

**HOLD**

TP: Rs 7,200 | ▼ 1%

**INDIAMART INTERMESH** | Internet

23 July 2021

### Resilient showing in Covid-hit Q1

- INMART reported a decent Q1FY22 performance with 20% YoY revenue growth and a 50% EBITDA margin
- User engagement on its B2B platform bucked the Covid slowdown, but we expect peak margins and higher ARPU to normalise
- While we like INMART for its deep-rooted industry leadership, we see near-term earnings headwinds; retain HOLD, TP Rs 7,200 (vs. Rs 7,170)

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**Resilient performance:** INMART's Q1 performance was better than our estimates on both revenue and operating margin. Revenue increased 20% YoY (13% est.) with a 50% EBITDA margin (43% est.). The second Covid wave had a less pronounced impact on business compared to the first wave. Paying suppliers declined by 6k in Q1FY22 vs. a 14k drop in Q1FY21. Operating margin was cushioned by lower costs as employees worked from home. Net profit at Rs 907mn increased 19% YoY, in line with operating profit growth.

**User engagement bucks slowdown:** Unlike the first pandemic phase last year, the activity level on INMART's online B2B classifieds platform did not slow down this time around. Traffic was up 40% YoY to 268mn visitors in Q1, continuing the growth trend seen over the previous three quarters. Similarly, daily unique business inquiries and registered buyers increased by 22% and 30% YoY respectively.

**ARPU rise aberrational and expected to reverse:** Q1 annualised revenue per paying customer (ARPU) stood at Rs 49,708, up 6% QoQ (and 9% YoY), marking the highest sequential increase since the company began this disclosure in Q1FY19. An unintentionally favourable client mix boosted ARPU as the number of low-paying silver-category clients reduced owing to the pandemic impact (80-90% of the drop in paying suppliers was from the silver category). Recovery in this client base as Covid restrictions ease will reverse the revenue upside. Management expects ARPU to normalise at Rs 46,000-47,000, similar to the prior three quarters.

**Peak operating margin to come off:** The 50% Q1 EBITDA margin was supported by pandemic-led cost reductions and is unlikely to sustain as business activity returns to normal. Management expects EBITDA margin closer to 40%.

**Reiterate HOLD:** We marginally adjust earnings assumptions and reiterate HOLD with a revised Jun'22 TP of Rs 7,200 (Rs 7,170 earlier). We continue to value INMART at a one-year forward P/E multiple of 52.5x – in line with the stock's average post Covid multiple that captures the pandemic-led inflection for internet businesses.

### Key changes

Target	Rating
▲	◀▶

Ticker/Price	INMART IN/Rs 7,251
Market cap	US\$ 3.0bn
Free float	42%
3M ADV	US\$ 14.4mn
52wk high/low	Rs 9,950/Rs 2,341
Promoter/FPI/DII	50%/28%/23%

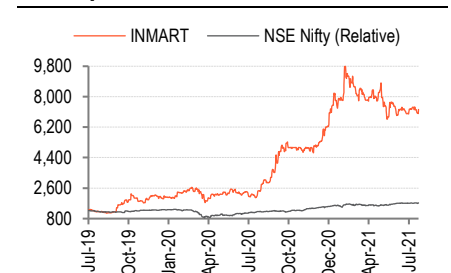
Source: NSE | Price as of 23 Jul 2021

### Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	6,650	7,714	9,817
EBITDA (Rs mn)	3,333	3,427	4,227
Adj. net profit (Rs mn)	2,867	3,357	4,027
Adj. EPS (Rs)	94.5	110.4	132.5
Consensus EPS (Rs)	94.5	115.8	133.3
Adj. ROAE (%)	30.3	19.0	19.3
Adj. P/E (x)	76.7	65.7	54.7
EV/EBITDA (x)	66.1	64.4	51.9
Adj. EPS growth (%)	89.8	16.9	20.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



## Earnings call highlights

- Covid-19 slowed INMART's hiring activity after good progress in the Mar'21 quarter. Management remains committed to increasing the headcount, especially in sales and client servicing.
- In the Sep'20 quarter, the company altered its sales engine to employ channel partners or outsourced employees for new client acquisition. Management indicated that 80% of its new client acquisition is now on outsourced model.
- Renewal rates for the top 10 percent of customers by revenue are above 90% compared to 94- 95% last year. In the normal course of business, churn rates in this category are less than 1%.

