

# DOMS Industries | BUY

## Plant visit takeaways

We recently visited DOMS' manufacturing facility located in Umbergaon, Gujarat. The 13 manufacturing facilities in Umbergaon span across c.37 acres of land and is one of the largest stationary manufacturing facilities in India. On the business front, the company reiterated its focus on continued innovations ([Powering growth through innovation](#)) and the importance of making product the winner. The management is comfortable with 16-17% operating margins, and growth driven by customer satisfaction remains the top priority. The company would be content with topline growth 'higher-than-industry', as per the promoter Mr. Santosh Rasiklal Raveshia. The promoter hinted that the company may explore other avenues in future (indicative from entry into toys & bags segment), but would be confined to the 'Kids' category. Given the superior growth trajectory & healthy return ratios, we expect the stock to trade at a premium multiple. We remain optimistic on the company's ability to gain market share by focusing on innovations and leveraging end-to-end manufacturing capabilities. Any sharp correction should be used as an opportunity to add.

- Enhancing manufacturing capabilities..:** The Umbergaon facility spans across 37 acres, making it one of India's largest stationary manufacturing facilities. The facility is equipped with modern production processes. The company is backward integrated with operations such as procurement of raw materials, moulding, assembling, and integration of sub-assemblies into finished products – being done at the Umbergaon manufacturing facilities. This has enabled it to gain competitive advantage by improving productivity and reducing costs. The company is expanding capacity – a) 1L sq ft added in Q3FY24 and another 1L sq ft to be operational soon, b) Pencil manufacturing expansion underway, expected to commence production by 4QFY25, c) regular upgradation at existing facilities leading to improved capacities, and d) acquisition of c.44 acres of land adjacent to the existing Umbergaon facilities – the 6L sq ft area in Phase 1 (out of total 18L sq ft) will be dedicated to pens, highlighters and mechanical pencils. The first building should be operational in 12-15 months' time and would be dedicated to manufacturing pens.
- ... along with sharp focus on innovation will allow better market servicing, drive growth and sustain profitability:** The management re-iterated its focus on innovation-led growth and will continue to grow faster than industry. Further, with new capacities getting added and supply constraints getting eased, DOMS will be able expand distribution (currently reaches c.125-130k outlets vs universe of c.300k). While input costs have been benign to stable which led to strong EBITDA margins (c.19% in 2HFY24), on conservative basis management expects margins to be in the range of 16-17%. Innovation remains the DNA of the company. The company has a 50-member team involved in designing and R&D. The team focusses on developing products, keeping in mind latest trends and profitability (all products have margins in the range of mid to high teens). A combination of strong innovation and enhanced manufacturing capabilities will enable DOMS to gain shelf space among retailers, add newer touch points and drive overall growth.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,000
Upside/(Downside)	4.0%
Previous Price Target	2,000
Change	0.0%

### Key Data – DOMS IN

Current Market Price	INR1,923
Market cap (bn)	INR116.7/US\$1.4
Free Float	25%
Shares in issue (mn)	60.7
Diluted share (mn)	60.7
3-mon avg daily val (mn)	INR268.0/US\$3.2
52-week range	2,035/1,224
Sensex/Nifty	76,993/23,466
INR/US\$	83.6

### Price Performance

%	1M	Since Listing
Absolute	6.0	42.8
Relative*	1.8	33.6

\* To the BSE Sensex

Listed on 20 Dec 2023

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Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	6,804	12,077	15,321	19,039	23,401
Sales Growth (%)	70.0%	77.5%	26.9%	24.3%	22.9%
EBITDA	697	1,867	2,727	3,320	4,069
EBITDA Margin (%)	10.2%	15.5%	17.8%	17.4%	17.4%
Adjusted Net Profit	144	958	1,531	1,965	2,413
Diluted EPS (INR)	3.1	18.3	25.2	32.4	39.8
Diluted EPS Growth (%)	NM	499.7%	38.0%	28.3%	22.8%
ROIC (%)	6.8%	28.4%	30.6%	27.0%	26.7%
ROE (%)	6.0%	32.8%	23.0%	20.5%	22.0%
P/E (x)	NA	NA	76.2	59.4	48.4
P/B (x)	36.6	29.9	14.3	12.1	10.2
EV/EBITDA (x)	NA	NA	31.1	25.6	20.8
Dividend Yield (%)	0.0%	0.1%	0.1%	0.4%	0.5%

