"DOMS Industries Limited

Q2&H1'FY27 Earnings Conference Call"

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MANAGEMENT: MR. RAHUL SHAH – CHIEF FINANCIAL OFFICER – DOMS INDUSTRIES LIMITED

MODERATOR: MR. ANIRUDDHA JOSHI – ICICI SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to DOMS Industries Limited Q2 FY27 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, signal an operator by pressing star, then zero on your touch-tone phone. Please note that this call is being recorded.

Before we begin, a brief disclaimer. The presentation, which DOMS Industries Limited has uploaded on the stock exchange and their website and the discussions during this call contains or may contain certain forward-looking statements concerning DOMS Industries Limited's business prospects and profitability, which are subject to several risks and uncertainties, and the actual results could materially differ from those in such forward-looking statements.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Arshi. On behalf of ICICI Securities, we welcome you all to Q2 FY27 Results Conference Call of DOMS Industries Limited. We have with us today senior management represented by Mr. Rahul Shah, Chief Financial Officer.

Now I hand over the call to Rahul Bhai for his initial comments on the quarterly and half yearly performance, and then we will open the floor for question-and-answer. Thanks, and over to you, Rahul bhai.

Rahul Shah: Thank you, Aniruddha bhai. Good afternoon, and a very warm welcome to everyone. Thank you for your time and for joining us today for the Q2 and H1 FY27 earnings call. Joining me on this call is the team from Marathon Capital, our Investor Relations Advisor. Before we begin, on behalf of everyone at DOMS, I wish you and your families a very happy Diwali. May the festival bring you happiness, good health and prosperity. With that, let me take you through our business performance and key financial developments for the quarter, along with the progress we have made on our strategic priorities.

We continue to deliver sustained revenue growth during this quarter, supported by healthy volume expansion across both our domestic and export markets. This performance reflects the strength of our brands and our ability to navigate challenging external environment. Our growth was driven by a combination of capacity additions implemented over the last year and the positive market response to our new product launches. These initiatives, together with calibrated pricing actions helped us partially offset the impact of ongoing raw material inflation while maintaining our focus on volume-based market share growth.

Growth during the quarter was broad-based with all our key categories delivering positive performance. Our Scholastic Stationery, Scholastic art material and office supplies business continued to benefit from healthy underlying demand as well as increase in capacities during the year. Kits and combo recorded marginal growth during the quarter, largely due to capacity constraints and increased demand for individual products. We also saw strong momentum in our hobby and craft portfolio, supported by an expanded range of adhesive products and increased

production capacity. The back-to-school category delivered strong growth, led by demand of our recently launched pencil box range. In the hygiene category, growth was supported by improved diaper sales driven by favorable climatic conditions. This performance reflects the strength of our diversified portfolio, continued capacity expansion and product innovation.

Overall, while we continue to operate in a volatile cost environment, our focus remains on strengthening our market position and driving sustainable long-term growth while maintaining disciplined cost management.

Coming to our financial performance for Q2 and HY FY27. Operating revenue for Q2 FY27 grew by 17.6% to INR667.8 crores, while H1 FY27 revenue grew by 18.4%. While the quarter demonstrated underlying business momentum, we also faced an exceptional challenge in the form of unusually heavy rainfall and flooding in Gujarat, which led to inventory damages and workforce mobility challenges impacting production and sales. We estimate an impact of approximately 300 to 350 basis points on our sales growth during Q2 FY27 due to this.

EBITDA for Q2 FY27 stood at INR82.8 crores and H1 FY27 EBITDA stood at INR165.3 crores with margins during both the periods at 12.4%. Despite continued volatility in raw material prices, we maintained our EBITDA margin sequentially during the quarter. While raw material prices softened in the earlier part of the quarter, they increased significantly in the second half. The improvement in consumption margins supported by initial easing in raw material prices and our marginal price increases was offset by higher manpower costs. As part of the Reynolds asset purchase agreement, the entire Reynolds sales and support teams joined DOMS effective July 1. While the associated employee costs were incurred from that date, revenue contribution from the acquired assets remained limited during the quarter as these assets were being relocated to DOMS in Umbergaon. This temporary mismatch between employee cost and correspondent revenue contribution weighed on our profitability. As operations scale up and sales from these assets increase, we expect this impact to normalize over time.

PAT for Q2 FY27 stood at INR38.3 crores with margins at 5.7%. H1 FY27 PAT stood at INR83.6 crores with margins at 6.2%. At the PAT level, the quarter includes a onetime exceptional loss of INR10.4 crores arising from damage caused by heavy rainfall and flooding. We have already launched the relevant insurance claims and the associated recoveries is expected to substantially offset the financial impact in due course.

