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Issue Details

Issue Details	
Issue Size (Value in ` million, Upper Band)	1,710.16
Fresh Issue (No. of Shares in Lakhs)	20.13
Offer for Sale (No. of Shares in Lakhs)	58.40
Bid/Issue opens on	20-Jan-21
Bid/Issue closes on	22-Jan-21
Face Value	Rs. 10
Price Band	1488-1490
Minimum Lot	10

Objects of the Issue

The Fresh Issue: ₹3,000 Million

The company proposes to utilize the Net Proceeds towards funding the following:

- Funding capital expenditure for expansion of existing manufacturing facility at Pudukkottai.
- Purchasing of tinting machines & gyroshakers.
- General corporate purposes.

Offer for Sale: ₹8,701 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Kotak Mahindra Capital
ICICI Securities
Edelweiss Financial
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (₹ Million)	Aggregate Value
Authorized share Capital	700.00
Subscribed paid up Capital (Pre-Offer)	455.56
Paid up capital (Post - Offer)	475.69

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	60.1%	54.0%
Public	39.9%	46.0%
Total	100%	100%

Financials

Particulars (Rs. In Million)	6M-FY21	6M-FY20	FY20	FY19	FY18
Revenue from operations	2594.2	2726.4	6247.9	5356.3	4014.8
Operating expenses	2113.3	2491.8	5338.0	4815.4	3756.7
EBITDA	480.9	234.6	909.9	540.9	258.0
Other Income	8.2	7.6	16.4	16.3	16.3
EBIDT	489.1	242.2	926.3	557.3	274.3
Interest	24.7	27.7	56.0	46.6	45.4
Depreciation	112.2	96.4	196.1	170.5	90.2
PBT	352.3	118.1	674.3	340.2	138.7
Tax	80.2	58.2	196.1	68.4	-3.1
PAT	272.1	59.9	477.2	270.8	131.8
EBITDAM	18.5%	8.6%	14.6%	10.1%	6.4%
PATM	10.5%	2.2%	7.6%	5.0%	3.3%
sales growth	-4.8%		16.6%	33.4%	

Company Description

Indigo Paints Limited ("Indigo Paints") was incorporated on March 28, 2000. The company is the fastest growing amongst the top 5 paint companies in India. They are the 5th largest company in the Indian decorative paint industry in terms of their revenue from operations for Fiscal 2020. The company manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints.

Indigo Paints is the 1st 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").

The company has introduce differentiated products to create a distinct market in the paint industry, building brand equity for their primary consumer brand of "Indigo", creating an extensive distribution network across 27 states and 7 union territories as of September 30, 2020, and installing tinting machines across their network of dealers.

As of September 30, 2020, Indigo Paints owns and operates 3 manufacturing facilities located in Rajasthan, Kerala and Tamil Nadu.

To create demand for their differentiated products, Indigo Paints 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. They subsequently leveraged this network to engage with dealers in Tier 1 and Tier 2 Cities and Metros as well.

Valuation

At the upper end of the IPO price band, Indigo Paints is offered at 98.5x its TTM earnings, as compared to its other listed peers like Asian Paints, Berger Paints and Kansai Nerolec which are currently trading at a P/E of around 113.78x, 128.23x and 84.09x respectively. We believe that due to the lower valuations as compared to its peers, Indigo Paints is placed at an attractive valuation. Further with the planned expansion, lowering debt and other cost control measures, we are also confident that company will maintain the growth levels which is mirroring in the pricing of the IPO.

Considering these and the growth prospects in light of affordable housing push to meet PMAY (Pradhan Mantri Awas Yojna) for all by 2022 target of the Government, investors may consider an investment with a long term perspective. Hence, we recommend a "**Subscribe**" rating to this IPO.

