

19 June 2024

India | Equity Research | Company Update

## DOMS Industries

Stationery

### Capex plans on track; augurs well for strong growth in FY25-26

We hosted institutional investors for DOMS plant visit and senior management interaction at Umbergaon (Gujarat). Takeaways: (1) DOMS has reported strong revenue growth in all its segments that undertook capacity expansion in the past. With proposed 44-acre capacity addition, scholastic art material may drive strong growth for the company in FY25–26. (2) Distribution network has high potential for expansion, which may drive revenue growth. Also, DOMS has steadily expanded revenue/store indicating market share gains. (3) It has developed a strong competitive advantage over peers due to its strategic tie-up with FILA. (4) The company has registered strong growth since inception, largely attributable to its partnership-based approach. Partnerships with FILA, Microwood and Pioneer have done well over past decade and we model similar benefits from stake acquisition in Clapjoy and Skido. (5) DOMS has the least product concentration risk (best-selling SKU contributes <5% to total sales).

We remain positive on DOMS due to its well-established competitive advantages of: (1) strong brand, (2) differentiated products and (3) presence across diverse business streams. Maintain **BUY**.

### Demand impelled capacity addition

We note DOMS' capacity addition in the FY14-24 has been driven by strong demand for its products. We believe the demand has outpaced the supply. Now, DOMS aims to build ~0.6mn sq. ft. manufacturing capacity under phase one on its 44-acre land parcel by Mar'26. DOMS targets to increase its writing instrument (pen), sketch pen, highlighter, adhesive and pencil capacity materially with this addition.

### Distribution network expansion

DOMS has a distribution network of ~125,000 retailers, as of Mar'24 up from ~95,000 retailers in FY20 at a CAGR of 7%. However, DOMS' revenue, at a CAGR of 23.8% over FY20–24, has outpaced its distribution network growth. It indicates DOMS is able to increase throughput per store indicating market share gains. The distribution network has material scope for further expansion, considering the total universe of 300,000 retail outlets, in our view. We reckon distribution network expansion to act as growth tailwind in medium term.

### Technology sharing from FILA – a competitive advantage

DOMS' strategic partnership with FILA has helped the company access global products and markets along with augmenting its R&D capabilities. The partnership has enabled DOMS to introduce an India-adapted version of FILA's products. The strategic tie-up will likely continue to give DOMS a leg up versus peers.

## Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	12,119	15,371	19,524	24,166
EBITDA	1,867	2,727	3,403	4,278
EBITDA Margin (%)	15.4	17.7	17.4	17.7
Net Profit	958	1,531	2,070	2,521
EPS (INR)	15.8	25.2	34.1	41.5
EPS % Chg YoY	567.2	59.8	35.2	21.8
P/E (x)	125.2	78.3	58.0	47.6
EV/EBITDA (x)	64.6	43.3	34.7	27.6
RoCE (%)	24.7	21.8	19.8	22.8
RoE (%)	31.2	25.6	23.0	24.3

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### Market Data

Market Cap (INR)	120bn
Market Cap (USD)	1,438mn
Bloomberg Code	DOMS IN
Reuters Code	DOMS.BO
52-week Range (INR)	2,135 / 1,224
Free Float (%)	25.0
ADTV-3M (mn) (USD)	3.2

Price Performance (%)	3m	6m	12m
Absolute	37.5	-	-
Relative to Sensex	31.1	-	-

### Previous Reports

10-06-2024: [Company Update](#)

27-05-2024: [Q4FY24 results review](#)

### Sketch pen segment gaining traction

Segmental contribution to total sales has increased from ~6% in FY23 to ~9% in FY24, primarily led by capacity addition in our understanding. DOMS introduced sketch pens with an 'anti-push' technology (the technology prevents the pen's tip from recoiling even with extensive use). Sketch pen manufacturing capacity may expand materially post the commencement of phase-one at its 44-acre land parcel. We reckon, the sketch pen segment may drive incremental growth post capacity addition.