On the working capital front, despite strong volume-led growth and a challenging market environment, we have maintained our working capital cycle within the guided range of 55 to 60 days. Our focus remains on the quality of growth supported by financial discipline and healthy cash conversion. We are pursuing measured, sustainable growth rather than pushing sales through extended credit terms or allowing receivables to build up. At the same time, we continue to closely manage inventory levels, which have marginally increased due to higher carrying costs. Further, we continue to maintain discipline in payables, ensuring that our growth is supported by efficient working capital management.

Turning to our ongoing capacity expansion. We are pleased to share that we have successfully commissioned the first building at our new 50-acre manufacturing facility, bringing

approximately 170,000 square feet of manufacturing space into operation. This building is dedicated to our office supplies business, primarily for pen manufacturing under the Reynolds brand with revenue contribution expected from Q3 FY27 onwards. We expect to add manufacturing infrastructure for wooden pencils, followed by further capacity expansion in office supplies before the close of the current financial year.

During H1 FY27, we invested over INR200 crores in capital expenditure and expect to invest a further INR100 crores to INR125 crores during the remainder part of the year.

As we look ahead, we remain encouraged by the positive demand environment across our key categories and markets, reinforcing our confidence in delivering our guided consolidated sales growth of 18% to 20% for the year. We continue to closely monitor raw material price movements while maintaining a balanced approach to growth with a focus on gaining market share through higher volumes and executing our expansion plans. Thank you.

And with this, I would now request the moderator to open the floor for questions.

Moderator: Thank you, sir. We will now begin the question-and-answer session. The first question is from the line of Ms. Sneha from Nuvama Wealth.

Sneha: So the first question is related to how much would have been approximate on an average raw material price increases and what we've been able to pass it on? And similarly, in case of passing on, how much has been the increase in realizations and volumes in case we can break it down because the current volume growth, while I understand some bit was impacted because of flood, but we still would want to gauge the breakup between realizations and volume increase that has been happening for us?

Rahul Shah: So, Sneha, volume growth has been close to about -- out of the 18%-odd growth that we've done, more than 80% growth comes from volume-based growth and 20%-odd comes from realization growth.

Sneha: And Rahul, in terms of passing it on, how much is the raw material prices increases passed on? And what are our plans in terms of passing on further price increases?

Rahul Shah: Sneha, what happened in this quarter was in the first half of the quarter, the raw material prices had cooled off a little before they started increasing from early August onwards -- early to mid-August onwards. And this increase has been actually substantial, as we speak today. The raw material pricing are at probably its peak since the time this West Asian conflict has started.

As highlighted during our previous call, our pricing decisions are neither immediate or very reactive. We carefully evaluate and take calibrated price increases with the first objective being to ensure that there is no impact on volume-based growth. So given this situation, we are following sort of the same trend. In product-wise, wherever we believe that there is some scope for price improvement without any significant impact on volume-based growth, we are taking those steps.

Hence, if you would see and compare with our first quarter numbers, our consumption margins had actually improved. And this is because of the certain level of price increases that we had taken plus some cooling off in raw material prices.

Going forward, it's very difficult to state right now because like I said, that the volatility continues -- each week, the raw material prices are changing. So it's like a catch-up game that we are playing, and we will take calibrated actions wherever we believe that there is possibility to increase the prices.

Sneha: So, Rahul, let me simplify this. As on date, whatever your raw material pricing is coming out to be and whatever your realizations, which are passed on, what is the realistic margins that we can look at in the coming quarters?

Rahul Shah: So we acknowledge that this approach that we have been taking has resulted in some near-term margin pressure. However, we are consciously balancing the pressure against the long-term benefits of sustaining volumes, improving our market share and keeping the entire value chain from our super stockist to the distributors, retailers and end consumers appropriately supported.

Our targeted EBITDA margin range continues to be 16% to 17%. However, we will evaluate -- we have to be patient for a couple of quarters. We will evaluate this strategic price increase and other operating measures needed to move back towards that range of 16% to 17%.

But like I said, we would prefer to remain patient over the next couple of quarters, assess how input cost and our ongoing pricing measures evolve and then decide whether more significant action is warranted. So though this should not be read as a commitment to a particular quarter for the margin recovery or as a pause in the measured pricing actions that we are taking already. It just reflects our preference for sustainable recovery in margins supported by healthy volumes and a strong value chain rather than a short-term improvement at the expense of growth.

Sneha: Understood. Let me also ask you a related question. How is the competitive intensity in this sector? Are even your peers not passing on the raw material price increases? Are you getting imported material at a cheaper place?

So idea is asking you what is restricting us? Does that -- have we seen in the past that because of higher raw material price increases, the growth actually tends to get impacted in these kind of categories?

