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Indigo Paints Ltd.

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IPO NOTE

Issue Details	
Listing	BSE & NSE
Open Date	20 Jan 2021
Close Date	22 Jan 2021
Price Band	Rs.1488-1490
Market Lot	10 shares
Minimum Lot	1 Lot

Issue Structure	
Offer for sale	74%
Fresh Issue	26%
Issue Size	Rs.1169 cr
Total no of shares	7,853,422
QIB share (%)	≤ 50%
Non Inst share (%)	≥ 15%
Retail share (%)	≥ 35%

Shareholding Pattern

	Pre (%)	Post(%)
Promoters	60.05	54.00
Institutional	38.95	37.30
Public	1.00	8.70

Indigo Paints is the 5th largest player in the Indian decorative paints market in terms of revenue from operations. It has an extensive distribution network across 27 states and 7 union territories. They started operations in 2000 and have been present across segments including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. It is the fastest growing of the top 5 paint companies in India.

During FY18-20, Indigo Paint's overall revenue grew at a CAGR of 25.8% to Rs.625 cr in FY20. During the same period, the EBITDA grew at a CAGR of 87.8% to Rs.91 cr in FY20 whereas net profit grew at a CAGR of 92.8% to Rs.48 cr in FY20.

Key Investment Highlights:

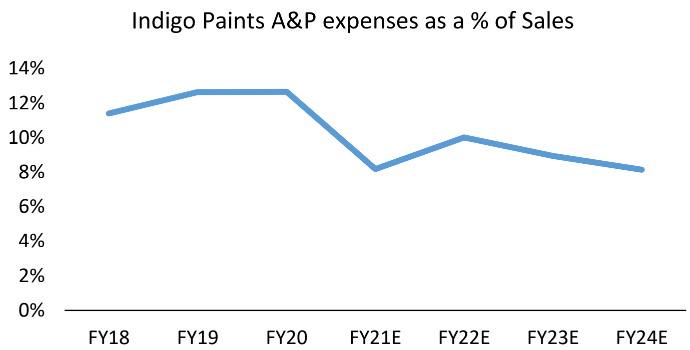
- **Despite being a fledgling player in a highly competitive oligopolistic market Indigo Paints has managed to grow at a brisk pace by adopting the following differentiated strategies:**

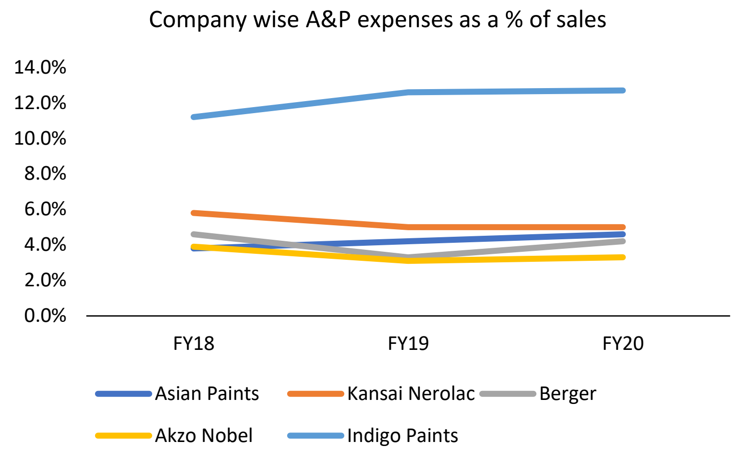
  1. **Focusing on high margin products like enamels and emulsions (28% of value sales and fetching zero dealer discounts).**
  2. **Rural first strategy and focusing on one new state each year to expand its pan India footprint.**
  3. **Location of manufacturing facilities is planned near sources of raw materials which provides for low procurement costs.**
  4. **Relying on outsourcing of abundantly available input. This has led to optimum utilisation of capital without incurring any additional cost of manufacturing.**
  5. **They built a strong brand presence through high A&P spends (12.7% of sales) significantly higher that peers (Asian Paints 4.6%, Berger Paints 4.2%, Kansai Nerolac 5.0%, Akzo Nobel 3.3%). Despite this, margins of the company have been in line**

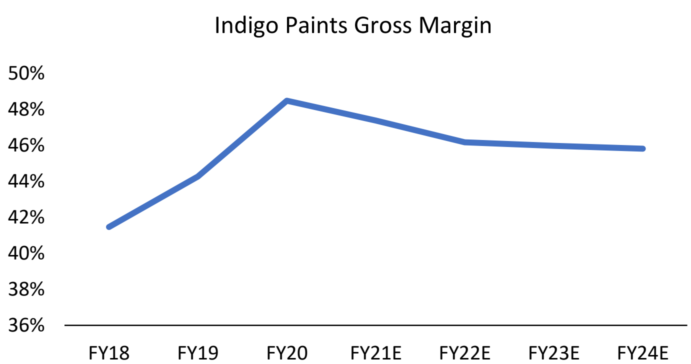
Key Financials (in ₹ crores)

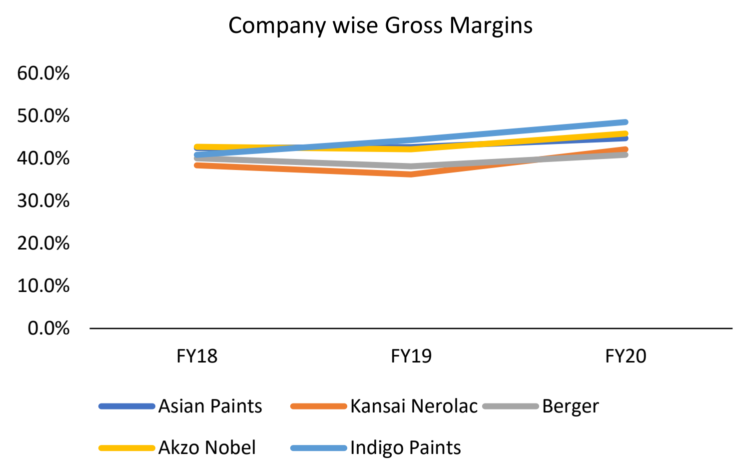
	Sales	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/B (x)
FY18	395	26	13	6.5	3.3	2.8	28.0	10.1	7.5	527.7	53.3
FY19	536	54	27	10.1	5.0	5.9	32.4	18.2	13.3	252.6	46.0
FY20	625	91	48	14.6	7.7	10.5	43.3	24.3	22.0	142.0	34.4
FY21E	682	130	75	19.1	11.1	16.1	63.6	25.3	23.7	92.5	23.4
FY22E	898	165	98	18.3	10.9	20.6	84.2	24.5	23.2	72.3	17.7

with peers. Post IPO the ad spends will only experience marginal increases and as a result we expect significant EBITDA expansion to take place.

