

Indian Luggage Industry

Sector Report

“Bagging the growth story”



Investment Summary

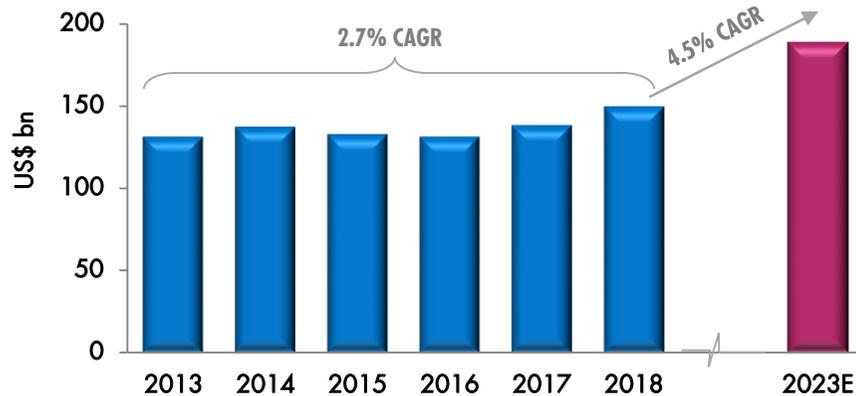
- ◆ **Organized luggage industry with multiple growth drivers:** While, global luggage industry is estimated to report 5.3% growth over FY13-22E; the Indian luggage industry is estimated to grow at double the rate of the global luggage market over the same period. Within the Indian luggage market, the organised sector with a size of Rs. 3,000crore is expected to lead growth over unorganized players given that competitive landscape has tilted in favour of organized players (with a share of 40%) versus unorganized (60%) share owing to factors like 1) sustained air passenger traffic growth 15% CAGR over FY18-24E; 2) 12% CAGR growth in outbound tourism over CY13-19E; 3) favourable demographics – rising millennials (working age) population, higher number of wedding days over 2020-2022E; 4) rising disposable income which translates into higher discretionary spending in turn leading to a preference for branded products by this burgeoning middle income group; and 5) GST implementation. Further, millennials aspiration for travel (short haul and long haul) driven by social media influence, adventure seeking, and eye for experience too will entail huge opportunity for the Indian Luggage players like VIP Industries and Safari Industries the leading brands in organized space over the medium to long term.
- ◆ **Bagging the growth story now!** Luggage market has remained an oligopolistic market world over and India is no different. Given the multiple structural macro drivers and favourable growth prospects for luggage players, **we initiate coverage on the two listed players VIP Industries and Safari Industries with a BUY rating from a 12-18 month perspective.**

Safari Industries: 'A Trolleying Growth': 'BUY' with Target Price of Rs. 775 valuing at 27x FY22E

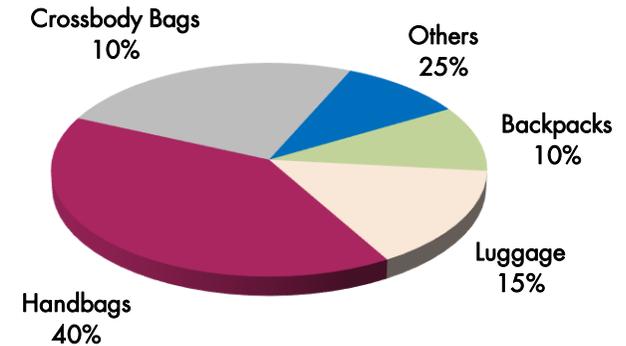
- ✓ We believe Safari Industries the 3rd largest player in organised Indian Luggage Industry would report a Revenue/PAT CAGR of 19%/34% over FY19-22E aided by a favourable product mix (growing share of stylish, colourful, fashionable Polycarbonate Hard Luggage) over soft luggage,
- ✓ Conscious strategy of expanding Gross Margins and rise in A&SP spends to 4.2% of sales from merely 2.2% of sales in FY13 to aid transitioning into a mid-premium aspirational brand from a value based brand.
- ✓ Further, its presence across multiple distribution channels with leading presence in fastest growing Modern Trade and E-commerce channel will only strengthen its positioning amongst the growing millennials that are driving consumption growth and are more tech savvy.
- ✓ Its superior product features offering aesthetic appeal (fashionable), storage, and tech aided features will continue to drive growth helping it target market share gains of 100-200bps on annual basis.

Bags & Luggage a Global perspective

Global Bags & Luggage Market growth to be ~4.5% CY18-23E



...handbags dominating with 40% market share



...some leading players in global bags & luggage market

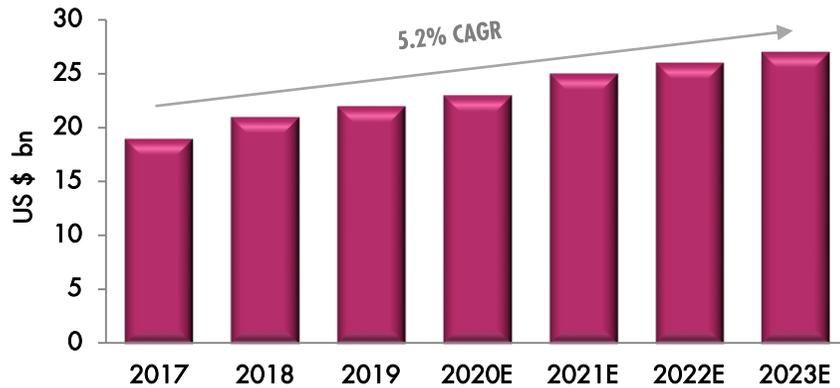


Source: Industry Reports, Company, Axis Securities

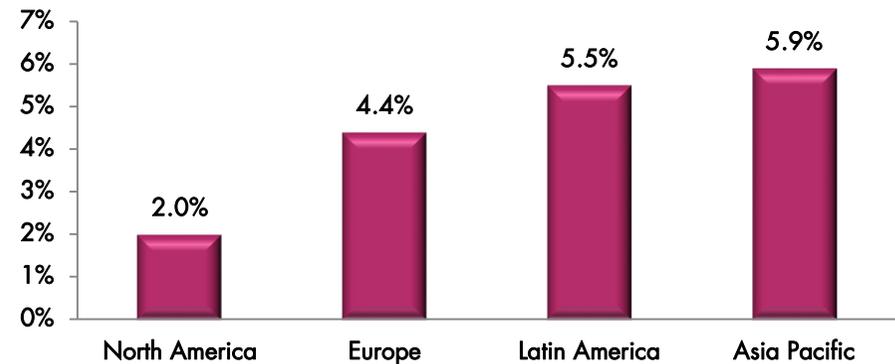
- ♦ Global bags & luggage industry over the long term is expected to report steady mid single digit growth owing to
 - ✓ Global Air Pax traffic growing at 4.3% CAGR over 2018-23E
 - ✓ World is expected to see 1.6 billion arrivals with an average US\$ 1,028 spent per trip by 2022
 - ✓ Millennials to drive higher spends on leisure travel (55% plan to increase their travel vis-a-vis last year)
 - ✓ Rising disposable income
 - ✓ Relaxation in dress codes driving need for stylish bags & luggage that suit the wardrobe

Global Luggage & Backpack market growth dynamics

Modest growth in global luggage market owing to volume pressure



Global Luggage market growth to be dominated by India and China leading Asia Pacific to grow fastest against other regions



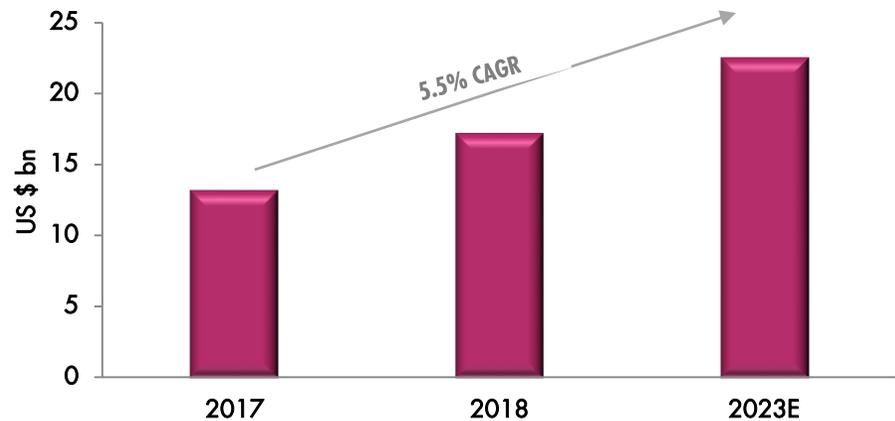
- ◆ **Global Luggage market expected to grow to \$ 27.1bn @ 5.2% CAGR over 2018-23E led by**

- ✓ Asia Pacific growing at 5.9% CAGR over 2018-23E
- ✓ Within Asia Pacific, India & China to drive growth led by
 - Favourable demographics (China & India together have 76% of total millennial population)
 - Growing middle class and rising per capita income
 - Development of tourism both inbound and outbound
 - Rising urbanization and nuclearisation of families

- ◆ **Global backpack segment to grow fastest at 5.5% CAGR to US\$ 22.5bn over 2018-23E led by**

- ✓ Convenience – easy to carry, lightweight
- ✓ Increasing trend of short duration trips
- ✓ Growing mobility of consumers

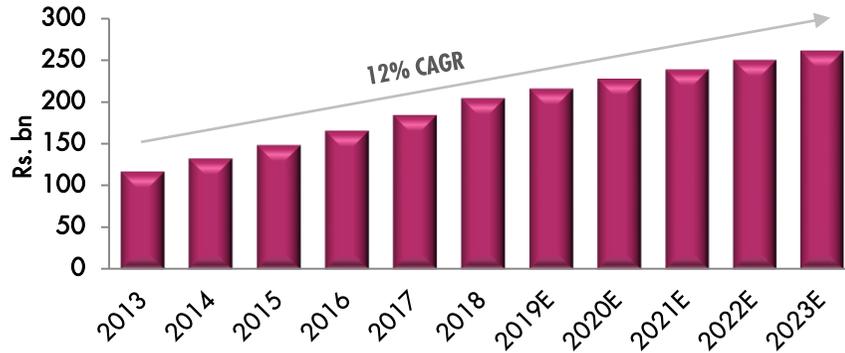
Global Backpack market estimated to report 5.5% CAGR to \$22.5bn over 2017-23E



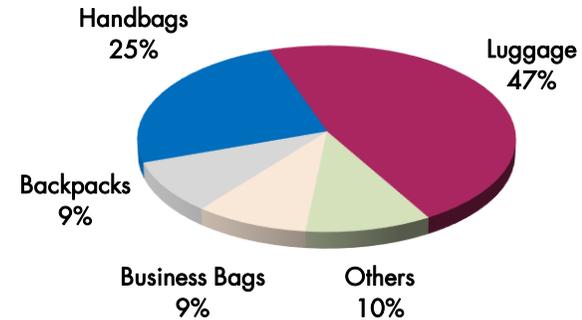
Source: Industry Reports, Samsonite Annual Reports, Axis Securities

Bags & Luggage Market an Indian perspective

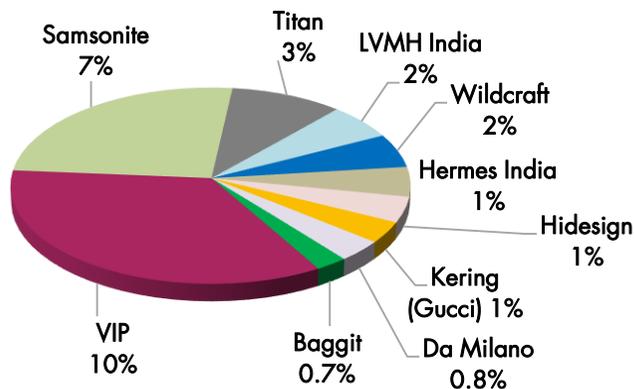
Expected to sustain mid double digit growth momentum aided by volumes and premiumization



...luggage dominating with 47% market share, contrary to global market which is dominated by handbags



Indian handbags and backpack market which is at a nascent stage and is dominated by luggage players

