April 03, 2020

MFX Infotech Private Limited: Rating Re-affirmed

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based/ CC	6.00	[ICRA]AA(CE) (Stable); re-affirmed
Total	**6.00**	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	**[ICRA]BBB**

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

Rationale

ICRA has re-affirmed its long-term rating of [ICRA]AA(CE) (pronounced ICRA double A credit enhancement) to the Rs. 6.0 crore bank loan facilities of MFX Infotech Private Limited (MFX/ the company), based on the revised methodology of 'Approach for rating debt instruments backed by third-party explicit support'

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by Quess Corp Limited (QCL) in favour of the said instrument. The guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instrument, taking cognisance of the above, ICRA has assigned a rating of **[ICRA]AA (CE)/Stable** to the said instrument against the unsupported rating of [ICRA]BBB. If the rating of the guarantor, QCL, were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well. The rating of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- The Guarantor irrevocably, absolutely and unconditionally guarantees, upon demand, forthwith pay to the Lenders without demur, all amounts due to the Lender under the Facility. Due amount includes principal of the loan, interest, additional interest, liquidated damages, costs, charges, fees and other monies due under the Facility.
- Guarantee shall not be affected by any variations, alterations, waiver of any terms of the loan or security
- Rights under the guarantee shall remain in full force and effect and would be binding on the Guarantor
- The Guarantee shall be a continuing one and remains valid and binding on the Guarantors for the period until all monies due to the Lenders are repaid in full

Key rating drivers

Credit strengths

Corporate guarantee and undertaking provided by QCL towards the rated bank facilities of the company: The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by QCL and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date.

Credit challenges

Relatively small scale of operations: The company's revenue remained at 46.4 crore during 9MFY20 and the same is expected to remain modest over the medium term. The relatively small scale of operations exposes the company to risks of not being able to withstand significant market disruptions.

Negative OPIBIDTA margins in 9MFY020 due to shift in the company's product mix - Prior to FY2020 the company used to derive around 90% of its revenue from the U.S. (primarily through MFX U.S) and remaining 10% from the domestic market. However, the change in demand conditions in U.S. in FY2020 led to an overall change in the company's product mix. With sizeable revenues being derived from the domestic markets with lower operating margins as against the U.S. market, the company's operating margins fell to -11.6% in 9M FY2020 from 2.0% in FY2019.

Working capital intensity continue to remain stretched due to delay in payments for its customers- The working capital intensity remained high primarily on account of high debtor days due to extended credit period given to its customers. The debtor days as on December 31, 2019 remained at 112 days and the same is expected to remain around 120 days going forward.

Liquidity position of the guarantor-Strong

On an average, the company utilized ~78% of its sanctioned working capital limits as on every month end during the 12-month period ending January 31, 2019. However, the company's peak utilization of its working capital limits is expected to be ~85% of its sanctioned limits given that the salaries are paid out during various dates of the month.

In terms of debt repayment, after the Rs. 75 crore repayment of NCD during FY2020, the company would have to repay another NCD of ~Rs. 75 crore during FY2022. in addition to this, the company also has minimal debt repayments in the range of Rs. 30-50 crore every fiscal over the next three fiscals. This is comfortable compared to the expected cash accruals of the company. Further, ICRA also notes that the company's liquidity profile continues to remain strong on the back of cash balances of Rs. 517 crore as on December 31, 2019.

Rating Sensitivity

Positive Triggers

- The rating would remain sensitive to any movement in the rating or outlook of the guarantor, QCL

Negative Triggers

- The rating would remain sensitive to any movement in the rating or outlook of the guarantor, QCL. Further negative pressure on the rating could arise in case of any significant deterioration in the operations of the company

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	Parent/Group Company: Quess Corp Limited (rated [ICRA]AA (Stable)/[ICRA]A1+ The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by QCL
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of MFX. The rating is based on the strength of the corporate guarantee provided by QCL for the borrowings of MFX

About the company

MFX Infotech Private Limited was incorporated on June 20, 2014. The company is currently a wholly owned subsidiary of Quess Corp Limited ("Holding/parent company"). The company is currently engaged in rendering software support services to corporate customers in U.S, India and Egypt and derives most of its revenues from MFX US in the U.S.

About the guarantor

Quess Corp Limited (QCL) is engaged in offering end-to-end business solutions like general staffing, professional staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate clients operating across sectors. By dealing with QCL, clients have the flexibility to maintain a large employee base all-round the year thereby allowing them to save on unwanted manpower costs during off-season and outsource their non-core activities. During February 2018, the company acquired 100% stake in Monster Worldwide's India, Singapore, Hong Kong and Malaysia entities during FY2018. These entities have operations across India, Singapore, Malaysia, Philippines, Hong Kong, Vietnam, Thailand, Indonesia, UAE and Kingdom of Saudi Arabia and currently operates the same under the internet business segment. Subsequently, the company currently operates under three major segments – Workforce Management, Global Technology Solutions and Operating Asset Management.

QCL was incorporated in October 2007 in Bangalore and is promoted by Mr. Ajit Isaac. The company received initial round of private equity funding during February 2008 wherein India Equity Partners (IEP) acquired a stake in QCL for an investment of Rs.21.3 crore. During May 2013, Thomas Cook (India) Limited (TCIL), India's largest integrated travel company, acquired a 74.85% stake in QCL for a consideration of Rs.256 crore during February 2013. IEP had also exited QCL by selling its shares to TCIL as a part of this deal. During FY2020, QCL was demerged from TCIL resulting on Fairfax currently holding ~32.29% in QCL.

QCL has acquired companies engaged in a variety of businesses over the last few years and currently operates various joint ventures and subsidiaries. On a consolidated basis, the company currently has over ~3,85,000+ associate employees under payrolls providing services to ~2,650+ clients across 644 cities across the world. QCL provides services to clients operating across domains such as Retail, Information technology (IT), IT enabled services (ITeS), Consumer Durables, Telecom, Pharmaceuticals, Entertainment, FMCG etc. QCL, head quartered in Bangalore, operates through 65 offices located in various parts of the world.

MFX's Key financial indicators (Audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	51.3	50.1
PAT (Rs. crore)	2.8	0.4
OPBDIT/OI (%)	11.2%	2.0%
RoCE (%)	22.6%	6.7%
Total Debt/TNW (times)	2.0	1.9
Total Debt/OPBDIT (times)	2.9	16.9
Interest coverage (times)	6.4	0.8

Source: Company

Guarantor QCL's key financial indicators (Audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	6,167.3	8,527.0
PAT (Rs. crore)	309.8	256.5
OPBDITA/ OI (%)	5.9%	5.7%
RoCE (%)	12.2%	11.7%
Total Debt/ TNW (times)	0.4	0.3
Total Debt/ OPBDITA (times)	2.8	1.6
Interest coverage (times)	4.7	4.2

Source: the company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

			Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years					
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	03-Apr-20	Date & Rating in FY2019 05-Apr 2019	04-Mar 2019	02-Apr 2018	Date & Rating in FY2018 28-Jul 2017	Date & Rating in FY2017	Date & Rating in FY2016 05-Apr 2019
1	Fund based/ CC	Long - term	6.0	-	[ICRA]AA (CE) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA] AA- (SO) (Positive)	[ICRA]A A- (SO) (Stable)	[ICRA]A A- (SO) (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	Fund based/ CC	NA	NA	NA	6.0	[ICRA]AA (CE) (Stable)

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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