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India | Equity Research | Company Update

Cello World

Consumer

BIS order on potable water bottles: DCF accretive; short-term earnings impact is minor (~5%)

The BIS order ([link](#), [link](#)) regarding compulsory use of standard marks is likely to be implemented in Jun'24. We reckon it may lead to accelerated sector formalisation and create competitive advantages for larger and compliant players. While it may impact near-term earnings by ~5%, we believe the DCF-benefit of potential market share gains will likely offset the impact. Incumbents currently import the potable water bottles (copper, stainless steel and aluminium) and may need to set up their own manufacturing units in India. However, we believe industry may: 1) up-stock inventory in near term; and 2) also focus on selling melamine and glass bottles more. We believe that smaller and unorganised players (~30% of industry) may see a greater impact. We note similar regulations were implemented in air conditioners and fans too – larger players likely gained market share. Cello (**BUY**) remains a top pick.

Regulation on potable water bottles

The Ministry of Commerce and Industry had in its order dated 14 Jul'23 made it mandatory to have the standard mark under a license from Bureau of Indian standards regulations, 2018 on insulated flasks, bottles, containers for domestic use. While the implementation was initially expected in six months, we note the order will now be effective Jun'24.

The industry needs to set up own manufacturing units

As of now, most large players including Cello import water bottles and there are almost no facilities in India to manufacture these products. Should there be no extension to the order's deadline, and if any additional customs duty is imposed, the incumbents may need to: 1) pay additional duty to import these products, or 2) set up manufacturing units in India to source locally.

Near-term solutions

We understand that micro and small enterprises are allowed exemption from the order for an additional three to six months, compared to larger players. Hence, we believe the larger players may source from these small or micro enterprises, or may resort to uploading larger volumes of inventory before the order kicks in. However, we believe, eventually these companies may need to set up their own manufacturing units. The incumbents may also focus more on selling glass or melamine bottles.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	17,967	20,408	24,343	28,640
EBITDA	4,205	5,210	6,361	7,555
EBITDA Margin (%)	23.4	25.5	26.1	26.4
Net Profit	2,662	3,283	4,077	4,964
EPS (INR)	12.5	15.5	19.2	23.4
EPS % Chg YoY	30.5	23.4	24.2	21.8
P/E (x)	68.3	55.4	44.6	36.6
EV/EBITDA (x)	43.3	34.8	28.0	22.9
RoCE (%)	34.5	32.7	31.3	30.5
RoE (%)	65.8	46.9	38.2	32.6

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Market Data

Market Cap (INR)	182bn
Market Cap (USD)	2,177mn
Bloomberg Code	CELLO IN
Reuters Code	CELO.BO
52-week Range (INR)	949 / 711
Free Float (%)	22.0
ADTV-3M (mn) (USD)	4.0

Price Performance (%)	3m	6m	12m
Absolute	(1.5)	-	-
Relative to Sensex	(2.7)	-	-

Previous Reports

11-02-2024: [Q3FY24 results review](#)30-12-2023: [Initiating coverage](#)

Organised players are likely to benefit in long run

While there may be near-term impact on incumbents, we believe the larger players may benefit via market share gains from smaller/unorganised players. We envisage that loss of earnings due to additional capex (depreciation and interest cost) will be recouped via additional revenue growth. As of now, the share of unorganised market is ~30%, in our view.

Revenue impact on companies under coverage

As per our analysis, Cello generates revenues of ~INR 2bn each from insulated flasks, bottles and containers for domestic use. Cello's ~10% revenues may undergo changes, if the order sees implementation in Jun'24. However, they can accumulate inventory and also invest in own manufacturing units.

Impact on Cello's near-term earnings

If the order is implemented and if Cello does not immediately invest in new manufacturing unit, its near-term earnings may get impacted by up to ~5%. However, the order implementation will likely be DCF accretive, in our view.

Valuation

We model revenue and PAT CAGR of 18.5% and 23%, respectively over FY24-26E. We also model RoCE to be >30% over FY24-26E. We maintain BUY rating with DCF-based revised target price of INR 1,060 (implied P/E of 45x FY26E; earlier TP: INR 1,050).

