5th JULY 2024

INITIATING COVERAGE

DOMS Industries Ltd

AXIS SECURITIES

DOMS: Pioneer In Stationery and Art Market

We are initiating coverage on DOMS Industries Ltd. with a BUY recommendation and a price target of Rs 2,670/share, representing an upside of 22% from the CMP. Our confidence in DOMS' promising future is grounded in the company's robust and consistent performance over the past several quarters. This trend is expected to persist in the coming years, supported by factors such as a) Continued distribution expansion in under-penetrated small towns & east/south markets and b) Sustained focus on NPD, capacity expansion, and entry into the larger pens category, thus broadening its product portfolio beyond the small pencil segment. Additionally, entering the fast-growing bags and toys segments will further boost growth.

DOMS is expected to achieve healthy Revenue/EBITDA/PAT growth of 25%/26%/28% CAGR, respectively, over FY24-27E. This growth trajectory is anticipated to elevate the company's ROCE from 22% in FY24 to 25% in FY27.

Investment Thesis

Structural Growth Trend in the Stationery and Art Materials
The Indian stationery and art material market has been experiencing continued growth over the years and is expected to grow at a 13% CAGR over FY23-28, reaching a market value of Rs 71,600 Cr by FY28 from Rs 38,500 Cr in FY23. DOMS Industries has emerged as a leading player in the Indian stationery and art products market, holding a 12% market share in FY23. This growth can be attributed to a) In-house manufacturing, b) Product differentiation by identifying market gaps; c) Strategic partnerships with FILA, thus providing DOMS access to global products and expanded reach; and d) Continued focus on expanding distribution reach.

Embracing The Transformation for The Next Leg of Growth
The company has been implementing strategic initiatives over the last couple of years and they are expected to bear fruits in the coming year. A few notable initiatives are – 1) Managing entire end-to-end operations, driving operating efficiency while maintaining high-quality standards. The new 44-acre greenfield facility will further boost growth, 2) The company's continued focus on launching new products and expanding into the larger pens category, as opposed to its earlier presence in the small pencil segment, which will broaden its product portfolio. Additionally, entering the fast-growing bags and toys segments will further boost growth, 3) There is significant potential for distribution expansion, with DOMS currently reaching 122,500 outlets. The company has the potential to expand its reach to ~300,000-350,000 outlets, as there is still untapped potential in the east and south markets as well as smaller towns in India, and 4) The strategic partnership with FILA, which enables DOMS to expand its global reach while leveraging FILA's R&D capabilities, providing a long-term advantage.

Room for Margin Expansion
We expect the company's EBITDA margin to be in the range of 17-18% for FY25-27 and it will be driven by 1) Operating leverage through increasing capacity utilization, 2) Improving product mix – scaling up fast-growing pens, and bags category, 3) stable raw material prices, and 4) Improving on-ground execution by selling a larger number of products and SKUs per outlet, increasing efficiency and throughput across outlets. Similarly, its ROCE is likely to improve from 22% in FY24 to 25% in FY27.

Valuation & Recommendation

Given the investment thesis outlined above, we expect the company to report robust Revenue/EBITDA/PAT growth of 25%/26%/28% CAGR over FY24-27E. This positive trajectory is expected to enhance the overall return profile of the company, translating into ROCE growth from 22% in FY24 to 25% in FY27. Currently, at the CMP, the company is trading at 53x/41x its FY26/27E EPS. With improved visibility in earnings growth and a stronger return profile, the stock appears attractive within the midcap space. Hence, **we initiate coverage on DOMS Industries with a BUY rating and value the company at 60x June-26 EPS to arrive at a TP of Rs 2,670/Share, implying an upside of 22% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY24A	FY25E	FY26E	FY27E
Net Sales	1,537	1,921	2,421	3,026
EBIDTA	273	331	431	545
Net Profit	160	190	251	324
EPS, Rs	26.3	31.3	41.4	53.4
PER, x	83.0	69.8	52.8	40.9
EV/EBIDTA, x	47.6	39.3	30.1	23.6
ROE, %	19.6	19.2	20.6	21.3

Source: Company, Axis Research

CMP as of 4th July, 2024

CMP (Rs)	2183
Upside /Downside (%)	22%
High/Low (Rs)	2210/1224
Market cap (Cr)	13,252
Avg. daily vol '000.	163.968
No. of shares (Cr)	6.0

Shareholding (%)

	Dec-23	Mar-24
Promoter	75.0	75.0
FII	6.1	5.9
MF's/UTIs	12.4	14.1
FI's/Banks	0.0	0.0
Others	6.5	5.1

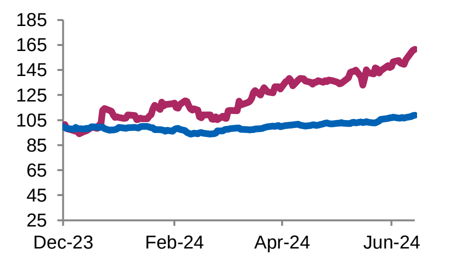
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,921	2,421	3,026
EBIDTA	331	431	545
Net Profit	190	251	324
EPS, Rs	31.3	41.4	53.4
PER, x	69.8	52.8	40.9
EV/EBIDTA, x	39.6	30.3	23.7
ROE, %	19.2	20.6	21.3
Debt/Equity (%)	0.1	0.1	0.1

YoY Growth in %

Y/E Dec	FY25E	FY26E	FY27E
Net Sales	25.0%	26.0%	25.0%
EBITDA	21.3%	30.1%	26.6%
Net Profit	24.0%	32.1%	29.0%

Relative performance



Source: Ace Equity, Axis Securities

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Research Associate
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Financial Story in Charts

Exhibit 1: Revenue is expected to grow 25% CAGR over FY24-27 led by distribution expansion, capacity expansion, and foray into fast growing categories.

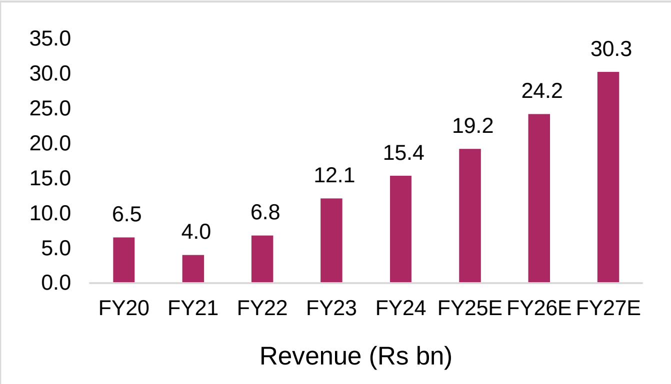
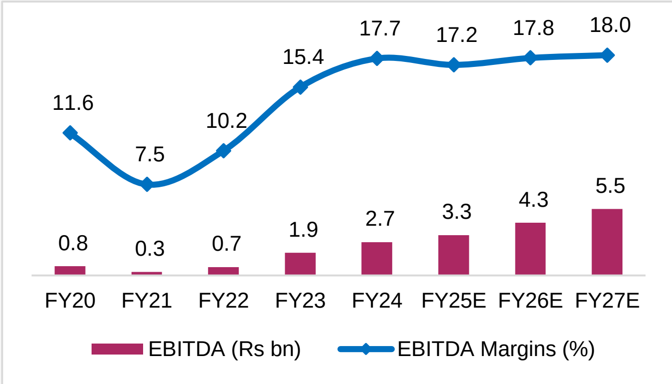


Exhibit 2: EBITDA margins are likely to improve due to strong operating leverage



Source: Company, Axis Securities

Exhibit 3: PAT is likely to grow 28% CAGR over FY24-27E

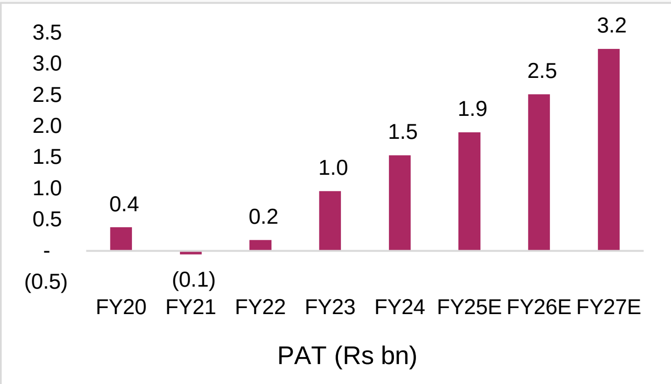
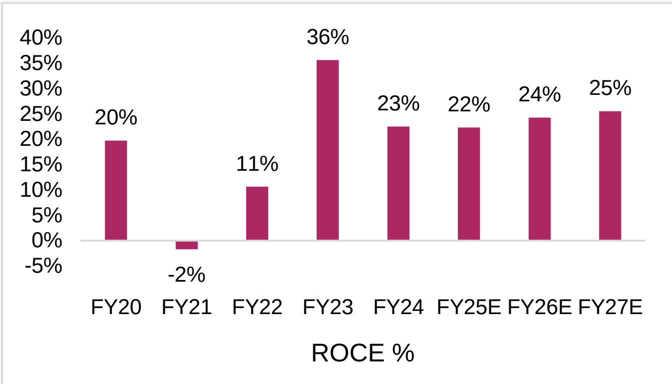


Exhibit 4: Return ratio likely to remain increase gradually



Source: Company, Axis Securities

Exhibit 5: working capital cycle improves on account of better inventory and debtor days as company switch to cash and carry model

