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Q4FY21 result review and earnings revision

Consumer Staples & Discretionary

Target price: Rs2,750

Earnings revision

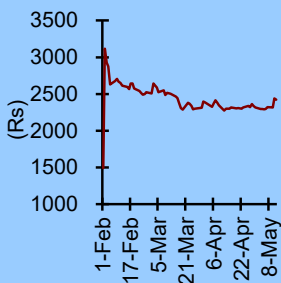
(%)	FY22E	FY23E
Sales	↓ 0.4	↓ 0.4
EBITDA	↓ 1.4	↓ 1.1
EPS	↓ 3.3	↓ 2.6

Shareholding pattern

	Dec '20	Mar '21
Promoters	54.0	54.0
Institutional investors	7.7	13.8
MFs and others	2.2	2.1
FIs/Bank/Ins	1.3	0.3
FIs	4.2	11.4
Others	38.3	32.2

Source: BSE

Price chart



INDIA

Indigo Paints

ADD

Maintained

Rs2,487

The investments thesis is (nearly) intact

Indigo's 4QFY21 & FY2021 was in-line with our estimates (it's early days to have (published) consensus expectations). That said, some investors may interpret the 4Q revenue growth print of 41% (versus APNT at 44%) as a tad underwhelming. In our view, the long-term (growth) story of Indigo is intact, as of now - (1) it has increased dealer count by ~2,000 to 13,200 in FY21 (tinting machines to 5,500 (from 4,300 in FY20)), (2) revenue share of differentiated products has increased to ~30% in FY21 from ~29% in FY20, (3) revenue share of non-Kerala states increased to yoy ~70% in FY21 from ~65% (though it raises some questions on growth in Kerala). Retain ADD; TP Rs2,750 (link to our recent initiation report is [here](#)).

- **Q4FY21 results:** Indigo reported revenue growth of 40.8% YoY, however, EBITDA and PAT declined 7.9% and 8.9%, respectively due to higher raw material prices. It had raised prices of some SKUs during Dec'20-Feb'21. It has again raised prices of some SKUs in May'21. Gross and EBITDA margins declined 570bps and 890bps, respectively, YoY.
- **Segment-wise volume growth rates in FY21:** Cement Paints & Putty 19.6%, Emulsions 8.7%, Enamels & Wood coating 15.4% and Primers, Distempers & Others 20.3%. Note that Emulsions have higher revenue saliency in Apr-Jun quarter. Lockdown in Q1FY21 impacted volume growth of Emulsions. Key state Kerala reported low single digit revenue growth and its contribution declined to ~30% in FY21 from ~35% in FY20.
- **Strengthening of competitive advantages:** Indigo has increased dealer count by 18% to 13,200 while its tinting machine count increased to 5,500 in FY21 from 4,300 in FY20. Though the advertisement and sales promotion spends declined 2.5% in FY21, media spends increased 3% YoY. The revenue share of differentiated products increased to 29.5% in FY21 from 28.6% in FY20.
- **Retain ADD:** We model sales and earnings CAGR of 30.4% and 59.1% respectively, for FY21-FY23E. Maintain ADD with a DCF-based TP of Rs2,750. Key business risk is potentially higher competitive intensity in Kerala and key stock risk is potentially lower trading multiples due to entry of Aditya Birla Group in paints sector.

Market Cap	Rs118bn/US\$1.6bn	Year to March (Cons)	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	INDIGOPN IN	Net Revenue (Rs mn)	6,248	7,233	9,833	12,291
Shares Outstanding (mn)	47.6	Net Profit (Rs mn)	478	709	1,319	1,792
52-week Range (Rs)	3117/1490	Dil. EPS (Rs)	16.4	14.9	27.7	37.7
Free Float (%)	46.0	% Chg YoY	75.5	(9.5)	86.5	35.8
FII (%)	11.4	P/E (x)	151.3	167.2	89.7	66.0
Daily Volume (US\$'000)	NA	CEPS (Rs)	23.2	20.0	34.7	46.8
Absolute Return 3m (%)	(4.8)	EV/EBITDA (x)	77.3	94.0	59.5	43.4
Absolute Return 12m (%)	NA	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	(5.3)	RoCE (%)	29.3	16.8	22.4	24.8
Sensex Return 12m (%)	58.3	RoE (%)	24.3	12.6	19.0	20.5

