

IPO Flash

January 15, 2021

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Indigo Paints Limited

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IPO Details:	
Issue opens	January 20, 2021 (Wednesday)
Issue closes	January 22, 2021 (Friday)
Issue size	Rs. 1169-1170.2 crore
Type of issue	Fresh issue of ~0.2 equity shares (based on the price band) and offer for sale (OFS) of 0.58 crore shares
Offer size	Fresh issue of Rs. 300 crore; OFS of Rs. 869.0-870.2 crore
Employee reservation	Up to 70,000 equity shares; employee discount at Rs. 148 per share
Face value	Rs.10 per share
Price band	Rs. 1,488-1,490
Bid Lot	Minimum lot size of 10 shares
QIB Portion	Not more than 50%
Non Institution portion	Not more than 15%
Retail Portion	Not more than 35%

Source: Company RHP

* The company and selling shareholders, in consultation with the BRLM, might offer 60% of the QIB portion to anchor investors on a discretionary basis

Indigo Paints Limited (Indigo) is coming out with an initial public offer (IPO), which consists of a fresh issue of equity shares amounting to Rs. 300 crore and an offer for sale of Rs. 869.0-870.2 crore. The price band for the said issue is Rs. 1,488-1,490 per share. At the lower and upper end of the price band, the fresh equity issuance stands at 20.1-20.2 lakh shares. Offer for sale amounts to 58.4 lakh shares.

Offer for sale

Seller	No. Of Shares
SCI Investment	21,65,000
Sequoia	20,05,000
Hemant Jalan	16,70,000
Total OFS	58,40,000

Source: Company RHP

Shareholding pattern

Shareholder	Pre-issue		Post-issue*		Post-issue^	
	No. of shares	Holding (%)	No of shares	Holding (%)	No of shares	Holding (%)
Promoters & Promoter Groups	2,73,56,615	60.1	2,56,86,615	54	2,56,86,615	54
Public & employee trust	4,55,325	1	83,08,748	17.5	83,11,454	17.5
Non-promoter & non public	1,77,43,635	38.9	1,35,73,635	28.5	1,35,73,635	28.5
Total	4,55,55,575	100	4,75,68,998	100	4,75,71,704	100

Source: Company RHP, *Lower Price band ^Upper price band

Objects of the issue

Objects	Rs. crore
Funding of capital expenditure for expansion of the existing manufacturing facility at Pudukkottai, Tamil Nadu by setting-up an additional unit adjacent to the existing facility	150
Purchase of tinting machine and gyroshakers	50
Repayment/pre-payment of certain borrowings	25
General corporate purposes	75
Total	300

Source: Company RHP

About the company

Indigo Paints Ltd (Indigo) is the fastest-growing among India's top five paint companies. It is the fifth largest company in the Indian decorative paints industry with the market share of 2%. The company owns and operates three manufacturing facilities located in Jodhpur (Rajasthan), Kochi (Kerala) and Pudukkottai (Tamil Nadu) with an aggregate estimated installed production capacity of 101,903 kilolitres per annum ("KLPA") for liquid paints & 93,118 metric tonnes per annum ("MTPA") for putties & powder paints. The company manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints. It is the first company to manufacture and introduce certain differentiated products in the decorative paint market in India, which includes Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions, Floor Coat Emulsions, Dirtproof & Waterproof Exterior Laminate, Exterior & Interior Acrylic Laminate and PU Super Gloss Enamel (together, "Indigo Differentiated Products"). It has enrolled Mahendra Singh Dhoni, a sportsperson with pan-India appeal, as its brand ambassador. Higher contribution from differentiated products (~28% of sales), strong reach in tier2-and tier 4 towns (85% of revenues comes from smaller towns) and supporting products with higher advertisement spends remain key growth drivers for the company. Indigo's revenues and PAT clocked a CAGR of ~26% and 88% over FY2018-20. It has highest gross margins of around 48.5% compared to peers in the industry. Its OPM stood at 14.6% (rising by 800 bps as compared to FY2018).

