

# Indigo Paints

Estimate change

TP change

Rating change



Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USDb)	74.3 / 0.9
52-Week Range (INR)	2689 / 1375
1, 6, 12 Rel. Per (%)	1/-21/-47
12M Avg Val (INR M)	86

## Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	9.1	11.1	13.8
Sales Gr. (%)	25.3	22.0	25.0
EBITDA	1.4	1.9	2.7
EBIT Margin (%)	15.0	17.3	19.9
Adj. PAT	0.8	1.2	1.8
Adj. EPS (INR)	17.7	25.5	37.7
EPS Gr. (%)	18.6	44.3	47.9
BV/Sh.(INR)	136.6	162.1	199.8

## Ratios

RoE (%)	13.9	17.1	20.8
RoCE (%)	13.6	16.7	20.5

## Valuation

P/E (x)	88.4	61.3	41.4
P/BV (x)	11.4	9.6	7.8
EV/EBITDA (x)	52.6	37.4	25.5

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	54.0	54.0	54.0
DII	3.4	3.6	2.6
FII	9.1	8.9	11.8
Others	33.5	33.5	31.7

FII Includes depository receipts

CMP: INR1,562

TP: INR1800 (+15%)

Buy

## Inline sales, sequential gross margin improvement continues

- INDIGOPN reported an in line set of earnings at the sales and gross profit level. While EBITDA margin appeared to be below our estimate, this was largely due to the bifurcation of IPL ad spends over two quarters in FY22, as the league was played in two phases, unlike the full impact being seen in 1QFY23.
- Sales and margin are expected to improve in subsequent quarters.
- While it is too early to comment on the potential impact of the company's newfound aggression on Tier I and II centers (announced only in 4QFY22), a potential recovery in rural India augurs well for their erstwhile core regions. We maintain our Buy rating on its higher than the industry sales growth outlook, differentiated product portfolio, and less challenging valuation multiples compared to its peers.

## Sales and gross profit inline, miss on EBITDA

- INDIGOPN reported a net sales growth of 43.6% YoY at INR2.2b (inline).
- Gross margin contracted by 30bp YoY and 160bp QoQ to 45.2% (est. 43.5%). This, along with lower employee costs as a percentage of sales (-130bp YoY) and lesser other expenses (-190bp YoY), aided the **~280bp YoY expansion (-290bp QoQ) in EBITDA margin to 15.7%** (est. 17%).
- A&P spends increased by 34.3% YoY to INR210.9m.
- EBITDA grew by 74.9% YoY to INR353m (est. INR385m).
- PBT increased by 72.7% YoY to INR269m (est. INR324m).
- Adjusted PAT increased by 71.5% YoY to INR199m (est. INR242m).

## Highlights from the management commentary

- The management said demand remains strong, and that the dark clouds of material cost escalation and price increases are seemingly behind it.
- The first quarter is usually the weakest for INDIGOPN. It expects 2Q, 3Q, and 4Q to be better sequentially.
- IPL ad spends were fully recognized in 1QFY23 unlike last fiscal, when the league was played across two separate quarters. This was the key reason why EBITDA margin was lower, despite an improvement in gross margin.
- The management is cognizant of the fact that growth off late has been in line with industry, and hence it is focusing on Tier I and II cities as guided in its 4QFY22 call. INDIGOPN is seeing good early traction on this strategy. It said that greater clarity and impactful results will be visible over the next couple of quarters.
- The management said the expansion in dealerships and tinting machines continue as before. It expects to be incrementally more focused on Tier I and II cities as compared to the past.

### Our recent initiating coverage note



### Valuation and view

- Changes to our model have resulted in a reduction of ~6% each in our FY23/FY24 EPS estimate, largely due to our higher depreciation forecasts compared to earlier levels.
- INDIGOPN has successfully surmounted the high entry barriers in the Indian Paints industry via a patient and multi-pronged strategy, which comprises: a) introduction of differentiated products, b) building a distribution network in rural India, c) creating brand equity through higher investments in advertising, d) rapidly driving penetration of tinting machines, and e) engaging with the influencer community (painters/contractors) to gain trust (as indicated in our Dec'21 [initiating coverage note](#)).
- Our outlook on the stock remains positive as the management continues to deliver on its above-mentioned strategy. We maintain our Buy rating with a TP of INR1,800 (45x Jun'24E EPS).

