

IPO ANALYSIS AND OVERVIEW

DOMS INDUSTRIES



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Highlights:

- DOMS Industries is coming out with a 100% book building; initial public offering (IPO) of 1,60,07,406 shares of Rs 10 each in a price band Rs 750-790 per equity share.
- Not less than 75% of the issue will be allocated to Qualified Institutional Buyers (QIBs), including 5% to the mutual funds. Further, not more than 15% of the issue will be available for the non-institutional bidders and the remaining 10% for the retail investors.
- The issue will open for subscription on December 13, 2023 and will close on December 15, 2023.
- The shares will be listed on BSE as well as NSE.
- The face value of the share is Rs 10 and is priced 75.00 times of its face value on the lower side and 79.00 times on the higher side.
- Book running lead managers to the issue are JM Financial, BNP Paribas, ICICI Securities and IIFL Securities.
- Compliance Officer for the issue is Mitesh Padia.



PROFILE OF THE COMPANY

The company designs, develops, manufactures, and sells a wide range of stationery and art products, primarily under its flagship brand 'DOMS', in the domestic market as well as in over 45 countries internationally, as of September 30, 2023. It is the second largest player in India's branded 'stationery and art' products market, with a market share of around 12% by value, as of Fiscal 2023. Its keen focus on research and development (R&D), product engineering, and backward integrated manufacturing, operations, combined with its multichannel pan-India distribution network has enabled it to achieve a strong brand recall amongst consumers. The company offer well-designed and quality 'stationery and art material' products to consumers, which it classifies across seven categories: (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.

Its products are marketed under its flagship brand 'DOMS' along with other brand/sub-brands including 'C3', 'Amariz', and 'Fixyfix'. The company's in-house product design team focusses on developing products, keeping in mind latest trends, customer lifestyles, aspirations, and preferences, who along with its dedicated R&D team develop, test, and evaluate products prior to launch. It continues to expand its product range to keep pace with the ever-evolving customer requirements and preferences and have recently launched its writing instruments under 'DOMS' brand in 2023, fine-art products under 'Amariz' and adhesive products under 'Fixy Fix'. The company undertakes its manufacturing operations from facilities located in Umbergaon, Gujarat and Bari Brahma, in Jammu and Kashmir.

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Proceed is being used for:

- Proposing to part finance the cost of establishing a new manufacturing facility to expand its production capabilities for a wide range of writing instruments, water colour pens, markers and highlighters, at Gujarat, India (Proposed Project).
- General corporate purposes.



INDUSTRY OVERVIEW

Indian stationery and art materials market can be segmented into paper stationery and non-paper stationery products, with the latter constituting the larger share in the market by value. Paper stationery products can be further sub-divided into notebooks and papers, with notebooks accounting for the larger share by value. Non-paper stationery products can be sub-divided into writing instruments, office supplies, art and craft products etc., with writing instruments accounting for the larger share by value. The Indian stationery and art materials market has exhibited continuous growth over the years. It has an estimated size of Rs 38,500 crore by value as of FY23. However, the market witnessed a substantial sales dip in FY21 due to Covid, during which schools, colleges were closed and had shifted to online mode of education and offices also went into work from home mode. The market bounced back with 35% growth in FY22 due to revival in demand post reopening of schools, colleges, and resumption of work from office. The Indian stationery and art materials market is expected to grow at a CAGR of 13% during FY 23-28 period to reach a market value of Rs 71,600 crore by FY28. The 'stationery and art material' market in India has untapped potential in multiple categories with a limited presence of branded players. The market is gradually shifting towards branded play, because of shift in consumer preference towards premium and innovative products, GST implementation, branded players undertaking various brand building initiatives and economies of pan-India distribution network by branded players.

DOMS®

AMBITION NEEDS PREPARATION



Indian stationery and art materials market is witnessing increased demand for innovative and creative products across price segments, as there has been a shift in consumer mindset towards products which are aesthetically designed and have good functionalities. Additionally, increase in disposable income of people have increased their purchasing power, which in turn has accelerated the demand for premium stationery products in India. Children, who are the influencers in this category are also becoming more and more conscious pertaining to their likes and dislikes, while purchasing such products, there by driving the demand of innovative and creative stationery products in Indian market. Owing to such shift in demand, stationery manufacturers are coming up with new products, having enhanced designs and superior functionalities and are adding innovation to their offerings. The products under the 'DOMS' brand are known for their product designing and premium quality.

