

January 28, 2022

## Safe-Tronics Automation Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash Credit	4.00	4.00	[ICRA]BB-(Stable); reaffirmed
Short-term – Non-fund Based	8.00	8.00	[ICRA]A4; reaffirmed
<b>Total</b>	<b>12.00</b>	<b>12.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings continues to factor Safe-Tronics Automation Private Limited's (Safe-Tronics) reputed clientele of several large entities in the oil exploration and production (E&P) business. Moreover, the company's exclusive supply arrangement with Detector Electronics Corporation (DEC), USA, which has a leading position in fire and gas (F&G) detection systems, and its representation of Norriseal, USA, a global leader in industrial hazard safety solutions, provide comfort. The company has also recently collaborated with two new principals in fire suppression systems and fire alarm panels. The extensive experience of the promoters in executing turnkey projects for the installation of F&G detection systems for the oil and gas industry has ensured revenue visibility for Safe-Tronics over the years. The company continues to demonstrate a comfortable capital structure and modest debt levels with comfortable cash and liquid balance. The sufficient buffer in the form of undrawn working capital limits provide further comfort to the overall liquidity position of the company.

The ratings, however, remain constrained by Safe-Tronics' modest scale of operations and exposure of its operations to slowdown in capital expenditure (capex) plans in the oil and gas sector. Moreover, its profitability remains vulnerable to fluctuations in input costs (raw material and labour), given the absence of price escalation clauses in most contracts. Safe-Tronics faces significant forex risks on its import purchases, in the absence of a natural hedge from commensurate export sales and lack of any active hedging mechanism. Additionally, the company faces pricing pressures from the tender-based competitive bidding process for awarding contracts followed by most Government-owned oil and gas entities, which impacts its overall profitability.

The Stable outlook on the long-term rating reflects ICRA's opinion that Safe-Tronics will continue to benefit from the established track record of its promoters in the execution of F&G detection projects in the oil and gas sector. It has two new principals on board, which is expected to provide incremental revenue generation, going forward.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in execution of turnkey projects for F&G detection systems** – The promoters of Safe-Tronics, Mr. Avinash Pol and Mrs. Manjusha Pol, have been involved in the execution of turnkey projects for F&G detection systems of the oil and gas industry for over a decade. They are assisted by a well-qualified technical team overlooking project execution. The company has executed projects for various reputed Government as well as private entities from the oil and gas sector.

**Reputed client profile of large companies in the E&P business** – Safe-Tronics's clientele constitutes several reputed entities involved in the oil E&P business. Some of its key clients are Oil & Natural Gas Corporation Limited (ONGC), Bharat Petroleum Corporation Limited (BPCL), GAIL India Limited, and Reliance Industries Limited (RIL), among others.

**Exclusive supply arrangement with DEC, USA, which enjoys a strong position in F&G detection systems** – Safe-Tronics has an exclusive supply arrangement with DEC, which has a strong presence in F&G detection systems. The company also represents Norriseal, which is one of the leading global players in providing industrial hazard safety solutions. Its association with such established players from the safety solutions industry ensures steady order flow for the company. Onboarding of two new principals in the recent past is also expected to fuel future revenue growth for Safe-Tronics.

## Credit challenges

**Modest scale of operations** – With operating income (OI) in the range of Rs. 15-20 crore during the last five fiscals, Safe-Tronics has a modest scale of operations. However, the recent onboarding of new principals is expected to provide incremental revenue over the near to medium term; consequently, expanding its revenue base.

**Order book dependent on oil and gas industry; operations vulnerable to commodity price risks while competitive bidding exerts pricing pressure** – Safe-Tronics's operations are primarily dependent on order flows from the oil and gas industry. Any slowdown in the capex plan in this industry can impact the company's order flow and revenues. Furthermore, Safe-Tronics' business operations remain vulnerable to commodity price risks (crude oil), given its exposure to the oil and gas sector. The competitive bidding mechanism for sourcing orders from some of its customers also exert pricing pressures, thereby restricting margins to an extent.

**Absence of price escalation clause in contracts leads to variation in raw material and labour costs** – Safe-Tronics does not have any price escalation clauses in most of its business contracts. This exposes the company to variation in raw material and labour costs.

**Exposure to forex risks** – Given the significant dependence of Safe-Tronics on imports and the absence of any active hedging mechanism, the company stands exposed to forex risks. Any unfavourable movement in forex may exert pressure on its margins.

## Liquidity position: Adequate

Safe-Tronics's liquidity position remains **adequate** on the back of comfortable cash and liquid investments of Rs. 3.2 crore as on March 31, 2021 and sufficient buffer available in the form of undrawn working capital limits. The working capital limits utilisation remained low in FY2021 with an average utilisation of ~11% of the sanctioned limits for the fiscal. The average working capital utilisation dropped further to ~4% of the sanctioned limits in 8M FY2022. Moreover, the company has no sizeable long-term debt repayment obligations or capex plans in the near term.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if the entity shows significant scale up in its operations, coupled with improvement in its margins and net worth position on a sustained basis.

**Negative factors** – The ratings could be downgraded if there is significant decline in the revenue base of the entity and deterioration in margins as well as net worth position.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Safe-Tronics Automation Private Limited

## About the company

Safe-Tronics was established in 2007 by Mr. Avinash Pol and Mrs. Manjusha Pol for providing turnkey solutions for the designing, erection, commissioning as well as maintenance of fire and gas detection systems. It is an exclusive distributor of fire and gas detection systems manufactured by DEC in India and also has supply arrangements with entities such as Norriseal (part of Dover Corporation, USA) for control valves used with fire and gas detector equipment, Rockwell Automation for supply of control systems, and with MEDC (UK) for supply of hooters, alarms and beacons, among others. The company has recently onboarded two new principals—Marioff Corporation (Finland) for fire suppression systems, and Autronica Fire and Security (Norway) for fire alarm panels. Safe-Tronics mainly caters to large public sector undertakings (PSU) as well as private entities in the oil exploration and production business. In addition to installation of F&G detector systems, Safe-Tronics undertakes annual maintenance contracts of such systems.

## Key financial indicators

REPL	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	18.5	15.6
PAT (Rs. crore)	0.9	0.9
OPBDIT/OI (%)	9.0%	9.2%
PAT/OI (%)	5.0%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDIT (times)	0.0	0.3
Interest Coverage (times)	6.2	14.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Safe-Tronics, ICRA research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in January 28, 2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
						October 15, 2020	June 26, 2019	-
1	Cash Credit	Long-term	4.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-
2	Bank Guarantee cum Letter of Credit	Short-term	8.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
3	Unallocated Limits	Long-term/ Short-term	-	-	-	-	[ICRA]B+(Stable)/ [ICRA]A4	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Cash Credit	Simple
Short Term – Non Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.00	[ICRA]BB- (Stable)
NA	Bank Guarantee cum Letter of Credit	NA	NA	NA	8.00	[ICRA]A4

*Source: Company*

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

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