Business Highlights:

- Indigo Paints is one of 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 our revenue from operations for Fiscal 2020.
- Company has introduced 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 their network of dealers. They manufacture a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. Indigo Paints is the first company who manufactures products as per customer requirements.
- As of September 30, 2020, Indigo Paints own and operate 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 paints. Their manufacturing facilities are strategically located in close proximity to raw material sources that reduces inward freight costs, lowering the cost of raw materials. Currently management is planning to expand its 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. The proposed installed production capacity of the expansion unit is 50,000 KLPA and it is expected to be operational during Fiscal 2023
- Indigo Paints typically commence distributing its products in new states to dealers in Tier 3, Tier 4 Cities and Rural Areas, and subsequently leverage this network to engage with dealers in Tier 1 and Tier 2 Cities and Metros as well. As of March 31, 2018, 2019, and 2020, their distribution network comprised 33, 33 and 36 depots, and 9,210, 10,246 and 11,230 Active Dealers in India, respectively. As of March 31, 2018, 2019 and 2020, the total number of tinting machines that they have placed across their network of dealers was 1,808, 3,143 and 4,296, respectively.

Key Strategies:

- ***Continue to focus on developing differentiated products to grow market share:*** Going forward, Company intended to continue to grow their portfolio of differentiated products as these products have widened the end-user base that they cater to and typically have a higher margin profile than other decorative paint products. In particular, they 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. By introducing more category-creator and value-added products, they expect to continue to benefit from the early mover advantages that they have experienced in the past.
- ***Further strengthen their brand to consolidate their position as a leading paint company in India:*** Management have been making consistent efforts to strengthen the “*Indigo*” brand and increase brand recall through marketing initiatives. They also have consciously developed their 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. They also standardized their packaging design to provide uniformity and enable easier brand recognition at dealer outlets. They have been focused on selected products that they believe differentiate them from their competitors.
- ***Deepen penetration in existing markets and expand presence in select new territories by populating tinting machines:*** Their key focus is to increase their penetration in the markets where they are currently operate by replicating the same proposition that has helped them to grow in the past. In states that they have recently entered such as Telangana, Gujarat, Maharashtra, Karnataka and Tamil Nadu, management intend to similarly proliferate their presence in these regions by first targeting Tier 3, Tier 4 Cities, and Rural Areas, and then leveraging this network to larger cities, to be able to capture and build on the dealer network in these regions. As of March 31, 2020, Indigo Paints had a network of 3,292 Active Dealers in these five states, and intend to engage with more dealers to strengthen their existing sales infrastructure and network in these regions.
- ***Expanding their manufacturing capacities:*** Company is expand its manufacturing capacities to aid their growth efforts and consolidate their pan-India presence. To cater to the increased demand for water-based paints, they intend to use a part of the Net Proceeds towards expansion of their manufacturing facilities. Consumption of water-based paints is rising globally, and demand is expected to remain high. They are currently manufacture only solvent-based paints at their manufacturing facility in Tamil Nadu. They intend to expand their capacities at Pudukkottai, Tamil Nadu, to include manufacturing of water-based paints to cater to the growing demand for water-based paints. In order to achieve this, they have acquired additional land adjacent to their existing unit at Pudukkottai, Tamil Nadu and have finalized the blueprint and design specifications for the first phase of the proposed expansion. Post completion of the first phase of their proposed expansion plans, the expansion unit is expected to have an estimated installed capacity of 50,000 KLPA and it is expected to be operational during Fiscal 2023.

Key Strengths:

- ***Track record of consistent growth in a fast growing industry with significant entry barriers:*** It is the fastest growing amongst the top five paint companies in India. They are the fifth largest company in the Indian decorative paint industry in terms of the revenue from operations for Fiscal 2020. Their 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 four 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 four paint companies in India. They have achieved this position in a highly competitive Indian decorative paint industry on the back of our multi-pronged approach.
- ***Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products:*** They have consistently launched first-to-market products by identifying niche product opportunities and introducing products that address these requirements. They were 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. Other products that they have introduced include Dirtproof & Waterproof Exterior Laminate, Exterior and Interior Acrylic Laminate and PU Super Gloss Enamel, that comprises the value-added product portfolio. These category-creator and value-added products comprise their portfolio of Indigo Differentiated Products and are differentiated from other products based on their end-use specifications and in terms of certain added properties.
- ***Extensive distribution network for better brand penetration:*** Paint companies are required to spend significant resources to develop their distribution network to increase the visibility and reach of their products through direct distribution to dealers. The dealers are typically multi-brand

