

Safari Industries

Strong growth in revenue: For Q2FY2019, Safari Industries (Safari) posted a strong yoy growth of 44% in revenue to ₹127 cr mainly led by volume growth. 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 top line.

Margins were little subdued: In spite of strong growth in revenue, OPM were stable at 9% on yearly basis which has come down from the peak level of 12.9% reported in Q1FY2019. First quarter is also the strongest quarter of the year in terms of revenue, hence Q1 margins are usually better than the Q2 margins. Margin pressure was seen mainly due to rise in input cost. This was driven by rupee depreciation as most of the luggage is imported from China. The company is expecting some margin pressure to continue in coming few quarters if the rupee depreciation continues.

PAT rose by 72% yoy: With a moderate rise in interest and depreciation, PAT grew to ₹6 cr, a growth of 72% yoy.

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 maintained our estimates and are expecting a CAGR of ~30%/60% in revenue/earnings over FY18-20E. The stock has given 44% return since our initiation in April and is attractively trading at 30.5x our FY2020 earnings, post recent correction. We feel that the current valuations are attractive looking at its robust growth trajectory and it offers a good entry point to the long term investors.

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)	214.2	160.1	78.5	40.8	30.5
P/BV (x)	18.3	16.7	9.6	7.9	6.4
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)	6.2	4.8	4.1	3.1	2.4
EV/EBITDA (x)	92.9	75.9	42.0	24.2	18.8

Source: Company, Angel Research

BUY

CMP ₹749
 Target Price ₹1000

Investment Period 12 Months

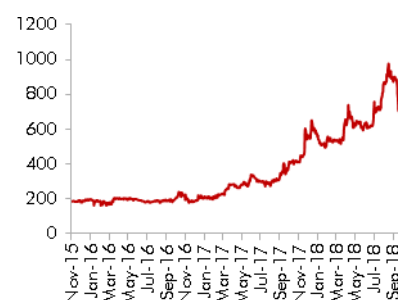
Stock Info

Sector	Luggage
Market Cap (₹ cr)	1,667
Net Debt (₹ cr)	41
Beta	0.7
52 Week High / Low	1005/405
Avg. Daily Volume	9,051
Face Value (₹)	2
BSE Sensex	35,237
Nifty	10,597
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)

Promoters	57.8
MF / Banks / Indian Fls	14.7
FII / NRIs / OCBs	9.9
Indian Public / Others	17.7

Price chart



Source: capital line

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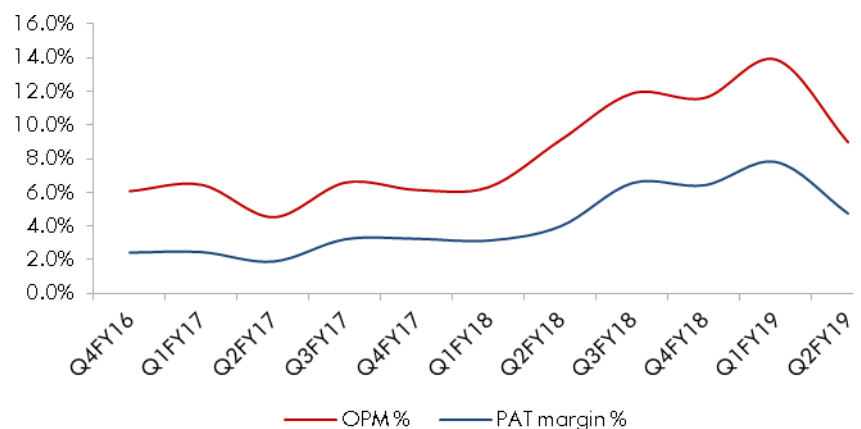
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Exhibit 1: Quarterly results at a glance

Rs cr	Q2FY18	Q1FY19	Q2FY19	YoY %	QoQ %	H1FY19	H1FY18	YoY %
Net Sales	88	156	127	44%	-18%	283	193	47%
Total expenditure	80	134	116	45%	-14%	250	178	41%
Raw Material Consumed	6	17	26	314%	50%	43	14	202%
Stock Adjustment	-1	0	-22	--	--	-23	6	-452%
Purchase of Finished Goods	39	70	69	77%	-2%	139	87	59%
Employee Expenses	13	16	16	25%	1%	32	25	28%
Other Expenses	24	32	28	18%	-12%	59	45	31%
As a % of sales								
COGS	50%	56%	57%			56%	56%	
Gross margin	50%	44%	43%			44%	44%	
Employee Expenses	14%	10%	12%			11%	13%	
Other Expenses	27%	20%	22%			21%	24%	
Total expenditure	91%	86%	91%			88%	92%	
Operating profit	8	22	11	42%	-47%	33	15	126%
Other Income	0	0	0	2%	-48%	0	0	29%
PBIDT	8	22	12	42%	-47%	34	15	123%
Interest	1	1	1	8%	-22%	2	1	43%
PBDT	7	21	11	45%	-48%	32	14	131%
Depreciation	1	2	2	59%	11%	4	3	49%
PBT	6	19	9	42%	-54%	28	11	150%
Tax	3	7	3	16%	-57%	10	4	123%
Adjusted Profit	4	12	6	72%	-50%	18	7	168%
Ratios								
OPM %	9.1%	13.9%	9.0%			11.7%	7.6%	
PAT margin %	4.0%	7.8%	4.7%			6.4%	3.5%	
Tax rate %	42.6%	35.9%	38.8%			36.8%	38.5%	

Source: Company

Exhibit 2: Margins off peak from Q1FY2019 level


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	FY2018	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	FY2018	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	FY2018	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	214.2	160.1	78.5	40.8	30.5
P/CEPS	141.1	111.3	60.9	35.0	26.9
P/BV	18.3	16.7	9.6	7.9	6.4
Dividend yield (%)	0.0	0.1	0.1	0.2	0.3
EV/Sales	6.2	4.8	4.1	3.1	2.4
EV/EBITDA	92.9	75.9	42.0	24.2	18.8
EV / Total Assets	11.5	11.9	7.5	6.3	5.3
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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