

BSE SENSEX  
82,133

S&P CNX  
24,768

**CMP: INR830**

**TP: INR1,000 (+20%)**

**Buy**



**Stock Info**

Bloomberg	CELLO IN
Equity Shares (m)	221
M.Cap.(INRb)/(USD\$b)	183.4 / 2.2
52-Week Range (INR)	1025 / 711
1, 6, 12 Rel. Per (%)	-3/-11/-14
12M Avg Val (INR M)	257
Free float (%)	25.0

**Financials Snapshot (INR b)**

Y/E MARCH	FY25E	FY26E	FY27E
Sales	22.1	26.5	32.1
EBITDA	5.6	7.2	8.7
Adj. PAT	3.6	4.7	5.8
EBITDA Margin (%)	25.3	27.2	27.1
Cons. Adj. EPS (INR)	17	22.1	27.3
EPS Gr. (%)	9.3	29.6	23.5
BV/Sh. (INR)	70.4	91.8	118.3

**Ratios**

Net D:E	-0.1	-0.3	-0.4
RoE (%)	24	24	26
Payout (%)	25	29	28

**Valuations**

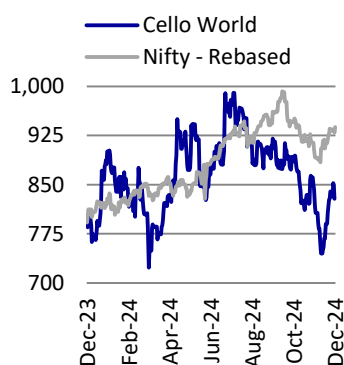
P/E (x)	49	38	30
EV/EBITDA (x)	32	24	20

**Shareholding Pattern (%)**

As On	Sep-24	Jun-24
Promoter	75.0	78.1
DII	13.6	12.1
FII	7.7	5.9
Others	3.7	4.0

FII includes depository receipts

**Stock Performance (one-year)**



**Penning the growth story ahead**

Cello World Ltd (CELLO) has achieved significant success within the writing instrument segment (accounted for ~17% of its consolidated revenue in FY24) following its re-entry into the space in CY19. Currently, Unomax (CELLO's brand) is one of the leading brands in the industry, posting revenue of ~INR3.3b in FY24 (~44% revenue CAGR over FY21-24) along with industry best margin profile. The domestic business accounted for ~60% of segmental revenues in FY24, with exports accounting for the rest.

- The domestic business is expected to sustain strong growth momentum as the company has adopted a multi-pronged strategy wherein it will focus on enhancing the distribution network (with the goal to reach over 0.2m outlets by FY26 vs ~0.12m as of FY24), increasing market penetration (~60-65% as of FY24) and expand its product portfolio (in the process of adding more products within the segment).
- The exports business was adversely impacted by logistic-related challenges in 1HFY25 (revenue declined on a YoY basis). Although challenges in key markets such as Russia persist, the company anticipates a much stronger 2H, led by the improving situation and a seasonally strong 4Q.
- In the medium to long run, the company will focus on diversifying its reach by entering into newer countries (will also reduce the concentration risk) and strengthening its market share within existing geographies, ensuring its return to a strong growth trajectory.
- CELLO's writing instrument segment commands the highest margins among peers (EBIT of ~25.8% in FY24 vs 18.1%/9.6% for Flair/Linc), and we expect this to continue on account of its focus on premiumization, differentiated market positioning, and superior cost management. We expect the writing instrument segment to clock ~20% revenue CAGR over FY24-27, with EBIT margins to sustain at ~25%.

