"DOMS Industries Limited
Q1 '25 Results Conference Call"
August 13, 2024

Disclaimer: E&OE - Please note that some portion of the concall may have an audio spoken in language other than English which has been translated in English language in this transcript primarily for ease of reading. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the Company's website will prevail

MANAGEMENT: **MR. SANTOSH RASIKLAL RAVESHIA – MANAGING DIRECTOR – DOMS INDUSTRIES LIMITED**
MR. RAHUL SHAH – CHIEF FINANCIAL OFFICER – DOMS INDUSTRIES LIMITED

MODERATOR: **MR. NILESH PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to DOMS Industries Q1 FY25 Conference Call hosted by ICICI Securities. 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 the conference call, please signal an operator by pressing star then zero on a touch-tone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Nilesh Patil from ICICI Securities. Thank you and over to you, sir.

Nilesh Patil: Thanks, Sumit. On behalf of ICICI Securities, we welcome you all to Q1 FY25 results conference call of DOMS Industries Limited. We have with us Mr. Santosh Rasiklal Raveshia, Managing Director, and Mr. Rahul Shah, Chief Financial Officer. Now I hand over the call to the management team for their initial comments on quarterly performance and then we will open the floor for question-and-answer session. Thanks and over to you, sir.

Santosh Raveshia: Thank you, team. Good afternoon, everyone. It is our pleasure to welcome all the participants to the earnings call conference for the first quarter ending June 30th, 2024. Joining me on this call is Rahul Shah, our CFO, and the team from Marathon Capital, our Investor Relations Advisors. I look forward to the opportunity to go through the Investor presentation and the result release that we have uploaded on the exchanges on our company's website.

The start to the financial year 2025 has been positive. Despite the challenges caused due to extreme weather conditions during the first quarter, DOMS has sustained its growth trajectories with continuous momentum in sales and an improvement in margin profile. Our continued focus on innovation, unique product design coupled with our inheritance manufacturing focus supported by a well-entrenched distribution network, working seamlessly in tandem are the key contributors for this performance.

The encouraging market acceptance of our recently introduced writing instrument range of our product is a testimony to a steady and focused approach to product development. We continue to further deepen and widen our portfolio in this category, and the newly commercialized manufacturing setup of additional 1 million pens per day would further boost our capabilities. Encouraging results like this reinforces our commitment towards continuous product development, keeping consumer needs and preferences top of the mind.

Supporting our growth agenda is our effort to further expand our manufacturing capacities with multiple ongoing projects, including the construction of an adjoining 44-acre land parcel which commenced in Q1 2024. These initiatives are in line with our endeavour to capitalize on the growth opportunities as well as to reaffirm and improve our market share in Indian stationery and art material markets.

Further capitalizing our brand value, manufacturing expertise, and distribution network, it is our continuous effort to not only work towards enhancing our market share but also to increase the targetable addressable market to continue on the growth momentum. Our recent initiatives are aligned towards the same. Be it foraying into the toy segment with our investment in ClapJoy or our entry into BTS segment with the acquisition of 51% in Speedo, or the recent announcement for the proposed majority buyout in a baby diaper company, Uniclan, we believe this opportunity to aid the accelerating growth of DOMS with the able support and effort of experienced and trusted entrepreneurs.

With optimism about our growth prospects and confidence about our strategic initiative in terms of product capacity expansion, we at DOMS continue to dedicatedly work to deliver excellence and aim at delivering the best for our esteemed consumers, shareholders and all our stakeholders.

With this, I would like to hand over the call to our Chief Financial Officer, Mr. Rahul Shah for the update on Q1 FY25 financial overview. Thank you very much.

Rahul Shah: Thank you, Santosh bhai. Good afternoon, everyone. Coming to the details of our financial performance highlights for the quarter ended June 30, 2024. Our revenue from operations for Q1 FY25 grew by 17.3% to INR445 crores as compared to INR379 crores in the corresponding quarter last year. Sequentially, quarter on quarter too, we have been able to achieve a double-digit growth of 10.2%. This increase in sales was predominantly on account of change in product mix, increase in volume supported by our expanded capacities in the writing instrument segment and scholastic art segment, coupled with marginal increment in our ASP.