Rahul Shah: See, in the past, we've always seen that whenever there has been such a sudden increase in inflation, industry players, including DOMS, those players benefit who take a measured approach rather than only focus on margin protection because raw material prices at some point of time will stabilize or cool off. Everybody is sure. It's just that we don't know when this is going to happen. And once that happens, then you are aware of how much and what sort of price action you need to take. It becomes really difficult for any brand owner to frequently keep changing the prices of its products. So it has to be a measured response.

And in the past, in case of DOMS only, we've seen that whenever such significant price increases have happened, we've always taken measured approach. In the interim, it has impacted our

margin. But in the long term, it has resulted into sustained volume growth backed by higher margins. So we would want to continue to learn from our past, the history what has shown up. And right now also, we are taking this measured approach only.

Moderator: The next question is from the line of Mr. Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: So, Rahul bhai, if you can share more details on Reynolds acquisition. So where are we in terms of the portfolio launch? And how do you see the progress in terms of launching the entire portfolio in the rest of the year?

Also, is the distribution -- how big the distribution is now for Reynolds brand per se? And is it integrated well in DOMS network or how are you seeing the distribution panning out for Reynolds? And is there any new product also, etc., planned under Reynolds? Also last question, how do you see the pricing of Reynolds vis-a-vis DOMS portfolio also?

Rahul Shah: Aniruddha-ji, the first building that has been recently commissioned in this 50-acre expansion project has been set up with a dedicated capacity being allocated for manufacturing of writing instruments primarily under the Reynolds brand. We've already started production for some of the most fast-moving Reynolds products like Brite and 045. Trial production for another of a very iconic pen model they had Jetter, which is a click pen. That has also started.

Additionally, we are increasing our capacities for manufacturing these products, the writing instrument products under Reynolds brand in this infrastructure as well. So going forward -- right now, we've not -- we've kept the pricing, the MRP prices of these products similar to what they were because for us, it is a new product sort of a launch. So we don't want to change the market dynamics of these products. Hence, the pricing has been kept constant. But we'll see revenues from Reynolds brand from the goods manufactured by us flowing in from third quarter FY27 and gaining momentum in fourth quarter FY27.

Coming to your question with respect to the integration. Like I mentioned, from July 1, 2027, the entire sales team and the support team of Reynolds brand was integrated with the DOMS team wherever we were -- we did an assessment of their strength of their people, their distribution network wherever there were overlaps, we combined both the teams, wherever there were white pockets or white space where we reassigned certain members. So this went on for a couple of months. But now I would say that the team has been completely integrated. They have all started working under our field force system. So that integration is done.

When it comes to the super stockist and channel partners, there were certain overlaps -- there we had to take certain difficult decisions wherever we saw that there were significant overlaps and a very strong DOMS team member and a very weak Reynolds network member, there we rightsized the network also till some extent.

So now I think the distribution-wise and team-wise, we are almost there. So once this production starts in high volume and sales start, we'll be able to maximize the output for the Reynolds brand.

Aniruddha Joshi: Okay. Sure, sir. This is very, very helpful. Just lastly on Wowper. So that brand also continues to grow at a healthy rate. So in terms of more capacity for driving the growth. And I guess we

have only one unit at Rajasthan, so do we need additional investments for rest of regions or how should we read more into this? And in terms of overall margins, while I understand it's slightly less than the DOMS brand. But now with scale coming in, operating leverage and in a way, established distribution, branding, etc., what would be the margin? And in a way, what would be the steady-state margin in coming years?

Rahul Shah: Sure, Aniruddha. So, Aniruddha bhai, as you correctly said, from a revenue perspective, year-on-year, Uniclan, which is majorly our baby hygiene business, they reported a revenue growth of 21.5%. This is a mix of both volume-driven growth and increasing selling price.

Like, I would say, like DOMS or actually a little even more than DOMS, diaper is crude-sensitive product. Hence, there also, we've seen a significant rise in raw material prices, and we've passed on some of it to the consumer. Therefore, the average realization there have increased. However, the consumption is -- has been impacted compared to the same period previous year. Hence, we've seen the EBITDA margins come down from 8.1% in the previous year quarter to 6.4%. This is primarily on account of increase in the consumption or increase because of the raw material prices. Going forward, as things normalize, we'll take a call whether further price increases are required in this segment or else, we believe that we'll be comfortable. We'll want to have margins of around 8% to 10% for this business segment in the longer term.

When it comes to capacity, like I said, we -- just post our acquisition, we installed one additional line for manufacturing baby diapers and the new line for manufacturing wet wipes at Uniclan. These have come into production, but there is still some available capacities there. So till we don't reach optimal level of capacity, we've not currently planned any further capex in Uniclan.

