

10 June 2024

India | Equity Research | Company Update

DOMS Industries

Stationery

Portfolio approach working well; Likely beneficiary of populist measures (if any)

We highlight, DOMS' portfolio approach as one of its key competitive advantages. The consumer requirements keep evolving as students ascend their educational trajectory. Education at the pre-primary and primary levels necessitate the usage of pencils, small notebooks and oil pastels; later, the usage of pens, long note-books and water colours increases as students move up the ladder. Since, DOMS has developed a large product portfolio, the company is able to cater to the evolving needs of its consumers. Also, when we pit DOMS' product portfolio against different companies, DOMS emerges on top with the largest portfolio, in our view. With likely increase in populist measures (if any), DOMS is likely to benefit as it has a large portfolio of products with MRP less than INR 10. We believe any additional rural spends may also result in higher market shares for DOMS.

Separately, DOMS' acquisition strategy is also allowing the company to expand its addressable market. We model Skido (bags) and Clapjoy (toys) acquisitions to emerge as growth drivers in FY26 and beyond. Maintain **BUY**.

Portfolio approach working well

While most stationery companies have reported revenue CAGR in mid-high single-digits, DOMS has reported revenue CAGR of 23.4% and has also gained market share over the past ten years. While strong investments in brand-building, distribution and manufacturing have helped gain market share, we note, DOMS' portfolio approach has also allowed it to gain shares from others.

Changing needs of consumers

Students in kindergarten use oil pastels, pencils and smaller notebooks; whereas kids in primary schools use sketch pens and pens. The usage of pens, water colours and larger books increases as students move up to higher levels. Thus, the consumer's needs continuously evolve. DOMS is able to cater to the different requirements of these consumers via its large/established portfolio. We believe large product portfolio strategy has helped it gain market share.

Likely beneficiary of increase in populist measures (if any)

We believe DOMS is likely to be a net beneficiary if populist measures are pushed forth. If spends increase in rural markets, or if net income in the hands of the urban poor increases, there may be a boost in the consumption of small-ticket items such as stationery products. This may also drive premiumisation and enable DOMS to gain share from smaller/unorganised players.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	12,119	15,371	19,524	24,166
EBITDA	1,867	2,727	3,403	4,278
EBITDA Margin (%)	15.4	17.7	17.4	17.7
Net Profit	958	1,531	2,070	2,521
EPS (INR)	15.8	25.2	34.1	41.5
EPS % Chg YoY	567.2	59.8	35.2	21.8
P/E (x)	120.4	75.3	55.7	45.8
EV/EBITDA (x)	62.2	41.7	33.4	26.5
RoCE (%)	24.7	21.8	19.8	22.8
RoE (%)	31.2	25.6	23.0	24.3

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Market Data

Market Cap (INR)	115bn
Market Cap (USD)	1,382mn
Bloomberg Code	DOMS IN Equity
Reuters Code	DOMS.BO
52-week Range (INR)	2,035 /1,224
Free Float (%)	25.0
ADTV-3M (mn) (USD)	3.2

Price Performance (%)	3m	6m	12m
Absolute	31.1	0.0	0.0
Relative to Sensex	27.6	0.0	0.0

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Strategy of acquisitions

DOMS has diversified its business by entering adjacent categories. In addition to ClapJoy (toys), the company acquired majority stake in Skido (school bag and pouches manufacturer). Acquisitions into allied categories should help DOMS tap into a larger addressable market.

Valuation and key risks

We model DOMS to report revenue and PAT CAGRs of 25.4% and 28.3%, respectively, over FY24–26E. We also model return ratios to be >20% over FY24–26E. We maintain **BUY** on DOMS with a DCF-based revised target price of INR 2,250 (earlier TP: 2,100; implied P/E of 54x FY26E).

Key risks: Steep increase in competitive pressures; raw material prices; and failure of key new product launches.

Exhibit 1: Presence across multiple sub-segments

Player	Note books	Papers	Pens	Pencils	Marker and Highlighters	Technical Instruments	Office Supplies	Basic Arts	Fine Arts	Eraser	Sharpener	Adhesives	Others
DOMS	P		P	P	P	P	P	P	P	P	P	P	P
Kokuyo Camlin			P	P	P	P	P	P	P	P	P	P	
Hindustan Pencils			P	P		P		P		P	P		P
Navneet	P	P		P		P		P	P	P	P	P	P
Luxor	P		P		P			P					P
Linc			P	P	P	P		P		P	P		P
Flair			P	P	P	P		P		P	P	P	P
Rorito	P		P	P	P			P					
BIC Cello			P	P	P	P		P		P	P		
ITC Stationery	P	P	P	P		P		P		P	P		P
Kangaroo							P						

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.

