

Safari Industries

On a fast paced 'Safari'

Safari Industries Ltd (Safari) is the third largest branded player in the Indian luggage industry. Post the management change in 2012, it has witnessed complete restructuring in business and product portfolio. This restructuring has helped it in posting a CAGR of 42% in revenue and 46% in PAT over 2012-17. It has also now captured ~14% market share in a ~₹2600 cr branded luggage market.

Favourable Industry dynamics for organized players post GST: The Indian luggage industry is valued at ₹9000cr+ and is largely dominated by the unorganized sector. The top three branded players namely- VIP Industries, Samsonite and Safari forms only ~28% of this market. Owing to improving economy and travel, the luggage industry has posted a 13%+ CAGR in the past decade and is expected to maintain this momentum for next few years. With GST implementation in 2017, the new cost dynamics has led to industry shifting towards organized players.

On a strong growth trajectory since 2012: Post the management change in 2012, Safari has grown its revenue by 6x in the last 7 years. This has been achieved by foraying in many new categories like back pack, school bags (via acquisition of Genius and Genie) and improvement in distribution networks. Also, it adopted product rationalization & strategy realignment where non performing SKUs were eliminated. Currently, its product are available in major 25+ cities via 3,500+ outlets.

Margins have doubled and likely to stay at 9%+ level: Its margins have more than doubled from 4.1% in FY2014 to 9.1% in M9FY2018, driven by launch of new product categories and business restructuring. This was also led by better negotiation with Chinese suppliers (with increasing scale of Safari's operations) and relatively stable ₹ exchange rate. We expect it to maintain 9%+ margins from FY2018 onwards led by regular price hikes, shift towards organised player and favourable industry dynamics.

Outlook and Valuation: We expect its revenue to grow by 23% CAGR over FY2017-20E on the back of growth in its recently introduced new products. We expect its earnings to grow by ~59% CAGR, owing to stable operating margins and its asset light model. Safari currently trades at a P/E of 40x FY2019E and 30x its FY2020E EPS which looks attractive looking at its strong brand play story emerging in the luggage industry. **We initiate coverage on the stock with a Buy recommendation and Target Price of ₹650 (36x FY2020E EPS), indicating an upside of 18%.**

Key financials

Y/E March (Rs cr)	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
Net Sales	278	359	409	532	665
% chg	28.8	29.0	14.0	30.0	25.0
Net Profit	7.8	10.4	20.4	29.3	40.0
% chg	55.9	33.8	96.2	43.6	36.4
OPM (%)	6.7	6.3	9.4	9.8	10.3
EPS (Rs)	3.5	4.7	9.2	13.2	18.0
P/E (x)	152.1	113.7	58.0	40.4	29.6
P/BV (x)	13.1	11.9	10.0	8.2	6.5
RoE (%)	8.5	10.4	17.2	20.1	21.9
RoCE (%)	9.7	12.1	19.6	23.5	26.3
EV/Sales (x)	4.4	3.4	3.0	2.3	1.8
EV/EBITDA (x)	66.8	54.4	31.6	23.3	17.7

Source: Company, Angel Research, Note: CMP as of February 21, 2018

BUY

CMP	₹532
Target Price	₹650

Investment Period	12 Months
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Stock Info

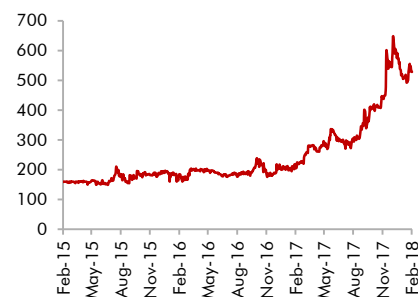
Sector	Luggages
Market Cap (₹ cr)	1,184
Net Debt (₹ cr)	39
Beta	0.3
52 Week High / Low	664 / 205
Avg. Daily Volume	12,609
Face Value (₹)	2
BSE Sensex	33,844
Nifty	10,397
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)

