

ICICI Securities Limited
is the author and
distributor of this report

Initiating coverage

Consumer Staples & Discretionary

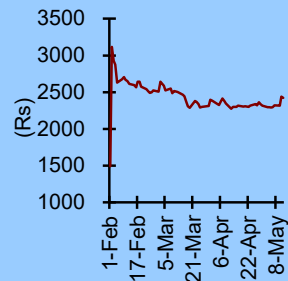
Target price Rs2,750

Shareholding pattern

	Dec '20	Mar '21
Promoters	54.0	54.0
Institutional investors	7.7	13.8
MFs and others	2.2	2.1
FIs/Bank/Ins	1.3	0.3
FIs	4.2	11.4
Others	38.3	32.2

Source: BSE

Price chart



INDIA

Indigo Paints

ADD

Differentiation is the key; initiate at ADD

Rs2,422

Indigo Paints (Indigo) has been able to carve out a niche in the 'high-entry-barrier' paints industry on the strengths of (1) product differentiation, (2) 'share of voice' higher than 'share of market', (3) focus on (differentiated) distribution and (4) industry-leading HR policies (in our view). We forecast 30%, 46% CAGR in revenues, EBITDA, respectively, over FY21-23e. We initiate at ADD with a DCF-based target price of Rs2,750. Key business risk is potentially higher competitive intensity in Kerala and key stock risk is potentially lower trading multiples due to entry of Aditya Birla Group in paints category.

- **Focus on differentiation:** Indigo has developed seven differentiated paints, which accounted for 28.6% of its revenues in FY20. We believe these products generate 400-500bps higher EBITDA margins than rest of the products and are relatively easier to establish in new retail outlets. Other products too are able to grow piggybacking the differentiated products. As these products operate in smaller and niche segments, competition is likely to remain low.
- **Creation of competitive advantages:** Indigo's competitive advantages are: 1) strong brand {Indigo}, 2) distribution network comprising 11,230 active outlets, and 3) fleet of 4,600 tinting machines. It is also able to manage competitive pressures by focusing on tier-2&3 cities and rural markets. Its manufacturing thrust is largely on business-critical activities thereby saving capital for brand building. Indigo's product realizations are similar to peer group (commendable achievement for a young brand).
- **Growth strategies:** Key revenue growth strategies: 1) expansion in new states and emphasis on market share gains (current market share: 2%), 2) introduction of new differentiated products and 3) actively adding dealers and tinting machines. We forecast India paint industry to grow at 12% in FY21-24e; Indigo will benefit from industry growth too. We forecast EBITDA margins to expand to 21.7% in FY23e from 17.2% in FY21e driven by: 1) reduction in adspend as a percentage of net sales, 2) improvement in revenue mix, 3) operating leverage.
- **Initiate with ADD:** We model revenue, EBITDA and PAT CAGR of 29.6%, 45.7%, 55.4% respectively over FY21-FY23E. We forecast RoE to expand to 23% in FY23e from 19.8% in FY21e. We initiate coverage on the stock with an **ADD** rating and DCF-based target price of Rs2,750. Key risks: delay in geographical expansion, and failure of some of the new products and potentially higher competitive intensity in Kerala.

Market Cap	Rs115bn/US\$1.6bn
Bloomberg	INDIGOPN IN
Shares Outstanding (mn)	47.6
52-week Range (Rs)	3117/1490
Free Float (%)	46.0
FII (%)	11.4
Daily Volume (US\$'000)	NA
Absolute Return 3m (%)	(7.2)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(5.4)
Sensex Return 12m (%)	56.9

Year ending Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	6,248	7,348	9,877	12,346
Adj Net Profit (Rs mn)	478	762	1,364	1,840
Dil. Rec. EPS (Rs)	16.4	16.0	28.7	38.7
% Chg YoY	75.5	(2.6)	79.0	34.9
P/E (x)	147.3	151.3	84.5	62.6
CEPS (Rs)	23.2	20.9	35.1	47.2
EV/EBITDA (x)	75.2	88.7	57.2	41.8
Dividend Yield (%)	-	-	-	-
RoCE (%)	29.3	17.1	22.4	24.7
RoE (%)	24.3	13.3	19.3	20.6

Research Analysts:

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6637 7209

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

Karan Bhuvania

karan.bhuvania@icicisecurities.com
+91 22 6637 7351

TABLE OF CONTENT

Investment summary	3
Focus on differentiated products	5
Competitive advantages for Indigo	9
Growth strategy	14
Revenue growth drivers	14
EBITDA margin expansion drivers.....	16
Paint sector: A growing industry	20
Peer group comparison	25
Financial performance	26
Key assumptions	29
Valuation	30
Relative valuation.....	30
Key risks.....	31
Business and management	32
Financials	33
Index of tables and charts	35

Investment summary

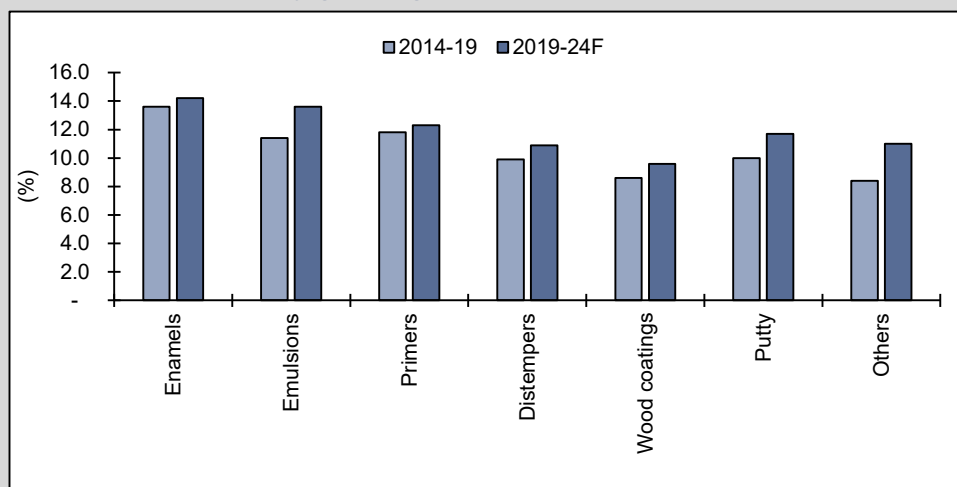
Business

Indigo Paints (India) was promoted by Mr. Hemant Jalan and his family in year 2000 in Jharkhand. It had acquired a paint factory in Rajasthan in 2005 and Hi-Build Coatings, Kerala in 2016. It also raised equity funding from Sequoia in 2015-2016. Indigo has presence in paints, putty and primer, and sells its products under the brand *Indigo*. It has three plants, one each in Rajasthan, Kerala and Tamil Nadu. Company has presence in 11,230 active retail outlets and has also installed 4,600 tinting machines by FY20-end. Kerala is the largest market for Indigo accounting for ~35% of its revenues in FY20.

Paints: One of the fastest growing industries in India

The India paint industry has grown at a CAGR of ~11% in value terms over FY14-FY19 and is likely to maintain similar growth rates over FY21e-23e. Steady growth in nominal GDP, market share gains from the unorganised sector and reduction in repainting cycle are the key growth drivers. However, India’s per capita consumption of paint is just 4.1kg (FY19) vs the global average of 14-15kg, which indicates a healthy long term opportunity.

Chart 1: Paint industry growing at ~11% CAGR*



Source: Company, Frost & Sullivan, I-Sec research *CAGR over 2014-19 and 2019-24F

Focus on differentiated products

Indigo generated 28.6% its revenues from seven differentiated products in FY20. Revenue contribution from these products was 26.5% in FY18. These products have higher gross and operating margins vs. peers and has (relatively) low competitive intensity. It also aids Indigo an entry in new retail outlets, enabling cross selling opportunities.

Competitive advantages

Indigo Paints has developed a strong brand *Indigo* in past 20 years via aggressive investments in brand building (one of the highest adspends (relative to its size) in the industry). Cricketer Mahendra Singh Dhoni is its brand ambassador. Indigo has also established presence in 11,230 retail outlets and installed 4,600 tinting machines as at FY20-end. It's differentiated product strategy has created a template of driving outlet penetration, which appears scalable in the medium term.

Table 1: Competitive advantages

Competitive advantage	Particulars
Brand	Indigo
Differentiated products	Seven differentiated paints and one putty
Distribution network	11,230 retail outlets
Tinting machines	4,600

Source: Company, I-Sec research

Valuation – reverse DCF ask is demanding; however, potentially achievable, in our view

While Indigo trades at a P/E of 62.6x FY2023E, we note the corresponding multiple for the paint sector (listed players) is (57x). Indigo trades at a premium of 10% to the sector (and 11% premium to market leader Asian Paints). We value Indigo on DCF-basis arriving at a target price of Rs2,750. As per reverse DCF (assuming cost of equity at 10.2% and terminal growth at 5%), the company needs to achieve an EBITDA CAGR of 29.6% over FY21E-FY30E.

Table 2: Expected EBITDA CAGR of 29.6% over FY21-FY30E in reverse DCF

Particulars	Amt (Rs)
Cost of Equity (%)	10.5
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	49,593
Discounted terminal value (Rs mn)	61,695
Total equity value (Rs mn)	1,11,288
Current price per share (Rs)	2,422
EBITDA growth to achieve over FY21-FY30E (%)	29.6

Source: Company, I-Sec research

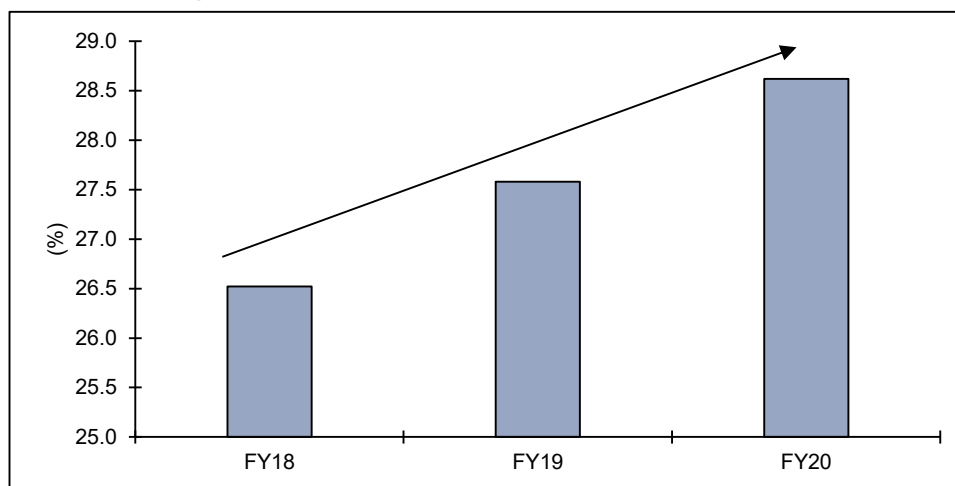
Focus on differentiated products

Apart from regular products, Indigo Paints (Indigo) has multiple differentiated products, which allow it to generate superior margins vs. peers. Differentiated products also allow Indigo an entry in new retail outlets and cross-selling.

Rising revenue contribution from differentiated products

Indigo generated ~28.6% its revenues from differentiated products in FY20. Revenue contribution from these products was 26.5% in FY18 and is expected to steadily expand going forward.

Chart 2: Rising revenue contribution of differentiated products



Source: Company, I-Sec research

Key differentiated products

Indigo has developed seven differentiated paints and one putty. The differentiated products offer multiple benefits, such as: 1) some of them also offer waterproofing; 2) some can be used on multiple surfaces such as wall, metal and wood; and 3) some offer anti-fungal and anti-algal properties too. Some of the differentiated products, such as floor paint and bright ceiling paints, cater to specific requirements of the consumer.

As these products are either 'problem-solution' in nature, or offer multiple benefits, they give higher value to consumers compared to those offered by peers.

Table 3: Differentiated products from Indigo

Product	Description
Dirt-proof & Water-proof Exterior Laminate	Offers protection from dirt & water, Offers extremely smooth finish.
Acrylic Laminate	Premium emulsion for both exterior as well as interior walls.
PU Super Gloss Enamels	All surface enamel paints with anti-fungal and non-yellowing properties.
Polymer Putty	Putty with special polymers that provide double protection to walls and smooth & bright finish.
Metallic Emulsion	Designer finish with glossy metallic texture. To be used in offices/homes and available in gold, silver and copper shades.
Tile Coat Emulsion	Special paint for roof tiles with protection against algae and fungus.
Bright ceiling coat	Smooth matt finish to enhance brightness of the room.
Floor coat emulsions	Glossy finish, which protects terrace floor, driveways, walkways and cement surfaces.

Source: Company, I-Sec research

Indicative margins of differentiated products

Indigo generated a gross margin of 48.5% in FY20. We note the trade margins / schemes for differentiated products are lower and they also enjoy superior realisations. However, Indigo invests most of its brand building efforts on the differentiated products. Hence, in our view, it generates >400bps higher EBITDA margins than the regular products. Increase in revenue share of differentiated products can potentially increase Indigo's overall EBITDA margins.

