



“DOMS Industries Limited
Q2 FY'26 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 Q2 FY '26 Earnings Conference Call.

Before we begin, a brief disclaimer. The presentation, which DOMS Industries Limited has uploaded on the stock exchange and their website and the discussion during the call, contains or may contain certain forward-looking statements concerning DOMS Industries Limited 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.

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

Aniruddha Joshi: Yes. Thanks, Shravani. On behalf of ICICI Securities, we welcome you all to Q2 and H1 FY '26 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 performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, Rahul bhai.

Rahul Shah: Thank you, Aniruddha bhai. Good afternoon, and a very warm welcome to everyone to the conference call for Q2 and H1 FY '26. We hope you all had a wonderful time celebrating Diwali with your loved ones and take this opportunity to extend our best wishes to all for a prosperous new year.

Joining me on this call is the team from Marathon Capital, our Investor Relations Advisors. I hope everyone had an opportunity to go through the investor presentation and the results release that have been uploaded on the stock exchanges and our company's website.

I'm happy to share that despite the impact of GST 2.0 transition, we continued our growth momentum in Q2 FY '26 with an increase in sales of over 24%, marking yet another milestone in our journey, showcasing the resilience of our business model and reflecting the strength in demand of our products.

A notable highlight for the quarter was the government's announcement of GST 2.0 reforms, slashing rates across some of our key product categories. Although we believe GST reduction is structurally positive, it led to temporary disruptions in September, including inventory clearance and order postponement by trade partners. Despite this, we achieved positive sales growth, demonstrating our strategic agility and the ability to navigate transitional challenges while capitalizing on market opportunities.

We believe these reforms, coupled with the income tax reductions introduced in budget 2025, will have a long-term positive impact by increasing the disposable income and uplifting consumer sentiment, thereby creating a favorable environment for business growth and boosting demand, coincidentally aligning well with the planned commercialization of our flagship 44-acre expansion project.

Furthermore, the GST rate reduction on some of our core products creates a level playing field between organized and unorganized players, providing better market penetration opportunities and shift in demand towards branded products.

In terms of operational highlights, we continue to leverage our widespread product portfolio to enable us to effectively service consumer demand and deepening our presence and market share. We continue to expand our product portfolio with introduction of new products across all our product segments with additions in categories such as scholastic art materials, kits and combo packs, office supplies and scholastic stationery, like the launch of a vibrant new range of beautifully designed mechanical pencils in exciting colors and features.

Furthermore, the performance of Uniclean Healthcare, our baby hygiene business also yielded positive results, contributing to our overall growth, reflecting market acceptance and validity of the baby hygiene products.

As a part of our consumer connect initiatives for enhancing the brand aspirational value, we continued our marketing campaign, including digital connect initiatives to event sponsorship. Among others, we also entered into a strategic partnership with Kaun Banega Crorepati as an official partner for the show, which we believe has helped the brand reach out and connect further with millions of consumers across age that are spread across the country and overseas.

Coming to our expansion initiatives, we are progressing steadily on our expansion trajectory with our 44-acre project, albeit with slight construction delays on account of prolonged and intense monsoon conditions. But we are confident of getting the possession of the first building in Q4 FY '26 and start commercial production from Q1 FY '27. This capacity expansion, along with ongoing brownfield initiatives, has been strategically planned to support our growth objectives in our core stationery and art material segment.

Coming to the details of our financial performance. Consolidated operating revenues for Q2 FY '26 stood at INR567.9 crores, a growth of 24.1% compared to the same quarter last financial year. This increase in sales was predominantly on account of impressive performance in domestic markets, backed by volume growth as well as marginal increase in average selling prices. Our international business continued its steady growth trajectory, recording 18.5% growth in gross product sales year-on-year during the quarter. During this period, the domestic gross product sales grew by 28%.

