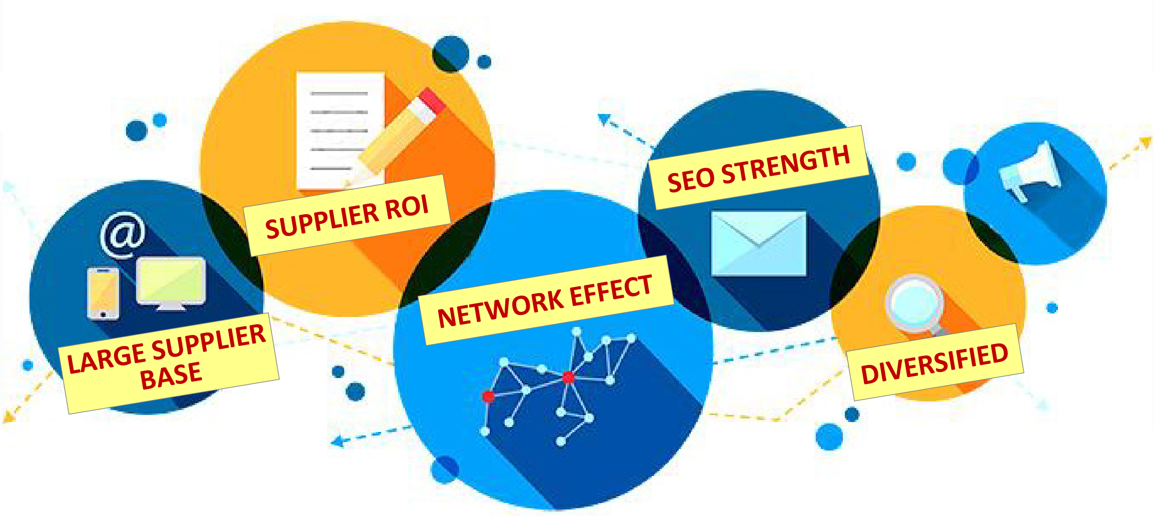
19 August 2020

Initiating Coverage | Sector: Others

IndiaMART



Play on digitizing MSMEs

Research Analyst: Anmol Garg (Anmol.Garg@MotilalOswal.com)

Contents: IndiaMART | Play on digitizing MSMEs

IndiaMART

BSE Sensex	S&P CNX
38,615	11,408

CMP: INR2,985 **TP: INR3,550 (+19%)** **Buy**

Stock Info

Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	86.4 / 1.1
52-Week Range (INR)	3147 / 952
1, 6, 12 Rel. Per (%)	41/25/151
12M Avg Val (INR M)	260
Free float (%)	47.7

Financials & Valuations (INR b)

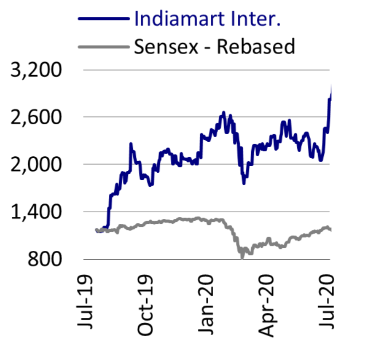
Y/E Mar	2020	2021E	2022E
Sales	6.4	5.9	6.9
EBITDA	1.7	2.2	2.3
PAT	1.6	2.3	2.5
EBITDA (%)	26.3	37.3	32.7
EPS (INR)	51.3	79.3	87.3
EPS Gr. (%)	566.2	54.6	10.0
BV/Sh. (INR)	150.4	257.4	371.2
Ratios			
RoE (%)	72.2	61.4	43.7
RoCE (%)	71.9	61.7	43.7
Payout (%)	22.7	15.1	17.2
Valuations			
P/E (x)	58.3	37.7	34.3
EV/EBITDA (x)	50.9	38.7	36.7
Div Yield (%)	0.3	0.4	0.5

Shareholding pattern (%)

As On	Jun-20	Mar-20
Promoter	52.3	52.3
DII	3.8	3.1
FII	15.3	12.4
Others	28.6	32.2

Note: FII includes depository receipts

Stock Performance (1-year)



IndiaMART: Play on digitizing MSMEs

Network effect playing out for largest B2B Classifieds player

- **IndiaMART is India's largest B2B Online Classifieds marketplace, with >70% market share. The platform has more than 6m supplier listings for 68m products across 100k+ categories from 1000+ cities. A strong network effect, resilience to supplier ROI, diversified exposure, and robust SEO (Search Engine Optimization) strength are th e platform's key differentiation factors.**
- **Monetization happens through priority listings and subscription packages. Buyers' leads are made visible to suppliers. The channelization of these leads is based on the package the supplier has opted for.**
- **IndiaMART operates in a sweet spot, wherein high-growth SMEs fuel the top line and a subscription-based model limits the risk of default. Margins mirror the positive operating leverage from revenue growth in the business.**
- **In the past three years, the scalability of paid suppliers and RFQ relevancy have led to a 26% revenue CAGR. Negligible spends on advertising over FY18–20 have led to turnaround in margins to 23% in FY20 from -19% in FY17. IndiaMART has shown tremendous resilience on the margin front. Despite a 50% drop in collections for 1QFY21, the company has been able to increase margins on significant rationalization in operating cost.**
- **As a result of COVID-19-led lockdown, the number of paid suppliers fell by 10% in 1QFY21; however, going ahead, new additions should compensate for the churn in the existing base for the rest of the year. We foresee a 7% reduction in the paid supplier base in FY21, resulting in 7.5% decline in revenues for FY21.**
- **However, we forecast a sharp turnaround in FY22 operations on account of: a) pent-up demand, b) a stable base of total suppliers, c) the need for out-of-the-circle buyers, and d) higher Internet penetration.**
- **We value IndiaMART on DCF basis at INR3,550 per share (+19% upside) on an assumption of 11% WACC and 5% terminal growth rate, implying a one-year forward multiple of 41x. Initiate with Buy. Risk factors include higher mortality in supplier base and potential entry of a cash rich global player.**

Undoubted leader in B2B Classifieds space…

- IndiaMART is a dominant market leader in the online B2B Classifieds industry. The company banks on increased digital adoption among SMEs, which constitute the majority of the sellers on the platform. The underlying market is expected to grow at a 25% CAGR over the next five years.
- Offerings beyond simple listings and the maintenance of RFQ quality have positioned the company well among the digitally penetrated SMEs (~7m). A comprehensive value structure has led to 100% non-advertisement-based growth in the past three years.

…with positive operating leverage

- The scale of a long-term subscription plan enables sustainability in revenue as well as margin expansion. Deferred revenue (1.1 times the revenue) offers a cushion for short-term revenue volatility.
- Driven by market growth and decent execution, the company has been able to grow the number of paid sellers at a CAGR of 15% over FY17–20. Also, led by lower price sensitivity, ARPU CAGR during this period has been at 10%, adding to the revenue CAGR of 26%.

- Cost increase in the past three years has been pegged at 13–18% given zero advertisement expenses, while revenue growth has always exceeded 20%, providing long-term operating leverage to the company.

Strong moats shield from disruption

- A strong network effect has created circular value addition for the company. A higher number of buyers has translated into further inquiries, in turn leading to more suppliers and, hence, higher monetization.
- IndiaMART also has a high resilience to supplier ROI. The company has the ability to offer ~60 leads to every paid supplier, providing enough leeway to add suppliers even on the current RFQ scale. The lowest cost of marketing (~0.2%) in any digital marketplace further creates confidence for the platform among suppliers.
- The company's reliance on specific search requirements and a large portfolio of products isolate the platform from threats from large horizontals, such as Google. Better SEO management promises a high ratio of search to landing.
- Diversification is high among geographies; two-thirds of the buyer base is from tier-2, tier-3, and tier-4 towns. 35% of buyers are from tier-1 cities, while 60% of suppliers come from the top eight metros (where the paying supplier percentage is higher than 2%).

High FCF yield; strong balance sheet

- IndiaMART operates in a negative working capital cycle, led by upfront collections from sellers on the platform.
- The company also has a capex-light model (<1% of sales), indicating negligible investments required to pump up the business.
- This results in positive FCF and high cash generation; net cash of INR9.5b was reported at the end of 1QFY21, which is expected to expand to INR14b by FY22.

First to recover; initiate with Buy

- We forecast a 9% CAGR in paid suppliers, coupled with a 2% CAGR in ARPU over FY20–23, implying a revenue CAGR of 10% over FY20–23.
- The recent drop in collections is primarily attributable to: (1) higher churn in monthly subscribers, (2) churn in annual subscribers whose payments are due in the near term, and (3) the extension of payment terms. 1QFY21 saw a 50% drop in collections.
- We expect customers with multi-year subscription packages to continue on the platform at lower annual fees. Further growth in new suppliers in certain categories would partially offset decline in its stressed counterparts. We forecast 25% decline in collections for FY21, weighed by ~50% decline in 1QFY21 collections. In turn, we expect 7% decline in FY21 revenues, coupled with V-shaped recovery in FY22.
- We forecast 8pp margin expansion over FY20–23 on account of the better management of cost structure and operative leverage in the business. This implies an EBIT CAGR of 22% and PAT CAGR of 26% over FY20–23.
- Our forecast of near-term impact on the company is weighed by closures across the country. However, we are confident of strong fundamental growth in operations hereon, driven by: a) high growth in digitization among SMEs (~25%),

b) the need for out-of-the-circle buyers, c) a strong network effect, d) >70% market share in the underlying industry, e) the ability to increase ARPU on account of low price sensitivity, and f) high operating leverage.

- We further allude to the fact that the company has shown high cash conversion, with OCF/EBITDA at 155% and FCF/sales at 40%. Low capital requirements have led to ROE of 72% in FY20.
- Our DCF-based target price of INR3,550 is arrived with an assumption of 11% WACC and 5% terminal growth rate. TP implies upside of 19%. Initiate with **Buy**. Risk factors include higher mortality in supplier base and potential entry of a cash rich global player.

STORY IN CHARTS

Exhibit 1: Classifieds industry to reach USD9b

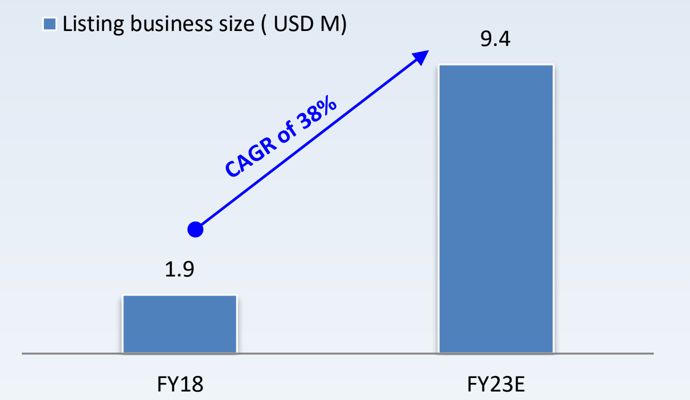


Exhibit 2: Led by higher buyer engagement and network effect, IndiaMART is able to consistently inch up volumes and realization

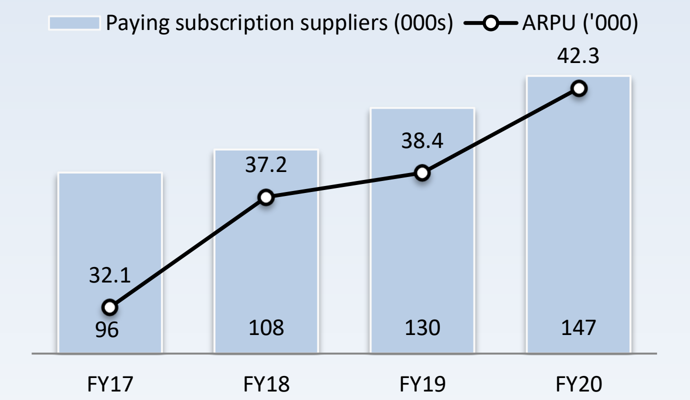


Exhibit 3: Current base of RFQs sufficient to add more paid suppliers and lower commissions to increase ARPU