**Adopting a multi-pronged strategy to ride the growing market**

- CELLO forayed into the writing instrument business under the brand 'Cello' in CY95 and has since achieved remarkable success, becoming a household brand over the years. It sold the brand to a French company 'Bic Clichy' in CY15.
- However, considering the huge potential within the writing instrument industry (Domestic TAM of ~INR134b as of FY23; expected to clock ~16% CAGR over FY23-27E), CELLO decided to re-enter the market under the brand 'Unomax' following the expiration of the non-compete clause in CY19.
- Post its re-entry, the company rapidly scaled its writing instrument division, re-establishing itself among the top brands in the segment. It recorded sales of ~INR3.3b in FY24, reflecting an impressive ~44% revenue CAGR over FY21-24 (accounting for ~17% of CELLO's consolidated revenue in FY24).
- Although the company witnessed headwinds in 1HFY25 as a result of declining exports, it is confident of a much better 2H and expects to maintain strong growth momentum in the medium to long run.

- CELLO is pursuing a multi-pronged strategy centered on expanding its distribution network (~0.2m outlets by FY26 vs ~0.12m in FY24), diversifying its product portfolio, and entering untapped international markets.
- The company is in the process of adding more products within the writing instrument segment (recently launched highlighter pens). It continues to leverage its collaborations/partnerships with the likes of Disney/Marvel for more visibility.
- In line with its focus on premiumization, the company has launched multiple higher price point products, such as metal and executive pens, colored pens, and cartridge fountain pens. Currently, Unomax is present in all price points from INR10 onwards and does not expect to enter the segment below this price point.
- Accordingly, factoring in CELLO's strategic roadmap to sustain the strong growth momentum, we expect its writing instrument segment to clock ~20% revenue CAGR over FY24-27.

#### **Navigating near-term export challenges; poised to grow in the longer run**

- CELLO re-entered the writing instrument segment with solely export sales in the initial year and expanded into domestic markets later on. As of FY24, export sales still account for ~40% of the segmental revenue.
- Globally, the writing instrument market was valued at ~USD17.7b (~INR1.5t) as of CY23 and is expected to clock ~4.4% CAGR over CY24-30. CELLO's ~40% export revenue share is the highest among peers (Flair/Linc have export shares of ~19%/20%), reflecting its strong global reach.
- However, the volatile geo-political situation led to headwinds within the export segment, leading to a decline in segmental revenue over 1HFY25.
- CELLO witnessed container-related issues (delay of ~2-3 months) while shipping to key export markets of Russia and US. The increased sanctions have complicated trade with Russia, while disruptions in the Red Sea have adversely impacted logistics to the US.
- The situation is gradually improving but will continue to remain challenging, especially in Russia, due to ongoing internal issues. Nonetheless, the company expects 2H to be much stronger than 1H, led by a seasonally strong 4Q.
- Domestic demand for the writing instrument segment continues to remain strong. Accordingly, we expect the segment to post ~10% revenue growth for FY25, despite the drag in 1H.
- Within the medium to longer run, CELLO plans to target new geographies to ramp up the segment (this will also help reduce concentration risks). It also plans to strengthen its share within existing geographies by improving its presence and distribution network.
- Factoring in the huge addressable market, growing global opportunity and strategic roadmap of CELLO to further tap into global markets, we expect exports to maintain material contribution within the writing instrument segment.

### Standing out among peers

- Within its listed peers in the writing instrument segment, Linc and Flair are the largest competitors for the company, while DOMS has recently entered the space.
- While Flair is the largest player in the market with revenue of ~INR9.2b in FY24 (highest growth rate at ~47% CAGR over FY21-24), its margin profile is still relatively weaker compared to CELLO.
- Despite being a relatively new player, CELLO is leading in terms of margins, driven by its strong experience (developed CELLO as a household writing instrument brand over CY1995-2015), differentiated market positioning (presence across all price segments), and a focus on premiumization (diverse range of premium products includes metal pens, executive pens, cartridge fountain pens, etc.). CELLO's superior EBIT margins (~25.8% in FY24 vs ~18.1%/9.6% for Flair/Linc) also indicate its superior cost management over peers.
- CELLO's distribution reach is still way below its competition, with 1,522 distributors as of FY24 vs 8,080/2,871 for Flair/Linc. (though it has been present in the market for only half a decade, while its peers have an experience of over 2-3 decades). However, this indicates a greater potential for CELLO to tap into the untapped market and capture further market share within the industry.
- **Overall, we believe that Unomax is positioned very well in a growing market and is expected to grow at a much higher rate than the industry going forward.**

