

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Consumer</b>	<b>Price Band (Rs): 750 - 790</b>
<b>12<sup>th</sup> December 2023</b>	<b>Recommendation: Subscribe for Long Term Horizon.</b>

## DOMS Industries Limited

### Company Overview:

The company designs, develops, manufactures and sell a wide range of stationery and art products, primarily under the flagship brand DOMS, in the domestic market as well as in over 45 countries internationally, as of September'23. The company is the second largest player in India's branded stationery and art products market, with a market share of ~12% by value, as of FY23. The company's keen focus on research and development (R&D), product engineering and backward integrated manufacturing operations, combined with a multichannel pan-India distribution network has enabled them to achieve a strong brand recall amongst consumers. The company's core products such as pencils and mathematical instrument boxes enjoy high market shares; 29% and 30% market share respectively by value in FY23.

### Key Highlights:

**1. Diversified product portfolio:** The company offers well-designed and quality stationery and art material products to consumers which is classified across seven categories: (a) scholastic stationery, (b) scholastic art material, (c) paper stationery, (d) kits and combos, (e) office supplies, (f) hobby and craft, and (g) fine art products. As per the Technopak Report, the company has the widest breadth of product categories amongst peers in India and are amongst the few stationery and art material products manufacturing and marketing companies globally with such a wide product breadth.

**2. Robust manufacturing facility:** The company operates 13 manufacturing facilities across Umbergaon, Gujarat, spread over approximately 34 acres of land covering approximately 1.18 mn square feet and is one of the largest stationery manufacturing facilities in India. The company's annual installed capacity as on March'23, for key products was 4,734.93 mn units. The company undertake end-to-end operations, from conceptualisation to design, manufacturing, packaging and distribution of the product portfolio through integrated operations at Umbergaon. The company also operates one manufacturing facility at Bari Brahma, in Jammu and Kashmir which is spread across ~2 acres of land covering ~0.07 mn square feet.

**3. Pan India distribution network:** As of September'23, the company has a widespread multi-channel distribution network with a strong pan-India presence and a global footprint catering to over 45 countries, covering the Americas, Africa, Asia Pacific, Europe, and the Middle East. The company's domestic distribution network for general trade comprises of 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 over 3,500 cities and towns. The company also caters to consumers through modern trade and e-commerce. The company's products are sold through a variety of modern trade platforms such as supermarkets, hypermarkets, minimarkets, and cash and carry stores. Further, the products are also available on multiple e-commerce platforms.

**Valuation:** The company is valued at FY23A and FY24E PE multiple of 46.6x and 34.2x respectively, at the upper price band on post-issue capital. Going forward, we believe the company has robust growth potential led by well-established distribution network, strong brand recall and well planned capacity expansion program to cater to the fast growing demand for branded stationery products. When compared to its peers, the company has relatively better return ratios. We recommend investors to subscribe to the issue for long-term investment horizon.

Issue Details	
Date of Opening	13 <sup>th</sup> December 23
Date of Closing	15 <sup>th</sup> December 23
Price Band (Rs)	750 - 790
OFS (Rs cr)	850
Fresh Issue (Rs cr)	350
Issue Size (Rs cr)	1200
No. of shares	1,60,00,000 – 1,51,89,873
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	4,568 – 4,793
BRLMs	JM Financial, BNP PARIBAS, ICICI Securities, IIFL Securities
Registrar	Link Intime India Private Limited
Bid Lot	18 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%
Employee reservation portion	Equity shares aggregating up to Rs 5 cr

Objects of Issue	
	Estimated utilization from net proceeds
Part financing of Proposed Project	280.0
General corporate purposes <sup>^</sup>	-
Total proceeds from fresh issue	350.0

<sup>^</sup> The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	5,62,50,218	100.0
Public & Others	-	0.0
<b>Total</b>	<b>5,62,50,218</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	4,49,16,885	73.7
Public & Others	1,60,00,000	26.3
<b>Total</b>	<b>6,09,16,885</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	4,54,90,724	75.0
Public & Others	1,51,89,873	25.0
<b>Total</b>	<b>6,06,80,598</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

