

Rating Rationale

December 06, 2023 | Mumbai

Safari Industries India Limited

Long-term rating upgraded to 'CRISIL A+/Stable'; short-term rating reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Long Term Rating	CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')
Short Term Rating	CRISIL A1 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long term bank loan facilities of Safari Industries India Limited (SIIL; part of the Safari group) to "CRISIL A+/Stable" from "CRISIL A/Stable". Short term rating has been reaffirmed at "CRISIL A1".

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The rating upgrade reflects a sharp improvement in business risk profile of the group while maintaining its robust financial risk profile. Sustenance of improved business risk profile will remain key monitorable

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Improvement in business risk profile is marked by sharp growth in revenue at higher-than-expected operating margin. Revenue growth is backed by increasing demand and group gaining market share in organized segment of luggage industry. Revenue improved to Rs 796 crore in the first half of fiscal 2024 against Rs 608 crore a year before, registering 31% growth. Revenue is expected to further grow over the medium term, supported by pent up demand from wedding segment, increase in air traffic, and expected higher spending on travel and tourism during fiscal 2024. Furthermore, increasing contribution from the manufacturing segment (hard luggage) with sustained shift in consumer preference towards hard luggage has resulted in improved operating margin. Operating margin improved to 17.88% in first half of fiscal 2024 (as against operating margins of 13.75% a year before).

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The ratings continue to reflect an established market position in the Indian luggage industry and a strong financial risk profile. These strengths are partially offset by working capital-intensive operations and exposure to volatility in raw material prices and foreign exchange (forex) rates.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of Safari and its fully owned subsidiaries, Safari Lifestyles Ltd (SLL) and Safari Manufacturing Limited (SML). This is because these companies, together referred to as Safari, are in the same line of business with operational synergies and have a common management

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established brand in the luggage industry: The organized Indian luggage industry is oligopolistic in nature. Safari is among the largest luggage brands domestically. A pan India distribution network, comprising over 100 plus company owned company operated outlets and an established product portfolio, further strengthen its market position. The group continues to launch 3-4 stores per month, aiming to cater to premium as well as mass scale segments.

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Strong financial risk profile: The net worth was healthy at Rs 425.29 crore as on March 31, 2023, (Rs 300.51 crore as on March 31, 2022). The total outside liabilities to adjusted net worth ratio improved to 0.75 times as on March 31st, 2023. The financial risk profile is expected to remain strong, backed by healthy accrual. Credit metrics also remained healthy, over the medium term.

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Weakness:

Exposure to volatility in raw material prices and forex rates: Profitability is susceptible to prices of imported soft luggage and raw materials, which account for 55-60% of operating cost. Any sharp fluctuation is likely to impact the operating margin. Around 45-50% of the soft luggage is imported against nil exports. While forex exposure is mitigated through forward contracts, profitability continues to be susceptible to volatility in forex rates.

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Working capital-intensive operations: Gross current assets (GCAs) were moderate at 163 days, driven by debtors and inventory of 51 days and 80 days, respectively, as on March 31, 2023. While debtors are moderated to 60-90 days, inventory is likely to remain around 80 days over the medium term. The improvement in inventory is backed by lower import of luggage from China and higher revenue contribution from hard luggage, which is manufactured in India and has lower inventory levels. Overall working capital levels are expected to remain around 150 to 160 days over the medium term

Liquidity: Strong

Bank limit utilization is low at around 30.93 percent for the past twelve months ended June 2023. Company expected to generate healthy cash accruals. In addition, it will act as a cushion to the liquidity of the

company. Current ratio is healthy at 2.23 times on March 31, 2023. High cash and cash equivalents of around Rs 100 crore as on Sept 30, 2023. Low gearing and moderate net worth support its financial flexibility and provides the financial cushion available in case of any adverse conditions or downturn in the business.

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ESG Profile

CRISIL Ratings believes Safari Industries Limited Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

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Safari Industries Limited has continuously focused on mitigating its environmental and social risks.

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Key ESG highlights

• The greenhouse gas (GHG) emissions intensity has reduced from 0.67 tCO₂/revenue in 2022 to 0.57 tCO₂/revenue in 2023.

