August 24, 2023

COMPANY UPDATE | Sector: Information Technology

Indiamart Ltd

Business outlook remains strong for FY24

Dominant market share in B2B online classified business with around 70% market share in paid listings. The overall growth in business is led by higher value proposition for sellers and the efficient matching algorithm resulting in higher buyer satisfaction. Enjoys substantial network effect attracting more buyers and sellers to the platform. The strength of business model is visible in the 13.5% CAGR growth in paying subscribers over FY18-23 and 23.2% CAGR growth in the number of registered buyers during the period. The success of business model and its longevity can be inferred from the fact that >50% of the registered buyers are repeat buyers.

- It expects to add around 8k paid suppliers per quarter going ahead. The addition of paid customer was modest in Q1FY24 on account of increase in price of Silver monthly subscription packages.
- ARPU growth to be in the range of 6% CAGR led by migration of customers to higher priced subscription plans and some contribution from price increase.
- Traffic to portal at ~250mn/quarter is sufficient to cater to 3-4 lakh paid customers. Increase in traffic has been modest over last several quarters on account of moderation in covid19 related enquiries.
- The target market for Indiamart is around 1.3mn MSMEs, considering 10% of GST registered 13 mn MSMEs have digital presence.
- Increase in headcount going ahead would be in accordance with increase in the number of paid customers.
- Completely powered by organic traffic with little advertisement expense, resulting in higher operating margin. Marketing related cost would remain limited in near term thus supporting overall operating margin.
- It is well, placed to achieve 30% EBITDA margin by Q4FY24 led by positive operating leverage.
- It operates through asset-light model and benefits from minimal capex requirement (~1% of sales) leading to strong FCF generation.
- Diversified revenue base across industries and geographies helps to lower business risk. The buyer traffic is fairly distributed across the county, but the sellers are mostly concentrated in the major cities (>50% of paying suppliers are from metro cities).
- It is net debt free company with net cash of ~Rs 24bn that offers optionality value and would help it to invest in its platform to provide value added services to suppliers, thereby fighting off any threat from competitors.
- There is huge untapped potential in smaller cities(T2-T4) of India (~1,000 cities), which is expected to pick up due to accelerated adoption of digital channel in the aftermath of covid19 Pandemic
- It remains focused towards realizing business synergy with regard to various acquisitions done during 2021-22. For Busy Infotech, the focus remains on expanding its geographical presence and it has sold around 300k licenses till date.

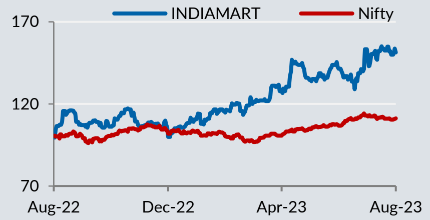
YES SECURITIES
INSTITUTIONAL EQUITIES

Reco	:	**BUY**
CMP	:	Rs 3,112
Target Price	:	Rs 3,950
Potential Return	:	+ 27%

Stock data (as on August 23, 2023)

Nifty	19,444
52 Week h/l (Rs)	3336 / 2019
Market cap (Rs/USD mn)	193071 / 2336
Outstanding Shares (mn)	61
6m Avg t/o (Rs mn):	385
Div yield (%):	0.3
Bloomberg code:	INMART IN
NSE code:	INDIAMART

Stock performance



	1M	3M	1Y
Absolute return	-1.2%	12.4%	50.9%

Shareholding pattern (As of Jun'23 end)

Promoter	49.2%
FII+DII	32.4%
Others	18.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,950	3,845

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	60.8	79.3
EPS (Old)	59.9	78.0
% change	1.6%	1.7%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	9,855	12,216	14,853
YoY Growth	30.8%	24.0%	21.6%
EBIDTA	2,677	3,574	5,049
YoY Growth	-13.0%	33.5%	41.3%
PAT	2,837	3,717	4,845
YoY Growth	-4.7%	31.0%	30.4%
ROE	14.4%	16.8%	18.8%
EPS	46	61	79
P/E	67.7	51.6	39.6
BV	337	389	456
P/BV	9.3	8.1	6.9

