

Safari Industries

Another blockbuster quarter...

Robust growth in revenue: For Q1FY2019, Safari Industries (Safari) posted a yoy growth of 49% growth in revenue mainly led by volume growth and low base effect (Q1FY2018 revenue was subdued due to GST impact). The company has reported net revenue of ₹156 cr which was the highest ever revenue achieved. The company is garnering market share from the unorganized market and seeing good demand in its backpacks and new categories which is driving such strong growth in its financials.

Margins almost doubled on yearly basis: OPM has almost doubled on yearly basis to 13.9% led by operating leverage and better product mix. On quarterly basis also, Margins have improved by over 200 bps on a strong base. The company is expecting 100-200 basis margin expansion on yearly basis. Looking at the good demand environment, the company is also planning to move into premium luggage segment and could soon launch some product in this category. Earlier, Safari was in wait and watch mode for this category.

PAT rose by 272% yoy: With a moderate rise in interest and depreciation, PAT grew to ₹12.2 cr, a growth of 272% yoy and 58% qoq.

Outlook and Valuation: We remained convinced about its long term growth story as the company is in sweet spot in a fast growing luggage industry. We have upgraded our estimates by 30-33%, in view of its improving growth and margin outlook. We are now expecting a CAGR of ~30%/60% in revenue/ earnings over FY18-20E. The stock has given 67% return since our initiation in April and is currently trading at 35x our revised FY2020 earnings, which is still attractive looking at its robust growth trajectory. **Hence, we recommend BUY with a target price of ₹1000 (40x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
Net Sales	278	359	415	540	702
% chg	28.8	29.0	15.8	30.0	30.0
Net Profit	7.8	10.4	21.2	40.8	54.6
% chg	55.9	33.8	103.9	92.3	33.8
OPM (%)	6.7	6.3	9.8	12.9	12.9
EPS (Rs)	3.5	4.7	9.5	18.3	24.5
P/E (x)	248.2	185.5	91.0	47.3	35.4
P/BV (x)	15.0	13.6	7.9	6.5	5.2
RoE (%)	8.5	10.4	12.3	19.4	21.0
RoCE (%)	9.7	12.1	15.2	23.6	26.0
EV/Sales (x)	7.1	5.5	4.8	3.6	2.8
EV/EBITDA (x)	107.2	87.7	48.5	28.0	21.7

Source: Company, Angel Research

BUY

CMP ₹868
 Target Price ₹1000

Investment Period 12 Months

Stock Info

Sector	Luggage
Market Cap (₹ cr)	1,934
Net Debt (₹ cr)	52
Beta	0.3
52 Week High / Low	898/285
Avg. Daily Volume	8,776
Face Value (₹)	2
BSE Sensex	37,947
Nifty	11,470
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)

Promoters	57.8
MF / Banks / Indian Fls	15.8
FII / NRIs / OCBs	8.7
Indian Public / Others	17.7

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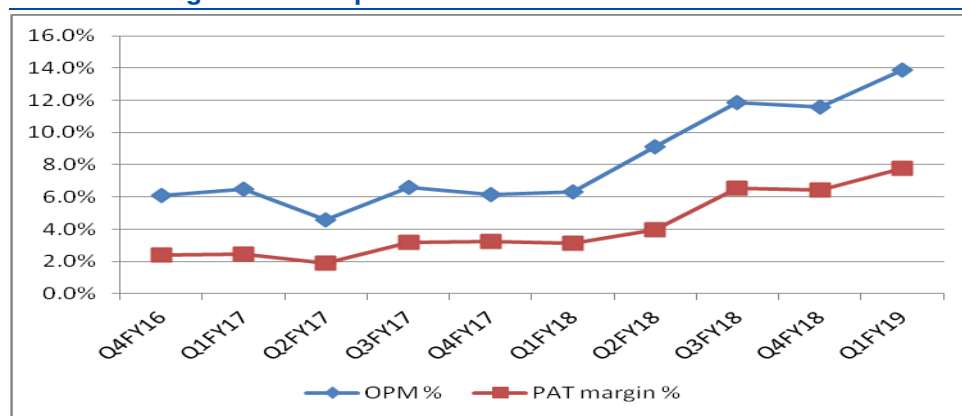
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Exhibit 1: Quarterly results at a glance