### Quarterly Performance (Consol.)

Y/E March	FY22				FY23				FY22	FY23	FY23	(INR m)	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE		
<b>Net Sales</b>	<b>1,560</b>	<b>1,961</b>	<b>2,655</b>	<b>2,884</b>	<b>2,240</b>	<b>2,608</b>	<b>3,000</b>	<b>3,205</b>	<b>9,060</b>	<b>11,053</b>	<b>2,262</b>		<b>-1.0%</b>
Change (%)	49.2	26.7	26.6	13.4	43.6	33.0	13.0	11.1	25.3	22.0	45.0		
Raw Material/PM	850	1,143	1,516	1,626	1,228	1,422	1,626	1,716	5,135	5,991	1,278		
<b>Gross Profit</b>	<b>710</b>	<b>818</b>	<b>1,138</b>	<b>1,258</b>	<b>1,012</b>	<b>1,187</b>	<b>1,374</b>	<b>1,489</b>	<b>3,925</b>	<b>5,062</b>	<b>984</b>		<b>2.9%</b>
Gross Margin (%)	45.5	41.7	42.9	43.6	45.2	45.5	45.8	46.5	43.3	45.8	43.5		
<b>EBITDA</b>	<b>202</b>	<b>234</b>	<b>387</b>	<b>538</b>	<b>353</b>	<b>430</b>	<b>528</b>	<b>596</b>	<b>1,360</b>	<b>1,907</b>	<b>385</b>		<b>-8.3%</b>
Margin (%)	12.9	11.9	14.6	18.6	15.7	16.5	17.6	18.6	15.0	17.3	17.0		
Change (%)	6.1	-19.6	22.8	25.2	74.9	84.1	36.5	10.8	11.0	40.2	90.7		
Interest	3	3	3	5	4	3	3	5	13	15	3		
Depreciation	74	77	79	83	84	85	87	104	313	360	77		
Other Income	30	30	23	25	5	24	24	37	109	90	20		
<b>PBT</b>	<b>156</b>	<b>185</b>	<b>328</b>	<b>474</b>	<b>269</b>	<b>367</b>	<b>462</b>	<b>523</b>	<b>1,143</b>	<b>1,621</b>	<b>324</b>		<b>-16.9%</b>
Tax	40	49	85	128	70	93	116	130	302	409	82		
Effective Tax Rate (%)	25.5	26.6	26.0	27.1	26.0	25.2	25.2	24.8	26.5	25.2	25.2		
<b>PAT before MI &amp; extraordinary</b>	<b>116</b>	<b>135</b>	<b>243</b>	<b>346</b>	<b>199</b>	<b>275</b>	<b>346</b>	<b>393</b>	<b>840</b>	<b>1,213</b>	<b>242</b>		
<b>Adjusted PAT</b>	<b>116</b>	<b>135</b>	<b>243</b>	<b>346</b>	<b>199</b>	<b>275</b>	<b>346</b>	<b>393</b>	<b>840</b>	<b>1,213</b>	<b>242</b>		<b>-17.8%</b>
Change (%)	38.2	-28.0	29.4	39.1	71.5	102.7	42.3	13.7	18.6	44.3	108.8		

E: MOFSL Estimates

## Key performance indicators - Consolidated

Y/E March	FY22				FY23E
	1Q	2Q	3Q	4Q	1Q
<b>Segmental volume growth (%)</b>					
Cement Paints + Putty	23.1	9.2	0.1	7.9	12.7
Emulsions	73.1	24.2	15.9	39.8	34.4
Enamels + Wood Coatings	17.4	10.2	-4.5	16	15.8
Primers + Distempers + Others	5.1	31.1	-3.6	21.4	2.4
<b>Segmental value growth (%)</b>					
Cement Paints + Putty	24.8	11.5	3.7	3.9	22.7
Emulsions	83.1	40.6	35.4	21.7	65.7
Enamels + Wood Coatings	25.6	20.3	8.9	2.9	38.1
Primers + Distempers + Others	7.4	43.3	18.5	5.4	28
<b>2Y average growth (%)</b>					
Sales	10.9	23.5	24.4	27.1	46.4
EBITDA	-	-	-	8.7	40.5
PAT	-	-	-	15.1	54.9
<b>% of Sales</b>					
COGS	54.5	58.3	57.1	56.4	54.8
Operating Expenses	32.6	29.8	28.3	25.0	29.4
A&P spends	10.1	8.0	11.1	9.4	9.4
Depreciation	4.7	3.9	3.0	2.9	3.8
<b>YoY change (%)</b>					
COGS	46.4	48.2	43.5	19.9	44.4
Operating Expenses	85.0	20.2	3.7	-4.9	29.7
Other Income	1,558.8	375.5	94.0	59.0	-83.9
EBIT	-4.8	-33.1	21.8	26.3	109.6

