Indigo Paints

Estimate change	↓
TP change	⟷
Rating change	⟷

Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USDb)	66 / 0.8
52-Week Range (INR)	1700 / 1250
1, 6, 12 Rel. Per (%)	2/-22/-27
12M Avg Val (INR M)	134

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	13.1	15.2	17.5
Sales Gr. (%)	21.7	16.0	15.5
EBITDA	2.4	2.7	3.1
EBIT Margin (%)	18.2	17.9	17.5
Adj. PAT	1.5	1.6	1.9
Adj. EPS (INR)	31.3	34.2	39.3
EPS Gr. (%)	28.8	9.2	15.2
BV/Sh.(INR)	189.6	217.8	249.1
Ratios			
RoE (%)	17.7	16.8	16.9
RoCE (%)	17.3	16.3	16.5
Valuation			
P/E (x)	44.3	40.6	35.3
P/BV (x)	7.3	6.4	5.6
EV/EBITDA (x)	26.9	23.1	20.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.0	54.0	54.0
DII	2.3	2.9	3.1
FII	8.8	8.9	8.8
Others	35.0	34.3	34.1

FII Includes depository receipts

CMP: INR1,387 TP: INR1,600 (+15%) Buy

Slow organic growth; FY24 print better than peers’

- Indigo Paints (INDIGOPN) delivered consolidated sales growth of 18% YoY to INR3.8b (est. INR3.9b). Standalone sales growth decelerated to 12.5% YoY in 4QFY24 vs. 19% in 9MFY24. Apple Chemie clocked 24% YoY growth in FY24 to INR517mn (since acquisition in 1QFY24) and supported consolidated growth.
- In FY24, INDIGOPN sustained growth outperformance, with 17% YoY growth in standalone revenue (leading to share gains). Emulsion value/volume growth stood at 9%/14% YoY and Primer + Distemper value/volume growth was 28%/22% YoY. Consolidated revenue grew 22% YoY in FY24.
- GM expanded 210bp YoY/70bp QoQ, aided by favorable RM prices. Higher other expenses at 30% YoY (180bp) were attributed to reinvestment in marketing and distribution. Hence, EBITDA margin was flat YoY at 22%.
- The management expects to sustain volume growth outperformance and achieve 3-4x industry growth. The company expects a limited impact of new competition on its growth trajectory; it considers more competition from the existing players.
- INDIGOPN witnessed growth across India, demonstrating a reduced reliance on Kerala. Furthermore, Apple Chemie (construction chemicals & water proofing) has successfully expanded its operations beyond Maharashtra.
- We reiterate our **BUY rating with a TP of INR1,600**, considering its promising sales growth outlook, synergies with Apple Chemie, consistent capacity & distribution expansion, and its favorable valuation multiples vs. peers.

Consolidated sales in line; slow organic growth

Consolidated

- **Sales growth above industry:** Consolidated net sales grew 18.3% YoY to INR3,849m (est. INR3,990m). INDIGOPN witnessed over 3-4x higher growth than the industry, indicating market share gains by the company.
- **Healthy gross margin expansion:** Gross margin improved 210bp YoY and 70bp QoQ to 48.9% (est. 49.0%), aided by a favorable product mix. As a percentage of sales, high employee costs (up 30bp YoY) and other expenses (up 180bp YoY) led to flat YoY EBITDA margin of 22% (est. 22.3%).
- **Double-digit growth in EBITDA/PBT/PAT:** EBITDA grew 18% YoY to INR846m (est. INR888m). PBT increased 11% YoY to INR727m (est. INR768m). Adj. PAT rose 12% YoY to INR544m (est. INR574m).
- **In FY24**, consolidated net sales/EBITDA/Adj. PAT increased 22%/31%/29% while standalone net sales/EBITDA/Adj. PAT increased 17%/28%/28%.

Highlights from the management commentary

- Sales growth was 3x-4x higher than the industry growth rate, indicating significant market share gain. In 4Q, consolidated revenue grew by 18%, compared to an industry average growth of less than 1%.

