

Company Overview

Incorporated in 2018, Cello World Ltd. is a prominent player in the consumer ware 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 company's promoters (through their family) in the consumer products industry has enabled them to understand the preferences and needs of consumers in India, diversify the product portfolio and grow their multi-channel distribution network. This has enabled the company to curate an extensive product portfolio that caters to a diverse range of consumer requirements and offers a broad range of contemporary products across different ranges, types of material and price points. Cello owned/leased and operated 13 manufacturing facilities across five locations in India as of June 30, 2023, and is establishing a glassware manufacturing facility in Rajasthan. It has a robust pan-India distribution network supported by its 721-member sales team as of June 30, 2023. The company trades in houseware, insulated ware, electronic appliances and cleaning aids products. While most of the products it trades in are manufactured by its subsidiaries, others are manufactured by third parties.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

⇒ The selling shareholders will receive the entire offer proceeds.

Investment Rationale

Well-established brand name and strong market position

Cello has a strong market position in consumer products, reflecting their vast experience, continuous product development and consumer understanding. To enhance brand awareness and strengthen brand recall for their brands and sub-brands, the company utilizes a diverse array of promotional and marketing efforts, including in-shop displays, merchandising, advertisements in print and social media, retail branding and product branding. This diversified offering is a buffer against seasonality in demand by catering to various seasons, age categories, and occasions like home, office, gym, and outdoor settings. By providing options suitable for different needs, Cello maintains a more consistent level of demand throughout the year, minimizing the impact of seasonal fluctuations. Additionally, the company's ability to address diverse consumer preferences using raw materials such as plastic, steel, glass, and more ensures a broad appeal. It enhances customer satisfaction, bolstering brand loyalty. The company has developed a strong brand identity through effective brand advertisements and marketing campaigns, including "Cello – Companion for Life", "Cello – Rishta Zindagi Bhar Ka", "Hot Chahive Toh Cello" and "Don't Just Write, Glide".

Diversified product portfolio across price points catering to diverse consumer requirements

Cello focuses on identifying the needs and preferences of its consumers through its network of distributors and innovating its products to cater to their differing requirements and preferences. The company's products are available across various price points and meet the quality standards expected by its consumers. As of June 30, 2023, the company offered 15,891 SKUs across its product categories. To cater to evolving consumer demands, they seek to constantly develop and launch a new range of products by leveraging their vast experience, market knowledge and innovation capabilities. The company has been innovating and introducing new range of products such as its recently launched writing instruments, cleaning aids, opalware, glassware and cookware range of products and appliances, along with moulded furniture and allied products, to increase its market share. Cello's diversified product portfolio has allowed it to build a resilient business model to grow its business despite adverse events. The company's focus on a diversified product portfolio, which caters to a wide range of consumer uses across different age groups, festive seasons and occasions, has allowed it to maintain stable growth in its revenue over the years by enabling it to withstand fluctuations in demand arising from the seasonality of demand for some of its products. The company's widespread presence and scale of operations allow it to increasingly focus on branding and promotional activities to enhance its visibility in the consumer products industry and promote its products.

Issue Details

Offer Period	30 th Oct, 2023 - 01 st Nov, 2023
Price Band	Rs. 617 to Rs. 648
Bid Lot	23
Listing	BSE & NSE
Issue Size (no. of shares in mn)	29.3
Issue Size (Rs. in bn)	19
Face Value (Rs.)	5

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Kotak Mahindra Capital, IIFL Securities, Motilal Oswal, ICICI Sec, JM Fin
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	100.00%	91.80%
Public - Others	0.00%	8.20%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Cello World Ltd.

Valuation and Outlook

The Indian retail market has historically been characterized as largely fragmented and unorganized. By FY27, the total retail and organized retail are expected to reach USD 1,418 billion and USD 325 billion, respectively, exhibiting a CAGR of around 11% and 24% for total and organized retail, respectively, during the FY22-27 period. The emerging economies like India have a growing middle class willing to explore modern retail and seek organized retail formats as they offer both awareness and access to global brands. Cello has a diverse range of products across different product categories, types of material and price points, enabling it to serve as a “one-stop-shop”, with consumers across all income levels. Cello's extensive product range spans Drinkware, Insulatedware, Dinnerware, Serveware, and Glassware, and across categories like Cleaning supplies, Stationery, Small kitchen appliances, Moulded furniture, and Air coolers. Cello's utilization of various raw materials across its wide product range helps safeguard profit margins when facing fluctuations in raw material prices. By leveraging a mix of materials based on market dynamics, the company has adapted and prioritized those with more stable or favourable pricing, effectively managing costs and preserving margins. Moreover, Cello benefits from a distribution advantage due to its large off-take per retailer. Retailers, too, find it advantageous to stock Cello's products due to the comprehensive range, enabling them to fulfil diverse customer demands through a single brand. This results in higher sales volume per retailer. The company's revenue from operations grew at a CAGR of 30.8% during the FY21-23 period to reach Rs.17,966.95 million in FY23. Also, their profit grew at a CAGR of 31.2% during the FY21-23 period to reach Rs. 2,850.55 million in FY23. Cello World had the highest ROCE among its peers in FY23, at 44.5%. **The issue is valued at a P/E of 44.4x on the upper price band based on FY23 earnings, which is fairly valued compared to the average industry P/E of 45.5x. We, therefore, recommend a “SUBSCRIBE” for the benefit of listing gains for the issue.**

