

**BUY**

TP: Rs 8,430 | ▲ 17%

**INDIAMART INTERMESH**

Technology &amp; Internet

10 November 2021

## Correction offers a good opportunity; upgrade to BUY

- Stock looks attractive following ~25% correction from its Oct'21 peak – upgrade from HOLD to BUY with unchanged TP of Rs 8,430
- Transformed sales engine and likely MSME rebound post Covid position INMART for accelerated growth ahead
- Steady progress made on platform enrichment through matchmaking algorithm upgrade and slew of strategic acquisitions

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**Stock correction an opportunity to BUY:** Following a stellar 280% upmove in stock price during FY21, INMART has underperformed the Nifty and Nifty IT index in FY22 YTD. In our view, the recent 25% correction from its Oct'21 peak offers a buying opportunity as INMART looks well placed to leverage the expected post Covid rebound at MSMEs. We upgrade the stock from HOLD to BUY with an unchanged Sep'22 TP of Rs 8,430, based on its post pandemic average P/E of 57.3x. The company's leadership position and strong business moats backed by a robust network effect and low digital penetration of MSMEs offer a long growth runway.

**Sales transformation aiding growth:** Pandemic-led challenges faced by INMART's core client segment (MSMEs) limited its revenue growth over the last six quarters. INMART used this period to transform its sales engine into DSA (direct selling agent) mode, leading to structural margin improvement. Its client acquisition teams in non-metro regions have largely transitioned to the DSA model with ~250 agents across India, raising sales engine efficiency. The transformed sales engine now has three key channels – an in-house sales team (hunter + farmers), DSAs, and online sales – compared to the single in-house (feet-on-street) team pre-pandemic.

**Steady progress on enriching platform via AI/ML....:** In a fresh effort to enrich its platform, INMART has enhanced its matchmaking algorithm with artificial intelligence and machine learning capabilities, incorporating its rich contextual knowledge. This will increase buyer fulfilment with fewer supplier business enquiries and enrich the user experience on its platform.

**...and tuck-in acquisitions:** We note an increased frequency of tuck-in acquisitions, a critical element of management's vision to transition from a 'buyer-seller' discovery platform to a 'transaction-based' offering for the B2B segment. Since the pandemic began in Apr'20, INMART has announced six acquisitions/investments complementing its core platform as against three over FY15-FY20. With Rs 24.7bn in cash and cash investments at the end of the Sep'21 quarter, INMART has ample room to further step up its inorganic strategy.

### Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	INMART IN/Rs 7,213
Market cap	US\$ 3.0bn
Free float	42%
3M ADV	US\$ 21.2mn
52wk high/low	Rs 9,950/Rs 4,515
Promoter/FPI/DII	50%/28%/23%

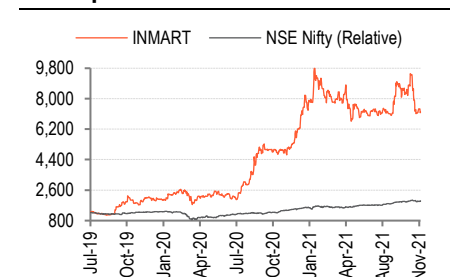
Source: NSE | Price as of 9 Nov 2021

### 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	112.0	130.4
Adj. ROAE (%)	30.3	19.6	19.8
Adj. P/E (x)	76.3	63.2	52.5
EV/EBITDA (x)	65.8	61.3	49.2
Adj. EPS growth (%)	89.8	20.9	20.4

