Cello World Limited

(formerly known as ‘Cello World Private Limited’)

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Website: www.corporate.celloworld.com **CIN: L25209DD2018PLC009865**

February 19, 2025

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 **Scrip Code: 544012**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block - G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 **Symbol: CELLO**

Sub: Transcript of Investor Call

Dear Sir(s)/ Madam(s),

Pursuant to Regulation 30 of the Listing Regulations, copy of transcript of the Investor call held on February 13, 2025 at 09:00 a.m. (Indian Standard Time) on the unaudited financial results for the quarter ended December 31, 2024, is enclosed.

The said transcript is also available on the Company’s website.

This is for your information and records.

Thanking you.

Yours faithfully,

For Cello World Limited

Hemangi Pragnesh Trivedi

Digitally signed by Hemangi Pragnesh Trivedi
DN: c=IN, o=Personal, title=7523, pseudonym=aa547e2f1a2e4bdfb53bf968e3d8a36d, 2.5.4.20=84eace671edb92ed38f80e8c6d7ab3dbe02cc565278bf0539f57de52d863943a, postalCode=400068, st=Maharashtra, serialNumber=2339b1008c0b1136f8da48081ec2431881bff677de235dc7d72c57e8b0a9db93, cn=Hemangi Pragnesh Trivedi
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“Cello World Limited
Q3 FY '25 Results Conference Call”
February 13, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th February 2025 will prevail.

MANAGEMENT: **MR. GAURAV RATHOD – JOINT MANAGING DIRECTOR – CELLO WORLD LIMITED**
MR. ATUL PAROLIA – CHIEF FINANCIAL OFFICER – CELLO WORLD LIMITED

MODERATOR: **MR. KARAN BHUWANIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Conference Call of Cello hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhuwania from ICICI Securities. Thank you, and over to you, sir.

Karan Bhuwania: Thank you, Raiq. Good morning, everyone. It's our pleasure at ICICI to host Q3 FY '25 Results Conference Call of Cello World. From the management, we have Mr. Gaurav Rathod, Joint Managing Director; Mr. Atul Parolia, CFO. I'll now hand the call to management for their opening remarks, post which we can open for the Q&A. Thank you. Over to you, sir.

Gaurav Rathod: Thank you, Karan. Good morning, everyone, and a very warm welcome to our company's earnings call. Joining me is our CFO, Mr. Atul Parolia; and Investor Relations advisor, SGA. The results and presentation are available on the stock exchange and on our website. I hope you had a chance to look at it.

In the first half of the quarter, the festive demand was healthy. However, subsequently, there was some pressure on demand side due to some -- due to lesser consumption and discretionary spending by the customers.

For the quarter, revenues saw a growth and stood at INR557 crores as against INR527 crores for the same period last year. Despite the slower growth rate in revenue, we were able to maintain our EBITDA margin levels at 25% and 16% for PAT. Our operational efficiencies and stable input prices contributed to a general stability in our manufacturing costs.

Our core business consumer ware grew by 8% for the quarter year-on-year. The glassware facility began production -- commercial production on February 1 and rolled out several new product lines, starting with our drinker collection. We have achieved an efficiency level of around 50% and we believe a gradual and continuous improvement happening in this area.

Molded furniture grew by 7% year-on-year. The Writing Instrument business saw some recovery on the export side on a sequential basis. However, on a year-on-year basis, we had to scale back to previous year's level. But we are confident in this quarter to achieve good numbers given good export orders.

Moving forward, we anticipate a rebound in consumption-driven demand supported by the finance minister's revised income tax policies in the budget and the recent interest rate cut. This is expected to boost the purchasing power of our largest customer segment, the middle class.

To strengthen our position, we continue to have an innovative and a premiumized approach towards our product portfolio, consistent spending towards brand building and a strategic expansion in our overall reach through various distribution models. I will now hand over to our CFO, Mr. Atul Parolia, for a financial highlight. Thank you very much.