Table 4: Indicative margins of some of the differentiated products (illustration)

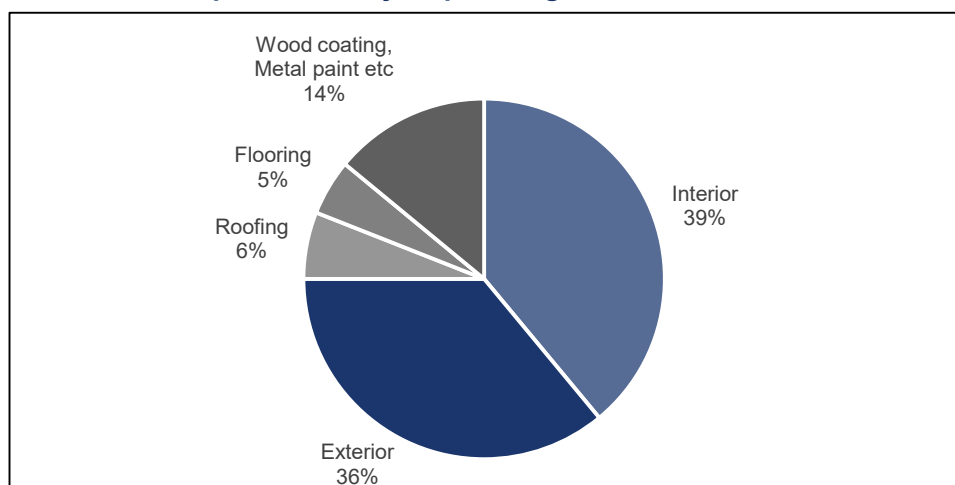
(Rs mn)	Company	Differentiated Products	Others	Comments
Sales	6,248	1,788	4,460	
Revenue share (%)	100.0	28.6	71.4	
Gross profit	3,028	1,252	1,777	
Gross margin (%)	48.5	70.0	39.8	Differentiated products have GM of at least 70%
Staff cost	420	120	300	Divided in ratio of sales
Ad-spend	791	553	237	Differentiated products get higher ad-spend
Other costs	908	260	648	Divided in ratio of sales
EBITDA	910	318	592	
EBITDA margin (%)	14.6	17.8	13.3	>400bps higher margin for differentiated products

Source: Company, I-Sec research

Limited opportunity, as of now, in differentiated products and lower competitive pressures

The market opportunity in most differentiated products of Indigo is probably less than Rs10bn. The opportunity for ceiling paints and floor paints too is less than Rs20bn. We believe larger companies like Asian Paints and Berger Paints can generate higher revenues/profits by focussing on bigger opportunities such as waterproofing, primer and putty. Hence, we believe the threat of steep competition is limited in Indigo's niche / differentiated products.

Chart 3: Indian paint industry as per usage



Source: Company, Frost & Sullivan, I-Sec research

Table 5: Indigo's differentiated products and market opportunity

Product	Market opportunity	Comments
Dirt-proof & Water-proof Exterior Laminate	Limited products available in market	Combination product for painting & waterproofing
Acrylic Laminate	Large market	Limited products available in market
PU Super Gloss Enamels	Large market	PU in new premium segment in enamels
Metallic Emulsion	Small market	Category created by Indigo
Tile Coat Emulsion	< 6% of industry	Category created by Indigo
Bright ceiling coat	< 6% of industry	Category created by Indigo
Floor coat emulsions	< 5% of industry	Category created by Indigo

Source: Company, I-Sec research

Threat from Grasim too is limited

Grasim has announced plans to enter decorative paints with a large investment of Rs50bn in Q4FY21. Considering the large investments, we believe Grasim may focus on mainstream paint products and may not enter / compete in niche segments, at least initially. Hence, we believe Indigo's differentiated products will face limited competitive pressures even from new entrants like Grasim.

Entry in new outlets due to niche products

Indigo is also able to enter new outlets thanks to its strategic focus on differentiated products. As it is (mostly) the only company selling these products, dealers need to keep Indigo's products. Company is also able to sell its other products piggybacking the differentiated products.

Dealer feedback on Indigo's differentiated products and distribution

We spoke with 15 dealers of Indigo across India. Highlights:

- There is strong demand for floor paints in multiple states. Wherever consumers stay in bungalows, they need floor paints.
- Dealers believe demand for differentiated paints is robust. While consumers may choose market-leading brands to paint walls, they prefer Indigo's paints for floors and ceilings.
- Indigo's services to the trade are comparable to those from market-leading paint companies.

Table 6: Dealer feedback regarding differentiated products and distribution

Question	West	East	South	North	Average
Paint quality of Indigo	5	5	5	5	5
Brand equity in your region	3	4	5	3	4
Product pull from customers	2	3	5	3	3
Acceptance in Rural area	4	4	5	5	5
Acceptance in Urban area	4	4	4	4	4
Quality of sales people	3	3	3	4	3
Is portfolio of Indigo complete?	3	3	5	3	4
Acceptance of differentiated products	5	5	5	5	5
Servicing by Indigo	3	4	4	4	4
Trade schemes/margin sufficient from Indigo?	4	4	3	4	4
Average	4	4	4	4	4

Source: I-Sec research Scale: 1-5 with 1=Worst and 5=Best

Chart 4: Key differentiated paints of Indigo

Ceiling paints



Floor paint



Metallic emulsion



PU Enamel



Source: Company, I-Sec research

Competitive advantages for Indigo

Apart from the focus on differentiated products, Indigo has also strengthened its competitive advantages over the past decade.

Focus on brand building

It has focussed on only one brand {*Indigo*} since its inception and all the products are marketed under the same brand. It also has Mr. Mahendra Singh Dhoni, former captain of Indian cricket team, as the brand ambassador. While the peers are in business for 70+ years, Indigo has created a strong brand in just two decades due to aggressive brand building efforts.

Chart 5: Indigo brand

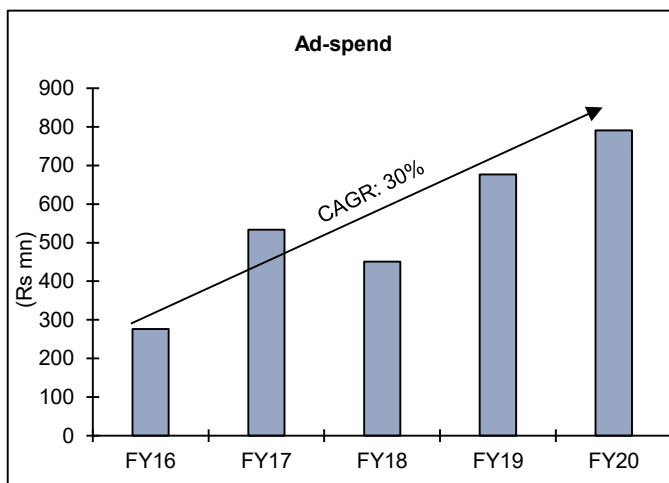


Source: Company, I-Sec research

Strong brand building efforts

The major paint companies spend 4-5% of net sales on adspends whereas Indigo spends ~13%. We also note Indigo’s share of voice is significantly higher than its market share.

Chart 6: Adspend increased at CAGR of 30%...



Source: Company, I-Sec research

Chart 7: ...but adspend to sales ratio declined

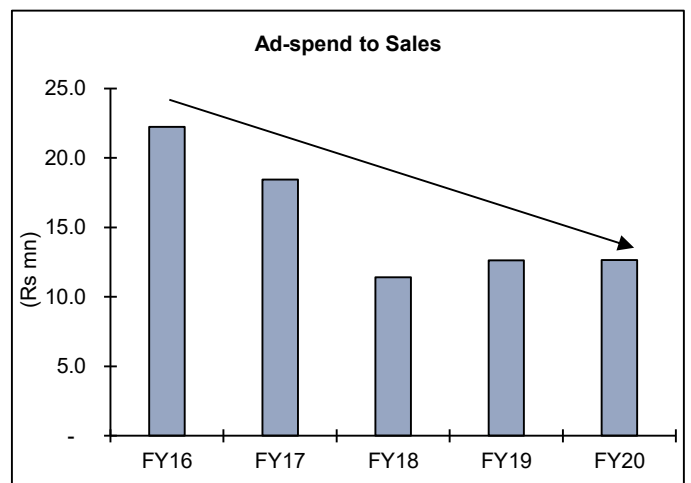
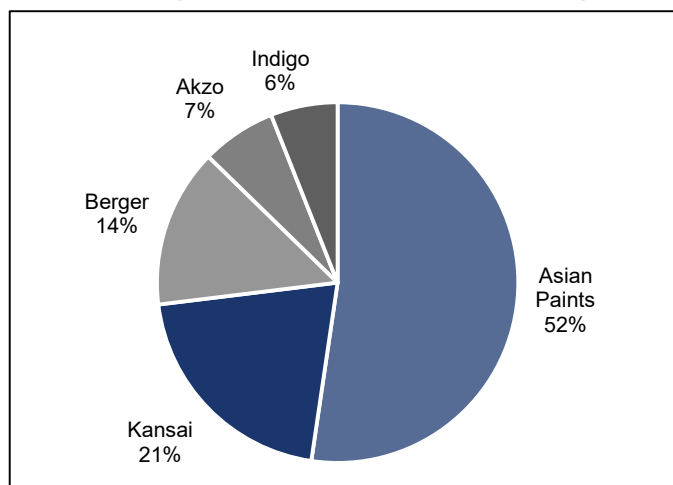
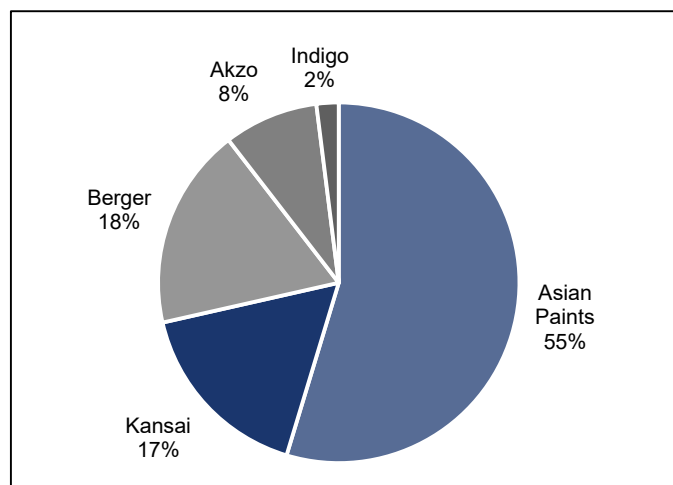


Chart 8: Indigo’s share of voice (SOV) is higher ...



Source: Company, I-Sec research

Chart 9: ... than its market share (SOM)



Source: Company, I-Sec research

Multiple brands from peers vs single brand from Indigo

While multiple brands reduce the risk of depending on one brand, some companies invest in creating only one strong brand. Companies with limited budget on brand building have successfully adopted the strategy to invest in only one brand.

Dairy companies such as Amul, Mother Dairy and Heritage have focussed on only one brand as the surplus to invest in brand-building is limited (due to single-digit EBITDA margin). However, these companies were able to create strong brands.

Table 7: Multiple brands from peers vs single brand from Indigo

Segment	Asian Paints		Berger		Kansai		Indigo	
	Exterior	Interior	Exterior	Interior	Exterior	Interior	Exterior	Interior
Premium	<i>Ultima</i>	<i>Royale</i>	<i>Florentina</i>	<i>Silk</i>	<i>Top Guard</i>	<i>Impressions, Pearls</i>		
Mid-price	<i>Apex</i>	<i>Apcolite</i>	<i>Weather Coat</i>	<i>Rangoli</i>	<i>Excel</i>	<i>Excel</i>	<i>Indigo</i>	<i>Indigo</i>
Economy	<i>Ace</i>	<i>Tractor</i>	<i>Bison</i>	<i>Bison</i>	<i>Soldier</i>	<i>Soldier</i>		
	<i>Trucare</i>	<i>Trucare</i>	<i>Walmasta</i>	<i>Commando</i>	<i>Suraksha</i>			

Source: Company, I-Sec research

Table 8: Success stories in India with just one brand

Company	Sector	Brand
GCMF	Dairy	<i>Amul</i>
Mother Dairy	Dairy	<i>Mother Dairy</i>
Haldiram	RTE Snacks	<i>Haldiram</i>
Nirma	Detergents & Soaps	<i>Nirma</i>
Pratap Snacks	RTE Snacks	<i>Yellow Diamond</i>
Heritage	Dairy	<i>Heritage</i>
Indigo Paints	Paints	<i>Indigo</i>

Source: Company, I-Sec research

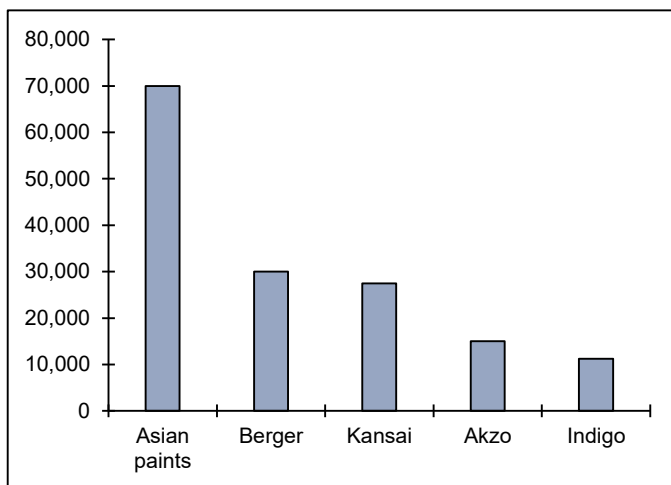
Distribution network of Indigo vs others

There are ~100,000 retail outlets selling paint in India. Wholesale channel in paints is negligible because: 1) paint is a relatively slow-moving product compared to other consumer products; and 2) there are multiple SKUs in paints. Paint sales through e-commerce and modern trade are negligible.