Category wise revenues

(Rs crore)

Promoter Group	6mths ended 30th Sep		Fiscal Year (FY)		
Product category	2020	2021	2018	2019	2020
Cement paints & putty	44.9	49.2	63.4	79.5	100.8
Emulsions	133.3	109.2	185.9	259.8	312.1
Enamels and wood coatings	60.3	57.9	97.5	120.6	123.5
Primers, Distempers & others	74.2	80.7	96.4	134.7	152.5
Total Revenues	312.7	297.1	443.1	594.6	688.9

Source: Company RHP

Category wise sales volume

Promoter Group	6mths ended 30th Sep		Fiscal Year (FY)		
Product category	2020	2021	2018	2019	2020
Cement paints & putty (MT)	25,425	27,192	35,709	45,243	57,225
Emulsions (KL)	8,589	7,058	12,490	16,866	19,565
Enamels and wood coatings (KL)	2,585	2,439	4,451	5,248	5,260
Primers, Distempers & others (KL)	11,231	11,501	15,730	20,206	21,940

Source: Company RHP

Promoter & Management Reputation

Promoter background

- ♦ **Mr Hemant Jalan** – He is the Promoter as well as Managing Director & Chairman. He holds a B. Tech degree in Chemical Engineering from IIT, Kanpur. He also has a Masters degree in Science from Stanford University and a business administration degree from the University of Chicago. He has over 20 years of experience in the paints industry. He is also a director in Halogen Chemicals Pvt Ltd and Zeus Numerix Pvt. Ltd.
- ♦ **Mr.Kamla Prasad Jalan** - He is the whole-time director. He holds a Bachelor's degree in Commerce and

Law from the University of Calcutta. He has over 36 years of experience as a director in the manufacturing sector. Presently he is a director at Halogen Chemicals Private Limited.

- ♦ **Mr. Parag Jalan** - He holds a Bachelor's degree in Chemical Engineering from the University of Delaware and a Master of Business Administration degree from Yale University. He has several years of experience in consultancy services. Previously, he was associated with BlackRock Inc and Clinton Health Access Initiative, Inc. as a country support manager (Southeast Asia) and McKinsey & Company, Inc, United States, as an associate. Presently, he is associated with One Acre Fund as a consultant.
- ♦ **Ms Anita Jalan** – She is an executive director and also a promoter of Indigo Paints. She has been associated with the company for over 20 years.

Promoter holding

Promoter Group	% of Pre-IPO of share capital	Total no. Of Shares
Hemant Jalan	22.47	1,02,37,500
Anita Jalan	15.34	69,87,500
Parag Jalan	3.57	1,62,5000
Kamala Prasad Jalan	3.64	16,57,500
Tara Devi Jalan	4.15	18,91,045
Halogen Chemical	10.88	49,58,070
Total promoter group holding	60.05	2,73,56,615

Source: Company RHP

Key management personnel

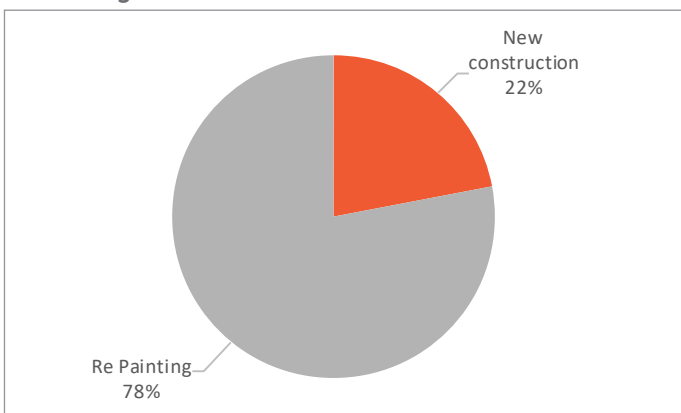
- ♦ **Thundiyl Surendra Suresh Babu – Chief Operating Officer:** He holds a Bachelor's degree in Mechanical Engineering from Sambalpur University and a post-graduate diploma in management from the Xavier Institute of Management, Bhubaneswar. Pursuant to the Scheme of Amalgamation, he joined Indigo on the effective date of the scheme, being April 19, 2017. He has over 16 years of experience in marketing and sales. Prior to joining Indigo, he was associated with Berger Paints Limited, Idea Cellular Limited as deputy General Manager – Sales, Etisalat DB Telecom Private Limited as an Associate Vice President – Sales and Hi-Build Coatings Private Limited as General Manager – Marketing.
- ♦ **Chetan Bhalchandra Humane – Chief Financial Officer:** He holds Bachelor's and Master's degrees in Commerce from the University of Pune. He joined Indigo with effect from September 10, 2001 and was appointed as the Chief Financial Officer with effect from March 11, 2020. He has over 19 years of experience in accounting and finance. Prior to joining Indigo, he was associated with Jenson & Nicholson (I) Ltd as a commercial assistant.
- ♦ **Sujoy Bose – Company Secretary and Compliance Officer:** He holds a Bachelor's Degree in commerce from the University of Pune and a Bachelor's Degree in law from Savitribai Phule Pune University. He is an associate of the Institute of Company Secretaries of India. He joined Indigo with effect from March 7, 2018. He has over four years of experience in the legal and compliance functions. Prior to joining Indigo, he was associated with BMC Legal LLP as Senior Executive – Compliance Services.

