

Company should benefit from network effects- but growth prospects already priced in

Indiamart InterMesh (IMIM), India's largest B2B digital marketplace, reported Q2FY23 revenue from operations at Rs. 241 cr (a YoY growth of 32%). This was largely due to ~6% sequential/ 25% YoY increase in number of paying subscription suppliers (to 188092), alongwith additional Rs. 10.8 Cr revenue from accounting software services. Deferred revenues increased 30% YoY and 3% QoQ to Rs. 984 cr. IMIM registered traffic of 261 mn and total business enquiries of 23 mn during Q2 FY23. Supplier Storefronts grew to 7.3 mn, an increase of 1% QoQ and 10% YoY.

- Margins weaken:** Consolidated EBITDA was Rs. 67 Cr. for Q2FY23, representing an EBITDA margin of 28% (down 1% QoQ). PAT however came at Rs. 68 cr (up 46% QoQ) due to sharp rise in other income (to Rs. 47 cr), which led NPM to rise 300 bps QoQ (though still 1400 bps down YoY). In next two quarters, CIER expects manpower count to keep rising to cater to paying customers growth- later, these expenses should stabilize as cost of servicing customers keeps going down. Pick up of digital technologies segment can also boost margins.
- Competitive intensity seems poised to increase:** There is stickiness in subscriptions because people trust IMIL- but collections have been trending slightly down, and we are wary of competitive intensities as the company braces for a turf war. Anticipating competition from established well funded rivals such as Flipkart and Amazon who are sharpening the B2B play with investments focused on inventory management and delivery logistics, and Udaan and Zetwerk, as well as specialised B2B competitors such as Elasticrun and Medikabazaar, CIER has toned down its revenue run rate besides increasing the tax rate.
- Synergies should pay off in the long term:** Investments in tech and acquisitions are helping company pivot by selling add on services. The company has made multiple investments in past 3 years in accounting, logistics, and allied software companies to enhance its value proposition for the suppliers: Vyapar (an accounting SAAS for SMEs), Bizom (a SaaS-based end-to-end retail intelligence platform for brands and B2B retailers), Legistify (a legal platform), Shipway(improves shipping experience), Superprocure(digitize freight sourcing and monitoring), Aerchain (automates the entire chain of procurement which includes segments like sourcing, negotiation, contract and invoice processing using AI), M1xchange, EasyEcom and Busy(an accounting software SAAS). We believe that these allied services will enable IndiaMart to grow its supplier base as well as steady raise its pricing.
- We believe that in India, the online B2B market is a sunrise sector and is poised to grow exponentially, with rising internet adoption, backed by the government's push towards digital innovations. However, all of these bright prospects, strong fundamentals and high CF generation business model have been more than priced in. We deploy a DCF-based methodology on the standalone free cashflows and add the investments/ cash on book made at book value to arrive at a **target price of Rs 4,946**. This implies an exit PE multiple of 40.5x FY24E EPS and 34x FY25E EPS.

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	6,696	7,535	9,712	12,088	14,559
Gross Profit (INR Mn.)	4,644	4,859	5,797	7,264	8,829
EBIT (INR Mn.)	3,121	2,959	2,998	3,914	4,842
EBIT Margin (%)	46.6	39.3	30.9	32.4	33.3
EPS (INR)	96.2	97.8	96.8	122.0	144.7

Source: Company, CEBPL

Nov 9, 2022

CMP (Rs)	4,800
Target Price (Rs)	4,946
Potential Upside (%)	3.1

Company Info

BB Code	INMART IN Equity
ISIN	INE933S01016
Face Value (Rs.)	10
52 Week High (Rs.)	7929
52 Week Low (Rs.)	3676
Mkt Cap (Rs bn.)	146.71
Mkt Cap (\$ bn.)	1.79
Shares o/s /Float (Mn.)	30.6/13.2
LTM EPS (Rs)	79.5
FY23E EPS (Rs)	96.8

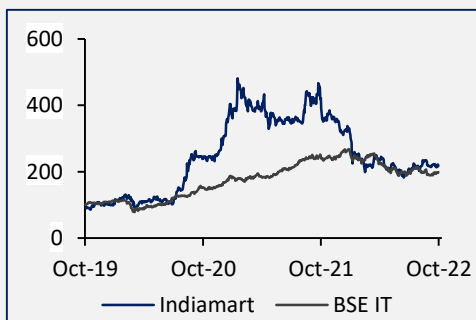
Shareholding Pattern (%)

	Sept-22	Jun-22	Mar-22
Promoters	49.22	49.22	49.52
FII's	25.00	23.59	23.93
DII's	5.24	4.96	5.46
Public	20.54	22.22	21.09