Hence, it is important to have strong presence in these retail outlets. Indigo's distribution network has expanded from 9,210 outlets in FY18 to 11,230 in FY20. The market leader Asian Paints has presence in ~70,000 retail outlets as at FY20-end.

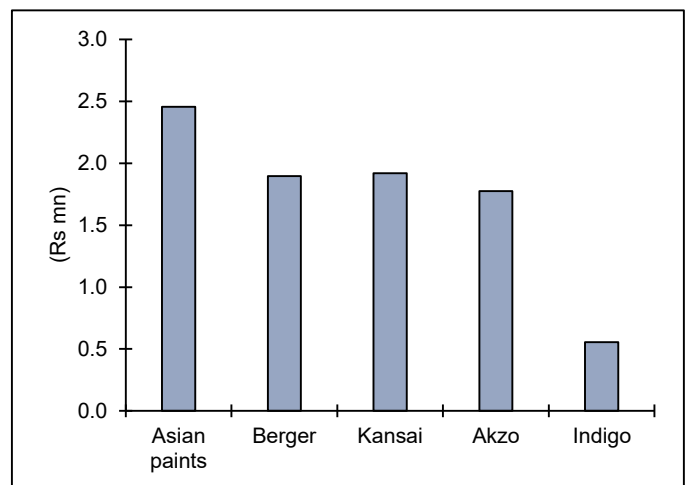
Indigo's revenue per outlet is significantly lower than its peers. With expanding portfolio and SKUs, the company will be able to increase revenue per outlet, in our view.

Chart 10: Distribution network of paint companies



Source: Company, I-Sec research (FY20)

Chart 11: Revenue per outlet lowest for Indigo

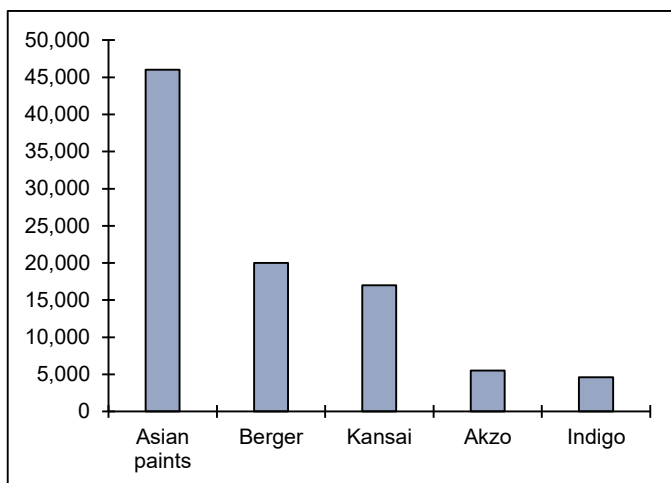


Source: Company, I-Sec research (FY20)

Rising penetration of tinting machines

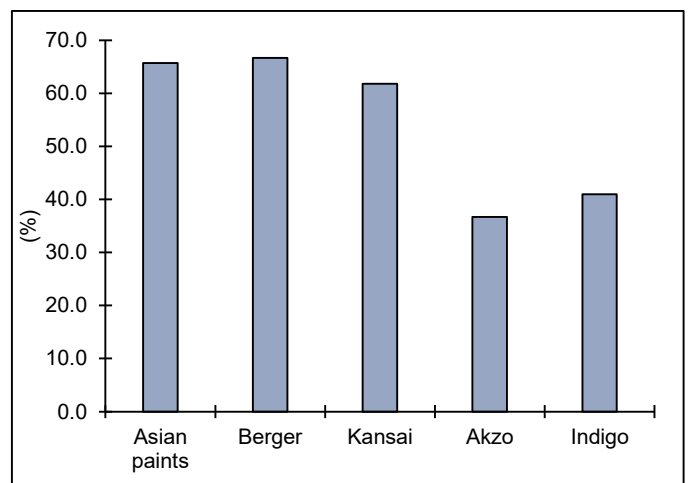
Indigo has also installed tinting machines in 4,600 outlets. Penetration of these machines is 41% for Indigo vs 66% for Asian Paints and 67% for Berger Paints.

Chart 12: Tinting machines of paint companies



Source: Company, I-Sec research

Chart 13: Penetration of tinting machines*



Source: Company, I-Sec research *Tinting machines/ Distribution

Strategy of tinting machines at discounted rates and RoI for the company

Indigo offers tinting machines as part of the schemes to its dealers. It also offers maintenance of these machines at discounted rates. While this involves upfront investment by the company, it allows it to expand its footprint in retail outlets as well as increase sales.

For the investment of Rs150,000 in tinting machines, the company generates revenues of at least Rs600,000 with an EBITDA margin of ~15%. Indigo is required to incur depreciation and interest cost. Even after adjusting the additional cost, the company generates RoI in excess of 20%, which is higher than the cost of capital.

Table 9: RoI on tinting machines is >20% (i.e. above cost of capital)

Particulars	Amt (Rs)
Cost of tinting machine (Rs)...[A]	1,50,000
Asset turn (x)	4
Turnover in one year (Rs)	6,00,000
EBITDA margin (%)	14.60%
EBITDA in one year (Rs)	87,600
Depreciation @20% (Rs)	30,000
Interest cost @10% (Rs)	15,000
PBT (Rs)	42,600
Income tax @25.5% (Rs)	10,863
PAT (Rs)...[B]	31,737
Payback period [A/B]	4.7
RoI (%) [B/A]	21.2

Source: Company, I-Sec research

Indigo earns similar realisations due to branding and differentiation

Due to strong brand image and differentiation, Indigo is able to generate realisations equal to its larger peers. Even after adjusting the trade margins, the company's realisations are almost equal to other paint companies.

Table 10: Pricing of Indigo's products vs products of peers

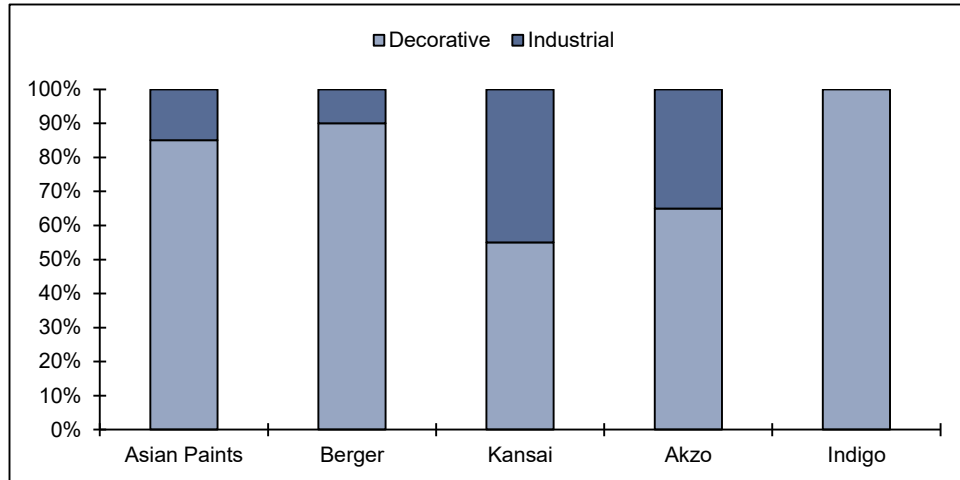
	Indigo	Asian Paints	Berger	Kansai
Premium	<i>Indigo</i>	<i>Ultima, Royale</i>	<i>Florentina, Silk</i>	<i>Impressions, Silk, Top Guard</i>
Price range (Rs/ltr)	300-850	330-1100	320-1000	300-900
Mid-price	<i>Indigo</i>	<i>Apex, Apcolite</i>	<i>Weather Coat, Rangoli</i>	<i>Excel</i>
Price range (Rs/ltr)	150-250	160-320	200-320	150-450
Economy	<i>Indigo</i>	<i>Ace, Tractor, Turcare</i>	<i>Bison, Walmasta</i>	<i>Soldier, Suraksha</i>
Price range (Rs/ltr)	70-200	60-210	65-200	70-200

Source: Company, I-Sec research

Focus on decorative business only

Indigo focusses only on decorative business. It has also not yet invested in ancillary products such as waterproofing and adhesives. As the company focusses only on the decorative business, it is able to devote its entire management bandwidth and resources to create a strong brand and distribution network.

Chart 14: Revenue breakup of all paint companies (FY20)

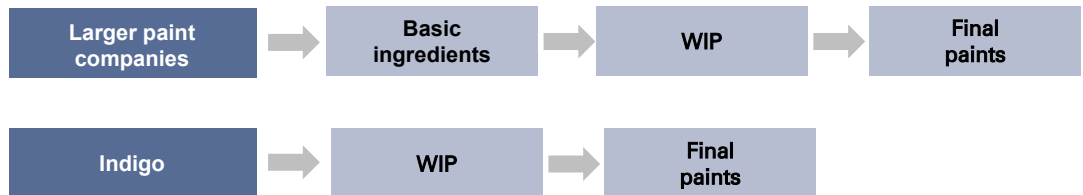


Source: Company, I-Sec research

Higher focus on key business activities

Indigo has used capital judiciously by focussing more on business-critical activities. It has not yet invested in backward integration of emulsions. It purchases the WIP products from market to manufacture paints. This allows the company to use capital mainly for branding and expansion of distribution network.

Chart 15: Negligible investments in backward integration



Source: Company, I-Sec research

Locational advantages

The company has focussed only on three plants. It has manufacturing units in Rajasthan, Kerala and Tamil Nadu. Focus on just three plants has allowed it to enjoy scale benefits. It also helps to keep the overheads low.

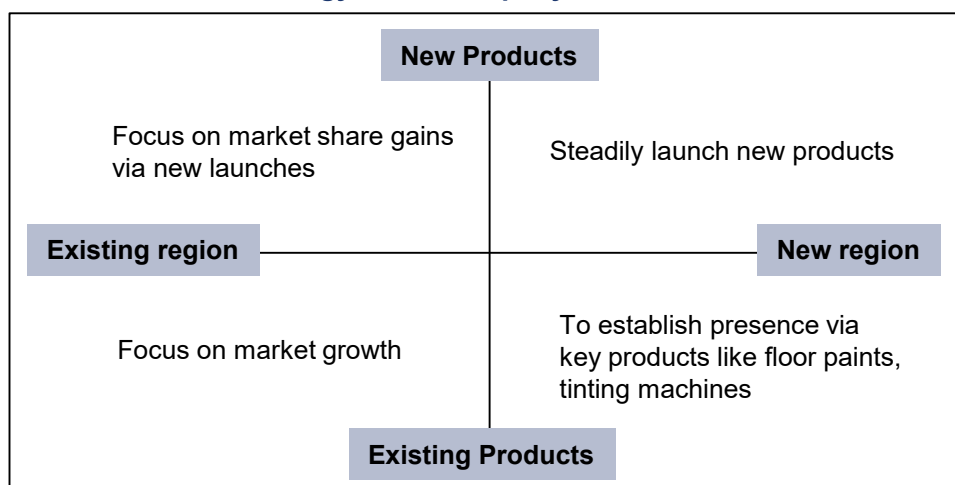
Revenue concentration in tiers-2&3 cities and rural markets

Competitive intensity is relatively higher in metros and tier 1 cities. Also, dealers / painters have limited influence on consumers in urban markets. Indigo focusses largely on tiers-2&3 cities and villages, which allows it to: (1) avoid high competitive pressures in the metros and tier-1 cities; and (2) leverage dealer relationship with consumers in tiers-2&3 cities and rural markets.

Growth strategy

Indigo is working on a multi-pronged growth strategy. It plans to expand in new geographies as well as introduce new products. It also plans to focus on gaining market shares in its key regions. Company aims to invest further in distribution as well as tinting machines to expand the reach. We also expect it to introduce more differentiated products in the coming years.

Chart 16: Growth strategy of the company



Source: Company, I-Sec research

Revenue growth drivers

Geographical expansion

As of now, Kerala is the largest market for the company accounting for ~30% of revenues and Chhattisgarh is the second largest. In past five years, Indigo has entered multiple new states such as Telangana, Tamil Nadu, Gujarat, Maharashtra and the North-East region. Company is not yet present in Himachal Pradesh and plans to enter this market soon.

We believe, the key growth drivers for Indigo in next 3-4 years will be: 1) market share gains in key states like Kerala and Chhattisgarh; 2) higher penetration in new states like Telangana, Tamil Nadu, Gujarat, Maharashtra and North-East region; and 3) entry in Jammu & Kashmir and Himachal Pradesh.