and are located across Metros, large cities, towns as well as Rural Areas. For a paint company, the market knowledge, financial resources and time required to develop such a network is significant. They have established their distribution network gradually and strategically through the bottom-up approach with prudent use of time, cost and resources. As a relatively new entrant in the market, they first focused 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. This helped them engage with a larger base of dealers across Tier 3, Tier 4 Cities, and Rural Areas, which they subsequently leveraged to expand into larger cities and metros such as Kanpur (Uttar Pradesh), Kochi (Kerala), Thiruvananthapuram (Kerala), Patna (Bihar) and Ranchi (Jharkhand). They first approached dealers in these markets with our Indigo Differentiated Products, being products with greater marketability, to improve penetration of their brand and strengthen their relationship with these dealers. Then they capitalized on these relationships to distribute a wider range of decorative paints. As of March 31, 2018, 2019, and 2020, their distribution network comprised 9,210, 10,246 and 11,230 Active Dealers in India, respectively. Their dealer network is also well integrated with their marketing and promotional activities, which helps them in strengthening their brand image

- **Strategically located manufacturing facilities with proximity to raw materials:** As of September 30, 2020, they operated three manufacturing facilities in India, located in the states of Rajasthan, Kerala and Tamil Nadu. They plan their capital expenditure in advance and have periodically carried out capacity expansions at their facilities to cater to the increased demand for their products. Their 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. Their manufacturing facilities are strategically located in proximity to their raw material sources, which reduces inward freight costs and results in lower cost of raw materials. They strengthened their presence in southern India and gained access to solvent-based paints through the acquisition of Hi-Build Coatings Private Limited and its facilities at Kochi (Kerala) and Pudukkottai (Tamil Nadu) in Fiscal 2016. For water-based paints manufactured at Kochi (Kerala), the principal raw materials are acrylic emulsions that they predominantly source from the neighboring states of Tamil Nadu and Karnataka, minerals that they principally import from Vietnam, and titanium dioxide and china clay that are available within Kerala. As a result of locational advantages and the higher margins generated from the Indigo Differentiated Products, their Gross Margins have consistently been higher than the industry average. Company's Gross Margins were 40.80%, 44.27% and 48.47% in Fiscal 2018, 2019 and 2020, respectively. Gross margins recorded by the top four paint companies was in the range of 38.3% to 42.7% in Fiscal 2018, 36.2% to 42.6% in Fiscal 2019, and 38.1% to 45.8% in Fiscal 2020. Their Gross Margins were 46.63% and 47.88% in the six months ended September 30, 2019 and 2020, respectively.
- **Well-qualified and professional management team with a committed employee base:** Company has a strong management team with considerable industry experience. Their Promoter Mr. Hemant Jalan and their Executive Director Mr. Narayanan Kutty Kottiedath Venugopal have been instrumental in the growth of the business. Mr. Hemant Jalan has over two decades of experience in the paint industry. Mr. Narayanan Kutty Kottiedath Venugopal has several years of experience in the paint industry and was previously the managing director of Hi-Build Coatings Private Limited. Their Board of Directors includes a combination of management executives and independent members who bring in significant business expertise including in the areas of manufacturing, sales and marketing. They also benefitted from the investments by Sequoia in Fiscal 2015 and the support of their nominee director on our board. They also have a well-qualified senior management team with extensive experience in the paint industry, which positions them well to capitalize on future growth opportunities. The heads of functional groups, such as production, finance, strategy and planning, enhance the quality of the management with their specific and extensive industry experience.

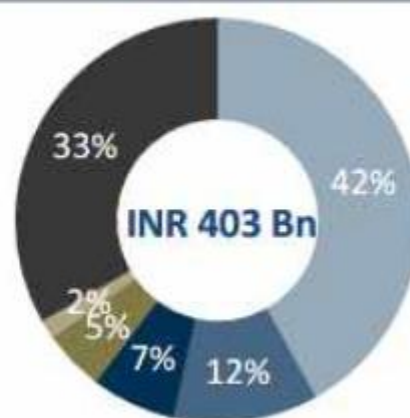
Key Risks:

- The Company is dependent on the third party transportation providers for the supply of raw-material and delivery of the finished products.
- The Company business is subject to seasonal variations and cyclicity that could result in fluctuation in their result of operation.
- The Indian decorative paint industry has historically been dominated by 4 major entities viz. Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel, which had an aggregate market share of 65% in 2019 so company has an intensive competition.

