BONANZA RESEARCH – SME IPO

Bonanza

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Qualiance International Limited – SUBSCRIBE

Company Overview

Qualiance International Limited, incorporated in 2006 and operating since 1994 as a partnership firm, designs and manufactures technical performance garments at Tiruppur, Tamil Nadu. Products span military uniforms, tactical and all-weather outerwear, high-visibility workwear and activewear, sold almost entirely to European and North American government, institutional and brand buyers.

Investment Rationale

- **Technical Garments, Not Commodity Apparel**: The company builds seam-sealed, bonded, ultrasonically welded and laminated garments to customer specification, with lamination, laser cutting and reflective fusing in-house. Average realisation from the top three customers rose 25.81% to Rs. 1,854.78 per piece in FY26 on volume growth of only 5.15%, evidencing genuine mix and pricing power.
- **Sharp Financial Inflection:** Revenue compounded 43.7% over FY24-26 to Rs. 7,689 Lakh, EBITDA at 85.4% to Rs. 1,672 Lakh and PAT at 104.5% to Rs. 1,187 Lakh. EBITDA margin widened 868 bps in two years to 21.74% on employee cost and overhead leverage.
- **Best-in-Class Return Ratios:** FY26 RoNW of 47.98% sit far ahead of the two listed peers, at 4.63% and 10.67% RoNW. Debt-equity halved from 2.15x to 1.15x as retained earnings built and Rs. 539 Lakh of long-term borrowing was repaid.
- **Two-Decade Swiss Institutional Franchise:** Over 20 years of supplying the Swiss army, police, customs and railways gives an unusually sticky, specification-driven revenue base. Swiss government departments contributed 79.24% of FY26 product revenue and repeat orders lifted Swiss revenue 98.0% year on year.
- **Capacity Expansion is the Next Leg:** Utilisation reached 88% in FY26 against 78% earlier. The Rs. 3,914 Lakh Tiruppur project, of which Rs. 3,800 Lakh comes from the issue, adds base capacity of 10,80,000 pieces, 2.4x the present 4,50,000, with commercial operations targeted for March 2027.

Valuation

At the upper band of Rs. 127 the issue is priced at 14.39x post-issue FY26 diluted earnings against an industry average of 42.95x, on a FY26 RoNW of 47.98% and RoCE of 37.33% that comfortably exceed both listed peers. The issue-funded 2.4x capacity addition offers the next growth leg, while customer concentration and non-repeatable forex gains warrant caution. We therefore recommend investors **SUBSCRIBE** to the issue for medium term.

IPO Details	
Industry	Textiles & Apparel
Issue Open Date	04-Sep-26
Issue Close Date	08-Sep-26
Price Band	Rs. 120 – 127
Issue Size*	Rs. 4,511 Lakh
Issue Size (Shares)	35,52,000
Bid Lot	1,000 Shares
Listing Exchanges	NSE SME
Face Value	Rs. 10/-

*At highest price band

Issue Details	
Fresh Issue*	Rs. 4,511 Lakh
Issue Type	Fresh Capital
Lead Manager	Hem Securities
Registrar	MUFG Intime India
Issue structure	Market Maker: 5.07% QIB: 47.38% NII: 14.27% Retail: 33.28%
Allotment	09-Sep-26
Credit of Shares	10-Sep-26
Listing Date	11-Sep-26

Objective of Issue

Particular	Estimated Amt (in Lakh)
Capex	3,800
General Corporate Purposes	-

Shareholding Pattern

Shareholding (%)	Pre (%)	Post (%)
Promoter	86.49	63.66
Public & Others	13.51	36.34

Business Highlights

- **Product Portfolio:** Woven garments were 71.55% of FY26 product revenue and knitted 28.45%. The range covers 3-layer PTFE membrane jackets, Swiss-spec insulated outerwear, multi-terrain tactical coveralls, EN 20471 Class 3 high-visibility jackets, UPF 50+ sun-protective apparel and children's rainwear.
- **Geographic Revenue Split (FY26):** Switzerland 80.67%, USA 16.60%, UK 1.54%, India 1.18%. Exports were 98.82% of revenue from operations, against 93.87% in FY25 and 87.77% in FY24.
- **Customer Mix (FY26):** Swiss government departments accounted for 79.24% of product revenue, split between the Swiss Government 71.85%, customs 22.89%, railways 4.95% and municipal bodies 0.31%; non-government clients were 20.76%.
- **Manufacturing and Compliance:** A single Tiruppur unit of over 45,000 sq ft with installed capacity of 4,50,000 pieces per annum produced 3,94,044 pieces in FY26 at 88% utilisation. Certifications include ISO 9001, ISO 14001, ISO 45001, ISO 14064-1, SA 8000, GOTS and GRS, alongside Two Star Export House status. Payroll headcount was 255 as on 30 June 2026.

