

## Rating Rationale

February 27, 2020 | Mumbai

### Faze Three Autofab Limited

*Rating outlook revised to 'Stable'; ratings reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.50 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Stable (Outlook revised from 'Negative' and rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A4+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has changed its outlook on the long-term bank facilities of Faze Three Autofab Limited (FTAL; formerly known as Aunde Faze Three Autofab Ltd) to '**Stable**' from 'Negative' while reaffirming the rating at 'CRISIL BB'. The short-term rating has been reaffirmed at 'CRISIL A4+'.

The change in outlook reflects improvement in the business risk profile as reflected in operating profit margin of 9.5% in the nine months of fiscal 2020 as against operating loss for the corresponding period of the previous fiscal. The improvement has been driven primarily by growth in revenue on account of increasing market share of FTAL in domestic market to 45-50% in the current fiscal from under 40% a year ago and addition of export business along with stable key raw materials prices as compared to last fiscal. Prices of key raw materials are influenced by crude oil price and dollar rate movement which had fluctuated adversely during April 2018 to October 2018 which have been broadly stable since then. The company also has been part of most new vehicle launches across OEMs leading to increase in revenues and better margins. Besides, the company has received price adjustments based on representation and discussion with customers pertaining to abnormal increase raw material cost for fiscal 2019. The realized amount is approximately 20% of the total overall impact during fiscal 2019 amounting to Rs 2.21 crore in the current fiscal. Increase in profitability has also led to improvement in debt protection metrics, as reflected in expected interest coverage ratio of over 3 times for fiscal 2020 as against negative 0.9 time for fiscal 2019. Sustainance of the operating margin would be a key monitorable over the medium term.

The rating continues to reflect FTAL's long presence since 1997 in the automotive fabrics business, established relationships with original equipment manufacturers (OEMs), and comfortable financial risk profile. These strengths are partially offset by exposure to risks of cyclicalities in end user automobile industry, susceptibility to volatility in raw material prices and working capital-intensive operations.

#### Analytical Approach

The promoter has extended interest free unsecured loans (around Rs 13.17 crore as on December 31, 2019). 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, subordinated to bank debt, and are expected to be retained in the business over the next five years.

## Key Rating Drivers & Detailed Description

### **Strengths:**

**\* Longstanding presence in the automotive fabrics business, and established relationships with OEMs:**

FTAL has been in the automotive fabrics business for over two decades, which 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 45-50%.

**\* Comfortable financial risk profile:** The financial risk profile is expected to remain comfortable backed by expected net worth of Rs 33.5 crore and total outside liabilities to tangible net worth ratio of 2.2 times, respectively, as on March 31, 2020. Debt protection metrics is also expected to remain adequate with interest coverage ratio of over 3 times and net cash accrual to adjusted debt ratio of 0.25 time, which are expected for fiscal 2020.

### **Weaknesses:**

**\* Exposure to risks of cyclicity in end user automobile industry:** FTAL derives majority of its revenue from the automobile industry, thus its business risk profile will remain susceptible to cyclicity in the automobile industry over the medium term.

**\* Susceptibility to volatile raw material prices:** Operating margin is highly susceptible to volatility in raw material prices. 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.

**\* Working capital-intensive operations:** Gross current assets are expected to be 130-140 days as on March 31, 2020, because of moderate inventory of 40-45 days and high receivables of around 90 days.

### Liquidity Stretched

Liquidity is stretched marked by high bank limit utilization of 94% for past twelve months ending December 2019. However net cash accruals expected at Rs 7-12 crore over medium term are sufficient to cover repayment obligation of around Rs 4 crore per annum. Further FTAL's liquidity is also supported by loans from promoters of Rs 13.17 crore as on December 2019 which have been treated as 75 per cent equity and 25 per cent debt

### Outlook: Stable

CRISIL believes FTAL will continue to benefit from its established market position, strong customer relationships, and product profile.

### Rating Sensitivity factors

#### **Upward Factors:**

\* Improvement in net cash accruals to over Rs 10 crore in fiscal 2021 resulting in improvement in net cash accruals to current portion of term debt obligation (NCA/CPLTD) ratio to over 2 times

\* Significant improvement in capital structure

#### **Downward Factors:**

\* Deterioration in earnings before income, tax, depreciation, and amortization (EBITDA) margin to below 5% due to sharp volatility in crude oil prices or inventory loss

\* Increase in working capital requirement, or larger-than-expected, debt-funded capex or acquisition, or more-than-expected dividend payout, weakening the financial risk profile, particularly liquidity

## About the Company

Incorporated in 1997, FTAL is currently promoted by Mr Ajay Anand (promoter of Faze Three group). In the current fiscal, Aunde Achter & Ebels GMBH (Aunde) of Germany sold its entire stake to Mr Ajay Anand.

The company manufactures automotive fabrics for seat covers and sells to seat manufacturers of OEMs such as Maruti Suzuki India Ltd (rated, 'CRISIL AAA/Stable/CRISIL A1+'), Hyundai Motor India Ltd (rated, 'CRISIL A1+'), Ford India Pvt Ltd and Mahindra and Mahindra Ltd (rated, 'CRISIL AAA/Stable/CRISIL A1+') and all other major OEMs. The company has manufacturing facilities at Dadra, Union Territory of Dadra and Nagar Haveli.

For the first nine months of the current fiscal, FTAL reported revenue of Rs 124 crore and net profit of Rs 5.34 crore.

## Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	141.56	127.8
Profit After Tax (PAT)	Rs crore	-11.35	-18.27
PAT Margin	%	-10.66	-14.33
Adjusted debt/adjusted networth	Times	2.09	1.41
Interest coverage	Times	-0.91	-2.21

Any other information: Not applicable

## Note on complexity levels of the rated instrument:

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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/Stable
NA	Term Loan	NA	NA	Feb-2023	24	CRISIL BB/Stable

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	49.50	CRISIL BB/Stable					26-11-18	CRISIL BB/Negative	08-03-17	CRISIL BB+/Positive	CRISIL BB+/Stable
								18-09-18	CRISIL BB+/Negative			
								01-02-18	CRISIL BB+/Stable			
Non Fund-based Bank Facilities	LT/ST	0.50	CRISIL A4+					26-11-18	CRISIL A4+	08-03-17	CRISIL A4+	CRISIL A4+
								18-09-18	CRISIL A4+			
								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/Stable	Cash Credit	25.5	CRISIL BB/Negative
Term Loan	24	CRISIL BB/Stable	Corporate Loan	1.75	CRISIL BB/Negative
--	0	--	Proposed Fund-Based Bank Limits	5.25	CRISIL BB/Negative
--	0	--	Term Loan	3.5	CRISIL BB/Negative
--	0	--	Working Capital Demand Loan	13.5	CRISIL BB/Negative
<b>Total</b>	<b>50</b>	<b>--</b>	<b>Total</b>	<b>50</b>	<b>--</b>

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
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