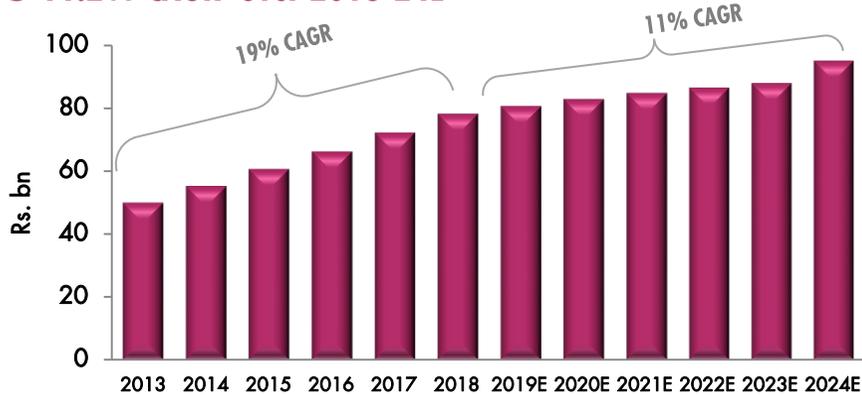


- ◆ Indian bags & luggage market likely to maintain healthy growth momentum driven by robust growth in backpacks and handbags market followed by luggage
- ◆ Travel and Tourism spends in India are expected to report 7.5% CAGR over 2018-23E in line with past 5 years growth momentum fuelled by -
 - ✓ Growing middle class
 - ✓ Rise in per capita income
 - ✓ Growing number of outbound trips
 - ✓ Increased participation of women in the workforce
 - ✓ Encouraging ratio of student enrolment to colleges
 - ✓ Improving 2W penetration

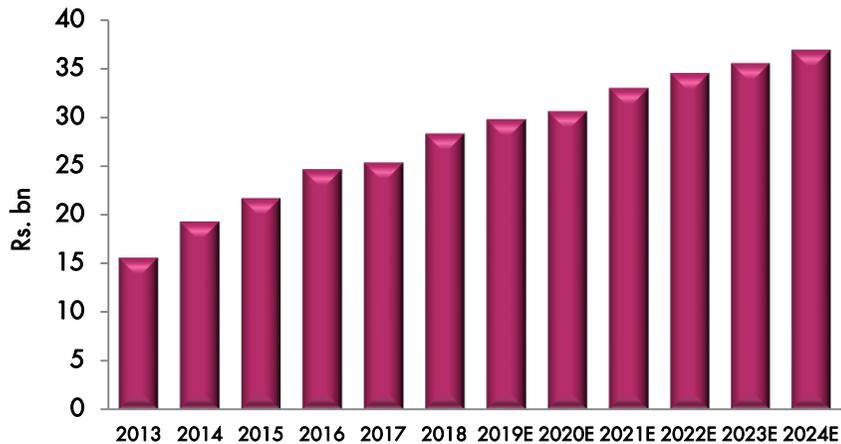
Source: Industry Reports, Axis Securities

Indian Luggage market a perspective

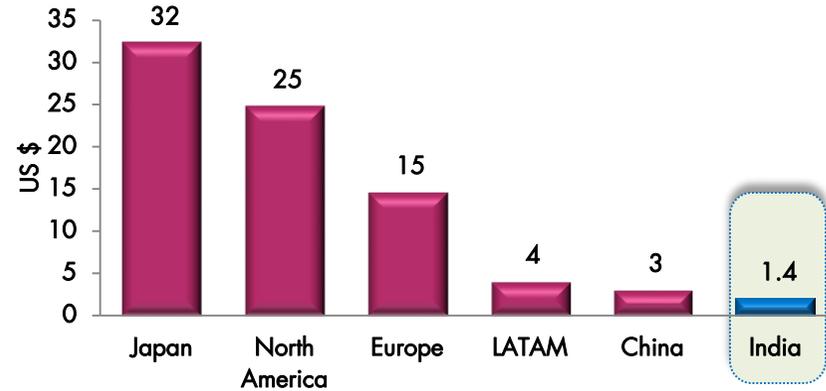
Indian Luggage market (including unorganised) growth pegged @ 11.2% CAGR over 2018-24E



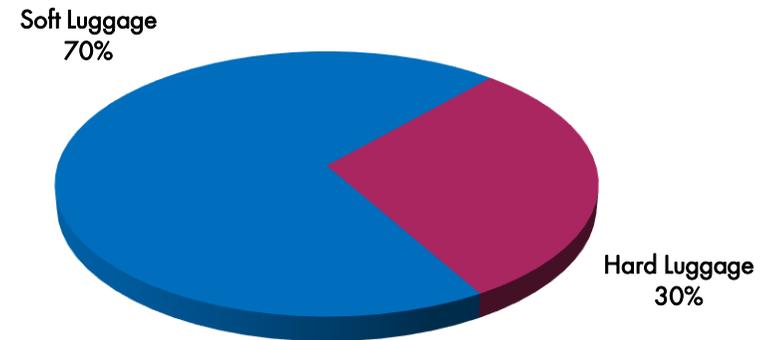
Organized luggage market (~40%) has doubled over 2013-18



Lowest per capita spend on luggage in India offers immense scope for growth



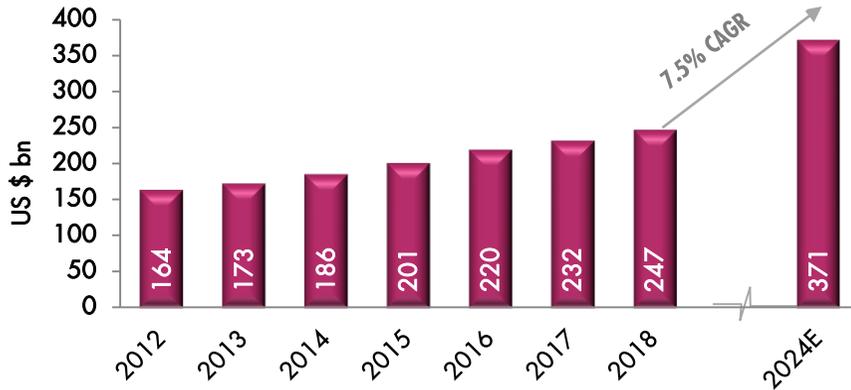
...with soft Luggage continuing to dominate the Indian Luggage market



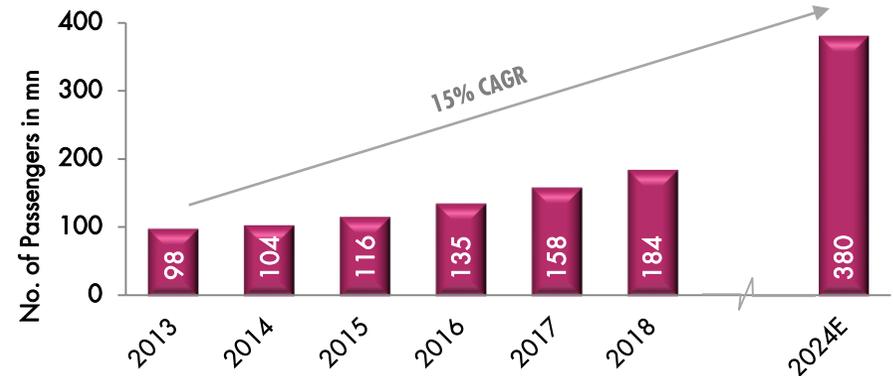
Source: Industry Reports, Axis Securities

Macro economic factors driving underlying market potential

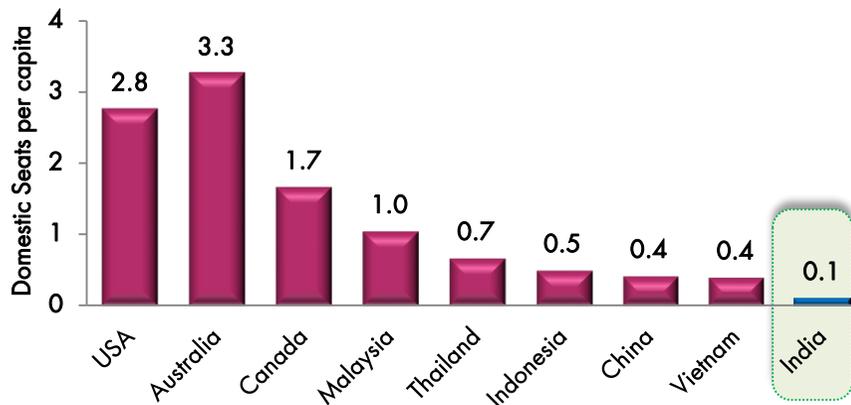
Indian tourism market to grow at 7.5% CAGR going forward...



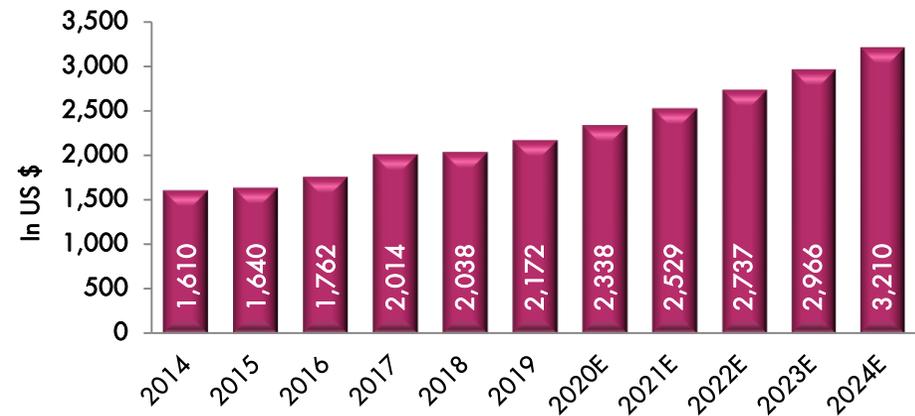
...leading to a ~2x rise in air passenger traffic over 2018-24E



...with low air travel penetration in India, air passenger traffic expected to continue growth momentum



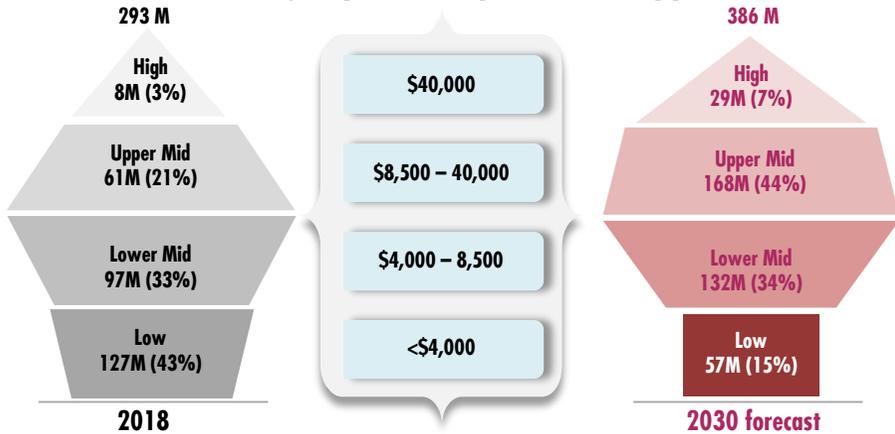
As per capita income rises above US \$ 2,000 spending on discretionary items increases



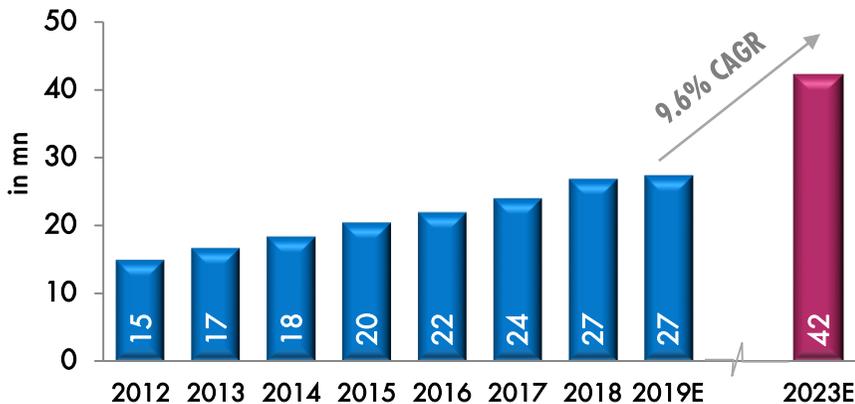
Source: IMF, IBEF, FICCI, Axis Securities