Promoters	57.8
MF / Banks / Indian Fls	21.2
FII / NRIs / OCBs	6.0
Indian Public / Others	15.0

Abs. (%)	3m	1yr	3yr
Sensex	1.3	18.6	14.3
Safari	(2.4)	155.0	247.0

3 year daily price chart



Source: Company, Angel Research

Nidhi Agrawal

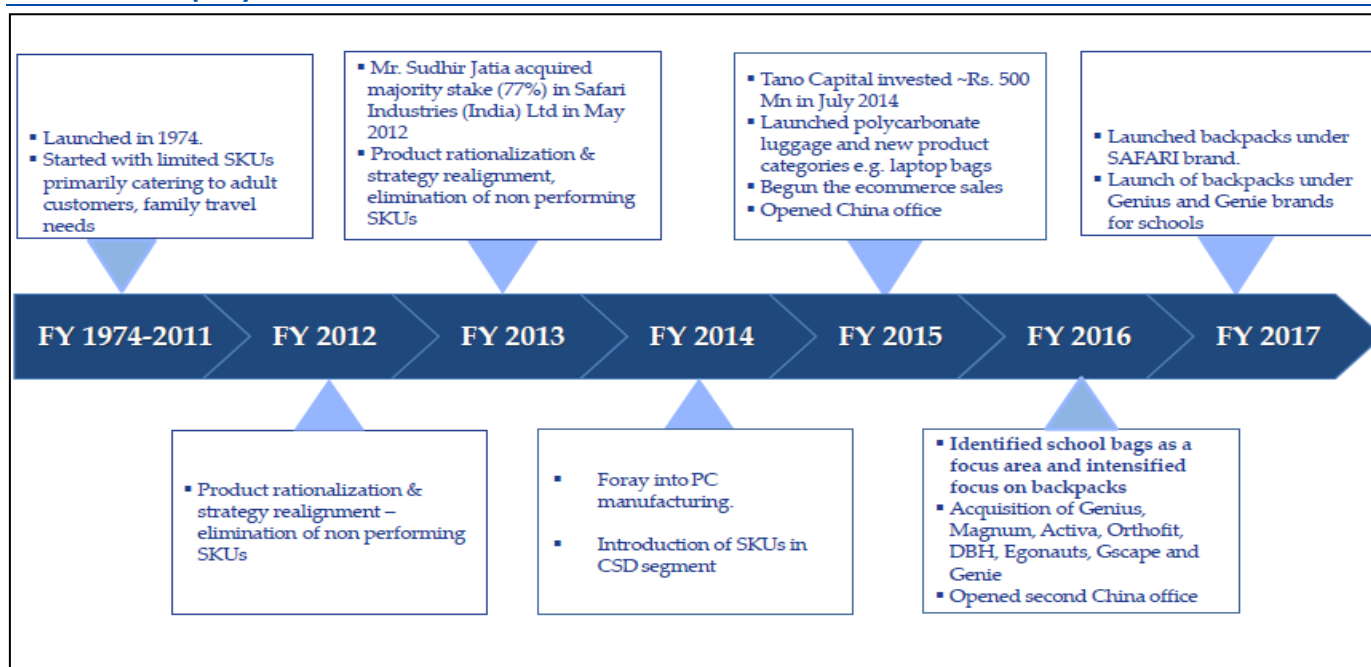
022-39357800 Ext: 6872

nidhi.agrawal@angelbroking.com

Company background

Safari is in the business of manufacturing and trading of luggage and luggage accessories. Safari was incorporated in 1980 by Mr. Sumatichandra H Mehta and it used to basically manufacture injection moulded plastic articles and vacuum formed plastic articles, at its plants at Bombay and Halol, Gujarat. Mehta and family. In 2012, the company was taken over by Mr Sudhir Jatia who was previously working as MD with VIP industries. Since then there has been business restructuring where lot of new products were introduced. The company largely procures quality products from China and sell it under its brand Safari.