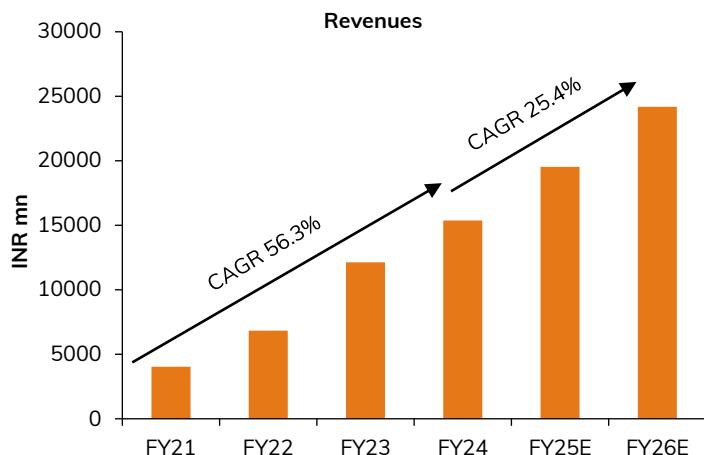
Exhibit 2: Product requirements across educational standards

Educational standards	Product requirements
Pre-primary	Chalk, Pencils, Colour pencils, Small note-books
Primary	Oil pastels, Pencils, Small books
Secondary	Drawing books, Graph books, Pens, Sketch pens
Higher Secondary	Water colour, Poster colour, Long note-books, Mathematical instrument box
Junior College	Pens, Long note-books, Mathematical instrument box
Senior College	Pens, long note-books, calculators

Source: Company data, I-Sec research

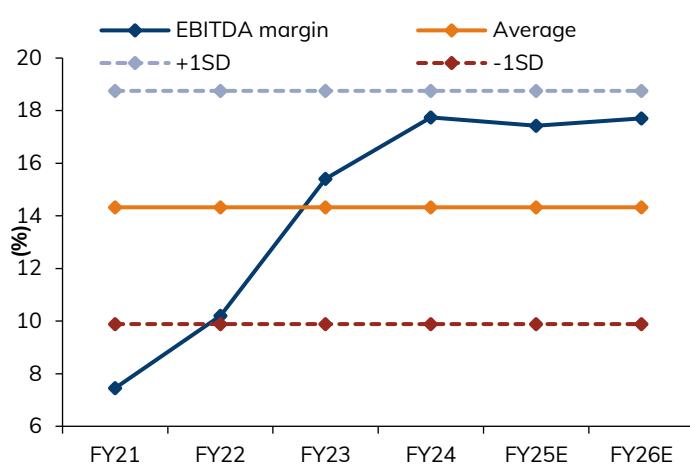
Key charts – annual

Exhibit 3: Revenue and growth rates



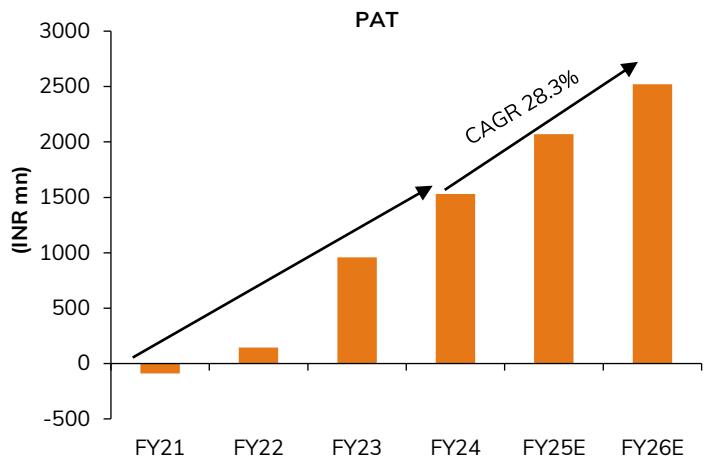
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin



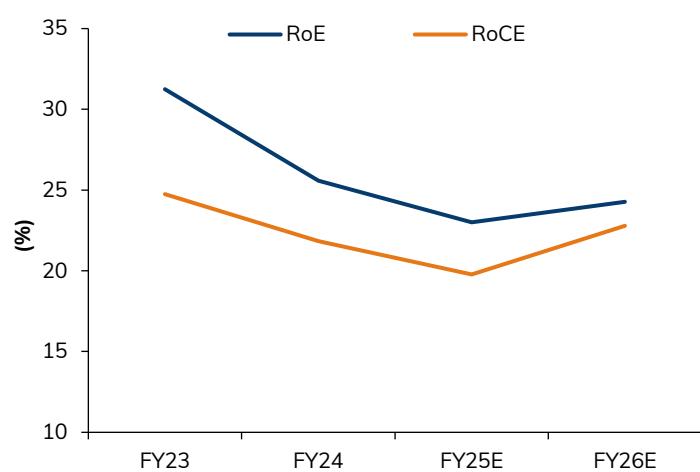
Source: Company data, I-Sec research

Exhibit 5: Net profit and growth rates



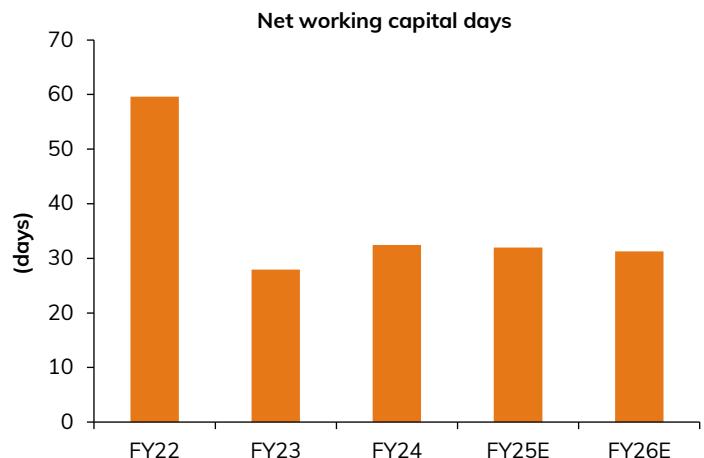
Source: I-Sec research, Company data

Exhibit 6: RoE and RoCE



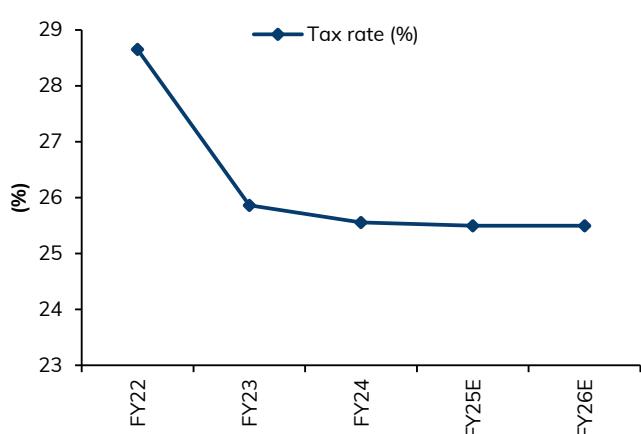
Source: I-Sec research, Company data

Exhibit 7: Net working capital days



Source: Company data, I-Sec research

Exhibit 8: Tax rate



Source: Company data, I-Sec research

Valuation and risks

We model DOMS to report revenue and PAT CAGRs of 25.4% and 28.3% over FY24-FY26E and return ratios to be upwards of 20% in FY26E. On our DCF-based revised target price of INR 2,250 (earlier TP: INR 2,100), implied P/E works out to 54x FY26E EPS. Maintain **BUY**.

Exhibit 9: DCF-based valuation

Particulars	
Cost of Equity (%)	10.8%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	39,366
Discounted terminal value (INR mn)	97,183
Total equity value (INR mn)	1,36,549
Value per share (INR)	2,250

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and higher-than-expected competitive pressures
 Increase in input prices and/or higher-than-expected competitive pressures could result in downside to our estimates.

Failure of some new launches

Failure of some new products may impact our earnings estimates.

