Cello World

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	CELLO IN
Equity Shares (m)	212
M.Cap.(INRb)/(USDb)	185.3 / 2.2
52-Week Range (INR)	964 / 711
1, 6, 12 Rel. Per (%)	-8/-4/-
12M Avg Val (INR M)	517

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	20	23.8	28.5
EBITDA	5	6.2	7.7
Adj. PAT	3.3	4.1	5.1
EBITDA Margin (%)	25	26.1	27
Cons. Adj. EPS (INR)	15.6	19.1	24
EPS Gr. (%)	24.4	22.6	25.4
BV/Sh. (INR)	54.1	72.5	95.8
Ratios			
Net D:E	0.2	-0.1	-0.3
RoE (%)	28.8	26.4	25
RoCE (%)	33	28	29.9
Valuations			
P/E (x)	56	45.7	36.4
EV/EBITDA (x)	37.5	30.1	23.7

Shareholding pattern (%)

As on	Mar-24	Dec-23
Promoter	78.1	78.1
DII	12.4	12.8
FII	4.4	3.0
Others	5.1	6.2

Note: FII includes depository receipts

CMP: INR873 TP: INR1,090 (+25%) Buy

Strategies in place for healthy growth trajectory

Earnings in line with estimates

- CELLO reported revenue growth of 5%/11% YoY in 4Q/FY24, led by volume growth of ~8%/15%. EBITDA grew by 20% YoY in 4Q/FY24 as margin expanded by 330bp/180bp, aided by lower raw material costs and a better product mix.
- The management has laid down its growth strategy, involving: 1) the launch of new products; 2) premiumization of consumerware products; 3) increasing glassware capacity; 4) inorganic acquisitions in existing segments; and 5) rationalization/expansion of distribution network.
- We maintain our FY25/FY26 EPS estimates and retain our BUY rating on the stock with a TP of INR1,090.

Lower RM costs and better product mix drive margin expansion

- Consolidated revenue grew 5% YoY to INR5.1b in 4QFY24 (down ~3% QoQ), while EBITDA grew ~20% YoY to INR1.3b (up ~1% QoQ). EBIDTA margins expanded by 330bp YoY to 26% (up 90bp QoQ) as gross margin improved 150bp QoQ, aided by lower raw material costs and a favorable product mix. Adjusted PAT grew 5% QoQ to INR888m. (Note: base year numbers are not reported)
- Consumerware segment revenue (64%/66% of total revenue in 4Q/FY24) declined 7% QoQ to INR3.3b, mainly led by a weak demand scenario in Jan/Feb'24 and subdued realization. FY24 revenue grew 12% YoY to INR13.2b, with the consumer glassware segment growing 24% to INR3.4b (26% of consumerware revenue) and the consumer houseware segment growing 8% YoY to INR9.8b (74%).
- Revenue of the writing instruments (17% each)/moulded furniture (19%/17%) segments grew by 1%/13% QoQ in 4Q, largely led by volume growth (up 11%/18% YoY).
- In FY24, consolidated revenue/EBITDA/adj. PAT grew 11%/20%/24% YoY to INR20b/INR5.1b/INR3.3b, largely led by average volume growth of ~15% across products.
- For FY24, net debt stood at INR1.8b vs. INR1.5b in FY23, while CFO was INR2.3b (flat YoY).
- Net working capital days increased to 169 as of Mar'24 vs. 154 as of Mar'23, mainly led by an increase in receivable days to 111 (vs. 94 in Mar'24). The increase in receivables was due to higher credit given to distributors to push the company's products into the market amid a sluggish demand scenario.

