

Indigo Paints

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USDb)	67.7 / 0.8
52-Week Range (INR)	1700 / 981
1, 6, 12 Rel. Per (%)	-4/10/-15
12M Avg Val (INR M)	149

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	10.7	13.3	16.2
Sales Gr. (%)	18.5	23.5	22.0
EBITDA	1.8	2.4	3.2
EBIT Margin (%)	16.9	18.4	19.9
Adj. PAT	1.2	1.6	2.1
Adj. EPS (INR)	24.3	32.7	44.2
EPS Gr. (%)	37.5	34.5	35.4
BV/Sh.(INR)	163.2	189.3	224.7

Ratios

RoE (%)	16.2	18.5	21.4
RoCE (%)	15.9	18.3	21.1

Valuation

P/E (x)	58.5	43.5	32.1
P/BV (x)	8.7	7.5	6.3
EV/EBITDA (x)	36.3	26.6	19.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.0	54.0	54.0
DII	2.3	2.9	3.1
FII	8.8	8.9	8.8
Others	35.0	34.3	34.1

FII Includes depository receipts

CMP: INR1,421 TP: INR1,770 (+25%) Buy

Below our estimates, but better than peer trends resume

- Indigo Paints (INDIGOPN) delivered a sales growth of 15% YoY, surpassing the industry average. This can be attributed to their lower base compared to competitors, coupled with superior execution of their strategies. The company is focused on the installation of tinting machine in Tier 1 and 2 cities and is also ramping up its sales force.
- The GP and EBITDA margin expanded YoY, but declined sequentially, due to the higher growth in the economy category compared to the premium segment. The premium category, primarily consisting of exterior paints, was adversely affected by the monsoon season, impacting its performance.
- The management witnessed exceptionally good sales in Oct'23 and anticipates this positive momentum to continue. The margin is expected to pick up significantly in subsequent quarters on better product mix.
- 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.

Sales in line; miss on PAT due to lower operating margin

Consolidated

- Net sales grew 15% YoY to INR2,790m (est. INR2,902m) in 2QFY24.
- Gross margin expanded 380bp YoY to 45.6%. As a percentage of sales, high employee costs (up 190bp YoY to 9.1%) and 'other expenses' (up 70bp YoY to 21.3%) limited EBITDA margin (up 120bp YoY) to 15.1% (est. 17.6%).
- EBITDA grew 24.8% YoY to INR421m (est. INR511m).
- PBT increased 18.6% YoY to INR335m (est. INR433m).
- Adj. PAT rose 22.1% YoY to INR253m (est. INR321m).
- **For 1HFY24**, net sales/EBITDA/Adj. PAT grew 21.6%/32.1%/38.6% YoY.

Highlights from the management commentary

- Sales grew at more than 3x-4x the industry growth rate, indicating significant market share gain. Management anticipates this trend to continue, with the gap between the company's growth rate and the industry average widening even further.
- It launched a new advertisement campaign using MS Dhoni & Mohan Lal together (in Kerala) to promote the most premium emulsion "Dirt & Waterproof Exterior Paint".
- The company is focused on improving throughput per active dealer; it currently has 17,148 active dealers and 9,114 tinting machines in operation.
- In FY24, Apple Chemie is to achieve a turnover of INR ~550-600mn, with an expected growth rate of 40-50%.
- Civil works have commenced for the upcoming water-based paint plant in Jodhpur. The plant is scheduled to become operational within the next 18 months.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

MotilalOswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- There is no material change to FY24/FY25 EPS estimates.
- Indigo's strategic shift to focus on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 is proving to be a successful endeavor. The positive outcomes are clear, as evidenced by industry growth exceeding 3x-4x in two consecutive quarters. This approach has the potential market to result in significant market share gains across various segments for the company.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian Paints industry through a deliberate and multifaceted approach, including a) pioneering differentiated product offerings, b) continuing to strengthen distribution with the addition of two depots (one each in West & East India), 455 dealers and 457 tinting machines in Q2FY24, c) cultivating brand recognition through substantial investments in advertising efforts, d) collaborating with the influential community of painters and contractors to foster trust, and e) leveraging synergies through the partnership with Apple Chemie in Indigo's supply chain. We reiterate our BUY rating with revised TP of INR1,770 (40x Mar'25E EPS).

