DOMS Industries (DOMS IN)

Rating: BUY | CMP: Rs2,924 | TP: Rs3,349

In an evolution zone

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Company Initiation

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We initiate coverage on DOMS with a BUY rating and TP of Rs3,349. In an industry dominated by unorganized players, competitive edge of DOMS stems from 1) superior brand recall 2) ability to offer innovative products (eraseners, two-dooz sharpeners & grove pencils) 3) cost competitiveness arising from backward integration 4) strong distribution reach with 125,000+ retail touch points and 5) superior R&D capabilities & technical know-how given the collaboration with FILA. DOMS has a diversified stationary & arts material portfolio and has outlined a capex plan of Rs4,535mn spread over 2 years to expand capacity in writing instruments, water color pens and markers & highlighters at Umbergaon. Given the expansion plans, we expect revenue/PAT CAGR of 26%/28% over FY24-FY27E. Recent entry into diapers market with plans to enter into ancillary categories like footwear, apparels, confectionaries, and sports gears & accessories widens the addressable target market for DOMS providing growth optionality. We value the stock at 60x FY27E EPS with a TP of Rs3,349. Initiate with a BUY.

Strong brand re-call with product innovation capabilities: A&P spends averaging at ~ 0.5% over last 5 years and adoption of cash & carry model in general trade (GT) is an indication of superior brand strength. In addition, DOMS has launched quite a few innovative products like eraseners (combination of sharpener & eraser), grove pencils (provide strong grip) and Two-Dooz sharpeners (can be effectively used by both left & right-handed individuals) that act as a key attraction for children resulting in higher re-call value. Ability to innovate & garner mind share in low ticket SKUs has been a key factor in developing customer loyalty.

Strong distribution network with a pan-India presence: DOMS has established a strong domestic distribution network comprising of 125+ super-stockists and 4,750+ distributors across 29 states and UTs along with a dedicated sales team of 675+ personnel covering more than 125,000 retail touch points. Given stationary & art material products are low-ticket SKUs and buying decisions are impromptu, distribution strength is all the more critical for growth and DOMS has made reasonable progress here since last 3 quarters.

Backward integration provides competitive advantage: DOMS has attained a strong leadership position in core product categories such as pencils and mathematical instrument boxes via full backward integration. Apart from having the ability to manufacture ferrule (metal strip that binds eraser & pencil), DOMS has capabilities to manufacture all key components of mathematical instruments in-house including the tin-box. Full backward integration provides cost competitiveness and a huge competitive advantage over peers.

Outlook & valuation: DOMS has outlined a capex plan of Rs4,535mn to expand capacity in writing instruments, water color pens and markers & highlighters at Umbergaon. Construction has already begun on the land measuring ~44 acres and production is expected to commence from 3QFY26E. Given the expansion plans, we expect revenue/PAT CAGR of 26%/28% over FY24-FY27E. We value DOMS at 60x FY27E EPS with a TP of Rs3,349. Initiate with a BUY.

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	15,371	18,917	25,113	30,910
EBITDA (Rs. m)	2,727	3,286	4,421	5,438
Margin (%)	*17.7*	*17.4*	*17.6*	*17.6*
PAT (Rs. m)	1,597	1,940	2,667	3,387
EPS (Rs.)	26.3	32.0	43.9	55.8
Gr. (%)	*55.2*	*21.5*	*37.5*	*27.0*
DPS (Rs.)	2.5	2.5	3.0	3.5
Yield (%)	*0.1*	*0.1*	*0.1*	*0.1*
RoE (%)	*27.7*	*21.5*	*23.9*	*24.2*
RoCE (%)	*31.9*	*25.1*	*28.6*	*29.4*
EV/Sales (x)	11.4	9.3	7.0	5.6
EV/EBITDA (x)	64.4	53.6	39.8	31.9
PE (x)	111.2	91.5	66.6	52.4
P/BV (x)	21.8	17.9	14.3	11.4

Key Data	DOMS.BO | DOMS IN
52-W High / Low	Rs. 3,039 / Rs. 1,224
Sensex / Nifty	81,225 / 24,854
Market Cap	Rs. 177 bn/ $ 2,111 m
Shares Outstanding	61m
3M Avg. Daily Value	Rs. 366.52m

Shareholding Pattern (%)	
Promoter's	74.96
Foreign	6.55
Domestic Institution	15.11
Public & Others	3.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.6	66.1	-
Relative	6.8	48.3	-

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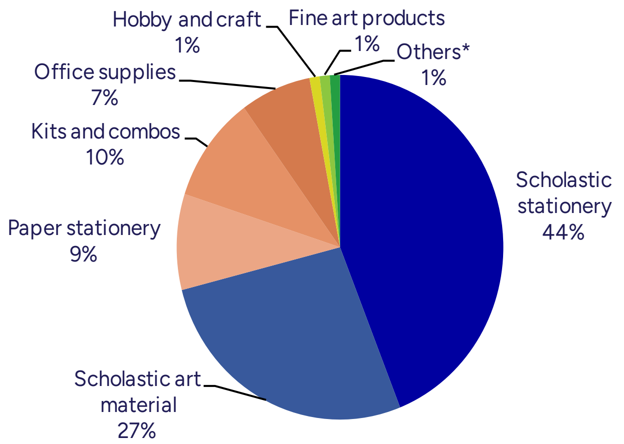
Company Overview

A one-stop shop for stationery & art materials

Incorporated in 2006, DOMS designs, develops, manufactures and sells a wide range of stationery and art products in the domestic market (29 states and union territories) as well as in 50+ countries internationally.

As of 1QFY25, DOMS had over 4,100+ SKUs across seven categories, including: (i) scholastic stationery; (ii) scholastic art material; (iii) paper stationery; (iv) kits and combos; (v) office supplies; (vi) hobby and craft; and (vii) fine art products. The broad and differentiated product portfolio positions DOMS as a one-stop shop for all stationery and art material needs. Scholastic stationery is the largest category, accounting for 44% of sales in FY24.

Exhibit 1: Scholastic stationery formed 44.0% of sales in FY24



Source: Company, PL

Exhibit 2: DOMS has 4,100+ SKUs across 7 categories (as of 1QFY25)

Scholastic stationery	Scholastic art material	Hobby & craft	Office supplies	Paper stationery	Fine art products	Kits and combos
Black lead pencils	Wax crayons	Modelling clay	Pens	Notebooks	Artists pencils	Stationery kits
Mechanical pencils	Oil pastels	Playing dough	Board markers	Exercise book	Kneadable erasers	Art material kits
Erasers	Color pencils	Glitter glue	Permanent markers	Drawing book	Water colors for artists	Painting kits
Sharpeners	Plastic crayons	Liquid glue	Correction pens	Sketch pads	Gouache colors	Combo packs
Mathematical instruments	Poster colors		Glue sticks	Executive diaries	Varnishes & mediums	
Chalk and chalk holders	Water colors			Conference pads	Inks	
	Sketch markers				Canvases	
	Brush pens				Artist papers	
	Tempera colors				Brushes for artists	
	Brushes				A wide range of artist essentials	
SKU count: ~392	**SKU count: ~283**	**SKU count: ~45**	**SKU count: ~146**	**SKU count:~ 418**	**SKU count: ~2,531**	**SKU count: ~63**

Source: Company, PL Note: The SKU count mentioned at the bottom is taken from RHP and has increased since then.

The products are majorly marketed under its flagship brand DOMS, along with other sub-brands, including C3, Amariz and Fixy Fix. Launched in 2012, with an aim of capturing the affordable market segment, the C3 brand includes polymer black lead and color pencils, erasers, sharpeners and chalks. Amariz was launched in 2022, offering fine art products, while Fixy Fix was launched in 2023 with exclusive focus on a range of glues and adhesives.

Manufacturing of stationery is undertaken at Umbergaon, Gujarat, (one of the largest stationery manufacturing facilities in India) and from Bari Brahma, Jammu and Kashmir (J&K). DOMS is vertically integrated with key operations such as procurement of raw materials, moulding, assembling, integration of sub-assemblies into finished products, quality control and testing of finished products being carried out in-house.

DOMS has a strong domestic distribution network comprising of 125+ super-stockists and 4,750+ distributors, located across 29 states and union territories, along with a dedicated sales team of 675+ personnel covering more than 1,25,000 retail touch points. Internationally, DOMS has presence in more than 50 countries, with exports forming 15% of sales in 1QFY25.

Over the years, DOMS has diversified into related businesses by acquiring 1) Pioneer Stationery Pvt Ltd (manufactures paper stationery products), 2) Uniwrite Pens Pvt Ltd (manufactures plastic ball and gel pens), 3) Clapjoy Innovations Pvt Ltd (manufactures educational toys), 4) Micro Wood Pvt Ltd (manufactures decorative tin boxes), and 5) SKIDO Industries Pvt Ltd (manufactures bags, pouches and related products). Recently, it also ventured into the diapers market by acquiring Uniclan Healthcare Pvt Ltd.

