

SAFARI INDUSTRIES: SHEDDING THE BAGGAGE



Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the 16th volume of this series we have chosen **Safari Industries – Shedding the Baggage?**

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network, displacing conventional wisdom or technology.

This note takes a closer look at how Safari Industries has disrupted the Indian luggage Industry over the past decade and probable challenges it may face during its evolutionary phase, especially in a challenging and competitive environment.

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Safari Industries: Shedding the Baggage!

Safari Industries started as a partnership firm in 1974 to manufacture plastic moulded luggage. Promoted by Sumatichandra H. Mehta, it was converted into a public limited company in 1986. In 2011, Sudhir Jatia (ex-MD of VIP Industries) acquired a 56.55% stake in Safari Industries for Rs. 29Cr. He further joined the company in 2012 and further increased his stake to 77%.

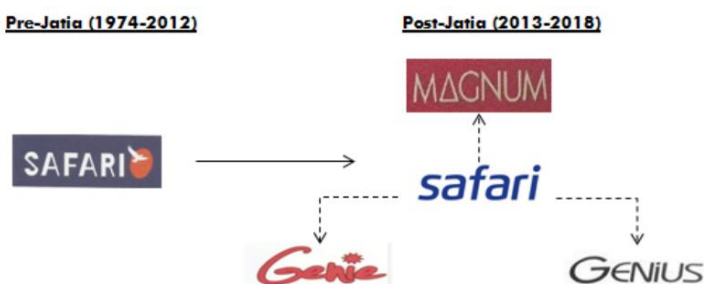
By 2012 the Indian luggage industry had consolidated into a duopoly with VIP and Samsonite dominating the industry. Post FY 2012, the change in management in Safari has transformed the company from a relatively undistinguished player to a resolute challenger. This change has resulted in the Indian luggage industry transmuting from a duopoly to oligopoly.

Change in management and the company's fortunes

Prior to its takeover by Mr. Jatia, Safari was continuously losing market share to VIP, Samsonite and un-organized players. This was primarily due to -

1. Product portfolio not catering to evolving consumer needs.
2. Lower focus on brand building with ad spends at ~1% of revenue.
3. Stronger execution across segments by VIP & Samsonite.

Exhibit 1: Safari's evolution Pre and Post takeover by Mr. Jatia



Source: Ambit Asset Management, Company.

Post-Takeover, Sudhir Jatia transformed the fortunes by focusing on

1. **Optimization of SKUs** – Sudhir Jatia leveraged his expertise in product design and was quick in identifying evolving trends especially in the hard luggage segment. He introduced new SKU's in hard luggage and also eliminated non-performing SKUs like polypropylene based framed luggage. He entered into newer categories such as backpacks, laptop bags and school bags which helped it expand its addressable market.

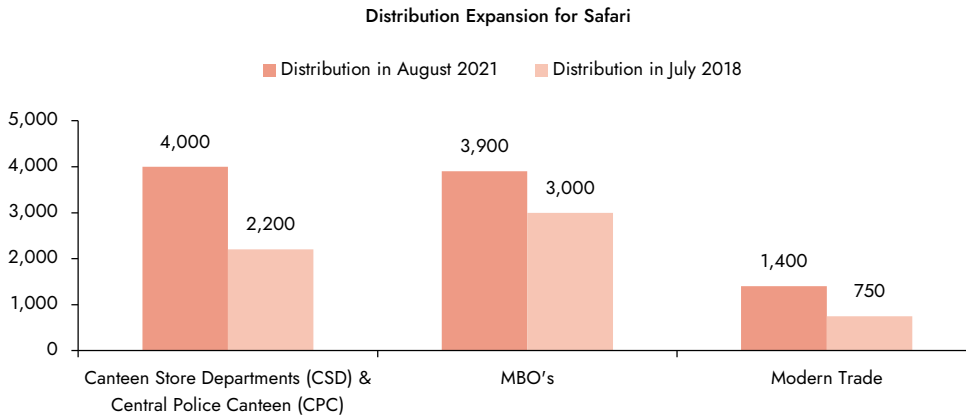
Today, Safari has >800 SKU's across all product categories.

