

Infibeam Incorporation Ltd.



Infibeam Incorporation Ltd.

Stellar Growth, Huge Upside Ahead !!

CMP INR 168	Target INR 256	Potential Upside 52%	Market Cap (INR Mn) 91,839	Recommendation BUY	Sector E-Commerce
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Result highlights

- Infibeam reported revenue of INR 2,395 Mn (+12.2% QoQ) in Q4 FY18 which is marginally above our estimates of INR 2,361 Mn. The increase in revenue was supported by addition of merchants (+5.7% QoQ) coupled with robust execution on IWS and CCAvenue businesses.
- Services revenue stood at INR 1,654.8 Mn (+16.9% QoQ), whereas Product revenue grew by 2.8% QoQ at INR 740.0 Mn.
- The adjusted EBITDA margin for the quarter reported at ~26.5% (+441 bps qoq) owing to strong execution on operations front and changes in revenue mix.
- The EBIT margin for the service segment (Excluding CCAvenue) stood at 42% in Q4 FY18 owing to incremental revenues from GeM and strong addition of merchants on IWS. On the other hand, product segment reported operating profit of INR 11.5 Mn Vs loss of INR 81.2 Mn in Q3 FY18.
- The adjusted PAT margin reported at ~16.3% (+300 bps QoQ), which was resulted from gaining operating efficiency
- The Value of Transaction (CCAvenue) reported at INR 70.6 Bn in Q4 FY18 (+30.3% QoQ) and it has generated revenues of ~INR 800 Mn.

MARKET DATA

Shares outs (Mn)	542
EquityCap (INR Mn)	543
Mkt Cap (INR Mn)	91839
52 Wk H/L (INR)	196/87
Volume Avg (3m K)	5991
Face Value (INR)	1
Bloomberg Code	INFIBEAM IN

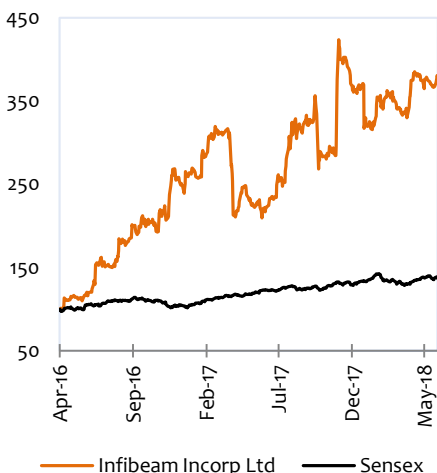
KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3,370	4,413	8,393	14,716	23,477
EBITDA	218	667	1,818*	3,381	6,108
PAT	93	441	1,111 *	2,020	4,054
EPS	0.2	0.8	2.1 *	3.0	6.1
EBITDA Margin	6.5%	15.1%	21.3%*	23.0%	26.0%
NPM	2.8%	10.0%	12.8%*	13.7%	17.3%

Source: Company, KRChoksey Research

* - FY18 numbers are adjusting the merger cost.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	35227
NIFTY	10696

Growth Engines – Transaction Businesses to Stimulate Top-Line Growth

During the quarter, the company reported the transaction revenue of ~INR 860 Mn (contribute ~36%), which has exceeded the subscription revenue of INR 795 Mn (contribute ~33%). The transaction revenue is primarily supported by payment business (CCAvenue) coupled with the revenue contribution from the dedicated marketplace (GeM), which is built under IWS infrastructure.

CCAvenue reported a significant growth of GMV (30.3% QoQ) owing to strong addition of merchants. The management has guided that the addition of merchant was supported by the government initiative to bear the MDR for two years for Debit Cards having transaction value below INR 2000. We believe that the government move to encourage digital payment would be in favor of CCAvenue and it would be benefited from the overall payment industry growth, which is expected to reach \$500 Bn in 2020 from currently \$50-60 Bn.

In Q4 FY18, the GeM generated a gross merchandising value (GMV) of INR 80 Bn, which translates into a revenue of ~INR 48 Mn. The Central and State government's offline procurement is approximately INR 6-7 Trillion, which provides a huge potential for Infibeam to broaden its top-line growth. Currently, GeM has around 23,125 govt. buyers and 110,756 sellers & service providers registered on its portal.

Bharat Bill Payment System (BBPS), a largest utility and bill payments, is expected to unleash huge potential in terms of volume as well as the value of transactions. Utility payments are mandatory and recurring in nature, which provides a stable revenue visibility and higher margins owing to low-cost operational model. As per the management, BillAvenue has around 2,50,000 active agents with over a dozen billers registered on the platform. As per the estimates, the size of the online bill payment market is expected to reach INR 9.4 Tn by 2020.