### Partnership approach for growth likely to continue

We note, DOMS, since its establishment, has adopted a partnership-based approach to operate. In CY12, FILA, a major stationery/art material company, partnered with DOMS – which remains till date. The trend has continued in its associate and subsidiary companies such as Microwood and Pioneer Ltd (despite commanding controlling stake). We note DOMS may continue its partnership-based operating approach for growth. It has recently acquired stakes in Clapjoy and Skido which are expected to drive growth in FY25-26.

### Wide-ranged product portfolio

DOMS has a comprehensive product portfolio of >4,000 SKUs across seven broad product categories, as of Mar'24. We note, most industry peers have a high revenue skew towards a particular product category or SKU (hero product). However, DOMS has strong depth in its product portfolio, underlined by <5% contribution from neon pencils (among best-selling SKUs). We believe, least product concentration risk insulates DOMS from: (1) technology led disruptions; and (2) demand uncertainty led risks.

### Strong expansion likely in writing instruments

Writing instrument (pen) segment has been the latest entrant in DOMS' product portfolio. The company is focusing on: (1) rapid expansion of manufacturing capacity; (2) improving pan-India presence; and (3) introducing newer SKUs. DOMS has introduced SKUs at the price points of INR 5/INR 10 for school kids – these have been well received in the market.

The company has added 100,000sq.ft. manufacturing capacity in writing instrument in Q4FY24 and is likely to add another 100,000sq.ft. by Q1FY25-end. Also, DOMS intends to start pen manufacturing facilities at its new 44-acre land plant. While capacity constraints have limited growth in the past, we believe, large capacity addition may drive growth in FY25-26E.

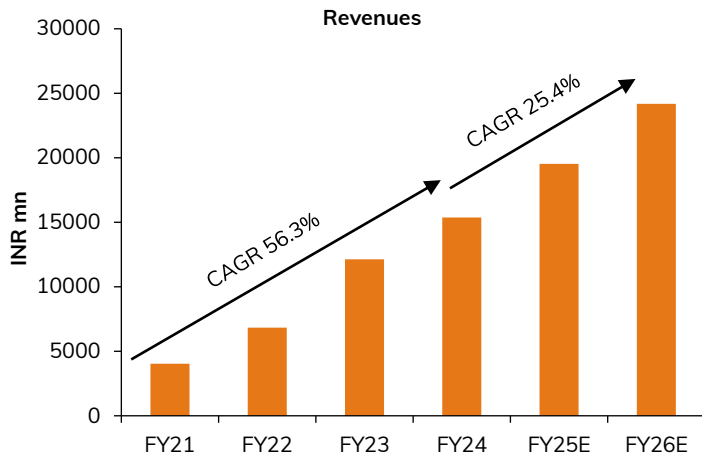
### Maintain BUY

We model DOMS to report revenue and PAT CAGRs of 25.4% and 28.3%, respectively, over FY24–26E. We also model return ratios to be >20% over FY24–26E. We maintain **BUY** on DOMS with a DCF-based revised target price of INR 2,280 (earlier TP: INR 2,250; implied P/E of 55x FY26E).

