

Estimate change



TP change



Rating change



Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	242.6 / 3.2
52-Week Range (INR)	9952 / 4547
1, 6, 12 Rel. Per (%)	-11/-27/13
12M Avg Val (INR m)	1186

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	6.7	7.8	9.8
EBITDA	3.3	3.6	4.2
PAT	2.9	3.6	4.2
EPS (INR)	96.6	116.0	135.3
EPS Gr. (%)	86.5	20.1	16.7
BV/Sh. (INR)	556.2	626.3	744.3

Ratios

RoE (%)	30.8	20.1	19.8
RoCE (%)	31.3	20.6	20.0
Payout (%)	16.0	13.0	11.1

Valuations

P/E (x)	81.9	68.2	58.5
P/BV (x)	14.2	12.6	10.6

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	49.5	49.8	52.0
DII	4.7	4.7	5.7
FII	28.6	26.8	22.3
Others	17.2	18.6	20.0

FII Includes depository receipts

CMP: INR 7,938
TP: INR 9,210 (+16%)
Buy

Strong collections to drive faster recovery

Long-term outlook intact, maintain Buy

- IndiaMART delivered in line revenue and margin performance in 2QFY22. Paid suppliers increased by 4k (+3% QoQ and 6% YoY), while ARPU dipped by 2.6% QoQ due to a higher share of suppliers within a lower value package.
- Collections surged by 31% QoQ and 37% YoY, providing visibility on its near term revenue performance. We expect collections to continue to trend higher in coming quarters. Deferred revenue is up 4% QoQ and 20% YoY, which provides better visibility on FY23 revenue.
- Margin was in line, with EBITDA margin at 45.6% (est. 45.6%). Sequentially, margin dipped by 320bp on account of higher employee cost.
- The management expects paid suppliers to accelerate, led by higher sales traction and lower customer churn. Management expects ARPU and revenues to sustainably grow at 5% and 20-30% respectively. We have built in 16% growth for FY22E. We expect an increase in the momentum of paid suppliers in FY23E on an economic recovery, which should drive 21% revenue CAGR over FY21-23E.
- While we concur that margin at current levels is not sustainable, IndiaMART should see a structural shift in operations from pre-pandemic levels. Half of the savings, led by cost optimization, would continue to flow through on: 1) permanent optimization in G&A, 2) sales via channel partners are making cost variable (and would lead to a reduction in total employees), 3) higher productivity benefits, and 4) reduction in travel expenses by shifting some of the meetings to video conferencing.
- We have increased our FY23E EPS estimate by 5%, led by a slight increase in revenue and a better margin.
- We value IndiaMART on a DCF basis at INR9,210 (+16% upside), assuming 11% WACC and a 5% terminal growth rate, implying 68x FY23E EPS. **We reiterate our Buy rating.**

In line performance, collections rebound by 31% sequentially

- Revenue stood at INR1.8b (est. INR1.9b), up 11.6% YoY and flat QoQ.
- Revenue was aided by improvement in paying subscribers (2.7% QoQ), but was offset by lower ARPU (-2.6% QoQ).
- Revenue/EBITDA/PAT grew by 15%/11%/18% in 1HFY22.
- Total collections rose 31% QoQ to INR2.2b, led by a recovery from the COVID-19 impacted 1QFY22. On a YoY basis, collections are up 36%.
- EBITDA margin dipped 320bp sequentially to 45.6% and was in line with our estimate of 45.4%. Lower margin was led by higher manpower expenses (270bp impact) and outsourced sales cost (40bp impact). Better collections would have driven greater variable payouts, thus higher people expenses. EBIT margin, at 44.1%, was slightly better than our estimate of 43.9%, aided by lower depreciation.

- PAT rose 17.8% YoY to INR822m (in line), led by lower revenue, but was partially offset by lower depreciation. Lower ETR (24% v/s our estimate of 25%) also aided PAT growth.
- IndiaMART registered a traffic growth of 6% QoQ and 10% YoY at 284m in 2QFY22.
- Total suppliers on the platform stood at 6.7m, an increase of 8% YoY.
- Total paid suppliers stood at 150k, an increase of 6% YoY and 3% QoQ. While ARPU dipped by 3% QoQ to INR48.4k.
- Total cash and Investments stood at INR24.7b (v/s INR24.2b in 1QFY22).
- OCF stood at INR990m, implying an OCF/PAT of 120%. OCF stood at INR1.61b in 1HFY22, implying an OCF/PAT of 95%.