- ◆ **Varghese Idicula is the Vice-President – Technical of Indigo:** He holds a bachelor’s degree in science and a master’s degree in administrative management from the University of Bombay. He has also received a diploma in paint technology from the Colour Society and the Indian Paint Association. Pursuant to the Scheme of Amalgamation, he joined Indigo on the effective date of the scheme, being April 19, 2017. He has over 35 years of experience in research, development and production. Prior to joining Indigo, he was associated with Asian Paints (India) Limited in the technical function; Pidilite Industries Limited as head of research and development (paint coating), Sherwin Williams Saudi Arabia Limited as technical and purchase in-charge and Hi-Build Coatings Private Limited as General Manager – Technical.

Industry analysis

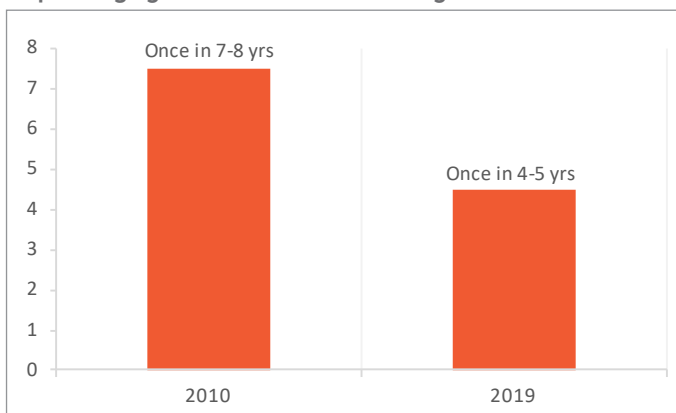
The Indian paints industry comprises a sizeable portion of India’s GDP, value at Rs. 545billion. The industry has registered a CAGR of approximately 11% during FY2014 to FY2019, almost double the growth rate of India’s GDP. The high-growth trajectory and shift of preference toward odour-free, and dust and water-resistant paints can be attributed to a rise in urbanisation, growth in popularity of branded paints, shortening of re-painting cycles and robust pricing power prevalent in the paints industry. The decorative paints segment constitutes around 74% of total paint sales, helping the sector growing at a robust rate even at the time of an industrial slowdown. The Indian paints industry is valued at approximately Rs. 545 billion and is expected to grow to Rs. 971 billion by 2024. Going forward, the decorative paint market is expected to grow at a CAGR of 13% while the industrial paint market is expected to grow at a CAGR of 9.9% by 2024.

