

IPO Note: Flair Writing Industries Ltd.

Industry: Writing & Creative Instruments

Date: November 21, 2023

Issue Snapshot		Issue Break up	
Company Name	Flair Writing Industries Ltd.	QIB ex Anchor	20% 39,01,316
Issue Opens	November 22, 2023 to November 24, 2023	Anchor Investor	30% 58,51,974
Price Band	Rs. 288 to Rs. 304	HNI<Rs. 10 Lakhs	5% 9,75,329
Bid Lot	49 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10% 19,50,658
The Offer	Public issue of 1,95,06,579 Equity shares of Face value Rs. 5 each, (Comprising of fresh issue of 96,05,263 Equity Shares* (Rs. 292 cr.) and Offer for Sale of 99,01,316 Equity Shares* (Rs. 301 cr.) by Selling Shareholder).	RII	35% 68,27,303
Issue Size	Rs. 593 Crore	Total Public	100% 1,95,06,579
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)	9.6
Face Value	Rs. 5.00	Fresh Share (Nos. Cr.)	1.0
Exchanges	NSE & BSE	OFS Share (Nos. Cr.)	1.0
BRLM	Nuvama Wealth Management Ltd. and Axis Capital Ltd.	Equity Share Post Issue (Nos. Cr.)	10.5
Registrar	Link Intime India Private Ltd	Market Cap (Rs. Cr.)	3,204.0
		Equity Dilution	9.1%
		Stake Sale by OFS	9.4%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to ₹514.00 million by Mr. Khubilal Jugraj Rathod, up to ₹396.50 million by Mr. Vimalchand Jugraj Rathod, up to ₹323.00 million by Mr. Rajesh Khubilal Rathod, up to ₹323.00 million by Mr. Mohit Khubilal Rathod, up to ₹323.00 million by Mr. Sumit Rathod, up to ₹323.00 million by Mrs. Nirmala Khubilal Rathod, up to ₹323.00 million by Mrs. Manjula Vimalchand Rathod, up to ₹161.50million by Mrs. Sangita Rajesh Rathod, up to ₹161.50 million by Mrs. Shalini Mohit Rathod and up to ₹161.50 million by Mrs. Sonal Sumit Rathod)

Fresh Issue

- Setting up a new manufacturing facility for writing instruments in District Valsad, Gujarat (New Valsad Unit) (Rs. 56.0 cr.);
- Funding capital expenditure of the Company and the Subsidiary, FWEPL (Rs. 86.8 cr.);
- Funding working capital requirements of the Company and the Subsidiaries, FWEPL and FCIPL (Rs. 77.0 cr.);
- Repayment/pre-payment, in part or full, of certain borrowings availed by the Company and the Subsidiaries, FWEPL and FCIPL (Rs. 43.0 cr.); and
- General corporate purposes.

Company Highlights

- Flair Writing Industries Ltd. (FWIL) is among the top three players in the overall writing instruments industry and occupy a market share of approximately 9% in the overall writing and creative instruments industry in India, as of March 31, 2023, according to CRISIL. According to CRISIL, FWIL is also among the top two organized players which have seen faster growth in revenue as compared to overall writing and creative instrument industry growth rate, i.e., while the industry grew at a compounded annual growth rate of 5.5% between FY17 and FY23, the company grew at a compounded annual growth rate of approximately 14% during the same period. It reported the highest operating and net income margins of 17.8% and 9.6%, respectively, in FY22 among other key writing instruments players, according to CRISIL.
- FWIL's flagship brand "Flair" has enjoyed a market presence of over 45 years. It has an extensive range of products across various price points and cater to a broad range of consumers, including students, professionals and offices. The company manufactures and distributes writing instruments including pens, stationery products and calculators. Leveraging on its manufacturing capabilities, and existing customer base in the writing and creative instruments business, it has also diversified into manufacturing houseware products and steel bottles.
- FWIL manufactures and distributes several brands in India and due to its ability to manufacture quality products and distribution and retail capabilities, it is able to partner with various international brands in the writing instruments industry. Its products are sold under "Flair" brand, its principal brands "Hauser" and "Pierre Cardin" and it has recently introduced "ZOOX" in India. Its brands "Flair" and "Hauser" offer mass-market and premium pen and stationery products, brand "ZOOX" focusses on mid-premium and premium writing instruments, and "Pierre Cardin" brand offers premium pen and stationery products.

