MOTILAL OSWAL
FINANCIAL SERVICES

9 November 2024
2QFY25 Results Update | Sector: Consumer

Indigo Paints

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	INDIGOPN IN
Equity Shares (m)	48
M.Cap.(INRb)/(USDb)	73.1 / 0.9
52-Week Range (INR)	1720 / 1250
1, 6, 12 Rel. Per (%)	8/2/-17
12M Avg Val (INR M)	378

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
Sales	14.2	16.3	18.7
Sales Gr. (%)	9.0	14.5	15.0
EBITDA	2.5	2.9	3.4
EBIT Margin (%)	17.3	18.0	18.1
Adj. PAT	1.5	1.8	2.1
Adj. EPS (INR)	31.3	36.9	43.3
EPS Gr. (%)	1.1	17.8	17.4
BV/Sh.(INR)	215.3	244.5	288.1
Ratios			
RoE (%)	15.5	16.0	16.3
RoCE (%)	15.2	15.8	16.1
Valuation			
P/E (x)	48.9	41.5	35.4
P/BV (x)	7.1	6.3	5.3
EV/EBITDA (x)	28.7	24.1	20.5

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	53.9	53.9	54.0
DII	16.1	1.1	2.3
FII	12.3	8.3	8.8
Others	17.6	36.7	35.0

FII Includes depository receipts

CMP: INR1,534 TP: INR1,750 (+14%) Buy

In-line revenue; watchful for demand pickup in 2HFY25

- Indigo Paints' (INDIGOPN) standalone sales growth stood at 7% YoY in 2QFY25 (6% in 1QFY25, 18% in FY24) due to subdued industry demand (1% down in 1HFY25). Apple Chemie (subsidiary) clocked robust sales growth of 28% YoY. Consolidated sales rose 7% YoY to INR3.0b (in line).
- Consolidated GM contracted 190bp YoY/290bp QoQ to 43.7% (est. 46.1%) due to price cuts in 2HFY24. Employee costs increased 17% YoY (+80bp), while other expenses remained flat YoY. EBITDA margin dipped by 120bp YoY/140 QoQ to 13.9% (est. 14.7%).
- The company expects the low demand scenario to end in 3Q, with a sharp rebound to normal growth rates in the seasonally favorable quarters. We model 10% revenue and 7% EBITDA growth in 2HFY25.
- The management indicates that the paint industry is growing at an 8-9% CAGR, with a market size of INR600b. The entry of new players will not impact the company's growth materially due to the large market opportunity, noted the management. The company adds 1,200-1,500 tinting machines annually, taking the total to 10,555. However, 65% of the company's portfolio does not require a tinting machine.
- INDIGOPN is sustaining its growth outperformance vs. peers and successfully executing its strategy of combating competition. Industry growth has been weak over the last 6-9 months. We are watchful for a possible trend reversal in 2HFY25. We reiterate our **BUY rating with a TP of INR1,750**, considering its growth outperformance, synergies with Apple Chemie, consistent capacity & distribution expansion, and its favorable valuation multiples vs. peers.

In-line sales, miss on margin

Consolidated

- **Slow but in-line sales growth -** Net sales grew by 7% YoY to INR2,995m (est. INR2,972m). Standalone revenue rose 7% YoY to INR2,939m. Apple Chemie delivered sales growth of 28% YoY to INR110m in 2QFY25.
- **Category-wise growth -** Putty and cement paints posted value and volume growth of 3% each. Enamels and wood coatings saw 4% volume growth and 3.6% value growth. Emulsion clocked strong volume/value growth of 7% each. Primer and distempers saw volume growth of 7% and value growth of 14%.
- **Miss on margin -** Gross margin contracted 190bp YoY and 290bp QoQ to 43.7% (est. 46.1%). As a percentage of sales, employee costs increased by 80bp YoY to 9.9%, while other expenses contracted 140bp YoY to 19.9%. EBITDA margin contracted 120bp YoY and 140bp QoQ to 13.9% (est. 14.7%), the lowest in eight quarters.
- **EBITDA/PBT/PAT declined**: EBITDA declined by 2% YoY to INR415m (est. INR437m). Higher depreciation (36% up) led to PBT decline of 9% YoY to INR306m (est. INR311m). APAT fell 11% YoY to INR226m (est. INR230m).
- **In 1HFY25,** net sales grew 8% YoY, while EBITDA/APAT declined 3%/13%.

