

Rating Rationale

May 31, 2021 | Mumbai

Faze Three Autofab Limited

Long-term rating upgraded to 'CRISIL BB+ / Stable'; short-term rating reaffirmed

Rating Action

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

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

The rating upgrade reflects CRISIL Ratings' expectation that the FTAL will register a healthy revenue growth and steady profitability over the medium, on back of healthy market share and steady demand for the products supported by expected recovery in key end user automobile industry. FTAL was able to sustain its overall business risk profile in fiscal 2021 marked by significant improvement in operating margin to around 16.85% from 10.75% in fiscal 2020; despite drop in revenues of around 19% due to COVID induced lockdown in Q1FY21. The improvement in margin has been driven primarily by subdued prices of key raw materials and efficiency enhancement as compared to last fiscal. Prices of key raw materials are influenced by crude oil price which had largely remained at subdued levels for fiscal 2021. Although, now with increase in crude oil prices and adverse USD/INR rate movement; profitability is expected to moderate, it should be sustained at around 11%. Further, healthy accretions to reserves in FY21 has resulted in improvement in the capital structure, with TOLANW (total outside liabilities to adjusted net worth) at ~1.6 times as on March 31, 2021 from 2.2 times as on March 31, 2020.

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 cyclicity 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 March 31, 2021). For arriving at the rating, CRISIL Ratings 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 comfortable backed by net worth of over Rs 46 crore and total outside liabilities to tangible net worth ratio of 1.6 times, respectively, as on March 31, 2021. Debt protection metrics is healthy with interest coverage ratio of around 5.8 times and net cash accrual to adjusted debt ratio of 0.34 time, for fiscal 2021. Financial risk profile is expected to remain comfortable in absence of any debt-funded capex.

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 (GCA) are at 191 days as on March 31, 2021, because of moderate inventory of 64 days and high receivables of around 132 days. GCA days are expected to moderate going ahead.

Liquidity: Adequate

Liquidity is adequate marked by expected net cash accruals of Rs 11 – 12 crore over medium term against repayment obligation of around Rs 4.5 crore per annum. Bank limit utilization was moderate at 40% for past twelve months ending March 2021. Utilization of bank limits has moderated from 94% levels last fiscal due to unsecured loan of around Rs 20 crore at lower rate of interest than the bank interest rate. Further FTAL's liquidity is also supported by loans from promoters of Rs 13.17 crore as on March 31, 2021.

Outlook Stable

CRISIL Ratings believes that FTAL will continue to benefit from its established market position, long standing experience of its promoters, strong customer relationships and product profile.

Rating Sensitivity factors

Upward factors:

- Sustained revenue growth of over 15% with operating margin sustaining above 11% leading to higher net cash accruals
- Significant improvement in working capital cycle and capital structure

Downward factors:

- Decline in revenue or significant drop in operating profitability resulting in much lower net cash accruals (NCA), with NCA/repayment ratio dropping to below 2 times.
- Increase in working capital requirement, larger-than-expected, debt-funded capex or acquisition, or more-than-expected dividend pay-out, 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). 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 AAA/Stable/CRISIL A1+), 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.

FTAL is part of Faze Three group, its flagship entity is Faze Three Limited, which 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.

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs crore	134.14	166.08
Profit after tax (PAT)	Rs crore	11.11	9.02
PAT margin	%	8.3	5.43
Adjusted debt/adjusted networth	Times	1.03	1.33
Interest coverage	Times	5.8	3.85

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)	Complexity Levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	0.5	NA	CRISIL A4+
NA	Cash Credit	NA	NA	NA	32	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Feb-2023	13	NA	CRISIL BB+/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	4.5	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	49.5	CRISIL BB+/Stable		--	27-02-20	CRISIL BB/Stable		--	26-11-18	CRISIL BB/Negative	CRISIL BB+/Positive
			--		--		--		--	18-09-18	CRISIL BB+/Negative	--
			--		--		--		--	01-02-18	CRISIL BB+/Stable	--
Non-Fund Based Facilities	ST	0.5	CRISIL A4+		--	27-02-20	CRISIL A4+		--	26-11-18	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	0.5	CRISIL A4+	Bank Guarantee	0.5	CRISIL A4+
Cash Credit	32	CRISIL BB+/Stable	Cash Credit	25.5	CRISIL BB/Stable
Proposed Fund-Based Bank Limits	4.5	CRISIL BB+/Stable	Term Loan	24	CRISIL BB/Stable
Term Loan	13	CRISIL BB+/Stable	-	-	-
Total	50	-	Total	50	-

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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

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

[Rating Criteria for Auto Component Suppliers](#)

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