Consolidated Quarterly Performance**(INR m)**

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	2,240	2,426	2,813	3,255	2,884	2,790	3,572	4,009	10,733	13,256	2,902	-3.8%
Change (%)	43.6	23.7	6.0	12.9	28.8	15.0	27.0	23.2	18.5	23.5	19.6	
Raw Material/PM	1,228	1,414	1,580	1,731	1,519	1,519	1,922	2,172	5,952	7,132	1,593	
Gross Profit	1,012	1,012	1,233	1,524	1,365	1,271	1,650	1,837	4,781	6,124	1,309	-2.8%
Gross Margin (%)	45.2	41.7	43.8	46.8	47.3	45.6	46.2	45.8	44.5	46.2	45.1	
EBITDA	353	338	406	717	491	421	689	833	1,815	2,434	511	-17.5%
Margin (%)	15.7	13.9	14.4	22.0	17.0	15.1	19.3	20.8	16.9	18.4	17.6	
Change (%)	74.9	44.5	4.9	33.4	39.2	24.8	70.0	16.1	33.5	34.1	51.2	
Interest	4	3	3	4	5	6	4	4	14	18	3	
Depreciation	84	85	87	87	101	113	117	120	343	451	102	
Other Income	5	32	38	28	38	32	28	31	101	129	27	
PBT	269	282	353	654	423	335	597	739	1,558	2,095	433	-22.7%
Tax	70	74	91	168	108	81	156	195	402	540	112	
Effective Tax Rate (%)	26.0	26.4	25.7	25.6	25.6	24.3	26.1	26.4	25.8	25.8	25.9	
Adjusted PAT	199	208	263	487	310	253	442	544	1,156	1,554	321	-21.0%
Change (%)	71.5	53.2	8.1	40.7	55.9	22.1	68.1	11.9	37.5	34.5	54.5	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	2Q
Segmental volume growth (%)						
Cement Paints + Putty	12.7	6.2	34.8	42	64.6	50.6
Emulsions	34.4	-4.2	-4.3	5.2	13.1	20
Enamels + Wood Coatings	15.8	28.8	4.7	24.8	35.3	5.4
Primers + Distempers + Others	2.4	13.1	1.3	37.6	52.4	28.8
Segmental value growth (%)						
Cement Paints + Putty	22.7	16.3	42.3	45.1	65.8	47.9
Emulsions	65.7	17.4	3.3	9.4	17.8	15.4
Enamels + Wood Coatings	38.1	46.9	14.6	27.3	36.6	3
Primers + Distempers + Others	28	22.4	5.5	23.2	43.6	26.6
2Y average growth (%)						
Sales	46.4	25.2	16.3	13.1	36.2	19.4
EBITDA	40.5	12.4	13.8	29.3	57.1	34.6
PAT	54.9	12.6	18.7	39.9	63.7	37.6
% of Sales						
COGS	54.8	58.3	56.2	53.2	52.7	54.4
Operating Expenses	29.4	27.8	29.4	24.8	30.3	30.5
Depreciation	3.8	3.5	3.1	2.7	3.5	4.0
YoY change (%)						
COGS	44.4	23.7	4.2	6.4	23.7	7.4
Operating Expenses	29.7	15.4	10.0	12.1	32.5	26.0
Other Income	-83.9	4.6	63.2	12.2	684.9	-0.6
EBIT	109.6	61.3	3.4	38.7	45.3	22.0

