

13 August 2024

India | Equity Research | Q1FY25 results review

Cello World

Consumer

Soft Q1; demand recovery in H2FY25 crucial for optimistic thesis to play out

Cello reported modest revenue growth of 6.1% YoY (in-line with industry's growth rate) amid weak consumer demand. Gross margin scaled up to 53.8%, led by better product mix and thrust on value-added premium products. It has sharply increased brand investments in Q1. We note this may aid Cello in gaining market shares. The company guides for 15–17% revenue growth in FY25 (despite soft Q1), implying a sharp demand revival in H2FY25. We believe the upcoming festive season may offer early signs of a demand upswing. Apart from demand revival, we believe production ramp-up at its glassware plant, expansion of opalware unit and price-led growth may aid in attaining guided revenue growth in FY25. Maintain **BUY**.

Q1FY25 result review

Cello reported revenue/EBITDA/PAT growth of 6.1%/8.5%/6.9 YoY. Gross margin expanded 122bps YoY to 53.8% on superior revenue mix and higher contribution of premium products, in our view. EBITDA margin expanded 55bps YoY to 25.8% led by operational efficiencies. Profitability was impacted by higher depreciation (+19.6% YoY). Other income declined 26% YoY.

Segment-wise growth rates

Consumerware/moulded furniture reported revenue growth of 5.3%/16% YoY. However, writing instruments' revenue was flat (-0.2% YoY). Gross margin for all the segments expanded YoY.

Weak demand drags revenue growth lower

Despite weak consumer sentiment, Cello registered modest revenue growth for the quarter. Moulded furniture saw strong growth (+16% YoY) amid a weak demand trend. We expect demand for consumerware products to surge in H2FY25 with early signs of improvement likely in the upcoming festive season.

Strong margin expansion

Cello's gross margin, at 53.8%, is its highest in the past five quarters. We believe the key triggers are: (1) greater contribution of premium products to total sales and (2) shift in revenue mix. EBITDA margin expanded 55bps as higher staff cost offset the benefit of gross margin expansion. The EBITDA margin expansion is considerable despite higher brand spends, in our view.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	17,967	20,003	22,929	26,770
EBITDA	4,205	5,097	5,922	6,942
EBITDA Margin (%)	23.4	25.5	25.8	25.9
Net Profit	2,661	3,309	3,711	4,642
EPS (INR)	12.5	15.6	17.5	21.9
EPS % Chg YoY	30.5	24.3	12.2	25.1
P/E (x)	72.5	58.3	52.0	41.6
EV/EBITDA (x)	47.1	38.0	31.3	26.1
RoCE (%)	26.4	22.0	20.6	20.8
RoE (%)	65.8	34.7	23.9	23.5

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Market Data

Market Cap (INR)	201bn
Market Cap (USD)	2,392mn
Bloomberg Code	CELLO IN Equity
Reuters Code	CELO.BO
52-week Range (INR)	1,025 /711
Free Float (%)	22.0
ADTV-3M (mn) (USD)	3.1

Price Performance (%)	3m	6m	12m
Absolute	4.2	10.2	0.0
Relative to Sensex	(5.2)	(1.1)	0.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	(2.8)	(2.9)
EBITDA	(2.8)	(2.9)
EPS	(3.3)	(3.2)

Previous Reports

27-05-2024: [Q4FY24 results review](#)

19-04-2024: [Company Update](#)

Better H2FY25 may aid achieving guided revenue growth in FY25

Despite moderate revenue growth in Q1FY25, the company sustained its 15–17% revenue growth guidance for FY25. We expect the consumerware and writing instrument segment to post healthy growth led by demand revival and distribution network expansion. Also, the benefits of capacity expansion in glassware and opalware may start reflecting in H2FY25, and this may aid in generating incremental revenue growth.