Lastly, Amul Online is running its operations in Ahmadabad and Gandhinagar under Infibeam's unique marketplace and it is expected to scale its operations across other regions. Likewise, Adani Wilmar is expected to commercialized its operations through Infibeam's Omni-Channel e-commerce platform with integrated logistics. **Considering the growth from each bucket we have envisaged the company's top-line to grow at a CAGR 67.2% between FY19E and FY20E. Additionally, we expect the transaction and subscription based revenues to contribute 61.2% and 25.4% respectively to the overall revenues.**

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	44.52	44.52	44.52
FIIIs	9.3	7	7.92
DIIIs	3.53	3.18	4.03
Others	42.64	45.29	43.53
Total	100	100	100

67.2%

Revenue CAGR between FY 18 and FY 20E

114%

PAT CAGR between FY18 and FY20E

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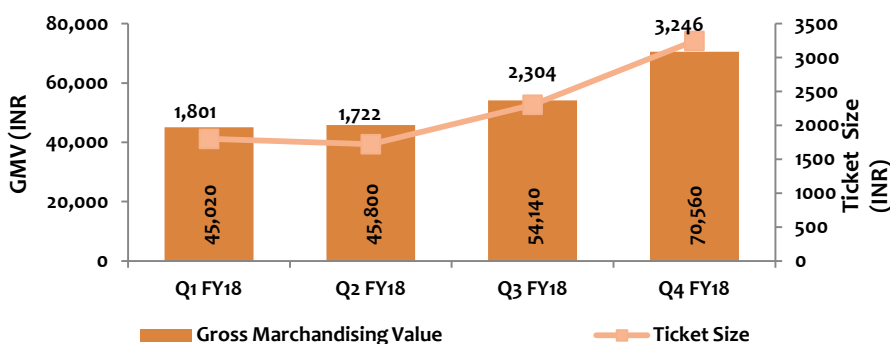
Strengthening E-Commerce Infrastructure – Acquires Unicommerce and Vavian International

Unicommerce is an e-commerce enabler and provides a range of cloud-based solutions for managing the supply chain process: Multichannel Order & Inventory Management, Omnichannel Retailing and Warehouse & Logistics Management. The company is running a SaaS (Software-as-a-Service) model to deliver software solutions across the large merchant base (10,000+) which includes leading brands such as Amazon, Myntra, Jabong and Flipkart. The solution is platform independent that can be integrated with ERP, Logistics Solutions, and online marketplace, which is offered to manufacturers, wholesalers, distributors, retail chains, and individual store owners. Considering the large merchant base (>400,000) under IWS (BaB, CCAvenue, GEM), which provides a huge opportunity for Infibeam to cross-sell Unicommerce's supply chain solutions to its existing online merchants. **Unicommerce is executing more than 100 Mn transaction per year. In FY18, Unicommerce generated a top-line of INR 203 Mn and it is profitable at PAT as well as EBITDA level.**

Vavian International is an online digital payment processing business that caters to merchants in the Middle-East region. The acquisition would be a part of Infibeam Global EMEA, which is expected to broaden its e-commerce service delivery and bring in large merchant base. **Vivian International is processing approximately 1.3 Mn transaction per year having transaction value of ~AED 730 Mn, which translates into a top-line of AED 7.2 Mn per year.**

We believe the acquisitions are value accretive in terms of building up e-commerce infrastructure and unlocking value for merchants while delivering end-to-end e-commerce service. Going ahead, we expect Unicommerce to augment Infibeam's top-line growth by offering/cross-selling its solutions and services to the readily available large number of merchants (Approx 400,000). Considering the facts, Unicommerce has domestic as well as international presence, delivers a range of supply chain solutions, and caters to a few leading brands, augurs well under Infibeam ecosystem to offer comprehensive solution to a large merchant base. As a result, it would translate into a more sticky business from merchants end, thereby increase revenue per merchant.

Exhibit 1: Gross Merchandising Volume (INR Mn)



Source: Company, KRChoksey Research

In Q4FY18, CCAvenue reported GMV of INR 70,560 Mn (+30.3% QoQ) and a ticket size of INR 3,246. The increase in GMV was driven by strong adoption of digital payment by merchants coupled with the increase in mode of digital payments such as UPI, IMPS, QR Code, Wallet and Card Payments. Going ahead, we expect the ticket size to improve further on the back of strong adoption of digital services, increase in internet penetration, and cheaper data tariffs.