2. **Strengthening the distribution channel** – Mr. Sudhir Jatia was the MD of Blowplast (marketing and distribution arm of VIP Industries) before its eventual merger with VIP, signalling his forte in marketing and distribution. The focus was shifted on growing distribution channel across Canteen Store Departments (CSD) and Central Police Canteen (CPC), Multi-brand outlets (MBO) and Modern Trade.

The company has continued to grow customer touch points from ~5,950 in 2018 to ~9,300 in August 2021 (**Refer Exhibit 2**).

The company has also been coherent in implementing its e-commerce strategy and has a robust presence across all major e-commerce platforms.

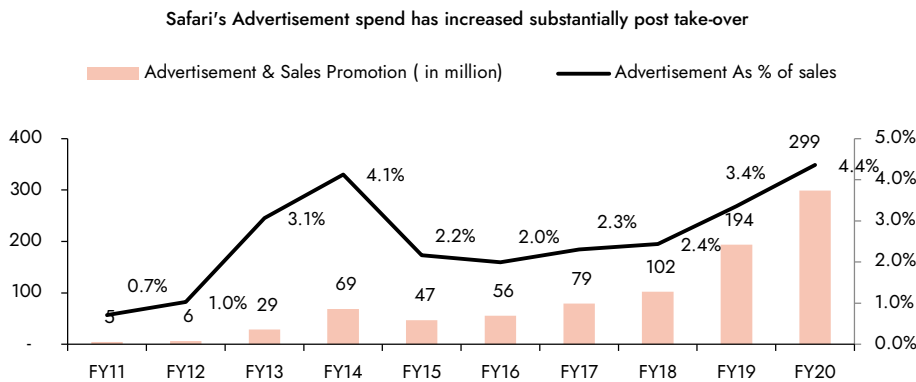
Exhibit 2: Distribution expansion from 5,950 outlets to 9,300 outlets in ~3 years



Source: Ambit Asset Management, Company. 2018 data does not include number of CPC

- 3. Branding, Marketing and Quality control** – While Safari as a brand has been in existence for quite some time, its visibility only improved post 2012
- a. **Operating in the underpenetrated economy segment** – The decision to operate in the economy segment has helped Safari differentiate itself from the Top-2 players and create a niche segment.
 - b. **No Questions Asked replacement policy** – Safari, under Mr. Jatia, introduced a policy of replacing old, damaged luggage within 5 years which further strengthened its brand image.
 - c. **'Har Safar Safari'** – It partnered with Ogilvy India and for the first time advertised in TV Commercials with the tagline "Har Safar Safari". The company has also increased its marketing spends to ~3-4% vis a vis ~1% pre-takeover which has resulted in better brand recall (**Refer to Exhibit 3**).

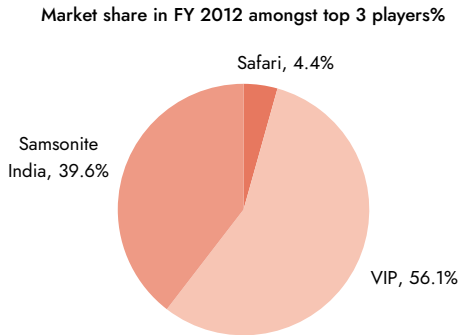
Exhibit 3: Distribution expansion coupled with ad spend increased has resulted in Safari growing faster than the industry



Source: Ambit Asset Management, Company

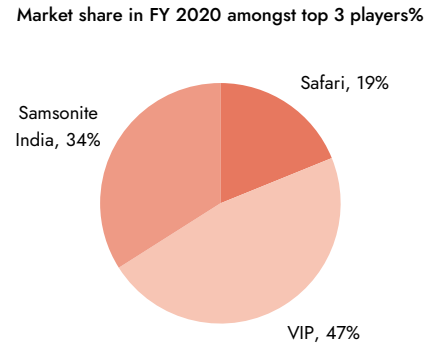
On the back of above initiatives, Safari grew at a much faster pace (35% CAGR over FY 12-20) gaining market share from VIP Industries (10% CAGR) and Samsonite India (10% CAGR) **(Refer Exhibit 4 & 5)**

Exhibit 4: Safari has moved from a distant player in 2012



Source: Ambit Asset Management, Company. Samsonite revenues are for CY 2011 and USD-INR rate considered is 51.

