

INVESTING

How 2Point2 Capital's bet on Safari got it a suitcase full of returns

By Priyanka Salve Jul 10, 2023, 02:20 PM IST



Sudhir Jatia, chairman and MD, Safari Industries India

Synopsis

Under industry veteran Sudhir Jatia, Safari's topline has recorded a CAGR of 29% over the last decade. In comparison, this stands at 10% for market leader VIP. Despite being a mass-market brand, Safari not only survived the pandemic but also has emerged stronger, eating into the market share of unorganised luggage makers as well as premium brands.

When **Savi Jain**, co-founder of 2Point2 Capital Advisors, a portfolio management service (PMS) fund, took a bet on **Safari** Industries in 2016, the company had a market capitalisation of less than INR400 crore. As a value investor, Jain always looks for stocks trading at a lower valuation but have huge potential to do well in the future. He typically hunts for small-cap stocks where he can take a concentrated position for a longer period and wait for the company to generate

high growth.

Safari operates in the travel luggage industry in which **VIP** Industries is the clear leader. While Safari is in the mass-market segment, its bigger rival is in the premium segment where margins are higher and growth is faster. The travel industry was on a growth path at the time and the luggage sector was riding high on this phenomenon.

On a conservative basis, the general assumption is that when an industry is growing, all the companies get an equal opportunity and chances are that smaller companies find a way to grow their market share. And this wasn't the first time Jain had tasted success with a bet on Safari.

In 2014, when he was the associate director at private equity (PE) firm Tano Capital, Safari had already proved to be a multi-bagger. In June 2014, Tano Capital had invested more than INR50 crore for a 20% stake in the company.

“When we were evaluating Safari at that time, there was a lot of interest from other PE funds and Hedge funds to secure the deal. We had to give a competitive bid at a price higher than the market price. The company was barely profitable at that time due to its suboptimal size. Valuations did not seem cheap at that time, but in hindsight, it was a very good investment. After our investment, revenues grew rapidly, and profits zoomed due to operating leverage. We made superlative returns to the tune of 6x-7x,” says Jain.

Both the times Jain took a bet on Safari Industries, it was not on the business but on **Sudhir Jatia**, former VIP Industries' CEO who had purchased a majority stake in Safari in the second half of 2011. Jatia is a luggage industry veteran with more than three decades of experience. He knew exactly what could turn a travel-luggage company into a huge success.

Jain was convinced that when an industry veteran who has worked with the market leader bets on a business, the chances are that it will be a winner.

Soon, Jatia had worked his magic.

He knew the industry like the back of his hand and had strong relationships with distributors and other channel partners. Within two years of taking over as Safari's chairman and managing director, Jatia succeeded in pushing up the company's revenue to INR250 crore from around INR70 crore. He knew exactly how to make luggage and sell it to Indians. He had already done it with Aristocrat, VIP Industries. Now, it was Safari's turn.

So, what's Sudhir Jatia's secret sauce?

The backbone: network

Jatia understands the value of relationships and the potential of the travel industry. Today, Safari Industries has a market capitalisation of INR7,000 crore while the same for VIP Industries stands at INR8,500 crore. Safari has grabbed considerable market share from VIP and Samsonite while investors are confident that the trend will continue.

In the age of star entrepreneurs like Vijay Shekhar Sharma and Ashneer Grover in India and amid the ongoing “cage fight” among American entrepreneurs, Jatia prefers to let his company’s market share and shareholder returns speak for themselves. Over the last 10 years, shares of his mass-market luggage company have registered a compounded annual growth rate (CAGR) of 46% while those of India’s oldest luggage maker VIP have risen 28%. In the same period, the Nifty50 delivered an annual return of around 14%.

“Before Sudhir Jatia acquired it, Safari was a struggling company stuck at the same size for many years. He acquired the company for its decade-old brand and then completely overhauled the product profile, distribution, and branding,” says Jain.

Under Jatia, the company’s topline has recorded a CAGR of 29% over the last decade. In comparison, VIP has registered a 10% CAGR in the same period. Despite Safari being a mass-market brand, the business not only weathered the once-in-a-century pandemic storm but also has emerged stronger than before, eating into the market share of both unorganised luggage makers as well as established premium brands such as Samsonite and VIP.

