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Nurturing Financial Excellence

# IPO REPORT

**“Subscribe with Caution” to  
Indigo Paints Ltd.**

Small player with alpha growth, but aggressively priced

## Salient features of the IPO:

- Indigo Paints Ltd.** (Indigo Paint), the fifth largest decorative paint maker is planning to raise up to Rs. 11,700mn through an IPO, which opens on 20<sup>th</sup> Jan. and closes on 22<sup>nd</sup> Jan. 2021. The price band is Rs. 1,488 – 1,490 per share.
- The issue is combination of fresh and OFS. The company will not receive any proceeds from the OFS. Of the net proceeds from the fresh issue, around Rs. 1,500mn will be utilized to fund the brownfield expansion at one of its facilities; Rs. 500mn will be used to purchase tinting machines & gyroshakers and Rs. 250mn will be utilized towards reducing the borrowings by the company.

## Key competitive strengths:

- Track record of consistent growth in a fast growing industry with significant entry barriers
- Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products
- Focused brand-building initiatives to gradually build brand equity
- Extensive distribution network for better brand penetration
- Leveraged brand equity and distribution network to populate tinting machines
- Strategically located manufacturing facilities with proximity to raw materials

## Risk and concerns:

- Continued economic slowdown and Covid-19 pandemic
- Inability to maintain the superlative business growth
- Lower acceptance of its products
- Unfavorable movement in raw material prices
- Intense competition

**Peer comparison and valuation:** At the higher price band of Rs. 1,490 per share, the company's share is valued at a TTM P/E multiple of 102.7x (to its restated TTM EPS of Rs. 14.5), which is in-line to the peer average.

## Below are few key observations of the issue: (continued in next page)

- The Indian paint sector has registered an 11% CAGR growth (almost double the growth rate of India's GDP) during FY14-19 to stand at Rs. 545bn. On account of higher urbanization, increasing popularity of branded paints, shortening of the re-painting cycle, robust pricing power and massive infrastructure spending, the sector is forecasted to grow by 12.2% CAGR over FY19-24E to Rs. 971bn.
- The decorative paint segment constitutes around 73.9% of the total paint market, resulting in the paint sector growing at a robust rate even at the time of an industrial slowdown. Rest is contributed by industrial paints. During FY14-19, decorative and industrial paint market increased by 11.5% and 9.5% CAGR, respectively. The same are forecasted to grow by 13% and 9.9% CAGR over FY19-24E.
- India's per capita paint consumption increased by a 6.8% CAGR in the last seven years from 2.6kg in FY12 to 4.1kg in FY19. Compared to the global average consumption of around 14-15kg per capita, the per capita consumption of paints in India is low, indicating a significant opportunity for market penetration in India. Another growth driver for the sector is the shrinking re-painting cycle. Re-painting represents around 78% of the demand in the decorative paint segment market. In the last decade, the average re-painting cycle had declined from 7-8 years to 4-5 years in 2019.
- Organized player accounts of 77% of the decorative paint segment, while the remaining 23% is shared by many small players. Currently, it has an oligopoly market structure with 10-12 players, whereas the top-4 players cumulatively control 65% of the market. Founded in 1942, Asian Paints Ltd. is the market leader with 42% share, while Indigo Paints Ltd. (operating since 2000) has a share of around 2% in decorative paint market and is also the fifth largest player in the domestic paint market.

Recommendation	Subscribe with Caution
Price band	Rs. 1,488 - 1,490 per share
Face value	Rs. 10
Shares for fresh issue	2.103 - 2.016mn shares
Shares for OFS	5.840mn shares
Fresh issue size	Rs. 3,000mn
OFS issue size	Rs. 8,689.9 - 8,701.6mn
Total issue size	7.853 - 7.856mn shares (Rs. 11,689.9 - 11,701.6mn)
Reserved for eligible employees	0.07mn shares (Rs. 104.2 - 104.3mn)
Net issue size	7.783 - 7.786mn shares (Rs. 11,585.8 - 11,597.3mn)
Bidding date	20 <sup>th</sup> Jan. - 22 <sup>nd</sup> Jan. 2021
MCAP at higher price band	Rs. 70,878mn
Enterprise value at higher price band	Rs. 67,853mn
Book running lead manager	Kotak Mahindra Capital Company Ltd., Edelweiss Financial Services Ltd. and ICICI Securities Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector/Industry	Furniture, Furnishing, Paints
Promoters	Mr. Hemant Jalan, Mrs. Anita Jalan, Mr. Parag Jalan, Mrs. Kamala Prasad Jalan and Halogen Chemicals Pvt. Ltd.
<b>Issue breakup</b>	

Category	Percent of issue (%)	Number of shares (mn)
QIB portion	50%	3.892 - 3.893mn shares
Non institutional portion	15%	1.1675 - 1.1679mn shares
Retail portion	35%	2.724 - 2.725mn shares

## Indicative IPO process time line

Finalization of basis of allotment	28 <sup>th</sup> Jan. 2021
Unblocking of ASBA account	29 <sup>th</sup> Jan. 2021
Credit to demat accounts	1 <sup>st</sup> Feb. 2021
Commencement of trading	2 <sup>nd</sup> Feb. 2021

## Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	60.05%	54.00%
Public	39.95%	46.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Retail application money at higher cut-off price per lot</b>		
Number of shares per lot	10	
Application money	Rs. 14,900 per Lot	
Employee discount	Rs. 148 per share	

## Analyst

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## Peer comparison and valuation (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	Enterprise value (Rs. mn)	Stock Return (%)				TTM total operating revenue (Rs. mn)	TTM EBITDA (Rs. mn)	TTM PAT (Rs. mn)	TTM EBITDA margin (%)	TTM PAT margin (%)
					1M	3M	6M	1 year					
<b>Indigo Paints Ltd.</b>	<b>10</b>	<b>1,490</b>	<b>70,878</b>	<b>67,853</b>					<b>6,116</b>	<b>1,156</b>	<b>690</b>	<b>18.9%</b>	<b>11.3%</b>
Asian Paints Ltd.	1	2,664	2,554,823	2,532,518	4.5%	28.6%	57.8%	46.5%	183,288	37,985	22,751	20.7%	12.4%
Berger Paints India Ltd.	1	793	769,983	770,750	16.4%	30.8%	58.6%	49.5%	57,240	9,320	5,224	16.3%	9.1%
Kansai Nerolac Paints Ltd.	1	655	353,073	349,063	19.5%	38.1%	49.8%	26.7%	44,341	6,773	3,859	15.3%	8.7%
Akzo Nobel India Ltd.	10	2,350	107,029	102,293	5.5%	17.0%	26.9%	18.9%	21,737	2,949	1,771	13.6%	8.1%
Shalimar Paints Ltd.	2	105	5,699	6,975	16.1%	58.2%	79.3%	23.8%	2,980	(345)	(419)	-11.6%	-14.0%
<b>Average</b>												<b>16.5%</b>	<b>9.6%</b>

Company name	3Y top-line growth (CAGR, %)	3Y EBITDA growth (CAGR, %)	3Y PAT growth (CAGR, %)	3Y average EBITDA margin (%)	3Y average PAT margin (%)	3Y Capital employed growth (CAGR, %)	3Y CFO growth (CAGR, %)	3Y Average CFO / Capital employed (x)	3Y Average fixed asset turnover (x)	3Y RoE (%)	3Y RoIC (%)
<b>Indigo Paints Ltd.</b>	<b>24.7%</b>	<b>87.8%</b>	<b>92.8%</b>	<b>10.4%</b>	<b>5.3%</b>	<b>97.8%</b>	<b>74.2%</b>	<b>18.5%</b>	<b>3.4</b>	<b>12.6%</b>	<b>13.1%</b>
Asian Paints Ltd.	9.5%	13.9%	15.2%	19.7%	12.2%	13.9%	11.6%	22.3%	3.1	24.6%	24.8%
Berger Paints India Ltd.	11.0%	14.7%	19.5%	15.9%	9.1%	19.2%	31.1%	14.2%	3.4	22.0%	19.5%
Kansai Nerolac Paints Ltd.	6.5%	0.7%	0.6%	15.4%	9.8%	12.7%	28.6%	9.5%	3.0	14.5%	14.1%
Akzo Nobel India Ltd.	-5.3%	10.5%	-23.0%	12.1%	9.9%	42.6%	43.1%	12.8%	5.0	22.9%	17.6%
Shalimar Paints Ltd.	12.6%	-0.4%	-8.4%	-14.6%	-18.8%	44.6%	-4.1%	-4.1%	1.1	-24.6%	-15.5%
<b>Average</b>	<b>5.4%</b>	<b>9.9%</b>	<b>3.1%</b>	<b>15.8%</b>	<b>10.2%</b>	<b>22.1%</b>	<b>28.6%</b>	<b>14.7%</b>	<b>3.6</b>	<b>21.0%</b>	<b>19.0%</b>

Company Name	TTM EPS (Rs.)	TTM BVPS (Rs.)	DPS (Rs.)	TTM debt equity ratio	TTM fixed asset turnover ratio	TTM RoE (%)	TTM RoCE (%)	TTM P / E (x)	TTM P / B (x)	TTM EV / Sales (x)	TTM EV / EBITDA (x)	MCAP / TTM Sales (x)	Earning yield (%)
<b>Indigo Paints Ltd.</b>	<b>14.5</b>	<b>110.6</b>	<b>0.0</b>	<b>0.1</b>	<b>3.0</b>	<b>13.1%</b>	<b>16.3%</b>	<b>102.7</b>	<b>13.5</b>	<b>11.1</b>	<b>58.7</b>	<b>11.6</b>	<b>1.0%</b>
Asian Paints Ltd.	23.7	115.0	20.0	0.0	3.5	20.6%	24.8%	112.3	23.2	13.8	66.7	13.9	0.9%
Berger Paints India Ltd.	5.4	29.5	3.9	0.2	3.2	18.2%	21.6%	147.4	26.9	13.5	82.7	13.5	0.7%
Kansai Nerolac Paints Ltd.	7.2	70.4	2.6	0.0	2.3	10.2%	13.2%	91.5	9.3	7.9	51.5	8.0	1.1%
Akzo Nobel India Ltd.	38.9	267.3	24.1	0.0	4.6	14.5%	16.3%	60.4	8.8	4.7	34.7	4.9	1.7%
Shalimar Paints Ltd.	(7.7)	47.6	0.0	0.5	1.0	-16.2%	-19.4%	(13.6)	2.2	2.3	(20.2)	1.9	-7.3%
<b>Average</b>			<b>12.7</b>	<b>0.1</b>	<b>3.4</b>	<b>15.9%</b>	<b>19.0%</b>	<b>102.9</b>	<b>17.0</b>	<b>10.0</b>	<b>58.9</b>	<b>10.1</b>	<b>1.1%</b>

