

Retail Research	IPO Note
Sector: Consumer	Price Band (Rs): 617 - 648
30th October 2023	Recommendation: Subscribe for Long Term Horizon

Cello World Limited

Company Overview:

Cello World Limited is a prominent player in the consumerware market in India with a presence in consumer houseware, writing instruments and stationery, moulded furniture and allied products and consumer glassware categories. The six decades of experience of the Promoters in the consumer products industry has enabled the company to better understand the preferences and needs of consumers in India, diversify the product portfolio, and grow a multi-channel distribution network.

Key Highlights:

1. Diversified product portfolio: The product portfolio includes Consumer houseware, Consumer glassware, Writing instruments, Moulded furniture & allied Products.

a) Consumer houseware & consumer glassware: The products under the consumer houseware product category are offered and sold by the company under the Cello brand. The popular sub-brands under the Cello brand include Kleeno, Puro, Chef, H2O, Modustack, Maxfresh and Duro.

b) Writing instruments & stationery: The products under the writing instruments and stationery product category are offered and sold by the company under the Unomax brand. The popular sub-brands under the Unomax brand include Ultron2X and Geltron.

c) Moulded furniture & allied products: The products under the moulded furniture and allied products category are offered and sold by the company under the Cello brand.

2. Manufacturing facility: The company facilities include 13 manufacturing facilities in India, including eight facilities in Daman, two facilities in Uttarakhand, one facility in Himachal Pradesh, one facility in Tamil Nadu, and one facility in West Bengal. The revenue derived from in-house manufacturing operations aggregated to 78.7%, 82.6%, 79.4%, 82.1%, and 79.7% of the total revenue from operations for the FY21, FY22 and FY23, and 3MFY23 and 3MFY24 respectively. The remaining products (consisting mainly of steel and glassware products) are manufactured by third-party contract manufacturers.

3. Robust distribution, sales and marketing team: The company domestic sales and distribution have a multi-tiered network consisting of distributors and retailers, as well as sales and marketing employees who facilitate sales at each level of the network. The company has around 3,322 distributors along with 1,26,382 retailers present across India. The company has around 770 sales and marketing employees. Sales and marketing employees function as the link between distributors and retailers, by marketing products and collecting orders which are then communicated to the relevant distributors.

Valuation: The company is valued at FY23PE multiple of 47.5x at the upper price band on post-issue capital. The company delivered robust revenue CAGR growth of 30.8% for FY21-FY23. As on 30th June'23, the company offered 15,891 SKUs across its product categories coupled with presence across multiple channels and PAN India distribution network. It commands the highest RoCE in the industry at ~44.5%. The IPO looks fairly valued. However, we believe the growth prospects across its business segments remains healthy. Therefore, we recommend investors to subscribe the issue for a long-term investment horizon.

Issue Details	
Date of Opening	30 th October 23
Date of Closing	1 st November 23
Price Band (Rs)	617 – 648
Issue Size (Rs cr)	1,900
No. of shares	2,93,20,988 (100% OFS)
Face Value (Rs)	5
Post Issue Market Cap (Rs cr)	13,095 – 13,753
BRLMs	Kotak, ICICI Securities, IIFL, JM Fin., Motilal Oswal.
Registrar	Link Intime India Private Limited
Bid Lot	23 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	Aggregating up to Rs 10 cr.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	19,50,00,000	91.9
Public & Others	1,72,31,034	8.1
Total	21,22,31,034	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	16,42,05,835	77.4
Public & Others	4,80,25,199	22.6
Total	21,22,31,034	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	16,56,79,012	78.1
Public & Others	4,65,52,022	21.9
Total	21,22,31,034	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	3MFY23	3MFY24
Revenue from operation (Rs cr)	1,049	1,359	1,797	433	472
EBITDA (Rs cr)	277	334	421	97	119
Profit (Rs cr)	151	204	266	62	77
EBITDA Margin (%)	26.4	24.5	23.4	22.4	25.3
Profit Margin (%)	14.4	15.0	14.8	14.3	16.4
EPS	7.8	10.5	13.6	3.2	3.7
PE (x)**	83.6	61.9	47.5	204.2*	163.2*
P/BV (x)***	-118.4	144.2	37.6	84.4*	14.1*
ROE (%)	-141.6	232.8	79.1	41.3*	8.6*
ROCE (%)	104.7	54.8	57.6	14.9*	9.4*
Debt / Equity (x)	-3.1	5.3	1.0	3.0*	0.4*

