

Faze Three Limited

August 7, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	165.00 (Enhanced from 155.00)	CARE A; Stable / CARE A1	Revised from CARE A-; Positive / CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the ratings assigned to the bank facilities of Faze Three Limited (FTL) factors in the improvement of its scale of operations during FY23 over FY22, healthy PBILDT (profit before interest, lease, depreciation and taxation) margin in FY23 along with ROCE margin for the company. Rating favourably factors in established track record with its customers suppliers and favourable geopolitical scenario with China plus one strategy adopted by its customers which is likely to improve revenue growth visibility in midterm. The rating also considers the resilient business model of the company whereby the entire production is order backed and each order is separately negotiated thereby giving the company the ability to appropriately price its products. Moreover the products are targeted at the mass market where the demand does not display significant volatility in response to economic cycles.

The ratings are, however, constrained by uncertainty with regards to the economic conditions in key export markets in the short to medium term, relatively long operating cycle, the geographical concentration of revenue (the US and the UK/European markets) and susceptibility to fluctuations in raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total debt/ PBILDT falling below 1.00x on a sustained basis.
- Increase in scale of operations above Rs. 750 crores on a sustained basis.

Negative factors

- Deterioration in the working capital cycle leading to increase in Total debt/ PBILDT above 2.00x.

Analytical approach: Consolidated

Till the last financial year there was no concrete plans for the domestic subsidiary's revenue growth. During the current year we had changed our approach to consolidated as going forward, increase in revenue from domestic subsidiary (i.e Mats and More Private Limited) is expected through sale of its product patio mats.

Sr. No.	Particulars	% of Share holding
1.	Faze Three US LLC	100%
2.	Mats And More Private Limited	100%

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that the company will continue to display a steady operating and financial risk profile over the medium term given the resilient business model. CARE Ratings estimates that the company will achieve the total revenues of around Rs. 600 crores while sustaining its PBILDT margins at close to FY23 levels. The company is expected to demonstrate further steady improvement in its capital structure given the conservative leverage policy of the management.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters: FTL is promoted by Ajay Anand, Chairman & Managing Director, since 1985. The promoter group includes Sanjay Anand (brother of Ajay Anand). They have over three decades of diverse knowledge and experience in the home and technical textiles industry and the international marketing of home interiors and furnishings fabrics and made-ups. Furthermore, Vishnu Ajay Anand has been involved in operations and management since 2017.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Robust leverage coverage indicators in FY23 likely to continue in FY24 : The company's capital structure remains comfortable. The overall gross gearing improved slightly from 0.75x as on March 31, 2022 to 0.63x as on March 31, 2023 on account of accretion in net worth. The company has cash and bank balance (including fixed deposits) of around Rs. 104 Crs as on March 31, 2023. The net gearing as on March 31, 2023 would be 0.25x. FTL has debt averse policy and currently company does not have any term debt on the books. FTL's interest coverage ratio remained robust in FY23 and the same stood at 12x during FY23 (FY22: 17x).

Growth in revenue, with healthy PBILDT margins: The total income increased by 10% in FY23 from Rs 507.73 cr in FY22 to Rs 558.18 cr in FY23. This can be mainly attributed to the addition of new item viz rug-runners, round bathrugs, which in aggregate contributed to approximately 7% of total sales during FY 23. Also its operating profitability margins has remained healthy at ~ 17% during FY22 and during FY23. The company's profitability is also significantly dependent on continuation of various export incentives from government. The export incentives of Rs 27.22 Crores earned by FTL for FY23 out of which around 75% i.e Rs 20.37 crores is realised as on March 31, 2023 (PY: Rs 27.23 Crs) mainly comprises of Focus Product Scheme rebate, duty drawbacks and rebate on state levies.