	FY21	FY22	FY23	1HFY24
Revenue from operations (Rs cr)	403	684	1,212	762
EBITDA (Rs cr)	30	70	187	127
Profit (Rs cr)	-9	14	96	71
EBITDA Margin (%)	7.4	10.2	15.4	16.7
PAT Margin (%)	-2.2	2.1	7.9	9.3
EPS (Rs)	-1.6	2.6	17.0	12.6*
ROE (%)	-3.9	5.8	28.4	17.8*
ROCE (%)	0.4	10.3	34.4	21.5*
Debt / Equity (x)	0.4	0.34	0.30	0.25*

\* Not Annualized

Source: RHP, SSL Research

## Risk Factors

- **Product concentration risk:** The company derives a significant portion amounting to 60.2%, 59.1%, 59.5% and 62.1% of the gross product sales in FY21, FY22 and FY23, and the 1HFY24 respectively, from the sale of the key products. The sale of wooden pencils contributes 37.0%, 33.4%, 31.7% and 32.5% of the gross product sales in FY21, FY22, FY23 and the 1HFY24, respectively. Any decline in the gross product sales of the key products in general or specifically wooden pencils could have an adverse effect on our business, results of operations and financial condition.
- **Distribution risk:** The company is dependent on the general trade distribution network for a significant portion (more than 70.0%) of the gross product sales in each of the last three financial years and 1HFY24. Failure to manage the general trade distribution network efficiently could have an adverse impact on the business, results of operations and financial condition.
- **Supply risk:** The company has not entered into any formal contracts or exclusive arrangements with the suppliers from whom they procure materials consumed by the company for the manufacturing process. Further, the company is dependent on certain limited suppliers for some of the raw materials. In the event, if the company is unable to procure such materials at favorable terms, the results of operations may be adversely affected.
- **Competition:** The company face significant competitive pressures in the business. Any inability to compete effectively would have a material adverse effect on the business, prospects, operations or financial results.

## Growth Strategy

- **Manufacturing Facility:** Expansion of manufacturing capacities
- **Market share:** Supplement product portfolio in order to expand addressable market size and capture higher consumer wallet share.
- **Distribution network:** Strengthening the distribution network and expanding modern trade channels.
- **Inorganic growth:** Undertake inorganic growth through acquisitions or strategic partnerships.

## Strategic partnership with F.I.L.A.- Fabbrica Italiana Lapis ed Affini S.p.A. enabling access to global markets and product know-how

FILA, the company's corporate promoter, is an Italy based leading global enterprise devoted to the research, design, manufacture and sale of tools for creative expression, catering to millions of homes, schools, offices and retailers. As of December'22, FILA had a consolidated total revenue of USD ~0.84 bn. FILA owns 25 renowned brands such as Giotto, Lyra, Dixon, Canson, Daler Rowney, Das and Tratto through which they sell a diversified portfolio of over 20 categories of products, including coloring, design, modelling, writing, and painting objects, such as pencils, crayons, modelling clay, chalk, oil colors, acrylics, watercolors, paints and paper for the fine arts, school and leisure in over 150 countries across 5 continents such as Italy, United States of America, France, Germany, Greece, Poland, Canada, Mexico, Russia, Spain, Sweden, Turkey, South Africa, etc.

In the year 2012, FILA entered into a strategic partnership with the company, acquiring 18.5% of the paid-up capital of the company, with a subsequent increase to 51.0% in the year 2015. The company has a synergetic relationship with FILA, wherein the day-to-day operations are completely managed by the individual promoters, along with the Board of Directors, and they receive strategic inputs from FILA, from time to time. The company's collaboration with FILA has helped them expand international footprint in Asia Pacific, Europe, and Middle Eastern markets with the distribution of the products. The company has exclusive rights for the marketing, sales, and distribution of some of the products under the name and trademark of certain entities of FILA Group in India, Nepal, Bhutan, Sri Lanka, Bangladesh, Myanmar, and Maldives. Further, the company manufacture certain specific products at the Umbergaon manufacturing facilities, for the FILA Group and also undertake OEM manufacturing for the FILA Group. Further, the company has helped FILA by improving their ability to source high quality products at competitive prices from India for global sales and also consolidate certain procurement activities.

