

Retail Research	IPO Note
Sector: Consumer	Price Band (Rs): 288 - 304
22nd November 2023	Recommendation: Subscribe

Flair Writing Industries Limited

Company Overview:

Flair Writing Industries Limited (FWIL) is among the top 3 players in the overall writing instruments industry and occupies a market share of ~9% in the overall writing and creative instruments industry in India as on 31st March'23. Under its flagship brand **Flair**, the company enjoys a market presence of over 45 years. It has an extensive range of products across various price points and caters to broad range of consumers. It has the largest distributor/dealer network and wholesale/retailer network, in the Writing instruments segment in India, comprising of ~7,700 distributors/dealers and ~3,15,000 wholesalers/retailers, as on 31st March'23. The company commands market share of 7.1% in the export of writing and creative instruments industry in FY23.

Key Highlights:

1. One of the market leaders in Indian writing instrument industry with well established brands: FWIL is among the top 3 players in the overall writing instruments industry with a revenue of Rs 915 cr in FY23 and occupy a market share of ~9% in the overall writing and creative instruments industry in India, as of FY23. Products are sold under brands like Flair (FY23 Sales: Rs 324 cr), Hauser (FY23 Sales: Rs 193 cr), Pierre Cardin (FY23 Sales: Rs 52 cr), & recently introduced Zoon. The company has outpaced the market with a Sales CAGR of ~14% in FY17-23 when the industry grew by 5.5%. During FY23, the company has sold 130.4 cr pens.

2. Diverse range of products across price points: The company has extensive portfolio of 727 products (as on 30th Jun'23) across various price points and comprises of products from category such as pens, creatives/stationery and calculators. Flair and Hauser offer mass-market and premium pen and stationery products, Zoon focusses on mid-premium and premium writing instruments, and Pierre Cardin brand offers premium pen and stationery products. The company is now diversifying into new categories such as creatives (forayed in Jan'21) and houseware products such as bottles, storage containers, cleaning solutions etc. (through its subsidiaries FWEPL). The part of IPO proceeds will go towards capacity expansion under FWEPL.

3. Largest pan India distributor/dealer network in India: The company manufacture pens and other products from 11 manufacturing plants spread across 3 states and 2 UTs. As of FY23, the company's total pen production capacity stood at 202.3 cr pieces with effective capacity utilization of 77.6%. As of FY23, the company has the largest distributor/dealer network (~7,700) and wholesale/retailer network (~3,15,000), in the writing instruments segment in India. The company has 54 international distributors for the distribution and sale of products abroad.

4. Strong presence in international market: During FY23, the company has clocked 19.6% of the sales from exports and top 5 export countries are US, UAE, Yemen, Colombia and Japan. The company has market share of 7.1% in the export of writing and creative instruments industry in FY23.

Valuation: The company is valued at **FY23A/FY24E PE multiple of 27.1x/25.0x**, at the upper price band on post-issue capital and commands attractive operating margins, robust return ratios of 25%+ coupled with healthy cash flows. The company is well placed to encash on growth opportunity for the large organised players in writing instrument industry. We recommend investors to **SUBSCRIBE to the issue.**

Issue Details	
Date of Opening	22 nd November 23
Date of Closing	24 th November 23
Price Band (Rs)	288 – 304
OFS (Rs cr)	301
Fresh Issue (Rs cr)	292
Issue Size (Rs cr)	593
No. of shares	2,05,90,278 – 1,95,06,579
Face Value (Rs)	5
Post Issue Market Cap (Rs cr)	3,051 – 3,204
BRLMs	Axis Capital, Nuvama Wealth
Registrar	Link Intime India Private Limited
Bid Lot	49 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue		(Rs Cr.)
Setting up the New Valsad Unit		56.0
Funding capital expenditure of Subsidiary, Flair Writing Equipments Private Limited		87.0
Funding working capital requirements of the Company and Subsidiaries, Flair Writing Equipments Private Limited and Flair Cyrosil Industries Private Limited		77.0
Repayment/pre-payment, in part or full, of certain borrowings availed by our Company and our Subsidiaries, Flair Writing Equipments Private Limited and Flair Cyrosil Industries Private Limited		-
General corporate purposes*		-