Source: Company data, JM Financial. Note: Valuations as of 14/Jun/2024

Exhibit 1. Manufacturing facilities in Umbergaon



Source: Company PPT, JM Financial

Exhibit 2. New 44-acre land parcel in Umbergaon



Source: Company, JM Financial

Exhibit 3. Robust manufacturing infrastructure enabling end-to-end operations

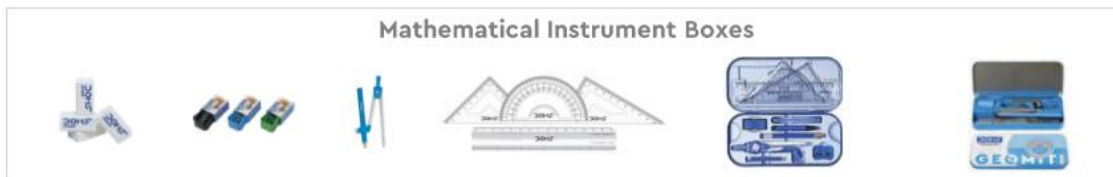


Source: Company PPT, JM Financial

Exhibit 4. Backward integrated manufacturing infrastructure drives operational efficiency



- All key components are manufactured in-house



- Tin boxes & Label Printing
- Mathematical Instruments
- Other Stationery Materials



