

Indigo Paints

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,449 TP: INR1,800 (+24%) Buy

Sustained outperformance: continues to demonstrate strength

Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USD\$)	69 / 0.8
52-Week Range (INR)	1700 / 981
1, 6, 12 Rel. Per (%)	-1/-17/4
12M Avg Val (INR M)	152

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	13.1	15.8	18.7
Sales Gr. (%)	22.0	21.0	18.0
EBITDA	2.4	3.0	3.6
EBIT Margin (%)	18.4	18.8	19.0
Adj. PAT	1.5	1.9	2.3
Adj. EPS (INR)	31.6	39.6	47.5
EPS Gr. (%)	30.0	25.3	20.1
BV/Sh.(INR)	188.4	219.3	255.0

Ratios

RoE (%)	18.0	19.4	20.1
RoCE (%)	17.8	19.2	19.9

Valuation

P/E (x)	45.8	36.5	30.4
P/BV (x)	7.7	6.6	5.7
EV/EBITDA (x)	27.8	21.9	18.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	53.9	54.0	54.0
DII	1.8	2.3	3.4
FII	8.8	8.8	10.2
Others	35.5	34.3	32.5

FII Includes depository receipts

- Indigo Paints delivered a sales growth of 25.8% YoY, and continued to surpass the industry growth (3x-4x of industry growth in 3Q). Sales growth in Tier1/2 cities continue to outpace the Tier3/4 cities and rural areas. Volume growth stood strong in double-digits across all segments.
- GM expanded 440bp YoY to 48.2%, driven by benign RM prices and mix. Reinvestment in team building, marketing, and distribution expenses has led to higher other operating expenses, which was up 30% YoY. EBITDA margin was up 320bp YoY to 17.6%; EBITDA grew 53.5% YoY (est. 42%).
- Given the relatively small scale of Indigo Paints (INR 11b revenue in FY23) in the large Paints industry, the company has been able to grow much faster than the industry. Consumers' rising acceptance of the brand and distribution expansion have been driving the outperformance. With the entry into the water proofing segment through Apple Chemie, the company has expanded its growth prospects. We forecast a 20% revenue CAGR during FY24-26, with EBITDA margins of 18-19% FY24-26 vs. 17% in FY23.
- **We reiterate our BUY rating on the stock at a TP of INR1,800 (40x P/E on Dec'25 EPS).**

Strong performance amid challenging environment

- **Industry-leading revenue growth:** Net sales grew 25.8% YoY to INR3,538m (est. INR3,406m). Indigo Paints is consistently gaining market share. Emulsions, Enamels, Primers/distempers, and cement paints/putty clocked revenue growth of 18.2%, 25.2%, 34.7%, and 25.2%, respectively.
- **Dealer expansion spree continues:** Indigo Paints maintained its focus on expanding its distribution reach, with the network of active dealers growing to 17,745 vs. 16,785 in 3QFY23 and 17,148 in 2QFY24. The dealer network saw a 16% growth over the last two years.
- **Healthy margin expansion:** GM rose 440bp YoY and 260bp QoQ to 48.2% (est. 46.1%), aided by a favorable product mix. Employee and other expenses (% of sales) were up 30bp and 90bp YoY, respectively. A&P expenses saw a 28% growth due to higher ad spends during Cricket World Cup. EBITDA margin expanded 320bp YoY to 17.6% (est. 16.9%).
- **Strong growth in EBITDA/PBT/PAT:** EBITDA grew 53.5% YoY to INR622m (est. INR576m). PBT increased 41.7% YoY to INR501m (est. INR483m). Adj. PAT rose 43% YoY to INR376m (est. INR357m).
- **In 9MFY24,** net sales/EBITDA/adj. PAT increased 23%/40%/40%.

Highlights from the management commentary

- Industry has taken a price cut in Jan'24, primarily in the premium portfolio. Indigo Paints will see limited impact due to its low share in the premium segment.

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- The company is confident of achieving INR13.5-14b sales in FY24. In 9MFY24, it has already achieved INR9.2b and the fourth quarter is a seasonally strong quarter. It has targeted to achieve INR20b sales in FY25.
- The company added 396 tinting machines in 3Q, taking the total count to 9,510 in 3QFY24 from 9,114 in 2QFY24.