The consolidated EBITDA for Q2 FY '26 grew by 15.8% to INR99.5 crores as compared to INR85.9 crores in Q2 FY '25. The EBITDA margin for the quarter stood at 17.5%. This consistent maintenance of EBITDA margins towards the upper end of our guided range of 16.5% to 17.5% demonstrates our operational efficiencies and a robust business model of balancing

growth-led approach with prudent execution. The profit after tax for the quarter stood at INR60.9 crores with growth of 13.4% over the same period in the previous financial year. The PAT margin for the quarter stood at 10.7%.

As mentioned earlier, we continued aggressively with our expansion initiatives. For the 6-month period, we have done a consolidated capex of approximately INR150 crores including capital advances and are on track for our guided full year capex estimate in the range of INR210 crores to INR225 crores.

Looking ahead, we continue to remain optimistic about the second half of the year, backed by continuous product introduction, strategic expansion initiatives and increasing market penetration, positioning us well for sustained growth. This optimism is poised to receive further boost from supportive government initiatives including GST and income tax cuts and DOMS remains strategically positioned to capitalize on this emerging demand opportunities.

With this, I would now request to open the floor for question and answers. Thank you.

Moderator:

The first question is from the line of Sneha Talreja from Nuvama.

Sneha Talreja:

Congratulations on great numbers once again. Just 2 questions from my end. Firstly, I think in the opening remarks, you were mentioning that, of course, there was GST impact a few days because a lot of your products, GST gone down to 0-odd percent. Just wanted to understand, would we be able to quantify where exactly in which particular segment impact would have been higher? And more importantly, if that was not the issue of destocking, where we would have landed up with respect to sales?

Rahul Shah:

So in terms of the product categories where GST has come down from 12% and 5% earlier to 0%, it currently contributes about 45% of our overall sales if we look at FY '25. And then there is baby hygiene segment, which in FY '25 was about 6% of our total sales, where the GST rate reduction has come down from 12% to 5%. So overall, between 45% to 50% of our total products have been impacted by this GST transition.

It's really difficult to quantify as such how much we would have done better if this transition impact was not there. But we believe that if this transition impact would not be there, our sales could have been about 3% to 4% higher than what we reported for the quarter.

Sneha Talreja:

That was quite helpful, Rahul. And I'm sure by now you would have also done the backward analysis of the GST input credit that you were getting. Any meaningful impact or based on that itself, you've just passed on the pricing? So what I want to impact is the understanding on your profits, the way they would move with GST price.

Rahul Shah:

So Sneha, like a lot of our products move down to about 0% and therefore, ITC becomes ineligible on these products and therefore -- and it becomes a part of the cost and the cost will rise. But similarly, the selling prices will also rise. So when this GST transition was happening, we reworked all our cost sheets after figuring out how much the cost would increase because of ITC, we came up with the revised MRPs and those MRPs were then introduced in the market. So overall, I don't see a significant impact of this on the margins of the company.

- Sneha Talreja:** In fact we would have seen approx how much increase in your pricing of the product on an approx level, I understand it would be different from product to product, but on a range basis?
- Rahul Shah:** Pricing of our products ? So in fact, all our MRPs have come down, Sneha. So pack of pencil, which were earlier selling at INR60 MRP is now sold in the market at INR58. In terms of the company sales at the primary level, if you are asking me, the sales pricing would have increased by about 3% to 4%, not more than that, 3% to 4%.
- Moderator:** Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora:** Thanks for the opportunity. First question is advertisement in the past, but are now advertising on KBC. What is the change in thought process, which products would you look to push through marketing, what is the incremental cost which you're looking at and how has the response been to your marketing campaign?
- Rahul Shah:** So Kunal bhai, so KBC was not specifically for any particular product, but it was more for the overall brand. So it was just that the entire DOMS brand and our entire range of scholastic stationeries, scholastic art, office supplies were distributed to the kids who were coming to that show for a specific period of time.
- So it was just an opportunity we got through our marketing references and there's nothing like a planned thing or something. In terms of how it helps is something which will come to know in the mid- to near-term. But overall, it adds value to the brand's aspirational value.
- Kunal Vora:** Okay. So would you look to continue?
- Rahul Shah:** No, in addition to KBC, before KBC, we also did some partnership with a leading cinema chain in India, where this child-centric movie Sitaare Zameen Par was released. There we advertised one of our pens in the theatres. So these are now small initiatives that we are taking. Again, it's very specific to our consumer, towards our target audience of children. Even in this KBC partnership was for -- is not for the entire season, but for a few weeks where children were called as participants.
- Kunal Vora:** Understood. Okay. Second one is, can you talk about some successful product launches which you had, be it mechanical pencils, glue, marker, bag, game like what's really doing well right now? Anything which you can highlight in terms of what's done well?
- Rahul Shah:** So see, across the products where we've added capacity, they've done well. You would have seen from the presentation in office supplies, the growth has been significant because that's where capacity has been added. Mechanical pencils, we just launched towards the end of the last quarter. The initial response has been positive.
- Adhesives also, although there have been no new SKU additions in the segment, but there are the Brownfield expansion that we were doing in the adhesive segment, they are slowly coming on board. So that segment is doing well. Across categories, there are new products being added.

