

31 March 2024

India | Equity Research | Initiating Coverage

DOMS Industries

Stationery

Product differentiation is key to success; initiate coverage with BUY

DOMS Industries (DOMS) has emerged as one of the strongest stationery and art products players in India with ~12% market share in FY23 from negligible share in FY10. Key reasons: (1) Product differentiation. It has introduced multiple value-added products after identifying gaps in the product offerings of other players, (2) strong investments in manufacturing and backward integration, (3) strategic partnership with FILA, which has helped DOMS in accessing global products, markets and augment R&D capabilities, (4) strong brand (Doms, C3) with a sub-segmentation strategy (Amariz, Fixy Fix) and (5) established distribution network of more than 0.12mn outlets. It also has the most diversified revenue stream vs peers (i.e. presence across all major sub-segments), indicating low product concentration risk.

We expect DOMS to further strengthen its position by (i) entering into adjacent business/product categories, (ii) expansion of manufacturing capabilities, and (iii) higher exports. We model DOMS to report revenue/PAT CAGR of 24.4%/29% over FY24-26E. We note it has been steadily generating EVA over FY14-FY24E. We initiate coverage on the stock with **BUY** rating and DCF-based target price of INR 1,825 (implying 48x FY26E earnings).

Strong product differentiation

The company has identified gaps in offerings of multiple stationery companies in India and has introduced differentiated products. Most of its differentiated products like pencil extender, hexagon shaped eraser and triangular shaped pencils were unique at the time of launch. These products have helped the company to steadily gain market shares.

Established competitive advantages

Chief competitive advantages: (1) Strong brands DOMS and C3, (2) sub-segmentation strategy with sub-brands like Fixy Fix, and Amariz, (3) growing distribution network of 1,22,500+ retail outlets, (4) highest diversity in revenue streams vs peers, and (5) one of the widest product portfolios of 3,800+ SKUs across seven product categories.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	12,119	15,201	19,009	23,515
EBITDA	1,867	2,504	3,152	3,904
EBITDA Margin (%)	15.4	16.5	16.6	16.6
Net Profit	958	1,373	1,834	2,286
EPS (INR)	15.8	22.6	30.2	37.7
EPS % Chg YoY	567.2	43.3	33.6	24.6
P/E (x)	99.2	69.2	51.8	41.6
EV/EBITDA (x)	51.0	37.3	29.2	23.1
RoCE (%)	24.7	22.8	20.5	20.3
RoE (%)	31.2	27.5	23.5	21.2

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Market Data

Market Cap (INR)	95bn
Market Cap (USD)	1,140mn
Bloomberg Code	DOMS IN Equity
Reuters Code	DOMS.BO
52-week Range (INR)	1,687 / 1,224
Free Float (%)	14.0
ADTV-3M (mn) (USD)	3.5

Price Performance (%)	3m	6m	12m
Absolute	23.0	0.0	0.0
Relative to Sensex	21.3	0.0	0.0

Strong growth potential

The company plans to focus on (1) expanding total addressable market and wallet share by introducing newer products, (2) expanding distribution reach, (3) adding manufacturing capacities and attaining backward integration, (4) acquiring businesses that are complementary to its business, (5) improving export capabilities via strategic partnership with a global partner.

Initiate coverage with BUY

We model DOMS to report revenue/PAT CAGR of 24.4% / 29% over FY24-26E and return ratios to remain at 20%+ levels. At our DCF-based target price of INR 1,825, implied P/E on FY26E earnings works out to 48x.

Key risks: Steep increase in competitive pressures and higher raw material prices.

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Investment summary

Differentiated high-quality products across price points

DOMS has developed a strong brand with the launch of multiple differentiated and high-quality products over the years. The company has introduced multiple differentiated and innovative products in India's stationery and art products market.

It has focused on R&D and innovation for most of its products. The company has introduced groove pencils, which have superior grip. It manufactures these differentiated products under the brand name DOMS with a patented technology. Additionally, it has launched a unique product named two-way pencil sharpener that can be used by both left-handed and right-handed users.

These unconventional, yet need-based products, have helped the company gain market share without facing any material competition.

Exhibit 1: Major differentiated products

Product	Particulars
Erasner	Single product serving the requirements of both an eraser and a sharpener
Pencil extender	Addition to colour pencil set. Can also use the pencils despite reduction in size following repeated sharpening
Hexagon shaped eraser	Differentiated shape and innovative packaging
Pencil with different shapes	Introduced multi-shaped pencils (particularly triangular-shaped) against industry convention of hexagon-shaped pencils
Sports collectible eraser	Erasers in different shapes
Two-way pencil sharpeners	Pencil sharpeners that can be used by both left-handed and right-handed users

Source: Company data, I-Sec research

Pencils across price points

In order to cater a diverse demography, the company has introduced products across price points through its brands DOMS and C3. It has developed C3 brand to cater to rural markets in polymer range. Amongst notable differentiators to peers, DOMS pencils are available across price points from MRP of INR 3/pencil to INR 12.5/pencil.

Exhibit 2: Pencils across price points

Product	Description	No. of units	MRP (INR)	Calculated per unit price (INR)
Superio Pencil	Graphite based premium pencil	10	125	12.5
Karbon Pencil	Graphite based super dark HB2	10	70	7.0
Groove Slim Triangle Pencils	2B Lead with high quality graphite Unique Copper, Silver and Gold Colours	10	80	8.0
Neon Wooden Pencils	Rubber tipped graphite based pack of 30 pencils	30	180	6.0
Zoom ultimate dark triangle	Dark, triangle pencils	50	350	7.0
Drawing Pencils for Sketching	Pack of 6 Drawing Pencils of assorted grades + 1 eraser	6	50	8.3
Trio-matic pencil jar	Pack of 100 pencils in multicolour	100	300	3.0

Source: Company data, I-Sec research

Large and established product portfolio

DOMS has a wide product portfolio of over 3,800 SKUs as of Sept'23. It operates in seven different categories of stationery and art materials. We believe most companies in stationery and art materials industry in India have gained expertise in only limited categories.

DOMS is in diverse product categories like (1) scholastic stationery, (2) scholastic art material, (3) paper stationery, (4) kits and combos, (5) office supplies, (6) hobby and craft and (7) fine art products.

Exhibit 3: Presence across multiple sub-segments

Player	Note books	Papers	Pens	Pencils	Marker & Highlighters	Technical Instruments	Office Supplies	Basic Arts	Fine Arts	Eraser	Sharpener	Adhesives	Others	Estimated total addressable market (TAM) in INR mn
DOMS	P		P	P	P	P	P	P	P	P	P	P	P	2,80,000
Kokuyo Camlin			P	P	P	P	P	P	P	P	P	P		1,76,000
Hindustan Pencils			P	P		P		P		P	P		P	1,58,800
Navneet	P	P		P		P		P	P	P	P	P	P	2,21,000
Luxor	P		P		P			P					P	2,04,000
Linc			P	P	P	P		P		P	P		P	1,68,800
Flair			P	P	P	P		P		P	P	P	P	1,68,800
Rorito	P		P	P	P			P						1,94,500
BIC Cello			P	P	P	P		P		P	P			1,68,800
ITC Stationery	P	P	P	P		P		P		P	P		P	3,20,800
Kangaro							P							47,000
Category size (INR mn)	57,000	1,05,000	1,07,000	16,500	10,000	5,300	47,000	4,000	7,200			26,000		3,85,000

Source: Company data, industry data, I-Sec research; Office supplies include staplers, paper punches, stamp pad and inks, files and folders etc. Basic arts products include crayons, oil pastels, sketch pens, poster colours etc. and fine arts products include water colours for artist, gouache colours, artist brushes, canvas board etc. Others include calculators, scissors, chalks, chalk holders, desk organiser, exam board, refills, ink bottles etc.

Exhibit 4: Diversified product portfolio



Source: Company data, I-Sec research

Strategic partnership with FILA

DOMS entered into a strategic tie-up with FILA which has enabled the company to expand its exports. FILA is an Italian multinational stationery company with large global presence. FILA not only acts as a major shareholder of DOMS but also offers technological and R&D support. DOMS, with support from FILA, has been able to enter into multiple new geographies for exports.

Exhibit 5: Key financials - FILA

Y/E Dec (EUR mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Net Revenue	275	423	510	589	683	607	653	765	779
YoY Growth (%)	-	53.5	20.8	15.3	16.0	(11.0)	7.6	17.0	1.9
EBITDA	48	67	73	74	106	95	109	110	121
YoY Growth (%)	-	41.2	8.8	0.5	44.1	(9.9)	14.4	1.1	9.8
EBITDA Margin (%)	17.3	15.9	14.3	12.5	15.5	15.7	16.7	14.4	15.5
Net Profit	25	28	29	28	43	23	43	43	41
YoY Growth (%)	-	13.7	3.2	(5.2)	56.2	(46.4)	84.0	0.7	(5.1)

Source: Company (adjusted financials), I-Sec research

Established competitive advantages

DOMS has developed multiple competitive advantages for itself like (1) strong brands like DOMS, C3 (for rural market), (2) a sub-segmentation strategy, (3) a growing distribution network of 0.12mn+ outlets, and (4) 13 manufacturing facilities in Gujarat of 1.2mn sq. ft., which is one of the largest among stationery markets in India. The company has planned an additional capacity expansion by acquiring 44-acre land at Umbergaon, Gujarat. It has one of the widest product portfolios of 3,800+ SKUs in the stationery industry. It has high diversity in revenue streams with the relatively less product concentration risk compared to peers.

Exhibit 6: Established competitive advantages

Key competitive advantages	Particulars
Brands	DOMS, C3
Sub-brands	Fixy Fix, Amariz
Distribution network	122,500 retail touch points, 120 super-stockists, 4,200 distributors
Manufacturing Units	13 manufacturing facilities located in Umbergaon, Gujarat and One in Bari Brahma (Jammu and Kashmir)
Large portfolio	Over 3,800 SKUs; amongst the widest product portfolios in industry
Tie-up with global partner	Tie-up with FILA (Italian stationery manufacturer) for technology sharing and export sale

Source: Company data, I-Sec research

Growth strategy of DOMS

We note DOMS growth strategies include: (1) Expansion of distribution reach, (2) increase in total addressable market and wallet share by introducing newer products across various stationery and art material segments, (3) expansion of manufacturing capacities, (4) inorganic growth by adding complementary products, (5) improving export capabilities.

Exhibit 7: Multi-pronged growth strategy

Strategy	Particulars (Our view)
Distribution expansion	Potential to increase retail touchpoints to 2,00,000 from the current 1,22,500 (in-range to its industry peers)
Improving addressable market	Launch of newer products and aim to enter into adjacent business categories
Capacity addition	Capacity expansion via developing 44-acre land acquired near existing Umbergaon plant
Strategic partnership	Acquired Micro Wood which will help in backward integration and took a minority stake in ClapJoy for entry in toys
Drive exports growth	Aim to expand distribution capabilities in Southeast Asian and African countries and strengthen further in existing 45 countries

Source: Company data, I-Sec research

Valuation and key risks

We model DOMS to report revenue/PAT CAGR of 24.4%/29% over FY24-26E and return ratios to remain 20%+. At our DCF-based target price of INR 1,825, implied P/E on FY26E earnings works out to 48x.

Exhibit 8: DCF valuation

Particulars	
Cost of Equity (%)	10.6%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	17,438
Discounted terminal value (INR mn)	93,319
Total equity value (INR mn)	1,10,757
Value per share (INR)	1,825

Source: Company data, I-Sec research

Key risks: (1) Revenue concentration around key products like pencils and mathematical instrument boxes, (2) dependence on global partner for export sales, (3) inability to maintain innovation and technological growth rate over peers, (4) execution miss (if any).

Business overview

About the company

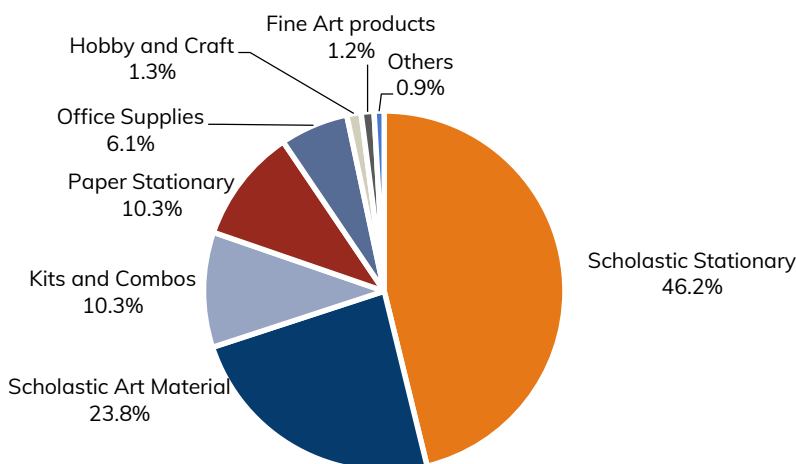
DOMS offers a wide range of stationery and art products in India and 45 countries globally. The company categorises its products under seven broad business categories: (1) Scholastic stationery, (2) scholastic art material, (3) paper stationery, (4) kits and combos, (5) office supplies, (6) hobby and craft, and (7) fine art products.