Valuation and view

- We increase our FY24 EPS by 4% while maintaining our projections for FY25 largely unchanged.
- The rising consumer acceptance of the brand along with strategic focus on growing the scale (brand penetration, capacity expansion, etc.) can sustain the inspiring growth trends. The company's recent acquisition of Apple Chemie has successfully expanded its presence in seven to eight states; we expect the benefits to become visible in FY25.
- We model 20% revenue CAGR over FY24-26 (largely volume driven). The company can operate at 18-19% EBITDA margin over FY24-26 vs. 17% in FY23.
- Indigo Paints' performance amid rising competitive intensity will be a key monitorable. **We reiterate our BUY rating on the stock at a TP of INR1,800 (40x P/E on Dec'25 EPS).**

Consolidated Quarterly Performance

(INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Net Sales	2,240	2,426	2,813	3,255	2,884	2,790	3,538	3,883	10,733	13,095	3,406	3.9%
Change (%)	43.6	23.7	6.0	12.9	28.8	15.0	25.8	19.3	18.5	22.0	21.1	
Raw Material/PM	1,228	1,414	1,580	1,731	1,519	1,519	1,833	1,978	5,952	6,849	1,836	
Gross Profit	1,012	1,012	1,233	1,524	1,365	1,271	1,705	1,905	4,781	6,246	1,570	8.6%
Gross Margin (%)	45.2	41.7	43.8	46.8	47.3	45.6	48.2	49.1	44.5	47.7	46.1	
EBITDA	353	338	406	717	491	421	622	869	1,815	2,403	576	8.1%
Margin (%)	15.7	13.9	14.4	22.0	17.0	15.1	17.6	22.4	16.9	18.4	16.9	
Change (%)	74.9	44.5	4.9	33.4	39.2	24.8	53.5	21.1	33.5	32.4	41.9	
Interest	4	3	3	4	5	6	6	4	14	21	4	
Depreciation	84	85	87	87	101	113	146	146	343	506	118	
Other Income	5	32	38	28	38	32	31	30	101	131	28	
PBT	269	282	353	654	423	335	501	748	1,558	2,007	483	3.7%
Tax	70	74	91	168	108	81	125	189	402	504	126	
Effective Tax Rate (%)	26.0	26.4	25.7	25.6	25.6	24.3	25.0	25.3	25.8	25.1	26.1	
Adjusted PAT	199	208	263	487	310	253	376	564	1,156	1,503	357	5.3%
Change (%)	71.5	53.2	8.1	40.7	55.9	22.1	43.0	14.9	37.5	30.0	35.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Segmental volume growth (%)							
Cement Paints + Putty	12.7	6.2	34.8	42.0	64.6	50.6	24.2
Emulsions	34.4	-4.2	-4.3	5.2	13.1	20.0	14.3
Enamels + Wood Coatings	15.8	28.8	4.7	24.8	35.3	5.4	27.3
Primers + Distempers + Others	2.4	13.1	1.3	37.6	52.4	28.8	37.7
Segmental value growth (%)							
Cement Paints + Putty	22.7	16.3	42.3	45.1	65.8	47.9	25.2
Emulsions	65.7	17.4	3.3	9.4	17.8	15.4	18.2
Enamels + Wood Coatings	38.1	46.9	14.6	27.3	36.6	3.0	25.2
Primers + Distempers + Others	28.0	22.4	5.5	23.2	43.6	26.6	34.7
2Y average growth (%)							
Sales	46.4	25.2	16.3	13.1	36.2	19.4	15.9
EBITDA	40.5	12.4	13.8	29.3	57.1	34.6	29.2
PAT	54.9	12.6	18.7	39.9	63.7	37.6	25.5
% of Sales							
COGS	54.8	58.3	56.2	53.2	52.7	54.4	51.8
Operating Expenses	29.4	27.8	29.4	24.8	30.3	30.5	30.6
Depreciation	3.8	3.5	3.1	2.7	3.5	4.0	4.1
YoY change (%)							
COGS	44.4	23.7	4.2	6.4	23.7	7.4	16.0
Operating Expenses	29.7	15.4	10.0	12.1	32.5	26.0	30.8
Other Income	-83.9	4.6	63.2	12.2	684.9	-0.6	-18.8
EBIT	109.6	61.3	3.4	38.7	45.3	22.0	49.6

