ANANDRATHI

India I Equities

Internet Software & Services

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

23 November 2022

IndiaMart InterMesh

Strong revenue growth to persist; maintaining a Buy

Rating: **Buy**
Target Price: Rs.5,500
Share Price: Rs.4,383

We recently met the IndiaMart management. 1) With ~38% of India's MSMEs using the internet for business (vs 90% in China), e-classifieds holds substantial growth potential, 2)Focus on growing collections at a 20% CAGR ahead, 3) FY23 margins should be ~28-28.5% and expand from next year with revenue growth. We see value in the stock owing to network-effect, healthy cash-flows, negative working capital, asset-light model and healthy cash balance of Rs20bn (15% of market cap). We retain our Buy rating and introduce FY25e, with a TP of Rs5,500 (based on DCF, an implied PE of 40x FY25e EPS).

Vast headroom for growth based on TAM. TAM has two constituents: free and paid suppliers. Approx. 25m (~39%) of India's ~63.5m MSMEs use the internet. GST-registered supplier MSMEs are ~13m (20%). Of the free suppliers (IndiaMart's ~7.3m in Q2 FY23), the company is focusing on everyone to get on board; of paid suppliers, though (188,092 in Q2 FY23), it is focusing on only GST-registered suppliers. Hence, its paid suppliers are just 1.44% of GST-registered MSMEs in India & of its 7.3m free suppliers, it is just 2.57%. Hence, the company's focus for the next 3-5 years is to raise the number of its paid suppliers to 5% of GST-registered MSMEs, and 10% in the long term. Hence, the number of paid suppliers can easily move in the short to medium term to 3x-7x from now.

Margins should expand with growth in revenue. As the company will add ~8,000-10,000 paid suppliers every quarter, it will need more sales and servicing people. But as efficiency ramps up, margins should start recovering owing to the business' operating leverage. We expect 28.3%/29.6%/32.6% margins in FY23/FY24/FY25.

Risks: Loss of paying suppliers; concentration risk (top-1% and top-10% paid suppliers bring ~18% and 47% to revenue, respectively).

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	6,696	7,535	9,941	12,199	15,382
Net profit (Rs m)	2,798	2,976	2,776	3,113	4,257
EPS (Rs)	92.3	97.4	90.9	101.9	139.3
P/E (x)	46.1	43.4	46.5	41.5	30.3
EV / EBITDA (x)	39.1	41.7	45.7	35.6	25.4
P / BV (x)	8.0	6.9	6.1	5.5	4.8
RoE (%)	30.0	17.8	14.5	14.5	17.3
RoCE (%)	17.1	10.6	7.7	9.1	11.6
Dividend yield (%)	0.3	0.0	0.2	0.5	0.5
Net debt / equity (x)	-1.4	-1.3	-1.1	-1.2	-1.2

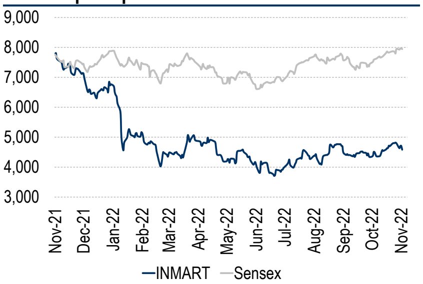
Source: Company, Anand Rathi Research

Key data	INMART IN / INMR.BO
52-week high / low	Rs7750 / 3676
Sensex / Nifty	61419 / 18244
3-m average volume	$7.3m
Market cap	Rs134bn / $1643.2m
Shares outstanding	31m

Shareholding pattern (%)	Sep'22	Jun'22	Mar'22
Promoters	49.2	49.2	49.5
- *of which, Pledged*	-	-	-
Free float	50.8	50.8	50.5
- Foreign institutions	25.0	23.6	23.9
- Domestic institutions	4.5	4.1	4.5
- Public	21.3	23.1	22.1

Estimates revision (%)	FY23e	FY24e
Sales	0.8	1.6
EBITDA	(6.0)	(6.4)

