Equity Research

August 8, 2021

BSE Sensex: 54278

ICICI Securities Limited is the author and distributor of this report

Q1FY22 result review

Paints

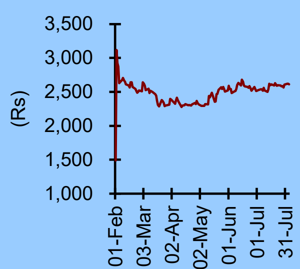
Target price: Rs2,800

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	54.0	54.0	54.0
Institutional investors	7.7	13.8	14.3
MFs and others	2.2	2.1	1.8
FIs/Bank/Ins	1.3	0.3	0.3
FIIs	4.2	11.4	12.6
Others	38.3	32.2	31.7

Source: BSE

Price chart



INDIA

Indigo Paints

ADD

Maintained

Trending well

Rs2,624

Despite tough operating conditions, Indigo has continued to demonstrate strong business model and execution via (1) expansion of dealer count and tinting machines by 5.1% and 6%, QoQ, (2) while Kerala revenues are likely impacted in 1Q, outperformance in other states is pleasing and (3) it has successfully increased product prices eight times in past 12 months. As it has raised prices of different products every month, there is limited impact on volumes, in our view. While input inflation is a headwind for gross margins, we model EBITDA margin expansion of 270bps yoy to 19.7% in FY22 driven by (1) price hikes, (2) lower A&P and (3) cost saving initiatives. ADD; TP Rs2,800.

We are hosting the results conference call on Monday, August 9, at 11:00 hrs IST. Dial +91 22 6280 1144 / 7115 8045. Link for pre-registration

- **Q1FY22 results:** Indigo reported revenue, EBITDA and PAT growth of 49.2%, 6.1% and 38.2%, respectively. (2-year revenue CAGR: 4.1%). With higher input prices and ad-spends, EBITDA margin declined 520bps YoY. The ad-spends increased to Rs157mn in Q1FY22 from Rs25.6mn in Q1FY21. It has raised product prices by eight times in past twelve months.
- **Segment-wise growth rates:** Cement Paints & Putty 23.7%, Emulsions 73.1%, Enamels & Wood coating 17.4% and Primers, Distempers & Others 5.1%. Emulsions have higher revenue saliency in Apr-Jun quarter and it performed well with favorable base. We believe the company reported weaker growth rates in its key state Kerala.
- **Investments to strengthen competitive advantages**: Indigo has increased dealer count by 5.1% to 13,884, QoQ. It's tinting machine count increased by 6% to 5,500, QoQ. The penetration of tinting machines stands at 41.8% at end of June'21.
- **Better margins due to price hikes and lower A&P:** While the input prices are inching upwards and may impact gross margins, Indigo will benefit from (1) price hikes in multiple tranches over past 12 months and (2) 'percentage' reduction in ad-spend and sales promotion. It has guided for EBITDA margin of >18.5% in FY22. It expects A&P to reduce to ~9% in FY22 from 10.7% in FY21.
- **Retain ADD:** We model sales and earnings CAGR of 30.4% and 59.1% respectively, for FY21-FY23E. Maintain ADD with a DCF-based TP of Rs2,800. Key business risk is potentially higher competitive intensity in Kerala and key stock risk is potentially lower trading multiples due to increasing competitive activity and intensity in paints industry.

Market Cap	Rs118bn/US$1.6bn
Bloomberg	INDIGOPN IN
Shares Outstanding (mn)	47.6
52-week Range (Rs)	3117/1490
Free Float (%)	46.0
FII (%)	12.6
Daily Volume (US$'000)	NA
Absolute Return 3m (%)	(4.8)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	58.3

Year to March (Cons)	FY20	FY21P	FY22E	FY23E
Net Revenue (Rs mn)	6,248	7,233	9,833	12,291
Net Profit (Rs mn)	478	709	1,319	1,792
Dil. EPS (Rs)	16.4	14.9	27.7	37.7
% Chg YoY	75.5	(9.5)	86.5	35.8
P/E (x)	159.6	176.4	94.6	69.7
CEPS (Rs)	23.2	20.0	34.7	46.8
EV/EBITDA (x)	81.6	99.4	62.9	45.9
Dividend Yield (%)	-	-	-	-
RoCE (%)	29.3	16.8	22.4	24.8
RoE (%)	24.3	12.6	19.0	20.5

