

Products - Decorative Paints

Emulsions, Enamels, Putty, Primers etc.

Focuses on Tier 3/4 towns & rural areas.

5th largest paint company in India

Manufacturing facilities in Jodhpur, Kochi and Pudukkottai (Tamil Nadu).

Issue period

Issue Opens on	20th Jan, 2021
Issue Closes on	22nd Jan, 2021
Post-IPO market cap (Rs cr)	~ 7088 cr

Offer Details for Retail category

Bid Lot (Qty)	10
Offer Price [Rs 1488 - Rs 1490 per share]	1,490
Bid Amount per Lot (at Upper Band)	14,900

Issue Details (Rs Cr)

Shares sold by Promoter & Sequoia	870
Fresh Issue of Shares	300
IPO Size	1,170

Major Stakeholders

Promoter	Sequoia
Pre-IPO [~99%]	39.0%
Post-IPO [~82.5%]	28.5%

Sequoia Capital is a PE firm.

Utilisation of IPO Proceeds (Rs Cr)

Funding Capex for Expansion	150
Tinting machines and gyroshakers	50
Partial repayment of borrowings	25
General Corporate Expenses (up to)	75
Total	300

Financials

	H1 FY21	H1 FY20	FY 19-20
Revenue (Rs Cr)	259	273	625
Net Profit (Rs Cr)	27.2	6.0	47.8
Net profit (%)	10.5%	2.2%	7.7%
Diluted EPS (Annualised)	12.1	2.4	10.6

Profit margins have been increasing for Indigo Paints.

Comparison with Peers	Asian Paints	Berger Paints	Kansai Nerolac	Akzo Nobel	Indigo Paints
Active distribution/dealer network	70,000	30,000	27,500	15,000	11230
Market Share % [FY 20]	42%	12%	7%	5%	2%
Revenue Growth % [FY 20]	4.9%	3.2%	-4.5%	-8.8%	16.6%
Gross Margin % [FY 20]	44.7%	40.8%	38.1%	45.8%	48.5%
EBIDTA % [FY 20]	22.4%	16.8%	15.8%	14.2%	14.6%
PE Ratio [FY 20]	97	115	64	47	140
Return on Equity % [FY 20]	28.1%	26.6%	14.1%	19.2%	24.3%
Advt exp as a % of revenue [FY 20]	4.6%	4.2%	5.0%	3.3%	12.7%

What works for the company?

Higher growth than peers	<p>Company's growth has been >2x of industry growth. This is partly because Indigo has a smaller revenue base and thus it is easier for the company to grow.</p> <p>It currently has only 2% market share in the industry whereas 33% share is still held by the unorganized sector. Thus, there is room for growth but there is stiff competition from players like Berger Paints.</p>
Financial Metrics are at par with listed players except Asian Paints.	<p>Indigo Paints profitability ratios [GM%, EBIDTA%] are at par with listed peers with the exception of Asian Paints.</p> <p>In our opinion, Indigo Paints may be able to further increase its EBIDTA% if sales growth remains high as operating leverage will kick in.</p>
Scope for improvement in profitability	<p>Advertisement & sales promotion expenses at 12.7% of revenue is >2x of peers. MS Dhoni is the brand ambassador and they have invested in brand building.</p> <p>In future, advertisement exp in absolute terms may not increase significantly but if sales grow as planned, advt exp as a % of revenue will fall. This has the potential to add 2-3% to profitability [operating leverage].</p>

What doesn't work for the company?

VALUATIONS	The valuations are astronomic. At 140x of FY20 earnings , it is higher than established players like Asian Paints [97] and Berger [115]. Only a few companies like Dmart are trading at higher valuations.
High Expectations from Market Participants	It appears from the Grey Market Premium that the IPO will have a bumper listing. Markets expect the revenue to rise by 20-25% CAGR and EPS by 30-40% CAGR till FY23. Such expectations leave no margin for error.

Conclusion

Indigo Paints is a classic example of "Growth" stock. Market sees huge potential in the stock and is willing to pay a high price for it. It does appear that the company has scope for growth...

