

CMP: ₹ 785

Target: ₹ 790 (1%)

Target Period: 12 months

August 16, 2022

HOLD

Healthy paid subs growth; weak numbers in Q2 on seasonality...

About the stock: Matrimony.com (Matrimony) is one of the leading providers of online matchmaking services. The company also provides post marriage services.

- Apart from a common website, the company operates ~300 community matrimony sites and 15 regional matrimony sites
- Net debt free and only profitable player among its peers

Q1FY23 Results: Matrimony reported healthy numbers on paid subs.

- Revenues increased 4.9% QoQ aided by 8.7% QoQ growth in paid subs
- Matchmaking EBITDA services margins improved 74 bps QoQ
- Marriage services EBITDA loss widens

What should investors do? Matrimony's share price has dipped over the past four years (from ~₹ 905 in September 2017 to ~₹ 785 levels in August 2022).

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value Matrimony at ₹ 790 i.e. 22x P/E FY24E EPS.

Key triggers for future price performance:

- Market leadership in an underpenetrated online matchmaking segment
- Transition to online from offline, healthy subscriber addition, increased penetration in north, introduction of new products and inorganic opportunity key revenue drivers (11% CAGR over FY22-24E)
- Higher conversion rate (paid vs. total profiles)

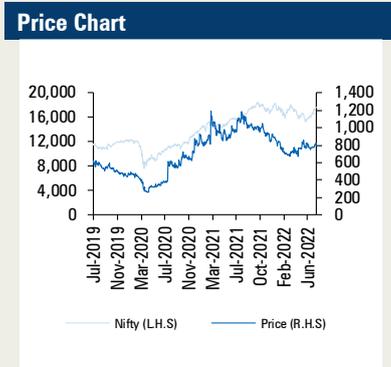
Alternate Stock Idea: Apart from Matrimony, in our IT coverage we also like Affle.

- Key beneficiary of advertising shift to digital medium and healthy growth in converted users
- BUY with a target price of ₹ 1,295



Particulars	
Particular	Amount
Market Cap (₹ Crore)	1,784.8
Total Debt	-
CC&E (₹ Crore)	312.8
EV (₹ Crore)	1,472.1
52 week H/L	1193 / 653
Equity capital	11.4
Face value	5.0

Shareholding pattern				
	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	50	50	50	50
FII	25	25	25	26
DII	16	15	14	14
Public	9	10	10	10



Recent event & key risks

- Buyback at ₹ 1150 per share
- **Key Risk:** (i) Better-than expected paid subs (ii) continued elevated marketing expenses