Table 11: Geographical expansion by Indigo

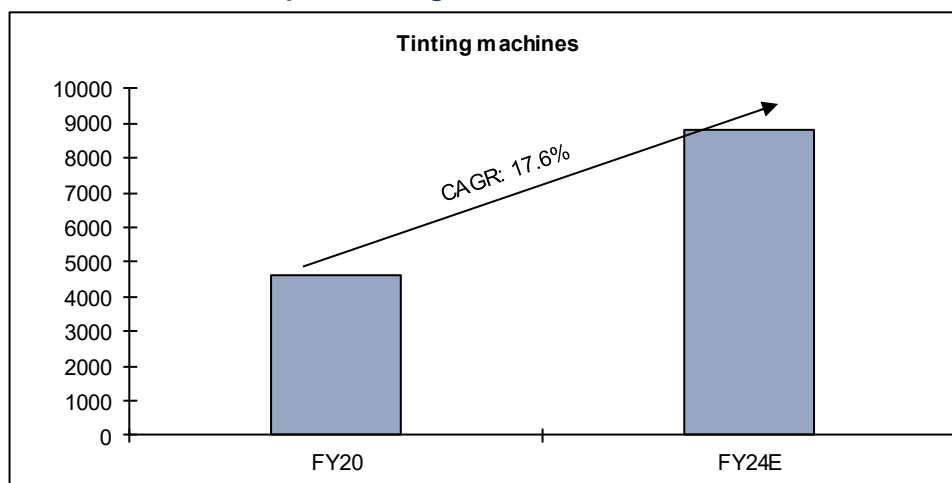
State	Revenue share (%)	Strategy
Kerala	30%	Steadily expand market size and gain market share
Chhattisgarh, WB, AP, Karnataka, Telangana, MP, UP, Punjab, Bihar, Jharkhand	~5-7% per state	Focus on gaining market share
Telangana, TN, Maharashtra, Gujarat, North East	~5% per state	Plans to establish base initially & then gain share
Himachal Pradesh	Nil	Plans to enter in coming years

Source: Company, I-Sec research

Expansion of tinting machines in FY21-FY24

As of now Indigo has installed 4,600 tinting machines and plans to add minimum 4,200 over FY21-FY24. It plans to add ~1,500 tinting machines per annum. When the company offers tinting machines to its dealers, it almost confirms minimum revenues of Rs600,000 (assuming asset turn of 4x). We believe, with expansion in the fleet of tinting machines, the company will be able to strengthen its moat in distribution to drive growth.

Chart 17: Plans to expand tinting machines



Source: Company, I-Sec research

Capacity expansion

Indigo has three plants – one each in Rajasthan, Kerala and Tamil Nadu. It manufactures putty and cement at Rajasthan while emulsions are produced in Kerala. Enamels are manufactured in the Tamil Nadu plant. Company's capacity utilisation was 42% in FY20.

Indigo plans to expand the emulsion manufacturing capacity at its Tamil Nadu plant. It plans to invest Rs1,850mn and increase production capacity by 50,000KL. We believe Indigo has enough production capacity to drive growth over next 3-4 years and it need not incur large capex for growth.

Table 12: Capacity expansion to support growth

(KL)

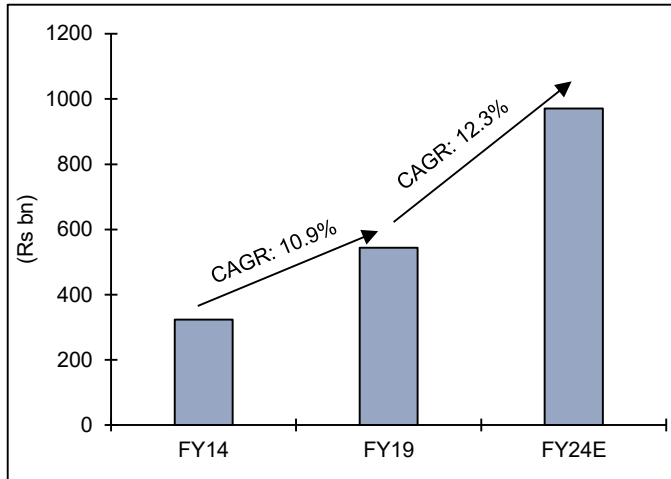
Location	FY18	FY19	FY20	H1FY21	FY23E
Rajasthan	22,312	39,244	45,544	45,544	45,544
Kerala	15,640	42,701	42,701	42,701	42,701
Tamil Nadu	27,958	27,958	27,958	13,658	63,658
Total	65,910	1,09,903	1,16,203	1,01,903	1,51,903

Source: Company, I-Sec research

Paint industry growth rates

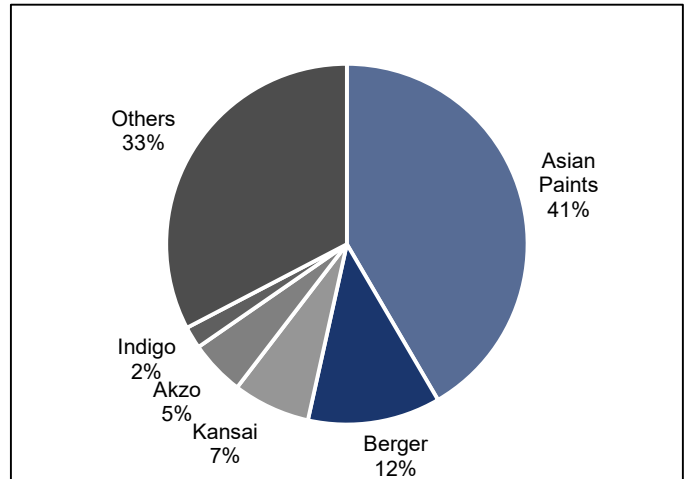
The India paint industry has grown at a CAGR of 11% over FY14-FY19 and is likely to grow at 12% over FY19-FY24. Indigo has a revenue market share of less than 2% of the paint industry. We model steady industry growth as well as market share expansion to lead to 30% revenue CAGR over FY21E-FY23E.

Chart 18: India paint industry growing at 12% p.a.



Source: Company, I-Sec research

Chart 19: Indigo has market share of just 2%



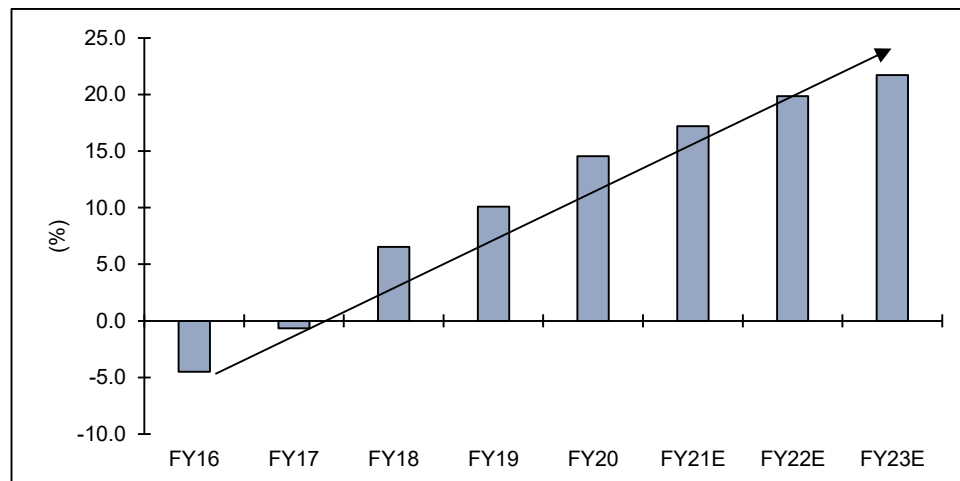
Source: Company, I-Sec research

EBITDA margin expansion drivers

Steady expansion of EBITDA margin

Indigo’s EBITDA margin has steadily expanded from -4.5% in FY16 to 14.6% in FY20. We believe the margin has expanded due to: 1) operating leverage; 2) reduction in adspend as a percentage of net sales; 3) improvement in gross margin due to lower input prices; and 4) improvement in revenue mix. We believe the company will continue to benefit with revenue mix improvement and operating leverage going ahead.

Chart 20: Steady expansion of EBITDA margin



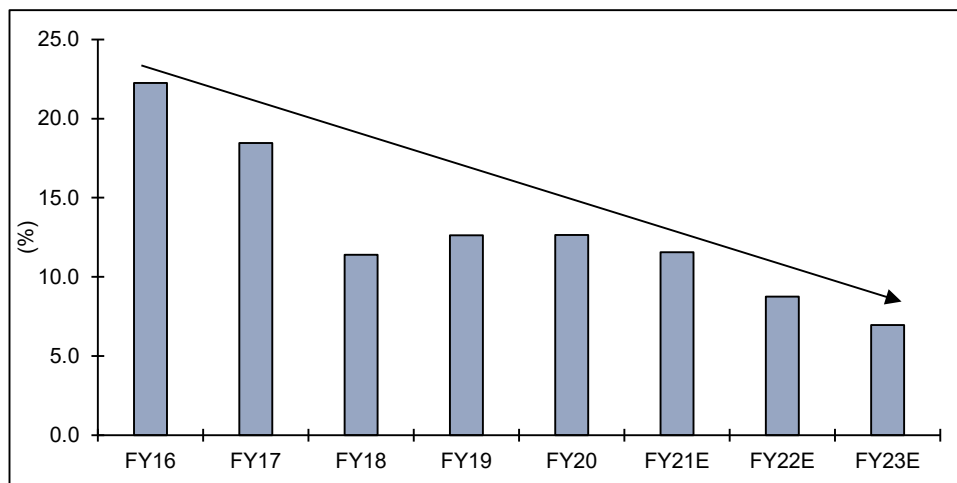
Source: Company, I-Sec research

Adspend to decline as a percentage of net sales

Indigo’s adspend to sales ratio is ~13%, significantly higher than its peers. We model Indigo to continue to increase its adspend in absolute terms, but reduce the ‘adspend to sales’ ratio, leading to improvement in EBITDA margins. ‘Adspend to sales’ ratio has declined from 22.2% in FY16 to 12.7% in FY20. However, absolute adspend has

increased at a CAGR of 30% over FY16-FY20. We model the absolute adspend will continue to increase but 'adspend to sales' ratio to reduce to 7-8% by FY23E.

Chart 21: Reduction in adspend as a percentage of net sales

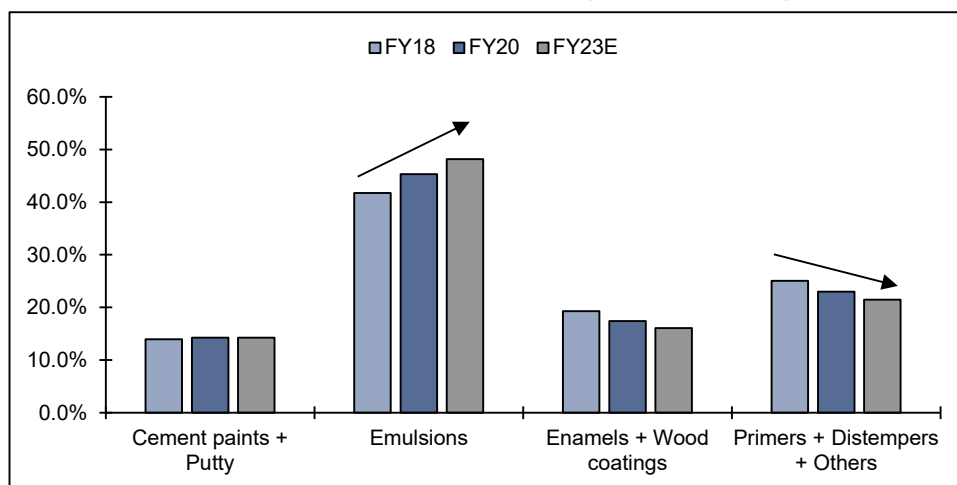


Source: Company, I-Sec research

Change in revenue mix and operating leverage

The revenue share of emulsions (high-margin paints) has increased to 45.3% in FY20 from 41.7% in FY18 and that of primer and distempers (low-margin paints) has declined to 23% in FY20 from 25% in FY18. Steady improvement in revenue mix coupled with operating leverage is likely to lead to better gross margins.

Chart 22: Revenue mix improvement leading to better margins

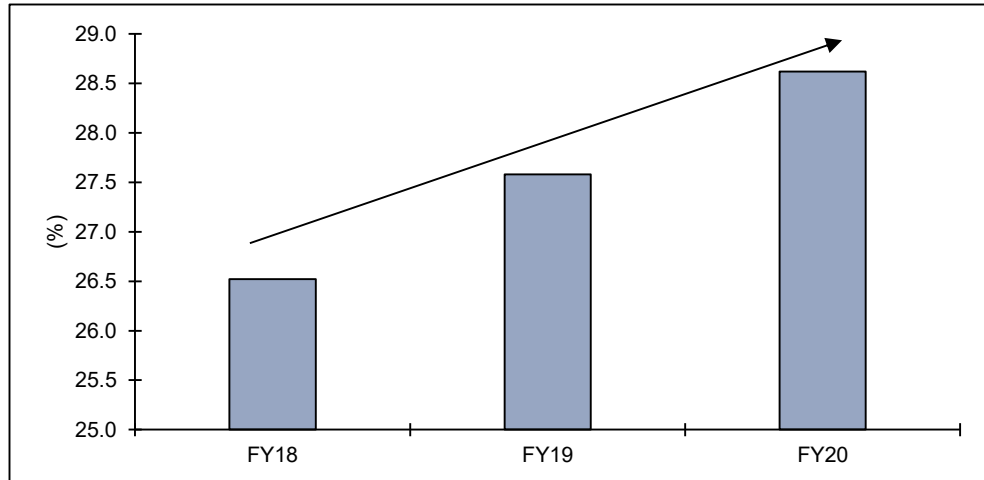


Source: Company, I-Sec research

Higher revenue share of differentiated products

The revenue share of differentiated products has increased from 26.5% in FY18 to 28.6% in FY20. The differentiated products enjoy superior margins vis-à-vis rest of the products. We expect Indigo's overall EBITDA margin to improve with rising revenue share of differentiated products.

