

Estimate change

TP change

Rating change



Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	152.9 / 2
52-Week Range (INR)	9952 / 4970
1, 6, 12 Rel. Per (%)	-24/-40/-56
12M Avg Val (INR M)	1234

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	6.7	7.5	9.0
EBITDA	3.3	3.3	3.6
PAT	2.9	3.2	3.8
EPS (INR)	96.6	105.5	123.0
EPS Gr. (%)	86.5	9.2	16.6
BV/Sh. (INR)	556.2	616.3	722.2

Ratios

RoE (%)	30.8	18.5	18.4
RoCE (%)	31.3	19.1	18.6
Payout (%)	16.0	14.3	12.2

Valuations

P/E (x)	51.8	47.5	40.7
P/BV (x)	9.0	8.1	6.9

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	49.5	49.5	52.0
DII	5.3	4.7	5.0
FII	26.6	28.6	24.8
Others	18.6	17.2	18.2

FII Includes depository receipts

CMP: INR 5,002
TP: INR 7,650 (+53%)
Buy

Weaker-than-expected 3Q, but business fundamentals intact

Revenue growth to spike in FY23E; retain BUY with 53% potential upside

- IndiaMART's 3QFY22 performance was weaker than expected led by lower-than-anticipated revenue growth (at 8.4% YoY) and paid suppliers (up 6K QoQ, +5% YoY). Moreover, EBITDA margin (at 41.9%; down 370bp QoQ) contracted as employee cost shot up 25% YoY due to wage hikes and increased onboarding, while ARPU dipped 0.8% QoQ owing to higher share of suppliers within the lower value package, as business normalized.
- Conversely, collections remained encouraging at +25% YoY, suggesting good visibility on FY23 revenue growth. Similarly, deferred revenue also increased 25% YoY, which should support 20%+ revenue growth in FY23.
- With business returning to pre-COVID spending levels, and along with continued supply-side squeeze, IndiaMART's management anticipates EBITDA margin to stay compressed in 4Q as well as in FY23. We expect 22% revenue CAGR during FY22-24, and believe the company's margin will stabilize above the management guidance of 40.5% (down 370bp from FY22E). This, in turn, should drive a 19% PAT growth over the same period.
- Management expects addition of paid suppliers to stay robust at 6-7k in the near term led by improved sales traction and lower customer churn. Additionally, ARPU should start recovering going forward as business activity stabilizes and entry-level customers upgrade to higher packages.
- We view its ongoing investment into SaaS ecosystem as a positive, albeit marginal to overall valuation currently. Initial signs have been good given the 6x rise in valuation seen at Simply Vyapar Apps over last 2.5 years. With IndiaMART getting more ambitious (acquiring Busy Infotech for INR5.0b, its largest acquisition), we would keep a close watch on the performance of its acquired entities as they remain synergistic to IndiaMART's customer base and can drive long-term differentiation v/s peers.
- IndiaMART's share price is down by over 30% in the last two months, with the recent correction being led by concerns over broader tech universe valuations. We continue to see IndiaMART as a key beneficiary of technology adoption within India's MSME universe as well as of a shift to formalized ecosystem. We believe that the company remains poised to drive significant value due to its industry leading position in the segment.
- We have lowered our FY22-24E EPS by 8-9% due to the 3Q miss and cut our margin expectation. We value IndiaMART on a DCF basis to arrive at our TP of INR7,650 (+53% upside), assuming 11% WACC and 5% terminal growth rate, implying 68x FY23E EPS. **Reiterate Buy.**

Third quarter softer than expected; two acquisitions announced

- Revenue stood at INR1.8b (5.6% lower than our estimates), +8.4% YoY and +3.1% QoQ.
- For 9MFY22, Revenue/EBITDA/PAT grew 12%/3%/7% YoY, respectively.
- Though paying subscribers grew 4% QoQ, ARPU dropped 0.8% QoQ.