Re-Painting demand continues to dominate the market



Source: Company RHP

Repainting cycle current stands at 4-5 years



Source: Company RHP

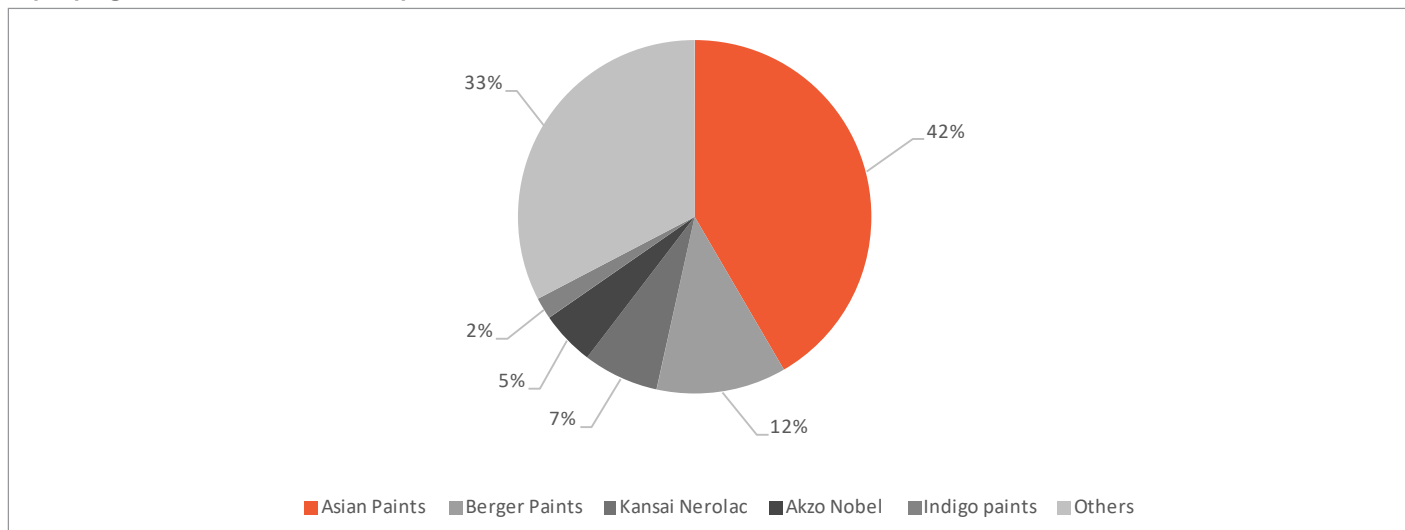
Category of paints

Segment	Value	Volume
Interior	39%	24%
Exterior	36%	21%
Roofing	6%	10%
Flooring	5%	8%
Other (wood, metallic etc)	14%	37%

Source: Company RHP

Within the paints industry, the organised sector has a 67% market share, while unorganised players hold the remaining 33%. Until 2015, the unorganized sector had a market share of approximately 35%, which has been penetrated by the organized sector due to challenges faced by smaller players such as demonetisation and implementation of GST.

Top 4 players command 66% of the paints market



Source: Company RHP

Key players in paint industry

Company	Revenue (Rs in cr)		Gross margin		EBITDA margin		No of Dealers	Capacities (MMT)	Utilization (%)
	FY19	FY20	FY19	FY20	FY19	FY20			
Asian paints	19248.0	20211.0	42.6	44.7	19.6	20.6	70,000	1.73	64
Berger paints	5,520	5,690	38.1	40.8	15.6	16.8	30,000	0.64	79
Kansai Nerolac	5,170	4,940	36.2	38.1	14.3	15.8	27,500	0.52	63
Akzo Nobel	2,920	2,660	42.1	45.8	11.7	14.2	15,000	NA	NA
Indigo Paints	530	620	44.3	48.5	10.1	14.6	11,230	0.195	55

Source: Company RHP

Key Strengths

- Differentiated products aid greater brand recognition and help expansion into a complete range of decorative paint products:** Indigo Paints is the first company to manufacture and introduce certain differentiated products in the decorative paints market in India, including Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions, Floor Coat Emulsions, Exterior & Interior Acrylic Laminate & PU Super Gloss Enamel (differentiated offerings under “Indigo” brand). Further, these differentiated products contributed 28% of revenue in FY20. By introducing differentiated products, the company had early mover advantage, which allowed it to set relatively higher prices for these products as compared to other products. This boosted margins for these products as compared to other products in the portfolio. These differentiated allows enhancing brand recognition across the dealer network.