Relative price performance



Source: Bloomberg

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Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	**6,695.6**	**7,534.9**	**9,940.8**	**12,198.5**	**15,382.1**
Growth (%)	5	13	32	23	26
No. of paying suppliers	**5,000**	**17,000**	**37,180**	**41,236**	**49,483**
Direct costs	**3,208.7**	**4,179.5**	**6,623.7**	**7,981.9**	**9,555.8**
Gross profit	**3,487.0**	**3,355.3**	**3,317.1**	**4,216.6**	**5,826.3**
Gross margins (%)	**52.1**	**44.5**	**33.4**	**34.6**	**37.9**
SG&A	205	277	507	610	769
EBITDA	**3,282**	**3,078**	**2,810**	**3,607**	**5,057**
EBITDA margins (%)	49.0	40.9	28.3	29.6	32.9
Depreciation	-161	-119	-291	-291	-291
Other income	866	1,122	1,498	1,158	1,258
Interest expenses	-67	-54	-90	-90	-90
PBT	3,920	4,027	3,927	4,384	5,934
Effective tax rate (%)	28	23	26	26	26
+Associates / (Minorities)	-27	-122	-122	-122	-122
Net income	2,798	2,976	2,776	3,113	4,257
WANS	30.3	30.6	30.6	30.6	30.6
FDEPS (Rs / sh)	92.3	97.4	90.9	101.9	139.3

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	303	306	306	306	306
Net worth	16,109	18,741	21,148	23,524	27,044
Debt	-	-	-	-	-
Lease liability	634	563	563	563	563
Long-term liabilities	3,067	3,703	3,828	3,903	4,861
Capital employed	**19,811**	**23,007**	**25,539**	**27,990**	**32,468**
Net tangible assets	22	31	285	425	612
Net intangible assets	3	1	1	1	1
Goodwill	3	4	5	6	7
CWIP (tang. & intang.)	2	2	2	2	2
Right of use assets	626	528	528	528	528
Investments (strategic)	370	4,209	9,209	9,209	9,209
Investments (financial)	22,174	23,008	23,008	23,008	23,008
Current assets (excl. cash)	1,102	902	906	910	915
Cash	816	807	322	4,317	9,173
Current liabilities	5,304	6,481	8,722	10,410	10,980
Working capital	-4,202	-5,579	-7,816	-9,500	-10,064
Capital deployed	**19,811**	**23,007**	**25,539**	**27,990**	**32,468**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	3,920	4,027	3,927	4,384	5,934
+ Non-cash items	-578	-833	291	291	291
Oper. prof. before WC	3,342	3,194	4,218	4,675	6,225
- Incr. / (decr.) in WC	-471	-1,800	-2,237	-1,684	-564
Others incl. taxes	-588	-971	-1,029	-1,149	-1,555
Operating cash-flow	3,225	4,023	5,426	5,210	5,235
Free cash-flow	3,225	3,979	5,128	5,027	5,004
- Acquisitions	-	-3,954	-5,000	-	-
- Div. (incl. buyback & taxes)	15	455	368	737	737
+ Equity raised	10,520	5	0	-0	0
+ Debt raised	-	-	-	-	-
- Fin investments	13,437	-643	155	205	-678
- Misc. (CFI + CFF)	-65	-125	-90	-90	-90
Net cash-flow	176	-8	-485	3,995	4,856

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

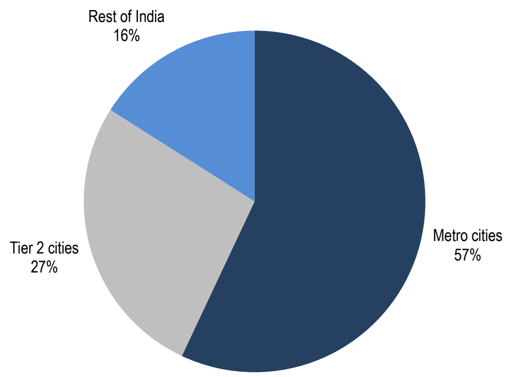
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	46.1	43.4	46.5	41.5	30.3
EV / EBITDA (x)	39.1	41.7	45.7	35.6	25.4
EV / Sales (x)	19.2	17.0	12.9	10.5	8.3
P/B (x)	8.0	6.9	6.1	5.5	4.8
RoE (%)	30.0	17.8	14.5	14.5	17.3
RoCE (%) - after tax	17.1	10.6	7.7	9.1	11.6
DPS (Rs / sh)	15.0	2.0	10.0	20.0	20.0
Dividend yield (%)	0.3	0.0	0.2	0.5	0.5
Dividend payout (%) - incl. DDT	19.6	2.5	13.3	23.7	17.3
Net debt / equity (x)	-1.4	-1.3	-1.1	-1.2	-1.2
Receivables (days)	0.7	0.6	0.6	0.6	0.6
Inventory (days)	-	-	-	-	-
Payables (days)	16	15	15	15	15
CFO : PAT %	115.3	135.2	195.5	167.4	123.0

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

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



Source: Company

Huge headroom for growth based on TAM

The government of India planned to increase the contribution of micro, small and medium enterprises to 50% of India's GDP in five years, from 29%. The number of MSMEs in India nearly doubled from 36.2m in FY07 to 63.5m. SMEs stand to benefit the most from this, as digitisation pushes down costs of communication, advertising, and rentals (since such small and medium businesses can set up digital store-fronts rather than physical ones), and speeds up payments. With ~39% of India's MSMEs using the internet for business (90% in China), the e-classifieds market holds substantial growth potential.

