

February 8, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	2,553		2,476	
Sales (Rs. m)	14,069	16,411	13,923	16,241
% Chng.	1.0	1.0		
EBITDA (Rs. m)	2,251	2,708	2,144	2,712
% Chng.	5.0	(0.2)		
EPS (Rs.)	60.3	74.0	56.8	73.5
% Chng.	6.1	0.8		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	7,057	12,159	14,069	16,411
EBITDA (Rs. m)	552	1,893	2,251	2,708
Margin (%)	7.8	15.6	16.0	16.5
PAT (Rs. m)	316	1,175	1,430	1,755
EPS (Rs.)	14.1	49.6	60.3	74.0
Gr. (%)	NA	250.8	21.6	22.8
DPS (Rs.)	0.8	2.5	3.0	3.7
Yield (%)	0.0	0.1	0.2	0.2
RoE (%)	10.9	32.9	29.8	27.8
RoCE (%)	10.4	36.5	33.3	32.3
EV/Sales (x)	6.0	3.7	3.2	2.7
EV/EBITDA (x)	76.5	23.8	19.7	16.2
PE (x)	133.6	38.1	31.3	25.5
P/BV (x)	14.1	10.9	8.2	6.3

Key Data

SAFA.BO | SII IN

52-W High / Low	Rs.1,977 / Rs.780
Sensex / Nifty	60,664 / 17,872
Market Cap	Rs.45bn/ \$ 543m
Shares Outstanding	24m
3M Avg. Daily Value	Rs.43.53m

Shareholding Pattern (%)

Promoter's	47.23
Foreign	15.53
Domestic Institution	12.02
Public & Others	25.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.2	57.3	92.9
Relative	9.8	52.6	83.8

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GM springs a positive surprise

Quick Pointers:

- GM surpasses 45% mark after 10 quarters.
- Reports best ever EBITDA margin of 18.1%.

We increase our FY23E/FY24E/FY25E EPS estimates by 16%/6%/1% respectively as we re-align our GM assumptions given benefits arising from indigenous manufacturing have started kicking in. Safari's GM improved 1,170 bps YoY and 630 bps QoQ to 45.1%; while EBITDA margin of 18.1% was highest ever as operating leverage benefits flowed through from having a lean indirect cost structure. We maintain our positive stance on Safari given 1) mass/value positioning is expected to result in above average industry growth in foreseeable future and 2) GM profile is expected to witness an improvement amid expansion in HL manufacturing capacity to 525,000 units per month, stabilization in sea freight and correction in RM prices. We expect sales/PAT CAGR of 16%/22% over FY23E-FY25E and maintain BUY with a TP of Rs2,553 (38x Sep-24EPS; no change in target multiple). Safari trades at 31x/25x our FY24E/FY25E EPS estimates which is at a 6%/3% discount to market leader VIP and remains our preferred pick in the luggage space.

Revenue up 82.4% over pre-COVID base: Top-line increased 48.6% YoY to Rs3,031mn (PLe Rs2,978mn) and was 82.4% above the comparable pre-COVID quarter indicating that recovery and demand momentum is strong.

GM springs a positive surprise with 1,170 bps YoY improvement to 45.1%: Gross profit increased 100.4% YoY to Rs1,368mn (PLe Rs1,176mn) with a margin of 45.1% (PLe 39.5%) as compared to a margin of 33.4%/38.8% in 3QFY22/2QFY23 respectively. Rising contribution of indigenous manufacturing and RM price stabilization led to improvement in margins.

EBITDA/PAT margin stands at 18.1%/11.4%: EBITDA increased 316.3% YoY to Rs550mn (PLe Rs417mn) with a margin of 18.1% (PLe 14.0%) as against 6.5% in 3QFY22 and 13.3% in 2QFY23.

Safari reported highest ever EBITDA margin amid strong GM performance and accrual of operating leverage benefits arising from having a lean indirect cost structure. PAT increased 399.6% YoY to Rs345mn (PLe Rs254mn) with a margin of 11.4% (PLe 8.5%).

Revised HL capacity at 525,000 units per month: HL capacity expansion plan outlined previously is complete and Safari's total hard luggage production capacity now stands at 525,000 pieces per month. Rising share of own manufacturing resulting from capacity expansion is expected to structurally elevate GM profile as 1) manufacturing profit will accrue within the company in addition to trading profit and 2) freight cost & currency volatility will decline amid reduced dependency on China.

