FLAIR

COMPANY UPDATE

COFFEE WITH CEO

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	273
12 month price target (INR)	400
52 Week High/Low	343/194
Market cap (INR bn/USD bn)	29/0.3
Free float (%)	21.4
Avg. daily value traded (INR mn)	28.3

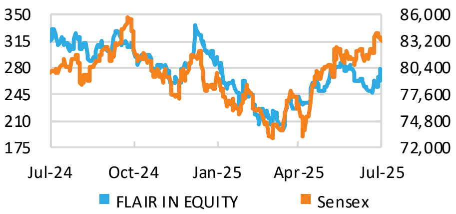
SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	78.59%	78.59%	78.59%
FII	0.06%	0.09%	0.02%
DII	9.55%	10.51%	11.37%
Pledge	-	-	-

FINANCIALS (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	10,799	12,555	14,537	16,799
EBITDA	1,847	2,129	2,536	2,953
Adjusted profit	1,191	1,399	1,767	2,118
Diluted EPS (INR)	11.3	13.3	16.8	20.1
EPS growth (%)	0.6	17.5	26.3	19.9
RoAE (%)	12.4	12.9	14.2	14.7
P/E (x)	23.2	19.7	15.6	13.0
EV/EBITDA (x)	14.5	12.0	9.5	7.6
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Creative, steel bottle to drive fast growth

We recently interacted with the top brass of Flair Writing Industries (Flair). Key takeaways: i) Revenue to expand 15–16% YoY led by rapid growth in creatives (40% YoY), steel bottles (50% YoY) and pens (10% YoY) business in FY26E. ii) Gradual margin recovery likely via higher share of premium products and increased in-house production. iii) Flair expects to scale up the steel bottle business to INR1bn by FY27.

Given the stock has recorded a slip in valuation, considering healthy 15–16% YoY growth (starting Q1FY26 itself) led by new avenues such as creative and steel bottles along with a gradual margin increase, we are raising target valuation for Flair to 23x (earlier 20x). Reiterate 'BUY' with a revised TP of INR400 (earlier INR340) based on Q1FY28E EPS.

Creative shift: 40% growth along with higher in-house production

Flair over the last few quarters has upped its game and increased in-house manufacturing from 40% in Q3FY25 to 70% in Q4FY25, which shall help it to improve margins. The creatives division is currently operating at 70% and the company is working on adding new capacities with nearly 60% of its INR1.1bn capex allocated towards this segment. Flair has incorporated two new subsidiaries—Monterosa Stationery and Flomaxe Stationery—for distributing Maped's creative range and in-house manufacturing of polymer pencils, wooden pencils, sharpeners, and erasers, with a combined capacity of 130mn pieces. While it currently acts as a distributor for Maped, potential is there to evolve into an OEM partner. The creative segment is likely to grow 40% in FY26 driven by strong market traction of its newly launched polymer pencils as well as Disney products.

Gradual margin improvement along with 15–16% revenue CAGR

Flair re-entered the INR5 price segment in the pen category alongside the launch of an INR10 mechanical pencil in Q2FY25. In FY25, the company launched 65 new pens, with 43 in the mid-premium to premium range and 22 in the INR10 segment. Management does not expect the INR5 pen to dilute margins as this should be offset by the rising share of premium offerings. New capacities, increased in-house manufacturing in the creative division and overall higher utilisation are likely to drive operating leverage and support a gradual improvement in margin.

Global shift opens the doors for exports; BIS driving steel bottles

The company expects OEM export sales to pick up pace as exports present a strong opportunity for Flair, with several OEM clients in the US and South America shifting sourcing away from China. The recent BIS implementation had temporarily stalled sales due to increased imports prior to BIS coming in, but with that inventory levels going down, domestic players such as Flair are poised to gain. On the exports front, Flair is working with its existing OEM customer on new models and has dispatched orders to other OEM clients, which could translate into fresh orders. With a strong pipeline of SKUs and expansion planned across general trade, modern trade and e-commerce, Flair expects 50% growth in OEM exports in FY26, driven by both market diversification and supply chain shifts from China.

