

Indigo Paints

Estimate change



TP change



Rating change



CMP: INR1,584

TP: INR2,025 (+28%)

Buy

Healthy sales; growth momentum continues

- Indigo Paints (INDIGOPN) delivered results in line with our estimates, while slightly surpassing sales expectations. The company achieved robust double-digit sales growth in 1QFY24, outpacing the industry's growth rate. This achievement was facilitated by a dedicated emphasis on Tier I and II cities.
- The management indicates good sales performance in Jul'23 and anticipates this positive momentum will continue in the upcoming quarters.
- The company exhibited growth across all geographies in India, demonstrating a reduced reliance on Kerala. Furthermore, Apple Chemie has successfully expanded its operations beyond Maharashtra.
- We reiterate our **BUY** rating on the stock due to its promising sales growth outlook, synergies with Apple Chemie, consistent capacity & distribution expansion, as well as its favorable valuation multiples compared to its peers.

In-line performance with our estimates

- Net sales grew 28.8% YoY to INR2,884m (est. INR2,766m) in 1QFY24.
- Gross margin rose ~210bp YoY/~50bp QoQ to 47.3%. As a percentage of sales, high employee costs (up 100bp YoY) and 'other expenses' (down 10bp YoY) led to EBITDA margin of 17.0%, up ~130bp YoY, but below our est. of 18.0%.
- EBITDA grew 39.2% YoY to INR491m (est. INR498m).
- PBT increased 25.6% YoY to INR423m (est. INR429m).
- Adj. PAT rose 58.3% YoY to INR315m (est. INR320m).

Highlights from the management commentary

- Indigo Paints achieved over 3x industry growth in sales. Sales expansion in Tier-1 and Tier-2 cities outpaced Tier-3 and Tier-4 rural areas by 1.5x.
- Indigo Paints continues to uphold robust advertising endeavors to enhance its brand presence, but ad spends as a percentage of net revenue declined from 9.4% to 7.6%.
- The company is focused on improving throughput per active dealer; it currently has 16,693 active dealers and 8,657 tinting machines in operation.
- The Primer + distemper combination falls within the low category product range. Distempers, specifically, are low-value products that are sold in high volumes. Consequently, the category's YoY value growth of 43.6% lags behind its volume YoY growth of 52.6%.

Valuation and view

- There is no material change to FY24/FY25 EPS estimates.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian Paints industry through a deliberate and multifaceted approach, which includes a) pioneering differentiated product offerings, b) establishing an extensive distribution network within rural markets, c) cultivating brand recognition through substantial investments in advertising endeavors, d) swiftly advancing the adoption of tinting machines, and e) collaborating with the influential community of painters and contractors to foster trust.



Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USD\$)	75.4 / 0.9
52-Week Range (INR)	1731 / 981
1, 6, 12 Rel. Per (%)	8/27/-8
12M Avg Val (INR M)	149

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	10.7	13.0	16.0
Sales Gr. (%)	18.5	21.0	23.0
EBITDA	1.8	2.4	3.2
EBIT Margin (%)	16.9	18.5	20.1
Adj. PAT	1.2	1.6	2.1
Adj. EPS (INR)	24.3	32.6	45.0
EPS Gr. (%)	37.5	34.2	38.0
BV/Sh.(INR)	163.2	189.2	225.2

Ratios

RoE (%)	16.2	18.5	21.7
RoCE (%)	15.9	18.2	21.4

Valuation

P/E (x)	65.2	48.6	35.2
P/BV (x)	9.7	8.4	7.0
EV/EBITDA (x)	40.6	30.3	22.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	54.0	54.0	54.0
DII	2.9	3.2	3.4
FII	8.9	8.8	9.1
Others	34.3	34.0	33.5

FII Includes depository receipts

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- Additionally, the entry into the construction chemicals and waterproofing sector, coupled with the expansion of manufacturing capabilities for water-based paints will act as supplementary growth catalysts.
- We reiterate our **BUY** rating with TP of INR2,025 (45x Mar'25E EPS).

