

IndiaMART InterMESH Limited

2nd May 2023

Growth in paying subscribers to continue

IndiaMART InterMESH Ltd. (IndiaMART) reported a robust YoY revenue growth of approximately 33% in Q4FY23. Paid subscribers increased as per guidance, with over 8,000 new subscribers added every quarter, and this growth rate is expected to continue in FY24. The ARPU also witnessed a YoY increase of around 2.5% and is projected to maintain an annual growth rate of 5%-6% (in line with inflation) in the long run. Standalone collections from customers and deferred revenue grew by 47% and 14%, respectively, on a YoY basis. However, the Company's inability to enhance its platform traffic is a point of concern, as it may impact its network effect benefits. Based on our analysis, we believe that the current market price already accounts for most of the positive fundamental changes anticipated for FY24. Therefore, we have revised our rating for IndiaMART from BUY to NEUTRAL, with a target price of Rs. 5,824, valuing it at 53x FY24E earnings.

Growth in Paying subscribers to continue

IndiaMART added over 8,000 paying subscribers during the quarter, consistent with the guidance provided by management. Furthermore, IndiaMART aims to sustain this pace and intends to add over 8,000 paying subscribers each quarter in FY24. The growth in revenue will also benefit from an annual increase of 5%-6% in ARPU.

Revenue concentration in favor of the top 10% paying suppliers to increase

The monthly churn rates in the silver annual & silver monthly packages remain higher at 5% and 3%, respectively. However, the renewal rates in platinum and gold packages are back to pre-COVID levels, with a monthly churn rate of < 1%. As a result, the proportion of the top 10% paying suppliers in IndiaMART's total revenue is increasing. Before the pandemic, this proportion was around 40% but has now risen to 47%. We anticipate that this trend will persist as churn rates among lower-paying suppliers remain relatively higher.

Growing BUSY remains a priority

Approximately a year ago, IndiaMART InterMESH Ltd acquired BUSY, an accounting software company, for a sum of Rs. 5 Bn. In FY23, IndiaMART aligned BUSY with its operations, and BUSY recorded a revenue growth of 22%, along with a slight margin improvement compared to FY22. For the next 2-3 years, BUSY will prioritize accelerating growth, with a minor emphasis on margin improvement. The objective is to expand the business and prevent losses. IndiaMART will pursue this objective by entering new markets and investing in distribution and sales.

View & Valuation

We expect IndiaMART InterMESH Ltd to achieve its guidance of adding ~8,000 paying suppliers per quarter in FY24, along with a 5%-6% ARPU growth. However, the market price has already factored in the positive fundamental changes anticipated for IndiaMART in FY24. Consequently, we are changing our rating for IndiaMART from BUY to NEUTRAL, with a target price of Rs. 5,824, which values it at 53x FY24E earnings.

NEUTRAL

CMP Rs. 5,631

TARGET Rs. 5,824 (+3.4%)

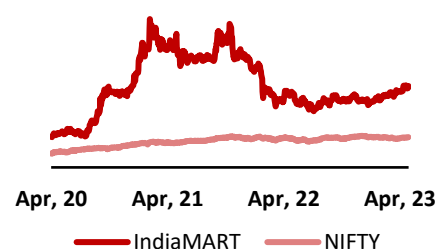
Company Data

MCAP (Rs. Mn)	1,72,390
O/S Shares (Mn)	31
52w High/Low	5,646 / 3,676
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	482

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	49.22	49.22	49.22
FIIIs	26.60	25.38	25.00
DIIIs	5.62	5.81	5.24
Non-Institutional	18.56	19.60	20.54

IndiaMART vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY22	FY23	FY24E
Revenue	7,535	9,854	11,617
EBITDA	3,078	2,679	3,834
Net Profit	2,976	2,839	3,364
Total Assets	31,104	34,447	37,324
ROCE (%)	17%	15%	16%
ROE (%)	17%	14%	15%

Source: Company, Keynote Capitals Ltd.

