

## 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
<b>Net Sales</b>	<b>278</b>	<b>359</b>	<b>415</b>	<b>519</b>	<b>649</b>
% chg	28.8	29.0	15.8	25.0	25.0
<b>Net Profit</b>	<b>7.8</b>	<b>10.4</b>	<b>19.1</b>	<b>30.7</b>	<b>41.8</b>
% chg	55.9	33.8	83.4	60.7	36.1
OPM (%)	6.7	6.3	9.3	10.5	11.0
<b>EPS (Rs)</b>	<b>3.5</b>	<b>4.7</b>	<b>9.5</b>	<b>13.8</b>	<b>18.8</b>
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

### 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

**Nidhi Agrawal**

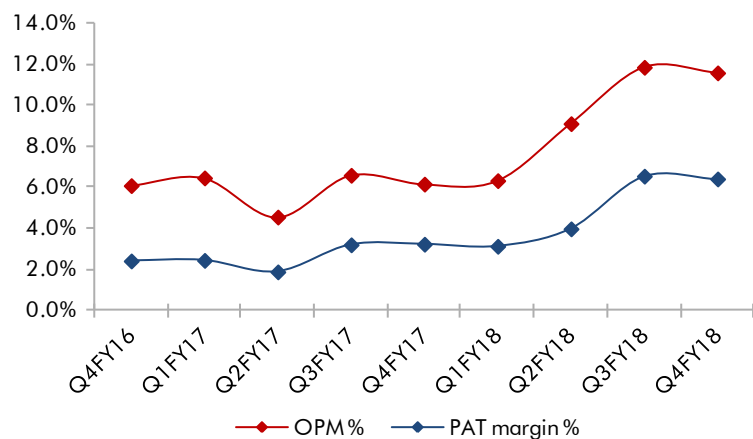
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**Exhibit 1: Q4 results at a glance**

Rs cr	Q4FY18	Q3FY18	Q4FY17	YoY	QoQ	FY18	FY17	YoY
<b>Net Sales</b>	<b>119</b>	<b>103</b>	<b>95</b>	<b>25.9%</b>	<b>15.3%</b>	<b>415</b>	<b>345</b>	<b>21%</b>
<b>Total expenditure</b>	<b>105</b>	<b>91</b>	<b>89</b>	<b>18.6%</b>	<b>15.7%</b>	<b>375</b>	<b>324</b>	<b>16%</b>
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%
<b>Gross margin %</b>	<b>46.6%</b>	<b>47.8%</b>	<b>45.6%</b>			<b>45.7%</b>	<b>41.9%</b>	
<b>Operating profit</b>	<b>13.8</b>	<b>12.3</b>	<b>5.8</b>	<b>137%</b>	<b>12.7%</b>	<b>40.8</b>	<b>20.7</b>	<b>97%</b>
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%
<b>PBT</b>	<b>12.4</b>	<b>9.9</b>	<b>5.3</b>	<b>135%</b>	<b>25.2%</b>	<b>33.4</b>	<b>14.0</b>	<b>138%</b>
Tax	4.3	3.3	1.9	133%	29.7%	12.0	5.0	140%
<b>Adjusted Profit</b>	<b>7.7</b>	<b>6.8</b>	<b>3.1</b>	<b>150%</b>	<b>12.9%</b>	<b>21.2</b>	<b>9.5</b>	<b>125%</b>
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
<b>Total operating income</b>	<b>278</b>	<b>359</b>	<b>415</b>	<b>519</b>	<b>649</b>
% chg	28.8	29.0	15.8	25.0	25.0
<b>Total Expenditure</b>	<b>260</b>	<b>336</b>	<b>377</b>	<b>465</b>	<b>577</b>
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
<b>EBITDA</b>	<b>19</b>	<b>22</b>	<b>39</b>	<b>55</b>	<b>72</b>
% 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
<b>EBIT</b>	<b>14</b>	<b>17</b>	<b>33</b>	<b>48</b>	<b>64</b>
% 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	-	-	-	-	-
<b>Recurring PBT</b>	<b>12</b>	<b>15</b>	<b>31</b>	<b>46</b>	<b>62</b>
% 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
<b>PAT (reported)</b>	<b>8</b>	<b>10</b>	<b>19</b>	<b>31</b>	<b>42</b>
Extraordinary Items	(0)	(1)	-	-	-
<b>ADJ. PAT</b>	<b>8</b>	<b>10</b>	<b>19</b>	<b>31</b>	<b>42</b>
% chg	55.9	33.8	83.4	60.7	36.1
(% of Net Sales)	2.8	2.9	4.6	5.9	6.4
<b>Fully Diluted EPS (Rs)</b>	<b>3.5</b>	<b>4.7</b>	<b>9.5</b>	<b>13.8</b>	<b>18.8</b>
% 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
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	4	4	4	4	4
Reserves & Surplus	87	96	168	196	235
<b>Shareholders' Funds</b>	<b>91</b>	<b>100</b>	<b>173</b>	<b>201</b>	<b>239</b>
Equity Share Warrants	-	-	-	-	-
Total Loans	58	44	54	57	60
Deferred Tax Liability	-	-	0	-	-
<b>Total Liabilities</b>	<b>149</b>	<b>143</b>	<b>228</b>	<b>258</b>	<b>299</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	42	45	60	70	80
Less: Acc. Depreciation	18	22	28	35	42
Net Block	<b>24</b>	<b>23</b>	<b>31</b>	<b>35</b>	<b>37</b>
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
<b>Net Current Assets</b>	<b>116</b>	<b>110</b>	<b>190</b>	<b>222</b>	<b>261</b>
Deferred Tax Asset	(0)	(0)	-	-	-
<b>Total Assets</b>	<b>149</b>	<b>143</b>	<b>228</b>	<b>258</b>	<b>299</b>