E: MOFSL Estimates



## Highlights from the management commentary

## Performance and outlook

- The management said demand remains strong, and that the dark clouds of material cost escalation and price increases are seemingly behind it.
- The emulsions category volumes are up 34% and price growth was ~65%. This is the second successive quarter of strong growth which is thereby leading to a better mix.
- Primer growth was the only category where there was disappointment.
- The management is cognizant of the fact that growth off late has been in line with industry, and hence it is focusing on Tier I and II cities as guided in its 4QFY22 call. INDIGOPN is seeing good early traction on this strategy. It said that greater clarity and impactful results will be visible over the next couple of quarters.
- The first quarter is usually the weakest for INDIGOPN. It expects 2Q, 3Q, and 4Q to be better sequentially.
- As INDIGOPN is only present in decorative paints and larger players have automotive/industrials as other categories, the growth of the larger players in 1Q and 2Q may appear optically higher compared to INDIGOPN.

## Cost and margin

- INDIGOPN has taken price increases in line with the industry. If raw material prices remain at the current levels then the company is unlikely to take further price increases. Only if material costs fall sharply will there be a price reduction. Typically modest deflation doesn't result in price reduction by paint companies.

- IPL ad spends were fully recognized in 1QFY23 unlike last fiscal, when the league was played across two separate quarters. This was the key reason why EBITDA margin was lower, despite an improvement in gross margin.

#### Key mix

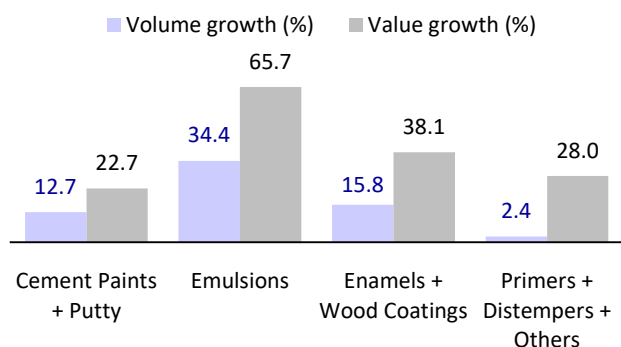
- Management highlighted that the expansion of dealers and tinting machines continues as before and except it to be incrementally more focused on Tier1 and Tier 2 cities compared to the past.

#### Other points

- INDIGOPN has signed actor Mohanlal as the brand for the Kerala market as it is their largest market and the mix is different compared to other parts of India. However, they intend to continue with cricketer MS Dhoni for other markets.
- The management said the expansion in dealerships and tinting machines continue as before. It expects to be incrementally more focused on Tier I and II cities as compared to the past.
- Company doesn't have sales to real estate players as viability maybe suspect and margins are also lower.
- Management highlighted few points regarding consumption/demand in paints industry - Consumption of paints is once in every four-five years unlike other FMCG categories which may be purchased every month. Paint is also correlated with marriages as fresh painting is done. Actual cost of paint is only 40% of the total cost and labour costs have not increased drastically. 20% increase in paint costs have resulted in only around 8% increase in the total painting costs. Lastly people have spent more time at home and hence noticed the need for painting.