Exhibit 5: To a sizable player gaining market share from top 2 players



Source: Ambit Asset Management, Company. Samsonite India's revenues are for CY 2019 and USD-INR rate considered is 71.

Safari has continued the market share gain and the company currently has ~20-22% market share.

Disruption Points:

1. Dependence on single brand –

- a. **Straddling the Pyramid** – A company’s presence across various categories and different price points is a strategy to straddle the pyramid – meaning they have products at the top, middle and at the bottom end thereby expanding the addressable market.

For example – HUL straddles the pyramid across categories and price points as seen in Soaps (Lifebuoy, Lux, Pears) and Detergents (Wheel, Rin, Surf Excel)

A similar strategy has been adopted by Samsonite and VIP where these companies have acquired or incubated brands to cater to different categories and price points **(Refer Exhibit 6, 7, 11 and 12)**.

Exhibit 6 : Samsonite has acquired a number of companies to expand its product portfolio

Samsonite				
Brands	In-House / Acquired	Positioning	Location	Competition in India
Samsonite	In-House	Luxury	Global	Carlton
American Tourister	Acquired in 1993	Premium	Global	VIP, Skybags, Safari
Tumi	Acquired in 2016	Ultra-Luxury	Global	N.A.
Kamiliant	In-House	Economy	Asia	Safari, Aristocrat
High Sierra	Acquired in 2012	Premium- Casual Bags	North America	N.A.
eBags	Acquired in 2017	Online-retailer of Handbags	N.A.	N.A.
Lipault	Acquired in 2014	Premium	Europe	N.A.
Hartmann	Acquired in 2012	Luxury	US and Europe	N.A.
Xtrem	In-House	Economy - Casual bag	Chile	N.A.
Gregory	Acquired in 2014	Luxury - Casual Bags	North America	N.A.

Source: Ambit Asset Management, Company

Exhibit 7: VIP Industries has followed a similar strategy and introduced brands across segments

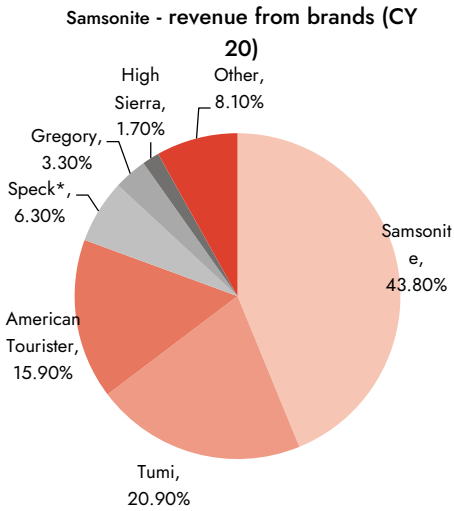
VIP Industries			
Brands	In-House / Acquired	Positioning	Competition in India
Alfa	In-House brand launched in 1989	Economy	Safari, Kamiliant
Aristocrat	Merged in 2007	Economy	Safari, Kamiliant
VIP	In-House	Premium	American Tourister, Safari
Skybags	In-house, re-launched in 2012	Premium	American Tourister, Safari
Caprese	In-house brand launched in 2012	Premium hand-bags & accessories for women	N.A.
Carlton	Acquired in 2004	Luxury	Samsonite

Source: Ambit Asset Management, Company

Globally, majority of Samsonite’s revenues come from its 3 power-house brands – Samsonite, Tumi and American Tourister (~80% of revenue) – with other brands like Gregory, High Sierra and Speck contributing the risk. **(Refer Exhibit 8)**.

