



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2023

30.77

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

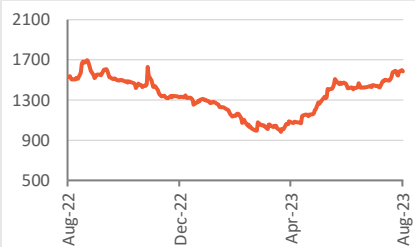
Company details

Market cap:	Rs. 7,538 cr
52-week high/low:	Rs. 1,731 / 981
NSE volume: (No of shares)	1.2 lakh
BSE code:	543258
NSE code:	INDIGOPNTS
Free float: (No of shares)	2.2 cr

Shareholding (%)

Promoters	54.0
FII	34.5
DII	2.9
Others	8.69

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	24.1	38.8	3.6
Relative to Sensex	9.3	17.8	29.6	-8.2

Sharekhan Research, Bloomberg

Indigo Paints Ltd

Good Q1; multiple levers to drive growth

Consumer Goods

Sharekhan code: INDIGOPNTS

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,584

Price Target: Rs. 1,850



Summary

- Indigo paints Limited (IPL) posted good performance in Q1FY2024, with revenue and PAT growth at 23.7% and 58.2% y-o-y to Rs. 277 crore and Rs. 31.5 crore, respectively; OPM improved by 155 bps y-o-y.
- The company is targeting Rs. 200 crore revenue from the newly acquired Apple Chemie in three years; contribution from tier-1/2 cities is expected to rise to ~38% by FY2024-end from 33% in FY2023. Margin expansion would be led by softening of input costs and reduction in ad-spends as a percentage of sales.
- We expect the company's revenue and PAT to report a 22% and 23% CAGR over FY2023-FY2025E, respectively, led by double-digit volume growth, driven by distribution expansion, focus on brand building, capacity addition, and scale-up in the B2B business.
- The stock trades at 44.6x/37.7x its FY2024E/FY2025E earnings. We maintain our Buy rating with a revised PT of Rs. 1,850.

Indigo Paints Limited (IPL) reported 24% y-o-y revenue growth to Rs. 277 crore in Q1FY2024, registering 3.0x-3.5x the industry growth of 6.5%-7.0%. Growth was driven by double-digit volume growth across categories. Revenue came ahead of our expectation of Rs. 268 crore and was in-line with the street's expectation of Rs. 280 crore. Softening of input cost inflation led to a 239-bps y-o-y improvement in gross margin to 47.6%. However, higher employee expenses (up by 35% y-o-y) led to a 155-bps y-o-y expansion in OPM to 17.3%. OPM came in lower than our and average street expectation of 18.5% due to higher employee cost. Operating profit grew by 35.9% y-o-y to Rs. 47.9 crore and PAT grew by 58.2% y-o-y to Rs. 31.5 crore (in-line with our and average street expectation of Rs. 31-33 crore). PAT came in-line with expectations due to higher other income, which stood at Rs. 3.5 crore in Q1. Commercial production in the new Tamil Nadu plant is expected to commence in a few weeks.

Key positives

- Revenue growth was 3.0x-3.5x ahead of the industry's growth of 6-7%.
- Cement and putty volumes grew strongly by 65%.
- Gross margins rose by 239 bps y-o-y to 47.6%; OPM increased by 155 bps y-o-y to 17.3%.
- Tinting machine count increased by 384 to 8,657 from 8,273 at FY2023-end; added two more depots in North India.

Key negatives

- Employee expenses increased by 35% y-o-y.

Management Commentary

- Growth from tier-1/2 cities is 1.5x the growth of smaller towns. The company expects tier-1/2 towns to contribute 38% to revenue at FY2024-end from 33% in FY2023. Strong momentum in Q1 has sustained in July, with exceptionally good sales reported in July 2023.
- During the quarter, IPL launched a campaign to promote the economy range of products. Going ahead, the company plans to increase spends on engagement with influencers. Management maintained its guidance that absolute A&P spends would marginally increase while spends as a percentage of sales are expected to decline in the coming years.
- The company added two depots in North India during Q1FY2024 to improve its distribution efficiency and is planning to add a few more depots in the coming months. IPL's focus would be on improving throughput per dealer than focusing on adding dealers, so higher tinting machines per dealer would be targeted.
- Apple Chemie has recruited a large number of sales personnel in 8-9 states to expand its reach outside Maharashtra. IPL expects significant momentum from Apple Chemie from H2FY2024. Apple Chemie reported Rs. 42 crore revenue in FY2023. IPL is aiming for Rs. 200 crore from Apple Chemie in three years. Expansion of Apple Chemie business would not have any major impact on IPL's margins.
- Commercial production in the new Tamil Nadu plant is expected to commence in a few weeks. In Jodhpur, a new water-based paint plant with 90,000 KLPA capacity is expected to be operational by FY2025-end and a solvent-based paint plant with 12,000 KLPA is expected to be operational during FY2025.

