

Safa Systems & Technologies Limited

November 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	48.78 (Enhanced from 41.80)	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, derive strength from the extensive experience of the promoters, established operational and proven track record, widespread distribution network and growing scale of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in income with improved PBILDT margins above 2.00% on sustained basis
- Improvement in Total debt/PBILDT to below 5x on a consistent basis.

Negative factors

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

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 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 1.09% in FY24 primarily due to higher purchase costs and discounts offered. During H1FY25 (For the period April 2024 – September 2024), the company reported slightly improved PBILDT margin of 1.25%.

Leveraged capital structure

In FY2024, SSTL has issued equity shares worth Rs.14.85 crore to Effective Lifestyle Private Limited and Kanone Technologies limited, acquiring stakes of 69.42% and 49.74% respectively, through stock-swap. Due to which capital structure has improved with a gearing ratio of 1.21 times as of March 31, 2024 (FY23: 2.53), however remained moderate. The company's debt coverage indicators stood weak, with total debt/GCA continues to remain on a high level at 18.50x as on March 31, 2024 (PY:25.49x)

Competitive nature of business and Technology obsolescence risk

The company operates in highly competitive services industry. There are no entry barriers in the industry which puts them in 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.

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

Key strengths

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 two decades 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 with growth in income

The total operating income of the company had grown by 49.97% from Rs.419.77 crore in FY23 to Rs.629.52 crore in FY24. SSTL 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, OnePlus, TECNO, Samsung and Micromax, positioning itself as a key player in the State of Kerala. The company has been also awarded 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

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 vis a vis repayment of debt obligations with minimal cash bank balance of Rs Rs.0.77 crore as on March 31, 2024 (PY: 0.32 crore). The average working capital utilization stood high at 93% during the last 12 months ended September 30, 2024. The company has an operating cycle of 24 days with an inventory holding of 10-15 days and receives payment within a period of 30-40 days, while makes payment to the creditors in 10-15 days. Current ratio as on March 31, 2024 is 1.37x (PY: 1.43).

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

The company was initially established as a partnership firm under the name "Safa Systems & Solutions" in Kerala in 2012. Later, it was converted into a Public Limited Company and renamed "Safa Systems & Technologies Limited" on September 21, 2021. The company is currently one of the largest distributors of electronic products and accessories in Kerala. It holds distributorship

agreement with reputed brands such as Apple, Xiaomi, One Plus, Samsung, Tecno, Dyson and Micromax for distribution of the smartphones, LED TVs and accessories.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1 FY 2025 (UA)
Total operating income	419.77	629.52	286.12
PBILDT	5.36	6.87	3.57
PAT	1.58	2.14	1.57
Overall gearing (times)	2.53	1.21	NA
Interest coverage (times)	1.73	1.72	1.83

A: Audited UA: Unaudited NA: 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

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	44.60	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	June 2030	4.18	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	12.50	CARE A4

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	Non-fund-based - ST-Bank Guarantee	ST	12.50	CARE A4	-	1)CARE A4 (05-Jan-24)	1)CARE A4 (21-Mar-23)	-
2	Fund-based - LT-Cash Credit	LT	44.60	CARE BB; Stable	-	1)CARE BB; Stable (05-Jan-24)	1)CARE BB; Stable (21-Mar-23)	-
3	Fund-based - LT-Term Loan	LT	4.18	CARE BB; Stable	-	1)CARE BB; Stable (05-Jan-24)	1)CARE BB; Stable (21-Mar-23)	-

LT: Long term; ST: 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 - 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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