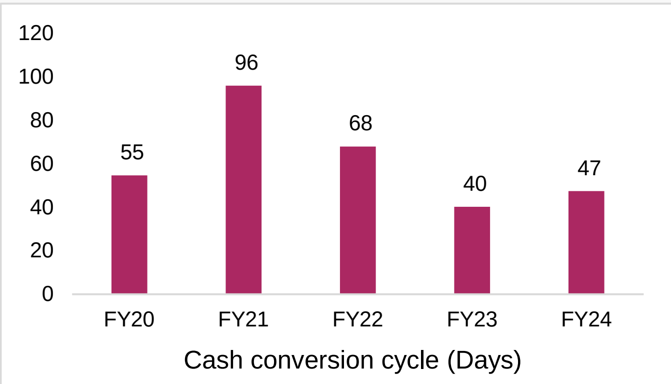
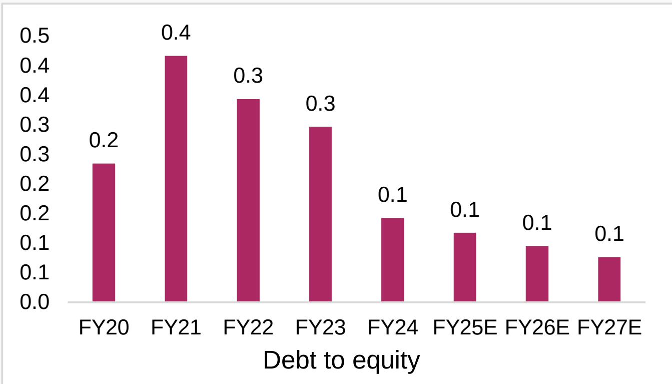


Exhibit 6: Debt to equity ratio to improve as free cash flow improves



Source: Company, Axis Securities

Company Overview

DOMS is a leading name in India's stationery and art market with a portfolio of over 4,000 SKUs covering scholastic stationery, art materials, office supplies, and more. As of March 2024, the company has a total reach of 122,500 retail outlets, supported by 120 super-stockists and 4,300 distributors across 29 states and union territories.

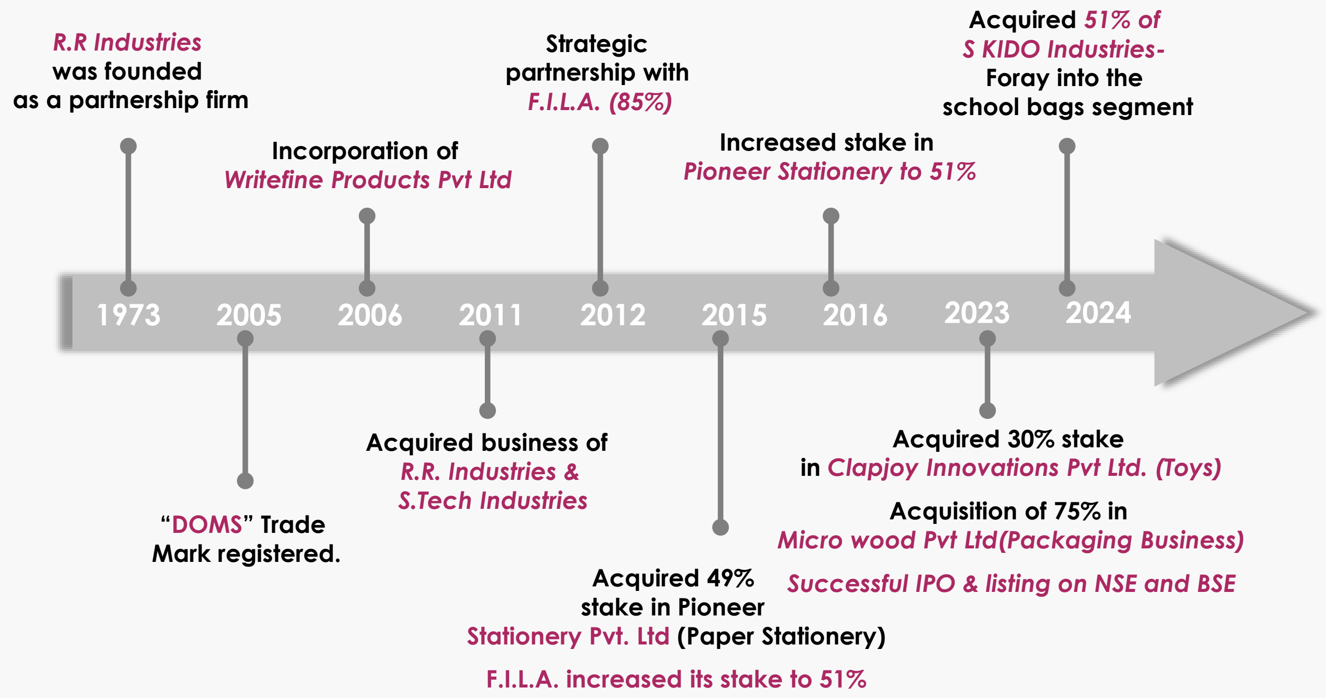
The company produces 98% of its products in-house through its 14 manufacturing units and exports to over 50 countries. Initially named R.R Industries and established in 1973 as an OEM manufacturer, the company launched the DOMS brand in 2005. In 2012, it formed a strategic partnership with the Italian stationery company F.I.L.A.

In the last two years, the company has diversified its product offerings by acquiring a minority stake (30%) in ClapJoy Innovations (toys) in 2023 and a majority stake (51%) in SKIDO Industries (school bags). To strengthen backward integration, DOMS also acquired a majority stake (75%) in Micro Wood Pvt. Ltd, which is in the packaging business.

The company has an overall market share of ~12% in the stationery market, while pencils (core product) have a market share of 29% as of Dec'23.

Company is Pioneer in Indian Stationery and Arts Market

Exhibit 7: Key Milestone



Source: company, Axis Securities

Key Investment Rationale

Diversified Product Portfolio

DOMS enjoys a strong reputation among consumers, evidenced by its position as the second-largest leader in the Indian stationery and art materials market, with a market share of 12% as of Dec'23 compared to 8% in FY18. The company has a diverse product portfolio with over 4000 SKUs spread across scholastic stationery, scholastic art material, paper stationery, kits and combos, office supplies, hobby and craft, and fine art products. Its core products, such as pencils and mathematical instrument boxes, have significant market shares of 29% and 30% respectively in FY23.

Company has 4000 SKUs across Price points

Exhibit 8: Product category-wise sales break-up (% of sales) – Core portfolio accounts for ~70% of sales

Product Category	FY21	FY22	FY23	FY24
Scholastic Stationery	46	47	46	44
Scholastic Art material	24	24	24	27
Kits and Combos	11	12	10	10
Paper Stationery	10	9	10	9
Office Supplies	6	6	6	7
Hobby and Craft	0	0	1	1
Fine art products	1	1	1	1
Others	2	1	1	1
Total	**100**	**100**	**100**	**100**

Source: Company, Axis Securities

DOMS has the broadest product category range among its peers in India. Key players in the industry generate a substantial share of their revenue from a single product category: Linc (92%), Camlin (80%), Luxor (75%), and Hindustan Pencils (60%). In contrast, DOMS generates only ~32% of its sales from its largest category, pencils, significantly lower than its peers. This demonstrates that the company's product portfolio spans the demand spectrum and is not dependent on a single demand factor, providing significant headroom to capture market share across various categories.

Exhibit 9: DOMS's Largest Product Contributes only ~32% of Sales

Players	Contribution from the largest segment	Domestic Sales %	Export Sales %
Linc	92%	79%	21%
Flair	86%	80%	20%
ITC Stationery	85%	82%	18%
Camlin	80%	96%	4%
Navneet	80%	40%	60%
BIC Cello	80%	78%	22%
Luxor	75%	97%	3%
Rorito	75%	100%	0%
Hindustan Pencils	60%	87%	13%
DOMS	**34%**	**79%**	**21%**

Source: Company, Axis Securities

Key Products	FY21		FY22		FY23		H1FY24	
	Amount (Cr)	% of Gross Product Sales	Amount (Cr)	% of Gross Product Sales	Amount (Cr)	% of Gross Product Sales	Amount (Cr)	% of Gross Product Sales
Wooden pencils	152.795	36.99	213.117	33.35	389.988	31.66	252.407	32.49
Crayons	22.645	5.48	35.16	5.07	72.442	5.88	55.276	7.12
Mathematical instruments box	13.444	3.25	34.497	4.49	68.836	5.59	52.1	6.71
Sketch pens	18.608	4.51	36.836	5.31	68.81	5.31	47.026	6.05
Erasers	19.595	4.74	22.455	3.61	60.863	5.43	36.336	4.68
Exercise books	21.704	5.25	29.235	4.22	66.37	5.39	39.437	5.08
Total revenue from key products	**248.791**	**60.23**	**409.318**	**59.06**	**733.316**	**59.54**	**482.582**	**62.12**

