

**HOLD**

TP: Rs 8,430 | ▲ 7%

**INDIAMART INTERMESH**

Technology & Internet

23 October 2021

### In-line results; on course for growth recovery

- Q2 performance in line as sales grew 12% YoY and EBITDA margin stood at 46%
- Management confident of recovery to pre-Covid levels in next two months. Sales engine refresh adds optimism on growth
- Reiterate TP of Rs 8,430 and HOLD rating given slower client growth amid pandemic and limited upside potential post rally

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**In-line performance:** INMART reported Q2FY22 revenue growth of 12% YoY to Rs 1.8bn, meeting our expectations. This was led by 6% YoY growth each in the number of paid suppliers (to 150,000, up 4,000 QoQ) and in ARPU. However, monetisation at 2.2% was flattish YoY.

**Margin contracts but still above pre-pandemic levels:** EBITDA margin stood at 46.4%, down 480bps YoY due to higher employee (+340bps) and SG&A costs (+140bps). We note that INMART's margin remains above pre-Covid levels of 25-30% owing to automation-led cost savings. Management expects EBITDA margin to stabilise at ~38% as pre-Covid costs return.

**Online customer acquisition:** INMART has reduced reliance on FOS (feet-on-street) and moved towards online and DSA (direct selling agents) based sales post pandemic. It has also explored a channel partner-based sales model. In the last 18 months, 20% of sales has been coming from online and tele channels.

**Client churn reducing:** Due to the Covid-led slowdown, INMART saw high churn in its silver client category. Management expects a return to pre-pandemic levels within the next quarter. Recovery is underway as customers upgrade to higher slabs and opt for longer duration packages. Traffic on the platform grew 10% YoY though daily unique business enquiries declined 7% in Q2.

**Measured growth plan:** INMART expects medium-to-large enterprises to recover faster than small enterprises as Covid headwinds recede. Though the company is looking for accelerated growth, it is focusing on smaller acquisitions and conserving cash. It does not plan to spend heavily on advertising (expected to restart post Q3FY22).

**Retain HOLD:** We expect INMART to face near-to-mid-term challenges from slower client growth after the second Covid wave. Also, current valuations look full post the 55%+ stock rally in the last 12 months – retain HOLD with an unchanged Sep'22 TP of Rs 8,430, based on 57.3x fwd P/E which is in line with the stock's post-Covid average.

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INMART IN/Rs 7,912
Market cap	US\$ 3.2bn
Free float	42%
3M ADV	US\$ 19.0mn
52wk high/low	Rs 9,950/Rs 4,515
Promoter/FPI/DII	50%/28%/23%

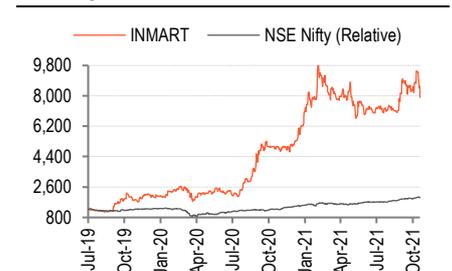
Source: NSE | Price as of 22 Oct 2021

### 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)	83.7	69.3	57.5
EV/EBITDA (x)	72.2	67.2	54.0
Adj. EPS growth (%)	89.8	20.9	20.4

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Other highlights

- Deferred sales stood at Rs 7.5bn in Q2FY22, growing at a strong 21% YoY, indicating improvement in revenue growth ahead.
- INMART's long-term strategy is to move from a subscription-based model to a transaction-based model by offering value-added services (akin to 1688.com).
- The company's investment in the 'Vyapar' app, an accounting services software for businesses, is paying off. The app had ~10,000 paying customers initially that has now grown to ~100,000 paying customers.
- INMART had also invested in the Mobisy platform, taking a 26% stake for a consideration of Rs 114mn. Management plans to carry out similar tuck-in acquisitions in the near future.