Rs cr	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	YoY	QoQ
Net Sales	104	88	103	119	156	49%	31%
YoY growth %	25.6%	19.2%	11.5%	25.9%	49.2%		
Total expenditure	98	80	91	105	134	37%	27%
Raw Material Consumed	8	6	9	19	17	114%	-7%
Stock Adjustment	8	-1	-13	-12	0	-	-96%
Purchase of Finished Goods	48	39	59	57	70	45%	23%
Employee Expenses	12	13	13	15	16	30%	5%
Other Expenses	22	24	24	27	32	45%	17%
As a % of sales							
Raw Material Consumed	8%	7%	8%	16%	11%		
Stock Adjustment	7%	-1%	-13%	-10%	0%		
Purchase of Finished Goods	46%	44%	57%	48%	45%		
Gross margin %	39%	50%	48%	47%	44%		
Employee Expenses	12%	14%	13%	13%	10%		
Other Expenses	21%	27%	23%	23%	20%		
Total expenditure	94%	91%	88%	88%	86%		
Operating profit	6.6	8.0	12.3	13.8	21.6	226%	56.2%
Other Income	0.2	0.2	0.5	0.7	0.3	49%	-55.3%
PBIDT	6.8	8.2	12.8	14.5	21.9	221%	50.8%
Interest	0.5	0.7	0.9	0.7	1.0	91%	45.7%
Depreciation	1.4	1.3	2.0	1.4	1.9	39%	33.3%
PBT	4.9	6.1	9.9	12.4	19.0	285%	53.2%
Tax	1.8	2.6	3.3	4.3	6.8	273%	58.4%
Adjusted Profit	3.3	3.5	6.8	7.7	12.2	272%	58.9%
YoY growth %	61.1%	152.5%	128.3%	150.2%	272.0%		
Ratios							
OPM %	6.3%	9.1%	11.9%	11.6%	13.9%		
PAT margin %	3.1%	4.0%	6.6%	6.4%	7.8%		
Tax rate %	37%	42%	34%	34.7%	35.9%		

Source: Company

Exhibit 2: Margins are on uptrend


Source: Company, Angel Research

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 is 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	FY2018E	FY2019E	FY2020E
Total operating income	278	359	415	540	702
% chg	28.8	29.0	15.8	30.0	30.0
Total Expenditure	260	336	375	470	611
Raw Material	173	219	226	298	387
Personnel	29	41	53	59	77
Selling and Administration Expenses	48.1	65.4	96.2	97.2	126.4
Others Expenses	9	10	-	16	21
EBITDA	19	22	41	70	91
% chg	63.1	21.3	81.6	71.2	30.0
(% of Net Sales)	6.7	6.3	9.8	12.9	12.9
Depreciation & Amortisation	4	5	6	7	7
EBIT	14	17	35	63	83
% chg	70.7	20.0	99.9	81.8	32.4
(% of Net Sales)	5.2	4.8	8.3	11.7	11.9
Interest & other Charges	3	3	3	4	4
Other Income	1	1	2	2	2
(% of PBT)	6.5	7.4	4.6	3.1	2.7
Share in profit of Associates	-	-	-	-	-
Recurring PBT	12	15	33.4	61	82
% chg	105.9	25.2	123.1	82.7	33.8
Tax	4	5	12	20	27
(% of PBT)	35.2	34.1	36.4	33.0	33.0
PAT (reported)	8	10	21	41	55
Extraordinary Items	(0)	(1)	-	-	-
ADJ. PAT	8	10	21	41	55
% chg	55.9	33.8	103.9	92.3	33.8
(% of Net Sales)	2.8	2.9	5.1	7.6	7.8
Fully Diluted EPS (Rs)	3.5	4.7	9.5	18.3	24.5
% chg	55.9	33.8	103.9	92.3	33.8

