

Indigo Paints Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reviewed and reaffirmed the rating assigned to the bank facilities of Indigo Paints Limited (IPL) at CARE BBB+; Stable/CARE A3+ [Triple B Plus; Outlook: Stable/A Three Plus] and has simultaneously withdrawn it, with immediate effect.

The reaffirmation of the ratings continues to derive strength from its experienced and qualified promoters and improving track record with dealership network setup across major states. The reaffirmation also takes into account the volume driven growth in scale of operations, healthy profitability, comfortable capital structure and debt coverage indicator during FY20 (refers to a period from April 1 to March 31). Furthermore, CARE takes note of the successful IPO and listing of the company during January 2021.

The rating strengths however continue to be constrained by the moderate scale of operations and profitability as compared to established players and intense competition from them which limits the operational flexibility and pricing power of the company.

The rating withdrawal is at the request of IPL and 'No Objection Certificate' received from the banker that has extended the facilities rated by CARE.

Detailed description of the key rating drivers

At the time of last rating on February 06, 2020 the following were the rating strengths and weaknesses (updated for the information available)

Key Rating Strengths

Long established track record and experienced promoters

The company has a long track record of more than a decade in the paint industry. The company is spearheaded by Mr. Hemant Jalan, in the capacity of managing director (MD). Mr. Jalan is a chemical engineer from IIT Kanpur, MS in chemical engineering from Stanford University and MBA from Chicago University. Prior to starting IPL, he was CEO of a large copper smelting project of the Vedanta Group. Mr. Jalan is involved in day-to-day operations of the company. The senior management is ably assisted with a second-tier management which brings in high degree of operational expertise. The day-to-day operations of the company are managed by a team of qualified and experienced professionals. Further, Sequoia has 2 members on the board and is represented by Ms. Sakshi Chopra and Mr. Ravi Shankar Venkataraman Ganapathy Agraharam, both of whom are well qualified and experienced.

Established distribution network across major states along with proximity to raw material sources

IPL has a range of decorative paints including emulsions (regular exterior emulsions, regular interior emulsions), acrylic laminate, metallic emulsion, tile coat, bright ceiling coat, roof coat emulsion, floor coat emulsion, polymer putty, primers (WT Cement Primer, Exterior wall primer, Wood Primer, Red oxide Metal Primer), cement paints and distemper (acrylic distemper) amongst others. The sales in the decorative segment are mostly retail sales and are largely made through dealers. IPL has an established supply chain strategically spread across 23 states and caters to requirements through 33 depots servicing 6844 regular dealers' as on March 31, 2019 vis-à-vis 5972 dealers as on March 31, 2018. Further, the company has strategically located manufacturing facilities at Jodhpur – Rajasthan (Decorative paints), Kochi (Kerala) and Pudukkottai (Tamil Nadu) with depots spread across North, North East, South, East, Central and Western part of India. The depots store inventory to the tune of 1-1.5 month to cater to the dealer demand.

Investment by private equity - Sequoia Capital India

IPL had received investments amounting to Rs.140 crore from Sequoia Capital (SC) in three tranches in the form of CCPS. The first tranche amounted to Rs.30 crore (FY15), second and third tranche was for Rs.20 crore and Rs.90.00 crore respectively, thereby strengthening the company's capital structure. The exit period to the Private Equity investor falls due between August 2019 and August 2020. The three viable exit options are, through an IPO, secondary sale or where IPL would arrange a

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

buyer for the equity securities held by SC. The company has now gone public during January 2021 providing an opportunity for SC to exit and has raised funds for the capital expenditure going ahead.

Growth in revenue and profitability

IPL's constant efforts to improve its market share through aggressive brand building activities have resulted in substantial sales growth over the years. The company has been increasingly installing tinting machines at dealer locations which has further supported the volume growth. The total operating income (TOI) has seen a y-o-y growth of approximately 12% and stood at Rs. 626.12 crore during FY20 vis-à-vis. Rs. 561.29 crore during FY19. Furthermore, the PBILDT has seen a significant growth from Rs.53.35 crore in FY19 to Rs. 92.35 crore in FY20.

