



**“DOMS Industries Limited**  
**Q3 & 9M FY '24 Earnings Conference Call”**

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**MODERATOR:** **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

**Moderator:**

Ladies and gentlemen, good day and welcome to DOMS Industries Limited Q3 FY24 Earnings Conference Call hosted by ICICI Securities. Before we begin, a brief disclaimer - The presentation and Results Release which DOMS Industries Limited has uploaded on the Stock Exchange and their website, including the discussions during this call, may contain certain forward-looking statements concerning companies' business prospects and financial performance 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 from ICICI Securities. Thank you, and over to you, sir.

**Aniruddha Joshi:**

Yes, thanks, Lizann. On behalf of ICICI Securities, we welcome you all to Q3 FY24 and nine-month FY24 Results Conference Call of DOMS Industries Limited. We have with us Senior Management, represented by Mr. Santosh Rasiklal Raveshia, Managing Director, and Mr. Rahul Shah, Chief Financial Officer. Now I hand over the call to the management for their initial comments on the nine-months and quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

**Santosh Raveshia:**

Thank you. Good evening, everyone. It is our pleasure to welcome all the participants to our first Earnings Conference Call for the quarter three and nine-months period for the financial year 24.

Joining me on this call is Rahul Shah, our CFO, and Marathon Capital, our Investor Relation Advisor. I hope everyone had an opportunity to go through our investor deck and results release that we have uploaded on the exchange and our company's website. To begin with, I take this opportunity to thank all of you and the entire capital market fraternity with a special mention to our shareholders for the overwhelming faith shown in our initial public offering.

The listing marked a significant milestone in our journey, motivating us in achieving excellence ahead. Considering this is our first call post-listing, for the benefits of participants whom we are interacting for the first time, let me spend some time to provide an overview of the company. DOMS is one of India's leading stationery and art product company.

Our journey started in 1973 with the formation of RR Industries by our founders, my father, Late Shri Rasik Bhai Raveshia and my uncle, Late Shri Mansukhlal Rajani, who over the years undertook the business of manufacturing and sale of pencils and crayons. Subsequently, in 2005, we launched the DOMS brand by incorporating this company, which was known as Wright Fine Products Private Limited.

In 2011, with an objective to streamline our operations and achieve integration, we merged all stationery business of group into this company. Further, in 2012, we entered into strategic partnership with FILA, a listed Italian multinational company, engaged in supply of various art materials and stationery products with a global presence. As a company, we are focused on growing substantially and remain steadfast in our mission to consistently increase our market share in the interesting Indian market.

Today, the company manufactures and sells well-designed quality stationery and art products categorized primarily into seven categories that include scholastic stationery, scholastic art materials, paper stationery, kits and combos, office supplies, hobby and craft, and fine art products. The company's products are primarily sold under the flagship brand DOMS as well as through our other brands like C3, Amariz, and Fixy Fix. Our manufacturing facilities are located in Umargaon, Gujarat, and Bari Brahma, Jammu.

Our operations are spread over approximately 36 acres of land with over 1.25 million sq.ft. We are focused on achieving a greater degree of backward integration, which we believe enables us to improve efficiencies, ensure quality control, reduce dependency on third parties, and enhance profitability. At DOMS, we continue to focus on expanding our manufacturing capabilities so that we can quickly and effectively cater to the increased market demand of our products.

Our ongoing expansion at our existing facility coupled with our proposed 44-acre expansion will provide us required resources to continue our growth momentum and enhance our market share. The success of our company would not have been possible without our multi-distribution channel network, which is spread domestically across 28 states and union territories of India, as well as in our 44 countries globally.

The company's keen focus on research and development, product engineering, backward integrated led manufacturing operations, driving a large and diverse product offering has enabled DOMS to become the fastest growing stationery and art material product company in India in terms of revenue over the past few years.

We believe that India continues to have a strong demand for stationery and art material segment, and DOMS is well positioned to capitalize on this growth opportunity, reinforcing a long-term vision of pursuing robust and profitable sales growth. We are sincerely thankful to our consumers, our channel partners, and our passionate team, which has helped us in delivering consistent growth.

With this, I would like to hand over the call to our Chief Financial Officer, Mr. Rahul Shah, for the update on Q3 and 9-month financials, year 2024 financials. Thank you very much.

**Rahul Shah:**

Thank you, Santosh bhai. Good evening, everyone. Coming to the details of our financial performance highlights for the quarter-ended December 31, 2023, and 9-month period ending the same.