It markets its products under two major brands: (1) DOMS and (2) C3. DOMS is a flagship brand of the company while C3 is particularly established to cater to rural demand. It has also developed multiple sub-brands such as (1) Fixy Fix and (2) Amariz.

DOMS commands ~12% market share of Indian stationery and art material products as of FY23 (Source: Technopak report).

It has one of the widest product portfolios across the industry with over 3,800 SKUs. Scholastic stationery (46.2%), scholastic art material (23.8%), paper stationery (10.3%) and kits and combos (10.3%) are the major revenue contributors as of FY23.

Exhibit 9: Segment-wise revenue composition (FY23)



Source: Company data, I-Sec research

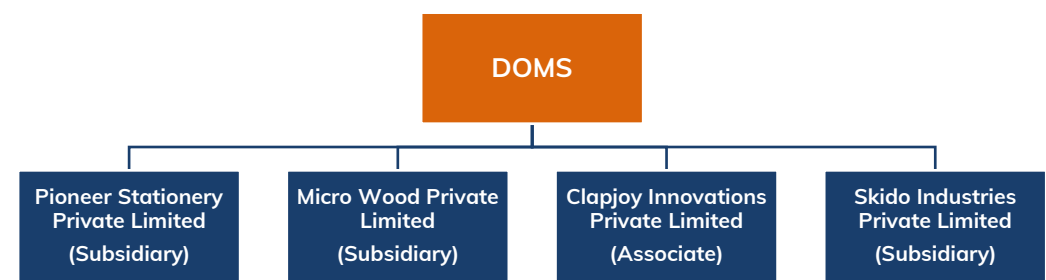
Corporate structure

FILA is the corporate promoter while Mr. Santosh Raveshia, Mr. Sanjay Rajani, Mr. Ketan Rajani and Mrs. Chandni Somaiya are the individual promoters of the company. Additionally, DOMS has two subsidiaries – (1) Pioneer Stationery Private Limited and (2) Micro Wood Private Limited. DOMS holds 51% and 75% stake in Pioneer and Micro Wood, respectively. Also, it has an associate company Clapjoy Innovations Private Limited in which it holds 30% stake.

Pioneer Stationery Private is involved in manufacturing and selling of paper related stationary products. Micro Wood Private is primarily in the business of tin and paper based packaging materials.

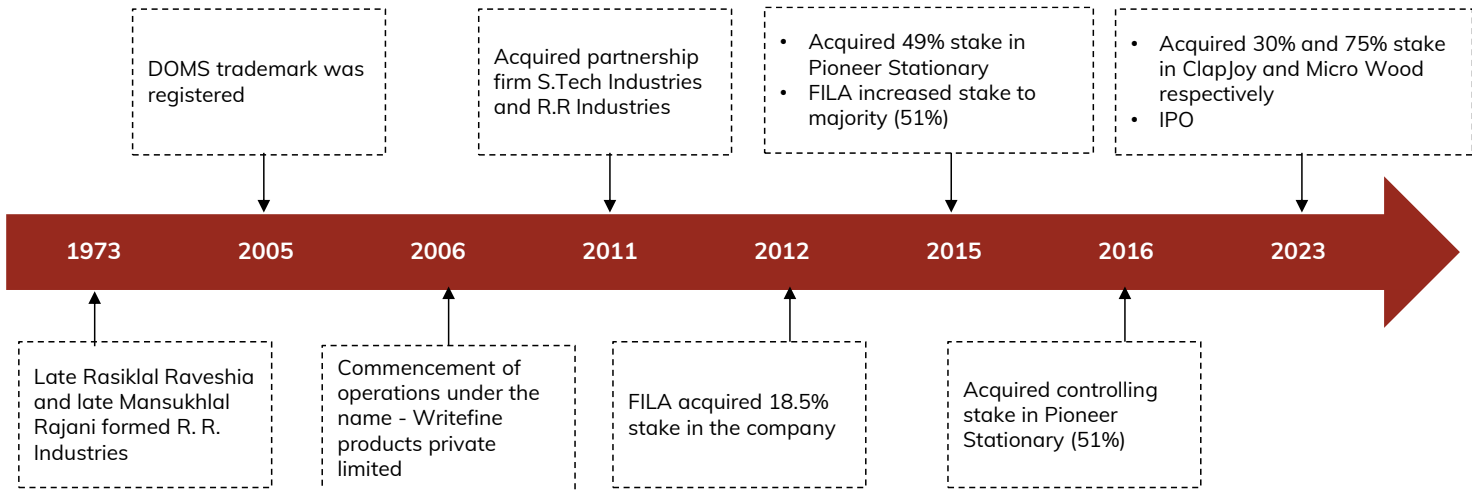
Clapjoy Innovations deals in the manufacture and sale of various types of toys. Doms has also acquired 51% stake in Skido which operates in school bags.

Exhibit 10: Corporate structure (Add Skido here)



Source: Company data, I-Sec research

Timeline of the company



Source: Company data, I-Sec research

Competitive advantages

Established brands

The company has developed two strong brands 'DOMS' and 'C3'. DOMS is the flagship brand and is used for all major products as well as for exports. Typically, differentiated and designer products are categorised under DOMS brand.

The company has created a separate brand C3 to cater to rural demand. It introduced C3 brand in 2012 for affordable market. It sells polymer black lead pencils, polymer colour pencils, erasers, sharpeners, and chalks via C3 brand in affordable markets.

Exhibit 11: DOMS brand



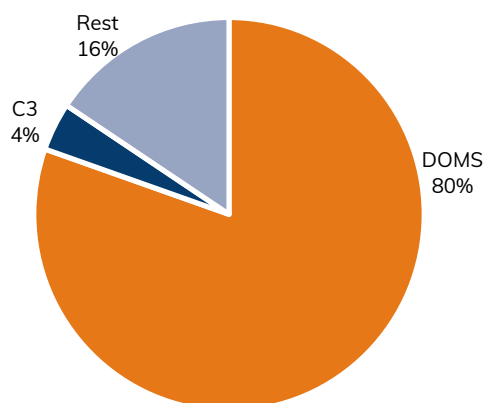
Source: Company data, I-Sec research

Exhibit 12: C3 brand



Source: Company data, I-Sec research

Exhibit 13: Brand-wise revenue contribution (FY23)



Source: Company data, I-Sec research

Sub-brand strategy

In addition to core brands of DOMS and C3, the company has developed multiple sub-brands such as Fixy Fix and Amariz. These brands are associated with a particular segment and are likely to become an identity for that segment. DOMS launched Amariz brand in CY22 specifically to endorse fine art products. Fixy Fix was introduced to market the glues and adhesives segment.

Exhibit 14: Portfolio of sub-brands

Segment	Sub-brands
Glues and adhesives	Fixy Fix
Fine art products	Amariz

Source: Company data, I-Sec research

Exhibit 15: Amariz – brand for fine art products



Source: Company data, I-Sec research

Exhibit 16: Fixy Fix – brand for glues and adhesives



Source: Company data, I-Sec research

Established distribution network

The company has a multi-channel distribution network spread across the country. Also, it has strong presence in export market. The company trades its products in domestic market via different channels such as (1) general trade, (2) modern trade and e-commerce, (3) original equipment manufacturer (OEM) and institutions.

General trade is the major distribution channel for the company. In general trade, the company has ~1,22,500 retail outlets spread over 3,500 cities and towns. It has a 500+ member sales team to facilitate the trades. The business via general trade functions on an advance payment basis while modern trade and export trades are done on a small credit basis.

Exhibit 17: Distribution network details

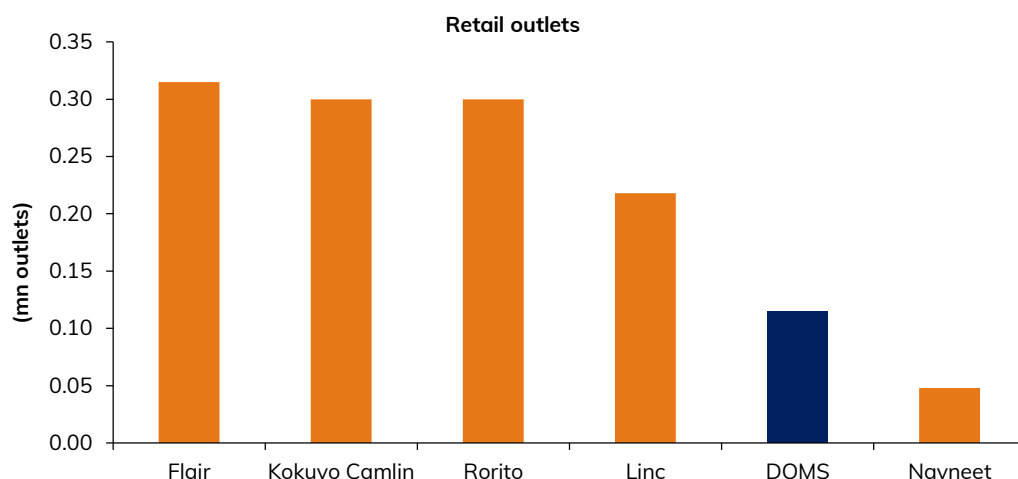
Distribution Channel	Details
Warehouses	7
Depots	3
Super stockists	120+
Distributors	4,200
Retail outlets	1,22,500
Geographies covered	28 states; union territories

Source: Company data, I-Sec research

Distribution network vs peers

We note there is strong scope for distribution expansion for DOMS. We assess the improved distribution network may lead to a better supply of products. The company is likely to expand its sales force and focus on increasing throughput per store. We believe there is scope for expansion in the Southern and Eastern regions of the country. We model the company to expand its distribution reach in Southern states and further strengthen in Western and Northern regions in coming quarters.

Exhibit 18: DOMS' distribution network has scope for improvement



Source: Company data, I-Sec research

DOMS manufacturing units

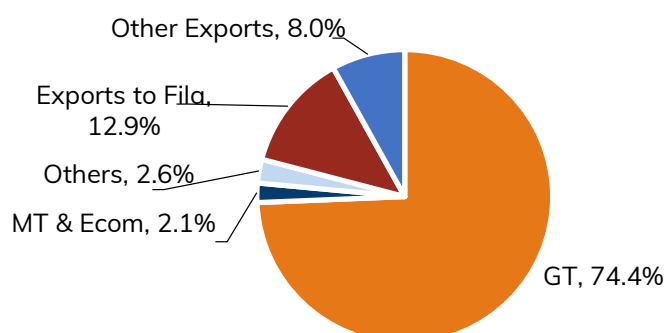
The company has 13 integrated manufacturing facilities. Its facilities are situated in Umbergaon, Gujarat. The facilities in Umbergaon, Gujarat are located on 34-acre land with total coverage area of ~1.18 mn sqft.

Additionally, the company has one manufacturing facility in Bari Brahma, in Jammu and Kashmir, of ~2 acres of land (~0.07mn sqft). The company uses this facility to manufacture wooden slats from wood collected in adjacent locations.

Channel-wise revenue break

DOMS has a multi-channel distribution network with higher focus on general trade. General trade contributed ~74% of revenue in FY23. Modern trade and e-commerce are relatively lower contributors as of FY23 with a cumulative contribution of a mere 2%. Exports contributed ~20% of total revenue as of FY23. The company exports its products via two modes: (1) Exports to FILA group, and (2) other exports. Exports to FILA are done under FILA brand whereas other exports are done under DOMS brand.

Exhibit 19: Channel-wise revenue breakup (FY23)

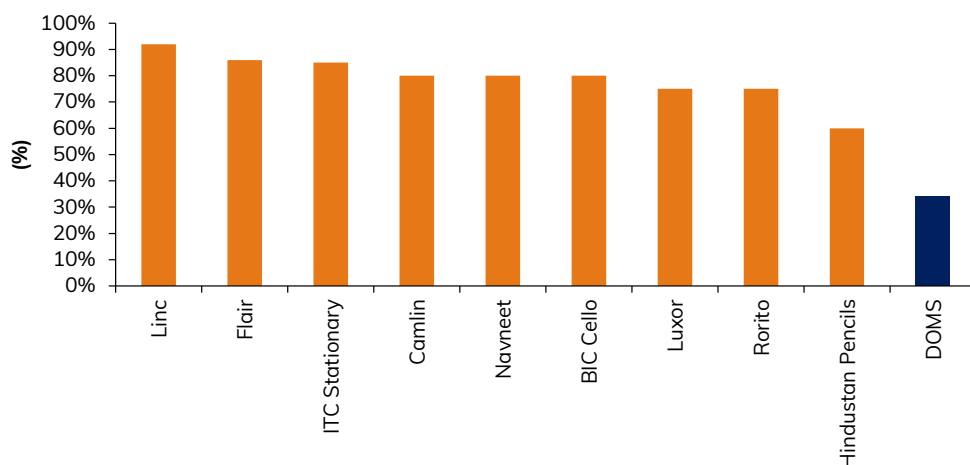


Source: Company data, I-Sec research

Revenue diversity amongst peers

DOMS has the least product concentration risk in our view compared to peers. Its largest segment (core product) contributes only ~36% as of FY23. Peers like Hindustan Pencils and Luxor have high product concentration risk as these players generate ~60% and ~75% revenue, respectively, from their largest category. ITC's stationery is more focused on paper.

