

November 4, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	2,457		2,062	
Sales (Rs. m)	13,890	16,699	11,993	14,316
% Chng.	15.8	16.7		
EBITDA (Rs. m)	2,097	2,739	1,775	2,319
% Chng.	18.2	18.1		
EPS (Rs.)	55.4	74.0	46.5	62.1
% Chng.	19.1	19.2		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	7,057	11,524	13,890	16,699
EBITDA (Rs. m)	552	1,417	2,097	2,739
Margin (%)	7.8	12.3	15.1	16.4
PAT (Rs. m)	316	847	1,313	1,753
EPS (Rs.)	14.1	35.7	55.4	74.0
Gr. (%)	NA	152.8	55.0	33.6
DPS (Rs.)	0.8	1.8	2.8	3.7
Yield (%)	0.0	0.1	0.2	0.2
RoE (%)	10.9	24.8	29.6	29.7
RoCE (%)	10.4	27.1	33.1	34.6
EV/Sales (x)	5.7	3.8	3.1	2.5
EV/EBITDA (x)	73.3	30.7	20.6	15.5
PE (x)	128.1	50.7	32.7	24.5
P/BV (x)	13.5	11.3	8.5	6.4

Key Data

SAFA.BO | SII IN

52-W High / Low	Rs.1,913 / Rs.780
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.43bn/ \$ 521m
Shares Outstanding	24m
3M Avg. Daily Value	Rs.65.31m

Shareholding Pattern (%)

Promoter's	47.24
Foreign	15.14
Domestic Institution	12.21
Public & Others	25.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	91.4	106.0
Relative	(7.3)	74.8	103.0

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Safari Industries (India) (SII IN)

Rating: BUY | CMP: Rs1,811 | TP: Rs2,457

Growth cylinder on fire!

Quick Pointers:

- 7.4% QoQ revenue growth is commendable given 1Q is seasonally strong resulting in sequential revenue decline of ~16-18% during pre-COVID era.
- GM remains flat at 38.8% on sequential basis.

Safari reported exceptional performance with 7.4% QoQ growth in top-line over a seasonally strong base of 1Q. GM was flat at 38.8% (PLe of 38.5%) while EBITDA margin stood at 13.3% (PLe of 12.0%) as benefits of operating leverage kicked in.

Given outright beat, we increase our EPS estimates by ~17-19% over FY23E-25E and expect sales/PAT CAGR of 20%/44% respectively over the same period as benefits of distribution network expansion and SKU extension have just started playing out. Further, our GM estimate of 43% for FY24E has upside risk (pre-pandemic 5-year average was 43.1%) as additional Rs250mn is ear-marked to further expand HL capacity which is expected to come on stream after December 2022. Safari trades at 33x/25x our FY24E/FY25E EPS estimates and acts as a perfect proxy to play on the brand affinity aspirations of Indian middle class as product positioning is right at the doorstep of organized market. Shrinking share of unorganized players post-COVID and strong foothold in the mass/value segment is expected to result in above average industry growth in foreseeable future. Retain BUY with a revised TP of Rs2,457 (38x Sep-24 EPS; no change in target multiple).

Revenue up 84% over pre-COVID base: Top-line increased 67% YoY to Rs3,149mn (PLe Rs2,546mn) and is 84% above the comparable pre-COVID quarter indicating that recovery and demand momentum continues to remain strong.

GM remains healthy with 0.4% sequential increase at 38.8%: Gross profit increased 72.4% YoY to Rs1,222mn (PLe Rs980mn) with a margin of 38.8% (PLe 38.5%) as compared to a margin of 37.6% in 2QFY22 and 38.4% in 1QFY23.

EBITDA/PAT margin stands at 13.3%/8.2%: EBITDA increased 132% YoY to Rs419mn (PLe Rs306mn) with a margin of 13.3% (PLe 12.0%) as against 9.6% in 2QFY22 and 14.2% in 1QFY23. PAT increased 144.2% YoY to Rs259mn (PLe Rs181mn) with a margin of 8.2% (PLe 7.1%).