Macro economic factors driving underlying market potential

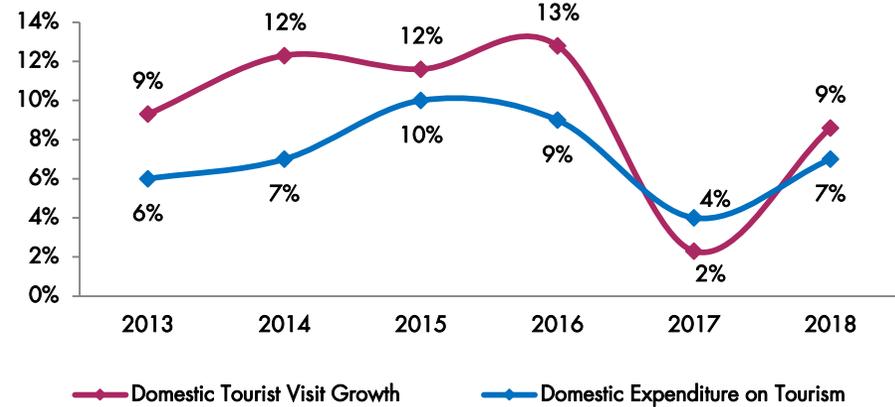
...as middle income group moves up the income pyramid



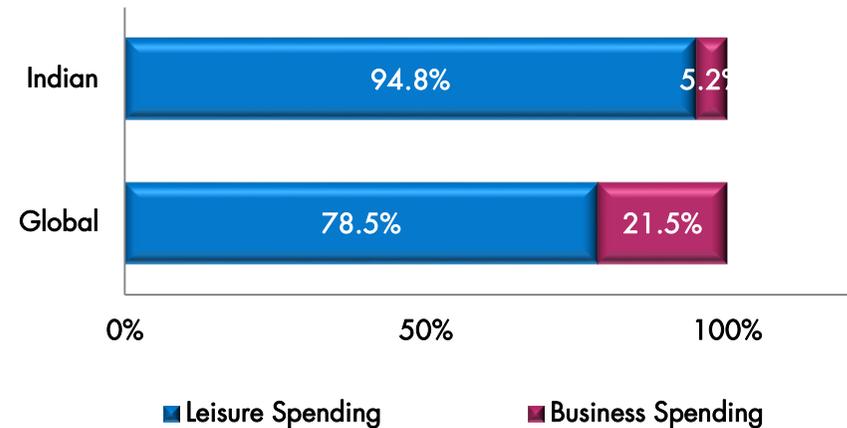
...this will also lead to surge in Indian National departures with increased spends on leisure travel



...domestic tourist visits to rise at 9% CAGR by 2023E



Leisure travel dominates tourism spends in India versus global



Source: Industry Reports, WEF Report, Easytrip DRHP, Company, Axis Securities

Resurgence in travel market driven by macro factors

♦ As per Travel Millennial Survey 2017

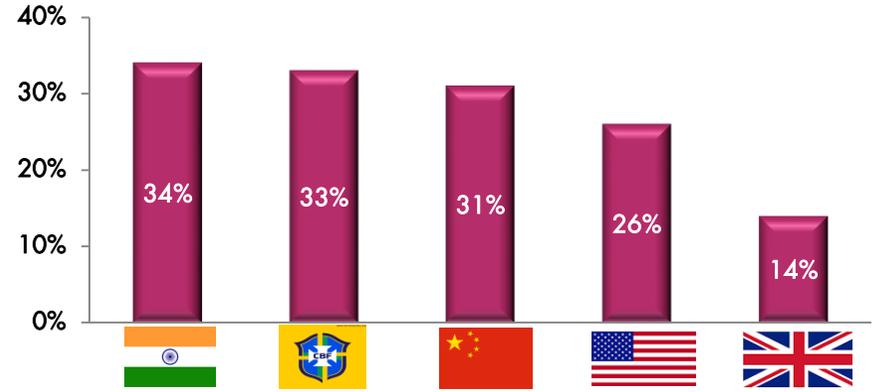
- ✓ India, with 34% millennial population has the highest proportion of millennials compared to other economies
- ✓ By 2020, Indian will have ~410 millennials with ~US \$ 330 billion annual spending capability
- ✓ 62% of millennial go on vacation between 2-5 times a year. Further, 10% travel about 6 -10 times a year
- ✓ Most millennials also prefer to explore international locations over domestic destinations

♦ A burgeoning middle class (largely from Tier II / III cities) with majority of it characterised by millennials who are likely to drive average spending by an Indian traveller as against current spends of :

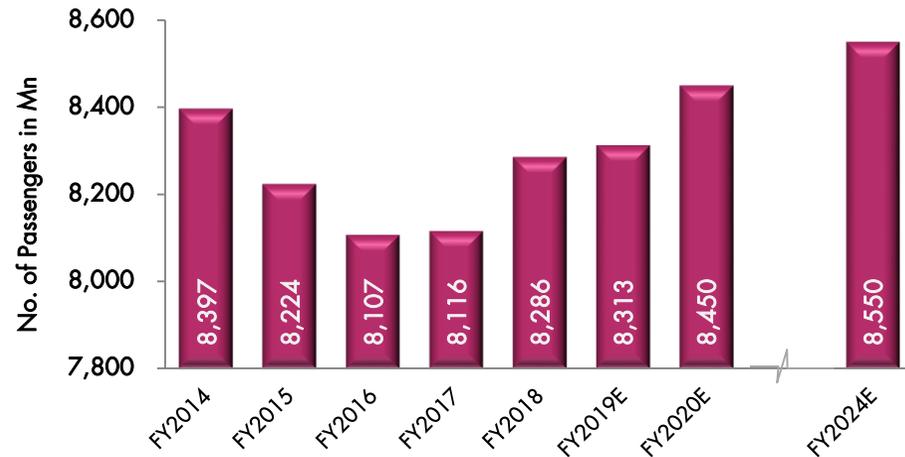
- ✓ US\$ 857 per trip per person spend on short haul trips
- ✓ US\$ 1,687 per trip per person spend on long haul trips
- ✓ Perceptual shift in Tier II & Tier III cities towards luggage being a 'fashion statement' than a utilitarian product

♦ Railway passenger traffic's 2018 growth momentum to continue going ahead led by improved rail travel services

Millennials form 34% of India's population who are primary wage earners



Railway passenger growth to sustain FY18 momentum

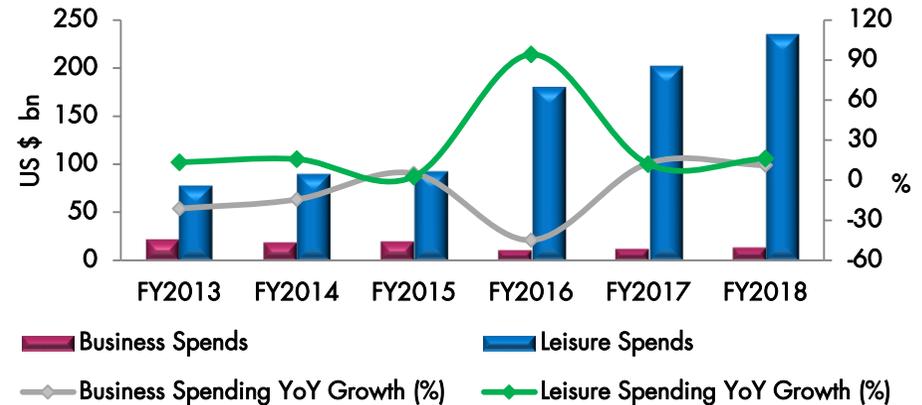


Source: Media Reports, CAPA, IRCTC RHP, Axis Securities

Rise in Travel & Tourism spends propels demand for luggage

- ◆ As per WTTC, India is expected to rank 5th in terms of total tourism spending in CY2019 with tourism spending of 8.3% of GDP expected in CY2019E from 8% in 2013
- ◆ India's tourism spends grew at 7.8% CAGR over CY2013-19E and expected to continue, driven by
 - ✓ Rising disposable income (31% people willing to spend over Rs. 50,000 per trip as per industry surveys)
 - ✓ Peer pressure, Social media influence
 - ✓ Improved affordability and availability of air & rail travel
 - ✓ Govt. initiatives to promote tourism
- ◆ 90% spends are accounted by domestic tourism primarily towards leisure travel while outbound spending forms the balance 10% of tourism spends in India
- ◆ Outbound tourism are expected to report a healthy 12% compounded growth over CY2013-19E. Currently ~44% trips are only leisure travel. By CY2025E, only leisure travel departures likely to be 13.9mn (2016 total departures were 21.9 million)
- ◆ As per UNWTO by CY2020E, ~50 million outbound tourists from India are expected to travel (25mn in 2018)
- ◆ Indian National Departures are expected to report a growth of 9.6% over FY18-23E

Robust 25% CAGR over 2013-18 witnessed in Leisure Travel spends



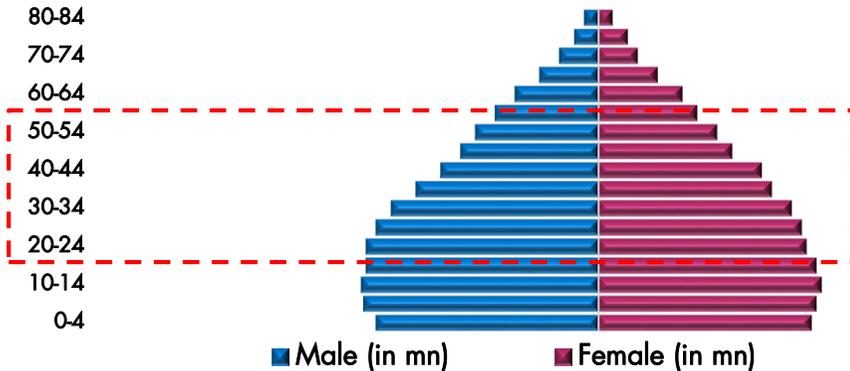
Outbound tourism spends grew at healthy 12% CAGR over 2013-19E



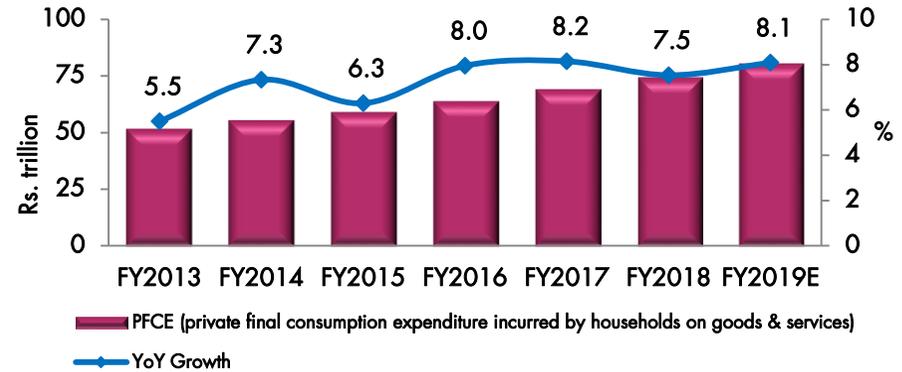
Source: World Travel & Tourism, Yatra Survey 2017, CAPA Report, IRCTC RHP, Industry Reports, Company, Axis Securities

Changing trends in gifting habits and celebrations

<65% of India's population falls in the working age category giving a huge fillip to discretionary spends

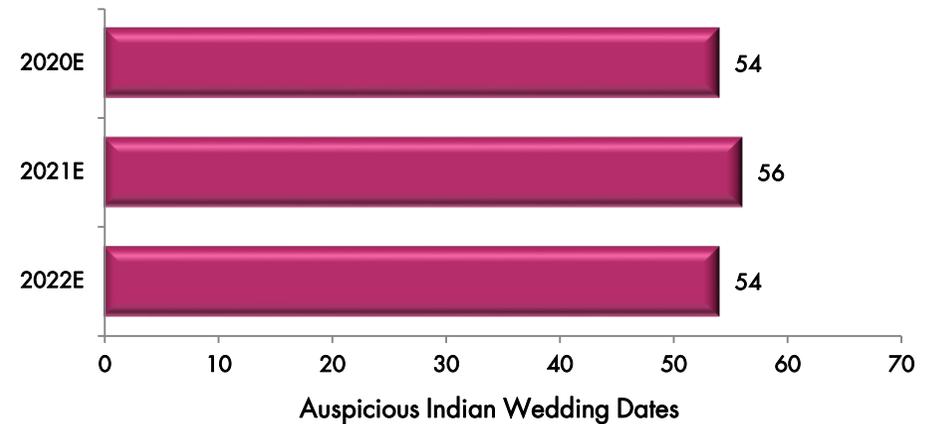


...further rising propensity to spend could lead to increase in discretionary expenditure...