Source: Choice Broking Research

- The company is engaged in the business of manufacturing paints and is the fastest growing amongst the top five paint companies in India. It has achieved this position on the back of multi-pronged approach, which includes introducing differentiated products to create a distinct market, building brand equity for primary consumer brand, creating an extensive distribution network and installing tinting machines across its dealer network.
- Among the top-five players, Indigo Paints is the late entrant in the sector. However it has registered a business growth of around 42% CAGR in the last decade, which is almost 3x of the sector growth. This was mainly due to the higher concentration of differentiated products in the business and bottom-up approach in the distribution network expansion.
- Over FY18-20, the differentiated products on an average contributed around 27% to the top-line and these products have higher margins as compared to regular products and require zero-to-low trade discounts. Due to its higher reliance on differentiated products, the company has maintained a stable discount regime to the dealers (which is lower than the sector leader) and also the industry leading gross margin since last two fiscals.
- For distribution network expansion, the company has initially focused on the tier-3, tier-4 and rural market, where the brand penetration is easier. After establishing in the lower tier markets, it subsequently expands in larger cities and metros. Currently, the company generates around 85% of the business tier-3 and lower markets, while the rest is from large cities and metros.
- As on 30th Sept. 2020, Indigo Paint had 40 depots and distribution network comprising of 11,230 active dealers. Installation of tinting machine leverages emulsion paint sales 2-3 times and thus it is essential of the dealers. The company started installing tinting machines in FY14, which gained momentum from FY18. During the last three fiscals, it has installed around 1,250 tinting machines per year and had 4,603 machines in the dealer's network. Tinting machines to dealer ratio is around 38% for the company as compared to an average of 65% for the top-3 players.
- With massive brand building exercise undertaken in the last three fiscals, the company has reached parity with large players (excluding market leader) in media spends. Its branding & marketing spends is around 12% of the top-line as compared to 4% for the top four players. The Indigo Paints management has indicated to media spends (as percent of top-line) to drop in future so as to drive the profitability.

## Peer comparison and valuation (Contd...):

- Its reported financial history is short, but a robust performance on the top-line and profitability front. On the back of improved market presence, higher branding & marketing initiatives coupled with better demand of its products, Indigo Paints reported a 24.7% CAGR rise in the top-line over FY18-20 to Rs. 6,247.9mn in FY20. On account of lower raw material prices, EBITDA was higher by 87.8% CAGR during the period and stood at Rs. 909.9mn in FY20. EBITDA margin expanded by 814bps over FY18-20 to 14.6% in FY20. Reported PAT increased by 92.8% CAGR to Rs. 478.2mn in FY20, whereas margin improved from 3.2% in FY18 to 7.7% in FY20. The company had a positive operating cash flow over FY18-20, which increased by 74.2% CAGR to Rs. 723.4mn in FY20. Average RoIC and RoE stood at 17.5% each over FY18-20.
- In H1 FY21, top-line declined by 4.8% Y-o-Y, mainly due to Covid-19 induced business restrictions. With lower raw material prices coupled with pandemic related cost cutting and significantly lower advertisement & sales promotion expenses - EBITDA increased by 105% Y-o-Y with almost 10ppts expansion in the margin. Reported PAT increased by 353.9% Y-o-Y with 829bps expansion in margin to 10.5%.
- Based on our conservative quick estimate, we are forecasting a top-line growth of 9.2% CAGR over FY20-23 with flat EBITDA margin and 54bps expansion in PAT margins. FY21E top-line is forecasted to be at Rs. 5,596.6mn, which is likely to grow by 20.3% and 20.7% in the next two fiscals.

At higher price band of Rs. 1,490 per share, the company is demanding a TTM P/E multiple of 102.7x, which is in-line with the peer average. Already the peers are trading at steep valuations (premium to five years average) and trying to replicate the trading multiples of FMCG companies. We feel that, most of the positivity (related to the paint sector) is being captured in the prevailing valuations and thus we have a cautious outlook. Indigo Paint is very small as compared to the top four players, however the demanded valuation seems to factor-in the future growth prospects thereby providing limited price appreciation opportunities for the retail investors. Thus we assign a **"Subscribe with Caution"** rating for the issue.