The EBITDA for Q1 FY25 grew by 38.9% to INR86.4 crores as compared to INR62.2 crores in Q1 FY24, with a margin expansion of over 300 basis points. Further, on pack front too, we saw further elevation in our margins from 9.6% in Q1 FY24 to 12.2% in Q1 FY25. PAT for Q1 stood at INR54.3 crores, growing sequentially by 15.7%.

The increase in cost price of certain key materials like polymers and waxes resulted in consumption margins increasing by 0.9% on a consolidated basis, sequentially compared to Q4 FY24. However, the increase in consumption was offset by reduction in our other direct manufacturing costs and savings due to efficiency playing out on account of scale and size of operations.

On the operational front, we continue to focus on expanding our manufacturing capabilities to capitalize on the growth potential. Cash outflow towards capital assets including CWIP for Q1 FY25 was around INR 35 crores, which was primarily spent towards construction activities, plant machinery and equipment. In terms of construction, it was primarily towards capacity addition for our pen division as well as ongoing capex at our 44-acre land parcel.

On the working capital front, we have seen a slight decrease in our working capital cycle to around 41 days from 47 days in FY24, primarily on account of decrease in inventory days. We believe in spite of growing operations, we will be able to maintain our working capital cycle to around 40-50 days.

With this, I would request to open the floor for questions and answers. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy from IIFL Securities. Please go ahead.

Percy: Hi, sir. Just wanted to understand the thought process behind this acquisition of diapers. So, this is very unrelated to our current sort of business and type of products that we are in. Earlier, we had some plans to go into school bags, lunch boxes, water bottles, etcetera. So, we have done something about school bags, water bottles, lunch boxes is still pending.

So, I thought you would be thinking on those lines, but just diaper is something very unrelated. So, can you explain the thought process behind the same?

Santosh Raveshia: So basically this acquisition is in line with our objective to increase the breadth of our product offering to further diversify revenue streams by entering categories that are associated through growing years of kids, children and young adults. This helps us to expand our targetable market size, which is always our aspiration.

And DOMS as a company has always looked at partnering with enthusiastic partners who come with manufacturing expertise, product understanding and are looking for growth. We believe that the team of Uniclan fits our criteria and leveraging our distribution channel network and primary consumer understanding, I am sure this will help the company to further expand this offering and targetable addressable market. And I think this could be another interesting thing for the company to built up a very different organization.

Percy: So, sir, what is the brand name of this company and is it just a contract manufacturer or does it have its own brand which it sells directly to consumers?

Santosh Raveshia: I'll like to just say a little about the company. So Uniclan Healthercare is Mumbai based private limited company promoted by Mr. Vatsal Desai and Jaipur based Mehta Group , Jain & Bilala group. This company is engaged in manufacturing of baby diapers and baby wipes. The manufacturing is located in Jaipur, Rajasthan, where they have installed capacity of around 400 million pieces of diapers annually.

The infrastructure is spread across 6,500 square meters of land area and construction of around 4,500 square meters. The company currently has two diaper lines and third one is ordered and expected to be installed soon. The brand name is Wowper.

Percy: Okay. So, 100% of the sale is B2C or is there any B2B also here?

Santosh Raveshia: Yeah. So, about 48% of the company revenue are generated through the domestic distribution network. They are present in 12 states right now. 34% of the company's sales are in form of modern trade and e-commerce platforms. They have a strong presence on Amazon, Flipkart and Jio as well. And close to 13% of the company's sales are coming from OEM as well.

Percy: Understood. And lastly on this topic, can you tell us what would DOMS be bringing to the table in this partnership and also just wanted to understand if the retail outlet is the same. My understanding is that stationary shops do not generally store these products in any material measure. So, if the distribution is different, the manufacturing is different, the brand is different, what is it that we are really bringing to the table in the partnership?

