

23 May 2022

IndiaMart InterMesh

Readying itself for the next phase of the growth journey; Buy

Rating: **Buy**

Target Price: Rs.5,500

Share Price: Rs.4,276

After adding ~13,000 (net) paying suppliers in Q4 FY22, IndiaMart has seen strong traction in subscriber additions and guided to adding ~8,000-9,000 paying suppliers a quarter in FY23 (earlier, ~5,000-6,000). The churn rate has stabilised at pre-Covid levels. Like Q4 FY22, the next quarter (Q1 FY23) will see high costs and margins will be impacted, then gradually improve. With the recent fall in the stock price, we find the valuation attractive and revisit the stock with a Buy rating and a TP of Rs5,500 (based on DCF basis, assuming 12% WACC & 6% terminal growth rate, implied PE of 45x FY24 EPS). We maintain our positive stance based on greater assurance, given growth in deferred revenue (reported 25% y/y in FY22); strong cash collections (reported 32% y/y growth in FY22); gradual economic recovery leading to better business conditions and healthy, ~Rs20bn, cash reserves.

Near-term muted margins as investments continue for growth ahead.

The company ended FY22 with 40.9% margins (49% in FY21), as it significantly expanded sales and the customer-services team by ~722 in H2. Even outsourced sales increased, ~41% y/y. All these costs are recurring because, as the company increases the number of paying suppliers, it will need more sales and servicing people. But as efficiency ramps up, we think margins should start recovering owing to the business' operating leverage.

Strategic investments of ~\$85m in accounting space. Since its share listing, IndiaMart has deployed ~Rs9bn in over 10-12 investments in software start-ups for minority stakes/big buyouts (of this, ~Rs6.5bn has been deployed in four companies in accounting). Now, with these four investments in place, it has a portfolio of accounting products that cover the entire spectrum of businesses from micro to large. The company plans to use cross-selling opportunities to drive growth.

Valuation. We revisit the stock with a Buy rating and a target of Rs5,500.

Risks: Pirated, counterfeit, illegal products, loss of paying suppliers, concentrated risk (top 1% customer contributes ~17% of revenue)

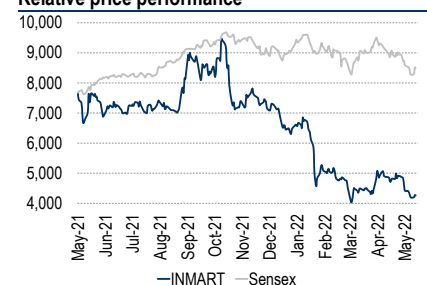
Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	6,389	6,696	7,535	9,862	12,006
Net profit (Rs m)	1,474	2,798	2,976	3,077	3,761
EPS (Rs)	50.2	92.3	97.4	100.7	123.1
P/E (x)	85.1	44.8	42.1	40.8	33.4
EV / EBITDA (x)	73.9	38.0	40.5	37.5	29.4
P / BV (x)	45.6	7.8	6.7	5.8	5.1
RoE (%)	68.5	30.0	17.8	15.9	16.9
RoCE (%)	19.7	17.1	10.6	9.7	11.1
Dividend yield (%)	0.2	0.4	0.0	0.2	0.5
Net debt / equity (x)	-3.4	-1.4	-1.3	-1.1	-1.1

Source: Company, Anand Rathi Research

Key data	INMART IN / INMR.BO
52-week high / low	Rs9711 / 3960
Sensex / Nifty	54326 / 16266
3-m average volume	\$11.2m
Market cap	Rs132bn / \$1697m
Shares outstanding	31m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	49.5	49.5	49.5
- of which, Pledged	-	-	-
Free float	50.5	50.5	50.5
- Foreign institutions	23.9	26.5	27.9
- Domestic institutions	4.5	4.4	3.6
- Public	22.1	19.6	19.0