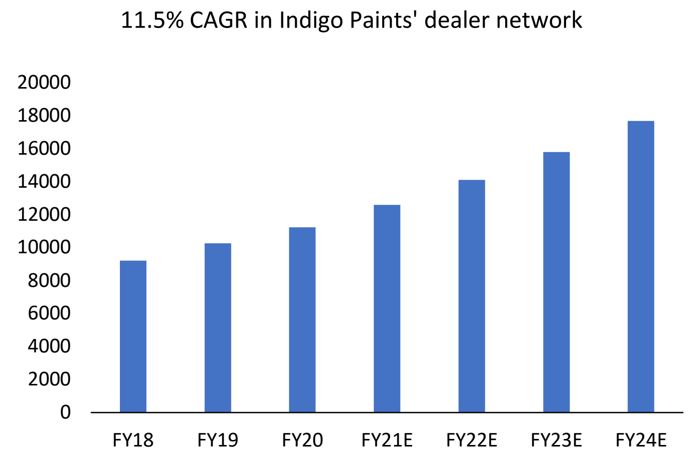


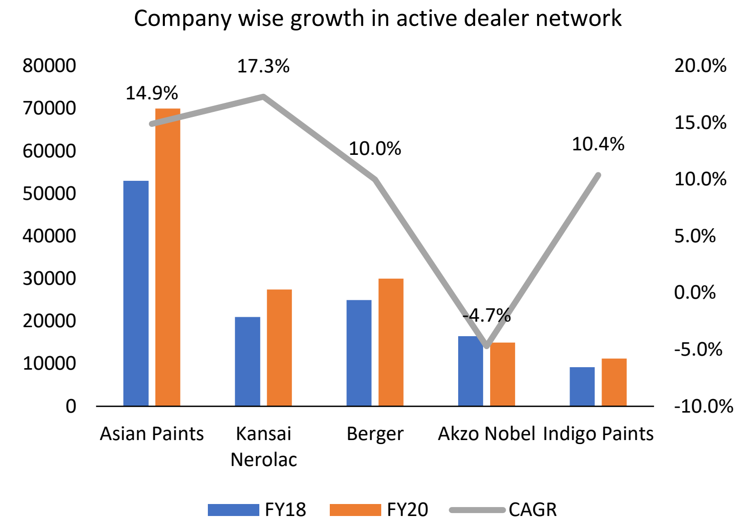


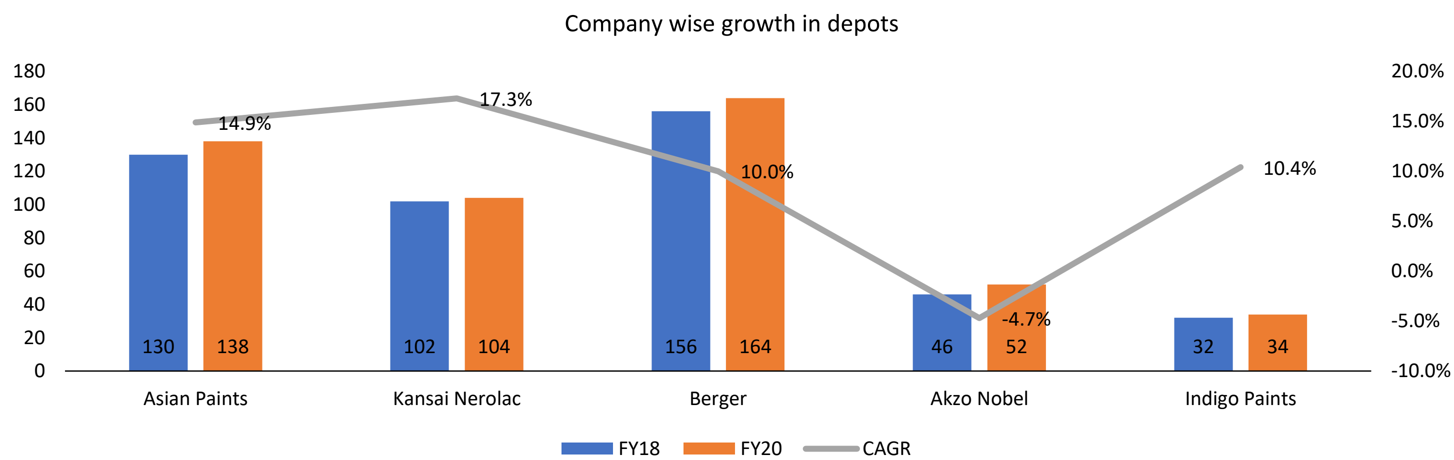


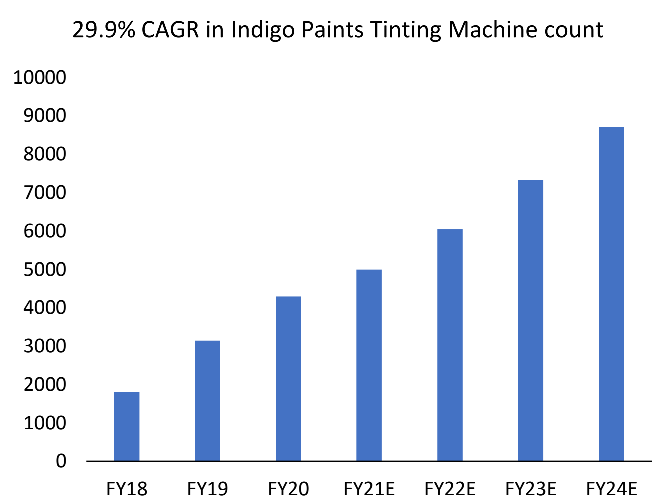


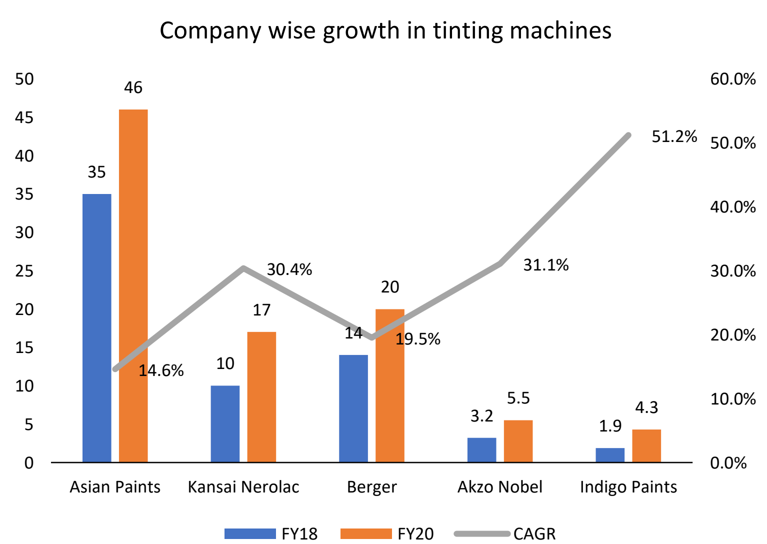
6. **Dealer network which has grown rapidly to 11,230 by FY20 is expected to be further scaled up to 17,671 by FY24 (12.0% CAGR). In addition, deployment of tinting machines is expected to grow from the current 4,296 to 8,702 by FY24 (19.3% CAGR growth). This itself should help sustain 21.3% CAGR in revenues to Rs 1351 cr by FY4 from the current Rs 625 cr.**


11.5% CAGR in Indigo Paints' dealer network
FY18
FY19
FY20
FY21E
FY22E
FY23E
FY24E


Company wise growth in active dealer network
14.9%
17.3%
10.0%
-4.7%
10.4%
Asian Paints
Kansai Nerolac
Berger
Akzo Nobel
Indigo Paints
FY18
FY20
CAGR