PIYUSH PANDEY
Lead Analyst
piyush.pandey@ysil.in
+91 22 68850521

PARTH GHIYA, Associate

INVESTMENT RATIONALE

- Business is driven by high value proposition to sellers. Buyers benefit from diversified product listing (98mn product listings across ~100k categories); whereas, sellers find high quality traffic (~250mn quarterly traffic) on the platform
- Huge opportunity to grow as only 2% of addressable MSMEs pay for priority listing services in India compared to 4% in China.
- The pickup in digitalization going ahead is set to expand the presence of MSMEs using internet for B2B transactions.
- Online B2B classified expected to grow at around 20% pa. going ahead led by growth in the number of paying suppliers.
- High quality business as it is completely powered by organic traffic with little advertisement expense, resulting in higher operating margin. B2C businesses have to deal with vast distributed base of end customers. On the other hand, B2B business models are mainly concerned with maintaining long term relationship with select MSME customers and it requires lesser advertisement expense.
- Being B2B business, it is less subject to disruption compared to B2C online classified segment which face high competition from Google/Facebook and other horizontal and vertical players
- Enjoys substantial network effect as the presence of a large number of buyers results in increased business enquiries, thus encouraging more suppliers to join the platform and this leads to more product listings, thereby attracting even more buyers.
- The business (Online B2B classified) has negative working capital cycle as the payments are collected upfront from customers and it supports cash flow generation and reduces the risk of receivables going bad.
- The conversion factor (Paid listing/total listing) for IndiaMART is around 2.7%, which is way lower when compared to ~9% of 1688.com, a factor which is set to grow with growing penetration of digital technology among MSMEs

Outlook and recommendation

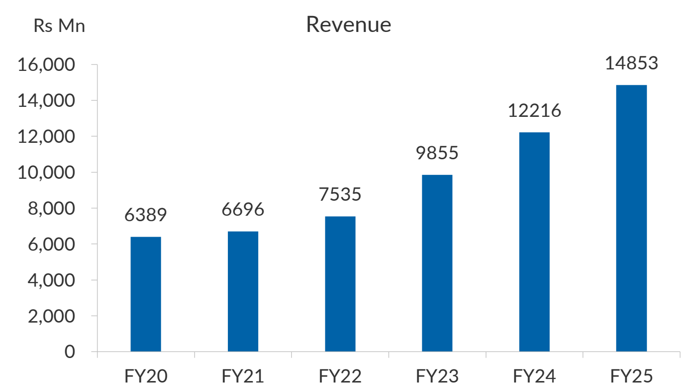
We maintain BUY Rating on the stock with revised target price of Rs 3,950/share based on 15 year DCF method with terminal growth rate of 5% post projection period of FY24-FY38E and WACC of 11.5%.

It is best placed to benefit from rising digitalization of SMEs. It benefits from huge network effect that will continue to drive increase in the number of paid suppliers. The value proposition for MSMEs is attractive that it requires little need of advertising and thus benefits from optimum cost structure. Positive operating leverage would continue to drive improvement in margin. Low price sensitivity offers it pricing power and enable migration of customers from basic to premium packages that would drive growth in ARPU.

We estimate revenue CAGR growth of 19.0% over FY24-FY38 driven by ~12.5% CAGR increase in volume and ~6% CAGR increase in realization, with average EBIT margin of 34.5% during the period.

