

## Safari Industries Ltd

### Performance Update

(₹ cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq
Revenue	144	104	39.0	127	13.2
EBITDA	11	12	(12.6)	11	(5.2)
OPM (%)	7.5	12.0	(444bp)	9.0	(145bp)
Reported PAT	5	7	(26.8)	6	(19.6)

Source: Company, Angel Research

For 3QFY2019, Safari Industries (SIL) posted Strong Result top-line growth, though it disappointed on bottom-line front. Revenue grew ~39% yoy to ₹144cr. On the margin front, the company reported operating margin contracted by 444bps yoy. On the bottom-line front, SIL reported de-growth of ~27% yoy to ~₹5cr due to cost pressures and higher taxes.

**Strong volumes boost overall top-line growth:** The Company's top-line grew by ~39% yoy to ₹144cr on the back of strong volume growth (strong demand due strong air passenger growth and market share gain from unorganized player).

**Poor operating performance impacted the overall profitability:** On the operating margin front, the company reported margin contraction by 444bps yoy due to cost pressure on account of INR depreciation.

**Outlook and Valuation:** Going ahead, we expect SIL to report a top-line CAGR of ~36% over FY18-20E to ~₹774cr on the back of diversified product portfolio (catering to customers from all segments), and strong distribution network with high brand recall. Moreover, we believe that SIL's bottom-line is set to grow at a CAGR of ~56% over FY18-20E due to gradual improvement in operating margin. **We maintain our Buy recommendation on the stock with a Target Price of ₹1000.**

### Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	344	418	595	774
% chg	23.5	21.5	42.6	30.0
Adj. Net profit	11	21	34	52
% chg	19.9	98.0	59.5	52.1
EBITDA margin (%)	6.8	9.8	10.7	11.2
EPS (₹)	4.8	9.6	15.2	23.2
P/E (x)	149.7	75.6	47.4	31.2
P/BV (x)	16.0	9.3	7.8	6.2
RoE (%)	10.7	12.3	16.4	20.0
RoCE (%)	12.7	15.3	21.0	24.0
EV/Sales (x)	4.8	4.0	2.8	2.2
EV/EBITDA (x)	70.8	40.5	26.2	19.2

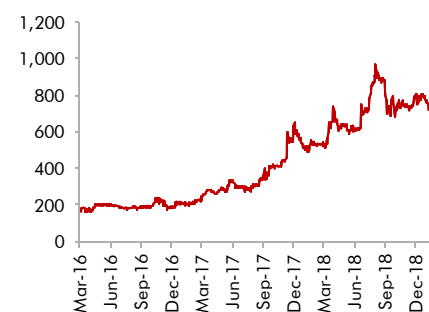
## BUY

CMP	₹722
Target Price	₹1000
Investment Period	12 months

Stock Info	
Sector	Luggage
Market Cap (₹ cr)	1,612
Net Debt (₹ cr)	41
Beta	0.7
52 Week High / Low	1,005/505
Avg. Daily Volume	5,050
Face Value (₹)	2
BSE Sensex	35,809
Nifty	10,724
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)			
Promoters			57.6
MF / Banks / Indian			14.5
FII / NRIs / OCBs			10.7
Indian Public/Others			17.2
Abs.(%)			
	3m	1yr	3yr
Sensex	1.6	4.4	52.0
SIL	(3.5)	32.0	334.4