Capacity expansion on track: HL capacity expansion of Rs250mn outlined in the previous quarter is on track for completion by December 2022. Post expansion, HL capacity will increase to 0.5mn pieces per month.

Other highlights: 1) Revenue growth in 2QFY23 is NOT aided by any large institutional order 2) GM in 2HFY23 is likely to be higher than 1HFY23 3) Short term debt of Rs897mn as of 1HFY23 is likely to decline as WC investments ease out 4) Top-line growth was aided by strong performance from e-com channel in 2QFY23.

Exhibit 1: Q2FY23 Result Overview - Consolidated (Rs mn)

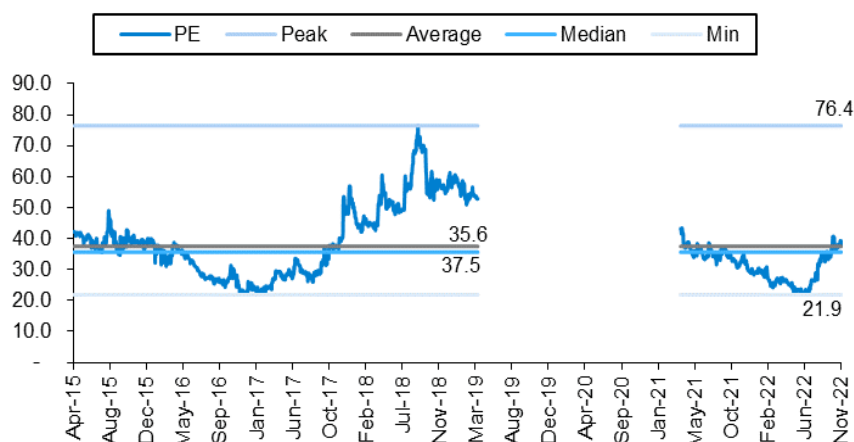
Y/e March	Q2FY23	Q2FY21	YoY gr.	Q1FY23	QoQ gr.	H1FY23	H1FY22	YoY gr.
Net sales	3,149	1,886	67.0%	2,932	7.4%	6,081	3,088	96.9%
Total raw material cost	1,927	1,177	63.7%	1,806	6.7%	3,732	1,908	95.6%
<i>As a % of sales</i>	<i>61.2%</i>	<i>62.4%</i>		<i>61.6%</i>		<i>61.4%</i>	<i>61.8%</i>	
Gross Profit	1,222	709	72.4%	1,126	8.5%	2,348	1,180	99.1%
<i>Gross margin</i>	<i>38.8%</i>	<i>37.6%</i>		<i>38.4%</i>		<i>38.6%</i>	<i>38.2%</i>	
Employee expenses	218	164	33.3%	184	18.4%	403	314	28.2%
<i>As a % of sales</i>	<i>6.9%</i>	<i>8.7%</i>		<i>6.3%</i>		<i>6.6%</i>	<i>10.2%</i>	
Other expenses	585	364	60.4%	525	11.4%	1,110	615	80.5%
<i>As a % of sales</i>	<i>18.6%</i>	<i>19.3%</i>		<i>17.9%</i>		<i>18.2%</i>	<i>19.9%</i>	
EBITDA	419	181	132.0%	417	0.5%	836	251	233.2%
<i>EBITDA margin</i>	<i>13.3%</i>	<i>9.6%</i>		<i>14.2%</i>		<i>13.7%</i>	<i>8.1%</i>	
Depreciation	80	47	68.7%	67	19.2%	147	92	59.7%
EBIT	339	133	154.6%	350	-3.1%	689	159	334.2%
<i>EBIT margin</i>	<i>10.8%</i>	<i>7.1%</i>		<i>11.9%</i>		<i>11.3%</i>	<i>5.1%</i>	
Interest cost	19	14	35.6%	13	44.2%	32	24	31.6%
Other income	25	20	25.3%	17	45.2%	42	39	9.7%
PBT	345	139	147.9%	354	-2.5%	699	173	304.1%
Exceptional items	-	-	NM	-	NM	-	-	NM
Tax expenses	86	33	159.7%	88	-2.6%	174	42	310.8%
<i>Tax rate</i>	<i>24.8%</i>	<i>23.7%</i>		<i>24.9%</i>		<i>24.9%</i>	<i>24.4%</i>	
PAT	259	106	144.2%	266	-2.5%	525	131	301.9%
<i>PAT margin</i>	<i>8.2%</i>	<i>5.6%</i>		<i>9.1%</i>		<i>8.6%</i>	<i>4.2%</i>	
EPS (Rs)	11.4	4.7	139.7%	11.9	-4.4%	23.2	5.8	298.6%