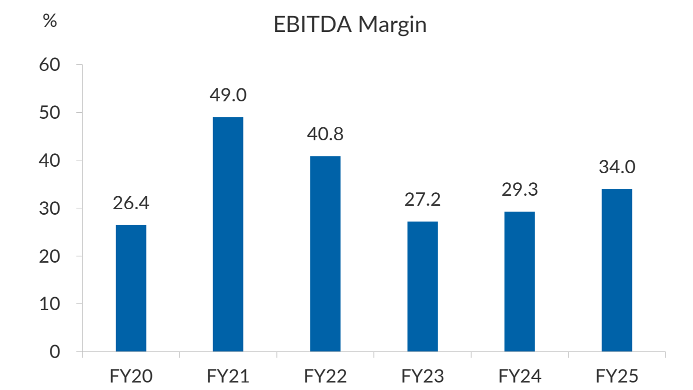
STORY IN CHARTS

Exhibit 1: Revenue growth outlook remains strong



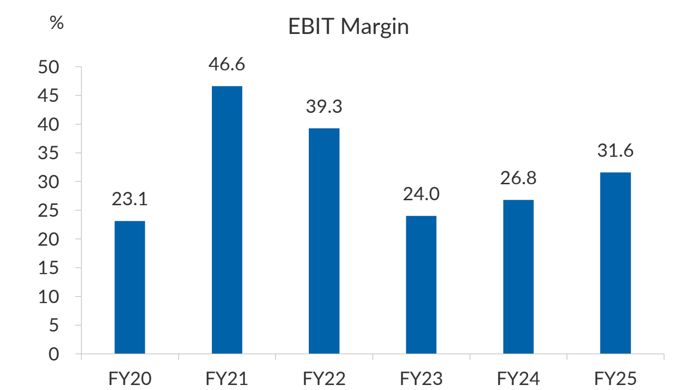
Source: Company, YES Sec

Exhibit 2: EBITDA margin to improve in FY24



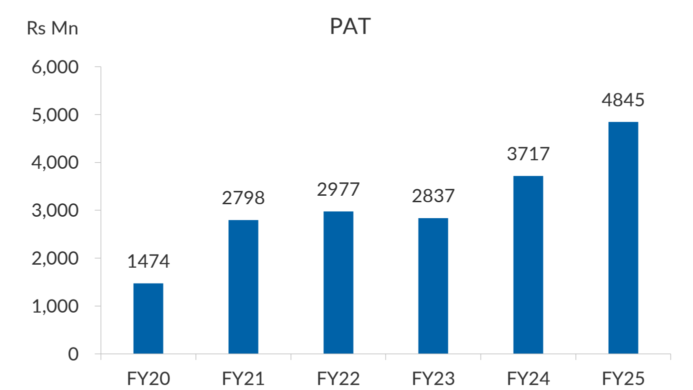
Source: Company, YES Sec,

Exhibit 3: Enjoys strong operating leverage



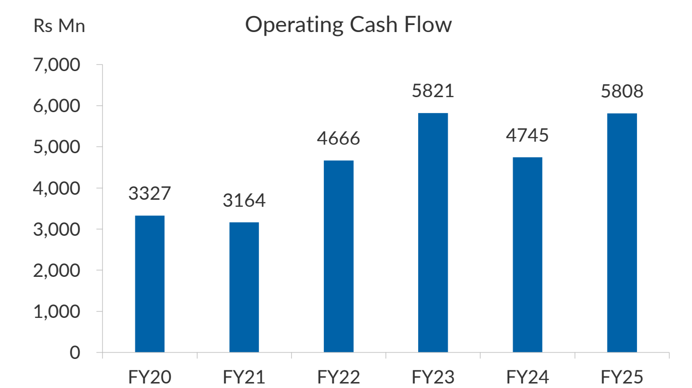
Source: Company, YES Sec

Exhibit 4: High focus on profitability



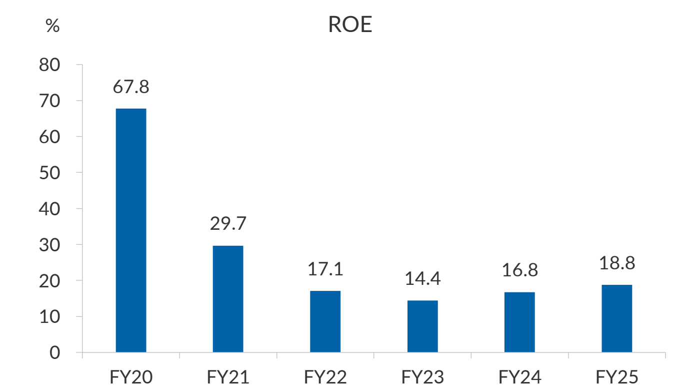
Source: Company, YES Sec

Exhibit 5: Operating cash flow to remain strong



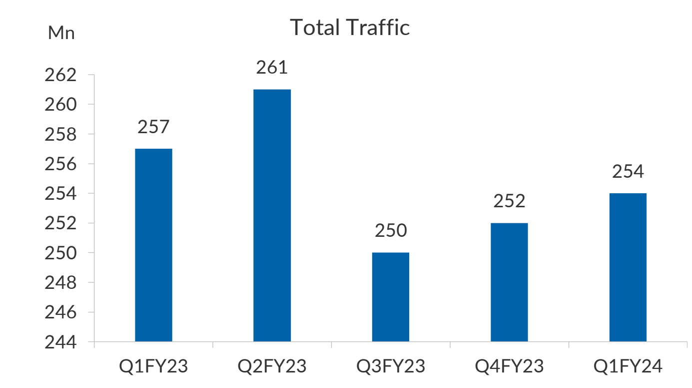
Source: Company, YES Sec

Exhibit 6: RoE to improve over next 2 years



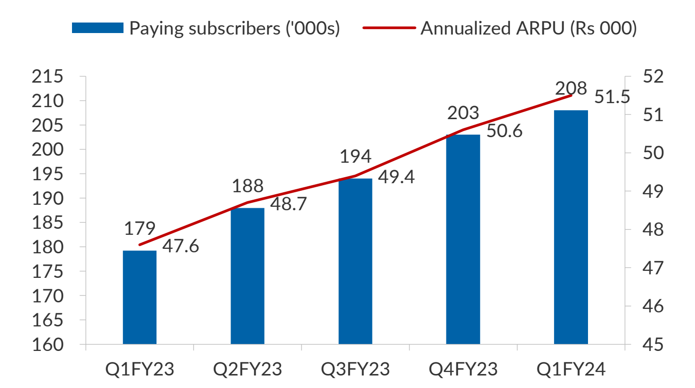
Source: Company, YES Sec

Exhibit 7: Traffic remains above 250mn+



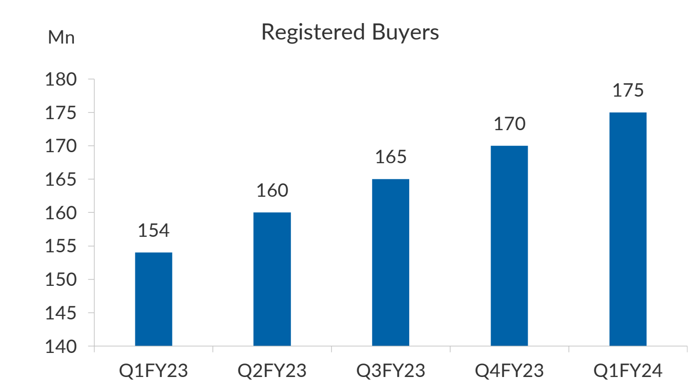
Source: Company, YES Sec

Exhibit 8: Steady growth in paid subscribers



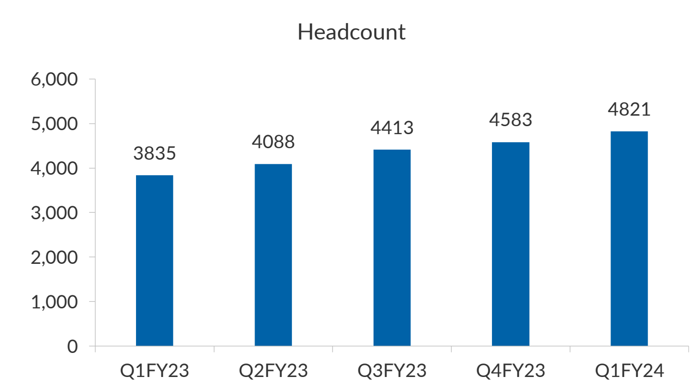
Source: Company, YES Sec

Exhibit 9: Registered buyers at 175mn



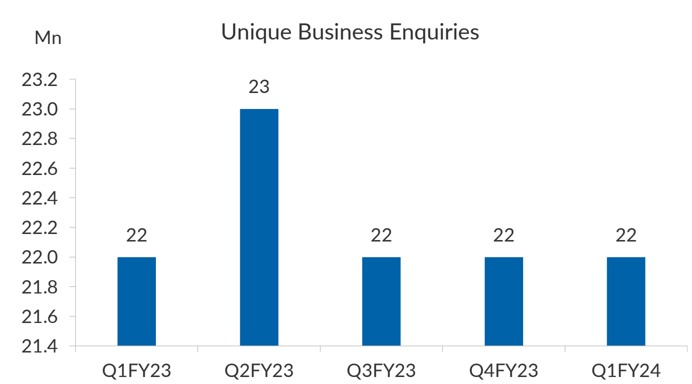
Source: Company, YES Sec

Exhibit 10: Headcount to grow inline with addition in paid customers



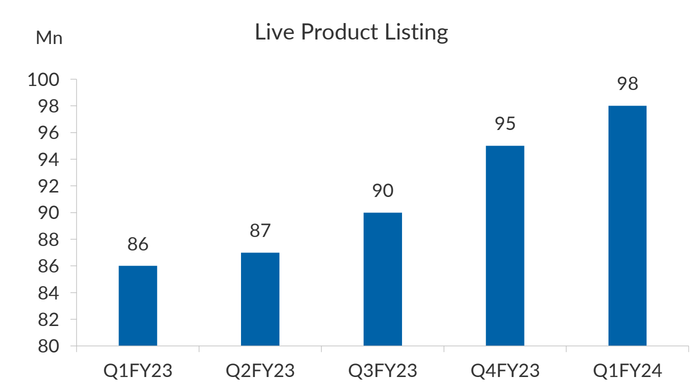
Source: Company, YES Sec

Exhibit 11: Unique business enquiries remain steady