Valuation and View

Infibeam has witnessed a strong top-line growth in FY18 (+90% YoY), which was driven by organic as well as inorganic components with improving profitability. The transaction on GeM is still at its nascent stage, however the same is expected to increase to INR 5-7 trillion in next 4-5 years (CAGR: ~150% over the next 5 years) from around INR 80bn in FY18. This could translate into strong revenue visibility for Infibeam, which we expect to stand at INR 1,020/1,800 Mn in FY19E/FY20E respectively. Further, we expect that CCAvenue (excluding BBPS) to report a revenue growth of ~98%/68% in FY19E/FY20E on the back of strong adoption of digital payments by SMEs. This can be ascertained from the fact that ticket size has been increased from ~INR 1,800 in Q1FY18 to INR 3,246 in Q4FY18. Going ahead, impetus focus to increase the ticket size and the number of transaction can improve growth outlook for the business in medium to long run.

The adjusted OPM for the year stood at 21.3% (+620 bps YoY) amidst increase in revenue contribution from service business to 64.5% in FY18 from 36.1% in FY17. Going ahead, we expect that further inching up revenue share from service vertical primarily on account of GEM, BBPS to aid group margins in medium to long run. We have envisaged the company to report OPM of 23%/26% in FY19E/FY20E from 21.3% in FY18 owing to leveraging low-cost infrastructure model and strong revenue contribution from GeM, BBPS, and other projects. This could also translate into better return ratios. We expect ROE to expand from 6.5% in FY18 to 13.5% in FY20E. In addition to this, we also expect, Cash as % of MCAP to improve to ~10% by FY20 from ~2% in FY18, which could assist company to finance any inorganic growth opportunities in the years to come or to improve dividend payout.

Considering the factors above, we have valued Infibeam on an SOTP basis and we have come up at a target price of INR 256.

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Q4 FY18 Result Snapshot

Exhibit 2: Quarterly Income Statement

YE March (Rs mn)	Q4 FY18	Q3 FY18	Q-o-Q change %	Q4 FY17	Y-o-Y change %	Q4 FY18 Estimates	Deviation %
Revenues	2,395	2,135	12.2%	1,209	98.2%	2,361	1.5%
Direct Cost	857	858	(0.2%)	715	19.8%	838	2.2%
Gross Profit	1,539	1,277	20.5%	494	211.6%	1,523	1.1%
SG&A	1,148	804	42.8%	293	292.2%	998	15.1%
EBITDA	391	473	(17.4%)	201	94.3%	525	(25.6%)
Depreciation & Amortisation	191	122	55.8%	65	192.0%	127	50.5%
EBIT	200	350	(42.9%)	136	47.3%	398	(49.8%)
Interest Cost	13	14	(5.8%)	14	(9.8%)	8	
Other Income, net	63	15	333.6%	35	78.9%	36	
PreTax Income	250	351	(28.7%)	157	59.7%	426	(41.3%)
Adjusted Pretax Income	250	351	(28.7%)	157	59.7%	426	
Tax	40	41	(1.7%)	21	91.6%	102	(60.8%)
Share of Minority Interest	(13)	22		0	(2793.9%)	22	
Share of Associates	(2)	(2)		0	NA	0	NA
Net Profit	221	286	(22.6%)	135	63.6%	346	(36.1%)
Adjusted Net Profit	221	286	(22.6%)	135	63.6%	346	(36.1%)
Diluted EPS (Rs)	0.4	0.5	(22.6%)	0.3	62.4%	0.5	
Adjusted Diluted EPS	0.4	0.5	(22.6%)	0.3	62.4%	0.5	(21.7%)
No.of Shares (mn) - Diluted	543	543		539		665	
Margin Analysis (%)			Change in bps	Change in bps			
Gross Profit Margin (%)	64.2%	59.8%	443	40.9%	2338	64.5%	(26)
Operating Profit Margin (%)	8.4%	16.4%	(806)	11.2%	(288)	16.9%	(853)
EBITDA Margin (%)	16.3%	22.1%	(583)	16.6%	(33)	22.2%	(594)
Net Profit Margin (%)	9.2%	13.4%	(416)	11.2%	(196)	14.7%	(543)
Adjusted NPM (%)	9.2%	13.4%	(416)	11.2%	(196)	14.7%	(543)
Effective Tax rate (%)	16.0%	11.6%	440	13.4%	267	24.0%	(798)
Cost Analysis (%)			Change in bps	Change in bps			
Direct cost as % of Sales	35.8%	40.2%	(443)	59.1%	(2338)	35.5%	26
SG&A as % of Sales	47.9%	37.7%	1027	24.2%	2371	42.3%	567