Revision in estimates – We have fine-tuned our estimates for FY2024 and FY2025 and will keenly monitor the company's performance in the quarters ahead.

Our Call

View: Maintain Buy with a revised PT of Rs. 1,850: IPL posted good numbers in Q1FY2024, with double-digit revenue growth and y-o-y expansion in OPM. The company's revamped strategy is showing good results and will help the company to achieve growth ahead of the industry over the next 2-3 years. Further, entry into the construction chemicals and waterproofing segments and capacity addition in water-based paints will act as additional drivers. Focused strategies will help IPL to achieve consistent revenue and PAT growth of 22% and 23%, respectively, over FY2023-FY2025E. The stock is currently trading at 44.6x/37.7x its FY2024E/FY2025E EPS. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 1,850.

Key Risks

Increased competitive pressures from large players or a rise in key input prices would act as a key risk to our earnings estimates.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	906	1,073	1,349	1,589
OPM (%)	15.0	16.9	19.1	20.5
Adjusted PAT	84	132	169	200
% Y-o-Y growth	18.6	57.0	28.0	18.3
Adjusted EPS (Rs.)	17.7	27.7	35.5	42.0
P/E (x)	89.7	57.1	44.6	37.7
P/B (x)	11.6	9.7	9.1	8.3
EV/EBIDTA (x)	53.5	40.6	28.5	22.9
RoNW (%)	13.9	18.5	21.1	23.1
RoCE (%)	18.1	21.1	27.6	30.3

Source: Company; Sharekhan estimates

Good Q1 – Revenue grew by 24% y-o-y; OPM expanded by 155 bps y-o-y

IPL's revenue grew by 23.7% y-o-y to Rs. 277 crore in Q1FY2024, ahead of our expectation of Rs. 268 crore and in-line with the street's expectation Rs. 280 crore. Revenue growth was 3.0x-3.5x ahead of the industry's growth of 6-7%. All the categories registered double-digit growth in Q1, largely driven by double-digit volume growth. Softening of input cost inflation led to a 239 bps/155 bps y-o-y improvement in gross margin/OPM to 47.6%/17.3%, respectively. OPM came in lower than our and average street expectation of 18.5%. OPM was lower than our expectation due to higher employee cost. Operating profit grew by 35.9% y-o-y to Rs. 47.9 crore and PAT grew by 58.2% y-o-y to Rs. 31.5 crore (in-line with our and average street expectation of Rs. 31-33 crore). PAT came in-line with expectation due to higher other income, which stood at Rs. 3.5 crore in Q1. The company successfully carried out trial production at the new plant in Tamil Nadu and is awaiting the final few approvals for commercial production.