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24
Promoters	75.0	75.0
Institutional investors	21.4	22.5
MFs and other	12.4	14.1
Banks/ FIIs	0.2	0.0
Insurance Cos.	1.9	2.0
FIIs	6.9	6.4
Others	3.6	2.5

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	12,119	15,371	19,524	24,166
Operating Expenses	10,252	12,644	16,121	19,888
EBITDA	1,867	2,727	3,403	4,278
EBITDA Margin (%)	15.4	17.7	17.4	17.7
Depreciation & Amortization	407	512	686	874
EBIT	1,460	2,215	2,717	3,404
Interest expenditure	119	171	124	74
Other Non-operating Income	46	101	300	180
Recurring PBT	1,388	2,145	2,893	3,510
Profit / (Loss) from Associates	0	0	-	-
Less: Taxes	359	548	738	895
PAT	1,029	1,597	2,156	2,615
Less: Minority Interest	71	65	86	94
Extraordinaries (Net)	0	(15)	-	-
Net Income (Reported)	958	1,516	2,070	2,521
Net Income (Adjusted)	958	1,531	2,070	2,521

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,794	6,165	4,977	4,986
of which cash & cash eqv.	417	3,059	1,059	186
Total Current Liabilities & Provisions	1,450	1,740	2,206	2,731
Net Current Assets	1,344	4,425	2,771	2,255
Investments	302	445	1,445	2,445
Net Fixed Assets	3,182	4,358	5,426	6,552
ROU Assets	-	-	-	-
Capital Work-in-Progress	69	254	-	-
Total Intangible Assets	20	624	624	624
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	4,916	10,106	10,265	11,876
Liabilities				
Borrowings	1,395	1,738	738	738
Deferred Tax Liability	(32)	(54)	(54)	(54)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	4	607	607	607
Reserves & Surplus	3,371	7,537	8,697	10,307
Total Net Worth	3,374	8,144	9,304	10,914
Minority Interest	179	278	278	278
Total Liabilities	4,916	10,106	10,265	11,876

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	-	3,824	3,716	4,037
% growth (YoY)	-	-	22.3	20.0
EBITDA	-	652	693	759
Margin %	-	17.1	18.7	18.8
Other Income	-	12	20	57
Extraordinaries	-	(7)	(4)	1
Adjusted Net Profit	-	361	373	451

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,605	1,531	2,411	3,037
Working Capital Changes	154	(289)	(345)	(357)
Capital Commitments	(1,354)	(1,532)	(1,500)	(2,000)
Free Cashflow	251	(705)	911	1,037
Other investing cashflow	(17)	(3,061)	(1,000)	(1,000)
Cashflow from Investing Activities	(1,371)	(4,593)	(2,500)	(3,000)
Issue of Share Capital	-	3,500	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	72	(124)	(1,000)	-
Dividend paid	(56)	(93)	(910)	(910)
Others	-	-	-	-
Cash flow from Financing Activities	16	3,283	(1,910)	(910)
Chg. in Cash & Bank balance	250	222	(2,000)	(873)
Closing cash & balance	343	564	1,059	186

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	15.8	25.2	34.1	41.5
Adjusted EPS (Diluted)	15.8	25.2	34.1	41.5
Cash EPS	22.5	33.7	45.4	55.9
Dividend per share (DPS)	0.9	1.5	15.0	15.0
Book Value per share (BV)	55.6	134.2	153.3	179.8
Dividend Payout (%)	5.8	6.1	44.0	36.1
Growth (%)				
Net Sales	77.3	26.8	27.0	23.8
EBITDA	167.8	46.1	24.8	25.7
EPS (INR)	567.2	59.8	35.2	21.8
Valuation Ratios (x)				
P/E	120.4	75.3	55.7	45.8
P/CEPS	84.5	56.4	41.9	34.0
P/BV	34.2	14.2	12.4	10.6
EV / EBITDA	62.2	41.7	33.4	26.5
P / Sales	9.5	7.5	5.9	4.8
Dividend Yield (%)	0.0	0.1	0.8	0.8
Operating Ratios				
Gross Profit Margins (%)	37.0	41.9	41.0	41.0
EBITDA Margins (%)	15.4	17.7	17.4	17.7
Effective Tax Rate (%)	25.9	25.6	25.5	25.5
Net Profit Margins (%)	7.9	10.0	10.6	10.4
NWC / Total Assets (%)	27.3	43.8	27.0	19.0
Net Debt / Equity (x)	0.2	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	0.4	(0.6)	(0.5)	(0.4)
Profitability Ratios				
RoCE (%)	24.7	21.8	19.8	22.8
RoE (%)	31.2	25.6	23.0	24.3
RoIC (%)	28.3	30.3	28.0	29.6
Fixed Asset Turnover (x)	3.3	3.0	2.8	2.8
Inventory Turnover Days	71	60	61	61
Receivables Days	14	17	16	16
Payables Days	54	45	45	44

Source Company data, I-Sec research

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