E: MOFSL Estimates



Highlights from the management commentary

Performance and outlook

- Sales grew at more than 3x-4x the industry growth rate, indicating significant market share gain. Management expects the gap between the company and industry growth rate to widen further.
- Sales growth at Tier1, 2 cities continues to outstrip the growth at Tier3, 4 cities and rural areas.
- During the quarter, volume growth outpaced value growth across all categories. This trend can be attributed to the faster growth of the economy category compared to the premium segment.
- The premium category primarily consists of exterior paint, which was adversely affected in Q2 due to the monsoon season.
- Exceptionally good sales witnessed in Oct'23 with timely monsoon withdrawal and long festive seasons.
- The growth of Enamels is muted in the quarter while Emulsions registered good growth.
- The company does not expect any slowdown in rural areas. Growth rate is the same in both rural and urban markets.
- It does not lose any market share due to any local players.
- The company is in the process of building a team to enter project sales. Initially, it has focused on 8 states where its retail presence is strong, with plans to gradually expand its operations on an all-India basis.
- In project sales, prices are more competitive; however, there is no dilution in the quality of products.

Costs and margins

- The Advertisement and promotion spends increased 7.74% to INR157.8m in 2QFY24 in absolute terms. However, as a percentage of sales, it has declined.
- It launched a new advertisement campaign using MS Dhoni & Mohan Lal together (in Kerala) to promote the most premium emulsion "Dirt & Waterproof Exterior Paint".
- The share of premium category will be higher in Q3 and Q4 compared to economy. Therefore, GP margin will significantly higher in Q3 and Q4, which led the EBITDA expansion.
- Depreciation is increasing due to commissioning of Pudukkottai plant in Tamil Nadu.

Apple Chemie (Acquired entity)

- Apple Chemie is a strong B2B player in construction chemical and waterproofing in Maharashtra with clients such as L&T, Shapoorji Pallonji, and BG shrike.
- New sales force is employed to push the sales outside Maharashtra after the acquisition. Now, it has sales office in 8-10 states in India outside Maharashtra.
- In the B2B business, obtaining product approvals can be a time-consuming process, even with the same vendors like L&T and Shapoorji in other states. The company is required to get the product approved at each specific location.
- The company has started getting its approvals and orders from these new geographies.
- In FY24, Apple Chemie is to achieve a turnover of INR ~550-600mn, with an expected growth rate of 40-50%.

Distribution Network

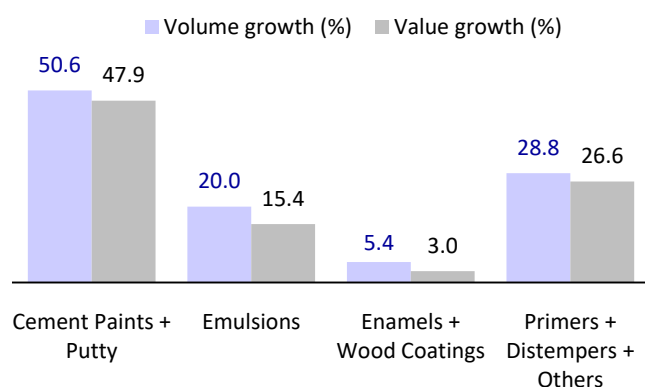
- The company is focused on improving throughput per active dealer; it currently has 17,148 active dealers and 9,114 tinting machines in operation.
- It added two more depots, one each in west India and East India, to improve the distribution efficiency.
- INDIGOPN tinting machine is different from those of other paint companies due to its unique design, which incorporates an embedded computer within the tinting machine itself. In contrast, with other companies, dealers are required to use a separate computer alongside the tinting machine.

Other points

- Civil works have commenced for the new water-based paint plant in Jodhpur, which is expected to become operational within the next 18 months.
- Commercial production of water-based paint products began at the new plant in Tamil Nadu on Sep18, 2023.

