MOTILAL OSWAL

IndiaMART

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	144.5 / 2
52-Week Range (INR)	5488 / 1641
1, 6, 12 Rel. Per (%)	-8/73/177
12M Avg Val (INR M)	409

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	6.4	6.5	8.0
EBITDA	1.7	2.9	3.1
PAT	1.3	2.7	2.7
EPS (INR)	51.3	92.7	95.4
EPS Gr. (%)	566.2	80.8	2.9
BV/Sh. (INR)	150.4	279.5	406.2
Ratios			
RoE (%)	57.8	68.1	43.8
RoCE (%)	62.3	68.7	43.8
Payout (%)	22.7	12.9	15.7
Valuations			
P/E (x)	97.5	53.9	52.4
P/BV (x)	33.2	17.9	12.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	52.0	52.3	52.3
DII	5.7	3.8	3.6
FII	22.3	15.3	10.6
Others	20.0	28.6	33.5

FII Includes depository receipts

CMP: INR4,965 TP: INR5,830 (+17%) Buy

Strong recovery; Positive outlook

- IndiaMART posted a strong operational performance in 2Q, primarily led by a quicker-than-anticipated rebound in paid suppliers. Collections were up 73% sequentially, reaching 94% of pre-COVID levels.
- The company also showed great resilience in margins, curtailing its operating cost to INR815m, v/s an average quarterly run-rate of ~INR1.2b. This led to EBIT margins of 47%, v/s 23% in FY20. While we concur that margins are not sustainable at current levels, overall the company would see benefit from cost optimization and operating leverage.
- Leading indicators such as traffic and business inquiries are up 38% and 56%, respectively, from pre-COVID levels. This provides confidence on the company sustaining the current momentum. Management targets adding 5k paid suppliers every quarter and is confident of breaching FY20 levels by the end of 4QFY21.
- We increase our EPS estimate by 7%/4% for FY21/FY22 as we anticipate much faster recovery in operations.
- We value IndiaMART on a DCF basis at INR5,830 per share (+17% upside), on an assumption of 11% WACC and 5% terminal growth rate, implying a one-year forward multiple of 55x. **Reiterate Buy**.

Beat on all fronts

- 2QFY21 revenue stood at INR1.6b (7% beat on our est.; +4.2% YoY and +6.6% QoQ). Collections increased by 73% QoQ and are now at 94% of pre-COVID levels.
- Revenue was a function of 6% QoQ increase in paid suppliers and 1 QoQ% rise in realization.
- During the quarter, along with a rebound in monthly subscribers, the company was also able to upsell packages to its suppliers, resulting in an increase in ARPU levels.
- The EBIT margin was the highest ever at 47% (est. 34%; +27pp YoY and +240bp QoQ). This was led by optimization across cost items. Employee expenses reduced 29% YoY, and outsourcing sales cost declined 28% YoY.
- All traffic on the platform was organic in nature; therefore, the company has not incurred any advertisement expenses.
- PAT was up 686% YoY to INR700m, implying a PAT margin of 43%. Adjusting for a one-time tax impact in 2QFY20, PAT increased 74% YoY.
- Traffic growth stood at 32% YoY, and business inquiries increased 42% YoY.
- Total suppliers on the platform stood at 6.2m, an increase of 9% YoY. Total paid suppliers stood at 141k (est. 139k; +3% YoY and +6% QoQ). ARPU increased 3% YoY and 1% QoQ to INR45.8k.
- During the quarter, total employee count stood at 2,917 (a reduction of 233). This was majorly due to natural attrition, which was not filled up.
- Total cash and investments increased 34% YoY to INR10b. CFO stood at INR780m, an increase of 85% YoY.

