

31 October 2023

## Cello World – SUBSCRIBE

### Investment Thesis

Cello World Ltd. (Cello) is coming out with an initial public offering (IPO) on October 30, 2023. The issue comprises of offer for sale of 29,320,987 equity shares worth Rs.19,000mn at highest price band. Objective of the issue is to achieve the benefits of listing the equity shares on the Stock Exchanges and carry out the offer for sale of existing shareholders.

Cello is a leading domestic Consumerware company which has diversified product categories, covering consumer houseware, writing instruments & stationery and moulded furniture & allied products. Diversified product portfolio offers a robust risk diversification strategy against demand shocks within any particular product category. Diversification of product portfolio also provides considerable advantage in terms of influencing the retail channel and effectively introducing new products or categories, thereby cumulatively assisting it in dominating the domestic Consumerware market.

Cello has 13 manufacturing facilities across five locations in India. Its manufacturing capabilities allow it to manufacture a diverse range of products in-house, which in turn enables it to scale up production quickly to meet increased demand, reduce time taken to launch new products in the market, maintain quality control of its products, maintain better control over its supply chain and mitigate risk of supply chain disruption.

Cello planned to augment its manufacturing capabilities so that it will able to quickly and effectively respond to increases in market demand for its products. Currently, Cello is relying on the import of glassware from third party suppliers outside India, its planned setting up of a glassware manufacturing facility is expected to lower its dependence on the import of glassware. Cello has already expanded its opalware capacity looking at increase in demand for the products. Cello will regularly monitor market demand for its products and may continue to increase manufacturing capabilities in the future if the forecasted market demand for its products exceed manufacturing capacities.

In 2019, Cello had launched the writing instruments and stationery business under the 'Unomax' brand. To enhance brand awareness and strengthen brand recall for the brands and sub-brands, it launched a diverse array of promotional and marketing efforts, including inshop displays, merchandising, advertisements in print and social media, retail branding and product branding.

### Financials

- During the past 3 years, revenue of Cello grew at a CAGR of 30.8% while PAT grew at CAGR of 31.2% in same period.

Consol. (Rs.Mn.)	FY21	FY22	FY23	FY24E	FY25E
Revenue	10,495	13,592	17,967	20,842	23,968
EBITDA	2,767	3,336	4,205	4,899	5,659
EBITDA Margin(%)	26.4%	24.5%	23.4%	23.5%	23.6%
PAT	1,656	2,195	2,851	3,364	3,902
EPS (Rs.) #	7.8	10.3	13.4	15.8	18.4
P/E (x) *#	83.1	62.6	48.2	40.9	35.2
RoE (%) #	20.0%	26.5%	34.4%	37.3%	39.8%

\* At highest price band # Post listing

### IPO Details

Issue Open Date	30 October 2023
Issue Close Date	01 November 2023
Price Band (Rs.)	Rs. 617 – Rs. 648
Issue Size*	Rs. 19,000 Mn
Issue Size (Shares)	29,320,987
Market Lot	23 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 5/-

\* At highest price band

### Key Details

Fresh Issue*	Rs. 19,000 Mn
Issue Type	Book Building
Book Running Lead Manager	Kotak Mahindra Capital, ICI Securities, IIFL Securities, JM Financial and Motilal Oswal Investment Advisors
Issue structure	Anchor Investor: 30% QIB: 20% Non Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	08 November 2023
Issue Listing Date	09 November 2023

\* At highest price band

## Key Business Highlights

- Cello is the prominent player in the consumer ware market in India with presence in the consumer houseware, writing instruments & stationery, moulded furniture & allied products and consumer glassware categories. It has developed a massive 15,891 SKUs across the product category under the brand name of 'Cello' and 'Unomax'.
- Cello has 13 manufacturing facilities across five locations in India and establishing a glassware manufacturing facility in Rajasthan. As of 30th June 2023, Cello has an installed annual capacity of 57.8mn units of consumer houseware products, 0.015mn tonnes of opalware & glassware, 705mn units of writing instruments & stationery products and 12.8mn units of moulded furniture & allied products. It has also completed the expansion of opalware capacity at its Daman facility in August 2023, as a result, the opalware capacity increased to 0.025mn tonnes per annum from 0.015mn tonnes.
- Cello has a strong pan-India distribution network, comprising of 3,322 distributors and 0.13mn retailers, of these, the consumer houseware and writing instruments & stationery business had 717 and 1509 distributors, respectively, while 0.06mn retailers each for respective divisions. Anticipating a huge growth potential in the Writing Instruments & Stationery business, Cello is targeting to have a network of around 2,500 distributors in the medium term.