PROS AND STRENGTHS



Leadership position in Indian 'stationery and art material' industry with widest range of products, driving rapid business growth:

The company has a wide and differentiated product category, which includes over 3,800 SKUs as of September 30, 2023, and is spread across (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. It has the widest breadth of product categories amongst its peers in India and is amongst the few 'stationery and art material' products manufacturing and marketing companies globally with such product breadth. Since it operates in a fragmented and distribution-led market such as 'stationery and art material' industry, it is critical to be able to provide a holistic product portfolio to its customers and drive its brand equity. It has a wide product portfolio across the demand spectrum and are not dependent on a single demand factor. Its comprehensive product offering positions it as the one stop shop for all 'stationery and art material' requirements for its customers. It has leveraged its experience and success with its flagship brand 'DOMS' and introduced new brands and sub-brands to the market which complement its flagship brand.



Strong brand recall driven by high quality, innovative and differentiated products:

The company's strong and reputed brand increases consumer confidence and influences purchase decision in its favour. It sells a diverse portfolio of products which occupy leadership positions in multiple of their respective product market categories in India. This indicates a high brand recall value for its products and helps leverage its pricing strategy. Over the years, in order to add value to its consumers, it has consciously focussed on R&D and innovation, across both products and processes, while maintaining its quality standards and striving to incorporate technology in its operations. It has a dedicated team working at a state-of-the-art R&D facility in Umbergaon, Gujarat, which is equipped with modern and advanced machinery to develop, test, and evaluate its products. It also has an in-house designing team for developing concept-driven, impressionable designs and products catering to the evolving choices and needs of its target consumers, based on market research and trends. As of September 30, 2023, it employed 50 personnel as part of its R&D and designing team. Additionally, quality has always been a key focus area for its management and it is committed to maintaining stringent quality standards at all steps of the manufacturing cycle of its products, including sourcing, processing, manufacturing, packaging, and distribution. It has a dedicated quality assurance and quality check team who ensures compliance with its quality management systems. As on September 30, 2023, it employed 85 personnel as part of its quality check and assurance team.



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Robust multi-channel distribution network with strong pan India presence:

The company has a widespread multi-channel distribution network, through which it sell its products (i) through general trade, where it sell products to its super-stockists, who sell to a distributor, and who in turn sells it to a wholesaler or retailer; (ii) through modern trade, where it sell its products to supermarkets, hypermarkets, mini markets, cash and carry stores and on leading e-commerce platforms; and (iii) to large corporates, institutions, and other companies who sell its products either in their own brand or under its flagship 'DOMS' brand. Its systematic distribution network ensures effective market penetration and facilitates its growth strategy. Over the years, it has developed a pan-India distribution network. As of September 30, 2023, its products were sold in over 3,500 cities and towns in India. Its deep distribution network and wide scale accessibility has enabled it to become a household brand across the country with a highly diversified sales mix.



Strategic partnership with F.I.L.A.- Fabbrica Italiana Lapis ed Affini S.p.A. enabling access to global markets and product know-how:

In the year 2012, FILA entered into a strategic partnership with the company, acquiring 18.50% of the paid-up capital of the company, with a subsequent increase to 51.00% in the year 2015. It has a synergetic relationship with FILA, wherein its day-to-day operations are completely managed by its Individual Promoters, along with its Board of Directors, and it receive strategic inputs from FILA, from time to time. Its collaboration with FILA has helped it expand its international footprint in Asia Pacific, Europe, and Middle Eastern markets with the distribution of its products. It has exclusive rights for the marketing, sales, and distribution of some of the products under the name and trademark of certain entities of FILA Group in India, Nepal, Bhutan, Sri Lanka, Bangladesh, Myanmar, and Maldives. Further, it manufactures certain specific products at its Umbergaon Manufacturing Facilities, for the FILA Group and also undertake OEM manufacturing for the FILA Group. Further, it has helped FILA by improving their ability to source high quality products at competitive prices from India for global sales and also consolidate certain procurement activities.



RISKS AND CONCERNS



Dependent on third parties:

The company is dependent on third parties for the supply of raw materials and packing materials required in its production process, in an adequate quantity, in a timely manner and at reasonable prices. It has not entered into any formal contracts with such suppliers and instead undertake business with the suppliers on a purchase order basis. The lack of an exclusive formal arrangement with its suppliers exposes it to risks including delivery failure or component shortages owing to a lack of contractually agreed terms and conditions. While it has not faced any material issues with its suppliers in the past three years, in the event it is unable to maintain a consistent, high quality and cost-effective supply chain in the future, its business, prospects, financial condition, and operating results could be adversely affected. Further, for some of its raw materials such as tinplate, polypropylene and polystyrene, it is dependent on certain limited suppliers. With regards to one of its key input materials i.e., 'wood', it procures it directly from suppliers in Kashmir, Belgium, Kerala and China on a purchase order basis. If any of the suppliers were to cease operations or decide to discontinue its supply relationship, it would need to find alternatives, within a requisite time period.