* Not Annualized

** PE(x) is calculated on upper price band

*** P/BV (x) is calculated on upper price band

Source: RHP, SSL Research

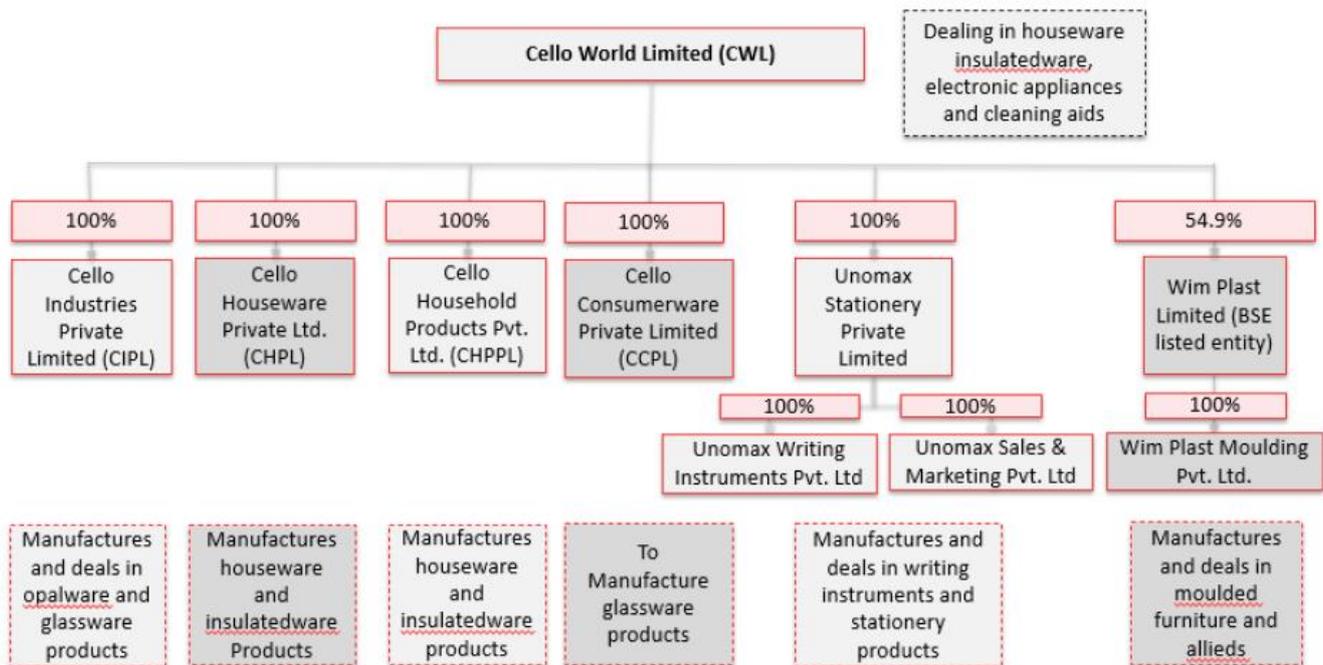
Risk Factors

- **Raw material price:** Fluctuations in raw material prices, especially plastic granules and plastic polymer prices, and disruptions in their availability may have an adverse effect on the business, results of operations, financial condition and cash flows.
- **Distribution network:** The company is dependent on the distribution network in India and overseas to sell and distribute the products and any disruption in the distribution network could have an adverse effect on the business, results of operations, financial condition and cash flows.
- **Third-party manufacturers:** The company relies on third-party contract manufacturers for some of the products.
- **Competitive market:** The company face significant competition which may lead to a reduction in the market share, which may cause to increase the expenditure on advertising and marketing as well as cause to offer discounts, which may result in an adverse effect on the business, results of operations, financial condition and cash flows.
- **Branding:** The brands that the company uses and the reputation are critical to the success of the business and may be adversely affected due to various reasons.