I would like to state, our revenue from operations for Q3 FY24 grew by 22.3% year-on-year to about INR 3,716 million and by 29.5% year-on-year 9-month ended 31st December to INR 11,334 million. This growth was backed by increase in capacities across our core product categories as well as introduction of new product segments like writing instruments as well as increase in the average selling prices of our products. The EBITDA for Q3 FY24 grew by 42.7% year-on-year to INR 694 million and EBITDA margin expanded by 270 basis points year-on-year to an impressive 18.7%.

EBITDA for 9-month ended December 31, 2023, grew by an impressive 57.8% year-on-year to INR 1,968 million and EBITDA margin stood at 17.4%. This strong growth in EBITDA margin was primarily on account of lower raw material prices as well as owing to the change in product mix and the benefit that the company received with the consolidation of Micro Wood, our subsidiary company.

Profit after tax for Q3 FY24 grew by an impressive 43.4% year-on-year to INR 388 million and PAT margin stood at 10.4% as compared to 8.9% in Q3 FY23. PAT for 9-month FY24 grew by 69.1% year-on-year to INR 1,127 million and PAT margin for this period increased to 9.9% as compared to 7.6% in 9M FY23. The consistent growth in our performance reflects the power of our brand acceptance and is testimony of our effective implementation of our business strategy.

On the operational front, we continue to focus on expanding our manufacturing capabilities to capitalize on the growth potential and gain market share. Towards this aim, we have spent approximately INR 280 million in capex in the third quarter of FY24 and have recently added about 100,000 square feet of manufacturing floor space in commercial production during this quarter. The manufacturing operations at this new plant was commercialized in a record period of 90 days from the completion of construction.

Another 100,000 square feet of plant is under construction, which is likely to be operational during first quarter of FY25. This coupled with our proposed 44 acres expansion will provide us with the required resources to continue our growth momentum and enhance our market share. With this, I would request Aniruddha to open the floor for questions and answers. Thank you.

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

**Kunal Vora:** Yes, thanks. Congratulations Santosh bhai and Rahul bhai for the listing and strong results. A few questions from my side. First is on the margins. EBITDA margins are fairly strong at 17.4%, more than 300 bps improvement. And if I go and look at the 4Q last year, again, margins were strong.

It implies that you might end the year with more than 17.5% margins. So, I wanted to understand how sustainable is this and are there any adjustments which we need to be aware of?

**Rahul Shah:** So, Kunal bhai, like mentioned during the call, you know, the increase in margins are attributed to three key factors. One is a slight reduction in raw material prices, which was about 1.5%. There was a positive impact on account of integration of, you know, consolidation of micro-goods, which was about 0.6%. And the rest change is due to the change in the product mix. You

know, there are certain products that we manufacture. We have a very vast portfolio of certain products which are high on material consumption but low on direct expenses and vice versa for some categories. So, because of change in this product mix, we saw improvement in the gross margins. At the same time, there was a slight increase in cost of manpower and power and fuel and such other expenses, which, you know, offset the gains in the operating margins.

So, as a result of this, we achieved this EBITDA number of 17-odd percent. Going forward from a sustainable number, we continue to, you know, have a targeted EBITDA range for this year end between 16% to 17%. And going forward for the next year, between that sustainable number would be about 15 to 17 percentage.

**Kunal Vora:** But this year, like when you already had 17.4.

**Rahul Shah:** Yes.

**Kunal Vora:** And 4Q at least looks like last year was strong. In that case, why are you guiding to a lower number, 16%, 17%?

**Rahul Shah:** Certain raw material prices, you know, which were lower in the previous quarter have, you know, again started to increase. You know, last quarter, certain polypropylene prices were, you know, probably very low. This year, starting this year, we started seeing a reversal in that.

**Kunal Vora:** Understood. Thanks. Second one is on capex. So, like, what number would you end up with in FY24? Like, if you can talk about plans for FY25-26 and what would be the focus period of investment?

**Rahul Shah:** So, in the first nine months of the year, our capex has been about INR 117 crores. You know, in the last quarter itself, we did about INR 28 crores of capex. In the current quarter, you know, we project that the capex would be upwards of INR 30 crores. We've started utilizing in this quarter some proceeds from the IPO for the proposed project.

So, given that, we will do, end up this year close to about INR150 crores of capex. Going forward in FY25-FY26, our capex would be between INR 200 crores to INR 225 crores in each of the two years.

**Kunal Vora:** Lastly, if you can talk about why all the divisions seem to have done well. Paper stationery seems a little weak. Is it because of declining paper prices? Or, if you can talk about, like, why that segment seems to be weak?

