

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
- 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

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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%

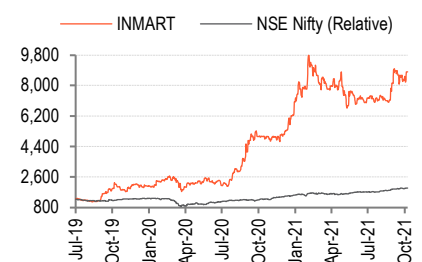
Source: NSE | Price as of 11 Oct 2021

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



Other highlights

Investments to enhance mobile app experience

Mobile traffic (via app and website) constitutes the dominant traffic share for INMART at over 80% in FY21 vs. 76% in FY20. The company has made investments to enhance the mobile experience for users by migrating to cloud services – this has improved reliability of its mobile site and also helped raise the speed of the platform, providing ease of use even from locations with fluctuating data speed. In addition, it strengthened the chat functionality on the mobile browser and app.

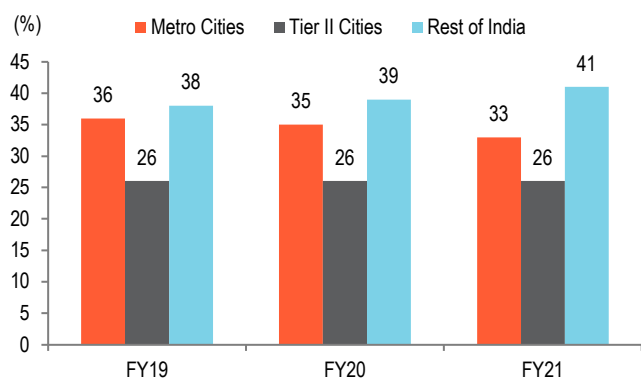
INMART’s mobile app, available for iOS and Android devices, had been installed 19.4mn times and 83% of paid suppliers were active on the app in Mar’21. Apart from helping buyers to search for products and services, the mobile app also serves as an effective CRM and messaging system for suppliers.

Fig 1 – INMART has 500+ large-brand customers



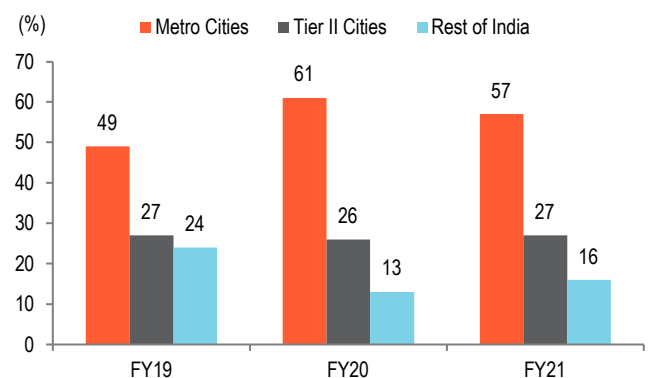
Source: Company, BOBCAPS Research

Fig 2 – Share of metro cities declining among buyers every year



Source: Company, BOBCAPS Research

Fig 3 – Share of metro cities declined in FY21 among suppliers



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY22-FY24 EPS estimates for INMART by 4-5% to build in improved profitability on the back of an efficient DSA-driven sales engine. On rollover, we move to a Sep'22 TP of Rs 8,430 (from Rs 7,200). Our target one-year forward P/E remains at 57.3x – in line with the stock's post-Covid average multiple which captures the pandemic-led inflection for internet businesses.

While we like INMART for its industry leadership and deep business moats, we see near-to-medium-term challenges because of slower client growth following the second wave of Covid-19. Also, after a 75%+ upmove in stock price over the last 12 months, current valuations look full and we see little scope for similar sizeable upsides. Maintain HOLD.