Research Analysts:

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6637 7209

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

Karan Bhuwania

karan.bhuwania@icicisecurities.com
+91 22 6637 7351

Table 1: Q4FY21 consolidated financial performance

<i>Rs mn</i>	Q4FY21	Q4FY20	% YoY	Q3FY21	% QoQ
Net revenues	2,543	1,805	40.8	2,096	21.3
Raw materials	1,356	860	57.7	1,057	28.3
% of sales	53.3	47.6		50.4	
Employee costs	137	99	38.5	126	8.4
% of sales	5.4	5.5		6.0	
Other expenditure	620	381	63.0	599	3.7
% of sales	24.4	21.1		28.6	
Total expenditure	2,113	1,339	57.8	1,781	18.6
EBITDA	429	466	(7.9)	315	36.4
<i>EBITDA margin (%)</i>	16.9	25.8		15.0	
Other income	16	3	407.9	12	32.2
PBDIT	445	469	(5.1)	327	36.2
Depreciation	70	54	28.8	62	12.3
PBIT	375	415	(9.6)	265	41.8
Interest	4	16	(72.5)	9	(51.5)
PBT	371	399	(7.0)	256	45.1
Tax	122	126	(3.0)	68	80.3
% of PBT	33.0	31.6	4.4	26.6	24.3
PAT	249	273	(8.9)	188	32.3
Extraordinary	-1	-1		0	
PAT	248	272	(8.9)	188	31.9

Source: Company data, I-Sec research

Table 2: Volume and value growth details

%	Value growth (%)	Volume growth (%)	Volume contribution (%)	Value contribution (%)
Cement Paint & Putty	26.4	19.6	56.0	15.3
Emulsions	11.7	8.7	17.4	42.8
Enamels & Wood coatings	22.9	15.4	5.0	18.1
Primers, Distempers & Others	22.0	20.3	21.6	23.7

Source: Company data, I-Sec research

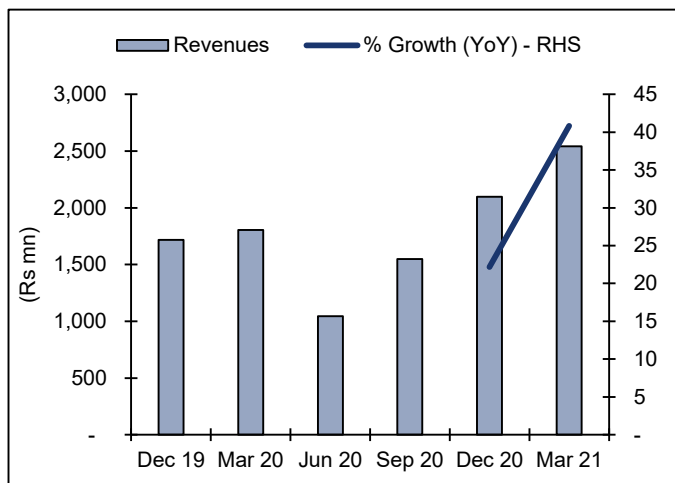
Table 3: Key financials

Particulars	FY20	FY21	Change (%)
Share of differentiated products (%)	28.6	29.5	90 bps
Revenue share of Kerala (%)	35.0	30.0	(500) bps
Active dealer network (No)	11,200	13,200	17.9%
Tinting machines (No)	4,300	5,500	27.9%
Tinting machine penetration (%)*	38.4	41.7	327 bps
Depots (No)	36	44	22.2%
Advertisement & Sales promotion spend (Rs mn)	791	771	-2.5%
- Actual media spends (Rs mn)	615	634	3.0%

