

November 17, 2020

Safi Traders: [ICRA]BB(Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. Crore)	Rating Action
Fund Based - Working Capital Facilities - LT	40.00	[ICRA]BB (Stable); Assigned
Fund Based - Working Capital Facilities – ST	44.00	[ICRA]A4+; Assigned
Total	84.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably consider the extensive experience of the promoter of Safi Traders in the metal trading business for over two decades. The ratings derive comfort from Safi Traders' status as a primary dealer of JSW Steels in the south Tamil Nadu region. ICRA also notes that the firm's revenue increased to Rs. 756 crore in FY2020 from Rs. 418 crore in FY2017, driven by new product/store addition.

The ratings are, however, constrained by Safi Traders' geographical concentration of business. The firm's area of operation is limited to southern Tamil Nadu. The trading nature of business resulted in thin profit margins for the firm. Besides, huge debt resulted in moderate debt protection metrics, as illustrated by an interest coverage ratio of 1.8 times in FY2020. ICRA also notes the risks of capital continuity associated with partnership firms.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that Safi Traders will continue to benefit from its exclusive dealership of JSW Steel and the experience of the promoter in the trading business.

Key rating drivers and their description

Credit strengths

Exclusive dealer of JSW Steels in the region of operation supports the business – The firm is an authorised exclusive dealer of JSW Steel, for the four southern districts of Tamil Nadu, which has wide acceptability in the market.

Established presence in steel trading business – The promoters have an experience of more than two decades in the steel trading business, enabling growth of its scale, as illustrated by its revenue increasing to Rs. 756 crore in FY2020 from Rs. 418 crore in FY2017, driven by new product/store additions.

Credit challenges

Thin profitability on account of trading nature of operations – Safi Traders' trading nature of business puts pressure on its profitability. The firm's profit margin tends to remain modest, with an operating margin of around 1.2% in the recent past. Besides, high debt has resulted in modest debt protection metrics, as illustrated by an interest coverage ratio of 1.8 times in FY2020.

High geographical concentration with presence only in four districts of Tamil Nadu – Safi Traders’ area of operation is restricted to four districts in Tamil Nadu – Kanyakumari, Tuticorin, Tirunelveli and Virudhunagar. Nonetheless, in its area of operations, it acts as the sole dealer of JSW Steel products.

Risks inherent in partnership firms – Safi Traders’ status as a partnership concern exposes it to the risk of capital withdrawal by the partners, leading to a leveraged capital structure.

Liquidity position: Adequate

The company’s liquidity is **adequate** as the expected fund flow from operations is likely to remain comfortable against the outstanding external loans of Rs. 2.94 crore. Minimal capex plans for the near future also minimises the term loan requirement for years ahead. The recent increase in the working capital limit is expected to provide comfort on the working capital requirements.

Rating sensitivities

Positive triggers – ICRA could upgrade Safi Traders’ ratings if the company demonstrates a sustained growth in its revenue and profitability, resulting in an improvement in its debt protection metrics with the interest coverage ratio improving to above 2.5 times on a sustained basis.

Negative triggers –Pressure on HSC’s ratings could arise if there is any strain on its capital structure or liquidity profile due to an increase in the working capital requirements, lower cash accruals or withdrawal of capital.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	-
Consolidation/Standalone	Standalone

About the company

Safi Traders, promoted by M. Safi Mohamed, was incorporated as a proprietorship business in 1990s. It was then converted into a partnership firm in 1998 owing to the expansion in business. The firm is involved in the wholesale and retail trading of iron and steel products used in the construction industry. The major products traded include TMT bars, steel coils, steel pipes, steel tubes, sheets, plates, light and heavy structural steels etc.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	753.0	756.5
PAT (Rs. crore)	3.4	5.2
OPBDIT/OI (%)	1.2%	1.3%
PAT/OI (%)	0.5%	0.7%
TOL/TNW (times)	5.1	3.4
Total Debt/OPBDIT (times)	7.1	6.3
Interest Coverage (times)	1.6	1.8

Source: The company; Note: Amount in Rs. crore; *provisional financial statements

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	CRISIL B+/Stable (Issuer Not Cooperating)	August 6, 2019
India Ratings & Research	IND BB (Issuer Not Cooperating) / IND A4+ (Issuer Not Cooperating)	September 15, 2020

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding as on March 31, 2020	Rating 17-Nov-2020	FY2020	FY2019	FY2018
1 Fund Based - Working Capital Facilities - LT	Long Term	40.00	25.58	[ICRA]BB (Stable)	-	-	-
2 Fund Based - Working Capital Facilities - ST	Short Term	44.00	26.68	[ICRA] A4+	-	-	-

Note: Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	40	[ICRA]BB(Stable)
-	Cash Credit - EDFs	-	-	-	4	[ICRA]A4+
-	Cash Credit - EDFs	-	-	-	40	[ICRA]A4+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

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