Research Analyst: Anmol Garg (Anmol.Garg@MotilalOswal.com)
Mukul Garg – Research analyst (Mukul.Garg@MotilalOswal.com) / **Heenal Gada – Research analyst** (Heenal.Gada@MotilalOswal.com)

Management commentary highlights

- The increase in collections was primarily led by: 1) an increase in online adoption and 2) an uptick in economic activity. The relevancy of the platform remains very strong as repeat buyers are now at 60% v/s 55% in the previous quarter.
- 1HFY21 margins almost doubled, led by: 1) a reduction in employee expenses on some amount of cutback in salaries and the non-payment of variable pay, 2) pricing renegotiations in outsourcing sales contracts, and 3) the optimization of other expenses, led by the closure of offices.
- Going ahead, we can expect half of the benefit to return as the company has now rolled back salaries to pre-COVID levels (from August 2020). Also, it would start paying variable pay when collections breach the pre-COVID mark.
- In 2Q, IndiaMART added 8K suppliers, of which 80% of suppliers witnessed churn in 1QFY21. Net new suppliers were around 2000. The company expects to breach the 147k mark (pre-COVID levels) before the end of FY21. The target is to add 5k paid suppliers every quarter. Most of the additions from the next quarter would be net new suppliers.
- For the first 10–15 years, IndiaMART solely focused on exports. However, it took the strategic decision to focus only on domestic suppliers in 2009. With India turning attractive for manufacturing, IndiaMART decided to once again venture into exports (from Sept). Currently, the company has only a few 100 suppliers outside of India. It would be some time before the initiative would scale up and the company achieves significant revenue contribution from the same.
- IndiaMART expects JD Mart (Justdial's new B2B initiative) to help expand the market. If the platform is able to generate positive ROI for its customers, it could co-exist with IndiaMART as the market is very large. However, there is also a strong network effect in the B2B Classifieds businesses; therefore, IndiaMART does not expect any market share loss from the launch of JD Mart. The company does not expect to spend on advertising to compete with the JD Mart platform.

Valuation and view

- The COVID-19 impact led to a 10% reduction in paid suppliers in 1QFY21, leading to a drop in collections by 50%. However, collections sharply rebounded, offsetting most of the impact of 1QFY21. Given the strong momentum witnessed in 2Q, coupled with an encouraging stand from the management, we expect a 12%/4% CAGR in paid suppliers/ARPU for FY20–23.
- We remain confident of strong fundamental growth in operations, driven by: a) high growth in digitization among the SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) >70% market share in the underlying industry, e) the ability to increase ARPU on account of low price sensitivity, and f) high operating leverage.
- We arrive at our DCF-based Target Price of INR5,830 on the assumption of 11% WACC and 5% terminal growth rate. TP implies upside of 17%. **Reiterate Buy**.

Consolidated – Quarterly Earnings Model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(% / bp)
Gross Sales	**1,470**	**1,566**	**1,649**	**1,701**	**1,531**	**1,632**	**1,670**	**1,688**	**6,386**	**6,521**	**1,527**	**6.9**
YoY Change (%)	30.1	28.4	23.1	23.3	4.1	4.2	1.3	-0.7	26.0	2.1	-2.5	670bp
Total Expenditure	1,110	1,203	1,213	1,178	798	815	966	1,003	4,704	3,583	971	-16
EBITDA	**360**	**363**	**436**	**523**	**733**	**817**	**703**	**685**	**1,682**	**2,938**	**556**	**47**
Margins (%)	24.5	23.2	26.4	30.7	47.9	50.1	42.1	40.6	26.3	45.1	36.4	1370bp
Depreciation	40	50	58	59	44	44	45	46	207	179	44	0
Interest	0	7	5	17	18	18	0	0	29	36	0	NA
Other Income	140	205	166	172	337	179	181	190	683	887	239	-25
PBT before EO expense	**460**	**511**	**539**	**619**	**1,008**	**934**	**839**	**829**	**2,129**	**3,610**	**750**	**24**
PBT	**460**	**511**	**761**	**612**	**1,004**	**932**	**839**	**829**	**2,344**	**3,604**	**750**	**24**
Tax	140	422	141	169	263	234	219	217	872	933	196	19
Rate (%)	30.4	82.6	18.5	27.6	26.2	25.1	26.2	26.2	37.2	25.9	26.2	-100bp
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	**320**	**89**	**620**	**443**	**741**	**698**	**619**	**612**	**1,472**	**2,671**	**554**	
Adj PAT	**320**	**89**	**398**	**450**	**745**	**700**	**619**	**612**	**1,257**	**2,677**	**554**	**26**
YoY Change (%)	-156.1	-55.5	37.2	55.2	132.8	686.5	55.6	36.1	498.6	112.9	522.5	16400bp
Margins (%)	21.8	5.7	24.1	26.5	48.7	42.9	37.1	36.3	19.7	41.0	36.3	660bp