Exhibit 1: Company's timeline



Source: Company

Product categories

There are two broad categories of luggage i.e hard luggage and soft luggage. Hard luggages (20% of revenue) are mainly made of Poly Propylene (PP) and Poly Carbonate (PC) and manufactured in-house by Safari at its plant located at Halol, Gujarat. Soft luggages are made of fabrics of various kinds and are mainly imported from China where the company has opened 2 offices for design and procurement.

Exhibit 2: Product categories

Group	Soft Luggage	Hard Luggage
Product Category	Rolling Duffle bags, Upright 2/ 4 wheeler, Children bags, backpacks	Poly Carbonate & ABS, PolyPropylene
Revenue Contribution	80%	20%
Strategy	Branded offering in a largely unorganized market Innovating by adding features	PolyPropylene-Steadily getting phased out Poly Carbonate & ABS- Focus on innovative designs
Sourcing	Imported from China	Largely made in house

Source: Company, Angel Research

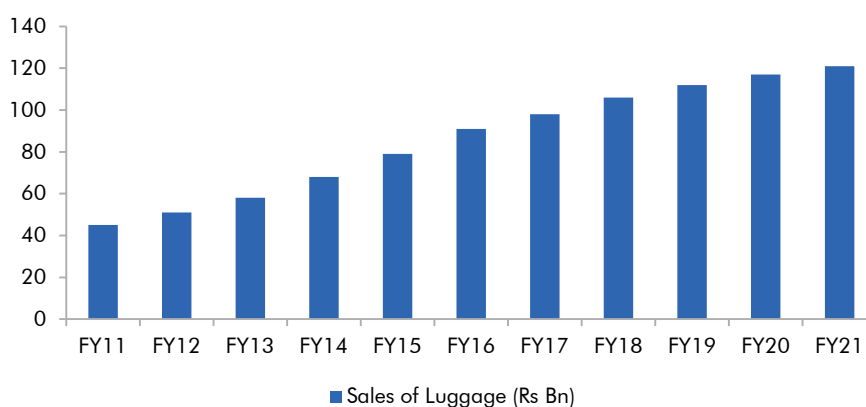
Investment Arguments

Shift in trend towards the organized sector to propel growth

1. Favourable Industry dynamics for organized players post GST

The Indian luggage industry is valued at ₹9000cr+ and is largely dominated by the unorganized sector. The top three branded players namely- VIP Industries, Samsonite and Safari forms only ~28% of this market. VIP Industries is the market leader with over 50% market share whereas Samsonite has been losing market share (current at ~35% from the past level of 50%+). Backed by re infused energy from new management, Safari has been grabbing market share in the last few years and currently it stands at 14-15%.

Exhibit 3: Luggage industry posted ~15% CAGR during 2011-16



Source: Company, Angel research

2. Increasing travel and premiumization is driving the growth

Most players are coming up with more youth-orientated products like lightweight and more efficient backpacks and duffel bags. Robust demand for luggage is led by the fact that most youngsters now are keen on travel and adventure, increasing demand for hands-free and hassle-free luggage. The Indian luggage industry is likely to benefit as the people have become more demanding in term of style and comfort for travel luggage.

Exhibit 4: Indian tourism industry growing >10% CAGR

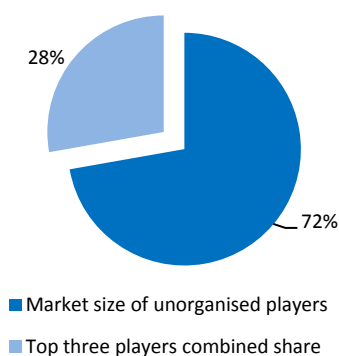


Source: Company, Angel Research

3. GST has further created level field for organised players

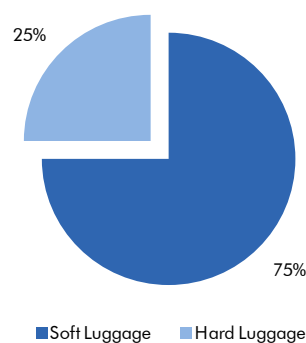
Owing to improving economy and consumer confidence, increasing travel and product premiumization, the luggage industry has posted a 13%+ CAGR in the past decade and is expected to maintain this momentum for next few years. With GST implementation in 2017, the new cost dynamics has further led to industry shifting towards organized players.