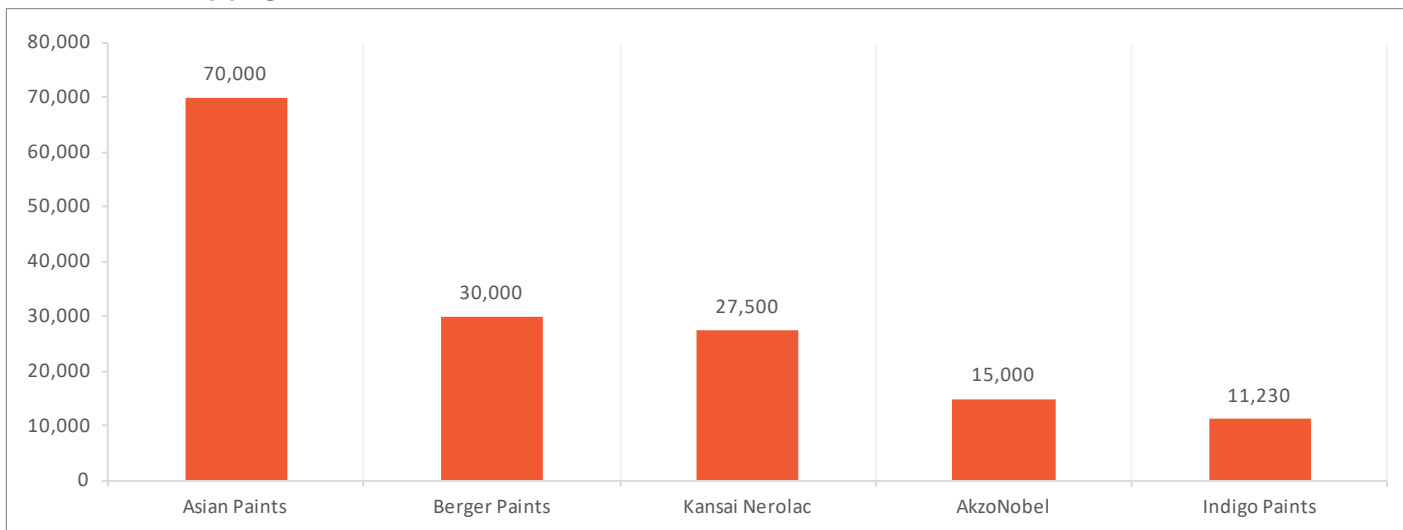
Indigo’s reach and contribution from differentiated products (%)

Key details	FY2018	FY2019	2020
No of Depots	33	33	36
Active dealers	9210	10246	11230
Differentiated production contribution (%)	26.7	27.6	28.6
Tinting machines	1808	3413	4296

Source: Company RHP

- ◆ **Extensive distribution network for better brand penetration:** Paint companies are required to spend significant resources to develop their distribution network to increase visibility and reach of their products through direct distribution to dealers. Indigo has established its distribution network gradually and strategically through the bottom-up approach with prudent use of time, cost and resources. Initially, the company focused on dealers in tier-3 and tier-4 cities and rural areas, where brand penetration is easier and dealers have a greater ability to influence customer purchase decisions. This helped it engage with a larger base of dealers across tier-3, tier-4 cities, and rural areas, which company subsequently leveraged to expand into larger cities and metros such as Kanpur, Kochi, Thiruvananthapuram, Patna and Ranchi first approaching through Indigo's differentiated products, which have greater marketability and ability to improve penetration of the brand, besides strengthening the company's relationship with dealers. At present, Indigo has 11,230 distributors and 40 depots, covering 27 states and eight union territories. Indigo's dealer network is well integrated with marketing and promotional activities, and helps in strengthening the company's brand image. The company has also recently introduced loyalty programs for its dealers and painters to further strengthen relationship with them. These engagements help collect product feedback and insights on emerging trends that can be leveraged upon to refine product development activities.