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Highlights from the management commentary

- The industry is facing weak demand, with growth falling short of expectations. Jul’24 was a strong month, but demand dropped in Aug’24 and Sep’24, which led to slow 2Q growth.
- The company's pricing is now 3-3.5% lower than a year ago, leading to a slight drop in gross margin.
- PAT margin moderated primarily due to higher depreciation on account of the new plant in Tamil Nadu. It will be in the base from 3Q onward.
- Margins of Apple Chemie were impacted significantly by an adverse product mix, but they are expected to improve significantly in the upcoming quarters.
- It added 345 tinting machines, taking the total to 10,555 in 2QFY25.
- The Indian paint industry is valued at INR600b and is growing at an annual rate of 8-9%.

Valuation and view

- There are no material changes in our estimates for FY25 and 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 its outperformance. However, the changing competitive landscape will be a key monitorable. We reiterate our BUY rating with a revised TP of INR1,750 (40x Sep’26E EPS).

Consolidated Quarterly Performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	**2,884**	**2,790**	**3,538**	**3,849**	**3,110**	**2,995**	**3,891**	**4,240**	**13,061**	**14,236**	**2,972**	0.8%
Change (%)	28.8	15.0	25.8	18.3	7.8	7.4	10.0	10.2	21.7	9.0	6.5	
Raw Material/PM	1,519	1,519	1,833	1,968	1,661	1,686	2,082	2,216	6,839	7,645	1,602	
Gross Profit	**1,365**	**1,271**	**1,705**	**1,881**	**1,449**	**1,309**	**1,810**	**2,024**	**6,222**	**6,591**	**1,370**	-4.4%
Gross Margin (%)	47.3	45.6	48.2	48.9	46.6	43.7	46.5	47.7	47.6	46.3	46.1	
EBITDA	**491**	**421**	**622**	**846**	**474**	**415**	**658**	**916**	**2,381**	**2,463**	**437**	-4.9%
Margin (%)	17.0	15.1	17.6	22.0	15.2	13.9	16.9	21.6	18.2	17.3	14.7	
Change (%)	39.2	24.8	53.5	17.9	-3.5	-1.5	5.7	8.3	31.1	3.4	3.6	
Interest	5	6	6	5	6	7	6	4	21	23	6	
Depreciation	101	113	146	156	152	154	155	156	516	617	160	
Other Income	38	32	31	42	42	51	50	42	142	185	40	
PBT	**423**	**335**	**501**	**727**	**357**	**306**	**546**	**798**	**1,986**	**2,007**	**311**	-1.6%
Tax	108	81	125	183	90	83	137	193	497	502	77	
Effective Tax Rate (%)	25.6	24.3	25.0	25.1	25.3	27.2	25.0	24.1	25.0	25.0	24.8	
Adjusted PAT	**310**	**253**	**373**	**537**	**262**	**226**	**413**	**588**	**1,474**	**1,490**	**230**	-1.5%
Change (%)	55.9	22.1	41.9	10.3	-15.6	-10.6	10.8	9.6	27.4	1.1	-9.3	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY24				FY25	
	1Q	2Q	3Q	4Q	1Q	2Q
Segmental volume growth (%)						
Cement Paints + Putty	64.6	50.6	24.2	20.2	8.2	2.8
Emulsions	13.1	20.0	14.3	13.7	0.4	7.2
Enamels + Wood Coatings	35.3	5.4	27.3	3.4	5.0	4.3
Primers + Distempers + Others	52.4	28.8	37.7	22.0	24.4	7.1
Segmental value growth (%)						
Cement Paints + Putty	65.8	47.9	25.2	21.4	8.9	3.0
Emulsions	17.8	15.4	18.2	9.1	-3.1	7.5
Enamels + Wood Coatings	36.6	3.0	25.2	-1.0	-1.0	3.6
Primers + Distempers + Others	43.6	26.6	34.7	27.6	28.6	13.7
2Y average growth (%)						
Sales	36.2	19.4	15.9	15.6	18.3	11.2
EBITDA	57.1	34.6	29.2	25.7	17.8	11.6
PAT	63.7	37.6	25.0	25.5	20.1	5.7
% of Sales						
COGS	52.7	54.4	51.8	51.1	53.4	56.3
Operating Expenses	30.3	30.5	30.6	26.9	31.4	29.8
Depreciation	3.5	4.0	4.1	4.0	4.9	5.1
YoY change (%)						
COGS	23.7	7.4	16.0	13.7	9.3	11.0
Operating Expenses	32.5	26.0	30.8	28.3	11.6	5.2
Other Income	684.9	-0.6	-18.8	47.8	10.2	61.3
EBIT	45.3	22.0	49.6	9.5	-17.7	-15.2