Valuation and key risks

We model Cello to report revenue and PAT CAGRs of 15.7% and 18.4%, respectively, over FY24-26E. We also model RoCE to be >20% over FY24–26E. We maintain BUY on Cello with a DCF-based revised target price of INR 1,050 (earlier: INR 1,060; implied P/E of 48x FY26E).

Key risks: Increase in competitive pressures; steep increase in raw material prices; and failure of key new product launches.

Exhibit 1: Q1FY25 consolidated result review

Y/E March INR mn	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenue	5,007	4,718	6.1	5,125	(2.3)
Expenditure					
Raw materials	2,312	2,237	3.4	2,411	(4.1)
% of revenue	46.2	47.4		47.1	
Employee cost	522	448	16.7	480	8.9
% of revenue	10.4	9.5		9.4	
Other expenditure	880	842	4.5	901	(2.4)
% of revenue	17.6	17.8		17.6	
Total expenditure	3,714	3,526	5.3	3,792	(2.1)
EBITDA	1,293	1,192	8.5	1,333	(3.0)
EBITDA margin	25.8	25.3		26.0	
Other income	60	81	(26.0)	66	(9.4)
PBDIT	1,353	1,273	6.3	1,399	(3.3)
Depreciation	141	118	19.6	175	(19.4)
PBIT	1,211	1,155	4.9	1,223	(1.0)
Interest	6	6	(1.8)	8	(30.3)
PBT	1,206	1,149	4.9	1,215	(0.8)
Prov. for tax	311	321	(3.0)	250	24.4
% of PBT	25.8	27.9		20.6	
PAT	894	828	8.0	965	(7.3)
Minority Interest/Share of associates	68	55	22.8	78	(13.3)
Adjusted PAT	827	773	6.9	887	(6.8)
Extra ordinary items	(2)	4	-	4	-
Reported PAT	825	777	6.1	891	(7.4)

Source: Company data, I-Sec research

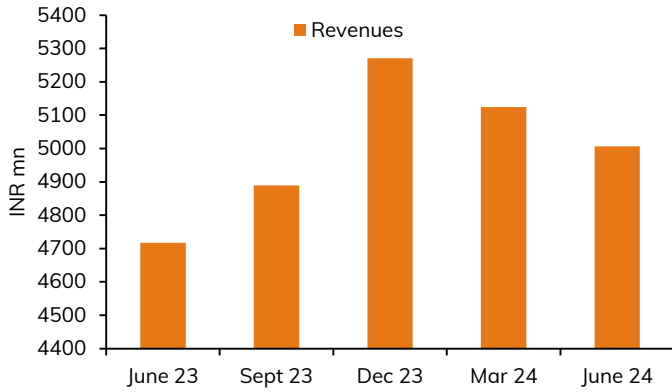
Exhibit 2: Q1FY25 consolidated segment review

Particulars	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenues (INR mn)					
Consumer Ware	3,271	3,105	5.3%	3,270	0.0%
Writing Instruments	832	834	-0.2%	876	-5.1%
Moulded Furniture & Allied Products	904	779	16.0%	979	-7.6%
Total	5,007	4,718	6.1%	5,125	-2.3%
Gross Profit (INR mn)					
Consumer Ware	1,799	1,646	9.3%	1,807	-0.5%
Writing Instruments	493	487	1.2%	537	-8.2%
Moulded Furniture & Allied Products	412	348	18.4%	369	11.6%
Total	2,704	2,481	9.0%	2,713	-0.3%
Gross margin (%)					
Consumer Ware	55.0	53.0		55.3	
Writing Instruments	59.3	58.4		61.3	
Moulded Furniture & Allied Products	45.6	44.7		37.7	
Total	54.0	52.6		52.9	