Exhibit 3: Timeline of key events – DOMS

Year	Particulars
2006	Commencement of operations
2011	Purchased the business of the partnership firm S Tech Industries, Gujarat, on a slump sale basis as a going concern
2011	Purchased the business of the partnership firm R.R Industries, Gujarat, on a slump sale basis as a going concern
2012	Purchased the business of the partnership firm R.R Industries, J&K, on a slump sale basis as a going concern
2012	Acquisition of 18.5% stake by FILA in DOMS
2015	Acquisition of 49.0% stake in Pioneer Stationery Pvt. Ltd., engaged in manufacturing & selling paper stationery products, for Rs22mn
2015	Acquisition of additional 32.5% stake by FILA in DOMS
2016	Increased stake in Pioneer Stationery Pvt. Ltd. to 51.0%
2016	Acquisition of 35.0% stake in Uniwrite Pens and Plastics Pvt. Ltd., manufacturing plastic ball & gel pens, for Rs20mn
2017	Increased stake in Uniwrite Pens and Plastics Pvt. Ltd. to 60.0%
2023	Acquisition of 30.0% stake in Clapjoy Innovations Pvt. Ltd., manufacturing & selling wooden board games, flash cards & educational toys, for Rs15mn
2023	Divestment of stake in Uniwrite Pens and Plastics Pvt. Ltd.
2023	Acquisition of 75.0% stake in Micro Wood Pvt. Ltd., manufacturing decorative tin boxes and paper packaging products, for Rs706mn
2024	Acquisition of 51.0% stake in SKIDO Industries Pvt. Ltd., manufacturing & selling bags, pouches and related products, for Rs5mn
2024	Acquisition of 51.8% stake in Uniclan Healthcare Pvt. Ltd., manufacturing & marketing baby diapers and wipes under Wowper brand, for Rs555mn

Source: Company, PL

Investment Arguments

A strong brand offering innovative products at competitive prices

Having a strong brand recall is critical for any consumer facing business. DOMS is one of the largest players in the branded stationery and art materials industry, with a market share of ~10% (assuming the industry has grown at 13% in FY24 and share of branded players has remained intact at ~36%). We believe DOMS has emerged as a leader with a strong brand recall given its ability to provide quality & innovative products at a competitive price.

Innovation takes center stage at DOMS: Innovation and packaging are key focus areas for DOMS as its target market comprises of children. Innovative products act as key attraction for children, resulting in a higher recall value.

Over the years, DOMS has launched various innovative products like:

- Eraseners – a combination of sharpener and eraser
- Pencil extenders – an ancillary product offered with color pencil sets, which enables customers to use the pencil even after its size is reduced due to repeated sharpening
- Groove pencils – these are easy to hold and provide strong grip and support
- Two-Dooz sharpeners – designed for effective use by both left and right handed persons

Such innovative products act as key attraction for children resulting in a higher recall value. Even on the packaging front, DOMS offers innovative solutions to make the product more appealing. For instance, offering the hexagon shaped eraser in an innovative case has made the product attractive without significantly increasing the end price for customer.

Exhibit 4: Neon hexagonal erasers

Source: Company, PL

Exhibit 5: DOMS offers products at competitive pricing

Source: Company, PL

Exhibit 6: Innovative products launched in 4QFY24

Source: Company, PL

Exhibit 7: Innovative products launched in 1QFY25

Source: Company, PL

Focus on R&D ensures quality products at competitive price: DOMS has a strong R&D and design team comprising of 50 employees along with a quality check & assurance team of 85 people ensuring product quality and design remains at forefront. We believe product design and quality form an important aspect of sale in stationary & art materials segment given addressable market comprises of children. Strong focus on R&D enables DOMS to offer quality products at a competitive price acting as a key moat.

Exhibit 8: Product launches in 4QFY24

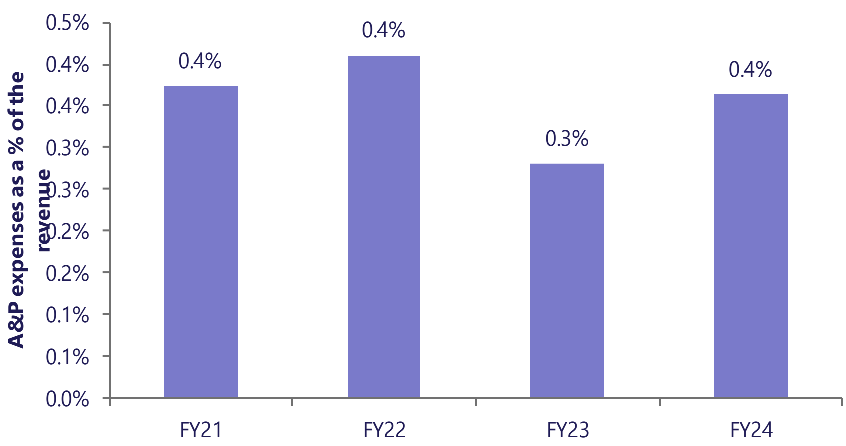
Source: Company, PL

Exhibit 9: Product launches in 1QFY25

Source: Company, PL

Low A&P spend indicator of strong brand recall: Since FY16, average A&P spend of DOMS has been less than 1%, which is an exception for a product-oriented consumer-facing company. Negligible A&P spend by DOMS is a reflection of its superior brand recall and product quality, and established customer loyalty. Ability of DOMS to innovate and offer quality products at competitive prices, has been a key factor in developing customer loyalty.

Exhibit 10: A&P expenses form less than 0.5% of DOMS' sales



Source: Company, PL

Diversified product portfolio makes DOMS a go-to brand for stationery & art materials

DOMS has over 4,1000 SKUs across seven categories: (i) scholastic stationery; (ii) scholastic art material; (iii) paper stationery; (iv) kits and combos; (v) office supplies; (vi) hobbies and craft; and (vii) fine art products. A diversified product portfolio at multiple price points has enabled DOMS to become one of the fastest growing stationery and art material products companies in India with a market share of ~10% as of FY24.

Exhibit 11: DOMS offers widest range with 11 product categories as of Sep'23

Player	Brands	Number of product categories
DOMS	DOMS, C3, AMARIZ, Fixy Fix	11
Kokuyo Camlin	Camlin, Camel	10
Hindustan Pencils	Nataraj, Apsara, Nataraj Pens	7
Navneet	Navneet, Youva	10
Luxor	Luxor, Parker, Waterman, Pilot, Schneider	5
Linc	Linc	8
Flair	Flair World Class Pens, Hauser Germany, Pierre Cardin Paris, Rudi Kellner, Germany, Flair Creative, Flair Electronic Calculator, Hauser Artz, ZIG	9
Rorito	Rorito	5
BIC Cello	BIC Cello	7
ITC Stationery	Classmate, Paperkraft	9
Kangaro	Kangaro	1

Source: Company, PL

Exhibit 12: DOMS has a diversified business portfolio as compared to peers

Player	Notebooks	Papers	Pens	Pencils	Markers and highlighters	Technical instruments	Office supplies	Basic arts	Fine arts	Eraser	Sharpener	Adhesives	Others
DOMS	✓	✗	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓
Kokuyo Camlin	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗
Hindustan Pencils	✗	✗	✓	✓	✗	✓	✗	✓	✗	✓	✓	✗	✓
Navneet	✓	✓	✗	✓	✗	✓	✗	✓	✓	✓	✓	✓	✓
Luxor	✓	✗	✓	✗	✓	✗	✗	✓	✗	✗	✗	✗	✓
Linc	✗	✗	✓	✓	✓	✓	✗	✓	✗	✓	✓	✗	✓
Flair	✗	✗	✓	✓	✓	✓	✗	✓	✗	✓	✓	✓	✓
Rorito	✓	✗	✓	✓	✓	✗	✗	✓	✗	✗	✗	✗	✗
BIC Cello	✗	✗	✓	✓	✓	✓	✗	✓	✗	✓	✓	✗	✗
ITC Stationery	✓	✓	✓	✓	✗	✓	✗	✓	✗	✓	✓	✗	✓
Kangaro	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗

Source: Company, PL

Most players in the industry generate substantial portion of their revenues from a single product category. For instance, Hindustan Pencils and Luxor generated ~60% and ~75% of their revenue from pencils and pens, respectively, in FY23. In comparison, DOMS generated only ~34% of its revenue from pencils, its largest product category, showcasing a de-risked business profile (low product concentration risk) with a headroom to grab market share across categories.

Exhibit 13: DOMS derives only ~34% of its revenue from the largest segment, reflecting a de-risked business profile

Player	Contribution from largest segment (FY23)
DOMS	~34%
Camlin	~80%
Hindustan Pencils	~60%
Navneet	~80%
Luxor	~75%
Linc	~92%
Flair	~86%
Rorito	~75%
BIC Cello	~80%
ITC Stationery	~85%

Source: Company, PL

Continuing with its diversification journey, in Feb'23, DOMS acquired a minority stake of 30% in Clapjoy Innovations Pvt Ltd, which is into manufacturing of educational toys, flash cards, puzzles and wooden board games. Subsequently, DOMS ventured into pens manufacturing, expanding its presence in the writing instruments market. Later, in Mar'24, DOMS acquired 51% stake in SKIDO, which manufactures school bags, pouches and related products, for Rs5.1mn, enabling DOMS to expand its presence in the back-to-school category. Expanding presence in categories like toys and school bags is a natural extension to stationery and art materials market.

However, in a surprising move, DOMS recently acquired 51.8% stake in Uniclan Healthcare Ltd and entered into the diapers market. Further, DOMS also has plans to move into other ancillary categories like footwear, apparels, confectionaries, and sports gears & accessories catering majorly to the children's ecosystem. We believe entry into these new categories would expand the addressable market and re-position it as a consumer discretionary play rather than just a plain vanilla stationary & arts material company.