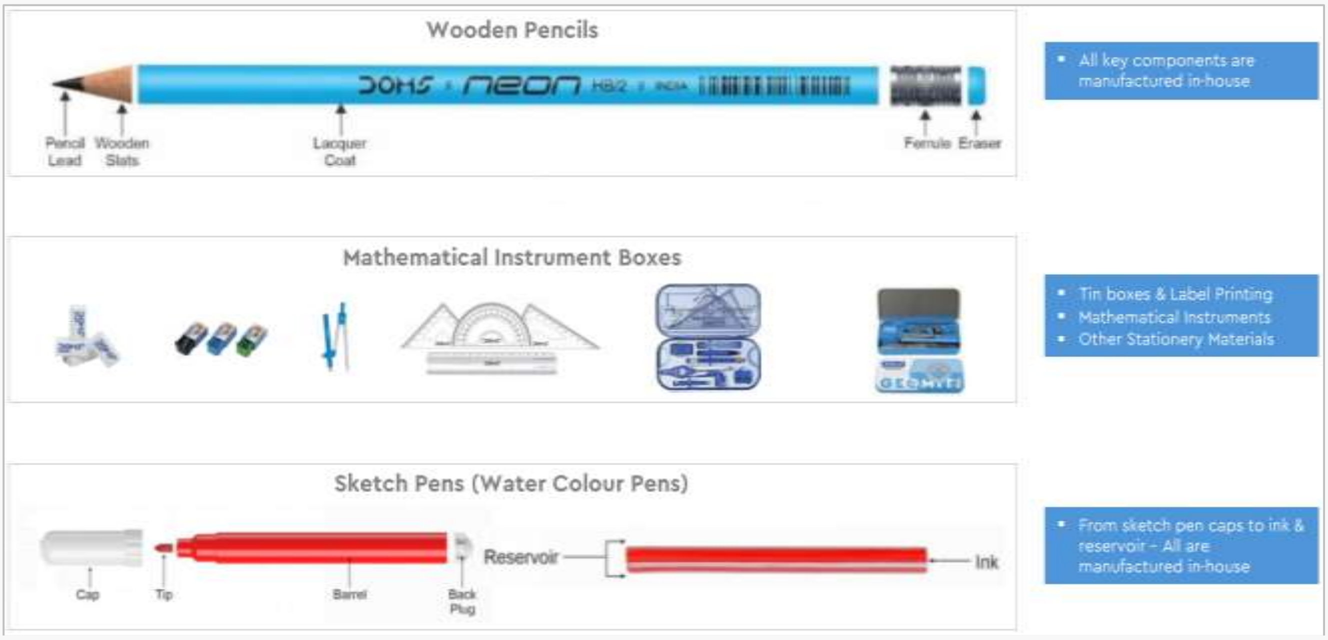
Exhibit 10: Stable Average Selling Price (ASP) Over the Years despite Volatility in Raw Material Prices

Key products	FY21	FY22	FY23	H1FY24
Wooden pencils(per unit)	3	3	3	3
Crayons & pastels(per unit)	1	1	1	1
Mathematical instruments box(per unit)	46	45	48	46
Sketch pens(per pack)	10	11	13	15
Erasers (per unit)	1	1	1	2
Exercise books(per unit)	20	20	26	36

Driving Efficiencies Through Robust Manufacturing Infrastructure and Focus on Backward Integration

DOMS is a vertically integrated company, undertaking end-to-end operations in-house from conceptualization, design, procurement, manufacturing, packing, and distribution through its 13 integrated manufacturing facilities in Umbergaon (Gujarat) and one manufacturing facility in Bari Brahma (J&K), where it produces wooden slats used in wooden pencils. The management highlighted that this integrated process has improved efficiencies, thereby keeping overall costs under control and reducing dependence on third parties. This enables the company to launch products faster than the competition while maintaining quality. Over 98% of products sold are produced in-house.

Exhibit 11: End-to-end operation Driving Operational Efficiency and Maintaining High-quality Standards



Source: company, Axis Securities

Currently, DOMS has a total area of 1.2 Mn sq. ft of space spread across 36 acres of land (34 acres in Gujarat and 2 acres in J&K). The company is expanding with a new greenfield capacity on 44 acres of land (1.9 Mn sq. ft of manufacturing space) adjacent to its existing unit in Umbergaon. This expansion will be completed in three phases, with the first 600,000 sq. ft expected to commence by Apr'26 (Q1FY27), and the remaining two phases likely to be in subsequent years. The total outlay for the project is Rs 450 Cr, with the land already purchased and the remaining Rs 380 Cr to be spent over the next two years.

Exhibit 12: New Greenfield 44 acres project to be completed by the end of FY28 in a phased manner

Source: company, Axis Securities

Innovation at Center Stage

Innovation is at the center stage for the company

The company was established on the premise that the stationery industry had lacked innovation for years, with even the colour of pencils remaining unchanged due to the dominance of large legacy brands that did not focus on innovation and R&D. The new generation of promoters of DOMS identified a significant opportunity in this category, leading to the creation of the DOMS brand. Over the years, the company has prioritized R&D and innovation across both products and processes. As of Sep'23, the company has 50 personnel in its R&D and design team. Leveraging in-house manufacturing, R&D, and design, the company has introduced innovative and utility-focused products over the years, such as:

- Inclusion of a pencil extender as an ancillary product to the colour pencil set, enabling consumers to continue using pencils even after they have been shortened due to repeated sharpening.
- Dust-free and hexagon-shaped erasers, making the products more appealing without significantly increasing their price.
- DOMS groove pencils, manufactured with a patented technology exclusive to the company in India. The grooves on these triangular pencils promote superior grip while writing.

Other innovative products

Its uniquely designed mathematical instrument box can be flipped for easy access to instruments provided in two compartments. This sturdy compact box has all the 12 tools in a fixed place.

It has an eraser and sharpener in on product

Two-Dooz sharpener designed for effective use by both left-handed and right-handed persons.

Each Neon eraser has a container that keeps the eraser clean if kept in a compass/ pouch

Brush pen is different from sketch pen, brush pen water based ink and has a soft tip that creates thick and thin strokes which gives a watercolour effect

DOMS washable pens can be easily washed without permanent stains or markings

INTERESTING TRIVIA THROUGH OUR CHANNEL CHECKS

- There is a noticeable influence of Korean culture among school students, who are particularly drawn to pastel-colored pens. This trend has made Heusuer (Flair brand) pens popular among students. DOMS recently entered the ball pen market with products that feature similar colors and aesthetics, resulting in a strong initial response from students.
- DOMS eraser are popular among students as the erasers have fragrances based on colour of the eraser.
- DOMS transparent geometry boxes are popular due to its unique transparent design that gives the student feelings that they are doing some engineering course.
- Students were attracted to DOMS ISRO mathematical geometry box as they are attracted with ISRO written on it.
- Some of the geometry box has two segregated compartment which is convenient to use vs. other geometry boxes which has one section.

Strong distribution network; More Room for Expansion

Company has more room for expansion

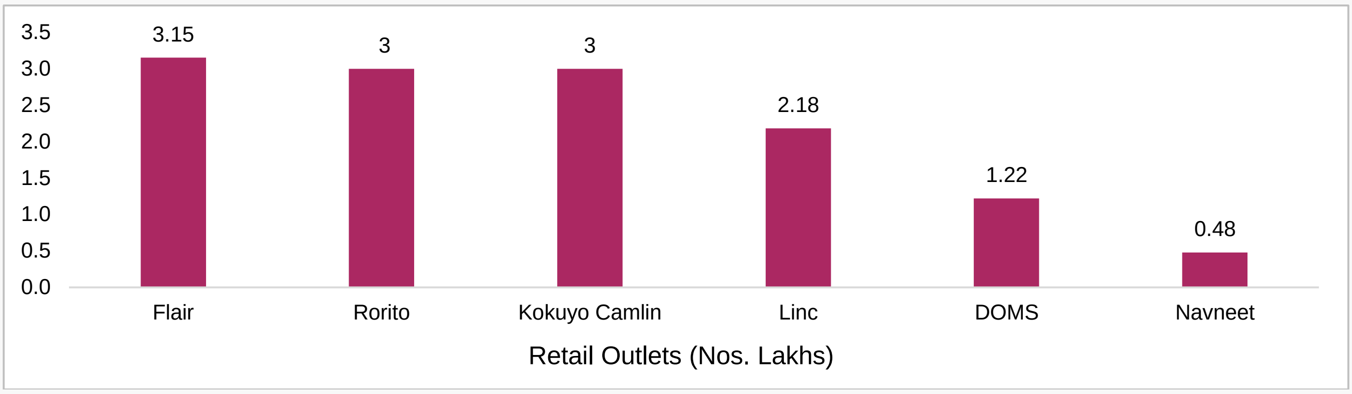
DOMS has built a widespread distribution network over the years through its continuous introduction of new and innovative products, creating strong consumer demand awareness. This strategy has attracted new distributors and retailers to the brand. Currently, the company employs 625 sales personnel who cover more than 122,500 retail outlets across 3,500 cities and towns. Additionally, DOMS has developed a robust export sales network in collaboration with FILA, with distributors in over 50 countries.

Management has highlighted significant growth potential in expanding its retail footprint in the overall stationery category, aiming for 300,000-350,000 outlets compared to its current reach of 122,500, indicating substantial room for future expansion. Key strategies for achieving higher store penetration include:

- Scaling up in the pen category, leveraging its larger market size (Rs 10,800 Cr) compared to pencils (Rs 1,650 Cr).
- Augmenting manufacturing capacity to meet demand, given current constraints in capacity which is operating at 100% capacity utilization.
- Expanding into new geographic markets such as East and South India, targeting smaller towns for deeper market penetration.
- Diversifying into new categories like bags and toys, which will open new distribution channels.

DOMS is also leveraging technology to enhance sales efficiency. The company has made extensive investments in Sales Force Automation (SFA), enabling real-time tracking and oversight of sales performance across its extensive retail network. This system captures retailer data and provides insights into demand patterns, facilitating production and sales planning. Additionally, DOMS relies on a Data Management System (DMS) to monitor sales and inventory levels among its 120+ super stockists, gaining deeper insights into secondary sales and market trends. Plans are underway to expedite stock replenishment across its network of over 4,300 distributors.