*To be finalized upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds, in compliance with Regulation 7(2) of the SEBI ICDR Regulations.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	9,33,88,800	97.5
Public & Others	24,01,315	2.5
Total	9,57,90,115	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	8,29,37,411	78.3
Public & Others	2,29,91,593	21.7
Total	10,59,29,004	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	8,34,87,484	79.2
Public & Others	2,19,07,894	20.8
Total	10,53,95,378	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	3MFY24
Revenue from operations (Rs cr)	298	577	943	247
EBITDA (Rs cr)	23	98	184	52
Profit (Rs cr)	1	55	118	32
EBITDA Margin (%)	7.7	16.9	19.5	21.2
PAT Margin (%)	0.3	9.6	12.5	13.0
EPS (Rs)	0.1	5.9	12.7	3.4*
ROE (%)	0.4	17.4	27.2	6.9*
ROCE (%)	3.4	18.8	30.5	7.7*
Debt / Equity (x)	0.5	0.4	0.3	0.3*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Customer needs:** The company's business is dependent on consumer choices and preferences. Inability to keep up with new trends can significantly affect company's revenue.
- **Statutory and regulatory licenses:** It must comply with several statutory and regulatory licenses, permits and approvals required for conducting their operations.
- **Raw materials:** Any significant change in raw materials prices can have a material adverse effect on their business, operations and financial results.
- **Dependency:** The company derives significant portion of revenue from their top 3 brands. Any harm to such brands or reputation may adversely affect their business, financial condition, cash flows and results of operations.
- **Distribution Network:** It is dependent on distribution network in India and overseas to sell their products. Any disruption could have a material adverse effect on their business, operations, prospects and financial results.

Growth Strategy

- **Existing product portfolio:** Focus to strengthen their existing product portfolio and expand their product offerings and competitive advantage by diversifying their product range.
- **Mid-premium segment and Premium Segment:** Laying emphasis on increasing sales of their Mid-premium and Premium segment products.
- **Production capacity and capacity utilisation:** Aims to increase production capacity and enhance capacity utilisation.
- **Strengthen presence in key geographies:** Leveraging their leading position as an award-winning exporter of writing instruments from India to increase penetration in existing markets abroad by expanding their distribution network and enter new markets.
- **Sales and distribution network:** Deepen their existing sales and distribution network in India.
- **Strengthen the brands:** Aim to further increase their visibility of products.

Revenue from operations - Segment wise

Particulars (Rs cr)	FY21	FY22	FY23	3MFY24
Writing instruments	287	556	916	239
Houseware products	0	0	7	4
Steel bottles	0	0	0	0
Other*	11	21	20	3
Total	298	577	943	247

*Includes export incentives, scrap sales, credit notes, plastic granules, parts and publicity materials, among other things.

Source: RHP, SSL Research

Comprehensive product portfolio in writing and creative instruments

Brand (Different Products)	FY21	FY22	FY23	3MFY24
Flair (pens)	216	237	250	254
Flair (creative products and other stationery)	90	128	128	135
Flair (calculators)	36	24	19	19
Hauser	122	113	121	133
Pierre Cardin	155	174	179	183
Zoox	0	0	2	3
Total	619	676	699	727

Source: RHP, SSL Research

Super-stockists, distributors/dealers and wholesalers/retailers

Particulars	FY21	FY22	FY23	3MFY24
Number of super-stockists	84	125	131	131
Number of distributors/dealers	5,638	7,307	7,754	7,754
Number of wholesalers/retailers	1,80,000	2,35,000	3,15,000	3,15,000

Source: RHP, SSL Research

Production capacity and capacity utilisation

Particulars	FY21	FY22	FY23	3MFY24
Production Capacity (in cr pieces)	176	186	202	52
Capacity Utilisation (%)	33.6	58.4	72.8	77.6
Effective production capacity (in cr pieces)	175	180	198	52
Effective capacity utilisation (%)	33.8	60.1	74.5	77.6