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- Total collections dipped ~1% QoQ to INR2.1b, but rose 24% on a YoY basis.
- EBITDA margin dropped 370bp sequentially to 41.9% and was lower than our estimate of 45.6%, primarily led by higher expenses (manpower/ outsourced sales/other expenses rose 7.5%/ 25.5/ 8.3% QoQ). EBIT margin (at 40.3%) was also lower than our estimate of 44.0% due to lower EBITDA.
- PAT stood at INR702m down -12.5% YoY (22.7% miss to our estimates), led by lower revenue & other income and higher employee & other expenses.
- Traffic recorded 8.8% sequential drop to 259m for 3QFY22. Total suppliers on the platform stood at 7m, an increase of 9.4% YoY. Total paid suppliers stood at 156K, an increase of 5.4% YoY and 4% QoQ. However, ARPU dipped ~1% QoQ to INR48K in 3QFY22.
- Total cash and investments stood at INR25.2b (v/s INR24.7b in 2QFY22).
- OCF stood at INR840m, implying OCF/PAT of 120%. For 9MFY22, OCF was at INR1.58b, implying OCF/PAT of 70%.
- IndiaMart announced two acquisitions – Legistify Services (for INR75m) and Busy Infotech (for INR5.0b), while it raised its stake in Simply Vyapar by 1% (6x jump in existing valuation).

Highlights from the management commentary

- Collections grew 24% YoY in 3QFY22 v/s 36% YoY in 2QFY22. Deferred revenue was at INR7.9b v/s 7.6b in 2QFY22.
- The company announced two acquisitions – Legistify Services and Busy Infotech.
- Busy Infotech is an accounting and ERP software targeted towards large businesses. It currently has 10% market share based on GST-registered users. Legistify is a small business that is engaged in litigation management software business.
- The company added around 5.8k customers and the management is confident of adding 6-7k customers at least for the next three to four quarters.
- Employee expense escalated due to both increased headcount and higher wages. The company's headcount is currently at pre-COVID level and the management plans to hire more due to the improved growth prospects. Overall talent pricing has been re-rated due to the supply-side environment.
- Sustainable EBITDA margin is expected to be around 38%. The management indicated that margin might remain under pressure due to employee additions (run-rate 100 per quarter) and wage hikes.

Valuation and view: Strong collections to sustain; growth story intact

- Strong collections are testimony to the recovery in demand momentum. We anticipate the collections momentum to remain intact in the near term.
- We are confident of the strong fundamental growth in operations, propelled 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 improve ARPU on low price sensitivity, and f) high operating leverage.
- We have arrived at our DCF-based target price of INR7,650 per share, assuming 11.5% WACC (up from 11% earlier) and 6% terminal growth rate. Our TP implies a 53% potential upside from the current level. **Reiterate Buy.**

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY21				FY22E				FY21		FY22E		Estimate	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE						
Gross Sales	1,531	1,632	1,736	1,797	1,816	1,824	1,881	1,960	6,696	7,481	1,992	-5.6		
YoY Change (%)	4.1	4.2	5.3	5.6	18.6	11.8	8.4	9.0	4.9	11.7	14.8	-640bp		
Total Expenditure	798	815	858	943	930	992	1,093	1,171	3,414	4,186	1,084	0.8		
EBITDA	733	817	878	854	886	832	788	788	3,282	3,294	908	-13.2		
Margins (%)	47.9	50.1	50.6	47.5	48.8	45.6	41.9	40.2	49.0	44.0	45.6	-370bp		
Depreciation	44	44	38	35	32	28	30	30	161	120	31	-2		
Interest	18	18	16	15	14	14	13	13	67	54	14	-7		
Other Income	337	179	246	104	294	314	219	343	866	1,170	330	-34		
PBT before EO expense	1,008	934	1,070	908	1,134	1,104	964	1,088	3,920	4,290	1,193	-19.2		
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	964	1,088	3,811	4,290	1,193	-19.2		
Tax	263	234	263	226	240	264	231	261	986	996	285	-19		
Rate (%)	26.1	25.1	24.6	28.3	21.2	23.9	24.0	24.0	25.9	23.2	23.9	0bp		
Minority Interest & Profit/Loss of Asso. Cos.	4	2	5	16	15	18	31	0	27	64	0			
Reported PAT	741	698	802	557	879	822	702	827	2,798	3,230	908	-22.7		
Adj. PAT	741	698	802	666	879	822	702	827	2,907	3,230	908	-22.7		
YoY Change (%)	131.6	684.3	105.1	50.3	18.6	17.8	-12.5	24.2	133.9	11.1	13.2	-2570bp		
Margins (%)	48.4	42.8	46.2	37.1	48.4	45.1	37.3	42.2	43.4	43.2	45.6	-820bp		

Key Performance Indicators

Y/E March	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue Indicators										
Paid Suppliers ('000)	133.0	141.0	148.0	152.0	146.0	150.0	156.0	162.3	574	614
ARPU ('000)	45.5	45.8	46.7	47.0	49.7	48.4	48.0	48.3	44	46
Cost Indicators										
Employees	3150	2917	2826	2745	2982	2959	3185	3385	2745	3385
Other Expenses (INR m)	198	196	211	223	250	252	273	304	828	1079

Highlights from the management commentary

Collections

- Collections grew 24% YoY in 3QFY22 v/s 36% YoY in 2QFY22. Deferred revenue was at INR7.9b v/s 7.6b in 2QFY22.
- Strength of improvement in collections signifies the value proposition of the company for its customers.