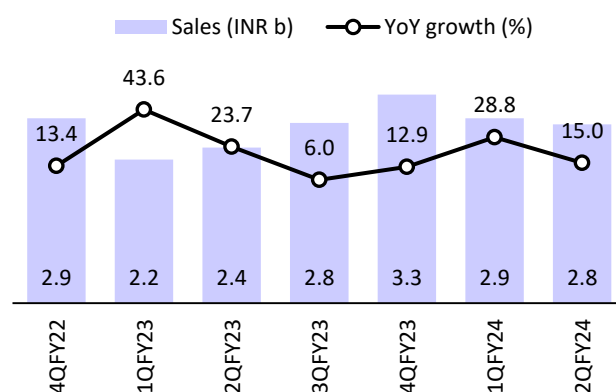
Key exhibits

Exhibit 1: Volume growth recovers in 2QFY24



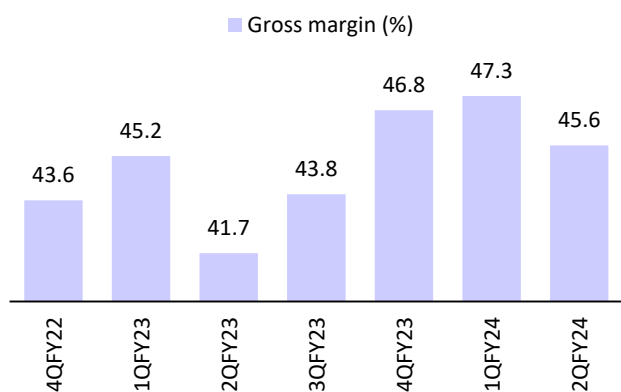
Source: Company, MOFSL

Exhibit 2: Sales up 15% YoY at INR2.8b in 2QFY24



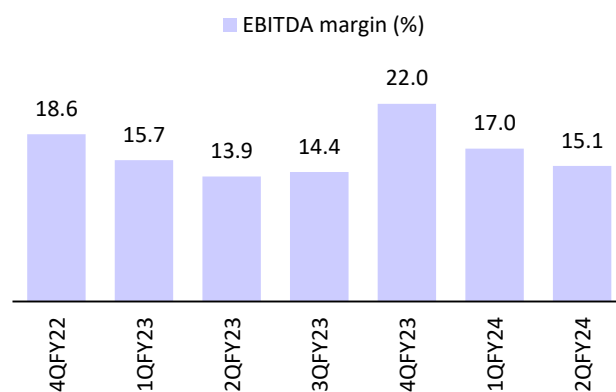
Source: Company, MOFSL

Exhibit 3: Gross margin up ~380bp YoY at 45.6% in 2QFY24

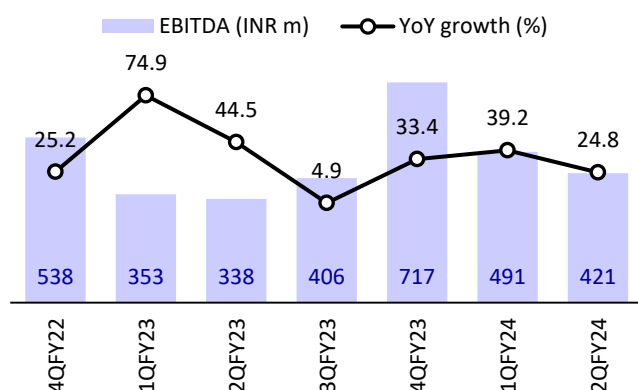


Source: Company, MOFSL

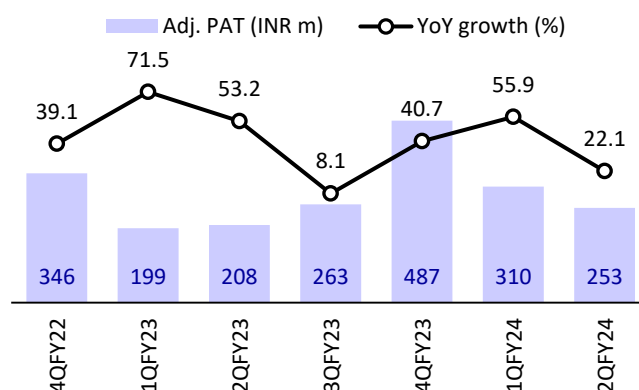
Exhibit 4: EBITDA margin rises ~120bp YoY to 15.1% in 2QFY24



