

## Growth outlook improving; remains committed to industry-leading growth

We interacted with Mr. Hemant Jalan, Chairman and MD of Indigo Paints (INDIGOPN), to discuss demand trends in the paints industry and the company's growth and profitability outlook.

- Mr. Jalan stated that while 3QFY26 industry growth is expected to remain in low-to-mid single digits (trending below our expectations), management expects industry demand to start accelerating from 4QFY26 onward. Industry growth is expected at 7-8% in FY27 and will be primarily led by volume growth.
- The company remains focused on diversifying its market mix, with Kerala continuing to be its largest market, contributing 20%-25% of revenue. In Kerala, the company is focused on increasing throughput and wallet share gains, as it has the second-largest distribution network in the state but a lower revenue market share. Bihar, UP, Chhattisgarh, and West Bengal each contribute ~INR1b annually, offering sufficient headroom for further market share gains. The company is also hopeful for improved brand penetration in markets like Tamil Nadu, Karnataka, UP, Rajasthan, Bihar, and MP. Accordingly, the company expects >20% growth from ex-Kerala market to drive overall growth of 15%-20%.
- Management stated that competitive pressure from new entrants is easing. While Birla Opus initially impacted most players, incremental growth from distribution will be limited. In terms of price positioning, there is quite a narrow gap among players in the mass segment (with only ~1% difference), while in higher-end products, the market leader commands a ~5% premium.
- The company continues to focus on dealer network expansion, particularly in Tier-1 and Tier-2 cities, while selectively addressing Tier-3 and Tier-4 markets. It leverages a strong on-ground presence with ~600 sales personnel, alongside influencer-led initiatives targeting painters and contractors. Engagement tools, such as product demos, blind tests, and QR code-based rewards, are improving brand recall.
- Pricing across the industry has remained steady, and INDIGOPN does not expect any price hikes in the near term. Instead, if raw material costs remain benign, the company may increase trade and consumer offers. Going forward, the company expects sequential expansion in margins, with an EBITDA margin of 18-18.5% in FY26. If demand sustains its upward trajectory, EBITDA margin could expand to ~19% in FY27, supported by lower logistics costs, favorable product mix, and operating leverage.
- INDIGOPN's strategic shift toward non-metro towns, along with increased investments in distribution and influencers as part of its Strategy 2.0, is proving to be a successful endeavor. That said, the company continues to focus on premiumization. Given its relatively small scale (INR13b revenue in FY25) in the paints industry, the company has been able to grow significantly faster than the industry. Rising consumer acceptance of the brand and continued distribution expansion have been driving this outperformance.
- The company expects revenue growth of 15%-20% in FY27, as demand is expected to recover after experiencing weakness over the last two years. However, given the rising competition and slower-than-expected industry demand recovery, we model a slightly lower CAGR of ~14% for FY26-FY28E. With milder raw material prices and improved growth leverage, we project EBITDA margins of ~18-19% for FY27 and FY28. Accordingly, we model EBITDA/PAT CAGR of 16%/18% over FY26-28E, and reiterate our BUY rating with a revised TP of INR1,450 (premised on 35x Dec'27E EPS).

### Muted near-term demand; expect pickup from 4QFY26 onwards

- INDIGOPN indicated that demand remained soft in October due to the festive season. Management noted that 10-12 days post-Diwali are typically a slow period for the paints industry. However, November saw a meaningful recovery, and the company expects to have outperformed the industry. For 3QFY26, the company anticipates industry growth in low to mid-single digit (trending below our expectations). That said, the company expects the 2HFY26 growth outlook to be better than 1HFY26.

### Indigo Paints



**Mr. Hemant Jalan,  
Chairman & MD**

Mr. Jalan has been on the Board of INDIGOPN since March 2000.

He has over 23 years of experience in the paints industry. He was previously associated with AF Ferguson & Co and Vedanta Group of Industries. He holds a bachelor's degree in Chemical Engineering from IIT Kanpur. After his graduation, Mr. Jalan completed his Master's degree in Chemical Engineering at Stanford University and earned his MBA Degree from Chicago Booth (University of Chicago).