**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20
<b>Revenue</b>	<b>1,811</b>	<b>1,513</b>	<b>19.7</b>	<b>1,797</b>	<b>0.8</b>	<b>6,657</b>	<b>6,237</b>
<b>Operating Expenditure</b>	<b>914</b>	<b>760</b>	<b>20.3</b>	<b>930</b>	<b>(1.7)</b>	<b>3,321</b>	<b>4,511</b>
Cost of revenues	540	448	20.5	710	(24.0)	2,137	2,745
as % of sales	29.8	29.6	-	39.5	-	32.1	44.0
SG&A expenses	374	312	20.0	220	70.1	1,184	1766
as % of sales	20.7	20.6	-	12.2	-	17.8	28.3
<b>EBITDA</b>	<b>897</b>	<b>753</b>	<b>19.1</b>	<b>867</b>	<b>3.4</b>	<b>3,336</b>	<b>1,726</b>
Depreciation	32	43	(27.0)	30	5.7	154	211
<b>EBIT</b>	<b>865</b>	<b>709</b>	<b>22.0</b>	<b>837</b>	<b>3.4</b>	<b>3,182</b>	<b>1,515</b>
Other Income	296	334	(11.2)	60	394.2	849	681
PBT	1,147	1,025	12.0	887	29.4	3,969	2,090
Total Tax	240	260	(7.7)	340	(29.3)	1097	638
<b>Adjusted PAT</b>	<b>907</b>	<b>765</b>	<b>18.6</b>	<b>547</b>	<b>65.9</b>	<b>2,872</b>	<b>1,452</b>
(Profit)/loss from JV's/Ass/MI	0	0	-	0	-	0	0
APAT after MI	907	765	18.6	547	65.9	2,872	1,452
Reported EPS	30	26	12.6	18	64.1	94	50
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>		
EBITDA	49.5	49.8	(20)	48.2	130	50.1	27.7
EBIT	47.8	46.9	90	46.6	120	47.8	24.3
EBT	63.4	67.8	(440)	49.4	1400	59.6	33.5
PAT	50.1	50.6	(50)	30.4	1970	43.1	23.3
Effective Tax rate	20.9	25.4	(440)	38.3	(1740)	27.6	30.5

Source: Company, BOBCAPS Research

## Valuation methodology

We like INMART for its industry leadership and deep business moats but see near-to medium-term challenges because of slower client growth following the second wave of Covid-19. In addition, the expected reversion of peak FY21 operating margins to normal levels implies low earnings growth of 15% over FY21-FY24 vs. a 74% CAGR over the prior three years.

After a 190%+ upmove in stock price over the last 12 months, current valuations look full and we see little scope for similar sizable upsides. We marginally adjust estimates and reiterate HOLD with a revised Jun'22 TP of Rs 7,200 (vs. Rs 7,170), based on an unchanged one-year forward P/E of 52.5x – in line with the stock's average post Covid multiple that captures the pandemic-led inflection for internet businesses.

**Fig 2 – Revised estimates**

(Rs mn)	FY22E			FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (Rs mn)	7,558	7,714	2.1	9,807	9,817	0.1	11,901	11,921	0.2
YoY growth (%)	13.7	16.0	-	29.8	27.3	-	21.4	21.4	-
EBITDA	3,289	3,427	4.2	3,996	4,227	5.8	4,621	4,790	3.6
EBITDA margin (%)	43.5	44.4	-	-	43.1		-	40.2	-
Net profits	3,260	3,357	3.0	3,861	4,027	4.3	4,432	4,564	3.0
EPS (Rs)	112.4	110	(1.8)	133	132	(0.4)	153	150	(1.7)

Source: BOBCAPS Research

**Fig 3 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
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
Revenue (Rs mn)	6,650	7,714	9,817	11,921
YoY growth (%)	6.7	16.0	27.3	21.4
EBITDA Margin (%)	50.1	44.4	43.1	40.2

Source: Company, 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

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	2	4,357	6,240	BUY
IndiaMart InterMesh	INMART IN	3	7,251	7,200	HOLD
Just Dial	JUST IN	1	970	1,330	BUY

