

28 June 2024

DOMS Industries Ltd – BUY

CMP : Rs. 2,013
Target Price : Rs. 2,415
Upside : 20%
Stop Loss : Rs. 1,772 (Closing basis)

Investment Thesis

- DOMS Industries (DOMS), the 2nd largest branded stationery and art products player, has a wide array of product offerings of >4,000 SKUs across seven broad product categories – i) Scholastic Stationery, ii) Scholastic Art materials, iii) Paper Stationery, iv) Kits and Combos, v) Office supplies, vi) Hobby and Craft, and vii) Fine Art products.
- Due to such a diversified product portfolio, DOMS is insulated from product concentration risk unlike other players in the industry who have a higher skew towards a single product category.
- The Sketch pens segment has gained traction lately where its contribution to sales is ~9% as of FY24 (up from ~6% in FY23), on the back of innovations in the product (Anti-push technology, which prevents the tip from recoiling despite excessive usage). DOMS has also made capacity additions for the product segment which will further aid segment growth.
- DOMS is increasing its focus on expanding capacity in Writing Instruments segment where it has recently added 1,00,000 Sq.ft. manufacturing capacity and is expected to add another 1,00,000 Sq.ft. in the coming quarter. DOMS has also introduced newer SKUs at lower price points of Rs. 5 and Rs. 10 targeting school kids. This aligns well with its aim of expanding its presence at a PAN India level.
- Maintaining its diversification strategy, DOMS has entered into adjacent categories by acquiring stake in Clap Joy in the toys segment and Skido in the school bags and pouches segment. This move of DOMS will significantly increase its TAM (total addressable market).
- DOMS has also made a strategic partnership with FILA (stationery/art material company) helping it to access global products and markets along with augmenting its R&D capabilities. The partnership has enabled DOMS to introduce an India-adapted version of FILA's products.

Financials

- DOMS reported stellar revenue growth of 26.8% YoY at Rs. 1,537 Cr for FY24. EBITDA came in at Rs. 283 Cr (up by 47.4% YoY) while the EBITDA margin expanded by 260bps at 18.4% on account of higher ASPs, lower input costs and operational efficiencies. PAT for FY24 grew by 55.3% to Rs. 160 Cr.

Particulars	FY21	FY22	FY23	FY24	FY25E
Revenue (Rs in Crs)	405	684	1,212	1,537	1,875
EBITDA (Rs in Crs)	30	73	192	283	300
Adj. PAT (Rs in Crs)	(4)	17	103	160	150
Adj. EPS (Rs.)	(184.2)	385.0	2,527.0	25.23	24.71
PE Multiple (x)	(10.9x)	5.2x	0.8x	79.4x	81.1x
RoE (%)	(2%)	7%	31%	21%	17%

Stock Data

Market Cap (Rs. Crs)	12,225
Market Cap (\$ Mn)	1,465.0
Shares O/S (in Mn)	60.7
Avg. Volume (3 month)	1,52,460
52-Week Range (Rs.)	2,134 / 1,224

Shareholding Pattern

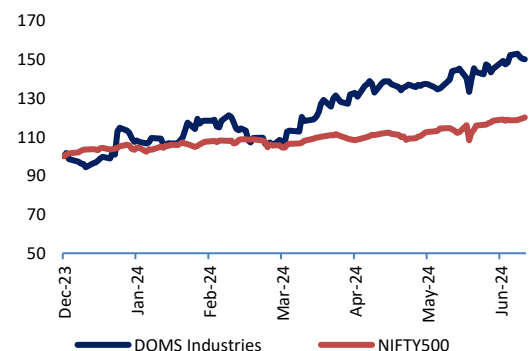
Promoters	74.95%
FII's	5.86%
Institutions	16.63%
Public	2.55%

Key Ratios

Div Yield	0.00%
TTM PE	79.4x
ROE	26.6%
TTM EPS (Rs.)	25.23

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.3%	55.9%	NA
NIFTY500	5.4%	16.8%	NA



- Revenue from operations for Q4FY24 grew by 20% to Rs. 403.7 Cr. EBITDA grew by 226% to Rs. 75.9 Cr. PAT improved by 29.6% to Rs. 46.9 Cr.
- Product category-wise revenue contribution in FY24 for Scholastic Stationery / Scholastic Art materials / Paper Stationery / Kits and Combos / Office supplies / Hobby and Craft / Fine Art products have increased YoY by (2%) / 3% / 0% / (1%) / 1% / 0% / 0% respectively. The segment-wise contribution now stands at - Scholastic Stationery – 45%, Scholastic Art materials – 27%, Paper Stationery – 9%, Kits and Combos – 10%, Office supplies – 7%, Hobby & Craft – 1%, and Fine Art products – 1%.