Acquisitions

- The company announced two acquisitions – Legistify Services and Busy Infotech.
- Legistify is a small business that is engaged in litigation management software business.
- Busy Infotech is an accounting and ERP software targeted towards large businesses. It currently has 10% market share based on GST-registered users.
- The management indicated that it is confident in the accounting space as the customers are sticky and there is a huge growth opportunity ahead.
- The management is planning to make more investments in sales and technology in the coming year, though this will translate to revenues after some lag.
- It also plans to carry out around two-three minority investments every quarter and one acquisition per year.

Customer churn

- During the pandemic, customer churn was a challenge. There was a reduction in churn but there was some uncertainty due to the pandemic.
- Relief on the customer churn helped the company to add more customers.
- It added around 5.8k customers and the management is confident of adding 6-7k customers at least for the next three to four quarters.
- The management highlighted that about one-fourth of the customers pays monthly and the rest is either on an annual paying cycle or beyond.

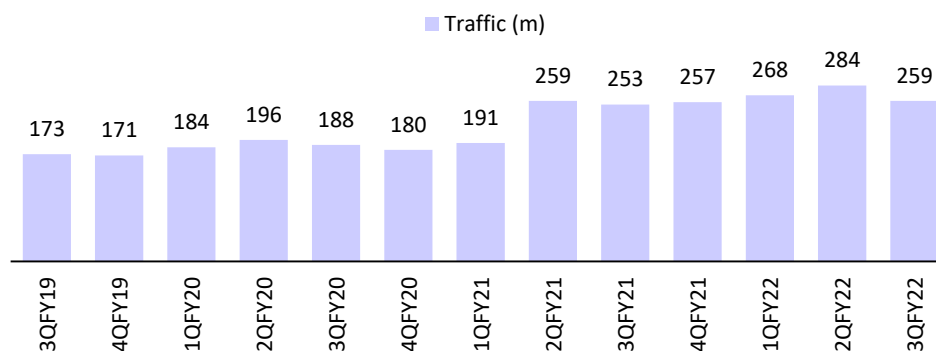
Cost and margins

- Employee expense escalated due to both increased headcount and higher wages. The company's headcount is currently at pre-COVID level and the management plans to hire more due to the growth prospects. Overall talent pricing has been re-rated owing to the supply-side environment.
- Sustainable EBITDA margin is expected to be around 38%. The management indicated that margins might remain under pressure due to employee additions (run-rate 100 per quarter) and wage hikes.
- Management indicated further cost increase for 4QFY22E.

Other Highlights

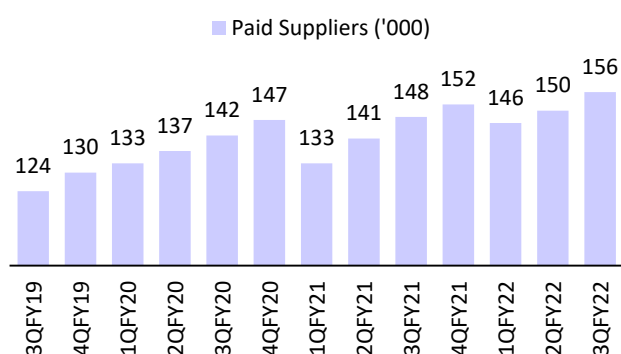
- Total business inquiries witnessed 23% sequential dip in 3QFY22.
- Traffic was down 9% due to the effect of pent-up demand in 2QFY22 (high base). The management is expecting steady 90m per month traffic run-rate.

