

Safa Systems & Technologies Limited

March 21, 2023

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

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) is constrained by low profitability margins inherent to the industry, leveraged capital structure, stretched liquidity 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

- Improvement in scale of operations above Rs.250 crore
- Stabilise margins above 2%

Negative factors

- Decline in PBILDT margin below 1% on a continuous basis
- Deterioration in overall gearing beyond 3 times

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the company will continue to benefit from its established relationship with various brands and widespread distribution network.

Key weaknesses

Thin profitability levels and leveraged capital structure

The mobile distribution business remains competitive with a low degree of product differentiation throughout the industry with most of the players supplying mobile of limited established brands. SSTL's PBILDT margins thin between 1-1.5% which further reduced to 0.66% in FY22 primarily on account of higher purchase costs and discounts provided. The capital structure of the SSTL remained leveraged with an overall gearing ratio of 2.18x as on March 31, 2022. The entity got listed during September 2021 which led to improvement in the net worth during FY22. The debt coverage indicators of the group stood weak with total debt/GCA at 54.53 as on March 31, 2022. During 9MFY23, the company's profit margins have improved with pick up in operations post covid which is expected to improve the debt coverage going forward.

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 strengths

Extensive experience of promoters 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 business and previously was involved in plywood trading business. The

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

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.

Established operational and proven track record

SSTL was established in 2012 as a partnership firm and later converted into a public limited company in FY22. The company was initially appointed as all Kerala distributor for Micromax smartphones. From 2018, the company created a portfolio of brands rather than sticking to one brand. In 2019, SSTL signed up with more brands like Xiaomi, Vivo, LG, Huawei, Motorola, etc. In 2021, One plus was also added. The range of products includes telecommunication devices, accessories, LED television, tablets, IT Products, home appliances, etc. 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.

Widespread distribution network

SSTL enjoys a moderate market position in the mobile distribution business as it has the partnered with 9 brands for distribution. The company has added around 40+ sub- distributors and almost 200 large format retail (LFR) and direct retail sellers. Additionally, the company also executes B2B orders from corporate clients across PAN India. Marketing of the products are usually done by the respective brands for their products. However, in some brands, the company jointly undertakes the marketing activities. About 75% of the product procurement is directly done from the associated brands while the remaining 25% is procured from other states. SSTL has around 28 employees excluding directors and skilled marketing and finance resources is one of their key strength for implementing the growth plans.

Liquidity: Stretched

The liquidity of the company is stretched by tightly matched accruals of to repay its term debt obligations of Rs.2.57 crore and minimal bank balance of Rs.1.50 crore as on March 31, 2022. The company has an operating cycle of 46 days with an inventory holding of 30-45 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 of 80% supported by above unity current ratio of 1.60x as on March 31, 2022. The utilization of fund-based bank limits was high at around 80% for the past 10 months ending January 2023.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[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)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	208.58	271.87	288.27
PBILDT	2.54	1.79	NA
PAT	0.43	0.55	NA
Overall gearing (times)	2.94	2.18	NA
Interest coverage (times)	1.22	0.69	NA

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

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

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

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

Complexity level of the 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		-	-	June 2030	8.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank Guarantee	ST	12.50	CARE A4				
2	Fund-based - LT-Cash Credit	LT	34.60	CARE BB; Stable				
3	Fund-based - LT-Term Loan	LT	8.00	CARE BB; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the 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 details

To 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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