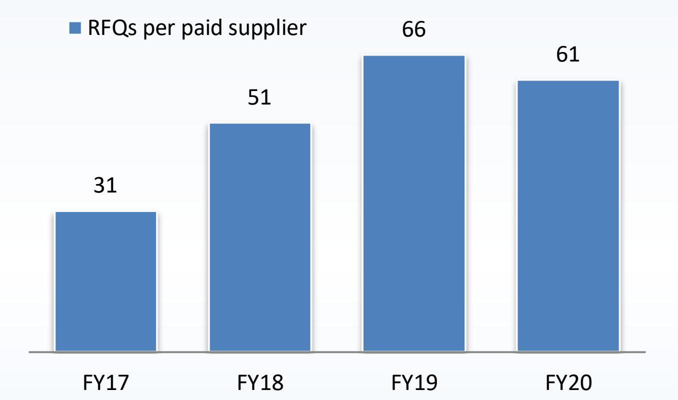


Exhibit 4: Revenue grows at 27% CAGR in past five years

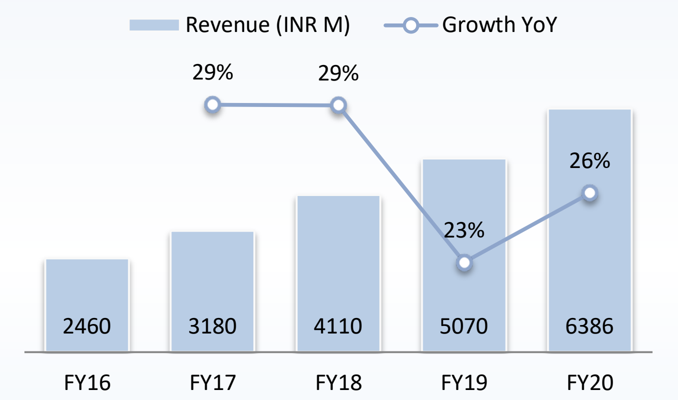


Exhibit 5: As base is built-in, momentum turns completely organic…

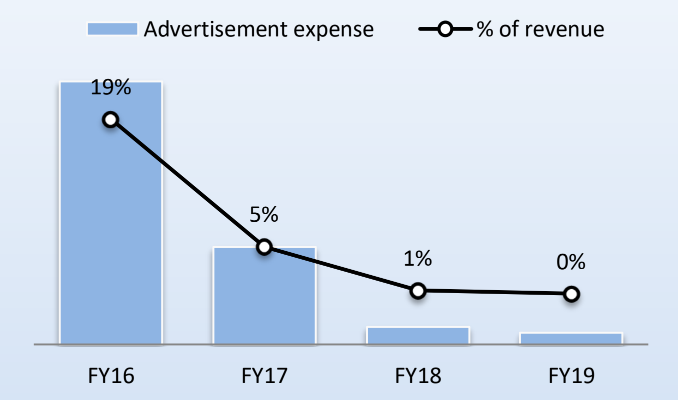


Exhibit 6: …resulting in sharp turnaround in margins

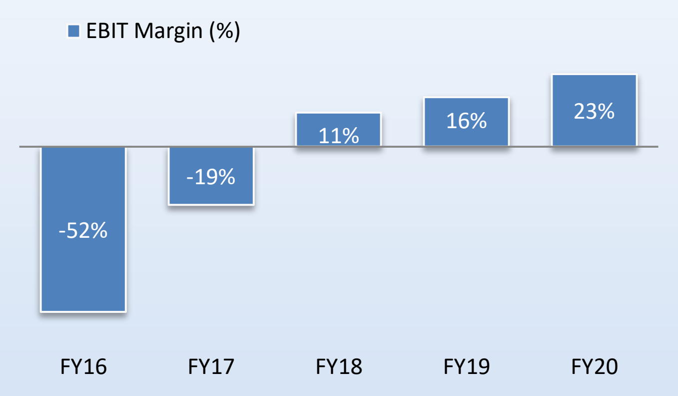


Exhibit 7: Strong PAT margins…

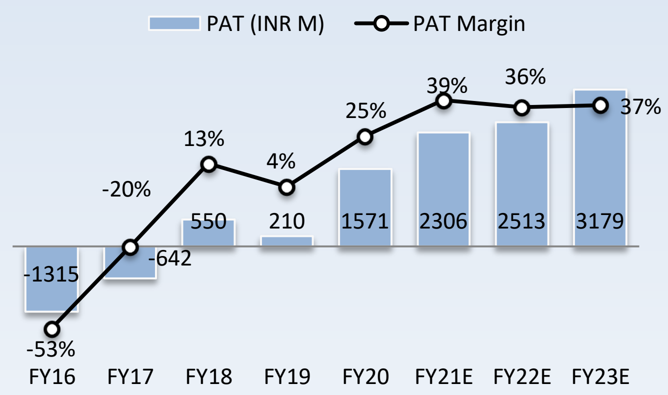


Exhibit 8: …negative working capital cycle…

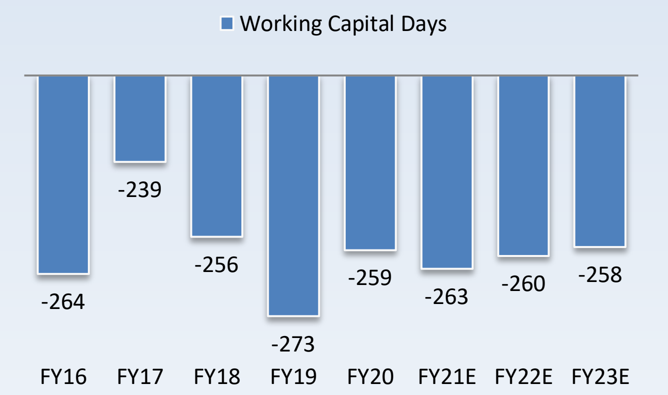


Exhibit 9: …and low capex requirements…

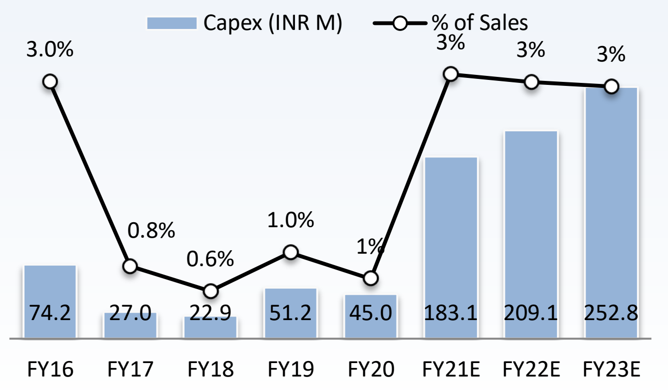


Exhibit 10: …result in strong FCF generation

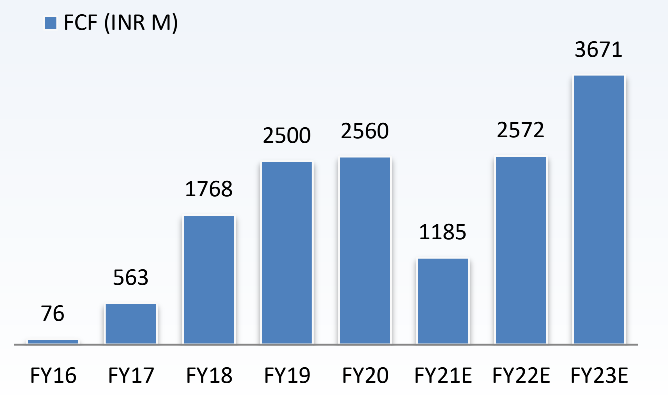


Exhibit 11: Cash generated from operations remains high

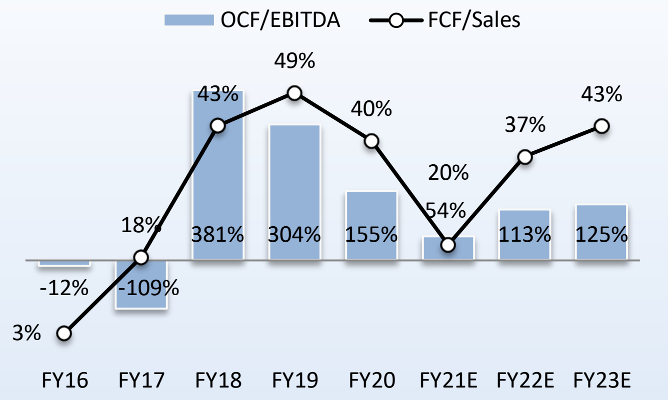
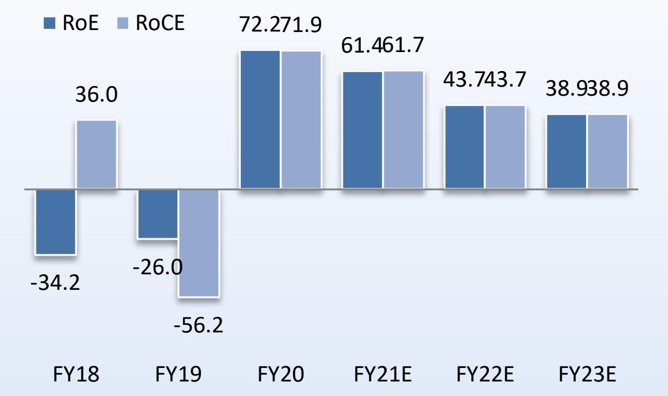


Exhibit 12: Low capital requirements drive healthy return ratios



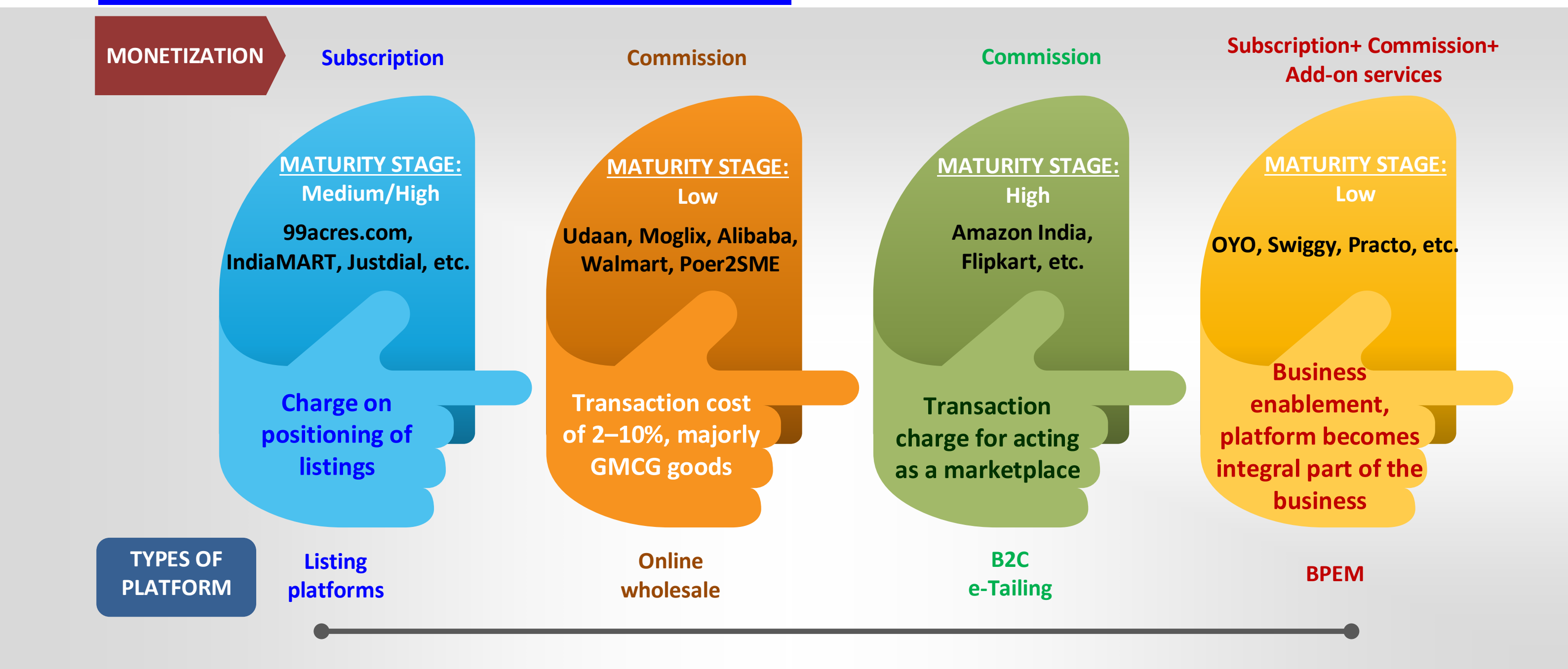
More than Classifieds

Assessing the possibilities

- **Among the different models existing in the Classifieds category, the B2B Horizontal and Verticalized B2C models have been shielded from long-term fundamental disruptions.**
- **While B2C models may cater to the larger market, higher advertisement cost eats away at initial profitability. Scale entails high cash burn.**
- **B2B platforms such as IndiaMART have lower risk of disruption from the likes of horizontal search engines such as Google. Higher organic search determines the success of the platform. Differentiated features and focus around business enablement promises long-term sustainability.**

Multiple revenue models exist within the digital marketplace, including: a) Listing Platforms, b) Online Wholesale, c) B2C E-Tailing, and d) BPEM. Most classifieds companies are pure-play listing platforms. These could be further classified into three horizontal categories: a) Discovery, b) Marketplace, and c) Business Enablement.

TYPES OF INTERNET-BASED MONETIZATION MODELS



Source: MOFSL

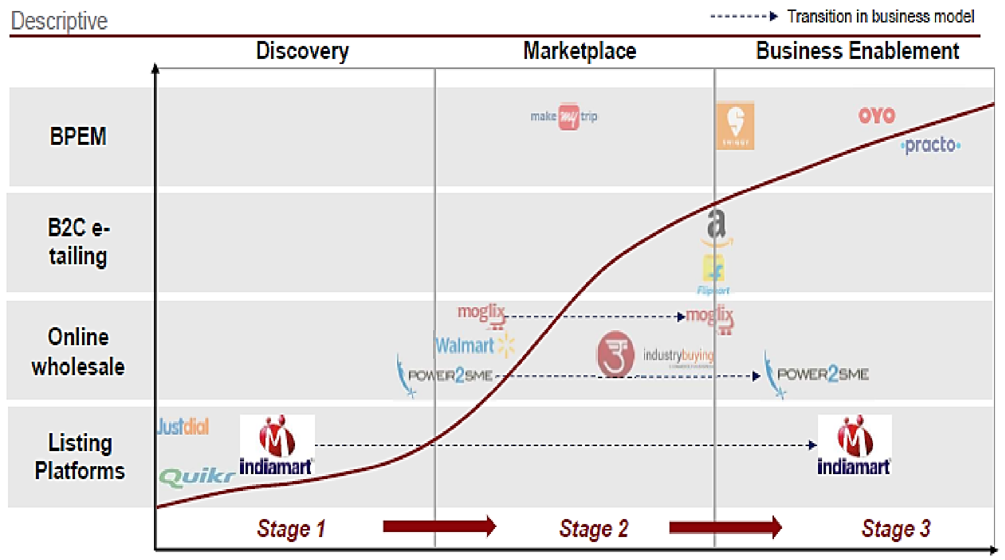
Share of classifieds is only 4% in the overall digital marketing spend.

- Info Edge's standalone businesses, IndiaMART and Justdial, largely operate in the lowermost quadrants. They act as listed platforms, enabling customers to search for relevant services/products on the platforms.
- B2B classifieds operate under three major revenue models. A) Subscription – B2B classifieds offer various subscription packages to sellers in exchange for increasing their visibility on the platform. B) Pay per lead – The platforms also offer certain requirements posted by buyers as 'paid leads' to suppliers. These paid leads can be purchased by the suppliers over and above their subscription

packages. C) Advertising – Suppliers purchase space for display advertisements on the platform.

- SMEs are at the center of B2B platforms. While most of the larger companies have designated supplier contracts that offer lower-than-market prices due to economies of scale, this is not true for SMEs.

Exhibit 13: Add-on with Discovery has become inevitable



Source: MOFSL, RedSeer

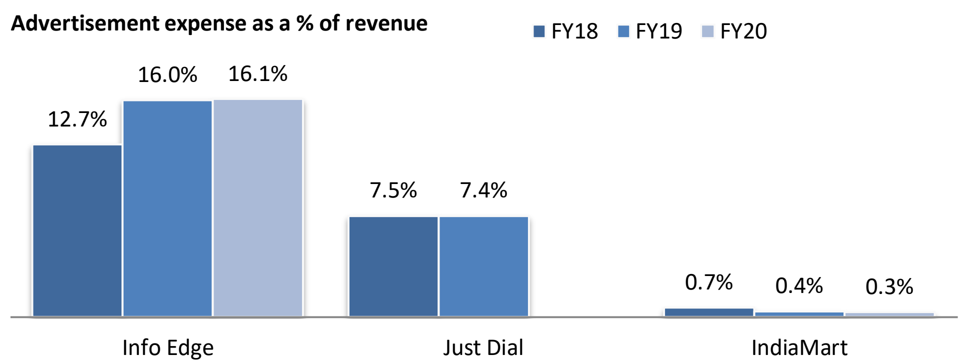
Horizontal B2B model better than B2C Classifieds

Lower advertisement cost in B2B

A higher portion of organic search leads to the lowest ad spends for IndiaMART.

- There are various structural differences between the two categories. B2C platforms focus on a large distributed customer base. On the other hand, the B2B business model is geared toward maintaining relationships with a smaller number of repeat customers that would likely account for a significant share of the company's business. Thus, B2B organizations are currently more likely to spend a major share of their marketing funds on the offline mode to maintain relationships with their existing customer base. With the increasing use of the online medium for marketing and discoverability, the same may change depending on the value B2B organizations are able to extract out of this emerging medium.

Exhibit 14: Advertisement expenses vary drastically as business model moves to B2B

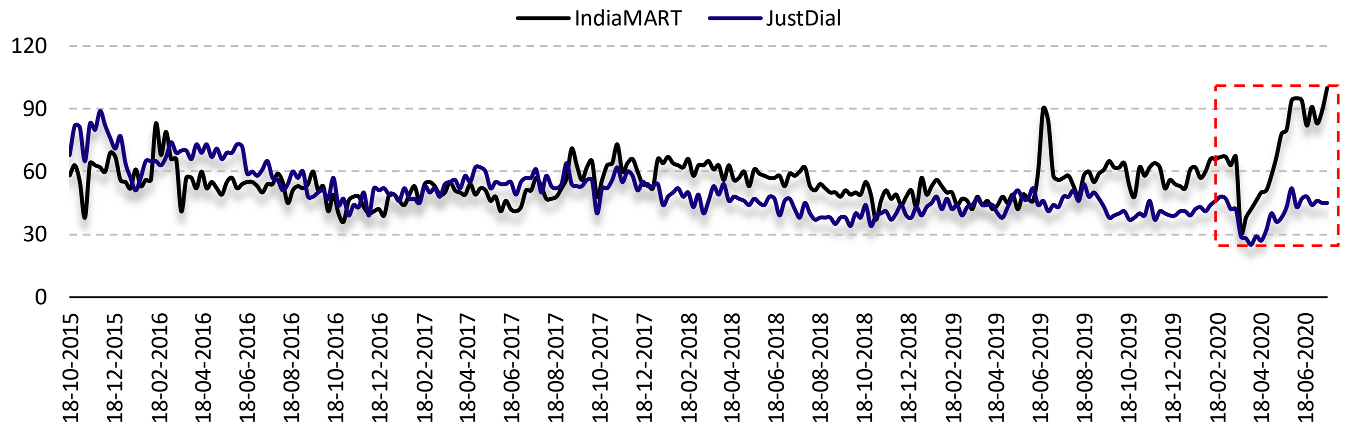


Source: MOFSL, Company

Lower risk of disruption in B2B

- While B2C horizontal players have a larger market to cater to, they also have a high risk of disruption. The search feature remains the key for B2C players; a platform offering multiple services remains prone to risk from Google policy changes and players offering specialized services (e.g., Urban Company, 99Acres). On the other hand, in the case of B2B platforms, the search feature, along with additional services (e.g., RFQ listings) and trust, is responsible for the traction on a digital market platform.