Exhibit 20: Revenue share of the largest segment for different stationery segments

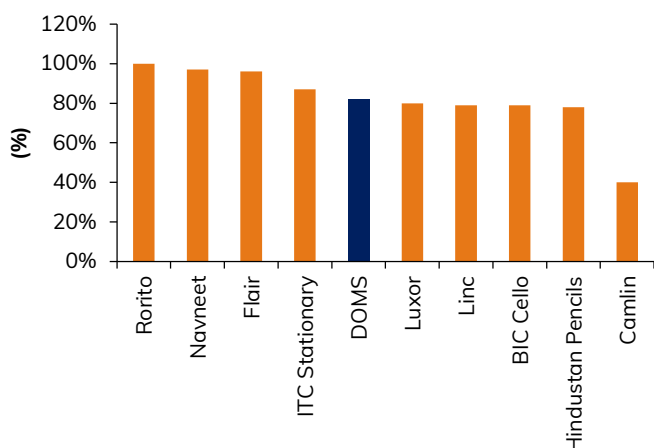


Source: Company data, I-Sec research

Geographical diversification

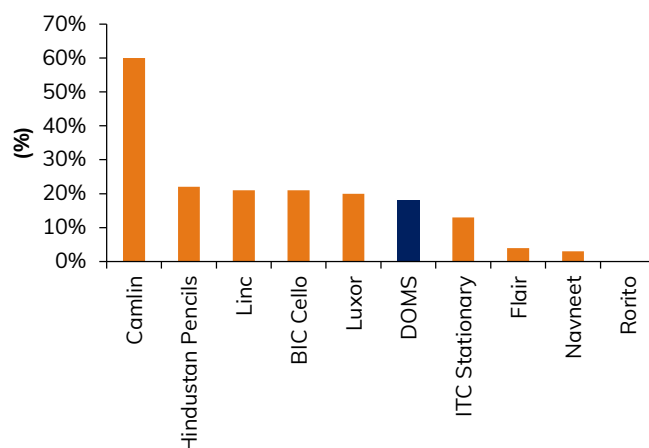
DOMS generates ~21% of revenue from exports, which moderately balances its revenue composition on a geographical basis.

Exhibit 21: Domestic sales as % of total sales



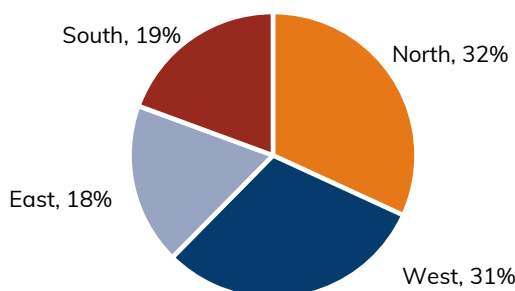
Source: Company data, I-Sec research

Exhibit 22: Export sales as % of total sales



Source: Company data, I-Sec research

Exhibit 23: Region-wise revenue breakup of Doms in India (FY23)



Source: Company data, I-Sec research

Growth strategy of the company

Expansion of manufacturing capacities at Umbergaon plant

The company primarily operates via its manufacturing plants based in Umbergaon, Gujarat. As of FY23, the company has total manufacturing capacity of ~4,735mn units for its core products. With rising consumer demand, the company intends to expand its manufacturing footprint at the Umbergaon facility by developing its 44-acre land parcel in a phased manner.

Exhibit 24: Existing capacities and investments in production capacity

Particulars	Details
Existing manufacturing capacities	4,734.9mn units of core products
Capacity addition	~0.1mn sqft addition likely in writing instrument products segment
Land parcel acquired	44-acre land parcel to be developed in a phased manner

Source: Company data, I-Sec research

Focus on exports

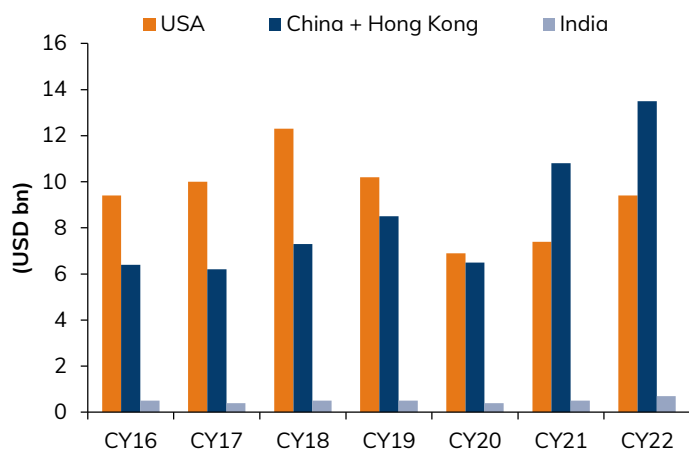
At present, the company exports its products to over 45 countries. It also caters to its global clients via a channel network established outside India in two segments: (1) Export to FILA group and (2) third-party exports. It intends to expand its geographical presence with the help of its global partner FILA group. Further, it aims to increase its distribution capabilities in certain Southeast Asian countries as well as African countries. We observe India's export contribution to global stationery product market is relatively small at present, thus, offering high headroom for growth. We also model India's stationery exports to benefit from China+1 story.

Exhibit 25: Exports strategy of the company

Particulars	Details
Current exposure	~45 countries
Focus area	South Asian countries and African continent
Fila brand exports	Aim to capture market share various geographies

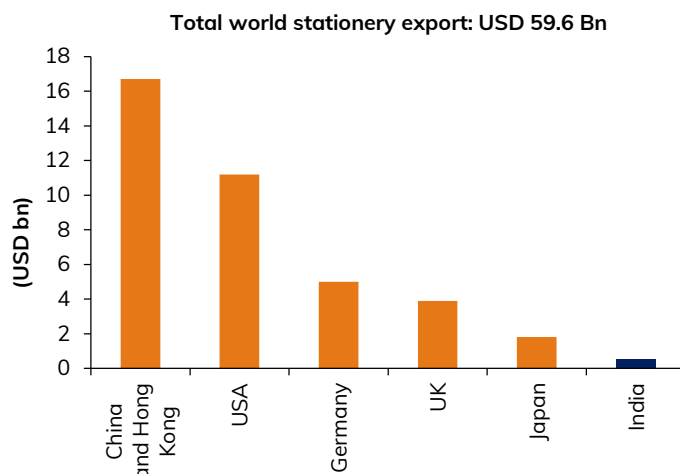
Source: Company data, I-Sec research

Exhibit 26: High scope for improving export sales for India



Source: Company data, I-Sec research

Exhibit 27: Major exporters of stationery products



Source: Company data, I-Sec research

To expand product portfolio by diversifying into related categories

The stationery and art materials market in India is dominated by unorganised players. DOMS focuses on identifying the gaps in product categories and introduces differentiated products that witness high growth due to the inherent unaddressed need of the product. The company, in the past, has introduced multiple creative, innovative and differentiated unique products and aims to further expand its product portfolio. Also, it aims to introduce products across price points such that average revenue realisation increases.

Further, it has defined a business strategy for itself, wherein it aims to further diversify its revenue categories by introducing products that complement its existing product categories.

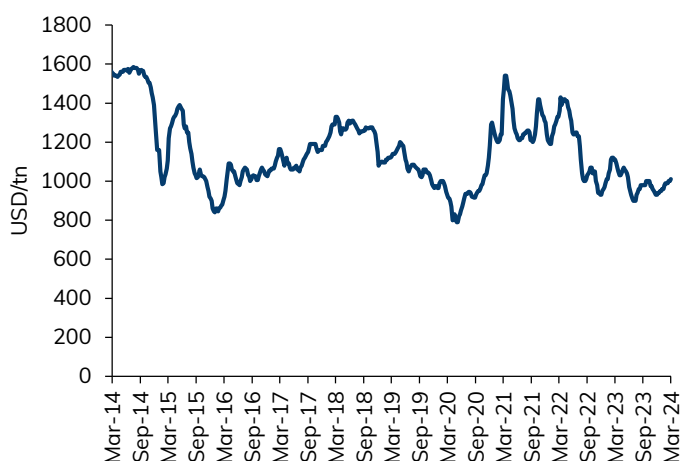
The acquisition of a minority stake in ClapJoy Innovation Private Limited (a toy manufacturer) and majority stake in Skido (school bag manufacturer) indicates the company's strategy to tap opportunities in the growth segments.

Correction in key raw material prices provides margin tailwinds

The key raw materials for DOMS are polypropylene and poplar wood. We note correction in the prices of these key materials augurs well for margin expansion. The price of polypropylene has been volatile in the last three years. The price of polypropylene was USD 1,470/tn in Mar'21, which had corrected to USD 950/tn in Jan'24. On the contrary, the price of poplar wood has grown at a steady constant pace with minor fluctuations over the past four years.

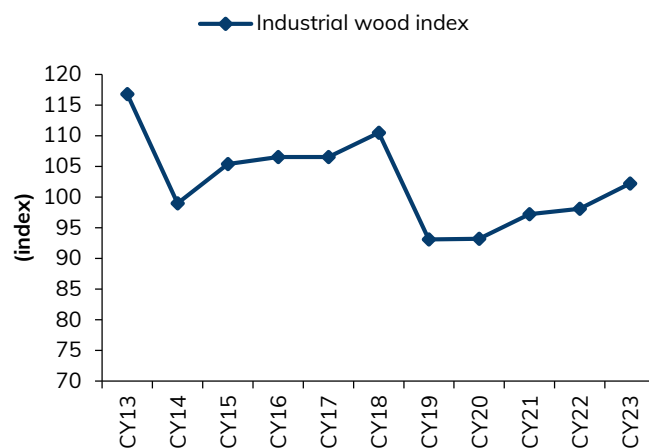
We model the company to retain the partial benefits of the correction in prices of these raw materials and pass on most benefits consumers.

Exhibit 28: Polypropylene price trend



Source: Bloomberg data, I-Sec research

Exhibit 29: Index of industrial wood

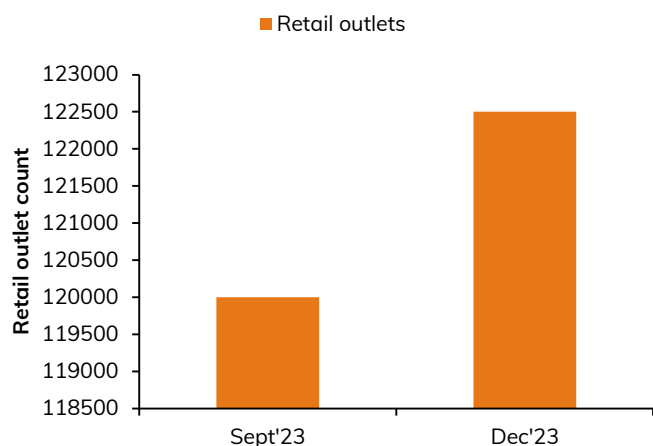


Source: Ministry of Commerce and Industry, I-Sec research; WPI series – wood index with base year CY12

Focus on expanding distribution network

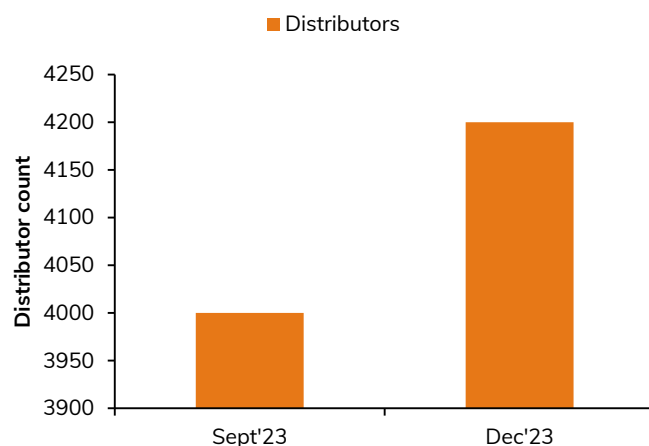
DOMS has a wide-spread distribution network across the country that includes (1) super stockists, (2) distributors and (3) retail outlets. We believe there is scope to further expand the distribution network for the company. Also, the company has salesforce of 500+ personnel who cater to demand requirements raised by retail touch points.

Exhibit 30: Increase in retail outlet count



Source: Company data, I-Sec research

Exhibit 31: Growing distributor count



Source: Company data, I-Sec research

Continue inorganic growth via acquisitions and strategic partnerships

We believe DOMS is likely to continue its pursuit of strategic investments and acquisitions which may result in (1) expanding market share, (2) increasing total addressable market share, (3) strengthening its geographical presence, and (4) higher backward integration.