Source: Company, YES Sec

Exhibit 12: Sustained growth in live product listings



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	289	303	306	306	306	306
Reserves & surplus	2,462	15,806	18,435	20,279	23,438	27,557
Shareholders' funds	2,751	16,109	18,741	20,585	23,744	27,863
Non-current liablities	3,575	3,593	4,166	5,301	4,989	5,037
Other non-current liabilities	3,575	3,593	4,166	5,301	4,989	5,037
Current liabilities	4,904	5,413	6,582	8,560	9,051	9,573
Other current liabilities	4,904	5,413	6,582	8,560	9,051	9,573
Total (Equity and Liabilities)	11,229	25,115	29,489	34,446	37,785	42,473
Non-current assets	2,030	1,268	5,087	10,812	12,930	16,331
Fixed assets (Net block)	858	652	562	5,533	5,440	5,349
Non-current Investments	697	411	4,249	5,158	5,411	5,681
Other non-current assets	475	204	275	121	2,080	5,301
Current assets	9,200	23,847	24,402	23,634	24,855	26,142
Cash & current investment	8,957	22,952	23,776	23,301	24,495	25,752
Other current assets	242	895	626	333	360	390
Total (Assets)	11,229	25,115	29,489	34,446	37,785	42,473

Source: Company, YES Sec

Exhibit 14: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	6,389	6,696	7,535	9,855	12,216	14,853
Operating expenses	(4,700)	(3,414)	(4,457)	(7,177)	(8,642)	(9,803)
EBITDA	1,689	3,282	3,078	2,677	3,574	5,049