Industry Snapshot:

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. The companies are also significantly investing in branding and promotional strategies to improve their consumer base.

Competitive Landscape: Decorative Paints



- Asian Paints
- Berger Paints
- Kansai Nerolac
- Akzo Nobel
- Indigo Paints
- Others

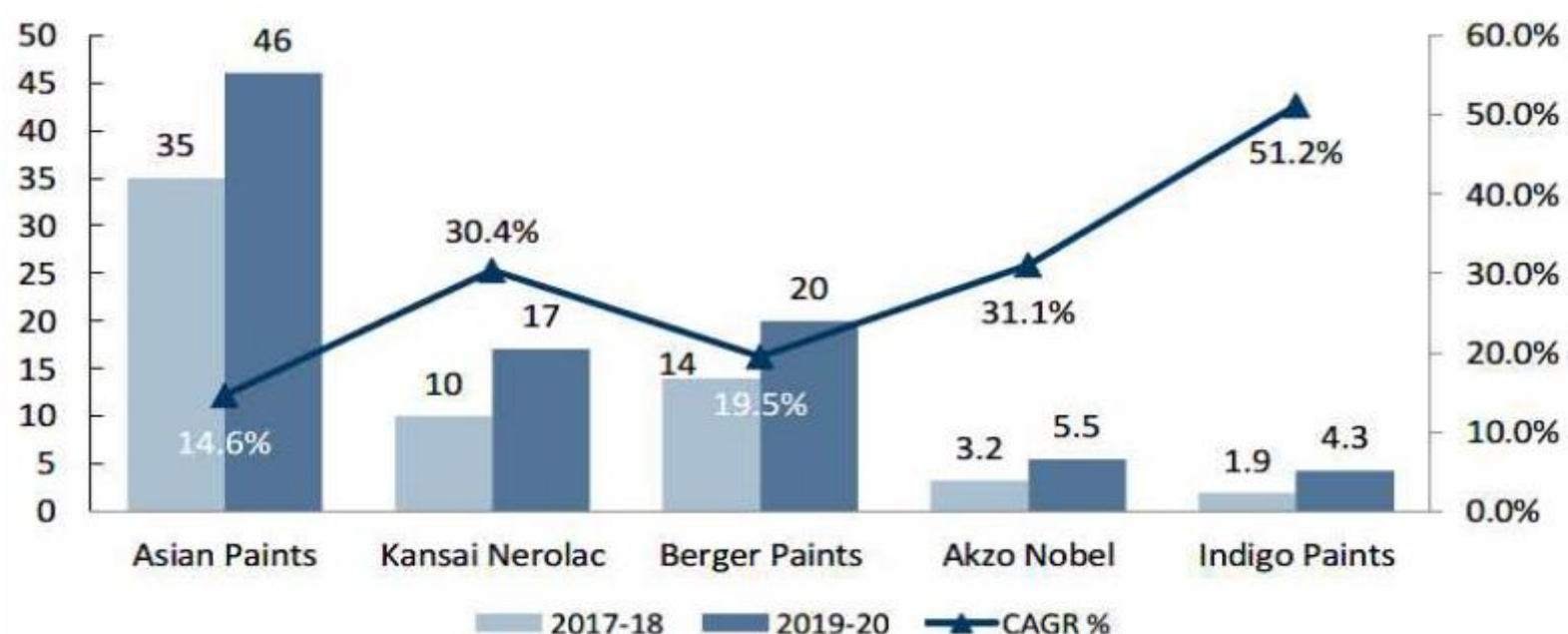
Tinting machines come with added benefits of consistency, advanced technology, precision, high dosing speed and ease of operation. In the paint store, the tinting system provides the end user with a full solution compliant with the coating industry standards. Different shades of emulsion paints are produced through in-shop tinting machines present at dealer outlets. These tinting machines are unique to each paint manufacturer due to the design specifications with respect to colorants, emulsion bases, fan-decks or shade cards, and customized software applications. These tinting machines are a prerequisite for all dealers who sell emulsion paints. Installing tinting machines has been crucial in improving reach and enabling dealers to meet customer requirements, thereby reducing the expense of inventories. The stiff resistance for installation of these machines is encountered from dealers due to lack of physical space at their counters. As a result, most dealers tend to install tinting machines of only recognized players.