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	10,799	12,555	14,537	16,799
Gross profit	5,477	6,152	7,123	8,242
Employee costs	1,717	1,889	2,116	2,433
Other expenses	1,912	2,134	2,471	2,856
EBITDA	1,847	2,129	2,536	2,953
Depreciation	447	552	527	540
Less: Interest expense	53	31	21	12
Add: Other income	246	320	368	423
Profit before tax	1,593	1,866	2,356	2,824
Prov for tax	403	466	589	706
Less: Other adj	0	0	0	0
Reported profit	1,191	1,399	1,767	2,118
Less: Excp.item (net)	0	0	0	0
Adjusted profit	1,191	1,399	1,767	2,118
Diluted shares o/s	105	105	105	105
Adjusted diluted EPS	11.3	13.3	16.8	20.1
DPS (INR)	0	0	0	0
Tax rate (%)	25.3	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	527	527	527	527
Reserves	9,658	11,057	12,824	14,942
Shareholders funds	10,185	11,584	13,351	15,469
Minority interest	(6)	(6)	(6)	(6)
Borrowings	296	216	136	56
Trade payables	539	789	934	1,078
Other liabs & prov	810	810	810	810
Total liabilities	12,181	13,751	15,583	17,765
Net block	4,254	4,052	3,675	3,285
Intangible assets	18	18	18	18
Capital WIP	230	230	230	230
Total fixed assets	4,501	4,300	3,923	3,533
Non current inv	0	0	0	0
Cash/cash equivalent	1,142	2,339	3,644	5,191
Sundry debtors	2,589	2,408	2,788	3,222
Loans & advances	4	4	4	4
Other assets	3,641	4,397	4,921	5,512
Total assets	12,181	13,751	15,583	17,765

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Capex (INR mn)	244.1	350.0	150.0	150.0
Jobwork % of Sales	3.5	3.5	3.5	3.5
Fuel cost % of Sales	2.2	2.2	2.2	2.2
EBITDA margin (%)	17.1	17.0	17.4	17.6
Net profit margin (%)	11.0	11.1	12.2	12.6
Revenue growth (% YoY)	10.3	16.3	15.8	15.6
EBITDA growth (% YoY)	(3.4)	15.2	19.1	16.4
Adj. profit growth (%)	0.6	17.5	26.3	19.9

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	1,593	1,866	2,356	2,824
Add: Depreciation	447	552	527	540
Interest (net of tax)	53	31	21	12
Others	(163)	0	0	0
Less: Changes in WC	1,006	(251)	759	881
Operating cash flow	544	2,233	1,556	1,789
Less: Capex	(1,338)	(350)	(150)	(150)
Free cash flow	(794)	1,883	1,406	1,639

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	0	0	0	0
Repo rate (%)	0	0	0	0
USD/INR (average)	0	0	0	0
Manuf expns % Sales	7.6	7.6	7.6	7.6
Employee % of Sales	15.9	15.0	14.6	14.5
Freight out % of Sales	1.5	1.5	1.5	1.5
Travelling % of Sales	1.2	1.2	1.2	1.2
Depre % of gross block	9.0	9.5	8.7	8.7
Interest % of debt	14.5	12.0	12.0	12.0

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	12.4	12.9	14.2	14.7
RoCE (%)	16.5	17.0	18.8	19.6
Inventory days	176	178	168	159
Receivable days	80	73	65	65
Payable days	41	38	42	43
Working cap (% sales)	56.5	60.7	66.6	72.1
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Interest coverage (x)	26.6	51.2	94.9	208.4

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	23.2	19.7	15.6	13.0
Price/BV (x)	2.7	2.4	2.1	1.8
EV/EBITDA (x)	14.5	12.0	9.5	7.6
Dividend yield (%)	0	0	0	0

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	0.6	17.5	26.3	19.9
RoE (%)	12.4	12.9	14.2	14.7
EBITDA growth (%)	(3.4)	15.2	19.1	16.4
Payout ratio (%)	0	0	0	0

Source: Company and Nuvama estimates

Bios in brief

Khubilal Jugraj Rathod, Chairman

Mr Rathod has been a Director since the incorporation of the company from August 12, 2016. He has completed his matriculate education. Mr Rathod has over 48 years of experience in the writing instruments industry. He received the Lifetime Achievement Award and the Udyog Rattan Award from the Institute of Economic Studies, the Life time Achievement Award from The Bombay Fountain Pen Manufacturers and Traders Association, the 'Most Admired Leader' award from the Herald Global, Inspirational Leaders of New India award from Powerbrands Glam, Las Vegas, US, Life time Achievement award from the Governor of Uttarakhand and the 'Achiever' award from Junior Chamber International, Marine Lines. Mr Rathod is responsible for providing overall guidance and vision in development of new factory units and taking decisions in the day-to-day business activities of the company.