So even in scholastic stationery in our core category of pencils, you remember, we have a partnership with Warner Brothers. So there, we introduced a Superman themed pencil pack. Again, very different from what otherwise you get in the market like co-branded pencil. This is packed also differently. So across products, no specific as such, Kunal bhai, that I would want to highlight or something like that.

Kunal Vora: Understood. Third is on U.S. tariffs. You had mentioned last time that it could have an adverse impact on the business. I still see exports having seen a healthy growth. So how did the U.S. market -- U.S. sales trend? Did you find other markets or U.S. sales have held up well despite tariffs?

Rahul Shah: So U.S. sales, because in the month of September, it was during the quarter that U.S. tariffs were introduced. So all the open orders that we had were fulfilled by our consumer. So in the last quarter, specifically, we did not see any significant impact of U.S. tariffs on our sales. But going forward, certain orders have been postponed and that have -- the capacities for that have been diverted to other growing markets. Both where DOMS was already significantly present and the distribution partnership with FILA that we started, like, for example, in Chile, where we initiated this FILA distribution arrangement, there we are seeing good repeat orders also coming in.

So we believe that while from a U.S. perspective, in the current quarter and going forward, there will be an impact until the tariff issue is not resolved. But there have been alternative strong demand from markets, like I said, Chile is one, Middle East, we are seeing good demand. Our core neighboring countries of Sri Lanka, Nepal, there also the demand is positive. So because of these regions, we don't see overall, there would be any impact on export sales.

Kunal Vora: Understood. And lastly, how are you doing on quick commerce? Are your products available across all forms and supplying directly to quick commerce or to distributors?

Rahul Shah: So we are present across quick commerce channels, Blinkit and Instamart and all channels we are present. Again, the focus there is to be available from a convenience perspective. It's not a major push or a focus area. The consumers who want that convenience of being present, getting goods very fast, so for them, we are present on quick commerce.

Focus continues to remain general trade. Again, with a lot of our new product launches happening, the first priority is definitely towards general trade because they are the ones who help us in getting the product reach to our consumers. But yes, quick commerce as a business segment is also growing and our presence there is also increasing.

Kunal Vora: But how are you ensuring that? I mean, like you're doing it directly or let's say, what kind of contribution, what kind of growth you are seeing there, because many of your products look very interesting from a quick commerce perspective. How are you ensuring that we are getting right skill?

Rahul Shah: So we partner with these quick commerce operators directly. So we'll sell to them, to their dark stores and from there they distribute. So we service them directly.

Moderator: Thank you. The next question is from the line of Jinesh Joshi from PL Capital. Please go ahead.

