

# DOMS Industries | BUY



## Increased focus on widening addressable market

DOMS' superior execution is led by disproportionate focus on innovation and leveraging end-to-end manufacturing capabilities to get the 'product & pricing right'. This apart, it has used inorganic route to expand TAM (like entry into Pens, Toys, Bags, Paper Stationery) and play across the journey from kid to young adults. However, key challenge for DOMS is to expand distribution reach given that coverage universe for stationery (c.300k of which DOMS reaches c.125k) is quite low vs other consumer categories. Also, low ticket size of stationery products makes it difficult to get shelf space & scale up in non-stationery outlets. Hence, along with widening portfolio basket, it is also essential to scale up distribution and Uniclac acquisition (in baby care which has higher touch points vs stationery) came across as opportunity to build the same. Having said that, in case of earlier acquisitions (Clapjoy, Microwood, Skiddo, Pioneer), DOMS' innovation/backward integration/brand strength are getting leveraged where it has a proven execution. In case of Uniclac, it is about first scaling up distribution network and then leveraging it for core business. To that extent, scale up here will be a key monitorable in our view. We remain confident on DOMS' execution capabilities, strengths in core business & initiatives to expand TAM (for eg: launch product with disruptive pricing (Markers, Adhesives, Pens, Geometry Box), co-branding with Clapjoy, launch of Tots range) which along with capacity additions will help it to grow ahead of industry & peers. Any sharp corrections should be used as opportunity to add in the name.

- Capacity addition on track; innovation continues to be strong in core business:** For DOMS, demand has been outpacing supply. Capacity additions (in existing plants/greenfield project) are on track in writing instruments (Pens, Pencils, Markers, Sketch pens etc.) which should further drive growth in domestic sales. Moreover, there will be exclusive facility for FILA in new greenfield project for its top SKUs (Dixon pencils, Watercolor cakes, Brush pens, Pastels) & help augment DOMS' export business. This apart, innovation in core business also remains strong – Pens (new capacity for INR 10 SKU), Marker pen with ceramic spoon, MRP 75 geometry box, Tots range (catering to 2 year old kids vs earlier product range for 3+ years), co-branding with Clapjoy which provides confidence on its capability to maintain industry leading growth in core business.
- Uniclac acquisition – a long term strategy to expand distribution coverage:** DOMS' direct reach is 125k outlets in a universe of 300k stationery outlets. Over next 3-4 years, it will probably reach the maximum potential (180K in direct reach and balance through wholesale channel). With competition too targeting similar stationery outlets, it's essential for DOMS to increase coverage, especially in tier 2/3 markets (where rather than dedicated stationery shops, GT channel caters to all kind of products) to scale up core business. Uniclac currently reaches 33,000 outlets directly (has own sales team with presence in 11-12 states) but universe for his portfolio is much larger at 2.5mn+ outlets. DOMS will use its own superstockist/distributor strength to scale this business from 33k to at least 1mn outlets (from 12 states to 25 states) in next 4-5 years. Once this is achieved, the salesman can easily carry top 15-20 SKUs of stationery which can be placed in these outlets. Further with right sizing of distribution structure (reducing CFA from its 3 layered distribution structure) & better capacity utilisation, there is headroom to improve margins for Uniclac.

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,750
Upside/(Downside)	10.1%
Previous Price Target	2,415
Change	13.9%

### Key Data – DOMS IN

Current Market Price	INR2,497
Market cap (bn)	INR151.3/US\$1.8
Free Float	25%
Shares in issue (mn)	60.7
Diluted share (mn)	60.7
3-mon avg daily val (mn)	INR365.0/US\$4.4
52-week range	2,716/1,224
Sensex/Nifty	82,135/25,152
INR/US\$	83.9