Exhibit 1: Q3FY23 Result Overview - Consolidated (Rs mn)

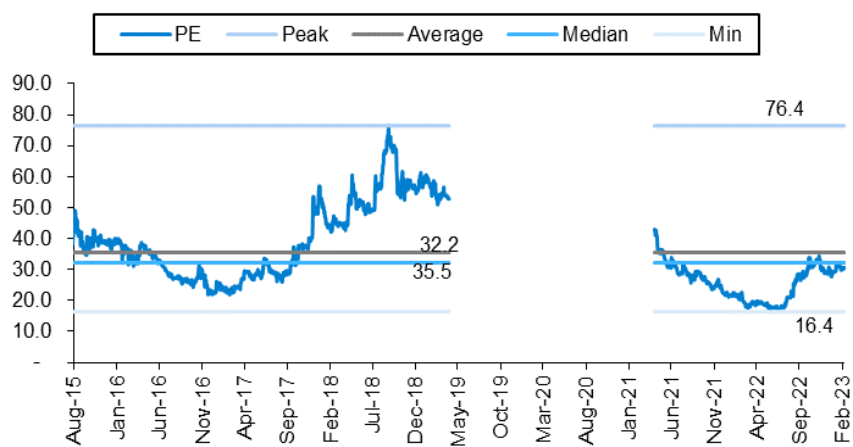
Y/e March	Q3FY23	Q3FY21	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
Net sales	3,031	2,040	48.6%	3,149	-3.8%	9,111	5,128	77.7%
Total raw material cost	1,663	1,358	22.5%	1,927	-13.7%	5,396	3,265	65.2%
<i>As a % of sales</i>	<i>54.9%</i>	<i>66.6%</i>		<i>61.2%</i>		<i>59.2%</i>	<i>63.7%</i>	
Gross Profit	1,368	682	100.4%	1,222	11.9%	3,716	1,862	99.6%
<i>Gross margin</i>	<i>45.1%</i>	<i>33.4%</i>		<i>38.8%</i>		<i>40.8%</i>	<i>36.3%</i>	
Employee expenses	231	181	27.2%	218	5.6%	633	496	27.8%
<i>As a % of sales</i>	<i>7.6%</i>	<i>8.9%</i>		<i>6.9%</i>		<i>7.0%</i>	<i>9.7%</i>	
Other expenses	587	369	59.1%	585	0.4%	1,697	984	72.5%
<i>As a % of sales</i>	<i>19.4%</i>	<i>18.1%</i>		<i>18.6%</i>		<i>18.6%</i>	<i>19.2%</i>	
EBITDA	550	132	316.3%	419	31.3%	1,386	383	261.9%
<i>EBITDA margin</i>	<i>18.1%</i>	<i>6.5%</i>		<i>13.3%</i>		<i>15.2%</i>	<i>7.5%</i>	
Depreciation	94	50	87.0%	80	17.5%	241	143	69.3%
EBIT	456	82	457.5%	339	34.5%	1,144	240	376.1%
<i>EBIT margin</i>	<i>15.0%</i>	<i>4.0%</i>		<i>10.8%</i>		<i>12.6%</i>	<i>4.7%</i>	
Interest cost	26	13	93.8%	19	36.6%	58	38	53.6%
Other income	25	23	10.5%	25	1.2%	68	62	10.0%
PBT	455	91	397.9%	345	32.0%	1,155	264	336.5%
Exceptional items	-	-	NM	-	NM	-	-	NM
Tax expenses	111	22	392.7%	86	29.2%	285	65	339.2%
<i>Tax rate</i>	<i>24.3%</i>	<i>24.6%</i>		<i>24.8%</i>		<i>24.6%</i>	<i>24.5%</i>	
PAT	345	69	399.6%	259	32.9%	870	200	335.6%
<i>PAT margin</i>	<i>11.4%</i>	<i>3.4%</i>		<i>8.2%</i>		<i>9.5%</i>	<i>3.9%</i>	
EPS (Rs)	14.5	3.1	372.1%	10.9	32.9%	36.7	8.9	311.4%