- Jinesh Joshi:** Thanks for the opportunity. Sir, my question is on pens, I mean, if I remember right I believe we do not have the capability to manufacture nibs and the full backward integration advantage in this category is missing. So, just wanted to know, I mean, has it got to do with the...
- Rahul Shah:** Which category I missed that?
- Jinesh Joshi:** Nibs we don't manufacture, right.
- Rahul Shah:** Nibs, yes.
- Jinesh Joshi:** So just wanted to know, I mean has it got to do with the technical capability or is it related to the missing key advantage and once we achieve a desired production perhaps, we can consider exploring in-house manufacturing. So that is one. And secondly also if you can share how much typically does a nib cost in the overall cost structure of a pen?
- Rahul Shah:** So, Jinesh to answer your first question, definitely, it is nothing to do with capabilities. As you know that for DOMS our constraint has always been in terms of capacities. Today, whatever infrastructure we have for us it is like taking a decision that how do we utilize that infrastructure. Right now, do we utilize it for manufacturing tips or manufacturing the pen?
- And if you look at the tip manufacturing infrastructure in India, there are a lot of players who are focused on this manufacturing segment only. They manufacture only tips and they are reasonably large and cater to all our requirements. So therefore, we've not prioritized manufacturing tips right now because we are constrained in terms of the capacity that we have in terms of physical infrastructure.
- So now with the new 44-acre plant soon coming into production, we definitely intend to get into manufacturing of tips. This is not a very technically superior sort of a process. You get good imported automatic manufacturing lines and the process once it is set, it can do mass production. So we've already placed orders also for these machines. And soon, we will have some new machines for tips also coming in and starting production of our own tips.
- But given the size and the scale at which we are growing our pen business, we'll continue to purchase tips from these third-party partners and the quality that we want and the type of tips that we want are available from these partners. And in terms of cost, tip manufacturing, tip cost to the overall cost is not a very large component. Polymers and ink is higher than tips.
- Jinesh Joshi:** Understood. And sir, secondly, I just wanted one small clarification. The channel mix data, that we have given on Slide 22 of the PPT, does it include revenues from the hygiene business? I just thought of asking because if I look at 2Q of FY '25, our GT contribution was 77% and now it has declined to about 71%. And I believe some of the other channels like e-com and MT have a higher share in the hygiene business. So if you can just clarify that part?
- Rahul Shah:** Yes. On Slide 22 that you're referring to, the gross product sales of INR593.7 crores includes the hygiene segment also. In terms of general trade contribution that you see that has sequentially decreased is because of two reasons. One, the overall contribution of baby hygiene products to the sales in the current quarter has increased.

And in the baby hygiene segment, almost 35% of sales come from e-commerce. Therefore, you'll see the modern trade and e-commerce segment on an overall consol basis increasing and GT coming a little low. And also because of this GST 2.0 transition impact, the sales to the GT segment were a little affected.

And plus also this becoming -- this being an onset of the festive season where generally GT sales come a little low because stationery shops start selling a little more of your gifting and your decorative and such items. So because of these factors, you will see the presence, the percentage contribution of GT coming down a little in this quarter. But going forward, GT will continue to be close to about 75% of our overall sales.

Jinesh Joshi: One last question from my side. Sir, is it possible to share what is the contribution of rupees per price points in our pen portfolio? And also on the pencil expansion side, I believe additional capacity was supposed to come on stream in 4Q. So where are we on that?

Rahul Shah: So Jinesh to answer your question on the pencil capacity addition, the first building that we'll get in the 44-acre complex would be dedicated for expanding our capacity for pencils. Like we highlighted in the previous call also, those earlier or the backward processes before finishing of pencil has already been -- capacity increase there has already happened.

So we are just waiting for the possession of the building from the 44-acre complex. Once we get that, we'll see capacity addition in pencil coming in. And to answer your question on the pen, honestly, my friend right now, I really don't have a data on how much is the contribution of INR10 pens on the overall segment. But what I can say is the INR5 price point pens continue to be the largest contributor to our overall business of pens and office supplies.

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

Aradhana Jain: Hi, thank you for the opportunity. Just to continue with the previous participant's question on the pen segment. Sir, what was the capacity of pens a year back versus where are we right now as on 1H, given that you said that the increase in the office supply or sales has primarily been on the back of pens and that has happened because of the capacity expansion. So could you just highlight how much capacity has expanded on the pens side in the last 1 year? That's my first question?