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.
- Sales growth at Tier1/2 cities continues to exceed the growth in Tier3/4 cities and rural areas.
- The gradual premiumization in the emulsions has boosted value growth, surpassing volume growth.
- There is no price change in the cement paints and putty category.
- The company continues to focus on waterproofing and construction chemicals. These segments have begun to gain good sales traction in Jan'24, and we anticipate this trend to continue in the following quarters.
- Market share gain is mainly from the organized players. However, due to smaller size gain, it is not noticeable by larger players.
- The price-cut initiatives is normally taken by the industry leaders.
- Industry had a taken price cut in Jan'24, mainly in the premium portfolio. However, it has had no major impact on Indigo Paints, due to its lower share in the premium category.
- The company is confident of achieving INR13.5-14b sales in FY24. In 9MFY24, it has already achieved INR9.2b and the fourth quarter is a seasonally strong quarter.
- Management has targeted to achieve INR20b sales in FY25.

Costs and margins

- A&P spends increased during the quarter due to marketing efforts related to the World Cup series.
- It has recently launched a new advertisement campaign with cricketer MS Dhoni to promote Waterproofing products.
- Gross and EBITDA margins are generally quite high in 4Q, compared to other quarters.
- Management guided 18.5% EBITDA margin for FY24.
- Depreciation also increased due to commissioning of the new plant at Tamil Nadu, which went on stream in Sep'23.
- Fright costs depend on both the distance from the factory and premium product sales.

Distribution Network

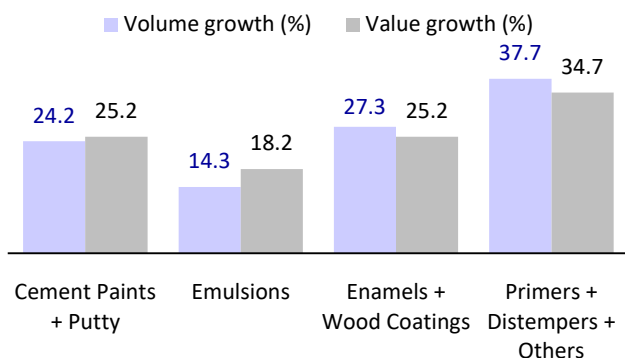
- The company added two more depots (one each in North India & East India) to improve its distribution efficiency. As of Dec'23, the company has a total 53 depots.
- It added 396 tinting machines, taking the total to 9,510 in 3QFY24 from 9,114 in 2QFY24.

Other points

- On the B2B front, during the past three quarters, Apple Chemie has been steadily investing in salesforce expansion and has established its presence in seven to eight more states. Apple Chemie is expected to clock healthy sales in 4QFY24.
- Civil work is progressing well in the proposed new water-based paint plant at Jodhpur, which is expected to commence operation in Mar'25.
- The capacity at Jodhpur plant will be 10-11k ton/month for putty, 1,200 ton/month for cement and 12k KL/annum for solvent-based paint. Capacity will increase to 90k KL/annum from 54k KL/annum for waterproofing paints.
- Currently, the capacity of waterproofing paint at Cochin plant stands at 42k KL/annum and at 55k KL/annum for the Tamil Nadu plant.
- Southern region has contributed more than 25% of overall sales due to increased contribution from Kerala.
- The company has seen a healthy contribution from the west and east regions. While the northern region's contribution has been less, it is expected to improve gradually following the establishment of the new water-based plant at Jodhpur.
- Dealers receive higher margins on Indigo Paints products compared to those of peers.
- The entry of a new competitor is not expected to significantly impact existing players, given the high barriers of entry in the industry.