**Fig 1 – Quarterly performance**

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21
<b>Revenue</b>	<b>1,816</b>	<b>1,619</b>	<b>12.2</b>	<b>1,811</b>	<b>0.3</b>	<b>3,627</b>	<b>3,753</b>
<b>Operating Expenditure</b>	<b>973</b>	<b>790</b>	<b>23.2</b>	<b>914</b>	<b>6.5</b>	<b>1,887</b>	<b>973</b>
Cost of revenues	591	472	25.2	540	9.5	1131	591
as % of sales	32.5	29.2	-	29.8	-	31.2	15.7
SG&A expenses	382	317	20.3	374	2.1	756	382
as % of sales	21.0	19.6	-	20.7	-	20.8	10.2
<b>EBITDA</b>	<b>843</b>	<b>829</b>	<b>1.7</b>	<b>897</b>	<b>(6.0)</b>	<b>1,740</b>	<b>843</b>
Depreciation	28	43	(34.7)	32	(11.7)	60	28
<b>EBIT</b>	<b>815</b>	<b>786</b>	<b>3.7</b>	<b>865</b>	<b>(5.8)</b>	<b>1,680</b>	<b>815</b>
Other Income	314	210	49.9	296	5.9	610	314
PBT	1,115	979	13.9	1147	(2.8)	2,262	1,115
Total Tax	264	234	13.0	240	9.9	504	264
<b>Adjusted PAT</b>	<b>851</b>	<b>745</b>	<b>14.2</b>	<b>907</b>	<b>(6.2)</b>	<b>1,758</b>	<b>851</b>
(Profit)/loss from JV's/Ass/MI	0	0	-	0	-	0	0
APAT after MI	851	745	14.2	907	(6.2)	1,758	851
Reported EPS	28	26	8.3	30	(6.3)	57	28
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>		
EBITDA	46.4	51.2	(480)	49.5	(310)	48.0	22.5
EBIT	44.9	48.6	(370)	47.8	(290)	46.3	21.7
EBT	61.4	60.5	90	63.4	(200)	62.4	29.7
PAT	46.9	46.0	80	50.1	(320)	48.5	22.7
Effective Tax rate	23.7	23.9	(20)	20.9	270	22.3	23.7

Source: Company, BOBCAPS Research

## Valuation methodology

While we like INMART for its industry leadership and deep business moats, we see near-to-medium-term challenges owing to slower client growth following the second wave of Covid-19. Also, after a 55%+ upmove in stock price over the last 12 months, current valuations look full and offer little scope for similar sizeable upsides. We thus retain our HOLD rating.

Our Sep'22 TP remains at Rs 8,430 based on an unchanged target one-year forward P/E of 57.3x – in line with the stock's post-Covid average multiple which captures the pandemic-led inflection for internet businesses.

**Fig 2 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Revenue from operations	6,650	7,643	9,711	11,801
YoY growth (%)	6.7	14.9	27.0	21.5
EBITDA Margin (%)	50	46	45	42
Avg. annualised revenue per paying customer (ARPU) (Rs)	46243	48876	50157	52193

Source: Company, BOBCAPS Research

**Fig 3 – Peer comparison**

Company	Ticker	Price (Rs/sh)	Mcap (Rs mn)	Rating	Target Price (Rs)	Revenue CAGR FY21-24E (%)	EPS CAGR FY21-24E (%)	PE (x)		RoE (%)		
								FY22	FY23	FY21	FY22	FY23
IndiaMart	INMART	7885	239,704	HOLD	8,430	21.1	17.9	70	58	30.3	19.4	19.6
Affle India	AFFLE	1098.1	29,319	BUY	1,240	42.6	32.5	89	59	37.6	14.6	18.1
Just Dial	JUST	823.8	50,911	BUY	1,190	9.1	-0.3	83	30	16.8	3.4	6.2

