


Manthan

Education

What do we think of DOMS's acquisition of Reynolds?

DOMS IN has entered into an asset purchase agreement with Reynolds Pens India Pvt Ltd (RPI) for acquisition of certain assets, relevant contracts, employees and intellectual property relating to manufacture and sale of pens, markers, highlighters, and school supplies under the Reynolds brand. Aggregate consideration for the transaction is US\$3.7mn (INR352mn assuming an exchange rate of INR95 per USD). Brief financials of RPI are given below.

Exhibit 1 : Brief financials of RPI

| Particulars (INR mn) | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
|----------------------|-------|-------|-------|-------|--------|-------|
| Revenue | 1,984 | 1,926 | 2,989 | 3,459 | 2,450 | 2,701 |
| YoY (%) | 16.3% | -2.9% | 55.2% | 15.7% | -29.2% | 10.3% |
| EBITDA | 52 | 216 | 308 | 371 | 327 | 248 |
| EBITDA margin (%) | 2.6% | 11.2% | 10.3% | 10.7% | 13.4% | 9.2% |
| PAT | (112) | (22) | 151 | 266 | 72 | 53 |
| PAT margin (%) | NM | NM | 5.1% | 7.7% | 2.9% | 2.0% |

Source: FactSet. Note: FY26 financials are not published as yet

What is the acquisition multiple of RPI?

Revenue of RPI can be broken down into two segments – Own brand revenue and OEM revenue. The own brand business consists of revenue realized from sale of pens and associated writing instruments while the OEM business consists of revenue realized from sale of nibs to third party pen manufacturers. DOMS IN has bought branded piece of the business forming ~INR1,200-1,400mn in topline during CY25. The OEM business will continue to remain with RPI. Accounting for attributable own brand revenue, the EV/sales acquisition multiple stands at 0.25x-0.29x. While the consideration figure of INR352mn excludes inventory value, we consider it as a working capital investment as DOMS IN can realize profits upon selling the inventory. Further, DOMS IN is not required to pay any royalty to RPI. Thus, prima facie, the transaction appears to be value accretive from the standpoint of DOMS IN.

Why did DOMS IN buy RPI?

In pens market, DOMS IN has presence at an entry level price points of Rs5/Rs10 with brands like INXON, INXTRA, INXIFY, and INXGLO. On the other hand, RPI has strong presence in the mid-premium category with presence across multiple price points. Have a look at exhibit 2 below.

Exhibit 2: Snippet of RPI's pen portfolio

| Category | Brand | Price range (Rs) |
|-------------|--|------------------|
| Metal pens | Iconic | 100 to 150 |
| | DFINE | 5 |
| | Aeroslim | 6 |
| | Brite | 5 |
| Ball pens | Vista RT | 10 |
| | Reynolds (045,046 RT) | 10 to 20 |
| | Liquiflo | 15 |
| | Jetter (Classic, Aerosoft, Premier, Glitz, Metallic FX, Prestige, Aerosoft Gold) | 25 to 70 |
| Gel pens | Jiffy | 7 |
| | Racer gel | 10 |
| Roller pens | Rollerpoint (R5, R7) | 70 |
| | Trimax (Trimax, Gold) | 60-99 |

Source: Reynolds

Acquisition of RPI, enables DOMS IN to expand presence in mid-premium market with the help of a vintage brand filling in category void immediately. Further, given the distribution reach of 145,000 outlets we believe DOMS IN will be able to scale the brand at a rapid pace after acquisition.

While answers to the above questions provide clarity on strategic rationale for buying RPI, there are a lot many questions in our mind that remain unanswered. Here are a few we can think of:-

- How did DOMS IN manage to get such a good valuation bargain? Was this a distress sale by RPI? What prompted them to exit at less than 1x sales?
- Out of total consideration of US\$3.7mn, roughly US\$3.5mn is assigned to equipments (PPE, moulds etc) while the remaining sum pertains to value of patents, trademarks, and copyrights. In consumer business, brand value is paramount then how come a higher value is assigned to fixed assets? Is brand legacy not an important consideration in this transaction?
- Reynolds is owned by Newell brands, a consumer company based out of the US. Will acquisition of RPI give DOMS IN the right to operate in international markets as well?
- What is the EBITDA margin profile of RPI excluding the OEM business? Given only the brands/pens business is being bought by DOMS IN, historical margin profile of RPI is irrelevant as it includes OEM business as well.
- Why did Reynolds choose to retain the OEM business? From their perspective, bundling the OEM piece along with branded business made a lot of sense as it lends bargaining power from a negotiation standpoint. The OEM business lacks moat and has no durability (manufacturers can opt for backward integration). Hence, trying to exit the OEM business by extracting maximum value through bundling made a lot of sense. Why was this option not considered and how did DOMS IN got their hands only on the value accretive piece?
- Buying the OEM business of RPI would have provided immediate backward integration advantage to DOMS IN. So, why let go this benefit?
- Given OEM business remains with RPI, will DOMS IN provide certain kind of volume commitments to meet their captive needs of nibs?

Our view: Unlike diapers, where many investors had questions surrounding the decision to enter an unrelated category, pens is an ancillary business for DOMS IN. In addition, Reynolds is an age-old brand and has strong customer connect. Further, RPI's portfolio breadth is diverse with strong focus on mid-market segment enabling DOMS IN to scale the pyramid hierarchy of premiumization. We believe the acquisition could be value accretive in long term, if DOMS IN can lever its distribution strength of 145,000 outlets and scale the business. Retain BUY on the stock with a TP of Rs2,883 (50x FY28E EPS; no change in target multiple).

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| Sr. No. | Company Name | Rating | TP (INR) | Share Price (INR) |
|---------|---|------------|----------|-------------------|
| 1 | Apeejay Surrendra Park Hotels | BUY | 168 | 116 |
| 2 | Chalet Hotels | BUY | 994 | 785 |
| 3 | Delhivery | BUY | 534 | 476 |
| 4 | DOMS Industries | Buy | 2883 | 2330 |
| 5 | Flair Writing Industries | Buy | 411 | 295 |
| 6 | Imagicaaworld Entertainment | BUY | 64 | 42 |
| 7 | Indian Railway Catering and Tourism Corporation | BUY | 712 | 523 |
| 8 | InterGlobe Aviation | HOLD | 4724 | 4538 |
| 9 | Lemon Tree Hotels | BUY | 138 | 114 |
| 10 | Mahindra Logistics | Buy | 504 | 406 |
| 12 | Nazara Technologies | Buy | 319 | 267 |
| 13 | PVR Inox | Buy | 1309 | 1026 |
| 14 | Safari Industries (India) | BUY | 1953 | 1427 |
| 15 | Samhi Hotels | Buy | 230 | 150 |
| 16 | TCI Express | BUY | 575 | 491 |
| 17 | V.I.P. Industries | Sell | 245 | 303 |
| 18 | Zee Entertainment Enterprises | Accumulate | 91 | 83 |

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| | |
|--------------------------|-----------------------------------|
| BUY | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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