- Management expects the industry to normalize to ~7–8% YoY growth in FY27, compared to the high-growth phase of FY21-22, which was driven by sharp price hikes, pent-up demand, RM inflation, and base effects. In contrast, the upcoming growth cycle is expected to be largely volume-led, with no pricing tailwinds. Against this backdrop, INDIGOPN is well-positioned to outgrow the industry, driven by distribution expansion and deeper market penetration.

### Regional performance trends

- The northern belt (Rajasthan, UP, and Madhya Pradesh) has seen relatively weaker demand post-Diwali. However, eastern states, particularly West Bengal, have performed relatively better, aided by strong traction in premium emulsions.
- While Kerala remains the single largest market, contributing 20%-25% to revenue, regions like Bihar, UP, and West Bengal each contribute INR1b to annual revenue and 7–8% to sales.
- In terms of market share, the company holds the No. 2 position in Chhattisgarh and No. 3 in Kerala, while ranking No. 4 in most other states, indicating substantial headroom for market share gains.
- The company is also hopeful for better brand penetration in markets like Tamil Nadu, Karnataka, UP, Rajasthan, Bihar, and MP. As such, the company expects >20% growth from ex-Kerala market to drive overall growth of 15%-20%.

### Competitive intensity settling

- Management stated that competitive pressure from new entrants is easing.
- While Birla Opus initially impacted most players, incremental growth from distribution is expected to be limited.
- Pricing differentials remain narrow among players, especially in the mass segment, with only ~1% variance across players, while in higher-end products, the market leader commands ~5% premium.

### Focus on distribution expansion and deeper market penetration

- INDIGOPN continues to expand its dealer network, focusing on Tier-1 and Tier-2 cities for penetration-led growth, while selectively addressing Tier-3 and Tier-4 towns.
- With ~600 sales personnel, the company is intensifying influencer engagement through painters and contractors. Initiatives such as on-ground product demonstrations, blind tests, and QR-code-based reward programs (wallet incentives for painters and contractors) are strengthening brand recall at the retail level.
- As of 2QFY26, INDIGOPN had 11,656 tinting machines and 18,914 active dealers with 54 depots.

### EBITDA margin to be in the range of 18-19%

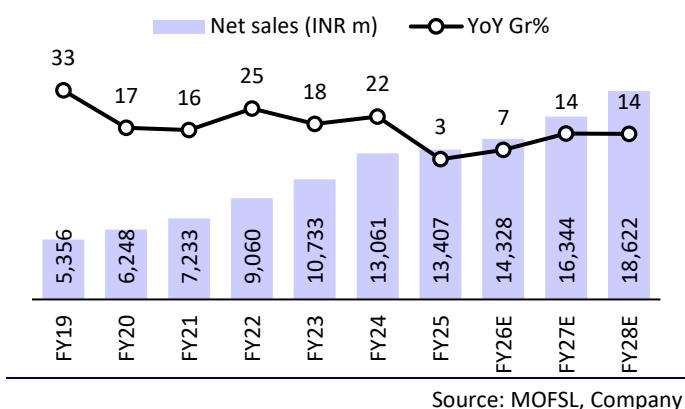
- Pricing across the industry has remained steady, and INDIGOPN does not expect any price hikes in the near term. Raw material prices are stable and cooling off. However, gross margin benefits are being passed on to the trade across the industry.
- Going forward, the company expects sequential expansion in margins and anticipates FY26 EBITDA margin to be in the range of 18-18.5%. If demand sustains its upward trajectory, EBITDA margin could expand to ~19% in FY27, supported by lower logistics costs, favorable product mix, and operating leverage.

