

No. CARE/HO/RL/2019-20/3789

**Shri. Mr Ankit Madhwani**  
**Chief Financial Officer**  
**Faze Three Limited**  
Office No 63&64, C-Wing  
Mittal Court CHS  
Navi Mumbai,  
Maharashtra 400021

December 24, 2019

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY19 (Audited) and H1FY20 (Unaudited) our Rating Committee has reviewed the following ratings:

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

- Refer **Annexure 1** for details of rated facilities.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document 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

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

hear from you by December 24<sup>th</sup>, 2019, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

  
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Encl.: As above

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**Annexure 1**  
**Details of Rated Facilities**

**1. Long Term Facilities/Short Term Facilities**

Banker / lender	Type of facility	Amount (Rs. Crore)	Remarks
Yes Bank	Long term/Short term Bank Facility (EPC/Pre-Shipment Credit/CC)	82.00	
<b>Total</b>		<b>82.00</b>	

**Total Facilities = Rs.82.00 crore**

**Annexure 2**  
**Draft Press Release**  
**Faze Three Limited**

Facilities/Instruments*	Amount(Rs. Cr)	Ratings <sup>2</sup>	Rating Action
Long term/Short term Bank Facility	82.00	CARE BBB+; Stable/CARE A3+ (Triple B Plus, Outlook: Stable/A Three Plus)	Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)
<b>Total Facilities</b>	<b>82.00</b> <b>( Rs. Eighty Two crore only)</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the rating assigned to Faze three limited (FTL) factors in growth in operations and improvement in PBILDT margins in FY19 and H1FY20. The rating continues to derive strength from the company's experience in manufacturing home furnishing products, integrated nature of operations, diversified product mix/customer base , comfortable capital structure and debt protection metrics.

The ratings are however constrained by long operating cycle, geographical concentration of revenue (USA and UK markets), elongated credit to group companies and susceptibility to fluctuations in raw material prices and foreign exchange rates.

**Key Rating Sensitivities**

**Positive Factors**

- Ability to improve its profitability margins with PBILDT margin beyond 12.00% on consistent basis

**Negative Factors**

- Deterioration of debt coverage indicators with overall gearing ratio increasing to 2.00x (overall gearing ratio as on March 31<sup>st</sup>, 2019 was 0.52x)

**Detailed description of the key rating drivers**

**Key rating strengths**

**Experienced Promoters**

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

FTL is promoted by Mr. Ajay Anand, Chairman & Managing Director. He has about 30 years of experience in international marketing of home interiors/furnishings fabrics and made ups. He is supported by Mr. Sanjay Anand (Brother), whole time director of the company in charge of overall administration.

#### **Improvement in capital structure and debt protection metrics**

The overall gearing ratio improved from 0.64x as on March 31<sup>st</sup> 2018 to 0.52x as on March 31<sup>st</sup> 2019. This is due the decline in working capital utilization from Rs.73.99 core in FY18 to Rs.64.11 crore in FY19. The PBIDLT interest coverage ratio improved from 3.01x in FY18 to 4.58x in FY19 due to an increase in PBIDLT from Rs.23.38 crore in FY18 to Rs. 30.79 crore in FY19 and a decline in interest costs from Rs.7.77 crore in FY18 to Rs.6.73 crore in FY19.

#### **Growth in revenue with improvement in PBILDT margins**

FTL witnessed 9.6% increase in Total Income from Rs. 248.33 crore in FY18 to Rs. 267.26 crore in FY19. During H1FY20, Total Income improved by 11.09% from Rs 134.40 crore in H1FY19 to Rs 149.31 crore in H1FY20. Similarly, PAT margins improved from 5.63% in H1FY19 to 6.37% in H1FY20. The company has seen de growth in volumes in some of the product categories; however, there has been increase in realization which has led to increase in revenue and also PBILDT margin. The company's profitability is also significantly dependent on continuation of various export incentives from government.

#### **Strong and concentrated Customer Base; albeit, significant geographical risk**

The aggregate sales generated from the top 10 clients in FY19 amount to 61.31% of total sales- of which top 2 contribute almost 20.44% to the total sales, which shows moderate client concentration risk. Similarly, aggregate purchases from the top 10 suppliers amount to 42.79% of total purchases More than 80% of the company's revenue is from exports mainly to USA (51.67%), UK (29.19%) and balance to Canada, Australia, Japan, Korea etc, resulting in significant geographical concentration risk.