No of dealers of top players

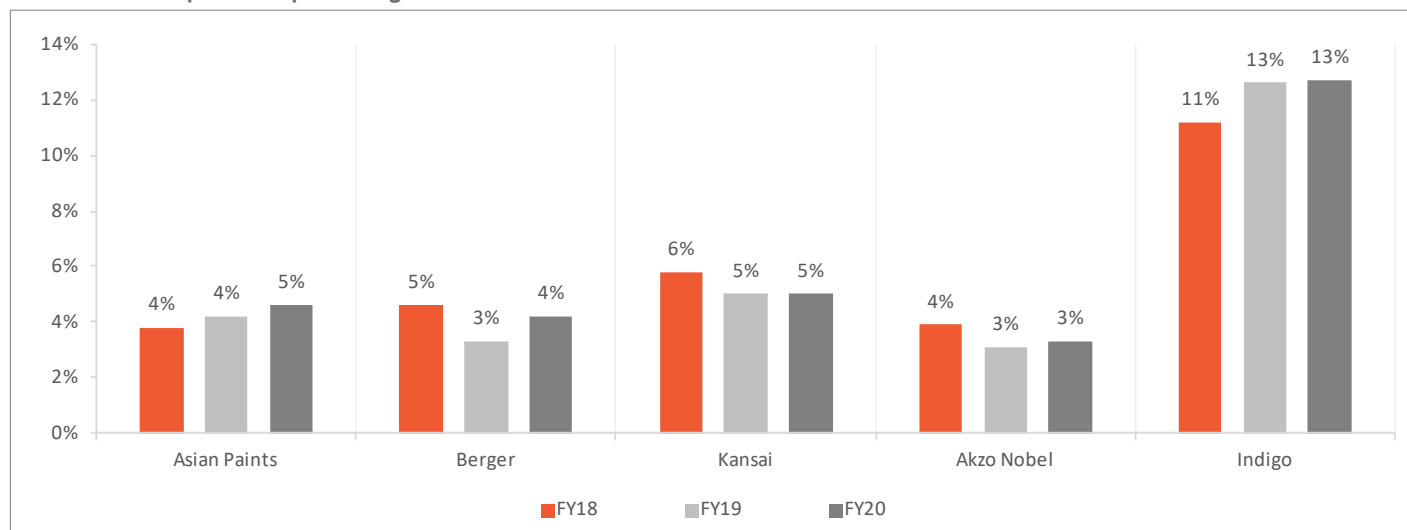


Source: Company RHP

- ◆ **Leveraged brand equity and distribution network to populate tinting machines; focus on entering newer territories:** Emulsions are the largest and among the fastest growing product segment within the Indian decorative paint industry. The market for emulsions was valued at Rs163.9 billion in FY2019, and is expected to grow at a CAGR of 13.6% to Rs309.5 billion by FY2024. Tinting machines are a prerequisite for dealers who sell emulsion paints. Dealer due to lack of space constraints tend to install only recognised players machines. The company focused on populating tinting machines in tier3 -4 cities and rural areas where dealers have few or no tinting machines which gradually enable the company to penetrate into larger cities and metros. Currently it has installed 4603 machines (averagely 1225 machine per year for last 3 years). Indigo's tinting machines are manufactured by recognized international companies and are capable of producing unlimited shades. The company is gradually leveraging on growing brand equity and adopting alternate means to provide tinting machines with inbuilt computers to increase its presence amongst the dealers. The tinting machine to dealer ratio was in the range of 37% to 67% for the top four paint companies as on 31st March 2020 while Indigo's tinting machine to Active Dealer ratio was 38.25% as on 31st March, 2020 (further improved to 41.89% as of 30th September, 2020).

- ◆ **Focused brand-building initiatives to gradually build brand equity:** Indigo has strategically undertaken brand-building initiatives to gain visibility in key markets. The Company focus is on to advertise only differentiate products for better recognition of these products and to reinforce association with them. This approach has allowed it to efficiently manage marketing and advertisement expenses and yet achieve extensive brand recognition within a relatively short period of time. All the products are advertised under the “Indigo” brand to make it widely visible. It has appointed MS Dhoni, a sports person with pan-India appeal, as brand ambassador for its products. Indigo’s advertisement and sales promotion expenses represented 11.2%, 12.6%, and 12.7% of revenue in FY18, FY19 and FY20, respectively, as compared to the top four paint companies where these expenses were in the range of 3.8-5.8% in FY18, 3.1-5% in FY19, and 3.3-5% in FY2020. The company’s concentrated brand-building efforts have helped it to develop brand equity with limited spends over the years in the market that has historically been dominated by companies that have invested considerably on developing their brands.