Marriage and festivals are auspicious occasions to consider gifting backed by favorable demographics

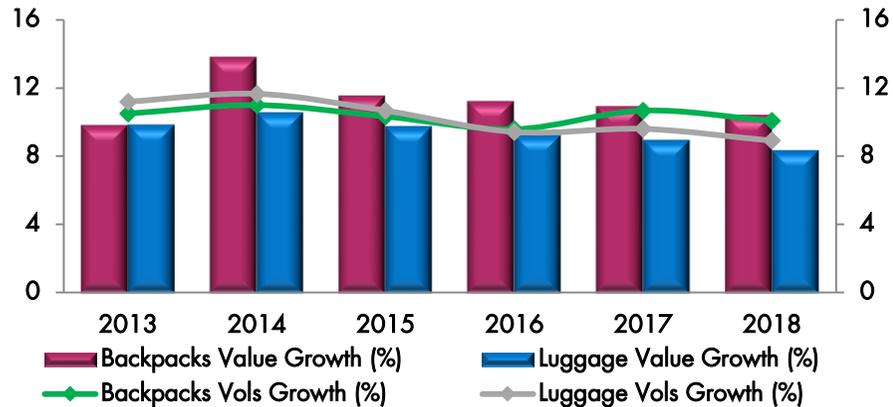
- ♦ Some interesting facts about weddings in India will only support overall growth in luggage industry:
 - ✓ Over 10 million couples getting married every year
 - ✓ Wedding industry estimated to be ~Rs. 1 lakh crore growing at a rapid pace of 20-25% per annum
- ♦ Luggage is increasingly becoming a part of wedding trousseau, so surge in marriage expenditures augurs well for Indian luggage industry



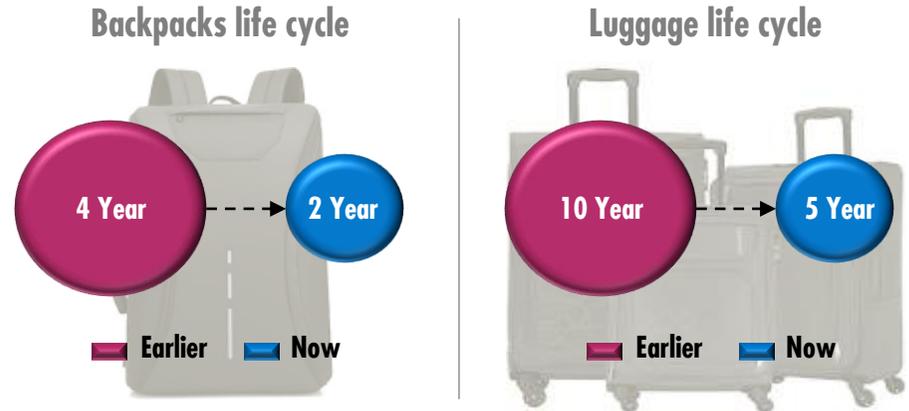
Source: Media Reports, IRCTC RHP, Axis Securities

Backpacks outpacing luggage industry growth...

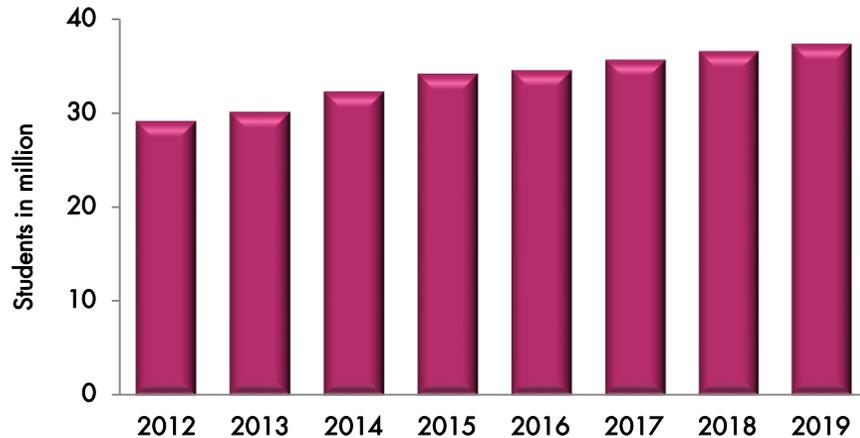
Indian backpack market growth ahead of luggage market



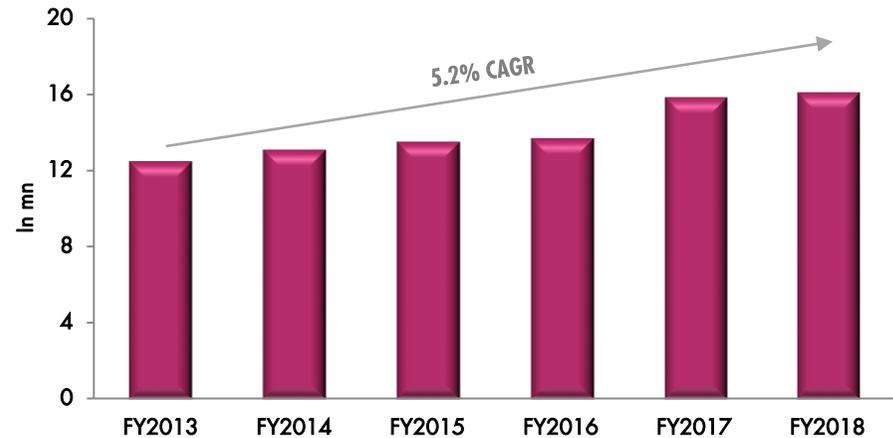
...as replacement cycle of backpacks is shorter than luggage



...rise in number of student enrolment in colleges

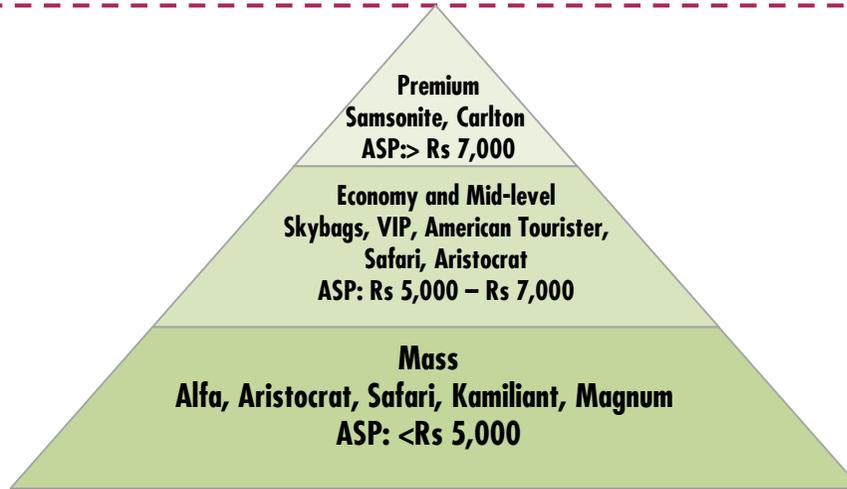


...steadily growing IT-BPM employees (direct & indirect)



Source: Industry Reports, AISHE Report – HRD Ministry, NASSCOM, Company, Axis Securities

Indian Luggage Industry Segmentation

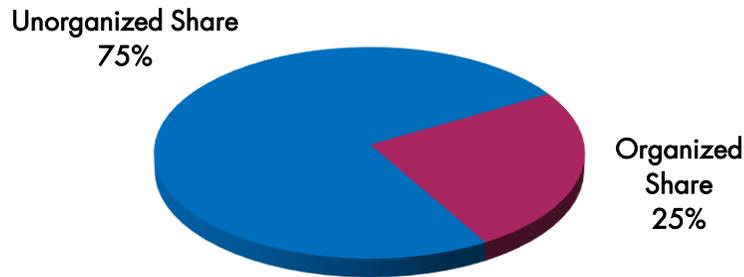


Customer is willing to pay a significant percentage premium on brand, quality, shopping experience and aspiration

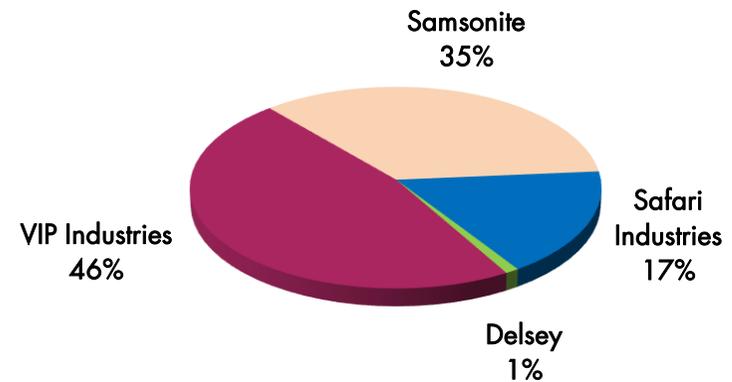
Customer is willing to pay a moderate percentage premium on brand, quality and shopping experience

Customer is willing to pay a moderate percentage premium on quality and brand proposition

Tremendous scope for organized players to grow share in Indian Luggage Industry



...VIP Industries a leader in the organized space in Indian market context



Source: Industry Reports, Management Interviews, Axis Securities

GST led demand shift to organized players

GST led gains significant for organized players which reported 20%+ revenue growth

- ◆ Acceleration observed in market share gains of organized players esp in mass segment with Safari Industries being the biggest beneficiary
- ◆ Reduced pricing gap with organized players
- ◆ Organized players revenues have seen ~20-25% rise in sales on annual basis since GST implementation

Positioning of players in Indian Luggage Industry

Price-Value	Approx. Price Point	Competitive Intensity	Peer Positioning
Premium	>Rs. 8,000	Moderate	Samsonite market leader
Economy / Value	Rs. 4,000 – 6,000	Moderate	VIP market leader
Mass	<Rs. 4,000	High; max shift from unorganized to organized seen in this segment post GST	Safari has strongest positioning

Source: Company, Axis Securities

Management commentary on opportunity post GST and implication for organized players in India

- ◆ **VIP IN:** Aristocrat brand (mass offering of VIP) has grown by ~79% in FY18. Aristocrat is an affordable brand and therefore remains a preference to consumers at the time of subdued spending
- ◆ **SAFARI IN:** With GST, industry will be fuelled with better growth opportunities and Safari will look to gain on in backpacks and PC product categories as consumers will upgrade from unbranded to branded players
- ◆ **SAMSONITE:** Launched Kamiliant in 2016. Within 18 months of launch garnered Rs. 100crore revenue and was targeted at the unbranded segment in smaller towns and cities

Tax Incidence Prior to & Post GST

	Tax Rate
Pre-GST	19%
Post GST	18% (revised in Nov 2018 from earlier 28%)

Indian Bags & Luggage Industry

Sector: Consumer Discretionary

Porter's Five Force Model

Buyers' Bargaining Power: Low

- ◆ Luggage a lifestyle product now against its utilitarian tag
- ◆ Multiple SKUs /brands across the price-value chain significantly lowers buyers ability to drive prices

Substitution Threat : Low

- ◆ Utility value of luggage/bag is cannot be substitute by any other good
- ◆ Luggage/ bag a mandatory accompaniment during travel

Entry Barriers: High

- ◆ Inventory management a challenge
 - ✓ Ensure timely product availability
 - ✓ Multiplicity and bulky nature of SKUs
 - ✓ Multiple sales channels and fast changing fashion trends
- ◆ Sourcing from China a tough task for small/new player