#### **Key rating weaknesses**

##### **Long working capital cycle and elongated credit to group companies**

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. Furthermore, most overseas retailers have been working on minimum credit period of 60 days going up to 120 days in few cases. Due to the sustained efforts of the management, FTL's inventory period has come down to 108 days in FY19 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 62 days in FY19 as against 78 days in FY17,

resulting in FTL's cash conversion cycle improving over the past few years. The company's receivable as March 31<sup>st</sup> 2019 stood at Rs.44.96 crore (P.Y. Rs.40.08 crore) out of which Rs.15.48 crore (P.Y. Rs.1.32 crore) is receivable from related parties (Faze Three US LLC Rs.1.11 crore, Faze Three Autofab Limited (FTAL) Rs.13.92 crore and Next Interiors Pvt. Ltd. Rs.0.45 crore). The sales from FTAL also increased to Rs.23.64 Crs in FY19 from Rs.12.80 Crs for FY18. Any further supports to group companies remain key rating monitorable.

#### **Susceptibility 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 45.02% of total sales. Cotton price movement depends on factors such as global demand-supply dynamics, area under cultivation, yield for the year, government regulation and pricing etc. Polyester yarn and synthetic latex are 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 movement in the raw material prices. Exports usually contribute to approximately 90% of the total income of the company. It mostly exports to countries like USA, UK, Germany, Australia, South Africa, Brazil, Hong Kong and Canada and realizes 90% of its sales in USD. The company uses forward contracts to hedge against Foreign exchange Risk. The company avails Packing Credit in rupee and book forwards for its receivables which is fully hedged. As on March 31<sup>st</sup> 2019 foreign currency receivables that are hedged amount to Rs. 0.14 crore and foreign currency receivables that are unhedged amount to Rs.29.62 crore. The company remains exposed to fluctuation in forex rates.

#### **Industry Outlook:**

Indian home furnishings comprises of bedspreads, furnishing fabrics, curtains, rugs, durries, carpets, placemats, cushion covers, table covers, linen, kitchen accessories, made-ups, bed spreads, bath linen and other home furnishings accessories. The demand in the home textile market is governed by the rise in disposable income of the households and improvement in the living standards. On the global level, United States and Europe are the two major markets in the segment; with India, China, Turkey, Pakistan and Bangladesh being the major suppliers

#### **Liquidity analysis: Adequate**

The working capital cycle has remained stable at 158 days in FY19 as compared to 161 days in FY18. The average monthly utilization of fund based limits for 12 months ended August 2019 was 74%. The company has positive cash flow from operations in FY19. The company does not have any significant repayment obligations in FY20 and routine capex of Rs.8-Rs.10 cr is expected to be funded from internal accruals. As on Sept 30 2019, the cash balance available with the FTL was Rs.2.39 crore and the net cashed used in operations was Rs. 3.07 crore.

**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

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

**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. Originally promoted as a trading company, FTL came out with a public issue during the year 1995, post which the company set up its first plant for automotive textiles by entering into joint Venture (JV) with Aunde Achter & Ebels GmbH, Germany, which was later hived off in CY2000 as an independent unit and renamed as Aunde India Limited (Currently renamed as Aunde Faze Three Autofab Limited). FTL has four manufacturing facilities at Panipat, Silvassa and Vapi. FTL exports its home furnishings mainly to USA, UK, Germany, Mexico, Canada and other countries.

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)
Total operating income	243.88	267.26
PBILDT	23.38	30.79
PAT	16.83	16.30
Overall gearing (times)	0.64	0.52
Interest coverage (times)	2.15	3.80

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

**Any other information:** Not Applicable

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

**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+
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**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	77.13	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Sep-18)	1)CARE BBB-; Stable (03-Oct-17) 2)CARE BBB-; Stable (17-Jul-17)	1)CARE BB; Stable (15-Mar-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	4.87	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Sep-18)	1)CARE A3 (03-Oct-17) 2)CARE A3 (17-Jul-17)	1)CARE A4 (15-Mar-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (15-Mar-17)

**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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### 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

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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 is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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