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Highlights from the management commentary

- **Demand outlook:** The company witnessed a pickup in demand in Mar/Apr'24; however, it has subsided now due to ongoing general elections. Going ahead, with a better monsoon forecast in CY24, the management expects a strong pickup in rural demand.
- **Guidance**: The management guides 15-17% revenue growth, led by volume growth of 15-17%. Revenue growth can touch 20% in case of a faster ramp-up of the glassware capacity and an improvement in the pricing scenario. EBITDA margins will remain steady in the range of 24-26% in FY25. Consumer glassware revenue will be ~INR4.60-4.75b in FY25, while consumer houseware is expected to grow by 15%.
- **Fund raise:** The company has announced a fundraise for the repayment of debt (including promoter's loans), further expansion of glassware capacity and inorganic acquisitions in the existing segments.

Valuation and view

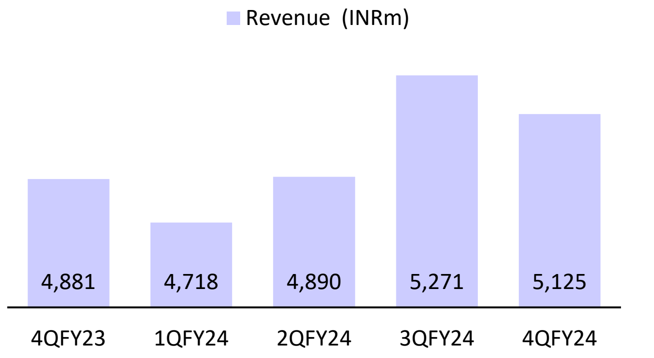
- Operating in diverse industries, CELLO benefits from an expanding TAM (CAGR of 13% over FY23-27 to INR1,229b), driven by various sector-specific tailwinds, including favorable demographics, increased discretionary spending, greater product penetration, import substitution, innovation, evolving gifting trends, and brand loyalty. We estimate CELLO to grow faster than the industry.
- The company is expected to post a robust CAGR of 19%/24%/24% in revenue/EBITDA/adj. PAT over FY25-26. This will be driven by the expansion of both SKUs and distribution reach, coupled with strong growth in the glassware segment after the ramp-up of the new plant in Rajasthan.
- **We reiterate our BUY rating on CELLO with a TP of INR1,090 (premised on 45x FY26E EPS).**

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY24				FY23	FY24	FY24E	Var
	1Q	2Q	3Q	4Q			4Q	
Gross Sales	**4,718**	**4,890**	**5,271**	**5,125**	**17,967**	**20,003**	**5,700**	**-10%**
YoY Change (%)	NA	NA	NA	5.0	32.2	11.3	NA	
Total Expenditure	3,526	3,687	3,949	3,792	13,762	14,954	4,335	
EBITDA	**1,192**	**1,203**	**1,321**	**1,333**	**4,205**	**5,049**	**1,365**	**-2%**
Margins (%)	25.3	24.6	25.1	26.0	23.4	25.2	24.0	
Depreciation	118	127	147	175	503	567	183	
Interest	6	7	5	8	18	26	4	
Other Income	81	107	45	66	167	299	30	
PBT before EO expense	**1,149**	**1,176**	**1,214**	**1,215**	**3,852**	**4,755**	**1,208**	
Extra-Ord expense	0	0	0	0	0	0	0	
PBT	**1,149**	**1,176**	**1,214**	**1,215**	**3,852**	**4,755**	**1,208**	
Tax	321	310	307	250	1,001	1,188	257	
Rate (%)	27.9	26.4	25.3	20.6	26.0	25.0	21.3	
Minority Interest & Profit/Loss of Asso. Cos.	54	66	58	77	189	256	39	
Reported PAT	**774**	**800**	**849**	**888**	**2,661**	**3,311**	**912**	
Adj PAT	**774**	**800**	**849**	**888**	**2,661**	**3,311**	**912**	**-3%**
YoY Change (%)	NA	NA	NA	-81.8	30.5	24.4	NA	
Margins (%)	16.4	16.4	16.1	17.3	14.8	16.6	16.0	