Key weaknesses

Albeit Improved; the working capital cycle continues to remain elongated: FTL has an elongated working capital cycle owing to the working capital-intensive nature of operations, including given the specific skill and limitation of capacity involved in the made-ups and made to order business requiring deliveries in one shipment. Furthermore, most overseas retailers have been working on minimum credit period of 60 days going up to 120 days in few cases. The company's business is made to order, therefore entire inventory across stages is for order delivery within 75-120 days. The average collection period from customers has remained fairly stable, around 60 days mark for the last three years. The working capital of the company has remained elongated, although shown improvement from 126 days in FY22 to 119 days in FY23.

Susceptibility to fluctuation in raw material prices: The raw materials used by FTL are cotton, polyester yarn, and latex. The cost of raw materials amounts to nearly 37% of the total operating income (TOI) in FY23 (vis-à-vis ~ 50% of the TOI in FY22). Polyester yarn and synthetics latex being crude oil derivatives, 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 movements in the prices of raw materials, given the limited bargaining power with its global clientele such as Walmart, COSTCO, Target etc. and competition from other suppliers. However CARE notes that the company has had a long associations with its clientele and is able to negotiate pricing to an extent in incremental orders based on the movement of its key raw material prices.

Liquidity: Strong

The company is expected to generate gross cash accruals (GCA) of ₹80 crore during FY24 (FY22 GCA stood at ₹74 crore). No long-term bank debt in their books as on March 31, 2023. The average monthly net utilisation of the fund-based limits for the last 12 months ended April 30, 2023, was ~ 37%. The company has liquid investments of around ₹38 crore as on July, 2023. Further it has a satisfactory quick ratio of 1.22x as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	<ol style="list-style-type: none"> FTL has inhouse effluent treatment plant at its factory located in Silvassa and Panipat for the treatment of waste water generated from its dyeing unit. Also the company has 1.70 MW and 1MW of solar plant installed at its factory located at Silvassa and Panipat respectively which meets ~ 30% of its power requirement and therefore helps reduce its overall carbon footprint.
Social	<ol style="list-style-type: none"> In order to promote women empowerment, FTL is further committed to increase its female workforce. As on date the company has ~ 25% female employee on company's payroll. As on July, 2023 total strength of its permanent employees stood ~ 3,100. FTL also strictly complies with (Prohibition And Prevention Of Sexual Harassment) POSH regulations. Faze Three Limited is also engaged in assisting the family members, relatives etc. of its employees for finding out employment opportunities in separate manufacturing units of the company in order to help increase income levels of its workers' families and build loyalty among the workforce at the same time.
Governance	<ol style="list-style-type: none"> Majority of the representation of board members constitutes of Independent Directors, including 2 foreign directors. The Board of directors have publicly announced their intent to consider buyback plan during the current financial year. FTL curates its employee compensation plan to include all possible options for the benefit of employees in long run.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manmade Yarn Manufacturing](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

FTL, promoted by Ajay Anand since 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. The company has a diversified product mix across categories in the 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 a joint Venture (JV) with a German multinational group, which was later hived off in FY2000 as an independent unit and renamed as Faze Three Autofab Limited (FTAL). FTL has six manufacturing facilities at Panipat, Silvassa, and Vapi. FTL exports its home textile products furnishings mainly to the US, the UK, Europe, and the rest of the world.

Brief Consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (A/UA)
TOI	507.73	558.18	N/A
PBILDT	86.58	94.35	N/A
PAT	48.43	58.30	N/A
Overall gearing (times)	0.75	0.63	N/A
Interest coverage (times)	17.35	12.03	N/A

Brief Standalone Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (A/UA)
TOI	508.28	547.92	N/A
PBILDT	87.67	92.67	N/A
PAT	51.07	57.44	N/A
Overall gearing (times)	0.74	0.63	N/A
Interest coverage (times)	11.34	12.37	N/A

A: Audited UA: Unaudited; Note: N/A: Not available 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	160.13	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	4.87	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	160.13	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (05-Sep-22)	1)CARE A-; Stable / CARE A2+ (17-Aug-21)	1)CARE BBB+; Stable / CARE A3+ (22-Jul-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	4.87	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (05-Sep-22)	1)CARE A-; Stable / CARE A2+ (17-Aug-21)	1)CARE BBB+; Stable / CARE A3+ (22-Jul-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (22-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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