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- Gross margin was the highest in the industry for indigo as the contribution from differentiated products was higher.
- A&P spending increased to INR923m from INR 827m in FY23. However, as a percentage of sales, it decreased by 30bp to 7.4% vs. 7.7% in FY23.
- The company added 332 tinting machines, taking the total to 9,842 in 4QFY24 from 9,510 in 3QFY24. In FY24, it added total 1,600 tinting machines. In FY24, the number of active dealers was 18,105, up by 360 from 17,745 in 3QFY24 and 16,496 in 4QFY23.
- The company expects to sustain its revenue growth at 3-4x the industry average. The management aims to sustain the current gross margin throughout FY25, acknowledging potential quarterly fluctuations due to seasonal product mix changes.

Valuation and view

- We cut our EPS estimates by 5%/2% for FY25/FY26.
- Indigo's strategic shift to focusing on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 are proving to be a successful endeavor, as evidenced by its outperformance to industry growth by 3x-4x for the two consecutive quarters.
- Given the relatively small scale of INDIGOPN (INR13b revenue in FY24) in the large paints industry, the company has been able to grow much faster than the industry. Consumers' rising acceptance of the brand and the expansion of distribution have been driving the outperformance. However, changing the competitive landscape will be a key monitorable. We reiterate our BUY rating with a revised TP of INR1,600 (40x FY26E EPS).

Consolidated Quarterly Performance **(INR m)**

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**2,240**	**2,426**	**2,813**	**3,255**	**2,884**	**2,790**	**3,538**	**3,849**	**10,733**	**13,061**	**3,990**	-3.5%
Change (%)	43.6	23.7	6.0	12.9	28.8	15.0	25.8	18.3	18.5	21.7	22.6	
Raw Material/PM	1,228	1,414	1,580	1,731	1,519	1,519	1,833	1,968	5,952	6,839	2,033	
Gross Profit	**1,012**	**1,012**	**1,233**	**1,524**	**1,365**	**1,271**	**1,705**	**1,881**	**4,781**	**6,222**	**1,956**	-3.9%
Gross Margin (%)	45.2	41.7	43.8	46.8	47.3	45.6	48.2	48.9	44.5	47.6	49.0	
EBITDA	**353**	**338**	**406**	**717**	**491**	**421**	**622**	**846**	**1,815**	**2,381**	**888**	-4.8%
Margin (%)	15.7	13.9	14.4	22.0	17.0	15.1	17.6	22.0	16.9	18.2	22.3	
Change (%)	74.9	44.5	4.9	33.4	39.2	24.8	53.5	17.9	33.5	31.2	23.8	
Interest	4	3	3	4	5	6	6	5	14	21	5	
Depreciation	84	85	87	87	101	113	146	156	343	516	146	
Other Income	5	32	38	28	38	32	31	42	101	142	30	
PBT	**269**	**282**	**353**	**654**	**423**	**335**	**501**	**727**	**1,558**	**1,986**	**768**	-5.4%
Tax	70	74	91	168	108	81	125	183	402	497	194	
Effective Tax Rate (%)	26.0	26.4	25.7	25.6	25.6	24.3	25.0	25.1	25.8	25.0	25.3	
Adjusted PAT	**199**	**208**	**263**	**487**	**310**	**253**	**376**	**544**	**1,156**	**1,489**	**574**	-5.2%
Change (%)	71.5	53.2	8.1	40.7	55.9	22.1	43.0	11.8	37.5	28.8	17.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Segmental volume growth (%)								
Cement Paints + Putty	12.7	6.2	34.8	42.0	64.6	50.6	24.2	20.2
Emulsions	34.4	-4.2	-4.3	5.2	13.1	20.0	14.3	13.7
Enamels + Wood Coatings	15.8	28.8	4.7	24.8	35.3	5.4	27.3	3.4
Primers + Distempers + Others	2.4	13.1	1.3	37.6	52.4	28.8	37.7	22.0
Segmental value growth (%)								
Cement Paints + Putty	22.7	16.3	42.3	45.1	65.8	47.9	25.2	21.4
Emulsions	65.7	17.4	3.3	9.4	17.8	15.4	18.2	9.1
Enamels + Wood Coatings	38.1	46.9	14.6	27.3	36.6	3.0	25.2	-1.0
Primers + Distempers + Others	28.0	22.4	5.5	23.2	43.6	26.6	34.7	27.6
2Y average growth (%)								
Sales	46.4	25.2	16.3	13.1	36.2	19.4	15.9	15.6
EBITDA	40.5	12.4	13.8	29.3	57.1	34.6	29.2	25.7
PAT	54.9	12.6	18.7	39.9	63.7	37.6	25.5	26.3
% of Sales								
COGS	54.8	58.3	56.2	53.2	52.7	54.4	51.8	51.1
Operating Expenses	29.4	27.8	29.4	24.8	30.3	30.5	30.6	26.9
Depreciation	3.8	3.5	3.1	2.7	3.5	4.0	4.1	4.0
YoY change (%)								
COGS	44.4	23.7	4.2	6.4	23.7	7.4	16.0	13.7
Operating Expenses	29.7	15.4	10.0	12.1	32.5	26.0	30.8	28.3
Other Income	-83.9	4.6	63.2	12.2	684.9	-0.6	-18.8	47.8
EBIT	109.6	61.3	3.4	38.7	45.3	22.0	49.6	9.5

