

Indigo Paints

Estimate change



TP change



Rating change



Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USD\$)	69.9 / 0.8
52-Week Range (INR)	1731 / 981
1, 6, 12 Rel. Per (%)	24/11/-21
12M Avg Val (INR M)	133

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	10.7	12.9	15.5
Sales Gr. (%)	18.5	20.0	20.0
EBITDA	1.8	2.3	3.0
EBIT Margin (%)	16.9	18.0	19.5
Adj. PAT	1.2	1.5	2.0
Adj. EPS (INR)	24.3	32.0	42.4
EPS Gr. (%)	37.6	31.5	32.7
BV/Sh.(INR)	163.2	188.7	222.7

Ratios

RoE (%)	16.2	18.2	20.6
RoCE (%)	15.9	17.9	20.4

Valuation

P/E (x)	60.9	46.3	34.9
P/BV (x)	9.1	7.8	6.7
EV/EBITDA (x)	37.8	29.3	22.1

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	54.0	54.0	54.0
DII	3.2	3.4	3.6
FII	8.8	10.2	8.9
Others	34.0	32.5	33.5

FII Includes depository receipts

CMP: INR1,469

TP: INR1,700 (+15%)

Buy

Robust performance; demand momentum healthy

- Indigo Paints (INDIGOPN) reported in-line sales in 4QFY23. EBITDA beat our estimate as EBITDA margin at ~22% touched the highest level in the last three years, driven by a favorable product mix and cost control initiatives.
- Management stated that demand was exceptionally strong in April'23 and the momentum was intact in May'23 as well. This is good news for INDIGOPN in a usually weak quarter (1Q).
- INDIGOPN has recently launched a complete range of waterproofing solutions for the retail segment, and with investment in Apple Cheime, it will also target institutional customers. The management expects a revenue contribution of ~8-9% from the waterproofing segment in the next 2-3 years. **Maintain BUY.**

In-line sales; margins better than expectation

- Net sales grew 12.9% YoY to INR3,255 (est. INR3,176m).
- Gross margin rose ~320bp YoY/~300bp QoQ to 46.8%. As a percentage of sales, high employee costs (up 80bp YoY) and low 'other expenses' (down 100bp YoY) led to ~340bp gain in EBITDA margin YoY to 22% (est. 16.2%).
- EBITDA grew 33.4% YoY to INR717m (est. INR513m).
- PBT increased by 38% YoY to INR654m (est. INR458m).
- Adj. PAT rose 40.7% YoY to INR487m (est. INR349m).
- In FY23, sales/EBITDA/Adj. PAT grew 18.5%/33.5%/37.6% to INR10,733m/INR1,815m/INR1,157m.

Highlights from the management commentary

- Value and volume growth remained largely in sync during the quarter. Growth in tier 1/2 cities was double compared to other markets in 4QFY23.
- The management expects waterproofing to contribute ~8-9% of sales in the next 2-3 years. The total addressable market of waterproofing and construction chemicals space would be around ~INR150b (50% retail).
- The absolute amount of A&P is largely the same as it was in FY22, and hence was down on the basis of a percentage of net sales. Going forward, the absolute amount would gradually increase, but as a percentage of net sales, it would decline.

Valuation and view

- Given the EBITDA beat and guidance of lower expenses, we increase our FY24/FY25 EPS estimates by ~9%/15%.
- INDIGOPN has successfully surmounted the high entry barriers of the Indian Paints industry through its patient and multi-pronged strategy, comprising: 1) introduction of differentiated products, 2) focusing on specific cities, 3) creating brand equity through high investments in advertising, 4) rapidly driving the penetration of tinting machines, and 5) engaging with influencers (painters/contractors) to build trust.
- We **retain BUY** with a TP of INR1,700 (based on 40x FY25E EPS), given the high-growth opportunity on a small base and inexpensive valuations.