Brand and counterfeiting risk:

The company's 'DOMS' brand plays a significant role in the success of its business and sustaining customer loyalty along with contributing between 76.00%-84.00% of its Gross Product Sales in each of the last three Fiscals and for the six months period ending September 30, 2023. There can be no assurance that its brand will not be adversely affected in the future by actions that are beyond its control including customer complaints, product liability claims, or adverse publicity and media coverage from any source in India and abroad. Unsuccessful product introductions may also erode its brand image. Any damage to its brand, if not immediately and sufficiently remedied, could have an adverse effect on its reputation, competitive position, business, results of operations and financial condition. While there have been no such instances in the past three years, which have adversely impacted its brand or reputation, any adverse change in the quality of its products, including due to reasons beyond its control, or adverse publicity and media coverage, even when false, could tarnish the image of its brand, result in negative reviews and feedback from its consumers.





Dependence on natural resources for raw materials:

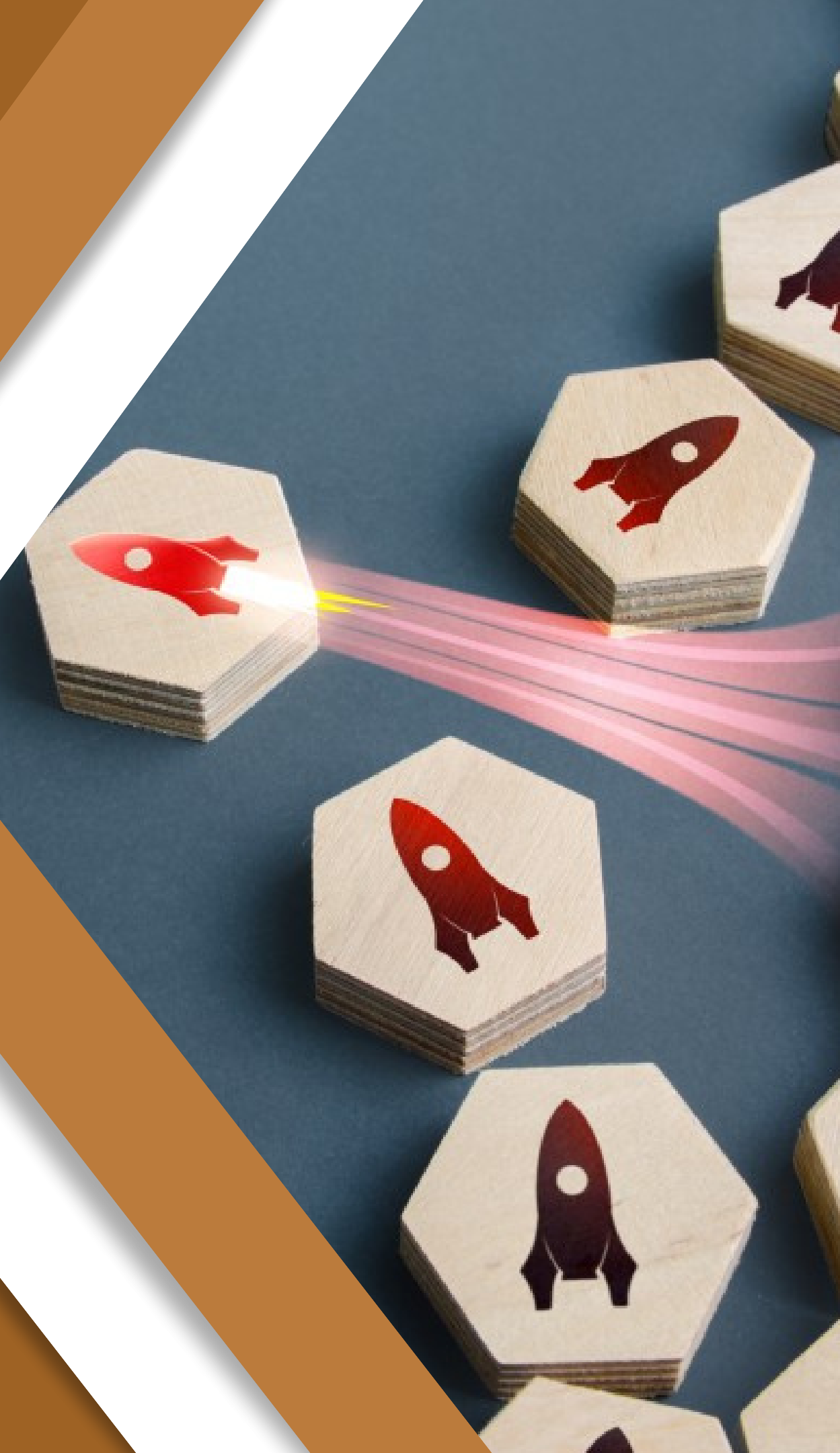
Some of the raw materials used in the company's production processes such as 'wood', 'graphite' and 'calcium carbonate' are natural resources which are depleting in nature. It produces wooden slats from high-quality tree wood, sourced from Kashmir at its Jammu Manufacturing Facility. The wooden slats produced by it at its Jammu Manufacturing Facility as well as procured by it directly from Kashmir, Belgium, Kerala and China are the key input material for the production of its wooden pencils. It also uses 'graphite' in the production of its wooden pencils which is undertaken at its Umbergaon Manufacturing Facilities. Since its key raw materials used in the production of its wooden pencils, 'wood' and 'graphite' are natural resources, it is subject to the risk of shortage or non-availability of such raw materials due to various factors which are beyond its control. Additionally, due to such shortage or non-availability, it is also subject to volatility in prices of its natural raw materials.





