

BUY

TP: Rs 7,660 | ▲ 53%

INDIAMART INTERMESH

Technology & Internet

25 January 2022

Below-expected Q3; retain BUY on deferred revenue growth

- Q3 revenue up 3% QoQ, short of our estimates due to weak ARPU growth
- EBITDA margin at 43% contracted 380bps QoQ on higher manpower and other operating costs
- We cut FY22-FY24 EPS by 5-8% and roll valuations over to Dec'23, arriving at a new TP of Rs 7,660 (vs. Rs 8,430). Retain BUY

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Revenue disappoints: INMART reported Q3FY22 revenue growth of 3% QoQ (8% YoY), below our estimate of 7% QoQ. The number of registered buyers increased 4% QoQ (20% YoY), with paying subscription suppliers also up 4% QoQ (5% YoY). ARPU remained flattish sequentially (3% YoY) and collections from customers were flat QoQ as well (25% YoY). Traffic growth was muted at 4% QoQ due to third-quarter seasonality. Deferred revenue grew 4% QoQ and 25% YoY, indicating a positive swing in momentum going forward.

Margin contracts sharply: EBITDA margin fell 380bps QoQ to 43%. Manpower and other operating expenses were up 7% and 15% QoQ respectively. INMART added 225 employees in Q3 and aims to increase its headcount by 100 per quarter. Other income declined 30% QoQ. PAT was down 13% QoQ (9% YoY).

Strategic acquisitions on the rise: During Q3, INMART acquired a 7.7% stake in Mynd Solutions for Rs 320mn (provider of computer software development, web design & web maintenance services) and a 26% stake in EasyEcom for Rs 133mn (AI-driven omnichannel platform for MSMEs). INMART's acquisition of Vyapar opens up a large opportunity in the accounting space. It has also bought 100% in Busy Infotech, the largest accounting software with a pan-India presence, for Rs 5bn. All these investments point towards INMART's strategic shift towards the SaaS ecosystem and provide synergies from cross- and up-selling.

Legistify growing rapidly: INMART has increased its stake in Legistify which provides internet-based software solutions and had a turnover of Rs 17.3mn in FY20 with over 160 paying customers. Legistify has delivered spectacular growth of 100-200% over the last two years. It has a flagship product called Legistrak (SaaS tool) which allows businesses to manage legal workflows.

Healthy revenue visibility; retain BUY: We cut FY22/FY23/FY24 EPS estimates by 5%/8%/8%, factoring in the Q3 results. On rolling valuations over to Dec'23, we arrive at a new TP of Rs 7,660 (vs. Rs 8,430), based on an unchanged P/E of 57.3x. Retain BUY given decent deferred revenue and paying subscriber growth.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|--------------------|
| Ticker/Price | INMART IN/Rs 5,005 |
| Market cap | US\$ 2.0bn |
| Free float | 42% |
| 3M ADV | US\$ 12.9mn |
| 52wk high/low | Rs 9,950/Rs 4,970 |
| Promoter/FPI/DII | 50%/28%/23% |

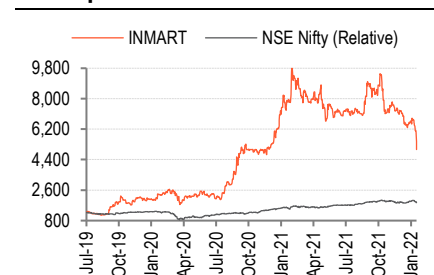
Source: NSE | Price as of 25 Jan 2022

Key financials

| Y/E 31 Mar | FY21A | FY22E | FY23E |
|-------------------------|-------|-------|-------|
| Total revenue (Rs mn) | 6,650 | 7,478 | 9,134 |
| EBITDA (Rs mn) | 3,333 | 3,293 | 3,874 |
| Adj. net profit (Rs mn) | 2,867 | 3,265 | 3,789 |
| Adj. EPS (Rs) | 94.5 | 107.4 | 124.7 |
| Consensus EPS (Rs) | 94.5 | 115.8 | 133.3 |
| Adj. ROAE (%) | 30.3 | 18.5 | 18.3 |
| Adj. P/E (x) | 53.0 | 46.6 | 40.2 |
| EV/EBITDA (x) | 45.7 | 46.3 | 39.0 |
| Adj. EPS growth (%) | 89.8 | 13.7 | 16.1 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Other highlights

- The Busy Infotech acquisition bodes well for INMART's strategy of making it easy for Indian SMEs to do business.
- The company aims to keep its sales mix at 40:40:20 for channel sales: feet on street: tele-calling.
- Management expects an FY22-FY23 growth rate of 20-30% and operating margin to stabilise at 38%.

