

21 October 2024

IndiaMart InterMesh

Revenue in line, subdued collection growth; maintaining a Buy

Despite the unexpectedly weak, ~5.6% y/y, collections growth to Rs3.6bn, IndiaMart's Q2 revenue rose ~18% y/y, in line with our estimate. The elevated EBITDA margin (38.7%; 27.1% a year ago, 36.1% in Q1 FY25) was largely due to lower outsourced sales cost (~6.2% of revenue vs. ~12.6% a year ago). Management has guided to ~10-15% increase in collections, along with ~34-35% margins in the near term. We introduce our FY27e earnings and retain a Buy rating at a lower 12-mth TP of Rs3,100 (Rs3,800 earlier), P/E of 30x FY27e EPS.

Results update. In Q2 paid suppliers added were 2,390. The continued churn in Silver annual and monthly suppliers led to fewer subscribers added. The number of paid suppliers is now ~218,165 vs. ~209,747 a year ago. ARPU grew ~13.6% y/y to Rs60,800. Deferred revenue increased ~19.2% y/y to Rs14.8bn. Collections rose ~5.6% y/y to ~Rs3.6bn.

Concall KTAs. 1) Weak collections growth in Q2 was due to continuing churn in Silver category and issues in company structure (decentralization of customer support and other support staff); ahead, management expects ~10-15% y/y collections growth. 2) Elevated margins in Q2 were aided by lower collections and dip in net customer additions, resulting in lower related costs. 3) Employee costs to increase in Q3 due to appraisals. Ahead, the company expects ~34-35% margins to sustain.

Outlook. We anticipate 18.5%/15.7%/18.9% revenue growth in FY25/26/27 (incl. Busy InfoTech). Our FY25e/26e/27e EBITDA margins are 36.3%/34.2%/34.4%, leading to a 23.4% EPS CAGR over FY24-27e.

Risks: Loss of paid suppliers, absence of rebound in collections growth and concentration risk (top 1% and top 10% paid suppliers contribute respectively ~17% and ~48% to revenue).

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	9,854	11,968	14,179	16,409	19,505
Net profit (Rs m)	2,838	3,340	4,889	5,302	6,264
EPS (Rs)	46.4	55.2	80.8	87.6	103.5
P/E (x)	54.1	46.0	31.4	29.0	24.5
EV / EBITDA (x)	57.0	46.1	29.7	27.2	22.7
P / BV (x)	7.5	8.9	7.3	6.1	5.1
RoE (%)	16.4	19.7	27.6	24.7	24.1
RoCE (%)	7.5	9.0	14.5	13.7	13.8
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
Net debt / equity (x)	-1.1	-1.3	-1.2	-1.2	-1.3

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price (12-mth): Rs.3,100

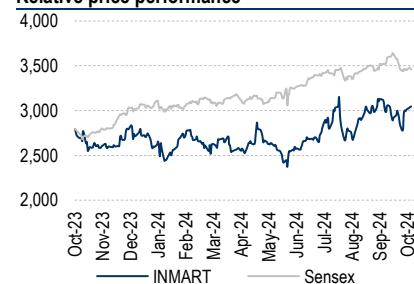
Share Price: Rs.2,509

Key data	INMART IN / INMR.BO
52-week high / low	Rs3199 / 2229
Sensex / Nifty	81151 / 24781
3-m average volume	\$11.3m
Market cap	Rs150bn / \$1789.8m
Shares outstanding	60m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	49.2	49.2	49.2
- of which, Pledged	-	-	-
Free float	50.8	50.8	50.8
- Foreign institutions	23.9	23.4	23.1
- Domestic institutions	12.1	11.8	10.6
- Public	14.8	15.6	17.1

Estimates revision (%)	FY25e	FY26e
Revenue	(1.3)	(6.1)
EBITDA	8.4	(5.8)
PAT	10.4	(2.1)