## About the issue:

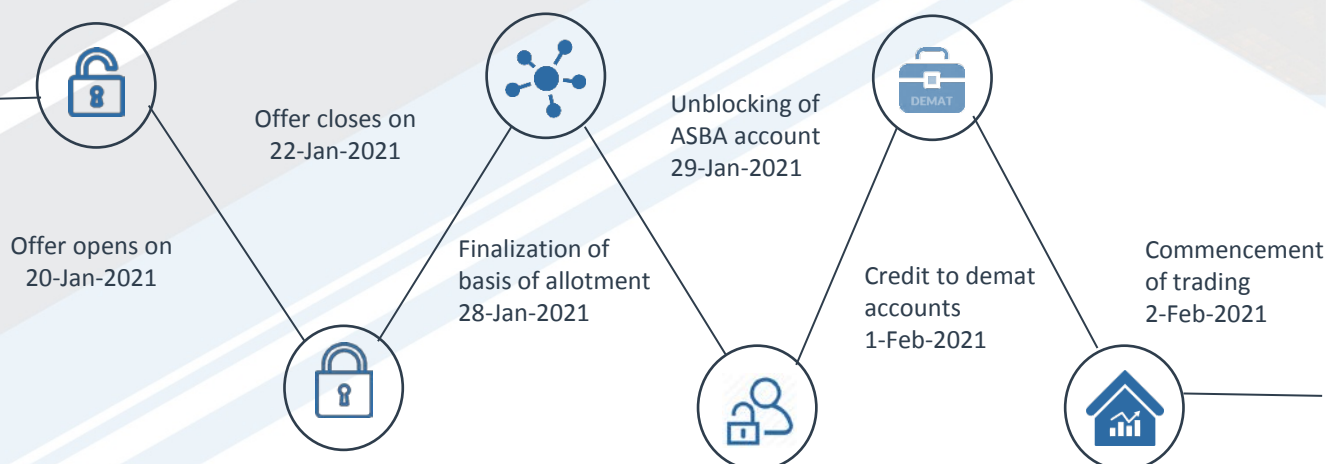
- Indigo Paint is coming up with an initial public offering (IPO) with 7.853 - 7.856mn shares (fresh issue: 2.103 - 2.016mn shares; OFS shares: 5.840mn shares) in offering. The offer represents around 16.51% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 11,689.9 - 11,701.6mn.
- The issue will open on 20<sup>th</sup> Jan. 2021 and close on 22<sup>nd</sup> Jan. 2021.
- The issue is through book building process with a price band of Rs. 1,488 - 1,490 per share.
- 0.07mn share are reserved for eligible employees and offered discount is Rs. 148 per share.
- The issue is combination of fresh and OFS. The company will not receive any proceeds from OFS. Of the net proceeds from the fresh issue, around Rs. 1,500mn will be utilized to fund the brownfield expansion at one of its plant; Rs. 500mn will be used to purchase tinting machines & gyroshakers and Rs. 250mn will be utilized towards reducing the borrowings by the company. Through OFS issue, selling investors will be partially offloading their stake in the company.
- 50% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 15% and 35% is reserved for non-institutional bidders and retail investors, respectively.
- Promoter holds 60.05% stake in the company and post-IPO this will come down to 54%. Public holding will increase from current 39.95% to 46%.

### Pre and post issue shareholding pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	60.05%	54.00%
Public (%)	39.95%	46.00%

Source: Choice Equity Broking

## Indicative IPO process time line:





## Company introduction:

Indigo Paints is the fastest growing amongst the top five paint companies in India. It is the fifth largest company in the Indian decorative paint sector in terms of revenue in FY20. The company has achieved this position in a highly competitive decorative paint market, mainly on the back of its multi-pronged approach, which includes introducing differentiated products to create a distinct market in the sector, building brand equity for its primary consumer brand of “Indigo”, creating an extensive distribution network across 27 states and seven union territories and installing tinting machines across the dealer network.

To create demand for its 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. It subsequently leveraged this network to engage with dealers in tier-1 and tier-2 cities and metros as well. The company engaged Mr. Mahendra Singh Dhoni, a sportsperson with pan-India appeal, as its brand ambassador, to enhance the brand image amongst end-customers. Indigo Paints concentrated these branding efforts on its differentiated products and then leveraged these efforts to increase distribution and sales of its complete range of decorative paint products. The company subsequently introduced tinting machines in the target markets to increase sales of emulsion paints, which require in-shop tinting.

Indigo Paints manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. It also identifies potential product needs from customers and introduces differentiated products to meet these requirements, and create a distinct market for its products. For instance, it is the first company to manufacture and introduce certain differentiated products in the decorative paint market in India, which includes 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 identified as “Indigo Differentiated Products”). These products are differentiated based on the end-use they cater to, as well as added properties that they possess. Revenue generated from sales of Indigo Differentiated Products represented 26.7%, 27.6%, and 28.6% of the total revenue in FY18, FY19 and FY20, respectively. As the first company in India to develop these products, Indigo Paints had an early mover advantage in the markets thereby allowing it to realize relatively higher margins for these products compared to the rest of its product portfolio.

As of 30<sup>th</sup> Sept. 2020, it owns and operated three manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala) and Pudukkottai (Tamil Nadu) with an installed production capacity of 101.9mn liters per annum for liquid paints and 93.1mn tonnes per annum for putties and powder paints. Its manufacturing facilities are strategically located in close proximity to raw material sources that reduces inward freight costs and cost of raw materials. The company also intends to expand its manufacturing capacities at its 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 50mn liters per annum and it is expected to be operational during FY23.

