

Issue Details

Issue Size	TBA	Price Band:	TBA
IPO Date:	TBA	Offer Ratio:	QIB:50%, HNI:15%, Retail: 35%
Bid Lot:	TBA		

Company Profile

Indigo Paints Limited is fastest growing amongst the top five paint companies in India. The company is the fifth largest company in Indian decorative paint industry in terms of their revenue from operations for Fiscal 2020 (Source: F&S Report). The company has achieved this position in a highly competitive Indian decorative paint industry on the back of their multi-pronged approach. This includes introducing differentiated products to create a distinct market in the paint industry, building brand equity for their primary customer brand of “Indigo”, creating an extensive distribution network across 27 states and seven union territories as of September 30, 2020, and installing tinting machines across its network of dealers.

To create demand for their differentiated products, the company initially tapped into Tier 3, Tier 4 Cities, and Rural Areas, where brand penetration is easier and dealers have greater ability to influence customer purchase decisions (Source: F&S Report). The company subsequently leveraged this network to engage with dealers in Tier 1 and Tier 2 Cities and Metros as well. The company manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. The Company’s also identify potential product need from customers and introduce differentiated products to meet these requirements, and create a distinct market for their products. For instance, Indigo Paints Limited is the first company to manufacture and introduce certain differentiated products in the decorative paint market in India, which includes their Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions, Floor Coat Emulsions, Dirtproof & Waterproof Exterior Laminate, Exterior and Interior Acrylic Laminate, and PU Super Gloss Enamel (together, “**Indigo Differentiated Products**”) (Source: F&S Report).

The company engaged Mr. Mahendra Singh Dhoni, a sportsperson with Pan-India appeal, as their brand ambassador, to enhance its brand image amongst end-customers. The company concentrated these branding efforts on their differentiated products and then leveraged these efforts to increase distribution and sale of their complete range of decorative paint products.

As of September 30, 2020, the company own and operate three manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala), 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. The company’s manufacturing facilities are strategically located in close proximity to raw material sources that reduces inward freight costs, lowering its cost of raw materials. The company also intends to expand their manufacturing capacities at their facility at Pudukkottai in Tamil Nadu, by adding capacities to manufacture water-based paints to cater to the growing demand for these paints.

Competitive Strengths

- Track record of consistent growth in a fast growing industry with significant entry barriers
- Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products
- Focused brand-building initiatives to gradually build brand equity
- Extensive distribution network for better brand penetration
- Leveraged brand equity and distribution network to populate tinting machines
- Strategically located manufacturing facilities with proximity to raw materials
- Well qualified and professional management team with a committed employee base

Object of the Offer

(₹ In Millions)

Particulars	Amount
Funding capital expenditure for expansion of the existing manufacturing facility at Pudukkottai, Tamil Nadu by setting-up an additional unit adjacent to the existing facility	1,500.00
Purchase of tinting machines and gyroshakers	500.00
Repayment/prepayment of all or certain of their borrowings	250.00
General corporate purposes ⁽¹⁾	[•]
Total	[•]

(1) To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Net Proceeds.

Financials (Restated)

(₹ In Millions)

Particulars	March 31, 2020	March 31, 2019	March 31, 2018 (Proforma)
Equity Share Capital	290.21	288.51	285.93
Reserves	1497.28	1003.08	805.64
Net Worth*	1970.53	1474.63	1274.61
Total borrowings	500.70	601.26	358.29
Revenue from Operations	6,247.92	5,356.29	4,014.76
EBITDA	909.88	540.92	258.02
Profit Before Tax	674.27	337.10	125.54
Net Profit for the year	478.15	268.70	128.62

*As per Regulation 2(1)(hh) of the SEBI ICDR Regulations, 'net worth' means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

Comparison with peers

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
Indigo Paints Limited*	10	10.61	24.27	43.69	-
Listed Peers					
Asian Paints Limited	1	28.25	27.39	105.61	97.48
Berger Paints India Limited	1	6.76	24.66	27.39	115.33
Kansai Nerolac Paints Limited	1	9.67	13.72	69.77	64.19
Akzo Nobel India Limited	10	52.13	19.18	271.85	47.41

Source: All the financial information for listed industry peers mentioned above is on consolidated basis and is sourced from the financial statements of the respective company for the year ended March 31, 2020 submitted to stock exchanges.