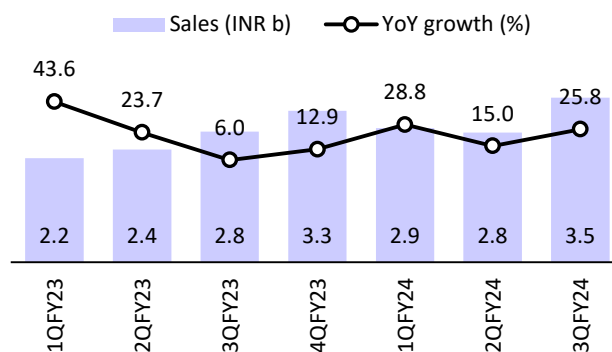
Key exhibits

Exhibit 1: Volume growth sustains in 3QFY24



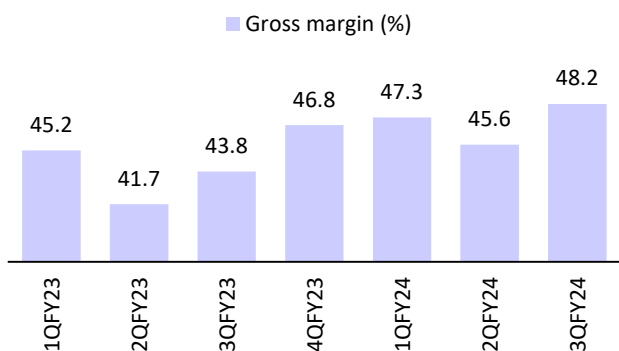
Source: Company, MOFSL

Exhibit 2: Sales up 25.8% YoY to INR3.5b in 3QFY24



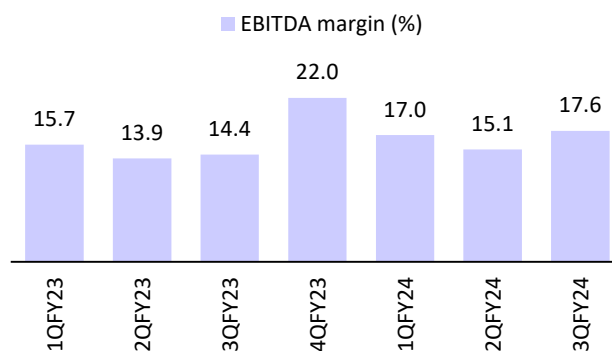
Source: Company, MOFSL

Exhibit 3: Gross margin up ~440bp YoY to 48.2% in 3QFY24



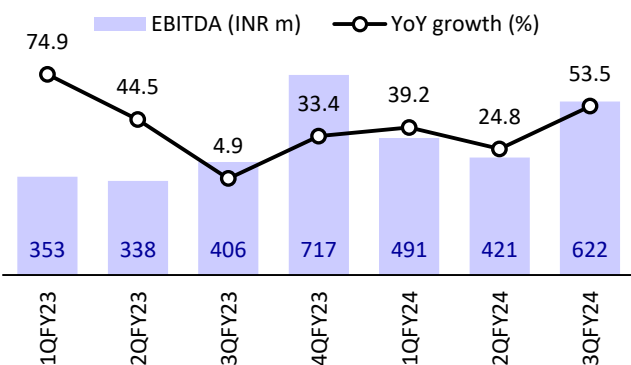
Source: Company, MOFSL

Exhibit 4: EBITDA margin up ~320bp YoY to 17.6% in 3QFY24



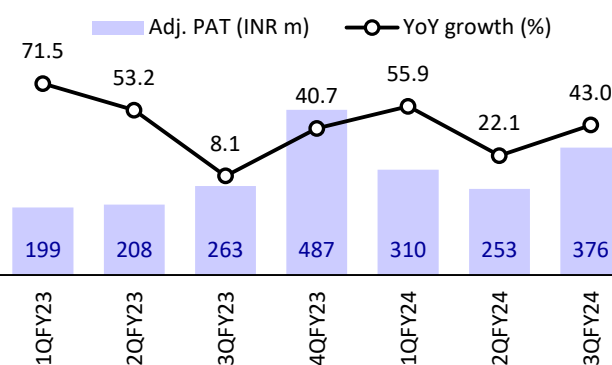
Source: Company, MOFSL

Exhibit 5: EBITDA grew 53.5% YoY to INR622m in 3QFY24



Source: Company, MOFSL

Exhibit 6: PAT up 43% YoY to INR376m in 3QFY24



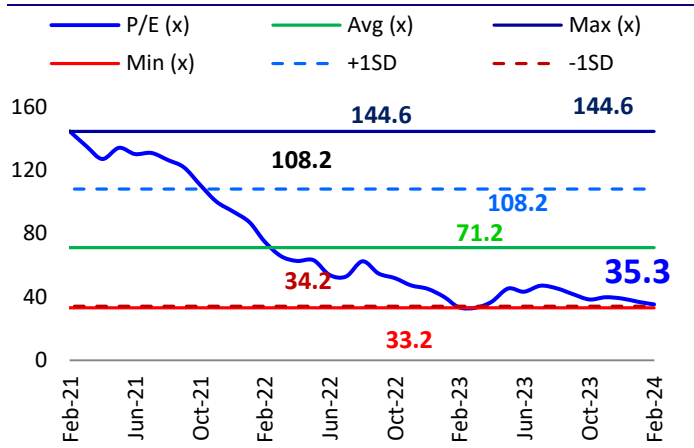
Source: Company, MOFSL

Exhibit 7: We increase our FY24 EPS by 4%, while largely maintain our projections for FY25