Mr Vimalchand Jugraj Rathod, Managing Director

Mr Rathod is the Managing Director of the company. He has been a Director since the incorporation of the company from August 12, 2016. Mr Rathod is a fellow member of the Institute of Chartered Accountants of India. He is a BCom from Bangalore University, Bengaluru, Karnataka. He has over 40 years of experience in the writing instruments industry. He has received "Asia's Most Promising Leader 2015-16" award from World Consulting and Research Corporation, "Award of Appreciation" from the Pen and Stationery Association of India and an award from the PlastIndia Foundation. Mr Rathod was previously the Chairman of the Plastic Export Promotion Council and is currently the Chairman of the Pen and Stationery Association of India. In addition to the overall management of the company, he heads the accounts, finance and taxation departments of Flair.

Mr Mohit Khubilal Rathod, Executive Director

Mr Rathod has been a Director since incorporation of the company from August 12, 2016. He is a BA (major in business administration) from Muhlenberg College, Pennsylvania, US. He has over 23 years of experience in the writing instruments industry. He heads the product development, domestic sales and marketing division of the company.

Mr Sumit Rathod, Executive Director

Mr Rathod is a whole-time Director of the company. He has been a Director since incorporation of the company from August 12, 2016. He is a BA from the Eckerd College, Florida, US and a Post-Graduate Diploma in Management from the SP Jain Institute of Management and Research, Mumbai, Maharashtra. Mr Rathod has over 15 years of experience in the writing instruments industry. He heads the new business development, production, process and system management of the company.

Creative – next growth opportunity

Over the last few quarters, Flair has upped its game and increased in-house manufacturing from 40% in Q3FY25 to 70% in Q4FY25, which shall help it to improve margins. The creatives division is currently operating at 70% and Flair is working on adding new capacities with nearly 60% of its INR1.1bn allocated towards this segment.

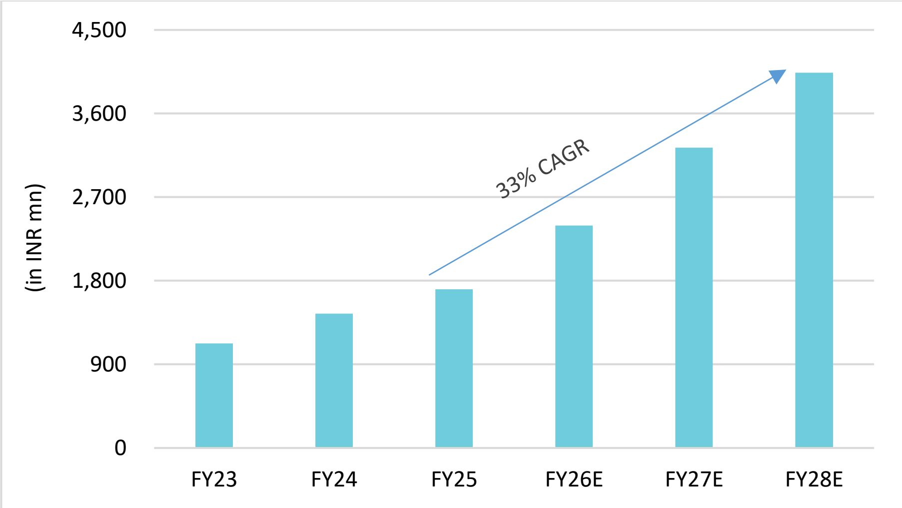
Flair has signed a brand licensing agreement with Disney to use its characters from multiple IPs. The company is using these characters in many stationery and art products across its creative range which is gaining traction.

The company also incorporated a new subsidiary namely 'Monterosa Stationery' to distribute Maped stationery products in India. Maped is a French stationery brand with eight decades of legacy and a presence in five continents and 120 countries globally. Maped products shall largely be targeted towards premium price points of the stationery market. We believe these strategic partnerships would allow Flair to penetrate the allied stationery and art materials industry and enable it to compete effectively with existing peers in the segments.

The company also incorporated a new subsidiary namely 'Flomaxe stationery' for in-house production of polymer pencils, wooden pencils, sharpeners and erasers. The company has invested INR140mn in Flomaxe stationery with a revenue potential of two times the initial investment. Management reaffirmed that the creative business has been a profitable venture for a long time.