E: MOFSL Estimates

Key Perfor. Indicators

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue Indicators										
Paid Suppliers ('000)	133.0	137.0	142.0	147.0	133.0	141.0	147.3	150.4	559	572
ARPU ('000)	43.6	44.6	45.3	45.0	45.5	45.8	45.4	44.9	42	43
Cost Indicators										
Employees	3160	3324	3373	3307	3150	2917	3017	3017	3307	3017
Outsourcing Sales Employees	1138	1350	1374	1374	1315	1000	1100	1100	1374	1100
Other Expenses (INR M)	350	335	305	320	198	196	267	304	1310	965

Management commentary highlights

Recruitment

Robust financial performance

- Revenue for the quarter stood at INR1.6b, an increase of 4.2% YoY. The EBIT margin stood at 47%, up 27pp YoY. PAT stood at INR700m, up 686% YoY. In 2Q, collections increased by 75% sequentially and are now at 94% of pre-COVID levels. This was primarily led by 1) an increase in online adoption and 2) an uptick in economic activity. The platform's relevancy remains very strong as repeat buyers are now at 60% v/s 55% in the previous quarter.

Expect some margin normalization going forward

- 1HFY21 margins almost doubled, led by: 1) a reduction in employee expenses on some amount of cutback in salaries and the non-payment of variable pay, 2) pricing renegotiations in outsourcing sales contracts, and 3) the optimization of other expenses, led by the closure of offices. Going ahead, we can expect half of the benefit to return as the company has now rolled back salaries to pre-COVID levels (from August 2020). Also, it would start paying variable pay when collections breach the pre-COVID mark. The company also expects some increase in other expenses, led by a potential increase in transportation costs on account of in-person sales pitches and collections.

Reduced employee count

- In 2Q, the employee count declined by 300 and outsourced sales employee count by ~400. This was due to the company's decision not to fill the empty positions (due to natural attrition) and the sale of its subsidiary 10Times Online Ltd. Going forward, the company would re-look at hiring more sales employees when collections increase above pre-COVID levels.
- The focus is on adding 5k paid customers quarterly.
- In 2Q, IndiaMART added 8k suppliers, of which 80% witnessed churn in 1QFY21. Net new suppliers were around 2000. The company expects to breach the 147k mark (pre-COVID levels) before the end of FY21. The target is to add 5k paid suppliers every quarter. Most of the additions from the next quarter would be net new suppliers.

Mode of payment

- Pre-COVID almost 40% of the payments used to happen via check/cash; the salesperson collected the payment from the client location. In 2Q, 85–90% of payments have been happening digitally. Going forward, the company expects some rollback in digital payments as it is necessary for the sales team to pitch the benefit of the IndiaMART portal to promoters/CMOs of platinum clients – which commits more than 200–300k during the time of renewal of the contracts.

New features on the platform

- IndiaMART's focus is on making its platform more relevant to its suppliers. There is a high focus on improving the lead management system so that more and more relevant leads go to the suppliers. Additionally, the company would work on features related to logistics and credit, wherein it would match logistics and credit partners to its suppliers. IndiaMART is also focusing on enhancing its payment gateway feature by adding more features and making it more user-friendly.