Company wise growth in depots
130
138
102
104
156
164
46
52
32
34
14.9%
17.3%
10.0%
-4.7%
10.4%
Asian Paints
Kansai Nerolac
Berger
Akzo Nobel
Indigo Paints
FY18
FY20
CAGR

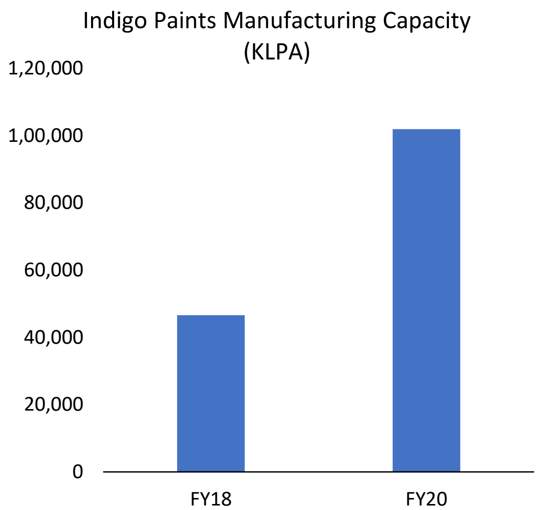

29.9% CAGR in Indigo Paints Tinting Machine count
FY18
FY19
FY20
FY21E
FY22E
FY23E
FY24E

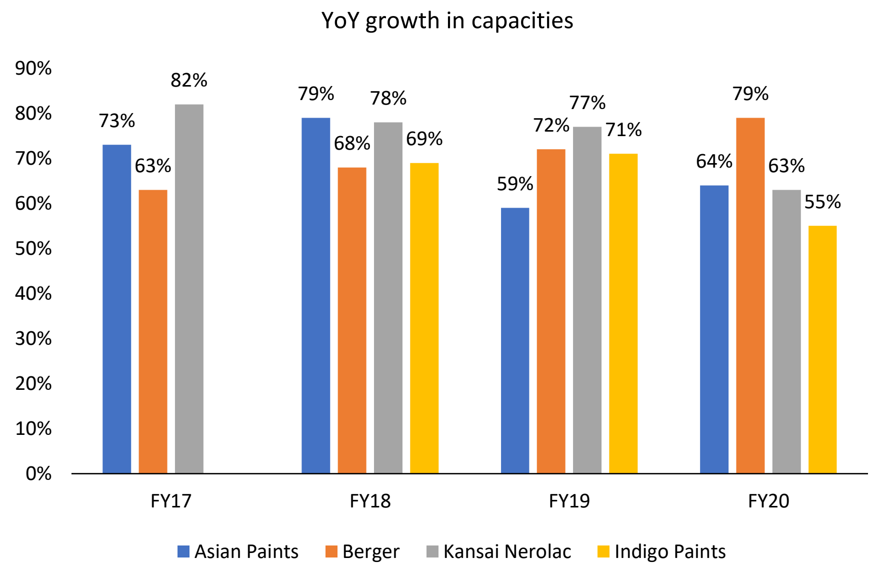

Company wise growth in tinting machines
35
46
10
17
14
20
3.2
5.5
1.9
4.3
14.6%
30.4%
19.5%
31.1%
51.2%
Asian Paints
Kansai Nerolac
Berger
Akzo Nobel
Indigo Paints
FY18
FY20
CAGR

- **To support future growth, company is undertaking a capex of Rs 236 cr for:**

    1. **Augmenting water-based paints at the existing Pudukkottai Facility in Tamil Nadu to increase capacity to 63,658 KLPA from the current 13,658 KLPA (366% increase) to cater to the growing demand for these paints.**
    2. **Buying tinting machines and gyro shakers.**

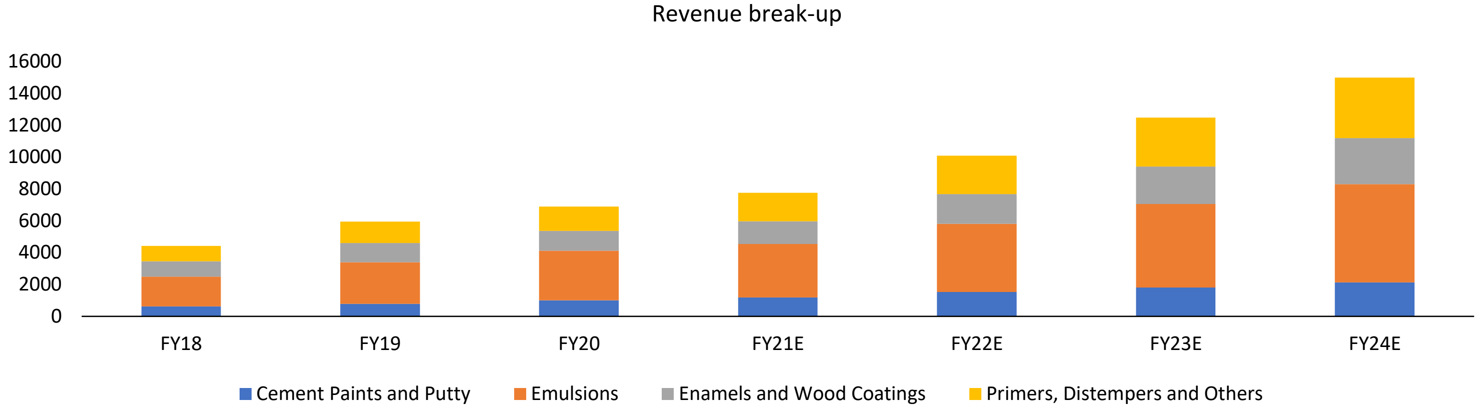
Particulars	Total Estimated cost (Rs cr)	Amount to be funded from net proceeds	Estimated deployment of net proceeds			
			FY21	FY22	FY23	FY24
Capex for proposed expansion	**185.6**	**150.0**	**10.0**	**130.0**	**10.0**	**-**
Purchase of tinting machines and gyro shakers	**50.1**	**50.0**		**14.16**	**17.19**	**18.65**





- **Revenues are expected to grow at a CAGR of 21.3% to Rs. 1,351 cr by FY24 driven by:**

    1. **20.8% CAGR in Cement paints and Putty to Rs 214 cr**
    2. **18.5% CAGR in Emulsions to Rs 616 cr**
    3. **23.8% CAGR in Enamels and Wood Coatings to Rs 290 cr**
    4. **25.7% CAGR in Primers, Distempers and Others to Rs 381 cr**



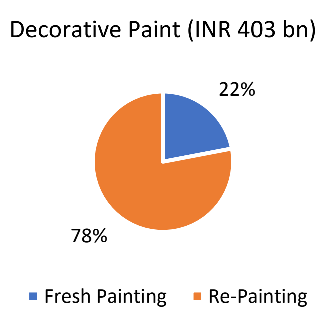
- **EBITDA to grow at a faster pace of 35.3% CAGR to Rs 305 cr by FY24 driven by increased contribution of the higher margin products (enamels and emulsions) and tapering of A&P spends (A&P spends to dip from 12.7% of sales to 8.1% in FY24). EBITDA margins of the company to substantially improve over peers to 22.6% over the same period.**