Highlights from the management commentary

Performance and outlook

- The industry is facing weak demand, with growth falling short of expectations.
- Jul'24 was a strong month, but demand dropped in Aug'24 and Sep'24, which led to slow 2Q growth.
- The company's pricing is now 3-3.5% lower than a year ago, leading to a slight drop in gross margin.
- The company has been offering marginal discounts and promotions to grab market share in a weak demand scenario.
- Weak consumer sentiment is challenging the company's efforts to penetrate major markets like Delhi, Mumbai, Bangalore, Hyderabad, and Chennai.
- The Indian paint industry is valued at INR600b and is growing at an annual rate of 8-9%.

Costs and margins

- Gross margin declined due to elevated discounts, slight increase in RM prices, and price cuts in 2HFY24.
- Raw material prices have been largely stable, but higher than last year.
- A&P expenses as % of revenue reduced to 5.4% in 2QFY25 from 5.8% in 2QFY24.
- PAT margin moderated primarily due to higher depreciation on account of the new plant in Tamil Nadu.
- Margins of Apple Chemie were impacted significantly by an adverse product mix, but they are expected to improve significantly in the upcoming quarters.
- The company expects that margins will improve ahead, aided by the price hike and the upcoming festive season in 3QFY25.

Distribution network

- Indigo Paints added 345 tinting machines, taking the total to 10,555 in 2QFY25.

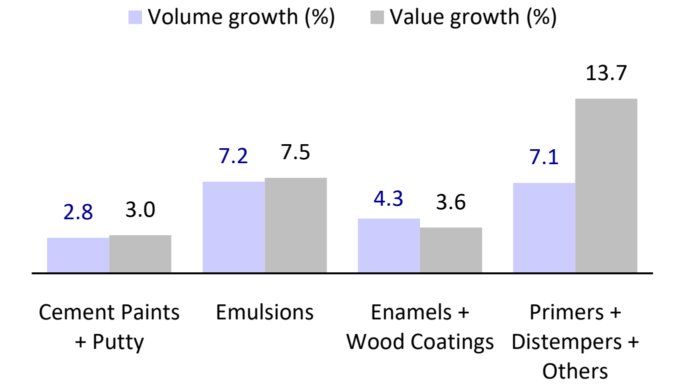
- As of Sep'24, the number of active dealers stood at 18,718, up 218 QoQ.
- The company continues to focus on the improvement of throughput per dealer and giving long-term loyalty points to dealers.

Others

- In Jodhpur, erection and installation work is in progress at the solvent based plant with a capacity of 12,000 KLPA; expects commissioning by 4QFY25/1QFY26.
- The foundation work is completed and erection work is progressing at full pace at the water-based plant with capacity of 90,000 KLPA; expects commissioning by 2QFY26.
- Brownfield expansion of the putty capacity has commenced; expects commissioning by 4QFY25.
- 65% of offerings do not require a tinting machine.
- Differentiated products make up 30% of revenue, while putty accounts for over 10%.
- The company is undertaking a capex of over INR3b, scheduled for completion next year, fully funded by internal accruals.
- Majority of the capex will be for three projects, with the largest share allocated to the water-based plant.

