

22nd November 2023

Flair Writing Instruments Ltd. – SUBSCRIBE

Investment Thesis

- Flair Writing Instruments Ltd. (Flair) is set to launch its initial public offering (IPO) on November 22, 2023. Flair aims to raise Rs. 593 crs which includes of a fresh issue amounting to Rs. 292 crs and an Offer for Sale (OFS) of Rs. 301 crs. Flair will not receive any proceeds of the OFS and the capital raised via fresh issue is to be utilized in
 - For setting up a new manufacturing facility (Rs. 56 crs) and funding capital expenditure of Flair and subsidiaries Flair Writing Equipments Pvt. Ltd. (FWEPL) and Flair Cyrosil Industries Pvt. Ltd. (FCIPL) (Rs. 163.8 crs).
 - Repayment/pre-payment, in part or full of certain borrowings availed by Flair, FWEPL and FCIPL (Rs. 43 crs)
 - General corporate purpose
- Flair is among the top-3 players overall and top-2 among the organized players from instruments industry with a revenue of Rs. 915.6 crs in FY23. Flair possesses a market share of ~9% in the overall writing and creative instruments industry in India, as of March 31, 2023.
- The Flagship brand 'Flair' has enjoyed a market presence of over 45 years and its boasts extensive range of products across various price points and cater to a broad range of consumers, including students, professionals, and offices.

Brand	Category and Usage
Flair and Hauser	Mass-market and premium pen and stationery products
ZOOX	Mid-premium and premium writing instruments
Pierre Cardin	Premium pen and stationery products

Revenue from business Verticals

- In FY23, Flair posted record high revenue of Rs. 942.7 with exports contributing 20.4% of total revenue. The number of pens sold in FY23 were 130.4 crs via 7754 distributors / dealers and 3,15,000 wholesalers / Retailers. During Q1FY23, revenue stood at Rs. 246.7 crs.

Particulars	FY21	FY22	FY23	Q1FY24
Revenue (Rs in crs)	298.0	577.4	942.7	246.7
EBITDA (Rs in crs)	23.2	97.9	183.7	52.3
EBITDA Margin (%)	7.8	17.0	19.5	21.2
PAT (Rs in crs)	1.0	55.2	118.1	32.1
PAT Margin (%)	0.3	9.6	12.5	13.0
EPS	0.1	5.9	12.7	3.4*
RoCE (%)	0.1	17.4	31.2	NA
RoE (%)	0.4	18.9	31.2	NA

*not annualized

IPO Details

Issue Open Date	22 November 2023
Issue Close Date	24 November 2023
Price Band (Rs.)	Rs. 288 – Rs. 304
Issue Size*	Rs. 593 crs
Issue Size (Shares)	1.95 crs
Market Lot	49 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 5/-

* At highest price band

Key Details

Fresh Issue*	Rs. 292 crs
Issue Type	Book Building
Book Running Lead Manager	Nuvama Wealth Management, Axis Capital
Issue structure	QIB: 50% Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	4 December 2023
Issue Listing Date	5 December 2023

* At highest price band

- The EBITDA for FY23 reported by Flair was Rs. 183.7 crs, as there was a significant jump in the volume sold. Additionally, there was remarkable increase in the revenue from Hauser pens which are the mid-premium in category. This led to the EBITDA margin to expand by 253 bps to 19.5% in FY23. In Q1FY24 also this trend was continued and the EBITDA margin has expanded further by 173 bps to 21.2% with the EBITDA at Rs. 52.3 crs.