DOMS enters into baby care segment with acquisition of Uniclan Healthcare Pvt. Ltd.

In Aug'24, DOMS acquired 51.8% stake in Uniclan Healthcare Pvt. Ltd. for a sum of Rs555mn. Uniclan is engaged in the manufacturing and marketing of baby diapers and wipes under the brand Wowper. The acquisition happened at EV/sales multiple of ~1x. Uniclan is promoted by Vatsal Desai and has a manufacturing unit in Jaipur with an annual capacity of 400mn pieces. Uniclan has presence in 12 states and ~33k retail outlets.

As of FY24, Uniclan had a top-line of Rs1,442mn with an EBITDA margin of 5%. Debt on books is ~Rs380mn. Roughly, 48% of the revenue is generated through the domestic distribution network, 34% via MT & e-com, and 13% from OEMs (third-party manufacturing). DOMS plans to expand the capacity by 250mn pieces via fund infusion of Rs290mn.

Prima facie, entry into diapers appears to be an unrelated diversification compared with toys and school bags, as the former has a completely different distribution channel. However, as 48% of revenue is from the traditional dealer distribution channel with presence in 12 states, we believe the network breadth is decent for a brand that is not a household name, like Pampers or MamyPoko Pants. Further, 15-20 out of DOMS' 125 super-stockists are already into distributing food and hygiene products. We believe this distribution overlap can be exploited to bolster sales of Uniclan. In addition, DOMS has plans to exploit the distribution network of Uniclan for increasing the penetration of stationery products.

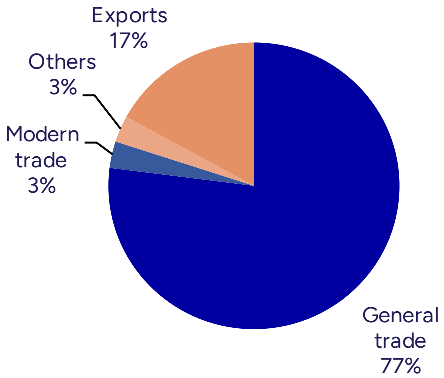
While entry into the diapers segment is an unrelated diversification, DOMS had a cash balance of Rs3,059mn as of FY24 and has invested Rs555mn in Uniclan. Given ~18% of cash has been deployed into the new business, where DOMS may not have distribution or product know-how, we believe concerns on capital mis-allocation are unfounded.

Multi-channel distribution network with a Pan-India presence

Stationery and art materials industry is fragmented and distribution-led with channel partners and retail touchpoints playing a critical role in capturing market share. Over the years, DOMS has established a strong domestic distribution network comprising of 125+ super-stockists and 4,750+ distributors across 29 states and union territories along with a dedicated sales team of 675+ personnel covering more than 125,000 retail touch points.

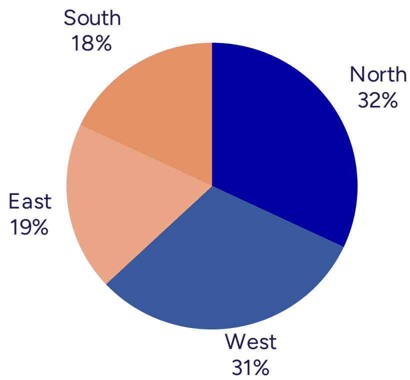
DOMS has a multi-channel distribution network with presence across general trade (GT), modern trade (MT), e-commerce, OEMs and institutions. As of FY24, GT formed 77% of channel mix, followed by exports at 17%, while MT and others (institutions, e-com, etc.) had a meagre share of 3% each. In terms of regional mix, DOMS has strong presence in West and North, with 31% and 32% share in revenue, respectively.

Exhibit 14: General trade formed 77% of channel mix in FY24



Source: Company, PL

Exhibit 15: North/West formed 63% of sales in FY24



Source: Company, PL

We believe GT will continue to dominate the channel mix for DOMS as price point for most products is low and quite a few SKUs are sold as single pieces (pencils, erasers, sharpeners, pens, etc.), making retail outlets a preferred mode of transaction for consumers. Further, DOMS does not take direct orders from educational institutes, but routes them through channel partners, indicating its focus on the traditional dealer-distribution channel. However, as buying patterns evolve, we expect share of MT and e-com to rise in future.

DOMS' deep distribution network and wide-scale accessibility has made it a household brand across the country. However, we believe there is significant room for network expansion as players like Kokuyo Camlin, Flair and Rorito have presence across 3 lakhs+ retail touch points each in comparison to 1 lakh+ for DOMS, reflecting significant under-penetration versus peers.

Exhibit 16: DOMS is expanding its market footprint with extensive distribution and retail coverage

Players	Super-stockists/Distributors	Retail outlets
DOMS	Super-stockists: 125+, Distributors: 4,750+	1,25,000+**
Kokuyo Camlin	NA	3,00,000+*
Hindustan Pencils	NA	NA*
Navneet	Distributors: 1,800+	48,000+*
Luxor	NA	NA*
Linc	Distributors: 2,650+*	2,52,639+#
Flair	Distributors: 8,080##	3,15,000*
Rorito	Redistribution stockists:1,800, Main stockists: 27	3,00,000*
BIC Cello	NA	NA*
ITC Stationery	NA	NA*

Source: Company, PL

**DOMS RHP; **1QFY25 PPT DOMS; #1QFY25 PPT LINC; ##1QFY25 PPT FLAIR*

In addition to a strong domestic network, DOMS has a wide global distribution network spread across 50+ countries, with exports contributing 15% of sales in 1QFY25. Though 9% of sales is exports to FILA Group (promoter entity) on private label basis requiring minimal global distribution presence, third-party exports contributed 6% to top-line in 1QFY25. Further, DOMS has plans to expand distribution capabilities in certain South east Asian countries as well as in the African continent.

Strategic partnership with FILA enables access to global markets and product expertise

FILA is an Italian stationery and art materials company with presence in 150 countries having a portfolio of 25 brands and revenue of EUR779mn as of CY23. In CY12, FILA acquired 18.5% stake in DOMS, which was subsequently increased to 51% in CY15. FILA is one of the corporate promoters of DOMS and its stake in the company dropped to 31% post IPO. The collaboration with FILA is a win-win situation for the following reasons:

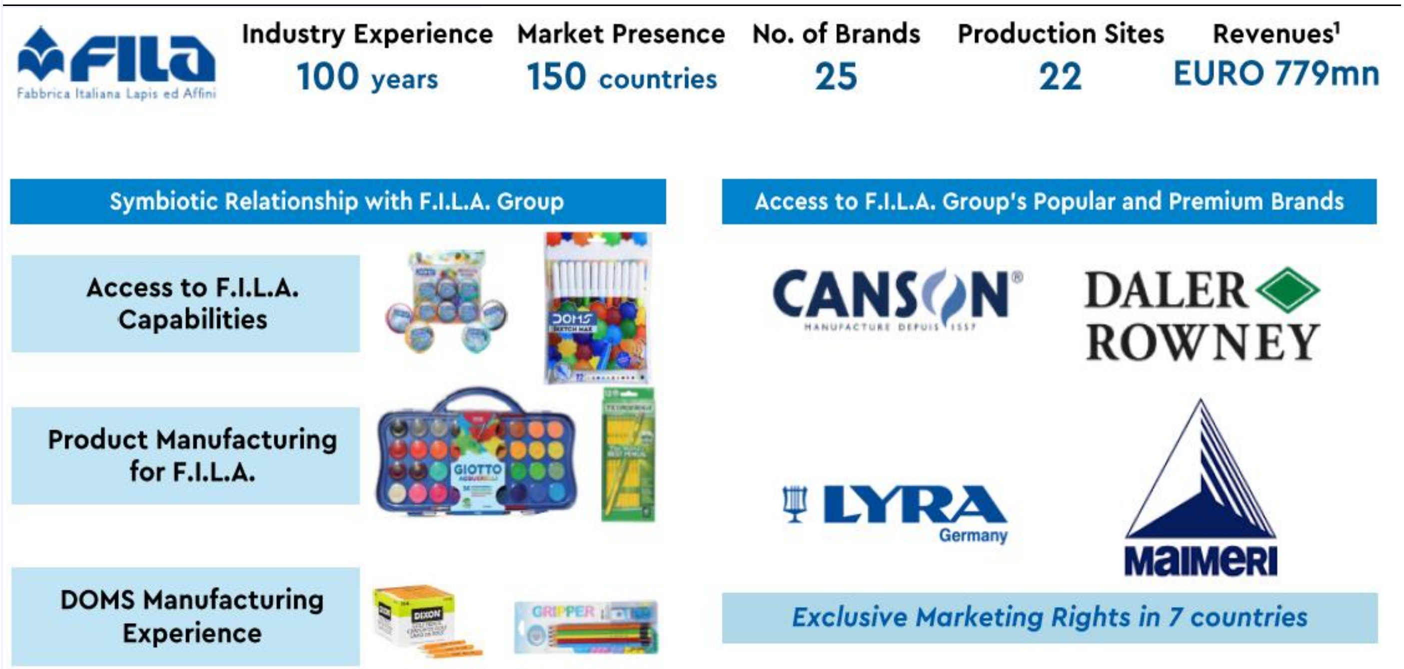
- The tie-up augments R&D capabilities and technical/operational know-how of DOMS
- Board can get strategic inputs from FILA as the Italian major has industry experience of ~100 years
- Access to FILA Group's popular and premium brands. For instance, DOMS has exclusive marketing rights in 7 countries for some popular brands of FILA, like Canson, Daler-Rowney, and Lyra
- Leveraging FILA's manufacturing capabilities. For instance, DOMS can purchase chalks from FILA's plant in France, rather manufacturing in-house
- Expanding international footprint of DOMS by exploiting the long-standing relationships of FILA for distribution of products in overseas markets
- Access to a ready export market for DOMS. Over the last 4 years, ~63% of DOMS' export sales have been to FILA, which de-risks the business

