

Rating Rationale

November 26, 2018 | Mumbai

Aunde Faze Three Autofab Limited

Long-term rating downgraded to 'CRISIL BB/Negative' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BB/Negative (Downgraded from 'CRISIL BB+/Negative')
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the long-term bank facility of Aunde Faze Three Autofab Limited (AFTAL: formerly known as Aunde India Limited-AIL) to '**CRISIL BB/Negative**' from '**CRISIL BB+/Negative**' while reaffirming its short term rating at '**CRISIL A4+**'.

The downgrade in rating reflects weaker business risk profile marked by operating losses in Quarter 2 (Q2) fiscal 2019 because of steep increase in raw material prices which are derivative of crude oil and the company's inability to immediately pass any increase in raw material prices to its customers due to nature of its contracts with customers. AFTAL's major raw material is Polyester yarn, Polyurethane Foam and other crude oil linked chemicals and thus their prices are dependent on global crude oil prices. Continuous losses have led to higher reliance on the fund-based limit, with utilisation averaging around 95% over 6 months through September 2018. Nevertheless, liquidity is aided by unsecured loans extended by the promoters. As growth in scale of operations may require additional funding, infusion of fresh capital into the company will remain a key rating sensitivity factor.

The rating reflects the benefits AFTAL derives from its promoters, Aunde Achter & Ebels GMBH (Aunde), Germany and Mr Ajay Anand / Faze Three Limited. These benefits may be in the form of preferred access to customers in the Domestic and Global markets, Technological and Personnel support, and need-based funding support. The rating also factors in AFTAL's long presence in the automotive fabrics business since 2000 and established relations with original equipment manufacturers (OEMs). These rating strengths are partially offset by AFTAL's working-capital-intensive operations, susceptibility to volatility in raw material prices and average financial risk profile

Analytical Approach

Over the years, promoters have extended interest free unsecured loans (around Rs 25.92 crore as on September 30, 2018). For arriving at the rating, CRISIL has treated 75% of these funds as equity and the balance 25% as debt as these loans are interest free, and subordinated to bank debt, and are expected to be retained in the business.

Key Rating Drivers & Detailed Description

Strengths

* **Association with global promoter, Aunde (Germany):** Aunde Germany with its experience in the said business is expected to offer access to customers in overseas markets, required technological and personnel support, and need-based funding.

* **Long-standing presence in automotive fabrics business, and established relationships with OEMs:** The two-decade-long presence of AFTAL in the automotive fabrics business, has led to a strong base of reputed customers in the automobile sector. Established relationships with customers is reflected in the preferred vendor status that the company enjoys with OEMs, its engagement with these players for new models, and its domestic market share of over 30% in operational segment.

Weakness

* **Working capital-intensive operations:** Operations are working capital intensive as reflected in gross current assets of over 140 days as on September 30, 2018, because of moderate inventory of around 60 days and receivables of around 70 days.

* **Susceptibility to volatile raw material prices:** Operating margin is highly susceptible to volatility in raw material prices, or any inventory write offs, due to obsolescence. All the raw materials are crude oil derivatives and the company is able to pass on only a

portion of the hike in cost over a longer period of time based on representation and discussions with its customers.

* **Average financial risk profile:** The financial risk profile may remain average, as reflected in modest networth and gearing of Rs 28.7 crore and 1.6 times, respectively, as on September 30, 2018. Networth includes 75% of unsecured loans (worth Rs 25.92 crore as on September 30, 2018). Debt protection metrics have remained weak, due to losses for the six months ended September 30, 2018.

Outlook: Negative

CRISIL believes AFTAL will continue to benefit from its established market position, strong customer relationships and product profile. The ratings may be downgraded if there is decline in operating margin, leading to low cash accrual and weak capital structure or a stretch in the working capital cycle. The outlook may be revised to 'Stable' if improvement in operating margin or higher-than-expected growth in revenue along with stable capital structure or fund infusion by promoter, leads to a better financial risk profile.

About the Company

In 1998, Faze Three Ltd entered into joint venture with Aunde to set up a manufacturing unit for automotive fabrics. As per the joint venture agreement, the factory unit was demerged out of Faze Three Limited under a court approved scheme into a new company wherein Aunde was inducted as a partner. The resultant company on demerger was called Aunde Faze Three Autofab Ltd and listed on Bombay Stock Exchange (BSE). The company manufactures technical automotive fabrics, which are used in seat covers, and caters to seat manufacturers of OEMs, such as Maruti Suzuki India Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+'), Hyundai Motor India Ltd ('CRISIL A1+'), Ford India Pvt Ltd, Mahindra and Mahindra Ltd ('CRISIL AAA/Stable/CRISIL A1+'), TATA Motors, Honda, Toyota, etc. The company has manufacturing facilities at Dadra (Dadra & Nagar Haveli).

For H1FY19, AFTAL reported revenues of Rs.70.5 crore & Net loss of Rs.7.9 crore

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	127.8	123.9
Profit After Tax	Rs crore	-18.26	2.55
PAT Margin	%	-14.3	2.1
Adjusted Debt/Adjusted Networth	Times	1.41	0.82
Interest coverage	Times	-2.2	2.0

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	0.5	CRISIL A4+
NA	Cash Credit	NA	NA	NA	25.5	CRISIL BB/Negative
NA	Corporate Loan	NA	NA	Nov-2022	1.75	CRISIL BB/Negative
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	5.25	CRISIL BB/Negative
NA	Term Loan	NA	NA	Feb-2023	3.5	CRISIL BB/Negative
NA	Working Capital Demand Loan	NA	NA	Nov-2022	13.5	CRISIL BB/Negative

Annexure - Rating History for last 3 Years

		Current		2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	49.50	CRISIL BB/Negative	18-09-18	CRISIL BB+/Negative	08-03-17	CRISIL BB+/Positive	26-02-16	CRISIL BB+/Stable	05-03-15	CRISIL BBB-/Stable	--

				01-02-18	CRISIL BB+/Stable							
Non Fund-based Bank Facilities	LT/ST	0.50	CRISIL A4+	18-09-18	CRISIL A4+	08-03-17	CRISIL A4+	26-02-16	CRISIL A4+	05-03-15	CRISIL BBB- /Stable	--
				01-02-18	CRISIL A4+							

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	.5	CRISIL A4+	Bank Guarantee	.5	CRISIL A4+
Cash Credit	25.5	CRISIL BB/Negative	Cash Credit	25.5	CRISIL BB+/Negative
Corporate Loan	1.75	CRISIL BB/Negative	Corporate Loan	2.5	CRISIL BB+/Negative
Proposed Fund-Based Bank Limits	5.25	CRISIL BB/Negative	Proposed Long Term Bank Loan Facility	1.15	CRISIL BB+/Negative
Term Loan	3.5	CRISIL BB/Negative	Term Loan	3.85	CRISIL BB+/Negative
Working Capital Demand Loan	13.5	CRISIL BB/Negative	Working Capital Demand Loan	16.5	CRISIL BB+/Negative
Total	50	--	Total	50	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Auto Component Suppliers](#)

[The Rating Process](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p> <p>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835</p>	<p>Mohit Makhija Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 mohit.makhija@crisil.com</p> <p>Aditya Munshi Associate Director - CRISIL Ratings CRISIL Limited D: +91 22 4097 8105 aditya.munshi@crisil.com</p> <p>Keval Doshi Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 22 4254 8335 Keval.Doshi@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

M: +91 91 676 42913

B: +91 22 3342 3000

vinay.rajani@ext-crisil.com

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