Chart 23: Higher revenue share of differentiated products

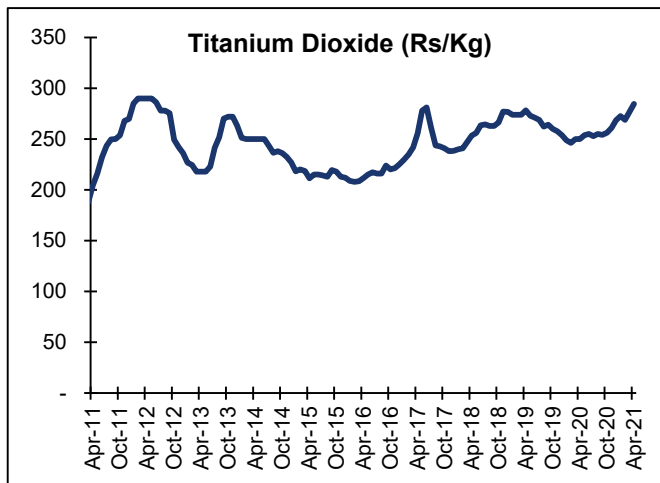


Source: Company, I-Sec research

Steep inflation in raw material prices may spoil the party

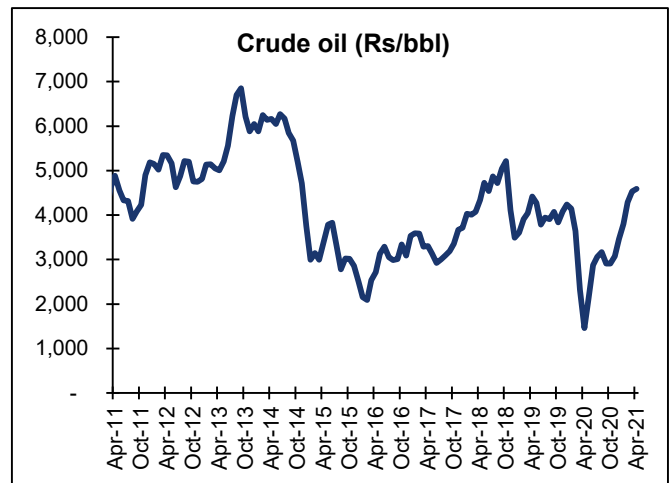
Prices of most raw materials for manufacturing paints are up 10-25% YoY. In case of steep inflationary situation, the company’s margins are likely to be impacted. However, we believe Indigo can pass on the additional costs via price hikes, revenue mix adjustments, and tweaking of trade margins / schemes. Indigo has raised prices of its products by 2-3% in Nov’20-Mar’21.

Chart 24: Titanium dioxide



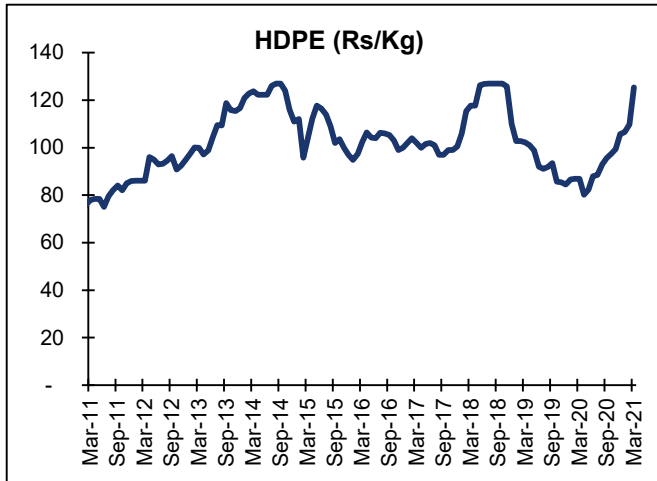
Source: Company, I-Sec research

Chart 25: Crude oil



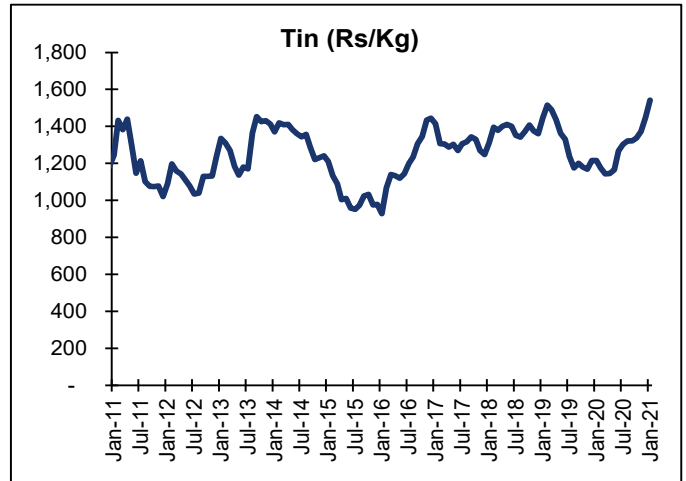
Source: Company, I-Sec research

Chart 26: Packaging material (HDPE)



Source: Company, I-Sec research

Chart 27: Packaging material (tin)



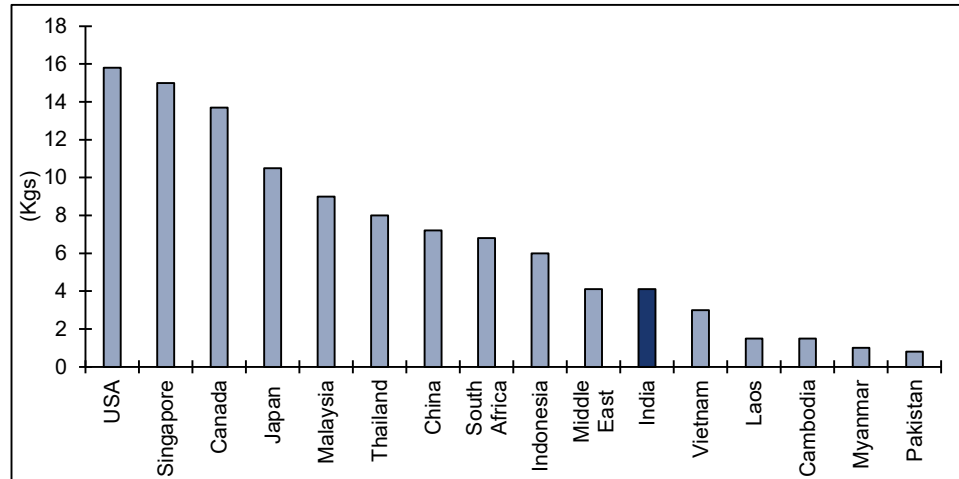
Source: Company, I-Sec research

Paint sector: A growing industry

Low per capita consumption in India

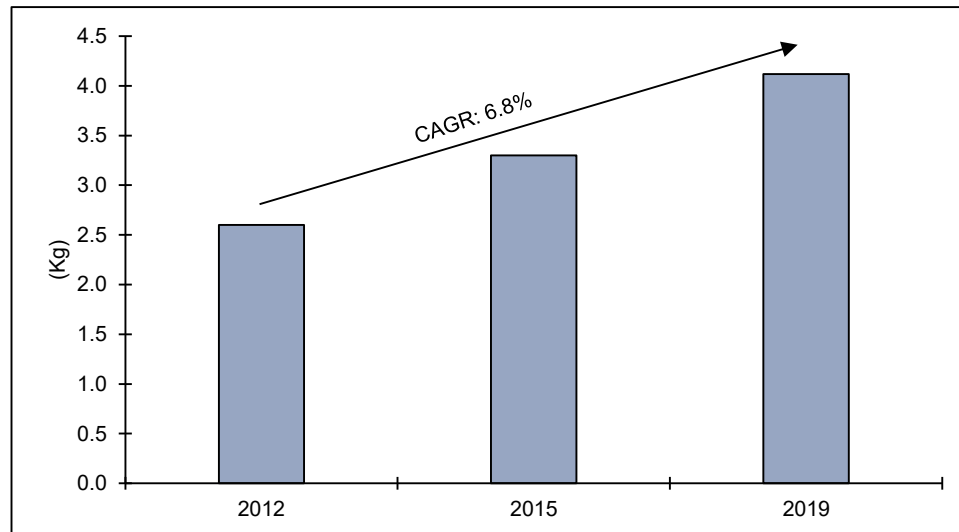
India's per capital consumption of paints and coatings vs key global economies (in kg terms) in 2019 is extremely low. The average consumption of paints and coatings for India is 4.7kg while that in the developed nations of the region is 9.7kg. However, per capita consumption of paints and coatings in India is steadily rising.

Chart 28: Per capita consumption of paint and coatings



Source: Bloomberg, Frost & Sullivan

Chart 29: Per capita consumption of paints and coatings in India

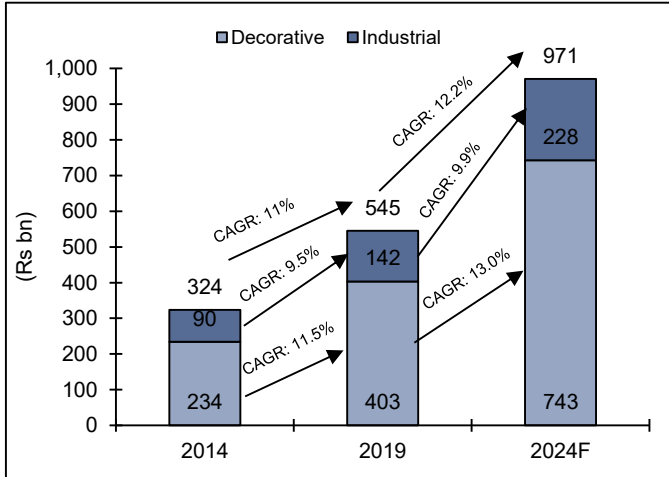


Source: Bloomberg, Frost & Sullivan

India paint industry growing at 11-12% per annum

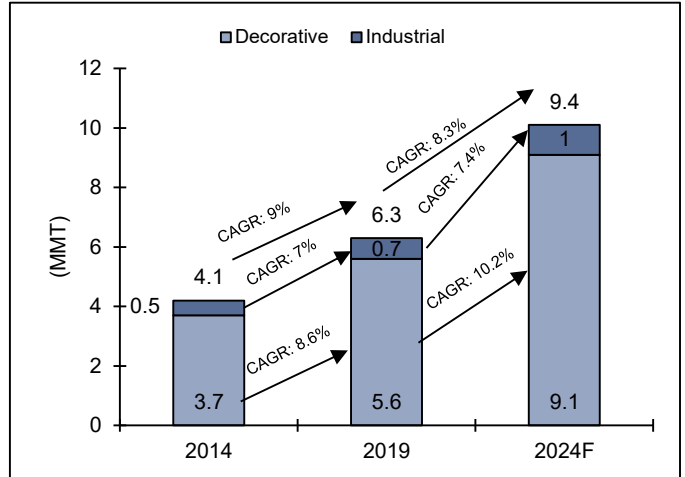
India paints and coatings market is growing at 11-12% per annum in revenue terms and 7-8% in volume terms.

Chart 30: Revenues – Decorative & Industrial



Source: Company websites, Coatings World, News articles, Frost & Sullivan

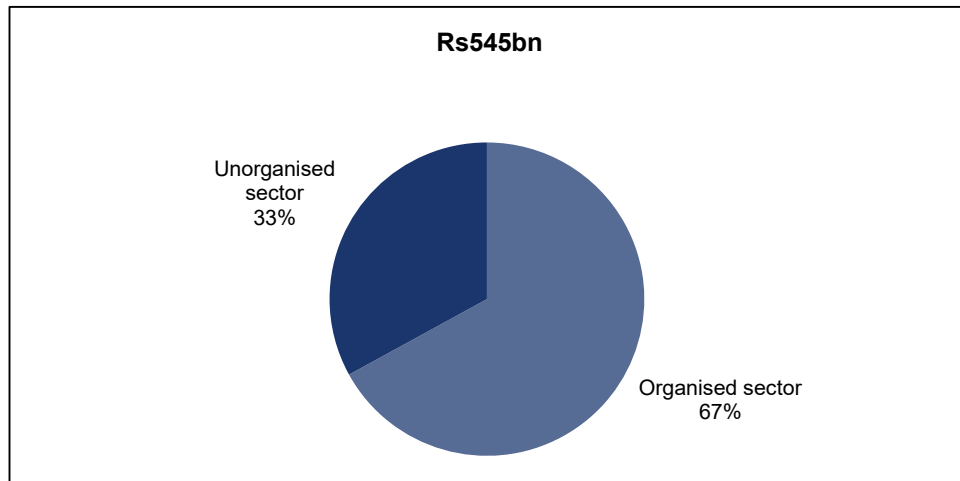
Chart 31: Volumes – Decorative & Industrial



Breakup of paint industry in India

The organised sector has a 67% market share and the remaining 33% is held by the unorganised sector. The organised sector is gaining share from unorganised sector post demonetisation, GST and Covid.

Chart 32: Paint industry by organisation type



Source: Frost & Sullivan

Growth of decorative paints industry

The decorative paints segment accounts for 74% of the overall paint market in India in revenue terms, and the rest is industrial paints. Over the past five years, the share of decorative paints has increased to 74% in FY19 from 67% in FY14.

