

## Company Overview

Incorporated in 2006, DOMS Industries Ltd. is engaged in making and selling stationery and art products. The company operates under the brand 'DOMS' and other brands/sub-brands like 'C3', 'Amariz', and 'Fixyfix'. The company is known for creating a variety of high-quality products like pencils and mathematical instrument boxes. DOMS holds a significant market share of 29% for pencils and 30% for mathematical instrument boxes in FY23 in the domestic market. It offers a diverse range of products, including items for school, art materials, paper stationery, kits and combos, office supplies, hobbies and crafts, and fine art products. The company undertakes manufacturing operations in Umbergaon, Gujarat, and Bari Brahma in Jammu and Kashmir. The company has a special partnership with some companies in the FILA Group to distribute and market their products in South Asia which helps them to reach more customers in that region. Their products are available globally due to a strong distribution network that spans across 45 countries covering America, Africa, Asia Pacific, Europe, and the Middle East. Their domestic distribution network for general trade comprises over 120 super-stockists, and over 4,000 distributors along with a dedicated sales team of over 500 personnel covering more than 120,000 retail touch points in 3,500 cities and towns. Additionally, it caters to its consumers through modern trade and e-commerce.

## Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ To partly finance the cost of establishing a new manufacturing facility to expand its production capabilities for a wide range of writing instruments, watercolor pens, markers, and highlighters; and;
- ⇒ General corporate purposes.

## Investment Rationale

### Leadership position in the Indian stationery and art material industry with the widest range of products

DOMS is the second largest player in India's branded stationery and art products market, with a market share of around 12% by value in FY23. The company's core products such as pencils and mathematical instrument boxes enjoy high market shares of 29% and 30% by value in FY23, respectively. They have a wide and differentiated product category, which includes over 3,800 SKUs as of September 30, 2023, and is spread across (i) scholastic stationery; (ii) scholastic art material; (iii) paper stationery; (iv) kits and combos; (v) office supplies; (vi) hobby and craft; and (vii) fine art products. In addition to being present across multiple product categories to cater to diverse demography, they have also ensured their products are available at various price points through its brands 'DOMS' and 'C3', each of which benefit from strong brand loyalty and unique market positioning. In FY21, FY22, and FY23, and the six months ended September 30, 2023, the company sold an aggregate of 1.48 billion units, 3.06 billion units, 3.93 billion units, and 2.2 billion units across product categories, respectively, and achieved gross product sales of Rs. 4,130.5 million, Rs. 6,930.9 million, Rs. 12,317.3 million, and Rs. 7,768.4 million, respectively. DOMS' presence across multiple stationery categories and price points has enabled it to be the fastest-growing stationery and art material products company in India in terms of revenue over the period from FY20 to FY23.

### Robust manufacturing infrastructure, with a focus on backward integration driving efficiencies

The company has 13 manufacturing facilities across Umbergaon, Gujarat, spread over approximately 34 acres of land and covers approximately 1.18 million square feet, making it one of the largest stationery manufacturing facilities in India. It undertakes end-to-end operations, from conceptualization to design, manufacturing, packaging, and distribution of products through its integrated operations at Umbergaon manufacturing facilities. DOMS fully integrated operations comprise procurement of raw materials, moulding, assembling, integration of sub-assemblies into finished products, quality control,

## Issue Details

Offer Period	13 <sup>th</sup> Dec, 2023 - 15 <sup>th</sup> Dec, 2023
Price Band	Rs. 750 to Rs. 790
Bid Lot	18
Listing	BSE & NSE
Issue Size (no. of shares in mn)	15.18
Issue Size (Rs. in bn)	12
Face Value (Rs.)	10

## Issue Structure

QIB	75%
NIB	15%
Retail	10%
BRLM	JM Financial Ltd, BNP Paribas, ICICI Securities Ltd, IIFL securities Ltd
Registrar	Link Intime India Pvt Ltd

Particulars	Pre Issue %	Post Issue %
Promoter	89.26	65.01
Promoter Group	10.74	9.95
Public	0.00	25.03
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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and testing of finished products. The company's facilities and storage depots are also strategically located to achieve a shorter time to market, greater cost competitiveness (through proximity to raw material suppliers), and responsiveness of its inventory position to changes in the portfolio market, thereby allowing them to cater to domestic and international markets more effectively. The backward integrated manufacturing process for its mathematical instrument boxes provided them with significant efficiencies, leading to market leadership position in this product category in a very short period. DOMS's implementation of SAP as its ERP solution in 2015 has also helped them to standardize its processes and provide for planning, performance monitoring, and provision of real-time information to improve profitability.

### Valuation

India has a thriving stationery and art materials industry, and there are several opportunities for the country to become an export hub for stationery products. The demand for stationery products is growing rapidly worldwide, driven by increased literacy rates and education levels. India can capitalize on this demand by producing a diverse range of stationery products at competitive prices. DOMS Industries has demonstrated commendable performance over the past three years, marked by significant growth in revenue and profitability. The company's remarkable turnaround from losses in FY21 to substantial profits in FY22 has further propelled its financial standing. The company's asset utilization, as indicated by return on assets (ROA) of 16.1% and an above-average asset turnover of 2.1x for the latest year, is commendable. On the valuation front, the IPO is priced at 30.15x FY24 annualised earnings which we believe is richly valued and sustaining the recent performance on profitability front would be critical in justifying the current valuations. Despite the fully priced P/E, there are notable advantages that DOMS Industries Ltd brings to the market, including market leadership, a strong brand presence, established international partnerships, and a foothold in the export market. **We, therefore, recommend a "SUBSCRIBE" for listing gains rating to the issue.**