Highlights from the management commentary

- Total business inquiries witnessed a 7% sequential dip as it has enhanced its algorithm. The management said it is now able to make the same number of matches with fewer business inquiries.
- It expects total business inquiries to continue to trend down over the next few quarters, and said that daily unique business inquiries is the proper metric to refer to. The same was flat QoQ in 2QFY22.
- Before the COVID-19 outbreak, IndiaMART derived the majority of its sales through feet on the street sales. However, it has now expanded its sales channels to tele-based sales, now sales, and channel partner-based sales.
- Within the increased sales mediums, the management expects customer additions to accelerate. Customer churn was a challenge during the pandemic, but that has now reduced.
- On a sustainable basis, average ARPU/revenue growth will be ~5%/20-30%.
- The management expects only half of the margin benefit from the COVID-19 outbreak to sustain. Sustainable EBITDA margin is expected to be in the 38-40% range.

Valuation and view

- Strong collections are a testimony to a recovery in the demand momentum. We expect the momentum in collections to improve further in the near term.
- IndiaMART has shown higher resilience on the margin front. While we concur that margin at current levels are not sustainable, it would see positive benefits from cost optimization and operating leverage in the long term.
- We remain confident of strong fundamental growth in operations, led by: a) higher growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to increase ARPU on low price sensitivity, and f) higher operating leverage.
- We arrived at our DCF-based TP of INR9,210 per share (+16% upside), assuming 11% WACC and 5% terminal growth rate. **We reiterate our Buy rating.**

Consolidated quarterly earnings model

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Gross Sales	1,531	1,632	1,736	1,797	1,816	1,824	1,992	2,134	6,696	7,766	1,871	-2.5
YoY Change (%)	4.1	4.2	5.3	5.6	18.6	11.8	14.8	18.7	4.9	16.0	14.6	-290bp
Total Expenditure	798	815	858	943	930	992	1,084	1,184	3,414	4,191	1,017	-2.5
EBITDA	733	817	878	854	886	832	908	949	3,282	3,576	854	-2.6
Margin (%)	47.9	50.1	50.6	47.5	48.8	45.6	45.6	44.5	49.0	46.0	45.6	0bp
Depreciation	44	44	38	35	32	28	31	33	161	123	33	-15
Interest	18	18	16	15	14	14	14	14	67	56	14	0
Other Income	337	179	246	104	294	314	330	343	866	1,281	309	2
PBT before EO expense	1,008	934	1,070	908	1,134	1,104	1,193	1,246	3,920	4,677	1,116	-1.0
Extra-Ord. expense	0	0	0	109	0	0	0	0	109	0	0	
PBT	1,008	934	1,070	799	1,134	1,104	1,193	1,246	3,811	4,677	1,116	-1.0
Tax	263	234	263	226	240	264	285	298	986	1,087	279	-5
Rate (%)	26.1	25.1	24.6	28.3	21.2	23.9	23.9	23.9	25.9	23.2	25.0	-110bp
Minority Interest and P & L of Asso. Cos.	4	2	5	16	15	18	0	0	27	33	0	
Reported PAT	741	698	802	557	879	822	908	948	2,798	3,557	837	-1.8
Adjusted PAT	741	698	802	666	879	822	908	948	2,907	3,557	837	-1.8
YoY Change (%)	131.6	684.3	105.1	50.3	18.6	17.8	13.2	42.3	133.9	22.3	19.9	-210bp
Margin (%)	48.4	42.8	46.2	37.1	48.4	45.1	45.6	44.4	43.4	45.8	44.7	30bp

Key performance indicators

Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue indicators										
Paid suppliers ('000)	133.0	141.0	148.0	152.0	146.0	150.0	159.0	166.9	574	622
ARPU ('000)	45.5	45.8	46.7	47.0	49.7	48.4	50.1	51.1	44	47
Cost indicators										
Employees	3150	2917	2826	2745	2982	2959	3159	3209	2745	3209
Outsourced sales employees	1315	1000	874	731	731	731	756	781	731	781
Other expenses (INR m)	198	196	211	223	250	252	299	384	828	1185

Highlights from the management commentary

Collections

- Collections improved 31% QoQ, led by a recovery from the COVID-19 impacted 1QFY21.
- The strength in its improving collections signifies the company's value proposition to its customers.
- It expects the strong collections to drive better performance in 2HFY22.