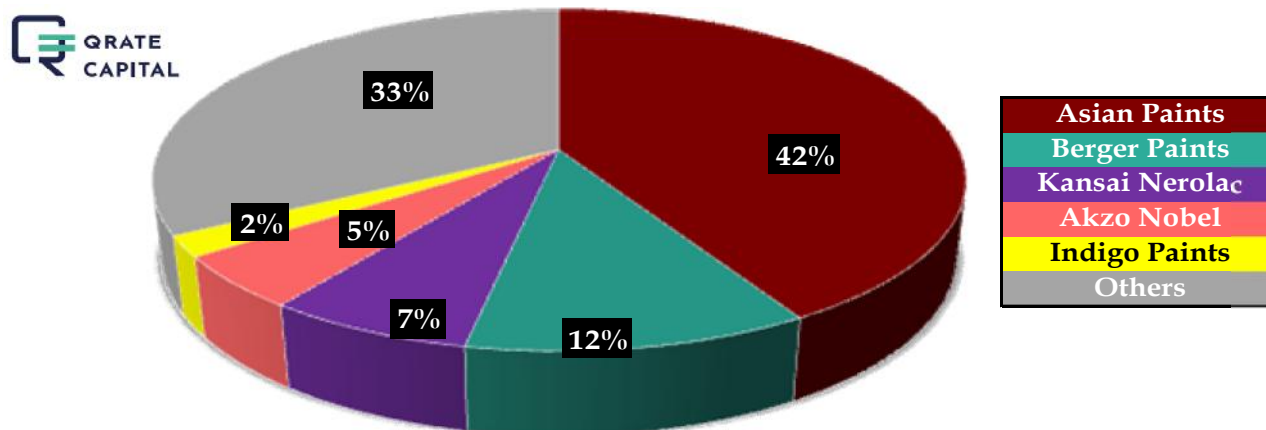
However, valuations are extremely rich and the market has high expectations. Even if the growth is high but not **as high as the market expects**, the valuation premium may start vanishing which may lead to a sharp fall in price.

The business is good but the valuations make us uncomfortable. The IPO will be highly over-subscribed and only a lucky few will get an allotment.

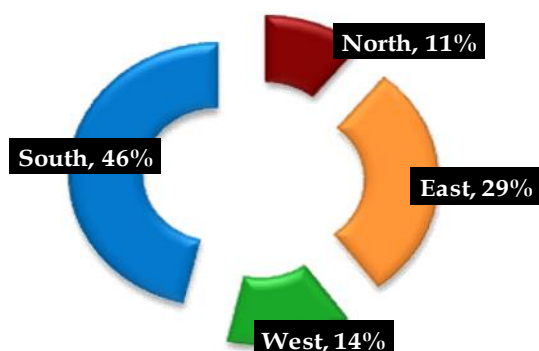
Chasing the stock after the listing will be risky as the price will be too high. Might be better to hope for a correction and buy the stock if and when a correction comes.

Indigo's Market Position in Pie Charts

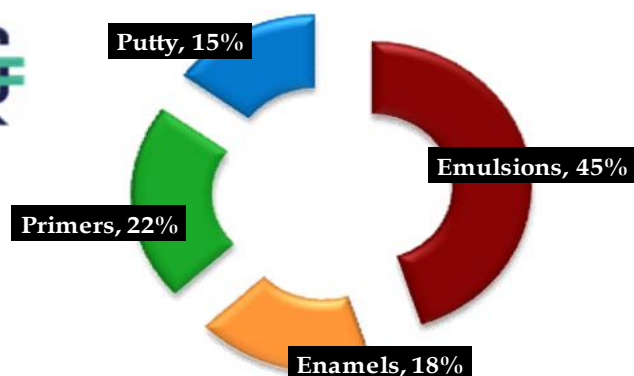
Paint Industry - Market Share by Revenue



Indigo - Revenue split by Geography



Indigo - Revenue split by Category



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