Source: Company data, I-Sec research *Tinting machines/Active dealer network

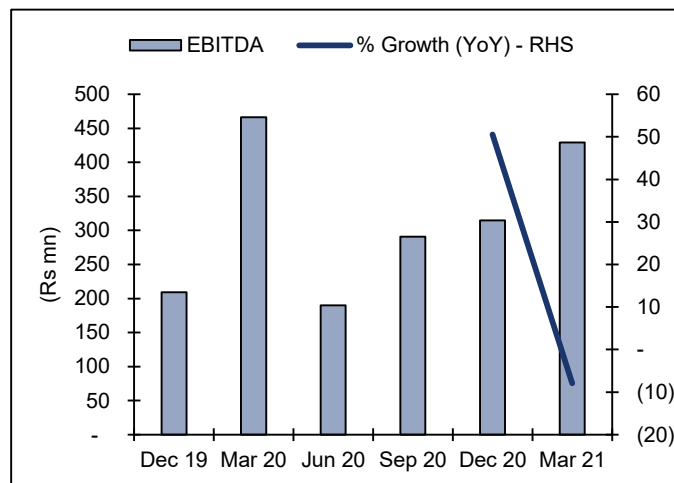
Operational highlights – Quarterly

Chart 1: Revenue and growth rates (YoY)



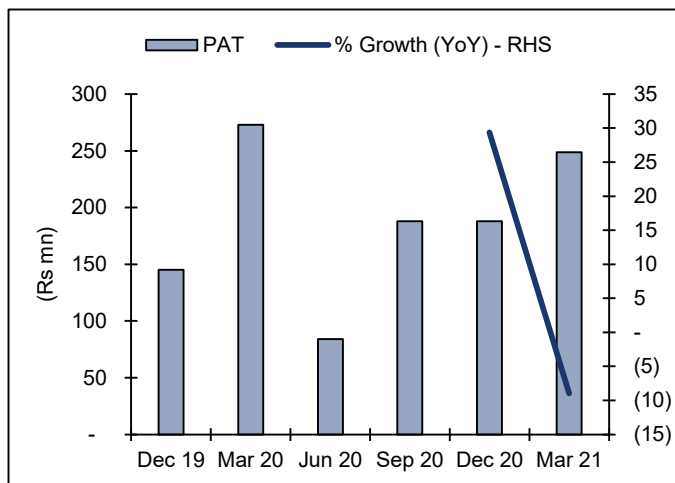
Source: Company data, I-Sec research

Chart 2: EBITDA and growth rates (YoY)



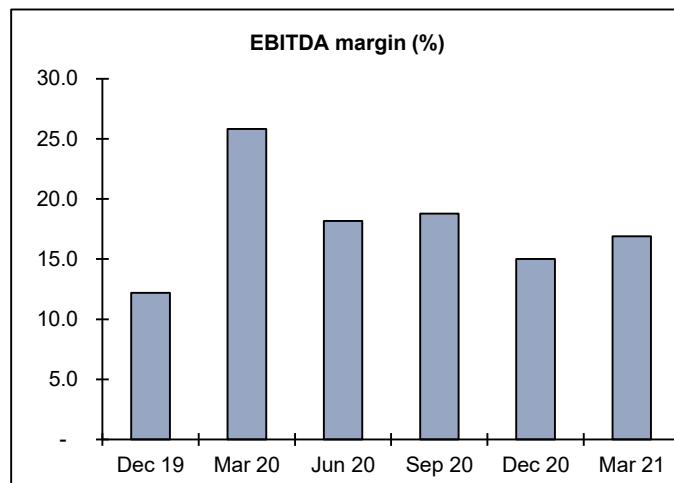
Source: Company data, I-Sec research

Chart 3: PAT and growth rates (YoY)