In all, management expects a 40% revenue growth in the creative segment in FY26.

Exhibit 1: Creative to grow at a 33% CAGR over FY25–28E



Source: Company, Nuvama Research

Shifting gears in steel bottles; steering towards domestic market

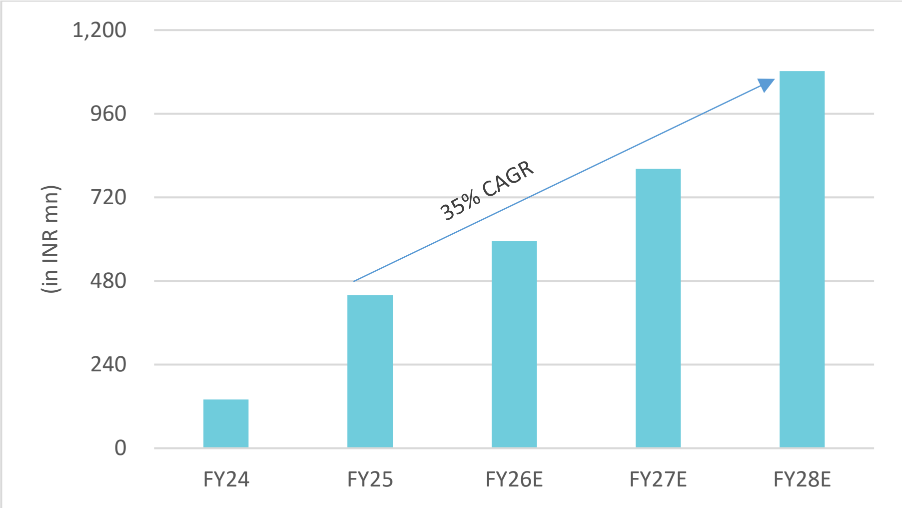
Flair's current steel bottle range spans over 52 SKUs. While the company initially started the vertical to fulfil export-oriented orders, with exports not picking up due to demand not materialising in the overseas markets and Red Sea crisis, Flair has now shifted its focus towards the domestic market.

Management expects the division's revenue to grow 50% in FY26 driven by SKU additions and deeper penetration across channels aiding increased capacity utilisation, which is currently at a lowly 40%.

Post-implementation of BIS, the industry was behind clearing the excess imported stocks and now with that getting away, domestic manufacturers including Flair are likely to report a pickup in domestically manufactured products. Other players such as Cello and Borosil have also been vocal about manufacturing domestically. Management expects to scale up the segment to INR1bn of revenue by FY27.

The ISI marked bottles use SS-304 grade stainless steel, with a minimum thickness of 0.3mm to ensure quality and safety.

Exhibit 2: Expect steel bottle revenue to grow at a CAGR of 35% over FY25–28E



Source: Company, Nuvama Research

China + one real exports driver

Several OEM clients in the US and South America are willing to shift sourcing away from China and exploring alternatives. Flair too has been in talks with three–four OEMs. Apart from existing OEMs, the company has been exploring collaborations with other OEMs to manufacture, which should lead the next leg of growth. This shall also reduce the concentration risk for the OEM business. Furthermore, with the US imposing tariffs on China, the export market shall open up for stationary companies. This shall have long-term impact by increasing the TAM for Flair.

Innovation and premiumisation key focus areas

Flair has focused on its innovation. The company's R&D team was 23-strong as on FY25 end. The dedicated in-house team is skilled in product development, from concept to production. Continuous launches—150/138/144 new SKUs in FY23/24/25—were all focused on premiumisation and design. A consistent uptick in innovation-led launches, especially in mid-premium and export-friendly models has helped in spreading the wings of Flair.