Exhibit 32: Focus on inorganic growth is likely to continue

Acquisition/ Strategic partnership	Details	Benefits
FILA	Entered into a strategic partnership with global stationery major in CY12	Attained technological advancement and improved global presence
Pioneer	Acquired 51% stake in CY16	Foray into paper stationary business
Micro Wood	Acquired entire stake in CY23	Attained backward integration
Skido	Acquired 51% stake in CY24	Entry in school bags
Clapjoy	Acquired minority stake in CY23	Marked entry into adjacent business categories

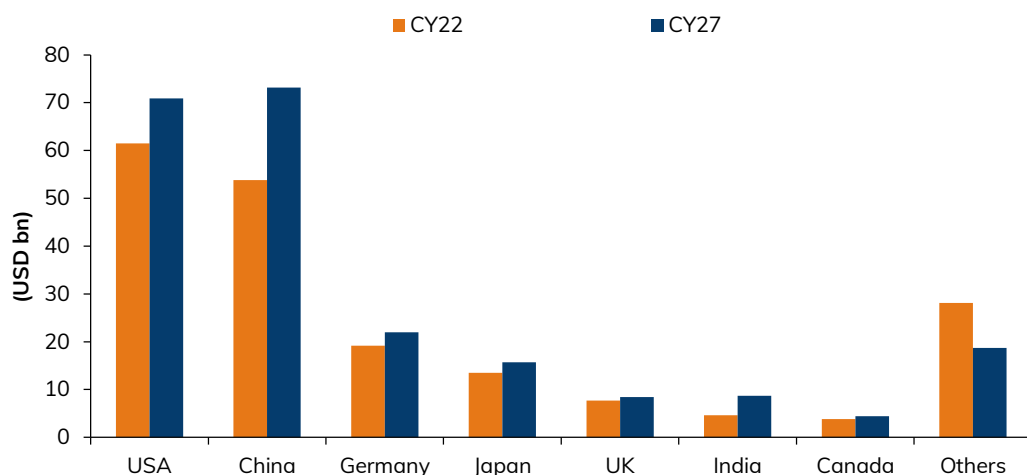
Source: Company data, I-Sec research

Industry overview

Stationery and art materials market in India

The global stationery and art materials market is dominated by USA, China and Germany with ~70% market share as of CY22. India holds a minor share of 2.4% of the global stationery and art materials market as of CY22. The market share is likely to improve to 4% by CY27 from current 2.4%.

Exhibit 33: Market size of major geographies in stationery and art materials market

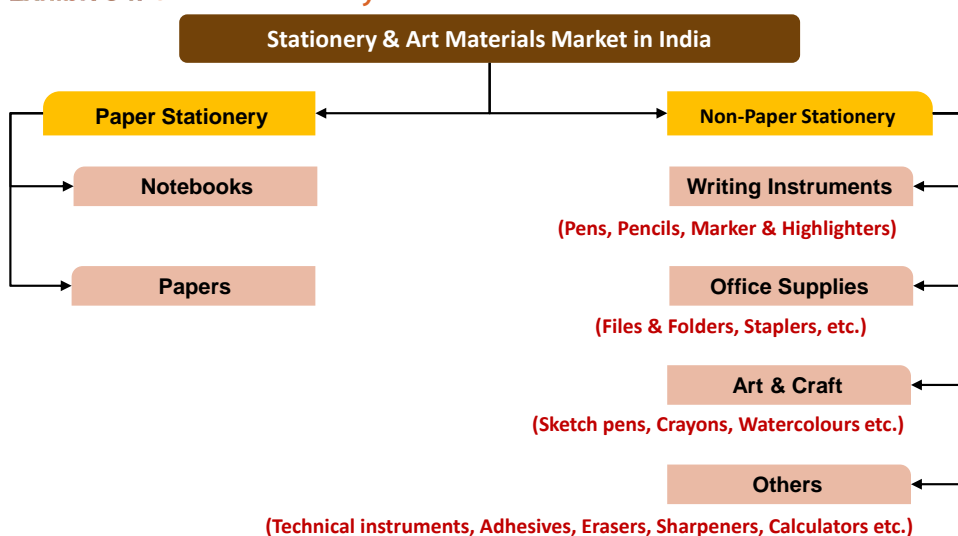


Source: Technopak Analysis; CY22 is FY23 and CY27 is FY28 for India

Segments of stationery market in India

Indian stationery and art materials market is divided into two major categories: (1) Paper stationery, and (2) non-paper stationery products. The non-paper stationery products contribute a higher share in the market in value terms.

Exhibit 34: Overall stationery and art materials market in India

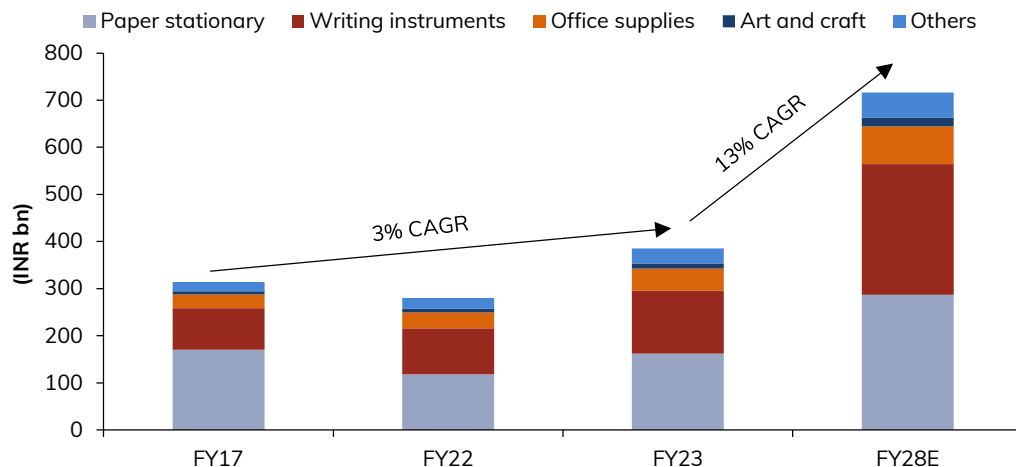


Source: Technopak Analysis

Strong growth likely in Indian stationery market

According to Technopak, the non-paper stationery category is estimated to register a slightly higher CAGR than the paper stationery category over the next five years. The non-paper stationery category is estimated to register ~14% CAGR over FY23-28 to scale a market value of INR 429bn. Similarly, the paper stationery category is estimated to reach INR 287bn (CAGR 12%) by FY28.

Exhibit 35: Stationery and art materials market in India

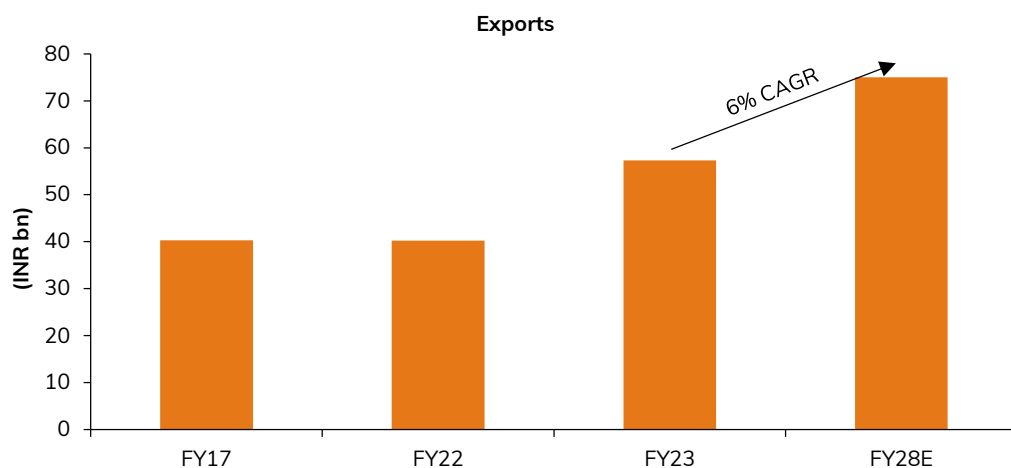


Source: Technopak Analysis

Export of stationery

The stationery and art materials industry of India had exports of INR 57.3bn in FY23. The USA and UK are major export markets for India with contribution of ~28% and ~7%, respectively, in FY23.

Exhibit 36: Exports to grow at a steady pace

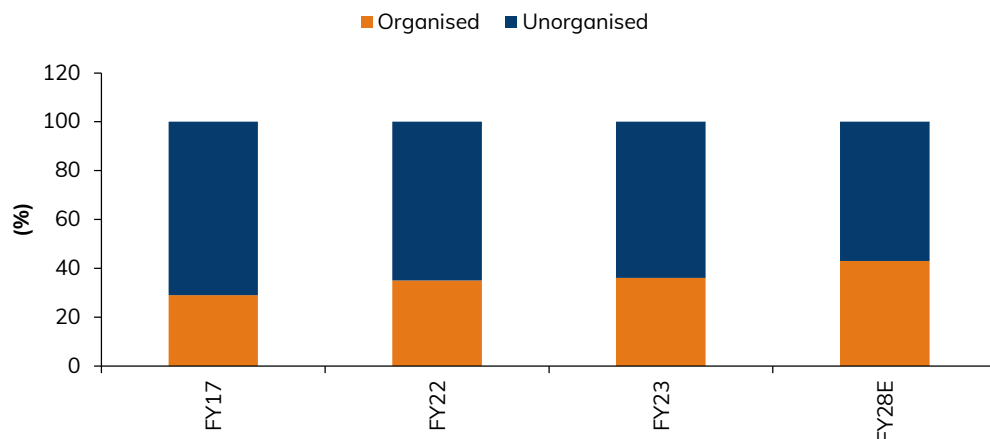


Source: Technopak

Higher share of unorganised products

According to Technopak, the unorganised players in the stationery market of India control a larger share of ~64% share while branded players hold only 36% share (INR 139bn) as of FY23.

Exhibit 37: Share of organised vs unorganised players

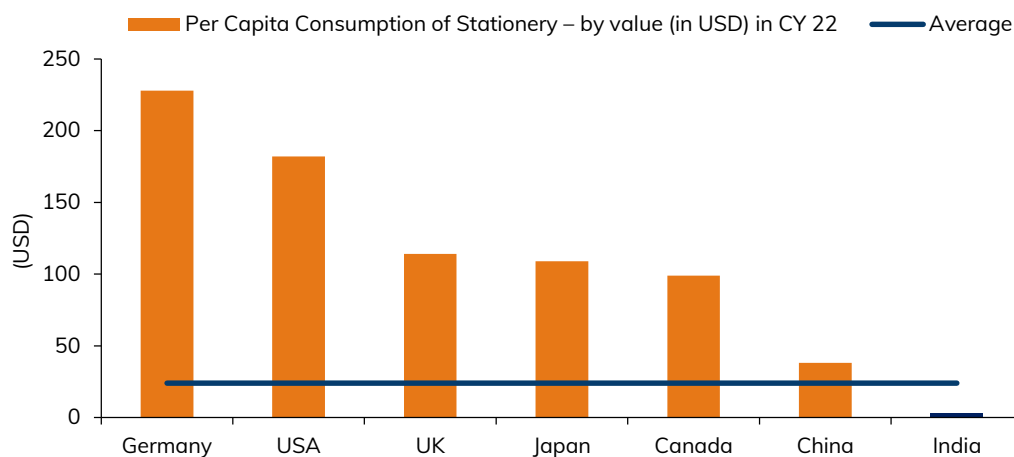


Source: Technopak Analysis

Scope to increase per capita consumption

There is strong potential to increase the per capita consumption of stationery products in India. The per capita consumption is significantly lower than the global average (of USD 24 per capita). With increase in income levels and literacy rates, per capita consumption is likely to expand.

Exhibit 38: High headroom for growth in India's per capita consumption of stationery

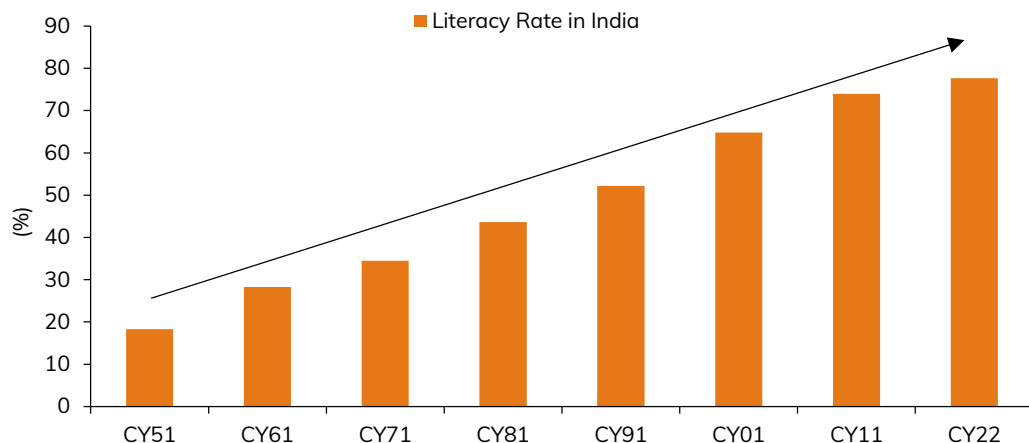


Source: Technopak Analysis

Growing literacy rates in India

The stationery and art materials market in India is likely to be a major beneficiary of (1) the growing literacy rate of India and (2) higher younger population in India.

