

Safari Industries

BUY

Result beat; Upgrade to BUY

Summary

Safari Industries reported better than expected Q1FY22 result. Its sales/ EBIDTA were significantly above our estimates. Safari Industries' net sales increased by 5x YoY to Rs1,202 mn on a very weak base of Q1FY21. Even EBIDTA improved to Rs71 mn compared to loss in Q1FY21 and interest cost fell 49% YoY to Rs10 mn. Hence, net profit improved to Rs25 mn (loss of Rs193 mn in Q1FY21), but fell 60% QoQ as restriction in travel affected not only top-line but also logistics costs.

We raise our FY22/FY23 sales/EBITDA estimate by 23%/17% as we anticipate the improvement in travel and tourism which in turn should lead to higher luggage sales. Hence, our FY22/FY23 EBIDTA forecasts are higher by 34%/17%. We raise our target PER multiple to value Safari stock as we foresee market share gains, strong improvement in sales and higher profitability over coming two-three years. We now value the stock at a PER of 40x (earlier 32x) FY23 EPS to derive a target price of Rs888 (earlier Rs557) and upgrade the stock to a BUY from HOLD earlier.

Key Highlights and Investment Rationale

- Safari remains focused on cost cutting measures:** Although Q1FY22 was impacted by lockdowns across regions, Safari's sales fell only 10% QoQ. It likely gained market share in the quarter as per our channel checks. Although its EBIDTA fell 47% QoQ to Rs71 due to fall in sales, it reported a net profit of Rs25 mn in a quarter which was marred down due to severe restrictions in travel and tourism.
- Upgrade to BUY:** Over the past 4 quarters, Safari has continued to gain market share despite industry headwinds. Also, its cash management has been prudent in the past one year. We remain structurally positive on the growth prospects of luggage industry, although we believe near-term sales/earnings are likely to remain weak. We applaud management's ability to outperform industry sales growth and also cost cutting measures (including improving balance sheet). Hence, we upgrade the stock to a BUY from a HOLD earlier.

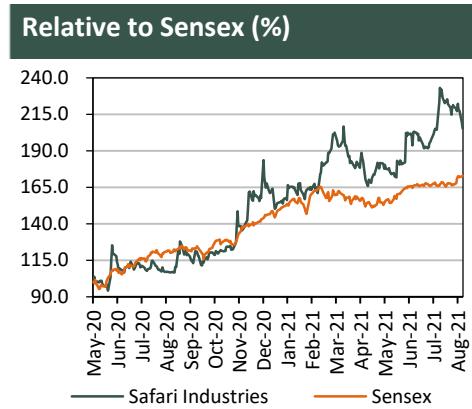
TP CMP	Rs888 Rs739
Potential upside / downside	+28%

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	5.4	13.2
Consensus	6.7	21.4
% difference	(19.4)	(38.2)

Shareholding Pattern (%)	
Promoters	50.4
FII	16.2
DII	2.0
Public	31.4

Price Performance (%)			
	-1m	-3m	-12m
Absolute	0.4	15.7	91.6
Rel to Sensex	(3.7)	5.6	48.7

Key Stock Data	
Bloomberg / Reuters	SII IN / SAFA.BO
Sector	Other Apparels & Accessories
Shares o/s (mn)	22
Market cap. (Rs mn)	15,487
Market cap. (US\$ mn)	208
3-m daily average value (Rs mn)	18.9
52-week high / low	Rs841 / 350
Sensex / Nifty	54,526 / 16,282



Financial snapshot (Rs mn)					
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	5,726	6,859	3,280	4,962	6,451
EBITDA	519	720	(59)	266	853
EBITDA (%)	9.1	10.5	(1.8)	5.4	13.2
Adj. PAT	270	307	(209)	37	495
EPS (Rs)	12.1	13.8	(9.4)	1.7	22.2
EPS Growth (%)	27.2	13.6	-	-	1,230.6
PE (x)	57.2	50.3	-	414.5	31.2
Dividend Yield (%)	0.1	0.1	-	0.1	0.1
EV/EBITDA (x)	31.7	22.5	(260.3)	58.2	18.1
RoE (%)	14.5	14.2	(8.2)	1.3	16.3
RoCE (%)	16.5	15.6	(8.2)	1.9	18.3

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot (Standalone)

Year-end: March	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	(Rs mn) YoY (%)
Net sales	1,202	1,329	(9.6)	201	497.3
Expenditure	1,130	1,195	(5.4)	392	188.5
EBITDA	71	134	(47.0)	-191	(137.3)
<i>EBITDA margin (%)</i>	5.9	10.1	-418bps	(94.8)	NA
Interest	10	7	56.2	20	(48.9)
Depreciation	45	47	(5.3)	53	(15.8)
PBT	35	84	(58.7)	(252)	NA
Tax	9	21	(56.2)	(59)	NA
Net income	25	63	(59.6)	(193)	NA
Diluted EPS (Rs)	1.1	2.8	(59.6)	(8.7)	NA