## Revenue from operations – Distribution Channels

Distribution network	FY21		FY22		FY23		1HFY24	
	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales
<b>Domestic</b>								
General trade	290.7	70.4	492.2	71.0	915.7	74.3	587.2	75.6
Modern trade and e commerce platform	12.0	2.9	21.5	3.1	26.3	2.1	22.3	2.9
Others*	10.2	2.5	14.7	2.1	32.2	2.6	23.2	3.0
Total (A)	312.9	75.8	528.4	76.2	974.2	79.1	632.6	81.4
<b>Exports</b>								
Export to the FILA Group	69.3	16.8	106.5	15.4	158.6	12.9	85.5	11.0
Third party exports	30.9	7.5	58.2	8.4	99.0	8.0	58.7	7.6
Total (B)	100.2	24.3	164.7	23.8	257.6	20.9	144.2	18.6
<b>Total (C = A+B)</b>	<b>413.0</b>	<b>100.0</b>	<b>693.1</b>	<b>100.0</b>	<b>1,231.7</b>	<b>100.0</b>	<b>776.8</b>	<b>100.0</b>

\*Others includes OEMs, institutional sales, merchant exports and other ancillary sales.

Source: RHP, SSL Research

## Revenue from operations – Region wise (India)

Regional breakdown	FY21		FY22		FY23		1HFY24	
	Amount in Rs cr	% of Domestic Gross Product Sales	Amount in Rs cr	% of Domestic Gross Product Sales	Amount in Rs cr	% of Domestic Gross Product Sales	Amount in Rs cr	% of Domestic Gross Product Sales
North <sup>(1)</sup>	110.9	35.4	177.5	33.6	310.3	31.9	194.5	30.7
West <sup>(2)</sup>	89.5	28.6	155.4	29.4	297.4	30.5	210.5	33.3
East <sup>(3)</sup>	64.2	20.5	96.7	18.3	177.5	18.2	107.7	17.0
South <sup>(4)</sup>	48.3	15.4	98.7	18.7	188.9	19.4	120.0	19.0
<b>Total</b>	<b>312.9</b>	<b>100.0</b>	<b>528.4</b>	<b>100.0</b>	<b>974.2</b>	<b>100.0</b>	<b>632.6</b>	<b>100.0</b>

(1) North includes New Delhi, Haryana, Chandigarh, Punjab, Jammu and Kashmir, Uttar Pradesh, Uttarakhand, and Himachal Pradesh.

(2) West includes Maharashtra, Madhya Pradesh, Chhattisgarh, Gujarat, Dadra and Nagar Haveli and Daman and Diu, Goa, and Rajasthan.

(3) East includes West Bengal, Bihar, Jharkhand, Orissa, Assam, Tripura, Manipur, and Nagaland.

(4) South includes Tamil Nadu, Kerala, Karnataka, Telangana, Puducherry, and Andhra Pradesh.

Source: RHP, SSL Research

## Average selling price for key products.

Key Products	FY21	FY22	FY23	1HFY24
Wooden pencils (per unit)	2.6	2.6	2.9	3.1
Crayons & pastels (per unit)	0.9	0.8	1.0	1.0
Mathematical instruments box (per unit)	46.2	44.9	48.0	45.5
Sketch pens (per pack)	10.2	11.0	13.1	15.0
Erasers (per unit)	1.4	1.5	1.5	1.5
Exercise books (per unit)	20.2	19.7	25.9	36.4