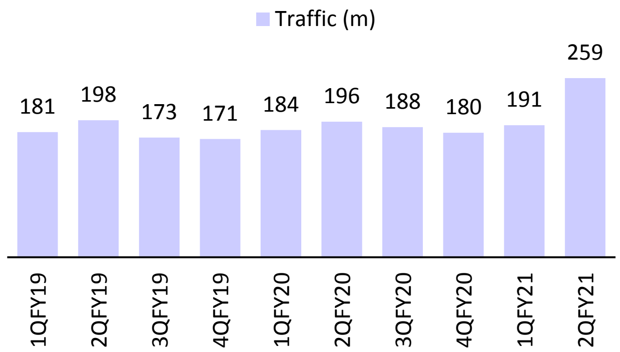
Re-initiation of exports

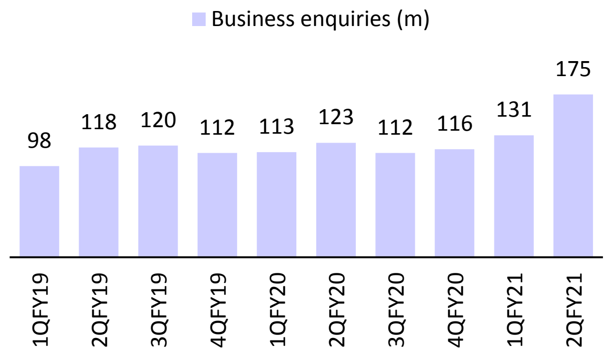
- For the first 10–15 years, IndiaMART solely focused on exports. However, it took the strategic decision to focus only on domestic suppliers in 2009. With India turning attractive for manufacturing, IndiaMART decided to once again venture into exports (from Sept). Currently, the company has only a few 100 suppliers outside of India. It would be some time before the initiative would scale up and the company achieves significant revenue contribution from the same.

Competition

- IndiaMART expects JD Mart (Justdial's new B2B initiative) to help expand the market. If the platform is able to generate positive ROI for its customers, it could co-exist with IndiaMART as the market is very large. However, there is also a strong network effect in the B2B Classifieds businesses; therefore, IndiaMART does not expect any market share loss from the launch of JD Mart. The company does not expect to spend on advertising to compete with the JD Mart platform. In terms of other competitors, Udaan, Power2SME, etc. focus on B2B e-commerce, via which they assist suppliers in selling standardized B2B products to buyers. IndiaMART has a very different market from these companies as the majority of the products on the platform are non-standardized.

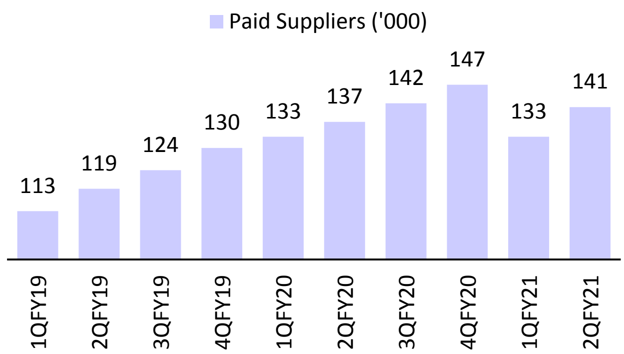
Exhibit 1: Leading indicators are positive





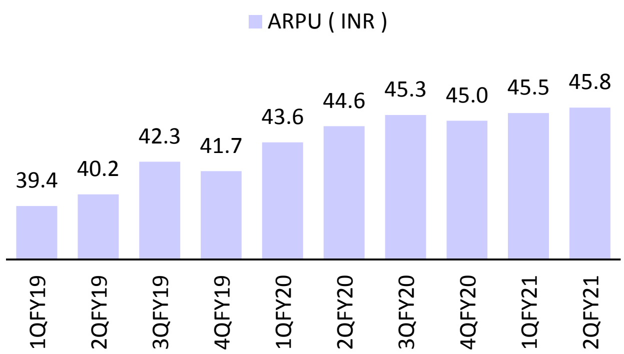
Source: Company, MOFSL

Exhibit 2: Sharp rebound in paid suppliers



Source: MOFSL, Company

Exhibit 3: ..with consistent ARPU



Source: MOFSL, Company

Valuation and view

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- We remain confident of strong fundamental growth in operations, driven by: a) high growth in digitization among the SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) >70% market share in the underlying industry, e) the ability to increase ARPU on account of low price sensitivity, and f) high operating leverage.
- We arrive at our DCF-based Target Price of INR5,830 on the assumption of 11% WACC and 5% terminal growth rate. TP implies upside of 17%. **Reiterate Buy.**

