

August 10, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY24E | FY25E | FY24E | FY25E |
| Rating | BUY | | BUY | |
| Target Price | 3,728 | | 3,202 | |
| Sales (Rs. m) | 15,538 | 18,725 | 14,363 | 16,816 |
| % Chng. | 8.2 | 11.4 | | |
| EBITDA (Rs. m) | 2,750 | 3,352 | 2,456 | 2,892 |
| % Chng. | 12.0 | 15.9 | | |
| EPS (Rs.) | 72.7 | 90.9 | 66.8 | 80.0 |
| % Chng. | 8.9 | 13.6 | | |

Key Financials - Consolidated

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|----------------|---------|--------|--------|--------|
| Sales (Rs. m) | 7,057 | 12,120 | 15,538 | 18,725 |
| EBITDA (Rs. m) | 552 | 1,969 | 2,750 | 3,352 |
| Margin (%) | 7.8 | 16.2 | 17.7 | 17.9 |
| PAT (Rs. m) | 316 | 1,251 | 1,725 | 2,156 |
| EPS (Rs.) | 14.1 | 52.8 | 72.7 | 90.9 |
| Gr. (%) | (251.4) | 273.2 | 37.9 | 25.0 |
| DPS (Rs.) | 0.8 | 3.5 | 4.4 | 4.5 |
| Yield (%) | 0.0 | 0.1 | 0.1 | 0.1 |
| RoE (%) | 10.9 | 34.4 | 34.0 | 31.2 |
| RoCE (%) | 10.4 | 35.5 | 35.1 | 34.1 |
| EV/Sales (x) | 10.1 | 6.3 | 4.9 | 4.0 |
| EV/EBITDA (x) | 129.5 | 38.8 | 27.5 | 22.2 |
| PE (x) | 226.1 | 60.6 | 43.9 | 35.1 |
| P/BV (x) | 23.8 | 17.8 | 12.9 | 9.6 |

Key Data

SAFA.BO | SII IN

| | |
|---------------------|---------------------|
| 52-W High / Low | Rs.3,344 / Rs.1,112 |
| Sensex / Nifty | 65,996 / 19,633 |
| Market Cap | Rs.76bn / \$ 915m |
| Shares Outstanding | 24m |
| 3M Avg. Daily Value | Rs.121.08m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 47.23 |
| Foreign | 12.30 |
| Domestic Institution | 17.00 |
| Public & Others | 23.47 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-----|------|-------|
| Absolute | 7.4 | 62.5 | 166.0 |
| Relative | 6.3 | 49.7 | 137.2 |

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Standout performance

Quick Pointers:

- Topline increased 45.6% YoY. In context, industry leader had reported a growth of 7.7% YoY.
- PAT increases 87.8% YoY. 1QFY24 profitability is 65% higher than FY20 (pre-COVID base) PAT.

We upgrade our EPS estimates by 9%/14% for FY24E/FY25E respectively amid healthy beat in 1QFY24 (sales/PAT beat of 25%/34% respectively). Safari reported yet another quarter of stupendous performance with Gross/EBITDA margin of 45.1%/18.5% respectively given rising benefits of indigenous manufacturing and stable RM prices. Additional capacity of 125,000 units per month has come on stream from 01st August 2023 which is likely to further cushion GM as it would reduce reliance on outsourcing. We maintain our positive stance on Safari as consistent gain in market share and rising share of indigenous manufacturing is likely to result in sales/PAT CAGR of 24%/31% over FY23-FY25E. Maintain BUY with a TP of Rs3,728 valuing the stock at 41x FY25E EPS (earlier 40x).

Revenue up 45.6% YoY: Top-line increased 45.6% YoY to Rs4,267mn (PLe Rs3,416mn) amid strong growth across channels.

GM at 45.1%: Gross profit increased 71.1% YoY to Rs1,925mn (PLe Rs1,469mn) with a margin of 45.1% (PLe 43.0%). Rising contribution of indigenous manufacturing and stable RM prices aided margins.

