

Well placed for Growth as Normlcy Set In

We recently interacted with the management of Safari Industries to get an outlook on the industry and the company for FY22E/FY23E. On Q1FY22, the company's results were better than our estimates in the backdrop of some demand recovery and pent-up demand. The revenues for Q1FY22 stood at Rs 120 Cr (our estimate: Rs 70 Cr), up 497% on a YoY basis but down 10% on a QoQ basis. Revenues have recovered to ~60% of pre-COVID levels, down from ~92% in Q4FY21 as the country was hit by the second COVID-19 wave. Gross Margins (GM) fell by 540bps YoY and 556bps QoQ to 39.2% (our estimate: 44.6%) on account of an unprecedented rise in key RM prices such as polycarbonate, steel, and aluminium. The EBITA came in at Rs 7 Cr vs a loss of Rs 19 Cr in Q1FY21. On a QoQ basis, it was down 47% due to a drop in top-line performance and an 11% increase in employee expenses. The EBITDA Margins came in at 6%, down 47bps QoQ. The reported Net Profit stood at Rs 2.5 Cr (our estimate: Loss of Rs 2.4 Cr), turning to profit as against Q1FY21 loss of Rs. 19.3Cr while a de-growth of 61% on a sequential basis.. While Q1FY22 performance was adversely impacted due to reimposed lockdowns by state governments, acceleration in vaccination and gradual lockdown relaxations are expected to lead to a rising preference for short-haul leisure trips. Additionally, the upcoming festive season, expectations of reopening of schools and colleges as well as the pent up demand due to postponement of marriage season would further support the company's growth. While we are cognizant of the near-term growth challenges, we believe the Indian luggage industry offers immense growth opportunities for a mid-premium/value-focused brand like Safari. We revise our FY22/23/24 estimates upwards by factoring in a near-normal business in FY22E and consequently maintain our BUY rating with a revised TP of Rs 900/share (previously Rs 790/share) as we value the stock at 45x PE FY24E.

Key risks to our estimates – a) 3rd and 4th wave of COVID-19 disrupting travel and business, b) Revision in lockdown rules, and c) Spike in RM prices.

Key Takeaways

- **FY22 Outlook:** The management indicated to register growth higher than pre-Covid levels in the Aug-Nov'21 period on account of an increase in the domestic leisure travel, marriage season, corporate gifting, and gradual re-opening of schools and colleges. While business-related travel is expected to be a dampener, it could gradually revive from FY23 onwards as the pace of vaccination increases across the globe.
- **Shift in Consumer behaviour:** Given constraints on discretionary spending, consumers have become price-conscious and thus prefer mid-premium/value brands where Safari is well-positioned. Sales of premium luggage are negligible due to a fall in business-related travel on account of a structural shift to work-from-home (WFH). On the other hand, leisure travel has gained increasing importance in the wake of continuing trend of WFH.
- **Change in Brand Perception:** Over the years, the company has consistently grown and has witnessed a positive shift in the brand perception from being a mass brand to a premium value-for-money brand, putting Safari in a sweet spot and as a formidable competitor in the industry.

Our Take

Although the company's near-term earnings outlook remains clouded as travel and people movement continue to be restricted albeit better than previous periods, we think short-haul trips and marriage-led demand could support growth in H2FY22. Moreover, the long-term outlook for the sector looks promising given multiple growth drivers such as 1) accelerated shift in consumer preferences from unorganized labels to brands, 2) rising leisure travel, 3) increased focus on strengthening the Safari brand, and 4) de-risking of sourcing from China to alternate sources such as Bangladesh and India. We maintain our BUY rating and value the stock at 45x P/E on its FY24E EPS (premium to its peer) as we expect Safari to report strong growth over FY21-24E. Our revised TP is Rs 900/share (earlier Rs 790/share).

Key Financials (Consolidated)

(Rs. Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	328	525	735	882
EBITDA	(6)	33	58	85
Net Profit	(21)	10	27	45
EPS (Rs.)	(7.2)	4.3	12.1	20.0
PER (x)	--	181.0x	64.6x	39.1x
EV/EBITDA (x)	--	52.2x	28.9x	19.5x
P/BV (x)	6.3	6.1	5.6	4.9
ROE (%)	--	3.3%	8.6%	12.5%

Source: Company, Axis Research

(CMP as of Aug 24, 2021)

CMP (Rs)	789
Upside /Downside (%)	14%
High/Low (Rs)	841/360
Market cap (Cr)	1,766
Avg. daily vol. (6m) Shrs.	26,324
No. of shares (Cr)	2.2

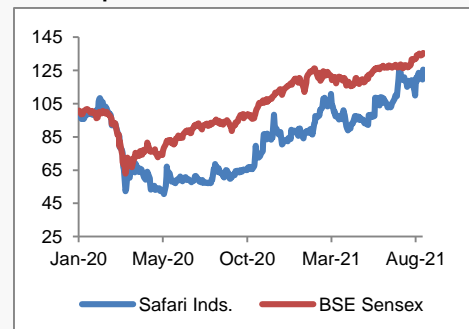
Shareholding (%)