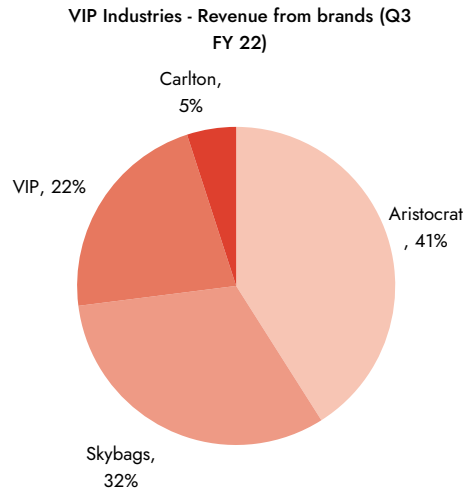
Similarly, VIP Industries has 3 major brands (Aristocrat, Skybags, and VIP) which bring in ~95% of revenue **(Refer Exhibit 9)**.

Exhibit 8: Samsonite has built 3 powerhouse brands across segments



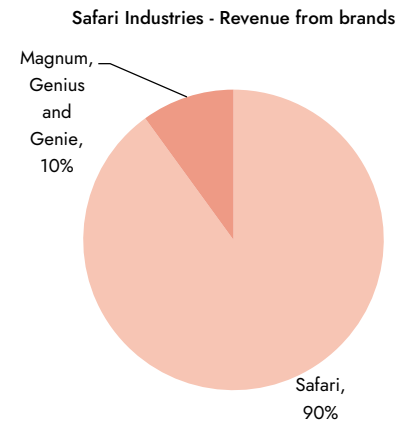
Source: Ambit Asset Management, Company. *Speck was sold by Samsonite in 2021

Exhibit 9: VIP Industries has followed a similar strategy



Source: Ambit Asset Management, Company

Exhibit 10: Safari brand drives majority of revenue



Source: Ambit Asset Management Estimates, Company

Safari Industries, via its flagship brand 'Safari' has successfully created a strong, reputable brand in the economy segment competing primarily with Kamiliant (Samsonite) and Aristocrat (VIP). However, it has a limited presence in the premium segment (**Refer Exhibit 11 and 12**). In order to become a dominant player in the industry and for playing across the board, it may need to incubate, acquire or grow its other brands.

Exhibit 11: Safari primarily competes in the Economy segment

SKU	Brand	Company	Segment	Price (INR)
Unorganized players / brands			Mass	~2,600
KAM Kiza	Kamiliant	Samsonite	Economy	2,799
Ray	Safari	Safari	Economy	2,999
Sienna	Aristocrat	VIP	Economy	2,999
Trooper	Skybags	VIP	Premium	3,899
Vibe	Safari	Safari	Premium	3,950
Georgia	American Tourister	Samsonite	Premium	3,999
Zapper	VIP	VIP	Premium	6,450
Edge Dual	Carlton	VIP	Luxury	7,995
Enwrap	Samsonite	Samsonite	Luxury	14,500
Navy 19	Tumi	Samsonite	Ultra-Luxury	68,900

Source: Ambit Asset Management, Amazon.in, Company website. The prices are for 65-70 cm Hard Luggage.

Exhibit 12: Brand Positioning with respect to price

Segments	Brands	Price range (INR)
Mass	Unorganized	~2,600
Economy	Safari	~2,800-3,500
Economy	Aristocrat	~2,800-3,500
Economy	Kamiliant	~2,800-3,500
Premium	Safari	~3,500-7,000
Premium	Skybags	~3,500-7,000
Premium	American Tourister	~3,500-7,000
Premium	VIP	~3,500-7,000
Luxury	Carlton	>7,000
Luxury	Samsonite	>7,000

Source: Ambit Asset Management, Amazon.in, Company website. The prices are for 65-70 cm Hard Luggage.

In 2015, Safari acquired various brands of Genius Leathercraft Pvt Ltd such as Genius, Magnum, Activa, Orthofit, DBH, Egonauts, Gscape and Genie. While the Magnum brand which was used to fill the gap in the lower end segment has been used sparingly, the company has utilized Genius (Boys) and Genie (Girls) well to expand in the school backpack segment.