We wait for -- I think at least our growth for the next year also would be taken care from the current infrastructure. After that, in the coming financial -- beginning of the coming financial, we'll evaluate internally within -- with the promoters of Uniclan and see if any capex would be required to fund or fuel the growth for FY28, '29. I hope this answers your question, Aniruddha bhai.

Aniruddha Joshi: Yes.

Moderator: The next question is from the line of Ms. Aradhana Jain from 360 ONE Capital.

Aradhana Jain: Just a couple of questions and a follow-up to the first participant's question. Basically, I wanted to understand a little more on the inflation, the input cost inflation and the price hike that we have taken. What I understand is that in 1Q, we had seen close to around 15%, 20% kind of input cost inflation. And against that, we've taken close to around 4%, 5% of price hike. So how much overall in 1H would be that number in terms of inflation and price hike?

And specifically for 2Q, while I understand that in the first half, the inflation had cooled off a bit. But given that it increased in the second half of the quarter, did we take incremental price hike? And to top that up, what sort of price hike have we taken like in which sort of categories did we take those price hikes? So that's my first question.

Rahul Shah: So, Aradhana, this time, if I have to particularly say about the overall cost inflation, we are close to about 15%-odd after considering the positive impact in the first few weeks of the quarter. So that have been the overall inflation. There have been certain price hikes that we continue to take.

But Aradhana, you all need to really understand that just because if the prices increase today, it is impossible for us to take the impact of that price increase from tomorrow. We manufacture products which are sold on maximum retail price. We already have an inventory of packing material, which is about a 2-month sort of an inventory of packing material. And this is all printed and ready either at our manufacturing locations or at the location of our printing partners.

So because of that, any decision that we take today, by the time it comes into the market, it's a 3- to 4-month cycle. So it is difficult to say that how much impact because of this recent increase, what is the price increase that we are passing on from today onwards.

Like we mentioned earlier also and again mentioned in the call today, we are taking a measured approach. It is not like we are taking the approach through categories. It is at a granular level of maintaining the cost sheets and evaluating the cost sheets of each and every single product, be it sold in the domestic market or in the export market. Wherever we believe that there is any room for increasing the selling prices at the MRP level or at the channel level or reducing the schemes and margins, we are taking those steps.

I'm not sure if you've been able to see from the investor presentation where we also gave -- in addition to the revenue from operations, we also gave numbers with respect to our gross product sales. You would have seen that our margin -- our schemes and discounts that we give have actually come down when compared to previous year. This automatically shows that there have been some increases in our ASPs and this benefit is seen also in our consumption.

Aradhana Jain: Understood. Understood, sir. Sir, secondly, I wanted to understand on the capex side. So you said that we've already done close to around INR200 crores of capex in the first half and another INR150 crores . . . INR100 crores to INR150 crores will be done in the second half. So that INR350-odd crores of capex, how much of it will be towards the first building that has already been commercialized?

And eventually, in that 50 acres of land, how many more buildings will we have? And if you could also throw some light on like what -- while you already said it in your opening remarks that it would be towards scholastic and office supplies. But across buildings, what sort of product categories will we be expanding into? Some light on that and with respect to time line as well that when all of that could be done?

Rahul Shah: So like I mentioned, Aradhana, we spent approximately INR200 crores in H1 FY27 primarily towards the development of 50-acre greenfield projects, which includes construction development of the common infrastructure. We've also added a few land parcels adjacent to this site, which increased our footprint from 45 acres to 50 acres. Plus a significant portion has gone for purchasing machines, plant and machinery for this facility and also with respect to the asset purchase we did from Reynolds. So this is where a significant portion of this INR200 crores plus capex has gone.

In terms of future expansion, like I said, we have currently one building, which has come on stream. Second building, machineries are being installed. Third building also machineries have been installed. And three other buildings, out of which one is relatively very small, they are at the finishing stage, like some doors, windows and all these being installed. So this is the current status of the project.

With what visibility that we have in terms of these two buildings where machineries are being installed and second also where machinery installation has started. There, like I mentioned, we are increasing capacities for wooden pencil and for office supplies. For rest of the building, we -- like we've always said, we'll keep it flexible. We'll assess the market, the demand situation and then take calls accordingly.

Aradhana Jain: Understood. Lastly from my end, if you could throw some light on Seven SpA, how is the progress there? And the Skido brand, how has that performed during the quarter?

Rahul Shah: Aradhana, firstly, Skido is not a brand, all products which they manufacture and sell in the market are under the DOMS brand. So all sales -- branded sales of Skido also comes under DOMS brand only.

With respect to Seven SpA, we recently, about third week of October, incorporated DOMS Seven Private Limited as a wholly owned subsidiary. Currently, it's incorporated as a wholly owned subsidiary. This is going to be the vehicle in which eventually Seven SpA will participate and eventually will become a 50% partner.