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 FY18, FY19, and FY20 end, its distribution network comprised of 33, 33 and 36 depots, and 9,210, 10,246 and 11,230 active dealers, respectively. During the same period, the total number of tinting machines that it placed across the network of dealers was 1,808, 3,143 and 4,296 units, respectively. The company work closely with its dealers and the painter community to understand customer preferences, receive feedback on products and of competition, which enables it to formulate an effective strategy for product development, sales, marketing and pricing.

**Competition:** The Indian decorative paint industry has historically been dominated by four major entities, which had an aggregate market share of 65% in FY19. Indigo Paints competes with these companies as well as other smaller companies on the strength of its distribution network, brand recognition and ability to leverage the dealer relationships to install tinting machines. With over two decades of operating history, quality products, product development capability and wide range of paint products for different applications, the company seems to have the competitive strengths in the paint market in India.

## Financial performance:

The company reported a short financial history, but a robust performance on the top-line and profitability front. On the back of improved market presence, higher branding & marketing initiatives coupled with better demand of its products, Indigo Paints reported a 24.7% CAGR rise in the top-line over FY18-20 to Rs. 6,247.9mn in FY20. During the period, business from the Emulsions (which contributed an average of 43.6% to the gross revenue) increased by 29.6% CAGR (fuelled by 25.2% CAGR rise in sales volume and 3.5% rise in the realization). Business from Primers, Distempers & Others (contributing average 22.2% to the gross revenue), Enamels & Wood Coatings (average 20.1% of the gross revenue) and Cement paints & putty (average 14.1% of the gross revenue) increased by 25.8%, 12.5% and 26.1% CAGR, respectively. Sales volume of the above products increased by 18.1%, 8.7% and 26.6%, respectively, during FY18-20.

In H1 FY21, top-line declined by 4.8% Y-o-Y, mainly due to Covid-19 induced business restrictions. On TTM basis, top-line stood at Rs. 6,115.8mn, which is lower by 2.1% from FY20 levels.

With lower raw material prices in FY20, Indigo Paints reported relatively lower rise of 20.4% CAGR (as compared to top-line) in the cost of material consumed. As a percent of top-line, it stood at 55.2%, 55.4% and 51.4% in FY18, FY19 and FY20, respectively. Employee benefit and other expenses increased by 17.8% and 25.6% CAGR, respectively, thereby leading to a 19.2% CAGR higher operating expenditure (lower than the top-line growth). Consequently, EBITDA was higher by 87.8% CAGR to stand at Rs. 909.9mn in FY20. EBITDA margin expanded by 814bps over FY18-20 to 14.6% in FY20.

Again in H1 FY21, with lower raw material prices coupled with pandemic related cost cutting and significantly lower advertisement & sales promotion expenses - EBITDA increased by 105% Y-o-Y with almost 10ppts expansion in the margin. On TTM basis, EBITDA stood at Rs. 1,156.2mn with a margin of 18.9%.

With capacity expansion and higher addition of tinting machines at the retailers point, the company reported a 47.4% CAGR rise in the depreciation expenses, while with increase in the borrowing - finance cost was higher by 11% CAGR during FY18-20. Finally, reported PAT during the period increased by 92.8% CAGR to Rs. 478.2mn in FY20, whereas margin improved from 3.2% in FY18 to 7.7% in FY20.

In H1 FY21, reported PAT increased by 353.9% Y-o-Y with 829bps expansion in margin to 10.5%. On TTM basis, reported PAT stood at Rs. 690.3mn with a margin of 11.3%.

The company had a positive operating cash flow over FY18-20, which increased by 74.2% CAGR to Rs. 723.4mn in FY20. Average operating cash flow during the period was at around Rs. 492.6mn. Average RoIC and RoE stood at 17.5% each over FY18-20.