TAM for the company constitutes free and paid suppliers. Approx. 25m (~39%) of India's ~63.5m MSMEs use the internet. GST-registered supplier MSMEs are ~13m (20%). Of the free suppliers (IndiaMart's ~7.3m in Q2 FY23), the company is focusing on everyone to get on board. Of paid suppliers though (188,092 in Q2 FY23), it is focusing only on GST-registered suppliers. Hence, its paid suppliers are just 1.44% of GST-registered MSMEs in India. Of its 7.3m free suppliers, it is just 2.57%.

Hence, the company's focus for the next 3-5 years is to raise the number of its paid suppliers to 5% of GST-registered MSMEs, and 10% in the long term. Therefore, the number of paid suppliers can easily move in the short to medium term to 3x-7x from now.

We expect the company's supplier storefronts to register a 9.2% CAGR over FY23-FY25 (7.8m to 9.2m). Now, with business volumes recovering and the shift in focus to investing in growth, management talked of 8,000-9,000 paying suppliers added per quarter in FY23 (against its earlier ~5,000-6,000 guided to). The churn rate for platinum and gold clients (less than 10% annual churn) has nearly stabilised at pre-Covid levels, but is still volatile monthly (~25-30%).

We expect the company to report 31.9%/22.7%/26.1% revenue growth (incl. Buzy Infotech) in FY23/FY24/FY25, 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 ~9.3k/10.3k/12.4k paid suppliers added per quarter in FY23/FY24/FY25. We expect a 3.5% ARPU CAGR over FY23-FY25, as in silver customers, which bring ~18-20% to revenue, the company is more focused on adding customers and not on ARPU; whereas in platinum customers, which bring ~45-47% to revenue, it is more focused on increasing ARPU.

Fig 7 – Revenue

Revenue	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	CAGR % FY16-FY21	CAGR % FY23-FY25e
Paying subscription suppliers	72,335	96,025	108,000	130,000	147,000	152,000	169,000	206,180	247,416	296,899	*16.0*	*20.0*
Y/Y growth (%)		*32.8*	*12.5*	*20.4*	*13.1*	*3.4*	*11.2*	*22.0*	*20.0*	*20.0*		
ARPU (Rs)	32,513	31,849	37,246	38,373	42,272	43,640	44,300	45,186	46,090	48,394	*6.1*	*3.5*
Y/Y growth (%)		*-2.0*	*16.9*	*3.0*	*10.2*	*3.2*	*1.5*	*2.0*	*2.0*	*5.0*		
Income from web services (Rs m)	**2,352**	**3,058**	**4,077**	**5,019**	**6,321**	**6,596**	**7,397**	**9,316**	**11,403**	**14,368**	***22.9***	***24.2***
Y/Y growth (%)		*30.0*	*33.3*	*23.1*	*25.9*	*4.3*	*12.1*	*25.9*	*22.4*	*26.0*		
Advertising and marketing services (Rs m)	**105.72**	**119.35**	**28.1**	**54.9**	**67.3**	**99.8**	**137.8**	**165.4**	**198.5**	**238.2**	***-1.1***	***20.0***
Y/Y growth (%)		*12.9*	*-76.4*	*95.2*	*22.6*	*48.2*	*38.1*	*20.0*	*20.0*	*20.0*		
Buszy Infotech								**459.0**	**596.7**	**775.7**		
Y/Y growth (%)									*30.0*	*30.0*		
Revenue	**2,458**	**3,178**	**4,105**	**5,074**	**6,389**	**6,696**	**7,535**	**9,941**	**12,199**	**15,382**	***22.2***	***24.4***
Y/Y growth (%)		*29.3*	*29.2*	*23.6*	*25.9*	*4.8*	*12.5*	*31.9*	*22.7*	*26.1*		