Source: Company, KRChoksey Research

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Exhibit 3: Profit & Loss Statement

INR Mn	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3,370	4,413	8,393	14,716	23,477
Growth %	16.9%	31.0%	90.2%	75.3%	59.5%
Total Revenue	3,370	4,413	8,393	14,716	23,477
Less:					
Increase/Decrease in Stock	115	(144)	22	(198)	(409)
Cost of Services & Raw Materials	2,437	2,586	2,901	4,462	6,850
Employee Cost & Related Expenses	277	569	559	625	638
Payment Gateway Processing Charges	0	0	1,785	3,443	5,628
Miscellaneous Expenses	552	449	1,603	3,002	4,661
Total Operating Expenditure	3,151	3,747	6,826	11,335	17,369
EBIDTA	218	667	1,567	3,381	6,108
Growth %	N.A.	205.7%	135.1%	115.7%	80.7%
Adjusted EBIDTA*	218	667	1,818	3,381	6,108
Growth %	N.A.	205.7%	172.5%	85.9%	80.7%
Less: Depreciation	175	225	664	817	991
EBIT	43	442	903	2,563	5,117
Growth %	N.A.	934.7%	104.3%	183.9%	99.6%
Interest Paid	11	43	57	37	37
Non-operating Income	55	164	313	71	125
Profit Before tax	86	563	1,159	2,597	5,205
Tax	(1)	128	271	571	1,145
Net Profit before Minority	87	435	888	2,026	4,060
Profit/Loss of Associate Company	(6)	0	(7)	0	0
Net Profit	93	441	882	2,020	4,054
Adjusted Net Profit*	93	441	1,111	2,020	4,054
Reported Diluted EPS Rs	0.2	0.8	2.0	3.0	6.1
Growth %	N.A.	N.A.	100.0%	50.0%	100.7%

Source: Company, KRChoksey Research

* - FY18 numbers are adjusting the merger cost.

Exhibit 4: Balance Sheet

INR Mn	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	530.9	538.9	542.8	664.8	664.8
Reserves & Surplus	6,099.5	7,288.3	25,715.9	27,575.7	31,469.8
Equity	6,630.4	7,827.3	26,258.7	28,240.5	32,134.6
Net Worth	6,630.4	7,827.3	26,258.7	28,240.5	32,134.6
Net Deferred tax liability/(Asset)	13.5	4.6	142.4	142.4	142.4
Total Loans	36.9	1,362.3	670.2	370.2	370.2
Capital Employed	6,680.9	9,194.1	27,071.3	28,753.1	32,647.2
Gross Block	1,090.9	1,548.9	5,773.0	6,010.3	7,076.3
Less: Depreciation	478.9	703.7	818.3	1,635.7	2,626.4
Net Block	612.0	845.2	4,954.7	4,374.6	4,449.9
Capital WIP	192.5	1,205.8	237.3	533.0	0.0
Investments	0.0	600.0	263.7	263.7	263.7
Goodwill on consolidation			16,190.7	16,190.7	16,190.7
Current Assets					
Inventories	237.8	94.2	116.1	282.2	450.2
Sundry Debtors	479.7	555.0	1,107.0	1,411.1	2,058.2
Cash and Bank Balance	5,330.9	3,238.7	2,192.7	5,120.7	9,138.5
Loans and Advances	334.3	2,655.0	2,816.4	806.3	1,286.4
Total Current Assets	6,382.6	6,542.9	6,232.2	7,620.3	12,933.4
Less: Current Liabilities & Provisions					
Sundry Creditors	813.3	1,172.0	2,559.2	2,015.8	2,894.4
Provisions	6.0	69.2	57.7	22.9	105.7
Total Current Liabilities & Provisions	819.3	1,241.3	2,616.9	2,038.8	3,000.1
Miscellaneous Assets	313.1	1,241.5	1,809.6	1,809.6	1,809.6
Capital Applied	6,680.9	9,194.1	27,071.3	28,753.2	32,647.2

Source: Company, KRChoksey Research

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Exhibit 4: Cash Flow Analysis