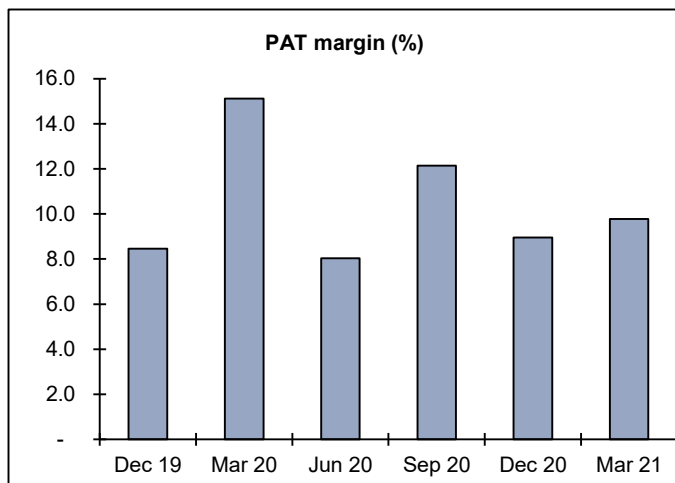
Source: Company data, I-Sec research

Chart 4: EBITDA margin



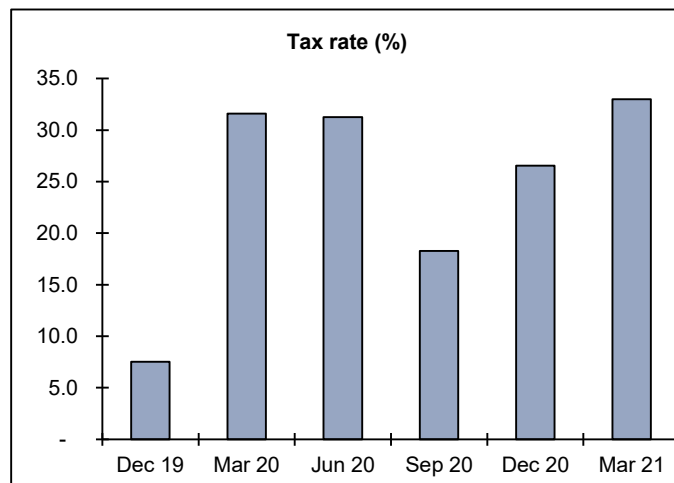
Source: Company data, I-Sec research

Chart 5: PAT margin



Source: Company data, I-Sec research

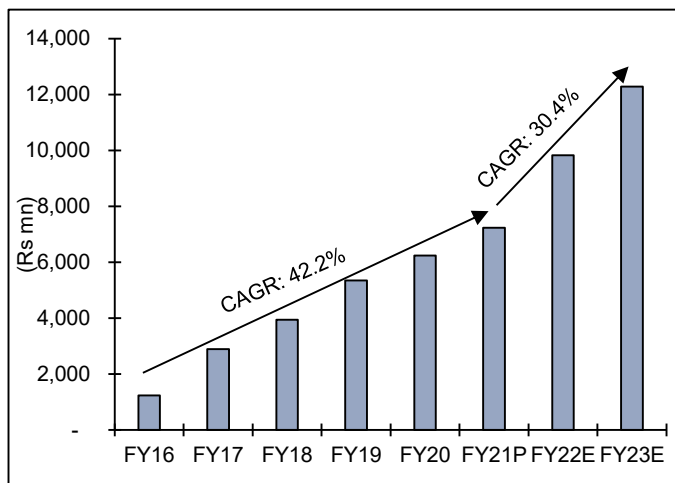
Chart 6: Effective tax rate



Source: Company data, I-Sec research

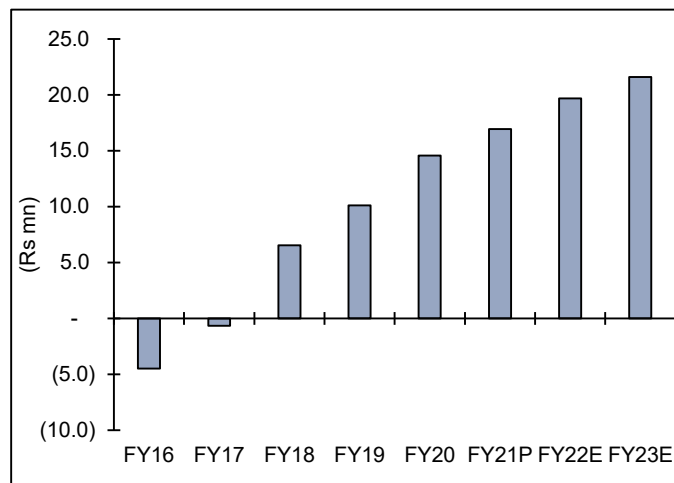
Operational highlights - Annual

Chart 7: Revenues and growth rates



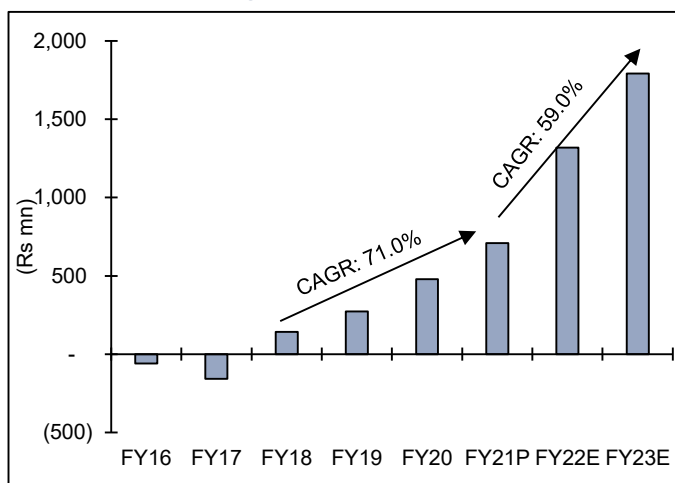
Source: Company data, I-Sec research

Chart 8: EBITDA margin



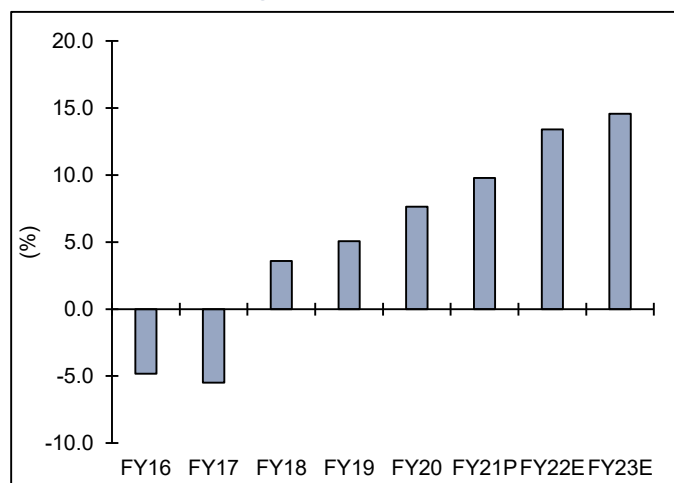
Source: Company data, I-Sec research

Chart 9: PAT and growth rates



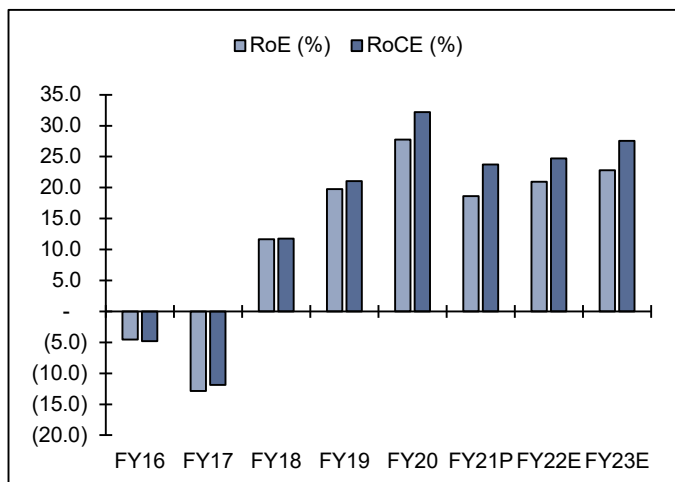
Source: Company data, I-Sec research

Chart 10: PAT margin



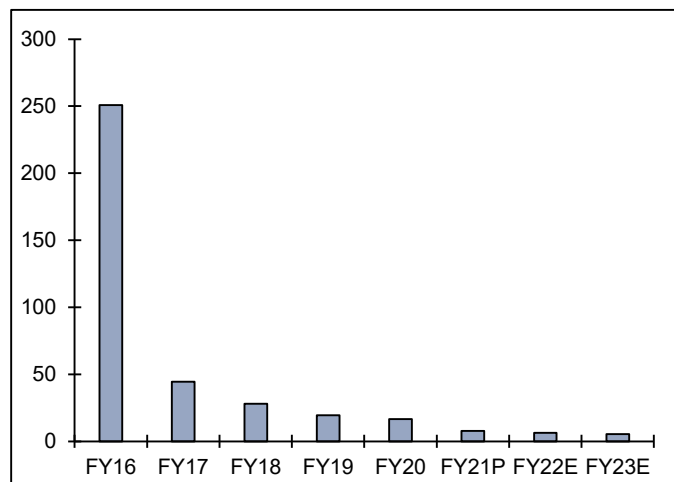
Source: Company data, I-Sec research

Chart 11: RoE & RoCE