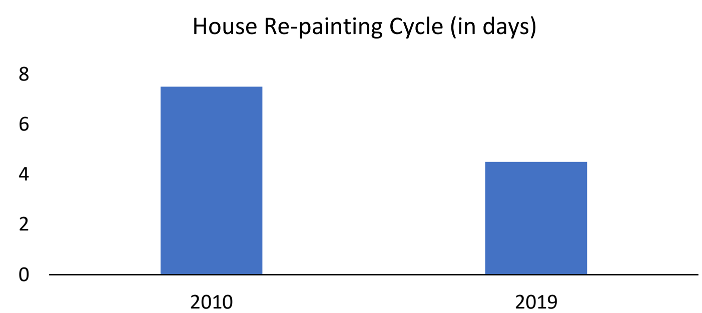
- **Repayment of Rs 25 cr of existing long-term debt to help lower interest expenses.**

- **With operating leverage playing out, net earnings are expected to grow at a scorching pace of 43.2% CAGR to Rs Rs 201 cr by FY24. PAT Margin is forecasted to grow by 720bps to 14.9% over the same period.**

- **Return ratios ROIC and ROE are expected to improve from 24.7% and 24.3% in FY20 to 50.6% and 27% in FY24 respectively.**

- **Over FY14-19 the industry has grown at a CAGR of 11.5% across all product segments and despite being well penetrated at 75%, the growth rate is expected to accelerate to CAGR of 13% over period FY 19-24 due to up-trading, shortened gaps between repainting and rural economy accounting for 50% of demand**

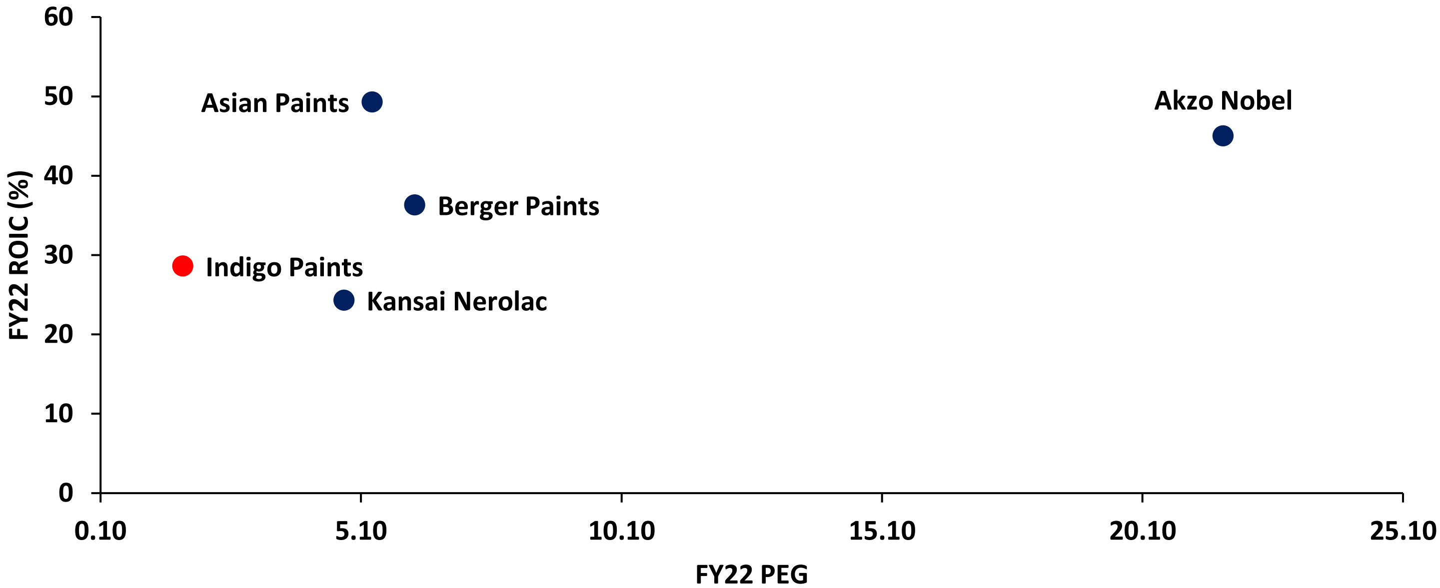




Valuation

We are enthused by the strong leadership team and differentiated strategy and believe that the high growth is sustainable given that the industry has a rosy outlook too (13% CAGR over FY19-24). However, the offer price of Rs 1488-1490 (72.3X FY22 earnings) is very aggressive in our opinion. We recommend a subscribe for listing gains only.

