

November 10, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	2,989		3,005	
Sales (Rs. m)	22,796	27,492	22,781	27,474
% Chng.	0.1	0.1		
EBITDA (Rs. m)	3,716	4,784	4,055	4,918
% Chng.	(8.4)	(2.7)		
EPS (Rs.)	51.5	66.4	55.0	66.8
% Chng.	(6.4)	(0.5)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	15,504	18,384	22,796	27,492
EBITDA (Rs. m)	2,775	2,721	3,716	4,784
Margin (%)	17.9	14.8	16.3	17.4
PAT (Rs. m)	1,758	1,758	2,510	3,239
EPS (Rs.)	36.1	36.1	51.5	66.4
Gr. (%)	(31.6)	-	42.8	29.0
DPS (Rs.)	2.8	3.0	3.2	3.4
Yield (%)	0.1	0.1	0.1	0.2
RoE (%)	28.1	19.4	22.8	23.6
RoCE (%)	29.4	19.9	23.7	25.5
EV/Sales (x)	6.9	5.8	4.6	3.8
EV/EBITDA (x)	38.5	39.3	28.4	21.6
PE (x)	62.0	62.0	43.4	33.6
P/BV (x)	13.2	11.1	8.9	7.1

Key Data

SAFA.BO | SII IN

52-W High / Low	Rs.2,712 / Rs.1,627
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.109bn / \$ 1,295m
Shares Outstanding	49m
3M Avg. Daily Value	Rs.312.74m

Shareholding Pattern (%)

Promoter's	45.42
Foreign	12.24
Domestic Institution	22.88
Public & Others	19.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(16.1)	9.4	5.7
Relative	(13.8)	1.2	(13.6)

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Margin pressure erupts

Quick Pointers:

- GM remains steady at 43.8% indicating absence of predatory pricing.
- EBITDA margin succumbs to 10.5% due to higher A&P spends amid rising competition.

We cut our EPS estimates by 10.0%/6.4%/0.5% for FY25E/FY26E/FY27E as we fine tune our GM and A&P assumptions in light of rising competitive intensity. Safari reported a subdued performance with EBITDA margin of 10.5% (PLe 15.1%) due to 1) higher A&P spends to the tune of ~Rs100mn on e-com channel and 2) an additional brand building expense of ~Rs50mn in order to create visibility for Urban Jungle. We believe pricing pressure would prevail in the near term given aggressive discounting by a leading player but Safari will be in a better position to counter this challenge once greenfield plant at Jaipur begins operations. Progress at the site is satisfactory and commercial production is expected to begin soon. Operationalization of new plant will bring in cost competitiveness by optimizing freight & power cost enabling Safari to compete better at mass end of the curve that is most price sensitive. We maintain our positive stance on the stock and expect sales/PAT CAGR of 22%/36% over FY25E-FY27E. Maintain 'BUY' with a TP of Rs2,989 (45x FY27E EPS; no change in target multiple). Near term margin volatility given the ongoing price war is a key risk to our call.

Revenue increased 23.7% YoY: Top-line increased 23.7% YoY to Rs4,578mn (PLe Rs4,477mn) despite stiff competition.

GM stood at 43.8%: Gross profit increased 19.2% YoY to Rs2,007mn (PLe Rs2,006mn) with a margin of 43.8% (PLe 44.8%) as compared to a margin of 45.5%/44.5% in 2QFY24/1QFY25 respectively.

EBITDA/PAT margin stands at 10.5%/6.5%: EBITDA declined 24.5% YoY to Rs479mn (PLe Rs676mn), with a margin of 10.5% (PLe 15.1%) due to higher promotional spends amounting to ~Rs150mn amid rising competitive intensity. PAT declined 25.4% YoY to Rs297mn (PLe Rs420mn), with a margin of 6.5% (PLe 9.4%).