## Valuation

- Cello's flagship brand, 'Cello' is well established and enjoys strong brand recall among consumers in India. The company intend to continue to enhance brand awareness and strengthen brand recall for the newer brands, including in particular the 'Kleeno' and 'Puro' sub-brands (under the 'Cello' brand), by continuing to focus on branding and promotional activities going forward. In the past Cello had made significant and timely investments in its promotional and marketing efforts and intend to continue to do so.
- Cello intend to utilize its innovation capabilities to expand its existing product portfolio and develop new range of products across product categories. Cello aim to expand its consumer houseware product category by introducing new range of products in the kitchenware, porcelain, appliances, cookware, glassware, writing instruments and stationery spaces. Through new range of products, it targets to increase wallet share and repeat orders from existing consumers and also attract new consumers.
- With leading domestic Consumerware company having diversified product categories, 13 manufacturing facilities across five locations in India, planned to augment its manufacturing capabilities to effectively respond to increases in market demand, focus on branding and promotional activities and plans to expand its existing product portfolio, we are recommending **SUBSCRIBE** rating to the IPO of Cello World Ltd. for medium to long term perspective.

## Risk & Concern

- Cello is highly depended on third-party suppliers for the supply of major raw materials, like plastic granules and plastic polymer. Any fluctuations in raw material prices or supply disruptions may have an adverse effect on growth and margin of the company.
- If Cello failed to maintain the existing capacity utilization rate or shutdown in its manufacturing operations, its margins and profitability may be adversely affected.
- Any change in regulatory and policy environment in which Cello operate may adversely affect the company's business, operations and financial condition.

## Graphs & Charts

Figure 1: Net Sales Trend

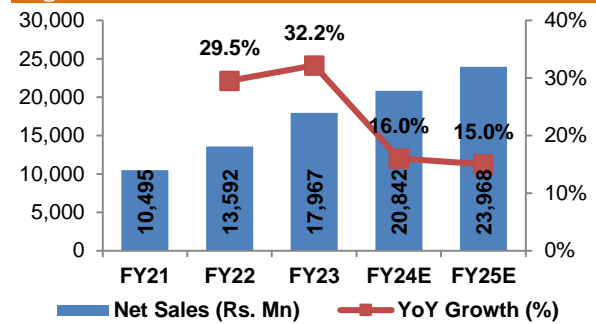


Figure 2: EBITDA & EBITDA Margin Trend

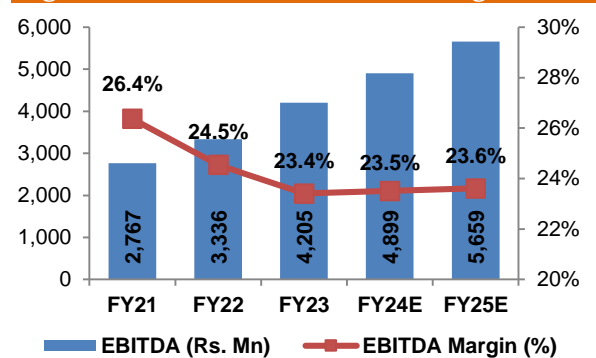


Figure 3: PAT & PAT Margins

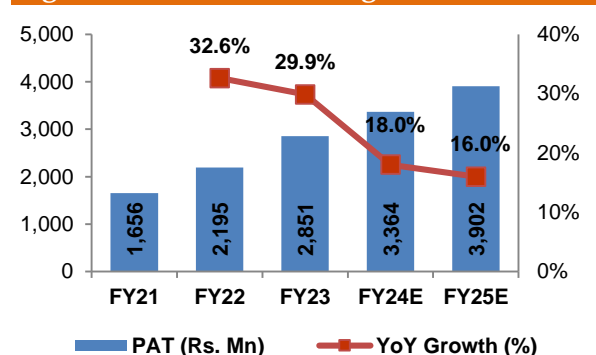
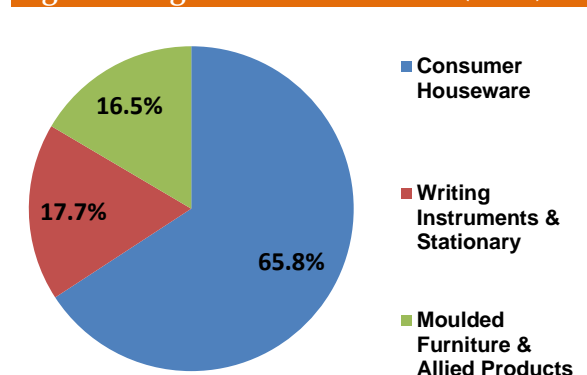


Figure 4: Segment-Wise Revenue (FY23)



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