**Rahul Shah:** So, Kunal bhai, in paper stationery, if you see, in the previous years, the contribution of export sales to the overall paper business was higher. In the current year, due to, some challenges in key markets like Europe, etc., exports have been a little lower and that has impacted the paper business. But that has partially been offset by the increase in demand in the domestic market.

**Kunal Vora:** I have more questions, but I will come back in the queue. Thank you.

**Moderator:** Thank you. The next question is in the line of Ankit Kedia from PhilipCapital. Please go ahead.

**Ankit Kedia:** I just wanted to understand what is the volume and value growth, you know, for the first 9 months and the quarter. And along with that, specifically in the pencils business, if you can highlight what has been the volume and value growth?

**Rahul Shah:** So, Ankit at a company level, it is really very difficult for us to talk about, you know, volume growth because we manufacture a lot of different products and each are sold in different sizes, units, packs. But if you talk specifically about wooden pencils, which is a key product segment for us, compared to the quarter ended in December '22 to quarter ended December '23, the increase in volume was about 16% in terms of volume. Then there are certain products, other key products like watercolor pens, mathematical boxes, where we've increased capacity there, volume increased by about 61% and about 72%. So, there have been significant volume growths where the company has added capacities. And on terms of value growth across most of our product segments, we've seen, ASPs increasing in the range of 3% to 5%.

**Ankit Kedia:** And specifically for wooden pencils, what has been the ASP increase for the quarter and 9 months?

**Rahul Shah:** If you talk about, again, we have two components there. One is wooden black lead pencils and wooden color lead pencils. Black lead is the significant portion where the ASP increase has been about 3.5%.

**Ankit Kedia:** So, is it safe to assume that the wooden pencils is growing slower than the company average?

**Rahul Shah:** No, not really. Like I said, not really. If you look at the overall company level, our growth in scholastic stationery has been close to similar what has been our overall growth. Plus, also, you know, there's an interesting thing. For example, a lot of, you'll see a significant growth in kits and combination packs. Again, these packs, pencil is a large constituent there. So, those increase in capacities get diverted towards sales of such packs also.

**Ankit Kedia:** Sure. And so, could you just throw some light on the channel-wise growth, what you have seen in the quarter? How has been the distribution expansion and, you know, for 9 months and for the quarter and where are you seeing a higher growth?

**Rahul Shah:** So, you know, like we've always maintained, our priority market has been the domestic market. And in domestic market also, we've always focused on the general trade segment. So, general trade segment continues to have the focus for us. This segment constitutes more than 75% of our total sales. Otherwise, from a channel perspective, channel mix, it has been pretty much in line.

**Ankit Kedia:** So, last year, FY23, general trade was 74%. And for the 9 months, you are saying it's grown to 75% plus?

**Rahul Shah:** 75%, yes.

**Ankit Kedia:** So, the decline is coming in which channel?

**Rahul Shah:** So, if you see our numbers and the presentation, we'd highlighted that exports has been, which was earlier about 21%. Export has now slowed down due to certain markets where, you know,

demand has been lower like Europe and plus certain disruptions due to this logistical challenges from Red Sea disruption. So, because of which exports have been smaller and now constitute about 18% of our sales. So, that has been absorbed by the domestic market and primarily in the general trade.

**Ankit Kedia:** Sure, that's helpful. I'll come back in the queue for more questions. Thank you.

**Moderator:** Thank you. The next question is in the line of Amit Jaiswani from Stallion Assets. Please go ahead.

**Amit Jaiswani:** Hi, Raveshaji. First time we are speaking. Good evening. My first question, sir, is that how large is the opportunity in front of us? And where do you see DOMS being in the next three to five years? First of all, congratulations on being a billion-dollar company by market cap.

But what kind of profit pools do you aspire to generate for the next three to five years? Like this is, would you be continuing to growing at? So, last decade, we've grown at about 25%, 27%. Would it be right to say that that kind of growth rate is sustainable for the next three to five years?

**Rahul Shah:** So, Amitji, Rahul here. Yes. So, just to take your question on the growth and the guidance for this year, FY '24, we'll end with a growth rate of between 25% to 26%. And this is a similar sort of a growth we will target to achieve in the coming financial year as well.

In terms of opportunity, we really believe that the opportunity in the Indian stationery and art material segment is significant. You know, not only is the market increasing because of certain factors like focus on, government initiatives on education, but also there's a lot of new demand coming in, with respect to, you know, whenever we've launched certain types of new products, which were not existent in the market. But the acceptance level of these products has also been very great.