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

	Q1FY22E	Q1FY22A	Variance (%)
Net sales	320	1,202	275.7
EBTIDA	(101)	71	NA
Margin (%)	-31.6	5.9	38bps
Net profit	(112)	25	NA
Adj. diluted EPS (Rs)	(5.0)	1.1	NA

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	4,021	4,962	23.4	5,502	6,451	17.2
EBITDA (Rs mn)	199	266	33.7	731	853	16.7
EBITDA margin (%)	4.9	5.4	41bps	13.3	13.2	-6bps
Net profit (Rs mn)	-58	37	nm	395	495	25.3
EPS (Rs)	-2.6	1.7	nm	17.7	22.2	25.5

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	6,859	3,280	4,962	6,451
<i>Growth (%)</i>	19.8	(52.2)	51.3	30.0
Operating expenses	(6,139)	(3,339)	(4,696)	(5,598)
EBITDA	720	(59)	266	853
<i>Growth (%)</i>	38.6	-	-	220.5
Depreciation	(225)	(204)	(204)	(212)
EBIT	495	(264)	62	641
Interest paid	(102)	(58)	(22)	(25)
Other income	10	33	40	46
Pre-tax profit	402	(288)	80	662
Tax	(96)	80	(42)	(167)
<i>Effective tax rate (%)</i>	23.8	27.6	53.2	25.2
Minority interest	-	-	-	-
Net profit	307	(209)	37	495
Adjusted net profit	307	(209)	37	495
<i>Growth (%)</i>	13.6	(168.0)	(117.8)	1,230.6
<i>Shares o/s (mn)</i>	22	22	22	22

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	402	(288)	80	662
Depreciation	(225)	(204)	(204)	(212)
Tax paid	(111)	(8)	(42)	(167)
Chg in working capital	138	1,116	(241)	(355)
Other operating activities	261	61	(27)	(37)
Cash flow from operations (a)	776	925	(27)	314
Capital expenditure	(465)	(43)	(250)	(250)
Chg in investments	-	-	(34)	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(465)	(43)	(284)	(250)
Equity raised/(repaid)	0	0	(0)	-
Debt raised/(repaid)	(290)	(692)	100	-
Dividend (incl. tax)	(13)	-	(22)	(22)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(303)	(692)	78	(22)
Net chg in cash (a+b+c)	9	189	(234)	42

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net fixed assets	667	667	713	751	
Investments	1	1	35	35	
Other non-curr assets	105	498	209	224	
Current assets	3,259	2,796	2,940	3,531	
Inventories	1,600	1,140	1,088	1,396	
Sundry Debtors	1,475	906	1,020	1,237	
Cash and Bank	16	44	78	100	
Loans and advances	-	-	-	-	
Total assets	4,031	3,961	3,897	4,541	
Shareholders' funds	2,306	2,783	2,797	3,270	
Share capital	45	45	45	45	
Reserves & surplus	2,261	2,738	2,753	3,226	
Total Debt	746	53	153	153	
Secured loans	746	53	153	153	
Unsecured loans	-	-	-	-	
Other liabilities	256	315	315	315	
Curr Liab & prov	723	810	631	802	
Current liabilities	711	790	616	782	
Provisions	12	21	15	19	
Total liabilities	1,725	1,179	1,100	1,270	
Total equity & liabilities	4,031	3,961	3,897	4,541	
Book Value (Rs)	103	125	125	147	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	13.8	(9.4)	1.7	22.2
Adj. EPS growth (%)	13.6	-	-	1,230.6
EBITDA margin (%)	10.5	(1.8)	5.4	13.2
Pre-tax margin (%)	5.9	(8.8)	1.6	10.3
ROE (%)	14.2	(8.2)	1.3	16.3
ROCE (%)	15.6	(8.2)	1.9	18.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.7	0.8	1.3	1.5
Leverage factor (x)	1.8	1.6	1.4	1.4
Net margin (%)	4.5	(6.4)	0.7	7.7
Net Debt/Equity (x)	0.3	0.0	0.0	0.0
Working Capital & Liquidity ratio				
Inventory days	85	127	80	79
Receivable days	78	101	75	70
Payable days	36	76	41	45

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	50.3	-	414.5	31.2
Price / Book value (x)	6.7	5.5	5.5	4.7
PCE (x)	29.0	-	64.0	21.8
EV / Net sales (x)	2.4	4.7	3.1	2.4
EV / EBITDA (x)	22.5	-	58.2	18.1
Dividend Yield (%)	0.1	-	0.1	0.1



Notes

Dealing

(91-22) 6836 1111

dealing@idbic平.资本.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbic平.资本.com

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