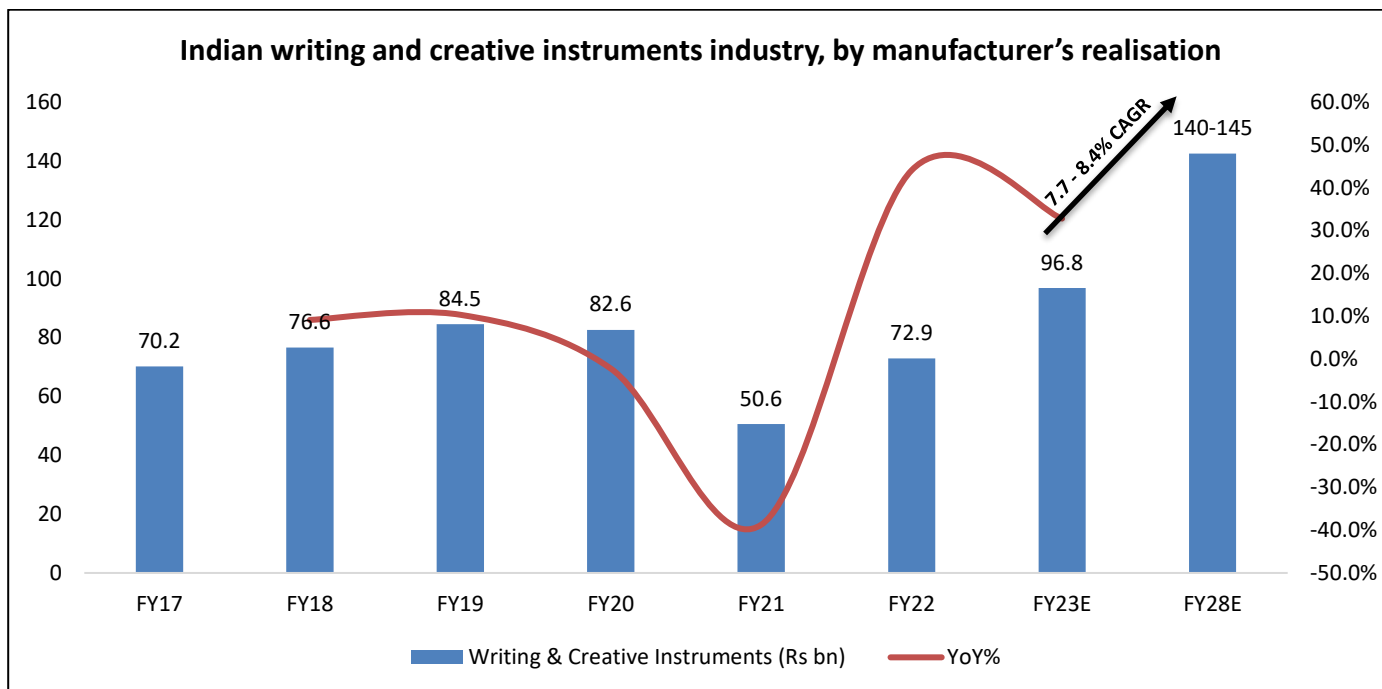
Source: RHP, SSL Research

Industry Overview – India’s Writing and Creative Instruments Industry

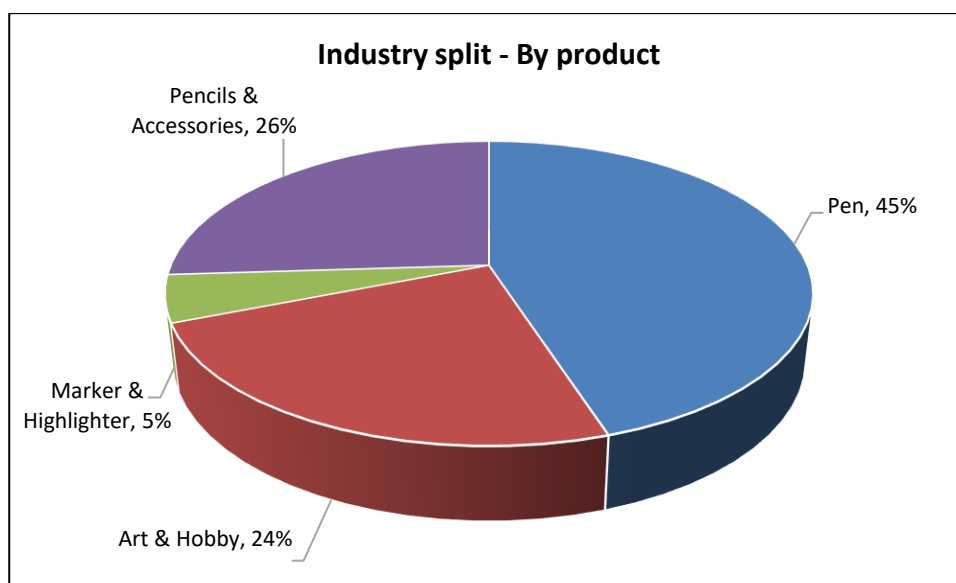
Writing and Creative Instruments Industry

The writing and creative instruments segment comprises of writing equipment such as pens, pencils, markers and highlighters; and art and hobby equipment such as crayons, sketch pens, colour pencils, brushes, and accessories such as erasers, sharpeners. Among the writing and creative instruments industry pens account for a major share.

Indian writing and creative instruments industry, by manufacturer’s realization, is as shown below:



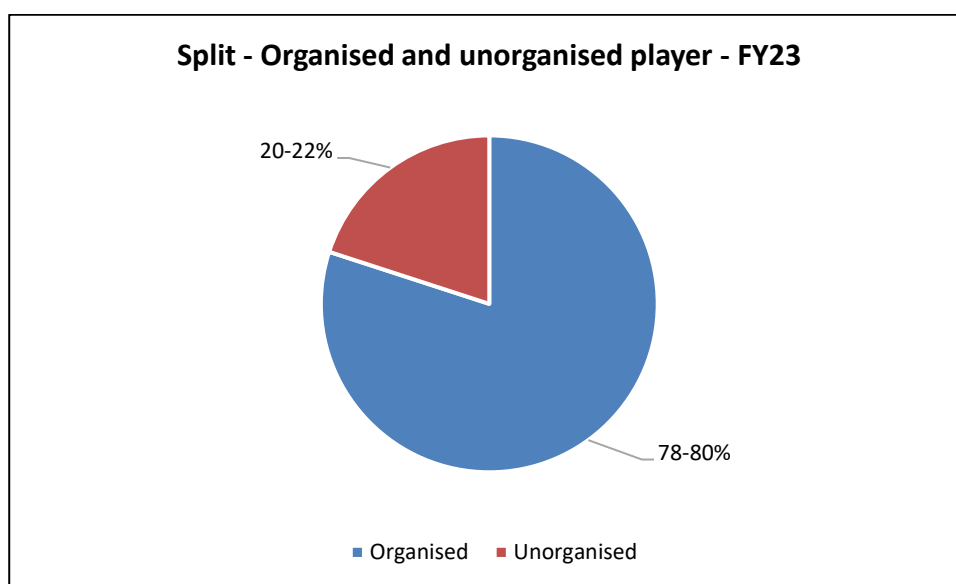
Source: RHP, SSL Research



Source: RHP, SSL Research

Market Split between Organised & Unorganised Players – FY23

- The Indian writing and creative instruments industry has many small, unorganised players, as well as organised players.
- The smaller players typically offer low-value products and operate in specific geographies.
- Organised players, on the other hand, have wider product portfolios, a pan-India presence and multiple manufacturing facilities. Organised players are also engaged in exports.
- Post COVID pandemic, organised players are dominating the industry and are growing at faster clip and command 78-80% market share.
- During FY23E-FY28E period, organised segment is likely to clock CAGR of 8.5-9.0% as compared to that of CAGR of 4.5-4.7% for unorganised segment.
- Among the organised players, the 7 players – Cello, Flair, Hindustan Pencils, Kokuyo Camlin, Linc, Luxor, and DOMS - have grown faster than the rest of organised players.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	298	577	943
% YoY growth	-	93.8%	63.3%
Cost Of Revenues (incl Stock Adj)	166	308	509
Gross Profit	132	269	434
Gross margins (%)	44.2	46.6	46.0
Employee Cost	58	88	117
Other Operating Expenses	50	84	133
EBITDA	23	98	184
EBITDA margins (%)	7.7	16.9	19.5
Other Income	13	10	12
Net Interest Exp.	11	10	9
Depreciation	22	24	27
PBT	2	73	159
Tax	1	18	41
PAT	1	55	118
PAT margin (%)	0.3	9.6	12.5
EPS	0.1	5.9	12.7

