Indigo Paints Private Limited

April 28,2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term/ Short-term Fund-based/ Non-fund-based	5	**CARE BBB - ; Stable/CARE A3 (Triple BBB Minus; Outlook: Stable/ A Three)**	**Removed from credit watch; Rating Reaffirmed**
Total Facilities	**5 (Rupees Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The removal of credit watch on ratings assigned to Indigo Paints Private Limited (IPPL) takes into account successful completion of acquisition of Kerala-based company, Hi-Build Coatings Private Limited (HBCPL), by IPPL during FY16 (refers to the period April 01 to March 31). 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 factor in experienced and qualified promoter, funding support by private equity strengthening the capital structure of the company 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 rating also factors in the operational performance of IPPL during 10MFY17 (refers to the period April 01 to December 31) post acquisition of HBCPL.

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 acquisition 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.

Detailed description of the key rating drivers

Key Rating Strengths

Long established track record and experienced promoter

The company has long track record of more than a decade in the paint industry. The company is spearheaded by Mr Hemant Jalan (Managing Director (MD)) who is a chemical engineer from IIT Kanpur, MS in chemical engineering from Stanford University and MBA from Chicago University. Prior to starting IPPL, he was the Chief Executive Officer (CEO) of a large copper smelting project of the Vedanta group. The senior management is assisted with a second tier management which brings in high degree of operational expertise.

Investment by private equity - Sequoia Capital India Investments

IPPL received investments amounting of Rs.110 crore from Sequoia Capital (SC) in FY16 in two tranches. The investments lead to shareholding of 38% for SC.

Financial risk profile characterized by comfortable gearing indicators on the back of private equity infusion; albeit operating losses in spite of revenue growth

IPPL's Total Operating Income (TOI) registered a Compounded Average Growth Rate (CAGR) of 46.51% over the period FY14-FY16 to Rs.136.02 crore for FY16. The increase in revenues was on account of growth in sales volumes of IPPL coupled with increase in capacity utilization from 52% in FY15 to 58% in FY16. However, the company continued to report operating loss of Rs.4.03 during FY16 on account of high operating costs out of which major cost is advertisement expenses. As a result, the company registered net loss of Rs. 5.81 crore during FY16 on a consolidated level as against net loss of Rs.6.95 crore during FY15. Subsequently, gross cash accruals (GCA) continued to be negative during FY16.

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

The net-worth of the company improved from Rs.27.33 crore as on March 31, 2015 to Rs.68.87 crore as on March 31, 2016, due to infusion of preference capital by SC. Overall gearing and debt to equity ratio stood at 0.42x (P.Y.: 0.11x) and 0.13x (P.Y.: nil) as on March 31, 2016.

The operating cycle of the company was at 72 days in FY16 against 54 days in FY15. The average 10 monthly working capital utilization ending January 2017 was at 50.55%. The company, post-acquisition, has implemented cost rationalization initiatives, aligning the credit terms with suppliers and modifying receivable terms for faster and efficient collection from debtors.

The combined total operating income of IPPL was Rs.294 crore in 10MFY17. During the period, the company registered PBILDT of Rs.5.93 crore (PBILDT margin of 2.30%).

Established distribution network across major states and diversified supplier base

The sales in the decorative segment are mostly retail sales and are largely made through dealers. The company is strategically spread across 23 states and caters to customer requirements. On a standalone basis, it caters to customers through 24 depots servicing 3470 regular dealers as on March 31, 2016. There are 34 depots and 4670 dealers, respectively, as on January 31, 2017. Furthermore, it had 300 tinting machines as on January 31, 2017.

The company procures the raw material largely from domestic market which comprises cement, binders, fillers, pigments, other additives, titanium dioxide, thickeners, etc. The diversified supplier base also reduces the risk associated with being dependent on any particular supplier.

Proximity to raw material sources

The company has a manufacturing facility strategically located in Jodhpur. The company procures 85% of total raw materials consumed (by weight) from in and around Rajasthan. This benefits the company in saving the freight cost. Post-acquisition of HBCPL, the company plans to shift manufacturing of one segment of water based paints to Kerala for optimal cost rationalization.

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 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, floor paint, metallic paint, roof paints and distemper (acrylic distemper). Furthermore, post-acquisition, the company has to its credit an established market and brand market image for wood coating segment despite the sales being made under the brand name of HBCPL. The diversified product portfolio catering to different consumer segment curtails adverse impact of low demand from particular customer profile.

Key Rating Weaknesses

Risk associated with volatility in raw material price

The key raw material of IPPL comprises of binders, fillers, different variants of cement, etc, which are largely procured from domestic market. IPPL operates in an industry where the raw material cost is one of the major cost drivers (constituting ~67% of the total operating income in FY16) 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.

Intense competition from organized and unorganized companies

IPPL manufactures products and operates in an industry which comprises of several large players, organized as well as unorganized segments. It is characterized by low entry barriers and low level of product differentiation. Furthermore, investment in brand recall and advertisement is also important to increase retail sales. Therefore, pricing, branding and distributorship network is important for the company to garner customers. IPPL through its acquisition of HBPCL has taken steps to increase its market share and product base. It remains to be seen how IPPL will cope with these challenges in the medium term.

Analytical approach: Consolidated. CARE has considered consolidated statements of Indigo Paints Private Limited as on March 31, 2016, on the back of acquisition of HBPCL as on March 01, 2016.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Criteria for Manufacturing Concern]

About the Company

IPPL was incorporated in the year 2000 with its registered office based out of Pune (Maharashtra) and its manufacturing facilities based out of Jodhpur (Rajasthan) and Rekhla (Jharkhand). IPPL is engaged in manufacturing and sale 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 acrylic distemper. The company had a total installed capacity of 61,320 metric tonnes per annum (MTPA) as on March 31, 2016, which increased from 48,910 MTPA as on March 31, 2015.

During FY16, IPPL acquired HBCPL, which is a Kerala-based paint manufacturing company engaged in manufacturing, marketing and sale of decorative paints. The company has an experienced management team led by promoters having more than four decades of experience in the paint industry, an extensive distribution network across Southern India and is an established player in wood coating segment, thereby deriving synergy benefits in operational and organizational efficiencies and optimal utilization of resources of IPPL. The company also plans to shift manufacturing of one segment of water-based paints to Kerala for optimal cost rationalization.

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/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- / CARE A3 (Under Credit Watch) (26-Apr-16)	1)CARE BBB- / CARE A3 (13-May-15)	-

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