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	99.24	28.32	(18.30)
IndiaMart	117.44	(11.65)	(53.14)

Rebased Price Performance



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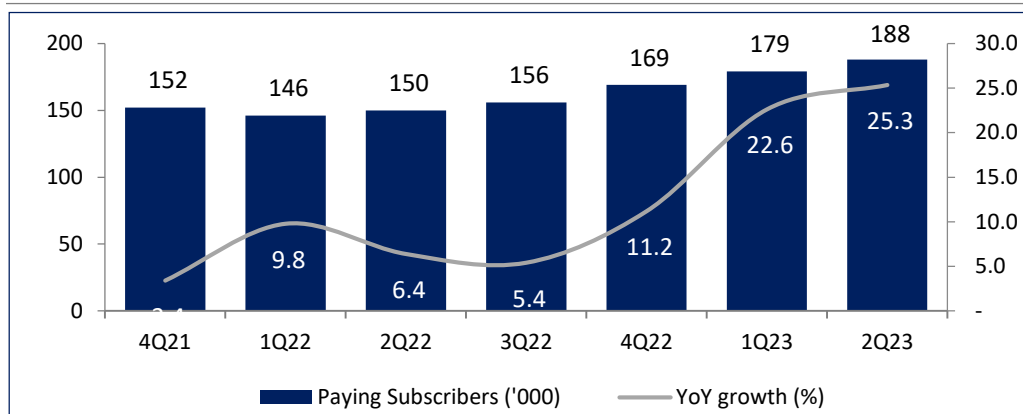
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Sequential Operating Performance

Quarterly Performance Trend	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Operating Metrics							
Revenue (in USD Mn)	1,797	1,816	1,824	1,881	2,014	2,246	2,407
QoQ growth (%)	3.5	1.1	0.4	3.1	7.1	11.5	7.2
YoY growth (%)	5.6	18.6	11.8	8.4	12.1	23.7	32.0
Total Traffic (Mn.)							
Total Traffic (Mn.)	257	268	284	259	260	257	261
QoQ growth (%)	1.6	4.3	6.0	(8.8)	0.4	(1.2)	1.6
YoY growth (%)	42.8	40.3	9.7	2.4	1.2	(4.1)	(8.1)
Indian Supplier Storefronts (Mn.)							
Indian Supplier Storefronts (Mn.)	7	7	7	7	7	7	7
QoQ growth (%)	1.6	1.5	1.5	4.5	1.4	1.4	1.4
YoY growth (%)	8.3	8.2	8.1	9.4	9.2	9.1	9.0
Paying Subscription Suppliers (Thousands.)							
Paying Subscription Suppliers (Thousands.)	152	146	150	156	169	179	188
QoQ growth (%)	2.7	(3.9)	2.7	4.0	8.3	5.9	5.0
YoY growth (%)	3.4	9.8	6.4	5.4	11.2	22.6	25.3
Total Products Live (Mn.)							
Total Products Live (Mn.)	72	74	76	80	83	86	87
QoQ growth (%)	1.4	2.8	2.7	5.3	3.8	3.6	1.2
YoY growth (%)	7.5	8.8	10.1	12.7	15.3	16.2	14.5
Registered Buyers							
Registered Buyers	125	131	138	143	149	154	160
QoQ growth (%)	5.0	4.8	5.3	3.6	4.2	3.4	3.9
YoY growth (%)	22.5	22.4	22.1	20.2	19.2	17.6	15.9
Last 12 months active buyers							
Last 12 months active buyers	35	38	38	38	38	37	37
% of registered buyers	28.0	29.0	27.5	26.6	25.5	24.0	23.1
Unique Business Enquiries (Mn.)							
Unique Business Enquiries (Mn.)	24	26	26	23	23	22	23
QoQ growth (%)	(4.0)	8.3	-	(11.5)	-	(4.3)	4.5
YoY growth (%)	33.3	30.0	(7.1)	(8.0)	(4.2)	(15.4)	(11.5)
Business Enquiries Delivered (Mn.)							
Business Enquiries Delivered (Mn.)	150	162	151	117	120	115	122
QoQ growth (%)	(2.6)	8.0	(6.8)	(22.5)	2.6	(4.2)	6.1
YoY growth (%)	29.3	23.7	(13.7)	(24.0)	(20.0)	(29.0)	(19.2)
Annualised Revenue Per Paying Subscriber (Thousands.)							
Annualised Revenue Per Paying Subscriber (Thousands.)	47	50	49	48	47	48	49
QoQ growth (%)	0.6	5.7	(2.0)	(1.4)	(1.3)	0.4	2.3
YoY growth (%)	4.5	9.3	6.3	2.8	0.8	(4.2)	-
Total Number of Employees							
Total Number of Employees	2,701	2,982	2,959	3,185	3,672	3,835	4,088