Indigo Paints has installed tinting machines across India through their focus on branding efforts, specifically in Tier 2 – 4 Cities and Rural Areas where the penetration of tinting machines is relatively low.

Company wise growth in tinting machine (in thousand)

	Asian Paints	Berger Paints	Kansai Nerolac	Akzo Nobel	Indigo Paints
FY18	35	14	10	3.2	1.9
FY20	46	20	17	5.5	4.3
CAGR %	14.6	19.5	30.4	31.1	51.2
Tinting Machine to Dealer Ratio (FY20)	0.66 66%	0.67 67%	0.62 62%	0.37 37%	0.38 38%

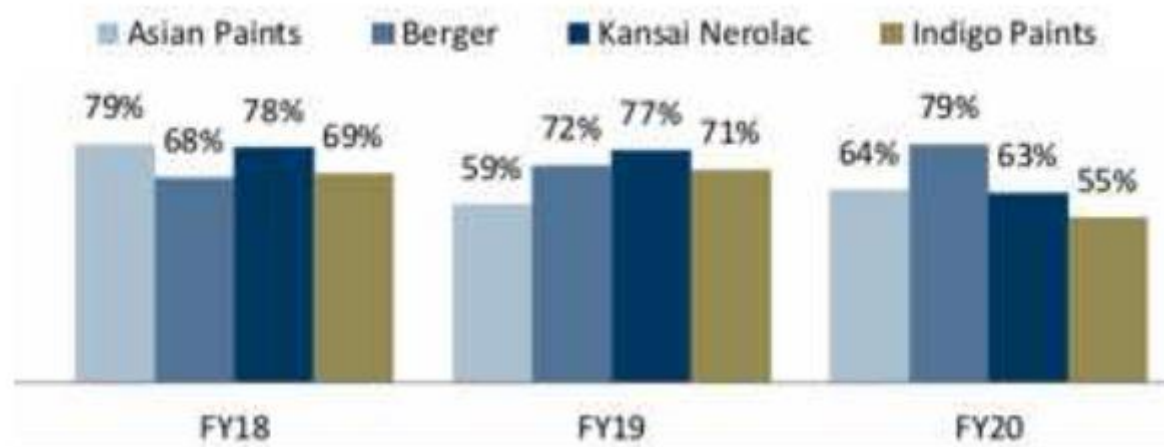
Company wise growth in tinting machine (in thousands)



