

Safari Industries

BUY

Result beat; Green shoots visible

Summary

Safari Industries reported better than expected Q2FY22 result. Its sales/ EBITDA were significantly above our estimates. Safari Industries' net sales increased by 2x YoY to Rs1.9 bn as luggage sales jumped up sharply. Even EBITDA improved to Rs180 mn compared to loss of Rs53 mn in Q2FY21 and interest cost fell 26% YoY to Rs14 mn. Hence, net profit improved to Rs107 mn (loss of Rs90 mn in Q2FY21). The company has announced capex of Rs500 mn to set up a new luggage manufacturing plant.

We raise our FY22 sales/EBITDA estimate by 19%/29% as we anticipate the improvement in travel and tourism which in turn should lead to higher luggage sales. We also raise our FY23 sales/ EBITDA estimates by 10%/6%. We have introduced FY24 forecast in this report and now value the stock at a PER of 38x FY24 (earlier 40x FY23 EPS) to derive a target price of Rs1,089 (earlier Rs888).

Key Highlights and Investment Rationale

- Safari's H1FY22 performance commendable:** Although H1FY22 was impacted by lockdowns; Safari likely gained market share as per our channel checks; hence, its operational performance is commendable in our view. Its announcement to set up additional manufacturing plant indicates worst is over for the luggage industry. Organized players like Safari have gained market share during the Covid-19 pandemic- the benefits of these would be realized in coming few quarters by way of market share gains.
- Maintain our BUY rating:** Over the past 4 quarters, Safari has shown resilient performance despite industry headwinds. Also, its cash management has been prudent in the past one year. We remain structurally positive on the growth prospects of luggage industry and in the near-term also we foresee green shoots. We applaud management's ability to outperform industry sales growth and also cost cutting measures (including improving balance sheet). Hence, we maintain positive outlook on the stock.

TP	Rs1,089		
CMP	Rs826		
Potential upside / downside	32%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	16.7	22.9	28.6
Consensus	8.6	25.1	40.9
% difference	94.2	(8.6)	(30.1)

Shareholding Pattern (%)

Promoters	49.9
FII	18.6
DII	2.0
Public	29.5

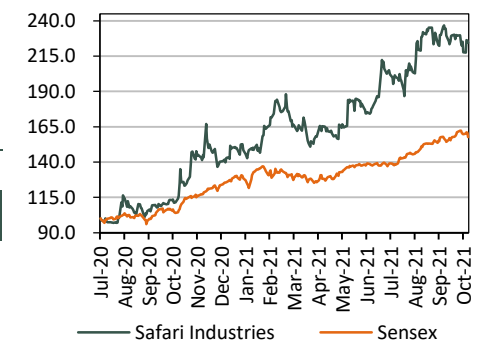
Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	15.7	91.6
Rel to Sensex	(3.7)	5.6	48.7

Key Stock Data

Bloomberg / Reuters	SII IN / SAFA.BO
Sector	Other Apparels & Accessories
Shares o/s (mn)	22
Market cap. (Rs mn)	18,499
Market cap. (US\$ mn)	247
3-m daily average value (Rs mn)	4.3
52-week high / low	Rs900 / 404
Sensex / Nifty	59,307 / 17,672

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	6,859	3,280	6,821	8,186	9,659
EBITDA	720	(59)	666	857	1,032
EBITDA (%)	10.5	(1.8)	9.8	10.5	10.7
Adj. PAT	307	(209)	372	510	639
EPS (Rs)	13.8	(9.4)	16.7	22.9	28.6
EPS Growth (%)	13.6	nm	nm	37.0	25.3
PE (x)	50.3	nm	51.1	37.3	29.8
Dividend Yield (%)	0.1	nm	0.1	0.2	0.4
EV/EBITDA (x)	22.5	(320.7)	29.4	22.9	19.0
RoE (%)	14.2	(8.2)	12.6	15.1	16.4
RoCE (%)	15.6	(8.2)	13.1	15.2	17.0

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

Year-end: March	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	1,886	1,202	56.9	629	199.6
Expenditure	1,705	1,130	50.9	683	149.7
EBITDA	180	71	153.5	-53	nm
<i>EBITDA margin (%)</i>	<i>9.6%</i>	<i>5.9%</i>	<i>365bps</i>	<i>-8.5%</i>	<i>nm</i>
Interest	14	10	32.9	19	(26.0)
Depreciation	47	45	4.0	56	(16.5)
PBT	140	35	304.0	-121	nm
Tax	33	9	255.9	-31	nm
PAT	107	25	321.5	-90	nm
Diluted EPS (Rs)	4.8	1.1	321.5	(4.0)	nm

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY22E	Q2FY22A	Variance (%)
Net sales	1,133	1,886	66.4
EBTIDA	76	180	136.2
<i>Margin (%)</i>	<i>6.7%</i>	<i>9.6%</i>	<i>283bps</i>
PAT	16	107	556.3
Adj. diluted EPS (Rs)	0.7	4.8	556.3