So, we believe we'll be able to expand the market as well. So, with new product developments, with our focus on R&D, product engineering, and getting the best product available at the best value, we think that the market potential is significant. And with our expertise and experience, we'll be at the forefront to leverage this benefit in the coming years.

**Amit Jaiswani:** And would you say that you'll be reinvesting 100% of your operating cash flows in the capacity every year?

**Rahul Shah:** You know, it's very difficult to answer this at this point of time. But yes, we continue to see good opportunity in the existing product segments. There are a lot of new product lines that we would enter. In addition to organic growth, we are always on a lookout for attractive inorganic opportunities. So, how things shape up, that will really constitute that whether we'll be doing a 100% reinvestment. But yes, we do believe that the potential is huge. And we would want to be at the forefront with, you know, getting maximum market share as much as possible.

**Amit Jaiswani:** So, on our highest category, which is pencils, we are about 11% of the entire market, right?

- Rahul Shah:** No, entire market of..
- Amit Jaiswani:** What would be our market share?
- Rahul Shah:** Sorry. Market share would be about 11% to 12% of the entire stationary market. Pencil is within that segment, if you talk about, then we are at about 29%.
- Amit Jaiswani:** Got it. And the industry stationary industry is growing at about 8%. Would that be the right benchmark? And we would be able to grow at three times faster than the industry?
- Rahul Shah:** The industry, overall industry is growing at about 11% to 12%. Then there are certain categories within the industry, which are demonstrating a little higher growth as well. For example, pencils, writing instruments, which are close to about 16% growth.
- Amit Jaiswani:** Got it. And our gross margins will stay at these levels broadly for going forward in the newer categories that we enter?
- Rahul Shah:** So, if you look at, gross margins across different products are different. And therefore, we as a company, always look at EBITDA as the right value into justify whether these products are doing well or no. So, on an EBITDA perspective, EBITDA level, any new product that we intend to introduce, we work with that targeted EBITDA margin of 15%. And only then, you know, proceed in terms of introducing that product in market.
- Amit Jaiswani:** Got it. Thank you. Thank you so much. I'll come back in the queue.
- Moderator:** Thank you. The next question is on the line of Mehul Desai from JM Financial. Please go ahead.
- Mehul Desai:** Thank you, team, for taking my question and congratulations for the great set of numbers. So, my first question is on the distribution side, if you can give some flavor as to how has distribution increased versus what you ended on FY23? And how do you look at it going forward over next two to three years in terms of your outlet reach?
- That's the first question. Second question is on the regional mix. If you can give some flavor, how much of your revenues are coming from North and West market and how much is coming from South and East? And what is the strategy to drive growth more in South? My understanding is that we are under leveraged or under indexed in South versus our North and West market. So, if you could address these two questions.
- Rahul Shah:** Yes, Mehul Sure. So, Mehul, to answer your first question in terms of retail footprint, in Q2 we had about 1,20,000 retail outlets which were touching directly, which was serviced through our sales team. In the third quarter, this number increased by about 2,500 retail touch points. In terms of distribution reach, the increase was close to about 200 distributors during the quarter. In terms of regional mix, if you see historically also, we were present in accordance, Sales from each region justified the population of that region. And even currently, it is similarly justifying the presence where the population is highest. North constitutes to the highest sales followed by West and then South and East. So, it's a very balanced mix in proportion to the population of that particular region.



**Mehul Desai:** Sure. And any guidance on where this distribution can go over the next two to three years in terms of the outlets which you mentioned?

**Rahul Shah:** So, it will be a gradual increase. Our strategy from earlier time has been that wherever we reach, the new retail outlet we open, we maximize the throughput from that particular retail outlet.

And therefore, wherever we are entering a shop, we would want to justify the requirements of that particular retail outlet and only then expand.

So, it will be a gradual increase over a period of time. And we would not want to get into that numbers of increasing at a very fast pace but do justification to each store where we are present.

**Mehul Desai:** And any flavor that you would like to give on what kind of newer categories that you are looking? I think we have taken a small stake in a toy company too. So, if you could mention what's the outlook in some of these categories? What are the plans or what are the new categories that we like where we think that we can expand maybe in the next two to three years apart from the current stationary product that we have?

**Rahul Shah:** So, like you were aware in this current financial year, we entered the conventional pen segment. That as a product segment is something which is seeing a very good and positive response from the market. After the launch of this product, since about seven, eight months, we have been able to meet the requirements only of a few states in India.