### Price Performance

%	1M	6M	12M
Absolute	2.3	64.7	0.0
Relative*	1.4	45.4	0.0

\* To the BSE Sensex

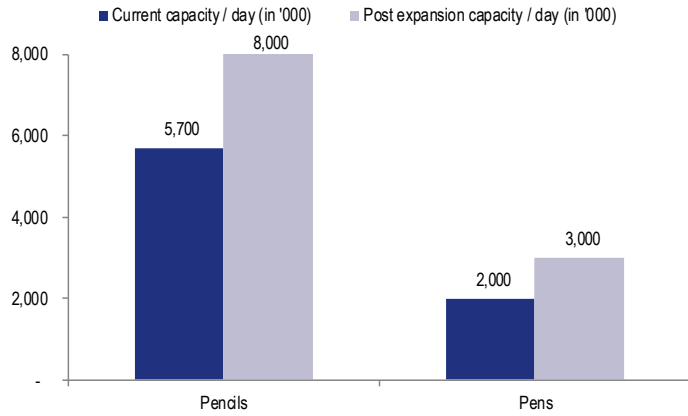
Financial Summary		(INR mn)				
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E	
Net Sales	12,077	15,321	18,604	22,439	26,676	
Sales Growth (%)	77.5%	26.9%	21.4%	20.6%	18.9%	
EBITDA	1,867	2,727	3,357	4,061	4,834	
EBITDA Margin (%)	15.5%	17.8%	18.0%	18.1%	18.1%	
Adjusted Net Profit	958	1,531	1,972	2,407	2,891	
Diluted EPS (INR)	18.3	25.2	32.5	39.7	47.6	
Diluted EPS Growth (%)	499.7%	38.0%	28.8%	22.0%	20.1%	
ROIC (%)	28.4%	30.6%	27.5%	27.0%	31.0%	
ROE (%)	32.8%	23.0%	20.5%	21.8%	22.8%	
P/E (x)	NA	98.9	76.8	63.0	52.4	
P/B (x)	38.8	18.6	15.7	13.3	11.8	
EV/EBITDA (x)	NA	31.1	25.3	20.8	17.0	
Dividend Yield (%)	0.1%	0.1%	0.3%	0.4%	1.0%	

Source: Company data, JM Financial. Note: Valuations as of 29/Aug/2024

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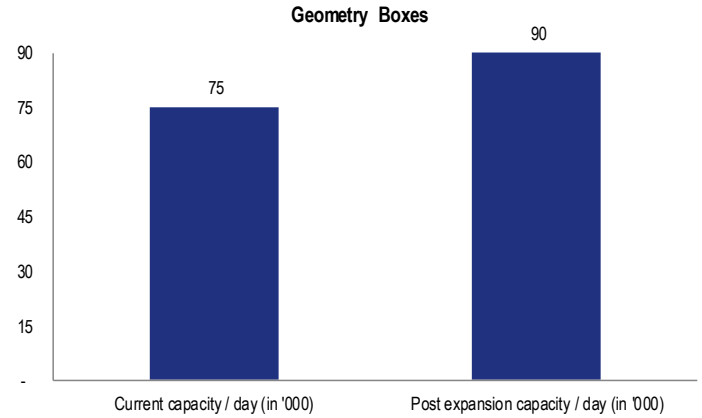
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Healthy capacity expansion in writing instruments...



Source: Company, JM Financial

Exhibit 2. ... as well as geometry boxes



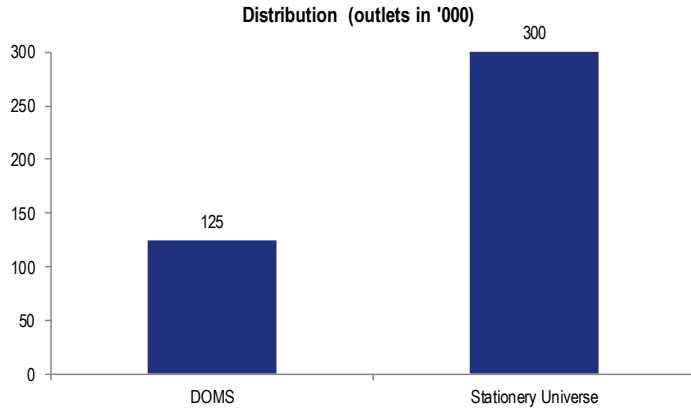
Source: Company, JM Financial

Exhibit 3. Execution on innovation remains strong – key differentiator vs peers



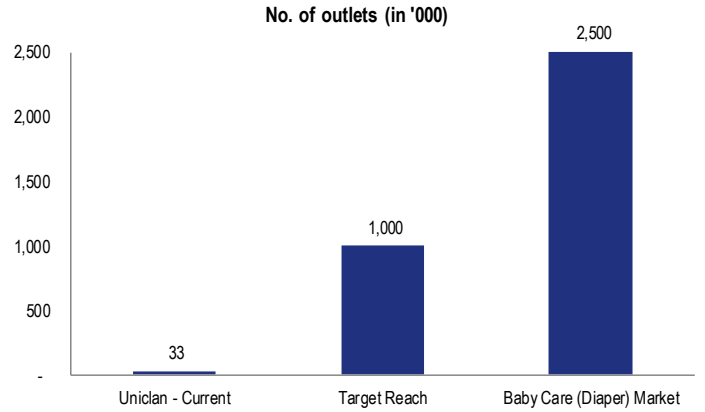
Source: Company, JM Financial

Exhibit 4. DOMS' reach in stationery outlets likely to reach full potential in next 3-4 years