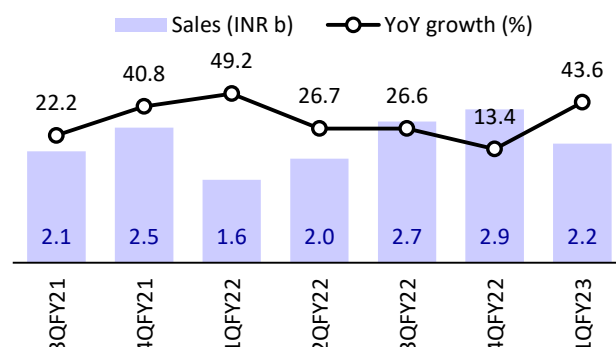
## Key exhibits

**Exhibit 1: Value growth significantly outperforms volume growth across categories due to price hikes in 1QFY23**



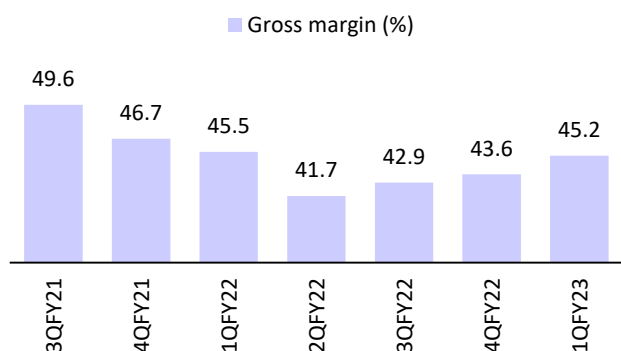
Source: Company, MOFSL

**Exhibit 2: Sales up 43.6% YoY to INR2.2b in 1QFY23**



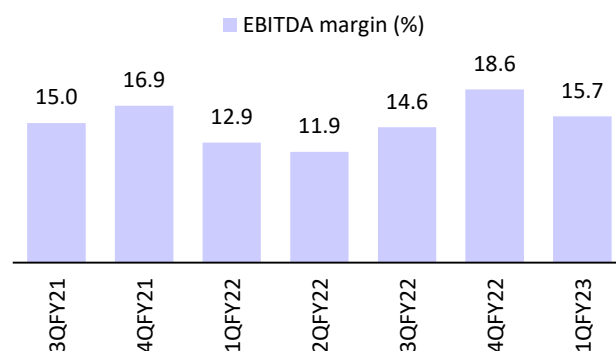
Source: Company, MOFSL

**Exhibit 3: Gross margin fell 30bp YoY to 45.2% in 1QFY23**



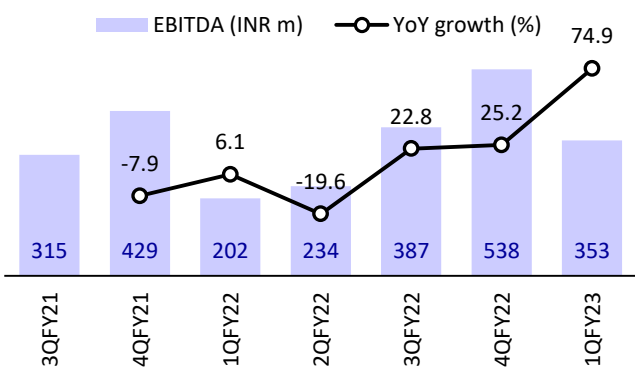
Source: Company, MOFSL

**Exhibit 4: EBITDA margin up 280bp YoY in 1QFY23**



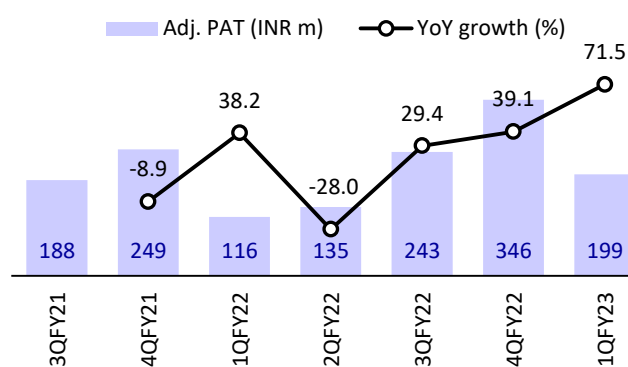
Source: Company, MOFSL

**Exhibit 5: EBITDA up 74.9% YoY to INR353m in 1QFY23**



Source: Company, MOFSL

**Exhibit 6: PAT up 71.5% YoY to INR199m in 1QFY23**



Source: Company, MOFSL

### Valuation and view

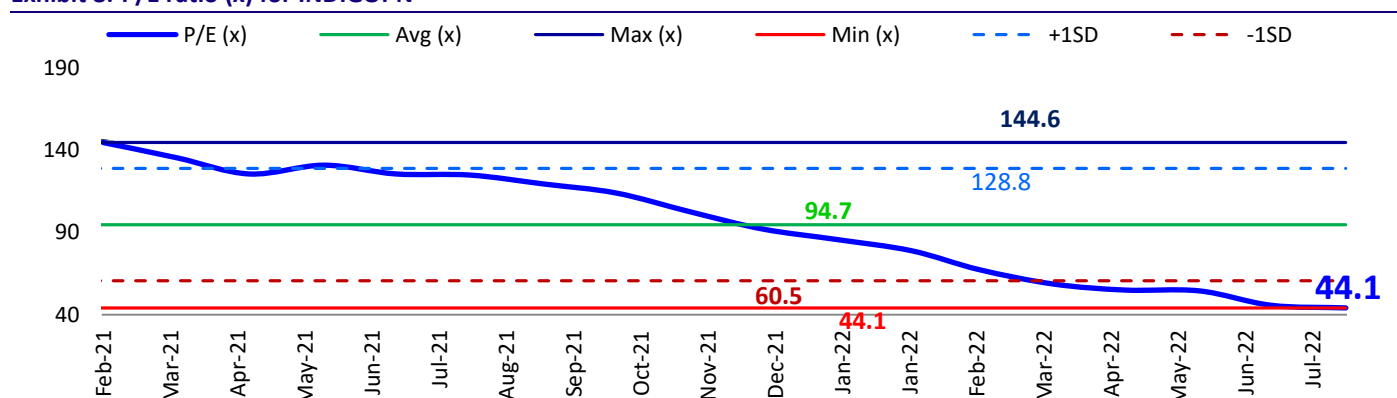
- Changes to our model have resulted in a reduction of ~6% each in our FY23/FY24 EPS estimate, largely due to our higher depreciation forecasts compared to earlier levels.
- INDIGOPN has successfully surmounted the high entry barriers in the Indian Paints industry via a patient and multi-pronged strategy, which comprises: a) introduction of differentiated products, b) building a distribution network in rural India, c) creating brand equity through higher investments in advertising, d) rapidly driving penetration of tinting machines, and e) engaging with the influencer community (painters/contractors) to gain trust (as indicated in our Dec'21 [initiating coverage note](#)).
- Our outlook on the stock remains positive as the management continues to deliver on its above-mentioned strategy. We maintain our Buy rating with a TP of INR1,800 (45x Jun'24E EPS).

Exhibit 7: Raise our FY23/FY24 EPS forecasts by 1%/7%

INR m	New estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	11,053	13,816	11,415	14,269	-3.2	-3.2
EBITDA	1,907	2,743	1,947	2,833	-2.0	-3.2
PAT	1,213	1,794	1,296	1,910	-6.4	-6.1