Growth Strategy

- **Innovation:** Continuing innovation to grow wallet share and expand consumer base.
- **Expansion:** Expanding the distribution network.
- **Marketing:** Scaling up branding, promotion, and digital activities.
- **Production:** Growing manufacturing capabilities and expanding production capacities.

Corporate Structure



Source: RHP, SSL Research

Revenue from Products

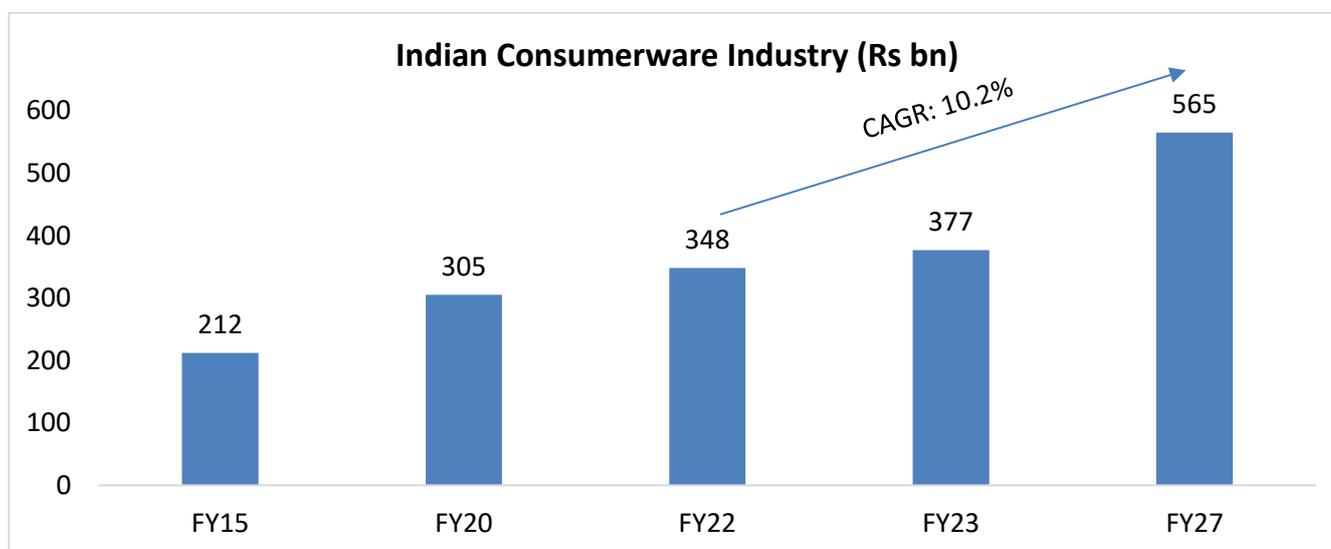
Products (Rs cr)	FY21	FY22	FY23	3MFY23	3MFY24
Consumer houseware	670	871	1,181	289	310
Writing instruments and stationery	111	169	285	63	83
Moulded furniture and allied products	268	319	331	81	78
Total	1,049	1,359	1,797	433	472