Research Analysts:

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

Aniruddha Joshi
anirudda.joshi@icicisecurities.com
+91 22 6637 7249

Aniket Sethi
aniket.sethi@icicisecurities.com
+91 22 2277 7632

Karan Bhuwania
karan.bhuwania@icicisecurities.com
+91 22 6637 7351

Table 1: Q1FY22 consolidated financial performance

Rs mn	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net revenues	**1,560**	**1,046**	***49.2***	**2,543**	***(38.6)***
Raw materials	850	581	*46.4*	1,356	*(37.3)*
% of sales	*54.5*	*55.5*		*53.3*	
Employee costs	136	101	*34.7*	137	*(0.5)*
% of sales	*8.7*	*9.7*		*5.4*	
Other expenditure	373	174	*114.1*	620	*(39.9)*
% of sales	*23.9*	*16.6*		*24.4*	
Total expenditure	**1,359**	**856**	***58.8***	**2,113**	***(35.7)***
EBITDA	**202**	**190**	***6.1***	**429**	***(53.0)***
EBITDA margin (%)	*12.9*	*18.2*		*16.9*	
Other income	30	2	*1,558.8*	16	*91.7*
PBDIT	**232**	**192**	***20.8***	**445**	***(47.9)***
Depreciation	74	56	*32.5*	70	*5.5*
PBIT	**158**	**136**	***16.1***	**375**	***(57.8)***
Interest	3	14	*(82.2)*	4	*(42.3)*
PBT	**156**	**122**	***27.5***	**371**	***(58.0)***
Tax	40	38	*4.1*	122	*(67.6)*
% of PBT	25.5	31.2	*(18.4)*	33.0	*(22.7)*
PAT	**116**	**84**	***38.2***	**249**	***(53.3)***
Extraordinary	0	0		-1	
PAT	**116**	**84**	***37.9***	**248**	***(53.2)***

Source: Company data, I-Sec research

Table 2: Volume and value growth details

%	Value growth (%)	Volume growth (%)
Cement Paint & Putty	24.8	23.7
Emulsions	83.1	73.1
Enamels & Wood coatings	25.6	17.4
Primers, Distempers & Others	7.4	5.1

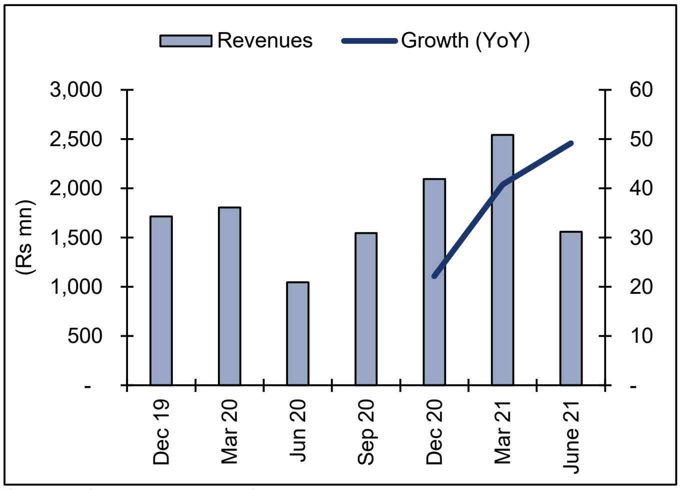
Table 3: Key financials

Particulars	Mar'21	June'21	Change (%)
Active dealer network (No)	13,214	13,884	5.1%
Tinting machines (No)	5,472	5,800	6.0%
Tinting machine penetration (%)	41.4	41.8	364 bps
Depots (No)	44	44	0.0%

Source: Company data, I-Sec research

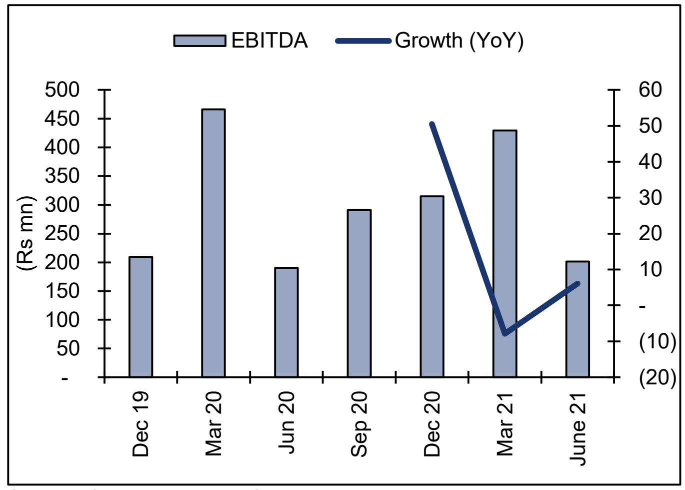
Operational highlights – Quarterly

Chart 1: Revenue and growth rates (YoY)