- From sketch pen caps to ink & reservoir – All are manufactured in-house

Source: Company PPT, JM Financial

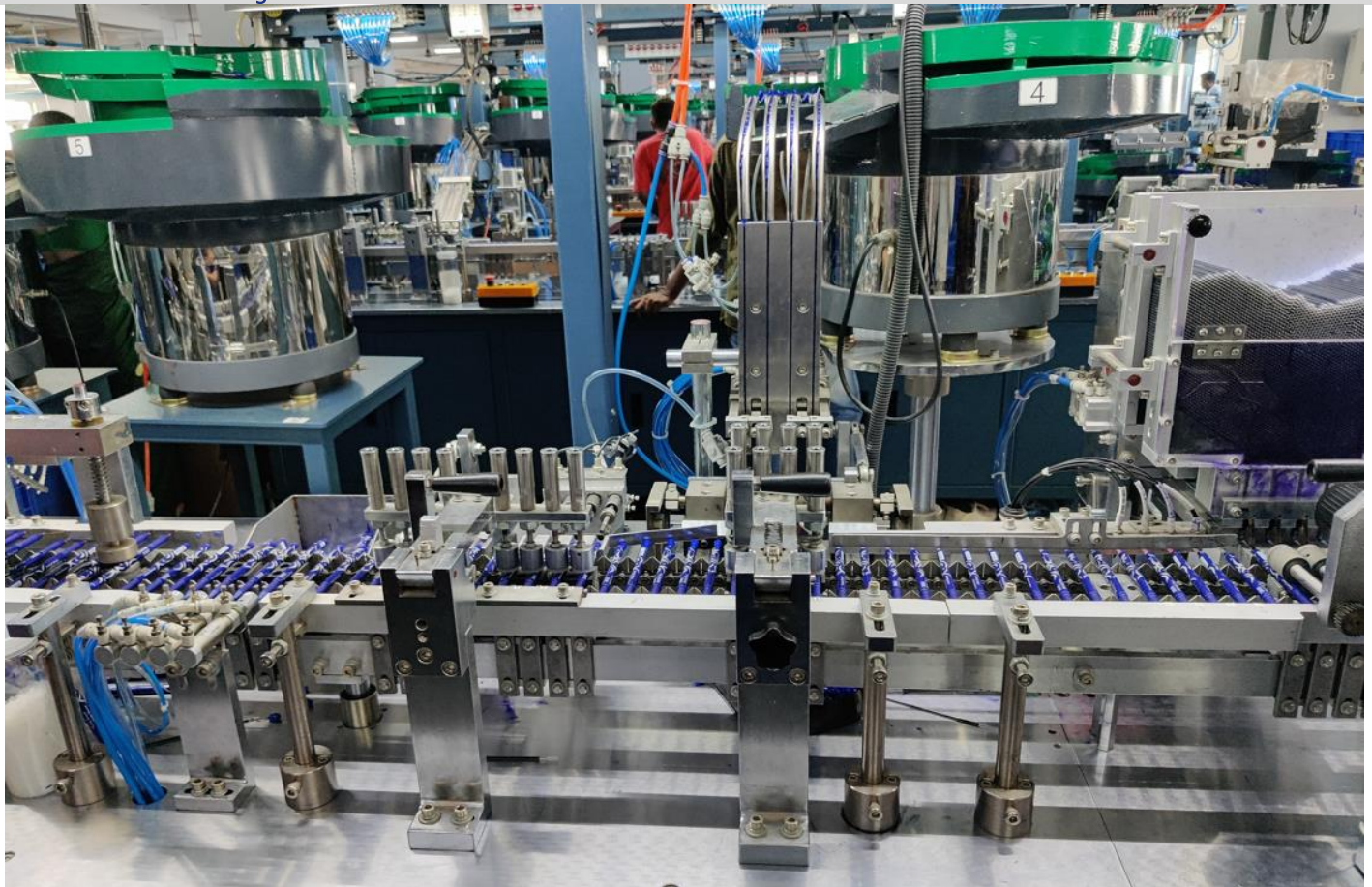


Exhibit 5. Some of the innovation initiatives



Source: Company PPT, JM Financial

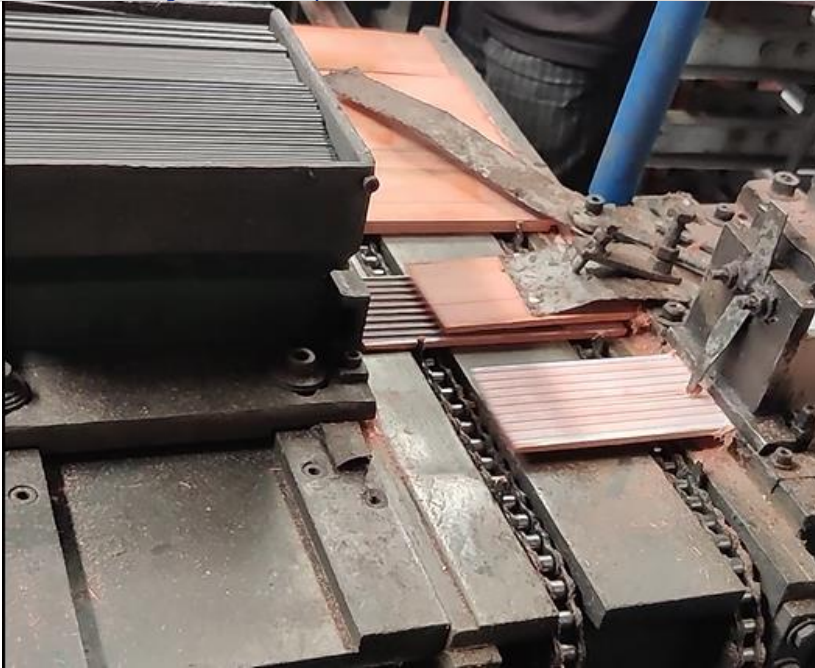
Exhibit 6. Pen manufacturing machine



Source: Company, JM Financial



Exhibit 7. Wood-cutting machine for pencils



Source: Company, JM Financial

Exhibit 8. Glueing and Grooving department



Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
<b>Sales</b>	<b>6,804</b>	<b>12,077</b>	<b>15,321</b>	<b>19,039</b>	<b>23,401</b>	
Sales Growth	70.0%	77.5%	26.9%	24.3%	22.9%	
Other Operating Income	32	42	51	56	59	
<b>Total Revenue</b>	<b>6,836</b>	<b>12,119</b>	<b>15,371</b>	<b>19,095</b>	<b>23,460</b>	
Cost of Goods Sold/Op. Exp.	4,321	7,634	8,928	11,195	13,807	
Personnel cost	1,014	1,418	2,131	2,608	3,136	
Other expenses	804	1,201	1,586	1,971	2,449	
<b>EBITDA</b>	<b>697</b>	<b>1,867</b>	<b>2,727</b>	<b>3,320</b>	<b>4,069</b>	
EBITDA (%)	10.2%	15.5%	17.8%	17.4%	17.4%	
EBITDA Growth (%)	132.2%	167.8%	46.1%	21.7%	22.5%	
Depn & Amort	380	407	512	662	827	
EBIT	317	1,460	2,215	2,658	3,242	
Other Income	26	46	101	166	140	
Finance Cost	103	119	171	108	59	
PBT before Excep & Forex	240	1,388	2,145	2,716	3,323	
Excep & forex Inc/Loss(-)	0	0	0	0	0	
PBT	240	1,388	2,145	2,716	3,323	
Taxes	69	359	548	679	831	
Extraordinary Inc/Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-28	-71	-65	-72	-79	
Reported Net profit	144	958	1,531	1,965	2,413	
<b>Adjusted Net Profit</b>	<b>144</b>	<b>958</b>	<b>1,531</b>	<b>1,965</b>	<b>2,413</b>	
Net Margin (%)	2.1%	7.9%	10.0%	10.3%	10.3%	
Diluted share capital (mn)	47	52	61	61	61	
<b>Diluted EPS (Rs)</b>	<b>3.1</b>	<b>18.3</b>	<b>25.2</b>	<b>32.4</b>	<b>39.8</b>	
Diluted EPS Growth	-385.0%	499.7%	38.0%	28.3%	22.8%	
Total Dividend + Tax	0	93	152	491	603	
Dividend Per Share (Rs)	0.0	1.8	2.5	8.1	9.9	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
<b>Shareholders' Fund</b>	<b>2,472</b>	<b>3,374</b>	<b>8,144</b>	<b>9,618</b>	<b>11,428</b>	
Share capital	4	4	607	607	607	
Reserves & Surplus	2,469	3,371	7,537	9,011	10,821	
Preference Share Capital	0	0	0	0	0	
Minority Interest	108	179	278	350	429	
Total Loans	849	1,001	1,159	116	69	
Def. Tax Liab / Assets (-)	-12	-32	-54	-54	-54	
<b>Total - Equity &amp; Liab</b>	<b>3,418</b>	<b>4,522</b>	<b>9,527</b>	<b>10,029</b>	<b>11,872</b>	
Net Fixed Assets	1,925	2,874	4,675	6,122	7,326	
Gross Fixed Assets	2,453	3,698	5,828	7,218	9,090	
Intangible Assets						
Less: Depn. & Amort.	569	877	1,390	2,052	2,878	
Capital WIP & Net lease asset	42	53	237	955	1,114	
Investments	0	15	15	15	15	
Current Assets	2,657	3,080	6,595	5,924	6,992	
Inventories	1,592	1,846	2,251	2,921	3,590	
Sundry Debtors	492	356	646	626	833	
Cash & Bank Balances	158	417	3,059	1,891	2,058	
Loans & Advances	123	120	139	124	129	
Other Current Assets	293	340	499	362	381	
Current Liab. & Prov.	1,164	1,446	1,759	2,031	2,461	
Current Liabilities	1,020	1,245	1,541	1,729	2,125	
Provisions & Others	145	201	217	302	336	
Net Current Assets	1,493	1,634	4,836	3,893	4,531	
<b>Application of Funds</b>	<b>3,418</b>	<b>4,522</b>	<b>9,527</b>	<b>10,029</b>	<b>11,872</b>	