Exhibit 15: "Interest over time" has seen much faster recovery for IndiaMART



**Interest over time- Search interest relative to the highest point on the chart, values in the chart represent deviation from the peak search (peak search is taken as 100); Source: Google Trends

Two successful models

Increase in traffic has been much more rapid for IndiaMART after the easing of the lockdown.

Within the Classifieds segment, two particular models have been successful thus far: a) B2B discovery platforms such as IndiaMART and TradeIndia and b) verticalized B2C platforms such as Urban Company and Zomato. All other models have been cannibalized by the likes of Google. Other models have to rely on indirect traffic, leading to a play between advertisement cost and growth in lead generation.

Advantages of B2B Classifieds model

- The B2B Classifieds segment lets the buyer find a product through specific RFQ requirements that give the seller a unique platform to conduct business. This model has a lower risk of disruption from universal search engines such as Google.com. Despite having better algorithms, search engines cannot give product-specific search interfaces as this would make the platforms way more complex.
- Furthermore, our channel checks suggest once a user identifies a platform as best suited for conducting business, they tend to use mobile applications for the particular platform rather than universal search engines.
- On the supplier front, higher convertible leads fuel more paid subscriptions, in turn attracting more buyers. Once a category becomes successful on the platform, SMEs start using the particular platform as a default for the category.

Advantages of Verticalized Classifieds model

- Usually, a polarized scenario is seen in the case of verticalized platform providers. Initially, the market is dominated by five or six smaller players, which is then consolidated to two or three key players. Monetization happens once consolidation reaches maturity. The initial cash burn witnessed by the smaller players helps expand the market; once the market reaches an optimum stage, users start identifying particular platforms for business in the particular segment. Examples of such platforms are Urban Company, Zomato, and OLX.
- Once users identify the platform as a one-stop solution and increase engagement on the platform, the company can identify other revenue sources to indulge the user and the listing agent. These include transactions, BPEM, etc. Zomato, which started off with just listings and restaurant rankings, was the first to commence transaction services and is now moving toward other sources, such as cloud kitchens and raw material management services for restaurants.
- Mature vertical players are also market makers; these companies command the pricing on their platforms. In contrast, horizontal companies are price takers (usually lower than vertical players). E.g., Naukri.com has a realization of ~INR80k per customer, which is a lot higher than posting a job on horizontal platforms such as OLX.com.

IndiaMART: Leader in B2B Classifieds

Measuring scale

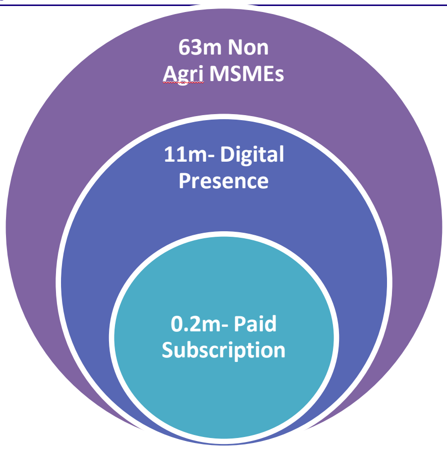
- **IndiaMART is the largest B2B classifieds company with >70% market share. Around 6m SMEs are part of the IndiaMART platform, accounting for 54% of SMEs with a digital presence.**
- **The underlying market is expected to grow at a 25% CAGR over the next five years. IndiaMART would be the primary beneficiary as the rest of the market remains largely scattered.**
- **Over the past five years, the platform has seen a 40% CAGR in buyers and 27% CAGR in suppliers. This is despite the 20–25% annual churn in suppliers.**

- IndiaMART, which began operations in 1999, is the largest B2B Online Classifieds marketplace, with 70% market share. The platform has more than 6m supplier listings for 66m products across 100k+ categories from 1000+ cities. The platform matches 40m+ monthly inquiries. Suppliers are charged for leads and listing priority, and the platform remains free for buyers.

More than 50% of Internet addressable SMEs are on the IndiaMART platform

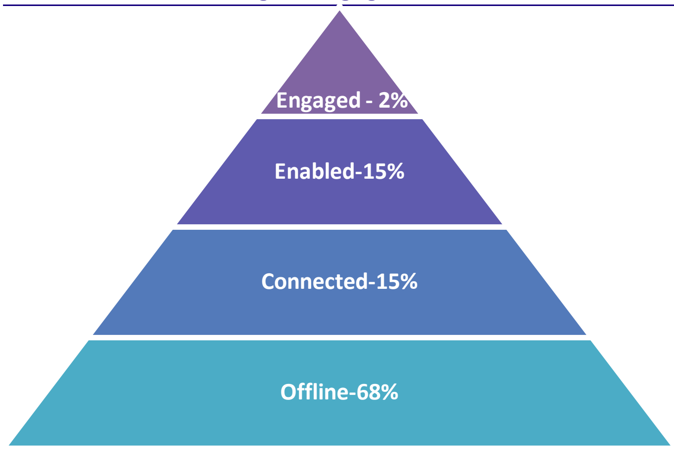
- IndiaMART banks on higher Internet penetration among SMEs, which constitute the majority of the sellers on the platform. Among the 63m non-Agri SMEs, 11m have a digital presence and 0.2m make up the market of B2B classifieds companies. IndiaMART has 133k paid suppliers, implying share of 70%. According to KPMG, this market is expected to grow at a 25% CAGR over the next five years. High growth credibility in the market may also be compared to increased penetration in China. More than 90% of corporations are connected via the Internet. 1688.com, a B2B classifieds player in China, saw an exponential increase in the number of suppliers and now has more than 1m paid suppliers. Market growth and higher penetration offer an unprecedented edge to IndiaMART.

Exhibit 16: Classifieds segment to grow at 38% CAGR over next four years



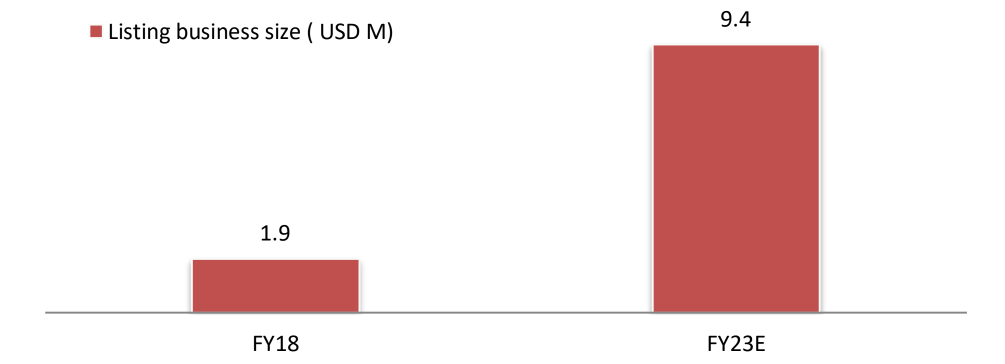
Source: Company, Ministry of MSME

Exhibit 17: Full-scale digital engagement still low at 2%



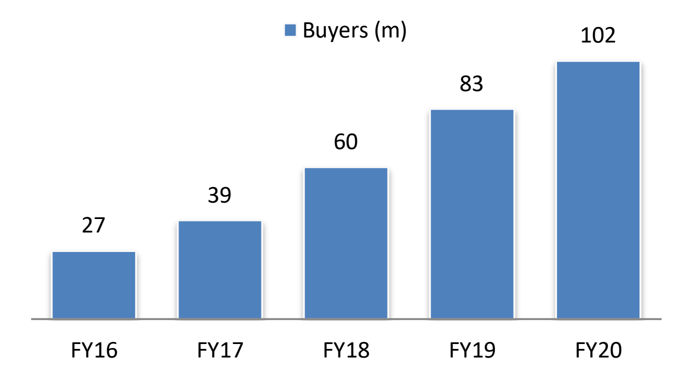
Source: Company, Ministry of MSME

Exhibit 18: Listing industry to reach USD9.4b by FY23



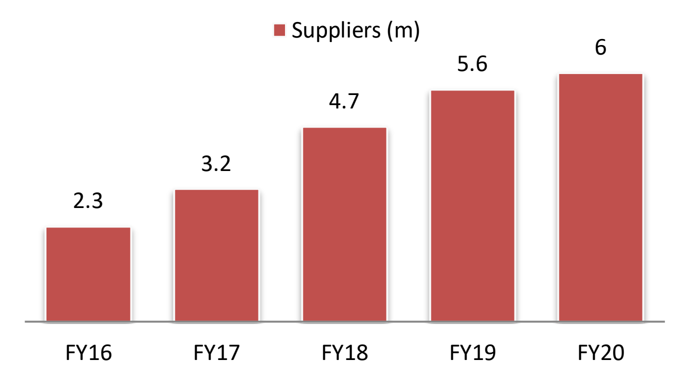
Source: IAMAI

Exhibit 19: 40% CAGR among registered buyers…



Source: MOFSL, Company

Exhibit 20: …with 27% CAGR among sellers



Source: MOFSL, Company

Customer additions and ARPU continue to drive 26% revenue growth. Historically, customer additions have been at 12–20%, while the remainder has constituted better realization. Even during the lockdown, IndiaMART was able to increase the overall supplier base. However, due to subdued operations in 33% of the categories on the platform, the overall drop in paid suppliers was 10% for 1QFY21.

Superior business model

- IndiaMART charges suppliers majorly on the number of lead generations. Packages offered by the company vary on numerous aspects, such as the number of products, geography catered, count of leads, and individual websites.
- Based on the above criteria, packages are clubbed into six categories: a) General Listing, b) Mini Dynamic Catalogue, c) Maximiser, d) Star Supplier, e) Leading Supplier, and f) Industry Leader.

Exhibit 21: Details of packages offered by the company

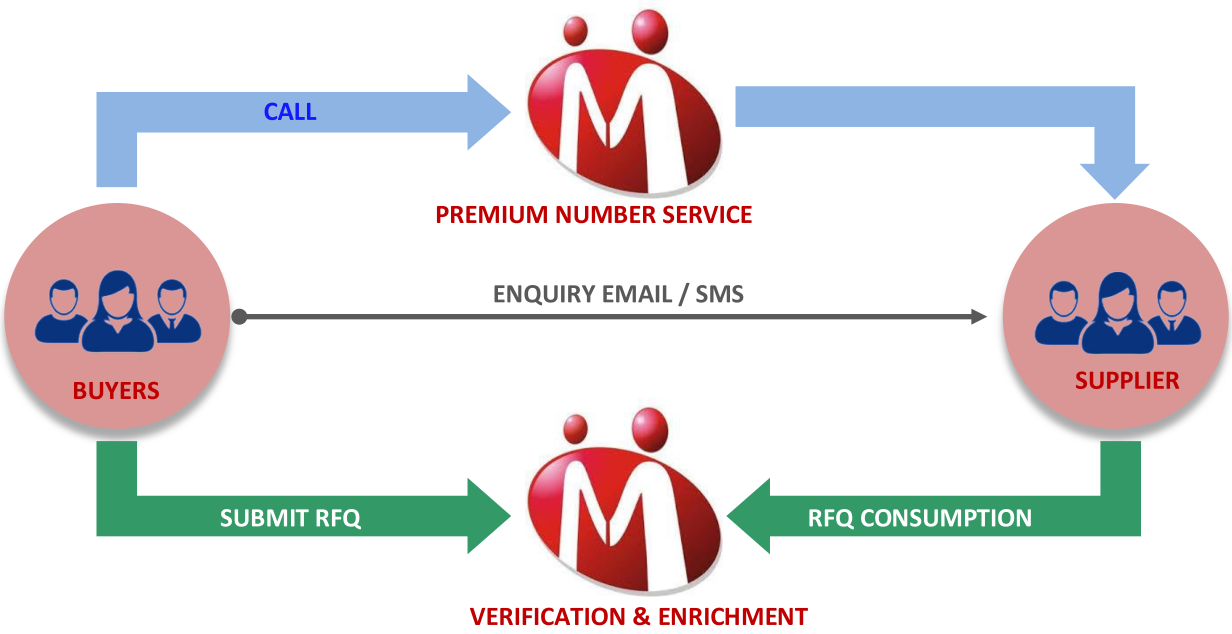
Packages	Description	Amount
Storefront	❖ No leads	Zero
MDC	❖ Seven weekly leads on monthly packages or 10 weekly leads monthly on annual packages	3k monthly or 30k annually
Maximiser	❖ 30 weekly leads, certified test seal, four email accounts	~55k annually
Star Supplier	❖ 50 weekly leads, flexibility to select and change category-city combinations, Star Supplier label	~110k annually
Leading Supplier	❖ 80 weekly leads, leading supplier label, flexibility to select and change category-city combinations	~250k annually
Industry Leader	❖ 100+ leads, listing at the top, all other benefits from other packages	~550k annually

Source: MOFSL

A single buyer inquiry is made visible to multiple suppliers. However, the matchmaking of leads is continuously improving with the higher use of AI and ML.

- A limited number of RFQs enable the supplier to contact the buyer only if there is high relevancy between the product offered by the seller and the requirements of the buyer. This maintains the quality of buyers and sellers on the platform, discouraging spamming on the platform.
- According to our channel check, 20–30% of the leads get converted into purchases. The platform provides an opportunity for local sellers with limited access to relevant buyers to offer their products across geographies. Furthermore, it helps sellers understand the market and the changing requirements of buyers so they can modify their offerings accordingly.
- Once the purchase is established, the IndiaMART platform allows the buyer to either pay through IndiaMART's own payment gateway or pay to the supplier directly. IndiaMART does not offer any services related to logistics for the products.

Exhibit 22: IndiaMART's business model



Source: MOFSL, Company

IndiaMART typically sells packages in three formats: monthly, annually, and three-yearly. Most of the buyers (~85%) start out with a monthly package under the MDC category. However, average annual subscribers (~66%) imply high seller conversions to annual subscriptions. This, coupled with a lower churn rate on the platform, justifies the continuity of value addition v/s an exercise to simply add sellers on the platform.

Exhibit 23: 20–25% annual churn rate

Packages	Monthly churn rate
Monthly	6%
Yearly	2%
Three-yearly	<1%

Source: MOFSL, Company

Far ahead of the competition

While there are several players in the B2B marketplace, only TradeIndia and ExportersIndia stand out as relevant competitors to the IndiaMART platform. Based on the total number of visits and pages viewed on each visit, IndiaMART is far ahead of its competition. It has 90% share in the total visits between the three platforms.