Depreciation	(211)	(161)	(119)	(311)	(299)	(356)
EBIT	1,478	3,121	2,959	2,367	3,275	4,693
Other income	686	866	1,122	1,805	1,935	1,883
Profit before tax	2,131	3,920	4,027	4,091	5,121	6,487
Tax (current + deferred)	(640)	(1,095)	(928)	(875)	(1,265)	(1,632)
Reported Profit / (Loss)	1,474	2,798	2,977	2,837	3,717	4,845
Adjusted net profit	1,474	2,798	2,977	2,837	3,717	4,845

Source: Company, YES Sec

Exhibit 15: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	2,131	3,920	4,027	4,091	5,121	6,487
Depreciation	211	161	119	311	299	356
Change in working capital	980	(134)	1,394	2,236	480	509
Total tax paid	(28)	(849)	(928)	(897)	(1,243)	(1,632)
Others	33	67	54	80	88	88
Cash flow from oper. (a)	3,327	3,164	4,666	5,821	4,745	5,808
Capital expenditure	(977)	45	(29)	(5,281)	(206)	(265)
Change in investments	(3,305)	(13,169)	(4,672)	(619)	(1,388)	(1,463)
Others	(221)	25	(71)	176	(1,981)	(3,222)
Cash flow from inv. (b)	(4,503)	(13,100)	(4,771)	(5,725)	(3,575)	(4,950)
Free cash flow (a+b)	(1,176)	(9,936)	(105)	96	1,170	858
Equity raised/(repaid)	3	14	2	0	0	0
Debt raised/(repaid)	0	0	0	0	0	0
Dividend (incl. tax)	(333)	(15)	(455)	(61)	(558)	(727)
Others	968	10,475	549	(221)	(554)	(67)
Cash flow from fin. (c)	638	10,474	96	(282)	(1,112)	(794)
Net chg in cash (a+b+c)	(539)	539	(9)	(185)	58	64

