Indigo Paints Private Limited

January 4, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term/ Short Term Bank Facilities	20.00	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A three plus)**	**Revised from CARE BBB-; Stable/CARE A3 (Triple B minus; Outlook: Stable/A three)**
Long Term Bank Facilities	20.04	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Total	**40.04 (Rs. Forty Crore and Four Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the long term and short term ratings to the bank facilities of Indigo Paints Private Limited (IPPL) takes into account growing scale of operations driven by substantial volume growth in FY18 (refers to April 01 to March 31) and H1FY19 (refers to period April 1 to September 30) and consequent improvement in IPPL's profitability metrics and debt coverage indicators.

The ratings continue to derive strength from IPPL's comfortable capital structure, experienced, qualified promoters and funding support by private equity investor.

The ratings strengths are however constrained by moderate scale of operations when compared to that of other established players, working capital intensive nature of operations, and intense competition from other established players in the paint industry limiting IPPL's pricing power to some extent.

CARE Ratings takes a note of ongoing debt funded capital expenditure at IPPL's Jodhpur facility which may result in slight moderation in the company's capital structure.

IPPL's ability to increase its scale of operations further with consistently profitable operations and efficiently managing the working capital requirements is a key rating sensitivity.

Deriving envisaged benefits from recently merged Hi- Build Coatings Private Limited (HBCPL) and ongoing capex, continued support from Private Equity investor is critical from credit perspective.

Key Rating drivers

Key Rating Strengths

Long established track record, experienced promoters

The company has a long track record of more than a decade of experience 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 IPPL, Mr. Hemant Jalan was a CEO of a large copper smelting project of the Vedanta Group. Mr. Hemant 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.

Investment by private equity - Sequoia Capital India Investments

IPPL received investments amounting to Rs.140 crore from Sequoia Capital (SC) in three tranches. The first tranche amounted to Rs.30 crore (FY15), second and third tranche was for Rs.20.00 crore and 90.00 crore respectively, thereby strengthening company's capital structure and rendering a low debt.

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

The exit of the Private Equity investor falls due in August 2019, and two viable exit options were decided one through IPO and the other through secondary sale where IPPL would arrange a buyer for the equity securities held by SE.

However considering the substantial sales growth over the years and positive margins, SC has decided to remain invested in the company for next two to three years.

Going forward, any change in the exit route of SE capital along with the change in terms and policy would be the key rating sensitivity.

Growing scale of operations driven by high volume growth

TOI has increased from Rs.63.36 crore during FY14 to Rs.415.75 crore, driven by substantial volume growth across product categories, indicating increasing market penetration and brand recall. The company's constant efforts to improve its market share through aggressive brand building activities have resulted in substantial sales growth over the years. The growth was also achieved through inorganic route by acquisition of High Build Coatings Private Limited in FY16.

During FY18 the Total Operating Income (TOI) increased to Rs.415.75 crore as compared to Rs.289.89 crore, a growth of ~43%, mainly driven by volume growth across all major product categories, led by substantial increase in tinting machine during the year FY18.

During H1FY19, IPPL achieved TOI of Rs. 229.14 crore vs Rs. 168.87 crore during H1FY18 (growth of ~36%), with the PBILDT margin at 11.01% vis-à-vis 5.72% during H1FY19 and H1FY18 respectively. Also during H1FY19, company has strategically taken on board Indian cricketer Mr. MS Dhoni as their brand ambassador, which will help the firm in establishing as a brand in Indian market.

Established distribution network across major states proximity to raw material sources resulting in input freight benefit

IPPL has strategically located manufacturing facilities at Jodhpur – Rajasthan (Decorative paints), Rekhla–Jharkhand (Cement Paints). Further, Kochi (Kerala) and Pudukkottai (Tamil Nadu) which were previously under HBCPL before the merger. The sales in the decorative segment are mostly retail sales and are largely made through dealers. IPPL has strategically spread its operations across 23 states and caters to the requirements through 36 depots servicing 5972 regular dealers as on March 31, 2018. The depots are 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.