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

Exhibit 1: Shareholding pattern

%	Nov'23	Dec'23
Promoters	78.1	78.1
Institutional investors	14.5	15.8
MFs and others	9.8	10.1
FIs/Banks	0.8	0.0
Insurance	1.1	2.7
FIIIs	2.8	3.0
Others	7.4	6.1

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	17,967	20,408	24,343	28,640
Operating Expenses	13,762	15,198	17,982	21,085
EBITDA	4,205	5,210	6,361	7,555
EBITDA Margin (%)	23.4	25.5	26.1	26.4
Depreciation & Amortization	503	699	814	918
EBIT	3,702	4,511	5,546	6,637
Interest expenditure	18	28	21	2
Other Non-operating Income	167	207	264	382
Recurring PBT	3,852	4,690	5,789	7,017
Profit / (Loss) from Associates	0	-	-	-
Less: Taxes	1,001	1,196	1,476	1,789
PAT	2,851	3,494	4,313	5,228
Less: Minority Interest	189	211	236	264
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,662	3,283	4,077	4,964
Net Income (Adjusted)	2,662	3,283	4,077	4,964

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	10,136	12,093	15,670	20,564
of which cash & cash eqv.	499	1,174	2,783	5,529
Total Current Liabilities & Provisions	6,808	7,184	8,569	10,081
Net Current Assets	3,327	4,910	7,101	10,483
Investments	2,588	2,788	2,988	3,188
Net Fixed Assets	2,537	4,247	4,433	4,315
ROU Assets	-	-	-	-
Capital Work-in-Progress	209	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	8,661	11,945	14,522	17,986
Liabilities				
Borrowings	3,261	3,261	1,761	261
Deferred Tax Liability	37	37	37	37
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	975	975	975	975
Reserves & Surplus	2,390	7,672	11,749	16,713
Total Net Worth	3,365	8,647	12,724	17,688
Minority Interest	1,999	-	-	-
Total Liabilities	8,661	11,945	14,522	17,986

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	-	4,718	4,890	5,271
% growth (YOY)	-	-	-	-
EBITDA	-	1,192	1,203	1,321
Margin %	-	25.3	24.6	25.1
Other Income	-	81	107	45
Extraordinaries	-	4	2	(1)
Adjusted Net Profit	-	828	866	907

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	2,184	3,074	4,309	5,246
Working Capital Changes	(1,150)	(908)	(582)	(636)
Capital Commitments	(1,032)	(2,200)	(1,000)	(800)
Free Cashflow	(2,987)	874	3,309	4,446
Other investing cashflow	(4,542)	(200)	(200)	(200)
Cashflow from Investing Activities	(5,574)	(2,400)	(1,200)	(1,000)
Issue of Share Capital	4,599	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,265)	-	(1,500)	(1,500)
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	3,334	-	(1,500)	(1,500)
Chg. in Cash & Bank balance	(57)	674	1,609	2,746
Closing cash & balance	306	1,174	2,783	5,529

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	12.5	15.5	19.2	23.4
Adjusted EPS (Diluted)	12.5	15.5	19.2	23.4
Cash EPS	14.9	18.8	23.0	27.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	15.9	40.7	60.0	83.3
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	32.2	13.6	19.3	17.6
EBITDA	26.1	23.9	22.1	18.8
EPS (INR)	30.5	23.4	24.2	21.8
Valuation Ratios (x)				
P/E	68.3	55.4	44.6	36.6
P/CEPS	57.5	45.7	37.2	30.9
P/BV	54.0	21.0	14.3	10.3
EV / EBITDA	43.3	34.8	28.0	22.9
P / Sales	10.1	8.9	7.5	6.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	50.2	52.0	52.0	52.3
EBITDA Margins (%)	23.4	25.5	26.1	26.4
Effective Tax Rate (%)	26.0	25.5	25.5	25.5
Net Profit Margins (%)	14.8	16.1	16.7	17.3
NWC / Total Assets (%)	38.4	41.1	48.9	58.3
Net Debt / Equity (x)	0.0	(0.1)	(0.3)	(0.5)
Net Debt / EBITDA (x)	0.0	(0.1)	(0.6)	(1.1)
Profitability Ratios				
RoCE (%)	34.5	32.7	31.3	30.5
RoE (%)	65.8	46.9	38.2	32.6
RoC (%)	34.5	32.7	31.3	30.5
Fixed Asset Turnover (x)	4.6	3.8	3.4	3.6
Inventory Turnover Days	99	93	95	95
Receivables Days	107	101	103	103
Payables Days	157	136	139	138

Source Company data, I-Sec research

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