



Indigo Paints Ltd -Subscribe

14th Jan 2021

IPO DETAILS

Issue Date	20 th Jan-22 nd Jan 2021
Price Band	1488-1490 per Share
Bid Lot	10 & in multiple there
Face Value	Rs 10/Share
Listing	BSE, NSE
Fresh Issue	Rs 300 Cr
Offer For sale	5,840,000 Eq Shares
Pre Issue Eq Shares	45,555,575 Eq Shares
BRLM	Kotak Mahindra Capital Company Ltd, Edelweiss Financial Services Ltd, ICICI Securities Ltd
Registrar	Link Intime India Private Limited

Note: Employee discount of Rs 148/share

Indigo Paints is the fifth largest company in Indian decorative paint industry in terms of revenue from operations in fiscal 2020. Company has created brand "Indigo" on back of multi pronged approach strategies. Company's entire range of decorative paints include emulsions, eam+els, wood coatings, distempers, primers, putties & cement paints.

What we like:

First Mover Advantage: Company was first one to introduce floor coat emulsions, metallic emulsions, tile coat emulsions, bright ceiling emulsions, Dirtproff & waterproof, exterior laminate, exterior & interior Acrylic laminate & PU super glass enamel. Hence company has established base in some of its products & being first to introduce made it easier for company to expand distribution network.

Growing sale of Differentiated Products along with higher margins: Since company derives more than 25% of revenue (i.e. invoicing as per contracted price) from sales of Indigo Differentiated Products, hence this led the company to realize relatively higher margins as compared to the rest of product portfolio as company set the pricing terms.

Fastest growing & least impacted in Covid times : As company's strategy has always been to build the brand from the smaller towns of India. The Tier 2 – 4 Cities being easy to penetrate has helped Indigo Paints multiply its revenue and compete in these markets. Despite Fiscal 2020 being impacted by COVID-19, the revenue from operations has recorded a higher growth between Fiscal 2019 and Fiscal 2020, as compared to the growth recorded by the top four paint companies in India.

Channel Check: As we have done ground channel check, we got to know that company being first one to introduce floor paint in India has got monopoly in some of its products in India. This infuse optimism in company's product & gives us more conviction that demand will continue to remain strong in some of its products which will continue to deliver higher margins to company.

Valuation

Company is bringing the issue at p/e multiple of approx 90x at higher end of price band of Rs 1488-1490/share on FY20 PAT basis.

Although company coming at 90+ multiples but we acknowledge the fact that industry trades on higher multiples. Also Indigo Paints enjoys early mover advantage in floor painting, with growing sale of differentiated products which yields higher margin. We like the fact that company remain least affected during covid period (growth in sales & on EBITDA margin terms) as compared to peers due to extensive presence in small towns which might be one of the reasons that led company outperform its peers during covid times & now expanding faster into large cities. Regarding financials, we believe that media spend as % of revenue of company to drop in future (as company has reached parity with large players) which will drive profitability.

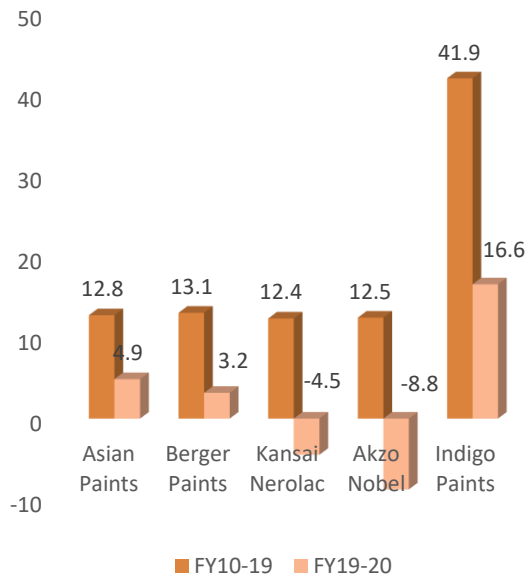
Hence we are optimistic on growth prospects of company, recommending investor to subscribe the issue for short & long term.



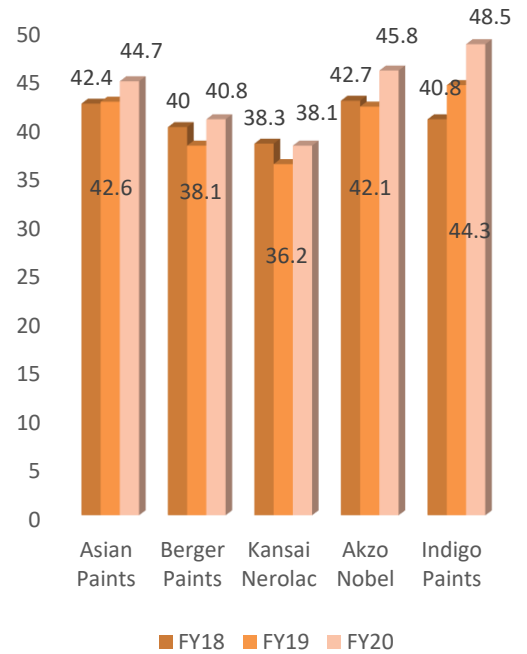
PEERS DATA

As there are five major companies which operates in Paints Industry hence a detailed comparative is shown below