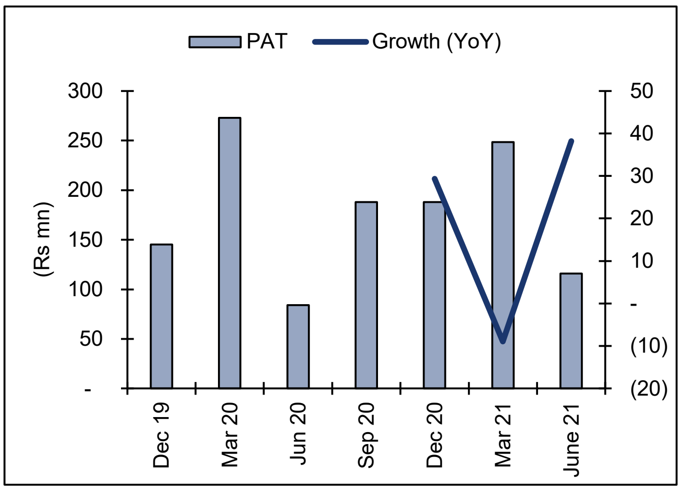
Source: Company data, I-Sec research

Chart 2: EBITDA and growth rates (YoY)



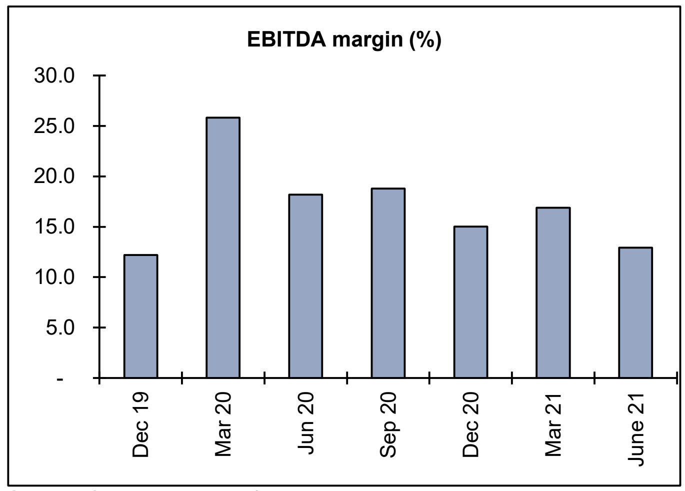
Source: Company data, I-Sec research

Chart 3: PAT and growth rates (YoY)