### Valuation and view

- Operating in diverse industries, CELLO benefits from an expanding TAM across markets. Within the writing instrument segment (TAM of ~INR134b as of FY23; expected to clock ~16% CAGR over FY23-27E), the company will benefit from industry tailwinds such as favorable demographics, increased discretionary spending, growing literacy rates, rising skill enhancement courses, etc. We estimate CELLO's writing instrument segment to grow faster than the industry.
- Overall, the company is expected to post a robust CAGR of 19%/22%/22% in revenue/EBITDA/adj. PAT over FY24-27, led by healthy growth across segments on account of the expansion of SKUs as well as 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 INR1,000 (premised on 40x Sep'26E EPS).

**Exhibit 1: Competitive landscape**

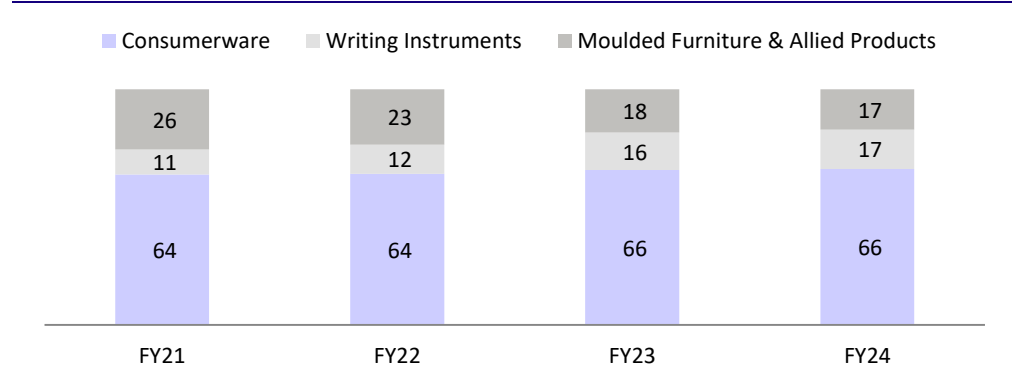
As of FY24	Cello World*	Linc	Flair
<b>Sales</b>	<b>3,336</b>	<b>5,020</b>	<b>9,190</b>
Sales CAGR over FY21-24 (%)	44	25	47
RM as a % of sales	41	60	50
Employee cost as a % of sales	NA	15	15
Other expense as a % of sales	NA	14	16
<b>EBIT</b>	<b>860</b>	<b>480</b>	<b>1,660</b>
EBIT CAGR over FY21-24 (%)	50	NA	134
EBIT Margins	25.8	9.6	18.1
<b>PAT</b>	<b>NA</b>	<b>340</b>	<b>1,180</b>
<b>Key Operating Metrics</b>			
Capacity	705m units per annum	600m pens per annum	2.2b units (expanding to 2.4b units by FY26E)
Manufacturing units	2	2	11
Location of manufacturing facility	Daman	Umbergaon (Gujarat) and Serakole (West Bengal)	Valsad, Dehradun, Damnan, Naigoan
Brand	Unomax	Pentonic, Linc, Glycer	Flair, Pierre Cardin, Hauser, Zoox
Product Segment	Present in all price point from INR10 onwards Premium range includes metal and executive pens, colored pens, and cartridge fountain pens.	Mass (<INR20) - Penonic, Linc Mid Premium (INR20-50) - Uniball (entering with new JV with Mitsubishi) Higher Mid Premium (INR50-100) - Uniball	Mass (<INR15) - Flair, Hauser Mid Premium (INR16-100) - Flair, Hauser, Zoox Premium - Pierre Cardin, Flair, Hauser
Key Products	Pens, Highlighters, Markers, Correction Pens	Pen, Refills, Markers, office consumables, School Stationery, Calculator, Adhesives	pens, stationery products, calculators, mechanical pencils, highlighters, correction pens, markers, gel crayons and kids' stationery kits
Distribution Network	Distributors - 1,522 Retailers - 64,868 Super stockist - 29	2,52,639 Touch Points 2,871 Distributors 0.25m retailers	Distributors - 8,080 Wholesale and Retailers - 330,000 Retail presence in 2,468 cities/town/villages Super stockist - 151
SKUs (Writing instrument & Stationery category)	NA	2,000+ products	787 Products 2,613 SKUs
Exports revenue share (%)	40	18	19
Export regions	Key export regions include US, Russia, and Thailand	Over 50 countries (South East Asia, Middle East, the USA, the UK, Europe, South America, Africa, Russia, and CIS countries)	Over 95 countries
<b>FINANCIAL RATIOS#</b>			
RoCE (%)	33.0	23.7	22.7
RoE (%)	28.8	17.8	18.0
RoA (%)	20.1	12.7	13.8
P/E ratio - TTM (x)	54.2	25.6	27.3
Promoter Holdings (%)	75	59	79
Enterprise Value (INR b)	192.3	9.1	29.0
EV/EBITDA multiple	35.5	14.7	15.4
Debt:Equity ratio	0.3	0.09	0.06

