

# Safari Industries Limited

BSE Code: 523025 | CMP : ₹532 | Face Value : ₹10 | Target price: ₹800 | HP\* : Two years

## About The Company

Our Pearl Pick for the month of March is Safari Industries Limited. The company is engaged in the manufacturing and trading of luggage and luggage accessories. Its product range includes polycarbonate (PC) zippered luggage, laptop bags, backpacks, Duffle bags and Trolley bags. The product categories are mainly divided into Hard luggage (20 per cent of revenue), manufactured in-house by Safari, and Soft luggage (80 per cent), which are made from various kinds of fabrics and are mainly imported from China. It is the third largest branded player in the Indian luggage industry after VIP Industries and Samsonite. Safari Industries enjoys around 14-15 per cent market share.

## Why to Invest:

**Robust growth since 2012 :** In May 2012, Sudhir Jatia (previously MD with VIP industries) acquired 77 per cent stake in Safari Industries. Post this management change, company has observed broad restructuring in business and product portfolio. This has led to remarkable growth in revenue and PAT by 42 per cent CAGR and 46 per cent CAGR, respectively, over FY12-17. This has been accomplished by various product launches and upgradation of distribution networks.

**GST-led growth for organised players :** The Indian luggage industry is largely dominated by the unorganized sector (72 per cent). Whereas, organised sector (28 per cent) comprises of VIP, Samsonite and Safari. The reduction in GST rate from 28 per cent to 18 per cent has led to industry shifting towards organized players, which will benefit the company.

**Focus on strengthening acquired brands :** The company has acquired Genius and Genie in 2015 and to accelerate the growth of these brands, the company is focusing on campus gear targeted towards Teenagers & Young Adults Segment with foray into various categories like backpack and school bags. The brands have been re-launched with strategic intent of addressing all key segments of the fastest growing Short Haul segment. It also continues to develop its multi-brand strategy during the year with Genius & Magnum brands to operate at wider price points and broader consumer demographics in each category.

**Improved product mix :** The company continues its thrust on polycarbonate and backpack product categories by introducing exciting prints and design options in the polycarbonate range of products as consumers are becoming more perceptive for designs and prints. Further, it has launched a new and extensive range of backpacks with a significant upgradation both in terms of design language and price. The range was very well received in the markets across the channels and consumers.

**Enhanced presence in hypermarkets and e-commerce :** The company has improved its presence in hypermarkets with more than 50 exclusive retail stores. It has also grown significantly in e-commerce channel and further plans to introduce e-commerce enabled websites for campus gear (Genius brand) so that consumers can directly purchase their favourite products online. We see Hypermarket and e-commerce channels to continue to grow strongly mainly due to better and convenient shopping experience.

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\* HP : Holding Period

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DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR [service@dsj.in](mailto:service@dsj.in)

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSIJ INVESTMENT ADVISORY UNIT (CRU)

## Industry Development

The Indian luggage industry (Rs. 9,000 crore) has grown at 15 per cent CAGR over FY11-16. It is further likely to benefit from increasing air travel, increasing demand for hands-free and hassle-free luggage, changing lifestyle, rising urbanization and government's focus to promote tourism.

## Investing in the stock

The company has a share capital of Rs 4.15 crore with promoters' holdings at 57.80 per cent. Therefore, the available free float comes to 175.13 lakh shares. The two-week average traded quantity comes to around 5,878 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the chart.

Price	Accumulation
500-532	30%
470-500	25%
450-470	25%
<450	20%

## Financial Performance

During 9MFY18 period, the company's standalone revenue came in at Rs. 296 crore, registering 13.4 per cent YoY increase. EBITDA for 9MFY18 jumped by 53.4 per cent YoY to Rs. 27 crore with a corresponding margin expansion of 239 bps. EBITDA margin for 9MFY18 stood at 9.2 per cent. The PAT for 9MFY18 came in at Rs. 13 crore, YoY increase of 115.4 per cent. Looking at the recently concluded quarter, Q3FY18, we see that revenue jumped by 8.5 per cent to reach Rs.103 crore while EBITDA rose by 64 per cent to 12 crore. Further, net profit came in at Rs. 6.8 crore, up 118 per cent YoY.

## Valuation & Outlook

The company is trading at TTM P/E of 70.3x with TTM EPS of Rs. 7.6. We expect revenue to show traction led by improved and diversified product portfolio. Also, stable operating margins coupled with asset light model would drive the growth going forward. Also, with GST, the industry will be fueled with better growth opportunities and company will look to gain on in backpacks and polycarbonate product categories where good growth is expected as consumers upgrade from unbranded to branded products. Considering all the aspects, we see an upside of 50 per cent with a target price of Rs. 800 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201703	201603	201503	201403	201303
Net Sales	355.24	276.86	215.93	166.47	99.93
Total Income	356.34	277.65	216.51	167.05	100.65
Total Expenditure	332.19	258.25	203.61	159.38	95.92
PBIDT	24.15	19.40	12.90	7.67	4.73
PAT	9.72	7.80	4.27	0.12	-0.62
Dividend %	20.00	12.00	10.00		
Adj. EPS(Rs)	4.68	3.76	2.14	0.08	-0.42

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