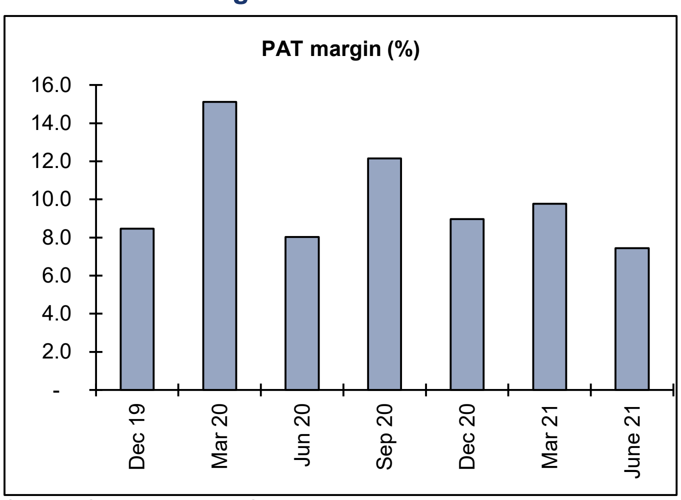
Source: Company data, I-Sec research

Chart 4: EBITDA margin



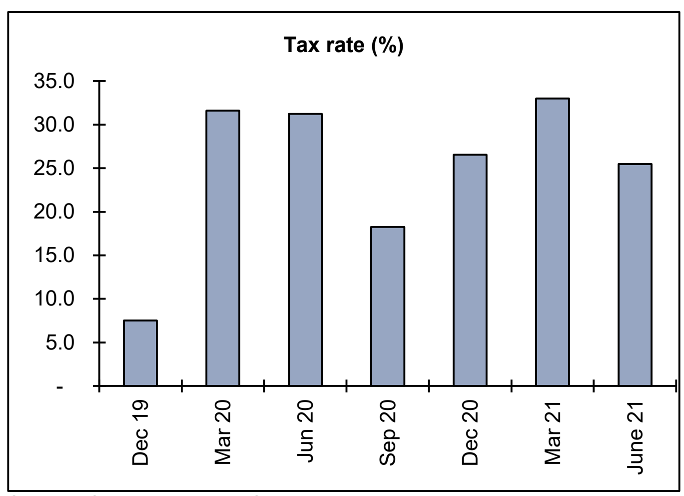
Source: Company data, I-Sec research

Chart 5: PAT margin



Source: Company data, I-Sec research

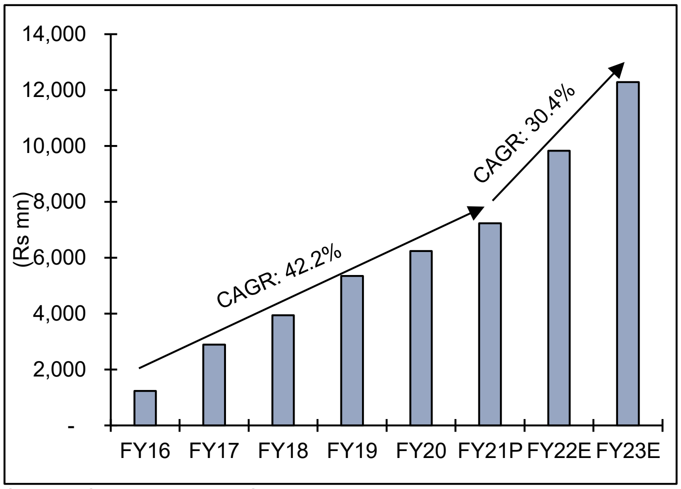
Chart 6: Effective tax rate



Source: Company data, I-Sec research

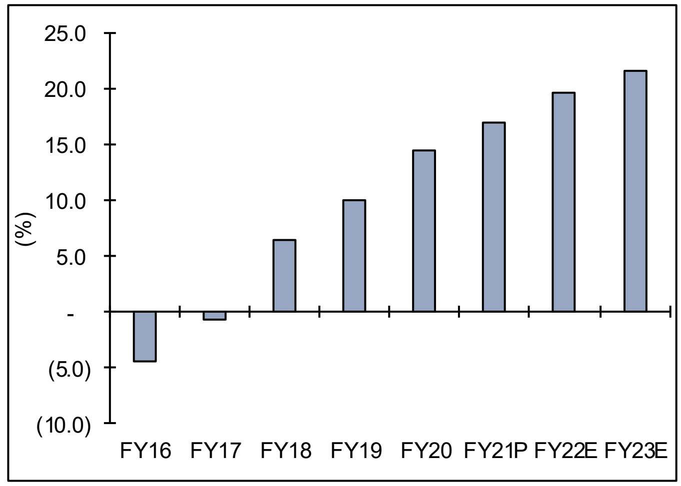
Operational highlights - Annual

Chart 7: Revenues and growth rates



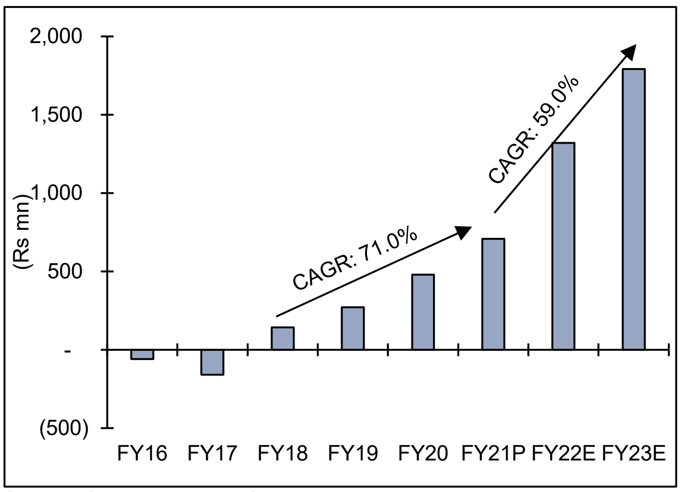
Source: Company data, I-Sec research

Chart 8: EBITDA margin



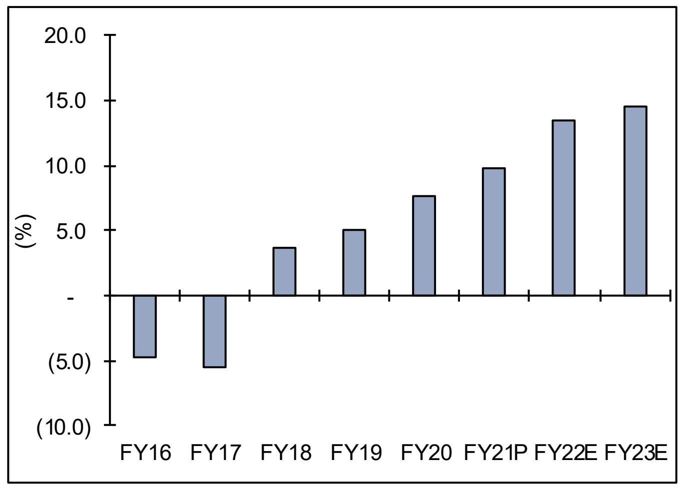
Source: Company data, I-Sec research

Chart 9: PAT and growth rates



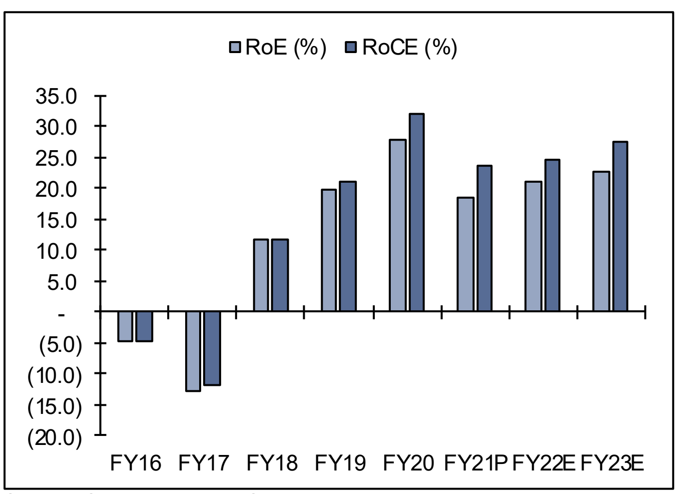
Source: Company data, I-Sec research

Chart 10: PAT margin



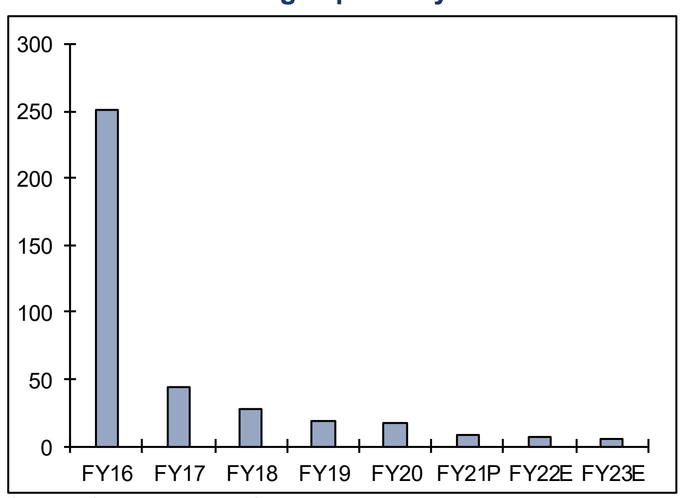
Source: Company data, I-Sec research

Chart 11: RoE & RoCE



Source: Company data, I-Sec research

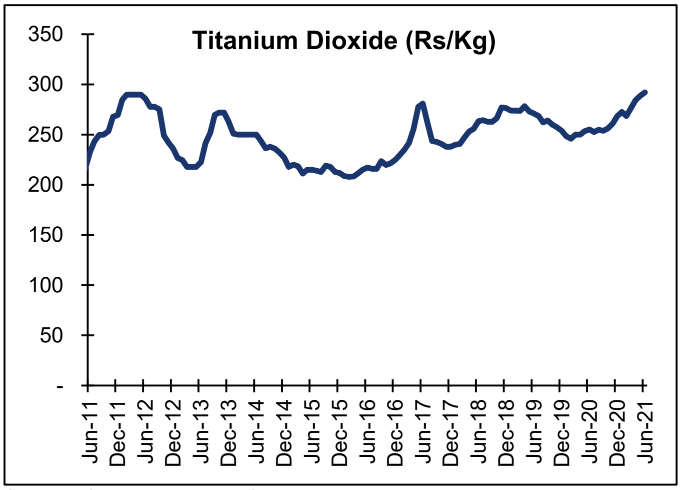
Chart 12: Net working capital days



Source: Company data, I-Sec research

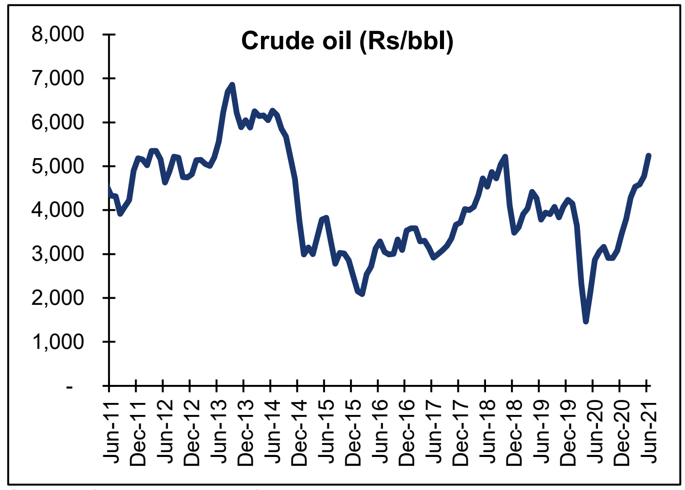
Key raw material prices

Chart 13: Titanium di-oxide