E: MOFSL Estimates

CONFERENCE CALL

Highlights from the management commentary

Performance and outlook

- Sales growth was 3x-4x higher than the industry growth rate, indicating significant market share gains.
- In 4Q, consolidated revenue grew by 18%, compared to an industry average growth of less than 1%.
- During the quarter, putty and cement paints achieved value and volume growth of 21% and 20%, respectively.
- Enamels and wood coatings saw mid-single-digit volume growth, but negative value growth due to company-initiated price reductions.
- In the past six to seven months, waterproofing and construction chemicals have contributed around 5% to 6% to standalone business. This is expected to grow to 8%-10% by FY25.
- Primers and distempers both saw double-digit growth in volume and value.
- The company anticipates maintaining its revenue growth at 3-4x the industry average. The management aims to sustain the current gross margin throughout FY25, acknowledging potential quarterly fluctuations due to seasonal product mix changes.

Costs and margins

- INDIGOPN’s gross margin was the highest in the industry as the contribution from differentiated products was higher.

- A&P spending increased to INR923mn in FY24 from INR827mn in FY23. However, as a percentage of sales, it decreased by 30bp to 7.4% vs. 7.7% in FY23.
- Despite increased spending on digital advertising, overall A&P expenses are expected to marginally decline as a percentage of revenue in FY25.

Distribution network

- The company added six depots in FY24 to improve its distribution efficiency. As of Mar'24, the company has total 53 depots.
- It added 332 tinting machines, taking the total to 9,842 in 4QFY24 from 9,510 in 3QFY24.
- As of Mar'24, the number of active dealers is 18,105, up by 360 from 17,745 in the 3QFY24.

Apple Chemie (acquired entity)

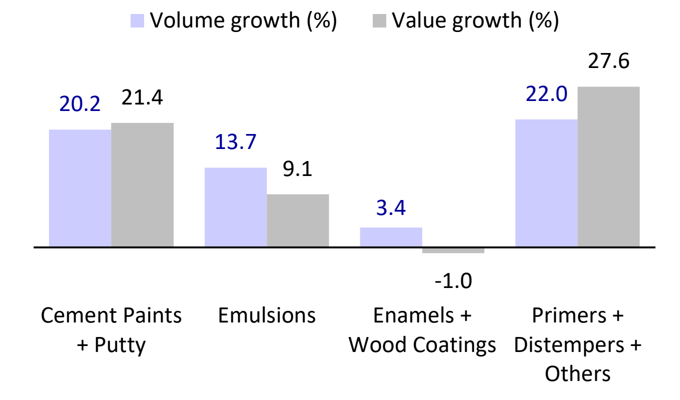
- Apple Chemie's contribution to the overall consolidated business is relatively small, with revenue of about INR510m in FY24.
- Apple Chemie has received large orders from southern, northern, and eastern regions of India and has expanded its marketing team to eight additional states.
- On the B2B front, Apple Chemie has grown over 24% in FY24, and the growth is expected to accelerate further.