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

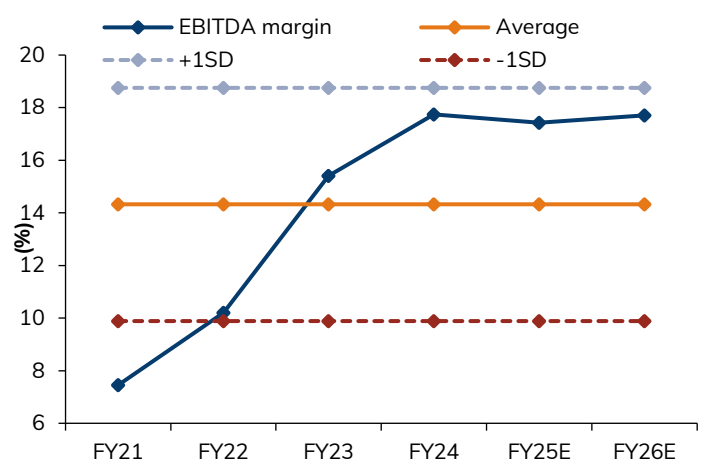
## Key charts – annual

**Exhibit 1: Revenue and growth rates**



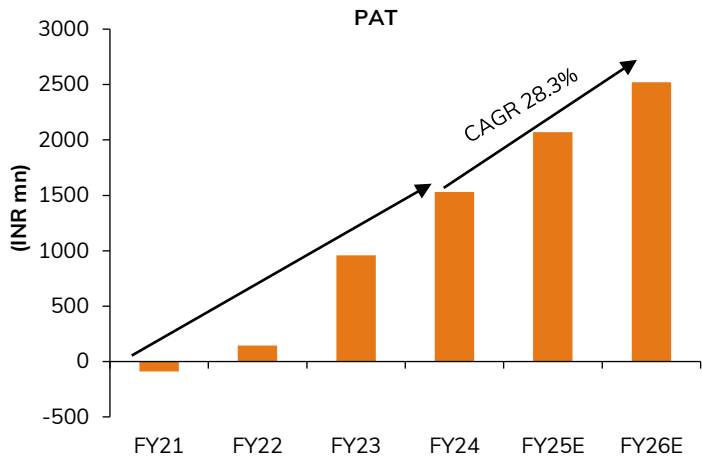
Source: Company data, I-Sec research

**Exhibit 1: EBITDA margin**



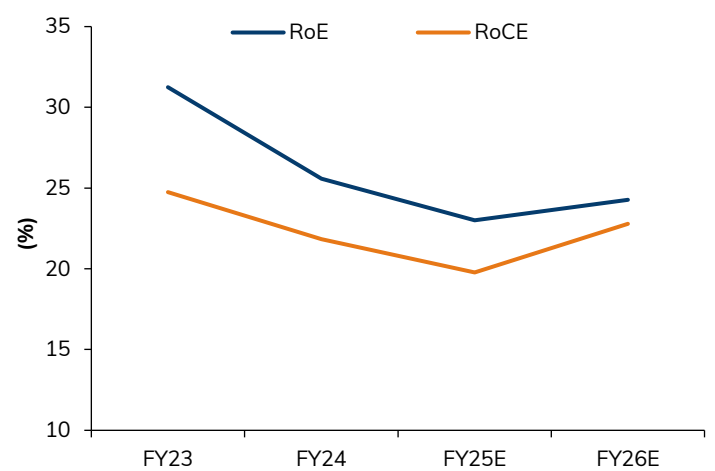
Source: Company data, I-Sec research

**Exhibit 2: Net profit and growth rates**



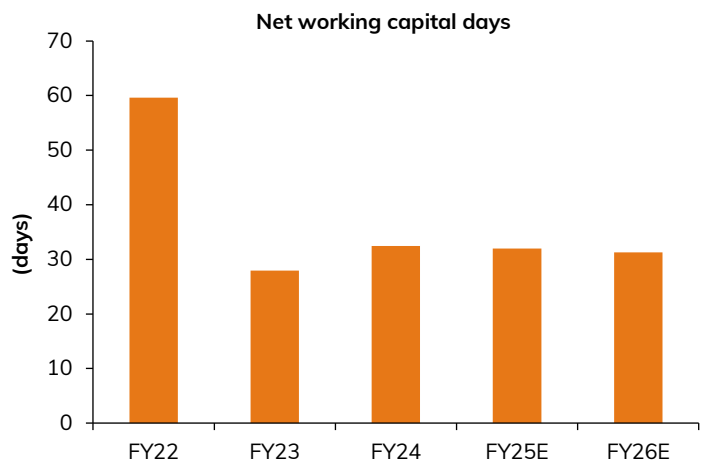
Source: I-Sec research, Company data

**Exhibit 3: RoE and RoCE**



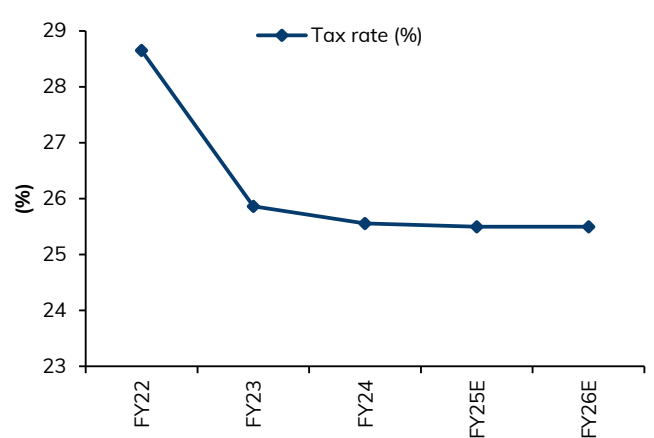
Source: I-Sec research, Company data

**Exhibit 4: Net working capital days**



Source: Company data, I-Sec research

**Exhibit 5: Tax rate**



Source: Company data, I-Sec research

## Valuation and risks

We model DOMS to report revenue and PAT CAGRs of 25.4% and 28.3% over FY24-FY26E and return ratios to be upwards of 20% in FY26E. On our DCF-based revised target price of INR 2,280 (earlier TP: INR 2,250), implied P/E works out to 55x FY26E EPS. Maintain **BUY**.

### Exhibit 6: DCF-based valuation

Particulars	
Cost of Equity (%)	10.8%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	39,793
Discounted terminal value (INR mn)	98,596
Total equity value (INR mn)	1,38,389
<b>Value per share (INR)</b>	<b>2,280</b>

Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices and higher-than-expected competitive pressures

Increase in input prices and/or higher-than-expected competitive pressures could result in downside to our estimates.

### Failure of some new launches

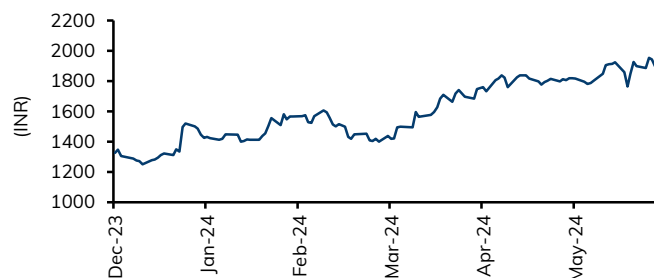
Failure of some new products may impact our earnings estimates.

### Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24
Promoters	75.0	75.0
Institutional investors	21.4	22.5
MFs and other	12.4	14.1
Banks/ FIs	0.2	0.0
Insurance Cos.	1.9	2.0
FII	6.9	6.4
Others	3.6	2.5

Source: Bloomberg, I-Sec research

### Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>12,119</b>	<b>15,371</b>	<b>19,524</b>	<b>24,166</b>