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Q4 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue	2,688	2,014	33.5%	2,514	6.9%	9,854	7,535	30.8%
Purchase of stock in trade	(3)	-	-	1	-400.0%	-	-	-
Employee Cost	1,235	874	41.3%	1,083	14.0%	4,247	2,676	58.7%
Other Operating Expense	795	568	40.0%	728	9.2%	2,928	1,781	64.4%
EBITDA	661	572	15.6%	702	-5.8%	2,679	3,078	-13.0%
EBITDA %	24.6%	28.4%	-381 Bps	27.9%	-333 Bps	27.2%	40.8%	-1366 Bps
Depreciation	86	29	196.6%	86	0.0%	311	119	161.3%
EBIT	575	543	5.9%	616	-6.7%	2,368	2,959	-20.0%
EBIT %	21.4%	27.0%	-557 Bps	24.5%	-311 Bps	24.0%	39.3%	-1524 Bps
Finance Cost	21	13	61.5%	22	-4.5%	81	54	50.0%
Other Income	307	295	4.1%	1,022	-70.0%	1,805	1,122	60.9%
PBT	861	825	4.4%	1,616	-46.7%	4,092	4,027	1.6%
PBT %	32.0%	41.0%	-893 Bps	64.3%	-3225 Bps	41.5%	53.4%	-1192 Bps
Tax	198	193	2.6%	394	-49.7%	875	929	-5.8%
Share of Associates	(105)	(58)	81.0%	(94)	11.7%	(379)	(122)	210.7%
PAT	558	574	-2.8%	1,128	-50.5%	2,838	2,976	-4.6%
EPS	18.3	18.7	-	36.9	-	92.6	96.8	-

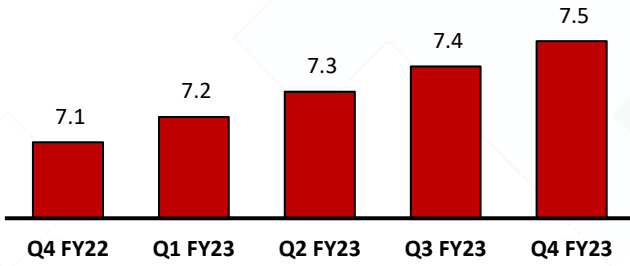
Segment Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue								
Web and related services	2,571	2,014	27.7%	2,410	6.7%	9,420	7,535	25.0%
Accounting software services	117	-	-	104	12.5%	434	-	-
Operating Profit								
Web and related services	629	573	9.8%	699	-10.0%	2,577	3,078	-16.3%
Accounting software services	33	-	-	4	725%	102	-	-
Operating Profit Margin %								
Web and related services	24.5%	28.5%	-399 Bps	29.0%	-454 Bps	27.4%	40.8%	-1349 Bps
Accounting software services	28.2%	-	-	3.8%	2436 Bps	23.5%	-	-

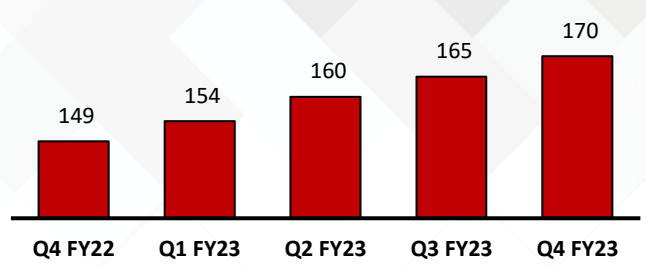
Source: Company, Keynote Capitals Ltd.

Quarterly business progression

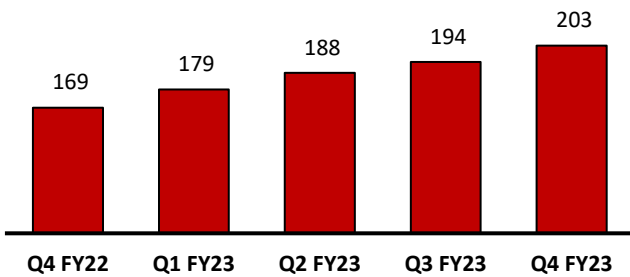
Supplier Storefronts (Mn)



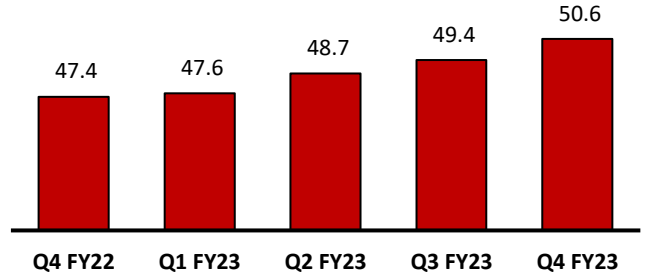
Registered Buyers (Mn)