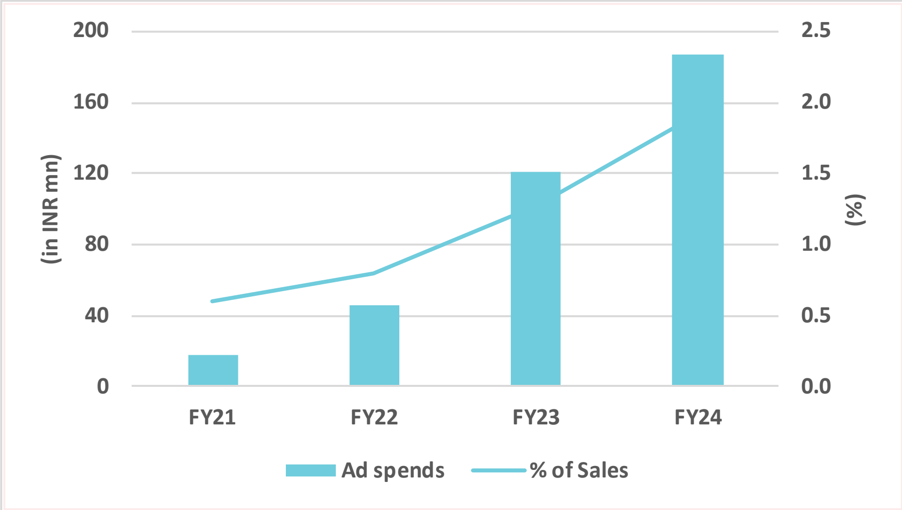
Enhanced focus on brand building

Flair—in pens/writing instruments industry, has a high brand recall (Flair, Hauser and Pierre Cardin) and largest distribution network among peers.

Flair has increased its ad spends to build strong brand recall among its customer base, which ranges from kids to large corporates. Over the year, the percentage of sales spent on advertisement has grown from 0.6% in FY21 to 1.92% in FY24, highest among peers. The spends are both on above the line (ATL) via celebrity ambassadors, television and print campaigns and below the line (BTL) via school programmes, billboards, etc. Their digital marketing and social media helps connect with young and urban consumers. Moreover, they have dedicated brand teams for Hauser and Pierre Cardin, ensuring the marketing is aligned with the brand positioning.

Flair boasts of the largest distribution network among writing instrument players, reaching 330,000 retail outlets pan-India via 8,000-plus distributors and ~200 super stockists. Besides brand recall, distribution is the key competitive advantage in the writing instruments/stationery industry. Furthermore, it provides avenues to launch new products/enter into allied categories using the same distribution network.

Exhibit 3: Continued focus on brand building



Source: Company, Nuvama Research

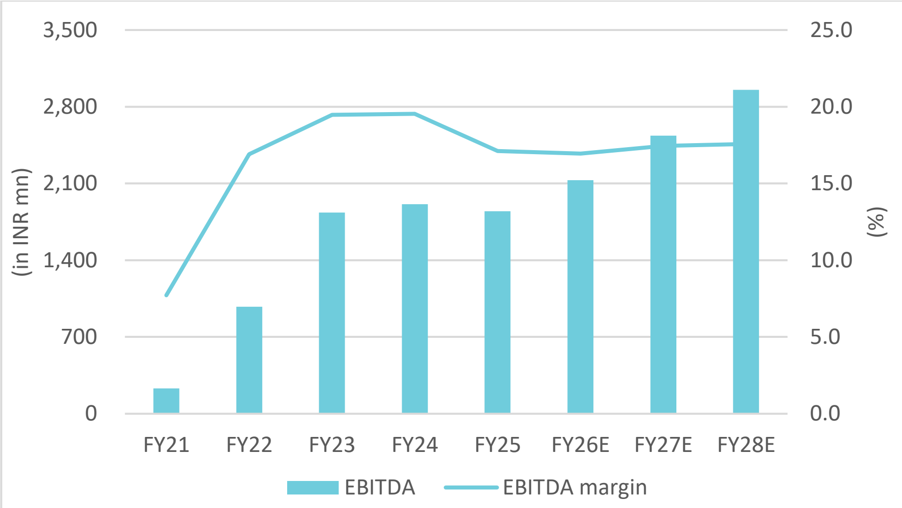
Reinvesting in INR5 price segment; focus still on premium

Flair for the longest time operated in India's INR5 pen segment until a few years ago when it exited the segment as it shifted focus on improving its ASP. However, with new competition emerging in the segment, Flair did not waste time and re -entered the segment in Q2FY25 without any additional cost due to its already existing moulds. As of Q4FY25, Flair has already launched four–five models in the segment. However, the key is majority of the SKUs still are in the INR10 and above range and driving major revenues and earnings too.