Exhibit 1: Traffic dropped to 259m in 3QFY22



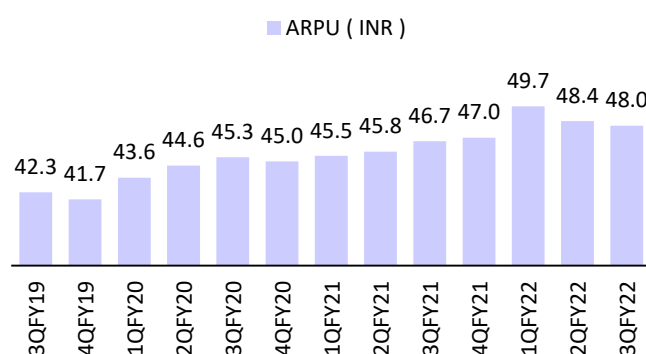
Source: Company, MOFSL

Exhibit 2: Paid suppliers increased in this quarter



Source: Company, MOFSL

Exhibit 3: ARPU again saw a dip



Source: Company, MOFSL

Valuation and view: Strong collections to sustain; growth story intact

- Strong collections are testimony to the recovery in demand momentum. We anticipate the collections momentum to remain intact in the near term.
- We are confident of the strong fundamental growth in operations, propelled 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 improve ARPU on low price sensitivity, and f) high operating leverage.
- We have arrived at our DCF-based target price of INR7,650 per share, assuming 11.5% WACC (up from 11% earlier) and 6% terminal growth rate. Our TP implies a 53% potential upside from the current level. **Maintain Buy.**

Exhibit 4: Revisions to our estimates

	Revised			Estimate			Change (% / bp)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Standalone business									
Revenue (INR m)	7480.6	9025.4	11055.5	7,766.3	9,798.2	11,957.3	-3.7	-7.9	-7.5
YoY (%)	11.7	20.7	22.5	16.0	26.2	22.0	-430bp	-550bp	50bp
EBITDA (%)	44.0	40.4	40.5	46.0	42.5	41.7	-200bp	-210bp	-120bp
EBIT (%)	42.4	38.9	38.9	44.5	41.0	40.2	-200bp	-210bp	-120bp
EPS (INR)	105.5	123.0	149.0	116.0	135.3	161.2	-9.1	-9.1	-7.6

Source: MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	4,110	5,070	6,386	6,696	7,481	9,025	11,055
Change (%)	29.2	23.4	26.0	4.9	11.7	20.7	22.5
Employees Cost	1,950	2,290	2,670	2,052	2,491	3,325	4,165
Outsourced sales cost	440	570	724	534	617	769	923
Other Expenses	1,250	1,370	1,310	828	1,079	1,283	1,492
Total Expenditure	3,640	4,230	4,704	3,414	4,186	5,377	6,581
% of Sales	88.6	83.4	73.7	51.0	56.0	59.6	59.5
EBITDA	470	840	1,682	3,282	3,294	3,649	4,475
Margin (%)	11.4	16.6	26.3	49.0	44.0	40.4	40.5
Depreciation	30	40	207	161	120	139	170
EBIT	440	800	1,475	3,121	3,174	3,510	4,305
Int. and Finance Charges	1,230	650	29	67	54	52	52
Other Income	190	410	683	866	1,170	1,514	1,772
PBT bef. EO Exp.	-600	560	2,129	3,920	4,290	4,973	6,025
EO Items	0	0	229	-109	0	0	0
PBT after EO Exp.	-600	560	2,358	3,811	4,290	4,973	6,025
Total Tax	-1,150	350	872	986	996	1,192	1,444
Tax Rate (%)	191.7	62.5	37.0	25.9	23.2	24.0	24.0
Minority Interest	0.0	0.0	14.0	27.0	64.0	0.0	0.0
Reported PAT	550	210	1,472	2,798	3,230	3,781	4,581
Adjusted PAT	550	210	1,243	2,907	3,230	3,781	4,581
Change (%)	-185.7	-61.8	491.9	133.9	11.1	17.0	21.2
Margin (%)	13.4	4.1	19.5	43.4	43.2	41.9	41.4

Consolidated - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	100	286	289	303	303	303	303
Eq. Share Warrants & App. Money	0	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0	0
Total Reserves	-3,312	1,313	2,462	15,806	18,575	21,895	25,401
Net Worth	-3,213	1,599	2,751	16,109	18,878	22,198	25,704
Other Liabilities	5,393	2,300	3,312	3,318	3,649	4,251	5,042
Total Loans	0	0	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-244	-264	-284	-304
Capital Employed	933	2,935	5,527	19,183	22,263	26,165	30,442
Net Fixed Assets	73	85	52	22	42	62	82
Goodwill on Consolidation	8	6	5	3	3	3	3
Capital WIP	2	2	2	2	2	2	2
Other Assets	345	44	1,514	1,054	1,054	1,054	1,054
Total Investments	3,111	6,450	8,719	22,174	24,174	27,174	30,174
Curr. Assets, Loans&Adv.	642	657	401	1,616	3,154	5,189	7,941
Inventory	0	0	0	0	0	0	0
Account Receivables	7	6	17	13	20	25	30
Cash and Bank Balance	467	402	169	401	1,871	3,842	6,528
Loans and Advances	168	250	215	1,202	1,262	1,322	1,382
Curr. Liability & Prov.	3,247	4,308	5,166	5,688	6,102	7,255	8,750
Account Payables	419	450	179	154	160	214	268
Other Current Liabilities	2,720	3,709	4,682	5,210	5,607	6,697	8,128
Provisions	107	149	305	324	334	344	354
Net Current Assets	-2,604	-3,650	-4,765	-4,072	-2,948	-2,066	-809
Misc. Expenditure	0	0	0	0	-64	-64	-64
Appl. of Funds	934	2,935	5,527	19,183	22,263	26,165	30,442