Exhibit 5: Organised v/s unorganised market share



Source: Industry, Angel Research

Exhibit 6: Segment wise break-up



Source: Industry, Angel Research

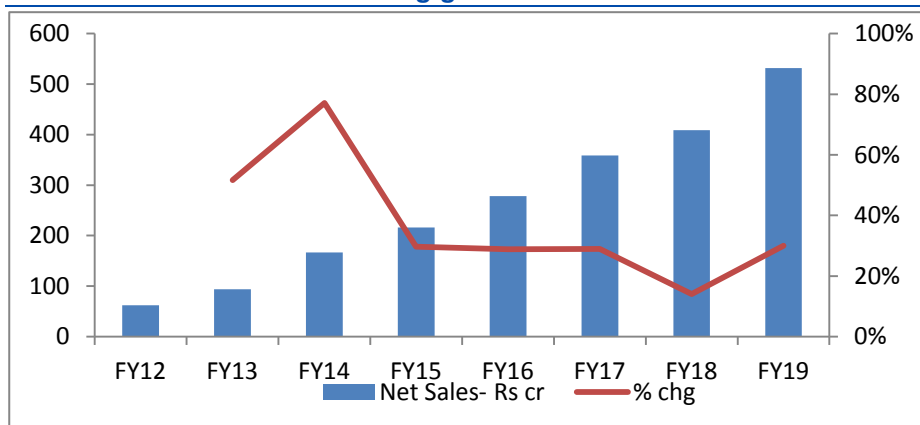
Company on a strong growth trajectory since 2012

In 2012, the company was taken over by Mr Sudhir Jatia who was previously MD with VIP industries. Since then there has been business restructuring where lot of new products were introduced and old non selling SKUs were discontinued. The company now largely procures quality products (specially in soft luggage) from China and sell it under its brand Safari.

Post the management change, Safari has grown its revenue by 6x in the last 7 years. This has been achieved by foraying in many new categories like back pack, school bags (via acquisition of Genius and Genie in 2015) and improvement in distribution networks.

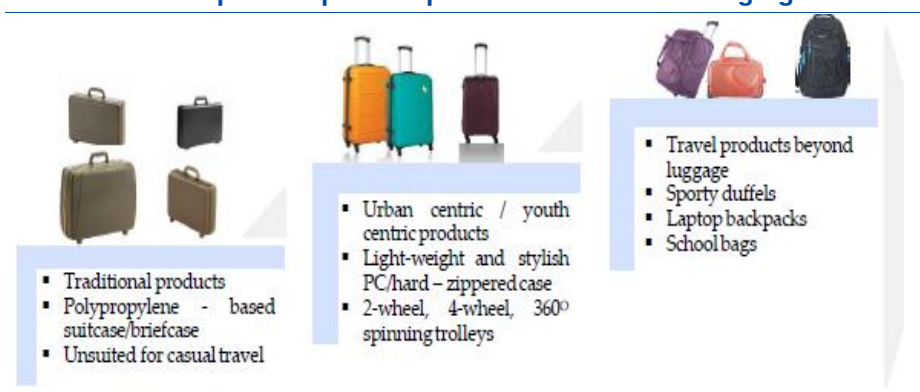
Also, it adopted product rationalization & strategy realignment where non performing SKUs were eliminated. Currently, its products are available in major 25+ cities via 3,500+ outlets.

