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IPO Report

19th Nov'23

Snapshot

Flair Writing is among the top three players in the overall writing instruments industry with a revenue of ₹9,155.5 million in Financial Year 2023 and occupy a market share of approximately 9% in the overall writing and creative instruments industry in India, as of March 31, 2023. Company reported the highest operating and net income margins of 17.8% and 9.6%, respectively, in Financial Year 2022 among other key writing instruments players. Company's flagship brand "Flair" has enjoyed a market presence of over 45 years.

VALUATION

Company is bringing the issue at price band of Rs 288-304 per share at p/e multiple of 25x on post issue annualized Q1FY24 PAT basis.

Company's diversified range of products across various price points catering to a wide spectrum of consumers. Company has largest pan-India distributor/dealer network and wholesale/retailer network in the writing instruments industry and strong presence in targeted markets abroad. Company's ability to partner with international brands in the writing instruments industry along with high quality manufacturing at a large scale coupled with innovation capabilities. Company has experienced promoters supported by professional senior management team; and with company's historical track-record of strong financial performance with industry-leading profitability. Hence, looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	288-304
Opening date of the issue	22nd Nov '2023
Closing Date of the issue	24th Nov '2023
No of shares pre issue	95790115 Eq Shares
Issue Size	Rs 593 Cr
Fresh Issue	Rs 292 Cr
Offer For Sale	Rs 301 Cr
Face Value (Rs/ share)	Rs 5/share
Bid Lot	49

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 9753288 Eq Shares)
Non-Institutional	15% of the offer (Approx 2925987 Eq Shares)
Retail	35 % of the offer (Approx 6827303 Eq Shares)
Lead managers	Axis Capital, Nuvama Wealth
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Among the top three players in the overall writing instruments industry in India

Company is among the top three players in the overall writing instruments industry with a revenue of ₹9,155.5 million in Financial Year 2023 and occupy a market share of approximately 9% in the overall writing and creative instruments industry in India, as of March 31, 2023. Company is also among the top two organized players which have seen faster growth in revenue as compared to overall writing and creative instrument industry growth rate, i.e., while the industry grew at a CAGR of 5.5% between Financial Year 2017 and 2023, company grew at a CAGR of approximately 14% during the same period.

Largest pan-India distributor/dealer network and wholesale/retailer network in the writing instruments industry* and strong presence in targeted markets abroad

Despite the growing share of modern retail formats, the writing instruments industry in India heavily relies on the traditional manufacturer-distributor-retailer model. Vintage, brand recognition, price position and exclusive selling rights (in some cases) play a crucial role in expanding footprint. Compared with other key organized players in the writing and creative instruments industry such as DOMS, Camlin, Linc and Luxor, Company had the largest distributor/dealer network and wholesale/retailer network, in the writing instruments segment in India.

Diversified range of products across various price points catering to a wide spectrum of consumers

Company have the most comprehensive product portfolio in the writing and creative instruments industry in India. Company have an extensive product range across various price points and consumer segments, including pen products (ball pens, fountain pens, gel pens, roller pens and metal pens), which is company's largest category in terms of number of products offered, creative and stationery products (mechanical pencils, highlighters, correction pens, markers, gel crayons, colouring range, erasers, geometry boxes and kids' stationery kits), calculators, and company offered 727 different products as of June 30, 2023.



COMPANY BACKGROUND

Company have an extensive range of products across various price points and cater to a broad range of consumers, including students, professionals and offices. Company manufacture and distribute writing instruments including pens, stationery products and calculators. Leveraging on its manufacturing capabilities, and its existing customer base in the writing and creative instruments business, company have also diversified into manufacturing houseware products and steel bottles. During the three-month period ended June 30, 2023, company sold 344.32 million units of pens, of which 279.21 million units or 81.09% was sold domestically, and 65.11 million units or 18.91% was exported globally, and in Financial Year 2023, company sold 1,303.60 million units of pens, of which 975.30 million units or 74.82% was sold domestically, and 328.30 million units or 25.18% was exported globally. Compared with other key organized players in the writing and creative instruments industry such as DOMS, Camlin, Linc and Luxor, Company had the largest distributor/dealer network and wholesale/retailer network, in the writing instruments segment in India, comprising approximately 7,700 distributors/dealers and approximately 315,000 wholesalers/retailers, as of March 31, 2023. Company occupied a market share of 7.1% in the export of writing and creative instruments industry.