Competitive Intensity: High

- ◆ Largely from organized players
- ◆ Huge market size where organized players share is ~25% in overall market
- ◆ Post GST, unorganized players competitiveness is sharply lowered

Suppliers' Bargaining Power:High

- ◆ Massive scale of Chinese operations makes China sourcing a tough task for new/small scale player
- ◆ China a soft luggage manufacturing hub globally. However, tariff wars has led to reducing the suppliers bargaining power

Company Section



BUY

Target Price: 775

CMP : 618
 Potential Upside : 25%

MARKET DATA

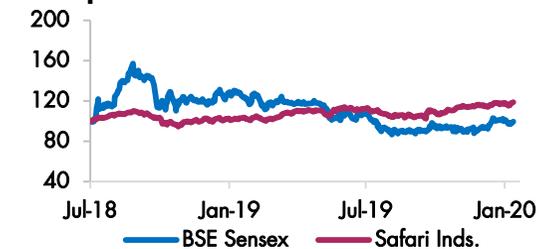
No. of Shares (Cr) : 2.23
 Market Cap (Rs Cr) : 1,394
 Free Float : 43.3%
 Avg. daily (6mth) : 23,057
 52-w High / Low : 809/481
 Bloomberg : SII IN
 Promoter holding : 56.7%
 FII / DII : 15.9%/0.02%

Safari Industries Ltd

Sector: Consumer Discretionary

*A "Trolleying SAFARI"***Financial Summary**

Y/E March	Net Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY19	578	52	27	12.2	20.9	59.5	13.3%	14.5%	32.8
FY20E	693	66	38	17.0	39.5	36.6	16.0%	15.8%	21.8
FY21E	818	83	50	22.6	32.7	27.6	17.6%	18.4%	16.8
FY22E	973	103	64	28.7	27.2	21.7	18.4%	20.4%	13.3

Source: Company, Axis Securities. CMP as of 24th Jan 2020**Price performance****Key Drivers**

Y/E March	FY19	FY20E	FY21E	FY22E
Revenue Growth	38%	20%	18%	19%
Gross Margin	42.3%	42.4%	42.7%	43.0%
A&SP	3.4%	3.6%	3.8%	4.2%

Safari Industries Ltd

Sector: Consumer Discretionary

Investment Rationale

Safari Industries Ltd (SAFARI) incorporated in 1974, is engaged in the business of manufacturing and marketing luggage both hard and soft luggage. Initially the company started operations with limited SKUs catering largely to adult working population and family travel needs. However, since 2012 when Mr. Sudhir Jatia bought a majority 77% stake in the company it continues to be the fastest growing luggage manufacturer in India. It's hard luggage manufacturing plant is located in Halol, Gujarat while the soft luggage requirements and some part of its Hard luggage components are sourced from China. **Today, Safari Industries is the 3rd largest player in the organized Indian luggage Industry with 17% market share.** The company has a multi channel distribution network of >6,000 customer touch points covering Hyper Markets, E-commerce, MBOs, EBOs, CSD and Institutions.

We expect Revenues and Earnings to grow at 19% and 33% CAGR respectively over FY19-22E driven by



We initiate coverage with BUY rating and a target price of Rs. 775 i.e. ~25% (implies ~27x FY 22E earnings)

Company Background

- ◆ In FY13, Mr. Sudhir Jatia bought a majority stake of 77% for Rs. 29cr in the company and ensured Safari became the fastest growing company in the luggage industry in India. Mr. Sudhir Jatia prior to taking stake in Safari was MD at VIP Industries and is a luggage industry veteran
- ◆ Mr. Jatia focused on product rationalization, elimination of non-performing SKUs, brought in working capital efficiency, set up office in China, brand building etc. to steer the profitability of the company
- ◆ Forayed into Polycarbonate (PC) luggage manufacturing in FY14, introduced SKUs in CSD channel. Further, strategically and timely expansion of PC capacity
- ◆ Eyeing an opportunity in the school bags segment, acquired brands Genius, Genie, besides intensified focus on backpacks segment
- ◆ FY19, credit rating at A-/Positive, is a sharp improvement from C in FY14

Key Brands and Products

Hard & Soft Luggage, Backpacks positioned in the Economy & Mass Segment



Hard & Soft Luggage, Backpacks positioned for the Mass segment – value conscious customer



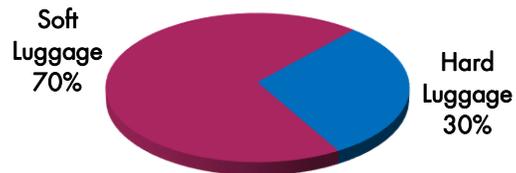
School bags for boys



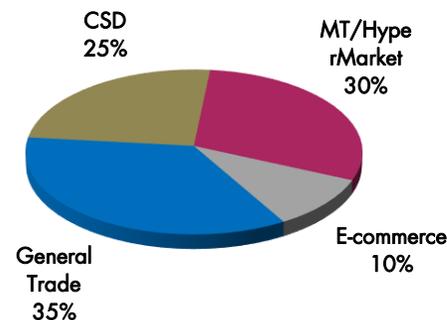
School bags for girls



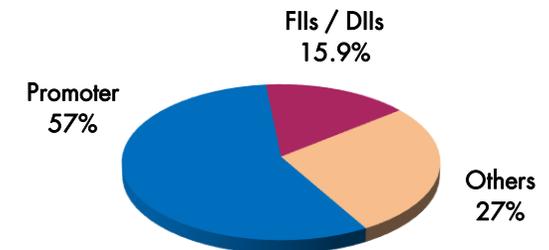
FY19 Product wise Revenue Split



FY19 Channel wise Revenue Split



Q3FY20 Shareholding Pattern



Source: Company, Axis Securities

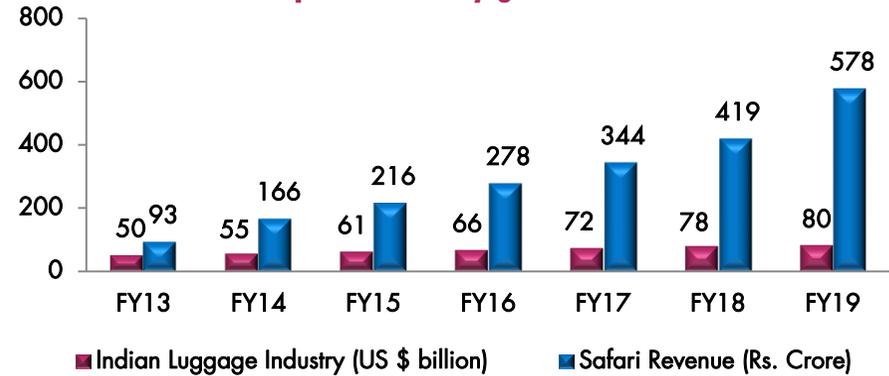
Safari Industries Ltd

Sector: Consumer Discretionary

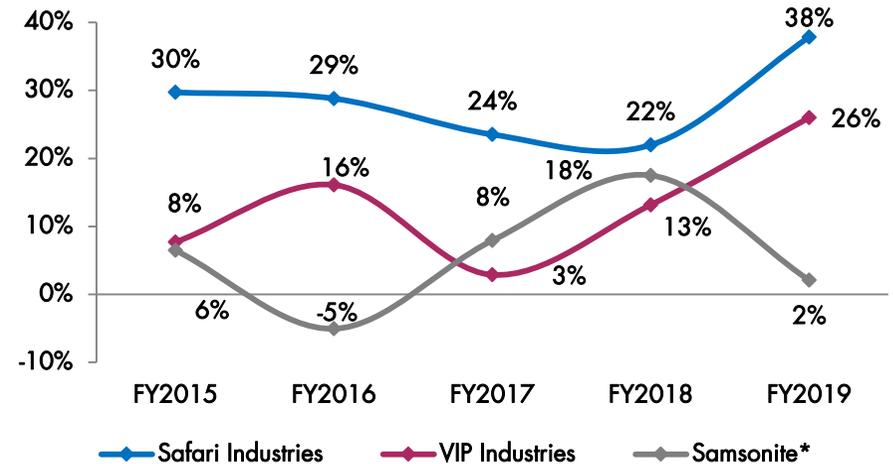
Attractive industry dynamics give enough growth visibility

- ◆ Indian Luggage industry to grow at double the rate of global luggage industry over 2018-23E
- ◆ Attractive industry dynamics supports robust growth momentum
 - ✓ Leisure travel spends grew at a CAGR of 25% over FY13-18; momentum to continue aided by government thrust on promoting tourism through policy actions
 - ✓ Growing spends on tourism and social media influence, to also aid healthy 15.6% growth in air passenger traffic over 2018-24E as per FICCI – Envisioning India 2030 Report
 - ✓ 5x growth in annual trips to 1 billion expected by 2040 from 0.2 billion annual trips in 2019
 - ✓ UDAN Yojana of the Gov aims to have 190-200 operational airports by 2040 opening up plethora of opportunities for surge in domestic tourist visits
 - ✓ Favourable wedding calendar and increased gifting habits driven by rise in disposable incomes augurs well for demand of bags and luggage in India
- ◆ GST led shift positive for Safari Inds which has grown fastest than peers in organized space
 - ✓ Increased cost of compliance for unorganized players (GST on luggage now at 18% across industry)
 - ✓ Post GST price differential has narrowed against unorganized / unbranded players post GST

Safari’s revenues expected to grow 2x industry growth; FY14-18 revenues outpaced industry growth



Safari revenues grew fastest driven by GST led shift



Source: Industry Reports, FICCI-KPMG Report 2019, Company, Axis Securities

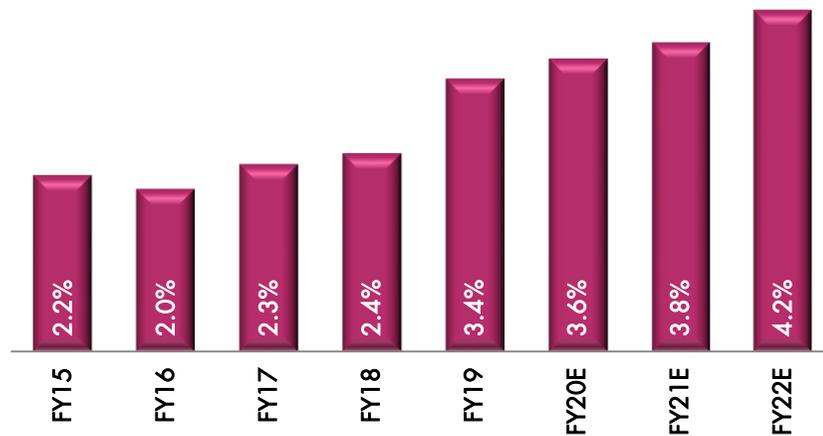
Safari Industries Ltd

Sector: Consumer Discretionary

Transitioning to an Aspirational brand

- ◆ Diverse product offering across price-value matrix across hard luggage, soft luggage, duffel bags, backpacks and school bags
- ◆ 3rd largest player in the oligopolistic Indian Luggage Industry with 17% share in FY19 a gain of 500bps from 12% in FY13
- ◆ Post 2012, management strategy led to a significant jump in Gross Margin as well as EBITDA Margin
 - ✓ Eliminated non performing SKUs thus rationalizing product portfolio
 - ✓ Introducing newer designs, trendy, aesthetically appealing, feature rich SKUs (now 100+) with better profitability across price value mix
 - ✓ Marked increase in product launches with ~2-4 models launched every fortnight against 3-4 models launched per month
 - ✓ Over FY19-22E focus on fastest growing product segments like PC luggage, backpacks and duffel bags
- ◆ Over FY19-22E A&P spend is expected to rise to 4% of Net Sales from 2.2% in FY15; Company launched TVC in CY2019 clearly demarcating 'Safari' as an aspirational brand

