

Channel Check Update

June 13, 2023

Safari Industries (India) (SII IN)

Rating: BUY | CMP: Rs2,884 | TP: Rs3,202

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	7,057	12,120	14,363	16,816
EBITDA (Rs. m)	552	1,969	2,456	2,892
Margin (%)	7.8	16.2	17.1	17.2
PAT (Rs. m)	316	1,251	1,583	1,898
EPS (Rs.)	14.1	52.8	66.8	80.0
Gr. (%)	NA	273.2	26.6	19.9
DPS (Rs.)	0.8	3.5	4.0	4.0
Yield (%)	0.0	0.1	0.1	0.1
RoE (%)	10.9	34.4	31.7	28.6
RoCE (%)	10.4	35.5	32.6	30.9
EV/Sales (x)	9.1	5.7	4.8	4.0
EV/EBITDA (x)	116.9	35.0	27.8	23.3
PE (x)	204.0	54.7	43.2	36.0
P/BV (x)	21.5	16.1	11.9	9.1

V.I.P. Industries (VIP IN)

Rating: BUY | CMP: Rs621 | TP: Rs913

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	12,895	20,823	23,343	26,419
EBITDA (Rs. m)	1,444	3,138	4,062	4,914
Margin (%)	11.2	15.1	17.4	18.6
PAT (Rs. m)	669	1,846	2,513	3,153
EPS (Rs.)	4.7	13.0	17.7	22.3
Gr. (%)	NA	175.3	36.1	25.5
DPS (Rs.)	2.5	4.5	4.5	4.5
Yield (%)	0.4	0.7	0.7	0.7
RoE (%)	12.4	30.7	34.2	33.0
RoCE (%)	8.6	25.9	30.0	31.5
EV/Sales (x)	7.0	4.4	3.9	3.4
EV/EBITDA (x)	62.4	29.0	22.4	18.3
PE (x)	131.2	47.6	35.0	27.9
P/BV (x)	15.7	13.7	10.6	8.1

Offers galore but secondary sales under scanner

We interacted with dealers/distributors and visited a few stores to understand demand trends in the luggage sector. Our checks revealed 1) VIP is most aggressive in rolling out promotional offers 2) there is a flurry of new launches by all 3 brands and 3) secondary sales have slowed down a bit in May. Industry tilt towards hard luggage (HL) was clearly evident in shelf space display across channels, while Samsonite's turn-around time for rolling out new designs and refilling inventory was better than other two players. Further, our conversation with floor representatives in modern trade outlets indicate sharp uptick in sales of Safari. Overall, we maintain our estimates and retain BUY on VIP/Safari with a TP of Rs913 (earlier Rs900)/Rs3,202 (earlier Rs2,790) respectively as we roll forward to FY25E.

Offers galore; VIP leads the way: 1Q being a peak season for luggage companies, quite a few exciting offers were in place. We came across following offers during our store visits: -

- VIP offered to exchange old luggage for a new one with an additional discount of Rs2,000.
- VIP also offered concession on flight tickets to select destinations, if the bill amount exceeded Rs7,000.
- La Opala's dinner set was offered for free on purchase of select models of Skybags and VIP.
- Dinner voucher was given on purchases above Rs5,000 (VIP, Skybags or Aristocrat brands) in the Smart-Bazaar store we visited.

Our checks reveal VIP had highest number of offers (beyond the usual discount that is offered to promote sales) on the floor. We believe this could be in quest to gain market share, as in 4QFY23 VIP's sales growth of 44.7% over 4QFY20 (pre-COVID base) was lowest amongst peers.

Flurry of new launches: We came across quite a few new launches across brands. Some of the fresh products that we encountered include 1) mint model of Safari 2) Caprese luggage (limited options though) 3) Beamix from Samsonite which had a fingerprint scanner 4) Samsonite ECO 5) printed models in Skybags and 6) Carlton Hampshire & Vault. Typically, new products are launched in 1Q to capitalize on wedding/travel/school re-opening season and our interaction with store manager reveals response to freshly launched products was good.

