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INDIGO PAINTS LIMITED

IPO Note

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Analyst:

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IPO details

Key Data	
Issue Opens	20-Jan-21
Issue Closes	22-Jan-21
Equity Shares Offered (in mn.)	7.85
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	1488-1490
Max. Issue Size (Rs mn)	11,702
Lot Size (Eq. Shares)	10 and multiple thereof

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	27.4	60.1%	21.5	45.2%
Public	0.5	1.0%	0.5	1.0%
Others	17.7	38.9%	17.7	37.3%
Offer for sale		0.0%	5.8	12.3%
Fresh Issue		0.0%	2.0	4.2%
Total	45.6	100.0%	47.6	100.0%

Object of the issue

- To meet the capital expenditure requirements for manufacturing facility expansion at Pudukkottai, Tamil Nadu
- To purchase tinting machines and gyroshakers.
- To repay all or certain borrowings.
- To meet the general corporate purposes

Valuation	@ 1488 per share	@ 1490 per share
Market Cap (mn)	70,783	70,878
Net Debt (Rs mn)	524	524
Enterprise Value (Rs mn)	71,307	71,402
EV/ Sales	11.4	11.4
EV/ EBIDTA	78.4	78.5
P/E	147.3	147.5

Recommendation

Being the 5th largest player in the competitive paints industry with growth seen in the paints sector in India which can grow Going forward, the decorative paint market is expected to grow at a CAGR of 13% while the industrial paint market is expected to grow at a CAGR of 9.9% by 2024. With companies focus on differentiated products along with targeting of tire lll & lV towns. We expect the company to Grow going forward. With EPS at Rs 10.1 for FY 20, the stock is available at a P/E of 147x. Which is aggressively priced, **We recommend to Subscribe over the issue.**

Source: Red Herring Prospectus, Dealmoney research

Company Profile

- Indigo is the fastest growing amongst the top five paint companies in India. It is the fifth largest company in the Indian decorative paint industry in terms of revenue from operations for Fiscal 2020. It has achieved this position in a highly competitive Indian decorative paint industry on the back of its multi-pronged approach. This includes introducing differentiated products to create a distinct market in the paint industry, building brand equity for its primary consumer 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 its differentiated products, it 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. It subsequently leveraged this network to engage with dealers in Tier 1 and Tier 2 Cities and Metros as well.
- Indigo manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. It also identify potential product needs from customers and introduce differentiated products to meet these requirements, and create a distinct market for its products.
- For instance, it was the first company to manufacture and introduce certain differentiated products in the decorative paint market in India, which includes its 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: Red Herring Prospectus, Dealmoney research

Strengths

- **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 acceptance (Source: F&S Report). Its differentiated, strategic approach in addressing these issues has resulted in its continued success.
- **Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products**: It consistently seeks to launch first-to-market products by identifying niche product opportunities and introducing products that address these requirements. It was the first company to introduce certain category-creator products, including its Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions and Floor Coat Emulsions in the decorative paint market in India.
- **Focused brand-building initiatives to gradually build brand equity**: It 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 business. Its advertisement and sales promotion expenses represented 11.22%, 12.63%, and 12.65% of revenue from operations in Fiscal 2018, 2019 and 2020, respectively .
- **Extensive distribution network for better brand penetration**: The company has established its distribution network gradually and strategically through the bottom-up approach with prudent use of time, cost and resources. Its dealer network is also well integrated with its marketing and promotional activities, and helps in strengthening its brand image.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- **Leveraged brand equity and distribution network to populate tinting machines**: It has started installing tinting machines in Fiscal 2014, which gained momentum from Fiscal 2018. During the last three fiscals, it installed an average of 1,223 tinting machines every fiscal, and as of September 30, 2020, it had a total of 4,603 tinting machines across its network of dealers in India. As a result, gross revenue generated, i.e. invoicing as per contracted price, from sales of its emulsion paints have grown from ₹ 1,858.56 million in Fiscal 2018 to ₹ 3,121.39 million in Fiscal 2020.
- **Strategically located manufacturing facilities with proximity to raw materials**: It has three manufacturing facilities in India, located in the states of Rajasthan, Kerala and Tamil Nadu. The company plans its capital expenditure in advance and have periodically carried out capacity expansions at its facilities to cater to the increased demand for its products. Its 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. Its manufacturing facilities are strategically located in proximity to its raw material sources, which reduces inward freight costs and results in lower cost of raw materials.