Source: RHP, SSL Research

## Revenue from operations – Product categories

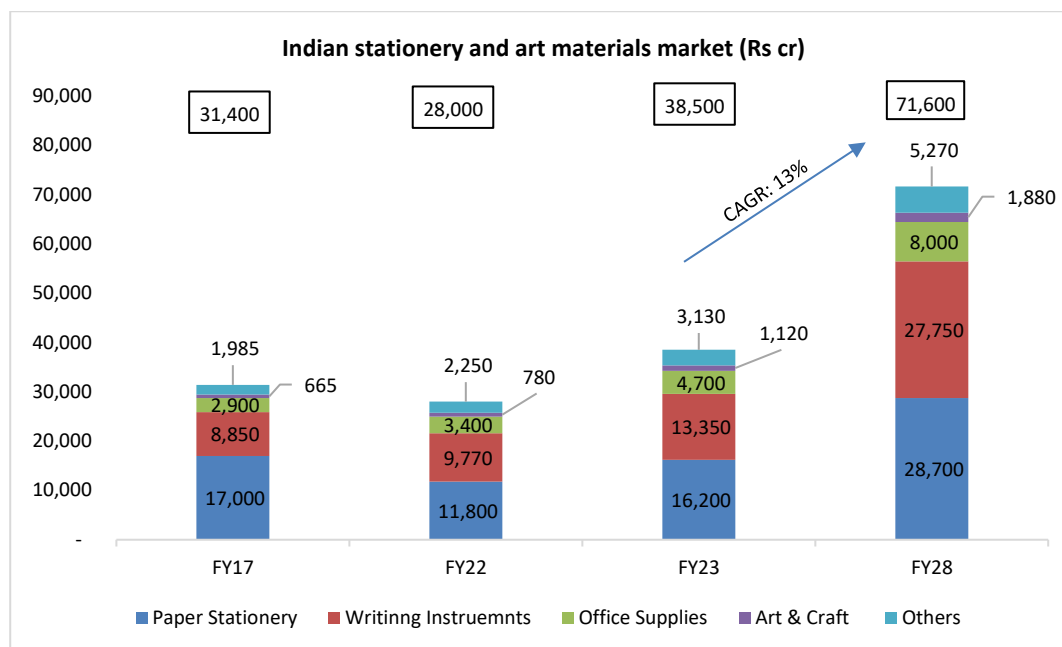
Product Category	FY21		FY22		FY23		1HFY24	
	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales	Amount in Rs cr	% of Gross Product Sales
Scholastic stationery	191.0	46.2	327.0	47.2	568.8	46.2	354.4	45.6
Scholastic art material	97.5	23.6	166.4	24.0	292.8	23.8	203.0	26.1
Paper stationery	40.3	9.8	64.1	9.3	127.4	10.3	77.3	10.0
Kits and combos	46.5	11.3	79.7	11.5	126.4	10.3	67.3	8.7
Office supplies	24.6	6.0	40.3	5.8	75.2	6.1	48.8	6.3
Hobby and craft	0.4	0.1	0.6	0.1	15.7	1.3	11.3	1.5
Fine art products	5.8	1.4	9.6	1.4	14.2	1.2	8.3	1.1
Others	7.0	1.7	5.4	0.8	11.3	0.9	6.5	0.8
<b>Grand Total</b>	<b>413.0</b>	<b>100.0</b>	<b>693.1</b>	<b>100.0</b>	<b>1,231.7</b>	<b>100.0</b>	<b>776.8</b>	<b>100.0</b>