Financial snapshot (Rs. mn)	FY18	FY19	FY20	H1 FY20	H1 FY21	TTM	CAGR (%)	Y-o-Y (%, Annual)	Y-o-Y (%, Half yearly)
Total revenue from operations	4,014.8	5,356.3	6,247.9	2,726.4	2,594.2	6,115.8	24.7%	16.6%	-4.8%
EBITDA	258.0	540.9	909.9	234.6	480.9	1,156.2	87.8%	68.2%	105.0%
Reported PAT	128.6	268.7	478.2	59.9	272.1	690.3	92.8%	77.9%	353.9%
Restated reported EPS	2.7	5.6	10.1	1.3	5.7	14.5	92.8%	77.9%	353.9%
Cash flow from operating activities	238.4	515.9	723.4	270.2	531.6	984.8	74.2%	40.2%	96.8%
NOPLAT	169.8	317.4	558.0	119.5	271.6	711.5	81.3%	75.8%	127.3%
FCF		(186.6)	78.3			87.5		-141.9%	
RoIC (%)	12.0%	17.3%	23.4%	6.2%	10.6%	27.7%	1,141 bps	609 bps	439 bps
Revenue growth rate (%)		33.4%	16.6%		-4.8%				
EBITDA growth rate (%)		109.6%	68.2%		105.0%				
EBITDA margin (%)	6.4%	10.1%	14.6%	8.6%	18.5%	18.9%	814 bps	446 bps	993 bps
EBIT growth rate (%)		120.8%	92.7%		167.0%				
EBIT margin (%)	4.2%	6.9%	11.4%	5.1%	14.2%	15.4%	725 bps	451 bps	915 bps
Restated adjusted PAT growth rate (%)		108.9%	77.9%		353.9%				
Restated adjusted PAT margin (%)	3.2%	5.0%	7.7%	2.2%	10.5%	11.3%	445 bps	264 bps	829 bps
Inventories turnover ratio (x)	7.3	8.6	8.6	3.8	3.9	9.1	8.5%	-0.6%	1.1%
Trade receivable turnover ratio (x)	4.1	5.3	6.0	3.4	3.0	7.1	20.3%	12.3%	-10.6%
Accounts payable turnover ratio (x)	3.7	4.4	4.5	2.2	2.2	5.1	10.9%	3.9%	-1.8%
Fixed asset turnover ratio (x)	3.5	3.5	3.1	1.5	1.3	3.0	-5.9%	-11.6%	-14.2%
Total asset turnover ratio (x)	1.3	1.4	1.5	0.7	0.6	1.5	4.7%	3.2%	-12.8%
Current ratio (x)	1.2	1.2	1.2	1.1	1.4	1.4	1.3%	3.5%	29.9%
Total debt (Rs.)	493.1	760.8	649.0	790.8	428.9	428.9	14.7%	-14.7%	-45.8%
Net debt (Rs.)	262.3	423.5	383.8	545.8	1.5	1.5	21.0%	-9.4%	-99.7%
Debt to equity (x)	0.4	0.5	0.3	0.5	0.2	0.2	-7.7%	-36.2%	-62.5%
Net debt to EBITDA (x)	1.0	0.8	0.4	2.3	0.0	0.0	-35.6%	-46.1%	-99.9%
RoE (%)	10.1%	18.2%	24.3%	3.9%	12.1%	30.8%	1,417 bps	604 bps	826 bps
RoA (%)	4.3%	7.2%	11.3%	1.6%	6.6%	16.8%	701 bps	413 bps	502 bps
RoCE (%)	9.4%	16.2%	26.0%	5.6%	13.2%	33.8%	1,665 bps	986 bps	756 bps

Source: Choice Equity Broking



## Competitive strengths:

- Track record of consistent growth in a fast growing industry with significant entry barriers
- Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint products
- Focused brand-building initiatives to gradually build brand equity
- Extensive distribution network for better brand penetration
- Leveraged brand equity and distribution network to populate tinting machines
- Strategically located manufacturing facilities with proximity to raw materials

## Business strategy:

- Continue to focus on developing differentiated products to grow market share
- Further strengthen the brand to consolidate its position as a leading paint company in India
- Deepen penetration in existing markets and expand presence in select new territories by populating tinting machines
- Expand manufacturing capacities



## Risk and concerns:

- Continued economic slowdown and Covid-19 pandemic
- Inability to maintain the superlative business growth
- Lower acceptance of its products
- Unfavorable movement in raw material prices
- Intense competition



## Financial statements:

### Profit and loss statement (Rs. mn)

	FY18	FY19	FY20	H1 FY20	H1 FY21	TTM	CAGR over FY18 - 20 (%)	FY20 growth over FY19 (%)	Half yearly growth (%)
<b>Total revenue from operations</b>	<b>4,014.8</b>	<b>5,356.3</b>	<b>6,247.9</b>	<b>2,726.4</b>	<b>2,594.2</b>	<b>6,115.8</b>	<b>24.7%</b>	<b>16.6%</b>	<b>-4.8%</b>
Cost of materials consumed	(2,216.2)	(2,965.2)	(3,211.3)	(1,509.7)	(1,238.2)	(2,939.8)	20.4%	8.3%	-18.0%
Changes in inventories of finished goods and traded goods	(40.9)	61.2	100.3	100.9	(60.3)	(60.9)		63.8%	-159.8%
Purchase of traded goods	(55.7)	(81.3)	(108.6)	(46.2)	(53.6)	(115.9)	39.6%	33.5%	16.0%
Excise duty	(64.0)	0.0	0.0	0.0	0.0	0.0			
Employee benefits expense	(302.5)	(363.8)	(419.9)	(209.6)	(220.4)	(430.7)	17.8%	15.4%	5.2%
Other expenses	(1,077.4)	(1,466.3)	(1,698.5)	(827.1)	(540.8)	(1,412.2)	25.6%	15.8%	-34.6%
<b>EBITDA</b>	<b>258.0</b>	<b>540.9</b>	<b>909.9</b>	<b>234.6</b>	<b>480.9</b>	<b>1,156.2</b>	<b>87.8%</b>	<b>68.2%</b>	<b>105.0%</b>
Depreciation and amortization expense	(90.2)	(170.5)	(196.1)	(96.4)	(112.2)	(211.8)	47.4%	15.0%	16.3%
<b>EBIT</b>	<b>167.8</b>	<b>370.4</b>	<b>713.8</b>	<b>138.1</b>	<b>368.7</b>	<b>944.4</b>	<b>106.3%</b>	<b>92.7%</b>	<b>167.0%</b>
Finance costs	(45.4)	(46.6)	(56.0)	(27.7)	(24.7)	(53.0)	11.0%	20.2%	-10.6%
Other income	16.3	16.3	16.4	7.6	8.2	17.1	0.5%	0.7%	8.1%
Exceptional items	(13.2)	(3.1)				0.0			
<b>PBT</b>	<b>125.5</b>	<b>337.1</b>	<b>674.3</b>	<b>118.1</b>	<b>352.3</b>	<b>908.4</b>	<b>131.8%</b>	<b>100.0%</b>	<b>198.3%</b>
Tax expenses	3.1	(68.4)	(196.1)	(58.2)	(80.2)	(218.2)		186.7%	37.9%
<b>Reported PAT</b>	<b>128.6</b>	<b>268.7</b>	<b>478.2</b>	<b>59.9</b>	<b>272.1</b>	<b>690.3</b>	<b>92.8%</b>	<b>77.9%</b>	<b>353.9%</b>

