

January 19, 2021

IPO NOTE

ISSUE DETAILS

Price Band: ₹ 1,488 to ₹ 1,490
Employee Discount: ₹ 148/share
Issue Opens on: January 20, 2021
Issue Closes on: January 22, 2021
Lot Size: 10 Shares & in Multiples thereafter

ISSUE HIGHLIGHTS

Issue Size : ₹ 1,170Cr.
Face Value : ₹ 10

Offer Structure

Issuance	₹ in Cr.
Fresh Issue	300
Offer for Sale	870
Total	1,170

Issue Breakup

Reservation for	% of Issue	₹ in Cr. (at upper band)
QIB	50	580.00
HNI	15	174.00
Retail	35	406.00
Employee Reservation	-	10.00
Total	100	1,170

* 60% Shares of the QIB Portion to Anchor Investors

Listing

BSE & NSE

Lead Managers

- Edelweiss Financial Services Limited
 - ICICI Securities Ltd.
 - Kotak Mahindra Capital Company Limited

Registrar

Link Intime India Private Limited

ANALYST

Krishna Rana

krishna.rana@sushilfinance.com

+91 22 4093 6081

SALES

Manan Divan

manan.divan@sushilfinance.com

+91 22 4093 6091 / +919819819979

COMPANY OVERVIEW

Indigo Paints is one of the fastest-growing paint companies in India and in terms of revenue, it is the 5th largest company in the decorative paint industry with a significant presence in tier 2 & 3 cities. It is now venturing into Tier 1 and Metro cities, which have been dominated by the top 4 players until now. They have extensive distribution network across 27 states and seven union territories as of September 30, 2020. It manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. They also identify potential product needs from customers and introduce differentiated products to meet these requirements, and create a distinct market for their products.

It is the first company that started manufacturing certain differentiated products like Metallic Emulsions, Bright Ceiling Coat Emulsions, Tile Coat Emulsions, Dirtproof & Waterproof Exterior Laminate, Floor Coat Emulsions, Exterior and Interior Acrylic Laminate, and PU Super Gloss Enamel. The sales from these differentiated products are continuously growing as it was 26.68% in 2018 increased to 28.62% in fiscal 2020.

As of September 30, 2020, it owns and operates 3 manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala) and Pudukkottai (Tamil Nadu). As of March 31, 2020, their distribution network comprised 36 depots, and 11,230 Active Dealers in India.

HIGHLIGHTS

1. Track record of consistent growth
2. Large product portfolio with differentiated products.
3. Focused brand-building initiatives to gradually build brand equity
4. Extensive distribution network
5. Strategically located manufacturing facilities with proximity to raw materials

Objects of the issue

1. Funding capital expenditure for the Proposed Expansion ₹ 150 Cr.
 2. Purchase of tinting machines and gyroshakers ₹ 50 Cr.
 3. Repayment/prepayment of all or certain borrowings ₹ 25 Cr.
- Company shall not receive any proceeds from the offer for sale.

OUR VIEW

Indigo Paints is an upcoming company in India's paints industry, which is more than a century old and is estimated to be a ₹ 500 billion industry expected to reach ₹ 700 billion by FY22. The industry is dominated by the decorative paints industry which represents 74% of the total paints market in India. Asian Paints is the market leader in the decorative paints industry with a 42% market share.

The company has been expanding its distribution network, adopting smart advertising strategies and aggressively expanding the number of tinting machines across dealers. The company's tinting machines to dealer ratio stands at 38% in FY20, providing significant headroom for growth to catch up to market leader Asian Paints, which has a ratio of 66%.

Financially, the company has clocked revenue growth of ~42% CAGR over FY10-19, which is more than 3 times that of the top 4 industry players. Over FY19-20, the company's revenue grew at 16.6% while the others reported low single digit growth or de-growth. The company's EBITDA margins, albeit lower than its competitors due to higher advertising and freight expenses, have been improving. The company continues to work towards improving its margins. EBITDA margin for the company stood at 14.6% for FY20 vs 22.4% for industry leader Asian Paints. Net margin for FY20 was 7.7% vs 15.4% for Asian Paints. The company has reduced its debt over the years and will be using a part of the issue proceeds to pay off its outstanding borrowings.

On the valuation front, the issue price of ₹ 1,490 is priced at ~142x FY20 earnings vs. Industry median PE of ~62x. However, the company has a robust business model with a strong grip on rural and Tier 2,3 cities and huge headroom for growth in Tier 1 and metro cities. The company has delivered superior growth than its industry peers and its efforts towards margin improvement have also yielded results. We believe Indigo Paints is an interesting business with a proven track record for growth and margin improvement, hence we advise investors to **SUBSCRIBE** to the issue with a long term perspective.

Brief Financials

PARTICULARS	₹ in Million			
	As at Sept. 30, 2020	FY '20	FY '19	FY'18
Total Income	2,602.43	6,264.36	5,372.62	4,031.05
Total Expenditure	2,250.18	5,590.09	5,032.47	3,892.35
Profit/Loss before Tax	352.25	674.27	337.10	125.54
Profit after Tax	272.05	478.15	268.70	128.62
E.P.S. [diluted (Rs.)]	5.97*	10.49	5.90	2.82
P/E (x)	63.75	145.10		
RONW (%)	12.12	24.27	18.22	10.99

*Not Annualised

PRICE CHART (@ ₹ 1,490)

LOT SIZE	Amount
10	14,900
20	29,800
30	44,700
40	59,600
50	74,500
60	89,400
70	104,300
80	119,200
90	134,100
100	149,000
110	163,900
120	178,800
130	193,700

Please go through the RHP for salient features.

(https://www1.nseindia.com/content/equities/IPO_RHP_INDIGO.pdf)

Indicative Time Table

Tentative Events	Indicative Dates
Finalisation of Basis of Allotment with the Designated Stock Exchange	28/01/2021
Initiation of refunds/unblocking ASBA Fund	29/01/2021
Credit of Equity Shares to demat accounts of Allottees	01/02/2021
Commencement of trading of the Equity Shares on the Stock Exchanges	02/02/2021

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