Exhibit 39: Rising literacy rate in India



Source: Census Documents, 2022: National Survey of India; Note: According to Census 2011, a person aged seven and above, who can both read and write with understanding in any language, is treated as literate.

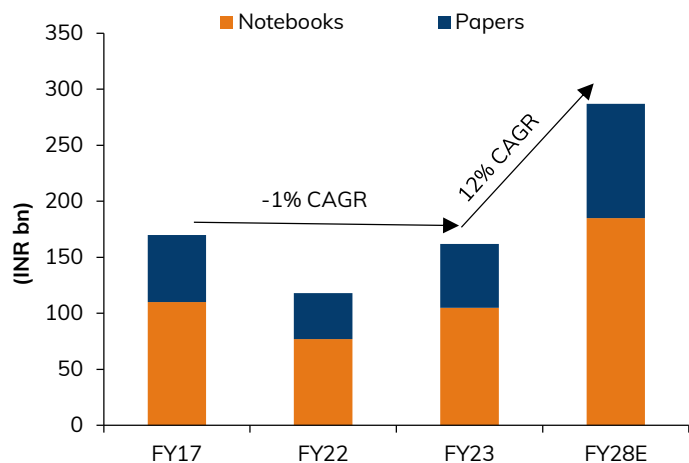
Paper stationery market - India

The paper stationery market in India comprises (1) notebooks and (2) papers. The notebook is a major contributor with a value market share of ~65% (INR 105bn) while paper contributes the remaining ~35% (INR 57bn) as of FY23 (as per Technopak).

Writing instrument market size

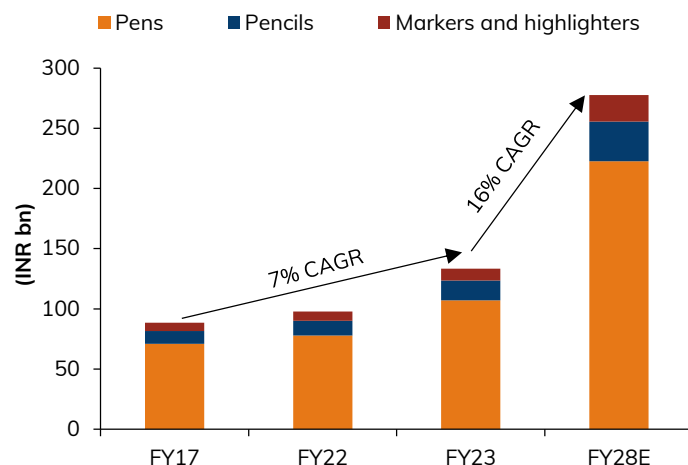
The major constituents of the writing instrument market in India are (1) pens, (2) pencils and (3) markers and highlighters. The pens segment dominates the writing instrument market in India with ~80% (INR 107bn). The pencils command ~12% share with a market value of INR 16.5bn while markers and highlighters control ~8% (INR 10bn) as of FY23.

Exhibit 40: Paper stationery market - India



Source: Technopak Analysis; Note-This does not include exports.

Exhibit 41: Domestic writing instrument market - India

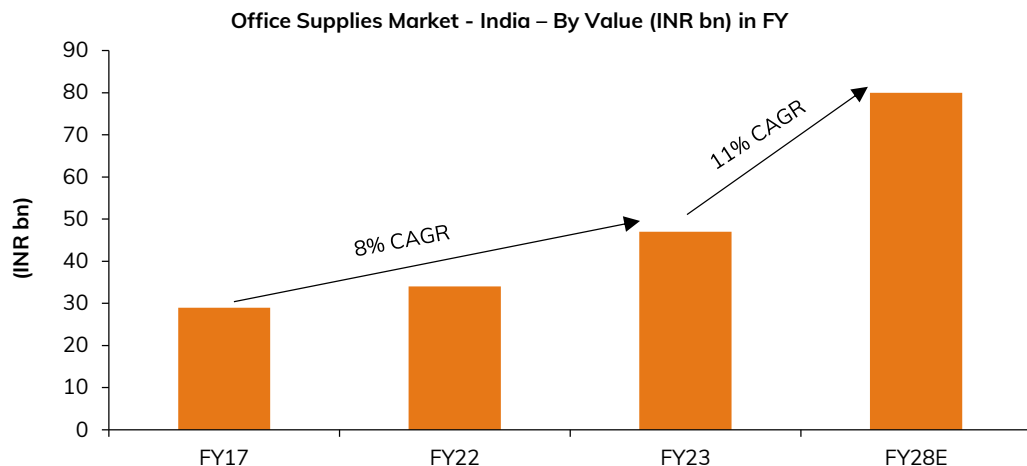


Source: Technopak Analysis; Note-This does not include exports.

Office supplies market – India

The office supplies market in India majorly includes: (1) Files and folders (2) staplers and (3) paper punches. It is likely to grow at a CAGR of 11% over FY23-28.

Exhibit 42: Office supplies market - India



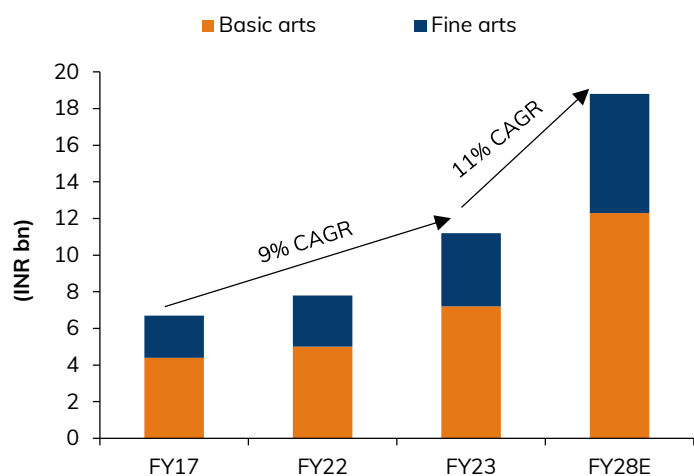
Source: Technopak Analysis

Arts and craft and technical instruments market - India

The arts and craft market in India primarily includes: (1) Basic art products, and (2) fine art products. Products like crayons, oil pastels, sketch pens and poster colours are classified under the basic art products category while water colours for artists, gouache colours, artist brushes, and canvas board are a part of fine art products.

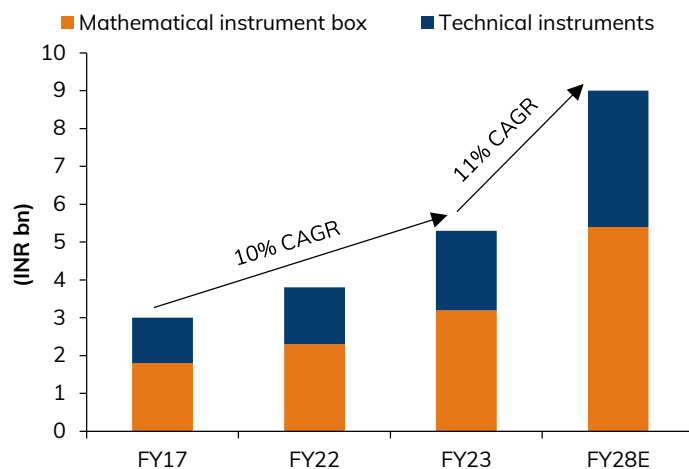
The technical instruments market in India includes: (1) Mathematical instrument boxes and (2) technical instruments. Technical instruments are available in individual packages and contain products like rulers, compasses, T square, protractors, mini drafters etc.

Exhibit 43: Art and craft market – India



Source: Technopak Analysis; Note-This does not include exports

Exhibit 44: Technical instruments market - India

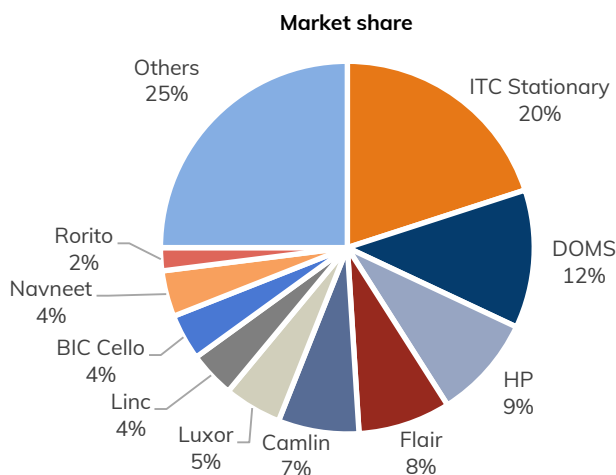


Source: Technopak Analysis; Note-This does not include exports

Major players in stationery and art materials industry

As per Technopak, the branded players control ~36% (~INR 138.5bn) of the stationery and art materials market in India as of FY23. The top 10 players comprising ITC, Hindustan Pencils, DOMS, Camlin, Flair, Luxor, Linc, BIC Cello, Navneet and Rorito control ~75% of market share as of FY23.

Exhibit 45: Market share of major stationery players in India

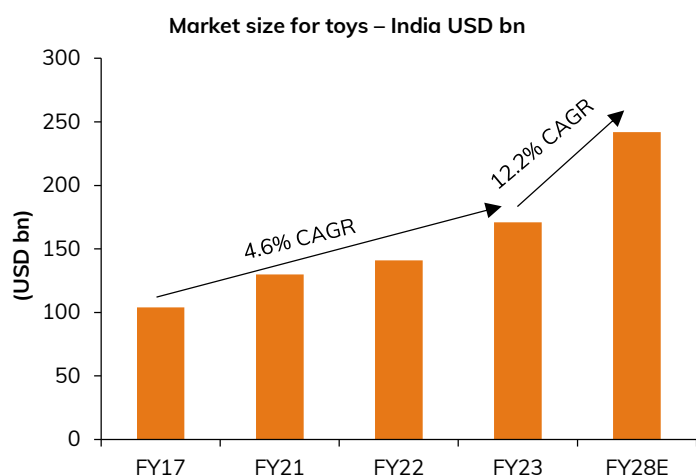


Source: Technopak Analysis; Note-This does not include exports

Toys market in India

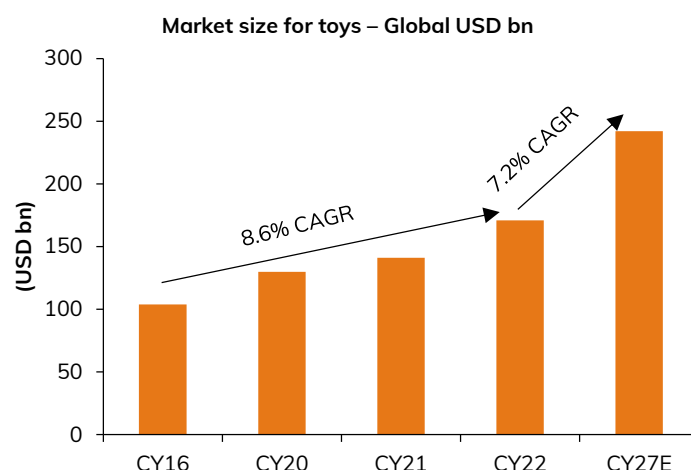
The global toy industry was valued at USD 171bn in CY22 and is likely to grow at a CAGR of ~7.2% to USD 242bn by FY27. The industry grew at a CAGR of 8.6% between CY16 to CY22.

Exhibit 46: Market size for toys – India (FY)



Source: Company RHP

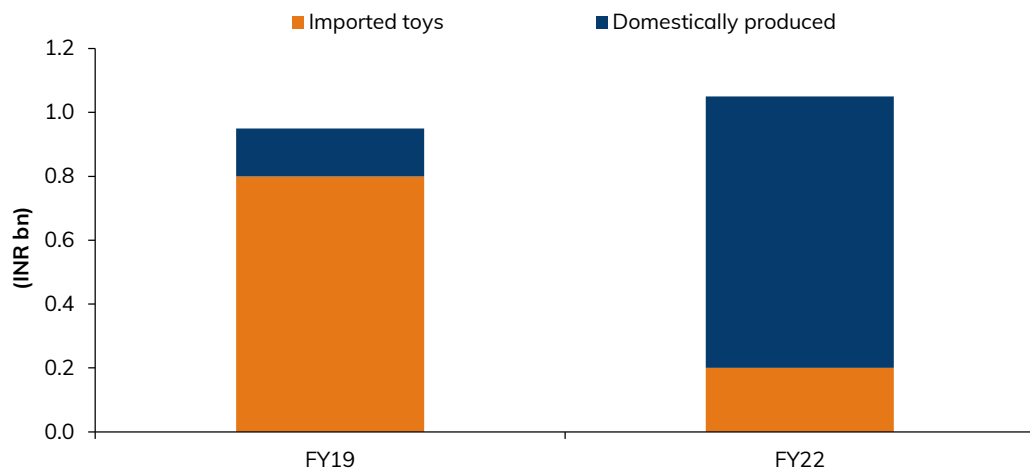
Exhibit 47: Market size for toys – Global (CY)



Source: Company RHP

Toys market – India – imported vs domestic manufacturing

The toys market in India is largely dependent on global imports with a small manufacturing footprint. Nearly 80% of toys were imported until FY19 and only the remaining 20% were manufactured in India.