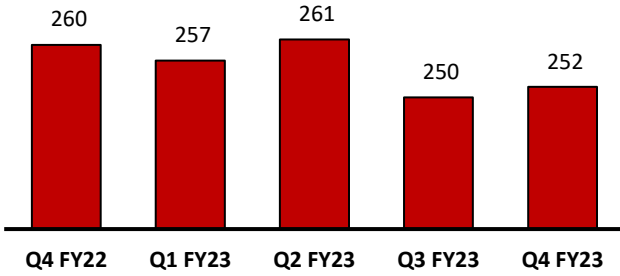
Paying subscription suppliers ('000s)



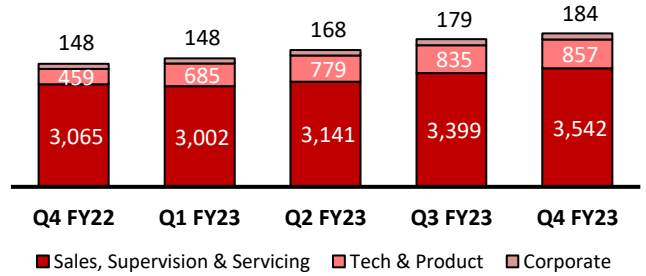
Average Revenue per Paying User (Rs '000s)



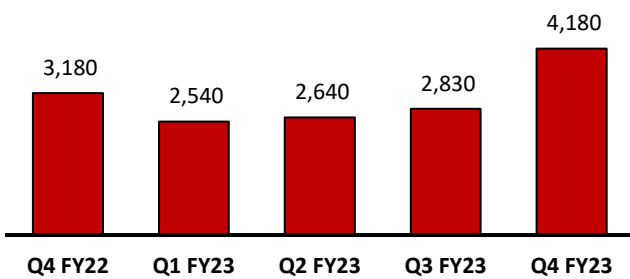
Traffic (Mn)



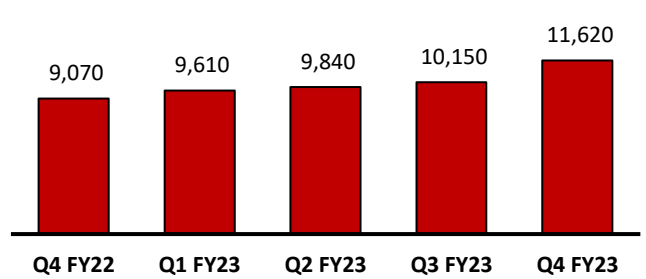
Focus on strengthening manpower



Collections from customers (Rs. Mn)



Deferred revenue (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

Q4 FY23 Conference Call Takeaways

- Strong collection growth was driven by three factors, a) increase in paying subscribers, b) increase in ARPU, and c) acquisition of BUSY.
- The Company added 900 new employees in FY23. With this, the manpower addition of IndiaMART is concluded and will now add manpower in line with subscribers' growth.
- ARPUs for the top 10% of customers used to be ~180K before COVID, which has now climbed to ~236K. This is partly because the supplier can take better advantage of the platform as he matures and partly because suppliers choose a more premium package.
- The strategy of giving a free 6-month subscription to VYAPAR along with IndiaMART's subscription has augured well for VYAPAR.
- The Company plans to scale up BUSY first at the standalone level, and later experiment with cross selling and pay attention to profit margins after a couple of years of growth.
- As far as other investments except BUSY are concerned, the Company is currently mentoring and nurturing them. Benefits can only be expected to accrue in the long run.
- Flattish trajectory of traffic is not a cause of concern now, as the Company has enough headroom. IndiaMART can still add around 50,000 paying subscribers at this level of traffic.
- Currently, the Company is more focused on buyer conversion. The current conversion rate is around 30%-40%, whereas IndiaMART aims to take it higher to around 50%.
- Management indicated that they are contemplating rolling back the Rs. 500 discount, which is currently being offered to 'Silver Monthly' customers. This was introduced during COVID; generally, the Company takes a price hike every 2-3 years.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	6,696	7,535	9,854	11,617	13,787
Employee Expenses	2,052	2,676	4,247	4,705	5,515
Other Expenses	1,362	1,781	2,928	3,078	3,723
EBITDA	3,282	3,078	2,679	3,834	4,550
Margin%	49%	41%	27%	33%	33%
Depreciation	161	119	311	412	418
EBIT	3,121	2,959	2,368	3,422	4,132
Margin%	47%	39%	24%	29%	30%
Interest Paid	67	54	81	70	70
Other Income & exceptional	866	1,122	1,805	1,600	1,400
PBT	3,920	4,027	4,092	4,952	5,462
Tax	1,096	928	875	1,238	1,365
Others (Minorities, Associates)	(27)	(122)	(379)	(350)	(320)
Net Profit	2,798	2,976	2,839	3,364	3,776
Shares (Mn)	30	31	31	31	31
EPS	92.3	97.4	92.7	109.9	123.4

