Indigo Paints Private Limited

February 28, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long term/Short term Fund based/Non-fund based bank Facilities	**5.00**	**CARE BBB- stable/CARE A3 (Triple B minus; Outlook: Stable/A three))**	**Reaffirmed**
Total	**5.00 (Rs. Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The reaffirmation of the ratings to the bank facilities of Indigo Paints Private Limited (IPPL) continue to take into account experienced and qualified promoter, funding support by private equity strengthening the capital structure of the company, healthy liquid investments and established distributor network, proximity to raw material sources resulting in input freight benefit, implementation of efficient infrastructure resulting in effective streamlining of operations and healthy growth prospects in the paint industry.

The ratings also factor in the successful merger of a Kerala-based company, Hi-Build Coatings Private Limited (HBCPL), into IPPL wef from April 2016.HBCPL has an extensive distribution network across Southern India and is an established player in wood coating segment, thereby aiding IIPL with synergy in operational and organizational efficiencies and optimal utilization of resources.

The ratings are constrained by IPPL's moderate scale of operations, financial risk profile marked with net operating losses on the back of high advertisement expenditure, working capital-intensive nature of operations and intense competition in the paints segment.

The ability of the company to derive continued synergy benefits from merger of HBCPL, increase its scale of operations and improve its profitability coupled with continued financial support from private equity infusion till IPPL increases its revenues and profitability are the key rating sensitivities.

Key Rating drivers

Key Rating Strengths

Long established track record, experienced promoters

The company has 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.

Established distribution network across major states

IPPL has strategically located manufacturing facilities at Jodhpur – Rajasthan (Decorative paints), Rekhla–Jharkhand (Cement Paints).Further, Kochi (Kerela) 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. The company has strategically spread across 23 states and caters to the requirements through 24 depots servicing 4905 regular dealers as on March 31,2017 The depots and dealers increased to 31 and 5837 till December 2017. 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.

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

Key Rating Weakness

Financial risk profile characterized by revenue growth, and comfortable gearing indicator, albeit continued operating losses

The total operating income of IPPL registered a CAGR of 47.55% over FY15-FY17. The Total operating income (TOI) stood at Rs.289.89 crore during FY17 including the revenues from HBCPL, out of which IPPL registered an Y-o-Y growth of 44.76% and stood at Rs.180.79 crore. as against Rs.124.89 crore on account of increase in sales volumes from 31,551 MTPA in FY16 to 52,210 MTPA in FY17. This was contributed by increase in sale of various paint segment and by introduction of various new segments amounting to Rs.47.78 crore.

Further, the company had an operating loss of Rs.0.98 crore in FY17 as against operating loss of Rs.4.72 crore in FY16 majorly on account of continued advertisement and selling expenses, albeit at lower proportion to sales.

Due to the merger of HBCPL the term loan and cash credit facilities were transferred to IPPL due to which the interest cost increased to Rs.2.66 crore during FY17 from Rs.0.34 crore during FY16 and the assets were carried on to the books of IPPL which resulted in an increase in the depreciation and stood at Rs.14.07 crore during FY17 as against 0.93 during FY16.Therefore,the company registered a net loss of Rs. 15.86 during FY17 crore as against net loss of Rs.5.99 crore during FY16.

The net-worth the company stood at Rs.74.40 crore as on March 31, 2017 .The overall gearing and debt equity ratio stood at 0.49x and 0.15x as on March 31, 2017 as against 0.05x and Nil as on March 31, 2016 on account of increase in term loan and cash credit facilities transferred post the merger. GCA was at negative levels for FY17 and FY16 on account of operating losses. As on March 31st 2017 the free cash and cash balances and liquid investments accounted for Rs.21.20 crore.

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 (49%-58% of total operating income over the period FY16- FY17) 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.

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

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	124.89	289.89
PBILDT	-4.73	-0.98
PAT	-6.00	-15.87
Overall gearing (times)	0.05	0.49
Interest coverage (times)	-13.68	-0.37

Company Background

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, Rekhla in Jharkhand Kochi in Kerela and Pudukkottai in Tamil Nadu. The company is spearheaded by Mr. Hemant Jalan in the strength of Managing Director (MD). IPPL is engaged in manufacturing and sales of "water based" decorative paints including exterior emulsions, interior emulsions, acrylic laminate, metallic emulsion, tile coat, bright ceiling coal, roof coat emulsion, floor coat emulsion, polymer putty, primers (WT Cement Primer, Exterior wall primer, WB Wood Primer, WB Red oxide Metal Primer), cement paints and distemper (acrylic distemper). The company sells the various products under the brand name "Indigo". The company has a total installed capacity of 97,000 tonnes per annum (MTPA) ending FY17 as against 61,320 tonnes per annum (MTPA) ending FY16 on account of merger with HBCPL.

Status of non-cooperation with previous CRA – 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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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

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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/Non-fund-based-LT/ST	-	-	-	5.00	CARE BBB-; Stable / CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	5.00	CARE BBB-; Stable / CARE A3	1)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)	-

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