

Company Background: Indigo Paints was incorporated in 2000 and It is the 5th largest decorative paint company in India in terms of revenue. Its decorative paints are marketed under the brand name “Indigo” and MS Dhoni as a brand ambassador. It has an extensive distribution network of 11,230 active dealers with 4,296 tinting machines across 27 states. As of September 2020, the Company has three manufacturing facilities located in Rajasthan (Jodhpur), Kerala (Kochi) and Tamil Nadu (Pudukkottai) with aggregate production capacity of 101,903 KLPA of liquid paint and 93,118 MTPA of putties and powder paints. Revenue from operations / EBITDA / PAT have grown at a CAGR of 24.7% / 87.8% / 92.8% between FY18-FY20.

Issue Opening Date	20 Jan 2021
Issue Closing Date	22 Jan 2021
Face Value (INR)	10
Price Band (INR)	1,488 – 1,490
Market Cap (INR mn)	70,878
Offer for Sale (mn. shares)	5.84
Issue Size (INR mn)	11,702

Objects of the Offer

- The Total issue size is INR 11.7bn; The IPO comprises of fresh issue of INR 3bn which will be utilized for capex (INR 1.5bn), purchase of tinting machines and gyroshakers (INR 500mn), repayment of debt (INR 250mn), and general corporate purpose (INR 750mn); offer for sale of up to 5.84mn shares (Sequoia IV – 2mn, SCII V – 2.2mn, Hemant Jalan (Promoter) – 1.7mn shares).

Business Model

- Company manufactures complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. Company attempts to differentiate its product offering based on their properties and the end-use they cater. Revenue generated from these differentiated products account for 29% of total revenue from operations.
- Company has 3 manufacturing facilities in Kochi, Jodhpur & Pudukkottai. They initially tap into Tier 3, Tier 4 Cities, and Rural Areas, where brand penetration is easier and dealers have greater ability to influence customer purchase decisions to create demand then subsequently leverage this network to engage with dealers in Tier 1, Tier 2 Cities & Metros as well.
- They have branded their products under the distinct and primary consumer brand of “Indigo” with different labels based on price points such as “Platinum Series”, “Gold Series”, “Silver Series”, and “Bronze Series” rather than focusing on product-specific sub-brands. Concentrate on enhancing brand image among end-customers with regards to their differentiated products then leverage these efforts to increase distribution & sale of their complete range of decorative paint products.

Investment Rationale

- Indigo has developed certain differentiated products which are category creator like metallic emulsion, Tile Coat Emulsion and Floor Coat Emulsion. It gives an early mover advantage in the markets; thus, realizing relatively higher margins for these products compared to the rest of our product portfolio.
- Indigo is the fastest growing paint company in India at a CAGR of 47% between FY15-20 vs CAGR of 7-8% by the other top 3 paint companies in India. Growth in the decorative paint industry has been driven by higher consumption of paints in the Tier2-4 Cities and company derives significant portion of its revenue from Tier 2-4 Cities & Rural Areas.
- **Valuation:** At the upper end of the price band Indigo is trading at a P/E of 102.7X TTM basis vs competitors Berger Paints 144.5x, Asian Paints 109.2x, Kansai Nerolac 88.5x and Akzo Nobel 59.5X. We assign a **Subscribe** rating for the issue.

Company	M.cap (INR mn)	Revenue CAGR	PAT CAGR	EBITDA Margin	RoE	RoCE	D/E	TTM P/E
Asian Paint	24,85,186	7%	14%	19%	28%	36%	0.04	109.2
Berger Paints	7,55,182	8%	20%	18%	26%	31%	0.20	144.5
Kansai Nerolac	3,41,648	8%	14%	14%	14%	18%	0.05	88.5
Akzo Nobel	1,05,323	1%	5%	16%	20%	28%	0.00	59.5
Indigo	70,878	47%	NA	15%	24%	28%	0.25	102.7

CAGR (FY15-20)

- **Risk:** 1) Proposed capacity expansion plans relating to manufacturing facilities are subject to the risk of unanticipated delays in implementation and cost overrun. 2) Larger decorative players are increasingly focusing on the Tier 3 & below markets for growth, which could adversely impact the growth & margin of the company.

Shareholding Pattern Pre-Issue	As a % of total shares
Promoters	60.1
Institutional Investors	39.9
Others	0.0

P&L Summary (INR mn)

Y/E March	FY18	FY19	FY20
Revenue	4,031	5,372	6,264
EBITDA	258	540	909
PBT	138	340	674
Tax Expense	-3.08	68	196
A.PAT (after MI)	131	270	477
EPS	2.88	5.98	10.61
D/E	0.28	0.41	0.25
ROE (%)	10	18	24
ROCE (%)	9.9	17	27.5
P/E (Post issue)	516	262	148

Balance Sheet Summary (INR mn)

Y/E March	FY18	FY19	FY20
Net worth	1,275	1,475	1,971
Min Interest	0	0	0
Liabilities			
Borrowings (incl. lease Liabilities)	393	610	455
Other Liabilities	18	53	121
Total	1,685	2,137	2,547
Assets			
FA (incl CWIP)	736	1,220	1,709
Intangible	412	310	309
Other Assets	54	100	89
Net CA	482	508	439
Total	1,685	2,137	2,547

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