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2019 Performance**

Y/E March (₹ cr)	3QFY19	3QFY18	% chg. (yoy)	2QFY19	% chg. (qoq)	9MFY19	9MFY18	% chg
<b>Net Sales</b>	<b>144</b>	<b>104</b>	<b>39</b>	<b>127</b>	<b>13.2</b>	427.61	297.14	<b>43.9</b>
Net raw material	86.4	54	60.0	72.2	19.7	246	162	51.9
(% of Sales)	59.9	52.1	787	56.7	326	57.5	54.5	
Employee Cost	17	13	29.8	16	6.8	48	38	28.1
(% of Sales)	11.8	12.6	(84)	12.5	(70)	11.3	12.7	
Other Expenses	30	24	23.5	28	7.5	89	70	27.3
(% of Sales)	20.8	23.3	(259)	21.9	(110)	20.8	23.6	
<b>Total Expenditure</b>	<b>133</b>	<b>91</b>	<b>46.0</b>	<b>116</b>	<b>15.0</b>	<b>384</b>	<b>270</b>	<b>42.2</b>
<b>Operating Profit</b>	<b>11</b>	<b>12</b>	<b>(12.6)</b>	<b>11</b>	<b>(5.2)</b>	<b>44</b>	<b>27</b>	<b>61.2</b>
OPM (%)	7.5	12.0	(444)	9.0	(145)	10.3	9.2	111
Interest	1	1	9.4	1	16.3	2.76	2.38	16.0
Depreciation	2	2	6.5	2	0.9	6.16	4.69	31.3
Other Income	0	0	(64.7)	0	(25.0)	0.47	0.68	(30.9)
<b>PBT before exceptional</b>	<b>8</b>	<b>10</b>	<b>(20.1)</b>	<b>9</b>	<b>(9.0)</b>	<b>36</b>	<b>21</b>	<b>70.0</b>
(% of Sales)	5.5	9.6		6.8		8.3	7.1	
Exceptional Items	-	-		-		-	-	
<b>PBT</b>	<b>8</b>	<b>10</b>	<b>(20.1)</b>	<b>9</b>	<b>(9.0)</b>	<b>35.6</b>	<b>21.0</b>	<b>70.0</b>
Tax	3	3	(5.4)	3	17.0	12.32	7.4	66.5
(% of PBT)	37.4	31.6		29.1		34.6	35.3	
<b>Reported PAT</b>	<b>5</b>	<b>7</b>	<b>(26.8)</b>	<b>6</b>	<b>(19.6)</b>	<b>23.3</b>	<b>13.6</b>	<b>72.0</b>
PATM	3.4	6.5		4.8		5.4	4.6	
Extra-ordinary Items	-	-		-		-	0	
<b>Adj PAT</b>	<b>5</b>	<b>7</b>	<b>(26.8)</b>	<b>6</b>	<b>(19.6)</b>	<b>23</b>	<b>14</b>	<b>72.0</b>

Source: Company, Angel Research

### **Downside risks to our estimates**

- Volatility in foreign currency could impact the company's profitability (77% 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 would impact overall growth of the company
- Safari's 23% 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

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Net Sales</b>	<b>278</b>	<b>344</b>	<b>418</b>	<b>595</b>	<b>774</b>
% chg	28.6	23.5	21.5	42.6	30.0
<b>Total Expenditure</b>	<b>260</b>	<b>320</b>	<b>376</b>	<b>532</b>	<b>687</b>
Raw Material	155	201	226	323	421
Personnel	29	40	53	76	100
Others Expenses	76	79	98	132	166
<b>EBITDA</b>	<b>18</b>	<b>23</b>	<b>41</b>	<b>64</b>	<b>87</b>
% chg	62.4	30.3	76.6	54.9	36.1
(% of Net Sales)	6.4	6.8	9.8	10.7	11.2
Depreciation & Amortisation	4	5	6	8	10
<b>EBIT</b>	<b>14</b>	<b>18</b>	<b>35</b>	<b>55</b>	<b>76</b>
% chg	70.0	31.6	92.5	58.6	38.0
(% of Net Sales)	5.0	5.3	8.4	9.3	9.9
Interest & other Charges	3	4	3	4	4
Other Income	1	1	2	1	6
(% of PBT)	6.5	7.1	4.6	1.1	7.7
<b>Recurring PBT</b>	<b>12</b>	<b>16</b>	<b>34</b>	<b>52</b>	<b>78</b>
% chg	119.7	30.0	116.2	55.7	49.8
Tax	4	5	12	18	27
(% of PBT)	35.1	34.5	36.5	35.0	34.0
<b>PAT (reported)</b>	<b>8</b>	<b>10</b>	<b>21</b>	<b>34</b>	<b>52</b>
Extraordinary Items	(1)	(1)	-	-	-
<b>ADJ. PAT</b>	<b>9</b>	<b>11</b>	<b>21</b>	<b>34</b>	<b>52</b>
% chg	94.0	19.9	98.0	59.5	52.1
(% of Net Sales)	3.2	3.1	5.1	5.7	6.7
<b>Basic EPS (₹)</b>	<b>4.0</b>	<b>4.8</b>	<b>9.6</b>	<b>15.2</b>	<b>23.2</b>
<b>Fully Diluted EPS (₹)</b>	<b>4.0</b>	<b>4.8</b>	<b>9.6</b>	<b>15.2</b>	<b>23.2</b>
% chg	94.0	19.9	98.0	59.5	52.1