Research Analyst

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	372	378	434	8.2%	480	534	10.8%
EBITDA	54	68	87	8.1%	106	121	17.9%
EBITDA Margins (%)	14.7	17.9	20.0		22.1	22.6	
Net Profit	30	41	54	6.8%	68	80	21.8%
EPS (₹)	13.0	17.8	23.4		30.7	35.8	
P/E	60.4	43.9	33.5		25.6	22.0	
RoNW (%)	12.9	15.5	17.3		18.7	18.6	
RoCE (%)	16.2	19.0	21.2		23.1	23.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- The company's matchmaking revenues were up 4.7% QoQ, 8.9% YoY to ₹ 114.2 crore. This was aided by paid subscription growth while ATV was down QoQ as well as YoY due to discounting. The company added 250,000 paid subs during the quarter, up 7.2% QoQ & 13.8% YoY, while ATV declined 5.6% QoQ & 4% YoY to ₹ 4,553
- Marriage services revenue was up 20% QoQ to ₹ 1.8 crore while it increased 3x over Q1FY22 on a favourable base. Marriage services EBITDA loss widened to ₹ 3.4 crore during the quarter
- Billing for matchmaking services was up 1.2% QoQ, 9.5% YoY to ₹ 114.6 crore while that of marriage services was up 5.3% QoQ while it was up 3x YoY to ₹ 2 crore. At the consolidated level, billing increased 1.2% QoQ, 10.7% YoY to ₹ 116.5 crore
- Matrimony indicated that ATV has declined for the quarter due to some discounts given due to increase in competitive intensity and also its strategy to MphasIS on aggressive paid subscription addition in the coming quarters. The company is looking to reach 1.5 mn paid subs in the next three to four years
- The EBITDA margin for the quarter was largely flattish despite strong revenue growth due to increase in employee as well as advertising and promotion expenses on a sequential basis. The company indicated that it rolled out wage hikes in Q1 (average 8-9% increase) resulted in increasing the employee cost by 8.6% QoQ to ₹ 36.2 crore. The advertising & promotion expenses remained elevated at ₹ 44.2 crore, up 2.7% QoQ and 18.9% YoY amid highly competitive market. The company also indicated that advertisement & marketing expenses would remain elevated, going forward, as well and may rethink on the spend level, if there is any meaningful reduction of marketing spend at the industry level
- The company's effective tax rate for the quarter declined from 26.1% in Q4FY22 to 20.9% in Q1FY23. Matrimony indicated that the tax rate was low due to lower tax on realised gains on redemption of mutual funds, which was used for funding the buyback
- The company guided that Q2 being a seasonally weak quarter for the company, EBITDA & PAT numbers would be lower than Q1FY23 levels
- Matrimony reiterated that the Shaadi saga is fully integrated and now both brands work under one umbrella. The company indicated that its performance is now expected to pick up as the economy opens
- The company has indicated certain milestones, which they are planning to achieve in the next three to four years. i) The company is aiming to reach its topline to ₹ 1000 crore in the medium term, while immediate target is to reach around ₹ 500 crore revenue by FY23 ii) it is looking to reach ₹ 300 crore EBITDA when the revenues are expected to touch ₹ 1000 crore i.e. 30% EBITDA margin in that year. iii) 1.5 mn paid subscription
- The company has earlier announced a buyback of ₹ 75 crore at ₹ 1,150 per equity share proposing to brought back 652,173 shares in last quarter. The buyback closed on August 8, 2022 and the last date for payment of consideration to eligible shareholders who participated in the buyback is August 22, 2022

Exhibit 1: P&L

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	116.0	105.5	10.0	110.6	4.9	Revenue growth was aided by 8.7% QoQ growth in paid subs
Employee expenses	36.2	33.8	7.8	33.6	8.6	
Gross Margin	79.8	71.7	11.4	77.0	3.7	
Gross margin (%)	68.8	68.0	84 bps	69.6	-84 bps	
SG&A expenses	60.1	49.4	21.6	58.4	2.9	
EBITDA	19.8	22.3	-11.2	18.6	6.0	
EBITDA Margin (%)	17.0	21.1	-408 bps	16.8	18 bps	EBITDA margins were flat due increase in employee cost & continued elevated marketing spend
Depreciation & amortisatio	7.7	6.4	19.6	7.0	10.2	
EBIT	12.1	15.8	-23.7	11.7	3.5	
Finance cost	1.6	1.2	34 bps	1.4	18 bps	
EBIT Margin (%)	10.4	15.0	-461 bps	10.6	-14 bps	
Other income (less interes	4.7	4.2	12.5	5.7	-16.7	
PBT	15.1	18.6	-18.6	15.8	-4.5	
Tax paid	3.2	4.8	-33.5	4.1	-23.3	PAT helped by lower ETR due to low tax rate on realized gains on mutual fund redemption
PAT	12.0	13.8	-13.5	11.7	2.1	