- Its product range includes a variety of pens (ball pens, fountain pens, gel pens, roller pens and metal pens), which is largest category in terms of number of products offered, stationery products (mechanical pencils, highlighters, correction pens, markers, gel crayons and kids' stationery kits) and calculators. The company launched a range of "Flair Creative" products in FY21 which include water colours, crayons, sketch pens, erasers, wooden pencils and geometry boxes, fine liners, sharpeners and scales. It offered 727 different products as of June 30, 2023.
- During Q1FY24, it sold 344.32 million units of pens, of which 279.21 million units or 81.09% was sold domestically, and 65.11 million units or 18.91% was exported globally, and in FY23, it sold 1,303.60 million units of pens, of which 975.30 million units or 74.82% was sold domestically, and 328.30 million units or 25.18% was exported globally, compared with other key organized players in the writing and creative instruments industry such as DOMS, Camlin, Linc and Luxor, the Company had the largest distributor/dealer network and wholesale/retailer network, in the writing instruments segment in India, according to CRISIL, comprising approximately 7,700 distributors/dealers and approximately 315,000 wholesalers/retailers, as of March 31, 2023. It occupied a market share of 7.1% in the export of writing and creative instruments industry, in FY23, according to CRISIL.
- FWIL has recently forayed into manufacturing a wide range of houseware products including casseroles, bottles, storage containers, serving solutions, cleaning solutions and basket and paper bins, through one of its Subsidiaries, FWEPL. It intends to utilize a portion of the proceeds from the Offer for funding capital expenditure of FWEPL for purchase of machinery and moulds to expand its manufacturing capacity for writing instruments. FWIL intends to leverage the strength of the "Flair" brand and manufacturing and distribution capabilities to expand and optimize the business of houseware products and steel bottles, which is expected to be a key area of growth going forward.
- FWIL has recently commenced manufacturing steel bottles through one of its Subsidiaries, FCIPL, in March 2023. According to CRISIL, the steel bottle industry in India is projected to grow at a CAGR of 14-16% between FY23 and FY28. It has received a letter of intent from one of its key OEM customers with whom the Company has a relationship of more than 15 years. One manufacturing line has been commissioned in the month of March 2023. The company intends on commissioning two more manufacturing lines during the third quarter of FY24 at manufacturing plant in Valsad, Gujarat.
- FWIL manufactures pens and other products from 11 manufacturing plants located in Valsad, Gujarat; in Naigaon (near Mumbai), Maharashtra; in Daman, Union Territory of Dadra and Nagar Haveli and Daman and Diu; and in Dehradun, Uttarakhand.

View

Flair is among the top 3 players in the overall writing instrument industry with market share of ~9% in the overall writing and creative instruments industry in India. Flair is among the top 2 organized players which have seen faster growth in revenue compared to other players between 2017 to 2023. Company's flagship brand "Flair" has enjoyed a market presence of over 45 years. They manufacture and distribute writing instruments including pens, stationery products and calculators. They have also diversified into manufacturing houseware products and steel bottles. In FY23, Flair sold 130.36 crore units of pens, of which 97.53 crore units or 74.82% was sold domestically, and 32.83 crore units or 25.18% was exported globally. Further, over the period company has developed strong distributor and dealer network, comprising ~7,700 distributors/dealers and ~315,000 wholesalers/retailers, as of March 31, 2023. Flair also operates as contract manufacturers of writing instruments as an OEM for export and for sale in India. The company also provide customized corporate gifting products to the corporate customers. Company is focusing on Mid-premium Segment and Premium Segment products as such products have better margins and improve the shelf visibility of the products and the positioning of the brands with consumers. Flair has an established track record of strong and consistent financial performance. The company reported a turnover of Rs. 298 crore, Rs. 577 crore and Rs. 943 crore for FY21, FY22 and FY23 respectively, on a consolidated basis. It posted net profit of Rs. 1 crore, Rs. 55 crore and Rs. 118 crore respectively for the aforementioned period. FWIL 11 manufacturing plants has a combined production capacity of 202 crore pieces of pens pa with a capacity utilization of 73% for FY23. In terms of the valuations, on the higher price band, FWIL demands P/E multiple of 24.9x based on post issue fully diluted annualized FY24 EPS.