**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
<b>Cash Flow from Operations</b>	<b>(13)</b>	<b>22</b>	<b>(6)</b>	<b>46</b>	<b>6</b>
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(5)	(10)	(10)
(Inc.)/ Dec. in Investments	1	(1)	0	0	0
<b>Cash Flow from Investing</b>	<b>(15)</b>	<b>(6)</b>	<b>(5)</b>	<b>(10)</b>	<b>(10)</b>
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)
<b>Cash Flow from Financing</b>	<b>29</b>	<b>(17)</b>	<b>6</b>	<b>(4)</b>	<b>(5)</b>
Inc./(Dec.) in Cash	1	(2)	(5)	32	(9)
<b>Opening Cash balances</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>0</b>	<b>32</b>
<b>Closing Cash balances</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>32</b>	<b>23</b>

**Key Ratios**

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
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
<b>Per Share Data- ₹</b>					
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
<b>Returns (%)</b>					
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
<b>Turnover ratios (x)</b>					
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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<b>Disclosure of Interest Statement</b>	<b>Safari Industries Ltd.</b>
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*

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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## Safari Industries

### On a fast paced 'Safari'

Safari Industries Ltd (Safari) is the third largest branded player in the Indian luggage industry. Post the management change in 2012, it has witnessed complete restructuring in business and product portfolio. This restructuring has helped it in posting a CAGR of 42% in revenue and 46% in PAT over 2012-17. It has also now captured ~14% market share in a ~₹2600 cr branded luggage market.

**Favourable Industry dynamics for organized players post GST:** The Indian luggage industry is valued at ₹9000cr+ and is largely dominated by the unorganized sector. The top three branded players namely- VIP Industries, Samsonite and Safari forms only ~28% of this market. Owing to improving economy and travel, the luggage industry has posted a 13%+ CAGR in the past decade and is expected to maintain this momentum for next few years. With GST implementation in 2017, the new cost dynamics has led to industry shifting towards organized players.

**On a strong growth trajectory since 2012:** Post the management change in 2012, Safari has grown its revenue by 6x in the last 7 years. This has been achieved by foraying in many new categories like back pack, school bags ( via acquisition of Genius and Genie) and improvement in distribution networks. Also, it adopted product rationalization & strategy realignment where non performing SKUs were eliminated. Currently, its product are available in major 25+ cities via 3,500+ outlets.

**Margins have doubled and likely to stay at 9%+ level:** Its margins have more than doubled from 4.1% in FY2014 to 9.1% in M9FY2018, driven by launch of new product categories and business restructuring. This was also led by better negotiation with Chinese suppliers (with increasing scale of Safari's operations) and relatively stable ₹ exchange rate. We expect it to maintain 9%+ margins from FY2018 onwards led by regular price hikes, shift towards organised player and favourable industry dynamics.