Exhibit 13: Huge Headroom for Distribution Expansion; DOMS Entry in Pen Category to Boost Overall Reach



Source: company, Axis Securities

Exhibit 14: Revenue Breakup across distribution Channels

Distribution Network	% of Sales			
	FY21	FY22	FY23	FY24
General Trade	70	71	74	77
Modern Trade	3	3	2	3
Exports	17	15	13	17
Others	2	2	3	3

Broadening Product Portfolio and Undertaking Inorganic Growth Opportunities

DOMS has recently ventured into the larger Rs 5/10 pen category, a strategic move considering the pen market's substantial size of Rs 10,800 Cr compared to pencils at Rs 1,650 Cr. With its established brand, extensive distribution network, and robust manufacturing capabilities, DOMS aims to scale up its presence in the overall pens segment. The initial response to its new offerings has been positive, with demand outpacing supply.

Currently, DOMS operates with a pen production capacity of 2 Mn pens per day at its existing facility. An additional 1 Mn pens per day capacity is in test runs and is expected to commence soon. Moreover, the new greenfield facility aims to add a total capacity of 3 Mn pens per day, bringing the company's total pen production capacity to 6 Mn pens per day in the coming years. Initially focusing on the scholastic segment, DOMS plans to expand into other price points and segments within the pen market.

Another key focus for DOMS is expanding in the adhesives space. Additionally, the company has pursued inorganic growth opportunities over the last two years. It diversified its product offerings by acquiring a minority stake (30%) in ClapJoy Innovations for toys in 2023 and acquired a majority stake (51%) in SKIDO Industries for school bags. Both categories complement its existing business and leverage its distribution and sales network. Furthermore, to strengthen backward integration in manufacturing, DOMS acquired a majority stake (75%) in Micro Wood Pvt. Ltd for its packaging business.

Strategic Partnership with F.I.L.A

In 2012, DOMS entered into a strategic partnership with FILA, a renowned Italian multinational with over a century of experience in art materials and stationery products. This partnership has significantly expanded DOMS's access to international markets and has enhanced its capabilities in R&D and technology. DOMS also holds exclusive distribution rights for certain FILA products across India, Nepal, Bhutan, Sri Lanka, Bangladesh, Myanmar, and the Maldives. Additionally, DOMS manufactures specific products for FILA under an OEM model, thereby supporting FILA in sourcing high-quality products from India for global sales at competitive prices.

FILA, as a corporate promoter, owns 25 prestigious brands including Giotto, Lyra, Dixon, Canson, Daler Rowney, Das, and Tratto. Initially acquiring an 18.50% stake in DOMS in 2012, FILA increased its ownership to 51% by 2015. While day-to-day operations are managed by DOMS's individual promoters and Board of

Directors, FILA provides strategic inputs such as technical collaborations and market insights. The collaboration between DOMS and FILA has reduced dependency on third-party developers, leading to improved efficiency and greater control over processes and product quality.

Exports to the FILA group accounted for approximately 11% of DOMS's sales in the H1FY24.

Financial Prowess

Over FY20-24, DOMS delivered a revenue CAGR of 24%, led by increased distribution reach, scaling up of existing categories such as pencils and mathematical instrument boxes and market share gains despite low ad-spends which has remained at 0.3% of sales. We expect revenue growth momentum at 25% CAGR over FY24-27E. This will be driven by 1) The company's foray into the fast-growing pens category, 2) New product launches, 3) Distribution expansion in new geographies (south and east) and penetration in smaller towns, and 3) Scaling up new categories – bags and toys.

Exhibit 15: Revenue is expected to grow 25% CAGR over FY24-27 led by distribution expansion, capacity expansion, and foray into fast growing categories

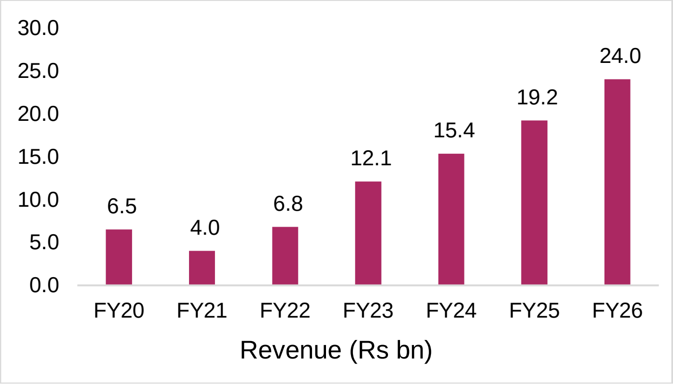
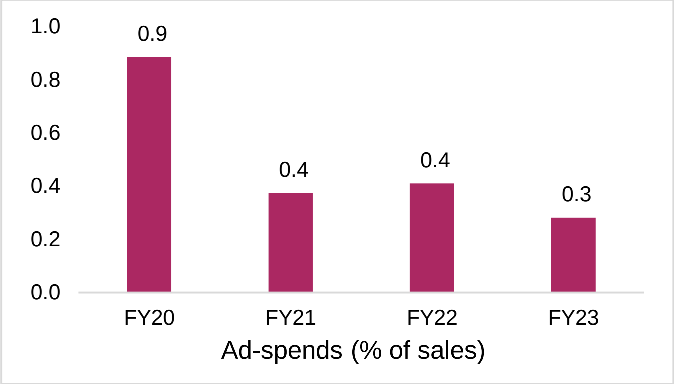


Exhibit 16: Company has kept minimum ad-spends, showcasing strong demand pull



Source: company, Axis Securities

The company's EBITDA has grown faster than revenue growth at CAGR 37% over FY20-24, at the same time its EBITDA margins improved 610bps over FY20-24 to 17.7%, primarily led by strong operating leverage on account of strong volume growth. Moreover, being a backward integrated entity from procurement to packaging has helped the company improve its productivity and maintain high margins. We expect EBITDA to grow 26% CAGR over FY24-27E, while EBITDA margin is expected to be in the range of 17-18% led by 1) Stable raw material prices, 2) Scaling up the high-margin pens category and 3) Operating leverage. PAT is likely to grow higher at 28% CAGR on account of lower interest costs.

Exhibit 17: Revenue is expected to grow 25% CAGR over FY24-27 led by distribution expansion, capacity expansion, and foray into fast growing categories

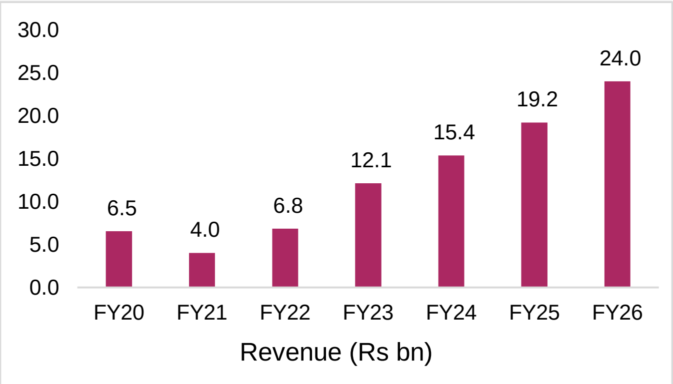
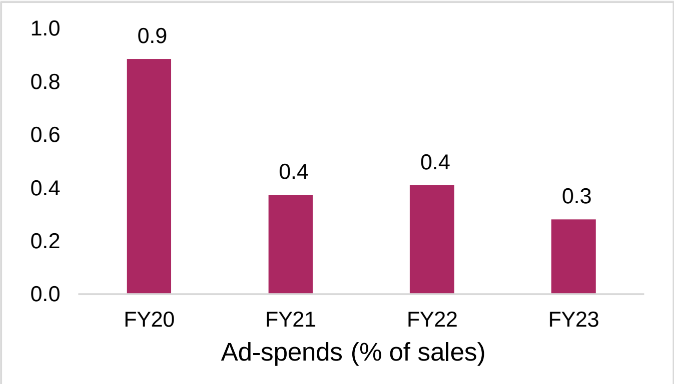


Exhibit 18: Company has kept minimum ad-spends, showcasing strong demand pull



Source: company, Axis Securities

Exhibit 19: EBITDA margins are likely to improve due to strong operating leverage

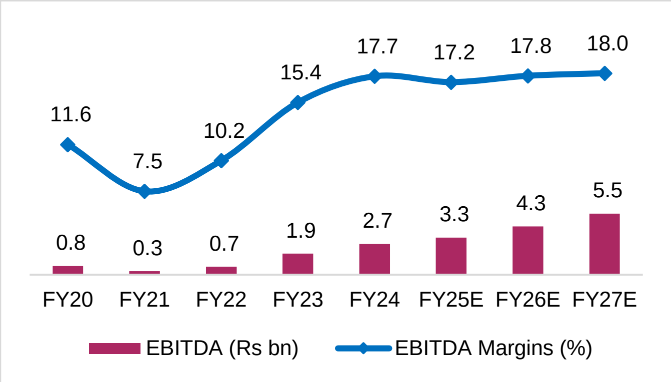
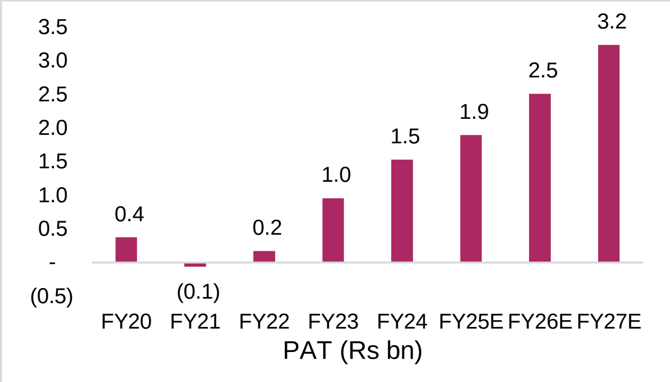