EBITDA/PAT margin stands at 18.5%/11.7%: EBITDA increased 89.5% YoY to Rs790mn (PLe Rs581mn) with a margin of 18.5% (PLe 17.0%) as against 14.2% in 1QFY23 and 19.3% in 4QFY23.

Safari reported healthy EBITDA margin amid strong GM performance and accrual of operating leverage benefits arising from having a lean indirect cost structure. PAT increased by 87.8% YoY to Rs499mn (PLe Rs374mn) with a margin of 11.7% (PLe 11.0%) as compared to a margin of 9.1%/12.6% in 1QFY23/4QFY23.

Increased capacity by 125,000 units per month: On August 1, 2023, Safari commenced operations of additional 125,000 units at its factory situated at Halol, Gujarat. Consequently, the production capacity of Safari Manufacturing Limited, a wholly owned subsidiary, has increased from 225,000 units per month to 350,000 units per month.

Exhibit 1: Q1FY24 Result Overview - Consolidated (Rs mn)

| Y/e March | Q1FY24 | Q1FY23 | YoY gr. | Q4FY23 | QoQ gr. |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 4,267 | 2,930 | 45.6% | 3,027 | 41.0% |
| Total raw material cost | 2,342 | 1,806 | 29.7% | 1,577 | 48.5% |
| <i>As a % of sales</i> | <i>54.9%</i> | <i>61.6%</i> | | <i>52.1%</i> | |
| Gross Profit | 1,925 | 1,125 | 71.1% | 1,450 | 32.7% |
| <i>Gross margin</i> | <i>45.1%</i> | <i>38.4%</i> | | <i>47.9%</i> | |
| Employee expenses | 242 | 182 | 32.7% | 232 | 4.0% |
| <i>As a % of sales</i> | <i>5.7%</i> | <i>6.2%</i> | | <i>7.7%</i> | |
| Other expenses | 893 | 526 | 69.8% | 635 | 40.6% |
| <i>As a % of sales</i> | <i>20.9%</i> | <i>17.9%</i> | | <i>21.0%</i> | |
| EBITDA | 790 | 417 | 89.5% | 583 | 35.6% |
| <i>EBITDA margin</i> | <i>18.5%</i> | <i>14.2%</i> | | <i>19.3%</i> | |
| Depreciation | 129 | 67 | 92.3% | 92 | 41.2% |
| EBIT | 661 | 350 | 88.9% | 491 | 34.5% |
| <i>EBIT margin</i> | <i>15.5%</i> | <i>11.9%</i> | | <i>16.2%</i> | |
| Interest cost | 26 | 13 | 99.5% | 22 | 18.8% |
| Other income | 23 | 17 | 31.8% | 27 | -14.7% |
| PBT | 658 | 354 | 85.8% | 496 | 32.6% |
| Exceptional items | - | - | NM | - | NM |
| Tax expenses | 158 | 88 | 79.6% | 115 | 37.5% |
| <i>Tax rate</i> | <i>24.0%</i> | <i>24.9%</i> | | <i>23.2%</i> | |
| PAT | 499 | 266 | 87.8% | 381 | 31.1% |
| <i>PAT margin</i> | <i>11.7%</i> | <i>9.1%</i> | | <i>12.6%</i> | |
| EPS (Rs) | 21.1 | 11.9 | 77.3% | 16.1 | 31.1% |

Source: Company, PL

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

| Particulars | 1QFY21 | 2QFY21 | 3QFY21 | 4QFY21 | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross margin | 44.2% | 38.5% | 39.9% | 44.8% | 39.2% | 37.6% | 33.4% | 38.7% | 38.4% | 38.8% | 45.1% | 47.9% | 45.1% |
| EBITDA margin | NM | NM | 4.8% | 10.1% | 5.9% | 9.6% | 6.5% | 8.8% | 14.2% | 13.3% | 18.1% | 19.3% | 18.5% |

Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|-------------------------------|--------------|---------------|---------------|---------------|
| Net Revenues | 7,057 | 12,120 | 15,538 | 18,725 |
| YoY gr. (%) | 115.2 | 71.7 | 28.2 | 20.5 |
| Cost of Goods Sold | 4,448 | 6,973 | 8,701 | 10,486 |
| Gross Profit | 2,609 | 5,147 | 6,837 | 8,239 |
| Margin (%) | 37.0 | 42.5 | 44.0 | 44.0 |
| Employee Cost | 676 | 858 | 1,072 | 1,255 |
| Other Expenses | 1,380 | 2,321 | 3,014 | 3,633 |
| EBITDA | 552 | 1,969 | 2,750 | 3,352 |
| YoY gr. (%) | (1,026.5) | 256.5 | 39.7 | 21.9 |
| Margin (%) | 7.8 | 16.2 | 17.7 | 17.9 |
| Depreciation and Amortization | 199 | 333 | 482 | 524 |
| EBIT | 353 | 1,636 | 2,269 | 2,828 |
| Margin (%) | 5.0 | 13.5 | 14.6 | 15.1 |
| Net Interest | 49 | 80 | 78 | 75 |
| Other Income | 80 | 95 | 109 | 122 |
| Profit Before Tax | 291 | 1,650 | 2,300 | 2,874 |
| Margin (%) | 4.1 | 13.6 | 14.8 | 15.4 |
| Total Tax | 67 | 400 | 575 | 719 |
| Effective tax rate (%) | 23.2 | 24.2 | 25.0 | 25.0 |
| Profit after tax | 224 | 1,251 | 1,725 | 2,156 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 316 | 1,251 | 1,725 | 2,156 |
| YoY gr. (%) | (251.4) | 295.3 | 37.9 | 25.0 |
| Margin (%) | 4.5 | 10.3 | 11.1 | 11.5 |
| Extra Ord. Income / (Exp) | (93) | - | - | - |
| Reported PAT | 224 | 1,251 | 1,725 | 2,156 |
| YoY gr. (%) | (207.0) | 459.2 | 37.9 | 25.0 |
| Margin (%) | 3.2 | 10.3 | 11.1 | 11.5 |
| Other Comprehensive Income | (5) | (3) | - | - |
| Total Comprehensive Income | 219 | 1,248 | 1,725 | 2,156 |
| Equity Shares O/s (m) | 22 | 24 | 24 | 24 |
| EPS (Rs) | 14.1 | 52.8 | 72.7 | 90.9 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|---------------------------------------|--------------|--------------|--------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 1,368 | 2,578 | 2,950 | 3,350 |
| Tangibles | 1,292 | 2,503 | 2,870 | 3,265 |
| Intangibles | 75 | 75 | 80 | 85 |
| Acc: Dep / Amortization | 409 | 737 | 1,219 | 1,743 |
| Tangibles | 338 | 667 | 1,148 | 1,673 |
| Intangibles | 71 | 71 | 71 | 71 |
| Net fixed assets | 959 | 1,840 | 1,731 | 1,607 |
| Tangibles | 954 | 1,836 | 1,722 | 1,592 |
| Intangibles | 5 | 4 | 9 | 14 |
| Capital Work In Progress | 197 | - | 3 | 4 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 52 | 97 | 62 | 56 |
| Net Deferred tax assets | 70 | 37 | 62 | 94 |
| Other Non-Current Assets | 54 | 59 | 101 | 169 |
| Current Assets | | | | |
| Investments | - | - | - | - |
| Inventories | 1,461 | 2,664 | 3,320 | 4,002 |
| Trade receivables | 1,146 | 1,693 | 2,341 | 2,822 |
| Cash & Bank Balance | 592 | 865 | 1,639 | 2,697 |
| Other Current Assets | 132 | 197 | 233 | 393 |
| Total Assets | 4,684 | 7,481 | 9,524 | 11,880 |
| Equity | | | | |
| Equity Share Capital | 45 | 47 | 47 | 47 |
| Other Equity | 2,965 | 4,210 | 5,831 | 7,879 |
| Total Networkth | 3,010 | 4,257 | 5,878 | 7,926 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 308 | 779 | 779 | 779 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 248 | 615 | 615 | 615 |
| Trade payables | 1,031 | 1,665 | 2,043 | 2,309 |
| Other current liabilities | 87 | 164 | 208 | 251 |
| Total Equity & Liabilities | 4,684 | 7,481 | 9,524 | 11,880 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|--------------------------------------|--------------|--------------|--------------|--------------|
| PBT | 384 | 1,650 | 2,300 | 2,874 |
| Add. Depreciation | 199 | 333 | 482 | 524 |
| Add. Interest | 49 | 80 | 78 | 75 |
| Less Financial Other Income | 80 | 95 | 109 | 122 |
| Add. Other | 2 | (25) | - | - |
| Op. profit before WC changes | 634 | 2,038 | 2,859 | 3,474 |
| Net Changes-WC | (452) | (1,171) | (964) | (1,102) |
| Direct tax | (26) | (361) | (576) | (717) |
| Net cash from Op. activities | 156 | 506 | 1,319 | 1,655 |
| Capital expenditures | (440) | (503) | (218) | (225) |
| Interest / Dividend Income | 63 | 47 | - | - |
| Others | 710 | (239) | (145) | (204) |
| Net Cash from Inv. activities | 333 | (695) | (363) | (429) |
| Issue of share cap. / premium | 1 | 3 | - | - |
| Debt changes | 13 | 213 | - | - |
| Dividend paid | - | (53) | (103) | (108) |
| Interest paid | (50) | (79) | (78) | (75) |
| Others | (106) | 113 | (1) | 16 |
| Net cash from Fin. activities | (141) | 196 | (182) | (167) |
| Net change in cash | 348 | 7 | 774 | 1,059 |
| Free Cash Flow | (284) | 3 | 1,101 | 1,430 |

