

Safa Systems & Technologies Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	41.80 (Reduced from 42.60)	CARE BB; Stable	Reaffirmed
Short Term Bank Facilities	12.50	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Safa Systems & Technologies Limited (SSTL) continues to be constrained by the low profitability margins inherent to the industry, working capital intensive nature of operations, leveraged capital structure and exposure to technology obsolescence risk. The ratings, however, derives strength from the extensive experience of the promoters, established operational and proven track record and widespread distribution network.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Stabilization of PBILDT margins above 2.00%.
- Improvement in Total debt/PBILDT to below 6x on a consistent basis.

Negative factors

- Decline in PBILDT margins below 1% on a consistent basis.
- Deterioration in overall gearing above 3.00x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company will continue to benefit from its strong position in the mobile phone distribution market aided by the experience of the promoters.

Detailed description of the key rating drivers:

Key Weaknesses

Thin profitability levels and leveraged capital structure.

The Indian mobile phone distribution is characterized by intense competition and a prevalence of products from limited, established brands. SSTL's PBILDT margins continue to remain thin at 1.29% in FY23 primarily on account of higher purchase costs and discounts provided. Till H1FY24, the company reported PBILDT margin of 1.36%.

SSTL's capital structure remains leveraged, with a gearing ratio of 2.53x as of March 31, 2023 (FY22: 2.18x). The company's high working capital intensity necessitates external borrowing, resulting in total debt increasing to Rs. 34.04 crore by March 31, 2023, compared to Rs. 21.98 crore on March 31, 2022. The debt coverage indicators of the company stood weak with total debt/GCA continues to remain on a higher level at 25.49 as on March 31, 2023 (PY:54.53)

Technology obsolescence risk

The company operates in highly competitive services industry. There are no entry barriers in the industry which puts them to the threat of competition from new entrants. Technological obsolescence is an inherent risk in any technology related business and also applies to the mobile handset's distribution business. However, the company's vendors continue to provide significant support against technological obsolescence. SSTL is compensated when a new model is launched, and the existing model is to be sold at a discount. Nonetheless, SSTL continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of the company being unable to liquidate the inventory timely.

Key Strength

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

Extensive experience of the promoter in the business

The company promoters have more than two decades of experience in business and run several group companies, and partnerships that operate in several sectors. In the telecommunications and electronic accessories business, the company has successfully established itself as a leading player in the market due to constant support from promoters and their expertise. Mr. Faizal has more than 20 years of experience in various businesses and previously was involved in the plywood trading business. The company is managed by Mr. Faizal Bavaraparambil Abdul Khader along with other directors which form a strong management team that has enabled the company to successfully implement its growth plans.

Diversified product portfolio

Safa Systems & Technologies stands as a prominent distributor of electronic products and accessories in South India, boasting an extensive range that encompasses telecommunication devices, accessories, LED televisions, tablets, IT products, and home appliances etc. The company has secured distributorship agreements with esteemed brands such as Xiaomi, Apple, OPPO, OnePlus, TECNO, and Micromax, positioning itself as a key player in the State of Kerala. The company has been also awarded with ISO 9001:2015 quality certifications and found to conform to the requirement of ISO 9001:2015 for the scope of provisions of marketing, trading and distribution.

Established clientele with widespread distribution network

Safa Systems & Technologies Ltd (SSTL) holds a moderate market position in the mobile distribution sector, fostering partnerships with over 10 leading brands. The company's expansive network spans 40+ sub-distributors and nearly 200 large format retail (LFR) and direct retail sellers.

Beyond serving retail sellers, SSTL's portfolio extends to encompass B2B orders from corporate clients nationwide. The company's marketing strategies primarily align with the respective brands, incorporating collaborative efforts in select cases. Approximately 75% of product procurement directly involves associated brands, with the remaining 25% sourced from other states. SSTL is actively engaged in discussions with additional brands for potential partnerships in device distribution and marketing.

Liquidity: Stretched

The liquidity of the company remains stretched marked by tightly matched accruals of to repay its term debt obligations with minimal bank balance of Rs.2.19 crore as on March 31, 2023. The company has an operating cycle of 36 days with an inventory holding of 10-15 days. The company receives payment within a period of 30-40 days, while makes payment to the creditors in 10-15 days. Its bank limits are utilised to the extent more than 90% supported by above unity current ratio of 1.45x as on March 31, 2023.

Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

The company was originally incorporated as "Safa Systems & Solutions", a Partnership firm in the state of Kerala on October 18, 2012. Subsequently, it was converted into a Public Limited Company in the name of "Safa Systems & Technologies Limited" on September 21, 2021. The company is currently one of the largest distributors of Electronic Products and accessories. Presently, SSS has its distributorship agreement with the reputed Brands like Xiaomi, OPPO, TECNO, Micromax, One Plus for distribution of the Smartphones, LED TV and accessories in the State of Kerala. The range of products includes telecommunication devices, accessories, LED television, tablets, IT Products, home appliances, etc.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	H1FY24 (UA)
Total operating income	273.53	419.83	244.38
PBILDT	3.45	5.42	NA
PAT	0.55	1.58	0.86
Overall gearing (times)	2.18	2.53	NA
Interest coverage (times)	1.32	1.75	NA

A: Audited UA: Unaudited; Note: NA: Not Available 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various 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 - LT-Cash Credit		-	-	-	34.60	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	30-06-2030	7.20	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	12.50	CARE A4

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 2023-2024	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
1	Non-fund-based - ST-Bank Guarantee	ST*	12.50	CARE A4	-	1)CARE A4 (21-Mar-23)	-	-
2	Fund-based - LT-Cash Credit	LT**	34.60	CARE BB; Stable	-	1)CARE BB; Stable (21-Mar-23)	-	-
3	Fund-based - LT-Term Loan	LT	7.20	CARE BB; Stable	-	1)CARE BB; Stable (21-Mar-23)	-	-

*Short term **Long Term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

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.

Contact us

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About us:

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