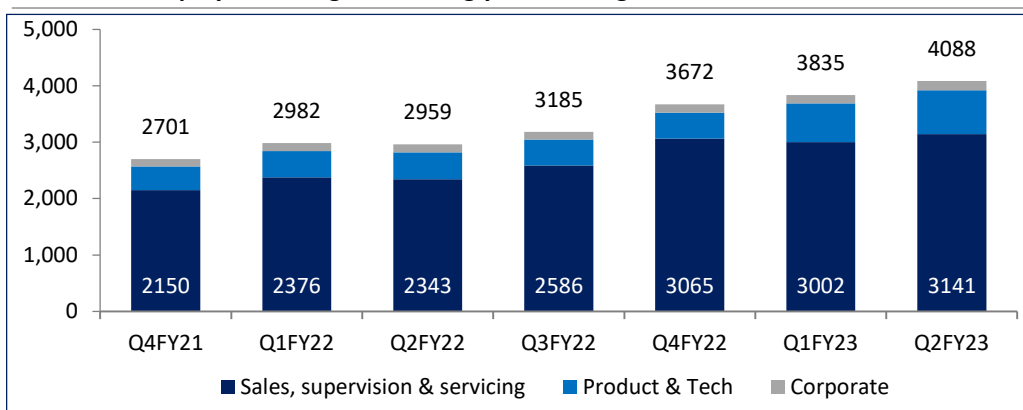
Source: Company, CEBPL

Subscriber growth has been strong in these past 12 months



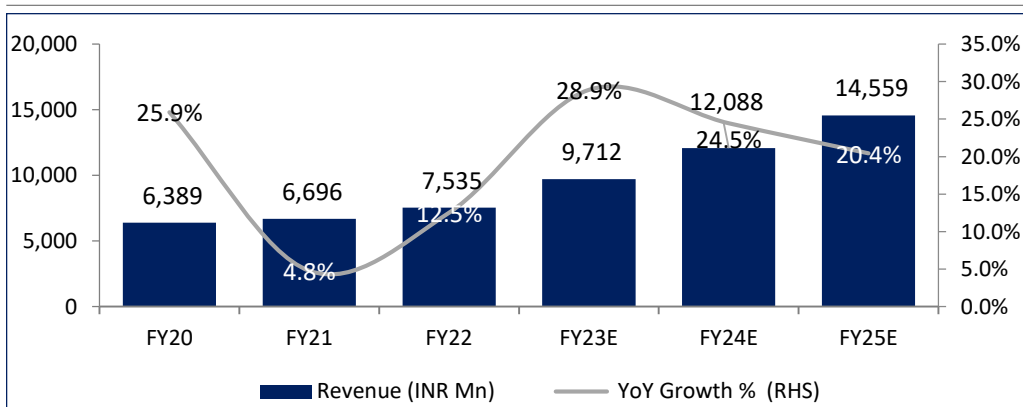
Source: Company, CEBPL

Number of employees have grown strongly to sustain growth



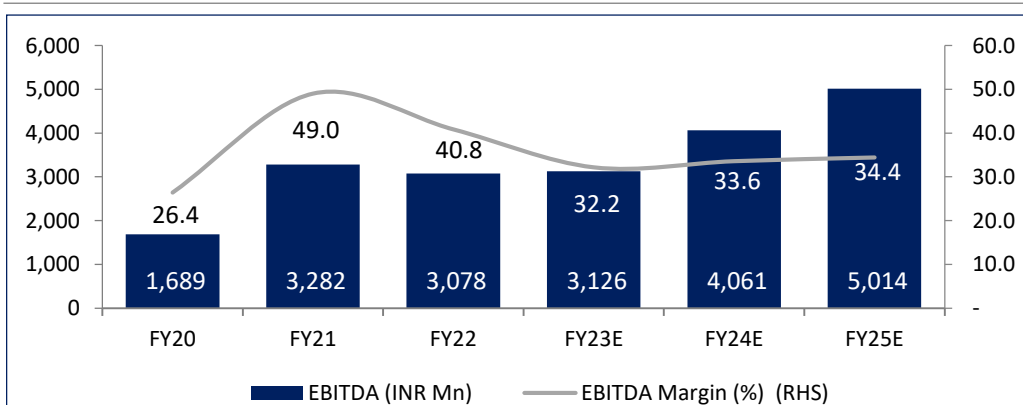
Source: Company, CEBPL

Revenue growth expected to stay strong as subscribers increase



Source: Company, CEBPL

EBITDA growth trajectory should sustain though margins should ease



Source: Company, CEBPL

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6,696	7,535	9,712	12,088	14,559
Gross profit	4,644	4,859	5,797	7,264	8,829
EBITDA	3,282	3,078	3,126	4,061	5,014
Depreciation	161	119	128	147	172
EBIT	3,121	2,959	2,998	3,914	4,842
Other income	866	1,122	1,165	1,209	1,165
Interest expense	67	54	56	62	68
PBT	3,893	3,905	3,857	4,860	5,765
PAT	2,907	2,976	2,940	3,704	4,393
EPS (RS)	96.2	97.8	96.8	122.0	144.7

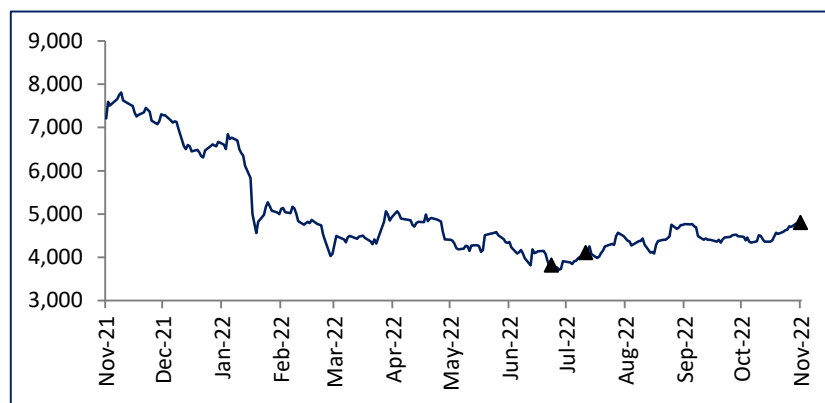
Balance Sheet (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Tangible fixed assets	24	32	32	32	32
Goodwill & intangible assets	628	530	469	416	364
Investments	22,544	27,217	31,876	37,714	44,733
Cash & Cash equivalents	401	495	631	786	946
Other non-current assets	245	315	315	315	315
Other current assets	1,272	899	899	899	899
Total assets	25,115	29,489	34,221	40,162	47,289
Shareholder's funds	16,109	18,741	20,700	23,170	26,099
Minority interest	-	-	-	-	-
Borrowings	-	-	-	-	-
Lease liabilities	634	563	563	563	563
