

# Indigo Paints Ltd. (IPL)

PAINTS | India

IPO | 16 January 2021

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## Superior Earnings Growth Bodes Well

### About the Company

Indigo Paints (IPL), incorporated in 2000, is the fifth-largest decorative paints company in India, with a larger presence in Tier-III and IV towns and rural areas as well as a strong portfolio of differentiated products. It commands 2% market share in a highly competitive and oligopolistic decorative paints industry. The company has three manufacturing facilities in Jodhpur, Kochi and Pudukkottai (TN) with licensed capacity of 1.02 lakh kilo litres per annum (KLPA) and average utilization of ~48% as on FY20. Southern and Eastern regions account for 46% and 29% of its total revenue, respectively, while rest comes from the Northern and Western markets. It has created an extensive distribution network across 27 states and 7 UTs with 11,230 dealers / 40 depots as on 1HFY21 and installed tinting machines across their network of dealers. It intends to expand its capacities at Pudukkottai (TN) by adding 50,000 KLPA to manufacture water-based paints to cater to the growing demand for these paints.

### Financials in Brief

IPL's revenue, EBITDA and PAT witnessed stellar 25%, 87% and 93% CAGR, respectively over FY18-FY20. EBITDA margin has improved from 6.5% in FY18 to 18.5% in 1HFY21 and is expected to improve further due to no exposure to industrial paints and a large salience of differentiated products. Further, balance sheet remains healthy with D/E ratio merely at 0.13x as on 1HFY21. The company maintained the best asset turnover ratio compared to its listed peers. Further, with 48% average utilization in FY20 it has ample room to sustain stellar growth, going forward.

### Our View: SUBSCRIBE

The IPO is valued at 142x FY20 and 129x FY21 annualized earnings, which look to be ~2159% premium to the key listed peers i.e. Asian Paints and Berger Paints. While this appears to be priced aggressively, the growth prospects look to be better than peers. Notably, it posted double-digit growth during lockdown in 1HFY21 and given expansion programme, increasing brand awareness, debt reduction, cost controlling measures and huge opportunity from affordable housing segment, IPL can maintain its robust growth momentum and can post superior earnings growth compared to ~14% and ~17% consensus earnings CAGR of Asian Paints and Berger Paints, respectively over FY20-FY23E. Therefore, premium valuations are justified. **Hence, we recommend SUBSCRIBE to the issue from a long-term perspective.**

#### IPO Details

Pice Band	Rs1488-1490
Face Value (Rs)	10
Issue Open/Closing Date	20th / 22nd Jan'20
Fresh Issues (mn)	2.01
OFS (mn)	5.84
<b>Total Issue (mn)</b>	<b>7.85</b>
<b>Issue Size (Rs bn)</b>	<b>11.7</b>
QIB:NIB:Retail	50%:15%:35%
<b>Implied Market Cap (Rs bn)</b>	<b>70.88</b>

#### Object of the Issue

- ▶ To fund capex for expansion in Tamil Nadu
- ▶ To purchase tinting machines
- ▶ To prepay / repay of borrowings

#### Key Risks

- ▶ Sharp contraction economic growth
- ▶ Delay in expansion
- ▶ Sharp rise in input costs

Shareholding (%)	Pre-issue	Post-Issue
Promoters	60.0	54.0
Public	1.0	17.5
Non-Promoter Non Public	39.0	28.5

#### Key Financials

Rs bn	FY18	FY19	FY20	1HFY21
Revenue	4.01	5.36	6.25	2.59
EBITDA	0.26	0.54	0.91	0.48
EBITDA Margin (%)	6.5	10.1	14.6	18.5
PAT	0.13	0.27	0.48	0.27
Net Margin (%)	3.2	5.0	7.6	10.5
EPS (Rs)	2.8	5.9	10.5	6.0
Net Worth	1.28	1.48	1.97	2.24
RoE (%)	10.0	18.2	24.3	12.1
RoCE (%)	9.9	17.3	27.5	13.9
P/E (x)	528.4	252.5	142.0	249.6
D/E (x)	0.28	0.41	0.25	0.13
OCF	0.24	0.52	0.72	0.53
OCF Yield (%)	0.34	0.73	1.02	0.75

Source: RHP

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