Company manufacture and distribute several brands in India and due to its ability to manufacture quality products and its distribution and retail capabilities, company is able to partner with various international brands in the writing instruments industry. Company's products are sold under its "Flair" brand, its principal brands "Hauser" and "Pierre Cardin" and company have recently introduced "ZOOX" in India. Company's brands "Flair" and "Hauser" offer mass-market and premium pen and stationery products, its brand "ZOOX" focusses on mid-premium and premium writing instruments, and its "Pierre Cardin" brand offers premium pen and stationery products. Company also contract manufacture writing instruments as an OEM for export and for sale in India, which contributed 16.87%, 19.94%, 33.37% and 38.67% to company's revenue from operations in the three-month period ended June 30, 2023 and the Financial Years 2023, 2022 and 2021, respectively. Company also provide customized corporate gifting products to its corporate customers. Company's product range includes a variety of pens (ball pens, fountain pens, gel pens, roller pens and metal pens), which is company's largest category in terms of number of products offered, stationery products (mechanical pencils, highlighters, correction pens, markers, gel crayons and kids' stationery kits) and calculators. Company launched a range of "Flair Creative" products in Financial Year 2021 which include water colours, crayons, sketch pens, erasers, wooden pencils and geometry boxes, fine liners, sharpeners and scales. Company offered 727 different products as of June 30, 2023.

Company have recently forayed into manufacturing a wide range of houseware products including casseroles, bottles, storage containers, serving solutions, cleaning solutions and basket and paper bins, through one of company's Subsidiaries, FWEPL. Company intend to utilize a portion of the proceeds from the Offer for funding capital expenditure of FWEPL for purchase of machinery and moulds to expand its manufacturing capacity for writing instruments. Company intend to leverage the strength of the "Flair" brand and its manufacturing and distribution capabilities to expand and optimize the business of houseware products and steel bottles, which is expected to be a key area of company's growth going forward. Company have recently commenced manufacturing steel bottles through one of its Subsidiaries, FCIPL, in March 2023. According to CRISIL, the steel bottle industry in India is projected to grow at a CAGR of 14-16% between Financial Year 2023 and 2028. Company have received a letter of intent from one of its key OEM customers with whom Company has a relationship of more than 15 years. One manufacturing line has been commissioned in the month of March 2023, pursuant to the certificate dated October 26, 2023 and company intend on commissioning two more manufacturing lines during the third quarter of Financial Year 2024 at company's manufacturing plant in Valsad, Gujarat. Company manufacture pens and other products from 11 manufacturing plants located in Valsad, Gujarat; in Naigaon (near Mumbai), Maharashtra; in Daman, Union Territory of Dadra and Nagar Haveli and Daman and Diu; and in Dehradun, Uttarakhand.

In India, company's products reach consumers through a diverse nationwide sales and distribution network, consisting of super-stockists, distributors, direct dealers, wholesalers and retailers, which helps company better understand consumer preferences and receive market feedback. In addition to company's distributor/dealer network, company had 131 super-stockists in India (including company's in-house super-stockist for the Mumbai region operated by the Flair Sporty division of company), as of June 30, 2023, which were supported by 889 sales and marketing employees. Company's relationship with its top 5 super-stockists (in terms of their contribution to company's revenue from operations for the threemonth period ended June 30, 2023 and the Financial Year 2023) averaged approximately 25 years. Company had a retail distributor presence in 2,424 cities, towns and villages in India, as of June 30, 2023. Besides traditional distribution channels, company's products are also sold through modern retail outlets, as well as e-commerce platforms. As of June 30, 2023, company had 54 international distributors catering to a specific region or country. Company's products were sold by company and its distributors in 77 countries as of June 30, 2023.