**Outlook and Valuation:** We expect its revenue to grow by 23% CAGR over FY2017-20E on the back of growth in its recently introduced new products. We expect its earnings to grow by ~59% CAGR, owing to stable operating margins and its asset light model. Safari currently trades at a P/E of 40x FY2019E and 30x its FY2020E EPS which looks attractive looking at its strong brand play story emerging in the luggage industry. **We initiate coverage on the stock with a Buy recommendation and Target Price of ₹650 (36x FY2020E EPS), indicating an upside of 18%.**

#### Key financials

Y/E March (Rs cr)	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
<b>Net Sales</b>	<b>278</b>	<b>359</b>	<b>409</b>	<b>532</b>	<b>665</b>
% chg	28.8	29.0	14.0	30.0	25.0
<b>Net Profit</b>	<b>7.8</b>	<b>10.4</b>	<b>20.4</b>	<b>29.3</b>	<b>40.0</b>
% chg	55.9	33.8	96.2	43.6	36.4
OPM (%)	6.7	6.3	9.4	9.8	10.3
<b>EPS (Rs)</b>	<b>3.5</b>	<b>4.7</b>	<b>9.2</b>	<b>13.2</b>	<b>18.0</b>
P/E (x)	152.1	113.7	58.0	40.4	29.6
P/BV (x)	13.1	11.9	10.0	8.2	6.5
RoE (%)	8.5	10.4	17.2	20.1	21.9
RoCE (%)	9.7	12.1	19.6	23.5	26.3
EV/Sales (x)	4.4	3.4	3.0	2.3	1.8
EV/EBITDA (x)	66.8	54.4	31.6	23.3	17.7

Source: Company, Angel Research, Note: CMP as of February 21, 2018

## BUY

CMP	₹532
Target Price	₹650

Investment Period	12 Months
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#### Stock Info

Sector	Luggages
Market Cap (₹ cr)	1,184
Net Debt (₹ cr)	39
Beta	0.3
52 Week High / Low	664 / 205
Avg. Daily Volume	12,609
Face Value (₹)	2
BSE Sensex	33,844
Nifty	10,397
Reuters Code	SAFA.BO
Bloomberg Code	SII.IN

#### Shareholding Pattern (%)

Promoters	57.8
MF / Banks / Indian Fls	21.2
FII / NRIs / OCBs	6.0
Indian Public / Others	15.0

Abs. (%)	3m	1yr	3yr
Sensex	1.3	18.6	14.3
Safari	(2.4)	155.0	247.0

#### 3 year daily price chart



Source: Company, Angel Research

#### Nidhi Agrawal

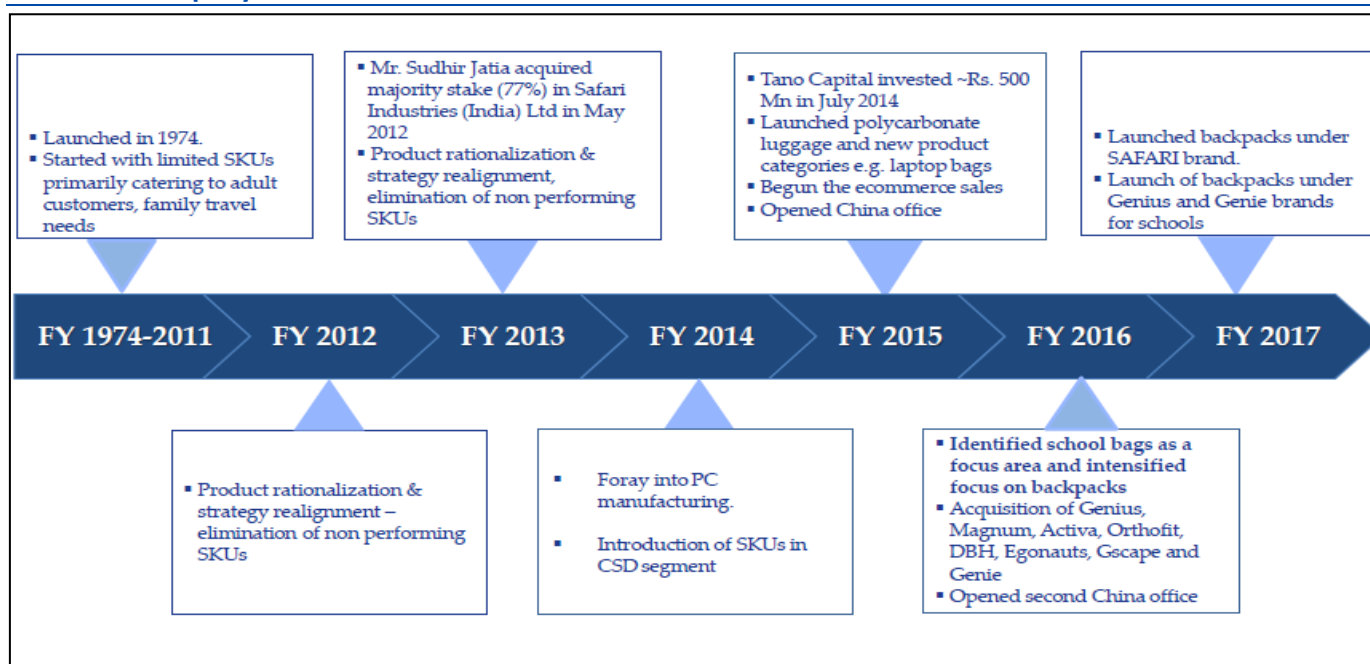
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## Company background