### Valuation and view

- INDIGOPN's strategic shift toward non-metro towns, along with increased investments in distribution and influencers as part of its Strategy 2.0, is proving to be a successful endeavor. That said, the company continues to focus on the premium and emulsion segments, with a deliberate shift away from the economy segment.
- The company expects revenue growth of 15%-20% in FY27, as demand is expected to recover after witnessing weakness over the last two years. Given the rising competition and slower-than-expected industry demand recovery, we model a slightly lower CAGR of ~14% for FY26-FY28E. With milder raw material prices and improved growth leverage, we project EBITDA margins for FY27 and FY28 at ~18-19%. We model EBITDA/PAT CAGR of 16%/18% over FY26-28E, and reiterate our BUY rating with a revised TP of INR1,450 (premised on 35x Dec'27E EPS).

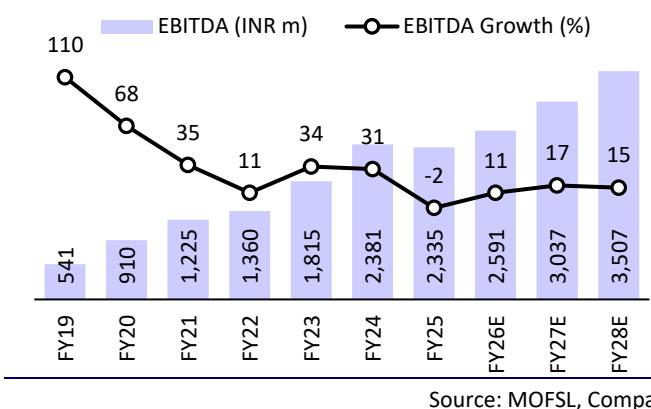
## Story in charts

### Exhibit 1: Sales expected to deliver 14% CAGR over FY26-28



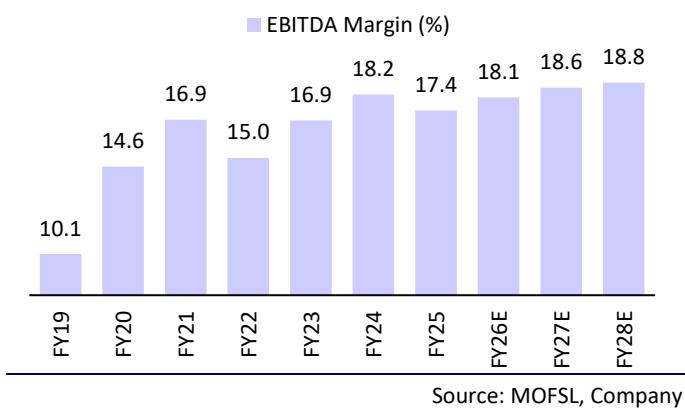
Source: MOFSL, Company

### Exhibit 2: EBITDA expected to clock 16% CAGR over FY26-28



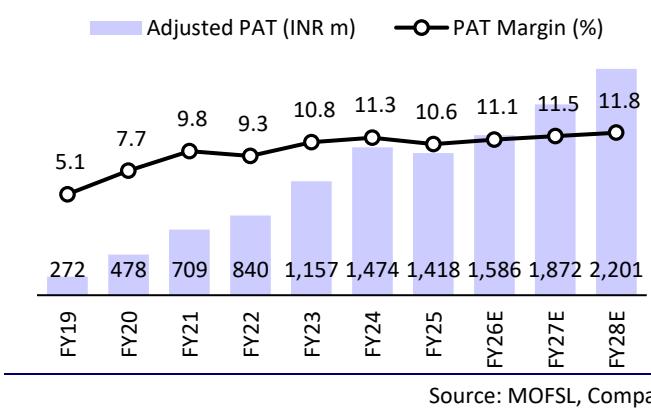
Source: MOFSL, Company

### Exhibit 3: EBITDA margins expected to be in the range of 18-19%



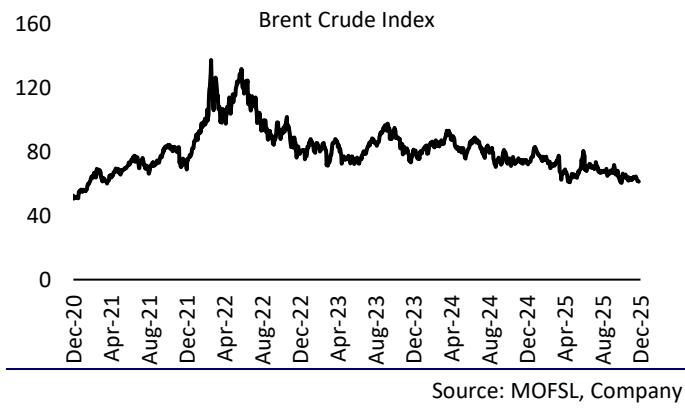