Exhibit 17: Exports to FILA/3rd party was 10.0%/7.1% of sales in FY24

Particulars (Rs mn)	FY21	FY22	FY23	FY24
To FILA	693.1	1,065.3	1,586.1	1,571.0
As a % of sales	*16.8%*	*15.4%*	*12.9%*	*10.0%*
To 3rd party	308.6	582.0	989.7	1,115.4
As a % of sales	*7.5%*	*8.4%*	*8.0%*	*7.1%*
Total exports	**1,001.7**	**1,647.3**	**2,575.7**	**2,686.4**
As a % of sales	*24.3%*	*23.8%*	*20.9%*	*17.1%*
Total sales	**4,130.5**	**6,931.0**	**12,317.3**	**15,710.0**

Source: Company, PL

Exhibit 18: Brief profile of FILA Group



Source: Company, PL

Capacity expansion to drive growth

DOMS operates 15 manufacturing facilities across 3 locations. Of these, 13 facilities are located at Umbergaon, Gujarat, spread over ~37 acres of land covering ~1.18mn sq.ft. Additionally, DOMS also has 1 manufacturing facility spread across ~2 acres of land covering ~0.07mn sq ft at Bari Brahma, in Jammu and Kashmir where wooden slats are produced from locally sourced wood. In total, the operational area of the 15 facilities spans over 45 acres.

During 3QFY24, in order to expand capacity in the writing instruments segment, DOMS commenced commercial production at 0.1mn sq.ft. area in a new building within the existing infrastructure. DOMS has also started capacity expansion in the wooden pencil division, which is expected to commence commercial production by 4QFY25E.

DOMS also has plans to further expand capacity in the writing instruments, water color pens, and markers and highlighters categories by incurring a capex of Rs4,535mn on a greenfield project at Umbergaon. Construction has already begun on the land measuring ~44 acres, which will have 1.8-1.9mn sq.ft of space dedicated for manufacturing activities. Capacity expansion is likely to happen in 3 phases, with the first phase measuring 0.6mn sq.ft. expected to begin operations by 3QFY26. Overall, we expect DOMS to incur a capex of ~Rs2.2bn each year in FY25E and FY26E towards the greenfield expansion.

Exhibit 19: Break-down of estimated cost of the greenfield project at Umbergaon

Particulars (Rs mn)	Total estimated cost	Amount deployed as of Oct'23	Balance amount proposed to be funded
Land	736	736	Nil
Building construction and civil work	956	Nil	956
Purchase of plant and machinery	2,551	Nil	2,551
Utilities: Sub-station	179	Nil	179
Miscellaneous and contingencies	114	Nil	114
Total	**4,536**	**736**	**3,800**
Amount proposed to be funded from net proceeds			2,800
Balance amount proposed to be funded from internal accruals			1,000

Source: Company, PL   Note: As the construction work has begun amount deployed could be higher than Rs736mn.

We believe the ongoing projects as well greenfield expansion will be a key growth lever for DOMS, resulting in sales/PAT CAGR of 26%/28% over FY24-FY27E.

Backward integrated manufacturing to drive efficiency

DOMS has attained a remarkable market leadership position in core product categories such as pencils and mathematical instrument boxes, via full backward integration. This strategic approach not only enhances efficiency but also reduces dependency on external suppliers by mitigating sourcing and pricing risks.

Pencils: Key components used for manufacturing pencils include wooden slats, lead, lacquer and ferrules (in case of eraser-based pencils). In the past, some of these components were sourced from third-party vendors, but now, DOMS manufactures all these components in-house. In fact, DOMS is one of very few companies that have the capability to manufacture ferrules (metal strip that binds eraser and pencil).

Mathematical instrument boxes: Key components of a mathematical instrument box include a rounder, divider, scale, set square, protractor and tin box. DOMS has capabilities to manufacture all the components in-house, except the tin box, which is manufactured by its subsidiary Micro Wood Pvt Ltd.

Sketch pens (water color pens): DOMS manufactures all key components of sketch pens, like cap and ink reservoir.

Backward integration not only ensures superior product quality but also enables DOMS to competitively price the products by eliminating reliance on third-party vendors. We believe full backward integration is a key moat that is difficult to replicate given there are multiple components that go into the manufacturing of a product, giving DOMS a competitive advantage.

Exhibit 20: Backward integration – A key moat of DOMS

Source: Company, PL

Indian stationery & art materials market to grow at 13% CAGR over FY23-FY28E

Indian stationery and art materials market comprising paper stationery, writing instruments, office supplies, and arts and craft, stood at Rs385bn as of FY23. Over FY23-FY28E, the market is expected to grow at a CAGR of 13% to reach Rs716bn in FY28E. Among these, the writing instruments category comprising pens, pencils and markers, is expected to grow the fastest at a CAGR of 16%. While a large part of the market is still unorganized, share of organized players is expected to increase from 36% in FY23 to 43% in FY28E led by:

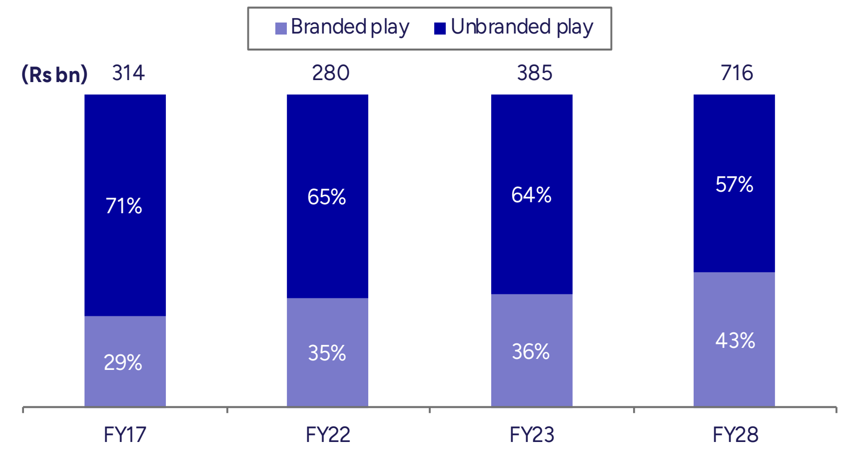
- Shift in consumer preference towards premiumization
- Brand building initiatives undertaken by organized players
- Better distribution network and superior product quality

Exhibit 21: Stationery and art materials to log 13% CAGR over FY23-FY28E

Particulars (Rs bn)	FY17	FY22	FY23	FY28E	CAGR FY23-FY28E
Paper stationery	170	118	162	287	12%
Writing instruments	89	98	134	278	16%
Office supplies	29	34	47	80	11%
Arts & craft	7	8	11	19	11%
Others	20	23	31	53	11%
Total	**314**	**280**	**385**	**716**	**13%**

Source: Company, PL

Exhibit 22: Share of branded players to rise to 43% in FY28E



Source: Company, PL

Key growth drivers for stationery and art materials industry

Favorable demographics: ~26% of India's population is aged between 0-14 years, which is likely to be a key driver for consumption of stationery and art materials. Rising literacy rate (77.7% in CY22) is also a key lever for growth.

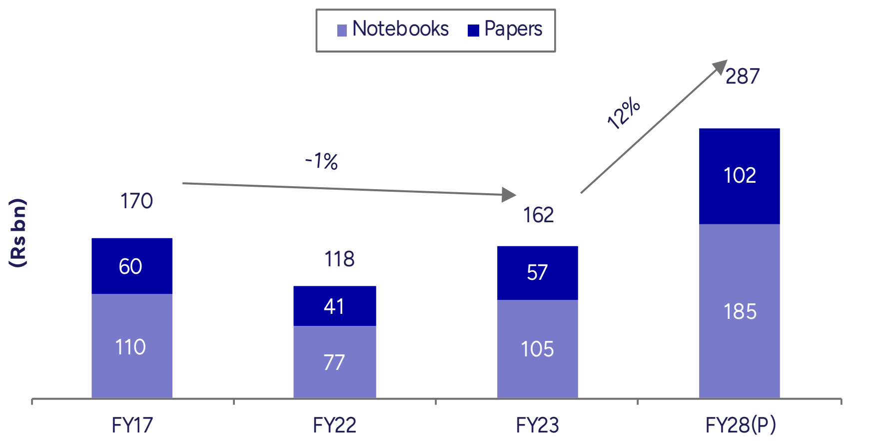
Emerging gifting trends: Nowadays, most parents tend to gift stationery kits and combos as return gifts while celebrating their children's birthdays, given these can be put to productive use. This trend has turned out to be a key demand driver in recent years.