Exhibit 48: Toys market – India (imports vs domestic)

Source: Company RHP

Toys industry – India - branded vs unbranded

Branded segment commands only 36% market share of the toys industry in India while 64% market share is still with the unbranded segment as of FY23. The unbranded segment is largely dominated by unorganised players (4,000+ micro, small and medium enterprises) located across the country.

Peer group comparison

Exhibit 49: Revenue

(INR mn)	FY21	FY22	FY23	CAGR (%)
DOMS	4,028	6,836	12,119	73.5%
Linc	2,587	3,550	4,868	37.2%
Flair	2,980	5,774	9,427	77.9%
Navneet	8,346	11,143	16,968	42.6%
Hindustan Pencils	4,886	7,703	-	-
Kokuyo Camlin	4,031	5,085	7,749	38.6%

Exhibit 51: EBIT

(INR mn)	FY21	FY22	FY23	CAGR (%)
DOMS	(47)	317	1,460	-
Linc	(25)	44	417	-
Flair	6	732	1,562	1,565.5%
Navneet	412	447	2,325	137.5%
Hindustan Pencils	(146)	33	-	-
Kokuyo Camlin	(96)	(12)	375	-

Exhibit 53: Gross margin

(%)	FY21	FY22	FY23
DOMS	39.1%	36.8%	37.0%
Linc	33.2%	33.1%	39.5%
Flair	44.2%	46.6%	46.0%
Navneet	52.4%	52.3%	50.1%
Hindustan Pencils	42.7%	38.7%	-
Kokuyo Camlin	41.4%	38.5%	37.0%

Exhibit 55: PAT margin

(%)	FY21	FY22	FY23
DOMS	-2.2%	2.1%	7.9%
Linc	0.0%	2.3%	7.7%
Flair	0.3%	9.6%	12.5%
Navneet	3.5%	2.7%	9.4%
Hindustan Pencils	-1.1%	0.9%	-
Kokuyo Camlin	-3.6%	-0.9%	3.2%

Exhibit 57: RoCE

(%)	FY21	FY22	FY23
DOMS	-2.5%	8.4%	33.4%
Linc	-1.5%	3.0%	25.7%
Flair	-	17.5%	31.4%
Navneet	3.8%	4.3%	18.4%
Hindustan Pencils	-4.6%	1.2%	-
Kokuyo Camlin	-2.8%	-0.4%	11.9%

Exhibit 50: EBITDA

(INR mn)	FY21	FY22	FY23	CAGR (%)
DOMS	300	697	1,867	149.3%
Linc	102	172	558	134.2%
Flair	230	976	1,835	182.5%
Navneet	883	944	2,905	81.4%
Hindustan Pencils	87	223	-	-
Kokuyo Camlin	88	165	544	148.0%

Exhibit 52: PAT

(INR mn)	FY21	FY22	FY23	CAGR (%)
DOMS	(90)	144	958	-
Linc	1	83	376	2,216.1%
Flair	10	552	1,182	993.3%
Navneet	288	306	1,587	134.6%
Hindustan Pencils	(54)	68	-	-
Kokuyo Camlin	(146)	(47)	244	-

Exhibit 54: EBITDA margin

(%)	FY21	FY22	FY23
DOMS	7.5%	10.2%	15.4%
Linc	3.9%	4.9%	11.5%
Flair	7.7%	16.9%	19.5%
Navneet	10.6%	8.5%	17.1%
Hindustan Pencils	1.8%	2.9%	-
Kokuyo Camlin	2.2%	3.2%	7.0%

Exhibit 56: RoE

(%)	FY21	FY22	FY23
DOMS	-8%	6%	33%
Linc	0.1%	6.0%	23.5%
Flair	-	19.1%	31.4%
Navneet	3.2%	3.3%	15.1%
Hindustan Pencils	-3.3%	4.2%	-
Kokuyo Camlin	-5.9%	-2.0%	9.7%

Exhibit 58: Net working capital days

(Days)	FY21	FY22	FY23
DOMS	85	60	28
Linc	88	65	54
Flair	88	45	33
Navneet	227	193	180
Hindustan Pencils	149	82	-
Kokuyo Camlin	120	97	70

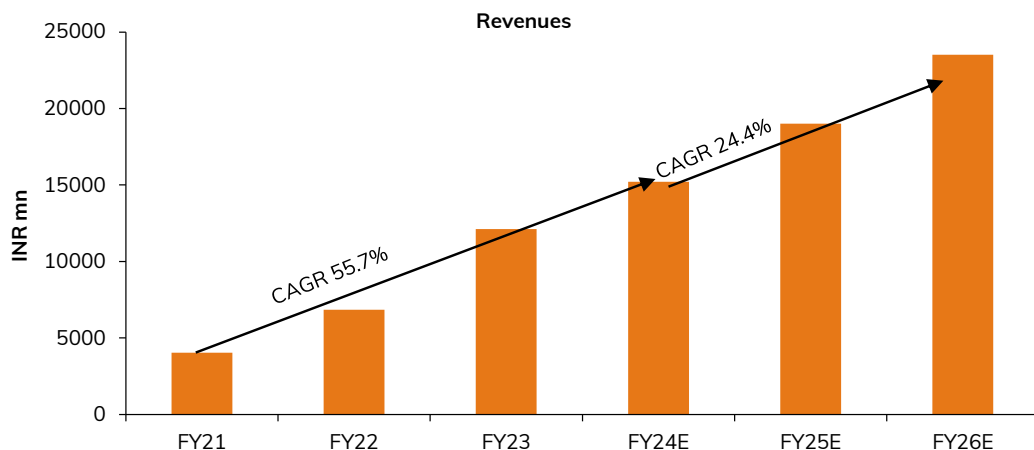
Source: Company data, I-Sec research

Financial overview

Revenue and growth rates

DOMS reported revenue growth of 77.3% YoY in FY23. We model the company to report a revenue CAGR of 24.4% over FY24-FY26E. We believe its key growth triggers are (1) higher capacity, (2) scaling of business operations in Southern and Eastern India, and (3) premium and differentiated launches.

Exhibit 59: Revenue and growth rates

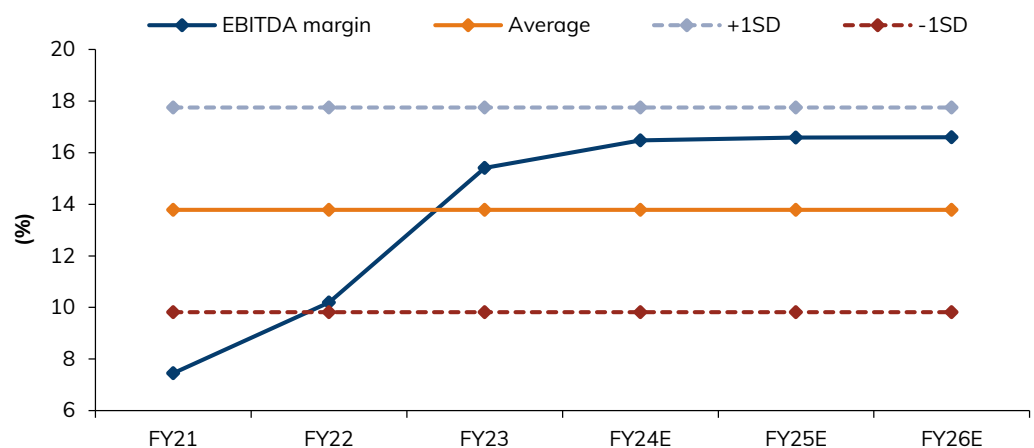


Source: Company data, I-Sec research

EBITDA margin to sustain at higher levels of 16%+

The company may benefit due to better product mix and correction in commodity prices. The cost-saving initiatives and operating leverage could also lead to better margins over FY24-26E.

Exhibit 60: EBITDA margin to remain strong

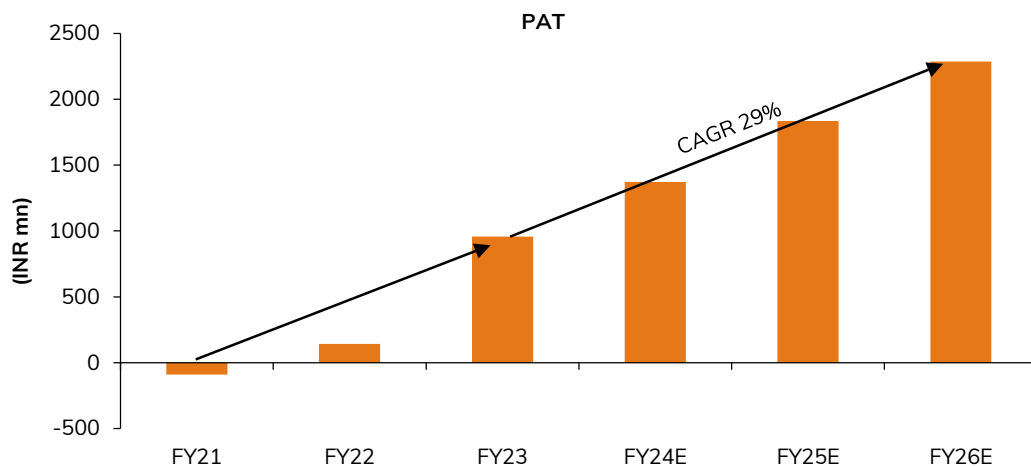


Source: Company data, I-Sec research

Strong PAT growth rates

We model PAT growth to remain strong led by strong revenue growth as well as improvement in EBITDA margin. We also model strong FCF generation on the balance sheet to result in higher other income leading to higher PAT growth than revenue/EBITDA growth. We model an effective tax rate of 25.5% over FY24-26E.

Exhibit 61: Net profit and growth rates

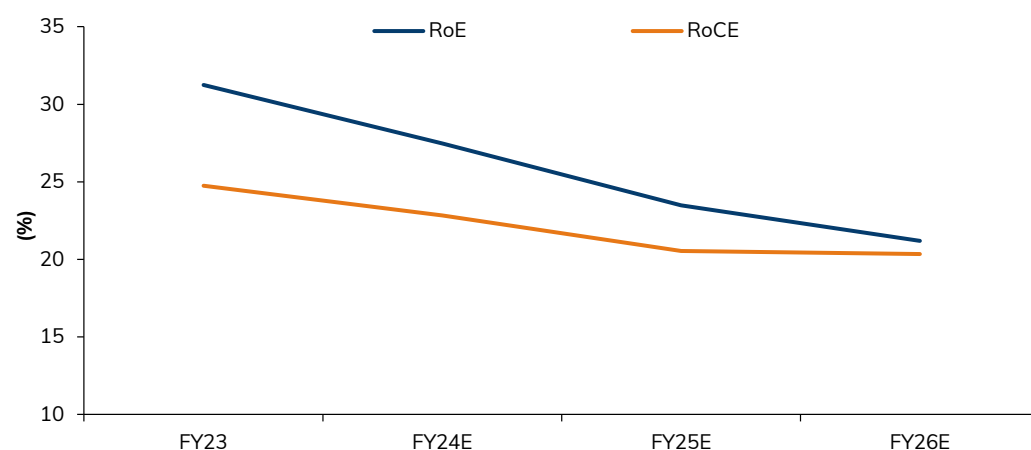


Source: Company data, I-Sec research

Return ratios > cost of capital

The return ratios are above the cost of capital. We model them to remain strong ahead, too, led by margin expansion. We expect return ratios to be above 20% over FY24-26E.

Exhibit 62: RoE and RoCE are above cost of capital

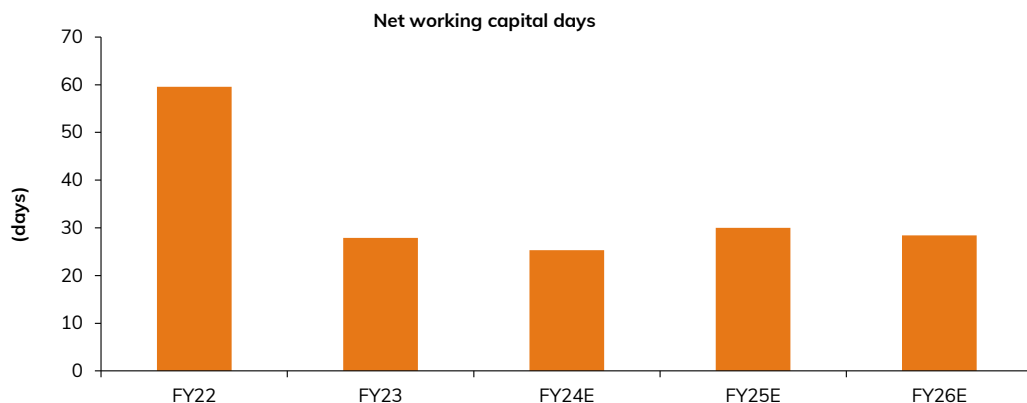


Source: Company data, I-Sec research

Net working capital days

The company has efficiently managed its working capital as the net working capital days are ~30. We model net working capital days to be in similar range going forward.