Brand led investments (A&P spends) to craft a distinct positioning



Source: Company, Axis Securities

Transitioning to a mid-premium aspirational brand

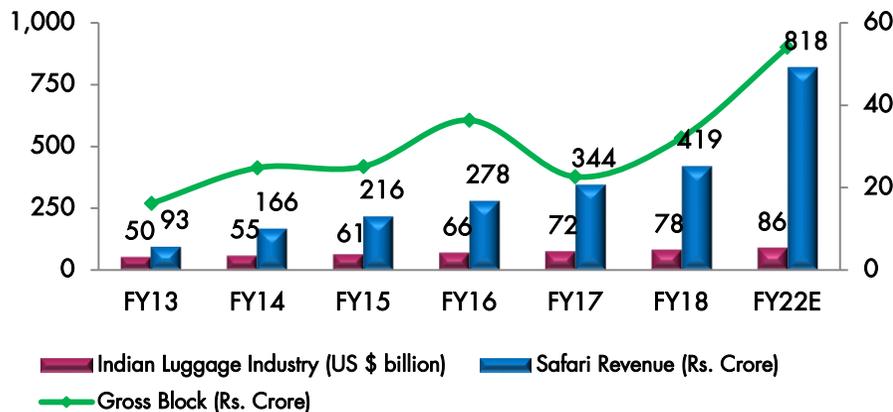
Category	Price Point	Brands (FY18)	Brands (FY23E)
Premium	> Rs 10,000		
	Rs 8,000		
Economy	Rs 4,000 – 6,000	  	 
		 	 
Mass	Rs 4,000	   	   
	Rs 2,000	 	 

Scale of Operations and Mix Improvement key margin drivers

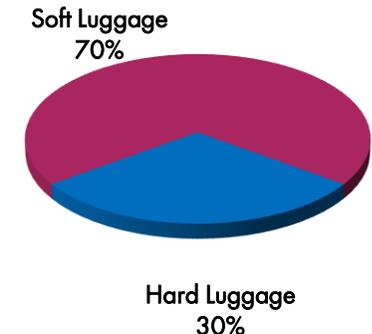
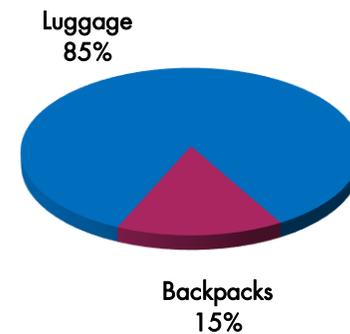
- ♦ Safari's hard luggage capacity expanded from 7,000 pieces per month in FY13 to ~1lakh pieces in FY19 leading to a stellar 39% CAGR in Revenues.
- ♦ Safari's revenues to maintain 2x industry growth going ahead
- ♦ With low demand visibility for Polypropylene (PP) luggage the company strategically increased PC luggage manufacturing which is trendier and has higher GMs, lowers working capital requirement given in-house production
- ♦ PC luggage expected to form ~50% of revenues for Safari in the next couple years from 25% currently

- ♦ Focused Product Strategy gears Safari for next phase of growth
 - ✓ **Hard Luggage (HL):** Portfolio premiumization led by PC HL that is growing faster than soft luggage aided by 1) new designs, 2) perceptual shift in consumer preference for HL with aesthetic appeal and stylish than its older utilitarian tag and 3) rise in disposable income
 - ✓ **Soft luggage (SL):** to be the largest contributor with short haul travel products growing faster than 4-wheeled trolleys
 - ✓ **Backpacks:** growth to be fastest across all categories (HL, SL, backpacks)
 - ✓ **School Bags:** Only player in branded space catering to this niche but sustainably growing segment

Safari's revenue increased ahead of industry's growth aided by Gross Block addition



FY19 Revenue split as per product and category

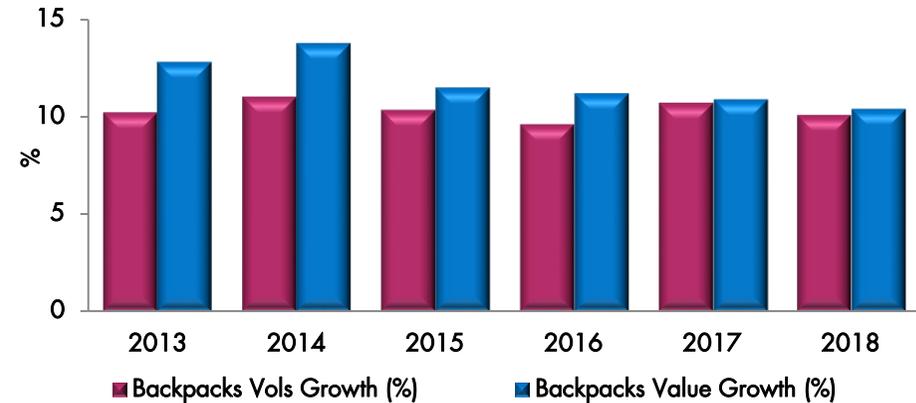


Source: Industry Reports, Company, Axis Securities

Backpacks - A part of lifestyle

- ◆ Backpacks market size is ~ Rs. 3,600-4,000cr category growing in high double digits owing to :
 - ✓ Shorter replacement cycles (varying between 6 months to 2 years)
 - ✓ Rising sales of 2W, growing student enrolments, women workforce, need for using different bag for every occasion like tuition bag, sports bag, gym bag etc
 - ✓ Unique positioning of storage + fashionable accessory + functionality
 - ✓ Regularly accompanied on short haul trips which have grown over the years as millennials like to seek experiences, adventure at time of planning short trips between 2 – 10 days
- ◆ Backpacks a highly fragmented and unorganized category (unorganized share 65-70%)
- ◆ Safari’s TVC showcasing functional and aesthetically appealing backpacks shall steer its growth in highly unorganized market where it is amongst the leading player
- ◆ E-commerce channel has further aided the exponential growth of backpacks category as per our channel check
- ◆ Backpacks contribute 15% to Safari’s revenues despite being a last entrant in the market
- ◆ Genius & Genie (acquired brands) are popular amongst school kids due to association with cartoon characters like Frozen

Indian backpack industry strong volume & value growth



Attractive offerings across Backpacks and School Bags



Source: Industry Reports, Company, Axis Securities

Safari Industries Ltd

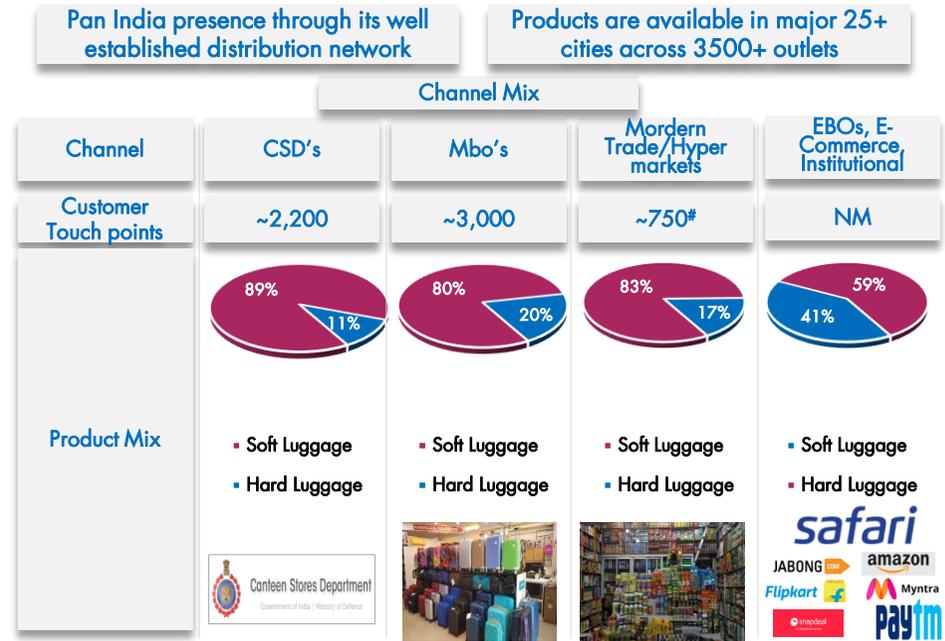
Sector: Consumer Discretionary

Multi Channel distribution network gearing for next phase of growth

- ✓ Strong distribution network across multiple channels is a key economic moat for company in the Luggage industry given absence of manufacturing moat
- ✓ Safari reaches > 6,000 customer touch points across diverse channels like Hypermarkets, E-commerce, MBO, EBO, CSD, Institutional
- ✓ Modern Trade (MT) / Hypermarkets and E-commerce channels grow ahead of traditional channel for Safari versus peers as i) it offers convenience; ii) is first choice of shopping for millennials; E-comm to continue robust 50% growth momentum over the next couple years as internet penetration increases
- ✓ Institutional (Corporate Gifting, Store based Offers) too has reported healthy growth and is expected to continue
- ✓ Safari's growing visibility and popularity in these channels will ensure sustained growth momentum as now it can penetrate into Tier II/III cities and towns where aspirations to own a brand a higher

Source: Company, Axis Securities

Multi Channel Distribution strategy drove 28% revenue CAGR over FY14-19



Safari's product offerings across channels



Safari Industries Ltd

Sector: Consumer Discretionary

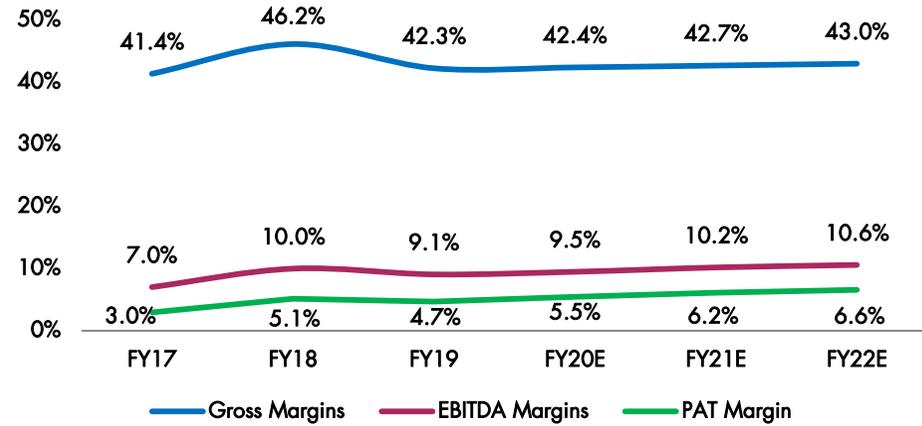
Tactical Margin improvement to aid profitable growth

- ◆ Strong come back by Safari post 2012 owing to key strategic changes made by the management
 - ✓ Elimination of non-performing SKUs
 - ✓ Foray into new product segments like PC Luggage, School Bags (acquired Genius & Genie in FY2015), Laptop Bags etc
 - ✓ Diversifying channel presence by making Safari's products available in new age distribution channels thus reducing dependence on CSD i) Hypermarkets (D-Mart, Reliance Retail, Big Bazaar, Aditya Birla Retail etc), ii) e-commerce – listed products across platforms like Amazon, Flipkart, Myntra etc (best selling product on these platforms as per our ground checks)

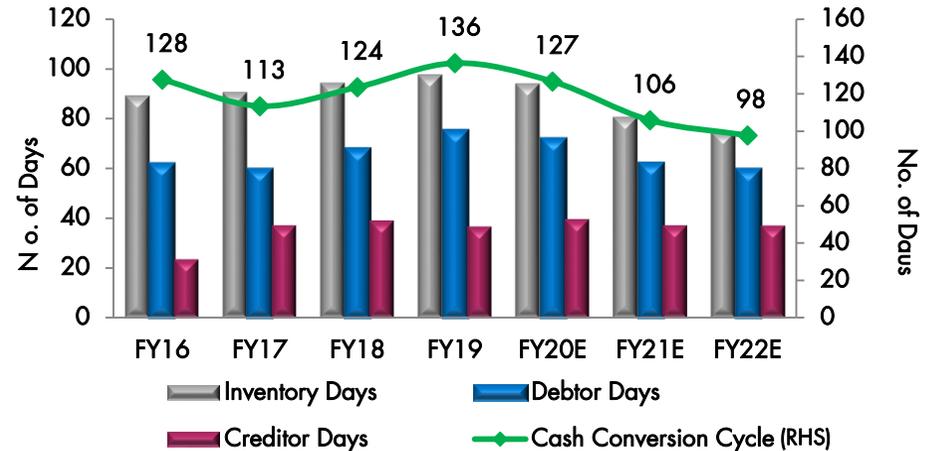
- ◆ FY15 set up China office and later added 2 more offices which led to -
 - ✓ Efficient sourcing from Chinese vendors (lower working capital requirements and efficient inventory management)
 - ✓ Better Bargaining power with Chinese