Safari is in the business of manufacturing and trading of luggage and luggage accessories. Safari was incorporated in 1980 by Mr. Sumatichandra H Mehta and it used to basically manufacture injection moulded plastic articles and vacuum formed plastic articles, at its plants at Bombay and Halol, Gujarat. Mehta and family. In 2012, the company was taken over by Mr Sudhir Jatia who was previously working as MD with VIP industries. Since then there has been business restructuring where lot of new products were introduced. The company largely procures quality products from China and sell it under its brand Safari.

### Exhibit 1: Company's timeline



Source: Company

## Product categories

There are two broad categories of luggage i.e hard luggage and soft luggage. Hard luggages (20% of revenue) are mainly made of Poly Propylene (PP) and Poly Carbonate (PC) and manufactured in-house by Safari at its plant located at Halol, Gujarat. Soft luggages are made of fabrics of various kinds and are mainly imported from China where the company has opened 2 offices for design and procurement.

### Exhibit 2: Product categories

Group	Soft Luggage	Hard Luggage
Product Category	Rolling Duffle bags, Upright 2/ 4 wheeler, Children bags, backpacks	Poly Carbonate & ABS, PolyPropylene
Revenue Contribution	80%	20%
Strategy	Branded offering in a largely unorganized market Innovating by adding features	PolyPropylene-Steadily getting phased out Poly Carbonate & ABS- Focus on innovative designs
Sourcing	Imported from China	Largely made in house

Source: Company, Angel Research

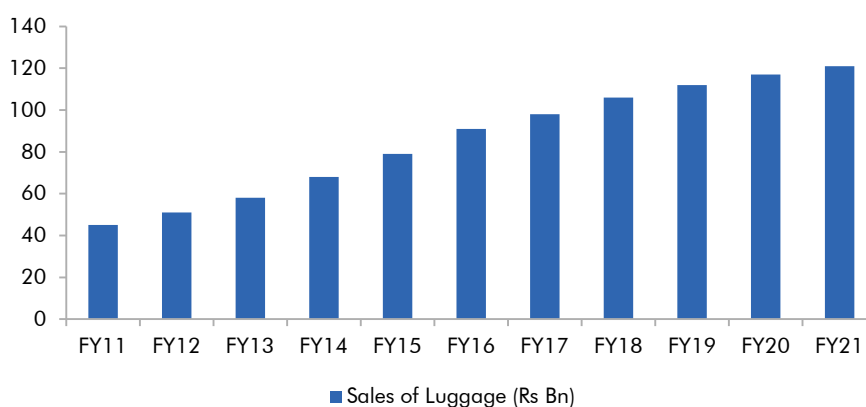
## Investment Arguments

### Shift in trend towards the organized sector to propel growth

#### 1. Favourable Industry dynamics for organized players post GST

The Indian luggage industry is valued at ₹9000cr+ and is largely dominated by the unorganized sector. The top three branded players namely- VIP Industries, Samsonite and Safari forms only ~28% of this market. VIP Industries is the market leader with over 50% market share whereas Samsonite has been losing market share ( current at ~35% from the past level of 50%+). Backed by re infused energy from new management, Safari has been grabbing market share in the last few years and currently it stands at 14-15%.

#### Exhibit 3: Luggage industry posted ~15% CAGR during 2011-16

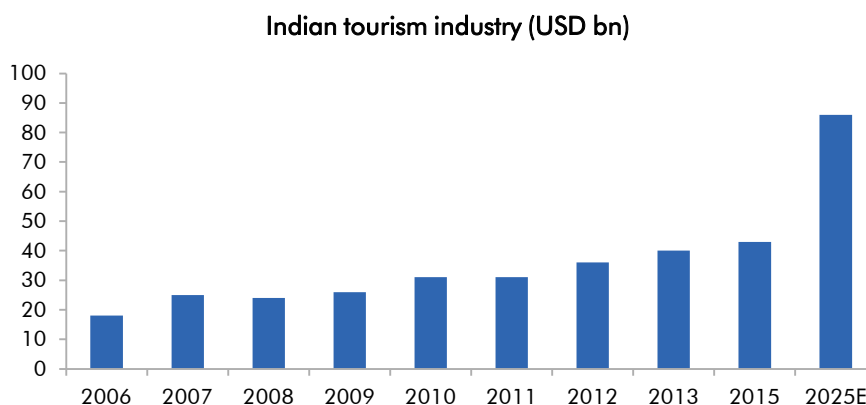


Source: Company, Angel research

#### 2. Increasing travel and premiumization is driving the growth

Most players are coming up with more youth-orientated products like lightweight and more efficient backpacks and duffel bags. Robust demand for luggage is led by the fact that most youngsters now are keen on travel and adventure, increasing demand for hands-free and hassle-free luggage. The Indian luggage industry is likely to benefit as the people have become more demanding in term of style and comfort for travel luggage.

