August 03, 2024

To,

BSE Limited Department of Corporate Services, P. J. Towers, Dalal Street, Mumbai – 400 001. Scrip Code: 530079	**National Stock Exchange of India Limited** Listing Compliance Department, Exchange Plaza, Plot No. C/ 1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051. Symbol: FAZE3Q

Dear Sir/Ma'am,

Sub: Intimation regarding revision in the Credit Rating under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of the Securities and Exchange Board of India ('SEBI') (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are pleased to inform you that, CARE Ratings Ltd. has upgraded the Company's Long-term & Short-term Bank Facilities of Rs. 165.00 crores as mentioned below.

Facilities/Instruments	Amount (₹ crore)	Revised Rating	Rating Action
Long Term / Short Term Bank Facilities	165.00	CARE A; Stable (Long Term) / CARE A1 (Short Term)	Reaffirmed

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

Thanking you,

Yours Sincerely,
For **Faze Three Limited**

AKRAM HASAN SATI Digitally signed by AKRAM HASAN SATI Date: 2024.08.03 10:47:49 +05'30'

Akram Sati.
Company Secretary & Compliance Officer
M. No.: A50020

Encl: a/a

FAZE THREE LIMITED
(CIN: L99999DN1985PLC000197)
Regd. Office: Survey 380/1, Khanvel Silvassa Road, Dapada, Silvassa – 396 230, UT of D&NH
Corporate Office: 63, 6th Floor, Wing C, Mittal Court, Nariman Point, Mumbai - 400021.
Tel. : 91 (22) 43514444, 66604600 * Fax : 91 (22) 24936811 * E-mail : cs@fazethree.com * Website : www.fazethree.com

Faze Three Limited

August 2, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	165.00	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Faze Three Limited (FTL) reflects its healthy operating and financial performance in FY24 and CARE Ratings Limited's (CARE Ratings') expectations of continued performance over the coming quarters on the back of its strong customer base and diversified product portfolio. The company's revenue growth remained flat in FY24 at ₹564.5 crore despite a volume growth of ~5% Y-o-Y owing to declining realisations on the back of normalisation in raw material prices during the year. FTL's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin also moderated by ~300 bps Y-o-Y to 15.3% in FY24 (the margin remained elevated in FY23 due to high raw material price volatility) on the back of stabilisation of gross margin and transient impact of global supply chain bottlenecks and certain one-time costs. While reaffirming ratings, CARE Ratings notes that FTL's PBILDT margin dipped to 11.2% in Q4 FY24 owing to one-time expenses considering setting up of a showroom in the US and operationalisation of capacity in Panipat and rising polyester prices. Nevertheless, with export demand headwinds largely subsiding, CARE Ratings expects FTL's revenue to record healthy growth over the coming years with increasing utilisation of newly added capacities and addition of new customers. Its PBILDT margin is expected to remain between 15% and 16% p.a. over the next 2-3 years.

Ratings continue to factor in FTL's comfortable financial risk profile, which is reflected by its strong net worth base, negligible debt repayment obligations, sizeable free cash, liquid investments, and its strong debt coverage metrics aided by healthy cash flow from operations. Ratings favourably factor in FTL's established track record with its customers, diversified product portfolio, and experienced promoters.

However, ratings are constrained by the high geographical concentration of revenue with exports to the US accounting for more than 50% of its revenue over the last three years. Ratings continue to factor in the working capital intensive operations and exposure of FTL's revenue and margins to raw material price volatility and fluctuation in foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations above ₹750 crore while maintaining profitability translating into healthy cash flow from operations on a sustained basis.

Negative factors

- Significantly declining revenue or profitability impacting the debt coverage indicators and liquidity position on a sustained basis.
- Large unanticipated debt-funded capex or acquisition resulting in deteriorating capital structure.
- Deteriorating working capital cycle leading to increasing total debt/ PBILDT above 2.00x.

Analytical approach: Consolidated

CARE Ratings has analysed FTL's credit profile by considering the consolidated financial statements owing to the financial and operational linkages between the parent and its subsidiaries. The list of subsidiaries is presented in Annexure-6.