Source: Company, ICICI Direct Research

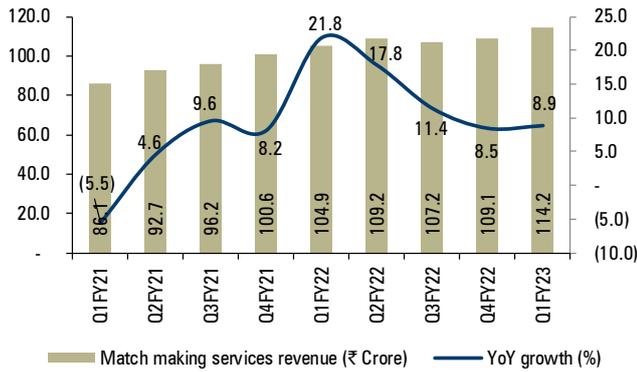
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	481	480	-0.2	536	534	-0.4	
EBITDA	109	106	-2.4	124	121	-2.6	
EBITDA Margin	22.6	22.1	-51 bps	23.1	22.6	-52 bps	Marketing expense will continue to at elevated levels which will impact margins
PAT	70	68	-2.8	82	80	-2.9	
EPS (₹)	31.6	30.7	-2.8	36.8	35.8	-2.9	

Source: Company, ICICI Direct Research

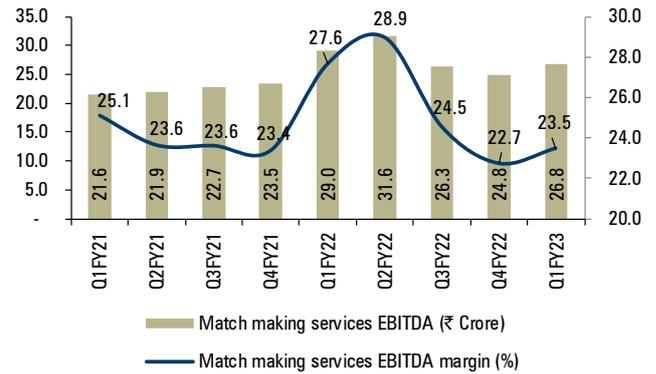
Key Metrics

Exhibit 3: Matchmaking revenue aided by paid subs growth



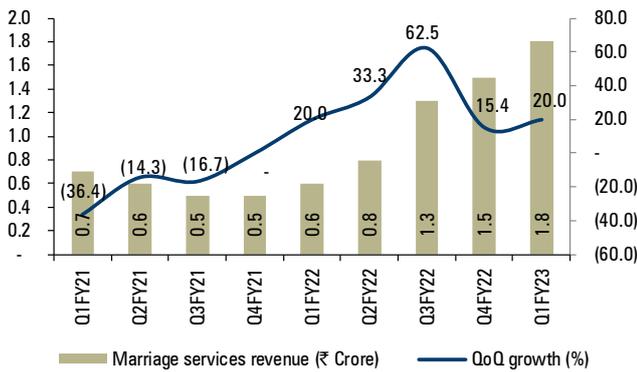
Source: Company, ICICI Direct Research

Exhibit 4: Matchmaking EBITDA & margin trend



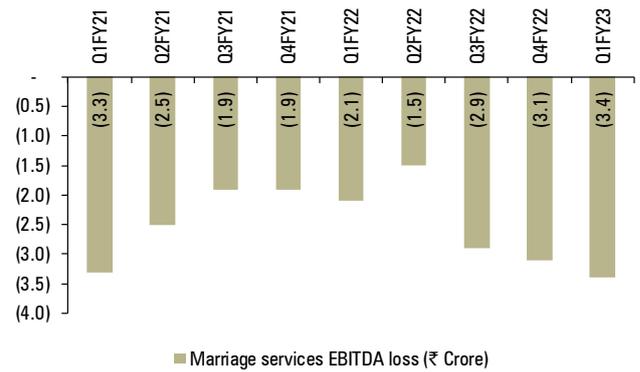
Source: Company, ICICI Direct Research

Exhibit 5: Marriage services revenue & growth trend



Source: Company, ICICI Direct Research

Exhibit 6: Marriage services EBITDA losses continues



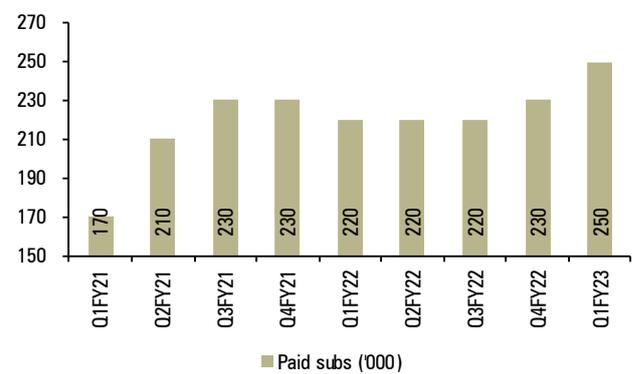
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated revenue