Source: Company, PL

Exhibit 2: Gross & EBITDA margin trend is volatile due to fluctuation in currency & raw material prices

Particulars	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Gross margin	44.2%	46.0%	45.6%	44.2%	38.5%	39.9%	44.8%	39.2%	37.6%	33.4%	38.7%	38.4%	38.8%
EBITDA margin	10.1%	12.1%	9.2%	NM	NM	4.8%	10.1%	5.9%	9.6%	6.5%	8.8%	14.2%	13.3%

Source: Company, PL

Exhibit 3: One Year Forward Price / Earnings


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	7,057	11,524	13,890	16,699
YoY gr. (%)	115.2	63.3	20.5	20.2
Cost of Goods Sold	4,448	6,914	7,917	9,352
Gross Profit	2,609	4,610	5,973	7,348
Margin (%)	37.0	40.0	43.0	44.0
Employee Cost	676	807	931	1,069
Other Expenses	1,380	2,385	2,945	3,540
EBITDA	552	1,417	2,097	2,739
YoY gr. (%)	NA	156.7	48.0	30.6
Margin (%)	7.8	12.3	15.1	16.4
Depreciation and Amortization	199	300	347	401
EBIT	353	1,118	1,750	2,338
Margin (%)	5.0	9.7	12.6	14.0
Net Interest	49	58	69	75
Other Income	80	69	69	75
Profit Before Tax	291	1,129	1,750	2,338
Margin (%)	4.1	9.8	12.6	14.0
Total Tax	67	282	438	584
Effective tax rate (%)	23.2	25.0	25.0	25.0
Profit after tax	224	847	1,313	1,753
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	316	847	1,313	1,753
YoY gr. (%)	NA	167.6	55.0	33.6
Margin (%)	4.5	7.4	9.5	10.5
Extra Ord. Income / (Exp)	(93)	-	-	-
Reported PAT	224	847	1,313	1,753
YoY gr. (%)	NA	278.7	55.0	33.6
Margin (%)	3.2	7.4	9.5	10.5
Other Comprehensive Income	(5)	(2)	-	-
Total Comprehensive Income	219	845	1,313	1,753
Equity Shares O/s (m)	22	24	24	24
EPS (Rs)	14.1	35.7	55.4	74.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,368	1,916	2,228	2,593
Tangibles	1,292	1,835	2,142	2,503
Intangibles	75	80	85	90
Acc: Dep / Amortization	409	709	1,056	1,457
Tangibles	338	638	985	1,386
Intangibles	71	71	71	71
Net fixed assets	959	1,207	1,172	1,136
Tangibles	954	1,198	1,157	1,117
Intangibles	5	10	15	20
Capital Work In Progress	197	46	3	3
Goodwill	-	-	-	-
Non-Current Investments	52	35	42	50
Net Deferred tax assets	70	69	97	134
Other Non-Current Assets	54	75	90	150
Current Assets				
Investments	-	-	-	-
Inventories	1,461	2,368	2,854	3,431
Trade receivables	1,146	2,210	2,664	3,203
Cash & Bank Balance	592	297	660	1,376
Other Current Assets	132	138	208	351
Total Assets	4,684	6,468	7,818	9,868
Equity				
Equity Share Capital	45	47	47	47
Other Equity	2,965	3,767	5,014	6,680
Total Network	3,010	3,815	5,062	6,727
Non-Current Liabilities				
Long Term borrowings	308	308	308	308
Provisions	-	6	7	8
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	248	548	548	548
Trade payables	1,031	1,642	1,713	2,059
Other current liabilities	87	150	181	217
Total Equity & Liabilities	4,684	6,468	7,818	9,868