\*CELLO's writing instrument segment only; #Consolidated basis

Note: Data as of FY24. Source: Industry data, Company, MOFSL

Source: Company, MOFSL

**Exhibit 2: The writing instrument segment accounts for ~17% of CELLO’s consolidated revenue in FY24**



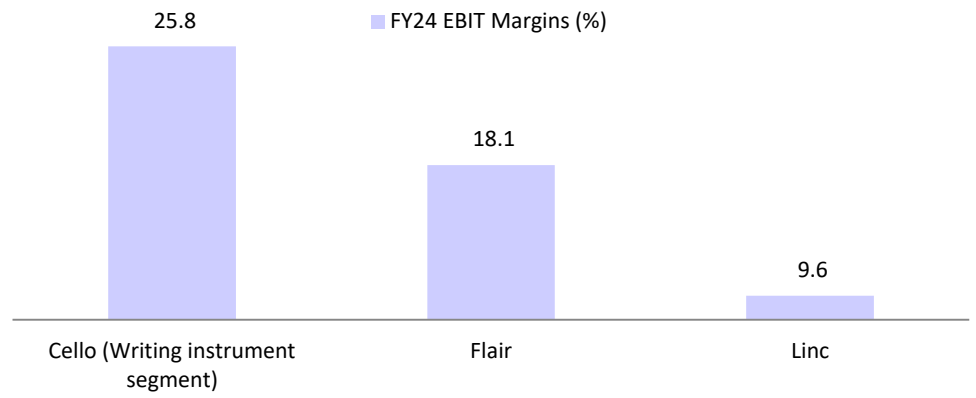
Source: Company, MOFSL

**Exhibit 3: Writing instrument product portfolio**



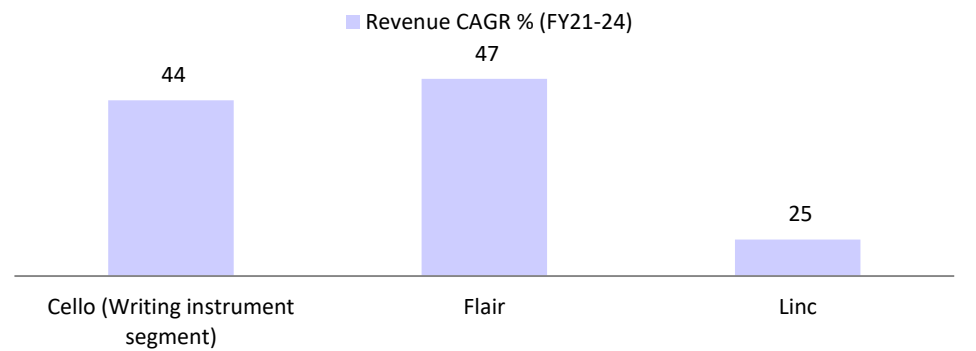
Source: Company, MOFSL

**Exhibit 4: CELLO's industry-leading margin profile**



Source: Statista, Company, MOFSL

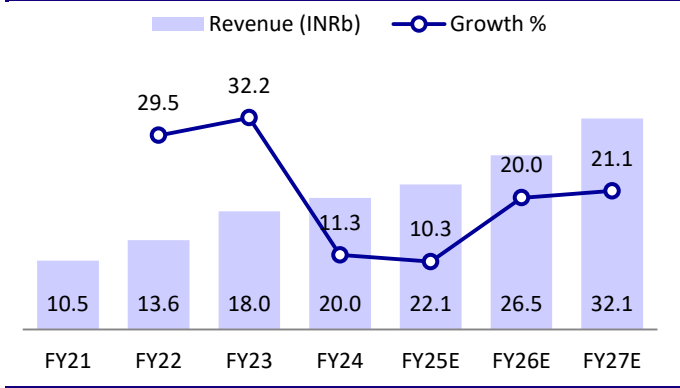
**Exhibit 5: CELLO clocked ~44% revenue CAGR over FY21-24**



