

Safari Industries

Performance Update

Y/E March (₹ cr)	2QFY20	2QFY19	% yoy	1QFY20	% qoq
Net sales	170	130	31.1	203	(16.4)
EBITDA	17	11	45.6	21	(19.4)
EBITDA margin (%)	9.8	8.8	98bp	10.2	(36bp)
Adjusted PAT	8	6	29.8	9	(7.1)

Source: Company, Angel Research

For 2QFY2020, Safari Industries (SIL) posted Strong Result top-line and bottom-line growth. Revenue grew ~31% yoy to ₹170cr. On the margin front, the company reported operating margin improvement by 98bps yoy. On the bottom-line front, SIL reported de-growth of ~30% yoy to ~₹8cr due to Strong top-line and operating performance.

Strong volumes boost overall top-line growth: The Company's top-line grew by ~31% yoy to ₹170cr on the back of strong volume growth (market share gain from unorganized player).

Strong operating performance boosted the overall profitability: On the margin front, the company reported operating margin improvement by 98bps yoy. On the bottom-line front, SIL reported de-growth of ~30% yoy to ~₹8cr due to Strong top-line and operating performance.

Outlook and Valuation: Going ahead, we expect SIL to report a top-line CAGR of ~26% over FY19-21E to ~₹910cr 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 ~36% over FY11-21E due to gradual improvement in operating margin. **We maintain our Buy recommendation on the stock with a Target Price of ₹717.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net sales	415	578	753	910
% chg	15.8	39.1	30.4	20.8
Adj. Net profit	21.2	27.2	36.3	50.1
% chg	103.3	28.3	33.2	38.1
EBITDA margin (%)	9.8	9.1	9.1	10.0
EPS (₹)	9.5	12.2	16.2	22.4
P/E (x)	60.0	46.8	35.1	25.4
P/BV (x)	9.5	8.2	8.4	6.8
RoE (%)	12.0	13.3	18.1	20.4
RoCE (%)	14.9	14.3	19.3	22.6
EV/Sales (x)	3.2	2.4	1.8	1.5
EV/EBITDA (x)	32.5	26.3	20.1	15.1

Source: Company, Angel Research Note

BUY

CMP	₹560
Target Price	₹717
Investment Period	12 months

Stock Info	
Sector	Luggage
Market Cap (₹ cr)	1,275
Net Debt (₹ cr)	41
Beta	0.7
52 Week High / Low	829/481
Avg. Daily Volume	3,823
Face Value (₹)	2
BSE Sensex	40,158
Nifty	11,841
Reuters Code	SAFA.BO
Bloomberg Code	SIL.IN

Shareholding Pattern (%)	
Promoters	57.6
MF / Banks / Indian Fls	14.5
FII / NRIs / OCBs	11.0
Indian Public / Others	17.0

Abs. (%)	3m	1yr	3yr
Sensex	8.5	14.1	52.5
SIL	(0.3)	(25.5)	171.0

Price Chart



Source: Company, Angel Research

Research Analyst

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2QFY20 Performance

Y/E March (` cr)	2QFY20	2QFY19	% yoy	1QFY20	% qoq	1HFY20	1HFY19	% chg
Net Sales	170	130	31.1	203.06	(16.4)	373	287	30.0
Consumption of RM	95	75	27.7	122	(22.1)	217	163	33.5
(% of Sales)	56.1	57.6		60.2		58.3	56.8	
Staff Costs	20	16	28.9	19	4.8	40	31	26.3
(% of Sales)	12.0	12.2		9.6		10.7	11.0	
Other Expenses	37	28	35.2	41	(8.0)	77	59	30.8
(% of Sales)	22.1	21.4		20.1		20.8	20.7	
Total Expenditure	153	118	29.7	182	(16.1)	335	254	32.0
Operating Profit	17	11	45.6	21	(19.4)	38	33	14.7
OPM	9.8	8.8		10.2		10.2	11.6	
Interest	3	1	282.5	3	5.5	6	2	225.7
Depreciation	5	2	138.9	5	4.1	10	4	145.8
Other Income	0	0	(31.3)	1	(82.5)	0	0	(46.4)
PBT (excl. Ext Items)	9	9	(0.2)	14	(36.0)	22	28	(19.0)
Ext (Income)/Expense		-				-	-	
PBT (incl. Ext Items)	9	9	(0.2)	14	(36.0)	22	28	(19.0)
(% of Sales)	5.1	6.7		6.7		6.0	9.7	
Provision for Taxation	1	3	(73.5)	5	(86.4)	6	9	(37.9)
(% of PBT)	7.7	29.1		36.4		25.9	33.8	
Reported PAT	8	6	29.8	9	(7.1)	17	18	(9.3)
PATM	4.7	4.8		4.2		4.5	6.4	
Minority Interest After NP								
Reported PAT	8	6	29.8	9	(7.1)	17	18	(9.3)