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY22E			FY23E			FY24
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	5,715	6,821	19.4	7,430	8,186	10.2	9,659
EBITDA (Rs mn)	516.0	666	29.1	810.0	857	5.8	1031.8
<i>EBITDA margin (%)</i>	<i>3.8%</i>	<i>9.8%</i>	<i>595bps</i>	<i>12.1%</i>	<i>10.5%</i>	<i>-163bps</i>	<i>10.7%</i>
Net profit (Rs mn)	270	372	37.8	478	510	6.6	639
EPS (Rs)	12.1	16.7	37.8	21.4	22.9	6.6	28.6

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	3,280	6,821	8,186	9,659
<i>Growth (%)</i>	<i>(52.2)</i>	<i>108.0</i>	<i>20.0</i>	<i>18.0</i>
Operating expenses	(3,339)	(6,155)	(7,329)	(8,627)
EBITDA	(59)	666	857	1,032
<i>Growth (%)</i>	<i>nm</i>	<i>nm</i>	<i>28.6</i>	<i>20.4</i>
Depreciation	(204)	(192)	(199)	(207)
EBIT	(264)	475	657	824
Interest paid	(58)	(32)	(35)	(39)
Other income	33	52	59	68
Pre-tax profit	(288)	494	681	854
Tax	80	(122)	(172)	(215)
<i>Effective tax rate (%)</i>	<i>27.6</i>	<i>24.7</i>	<i>25.2</i>	<i>25.2</i>
Minority interest	-	-	-	-
Net profit	(209)	372	510	639
Adjusted net profit	(209)	372	510	639
<i>Growth (%)</i>	<i>(168)</i>	<i>nm</i>	<i>37.0</i>	<i>25.3</i>
<i>Shares o/s (mn)</i>	<i>22</i>	<i>22</i>	<i>22</i>	<i>22</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	(288)	494	681	854
Depreciation	(204)	(192)	(199)	(207)
Tax paid	(8)	(122)	(172)	(215)
Chg in working capital	1,116	(817)	(288)	(406)
Other operating activities	61	(27)	(37)	(37)
Cash flow from operations (a)	925	(280)	383	403
Capital expenditure	(43)	(400)	(400)	(250)
Chg in investments	-	(34)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(43)	(434)	(400)	(250)
Equity raised/(repaid)	0	(0)	-	-
Debt raised/(repaid)	(692)	600	-	-
Dividend (incl. tax)	-	(22)	(45)	(67)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(692)	578	(45)	(67)
Net chg in cash (a+b+c)	189	(137)	(61)	86

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	667	875	1,076	1,118
Investments	1	35	35	35
Other non-curr assets	498	227	241	256
Current assets	2,796	3,808	4,215	4,898
Inventories	1,140	1,495	1,772	2,064
Sundry Debtors	906	1,402	1,570	1,852
Cash and Bank	44	102	25	91
Marketable securities	-	-	-	-
Loans and advances	-	-	-	-
Other current assets	706	809	848	891
Total assets	3,961	4,945	5,566	6,307
Shareholders' funds	2,783	3,132	3,597	4,169
Share capital	45	45	45	45
Reserves & surplus	2,738	3,088	3,552	4,124
Total Debt	53	653	653	653
Secured loans	53	653	653	653
Unsecured loans	-	-	-	-
Other liabilities	315	315	315	315
Curr Liab & prov	810	844	1,001	1,170
Current liabilities	790	824	976	1,141
Provisions	21	20	25	29
Total liabilities	1,179	1,813	1,969	2,138
Total equity & liabilities	3,961	4,945	5,566	6,307
Book Value (Rs)	125	140	161	187

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	(9.4)	16.7	22.9	28.6
Adj. EPS growth (%)	<i>nm</i>	<i>nm</i>	37.0	25.3
EBITDA margin (%)	(1.8)	9.8	10.5	10.7
Pre-tax margin (%)	(8.8)	7.2	8.3	8.8
ROE (%)	(8.2)	12.6	15.1	16.4
ROCE (%)	(8.2)	13.1	15.2	17.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	1.5	1.6	1.6
Leverage factor (x)	1.6	1.5	1.6	1.5
Net margin (%)	(6.4)	5.5	6.2	6.6
Net Debt/Equity (x)	0.0	0.2	0.2	0.1
Working Capital & Liquidity ratio				
Inventory days	127	80	79	78
Receivable days	101	75	70	70
Payable days	76	43	43	44

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	<i>nm</i>	51.1	37.3	29.8
Price / Book value (x)	6.8	6.1	5.3	4.6
PCE (x)	<i>nm</i>	33.7	26.8	22.5
EV / Net sales (x)	5.8	2.9	2.4	2.0
EV / EBITDA (x)	<i>nm</i>	29.4	22.9	19.0
Dividend Yield (%)	-	0.1	0.2	0.4



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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