Fig 1 – Quarterly performance

| (Rs mn) | Q3FY22 | Q3FY21 | YoY (%) | Q2FY22 | QoQ (%) | 9MFY22 | 9MFY21 |
|--------------------------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|
| Revenue | 1,874 | 1,728 | 8.4 | 1,816 | 3.2 | 5,501 | 4,860 |
| Operating Expenditure | 1,076 | 842 | 27.8 | 973 | 10.6 | 2,963 | 2,391 |
| Cost of revenues | 635 | 507 | 25.3 | 591 | 7.4 | 1,766 | 1,427 |
| as % of sales | 33.9 | 29.3 | - | 32.5 | - | 32.1 | 29.4 |
| SG&A expenses | 441 | 335 | 31.7 | 382 | 15.4 | 1197 | 964 |
| as % of sales | 23.5 | 19.4 | - | 21.0 | - | 21.8 | 19.8 |
| EBITDA | 798 | 887 | (10.0) | 843 | (5.3) | 2,538 | 24,69 |
| Depreciation | 30 | 38 | (20.4) | 28 | 7.1 | 90 | 124 |
| EBIT | 768 | 849 | (9.6) | 815 | (5.8) | 2,448 | 2,345 |
| Other Income | 219 | 246 | (10.9) | 314 | (30.3) | 829 | 789 |
| PBT | 974 | 1,079 | (9.7) | 1,115 | (12.6) | 3,236 | 3,082 |
| Total Tax | 231 | 263 | (12.2) | 264 | (12.5) | 735 | 757 |
| Adjusted PAT | 743 | 816 | (8.9) | 851 | (12.7) | 2,501 | 2,325 |
| (Profit)/loss from JV's/Ass/MI | 0 | 0 | - | 0 | - | 0 | 0 |
| APAT after MI | 743 | 816 | (8.9) | 851 | (12.7) | 2,501 | 2,325 |
| Reported EPS | 24 | 28 | (13.5) | 28 | (12.6) | 81 | 80 |
| Margins (%) | | | (bps) | | (bps) | | |
| EBITDA | 42.6 | 51.3 | (870) | 46.4 | (380) | 46.1 | 50.8 |
| EBIT | 41.0 | 49.1 | (810) | 44.9 | (390) | 44.5 | 48.2 |
| EBT | 52.0 | 62.4 | (1040) | 61.4 | (940) | 58.8 | 63.4 |
| PAT | 39.6 | 47.2 | (750) | 46.9 | (720) | 45.5 | 47.8 |
| Effective Tax rate | 23.7 | 24.4 | (70) | 23.7 | 0 | 22.7 | 24.6 |

Source: BOBCAPS Research, Company

Valuation methodology

INMART's Q3FY22 results were subpar. Revenue and traffic growth was subdued and ARPU flattish. Following the results, we cut FY22/FY23/FY24 EPS estimates by 5%/8%/8%. On rolling valuations over to Dec'23, we arrive at a reduced TP of Rs 7,660 (vs. Rs 8,430), based on an unchanged P/E of 57.3x – which is in line with the stock's post-Covid average multiple that captures the pandemic-led inflection for internet businesses. We retain BUY given decent deferred revenue and paying subscriber growth.

Fig 2 – Revised estimates

| (Rs mn) | New | | | Old | | | Change (%) | | |
|-------------------|-------|-------|--------|-------|-------|--------|------------|--------|--------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenues | 7,478 | 9,134 | 11,187 | 7,643 | 9,711 | 11,801 | (2.2) | (5.9) | (5.2) |
| YoY growth (%) | 12.4 | 22.1 | 22.5 | 14.9 | 27.0 | 21.5 | - | - | - |
| EBITDA | 3,293 | 3,874 | 4,450 | 3,531 | 4,351 | 4,963 | (6.7) | (11.0) | (10.3) |
| EBITDA margin (%) | 44.0 | 42.4 | 39.8 | 46.2 | 44.8 | 42.1 | - | - | - |
| Net profits | 3,265 | 3,789 | 4,336 | 3,435 | 4,125 | 4,703 | (4.9) | (8.1) | (7.8) |
| EPS (Rs) | 107 | 125 | 143 | 113 | 136 | 155 | (4.9) | (8.1) | (7.8) |