Exhibit 7: Revenues shown strong growth



Source: Company, Angel Research

Exhibit 8: Revamped the product portfolio to suit the changing trends



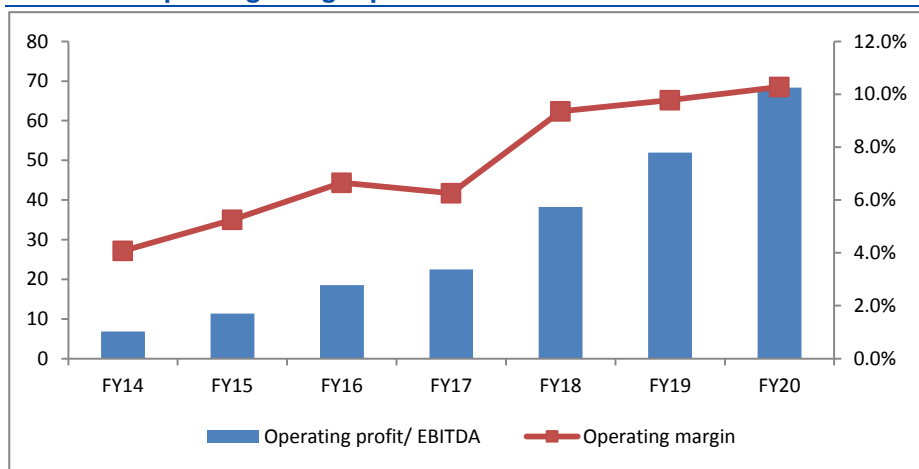
Source: Company, Angel Research

Margins have doubled and likely to stay at 9%+ level

The company has more than doubled its margins from 4.1% in FY2014 to 9.1% in M9FY2018, driven by launch of new product categories and product premiumization. This was also led by better negotiation with Chinese suppliers (with increasing scale of Safari's operations) and relatively stable INR exchange rate and depreciation of Chinese Yuan.

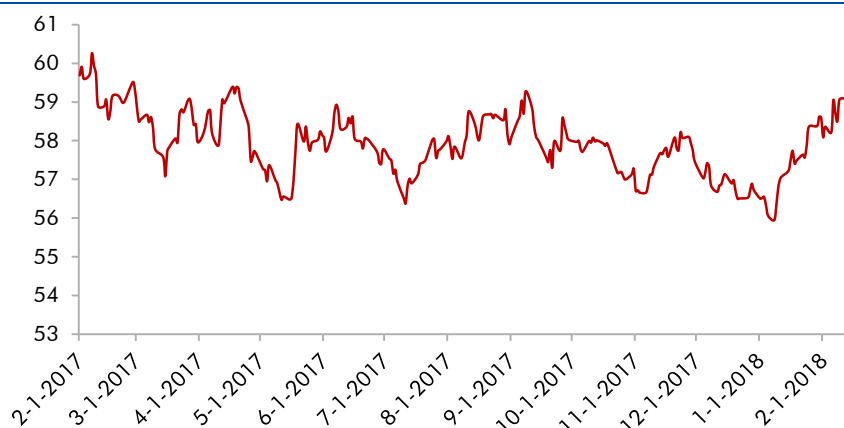
VIP's 80% revenue comes from soft luggage, which is imported from China. However, with closure of many luggage units in China (owing to pollution concerns), the surviving suppliers have started taking price hikes which is likely to put pressure on margins. We expect the company to largely post 9%+ margins from FY2018 onwards led by regular price hikes, shift towards organised player post GST and favourable industry dynamics.