Key highlights from our interaction with the management: 1) The new plant at Jaipur is about to begin operations soon. 2) Current EBO count stands at ~155. 3) A&P spends stood at ~8% due to higher promotional spends on e-com channel and investment in Urban Jungle. 4) Volume growth for 2QFY25 stood at 40%. 5) E-com's share in channel mix stood at ~50% in 2QFY25. 6) Monthly revenue run-rate for Urban Jungle is ~Rs50mn.



Exhibit 1: Q2FY25 Result Overview - Consolidated (Rs mn)

Y/e March	2QFY25	2QFY24	YoY gr.	1QFY25	QoQ gr.	2QFY25E	% Var.	H1FY25	H1FY24	YoY gr.
Net sales	4,578	3,700	23.7%	4,500	1.7%	4,477	2.2%	9,078	7,967	13.9%
Total raw material cost	2,571	2,017	27.5%	2,498	2.9%	2,471	4.0%	5,069	4,359	16.3%
As a % of sales	56.2%	54.5%		55.5%		55.2%		55.8%	54.7%	
Gross Profit	2,007	1,684	19.2%	2,002	0.2%	2,006	0.0%	4,009	3,608	11.1%
Gross margin	43.8%	45.5%		44.5%		44.8%		44.2%	45.3%	
Employee expenses	302	248	21.5%	266	13.5%	278	8.7%	568	490	15.9%
As a % of sales	6.6%	6.7%		5.9%		6.2%		6.3%	6.2%	
Other expenses	1,226	801	53.1%	1,078	13.8%	1,052	16.5%	2,304	1,693	36.0%
As a % of sales	26.8%	21.6%		23.9%		23.5%		25.4%	21.3%	
EBITDA	479	635	-24.5%	659	-27.3%	676	-29.2%	1,138	1,425	-20.2%
EBITDA margin	10.5%	17.2%		14.6%		15.1%		12.5%	17.9%	
Depreciation	147	123	19.8%	142	3.1%	147	-0.1%	289	252	14.8%
EBIT	332	512	-35.1%	516	-35.7%	529	-37.2%	849	1,173	-27.7%
EBIT margin	7.3%	13.8%		11.5%		11.8%		9.3%	14.7%	
Interest cost	24	22	10.0%	24	3.4%	22	8.5%	48	48	-0.8%
Other income	71	29	144.8%	82	-14.2%	54	31.2%	153	52	195.9%
PBT	378	519	-27.1%	575	-34.2%	561	-32.5%	954	1,176	-18.9%
Exceptional items	-	-	NM	-	NM	-	NM	-	-	NM
Tax expenses	82	121	-32.6%	131	-37.6%	140	-41.6%	213	279	-23.8%
Tax rate	21.6%	23.4%		22.8%		25.0%		22.3%	23.8%	
PAT	297	398	-25.4%	444	-33.2%	420	-29.5%	741	897	-17.4%
PAT margin	6.5%	10.7%		9.9%		9.4%		8.2%	11.3%	
EPS (Rs)	6.1	8.4	-27.5%	9.1	-33.4%	8.6	-29.6%	15.1	18.3	-17.4%