Santosh Raveshia: So, like you know, as discussed, DOMS wants to be known as a company associated with kids that are growing, years and age. We would not want to limit our scope to stationary and art or office supplies. But be present across multiple products associated with kids and their growing years. So, we believe we can leverage our understanding of our consumers, their preferences, likings, along with our growing brand presence and the distribution network to push these products globally. This acquisition is very much in line with our objective to be associated and register a strong brand recall and expand our addressable market size.

Percy: Got it, sir. Got it. My last question is on margins. This quarter, we have done an all-time high margin of close to 19.5%. First of all, what is the reason for the margin expansion? And secondly, how do you think we should think about margins going into the next two to four quarters?

Rahul Shah: So, during the quarter Percy, consumption if you see has increased by about 1%. This was primarily due to increase in cost of raw materials, especially polymers, waxes, and even paper. However, this increase in consumption was offset by reduction in direct expenses on account of things in direct labour, power and fuel and other manufacturing expenses. This was approximately 0.8%. Further, the Company also benefited because of the rationalization and better absorption of certain indirect expenses like selling and distribution, logistics, etcetera, which decreased by 0.7%, resulting in the overall EBITDA margin, moving from 18.8% to 19.4%.

Going forward, our margins would be in the range of about 17%.

Uniclan did revenues of about Rs 140 crores in FY24. The EBITDA margin right now, considering it's a growing company, is about 5%. So, when it will get consolidated, we'll have an impact on our margins. Also, the company has recently got the approval of shareholders and is in the process of giving out ESOP. ESOP accounting will have a little bit of impact. And hence, we believe the margins shall be close to 17% sort of the mark accounting for the raw material prices increase trend this year.

Percy: Okay. So, 17% including the new company you have acquired?

Rahul Shah: Yes, including.

Percy: Okay. That's all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Sneha from Nuvama Wealth. Please go ahead.

Sneha: Hi, sir. Good afternoon and congratulations in strong set of numbers. Just living down to your previous questions you've entered into diaper. Plus, you have also your MOA suggesting, you can actually cater to many more categories. And, categories mentioned that even garments and all. So, what's the strategy and where do we actually see ourselves in the next five years?

Probably, there is some vision there. Like you mentioned, you don't only want to stick around to the stationery and art space. How are we seeing ourselves panning out? And will the new facility that you're coming up with will it see any of these products or will it be only part of the exhibition? Some sense here would be helpful.

Rahul Shah: Sneha, sorry, I honestly was not able to get the question very clearly. Your voice was echoing. Can you Repeat the question.

Sneha: Sure, it was more related to the alteration that you've made in the MOA, which is suggesting that you're planning to enter other categories like garments, of course, difference and models was something that we have discussed, but there are other categories that you recently entered the diaper. Could you help us understand the vision of the company that in the next five years, where do we see ourselves? What could be the major revenue driver for us?

And also regarding a new facility, is the new facility going to take up any of the product or is it going to be purely state of the art and stationery company from the capacity perspective?

Rahul Shah: Sneha, basically, the current capacity expansion that we are doing in Umbergaon is basically for the stationary business, for the current business that we are in, where we are planning to increase capacities across our core products. The alteration that we have proposed in our memorandum is just to encompass, just to have that flexibility of adding new lines of business in future.

Like we said, like Santosh bhai mentioned earlier, we want to now be a more a kids company rather than being referred to as a stationary and art material. And therefore, we’ve incorporated these changes in our memorandum. As of now, there are no plans for other segments. It's just to allow flexibility for the future.

Sneha: But in these new categories, are we thinking of putting up our own manufacturing units, greenfield plants, or are we looking at similar sort of acquisitions, like if we have done for the toys business, like we have done with Speedo and now the diaper range?

Rahul Shah: So, for these sort of unrelated or other products, these are inorganic routes. We continue to evaluate every opportunity from multiple perspectives before finalizing upon something. We go through a detailed thought process, understand if the same fits in our strategy or no. But there are certain segments where, for example, where one of the clauses in the memorandum where we added is cosmetic pencils, that's a product which is very similar in terms of manufacturing capabilities to manufacture our wooden pencils, where we will take the organic route.