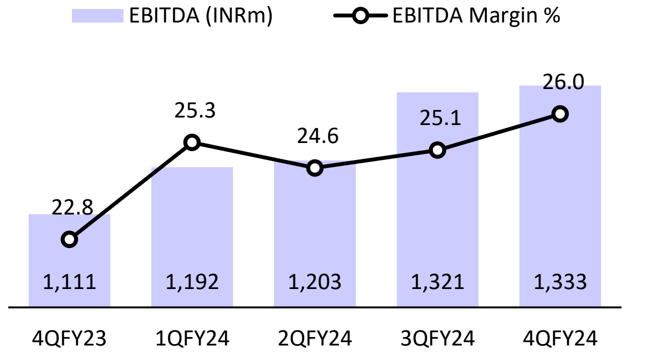
Key Exhibits

Exhibit 1: Consolidated revenue trend



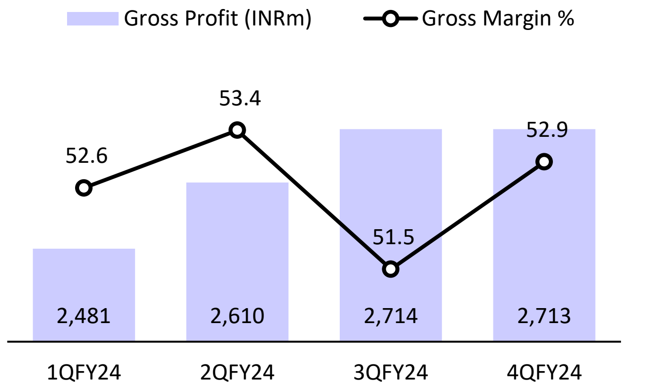
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



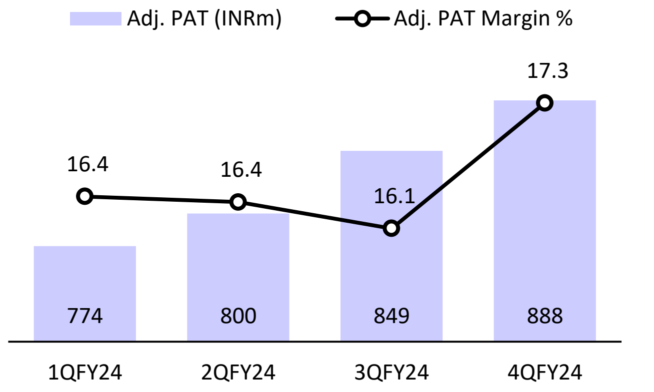
Source: Company, MOFSL

Exhibit 3: Consolidated Gross margin trend



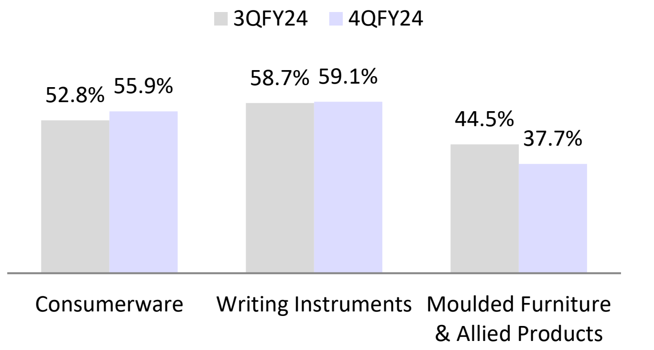
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



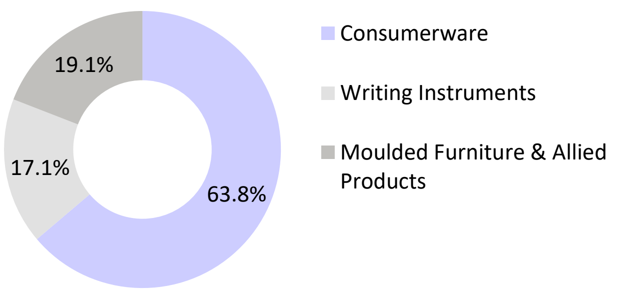
Source: Company, MOFSL

Exhibit 5: Gross margins across segments (4QFY24)