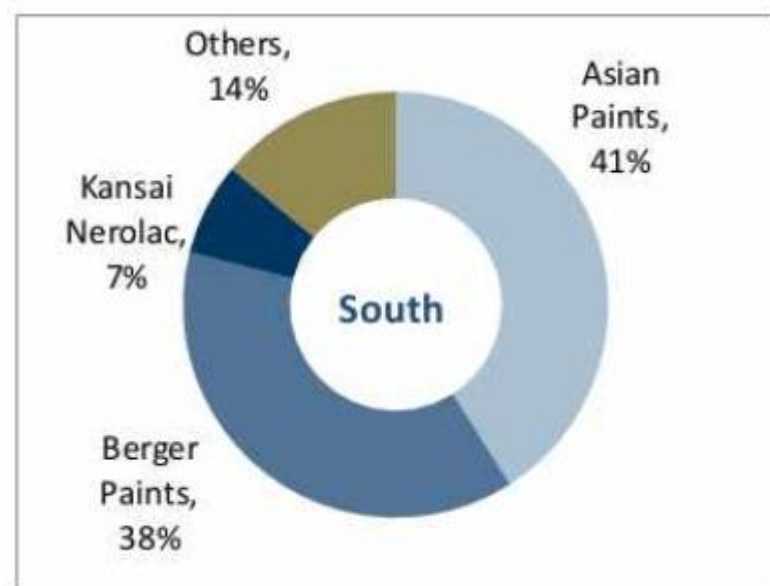
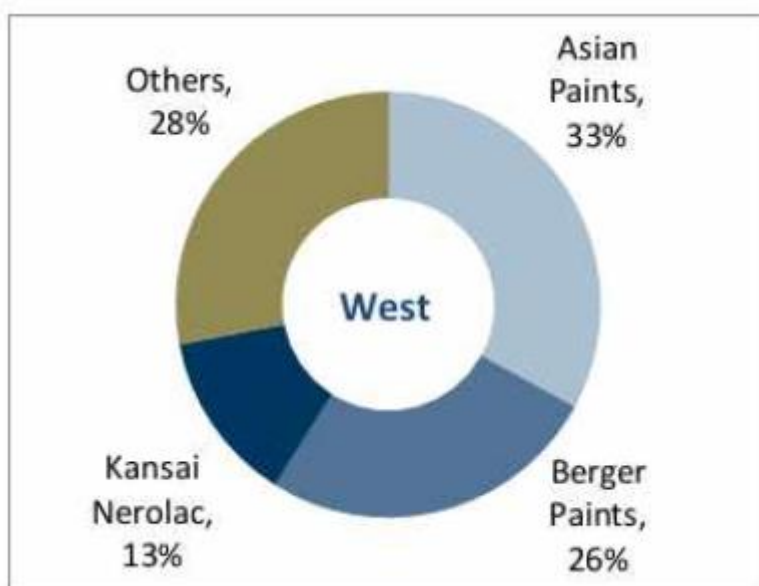
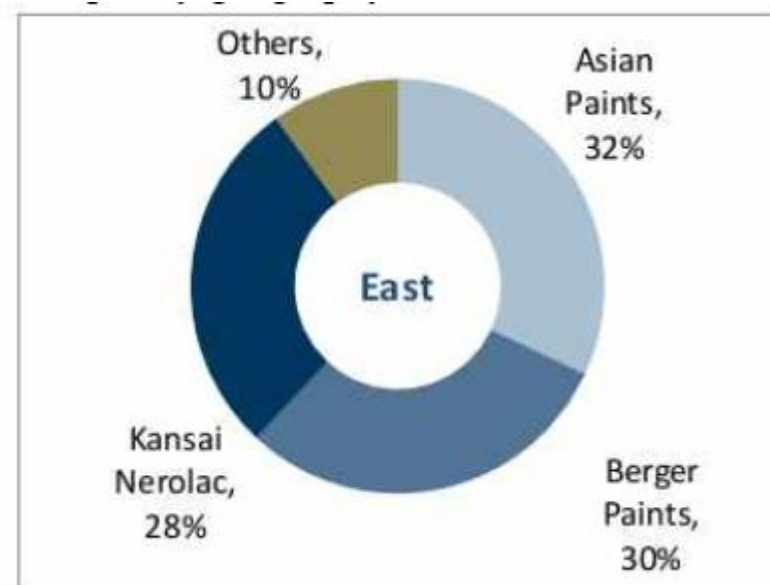
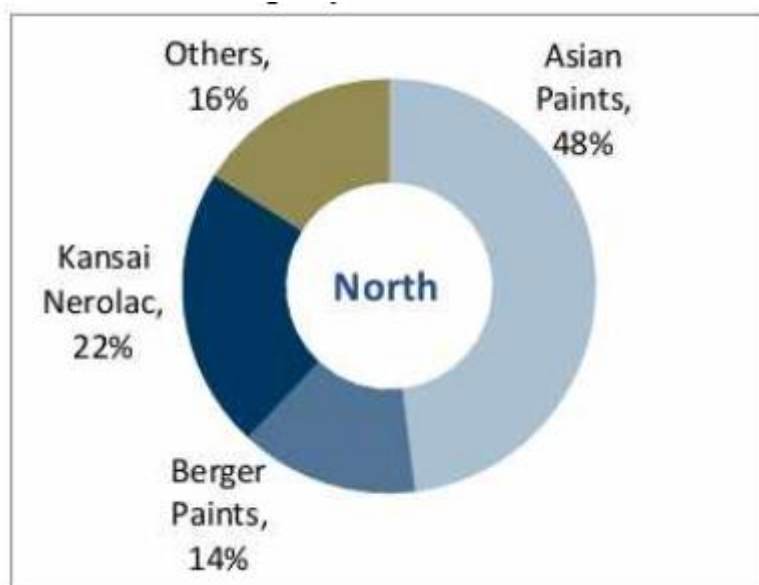
Company-wise capacity, and year-on-year growth in capacities (in MMT)