Source: MOFSL, Company

### Exhibit 4: APAT to deliver 18% CAGR over FY26-28



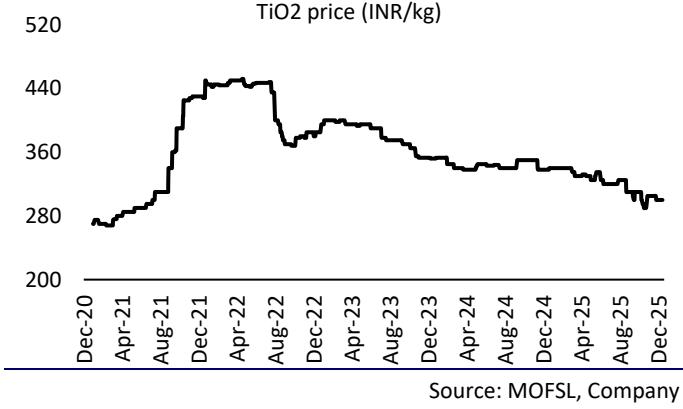
Source: MOFSL, Company

### Exhibit 5: Crude oil prices have been moderating...



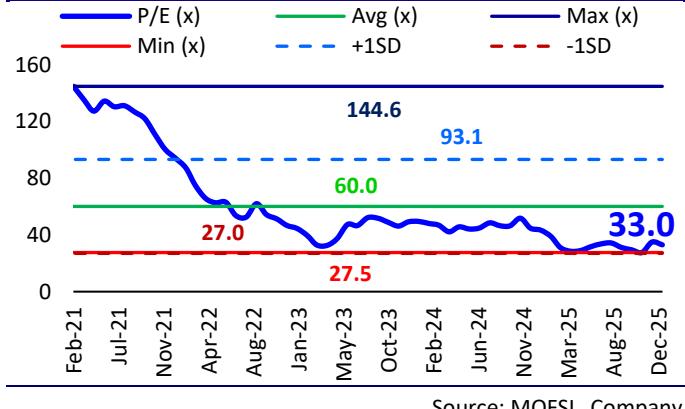
Source: MOFSL, Company

### Exhibit 6: ...similarly, TiO2 prices remain benign



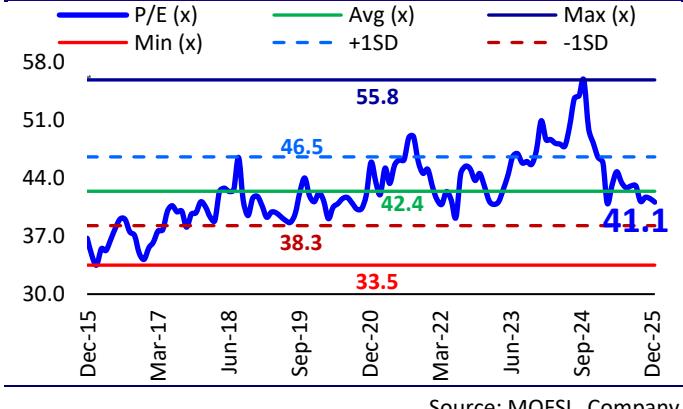
Source: MOFSL, Company

### Exhibit 7: P/E ratio (x) for INDIGOPN



Source: MOFSL, Company

### Exhibit 8: P/E ratio (x) for the Consumer sector



Source: MOFSL, Company

## Financials and valuations

Income Statement consol.									
	(INR m)								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Net Sales</b>	<b>6,248</b>	<b>7,233</b>	<b>9,060</b>	<b>10,733</b>	<b>13,061</b>	<b>13,407</b>	<b>14,328</b>	<b>16,344</b>	<b>18,622</b>
Change (%)	16.6	15.8	25.3	18.5	21.7	2.6	6.9	14.1	13.9
Raw Materials	3,220	3,765	5,135	5,952	6,839	7,237	7,694	8,695	9,869
<b>Gross Profit</b>	<b>3,028</b>	<b>3,468</b>	<b>3,925</b>	<b>4,781</b>	<b>6,222</b>	<b>6,170</b>	<b>6,634</b>	<b>7,649</b>	<b>8,752</b>
Margin (%)	48.5	47.9	43.3	44.5	47.6	46.0	46.3	46.8	47.0
Operating Expenses	2,118	2,243	2,565	2,965	3,841	3,835	4,043	4,612	5,245