Operating Expenses	10,252	12,644	16,121	19,888
<b>EBITDA</b>	<b>1,867</b>	<b>2,727</b>	<b>3,403</b>	<b>4,278</b>
EBITDA Margin (%)	15.4	17.7	17.4	17.7
Depreciation & Amortization	407	512	686	874
EBIT	1,460	2,215	2,717	3,404
Interest expenditure	119	171	124	74
Other Non-operating Income	46	101	300	180
<b>Recurring PBT</b>	<b>1,388</b>	<b>2,145</b>	<b>2,893</b>	<b>3,510</b>
<b>Profit / (Loss) from Associates</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
Less: Taxes	359	548	738	895
PAT	1,029	1,597	2,156	2,615
Less: Minority Interest	71	65	86	94
Extraordinaries (Net)	0	(15)	-	-
<b>Net Income (Reported)</b>	<b>958</b>	<b>1,516</b>	<b>2,070</b>	<b>2,521</b>
<b>Net Income (Adjusted)</b>	<b>958</b>	<b>1,531</b>	<b>2,070</b>	<b>2,521</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,794	6,165	4,977	4,986
of which cash & cash eqv.	417	3,059	1,059	186
Total Current Liabilities & Provisions	1,450	1,740	2,206	2,731
<b>Net Current Assets</b>	<b>1,344</b>	<b>4,425</b>	<b>2,771</b>	<b>2,255</b>
Investments	302	445	1,445	2,445
Net Fixed Assets	3,182	4,358	5,426	6,552
ROU Assets	-	-	-	-
Capital Work-in-Progress	69	254	-	-
Total Intangible Assets	20	624	624	624
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>4,916</b>	<b>10,106</b>	<b>10,265</b>	<b>11,876</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,395</b>	<b>1,738</b>	<b>738</b>	<b>738</b>
<b>Deferred Tax Liability</b>	<b>(32)</b>	<b>(54)</b>	<b>(54)</b>	<b>(54)</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	4	607	607	607
Reserves & Surplus	3,371	7,537	8,697	10,307
<b>Total Net Worth</b>	<b>3,374</b>	<b>8,144</b>	<b>9,304</b>	<b>10,914</b>
Minority Interest	179	278	278	278
<b>Total Liabilities</b>	<b>4,916</b>	<b>10,106</b>	<b>10,265</b>	<b>11,876</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	-	3,824	3,716	4,037
% growth (YOY)	-	-	22.3	20.0
EBITDA	-	652	693	759
Margin %	-	17.1	18.7	18.8
Other Income	-	12	20	57
Extraordinaries	-	(7)	(4)	1
Adjusted Net Profit	-	361	373	451