Source: Company data, I-Sec research

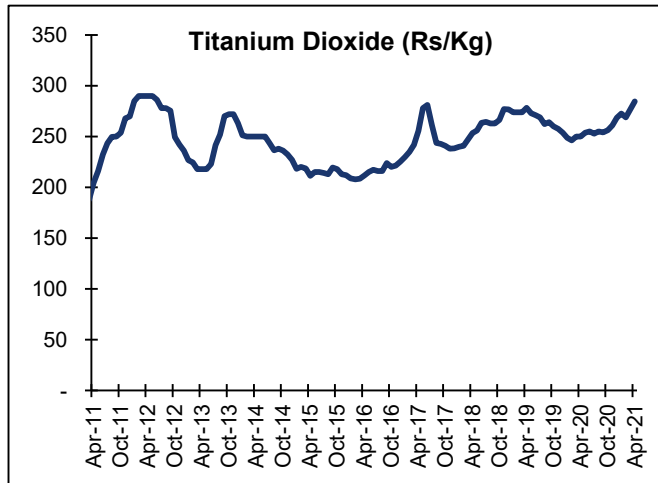
Chart 12: Net working capital days



Source: Company data, I-Sec research

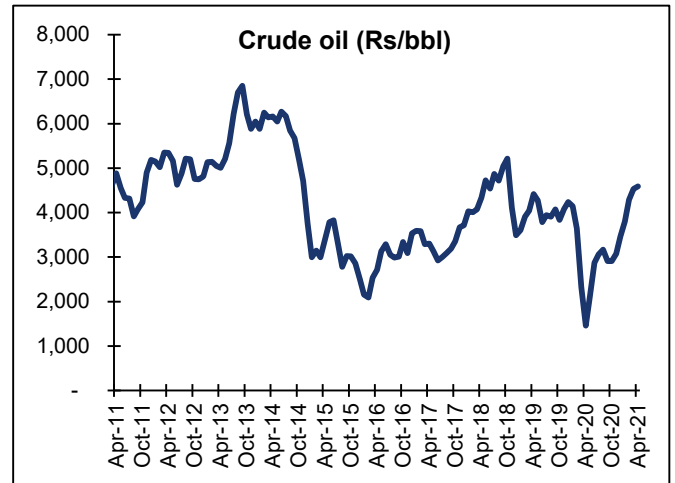
Key raw material prices

Chart 13: Titanium di-oxide



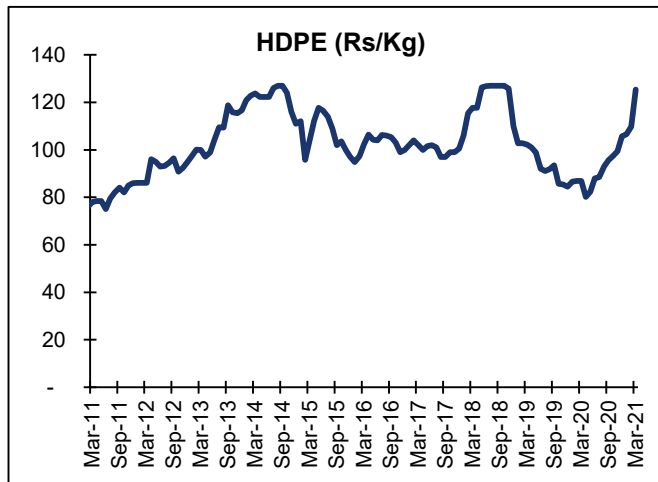
Source: Company data, I-Sec research

Chart 14: Crude oil



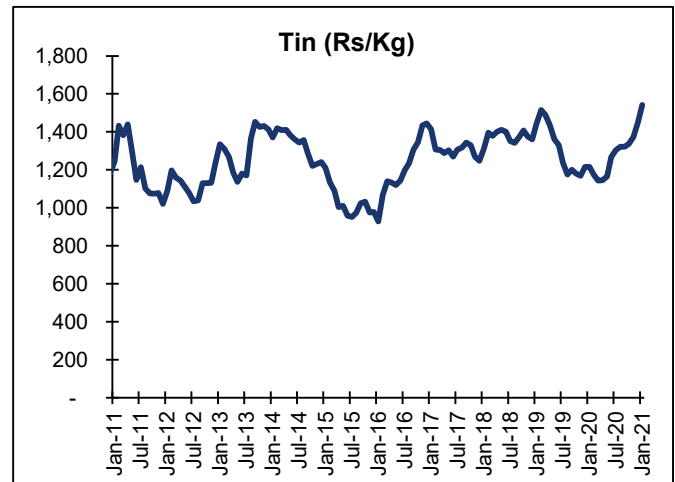
Source: Company data, I-Sec research

Chart 15: Packaging material - HPDE



Source: Company data, I-Sec research

Chart 16: Packaging material - Tin



Source: Company data, I-Sec research

Highlights from Q4FY21 results and conference call

- Indigo Paints has repaid the entire debt post IPO and is net cash company at end of Mar'21.
- The company had healthy volume growth in all the four segments. However, Emulsion segment has higher revenue saliency in Apr-June quarter. Some revenues were lost due to lockdown in CY20 and company could not completely recover these revenues in second half of the year.