Secondary sales witnessing some slowdown: Our interaction with channel partners and store managers revealed uptick in sales slowed down a bit in May. This can have an impact on primary sales in June and 2QFY24E.

Handbags category has also witnessed quite a few new launches: We witnessed new arrivals on the shelf in our visits to EBOs of Lavie, ESBEDA, Baggit and Hidesign. Lavie's recently launched product, Lavie LUXE, has received good response while for ESBEDA new arrival is in the range of Rs2,980-Rs4,880. Further, new collection "Malasana" from Hidesign also received good response, as per our checks.

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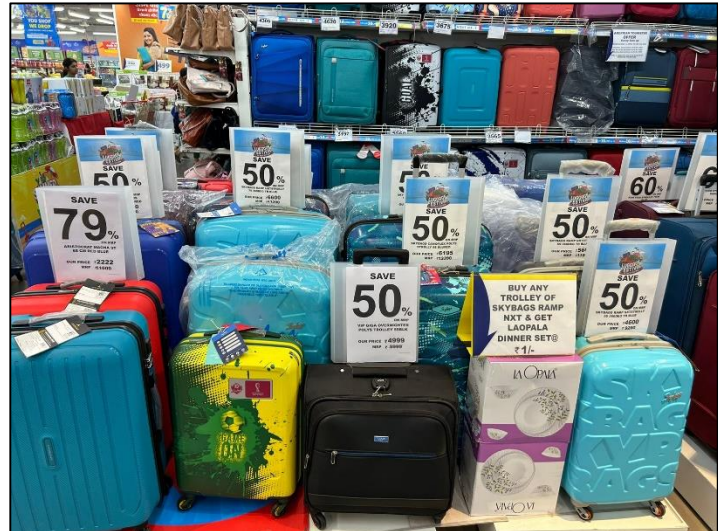
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Key highlights and our view from channel checks

- Turnaround time for fresh product arrival is best for American Tourister.
 - **View:** It indicates that Samsonite has strong design team and ability to churn products is also faster.
- Monthly sales of Smart Bazaar store that we visited was ~Rs4-4.5mn. Sales of American Tourister was highest in this store followed by Safari and VIP.
 - **View:** Safari having a higher share in sales mix than VIP indicates improved product acceptance of the brand.
- Sales of Genie in Safari EBO was receiving good response and 60% discount was on offer.
 - **View:** Safari had launched a separate D2C website for Genie sometime back and improved traction is an indication that product is being well-received.
- Most products that we witnessed had 'Made in India/Bangladesh' tag.
 - **View:** VIP and Safari have been highlighting that reliance on China is coming down due to rising self-sufficiency in own manufacturing.
- Business of VIP EBO that we visited had recovered to pre-COVID levels.
 - **View:** Sales in EBOs have been gaining traction and hence VIP may have decided to expand aggressively via this route. Target is to reach 800 EBOs in FY24E (500 mark was breached in FY23).
- American Tourister was offering discount of Rs350/Rs500/Rs800 on purchases above Rs5,499/Rs6,999/Rs9,999 respectively. Discounts on new arrivals were also visible.
 - **View:** Typically, Samsonite does not offer any discounts (beyond the usual one which is in the range of ~40-50% that all 3 players offer 365 days a year) and perhaps the offer was to push 1Q sales.
- Smart Bazaar ran a luggage festival from 01st April to 31st May.
 - **View:** The festival offered special discounts/offers (refer to "Offers galore" section highlighted earlier in the report) beyond the usual one to promote sales.
- **Observations from visiting IT bags EBO:** Bags were priced higher than VIP and a flat 50% discount was available. All products had 5 years' warranty and most of them had TSA locks and had 'Made in China' tags.
- **Safari launches a separate D2C portal for Urban Jungle:** Safari has launched a separate D2C website for its premium product "Urban Jungle". It has a TSA approved lock and offers 5 years' warranty. We believe this will improve brand visibility and promote sales of the product.