Change in estimates

Exhibit 4: Revisions to our estimates

	Revised			Earlier			Change (% / bp)		
Standalone business	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Revenue (INR m)	6386.0	6521.1	7959.9	6,386.0	6,279.1	7,164.0	0.0	3.9	11.1
YoY (%)	26.0	2.1	22.1	26.0	(1.7)	14.1	0bp	380bp	800bp
EBITDA (%)	26.3	45.1	38.7	26.3	40.0	34.2	0bp	500bp	450bp
EBIT (%)	23.1	42.3	36.0	23.1	37.2	31.3	0bp	510bp	470bp
EPS (INR)	51.3	92.7	95.4	51.3	86.8	91.4	0.0	6.8	4.4

Source: MOFSL, Company

Story in Charts

Exhibit 5: Expect 12% CAGR in paid suppliers over FY20–23

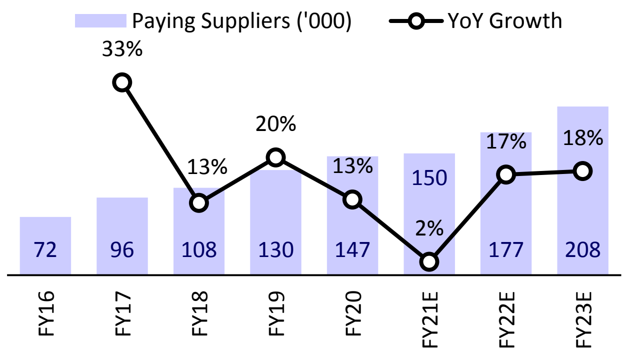


Exhibit 6: …with 4% increase in ARPU

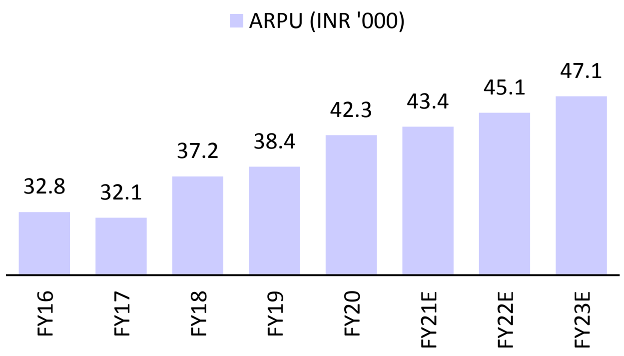


Exhibit 7: …resulting in 15% revenue CAGR

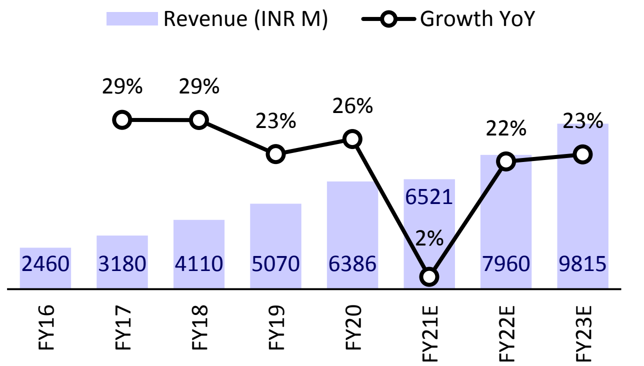


Exhibit 8: Normalized EBIT to be significantly above FY20 levels

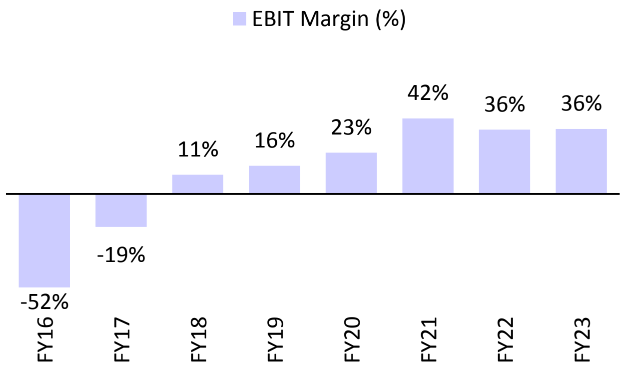
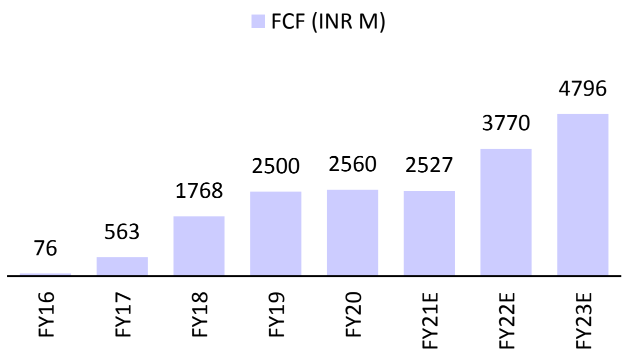
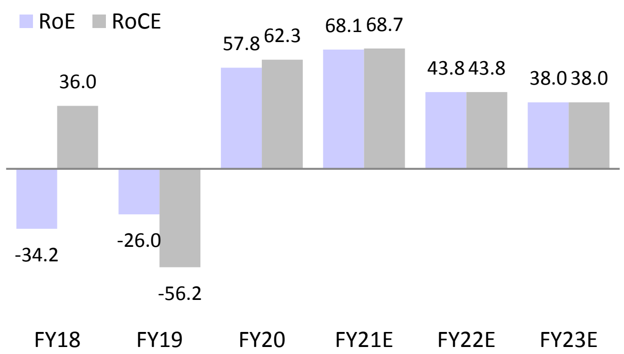


Exhibit 9: Strong operations with negative working capital and low capex requirement to result in robust FCF



Source:

Exhibit 10: Return ratios remain strong



Source:

Financials and valuations