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	384	1,129	1,750	2,338
Add. Depreciation	199	300	347	401
Add. Interest	49	58	69	75
Less Financial Other Income	80	69	69	75
Add. Other	2	-	-	-
Op. profit before WC changes	634	1,487	2,167	2,814
Net Changes-WC	(452)	(1,337)	(956)	(959)
Direct tax	(26)	(282)	(438)	(584)
Net cash from Op. activities	156	(133)	774	1,270
Capital expenditures	(440)	(403)	(167)	(200)
Interest / Dividend Income	63	-	-	-
Others	710	12	(121)	(205)
Net Cash from Invt. activities	333	(391)	(287)	(405)
Issue of share cap. / premium	1	3	-	-
Debt changes	13	300	-	-
Dividend paid	-	(42)	(66)	(88)
Interest paid	(50)	(58)	(69)	(75)
Others	(106)	26	12	14
Net cash from Fin. activities	(141)	229	(123)	(149)
Net change in cash	348	(296)	363	716
Free Cash Flow	(284)	(536)	607	1,070

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	14.1	35.7	55.4	74.0
CEPS	23.0	48.4	70.0	90.9
BVPS	134.4	160.9	213.5	283.8
FCF	(12.7)	(22.6)	25.6	45.1
DPS	0.8	1.8	2.8	3.7
Return Ratio(%)				
RoCE	10.4	27.1	33.1	34.6
ROIC	11.8	21.9	26.8	27.8
RoE	10.9	24.8	29.6	29.7
Balance Sheet				
Net Debt : Equity (x)	0.0	0.1	0.0	(0.1)
Net Working Capital (Days)	82	93	100	100
Valuation(x)				
PER	128.1	50.7	32.7	24.5
P/B	13.5	11.3	8.5	6.4
P/CEPS	78.7	37.4	25.9	19.9
EV/EBITDA	73.3	30.7	20.6	15.5
EV/Sales	5.7	3.8	3.1	2.5
Dividend Yield (%)	0.0	0.1	0.2	0.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	2,040	1,929	2,932	3,149
YoY gr. (%)	82.1	45.2	144.0	67.0
Raw Material Expenses	1,358	1,183	1,806	1,927
Gross Profit	682	747	1,126	1,222
Margin (%)	33.4	38.7	38.4	38.8
EBITDA	132	169	417	419
YoY gr. (%)	146.1	26.5	493.2	132.0
Margin (%)	6.5	8.8	14.2	13.3
Depreciation / Depletion	50	56	67	80
EBIT	82	113	350	339
Margin (%)	4.0	5.9	11.9	10.8
Net Interest	13	12	13	19
Other Income	23	18	17	25
Profit before Tax	91	27	354	345
Margin (%)	4.5	1.4	12.1	11.0
Total Tax	22	3	88	86
Effective tax rate (%)	24.6	10.1	24.9	24.8
Profit after Tax	69	24	266	259
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	69	117	266	259
YoY gr. (%)	481.8	87.8	985.1	144.2
Margin (%)	3.4	6.1	9.1	8.2
Extra Ord. Income / (Exp)	-	(93)	-	-
Reported PAT	69	24	266	259
YoY gr. (%)	481.8	(61.4)	985.1	144.2
Margin (%)	3.4	1.2	9.1	8.2
Other Comprehensive Income	(3)	3	(1)	(1)
Total Comprehensive Income	67	27	265	258
Avg. Shares O/s (m)	22	22	22	24
EPS (Rs)	3.1	1.1	11.9	11.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	2,062	1,852
2	12-Aug-22	BUY	1,766	1,360
3	07-Jul-22	BUY	1,288	931
4	14-May-22	BUY	1,288	898
5	08-Apr-22	BUY	1,264	968
6	02-Mar-22	BUY	1,264	832

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	190	167
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	23	24
5	Navneet Education	BUY	170	130
6	Nazara Technologies	BUY	1,012	670
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,062	1,852
10	V.I.P. Industries	BUY	1,009	710
11	Zee Entertainment Enterprises	BUY	302	280

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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