Key Business Highlights

- High quality manufacturing at a large scale:** As of Q1FY24, Flair has 11 manufacturing plants. As of FY23, the effective manufacturing capacity stood at 197.8 cr pieces which was enhanced from 180.5 crs pieces in FY22. The capacity utilization has also been on the rise which increased in Q1FY24 to 77.6% from 74.5% at the end of FY23. Furthermore, its manufacturing plants are ISO 9001:2015 certified and ISO 14001:2015 certified, which ensure product quality is maintained at a high level. This is a massive competitive advantage.
- Dominant player in the writing instruments industry in India:** Flair is among the top-3 players overall and top-2 among the organized players from instruments industry. Further, the Flair has seen faster growth in revenue compared to the industry as the organized player. The Flagship brand 'Flair' has enjoyed a market presence of over 45 years and it leverage this brand equity to drive revenue and add new brands at higher price points to cater to the demand of the consumers.
- Strongest domestic network:** Being a dominant player, Flair has built the largest Pan-India network of super-stockists (131), distributor/dealer (7,754) and wholesale/retailer (3,15,000) as of FY23. This enables Flair's products to reach a wide range of consumers and help to ensure effective market penetration having a retail presence in 2,424 cities, towns and villages.
- Expansion of product portfolio and diversification of product range:** In alignment with the strategy to grow their addressable market, expand product portfolio and diversification of product range, Flair through FWEPL has forayed into the manufacturing a wide range of house ware products which includes premium steel bottles for exports. According to a CRISIL report, the Steel bottle industry is poised to grow at 14% – 16% CAGR over FY23 – FY28. Therefore, Flair would be able to make good this opportunity by leverage its manufacturing capabilities and brand image.

Valuation

At the upper end of the price band, the Flair IPO is valued at 24.0x diluted EPS of FY23. Linc, the direct comparable listed peer, is presently available at a TTM PE of 26.9x, indicating an attractive pricing. Flair, as the dominant player in the industry, can command a premium which can trigger a PE re-rating.

Therefore, given the aforementioned factors, we ascribe a "SUBSCRIBE" rating for the IPO of Flair. Investors with a medium to long-term horizon are encouraged to subscribe to the IPO.

Risk & Concern

- Sharp rise in input costs of plastic polymer prices.
- Increased competition.

Graphs & Charts

Figure 1: Revenue Trend (FY23)

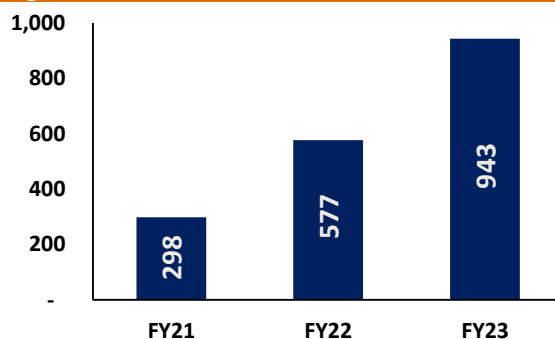


Figure 2: EBITDA and EBITDA Margin (FY23)

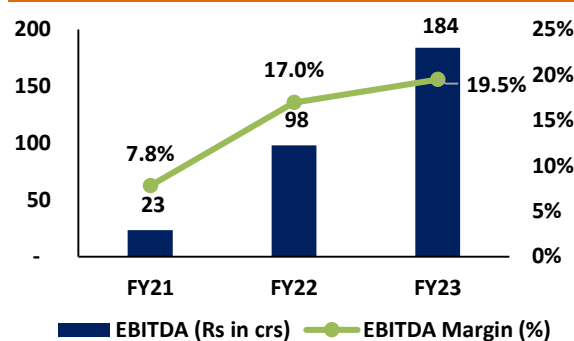


Figure 3: Region-wise Revenue Breakup (FY23)

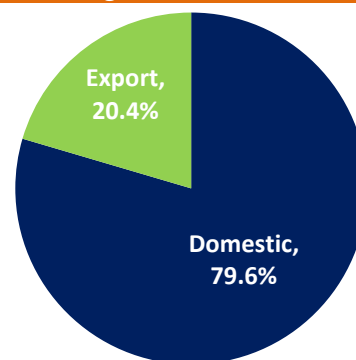
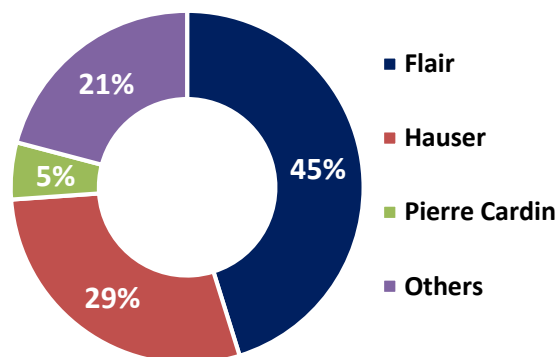


Figure 4: Brand-wise Revenue Breakup (FY23)



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