Source: Company, MOFSL

Exhibit 5: EBITDA grew 24.8% YoY to INR421m in 2QFY24

Source: Company, MOFSL

Exhibit 6: PAT up 22.1% YoY at INR253m in 2QFY24

Source: Company, MOFSL

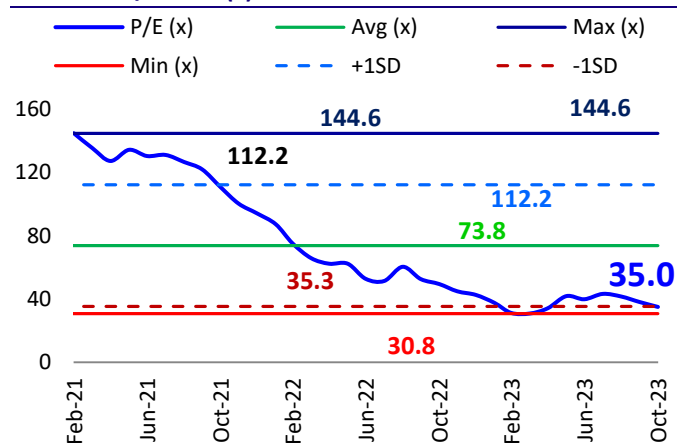
Valuation and view

- There is no material change to FY24/FY25 EPS estimates.
- Indigo's strategic shift to focus on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 is proving to be a successful endeavor. The positive outcomes are clear, as evidenced by industry growth exceeding 3x-4x in two consecutive quarters. This approach has the potential market to result in significant market share gains across various segments for the company.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian Paints industry through a deliberate and multifaceted approach, including a) pioneering differentiated product offerings, b) It continues to strengthen distribution with the addition of two depots (one each in West & East India), 455 dealers and 457 tinting machines in Q2FY24, c) cultivating brand recognition through substantial investments in advertising efforts, d) collaborating with the influential community of painters and contractors to foster trust, and e) leveraging synergies through the partnership with Apple Chemie in Indigo's supply chain. We reiterate our BUY rating with revised **TP of INR1,770 (40x Mar'25E EPS)**.

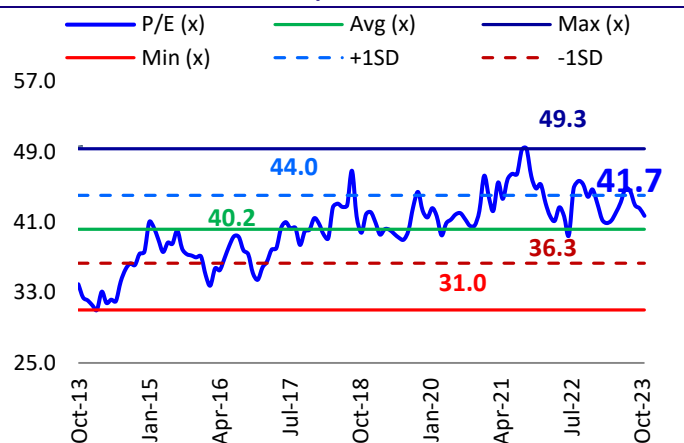
Exhibit 7: No material change in our EPS estimates for FY24/FY25

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	13,256	16,172	13,041	16,040	1.6	0.8
EBITDA	2,434	3,213	2,408	3,219	1.1	-0.2
PAT	1,554	2,104	1,559	2,150	-0.3	-2.1