Relative price performance



Source: Bloomberg

Shobit Singhal
Research Analyst

Pranay Shah
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	9,854	11,968	14,179	16,409	19,505
Growth (%)	30.8	21.5	18.5	15.7	18.9
ARPU Growth (%)	4.5	14.9	13.0	5.0	8.0
Direct costs	6,680	8,083	8,400	10,000	11,837
Gross profit	3,174	3,885	5,778	6,408	7,668
Gross margins (%)	32.2	32.5	40.8	39.1	39.3
SG&A	495	571	638	804	956
EBITDA	2,679	3,314	5,140	5,604	6,712
EBITDA margins (%)	27.2	27.7	36.3	34.2	34.4
Depreciation	-311	-365	-329	-381	-453
Other income	1,805	2,088	2,273	2,406	2,642
Interest expenses	-82	-89	-89	-89	-89
PBT	4,092	4,948	6,995	7,541	8,813
Effective tax rates (%)	23.0	24.3	24.3	24.3	24.3
+Associates / (Minorities)	-379	-404	-404	-404	-404
Net income	2,838	3,340	4,889	5,302	6,264
WANS	61	61	61	61	61
FDEPS (Rs)	46.4	55.0	80.8	87.6	103.5

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	4,092	4,948	6,995	7,541	8,813
+ Non-cash items	-1,130	-1,378	329	381	453
Oper. prof. before WC	2,962	3,570	7,324	7,922	9,266
- Incr. / (decr.) in WC	-2,551	-2,937	-171	46	-2,069
Others incl. taxes	-754	-915	-1,702	-1,835	-2,145
Operating cash-flow	4,758	5,592	5,793	6,041	9,189
Free cash-flow	4,586	5,445	5,619	5,839	8,950
- Acquisitions	-5,517	-255	-	-	-
- Div. (incl. buyback & taxes)	61	611	1,210	1,210	1,210
+ Equity raised	-1,231	-6,162	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	-1,902	-1,582	1,487	-185	-108
- Misc. (CFI + CFF)	-96	-431	253	89	89
Net cash-flow	-225	430	2,668	4,725	7,759

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

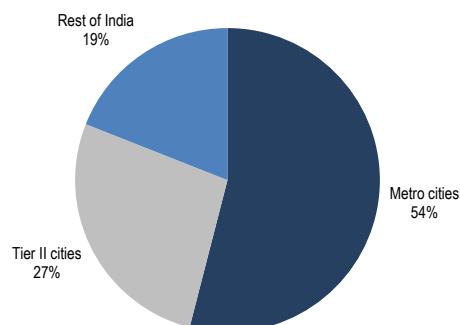
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	306	599	599	599	599
Net worth	20,585	17,361	21,039	25,130	30,184
Debt	-	-	-	-	-
Lease liability	696	562	562	562	562
Long-term liabilities	4,605	5,888	4,831	5,654	6,462
Capital employed	25,886	23,811	26,432	31,347	37,209
Net tangible assets	128	155	280	424	595
Net intangible assets	447	335	335	335	335
Goodwill	4,543	4,543	4,543	4,543	4,543
CWIP (tang. & intang.)	2	5	5	5	5
Right of use assets	413	327	327	327	327
Investments (strategic)	5,117	5,236	5,236	5,236	5,236
Investments (financial)	22,718	22,222	22,222	22,222	22,222
Current assets (excl. cash)	495	650	660	669	681
Cash	583	1,012	3,680	8,405	16,164
Current liabilities	8,561	10,674	10,855	10,819	12,900
Working capital	-8,065	-10,024	-10,196	-10,150	-12,219
Capital deployed	25,886	23,811	26,432	31,347	37,209
Contingent Liabilities	318	318	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	54.1	46.0	31.4	29.0	24.5
EV / EBITDA (x)	57.0	46.1	29.7	27.2	22.7
EV / Sales (x)	15.5	12.8	10.8	9.3	7.8
P/B (x)	7.5	8.9	7.3	6.1	5.1
RoE (%)	16.4	19.7	27.6	24.7	24.1
RoCE (%) - after tax	7.5	9.0	14.5	13.7	13.8
DPS (Rs)	20.0	20.0	20.0	20.0	20.0
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
Dividend payout (%) - incl. DDT	43.1	36.2	24.8	22.8	19.3
Net debt / equity (x)	-1.1	-1.3	-1.2	-1.2	-1.3
Receivables (days)	2.6	1.5	1.5	1.5	1.5
Inventory (days)	-	-	-	-	-
Payables (days)	14	14	14	14	14
CFO : PAT %	167.6	167.4	118.5	113.9	146.7