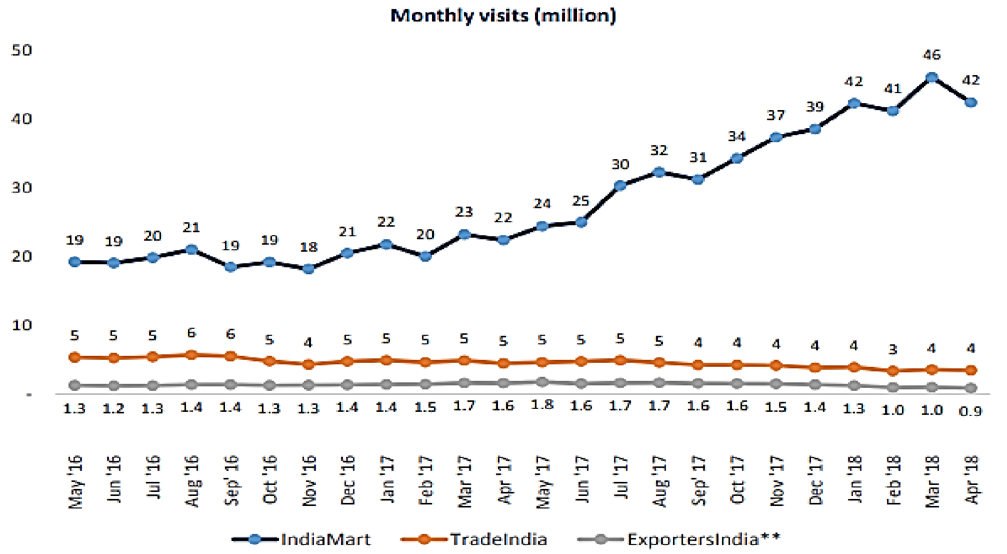
Exhibit 24: Lower churn rate implies high relevancy

Company	Total Visits	Pages Per visit	Average visit duration	Bounce Rate
IndiaMART	61.2	4.2	4.2	32%
TradeIndia	5.7	2.2	6.3	18%
ExportersIndia	2.0	2.1	4.5	64%

*Only includes browser-based traffic Source: MOFSL, Google Analytics

Exhibit 25: Traffic consistently expands on platform

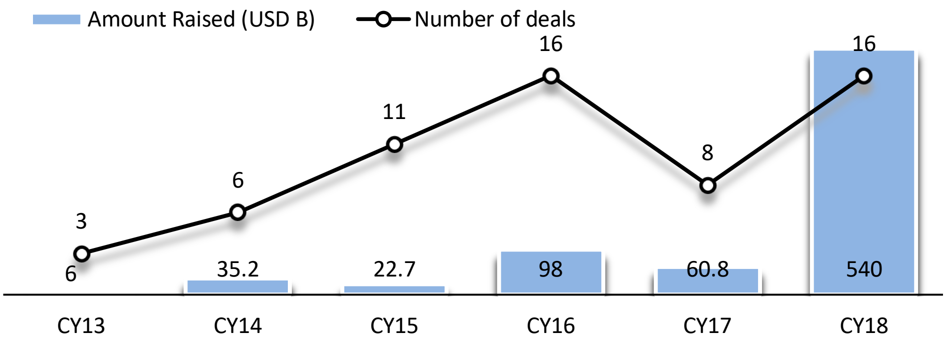
While entry barriers are low for new players, scalability for new companies is more challenging as business growth is led by the quantum of buyers and sellers on the platform.



Source: MOFSL, DRHP

- Furthermore, our channel checks suggest suppliers that used other platforms were disappointed with the lead conversion. For the most relevant leads, they prefer either the IndiaMART platform or offline channels.
- Apart from B2B Classifieds, some other companies have established business models around Transactions and Logistics as well. Some of the prominent names are Moglix, Power2SME, and Udaan.
- Recently, a lot of traction has been witnessed in the B2B E-Commerce space. Of USD7b raised by e-commerce and consumer Internet companies in 2018, the share of B2B stood at USD540m, i.e., 7.3% of total investments. Prior to 2018, the B2B segment had recorded limited deal activity, with the largest deal in the five years preceding 2018 being worth USD36m.

Exhibit 26: High deal activity seen recently in B2B E-Commerce



Source: MOFSL, VCC Edge

Exhibit 27: Companies operating in B2B E-Commerce

Companies	Founded	Model	Total Funding raised (USD M)
Udaan	2016	Transaction	870
Moglix	2015	Subscription + transaction	125
Power2SME	2012	Transaction	71

Source: MOFSL, Company

- In 2019, B2B E-Commerce gained more funding momentum, with companies such as Udaan raising USD585m at a USD2.8b valuation. Moglix and NinjaCart raised USD60m and USD89.5m, respectively.
- More and more companies are venturing into this domain or gaining scale such as Udaan, Amazon Business, Reliance, etc. However, led by the scale and differentiation of business models, IndiaMART faces negligible competition from new players. In terms of scale, the average product cost on IndiaMART is much higher than on Udaan and Amazon Business.

Strong moats shield from disruption

Buyers satisfaction remains core strategy

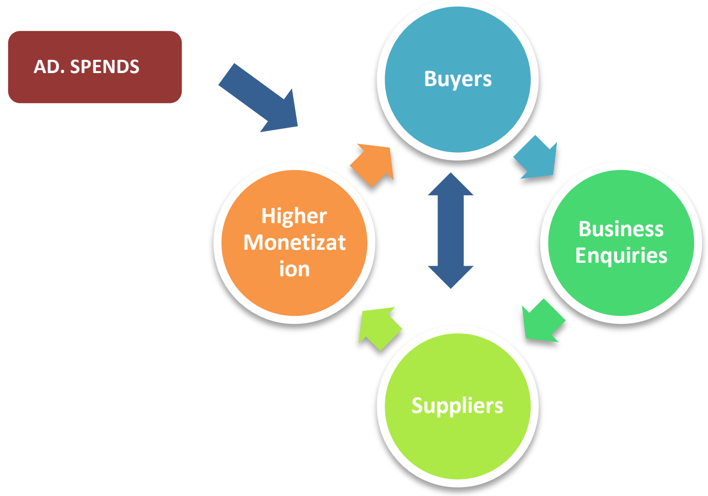
- **IndiaMART has accumulated a robust base of buyers (107m) and suppliers (6.1m). This establishes a virtuous cycle of continued traffic on the platform.**
- **Even on the current base of buyer inquiries, IndiaMART can offer ~60 leads to every paid supplier at a 0.2% cost per AOV. This indicates enough leeway to increase volumes and realization simultaneously.**
- **Despite direct searches lower at 14%, the risk of disruption remains low as organic searches land on the platform owing to higher listed inventory and better SEO management.**
- **Paying suppliers on the platform are well-diversified, from various industry segments and geographies, giving the platform an edge in the matchmaking process.**

Resilient network effect

- IndiaMART's robust supplier base may be compared with the strong database of resumes on Naukri.com. Similar to Naukri, more and more clients (buyers in this case) are compelled to use the platform as it provides greater value addition to clients.
- A higher number of buyers translate into more inquiries, in turn leading to more suppliers and thus higher monetization. Since suppliers on the platforms are also MSMEs (majorly), they double as buyers too. 36% of IndiaMART's sellers are also buyers on the platform. If the cycle slows, the company could move the wheel faster using advertisements as catalysts.

Dual connectivity between buyers and sellers (being part of the same value chain) further strengthens the network effect.

Exhibit 28: IndiaMART's self-sufficient model

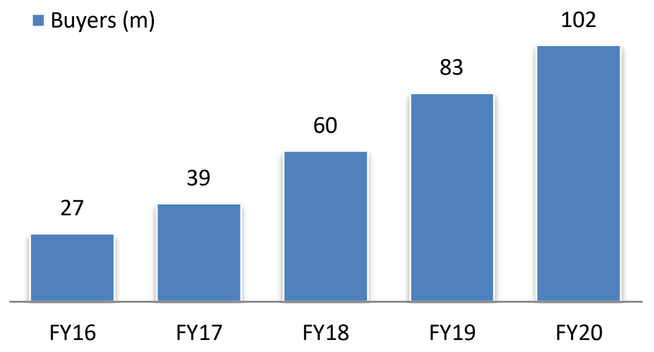


Source: MOFSL

Exhibit 29: 55% repeat buyers and 36% suppliers buying from platform indicate resilience in model

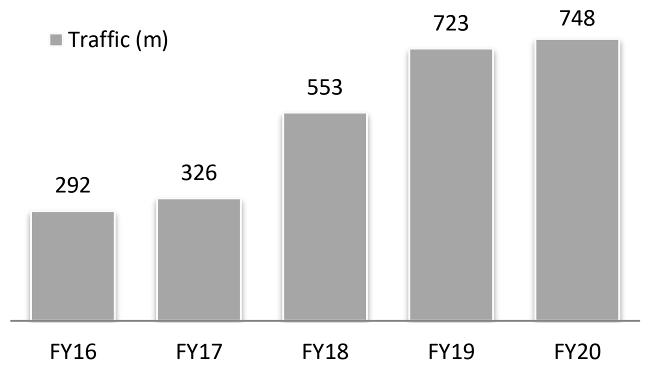
Source: Company, MOFSL

Exhibit 1: Higher buyers result in…



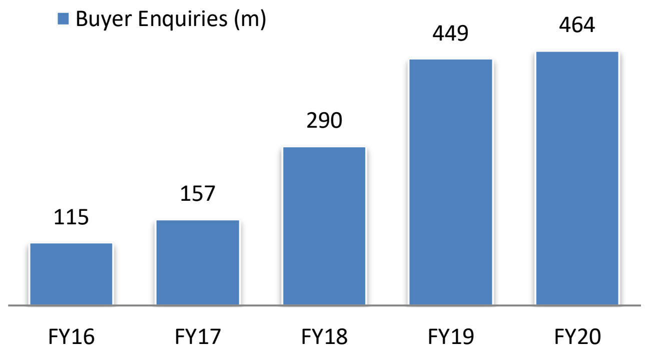
Source: MOFSL, Company

Exhibit 2: …higher traffic on the platform



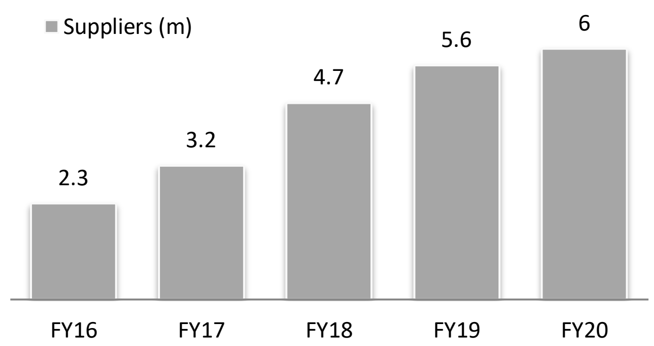
Source: MOFSL, Company

Exhibit 3: …leading to higher RFQs…



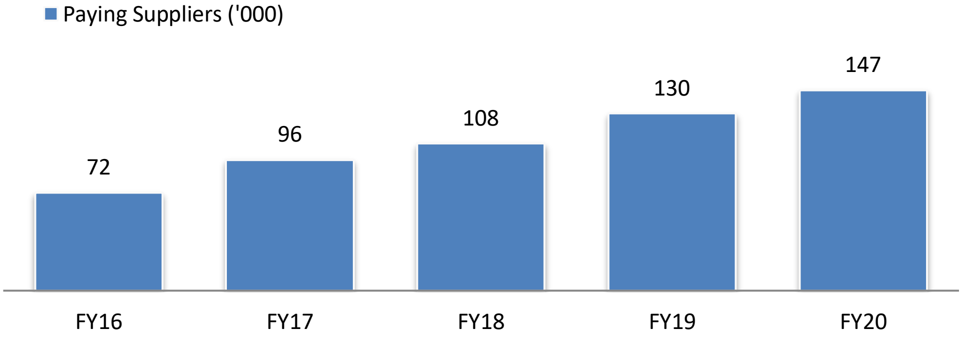
Source: MOFSL, Company

Exhibit 4: …and thus higher sellers…



Source: MOFSL, Company

Exhibit 5: …implying higher paying suppliers



Source: MOFSL, Company

Reliance on sellers' ROIs

With total GMV at ~INR2t, the commission charge for IndiaMART is less than 0.5%.

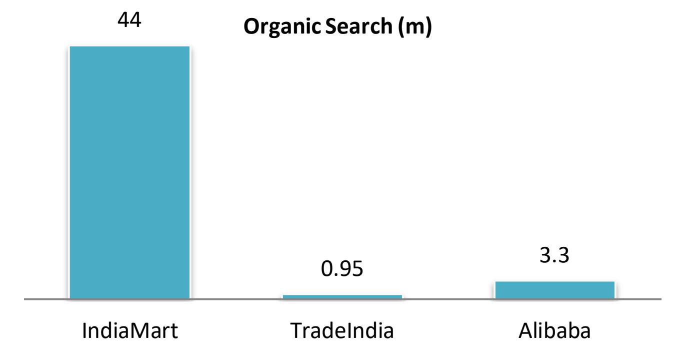
- IndiaMART assigns a high importance to sellers' ROIs, which is key to its value proposition. For most of the genuine sellers, this is a value-plus model. In FY20, weekly unique business leads per paying customer stood at ~10. However, since the platform delivers one lead to multiple sellers (~6 sellers for one unique lead), it has ~61 leads available for each seller each week. Since the company's most popular package only promises 10 weekly leads, it has enough leeway to add more suppliers with the current momentum. Furthermore, the delivery proposition of the business remains intact.
- Most of the sellers that we talked with never had any issues regarding the number of leads available on the platform. Reasons for non-conversion have mostly been related to the size of the contracts and geographical logistics. In general, IndiaMART charges a 0.2% commission for supplier products, which is very low given the value added by the platform.

RFQs shield from search engine disruptions

After FY17, most of the traffic on the platform is obtained organically, implying 2nd order search is also high on the platform.

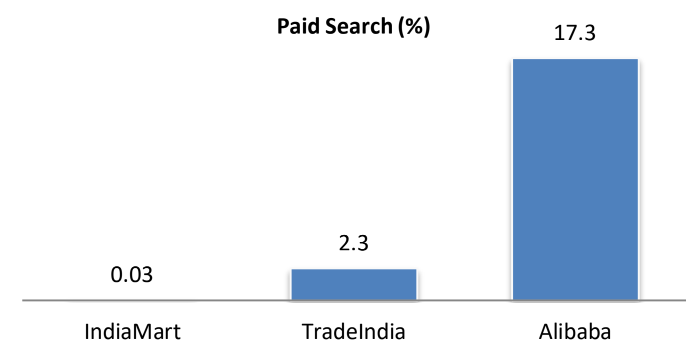
- The direct search feature (majorly from Google) has disrupted most of the local search platforms in the past. Verticalized applications and Google have both cannibalized the "general" search platforms. IndiaMART's reliance on specific search requirements and large portfolio of products shield the platform from such disruptions.
- Data from SEMRUSH shows that direct search remains high on the IndiaMART platform. Moreover, most of the complex Google searches (coupled with requirements) for B2B products lead to the IndiaMART platform. According to SimilarWeb, 99.97% of the times, users land on the IndiaMART page through organic searches, implying a high relevancy for the platform. This has been possible due to the strategic use of SEO and the presence of a higher number of suppliers on the platform.