Others

- Capex for the new water-based plant in Jodhpur is around INR2.7b. The new solvent-based plant will cost about INR400-450m and the expansion of the existing putty facility will cost less than INR150m.
- The putty expansion is expected to be completed by Dec'24. The solvent-based plant is anticipated to be commissioned by Mar'25.
- The management aims to complete the water-based plant by Mar'25. However, due to recent labor shortages affecting civil construction, there is a possibility of a delay of a couple of months.
- In Jodhpur, there are plans for a new solvent plant with a capacity of 12,000 KLPA and a water-based plant with a capacity of 90,000 KLPA. Additionally, the putty plant's capacity in Jodhpur will be doubled. These developments, once completed, will provide ample infrastructure to meet demand for the next five years.
- The capacity expansion in Tamil Nadu is approximately 50,000 KLPA.
- The water-based plant expansion in Jodhpur aligns with anticipated demand in northern and eastern India, served by the Jodhpur plant.
- The Cochin plant meets Kerala's needs, while the Jodhpur plant covers most of western, northern, and large parts of eastern India.
- Productivity could increase significantly by 2x to 3x, if a dealer adopts a tinting machine.
- Differentiated products contribute around 30% to the overall business.

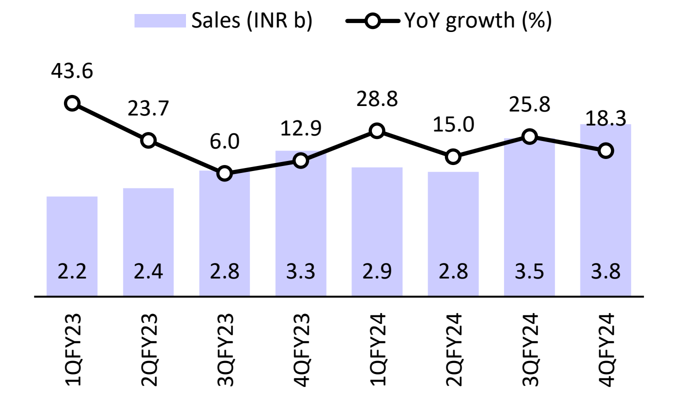
Key exhibits

Exhibit 1: Volume growth recovers in 4QFY24



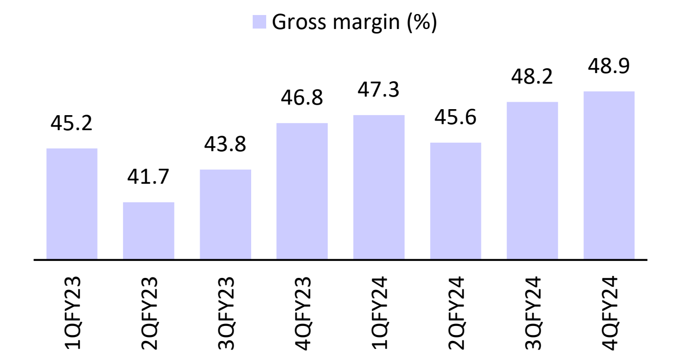
Source: Company, MOFSL

Exhibit 2: Sales up 18% YoY at INR3.8b in 4QFY24



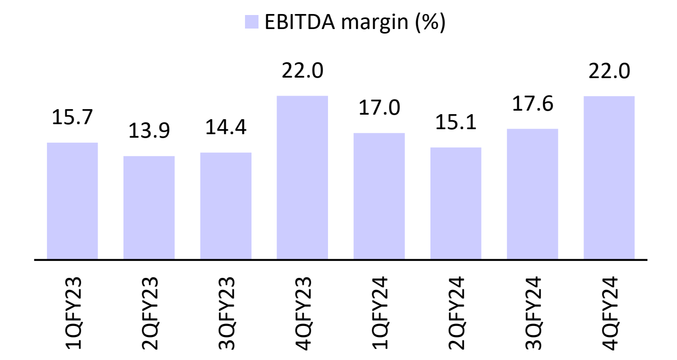
Source: Company, MOFSL

Exhibit 3: Gross margin up 210bp YoY at 48.9% in 4QFY24