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	176	190	240
Capital WIP	0	2	2
Intangible Assets under development	9	6	9
Other Non current Assets	9	7	22
Current Assets			
Current Investment	16	0	0
Inventories	131	184	214
Trade receivables	116	147	171
Cash and Bank Balances	1	0	1
Short-term loans and advances	0	0	0
Other Current Assets	22	20	25
Total Current Assets	286	352	411
Current Liabilities & Provisions			
Trade payables	41	50	64
Other current liabilities	16	37	38
Short-term provisions	8	9	9
Total Current Liabilities	65	96	110
Net Current Assets	221	257	300
Total Assets	415	462	574
Liabilities			
Share Capital	23	23	47
Reserves and Surplus	238	294	388
Total Shareholders Funds	262	317	435
Total Debt	130	126	116
Long Term Provisions	5	6	6
Other Long Term Liabilities	8	3	7
Net Deffered Tax Liability	10	10	10
Total Liabilities	415	462	574

CASH FLOW (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	60	35	96
Cash flow from Investing Activities	-16	-19	-74
Cash flow from Financing Activities	-48	-16	-22
Free Cash Flow	50	-4	22

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	0.2	9.9	17.3
Return on Capital (%)	3.4	18.8	30.5
Return on Equity (%)	0.4	17.4	27.2
Margin Analysis			
Gross Margin (%)	44.2	46.6	46.0
EBITDA Margin (%)	7.7	16.9	19.5
Net Income Margin (%)	0.3	9.6	12.5
Short-Term Liquidity			
Current Ratio (x)	3.4	2.4	2.2
Quick Ratio (x)	1.8	1.1	1.1
Avg. Days Sales Outstanding	142	93	66
Avg. Days Inventory Outstanding	161	117	83
Avg. Days Payables	50	32	25
Fixed asset turnover (x)	1.7	3.0	3.9
Debt-service coverage (x)	0.2	0.7	1.5
Long-Term Solvency			
Total Debt / Equity (x)	0.5	0.4	0.3
Interest Coverage Ratio (x)	1.2	8.3	18.6
Valuation Ratios			
EV/EBITDA (x)	129.1	30.4	16.1
P/E (x)	2867.7	51.5	24.0
P/B (x)	10.9	9.0	6.5

Peer Comparison

	Flair Writing Industries Ltd.	Linc Ltd.	Kokuyo Camlin Ltd.	Cello World Ltd.
CMP (Rs)	304	697	147	785
Sales (Rs cr)	943	487	775	1,797
EBITDA (Rs cr)	184	62	54	421
Net Profit (Rs cr)	118	37	24	285
Market Cap (Rs cr)	3,204	1,037	1,473	16,662
Enterprise Value (Rs cr)	3,319	1,026	1,520	16,699
EBITDA Margin (%)	19.5	12.7	7.0	23.4
Net Profit Margin (%)	12.5	7.6	3.1	15.9
P/E (x)	27.1	28.0	61.4	58.5
EV/EBITDA (x)	18.1	16.5	28.2	39.7
RoE (%)	27.2	23.5	9.3	125.0
RoCE (%)	30.5	31.4	12.0	48.1

The data is based on FY23 financial data.

For Flair Writing Industries Limited the Market cap, PE(x), and EV/EBITDA are calculated on post-issue equity share capital based on the upper price band.

CMP as on 21st November'23.

Source: RHP, SSL Research

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