Consolidated Quarterly Performance

Y/E March	FY23				FY24				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24	FY24 1QE	Var. (%)
Net Sales	2,240	2,426	2,813	3,255	2,884	2,936	3,361	3,806	10,733	12,987	2,766	4.3%
Change (%)	43.6	23.7	6.0	12.9	28.8	21.0	19.5	17.0	18.5	21.0	23.5	
Raw Material/PM	1,228	1,414	1,580	1,731	1,519	1,617	1,832	2,045	5,952	7,013	1,499	
Gross Profit	1,012	1,012	1,233	1,524	1,365	1,318	1,529	1,762	4,781	5,974	1,267	7.7%
Gross Margin (%)	45.2	41.7	43.8	46.8	47.3	44.9	45.5	46.3	44.5	46.0	45.8	
EBITDA	353	338	406	717	491	520	629	759	1,815	2,398	498	-1.4%
Margin (%)	15.7	13.9	14.4	22.0	17.0	17.7	18.7	19.9	16.9	18.5	18.0	
Change (%)	74.9	44.5	4.9	33.4	39.2	53.9	55.0	5.8	33.5	32.1	41.2	
Interest	4	3	3	4	5	3	4	4	14	15	4	
Depreciation	84	85	87	87	101	102	103	104	343	410	93	
Other Income	5	32	38	28	38	27	28	24	101	118	28	
PBT	269	282	353	654	423	442	551	675	1,558	2,091	429	-1.3%
Tax	70	74	91	168	108	114	142	176	402	539	109	
Effective Tax Rate (%)	26.0	26.4	25.7	25.6	25.6	25.7	25.8	26.0	25.8	25.8	25.4	
Adjusted PAT	199	208	263	487	315	328	408	500	1,156	1,551	320	-1.6%
Change (%)	71.5	53.2	8.1	40.7	58.3	58.1	55.5	2.7	37.5	34.2	60.8	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24
	1Q	2Q	3Q	4Q	1Q
Segmental volume growth (%)					
Cement Paints + Putty	12.7	6.2	34.8	42	64.6
Emulsions	34.4	-4.2	-4.3	5.2	13.1
Enamels + Wood Coatings	15.8	28.8	4.7	24.8	35.3
Primers + Distempers + Others	2.4	13.1	1.3	37.6	52.4
Segmental value growth (%)					
Cement Paints + Putty	22.7	16.3	42.3	45.1	65.8
Emulsions	65.7	17.4	3.3	9.4	17.8
Enamels + Wood Coatings	38.1	46.9	14.6	27.3	36.6
Primers + Distempers + Others	28	22.4	5.5	23.2	43.6
2Y average growth (%)					
Sales	46.4	25.2	16.3	13.1	36.2
EBITDA	40.5	12.4	13.8	29.3	57.1
PAT	54.9	12.6	18.7	39.9	64.9
% of Sales					
COGS	54.8	58.3	56.2	53.2	52.7
Operating Expenses	29.4	27.8	29.4	24.8	30.3
Depreciation	3.8	3.5	3.1	2.7	3.5
YoY change (%)					
COGS	44.4	23.7	4.2	6.4	23.7
Operating Expenses	29.7	15.4	10.0	12.1	32.5
Other Income	-83.9	4.6	63.2	12.2	684.9
EBIT	109.6	61.3	3.4	38.7	45.3

E: MOFSL Estimates



Highlights from the management commentary

Performance and outlook

- Indigo Paints achieved over 3x industry growth in sales.
- Sales expansion in Tier-1 and Tier-2 cities outpaced Tier-3 and Tier-4 rural areas by 1.5x.
- The management anticipates a projected 38% revenue contribution from Tier-1 and Tier-2 cities.
- Witnessed substantial growth across all product categories, encompassing putty, primers, distempers, enamels, and emulsions.
- The Primer + distemper combination falls within the low category product range. Distempers, specifically, are low-value products that are sold in high volume. Consequently, the category's YoY value growth of 43.6% lags behind its YoY volume growth of 52.6%.
- The launch of a comprehensive range of waterproofing products has demonstrated strong sales traction.