• The total waste generation has reduced from 1.06 tonnes/ revenue in 2022 to 0.62tonnes/revenue in 2023. The Company has started manufacturing hard luggage by using polypropylene and polycarbonate material which is 100% recyclable.

• Companies' governance profile is marked by 90% of its board comprising independent directors, and presence of robust internal control systems and processes. It also has extensive disclosures.

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There is growing importance of ESG among investors and lenders. The commitment of Safari to ESG principles will play a key role in enhancing stakeholder confidence and access to capital markets

Outlook: Stable

CRISIL Ratings believes that the business risk profile of Safari group is expected to be benefited by a strong distribution network and robust positioning in the mid- to lower-segment of the market.

Rating Sensitivity Factors

Upward Factors:

- Sustained growth in revenue while maintaining operating margin and market share leading to net cash accruals above Rs.170 Crores (Prelease level)
- Improvement in working capital cycle and low reliance on external debt sustains healthy financial risk profile

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Downward Factors:

- Subdued revenue growth and operating margins sustained below 10%, constrains overall business risk profile
- Stretch in working capital cycle or large debt funded capex/acquisition weakens the financial risk profile

About the Group

Safari was incorporated in 1980 by Mr. Mehta and family. The company was taken over by Mr. Sudhir Jatia in 2012. It manufactures and sells luggage under the brand, Safari. The manufacturing unit is in Halol, Gujarat. Safari is listed on both Bombay Stock Exchange and National Stock Exchange

Key Financial Indicators (Consolidated)

As on/for the period ended March 31	Unit	H1FY24	2023	2022
Operating income	Rs.Crore	796.7	1,212.94	705.9
Reported profit after tax	Rs.Crore	114.88	125.06	22.22
PAT margins	%	14.41	10.31	3.15
Adjusted Debt/Adjusted Networth	Times	0.06	0.14	0.04
Interest coverage	Times	30.63	24.82	11.47

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Any other information:À Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -À Details of Instrument'À in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Levels	Rating assigned with outlook
NA	Fund-Based Facilities	NA	NA	NA	23.8	NA	CRISIL A+/Stable
NA	Non-Fund Based Limit*	NA	NA	NA	27.5	NA	CRISIL A1
NA	Fund-Based Facilities*	NA	NA	NA	98.7	NA	CRISIL A+/Stable

*Fully fungible between fund based and non-fund based facilities

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Safari Industries India Limited	Full Consolidation	Parent company, in the same line of business with operational synergies, and have a common management.
		Parent company, in the same line of

Safari Lifestyles Limited	Full Consolidation	business with operational synergies, and have a common management.
Safari Manufacturing Limited	Full Consolidation	Parent company, in the same line of business with operational synergies, and have a common management.

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	122.5	CRISIL A+/Stable	Â	--	07-09-22	CRISIL A/Stable	03-06-21	CRISIL A-/Stable	31-03-20	CRISIL A-/Stable	CRISIL A-/Positive
Â	Â	Â	--	Â	--	21-01-22	CRISIL A-/Positive	29-04-21	CRISIL A-/Stable	Â	--	CRISIL A-/Positive
Non-Fund Based Facilities	ST	27.5	CRISIL A1	Â	--	07-09-22	CRISIL A1	03-06-21	CRISIL A2+	31-03-20	CRISIL A2+	CRISIL A2+
Â	Â	Â	--	Â	--	21-01-22	CRISIL A2+	29-04-21	CRISIL A2+	Â	--	--

All amounts are in Rs.Cr.

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Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities*	40.1	Citibank N. A.	CRISIL A+/Stable
Fund-Based Facilities*	33.6	HDFC Bank Limited	CRISIL A+/Stable
Fund-Based Facilities*	25	IndusInd Bank Limited	CRISIL A+/Stable
Fund-Based Facilities	23.8	Axis Bank Limited	CRISIL A+/Stable
Non-Fund Based Limit*	27.5	Axis Bank Limited	CRISIL A1

*Fully fungible between fund based and non-fund based facilities

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation
Understanding CRISILs Ratings and Rating Scales

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