Customer churn

- During the COVID-19 outbreak, customer churn was a challenge. However, it has seen a steady improvement in customer churn in the past 3-4 months.
- Customer churn is now slightly below pre-COVID levels.

Business inquiries

- Total business inquiries witnessed a 7% sequential dip as it has enhanced its algorithm. The management said it is now able to make the same number of matches with fewer business inquiries.
- It expects total business inquiries to continue to trend down over the next few quarters, and said that daily unique business inquiries is the proper metric to refer to. The same was flat QoQ in 2QFY22.

Sales strategy

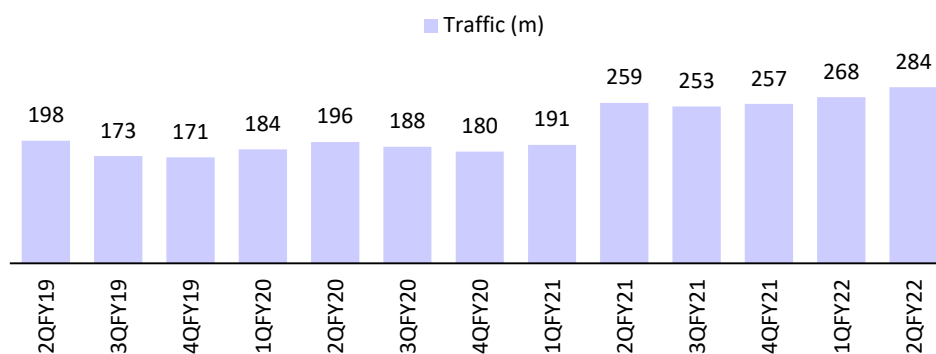
- Before the COVID-19 outbreak, IndiaMART derived the majority of its sales through feet on the street. However, it has now expanded its sales channels to tele-based sales, now sales, and channel partner-based sales.
- Within the increased sales mediums, the management expects customer additions to accelerate. Customer churn was a challenge during the pandemic, but that has now reduced.
- On a sustainable basis, average ARPU/revenue growth will be ~5%/20-30%.

Advertisement spends

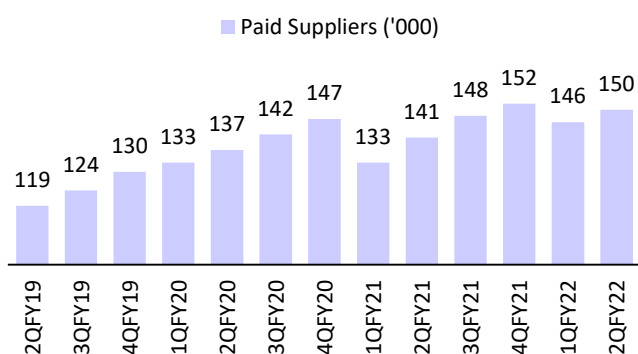
- Current buyer-side traffic is good for the company.
- The management plans some branding exercises, but it is not in the immediate pipeline. It may occur in 4QFY22 or FY23.
- It expects an annual cost of INR200-300m for this branding exercise.

Cost and margin

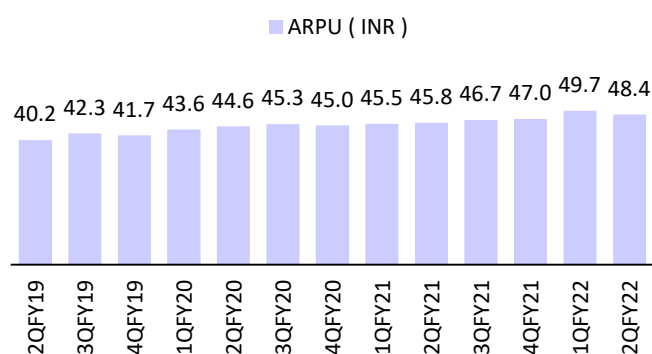
- Overall talent pricing has been re-rated, led by the supply-side environment. The management expects 20% growth in manpower cost led by wage inflation.
- It expects only half of the margin benefit from the COVID-19 outbreak to sustain. Sustainable EBITDA margin is expected to be in the 38-40% range.