Costs and margins

- Indigo Paints continues to uphold robust advertising endeavors to enhance its brand presence but ad-spends as a percentage of net revenue declined from 9.4% to 7.6%.
- The company's focus remains on expanding networks, enhancing dealer throughput, and increasing the deployment of tinting machines. They are also introducing new distribution centers to enhance the effectiveness of their distribution operations.
- The company is focused on improving throughput per active dealer; it currently has 16,693 active dealers and 8,657 tinting machines in operation.
- The company's continued emphasis on network expansion is evident through the addition of two new depots in northern India.

Apple Chemie (Acquired entity)

- Synergies between Indigo Paints and Apple Chemie are being realized in sales, purchase, finance, and distribution.
- Apple Chemie shows considerable potential for promising B2B growth in the near future.
- Historically concentrated in Maharashtra, the company has been serving major clients including L&T and Shapoorji Pallonji.
- Anticipating a 40% growth within the existing region, the management is capitalizing on well-established customer relationships.
- Nationwide expansion aligned with India's robust infrastructure investments.
- The company is currently in the process of strategically expanding its sales and marketing team across 8-9 states, with the goal of attaining a wider market presence.
- New regional orders expected to initiate in Q2.
- The company is aiming to clock a revenue of INR2,000m within a couple of years.

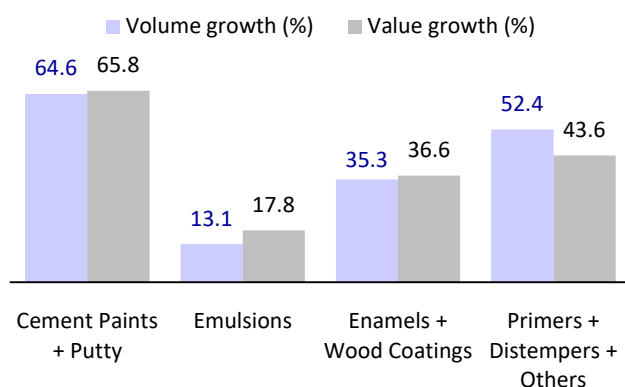
Other points

- Capex projects progressing well, with successful trial production in Tamil Nadu and a new plant in Jodhpur.

- Plans for a 12,000 KLPA solvent-based paint plant in Jodhpur are currently underway.
- Waterproofing products are distributed seamlessly through the company's pre-existing network of paint dealers.