Relative price performance



Source: Bloomberg

Shobit Singhal
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

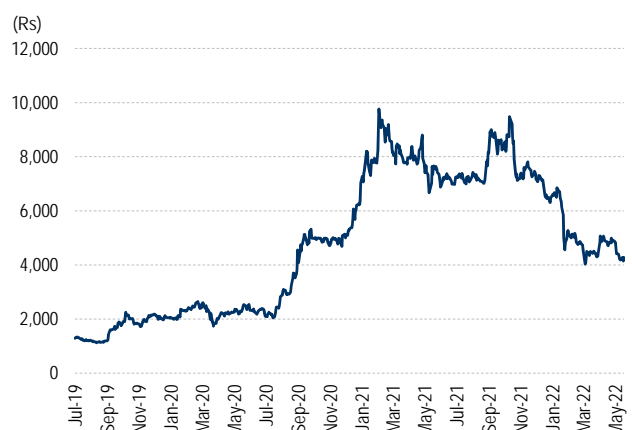
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	6,388.5	6,695.6	7,534.9	9,862.3	12,006.1
<i>Growth (%)</i>	26	5	13	31	22
No. of paying suppliers	147,000	152,000	169,000	203,645	244,374
Direct costs	4,261.5	3,208.7	4,179.5	6,116.1	7,222.7
Gross profit	2,127.1	3,487.0	3,355.3	3,746.2	4,783.4
<i>Gross margins (%)</i>	33.3	52.1	44.5	38.0	39.8
SG&A	438	205	277	420	540
EBITDA	1,689	3,282	3,078	3,326	4,243
<i>EBITDA margins (%)</i>	26.4	49.0	40.9	33.7	35.3
Depreciation	-211	-161	-119	-110	-100
Other income	686	866	1,122	1,171	1,168
Interest expenses	-33	-67	-54	-51	-49
PBT	2,131	3,920	4,027	4,335	5,263
<i>Effective tax rate (%)</i>	30	28	23	26	26
+Associates / (Minorities)	-16	-27	-122	-122	-122
Net income	1,474	2,798	2,976	3,077	3,761
WANS	29.3	30.3	30.6	30.6	30.6
FDEPS (Rs / sh)	50.2	92.3	97.4	100.7	123.1

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	2,131	3,920	4,027	4,335	5,263
+ Non-cash items	-361	-578	-833	110	100
Oper. prof. before WC	1,769	3,342	3,194	4,445	5,363
- Incr. / (decr.) in WC	-1,023	-471	-1,800	-2,079	-898
Others incl. taxes	-186	-588	-971	-1,136	-1,379
Operating cash-flow	2,606	3,225	4,023	5,388	4,882
Free cash-flow	2,561	3,225	3,979	5,330	4,812
- Acquisitions	-	-	-3,954	-5,000	-
- Div. (incl. buyback & taxes)	333	15	455	368	737
+ Equity raised	19	10,520	5	0	0
+ Debt raised	-	-	-	-	-
- Fin investments	1,604	13,437	-643	6	57
- Misc. (CFI + CFF)	-475	-65	-125	-51	-49
Net cash-flow	-174	176	-8	-96	3,968

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

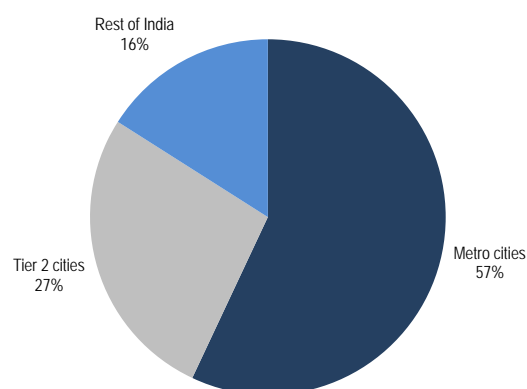
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	289	303	306	306	306
Net worth	2,751	16,109	18,741	21,449	24,473
Debt	-	-	-	-	-
Lease liability	765	634	563	563	563
LT liabilities	2,963	3,067	3,703	3,862	3,963
Capital employed	6,480	19,811	23,007	25,874	28,999
Net tangible assets	52	22	31	72	127
Net intangible assets	5	3	1	1	1
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	2	2	2	2	2
Right of use assets	800	626	528	528	528
Investments (strategic)	296	370	4,209	9,209	9,209
Investments (financial)	8,719	22,174	23,008	23,008	23,008
Current assets (excl. cash)	717	1,102	902	906	909
Cash	639	816	807	712	4,681
Current liabilities	4,751	5,304	6,481	8,564	9,466
Working capital	-4,034	-4,202	-5,579	-7,658	-8,557
Capital deployed	6,480	19,811	23,007	25,874	28,999