Source: BOBCAPS Research, Company

## Key risks

- Upside risks to our estimates include swift recovery in the MSME segment and quick success in new value-added services.
- Downside risks are significant competition leading to price corrections and deeper-than-expected MSME stress.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,154	1,240	BUY
Coforge	COFORGE IN	4.5	5,398	6,930	BUY
eClerx Services	ECLX IN	1.0	2,049	2,880	BUY
HCL Technologies	HCLT IN	43.3	1,194	1,440	BUY
IndiaMart InterMesh	INMART IN	3.2	7,912	8,430	HOLD
Info Edge	INFOE IN	10.8	6,290	6,530	BUY
Infosys	INFO IN	97.8	1,720	2,000	BUY
Just Dial	JUST IN	0.7	821	1,190	BUY
L&T Infotech	LTI IN	15.3	6,544	7,980	BUY
Mindtree	MTCL IN	10.0	4,534	3,390	SELL
Mphasis	MPHL IN	8.1	3,255	3,510	HOLD
Persistent Systems	PSYS IN	4.1	3,872	3,560	HOLD
Tata Consultancy Services	TCS IN	175.3	3,499	4,630	BUY
Tech Mahindra	TECHM IN	17.7	1,517	1,660	BUY
Wipro	WPRO IN	50.3	682	840	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Oct 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>6,235</b>	<b>6,650</b>	<b>7,714</b>	<b>9,817</b>	<b>11,921</b>
EBITDA	1,727	3,333	3,584	4,429	5,050
Depreciation	209	159	170	216	238
EBIT	1,517	3,175	3,414	4,213	4,812
Net interest inc./(exp.)	33	67	77	98	119
Other inc./(exp.)	684	852	1,419	1,610	1,835
Exceptional items	69	0	0	0	0
EBT	2,169	3,960	4,756	5,725	6,527
Income taxes	638	1,093	1,284	1,546	1,762
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>1,531</b>	<b>2,867</b>	<b>3,472</b>	<b>4,179</b>	<b>4,765</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,531</b>	<b>2,867</b>	<b>3,472</b>	<b>4,179</b>	<b>4,765</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Provisions	4,875	5,399	5,706	5,379	4,899
Debt funds	612	526	526	526	526
Other liabilities	2,955	3,065	3,065	3,065	3,065
Equity capital	289	303	303	303	303
Reserves & surplus	2,456	15,863	18,917	22,594	26,785
Shareholders' fund	2,745	16,166	19,220	22,897	27,088
<b>Total liab. and equities</b>	<b>11,188</b>	<b>25,155</b>	<b>28,517</b>	<b>31,866</b>	<b>35,577</b>
Cash and cash eq.	129	350	3,223	7,387	12,226
Accounts receivables	11	12	11	13	16
Inventories	0	0	0	0	0
Other current assets	267	539	774	197	217
Investments	8,972	22,475	22,475	22,475	22,475
Net fixed assets	48	22	52	82	141
CWIP	0	0	0	0	0
Intangible assets	799	626	626	626	626
Deferred tax assets, net	244	0	0	0	0
Other assets	716	1,130	1,272	1,442	1,646
<b>Total assets</b>	<b>11,186</b>	<b>25,154</b>	<b>28,432</b>	<b>32,222</b>	<b>37,347</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,642</b>	<b>3,264</b>	<b>3,413</b>	<b>4,815</b>	<b>5,591</b>
Capital expenditures	(41)	3	(201)	(245)	(298)
Change in investments	(2,747)	(13,570)	0	0	0
Other investing cash flows	429	141	77	98	119
<b>Cash flow from investing</b>	<b>(2,359)</b>	<b>(13,425)</b>	<b>(123)</b>	<b>(147)</b>	<b>(179)</b>
Equities issued/Others	19	10,520	0	0	0
Debt raised/repaid	(166)	(55)	0	0	0
Interest expenses	(33)	(67)	0	0	0
Dividends paid	(333)	(15)	(418)	(503)	(573)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(513)</b>	<b>10,383</b>	<b>(418)</b>	<b>(503)</b>	<b>(573)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(230)</b>	<b>222</b>	<b>2,872</b>	<b>4,165</b>	<b>4,839</b>
<b>Closing cash &amp; cash eq.</b>	<b>129</b>	<b>351</b>	<b>3,223</b>	<b>7,387</b>	<b>12,226</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	49.8	94.5	114.2	137.5	156.7
Adjusted EPS	49.8	94.5	114.2	137.5	156.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	94.1	531.8	640.7	763.2	902.9