### Key Risks

- ⇒ The company derives a significant portion (approximately 60%) of the gross product sales from the sale of critical products, and a considerable amount (more than 30%) of the gross product sales in FY23 is attributable to the sale of 'wooden pencils.' Any decline in the sale of any essential product will harm the business, results of operations, and financial condition.
- ⇒ The company has not entered into any formal contracts or exclusive arrangements with its suppliers from whom they procure materials for its manufacturing process. In the event, the company is unable to procure such materials at terms favourable to it, or all, its business, financial condition, and results of operations may be adversely affected.
- ⇒ The company operates in a competitive business environment and it expects such competition to intensify both through entry of new players and consolidation of existing players. Hence if the company is unable to effectively compete in the market it would have a material adverse effect on the operations of the business.

**DOMS Industries Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
<b>Revenue</b>				
Revenue from Operations	4,028	6,836	12,119	7,618
<b>Total Revenue</b>	<b>4,028</b>	<b>6,836</b>	<b>12,119</b>	<b>7,618</b>
<b>Expenses</b>				
Cost of raw materials and components consumed	2,321	4,251	7,427	4,338
Purchases of stock-in-trade	116	137	261	344
Changes in inventory	16	-68	-55	-93
Employee benefit expenses	711	1,014	1,418	1,025
Other Expenses	564	804	1,201	729
<b>Total Operating Expenses</b>	<b>3,728</b>	<b>6,139</b>	<b>10,252</b>	<b>6,344</b>
<b>EBITDA</b>	<b>300</b>	<b>697</b>	<b>1,867</b>	<b>1,274</b>
Depreciation and Amortization expenses	88	103	119	78
Other income	60	26	46	23
<b>EBIT</b>	<b>272</b>	<b>620</b>	<b>1,794</b>	<b>1,219</b>
Finance costs	348	380	407	228
<b>PBT</b>	<b>-76</b>	<b>240</b>	<b>1,388</b>	<b>991</b>
Current tax	24	75	379	267
Deferred Tax charge/ (credit)	-40	-7	-20	-14
<b>Total tax</b>	<b>-16</b>	<b>69</b>	<b>359</b>	<b>252</b>
<b>PAT</b>	<b>-60</b>	<b>171</b>	<b>1,029</b>	<b>739</b>
<b>Diluted EPS</b>	<b>(1.1)</b>	<b>3.1</b>	<b>18.3</b>	<b>13.1</b>

Source: RHP, BP Equities Research

**Cash Flow Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
Cash flow from operating activities	2,307	970	1,784	1,081
Cash flow from investing activities	(1,482)	(746)	(113)	-1,283
Cash flow from financing activities	(957)	(261)	(1,536)	342
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(169)</b>	<b>(11)</b>	<b>125</b>	<b>140</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>191</b>	<b>22</b>	<b>12</b>	<b>343</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>22</b>	<b>12</b>	<b>137</b>	<b>482</b>

Source: RHP, BP Equities Research



## DOMS Industries Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
<b>Equity and Liabilities</b>				
Equity Share Capital	2,336	2,472	3,374	3,976
Non-controlling Interest	81	108	179	246
<b>Total Equity</b>	<b>2,417</b>	<b>2,581</b>	<b>3,553</b>	<b>4,222</b>
<b>Non-Current Liabilities</b>				
Borrowings	29	29	152	856
Lease liabilities	283	294	303	365
Provisions	60	78	91	120
<b>Total Non Current Liabilities</b>	<b>372</b>	<b>400</b>	<b>545</b>	<b>1,340</b>
<b>Current Liabilities</b>				
Borrowings	944	821	849	908
Lease liabilities	81	87	95	116
Trade Payables (MSME and SME)	34	45	51	56
Trade Payables (Other than MSME and SME)	534	766	819	889
Other financial liabilities	131	131	175	302
Other current liabilities	48	77	200	231
Provisions	11	19	36	77
Current tax liabilities (net)	4	48	74	154
<b>Total Current Liabilities</b>	<b>1,787</b>	<b>1,993</b>	<b>2,299</b>	<b>2,733</b>
<b>Total liabilities</b>	<b>2,158</b>	<b>2,394</b>	<b>2,844</b>	<b>4,073</b>
<b>Total Equity and Liabilities</b>	<b>4,575</b>	<b>4,975</b>	<b>6,397</b>	<b>8,295</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	1,869	1,861	2,799	3,466
Capital Work-in-Progress	31	40	69	23
Right-of-use assets	379	382	382	475
Goodwill	33	20	20	624
Intangible Assets	5	2	1	1
Investment	-	-	15	14
Other financial assets	114	106	109	157
Deferred tax assets(net)	3	12	32	51
Other tax assets (net)	10	11	3	11
Other Non-Current Assets	58	93	174	204
<b>Total Non current assets</b>	<b>2,502</b>	<b>2,528</b>	<b>3,604</b>	<b>5,027</b>
<b>Current Assets</b>				
Inventories	1,208	1,592	1,846	1,986
Trade Receivables	419	492	356	497
Cash and Cash Equivalent	227	93	343	482
Bank balances	63	65	74	16
Loans	5	6	8	8
Other current assets	152	199	166	278
<b>Total Current Assets</b>	<b>2,074</b>	<b>2,446</b>	<b>2,794</b>	<b>3,268</b>
<b>Total Assets</b>	<b>4,575</b>	<b>4,975</b>	<b>6,397</b>	<b>8,295</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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