Source: RHP, SSL Research

## Industry Overview – Indian Stationery and Art Materials Market

### Indian stationery and art materials market

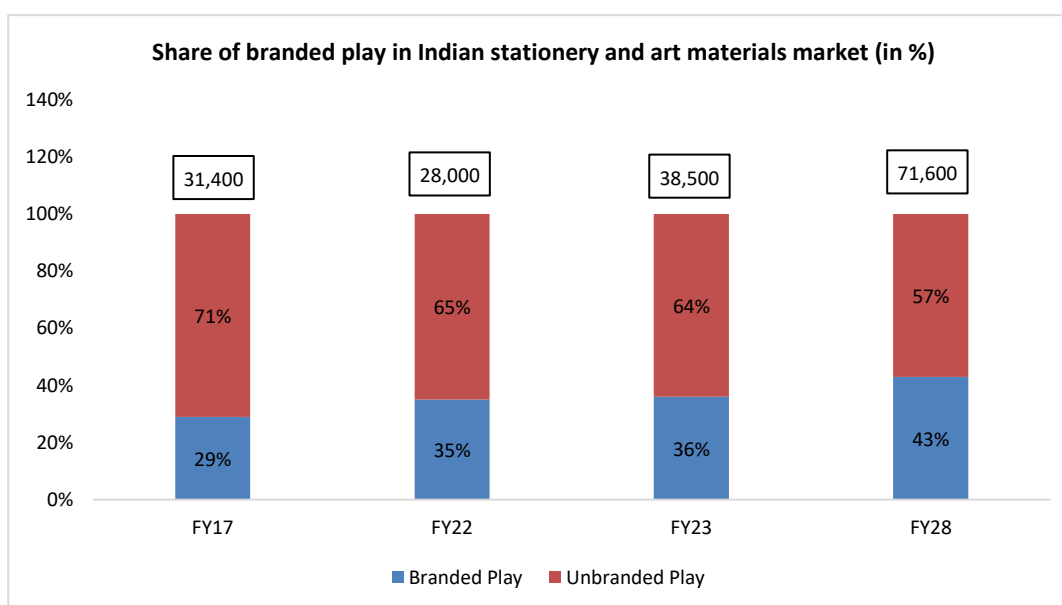
The Indian stationery and art materials market has exhibited continuous growth over the years. It has an estimated size of Rs 38,500 cr by value as of FY23. However, the market witnessed a substantial sales dip in FY21 due to Covid, during which schools, colleges were closed and had shifted to online mode of education and offices also went into work from home mode. The market bounced back with 35% growth in FY22 due to revival in demand post reopening of schools, colleges, and resumption of work from office. The Indian stationery and art materials market is expected to grow at a CAGR of ~13% during FY23 - FY28 period to reach a market value of Rs 71,600 cr by FY28.



Source: RHP, SSL Research

### Share of branded play in Indian stationery and art materials market

As of FY23, branded play controls nearly 36% (~Rs 13,850 cr) of the stationery market in India. Branded play is estimated to capture ~43% (~Rs 30,500 cr) market share by FY28.



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
<b>Revenue from Operations</b>	<b>403</b>	<b>684</b>	<b>1,212</b>
<b>% YoY growth</b>	-	69.7	77.3
Cost Of Revenues (incl Stock Adj)	245	432	763
<b>Gross Profit</b>	<b>157</b>	<b>252</b>	<b>449</b>
<b>Gross margins (%)</b>	<b>39.1</b>	<b>36.8</b>	<b>37.0</b>
Employee Cost	71	101	142
Other Operating Expenses	56	80	120
<b>EBITDA</b>	<b>30</b>	<b>70</b>	<b>187</b>
<b>EBITDA margins (%)</b>	<b>7.5</b>	<b>10.2</b>	<b>15.4</b>
Other Income	6	3	5
Net Interest Exp.	9	10	12
Depreciation	35	38	41
Exceptional Items	0	0	0
<b>PBT</b>	<b>-8</b>	<b>24</b>	<b>139</b>
Tax	-2	7	36
<b>PAT</b>	<b>-9</b>	<b>14</b>	<b>96</b>
<b>PAT margin (%)</b>	<b>-2.2</b>	<b>2.1</b>	<b>7.9</b>
<b>EPS</b>	<b>-1.6</b>	<b>2.6</b>	<b>17.0</b>