More than 12 years have passed since Jatia took over Safari Industries from AS Mehta, the then promoter of this small, listed luggage maker. In FY11, Safari’s revenue was less than INR100 crore and it had a bottom line of INR2.5 crore as the company was still making old-fashioned hard-case briefcases even though customers had moved to bags made of soft material. Jatia acquired 56% in the listed and beleaguered company for around INR30 crore. The news cheered the market, with investors lining up to be a part of Jatia’s new luggage business.

A board member of Safari Industries says that Jatia has deep connections with his dealership network. “Sudhir may not give a lot of interviews to the press, but he meets dealers across the country from Mumbai’s Crawford Market to Delhi’s Chandni Chowk,” he says. In fact, in the early days when Jatia first took over Safari, it was due to his relationship that dealers stocked up on Safari’s ‘mediocre’ products. Eventually, the quality of products improved, and customers started opting for the Safari brand for its great value-for-money proposition.

“The decision to operate in the mass segment has helped Safari differentiate itself

from the Top-2 players (Samsonite, VIP) and create market leadership for itself,” says Karan Khanna, lead analyst, small- and mid-caps, Ambit Capital.

Even before he touched Safari Industries, Jatia had been at the helm of Aristocrat, which was sold to VIP Industries in early 2000s. He eventually assumed the role of the managing director of VIP in 2007 and led the company until 2010. But perhaps his view on how the Indian luggage industry would develop differed from those at VIP. While the market leader in organised luggage retail chose to follow the premiumisation strategy and compete with international player Samsonite, under Jatia Safari chose to stick to the mass market.

But that’s bound to change now.

Safari, VIP vs. sensex: relative performance

(Quarterly price chart over 20 years)



Indexed to 0

Source: Ace Equity

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The margin call

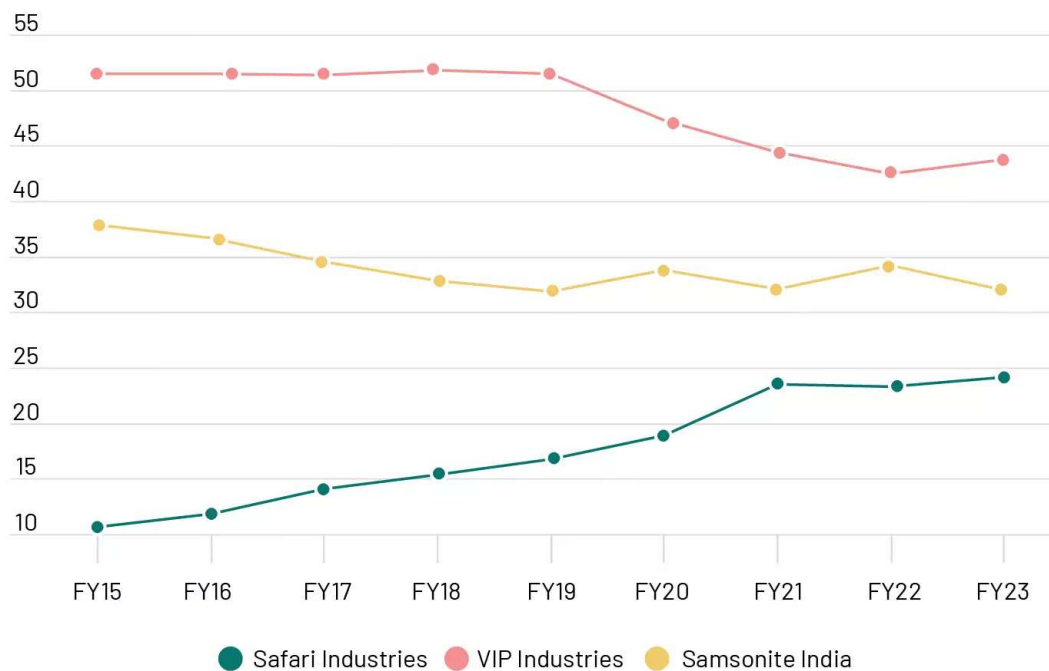
In a recent interview to a television channel, Jatia laid out his plans to pursue premiumisation. He wants to have at least 20%-25% of the company’s revenues

coming from premium brands over the next five-10 years. Currently, the contribution of premium range products is next to nothing, but with the launch of Safari's premium brand, Urban Jungle, that could change.