Source: Company, JM Financial

Exhibit 5. Scale up in Uniclac (play in baby care), provides huge headroom to increase coverage for core stationery products



Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E
<b>Sales</b>	<b>12,077</b>	<b>15,321</b>	<b>18,604</b>	<b>22,439</b>	<b>26,676</b>
Sales Growth	77.5%	26.9%	21.4%	20.6%	18.9%
Other Operating Income	42	51	56	59	70
<b>Total Revenue</b>	<b>12,119</b>	<b>15,371</b>	<b>18,660</b>	<b>22,497</b>	<b>26,746</b>
Cost of Goods Sold/Op. Exp.	7,634	8,928	10,790	13,014	15,472
Personnel cost	1,418	2,131	2,567	3,074	3,628
Other expenses	1,201	1,586	1,945	2,348	2,813
<b>EBITDA</b>	<b>1,867</b>	<b>2,727</b>	<b>3,357</b>	<b>4,061</b>	<b>4,834</b>
EBITDA (%)	15.5%	17.8%	18.0%	18.1%	18.1%
EBITDA Growth (%)	167.8%	46.1%	23.1%	21.0%	19.0%
Depn & Amort	407	512	661	819	952
EBIT	1,460	2,215	2,697	3,241	3,882
Other Income	46	101	173	180	192
Finance Cost	119	171	119	79	70
PBT before Excep & Forex	1,388	2,145	2,750	3,342	4,003
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	1,388	2,145	2,750	3,342	4,003
Taxes	359	548	693	842	1,009
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-71	-65	-85	-94	-103
Reported Net profit	958	1,531	1,972	2,407	2,891
<b>Adjusted Net Profit</b>	<b>958</b>	<b>1,531</b>	<b>1,972</b>	<b>2,407</b>	<b>2,891</b>
Net Margin (%)	7.9%	10.0%	10.6%	10.7%	10.8%
Diluted share capital (mn)	52	61	61	61	61
<b>Diluted EPS (Rs)</b>	<b>18.3</b>	<b>25.2</b>	<b>32.5</b>	<b>39.7</b>	<b>47.6</b>
Diluted EPS Growth	499.7%	38.0%	28.8%	22.0%	20.1%
Total Dividend + Tax	93	152	493	602	1,446
Dividend Per Share (Rs)	1.8	2.5	8.1	9.9	23.8

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E
Profit before Tax	1,388	2,145	2,750	3,342	4,003
Depn. & Amort.	407	512	661	819	952
Net Interest Exp. / Inc. (-)	72	70	-54	-101	-121
Inc (-) / Dec in WCap.	154	-289	-259	-418	-484
Others	57	31	0	0	0
Taxes Paid	-345	-643	-619	-840	-1,000
<b>Operating Cash Flow</b>	<b>1,733</b>	<b>1,826</b>	<b>2,479</b>	<b>2,803</b>	<b>3,349</b>
Capex	-1,354	-1,532	-2,104	-1,995	350
Free Cash Flow	378	294	375	808	3,699
-Inc/dec in investments	-17	-2,361	0	0	0
Other current assets	12	-684	173	180	192
<b>Investing Cash Flow</b>	<b>-1,359</b>	<b>-4,576</b>	<b>-1,931</b>	<b>-1,815</b>	<b>541</b>
Inc(dec) in capital	0	3,347	0	0	0
Dividend+Tax Thereon	-56	-93	-493	-602	-1,446
Inc/dec in loans	146	-13	-791	-110	-129
Other assets	-213	-269	-92	-37	-38
<b>Financing Cash Flow</b>	<b>-124</b>	<b>2,972</b>	<b>-1,376</b>	<b>-749</b>	<b>-1,612</b>
<b>Inc / Dec (-) in Cash</b>	<b>250</b>	<b>222</b>	<b>-828</b>	<b>238</b>	<b>2,278</b>
Opening cash balance	167	2,837	3,059	2,231	2,469
Closing cash balance	417	3,059	2,231	2,469	4,747