Source: RHP, SSL Research

Industry Overview

Indian Consumerware Industry

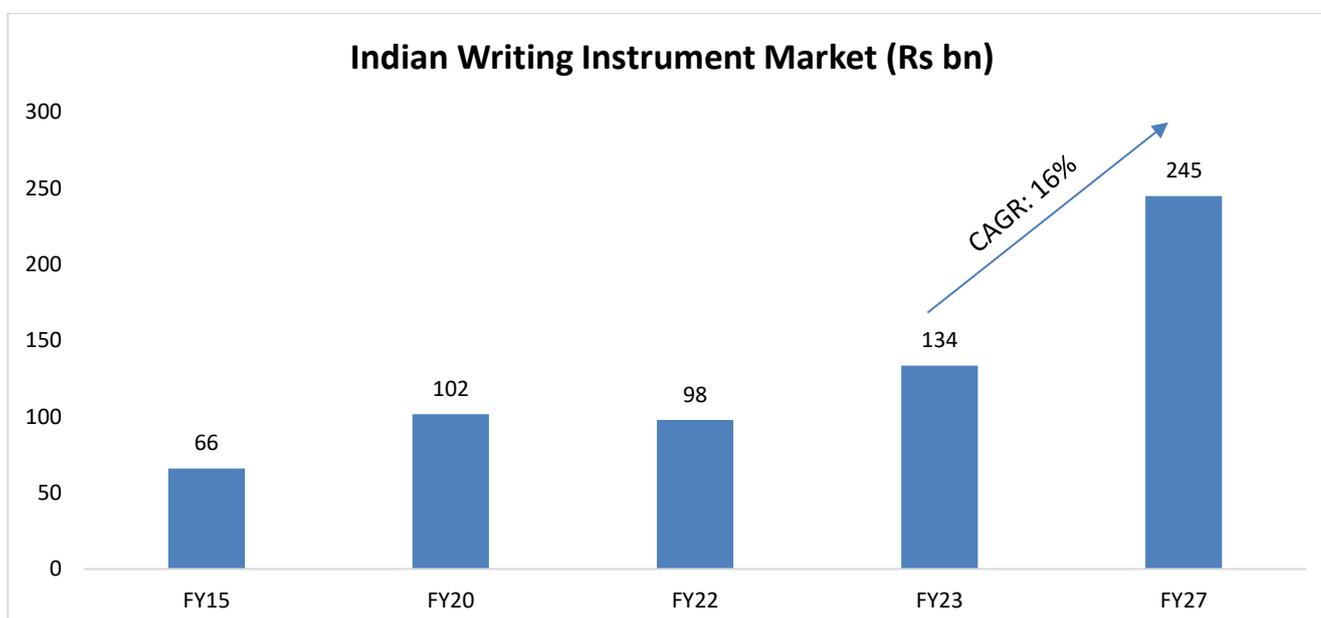
The consumerware market was valued at Rs 348 bn in FY22. This market has witnessed steady growth over the years with market size increasing from Rs 305 bn in FY20 to Rs 348 bn FY22 growing at a CAGR of 6.9% and Rs 565 in FY27 growing at a CAGR of 10.2% for the period FY22-FY27. Various factors like increasing disposable income, the nuclearization of families, and growing demand for organized and functional kitchen spaces are further adding to the growth of the Indian Consumerware Market.