Source: BOBCAPS Research

Fig 3 – Key assumptions

| Parameter | FY21 | FY22E | FY23E | FY24E |
|-------------------------|-------|-------|-------|--------|
| Revenue from operations | 6,650 | 7,478 | 9,134 | 11,187 |
| YoY growth (%) | 6.7 | 12.4 | 22.1 | 22.5 |
| EBITDA Margin (%) | 50 | 44 | 42 | 40 |

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

| Company | 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 |
| Info Edge | 4,519 | 581,923 | BUY | 7,700 | 24.3 | 39.7 | 7.8 | 108.8 | 7.8 | 6.2 | 5.2 |
| IndiaMart | 5,002 | 152,047 | BUY | 7,660 | 25.2 | 14.7 | 46.6 | 40.1 | 18.5 | 18.3 | 17.9 |
| Affle (India) | 1,284 | 34,279 | BUY | 1,390 | 51.8 | 35.9 | 105.0 | 66.4 | 37.6 | 14.5 | 18.7 |
| Just Dial | 914 | 56,498 | BUY | 990 | 6.8 | -10.4 | 113.7 | 45.7 | 16.8 | 2.8 | 4.6 |

Source: BOBCAPS Research

Key risks

- Upside risks to our estimates include swift recovery in the MSME segment and rapid 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 | 0.5 | 1,284 | 1,390 | BUY |
| IndiaMart InterMesh | INMART IN | 2.0 | 5,005 | 7,660 | BUY |
| Info Edge | INFOE IN | 7.8 | 4,519 | 7,700 | BUY |
| Just Dial | JUST IN | 0.8 | 914 | 990 | BUY |

Source: BOBCAPS Research, NSE | Price as of 25 Jan 2022

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------------------|--------------|--------------|--------------|--------------|---------------|
| Total revenue | 6,235 | 6,650 | 7,478 | 9,134 | 11,187 |
| EBITDA | 1,727 | 3,333 | 3,293 | 3,874 | 4,450 |
| Depreciation | 209 | 159 | 165 | 201 | 224 |
| EBIT | 1,517 | 3,175 | 3,129 | 3,673 | 4,226 |
| Net interest inc./(exp.) | 33 | 67 | 75 | 92 | 112 |
| Other inc./(exp.) | 684 | 852 | 1,419 | 1,610 | 1,826 |
| Exceptional items | 69 | 0 | 0 | 0 | 0 |
| EBT | 2,169 | 3,960 | 4,473 | 5,191 | 5,940 |
| Income taxes | 638 | 1,093 | 1,208 | 1,402 | 1,604 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 1,531 | 2,867 | 3,265 | 3,789 | 4,336 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,531 | 2,867 | 3,265 | 3,789 | 4,336 |

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 | 5,532 | 5,005 | 4,598 |
| 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 | 18,735 | 22,069 | 25,883 |
| Shareholders' fund | 2,745 | 16,166 | 19,038 | 22,372 | 26,186 |
| Total liab. and equities | 11,188 | 25,155 | 28,160 | 30,967 | 34,374 |
| Cash and cash eq. | 129 | 350 | 3,216 | 7,238 | 11,631 |
| Accounts receivables | 11 | 12 | 10 | 13 | 15 |
| 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 | 51 | 79 | 135 |
| 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 | 28,424 | 32,069 | 36,744 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------------|----------------|-----------------|--------------|--------------|---------------|
| Cash flow from operations | 2,642 | 3,264 | 3,377 | 4,616 | 5,082 |
| Capital expenditures | (41) | 3 | (194) | (228) | (280) |
| Change in investments | (2,747) | (13,570) | 0 | 0 | 0 |
| Other investing cash flows | 429 | 141 | 75 | 92 | 112 |
| Cash flow from investing | (2,359) | (13,425) | (120) | (137) | (168) |
| 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) | (393) | (456) | (522) |
| Other financing cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from financing | (513) | 10,383 | (393) | (456) | (522) |
| Chg in cash & cash eq. | (230) | 222 | 2,865 | 4,023 | 4,392 |
| Closing cash & cash eq. | 129 | 351 | 3,216 | 7,238 | 11,631 |