#### Exhibit 4: Indian tourism industry growing >10% CAGR

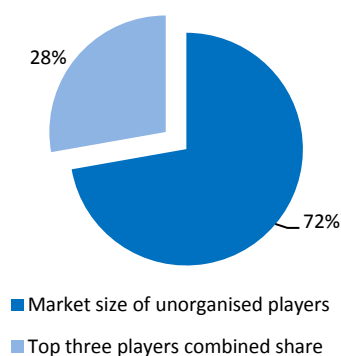


Source: Company, Angel Research

### 3. GST has further created level field for organised players

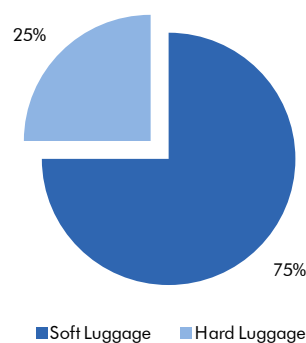
Owing to improving economy and consumer confidence, increasing travel and product premiumization, the luggage industry has posted a 13%+ CAGR in the past decade and is expected to maintain this momentum for next few years. With GST implementation in 2017, the new cost dynamics has further led to industry shifting towards organized players.

**Exhibit 5: Organised v/s unorganised market share**



Source: Industry, Angel Research

**Exhibit 6: Segment wise break-up**



Source: Industry, Angel Research

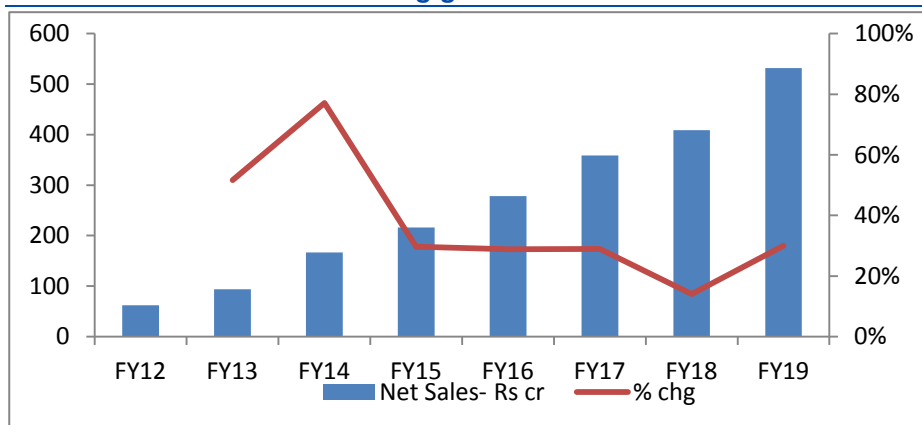
### Company on a strong growth trajectory since 2012

In 2012, the company was taken over by Mr Sudhir Jatia who was previously MD with VIP industries. Since then there has been business restructuring where lot of new products were introduced and old non selling SKUs were discontinued. The company now largely procures quality products ( specially in soft luggage) from China and sell it under its brand Safari.

Post the management change, Safari has grown its revenue by 6x in the last 7 years. This has been achieved by foraying in many new categories like back pack, school bags ( via acquisition of Genius and Genie in 2015) and improvement in distribution networks.

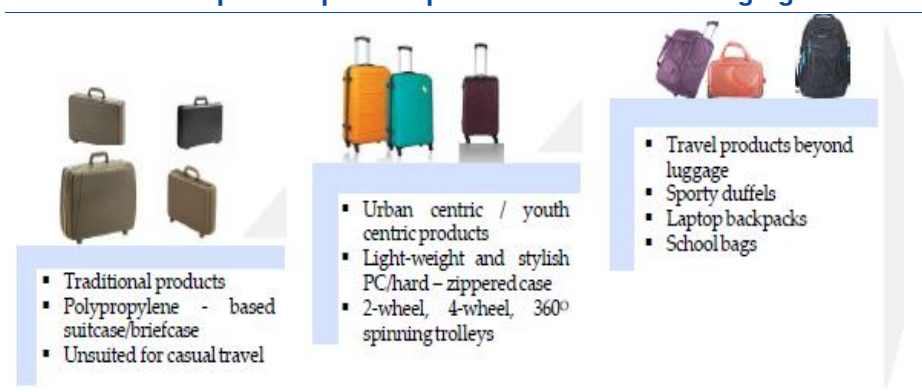
Also, it adopted product rationalization & strategy realignment where non performing SKUs were eliminated. Currently, its products are available in major 25+ cities via 3,500+ outlets.