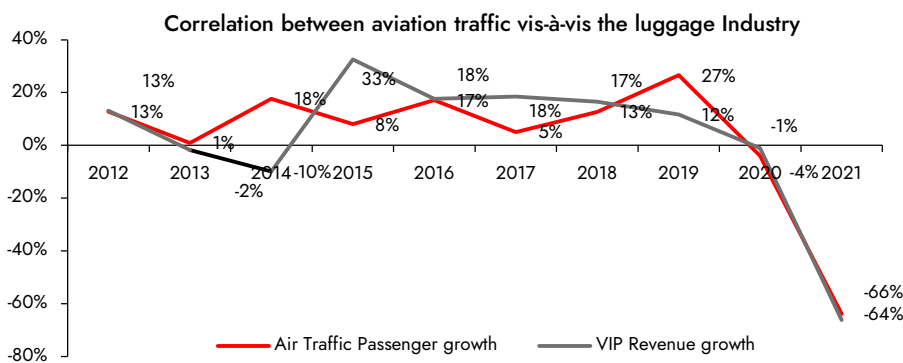
This signals the intention of the company to evolve from a single brand to a multi-brand company.

2. Dependence on air travel and exogenous factors—

Air travel – Air travel and tourism contribute to a large part of luggage industry growth. Any new and more lethal variant of Covid-19 continues to pose a risk on the recovery of the luggage industry. The impact of pro-longed Covid-19 restrictions poses a risk of demand destruction rather than demand deferment.

A prolonged increase in oil price may result in weaker demand for both aviation and the luggage industry. Increase in oil prices may compel airlines to pass on the increased cost resulting in higher cost of air travel which can be detrimental to demand (Refer Exhibit 13).

Exhibit 13: Air Passenger Traffic and VIP revenues both have grown at a 10% CAGR (FY12-20)



Source: Ambit Asset Management, IBEF, Airports Authority of India, Association of private airport operator, Company

Exogenous Factors –

The travel industry is highly vulnerable to exogenous events, given the discretionary nature of that spend. As a result, any major domestic / global event such as geo-political stress, economic depression, conflicts etc. can impact the travel industry, and subsequently the luggage demand. A large part of demand in luggage industry is also driven by marriage, festival, office and school demand which is semi-cyclical/seasonal in nature.

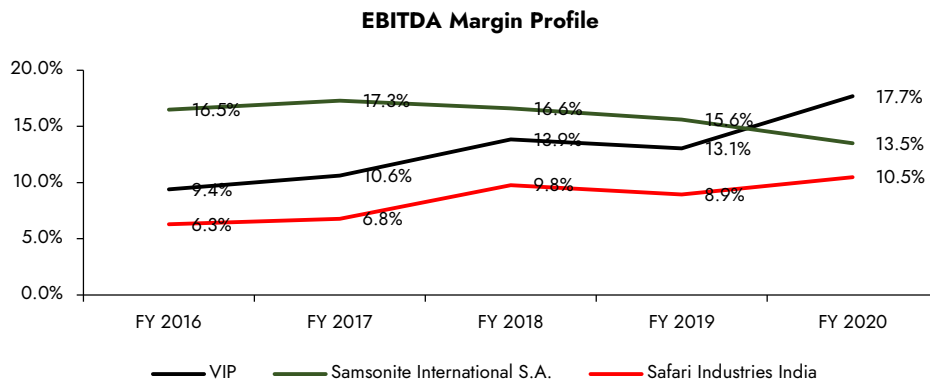
While the third wave seems to mark the tail end of the pandemic, one cannot rule out further waves of Covid-19 along with other domestic and external factors which may impact travel and luggage demand.

3. Scale and size of operations -

Safari Industries competes with Samsonite (the world’s largest) and VIP Industries (India’s largest). While Safari has been garnering revenue market share by targeting the mass and economy segment, the scale and size of operations of the competition is much larger providing operational efficiency and better profitability (Refer Exhibit 14).

