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FIRST LIGHT

13 October 2021

RESEARCH

IndiaMart InterMesh | Target: Rs 8,430 | –4% | HOLD

Takeaways from INMART management interaction

Automobiles: Q2FY22 Preview

Volume uptick QoQ to support revenue but RM headwinds persist

SUMMARY

IndiaMart InterMesh

- Pandemic-led boost to INMART's outsourced client acquisition model (DSA-based) has improved sales engine efficiency
- 500+ large enterprises leveraging the company's platform, offering recurring revenues and potential for account mining
- We raise FY22-FY24 EPS 4-5% on better sales efficiency and revise TP to Rs 8,430 (vs. Rs 7,200) on rollover. Maintain HOLD

Click here for the full report.

Automobiles: Q2FY22 Preview

- Stronger QoQ dispatches across auto segments to boost Q2 topline; input cost and semiconductor supply headwinds continue
- Tyre companies face challenges from high base in aftermarket sales, weaker product mix and RM price inflation
- We await management commentary on semiconductor supply, inventory levels, festive demand and RM cost outlook

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	4bps	27bps	84bps
India 10Y yield (%)	6.35	3bps	17bps	45bps
USD/INR	75.36	(0.5)	(2.5)	(2.8)
Brent Crude (US$/bbl)	83.65	1.5	14.7	100.5
Dow	34,496	(0.7)	(0.3)	19.6
Shanghai	3,592	0.0	(3.0)	6.9
Sensex	60,136	0.1	3.1	48.1
India FII (US$ mn)	**08-Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(180.4)	(172.6)	(97.6)	1,929.7
FII-E	(332.0)	143.9	8,673.8	1,347.5

Source: Bloomberg

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HOLD
TP: Rs 8,430 | ▼ 4%

INDIAMART INTERMESH | Technology & Internet | 12 October 2021

Takeaways from INMART management interaction

- **Pandemic-led boost to INMART's outsourced client acquisition model (DSA-based) has improved sales engine efficiency**
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Key takeaways from our interaction with INMART's management:

DSA model improving sales engine efficiency: INMART had to retract most of its on-the-ground sales personnel in the wake of the pandemic, even as its older outsourced client acquisition model (through direct selling agents or DSAs) received an operational boost. At present, the company's client acquisition teams in non-metro regions are largely working on DSA mode with ~250 agents across India. Success of the DSA model has improved sales engine efficiency at INMART and the company plans to expand this initiative to metro regions.

Large enterprises offer recurring business but a longer sales cycle: While INMART is the biggest B2B marketplace for Indian MSMEs, large enterprises also leverage its platform. The company works with 500+ corporate majors across industries, including HP, Jaguar, Airtel, Dalmia Cement, Tata Motors and Bosch. The sales cycle for large enterprises is longer, running for 4-6 quarters. As a result, client growth in this segment is gradual. However, the relationship is sticky and offers a recurring source of revenue coupled with easy upscaling and account mining.

Rapid expansion beyond metros: INMART's paying supplier base in smaller cities expanded at a rapid pace in FY21. Paying suppliers outside of metros increased to 43% of total suppliers in FY21 vs. 39% in FY20. Notably, regions excluding metros and tier-II cities registered the fastest growth of 27% YoY in FY21. The share of buyers in metro cities came down from 35% in FY20 to 33%, with a 3% YoY decline in the number of paying suppliers. This trend also underlines the company's active engagement in the DSA model in non-metro locations.