Source: Company Data, PL Research

Key Financial Metrics

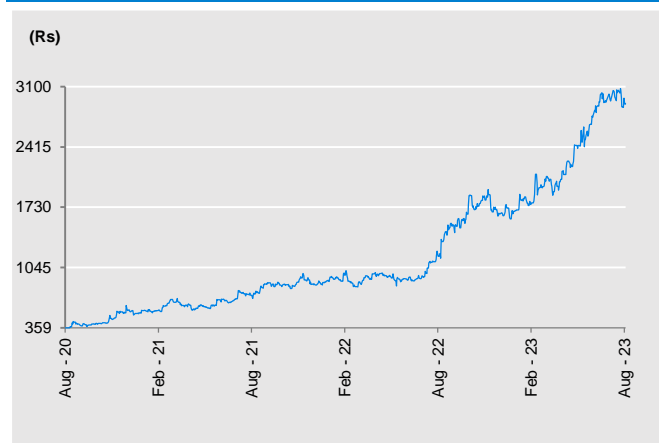
| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|----------------------------|--------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 14.1 | 52.8 | 72.7 | 90.9 |
| CEPS | 23.0 | 66.8 | 93.1 | 113.0 |
| BVPS | 134.4 | 179.5 | 247.9 | 334.3 |
| FCF | (12.7) | 0.1 | 46.4 | 60.3 |
| DPS | 0.8 | 3.5 | 4.4 | 4.5 |
| Return Ratio(%) | | | | |
| RoCE | 10.4 | 35.5 | 35.1 | 34.1 |
| ROIC | 11.8 | 26.3 | 28.9 | 28.2 |
| RoE | 10.9 | 34.4 | 34.0 | 31.2 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.0 | 0.1 | 0.0 | (0.2) |
| Net Working Capital (Days) | 82 | 81 | 85 | 88 |
| Valuation(x) | | | | |
| PER | 226.1 | 60.6 | 43.9 | 35.1 |
| P/B | 23.8 | 17.8 | 12.9 | 9.6 |
| P/CEPS | 138.8 | 47.8 | 34.3 | 28.3 |
| EV/EBITDA | 129.5 | 38.8 | 27.5 | 22.2 |
| EV/Sales | 10.1 | 6.3 | 4.9 | 4.0 |
| Dividend Yield (%) | 0.0 | 0.1 | 0.1 | 0.1 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 3,149 | 3,031 | 3,027 | 4,267 |
| YoY gr. (%) | 67.0 | 48.6 | 56.9 | 45.6 |
| Raw Material Expenses | 1,927 | 1,663 | 1,577 | 2,342 |
| Gross Profit | 1,222 | 1,368 | 1,450 | 1,925 |
| Margin (%) | 38.8 | 45.1 | 47.9 | 45.1 |
| EBITDA | 419 | 550 | 583 | 790 |
| YoY gr. (%) | 132.0 | 316.3 | 244.3 | 89.5 |
| Margin (%) | 13.3 | 18.1 | 19.3 | 18.5 |
| Depreciation / Depletion | 80 | 94 | 92 | 129 |
| EBIT | 339 | 456 | 491 | 661 |
| Margin (%) | 10.8 | 15.0 | 16.2 | 15.5 |
| Net Interest | 19 | 26 | 22 | 26 |
| Other Income | 25 | 25 | 27 | 23 |
| Profit before Tax | 345 | 455 | 496 | 658 |
| Margin (%) | 11.0 | 15.0 | 16.4 | 15.4 |
| Total Tax | 86 | 111 | 115 | 158 |
| Effective tax rate (%) | 24.8 | 24.3 | 23.2 | 24.0 |