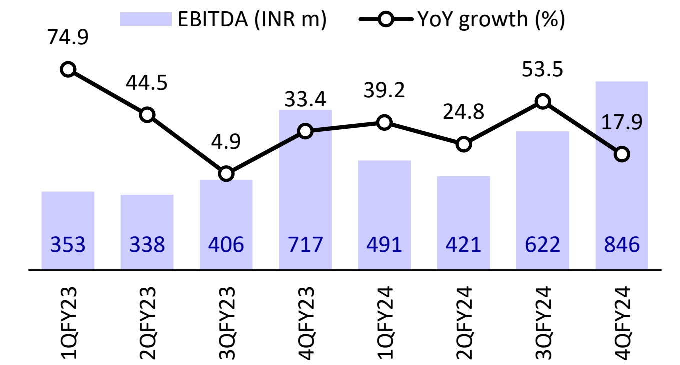
Source: Company, MOFSL

Exhibit 4: EBITDA margin flat YoY at 22% in 4QFY24



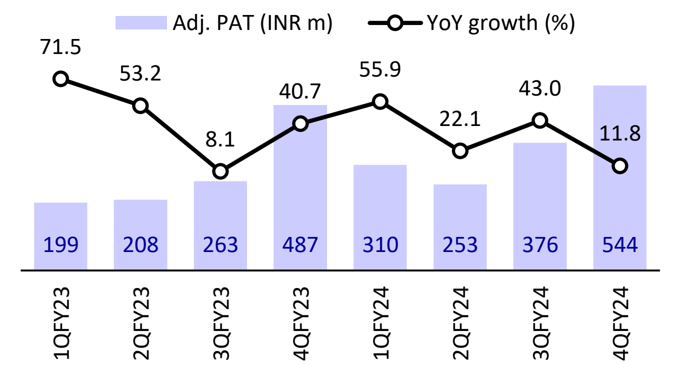
Source: Company, MOFSL

Exhibit 5: EBITDA grew 18% YoY to INR846m in 4QFY24



Source: Company, MOFSL

Exhibit 6: PAT up 12% YoY to INR544m in 4QFY24



Source: Company, MOFSL

Valuation and view

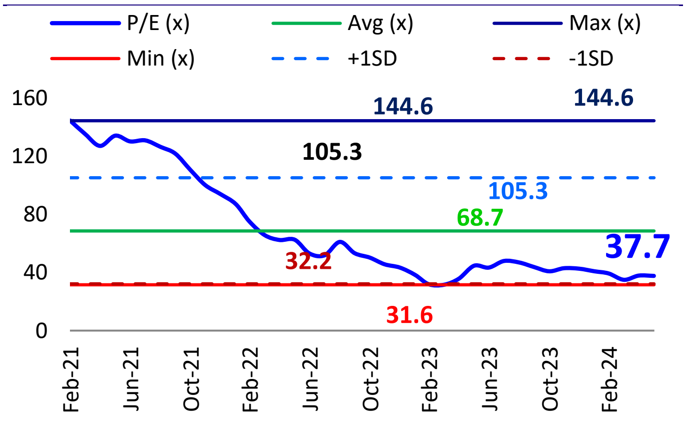
- We cut our EPS estimates by 5%/2% for FY25/FY26.
- INDIGOPN's strategic shift to focusing on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 are proving to be a successful endeavor, as evidenced by its outperformance to industry growth by 3x-4x for two consecutive quarters. This approach has the potential to result in significant market share gains across various segments for the company.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian paint industry through a deliberate and multifaceted approach, including a) pioneering differentiated product offerings; b) consistently strengthening distribution with the addition of two depots (one each in West & East India), 455 dealers and 457 tinting machines in Q2FY24; c) cultivating brand recognition through substantial investments in advertising efforts; d) collaborating with the influential community of painters and contractors to foster trust; and e) leveraging synergies through the partnership with Apple Chemie in its supply chain. We reiterate our BUY rating with a revised **TP of INR1,770 (40x Mar'25E EPS).**

Exhibit 7: We cut our EPS estimates by 5%/2% for FY25/FY26

INR m	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	15,151	17,499	15,314	17,611	-1.1	-0.6
EBITDA	2,718	3,069	2,748	3,089	-1.1	-0.6
PAT	1,625	1,872	1,706	1,909	-4.7	-2.0