Reiterate HOLD: We raise FY22-FY24 EPS estimates by 4-5% to account for stronger sales efficiency. On rollover, we move to a Sep'22 TP of Rs 8,430 (from Rs 7,200), based on an unchanged target P/E of 57.3x. We like INMART for its industry leadership and deep business moats but see challenges ahead as client growth has slowed following the second wave of Covid-19. Also, after a 75%+ upmove in stock price over the last 12 months, current valuations look full – HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	INMART IN/Rs 8,807
Market cap	US$ 3.6bn
Free float	42%
3M ADV	US$ 16.0mn
52wk high/low	Rs 9,950/Rs 4,515
Promoter/FPI/DII	50%/28%/23%

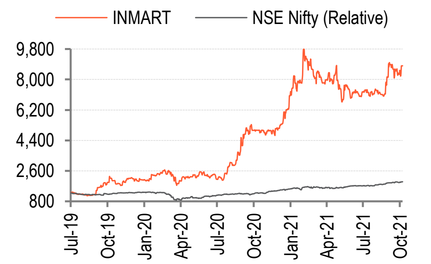
Source: NSE | Price as of 11 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	6,650	7,714	9,817
EBITDA (Rs mn)	3,333	3,584	4,429
Adj. net profit (Rs mn)	2,867	3,472	4,179
Adj. EPS (Rs)	94.5	114.2	137.5
Consensus EPS (Rs)	94.5	115.8	133.3
Adj. ROAE (%)	30.3	19.6	19.8
Adj. P/E (x)	93.2	77.1	64.1
EV/EBITDA (x)	80.3	74.8	60.2
Adj. EPS growth (%)	89.8	20.9	20.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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AUTOMOBILES | Q2FY22 Preview | 12 October 2021

Volume uptick QoQ to support revenue but RM headwinds persist

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OEMs: We expect healthy QoQ revenue growth for OEMs under our coverage in Q2FY22 supported by an uptick in wholesale volumes of CVs, 2Ws, 3Ws and PVs. While gross margin pressure continues, better operating efficiencies and price hikes should support EBITDA margin expansion for most OEMs. With a 7% QoQ rise in volumes, we expect Maruti's (MSIL) Q2 revenue to grow 11% and EBITDA margin to expand 140bps.

2W OEMs (ex-Royal Enfield) have reported sequential volume growth on a soft base, with Hero Moto (HMCL) clocking a 40% QoQ increase. Higher volumes coupled with price hikes should support revenue growth while positive operating leverage would aid margin gains. Inventories remain normal-to-high for 2W players in the domestic market, indicating that any fall in retail sales may have a direct impact on production. PV inventory remains low, affected by short supply of semiconductors for most OEMs.

In the CV segment, MHCV sales have jumped over 50% QoQ in Q2 owing to normalised economic activities and a softer base. We expect Ashok Leyland (AL) to report a 53% QoQ rise in revenue with a 4% EBITDA margin backed by better capacity utilisation and cost-cutting initiatives, partially offset by raw material cost headwinds.

Tractors & Tillers: Tractor growth trajectory stalled in Q2 and dispatches were down 11% QoQ for M&M (MM). VST Tillers (VSTT) reported 25% QoQ growth. We expect margins for all these agri-related players to contract QoQ as higher input cost and negative operating leverage take a toll.

Tyres: OEMs have posted sequential volume growth of over 25% in Q2. While we expect replacement demand to moderate, we forecast ~10% QoQ revenue growth for tyre companies aided by price hikes. In our view, the jump in rubber prices (from ~Rs 155/kg in Q4FY21 to Rs 173/kg currently) and higher crude derivative costs (up ~20% in the last six months) would compress gross margins QoQ, albeit set off by better capacity utilisation. We continue to recommend a strong SELL on the entire tyre pack under coverage.

Recommendation snapshot

Ticker	Price	Target	Rating
APTY IN	241	140	SELL
BIL IN	2,603	1,550	SELL
CEAT IN	1,392	840	SELL
EIM IN	2,852	2,200	SELL
GNA IN	1,043	540	HOLD
JKI IN	153	90	SELL
MDA IN	139	140	BUY
MM IN	896	630	SELL
MRF IN	84,933	67,000	SELL
MSIL IN	7,701	8,000	HOLD
SRTY IN	2,538	1,200	SELL
SWE IN	1,677	1,600	SELL
TVSL IN	559	480	SELL
VSTT IN	3,355	2,300	HOLD

Price & Target in Rupees | Price as of 11 Oct 2021

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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