Snapshot of our channel check visit

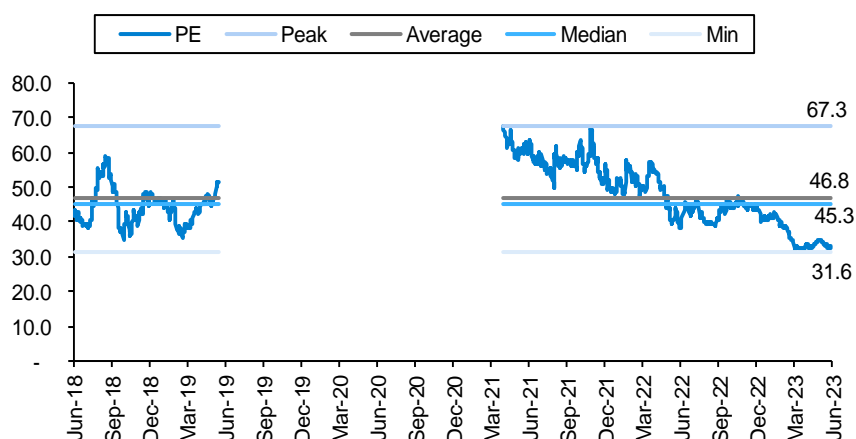


Outlook and valuation

VIP Industries: We cut our target multiple to 41x (earlier 45x) as we roll forward our valuation to FY25E coupled with rising concerns over sustenance in market share. In 4QFY23, VIP's top-line growth of 44.7% over pre-COVID base was lowest when compared with Samsonite India (108.1% growth on constant currency basis) and Safari Industries (109.6% growth).

Nonetheless, we retain 'BUY' on the stock with a TP of Rs913 as we believe 1) current valuations at 35x/28x FY24E/FY25E EPS are attractive given expectation of strong growth (sales/PAT CAGR of 13%/31% over FY23-FY25E) 2) corrective action has been taken to improve market share in fastest growing e-com channel by hiring BCG and 3) aggressive capacity expansion is in place (Rs2bn of capex lined up in FY24E) which is further expected to increase self-sufficiency in own manufacturing and boost GM.

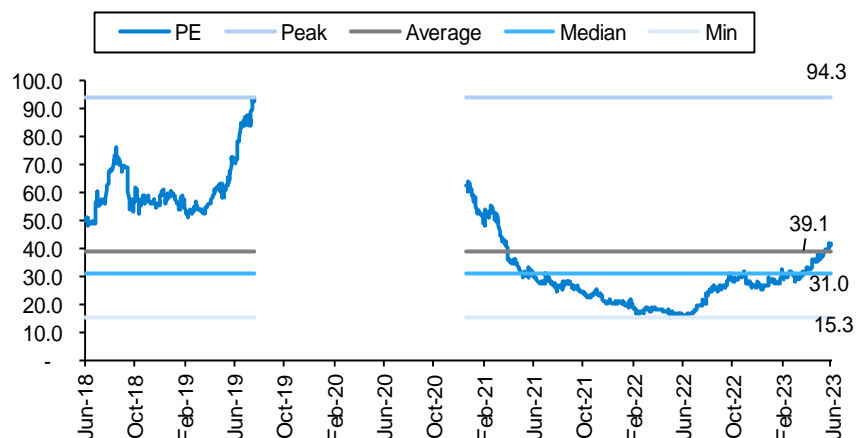
Exhibit 1: VIP has traded at average P/E multiple of 47x over last 5 years



Source: Company, PL

Safari Industries: We increase our target multiple to 40x (earlier 38x) which is broadly in-line with 5-year average and roll forward our valuation to FY25E with a revised TP of Rs3,202. Plans to expand manufacturing capacity by 1.25 lac pieces per month and a full-fledged entry into premium segment will elevate GM profile and act as key re-rating lever.

Exhibit 2: Safari has traded at average P/E multiple of 39x over last 5 years



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	504	401
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	679	644
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,565	2,257
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	152	113
8	Nazara Technologies	BUY	804	566
9	PVR Inox	BUY	1,879	1,435
10	S Chand and Company	BUY	257	192
11	Safari Industries (India)	BUY	2,790	2,415
12	V.I.P. Industries	BUY	900	623
13	Zee Entertainment Enterprises	BUY	240	179

PL's Recommendation Nomenclature

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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