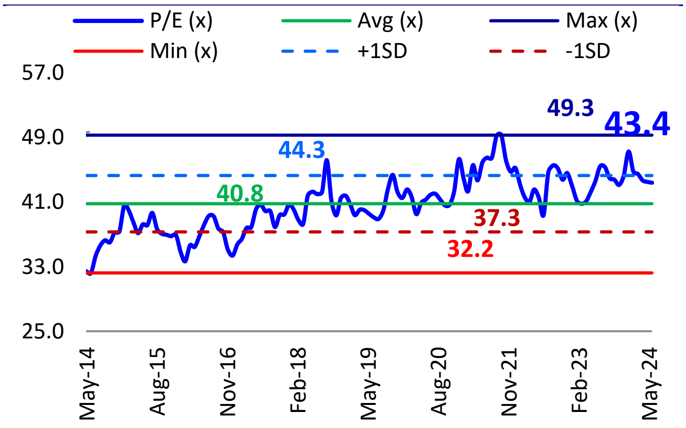
Source: Company, MOFSL

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	FY24	FY25E	FY26E
Net Sales	**5,356**	**6,248**	**7,233**	**9,060**	**10,733**	**13,061**	**15,151**	**17,499**
Change (%)	33.4	16.6	15.8	25.3	18.5	21.7	16.0	15.5
Raw Materials	2,985	3,220	3,765	5,135	5,952	6,839	8,030	9,362
Gross Profit	**2,371**	**3,028**	**3,468**	**3,925**	**4,781**	**6,222**	**7,121**	**8,137**
Margin (%)	44.3	48.5	47.9	43.3	44.5	47.6	47.0	46.5
Operating Expenses	1,830	2,118	2,243	2,565	2,966	3,841	4,403	5,068
EBITDA	**541**	**910**	**1,225**	**1,360**	**1,815**	**2,381**	**2,718**	**3,069**
Change (%)	109.6	68.2	34.7	11.0	33.5	31.2	14.2	12.9
Margin (%)	10.1	14.6	16.9	15.0	16.9	18.2	17.9	17.5
Depreciation	171	196	244	313	343	516	690	735
Int. and Fin. Charges	47	56	38	13	14	21	23	26
Other Income	16	16	36	109	101	142	163	188
Profit before Taxes	**340**	**674**	**979**	**1,143**	**1,558**	**1,986**	**2,168**	**2,497**
Change (%)	145.2	98.2	45.2	16.7	36.3	27.4	9.2	15.2
Margin (%)	6.4	10.8	13.5	12.6	14.5	15.2	14.3	14.3
Tax	48	147	256	288	418	435	543	625
Tax Rate (%)	20.1	29.1	27.6	26.5	25.8	25.0	25.0	25.0
PAT Before Minority	**272**	**478**	**709**	**840**	**1,156**	**1,489**	**1,625**	**1,872**
Minority Interest								
Adjusted PAT	**272**	**478**	**709**	**840**	**1,156**	**1,489**	**1,625**	**1,872**
Change (%)	91.7	76.0	48.2	18.6	37.5	28.8	9.2	15.2
Margin (%)	5.1	7.7	9.8	9.3	10.8	11.4	10.7	10.7
Reported PAT	**275**	**478**	**709**	**840**	**1,319**	**1,489**	**1,625**	**1,872**