Chart 33: Revenue growth of Decorative paints

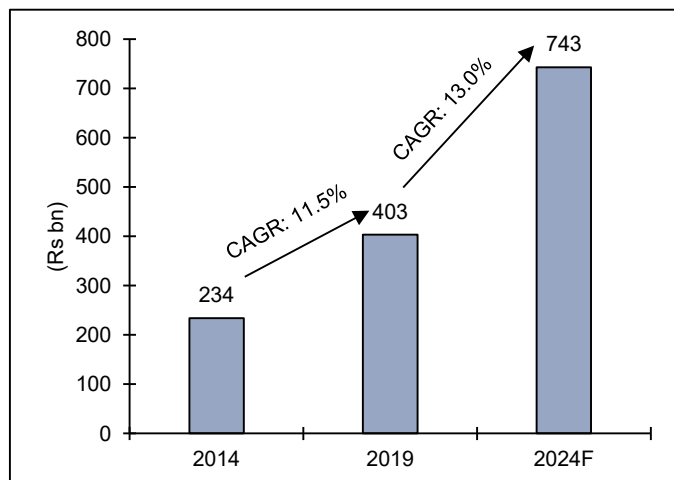
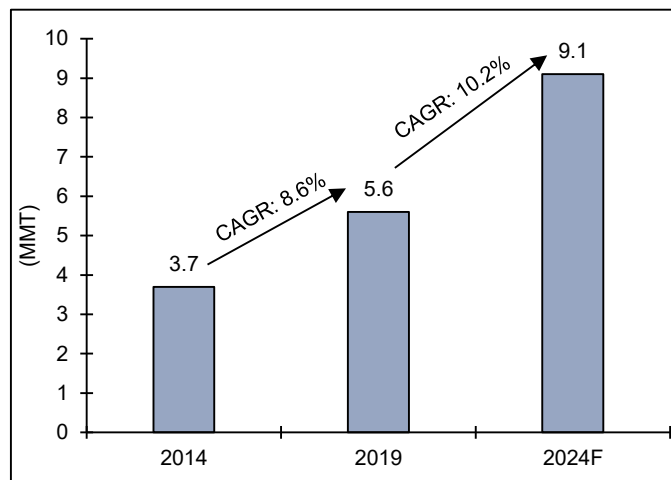


Chart 34: Volume growth of Decorative paints



Source: Company websites, Coatings World, News articles, Frost & Sullivan

Growth recorded by Indian decorative paints industry

Enamels and emulsions are among the fastest-growing paint sub-segments. Emulsions are gaining popularity due to less VOC than other type of paints. However, enamels are also growing at a healthy rate; 13.6% CAGR over 2014-19. Indigo has strong presence in enamels, emulsions as well as primers.

Table 13: CAGR recorded by decorative paint sub-segments

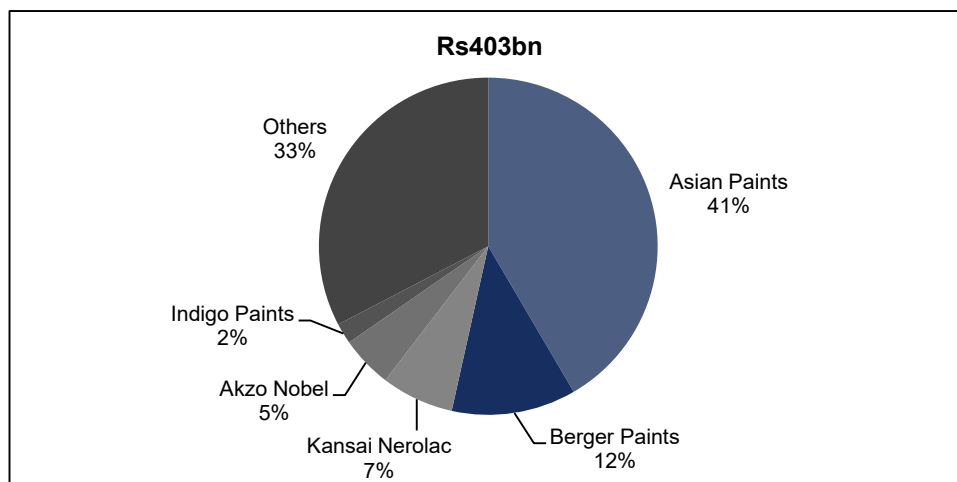
%	Enamels	Emulsions	Primers	Distempers	Wood Coatings	Putties	Others
2014-19	13.6	11.4	11.8	9.9	8.6	10.0	8.4
2019-24F	14.2	13.6	12.3	10.9	9.6	11.7	11

Source: Coatings World, News Articles, Frost & Sullivan

Market shares in decorative paints

Asian Paints is the market leader in the Indian decorative paints category with a market share of 42%. Indigo has market share of 2% and the top five players account for 67% of market share.

Chart 35: Market shares in decorative paints

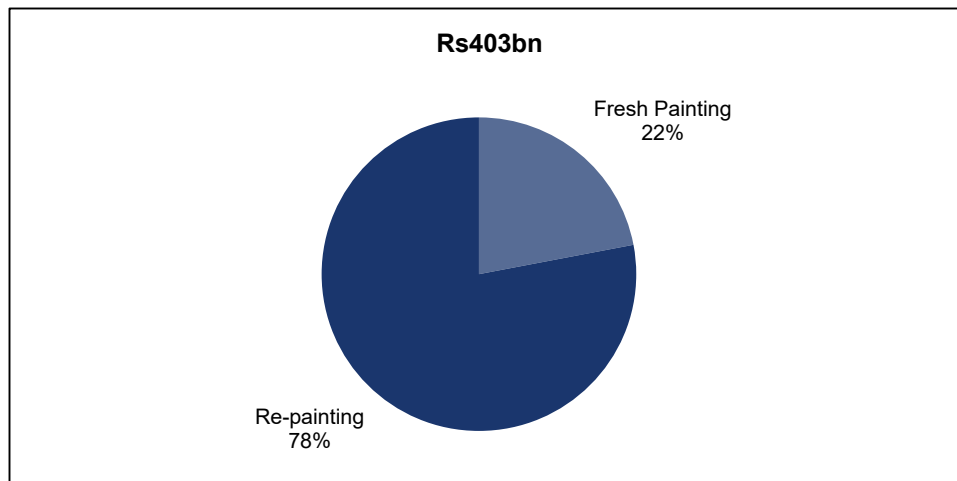


Source: Company websites, Frost & Sullivan

Fresh painting vs repainting

Fresh painting (projects) accounts for ~22% of the decorative paint market. Unorganised players have a higher share of in projects business due to their lower pricing. Repainting accounts for ~78% of the decorative paints market in India. Indigo operates largely in the repainting market and has limited share in projects business.

Chart 36: Fresh painting vs repainting

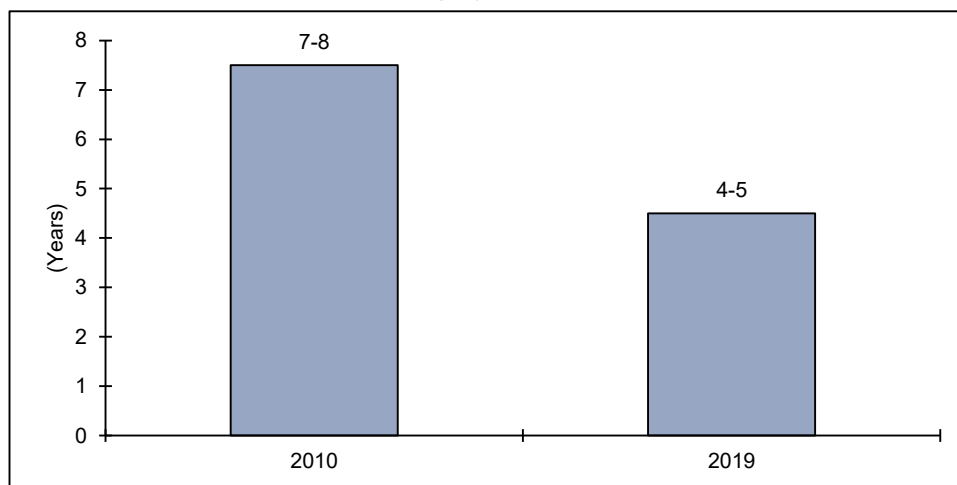


Source: Livespaces, Company websites, Frost & Sullivan

Repainting cycle in India

Average repainting cycle has reduced from 7-8 years in 2010 to 4-5 years in 2019 (mostly interior painting). As more consumers are giving importance to aesthetics and look and feel, there is steady reduction in repainting cycle.

Chart 37: Reduction in repainting cycle in India



Source: Frost & Sullivan

Key growth drivers in Indian decorative paints market

Real estate sector growth: The revival in real estate in FY21 after weak growth over FY14-FY20 augurs well for paint demand. While there will be initial demand from projects, there will be gradual increase in repainting too.

Urbanisation: Increase in urbanisation has increased the need of paints. India's urbanisation has grown well from 25.6% of population in 1990 to 34.5% in 2019. The UN expects that by 2030, ~40% of India's population will reside in urban areas.

Smart Cities: In order to sustain urbanisation in India, the Government launched the Smart City Mission in 2015, with an intention to develop 109 cities as Smart Cities.

Government's 'housing for all / affordable housing' measures: These measures helped fresh demand for painting and will help repainting demand in the future. Pradhan Mantri Awas Yojana (PMAY), an initiative by the government of India, ensures affordable house for all in the urban areas with a target of building 20mn affordable houses by 31st Mar'22.

AMRUT: Atal Mission for Rejuvenation and Urban Transformation was launched by the government to provide basic civic amenities, which will involve renovation of 500 cities.

Peer group comparison

Revenues

(Rs mn)	FY18	FY19	FY20	CAGR (%)
Asian Paints	1,41,679	1,63,918	1,71,941	10.2%
Berger	47,238	55,156	56,917	9.8%
Kansai	45,866	54,243	52,800	7.3%
Akzo	27,193	29,184	26,618	-1.1%
Indigo	3,951	5,356	6,248	25.8%

EBIT

(Rs mn)	FY18	FY19	FY20	CAGR (%)
Asian Paints	28,869	32,046	35,246	10.5%
Berger	6,780	7,417	9,381	17.6%
Kansai	7,864	7,068	6,879	-6.5%
Akzo	2,842	3,194	3,377	9.0%
Indigo	168	370	714	106.3%

Gross margin

(%)	FY18	FY19	FY20
Asian Paints	43.6	42.6	44.7
Berger	41.0	38.1	40.8
Kansai	39.5	36.2	38.3
Akzo	43.9	42.1	45.8
Indigo	41.5	44.3	48.5

EBIT margin

(%)	FY18	FY19	FY20
Asian Paints	20.4	19.5	20.5
Berger	14.4	13.4	16.5
Kansai	17.1	13.0	13.0
Akzo	10.5	10.9	12.7
Indigo	4.2	6.9	11.4

RoE

(%)	FY18	FY19	FY20
Asian Paints	25.4	25.6	29.3
Berger	21.3	20.7	28.0
Kansai	17.4	13.7	14.4
Akzo	17.7	17.3	20.4
Indigo	22.2	19.8	27.8

Adspend as % of net sales

(%)	FY18	FY19	FY20
Asian Paints	3.9	4.2	4.0
Berger	4.7	3.3	3.3
Kansai	6.0	5.1	5.2
Akzo	4.0	3.1	3.3
Indigo	11.4	12.6	12.7

EBITDA

(Rs mn)	FY18	FY19	FY20	CAGR (%)
Asian Paints	29,205	33,080	38,570	14.9%
Berger	7,434	8,102	9,578	13.5%
Kansai	7,898	7,525	8,045	0.9%
Akzo	2,986	3,424	3,791	12.7%
Indigo	258	541	910	87.8%

PAT

(Rs mn)	FY18	FY19	FY20	CAGR (%)
Asian Paints	18,948	21,348	26,872	19.1%
Berger	4,318	4,676	6,990	27.2%
Kansai	5,164	4,477	5,158	-0.1%
Akzo	2,032	2,104	2,426	9.3%
Indigo	142	272	478	83.6%

EBITDA margin

(%)	FY18	FY19	FY20
Asian Paints	20.6	20.2	22.4
Berger	15.7	14.7	16.8
Kansai	17.2	13.9	15.2
Akzo	11.0	11.7	14.2
Indigo	6.5	10.1	14.6

PAT margin

(%)	FY18	FY19	FY20
Asian Paints	13.4	13.0	15.6
Berger	9.1	8.5	12.3
Kansai	11.3	8.3	9.8
Akzo	7.5	7.2	9.1
Indigo	3.6	5.1	7.7

RoCE

(%)	FY18	FY19	FY20
Asian Paints	24.8	25.0	28.0
Berger	19.9	20.1	26.2
Kansai	16.9	13.2	13.7
Akzo	17.8	17.5	19.9
Indigo	11.1	21.1	32.2

Net working capital days

(%)	FY18	FY19	FY20
Asian Paints	18	22	37
Berger	53	34	41
Kansai	74	78	84
Akzo	10	19	(5)
Indigo	28	19	17

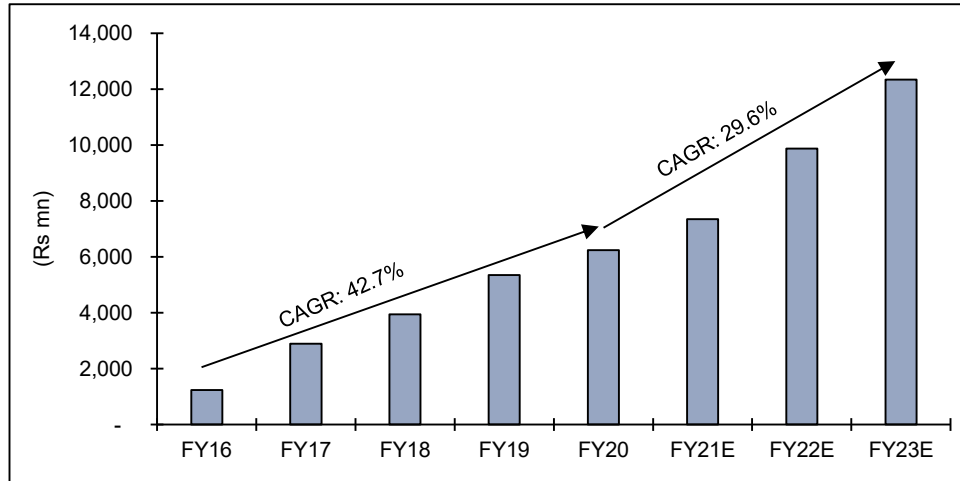
Source: Company data, I-Sec research

Financial performance

Expect steady revenue growth ahead

Indigo reported revenue CAGR of 49.7% over FY16-FY20. Key reasons for such strong growth were: 1) steady expansion of distribution network and tinting machines, and 2) introduction of new products. We model the company to report a revenue CAGR of 29.6% over FY21E-FY23E.

