

Safari Industries

Growth momentum to continue..

Robust Q4FY2018 results- For Q4FY2018, Safari Industries (Safari) posted a growth of 26%/150% yoy growth in revenue/ PAT amid ~543 bps yoy expansion in operating margin expansion. The company is gaining market share especially from the unorganized players and seeing good demand in its backpacks and new categories which is driving such strong growth in its financials.

Key takeaways from the management meet

-Safari expects to double its revenue in next 2-2.5 years (~2x of industry growth rate) by gaining market share in the value retailing segment and better product mix. It is also improving its distribution network across all channels.

-It has set up a 30 designers team in China which helps in procuring latest designs in luggage from China.

-Operating leverage would boost its overall margins in coming years while 3-6% price hike by Chinese vendors may put some short-term pressure amid falling rupee rate, unless price hike is taken.

-It provides free replacement warranty up to 10 years for any manufacturing defect which is garnering very good response from dealers and customers.

-It wants to build up sizable volume base before foraying into premium category.

-Its Indian capacities (~20-25% of revenue) is increased by 50% in FY2018 and would further be increased due to massive demand for Poly Carbonate products.

-It sold ~ 3.1 mn pieces in FY2018 and expects to cross 4 mn in FY2019.

Outlook and Valuation: We came convinced about its long term growth story as the company is in a sweet spot in the fast growing luggage industry. We are expecting a CAGR of ~25%/40% in revenue/ earnings over FY18-20E. The stock has given 15% return since our initiation in April. It is currently trading at 33x FY2020 earnings which still looks attractive in view of its strong growth trajectory. **Hence, we recommend BUY with a target price of ₹720 (38x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
Net Sales	278	359	415	519	649
% chg	28.8	29.0	15.8	25.0	25.0
Net Profit	7.8	10.4	19.1	30.7	41.8
% chg	55.9	33.8	83.4	60.7	36.1
OPM (%)	6.7	6.3	9.3	10.5	11.0
EPS (Rs)	3.5	4.7	9.5	13.8	18.8
P/E (x)	175.0	130.8	64.2	44.4	32.6
P/BV (x)	15.0	13.6	7.9	6.8	5.7
RoE (%)	8.5	10.4	11.0	15.3	17.5
RoCE (%)	9.7	12.1	14.3	18.5	21.5
EV/Sales (x)	5.1	3.9	3.4	2.7	2.1
EV/EBITDA (x)	76.4	62.3	36.6	25.3	19.4

Source: Company, Angel Research

BUY

CMP	₹612
Target Price	₹720

Investment Period	12 Months
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Stock Info

Sector	Luggage
Market Cap (₹ cr)	1,362
Net Debt (₹ cr)	52
Beta	0.3
52 Week High / Low	2.9
Avg. Daily Volume	13,212
Face Value (₹)	2
BSE Sensex	35,227
Nifty	10,696
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

Shareholding Pattern (%)

Promoters	57.8
MF / Banks / Indian Fls	17.9
FII / NRIs / OCBs	4.3
Indian Public / Others	20.0

Abs. (%)	3m	1yr	3yr
BSE 200	1	11	31
Safari	15	118	279

3 year daily price chart



Source: Company, Angel Research

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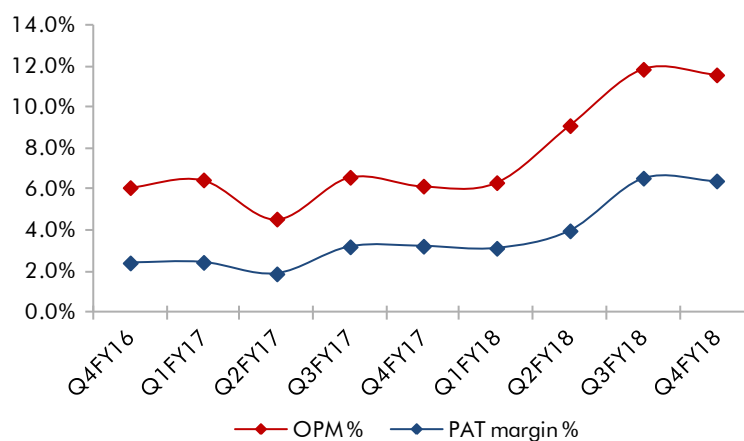
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Exhibit 1: Q4 results at a glance

Rs cr	Q4FY18	Q3FY18	Q4FY17	YoY	QoQ	FY18	FY17	YoY
Net Sales	119	103	95	25.9%	15.3%	415	345	21%
Total expenditure	105	91	89	18.6%	15.7%	375	324	16%
Raw Material Consumed	19	9	10	86.5%	119.6%	42	32	30%
Stock Adjustment	-12	-13	-15	-19.6%	-9.7%	-19	-18	4%
Purchase of Finished Goods	57	59	57	0.9%	-3.1%	203	187	9%
Employee Expenses	15	13	11	30.9%	14.1%	53	40	31%
Other Expenses	27	24	26	3.6%	11.6%	96	83	16%
Gross margin %	46.6%	47.8%	45.6%			45.7%	41.9%	
Operating profit	13.8	12.3	5.8	137%	12.7%	40.8	20.7	97%
Other Income	0.7	0.5	1.3	-47.4%	45.7%	1.5	2.1	-24%
PBIDT	14.5	12.8	7.2	102%	14.0%	42.3	22.8	86%
Interest	0.7	0.9	0.5	39%	-16.8%	2.8	3.6	-22%
PBDT	13.8	11.9	6.7	108%	16.2%	39.5	19.1	107%
Depreciation	1.4	2.0	1.4	4%	-28.3%	6.1	5.1	20%
PBT	12.4	9.9	5.3	135%	25.2%	33.4	14.0	138%
Tax	4.3	3.3	1.9	133%	29.7%	12.0	5.0	140%
Adjusted Profit	7.7	6.8	3.1	150%	12.9%	21.2	9.5	125%
OPM %	11.6%	11.9%	6.2%			9.8%	6.0%	
PAT margin %	6.4%	6.6%	3.2%			5.1%	2.7%	
Tax rate %	34.7%	34%	35.0%			36.0%	35.7%	