Atul Parolia: Thank you, Gaurav, and good morning to everyone. I will be sharing the financial details for the quarter gone by. In Q3 FY '25, we achieved a revenue of INR557 crores and EBITDA of INR140 crores with a healthy EBITDA margin of 25%. Our PAT stood at INR86 crores with a margin of 16%. Speaking of revenue mix, over -- 69% of our revenue came from the consumer care, 14% from the writing instruments and remaining 17% from the molded furniture and light products.

As I take our primary channel contributed 79% of the sales, while export and online sales made up to around 8% and 9%, respectively. Modern retail accounted for the remaining 4%. In terms of segment-wise margin, writing instrument led by 55% gross profit margin, followed by consumer where we achieved 50% and Molded furniture at 44%.

Speaking of 9 months FY '25, revenue was INR1,548 crores and year-on-year growth of 4%. EBITDA stood at INR407 crores with a margin of 26%. PAT was INR251 crores with a margin of 16%. With this, I would like to open the session for question and answers.

Moderator: Thank you, sir. The first question comes from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: Hi Sir, can you tell us the date of commercial production for the glass plant?

Gaurav Rathod: Yes. So the commercial production, which is saleable production started on February 1st. So that is the time we were able to call it quality, which is saleable. Of course, we had started trial production before. So we were about 2, 2.5 months, we were doing trial production, but which was not packable. But now we've got packable production since Feb 1st, and we have just started selling.

Percy Panthaki: Understood. And what kind of sales should we expect from this plant for this quarter, Jan to March quarter?

Gaurav Rathod: So Jan to March, you might not see a very big jump because we are just building our product line. So it is just initial sales that is going to happen, but we are still waiting for building product lines. So we'll be collecting some stock in the next couple of months. And you will see the real impact in the next quarter.

Percy Panthaki: Fair enough. So April to June quarter, what kind of sales should we be building in? I just wanted to understand the kind of extent of ramp-up, so in the first quarter, what ramp-up we could achieve?

Gaurav Rathod: So we are anticipating about INR5 crores to INR7 crores additional revenue each month. So about in a quarter, about INR20 crores, INR25 crores in the first quarter, of course, then it will scale up even further.

Percy Panthaki: First quarter as in April to June?

Gaurav Rathod: April to June, correct.

Percy Panthaki: Okay. So INR25 crores in April to June?

Gaurav Rathod: Additional revenue.

Percy Panthaki: And then what kind of scale up? Because I understand that the plant at full capacity can do a turnover of about INR250 crores, right?

Gaurav Rathod: Correct. You're right.

Percy Panthaki: So INR25 crores is annualized INR100 crores. So when do we reach that annualized INR250 crores run rate? Is it 2 quarters, 3 quarters?

Gaurav Rathod: Correct. Currently, we are at only 50% efficiency levels. In the glass plant, it takes a little time because this is a 10-year furnace. So when we start, we achieve lower levels of efficiency. But as we build, so it takes about 6-odd months. So from now, 6 months, we will be at about 75%, 80%, which is when the full capacity utilization kind of comes in or kicks in. So in the first year, we anticipate close to INR150-odd crores revenue from this plant, not the whole INR250 crores. That is at peak capacity.

Percy Panthaki: Got it. Got it. So second year should be INR250 crores, right?

Gaurav Rathod: Yes, yes. That's what we would like to achieve.

Percy Panthaki: And another question is, since a lot of the costs here are fixed at this INR150 crores, would the margins be sort of affected negatively? How should we sort of build in...

Gaurav Rathod: I think we will try and not -- so of course, we might not see very positive PAT numbers in the first odd year, which will basically start flowing in from the second year. But we hope to break even at least in the first year and/or probably make a very small profit. So that's the idea going forward.

Percy Panthaki: Got it. Got it. Or another way of thinking is at your consol level, consol EBITDA level, how many basis points of impact should I take from this plant in FY '26? Would it be like 100 basis points impact at the consol level? Or how should I look...