Exhibit 9: Improving margin profile



Source: Company, Angel Research

Exhibit 10: Yen is showing strength against rupee since January 2018



Source: Company, Angel Research

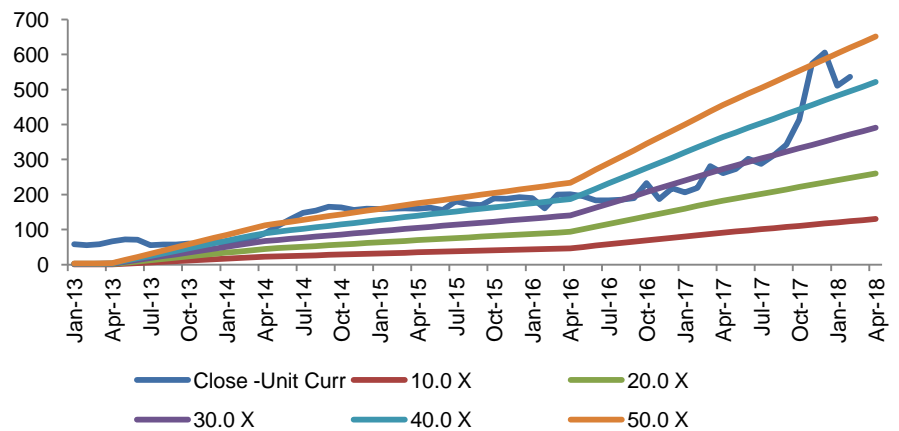
Outlook

Going ahead, we expect Safari to report a top-line CAGR of ~23% over FY2017-20E on the back of growth in its recently introduced new products and improving distribution network. Further, GST implementation will also boost the volume of branded sales. On the bottom-line front, we expect the company to report ~59% CAGR over FY2017-20E on a small base, owing to stable operating margins and product premiumization. The stock has turned 5x in last 4 years, however we feel that the company with its aggressive track record and pricing strategy will continue to post better growth than its peers like VIP and Samsonite although on a smaller base.

Valuation

Safari currently trades at a P/E of 40x FY2019E and 30x its FY2020E EPS which looks reasonable looking at its strong growth trajectory and its strong brand play story emerging in the luggage industry. Its M9FY2018 results has shown a yearly growth of 112% in net profits. We Initiate Coverage on the stock with a Buy recommendation and Target Price of ₹650 (36x FY2020E EPS), indicating an upside of ~18% from the current levels.

Exhibit 11: One year forward PE chart



Source: Company, Angel Research

Exhibit 12: Peer comparison

Comparison	VIP Industries	Safari
Market Cap (Rs cr)	4808	1230
SKU (units)	100+	35+
Network	8000+	3500+
CAGR % (FY14-17)		
Revenue	9.4%	29.2%
PAT	21.9%	204.4%
Average OPM	8.8%	5.3%
Projections- FY2019		
Revenue	1693	532
PAT	128	29
Valuations FY2019		
EV/ EBITDA	23.4	24.2
P/E	39.4	40.4
Return%- FY2019		
ROE	24.6%	20.1%
ROCE	35.1%	26.3%

Source: Company, Angel Research

Risks and concerns

- Volatility in foreign currency could impact the company's profitability (80% of its revenue comes from soft luggage, which is imported from China).
- With closure of many luggage units in China (owing to pollution concerns), the surviving suppliers have started taking price hikes which could put pressure on its margins, unless price hike is taken.
- Increase in competition from unorganized players could impact overall growth of the company
- Safari's 20% sales comes from hard luggage segment and any increase in input cost (most of the key raw material is polypropylene and aluminum) could negatively impact profitability

Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	278	359	409	532	665
% chg	28.8	29.0	14.0	30.0	25.0
Total Expenditure	260	336	371	480	596
Raw Material	173	219	238	307	380
Personnel	29	41	47	61	77
Selling and Administration Expenses	48.1	65.4	73.6	95.7	119.6
Others Expenses	9	10	12	16	19
EBITDA	19	22	38	52	68
% chg	63.1	21.3	70.4	35.9	31.4
(% of Net Sales)	6.7	6.3	9.4	9.8	10.3
Depreciation & Amortisation	4	5	6	7	7
EBIT	14	17	32	45	61
% chg	70.7	20.0	86.3	40.8	34.7
(% of Net Sales)	5.2	4.8	7.9	8.5	9.2
Interest & other Charges	3	3	3	3	3
Other Income	1	1	1	2	2
(% of PBT)	6.5	7.4	4.3	3.6	3.2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	12	15	30	44	60
% chg	105.9	25.2	103.9	43.6	36.4
Tax	4	5	10	14	20
(% of PBT)	35.2	34.1	33.0	33.0	33.0
PAT (reported)	8	10	20	29	40
Extraordinary Items	(0)	(1)	-	-	-
ADJ. PAT	8	10	20	29	40
% chg	55.9	33.8	96.2	43.6	36.4
(% of Net Sales)	2.8	2.9	5.0	5.5	6.0
Fully Diluted EPS (Rs)	3.5	4.7	9.2	13.2	18.0
% chg	55.9	33.8	96.2	43.6	36.4