Comfortable capital structure and debt coverage indicators

The capital structure continued to remain comfortable with an overall gearing and debt equity ratio at 0.25x and 0.34x as on March 31, 2020 as against 0.50x and 0.29x as on March 31, 2019. Further, with improved scale and profitability the debt coverage indicators, viz Total Debt to GCA (TDGCA) stood at 0.78x during FY20 (PY: 1.22x) and improvement in profitability as led to an interest coverage of 16.51x during FY20 vis-à-vis 13.69x in FY19.

Key Rating Weaknesses

Modest scale and moderate profitability margins

IPL registered a 524 bps improvement in its PBILDT margin during FY20 which stood at 14.75% vis-à-vis 9.51% in FY19. Consequently, the company reported a PAT margin of 7.64% during FY20 as against 3.80% during FY19. The growing scale of operations and improved realizations has enabled better cost absorption which in turn has favorably affected profitability. However, despite the growth in scale of operations remains modest. The same restrict IPL's operational flexibility and limits the bargaining power with customers and suppliers. Further, the profitability margins remain moderate in comparison to industry averages. Advertisement and sale promotion expenditure is one of the major costs for the company and is expected to remain high.

Risk associated with volatility in raw material price

The key raw material of IPL comprises of binders, fillers, different variants of cement etc. which is largely procured from domestic market. IPL operates in an industry where the raw material cost is one of the major cost drivers and one of the major components to impact operating margin. Further, the raw materials like pigments, solvents, Tio₂, and resins are derivatives of crude oil. The volatility in the crude oil prices also has a direct impact on the raw material cost. The ability of IPL to manage inventory efficiently and be able to pass on the volatility in the prices of raw material to its customers, is critical for managing the profitability of the company.

Intense competition from organized and unorganized companies

IPL manufactures products and operates in an industry which comprises of several large and established players along with many unorganized and local players operating in local states. The paint industry is characterized by low entry barriers and low level of product differentiation. However, setting up the distribution channel is a challenge to new entrants in the market. Thus, brand recall and advertisement is important to increase retail sales. The top five Indian paint manufacturers hold more than 60% of the market share. Therefore pricing, branding and distributorship network is the important for the company to garner customers. The ability of the company to continue investing in capacities and brand building will be critical to withstand competition from large established players.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Manufacturing Companies](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

IPL is listed on BSE and NSE with market capitalization of Rs.11,341 crore as on April 01, 2021. The company was incorporated in the year 2000 with its registered office based out of Pune, Maharashtra and its manufacturing facilities are based out of Jodhpur, Rajasthan, Kochi in Kerala and Pudukkottai in Tamil Nadu. IPL is engaged in manufacturing and sales of decorative paints including exterior emulsions, interior emulsions, acrylic laminate, metallic emulsion, tile coat, bright ceiling coat, roof coat emulsion, floor coat emulsion, polymer putty, primers (WT Cement Primer, Exterior wall primer, Wood Primer, Red oxide Metal Primer), cement paints and distemper (acrylic distemper). The company sells the various products under the brand name "Indigo".

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	6MFY21 (A)
Total operating income	561.29	626.12	273.39
PBILDT	53.36	92.35	48.90
PAT	21.35	47.81	27.19
Overall gearing (times)	0.50	0.34	0.11
Interest coverage (times)	7.50	16.51	19.80

A: Audited; UA: Unaudited

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A3+ (06-Feb-20)	1)CARE BBB; Stable / CARE A3+ (04-Jan-19)	1)CARE BBB-; Stable / CARE A3 (28-Feb-18) 2)CARE BBB-; Stable / CARE A3 (28-Apr-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (06-Feb-20)	1)CARE BBB; Stable (04-Jan-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company.

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us**Media Contact**

Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Group Head Name: Ms. Amita Yadav
Group Head Contact no.: 020 – 40009000
Group Head Email ID: amita.yadav@careratings.com

Relationship Contact

Name: Mr Aakash Jain
Contact no.: 020 - 40009090
Email ID: aakash.jain@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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