Source: Statista, Company, MOFSL

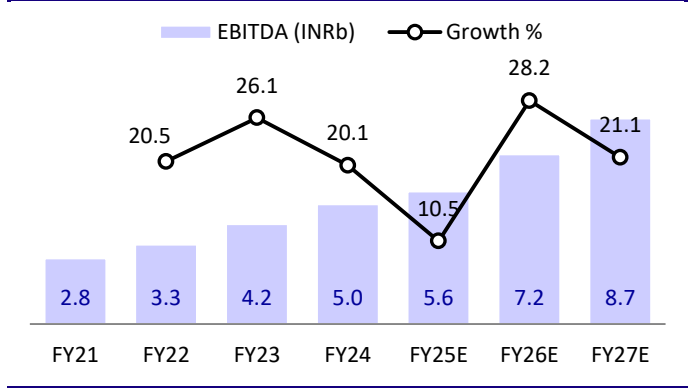
## Story in Chart

**Exhibit 6: Strong revenue trajectory**



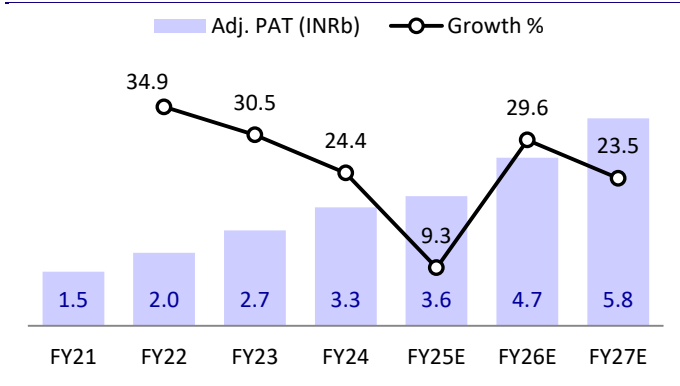
Source: Company, MOFSL

**Exhibit 7: EBITDA margin trend**



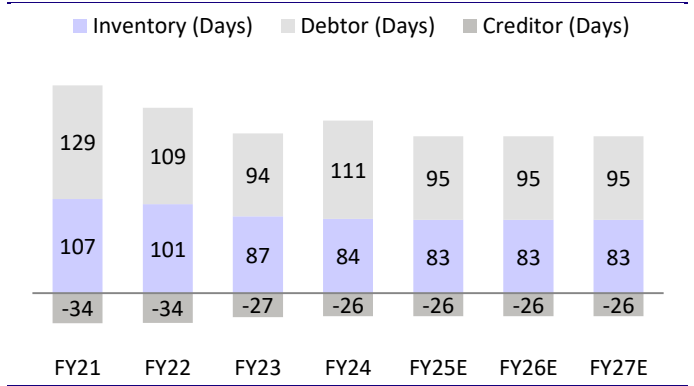
Source: Company, MOFSL

**Exhibit 8: Robust earnings trajectory**



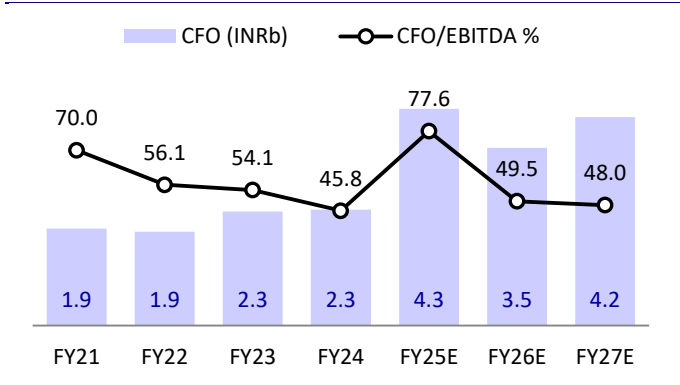
Source: Company, MOFSL

**Exhibit 9: Working capital days trend**



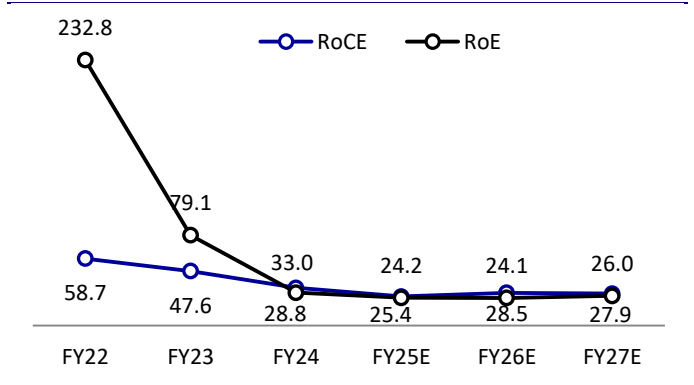
Source: Company, MOFSL

**Exhibit 10: Cash flow from operation trend**



Source: Company, MOFSL

**Exhibit 11: Return ratios trend**



Source: Company, MOFSL



## Financials and valuations

Consolidated - Income Statement							(INRm)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Total Income from Operations</b>	<b>10,495</b>	<b>13,592</b>	<b>17,967</b>	<b>20,003</b>	<b>22,067</b>	<b>26,489</b>	<b>32,072</b>
Change (%)	NA	29.5	32.2	11.3	10.3	20.0	21.1
RM Cost	5,214	6,786	8,955	9,484	10,512	12,397	15,010
Employees Cost	968	1,319	1,576	1,895	2,172	2,384	2,886
Other Expenses	1,544	2,151	3,231	3,575	3,805	4,556	5,516