For example, in the soft luggage segment, VIP industries had the resources to set up a plant in Bangladesh in order to de-risk their supply chain from China while maintaining quality and cost. Safari Industries, on the other hand, does not have the scale yet to set-up a manufacturing plant and instead sources from a vendor in Bangladesh.

Exhibit 14: While Safari has been garnering revenue market share it still trails in profitability market share



Source: Ambit Asset Management, Company. Samsonite Margin profile is for C.Y 2015-2019

The management of Safari has recognized the risk and has taken several steps such as doubling the manufacturing capacity at Halol plant for hard luggage along with switching to Polypropylene based luggage from Polycarbonate due to price differential.

Hard Luggage is growing faster than soft luggage and now accounts over >50% of Safari's revenue. This should also result in better operating margins going forward.

- 4. Capital Allocation risk** – A key risk for Safari Industries is capital allocation due to its relatively smaller scale and size. The relative size of peers give them an edge over Safari in terms of resources to strengthen their innovation, technology, distribution network, marketing and capital expenditure which may make it difficult for Safari to garner market share in newer segments.

As Safari grows as a brand, it may also need to address a larger market in terms of entering newer categories, catering to a more premium customer, improving brand reach and moving into adjacencies like travel accessories.

The competitive intensity across segments and categories is also different and Safari has to be cautious when entering the space in order to not misallocate capital.
- 5. E-commerce and technology risk** – Safari has been very successful in implementing e-commerce strategy with Safari's bags having great visibility in the luggage and backpacks segment. However, E-commerce market is an ever-evolving market with limited restrictions to entry. Amazon via Amazon Basics have been trying to get a piece of the luggage industry albeit unsuccessfully so far (Exhibit 16), however any material change in e-commerce strategy via deeper pocketed players can possess risks to e-commerce sales.

Traditional industries have been transformed especially in watches (smart watches) and earphones (earpods). The luggage industry, too, is seeing some adoption of 'smart' luggage. Smart luggage built in with electronics like USB, built in weighing scale, GPS tracking, code protected-locks and other functionalities (Exhibit: 15). Faster technology adoption along with newer trends may disrupt traditional luggage, if they are unable to adapt to the ever-changing landscape.

Exhibit 15: Mokobara Ocean Sunray with In-built USB socket



Source: Ambit Asset Management, Amazon.in

Exhibit 16: Amazon Basics Navy Blue 68 cm check-in Trolley



Source: Ambit Asset Management, Amazon.in

6. **Key Man risk** – Sudhir Jatia being one of the most experienced people in luggage industry and having over 3 decades of experience across Aristocrat, VIP and Safari has been crucial for the turnaround in the fortunes of Safari. Safari’s future growth prospect therefore is highly dependent on Sudhir Jatia.

To mitigate the risk, Safari over the past few years has hired talent and built a strong top management team to further strengthen the corporate structure (Exhibit: 17).

Exhibit 17: Safari’s top management team

Name	Position	Past Experience	Experience in Safari
Vineet Poddar	CFO	Bombay Dyeing	~5 years
Pushkar Jain	Chief Marketing Officer	Pidilite, Akzo Nobel, Tata Docoo	~4 years
Sonali Majumdar	CHRO	Bennett, Coleman and co.	~4 years
Manoj Ghorpade	Head of Manufacturing	Essel Propack	~1 year
Parmod Aggarwal	VP Sales - Hyper Retail	N.A.	~9 years
Paritosh Sinha	VP Sales - Schoolbags	VIP Industries , JACPL	~5 years

Source: Ambit Asset Management, Company

CONCLUSION

Safari has positioned itself favourably in the economy segment where the addressable market share is massive.

India's journey towards becoming a US\$ 10tn economy is still nascent and has a long runway when it comes to discretionary spends and aviation passenger traffic both significant triggers for the luggage industry. In addition to this, the addressable market for Safari expands enormously if we were to factor in premium luggage segment along with adjacencies in accessories.

While competition and external challenges are key risks which can decelerate the pace of growth; the vision, execution, along with structural tailwinds places Safari in a favourable position to capitalize on this cosmic opportunity.

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