We have not been able to sell this at a pan India level as well. So, this product segment is seeing a lot of demand and interest from our consumers. Similarly, scholastic adhesives, you know, we are in the process of launching a very wide range of scholastic adhesives and also expanding our product portfolio in the fine art range. So, these are the key product segments or categories where there would be, you know, continued focus. Nevertheless, in our existing product segments, categories also, we continue to keep coming out with new SKUs which are more relevant with what our consumers are experiencing and those product launches keep happening on a regular basis.

**Mehul Desai:** Sure. Thank you. That's all from me.

**Rahul Shah:** Thanks, Mehul.

**Moderator:** Thank you. The next question is on the line of Chinmay Nema from Presceint Capital. Please go ahead.

**Chinmay Nema:** Good evening, sir. Thank you for taking my question. Just trying to understand the historical performance of the company. So, if I look at the last two, three years, the top line has almost doubled from FY22 to FY23. So, could you help us understand what happened during that period? What was the reason for that?

Secondly, the working capital has also really improved in the last two, three years. So, what happened there and what should be the normalized level that we should look at?

**Rahul Shah:**

Sure, Chinmay. So, Chinmay, firstly, just to, you know, FY'21, FY'22, these were two years which were actually impacted because of COVID. As you would be aware, most of these periods, educational institutes remained shut. And hence, the demand for stationary products decreased significantly. So it's more of a base year sort of effect rather than growing 100%. The base figure was wrong. In FY'23, with the educational institutions opening up, we continued to see good demand for our products. Plus, during the COVID years, the company had continued to do capital expenditure to enhance our capacities. So, in FY'23, due to increase in capacity, a little bit of effect of the pent-up demand, we were able to increase our sales by almost 100%. Like I said, now, this is more of a normalized period. That's why we believe from a guidance perspective, we will be doing about 25% growth in our sales. So, that would be the same.

And sorry, Chinmay, I missed your second question, if you could just repeat. Working capital, yes. So, in terms of working capital, the change that you see has been primarily on account of one, earlier, our entire domestic general trade segment, where we used to extend a little bit of credit, was moved to a cash and carry advance sort of a model, because of which our debtors' days went down significantly.

Also, in terms of inventories, with the companies' operations being more increasing, there was a better inventory utilization that we could do. As a result of these factors, predominantly working capital reduced. Our current working capital is also close to that, about 37 to 38 days. And going forward, our range would be about 40 to 45 days, considering that there are certain products where we, by choice, keep a higher working capital -- higher inventory levels and that too only in raw materials, you know, because there are dependency on certain natural resources. So, when the sales of these products increase, because of capacity addition, then the working capital days go up. In terms of debtor days, we are still at that average of 12 to 13 days only.

**Chinmay Nema:**

Got it, sir. That's really helpful. Just lastly, if you could comment on, I mean, as a company, how do we differentiate ourselves from our peers? Just trying to understand whether the future growth is supposed to come from taking the market share from other companies, or is there enough market for everyone to grow?

**Rahul Shah:**

Firstly, we never try to compare ourself or place ourself with our peers. We believe in being ourselves. Whenever we would want to launch a product or launch a category, we always believe that we look at what our consumers are, who are consumers, and we understand that consumers much better than anybody else could do. So, therefore, we know basically what are the requirements of our consumers. And based on that, we design products, develop products, and this everything happens in-house, you know, right from designing to development and to conceptualizing, manufacturing. We have a completely backward integrated operation.

So, as a result of this, we become very efficient. And this is seen in the pricing of our products also. So, we are able to give a far more superior product at a very good value to our consumer, which brings them back to DOMS. So, that is one of our key success factors, which is a mix of, like I said, our manufacturing capabilities, our design capabilities, our understanding of our consumers. And this is what we want to continue doing for across all the products that we are into and we intend to enter into.