Key conference call highlights

- ♦ **Growth led by Tier-1/2 towns:** During Q1FY2024, IPL's revenue growth of 24% is ~3x more than the industry's growth rate of 6-7%, driven by the company's special focus on Tier-1/2 cities along with various initiatives. Growth in Tier-1/2 cities is ahead of Tier-3/4 and rural areas and management expects the trend to continue. Management indicated that growth from tier-1/2 cities is 1.5x the growth of smaller towns. The company expects tier-1/2 towns to contribute 38% to revenue at FY2024-end from 33% in FY2023. Moreover, management is confident that sales growth would continue to outpace the industry growth in the upcoming quarters as well. Strong momentum in Q1 has sustained in July, with exceptionally good sales reported in July 2023. In terms of geographies, Kerala's contribution to total sales is expected to reduce with expansion in other geographies (down to 28% from ~32% earlier) and the company is gaining momentum in West/East; however, North is still a low contributor to sales.
- ♦ **Volume and value growth largely in sync for most categories:** As volume growth is gaining momentum, volume growth and value growth for most categories is now at par against the earlier trend of high value-led growth due to price increases. In the cement and putty category, value/volume growth came in at 17.8%/13.1% y-o-y. The emulsions category posted y-o-y value growth of 65.8% versus volume growth of 64.6%. The enamels category's y-o-y value growth came in at 36.6% against value growth of 35.3%. In the primers and distempers category, y-o-y value/volume growth came in at 43.6%/52.4%.
- ♦ **Focus on A&P spends for brand building:** IPL will continue to focus on brand building through investments in advertisement and promotions (A&P). Management has guided that absolute A&P spends would marginally increase, while spends as a percentage of sales are expected to decline in the coming years. During the quarter, IPL launched a campaign to promote the economy range of products. Going ahead, the company plans to increase spends on engagement with influencers, rather than advertisement.
- ♦ **Network continues to expand:** The company added two depots in North India during Q1FY2024 to improve its distribution efficiency and is planning to add a few more depots in the coming months. IPL increased its tinting machine to 8,657 from 8,273 at FY2023-end, while the number of active dealers rose to 16,693 from 16,496 at FY2023-end. As per management, IPL's focus would be on improving throughput per dealer than focusing on adding dealers, so higher tinting machines per dealer would be targeted.
- ♦ **Apple Chemie to scale up in the coming years:** The recently acquired Apple Chemie would aid the company to expand its B2B presence. Apple Chemie has started expanding its operations outside Maharashtra and has ramped up its sales and marketing team. IPL is focusing on making Apple Chemie a pan-India player. In-line with this goal, Apple Chemie has recruited a large number of sales personnel in 8-9 states to expand its reach. IPL expects significant momentum from Apple Chemie beginning from H2FY2024. With Apple Chemie's existing order book, the company is likely to deliver 40% growth in existing geographies and from existing customers. Apple Chemie reported Rs. 42 crore revenue in FY2023. IPL is aiming for Rs. 200 crore from Apple Chemie in three years. Management has indicated that the business would not have any major impact on margins due to expansion (neither margin dilutive/accretive).
- ♦ **Capacity expansion on cards:** IPL successfully carried out trial production at its new plant in Tamil Nadu and is awaiting the final few approvals for commercial production, which is expected to materialise in the next few weeks. The company has started work on a new water-based paint plant at Jodhpur of 90,000 KLPA capacity, which is expected to be operational by FY2025-end. IPL is also implementing a solvent-based paint plant of 12,000 KLPA at Jodhpur, which is expected to be operational during FY2025.

Results (Standalone)

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net revenue	277.0	224.0	23.7	325.5	-14.9
Material cost	145.2	122.8	18.3	173.1	-16.1
Employee cost	22.4	16.6	34.9	18.7	19.5
Other expenses	61.5	49.3	24.6	61.9	-0.7
Total expenditure	229.1	188.7	21.4	253.7	-9.7
Operating profit	47.9	35.3	35.9	71.7	-33.2
Other income	3.5	0.5	-	2.8	25.2
Interest expenses	0.4	0.4	-0.7	0.4	8.4
Depreciation	8.8	8.4	4.4	8.7	1.0
Profit Before Tax	42.2	26.9	56.9	65.4	-35.5
Tax	10.7	7.0	53.5	16.8	-35.9
Adjusted PAT	31.5	19.9	58.2	48.7	-35.3
EPS (Rs.)	6.6	4.2	58.2	10.2	-35.3
			bps		bps
GPM (%)	47.6	45.2	239	46.8	76
OPM (%)	17.3	15.7	155	22.0	-474
NPM (%)	11.4	8.9	248	15.0	-359
Tax rate (%)	25.4	26.0	-58	25.6	-18

Source: Company; Sharekhan Research

Results (Consolidated)

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net revenue	288.4	224.0	28.8	325.5	-11.4
Material cost	151.9	122.8	23.7	173.1	-12.2
Employee cost	24.3	16.6	46.2	18.7	29.5
Other expenses	63.1	49.3	27.9	61.9	1.9
Total expenditure	239.3	188.7	26.8	253.7	-5.7
Operating profit	49.1	35.3	39.2	71.7	-31.5
Other income	3.8	0.5	-	2.8	35.7
Interest expenses	0.5	0.4	14.7	0.4	25.2
Depreciation	10.1	8.4	19.8	8.7	15.8
Profit Before Tax	42.3	26.9	57.4	65.4	-35.3
Tax	10.8	7.0	54.7	16.8	-35.4
Adjusted PAT	31.5	19.9	58.3	48.7	-35.3
EPS (Rs.)	6.6	4.2	58.3	10.2	-35.3
			bps		bps
GPM (%)	47.3	45.2	214	46.8	51
OPM (%)	17.0	15.7	128	22.0	-501
NPM (%)	10.9	8.9	204	15.0	-403
Tax rate (%)	25.6	26.0	-44	25.6	-4