Rahul Shah: Aradhana, on the pens, so if we just talk about the ball point pens where we've added a significant capacity. I think about a capacity increase of 1 million pens a day has been added. But Aradhana, this has been through the period. So it's not that on day 1, 1 million was added. So incrementally, as soon as the infrastructure is ready, we install like 5 machines and another 5, 5, 5. And that's how the capacity buildup has happened. So today, we should be close to about 3 million to 3.25 million pens a day in terms of our pen manufacturing capacity.

Aradhana Jain: And going forward, where do we see that increasing to in the near-term or is this the level at which we'll be operating?

Rahul Shah: So now you see right now, like I said, the next large chunk of the infrastructure that we will have is from the 45-acre project where the first building we're going to use it for expanding our

capacity for pencil and after that, we'll again start increasing capacities for other writing instruments like pen, highlighters, markers, sketch pen. So overall, definitely, this capacity is likely to increase, but it will -- when it will happen will depend upon how the build up of the 45-acre complex comes on.

Aradhana Jain: And on the like the sort of growth that we've seen in this space, is it fair to assume that this momentum will sustain in the second half as well given that fourth quarter is a quarter where back-to-school starts happening and examination-based sales also start picking up. So fair to assume that this sort of 80% growth that we've seen in this quarter or the high double-digit growth that we've seen in the first half could sustain in the second half?

Rahul Shah: 80% growth in the pen business you are talking about?

Aradhana Jain: Office supply. Office supply has grown up...

Rahul Shah: Yes. So it will always -- yes, so it will be linked to capacity, Aradhana. So, it's not something which will be sustainable because capacity will become a constraint. But yes, this segment will continue to see healthy growth, but that will all be backed on capacity addition. So by the end of this year, our combined capacity for pens, you know, which includes the regular ballpoint pens and one-time use examination pens, all put together to be close to 5 million pens a day.

Aradhana Jain: Understood. And second, I wanted to understand on your core stationary categories, if I see, say, the scholastic stationery, scholastic art and kits and combos, if I combine all three, the growth has remained largely flat year-on-year in the second quarter, and it was up like 3% in the first half.

So is it fair to assume that it was largely driven by the capacity constraints? Or are you also seeing some sort of moderation in the underlying demand or, you know, channel inventory levels? Or is it purely because of the capacity constraint? And going forward, if it's purely because of capacity constraints, then from which quarter can we expect a more visible pickup in the core scholastic categories?

Rahul Shah: So, Aradhana, if you combined scholastic stationery, scholastic art and kits and combination pack, you know, year-on-year quarterly growth was about 4% and H1 growth was about 5.5%. Like you said, this growth has been lower purely because there have no significant capacity additions that have happened in this segment. It's purely been growth due to change in product mix and slight increase in ASPs

In terms of, you know, actual pickup in revenue in this segment, like I said, we are hopeful that from Q1 FY27, we'll have our, additional pen capacity, sorry, additional pencil capacity being coming in production over a period of time.

So I think Q2 FY27, you will see a decent amount of contribution coming from new capacity in the scholastic segment. Also, you know, like we recently launched mechanical pencils, which also gets categorized in scholastic stationery. So that ramp up in production is also underway. So going forward, I think incrementally, you will see some growth coming in the next couple of quarters and then major growth coming from Q2 FY '27.

Aradhana Jain:

Understood. Just two more questions, if I can squeeze in. One was, we've seen 25% of growth in the first half of the year, right? So do you feel that you need to up your guidance from the current 18%-20% that you've highlighted in your press release that, you know, for the entire year, we're expecting 18%-20%? Do you think that that could be closer to, say, a 25% number for the entire year, given that fourth quarter for us is expected to be good compared to, say, our second quarter?

Rahul Shah:

Aradhana, see, if you look at first half of the year and compare it with the first half of the previous year, a significant growth in the first half in the current year was due to the consolidation of impact of Uniclan.

In the last financial year, we consolidated Uniclan only for 15 days of the first half, while in the current year, we could -- Uniclan was consolidated for the full period. And therefore, the growth has been higher, close to about 24%-25%. But if you see in the second half in the base period, Uniclan was already consolidated. So there, we'll see the growth in line with our 18% to 20% targeted range.