Consolidated Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	1,560	1,961	2,655	2,884	2,240	2,426	2,813	3,255	9,060	10,733	3,176	2.5%
Change (%)	49.2	26.7	26.6	13.4	43.6	23.7	6.0	12.9	25.3	18.5	10.1	
Gross Profit	710	818	1,138	1,258	1,012	1,012	1,233	1,524	3,925	4,781	1,433	6.3%
Gross Margin (%)	45.5	41.7	42.9	43.6	45.2	41.7	43.8	46.8	43.3	44.5	45.1	
EBITDA	202	234	387	538	353	338	406	717	1,360	1,815	513	39.7%
Margin (%)	12.9	11.9	14.6	18.6	15.7	13.9	14.4	22.0	15.0	16.9	16.2	
Change (%)	6.1	-19.6	22.8	25.2	74.9	44.5	4.9	33.4	11.0	33.5	-4.5	
Interest	3	3	3	5	4	3	3	4	13	14	6	
Depreciation	74	77	79	83	84	85	87	87	313	343	86	
Other Income	30	30	23	25	5	32	38	28	109	101	35	
PBT	156	185	328	474	269	282	353	654	1,143	1,559	458	43.0%
Tax	40	49	85	128	70	74	91	168	302	402	108	
Effective Tax Rate (%)	25.5	26.6	26.0	27.1	26.0	26.4	25.7	25.6	26.5	25.8	23.6	
Adjusted PAT	116	135	243	346	199	208	263	487	840	1,157	349	39.3%
Change (%)	38.2	-28.0	29.4	39.1	71.5	53.2	8.1	40.7	18.6	37.6	1.0	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Segmental volume growth (%)								
Cement Paints + Putty	23.1	9.2	0.1	7.9	12.7	6.2	34.8	42
Emulsions	73.1	24.2	15.9	39.8	34.4	-4.2	-4.3	5.2
Enamels + Wood Coatings	17.4	10.2	-4.5	16	15.8	28.8	4.7	24.8
Primers + Distempers + Others	5.1	31.1	-3.6	21.4	2.4	13.1	1.3	37.6
Segmental value growth (%)								
Cement Paints + Putty	24.8	11.5	3.7	3.9	22.7	16.3	42.3	45.1
Emulsions	83.1	40.6	35.4	21.7	65.7	17.4	3.3	9.4
Enamels + Wood Coatings	25.6	20.3	8.9	2.9	38.1	46.9	14.6	27.3
Primers + Distempers + Others	7.4	43.3	18.5	5.4	28	22.4	5.5	23.2
2Y average growth (%)								
Sales	10.9	23.5	24.4	27.1	46.4	25.2	16.3	13.1
EBITDA	-	-	-	8.7	40.5	12.4	13.8	29.3
PAT	-	-	-	15.1	54.9	12.6	18.7	39.9
% of Sales								
COGS	54.5	58.3	57.1	56.4	54.8	58.3	56.2	53.2
Operating Expenses	32.6	29.8	28.3	25.0	29.4	27.8	29.4	24.8
Depreciation	4.7	3.9	3.0	2.9	3.8	3.5	3.1	2.7
YoY change (%)								
COGS	46.4	48.2	43.5	19.9	44.4	23.7	4.2	6.4
Operating Expenses	85.0	20.2	3.7	-4.9	29.7	15.4	10.0	12.1
Other Income	1,558.8	375.5	94.0	59.0	-83.9	4.6	63.2	12.2
EBIT	-4.8	-33.1	21.8	26.3	109.6	61.3	3.4	38.7



Highlights from the management commentary

Performance and outlook

- INDIGOPN crossed the milestone of INR10b on a net sales basis in FY23.
- Sales growth was largely in line with industry growth in 4QFY23.
- Value and volume growth was largely in sync during the quarter.
- Growth in tier 1/2 cities was double compared to other markets in 4QFY23.
- Apr'23 was exceptionally well, and May'23 is going in the same direction.
- The company has recently launched a complete range of waterproofing products and it is on the shelves of dealers since last week.
- Management has taken various initiatives internally to drive revenue growth to 1.5x-2x of industry growth.
- It is focusing on big towns, holding more contractor programs, and cautiously selecting dealers (focusing on them by extending aggressive schemes). These initiatives have started yielding the result.
- Its overall pan-India market share in the decorative paints business would be ~2%.
- Apple Cheime is a fast-growing company in construction chemicals and waterproofing segments. It has a wide range of products that complement INDIGOPN's products. Apple Cheime caters to the institutional space and is currently concentrated in few states only. INDIGOPN now plans to gradually expand its footprint across India.
- The management expects waterproofing to contribute ~8-9% of sales in the next 2-3 years. The total addressable market of the waterproofing and construction chemicals space would be ~INR150b (50% retail).