Source: Company; Sharekhan Research

Category-wise volume/value growth

Product Category	Q1FY2024	
	Value growth (%)	Volume growth (%)
Cement paints + Putty	65.8	64.6
Emulsions	17.8	13.1
Enamels + Wood Coatings	36.6	35.3
Primers + Distempers + Others	43.9	52.4

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural growth of the paint industry is intact

In Q1FY2024, paint companies reported strong volume-led revenue growth with recovery in domestic paints aided by distribution expansion and largely normal climate conditions. The decorative paints industry is expected to report a 12% CAGR over FY2023-FY2027 to Rs. 1,00,000 crore, led by a reduction in the repainting cycle to 4-5 years (from 8-10 years earlier), increased construction activities of new real estate projects, acceptance of better paint products in smaller towns, and upgradation of premium brands in cities and large towns. A better product mix and efficiencies would help paint companies post higher margins in the long run.

■ Company Outlook – Growth momentum to sustain

In Q1FY2024, IPL's revenue grew by 24% y-o-y, while OPM expanded by 155 bps y-o-y and PAT grew by 58% y-o-y. Growth was supported by double-digit volume growth across categories and by correction in key raw-material prices. The company expects strong sales volume growth (2x that of the industry) in the coming quarters because of its renewed focus on increasing output per dealer in Tier-1 and Tier-2 cities. Rising urbanisation, willingness to spend on home improvement, strong traction to differentiate products, distribution expansion, and market share gains would help IPL to grow faster than the industry in the coming years. Scale-up in the business will help OPM to improve further and reach 21% in FY2025.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,850

IPL posted good numbers in Q1FY2024, with double-digit revenue growth and y-o-y expansion in OPM. The company's revamped strategy is showing good results and will help the company to achieve growth ahead of the industry over the next 2-3 years. Further, entry into the construction chemicals and waterproofing segments and capacity addition in water-based paints will act as additional drivers. Focused strategies will help IPL to achieve consistent revenue and PAT growth of 22% and 23%, respectively, over FY2023-FY2025E. The stock is currently trading at 44.6x/37.7x its FY2024E/FY2025E EPS. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 1,850.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Asian Paints	75.9	59.8	51.0	48.1	39.8	34.4	22.5	25.2	26.1
Indigo paints	57.1	44.6	37.7	40.6	28.5	22.9	21.1	27.6	30.3

Source: Company, Sharekhan estimates

About company

Incorporated in 2000, IPL is the fifth-largest paint company in India. The company started its operations by manufacturing lower-end cement products and gradually expanded its range to cover most segments of water-based paints such as exterior emulsions, interior emulsions, distempers, and primers. The company kept churning out bright new ideas for painting solutions, with alarming regularity. IPL introduced India's first metallic paint, first-floor coat paint, unique ceiling coat paint, and first-of-its-kind paint for roofs. Differentiated products contribute ~30% to the company's revenue. The company has a growing dealership base of ~16,700 dealers covering 27 states.

Investment theme

IPL is the fastest-growing paints company in India, which has carved a niche for itself by developing and marketing differentiated products to establish its position in the high entry-barrier paint industry. The company has the highest gross margin of ~45% among paint companies. The differentiated business model aided the company to achieve strong topline and earnings growth of 15% and 37%, respectively, over FY2019-FY2023, with the highest gross margin of ~45% among peers. Rising urbanisation, willingness to spend on home improvement, strong traction to differentiate products, and market share gains would help IPL to achieve strong growth in the coming years.

Key Risks

- ♦ **Increased raw-material prices:** Any significant increase in crude prices and other input costs will affect the company's profitability.
- ♦ **Delay in capacity expansion:** Delay in capacity expansion plans due to any regulatory hurdle or any other reason would affect the company's future growth prospects.
- ♦ **The company does not enter into long-term arrangements with dealers:** IPL presently does not have any long-term or exclusive arrangements with any of the dealers and cannot assure that it will be able to sell the same quantities as it supplied historically to such dealers.

Additional Data

Key management personnel

Hemant Kamala Jalan	Chairman-Managing Director
Chetan Bhalchandra Humane	Chief Financial Officer
Dayeeta Gokhale	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sequoia Cap India Inv Hldg	12.14
2	Capital Group Cos Inc.	2.55
3	Small Cap World Fund Inc.	2.32
4	Carne Global Fund Managers	1.46
5	ICICI Prudential Life Insurance Co.	1.42
6	Emirate of Abu Dhabi United Arab Emirates	1.35
7	Pictet Funds SA	0.78
8	Nomura Holdings Inc.	0.45
9	Caisse de Depot et Placement du Quebec	0.37
10	SBI Funds Management Ltd.	0.19

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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