INR Mn	FY16	FY17	FY18	FY19E	FY20E
PAT	92.7	441.1	882.2	2,019.9	4,054.1
Less: Non Operating Income	(46.2)	(161.4)	(313.3)	(71.1)	(125.1)
Add: Depreciation	175.4	224.8	664.3	817.4	990.7
Add: Interest Paid	11.5	42.6	57.3	37.0	37.0
Operating Profit before Working Capital Changes	311.7	633.1	1,290.5	2,803.2	4,956.7
(Inc)/Dec in Current Assets	13.4	(845.8)	(713.4)	1,706.0	(1,127.2)
Inc/(Dec) in Current Liabilities	72.2	591.4	1,375.6	(578.1)	961.3
Changes in Inventory	(115.0)	143.6	(21.9)	(166.1)	(168.0)
Net Cash Generated From Operations	282.3	522.3	1,930.8	3,764.9	4,622.8
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(119.0)	(2,299.2)	(4,224.1)	(237.3)	(1,066.0)
(Inc)/Dec in Capital Work In Progress	0.0	0.0	968.5	(295.7)	533.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	(15,854.4)	0.0	0.0
(Inc)/Dec in Investment (Others)	35.0	(3,423.5)	0.0	0.0	0.0
Add: Non Operating Income	50.2	138.7	313.3	71.1	125.1
(Inc)/Dec in Intangible Assets	4.0	0.0	(568.2)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(29.8)	(5,584.0)	(19,364.9)	(461.9)	(407.9)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	6.8	1,305.4	(692.1)	(300.0)	0.0
Proceeds from issue of shares to CCAvenue	0.00	0.00	17610.72	0.0	0.0
Inc/(Dec) in Equity	4,500.0	600.00	3.86	122.0	0.0
Dividend Paid	0.0	0.0	(54.3)	(133.0)	(133.0)
Tax Paid on Dividend	0.0	0.0	(11.1)	(27.1)	(27.1)
Less: Interest Paid	(9.9)	(44.0)	(57.3)	(37.0)	(37.0)
Exceptional Item	(30.9)	(168.5)	(658.3)	0.0	0.0
Net Cash Flow from Financing Activities	4,466.0	1,692.9	16,141.6	(375.0)	(197.0)
Net Inc/Dec in cash equivalents	4,718.6	(3,368.8)	(1,292.5)	2,928.0	4,017.8
Opening Cahs and Bank Balance	662.1	5,330.9	3,238.7	2,192.7	5,120.7
Closing Bank Balance	402.7	1,679.4	246.5	0.0	0.0
Closing Cash and Bank Balance	5,330.9	3,238.7	2,192.7	5,120.7	9,138.5

Source: Company, KRChoksey Research

Exhibit 5: Ratio Analysis

INR Mn	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	6.5%	15.1%	21.3%*	23.0%	26.0%
Net Profit Margin (%)	2.8%	10.0%	12.8%*	13.7%	17.3%
RoE (%)	2.1%	5.9%	6.5%*	7.5%	13.5%
RoCE (%)	2.4%	5.8%	6.2%*	7.4%	13.3%
Current Ratio (x)	7.8x	5.3x	2.4x	3.7x	4.3x
Book Value Per Share (Rs.)	12.2	14.4	48.4	42.5	48.3
Financial Leverage Ratios					
Debt/ Equity (x)	0.0x	0.2x	0.0x	0.0x	0.0x
Interest Coverage (x)	3.7x	10.4x	25.3x*	69.2x	138.2x
Growth Indicators %					
Sales Growth (%)	16.9%	31.0%	90.2%	75.3%	59.5%
EBITDA Growth (%)	N.A.	205.7%	172.5%*	85.9%	80.7%
Net Profit Growth (%)	N.A.	376.0%	152.0%*	81.8%	100.7%
Diluted EPS Growth (%)	N.A.	376.0%	156.0%*	50.0%	103.3%
Turnover Ratios					
Debtors (Days of net sales)	44	43	35	24	25
Creditors (Days of Raw Materials)	122	154	159	84	88

Source: Company, KRChoksey Research

* - FY18 numbers are adjusting the merger cost.

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Infibeam Incorporation Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
1-Jun-18	168	256	BUY	Buy	More than 15%
15-Feb-18	162	248	BUY	Accumulate	5% – 15%
15-Nov-17	176	209	BUY	Hold	0 – 5%
16-Aug-17	1,435	2,090	BUY		
31-May-17	963	1530	BUY	Reduce	-5% – 0
14-Feb-17	1,386	1,461	ACCUMULATE	Sell	Less than – 5%
12-Dec-16	1,119	1,333	BUY		
21-Nov-16	1,045	1,333	BUY		
22-Sep-16	936	1,062	BUY		

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Pritesh Thakkar (MBA, B.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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