### Balance sheet statement (Rs. mn)

	FY18	FY19	FY20	H1 FY20	H1 FY21	TTM	CAGR over FY18 - 20 (%)	FY20 growth over FY19 (%)	Half yearly growth (%)
Equity share capital	285.9	288.5	290.2	290.2	290.2	290.2	0.7%	0.6%	0.0%
Instruments in the nature of equity	183.0	183.0	183.0	183.0	183.0	183.0	0.0%	0.0%	0.0%
Other equity	805.6	1,003.1	1,497.3	1,079.5	1,770.5	1,770.5	36.3%	49.3%	64.0%
Long term borrowings	131.9	354.2	355.4	400.1	301.3	301.3	64.1%	0.3%	-24.7%
Long term lease liabilities	48.3	54.1	28.2	46.1	25.7	25.7	-23.6%	-47.9%	-44.2%
Long term provisions			13.0	5.9	27.9	27.9			375.6%
Non current net deferred tax liabilities		21.0	69.7	63.3	57.1	57.1		231.4%	-9.8%
Other non current liabilities	17.9	31.7	38.5	35.0	35.1	35.1	46.6%	21.4%	0.4%
Short term borrowings	226.4	247.1	145.3	232.4		0.0	-19.9%	-41.2%	-100.0%
Short term lease liabilities	28.8	39.9	34.4	29.7	31.8	31.8	9.2%	-13.7%	6.8%
Other current financial liabilities	57.7	65.6	85.7	82.5	70.1	70.1	21.9%	30.8%	-15.0%
Trade payables	1,085.3	1,362.4	1,385.9	1,229.5	1,191.1	1,191.1	13.0%	1.7%	-3.1%
Short term provisions	1.5		10.6	9.3	13.0	13.0	168.7%		39.2%
Net current income tax liabilities		3.0	26.3	3.0	31.1	31.1		766.7%	927.4%
Other current liabilities	101.6	78.3	56.1	77.6	85.0	85.0	-25.7%	-28.3%	9.6%
<b>Total liabilities</b>	<b>2,973.9</b>	<b>3,731.8</b>	<b>4,219.6</b>	<b>3,767.1</b>	<b>4,112.9</b>	<b>4,112.9</b>	<b>19.1%</b>	<b>13.1%</b>	<b>9.2%</b>
Property, plant and equipment	614.2	864.3	1,420.3	903.9	1,403.5	1,403.5	52.1%	64.3%	55.3%
Intangible assets	4.9	4.3	3.7	3.9	4.7	4.7	-12.4%	-13.9%	20.6%
Capital work-in-progress	24.6	44.0	10.9	309.0	25.8	25.8	-33.5%	-75.2%	-91.7%
Right-of-use assets	97.2	311.4	278.0	291.7	271.6	271.6	69.1%	-10.7%	-6.9%
Goodwill	407.4	305.5	305.5	305.5	305.5	305.5	-13.4%	0.0%	0.0%
Long term loans	6.9	40.7	54.8	46.1	58.0	58.0	182.3%	34.6%	25.7%
Other long term financial assets	20.9		23.0	22.2	23.8	23.8	5.0%		6.9%
Long term net income tax assets	1.7	1.7	1.7	53.9	1.7	1.7	0.0%	0.0%	-96.8%
Other non current assets	25.0	57.5	9.4	43.9	34.6	34.6	-38.8%	-83.7%	-21.2%
Inventories	552.1	693.3	767.7	714.7	672.6	672.6	17.9%	10.7%	-5.9%
Trade receivables	967.9	1,038.5	1,044.7	803.6	855.7	855.7	3.9%	0.6%	6.5%
Current investments	184.3	197.0	208.4	202.3	305.9	305.9	6.3%	5.8%	51.2%
Cash and cash balances	46.4	140.2	56.8	42.7	121.5	121.5	10.6%	-59.5%	184.4%
Other financial assets	2.9	1.1	1.0	1.0	1.1	1.1	-40.5%	-8.1%	1.9%
Short term loans	2.6	3.3	3.2	2.3	5.6	5.6	11.3%	-2.8%	144.9%
Other current assets	15.1	29.0	30.5	20.4	21.3	21.3	42.4%	5.3%	4.7%
<b>Total assets</b>	<b>2,973.9</b>	<b>3,731.8</b>	<b>4,219.6</b>	<b>3,767.1</b>	<b>4,112.9</b>	<b>4,112.9</b>	<b>19.1%</b>	<b>13.1%</b>	<b>9.2%</b>