Currently, there are certain documents that were required for their participation. They are at the stage of getting apostille from the Indian Consulate in Italy. So once that is done, at the parallel, we are also finalizing our joint venture agreement. So as soon as that is done, we'll formalize their participation. Once the participation is formalized, both the DOMS Skido team and the Seven team will finalize their business plan. And then we'll be able to share some details with you all in terms of how do we see the buildup happening in that JV company.

Moderator: The next question is from the line of Ms. Rina Mehta from Trident Capital Investments.

Rina Mehta: I have three questions. So, first, you have guided for 18% to 20% revenue growth. So can you tell me the top two key growth drivers which will contribute most to achieving this guidance?

Rahul Shah: Rina, growth for us always has been a product of where we have added capacities. This has been historically been there for about 10-plus years now. Again, if you see in the last few years, we focused on increasing significant capacities in the office supply segment. So that is definitely going to be one of the key growth drivers. Also, I believe adhesive, where we've added capacity through the last year will be another growth driver. And with the back-to-school season coming in from this quarter onwards towards the end of this quarter, we are very hopeful the paper stationery segment to drive significant growth during the rest half of the year.

Having said that, like I mentioned in the opening remarks, all segments, all product categories continues to see positive growth momentum. Wherever capacity we've added, we've seen benefits coming. So like in scholastic art material also, where we were able to add some

capacities for our wooden color pencils that has driven growth. Similarly, back-to-school, though very small, but the range of school boxes, compass boxes for kids that we've launched, they are seeing a positive momentum from the market. So all categories will drive growth, but predominantly would be from office supplies, adhesives, paper stationery, where significant capacity expansion have happened during the last year or so.

Rina Mehta: Okay. Understood. So now it seems that you are increasingly bullish in the writing instruments, office supply segment that reflects Reynolds acquisition. So sir, how do you see this segment evolving over the next three to five years? Like what will drive the growth given the pens is a highly penetrated category? And what is the DOMS' right to win this segment?

Rahul Shah: So I think like what has been our right to win in most of the categories has been the product. We are focusing on introducing product SKUs, which are very well engineered, very well designed. They are meeting the requirements of the consumer at the same time, available at such price points that the consumer gets -- after the entire experience gets a wow factor.

That the same thing we are doing with the pen writing instrument segment also. Though we have been late entrants, we -- the first ballpoint pen with refills that we introduced were in June of 2023. But in a very short period of time, we've been able to increase our volume-based growth significantly. It has all been because of adding new products, new SKUs coming up with innovative products, adding new designs on a very frequent space. So we'll continue to focus on these trends.

At the same time, manufacturing, which has been our key focus area. Today, we now have one of the largest setup for moulding within the stationery space probably in the world with so many moulding machines, moulds. So there are a lot of advantages of scale that we get.

We are in the process of having our own tip manufacturing facilities also being -- currently being installed. So this will help us in backward integration as well. So overall, these factors, like for most of other products, which do well with DOMS have been the success factor in the pen segment as well.

Rina Mehta: Okay. So given that you said you are also doing the manufacturing of tips and everything. So is it right to see that diapers and the pen segment would have the higher margin categories, particularly pen segment will drive the EBITDA margin guidance of 15% to 17% you have guided for the long term? So is it right to understand which products have a higher margin?

Rahul Shah: No, no, Rina. Historically, before the onset of this West Asia conflict, which resulted in such high increase in raw material prices, DOMS used to do at a consolidated level close to 17% EBITDA margins. This is something which we'll want to achieve.

And like we said earlier also, except for the baby hygiene segment, where the business itself, the category itself is close to 8% to 10% EBITDA margin business. Rest all our businesses have a very much similar sort of a margin profile. We follow a very simple mantra nothing at the cost of market and at the same time, nothing at the cost of margin.

So except for this temporary blip in margins that we are seeing, once the things normalize, we'll again get back to this philosophy where across our products, we have a very similar sort of an EBITDA margin profile. So it's similar.

Today, this because we are doing some backward integration doesn't increase our margin significantly because whatever benefits we'll get from that increase will be passed on to either our channel or to the consumer to make the product more interesting for the entire value chain.

Rina Mehta: Okay. Understood, sir. And sir, one more question. That our West region appears to be the slowest growing region despite like DOMS have a strong presence there. So what is driving this relative underperformance? I understand for this quarter, it is flood-related issues, but like it is from last one year, if I see?

Rahul Shah: Sorry, Rina, if you can just repeat please -- I missed the first part of your question.

Rina Mehta: Yes. So West region appears to be the slowest growing region despite like DOMS having a good presence in the Western region. So what is driving this underperformance, not particularly for this quarter, but overall from last one or two years?