Source: Red Herring Prospectus, Dealmoney research

Future road ahead

- **Continue to focus on developing differentiated products to grow market share**: It intend to continue to grow its portfolio of differentiated products going forward as these products have widened the end-user base that it caters to and typically have a higher margin profile than other decorative paint products. In particular, it will continue to identify potential product opportunities in the market, and focus on developing category-creator products to cater to distinct requirements in the Indian decorative paint industry.
- **Further strengthen its brand to consolidate its position as a leading paint company in India**: It has been making consistent efforts to strengthen the “Indigo” brand and increase brand recall through marketing initiatives. It has consciously developed its portfolio of products under the primary consumer brand of “Indigo”, with variants such as “Platinum Series”, “Gold Series”, “Silver Series”, and “Bronze Series”, for better brand recall. It has also standardized its packaging design to provide uniformity and enable easier brand recognition at dealer outlets.
- **Deepen penetration in existing markets and expand presence in select new territories by populating tinting machines**: Its key focus is to increase its penetration in the markets where it currently operate by replicating the same proposition that has helped it grow in the past. There is significant untapped opportunity in Metros and larger cities (Source: F&S Report) that can be capitalized by expanding its distribution network. In states where it has been present for a significant period of time such as Kerala, West Bengal, Bihar, Jharkhand, Chhattisgarh, Odisha and Uttar Pradesh, it has expanded its existing network in Tier 3, Tier 4 Cities, and Rural Areas, outwards into Tier 1 and Tier 2 Cities.
- **Expand its manufacturing capacities**: It intend to expand its manufacturing capacities to aid its growth efforts and consolidate its pan-India presence. To cater to the increased demand for water-based paints, it intend to use a part of the Net Proceeds towards expansion of its manufacturing facilities. Consumption of water-based paints is rising globally, and demand is expected to remain high (Source: F&S Report). It is also in the process of carrying out capacity expansion plans at its existing Jodhpur Facility.

Source: Red Herring Prospectus, Dealmoney research

Peer Comparison

Name of the company	Face Value	Total income FY2020	EPS	NAV	P/E	RoNW	Gross Margin	Pat Margin	ROE
Asian Paints	10.00	626.44	10.61	43.69		24.3%	22.4%	15.4%	28.1%
Berger Paints	1.00	20515.56	28.25	105.61	97.48	27.4%	16.8%	12.3%	26.6%
Kansai Nerolac	1.00	6434.34	6.75	27.39	115.33	24.7%	15.8%	10.8%	14.1%
Akzo Nobel	1.00	5305.50	9.67	69.77	64.19	13.7%	14.2%	8.9%	19.2%
Indigo Paints	**10.00**	**2699.40**	**52.13**	**271.85**	**47.41**	**19.2%**	**14.6%**	**7.7%**	**24.3%**

Indigo Paints outpace big paint companies in terms of tinting machine growth over FY18-20

	Asian Paints	Berger Paints	Kansai Nerolac	Akzo Nobel	Indigo Paints
FY18 (tinting machines ('000)	35	14	10	3.2	1.9
FY20 (tinting machines ('000)	46	20	17	5.5	4.3
-Tinting machine growth CAGR (%)	14.6	19.5	30.4	31.1	51.2
Tinting machine to dealer ratio (%) as on FY20	66	67	62	37	38

Source: Red Herring Prospectus, Dealmoney research, Frost & Sullivan

Source: Red Herring Prospectus, Dealmoney research

Summary Financials

Income Statement

Particulars	FY18	FY19	FY20	H1FY21
Net Revenue	3,951.0	5,356.0	6,248.0	2,594.0
EBITDA	258	541	910	481
Add Non operating income	16.0	16.0	16.0	8.0
Operating EBITDA	274.0	557.0	926.0	489.0
Less: Depreciation & Amortization	90.0	171.0	196.0	112.0
EBIT	184	387	730	377
Less Interest Expense	45.0	47.0	56.0	25.0
PBIT	**139**	**340**	**674**	**352**
Less Taxes	(3.0)	68.0	196.0	80.0
Adjusted PAT	142.0	272.0	478.0	272.0
Add or less extraordinary items	-13	-3	-	
Reported PAT	**129.0**	**269.0**	**478.0**	**272.0**

Balance Sheet

Particulars (Rs mn)	FY18	FY19	FY20	H1FY21
Share capital	286	289	290	290
Reserves	989	1186	1680	1954
Minority Interests	-	-	-	-
Borrowings	358	601	501	301
Deferred Tax (Net)	-	21	70	57
Other long term liabilities	66	86	80	89
Total Liabilities	**1699**	**2183**	**2621**	**2691**
Gross Block	805	1349	2018	2109
Less: Accumulated depreciation	89	169	316	429
Net Block	716	1180	1702	1680
Add: Capital work in progress	25	44	11	26
Goodwill	407	306	306	306
Investments	184	197	208	306
Cash	46	140	57	121
Net working capital	272	257	303	192
Other assets	48	59	34	60
Total Assets	**1699**	**2183**	**2621**	**2691**

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- An inability to protect, strengthen and enhance its existing brand.
- The continuing impact of the COVID-19 pandemic.
- It do not enter into long-term arrangements with its dealers and any failure to continue our existing arrangements could negatively affect our business.

Source: Red Herring Prospectus, Dealmoney research

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