

Press Release

Quadsel Systems Private Limited

December 14, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.77 Cr.
Long Term Rating	ACUITE B-/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 9.77 Crore bank facilities of Quadsel Systems Private Limited (QSPL). The outlook is '**Stable**'.

Quadsel Systems Private Limited (QSPL) is a Chennai (Tamilnadu) based company which was incorporated in the year 1995 by Mr. Girish Madhavan. QSPL is engaged in the business of IT Infrastructure services, managed IT Services and Annual Maintenance Contracts (AMC) and other provides IT-related system integration solutions. Further, it is acting as a commission agent for selling computers and hardware software development.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of QSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The company is closely-held by Mr. Girish Madhavan and his family. Over the two decade-long experience of the promoters in IT industry and healthy relationships with suppliers and customers helped to build repeated business. Acuité believes that the promoters' extensive industry experience will continue to aid QSPL's business risk profile over the medium term.

Weaknesses

- **Below-average financial risk profile**

QSPL's financial risk profile is below-average, marked by high gearing and total outside liabilities to tangible networth (TOL/TNW) and weak debt protection metrics. Its gearing and TOL/TNW are high at 5.97 times and 7.20 times as on March 31, 2020 (provisional) vis-à-vis 5.65 times and 7.70 times as on March 31, 2019. The company has a low net-worth base of Rs. 2.41 Cr as on March 31, 2020 (provisional) as against Rs. 2.34 Cr. Its debt protection metrics are weak; interest coverage ratio and net cash accruals to total debt are weak at 1.21 times and 0.02 times in FY2020 (Provisional) vis-à-vis 1.26 times and 0.03 times as on March 31, 2019. QSPL has poor liquidity marked by fully utilised bank limits of around 99-100 percent during last 6 months ending October, 2020. The QSPL's cash accruals are expected at around Rs.0.15 Cr to Rs.0.50 Cr against repayment obligations about Rs.0.25 Cr to 0.60 Cr during the same period. The accruals are estimated to be tightly matched vis-a-vis its repayment obligations.

- **Working capital-intensive operations**

The company's GCAs have remained high at 367 days as on March 31, 2020 (provisional) as against 196 days as on March 31, 2019. It was primarily driven by stretched receivables and high inventory estimated at around 175 days and 183 days, respectively, as on March 31, 2020 (provisional) vis-à-vis 84 days and 115 days, respectively, as on March 31, 2019. Working capital requirement is partly covered by creditors estimated at around 188 days as on March 31, 2020 (Provisional) as against 126 days as on March 31, 2019). Its bank Limits are highly utilised at 99-100 percent over the past six months ended through October 2020. Acuité believes that QSPL's operations will remain highly working capital intensive over

the medium term.

Liquidity Position: Poor

QSPL has poor liquidity driven by high working capital requirements and cash accruals tightly matched against repayment obligations. QSPL had high GCA days during the last two years leading to fully drawn bank limits, thereby, providing no cushion in case of any exigencies. Bank limit utilisation is high at around 99-100% for the past six months ended October, 2020. QSPL has generated cash accruals of Rs.0.29 to 0.55 Cr during the last three years through FY2018-20, while its maturing debt obligations were at about Rs.0.15 Cr-0.60 during the same period; depicting low cushion between the NCA and repayment obligations. The QSPL's cash accruals are expected at around Rs.0.15 Cr to Rs.0.50 Cr during FY2021-FY2023 against repayment obligations about Rs.0.25 Cr to 0.60 Cr during the same period. The Current Ratio is at 1.31 times as on March 31, 2020 (provisional). Acuite believes that QSPL's liquidity will remain poor until any further enhancement in working capital limit/continuous promoter fund support comes in.

Rating Sensitivities

- Improvement in the scale of operation while improving profitability margins
- Improvement in working capital cycle or liquidity
- Continued pressure on the topline or margin

Any Material Covenants:

None

Outlook: Stable

Acuite believes that QSPL will maintain 'Stable' outlook in the medium term on account of a long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the Company registers higher than expected growth in its revenues and profitability and improves its capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case QSPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	9.16	17.53
PAT	Rs. Cr.	0.09	0.02
PAT Margin	(%)	0.95	0.14
Total Debt/Tangible Net Worth	Times	5.97	5.65
PBDIT/Interest	Times	1.21	1.26

Status of non-cooperation with previous CRA (if applicable)

QSPL has not cooperated with CARE Ratings, which has classified the company as non-cooperative through a release dated March 03, 2020. The reason provided by CARE Ratings is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE B- / Stable (Assigned)
Term loan-1	May 2020	Not Available	May 2029	1.74	ACUITE B- / Stable (Assigned)
Term loan-2	May 2020	Not Available	May 2029	0.74	ACUITE B- / Stable (Assigned)
Term loan-3 (CECL)	May 2020	Not Available	Oct 2022	0.66	ACUITE B- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.03	ACUITE B- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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