Aradhana Jain:

Understood. Just last thing on the regional performance. There's some bit of divergence seen with respect to South India has grown at, say, 60% plus versus East India hasn't grown like sub 10%. So what is the reason for such a sharp variance? Is it purely because of Durga Puja being in East India and demand not picking up or?

Rahul Shah:

Absolutely. So Aradhana, I think this metric is something if you look on a full year basis, will give you the current picture. Looking at quarters sometimes distorts the data because like you said, in East India, in the month of September, there was Durga Puja and practically the entire Eastern region comes to a standstill during those 10-odd days.

And the channel starts, like I said, you know, stationery shops start selling a lot of decoration and gifting and such related items. And therefore, there is always in -- during -- there is always in, I wouldn't say Q2, but whenever there is Durga Puja month, you see impact on sales in East India. So, I think this is a metric you should always look from a, you know, full-year basis that gives a correct picture.

Aradhana Jain:

Understood. This was really helpful. Thank you and all the best.

Rahul Shah:

Thanks, Aradhana.

Moderator:

Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda:

My question is on the employee cost. It has gone up significantly. And in general, of course, with the Uniclan sales consolidating, I'm aware. With the sales growing even ex of Uniclan sales growing at 20%, we don't find that operating leverage playing out in our EBITDA margins. Why would be that so? And also, on the question on the employee cost quarter-on-quarter inching up?

Rahul Shah:

Hi Priyank. So, Priyank, the employee cost as a percentage of sales increased by over 1% sequentially and 0.85% year-on-year during Q2 FY '26. The key reason for this increase in

employee expense was due to the overall increase in workforce, both in our sales and production team. As we plan to ramp up our production activities, the hiring has to happen a little in advance. And similarly for the sales team because there's a lot of training and all they have to go in -- go through.

And also because of this disruption in sales due to this GST transition which happened in the month of September. When I see specifically the month of September and compare it to employee expense and the percentage-wise, it went higher because like I said, our sales were impacted during this month. So because of these two reasons, you see our employee expense increasing as a percentage of sales. And Priyank sorry, if you could repeat your second question?

Priyank Chheda:

Second question was on the operating leverage kicking in. Of course, now I understand that there is a cost which has been loaded up of the new plant, right? Would it be possible to quantify over the last 6 months? What kind of a cost would have got loaded up in the expectation of the new plant starting up?

Rahul Shah:

So, Priyank, it's very difficult to quantify because see something, like I said, we've had a significant increase in our sales team also. If you see over the last few quarters. Our sales team now is more than 900 people. And if I remember correctly, last year, same time, we were close to about 800 people.

So this all is happening in anticipation of the increased volume and sales that we'll have. And this is not only for the new plant, but for other expansion like office supply -- sorry, adhesives, a new category which we got into, mechanical pencils. And for this, we need to ramp up the teams well in advance. So it becomes a little difficult to quantify as such.

And other in terms of operating leverage, like I said, even last time when we gave this entire guidance of EBITDA guidance of 16.5% to 17.5%, was keeping in mind, one, Uniclax and second, also the higher employee cost that we will have both because of one ESOPs and second ramp-up in the team size.

Priyank Chheda:

Sure. I got it. Now on the office supplies, what would be the mix roughly between pens, highlighters and markers?

Rahul Shah:

So honestly, Priyank, you know, within the category, we'll not have a lot of details ready on this. So right now, the majority, I could say, would come from pens followed by markers and then highlighters, but I wouldn't have exact data on how much comes from each of these categories.

Priyank Chheda:

Got it. One last thing, on the discount incentives and rebates, if I have to collate the data from the annual report, for the full year last year gone by, it was roughly 3.7% of the sales, which is netted off, of course, from the sales, but it went up Y-o-Y, almost a percentage of sales from 2.5% to 3.7%. What was this because?

Rahul Shah:

In the current quarter?

Priyank Chheda:

No, I'm asking for the full year, FY '25. I'm asking for the previous year. The discount incentives and rebates, which gets netted off from the sales, almost doubled from INR37 crores to INR71 crores. Was it or more...