Fastest growing company among the top 5 Indian players at 43% CAGR

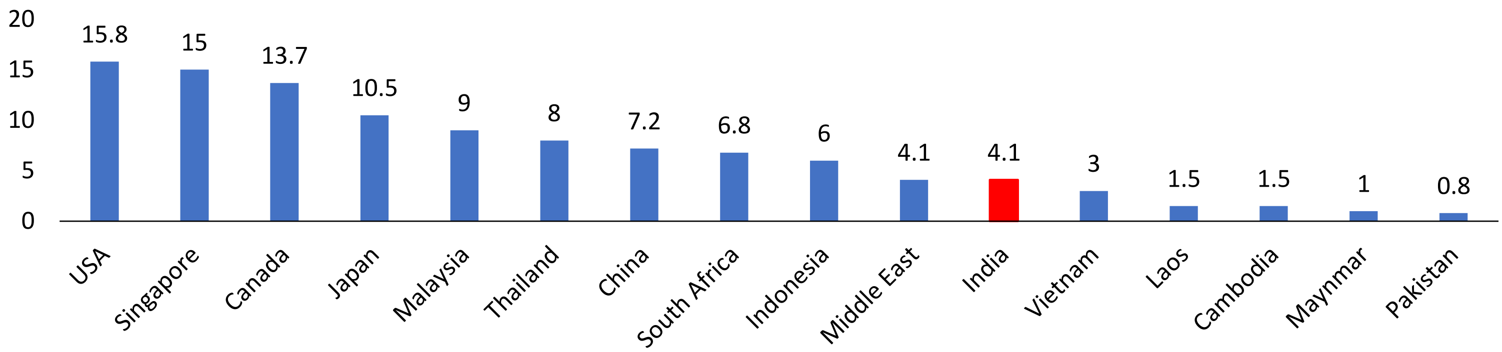


Peer Valuation

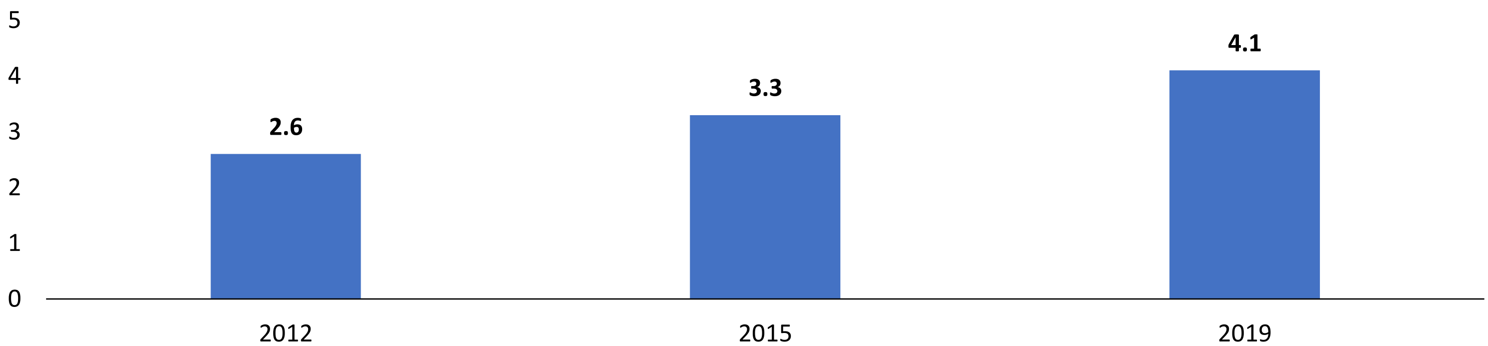
Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
Asian Paints Ltd. (CMP: Rs.2590 Mkt Cap: Rs.248432 cr)												
FY18	16,825	3,198	2,039	19.0	12.1	21.3	87.7	24.2	37.9	121.8	29.5	77.4
FY19	19,269	3,765	2,156	19.5	11.2	22.5	98.7	22.8	37.1	115.2	26.2	65.7
FY20	20,211	4,162	2,705	20.6	13.4	28.2	105.6	26.7	34.0	91.8	24.5	59.7
FY21	19,796	4,332	2,764	21.9	14.0	28.8	120.4	23.9	39.7	89.9	21.5	56.7
FY22	23,843	5,323	3,518	22.3	14.8	36.7	138.3	26.5	49.0	70.6	18.7	45.9
Berger Paints India Ltd. (CMP: Rs.776.6 Mkt Cap: Rs.75431 cr)												
FY18	5,116	807	461	15.8	9.0	4.7	22.6	21.0	31.2	163.7	34.4	93.5
FY19	6,062	936	494	15.4	8.2	5.1	25.2	20.2	29.9	152.6	30.9	80.7
FY20	6,366	1,061	658	16.7	10.3	6.8	27.4	24.7	28.1	114.7	28.4	71.5
FY21	6,180	1,097	664	17.7	10.8	6.8	31.6	21.6	29.7	113.5	24.6	68.7
FY22	7,462	1,376	872	18.4	11.7	9.0	36.3	24.7	36.1	86.5	21.4	54.6
Kansai Nerolac Paints Ltd. (CMP: Rs.633.3 Mkt Cap: Rs.34130 cr)												
FY18	4,642	793	514	17.1	11.1	9.5	58.1	16.4	31.6	66.3	10.9	41.9
FY19	5,424	753	453	13.9	8.3	8.4	63.4	13.3	20.0	75.4	10.0	45.1
FY20	5,280	804	521	15.2	9.9	9.7	69.8	13.9	18.9	65.5	9.1	42.1
FY21	4,765	812	490	17.0	10.3	9.1	75.5	12.0	19.6	69.7	8.4	41.3
FY22	5,982	1,017	649	17.0	10.9	12.0	83.5	14.4	24.2	52.6	7.6	32.7
Akzo Nobel India Ltd. (CMP: Rs.2327.1 Mkt Cap: Rs.10597 cr)												
FY18	2,719	301	400	11.1	14.7	87.9	276.7	31.8	35.6	26.5	8.4	33.3
FY19	2,918	342	211	11.7	7.2	46.3	249.5	18.6	35.9	50.2	9.3	29.9
FY20	2,662	379	237	14.2	8.9	52.1	271.8	19.2	45.0	44.6	8.6	26.4
FY21	2,226	235	129	10.6	5.8	28.3	318.6	8.9	23.1	82.2	7.3	42.7
FY22	2,811	402	248	14.3	8.8	54.5	356.9	15.3	44.9	42.7	6.5	24.9
Indigo Paints Ltd. (CMP: Rs.1490 Mkt Cap: Rs.7088 cr)												
FY18	395	26	13	6.5	3.3	2.8	28.0	10.1	8.7	528.3	53.3	281.0
FY19	536	54	27	10.1	5.0	5.9	32.4	18.2	15.9	252.9	46.0	136.1
FY20	625	91	48	14.6	7.7	10.5	43.3	24.2	24.7	142.1	34.4	80.0
FY21	682	130	75	19.1	11.1	16.6	63.6	26.0	30.2	90.0	23.4	50.9
FY22	898	165	98	18.3	10.9	21.5	84.2	25.5	28.6	69.3	17.7	39.5

Source: Bloomberg and Ventura Research

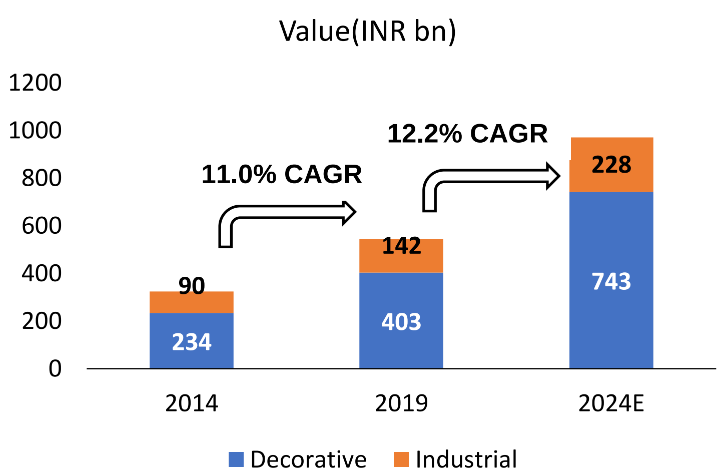
Global comparison of per capita consumption of paints and coatings (in kg)

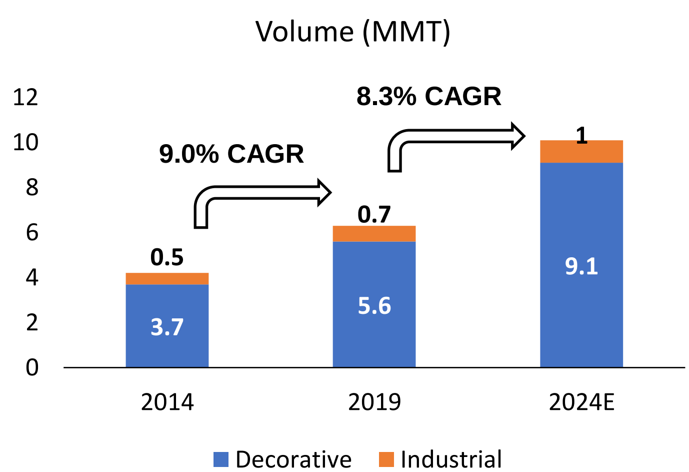


Per capita consumption of paints and coatings has had a CAGR of 6.8% in the last 7 years in India. Compared to the global consumption of paints and coatings, the per capita consumption in India is low, indicating a significant opportunity for market penetration in India