Source: Choice Equity Broking

## Financial statements:

### Cash flow statement (Rs. mn)

Particulars (Rs. mn)	FY18	FY19	FY20	H1 FY20	H1 FY21	TTM	CAGR over FY18 - 20 (%)	FY20 growth over FY19 (%)	Half yearly growth (%)
Cash flow before working capital changes	263.6	558.3	916.4	236.3	488.9	1,169.1	86.4%	64.1%	106.9%
Working capital changes	(24.8)	1.9	(68.8)	102.0	130.6	(40.1)	66.5%	-3625.6%	28.1%
<b>Cash flow from operating activities</b>	<b>238.4</b>	<b>515.9</b>	<b>723.4</b>	<b>270.2</b>	<b>531.6</b>	<b>984.8</b>	<b>74.2%</b>	<b>40.2%</b>	<b>96.8%</b>
Purchase of property , plant & equipment	(197.4)	(638.3)	(614.0)	(351.5)	(134.6)	(397.1)	76.4%	-3.8%	-61.7%
<b>Cash flow from investing activities</b>	<b>(170.9)</b>	<b>(632.3)</b>	<b>(612.7)</b>	<b>(350.6)</b>	<b>(227.1)</b>	<b>(489.2)</b>	<b>89.4%</b>	<b>-3.1%</b>	<b>-35.2%</b>
<b>Cash flow from financing activities</b>	<b>(68.3)</b>	<b>188.5</b>	<b>(172.3)</b>	<b>4.7</b>	<b>(239.8)</b>	<b>(416.8)</b>	<b>58.9%</b>	<b>-191.4%</b>	<b>-5201.9%</b>
<b>Net cash flow</b>	<b>(0.7)</b>	<b>72.2</b>	<b>(61.6)</b>	<b>(75.7)</b>	<b>64.6</b>	<b>78.8</b>	<b>812.2%</b>	<b>-185.3%</b>	<b>-185.4%</b>
Opening balance of cash and bank balances	47.0	46.2	118.4	118.4	56.8	42.7	58.8%	156.2%	-52.0%
<b>Closing balance of cash and bank balances</b>	<b>46.2</b>	<b>118.4</b>	<b>56.8</b>	<b>42.7</b>	<b>121.5</b>	<b>121.5</b>	<b>10.9%</b>	<b>-52.0%</b>	<b>184.4%</b>

### Financial ratios

Particulars (Rs. mn)	FY18	FY19	FY20	H1 FY20	H1 FY21	TTM
Revenue growth rate (%)		33.4%	16.6%		-4.8%	
EBITDA growth rate (%)		109.6%	68.2%		105.0%	
EBITDA margin (%)	6.4%	10.1%	14.6%	8.6%	18.5%	18.9%
EBIT growth rate (%)		120.8%	92.7%		167.0%	
EBIT margin (%)	4.2%	6.9%	11.4%	5.1%	14.2%	15.4%
Restated adjusted PAT growth rate (%)		108.9%	77.9%		353.9%	
Restated adjusted PAT margin (%)	3.2%	5.0%	7.7%	2.2%	10.5%	11.3%

### Liquidity ratios

Current ratio (x)	1.2	1.2	1.2	1.1	1.4	1.4
Debt to equity (x)	0.4	0.5	0.3	0.5	0.2	0.2
Net debt to EBITDA (x)	1.0	0.8	0.4	2.3	0.0	0.0

### Turnover ratios

Inventories turnover ratio (x)	7.3	8.6	8.6	3.8	3.9	9.1
Trade receivable turnover ratio (x)	4.1	5.3	6.0	3.4	3.0	7.1
Accounts payable turnover ratio (x)	3.7	4.4	4.5	2.2	2.2	5.1
Fixed asset turnover ratio (x)	3.5	3.5	3.1	1.5	1.3	3.0
Total asset turnover ratio (x)	1.3	1.4	1.5	0.7	0.6	1.5

### Return ratios

RoE (%)	10.1%	18.2%	24.3%	3.9%	12.1%	30.8%
RoA (%)	4.3%	7.2%	11.3%	1.6%	6.6%	16.8%
RoCE (%)	9.4%	16.2%	26.0%	5.6%	13.2%	33.8%

### Per share data

Restated adjusted EPS (Rs.)	2.7	5.6	10.1	1.3	5.7	14.5
Restated DPS (Rs.)						
Restated BVPS (Rs.)	26.8	31.0	41.4	32.6	47.2	47.2
Restated operating cash flow per share (Rs.)	5.0	10.8	15.2	5.7	11.2	20.7
Restated free cash flow per share (Rs.)		(3.9)	1.6			
Dividend payout ratio	0.0%	0.0%	0.0%			

Note: Ratios calculated on pre-issue data; Source: Choice Equity Broking

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