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	28.6	7.7	51.8	96.6	105.5	123.0	149.0
Cash EPS	28.6	7.7	51.8	96.6	105.5	123.0	149.0
BV/Share	-167.1	58.6	96.8	556.2	616.3	722.2	836.3
DPS	0.0	0.0	10.1	15.4	15.1	15.0	35.0
Payout (%)	0.0	0.0	22.7	16.0	14.3	12.2	23.5
Valuation (x)							
P/E	175.0	650.0	96.6	51.8	47.5	40.7	33.6
Cash P/E	175.0	650.0	96.6	51.8	47.5	40.7	33.6
P/BV	-30.0	85.4	51.7	9.0	8.1	6.9	6.0
EV/Sales	23.3	26.8	22.3	21.6	20.2	16.6	13.3
EV/EBITDA	203.8	162.0	84.5	44.0	46.0	41.1	32.9
Dividend Yield (%)	0.0	0.0	0.2	0.3	0.3	0.3	0.7
FCF per share	92.0	91.7	90.1	111.4	91.9	129.1	164.1
Return Ratios (%)							
RoE	-34.2	-26.0	57.2	30.8	18.5	18.4	19.1
RoCE	36.0	-56.2	62.5	31.3	19.1	18.6	19.3
RoIC	30.5	-9.1	-25.5	-68.5	-67.9	-61.8	-58.9
Working Capital Ratios							
Fixed Asset Turnover (x)	56.4	59.8	122.8	304.4	178.1	145.6	134.8
Asset Turnover (x)	4.4	1.7	1.2	0.3	0.3	0.3	0.4
Inventory (Days)	0	0	0	0	0	0	0
Debtor (Days)	1	0	1	1	1	1	1
Creditor (Days)	37	32	10	8	8	9	9
Leverage Ratio (x)							
Current Ratio	0.2	0.2	0.1	0.3	0.5	0.7	0.9
Interest Cover Ratio	0.4	1.2	50.9	46.6	58.8	67.5	82.8
Net Debt/Equity	1.1	-4.3	-3.2	-1.4	-1.4	-1.4	-1.4

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	-601	539	2,114	3,893	4,290	4,973	6,025
Depreciation	29	41	211	161	120	139	170
Interest & Finance Charges	-28	-30	33	67	54	52	52
Direct Taxes Paid	-10	-52	-186	-588	-996	-1,192	-1,444
(Inc)/Dec in WC	1,297	1,684	1,022	471	657	1,671	2,201
CF from Operations	687	2,183	3,194	4,004	4,125	5,642	7,004
Others	1,103	368	-589	-779	-1,170	-1,514	-1,772
CF from Operating incl EO	1,791	2,551	2,605	3,225	2,956	4,128	5,232
(Inc)/Dec in FA	-22	-51	-45	2	-140	-159	-190
Free Cash Flow	1,769	2,500	2,560	3,227	2,816	3,969	5,043
(Pur)/Sale of Investments	-1,586	-2,591	-2,047	-13,379	-2,000	-3,000	-3,000
Others	-44	-116	-233	1	1,170	1,514	1,772
CF from Investments	-1,653	-2,758	-2,325	-13,376	-970	-1,644	-1,418
Issue of Shares	152	144	19	10,520	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Interest Paid	0	-3	-199	-122	-54	-52	-52
Dividend Paid	0	0	-333	-15	-461	-461	-1,076
Others	0	0	0	0	0	0	0
CF from Fin. Activity	152	141	-513	10,383	-515	-513	-1,128
Inc/Dec of Cash	291	-65	-233	232	1,470	1,971	2,686
Opening Balance	177	467	402	169	401	1,871	3,842
Closing Balance	467	402	169	401	1,871	3,842	6,528

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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