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	13,256	16,172
Change (%)		33.4	16.6	15.8	25.3	18.5	23.5	22.0
Raw Materials	2,377	2,985	3,220	3,765	5,135	5,952	7,132	8,571
Gross Profit	1,638	2,371	3,028	3,468	3,925	4,781	6,124	7,601
Margin (%)	40.8	44.3	48.5	47.9	43.3	44.5	46.2	47.0
Operating Expenses	1,380	1,830	2,118	2,243	2,565	2,966	3,690	4,388
EBITDA	258	541	910	1,225	1,360	1,815	2,434	3,213
Change (%)		109.6	68.2	34.7	11.0	33.5	34.1	32.0
Margin (%)	6.4	10.1	14.6	16.9	15.0	16.9	18.4	19.9
Depreciation	90	171	196	244	313	343	451	501
Int. and Fin. Charges	45	47	56	38	13	14	18	20
Other Income	16	16	16	36	109	101	129	132
Profit before Taxes	139	340	674	979	1,143	1,558	2,095	2,824
Change (%)		145.2	98.2	45.2	16.7	36.3	34.4	34.8
Margin (%)	3.5	6.4	10.8	13.5	12.6	14.5	15.8	17.5
Tax	-3	48	147	256	288	418	540	720
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	1,554	2,104
Adjusted PAT	142	272	478	709	840	1,156	1,554	2,104
Change (%)		91.7	76.0	48.2	18.6	37.5	34.5	35.4
Margin (%)	3.5	5.1	7.7	9.8	9.3	10.8	11.7	13.0
Reported PAT	155	275	478	709	840	1,319	1,554	2,104

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	8,529	10,212
Net Worth	1,275	1,475	1,971	5,635	6,499	7,761	9,005	10,688
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	9,193	10,876
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	710	710
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	5,335	7,090
Inventory	552	693	768	947	1,177	1,177	1,453	1,773
Account Receivables	968	1,038	1,045	1,212	1,717	2,001	2,471	3,015
Cash and Bank Balance	46	140	57	2,583	996	488	984	1,762
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	3,015	3,587
Account Payables	1,085	1,362	1,386	1,856	2,014	2,106	2,601	3,173
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	2,320	3,503
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	9,193	10,875

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	32.7	44.2
Cash EPS	4.9	9.3	14.2	20.0	24.2	31.5	42.2	54.8
BV/Share	26.8	31.0	41.4	118.5	136.6	163.2	189.3	224.7
DPS	0.0	0.0	0.0	0.0	3.0	3.5	6.5	8.8
Payout %	0.0	0.0	0.0	0.0	17.0	14.4	20.0	20.0
Valuation (x)								
P/E	477.0	248.9	141.4	95.5	80.5	58.5	43.5	32.1
Cash P/E	291.5	152.9	100.3	71.0	58.7	45.1	33.7	26.0
EV/Sales	10.1	7.7	6.6	8.9	7.2	6.1	4.9	3.9
EV/EBITDA	157.9	76.2	45.5	52.7	47.7	36.3	26.6	19.8
P/BV	53.1	45.9	34.3	12.0	10.4	8.7	7.5	6.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.2	0.2	0.5	0.6
Return Ratios (%)								
RoE	11.1	19.8	27.8	18.6	13.9	16.2	18.5	21.4
RoCE	11.3	16.4	22.5	17.8	13.6	15.9	18.3	21.1
RoIC		16.8	23.3	25.3	18.4	21.5	27.6	32.8
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

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	2,095	2,824
Depreciation	90	171	196	244	313	343	451	501
Net interest	44	45	54	22	-47	3	-111	-112
Others	4	6	-8	-5	-19	4	0	0
Direct Taxes Paid	0	-44	-124	-164	-258	-244	-540	-720
(Incr)/Decr in WC	-25	2	-69	137	-479	-505	-347	-406
CF from Operations	238	516	723	1,214	652	1,161	1,547	2,087
Incr in FA	-181	-633	-613	-660	-1,208	-1,970	-300	-350
Free Cash Flow	57	-117	110	553	-556	-809	1,247	1,737
Pur of Investments	5	0	0	-2,522	460	1,100	-500	-600
Others	5	23	-21	2,138	-1,438	-599	79	82
CF from Invest.	-171	-611	-634	-1,044	-2,186	-1,469	-721	-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	-311	-421
Net interest Paid	-38	-37	-47	-33	-2	0	-18	-20
Others	0	0	0	-41	-50	-58	0	0
CF from Fin. Activity	-68	189	-172	2,357	-53	-201	-329	-441
Incr/Decr of Cash	-1	94	-83	2,526	-1,587	-508	496	777
Add: Opening Balance	47	46	140	57	2,583	996	488	984
Closing Balance	46	140	57	2,583	996	488	984	1,762

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

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