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	85.1	44.8	42.1	40.8	33.4
EV / EBITDA (x)	73.9	38.0	40.5	37.5	29.4
EV / Sales (x)	19.5	18.6	16.6	12.7	10.4
P/B (x)	45.6	7.8	6.7	5.8	5.1
RoE (%)	68.5	30.0	17.8	15.9	16.9
RoCE (%) - after tax	19.7	17.1	10.6	9.7	11.1
DPS (Rs / sh)	9.9	15.0	2.0	10.0	20.0
Dividend yield (%)	0.2	0.4	0.0	0.2	0.5
Dividend payout (%) - incl. DDT	23.7	19.6	2.5	12.0	19.6
Net debt / equity (x)	-3.4	-1.4	-1.3	-1.1	-1.1
Receivables (days)	1.0	0.7	0.6	0.6	0.6
Inventory (days)	-	-	-	-	-
Payables (days)	14	16	15	15	15
CFO : PAT %	176.8	115.3	135.2	175.1	129.8

Source: Company, Anand Rathi Research

Fig 6 – Paid-subscription suppliers, break-up, by area



Source: Company

With business volumes recovering, the company has guided to more suppliers added in FY23 than in FY22

In Q4 FY22 India's largest online B2B company for business products and services, IndiaMART provided ~149m registered buyers with access to ~7.1m storefronts in India, listing ~83m products and services across ~56 industries. In the quarter, the company added ~13k net paying subscribers (the most) and ended FY22 with 169,000 paid suppliers due to a supportive demand environment, recovery of lost customers (its lost ~20,000 paying subscribers during Covid-1 & -2) and growth in number of employees in the sales and service team (~722 in H2 FY22).

Fig 7 – Key operational parameters

	FY21					FY22				
	Q1	Q2	Q3	Q4	FY21	Q1	Q2	Q3	Q4	FY22
Registered buyers (m)	107	113	119	125	125	131	138	143	149	149
Total business enquiries delivered (m)	131	175	154	150	610	162	151	117	120	550
Daily unique business enquiries (m)	20	28	25	24	96	26	26	23	23	97
Total traffic (m)	191	259	253	257	960	268	284	259	260	1071
Total products live (m)	68	69	71	72	72	74	76	80	83	83
Indian supplier storefronts (m)	6.1	6.2	6.4	6.5	6.5	6.6	6.7	7	7.1	7.1
Paying subscription suppliers (No.)	133,000	141,000	148,000	152,000	152,000	146,000	150,000	155,833	169,324	169,324
Annualized revenue per paying customer (ARPU) (Rs)	45,452	45,809	46,707	47,004	43,640	49,708	48,437	48,044	47,400	44,300
Revenue share – top-10% paying subscription suppliers	43%	41%	41%	41%	41%	43.0%	44%	44%	45%	45%
Total employees	3,011	2,863	2,782	2,701	2,701	2,982	2,959	3,185	3,672	3,672
Product and tech employees	498	476	463	419	419	464	475	458	459	459
Corporate employees	138	138	138	132	132	142	141	141	148	148
Sales supervision and servicing	2375	2249	2181	2150	2,150	2376	2343	2586	3065	3,065

Source: Company, Anand Rathi Research

Now, with business volumes recovering and the shift in focus to investing in growth, management guided to ~8,000-9,000 paying suppliers added per quarter in FY23 (against the earlier ~5,000-6,000 guided to). The churn rate for platinum and gold clients (less than 10% annual churn) has nearly stabilized to pre-Covid levels, but is still volatile monthly (~25-30%).