* Financial information for Indigo Paints Limited is derived from the Restated Financial Statements for the financial year ended March 31, 2020.

Notes:

(1) Basic EPS and Diluted EPS refer to the Basic EPS and Diluted EPS sourced from the financial statements of the respective company for the year ended March 31, 2020

(2) P/E Ratio has been computed based on the closing market price of the equity shares on NSE on January 04, 2021, divided by Diluted EPS

(3) For listed peers, RONW is computed as profit after tax for the year divided by closing net worth. Net worth has been computed as sum of equity share, other equity (excluding non-controlling interests), as applicable

(4) NAV is computed as the closing net worth divided by the equity shares outstanding as on March 31, 2020

Key Risk Factors

- The continuing impact of the COVID-19 pandemic on the company's business and operations is uncertain and it may be significant and continue to have an adverse effect on the business, operations and future financial performance.
- The company's ability to grow their business depends on their relationships with its dealers and the community of painters, and any adverse changes in these relationships, or their inability to enter into new relationships, could negatively affect its business and results of operations.
- Company's Statutory Auditor has included certain matters of emphasis in the Restated Financial Statements. In addition, the annexure to the Statutory Auditors' report issued under the Companies (Auditor's Report) Order, 2016 ("CARO"), on their historical audited financial statements contain statements on certain matters.
- They are required to obtain, renew or maintain certain statutory and regulatory permits and approvals required to operate the business, and if they fail to do so in a timely manner or at all and the business, financial conditions, results of operations, and cash flows may be adversely affected
- The company has incurred from commercial banks and an inability to comply with repayment and other covenants in their financial agreements could adversely affect its business and financial condition.
- There are outstanding litigations proceedings filed by and against the company. Any adverse outcome in such proceedings may have an adverse impact on their reputation, business, financial condition, results of operations and cash flows.
- Company's Restated Financial Statements disclose certain contingent liabilities as per Ind AS 37 -Provisions, Contingent Liabilities and Contingent Assets, which if materialize, may adversely affect the business, financial condition, cash flows and results of operation
- Some of their manufacturing facilities, offices and depots are located on leased or licensed or rented premises. If these leases, leave and license agreements or rental deeds are terminated or not renewed on terms acceptable to us, it could have a material adverse effect on the business, financial condition, results of operations, and cash flows.
- They have in the Red Herring Prospectus included certain Non-GAAP Measures and certain other industry measures related to their operations and financial performance. These Non-GAAP Measures and industry measures may vary from any standard methodology that is applicable across the Indian decorative paint industry, and therefore may not be comparable with financial or industry related statistical information of similar nomenclature computed and presented by other companies
- The company is dependent on third-party transportation providers for the supply of raw materials and delivery of their finished products.
- The company's business is working capital intensive. If the company experience insufficient cash flows from their operations or are unable to borrow to meet its working capital requirements, it may materially and adversely affect its business and results of operations.
- The company's business is subject to seasonal variations and cyclicity that could result in fluctuations in their results of operations.
- Restrictions on import of raw materials may adversely impact the company's business and results of operations.
- Fluctuations in the average selling prices of company's paint products could adversely affect their business, financial condition, results of operations, and cash flows.
- The company is dependent on their Promoters, Directors, and a number of key managerial personnel and the loss of their inability to attract or retain such persons could adversely affect their business, results of operations, financial condition, and cash flows.
- The company in past has entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- The company may face foreign exchange risk that could adversely affect their results of operations and cash flows.
- Majority of the company's revenue is derived from business in India and a slowdown in economic growth India could cause their business to suffer and could adversely affect its results of operations.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of the company's Equity Shares, independent of its operating results.

(Please read carefully the Risk Factors given in detail in section III (page 23 onwards) in RHP)

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