Integration of arts & craft in school curriculum: Arts & craft is becoming an integral part of school curriculum with the implementation of the National Education Policy (NEP) 2020, thereby emerging as a key demand driver for the industry.

Rising penetration of e-com: and Although GT remains a preferred mode of purchase of stationery and art materials (as these are low-ticket items), buying patterns are changing with the advent of e-com. E-com offers both convenience and efficiency, especially when it comes to for buying kits and combos or items in bulk.

- **Paper stationery market to grow at 12% CAGR over FY23-FY28E**: Comprising notebooks and papers, the market size stood at Rs162bn as of FY23 and is expected to grow at a CAGR of 12% over the next 5 years.

Exhibit 23: Indian paper stationery market to clock 12% CAGR in FY23-FY28E



Source: Company, PL

- **Pens dominate writing instruments market**: The market, comprising pens, pencils, and markers and highlighters, is expected to grow at a CAGR of 16% over the FY23-FY28E and reach Rs278bn by FY28E. Within the category, pens would command the largest share of ~80%, followed by pencils at ~12% and markers and highlighters at ~8% by FY28E.

Exhibit 24: Indian writing instrument market to grow at 16% CAGR (FY23-FY28E)

Particulars (Rs bn)	FY17	FY22	FY23	FY28E
Pens	71	78	107	223
Pencils	11	12	17	33
Markers & highlighters	7	8	10	22
Total value	**89**	**98**	**134**	**278**

Source: Company, PL

Exhibit 25: Pens/Pencils hold 80%/12% market share respectively as of FY23

Sub-category (as of FY23)	Market share by value in Indian Writing Instruments Industry	Product type	Market share by value in sub-category
Pen	80%	Ballpoint	68%
		Gel	20%
		Rollerball	12%
Pencil	12%	Wooden	92%
		Polymer	7%
		Mechanical	1%
Markers and highlighters	8%	-	-

Source: Company, PL

Pens: DOMS has entered the mass market pens market at price points of Rs5/Rs10. While this is a new category for DOMS, plans to increase the capacity to 3mn pieces per day along with its strong distribution reach and attractive price point, will drive growth.

Exhibit 26: Price segmentation of pens in India as of FY23

Segments	Price points	Leading players
Mass market	Up to Rs15	Linc, Flair, Cello
Premium	Rs15–Rs400	Luxor, Cello, Flair
Super-premium	>Rs400	Parker, Montblanc

Source: Company, PL

Pencils: Mass market pencils, which are priced at Rs5 or below, constitute ~85% of the market value, and we believe DOMS has a clear competitive advantage in this category given the full backward integration.

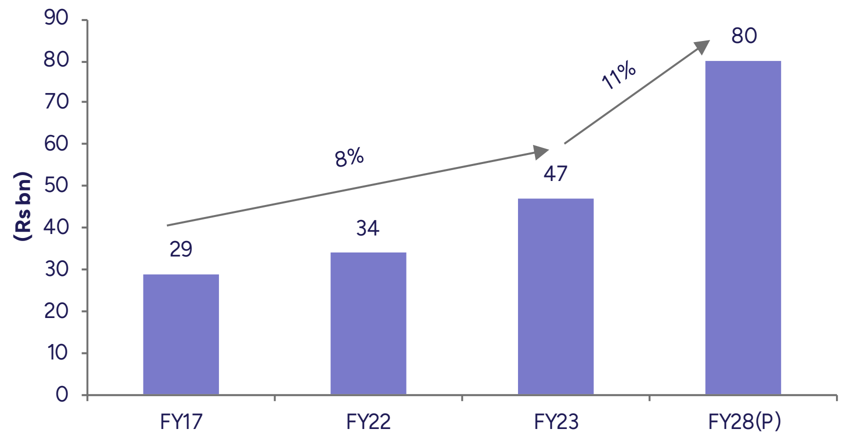
Exhibit 27: Price segmentation of pencils in India as of FY23

Segments	Price points	Leading players
Mass market	Up to Rs5	DOMS, Hindustan Pencils
Premium	Rs5–Rs20	DOMS, Kokuyo Camlin, Hindustan Pencils
Super-premium	>Rs20	Faber-Castell, Staedtler

Source: Company, PL

- **Office supplies market to reach Rs80bn in FY28E**: Office supplies market comprising files and folders, staplers, punches, etc., is expected to grow at 11% CAGR to reach Rs80bn by FY28E.

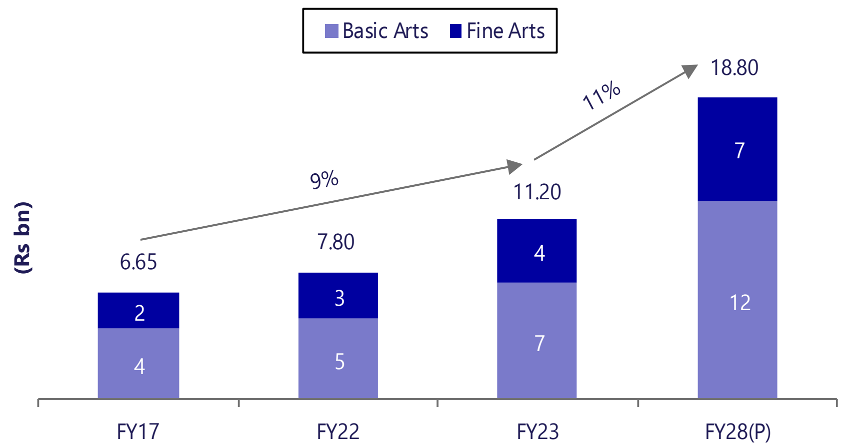
Exhibit 28: Office supplies to grow at 11% CAGR over FY23-FY28E



Source: Company, PL

- **Arts and craft market to grow at 11% CAGR over FY23-FY28E**: Arts and craft market consists of basic and fine arts products, such as crayons, oil pastels, sketch pens, poster colors, water colors, canvas boards, and artist brushes. The market is expected to grow at a CAGR of 11% and reach Rs19bn by FY28E. We believe NEP 2020 would play a key role in boosting the market as arts & craft has become an integral part of school curriculum under the new educational regime.

Exhibit 29: Arts and craft to grow at 11% CAGR to reach Rs19bn by FY28E



Source: Company, PL

Peer Comparison

Strong market position in pencils & mathematical boxes, but pens market is highly competitive

DOMS is present in multiple product categories within stationery and art materials market, and we have tried to compare it with peers across major categories like pencils, pens and mathematical instruments.

Pencils: As of FY23, DOMS had a market share of ~24% in wooden pencils. Assuming the industry has grown by 15% in FY24 (expected to reach Rs33bn by FY28E, translating into a CAGR of 15%), the market share of DOMS could possibly be in the range of 25-27% (product-wise sales breakdown is not available, and this is as per our estimates).

Exhibit 30: Hindustan Pencils is a leader in pencils category

Particulars	Price ranges	Brands	FY24 Market share
DOMS	**Up to Rs 5 & Rs5 – Rs20**	**DOMS , C3**	**25%-27%**
Hindustan Pencils	Up to Rs5 & Rs5 – Rs20	Nataraj, Apsara	48%-51%
Kokuyo Camlin	Up to Rs5 & Rs5 – Rs20	Camlin	NA

Source: Company, PL   Note: As per our calculations based on indicative figures.

Within the pencils market, Hindustan Pencils (brands: Nataraj, Apsara) and Kokuyo Camlin (brand: Camlin) are two major competitors for DOMS. Hindustan Pencils/DOMS have a capacity of producing ~8.5mn/~5.7mn pencils per day. However, DOMS has plans to expand the capacity to 2.5mn pieces per day. In addition, given the full backward integration in manufacturing pencils, we believe DOMS is in a better position to price the product more competitively and gain further market share.

Pens: DOMS is a relatively new entrant into this category, which is crowded with players like Luxor (brands include Luxor, Parker, Waterman, Schneider), Linc, Flair (key brands include Hauser, Pierre Cardin, Flair), Rorito and BIC Cello. In the mass category (price point up to Rs15), where DOMS has made an entry with price points of Rs5-10, it predominantly competes with brands like Linc, Flair and Cello.

Exhibit 31: DOMS has entered pens category with affordable range

Particulars	Price ranges	Brands
DOMS	Rs5-10	DOMS
Linc	Up to Rs15	Linc
Flair	Up to Rs15 , Rs15 – Rs400	Flair, Pierre Cardin Paris , Hauser Germany, Zoox
Cello	Up to Rs15 , Rs15 – Rs400	Cello, Unomax
Luxor	Rs15 – Rs400	Luxor, Parker, Waterman, Pilot, Schneider

Source: Company, PL

DOMS intends to expand its capacity in pens to 3mn pieces per day by 2QFY25. The capacity is expected to rise further once the first building at the newly acquired 44 acres of land begins operations by 3QFY26. While it is a new category, the product is a natural extension within the stationery and art materials segment, and we believe DOMS can utilize its existing distribution network to gain further inroads into the market.

Mathematical instruments: As of FY23, mathematical and technical instruments market was valued at ~Rs5bn. Assuming, the industry has grown by 11% in FY24 (expected to reach Rs9bn by FY28E, translating into a CAGR of 11%) market share of DOMS could possibly be in the range of 15-17% (product-wise sales breakdown is not available for FY24 and the figure is as per our estimates). In the mathematical and technical instruments market, Kokuyo Camlin is a key competitor for DOMS.

