Faze Three Limited

August 17, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term / Short Term Bank Facilities	87.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Revised from CARE BBB+; Stable / CARE A3+ (Triple B Plus ; Outlook: Stable / A Three Plus)
Total Bank Facilities	**87.00 (Rs. Eighty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to Faze Three Limited (FTL) factors in improvement in scale of operations despite weak Q1FY21 (growth in Revenue of 6.50% over FY20), PBILDT margins of 15.27% in FY21 (PY: 12.68%) resulting into better PAT for the company. CARE believes that the company will continue to benefit from the demand shifting from China to India for textile products from American and European markets, which have resulted into improved visibility of sales in the coming years. The ratings continues to derive strength from the company's experience in manufacturing home furnishing products, integrated nature of operations, diversified product mix/customer base , growth in operations, improvement in PBILDT margins in over the years, comfortable capital structure and debt protection metrics. The ratings are however constrained by long operating cycle, geographical concentration of revenue (USA and UK markets), ability to manage / pass on fluctuations in raw material prices & Foreign Exchange rates and continuity of Government policies on Export benefits.

Key rating sensitivities

Positive:

- PBILDT margin above 18.00% on consistent basis
- Increase in scale of operations above Rs. 600 crores on sustained basis.

Negative:

- Stretch in working capital cycle to 180 days
- Increase in overall gearing to 1.00x and above

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

FTL is promoted by Mr. Ajay Anand, Chairman & Managing Director in 1985. Promoter group includes Mr Sanjay Anand (Brother). They have over three decades of diverse knowledge and experience in Home and Technical textiles industry and international marketing of home interiors/furnishings fabrics and made ups and is having more than three decades of experience in the industry. Further, Mr Vishnu Ajay Anand has been involved in Operations and Management since 2017.

Comfortable capital structure and improvement in debt protection metrics

The overall gearing ratio increased from 0.45x in FY20 to 0.59x in FY21 on account of higher working capital borrowings, the company is utilizing the additional working capital borrowings in form of Overdraft against Fixed Deposits of Rs. 40 crores as on March 31, 2021. The overall gearing excluding the OD against FD is 0.36x for FY21. The company has only working capital borrowings (Packaging Credit in INR) as part of debt and does not have any long-term borrowing on books. PBIDLT interest coverage improved significantly to 8.77x in FY21 from 4.51x in FY20 due to improved PBILDT and lower interest cost. Lower utilization of bank facilities in FY21 has resulted in lower interest cost for FY21.

Growth in revenue with improvement in profitability margins; margins susceptible to export benefits

FTL witnessed 6.54% increase in Total Income from Rs. 306.26 crore in FY20 to Rs. 326.18 crores in FY21 despite weak Q1FY21 due to Covid. This can be mainly attributed to the higher realizations for the key products and growth in sales volumes in certain

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

product categories such as Bathmats, Bathrugs, Top of the Bed Products and other Accessories. The profitability margins witnessed an improvement with the PBILDT margin increasing from 12.68% in FY20 to 15.27% in FY21. This can mainly be attributed to the decline in fixed cost as percentage of total cost due to higher utilization of plant capacities and lower Material cost. The PAT margin also improved to 7.67% in FY21 from 6.30% in FY20 on account of increased PBILDT margins and lower interest cost. The improvement in company's profitability from the reported figured above is significantly dependent on continuation of various export incentives from government for the Textile sector and its ability to pass on price increase in the absence of incentives, if need be. The figures for FY 21 are without accounting for export incentives (MEIS/ ROSCTL) for Q4 of FY 21 and restricted eligibility of Rs. 2 Crore only for exports from Sep 21 to Dec 21.

Strong and concentrated Customer Base; albeit moderate geographical risk

The long-standing presence of the Company of over three decades in the textile industry has helped FTL to establish strong relationship with its customers. The aggregate sales generated from the top 10 clients amount to 62% of total sales (60.62% PY)- of which top 2 contribute almost 22.6% to the total sales (19.41% PY), which shows moderate and stable client concentration risk. Similarly, aggregate purchases from the top 10 suppliers amount to 42.3% of total purchases (45.85% PY). More than 85% of the company's revenue is from exports mainly to USA (54.26%), UK (26.48%) and balance to Canada, Australia, Spain, Austria etc, resulting in moderate geographical concentration risk.