Source: Company, Anand Rathi Research

Fig 8 – Key operational parameters

	FY21					FY22					FY23	
Key parameters - operational	Q1	Q2	Q3	Q4	FY21	Q1	Q2	Q3	Q4	FY22	Q1	Q2
Registered buyers (m)	107	113	119	125	125	131	138	143	149	149	154	160
Business enquiries delivered (m)	131	175	154	150	610	162	151	117	120	550	115	122
Daily unique business enquiries (m)	20	28	25	24	96	26	26	23	23	97	22	23
Total traffic (m)	191	259	253	257	960	268	284	259	260	1071	257	261
Total products live (m)	68	69	71	72	72	74	76	80	83	83	86	87
Indian supplier storefronts (m)	6.1	6.2	6.4	6.5	6.5	6.6	6.7	7	7.1	7.1	7.2	7.3
Paying subscription suppliers	133,000	141,000	148,000	152,000	152,000	146,000	150,000	155,833	169,324	169,324	179,260	188,092
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	47,600	48,700
Revenue share – Top-10% paying subscription suppliers	43	41	41	41	41	43.0	44	44	45	45	46	47
No. of employees	3,011	2,863	2,782	2,701	2,701	2,982	2,959	3,185	3,672	3,672	3,835	4,088
Product and tech employees	498	476	463	419	419	464	475	458	459	459	685	779
Corporate employees	138	138	138	132	132	142	141	141	148	148	148	168
Sales supervision and servicing	2,375	2,249	2,181	2,150	2,150	2,376	2,343	2,586	3,065	3,065	3,002	3,141

Source: Company, Anand Rathi Research

FY21, FY22 margins due to Covid-aberrations; one should look at sustainable ~35-37% margin

Low business volumes and related (temporary) cost-savings because of Covid-19 pushed up the FY21 EBITDA margin to ~49%, from 26.4% in FY20. These savings stemmed from ~500 y/y fewer headcount 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 ~41% y/y (by 9.8% of revenue, from 7.8% in FY21). As the company will continue to add ~8,000-10,000 paid suppliers every quarter, it would need more sales and servicing people. But as efficiency ramps up, margins should start recovering owing to the business' operating leverage. We expect the company to report 28.3%/29.6%/32.6% margins in FY23/FY24/FY25.

Fig 9 – Cost

Revenue	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	CAGR % FY16-FY21	CAGR % FY23FY25e
Employee benefits expense	**1,819**	**2,097**	**1,949**	**2,300**	**2,667**	**2,052**	**2,676**	**4,124**	**4,951**	**5,826**	**1.7**	**18.9**
As % of revenue	*74.0*	*66.0*	*47.5*	*45.3*	*41.7*	*30.6*	*35.5*	*41.5*	*40.6*	*37.9*		
Content development expenses	225.26	208.31	233	235	235	108	164	283	342	415		
As % of revenue	*9.2*	*6.6*	*5.7*	*4.6*	*3.7*	*1.6*	*2.2*	*2.9*	*2.8*	*2.7*		
Buyer engagement expenses	117.42	127.11	147	186	172	173	143	149	183	215		
As % of revenue	*4.8*	*4.0*	*3.6*	*3.7*	*2.7*	*2.6*	*1.9*	*1.5*	*1.5*	*1.4*		
Customer support expenses	175.02	177.43	240	246	231	158	160	214	262	331		
As % of revenue	*7.1*	*5.6*	*5.8*	*4.8*	*3.6*	*2.4*	*2.1*	*2.2*	*2.2*	*2.2*		
Outsourced sales costs	212.14	270.84	442	576	724	522	738	1,382	1,696	2,077		
As % of revenue	*8.6*	*8.5*	*10.8*	*11.3*	*11.3*	*7.8*	*9.8*	*13.9*	*13.9*	*13.5*		
Internet and other online costs	98.68	101.69	120	177	232	195	299	472	549	692		
As % of revenue	*4.0*	*3.2*	*2.9*	*3.5*	*3.6*	*2.9*	*4.0*	*4.8*	*4.5*	*4.5*		
Opex	**829**	**885**	**1,182**	**1,420**	**1,595**	**1,157**	**1,504**	**2,500**	**3,031**	**3,730**	**-0.7**	**22.1**
As % of revenue	*33.7*	*27.9*	*28.8*	*28.0*	*25.0*	*17.3*	*20.0*	*25.2*	*24.9*	*24.3*		
S&M	**493**	**213**	**64**	**66**	**74**	**11**	**20**	**60**	**61**	**77**	**-44.0**	**13.6**
As % of revenue	*20.1*	*6.7*	*1.6*	*1.3*	*1.2*	*0.2*	*0.3*	*0.6*	*0.5*	*0.5*		
G&A	**573**	**527**	**445**	**464**	**364**	**194**	**257**	**447**	**549**	**692**	**-24.1**	**24.4**
As % of revenue	*23.3*	*16.6*	*10.8*	*9.2*	*5.7*	*2.9*	*3.4*	*4.5*	*4.5*	*4.5*		
Cost of operations	**3,714**	**3,722**	**3,639**	**4,251**	**4,700**	**3,414**	**4,456**	**7,131**	**8,592**	**10,325**	**-2.1**	**20.3**
As % of revenue	*151.1*	*117.1*	*88.6*	*83.8*	*73.6*	*51.0*	*59.1*	*71.7*	*70.4*	*67.1*		
EBITDA	**-1256**	**-544**	**466**	**823**	**1689**	**3282**	**3078**	**2810**	**3607**	**5057**	**91.6**	**34.1**
EBITDA margins (%)	*-51.1*	*-17.1*	*11.4*	*16.2*	*26.4*	*49.0*	*40.9*	*28.3*	*29.6*	*32.9*		