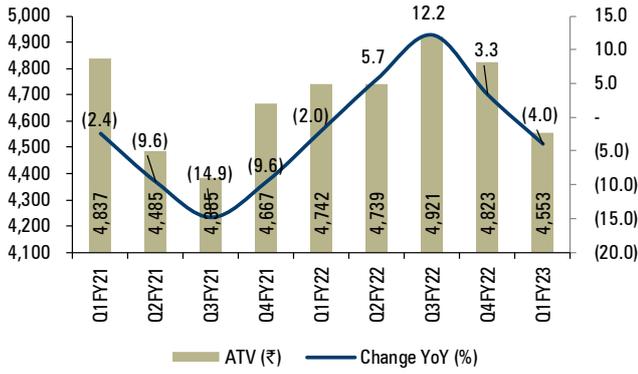
Source: Company, ICICI Direct Research

Exhibit 8: Paid subs start growing



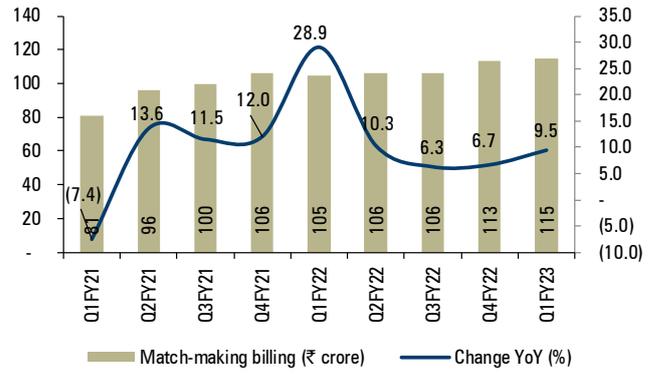
Source: Company, ICICI Direct Research

Exhibit 9: At the cost of ATV due to discounting



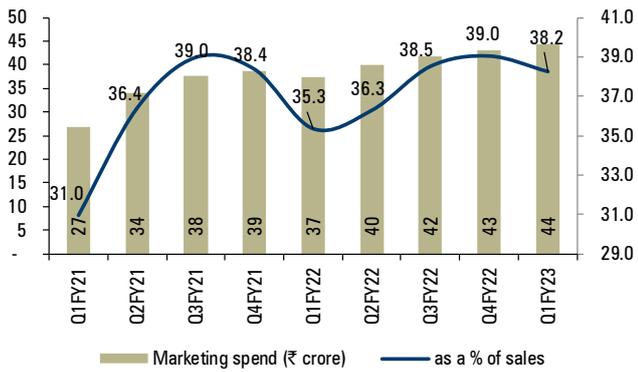
Source: Company, ICICI Direct Research

Exhibit 10: Matchmaking billings also growing



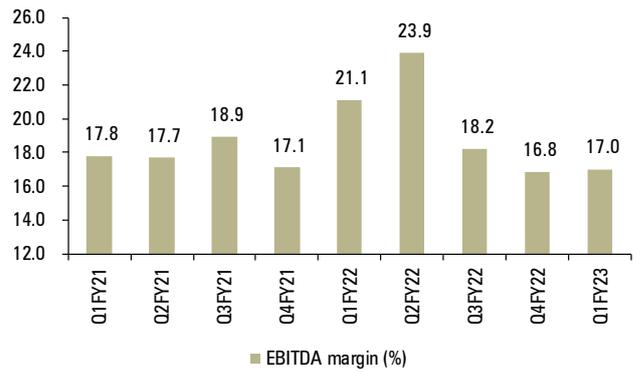
Source: Company, ICICI Direct Research

Exhibit 11: Marketing spend remains elevated



Source: Company, ICICI Direct Research

Exhibit 12: EBITDA margin growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	378	434	480	534	
Growth (%)	1.6	15.0	10.5	11.2	
COGS (employee expenses)	127	132	144	160	
Other expenses	183	215	230	253	
Total Operating Expenditure	310	348	374	413	
EBITDA	68	87	106	121	
Growth (%)	23.9	28.8	21.9	13.9	
Depreciation	26	27	27	27	
Other income (net)	13	13	13	13	
PBT	54	72	91	106	
Total Tax	13	18	23	27	
PAT	41	54	68	80	
Growth (%)	38.1	31.4	27.5	16.4	
Diluted EPS (₹)	17.8	23.4	30.7	35.8	
Growth (%)	37.8	31.0	31.3	16.4	

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
PBT	54	72	91	106	
Add: Depreciation	26	27	27	27	
Others	(10)	(10)	(13)	(13)	
Inc/(dec) in working capital	13	7	3	13	
Taxes paid	(13)	(19)	(23)	(27)	
CF from operating activiti	70	78	86	106	
(Inc)/dec in Fixed Assets	(10)	(8)	(12)	(13)	
Others	(33)	(45)	18	18	
CF from investing activiti	(43)	(53)	6	5	
Dividend paid & dividend tax	(8)	(8)	(14)	(16)	
Others	(15)	(16)	(16)	(5)	
CF from financing activiti	(23)	(24)	(29)	(21)	
Net Cash flow	4	1	63	90	
Exchange difference	(0)	(0)	-	-	
Opening Cash	5	9	10	72	
Closing cash balance	9	10	72	162	

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	11	11	11	11	