Rahul Shah:

Basically, see, discount rebates and all includes all schemes and cross-product schemes also that we run. So, it is generally, it is a factor of -- more a factor of the price list rather than actually giving certain cash or kind discounts in the market.

So typically, what happens is, let's say, I'm introducing, or I want to push product A, so I'll start giving product B as a part of the scheme. You buy so much of product A, you get so much of product B. So this -- but the value is all incorporated inside the costing. So it's not that we've given more schemes and discounts, which is actually bringing down your EBITDA, but that's more in terms of how the sales and how the price list metrics is working in the market.

In this quarter, we've had a slight impact, a little more scheme discount rebate given, again, because of the GST transition for whatever stock the channel had and the reduction in MRP that we did, we had to give a little -- we had to issue credit notes for that. So therefore, in this quarter, there was an impact, which was more from a transition thing rather than any product-specific schemes and discounts.

Priyank Chheda:

Sure. One last thing, sorry. On the new plant for the first full year, even if we were to ramp up, we would say ramp up, say, at around 35% or 40% of the utilization and then Y-o-Y keep scaling up that. Of course, still certain percentage of utilization, the cost would get loaded up for the full plant, so would you guide that for the first year of the operation of the plant because it would be suboptimal, the EBITDA margins and the other expenses would take a hit to the EBITDA margins for the first year, second year and then gradually it will again recover it. Would that be the fair assumption in the trend analysis for the margins?

Rahul Shah:

So Priyank, see, this is like an ongoing cycle, right? So today, already for the ramp-up that is happening in the other brownfield investments, like last quarter, we informed you all that we had added a few -- we purchased a few more land and building close to our existing facilities where the ramp-up in production is happening as we speak. So this is like a continuous process.

So today's numbers already include the impact of the ramp-up of the brownfield investments. The numbers of next year will include the ramp-up of the 44-acre, but this current period ramp-up will have a full impact. So I don't see a major problem. See, it's a continuous cycle, because we've been in this capex cycle continuously.

Priyank Chheda:

So the message that you're trying to give out is that because of...

Rahul Shah:

I would not say that because of the ramp-up, there would be any significant impact on the margins.

Priyank Chheda:

So you continue with that 17.5% or 18% kind of EBITDA margin guidance?

Rahul Shah:

16.5% to 17.5% is a decent range that we'll be comfortable operating in.

- Moderator:** The next question is from the line of Manan from ICICI Securities.
- Manan:** Congratulations on the good set of numbers. So I just have one question. The revenue grew by 24% year-on-year. Can you give a breakup about how much is this volume and value growth?
- Rahul Shah:** Manan, it is majorly volume growth, again, in key categories of office supplies, paper stationery, adhesives and kits and combination packs. And only a very small portion, about 2%, 3% of this growth comes from ASP increase.
- Manan:** Got it. And another question is like what the EBITDA margin does the company expect from this 44-acre project expansion? Is this the same margin the company is operating, or the company expect some other higher margin from this capacity?
- Rahul Shah:** The company's margin philosophy for DOMS has always been same. For every product, it's like cost sheet driven. We draw up our cost sheets and work with our targeted margin of 15%-16%, which, because of operational efficiencies, then results in reported margins of 16.5% to 17.5%. We will continue with the same philosophy for the 45-acre expansion also. Because then actually we are not, you know, going to add new product categories, more of increasing capacities for the same product categories where margins are already defined and well set.
- Moderator:** The next question is from the line of Ansh from Ansh Capital Advisors.
- Ansh:** Congratulations on a decent set of numbers. I just wanted to know that because of the GST 2.0, earlier you mentioned there had been some postponement in the orders. So do you think that influx will be, what do you say, shown in the next quarter in the same or what is your opinion on that?
- Rahul Shah:** Coincidentally, the GST reforms was clubbed with the onset of the festive season also. So typically, otherwise also, you know, during the Diwali period and all, which was in the Q3, the sales get impacted a little. So, you know, the channel clearance that happened was -- that happened a little faster in the month of September, which otherwise we'd anticipated would happen in October.
- And the restocking at the distributor and the retail level will be an ongoing process and coincide with the back to school period, which will start from December. So you'll not see something significant in the third quarter. Third quarter as it is because of Diwali period gets a little slower.
- And even at the plant level, manufacturing level, we are on a short Diwali break of four to five days. So the production also gets impacted a little. So you'll not see any significant, like, impact in the third quarter. It will be a slow process moving into third and fourth quarter both.
- Ansh:** But there will be some gradual growth, right?
- Rahul Shah:** Yes, there will be some gradual growth, yes.
- Ansh:** Okay. And the second question is, what's the current capacity utilization we're running at?