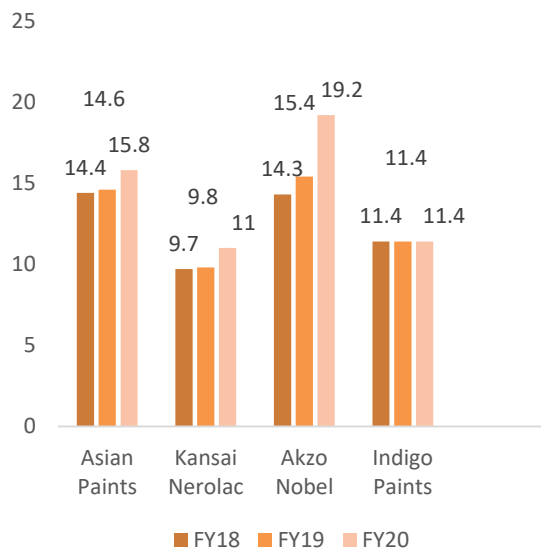
Growth of Revenue from operations, CAGR % (Fiscal 2010-Fiscal 2019, and Fiscal 2019-Fiscal 2020)



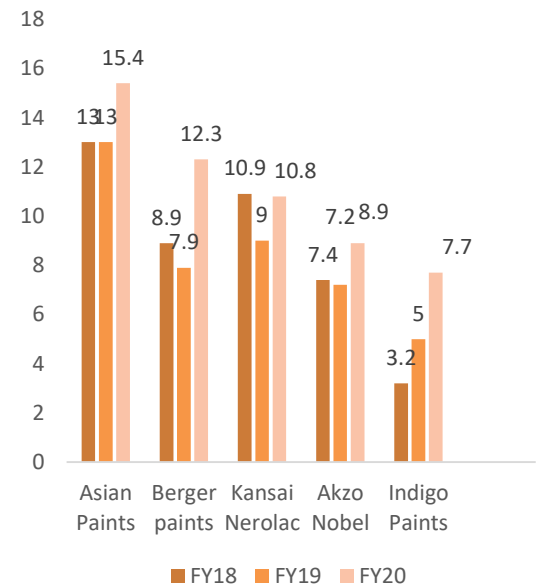
Gross Margins %



Discount as % of revenue generation from operations



Pat Margin %





INVESTMENT RATIONALE

Unique Products disrupting market to create a New Category (first company to launch such products) : Indigo Paints has created a specific position in market by establishing itself as a differentiator in the existing product categories. Also it is evolving as a category creator by bringing new product innovations to the market. The company first introduced Metallic Emulsions in 2005 and has since entered new markets by introducing other differentiated products. Most recently company introduced their Exterior and Interior Acrylic Laminate and Enamels such as the PU Super Gloss Enamel in 2016, Dirtproof & Waterproof Exterior Laminate in 2017, resulting in a portfolio of seven such differentiated products as of September 30, 2020. This led the company to realize relatively higher margins as compared to the rest of product portfolio as company set the pricing terms.

Operating Leverage arises due to marginal/lesser increase in spend in advertisement as % of revenue: As the paint companies have continuously invested in brand building through increased marketing and sales promotion expenditure, Indigo has come almost in parity with the large players in terms of absolute media advertising spend in Fiscal 2020. Therefore going forward it is expected that Indigo Paints will make only marginal increases in their future media advertising expenses. This will help company in driving stronger growth in profitability.

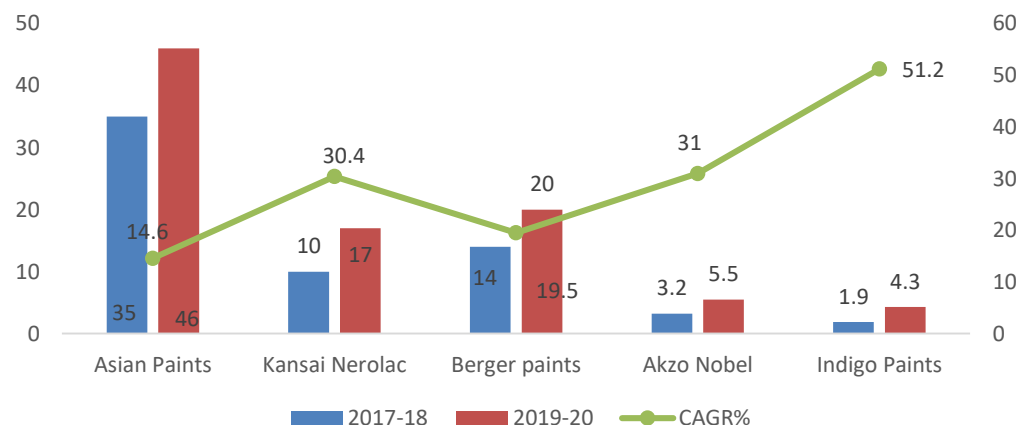
Company wise advertising spend:

(In Mn)	Rs Asian Paints	Berger Paints	Kansai Nerolac	Akzo Nobel	Indigo Paints	Nippon
TV	2646.4	701.8	630.9	354.5	613.0	272.4
Print	219.7	31.0	0.01	0.06	26.3	13.4
Radio	17.4	7.6	0.2	0.04	0.0	2.1
Total	2883.5	740.4	631.11	354.60	639.30	287.9

(Source: RHP)

Leveraging brand equity to populate Tinting Machines : Tinting machines are one of the drivers in gross revenue generated, i.e. invoicing as per contracted price, from sales of emulsion paints .As tinting machines are a prerequisite for dealers who sell emulsion paints & dealers tend to install tinting machines of only recognized players ,Indigo paints through its focused efforts been able to gain recognition within the Tier 3, Tier 4 Cities, and Rural Areas & now targeting metro cities. Also, Indigo Paints’ depots and dealer network has shown strong growth as Indigo Paints has recorded a higher CAGR for its dealer network in the North.

Company wise growth in tinting machines (Rs '000)





Extensive dealer base

As Paint companies are required to spend significant resources to develop their distribution network to increase the visibility and reach of their products through direct distribution to dealers therefore as of March 31, 2018, 2019, and 2020, company's distribution network comprised 9,210, 10,246 and 11,230 Active Dealers in India, respectively . Company have established distribution network with initially focussing on dealers in Tier 3, Tier 4 Cities, and Rural Areas, where brand penetration is easier and dealers have greater ability to influence customer purchase decisions. Now company is subsequently leveraging to expand into larger cities and metros such as Kanpur (Uttar Pradesh), Kochi (Kerala), Thiruvananthapuram (Kerala), Patna (Bihar) and Ranchi (Jharkhand).

Strong growth in financials:

Company's revenue from operations have grown at a CAGR of 41.9% between Fiscal 2010 and Fiscal 2019, compared to the range of 12.1% to 13.1% recorded by the top four paint companies in India . Despite Fiscal 2020 being impacted by COVID-19, company has outperformed its peers as revenue from operations have grown by 16.65% between Fiscal 2019 to Fiscal 2020, against the range of (8.8)% to 4.9% recorded by the top four paint companies in India.

Company Overview:

Indigo paints manufacture a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. Company own and operate three manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala) and Pudukkottai (Tamil Nadu) with an aggregate estimated installed production capacity of 101,903 kilo litres per annum ("KLPA") for liquid paints and 93,118 metric tonnes per annum ("MTPA") for putties and powder paints. As of March 31, 2018, 2019, and 2020, company's distribution network comprised 33, 33 and 36 depots, and 9,210, 10,246 and 11,230 Active Dealers in India, respectively. Also, as of March 31, 2018, 2019 and 2020, the total number of tinting machines that company placed across its network of dealers was 1,808, 3,143 and 4,296, respectively.



Risk Factors:

We believe that competitive intensity in industry may limit company's opportunity to increase market share as a result of a stronger dealer network in such regions and population of tinting machines at these locations, and company can also face competition on pricing of products. Hence this may result in adverse financial performance going forward.

Objects of Issue:

Fresh issue

Company proposes to utilise the Net Proceeds towards funding of the following objects:

1. Funding capital expenditure for expansion of the existing manufacturing facility at Pudukkottai, Tamil Nadu (the **"Proposed Expansion"**) by setting-up an additional unit (the **"Additional Unit"**) adjacent to the existing facility;
2. Purchase of tinting machines and gyroshakers;
3. Repayment/prepayment of all or certain of company's borrowings; and
4. General corporate purposes.

Financial Statement

(Rs Cr)

Particulars	FY18	FY19	FY20	H1FY21
Total Income	401.48	535.63	624.79	259.42
Total Exp	375.67	481.54	533.80	211.33
EBIDTA	25.80	54.09	90.99	48.09
Other Income	1.63	1.63	1.64	0.82
Depreciation	9.02	17.05	19.61	11.22
EBIT	18.41	38.67	73.02	37.70
Interest	4.54	4.66	5.60	2.47
PBT	13.87	34.02	67.43	35.23
E/O Items	1.32	0.31	0.00	0.00
PBT	12.55	33.71	67.43	35.23
Sh Of Profit in Asso	0.00	0.00	0.00	0.00
PBT	12.55	33.71	67.43	35.23
Tax	-0.31	6.84	19.61	8.02
PAT	12.86	26.87	47.82	27.21
Eq Cap	28.59	28.85	29.02	29.02
Net Worth	127.46	147.46	197.05	224.37
Eq Shares	2.86	2.89	2.90	2.90
EPS*	2.82	5.89	10.49	5.97
ROE	10.09	18.22	24.27	12.12
EBIDTA Margin %	6.43	10.10	14.56	18.54
PAT Margin %	3.19	5.00	7.63	10.45
ROCE %`	9.89	17.26	27.50	13.85
Debt to Equity	0.28	0.41	0.25	0.13

Source:RHP

Note: *: Adjusted for change in capital

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