Exhibit 6: Highest quantum of organic searches…



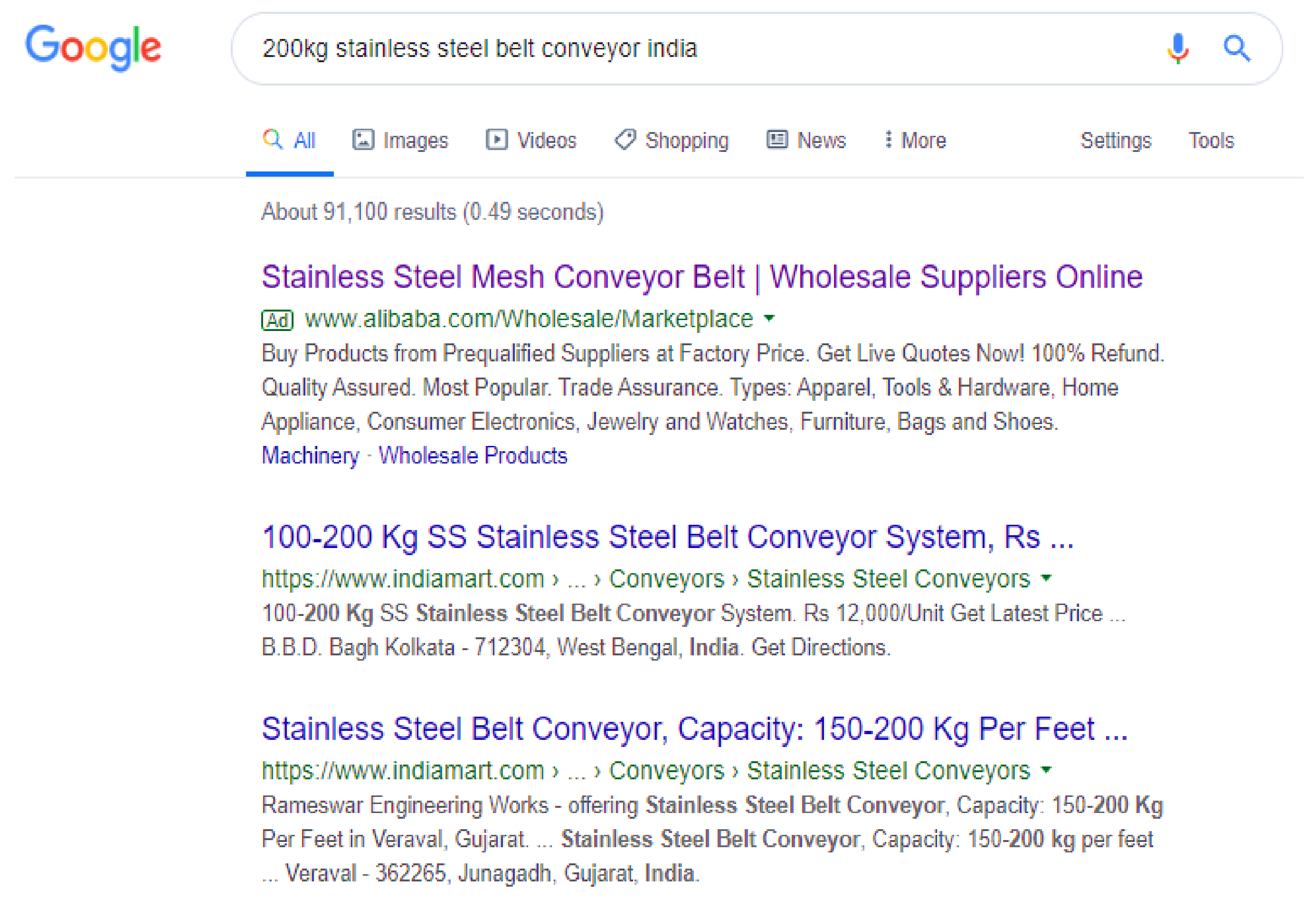
Source: MOFSL, SEMRUSH

Exhibit 7: …coupled with lowest % of paid campaigns



Source: MOFSL, SEMRUSH

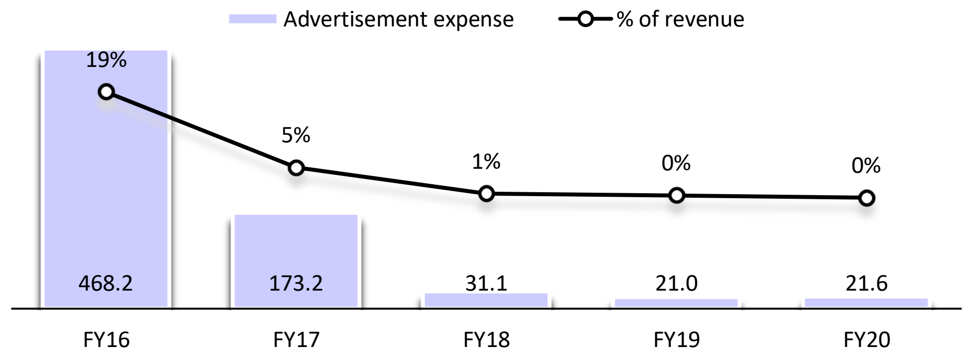
Exhibit 8: Top organic results from specific searches



Source: MOFSL, Company

In addition to marketing by field sales representatives, IndiaMART builds brand equity through targeted digital marketing, search engine advertisements, and offline advertising. In FY16, the company spent 19% of its revenue on advertising; however, with more and more organic traffic seen on the platform, advertising expenses have reduced to <1% of revenue, enhancing the company's margin profile.

Exhibit 9: Higher organic search leads to lower ad expenses



Source: MOFSL, Company

Diversification de-risks from industry-specific risks

Along with RFQs, sellers are also given information about past purchases of the buyer. Description includes data points around quantity, geography, and pricing.

- IndiaMART does not depend on any single industry/category. No industry accounts for more than 9% of the supplier base. Moreover, IndiaMART's revenues are well-diversified over 54 industries, 100k categories, and 68m+ products. High diversification shields the platform from any short- and long-term ups and downs in any industry.
- Diversification is also high among geographies; two-thirds of the buyer base is from tier-2, tier-3, and tier-4 towns. 35% of buyers are from tier-1 cities, while 60% of suppliers come from the top eight metros (where the paying-supplier percentage is higher than 2%).

Exhibit 10: Well-diversified across geographies

Cities	Categorization	Buyers (%)	Paid Suppliers (%)
Metro Cities	❖ Delhi NCR, Mumbai, Bengaluru, Hyderabad, Kolkata, Ahmedabad, Pune, and Chennai	35	61
Tier II Cities	❖ Population >500k excluding the cities covered under Metros	26	26
Rest of India	❖ Population < 500k	39	13

Source: MOFSL, Company

Tuck-in investments leverage strong supplier base

The focus is on small tuck-in investments related to the core business. It has no proposition to venture into pure-play investing (like Info-Edge).

- For its next leg of growth, IndiaMART has been focusing on leveraging its supplier base. In the past few years, IndiaMART has invested in six associated companies to provide services around payment and SaaS.
- The company aims to achieve two things through this: a) further increase engagement with suppliers on multiple channels and b) cross-sell applications to its SME base given higher market accessibility. While these subsidiaries contribute less than 3% to the group entity to date, we see value accretion on a long-term basis.

Exhibit 11: Investments and acquisitions thus far

Entity	Description	Operations	Incorporated	Revenue INR M (Latest)
Tolexo Online Private Limited	❖ Cloud-based solution for SME businesses	Operational	May-14	1
Ten Times Online Private Limited	❖ Discovery of business events	Operational	Feb-14	130
Hello Trade Online Private Limited	❖ Facilitation of domestic trade and international business	Not Operational	Jul-08	NA
Tradezeal International Private Limited	❖ Facilitation of domestic trade and international business	Not Operational	May-05	NA
Pay With IndiaMART Private Limited	❖ Electronic payment facilitation	Operational	Feb-17	8
Vyapar Apps Private Limited	❖ Provides business accounting software	Operational	2016	13
Mobisy Technologies	❖ Sales Force Automation and Distributor Management System	Operational	2012	280

Interactions with IndiaMART suppliers

For research purposes, we interacted with various IndiaMART suppliers; here are some of the takeaways:

Shoes wholesaler, Delhi

- The IndiaMART platform has been very reliable; it gives 20+ relevant leads every week.
- Cash made is at least double v/s the money paid to the portal.
- Leads from other platforms are not reliable.
- Conversion of the leads depends on the supplier’s capability to fulfill the requirement.
- Overall, the experience has been very fruitful

Plastic bottle manufacturer, Mumbai

- The dealer has been associated with the platform for more than seven years.
- The conversion ratio of leads is not that good, but a lot of relevant leads are available on the platform.
- IndiaMART’s customer care personnel are highly approachable in case of any issues.
- Leads are received from across geographies, even outside the country at times. The platform is not very relevant for sellers wanting to sell locally.
- Other platforms were not contactable in the time of need, nor were their leads relevant.

Hydraulic machine seller, Ahmedabad

- The dealer receives more than 10 leads per day, one or two of which get converted.
- Orders are received from all over India.
- The dealer has been on the IndiaMART portal for more than 10 years.
- No other portal is half as relevant as IndiaMART.

Gear manufacturer, Mumbai

- The dealer has not had a good experience thus far.
- Of the 10 leads received, one or two get converted; however, these contracts are very small in size.
- Most of the larger sales happen through word of mouth.
- The IndiaMART platform is relevant only for small sellers.

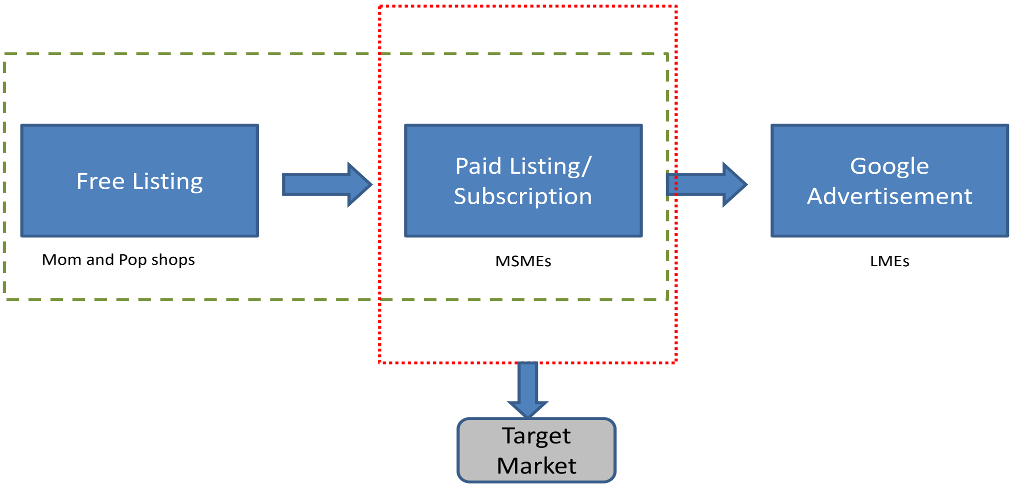
Return >> risk

Zero default risk on upfront cash collection

- **While IndiaMART caters to SME clients, the risk of a payment default is negligible owing to its subscription-based business model. Deferred revenue acts as a cushion to near-term volatility.**
- **After FY16, the company has not incurred any major advertisement expenses. Traction on the platform has been organic.**
- **IndiaMART has also been able to increase ARPU despite witnessing a rise in the number of paid sellers due to lower price sensitivity on the seller front.**

- IndiaMART is well-positioned in a high-growth market; moreover, it is clearly the market leader in the segment. While high growth comes with the risk of payment default, this is not the case with the IndiaMART model.
- The majority of IndiaMART's revenue comes from a subscription-based model, wherein SMEs are charged beforehand, making the default risk negligible.

Exhibit 12: High-growth target market with zero payment-default risk

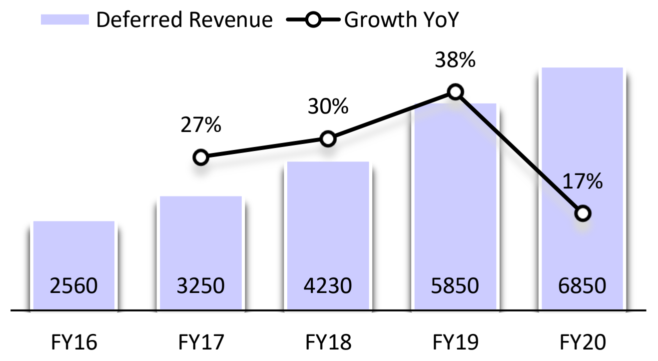


Source: MOFSL

Deferred revenue at 1.1x of FY20 top line gives visibility on revenue for yearly and multiyear subscriptions.

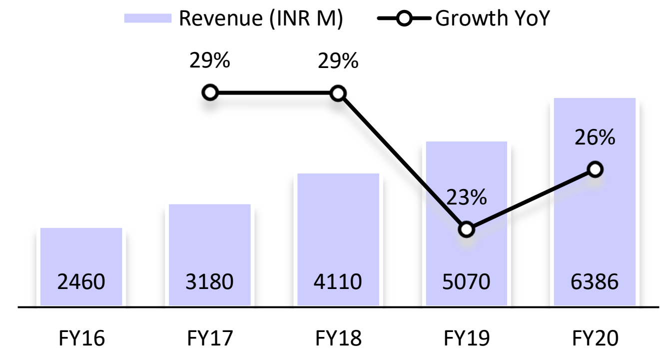
- Deferred revenue offers further visibility on near-term growth. The company collects revenue from suppliers in advance; 60% of this deferred revenue is realized into the top line within the following 12 months, while 40% is realized beyond this period. Overall 20–21 months of average deferred revenue is converted to sales.
- Customer additions and ARPU have continued to drive 27% revenue growth in the past four years. Historically, customer additions have been at 13–20%, and the remainder has constituted better realization.
- To maintain the supplier base, IndiaMART does not change the subscription fees for customers continuing to subscribe to the platform. However, an ARPU increase is seen among new customers. We believe the platform adds ~35% new customers every year (churn rate of ~20%). These customers are liable to pay increased subscription fees, hence maintaining the increase in ARPU.

Exhibit 13: Strong collections from SMEs



Source: MOFSL, Company

Exhibit 14: Consistently high revenue growth



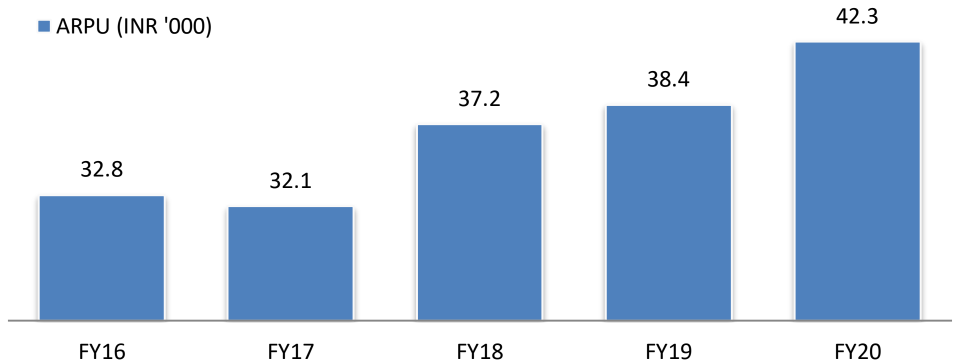
Source: MOFSL, Company

Positive operating leverage

Strong revenue growth despite sharp reduction in advertisement cost over the years

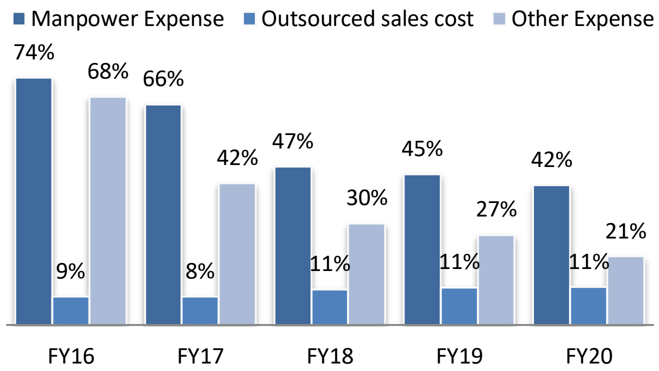
- Employee expenses, outsourced sales cost, and engagement expenses for buyers and sellers constitute the three major cost items for IndiaMART. After FY16, the company has not incurred any major advertisement expenses as most of the traction on the platform is organic. Advertisement expenses as a percentage of revenue reduced to less than 1% in FY20 from 19% in FY16. All of the three costs have cumulatively increased in the range of 10–16% over the last three years. At the same time, revenue growth has been in the range of 23–29%, giving the company leverage over margins.
- IndiaMART showed strong resilience in controlling cost when collections fell by 50% in 1QFY21. The company was able to reduce operational cost by 28%, largely by cutting off variable pay. This shows IndiaMART's ability to pull operating leverage on higher revenue growth, while at the same time manage cost in the case of event-based revenue decline.
- Led by market growth, the company has been able to grow the number of paid sellers at a CAGR of 15% over the past three years. Also, ARPU growth during this period has been at 11%, adding to the revenue CAGR of 26%.
- IndiaMART has been able to increase ARPU despite witnessing a rise in the number of paid sellers due to lower price sensitivity on the seller front. The platform charges just a 0.2% commission on the total sale of goods, the lowest among the Internet-based marketplaces. Furthermore, our channel checks suggest sellers on the platform have no issues with the price point, given the high value added by the platform. This presents a unique positioning for the company to increase its ARPU on a gradual basis.