Source: Company, MOFSL

Exhibit 6: Segment-wise revenue mix (4QFY24)



Source: Company, MOFSL

Highlights from the management commentary

Operating Performance

- The company reported volume growth of ~8% in 4QFY24, with consumerware segment volume growing by 7-8%, writing by 11% and moulded furniture by 18%.
- For FY24, volume growth was ~15%, with consumerware segment growing by 18%, writing by 19-20% and moulded furniture by 15%.
- Demand was weak in Jan/Feb'24. Urban demand is still below the FY23 level.
- The company witnessed a pickup in overall demand in Mar/Apr'24; however, it has slowed now due to the ongoing general elections. Going ahead, with a better monsoon forecast in CY24, the management expects a strong pickup in rural demand.
- Gross margins for the consumerware/writing instrument/moulded furniture segments in 4QFY24 were ~56%/59%/38%. For consumerware/writing instrument, margins improved QoQ on the back of a better product mix (better bottle sales for consumerware segment). For moulded furniture, margins contracted QoQ due to lower realizations.
- Net working capital days increased to 169 as of Mar'24 vs. 154 as of Mar'23, mainly led by an increase in receivable days to 111 (vs. 94 in Mar'24). The increase in receivables was due to higher credit given to distributors to push the company's products into the market amid a sluggish demand scenario. The management expects working capital days to revert to FY23 levels by Sep'24.
- The bottle category is doing well, especially in glass, due to the heat and the individual bottle system started in the last four years.

Product Development

- The company launched a new product line of insulated lunch carriers made of steel and plastic. The company is also premiumizing some of its product lines in the consumer business.
- With the implementation of BIS standards on imports from China, there will be some short-term disruption of imports. The company is also looking to manufacture some of the products that are being imported (mainly vacuum insulated bottles - ~80% of the total imports).
- The company also plans to set up vacuum-insulated bottle capacity. The capex requirement for setting up 5-10 lines is ~INR300-350m.
- Under the BIS standards, the supplier needs to get the quality certificate and then can export to India within the set quality requirements.
- The management indicated that despite the implementation of BIS standards, imports will continue to increase in India as the quality and costs of imported products are still better than the products manufactured in India.

Guidance

- The management guides 15-17% revenue growth, led by volume growth of 15-17%. The management further indicated that revenue growth can also touch 20%, led by a faster ramp-up of glassware capacity and an improving pricing scenario.
- EBITDA margins are expected to remain steady in the range of 24-26% in FY25.
- Consumer glassware revenue is expected to be ~INR4.60-4.75b in FY25, while consumer houseware is expected to grow by 15%.

- Capex for FY25 is expected to be ~INR600-700m.
- Capacity utilization in FY24 was 62-65% and the management indicated that it could touch ~80% of the total installed capacity by FY25.

Other Highlights

- The company has announced a fundraise for the repayment of debt (including promoter's loans), further expansion of glassware capacity and inorganic acquisitions in the existing segments.
- CELLO has an opportunity to buy a consumer company (listed space), which is good in its segment and adds value to CELLO's product line.
- The contribution of exports to total revenue is 10% in FY24 vs. 8% in FY23. The writing instrument segment accounts for the majority of exports, which make up ~40-42% of total writing instrument revenue in FY24 vs. 45% in FY23.
- The company does not expect any further capex in the opalware segment for another one and a half years until it is fully utilized.

Valuation and view

- Operating in diverse industries, CELLO benefits from an expanding TAM (CAGR of 13% over FY23-27 to INR1,229b), driven by various sector-specific tailwinds, including favorable demographics, increased discretionary spending, greater product penetration, import substitution, innovation, evolving gifting trends, and brand loyalty. We estimate CELLO to grow faster than the industry.
- The company is expected to post a robust CAGR of 19%/24%/24% in revenue/ EBITDA/adj. PAT over FY25-26. This will be driven by the expansion of both SKUs and distribution reach, coupled with strong growth in the glassware segment after the ramp-up of the new plant in Rajasthan.
- **We reiterate our BUY rating on CELLO with a TP of INR1,090 (premised on 45x FY26E EPS).**