	Asian Paints	Berger Paints	Kansai Nerolac	Indigo Paints
FY18	1.13	0.57	0.40	0.095
FY19	1.71	0.64	0.44	0.125
FY20	1.73	0.64	0.52	0.195

Company-wise estimated capacity utilization



Company-wise market share, and estimated split by geography



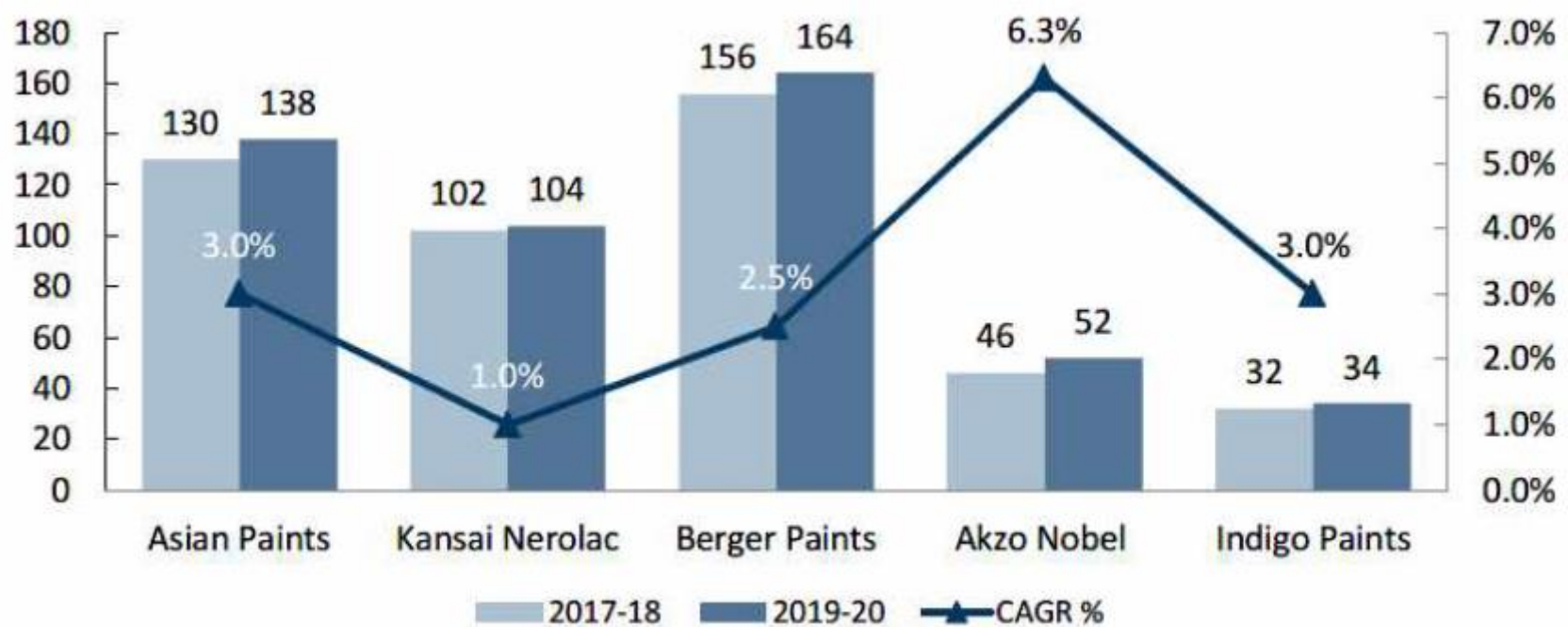
While most parts of India are largely dominated by Asian Paints, Asian Paints has a larger presence in Metro and Tier 1 Cities of these regions. The newer players such as JSW are establishing their presence in the southern region. The western regions, Maharashtra in particular, has seen a significant involvement of smaller players driven by the demand mainly from Tier 2 – 4 Cities. The competition has increased with the introduction of JSW Paints and Indigo Paints in the industry. The regional players such as Kamdhenu Paints have become aggressive to capture expand their position and gain more market share. Unlike the bigger players, Indigo Paints entered the market consisting of small cities, towns and Rural Areas. While the bigger paint companies are now tapping the Tier 2 – 4 Cities, Indigo Paints is leveraging its brand in those markets by venturing into Metros and Tier 1 Cities.