Source: Company, YES Sec

Exhibit 16: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	25.9	4.8	12.5	30.8	24.0	21.6
EBITDA Growth	105.1	94.3	(6.2)	(13.0)	33.5	41.3
EBIT Growth	88.9	111.2	(5.2)	(20.0)	38.4	43.3
Net Profit Growth	635.3	89.8	6.4	(4.7)	31.0	30.4
Profitability Ratios(%)						
EBITDA Margin	26.4	49.0	40.8	27.2	29.3	34.0
EBIT margin	23.1	46.6	39.3	24.0	26.8	31.6
Net Profit margin	23.1	41.8	39.5	28.8	30.4	32.6
RoA	15.2	17.2	10.8	7.4	9.1	11.7
RoE	67.8	29.7	17.1	14.4	16.8	18.8
RoCE	28.6	24.0	13.9	9.7	12.0	15.2
Liquidity Ratios						
Net debt/Equity (x)	(3.3)	(1.4)	(1.3)	(1.1)	(1.0)	(0.9)
Current ratio (x)	1.9	4.4	3.7	2.8	2.7	2.7
Quick ratio (x)	1.9	4.4	3.7	2.8	2.7	2.7
Per Share(Rs)						
EPS	24.1	45.8	48.7	46.4	60.8	79.3
BV per share	45.0	263.6	306.7	336.9	388.6	456.0
DPS	4.6	0.2	7.4	1.0	9.1	11.9
Valuation Ratios						
PER(x)	NA	NA	NA	67.7	51.6	39.6
PCE(x)	NA	NA	NA	61.0	47.8	36.9
Price/Book(x)	NA	NA	NA	9.3	8.1	6.9
EV/EBITDA(x)	NA	NA	NA	63.0	46.8	32.9

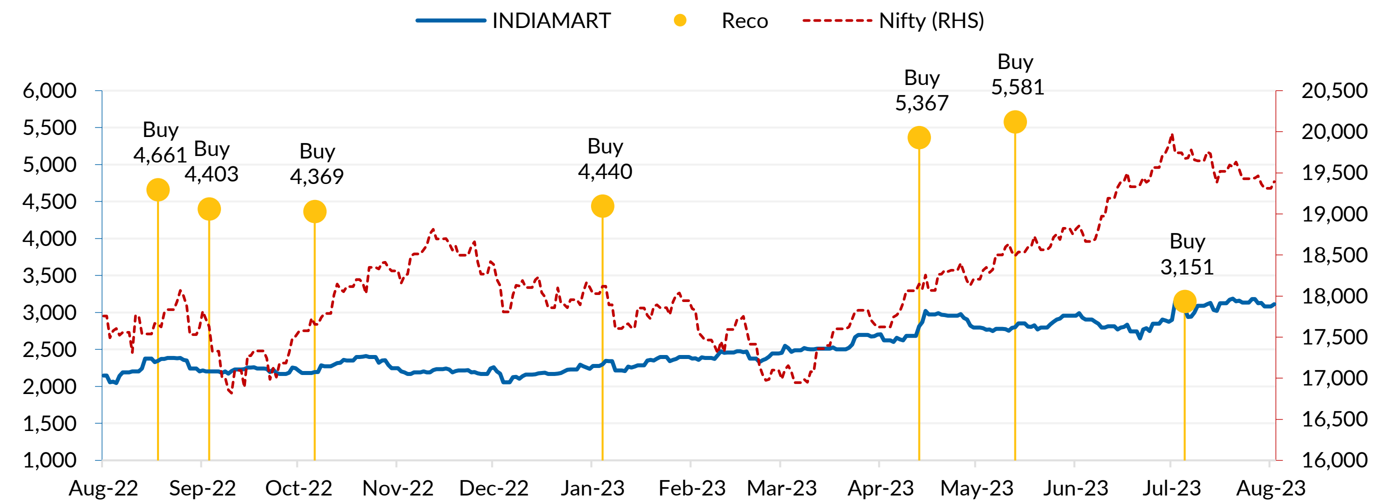
Source: Company, YES Sec

Exhibit 17: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	23.1	41.8	39.5	28.8	30.4	32.6
Asset turnover (x)	0.7	0.4	0.3	0.3	0.3	0.4
Leverage factor (x)	4.5	1.9	1.6	1.6	1.6	1.6
Return on Equity(%)	67.8	29.7	17.1	14.4	16.8	18.8

Source: Company, YES Sec

Recommendation Tracker



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Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

+91 22 68850521 | research@ysil.in
Website: www.yesinvest.in

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Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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Name of the Research Analyst : Piyush Pandey, Parth Ghiya

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.