Fig 4 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (Rs mn)	7,714	9,817	11,921	7,714	9,817	11,921	0.0	0.0	0.0
YoY Growth (%)	16	27	21	16	27	21	(0.1)	(0.1)	0.2
EBITDA	3,584	4,429	5,050	3,427	4,227	4,790	4.6	4.8	5.4
EBITDA Margin (%)	46	45	42	44	43	40	4.6	4.7	5.4
Net profits	3,472	4,179	4,765	3,357	4,027	4,564	3.4	3.8	4.4
EPS (Rs)	114	137	157	110	132	150	3.8	4.1	4.5

Source: BOBCAPS Research

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	4.4	5,362	6,930	BUY
eClerx Services	ECLX IN	1.2	2,331	2,880	BUY
HCL Technologies	HCLT IN	46.9	1,303	1,530	BUY
IndiaMart InterMesh	INMART IN	3.6	8,807	8,430	HOLD
Infosys	INFO IN	95.5	1,691	2,020	BUY
Just Dial	JUST IN	0.8	982	1,330	BUY
L&T Infotech	LTI IN	13.7	5,879	6,780	BUY
Mindtree	MTCL IN	9.3	4,276	3,210	SELL
Mphasis	MPHL IN	7.7	3,105	3,530	HOLD
Persistent Systems	PSYS IN	4.2	3,948	3,560	HOLD
Tata Consultancy Services	TCS IN	183.6	3,686	4,630	BUY
Tech Mahindra	TECHM IN	16.2	1,400	1,660	BUY
Wipro	WPRO IN	47.9	653	630	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 Oct 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	6,235	6,650	7,714	9,817	11,921
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
Reported net profit	1,531	2,867	3,472	4,179	4,765
Adjustments	0	0	0	0	0
Adjusted net profit	1,531	2,867	3,472	4,179	4,765

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
Total liab. and equities	11,188	25,155	28,517	31,866	35,577
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
Total assets	11,186	25,154	28,432	32,222	37,347

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	2,642	3,264	3,413	4,815	5,591
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
Cash flow from investing	(2,359)	(13,425)	(123)	(147)	(179)
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
Cash flow from financing	(513)	10,383	(418)	(503)	(573)
Chg in cash & cash eq.	(230)	222	2,872	4,165	4,839
Closing cash & cash eq.	129	351	3,223	7,387	12,226

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	42.9	40.3	34.8	27.1	22.1
EV/EBITDA	155.1	80.3	74.8	60.2	52.1
Adjusted P/E	176.9	93.2	77.1	64.1	56.2
P/BV	93.6	16.6	13.7	11.5	9.8

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
Adjusted ROAE	70.4	30.3	19.6	19.8	19.1

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	0	1	1	0	0
Inventory	0	0	0	0	0
Payables	0	0	0	0	0
Ratios (x)					
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%

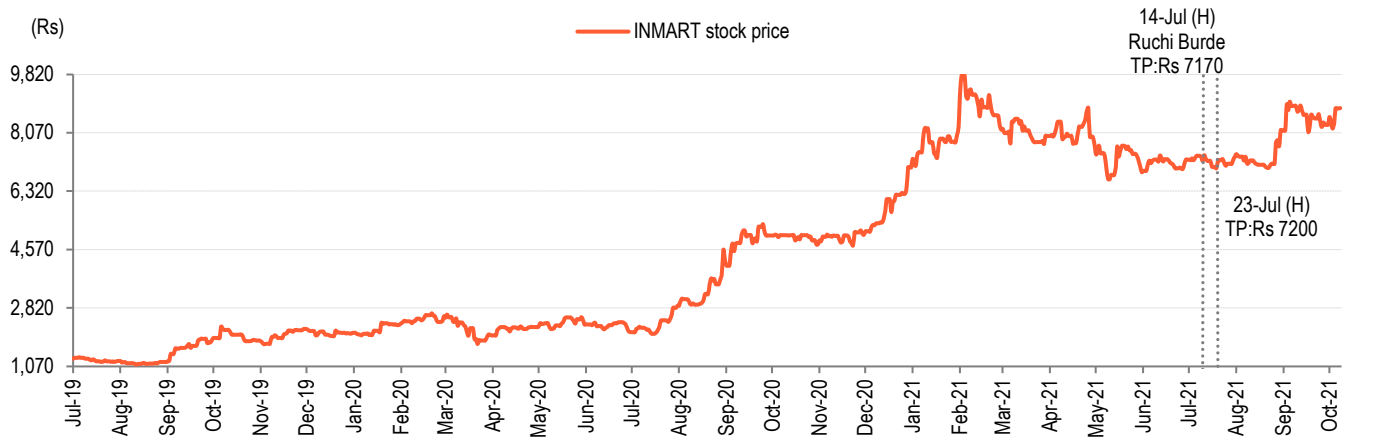
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): INDIAMART INTERMESH (INMART IN)



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

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