Company-wise growth in active distribution/ dealer

	FY17-18	FY19-20	CAGR
Asian Paints	53000	70000	14.9%
Kansai Nerolac	21000	27500	17.3%
Berger Paints	25000	30000	10.0%
Akzo Nobel	16500	15000	-4.7%
Indigo Paints	9,210	11,230	10.4%

Paint companies are required to spend significant resources to develop their distribution network to increase the visibility and reach of their products through direct distribution to dealers. The dealers are typically multi-brand and are located across metros, large cities, towns and Rural Areas. The market knowledge, financial resources and time taken to develop such a network is significant

Company-wise growth in depots, as of March 31, 2020



Asian Paints: Color World, an Asian Paints idea, accounts for approximately 75% of its distribution footprint in addition to the six regional distribution centers. Despite the rise of Color World at a CAGR of 11% during Fiscal 2018 to Fiscal 2020, the per-dealer throughput has not declined. The Color Concept stores have grown at a CAGR of approximately 21% from 200 in Fiscal 2015 to over 430 in Fiscal 2020.

Berger Paints: Berger Paints has steadily enhanced the efficiency of its distribution network by increasing its network of dealers in Tier 2/ 3 Cities (semi-urban/ rural) where it is easier to penetrate through dealers. The company has grown its distributor network by 10% to 12% annually (2,500-3,000 dealers) and has nearly achieved a penetration of over 80% in terms of tinting machines.

Kansai Nerolac: It is estimated that Kansai Nerolac added dealers at a CAGR of 16% to 18% in the last 2 years.

Indigo Paints: Indigo Paints' depots and dealer network has grown year-on-year. While Indigo Paints has recorded a higher CAGR for its dealer network in the newly entered regions in the North, the growth in the southern regions is comparatively lower as they have matured in the South.

Key Growth Drivers:

- Government's 'Housing for All/ affordable housing' measures has helped fresh demand for painting and will help re-painting in the future Pradhan Mantri Awas Yojna. Under the urban component, a demand of 11.2 million houses in urban areas has been validated.
- AMRUT - Atal Mission for Rejuvenation and Urban Transformation was launched by the Government to provide basic civic amenities which will involve renovation of 500 cities.
- Real Estate Sector Growth – The residential real estate sector (top 7 cities) has remained resilient in 2019 with sales increasing 6% year-on-year despite muted consumption expenditure. However, there have been challenges in 2020 in India owing to the impact of the on-going pandemic. The first quarter of Fiscal 2020 witnessed a decline in sales on a year-on-year basis as the buyers deferred their purchase decisions due to the impending crisis, which led to the sales declining by nearly 30% in the first quarter of Fiscal 2020 on a year-on-year basis. The real estate sector in India is expected to reach US\$ 1 trillion by 2030. By 2025, it has been estimated to contribute 13% to India's GDP. Emergence of nuclear families, rapid urbanization and rising household income are likely to remain the key drivers for growth of real estate.

Valuation:

At the upper end of the IPO price band, Indigo Paints is offered at 98.5x its TTM earnings, as compared to its other listed peers like Asian Paints, Berger Paints and Kansai Nerolec which are currently trading at a P/E of around 113.78x, 128.23x and 84.09x respectively. We believe that due to the lower valuations as compared to its peers, Indigo Paints is placed at an attractive valuation. Further with the planned expansion, lowering debt and other cost control measures, we are also confident that company will maintain the growth levels which is mirroring in the pricing of the IPO.

Considering these and the growth prospects in light of affordable housing push to meet PMAY (Pradhan Mantri Awas Yojna) for all by 2022 target of the Government, investors may consider an investment with a long term perspective. Hence, we recommend a "**Subscribe**" rating to this IPO.

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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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