Key Risks

- ⇒ Fluctuations in raw material prices, especially plastic granules and plastic polymer prices, and disruptions in their availability may hurt its business, results of operations, financial condition and cash flows.
- ⇒ The company does not own the trademark for its key brands, including "Cello", "Unomax", "Kleeno", "Puro", and their respective logos. If they cannot renew the relevant agreements that grant them the license to use these trademarks and logos, its business, results of operations, financial condition and cash flows may be adversely affected. Further, one of its competitors also uses the "Cello" brand name for its writing instruments business. Any adverse impact on the "Cello" brand name due to the actions of competitors who utilize it may adversely affect their reputation and business.
- ⇒ If the company cannot maintain the existing capacity utilization rate, its margins and profitability may be adversely affected. Further, a slowdown or shutdown in their manufacturing operations could hurt their business, results of operations, financial condition and cash flows.

**Cello World Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23
Revenue			
Revenue from contract with customers	10,495	13,592	17,967
Total Revenue	10,495	13,592	17,967
Expenses			
Cost of materials consumed	3,531	5,322	6,478
Purchases of traded good	1,556	2,004	3,110
Changes in inventories of Finished goods and traded goods	127	(540)	(633)
Employee benefit expenses	968	1,319	1,576
Other expenses	1,544	2,151	3,231
Total Operating Expenses	7,727	10,257	13,762
EBITDA	2,767	3,335	4,205
Depreciation and Amortization expenses	489	476	503
Other income	101	159	167
EBIT	2,380	3,019	3,870
Finance costs	23	29	18
Exceptional Item	0	0	0
PBT	2,357	2,991	3,852
Current tax	712	807	1,016
Adjustment of tax relating to earlier years	(1)	2	(4)
Deferred Tax charge/ (credit)	(10)	(13)	(11)
Total tax	701	796	1,001
PAT	1,655	2,195	2,851
Diluted EPS	7.8	10.5	13.2

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash flow from operating activities	1,936	1,873	2,274
Cash flow from investing activities	(532)	(2618)	(5,568)
Cash flow from financing activities	(1,328)	941	3,238
Net increase/(decrease) in cash and cash equivalents	76	196	(57)
Cash and cash equivalents at the beginning of the period	91	167	363
Cash and cash equivalents at the end of the period	167	363	306

Source: RHP, BP Equities Research



Cello World Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	0	0	975
Instruments entirely equity in nature	0	0	0
Other equity	(1,068)	876	2,390
Non-controlling interest	1,722	1,851	1,999
Total Equity	654	2,728	5,364
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	0	0	87
(ii) Lease Liabilities	104	87	71
(iii) Others	0	0	4,831
Provisions	36	45	25
Deferred tax liabilities (net)	82	84	84
Current Liabilities			
Financial Liabilities			
(i) Borrowings	3,221	4,525	3,174
(ii) Lease Liabilities	16	17	19
(iii) Trade Payable	984	1,255	1,342
(iv) Others	6,101	4,345	167
Current tax liabilities	50	34	36
Short Term Provisions	17	15	14
Net Employee defined benefit liabilities	0	0	0
Other current liabilities	200	202	304
Total Current Liabilities	10,588	10,393	5,055
Total Liabilities	10,811	10,609	10,153
Total Equity and Liabilities	11,465	13,337	15,517
Assets			
Non-Current Assets			
Property, plant and equipment	2,376	2,387	2,537
Capital work in Progress	43	118	209
Right of Use assets	212	193	176
Goodwill	4	5	4
Other Intangible Assets	0	0	0
Intangible Assets under development	0	28	48
Financial Assets			
(i) Investments	0	0	8
(ii) Other Investments	450	350	498
(iii) Other financial assets	87	99	89
(iv) Loans	19	12	76
Non Current tax assets(net)	6	23	23
Deferred tax assets(net)	21	28	47
Other non current assets	41	142	402
Total Non current assets	3,260	3,386	4,118
Current Assets			
Inventories	3,069	3,765	4,298
Financial Assets			
(i) Trade Receivables	3,714	4,067	4,623
(ii) Cash and cash equivalents	167	363	306
(iii) Bank balances other than cash and cash equivalents	158	184	193
(iv) Investments	747	1,150	1,263
(v) Loans	14	20	12
(vi) Others	48	34	174
Other current assets	288	368	375
Total Current Assets	8,205	9,951	11,245
Assets classified as held for sale	0	0	154
Total Assets	11,465	13,337	15,517

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392