Rahul Shah: So we look at our regional performance more from a perspective of what is the population mix of each of the region and where we stand vis-a-vis per capita consumption. If you see West, because we are a West-based company, our performance in the Western region was always a little stronger, and there was a little more room to grow in the Southern and Eastern markets where we are growing. So I wouldn't say West, we are not performing well or the performance has come down. It is still very much calibrated with the population.

Plus what is -- earlier, we had said sometimes the performance of the Western region gets a little skewed because of merchant exports. Today, for some of the countries, we used to do a significant amount of sales through merchant exporters, which happen to be based in western part of India. For example, the sales that we used to do in Bangladesh, they were all through a merchant exporters based in Mumbai. So now because of the geopolitical condition in Bangladesh, sales to Bangladesh have been impacted. So as a result of that, West might look a little weaker.

But if you look at it from a general trade perspective, where we actually get the consumption-based data, we are equally spread across all the four regions of the country, vis-a-vis the population.

Moderator: The next question is from the line of Mr. Jinesh Joshi from PL Capital.

Jinesh Joshi: Sir, my first question is on Reynolds. I think in the opening remarks, you mentioned that the revenue contribution from this brand was limited due to asset relocation. And then you subsequently also highlighted that in the first building will start the production with brand Reynolds. Now the question over here is that post acquisition of this brand, the thought was that a new brand will come into our portfolio, which will incrementally add to the revenues on the existing revenue base of pens.

But if we are relocating the assets and in the new building that is about to come up, we are manufacturing Reynolds, which typically cannibalizes our existing pens business? So any reason why we have thought of relocation?

And a subsequent follow-up is that this is one category where we are seeing RM inflation, right? And if I talk about pencils, which is kind of a reasonably healthy contributor to our top line and not facing any RM inflation challenges, why not begin with pencils in the first place? So, yes, these are the two related questions from my end?

Rahul Shah: Jinesh, I think during our last investor call, we made it pretty clear that with respect to Reynolds, we've taken only certain identified assets which are mainly in terms of moulds and assembly machines. For manufacturing pens, the most critical infrastructure that you need to have is moulding machines. These moulding machines were always going to be used from the moulding machines, which DOMS had ordered for itself, keeping in mind our own expansion into the pen segment.

So it was always that this asset transfer, what is going to happen, in that we will get moulds and assembly machine to manufacture the Reynolds models, which we had to ship from Chennai to Umbergaon, and it will be manufactured in the same facility. And therefore, we had said that our revenue guidance will continue to be between 18% to 20% because Reynolds is not going to add to any fresh capacity. It is going to be a replacement.

And the reason why we've still gone ahead and acquired this brand because going forward in the -- with the brand, there is a significant opportunity available to create a strong second brand within the company and also, especially in the writing instrument category have products in the mid-to-early premium level between that INR10 upwards and less than INR100, where the positioning of Reynolds is very strong.

So this was the thesis on which this acquisition has happened. So, Reynolds, the entire shifting was necessary. We did not have an option or we did not even evaluate continuing with their manufacturing infrastructure in Chennai. That is not how the deal was ever negotiated or structured.

Jinesh Joshi: Understood. Understood. My bad, I missed on that part perhaps in the last call. But just on the pencils bit, if you can clarify why not? Yes, sorry.

Rahul Shah: So for any capital investment decision or capacity expansion decision that we take, it cannot happen within a few months. Like, for example, today, when you need to order for machines, moulds, all these take about six to eight months. So whatever installation that you are seeing right now is machines and everything which were ordered about six to nine months prior where we did not anticipate that the war will start and go on for such a long period of time.

Hence, prioritizing based on certain external factors, it becomes a little difficult. But having said that, in our original plan also, it was first that we will start with pens because there, from a market demand perspective, we see significant opportunity to increase our market share. And therefore, we always prioritized the capacity expansion for pens.

In terms of pencil, there is an underlying demand which we are not able to meet, but we still have a very decent market share there. Yes, with pencil capacities increasing, our market share will also rise, but the timing difference is not so much that, that would have made a difference of one quarter, I think, not much more than that.

Jinesh Joshi: Understood. And sir, one hypothetical question from my side with respect to our growth strategy, which is typically volume-oriented despite the fact that we have seen a very sharp RM inflation come through.

Now say, for instance, if such kind of a scenario maybe prevails for two more quarters, what will be our revised strategy to counter this kind of inflation? Will we stick to the volume-led approach or will we think about revisiting our plant? And is there any outer limit? Basically, I just wanted to know whether it will -- that time will come in 3Q, 4Q, just in case of the current environment on the inflation side prevails.