Consolidated - Income Statement					(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**
Total Income from Operations	**4,110**	**5,070**	**6,386**	**6,521**	**7,960**
Change (%)	29.2	23.4	26.0	2.1	22.1
Employees Cost	1,950	2,290	2,670	2,077	2,632
Outsourced sales cost	440	570	724	541	815
Other Expenses	1,250	1,370	1,310	965	1,433
Total Expenditure	**3,640**	**4,230**	**4,704**	**3,583**	**4,880**
% of Sales	88.6	83.4	73.7	54.9	61.3
EBITDA	**470**	**840**	**1,682**	**2,938**	**3,080**
Margin (%)	11.4	16.6	26.3	45.1	38.7
Depreciation	30	40	207	179	215
EBIT	**440**	**800**	**1,475**	**2,760**	**2,866**
Int. and Finance Charges	1,230	650	29	36	0
Other Income	190	410	683	887	857
PBT bef. EO Exp.	**-600**	**560**	**2,129**	**3,610**	**3,722**
EO Items	**0**	**0**	**215**	**-6**	**0**
PBT after EO Exp.	**-600**	**560**	**2,344**	**3,604**	**3,722**
Total Tax	-1,150	350	872	933	974
Tax Rate (%)	191.7	62.5	37.2	25.9	26.2
Minority Interest	0	0	0	0	0
Reported PAT	**550**	**210**	**1,472**	**2,671**	**2,749**
Adjusted PAT	**550**	**210**	**1,257**	**2,677**	**2,749**
Change (%)	-185.7	-61.8	498.6	112.9	2.7
Margin (%)	13.4	4.1	19.7	41.0	34.5