<b>Total Expenditure</b>	<b>7,727</b>	<b>10,256</b>	<b>13,762</b>	<b>14,954</b>	<b>16,489</b>	<b>19,337</b>	<b>23,412</b>
<b>EBITDA</b>	<b>2,767</b>	<b>3,336</b>	<b>4,205</b>	<b>5,049</b>	<b>5,577</b>	<b>7,152</b>	<b>8,659</b>
Margin (%)	26.4	24.5	23.4	25.2	25.3	27.0	27.0
Depreciation	489	476	503	567	685	870	929
<b>EBIT</b>	<b>2,278</b>	<b>2,860</b>	<b>3,702</b>	<b>4,481</b>	<b>4,893</b>	<b>6,282</b>	<b>7,730</b>
Int. and Finance Charges	23	29	18	26	15	2	-2
Other Income	101	159	167	299	338	406	491
<b>PBT bef. EO Exp.</b>	<b>2,357</b>	<b>2,991</b>	<b>3,852</b>	<b>4,755</b>	<b>5,216</b>	<b>6,686</b>	<b>8,223</b>
EO Items	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,357</b>	<b>2,991</b>	<b>3,852</b>	<b>4,755</b>	<b>5,216</b>	<b>6,686</b>	<b>8,223</b>
Total Tax	701	796	1,001	1,189	1,326	1,683	2,070
Tax Rate (%)	29.8	26.6	26.0	25.0	25.4	25.2	25.2
Minority Interest	143	155	189	256	274	315	362
<b>Reported PAT</b>	<b>1,512</b>	<b>2,040</b>	<b>2,661</b>	<b>3,310</b>	<b>3,617</b>	<b>4,688</b>	<b>5,791</b>
<b>Adjusted PAT</b>	<b>1,512</b>	<b>2,040</b>	<b>2,661</b>	<b>3,310</b>	<b>3,617</b>	<b>4,688</b>	<b>5,791</b>
Change (%)	NA	34.9	30.5	24.4	9.3	29.6	23.5
Margin (%)	14.4	15.0	14.8	16.5	16.4	17.7	18.1