INVESTMENT RATIONALE

<i>Largest pan-India distributor/dealer network and wholesale/retailer network in the writing instruments industry* and strong presence in targeted markets abroad</i>	Company's multi-tiered nationwide domestic sales and distribution network enables its products to reach a wide range of consumers and help to ensure effective market penetration across geographies. According to CRISIL, despite the growing share of modern retail formats, the writing instruments industry in India heavily relies on the traditional manufacturer-distributor-retailer model. Vintage, brand recognition, price position and exclusive selling rights (in some cases) play a crucial role in expanding footprint, according to CRISIL. Compared with other key organized players in the writing and creative instruments industry such as DOMS, Camlin, Linc and Luxor, Company had the largest distributor/dealer network and wholesale/retailer network, in the writing instruments segment in India, comprising approximately 7,700 distributors/dealers and approximately 315,000 wholesalers/retailers, as of March 31, 2023. As of June 30, 2023, company had 131 super-stockists in India (including Flair Sporty), supported by company's sales and marketing employees, and a retail presence in 2,424 cities, towns and villages in India.
<i>Ability to partner with international brands in the writing instruments industry and one of the largest exporter of writing and creative instruments in India</i>	From Financial Year 2018 to 2023 India exported writing and creative instruments worth approximately ₹18 billion per year on average, growing at CAGR of approximately 9%. Of these exports, pens contributed 65-75% in value terms. Company's customer base includes reputed international brands and distribution companies. Company enjoy a reputation of trust and reliability with such customers. Company have established long-term relationships with international companies for which it manufacture and distribute or are a contract manufacturer, which company positions it as a gateway to India for leading international stationery brands.
<i>High quality manufacturing at a large scale coupled with innovation capabilities</i>	As of June 30, 2023, company had 11 manufacturing plants located in Valsad, Gujarat; in Naigaon (near Mumbai), Maharashtra; in Daman, Union Territory of Dadra and Nagar Haveli and Daman and Diu; and in Dehradun, Uttarakhand. During this period, company's capital expenditure comprising injection moulding machines, ancillary machines, moulds and other capital expenditure was ₹1,240.86 million. Installed capacity of company's manufacturing plants as of June 30, 2023, March 31, 2023, March 31, 2022 and March 31, 2021 and the actual production and capacity utilization for the three-month period ended June 30, 2023 and Financial Years 2023, 2022 and 2021.
<i>Experienced Promoters supported by professional senior management team</i>	Mr. Khubilal Jugraj Rathod and Mr. Vimalchand Jugraj Rathod, also company's Promoters, have more than four decades of experience in the writing instruments industry and have been instrumental in the growth of its "Flair" brand as well as in the origination and acquisition of all company's other brands and company's OEM business. Mr. Khubilal Jugraj Rathod, Chairman and Whole-time Director, has received the Life time Achievement Award from The Bombay Fountain Pen Manufacturers and Traders Association, the award for the 'Most Admired Leader' from Herald Global in 2017 and Inspirational Leaders of New India award from Powerbrands Glam, Las Vegas, USA, among others. Mr. Vimalchand Jugraj Rathod, Managing Director, has received 'Asia's Most Promising Leader 2015-16' award from World Consulting and Research Corporation and 'Award of Appreciation' from the Pen and Stationery Association of India, among others.



OBJECTS OF OFFER

The net proceeds of the Fresh Issue, i.e., gross proceeds of the Fresh Issue less Company's share of the Offer related expenses ("Net Proceeds") are proposed to be utilized in the following manner:

1. setting up a new manufacturing facility for writing instruments in District Valsad, Gujarat ("New Valsad Unit");
2. funding capital expenditure of Company and its Subsidiary, FWEPL;
3. funding working capital requirements of Company and its Subsidiaries, FWEPL and FCIPL;
4. repayment/pre-payment, in part or full, of certain borrowings availed by Company and its Subsidiaries, FWEPL and FCIPL;
5. general corporate purposes (collectively, the "Objects").