Exhibit 7: Changes to our estimates

Earnings change	Old		New		Change	
(INR m)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	24,642	29,158	23,815	28,541	-3%	-2%
EBITDA	6,407	7,785	6,192	7,706	-3%	-1%
Adj. PAT	4,170	5,142	4,058	5,091	-3%	-1%

Financials and valuations

Consolidated - Income Statement						(INRm)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Total Income from Operations	**10,495**	**13,592**	**17,967**	**20,003**	**23,815**	**28,541**
Change (%)	NA	29.5	32.2	11.3	19.1	19.8
RM Cost	5,214	6,786	8,955	9,484	11,265	13,357
Employees Cost	968	1,319	1,576	1,895	2,191	2,569
Other Expenses	1,544	2,151	3,231	3,575	4,168	4,909
Total Expenditure	**7,727**	**10,256**	**13,762**	**14,954**	**17,623**	**20,835**
EBITDA	**2,767**	**3,336**	**4,205**	**5,049**	**6,192**	**7,706**
Margin (%)	26.4	24.5	23.4	25.2	26.0	27.0
Depreciation	489	476	503	567	717	877
EBIT	**2,278**	**2,860**	**3,702**	**4,481**	**5,475**	**6,829**
Int. and Finance Charges	23	29	18	26	16	2
Other Income	101	159	167	299	357	428
PBT bef. EO Exp.	**2,357**	**2,991**	**3,852**	**4,755**	**5,816**	**7,255**
EO Items	0	0	0	0	0	0
PBT after EO Exp.	**2,357**	**2,991**	**3,852**	**4,755**	**5,816**	**7,255**
Total Tax	701	796	1,001	1,189	1,464	1,826
Tax Rate (%)	29.8	26.6	26.0	25.0	25.2	25.2
Minority Interest	143	155	189	256	294	338
Reported PAT	**1,512**	**2,040**	**2,661**	**3,310**	**4,058**	**5,091**
Adjusted PAT	**1,512**	**2,040**	**2,661**	**3,310**	**4,058**	**5,091**
Change (%)	NA	34.9	30.5	24.4	22.6	25.4
Margin (%)	14.4	15.0	14.8	16.5	17.0	17.8

Consolidated - Balance Sheet						(INRm)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Equity Share Capital	0	0	975	1,061	1,061	1,061
Total Reserves	-1,068	876	2,390	10,431	14,330	19,261
Net Worth	**-1,068**	**876**	**3,365**	**11,492**	**15,391**	**20,323**
Minority Interest	1,722	1,851	1,999	2,206	2,501	2,839
Total Loans	3,221	4,525	3,261	3,627	627	27
Deferred Tax Liabilities	82	84	84	126	126	126
Capital Employed	**3,957**	**7,336**	**8,709**	**17,452**	**18,645**	**23,315**
Gross Block	2,901	2,898	3,388	4,857	6,997	7,495
Less: Accum. Deprn.	309	312	671	1,238	1,955	2,832
Net Fixed Assets	**2,592**	**2,586**	**2,717**	**3,619**	**5,042**	**4,663**
Capital WIP	43	145	256	1,800	310	312
Total Investments	**1,197**	**1,500**	**1,769**	**1,698**	**1,698**	**1,698**
Current Investments	747	1,150	1,263	1,141	1,141	1,141
Curr. Assets, Loans&Adv.	**7,633**	**9,106**	**10,774**	**12,601**	**14,293**	**19,875**
Inventory	3,069	3,765	4,298	4,622	5,416	6,490
Account Receivables	3,714	4,067	4,623	6,106	6,199	7,428
Cash and Bank Balance	325	547	499	651	1,223	4,212
Loans and Advances	525	726	1,354	1,223	1,456	1,745
Curr. Liability & Prov.	**7,508**	**6,000**	**6,808**	**2,266**	**2,698**	**3,233**
Account Payables	984	1,255	1,342	1,442	1,717	2,057
Other Current Liabilities	6,471	4,685	5,428	783	932	1,117
Provisions	53	60	39	41	49	59
Net Current Assets	**125**	**3,106**	**3,966**	**10,335**	**11,595**	**16,642**
Appl. of Funds	**3,957**	**7,336**	**8,709**	**17,452**	**18,645**	**23,315**