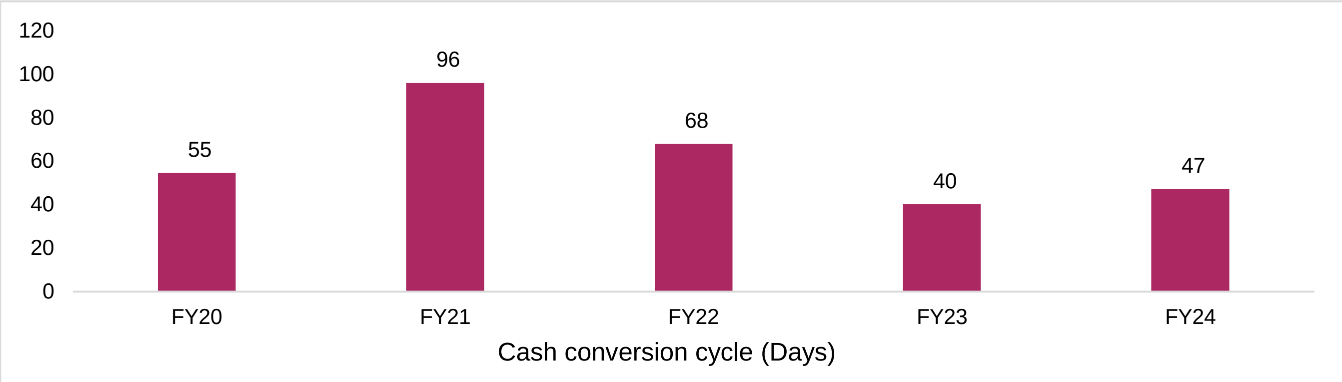
Exhibit 20: PAT is likely to grow 28% CAGR over FY24-27E



Source: company, Axis Securities

DOMS has achieved commendable results in managing its working capital cycle. Its net working capital days improved from 55 days in FY20 to 47 days in FY24, primarily driven by effective inventory management. Implementation of Data Management Systems (DMS) and Advanced Scheduling (AS) has enhanced predictability in sales and production planning, leading to reduced inventory levels. Additionally, the company has lowered its receivables days by transitioning to a cash-and-carry model. These initiatives have collectively contributed to the improvement in DOMS's working capital efficiency over the years.

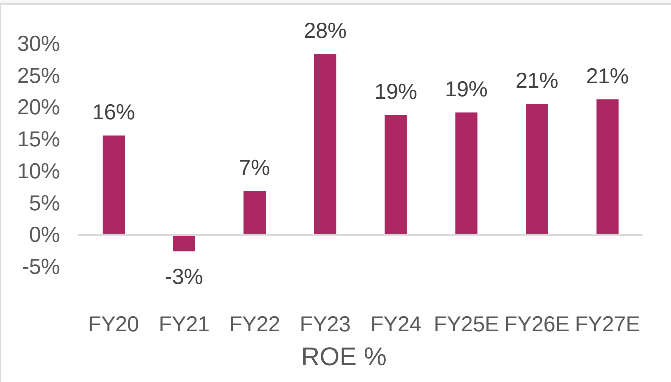
Exhibit 21: working capital cycle improves on account of better inventory and debtor days as company switch to cash and carry model

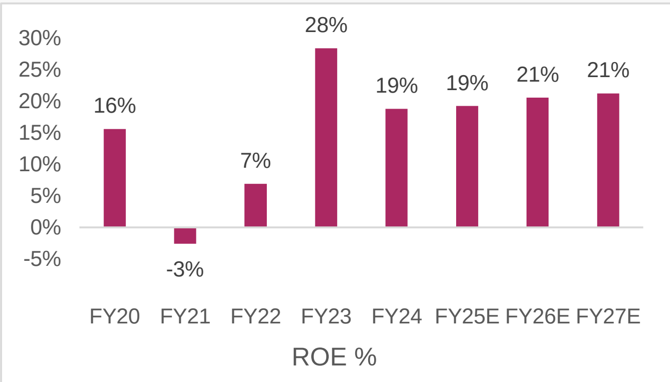


Source: company, Axis Securities

In line with other metrics, DOMS has delivered consistent industry-leading ratios. Its ROE (19%) and ROCE (23%) has increased 300bps each over FY20-24 led by industry-leading margins and asset turn ratios. Going ahead, we expect profitability and margins are likely to keep ROE and ROCE ratios above 20% levels.

Exhibit 22: Return ratios are likely to remain +20% in near term





Source: company, Axis Securities

Outlook & Valuation

Structural growth trend in the stationery and art materials

Indian stationery and art material market has seen continued growth over the years. It is expected to grow at 13% CAGR over FY23-28 to reach a market value of Rs 71,600 Cr by FY28 from Rs 38,500 in FY23. DOMS Industries has emerged as a leading player in the Indian stationery and art products market, holding a 12% market share in FY23. This growth can be attributed to a) In-house manufacturing and launching differentiation by identifying product gaps, b) Strategic partnerships with FILA providing access to global products and reach, and c) Continued focus on expansion of distribution reach.

In house manufacturing, Launching differentiated product, distribution expansion

DOMS is embracing the transformation for the next leg of growth

The company's strategic initiatives implemented over the past few years are expected to yield significant benefits in the near future. Firstly, DOMS has taken over complete end-to-end operations, enhancing operational efficiency while upholding rigorous quality standards. The recent establishment of a new 44-acre greenfield facility is poised to further accelerate growth.

Secondly, there has been a sustained focus on introducing new products and penetrating the broader pens category, marking a shift from its traditional presence in the smaller pencil segment. Additionally, the company's entry into the burgeoning bags and toys segments is anticipated to bolster growth prospects.

Thirdly, there remains substantial room for expanding distribution networks. Currently, the company reaches 122,500 outlets, with the potential to expand to approximately 300,000-350,000 outlets, particularly in the underexploited eastern, and southern markets, and smaller towns.

Lastly, the strategic partnership with FILA positions DOMS to extend its global reach, leveraging FILA's robust R&D capabilities for long-term strategic advantage.

Room for margin expansion

We expect the company's EBITDA margin to be in the range of 17-18% for FY25-27 and it will be driven by 1) Increasing capacity utilization, which is driving operating leverage, 2) Improving product mix – scaling up fast-growing pens, bags category, 3) Stable raw material prices, and 4) Improving on-ground execution by selling larger number of products and SKUs per outlet that will increase efficiency and throughput across outlets. Similarly, its ROCE is likely to improve from 22% in FY24 to 25% in FY27.

Given the investment thesis outlined above, we expect the company to report robust Revenue/EBITDA/PAT growth of 25%/26%/28% CAGR over FY24-27E. This positive trajectory is expected to enhance the overall return profile of the company, translating into ROCE growth from 22% in FY24 to 25% in FY27. With improved visibility in earnings growth and a stronger return profile, the stock appears attractive within the Midcap space. Hence, we initiate coverage on DOMS Industries with a BUY rating and value the company at 60x June-26 EPS to arrive at a TP of Rs 2,670/Share, implying an upside of 22% from the CMP.

Exhibit 23: Peers comparison

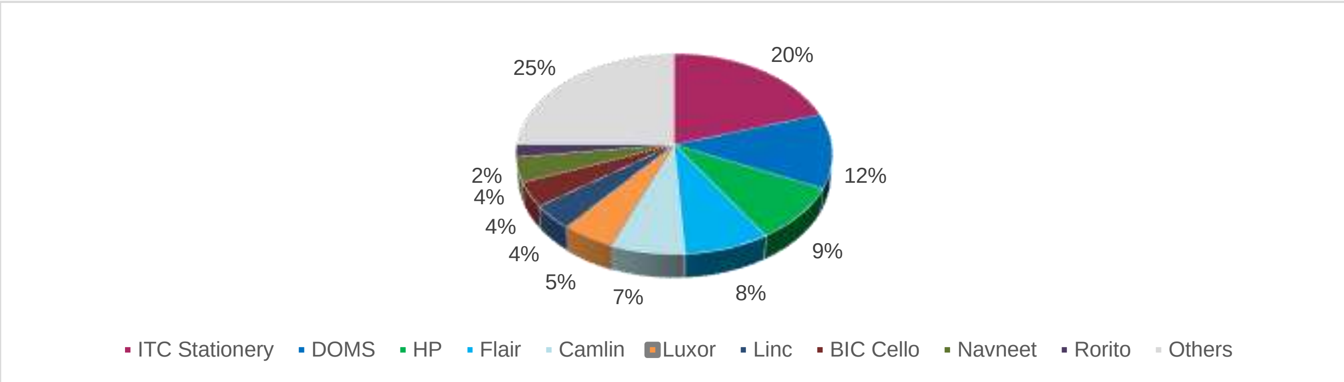
Company Name	Mcap (Cr)	Rating	EBITDA Margin %			ROE %			P/E			EPS		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Doms Industries	**13,252**	**BUY**	**17.2**	**17.8**	**18**	**19**	**21**	**21**	**69**	**53**	**41**	**31**	**41**	**53**
Flair Writing Industries	3,325	Not Rated	19.54	19.40	19.50	26.73	21.23	17.51	26.73	21.23	17.51	11.20	14.10	17.10
Navneet Education	3,463	Not Rated	18.65	19.19	NA	16.46	14.44	NA	16.46	14.44	NA	9.30	10.60	NA

Source: Company, Bloomberg, Axis Securities

In FY23, branded players controlled ~36% (Rs 13,850 Cr) of the stationery and art materials market in India. The domestic market is dominated by ten key players: ITC, Hindustan Pencils, DOMS, Camlin, Flair, Luxor, Linc, BIC Cello, Navneet, and Rorito, collectively holding around 75% market share. ITC leads the market with a 20% share by value, followed by DOMS at 12%, Hindustan Pencils at 9%, Flair at 8%, and Camlin at 7%.