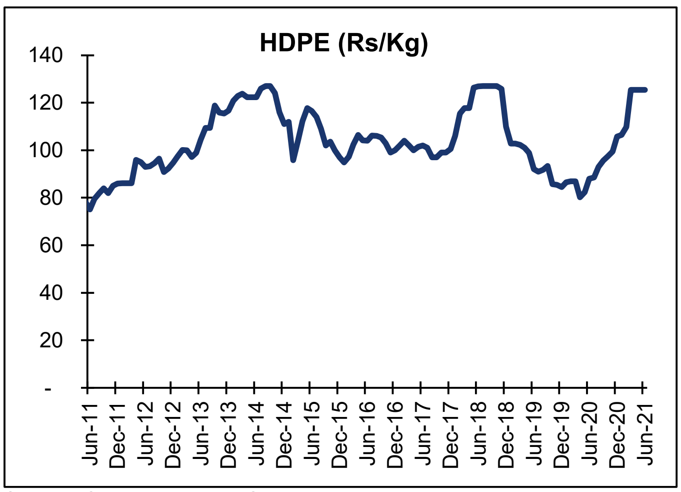
Source: Company data, I-Sec research

Chart 14: Crude oil



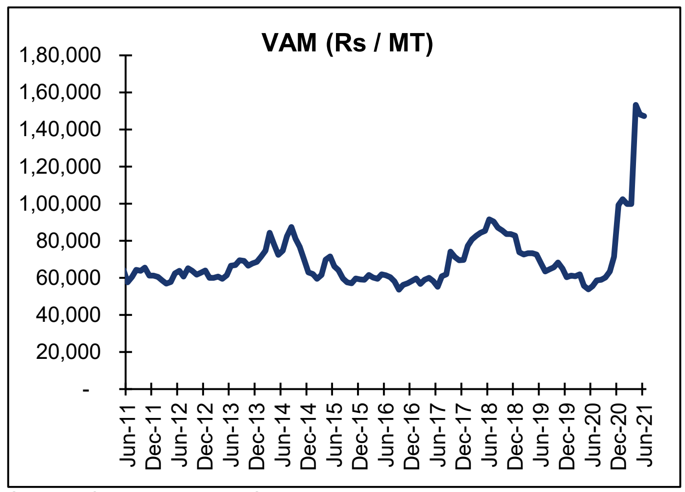
Source: Company data, I-Sec research

Chart 15: Packaging material - HPDE



Source: Company data, I-Sec research

Chart 16: VAM prices



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Revenues	**6,248**	**7,233**	**9,833**	**12,291**
Operating Expenses	**5,338**	**6,008**	**7,898**	**9,637**
EBITDA	**910**	**1,225**	**1,935**	**2,654**
% margins	14.6	16.9	19.7	21.6
Depreciation & Amortisation	196	244	330	435
Gross Interest	56	38	10	10
Other Income	16	36	176	196
Recurring PBT	**674**	**979**	**1,771**	**2,405**
Less: Taxes	196	271	452	613
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**477**	**707**	**1,319**	**1,792**
Extraordinaries (Net)	(1)	(1)	-	-
Recurring Net Income	**478**	**709**	**1,319**	**1,792**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	2,112	5,424	7,179	8,100
of which cash & cash eqv.	265	3,080	3,992	4,117
Total Current Liabilities & Provisions	1,599	2,284	3,105	3,881
Net Current Assets	**513**	**3,140**	**4,074**	**4,219**