Exhibit 32: DOMS & Camlin are key players in mathematical instruments market

Particulars	Price ranges	Brands	FY24 Market share
DOMS	Rs90-Rs200	DOMS	15%-17%
Kokuyo Camlin	Rs100-Rs350	Camlin	9%-11%

Source: Company, PL Note: As per our calculations based on indicative figures.

We believe full backward integration enables DOMS to price the product competitively and compete effectively in this category. Capability to manufacture all the components in-house, including the tin box, helps to maintain cost competitiveness. In addition, DOMS has launched multiple SKUs in this category (9 SKUs ranging from Rs90 to Rs200), which enables it to compete better at various price points.

Exhibit 33: Peer analysis (as of FY24)

Particulars (Rs mn)	Core peers								
	DOMS Industries Limited	BIC Cello India	Flair Writing Industries Limited	*Hindustan Pencils	Kokuyo Camlin Limited	Linc Limited	*Luxor Writing Instruments	Navneet Education Limited	*Rorito International
Revenue	15,371	20,003	9,787	12,784	8,159	5,078	4,896	17,513	1,740
Gross Profit	6,444	10,518	4,930	4,848	3,223	2,039	2,011	8,730	704
Gross Margin (%)	41.9%	52.6%	50.4%	37.9%	39.5%	40.1%	41.1%	49.9%	40.4%
EBITDA	2,727	5,097	1,912	477	766	564	330	2,951	1
EBITDA Margin (%)	17.7%	25.5%	19.5%	3.7%	9.4%	11.1%	6.7%	16.9%	0.0%
PAT	1,597	3,562	1,185	241	438	344	66	2,516	-143
PAT Margin (%)	10.4%	17.8%	12.1%	1.9%	5.4%	6.8%	1.3%	14.4%	-8.1%
RoE (%)	28%	48%	18%	16%	16%	18%	6%	15%	73%
RoCE (%)	32%	27%	17%	17%	17%	23%	14%	16%	-26%
Working Capital Days	47.3	169.4	137.0	35.8	92.6	65.3	31.0	198.8	6.0
Asset Turnover Ratio	2.5	3.6	2.2	3.1	3.6	2.8	2.3	2.6	0.7

*Source: Company, PL * Hindustan Pencils, Luxor Writing Instruments & Rorito International numbers are as of FY23*

Channel check findings reveal superior brand recall & tight credit terms

We interacted with a few super-stockists and distributors across India. Key findings are summarized below:

1) Factor: Channel margin trends

Our findings: Generally, trade margin for super-stockists is 5.5%, distribution margin is 9%, and at the retail level, it varies from 20-45% depending upon the product.

Comments: Overall, channel margins seem to be healthy.

2) Factor: Credit cycle analysis

Our findings: Hardly any credit is given to super-stockists, and DOMS operates on cash and carry basis.

Comments: As of FY21/FY22/FY23/FY24, receivable days stood at 38/26/11/15, indicating superior credit norms. It also indicates a strong brand pull and extended credit is not required to push sales.

3) Factor: Freight management

Our findings: Freight cost (from factory gate to super-stockists) is borne by DOMS.

Comments: Over the past 3 years, average freight cost has been 3% of sales and DOMS has 125 super-stockists. As business expands and the count rises, freight cost may also rise.

4) Factor: Delivery time

Our findings: Once the order is placed with super-stockists, the products are delivered in less than a week.

Comments: The short delivery time indicates good inventory management. This is noteworthy given DOMS has 4,100+ SKUs.

5) Factor: Sales return policy

Our findings: The distributor we interacted with mentioned DOMS does not take any sales return from distributors. However, super-stockists get some compensation if there is any defect in the products.

Comments: This indicates DOMS has a strong bargaining power.

Financial Projections

Revenue to log 26% CAGR over FY24-FY27E led by pens & pencils

We expect revenue CAGR of 26% over FY24-FY27E led by the following:

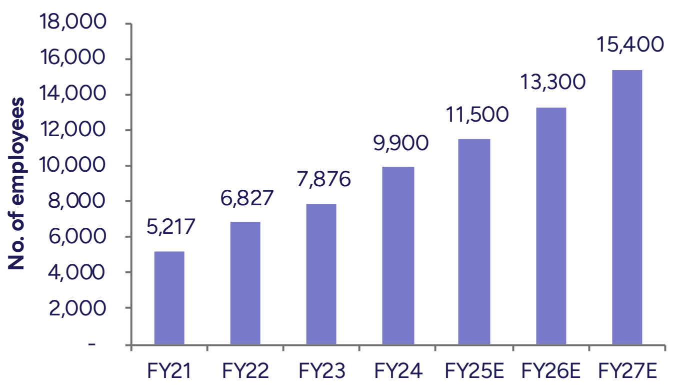
- Gradual increase in pencil capacity by 2.5mn pieces per day over the next 2 years. Current capacity is ~5.7mn pieces per day
- Capacity expansion in mathematical instrument boxes from 50k to 75k pieces per day
- Entry into new category, viz., pens. Installed capacity is set to increase to 3mn pieces per day from 2QFY25 and is expected to increase further once the new building at Umbergaon is ready by 3QFY26. Further, revenue is likely to get a fillip with the pan-India expansion of sales network.
- Strong dominance in kits and combos category (sales contribution of 10.3%/10.0% in FY23/FY24 respectively), which is increasingly being considered for gifting
- ASP growth of 4-7% across product categories, except exercise books, where realization is a function of number of pages

EBITDA CAGR to reach of 26% over FY24-FY27E; sharp margin expansion unlikely

We expect EBITDA CAGR of 26% over FY24-FY27E with a margin of 17.4%/17.6%/17.6% in FY25E/FY26E/FY27E respectively led by:

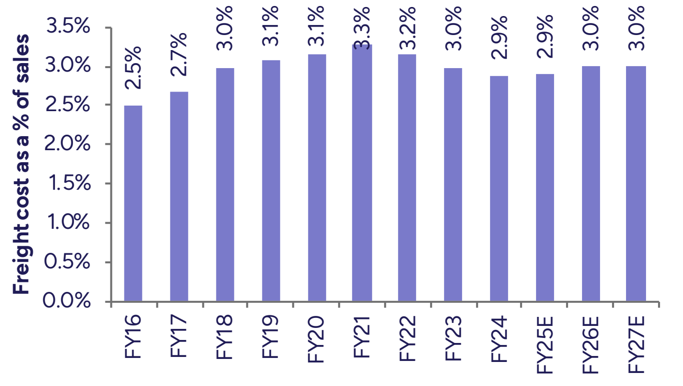
- Full backward integration across majority products (pencil ferrules and tin boxes for mathematical instruments being manufactured in-house), which is margin accretive
- Limited A&P spend (0.4% over next 3 years) given the strong brand pull
- Increase in employee count by 16% CAGR over FY24-FY27E as packaging is labor intensive activity
- Rise in freight cost from 2.9% of sales in FY24 to 3.0% in FY27E amid ongoing distribution expansion (number of retail touch points and distributors increased to 1,25,000+ and 675+ respectively, in 1QFY25)
- Fall in gross margin from 41.9% in FY24 to 41.7%/41.2%/41.2% in FY25E/FY26E/FY27E respectively due to inflationary trends in raw materials
- Entry into margin-dilutive diapers category

Exhibit 34: Employee count to rise to 15.4k by FY27E



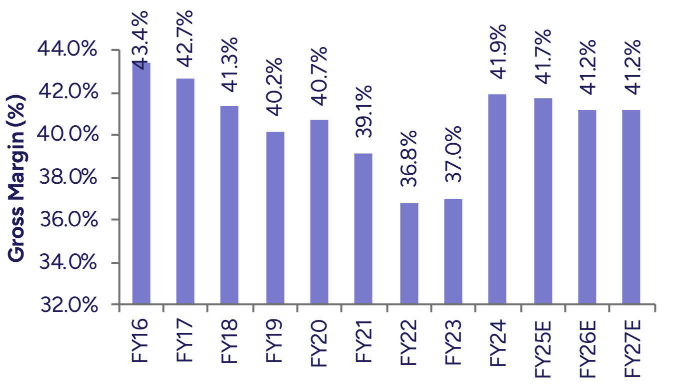
Source: Company, PL

Exhibit 35: Freight cost to form 3.0% of sales in FY27E



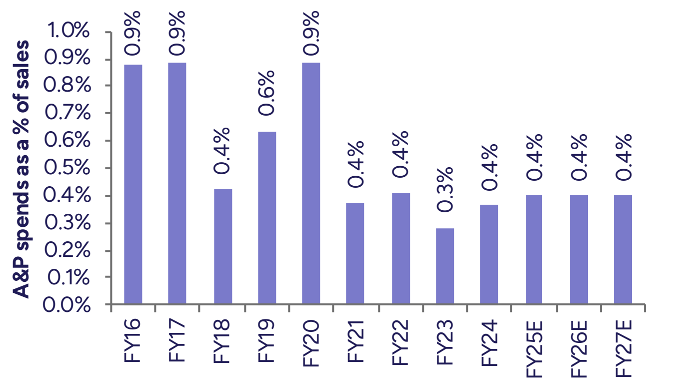
Source: Company, PL

Exhibit 36: Gross margin to be at 41.2% in FY27E



Source: Company, PL

Exhibit 37: A&P spend to remain below ~0.5% of sales



Source: Company, PL

PAT to grow 28% CAGR over FY24-FY27E

We expect PAT CAGR of 28% over FY24-FY27E led by the 1) ongoing capacity expansion in pens, pencils and mathematical boxes, 2) 4-7% rise in ASP across product categories, 3) accrual of full backward integration benefits, partially offset by rising employee and freight cost, and 4) fall in interest expenses with short-term debt anticipated to decline from Rs322mn in FY24 to Rs222mn in FY27E on superior working capital management.