Source: Company, PL

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

Particulars	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Gross margin	37.6%	33.4%	38.7%	38.4%	38.6%	45.1%	47.9%	45.1%	45.5%	48.0%	50.6%	44.5%	43.8%
EBITDA margin	9.6%	6.5%	8.8%	14.2%	13.4%	18.1%	19.3%	18.5%	17.2%	17.6%	18.3%	14.6%	10.5%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	15,504	18,384	22,796	27,492
YoY gr. (%)	27.9	18.6	24.0	20.6
Cost of Goods Sold	8,182	10,111	12,310	14,571
Gross Profit	7,322	8,273	10,486	12,921
Margin (%)	47.2	45.0	46.0	47.0
Employee Cost	976	1,140	1,345	1,595
Other Expenses	3,571	4,412	5,426	6,543
EBITDA	2,775	2,721	3,716	4,784
YoY gr. (%)	41.0	(2.0)	36.6	28.7
Margin (%)	17.9	14.8	16.3	17.4
Depreciation and Amortization	518	625	729	852
EBIT	2,257	2,096	2,986	3,931
Margin (%)	14.6	11.4	13.1	14.3
Net Interest	95	92	68	82
Other Income	139	279	342	412
Profit Before Tax	2,301	2,283	3,260	4,261
Margin (%)	14.8	12.4	14.3	15.5
Total Tax	543	525	750	1,023
Effective tax rate (%)	23.6	23.0	23.0	24.0
Profit after tax	1,758	1,758	2,510	3,239
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,758	1,758	2,510	3,239
YoY gr. (%)	40.5	-	42.8	29.0
Margin (%)	11.3	9.6	11.0	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,758	1,758	2,510	3,239
YoY gr. (%)	40.5	-	42.8	29.0
Margin (%)	11.3	9.6	11.0	11.8
Other Comprehensive Income	(11)	-	-	-
Total Comprehensive Income	1,747	1,758	2,510	3,239
Equity Shares O/s (m)	49	49	49	49
EPS (Rs)	36.1	36.1	51.5	66.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	4,041	5,742	6,373	7,043
Tangibles	3,957	5,653	6,279	6,943
Intangibles	85	90	95	100
Acc: Dep / Amortization	1,112	1,737	2,466	3,318
Tangibles	1,039	1,664	2,393	3,245
Intangibles	73	73	73	73
Net fixed assets	2,930	4,006	3,907	3,725
Tangibles	2,918	3,989	3,885	3,698
Intangibles	12	17	22	27
Capital Work In Progress	10	18	23	27
Goodwill	-	-	-	-
Non-Current Investments	121	147	137	165
Net Deferred tax assets	51	62	79	98
Other Non-Current Assets	83	110	137	165
Current Assets				
Investments	1,490	1,490	1,490	1,490
Inventories	2,694	3,274	4,247	5,272
Trade receivables	1,654	2,267	2,811	3,540
Cash & Bank Balance	2,184	2,123	3,686	5,770
Other Current Assets	157	184	228	275
Total Assets	11,442	13,747	16,824	20,622
Equity				
Equity Share Capital	98	98	98	98
Other Equity	8,137	9,749	12,103	15,176
Total Networth	8,235	9,847	12,201	15,273
Non-Current Liabilities				
Long Term borrowings	884	938	1,009	1,088
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	579	595	619	650
Trade payables	1,522	2,115	2,686	3,239
Other current liabilities	211	241	299	360
Total Equity & Liabilities	11,442	13,747	16,824	20,622

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	2,301	2,283	3,260	4,261
Add. Depreciation	518	625	729	852
Add. Interest	95	92	68	82
Less Financial Other Income	139	279	342	412
Add. Other	(65)	-	-	-
Op. profit before WC changes	2,849	3,000	4,058	5,196
Net Changes-WC	(128)	(625)	(982)	(1,239)
Direct tax	(552)	(523)	(749)	(1,022)
Net cash from Op. activities	2,169	1,852	2,326	2,934
Capital expenditures	(1,112)	(1,526)	(456)	(495)
Interest / Dividend Income	75	-	-	-
Others	(2,416)	(221)	(200)	(241)
Net Cash from Invst. activities	(3,453)	(1,747)	(656)	(736)
Issue of share cap. / premium	8	-	-	-
Debt changes	(186)	(50)	(40)	(40)
Dividend paid	(106)	(146)	(156)	(166)
Interest paid	(95)	(92)	(68)	(82)
Others	2,024	122	157	174
Net cash from Fin. activities	1,645	(166)	(108)	(114)
Net change in cash	361	(61)	1,563	2,085
Free Cash Flow	1,057	326	1,870	2,440

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	36.1	36.1	51.5	66.4
CEPS	46.7	48.9	66.5	83.9
BVPS	168.9	202.0	250.3	313.3
FCF	21.7	6.7	38.4	50.0
DPS	2.8	3.0	3.2	3.4
Return Ratio(%)				
RoCE	29.4	19.9	23.7	25.5
ROIC	24.3	19.8	22.1	23.2
RoE	28.1	19.4	22.8	23.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	67	68	70	74
Valuation(x)				
PER	62.0	62.0	43.4	33.6
P/B	13.2	11.1	8.9	7.1
P/CEPS	47.9	45.7	33.6	26.6
EV/EBITDA	38.5	39.3	28.4	21.6
EV/Sales	6.9	5.8	4.6	3.8
Dividend Yield (%)	0.1	0.1	0.1	0.2