Low entry barrier:

Due to low entry barriers in terms of quantum of investment required to enter the business, the industry in which the company operate is highly competitive, with a large number of players operating in the segments in which it also operates. Additionally, since entry costs in this industry is relatively lower, there is also a large presence of unorganised market players. It is required to compete with such players on a multiple number of factors including quality of the products, price, product range, product mix, advertising and marketing efforts and efficiencies, design, look and feel of products and market penetration. Some of these market players may have substantially greater financial resources and their brand may have deeper customer recall. While it make efforts to compete effectively by identifying and responding to change in customer preferences, reducing cost of production, consolidating its position in existing market and penetrating into new markets and expanding its distribution network, it cannot assure that it will not experience any material effect on its business specifically due to entry of large players in the 'stationery and art material' industry.



OUTLOOK

Incorporated in 2006, DOMS Industries 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 along with other brand/sub-brands including C3, Amariz, and Fixyfix. The company offers stationery and art materials to consumers, which are classified into seven 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. The company has an exclusive tie-up with certain entities of the FILA Group for the distribution and marketing of their products in South Asia. The company operates 13 manufacturing facilities in Umbergaon, Gujarat, spread over an area of about 34 acres, equipped with modern and automated production processes, and one manufacturing facility in Bari Brahma, in Jammu and Kashmir, spread over approximately 2 acres of land with an area of approximately 0.07 million square feet, focused on manufacturing wooden slats from locally sourced timber. On the concern side, shortage of skilled and unskilled personnel or work stoppages caused by disagreements with employees could have an adverse effect on its business and results of operations. While it has not experienced any major prolonged disruption in its business operations due to disputes or other problems with its workforce in the past, there can be no assurance that it will not experience any such disruption in the future.

The issue has been offered in a price band of Rs 750-790 per equity share. The aggregate size of the offer is around Rs 1200.55 crore to Rs 1264.59 crore based on lower and upper price band respectively. On performance front, the company's revenue from operations increased by 77.28% to Rs 12,118.90 million in Fiscal 2023 from Rs 6,836.01 million in Fiscal 2022, due to an increase in volume of products sold, higher per unit realisation, as well as an increase in export incentives received, due to an increase in export sales. The company's profit for the year increased to Rs 1,028.71 million in Fiscal 2023 from Rs 171.40 million in Fiscal 2022. Meanwhile, the company intends to streamline its operations and enhance its manufacturing capacity for writing instrument products by adding approximately 0.10 million square feet to its Umbergaon Manufacturing Facilities. It continues to focus on further integrating its operations and benefit from economies of scale and improve operating margins. As part of its business strategy, to further diversify revenue streams, it identifies potential products which are complementary to its current product categories.

Disclaimer: This is not a stock recommendation. Do your due diligence before investing or consult a SEBI-registered investment advisor before making any investment decisions.



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