Exhibit 63: Net working capital days

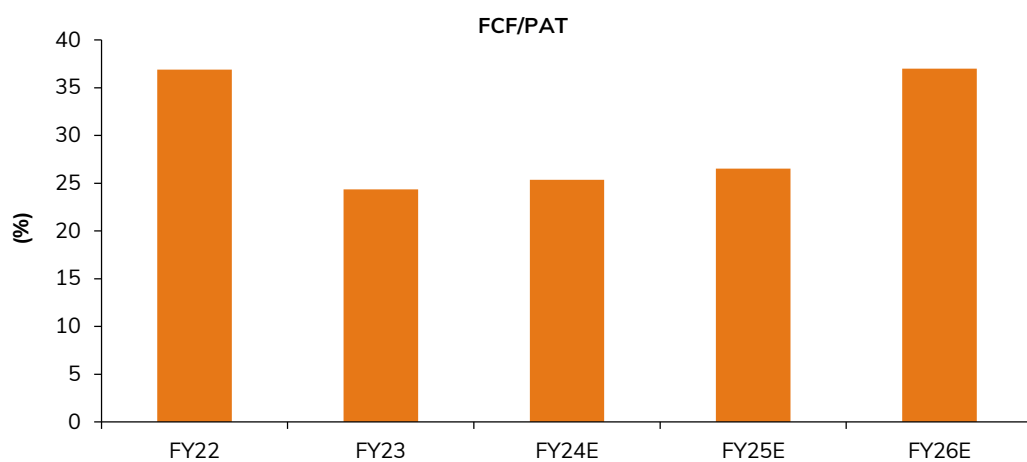


Source: Company data, I-Sec research

FCF generation remains strong

We model FCF/PAT to be more than 30% over FY25-26E led by strong earnings.

Exhibit 64: FCF generation remains strong



Source: Company data, I-Sec research

Key financials

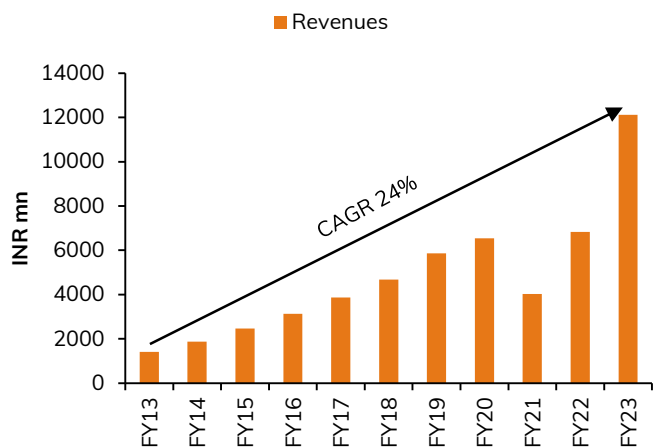
Exhibit 65: Key financials

INR mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,836	12,119	15,201	19,009	23,515
Growth (%)	69.7	77.3	25.4	25.1	23.7
Gross margin (%)	36.8	37.0	38.1	37.9	37.5
EBITDA	697	1,867	2,504	3,152	3,904
EBITDA margin (%)	10.2	15.4	16.5	16.6	16.6
PBT	240	1,388	1,938	2,577	3,195
PBT margin (%)	3.5	11.5	12.8	13.6	13.6
Tax rate (%)	28.7	25.9	25.5	25.5	25.5
PAT	144	958	1,373	1,834	2,286
PAT margin (%)	2.1	7.9	9.0	9.7	9.7
PAT growth (%)	-	567.2	43.3	33.6	24.6
Capex	(349)	(1,363)	(1,370)	(1,500)	(2,000)
Net Working capital days	60	28	25	30	28
Operating cash flow	410	1,605	1,736	2,009	2,880
Free cash flow	63	251	366	509	880
OCF/ EBITDA (%)	58.8	86.0	69.3	63.8	73.8

Source: Company data, I-Sec research

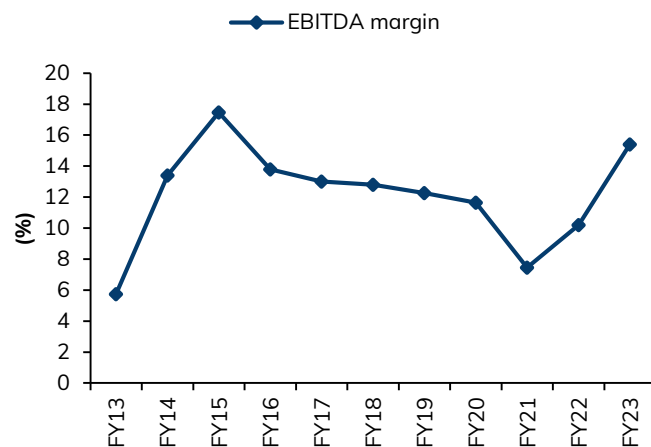
Key charts - Long-term financials

Exhibit 66: Revenue and revenue growth



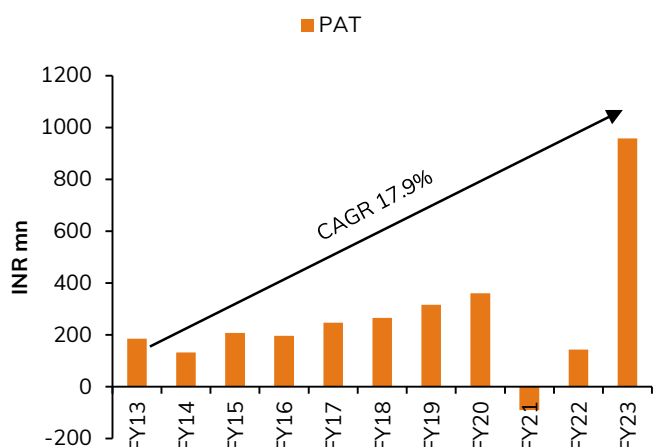
Source: Company data, I-Sec research

Exhibit 67: EBITDA margin



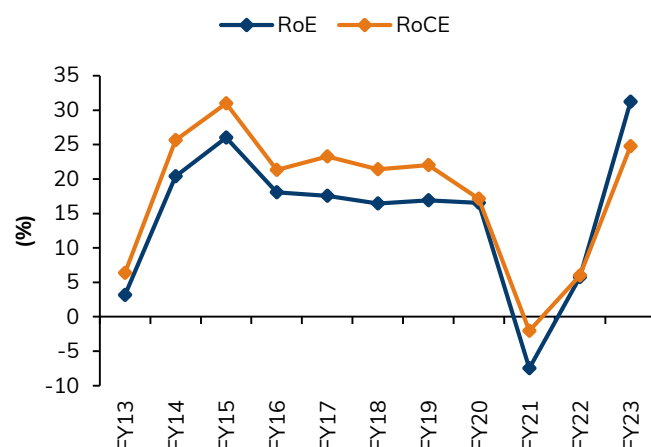
Source: Company data, I-Sec research

Exhibit 68: PAT and PAT growth



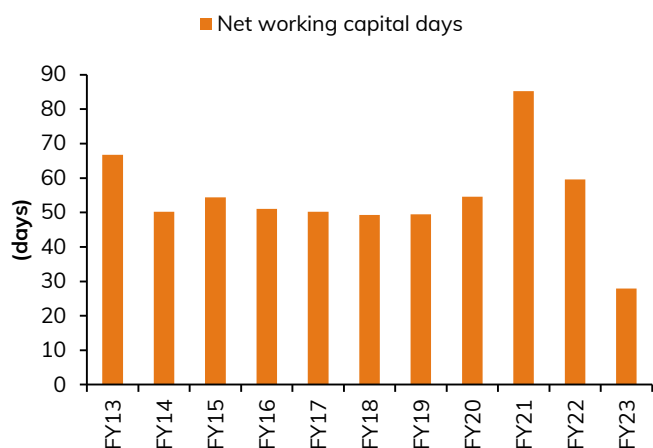
Source: Company data, I-Sec research

Exhibit 69: RoE and RoCE



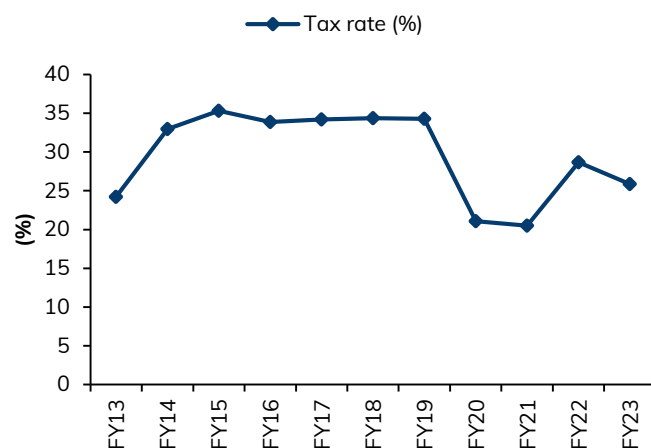
Source: Company data, I-Sec research

Exhibit 70: Net working capital days



Source: Company data, I-Sec research

Exhibit 71: Effective tax rate (%)



Source: Company data, I-Sec research

Valuations and key risks

DCF valuation

We have valued the company as per DCF methodology. We model the company to generate revenue and PAT CAGRs of 24.4% and 29%, respectively, over FY24-26E. We also model the return ratios to remain above 20%+ over FY24-26E. At our DCF-based target price of INR 1,825, implied P/E on FY26E earnings works out to 48x.

Exhibit 72: DCF valuation

Particulars	
Cost of Equity (%)	10.6%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	17,438
Discounted terminal value (INR mn)	93,319
Total equity value (INR mn)	1,10,757
Value per share (INR)	1,825

Source: Company data, I-Sec research

EVA creation and FCF generation

DOMS has been generating EVA since FY14-24. We note strong profitability and growth have helped it generate strong EVA. It has been investing the operating cashflow in capex. We note as incremental investments are also generating return ratios above the cost of capital (i.e. > 11%), EVA creation track record may remain strong.

Exhibit 73: EVA creation and FCF generation

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
RoE (%) [A]	3.1	20.4	26.0	18.1	17.5	16.4	16.9	16.6	(7.5)	5.7	31.2
Cost of Capital (%) [B]	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Net Worth (INR mn) [C]	587	712	881	1,296	1,519	1,780	2,048	2,408	2,336	2,472	3,374
EVA creation (INR mn) [(A-B)*C]	(44)	70	135	97	105	104	129	143	(422)	(120)	696
FCF (INR mn)	(88)	59	(74)	(38)	72	(144)	25	(223)	(87)	104	327

Source: Company data, I-Sec research

Peer group comparison

Exhibit 74: Peer group comparison

Company	CMP (INR)	RoE (%) FY25E	RoCE (%) FY25E	CAGR FY24-26E (%)			P/E (x)	
				Revenues	EBITDA	Adj. PAT	FY25E	FY26E
DOMS Industries	1,558	24.0	27.6	24.4%	24.9%	29.0%	51.6	41.4
Navneet	138	15.7	-	11.1%	23.2%	39.3%	14.4	12.4

Source: I-Sec estimates for DOMS; Bloomberg for Navneet

Key risks

- Higher dependence on key products like pencils and mathematical instrument boxes could increase product concentration risk. Any impact of businesses on these products may impact the company's earnings estimates.
- The company is dependent on its global partner for exports. Any discontinuation of agreement between both the parties may impact the company's earnings estimates.
- Any technological and innovation change in the industry that may not be well adopted by the company may impact its earnings estimates.
- Steep increase in commodity prices and competitive pressures.

Business and management

In 1973, the founders of the group, late Rasiklal Amritlal Raveshia and late Mansukhlal Jamnadas Rajani, formed a partnership firm named 'R. R. Industries'. In 2012, DOMS and FILA, an Italian company entered into a strategic partnership.

The company primarily operates via its flagship brand DOMS along with rural-specific brand C3. It has 13 manufacturing plants and presence in 1,22,500 retail outlets as of Dec'23.

