%	Full Consolidation
Quadgen Wireless Solutions Inc. (USA)	-	Full Consolidation

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