DOMS stands as the second-largest player in India's branded stationery and art products market, holding a 12% market share by value as of FY23. The company boasts a robust distribution network, with over 4,300 distributors, more than 120 super stockists, and 122500+ retail touchpoints as of H1FY24. DOMS offers a wide range of products, leading in multiple categories within the Indian market.

Exhibit 24: Market Share of players in the domestic branded market in India (in FY23)



Source: company, Axis Securities

Management Profile

Name	Description
Santosh Rasiklal Raveshia *Managing Director*	He has been associated with the company since its incorporation as a Director and Promoter. He joined R.R. Industries in 2000 and has been its partner since 2002. Furthermore, he has been a partner of S-Tech Industries since 2006. He is primarily involved in all aspects of the business of the company, including new product development, crafting, and executing go-to-market strategies.
Rahul Shah *Chief Financial Officer*	He is the Chief Financial Officer of the company. He earned a bachelor's degree in management studies and a master's degree in commerce from the University of Mumbai and also holds a post-graduate diploma in management (finance) from S. P. Jain Institute of Management & Research. Before joining the company, he worked as a senior research analyst at ARANCA Mumbai Private Limited and as an outside contractor analyst for Cohen Independent Research Group. He later became a partner at Leap Growth Partners LLP, a boutique investment banking advisory firm. Rahul joined the company on December 1, 2016, as Vice President of Finance & Accounts.
Saumitra Prasad *Chief Marketing Officer*	He is the Chief Marketing Officer at DOMS. He holds an MBA degree in Marketing from the SVKM's Narsee Monjee Institute of Management Studies. With extensive experience in the marketing field, Saumitra has previously held key positions at leading companies such as Cavin Kare, Kokuyo Camlin and Revlon where he contributed significantly to their brand and market strategies. He has joined the company in Nov'23.
Suraj Raveshia *Vice President of International Business*	He is the Vice President of International Business of the company. He holds a bachelor's degree in commerce from the University of Mumbai. With over 14 years of experience in the Indian stationery industry, including previous work with R.R. Industries, he joined the company on April 1, 2011.
Purav Raveshia *Vice President of Product Development*	He is the Vice President of Product Development of the company. He completed his Higher Secondary Certificate from the Maharashtra State Board of Secondary and Higher Secondary Education. With over two decades of experience in the Indian stationery industry, including a tenure at R. R. Industries, he joined the company on April 1, 2011.
Santosh Swain *Vice President Purchase & General Affairs*	He is the Vice President of Purchase & General Affairs of the company. He holds a Bachelor of Commerce degree from Utkal University, Orissa. With over 16 years of experience in the Indian stationery industry, including a tenure at STech Industries, he joined the company on December 1, 2011.

Key Risk

High Dependence on F.I.L.A:

The company is heavily dependent on the FILA Group, a major promoter, for its business operations, especially export sales (~11% of sales) and technical collaboration. If there is any deterioration in the relationship with FILA, it could negatively affect the company's operations, R&D, and export capabilities.

Concentrated Manufacturing Facility:

DOMS business operations rely heavily on its manufacturing facilities in Umbergaon (~94%) and Jammu (~6%). These facilities produce key products such as stationery, art materials, and wooden slats. Any disruption, breakdown, or shutdown at these sites could severely impact the company's business, operations, and financial health. Although operations at this facility have not seen any breakdown, any future breakdown could adversely affect production capabilities, especially for wooden pencils.

Digitalization Risk:

The adoption of digital instruments may impact traditional paper and non-paper-based products, thus promoting sustainability and lowering the carbon footprint. In emerging countries like India, the impact of digitalization is limited due to low digital penetration, particularly in rural areas. However, in the long term, DOMS faces the risk of technological advancements in the stationery and education sectors, particularly the shift from classroom learning to online learning. However, this threat appears to be minimal in the near future.

Fluctuations of commodity prices:

Any adverse fluctuations in global commodity prices may impact the company’s financial health. For example, stationery products such as pens, pencils, notebooks, etc heavily rely on raw materials such as wood, paper, and rubber plastics which are again highly subject to price fluctuation in global markets. Any change in the prices of raw materials will lead to higher costs for stationery manufacturers.

China impact:

Any reduction in duty for stationery and art materials could flood the Indian market with Chinese stationery products that could impact the DOMS and another Indian manufacturers negatively.

Industry Overview

Indian Stationery and Art Market

The Indian stationery and art materials market was valued at Rs 38,500 Cr in FY23 and is projected to grow at a 13% CAGR from FY23 to FY28, reaching Rs 71,600 Cr by FY28. Within this market, non-stationery products, which constitute DOMS' core market, account for 58% (Rs 22,000 Cr) and are anticipated to expand at a 14% CAGR over the FY23-28 period, reaching Rs 42,900 Cr by FY28. Non-paper products encompass writing and technical instruments, office supplies, and art materials.

Indian Stationery and Art material is expected to grow 13% CAGR over FY23-28

The stationery industry operates on a distribution-led model primarily driven by traditional retailers. The typical value chain includes manufacturers (brands), distributors, retailers, and end customers. Manufacturers often sell directly to institutions such as schools, colleges, universities, and corporations alongside serving individual end consumers.

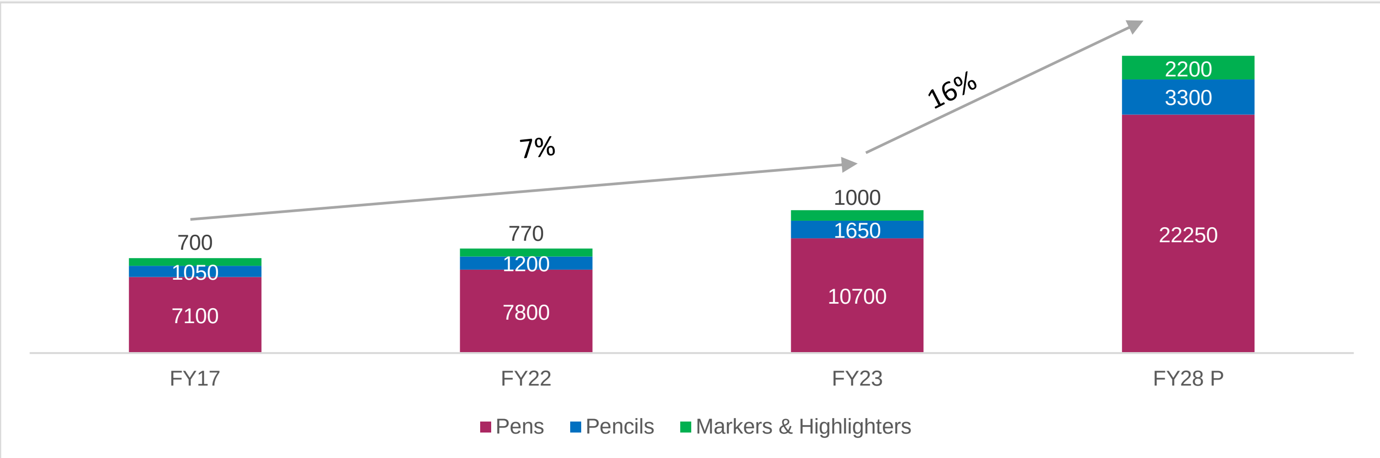
Distributors purchase stationery products from manufacturers at a discount ranging from approximately 30% to 40% off the maximum retail price (MRP). They then distribute these products to retailers, retaining a margin typically around 10%. Retailers, in turn, sell the products to end consumers, maintaining a margin of approximately 25% to 30%.

In cases where manufacturers sell directly to institutions, they usually offer discounts of approximately 40% to 45% off the regular price.

Indian Writing Instrument Market

The Indian writing instrument market, which includes pens, pencils, markers, and highlighters, was valued at Rs 13,350Cr in FY 23. It is expected to grow at a CAGR of 16%, reaching Rs 27,750 Cr by FY28. In FY23, Pens (accounted for 80%), dominating the market largely driven by volume. Pencils accounted for 12% while markers and highlighters made up 8%.

Exhibit 25: Indian writing instrument market is dominated by pens



Source: company, Axis Securities

Pens: Pens account for 80% of the writing instruments which can be sub-categorized into ballpoint pens (68%), gel pens (20%) and rollerball pens (12%). Based on price points, pens can be classified into mass-market (Rs <15), premium (Rs 15-400) and super premium pens (Rs >500).

Segments	Price Points	Market Share By Value	Lending Players
Mass Market	Up to Rs 5	80%	Line, Flair, Cello
Premium	Rs 5-Rs 400	16%	Luxor, Cello, Flair
Super Premium	>Rs 400	4%	Parker, Montblanc

Pencils: Pencils can be categorized into three main types: Wooden pencils, Polymer pencils, and Mechanical pencils. As of FY23, wooden pencils dominate the market, comprising approximately 92% of the market share by value.