Source: Company, Angel Research

Consolidated 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	168	206	256
Shareholders Funds	91	100	173	210	260
Equity Share Warrants	-	-	-	-	-
Total Loans	58	44	54	57	60
Deferred Tax Liability	-	-	0	-	-
Total Liabilities	149	143	228	267	320
APPLICATION OF FUNDS					
Gross Block	42	45	60	70	80
Less: Acc. Depreciation	18	22	28	35	42
Net Block	24	23	31	35	37
Capital Work-in-Progress	0	1	0	1	1
Investments/ Other NC assets	0	-	6	-	-
Current Assets	143	165	244	295	359
Inventories	76	94	123	156	199
Sundry Debtors	54	58	104	89	115
Cash	5	5	3	32	21
Loans & Advances	8	7	2	2	3
Other Assets	-	-	13	16	20
Current liabilities	27	54	53	64	77
Net Current Assets	116	110	190	232	282
Deferred Tax Asset	(0)	(0)	-	-	-
Total Assets	149	143	228	267	320

Consolidated Cash flow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	12	15	33	61	82
Depreciation	4	5	6	7	7
Change in Working Capital	0	0	(79)	(7)	(62)
Interest / Dividend (Net)	3	3	3	4	4
Direct taxes paid	(4)	(5)	(12)	(20)	(27)
Others	(28)	4	42	1	0
Cash Flow from Operations	(13)	22	(6)	47	4
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(5)	(10)	(10)
(Inc.)/ Dec. in Investments	1	(1)	0	0	0
Cash Flow from Investing	(15)	(6)	(5)	(10)	(10)
Issue of Equity	7	0	0	0	0
Inc./(Dec.) in loans	3	1	11	3	3
Dividend Paid (Incl. Tax)	0	(16)	(2)	(3)	(5)
Interest / Dividend (Net)	(3)	(3)	(3)	(4)	(4)
Cash Flow from Financing	29	(17)	6	(5)	(6)
Inc./(Dec.) in Cash	1	(2)	(5)	32	(11)
Opening Cash balances	3	4	5	0	32
Closing Cash balances	4	2	0	32	21

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	248.2	185.5	91.0	47.3	35.4
P/CEPS	115.3	90.9	49.8	28.6	22.0
P/BV	15.0	13.6	7.9	6.5	5.2
Dividend yield (%)	0.0	0.0	0.1	0.2	0.2
EV/Sales	7.1	5.5	4.8	3.6	2.8
EV/EBITDA	107.2	87.7	48.5	28.0	21.7
EV / Total Assets	13.3	13.7	8.7	7.3	6.2
Per Share Data- ₹					
EPS (Basic)	3.5	4.7	9.5	18.3	24.5
EPS (fully diluted)	3.5	4.7	9.5	18.3	24.5
Cash EPS	5.3	6.7	12.3	21.4	27.9
DPS	0.2	0.4	0.8	1.5	2.1
Book Value	40.9	44.9	77.7	94.5	117.0
Returns (%)					
ROCE	9.7	12.1	15.2	23.6	26.0
Angel ROIC (Pre-tax)	10.0	12.5	15.8	26.7	27.8
ROE	8.5	10.4	12.3	19.4	21.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	6.6	7.9	7.0	7.8	8.8
Inventory / Sales (days)	100	96	108	106	104
Receivables (days)	71	59	91	60	60
Payables (days)	92	141	114	114	114
Working capital cycle (ex-cash) (days)	80	14	85	52	50

Source: Company, Angel Research

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Disclosure of Interest Statement	Safari Industries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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