Source: Company, PL

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

Particulars	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Gross margin	46.0%	45.6%	44.2%	38.5%	39.9%	44.8%	39.2%	37.6%	33.4%	38.7%	38.4%	38.8%	45.1%
EBITDA margin	12.1%	9.2%	NM	NM	4.8%	10.1%	5.9%	9.6%	6.5%	8.8%	14.2%	13.3%	18.1%

Source: Company, PL

Exhibit 3: Safari has traded at an average P/E of 32.2x since FY15


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	7,057	12,159	14,069	16,411
YoY gr. (%)	115.2	72.3	15.7	16.6
Cost of Goods Sold	4,448	7,117	8,019	9,272
Gross Profit	2,609	5,042	6,050	7,139
Margin (%)	37.0	41.5	43.0	43.5
Employee Cost	676	863	971	1,067
Other Expenses	1,380	2,286	2,828	3,364
EBITDA	552	1,893	2,251	2,708
YoY gr. (%)	NA	242.8	18.9	20.3
Margin (%)	7.8	15.6	16.0	16.5
Depreciation and Amortization	199	334	366	394
EBIT	353	1,559	1,885	2,314
Margin (%)	5.0	12.8	13.4	14.1
Net Interest	49	83	70	66
Other Income	80	91	91	92
Profit Before Tax	291	1,567	1,906	2,340
Margin (%)	4.1	12.9	13.6	14.3
Total Tax	67	392	477	585
Effective tax rate (%)	23.2	25.0	25.0	25.0
Profit after tax	224	1,175	1,430	1,755
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	316	1,175	1,430	1,755
YoY gr. (%)	NA	271.4	21.6	22.8
Margin (%)	4.5	9.7	10.2	10.7
Extra Ord. Income / (Exp)	(93)	-	-	-
Reported PAT	224	1,175	1,430	1,755
YoY gr. (%)	NA	425.5	21.6	22.8
Margin (%)	3.2	9.7	10.2	10.7
Other Comprehensive Income	(5)	(4)	-	-
Total Comprehensive Income	219	1,172	1,430	1,755
Equity Shares O/s (m)	22	24	24	24
EPS (Rs)	14.1	49.6	60.3	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	1,938	2,290	2,687
Tangibles	1,292	1,858	2,205	2,596
Intangibles	75	80	85	90
Acc: Dep / Amortization	409	743	1,109	1,503
Tangibles	338	673	1,038	1,432
Intangibles	71	71	71	71
Net fixed assets	959	1,195	1,181	1,184
Tangibles	954	1,185	1,166	1,164
Intangibles	5	10	15	20
Capital Work In Progress	197	49	3	3
Goodwill	-	-	-	-
Non-Current Investments	52	49	42	41
Net Deferred tax assets	70	73	98	131
Other Non-Current Assets	54	79	91	148
Current Assets				
Investments	-	-	-	-
Inventories	1,461	2,498	2,891	3,372
Trade receivables	1,146	2,165	2,621	3,147
Cash & Bank Balance	592	600	1,213	1,848
Other Current Assets	132	146	211	345
Total Assets	4,684	6,878	8,380	10,252
Equity				
Equity Share Capital	45	47	47	47
Other Equity	2,965	4,078	5,436	7,104
Total Networkth	3,010	4,126	5,484	7,151
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	1,732	1,850	2,023
Other current liabilities	87	158	183	213
Total Equity & Liabilities	4,684	6,878	8,380	10,252

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	384	1,567	1,906	2,340
Add. Depreciation	199	334	366	394
Add. Interest	49	83	70	66
Less Financial Other Income	80	91	91	92
Add. Other	2	-	-	-
Op. profit before WC changes	634	1,984	2,343	2,800
Net Changes-WC	(452)	(1,342)	(811)	(1,014)
Direct tax	(26)	(392)	(477)	(585)
Net cash from Op. activities	156	251	1,054	1,201
Capital expenditures	(440)	(426)	(197)	(222)
Interest / Dividend Income	63	-	-	-
Others	710	(8)	(112)	(202)
Net Cash from Inv. activities	333	(433)	(309)	(424)
Issue of share cap. / premium	1	3	-	-
Debt changes	13	300	-	-
Dividend paid	-	(59)	(71)	(88)
Interest paid	(50)	(83)	(70)	(66)
Others	(106)	29	10	12
Net cash from Fin. activities	(141)	190	(132)	(142)
Net change in cash	348	8	613	635
Free Cash Flow	(284)	(175)	857	980

