

Indigo Paints Ltd.
SECTOR **Paints**
Issue Highlights

Issue Open	January 20, 2020
Issue Close	January 22, 2020
Issue Price	Rs. 1,488 - Rs. 1,490 per share
Total Issue Size	Rs. 1,170 Cr
Of which	
Fresh Issue	Rs. 300 Cr
Offer for sale	58,40,000 equity share
Face Value	Rs. 10/share
Market Lot	10 Equity Shares
Issue Type	Book Built Issue

Offer Structure

QIB Category	50%
Retail category	35%
Non-Institutional	15%

Lead Book Running Managers

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

Registrar To The Offer

- Link Intime India Pvt. Ltd

Nirvi Ashar, MBA

nirvi.ashar@religare.com

About the Company

Indigo Paints Ltd (Indigo Paints) is the fastest growing and the fifth-largest company in the Indian decorative paint segment. The company manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. Further, they are 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. These products are differentiated based on the end-use they cater to, as well as added properties that they possess.

The company 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 paints. To meet growing demand for water based paints, the company's plan is to add capacity ~50,000 KLPA which is expected to be operational by FY23. They initially distribute 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 FY20, the distribution network comprised 36 depots and 11,230 Active Dealers and 4,296 tinting machines across the network of dealers.

Objects of the Issue

- Funding capital expenditure for expansion of the existing manufacturing facility at Pudukkottai, Tamil Nadu, by setting-up an additional unit adjacent to the existing facility;
- Purchase of tinting machines and gyroshakers;
- Repayment/prepayment of all or certain of the borrowings; and
- General corporate purposes.

Valuation

The paint industry has registered a CAGR of ~11% between FY14-19 driven by urbanization, growth in the popularity of branded paints, shift of preference toward odor free, and dust and water resistant paints shortening of the re-painting cycle and the massive infrastructure initiatives by the Government of India. At present, the Indian paint industry is valued at ~ Rs 545bn wherein the organized portion is 67% and the remaining 33% is held by the unorganized sector. Further, segment wise, the decorative paint dominates as ~74% of total sales constitutes from it, while remaining is from industrial segment. Due to Covid-19 the paints sector sales was impacted however with re-opening of economy and safe painting concept demand started gradually picking up. Besides festive season, governments focus toward housing projects and pickup in infrastructure supported and will continue to bring rewards in future as well. Thus, we expect the sector to grow at decent pace and reach Rs 971bn by 2024. Going forward, the decorative and industrial paints market is expected to grow at a CAGR of 13% and 9.9% by 2024.

Indigo Paints is only present in the decorative segment. It is well placed in this segment given its differentiated products portfolio (total of 7 products with 28% share in revenue), strong distribution network and strategically located manufacturing facilities aids in better procurement of raw materials and saves freight cost. Besides, its focus remains on growing brand equity under one roof "Indigo" and via advertisements and promotion spends. Thus they have engaged Mr. Mahendra Singh Dhoni, a sportsperson, as the brand ambassador and also created a mascot, a zebra with colourful stripes to increase brand recall. Going forward, all the company's efforts will help in gaining market share (currently ~2.5%), earning healthy revenue growth and better margins. We have a positive view on the company and it may see some listing gains too (depending upon the market condition). However, on the valuation front, the stock seems expensive as it is trading at a PE of 91x FY20 PAT, as compared to large listed players. We would advise investors to make fresh investments on dips once it gets listed.

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[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

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Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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