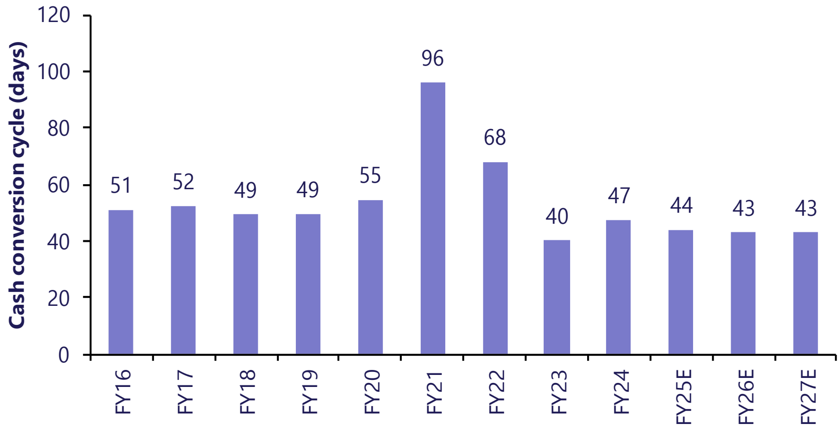
Cash conversion cycle to improve further

Cash conversion cycle of DOMS has reduced from 55 days in FY20 (pre-COVID base) to 47 days in FY24 led by the improvement in receivable and inventory days. With DOMS moving to the cash and carry model, receivable days have improved from 20 days in FY20 to 15 days in FY24. Nonetheless, as credit has to be given in the MT, e-com and exports channels, we do not anticipate any major improvement in receivable days and expect it to fall marginally to 12 days over the next 3 years.

Further, inventory days stood at 56 in FY23, due to higher stocking of raw materials (64% of inventory in FY23). As wood (used to make pencils) is sourced from Kashmir, which may be subject to external shocks, DOMS maintains high raw material inventory. High inventory is also maintained for certain imported products like pen nibs and sharpener blades, as any shortage can hamper production. However, finished goods stock on the BS is negligible (~16% over last 5 years), indicating superior inventory management despite having more than 4,100 SKUs. Given these factors, we expect inventory days to remain steady at 52/51/51 days in FY25E/FY26E/FY27E respectively.

Given its strong liquidity position (cash balance of Rs3,059mn as of FY24 aided by funds raised through IPO), DOMS can pay creditors swiftly. While this may stretch the cash conversion cycle, DOMS gets a prompt payment discount, which in the past had led to improvement in gross margin. We expect creditor days to remain steady at 22/21/20 days in FY25E/FY26E/FY27E and, consequently, the cash conversion cycle to improve from 47 days in FY24 to 43 days in FY27E.

Exhibit 38: Cash conversion cycle to improve to 43 days in FY27E



Source: Company, PL

Valuation

DOMS is a quasi-consumer discretionary proxy

DOMS does not have sufficient trading history, having been listed only recently, and hence, peer benchmarking is the apt method to figure out whether it should trade at a premium or discount to industry average. We believe DOMS should trade at a premium to listed domestic stationery peers for the following reasons:

- It has a global parentage, which can be exploited for technical know-how and R&D.
- Its business model is diversified with no significant product concentration risk (largest category, pencils contributed 33% to the top-line in FY24).
- DOMS has a superior brand image with products having strong customer pull (A&P spend is just 0.4% of sales over last 3 years).
- Full backward integration across most product categories brings in cost competitiveness. For instance, DOMS manufactures ferrules in-house, which is quite rare.
- It has a superior cash conversion cycle, of 47 days in FY24. Recently, DOMS migrated to the cash and carry model in GT, leading to a fall in receivable days. Not extending credit is an indication of brand salience and product acceptance in the market.
- DOMS has strong growth prospects with sales/PAT CAGR of 26%/28% expected over FY24-FY27E. In comparison, the stationery and art materials industry is expected to grow at 13% CAGR during the period.

Exhibit 39: Financials of stationery peers (Rs mn)

Particulars	Revenue		CAGR	EBITDA		CAGR	PAT		CAGR	FY24		
	FY22	FY24		FY22	FY24		FY22	FY24		ROE	ROCE	P/E
Kokuyo Camlin	5,085	8,159	26.7%	165	766	115.4%	-47	438	NA	15.7%	17.6%	25.4
Flair	5,689	9,691	30.5%	976	1,912	40.0%	552	1,190	46.9%	17.8%	17.9%	20.6
Navneet	11,143	17,513	25.4%	1,626	2,951	34.7%	756	2,516	82.5%	20.6%	32.0%	12.4
Linc	3,514	4,978	19.0%	215	558	61.0%	81	341	104.8%	18.0%	18.3%	22.4
DOMS	**6,836**	**15,371**	**50.0%**	**697**	**2,727**	**97.8%**	**171**	**1,531**	**198.9%**	**26.6%**	**27.6%**	**58.8**

Source: Company, PL Note: The data is taken from Bloomberg

DOMS is also present in the toys category and has recently entered into the school bags and diapers markets. It plans to move into other ancillary categories relating to children, like footwear, apparels, confectionaries, and sports gears & accessories. Thus, DOMS is more than a plain vanilla stationery and art materials company. Hence, we select consumer discretionary companies for peer benchmarking.

Exhibit 40: Growth and valuation profile of consumer discretionary stocks (Rs mn)

Particulars	Revenue		CAGR	EBITDA		CAGR	PAT		CAGR	FY24		FY26E P/E
	FY24	FY26E		FY24	FY26E		FY24	FY26E		ROE	ROCE	
Havells	1,85,900	2,48,804	15.7%	18,426	28,774	25.0%	12,708	20,030	25.5%	18.1%	21.3%	56.8
Crompton	73,128	93,560	13.1%	7,137	10,918	23.7%	4,399	7,445	30.1%	15.6%	45.9%	35.4
Voltas	1,24,812	1,77,570	19.3%	4,746	14,170	72.8%	2,520	11,290	111.7%	4.5%	10.6%	54.4
Titan	5,16,170	6,66,326	13.6%	52,920	75,789	19.7%	34,960	50,824	20.6%	32.9%	32.6%	59.2
Bajaj Electriclas	46,413	59,512	13.2%	2,597	5,880	50.5%	1,359	2,847	44.7%	7.8%	13.5%	33.5
VIP	22,450	28,321	12.3%	1,936	4,272	48.6%	801	2,115	62.5%	8.2%	11.0%	35.7
Safari	15,504	21,943	19.0%	2,775	3,933	19.0%	1,758	2,547	20.4%	28.2%	26.7%	46.8
Relaxo	29,141	36,947	12.6%	4,066	5,956	21.0%	2,005	3,288	28.1%	10.4%	10.6%	59.6
Bata	34,786	41,191	8.8%	7,859	9,594	10.5%	2,625	4,065	24.4%	17.7%	11.8%	45.6
Metro Brands	23,567	31,268	15.2%	6,996	9,558	16.9%	4,125	5,173	12.0%	24.2%	20.9%	66.0
DOMS	**15,371**	**25,113**	**27.8%**	**2,727**	**4,421**	**27.3%**	**1,597**	**2,667**	**29.2%**	**27.7%**	**31.9%**	**63.6**

Source: Company, PL Note: The data is taken from Bloomberg

As is evident from the table, DOMS' growth trajectory and return ratios are in-line/superior with consumer discretionary universe. Accordingly, we value the stock at 60x FY27E EPS with a TP of Rs3,349. Initiate with a 'BUY'.

