

Subscribe for Long Term

Issue Details

Price Band (Rs)	Rs.1488 - 1490
Face Value (Rs)	10
Issue Size (Rs)	1,169 Cr
Issue Type	Book Building
Minimum lot	10
Issue Opens	January 20, 2021
Issue Closes	January 22, 2021
Listing on	BSE, NSE

Indicative Timeline

	On or before
Finalization of Basis of Allotment	January 28, 2021
Unblocking of Funds	January 29, 2021
Credit of shares to Demat Account	February 01, 2021
Listing on exchange	February 02, 2021

Other Detail

Book Running Lead Managers	Kotak Mahindra Capital Company Limited, Edelweiss Financial Services Limited, ICICI Securities Limited
Registrar	Link Intime India Private Limited

INDIGO PAINTS LIMITED

Company Background

The company was originally incorporated as 'Indigo Paints Private Limited' on March 28, 2000 at Pune, Maharashtra. The company is the fastest growing amongst the top 5 paint companies in India. They are the 5th largest company in the Indian decorative paint industry in terms of their revenue from operations for Fiscal 2020. The company manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. As of September 30, 2020, Indigo Paints owns and operates 3 manufacturing facilities located in Rajasthan, Kerala and Tamil Nadu.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.300Cr and Offer for sale of Equity Shares aggregating upto ~Rs.869Cr

Issue Objectives

Particulars	Rs.Cr
Expansion of the existing manufacturing facility at Tamil Nadu	150
Purchase of tinting machines and gyroshakers	50
Repayment/prepayment of all or certain of their borrowings	25
General Corporate Purposes	75

IPO Share Allotment Pattern

Category	Allocation	Number of Shares at Rs.1488	Number of Shares at Rs.1490	Issue Size (Rs.Cr)
QIB	50%	3,893,064	3,891,710	580
Non-Institutional	15%	1,167,919	1,167,514	174
Retail	35%	2,725,145	2,724,198	406
Employee		70,000	70,000	9
Total		7,856,128	7,853,422	1,169

*Issue Size at Upper price band * Discount of Rs.148 for Employee

Outlook and Valuations

Indigo Paints is the fastest growing amongst the top 5 paint companies in India. They are the 5th largest company in the Indian decorative paint industry. 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 4 paint companies in India. At the upper price band of Rs.1490, stock is aggressively priced at 123.5x its FY21E EPS of Rs.12.06/- (based annualize latest earnings) However, given the company's track record, growth aspect and management team, **We recommend to subscribe the issue from a long-term prospective.**

Investment Rationale

Track record of consistent growth in a fast growing industry with significant entry barriers

The Indian decorative paint industry presents significant entry barriers. These market entry barriers include the development of an extensive distribution network through relationships with dealers, the ability to set up tinting machines with dealers, as well as significant marketing costs and the establishment of a distinct brand to gain product

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acceptance. Company's differentiated strategic approach in addressing these issues has resulted in their continued success.

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 4 paint companies in India. Despite Fiscal 2020 being impacted by COVID-19, their 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 4 paint companies in India.

Differentiated products leading to greater brand recognition

Indigo Paints consistently seek to launch first-to-market products by identifying niche product opportunities and introducing products that address these requirements. They first introduced their Metallic Emulsions in 2005 and have since entered new markets by introducing other differentiated products with regularity, and most recently introduced their PU Super Gloss Enamel in 2016 and Dirtproof & Waterproof Exterior Laminate in 2017, resulting in a portfolio of 7 Indigo Differentiated Products as of September 30, 2020. As the first company in India to develop certain category-creator products, Indigo Paints has early mover advantage in the markets they are present in, which has allowed them to set the pricing terms for these products, resulting in higher margins for these products compared to the rest of their product portfolio.

Strategically located manufacturing facilities with proximity to raw materials

As of September 30, 2020, Indigo Paints operated 3 manufacturing facilities in India, located in the states of Rajasthan, Kerala and Tamil Nadu. They plan their capital expenditure in advance and have periodically carried out capacity expansions at their facilities to cater to the increased demand for their products. The aggregate estimated installed production capacity has increased progressively over the years from 46,608 KLPA and 48,944 MTPA as of March 31, 2018 to 101,903 KLPA and 93,118 MTPA as of March 31, 2020. The manufacturing facilities are strategically located in proximity to their raw material sources, which reduces inward freight costs and results in lower cost of raw materials.