Source: Company Data, PL Research

Key Financial Metrics

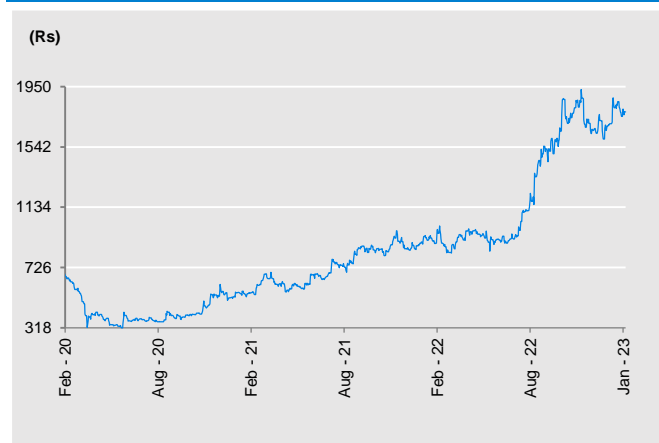
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	14.1	49.6	60.3	74.0
CEPS	23.0	63.7	75.7	90.7
BVPS	134.4	174.0	231.3	301.7
FCF	(12.7)	(7.4)	36.2	41.3
DPS	0.8	2.5	3.0	3.7
Return Ratio(%)				
RoCE	10.4	36.5	33.3	32.3
ROIC	11.8	27.5	26.9	26.4
RoE	10.9	32.9	29.8	27.8
Balance Sheet				
Net Debt : Equity (x)	0.0	0.1	(0.1)	(0.1)
Net Working Capital (Days)	82	88	95	100
Valuation(x)				
PER	133.6	38.1	31.3	25.5
P/B	14.1	10.9	8.2	6.3
P/CEPS	82.1	29.7	24.9	20.8
EV/EBITDA	76.5	23.8	19.7	16.2
EV/Sales	6.0	3.7	3.2	2.7
Dividend Yield (%)	0.0	0.1	0.2	0.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	1,929	2,932	3,149	3,031
YoY gr. (%)	45.2	144.0	67.0	48.6
Raw Material Expenses	1,183	1,806	1,927	1,663
Gross Profit	747	1,126	1,222	1,368
Margin (%)	38.7	38.4	38.8	45.1
EBITDA	169	417	419	550
YoY gr. (%)	26.5	493.2	132.0	316.3
Margin (%)	8.8	14.2	13.3	18.1
Depreciation / Depletion	56	67	80	94
EBIT	113	350	339	456
Margin (%)	5.9	11.9	10.8	15.0
Net Interest	12	13	19	26
Other Income	18	17	25	25
Profit before Tax	27	354	345	455
Margin (%)	1.4	12.1	11.0	15.0
Total Tax	3	88	86	111
Effective tax rate (%)	10.1	24.9	24.8	24.3
Profit after Tax	24	266	259	345
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	117	266	259	345
YoY gr. (%)	87.8	985.1	144.2	399.6
Margin (%)	6.1	9.1	8.2	11.4
Extra Ord. Income / (Exp)	(93)	-	-	-
Reported PAT	24	266	259	345
YoY gr. (%)	(61.4)	985.1	144.2	399.6
Margin (%)	1.2	9.1	8.2	11.4
Other Comprehensive Income	3	(1)	(1)	(1)
Total Comprehensive Income	27	265	258	344
Avg. Shares O/s (m)	22	22	24	24
EPS (Rs)	1.1	11.9	10.9	14.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	2,476	1,699
2	04-Nov-22	BUY	2,457	1,811
3	06-Oct-22	BUY	2,062	1,852
4	12-Aug-22	BUY	1,766	1,360
5	07-Jul-22	BUY	1,288	931
6	14-May-22	BUY	1,288	898
7	08-Apr-22	BUY	1,264	968
8	02-Mar-22	BUY	1,264	832

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	679	636
4	Inox Leisure	BUY	587	502
5	Music Broadcast	Hold	23	27
6	Navneet Education	BUY	163	117
7	Nazara Technologies	BUY	898	592
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	220	173
10	Safari Industries (India)	BUY	2,476	1,699
11	V.I.P. Industries	BUY	1,014	700
12	Zee Entertainment Enterprises	BUY	309	238

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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