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	13,095	15,845	12,826	15,225	2.1	4.1
EBITDA	2,403	2,985	2,291	2,979	4.9	0.2
PAT	1,503	1,884	1,446	1,938	3.9	-2.8

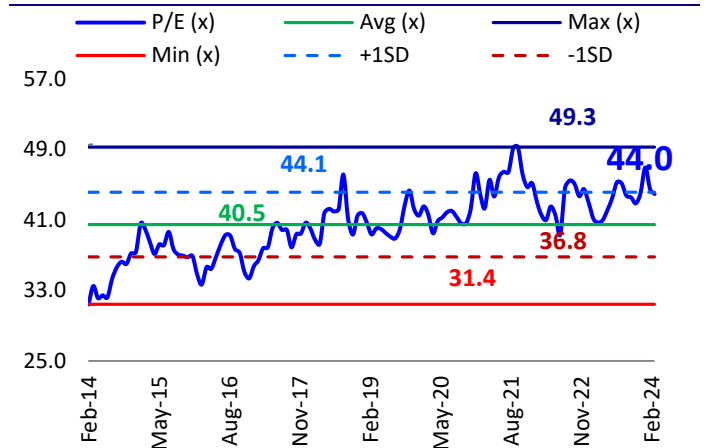
Source: Company, MOFSL

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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,356	6,248	7,233	9,060	10,733	13,095	15,845	18,697
Change (%)	33.4	16.6	15.8	25.3	18.5	22.0	21.0	18.0
Raw Materials	2,985	3,220	3,765	5,135	5,952	6,849	8,255	9,722
Gross Profit	2,371	3,028	3,468	3,925	4,781	6,246	7,590	8,974
Margin (%)	44.3	48.5	47.9	43.3	44.5	47.7	47.9	48.0
Operating Expenses	1,830	2,118	2,243	2,565	2,966	3,843	4,604	5,414
EBITDA	541	910	1,225	1,360	1,815	2,403	2,985	3,560
Change (%)	109.6	68.2	34.7	11.0	33.5	32.4	24.2	19.3
Margin (%)	10.1	14.6	16.9	15.0	16.9	18.4	18.8	19.0
Depreciation	171	196	244	313	343	506	590	672
Int. and Fin. Charges	47	56	38	13	14	21	23	26
Other Income	16	16	36	109	101	131	144	159
Profit before Taxes	340	674	979	1,143	1,558	2,007	2,516	3,021
Change (%)	145.2	98.2	45.2	16.7	36.3	28.8	25.3	20.1
Margin (%)	6.4	10.8	13.5	12.6	14.5	15.3	15.9	16.2
Tax	48	147	256	288	418	504	632	759
Tax Rate (%)	20.1	29.1	27.6	26.5	25.8	25.1	25.1	25.1
PAT Before Minority	272	478	709	840	1,156	1,503	1,884	2,262
Adjusted PAT	272	478	709	840	1,156	1,503	1,884	2,262
Change (%)	91.7	76.0	48.2	18.6	37.5	30.0	25.3	20.1
Margin (%)	5.1	7.7	9.8	9.3	10.8	11.5	11.9	12.1
Reported PAT	275	478	709	840	1,319	1,503	1,884	2,262

Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	289	290	476	476	476	476	476	476
Reserves	1,186	1,680	5,159	6,023	7,285	8,488	9,957	11,653
Net Worth	1,475	1,971	5,635	6,499	7,761	8,964	10,433	12,129
Loans	516	392	0	0	0	0	0	0
Other Liability	115	132	157	209	188	188	188	188
Capital Employed	2,106	2,495	5,792	6,708	7,949	9,152	10,621	12,317
Gross Block	1,006	1,669	2,339	2,612	2,785	3,785	4,035	4,535
Less: Accum. Depn.	137	245	452	716	987	1,282	1,539	1,615
Net Fixed Assets	869	1,424	1,887	1,896	1,798	2,503	2,497	2,920
Capital WIP	44	11	31	510	2,509	2,509	2,509	2,509
Right to Use Assets	311	278	301	332	543	383	99	104
Investments	197	208	497	1,731	1,317	1,817	2,417	3,217
Curr. Assets, L&A	2,002	1,967	4,983	4,288	3,996	4,617	6,315	7,260
Inventory	693	768	947	1,177	1,177	1,435	1,737	1,895
Account Receivables	1,038	1,045	1,212	1,717	2,001	2,441	2,954	3,330
Cash and Bank Balance	140	57	2,583	996	488	314	1,084	1,357
Others	130	97	241	398	330	426	540	678
Curr. Liab. and Prov.	1,623	1,698	2,212	2,354	2,520	2,983	3,522	4,000
Account Payables	1,362	1,386	1,856	2,014	2,106	2,569	3,109	3,586
Other Liabilities	261	289	315	270	318	318	318	318
Provisions	0	24	42	70	96	96	96	96
Net Current Assets	379	269	2,771	1,934	1,476	1,634	2,793	3,260
Goodwill on Cons.	306	306	306	306	306	306	306	306
Application of Funds	2,106	2,495	5,792	6,708	7,950	9,152	10,620	12,316

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	5.7	10.1	14.9	17.7	24.3	31.6	39.6	47.5
Cash EPS	9.3	14.2	20.0	24.2	31.5	42.2	52.0	61.7
BV/Share	31.0	41.4	118.5	136.6	163.2	188.4	219.3	255.0
DPS	0.0	0.0	0.0	3.0	3.5	6.3	8.7	11.9
Payout %	0.0	0.0	0.0	17.0	14.4	20.0	22.0	25.0
Valuation (x)								
P/E	253.3	144.0	97.2	81.9	59.5	45.8	36.5	30.4
Cash P/E	155.6	102.1	72.3	59.7	45.9	34.3	27.8	23.5
EV/Sales	7.8	6.7	9.1	7.3	6.2	5.1	4.1	3.4
EV/EBITDA	77.5	46.3	53.7	48.6	36.9	27.8	21.9	18.1
P/BV	46.7	34.9	12.2	10.6	8.9	7.7	6.6	5.7
Dividend Yield (%)	0.0	0.0	0.0	0.2	0.2	0.4	0.6	0.8
Return Ratios (%)								
RoE	19.8	27.8	18.6	13.9	16.2	18.0	19.4	20.1
RoCE	16.4	22.5	17.8	13.6	15.9	17.8	19.2	19.9
RoIC	16.8	23.3	25.3	18.4	21.5	25.2	26.9	27.9
Working Capital Ratios								
Debtor (Days)	71	61	61	69	68	68	68	65
Asset Turnover (x)	2.5	2.5	1.2	1.4	1.4	1.4	1.5	1.5
Leverage Ratio								
Debt/Equity (x)	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(loss) before Tax	337	674	979	1,143	1,559	2,007	2,516	3,021
Depreciation	171	196	244	313	343	506	590	672
Net interest	45	54	22	-47	3	-110	-121	-133
Others	6	-8	-5	-19	4	0	0	0
Direct Taxes Paid	-44	-124	-164	-258	-244	-504	-632	-759
(Incr)/Decr in WC	2	-69	137	-479	-505	-331	-389	-194
CF from Operations	516	723	1,214	652	1,161	1,568	1,964	2,607
Incr in FA	-633	-613	-660	-1,208	-1,970	-1,000	-250	-500
Free Cash Flow	-117	110	553	-556	-809	568	1,714	2,107
Pur of Investments	0	0	-2,522	460	1,100	-500	-600	-800
Others	23	-21	2,138	-1,438	-599	81	94	-441
CF from Invest.	-611	-634	-1,044	-2,186	-1,469	-1,419	-756	-1,741
Issue of Shares	17	18	2,932	0	0	0	0	0
Incr in Debt	209	-143	-500	0	0	0	0	0
Dividend Paid	0	0	0	0	-143	-301	-415	-566
Net interest Paid	-37	-47	-33	-2	0	-21	-23	-26
Others	0	0	-41	-50	-58	0	0	0
CF from Fin. Activity	189	-172	2,357	-53	-201	-322	-438	-592
Incr/Decr of Cash	94	-83	2,526	-1,587	-508	-174	770	273
Add: Opening Balance	46	140	57	2,583	996	488	314	1,084
Closing Balance	140	57	2,583	996	488	314	1,084	1,357

E: MOSL Estimates

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

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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