**Exhibit 7: Revenues shown strong growth**



Source: Company, Angel Research

**Exhibit 8: Revamped the product portfolio to suit the changing trends**



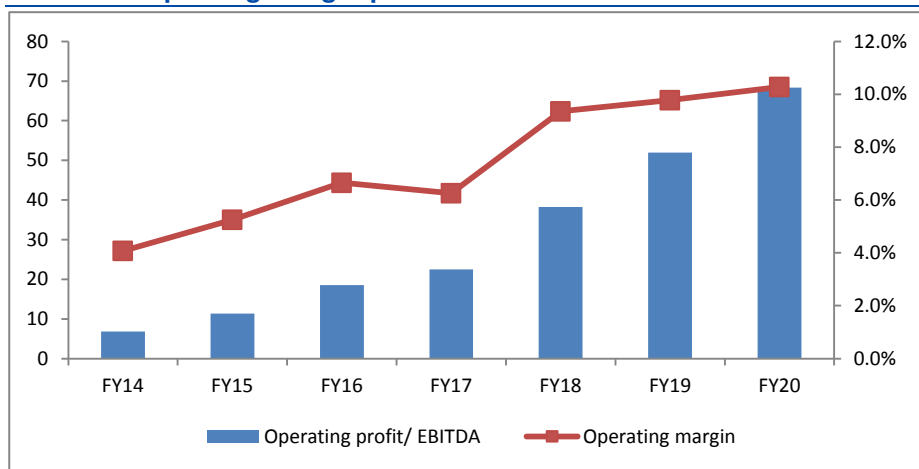
Source: Company, Angel Research

### Margins have doubled and likely to stay at 9%+ level

The company has more than doubled its margins from 4.1% in FY2014 to 9.1% in M9FY2018, driven by launch of new product categories and product premiumization. This was also led by better negotiation with Chinese suppliers (with increasing scale of Safari's operations) and relatively stable INR exchange rate and depreciation of Chinese Yuan.

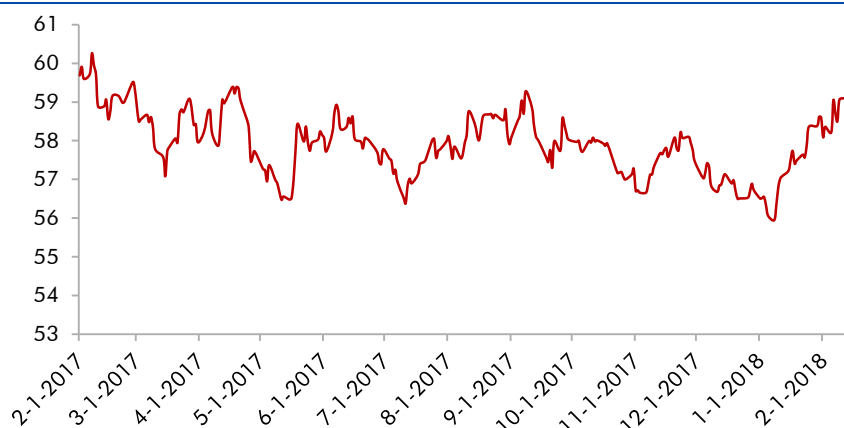
VIP's 80% revenue comes from soft luggage, which is imported from China. However, with closure of many luggage units in China (owing to pollution concerns), the surviving suppliers have started taking price hikes which is likely to put pressure on margins. We expect the company to largely post 9%+ margins from FY2018 onwards led by regular price hikes, shift towards organised player post GST and favourable industry dynamics.