So, though not something is planned right now, but in future to allow us that flexibility where we can use our expertise, we've added that. And see, at DOMS, we've always believed in partnership and love working with experienced entrepreneurs in different segments. So, it will be more of inorganic for categories which are outside of stationery and art material or where we do not have our core manufacturing expertise.

Sneha: I'm sorry, Rahul, but we are facing challenge in terms of hearing you.

Moderator: Yes, sir. Sorry to interrupt, Mrs. Sneha. Can you please use handset as your voice is not audible and clear?

Sneha: Sure, sir basically, just to extend your question, Rahul, here. You said inorganic expansion, but what about the distribution channel? The current distribution channel will not be able to take care of any of these products. What's the plan here? Because a lot of these newer products will actually demand a complete new distribution channel, complete new sales personnel. How are you planning to go about this?

Santosh Raveshia: So, Snehaji, there are, like, in our industry, there are, like two types of networks. So, and its like the consumer facing which, for our current products are our stationery stores and other part comprises of super stockists and distributors. Our super stockists and distributors can support both these products, our super stockists and distributors network can be leveraged along with the current stationery products to expand the geographical reach of Uniclan. So, this is the overall plan.

Sneha: Understood, I think I'm unable to hear you all properly. I'll just take this offline.

Rahul Shah: Yeah, no problem. We can have a call.

Santosh Raveshia: Yeah, sure, Sneha. We can connect anytime.

Sneha: Sure. Thanks. Thanks and all the best to you.

Moderator: Thank you. The next question is on the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Yeah, thanks for the opportunity. First one is on the Uniclan acquisition. Looks like the gross margins are 27%-28%, which is low for a FMCG kind of a business. And they just about broke even in FY23. Can you talk about how the numbers were for FY24? You mentioned that EBITDA margin was about 5%. So, what kind of EBIT and net margin you made and also your expectations for FY25 for Uniclan, both in terms of growth as well as profitability?

Rahul Shah: So, Kunal in FY24 also, the margin profile was similar. The company sales was around INR144-plus crores. Out of this, about 81% plus sales came from their own brand, while about 13% was from OEM business. EBITDA margin is close to 5.1%. And the gross margins are similar as per the last year's level.

In terms of sales guidance, it is too early for us to comment because we are still in the process of closing this transaction. While the diligence activities have been completed, we are in the process of finalizing the agreements, the execution, and the closing is expected by either this month end or latest by the end of the coming month.

So, once the closing is done, then I think we would be in a better position to guide on the numbers from this business on what we can look at for current year and the coming years as well.

Kunal Vora: And would you look to raise stake in this business or you will be comfortable holding the 51%-52% you are currently acquiring? And does the business need growth capital or what kind of capex intensity do you expect there?

Rahul Shah: So, Kunal, just to answer your second question first, the current acquisition that we are doing is structured through a primary infusion in the company where the company would issue us fresh shares as well as purchase of some shares from the existing shareholders of the company. So, with the primary round happening, we think their capital requirements for the mid-term would be sorted. Then depending upon how the growth and the business pans out we will be in a better position to understand future requirements**.**

In terms of raising stake, if you see historically we have betted on partnerships. We want these partners to continue running the business. We believe they are the best drivers to drive these companies going forward and hence we would want to continue being a majority shareholder at about 51-52 sort of a percentage and the rest of the promoters being in the company with 48-49 sort of a percentage and driving the business.

Kunal Vora: Okay. And post your capital infusion what will be the debt level which this business will have?

Rahul Shah: So current debt level is about INR 38 odd crores, this is the net financial position of the company, but like I said the capital that we will be infusing would be used for some amount of capital expenses where the company is looking at expanding its manufacturing capacity for diapers and starting the wet wipes as a segment. So some amount would go to capex and rest would be towards working capital requirements. Then we would think about in the longer term how do we reduce debt or do we actually need to look at doing that.

Kunal Vora: Understood. I had a couple of questions on individual segments. So scholastic stationery seems to have grown in single digits. How do you see it for the full year and what's happening there?