Exhibit 75: Timeline of DOMS' business operations

Calendar Year	Particulars
1973	Late Rasiklal Amritlal Raveshia and late Mansukhlal Jamnadas Rajani formed R. R. Industries
2006	Started operations under brand name DOMS
2011	Acquired partnership firm S.Tech Industries and R.R Industries
2012	FILA acquired 18.5% stake in the company
2015	Acquired 49% stake in Pioneer Stationery (later increased to 51%)
2015	FILA acquired additional 32.5% stake in the company
2016	Acquired 35% stake in Uniwrite Pens and Plastics (later increased to 60%)
2023	Acquired 30% and 75% stake in ClapJoy and Micro Wood respectively
2023	IPO

Source: Company data, I-Sec research

Exhibit 76: Key managerial personnel

Person	Role
Gianmatteo Terruzzi	Chairman and Independent Director
Santosh Rasiklal Raveshia	Managing Director and Individual Promoter
Sanjay Mansukhlal Rajani	Whole Time Director and Individual Promoter
Ketan Mansukhlal Rajani	Whole Time Director and Individual Promoter
Chandni Vijay Somaiya	Whole Time Director and Individual Promoter
Massimo Candela	Non-Executive Director
Luca Pelosin	Non-Executive Director
Annalisa Matilde Elena Barbera	Non-Executive Director
Cristian Nicoletti	Non-Executive Director
Rajiv Ishwarbhai Mistry	Independent Director
Mehul Shah	Independent Director
Darshika Thacker	Independent Director
Harshad Raveshia	Chief Consultant
Suresh Rajani	Chief Consultant
Amarjeet Sharma	Chief Consultant
Sumit Rajani	Vice President - Colour Pencil and Graphite Lead
Vijay Somaiya	Head - Polymer division
Suraj Raveshia	Vice President - International business
Purav Raveshia	Vice President - Product Development
Santosh Swain	Vice President - Purchase and General Affairs
Rahul Shah	Chief Financial Officer
Mitesh Padia	Company Secretary and Compliance Officer

Source: Company data, I-Sec research

About key shareholder - FILA

Fabbrica Italiana Lapis ed Affini (FILA) is a worldwide leader in global stationery and art material industry. It was incorporated in 1920 in Florence, Italy. The company is managed by Candela family since 1956.

Exhibit 77: FILA's geographical presence

Particular	Details (Count)
Continents	5
Countries	150+
Branches	35
Specialised factories	22
Product categories	20+
Employees	8,000+

Source: Company data, I-Sec research

The company has registered strong growth over the last two decades and has made multiple strategic acquisitions, including the Italian Adica Pongo, the US Dixon Ticonderoga Company and Pacon Group, the German LYRA, the Mexican Lapiceria Mexicana, the English Daler-Rowney Lukas and the French Canson.

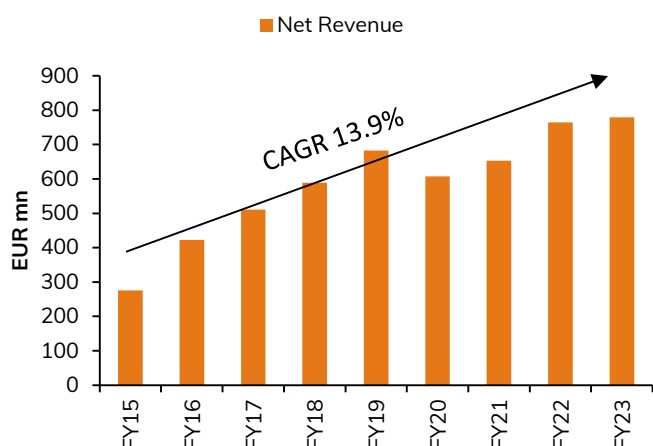
Thrust on technological and product innovation has led the company to achieve strong brand name in global stationery market. FILA is highly regarded in global stationery market for its colouring, drawing, modelling, writing and painting tools.

Exhibit 78: FILA's distinguished brands

Brand name	Year of inception	Details
Giotto	1923	For drawing and colouring instruments
Giotto be-be	2004	For children <2 years
Tratto	1970	For writing, highlighting and marking instruments
Pongo	1964	For coloured wax and modelling instruments
Dido	1984	For modelling clay
Maimeri	1923	For painting and drawing instruments
Lyra	1806	For high quality pencils and crayons
Arches	1492	For high-end paper products
Canson	1557	For high quality paper products

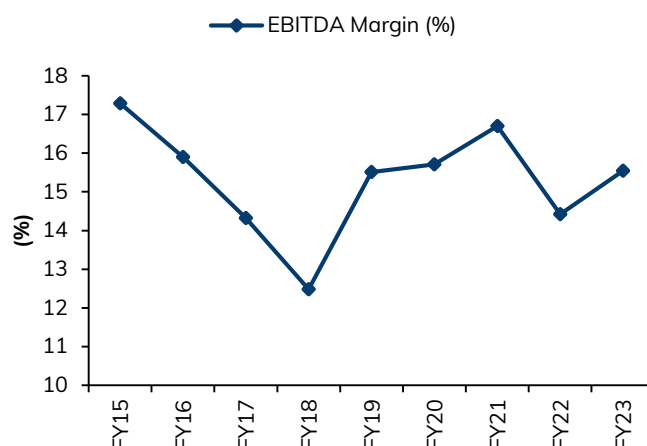
Source: Company data, I-Sec research

Exhibit 79: Revenue and revenue growth

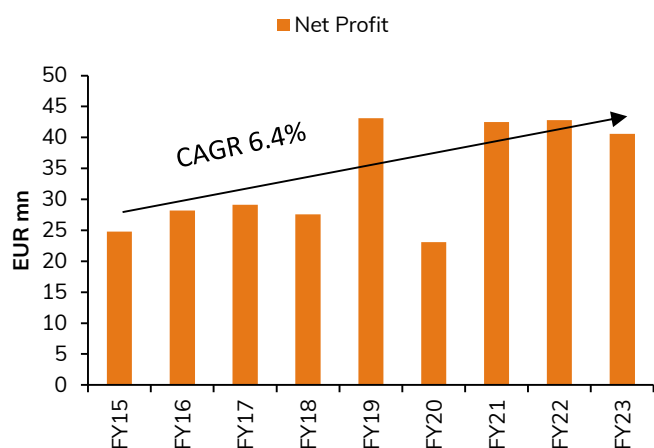


Source: Company data, I-Sec research

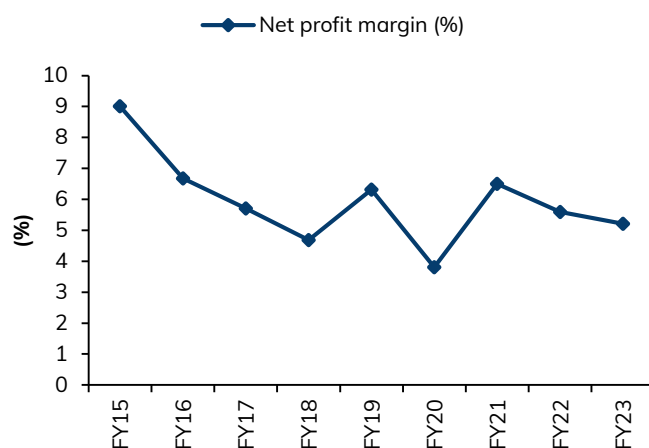
Exhibit 80: EBITDA margin



Source: Company data, I-Sec research

Exhibit 81: PAT and PAT growth

Source: Company data, I-Sec research

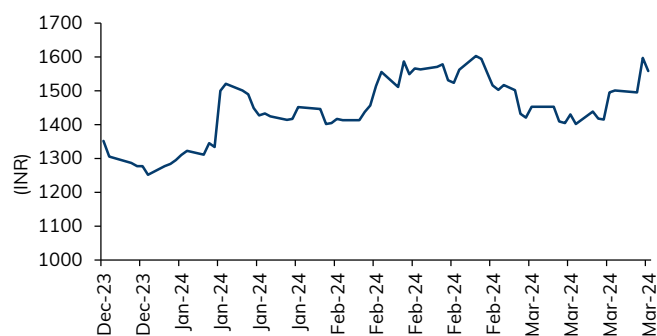
Exhibit 82: Net profit margin

Source: Company data, I-Sec research

Exhibit 83: Shareholding pattern

%	Dec'23
Promoters	75.0
Institutional investors	21.4
MFs and other	12.4
Banks/ FIs	0.2
Insurance Cos.	1.9
FIIIs	6.9
Others	3.6

Source: Bloomberg, I-Sec research

Exhibit 84: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 85: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	12,119	15,201	19,009	23,515
Operating Expenses	10,252	12,697	15,857	19,611
EBITDA	1,867	2,504	3,152	3,904
EBITDA Margin (%)	15.4	16.5	16.6	16.6
Depreciation & Amortization	407	492	681	865
EBIT	1,460	2,012	2,471	3,039
Interest expenditure	119	157	114	34
Other Non-operating Income	46	83	221	190
Recurring PBT	1,388	1,938	2,577	3,195
Profit / (Loss) from Associates	0	-	-	-
Less: Taxes	359	494	657	815
PAT	1,029	1,444	1,920	2,380
Less: Minority Interest	71	71	86	94
Extraordinaries (Net)	0	-	-	-
Net Income (Reported)	958	1,373	1,834	2,286
Net Income (Adjusted)	958	1,373	1,834	2,286

Source Company data, I-Sec research

Exhibit 86: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	2,794	4,906	6,097	8,307
of which cash & cash eqv.	417	1,997	2,216	3,607
Total Current Liabilities & Provisions	1,450	1,854	2,319	2,869
Net Current Assets	1,344	3,052	3,778	5,438
Investments	302	952	952	952
Net Fixed Assets	3,182	4,129	4,948	6,084
ROU Assets	-	-	-	-
Capital Work-in-Progress	69	-	-	-
Total Intangible Assets	20	20	20	20
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	4,916	8,153	9,698	12,494
Liabilities				
Borrowings	1,395	1,745	545	145
Deferred Tax Liability	(32)	(32)	(32)	(32)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	4	607	607	607
Reserves & Surplus	3,371	5,654	8,399	11,595
Total Net Worth	3,374	6,261	9,006	12,202
Minority Interest	179	179	179	179
Total Liabilities	4,916	8,153	9,698	12,494

Source Company data, I-Sec research

Exhibit 87: Quarterly trend

(INR mn, year ending March)

	Mar-22	Jun-23	Sep-23	Dec-23
Net Sales	-	-	3,824	3,716
% growth (YOY)	-	-	-	22.3
EBITDA	-	-	652	693
Margin %	-	-	17.1	18.7
Other Income	-	-	12	20
Extraordinaries	-	-	(7)	(4)
Adjusted Net Profit	-	-	376	388

Source Company data, I-Sec research

Exhibit 88: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	1,605	1,736	2,009	2,880
Working Capital Changes	154	(129)	(506)	(270)
Capital Commitments	(1,354)	(1,370)	(1,500)	(2,000)
Free Cashflow	251	366	509	880
Other investing cashflow	(17)	(650)	-	-
Cashflow from Investing Activities	(1,371)	(2,020)	(1,500)	(2,000)
Issue of Share Capital	-	603	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	72	350	(1,200)	(400)
Dividend paid	(56)	910	910	910
Others	-	-	-	-
Cash flow from Financing Activities	16	1,863	(290)	510
Chg. in Cash & Bank balance	250	1,580	220	1,391
Closing cash & balance	343	1,997	2,216	3,607

Source Company data, I-Sec research

Exhibit 89: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	15.8	22.6	30.2	37.7
Adjusted EPS (Diluted)	15.8	22.6	30.2	37.7
Cash EPS	22.5	30.7	41.4	51.9
Dividend per share (DPS)	0.9	(15.0)	(15.0)	(15.0)
Book Value per share (BV)	55.6	103.2	148.4	201.1
Dividend Payout (%)	5.8	(66.3)	(49.6)	(39.8)
Growth (%)				
Net Sales	77.3	25.4	25.1	23.7
EBITDA	167.8	34.1	25.9	23.9
EPS (INR)	567.2	43.3	33.6	24.6
Valuation Ratios (x)				
P/E	99.2	69.2	51.8	41.6
P/CEPS	69.6	51.0	37.8	30.2
P/BV	28.2	15.2	10.6	7.8
EV / EBITDA	51.0	37.3	29.2	23.1
P / Sales	7.8	6.2	5.0	4.0
Dividend Yield (%)	0.1	(1.0)	(1.0)	(1.0)
Operating Ratios				
Gross Profit Margins (%)	37.0	38.1	37.8	37.5
EBITDA Margins (%)	15.4	16.5	16.6	16.6
Effective Tax Rate (%)	25.9	25.5	25.5	25.5
Net Profit Margins (%)	7.9	9.0	9.7	9.7
NWC / Total Assets (%)	27.3	37.4	39.0	43.5
Net Debt / Equity (x)	0.2	(0.2)	(0.3)	(0.4)
Net Debt / EBITDA (x)	0.4	(0.5)	(0.8)	(1.1)
Profitability Ratios				
RoCE (%)	24.7	22.8	20.5	20.3
RoE (%)	31.2	27.5	23.5	21.2
RoIC (%)	24.7	22.8	20.5	20.3
Fixed Asset Turnover (x)	3.3	3.0	2.9	2.9
Inventory Turnover Days	71	61	65	64
Receivables Days	14	12	14	14
Payables Days	54	49	49	48

Source Company data, I-Sec research

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