Margins to improve gradually driven by operating leverage

The company's margins dropped to 17.1% (down 240bp YoY) in FY25 due to increased employee expenses and increased fixed cost expenditure for the upcoming capacity expansion in the creatives segment along with initial investments in the steel bottles business. However, management expects margin to improve gradually going ahead led by: i) increased in-house manufacturing of the creative range; ii) introduction of wooden and polymer pencils driving faster growth and operating leverage; iii) continued better mix of premium and mid-premium pens; and iv) better utilisation of increased capacities in the creative segment resulting in operating leverage. Hence we anticipate a steady recovery in margins sequentially.

Exhibit 4: EBITDA margins to increase gradually

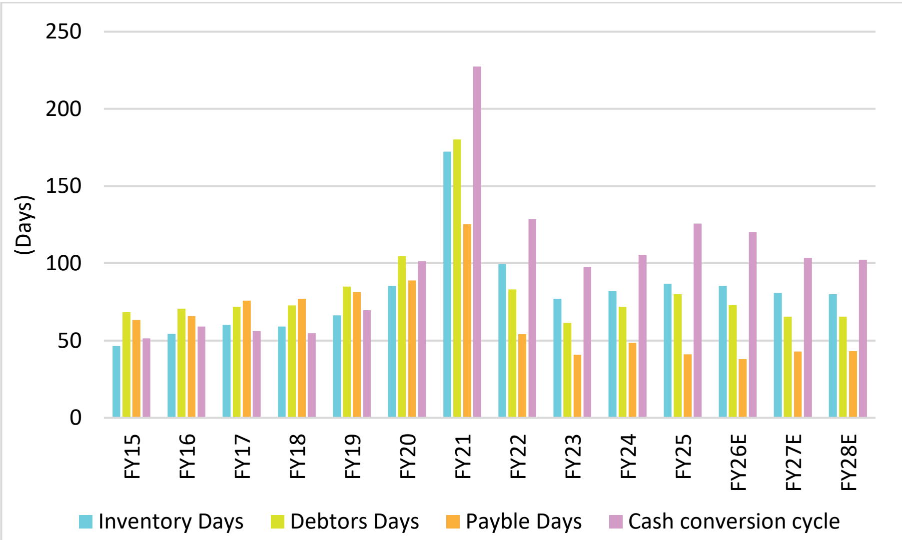


Source: Company, Nuvama Research

Working capital slides, improvement likely in FY26

While Flair was able to reduce its working capital by 33 days QoQ in Q4FY25, it remained high in FY25. Management expects to reduce its working capital by 10 days through rationalisation of its inventory and an increase in payable days.

Exhibit 5: Working capital cycle to improve gradually



Source: Company, Nuvama Research

Valuation: attractively priced to achieve growth revival

Valuation has been correcting (last two years) and is currently at 19x 1Y forward P/E due to growth slowdown as OEM sales, which declined at a 14% CAGR over FY23–25 now accounting for mere 13% of the business. However, at the same time own branded sales offset the fall with growth of 12% CAGR and 87% contribution to top line. We believe the domestic own branded business is on a stable footing along with opportunities arising from new exports OEM. Furthermore, strong opportunities exist in new businesses such as Creative and steel bottles. We forecast growth shall scale up this year (FY26E at 16% versus 4% in FY24 and 10% in FY25). The company is also likely to log a gradual margin expansion, which should drive a re-rating. We now forecast a 16%/17%/21% revenue/EBITDA/EPS CAGR over FY25–28E.

Company Description

The flagship brand "Flair" was established in 1976 to manufacture fountain pens, ball pens and refills by M/s Wimco Pen Co, a partnership firm, which included Mr Khubilal Jugraj Rathod, one of the promoters as partner, to manufacture metal pens. Upon separation of businesses among the partners of M/s Wimco Pen Co, the "Flair" brand was subsequently transferred in 1986 to a partnership firm established by the promoters, M/s Flair Writing Instruments, which later got converted into the present company in 2016.Flair Pens is the largest manufacturer of pens instruments in India in terms of installed manufacturing capacity and commands a market share of ~9% in the overall writing and creative instruments industry in India, as of FY23, according to CRISIL. Flair had a market share of 7.1% in the export of writing and creative instruments industry, in FY23, according to CRISIL. The company also offers products under other principal brands of "Hauser" and "Pierre Cardin". The brands "Flair", "Hauser" and "ZOOX" offer mass-market as well as premium products while "Pierre Cardin" focuses on the premium segment.