Fig 8 – Customer churn

Customers	% of paid subscribers	Revenue contribution %	Churn rate %
Platinum	10	45	5-6 annually
Gold	30-35		10-12 annually
Silver, annually	22-28		20-25 annually
Silver, monthly	~33	25-30	5-6 monthly

Source: Company, Anand Rathi Research

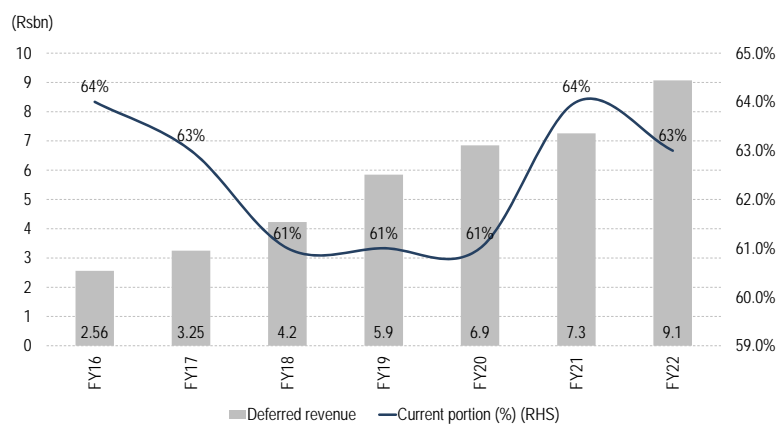
We expect the company to report 31%/21.7% revenue growth (incl. Buzy Infotech) in FY23/FY24, driven by greater assurance, given growth in deferred revenue (reported 25% y/y in FY22) and strong cash collections (reported 32% y/y growth in FY22). We now factor in ~8,500-10,000 paid suppliers added per quarter in FY23/FY24.

Fig 9 – Revenue

Revenue	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	CAGR % FY16-FY21	CAGR % FY22-FY24e
No. of paying subscription suppliers	72,335	96,025	108,000	130,000	147,000	152,000	169,000	203,645	244,374	16.0	20.2
Y/Y growth (%)		32.8	12.5	20.4	13.1	3.4	11.2	20.5	20.0		
ARPU (Rs)	32,513	31,849	37,246	38,373	42,272	43,640	44,300	45,186	46,090	6.1	2.0
Y/Y growth (%)		-2.0	16.9	3.0	10.2	3.2	1.5	2.0	2.0		
Income from web services (Rs m)	2,352	3,058	4,077	5,019	6,321	6,596	7,397	9,202	11,263	22.9	23.4
Y/Y growth (%)		30.0	33.3	23.1	25.9	4.3	12.1	24.4	22.4		
Advertising and marketing services (Rs m)	105.72	119.35	28.1	54.9	67.3	99.8	137.8	165.4	198.5	-1.1	20.0
Y/Y growth (%)		12.9	-76.4	95.2	22.6	48.2	38.1	20.0	20.0		
Buszy Infotech (Rs m)								495.0	544.5		
Y/Y growth (%)									10.0		
Total revenue (Rs m)	2,458	3,178	4,105	5,074	6,389	6,696	7,535	9,862	12,006	22.2	26.2
Y/Y growth (%)		29.3	29.2	23.6	25.9	4.8	12.5	30.9	21.7		

Source: Company, Anand Rathi Research

Fig 10 – Deferred revenue chart



Source: Company, Anand Rathi Research

Near-term margins to be subdued as company invests in growth

Low business volumes and related cost savings (temporary) because of Covid-19 pushed up FY21 EBITDA margin to ~49%, from 26.4% in FY20. The cost savings stemmed from reduced headcount (by ~500 y/y) and employee cost as percent of revenue falling to 30.6% (from 41.7% earlier). The company ended FY22 with 40.9% margins as it significantly expanded its sales and customer-services teams in H2 FY22 (by ~722). Even outsourced sales increased by ~41% y/y (as percent of revenue, by 9.8%, from 7.8% in FY21).

All these costs are recurring. As the company gets more paying suppliers, it will need more sales and services people, (~50-55 paying suppliers require one person) and it has to recruit them early. Therefore, we expect near-term margins to be subdued as the company continue to invest for growth. However, as efficiency increases, because of the operating leverage of the business margins should recover as well.