Advertisement spends as percentage to sales



Source: Company RHP

Key concerns

- ◆ **Volatile raw material prices remain a key risk for margins:** Raw materials used in manufacturing process are primarily sourced from third-party suppliers in India. Raw materials include acrylic binders, packaging tins, pigments, alkyd resins and additives that are manufactured using derivatives of crude oil. Prices of these principal raw materials are subject to changes in prices of crude oil and other petrochemical intermediates, which are linked to international prices and are susceptible to significant volatility from time to time. Hence, the company’s profitability remains susceptible to risks arising out of raw material price fluctuations and especially, fluctuation in crude oil prices which could be a drag on operating margins. However, proximity of the company’s manufacturing plant to the source of raw material helps in mitigating the considerable pressure on margins.
- ◆ **Unanticipated delays in implementation and cost overruns of proposed capacity expansions:** Capacity utilisation levels depend on the company’s ability to carry out uninterrupted operations at manufacturing facilities, availability of raw materials, industry/ market conditions, as well as by product requirements of, and procurement practice followed by dealers. In the event the company faces prolonged disruptions at facilities including due to interruptions in the supply of water, electricity or as a result of labour unrest, or is unable to procure sufficient raw materials, it would not be able to achieve full capacity utilization of current

manufacturing facilities, resulting in operational inefficiencies, which could have a material adverse effect on business and financial conditions.

- ◆ **Company does not have long-term arrangements with dealers:** Indigo presently does not have any long-term/exclusive arrangements with any dealer and cannot assure that they will be able to sell the quantities supplied historically to such dealers. Many dealers are typically multi-brand and also distribute products of other players as well. In the event that competitors offer better margins to such dealers or otherwise incentivise them, there can be no assurance that dealers will continue to promote products of Indigo or place orders with the company.

Strong financial track record with improving cash flows

Indigo revenues grew at CAGR of 25.8% over FY2018-20 to Rs624.8crore. This was largely on account of strong growth in categories such as putty, emulsion and distempers which grew at CAGR of 25-30% over the same period. Indigo's gross margins stood at 48.5% in FY2020 compared to 41.5% in FY2018. The company's innovative products have helped them expand their distribution reach, as most retailers aspire to stock their unique products. It has leveraged on the word-of-mouth publicity to create a niche space in the market. As a result of locational advantages and higher margins generated from its differentiated products, their Gross Margins have consistently been higher than the industry average. The OPM improved strongly from 6.5% in FY2018 to 14.6% in FY2020 (and further improved to 18.5% in H1FY2021). The strong expansion in the OPM led to ~88% growth in the operating profits over FY2018-20 to Rs91.0crore. The PAT grew by 84% to Rs47.8crore over the same period. Better working capital management aided net working capital days standing low at 20-23days. The cash generation from operating activities improved by Rs48.5crore to Rs72.23crore over FY2018-20. Higher cash generation took care of the capex programme. Hence debt: equity remained stable at 0.3x. The company has strong return profile with RoE and RoCE (pre-IPO) standing at 24.2% and 28% respectively.

Valuation and view

Indigo Paints' IPO is valued at 148x its post-issue FY20 EPS of Rs. 10.05 (and 130x its annualised FY2021 EPS of ~Rs. 11.4), which is at premium to some of the listed paint companies. Indigo's revenues and PAT grew at CAGR of 26% and 84% over FY2018-20. Product innovation (largely differentiated products), increase in dealers reach (especially in the large cities) and support to products with adequate brand investments will be the key growth levers in the coming years. Though Indigo's valuations are at premium to peers, Strong financial track record, promoters experience and confidence to lead the business coupled with industry par return profile makes it a emerging play in the domestic decorative paint industry.