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectations that the company will maintain a comfortable financial risk profile over the medium term due to steady accretion to reserves on the back of improving volumes and negligible debt repayment obligations.

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

Detailed description of key rating drivers:

Key strengths

Experienced promoters
FTL was founded by Ajay Anand in 1985, who currently serves as its Chairman and Managing Director. The promoter group also includes Sanjay Anand (brother of Ajay Anand). FTL's promoters have over three decades of diverse knowledge and experience in the home and technical textiles industry and international marketing of home interiors and furnishings fabrics and made-ups. Vishnu Ajay Anand has been involved in operations and management since 2017 as a succession planning initiative. The promoters are supported by a team of qualified senior managerial personnel.

Long-term relationship with reputed clientele, diversified product portfolio
FTL's major customers include global big-box retailers in the US, the UK, and Europe such as Walmart, Costco, Target, and Sainsbury, among others. The company benefits from established and long-term relationships with key customers, which are expected to result in into high repeat orders and increasing wallet share, supporting revenue visibility. Moreover, the company has a wide product portfolio, including bathmats, bathrugs, blankets, mats, chairpads, carpets, beach towels, and other top-of-the-bed products, with top three products accounting for ~60% of revenue in FY24. CARE Ratings observes, going forward, the diversified product portfolio is expected to support revenue growth over the medium term.

Comfortable financial risk profile and debt coverage metrics
The company's financial risk profile continues to remain comfortable as reflected by its overall gearing of 0.52x and total outside liabilities to tangible net worth (TOL/TNW) of 0.64x as on March 31, 2024 (PY: 0.63x, 0.89x, respectively) majorly considering improvement in its net worth base due to its sustained profitability in the recent years and limited reliance on external borrowings. FTL's debt coverage indicators remain healthy with interest cover of 7.69x and total debt/PBILDT of 1.96x in FY24 with negligible debt repayment obligations. Going forward, the company is expected to maintain a conservative capital structure with overall gearing below 0.5x level and interest cover above 7x over the medium term.

Key weaknesses

High working capital intensity of operations
FTL has an elongated working capital cycle owing to large inventory holding requirements given the limitation of capacity involved in the handloom operations and credit offered to customers. The company maintains an average inventory of 80-90 days towards raw material stocking and to meet the delivery timelines. The average collection period from customers has remained at ~60 days over the last three years. The company's working capital has remained elongated, though it showed improvement from 130 days in FY23 to 122 days in FY24. Nevertheless, order backed stocking of raw materials mitigates the risk of inventory write-downs to an extent.

Geographical and customer concentration of revenue
FTL's revenue profile continues to be moderately concentrated with the top five customers contributing nearly 32% of the total sales in FY24 (PY: around 49%), although the risk is mitigated to some extent given the established and long-standing relationships with these customers. The majority of export revenues, nearly 63% of the total export sales, is being derived from the US. The company is also present in the UK and European region and has also expanded in new markets such as Canada and Australia among others, which is expected to improve the geographical revenue mix over the medium-to-long term. The high revenue concentration exposes FTL to the risks arising from loss of major customer and evolving demand prospects in the US, its key market.

Susceptible to raw material price and forex rate fluctuation
The company's revenue and earnings remain exposed to the risks arising from volatility in prices of cotton and polyester. However, the risk is mitigated to a certain extent by the order-based procurement policy, which aids in passing on the raw material price volatility to customers, despite with a lag. Moreover, the company is inherently exposed to foreign currency fluctuation risk due to its export-oriented business, in the absence of a defined formal forex hedging policy.

Liquidity: Strong
The company is expected to generate gross cash accruals (GCA) of ₹70-80 crore p.a. over the next 2-3 years (FY24 GCA stood at ~₹69 crore). Against this, it has negligible debt repayment obligations for lease liabilities and capex plans of ~₹30 crore p.a. The average utilisation of sanctioned fund-based limits stood at ~54% for the 12-month period ended April 30, 2024. The liquidity position is supported by free cash and liquid investments of ~₹20 crore as on March 31, 2024. It has a satisfactory quick ratio of ~1x as on March 31, 2024.