Costs and margins

- A favorable product mix boosted the profitability of the company.
- It has continued to spend on A&P aggressively. The absolute amount is largely the same as it was in FY22 and hence was down on percentage of net sale basis. Going forward the absolute amount would gradually increase; however, on percentage of net sales basis it will reduce.
- INDIGOPN's gross margin has always been the highest in the industry on account of a large portfolio of differentiated products. These products contributed ~31% of sales.
- For the last few years, freight expenses have decreased from 11.5% to 9.5% currently, and are expected to fall gradually going forward.
- Trade discounts – the overall quantum of discounts was lower than larger peers; however, in the last six months, the management has decided to become aggressive and now it stands at par with the industry.

Expansion

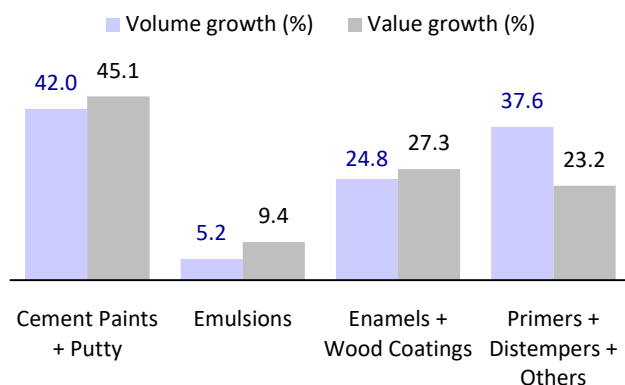
- The company is working on increasing throughput per active dealer. Active dealer network now stands at 16,496 with tinting machines at 8,273.

Other points

- INDIGOPN has started trial production in the Tamil Nadu plant recently and commercial production should start in a few weeks.
- It is planning a new water-based plant of 90,000 KLPa capacity in Jodhpur.