Exhibit 15: Lower price sensitivity leads to continued increase in ARPU



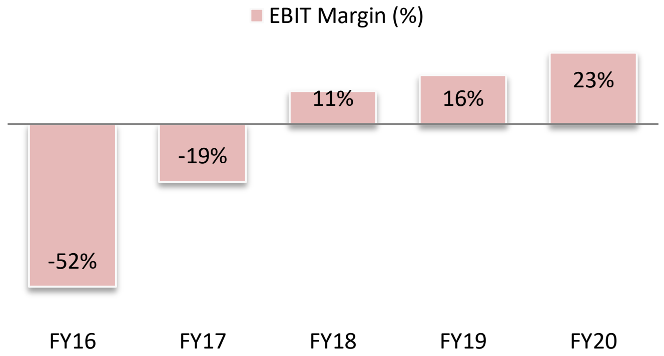
Source: MOFSL, Company

Exhibit 16: Strong operating leverage in the business…



Source: MOFSL, Company

Exhibit 17: …leads to continued increase in margins



Source: MOFSL, Company

High FCF yield; strong balance sheet

Robust cash generation with minimum investments

- **IndiaMART operates in a negative working capital cycle with over a year of deferred revenue days.**
- **Along with this, the platform has to invest very little in the core business for on-going business momentum. Capex as a percentage of sales is less than 1%.**
- **This leads to high cash generation and positive FCF yield of 3%.**

- IndiaMART has healthy cash flow generation, particularly led by three main factors: a) high growth in operating profit, b) negative working capital, and c) lower capital expenditure in an asset-light model.
- The company's operating profit has seen stellar growth. EBIT margins increased to 23% in FY20 from -52% in FY16. In FY20, EBIT growth stood at 84%.

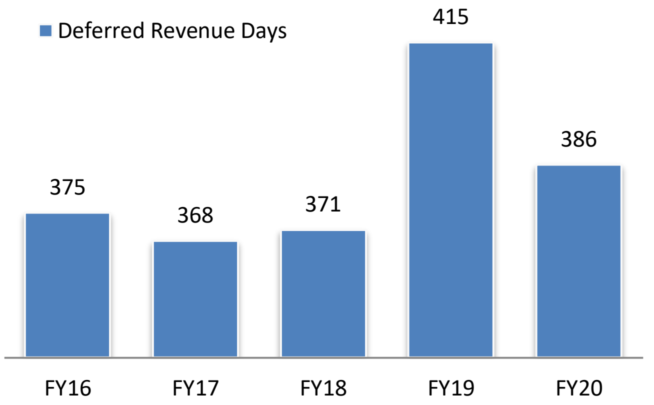
Health OCF/EBITDA of 150% and PAT/FCF of 160%

- IndiaMART is a negative working capital cycle business as the company operates on a subscription-based model, resulting in upfront cash collection that appears as deferred revenue on the company's balance sheet. The company saw a 28% CAGR of deferred revenue over FY16–20. The company's deferred sales days exceed a year, while average payable days for the last four years are over a month. This has led to a strong cash balance within the company.

Cash on the books is at INR9.5b, equivalent to 14% of market cap.

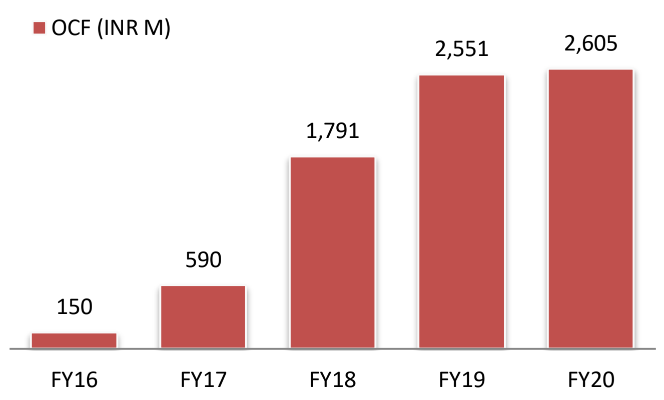
- The company also has a capex-light model: capital expenditure as a percentage of sales is less than 1%, indicating negligible investments required to pump up the business. Nevertheless, we do believe the company may use existing cash of INR9.5b (83% of the balance sheet) for tuck-in acquisitions/investments.
- All of the above factors would result in healthy cash generation. As a result, cash and cash equivalents have grown at a 64% CAGR over the past three years.

Exhibit 18: Over a year of deferred revenue days…



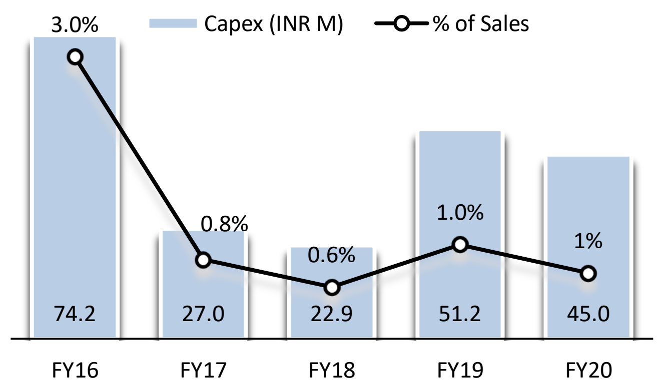
Source: MOFSL, Company

Exhibit 19: …result in increasing OCF



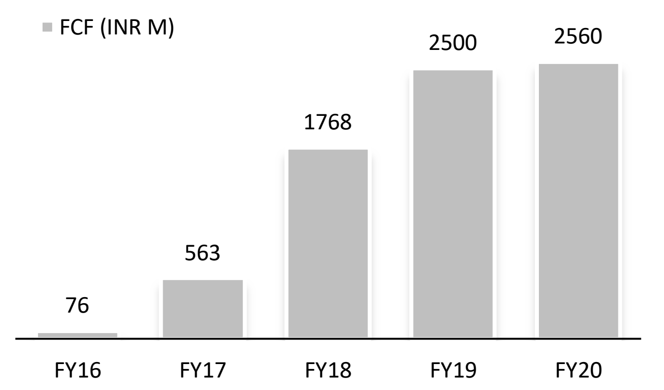
Source: MOFSL, Company

Exhibit 20: <1% of capex goes into sales



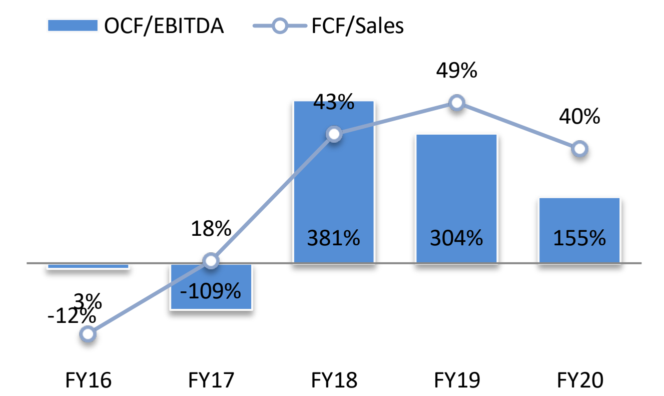
Source: MOFSL, Company

Exhibit 21: FCF yield at 3%



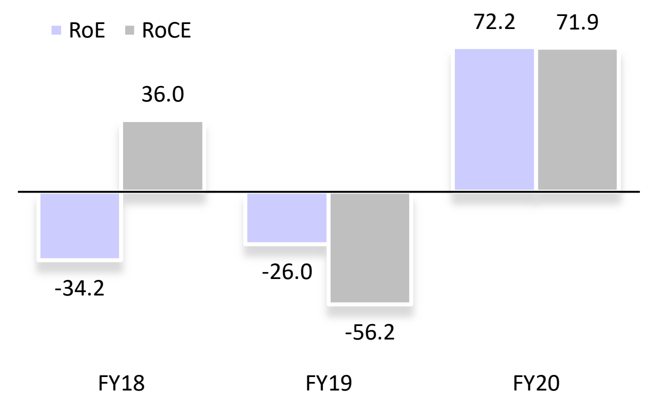
Source: MOFSL, Company

Exhibit 22: Cash generated from operations remains high



Source: MOFSL, Company

Exhibit 23: Low capital requirements drive healthy return ratios



Source: MOFSL, Company

Capital allocation

While the company's cash balance constitutes 80% of its balance sheet size, most of the cash is parked as deferred revenue or contractual liabilities. Therefore, the capital allocation policy should only be considered for cash generated from operations. For FY20, the company had a payout ratio of 23%. We expect a payout ratio in a similar range for the next three to four years as the company's focus remains on investments and acquisitions that could increase its engagement with suppliers.

Valuation and view

Initiate with Buy

- **Both collections (10% growth in FY20) and deferred revenue (17% growth in FY20) growth decelerated in FY20, even prior to the COVID-19 impact. This was led by slower growth in the overall economy.**
- **The COVID-19 impact led to a 10% reduction in paid suppliers in 1QFY21, leading to a drop in collections by 50%. New supplier additions in growth categories are expected to offset the higher churn in impacted verticals. We forecast a 7% fall in paid suppliers and 25% in collections for FY21.**
- **Our forecast of near-term impact on the company is weighed by closures across the country. Nevertheless, we are confident of strong fundamental growth in operations thereon, driven by: a) high growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) >70% market share in the underlying industry, e) the ability to increase ARPU on account of low price sensitivity, and f) high operating leverage.**
- **Our DCF-based target price of INR3,550 is arrived with an assumption of 11% WACC and 5% terminal growth rate. TP implies upside of 19%. Initiate with Buy. Risk factors include higher mortality in supplier base and potential entry of a cash rich global player.**

- High growth in digitization among SMEs, a strong network effect, >70% market share in the underlying industry, and a gradual increase in ARPU on account of low price sensitivity should maintain the revenue growth momentum in the medium to long term.

Expect 25% decline in collections in FY21

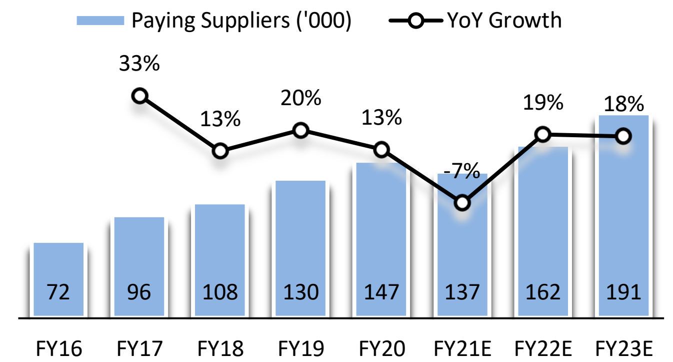
- However, given the COVID-19-led lockdown, we foresee a 7% YoY reduction in the paid supplier base, resulting in a 25% drop in collections and 7.5% YoY decline in revenues for FY21. We forecast a sharp turnaround in FY22 operations on account of: a) pent-up demand, b) a stable base of total suppliers, c) the need for out-of-the-circle buyers, and d) higher Internet penetration.
- We expect decline in collections to be largely attributable to: (a) higher churn in monthly subscribers, (b) churn in annual subscribers whose payments are due in the near term, and (c) the extension of payment terms.
- The company has been able to maintain its ARPU, largely on account of the higher churn in monthly customers (with lower realization) offsetting discounts on base packages. Going ahead, we can expect a 5% drop in APRU for the rest of the year as newer supplier additions are dominated by lower duration packages.
- We expect a 9% CAGR in paid suppliers, coupled with a 2% CAGR in ARPU over FY20–23, implying a revenue CAGR of 10% over FY20–23.

Exhibit 24: We expect a 10% revenue CAGR over FY20–23

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Income from Operations						
Registered buyers (m)	60.00	83.00	102.00	122.40	159.12	206.86
YoY Growth (%)	53.8	38.3	22.9	20.0	30.0	30.0
Indian supplier storefronts (m)	4.70	5.50	6.00	6.30	7.06	8.33
YoY Growth (%)	47	17	9	5	12	18
Paying subscription suppliers (000s)	108.00	130.00	147.00	136.71	162.29	191.50
YoY Growth (%)	12.5	20.4	13.1	-7.0	18.7	18.0
Paying Supplier/Total Supplier (%)	2.3	2.4	2.5	2.2	2.3	2.3
Annualized revenue per Paying customer(ARPU)	37,246	38,373	42,300	43,208	42,814	44,683
Revenue	4,110.00	5070	6386	5907	6948	8557
YoY Growth (%)	29.2	23.4	26.0	-7.5	17.6	23.2
Revenue / Buyers	68.5	61.1	67.0	51.7	46.6	46.1

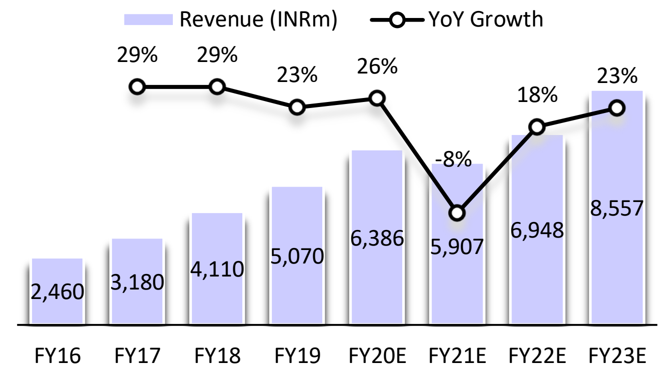
Source: MOFSL, Company

Exhibit 25: We expect a 9% CAGR for paid suppliers…



Source: MOFSL, Company

Exhibit 26: …implying a revenue CAGR of 10%



Source: MOFSL, Company

- Led by high operating leverage in the business, lower price sensitivity on supplier additions, and the optimization of sales cost / other expenses, we forecast an 8pp margin expansion for the company over FY20–23. This implies an EBIT CAGR of 22% and a PAT CAGR of 26% over FY20–23.
- We further allude to the fact that the company has shown high cash conversion, with OCF/EBITDA at 155% and FCF/sales at 40%. Low capital requirements have led to ROE of 72% in FY20.
- Unit economics work in favor of IndiaMART. Assuming a lifespan of five years for a customer and annual churn of 20%, the ratio of the lifetime value of a customer to the total cost of acquisition amounts to 6:1 (for FY20). We expect this ratio to increase as the platform adds more customers, strengthening our assumption for gradual margin expansion.