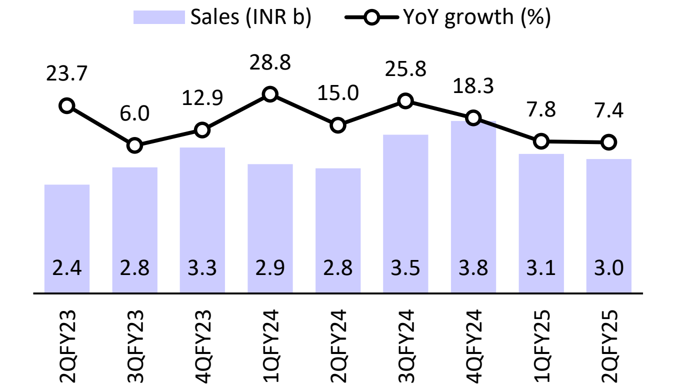
Key exhibits

Exhibit 1: Volume impacted by price cuts



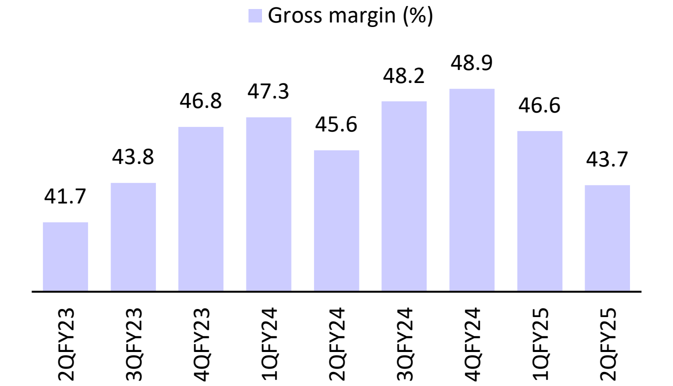
Source: Company, MOFSL

Exhibit 2: Sales up 7% YoY at INR3b in 2QFY25



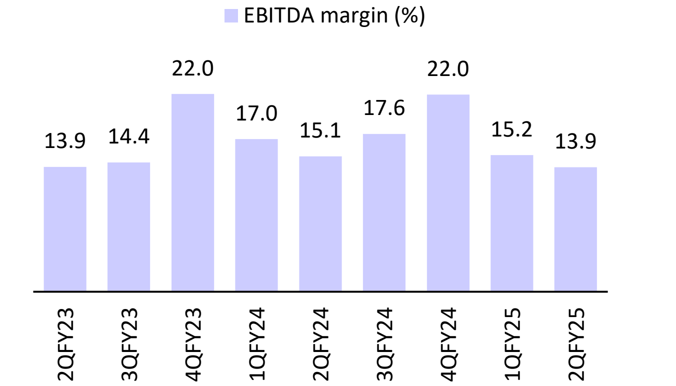
Source: Company, MOFSL

Exhibit 3: Gross margin down 190bp YoY at 43.7% in 2QFY25



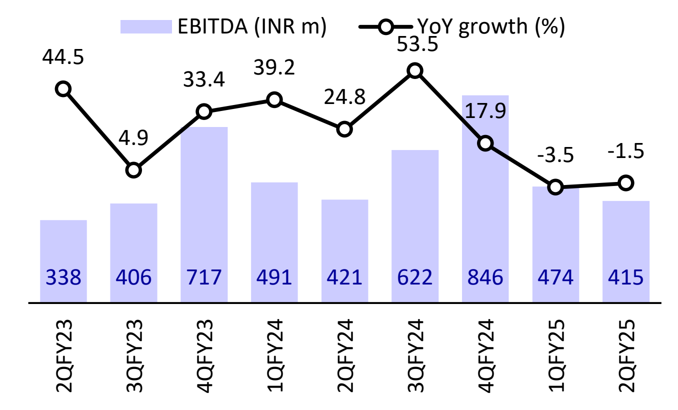
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracted 120bp YoY to 13.9%