- ◆ Reduce dependence on Chinese outsourcing for soft luggage
 - ✓ Increasing sourcing from India
 - ✓ Value engineering in sourcing from China (with duties being higher now on Chinese Luggage)
 - ✓ Scout opportunities for sourcing from Bangladesh

Margin drivers to come from op. leverage & cost efficiency



Consciously reducing China dependence for sourcing

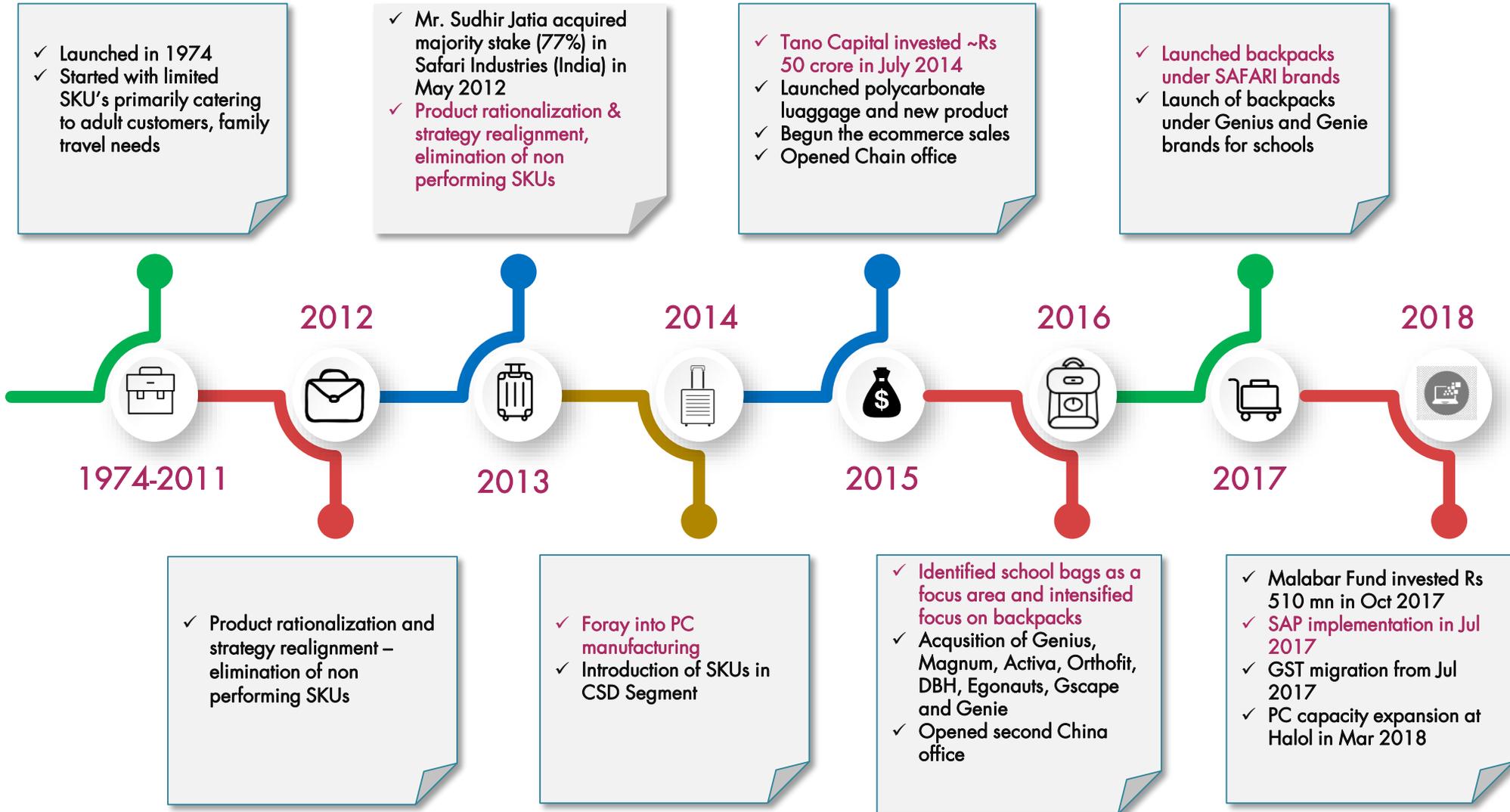


Source: Company, Axis Securities

Safari Industries Ltd

Sector: Consumer Discretionary

Safari Industries evolution as 3rd largest player in industry



Source: Company, Axis Securities

Experienced Management Team

Mr. Sudhir Jatia – CMD

- ✓ An Indian luggage industry veteran with 25+ years of experience; acquired Safari in 2012 with 77% controlling stake
- ✓ B. Com. (Mumbai University); Attended Owner/President Management Programme at the Harvard Business School, USA

Mr. Satyabrata Mitra – Sr. VP – CSD Sales

- ✓ 36+ years of industry experience. In past worked with companies like VIP Industries, Universal Luggage, Universal Mineral Industries etc.
- ✓ M.Com from Calcutta University

Mr. Pushkar Jain – CMO

- ✓ 17+ years experience in leading consumer companies like Pidilite Industries, ICI Paints (AkzoNobel), Tata Tele and Bluestone.com, etc.
- ✓ Pursued MBA – Marketing from MDI Gurgaon

Mr. Sudhanshu Karmokar – GM – Head IT

- ✓ 28+ years experience in the IT field with past experience in companies like Raymond Woollen Mills, Godrej Industries, Blue Star Infotech, Meru Cabs, SOTC Travel etc.
- ✓ Completed Advance Diploma in Systems Management from NIIT

Mr. Vineet Poddar– CFO

- ✓ 22+ years of experience across diverse companies like Bombay Deying & Manufacturing co., Nshama Development LLC, Birla Corp, Marsh India etc
- ✓ CA, CS and Commerce graduate from Calcutta University

Mr. Indranil Roy – Sr. VP – Trade, Retail, E-com, Insti Sales

- ✓ 27+ years rich experience with bluechip companies like Titan Watches, Bausch & Lomb, Whirlpool, Panasonic India, VIP Industries etc.
- ✓ PGDBM from Calcutta Industry

Mr. Pravin Prabhakar – VP China (Operations)

- ✓ 21+ years experience with companies like Eveready Industries, Blow Plast Ltd, IFB Industries, Princeware International etc.
- ✓ Completed MBA – Marketing from Mumbai University

Mr. Sharad Chaugule - VP Halol (Operations)

- ✓ 24+ years of working experience with companies like VIP Industries, Hitech Plast Ltd.
- ✓ Mechanical Engineer from Kolhapur University

Source: Company, Axis Securities.

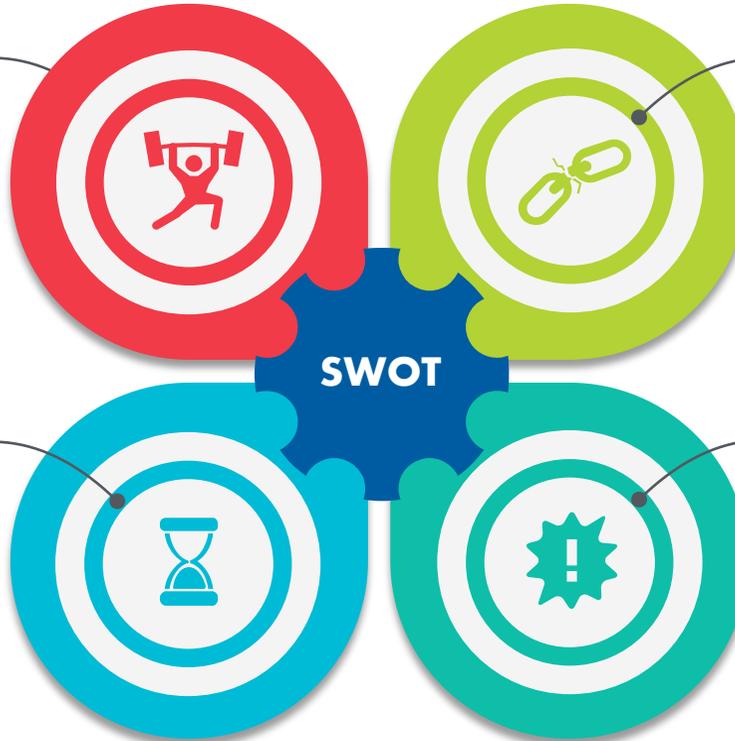
Safari Industries Ltd

Sector: Consumer Discretionary

SWOT Analysis

Strengths

- ✓ Fastest growing luggage, backpacks brand in India given promoter pedigree who is hands-on in the business
- ✓ >6,000 multi channel touch points across CSD, MBOs, Hypermarket, EBOs, E-commerce
- ✓ Consistently gained market share which stood at 17% in FY19 from 12% in FY14



Weaknesses

- ✓ ~70% dependence on China for procurement of soft luggage
- ✓ SKU cannibalization across channels
- ✓ Single product offering catering to economy segment

Opportunities

- ✓ Huge market size of \$300 Cr (luggage and backpacks), ~40% organized
- ✓ Augment in-house PC manufacturing capacity at Halol
- ✓ Inorganic acquisition of small scale player in the industry or consolidation in the industry as is witnessed globally

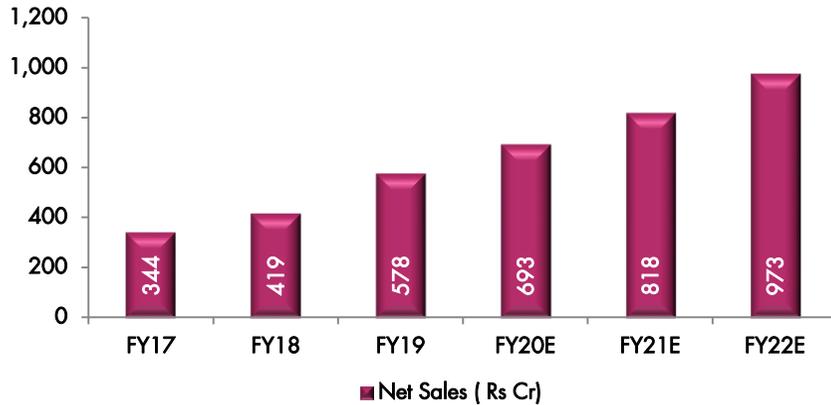
Threats

- ✓ Susceptible to forex volatility given dependence on China for sourcing
- ✓ Rising competitive intensity amongst organized players and e-commerce channel
- ✓ Threat of new entrants especially in price sensitive value segment

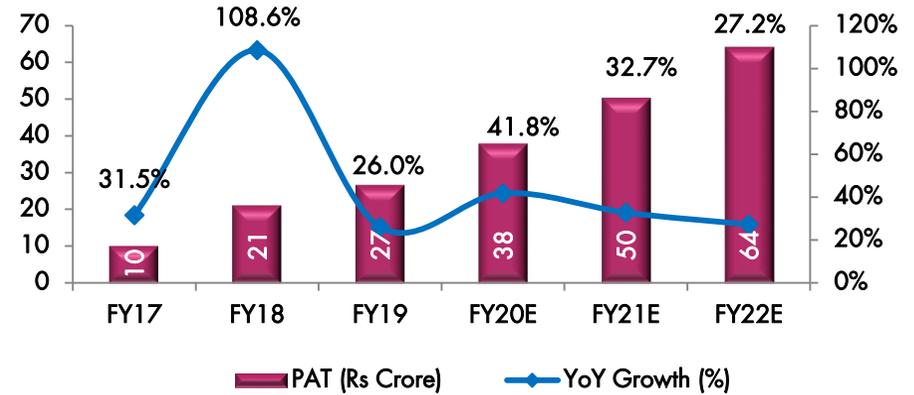
Source: Company, Axis Securities

Strong Financial Performance to continue...