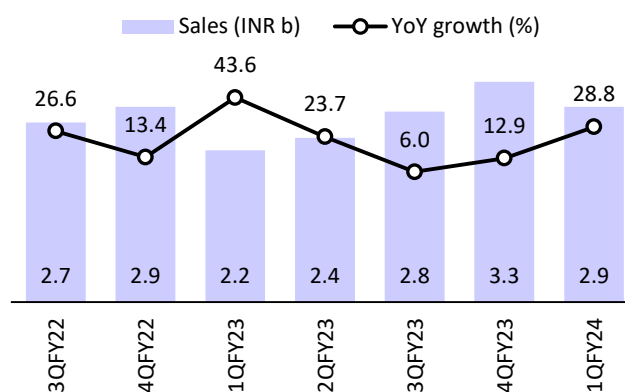
Key exhibits

Exhibit 1: Volume growth recovers in 1QFY24



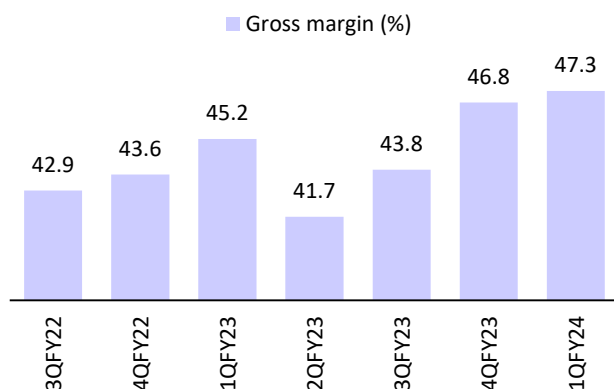
Source: Company, MOFSL

Exhibit 2: Sales up 28.8% YoY at INR2.9b in 1QFY24



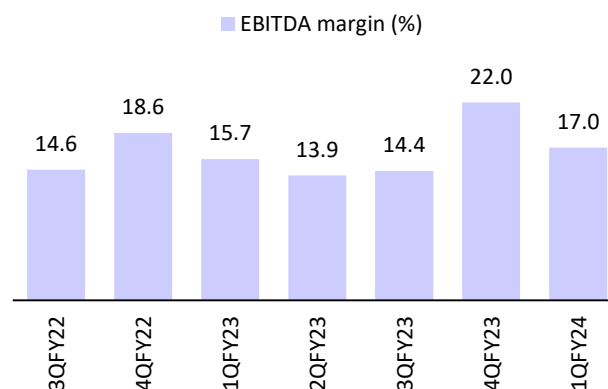
Source: Company, MOFSL

Exhibit 3: Gross margin up ~210bp YoY at 47.3% in 1QFY24



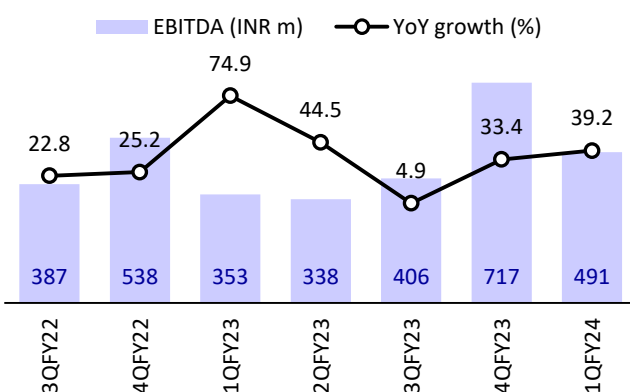
Source: Company, MOFSL

Exhibit 4: EBITDA margin rises ~130bp YoY to 17% in 1QFY24



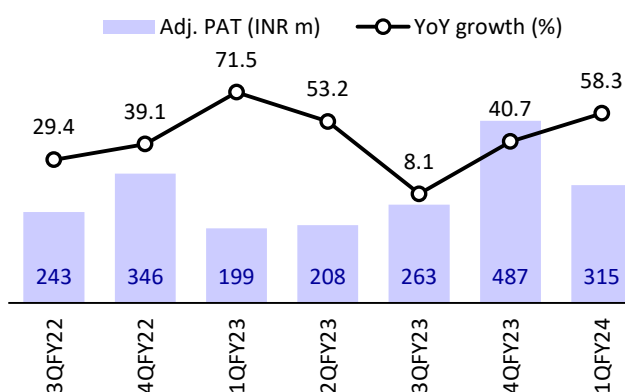
Source: Company, MOFSL

Exhibit 5: EBITDA grows 39.2% YoY to INR491m in 1QFY24



Source: Company, MOFSL

Exhibit 6: PAT up 58.3% YoY at INR315m in 1QFY24



Source: Company, MOFSL

Valuation and view

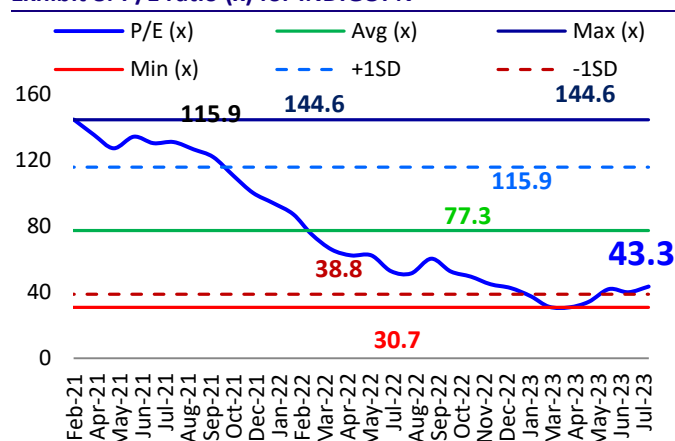
- There is no material change to FY24/FY25 EPS estimates.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian Paints industry through a deliberate and multifaceted approach, which includes a) pioneering differentiated product offerings, b) establishing an extensive distribution network within rural markets, c) cultivating brand recognition through substantial investments in advertising endeavors, d) swiftly advancing the adoption of tinting machines, and e) collaborating with the influential community of painters and contractors to foster trust.
- Additionally, the entry into the construction chemicals and waterproofing sector, coupled with the expansion of manufacturing capabilities for water-based paints will act as supplementary growth catalysts.