Chart 38: Healthy revenue growth ahead

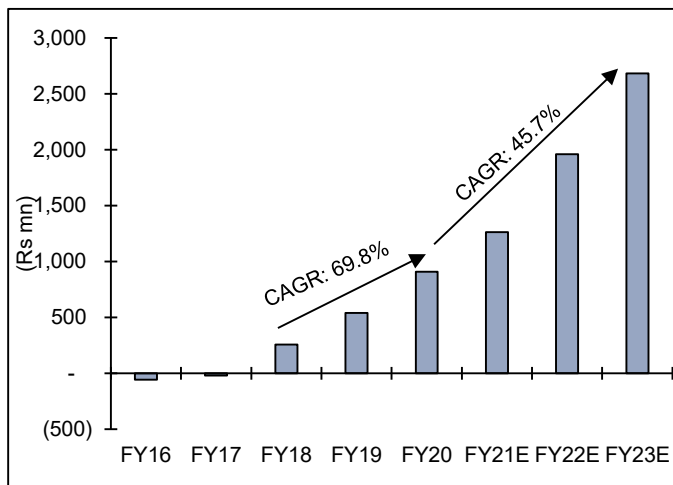


Source: Company data, I-Sec research

EBITDA margin to steadily improve over FY21-FY23E

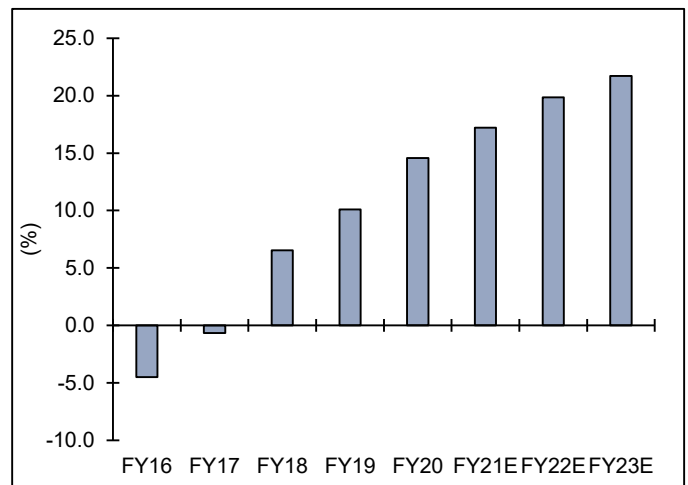
Indigo’s EBITDA margin expanded from -4.5% in FY16 to 14.6% in FY20. We expect the company to maintain its gross margins over FY21-FY23E, but expand EBITDA margins to be 21.7% in FY23E due to reduction in ‘adspend to sales’ ratio.

Chart 39: EBITDA CAGR at 45.7% over FY21-FY23E



Source: Company data, I-Sec research

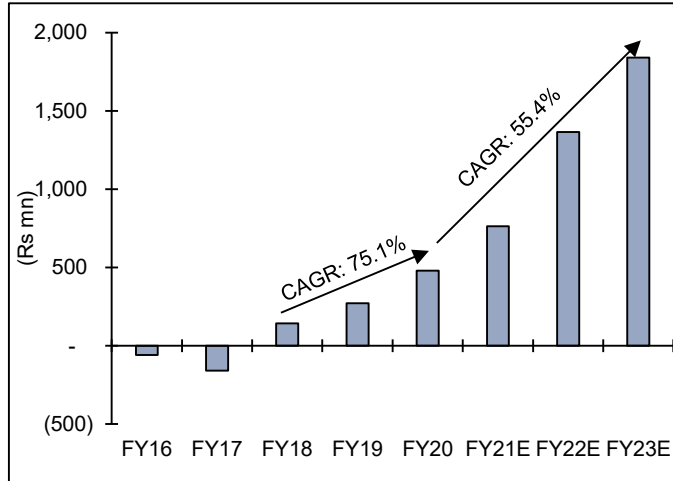
Chart 40: EBITDA margins expanding



Net profit growth to remain strong

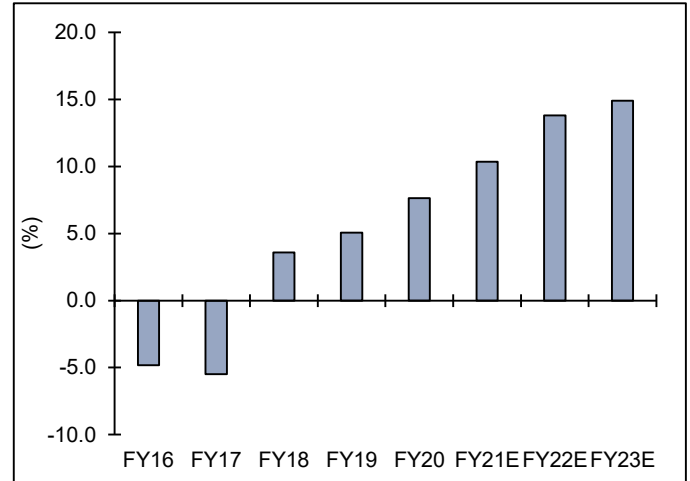
We expect Indigo’s PAT margin to rise due to: 1) improvement in EBITDA margin, and 2) lower depreciation and interest cost, and higher other income. We expect the company to report PAT margin of 14.9% in FY23E compared to 7.7% in FY20. We expect net profit CAGR of 55.4% over FY21E-FY23E vs revenue CAGR of 29.6% over the same timeframe.

Chart 41: Steady net profit growth ahead



Source: Company data, I-Sec research

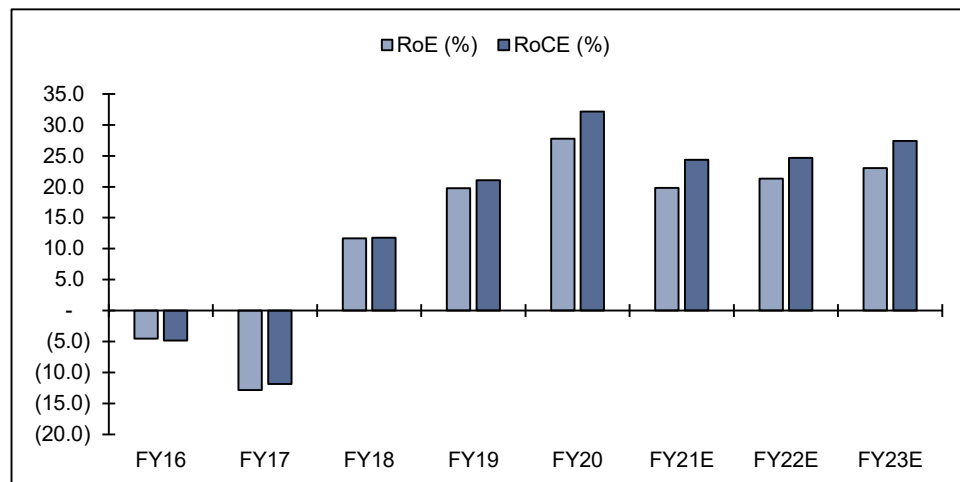
Chart 42: Net profit margins to expand



Return ratios > Cost of capital

Indigo has maintained strong return ratios over FY18-FY20 due to strong margins as well as high asset turns. Also, improvement in margin has helped improve return ratios. We expect the company to report return ratios in excess of the cost of capital across FY20-FY23E.

Chart 43: Strong return ratios

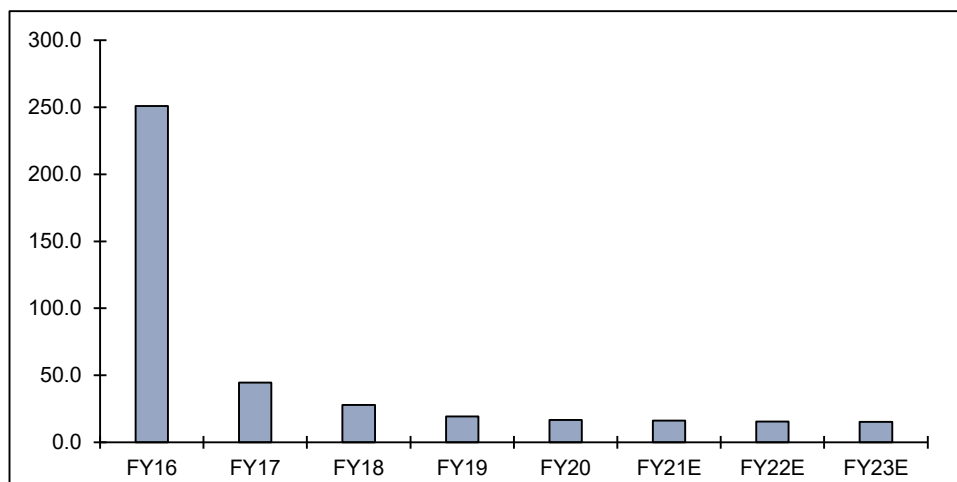


Source: Company data, I-Sec research

Investment in working capital

Due to improving product profile (as a result of differentiation), Indigo will be able to curtail its investment in working capital. Working capital days have reduced from 45 in FY17 to 17 in FY20. We expect net working capital days at 15 at FY23E-end.

Chart 44: Net working capital days



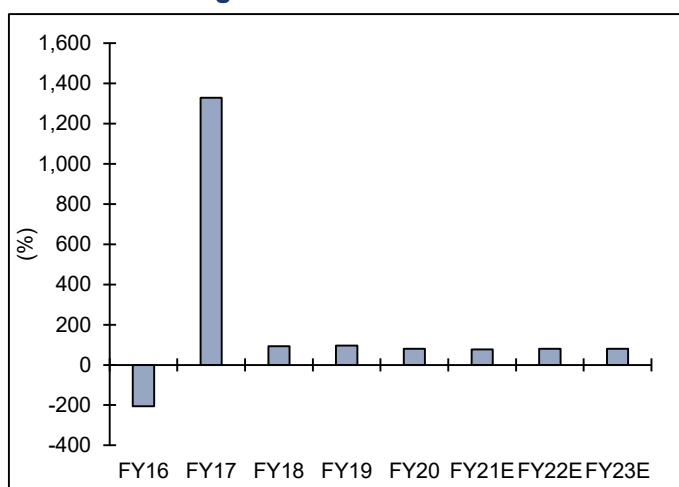
Source: Company data, I-Sec research

Strong OCF generation

Indigo has a healthy cash generation record with an average OCF/EBITDA of 84% over FY18-FY23E. Company has used the OCF to: 1) expand business and distribution, 2) incur capex, and 3) launch new products. It has not declared dividends in FY18-FY20.

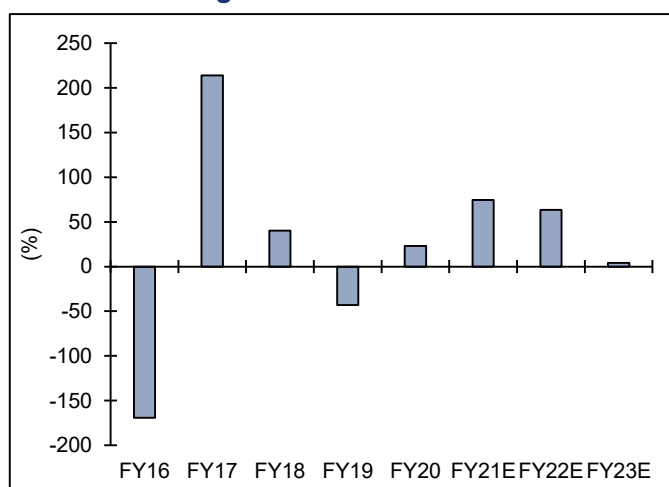
We expect Indigo to use its OCF generation to strengthen the balance sheet and competitive advantages in coming years.

Chart 45: Average OCF/EBITDA at 84%*



Source: Company data, I-Sec research *FY18-23E

Chart 46: Average FCF/PAT at 27%*



Source: Company data, I-Sec research *FY18-23E

Key assumptions

Table 14: Key assumptions

(Rs mn)

	FY19	FY20	FY21E	FY22E	FY23E
Net revenues	5,356	6,248	7,348	9,877	12,346
<i>Growth (%)</i>	35.6	16.6	17.6	34.4	25.0
Gross profit	2,371	3,028	3,622	4,849	6,062
<i>Gross margin (%)</i>	44.3	48.5	49.3	49.1	49.1
EBITDA	541	910	1,264	1,962	2,682
<i>EBITDA margin (%)</i>	10.1	14.6	17.2	19.9	21.7
PBT	340	674	1,018	1,822	2,459
<i>PBT margin (%)</i>	6.4	10.8	13.9	18.5	19.9
<i>Tax rate (%)</i>	20.1	29.1	25.2	25.2	25.2
PAT	272	478	762	1,364	1,840
<i>PAT margin (%)</i>	5.1	7.7	10.4	13.8	14.9
<i>PAT growth (%)</i>	91.7	76.0	59.3	79.0	34.9
Capex	(633)	(613)	(415)	(725)	(2,090)
Net working capital days	19	17	16	16	15
Operating cashflow	516	723	984	1,588	2,166
Free cashflow	(117)	110	569	863	76
<i>OCF/EBITDA (%)</i>	95.4	79.5	77.8	81.0	80.8

Source: Company data, I-Sec research

Valuation

We have valued Indigo paints as per DCF methodology, which leads to a target price of Rs2,750 per share.