<b>EBITDA</b>	<b>910</b>	<b>1,225</b>	<b>1,360</b>	<b>1,815</b>	<b>2,381</b>	<b>2,335</b>	<b>2,591</b>	<b>3,037</b>	<b>3,507</b>
Change (%)	68.2	34.7	11.0	33.5	31.1	-1.9	11.0	17.2	15.5
Margin (%)	14.6	16.9	15.0	16.9	18.2	17.4	18.1	18.6	18.8
Depreciation	196	244	313	343	516	585	626	695	740
Int. and Fin. Charges	56	38	13	14	21	35	40	50	50
Other Income	16	36	109	101	142	185	200	214	229
<b>Profit before Taxes</b>	<b>674</b>	<b>979</b>	<b>1,143</b>	<b>1,559</b>	<b>1,986</b>	<b>1,900</b>	<b>2,125</b>	<b>2,506</b>	<b>2,946</b>
Change (%)	98.2	45.2	16.7	36.4	27.4	-4.3	11.9	18.0	17.5
Margin (%)	10.8	13.5	12.6	14.5	15.2	14.2	14.8	15.3	15.8
Tax	147	256	288	418	435	478	535	631	741
Tax Rate (%)	29.1	27.6	26.5	25.8	25.0	27.6	25.2	25.2	25.2
<b>PAT Before Minority</b>	<b>478</b>	<b>709</b>	<b>840</b>	<b>1,157</b>	<b>1,489</b>	<b>1,422</b>	<b>1,590</b>	<b>1,876</b>	<b>2,205</b>
Minority Interest					15	4	4	4	4
<b>Adjusted PAT</b>	<b>478</b>	<b>709</b>	<b>840</b>	<b>1,157</b>	<b>1,474</b>	<b>1,418</b>	<b>1,586</b>	<b>1,872</b>	<b>2,201</b>
Change (%)	76.0	48.2	18.6	37.6	27.4	-3.8	11.9	18.0	17.6
Margin (%)	7.7	9.8	9.3	10.8	11.3	10.6	11.1	11.5	11.8
<b>Reported PAT</b>	<b>478</b>	<b>709</b>	<b>840</b>	<b>1,320</b>	<b>1,474</b>	<b>1,418</b>	<b>1,586</b>	<b>1,872</b>	<b>2,201</b>