**Exhibit 9: Improving margin profile**



Source: Company, Angel Research

**Exhibit 10: Yen is showing strength against rupee since January 2018**



Source: Company, Angel Research

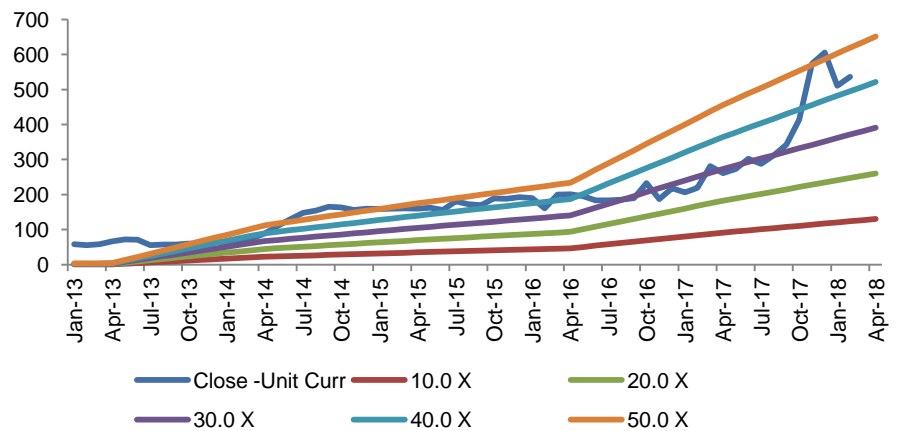
## Outlook

Going ahead, we expect Safari to report a top-line CAGR of ~23% over FY2017-20E on the back of growth in its recently introduced new products and improving distribution network. Further, GST implementation will also boost the volume of branded sales. On the bottom-line front, we expect the company to report ~59% CAGR over FY2017-20E on a small base, owing to stable operating margins and product premiumization. The stock has turned 5x in last 4 years, however we feel that the company with its aggressive track record and pricing strategy will continue to post better growth than its peers like VIP and Samsonite although on a smaller base.

## Valuation

Safari currently trades at a P/E of 40x FY2019E and 30x its FY2020E EPS which looks reasonable looking at its strong growth trajectory and its strong brand play story emerging in the luggage industry. Its M9FY2018 results has shown a yearly growth of 112% in net profits. We Initiate Coverage on the stock with a Buy recommendation and Target Price of ₹650 (36x FY2020E EPS), indicating an upside of ~18% from the current levels.

**Exhibit 11: One year forward PE chart**



Source: Company, Angel Research

**Exhibit 12: Peer comparison**

Comparison	VIP Industries	Safari
Market Cap (Rs cr)	4808	1230
SKU (units)	100+	35+
Network	8000+	3500+
<b>CAGR % (FY14-17)</b>		
Revenue	9.4%	29.2%
PAT	21.9%	204.4%
<b>Average OPM</b>	<b>8.8%</b>	<b>5.3%</b>
<b>Projections- FY2019</b>		
Revenue	1693	532
PAT	128	29
<b>Valuations FY2019</b>		
EV/ EBITDA	23.4	24.2
P/E	39.4	40.4
<b>Return%- FY2019</b>		
ROE	24.6%	20.1%
ROCE	35.1%	26.3%

Source: Company, Angel Research

**Risks and concerns**

- 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 could put pressure on its margins, unless price hike is taken.
- Increase in competition from unorganized players could 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
<b>Total operating income</b>	<b>278</b>	<b>359</b>	<b>409</b>	<b>532</b>	<b>665</b>
% chg	28.8	29.0	14.0	30.0	25.0
<b>Total Expenditure</b>	<b>260</b>	<b>336</b>	<b>371</b>	<b>480</b>	<b>596</b>
Raw Material	173	219	238	307	380
Personnel	29	41	47	61	77
Selling and Administration Expenses	48.1	65.4	73.6	95.7	119.6
Others Expenses	9	10	12	16	19
<b>EBITDA</b>	<b>19</b>	<b>22</b>	<b>38</b>	<b>52</b>	<b>68</b>
% chg	63.1	21.3	70.4	35.9	31.4
(% of Net Sales)	6.7	6.3	9.4	9.8	10.3
Depreciation & Amortisation	4	5	6	7	7
<b>EBIT</b>	<b>14</b>	<b>17</b>	<b>32</b>	<b>45</b>	<b>61</b>
% chg	70.7	20.0	86.3	40.8	34.7
(% of Net Sales)	5.2	4.8	7.9	8.5	9.2
Interest & other Charges	3	3	3	3	3
Other Income	1	1	1	2	2
(% of PBT)	6.5	7.4	4.3	3.6	3.2
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>12</b>	<b>15</b>	<b>30</b>	<b>44</b>	<b>60</b>
% chg	105.9	25.2	103.9	43.6	36.4
Tax	4	5	10	14	20
(% of PBT)	35.2	34.1	33.0	33.0	33.0
<b>PAT (reported)</b>	<b>8</b>	<b>10</b>	<b>20</b>	<b>29</b>	<b>40</b>
Extraordinary Items	(0)	(1)	-	-	-
<b>ADJ. PAT</b>	<b>8</b>	<b>10</b>	<b>20</b>	<b>29</b>	<b>40</b>
% chg	55.9	33.8	96.2	43.6	36.4
(% of Net Sales)	2.8	2.9	5.0	5.5	6.0
<b>Fully Diluted EPS (Rs)</b>	<b>3.5</b>	<b>4.7</b>	<b>9.2</b>	<b>13.2</b>	<b>18.0</b>
% chg	55.9	33.8	96.2	43.6	36.4