Fig 11 – Cost of operations

Particulars (Rs m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	CAGR % FY18-FY21	CAGR % FY22-FY24e
Employee benefits expense	1,819	2,097	1,949	2,300	2,667	2,052	2,676	4,075	4,737	1.7	33.1
<i>As % of revenue</i>	74.0	66.0	47.5	45.3	41.7	30.6	35.5	41.3	39.5		
Content development expenses	225.26	208.31	233	235	235	108	164	227	276		
<i>As % of revenue</i>	9.2	6.6	5.7	4.6	3.7	1.6	2.2	2.3	2.3		
Buyer engagement expenses	117.42	127.11	147	186	172	173	143	197	240		
<i>As % of revenue</i>	4.8	4.0	3.6	3.7	2.7	2.6	1.9	2.0	2.0		
Customer support expenses	175.02	177.43	240	246	231	158	160	217	264		
<i>As % of revenue</i>	7.1	5.6	5.8	4.8	3.6	2.4	2.1	2.2	2.2		
Outsourced sales cost	212.14	270.84	442	576	724	522	738	986	1,201		
<i>As % of revenue</i>	8.6	8.5	10.8	11.3	11.3	7.8	9.8	10.0	10.0		
Internet and other online costs	98.68	101.69	120	177	232	195	299	414	504		
<i>As % of revenue</i>	4.0	3.2	2.9	3.5	3.6	2.9	4.0	4.2	4.2		
Opex	829	885	1,182	1,420	1,595	1,157	1,504	2,041	2,485	-0.7	28.5
<i>As % of revenue</i>	33.7	27.9	28.8	28.0	25.0	17.3	20.0	20.7	20.7		
S&M	493	213	64	66	74	11	20	26	60	-44.0	73.9
<i>As % of revenue</i>	20.1	6.7	1.6	1.3	1.2	0.2	0.3	0.3	0.5		
G&A	573	527	445	464	364	194	257	394	480	-24.1	36.7
<i>As % of revenue</i>	23.3	16.6	10.8	9.2	5.7	2.9	3.4	4.0	4.0		
Total cost of operations	3714	3722	3639	4251	4700	3414	4456	6537	7763	-2.1	32.0
<i>As % of revenue</i>	151.1	117.1	88.6	83.8	73.6	51.0	59.1	66.3	64.7		
EBITDA	-1256	-544	466	823	1689	3282	3078	3326	4243	91.6	17.4
<i>EBITDA margins (%)</i>	-51.1	-17.1	11.4	16.2	26.4	49.0	40.9	33.7	35.3		

Source: Company, Anand Rathi Research

Strategic investments in accounting: \$85m

Since listing, IndiaMart has deployed ~Rs9bn in over 10-12 investments in software start-ups for minority stakes/big buyouts. Of this, ~Rs6.5bn has been deployed in four companies in accounting. It acquired Busy Infotech (on-premise accounting and GST software) for Rs5bn in an all-cash deal, hiked its stake in the startup Vyapar (offering do-it-yourself, mobile-based accounting and GST software to small businesses) to 27%, injecting Rs634m, and recently invested in Realbooks and Livekeeping.

Now with these four investments in accounting, the company has a portfolio of products that appeals to the entire spectrum of businesses (micro to large). It plans to use cross-selling opportunities to drive growth.

We believe that despite the government's push, MSME owners have been reluctant or slow to digitise systems. While GST, de-monetisation and Covid-19 compelled many to switch, the larger proportion still keep accounts offline, which is the way platforms such as Busy and Tally are structured.

As more corners of the MSME sector are digitised, a huge market is opening up for software companies. Since IndiaMart is already bringing buyers and sellers online, it makes sense for the marketplace to add digital accounting and billing solutions.