Consolidated - Balance Sheet							(INRm)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	0	0	975	1,061	1,061	1,061	1,061
Total Reserves	-1,068	876	2,390	10,431	13,888	18,417	24,049
<b>Net Worth</b>	<b>-1,068</b>	<b>876</b>	<b>3,365</b>	<b>11,492</b>	<b>14,950</b>	<b>19,479</b>	<b>25,111</b>
Minority Interest	1,722	1,851	1,999	2,206	2,480	2,796	3,158
Total Loans	3,221	4,525	3,261	3,627	627	27	-573
Deferred Tax Liabilities	82	84	84	126	126	126	126
<b>Capital Employed</b>	<b>3,957</b>	<b>7,336</b>	<b>8,709</b>	<b>17,452</b>	<b>18,183</b>	<b>22,428</b>	<b>27,822</b>
Gross Block	2,901	2,898	3,388	4,857	6,997	7,495	7,995
Less: Accum. Deprn.	309	312	671	1,238	1,923	2,792	3,722
<b>Net Fixed Assets</b>	<b>2,592</b>	<b>2,586</b>	<b>2,717</b>	<b>3,619</b>	<b>5,075</b>	<b>4,703</b>	<b>4,273</b>
Capital WIP	43	145	256	1,800	310	312	312
<b>Total Investments</b>	<b>1,197</b>	<b>1,500</b>	<b>1,769</b>	<b>1,698</b>	<b>1,698</b>	<b>1,698</b>	<b>1,698</b>
Current Investments	747	1,150	1,263	1,141	1,141	1,141	1,141
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>7,633</b>	<b>9,106</b>	<b>10,774</b>	<b>12,601</b>	<b>13,601</b>	<b>18,716</b>	<b>25,172</b>
Inventory	3,069	3,765	4,298	4,622	5,018	6,023	7,293
Account Receivables	3,714	4,067	4,623	6,106	5,743	6,894	8,347
Cash and Bank Balance	325	547	499	651	1,491	4,178	7,571
Loans and Advances	525	726	1,354	1,223	1,349	1,619	1,961
<b>Curr. Liability &amp; Prov.</b>	<b>7,508</b>	<b>6,000</b>	<b>6,808</b>	<b>2,266</b>	<b>2,500</b>	<b>3,001</b>	<b>3,633</b>
Account Payables	984	1,255	1,342	1,442	1,591	1,909	2,312
Other Current Liabilities	6,471	4,685	5,428	783	864	1,037	1,255
Provisions	53	60	39	41	45	54	66
<b>Net Current Assets</b>	<b>125</b>	<b>3,106</b>	<b>3,966</b>	<b>10,335</b>	<b>11,101</b>	<b>15,715</b>	<b>21,539</b>
<b>Appl. of Funds</b>	<b>3,957</b>	<b>7,336</b>	<b>8,709</b>	<b>17,452</b>	<b>18,183</b>	<b>22,428</b>	<b>27,822</b>



## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>7.1</b>	<b>9.6</b>	<b>12.5</b>	<b>15.6</b>	<b>17.0</b>	<b>22.1</b>	<b>27.3</b>
Cash EPS	9.4	11.9	14.9	18.3	20.3	26.2	31.7
BV/Share	NA	4.1	15.9	54.1	70.4	91.8	118.3
DPS	0.0	0.0	0.0	0.8	0.8	0.8	0.8
Payout (%)	0.0	0.0	0.0	4.8	4.4	3.4	2.7
<b>Valuation (x)</b>							
P/E	116.5	86.3	66.2	53.2	48.7	37.6	30.4
Cash P/E	88.0	70.0	55.7	45.4	41.0	31.7	26.2
P/BV	NA	201.0	52.4	15.3	11.8	9.0	7.0
EV/Sales	15.8	13.3	9.2	9.0	8.0	6.6	5.3
EV/EBITDA	59.9	54.2	39.3	35.7	31.7	24.3	19.6
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.1	0.1
FCF per share	8.7	6.4	6.4	-1.6	17.3	14.3	17.2
<b>Return Ratios (%)</b>							
RoE	NA	232.8	79.1	28.8	24.2	24.1	26.0
RoCE	NA	58.7	47.6	33.0	25.4	28.5	27.9
RoIC	NA	55.7	48.4	34.5	26.1	30.4	33.6
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	3.6	4.7	5.3	4.1	3.2	3.5	4.0
Asset Turnover (x)	2.7	1.9	2.1	1.1	1.2	1.2	1.2
Inventory (Days)	107	101	87	84	83	83	83
Debtor (Days)	129	109	94	111	95	95	95
Creditor (Days)	34	34	27	26	26	26	26
<b>Leverage Ratio (x)</b>							
Current Ratio	1.0	1.5	1.6	5.6	5.4	6.2	6.9
Net Debt/Equity	NA	3.2	0.4	0.2	-0.1	-0.3	-0.4

### Consolidated - Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>(INRm)</b>							
OP/(Loss) before Tax	2,357	2,991	3,852	4,750	5,216	6,686	8,223
Depreciation	489	476	503	567	685	870	929
Interest & Finance Charges	22	26	14	26	-324	-404	-493
Direct Taxes Paid	-681	-843	-1,010	-1,160	-1,326	-1,683	-2,070
(Inc)/Dec in WC	-221	-728	-1,150	-1,667	74	-1,926	-2,432
<b>CF from Operations</b>	<b>1,966</b>	<b>1,923</b>	<b>2,210</b>	<b>2,516</b>	<b>4,326</b>	<b>3,543</b>	<b>4,158</b>
Others	-29	-50	64	-204	0	0	0
<b>CF from Operating incl EO</b>	<b>1,936</b>	<b>1,873</b>	<b>2,274</b>	<b>2,312</b>	<b>4,326</b>	<b>3,543</b>	<b>4,158</b>
(Inc)/Dec in FA	-248	-516	-1,032	-2,649	-650	-500	-500
<b>Free Cash Flow</b>	<b>1,688</b>	<b>1,356</b>	<b>1,242</b>	<b>-337</b>	<b>3,676</b>	<b>3,043</b>	<b>3,658</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	-126	-2,075	-4,527	228	338	406	491
<b>CF from Investments</b>	<b>-375</b>	<b>-2,592</b>	<b>-5,559</b>	<b>-2,421</b>	<b>-312</b>	<b>-94</b>	<b>-9</b>
Issue of Shares	0	0	-151	0	0	0	0
Inc/(Dec) in Debt	1,775	1,254	-1,264	191	-3,000	-600	-600
Interest Paid	-15	-16	-5	-22	-15	-2	2
Dividend Paid	-1	-60	-96	-46	-159	-159	-159
Others	-3,086	-237	4,754	138	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,328</b>	<b>941</b>	<b>3,238</b>	<b>260</b>	<b>-3,174</b>	<b>-761</b>	<b>-757</b>
<b>Inc/Dec of Cash</b>	<b>233</b>	<b>222</b>	<b>-47</b>	<b>151</b>	<b>840</b>	<b>2,688</b>	<b>3,392</b>
Opening Balance	91	325	547	499	651	1,491	4,178
<b>Closing Balance</b>	<b>325</b>	<b>547</b>	<b>499</b>	<b>651</b>	<b>1,491</b>	<b>4,178</b>	<b>7,571</b>

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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

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