Gaurav Rathod: On a consol level, yes. So EBITDA margins will still not be affected as much as your EBIT margins because your costs are down. So your gross margins might be decently good for glass because they are actually pretty good, in line with our other glass ware products. But on EBIT level, yes, it will affect more.

Percy Panthaki: Okay. Understood. So EBITDA, there is no dilution, which is like...

Gaurav Rathod: EBITDA, there might be dilution by, as you said, about 1 basis point.

Percy Panthaki: Understood. Understood.

Gaurav Rathod: But it will be temporary. It might actually -- for the entire year, it might not even be that much.

Percy Panthaki: Understood. Understood. Second question is on the Writing Instruments segment. So there is a decline here, but can you split it up between exports and domestic?

Gaurav Rathod: Sure. So export is a major decline here. Domestic has been stagnant. So domestic also has not grown, but the decline has come due to exports. We had a lot of issues in the last quarter, which I had mentioned as well that the exports -- there were a lot of shipping concerns, there was global slowdown. So the customers had kind of delayed orders as well.

And because of the shipping concerns also, it got exaggerated a little bit. But we are seeing it back. We have seen come back, though we had expected a little more comeback. But I think this quarter, we are seeing good orders already in the pipeline. So at least if not growth, we might at least not have any degrowth for this year.

Percy Panthaki: Got it. And for the domestic business, what would be required for it to show some good growth?

Gaurav Rathod: I think for the domestic business, consumer demand has been quite weak in this segment. If you see barring 1 or 2 players, not much has happened. And even in the unlisted space, people are struggling a little bit. But I think overall, consumer demand as it improves, we should see some improvement. Also, we are adding product lines, as I mentioned.

Moderator: Yes, sir. Sir, the participant has dropped. We will move to the next participant. The next question comes from the line of Praveen Sahay from PL Capital.

Praveen Sahay: Sir, my first question is related to the gross margin and especially in the consumer as well as in the writing instruments, the gross margin contraction is quite high in the quarter. So is that the RM inflation or some product mix change? Why -- and will that continue at this level or improve?

Gaurav Rathod: So the gross margin level has contracted a little bit, mainly it's because of -- it's actually a factor of 3 factors, as you rightly said. It's part inflation of raw material, not a lot, but very limited inflation. Plus product mix has changed, mainly in the writing instrument segment, which has affected and also in the consumer segment to a certain extent.

And of course, there were some discounts that were passed on because due to weak demand conditions, there was some discounting that happened, which also has resulted in slightly lower gross margins.

But I think as the consumer demand improves, if you see consumer ware actually grew at a decent pace of 8%. So I think we are kind of getting back a little bit of that demand. So as demand improves, this number should actually improve in the next few quarters.

Praveen Sahay: Okay. And especially in the writing part, if you look at your peers for the non-paper segment, their gross margin has not impacted actually. So that's why I was looking at your number, why is it so it's because of RM or some change in the distribution what exactly versus the industry.

Gaurav Rathod: So 2 factors in writing instrument. One is, of course, basically the product mix has changed a little bit and also due to export being lower than domestic sales. So export, we slightly have better margins compared to domestic. So that is also one of the reasons why it has contracted a little bit.

Praveen Sahay: Okay. Second question, sir, related to the -- if you can give any color on the working capital side by end of 9 months, how it has moved?

Gaurav Rathod: Correct, right. So I think we've kind of improved on the working capital side. Our trade receivables, which are about at 124 days in quarter 2 of '25 has now improved to about 111 days. Inventories have also improved by about 10 days from 98 days to 88 days. And of course, our trade payables stay pretty much the same as we pay in about 25-odd days. So we have seen about a 20-day kind of drop in our working capital.