Rahul Shah: So, Jinesh, as mentioned earlier, we would prefer to remain patient over the next couple of quarters, assess how these input cost increase, what is the results of our current ongoing pricing measures, how do they evolve and then decide whether more significant action is required in terms of reaching back to our desired EBITDA range.

There can be probably three scenarios. One, if the raw material prices continue to be at this stage, then we know what has to be done to reach that level. Let's say, raw material prices over the next couple of quarters come down and then stabilize we probably might not have to take any pricing actions. And if they keep increasing, then we'll have to take even more significant action.

But we would want to give ourselves and request everyone also to be a little more patient over the next couple of quarters. We'll assess how things are evolving and then decide if any significant measures need to be taken.

Jinesh Joshi: Sure. Sir, one last bookkeeping question from my side. While the quantum of debt on our balance sheet is limited, but if I look at our March figures from that level, I think there is a considerable increase, while the overall balance sheet health is quite strong. But just wanted to understand, I mean, this number almost doubling to about INR200-odd crores. Any specific reason for that?

Rahul Shah: The increase in debt is primarily attributable to our ongoing capacity expansion program. Post utilization of the IPO funds, which happened in April of this year, a large portion of the incremental capex has been funded through debt. Additionally, the recent acquisition of Reynolds brand and the resulted assets increased our capital outflow.

At the same time, as new capacities come on stream and operations scale up, we have seen a corresponding increase in working capital requirements also to support this higher business activity. And at the same time, the free cash flows generated by the company because of reduction in our operating margins have impacted from the amount of funds that we could raise from the business.

And hence, you see the debt levels have been increased. But we view this increase in debt as a strategic investment in growth. Our balance sheet continues to remain healthy, and we continue to maintain the disciplined approach towards capital allocation and leverage.

But having said that, considering that we are in the middle of a large capital investment cycle, coupled with increasing working capital needs and the free flow cash generation coming down temporarily because of reduction in margins have resulted and may result in further increase in our debt levels. But once things normalize, I think a significant portion of our future expansion will be funded by internal accruals.

Moderator: The next question is from the line of Mr. Rahul Agarwal from Ikigai Asset Management.

Rahul Agarwal: Rahul, first one clarification. You mentioned raw material pricing is right now at peak. Should I assume that whatever margin we have seen in 2Q, do you mean that there is further inflation in October or you mean that most of the inflation is captured in the second quarter number?

Rahul Shah: Honestly, visibility on the margin guidance continues to be limited, owing to these abrupt fluctuations. Like I said, prices continue to increase in September that have further continued to increase in the month of October. November just started. Everybody, I think, is now waiting for what will happen with the midterm elections and its impact on crude.

But having said that, we really can't control the macroeconomic uncertainty and the volatility. But what we are going to focus would be overall operational agility, continue to ensure that we have enough availability of raw material to ensure that our production, our manufacturing facilities operate at full capacity, continue to take certain calibrated measures to mitigate the impact of this increase.

So we'll continue with that cycle. Honestly, right now, very difficult to guide or give any sort of visibility on how this will continue to pan out.

Rahul Agarwal: Got that. So basically, what I was trying to ask was October pricing is higher than September. That's all I was trying ask. Is that correct?

Rahul Shah: Absolutely, yes, yes. October. Yes, yes, absolutely…

Rahul Agarwal: Okay. Got it, sir -- sorry, go ahead.

Rahul Shah: Yes, absolutely. They are higher. And like I said, it's probably price increases are happening like once or twice every week now.

Rahul Agarwal: Got it, sir. Secondly, on capacity rollout, just wanted to get a better sense on which revenue segment will see higher growth. So you clarified that office supplies, adhesives, back-to-school and paper stationery saw capacity expansion last year, which is what where we are seeing revenue growth this year.

Now from the new greenfield plant over the next 12 months, where should we see higher revenue, which is the product we are expecting to go live over the next 12 months? If you could

just give us some clarity, how should we look at revenue growth vis-a-vis the product capacity where we are adding in the greenfield plant? That's the second question.

Rahul Shah: So, Rahul, in the greenfield plant, we are adding, like I said, first capacities for writing instruments, followed by pencils, which is a part of the scholastic stationery. Scholastic stationery and scholastic art both because color pencil sit in scholastic art and also, again, for other types of office supplies items. So these segments will see positive benefit on the revenue growth in the next 12 to 18 months.

Rahul Agarwal: Okay. Got it. And sir, last question was, I understand cash flow is under pressure and balance sheet is pretty strong to handle that. Where should we look at our peak debt for the business? Should this -- another INR100 crores of debt should suffice and then from next year, we should look at again going back to free cash flow.

Is that understanding correct?