Investments	676	774	774	774
Net Fixed Assets	1,420	1,882	2,277	3,932
Capital Work-in-Progress	11	31	31	31
Total Assets	**2,621**	**5,828**	**7,156**	**8,956**
Liabilities				
Borrowings	**501**	**-**	**-**	**-**
Deferred Tax Liability	**149**	**193**	**202**	**210**
Minority Interest	-	-	-	-
Equity Share Capital	473	476	476	476
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	1,497	5,159	6,478	8,270
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**1,971**	**5,635**	**6,954**	**8,746**
Total Liabilities	**2,621**	**5,828**	**7,156**	**8,956**

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	**792**	**1,076**	**1,660**	**2,236**
Working Capital Changes	(69)	137	(13)	(12)
Capital Commitments	(613)	(660)	(725)	(2,090)
Free Cashflow	**110**	**553**	**922**	**135**
Cashflow from Investing Activities	**1**	**(2,519)**	**-**	**-**
Issue of Share Capital	18	2,932	-	-
Inc (Dec) in Borrowings	(190)	(575)	(10)	(10)
Dividend paid	-	-	-	-
Chg. in Cash & Bank balance	**(62)**	**391**	**912**	**125**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	16.4	14.9	27.7	37.7
Cash EPS	23.2	20.0	34.7	46.8
Book Value per share (BV)	67.9	118.5	146.2	183.9