Key Business Highlights

- Incorporated in 2006, DOMS Industries Limited is a stationery and art product company primarily engaged in designing, developing, manufacturing, and selling a wide range of these products under the flagship brand, DOMS.
- DOMS is the 2nd largest player in India's branded 'stationery and art' products market. It held 29% and 30% market share, respectively, in FY23 for its core products for pencils and mathematical instrument boxes.
- Company's products are marketed under their flagship brand '**DOMS** along with other sub-brands including '**C3**', '**Amariz**', and '**Fixyfix**'. While 'wooden pencils' are their largest product in terms of revenue, contributing 31.66% of their income.
- DOMS operates 14 manufacturing facilities spread over ~37 acres in Umbergaon and 2 acres in Jammu, covering 1.40 MSF, and is one of the largest stationery manufacturing facilities in India.
- DOMS' domestic distribution network for general trade comprises over 120+ super-stockists and 4,300 distributors, and a dedicated sales team of over 625+ personnel covering more than 122,500 retail touch points over 3,500+ cities and towns.
- DOMS has an exclusive tie-up with certain entities of the FILA Group, for distribution and marketing for all categories of their respective products, under their name and trademark, in India, Nepal, Bhutan, Sri Lanka, Bangladesh, Myanmar, and Maldives.
- DOMS has a balanced regional mix with the highest presence in North (32%), followed by West (31%), East (19%) and South (18%).

Valuation

We are positive on DOMS on account of diverse product portfolio coupled with adequate capex plans in the writing segment and glassware segment. The recent acquisitions of Clap Joy and Skido through which DOMS is venturing into adjacent product segments, gives us confidence regarding the growth potential of the company supported by tailwinds in the Stationery industry.

DOMS is currently trading at a PE of 80x, significantly higher than its industry PE of 27x indicating premium valuations, supported by strong ROE / ROCE of 26.6% / 30.7%.

We are ascribing a **BUY** rating for DOMS Industries with a **Target Price of Rs. 2,415** translating into an **upside of 20%**.

Risk & Concern

- Sharp increase in input prices
- Higher than-expected competitive pressure
- Low profitability from new products

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

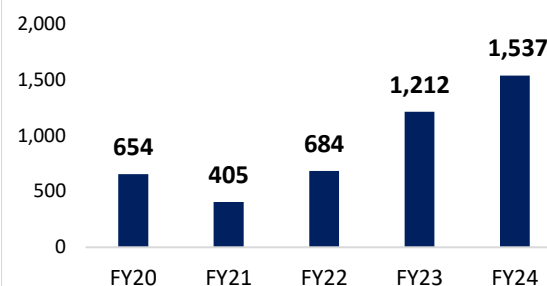


Figure 2: EBITDA & EBITDA Margin Trend

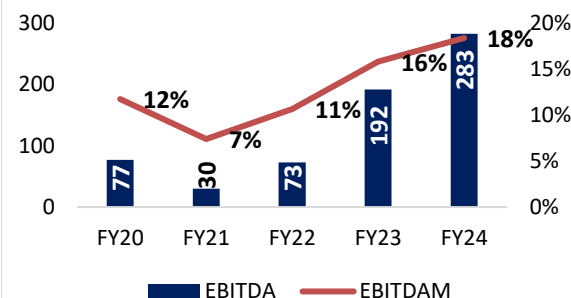


Figure 3: ROE & ROCE Trend

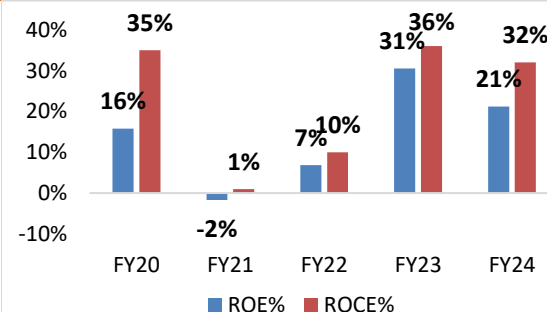
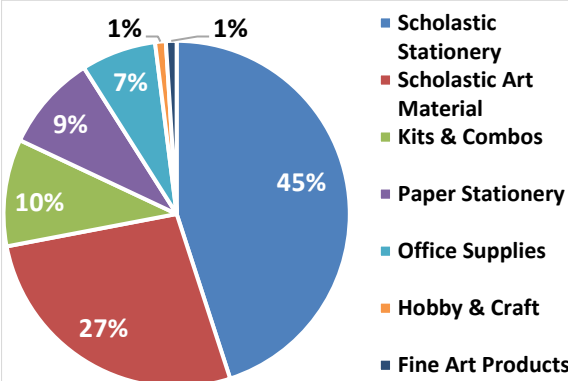


Figure 4: Revenue Split Product Segment Wise



Name
Shreya Hanchate

Designation
Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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