RISKS

Company's success depends on its ability to respond and adapt to consumer needs and maintain an optimal product mix in terms of production volumes and profitability in the writing instruments industry, which is also driven by volume. Any inability to successfully implement company's business plan and growth strategy or effectively manage its growth could lead to a decline in the demand of company's products and have a material adverse effect on company's business, operations, prospects or financial results.

Source:RHP

INDUSTRY OVERVIEW

OVERVIEW OF HOMEWARE INDUSTRY IN INDIA

The Indian homeware industry offers a diverse range of products that meet the functional and aesthetic needs of households. The homeware industry, with its sub-segments focused on kitchen appliances, cookware, tableware / serve ware, drinkware, lunch ware, and storage ware, caters to the diverse needs and preferences of Indian consumers. As a result, OEMs typically have an extensive and detailed vendor approval process and generally have long gestation periods to onboard a new supplier. The significant time and effort in the approval process results in OEMs typically preferring not to switch vendors unless there have been specific quality and cost issues.

Kitchen appliances segment includes wide range of offerings such as refrigerators, microwave ovens, blenders, food processors, toasters, juicers, hobs and electric kettles among others.

Cookware segment forms one of the integral parts of homeware segment. This cookware segment includes products such as rice cookers, pressure cookers, frying pans, saucepans, woks, grills, and cookware accessories.

Tableware/ serve ware segment consists of products such as dishes, bowls, plates, and cutlery. As the name suggests the products in this segment is majorly used in serving and eating meals.

Indian households use wide variety of choices under the drinkware segment which consists of products such as tumblers, jugs, mugs, cups, plastic bottles, vacuumed steel bottles, non-vacuumed steel bottles and dispensers.

Lunch ware segment consists of lunch boxes or tiffin boxes products that are mainly used for storing and carrying food for job goers and among students.

Storage ware segment includes products such as jars, containers, oil dispensers, chillers designed to keep food fresh, protect it from moisture or pests, and maximize shelf life.

Kitchen appliances form a major portion of Indian homeware industry

As of Financial Year 2023, Indian homeware industry market is estimated to be around ₹ 400 to 450 billion. Of this the lion's share is occupied by the kitchen appliances segment with a share of 40 to 45%. This is followed by cookware and tableware segments which combinedly occupy a share of 27 to 32%, while rest of the industry is occupied by storage ware, drinkware and lunch ware segments with drinkware occupying the highest share among the three.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	2979.88	5773.98	9426.60	2466.98
Total Expenditure (B)	2749.92	4798.30	7591.48	1943.63
EBIDTA	229.96	975.68	1835.12	523.35
EBIDTA Margin	7.72	16.90	19.47	21.21
Other Income	128.85	102.43	116.31	18.05
Depreciation	224.34	243.66	273.41	84.12
EBIT	134.47	834.45	1678.02	457.28
Interest	113.10	99.97	90.04	27.77
PBT	21.37	734.48	1587.98	429.51
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	21.37	734.48	1587.98	429.51
Share of profit in associate	0.00	0.00	0.00	0.00
PBT	21.37	734.48	1587.98	429.51
Tax	11.48	182.97	406.99	108.14
PAT	9.89	551.51	1180.99	321.37
NPM	0.33	9.55	12.53	13.03
ROE %	0.37	18.87	31.17	7.08
EPS	0.11	5.91	12.66	3.44
Eq Cap	233.47	233.47	466.94	466.94
Net Worth	2,616.02	3,169.79	4,352.28	4,665.97

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Flair Writing Industries</i>	5		9426.60	12.66	46.90	31.17
Peers						
Linc Limited	10	33.50	4867.60	25.15	119.17	23.37
Kokuyo Camlin Limited	1	56.82	7749.43	2.44	26.18	9.74
Cello World Limited	5		17966.95	13.17	56.84	23.17

(Source: RHP)



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