Source: Company, Anand Rathi Research

Fig 6 – Paid suppliers, break-up by area, Q2 FY25



Source: Company

Fig 7 – Key operational parameters

	FY22					FY23					FY24					FY25	
Key metrics - operational	Q1	Q2	Q3	Q4	FY22	Q1	Q2	Q3	Q4	FY23	Q1	Q2	Q3	Q4	FY24	Q1	Q2
Registered buyers (m)	131	138	143	149	149	154	160	165	170	170	175	182	187	194	194	198	202
Total business enquiries delivered (m)	162	151	117	120	550	115	122	119	123	479	123	137	127	133	520	128	127
Daily unique business enquiries (m)	26	26	23	23	97	22	23	22	22	88	22	24	23	24	93	25	28
Total traffic (m)	268	284	259	260	1071	257	261	250	252	1021	254	288	272	269	1084	267	287
Total products live (m)	74	76	80	83	83	86	87	90	95	95	98	102	104	108	108	110	113
Indian supplier storefronts (m)	6.6	6.7	7	7.1	7.1	7.2	7.3	7.4	7.5	7.5	7.6	7.7	7.8	7.9	7.9	8.0	8.1
Paying subscription suppliers	146,000	150,000	155,833	169,324	169,324	179,260	188,092	194,355	202,690	202,690	207,683	209,747	211,573	214,526	214,526	215,775	218,165
Annualised revenue per paying customer (ARPU) (Rs)	49,708	48,437	48,044	47,400	44,300	47,600	48,700	49,400	50,560	46,300	51,548	53,500	55,100	55,900	53,200	58,400	60800
Revenue share - top 10% paying subscription suppliers	43	44	44	45	45	46	47	46	47	47	46	46	46	47	47	48	48
Revenue share - top 1% paying subscription suppliers							18	17	17	17	16	16	16	16	16	17	17
No. of employees	2,982	2,959	3,185	3,672	3,672	3,835	4,088	4,413	4,583	4,583	4,821	5,066	5,186	5,384	5,384	5,729	5923
Product and tech employees	464	475	458	459	459	685	779	835	857	857	861	875	NA	NA	NA	NA	NA
Corporate employees	142	141	141	148	148	148	168	179	184	184	182	179	NA	NA	NA	NA	NA
Sales supervision and servicing	2,376	2,343	2,586	3,065	3,065	3,002	3,141	3,399	3,542	3,542	3,778	4,012	NA	4,373	4,373	4,800	5,000

Source: Company, Anand Rathi Research

Fig 8 – ARPU trend ('000s)

Paying subscription suppliers	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Top 1%	877	824	878	850	880	896	905	967	1,013
y/y growth				7.6	0.3	8.7	3.1	13.8	15.1
q/q growth	11.0	-6.0	6.6	-3.2	3.5	1.8	1.0	6.9	4.8
Top 10%	229	226	236	238	248	256	261	279	295
y/y growth				8.2	8.3	13.3	10.6	17.2	19.0
q/q growth	4.1	-1.3	4.4	0.8	4.2	3.2	2.0	6.9	5.7

Source: Company, Anand Rathi Research

Fig 9 – Revenue contribution (%)

Paying subscription suppliers	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Top 1%	18	17	17	16	16	16	16	17	17
Top 10%	47	46	47	46	46	46	47	48	48

Source: Company, Anand Rathi Research

Fig 10 – Quarterly results

(Rs m)	Q2 FY25	Q2 FY24	% Change	Q1 FY25	% Change
Revenues	3,477	2,947	18.0	3,313	5.0
EBITDA	1,346	800	68.2	1,195	12.6
EBITDA margins, %	38.7	27.1	1,156 bps	36.1	263 bps
EBIT	1,264	720	75.5	1,114	13.4
EBIT margins, %	36.3	24.4	1,191 bps	33.6%	271 bps
PBT	1,900	1,043	82.1	1,626	16.8
Net profit	1,351	694	94.6	1,140	18.5

Source: Company, Anand Rathi Research

Q2 conference call highlights

Outlook and key points

- Q2 collections growth was weak, up ~5.6% y/y to ~Rs3.6bn (according to management, this could be a one-off) due to the sustained churn in Silver category and issues in company structure (decentralization of customer support and other staff).
- Ahead, management expects collections to grow ~10-15% y/y.
- Elevated, ~38.7%, margins in Q2 were aided by lower collections and a dip in net customer additions (~2,390), resulting in lower related costs.
- Ahead, the company expects margins to sustain at ~34-35%.
- Employee costs to increase in Q3 due to appraisals (Q2 FY25: ~42.4% of revenue).
- Near-term net supplier addition to remain rangebound at ~2,000-3,000.
- Business enquiries to decline in the near term (~127m in Q2 FY25) due to focus on the core supplier base to improve the conversion rate.