Source: Company, Bloomberg, BOBCAPS Research

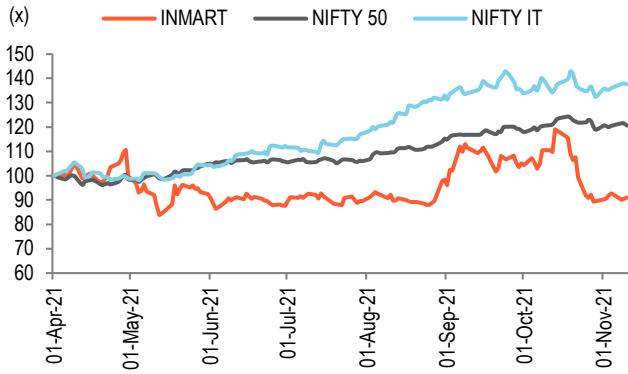
### Stock performance



Source: NSE

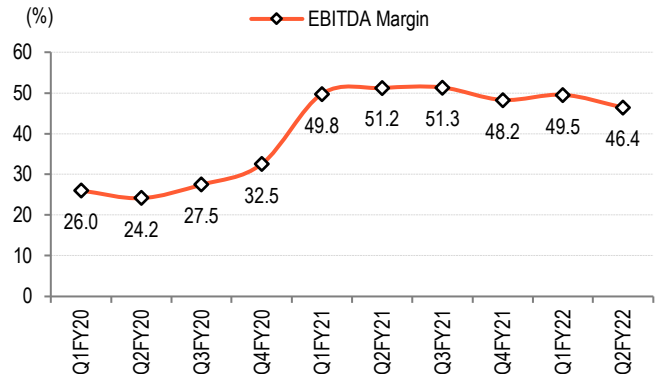


**Fig 1 – INMART has underperformed Nifty and Nifty IT index in FY22 YTD**



Source: Company, BOBCAPS Research

**Fig 2 – Pandemic-induced automation and operational efficiencies have structurally improved operating margin**



Source: Company, BOBCAPS Research

**Fig 3 – INMART’s sales engine underwent transformation amid pandemic**

**Pre-Pandemic**



**Post-Pandemic**



Source: Company, BOBCAPS Research

**Fig 4 – All of INMART's major acquisitions have been post pandemic, with a pivot to adding SaaS to the platform**

Company	Date	Stake acquired (%)	Profile	Amount invested (Rs mn)
<b>Post-pandemic (after Mar'20)</b>				
Mynd Solutions Pvt Ltd	29 Oct 2021	7.7	Mynd Solutions, under its brand name 'M1xchange', is a digital marketplace to sell receivables to banks/NBFCs. It is an RBI-licensed entity and has set up a TReDS platform with the objective of facilitating invoice discounting for MSMEs across India.	324.3
Mobisy Technologies Pvt Ltd	1 Oct 2021	7	Bengaluru-based Mobisy, a SaaS-based distribution technology solutions provider, raised Rs 114mn from INMART and Triton Alternative Investment Trust. The platform delivers real-time insights that drive greater distribution efficiency and help organisations to grow.	114
Legistify Services Pvt Ltd	16 Sep 2021	11	Legistify Services, via its flagship product Legistrak, offers a SaaS-based ERP tool that allows enterprises to manage their legal workflows. Key features of the Legistrak tool are notices management, litigation tracking and legal vendor management.	13
Agillos E-Commerce Pvt Ltd	3 Aug 2021	26.2	The investment in Agillos is in alignment with INMART's vision to offer SaaS-based solutions to its businesses.	260
Shipway Technology Pvt Ltd	28 Apr 2021	26	Shipway is engaged in developing SaaS-based solutions that help small businesses automate shipping operations.	182
Truckhall Pvt Ltd	17 Apr 2021	22	Truckhall is in the business of software development for the logistics industry and creating an online marketplace, including running and managing a digital platform 'SuperProcure'.	13.3
<b>Pre-pandemic</b>				
Tolexo	May 2014	96	Tolexo is an online marketplace for industrial goods such as tools, fasteners, lab equipment, abrasives, electrical goods, hardware and safety products. Buyers on Tolexo include Indian large businesses and SMEs.	NA
Ten Times	2015	30	Ten Times is INMART's platform for business events discovery and networking. INMART earns revenue from Ten Times primarily through marketing fees paid by event organisers when it sources and refers attendees to those organisers' events, such as exhibitions and trade shows in India and abroad.	NA
Vyapar	Sep 2019	26	Vyapar is an invoice accounting and stock inventory app. SMEs can use the app for billing GST invoices, managing stock inventory and accounting solutions.	NA

Source: Company, BOBCAPS Research

## Valuation methodology

Following a stellar 280% upmove in stock price during FY21, INMART has underperformed the Nifty and Nifty IT index in FY22 YTD. In our view, the recent 25% correction from its Oct'21 peak offers a buying opportunity as INMART looks well placed to leverage the expected post Covid rebound at MSMEs.