Balance Sheet									
	(INR m)								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	290	476	476	476	476	476	476	476	476
Reserves	1,680	5,159	6,023	7,285	8,545	9,829	11,039	12,915	14,887
<b>Net Worth</b>	<b>1,971</b>	<b>5,635</b>	<b>6,499</b>	<b>7,761</b>	<b>9,021</b>	<b>10,306</b>	<b>11,515</b>	<b>13,391</b>	<b>15,363</b>
Loans	392	0	0	0	31	64	0	0	0
Other Liability	132	157	209	188	380	446	446	446	446
<b>Capital Employed</b>	<b>2,495</b>	<b>5,792</b>	<b>6,708</b>	<b>7,949</b>	<b>9,432</b>	<b>10,815</b>	<b>11,961</b>	<b>13,837</b>	<b>15,809</b>
Gross Block	1,669	2,339	2,612	2,785	6,316	6,559	7,359	7,859	8,359
Less: Accum. Depn.	245	452	716	987	1,421	1,917	2,400	2,942	3,518
<b>Net Fixed Assets</b>	<b>1,424</b>	<b>1,887</b>	<b>1,896</b>	<b>1,798</b>	<b>4,896</b>	<b>4,641</b>	<b>4,959</b>	<b>4,917</b>	<b>4,841</b>
Capital WIP	11	31	510	2,509	174	1,358	1,358	1,358	1,358
Right to Use Assets	278	301	332	543	616	637	794	941	1,077
<b>Investments</b>	<b>208</b>	<b>497</b>	<b>1,731</b>	<b>1,317</b>	<b>1,667</b>	<b>2,261</b>	<b>2,361</b>	<b>2,861</b>	<b>3,361</b>
<b>Curr. Assets, L&amp;A</b>	<b>1,967</b>	<b>4,983</b>	<b>4,288</b>	<b>3,996</b>	<b>4,950</b>	<b>4,806</b>	<b>6,161</b>	<b>7,791</b>	<b>9,609</b>
Inventory	768	947	1,177	1,177	1,706	1,536	1,727	2,015	2,296
Account Receivables	1,045	1,212	1,717	2,001	2,231	2,439	2,552	3,045	3,469
Cash and Bank Balance	57	2,583	996	488	329	371	1,331	2,071	3,053
Others	97	241	398	330	684	460	551	660	792
<b>Curr. Liab. and Prov.</b>	<b>1,698</b>	<b>2,212</b>	<b>2,354</b>	<b>2,520</b>	<b>3,275</b>	<b>3,286</b>	<b>4,071</b>	<b>4,430</b>	<b>4,836</b>
Account Payables	1,386	1,856	2,014	2,106	2,290	1,767	2,552	2,911	3,316
Other Liabilities	289	315	270	318	920	1,502	1,502	1,502	1,502
Provisions	24	42	70	96	65	17	17	17	17
<b>Net Current Assets</b>	<b>269</b>	<b>2,771</b>	<b>1,934</b>	<b>1,476</b>	<b>1,675</b>	<b>1,519</b>	<b>2,090</b>	<b>3,361</b>	<b>4,774</b>
Goodwill on Cons.	306	306	306	306	399	399	399	399	399
<b>Application of Funds</b>	<b>2,495</b>	<b>5,792</b>	<b>6,708</b>	<b>7,950</b>	<b>9,427</b>	<b>10,815</b>	<b>11,961</b>	<b>13,837</b>	<b>15,809</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Basic (INR)</b>									
EPS	<b>16.5</b>	<b>14.9</b>	<b>17.7</b>	<b>24.3</b>	<b>31.0</b>	<b>29.8</b>	<b>33.3</b>	<b>39.4</b>	<b>46.3</b>
Cash EPS	14.2	20.0	24.2	31.5	41.8	42.1	46.5	54.0	61.8
BV/Share	41.4	118.5	136.6	163.2	189.6	216.6	242.1	281.5	323.0
DPS	0.0	0.0	3.0	3.5	3.5	3.5	8.0	8.0	8.0
Payout %	0.0	0.0	17.0	14.4	11.3	11.7	24.0	20.3	17.3
<b>Valuation (x)</b>									