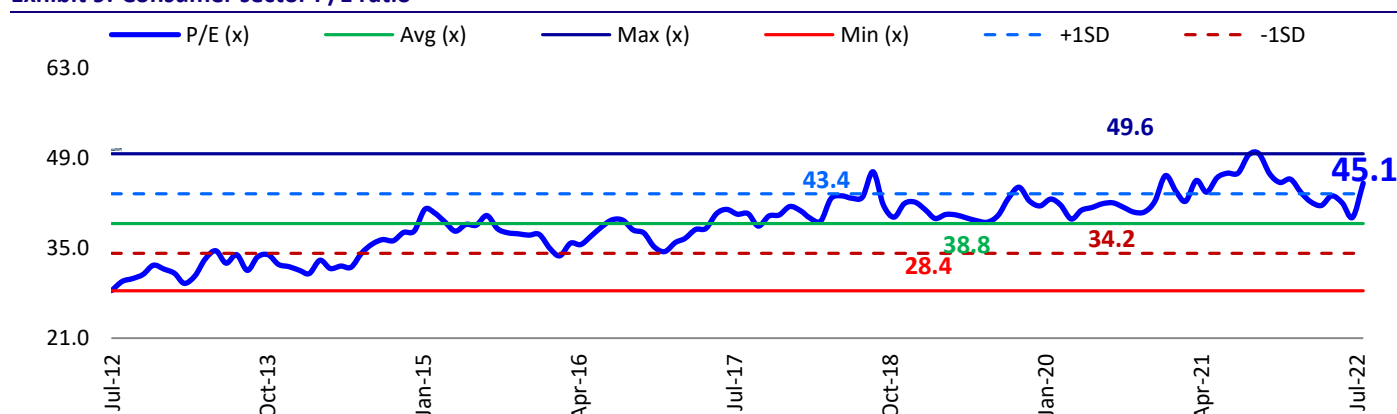
Source: Company, MOFSL

Exhibit 8: P/E ratio (x) for INDIGOPN



Source: Bloomberg, Company, MOFSL

Exhibit 9: Consumer sector P/E ratio



Source: Bloomberg, Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>4,015</b>	<b>5,356</b>	<b>6,248</b>	<b>7,233</b>	<b>9,060</b>	<b>11,053</b>	<b>13,816</b>
Change (%)		33.4	16.6	15.8	25.3	22.0	25.0
Raw Materials	2,377	2,985	3,220	3,765	5,135	5,991	7,253
<b>Gross Profit</b>	<b>1,638</b>	<b>2,371</b>	<b>3,028</b>	<b>3,468</b>	<b>3,925</b>	<b>5,062</b>	<b>6,563</b>
Margin (%)	40.8	44.3	48.5	47.9	43.3	45.8	47.5
Operating Expenses	1,380	1,830	2,118	2,243	2,565	3,155	3,820
<b>EBITDA</b>	<b>258</b>	<b>541</b>	<b>910</b>	<b>1,225</b>	<b>1,360</b>	<b>1,907</b>	<b>2,743</b>
Change (%)		109.6	68.2	34.7	11.0	40.2	43.8
Margin (%)	6.4	10.1	14.6	16.9	15.0	17.3	19.9
Depreciation	90	171	196	244	313	360	428
Int. and Fin. Charges	45	47	56	38	13	15	17
Other Income	16	16	16	36	109	90	100
<b>Profit before Taxes</b>	<b>139</b>	<b>340</b>	<b>674</b>	<b>979</b>	<b>1,143</b>	<b>1,621</b>	<b>2,398</b>
Change (%)		145.2	98.2	45.2	16.7	41.9	47.9
Margin (%)	3.5	6.4	10.8	13.5	12.6	14.7	17.4
Tax	-3	48	147	256	288	409	604
Deferred Tax	0	20	49	15	15	0	0
Tax Rate (%)	-2.2	20.1	29.1	27.6	26.5	25.2	25.2
<b>Adjusted PAT</b>	<b>142</b>	<b>272</b>	<b>478</b>	<b>709</b>	<b>840</b>	<b>1,213</b>	<b>1,794</b>
Change (%)		91.7	76.0	48.2	18.6	44.3	47.9
Margin (%)	3.5	5.1	7.7	9.8	9.3	11.0	13.0
Exceptional/Prior Period inc	13	3	0	0	0	0	0
<b>Reported PAT</b>	<b>155</b>	<b>275</b>	<b>478</b>	<b>709</b>	<b>840</b>	<b>1,213</b>	<b>1,794</b>