Source: Company data, I-Sec research

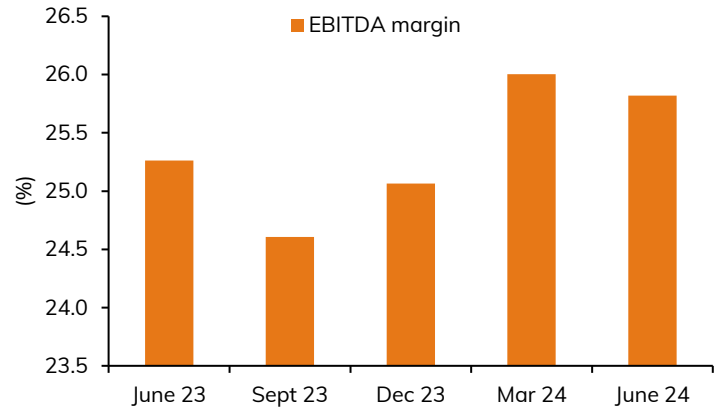
Key charts – quarterly

Exhibit 3: Revenue trend



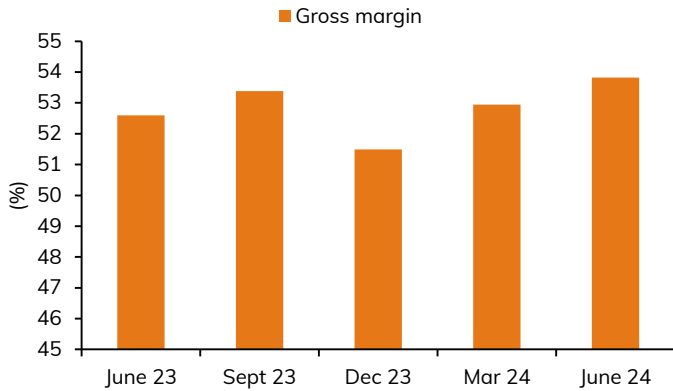
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin



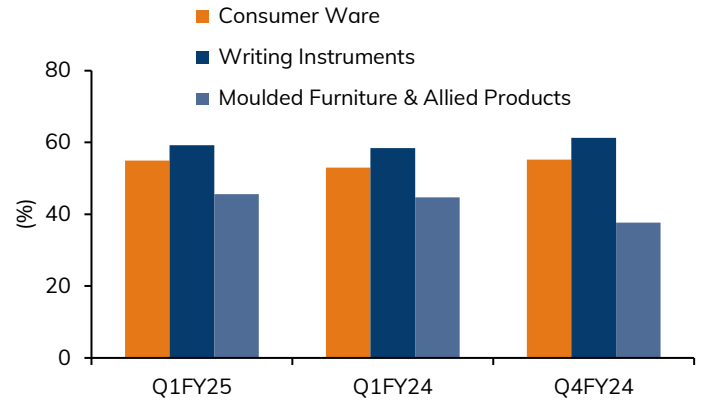
Source: Company data, I-Sec research

Exhibit 5: Gross margin



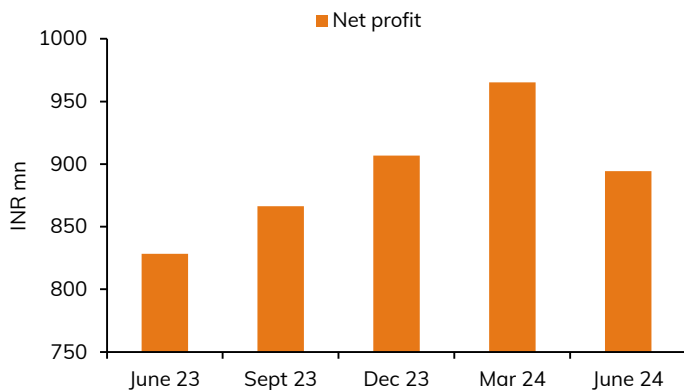
Source: Company data, I-Sec research

Exhibit 6: Gross margin – vertical-wise



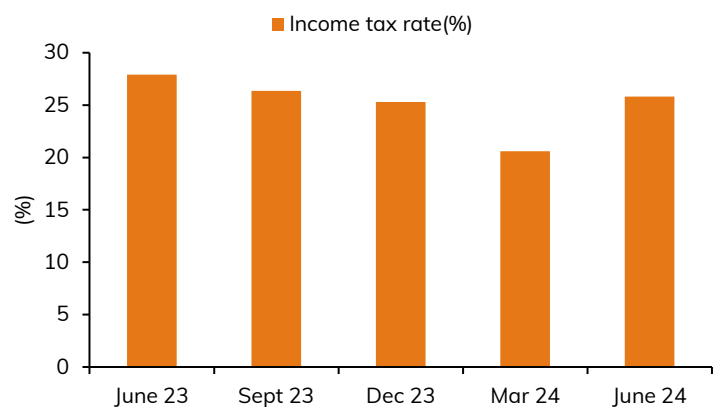
Source: Company data, I-Sec research

Exhibit 7: PAT trend



Source: Company data, I-Sec research

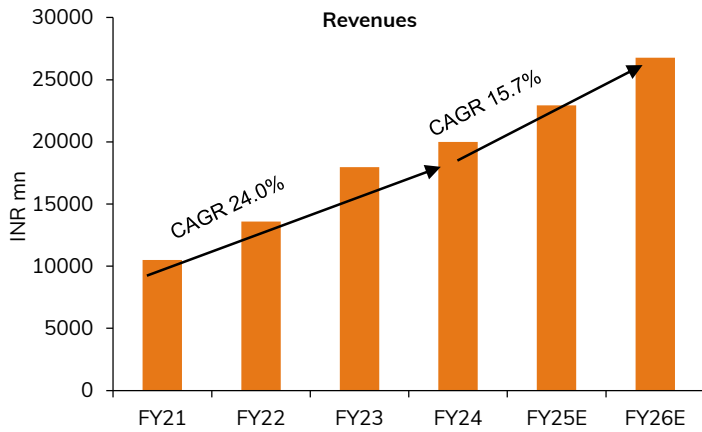
Exhibit 8: Effective tax rate



Source: Company data, I-Sec research

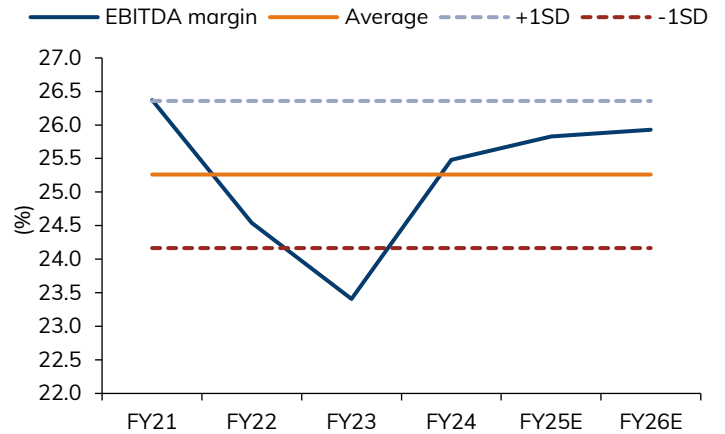
Key charts – annual

Exhibit 1: Revenue and growth rates



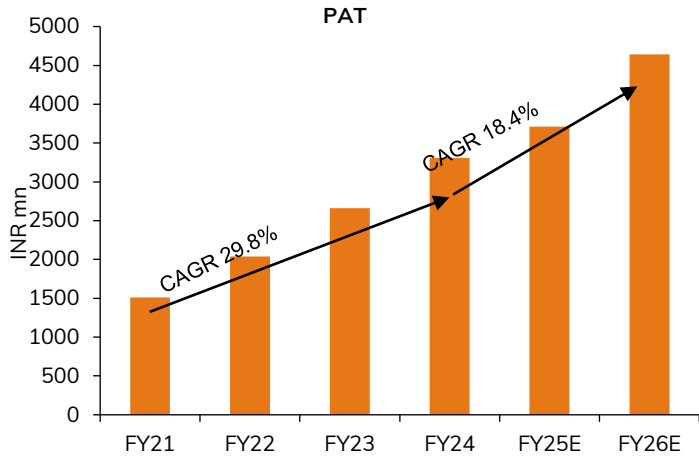
Source: Company data, I-Sec research

Exhibit 1: EBITDA margin



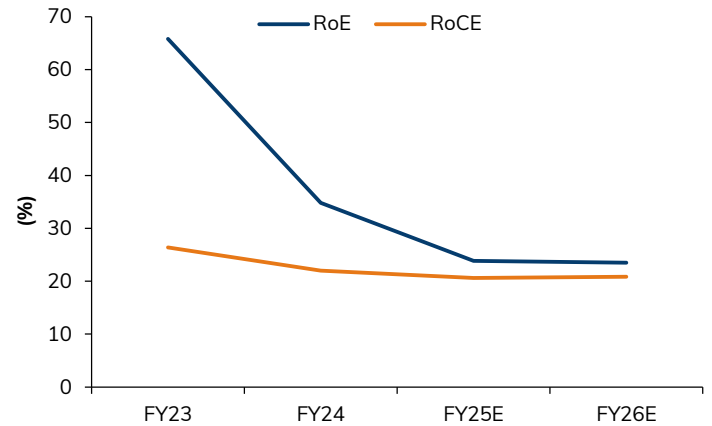
Source: Company data, I-Sec research

Exhibit 2: Net profit and growth rates



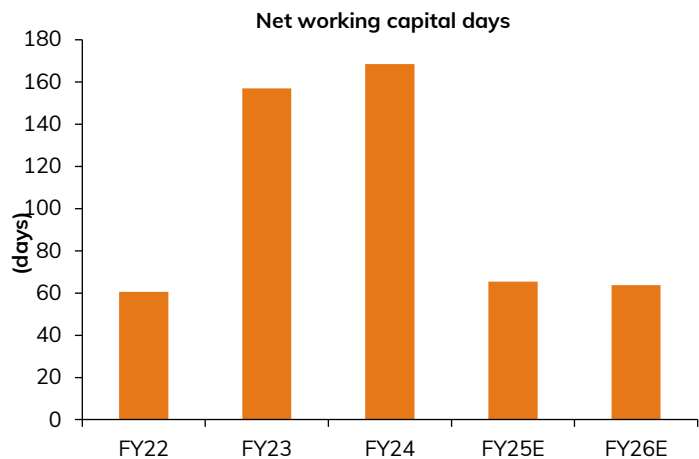
Source: I-Sec research, Company data

Exhibit 3: RoE and RoCE



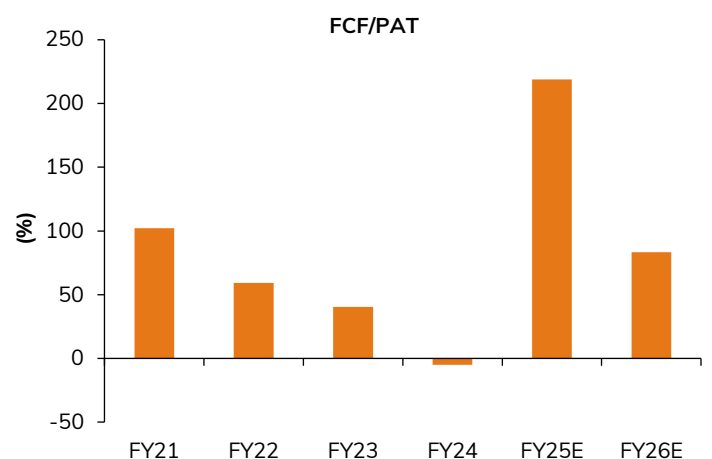
Source: I-Sec research, Company data