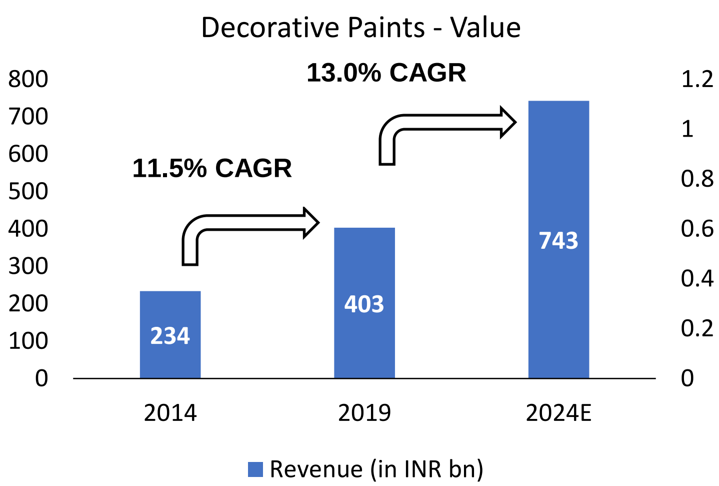


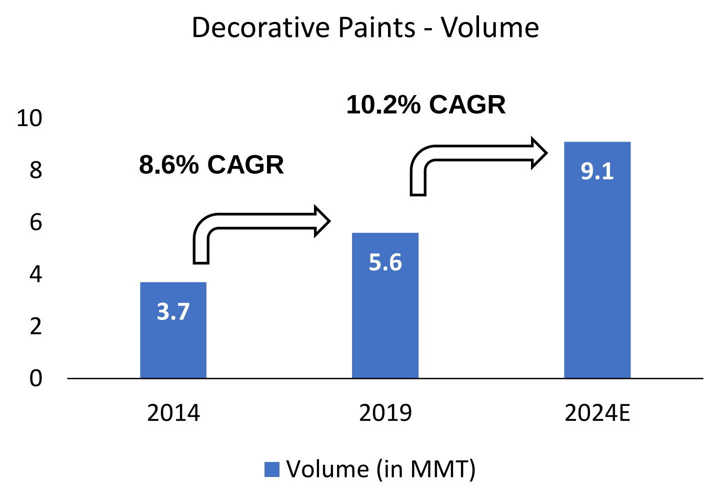
Market Size of Indian Paints Market by product type

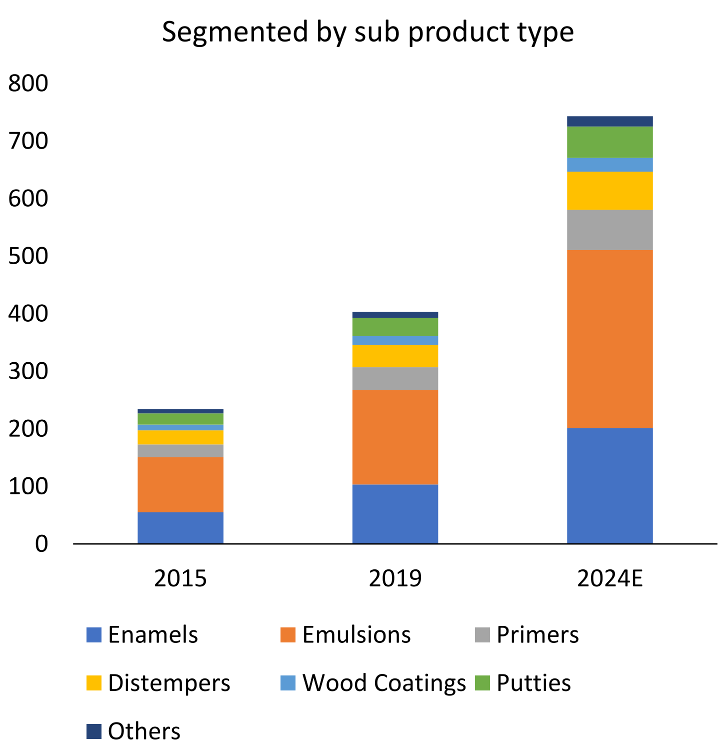


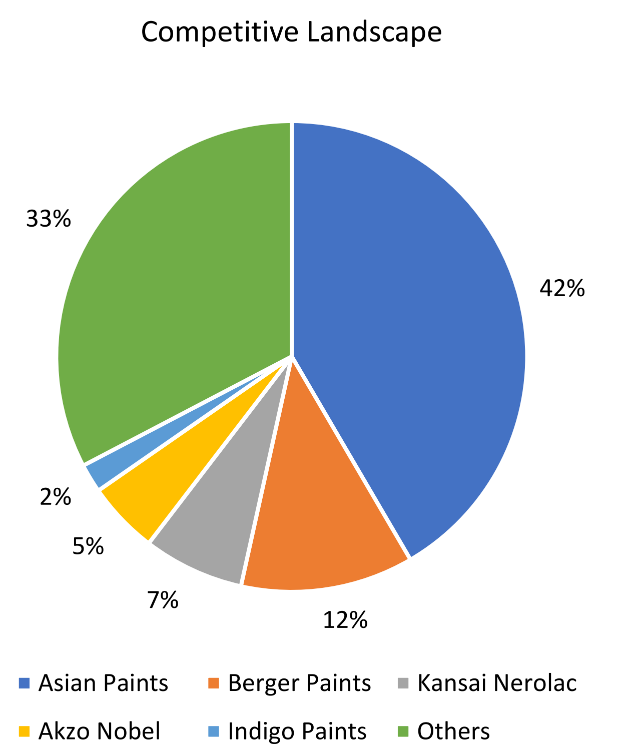


Size of Indian Decorative Paints Market (INR 403 bn)