Rahul Shah: So see if you compare from Q1 FY24 to Q1 FY25 within scholastic stationery I would say the increase in capacities has come predominantly from mathematical instrument boxes which have where we've increased our capacities which has helped us in increasing the sales from this segment. No material capacity addition has happened in pencil during this said period. Like we'd informed earlier pencil capacity expansion is something which is in the plans right now. We expect this capacity addition to be available by end of this financial year to early next year. And that is where we will see growth coming in from scholastic stationery as a segment.

Kunal Vora: Understood. Okay. And office supplies on the other hand seems to have doubled. So I think that should be because of the pen's capacity which has come in. So, how are you looking at this segment for the full year?

Rahul Shah: Yes. Like I said we just commercialized our third unit for writing pens which has a capacity of additional 1 million pens a day. This got commercialized towards the end of June. So going forward, very soon our capacity for writing pens would increase to about 3 million pens a day.

And hence we believe this segment will continue to grow for us, at least in the next coming couple of quarters.

Kunal Vora: Okay, but let us say almost doubling year-on-year for the full year or even beyond that considering that there is new capacity coming in like say in next month or so?

Rahul Shah: So Kunal honestly at a product level, we are not giving any sort of a guidance in how much sales we'll be able to achieve, but like I said with this capacity being added, we believe that this would be a key driver for the growth in the current year.

Kunal Vora: Okay. And what about international revenue that seems to have declined or it seems flattish on a year-on-year basis considering that contribution is down from 18% to 15%?

Rahul Shah: Well in terms of a geographic sales analysis, domestic market continues to be our primary contributor and our primary focus for our sales jump. We continue to focus on strengthening the presence of DOMS brand to capitalize on the demand for the product. Inspite of certain geopolitical issues, our exports to third party under the DOMS brand witnessed about a 5% increase year-on-year while inter-company exports, you know, the exports that we do to FILA have been flattish. But it's more, you know, for significant growth in the domestic market that has been basically our focus here due to the high demand that we are seeing for our products in the domestic market.

Kunal Vora: But international, what is the outlook? I mean, we expected that international will keep pace with domestic, but that doesn't seem to be happening in the near term. For the full year, would you expect international to, like, say, grow at 15%-20% or that seems difficult?

Santosh Raveshia: Kunal you know there is like enough demand from international market, but you know our priorities always is domestic market, which is like, which is made with lot of efforts. So the priority right now with the capacity what we have is dedicated to domestic. Once we have new capacity as we discussed regarding pencil and other art materials, I am sure there would be a positive outcome on international sales as well.

Kunal Vora: Okay. Thanks, Santosh. Last question is, for the full year, are you on track for the 20%-25% growth, considering that you started the year with 17% growth?

Santosh Raveshia: Yes, we are optimistic of being at, you know, close to that.

Kunal Vora: Sorry, I missed that. Santosh, can you repeat that?

Santosh Raveshia: So, we have this objective of, you know, being at 20%, you know, close to that. And this is going to be our objective.

Kunal Vora: Understood. Thank you. That's it from my side.

Moderator: Thank you. The next question is on the line of Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Hi, sir. I have a few questions. First, on the current quarter, like, we saw very good growth in your numbers and the margin expansion also. We integrated our Skido brand this quarter. Can we attribute some kind of margin expansion due to that as well and growth also?

Rahul Shah: Meet, sorry, but can you just speak in the handset? Because, you know, again, the voice echoes a bit.

Meet Jain: Hello. Yeah. So, I just wanted to ask, in this quarter, we have integrated our SKIDO brand, right? So, the part of our margin expansion can be attributable to that also, because that also helps in the backward integration and also adds up the segment.

Rahul Shah: So, Meet, it is very early days with SKIDO. In the quarter, the revenues from SKIDO were approximately Rs. 1.4 crores, and the company did EBITDA margins of about 8 - 8.5%. Out of that, about Rs. 40 lakhs was sales from SKIDO to DOMS, which is a part of our backward integration play, and about Rs. 1 crore was from third-party orders. But like, you know, we are right now at SKIDO developing the range of products and being ready for the upcoming back-to-school season. And that is where we believe, you know, once the product gets launched very close to the back-to-school season, there we see, you know, a sharp jump in revenues from this company. But otherwise, right now, it's very early days with SKIDO. It's been just a quarter. They started operations from 1st April, you know.