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	753	910
% chg	28.8	29.0	15.8	39.1	30.4	20.8
Total Expenditure	260	336	375	525	685	819
Raw Material	173	219	226	334	435	525
Personnel	29	41	53	66	87	107
Selling and Administration Expenses	48.1	65.4	96.2	-	-	-
Others Expenses	9	10	-	126	163	187
EBITDA	19	22	41	52	69	91
% chg	63.1	21.3	81.6	28.7	30.7	32.7
(% of Net Sales)	6.7	6.3	9.8	9.1	9.1	10.0
Depreciation & Amortisation	4	5	6	8	10	12
EBIT	14	17	35	44	59	79
% chg	70.7	20.0	99.9	27.4	33.2	34.8
(% of Net Sales)	5.2	4.8	8.3	7.6	7.8	8.7
Interest & other Charges	3	3	3	4	12	14
Other Income	1	1	2	1	2	2
(% of PBT)	6.5	7.4	4.6	3.2	4.1	3.0
Share in profit of Associates	-	-	-	-	-	#REF!
Recurring PBT	12	15	33.4	41	48	67
% chg	105.9	25.2	123.1	22.9	18.2	38.1
Tax	4	5	12	14	12	17
(% of PBT)	35.2	34.1	36.4	33.6	25.2	25.2
PAT (reported)	8	10	21	27	36	50
Extraordinary Items	(0)	(1)	-	-	-	-
ADJ. PAT	8	10	21	27	36	50
% chg	55.9	34.2	103.3	28.3	33.2	38.1
(% of Net Sales)	2.8	2.9	5.1	4.7	4.8	5.5
Fully Diluted EPS (`)	3.5	4.7	9.5	12.2	16.2	22.4
% chg	55.9	34.2	103.3	28.3	33.2	38.1

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	91	101	172	200	195	241
Shareholders Funds	95	105	177	204	200	246
Equity Share Warrants	-	-	-	-	-	-
Total Loans	58	42	55	104	104	104
Deferred Tax Liability	1	1	1	0	-	-
Total Liabilities	150	143	228	304	338	384
APPLICATION OF FUNDS						
Gross Block	42	28	39	44	54	64
Less: Acc. Depreciation	18	4	7	15	25	36
Net Block	24	23	31	29	29	27
Capital Work-in-Progress	0	1	0	-	-	-
Investments/ Other NC assets	0	0	-	0	0	0
Current Assets	152	173	242	352	414	502
Inventories	76	94	122	186	217	259
Sundry Debtors	54	58	98	141	178	212
Cash	5	5	3	1	1	8
Loans & Advances	8	13	15	16	8	9
Other Assets	8	3	5	9	11	13
Current liabilities	27	54	46	77	106	146
Net Current Assets	125	119	196	275	308	355
Deferred Tax Asset	1	0	1	1	1	1
Total Assets	150	143	228	304	338	384

Consolidated Cashflow Statement

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	12	15	33	41	48	67
Depreciation	4	5	6	8	10	12
Change in Working Capital	(29)	4	(81)	(76)	(33)	(41)
Interest / Dividend (Net)	3	4	3	4	12	14
Direct taxes paid	(4)	(5)	(11)	(17)	(12)	(17)
Others	1	2	2	1	0	0
Cash Flow from Operations	(13)	24	(48)	(39)	26	36
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(14)	(9)	(10)	(10)
(Inc.)/ Dec. in Investments	1	(1)	1	3	0	0
Cash Flow from Investing	(15)	(6)	(13)	(6)	(10)	(10)
Issue of Equity	7	0	0	1	0	0
Inc./(Dec.) in loans	25	(15)	12	49	0	0
Dividend Paid (Incl. Tax)	0	0	0	0	(3)	(4)
Interest / Dividend (Net)	(3)	(4)	48	(5)	(12)	(14)
Cash Flow from Financing	30	(18)	59	43	(15)	(19)
Inc./(Dec.) in Cash	2	(0)	(2)	(2)	0	7
Opening Cash balances	3	5	5	3	1	1
Closing Cash balances	5	5	3	1	1	8

Key Ratio

Y/E March	FY2016	FY2017	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)						
P/E (on FDEPS)	163.7	122.0	60.0	46.8	35.1	25.4
P/CEPS	141.7	111.8	61.2	47.1	36.4	27.1
P/BV	17.6	15.9	9.5	8.2	8.4	6.8
Dividend yield (%)	0.0	0.1	0.1	0.2	0.2	0.3
EV/Sales	4.8	3.7	3.2	2.4	1.8	1.5
EV/EBITDA	71.7	58.4	32.5	26.3	20.1	15.1
EV / Total Assets	8.8	9.1	5.8	4.5	4.1	3.6
Per Share Data- `						
EPS (Basic)	3.5	4.7	9.5	12.2	16.2	22.4
EPS (fully diluted)	3.5	4.7	9.5	12.2	16.2	22.4
Cash EPS	5.3	6.7	12.2	15.9	20.6	27.7
DPS	0.2	0.4	0.8	1.0	1.4	1.9
Book Value	42.6	47.0	79.1	91.5	89.5	110.0
Returns (%)						
ROCE	9.4	11.8	14.9	14.3	19.3	22.6
Angel ROIC (Pre-tax)	9.7	12.2	15.1	14.3	19.4	23.2
ROE	8.2	9.9	12.0	13.3	18.1	20.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.6	13.0	10.7	13.2	14.0	14.3
Inventory / Sales (days)	100	95	107	117	105	104
Receivables (days)	71	59	86	89	86	85
Payables (days)	60	123	88	109	115	120
Working capital cycle (ex-cash) (days)	111	32	105	98	76	69

Source: Company, Angel Research

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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%)