Fig 12 – Strategic investments so far

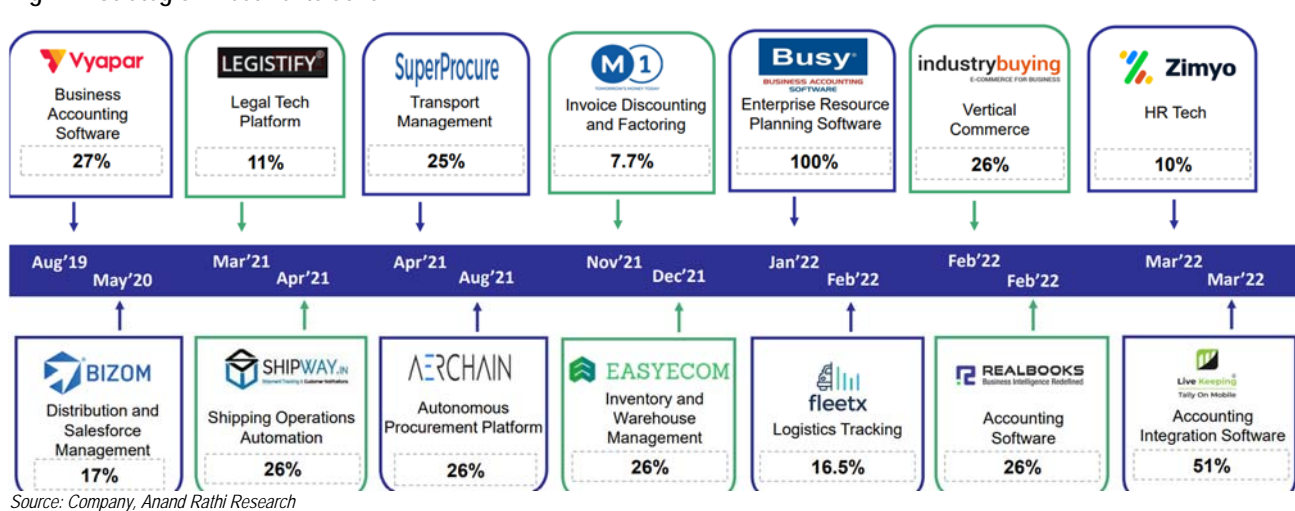
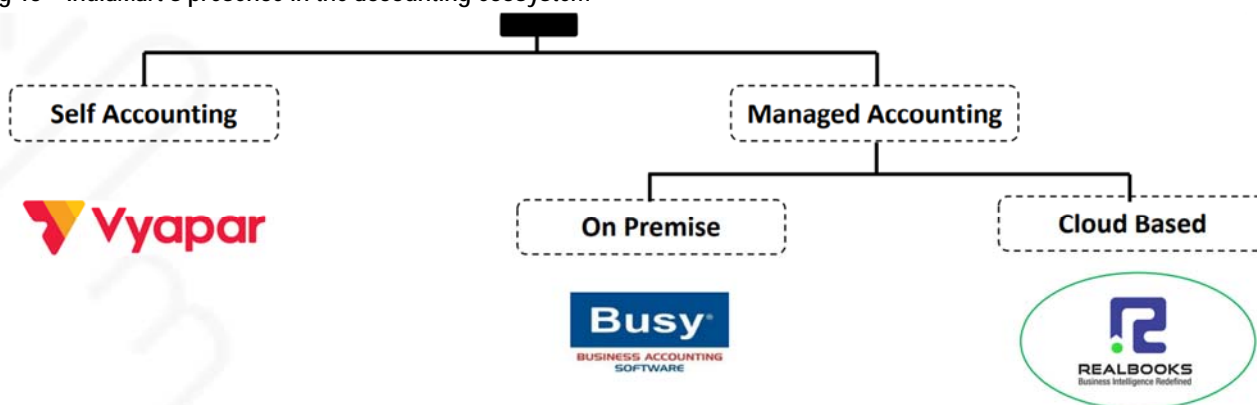


Fig 13 – IndiaMart's presence in the accounting ecosystem



Source: Company, Anand Rathi Research

Fig 14 – Key financials. Acquisition rationale

(Rs m)	Revenue			PAT			Acquisition rationale
Particulars	FY20	FY21	FY22	FY20	FY21	FY22	
Buzy Infotech	348	424	500	87	110	120	Access to >200,000 subscribers; strong overlap with IndiaMart's customers
Vyapar	56	117	NA	NA	NA	NA	Over 100,000 paid users and synergies with IndiaMart customers
Realbooks	21.9	26.3	33.8	NA	NA	NA	Proven product with over 400 paying customers; medium to long term synergies with IndiaMart
Live Keeping	10	20.5	33.7	0.02	2.4	5.2	Tally on mobile - Strong value proposition for over 6m Tally users; cross-selling opportunities for IndiaMART and Livekeeping customers