Peer Comparison

Company	Revenues (Rs crore)		OPM (%)		RoCE (%)		Price to sales (x)	P/E (x)
	FY19	FY20	FY19	FY20	FY19	FY20	FY20	FY20
Asian Paints	19,248.0	20,211.0	19.6	20.6	22.1	22.2	12.7	91.9
Berger Paints	5,520.0	5,690.0	15.6	16.8	25.2	30.0	13.5	109.7
Kansai Nerolac	5,170.0	4,940.0	14.3	15.8	17.3	17.5	7.1	65.3
Akzo Nobel	2,920.0	2,660.0	11.7	14.2	26.4	23.9	4.0	44.7
Indigo (Upper end)	535.5	624.8	10.1	14.6	17.8	28.1	11.3	148.0
Indigo (lower end)							11.3	148.2

Source: Company RHP, Sharekhan Research

FINANCIALS

Profit/Loss account

Rs crore

Particulars	FY2018	FY2019	FY2020	H1FY21
Revenue from operations	395.1	535.6	624.8	259.4
Cost of material	231.3	298.5	322.0	135.2
Gross margins (%)	41.5	44.3	48.5	47.9
Employee expenses	30.3	36.4	42.0	22.0
Other Expenses	107.7	146.6	169.9	54.1
Total Expenditure	369.3	481.5	533.8	211.3
Operating profit/(loss)	25.8	54.1	91.0	48.1
OPM(%)	6.5	10.1	14.6	18.5
Other income	1.6	1.6	1.6	0.8
finance cost	4.5	4.7	5.6	2.5
Depreciation	9.0	17.1	19.6	11.2
PBT	13.9	34.0	67.4	35.2
Tax expense	-0.3	6.8	19.6	8.0
Adjusted PAT/Loss	14.2	27.2	47.8	27.2
Exceptional item	13.2	3.1	0.0	0.0
Reported PAT/Loss	1.0	24.1	47.8	27.2

Source: Company RHP

Snapshot of Cash flow

Rs crore

Particulars	FY2018	FY2019	FY2020	H1FY21
Net cash generated from operating activities	23.8	51.6	72.3	53.2
Net cash generated from investing activities	-17.1	-63.2	-61.3	-22.7
Net cash generated from financing activities	-6.8	18.9	-17.2	-24.0
Net increase/(decrease) in cash and cash equivalent	-0.1	7.2	-6.2	6.5
Cash at the beginning of the year	4.7	4.6	11.8	5.7
Cash and cash equivalent at end of the year	4.6	11.8	5.7	12.1

Source: Company RHP

Balance Sheet
Rs crore

Particulars	FY2018	FY2019	FY2020	H1FY21
Assets				
Non-current assets				
Property, Plant & Equipment	61.4	86.4	142.0	140.4
Right of use of assets	9.7	31.1	27.8	27.2
Capital WIP	2.5	4.4	1.1	2.6
Goodwill & Other Intangible assets	41.2	31.0	30.9	31.0
Loans	0.7	4.1	5.5	5.8
Other financial assets	2.1	0.0	2.3	2.4
Income tax assets (net)	0.2	0.2	0.2	0.2
Other non-current assets	2.5	5.7	0.9	3.5
Investments	18.4	19.7	20.8	30.6
Inventories	55.2	69.3	76.8	67.3
Trade receivables	96.8	103.8	104.5	85.6
Cash & cash equivalent	4.6	14.0	5.7	12.1
Bank balance	0.0	0.0	0.0	0.0
Loan	0.3	0.3	0.3	0.6
other financial assets	0.3	0.1	0.1	0.1
other current assets	1.5	2.9	3.1	2.1
Total Assets	297.4	373.2	422.0	411.3
Liabilities				
Equity Capital	46.9	47.2	47.3	47.3
Other equity	80.6	100.3	149.7	177.0
	127.5	147.5	197.1	224.4
Non-current liabilities				
Borrowing	8.9	26.9	24.7	19.3
Lease liabilities	4.8	5.4	2.8	2.6
provisions	0.0	0.0	1.3	2.8
other non-current liabilities	1.8	3.2	3.8	3.5
Deferred tax liabilities	0.0	2.1	7.0	5.7
Current liabilities				
Borrowings	22.6	24.7	14.5	0.0
Trade payables	108.5	136.2	138.6	119.1
Lease liabilities	2.9	4.0	3.4	3.2
other financial liabilities	10.0	15.1	19.4	17.8
Provisions	0.1	0.0	1.1	1.3
Other current liabilities	10.2	8.1	8.2	11.6
Total Equity & Liabilities	297.4	373.2	422.0	411.3

Source: Company RHP

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