Source: Company, Anand Rathi Research

Interaction with IndiaMart suppliers

We recently interacted with IndiaMart paid suppliers. The following is a summarized feedback.

1. IndiaMart indirectly helps them increase their search-engine optimisation efficiency.
2. It is superior to others in terms of operations and reach.
3. Its lead generation and conversion are good as they (paid suppliers) obtain more and genuine enquiries.
4. They receive the same number of enquiries in a month through competitors such as Trade India, Exporter India, etc. as Indiamart provides in a day.
5. Costs are easily recovered. If the follow-up with prospects is good, the entire year's cost can be recovered in few months.
6. Interface is user-friendly. Customer support and servicing team is better than others.
7. Most suppliers we interacted with said they have an in-house logistics team and have tied up with 8-9 logistics companies. Hence, for that they do not require IndiaMart's support.
8. If IndiaMart can provide a credit-financing tie-up, it would be useful for them.
9. None of the suppliers we interacted with have heard or use any IndiaMart accounting software such as Vyapar, Busy Infotech, etc. Most use Tally as an accounting software.

Valuation

In Q2 FY23 India's largest online B2B company for business products and services, IndiaMart, provided ~160m registered buyers with access to ~7.3m storefronts in India, listing ~87m products and services across ~56 industries. It leads with 188,092 paid subscribers (~2.6% of its listings, against 1688.com's 920,000 paid subscribers in China (~9%). We believe IndiaMart has become an established and trusted all-India brand, primarily through word-of-mouth accounts of its suppliers' and buyers' experiences.

The company talked of adding 8,000-9,000 paying suppliers per quarter in FY23 with 28-28.5% margins. We see value in the stock owing to the network-effect, healthy cash-flows, negative working capital, asset-light model and healthy cash balance of Rs20bn (15% of its market cap). We maintain our Buy rating and introduce FY25e, with a TP of Rs5,500 (based on DCF, an implied PE of 40x FY25e EPS).

Fig 10 – Change in estimates

	Old		New		Change (%)	
(Rs m)	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	9,862	12,006	9,941	12,199	*0.8*	*1.6*
EBITDA	2,991	3,852	2,810	3,607	*(6.0)*	*(6.4)*
PAT	2,293	3,337	2,776	3,113	*21.1*	*(6.7)*

Source: 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.

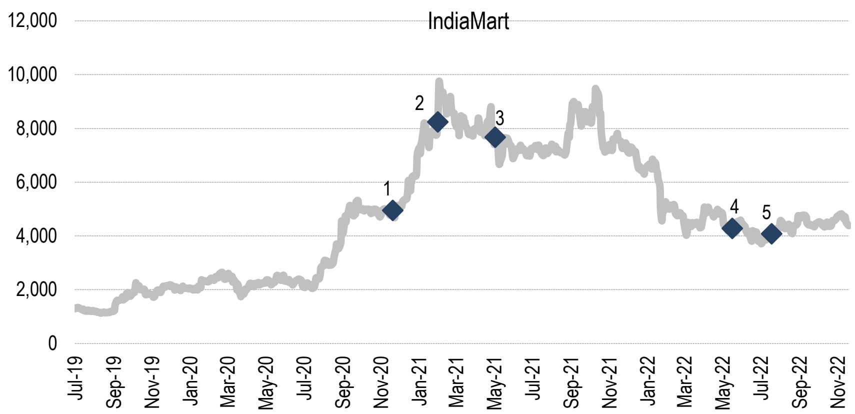
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 22 November 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	26-Nov-20	Buy	5,670	4,700
2	3-Feb-21	Buy	9,200	8,200
3	2-May-21	Buy	8,950	7,949
4	23-May-22	Buy	4,276	5,500
5	25-Jul-22	Buy	4,900	3,986

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	**Buy**	**Hold**	**Sell**
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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