Source: Company, Anand Rathi Research

Is the new crop of start-ups emerging as competition? We don't think so

Fig 15 – IndiaMart's new emerging competitors

Start-ups	Sector	Backer	% of categories over-lap with IndiaMart	Valuations (\$ bn)
Nexprt	Connects buyers to manufacturers of home décor items, carpets and rugs, & for exports of tableware	Sequoia Capital, Titan Capital and Lightspeed	6	NA
Fashinza	Connects large fashion brands to manufacturers	Accel, Elevation Capital	6	NA
BZaar	Connects buyers and sellers of home décor and exports of handloom products	Canaan Partners, Lee Fixel	3	NA
Tradyl	Connects buyers and sellers in home décor and exports of handloom products	Kae Capital	3	NA
Geniemode	B2B cross-border sourcing and supply-chain-technology company	Info-Edge Ventures, Deepinder Goyal, Kunal Shah, etc.	0	NA
Zetwerk	B2B online marketplace connecting MSMEs with original-equipment manufacturers and construction companies	Iconiq Capital, Greenoaks, D1 Capital, IIFL, Lightspeed, Sequoia Capital, Accel	12	2.5
Infra.market	Marketplace around the construction space	Accel Partners, Nexus Venture and Tiger Global, etc.	7	2.6
OfBusiness	Building business on SME-focused supply-chain ecosystem for industrial items (metals, petrochemical products, processed papers)	Tiger Global, Softbank, Norwest, Matrix Partners, Falcon Edge, etc.	6	3
Moglix	E-commerce company inclined toward B2B procurement of industrial supplies, in particular, MRO, safety, electricals, lighting, cleaning & housekeeping, office stationary & supplies, power tools and many more industry essentials	Tiger Global, Harvard Management Co., Venture Highway, Falcon Edge, etc.	25-30	2.6
Udaan	A B2B e-commerce platform, with operations in lifestyle, electronics, home & kitchen, staples, fruit and vegetables, FMCG, pharma, toys and general merchandise.	Innoven Capital, Octahedron Capital, Moonstone Capital, Lightspeed, DST Global, Tencent, etc.	7	3.1

Source: Company

Fig 16 – IndiaMart's traditional competitors

Comparison of key direct competitors	No. of industries	Registered suppliers (m)	Registered buyers (m)	No. of categories	Market share (online B2B classifieds) %
IndiaMart	56	7.1	149	95,000+	~60
Trade India	40+	4.2	5.8	87,886+	~14
Exporters India	40	1.2	1.6	75,000	NA

Source: Company, Anand Rathi Research

Valuation

In Q4 FY22 India's largest online B2B company for business products and services, IndiaMart provided ~149m registered buyers with access to ~7.1m storefronts in India, listing ~83m products and services across ~56 industries. IndiaMart is the leader with 169,000 paid subscribers (~2.4% of its listings, against 1688.com's 920,000 paid subscribers in China, ~9% of its listings). We believe IndiaMart has become an established and trusted all-India brand, primarily through word-of-mouth accounts of its suppliers' and buyers' experiences.

Covid-19 first and second wave's generated greater churn in the company's silver monthly customers (nearly one-fourth of its paying supplier base). Because of this, FY21 collections and the number of paid subscribers have been subdued, whereas annual-/multiyear-package customers have been stable (approx. one-third of its paying supplier base).

