

Indigo Paints Ltd

Fastest Growing Paint Player

Indigo Paints is the fastest growing amongst the top five paint companies in India. Company manufacture a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints.

Positives: (a) Track record of consistent growth in a fast growing industry with entry barriers (b) Differentiated products leading to greater brand recognition and enabling expansion into a complete range of decorative paint (c) Leveraged brand equity and distribution network to populate tinting machines (d) Strategically located manufacturing facilities with proximity to raw materials (e) Well-qualified and professional management team with a committed employee base.

Investment concerns: (a) An inability to protect, strengthen and enhance their existing brand could adversely affect their business prospects and financial performance (b) Any adverse changes in their relationships with their dealers and the community of painters or their inability to enter into new relationships (c) Increase in the competition intensity.

Outlook & Valuation: Company has been gaining market share, we believe it will continue to gain market share in the upcoming years also due to the strong management team, strategies planned by the company and smaller base compared to top four players. Company's 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. There is further scope left for the company to improve EBIDTA margins due to operating leverage especially in the cost of advertisement expense. Issue is priced at 98.4x PE on a trailing basis in terms of fully diluted EPS, which we believe is quite reasonable by looking at the future growth prospects of the company. We are positive on the long term prospects of the industry as well the company, **we recommend "SUBSCRIBE" to the Indigo Paints IPO for long term as well as for listing gains.**

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
Net Sales	401	536	625
% chg		33.4	16.6
Net Profit	13	27	48
% chg		108.9	77.9
EBITDA (%)	6.4	10.1	14.6
EPS (Rs)	2.8	5.9	10.5
P/E (on FDEPS)	528.4	252.5	142.0
ROE (%)	10.1	18.2	24.3
RoCE (%)	17.3	28.0	39.2
EV/EBITDA	263.7	126.0	74.8
EV/Sales	16.9	12.7	10.9

Source: Company, Angel Research.

Note: Valuation ratios based on pre-issue outstanding shares and at upper price band.

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Issue Open: January 20, 2020

Issue Close: January 22, 2020

Face Value: Rs 10

Present Eq. Paid up Capital: Rs 45.6 cr

Offer for Sale: 0.58 cr share

Fresh issue: Rs 300 cr

Post Eq. Paid up Capital: Rs 47.6 cr

Issue size (amount): Rs 1170 cr

Price Band: Rs 1488-1490

Lot Size: 10 shares and in multiple thereafter

Post-issue implied mkt. cap: *Rs 7,079 cr - **Rs 7,088 cr

Promoters holding Pre-Issue: 60.1%

Promoters holding Post-Issue: 54.0%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	54.0%
Others	46.0%

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Company background

Company is the fifth largest company in the Indian decorative paint industry in terms of the revenue from operations for Fiscal 2020. Company has achieved this position in a highly competitive Indian decorative paint industry on the back of their multi-pronged approach. This includes introducing differentiated products to create a distinct market in the paint industry, building brand equity for the primary consumer brand of “Indigo”, creating an extensive distribution network and installing tinting machines across the network of dealers.

To create demand for the differentiated products, company 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. Company subsequently leveraged this network to engage with dealers in tier 1 and tier 2 cities and metros as well. Company engaged Mr. Mahendra Singh Dhoni, a sportsperson with pan-India appeal, as their brand ambassador, to enhance their brand image amongst end-customers.

Hemant Jalan is the Managing Director and Chairman of the company. He holds a bachelor’s of technology degree in chemical engineering from the Indian Institute of Technology, Kanpur (Uttar Pradesh), a master’s degree in science from Stanford University and a master’s degree in business administration from the University of Chicago. He has over 20 years of experience in the paint industry. Previously, he was associated with AF Ferguson & Co. as a consultant. Presently, he is associated with Halogen Chemicals Private Limited as a director. He is a director on the board since March 28, 2000.

Issue details

Company issues comprises ₹300 cr through fresh issue & 58,40,000 equity shares through offer for sale in the price band of ₹1,488-1,490.

Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	27,356,615	60.1	25,686,615	54.0
Others	18,198,960	39.9	21,882,383	46.0
Total	45,555,575	100.0	47,568,998	100.0

Source: Company, Angel Research & RHP.

Note: Calculated at upper price band.