- We reiterate our **BUY** rating with **TP of INR2,025 (45x Mar'25E EPS)**.

Exhibit 7: No material change in our EPS estimates for FY24/FY25

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	12,987	15,974	12,901	15,649	0.7	2.1
EBITDA	2,398	3,205	2,382	3,156	0.7	1.6
PAT	1,551	2,140	1,563	2,125	-0.7	0.7

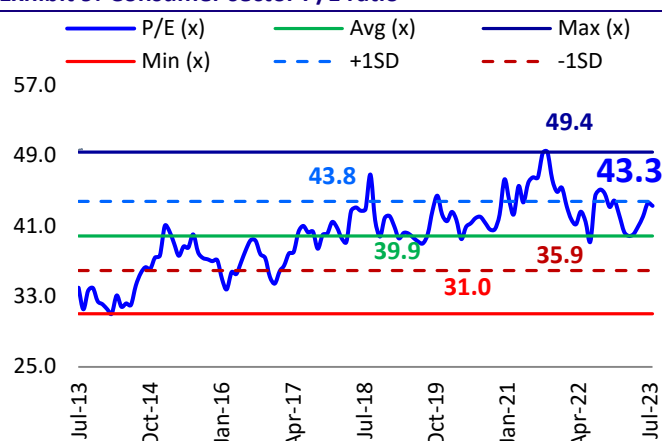
Source: Company, MOFSL

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	12,987	15,974
Change (%)		33.4	16.6	15.8	25.3	18.5	21.0	23.0
Raw Materials	2,377	2,985	3,220	3,765	5,135	5,952	7,013	8,498
Gross Profit	1,638	2,371	3,028	3,468	3,925	4,781	5,974	7,476
Margin (%)	40.8	44.3	48.5	47.9	43.3	44.5	46.0	46.8
Operating Expenses	1,380	1,830	2,118	2,243	2,565	2,966	3,576	4,271
EBITDA	258	541	910	1,225	1,360	1,815	2,398	3,205
Change (%)		109.6	68.2	34.7	11.0	33.5	32.1	33.7
Margin (%)	6.4	10.1	14.6	16.9	15.0	16.9	18.5	20.1
Depreciation	90	171	196	244	313	343	410	448
Int. and Fin. Charges	45	47	56	38	13	14	15	17
Other Income	16	16	16	36	109	101	118	132
Profit before Taxes	139	340	674	979	1,143	1,558	2,091	2,873
Change (%)		145.2	98.2	45.2	16.7	36.3	34.2	37.4
Margin (%)	3.5	6.4	10.8	13.5	12.6	14.5	16.1	18.0
Tax	-3	48	147	256	288	418	539	733
Tax Rate (%)	-2.2	20.1	29.1	27.6	26.5	25.8	25.8	25.5
PAT Before Minority	142	272	478	709	840	1,156	1,551	2,140
Adjusted PAT	142	272	478	709	840	1,156	1,551	2,140
Change (%)		91.7	76.0	48.2	18.6	37.5	34.2	38.0
Margin (%)	3.5	5.1	7.7	9.8	9.3	10.8	11.9	13.4
Reported PAT	155	275	478	709	840	1,319	1,551	2,140