Rahul Shah:

It'll be very difficult for us to give, because all of our products have different capacities. Some products have interchangeable capacities, especially those which are manufactured using polymers and in our moulding infrastructure. So for us, at a product level, having capacities defined is a little difficult and challenging.

But having said that, across all our core products like scholastic stationery, scholastic art material, our capacity utilization is upwards of 95%. In products like office supplies and hobby and craft, there is continuous capacity addition ramp-up happening. So for already which we've installed, we would have reached about 75% plus. But again, new capacities are coming as we speak and during the next quarter, quarter and a half. So there, we will have growth coming in from.

Ansh:

Okay. And the capex that you are planning on doing, when that is fully finalized and that's in production, what do you think that will -- like how long do you think that will last you for?

Rahul Shah:

So hopefully...

Ansh:

In the sense that how much capacity will that run at? Do you -- you'll must have some projections on that?

Rahul Shah:

So basically, for us, wherever we are investing INR1 in building capacities, we target to achieve revenues of INR3. And as soon as we believe that for a particular product or a category where demand also is still strong, and we believe a lot of value DOMS can add, as soon as we reach about 50%, 60% utilization, we plan for other capacity enhancements.

And this, at least for the next 3 to 5 years, we believe considering the total market environment, both in domestic market and the opportunity in exports is something which will be a continuous process. So we will keep investing in building our capacities at least for the next 3 to 4 years to drive growth in the business.

Moderator:

Ladies and gentlemen, we will take one last question. The last question is from the line of Preeyam from Antique Stock Broking Limited.

Preeyam:

So I just wanted to ask more clarity on the GST side, right? So most of the scholastic stationery product has seen 0% GST rate, right? I'm assuming pencil and stuff like that. But if you sell this product in kits, do we have a GST rate on kits as a basket?

Rahul Shah:

So basically, what the GST law says is when you bundle products, you need to first check whether it's a mix supply or composite supply. Most of our kits fall under the category of mix supplies. And in mix supplies, whatever is the highest GST rate in that mix supply needs to be applied.

So most of our kits and combination packs are sold at a GST rate of 18%. And for the 0 percentage items that go in that kits and combination pack where you're actually charging 18%, you become eligible for input tax credit. So it complexes the entire process having different GST rates and with a lot of products being nil. But yes, that's something that we'll have to live with.

- Preeyam:** So this means that we will focus more on the kits or something like that to get the input tax credit on the...?
- Rahul Shah:** Absolutely not.
- Preeyam:** But there will be some dynamics -- there will be MRP dynamics change in the product portfolio in the kits versus the stand-alone products.
- Rahul Shah:** So both are not comparable. So somebody who wants to buy pencils only will buy pencil pack only, which will be still sold at 0%. And there, we've passed on the benefit to the consumers by reducing the MRPs of the product. And somebody who is buying a gift and combination pack either for gifting purpose or consumption purpose or for any reason, will buy. So it's not -- kits does not replace the requirement for a pack of pencil or vice versa, right? So people will not -- consumers will not start buying or we will not start pushing more sales of kits or combination pack that way.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing comments. Thank you, and over to you, sir.
- Rahul Shah:** Thank you, everyone. Thank you once again for joining us. We appreciate your continued support and confidence in our journey. Should you have any further questions, clarifications, please reach out to our Investor Relations team. Thank you, and have a great day ahead.
- Moderator:** Thank you. On behalf of DOMS Industries, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.