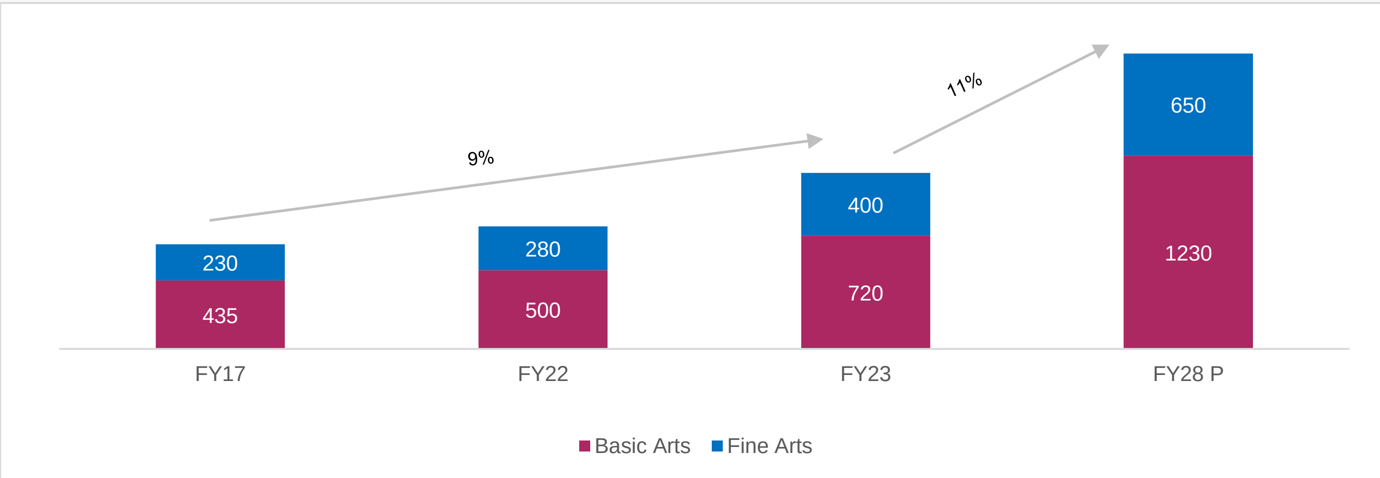
Based on their price points, pencils are further classified into different segments. Pencils priced up to INR 5 fall into the mass market category. Those priced between INR 5 to INR 20 are categorized as premium pencils, while pencils priced above INR 20 are considered super premium pencils.

Segments	Price Points	Market Share By Value	Lending Players
Mass Market	Up to Rs 5	85%	DOMS, Hindustan Pencils
Premium	Rs 5-Rs 20	14%-15%	DOMS, Kokuyo Camlin, Hindustan pencils
Super Premium	>Rs 20	<1%	Faber Castell, Staedtler

Indian Art and Craft Market

The Indian arts and crafts market encompassing basic and fine arts products was valued at Rs 1,120 Cr in FY23 and is projected to grow at a CAGR of 11%, reaching Rs 1,880 Cr by FY28. Basic arts products, which include items like crayons, oil pastels, sketch pens, and poster colours, held a dominant share in FY23, accounting for 64% (Rs 720 Cr) of the market value. Fine arts products, such as watercolours, gouache colours, artist brushes, and canvas boards, constituted the remaining 36% (Rs 400 Cr) of the market.

Exhibit 26: Indian Art and Craft market to reach Rs 1880cr by FY28

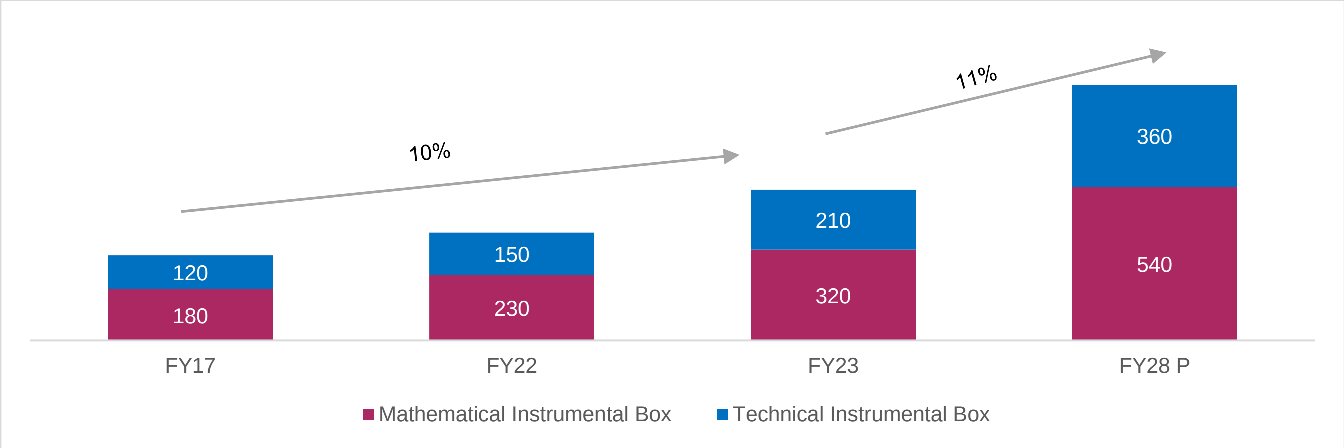


Source: company, Axis Securities

Indian Technical Instruments Market

The Indian technical instruments market, comprising mathematical instrument boxes and individual technical tools such as rulers, compasses, T-squares, protractors, and mini drafters, was valued at Rs 530 Cr in FY23. It is anticipated to grow at a CAGR of 11%, reaching Rs 900 Cr by FY28. In FY23, mathematical instrument boxes constituted 60% of the market, while other technical instruments accounted for the remaining 40%. DOMS held a 30% market share in the mathematical instrument box segment by value in FY23.

Exhibit 27: DOMS has 30% market share in mathematical instrument box segment

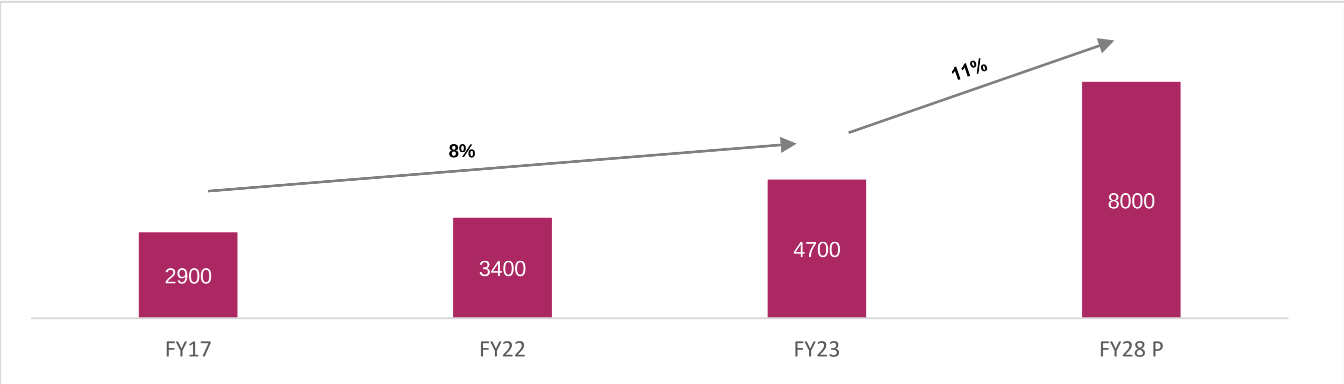


Source: company, Axis Securities

Indian Office Supplies Market

The office supplies market in India consists of files and folders, staplers, paper punches, etc. As of FY23, the Indian office supplies market is Rs 4,700 Cr by value and is expected to grow at a CAGR of ~11% till FY28 to reach to a market value of Rs 8,000 Cr.

Exhibit 28: Indian office supplies market to reach Rs 8000cr by FY28



Source: company, Axis Securities

Indian Paper Stationery market

The Indian paper stationery market, comprising notebooks and papers, was valued at Rs16,200 Cr in FY23. It is projected to grow at a CAGR of 12% to reach Rs28,700 Cr by FY28. In FY23, notebooks dominated the market, accounting for 65% (Rs10,500 Cr) of the market value, while papers made up 35% (Rs5,700Cr).

Financials (Consolidated)

Profit & Loss **(Rs Cr)**

Y/E Mar	FY23	FY24A	FY25E	FY26E	FY27E
Net sales	**1,212**	**1,537**	**1,921**	**2,421**	**3,026**
Growth, %	77.3	26.8	25.0	26.0	25.0
Total income	1,212	1,537	1,921	2,421	3,026
Raw material expenses	(763)	(893)	(1,116)	(1,424)	(1,780)
Employee expenses	(142)	(213)	(268)	(336)	(419)
Other Operating expenses	(120)	(159)	(206)	(231)	(282)
EBITDA (Core)	**187**	**273**	**331**	**431**	**545**
Growth, %	167.8	46.1	21.3	30.1	26.6
Margin, %	15.4	17.7	17.2	17.8	18.0
Depreciation	(41)	(51)	(72)	(94)	(113)
EBIT	**146**	**221**	**258**	**337**	**432**
Growth, %	361	52	17	30	28
Margin, %	12	14	13	14	14
Interest paid	(12)	(17)	(15)	(12)	(11)
Other Income	5	10	11	12	13
Non-recurring Items	-	-	-	-	-
Pre-tax profit	**139**	**214**	**255**	**337**	**435**
Tax provided	(36)	(55)	(65)	(86)	(111)
Profit after tax	**103**	**160**	**190**	**251**	**324**
Growth, %	459.0	59.9	24.0	32.1	29.0
Net Profit (adjusted)	**96**	**153**	**190**	**251**	**324**
Unadj. shares (Cr)	6	6	6	6	6
Wtd avg shares (Cr)	6	6	6	6	6