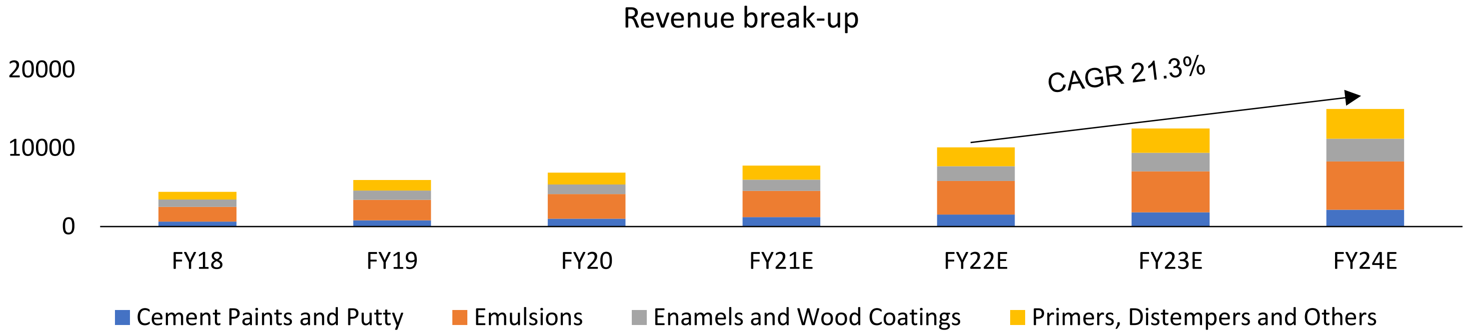


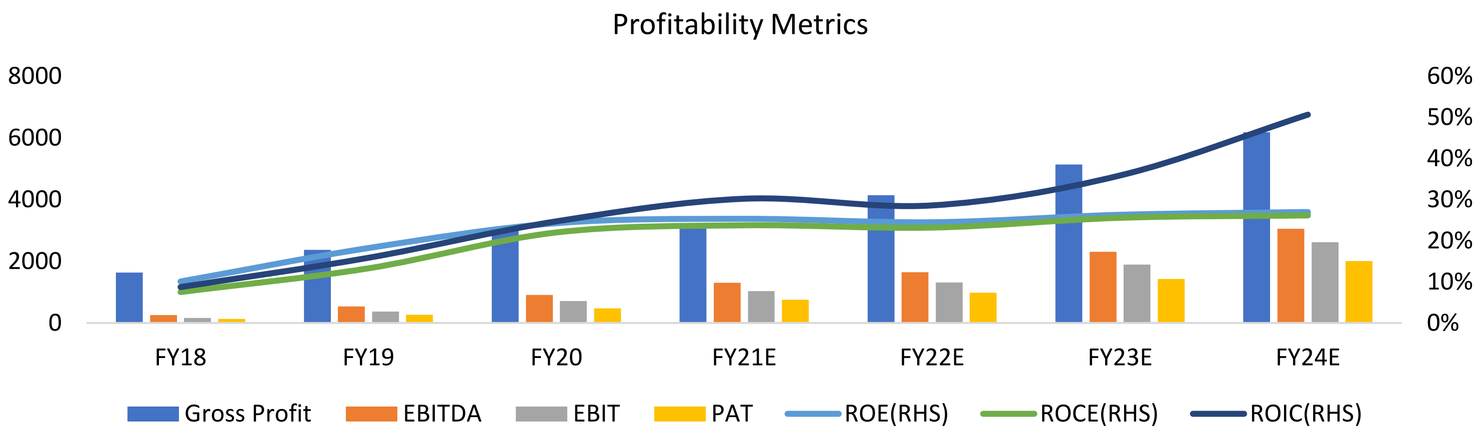


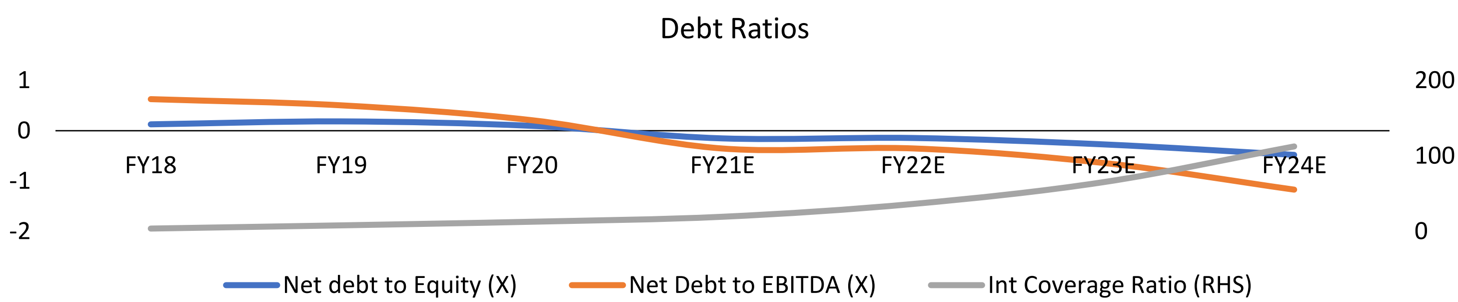


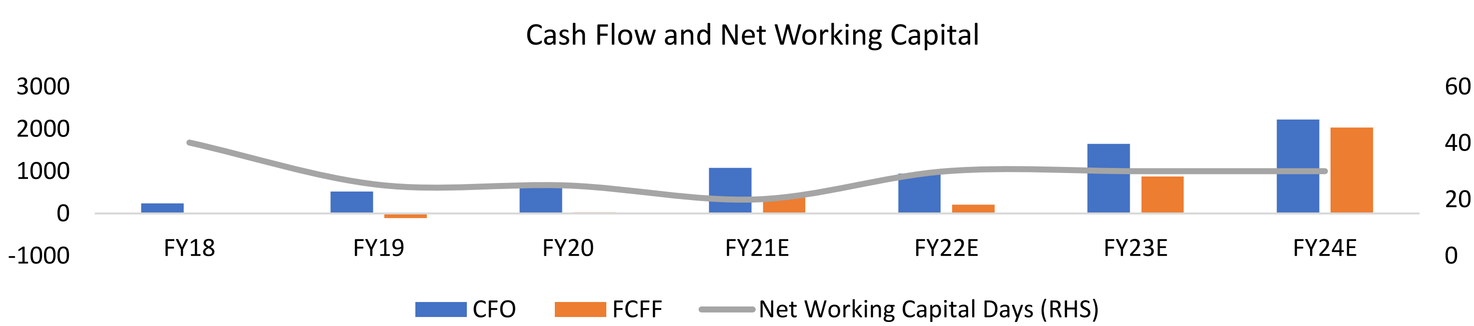


Indigo Paints story in charts









Source: Company Reports and Ventura Research

Issue Structure and Offer Details

The proposed issue size of Indigo Paints IPO is Rs.1170 cr of which Rs 300 crores is in the form of a fresh issue and the balance is OFS. The fresh issue comprises of 20,13,422 shares at the upper price band of Rs.1490. The offer for sale of upto 5,840,000 is by promoter Hemant Jalan and investors Sequoia IV and SCII V. The price band for the issue is in the range of Rs.1488-1490 and the bid lot is 10 shares and multiples thereof.

Issue Structure

Category	No. of shares offered	No of shares Offered
QIB	Not more than 38,91,711	Not more than 50% of Issue
Non-Institutional Bidders	Not less than 11,67,513	Not less than 15% of Issue
Retail	Not less than 27,24,198	Not less than 35% of Issue
Employee Reservation	70,000	
Total	78,53,422	

* No of shares based on higher price band of Rs.1490

Source: Company Reports & SEBI

Objects of the offer

Purpose	Amount (in Rs. cr)
Funding capital expenditure for expansion of existing manufacturing facility at Pudukkottai, Tamil Nadu by setting-up an additional unit adjacent to the existing capacity	150.00
Purchase of tinting machines and gyroshakers	50.00
Repayment or prepayment of all or certain of our borrowings	25.00
General corporate purposes	Not more than 25% of net proceeds
Total	(X)

* To be finalized upon determination of offer price

Source: Company Reports and SEBI

Shareholding Pattern

Category	Pre-issue	Post-issue
Promoters	60.05%	54.00%
Institutions	38.95%	37.30%
Public	1.00%	8.70%

Source: Company Reports and SEBI

Key Management Personnel		
Key Person	**Designation**	**Past Experience**
Hemant Jalan	Managing Director	20 years in the paint Industry
Chetan Bhalchandra Humane	Chief Financial Officer	19 years in accounting and finance
Sujay Bose	CS and Compliance Officer	4 years in legal and compliance functions
Thundiyil Surendra Suresh Babu	Chief Operating Officer	16 years in marketing and sales
Varghese Idicula	Vice President - Technical	35 years in research, deveopment and production
Srihari Santhakumar	Deputy General Manager - Finance	7 years in capital markets and finance
Vinay Menon	Deputy General Manager - Commercial	14 years in marketing and sales
Satya Narayan Shukla	Senior General Manager - Works	20 years in the paint Industry
Pavan Sharma	General Manager - Technical	17 years in the paint industry
Shinu Varghese	General Manager - Manufacturing	19 years in production and manufacturing