Exhibit 27: Favorable unit economics

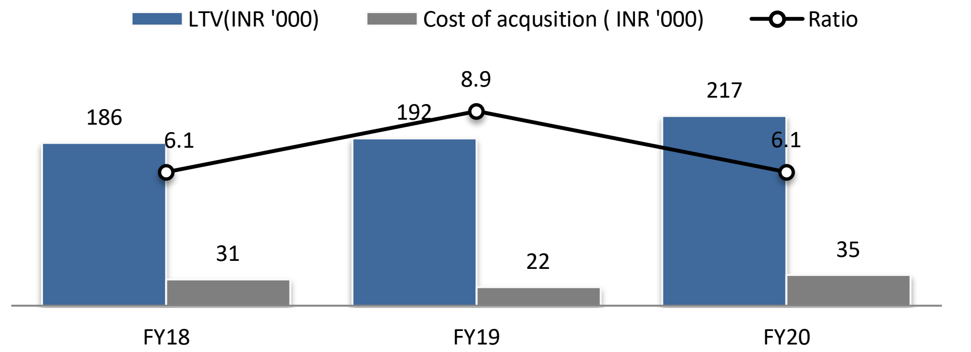
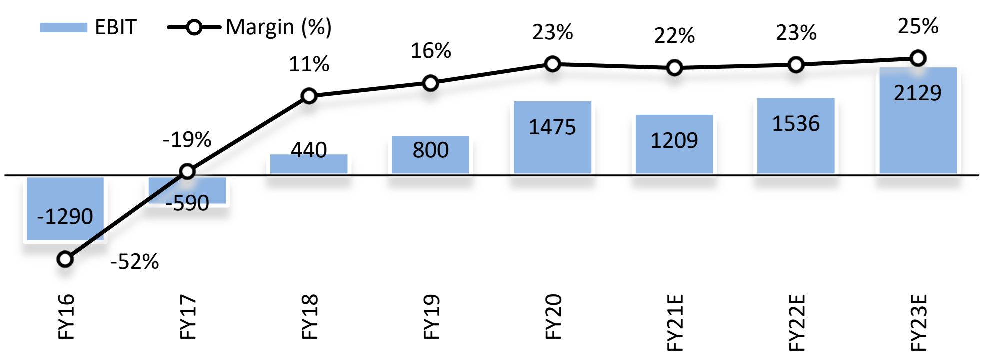


Exhibit 28: Cost projections

Cost of Operations	FY18	FY19	FY20	FY21E	FY22E	FY23E
Employees	2609	2995	3307	3150	3400	4000
Net Adds	-165	386	312	-157	250	600
Cost per employee '000	747	765	811	716	814	875
Wage Hike	-1%	2%	6%	-12%	14%	8%
Manpower Cost	1950	2290	2670	2266	2718	3265
YoY Growth	-7.1%	17.4%	16.6%	-15.1%	20.0%	20.1%
Outsourced field sales representative	979	1067	1374	1365	1740	1940
Net Adds	447	88	307	-9	375	200
Outsourced field cost per employee '000	449.4	534.2	551.9	380.2	414.2	438.1
Wage Hike	-11%	19%	3%	-31%	9%	6%
Outsourced sales cost	440	570	724	524	705	817
Total Sales Rep	2921	3316	3929	4266	5438	6063
Outsourced sales rep. as a % of total sales rep	34%	32%	35%	32%	32%	32%
YoY Increase	11%	14%	18%	9%	27%	11%
Other Expenses	1250	1370	1310	913	1251	1540
as a % of sales	30%	27%	21%	15%	18%	18%
Total Expenses	3640	4230	4704	3703	4674	5623

Source: MOFSL, Company

Exhibit 29: We expect EBIT margin expansion of 230bp over FY20–23



Source: Company, MOFSL

Initiate with Buy; TP of INR3,550

- We value the company using DCF; we have assumed a 20% revenue CAGR and 25% EBIT CAGR over FY24–34. For every 1 pp change in EBIT CAGR, TP changes by 4%.
- Longer term margin performance should coincide with the likes of platforms such as Naukri.com, which has shown a 10pp increase in margins in the last 10 years on high operating leverage. This would only be possible if IndiaMART is able to increase its supplier base without incurring large spend on advertising. We believe the company would be able to do so, given the network effect in the business.
- Note that the company has reported a revenue CAGR of 27% in the last four years and turned around margins to 23% in FY20 from -52% in FY16. IndiaMART is trading at 35x FY22 EPS; for FY20–23, we expect a revenue/EBIT/PAT CAGR at 10%/22%/26%. Our DCF-based target price of INR3,550 implies upside of 19%.
- We foresee near-term impact on the company, weighed by closures across the country. However, we are confident of strong fundamental growth, driven by: a) high growth in digitization among SMEs (~25%), b) a strong network effect, c) >70% market share in the underlying industry, d) the ability to increase ARPU on account of low price sensitivity, e) high operating leverage, and f) high FCF yield.

Exhibit 30: DCF assumption

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Suppliers (m)	5.5	6.0	6.3	7.1	8.3	10.0	12.0	14.4	17.3	20.7	24.9	29.1	33.2	36.8	39.8	41.7
Growth (%)	17.0	9.1	5.0	12.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	17.0	14.0	11.0	8.0	5.0
Paid Suppliers ('000)	130	147	137	162	191	240	288	345	414	497	597	698	796	883	954	1002
% of Total Suppliers	2.4	2.5	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Revenue (INR m)	5970	6386	5907	6948	8557	11208	14054	17607	22037	27555	34422	41885	49611	57161	64018	69638
RPU (INR'000)	38	42	43	43	45	47	49	51	53	55	58	60	62	65	67	70
RPU Gr (%)	3.0	10.2	2.1	-0.9	4.6	4.6	4.5	4.4	4.3	4.2	4.1	4.0	3.9	3.8	3.7	3.6
EBIT (INR m)	800	1475	2041	2085	2701	3538	4436	5558	7095	9138	11758	14736	17978	20714	23199	25236
EBIT Margin (%)	13.4	23.1	34.6	30.0	31.6	31.6	31.6	31.6	32.2	33.2	34.2	35.2	36.2	36.2	36.2	36.2
Tax (INR m)	350	558	810	890	1126	303	379	475	595	744	929	1131	1339	1543	1728	1880
ETR (%)	62.5	26.2	26.0	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
EBIT (1-Tc)	300	1088	1511	1540	1994	2612	3276	4104	5239	6748	8682	10881	13275	15295	17130	18634
Depreciation	40	207	163	189	233	325	408	511	639	799	998	1215	1439	1658	1857	2020
Dep as % of sales	0.7	3.2	2.8	2.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Change in working capital	-1686	-1022	230	-1188	-1863	-2440	-3060	-3833	-4797	-5999	-7149	-8280	-9312	-10157	-10735	-10510
Change in working capital as a % of sales	-28.2	-16.0	3.9	-17.1	-21.8	-21.8	-21.8	-21.8	-21.8	-21.8	-20.8	-19.8	-18.8	-17.8	-16.8	-15.1
Capex	0.52	64	59	69	86	112	141	176	220	276	344	419	496	572	640	696
Capex as a % of sales	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
FCF	2026	2254	1385	2847	4005	5265	6602	8271	10455	13270	16485	19957	23529	26538	29082	30467
PV	2026	2030	1124	2082	2638	3125	3530	3984	4537	5187	5806	6332	6726	6834	6747	6368

Exhibit 31: Target Price: INR3,550; Upside: 19%

WACC (%)	11%
Terminal Growth rate (%)	5
Total PV (m)	69075
Terminal Value	23291
Cash (m)	9540
Total Value	101,906
Total shares (m)	**29**
Per share Value (INR)	**3550**
CMP (INR)	**2990**
Upside (%)	**19**

Exhibit 32: Sensitivity analysis

WACC/g	Sensitivity analysis				
3,550	3.0%	4.0%	5.0%	6.0%	7.0%
10%	3,769	3,964	4,232	4,627	5,279
11%	3,273	3,393	3,550	3,762	4,076
12%	2,901	2,978	3,074	3,198	3,369
13%	2,610	2,661	2,724	2,801	2,901
14%	2,376	2,412	2,454	2,504	2,567

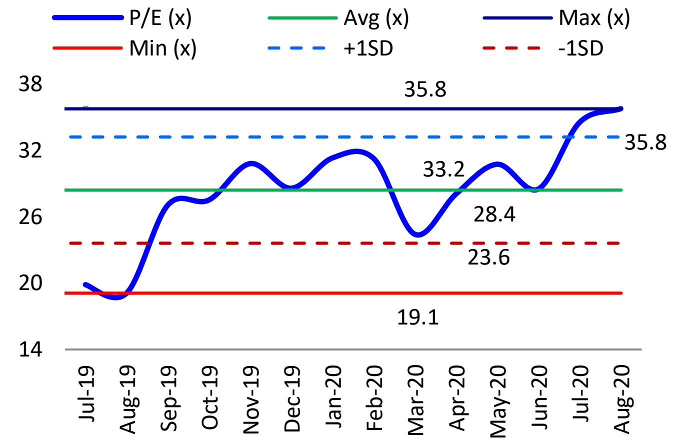
Source: MOFSL, Company

Exhibit 33: For every 1pp change in EBIT CAGR, TP changes by 4%

	-1SD	Assumption	+1SD
EBIT CAGR	24%	25%	26%
PV (INR B)	66	66	71
Terminal Value (INR B)	22	22	24
Total Value (INR B)	98	97	105
TP	3420	3550	3680

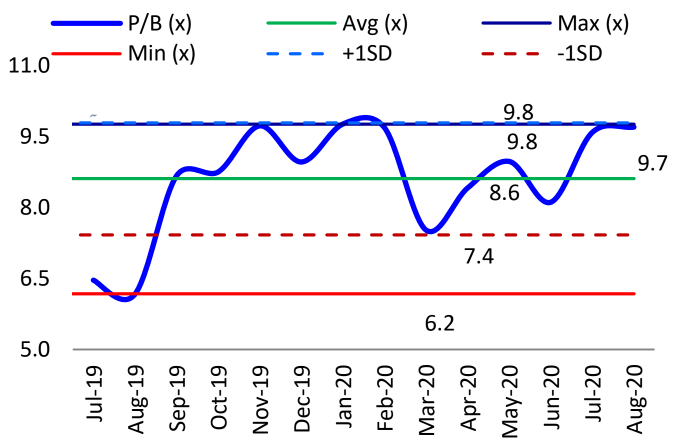
Source: MOFSL, Company

Exhibit 34: PE chart



Source: MOFSL, Company

Exhibit 35: PB chart



Source: MOFSL, Company

Key risks

Higher business mortality among suppliers

IndiaMART has indicated a 20% loss in its supplier base. While the company claims that most of these suppliers are still on the platform, opting for free services, risk persists from the viewpoint of business mortality due to the current lockdown situation. Higher business mortality would have a permanent impact on the paid supplier base and, consequently, the company's revenue profile.

Pricing power

In the current situation, the company has been providing pricing discounts and delayed payment terms on a case-by-case basis. Given the economic conditions, SMEs may not opt for regular pricing once the situation normalizes. Moreover, it may prove challenging for sales employees to convince SMEs to revert to the original pricing.

IndiaMART has been increasing the pricing for new customers who are joining the platform. The current situation may limit the platform's power to sign up customers at increased subscription prices.

Cases and legal charges

The company has been a part of various lawsuits in the past, largely related to copyright infringement and the availability of counterfeit products on the platform. In the event that alleged counterfeit or infringing products are listed on the marketplace, or alleged infringing contents are made available through the platform, the company could face claims and negative publicity related to these activities or for its alleged failure to act in a timely or effective manner in response to the infringement or to otherwise restrict or limit these listings.

A US Trade Representative (USTR) has already placed IndiaMART under notorious marketplaces in 2018. Given the company's large SME base and even larger product listings, it becomes difficult to monitor every single product. If some discrepancy is found, IndiaMART contacts the supplier to inquire about it; if there is no response within a certain time period, the IndiaMART platform has the authority to de-list the supplier.

Venturing into Transactions and Logistics

Previously, the company had ventured into the Transactions space through its subsidiary Tolexo. After several unsuccessful attempts, IndiaMART's investment value in the subsidiary was reduced by INR468m. If and when the company plans to add new subsidiaries to extend its arm beyond the Classifieds space, it may incur higher investments that may or may not be successful. Given the higher competition and large VC-backed players in the B2B E-Tailing space, the company would have to incur cash loss in initial years to set up these businesses.

Technology curve

Since the company's main business is carried out through a platform, technology becomes the key essence of the business. The company's failure to keep up with the pace of technological change or a lag in adding new product features to its platform (v/s competitors) could lead to erosion in market share and profitability. Furthermore, the platform's functioning depends on external factors, such as network- and cloud-based servers; any issues in the same could have a temporary impact on business operations.

Business of scale

IndiaMART is able to attract more buyers and sellers on the platform owing to the availability of a massive list of products on the platform, including almost all components in the production value chain. Any platform that could replicate this by adding more suppliers on discounted pricing may be able to steal the momentum away from the IndiaMART platform. The network effect would automatically result in a higher supplier base going to a bigger platform.

Bull and Bear Cases

Bull Case

- In our Bull Case, we factor a much faster recovery in the supplier base following 10% decline in 1QFY21. We factor a 3% increase in the supplier base for FY21 and a 21% increase in paying suppliers in FY22. This would lead to a revenue CAGR of 13% over FY20–23.
- On account of non-payment of variable cost, we expect decline in operational cost by 20% in FY21. We expect an increase of 30% in FY22 on account of wage hikes, higher employee additions, and higher variable cost. We expect a 31% increase in EBIT over FY20–23.
- As a result, our PAT would increase by 32% over FY20–23.
- Based on the above assumptions, we arrive at a DCF target price of INR3,700, implying upside of 26%.

Bear Case

- In our Bear Case, we factor slower recovery in the supplier base following a decline of 10% in 1QFY21. We factor a 12% reduction in the supplier base for FY21 and a 17% increase in paying suppliers in FY22. This would lead to a revenue CAGR of 5% over FY20–23.
- Furthermore, we expect a drop in realization to the tune of 1% over FY20–23 on account of lower pricing power in a distressed demand environment.
- We still expect a 5% increase in EBIT over FY20–23 on account of strong cost rationalization.
- As a result, our PAT would increase by 6% over FY20–23.
- Based on the above assumptions, we arrive at a DCF target price of INR2,320, implying downside of 22%.

SCENARIO ANALYSIS – BULL CASE

	FY21E	FY22E	FY23E
Revenues (INR m)	6158	7864	9301
YoY Growth (%)	-4	28	18
Operating Expenses (INR m)	3746	4839	5757
YoY Growth (%)	-20	13	11
EBIT	2242	2811	3291
Margin (%)	36	36	35
PAT (INR m)	2455	3049	3614
YoY Growth (%)	56	24	19
EPS (INR)	84	106	125
DCF TP	**3700.0**		

Source: MOFSL

SCENARIO ANALYSIS – BEAR CASE

	FY21E	FY22E	FY23E
Revenues (INR m)	5621	6131	7310
YoY Growth (%)	-12	9	19
Operating Expenses (INR m)	3655	4527	5399
YoY Growth (%)	-22	5	4
EBIT	1811	1437	1713
Margin (%)	32	23	23
PAT (INR m)	1947	1568	1866
YoY Growth (%)	24	-19	19
EPS (INR)	67	54	65
DCF TP	**2320.0**		

Source: MOFSL

Key management personnel

Dinesh Agarwal, MD and Founder

Mr Dinesh Agarwal established the company in 1999 following his stint as a computer engineer in the US. He has been a Director on the company's board since its incorporation. His experience spans Hindustan Management and Technical Services, HCL America, Inc., HCL, HCL Hewlett-Packard, Centre for Development of Telematics (C-Dot), and CMC. He is a Charter Member of The Indus Entrepreneurs (TiE), a global network of entrepreneurs and professionals. He is also a member of the governing council of the Indian and Mobile Association of India. Mr Agarwal holds a Bachelor's degree in Technology (Computer Science and Engineering) from the Harcourt Butler Technological Institute, Kanpur University.