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>1,605</b>	<b>1,531</b>	<b>2,411</b>	<b>3,037</b>
Working Capital Changes	154	(289)	(345)	(357)
Capital Commitments	(1,354)	(1,532)	(1,500)	(2,000)
<b>Free Cashflow</b>	<b>251</b>	<b>(705)</b>	<b>911</b>	<b>1,037</b>
<b>Other investing cashflow</b>	<b>(17)</b>	<b>(3,061)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Cashflow from Investing Activities	(1,371)	(4,593)	(2,500)	(3,000)
Issue of Share Capital	-	3,500	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	72	(124)	(1,000)	-
Dividend paid	(56)	(93)	(910)	(910)
Others	-	-	-	-
Cash flow from Financing Activities	16	3,283	(1,910)	(910)
<b>Chg. in Cash &amp; Bank balance</b>	<b>250</b>	<b>222</b>	<b>(2,000)</b>	<b>(873)</b>
Closing cash & balance	343	564	1,059	186

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	15.8	25.2	34.1	41.5
Adjusted EPS (Diluted)	15.8	25.2	34.1	41.5
Cash EPS	22.5	33.7	45.4	55.9
Dividend per share (DPS)	0.9	1.5	15.0	15.0
Book Value per share (BV)	55.6	134.2	153.3	179.8
Dividend Payout (%)	5.8	6.1	44.0	36.1
<b>Growth (%)</b>				
Net Sales	77.3	26.8	27.0	23.8
EBITDA	167.8	46.1	24.8	25.7
EPS (INR)	567.2	59.8	35.2	21.8
<b>Valuation Ratios (x)</b>				
P/E	125.2	78.3	58.0	47.6
P/CEPS	87.9	58.7	43.5	35.3
P/BV	35.6	14.7	12.9	11.0
EV / EBITDA	64.6	43.3	34.7	27.6
P / Sales	9.9	7.8	6.1	5.0
Dividend Yield (%)	0.0	0.1	0.8	0.8
<b>Operating Ratios</b>				
Gross Profit Margins (%)	37.0	41.9	41.0	41.0
EBITDA Margins (%)	15.4	17.7	17.4	17.7
Effective Tax Rate (%)	25.9	25.6	25.5	25.5
Net Profit Margins (%)	7.9	10.0	10.6	10.4
NWC / Total Assets (%)	27.3	43.8	27.0	19.0
Net Debt / Equity (x)	0.2	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	0.4	(0.6)	(0.5)	(0.4)
<b>Profitability Ratios</b>				
RoCE (%)	24.7	21.8	19.8	22.8
RoE (%)	31.2	25.6	23.0	24.3
RoC (%)	28.3	30.3	28.0	29.6
Fixed Asset Turnover (x)	3.3	3.0	2.8	2.8
Inventory Turnover Days	71	60	61	61
Receivables Days	14	17	16	16
Payables Days	54	45	45	44

Source Company data, I-Sec research

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