### Consolidated Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	286	289	290	476	476	476	476
Reserves	989	1,186	1,680	5,159	6,023	7,236	9,030
<b>Net Worth</b>	<b>1,275</b>	<b>1,475</b>	<b>1,971</b>	<b>5,635</b>	<b>6,499</b>	<b>7,711</b>	<b>9,505</b>
Loans	316	516	392	0	0	0	0
Other Liability	77	115	132	157	209	209	209
<b>Capital Employed</b>	<b>1,667</b>	<b>2,106</b>	<b>2,495</b>	<b>5,792</b>	<b>6,708</b>	<b>7,920</b>	<b>9,714</b>
Gross Block	686	1,006	1,669	2,339	2,669	3,619	3,919
Less: Accum. Depn.	67	137	245	452	773	1,154	1,554
<b>Net Fixed Assets</b>	<b>619</b>	<b>869</b>	<b>1,424</b>	<b>1,887</b>	<b>1,896</b>	<b>2,465</b>	<b>2,365</b>
Capital WIP	25	44	11	31	510	510	510
Right to Use Assets	97	311	278	301	332	403	425
<b>Investments</b>	<b>184</b>	<b>197</b>	<b>208</b>	<b>497</b>	<b>1,731</b>	<b>2,131</b>	<b>2,631</b>
<b>Curr. Assets, L&amp;A</b>	<b>1,641</b>	<b>2,002</b>	<b>1,967</b>	<b>4,983</b>	<b>4,288</b>	<b>4,904</b>	<b>6,890</b>
Inventory	552	693	768	947	1,177	1,436	1,795
Account Receivables	968	1,038	1,045	1,212	1,717	2,094	2,618
Cash and Bank Balance	46	140	57	2,583	996	869	1,843
Others	75	130	97	241	398	505	633
<b>Curr. Liab. and Prov.</b>	<b>1,307</b>	<b>1,623</b>	<b>1,698</b>	<b>2,212</b>	<b>2,354</b>	<b>2,798</b>	<b>3,412</b>
Account Payables	1,085	1,362	1,386	1,856	2,014	2,457	3,072
Other Liabilities	220	261	289	315	270	270	270
Provisions	1	0	24	42	70	70	70
<b>Net Current Assets</b>	<b>335</b>	<b>379</b>	<b>269</b>	<b>2,771</b>	<b>1,934</b>	<b>2,107</b>	<b>3,478</b>
Goodwill on Cons.	407	306	306	306	306	306	306
<b>Application of Funds</b>	<b>1,667</b>	<b>2,106</b>	<b>2,495</b>	<b>5,792</b>	<b>6,708</b>	<b>7,920</b>	<b>9,714</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>3.0</b>	<b>5.7</b>	<b>10.1</b>	<b>14.9</b>	<b>17.7</b>	<b>25.5</b>	<b>37.7</b>
Cash EPS	4.9	9.3	14.2	20.0	24.2	33.1	46.7
BV/Share	26.8	31.0	41.4	118.5	136.6	162.1	199.8
DPS	0.0	0.0	0.0	0.0	3.0	5.1	7.5
Payout %	0.0	0.0	0.0	0.0	17.0	20.0	20.0
<b>Valuation (x)</b>							
P/E	524.0	273.4	155.4	104.9	88.4	61.3	41.4
Cash P/E	320.2	168.0	110.2	78.0	64.4	47.2	33.4
EV/Sales	11.1	8.4	7.3	9.8	7.9	6.5	5.1
EV/EBITDA	173.4	83.6	50.0	58.1	52.6	37.4	25.5
P/BV	58.3	50.4	37.7	13.2	11.4	9.6	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.2	0.3	0.5
<b>Return Ratios (%)</b>							
RoE	11.1	19.8	27.8	18.6	13.9	17.1	20.8
RoCE	11.3	16.4	22.5	17.8	13.6	16.7	20.5
RoIC		16.8	23.3	25.3	18.4	19.7	24.9
<b>Working Capital Ratios</b>							
Debtor (Days)	88	71	61	61	69	69	69
Asset Turnover (x)	2.4	2.5	2.5	1.2	1.4	1.4	1.4
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.2	0.4	0.2	0.0	0.0	0.0	0.0

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(loss) before Tax	126	337	674	979	1,143	1,621	2,398
Depreciation	90	171	196	244	313	360	428
Net interest	44	45	54	22	-47	-75	-83
Others	4	6	-8	-5	-19	0	0
Direct Taxes Paid	0	-44	-124	-164	-258	-409	-604
(Incr)/Decr in WC	-25	2	-69	137	-479	-300	-397
<b>CF from Operations</b>	<b>238</b>	<b>516</b>	<b>723</b>	<b>1,214</b>	<b>652</b>	<b>1,198</b>	<b>1,742</b>
Incr in FA	-181	-633	-613	-660	-1,208	-950	-300
<b>Free Cash Flow</b>	<b>57</b>	<b>-117</b>	<b>110</b>	<b>553</b>	<b>-556</b>	<b>248</b>	<b>1,442</b>
Pur of Investments	5	0	0	-2,522	460	-400	-500
Others	5	23	-21	2,138	-1,438	323	443
<b>CF from Invest.</b>	<b>-171</b>	<b>-611</b>	<b>-634</b>	<b>-1,044</b>	<b>-2,186</b>	<b>-1,027</b>	<b>-357</b>
Issue of Shares	0	17	18	2,932	0	0	0
Incr in Debt	-30	209	-143	-500	0	0	0
Dividend Paid	0	0	0	0	0	-143	-243
Net interest Paid	-38	-37	-47	-33	-2	-105	-117
Others	0	0	0	-41	-50	-50	-50
<b>CF from Fin. Activity</b>	<b>-68</b>	<b>189</b>	<b>-172</b>	<b>2,357</b>	<b>-53</b>	<b>-298</b>	<b>-410</b>
<b>Incr/Decr of Cash</b>	<b>-1</b>	<b>94</b>	<b>-83</b>	<b>2,526</b>	<b>-1,587</b>	<b>-128</b>	<b>975</b>
Add: Opening Balance	47	46	140	57	2,583	996	869
<b>Closing Balance</b>	<b>46</b>	<b>140</b>	<b>57</b>	<b>2,583</b>	<b>996</b>	<b>869</b>	<b>1,843</b>

E: MOFSL Estimates



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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