Exhibit 4: Net working capital days



Source: Company data, I-Sec research

Exhibit 5: FCF/PAT



Source: Company data, I-Sec research

Valuation and risks

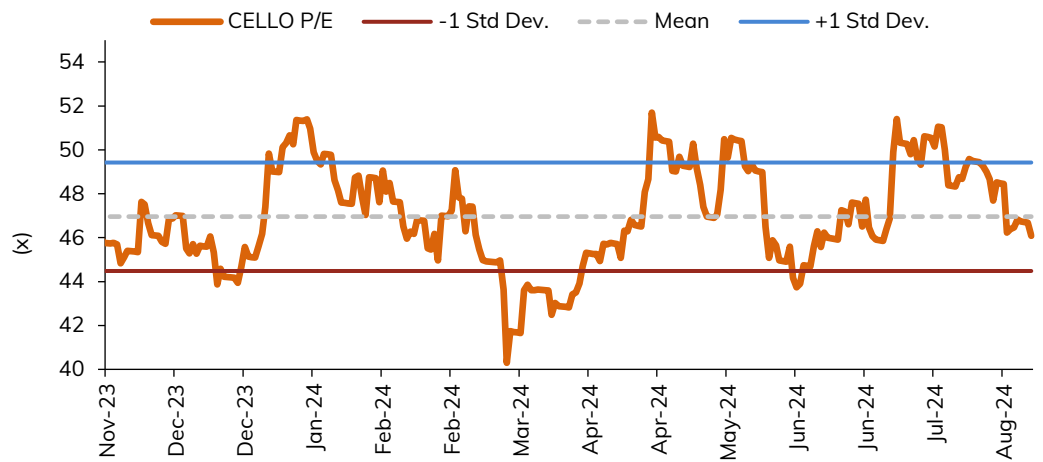
We model Cello to report revenue and PAT CAGRs of 15.7% and 18.4%, respectively, over FY24–26E and RoCE to be upwards of 20% in FY26E. On our DCF-based revised target price of INR 1,050 (earlier: INR 1,060), implied P/E works out to 48x FY26E EPS. Maintain **BUY**.

Exhibit 6: DCF-based valuation

Particulars	
Cost of Equity (%)	11.5%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	92,754
Discounted terminal value (INR mn)	1,30,017
Total equity value (INR mn)	2,22,772
Value per share (INR)	1,050

Source: Company data, I-Sec research

Exhibit 7: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices

Steep increase in input prices could impact our earnings estimates.

Higher-than-expected competitive pressures

Any material increase in competitive pressures could result in downside to our estimates.

Failure of some new launches

Failure of some new products may impact our earnings estimates.

Exhibit 8: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	78.1	78.1	75.0
Institutional investors	15.8	16.9	20.9
MFs and others	10.1	9.6	10.2
FIs/Banks	0.0	0.0	0.0
Insurance	2.7	2.9	3.0
FIIIs	3.0	4.4	7.7
Others	6.1	5.0	4.1

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	17,967	20,003	22,929	26,770
Operating Expenses	13,762	14,906	17,006	19,829
EBITDA	4,205	5,097	5,922	6,942
EBITDA Margin (%)	23.4	25.5	25.8	25.9
Depreciation & Amortization	503	567	803	1,021
EBIT	3,702	4,530	5,120	5,920
Interest expenditure	18	26	25	2
Other Non-operating Income	167	251	203	667
Recurring PBT	3,852	4,755	5,298	6,585
Profit / (Loss) from Associates	0	5	-	-
Less: Taxes	1,001	1,188	1,351	1,679
PAT	2,851	3,567	3,947	4,906
Less: Minority Interest	189	253	236	264
Extraordinaries (Net)	(7)	8	-	-
Net Income (Reported)	2,654	3,317	3,711	4,642
Net Income (Adjusted)	2,661	3,309	3,711	4,642