- Chinmay Nema:** Got it, sir. That's really helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited. Please go ahead.
- Jinesh Joshi:** Yes, thanks for the opportunity. Sir, I want to understand our capex plan a bit better because if I look at our RHP, we had mentioned that we'll spend about INR 450 crores and the plant will be operational by December '25. But if I look at our PPT, we have also mentioned that we have commenced a production at about 1 lakh square feet, which is within our existing infra and additional 1 lakh square feet will become operational very soon. So, what is the capex that is earmarked for this 2-lakh worth of area which is due for expansion? And which all categories will we be spending this amount into?
- Rahul Shah:** So, just to clarify, the RHP, what the plan was given was for the proposed facility and expansion in the newly acquired 44 acres of land. Out of the total amount which was given of about INR450 crores, the company had already acquired the land for almost INR 75 crores. So, balance was about INR 380 crores of investment of which INR 280 crores was raised in the IPO. This project is -- we just recently received the final approval, which was required before commencement of construction. This was in terms of getting the town planning approval. So, we are now soon expected to start construction on this newly acquired land. And the capex towards that building and construction is something which we will start seeing from the coming quarters.
- In terms of what we built in-house, in our existing infrastructure, we had already acquired the land. And on these lands, there was possibility of increasing -- constructing two more buildings, which we did. One building of 100,000 square feet became operational. And we started getting revenues from this from the month of October. And this building is purely for our writing instrument segment, where we've started with commercial production of the conventional ballpoint pens. And also increased slightly our capacity in markers and in brush pens.
- There is a building adjacent, which is currently under construction. Construction is almost over. We will soon start setting up the plant and machinery at this building and expect to get commercial production from quarter one 2025. If you see, even with the first building, we were able to set up commercial production in a record time of 90 days from the time we got the possession of the building when construction was complete. Here also, we expect the same sort of a timeframe.
- And again, this building, considering the demand for the pens that we've launched is much, much higher than what we anticipated earlier. So this building also we would want to focus in terms of writing instrument to enhance our capacities in pens and the ballpoint pen segment.
- Jinesh Joshi:** How much are we spending incrementally for this two adjacent buildings which you just mentioned?
- Rahul Shah:** So in terms of construction, so like I said -- so in terms of going forward. In the nine months, like I mentioned, we spend about...

- Jinesh Joshi:** 170, no, sir, I get that. My question was for this additional 2 lakh square feet, which you have just mentioned, how much are we spending specifically for that?
- Rahul Shah:** In terms of construction cost?
- Jinesh Joshi:** Yes.
- Rahul Shah:** So one building is already ready and the construction completed. And for the second building, you know, we'll be spending a total -- additional expense would be of about INR 17-odd-crores.
- Jinesh Joshi:** Got that. And the last question is with respect to our working capital. You mentioned in your answer to previous participants question that we have moved to cash and carry and hence our receivable days have come off quite a bit. So just wanted to understand in terms of positioning, if we are on this cash and carry model so to say, do we offer a higher dealer distribution margin as compared to peers? Or what is the point on which we are competing to get a higher revenue share? Because I think credit period and margins are the two things which essentially anyone would compete on.
- Rahul Shah:** So honestly, right now we are seeing a very significant pull from the market across domestically or also in exports. There's a very strong pull for the DOMS brand because of which -- and what is happening with the retailers also is the DOMS products which they get, they are witnessing a fast turnaround. And as a result of this, the demand itself is very high.
- So in terms of margins, our margins from the channel would be in line with what the entire industry offers. The pure reason that we've been able to shift the entire trade to a cash and carry sort of a model has been because of the strong demand and pull for the brand and our products.
- Jinesh Joshi:** Got that. And sir what is the industry wide distribution margin or for that matter, your distribution margin, the entire channel, if you can call it out?
- Rahul Shah:** Our margin in terms of there are certain products, different products have different margins at the retail level. But at the stockist level, our margins are about 5.5%. And at the distributor level, it is 9%. And then for the retail level, it's different across different products.
- Jinesh Joshi:** Got that. Thank you so much, sir. Thank you.
- Moderator:** Thank you.
- Aniruddha Joshi:** Rahul bhai, Aniruddha here. Some questions from my side as well. In terms of branding initiatives, so while the growth has been very, very strong and as of now, we are not investing in ad spend, but now new capacities are coming on stream. So will there be any change in the plan in terms of the branding initiatives?
- Rahul Shah:** So, Aniruddhaji, as you know, historically also and now also are marketing and advertising spends continue to be in the range of 0.4% to 0.5%. Till now, we've not seen the requirement for investing more in this with the new capacities of pens also. Like I said today, we are being able to sell only to four or five states of the country with the capacity. So the demand is already there.

But if required in future, if we see, then the capability is there to increase the spend. But as of now, we don't see such a requirement. And whenever needed, like I said, our financial profile allows us to invest in this segment.

**Aniruddha Joshi:**

Yes, sure, sure. Understood. Secondly, in terms of the pen rollout, the INR 5 pen, I guess it was initially in Gujarat market. And now how do you see the progress in terms of the rollout on a pan-India basis and any growth targets that you have in the mind that you can share on the pen business?

**Rahul Shah:**

So, Aniruddha, right now initial rollout was definitely from Gujarat and then MP and till now, we started selling in about five states of India. Today we have today -- one building is already ready and doing commercial production of pens since October. Another building will soon be ready there. Once those capacities come in, that is when we'll expand to other states. But here also, like when we spoke about our retail footprint here also, the idea is same. Wherever we enter, whatever state we enter, we want to take a position of significance of leadership, justify that position and only then move to new territories. So that's the same strategy we'll follow. Like I said, the initial response has been significant. We are happy with it and we believe this to be a key segment for the company soon.