Extensive distribution network for better brand penetration

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. Indigo Paints has established their distribution network gradually and strategically through the bottom-up approach with prudent use of time, cost and resources. This helped them engage with a larger base of dealers across Tier 3, Tier 4 Cities, and Rural Areas, which they subsequently leveraged to expand into larger cities and metros such as Kanpur, Kochi, Thiruvananthapuram, Patna and Ranchi. They first approached dealers in these markets with their Indigo Differentiated Products, being products with greater marketability, to improve penetration of their brand and strengthen the relationship with these dealers. As of March 31, 2018, 2019, and 2020, their distribution network comprised 9,210, 10,246 and 11,230 Active Dealers in India, respectively.

Leveraged brand equity and distribution network to populate tinting machines

Emulsions are the largest and among the fastest growing product segment within the Indian decorative paint industry. The market for emulsions was valued at Rs.163.9 billion in Fiscal 2019, and is expected to grow at a CAGR of 13.60% and amount to Rs.309.5 billion by Fiscal 2024. Different shades of emulsion paints are produced through in-shop tinting machines present at dealer outlets. These tinting machines are a prerequisite for dealers who sell emulsion paints. However, stiff resistance for installation of these machines is encountered from dealers due to space constraints. As a result, dealers tend to install tinting machines of only recognized players.

Indigo Paints started installing tinting machines in Fiscal 2014, which gained momentum from Fiscal 2018. During the last 3 fiscals, they installed an average of 1,223 tinting machines every fiscal, and as of September 30, 2020, they had a total of 4,603 tinting machines across their network of dealers in India.

Focused brand-building initiatives to gradually build brand equity

Indigo Paints has strategically undertaken brand-building initiatives to gain visibility with prudent use of resources, gradually increasing branding and marketing expenses consistent with the growth of their business. The advertisement and sales promotion expenses represented 11.22%, 12.63%, and 12.65% of the revenue from operations in Fiscal 2018, 2019 and 2020, respectively. They have leveraged their brand recognition and goodwill in the market for their Indigo Differentiated Products, by gradually introducing and gaining visibility for their other product segments. This approach has allowed them to efficiently manage marketing and advertisement expenses and yet achieve extensive brand recognition within a relatively short period of time.

Financial Snapshot

Key Financial Indicator (Amt in Mn)	FY2018	FY2019	FY2020	H1FY21
Equity share capital	286	289	290	290
Net worth	1275	1475	1971	2244
Net asset value per share	28.53	32.84	43.69	49.75
Revenue from Operations	4015	5356	6248	2594
Gross Margin	40.80%	44.27%	48.47%	47.88%
EBITDA	258	541	910	481
EBITDA %	6.43%	10.10%	14.56%	18.54%
Net Profit	129	269	478	272
Diluted EPS (Rs)	2.82	5.90	10.49	5.97
ROE	10.09%	18.22%	24.27%	12.12%*
ROCE	9.89%	17.26%	27.5%	13.85%*

*Not annualized , Source: Company RHP, ACMIIL Research

Comparison With Listed Peers - FY2020

Company	"Total Income(Mn)"	EPS	NVA	P/E	ROE(%)
Indigo Paints Ltd	6248	10.49	43.39	123.5^	24.27%
Asian Paints Ltd	205,156	28.25	105.61	97.48	27.39%
Berger Paints India Ltd	64,343	6.75	27.39	115.33	24.66%
Kansai Nerolac Paints Ltd	53,055	9.67	69.77	64.19	13.72%
Akzo Nobel India Ltd	26,994	52.13	271.85	47.41	19.18%

All the financial information for listed industry peers mentioned above is on a consolidated basis and is sourced from the financial statements of the respective company for the year ended March 31, 2020 submitted to stock exchanges. P/E Ratio has been computed based on the closing market price as on January 04, 2021.^Indigo Paints P/E Ratio has been computed based on the Issue price and annualize September 2020 earnings.

Risk and Concern

- An inability to protect, strengthen and enhance existing brand could adversely affect Indigo Paints business prospects and financial performance.
- Indigo Paints engage in a highly competitive business and any failure to effectively compete could have a material adverse effect on the company.

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