Objectives of the Offer

- Funding capital expenditure for expansion of the existing manufacturing facility at Pudukkottai, Tamil Nadu (the “Proposed Expansion”) by setting-up an additional unit (the “Additional Unit”) adjacent to the existing facility.
- Purchase of tinting machines and gyroshakers.
- Repayment/prepayment of all or certain of the borrowing
- General corporate purposes.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
Total operating income	401	536	625	273	259
% chg		33.4	16.6		-4.8
Total Expenditure	376	482	534	249	211
EBITDA	26	54	91	23	48
% chg		109.6	68.2		105.0
(% of Net Sales)	6.4	10.1	14.6	8.6	18.5
Depreciation & Amortization	9	17	20	10	11
EBIT	17	37	71	14	37
% chg		120.8	92.7		167.0
(% of Net Sales)	4.2	6.9	11.4	5.1	14.2
Interest & other Charges	5	5	6	3	2
Other Income	2	2	2	1	1
(% of Sales)	0.4	0.3	0.3	0.3	0.3
Recurring PBT	14	34	67	12	35
% chg		145.2	98.2		198.3
Exceptional item	1	0	0	0	0
Tax	0	7	20	6	8
PAT (reported)	13	27	48	6	27
% chg		108.9	77.9		353.9
(% of Net Sales)	3.2	5.0	7.7	2.2	10.5
Basic & Fully Diluted EPS (Rs)	2.8	5.9	10.5	1.3	6.0
% chg		109.2	77.8		352.3

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
SOURCES OF FUNDS					
Equity Share Capital	29	29	29	29	29
Instruments in nature of equity	18	18	18	18	18
Other Equity	81	100	150	108	177
Shareholders Funds	127	147	197	155	224
Borrowings	39	61	46	60	25
Other liabilities	2	5	12	10	12
Total Liabilities	169	214	255	226	261
APPLICATION OF FUNDS					
Property, plant and equipment	61	86	142	90	140
Right-of-use Assets	10	31	28	29	27
Capital work-in-progress	2	4	1	31	3
Intangible assets	0	0	0	0	0
Goodwill	41	31	31	31	31
Inventories	55	69	77	71	67
Trade receivable	97	104	104	80	86
Investments	18	20	21	20	31
Cash & Bank Balance	5	14	6	4	12
Other Assets	2	3	3	2	3
Current Assets	177	210	211	179	198
Current liabilities	129	159	167	151	150
Net Current Assets	48	51	44	28	49
Other Non Current Asset	5	10	9	17	12
Total Assets	169	214	255	226	261

Source: Company, Angel Research

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
Loss before tax	13	34	67	12	35
Depreciation	9	17	20	10	11
Change in Working Capital	-2	0	-7	10	13
Interest Expense	5	5	6	0	2
Direct Tax Paid	0	-4	-12	-7	-9
Others	0	0	-1	2	0
Cash Flow from Operations	24	52	72	27	53
(Inc.)/ Dec. in Fixed Assets	-18	-63	-61	-35	-13
Changes in investment	1	0	0	0	-9
Interest income received	1	0	0	0	0
Cash Flow from Investing	-17	-63	-61	-35	-23
Changes in Borrowings	-1	24	-10	3	-20
Interest paid	-4	-4	-5	-2	-2
Others	-2	-2	-2	0	-2
Cash Flow from Financing	-7	19	-17	0	-24
Inc./(Dec.) in Cash	0	7	-6	-8	6
Opening Cash balances	5	5	12	12	6
Closing Cash balances	5	12	6	4	12

Source: Company, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20
Valuation Ratio (x)			
P/E (on FDEPS)	528.4	252.5	142.0
P/CEPS	310.1	147.8	93.9
P/BV	53.3	46.0	34.4
EV/Sales	16.9	12.7	10.9
EV/EBITDA	263.7	126.0	74.8
Per Share Data (Rs)			
EPS (Basic)	2.9	6.0	10.6
EPS (fully diluted)	2.8	5.9	10.5
Cash EPS	4.8	10.1	15.9
Book Value	28.0	32.4	43.3
Returns (%)			
Angel ROIC (Pre tax)	27.8	41.5	51.1
ROE	10.1	18.2	24.3
ROCE	17.3	28.0	39.2
Turnover ratios (x)			
Receivables (days)	88.0	70.8	61.0
Inventory (days)	50.2	47.2	44.8
Payables (days)	98.7	92.8	81.0
Working capital cycle (days)	39.5	25.2	24.9

Source: Company, Angel Research (Valuation at the upper price band)

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