Key Risks

- **Digitalization Impact:** Growing adoption of digital tools is reducing demand for traditional stationery, posing long-term challenges for DOMS' growth.
- **Product Dependency:** Reliance on pencils (33% of FY24 sales) creates a risk if this segment faces slower growth or increased competition.
- **Dependence on FILA:** DOMS relies on the FILA Group for majority of its export sales, making it vulnerable to any disruption in this relationship.
- **Raw Material Price Fluctuations:** Volatility in the prices of key raw materials like wood, polymers, and pigments can negatively affect profitability.
- **Environmental Awareness:** Increasing consumer awareness of environmental issues may reduce the demand for paper-based products, affecting sales.
- **Competition:** Intense competition from unorganized local players and new entrants with low-cost offerings can pressurize DOMS’ market share.
- **Labor and Operational Risks:** DOMS’ operations in Umbergaon are dependent on labor, making them vulnerable to disruptions due to labor issues.
- **Technological Changes:** Failure to keep pace with digital learning trends and technological advancements could hinder DOMS’ ability to stay competitive.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**15,371**	**18,917**	**25,113**	**30,910**
YoY gr. (%)	*26.8*	*23.1*	*32.8*	*23.1*
Cost of Goods Sold	8,928	11,028	14,766	18,175
Gross Profit	6,444	7,888	10,347	12,735
Margin (%)	*41.9*	*41.7*	*41.2*	*41.2*
Employee Cost	2,131	2,673	3,339	4,175
Other Expenses	1,586	1,930	2,587	3,122
EBITDA	**2,727**	**3,286**	**4,421**	**5,438**
YoY gr. (%)	*46.1*	*20.5*	*34.6*	*23.0*
Margin (%)	*17.7*	*17.4*	*17.6*	*17.6*
Depreciation and Amortization	512	718	927	1,036
EBIT	**2,215**	**2,568**	**3,494**	**4,402**
Margin (%)	*14.4*	*13.6*	*13.9*	*14.2*
Net Interest	171	134	116	103
Other Income	101	170	201	247
Profit Before Tax	**2,145**	**2,604**	**3,579**	**4,546**
Margin (%)	*14.0*	*13.8*	*14.3*	*14.7*
Total Tax	548	664	913	1,159
Effective tax rate (%)	*25.6*	*25.5*	*25.5*	*25.5*
Profit after tax	**1,597**	**1,940**	**2,667**	**3,387**
Minority interest	-	-	-	-
Share Profit from Associate	0	-	-	-
Adjusted PAT	**1,597**	**1,940**	**2,667**	**3,387**
YoY gr. (%)	*55.2*	*21.5*	*37.5*	*27.0*
Margin (%)	*10.4*	*10.3*	*10.6*	*11.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,597**	**1,940**	**2,667**	**3,387**
YoY gr. (%)	*55.2*	*21.5*	*37.5*	*27.0*
Margin (%)	*10.4*	*10.3*	*10.6*	*11.0*
Other Comprehensive Income	(15)	(10)	(10)	(10)
Total Comprehensive Income	1,581	1,930	2,657	3,377
Equity Shares O/s (m)	**61**	**61**	**61**	**61**
EPS (Rs)	**26.3**	**32.0**	**43.9**	**55.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**6,040**	**8,463**	**10,933**	**12,225**
Tangibles	6,031	8,444	10,904	12,186
Intangibles	9	19	29	39
Acc: Dep / Amortization	**1,682**	**2,400**	**3,327**	**4,362**
Tangibles	1,673	2,384	3,302	4,327
Intangibles	9	16	25	35
Net fixed assets	**4,358**	**6,064**	**7,607**	**7,863**
Tangibles	4,357	6,060	7,603	7,859
Intangibles	1	4	4	4
Capital Work In Progress	254	284	301	155
Goodwill	624	624	624	624
Non-Current Investments	144	185	241	293
Net Deferred tax assets	54	49	65	74
Other Non-Current Assets	301	269	357	377
Current Assets				
Investments	-	-	-	-
Inventories	2,251	2,695	3,509	4,319
Trade receivables	646	726	894	1,016
Cash & Bank Balance	3,059	2,555	2,686	5,050
Other Current Assets	201	265	352	433
Total Assets	**11,900**	**13,728**	**16,653**	**20,225**
Equity				
Equity Share Capital	607	607	607	607
Other Equity	7,537	9,316	11,790	14,955
Total Networth	**8,144**	**9,922**	**12,397**	**15,562**
Non-Current Liabilities				
Long Term borrowings	837	737	637	637
Provisions	149	142	188	232
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	452	354	357	360
Trade payables	904	1,140	1,445	1,694
Other current liabilities	705	709	892	989
Total Equity & Liabilities	**11,900**	**13,728**	**16,653**	**20,225**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	2,145	2,604	3,579	4,546
Add. Depreciation	512	718	927	1,036
Add. Interest	171	134	116	103
Less Financial Other Income	101	170	201	247
Add. Other	(70)	(170)	(201)	(247)
Op. profit before WC changes	2,758	3,286	4,421	5,438
Net Changes-WC	(289)	(366)	(568)	(647)
Direct tax	(643)	(664)	(913)	(1,159)
Net cash from Op. activities	**1,826**	**2,256**	**2,941**	**3,631**
Capital expenditures	(1,532)	(2,243)	(2,278)	(935)
Interest / Dividend Income	22	170	201	247
Others	(3,066)	(217)	(353)	(282)
Net Cash from Invt. activities	**(4,576)**	**(2,290)**	**(2,429)**	**(969)**
Issue of share cap. / premium	3,500	-	-	-
Debt changes	(792)	-	-	-
Dividend paid	(93)	(152)	(182)	(212)
Interest paid	(158)	(134)	(116)	(103)
Others	515	(183)	(83)	17
Net cash from Fin. activities	**2,972**	**(469)**	**(381)**	**(298)**
Net change in cash	**222**	**(504)**	**130**	**2,364**
Free Cash Flow	292	13	663	2,696

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	26.3	32.0	43.9	55.8
CEPS	34.8	43.8	59.2	72.9
BVPS	134.2	163.5	204.3	256.4
FCF	4.8	0.2	10.9	44.4
DPS	2.5	2.5	3.0	3.5
Return Ratio(%)				
RoCE	31.9	25.1	28.6	29.4
ROIC	22.9	23.9	26.5	26.9
RoE	27.7	21.5	23.9	24.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.3)
Net Working Capital (Days)	47	44	43	43
Valuation(x)				
PER	111.2	91.5	66.6	52.4
P/B	21.8	17.9	14.3	11.4
P/CEPS	84.2	66.8	49.4	40.1
EV/EBITDA	64.4	53.6	39.8	31.9
EV/Sales	11.4	9.3	7.0	5.6
Dividend Yield (%)	0.1	0.1	0.1	0.1

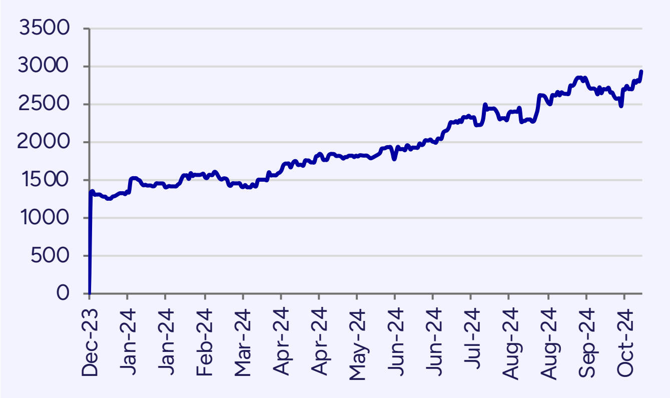
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25E
Net Revenue	**3,716**	**4,037**	**4,450**	**4,550**
YoY gr. (%)	*22.3*	*20.0*	*17.3*	*19.0*
Raw Material Expenses	2,077	2,261	2,533	2,644
Gross Profit	1,639	1,776	1,918	1,907
Margin (%)	*44.1*	*44.0*	*43.1*	*41.9*
EBITDA	**693**	**759**	**864**	**805**
YoY gr. (%)	*42.7*	*22.6*	*38.9*	*23.5*
Margin (%)	*18.7*	*18.8*	*19.4*	*17.7*
Depreciation / Depletion	140	144	148	164
EBIT	**553**	**615**	**716**	**642**
Margin (%)	*14.9*	*15.2*	*16.1*	*14.1*
Net Interest	50	43	40	36
Other Income	20	57	56	46
Profit before Tax	**524**	**629**	**732**	**651**
Margin (%)	*14.1*	*15.6*	*16.4*	*14.3*
Total Tax	136	160	189	163
Effective tax rate (%)	*25.9*	*25.5*	*25.8*	*25.0*
Profit after Tax	**388**	**469**	**543**	**488**
Minority interest	-	-	-	-
Share Profit from Associates	-	1	-	-
Adjusted PAT	**388**	**469**	**543**	**488**
YoY gr. (%)	*43.4*	*29.6*	*49.5*	*29.8*
Margin (%)	*10.4*	*11.6*	*12.2*	*10.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**388**	**469**	**543**	**488**
YoY gr. (%)	*43.4*	*29.6*	*49.5*	*29.8*
Margin (%)	*10.4*	*11.6*	*12.2*	*10.7*
Other Comprehensive Income	**(4)**	**1**	**(1)**	**-**
Total Comprehensive Income	**384**	**470**	**542**	**488**
Avg. Shares O/s (m)	**61**	**61**	**61**	**61**
EPS (Rs)	**6.9**	**8.2**	**9.0**	**9.0**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	922	891
2	Delhivery	Accumulate	430	417
3	Imagicaaworld Entertainment	BUY	116	80
4	Indian Railway Catering and Tourism Corporation	Reduce	822	880
5	InterGlobe Aviation	Accumulate	5,177	4,708
6	Lemon Tree Hotels	BUY	159	121
7	Mahindra Logistics	Hold	500	480
8	Navneet Education	Hold	164	143
9	Nazara Technologies	BUY	1,185	953
10	PVR Inox	Hold	1,598	1,621
11	S Chand and Company	BUY	312	211
12	Safari Industries (India)	BUY	3,005	2,608
13	TCI Express	Accumulate	1,250	1,040
14	V.I.P. Industries	Hold	547	551
15	Zee Entertainment Enterprises	Hold	143	127

PL's Recommendation Nomenclature

Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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