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	10,136	12,091	19,765	24,081
of which cash & cash eqv.	499	651	7,588	9,983
Total Current Liabilities & Provisions	1,906	2,210	8,071	9,423
Net Current Assets	8,230	9,881	11,694	14,658
Investments	2,588	2,373	2,573	2,773
Net Fixed Assets	2,537	3,433	5,430	5,409
ROU Assets	-	-	-	-
Capital Work-in-Progress	209	1,800	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	13,564	17,487	19,698	22,840
Liabilities				
Borrowings	8,163	3,683	2,183	683
Deferred Tax Liability	37	105	105	105
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	975	1,061	1,061	1,061
Reserves & Surplus	2,390	10,431	14,142	18,784
Total Net Worth	3,365	11,492	15,203	19,845
Minority Interest	1,999	2,206	2,206	2,206
Total Liabilities	13,564	17,487	19,698	22,840

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	4,890	5,271	5,125	5,007
% growth (YoY)	-	-	-	6.1
EBITDA	1,203	1,321	1,333	1,293
Margin %	24.6	25.1	26.0	25.8
Other Income	107	45	66	60
Extraordinaries	2	(1)	4	(2)
Adjusted Net Profit	799	849	887	827

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	2,184	2,354	9,638	5,095
Working Capital Changes	(1,150)	(1,667)	5,124	(569)
Capital Commitments	(1,032)	(2,528)	(1,000)	(1,000)
Free Cashflow	(2,987)	(174)	8,638	4,095
Other investing cashflow	(4,542)	(93)	(200)	(200)
Cashflow from Investing Activities	(5,574)	(2,621)	(1,200)	(1,200)
Issue of Share Capital	4,599	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,265)	329	(1,500)	(1,500)
Dividend paid	-	(46)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	3,334	282	(1,500)	(1,500)
Chg. in Cash & Bank balance	(57)	16	6,938	2,395
Closing cash & balance	306	322	7,588	9,983

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	12.5	15.6	17.5	21.9
Adjusted EPS (Diluted)	12.5	15.6	17.5	21.9
Cash EPS	14.9	18.3	21.3	26.7
Dividend per share (DPS)	-	0.2	-	-
Book Value per share (BV)	15.9	54.1	71.6	93.5
Dividend Payout (%)	-	1.4	-	-
Growth (%)				
Net Sales	32.2	11.3	14.6	16.8
EBITDA	26.1	21.2	16.2	17.2
EPS (INR)	30.5	24.3	12.2	25.1
Valuation Ratios (x)				
P/E	72.5	58.3	52.0	41.6
P/CEPS	61.0	49.8	42.8	34.1
P/BV	57.4	16.8	12.7	9.7
EV / EBITDA	47.1	38.0	31.3	26.1
P / Sales	10.7	9.7	8.4	7.2
Dividend Yield (%)	-	0.0	-	-
Operating Ratios				
Gross Profit Margins (%)	50.2	52.6	52.0	52.1
EBITDA Margins (%)	23.4	25.5	25.8	25.9
Effective Tax Rate (%)	26.0	25.0	25.5	25.5
Net Profit Margins (%)	14.8	16.5	16.2	17.3
NWC / Total Assets (%)	60.7	56.5	59.4	64.2
Net Debt / Equity (x)	0.9	0.0	(0.5)	(0.5)
Net Debt / EBITDA (x)	1.2	0.1	(1.3)	(1.7)
Profitability Ratios				
RoCE (%)	26.4	22.0	20.6	20.8
RoE (%)	65.8	34.7	23.9	23.5
RoIC (%)	36.2	27.4	32.1	45.4
Fixed Asset Turnover (x)	4.6	4.1	3.3	3.0
Inventory Turnover Days	99	89	94	94
Receivables Days	107	117	101	102
Payables Days	43	42	136	138

Source Company data, I-Sec research

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