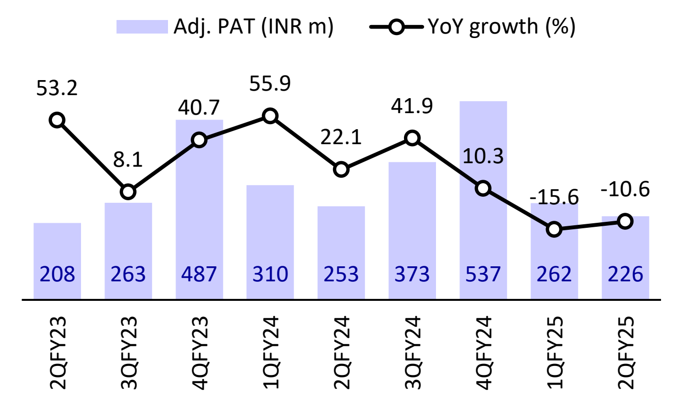
Source: Company, MOFSL

Exhibit 5: EBITDA declined 2% YoY to INR415m in 2QFY25



Source: Company, MOFSL

Exhibit 6: PAT down 11% YoY to INR226m in 2QFY25



Source: Company, MOFSL

Valuation and view

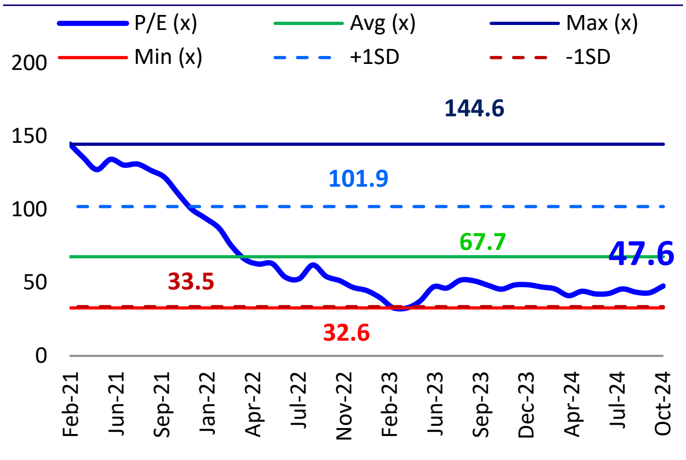
- There are no material changes to our estimates for FY25 and FY26.
- Indigo's strategic shift to focusing on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 are proving to be a successful endeavor, as evidenced by its outperformance to industry growth 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 its outperformance. However, the changing competitive landscape will be a key monitorable. We reiterate our BUY rating with a revised TP of INR1,750 (40x Sep'26E EPS).

Exhibit 7: No material change estimates for FY25 and FY26

	New		Old		Change (%)	
INR m	**FY25E**	**FY26E**	**FY25E**	**FY26E**	**FY25E**	**FY26E**
Sales	14,236	16,301	14,236	16,514	-	-1.3
EBITDA	2,463	2,934	2,491	2,939	-1.1	-0.2
PAT	1,490	1,754	1,453	1,724	2.5	1.7