Meet Jain: Got it. And another question is regarding this integration of Uniclan. So, we mentioned that the transaction will be completed in September. So, from Q3, we can expect the dip in the margins going ahead, right, with that integration?

Rahul Shah: So, there will be some amount of, you know, adjustment that could happen in margin considering that it's a growing company and their current EBITDA margins are close to 5 - 5.1%. So, yes, we will see a dip due to the integration in the margin happening from Q3.

Meet Jain: Oh, understood. And I missed a point on our guidance regarding the top-line growth.

Rahul Shah: So, we are at about 20%, close to 20%.

Meet Jain: Okay, 20% top-line growth. Okay, understood. And last thing is that on the strategy part, so we have our new land parcels and we mentioned that we'll be focusing on stationary capacity expansion there. So, our strategy has been partnering with companies across India and segment. So, going ahead, can we expect the partnerships to have their own manufacturing facilities and we'll look for that itself rather than focusing on increasing capacity at a facility?

Rahul Shah: Meet, it would be a mix. There would be, you know, like certain products, for example, like diapers, bags, probably other products in the back to school segment for which we might look at inorganic as an option. But our core stationery is something which we are there and we would definitely continue. This entire 44-acre expansion plan is gearing up towards adding capacity for our core products.

Santosh Raveshia: So, Meet, we are more skilled for stationary and sholistic. So we would like to more focus on what is our core and our skill. And for the others, where we need skillful people, there we would like to depend on an inorganic route. This is what the ideology is of the company.

Meet Jain: Understood. And I just wanted to elaborate on one question that one participant asked regarding the distribution channels, as these are very different categories. However, the target audience is the same, but the categories are different, like for diapers. So we have to create a new distribution channel and to grow that as a new entity. So what is the strategy towards that?

Santosh Raveshia: So, today, for example, whatever distribution channel we are operating, our distribution channel is more of FMCG distribution channel. So there are a lot of distributors of DOMS who are distributing food and hygiene as well. So as far as, you know, we don't have a common end seller, which is a retailer, for sure. But the super stockists and the distributor channels are very complementing for both the businesses. We can easily leverage our distribution channels, help them to reach out to more states where the presence is right now 12 states. So, maybe with our support, this particular business can reach out to all the states and union territories.

Moderator: The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: Given all the manufacturing capacities you have, like can you quantify how much pieces of pens and pencils do you make and what is the targeted number in the future, given you have expanded recently and upcoming expansion?

Rahul Shah: Right now in terms of pens, with this new plant operational, we'll soon be to a capacity of 3 million pens a day. In terms of pencils, during this term, we've not added any significant capacity. It is similar to the capacities that we had last year. But in this coming year, we have plans to add capacities, which would be coming up by the end of the last quarter of this year or early next year.

Santosh Raveshia: And that would be by how much, approximately?

Rahul Shah: So right now we are at about 5.7 million pencils a day. And with the new plant, we'll be adding another 2.5 million pencils a day. These are wooden pencils. So around close to 8 million - 8.5 million pieces a day.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited. Please go ahead.

Jinesh Joshi: Again, I'll just move to the entry in baby care, which was the center point of the call. Sir, can you highlight how big is the opportunity size here and what is the market share of Wowper? And also the fact that in FY '24, we saw the revenue decline a bit. So, if you can explain what was the reason behind it and how do we plan to scale it up from here on?

And also related follow up is that you mentioned that the EBITDA margin for Uniclan is about 5.1%. And maybe it has been an early growth phase and hence the margins are a bit lower. But on a steady state basis, what can be the EBITDA margin for this particular product?

Rahul Shah: So, in terms of market opportunity, in diaper markets around $2 billion. And it is expected around, $3 billion over the next year. The penetration of diapers today is about 10%. It's very low compared to, the global average, which is upwards of 20%. And in developed countries, upwards of 50%. So, hence, we believe the opportunity in terms of market size is very large.