Source: Company

Exhibit 2: Margins are on uptrend


Source: Company, Angel Research

Outlook and Valuation

We came convinced about its long term growth story as the company is in sweet spot in a fast growing luggage industry. We are expecting a CAGR of ~25%/40% in revenue/ earnings over FY18-20E. The stock has given 15% return since our initiation in April and is currently trading at 33x its FY2020 earnings. **Hence, we recommend BUY with a target price of ₹720 (38x FY2020E EPS).**

Risks to our estimates

- 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 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 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	415	519	649
% chg	28.8	29.0	15.8	25.0	25.0
Total Expenditure	260	336	377	465	577
Raw Material	173	219	242	299	370
Personnel	29	41	48	57	71
Selling and Administration Expenses	48.1	65.4	74.8	93.5	116.8
Others Expenses	9	10	12	15	19
EBITDA	19	22	39	55	72
% chg	63.1	21.3	72.0	41.5	30.9
(% of Net Sales)	6.7	6.3	9.3	10.5	11.0
Depreciation & Amortisation	4	5	6	7	7
EBIT	14	17	33	48	64
% chg	70.7	20.0	87.6	47.2	34.2
(% of Net Sales)	5.2	4.8	7.8	9.2	9.9
Interest & other Charges	3	3	3	4	4
Other Income	1	1	2	2	2
(% of PBT)	6.5	7.4	5.0	4.1	3.6
Share in profit of Associates	-	-	-	-	-
Recurring PBT	12	15	31	46	62
% chg	105.9	25.2	108.8	46.7	36.1
Tax	4	5	12	15	21
(% of PBT)	35.2	34.1	38.8	33.0	33.0
PAT (reported)	8	10	19	31	42
Extraordinary Items	(0)	(1)	-	-	-
ADJ. PAT	8	10	19	31	42
% chg	55.9	33.8	83.4	60.7	36.1
(% of Net Sales)	2.8	2.9	4.6	5.9	6.4
Fully Diluted EPS (Rs)	3.5	4.7	9.5	13.8	18.8
% chg	55.9	33.8	103.9	44.6	36.1

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	196	235
Shareholders' Funds	91	100	173	201	239
Equity Share Warrants	-	-	-	-	-
Total Loans	58	44	54	57	60
Deferred Tax Liability	-	-	0	-	-
Total Liabilities	149	143	228	258	299
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	286	337
Inventories	76	94	123	150	184
Sundry Debtors	54	58	104	85	107
Cash	5	5	3	32	23
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	222	261
Deferred Tax Asset	(0)	(0)	-	-	-
Total Assets	149	143	228	258	299

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	12	15	33	46	62
Depreciation	4	5	6	7	7
Change in Working Capital	0	0	(79)	3	(47)
Interest / Dividend (Net)	3	3	3	4	4
Direct taxes paid	(4)	(5)	(12)	(15)	(21)
Others	(28)	4	42	2	0
Cash Flow from Operations	(13)	22	(6)	46	6
(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)	(4)
Interest / Dividend (Net)	(3)	(3)	(3)	(4)	(4)
Cash Flow from Financing	29	(17)	6	(4)	(5)
Inc./(Dec.) in Cash	1	(2)	(5)	32	(9)
Opening Cash balances	3	4	5	0	32
Closing Cash balances	4	2	0	32	23

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	175.0	130.8	64.2	44.4	32.6
P/CEPS	115.3	90.9	49.8	36.3	27.7
P/BV	15.0	13.6	7.9	6.8	5.7
Dividend yield (%)	0.0	0.1	0.1	0.2	0.3
EV/Sales	5.1	3.9	3.4	2.7	2.2
EV/EBITDA	76.4	62.3	36.4	25.4	19.5
EV / Total Assets	9.5	9.8	6.2	5.4	4.7
Per Share Data- ₹					
EPS (Basic)	3.5	4.7	9.5	13.8	18.8
EPS (fully diluted)	3.5	4.7	9.5	13.8	18.8
Cash EPS	5.3	6.7	12.3	16.9	22.1
DPS	0.2	0.4	0.8	1.2	1.6
Book Value	40.9	44.9	77.7	90.3	107.5
Returns (%)					
ROCE	9.7	12.1	14.3	18.5	21.5
Angel ROIC (Pre-tax)	10.0	12.5	14.9	21.2	23.3
ROE	8.5	10.4	11.0	15.3	17.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	6.6	7.9	7.0	7.5	8.2
Inventory / Sales (days)	100	96	108	106	104
Receivables (days)	71	59	91	60	60
Payables (days)	92	141	110	110	110
Working capital cycle (ex-cash) (days)	80	14	89	56	54

Source: Company, Angel Research

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Disclosure of Interest Statement	Safari Industries Ltd.
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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