

4 March 2024

Cello World Ltd – BUY

CMP : Rs. 833
Target Price : Rs. 1,050
Upside : 26%
Stop Loss : Rs. 767 (Closing basis)

Investment Thesis

- Cello World (Cello) has a robust nationwide brand recognition supported by its wide-ranging product assortment of approximately 15,841 items and extensive distribution channels, including over 3,300 distributors and more than 126,000 retailers. This infrastructure enables the company to efficiently grow its current product lines and swiftly introduce new ones, such as Glassware in 2017 and Writing Instruments in 2019.
- Cello's broadening of its product range is facilitated by its strong manufacturing capability, with approximately 79% of production conducted in-house across 13 plants situated in five locations. Responding to increasing demand and aiming to reduce dependence on imported glassware, Cello is constructing a new glassware facility with a capacity of 20,000 metric tons per annum (MTPA) in Falna, Rajasthan. Additionally, the company is augmenting its Opalware capacity by 10,000 MTPA in Daman, thus bolstering its self-sufficiency in manufacturing.
- Moreover, Cello, along with its various product segments, capitalizes on the expanding Total Addressable Market (TAM) within each category. The overall TAM for Cello is projected to achieve a compound annual growth rate (CAGR) of 13% from FY23 to FY27, rising to INR 1,229bn by FY27 from INR 743bn in FY23. Notably, the Opalware and Glassware segments within consumer houseware are anticipated to exhibit the highest CAGRs of 18% and 15%, respectively.
- The company introduced its Glassware and Kleeno (cleaning products) segments in 2017. These segments generated revenues of INR 2.8bn and INR 0.66bn, respectively, in FY23, representing CAGRs of 36% and 17% from FY21 to FY23. Similarly, Cello reintroduced the writing instrument segment under the 'UNOMAX' brand in 2019 and rapidly scaled it to generate revenues of INR 2.9bn by FY23, achieving a CAGR of 60% over FY21-23. These recently launched ventures already contribute 35% to the revenue in FY23.
- In the consumer houseware sector, Cello provides an extensive variety of product categories, including houseware/thermoware, steelware, melamine, appliances, and cleaning products sold under the 'Kleeno' brand. Houseware/thermoware holds the predominant share in Cello's houseware segment, constituting approximately 57% of the revenue mix in FY23, with steelware following as the next significant contributor.

Financials

- Cello has delivered a strong revenue growth over the last two years with a revenue CAGR of 31% over FY21-23, fueled by all the product segments.

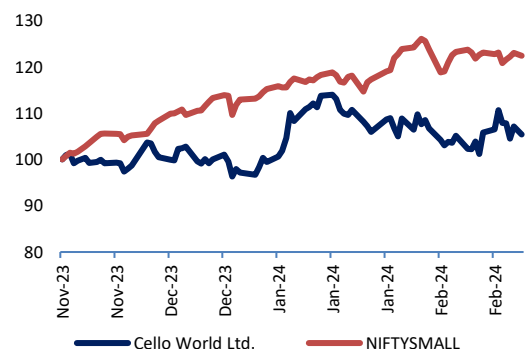
Particulars	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	1,049	1,359	1,797	2,246
EBITDA (Rs in Crs)	287	350	437	539
Adj. PAT (Rs in Crs)	151	204	266	314
Adj. EPS (Rs.)	7.13	9.62	12.55	14.83
PE Multiple (x)	119x	89x	68x	57x
RoE (%)	(142%)	233%	79%	51%

Stock Data	
Market Cap (Rs. Crs)	17,685
Market Cap (\$ Mn)	2,133
Shares O/S (in Mn)	212
Avg. Volume (3 month)	5,33,820
52-Week Range (Rs.)	949 / 749

Shareholding Pattern	
Promoters	78.06 %
FII's	3.02 %
Institutions	12.75 %
Others (incl. body corporate)	6.17 %

Key Ratios	
Div Yield	0.0%
TTM PE	62.1x
ROE	125%
TTM EPS (Rs.)	13.64/-

Stock Performance			
Performance (%)	1M	6M	1Yr
ABSOLUTE	(3.2%)	NA	NA
NIFTYSMALL	(1.2%)	NA	NA



- The writing instruments segment recorded the fastest growth at 60%, followed by Consumerware at 33%, while the molded furniture segment exhibited a decent 11% CAGR over the period.
- Cello's margin have dipped in the last few years, led by declining EBIT margins in the Consumerware business to 23% in FY23 from 25% in FY21. This was majorly on the back of an increase in advertising expenses (1.3% of sales in FY23 vs. 0.9% in FY21).
- Writing Instruments EBIT margins remained stable at ~23% over the last three years, while Molded Furniture business margins witnessed an expansion of 100bp.