Source: Company Data, PL Research

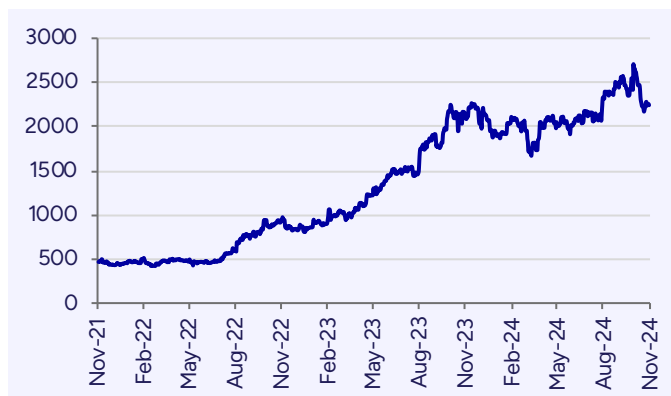
Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	3,883	3,654	4,500	4,578
YoY gr. (%)	28.1	20.7	5.5	23.7
Raw Material Expenses	2,020	1,804	2,498	2,571
Gross Profit	1,863	1,851	2,002	2,007
Margin (%)	48.0	50.6	44.5	43.8
EBITDA	682	669	659	479
YoY gr. (%)	24.0	14.7	(16.6)	(24.5)
Margin (%)	17.6	18.3	14.6	10.5
Depreciation / Depletion	129	137	142	147
EBIT	553	532	516	332
Margin (%)	14.2	14.5	11.5	7.3
Net Interest	24	23	24	24
Other Income	37	51	82	71
Profit before Tax	566	559	575	378
Margin (%)	14.6	15.3	12.8	8.3
Total Tax	136	127	131	82
Effective tax rate (%)	24.1	22.8	22.8	21.6
Profit after Tax	429	432	444	297
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	429	432	444	297
YoY gr. (%)	24.5	13.4	(11.1)	(25.4)
Margin (%)	11.1	11.8	9.9	6.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	429	432	444	297
YoY gr. (%)	24.5	13.4	(11.1)	(25.4)
Margin (%)	11.1	11.8	9.9	6.5
Other Comprehensive Income	(1)	(8)	(2)	(3)
Total Comprehensive Income	428	424	442	294
Avg. Shares O/s (m)	48	49	49	49
EPS (Rs)	9.0	9.0	9.1	6.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-24	BUY	3,005	2,608
2	07-Aug-24	BUY	2,476	2,237
3	08-Jul-24	BUY	2,364	2,166
4	14-May-24	BUY	2,225	2,019
5	12-Apr-24	BUY	2,268	1,971
6	07-Feb-24	BUY	2,271	2,045
7	05-Jan-24	BUY	2,375	1,932

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	921	845
2	Delhivery	Accumulate	430	417
3	DOMS Industries	BUY	3,349	2,924
4	Imagicaaworld Entertainment	BUY	116	80
5	Indian Railway Catering and Tourism Corporation	Hold	833	829
6	InterGlobe Aviation	Accumulate	4,919	4,366
7	Lemon Tree Hotels	BUY	159	121
8	Mahindra Logistics	Hold	496	444
9	Navneet Education	Hold	164	143
10	Nazara Technologies	BUY	1,185	953
11	PVR Inox	Hold	1,598	1,621
12	S Chand and Company	BUY	312	211
13	Safari Industries (India)	BUY	3,005	2,608
14	TCI Express	Accumulate	1,119	977
15	V.I.P. Industries	Hold	494	472
16	Zee Entertainment Enterprises	Hold	145	132

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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