Source: BOBCAPS Research, NSE | Price as of 23 Jul 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	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	3,427	4,227	4,790
Depreciation	209	159	170	216	238
EBIT	1,517	3,175	3,257	4,011	4,551
Net interest inc./(exp.)	33	67	77	98	119
Other inc./(exp.)	684	852	1,419	1,604	1,821
Exceptional items	69	0	0	0	0
EBT	2,169	3,960	4,599	5,517	6,253
Income taxes	638	1,093	1,242	1,489	1,688
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>3,357</b>	<b>4,027</b>	<b>4,564</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,531</b>	<b>2,867</b>	<b>3,357</b>	<b>4,027</b>	<b>4,564</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	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	18,816	22,359	26,374
Shareholders' fund	2,745	16,166	19,119	22,662	26,677
<b>Total liab. and equities</b>	<b>11,188</b>	<b>25,155</b>	<b>28,416</b>	<b>31,631</b>	<b>35,166</b>
Cash and cash eq.	129	350	3,122	7,153	11,815
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>28,331</b>	<b>31,987</b>	<b>36,936</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,642</b>	<b>3,264</b>	<b>3,298</b>	<b>4,663</b>	<b>5,390</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)	(404)	(485)	(549)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(513)</b>	<b>10,383</b>	<b>(404)</b>	<b>(485)</b>	<b>(549)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(230)</b>	<b>222</b>	<b>2,771</b>	<b>4,031</b>	<b>4,662</b>
<b>Closing cash &amp; cash eq.</b>	<b>129</b>	<b>351</b>	<b>3,122</b>	<b>7,153</b>	<b>11,815</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	49.8	94.5	110.4	132.5	150.1
Adjusted EPS	49.8	94.5	110.4	132.5	150.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	94.1	531.8	637.3	755.4	889.2

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	35.4	33.2	28.6	22.3	18.1
EV/EBITDA	127.7	66.1	64.4	51.9	45.1
Adjusted P/E	145.6	76.7	65.7	54.7	48.3
P/BV	77.0	13.6	11.4	9.6	8.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	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	141.2	137.6	137.4
EBIT margin (EBIT/Revenue)	24.3	47.7	42.2	40.9	38.2
Asset turnover (Rev./Avg TA)	64.4	36.6	28.8	32.5	34.6
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>19.0</b>	<b>19.3</b>	<b>18.5</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	25.4	6.7	16.0	27.3	21.4
EBITDA	27.7	50.1	44.4	43.1	40.2
Adjusted EPS	1054.4	89.8	16.9	20.0	13.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	27.7	50.1	44.4	43.1	40.2
EBIT margin	24.3	47.7	42.2	40.9	38.2
Adjusted profit margin	24.6	43.1	43.5	41.0	38.3
Adjusted ROAE	70.4	30.3	19.0	19.3	18.5
ROCE	18.4	14.4	12.9	13.9	13.4
<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	7.2
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%

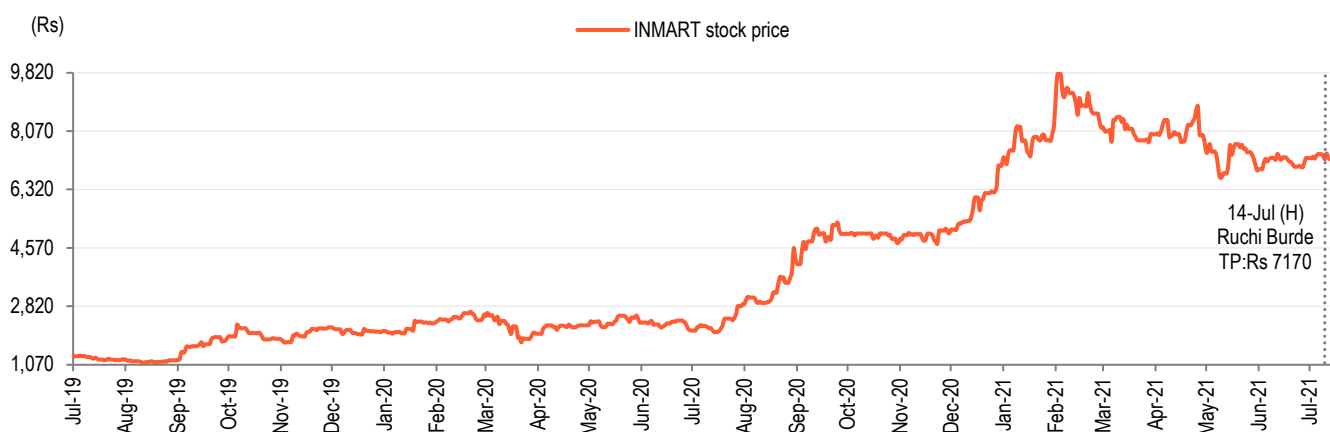
**HOLD** – Expected return from -6% to +15%

**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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