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	4	4	4	4	4
Reserves & Surplus	87	96	115	141	178
Shareholders Funds	91	100	119	146	182
Equity Share Warrants	-	-	-	-	-
Total Loans	58	44	46	48	50
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	149	143	165	194	233
APPLICATION OF FUNDS					
Gross Block	42	45	50	55	60
Less: Acc. Depreciation	18	22	28	34	42
Net Block	24	23	22	21	19
Capital Work-in-Progress	-	1	1	1	1
Investments	-	-	-	-	-
Current Assets	143	165	197	240	295
Inventories	76	94	105	134	164
Sundry Debtors	54	58	64	77	93
Cash	5	5	19	18	25
Loans & Advances	8	7	8	11	13
Other Assets	-	-	-	-	-
Current liabilities	27	54	65	78	94
Net Current Assets	116	110	132	161	202
Deferred Tax Asset	(0)	(0)	(0)	(0)	(0)
Total Assets	149	143	165	194	233

Source: Company, Angel Research

Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	12	15	30	44	60
Depreciation	4	5	6	7	7
Change in Working Capital	0	0	(7)	(31)	(33)
Interest / Dividend (Net)	3	3	3	3	3
Direct taxes paid	(4)	(5)	(10)	(14)	(20)
Others	(28)	4	2	(1)	(1)
Cash Flow from Operations	(13)	22	25	7	17
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(5)	(5)	(5)
(Inc.)/ Dec. in Investments	1	(1)	0	0	0
Cash Flow from Investing	(15)	(6)	(5)	(5)	(5)
Issue of Equity	7	0	0	0	0
Inc./(Dec.) in loans	3	1	2	2	2
Dividend Paid (Incl. Tax)	0	(16)	(2)	(2)	(3)
Interest / Dividend (Net)	(3)	(3)	(3)	(3)	(3)
Cash Flow from Financing	29	(17)	(3)	(3)	(4)
Inc./(Dec.) in Cash	1	(2)	17	(1)	8
Opening Cash balances	3	4	2	19	18
Closing Cash balances	4	2	19	18	25

Source: Company, Angel Research

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	152.1	113.7	58.0	40.4	29.6
P/CEPS	101.0	79.6	45.2	33.3	25.3
P/BV	13.1	11.9	10.0	8.2	6.5
Dividend yield (%)	0.0	0.1	0.1	0.2	0.3
EV/Sales	4.4	3.4	3.0	2.3	1.8
EV/EBITDA	66.8	54.4	31.6	23.3	17.7
EV / Total Assets	8.3	8.5	7.3	6.3	5.2
Per Share Data (₹)					
EPS (Basic)	3.5	4.7	9.2	13.2	18.0
EPS (fully diluted)	3.5	4.7	9.2	13.2	18.0
Cash EPS	5.3	6.7	11.9	16.1	21.2
DPS	0.2	0.4	0.8	1.1	1.5
Book Value	40.9	44.9	53.5	65.5	82.0
Returns (%)					
ROCE	9.7	12.1	19.6	23.5	26.3
Angel ROIC (Pre-tax)	10.0	12.5	22.2	25.8	29.5
ROE	8.5	10.4	17.2	20.1	21.9
Turnover ratios (x)					
Asset Turnover (Gross Block)	6.6	7.9	8.1	9.6	11.0
Inventory / Sales (days)	100	96	94	92	90
Receivables (days)	71	59	57	53	51
Payables (days)	92	141	137	125	118
Working capital cycle (ex-cash) (days)	80	14	15	20	23

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

Safari Industries

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No