Growth (%)				
Net Sales	16.6	15.8	35.9	25.0
EBITDA	68.2	34.7	58.0	37.1
PAT	76.0	48.2	86.2	35.8
Valuation Ratios (x)				
P/E	159.6	176.4	94.6	69.7
P/CEPS	112.9	131.1	75.7	56.1
P/BV	38.6	22.2	17.9	14.3
EV / EBITDA	81.6	99.4	62.9	45.9
EV / Sales	11.9	16.8	12.4	9.9
EV/EBIT	104.1	124.1	75.9	54.9
Operating Ratios				
Raw Material / Sales (%)	51.5	52.1	52.5	52.5
Employee cost / Sales (%)	6.7	6.7	6.3	6.2
Other opex / Sales (%)	27.2	24.3	21.5	19.7
Other Income / PBT (%)	2.4	3.7	9.9	8.1
Effective Tax Rate (%)	29.1	27.6	25.5	25.5
Working Capital (days)	16.7	7.8	6.2	5.3
Inventory Turnover (days)	44.8	47.8	47.8	47.8
Receivables (days)	61.0	61.2	61.2	61.2
Payables (days)	81.0	93.6	93.6	93.6
Net D/E (x)	0.1	(0.5)	(0.5)	(0.4)
Profitability Ratios (%)				
Net Income Margins	7.7	9.8	13.4	14.6
RoACE	29.3	16.8	22.4	24.8
RoAE	24.3	12.6	19.0	20.5
EBITDA Margins	14.6	16.9	19.7	21.6

Source: Company data, I-Sec research

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 Josh, CA; Aniket Sethi, MBA, B. Tech; 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 a 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.