Uniclan with its brand Wowper is, more of a new entrant in this segment, where they started their operations in 2020, when they did sales of about, INR13-odd crores and they've grown up to about INR144-plus crores now. So, they are growing and with our, the synergies that we see in this acquisition, we'll be able to grow the business a bit faster. So, the market share right now of this brand is very small, but the opportunity is very big.

Jinesh Joshi: Got that. And sir, you also mentioned during the call that the money which we are putting into the company, the 52% stake for about INR55-odd crores, some bit of it is a fresh infusion which is coming into Uniclan and some bit of it is pertaining to the shares which you are planning to buy from the existing promoters. So, can you highlight how much fresh money is coming? And you also mentioned that you're looking to expand the capacity. So, if you can share, what are your plans on the expansion side?

Rahul Shah: So, the primary infusion is close to approximately INR29 crores and the balance would be for secondary purchase of shares. The company today has two lines for manufacturing diapers and they've already placed an order for acquiring a third line. The current capacity is about 400 million pieces of diapers per year and about, with the new wet wipe machine which they've already acquired and are in the process of installing. With the new diaper manufacturing capacity being added, another 250 million pieces a year would be the capacity.

Jinesh Joshi: Sorry, sir, your voice was not fully audible. So, I'll repeat. The primary infusion number, if you can just share. Sorry, I just missed that. You're not audible at that point in time.

Rahul Shah: Yes. So, the primary infusion is of approximately INR 29 crores with the balance secondary purchase.

Jinesh Joshi: Got that. And sir, the incremental capacity which will come is 250 million, right? That is what you mentioned. And the current capacity is 400 million and incrementally will be 250 million, right?

Rahul Shah: Yes, yes. With the two machines that they already have, the capacity is 400 million and with the third machine which will be installed, it would be another 250 million installed capacity.

Jinesh Joshi: Got that. So, one last question from my side. I think in the call also it was mentioned that some of the distributors of DOMS are probably distributing some food and hygiene products and perhaps we may not have to take or rather create a separate distribution channel, if I heard right.

So, out of 125 superstocks that we have, how many are also distributing the food and hygiene products currently?

Rahul Shah: So, about 15 to 20 are already in this business. But like I said, these are related lines like pharmaceuticals and all which can be leveraged for this. So, that is an additional number.

Jinesh Joshi: Okay, sir. Thank you. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Yash from Stallion Asset. Please go ahead.

Yash: Hi. Thank you for the opportunity. Congratulations again on a great set of numbers. So, my question was basically on clarification on the revenue guidance because if I understand, last call we had said revenue guidance was 22% to 25% for FY '25, right? And given the ramp up that you've seen in your office supplies for the pen category as well as the inorganic equation that you're doing. So, my assumption was that we can grow 25% this year as well. So, I just wanted to understand your take on that.

Rahul Shah: Yes, we just want to clarify. I think the inorganic opportunity that you just talked about additional. So, our core business guidance is about 20% and plus inorganic what we add. That would be in addition.

Yash: Okay. So, it's 20%. Fine. Got it. And so, second question was that as far as the margins are concerned because this again, 19.4% is one of the highest margins that we've seen in the company. So, do we believe that the margins can sustain to about 19% - 20% given the decrease in the manufacturing cost and indirect cost that you're seeing? So, broadly, my estimate for PAT was about INR 210 crores. Is that, will that be way off or will it be closer to that number?

Rahul Shah: Margins, like we said, due to the cost increase of polymers, waxes and some other products continue to increase and therefore the consumption as well. However, we have seen efficiency playout and expect some further improvement. With increase in raw material prices trend expected to continue, therefore, whatever benefits that we get from efficiencies are likely to offset. And plus, like we mentioned the Uniclan acquisition would, which would be consolidating for at least for six months at minimum in the books, will have a little bit of a negative impact on the margin. And similarly, the ESOP plan which the Company is proceeding with, the ESOP accounting, we believe there would be further a little bit reduction in the margin. And hence, we believe that we will be close to 17% on the margin in the full year.