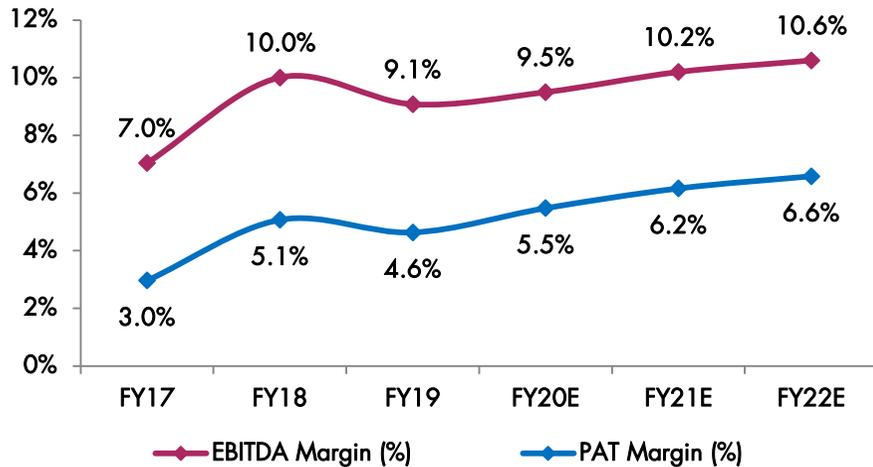
Net Revenue to grow at a CAGR of 19% over FY19-22E



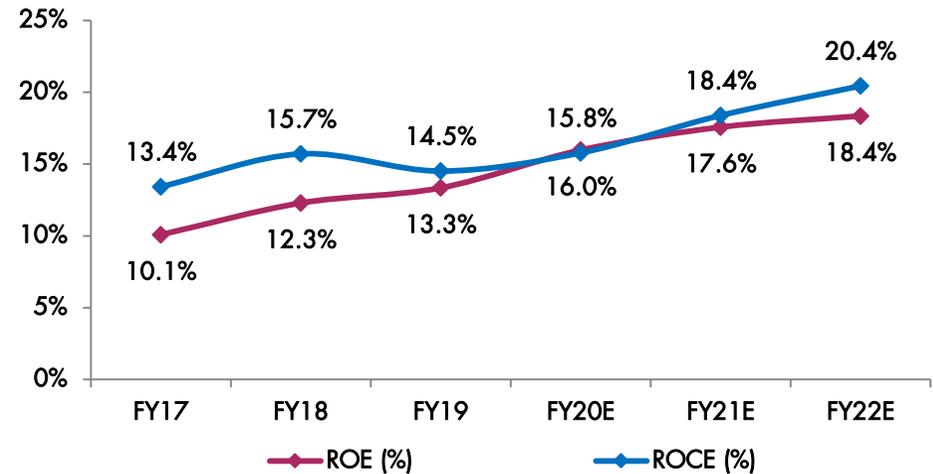
Bottom-line to sustain healthy growth momentum



Margins to see consistent improvement led by value engineering



Return ratios to remain healthy



Source: Company, Axis Securities

Safari Industries Ltd

Sector: Consumer Discretionary

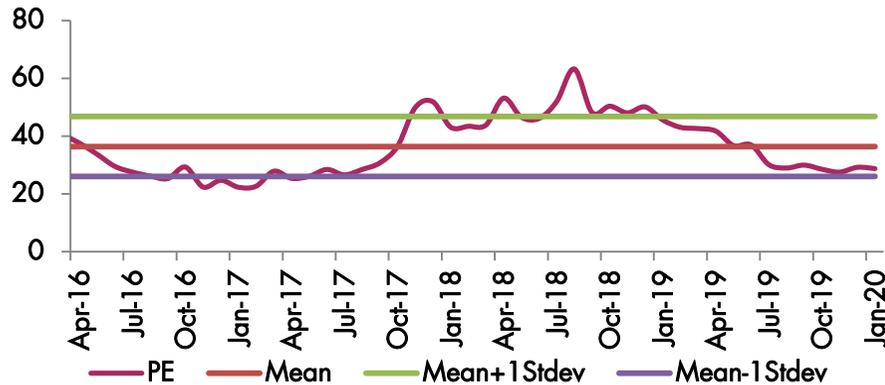
Peer Comparison

	Safari Industries		VIP Industries		Samsonite SA		Hermes International		LVMH Moet Hennessy		Christian Dior SE	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Mcap (USD Bn)	0.2		0.9		3.0		82.5		230.9		89.8	
CMP	618		464		18.9 *		708.6 #		431.4 #		473.4 #	
Sales Growth (%)	20	18	9	12	-3.4	0.2	14.7	24.8	14.1	23.7	13.6	22.9
PAT Growth (%)	42	33	24	25	-18.9	-8.2	9.5	22.1	5.2	18.0	-56.7	-52.4
ROE (%)	16.1	17.6	25.5	25.8	10.6	11.5	25.1	23.8	21.0	21.1	20.2	20.1
P/E (x)	36.6	27.6	35.8	28.7	17.2	14.9	48.4	43.6	29.5	26.3	28.3	25.8
EV/EBITDA (x)	21.8	16.8	25.1	20.1	9.7	8.9	26.8	24.5	16.7	15.2	9.7	8.9

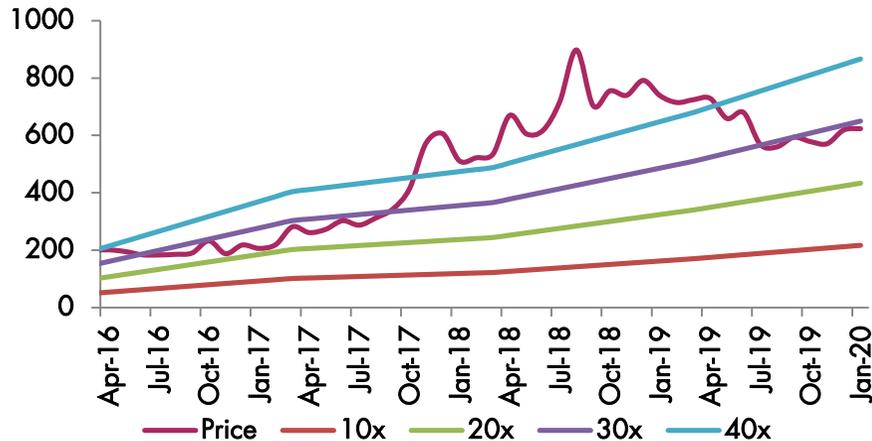
 Source : Company; Axis Securities Research; Thomson Reuters; * CMP in Hong Kong Dollars; # CMP in EURO; CMP as of 24th Jan 2020

Outlook & Valuations

P/E band



12mth fwd P/E (x)



Valuation

- ◆ We estimate SAFARI's to report top-line/bottomline CAGR of 19%/34% over FY19-FY22E
- ◆ Expect SAFARI to report EBITDA Margin of ~10.6% by FY22E versus 9.1% in FY19 (+150bps) driven by mix improvement and overall cost efficiencies
- ◆ ROE estimated to increase to 18.4% over FY19-FY22E
- ◆ Given robust growth opportunity, we value SAFARI at 27x FY22E EPS and arrive at a **price target of Rs. 775 (25% Upside)**

Risk Factors

- ◆ Intense competition largely from organized players and online channel to grab market share especially in the mass /economy segment
- ◆ Currency risk is imminent for SAFARI as currently ~65-70% of soft luggage is imported from China
- ◆ Sharp volatility in RM Price and delay in passing on cost increases to hurt margins (Gross Margin & EBITDA Margin)

Financials (Consolidated)

Safari Industries Ltd

Sector: Consumer Discretionary

Profit & Loss

(Rs Cr)

	FY18	FY19	FY20E	FY21E	FY22E
Total Net Sales	419	578	693	818	973
% Change	22.0%	37.8%	20.0%	18.0%	19.0%
Total Raw material Consumption	226	334	399	469	555
Staff costs	53	66	78	91	108
Other Expenditure	98	126	150	175	207
Total Expenditure	377	525	627	735	870
EBITDA	42	52	66	83	103
% Change	73.4%	25.0%	25.6%	26.7%	23.7%
EBITDA Margin %	10.0%	9.1%	9.5%	10.2%	10.6%
Depreciation	6.2	8.3	12.0	13.5	15.7
EBIT	36	44	54	70	87
% Change	87.7%	23.4%	22.0%	29.9%	25.1%
EBIT Margin %	8.5%	7.6%	7.8%	8.5%	9.0%
Interest	3	4	4	4	3
Other Income	1	1	1	2	2
(as % of PBT)	3%	3%	3%	2%	2%
PBT	34	41	51	68	86
Tax	12	14	13	17	22
Tax Rate %	36.3%	33.6%	25.7%	25.7%	25.7%
APAT	22	27	38	50	64
% Change	111.5%	26.3%	39.5%	32.7%	27.2%

Balance Sheet

(Rs Cr)

	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	4.5	4.5	4.5	4.5	4.5
Reserves & Surplus	168	196	233	282	345
Net Worth	32	37	49	54	69
Total Loan funds	5	11	23	37	52
Capital Employed	27	26	26	18	17
Gross Block	98	140	133	146	173
Less: Depreciation	123	187	171	190	208
Net Block	13	15	18	21	25
Sundry Debtors	47	79	82	96	113
Cash & Bank Bal	190	265	300	346	391
Inventory	228	304	341	380	428
Other Current Assets	4.5	4.5	4.5	4.5	4.5
Total Current Assets	168	196	233	282	345
Curr Liab & Prov	32	37	49	54	69
Net Current Assets	5	11	23	37	52
Total Assets	27	26	26	18	17

Source: Company, Axis Securities

Safari Industries Ltd

Sector: Consumer Discretionary

Financials (Consolidated)

Cash Flow

(Rs Cr)

	FY18	FY19	FY20E	FY21E	FY22E
PBT	34	41	41	51	68
Depreciation & Amortization	6	8	8	12	14
Provision for Taxes	3	4	4	4	4
Chg in Deferred tax	1	1	0	0	0
Chg in Working cap	-3	0	32	2	13
Tax paid	-11	-17	-14	-13	-17
Cash flow from operations	30	38	72	56	81
Chg in Gross Block	-15	-9	-6	-13	-5
Chg in Investments	1	2	0	0	0
Chg in WIP	2	1	0	0	0
Cash flow from investing	-13	-7	-6	-13	-5
Proceeds / (Repayment) of Short Term Borrowings (Net)	14	50	0	0	0
Repayment of Long Term Borrowings	2	0	0	0	0
Loans					
Finance Cost paid	-3	-5	-4	-4	-4
Dividends paid	-1	-1	-1	-1	-1
Dividend Distribution Tax paid	0	0	0	0	0
Cash flow from financing	59	45	-6	-15	-15
Chg in cash	-2	0	60	28	60

Ratio Analysis

(%)

	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Net Sales	22.0%	37.8%	20.0%	18.0%	19.0%
EBITDA	73.4%	25.0%	25.6%	26.7%	23.7%
APAT	108.6%	26.0%	41.8%	32.7%	27.2%
Per Share Data (Rs.)					
Adj. EPS	10.1	12.2	17.0	22.6	28.7
BVPS	77.7	89.8	106.4	128.4	156.4
DPS	0.5	0.5	0.4	0.6	0.7
Profitability (%)					
EBITDA Margin	10.0%	9.1%	9.5%	10.2%	10.6%
Adj. PAT Margin	5.1%	4.6%	5.5%	6.2%	6.6%
ROCE	15.7%	14.5%	15.8%	18.4%	20.4%
ROE	12.3%	13.3%	16.0%	17.6%	18.4%
ROIC	16.1%	14.8%	19.4%	24.1%	27.1%
Valuations (X)					
PER	53.1	59.5	36.6	27.6	21.7
P/BV	6.9	8.1	5.8	4.8	4.0
EV / EBITDA	29.7	32.8	21.8	16.8	13.3
EV / Net Sales	3.0	3.0	2.1	1.7	1.4
Turnover Days					
Inventory days	94	98	94	80	75
Debtors days	68	75	72	62	60
Creditors days	39	36	39	37	37
Working Capital Days	124	137	127	106	98
Gearing Ratio					
Debt to Equity	0.3	0.5	0.4	0.3	0.2

Source: Company, Axis Securities

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