Diversified product portfolio

IPPL is engaged in manufacturing of variety 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). Further, post the merger of Hi-Build coatings private limited new products like wood-coatings , PU enamel etc. have been added which has diversified the product portfolio for IPPL. The diversified product portfolio catering to different consumer segment curtails adverse impact of low demand from particular customer profile.

Liquidity Position

As on March 31st 2018 the free cash and bank balances stood at Rs.4.64 crore as against Rs. 5.72 crore as on March 31, 2017. Total investments (including pledged amount) accounted for Rs.21.64 crore as on March 31, 2018 as against Rs. 22.71 crore as on March 31st 2017, and investment in mutual fund amounting to Rs. 21.00 crore as on March 31, 2018. Further to this IPPL has unutilized fund based limits to the tune of 17%.

IPPL has free cash and bank balance of Rs. 3.57 crores, as on September 30, 2018.

Key Rating Weakness

Working Capital Intensive Nature of Business

IPPL operates in a working capital intensive industry. The operating cycle of the company deteriorated and stood at 51 days in FY18 against 40 days in FY17, on account of increase in collection days to 78 days during FY18 (from 60 days during FY17) and increase in inventory period to 63 days during FY18 from 55 days during FY17. Further there was increase in the creditor days from 75 days during FY17 to 91 days in FY18. The average 12 monthly working capital utilization ending September 30, 2018 was at 83%.

Debt Funded capital Expenditure

IPPL has planned a capital expenditure worth Rs. 44.00 crore and has availed term loan amounting to Rs. 33.00 crore (disbursed amount - Rs. 14.72 crore) from bank for setting up new plant in Jodhpur, which will be

approximately 1-2 km away from the existing plant, and capex for the same will be completed by the June 2019. And till date the company has incurred total cost amounting to Rs. 20.00 crore.
Any debt funded capital expenditure will be key rating sensitivity.

Risk associated with volatility in raw material price

The key raw material of IPPL comprises of binders, fillers, different variants of cement etc which is largely procured from domestic market. IPPL operates in an industry where the raw material cost is one of the major cost drivers (44% of total operating income for the period FY18) and one of the major components to impact operating margin. Further, the raw materials like the plastics, which are used, 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 IPPL 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

IPPL manufactures products and operates in an industry which comprises of several large players. The paint industry is characterized by low entry barriers and low level of product differentiation. Further, brand recall and advertisement is also 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. It remains to be seen how the IPPL will cope with these challenges in the medium term.

Industry Outlook

The Indian paint market grew with a CAGR of 15.16% over a time span of 5 years and is expected to grow with over 75000 crore in terms of value for period of FY 2017-18 to FY 2022-23, on account of change in lifestyle, urbanization, and increase level of education, high margin on paint. Overall the paint market is segmented into organised market and un-organised market.

Analytical Approach – Standalone

Applicable Criteria

[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial Ratios-Non Financial Sector]
[Rating Methodology : Manufacturing Companies]
[Criteria on assigning Outlook to Credit Rating]

About the Company

Indigo Paints Private Ltd (IPPL) is a company 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. The company is spearheaded by Mr. Hemant Jalan (61 years) in the strength of Managing Director (MD). IPPL 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)	FY17 (A)	FY18 (A)	H1FY19 (UA)
Total operating income	289.89	415.76	229.14
PBILDT	-0.98	24.25	25.22
PAT	-15.87	2.57	10.49
Overall gearing (times)	0.32	0.30	0.45
Interest coverage (times)	-0.37	6.37	3.14

#Audited, UA- Un-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

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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	-	-	-	20.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	April 2024	20.04	CARE BBB; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (28-Feb-18) 2)CARE BBB-; Stable / CARE A3 (28-Apr-17)	1)CARE BBB- / CARE A3 (Under Credit Watch) (26-Apr-16)	1)CARE BBB- / CARE A3 (13-May-15)
2.	Fund-based - LT-Term Loan	LT	20.04	CARE BBB; Stable	-	-	-	-

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