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E
<b>Shareholders' Fund</b>	<b>3,374</b>	<b>8,144</b>	<b>9,623</b>	<b>11,428</b>	<b>12,874</b>
Share capital	4	607	607	607	607
Reserves & Surplus	3,371	7,537	9,016	10,821	12,267
Preference Share Capital	0	0	0	0	0
Minority Interest	179	278	363	457	560
Total Loans	1,001	1,159	368	258	129
Def. Tax Liab / Assets (-)	-32	-54	-54	-54	-54
<b>Total - Equity &amp; Liab</b>	<b>4,522</b>	<b>9,527</b>	<b>10,300</b>	<b>12,088</b>	<b>13,508</b>
Net Fixed Assets	2,874	4,675	6,092	7,226	5,892
Gross Fixed Assets	3,698	5,828	7,186	8,981	9,782
Intangible Assets					
Less: Depn. & Amort.	877	1,390	2,050	2,870	3,822
Capital WIP & Net lease asset:	53	237	955	1,114	-68
Investments	15	15	15	15	15
Current Assets	3,080	6,595	6,171	7,200	10,375
Inventories	1,846	2,251	2,854	3,443	4,093
Sundry Debtors	356	646	612	799	1,023
Cash & Bank Balances	417	3,059	2,231	2,469	4,747
Loans & Advances	120	139	121	123	125
Other Current Assets	340	499	353	366	387
Current Liab. & Prov.	1,446	1,759	1,978	2,353	2,774
Current Liabilities	1,245	1,541	1,677	2,020	2,401
Provisions & Others	201	217	301	332	373
Net Current Assets	1,634	4,836	4,194	4,847	7,601
<b>Application of Funds</b>	<b>4,522</b>	<b>9,527</b>	<b>10,300</b>	<b>12,088</b>	<b>13,508</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E
Net Margin	7.9%	10.0%	10.6%	10.7%	10.8%
Asset Turnover (x)	3.0	2.2	1.9	2.0	2.1
Leverage Factor (x)	1.4	1.2	1.1	1.1	1.1
RoE	32.8%	26.6%	22.2%	22.9%	23.8%

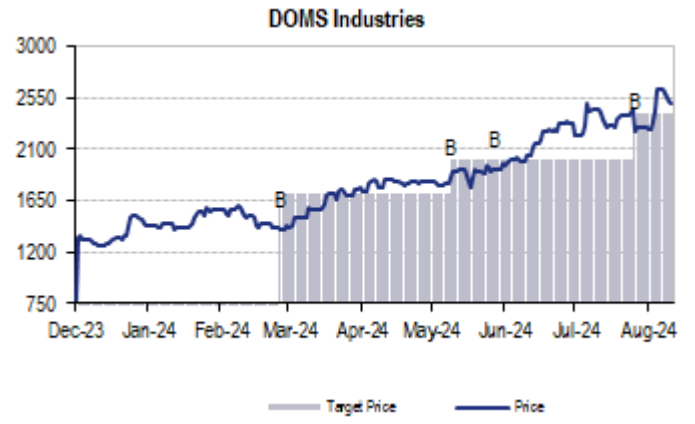
Key Ratios					
Y/E March	FY23A	FY24E	FY25E	FY26E	FY27E
BV/Share (Rs)	64.4	134.2	158.6	188.3	212.2
ROIC (%)	28.4%	30.6%	27.5%	27.0%	31.0%
ROCE (%)	25.6%	23.0%	20.5%	21.8%	22.8%
ROE (%)	32.8%	26.6%	22.2%	22.9%	23.8%
Net Debt-equity ratio (x)	0.2	-0.2	-0.2	-0.2	-0.4
PER	NA	98.9	76.8	63.0	52.4
PBV	38.8	18.6	15.7	13.3	11.8
EV/EBITDA	NA	31.1	25.3	20.8	17.0
EV/Net Sales	639.7	5.5	4.6	3.8	3.1
Debtor days	11	15	12	13	14
Inventory days	56	54	56	56	56
Creditor days	42	37	42	42	42

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
15-Mar-24	Buy	1,710	
27-May-24	Buy	2,000	17.0
15-Jun-24	Buy	2,000	0.0
13-Aug-24	Buy	2,415	20.8

**Recommendation History**



## APPENDIX I

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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