

## Faze Three Limited

### September 04, 2018

#### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term/Short term Bank Facilities	82.00	<b>CARE BBB; Stable/ CARE A3+ (Triple B; Outlook:Stable/ A Three Plus)</b>	<b>Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook:Stable /A Three)</b>
<b>Total Facilities</b>	<b>82.00 (Eighty Two Crore Only)</b>		

#### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Faze Three Ltd. (FTL) factors in improvement in the financial risk profile of the company supported by stable revenue and operating profit along with addition of new clientele in FY18.

The ratings continue to derive strength from the company's experience in manufacturing home furnishing products, integrated nature of operations, diversified product mix/customer base and comfortable capital structure, debt protection metrics.

The ratings are however constrained by moderate profitability margins, working capital intensive nature of operations and susceptibility to fluctuations in raw material prices.

Efficient management of working capital requirements and growth in operations along with improvement in profitability margins remain the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

##### ***Experienced Management***

FTL is promoted by Mr Ajay Anand, Chairman & Managing Director. He has about 33 years of experience in home textiles and technical textiles. He is supported by Mr Sanjay Anand, whole time director of the company in overall operations since 1992 and based at Panipat. The company has an experienced senior management team in each of the functional areas who form part of the core management team.

##### ***Strong and Diversified Customer Base; albeit moderate concentration risk***

FTL is engaged in manufacturing a wide range of home textiles right from bathmats, throws, blankets, cushions, curtains, bed-sheets etc. catering to major international retailers. Presently FTL's top 10 customers contribute 69% to the total revenues, with none of the customers contributing more than 13% individually, resulting in moderate concentration risk. More than 90% of the company's revenue is from exports mainly to USA (56.6%), UK (28.9%) and balance to Canada, Australia, Japan, Korea etc, resulting in moderate geographical concentration risk.

##### ***Comfortable capital structure and debt protection metrics***

FTL's overall gearing stood at 0.64x as on March 31 2018 compared to 0.54x as on March 31 2017. The debt coverage indicators stood comfortable with PBILD interest coverage at 3.01x in FY18 which has moderately increased from 2.91x in FY17 and total debt to gross cash accruals (TDGCA) of 3.33x as on March 31 2018 compared to 1.52x as on March 31 2017.

##### ***Consistent revenue with moderate profitability margins:***

FTL is engaged in the manufacture of home textile products like bathmats, cushions, curtains, rugs, blankets, throws etc. It has 6 operational facilities altogether located at Silvassa, Panipat & Vapi.

In FY18, FTL reported total operating income of Rs.243.88 as against Rs.247.67 crore in FY17. The revenue has shown a decrease of 1.55% on account of slow market conditions post GST implementation. The company's revenue and margins remained almost stable over the last 2 years. The company managed to maintain its margins despite challenges faced in FY18 on account of GST implementation and INR appreciation during FY18. FTL's PBILD margins improved marginally at around 9.59% when compared to FY17 margins of 9.38%.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Further, in Q1FY19, the company reported revenue of Rs.60.94 crore and PAT of Rs.2.95 crore as against revenue of Rs.63.47 crore and PAT of Rs.1.65 crore in Q1FY18.

### **Key Rating Weaknesses**

#### ***Volatility in input prices***

The main raw material for the company is cotton and polyester yarn along with latex which accounts for around 45-50% of the cost of sales. Being a commodity in nature, prices of the yarn and cotton are highly volatile. In view of the volatility associated with the prices of cotton and yarn, FTL's PBILDT margin remains susceptible to adverse movement in the raw material prices and its ability to price its products accordingly.

#### ***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, given the specific skill and limitation of capacity involved in the handloom operations. However due to the sustained efforts of the management, FTL's inventory period has come down to 121 days in FY18 as against 127 days in FY17. The company maintains high inventory in order to meet the timelines of order delivery within 45-60 days. Furthermore, average collection period from customers has also reduced to 65 days in FY18 as against 78 days in FY17, resulting in improvement in FTL's cash conversion cycle. During FY18 the company relied more on cash purchases which resulted in decrease in creditor days in turn affecting the operating cycle.

The utilization of working capital limits for the past 12 months ending July 2018 is high at around 83%. However the said utilisation includes ~14% pertaining to fixed deposits placed with the bank in the interim period (April 2018- July 2018) to accommodate the forward booking while the renewal and enhancement of the limits was underway.

**Analytical Approach:** Standalone

#### **Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings  
 CARE's Policy on Default Recognition  
 Criteria for Short Term Instruments  
 Rating Methodology-Manufacturing Companies  
 Financial ratios – Non-Financial Sector

#### **About the Company**

Faze Three Limited (FTL), promoted by Mr. Ajay Anand in 1985, is an manufacturer and exporter of home textile products like bathmats, rugs and top of the bed products i.e. blankets and throws along with cushions. FTL commenced its operations in 1985 from panipat and subsequently went public in 1995 and listed on BSE. FTL has six manufacturing facilities at Panipat, Silvassa and Vapi. FTL exports its home furnishings mainly to USA, UK, Germany, Mexico, Canada and other countries. . During 1998, FTL entered into joint venture with Aunde Achter & Ebels, Germany (Aunde) to set up manufacturing unit for automotive fabrics. As per the joint venture agreement, the factory unit was demerged into a new company wherein Aunde was inducted as a partner. The resultant company on demerger was called Aunde Faze Three Autofab Limited and listed on BSE. The company was subsequently renamed in 2009 to Aunde India Limited.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	247.67	243.88
PBILDT	23.22	23.38
PAT	37.86	16.83
Overall gearing (times)	0.54	0.64
Interest coverage (times)	2.91	3.01

**Status of non-cooperation with previous CRA:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	-	77.13	CARE BBB; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	4.87	CARE BBB; Stable / CARE A3+

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	77.13	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable (03-Oct-17) 2)CARE BBB-; Stable (17-Jul-17)	1)CARE BB; Stable (15-Mar-17)	1)CARE C (18-Feb-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	4.87	CARE BBB; Stable / CARE A3+	-	1)CARE A3 (03-Oct-17) 2)CARE A3 (17-Jul-17)	1)CARE A4 (15-Mar-17)	1)CARE A4 (18-Feb-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (15-Mar-17)	1)CARE C (18-Feb-16)

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