**Aniruddha Joshi:**

Sure. Understood. In terms of the revenue salience of the premium products, for example, in case of premium pencils, the pricing of, let's say, INR 8 and above, we can, let's say, if we consider it as premium and luxury. So, if you can indicate the company's revenue share from the premium products and how it has moved over a period of time. Also, in case of these relatively premium products, what will be the company's market share versus the other brands into the market?

**Rahul Shah:**

Aniruddha honestly, at the company level, we do not want to track it at such a micro sort of a level. See, today, in terms of when we talk about pencils, the INR 6 MRP pencil continues to be the largest selling product segment for us. New capacity is also coming in. It's well distributed across those segments. But specifically, how much market share or how much sales coming from that specific segment, that's something which we don't, wouldn't want to track and differentiate into.

**Aniruddha Joshi:**

Okay. So, sir, just two more questions from my side. One, in terms of the toys business, so any update on that progress? How many new products that have been rolled out or are in the pipeline? And in terms of distribution, where are we as far as the toys distribution is concerned? I agree it's a very recent acquisition and still a lot of work needs to be done. But if you can share any pipeline, let's say for FY25 or so.

**Rahul Shah:**

So, Aniruddha, like we initially discussed toys -- the acquisition that we did was to understand this market, understand the product, and to see how these products can complement with our existing distribution network. So, towards this we -- a lot of product redesigning is happening. A lot of products are being packed in such a way that they become attractive for retailers to have in their stationary shops.

We've already started selling ClapJoy products in our existing distribution network, especially in the North market. The initial feedback has been positive. And that is how we are thinking of expanding this segment, rolling it out on a pan-India basis. So, going forward, though very small now, but we are optimistic that in a few years' time, this segment would be attractive and decent in terms of size.

And once it becomes larger, I think we will start discussing more in terms of numbers with respect to this particular segment.

**Aniruddha Joshi:**

Sure, understood. And very last question from my side. Now, the market shares of the key products of the company are not very easily available in public domain. So, if you can indicate the likely market share gains in this quarter or let's say in nine months, what it will be? Any further color on that means in terms of which are the products would have gained market share or which are the regions where you would have gained the market share?

Even if you don't share the numbers, it's fine. Just the qualitative feedback is also very appreciable. Yes, that's it from my side. Thanks.

**Rahul Shah:**

Honestly Aniruddha, like you said it's very difficult to track the size of this market. Therefore, we would also not have lot of information in terms of the size of the market and which segments have grown. In terms of DOMS growth we've achieved and in which particular segment that we've already disclosed in our presentation. So, I think nothing additional to add in terms of market size unfortunately because it's not something which is readily available.

**Aniruddha Joshi:**

Understood. And any guidance that you would like to roll out for FY25 in terms of revenues or margins as such?

**Rahul Shah:**

Yes, as mentioned earlier in terms of revenue for FY25 we would want to guide close to that 20%-25% sort of a range with an EBITDA margin between 15% to 17%. We always believe good to be a little conservative and deliver something better which will create VOW factor for everyone. So, we'd want to follow that as well.

**Aniruddha Joshi:**

That's really -- actually a great guidance. Yes. Thank you. Thanks from my side.

**Moderator:**

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

**Kunal Vora:**

Yes, thanks. I was looking at segments. It looks like art material and office stationery seem to have done well with let's say upwards of 35%-40% growth. So, what's happening here and is pen contributing to the office stationery sheet?

**Rahul Shah:**

Yes, Kunal bhai, so pens is a part of the office supply segment. So like mentioned, we added capacities in pen. Therefore, you will see growth in that segment. In terms of art material also there has been capacity additions in our crayon segment, in our watercolor pen segment. So, these capacity additions coupled with slight increase in the ASPs has led to that growth.

**Kunal Vora:** Okay. So, wherever you are adding capacity, you are immediately seeing growth so far. How big is pen right now? I mean, let's say, if you look at 3Q FY24, what will be the contribution and how big do you see it happening in FY25? Considering that you have visibility on capex and if you are able to sell what you are producing, in that case, how big can pen become in FY25 versus FY24?

**Rahul Shah:** So, I can talk about the current quarter. Like I said there's something, pen is something new. So, we want to take it step by step as and when we launch it. But in the current quarter, if I have to say, we did about INR 16.5 crores of revenues from the pen segment.