- Segment-wise volume growth rates: Cement paints and Putty 19.6%, Emulsions 8.7%, Enamels and Wood coatings 15.4% and Primer, Distempers and Others 20.3%.
- The revenue share of differentiated products has increased to 29.5% in FY21 from 28.5% in FY20.
- Active dealer count and tinting machine count increased by 17.9% and 27.9%, respectively in FY21, YoY.
- Due to increase in input prices, the company has increased prices of some of its products from Dec'20. It has again hiked prices of some products in May'21.
- The company incurs higher media spends during IPL. However, postponement of IPL in CY20 resulted in shift of media spends from H1FY21 to H2FY21.
- The company did well in first 15 days of Apr'21. However, the localized lockdowns have impacted the business post 15 Apr'21.
- While the throughput per tinting machine of Indigo is lower than peers, the company has limited number of dealers. The revenue per dealer is relatively higher and hence, dealers generate healthy revenues/margins.
- The paint industry has raised prices of mainly water based paints. The prices of oil based paints have not yet increased.
- The revenue growth of Kerala state was in low single digits in FY21.
- The company is focusing on new advertisements as 'If you trust us for floor paints, why don't you try our wall paints too'.
- While the competition is likely to increase, the company believes money (capital) is not the only success factor in paints. Any company needs right products and service to the trade is also extremely important.
- The company has not yet entered Himachal Pradesh. However, it is now present in all other states in India.