Investment Rationale

Flair is the largest manufacturer of pens with > 10% market share in the writing instrument industry and ~ 8% in the branded stationery and art industry in India. The strong market share is led by i) diversified range of product across various price points, highest ad spends and largest pan-India distribution and retailer networks. Flair is operating at 70–75% utilisation, which can be easily ramped up to 80–82%. The company is planning a greenfield expansion in Valsad and brownfield at Valsad, Dehradun and Daman facilities for pens and creatives, which is likely to drive growth. Flair is not only the largest company in the writing instrument space but has consistently enjoyed higher margins compared to peers. This is likely to be the result of brand pull achieved by highest brand spend in the industry, backward integrating tip manufacturing – critical for manufacturing pens along with emphasis on the growing mid-premium and premium range leading to increase in average sales realisations over the years.

Key Risks

- Competition from existing players and new entrants
- Risks associated with diversification
- Raw material disruption
- OEM business risk

Additional Data

Management

Chairman	Khubilal Rathod
MD	Vimal Rathod
Whole-time director	Rajesh Rathod
Whole-time director	Mohit Rathod
CFO	Alpesh Porwal

Holdings – Top 10*

	% Holding		% Holding
Tata AMC	2.03	Kotak Mahindra	0.16
New Mark Capita	1.69		
SBI Funds	1.47		
Mirae Asset	0.37		
Aditya Birla Su	0.26		

**Latest public data*

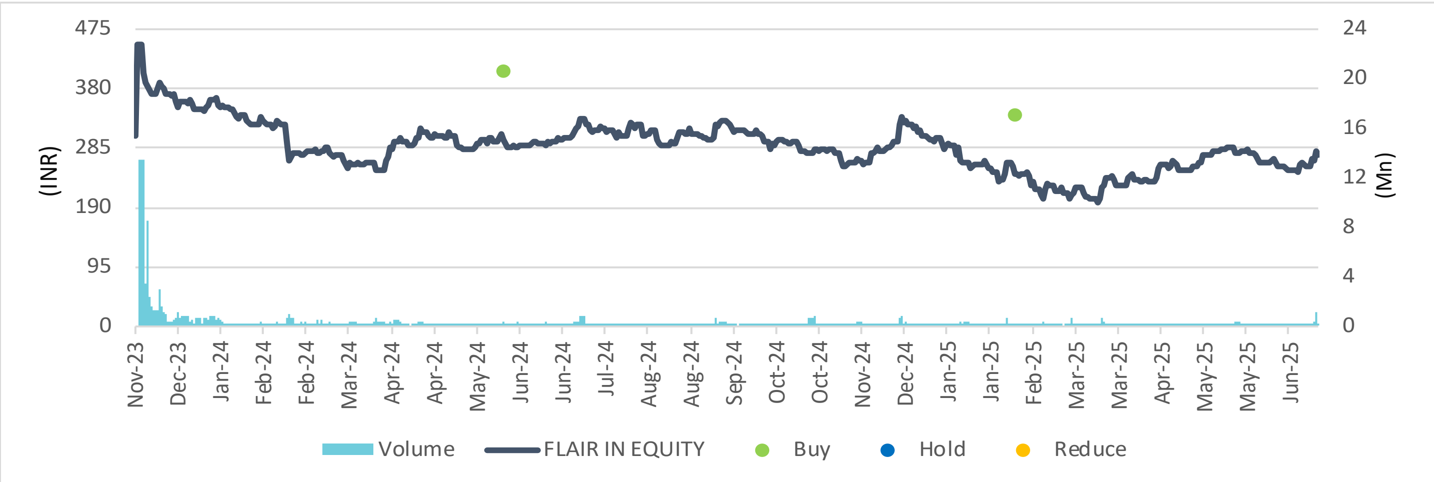
Recent Company Research

Date	Title	Price	Reco
23-May-25	Nothing to write home about; *Result Update*	277	Buy
03-Feb-25	Growth on a low base; weakness persists; *Result Update*	256	Buy
12-Dec-24	'COFFEE WITH CEO' Flair Writing Instrume; *Company Update*	325	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
28-May-25	RHI Magnesita India	Navigating through overcapacity market; *Result Update*
24-May-25	Balkrishna Industries	Entry into new segments: A challenge; *Result Update*
23-May-25	AIA Engineering	Awaiting visibility on volume growth; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	203
Hold	<15% and >-5%	63
Reduce	<-5%	36

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