**Kunal Vora:** Okay. And how large a capacity are you, like, deploying on the pen side? Are you looking to double, triple, what kind of capacity increase are you planning for pen?

**Rahul Shah:** So, in the current building that we've already started, our capacity is 1 million. The new building that we will now come into commercial production in the next quarter, in first quarter of FY25, that would be an additional 1 million. And then would be the new capacity that would come from the 44-acre plant, which would be about 4 million. So, double of what we will have in the existing infrastructure. So, eventually, we'll target to have capacity in pens of about, total of about 6 million.

**Kunal Vora:** Okay. So, right now, it's a million and you're doing about INR 17 crores of sales. And it will be 6 million. So, like, assuming that, let's say, it's a linear increase in that case, you're looking at a much larger number.

**Rahul Shah:** Even what would happen, Kunal bhai, not the entire capacity was started from day one. It was enhancement over a period of time. So, I think once we have a couple of quarters go by in terms of full-fledged production, then we'll be able to guide on this number a little better.

**Kunal Vora:** Understood. Understood. Okay. And you mentioned that Micro Wood contributed to the improvement in margin in nine months. What was the revenue contribution or, like, say, if I want to look at just the organic revenue growth, how would that be compared to what you reported?

**Rahul Shah:** So, basically, Micro Wood, our subsidiary, basically is into manufacturing of tin box and paper packaging and boards. So, basically, most of these products are sold to DOMS and our other subsidiary, Pioneer. So, about 98% of the sales of Micro Wood goes to DOMS and Pioneer only. So, there's no material increase in sales because of the acquisition of Micro Wood. But it is purely because of, the elimination of margins on consolidation that you see the benefit at the operating level.

**Kunal Vora:** Understood. Understood. So, there is a margin impact, but not really a...

**Rahul Shah:** Not a revenue impact. It's a margin impact.

- Kunal Vora:** Understood. And lastly, if I look at most mass consumption categories, we've seen a slowdown in the last few quarters. Are you seeing any slowdown at all? I mean, I understand that, like, say, through market share gains, you might be going fast. But otherwise, what's your view on what's happening in rural markets as well as mass consumption categories?
- Rahul Shah:** It's absolutely in line with what it was earlier, what we were doing earlier, we continue to do so. We see the demand be healthy and strong for our products across markets - rural, urban, A-plus cities, everything is pretty much similar. It's healthy. We have not seen any sort of slowdown as to say.
- Kunal Vora:** Understood. And lastly, if you can make some comments on international as well as exports potential in FY '25, how are you looking at it, especially with the additional capacity which is coming in? Would you prioritize the local market or do you have some big plans for international markets in the near term?
- Rahul Shah:** So, since the time we launched DOMS Brand, our focus has been domestic and that we'll continue to do so. We believe that the opportunity in the domestic market itself is significant. And with the right sort of product and offering, we will be able to capitalize on this significantly. So that focus will continue to remain in the domestic market. Export also has a lot of promise, but we'll be very conscious in terms of how much we want to do. It will not be at the cost of the domestic market.
- Kunal Vora:** But now that you have the capital, why not accelerate the investment and capture the international markets also at the earliest or do you think that...
- Rahul Shah:** Like I said during the introduction part also, today, at the speed at which we are commercializing operations like, we commercialize our pen plant within 90 days from the day we got possession of this plant after the construction being over, which would be probably the fastest in the industry. So definitely, like you all, we are also very excited about the potential and would want to do this as soon as possible. But then there are certain things which take their time. You could not accelerate it significantly. And we don't want to make any mistake in this entire journey.
- Kunal Vora:** Understood. And what's the next cash as of 9th month FY '24?
- Rahul Shah:** Our net cash as on 9 month, which has an impact of the IPO proceeds. So, you know, there's about net cash of about INR 430 crores with a net debt of about INR 156 crores. So if you net it off, that's the cash position.
- Kunal Vora:** Understood. Cash of 430 and debt of 156. Okay. Net number.
- Rahul Shah:** But that's not a right parameter because of the proceeds of the IPO which came in...
- Kunal Vora:** Understood. Okay. That's it from me. Thank you.
- Rahul Shah:** Thanks.





**Moderator:** Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

**Rahul Shah:** Thank you., Aniruddhaji, ISEC team and thank you, listeners. I would like to once again thank all of you for joining us on this call today. We hope we have been able to answer your queries. Please feel free to reach out to our IR team for any additional clarifications or feedback that you all may have. Thank you once again.

**Management:** Thank you, everyone.

**Moderator:** Thank you, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.