Source: Company Reports

Financial Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
Income Statement					
Net Revenue	535.6	624.8	681.7	898.3	1,118.0
YoY Growth (%)	*35.6*	*16.6*	*9.1*	*31.8*	*24.5*
Raw Material Cost	298.5	322.0	358.8	483.6	604.0
YoY Growth (%)	*29.1*	*7.9*	*11.4*	*34.8*	*24.9*
Gross Profit	237.1	302.8	322.9	414.7	514.0
YoY Growth (%)	*44.8*	*27.7*	*6.6*	*28.4*	*23.9*
Margin (%)	*44.3*	*48.5*	*47.4*	*46.2*	*46.0*
Operating Cost	183.0	211.8	192.7	250.1	283.2
YoY Growth (%)	*32.6*	*15.8*	*-9.0*	*29.8*	*13.2*
EBITDA	54.1	91.0	130.2	164.6	230.8
YoY Growth (%)	*109.6*	*68.2*	*43.1*	*26.4*	*40.2*
Margin (%)	*10.1*	*14.6*	*19.1*	*18.3*	*20.6*
Depreciation & Amortization	17.1	19.6	26.6	33.7	41.1
EBIT	37.0	71.4	103.6	130.9	189.7
YoY Growth (%)	*120.8*	*92.7*	*45.1*	*26.4*	*44.9*
Margin (%)	*6.9*	*11.4*	*15.2*	*14.6*	*17.0*
Other Income	1.6	1.6	1.5	3.8	4.4
Finance Cost	4.7	5.6	5.4	3.6	2.9
Exceptional Item	0.3	0.0	0.0	0.0	0.0
PBT	33.7	67.4	99.7	131.1	191.1
YoY Growth (%)	*168.5*	*100.0*	*47.9*	*31.5*	*45.8*
Margin (%)	*6.3*	*10.8*	*14.6*	*14.6*	*17.1*
Tax	6.8	19.6	24.3	33.0	48.2
Tax Rate (%)	*20.3*	*29.1*	*24.3*	*25.2*	*25.2*
PAT	26.9	47.8	75.5	98.1	143.0
YoY Growth (%)	*108.9*	*77.9*	*57.9*	*30.0*	*45.8*
Margin (%)	*5.0*	*7.7*	*11.1*	*10.9*	*12.8*
Balance Sheet					
Share Capital	47.2	47.3	47.5	47.5	47.5
Total Reserves	100.3	149.7	255.0	353.1	496.1
Shareholders' Fund	**147.5**	**197.1**	**302.5**	**400.6**	**543.6**
Long Term Borrowings	26.9	24.7	16.8	15.0	5.0
Long Term Lease Liabilities	5.4	2.8	3.1	3.0	2.8
Other Non Current Liabilities	3.2	3.8	4.2	5.5	6.9
Deferred tax liabilities	2.1	7.0	5.7	5.7	5.7
Long Term Provisions	0.0	1.3	1.4	1.4	1.6
Total Liabilities	**185.1**	**236.7**	**333.7**	**431.3**	**565.6**
Gross Block	100.1	166.4	236.8	311.3	388.7
Less: Accumulated Depreciation	13.6	24.3	46.7	76.0	112.7
Net Block	**86.4**	**142.0**	**190.1**	**235.3**	**276.0**
Capital WIP	4.4	1.1	0.0	0.0	0.0
Right-of-use assets	31.1	27.8	25.5	22.2	18.8
Goodwill	30.6	30.6	30.6	30.6	30.6
Other intangible assets	0.4	0.4	0.5	0.5	0.5
Long Tterm Loans & Advances	4.1	5.5	6.0	7.9	9.8
Other Non Current Financial Assets	0.0	2.3	2.5	3.3	4.1
Income tax assets	0.2	0.2	0.2	0.2	0.2
Other Non Current Assets	5.7	0.9	1.0	1.3	1.7
Net Current Assets	22.1	26.0	77.4	130.1	224.0
Total Assets	**185.1**	**236.7**	**333.7**	**431.3**	**565.6**

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
Per Share Data & Yields					
Adjusted EPS	5.9	10.5	15.9	20.6	30.1
Adjusted CEPS	9.6	14.8	21.5	27.7	38.7
Adjusted BVPS	32.4	43.2	63.6	84.2	114.3
CFO per share	113.6	159.1	226.6	198.9	346.2
CFO Yield (%)	1.6	2.2	3.2	2.8	4.9
FCF per share	-116.6	-131.8	-115.0	-205.7	-162.2
FCF Yield (%)	-1.6	-1.9	-1.6	-2.9	-2.3
Solvency Ratio (X)					
Total Debt to Equity	0.4	0.2	0.1	0.1	0.0
Net Debt to Equity	0.2	0.1	-0.2	-0.1	-0.3
Net Debt to EBITDA	0.5	0.2	-0.4	-0.4	-0.6
Interest Coverage Ratio	8.0	12.8	19.3	36.3	65.2
Working Capital Ratios					
Payable Days	93	81	80	80	80
Receivable Days	71	61	55	60	60
Inventory Days	47	45	45	50	50
Net Working Capital Days	25	25	20	30	30
Return Ratios (%)					
Return on Equity	18.2	24.3	24.9	24.5	26.3
Return on Capital Employed	13.3	22.0	23.7	23.2	25.6
Return on Invested Capital	15.9	24.7	30.2	28.6	35.9
Valuation (X)					
P/E	252.7	142.0	93.9	72.3	49.6
P/BV	46.0	34.5	23.4	17.7	13.0
EV/EBITDA	136.1	80.0	50.9	39.5	24.3
EV/Sales	13.7	11.6	9.7	7.2	5.0
Cash Flow Statement					
Profit Before Tax	337.1	674.3	997.4	1,311.4	1,911.5
Add: Depreciation	170.5	196.1	223.3	293.5	366.5
Add: Finance Cost	46.6	56.0	53.6	36.1	29.1
Change in other assets & liabilities	-49.2	-16.4	-6.9	0.4	1.8
Change in working capital	57.2	-60.5	53.0	-364.8	-180.6
Less: Tax Paid	-44.4	-124.2	-242.6	-330.5	-481.7
Cash Flow from Operations	**517.8**	**725.1**	**1,077.7**	**946.1**	**1,646.7**
Net Capital Expenditure	-633.4	-613.2	-704.0	-745.4	-774.0
Change in other investments	-0.8	-1.2	-253.1	54.4	-444.2
Cash Flow from Investing	**-634.2**	**-614.4**	**-957.1**	**-691.0**	**-1,218.1**
Proceeds from equity	17.2	17.7	300.0	0.0	0.0
Change in Short Term Borrowings	20.7	-101.8	-145.3	0.0	0.0
Change in Long Term Borrowings	222.3	1.2	-87.2	-118.3	-100.0
Payment of lease liabilities	-34.4	-42.5	6.8	-3.5	-3.8
Less: Finance Cost	-37.2	-46.9	-53.6	-36.1	-29.1
Cash Flow from Financing	**188.5**	**-172.3**	**20.7**	**-157.8**	**-132.9**
Net Cash Flow	72.2	-61.6	141.3	97.2	295.6
Opening Balance of Cash	46.2	118.4	56.8	198.1	295.4
Closing Balance of Cash	**118.4**	**56.8**	**198.1**	**295.4**	**591.0**

Source: Company Reports & Ventura Research

Kyon ki bhaiya, sabse bada rupaiya.

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