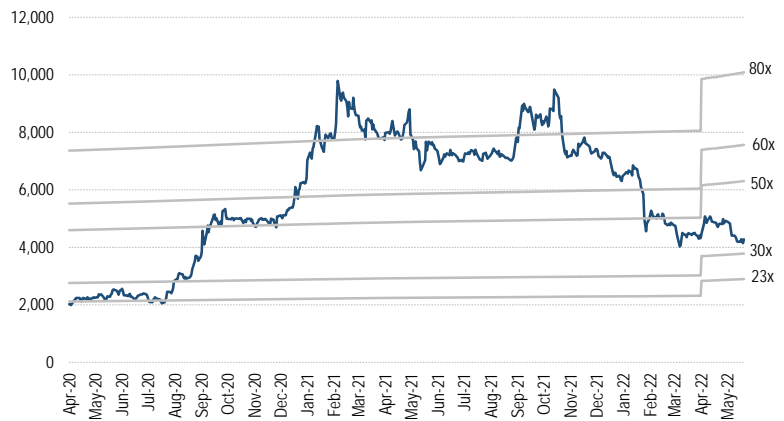
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Fig 17 – Peer comparison

Name	Mcap	Revenue (\$ mn)				EBITDA (\$ mn)				EV/Sales (x)			PE		
	(\$ mn)	FY21	FY22	FY23e	FY24e	FY21	FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY22	FY23e	FY24e
India internet companies															
Nykaa	9,282	328.8	491.9	714.8	992.3	22	23.1	51.7	77.5	19.0	13.1	8.9	1,118.31	330.3	210.1
*IndiaMart	1,669	87.0	97.9	128.1	155.9	42.6	40.0	43.2	55.1	16.6	12.7	10.4	42.1	40.8	33.4
Zomato	5,782	268.6	533.6	735.8	NA	-62.9	-221.8	-193.6	NA	9.6	7.0	NA	NA	NA	NA
Affle India	1,850	69.6	145.2	191.5	246.2	17.5	28.6	40	55.2	15.1	9.36	7.28	64.2	55.7	40.7
Info Edge	5,683	150.9	194	249.9	NA	36.8	59.1	85.1	NA	29.1	22.6	NA	97.4	70.6	NA
PB Fintech	3,792	119.5	172.2	255.1	NA	-21.5	-121.3	-95.3	NA	20.9	14.11	NA	NA	NA	NA
One 97 Communica	4,757	377.6	652.9	953.4	NA	-238.1	-285.6	-307	NA	6.9	4.7	NA	NA	NA	NA
Global peer															
Alibaba	237,720	105,957	126,223	141,807	NA	16,406	21,802	24,298	NA	1.3	1.2	NA	12.5	12.2	NA

Source: Bloomberg, Anand Rath Research

Fig 18 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Competition from new companies would result in shrinking demand for services or loss of visitor traffic, market share or paying suppliers.
- Negative publicity and lawsuits against the company, claiming products available on its “marketplace” to be pirated, counterfeit or illegal.

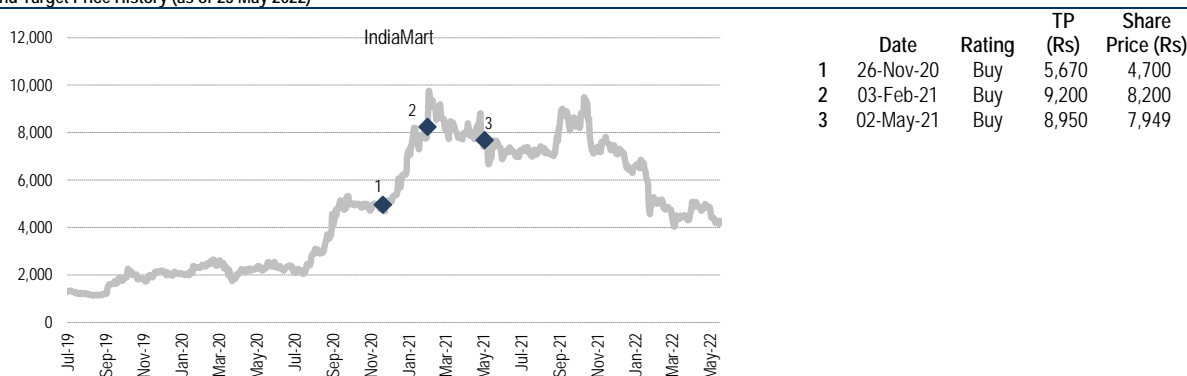
Appendix

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