Category-wise bifurcation

- ~218,000 supplier base: Gold and platinum: silver at 50:50.
- Revenue: Gold and platinum ~75% and silver ~25%.
- Collections: Gold and platinum ~70-80% and silver ~20-30%.
- Churn rate: Platinum & gold category ~1%, Silver (Annual) ~4% and Silver (Monthly) ~6-7%.

Newer initiatives and synergies

- Daily unique business enquiries (~28m in Q2; up ~16.7% y/y) increased due to implementation of WhatsApp-led communication strategy.
- With respect to newer sales in the platinum category, the company further bifurcated pricing into normal and premium rates (applicable for the top ~2-3% categories in top-tier cities).
- Synergies of Vyapaar and Shoplifty with the core platform allow buyers to submit RFQs directly to the company.

Valuation

IndiaMart is India's largest online B2B company providing ~202m registered buyers with access to ~8.1m store fronts, listing ~113m business products and services across ~56 sectors. It leads with 218,165 paid subscribers (~2.7% of its listings). We believe the company has become an established and trusted all-India brand, primarily through word-of-mouth accounts of its suppliers/buyers.

Management has guided to ~10-15% collections growth, along with ~34-35% margins in the near term. We introduce our FY27e earnings and retain our Buy rating at a lower 12-mth TP of Rs3,100 (Rs3,800 earlier), at a P/E of 30x FY27e EPS.

Fig 11 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	% change	New	Old	% change
Revenue	14,179	14,362	(1.3)	16,409	17,477	(6.1)
EBITDA	5,140	4,743	8.4	5,604	5,951	(5.8)
EBITDA margins %	36.3	33.0	323 bps	34.2	34.1	10 bps
EBIT	4,811	4,420	8.9	5,224	5,558	(6.0)
EBIT margins %	33.9	30.8	316 bps	31.8	31.8	3 bps
PBT	6,995	6,388	9.5	7,541	7,690	(1.9)
Net profit	4,889	4,429	10.4	5,302	5,415	(2.1)

Source: Anand Rathi Research

Fig 12 – One-year-forward PE



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, counterfeits or illegal
- Loss of paid suppliers due to elevated churn rate
- Absence of rebound in collections growth and concentration risk (top 1% and top 10% paid suppliers contribute respectively ~17% and ~48% to revenue).

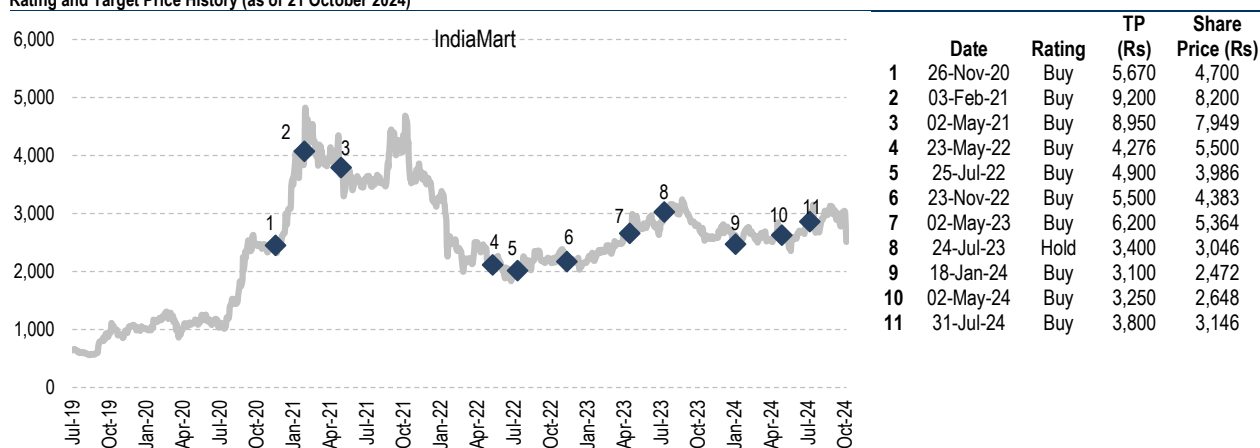
Appendix

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.