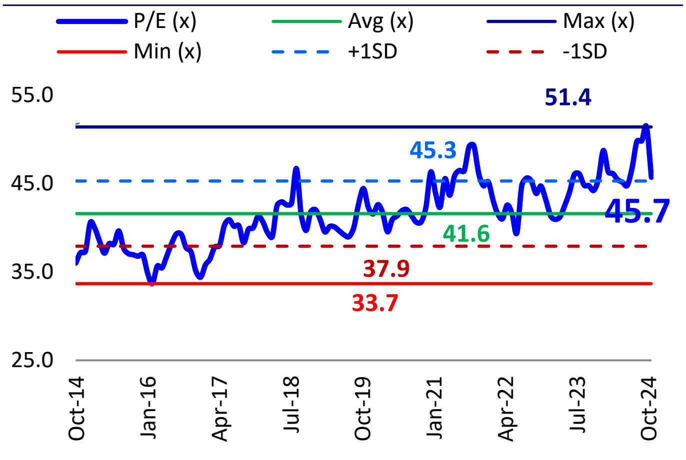
Source: Company, MOFSL

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	FY27E
Net Sales	**5,356**	**6,248**	**7,233**	**9,060**	**10,733**	**13,061**	**14,236**	**16,301**	**18,746**
Change (%)	33.4	16.6	15.8	25.3	18.5	21.7	9.0	14.5	15.0
Raw Materials	2,985	3,220	3,765	5,135	5,952	6,839	7,645	8,688	9,973
Gross Profit	**2,371**	**3,028**	**3,468**	**3,925**	**4,781**	**6,222**	**6,591**	**7,612**	**8,773**
Margin (%)	44.3	48.5	47.9	43.3	44.5	47.6	46.3	46.7	46.8
Operating Expenses	1,830	2,118	2,243	2,565	2,965	3,841	4,129	4,679	5,381
EBITDA	**541**	**910**	**1,225**	**1,360**	**1,815**	**2,381**	**2,463**	**2,934**	**3,392**
Change (%)	109.6	68.2	34.7	11.0	33.5	31.1	3.4	19.1	15.6
Margin (%)	10.1	14.6	16.9	15.0	16.9	18.2	17.3	18.0	18.1
Depreciation	171	196	244	313	343	516	617	761	842
Int. and Fin. Charges	47	56	38	13	14	21	23	26	28
Other Income	16	16	36	109	101	142	185	213	245
Profit before Taxes	**340**	**674**	**979**	**1,143**	**1,559**	**1,986**	**2,007**	**2,360**	**2,767**
Change (%)	145.2	98.2	45.2	16.7	36.4	27.4	1.1	17.6	17.2
Margin (%)	6.4	10.8	13.5	12.6	14.5	15.2	14.1	14.5	14.8
Tax	48	147	256	288	418	435	502	591	692
Tax Rate (%)	20.1	29.1	27.6	26.5	25.8	25.0	25.0	25.0	25.0
PAT Before Minority	**272**	**478**	**709**	**840**	**1,157**	**1,489**	**1,505**	**1,769**	**2,074**
Minority Interest						15	15	15	15
Adjusted PAT	**272**	**478**	**709**	**840**	**1,157**	**1,474**	**1,490**	**1,754**	**2,059**
Change (%)	91.7	76.0	48.2	18.6	37.6	27.4	1.1	17.8	17.4
Margin (%)	5.1	7.7	9.8	9.3	10.8	11.3	10.5	10.8	11.0
Reported PAT	**275**	**478**	**709**	**840**	**1,320**	**1,474**	**1,490**	**1,754**	**2,059**