Source: Company, Angel Research



**Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	4	4	4	4	4
Reserves & Surplus	87	96	115	141	178
<b>Shareholders Funds</b>	<b>91</b>	<b>100</b>	<b>119</b>	<b>146</b>	<b>182</b>
Equity Share Warrants	-	-	-	-	-
Total Loans	58	44	46	48	50
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>149</b>	<b>143</b>	<b>165</b>	<b>194</b>	<b>233</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	42	45	50	55	60
Less: Acc. Depreciation	18	22	28	34	42
<b>Net Block</b>	<b>24</b>	<b>23</b>	<b>22</b>	<b>21</b>	<b>19</b>
Capital Work-in-Progress	-	1	1	1	1
Investments	-	-	-	-	-
<b>Current Assets</b>	<b>143</b>	<b>165</b>	<b>197</b>	<b>240</b>	<b>295</b>
Inventories	76	94	105	134	164
Sundry Debtors	54	58	64	77	93
Cash	5	5	19	18	25
Loans & Advances	8	7	8	11	13
Other Assets	-	-	-	-	-
<b>Current liabilities</b>	<b>27</b>	<b>54</b>	<b>65</b>	<b>78</b>	<b>94</b>
<b>Net Current Assets</b>	<b>116</b>	<b>110</b>	<b>132</b>	<b>161</b>	<b>202</b>
<b>Deferred Tax Asset</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Total Assets</b>	<b>149</b>	<b>143</b>	<b>165</b>	<b>194</b>	<b>233</b>

Source: Company, Angel Research

**Cashflow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	12	15	30	44	60
Depreciation	4	5	6	7	7
Change in Working Capital	0	0	(7)	(31)	(33)
Interest / Dividend (Net)	3	3	3	3	3
Direct taxes paid	(4)	(5)	(10)	(14)	(20)
Others	(28)	4	2	(1)	(1)
<b>Cash Flow from Operations</b>	<b>(13)</b>	<b>22</b>	<b>25</b>	<b>7</b>	<b>17</b>
(Inc.)/ Dec. in Fixed Assets	(16)	(5)	(5)	(5)	(5)
(Inc.)/ Dec. in Investments	1	(1)	0	0	0
<b>Cash Flow from Investing</b>	<b>(15)</b>	<b>(6)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Issue of Equity	7	0	0	0	0
Inc./(Dec.) in loans	3	1	2	2	2
Dividend Paid (Incl. Tax)	0	(16)	(2)	(2)	(3)
Interest / Dividend (Net)	(3)	(3)	(3)	(3)	(3)
<b>Cash Flow from Financing</b>	<b>29</b>	<b>(17)</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>
Inc./(Dec.) in Cash	1	(2)	17	(1)	8
<b>Opening Cash balances</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>19</b>	<b>18</b>
<b>Closing Cash balances</b>	<b>4</b>	<b>2</b>	<b>19</b>	<b>18</b>	<b>25</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	152.1	113.7	58.0	40.4	29.6
P/CEPS	101.0	79.6	45.2	33.3	25.3
P/BV	13.1	11.9	10.0	8.2	6.5
Dividend yield (%)	0.0	0.1	0.1	0.2	0.3
EV/Sales	4.4	3.4	3.0	2.3	1.8
EV/EBITDA	66.8	54.4	31.6	23.3	17.7
EV / Total Assets	8.3	8.5	7.3	6.3	5.2
<b>Per Share Data (₹)</b>					
EPS (Basic)	3.5	4.7	9.2	13.2	18.0
EPS (fully diluted)	3.5	4.7	9.2	13.2	18.0
Cash EPS	5.3	6.7	11.9	16.1	21.2
DPS	0.2	0.4	0.8	1.1	1.5
Book Value	40.9	44.9	53.5	65.5	82.0
<b>Returns (%)</b>					
ROCE	9.7	12.1	19.6	23.5	26.3
Angel ROIC (Pre-tax)	10.0	12.5	22.2	25.8	29.5
ROE	8.5	10.4	17.2	20.1	21.9
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	6.6	7.9	8.1	9.6	11.0
Inventory / Sales (days)	100	96	94	92	90
Receivables (days)	71	59	57	53	51
Payables (days)	92	141	137	125	118
Working capital cycle (ex-cash) (days)	80	14	15	20	23

Source: Company, Angel Research

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### Disclosure of Interest Statement

### Safari Industries

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No