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
<b>Assets</b>			
Net Block	187	186	280
Capital WIP	3	4	7
Intangible Assets under development	38	38	38
Other Non current Assets	22	24	35
<b>Current Assets</b>			
Current Investment	0	0	0
Inventories	121	159	185
Trade receivables	42	49	36
Cash and Bank Balances	29	16	42
Short-term loans and advances	0	1	1
Other Current Assets	15	20	17
<b>Total Current Assets</b>	<b>207</b>	<b>245</b>	<b>279</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	57	81	87
Other current liabilities	18	26	45
Short-term provisions	9	11	13
<b>Total Current Liabilities</b>	<b>84</b>	<b>117</b>	<b>145</b>
<b>Net Current Assets</b>	<b>123</b>	<b>127</b>	<b>134</b>
<b>Total Assets</b>	<b>373</b>	<b>380</b>	<b>495</b>
<b>Liabilities</b>			
Share Capital	0	0	0
Reserves and Surplus	233	247	337
<b>Total Shareholders Funds</b>	<b>234</b>	<b>247</b>	<b>337</b>
Minority Interest	8	11	18
<b>Total Debt</b>	<b>97</b>	<b>85</b>	<b>100</b>
Long Term Provisions	6	8	9
Other Long Term Liabilities	28	29	30
Net Deferred Tax Liability	0	0	0
<b>Total Liabilities</b>	<b>373</b>	<b>380</b>	<b>495</b>

CASH FLOW (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	15	51	173
Cash flow from Investing Activities	-19	-34	-136
Cash flow from Financing Activities	25	-31	-12
<b>Free Cash Flow</b>	-8	16	37

RATIOS			
	FY21	FY22	FY23
<b>Profitability</b>			
Return on Assets (%)	(2.0)	2.9	15.0
Return on Capital (%)	0.4	10.3	34.4
Return on Equity (%)	(3.9)	5.8	28.4
<b>Margin Analysis</b>			
Gross Margin (%)	39.1	36.8	37.0
EBITDA Margin (%)	7.5	10.2	15.4
Net Income Margin (%)	(2.2)	2.1	7.9
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.2	1.2	1.2
Quick Ratio (x)	0.5	0.4	0.4
Avg. Days Sales Outstanding	38	26	11
Avg. Days Inventory Outstanding	109	85	56
Avg. Days Payables	51	43	26
Fixed asset turnover (x)	2.2	3.7	4.3
Debt-service coverage (x)	0.3	0.7	1.7
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.4	0.3	0.3
Interest Coverage Ratio (x)	0.1	3.3	12.7
<b>Valuation Ratios</b>			
EV/EBITDA (x)	150.3	64.7	24.0
P/E (x)	(492.8)	309.4	46.4
P/B (x)	19.0	18.0	13.2

Source: RHP, SSL Research

## Peer Comparison

	Doms Industries Ltd.	Flair Writing Industries Ltd.	Linc Ltd.	Kokuyo Camlin Ltd.	Navneet Education Ltd.
CMP	790.0	389.2	692.1	155.1	142.1
Sales (Rs cr)	1,212.0	942.0	487.0	775.0	1,694.0
EBITDA (Rs cr)	186.7	184.0	62.0	54.0	291.0
Net Profit (Rs cr)	95.8	118.0	37.0	24.0	204.0
M.Cap (Rs cr)	4,793.8	4,101.5	1,029.2	1,555.2	3,213.4
Enterprise Vaue (Rs cr)	4,852.1	4,172.0	994.0	1,573.0	3,221.0
EBITDA Margin (%)	15.4	19.5	12.7	7.0	17.2
Net Margin (%)	7.9	12.5	7.6	3.1	12.0
PE (x)	46.6	34.8	27.8	64.8	15.8
EV/EBITDA (x)	26.0	22.7	16.0	29.1	11.1
EV/Sales (x)	4.0	4.4	2.0	2.0	1.9
RoE (%)	28.4	27.1	20.9	8.4	17.7
RoCE (%)	34.4	30.7	28.8	16.2	21.9

*The data is based on FY23 financial data.*

*For DOMS Industries Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.*

*CMP as on 12<sup>th</sup> December'23.*

*Source: RHP, SSL Research*

**SBICAP Securities Limited**

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered &amp; Corporate Office: Marathon Futurex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

**022-6854 5555****E-mail: [helpdesk@sbicapsec.com](mailto:helpdesk@sbicapsec.com) | Web: [www.sbisecurities.in](http://www.sbisecurities.in)****DISCLOSURES & DISCLAIMERS:**

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Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

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