Financials

Profit & Loss Statement:

Particulars (in Lakh)	FY24	FY25	FY26	CAGR (FY24-26)
Revenue from Operations	3,722.94	5,307.24	7,689.11	44%
EBITDA	486.15	797.05	1,671.67	85%
EBITDA Margin	13.06%	15.02%	21.74%	-
PAT	283.93	489.85	1,186.90	104%
PAT Margin	7.63%	9.23%	15.44%	-

- Revenue more than doubled in two years, with FY26 growth of 44.88% driven by higher order volumes from existing customers and a 25.81% rise in realisation per piece.
- EBITDA margin expanded 672 bps in FY26 alone as employee cost fell to 22.49% of revenue from 26.00% and other expenses to 12.29% from 18.23%.
- Material cost moved the other way, rising to 43.29% of revenue from 40.42% once the change in inventories is netted off, so margin gains are an overhead leverage story rather than a sourcing one.
- Other income of Rs. 406.28 Lakh equals 25.3% of profit before tax and is 79.4% foreign exchange gain, which is not a repeatable operating item.

Balance Sheet:

Particulars	FY24	FY25	FY26	Particulars	FY24	FY25	FY26
Equity & Liabilities				**Assets**			
Net Worth	2,030.96	2,443.50	3,465.05	PPE	1,795.27	1,837.41	1,802.90
Long Term Debt	462.82	1,029.18	490.57	Inventories	1,487.24	2,953.59	2,413.56
Short Term Debt	1,453.90	1,941.83	2,359.06	Trade Rec.	363.44	206.78	1,599.21
Trade Payables	158.49	46.58	83.96	Cash	166.38	65.19	78.07

- Net worth grew 70.6% over two years entirely from retained profit with no fresh equity, though Rs. 991.40 Lakh of the FY26 figure is a revaluation reserve on land and buildings created in FY23 and FY24.
- Total borrowings were broadly flat at Rs. 2,849.63 Lakh as long-term debt was repaid and working capital limits drawn further, taking debt-equity to 1.15x from 2.15x.
- Trade receivables rose 7.7x to Rs. 1,599.21 Lakh, the largest single swing in the FY26 balance sheet and the main use of operating cash.
- Trade payables of Rs. 83.96 Lakh are negligible against purchases of Rs. 2,788.52 Lakh, reflecting import-led sourcing on near-cash terms.

Cash Flow:

Particulars	FY24	FY25	FY26
Operating Cash Flow	284.72	(445.08)	784.31
Investing Cash Flow	(43.68)	(438.45)	(261.23)
Financing Cash Flow	(159.63)	771.11	(498.97)
Net Cash Flow	81.40	(112.42)	24.11

- Operating cash flow turned positive at Rs. 784.31 Lakh in FY26 after an outflow in FY25, but is only 66% of reported PAT because of the receivable build.
- Cumulative operating cash of Rs. 623.95 Lakh over FY24-26 against cumulative PAT of Rs. 1,960.68 Lakh implies 32% cash conversion, the weakest part of the financial profile.
- Investing outflows are modest and include Rs. 154.44 Lakh of incremental loans to a director rather than productive capital expenditure.
- FY26 financing was an outflow as Rs. 538.61 Lakh of long-term borrowing was repaid alongside Rs. 377.59 Lakh of finance cost.

Key Ratios:

Particular	FY26
Return on Equity	61.56%
Return on Capital Employed	37.33%
Debt-Equity Ratio	1.15x
Current Ratio	1.64x
EPS (Rs.)	11.99
NAV (Rs.)	24.99

Working Capital Cycle:

Particulars	FY24	FY25	FY26
Inventory Days	138	153	129
Debtor Days	38	20	43
Creditor Days	41	10	9
Net Working Capital Cycle	**135**	**163**	**163**

Peer Comparison

Metrics	Qualiance International	Gokaldas Exports	S P Apparels
Revenue	7,689.11	3,98,763.81	1,57,863.70
EBITDA	1,671.67	35,635.62	21,145.70
PAT	1,186.90	10,013.18	10,094.50
EPS (Rs.)	11.99	13.11	40.09
RoNW	47.98%	4.63%	10.67%
NAV (Rs.)	24.99	294.95	376.36
P/E Ratio	10.59	60.03	25.87

Risk & Concerns

- **Customer Concentration:** The top customer was 56.93% and the top five 97.12% of FY26 revenue.
- **Single-Country Exposure:** Switzerland is 80.67% of FY26 revenue and Swiss government departments 79.24% of product revenue, so client and country risk overlap.
- **Earnings Quality:** Foreign exchange gains of Rs. 322.62 Lakh sit inside other income, about a fifth of profit before tax, and are not repeatable.
- **Book Value Overstated:** Rs. 991.40 Lakh, or 28.6% of reported shareholders' funds, is a revaluation reserve on land and buildings created in FY23 and FY24.
- **Working Capital Intensity:** A 163-day cash cycle funded by short-term debt, with trade receivables up 7.7x in FY26 to Rs. 1,599.21 Lakh.
- **Execution Risk:** No machinery orders have been placed and the new unit only reaches commercial operation in March 2027, so FY27 carries cost ahead of revenue.

Name	Designation
Sanket Roge	Research Analyst

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