

Safari Industries

Performance Update

Y/E March (₹ cr)	1QFY20	2QFY19	% yoy	4QFY19	% qoq
Net sales	203	157	29.1	141	44.5
EBITDA	21	22	(4.9)	8	163.0
EBITDA margin (%)	10.2	13.8	(364bp)	5.6	459bp
Adjusted PAT	9	12	(29.2)	4	133.6

Source: Company, Angel Research

For 1QFY2020, Safari Industries (SIL) posted Strong Result top-line growth, though it disappointed on bottom-line front. Revenue grew ~29% yoy to ₹203cr. On the margin front, the company reported operating margin contracted by 364bps yoy. On the bottom-line front, SIL reported de-growth of ~29% yoy to ₹9cr due to cost pressures.

Strong volumes boost overall top-line growth: The Company's top-line grew by ~29% yoy to ₹203cr on the back of strong volume growth (market share gain from unorganized player).

Poor operating performance impacted the overall profitability: On the operating margin front, the company reported margin contraction by 364bps yoy due to cost pressure.

Outlook and Valuation: Going ahead, we expect SIL to report a top-line CAGR of ~19% over FY18-20E to ~₹813cr 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 ~23% over FY18-20E due to gradual improvement in operating margin. **We maintain our Buy recommendation on the stock with a Target Price of ₹646.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net sales	415	578	702	813
% chg	15.8	39.1	21.6	15.8
Adj. Net profit	21.2	27.2	33.1	41.1
% chg	103.3	28.3	21.4	24.2
EBITDA margin (%)	9.8	9.1	11.1	11.3
EPS (₹)	9.5	12.2	14.9	18.5
P/E (x)	57.0	44.5	36.6	29.5
P/BV (x)	9.6	8.4	7.3	6.3
RoE (%)	12.3	13.8	14.5	15.5
RoCE (%)	15.2	17.3	20.3	21.5
EV/Sales (x)	3.0	2.2	1.8	1.6
EV/EBITDA (x)	30.8	24.1	16.3	13.8

Source: Company, Angel Research Note

BUY

CMP	₹553
Target Price	₹646
Investment Period	12 months

Stock Info	
Sector	Luggage
Market Cap (₹ cr)	1,236
Net Debt (₹ cr)	41
Beta	0.7
52 Week High / Low	1005/481
Avg. Daily Volume	3,823
Face Value (₹)	2
BSE Sensex	37,624
Nifty	11,120
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)	
Promoters	57.6
MF / Banks / Indian FIs	0.0
FII / NRIs / OCBs	9.9
Indian Public / Others	32.5

Abs. (%)	3m	1yr	3yr
Sensex	(0.1)	(0.8)	33.1
SIL	(12.5)	(34.9)	90.5

Price Chart



Source: Company, Angel Research

Research Analyst

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Exhibit 1: 1QFY20 Performance

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq	FY2019	FY2018	% chg
Net Sales	203	157	29.1	141	44.5	573	417	37.4
Consumption of RM	122	88	38.4	83	46.5	334	226	48.0
(% of Sales)	60.2	56.2		59.4		58.3	54.1	
Staff Costs	19	16	23.8	17	14.6	65	53	23.4
(% of Sales)	9.6	10.0		12.1		11.4	12.7	
Other Expenses	41	32	29.2	32	26.2	121	97	25.4
(% of Sales)	20.1	20.0		23.0		21.2	23.2	
Total Expenditure	182	136	34.6	133	37.5	521	375	38.7
Operating Profit	21	22	(4.9)	8	163.0	52	41	25.3
OPM	10.2	13.8		5.6		9.1	9.9	
Interest	3	1	181.6	2	68.6	4	3	54.7
Depreciation	5	2	153.4	2	143.2	8	6	33.0
Other Income	1	0	231.6	1	(25.0)	1	1	39.4
PBT (excl. Ext Items)	14	19	(28.6)	5	171.7	41	33	21.7
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	14	19	(28.6)	5	171.7	41	33	21.7
(% of Sales)	6.7	12.1		3.6		7.1	8.0	
Provision for Taxation	5	7	(27.6)	1	280.0	14	12	12.2
(% of PBT)	36.4	35.9		26.1		33.5	36.4	
Reported PAT	9	12	(29.2)	4	133.6	27	21	27.2
PATM	4.2	7.7		2.6		4.7	5.1	
Minority Interest After NP								
Reported PAT	9	12	(29.2)	3.7	133.6	27	21	27.2

Source: Company, Angel Research

Downside risks to our estimates

- Volatility in foreign currency could impact the company's profitability (most 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

Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
Total operating income	278	359	415	578	702	813
% chg	28.8	29.0	15.8	39.1	21.6	15.8
Total Expenditure	260	336	375	525	624	722
Raw Material	173	219	226	334	405	469
Personnel	29	41	53	66	81	96
Selling and Administration Expenses	48.1	65.4	96.2	-	-	-
Others Expenses	9	10	-	126	138	156
EBITDA	19	22	41	52	78	92
% chg	63.1	21.3	81.6	28.7	48.6	17.9
(% of Net Sales)	6.7	6.3	9.8	9.1	11.1	11.3
Depreciation & Amortisation	4	5	6	8	19	21
EBIT	14	17	35	44	59	71
% chg	70.7	20.0	99.9	27.4	32.7	20.5
(% of Net Sales)	5.2	4.8	8.3	7.6	8.3	8.7
Interest & other Charges	3	3	3	4	12	12
Other Income	1	1	2	1	3	3
(% of PBT)	6.5	7.4	4.6	3.2	5.1	4.9
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	12	15	33.4	41	49	61
% chg	105.9	25.2	123.1	22.9	20.4	24.2
Tax	4	5	12	14	16	20
(% of PBT)	35.2	34.1	36.4	33.6	33.0	33.0
PAT (reported)	8	10	21	27	33	41
Extraordinary Items	(0)	(1)	-	-	-	-
ADJ. PAT	8	10	21	27	33	41
% chg	55.9	34.2	103.3	28.3	21.4	24.2
(% of Net Sales)	2.8	2.9	5.1	4.7	4.7	5.0
Fully Diluted EPS (₹)	3.5	4.7	9.5	12.2	14.9	18.5
% chg	55.9	34.2	103.3	28.3	21.4	24.2

Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS						
Equity Share Capital	4	4	4	4	4	4
Reserves & Surplus	87	96	168	193	224	261
Shareholders Funds	91	100	173	198	228	266
Equity Share Warrants	-	-	-	-	-	-
Total Loans	58	44	54	57	60	63
Deferred Tax Liability	-	-	0	-	-	-
Total Liabilities	149	143	228	255	288	329
APPLICATION OF FUNDS						
Gross Block	42	45	60	70	80	90
Less: Acc. Depreciation	18	22	28	36	56	77
Net Block	24	23	31	33	24	12
Capital Work-in-Progress	0	1	0	1	1	1
Investments/ Other NC assets	0	-	6	-	-	-
Current Assets	143	165	244	280	336	391
Inventories	76	94	123	166	194	225
Sundry Debtors	54	58	104	95	115	134
Cash	5	5	3	1	3	4
Loans & Advances	8	7	2	3	3	4
Other Assets	-	-	13	16	20	25
Current liabilities	27	54	53	64	77	80
Net Current Assets	116	110	190	217	259	311
Deferred Tax Asset	(0)	(0)	-	-	-	-
Total Assets	149	143	228	255	288	329

Consolidated Cashflow Statement

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	12	15	33	41	49	61
Depreciation	4	5	6	8	19	21
Change in Working Capital	0	0	(79)	(23)	(41)	(51)
Interest / Dividend (Net)	3	3	3	4	12	12
Direct taxes paid	(4)	(5)	(12)	(14)	(16)	(20)
Others	(28)	4	42	0	0	0
Cash Flow from Operations	(13)	22	(6)	17	24	24
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(8)	(10)	(10)	(10)
(Inc.)/ Dec. in Investments	1	(1)	0	0	0	0
Cash Flow from Investing	(15)	(6)	(8)	(10)	(10)	(10)
Issue of Equity	7	0	0	0	0	0
Inc./(Dec.) in loans	3	1	11	3	3	3
Dividend Paid (Incl. Tax)	0	(16)	(2)	(2)	(3)	(3)
Interest / Dividend (Net)	(3)	(3)	(3)	(4)	(12)	(12)
Cash Flow from Financing	29	(17)	6	(4)	(12)	(13)
Inc./(Dec.) in Cash	1	(2)	(8)	3	2	1
Opening Cash balances	3	4	5	(3)	1	3
Closing Cash balances	4	2	(3)	1	3	4

Key Ratio

Y/E March	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)						
P/E (on FDEPS)	155.6	115.9	57.0	44.5	36.6	29.5
P/CEPS	141.1	111.3	60.9	46.9	31.8	26.7
P/BV	18.3	16.7	9.6	8.4	7.3	6.3
Dividend yield (%)	0.0	0.1	0.1	0.2	0.2	0.3
EV/Sales	4.5	3.5	3.0	2.2	1.8	1.6
EV/EBITDA	68.3	55.6	30.8	24.1	16.3	13.8
EV / Total Assets	8.5	8.7	5.5	5.1	4.5	3.9
Per Share Data- `						
EPS (Basic)	3.5	4.7	9.5	12.2	14.9	18.5
EPS (fully diluted)	3.5	4.7	9.5	12.2	14.9	18.5
Cash EPS	5.3	6.7	12.3	16.0	23.6	28.0
DPS	0.2	0.4	0.8	1.0	1.3	1.6
Book Value	40.9	44.9	77.7	88.9	102.5	119.4
Returns (%)						
ROCE	9.7	12.1	15.2	17.3	20.3	21.5
Angel ROIC (Pre-tax)	10.0	12.5	15.8	17.4	20.5	21.7
ROE	8.5	10.4	12.3	13.8	14.5	15.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.6	7.9	7.0	8.3	8.8	9.1
Inventory / Sales (days)	100	96	108	105	101	101
Receivables (days)	71	59	91	60	60	60
Payables (days)	92	141	114	114	114	112
Working capital cycle (ex-cash) (days)	80	14	85	51	47	49

Source: Company, Angel Research

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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 (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)