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales & Operating income	6,248	7,233	9,833	12,291
Operating Expenses	5,338	6,008	7,898	9,637
EBITDA	910	1,225	1,935	2,654
% margins	14.6	16.9	19.7	21.6
Depreciation & Amortisation	196	244	330	435
Gross Interest	56	38	10	10
Other Income	16	36	176	196
Recurring PBT	674	979	1,771	2,405
Less: Taxes	196	271	452	613
Less: Minority Interest	-	-	-	-
Net Income (Reported)	477	707	1,319	1,792
Extraordinaries (Net)	(1)	(1)	-	-
Recurring Net Income	478	709	1,319	1,792

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	2,112	5,424	7,179	8,100
of which cash & cash eqv.	265	3,080	3,992	4,117
Total Current Liabilities & Provisions	1,599	2,284	3,105	3,881
Net Current Assets	513	3,140	4,074	4,219
Investments & Other LT Assets	676	774	774	774
Net Fixed Assets	1,420	1,882	2,277	3,932
Capital Work-in-Progress	11	31	31	31
Total Assets	2,621	5,828	7,156	8,956
Liabilities				
Borrowings	501	-	-	-
DTL & other LT obligations	149	193	202	210
Minority Interest	-	-	-	-
Equity Share Capital	473	476	476	476
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	1,497	5,159	6,478	8,270
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	1,971	5,635	6,954	8,746
Total Liabilities	2,621	5,828	7,156	8,956

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	792	1,076	1,660	2,236
Working Capital				
Changes	(69)	137	(13)	(12)
Capital Commitments	(613)	(660)	(725)	(2,090)
Free Cashflow	110	553	922	135
Cashflow from				
Investing Activities	1	(2,519)	-	-
Issue of Share Capital	18	2,932	-	-
Inc (Dec) in Borrowings	(190)	(575)	(10)	(10)
Dividend paid	-	-	-	-
Chg. in Cash & Bank balance	(62)	391	912	125

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	16.4	14.9	27.7	37.7
Cash EPS	23.2	20.0	34.7	46.8
Book Value per share (BV)	67.9	118.5	146.2	183.9
Growth (%)				
Net Revenue	16.6	15.8	35.9	25.0
EBITDA	68.2	34.7	58.0	37.1
PAT	76.0	48.2	86.2	35.8
Valuation Ratios (x)				
P/E	151.3	167.2	89.7	66.0
P/CEPS	107.0	124.2	71.7	53.1
P/BV	36.6	21.0	17.0	13.5
EV / EBITDA	77.3	94.0	59.5	43.4
EV / Sales	11.3	15.9	11.7	9.4
EV / EBIT	98.5	117.4	71.8	51.9
Operating Ratios				
Raw Material / Sales (%)	51.5	52.1	52.5	52.5
Employee cost / Sales (%)	6.7	6.7	6.3	6.2
Other opex / Sales (%)	27.2	24.3	21.5	19.7
Other Income / PBT (%)	2.4	3.7	9.9	8.1
Effective Tax Rate (%)	29.1	27.6	25.5	25.5
Working Capital (days)	16.7	7.8	6.2	5.3
Inventory Turnover (days)	44.8	47.8	47.8	47.8
Receivables (days)	61.0	61.2	61.2	61.2
Payables (days)	81.0	93.6	93.6	93.6
Net D/E (x)	0.1	(0.5)	(0.5)	(0.4)
Profitability Ratios (%)				
Net Income Margins	7.7	9.8	13.4	14.6
RoACE	29.3	16.8	22.4	24.8
RoAE	24.3	12.6	19.0	20.5
EBITDA Margins	14.6	16.9	19.7	21.6

Source: Company data, I-Sec research

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