Exhibit 1: The leading indicator of traffic is positive

Source: Company, MOFSL

Exhibit 2: Increase in paid suppliers

Source: Company, MOFSL

Exhibit 3: ARPU dipped on mix change

Source: Company, MOFSL

Valuation and view

- Strong collections are a testimony to a recovery in the demand momentum. We expect the momentum in collections to improve further in the near term.
- IndiaMART has shown higher resilience on the margin front. While we concur that margin at current levels are not sustainable, it would see positive benefits from cost optimization and operating leverage in the long term.
- We remain confident of strong fundamental growth in operations, led by: a) higher growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to increase ARPU on low price sensitivity, and f) higher operating leverage.
- We arrived at our DCF-based TP of INR9,210 per share (+16% upside), assuming 11% WACC and 5% terminal growth rate. **We reiterate our Buy rating.**

Exhibit 4: Revisions to our estimates

Standalone business	Revised estimate		Old estimate		Change (%/bp)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (INR m)	7766.3	9798.2	7,956.6	9,713.2	-2.4	0.9
YoY (%)	16.0	26.2	18.8	22.1	-280bp	410bp
EBITDA (%)	46.0	42.5	46.4	40.6	-30bp	190bp
EBIT (%)	44.5	41.0	44.6	38.8	-20bp	210bp
EPS (INR)	116.0	135.3	118.6	128.7	-2.2	5.1

Source: MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	4,110	5,070	6,386	6,696	7,766	9,798
Change (%)	29.2	23.4	26.0	4.9	16.0	26.2
Employees Cost	1,950	2,290	2,670	2,052	2,452	3,256
Outsourced sales cost	440	570	724	534	554	711
Other Expenses	1,250	1,370	1,310	828	1,185	1,666
Total Expenditure	3,640	4,230	4,704	3,414	4,191	5,633
As a percentage of Sales	88.6	83.4	73.7	51.0	54.0	57.5
EBITDA	470	840	1,682	3,282	3,576	4,166
Margin (%)	11.4	16.6	26.3	49.0	46.0	42.5
Depreciation	30	40	207	161	123	150
EBIT	440	800	1,475	3,121	3,452	4,015
Int. and Finance Charges	1,230	650	29	67	56	56
Other Income	190	410	683	866	1,281	1,514
PBT bef. EO Exp.	-600	560	2,129	3,920	4,677	5,473
EO Items	0	0	229	-109	0	0
PBT after EO Exp.	-600	560	2,358	3,811	4,677	5,473
Total Tax	-1,150	350	872	986	1,087	1,309
Tax Rate (%)	191.7	62.5	37.0	25.9	23.2	23.9
Minority Interest	0.0	0.0	14.0	27.0	33.0	0.0
Reported PAT	550	210	1,472	2,798	3,557	4,165
Adjusted PAT	550	210	1,243	2,907	3,557	4,165
Change (%)	-185.7	-61.8	491.9	133.9	22.3	17.1
Margin (%)	13.4	4.1	19.5	43.4	45.8	42.5

Consolidated Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	100	286	289	303	303	303
Eq. Share Warrants and App. Money	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0
Total Reserves	-3,312	1,313	2,462	15,806	18,901	22,604
Net Worth	-3,213	1,599	2,751	16,109	19,204	22,907
Other Liabilities	5,393	2,300	3,312	3,318	3,760	4,552
Total Loans	0	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-244	-264	-284
Capital Employed	933	2,935	5,527	19,183	22,700	27,175
Net Fixed Assets	73	85	52	22	42	62
Goodwill on Consolidation	8	6	5	3	3	3
Capital WIP	2	2	2	2	2	2
Other Assets	345	44	1,514	1,054	1,054	1,054
Total Investments	3,111	6,450	8,719	22,174	24,174	27,174
Curr. Assets, Loans, and Adv.	642	657	401	1,616	3,759	6,708
Inventory	0	0	0	0	0	0
Account Receivables	7	6	17	13	21	27
Cash and Bank Balance	467	402	169	401	2,475	5,359
Loans and Advances	168	250	215	1,202	1,262	1,322
Curr. Liability and Prov.	3,247	4,308	5,166	5,688	6,301	7,795
Account Payables	419	450	179	154	158	209
Other Current Liabilities	2,720	3,709	4,682	5,210	5,809	7,242
Provisions	107	149	305	324	334	344
Net Current Assets	-2,604	-3,650	-4,765	-4,072	-2,542	-1,087
Misc. Expenditure	0	0	0	0	-33	-33
Appl. of Funds	934	2,936	5,527	19,183	22,700	27,175