According to Khanna, the products sold under Safari's new brand may not be as premium as Mokobara's, but can surely compete with VIP's Carlton, the higher range of American Tourister, and to some extent even Samsonite.

This move is important for Safari Industries. Even though the company has been gaining market share from competitors, topline growth is coming at the expense of margins. Safari's operating profit margin (with the exception of FY23) pales in comparison with that of VIP. And if Jatia is to make Safari the top luggage company in India, he needs to cater to a varied customer base — just like the market leader.

Market share: branded players in India's luggage industry



Figures in percent

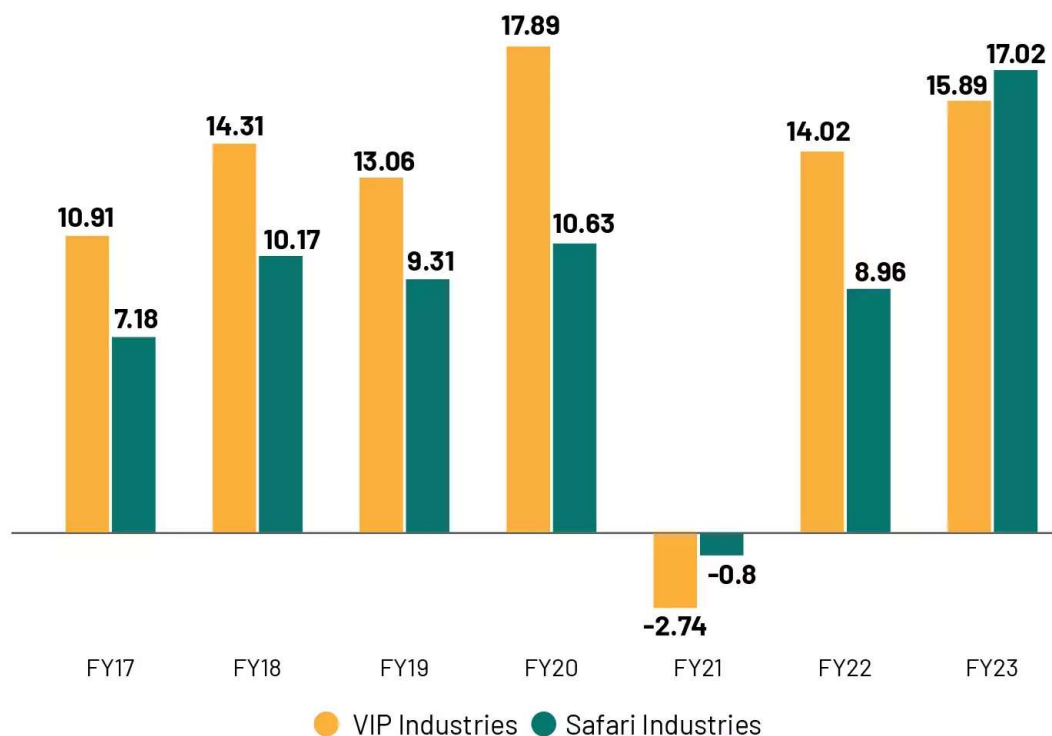
Source: Ace Equity

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To be sure, Safari did see a substantial improvement in margins in FY23 but that was primarily due to the shift to manufacturing products in-house as against

sourcing it from China. Earlier, soft-material luggage was in demand, but slowly, the customer preference is shifting to hard-case polycarbonate.

VIP vs. Safari : operating profit margin



Figures in percent
Source: Ace Equity

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As per a research report by broking firm Anand Rathi Securities, Safari used to source soft luggage from Bangladesh, China, and small dealers in India. “Pre-Covid-19, the figure for China was ~40%-50%. As a result of the large-scale shift from China sourcing to India and Bangladesh, Safari’s dependence on China has now shrunk to ~10%-15%,” it says.