We still -- of course, there is a lot of room to improve here. Our target is about to reach about 90 to 95 days in terms of our trade receivables. And inventories, I think we are at now optimal level. I don't see any improvement there. But I think trade receivables, we still want to go down to about -- by about 15 days.

Praveen Sahay: Okay. Second, on this -- the volume growth, if you can give in all 3 segments for 9 months or the quarter?

Gaurav Rathod: So volume growth is pretty much in line. I think it's not very different from the value growth of about 8% because there has not been a very -- sorry, 5% for the entire company because raw material prices have been pretty stable. Volume growth slightly is more because your gross margins have contracted a little bit, but it's not too different. So normally, we have a difference of about 3% to 4% value growth is slightly more than the volume. But this time around, it is pretty much in line with value growth.

Praveen Sahay: Okay. And can you give the capex number as well for 9 months and the full year and the next year respective?

Atul Parolia: Same number which we have expected last time INR275 crores. And the next year is around INR75 crores to INR100 crores.

Praveen Sahay: Okay. Okay. And guidance is maintained 20% sales growth way forward, sir?

Gaurav Rathod: So I think way forward, it's not been an easy year for us this year around. So I think going forward, our guidance would be about -- conservatively, I'm saying because we've seen very weak demand in this past year.

So if this continues, it's slightly weaker still, we expect about 12% to 14% growth for the next year, given that we also have an addition of revenue from our glassware plant. But if things improve, it can go up to about 15% to 17%, which is where we would like to be, which we were in the past as well. So I think that would be something that we would be happy with.

Moderator: The next question comes from the line of Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: Just a couple of questions. One is, can you highlight on the channel inventory given you've talked about higher discount schemes, et cetera? Are you looking at the channel inventory already at optimal or slightly higher level or it is understocked?

Gaurav Rathod: No, you see we have improved in our days debtors basically. So there has been actually a correction of a lot of inventory this year. So if you see the last quarter, the decent demand in the festive season kind of cleansed a lot of inventory.

And I feel going forward, inventory position is pretty good, I think, at our channel as well in terms of our distributors and in the retail counters. So I guess that is not going to be a challenge in the coming year, at least, which was a big challenge this year.

Achal Lohade: So essentially, you're saying channel inventory was a little higher in the start of the year and now it is at normal level. Have I understood right? Okay.

Gaurav Rathod: Yes, absolutely.

Achal Lohade: Second question is, if you could break this 12% to 14% growth in terms of these 3 segments?

Gaurav Rathod: Yes. So I think in terms of the 3 segments, so about 3.5% to 4% additional revenue we will receive from -- for the glassware plant. And if consumer ware grows even at about 8-odd percent and about -- so -- and also the writing instruments segment at about 8% to 10%, which is conservative, but should grow slightly faster, but at a conservative level, about 8% to 10% and furniture at about 5% to 7%.

So because furniture this year has been a decent growth. Normal, if you see the previous years, it's one of our toughest segment and growth has been difficult. But this year has been a decent growth, which hopefully continues, but we expect it to be about 5% to 7% around that number. So in total, this will total to about 12% to 14%.

Achal Lohade: Understood. Just remind me if when we got listed, what was the revenue growth guidance? And given where we are currently talking, which 2 or 3 factors which have driven this correction?

Gaurav Rathod: So I think -- see, when we got listed, the previous years, the previous years before listing were about 30%, 30% growth. They were exceptional years. Of course, before that also, we were growing at about 15% to 17% year-on-year. So I guess the last 1.5, 2 years has been very difficult in terms of consumer demand actually has been pretty weak.

And you see this across all the segments in the consumer discretionary and even FMCG. So I think improvement in that we are seeing some improvement. And I think if that has been the biggest factor driving this down a little bit. So I believe that once this is improving and with the budget being favourable for the middle class, I think this number should change in this coming year.

Achal Lohade: Understood. There is nothing on any specific product competition or distribution, et cetera, which has got impacted this growth?