P/E	68.3	75.5	63.7	46.3	36.3	37.8	33.7	28.6	24.3
Cash P/E	79.4	56.2	46.4	35.7	26.9	26.7	24.2	20.9	18.2
EV/Sales	5.2	7.0	5.6	4.8	4.0	3.8	3.5	3.0	2.5
EV/EBITDA	36.0	41.2	37.3	28.5	21.7	21.9	19.3	16.0	13.5
P/BV	27.2	9.5	8.2	6.9	5.9	5.2	4.6	4.0	3.5
Dividend Yield (%)	0.0	0.0	0.3	0.3	0.3	0.3	0.7	0.7	0.7
<b>Return Ratios (%)</b>									
RoE	27.8	18.6	13.9	16.2	17.6	14.7	14.5	15.0	15.3
RoCE	22.5	17.8	13.6	15.9	17.3	13.8	14.2	14.8	15.1
RoIC	23.3	25.3	18.4	21.5	20.1	14.1	16.0	17.8	19.0
<b>Working Capital Ratios</b>									
Debtor (Days)	61	61	69	68	62	66	65	68	68
Asset Turnover (x)	2.5	1.2	1.4	1.4	1.4	1.2	1.2	1.2	1.2
<b>Leverage Ratio</b>									
Debt/Equity (x)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>(INR m)</b>									
OP/(loss) before Tax	674	979	1,143	1,559	1,986	1,900	2,125	2,506	2,946
Depreciation	196	244	313	343	515	585	626	695	740
Net interest	54	22	-47	3	19	32	-160	-164	-179
Others	-8	-5	-19	4	-41	-114	0	0	0
Direct Taxes Paid	-124	-164	-258	-244	-593	-308	-535	-631	-741
(Incr)/Decr in WC	-69	137	-479	-505	-377	-39	389	-532	-431
<b>CF from Operations</b>	<b>723</b>	<b>1,214</b>	<b>652</b>	<b>1,161</b>	<b>1,510</b>	<b>2,056</b>	<b>2,445</b>	<b>1,875</b>	<b>2,335</b>
Incr in FA	-613	-660	-1,208	-1,970	-1,041	-1,355	-800	-500	-500
<b>Free Cash Flow</b>	<b>110</b>	<b>553</b>	<b>-556</b>	<b>-809</b>	<b>469</b>	<b>701</b>	<b>1,645</b>	<b>1,375</b>	<b>1,835</b>
Pur of Investments	0	-2,522	460	1,100	-478	-423	-100	-500	-500
Others	-21	2,138	-1,438	-599	83	3	-99	-86	-71
<b>CF from Invest.</b>	<b>-634</b>	<b>-1,044</b>	<b>-2,186</b>	<b>-1,469</b>	<b>-1,436</b>	<b>-1,775</b>	<b>-999</b>	<b>-1,086</b>	<b>-1,071</b>
Issue of Shares	18	2,932	0	0	0	0	0	0	0
Incr in Debt	-143	-500	0	0	13	33	-64	0	0
Dividend Paid	0	0	0	-143	-167	-167	-381	0	-232
Net interest Paid	-47	-33	-2	0	-2	-32	-40	-50	-50
Others	0	-41	-50	-58	-77	-74	0	0	0
<b>CF from Fin. Activity</b>	<b>-172</b>	<b>2,357</b>	<b>-53</b>	<b>-201</b>	<b>-233</b>	<b>-239</b>	<b>-486</b>	<b>-50</b>	<b>-283</b>
<b>Incr/Decr of Cash</b>	<b>-83</b>	<b>2,526</b>	<b>-1,587</b>	<b>-508</b>	<b>-159</b>	<b>41</b>	<b>961</b>	<b>739</b>	<b>982</b>
Add: Opening Balance	140	57	2,583	996	488	329	371	1,331	2,071
<b>Closing Balance</b>	<b>57</b>	<b>2,583</b>	<b>996</b>	<b>488</b>	<b>329</b>	<b>371</b>	<b>1,331</b>	<b>2,071</b>	<b>3,053</b>

E: MOFSL Estimates

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

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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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