| Profit after Tax | 259 | 345 | 381 | 499 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 259 | 345 | 381 | 499 |
| YoY gr. (%) | 144.2 | 399.6 | 226.2 | 87.8 |
| Margin (%) | 8.2 | 11.4 | 12.6 | 11.7 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 259 | 345 | 381 | 499 |
| YoY gr. (%) | 144.2 | 399.6 | 1,489.3 | 87.8 |
| Margin (%) | 8.2 | 11.4 | 12.6 | 11.7 |
| Other Comprehensive Income | (1) | (1) | 1 | (1) |
| Total Comprehensive Income | 258 | 344 | 382 | 499 |
| Avg. Shares O/s (m) | 24 | 24 | 24 | 24 |
| EPS (Rs) | 10.9 | 14.5 | 16.1 | 21.1 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 07-Jul-23 | BUY | 3,202 | 2,937 |
| 2 | 13-Jun-23 | BUY | 3,202 | 2,884 |
| 3 | 17-May-23 | BUY | 2,790 | 2,415 |
| 4 | 11-Apr-23 | BUY | 2,538 | 2,114 |
| 5 | 08-Feb-23 | BUY | 2,553 | 1,889 |
| 6 | 06-Jan-23 | BUY | 2,476 | 1,699 |
| 7 | 04-Nov-22 | BUY | 2,457 | 1,811 |
| 8 | 06-Oct-22 | BUY | 2,062 | 1,852 |
| 9 | 12-Aug-22 | BUY | 1,766 | 1,360 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---|------------|---------|------------------|
| 1 | Chalet Hotels | BUY | 562 | 489 |
| 2 | Entertainment Network (India) | Hold | 180 | 126 |
| 3 | Indian Railway Catering and Tourism Corporation | Hold | 679 | 632 |
| 4 | Inox Leisure | BUY | 587 | 502 |
| 5 | InterGlobe Aviation | BUY | 2,855 | 2,565 |
| 6 | Music Broadcast | Hold | 18 | 11 |
| 7 | Navneet Education | BUY | 192 | 144 |
| 8 | Nazara Technologies | BUY | 834 | 694 |
| 9 | PVR Inox | BUY | 1,797 | 1,565 |
| 10 | S Chand and Company | BUY | 257 | 191 |
| 11 | Safari Industries (India) | BUY | 3,202 | 2,937 |
| 12 | V.I.P. Industries | Accumulate | 707 | 598 |
| 13 | Zee Entertainment Enterprises | BUY | 236 | 183 |

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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