

October 14, 2019

Quadgen Wireless Solutions Private Limited: Update on Material Event; ratings placed under watch with 'Negative' implications

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- (CE) @; rating reaffirmed and placed on watch with negative implications
Short Term - Non-fund Based	200.00	200.00	[ICRA]A3 (CE) @; rating reaffirmed and placed on watch with negative implications
Short Term - Unallocated	280.00	280.00	Provisional [ICRA]A3 (CE) @; rating reaffirmed and placed on watch with negative implications
Total	500.00	500.00	

Note: @ - rating placed on watch with negative implications

Rating without explicit credit enhancement **[ICRA]BB+ /[ICRA]A4+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix.. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Material Event

Following meetings with one of the investors of Quadgen Wireless Solutions Limited (Quadgen India) on September 24, 2019, ICRA was made aware of the fact that Quadgen Wireless Solution Inc. USA (the holding entity of Quadgen India, henceforth referred to as Quadgen USA) is being sold to a strategic investor and the corporate guarantee provided by Quadgen USA to Quadgen India is under discussion stage.

Impact of the Material Event

Prior to the proposed change of shareholding at the parent level, Quadgen India's ratings derived comfort from an irrevocable and unconditional corporate guarantee and an undertaking provided by the parent Quadgen USA that it would ensure that the related debt obligations are serviced on or prior to the due date. Quadgen India was a 99.06% subsidiary of Quadgen USA, and the ratings drew comfort from the strong operational and financial support (in the form of interest-free loan) from Quadgen USA. For the non-fund-based facilities availed by Quadgen India, Quadgen USA had provided a standby letter of credit covering 23% of the total sanctioned amount of Rs. 200 crore.

The ratings assumed continued benefit from Quadgen India's association with Quadgen USA which was present across industries (such as telecommunication, education, sports and entertainment etc.). In addition, both parent and subsidiary company operated in the same industry, enabling Quadgen India to utilize and benefit from Quadgen USA. With Quadgen

USA being sold to a strategic investor, future benefit of association and corporate guarantee provided by Quadgen USA to Quadgen India is still under discussion.

Rationale

The proposed change in shareholding of Quadgen USA is expected to impact Quadgen India's business and financial risk profile. ICRA is in discussion with the management to fully understand the impact of the transaction on the business operations and future plans of the company. Based on the aforementioned development, ICRA has placed the ratings on watch with negative implications. ICRA will continue to monitor developments with respect to the proposed change in shareholding of Quadgen India, quality of credit profile of the buyer, quantum and timely support expected to be provided by the buyer to Quadgen India and then take appropriate rating action.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers and their description

Credit strengths

Strong order book lends revenue visibility - As on March 31, 2019 Quadgen India posted a strong order book of Rs ~ 2,500 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 Quadgen India in Q4 FY2018, the company had 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.

The company has a diversified customer profile comprising of companies like Honeywell Inc. Cisco, Telecommunication Consultants India Limited, Power Grid Corporation of India, Larson and Turbo Limited, Info Media Private limited, etc. Quadgen India has established relationships with its clients and partners such as Honeywell, Cisco, etc. which supports the company in participating in tenders and successfully securing the orders.

Nevertheless, as the company depends on Government of India and PSUs for finalization and approval of tenders for sizable amount of business, 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, delays in budget approval etc.

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

Credit challenges

Moderate scale of operations – Quadgen India's modest scale of operations restricts its operational and financial flexibility to an extent. Quadgen India was not shortlisted as an eligible bidder to participate in some smart city tenders due to minimum turnover criteria which it could not meet. However, with new orders secured by the company, scale of operations is expected to improve going forward.

Highly 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. The company's ability to successfully win contracts amidst competitive pressure remains critical to boosting revenue growth.

High requirement of non-fund-based facilities and stretched working capital cycle – The operations are working capital-intensive on account of very long receivable periods. As on March 31, 2019, debtor days stood at 274 days and creditor days stood at 228 days. The company has a long receivable period linked to completion of milestones, resulting in an elongated 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 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, going forward.

Liquidity position: Adequate

Quadgen India's liquidity remained adequate with positive fund flow from operations during FY2019 (prov.) on account of healthy business growth and new orders secured. The company had a cash and liquid investments of Rs. 16.5 crore and undrawn lines of cash credit of Rs. 7.8 crore (out of sanctioned limits of Rs. 20.0 crore) as on March 31, 2019. The company also has sanctioned non-fund-based facilities of Rs. 200.00 crore, out of which Rs. 173.7 crore has been utilised (86.9% of the sanctioned limit) as on March 31, 2019. The operations are working capital-intensive on account of relatively longer receivable periods which are generally linked to the completion of project milestones. Quadgen India has no repayment obligation owing to the absence of term loans on its books.

Rating sensitivities

Positive triggers – Quadgen India's ratings could be upgraded if there is significant improvement in financial risk profile supported by healthy growth in revenue and profitability. Form and extent of support from the proposed buyer and the credit profile of the buyer will have a bearing on the rating.

Negative triggers – Negative pressure on ratings could arise in the absence of continued and explicit support from the buyer. Ratings would also factor in the credit profile of the buyer and any sharp weakening of Quadgen India's financial performance.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third party explicit support
Parent/Group Support	The rating is based on an unconditional, irrevocable corporate guarantee extended by Quadgen Wireless Solution Inc. USA (Holding company)
Consolidation/Standalone	Rating is based on consolidated financial statements of the holding company and on corporate guarantee and undertaking provided by the guarantor, that it would ensure that the related debt obligations are serviced on or prior to the due date.

About the company

Quadgen Wireless Solutions Private limited (Quadgen India/ the company) is a private limited company incorporated in 2007. 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.

Quadgen Wireless Solution Inc. (Quadgen USA)

Quadgen Wireless Solution Inc. USA is the holding company of Quadgen Wireless Solutions Private Limited. The King of Prussia, Pennsylvania, US-based company came into existence in 2007 and partners Tier 1 telecom carriers and OEMs to build high quality, reliable network services ranging from wired and wireless to broadband. The company provides network-agnostic and platform-agnostic services in the areas of radio network integration service, carrier Wi-Fi solutions, operations support management, radio frequency (RF) engineering services, etc. It provides solutions to industries like telecommunication, utility companies, education, sports and entertainment venues, etc

Key financial indicators (Quadgen Wireless Solutions Private Limited - India)

Standalone	FY2018	FY2019 Prov.
Operating Income (Rs. crore)	52.7	227.1
PAT (Rs. crore)	-10.0	25.1
OPBDIT/OI (%)	2.8%	20.1%
RoCE (%)	-27.6%	40.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.2
Total Debt/OPBDIT (times)	7.2	1.0
Interest Coverage (times)	4.5	8.0
DSCR	0.1	2.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2019
					Oct 11, 2019	May 24, 2019	Jan 21, 2019	July 06, 2018
1	Fund based facilities	Long Term	20.00	20.00	[ICRA]BBB-(CE) @	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB-(SO) (Stable)
2	Non-fund-based facilities	Short Term	200.00	200.00	[ICRA]A3 (CE) @	[ICRA]A3 (SO)	[ICRA]A3 (SO)	[ICRA]A3 (SO)
3	Unallocated	Short Term	280.00	-	Provisional [ICRA]A3 (CE) @	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	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- (CE) @
NA	Short Term - Non-fund-based facilities	May 2018 / Nov 2018	-	-	220.00	[ICRA]A3 (CE) @
NA	Short Term - Unallocated	-	-	-	280.00	Provisional [ICRA]A3 (CE) @

Source: Company;

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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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