Key Business Highlights

- Founded in 2018, Cello traces its roots back to the involvement of the late Ghisulal Dhanraj Rathod, who had been associated with Cello Plastic Industrial Works and the "Cello" brand since 1962, and now succeeded by his sons, Pradeep Ghisulal Rathod and Pankaj Ghisulal Rathod.
- Cello is a renowned household name spanning various sectors, including consumer houseware (contributing 66% in FY23), writing instruments & stationery (16%), and moulded furniture & allied products (18%). With over six decades of experience, the company excels in launching and nurturing new ventures.
- The company consistently enhances its distribution efficiency by: i) expanding the distributor network while optimizing their coverage areas for better focus; ii) investing in technological upgrades for the sales team, integrating an automated order tracking mobile app; and iii) streamlining SKUs with distributors through ERP systems to meet area-specific demands effectively.
- Cello has curated a robust brand portfolio, featuring main brands like "Cello" and "Unomax," supplemented by various sub-brands. Leveraging its expertise and innovation, the company adapts to evolving consumer needs by introducing new product lines across approximately 15,841 SKUs, emphasizing its commitment to innovation and growth.
- Offering a diverse range of products at different price points, Cello caters to consumers across income brackets, addressing a wide spectrum of needs comprehensively.
- Cello's expansion in product variety is supported by its extensive nationwide distribution network comprising over 3,300 distributors and more than 126,000 retailers. This network is supported by a nationwide sales team of 721 members as of June 2023, up from 683 in March 2023.

Valuation

Cello currently trades at a PE of 68.2x as compared to the industry PE of 39.1x indicating a significant premium commanded by the company. The ROE / ROCE levels remain stellar at 125% / 48% respectively. We estimate the Revenue / EBITDA / PAT to grow at a CAGR of 25% / 24.4% / 22.7% respectively.

We are ascribing a **BUY** rating for Cello World with a **Target Price of Rs. 1,050, translating into an upside of 26 %.**

Risk & Concern

- Raw material price fluctuations such as plastic granules can lead to margin contraction.
- Dependence on third-party manufacturers for certain products which may impact quality and the company will have less control over the distribution.
- Cello faces competitive pressure from other players in the industry both large scale and local, affecting their bargaining power.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

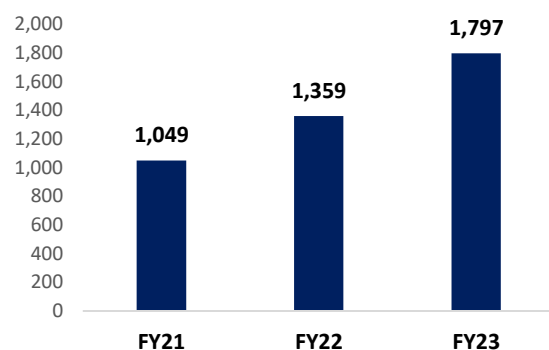


Figure 2: EBITDA & EBITDA Margin Trend

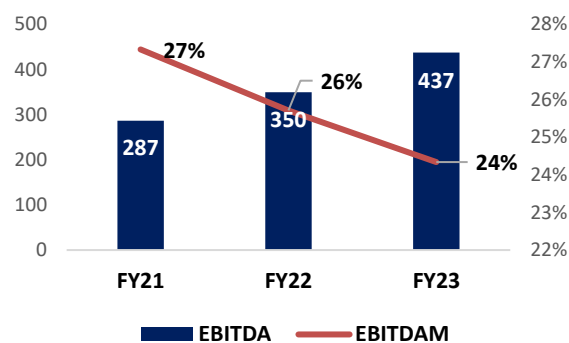


Figure 3: Channel Wise Revenue Mix

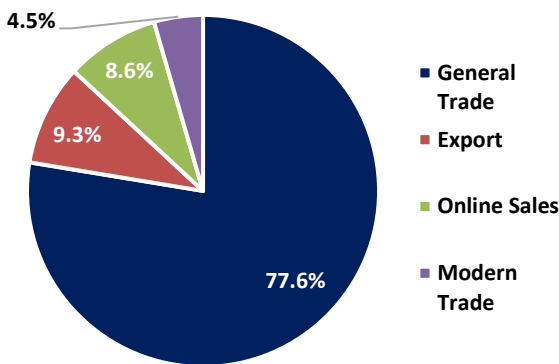
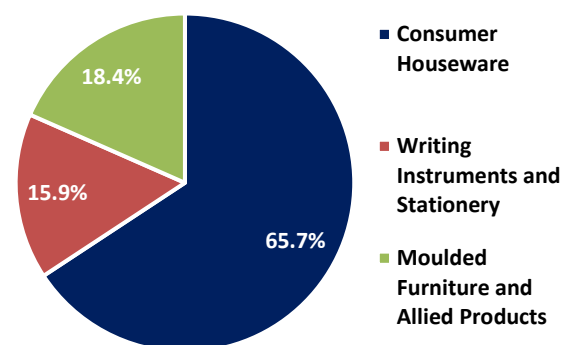


Figure 4: Revenue Split Product Wise



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