Consolidated - Balance Sheet					(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**
Equity Share Capital	100	286	289	289	289
Preference Capital	0	0	0	0	0
Total Reserves	-3,312	1,313	2,462	4,823	7,140
Net Worth	**-3,213**	**1,599**	**2,751**	**5,112**	**7,429**
Other Liabilities	5,393	2,300	3,312	3,643	4,312
Total Loans	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-556	-576
Capital Employed	**933**	**2,935**	**5,527**	**8,200**	**11,165**
Net Fixed Assets	**73**	**85**	**52**	**72**	**92**
Goodwill on Consolidation	8	6	5	5	5
Capital WIP	2	2	2	2	2
Other Assets	345	44	1,514	1,514	1,514
Total Investments	**3,111**	**6,450**	**8,719**	**9,219**	**11,219**
Curr. Assets, Loans&Adv.	**642**	**657**	**401**	**2,789**	**4,813**
Inventory	0	0	0	0	0
Account Receivables	7	6	17	18	22
Cash and Bank Balance	467	402	169	2,496	4,456
Loans and Advances	168	250	215	275	335
Curr. Liability & Prov.	**3,247**	**4,308**	**5,166**	**5,395**	**6,475**
Account Payables	419	450	179	148	187
Other Current Liabilities	2,720	3,709	4,682	4,933	5,962
Provisions	107	149	305	315	325
Net Current Assets	**-2,604**	**-3,650**	**-4,765**	**-2,606**	**-1,661**
Misc Expenditure	0	0	0	0	0
Appl. of Funds	**934**	**2,936**	**5,527**	**8,206**	**11,171**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)					
EPS	**28.6**	**7.7**	**51.3**	**92.7**	**95.4**
Cash EPS	**28.6**	**7.7**	**51.3**	**92.7**	**95.4**
BV/Share	-175.6	87.4	150.4	279.5	406.2
DPS	0.0	0.0	10.0	11.8	15.0
Payout (%)	0.0	0.0	22.7	12.9	15.7
Valuation (x)					
P/E	174.8	649.4	97.5	53.9	52.4
Cash P/E	174.8	649.4	97.5	53.9	52.4
P/BV	-28.5	57.2	33.2	17.9	12.3
EV/Sales	23.3	26.8	22.4	22.0	17.5
EV/EBITDA	203.6	161.9	85.2	48.8	45.3
Dividend Yield (%)	0.0	0.0	0.2	0.2	0.3
FCF per share	92.0	91.7	89.2	79.8	122.8
Return Ratios (%)					
RoE	-34.2	-26.0	57.8	68.1	43.8
RoCE	36.0	-56.2	62.3	68.7	43.8
RoIC	30.5	-9.1	-25.4	-59.4	-52.7
Working Capital Ratios					
Fixed Asset Turnover (x)	56.4	59.8	122.8	90.6	86.5
Asset Turnover (x)	4.4	1.7	1.2	0.8	0.7
Inventory (Days)	0	0	0	0	0
Debtor (Days)	1	0	1	1	1
Creditor (Days)	37	32	10	8	9
Leverage Ratio (x)					
Current Ratio	0.2	0.2	0.1	0.5	0.7
Interest Cover Ratio	0.4	1.2	50.9	76.1	NA
Net Debt/Equity	1.1	-4.3	-3.2	-2.3	-2.1

Consolidated – Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	-601	539	2,114	3,646	3,722
Depreciation	29	41	211	179	215
Interest & Finance Charges	-28	-30	33	36	0
Direct Taxes Paid	-10	-52	-186	-933	-974
(Inc)/Dec in WC	1,297	1,684	1,022	480	1,663
CF from Operations	**687**	**2,183**	**3,194**	**3,408**	**4,627**
Others	1,103	368	-589	-881	-857
CF from Operating incl EO	**1,791**	**2,551**	**2,605**	**2,527**	**3,770**
(Inc)/Dec in FA	-22	-51	-45	-199	-235
Free Cash Flow	**1,769**	**2,500**	**2,560**	**2,329**	**3,535**
(Pur)/Sale of Investments	-1,586	-2,591	-2,047	-500	-2,000
Others	-44	-116	-233	881	857
CF from Investments	**-1,653**	**-2,758**	**-2,325**	**182**	**-1,378**
Issue of Shares	152	144	19	0	0
Inc/(Dec) in Debt	0	0	0	0	0
Interest Paid	0	-3	-199	-36	0
Dividend Paid	0	0	-333	-346	-432
Others	0	0	0	0	0
CF from Fin. Activity	**152**	**141**	**-513**	**-382**	**-432**
Inc/Dec of Cash	**291**	**-65**	**-233**	**2,327**	**1,960**
Opening Balance	177	467	402	169	2,496
Closing Balance	**467**	**402**	**169**	**2,496**	**4,456**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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