Per Share

| Y/E 31 Mar (Rs) | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 49.8 | 94.5 | 107.4 | 124.7 | 142.6 |
| Adjusted EPS | 49.8 | 94.5 | 107.4 | 124.7 | 142.6 |
| Dividend per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Book value per share | 94.1 | 531.8 | 634.6 | 745.7 | 872.9 |

Valuations Ratios

| Y/E 31 Mar (x) | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 24.4 | 22.9 | 20.4 | 16.5 | 13.2 |
| EV/EBITDA | 88.1 | 45.7 | 46.3 | 39.0 | 33.1 |
| Adjusted P/E | 100.5 | 53.0 | 46.6 | 40.2 | 35.1 |
| P/BV | 53.2 | 9.4 | 7.9 | 6.7 | 5.7 |

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 | 143.0 | 141.3 | 140.6 |
| EBIT margin (EBIT/Revenue) | 24.3 | 47.7 | 41.8 | 40.2 | 37.8 |
| Asset turnover (Rev./Avg TA) | 64.4 | 36.6 | 27.9 | 30.2 | 32.5 |
| Leverage (Avg TA/Avg Equity) | 4.5 | 1.9 | 1.5 | 1.5 | 1.4 |
| Adjusted ROAE | 70.4 | 30.3 | 18.5 | 18.3 | 17.9 |

Ratio Analysis

| Y/E 31 Mar | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|------------|------------|--------------|--------------|--------------|
| YoY growth (%) | | | | | |
| Revenue | 25.4 | 6.7 | 12.4 | 22.1 | 22.5 |
| EBITDA | 27.7 | 50.1 | 44.0 | 42.4 | 39.8 |
| Adjusted EPS | 1054.4 | 89.8 | 13.7 | 16.1 | 14.4 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 27.7 | 50.1 | 44.0 | 42.4 | 39.8 |
| EBIT margin | 24.3 | 47.7 | 41.8 | 40.2 | 37.8 |
| Adjusted profit margin | 24.6 | 43.1 | 43.7 | 41.5 | 38.8 |
| Adjusted ROAE | 70.4 | 30.3 | 18.5 | 18.3 | 17.9 |
| ROCE | 18.4 | 14.4 | 12.3 | 12.7 | 12.5 |
| 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 | 145.4 | 115.9 | 83.0 |
| Current ratio | 1.9 | 4.4 | 4.9 | 6.1 | 7.7 |
| 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%

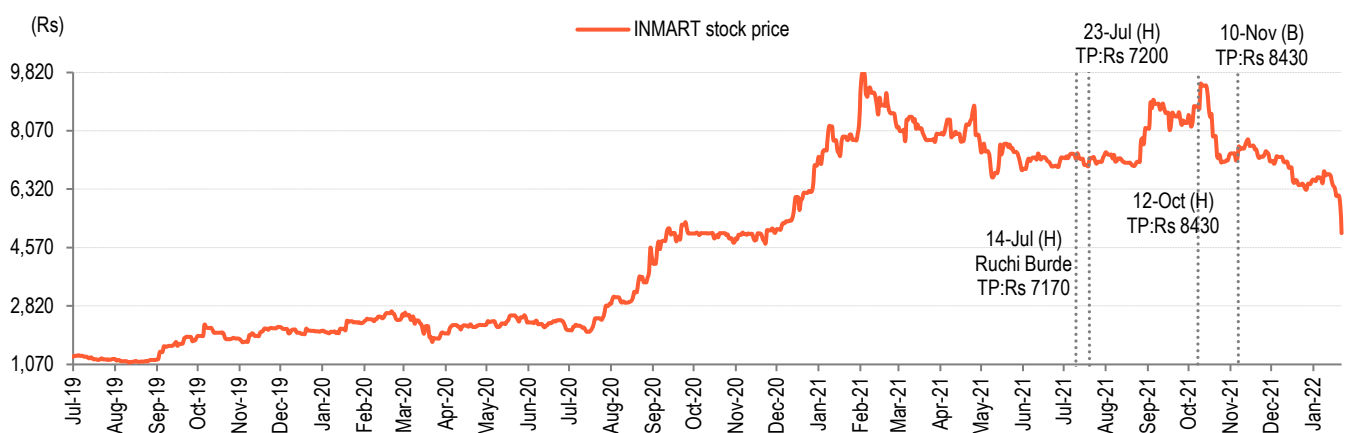
HOLD – Expected return from -6% to +15%

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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