Other non-current liabilities	3,067	3,703	5,112	6,484	8,143
Other current liabilities	5,304	6,482	7,846	9,946	12,484
Total equity & liabilities	25,115	29,489	34,221	40,162	47,289

Cash Flows (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Cash flows from Operations	3,225	4,023	4,731	6,176	7,665
Cash flows from Investing	(13,376)	(3,354)	(3,559)	(4,725)	(5,973)
Cash flows from financing	10,383	(575)	(1,036)	(1,297)	(1,532)

Ratio Analysis	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratios (%)					
Revenues	4.8	12.5	28.9	24.5	20.4
Gross Profit	24.8	4.6	19.3	25.3	21.5
EBITDA	94.3	(6.2)	1.6	29.9	23.5
EBIT	111.2	(5.2)	1.3	30.5	23.7
Margin Ratios (%)					
Gross Profit Margin	69.4	64.5	59.7	60.1	60.6
EBITDA Margin	49.0	40.8	32.2	33.6	34.4
EBIT Margin	46.6	39.3	30.9	32.4	33.3
Profitability (%)					
Return on equity	18.0	15.9	14.2	16.0	16.8
Return on invested capital	12.2	10.2	9.0	10.3	11.0
Return on capital employed	13.9	11.7	10.7	12.6	13.8
Valuation					
OCF / Net profit (%)	1.1	1.4	1.6	1.7	1.7
EV / EBITDA (x)	7.2	4.3	4.2	3.2	2.6
Book Value per share (x)	532.8	616.0	681.7	763.1	859.5
Free Cash flow yield (%)	13.7	30.1	35.3	46.0	57.1

Source: Company, CEBPL

Historical recommendations and target price: Indiamart Intermesh Ltd.



Indiamart Intermesh Ltd.

1. 12-07-2022	Add,	Target Price 4,474
2. 25-07-2022	Add,	Target Price 4,344
3. 09-11-2022	Neutral,	Target Price 4,946

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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