Table 15: DCF valuation

Particulars	Amt (Rs)
Cost of equity (%)	10.5
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	54,481
Discounted terminal value (Rs mn)	72,410
Total equity value (Rs mn)	1,26,891
Value per share (Rs)	2,750

Source: Company, I-Sec research

Relative valuation

Indigo trades at 11% premium to market leader Asian Paints and at 10% premium to paint sector valuation in FY23E.

Table 16: Relative valuation

Company	CMP (Rs)	TP (Rs)	Upside (%)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
					FY22E	FY23E	FY22E	FY23E		(Rs bn)	(US\$ bn)
Akzo Nobel	2,180	2,800	28	BUY	36	31	23	20	0.8	99	1.4
Asian Paints	2,556	2,800	10	ADD	65	56	42	37	89.2	2,452	33.4
Berger Paints	734	750	2	HOLD	81	69	52	45	14.3	713	9.7
Indigo Paints	2,422	2,750	14	ADD	84	63	57	42	NA	115	1.6
Kansai Nerolac	559	625	12	ADD	48	43	31	27	3.3	302	4.1

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)		CAGR (FY21-23E) (%)		
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	Revenues	EBITDA	PAT
Akzo Nobel	3.4	2.9	7	6	28	24	19	19	19	19	16	21	21
Asian Paints	9.6	8.4	18	15	52	46	30	29	27	26	18	18	21
Berger Paints	9.3	8.1	19	16	64	56	26	26	22	22	17	18	22
Indigo Paints	11.4	9.1	16	13	69	51	22	25	19	21	30	46	55
Kansai Nerolac	5.0	4.4	7	6	38	34	15	15	14	14	15	13	16

Source: Company data, I-Sec research

Key risks

Steep rise in competitive pressures and input prices: Steep rise in competitive pressures and material increase in production capacities by peers in a short timeframe can hurt Indigo's earnings. Higher cost of production may also impact earnings.

Delays in launch / failure of new products: Any delay in launch of new products and/or failure of new products may impact Indigo's financials. If the company's geographical expansion plans fail, or get delayed, earnings growth may be impacted.

Weak economic outlook: The paint industry's growth is dependent on GDP growth as well as industrial production in India. If there is prolonged weakness in India's economy (post covid wave-2), it will impact the company's growth prospects.

Slow-down or higher competition in Kerala: The company generates ~30% revenues from Kerala. Slow-down in Kerala and/or increase in competition in Kerala will impact company' earning growth.

Business and management

Indigo Paints (Indigo) was promoted by Mr. Hemant Jalan and his family in year 2000. Company was initially established in Jharkhand, but it acquired a plant in Rajasthan. In years 2015-2016, it raised equity funds from Sequoia and also acquired Hi-Build Coatings. As part of the acquisition, it acquired Hi-Build's plants in South India.

Indigo operates its business under the brand *Indigo* and well-known cricketer Mr. Mahendra Singh Dhoni is the brand ambassador. Company has presence in 11,230 retail outlets as at FY20-end and has installed 4,600 tinting machines pan-India. Kerala is the largest market for the company accounting for ~30% of revenues followed by Chhattisgarh.

Table 17: Timeline of Indigo's business operations

FY00	Operations commenced
FY05	Acquired factory in Rajasthan
FY10	Presence increased to 11 states
FY12	Commenced advertising
FY15	Investment by Sequoia
FY16	Acquisition of Hi-Build Coatings
FY18	MS Dhoni selected as brand ambassador
FY21	IPO

Source: Company data, I-Sec research

Table 18: Key managerial personnel

Person	Role
Hemant Jalan	Chairman & Managing Director
Anita Jalan	Executive Director
Praveen Kumar Tripathi	Independent Director
Sunil Goyal	Independent Director
Narayanan Kutty Kottiedath Venugopal	Executive Director
Sakshi Chopra	Nominee Director of Sequoia
Ravi Nigam	Independent Director
Nupur Garg	Independent Director
Chetan Humane	CFO
Thundiyil Surendra Suresh Babu	COO
Sujoy Bose	Company Secretary
Srihari Santhakumar	DGM-Finance & Investor Relations

Source: Company data, I-Sec research

Financials

Table 19: Profit & Loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales & Operating income	3,951	5,356	6,248	7,348	9,877	12,346
Operating Expenses	3,693	4,815	5,338	6,084	7,915	9,664
EBITDA	258	541	910	1,264	1,962	2,682
<i>% margins</i>	6.5	10.1	14.6	17.2	19.9	21.7
Depreciation & Amortisation	90	171	196	234	305	404
Gross Interest	45	47	56	30	14	14
Other Income	16	16	16	18	180	196
Recurring PBT	139	340	674	1,018	1,822	2,459
Less: Taxes	(3)	68	196	256	459	619
Less: Minority Interest	-	-	-	-	-	-
Net Income (Reported)	132	270	477	762	1,364	1,840
Extraordinaries (Net)	(10)	(1)	(1)	-	-	-
Recurring Net Income	142	272	478	762	1,364	1,840

Source: Company data, I-Sec research

Table 20: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Assets						
Total Current Assets	1,771	2,102	2,112	5,617	7,213	8,005
<i>of which cash & cash eqv.</i>	231	337	265	3,444	4,293	4,355
Total Current Liabilities & Provisions	1,275	1,549	1,599	1,880	2,528	3,160
Net Current Assets	496	553	513	3,736	4,685	4,845
Investments & Other LT Assets	564	721	676	676	676	676
Net Fixed Assets	614	864	1,420	1,601	2,021	3,707
Capital Work-in-Progress	25	44	11	11	11	11
Total Assets	1,699	2,183	2,621	6,025	7,394	9,239
Liabilities						
Borrowings	358	601	501	161	161	161
DTL & other LT obligations	66	107	149	152	157	162
Minority Interest	-	-	-	-	-	-
Equity Share Capital	469	472	473	476	476	476
<i>Face Value per share (Rs)</i>	10	10	10	10	10	10
Reserves & Surplus	806	1,003	1,497	5,237	6,600	8,441
Less: Misc. Exp. n.w.o.	-	-	-	-	-	-
Net Worth	1,275	1,475	1,971	5,712	7,076	8,916
Total Liabilities	1,699	2,183	2,621	6,025	7,394	9,239

Source: Company data, I-Sec research

Table 21: Cashflow statement*(Rs mn, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow	263	514	792	1,025	1,683	2,259
Working Capital Changes	(25)	2	(69)	(41)	(95)	(93)
Capital Commitments	(181)	(633)	(613)	(415)	(725)	(2,090)
Free Cashflow	57	(117)	110	569	863	76
Cashflow from Investing Activities	10	1	1	-	-	-
Issue of Share Capital	-	17	18	2,980	-	-
Inc (Dec) in Borrowings	(68)	171	(190)	(370)	(14)	(14)
Dividend paid	-	-	-	-	-	-
Chg. in Cash & Bank balance	(1)	72	(62)	3,179	849	62

Source: Company data, I-Sec research

Table 22: Key ratios*(year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)						
EPS	4.6	9.4	16.4	16.0	28.7	38.7
Cash EPS	8.1	15.3	23.2	20.9	35.1	47.2
Book Value per share (BV)	44.6	51.1	67.9	120.1	148.8	187.4
Growth (%)						
Net Revenue	36.6	35.6	16.6	17.6	34.4	25.0
EBITDA	(1,425.9)	109.6	68.2	38.9	55.2	36.7
PAT	(189.3)	91.7	76.0	59.3	79.0	34.9
Valuation Ratios (x)						
P/E	526.4	258.6	147.3	151.3	84.5	62.6
P/CEPS	298.5	158.0	104.3	115.7	69.0	51.3
P/BV	54.3	47.4	35.7	20.2	16.3	12.9
EV / EBITDA	261.3	125.8	75.2	88.7	57.2	41.8
EV / Sales	17.1	12.7	11.0	15.3	11.4	9.1
EV / EBIT	401.8	183.7	95.9	108.9	67.7	49.2
Operating Ratios						
Raw Material / Sales (%)	58.5	55.7	51.5	50.7	50.9	50.9
Employee cost / Sales (%)	7.7	6.8	6.7	6.0	6.0	5.9
Other opex / Sales (%)	27.3	27.4	27.2	26.1	23.3	21.5
Other Income / PBT (%)	11.7	4.8	2.4	1.7	9.9	8.0
Effective Tax Rate (%)	(2.2)	20.1	29.1	25.2	25.2	25.2
Working Capital (days)	27.9	19.4	16.7	16.2	15.6	15.2
Inventory Turnover (days)	51.0	47.2	44.8	44.8	44.8	44.8
Receivables (days)	89.4	70.8	61.0	61.0	61.0	61.0
Payables (days)	100.3	92.8	81.0	81.0	81.0	81.0
Net D/E (x)	0.1	0.2	0.1	(0.5)	(0.6)	(0.4)
Profitability Ratios (%)						
Net Income Margins	3.6	5.1	7.7	10.4	13.8	14.9
RoACE	11.1	18.5	29.3	17.1	22.4	24.7
RoAE	11.1	18.4	24.3	13.3	19.3	20.6
EBITDA Margins	6.5	10.1	14.6	17.2	19.9	21.7

Source: Company data, I-Sec research

Index of tables and charts

Tables

Table 1: Competitive advantages	4
Table 2: Expected EBITDA CAGR of 29.6% over FY21-FY30E in reverse DCF	4
Table 3: Differentiated products from Indigo.....	5
Table 4: Indicative margins of some of the differentiated products (illustration)	6
Table 5: Indigo's differentiated products and market opportunity.....	7
Table 6: Dealer feedback regarding differentiated products and distribution	7
Table 7: Multiple brands from peers vs single brand from Indigo.....	10
Table 8: Success stories in India with just one brand.....	10
Table 9: RoI on tinting machines is >20% (i.e. above cost of capital).....	12
Table 10: Pricing of Indigo's products vs products of peers	12
Table 11: Geographical expansion by Indigo	14
Table 12: Capacity expansion to support growth.....	15
Table 13: CAGR recorded by decorative paint sub-segments	22
Table 14: Key assumptions.....	29
Table 15: DCF valuation	30
Table 16: Relative valuation.....	30
Table 17: Timeline of Indigo's business operations.....	32
Table 18: Key managerial personnel	32
Table 19: Profit & Loss statement.....	33
Table 20: Balance sheet	33
Table 21: Cashflow statement	34
Table 22: Key ratios	34

Charts

Chart 1: Paint industry growing at ~11% CAGR*	3
Chart 2: Rising revenue contribution of differentiated products.....	5
Chart 3: Indian paint industry as per usage	6
Chart 4: Key differentiated paints of Indigo.....	8
Chart 5: Indigo brand	9
Chart 6: Adspend increased at CAGR of 30%.....	9
Chart 7: ...but adspend to sales ratio declined.....	9
Chart 8: Indigo's share of voice (SOV) is higher	10
Chart 9: ... than its market share (SOM)	10
Chart 10: Distribution network of paint companies	11
Chart 11: Revenue per outlet lowest for Indigo	11
Chart 12: Tinting machines of paint companies.....	11
Chart 13: Penetration of tinting machines*	11
Chart 14: Revenue breakup of all paint companies (FY20).....	13
Chart 15: Negligible investments in backward integration.....	13
Chart 16: Growth strategy of the company	14
Chart 17: Plans to expand tinting machines	15
Chart 18: India paint industry growing at 12% p.a.....	16
Chart 19: Indigo has market share of just 2%.....	16
Chart 20: Steady expansion of EBITDA margin	16
Chart 21: Reduction in adspend as a percentage of net sales.....	17
Chart 22: Revenue mix improvement leading to better margins	17
Chart 23: Higher revenue share of differentiated products.....	18
Chart 24: Titanium dioxide	18
Chart 25: Crude oil	18
Chart 26: Packaging material (HDPE)	19
Chart 27: Packaging material (tin)	19
Chart 28: Per capita consumption of paint and coatings	20
Chart 29: Per capita consumption of paints and coatings in India.....	20
Chart 30: Revenues – Decorative & Industrial.....	21

Chart 31: Volumes – Decorative & Industrial.....	21
Chart 32: Paint industry by organisation type.....	21
Chart 33: Revenue growth of Decorative paints.....	22
Chart 34: Volume growth of Decorative paints.....	22
Chart 35: Market shares in decorative paints.....	22
Chart 36: Fresh painting vs repainting.....	23
Chart 37: Reduction in repainting cycle in India.....	23
Chart 38: Healthy revenue growth ahead.....	26
Chart 39: EBITDA CAGR at 45.7% over FY21-FY23E.....	26
Chart 40: EBITDA margins expanding.....	26
Chart 41: Steady net profit growth ahead.....	27
Chart 42: Net profit margins to expand.....	27
Chart 43: Strong return ratios.....	27
Chart 44: Net working capital days.....	28
Chart 45: Average OCF/EBITDA at 84%*.....	28
Chart 46: Average FCF/PAT at 27%*.....	28

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Manoj Menon, MBA, CMA; Aniruddha Joshi, CA; Karan Bhuwania, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.