Rahul Shah: Rahul, honestly, at this point of time, how this situation pans out and what -- because we are in the uncertain times where honestly, we ourselves don't have a very clear visibility on how the margins and hence, the free cash flow pans out, it will be a little difficult. But yes, I think we will require at least about INR100 crores to INR120 crores of debt in the midterm to fund the ongoing capex. If the cash flow generation comes back to its earlier -- gradually comes back to its earlier levels sooner than expected, then this might come down.

Rahul Agarwal: Got it, sir. And whenever in history, you have seen such inflation cycle, typically, stationery industry takes how long to -- assuming that, let's say, prices don't go back to normal, how long does it take for the industry to actually capture the full inflation? Is it like an 18 months period from an industry standpoint?

Rahul Shah: So see, I wouldn't say it is an industry thing. It depends upon company to company. There are certain companies which probably prioritize margin protection over volume growth, so they wouldn't take a longer time. But what we've seen at DOMS is about 18 to 24 months. That is the outer limit from the start of the cycle.

Therefore, we said that it's been almost -- it's been two quarters since we are seeing this. We are giving ourselves a couple of more quarters to be patient and see how things pan out. Otherwise, we'll start taking required actions. It can be significant. It can be aggressive. So we'll plan depending on situation. And after that, we'll see another 1-odd year for that buildup to happen.

Moderator: The next question is from the line of Mr. Bhavin Rupani from Investec.

Bhavin Rupani: Sir, first question on Reynolds, two subparts to it. You mentioned about incurring overhead costs and employee costs on Reynolds in Q2. Can you possibly spell out the costs incurred over here?

Second, on Reynolds before acquisition, we were doing somewhere around INR150 crores of revenue related to writing instruments. How should one understand on the time lines by when we can reach INR150 crores in this category?

Rahul Shah: So, Bhavin bhai, with respect to the Reynolds fixed overheads especially with respect to the additional -- the manpower, the team that were integrated, that's somewhere close to between 0.5% to 1% of the sales for the quarter. So that's the impact that we've seen in our employee cost because of this team integration.

With respect to how much time will it take for us to go to that level - we just started production and sales of our own manufactured products under the Reynolds brand. Let's see how -- what is the response from the market. There have been certain changes also we've incorporated in the product to make it even more interesting for the consumers. And at the same time, make it a little more interesting for us to manufacture and sell so that the margins, once thing normalizes are there for us to enjoy.

And the buildup in capacity is going to happen gradually in the first building that we've got operationalized right now. So once this happens, I think probably we'll have a little more clear understanding on and a business plan for the Reynolds brand probably by the next quarter.

But the response that we've been getting from our trade, the anticipation levels there have been very high. The trade is very excited that now a brand like Reynolds being manufactured and sold through DOMS - this synergy itself is keeping the trade very excited. A lot of channel partners are waiting with in anticipation for sales to start as soon as possible. So I think it wouldn't take longer. If it is going to take probably one year, then we'll ensure it happens in nine months.

Bhavin Rupani: Fair enough. Okay. Sir, just one clarification to previous participant's question. You mentioned that our raw mat basket has increased by 15% versus 10% that you had mentioned in Q1. Is that the correct understanding?

Rahul Shah: No, no. So the inflation is around 15%. What we mentioned in Q1, Bhavin bhai, was when you compare it with the consumption, the impact was about 10%. So I'm saying inflation is about 15% with the consumption level of about 60%. So on consumption, the impact is around 9%. That's about improvement of about 2% from what we were at the earlier quarter.

Bhavin Rupani: Got it. Sir, just one hypothetical question. So assuming things improve, come back to pre-war era post Q3, reduce our pricing reflecting on raw mat decline. Does it mean that revenue growth in next year could be lower than maybe 18% to 20% what we are saying as compared to current 18% to 20% growth that we are seeing right now?

Rahul Shah: Bhavin, sorry, could you please repeat your question?

Bhavin Rupani: So, let's say, things come back to pre-war era after Q3 and we, let's say, reduce our selling price reflecting on the raw mat decline, does it mean that revenue growth next year could be lower versus 18% to 20% because volume growth in that case could -- should be more than 20% to achieve 18%, 20% revenue growth next year?

Rahul Shah: Bhavin, we'll probably defer this question to our probably discussion in the month of January and February, where we'll have a little more clarity on how things are evolving with respect to this inflation cycle and also in terms of how much capacity deployment will happen by the end of this year, whose benefits we'll get in the next year?

But like I said, our target would always be to ensure that this growth journey of between 18% to 20% continues in the near to midterm for sure.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Please go ahead, sir.

Rahul Shah: Thank you once again, everyone, for joining us today. We really appreciate your continued support and confidence in our journey. Should you have any further questions, please feel free to reach out to our Investor Relations team. Thank you and wishing you and your families a wonderful festive season.

Moderator: Thank you, sir. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.