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	8,526	10,239
Net Worth	1,275	1,475	1,971	5,635	6,499	7,761	9,002	10,714
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	9,190	10,902
Gross Block	686	1,006	1,669	2,339	2,612	2,785	3,085	3,435
Less: Accum. Depn.	67	137	245	452	716	987	1,554	2,005
Net Fixed Assets	619	869	1,424	1,887	1,896	1,798	1,531	1,430
Capital WIP	25	44	11	31	510	2,509	2,509	2,509
Right to Use Assets	97	311	278	301	332	543	750	804
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	5,239	6,984
Inventory	552	693	768	947	1,177	1,177	1,424	1,751
Account Receivables	968	1,038	1,045	1,212	1,717	2,001	2,421	2,978
Cash and Bank Balance	46	140	57	2,583	996	488	968	1,715
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	2,962	3,548
Account Payables	1,085	1,362	1,386	1,856	2,014	2,106	2,548	3,134
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	2,277	3,436
Goodwill on Cons.	407	306	306	306	306	306	306	306
Application of Funds	1,667	2,106	2,495	5,792	6,708	7,950	9,190	10,902

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	32.6	45.0
Cash EPS	4.9	9.3	14.2	20.0	24.2	31.5	41.2	54.4
BV/Share	26.8	31.0	41.4	118.5	136.6	163.2	189.2	225.2
DPS	0.0	0.0	0.0	0.0	3.0	3.5	6.5	9.0
Payout %	0.0	0.0	0.0	0.0	17.0	14.4	20.0	20.0

Valuation (x)

P/E	531.8	277.4	157.7	106.4	89.7	65.2	48.6	35.2
Cash P/E	325.0	170.5	111.8	79.2	65.4	50.3	38.4	29.1
EV/Sales	11.3	8.6	7.4	10.0	8.0	6.9	5.6	4.5
EV/EBITDA	176.0	84.9	50.7	59.0	53.4	40.6	30.3	22.2
P/BV	59.2	51.1	38.3	13.4	11.6	9.7	8.4	7.0
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	18.5	21.7
RoCE	11.3	16.4	22.5	17.8	13.6	15.9	18.2	21.4
RoIC		16.8	23.3	25.3	18.4	21.5	27.7	33.2

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	1.5

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	2,091	2,873
Depreciation	90	171	196	244	313	343	410	448
Net interest	44	45	54	22	-47	3	-103	-115
Others	4	6	-8	-5	-19	4	0	0
Direct Taxes Paid	0	-44	-124	-164	-258	-244	-539	-733
(Incr)/Decr in WC	-25	2	-69	137	-479	-505	-321	-413
CF from Operations	238	516	723	1,214	652	1,161	1,538	2,060
Incr in FA	-181	-633	-613	-660	-1,208	-1,970	-300	-350
Free Cash Flow	57	-117	110	553	-556	-809	1,238	1,710
Pur of Investments	5	0	0	-2,522	460	1,100	-500	-600
Others	5	23	-21	2,138	-1,438	-599	68	82
CF from Invest.	-171	-611	-634	-1,044	-2,186	-1,469	-732	-868
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	-310	-428
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	-326	-445
Incr/Decr of Cash	-1	94	-83	2,526	-1,587	-508	480	746
Add: Opening Balance	47	46	140	57	2,583	996	488	968
Closing Balance	46	140	57	2,583	996	488	968	1,715

E: MOSL Estimates

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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