	Dec-19	Mar-20	Jun-21
Promoter	56.7	55.3	50.4
FIs	22.6	15.8	16.2
MFs / UTI	0.0	1.6	1.9
Banks / FIs	0.0	0.0	0.0
Others	20.8	27.4	31.4

Financial & Valuations

Y/E Mar (Rs. Cr)	2022E	2023E	2024E
Net Sales	525	735	882
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Relative performance



Source: Capitaline, Axis Securities

ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

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Other Key Takeaways:

- **Market share gains to continue:** Safari has been a beneficiary of a notable downtrading in the luggage industry as consumers' preferences shift to value products where Safari is well-placed vis-a-vis premium brands. Share gains have also come from unorganized players that are struggling due to small-scale operations, liquidity crunch given disruptions in the supply chain, and inability to pass on RM price increases. In our view, a shift from unorganized to organized players will benefit branded players like Safari in the long term. Further, amongst the organized players too Safari is cementing its position as a fast growing player.
- **Reducing Chinese dependence:** The company has reduced its sourcing from China to 15% in FY21 from 64% in FY20 as sourcing of soft luggage is done from Bangladesh. For CSD, 100% sourcing is done from India. Going forward, the sourcing mix from India is expected to be 60-70%. After the commencement of its manufacturing unit in Q1FY23, the China import will be at negligible levels.
- **RM price inflation:** The management indicated key RMs saw a spike YoY. RMs like polycarbonate, packaging cost (paper), and wheels (steel/aluminium) have seen an unprecedented rise but are expected to soften by Q3FY22 onwards.
- **Limited impact on retail store operations:** Safari has about 40-45 retail stores resulting in a lower impact vs. its competitors having a largest retail presence which witnessed an adverse impact. Increasing the retail stores presence is a part of the company's expansion plan and is looking to add 3-5 new stores every quarter in the backdrop of healthy negotiation on the long-term rentals at a time when the overall luggage industry is witnessing turbulent times.
- **Cost savings:** Safari expects savings from A&P spends and rent to sustain even as the recovery accelerates but the sales-related expenses such as incentives to employees and travel could increase. However, the company remains confident of driving better margin performance going ahead with innovative, feature rich and competitively priced products.
- **Capex:** Safari has plans to do a Capex of Rs 17-22 Cr annually and aims at expanding its polycarbonate facility and putting facilities for polypropylene and soft luggage in India (which is currently being sourced from Bangladesh). Additionally, the company has plans of expanding its capacities to double from current capacity for hard luggage by FY22E end. Further, demand for soft luggage is also expected to gradually increase and the company is also increasing its capacity for the same by Q1FY23E by a mix of own facility being increased as well as sourcing from 3rd party vendors from India and Bangladesh.
- **Channel mix:** The management indicated a sharp jump in e-commerce sales which now forms over 15% of total revenues. While General Trade (GT) is expected to recover earlier than Modern Trade (MT) and CSD which have seen a significant impact. Moreover, Institutional sales have seen decent momentum.
- **Export and OEM inquiries:** The company has been receiving export inquiries as the world looks for an alternative manufacturing base to China benefiting countries such as India and Bangladesh. The company has actively received export enquiries from the Middle East and has done a small export in the region. Additionally, the company has also received inquiries from OEMs from the domestic market.
- **Logistics and Shipping Costs:** Safari like other luggage players has been experiencing issues in terms of China imports as the sea freight costs from China have risen over 10x thereby leading to rise in logistic costs.
- **Region-wise contribution:** North region contributes the highest followed by East, West, and South.

Q1FY22 Key Financials (Consolidated)

(Rs. Cr)	Q1FY22	Axis Sec Estimates	Axis Sec Var (%)	Q1FY21	YoY(%)	Q4FY21	QoQ (%)
Net Sales	120.2	70.4	70.5	20.1	497.3	132.9	-9.6
Expenditure							
Net Raw Material	73.1			11.2	550.8	73.4	-0.5
Gross Profit	47.1	31.4	49.9	8.9	429.8	59.5	-20.8
<i>Gross Margin (%)</i>	<i>39.2</i>	<i>44.6</i>	<i>-540bps</i>	<i>44.2</i>	<i>-500bps</i>	<i>44.8</i>	<i>556bps</i>
Employee Expenses	15.1			16.6	-9.5	13.6	10.8
Other Exp	25.0			11.3	120.6	32.5	-23.1
Total Expenditure	113.1			39.2	188.6	119.5	-5.3
EBITDA	7.0	1.7	315.8	-19.1	-136.8	13.4	-47.4
EBITDA Margin (%)	5.9	2.4	345bps	--	--	10.1	-421bps
Oth. Inc	1.9			1.2	57.9	0.4	403.4
Interest	1.0			2.0	-48.9	0.7	56.2
Depreciation	4.5			5.3	-15.8	4.7	-5.3
PBT	3.4			-25.2	-113.4	8.4	-59.6
Tax	0.9			-5.9	-115.7	2.1	-56.6
PAT	2.5	-2.4	--	-19.3	--	6.2	-60.6
EPS	1.1	-1.1	--	-8.8	--	2.8	--

Source: Company; Axis Securities

Valuation & Outlook

While the second wave of Covid had an adverse impact on Q1FY22, we expect a robust demand recovery in Q2FY22 onwards on account of the marriage season and preference to resuming short-haul trips over the long haul trips. We revise our FY22/23/24E upwards factoring in a near-normal business in FY22E. Consequently, we maintain our BUY rating with a revised TP of Rs 900/share (previously Rs 790/share) as we value it at PE of 45x on its FY24E.