Gaurav Rathod: I think see, if you look at our competition as well, their growth has also been pretty muted. Though there has been additional discounts rolled out by a lot of our competitors as well, but the growth in revenue has not been robust. So I guess if you -- in a bad demand scenario, it should -- otherwise, they should have taken a lot of market share, which has not happened.

So I guess keeping that in mind, I believe overall, the macro scenario was so bad that probably just keeping our margins intact and growing at maybe a slightly slower pace was probably the right approach that we took in the last couple of years. But going forward, I think we have a lot of very good things happening in terms of having additional kind of product lines that are being added. And I think this can now propel the company into a different kind of growth trajectory.

Achal Lohade: Understood. And just last question, Gaurav. With respect to margins, you commented about 12% to 14% revenue growth, but how do you see the margins panning out aggregate at company level, EBITDA margins, if you could guide for FY '26 and '27 as well, if possible?

Gaurav Rathod: So EBITDA margins should be in line next year. Maybe as I mentioned earlier, that due to the glassware plant being just initiated, and it takes a little time for efficiencies to come in, we might see slightly tapered maybe 0.5 to 1 basis point, but EBIT margins might be hit a little more in the first couple of quarters. Maybe it will actually improve in the last.

So we'll see how that goes. But overall, we would like to maintain it at about 10% to 12%, in line with the value growth, but could be slightly 1%, 1.5% lower than the value growth that we'll expect. It's only for the next year. Of course, it will improve again because gross margins are pretty strong even in the glassware segment.

Moderator: The next question comes from the line of Ankur from HDFC Life.

Ankur: Two questions. One, as we kind of enter the summer season and the whole school reopening, et cetera, which is like peak season for your lunch boxes, bottles. If you could just talk about how is the channel restocking happening?

Are you starting to see some signs of a rebound on the demand side? Or is it still fairly tepid like what you've seen over the last couple of quarters? So that's question number one. Question number two would be if you could also talk about impact, if any, of Q-commerce on your distribution channels? And how are you kind of handling the fund?

Gaurav Rathod: Right. So I think, of course, summer is a good season for us. And the bottles and the lunch pies we're already seeing demand for it. It starts from about mid of February and goes up to about May and June. So restocking has been good in the channel. And that is why, as I mentioned, our debtor days have also come down. That's because a lot of inventory has gotten corrected.

So I guess this time around, summer should be strong. Glassware, again, is a very summer-heavy product. So the first quarter should be good, though we might not reach full efficiencies by then. But whatever product mix that we make, we hopefully see a pretty strong demand for that. I think -- sorry, Ankur, your second question was.

Ankur: The impact of Q-commerce and how are you kind of dealing with that?

Gaurav Rathod: So quick commerce, so it's been a good start. We started last year. Of course, there is a lot of things that even they are figuring out in the kitchen and home space. But I think we are seeing decent growth about -- in the tune of about 1.5% to 2% of our e-commerce sales today comes from that. But I think this number can be a lot larger in this year as good as about 15%, 20%. So we are focusing on quick commerce, but there is a lot of corrections from their side that they are now implementing because this was not a category of choice for them for so long.

It was majorly groceries and other discretionary. But now there is -- we see a lot of focus on this category. So this would drive -- because e-commerce in India is still growing in the just about 8% to 10% in the normal channels, and I'm talking about an Amazon or a Flipkart. But in quick commerce channels, we will see faster growth. So those will be propellers probably for this coming year.

Ankur: Got it. Okay. And just to clarify on the EBITDA margins for next year, you said there may be a slight hit because of the start of this new glassware factory. But what kind of either an absolute number or range you can provide on margins, EBITDA margins for next year, where would you see that?

Gaurav Rathod: EBITDA margins about -- the maximum impact would be probably about 1 percentage point. That would be the impact.

Ankur: Over this year?

Gaurav Rathod: Yes, yes, yes. Over the year.

