September 06, 2022

To,
Department of Corporate Services,
BSE Limited,
P. J. Towers, Dalal Street,
Mumbai – 400 001.

Sub: Update on Credit Rating
Ref: Faze Three Limited (STOCK CODE: 530079)

Pursuant to regulation 30 of the Securities and Exchange Board of India ('SEBI') (Listing Obligations and Disclosure Requirements) Regulations, 2015, please be informed that, CARE Ratings Ltd. has intimated the Company that it has re-affirmed the credit rating with revision in outlook to positive ***'CARE A-; Positive/CARE A2+'*** (pronounced as CARE Single A Minus; Outlook: Positive/A Two Plus) issued by it for Company's Long-term/short-term bank facilities of Rs. 155.00 crores.

A detailed rationale for ratings is also enclosed herewith for the kind information and record of the exchange and the stakeholders.

Thanking you.

Yours faithfully,
For **Faze Three Limited**

FAZE THREE LTD. MUMBAI

Ankit Madhwani
Chief Financial Officer

Encl: A/a

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Faze Three Limited

September 05, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	155.00 (Enhanced from 87.00)	CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/A Two Plus)	Reaffirmed
Total bank facilities	**155.00 (₹ One hundred fifty-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the rating assigned with revision in outlook to positive of Faze Three Limited (FTL) factors in the improvement in the scale of operations based on almost full utilisation of the erstwhile capacity and the significant improvement in FY22 over FY21 and in Q1FY23 results over Q1FY22 (growth in revenue of 55.82% in FY22 over FY21), the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of 17.25% in FY22 (FY21: 15.27%) resulting into a better profit-after-tax (PAT) margin for the company. The company's return on capital employed (ROCE) has been over 20% for FY22 and is estimated to continue at the mentioned levels.

CARE Ratings Limited (CARE Ratings) 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 has resulted in improved visibility of sales in the coming years. The rating continues to derive strength from the company's experience in manufacturing home furnishing products, the made-to-order business model, the integrated nature of operations, the diversified product mix and customer base, the growth in operations, the improvement in PBILDT margins over the years, the comfortable capital structure, debt protection metrics, and the significant brownfield expansion from internal accruals undertaken and ongoing by the company. The company has undertaken a capex of over ₹50 crore already from internal accruals over the past 18 months to enhance capacity across all factories and product lines in order to cater to future growth from existing customers itself.

The ratings are, however, constrained by relatively long operating cycle, the geographical concentration of revenue (the US and the UK/European markets), the ability to manage and pass on fluctuations in raw material prices and foreign exchange rates, and the continuity of government policies on export benefits.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations above ₹650 crore on a sustained basis.
- PAT margin between 9-10% on a consistent basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Stretch in the working capital cycle to 160 days.
- Average Net debt for twelve months (excluding debt backed by fixed deposits (FD) and other cash equivalents) should not exceed ₹90 crore.
- Cash flow from operations is negative on a sustained basis.

Outlook: Positive

The revision in the outlook to 'Positive' is due to the significant improvement in performance during FY22 as compared with FY21 along with a substantial improvement in the Q1FY23 performance over Q1FY22. CARE Ratings expects a similar trend in improvement in the top-line and bottom-line during the current year. The outlook may be revised to 'Stable' is the case of less-than-envisaged performance during the current year.

Detailed description of the key rating drivers

Key rating 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.

Comfortable leverage structure and improvement in debt coverage metrics: The company's capital structure remains comfortable. The overall gearing increased from 0.59x as on March 31, 2021, to 0.74x as on March 31, 2022, on account of higher working capital borrowings and investments in capex from internal accruals. Notably, the above gearing ratio takes into

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

consideration the FD-backed (100% margin) packing credit limits of ₹50 crore. The overall gearing ratio (Net of Fixed Deposits) was 0.52x as on March 31, 2022 as compared to 0.36x as on March 31, 2021.
The sanctioned packing credit limits of the company have increased from ₹87 crore in FY21 to ₹147 crore in FY22. The PBIDLT interest coverage improved to 11.34x in FY22 from 8.77x in FY21 due to improved PBILDT margins.