Revenue from Operations - Business Vertical

	FY21		FY22		FY23		Q1FY24	
	Amount (Rs. Cr.)	% to Total						
Writing instruments	286.8	96.3%	556.0	96.3%	915.6	97.1%	239.5	97.1%
Houseware products	0.2	0.1%	0.4	0.1%	7.5	0.8%	3.8	1.5%
Other	10.9	3.7%	21.0	3.6%	19.6	2.1%	3.4	1.4%
Total	298.0	100.0%	577.4	100.0%	942.7	100.0%	246.7	100.0%

Geographical Area

Sale of products (Domestic)	182.4	61.2%	434.2	75.2%	747.8	79.3%	206.3	83.6%
Sale of products (Exports)	108.2	36.3%	134.6	23.3%	184.7	19.6%	38.4	15.6%

Pen Products-wise Revenue from Operations

(In Rs. Cr)	FY21	FY22	FY23	Q1FY24
Flair pens	96.36	184.33	323.61	86.64
Hauser pens	33.49	76.04	193	55.03
Pierre Cardin pens	14.14	35.72	52.42	10
Others	101.76	169.15	156.73	40.06
Total	245.76	465.24	725.76	191.73

Number of Products Offered

(In Rs. Cr)	FY21	FY22	FY23	Q1FY24
Flair (pens)	216	237	250	254
Flair (creative products and other stationery)	90	128	128	135
Flair (calculators)	36	24	19	19
Hauser	122	113	121	133
Pierre Cardin	155	174	179	183
Zoox	-	-	2	3
Total	619	676	699	727

Production Capacity & Capacity Utilization

(In Rs. Cr)	FY21	FY22	% change	FY23	% change	Q1FY24
Production capacity (in Cr pieces)	175.92	185.53	5.46%	202.37	9.07%	51.75
Capacity utilization (in %)	33.62%	58.41%	73.74%	72.82%	24.67%	77.59%
Effective production capacity (in Cr pieces)	175.05	180.45	3.08%	197.83	9.63%	51.75
Effective capacity utilization (in %)	33.79%	60.05%	77.72%	74.49%	24.05%	77.59%

Financial Statement

(In Rs. Cr)	FY21	FY22	FY23	Q1FY24
Share Capital	23.3	23.3	46.7	46.7
Net Worth	261.6	317.0	435.2	466.6
Long Term Borrowings	111.6	73.4	41.8	71.6
Other Long Term Liabilities	23.4	18.6	23.2	40.3
Short-term borrowings	18.7	52.9	73.8	55.1
Other Current Liabilities	65.4	95.6	110.2	131.4
Fixed Assets	185.7	197.8	251.5	274.4
Non Current Assets	191.5	7.4	22.0	37.2
Current Assets	286.4	352.3	410.6	453.4
Total Assets	480.7	557.5	684.2	765.0
Revenue from Operations	298.0	577.4	942.7	246.7
Revenue Growth (%)		93.8	63.3	
EBITDA	23.0	97.6	183.5	52.3
EBITDA Margin (%)	7.7	16.9	19.5	21.2
Net Profit	1.0	55.2	118.1	32.1
Net Profit Margin (%)	0.3	9.6	12.5	13.0
Earnings Per Share (Rs.)	0.1	5.9	12.7	3.4
Return on Networth (%)	0.4	18.9	31.2	7.1
Net Asset Value per Share (Rs.)	28.3	34.3	46.9	50.3

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY21	FY22	FY23	Q1FY24
Cash flow from Operations Activities	60.4	35.0	96.4	1.6
Cash flow from Investing Activities	(15.8)	(19.5)	(73.6)	(9.4)
Cash flow from Financing Activities	(47.5)	(15.9)	(22.3)	7.2
Net increase/(decrease) in cash and cash equivalents	(2.9)	(0.3)	0.5	(0.6)
Cash and cash equivalents at the beginning of the year	3.6	0.7	0.3	0.8
Cash and cash equivalents at the end of the year	0.7	0.3	0.8	0.2

Source: RHP

Comparison with Listed Industry Peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Flair Writing Industries Ltd.	942.7	19.5	0.1	25.3	16.9	24.9	4.2	15.7	3.2	3204.0
Cello World Ltd.	1796.7	24.3	1.0	44.5	40.0	62.6	7.5	38.8	9.3	16682.4
Kokuyo Camlin Ltd.	774.9	7.3	0.2	12.6	9.7	36.3	5.1	20.1	1.8	1456.4
Linc Ltd.	486.8	13.2	0.0	31.4	23.4	25.4	5.3	14.2	1.9	980.6

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