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	4	4	4	4	4
Reserves & Surplus	87	97	168	202	254
<b>Shareholders Funds</b>	<b>91</b>	<b>101</b>	<b>173</b>	<b>207</b>	<b>259</b>
Total Loans	58	42	55	57	60
Deferred Tax Liability	1	1	1	1	1
<b>Total Liabilities</b>	<b>150</b>	<b>143</b>	<b>229</b>	<b>265</b>	<b>319</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	42	28	39	58	68
Less: Acc. Depreciation	18	4	8	16	26
Net Block	<b>24</b>	<b>23</b>	<b>32</b>	<b>42</b>	<b>42</b>
Capital Work-in-Progress	0	1	0	0	0
Investments	0	-	-	-	-
Current Assets	152	174	249	304	382
Inventories	76	94	123	163	204
Sundry Debtors	54	58	104	106	131
Cash	5	5	3	2	5
Loans & Advances	8	13	15	24	31
Other Assets	9	3	6	9	12
Current liabilities	27	55	53	73	96
<b>Net Current Assets</b>	<b>125</b>	<b>119</b>	<b>197</b>	<b>231</b>	<b>286</b>
<b>Deferred Tax Asset</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>150</b>	<b>143</b>	<b>229</b>	<b>265</b>	<b>319</b>

**Consolidated Cashflow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	12	16	34	52	78
Depreciation	4	5	6	8	10
Change in Working Capital	(28)	4	(81)	(35)	(53)
Interest / Dividend (Net)	3	4	3	0	0
Direct taxes paid	(4)	(5)	(11)	(18)	(27)
Others	1	1	2	0	0
<b>Cash Flow from Operations</b>	<b>(13)</b>	<b>24</b>	<b>(48)</b>	<b>8</b>	<b>9</b>
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(15)	(10)	(10)
(Inc.)/ Dec. in Investments	1	(1)	3	0	0
<b>Cash Flow from Investing</b>	<b>(15)</b>	<b>(6)</b>	<b>(13)</b>	<b>(10)</b>	<b>(10)</b>
Issue of Equity	7	0	51	0	0
Inc./ (Dec.) in loans	3	1	0	2	3
Dividend Paid (Incl. Tax)	(0)	0	0	0	0
Interest / Dividend (Net)	20	(19)	8	0	0
<b>Cash Flow from Financing</b>	<b>29</b>	<b>(18)</b>	<b>59</b>	<b>2</b>	<b>3</b>
Inc./ (Dec.) in Cash	1	(0)	(2)	(0)	2
<b>Opening Cash balances</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>2</b>
<b>Closing Cash balances</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>5</b>

**Key Ratio**

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	179.5	149.7	75.6	47.4	31.2
P/CEPS	136.4	105.3	58.6	38.1	26.0
P/BV	17.7	16.0	9.3	7.8	6.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	6.0	4.8	4.0	2.8	2.2
EV/EBITDA	93.3	70.8	40.5	26.2	19.2
EV / Total Assets	11.1	11.5	7.3	6.1	5.1
<b>Per Share Data (Rs)</b>					
EPS (Basic)	4.0	4.8	9.6	15.2	23.2
EPS (fully diluted)	4.0	4.8	9.6	15.2	23.2
Cash EPS	5.3	6.9	12.3	19.0	27.8
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	40.8	45.3	77.5	92.8	115.9
<b>Returns (%)</b>					
ROCE	9.2	12.7	15.3	21.0	24.0
Angel ROIC (Pre-tax)	9.6	13.2	15.5	21.2	24.4
ROE	9.9	10.7	12.3	16.4	20.0
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	6.6	12.4	10.7	10.3	11.4
Inventory / Sales (days)	100	100	107	100	96
Receivables (days)	71	62	91	65	62
Payables (days)	23	51	41	40	40
Working capital cycle (ex-cash) (days)	148	111	156	125	118

Source: Company, Angel Research

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	Safari
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

### Ratings (Returns):

Buy (&gt; 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)