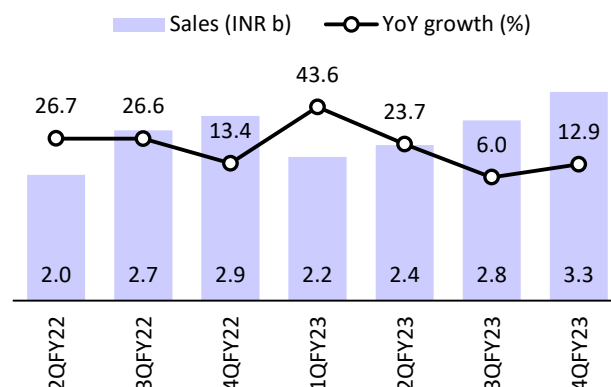
Key exhibits

Exhibit 1: Volume growth recovers in 4QFY23



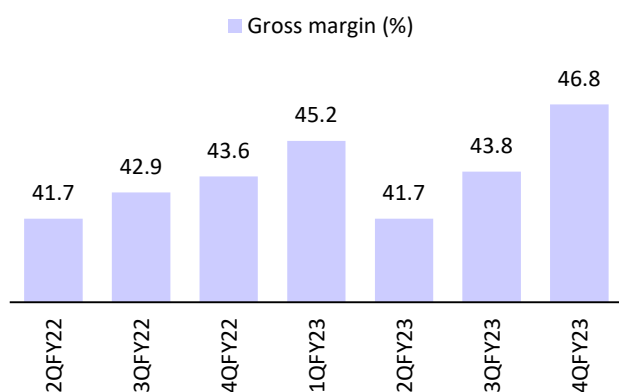
Source: Company, MOFSL

Exhibit 2: Sales up 12.9% YoY at INR3.3b in 4QFY23



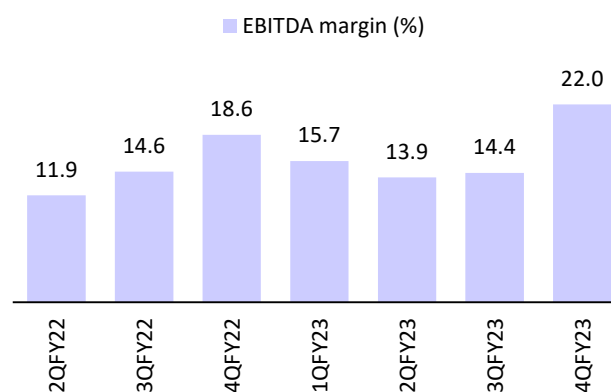
Source: Company, MOFSL

Exhibit 3: Gross margin up ~320bp YoY at 46.8% in 3QFY23



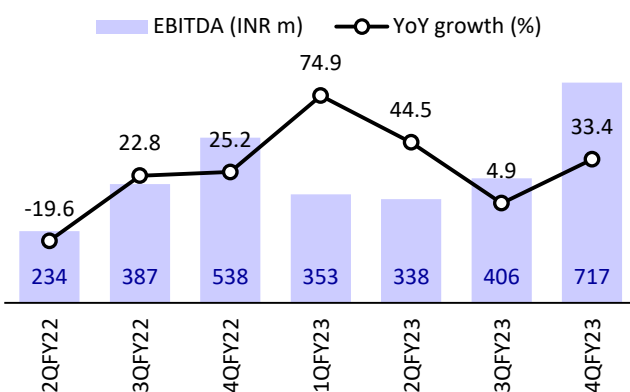
Source: Company, MOFSL

Exhibit 4: EBITDA margin rises ~340bp YoY to 22% in 4QFY23



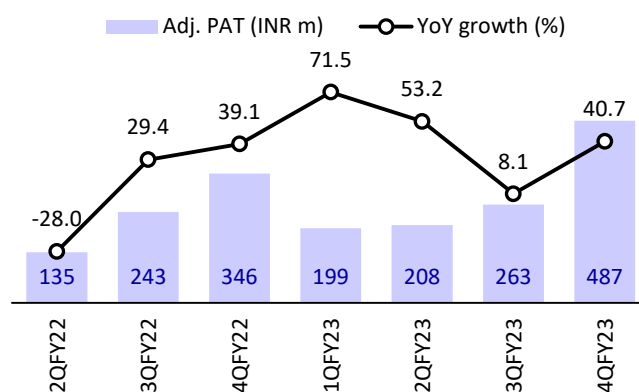
Source: Company, MOFSL

Exhibit 5: EBITDA grows 33.4% YoY to INR717m in 4QFY23



Source: Company, MOFSL

Exhibit 6: PAT up 40.7% YoY at INR487m in 4QFY23



Source: Company, MOFSL

Valuation and view

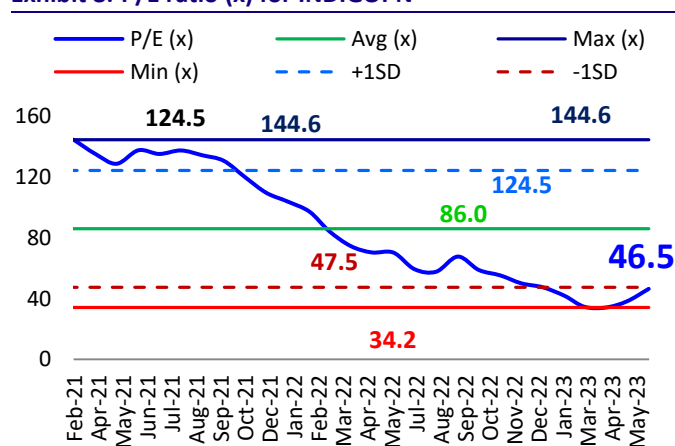
- Given the EBITDA beat and guidance of lower expenses, we increase our FY24/FY25 EPS estimates by ~9%/15%.
- INDIGOPN has successfully surmounted the high entry barriers of the Indian Paints industry through its patient and multi-pronged strategy, comprising: 1) introduction of differentiated products, 2) focusing on specific cities, 3) creating brand equity through high investments in advertising, 4) rapidly driving the penetration of tinting machines, and 5) engaging with influencers (painters/contractors) to build trust. Lately the stock has also run up from its lows, indicating a recovery in performance.
- We **maintain BUY** with a TP of INR1,700 (based on 40x FY25E EPS) given the high-growth opportunity on a small base and inexpensive valuations.