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	38.6	36.2	31.2	24.4	19.8
EV/EBITDA	139.3	72.2	67.2	54.0	46.7
Adjusted P/E	158.9	83.7	69.3	57.5	50.5
P/BV	84.0	14.9	12.3	10.4	8.8

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	70.6	72.4	73.0	73.0	73.0
Interest burden (PBT/EBIT)	142.9	124.7	139.3	135.9	135.7
EBIT margin (EBIT/Revenue)	24.3	47.7	44.3	42.9	40.4
Asset turnover (Rev./Avg TA)	64.4	36.6	28.8	32.4	34.3
Leverage (Avg TA/Avg Equity)	4.5	1.9	1.5	1.4	1.4
<b>Adjusted ROAE</b>	<b>70.4</b>	<b>30.3</b>	<b>19.6</b>	<b>19.8</b>	<b>19.1</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	25.4	6.7	16.0	27.3	21.4
EBITDA	27.7	50.1	46.5	45.1	42.4
Adjusted EPS	1054.4	89.8	20.9	20.4	14.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	27.7	50.1	46.5	45.1	42.4
EBIT margin	24.3	47.7	44.3	42.9	40.4
Adjusted profit margin	24.6	43.1	45.0	42.6	40.0
Adjusted ROAE	70.4	30.3	19.6	19.8	19.1
ROCE	18.4	14.4	13.5	14.4	14.0
<b>Working capital days (days)</b>					
Receivables	0	1	1	0	0
Inventory	0	0	0	0	0
Payables	0	0	0	0	0
<b>Ratios (x)</b>					
Gross asset turnover	130.1	308.9	147.3	120.0	84.3
Current ratio	1.9	4.4	4.7	5.7	7.3
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>(0.4)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

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

**BUY** – Expected return >+15%

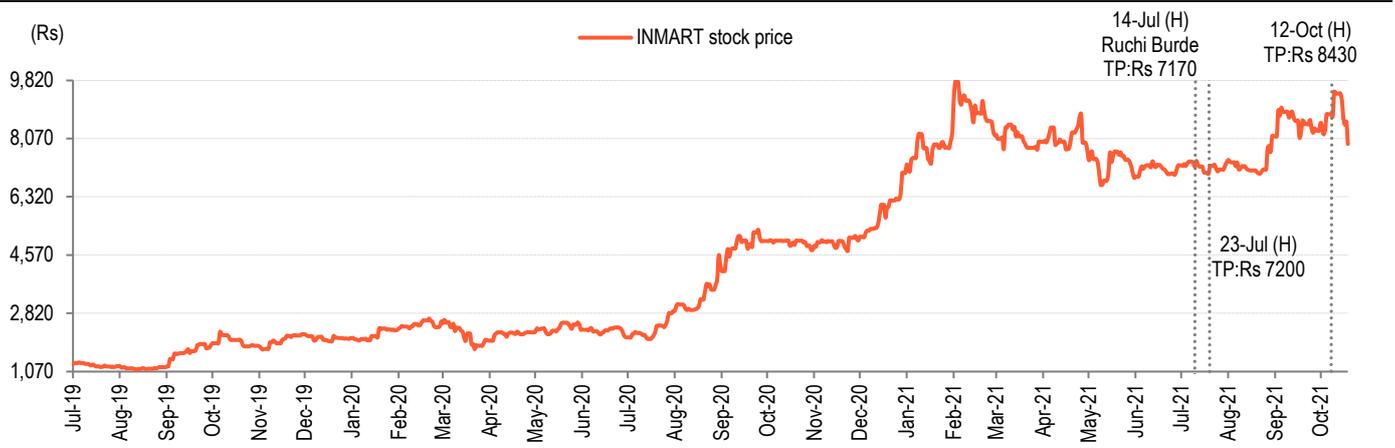
**HOLD** – Expected return from -6% to +15%

**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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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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