

Indigo Paints Ltd : Good Issue

IPO Note : Strong Sales and PAT Growth, Low Debt : Aggressively Priced as asking for premium valuation: Ranking***



INDIGO

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Issue details

Price band (Rs)	Rs.1488-1490
IPO Opening Date	20/01/21
IPO Closing Date	22/01/21
Issue Size	Rs.1176 Cr.

Recommendation

Total revenue grew at a **CAGR of 24.66%** from Rs.403.10 Cr for the FY 2018 to Rs.626.43 Cr for FY 2020 and **Net Profit grew at a CAGR of 90.40%** in the same period. Net profit grew from Rs.13.16 crore to Rs.47.71 crore in this period. For the first six months ended on September 30, 2020, it has earned a net profit of Rs.27.19 cr. on total income of Rs.260.24 cr. As per the offer documents, IPL has shown Asian Paints, Berger Paints, Kansai Nerolec and Akzo Noble as its listed peers. They are currently trading at a P/Es of around 113.78, 128.23, 84.09 and 59.56. If we annualize latest earnings and attribute on fully diluted equity post issue, then asking price is at a **P/E of around 130.47** against the **industry average of 81**. Thus the issue is priced aggressively. With the planned expansion, lowering debt and other cost control measures, the company is confident of maintaining the growth levels which is mirroring in the pricing of the IPO. **The issue price looks expensive. High risk takers can apply.**

Highlights

- Indigo Paints Ltd. (IPL) is the fastest growing amongst top five paint companies in India.
- IPL currently manufactures a complete range of decorative paints including emulsions, enamels, wood coatings, distempers, primers, putties and cement paints.
- IPL is largely banking on differentiated products that are being introduced for the first time.
- IPL is expanding Tamil Nadu unit with installation of 50000 KLPAs capacities which is expected to be on stream in FY23.

Company Introduction

Indigo Paints is one of the fastest-growing paint companies in India and in terms of revenue, it is the 5th largest company in the decorative paint industry. The company is engaged in manufacturing different types of decorative paints like enamels, emulsions, wood coatings, primers, distempers, putties, and cement paints.

It is the first company that started manufacturing certain differentiated products like Metallic Emulsions, Bright Ceiling Coat Emulsions, Tile Coat Emulsions, Dirtproof & Waterproof Exterior Laminate, Floor Coat Emulsions, Exterior and Interior Acrylic Laminate, and PU Super Gloss Enamel. The sales from these differentiated products are continuously growing as it was 26.68% in 2018 increased to 28.62% in fiscal 2020.

Indigo Paints has a strong market network with dealers in Tier 1, Tier 2, and Metros as well. It has 3 manufacturing facilities situated in Jodhpur (Rajasthan), Kochi (Kerala), and Pudukkottai (Tamil Nadu). It is further looking to expand its manufacturing capacities at Pudukkottai to manufacture water-based paints.

Company Promoters:

Hemant Jalan, Anita Jalan, Parag Jalan, Kamala Prasad Jalan, Tara Devi Jalan and Halogen Chemicals Private Limited are the promoters of the company.



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Financial Summary (Rs. In Crore)

Particulars	Six months ended Sept. 30, 2020	FY2020	FY2019	FY2018
Total Income	260.24	626.43	537.26	403.10
Net Profit	27.19	47.71	27.03	13.16
EPS (Rs)	5.71*	10.04	5.68	2.76

*EPS not annualized

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

Objects of the Issue:

The net proceed from the Indigo Paints IPO will be used against following objectives.

- To meet the capital expenditure requirements for manufacturing facility expansion at Pudukkottai, Tamil Nadu
- To purchase tinting machines and gyroshakers.
- To repay all or certain borrowings.
- To meet general corporate purposes.

IPO Issue Proceed

To part finance its capital expenditure for expansion of Tamil Nadu unit (Rs. 150.00 cr.), purchase of tinting machines and gyroshakers (Rs. 50.00 cr.), repayment/prepayment of all or certain borrowings (Rs. 25.00 cr.) and general corpus fund needs, IPL is coming out with a maiden IPO to mobilize Rs. 1168.59 to Rs. 1170.16 cr. (based on lower and upper price bands). The company is issuing approx 2013430 fresh equity shares of Rs. 10 each for Rs. 300 cr. and offer for sale of 5840000 equity shares. Thus this combo offer will be for approx 7853430 shares as overall size. The company has fixed price band of Rs. 1488.00 to Rs. 1490.00 and minimum application is to be made for 10 shares and in multiples thereon, thereafter. The issue opens for subscription on January 20, 2021, and will close on January 22, 2021. IPL is offering employees a discount of Rs. 148 per share to eligible employees. Post allotment, shares will be listed on BSE and NSE. Out of the total issue, 70000 shares reserved for allotment to eligible employees and from the rest, it has allocated 50% for QIBs, 15% for HNIs and 35% for retail investors. Post issue, IPL's current paid-up equity capital of Rs. 45.56 cr. will stand enhanced to Rs. 47.57 cr. With this IPO price, the company is looking for a market cap of Rs. 7087.78 cr.

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