



INDIGO
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SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Paint
Offer for sale (Shares)	5,840,000
Fresh Issue (Shares)	2,013,423
Employee reservation	70,000
Net Offer to the Public	7,783,423
Issue Size (Rs. Cr.)	868-871
Price Band (Rs.)	1488-1490
Discount offered to Retail & Employee investors	148/- per share
Offer Date	20-Jan-21
Close Date	22-Jan-21
Face Value	10
Lot Size	10

Issue Composition In shares

Total Issue for Sale	7,783,423
QIB	3,891,711
NIB	1,167,513
Retail	2,724,198

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	60.05%	54.00%
QIB	38.95%	36.72%
NIB	1.00%	3.41%
Employee reservation	0.00%	0.15%
Retail	0.00%	5.73%
Total	100.00%	100.00%

*calculated on the upper price band

Objects 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 general corporate purposes.

Book Running Lead Manager

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

Name of the registrar

- Link Intime India Private Limited

About the Company

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. The company Paints manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. The Company owns and operates three manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala) and 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. 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. Indigo Paints has a strong market network with dealers in Tier 1, Tier 2, and Metros as well. It has 3 manufacturing facilities situated in Jodhpur (Rajasthan), Kochi (Kerala), and Pudukkottai (Tamil Nadu). It is further looking to expand its manufacturing capacities at Pudukkottai to manufacture water-based paints.

Strength

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

Indigo Paints is the fastest growing amongst the top five paint companies in India. The Company is the fifth largest company in the Indian decorative paint industry in terms of revenue from operations for Fiscal 2020. The 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. It has achieved this position in a highly competitive Indian decorative paint industry on the back of its multi-pronged approach.

Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products:

Indigo Paints consistently seek to launch first-to-market products by identifying niche product opportunities and introducing products that address these requirements. Indigo Paints is the first company to introduce certain category-creator products, including 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:

The company 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. 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. The concentrated brand building efforts have helped develop brand equity with limited spend over the years in a market that has historically been dominated by companies that have invested considerable resources on developing their brand over several decade.

Extensive distribution network for better brand penetration:

The Company has established distribution network gradually and strategically through the bottom-up

approach with prudent use of time, cost and resources by first focusing on dealers in Tier 3, Tier 4 cities, and rural areas, where brand penetration is easier and dealers have greater ability to influence customer purchase decisions. As of March 31, 2018, 2019, and 2020, its 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. Different shades of emulsion paints are produced through in-shop tinting machines present at dealer outlets. These tinting machines are unique to each paint manufacturer due to design specifications including with respect to colorants, emulsion bases, fan-decks or shade cards, and customized software applications. 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 three fiscals, Company has 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 network of dealers in India.

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. The Company's manufacturing facilities are strategically located in proximity to raw material sources, which reduces inward freight costs and results in lower cost of raw materials. As a result of locational advantages and the higher margins generated from the Indigo differentiated products, gross margins have consistently been higher than the industry average.

Strategies

Continue to focus on developing differentiated products to grow market share: The company intends 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. It also seeks to innovate and develop products with distinguished properties by undertaking research, attending industry trade fairs, and keeping abreast with industry trends and practices. By introducing more category-creator and value-added products, it expects to continue to benefit from the early mover advantages that it has experienced in the past. It will continue to leverage the brand equity and dealer network created by these niche products to distribute its wide range of products in markets where it has been present for a considerable period, and to enter new markets, to further increase its market share.

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 also proposes to leverage the goodwill it has generated with its Indigo Differentiated Products, to expand its branding efforts to its overall product portfolio. It believes its branding efforts have laid the foundation to further strengthen its position as one of the leading paint companies in India.

Deepen penetration in existing markets and expand presence in select new territories by populating tinting machines: The company's key focus is to increase its penetration in the markets where it currently operates by replicating the same proposition that has helped it grow in the past. There is significant untapped opportunity in Metros and larger cities that can be capitalized by expanding its distribution network. Successful expansion of its distribution network depends on recognition of its brand among potential dealer partners and acceptance of its tinting machines at such new locations. To achieve this, Indigo Paints is in the process of carrying out branding activities in its targeted markets and establishing depots at strategic locations for more effective distribution.

Expand the manufacturing capacities: The company intends to expand its manufacturing

capacities to aid its growth efforts and consolidate the pan India presence. To cater to the increased demand for water-based paints, it intends to use a part of the Net Proceeds towards expansion of its manufacturing facilities. It currently manufactures only solvent-based paints at its manufacturing facility in Tamil Nadu. It intends to expand its capacities at Pudukkottai to include manufacturing of water-based paints to cater to the growing demand for water-based paints. In order to achieve this, it has acquired additional land adjacent to its existing unit at Pudukkottai and has finalized the blueprint and design specifications for the first phase of the proposed expansion.

Risk factors

- The company engages in a highly competitive business and any failure to effectively compete could have a material adverse effect.
- Company's ability to grow its business depends on its relationships with the dealers and the community of painters, and any adverse changes in these relationships, or company inability to enter into new relationships, could negatively affect business and results of operations.
- The Company has not entered into long-term arrangements with its dealers and any failure to continue existing arrangements could negatively affect its business and results of operations.
- A significant portion of company sales is derived from the state of Kerala and any adverse developments in this market could adversely affect its business.

Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Asian Paints	18328.76	2275.14	23.72	109.19	22.52	114.99	1	2590.00	248432.23
Berger Paints	5724.02	522.43	5.38	144.35	26.30	29.52	1	776.60	75430.77
Kansai Nerolac	4402.44	385.89	7.16	88.45	9.00	70.36	1	633.30	34129.79
Akzo Nobel	2173.66	177.09	39.68	58.65	8.71	267.07	10	2327.05	10597.46
Indigo Paints Limited	624.79	47.82	10.05	148.23	12.85	115.95	10	1490.00	7087.78

*Peer Companies comparative financials are based on TTM

*Price valuation based on FY19

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs. 1490, the stock is priced at pre issue P/E of 141.96x on its actual annualised FY20 EPS of Rs. 10.50. Post issue, the stock is priced at a P/E of 148.23x on its EPS of Rs. 10.05. Looking at the P/B ratio at Rs. 1488 the stock is priced at P/B ratio of 30.25x on the pre issue book value of Rs.49.25 and on the post issue book value of Rs. 115.95 the P/B comes out to 12.85x.

On the lower end of the price band of Rs.1488 the stock is priced at pre issue P/E of 141.77x on its annualised FY20 EPS of Rs. 10.50. Post issue, the stock is priced at a P/E of 148.03x on its EPS of Rs. 10.05. Looking at the P/B ratio at Rs1488, the stock is priced at P/B ratio of 30.21x on the pre issue book value of Rs. 49.25 and on the post issue book value of Rs. 115.95, the P/B comes out to 12.83x.

Industry overview

The Indian paint industry comprises a sizeable portion of India's GDP. The industry has registered a CAGR of approximately 11% during Fiscal 2014 to Fiscal 2019, almost double the growth rate of India's GDP. Within the paint industry, the organized sector has a 67% market share and the remaining 33% is held by the unorganized sector. Until 2015 the unorganized sector had a market share of approximately 35%, which has been penetrated by the organized sector due to challenges faced by smaller players in the form of demonetization and implementation of GST. The Indian decorative paint industry has significant entry barriers. These market entry barriers include the development of an extensive distribution network through long-term 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. India's per capita paint consumption

increased by a CAGR of 6.8% in the last seven years from 2.6 kg in Fiscal 2012 to 4.1 kg in Fiscal 2019. The Indian decorative paints market is expected to growth at a CAGR of approximately 13% in terms of value and 10.2% in terms of volume through 2024 driven by a number of factors including increase in the disposable income of individuals and families and various housing schemes.

Outlook

The company is the fastest growing paint company and placed in the top five players in India. It is largely banking on differentiated products that are being introduced for the first time. Moreover, the Government schemes and policies like 'Housing for All' will also be a major driver for growth of fresh painting. With more such initiatives targeted for the regional population, the demand from smaller cities and towns is estimated to grow faster benefitting companies like Indigo Paints, which already has an established presence in these geographies. However, the issue looks expensive. A long term investors may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 20, 2021
Bid/Offer Closing Date	January 22, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about January 28, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about January 29, 2021
Credit of Equity Shares to depository accounts of Allotees	On or about February 1, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about February 2, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	259.42	624.79	535.63
Total expenditure	211.33	533.80	481.54
Operating Profit	48.09	90.99	54.09
OPM%	56.77	65.87	48.53
Other Income	0.82	1.64	1.63
PBDIT	48.91	92.63	55.73
Depreciation	11.22	19.61	17.05
PBIT	37.70	73.02	38.67
Interest	2.47	5.60	4.66
PBT	35.23	67.43	34.02
Exceptional items	0.00	0.00	0.31
Profit after Exceptional items	35.23	67.43	33.71
tax	8.02	19.61	6.84
Profit After Tax	27.21	47.82	26.87

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	140.35	142.03	86.43
Capital Work-in-Progress	2.58	1.09	4.40
Right-Of-Use Assets	27.16	27.80	31.14
Goodwill	30.55	30.55	30.55
Other Intangible Assets	0.47	0.37	0.43
Financial Assets			
Loans	5.80	5.48	4.07
Other Financial Assets	2.38	2.30	0.00
Income tax assets (net)	0.17	0.17	0.17
Other Non-Current Assets	3.46	0.94	5.75
Total non-current assets	212.92	210.73	162.95
Current assets			
Inventories	67.26	76.77	69.33
Financial assets			
Investments	30.59	20.84	19.70
Trade receivables	85.57	104.47	103.85
Cash and cash equivalents	12.15	5.68	11.84
Bank balances other than Cash and cash equivalents	0.00	0.00	2.18
Loans	0.56	0.32	0.33
Other financial assets	0.11	0.10	0.11
Other current assets	2.13	3.05	2.90
Total current assets	198.37	211.23	210.24
Total Assets	411.29	421.96	373.18
Non-current liabilities			
Borrowings	19.33	24.72	26.91
Lease Liabilities	2.57	2.82	5.41
Other liabilities	3.51	3.85	3.17
Deferred Tax liabilities (Net)	5.71	6.97	2.10
Provisions	2.79	1.30	0.00
Total Non-Current Liabilities	33.91	39.65	37.59
Current liabilities			
Borrowings	0.00	14.53	24.71
Lease Liabilities	3.18	3.44	3.99
Trade Payables – MSME	35.72	25.90	12.83
Trade Payables – Other than MSME	83.39	112.69	123.41
Other Financial Liabilities	17.82	19.39	15.06
Other Liabilities	8.50	5.61	7.83
Provisions	1.30	1.06	0.00
Income tax liabilities (net)	3.11	2.63	0.30
Total current liabilities	153.01	185.25	188.13
Total	186.92	224.91	225.72
NET Worth	224.37	197.05	147.46
Net worth represented by:			
Share capital	29.02	29.02	28.85
Instruments in the nature of equity	18.30	18.30	18.30
Other equity	177.05	149.73	100.31
Total Net worth	224.37	197.05	147.46

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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