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)						
EPS	**7.1**	**9.6**	**12.5**	**15.6**	**19.1**	**24.0**
Cash EPS	9.4	11.9	14.9	18.3	22.5	28.1
BV/Share	NA	4.1	15.9	54.1	72.5	95.8
DPS	0.0	0.0	0.0	0.8	0.8	0.8
Payout (%)	0.0	0.0	0.0	4.8	3.9	3.1
Valuation (x)						
P/E	122.6	90.9	69.6	56.0	45.7	36.4
Cash P/E	92.6	73.7	58.6	47.8	38.8	31.1
P/BV	NA	211.5	55.1	16.1	12.0	9.1
EV/Sales	16.6	14.0	9.7	9.5	7.8	6.4
EV/EBITDA	62.9	57.0	41.3	37.5	30.1	23.7
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.1
FCF per share	8.7	6.4	6.4	-1.6	16.0	15.7
Return Ratios (%)						
RoE	NA	232.8	79.1	28.8	26.4	25.0
RoCE	NA	58.7	47.6	33.0	28.0	29.9
RoIC	NA	55.7	48.4	34.5	28.5	31.4
Working Capital Ratios						
Fixed Asset Turnover (x)	3.6	4.7	5.3	4.1	3.4	3.8
Asset Turnover (x)	2.7	1.9	2.1	1.1	1.3	1.2
Inventory (Days)	107	101	87	84	83	83
Debtor (Days)	129	109	94	111	95	95
Creditor (Days)	34	34	27	26	26	26
Leverage Ratio (x)						
Current Ratio	1.0	1.5	1.6	5.6	5.3	6.1
Interest Cover Ratio	100.1	100.4	210.8	175.5	347.1	2,979.6
Net Debt/Equity	NA	3.2	0.4	0.2	-0.1	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	2,357	2,991	3,852	4,750	5,816	7,255
Depreciation	489	476	503	567	717	877
Interest & Finance Charges	22	26	14	26	-341	-426
Direct Taxes Paid	-681	-843	-1,010	-1,160	-1,464	-1,826
(Inc)/Dec in WC	-221	-728	-1,150	-1,667	-688	-2,058
CF from Operations	**1,966**	**1,923**	**2,210**	**2,516**	**4,040**	**3,822**
Others	-29	-50	64	-204	0	0
CF from Operating incl EO	**1,936**	**1,873**	**2,274**	**2,312**	**4,040**	**3,822**
(Inc)/Dec in FA	-248	-516	-1,032	-2,649	-650	-500
Free Cash Flow	**1,688**	**1,356**	**1,242**	**-337**	**3,390**	**3,322**
(Pur)/Sale of Investments	0	0	0	0	0	0
Others	-126	-2,075	-4,527	228	357	428
CF from Investments	**-375**	**-2,592**	**-5,559**	**-2,421**	**-293**	**-72**
Issue of Shares	0	0	-151	0	0	0
Inc/(Dec) in Debt	1,775	1,254	-1,264	191	-3,000	-600
Interest Paid	-15	-16	-5	-22	-16	-2
Dividend Paid	-1	-60	-96	-46	-159	-159
Others	-3,086	-237	4,754	138	0	0
CF from Fin. Activity	**-1,328**	**941**	**3,238**	**260**	**-3,175**	**-761**
Inc/Dec of Cash	**233**	**222**	**-47**	**151**	**573**	**2,989**
Opening Balance	91	325	547	499	651	1,223
Closing Balance	**325**	**547**	**499**	**651**	**1,223**	**4,212**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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