Covenants: Not applicable

Environment, social, and governance (ESG) risks

Environmental: FTL has in-house effluent treatment plant at its factory in Silvassa and Panipat for the treatment of waste water generated from its dyeing unit. Also, the company has 2.8 MW of rooftop solar power capacity installed at its factory at Silvassa, which reduces its overall carbon footprint. Any tightening of and/or non-compliance with pollution control norms could lead to material financial impact on the company.

Social: To promote women empowerment, FTL has increase its female workforce over the years which comprised ~20% of the total employees on company's payroll as on March 31, 2024. As on July, 2024, total strength of its permanent employees stood ~3,200. FTL also strictly complies with Prohibition And Prevention Of Sexual Harassment (POSH) regulations. FTL is also engaged in assisting the employees' family and relatives among others for finding out employment opportunities in separate manufacturing units of the company to increase income levels of its workers' families and build loyalty among the workforce at the same time.

Governance: Majority of the representation of board members constitutes of independent directors, including two foreign directors.

Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Rating Outlook and Rating Watch
Manufacturing Companies
Cotton Textile
Manmade Yarn-Methodology
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

FTL, promoted by Ajay Anand in 1985, is a manufacturer and exporter of home furnishing textile products including floor coverings (bathmats, rugs) and top-of-the-bed items (blankets, throws and cushions) with a diversified product mix. It commenced operations out of Panipat, Haryana, and came out with a public issue in 1995 post which, it expanded to Vapi and Silvassa and also set up its first plant for automotive textiles by entering a joint venture (JV) with a German multinational Group, which was later hived off in FY20 as an independent unit and renamed as Faze Three Autofab Limited (FTAL). Presently, FTL has six manufacturing facilities at Panipat, Silvassa, and Vapi and exports its home textile furnishing products mainly to the US, the UK, and Europe.

Brief Standalone Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1-FY2025 (UA)
Total operating income	547.92	536.02	N/A
PBILDT	92.67	79.84	N/A
PAT	57.44	42.11	N/A
Overall gearing (times)	0.62	0.45	N/A
Interest coverage (times)	12.37	7.16	N/A

A: Audited UA: Unaudited; N/A: Not available; Note: these are latest available financial results

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1-FY2025 (UA)
Total operating income	558.13	564.52	N/A
PBILDT	101.63	86.50	N/A
PAT	58.30	46.59	N/A
Overall gearing (times)	0.63	0.52	N/A
Interest coverage (times)	6.75	7.69	N/A

A: Audited UA: Unaudited; N/A: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	160.13	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	4.87	CARE A; Stable / CARE A1

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ST	160.13	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Aug-23)	1)CARE A-; Positive / CARE A2+ (05-Sep-22)	1)CARE A-; Stable / CARE A2+ (17-Aug-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	4.87	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Aug-23)	1)CARE A-; Positive / CARE A2+ (05-Sep-22)	1)CARE A-; Stable / CARE A2+ (17-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Faze Three USA LLC	100%	Helping arm of FTL. Facilitates testing on new products in the USA market.
2.	Mats And More Private Limited	100%	Engaged in manufacturing and sale of patio mats.

Note on complexity levels of 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 clarifications.

Contact us

<table>
<tr><td>Media Contact

Mradul Mishra
Director
CARE Ratings Limited
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Relationship Contact

Ankur Sachdeva
Senior Director
CARE Ratings Limited
Phone: 91 22 6754 3444
E-mail: Ankur.sachdeva@careedge.in</td><td>Analytical Contacts

Achin Nirwani
Director
CARE Ratings Limited
Phone: +91-22-6754 3456
E-mail: Achin.nirwani@careedge.in

Raunak Modi
Assistant Director
CARE Ratings Limited
Phone: +91-22-6754 3537
E-mail: Raunak.modi@careedge.in

Ravi Jangid
Analyst
CARE Ratings Limited
E-mail: Ravi.Jangid@careedge.in</td></tr>
</table>

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in