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)						
EPS	28.6	7.7	51.8	96.6	116.0	135.3
Cash EPS	28.6	7.7	51.8	96.6	116.0	135.3
BV/Share	-167.1	58.6	96.8	556.2	626.3	744.3
DPS	0.0	0.0	10.1	15.4	15.1	15.0
Payout (%)	0.0	0.0	22.7	16.0	13.0	11.1
Valuation (x)						
P/E	276.6	1,027.5	152.8	81.9	68.2	58.5
Cash P/E	276.6	1,027.5	152.8	81.9	68.2	58.5
P/BV	-47.4	135.0	81.7	14.2	12.6	10.6
EV/Sales	36.9	42.5	35.2	34.2	30.9	24.3
EV/EBITDA	322.7	256.4	133.6	69.7	67.2	57.2
Dividend Yield (%)	0.0	0.0	0.1	0.2	0.2	0.2
FCF per share	92.0	91.7	90.1	111.4	108.0	158.8
Return Ratios (%)						
RoE	-34.2	-26.0	57.2	30.8	20.1	19.8
RoCE	36.0	-56.2	62.5	31.3	20.6	20.0
RoIC	30.5	-9.1	-25.5	-68.5	-72.1	-65.6
Working Capital Ratios						
Fixed Asset Turnover (x)	56.4	59.8	122.8	304.4	184.9	158.0
Asset Turnover (x)	4.4	1.7	1.2	0.3	0.3	0.4
Inventory (Days)	0	0	0	0	0	0
Debtor (Days)	1	0	1	1	1	1
Creditor (Days)	37	32	10	8	7	8
Leverage Ratio (x)						
Current Ratio	0.2	0.2	0.1	0.3	0.6	0.9
Interest Coverage Ratio	0.4	1.2	50.9	46.6	61.6	71.7
Net Debt/Equity	1.1	-4.3	-3.2	-1.4	-1.4	-1.4

Consolidated Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR m)						
OP/(Loss) before Tax	-601	539	2,114	3,893	4,677	5,473
Depreciation	29	41	211	161	123	150
Interest and Finance Charges	-28	-30	33	67	56	56
Direct Taxes Paid	-10	-52	-186	-588	-1,087	-1,309
(Inc.)/Dec. in WC	1,297	1,684	1,022	471	967	2,201
CF from Operations	687	2,183	3,194	4,004	4,736	6,572
Others	1,103	368	-589	-779	-1,281	-1,514
CF from Operations incl. EO	1,791	2,551	2,605	3,225	3,455	5,058
(Inc.)/Dec. in FA	-22	-51	-45	2	-143	-170
Free Cash Flow	1,769	2,500	2,560	3,227	3,312	4,887
(Pur.)/Sale of Investments	-1,586	-2,591	-2,047	-13,379	-2,000	-3,000
Others	-44	-116	-233	1	1,281	1,514
CF from Investments	-1,653	-2,758	-2,325	-13,376	-863	-1,656
Issue of Shares	152	144	19	10,520	0	0
Inc./(Dec.) in Debt	0	0	0	0	0	0
Interest Paid	0	-3	-199	-122	-56	-56
Dividend Paid	0	0	-333	-15	-462	-462
Others	0	0	0	0	0	0
CF from Fin. Activity	152	141	-513	10,383	-518	-518
Inc./Dec. in Cash	291	-65	-233	232	2,075	2,884
Opening Balance	177	467	402	169	401	2,475
Closing Balance	467	402	169	401	2,475	5,359

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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