Source: Company, JM Financial

Cash Flow statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	240	1,388	2,145	2,716	3,323	
Depn. & Amort.	380	407	512	662	827	
Net Interest Exp. / Inc. (-)	77	72	70	-58	-81	
Inc (-) / Dec in WCap.	-207	154	-289	-297	-474	
Others	51	57	31	0	0	
Taxes Paid	-32	-345	-643	-607	-828	
<b>Operating Cash Flow</b>	<b>509</b>	<b>1,733</b>	<b>1,826</b>	<b>2,417</b>	<b>2,767</b>	
Capex	-347	-1,354	-1,532	-2,136	-2,072	
Free Cash Flow	163	378	294	281	695	
-Inc/dec in investments	-1	-17	-2,361	0	0	
Other current assets	11	12	-684	166	140	
<b>Investing Cash Flow</b>	<b>-337</b>	<b>-1,359</b>	<b>-4,576</b>	<b>-1,970</b>	<b>-1,933</b>	
Inc(dec) in capital	0	0	3,347	0	0	
Dividend+Tax Thereon	0	-56	-93	-491	-603	
Inc/dec in loans	-116	146	-13	-1,043	-46	
Other assets	-189	-213	-269	-81	-17	
<b>Financing Cash Flow</b>	<b>-306</b>	<b>-124</b>	<b>2,972</b>	<b>-1,615</b>	<b>-667</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-134</b>	<b>250</b>	<b>222</b>	<b>-1,168</b>	<b>167</b>	
Opening cash balance	291	167	2,837	3,059	1,891	
Closing cash balance	158	417	3,059	1,891	2,058	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	2.1%	7.9%	10.0%	10.3%	10.3%
Asset Turnover (x)	2.0	3.0	2.2	1.9	2.1
Leverage Factor (x)	1.4	1.4	1.2	1.1	1.0
RoE	6.0%	32.8%	26.6%	22.1%	22.9%
<b>Key Ratios</b>					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	52.5	64.4	134.2	158.5	188.3
ROIC (%)	6.8%	28.4%	30.6%	27.0%	26.7%
ROCE (%)	6.5%	25.6%	23.0%	20.5%	22.0%
ROE (%)	6.0%	32.8%	26.6%	22.1%	22.9%
Net Debt-equity ratio (x)	0.3	0.2	-0.2	-0.2	-0.2
PER	NA	NA	76.2	59.4	48.4
PBV	36.6	29.9	14.3	12.1	10.2
EV/EBITDA	NA	NA	31.1	25.6	20.8
EV/Net Sales	1,020.5	639.7	5.5	4.5	3.6
Debtor days	26	11	15	12	13
Inventory days	85	56	54	56	56
Creditor days	69	42	37	42	42

Source: Company, JM Financial

## APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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