

CARE/HO/RR/2018-19/1742

Mr. Ajay Anand
Director
Faze Three Limited
102 Shiv Smriti Chambers
49 A Dr. Annie Besant Road, Worli
Mumbai - 400018

September 07 2018

Dear Sir,

Credit rating of Bank Facility for Rs.82.00 crore

Please refer to our letter dated August 30 2018 on the above subject.

1. The rationale for the rating is attached as an Annexure-I.
2. We request you to peruse the annexed document(s) and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by September 20, 2018, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


Arunava Paul

Encl.: As above

Rating Rationale
Faze Three Limited

Ratings			
Facilities	Amount (Rs. crore)	Rating¹	Rating Action
Long term/Short term Bank Facilities	82.00	CARE BBB; Stable/ CARE A3+ (Triple B; Outlook:Stable/ A Three Plus)	Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook:Stable / A Three)
Total Facilities	82.00 (Eighty Two Crore Only)		

Details of instruments/facilities in Annexure-1

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

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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.

Particulars	FY16 (% of sales)	FY17 (% of sales)	FY18 (% of sales)
Top 10 Customers	59%	68%	69%

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 PBILDT 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 PBILDT margins improved marginally at around 9.59% when compared to FY17 margins of 9.38%.

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 PBILD 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.

Industry Outlook

Global Home Textile market is mainly driven by demand from USA which is the largest Home Textile player. Home linen is nearly 21% of total Home Textile industry (by volume). This demand is catered by countries like China, India, Pakistan, Vietnam, etc. The Indian export Home Textile market is dominated by few large players such as Welspun India, Indo Count, Himatsingka Siede, Trident, etc. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries like China, Pakistan, Vietnam, etc. The Indian textiles industry, currently estimated at around US\$ 120 billion, is expected to reach US\$ 230 billion by 2020. The Indian Textile Industry contributes approximately 4 per cent to India's Gross Domestic Product (GDP), and 14 per cent to the overall Index of Industrial Production (IIP). The Indian government has come up with a number of export promotion policies for the textiles sector. It has also allowed 100 per cent FDI in the Indian textiles sector under the automatic route. The long-term outlook for

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the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand.

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.

Financial Performance:

Particulars	(Rs. crore)		
	2016 (12m,A)	2017 (12m,A)	2018 (12m,A)
Working Results			
Income from Continuing Operations	242.24	247.67	243.88
PBILDT	29.18	23.22	23.38
Interest	13.98	7.99	7.77
Depreciation	14.25	6.96	6.69
PBT	1.53	27.27	15.54
PAT	1.53	37.86*	16.83
Gross Cash Accruals	15.78	34.23	22.23
Financial Position			
Equity Share capital	12.19	23.30	24.32

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Particulars	2016	2017	2018
	(12m,A)	(12m,A)	(12m,A)
Net Worth	-37.79	96.06	116.51
Key Ratios			
Growth			
Growth in Total Operating Income (%)	10.43	2.24	-1.53
Growth in PBILDT (%)	66.75	-20.43	0.69
Growth in APAT (%)	-135.47	2381.32	-55.55
Profitability (%)			
PBILDT / Total Op Income (%)	12.05	9.38	9.59
APAT / Total Op Income (%)	0.63	15.29	6.90
ROCE (%)	10.94	15.14	14.00
Solvency(times)			
Debt Equity Ratio (times)	-2.75	0.01	0.01
Overall Gearing (times)	-4.64	0.54	0.64
PBILDT Interest Coverage (times)	2.09	2.91	3.01
Total Debt/GCA (years)	11.10	1.52	3.33
Liquidity (times)			
Current ratio	0.67	1.49	1.56
Quick ratio	0.34	0.67	0.76
Avg. Collection Period (days)	91	78	65
Avg. Inventory (days)	148	127	121
Avg. Creditors (days)	47	33	24
Op. cycle (days)	193	172	161

A: Audited

*PAT includes Rs. 13.47 crore towards write back of excess provisioning of corporate guarantee towards PANA GmbH, provision for deferred tax asset of Rs.10.59 crore

Status of non-cooperation with previous CRA: None

Any other information: NA

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Arunava Paul

Tel: 022-6754 3667

Email: arunava.paul@careratings.com



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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: +91-22- 6754 3456 • Fax: +91-22- 022 6754 3457 • www.careratings.com • CIN-L67190MH1993PLC071691

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)

AKD

Annexure-3: Details of Rated Facilities

1. Long /Short term Facilities

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Crore)
1	YES Bank	Packing credit/CC/Working Capital Loan	82.00
	TOTAL		

Total short-term/long-term facilities: Rs 82.00 crore

(Signature)