Moderator: Yes, the next question comes from the line of Sumant Kumar from Motilal Oswal Finance Service Limited.

Sumant Kumar: Can you talk about the export outlook in last couple of quarters, we are seeing a subdued growth. So is it because of Russia or is it because of freight and container issue? What is the key issue there? And when we are going to rectify?

Gaurav Rathod: So I think the container issue has been a problem, and that is why a lot of shipments had gotten delayed. But it has improved. It's not that it has not improved in the last quarter, but now we see a bigger pipeline in the next quarter. So I believe that we'll be able to cover a lot of the loss of sale that has happened in the last quarter -- over this quarter. So we should end up if not growth in the segment, at least at last year numbers.

Sumant Kumar: Okay. And now coming to discounting, what percentage -- what is the rule of increasing in competitive intensity in consumer houseware ex of glass and Opalware?

Gaurav Rathod: Right. So I think you've seen that in the contraction of gross margins. Of course, it has been a mix of raw material product mix. But there has been some amount of about 0.5% to 0.7% of GP because of basically discounting. So I think this has happened in this quarter. Of course, this is also a very heavy quarter, as you know, because of the festive season.

So always because the intensity was high this time because everyone was having -- facing challenges of selling. So there was part contraction. But we will -- I don't see this as a very long-term impact. This was a temporary impact that happened because of the weak demand scenario.

Moderator: The next question comes from the line of Karan Bhatelia from Asian Market Securities.

Karan Bhatelia: So this is with respect to the opalware capacity expansion -- sorry, opalware capacity utilization, how does it stand now? And what are the targets for the next year?

Gaurav Rathod: Right. So opalware capacity for us is at about 80% today. We still have about 20% capacity left in this segment. And we hope to be at about 90% to 95% by next year because we might see furnace -- our furnace will go under maintenance. So that -- we lose a little bit of our capacity. But otherwise, 90%, 95% capacity utilization by next year.

Karan Bhatelia: Right. And how is the pricing scenario now on the Opalware side?

Gaurav Rathod: Pricing scenario is not bad because we've had some -- our raw material and energy costs had gone down over the years. So that -- though the prices were slightly lower, but it was offset by lower input costs. So I think that is why the margin has not been affected too much.

Karan Bhatelia: Right. And like we've been focusing much on the new product launches. So how has been the new product launches count for the 9 months FY '25?

Gaurav Rathod: Our overall product launches, if you see across all segments, it's about 15% contribution is of new products, which is actually in line with our every year kind of number. So even last year, this number stood at about 13% to 14%. So we are seeing similar number, 15-odd percent comes from new product launches.

Karan Bhatelia: Right. And so in the previous calls, we've been mentioning to launch new products, especially in the writing instruments, Crayon, geometry boxes, markers. So how is that ramp-up happening?

Gaurav Rathod: It has happened to a certain extent, not a lot, but we are still working on it to build those product lines. And this should start contributing a lot more from the next year.

Moderator: The next question comes from the line of Praveen Sahay from PL Capital.

Praveen Sahay: Yes. Just a follow-up on the margin front, you indicated about a 1% impact. Is that you are talking about the only consumer segment or as a whole consolidated level because of a glass.

Gaurav Rathod: No, the major impact will come from the consumer segment because of the glassware ramp-up. So on an overall basis, it would be about 1% at the max. So just -- of course, the impact is going to come from the consumer ware, but it will have an overall impact on the company EBITDA.

Praveen Sahay: So just to understand this 25% plus of margin you are delivering on. So on that, you are saying the 1% of a contraction or in the EBITDA 1% reduction...

Gaurav Rathod: Yes, at max, yes.

Praveen Sahay: So in place of a 25%, 24% around you are expecting?

Gaurav Rathod: Around 24%, correct, correct.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Gaurav Rathod: Thank you so much. Hopefully, we'll see much better quarters ahead. And thanks a lot, everyone.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference. You may now disconnect your lines.