Yash: Thank you very much.

Moderator: Thank you. The next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited. Please go ahead.

Mohammed Patel: Yes. Hi. So, my question is, how is the stationery industry performed in the Q1 season and which segments were the best and the worst performance?

Rahul Shah: So, in the industry, there have been a little bit of challenges especially because of the weather conditions during the first quarter. There was an extreme heat wave in North India, schools got shut early and opened late, which was followed by very heavy rain, which again impacts the functioning of schools. So, the market environment was definitely a bit challenging. But like we earlier said, we saw a positive start at DOMS. So, we believe this momentum that we are seeing right now will continue in the full year as well.

Mohammed Patel: So, my second question was on this line only. So, our performance was much better than the listed peers. So, they were experiencing a sluggish or a negative sales growth. So, what explains the better performance for DOMS?

Rahul Shah: So it's the same thing we believe in making good products. We continue to focus on innovation, product designing, product engineering. We believe in getting close to our distribution network, to our consumer through engagement. We are doing the same thing that we've been doing, and we believe that it's working well. And, we are really happy with the continued love and affection that we continue to get from our consumers.

Mohammed Patel: So, the external environment would have impacted us also, right?

Rahul Shah: Yes the external environment did affect us. Yes, if things would have been normal, I think we would have done better.

Santosh Raveshia: It's all about, like, I would also like to, appreciate here, our distribution. When the scenarios are not in our favor, our distribution partners have always performed and shown results beyond expectations. And the same happened, in this quarter as well. They all went all out, and I think, market also, the retail market also supported when we got the priority.

Mohammed Patel: So, in actuality, we increased our market share and the distribution and the innovation has led to this.

Santosh Raveshia: Yes.

Mohammed Patel: Thank you.

Moderator: Thank you. The next question is on the line of Percy from IIFL Securities. Please go ahead.

Percy: Hi, sir. So, just sorry, I got disconnected. So, you said that you wanted to expand your area of operations and be connected with growing children and their needs. So, just wanted to understand what comes within this playing area. So, would you sort of say that at some point of time, something like a baby food would also be part of your endeavor or something like clothes for toddlers or children would also come under this umbrella?

Because that sentence which you mentioned, that opens a very, very large sort of number of industries or categories. So, as investors, how do we sort of judge what you would be okay entering and what you would stay away from?

Santosh Raveshia: So, like, Percy, before finalizing upon something, there is a detailed thought and discussion on how it could fit into our future growth objective and this financially accreditive to all the stakeholders. However, at this time, it is difficult to pinpoint or deliberate upon any specific category. I can say, that Uniclan is a positive opportunity.

Percy: Secondly, would you be able to tell me on Pens, how is the current run rate progressing in terms of your monthly run rate of sales? And secondly, are we still focusing only on the INR 5 price point here or we are more sort of balanced in terms of our price point focus now?

Rahul Shah: So, Percy, we are in the process of launching many additional SKUs within the segment and during the last quarter also, a couple of new SKUs were launched in this segment. In terms of run rate and like I said, we are in the process of building capacity. The additional 1 million per day Pen facility got operational towards the end of June and we will steadily increase our capacity utilization there as well. So, it's happening organically there but couldn't want to give any specific numbers in terms of how much sales are we looking at or what are we planning to do there.

Percy: Understood. And in terms of the price point, would INR 5 price point still be like 70% plus of our sales?

Santosh Raveshia: Yes, as of now, INR 5 is 70%. But we are bringing a lot of new variants in INR 10 & INR 5 segment as well. But as you know, our target consumer is mainly kids and core focus is more on INR 5 segment.

Percy: Yes, that's it from me. Thank you and all the best.

Moderator: Thank you. That was the last question. I will now like to hand the conference over to the management for the closing remarks.

Rahul Shah: Thank you everyone for attending this conference call. Thank you the ISEC team for hosting us. We look forward to your continued interaction and we'll be in touch and happy to answer any other additional queries that you all may have.

Santosh Raveshia: We appreciate your interest and thank you very much.

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