Source: RHP, SSL Research

Indian Writing Instrument Market

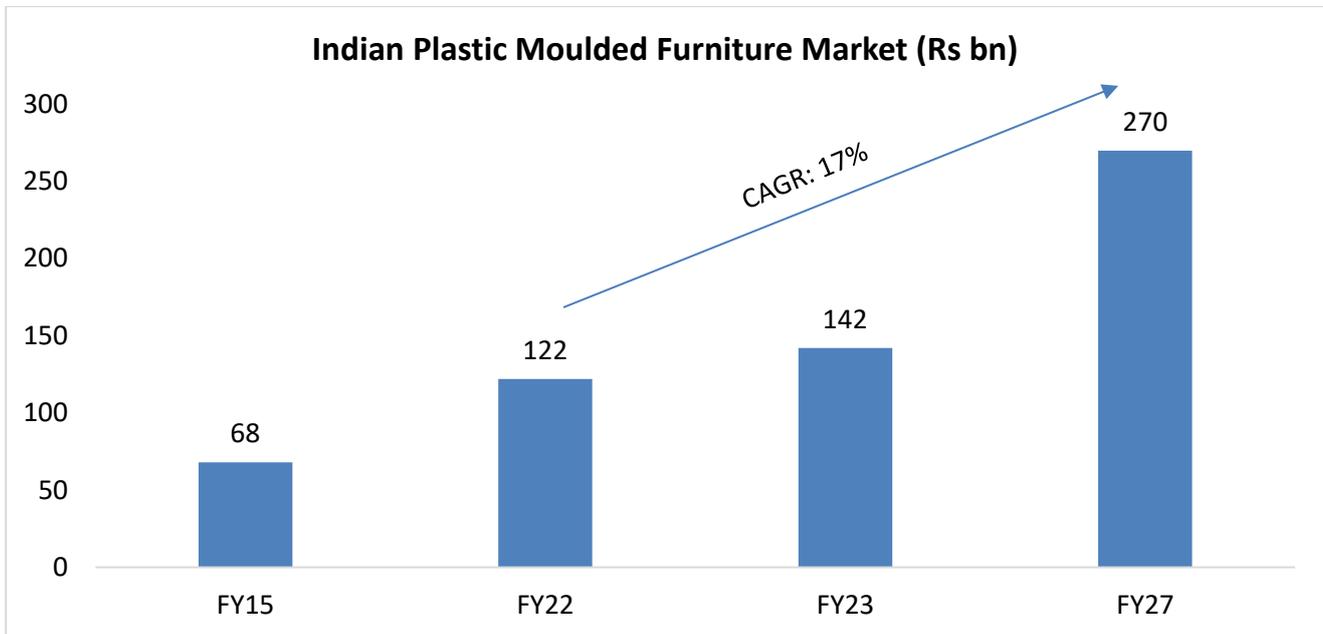
The writing instrument market in India comprises of pens, pencils and markers and highlighters. It has exhibited continuous growth over the years, with a market value of Rs 66 bn in FY15, which increased to Rs 102 bn in FY20, representing a CAGR of 9%. However, the market witnessed a slight dip in sales from FY20 to FY22, the reason for which can be attributed to the suppression in consumer demand and supply chain disruptions due to Covid. As of FY23, the Indian writing instrument market had an estimated size of Rs 134 bn by value and is expected to grow at a CAGR of 16% during FY23 - FY27 period to reach a market value of Rs 245 bn by FY27.



Source: RHP, SSL Research

Indian Plastic Moulded Furniture Market

Moulded furniture refers to furniture items that are produced using a moulding process. This process involves shaping plastic into specific designs and forms, resulting in furniture pieces that have a uniform and consistent appearance. The plastic moulded furniture market in India was valued at Rs 68 bn in FY15. Over the next five years, the market size grew at a CAGR of 10.8%, reaching Rs 113 bn in FY20. The market was valued at Rs 122 bn in FY22 (almost entire Plastic furniture is moulded and is expected to reach Rs 270 bn by FY27 growing at a CAGR of 17%. Moulded furniture is gaining popularity as it offers features unavailable in conventional wooden and metal furniture, such as easy maintenance, light weight, durability, designs etc.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	1,049	1,359	1,797
% YoY growth	-	29.5%	32.2%
Cost Of Revenues (incl Stock Adj)	521	679	896
Gross Profit	528	681	901
Gross margins	50.3%	50.1%	50.2%
Employee Cost	97	132	158
Other Operating Expenses	154	215	323
EBITDA	277	334	421
EBITDA margins	26.4%	24.5%	23.4%
Other Income	10	16	17
Net Interest Exp.	2	3	2
Depreciation	49	48	50
PBT	236	299	385
Tax	70	80	100
Adj PAT	151	204	266
PAT margin (%)	14.4%	15.0%	14.8%
Adj. EPS	7.8	10.5	13.6