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**Fig 5 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Revenue from operations	6,650	7,714	9,817	11,921
YoY Growth (%)	6.7	16.0	27.3	21.4
EBITDA Margin (%)	50.1	46.2	44.8	42.1
Paying subscription suppliers (in '000)	152	175	210	252
YoY Growth (%)	3.4	15.0	20.0	20.0
ARPU (Rs)	43,640	44,949	47,197	49,556
YoY Growth (%)	3.2	3.0	5.0	5.0

Source: Company, BOBCAPS Research

**Fig 6 – Peer comparison**

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
INFOE IN	6219	800,927	BUY	6,530	22.5	36.3	182	157	7.8	9.3	10.0
INMART IN	7213	219,263	BUY	8,430	21.5	18.4	63	52	30.3	19.6	19.8
AFFLE IN	1102	29,415	BUY	1,240	42.6	32.5	90	59	37.6	14.6	18.1
JUST IN	777	47,988	BUY	1,190	9.1	(0.3)	79	28	16.8	3.4	6.2

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- MSMEs taking longer than expected to recover from the second Covid wave, and
- significant margin impact from a return of pre-Covid costs.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,102	1,240	BUY
Coforge	COFORGE IN	4.5	5,382	6,680	BUY
eClerx Services	ECLX IN	1.2	2,380	2,880	BUY
HCL Technologies	HCLT IN	43.0	1,173	1,440	BUY
IndiaMart InterMesh	INMART IN	3.0	7,213	8,430	BUY
Info Edge	INFOE IN	10.8	6,219	6,530	BUY
Infosys	INFO IN	100.2	1,743	2,000	BUY
Just Dial	JUST IN	0.6	777	1,190	BUY
L&T Infotech	LTI IN	16.2	6,840	7,980	BUY
Mindtree	MTCL IN	10.7	4,816	3,390	SELL
Mphasis	MPHL IN	8.5	3,373	3,510	HOLD
Persistent Systems	PSYS IN	4.5	4,137	4,170	HOLD
Tata Consultancy Services	TCS IN	177.6	3,506	4,630	BUY
Tech Mahindra	TECHM IN	18.4	1,559	1,890	BUY
Wipro	WPRO IN	49.1	658	840	BUY

Source: BOBCAPS Research, NSE | Price as of 9 Nov 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	35.2	33.0	28.5	22.2	18.0
EV/EBITDA	127.0	65.8	61.3	49.2	42.5
Adjusted P/E	144.9	76.3	63.2	52.5	46.0
P/BV	76.6	13.6	11.3	9.5	8.0

### 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
Adjusted ROAE	70.4	30.3	19.6	19.8	19.1

### 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
Adjusted debt/equity	0.2	0.0	(0.1)	(0.3)	(0.4)

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

## Disclaimer

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

**BUY** – Expected return >+15%

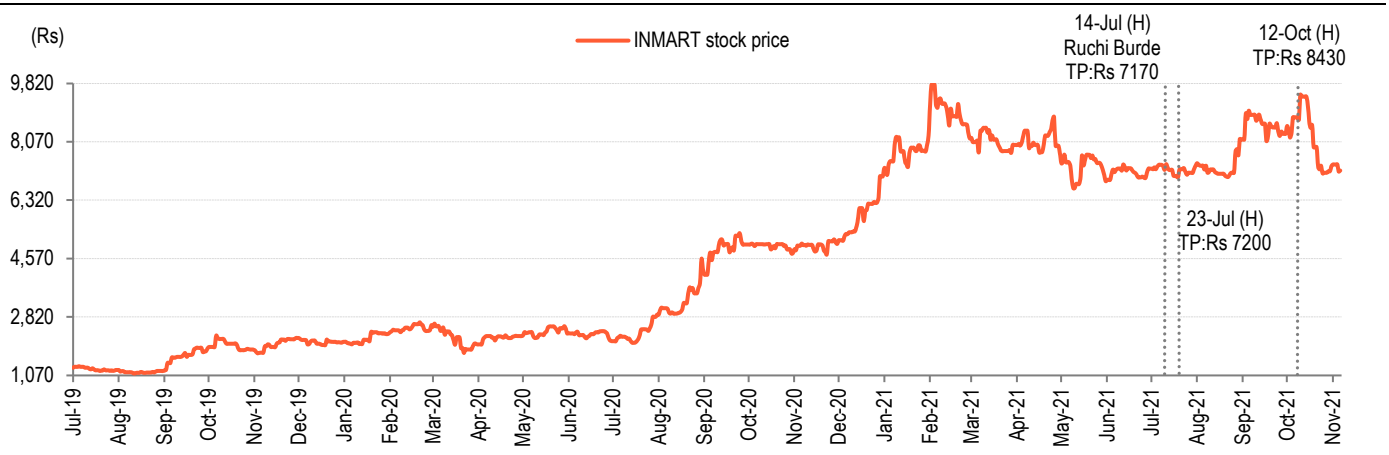
**HOLD** – Expected return from -6% to +15%

**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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