Reserve and Surplus	252	299	354	417	
Total Shareholders funds	263	310	365	428	
Total Debt	-	-	-	-	
Lease liability	48	56	56	56	
Provisions	-	-	-	-	
Other non current liabilities	0	1	1	1	
Total Liabilities	311	368	422	486	
Assets					
Property, plant and equipment	70	22	23	26	
Investments	6	24	24	24	
Intangibles	3	15	15	15	
Right-of-use assets	53	63	57	41	
Other non current assets	15	19	20	21	
Cash & bank balance	200	227	289	379	
Current Investments	85	86	86	86	
Trade receivables	7	8	9	11	
Security deposits	4	2	5	6	
Other financial assets	6	6	7	8	
Other current assets	4	50	50	50	
Total Current Assets	306	379	447	540	
Trade payables	39	51	50	55	
Lease liability	12	13	13	13	
OCL & provisions	91	90	101	112	
Total Current Liabilities	142	155	164	181	
Net Current Assets	165	225	283	359	
Application of Funds	311	368	422	486	

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
Diluted EPS	17.8	23.4	30.7	35.8	
Cash EPS	29.3	35.2	42.8	47.9	
BV	115	136	164	193	
DPS	3.5	3.5	6.1	7.2	
Cash Per Share	88	99	130	170	
Operating Ratios (%)					
EBITDA margin	17.9	20.0	22.1	22.6	
PBT Margin	14.2	16.5	19.0	19.9	
PAT Margin	10.8	12.3	14.2	14.9	
Debtor days	7	7	7	7	
Creditor days	38	43	38	38	
Return Ratios (%)					
RoE	15.5	17.3	18.7	18.6	
RoCE	19.0	21.2	23.1	23.1	
Valuation Ratios (x)					
P/E	43.9	33.5	25.6	22.0	
EV / EBITDA	22.1	16.9	13.2	10.9	
EV / Net Sales	4.0	3.4	2.9	2.5	
Market Cap / Sales	4.7	4.1	3.7	3.3	
Price to Book Value	6.8	5.8	4.8	4.1	
Solvency Ratios					
Debt/EBITDA	-	-	-	-	
Debt / Equity	-	-	-	-	
Current Ratio	0.1	0.4	0.4	0.4	
Quick Ratio	0.1	0.4	0.4	0.4	

Source: Company, ICICI Direct Research

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