Key Rating Weaknesses

Long working capital cycle however improving over the period of years

FTL has an elongated working capital cycle owing to the working capital intensive nature of operations as the operations are vertically integrated, given the specific skill and limitation of capacity involved in the value added home textiles including handloom operations of the company. Furthermore, most overseas retailers have been working on minimum credit period of 60 days going up to 120 days. The nature of operations and business model of the company is made to order business with strict delivery timelines for most business around 60-120 days keeps Inventory levels elevated. Due to the sustained efforts of the management, FTL's inventory period has come down to 87 days in FY21 as against 127 days in FY17. Furthermore, average collection period from customers has increased from 58 days in FY20 to 69 days in FY21 on account of higher sales done in the last 10 days of March 2021, however the same has improved in Q1FY22. The working capital of the company has remain elongated at 144 days as on March 31, 2021, however the company has improved the same from 172 days in FY17 over the years.

Susceptible to fluctuation in raw material prices and foreign exchange rates

The raw materials used by FTL are cotton, polyester yarn and latex. The cost of raw materials amounts to nearly 46.5% of TOI in FY21 (vis-à-vis 45.1% of TOI in FY20). The marginal increase in raw material cost is attributed to higher variable cost due to improved scale of operations resulting to lower fixed cost as percentage of total cost. However, the price of raw material depends on factors such as global demand-supply dynamics, area under cultivation, yield for the year, government regulation, pricing, global crude prices as polyester yarn being oil derivative, etc. Crude oil price movement depends on international factors such as output from OPEC, US-Iran sanctions, and global pricing factors. FTL's PBILDT margin remains susceptible to adverse movement in the raw material prices and its ability to pass on fluctuations in its pricing to the customers.

Exports usually contribute to approximately 90% of the total income of the company. It mostly exports to countries like USA, UK, Canada, Spain, Austria, Australia, Brazil etc and realizes 90% of its sales in USD. The company avails Packing Credit in rupee and book forwards for its USD receivables based on the policy followed by the company from time to time. As on March 31st 2021, foreign currency receivables that are unhedged amount to Rs. 56.94 crore (PY-Rs 29.52 cr). The company remains exposed to forex rates depending on its unhedged position.

Liquidity: Adequate

The company is expected to generate GCA of Rs. 45 crores in FY22 against which the company has long-term liability of Rs. 2.40 crores in FY22 in form of lease liability and vehicle loan. The Average Monthly net utilization of the fund based limits for past 12 months ended June 2021 was 51.66%. The average unutilized fund based limits stood at Rs. 42.06 crores. The company has Fixed Deposits of Rs. 45 crores as on July 31, 2021. The company has liquid MF investments of Rs. 5.00 crores. The company has unencumbered cash and bank balances of around Rs. 2 crores. The company has positive cash flow from operations in FY21; the net cash generated from operations was Rs. 8.94 crores. The company also has a satisfactory quick ratio of 1.16x as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Short Term Instruments]

About the Company
Faze Three Limited (FTL), promoted by Mr. Ajay Anand in 1985, is a manufacturer and exporter of home furnishing textile products mainly floor coverings i.e. bathmats, rugs and top of the bed i.e. blankets and throws along with cushions. Company has a diversified its product mix across categories in Home Textile segment. Founded in 1985 with operations out of Panipat, Haryana, FTL came out with a public issue during the year 1995, post which it expanded in Vapi and Silvassa and also set up its first plant for automotive textiles by entering into joint Venture (JV) with Aunde Achter & Ebels GmBh, German multinational group (Aunde), which was later hived off in CY2000 as an independent unit and renamed as Aunde Faze Three Autofab Limited (AFTAL). In August 2019, equity held by Aunde in AFTAL was acquired by Mr Ajay Anand and the company was renamed as Faze Three Autofab Limited. FTL has 6 manufacturing facilities at Panipat, Silvassa and Vapi. FTL exports its Home Textile products furnishings mainly to USA, UK, Germany, Mexico, Canada and other countries.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	306.26	326.18
PBILDT	38.84	49.81
PAT	19.28	25.01
Overall gearing (times)	0.45	0.59
Interest coverage (times)	4.51	8.77

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	82.13	CARE A-; Stable / CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	4.87	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	82.13	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A3+ (22-Jul-20)	1)CARE BBB+; Stable / CARE A3+ (24-Dec-19)	1)CARE BBB; Stable / CARE A3+ (04-Sep-18)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	4.87	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A3+ (22-Jul-20)	1)CARE BBB+; Stable / CARE A3+ (24-Dec-19)	1)CARE BBB; Stable / CARE A3+ (04-Sep-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (22-Jul-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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