Balance Sheet									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	289	290	476	476	476	476	476	476	476
Reserves	1,186	1,680	5,159	6,023	7,285	8,545	9,764	11,153	13,227
Net Worth	**1,475**	**1,971**	**5,635**	**6,499**	**7,761**	**9,021**	**10,240**	**11,629**	**13,703**
Loans	516	392	0	0	0	31	0	0	0
Other Liability	115	132	157	209	188	380	380	380	380
Capital Employed	**2,106**	**2,495**	**5,792**	**6,708**	**7,949**	**9,432**	**10,620**	**12,009**	**14,083**
Gross Block	1,006	1,669	2,339	2,612	2,785	6,316	7,816	8,616	9,116
Less: Accum. Depn.	137	245	452	716	987	1,421	1,962	2,622	3,319
Net Fixed Assets	**869**	**1,424**	**1,887**	**1,896**	**1,798**	**4,896**	**5,855**	**5,995**	**5,798**
Capital WIP	44	11	31	510	2,509	174	174	174	174
Right to Use Assets	311	278	301	332	543	616	591	1,090	1,545
Investments	**197**	**208**	**497**	**1,731**	**1,317**	**1,667**	**1,767**	**1,867**	**2,367**
Curr. Assets, L&A	**2,002**	**1,967**	**4,983**	**4,288**	**3,996**	**4,950**	**5,351**	**6,367**	**8,119**
Inventory	693	768	947	1,177	1,177	1,706	1,755	2,032	2,414
Account Receivables	1,038	1,045	1,212	1,717	2,001	2,231	2,340	2,903	3,492
Cash and Bank Balance	140	57	2,583	996	488	329	437	453	1,039
Others	130	97	241	398	330	684	818	980	1,174
Curr. Liab. and Prov.	**1,623**	**1,698**	**2,212**	**2,354**	**2,520**	**3,275**	**3,516**	**3,883**	**4,319**
Account Payables	1,362	1,386	1,856	2,014	2,106	2,290	2,535	2,903	3,338
Other Liabilities	261	289	315	270	318	920	915	915	915
Provisions	0	24	42	70	96	65	65	65	65
Net Current Assets	**379**	**269**	**2,771**	**1,934**	**1,476**	**1,675**	**1,835**	**2,484**	**3,800**
Godwill on Cons.	306	306	306	306	306	399	399	399	399
Application of Funds	**2,106**	**2,495**	**5,792**	**6,708**	**7,950**	**9,427**	**10,620**	**12,009**	**14,083**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	**5.7**	**16.5**	**14.9**	**17.7**	**24.3**	**31.0**	**31.3**	**36.9**	**43.3**
Cash EPS	9.3	14.2	20.0	24.2	31.5	41.8	44.3	52.9	61.0
BV/Share	31.0	41.4	118.5	136.6	163.2	189.6	215.3	244.5	288.1
DPS	0.0	0.0	0.0	3.0	3.5	3.5	6.0	8.0	8.0
Payout %	0.0	0.0	0.0	17.0	14.4	11.3	19.2	21.7	18.5
Valuation (x)									
P/E	268.2	93.0	102.9	86.7	63.0	49.5	48.9	41.5	35.4
Cash P/E	164.8	108.1	76.5	63.2	48.6	36.6	34.6	29.0	25.1
EV/Sales	8.3	7.1	9.6	7.7	6.6	5.4	5.0	4.3	3.7
EV/EBITDA	82.0	49.0	57.0	51.6	39.2	29.8	28.7	24.1	20.5
P/BV	49.4	37.0	12.9	11.2	9.4	8.1	7.1	6.3	5.3
Dividend Yield (%)	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.5	0.5
Return Ratios (%)									
RoE	19.8	27.8	18.6	13.9	16.2	17.6	15.5	16.0	16.3
RoCE	16.4	22.5	17.8	13.6	15.9	17.3	15.2	15.8	16.1
RoIC	16.8	23.3	25.3	18.4	21.5	20.1	14.6	15.2	15.8
Working Capital Ratios									
Debtor (Days)	71	61	61	69	68	62	60	65	68
Asset Turnover (x)	2.5	2.5	1.2	1.4	1.4	1.4	1.3	1.4	1.3
Leverage Ratio									
Debt/Equity (x)	0.4	0.2	0.0	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	FY27E
OP/(loss) before Tax	337	674	979	1,143	1,559	1,986	2,007	2,360	2,767
Depreciation	171	196	244	313	343	515	617	761	842
Net interest	45	54	22	-47	3	19	-162	-187	-216
Others	6	-8	-5	-19	4	-41	0	0	0
Direct Taxes Paid	-44	-124	-164	-258	-244	-593	-502	-591	-692
(Incr)/Decr in WC	2	-69	137	-479	-505	-377	-48	-633	-730
CF from Operations	**516**	**723**	**1,214**	**652**	**1,161**	**1,510**	**1,912**	**1,709**	**1,970**
Incr in FA	-633	-613	-660	-1,208	-1,970	-1,041	-1,500	-800	-500
Free Cash Flow	**-117**	**110**	**553**	**-556**	**-809**	**469**	**412**	**909**	**1,470**
Pur of Investments	0	0	-2,522	460	1,100	-478	-100	-100	-500
Others	23	-21	2,138	-1,438	-599	83	135	-387	-355
CF from Invest.	**-611**	**-634**	**-1,044**	**-2,186**	**-1,469**	**-1,436**	**-1,465**	**-1,287**	**-1,355**
Issue of Shares	17	18	2,932	0	0	0	0	0	0
Incr in Debt	209	-143	-500	0	0	13	-31	0	0
Dividend Paid	0	0	0	0	-143	-167	-286	-381	0
Net interest Paid	-37	-47	-33	-2	0	-2	-23	-26	-28
Others	0	0	-41	-50	-58	-77	0	0	0
CF from Fin. Activity	**189**	**-172**	**2,357**	**-53**	**-201**	**-233**	**-340**	**-407**	**-29**
Incr/Decr of Cash	**94**	**-83**	**2,526**	**-1,587**	**-508**	**-159**	**108**	**16**	**587**
Add: Opening Balance	46	140	57	2,583	996	488	329	437	453
Closing Balance	**140**	**57**	**2,583**	**996**	**488**	**329**	**437**	**453**	**1,039**

E: MOSL Estimates

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

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