Exhibit 7: We increase our FY24/FY25 EPS estimates by 8.5%/14.5%

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	12,880	15,456	12,465	14,959	3.3	3.3
EBITDA	2,314	3,009	2,177	2,687	6.3	12.0
PAT	1,521	2,018	1,402	1,763	8.5	14.5

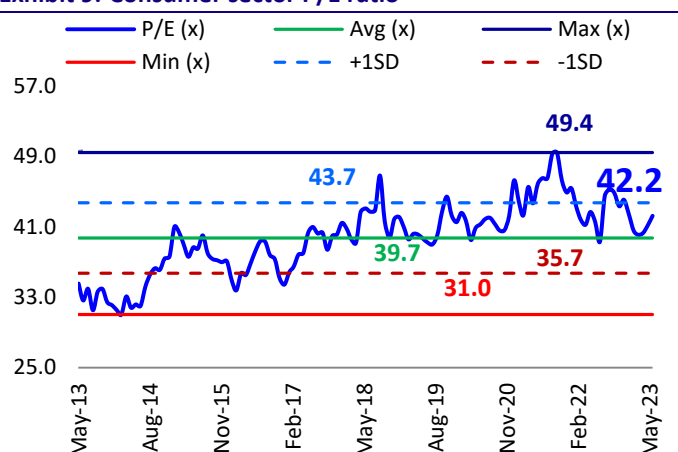
Source: Company, MOFSL

Exhibit 8: P/E ratio (x) for INDIGOPN



Source: MOFSL, Company, Bloomberg

Exhibit 9: Consumer sector P/E ratio



Source: MOFSL, Company, Bloomberg

Financials and valuations

Income Statement consol.

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	4,015	5,356	6,248	7,233	9,060	10,733	12,880	15,456
Change (%)		33.4	16.6	15.8	25.3	18.5	20.0	20.0
Raw Materials	2,377	2,985	3,220	3,765	5,135	5,952	7,045	8,346
Gross Profit	1,638	2,371	3,028	3,468	3,925	4,781	5,835	7,110
Margin (%)	40.8	44.3	48.5	47.9	43.3	44.5	45.3	46.0
Operating Expenses	1,380	1,830	2,118	2,243	2,565	2,966	3,521	4,101
EBITDA	258	541	910	1,225	1,360	1,815	2,314	3,009
Change (%)		109.6	68.2	34.7	11.0	33.5	27.5	30.0
Margin (%)	6.4	10.1	14.6	16.9	15.0	16.9	18.0	19.5
Depreciation	90	171	196	244	313	343	385	424
Int. and Fin. Charges	45	47	56	38	13	14	15	17
Other Income	16	16	16	36	109	101	120	130
Profit before Taxes	139	340	674	979	1,143	1,559	2,033	2,698
Change (%)		145.2	98.2	45.2	16.7	36.4	30.5	32.7
Margin (%)	3.5	6.4	10.8	13.5	12.6	14.5	15.8	17.5
Tax	-3	48	147	256	288	418	512	680
Tax Rate (%)	-2.2	20.1	29.1	27.6	26.5	25.8	25.2	25.2
PAT Before Minority	142	272	478	709	840	1,157	1,521	2,018
Adjusted PAT	142	272	478	709	840	1,157	1,521	2,018
Change (%)		91.7	76.0	48.2	18.6	37.6	31.5	32.7
Margin (%)	3.5	5.1	7.7	9.8	9.3	10.8	11.8	13.1
Reported PAT	155	275	478	709	840	1,320	1,521	2,018

Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	286	289	290	476	476	476	476	476
Reserves	989	1,186	1,680	5,159	6,023	7,285	8,502	10,116
Net Worth	1,275	1,475	1,971	5,635	6,499	7,761	8,978	10,592
Loans	316	516	392	0	0	0	0	0
Other Liability	77	115	132	157	209	188	188	188
Capital Employed	1,667	2,106	2,495	5,792	6,708	7,949	9,166	10,780
Gross Block	686	1,006	1,669	2,339	2,612	2,952	3,252	3,602
Less: Accum. Depn.	67	137	245	452	716	1,154	1,554	2,005
Net Fixed Assets	619	869	1,424	1,887	1,896	1,798	1,698	1,597
Capital WIP	25	44	11	31	510	2,509	2,509	2,509
Right to Use Assets	97	311	278	301	332	543	608	685
Investments	184	197	208	497	1,731	1,317	1,817	2,417
Curr. Assets, L&A	1,641	2,002	1,967	4,983	4,288	3,996	5,169	6,713
Inventory	552	693	768	947	1,177	1,177	1,412	1,694
Account Receivables	968	1,038	1,045	1,212	1,717	2,001	2,401	2,882
Cash and Bank Balance	46	140	57	2,583	996	488	930	1,597
Others	75	130	97	241	398	330	426	540
Curr. Liab. and Prov.	1,307	1,623	1,698	2,212	2,354	2,520	2,941	3,446
Account Payables	1,085	1,362	1,386	1,856	2,014	2,106	2,527	3,032
Other Liabilities	220	261	289	315	270	318	318	318
Provisions	1	0	24	42	70	96	96	96
Net Current Assets	335	379	269	2,771	1,934	1,476	2,228	3,267
Goodwill on Cons.	407	306	306	306	306	306	306	306
Application of Funds	1,667	2,106	2,495	5,792	6,708	7,949	9,166	10,780

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	3.0	5.7	10.1	14.9	17.7	24.3	32.0	42.4
Cash EPS	4.9	9.3	14.2	20.0	24.2	31.5	40.1	51.3
BV/Share	26.8	31.0	41.4	118.5	136.6	163.2	188.7	222.7
DPS	0.0	0.0	0.0	0.0	3.0	3.5	6.4	8.5
Payout %	0.0	0.0	0.0	0.0	17.0	14.4	20.0	20.0

Valuation (x)

P/E	497.0	259.3	147.4	99.5	83.8	60.9	46.3	34.9
Cash P/E	303.7	159.3	104.5	74.0	61.1	47.0	37.0	28.9
EV/Sales	10.6	8.0	6.9	9.3	7.5	6.4	5.3	4.3
EV/EBITDA	164.5	79.3	47.4	55.0	49.8	37.8	29.3	22.1
P/BV	55.3	47.8	35.8	12.5	10.8	9.1	7.8	6.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.6

Return Ratios (%)

RoE	11.1	19.8	27.8	18.6	13.9	16.2	18.2	20.6
RoCE	11.3	16.4	22.5	17.8	13.6	15.9	17.9	20.4
RoIC		16.8	23.3	25.3	18.4	21.5	27.0	31.2

Working Capital Ratios

Debtor (Days)	88	71	61	61	69	68	68	68
Asset Turnover (x)	2.4	2.5	2.5	1.2	1.4	1.4	1.4	1.4

Leverage Ratio

Debt/Equity (x)	0.2	0.4	0.2	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(loss) before Tax	126	337	674	979	1,143	1,559	2,033	2,698
Depreciation	90	171	196	244	313	343	385	424
Net interest	44	45	54	22	-47	3	-105	-113
Others	4	6	-8	-5	-19	4	0	0
Direct Taxes Paid	0	-44	-124	-164	-258	-244	-512	-680
(Incr)/Decr in WC	-25	2	-69	137	-479	-505	-310	-372
CF from Operations	238	516	723	1,214	652	1,161	1,492	1,957
Incr in FA	-181	-633	-613	-660	-1,208	-1,970	-300	-350
Free Cash Flow	57	-117	110	553	-556	-809	1,192	1,607
Pur of Investments	5	0	0	-2,522	460	1,100	-500	-600
Others	5	23	-21	2,138	-1,438	-599	70	80
CF from Invest.	-171	-611	-634	-1,044	-2,186	-1,469	-730	-870
Issue of Shares	0	17	18	2,932	0	0	0	0
Incr in Debt	-30	209	-143	-500	0	0	0	0
Dividend Paid	0	0	0	0	0	-143	-304	-404
Net interest Paid	-38	-37	-47	-33	-2	0	-15	-17
Others	0	0	0	-41	-50	-58	0	0
CF from Fin. Activity	-68	189	-172	2,357	-53	-201	-319	-420
Incr/Decr of Cash	-1	94	-83	2,526	-1,587	-508	442	666
Add: Opening Balance	47	46	140	57	2,583	996	488	930
Closing Balance	46	140	57	2,583	996	488	930	1,597

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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