Brijesh Agrawal, Whole-time Director / Co-Founder

Mr Brijesh Agrawal has also been a Director on the company's board since its incorporation. He expertizes in Internet, networking, and systems development. Previously, he worked with H N Miebach Logistics India Private Limited. He is also a Charter Member of The Indus Entrepreneurs (TiE). Mr Brijesh Agrawal holds a Master's degree in Management Science from the University of Lucknow and a Post-graduate Diploma in Business Management from Northern Institute for Integrated Learning in Management, New Delhi.

Prateek Chandra, CFO

Mr Prateek Chandra has been the company CFO for five years now. He has a Bachelor of Commerce degree from Shri Ram College of Commerce, University of Delhi, and is a qualified Chartered Accountant. Prior to joining IndiaMART, he has served at exlService.com, Bharat S Raut & Co, and HT Media.

Dinesh Gulati, COO

Mr Gulati has been associated with the company since 2012. In the past, he has served in various sales and strategy roles for companies such as Jenson & Nicholson, Bharti Airtel, Kodak India, Reliance Infocomm, Indian Express, and Swan Telecom. He holds a Bachelor's degree in Chemical Engineering from Kanpur University and an MBA from FMS Delhi.

Amarinder S Dhaliwal, Chief Product Officer

Mr Amarinder Dhaliwal joined the company in 2016. He has done his B.Tech from IIT Delhi and MBA from IIM Ahmedabad. In the past, he has served at Micromax, BCCL, Times Internet, and SBI Capital Markets.

Company overview

IndiaMART is India's largest B2B marketplace, with market share exceeding 70%. The company operates a desktop-based and an app-based platform that matches the buyers with the appropriate suppliers.

Revenue is generated primarily through the sale of subscription packages to suppliers (available on a monthly, annual, and multi-year basis). These offer a range of benefits, including the listing of the supplier storefronts on a priority basis, access to a lead management system, integrated access to third-party online payment gateways, and access to requests for quotes (RFQs).

Typically, a buyer on the platform may either search for a specific product on the search bar or post his requirement in the form of an RFQ. The RFQ is then shared with the suppliers based on the subscription package they have opted for. IndiaMART also collects RFQs and buyer information through phone calls to buyers once they have searched for a product or service on the platform. IndiaMART remains free for buyers and for suppliers who do not wish to get RFQs from buyers. Buyers that submit an RFQ online receive a list of suppliers that, based on a behavior data-driven matchmaking algorithm, are relevant to those specific requirements. Suppliers on the platform can create storefronts where they are able to list down their products and other specifications. IndiaMART uses PNS (premium number services), which is basically a phone number allotted to each seller that can connect the seller's multiple phones with the same number. Along with relevant leads, IndiaMART provides information about potential buyers that search for the similar type of product through its platform.

The platform has more than 6m supplier listings for 68m products across 100k+ categories from 1000+ cities. Buyers and suppliers are both well-diversified in tier 1, 2, and 3 cities. A total of 448m and 464m business inquiries were delivered to IndiaMART's suppliers in FY19 and FY20, respectively.

Financials and valuations

Consolidated - Income Statement						(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Total Income from Operations	**4,110**	**5,070**	**6,386**	**5,907**	**6,948**	**8,557**
Change (%)	29.2	23.4	26.0	-7.5	17.6	23.2
Employees Cost	1,950	2,290	2,670	2,266	2,718	3,265
Outsourced sales cost	440	570	724	524	705	817
Other Expenses	1,250	1,370	1,310	913	1,251	1,540
Total Expenditure	**3,640**	**4,230**	**4,704**	**3,703**	**4,674**	**5,623**
% of Sales	88.6	83.4	73.7	62.7	67.3	65.7
EBITDA	**470**	**840**	**1,682**	**2,204**	**2,275**	**2,934**
Margin (%)	11.4	16.6	26.3	37.3	32.7	34.3
Depreciation	30	40	207	163	189	233
EBIT	**440**	**800**	**1,475**	**2,041**	**2,085**	**2,701**
Int. and Finance Charges	1,230	650	29	20	0	0
Other Income	190	410	683	1,076	1,318	1,604
PBT bef. EO Exp.	**-600**	**560**	**2,129**	**3,098**	**3,404**	**4,305**
EO Items	**0**	**0**	**-99**	**-4**	**0**	**0**
PBT after EO Exp.	**-600**	**560**	**2,030**	**3,094**	**3,404**	**4,305**
Total Tax	-1,150	350	558	810	890	1,126
Tax Rate (%)	191.7	62.5	27.5	26.2	26.2	26.2
Minority Interest	0	0	0	0	0	0
Reported PAT	**550**	**210**	**1,472**	**2,284**	**2,513**	**3,179**
Adjusted PAT	**550**	**210**	**1,571**	**2,288**	**2,513**	**3,179**
Change (%)	-185.7	-61.8	648.1	45.7	9.8	26.5
Margin (%)	13.4	4.1	24.6	38.7	36.2	37.1

Consolidated - Balance Sheet						(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Equity Share Capital	100	286	289	289	289	289
Total Reserves	-3,312	1,313	2,462	4,419	6,500	9,247
Net Worth	**-3,213**	**1,599**	**2,751**	**4,708**	**6,789**	**9,536**
Other Liabilties	5,393	2,300	3,312	3,358	3,842	4,589
Total Loans	0	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-556	-576	-596
Capital Employed	**933**	**2,935**	**5,527**	**7,510**	**10,055**	**13,529**
Net Fixed Assets	**73**	**85**	**52**	**72**	**92**	**112**
Goodwill on Consolidation	8	6	5	5	5	5
Capital WIP	2	2	2	2	2	2
Other Assets	345	44	1,514	1,514	1,514	1,514
Total Investments	**3,111**	**6,450**	**8,719**	**9,219**	**11,219**	**14,219**
Curr. Assets, Loans&Adv.	**642**	**657**	**401**	**1,671**	**2,983**	**4,637**
Account Receivables	7	6	17	16	19	23
Cash and Bank Balance	467	402	169	1,380	2,629	4,219
Loans and Advances	168	250	215	275	335	395
Curr. Liability & Prov.	**3,247**	**4,308**	**5,166**	**4,969**	**5,757**	**6,957**
Account Payables	419	450	179	161	193	232
Other Current Liabilities	2,720	3,709	4,682	4,493	5,238	6,389
Provisions	107	149	305	315	325	335
Net Current Assets	**-2,604**	**-3,650**	**-4,765**	**-3,298**	**-2,773**	**-2,320**
Appl. of Funds	**934**	**2,936**	**5,527**	**7,514**	**10,059**	**13,532**

E: MOFSL Estimates

Financials and valuations

Ratios

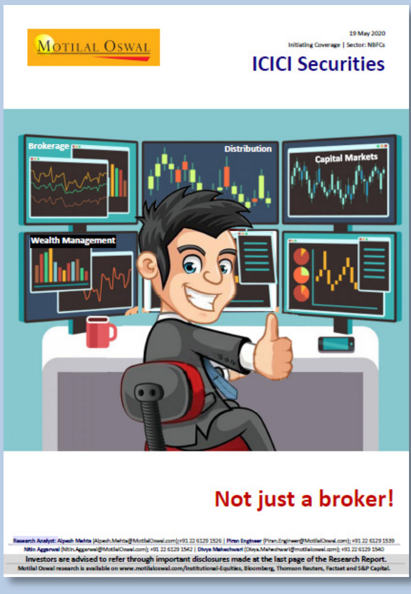
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)						
EPS	**28.6**	**7.7**	**51.3**	**79.3**	**87.3**	**110.4**
Cash EPS	**28.6**	**7.7**	**51.3**	**79.3**	**87.3**	**110.4**
BV/Share	-175.6	87.4	150.4	257.4	371.2	521.3
DPS	0.0	0.0	10.0	11.9	15.0	15.0
Payout (%)	0.0	0.0	22.7	15.1	17.2	13.6
Valuation (x)						
P/E	104.5	388.3	58.3	37.7	34.3	27.1
Cash P/E	104.5	388.3	58.3	37.7	34.3	27.1
P/BV	-17.0	34.2	19.9	11.6	8.1	5.7
EV/Sales	13.9	16.0	13.4	14.5	12.0	9.6
EV/EBITDA	121.3	96.6	50.9	38.7	36.7	27.9
Dividend Yield (%)	0.0	0.0	0.3	0.4	0.5	0.5
FCF per share	92.0	91.7	89.2	34.5	82.0	118.7
Return Ratios (%)						
RoE	-34.2	-26.0	72.2	61.4	43.7	38.9
RoCE	36.0	-56.2	71.9	61.7	43.7	38.9
RoIC	30.5	-9.1	-29.4	-46.7	-44.7	-45.8
Working Capital Ratios						
Fixed Asset Turnover (x)	56.4	59.8	122.8	82.0	75.5	76.4
Asset Turnover (x)	4.4	1.7	1.2	0.8	0.7	0.6
Inventory (Days)	0	0	0	0	0	0
Debtor (Days)	1	0	1	1	1	1
Creditor (Days)	37	32	10	10	10	10
Leverage Ratio (x)						
Current Ratio	0.2	0.2	0.1	0.3	0.5	0.7
Interest Cover Ratio	0.4	1.2	50.9	104.3	NA	NA
Net Debt/Equity	1.1	-4.3	-3.2	-2.3	-2.0	-1.9

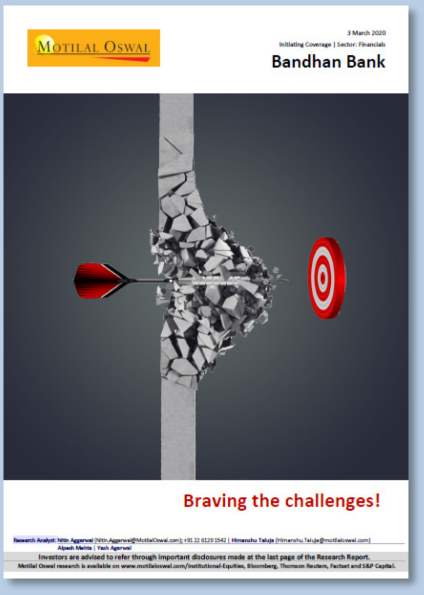
Consolidated - Cash Flow Statement **(INR M)**

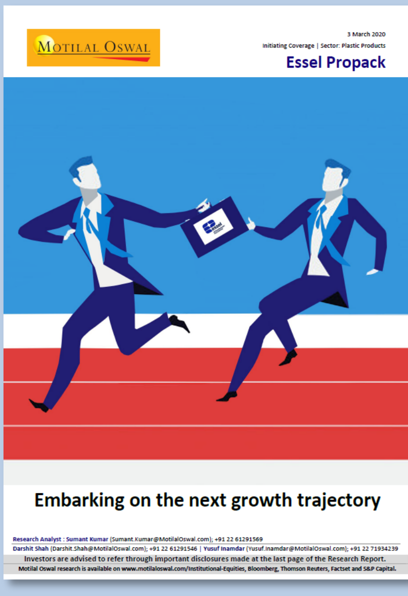
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	-601	539	2,114	3,116	3,404	4,305
Depreciation	29	41	211	163	189	233
Interest & Finance Charges	-28	-30	33	18	0	0
Direct Taxes Paid	-10	-52	-186	-810	-890	-1,126
(Inc)/Dec in WC	1,297	1,684	1,022	-230	1,188	1,863
CF from Operations	**687**	**2,183**	**3,194**	**2,258**	**3,890**	**5,274**
Others	1,103	368	-589	-1,072	-1,318	-1,604
CF from Operating incl EO	**1,791**	**2,551**	**2,605**	**1,185**	**2,572**	**3,671**
(Inc)/Dec in FA	-22	-51	-45	-183	-209	-253
Free Cash Flow	**1,769**	**2,500**	**2,560**	**1,002**	**2,363**	**3,418**
(Pur)/Sale of Investments	-1,586	-2,591	-2,047	-500	-2,000	-3,000
Others	-44	-116	-233	1,072	1,318	1,604
CF from Investments	**-1,653**	**-2,758**	**-2,325**	**389**	**-891**	**-1,649**
Issue of Shares	152	144	19	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0
Interest Paid	0	-3	-199	-18	0	0
Dividend Paid	0	0	-333	-346	-432	-432
Others	0	0	0	0	0	0
CF from Fin. Activity	**152**	**141**	**-513**	**-364**	**-432**	**-432**
Inc/Dec of Cash	**291**	**-65**	**-233**	**1,211**	**1,249**	**1,589**
Opening Balance	177	467	402	169	1,380	2,629
Closing Balance	**467**	**402**	**169**	**1,380**	**2,629**	**4,219**

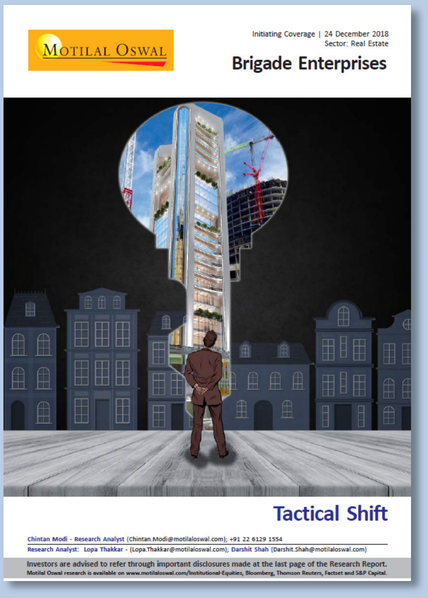
REPORT GALLERY

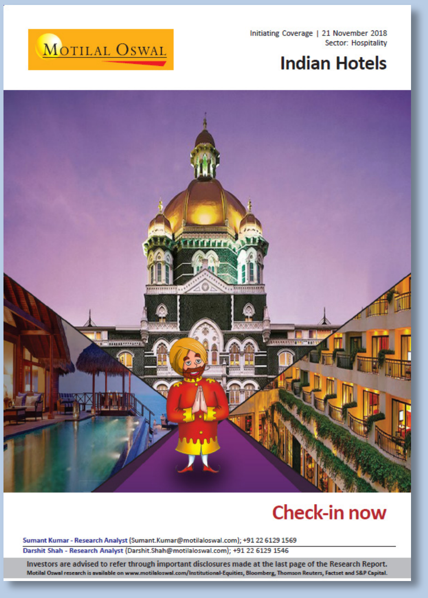
RECENT INITIATING COVERAGE REPORTS

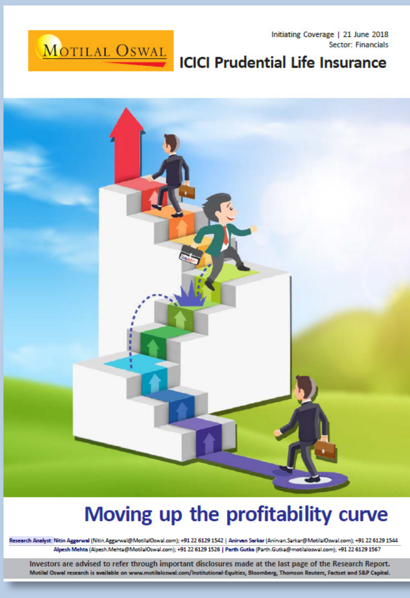












Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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