Key risks to our estimates – a) 3rd and 4th wave of Covid-19 disrupting travel and business, b) Revision in lockdown rules, and c) Spike in RM prices.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs. Cr	FY21	FY22E	FY23E	FY24E
Total Net Sales	328	525	735	882
% Change	-52%	60%	40%	20%
Total Raw material Consumption	191	303	420	497
Staff costs	60	67	92	104
Other Expenditure	83	121	165	196
Total Expenditure	334	492	677	797
EBITDA	(6)	33	58	85
EBITDA Margin %	--	6.3%	7.9%	9.6%
Depreciation	20	19	21	25
EBIT	-26	14	37	60
% Change	--	-	163.4%	61.0%
EBIT Margin %	--	2.7%	5.0%	6.8%
Interest	6	5	5	4
Other Income	3	4	4	4
PBT	-29	13	36	60
Tax	-8	3	9	15
Tax Rate %	27.5%	25.2%	25.2%	25.2%
APAT	-21	10	27	45

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY21	FY22E	FY23E	FY24E
Share Capital	4.5	4.5	4.5	4.5
Reserves & Surplus	275	284	310	354
Net Worth	279	288	315	358
Total Loan funds	5	80	75	70
Total Liabilities	307	392	413	452
Net Block	37	58	47	42
Sundry Debtors	90	104	145	169
Cash & Bank Bal	5	47	9	10
Inventory	114	129	177	208
Other Current Assets	10	11	15	19
Total Current Assets	280	352	408	466
Current Liabilities & Provision	90	73	99	115
Net Current Assets	190	279	309	351
Total Assets	307	392	413	452

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY21	FY22E	FY23E	FY24E
PBT	-29	13	36	60
Depreciation & Amortization	20	19	21	25
Provision for Taxes	6	5	5	4
Chg in Deferred tax	8	0	0	0
Chg in Working cap	-3	3	4	2
Direct tax paid	1	-3	-9	-15
Cash flow from operations	3	36	56	76
Chg in Gross Block	-8	-40	-10	-20
Chg in Investments	-93	31	-1	-1
Chg in WIP	1	-6	-1	-1
Cash flow from investing	-100	-15	-12	-22
Proceeds / (Repayment) of Short Term Borrowings (Net)	-1	75	-5	-5
Finance Cost paid	-6	-5	-4	-4
Cash flow from financing	-10	70	-10	-10
Chg in cash	1	42	-37	1
Cash at end	1	2	44	6

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Growth (%)				
Net Sales	--	60.0%	40.0%	20.0%
EBITDA	--	--	75.6%	45.8%
APAT	--	--	180.3%	65.3%
Per Share Data (Rs.)				
Adj. EPS	--	4.3	12.1	20.0
BVPS	124.6	128.8	140.6	160.1
DPS	-0.2	0.1	0.3	0.5
Profitability (%)				
EBITDA Margin	--	6.3%	7.9%	9.6%
Adj. PAT Margin	--	1.8%	3.7%	5.1%
ROCE	--	3.6%	9.0%	13.2%
ROE	--	3.3%	8.6%	12.5%
ROIC	--	4.1%	9.2%	13.6%
Valuations (X)				
PER	--	181.0x	64.6x	39.1x
P/BV	6.3	6.1	5.6	4.9
EV / EBITDA	--	52.2x	28.9x	19.5x
EV / Net Sales	5.1x	3.3x	2.3x	1.9x
Gearing Ratio				
Debt to Equity	0.0x	0.3x	0.2x	0.2x

Source: Company, Axis Securities

Safari Industries Price Chart and Recommendation History



Date	Reco	TP	Research
27-Jan-20	BUY	775	Initiating Coverage
28-Apr-20	HOLD	392	Event Update
17-Aug-20	HOLD	373	Result Update
09-Jun-21	BUY	790	Result Update
24-Aug-21	BUY	900	Management Meet Note

Source: Axis Securities

About the analyst**Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector:** FMCG, Consumption sector**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research.**About the analyst****Analyst:** Darshita Shah**Contact Details:** darshita.shah@axissecurities.in**Sector:** Specialty Chemicals, Mid-Caps**Analyst Bio:** Darshita Shah is CFA Level III candidate and has over a year experience in Equity Market and Research.**Disclosures:**

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