

Company Overview

Indigo Paints Limited ("Indigo Paints") is the fastest growing amongst the top 5 paint companies in India. They are the 5th largest company in the Indian decorative paint industry in terms of their revenue from operations for Fiscal 2020. Indigo Paints 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 their primary consumer brand of "Indigo", creating an extensive distribution network across 27 states and 7 union territories as of September 30, 2020, and installing tinting machines across their network of dealers. To create demand for their differentiated products, Indigo Paints 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 (Source: F&S Report). The company engaged Mahendra Singh Dhoni, a sportsperson with pan-India appeal, as their brand ambassador, to enhance their brand image amongst end-customers.

Objects of the issue

The issue consists of Offer for sale (INR 8.7 bn) and Fresh issue (INR 3.0 bn). Company proposes to utilize the net proceeds from fresh issue for:

- A) 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 (INR 1.5 bn)
- B) Purchase of tinting machines and gyroshakers . (INR 0.5 bn)
- C) Repayment/prepayment of all or certain of their borrowings (INR 0.25 bn)
- D) General Corporate Purposes (INR 0.75 bn)

Investment Rationale**Consistent growth in a fast growing industry with significant entry barriers**

The Indian decorative paint industry presents significant entry barriers. These market entry barriers include the development of an extensive distribution network through relationships with dealers, the ability to set up tinting machines with dealers, as well as significant marketing costs and the establishment of a distinct brand to gain product acceptance. Company's differentiated strategic approach in addressing these issues has resulted in their continued success. 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 4 paint companies in India. Despite Fiscal 2020 being impacted by COVID-19, their revenue from operations have grown by 16.65% between Fiscal 2019 to Fiscal 2020, against the range of (8.8)% to 4.9% recorded by the top 4 paint companies in India. They have achieved this position in a highly competitive Indian decorative paint industry on the back of their multi-pronged approach.

Extensive distribution network for better brand penetration

Indigo Paints has established their distribution network gradually and strategically through the bottom-up approach with prudent use of time, cost and resources. This helped them engage with a larger base of dealers across Tier 3, Tier 4 Cities, and Rural Areas, which they subsequently leveraged to expand into larger cities and metros such as Kanpur, Kochi, Thiruvananthapuram, Patna and Ranchi. They first approached dealers in these markets with their Indigo Differentiated Products, being products with greater marketability, to improve penetration of their brand and strengthen the relationship with these dealers. As of March 31, 2018, 2019, and 2020, their distribution network comprised 9,210, 10,246 and 11,230 Active Dealers in India, respectively.

Valuation and Outlook

Indigo Paints is one of the fastest growing amongst the top five paint companies in India which manufacture a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. On the valuation front, at the upper price band, the company is valued at 148x P/E based on FY20 numbers considering the diluted equity shares which is expensive compared to its listed industry peers (i.e Asian Paints - 92x and Berger paints - 115x). However, company's strategic focus on increasing penetration in existing markets and expanding new geographies by developing differentiated products enables them to leverage its position in such competitive industry. Moreover, it remained least affected during covid period as compared to peers due to extensive presence in small towns. Hence, we are optimistic on growth prospects of company and give a "SUBSCRIBE" rating on this issue for medium to long term.

Issue Details

Offer Period	Jan 20th - 22nd Jan 2021
Price Band	INR.1,488 to INR.1,490
Bid Lot	10
Listing	BSE&NSE
Issue Size (no. of shares in mn)	7.8
Issue Size (INR. in bn)	11.7
Face Value (INR)	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%

BRLM	Kotak Mahindra Capital, Edelweiss Financial, ICICI Securities
------	---

Registrar	Link Intime India Pvt. Ltd
-----------	----------------------------

Particulars Pre Issue % Post Issue %

Promoter	60.1	54.0
Public	1.0	8.7
Others	38.9	37.3
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Revenue				
Revenue from operations	4,015	5,356	6,248	2,594
Total revenue	4,015	5,356	6,248	2,594
Expenses				
Raw material consumed	2,216	2,965	3,211	1,238
Purchase of Traded Goods	56	81	109	54
Changes in inventories of finished goods and work-in-progress	41	(61)	(100)	60
Employee benefit expenses	303	364	420	220
Excise Duty	64	-	-	-
Other expenses	1,077	1,466	1,699	541
Total Operating expenses	3,757	4,815	5,338	2,113
EBITDA	258	541	910	481
Depreciation and amortisation expense	90	171	196	112
Other income	16	16	16	8
EBIT	184	387	730	377
Finance costs	45	47	56	25
Exceptional Item	13	3	-	-
Share in Profit/(Loss) of Joint Ventures	-	-	-	-
PBT	126	337	674	352
Current tax	(3)	48	147	93
Deferred Tax charge	-	20	49	(13)
Total tax	(3)	68	196	80
PAT	129	269	478	272
Diluted EPS	2.7	5.6	10.0	5.7

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Cash Flow from operating activities	238	516	723	532
Cash flow from investing activities	(171)	(632)	(613)	(227)
Cash flow from financing activities	(68)	189	(172)	(240)
Net increase/(decrease) in cash and cash equivalents	(1)	72	(62)	65
Cash and cash equivalents at the beginning of the period	47	46	118	57
	-	-	-	-
Cash and cash equivalents at the end of the period	46	118	57	121

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Equity				
Share Capital	286	289	290	290
Instruments in nature of equity	183	183	183	183
Other Equity	806	1,003	1,497	1,770
Net worth	1,275	1,475	1,971	2,244
Long-Term Borrowings	89	269	247	193
Long-Term Provisions	-	-	13	28
Lease Liabilities	48	54	28	26
Other Non Current Liabilities	18	32	38	35
Deferred tax Liabilities	-	21	70	57
Total Non Current Liabilities	155	376	397	339
Short Term Borrowings	226	247	145	-
Lease Liabilities	29	40	34	32
Trade payables	1,085	1,362	1,386	1,191
current tax liability	-	3	26	31
Other current liabilities	102	78	56	85
Short Term Provisions	1	-	11	13
Other Financial Liabilities	100	151	194	178
Total Current Liabilities	1,544	1,881	1,853	1,530
Total equity and liabilities	2,974	3,731	4,220	4,113
Assets				
Tangible Assets	614	864	1,420	1,404
Right of Use Assets	97	311	278	272
Capital work in Progress	25	44	11	26
Goodwill	407	306	306	306
Intangible Assets	5	4	4	5
Loans	7	41	55	58
Other Financial Assets	21	-	23	24
non-current tax assets(net)	2	2	2	2
Other non-current assets	25	57	9	35
Total Non current assets	1,203	1,629	2,107	2,129
Other Financial Assets	3	1	1	1
Trade Receivables	968	1,038	1,045	856
Cash and Bank Balances	46	139	57	121
Other current assets	15	29	31	21
Loans	3	3	3	6
Investment	184	197	208	306
Inventories	552	693	768	673
Total Current Asset	1,771	2,101	2,112	1,984
Net Current Assets	227	220	260	454
Total Assets	2,974	3,731	4,220	4,113

Source: RHP, BP Equities Research

Key Risks.

- ⇒ The company's ability to grow their business depends on their relationships with its dealers and the community of painters, and any adverse changes in these relationships, or their inability to enter into new relationships, could negatively affect its business and results of operations.
- ⇒ The company has incurred from commercial banks and an inability to comply with repayment and other covenants in their financial agreements could adversely affect its business and financial condition.
- ⇒ Restrictions on import of raw materials may adversely impact the company's business and results of operations.



Research Desk

Tel: +91 22 61596406

Institutional Sales Desk

Tel: +91 22 61596403/04/05

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392