Growth in revenue, with improvement in profitability margins: The total income increased by 55.82% in FY22, from ₹326.18 crore in FY21 to ₹508.28 crore in FY22. The profitability margins witnessed an improvement, with the PBILDT margin increasing from 15.27% in FY21 to 17.25% in FY22. The PAT margin also improved to 10.05% in FY22 vis-à-vis 7.67% in FY21. This can mainly be attributed to better absorption of fixed costs and almost full utilisation of the erstwhile capacity with higher top-line and also due to higher margins the company enjoyed in the export market, driven by pent-up demand post-COVID recovery. The company's profitability improved, despite a significant reduction of various export incentives from the government as per the new policy in FY22 over FY21. The export incentives of ₹27.23 crore were earned by FTL for FY22 (FY21: ₹17.97 crore)

Strong and concentrated customer base; moderate concentration in supplier base: The long-standing presence of the company of over three decades in the textile industry has helped FTL establish strong relationships with its customers. The aggregate sales generated from the top 10 clients amounted to 60% of the total sales in FY22 (62% PY), which shows moderate and stable client concentration risk. The customers of the company include reputed global retail giants, and hence, the counterparty risk is mitigated to a large extent. However, aggregate purchases from the top 10 suppliers have increased to 62% of the total purchases during FY22 vis-à-vis 42.3% of the total purchases during the previous year.

Key rating weaknesses
Long working capital cycle, however, improving over the years: 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 a minimum credit period of 60 days going up to 120 days in a 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 144 days in FY21 to 126 days in FY22.

Susceptible to fluctuation in foreign exchange rates: Exports usually contribute to approximately 90% of the total income of the company. FTL mostly exports to countries like the US, the UK, Canada, Spain, Austria, Australia, Brazil, etc, and realises 90% of its sales in the US Dollar. The company avails packing credit in the Indian Rupee and books forward for its receivables. The company uses forward contracts to hedge against foreign exchange risk, as per its hedging policy, from time-to-time. The company remains exposed to fluctuation in forex rates and forex risk to the extent it remains unhedged.

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 49.59% of the total operating income (TOI) in FY22 (vis-à-vis 49.39% of the TOI in FY21). Polyester yarn 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.

Liquidity: Strong
The company is expected to generate gross cash accruals (GCA) of ₹70 crore during FY23 (FY22 GCA stood at ₹61.32 crore). The company has no long-term bank debt in their books. The average monthly net utilisation of the fund-based limits for the last 12 months ended June 30, 2022, was 63%. The company has liquid investments of around ₹10 crore as on August 10, 2022. The company has unencumbered cash and bank balances of around ₹5.29 crore and a satisfactory quick ratio of 1x as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies

About the company
FTL, promoted by Ajay Anand since 1985, is a manufacturer and exporter of home furnishing textile products, mainly floor coverings, ie, bathmats, rugs, and top of the bed, ie, 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 Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1 FY23 (UA)
TOI	326.18	508.28	146.49
PBILDT	49.81	87.67	23.35
PAT	25.01	51.07	14.54
Overall gearing (times)	0.59	0.74	-
Interest coverage (times)	8.77	11.34	14.07

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	150.13	CARE A-; Positive/CARE A2+
Fund-based/Non-fund-based-LT/ST		-	-	-	4.87	CARE A-; Positive/CARE A2+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	150.13	CARE A-; Positive/CARE A2+	-	1)CARE A-; Stable/ CARE A2+ (August 17, 2021)	1)CARE BBB+; Stable/CARE A3+ (July 22, 2020)	1)CARE BBB+; Stable/ CARE A3+ (December 24, 2019)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST*	4.87	CARE A-; Positive/CARE A2+	-	1)CARE A-; Stable/ CARE A2+ (August 17, 2021)	1)CARE BBB+; Stable/CARE A3+ (July 22, 2020)	1)CARE BBB+; Stable/ CARE A3+ (December 24, 2019)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (July 22, 2020)	-

*Long term/Short term.

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

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

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

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities, please

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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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