Source: Company, Axis Securities

Balance Sheet **(Rs Cr)**

Y/E Mar	FY23	FY24A	FY25E	FY26E	FY27E
Cash & bank	42	306	277	313	452
Marketable securities at cost	-	-	-	-	-
Debtors	36	65	81	102	127
Inventory	185	225	281	355	443
Other current assets	17	20	20	20	20
Total current assets	279	616	660	790	1,043
Investments	2	1	1	1	1
Gross fixed assets	433	662	887	1,112	1,312
Less: Depreciation	(113)	(164)	(237)	(330)	(443)
Add: Capital WIP	7	25	25	25	25
Net fixed assets	327	524	676	808	894
Non-current assets	28	43	43	43	43
Total assets	**640**	**1,190**	**1,386**	**1,648**	**1,987**
Current liabilities	230	206	229	258	294
Provisions	9	15	15	15	15
Total current liabilities	239	221	244	273	309
Non-current liabilities	45	127	127	127	127
Total liabilities	284	348	370	400	435
Paid-up capital	0	61	61	61	61
Reserves & surplus	337	754	927	1,160	1,463
Shareholders' equity	355	842	1,015	1,248	1,552
Total equity & liabilities	**640**	**1,190**	**1,386**	**1,648**	**1,987**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24A	FY25E	FY26E	FY27E
A Cash flow from operating activities					
Profit before tax	139	214	255	337	435
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation and amortization expense	41	51	72	94	113
finance Cost	12	17			
Interest Income	(1)	(7)			
Provision for doubtful debt	-				
Provisions no longer required written back	(0)	(0)			
Gain in Disposable of PPE	(0)	(0)			
Loss on sale of investments in subsdiary companies	0	0			
Impairment Loss	-				
Unrealised Foreign exchange loss/gain	2	(0)			
Operating profit before working capital changes	**192**	**276**	**327**	**430**	**548**
Movements in Working Capital:					
Decrease/(Increase) in trade & other receivables	13	(18)	(16)	(21)	(25)
Decrease /(Increase) in inventories	(25)	(34)	(56)	(73)	(89)
Increase/(Decrease) in trade Payables	6	1	23	29	36
Increase/(Decrease) in short term provisions	2	(0)			
Increase/(Decrease) in long term provisions	1	5			
Decrease/(Increase) in other current assets	3	(3)			
Decrease/(Increase) in other current financial assets					
Increase/(Decrease) in other current liabilities	12	2			
Increase/(Decrease) in other financial liabilities	3	22			
Change in Working Capital	**16**	**(25)**	**(50)**	**(65)**	**(78)**
Changes in non current assets and liabilities					
Decrease/(Increase) in long term advances	(0)	0			
Increase/(Decrease) in Provisions					
Decrease/(Increase) in other non-current financial assets	(0)	(4)			
Decrease/(Increase) in other non-current assets	0	(0)			
Decrease/(Increase) in other financial assets	-				
Changes in non current assets and liabilities	**(1)**	**(4)**	**-**	**-**	**-**
Cash generated from operations	**208**	**247**	**278**	**366**	**470**
Less : Taxes paid (net of tax refund)	**(34)**	**(64)**	**(65)**	**(86)**	**(111)**
Net cash flow from operating activities	**173.3**	**183**	**213**	**280**	**359**
Cash Flow from Investing Activities:					
Purchase of Property, plant and equipment	(136)	(153)	(225)	(225)	(200)
Acquisition of sub. net of cash		(71)			
Proceeds from sale of Property, plant and equipment	1	0			
Investment in associates	(1)	(1)			
Investment in fixed assets	(1)	(235)			
Proceeds from sale of investments in subsdiary companies	0	-			
Interest received (finance income)	1	2			
Net Cash Flow used in Investing Activities:	**(136)**	**(457)**	**(225)**	**(225)**	**(200)**
Net Cash Flow From Financing Activities:					
Dividend paid to equity shareholders	(6)	(9)	(17)	(18)	(20)
Proceeds from fresh issue		350			
Share issue expenses		(15)			
Proceeds/Repayment of long-term borrowings	12	53			
Interest paid					
RePayment of lease liability	(7)	(11)			
Proceeds/Repayment of short-term borrowings	0	(55)			
Finance Cost paid	(12)	(16)			
(Decrease) in Working Capital Demand Loan & Cash Credit					
Net Cash Used in Financing Activities:	**(12)**	**297**	**(17)**	**(18)**	**(20)**
Net Change in cash & cash equivalents	**25**	**23**	**(29)**	**36**	**139**
Cash & cash equivalents as at the beginning of year	**9**	**34**	**57**	**28**	**64**
Cash & cash equivalents as at the end of year	**34.3**	**57**	**28**	**64**	**203**

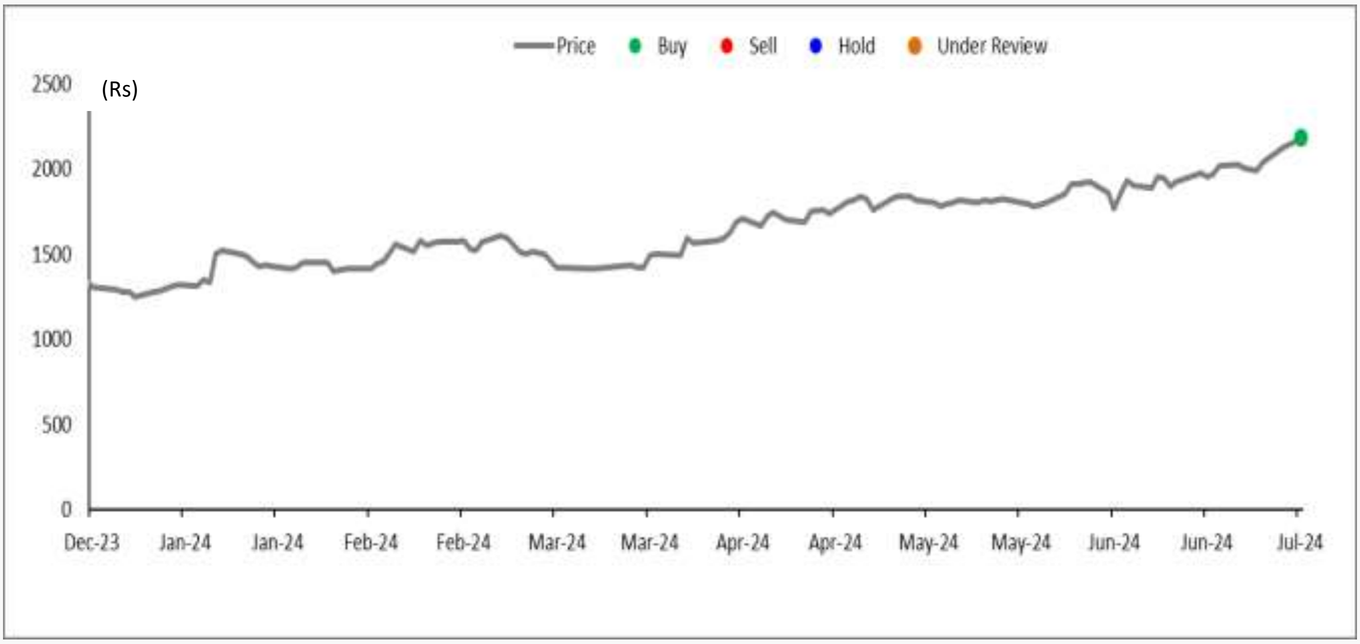
Source: Company, Axis Securities

Ratio Analysis **(x) / (%)**

Y/E Mar	FY23	FY24A	FY25E	FY26E	FY27E
Per Share data					
EPS (INR)	17.0	25.2	31.3	41.4	53.4
Growth, %	459.0	48.2	24.0	32.1	29.0
Book NAV/share (INR)	60.0	134.2	162.7	201.1	251.1
FDEPS (INR)	17.0	25.2	31.3	41.4	53.4
CEPS (INR)	24.3	33.7	43.2	56.8	72.1
CFPS (INR)	28.2	28.5	33.2	44.1	56.9
Return ratios					
Return on assets (%)	20.2	19.3	15.9	17.4	18.4
Return on equity (%)	28.4	18.8	19.2	20.6	21.3
Return on capital employed (%)	35.6	22.5	22.3	24.3	25.5
Turnover ratios					
Asset turnover (x)	3.4	3.1	2.7	2.6	2.8
Sales/Total assets (x)	2.1	1.7	1.5	1.6	1.7
Sales/Net FA (x)	4.3	3.6	3.2	3.3	3.6
Working capital/Sales (x)	0.0	0.1	0.1	0.1	0.1
Receivable days	10.7	15.4	15.4	15.4	15.4
Inventory days	55.6	53.5	53.5	53.5	53.5
Payable days	31.0	26.1	25.9	26.1	26.2
Working capital days	2.3	24.8	29.3	33.0	35.9
Liquidity ratios					
Current ratio (x)	1.2	3.0	2.9	3.1	3.6
Quick ratio (x)	0.4	1.9	1.7	1.7	2.0
Total debt/Equity (%)	0.3	0.3	0.1	0.1	0.1
Valuation					
PER (x)	128.3	86.6	69.8	52.8	40.9
PEG (x) - y-o-y growth	0.3	1.8	2.9	1.6	1.4
Price/Book (x)	36.4	16.3	13.4	10.9	8.7
EV/Net sales (x)	10.2	8.5	6.8	5.4	4.3
EV/EBITDA (x)	66.2	47.9	39.6	30.3	23.7
EV/EBIT (x)	84.6	59.0	50.7	38.8	29.9

Source: Company, Axis Securities

DOMS Industries Price Chart and Recommendation History



Date	Reco	TP	Research
04-Jul-24	BUY	2,670	Initiating Coverage

Source: Axis Securities

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Ratings	**Expected absolute returns over 12-18 months**
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HOLD	Between 10% and -10%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
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