Safari currently has an annual manufacturing capacity of around 0.52 million pieces of hard luggage (polycarbonate and polypropylene) and the utilisation levels at its Halol plant in Gujarat are at 75%. The company is planning to invest INR40 crore-INR50 crore to set up new manufacturing plant at a new location in north India, which will manufacture premium products.

An overview of top companies in Indian luggage market

Particulars	VIP	Safari	Samsonite India*
Capacity (million pieces per month)	1.02	0.52	0.5
Manufacturing plants	Eight in Bangladesh, two in India (Haridwar, Nashik)	Halol, Gujarat, India	Nashik, Maharashtra, India
Brands	"VIP (mid-premium), Skybags (mid-premium), Carlton (Premium), Aristocrat (mass segment), Caprese (mid-premium handbag)"	Safari (mass segment)	Samsonite (Premium), American Tourister (Mid-premium), Kamilian (mass segment)
EBOs (nos FY23)	~500	~80	~480
Touch points (nos)	11,000+	9,300+	
Brands' market dominance	VIP & Skybags in mid premium and Aristocrat in mass segment	Safari in mass segment	American Tourister in mid premium
9M FY23, Revenue (INR billion)	~16.3	~9.1	~8.1 (6M FY23)
Brand-wise revenue contribution	VIP (~21%) Skybags (~30%) Aristocrat + Alfa (~37%)	Safari (~90%)	American Tourister (~50%) Samsonite (~25%) Kamiliant (~25%)

Source: Anand Rathi Research

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Spotting trends

Soft luggage currently contributes 45% of Safari's revenue, down from 60% before the pandemic. For VIP, the mix is still marginally in favour of soft luggage. Given Jatia's wealth of experience, Safari seems to be ahead of the competition in adapting to new customer preferences.

Another trend Jatia seems to have spotted before his competitors is the importance of online sales. Safari started online sales in FY15, and last year almost 20%-25% of its sales came from online channel partners. For the rest of the industry, this figure is close to 10% post-pandemic.

Jatia is also building a strong management team. His chief financial officer, Vineet Poddar, is from Bombay Dyeing while the head of marketing, Pushkar Jain, has worked with AkzoNobel and Pidilite Industries. Safari's manufacturing is headed

by Manoj Ghorpade, who was earlier with Essel Propack while the company's vice-president of sales for the school-bags division, Paritosh Sinha, is from VIP.

Jatia believes one of the reasons his company has been able to retain existing talent and attract new ones is because of the policy it followed during Covid-19. The pandemic sounded the death knell for businesses that rely on travel and tourism. Many luggage companies resorted to retrenchment or salary cuts, which in the short run did cut down business expenses but in the long run affected the morale of the employees. Safari was an oasis in these tough times as the management put people before numbers.

Jatia needs this goodwill to continue if his company is to scale up further.

"For years now, Jatia has driven the company by himself supported by some senior members of management. But when a company becomes an INR2,000-crore brand in the next five years, which they might become given industry tailwinds, there needs to be more professional management at the helm," says Khanna.

He adds that Jatia, who is in his early 50s now, may also have to think about succession planning. He has two daughters — Shivani and Tanisha Jatia. Both have worked for a few years at Safari, but have not played an active role in the management of the business.

"Before Jatia acquired it, Safari was nothing. He acquired it for its brand value and then completely changed the product profile, distribution, branding, etc."

— Savi Jain, co-founder, 2ponit2Capital Advisors

The final cut

When he isn't meeting dealers or spotting the next big trend in the luggage industry, Jatia likes to relax with a game of poker with friends and associates. Heading a rapidly growing business in a fast-changing industry is a tough and unpredictable task. Perhaps, his poker skills help Jatia with this tricky

business.

For now, Safari needs to continue on its margin-growth trajectory, sustain its lead in online business, continue to rob competitors of market share, and prepare the company for handling a bigger scale.

The list is long.

But Jatia is not the kind to pack up or fold before it's all done.

(Graphics by Sadhana Saxena)

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