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Share Capital	289	290	476	476	476	476	476	476
Reserves	1,186	1,680	5,159	6,023	7,285	8,545	9,885	11,375
Net Worth	**1,475**	**1,971**	**5,635**	**6,499**	**7,761**	**9,021**	**10,361**	**11,852**
Loans	516	392	0	0	0	31	0	0
Other Liability	115	132	157	209	188	380	380	380
Minority Interest								
Capital Employed	**2,106**	**2,495**	**5,792**	**6,708**	**7,949**	**9,432**	**10,741**	**12,232**
Gross Block	1,006	1,669	2,339	2,612	2,785	6,435	6,685	7,185
Less: Accum. Depn.	137	245	452	716	987	1,611	1,934	2,030
Net Fixed Assets	**869**	**1,424**	**1,887**	**1,896**	**1,798**	**4,824**	**4,751**	**5,155**
Capital WIP	44	11	31	510	2,509	174	174	174
Right to Use Assets	311	278	301	332	543	694	383	345
Investments	**197**	**208**	**497**	**1,731**	**1,317**	**1,667**	**2,267**	**3,067**
Curr. Assets, L&A	**2,002**	**1,967**	**4,983**	**4,288**	**3,996**	**4,950**	**6,403**	**7,428**
Inventory	693	768	947	1,177	1,177	1,706	1,979	1,774
Account Receivables	1,038	1,045	1,212	1,717	2,001	2,231	2,588	3,116
Cash and Bank Balance	140	57	2,583	996	488	329	1,017	1,558
Others	130	97	241	398	330	684	818	980
Curr. Liab. and Prov.	**1,623**	**1,698**	**2,212**	**2,354**	**2,520**	**3,275**	**3,637**	**4,337**
Account Payables	1,362	1,386	1,856	2,014	2,106	2,290	2,656	3,356
Other Liabilities	261	289	315	270	318	920	915	915
Provisions	0	24	42	70	96	65	65	65
Net Current Assets	**379**	**269**	**2,771**	**1,934**	**1,476**	**1,675**	**2,766**	**3,092**
Goodwill on Cons.	306	306	306	306	306	399	399	399
Application of Funds	**2,106**	**2,495**	**5,792**	**6,708**	**7,950**	**9,432**	**10,741**	**12,232**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	**5.7**	**16.5**	**14.9**	**17.7**	**24.3**	**31.3**	**34.2**	**39.3**
Cash EPS	9.3	14.2	20.0	24.2	31.5	42.1	48.7	54.8
BV/Share	31.0	41.4	118.5	136.6	163.2	189.6	217.8	249.1
DPS	0.0	0.0	0.0	3.0	3.5	3.5	6.0	8.0
Payout %	0.0	0.0	0.0	17.0	14.4	11.2	17.6	20.3
Valuation (x)								
P/E	242.8	84.2	93.1	78.5	57.1	44.3	40.6	35.3
Cash P/E	149.2	97.9	69.3	57.2	44.0	32.9	28.5	25.3
EV/Sales	7.5	6.5	8.7	7.0	6.0	4.9	4.1	3.5
EV/EBITDA	74.3	44.4	51.3	46.5	35.4	26.9	23.1	20.0
P/BV	44.7	33.5	11.7	10.2	8.5	7.3	6.4	5.6
Dividend Yield (%)	0.0	0.0	0.0	0.2	0.3	0.3	0.4	0.6
Return Ratios (%)								
RoE	19.8	27.8	18.6	13.9	16.2	17.7	16.8	16.9
RoCE	16.4	22.5	17.8	13.6	15.9	17.3	16.3	16.5
RoIC	16.8	23.3	25.3	18.4	21.5	20.1	16.5	17.5
Working Capital Ratios								
Debtor (Days)	71	61	61	69	68	62	62	65
Asset Turnover (x)	2.5	2.5	1.2	1.4	1.4	1.4	1.4	1.4
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	FY24	FY25E	FY26E
OP/(loss) before Tax	337	674	979	1,143	1,559	1,986	2,168	2,497
Depreciation	171	196	244	313	343	515	690	735
Net interest	45	54	22	-47	3	19	-140	-162
Others	6	-8	-5	-19	4	-41	0	0
Direct Taxes Paid	-44	-124	-164	-258	-244	-593	-543	-625
(Incr)/Decr in WC	2	-69	137	-479	-505	-377	-398	215
CF from Operations	**516**	**723**	**1,214**	**652**	**1,161**	**1,510**	**1,777**	**2,659**
Incr in FA	-633	-613	-660	-1,208	-1,970	-1,041	-250	-500
Free Cash Flow	**-117**	**110**	**553**	**-556**	**-809**	**469**	**1,527**	**2,159**
Pur of Investments	0	0	-2,522	460	1,100	-478	-600	-800
Others	23	-21	2,138	-1,438	-599	2	113	-412
CF from Invest.	**-611**	**-634**	**-1,044**	**-2,186**	**-1,469**	**-1,517**	**-737**	**-1,712**
Issue of Shares	17	18	2,932	0	0	0	0	0
Incr in Debt	209	-143	-500	0	0	13	-31	0
Dividend Paid	0	0	0	0	-143	-167	-286	-381
Net interest Paid	-37	-47	-33	-2	0	-2	-23	-26
Others	0	0	-41	-50	-58	-77	0	0
CF from Fin. Activity	**189**	**-172**	**2,357**	**-53**	**-201**	**-233**	**-340**	**-407**
Incr/Decr of Cash	**94**	**-83**	**2,526**	**-1,587**	**-508**	**-240**	**701**	**540**
Add: Opening Balance	46	140	57	2,583	996	488	248	949
Closing Balance	**140**	**57**	**2,583**	**996**	**488**	**248**	**949**	**1,489**

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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