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	259	258	271
Capital WIP	4	12	21
Intangible Assets under development	0	3	5
Other Non current Assets	62	65	130
Current Assets			
Current Investment	75	115	126
Inventories	307	377	430
Trade receivables	371	407	462
Cash and Bank Balances	32	55	50
Short-term loans and advances	1	2	1
Other Current Assets	34	40	55
Total Current Assets	821	995	1,124
Current Liabilities & Provisions			
Trade payables	98	126	134
Other current liabilities	635	458	51
Short-term provisions	3	3	3
Total Current Liabilities	737	587	188
Net Current Assets	84	408	936
Total Assets	410	747	1,364
Liabilities			
Share Capital	0	0	98
Reserves and Surplus	-107	88	239
Total Shareholders Funds	-107	88	336
Minority Interest	172	185	200
Total Debt	322	452	326
Long Term Provisions	4	5	3
Other Long-Term Liabilities	19	17	16
Net Deferred Tax Liability	0	0	483
Total Liabilities	410	747	1,364

CASH FLOW (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	194	187	227
Cash flow from Investing Activities	-53	-262	-557
Cash flow from Financing Activities	-133	94	324
Free Cash Flow	168	138	115

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	13.2	15.3	17.2
Return on Capital (%)	110.5	55.9	58.4
Return on Equity (%)	(141.6)	232.8	79.1
Margin Analysis			
Gross Margin (%)	50.3	50.1	50.2
EBITDA Margin (%)	26.4	24.5	23.4
Net Income Margin (%)	14.4	15.0	14.8
Short-Term Liquidity			
Current Ratio (x)	0.8	1.0	2.2
Quick Ratio (x)	0.5	0.6	1.4
Avg. Days Sales Outstanding	129	109	94
Avg. Days Inventory Outstanding	107	101	87
Avg. Days Payables	34	34	27
Fixed asset turnover (x)	4.1	5.3	6.6
Debt-service coverage (x)	0.9	0.7	1.3
Long-Term Solvency			
Debt / Equity (x)	-	5.2	1.0
Interest coverage (x)	104.6	105.9	220.4
Valuation Ratios			
EV/EBITDA (x)	46.7	39.1	30.7
PE (x)	83.6	61.9	47.5
P/BV (x)	-	144.2	37.6

Source: RHP, SSL Research

Peer Comparison

	Cello World Ltd	Borosil Ltd	Kokuyo Camlin Ltd	La Opala RG Ltd	Stove Kraft Ltd	TTK Prestige Ltd	Linc Ltd	Hawkins Cookers Ltd
CMP	648.0	388.0	140.0	427.0	494.0	781.0	840.0	7,150.0
Sales (Rs cr)	1,796.7	1,011.0	775.0	452.0	1,281.0	2,777.0	487.0	1,006.0
EBITDA (Rs cr)	420.5	126.0	54.0	172.0	101.0	361.0	62.0	135.0
Net Profit (Rs cr)	266.1	90.0	24.0	123.0	36.0	253.0	37.0	95.0
M.Cap (Rs Cr)	12,636.0	4,449.0	1,399.0	4,736.0	1,633.0	10,831.0	1,251.0	3,782.0
Enterprise Value (Rs cr)	14,022.0	4,543.0	1,447.0	4,745.0	1,811.0	10,395.0	1,240.0	3,726.0
EBITDA Margin (%)	23.4	12.5	7.0	38.1	7.9	13.0	12.7	13.4
Net Margin (%)	14.8	8.9	3.1	27.2	2.8	9.1	7.6	9.4
PE(x)	47.5	60.4	40.6	36.0	45.5	48.8	31.0	40.9
EV/EBITDA	33.3	36.1	26.8	27.6	17.9	28.8	20.0	27.6
RoE (%)	79.1	8.5	9.3	16.0	9.3	13.8	23.5	38.7
RoCE (%)	57.6	10.6	12.0	22.1	12.5	18.1	31.4	45.8

The data is based on FY23 financial data, For Cello World Limited the Market cap, PE(x), and EV/EBITDA are calculated on post-issue equity share capital based on the upper price band.

CMP as on 30th October'23.

SBICAP Securities Limited

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

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