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	777	768	583	4,190	8,087
Current Investments	22,174	23,008	22,718	22,909	22,909
Debtors	12	13	71	23	28
Short Term Loans & Advances	784	465	56	56	56
Other Current Assets	99	148	206	206	206
Total Current Assets	23,847	24,402	23,634	27,384	31,286
Net Block & CWIP	652	562	5,533	5,009	4,691
Long Term Investments	370	4,209	5,117	4,767	4,447
Other Non-current Assets	881	1,931	163	163	163
Total Assets	25,750	31,104	34,447	37,323	40,588
Creditors	154	184	272	290	345
Provision	48	50	77	77	77
Other Current Liabilities	5,210	6,349	8,211	8,211	8,211
Total Current Liabilities	5,413	6,582	8,560	8,578	8,633
Deferred Tax Liabilities	207	156	239	239	239
Other Long Term Liabilities	4,021	5,625	5,062	5,062	5,062
Total Non Current Liabilities	4,228	5,781	5,301	5,301	5,301
Paid-up Capital	303	306	306	306	306
Reserves & Surplus	15,806	18,435	20,279	23,138	26,348
Shareholders' Equity	16,109	18,741	20,585	23,444	26,654
Total Equity & Liabilities	25,750	31,104	34,447	37,323	40,588

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,920	4,027	4,092	4,952	5,462
Adjustments	(578)	(833)	(751)	(1,118)	(912)
Change in Working Capital	471	1,800	2,551	66	50
Total Tax Paid	(588)	(971)	(754)	(1,238)	(1,365)
Cashflow from operating activities	3,225	4,023	5,138	2,661	3,234
Net Capital Expenditure	3	(42)	(160)	(80)	(100)
Change in investments	(12,735)	(3,770)	(4,012)	-	-
Other investing activities	(644)	459	933	1,600	1,400
Cashflow from investing activities	(13,376)	(3,354)	(3,240)	1,520	1,300
Equity raised / (repaid)	10,520	5	(1,244)	-	-
Dividend (incl. tax)	(15)	(455)	(61)	(505)	(566)
Other financing activities	(122)	(125)	(128)	(70)	(70)
Cash flow from financing activities	10,383	(575)	(1,433)	(575)	(636)
Net Change in cash	232	94	465	3,607	3,898

Valuation Ratios

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	92	97	93	110	123
Growth %		6%	-5%	18%	12%
Book Value Per Share	531	613	672	766	871
Return Ratios					
Return on Assets (%)	15%	10%	9%	9%	10%
Return on Equity (%)	30%	17%	14%	15%	15%
Return on Capital Employed (%)	36%	17%	15%	16%	15%
Turnover Ratios					
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.4
Sales / Gross Block (x)	6.0	7.1	2.9	2.0	2.3
Working Capital / Sales (%)	170%	241%	167%	146%	150%
Receivable Days	0.8	0.6	1.6	1.5	0.7
Payable Days	9.1	8.2	8.4	8.8	8.4
Liquidity Ratios					
Current Ratio (x)	4.4	3.7	2.8	3.2	3.6
Interest Coverage Ratio (x)	59.8	75.5	51.6	71.7	79.0
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	0.0	0.0	0.0	-0.2	-0.3
Valuation					
PE (x)	83.8	44.4	57.8	48.8	43.5
Earnings Yield (%)	1%	2%	2%	2%	2%
Price to Sales (x)	35.1	17.5	16.7	14.1	11.9
Price to Book (x)	14.6	7.0	8.0	7.0	6.2
EV/EBITDA (x)	71.4	42.7	61.0	42.7	35.9
EV/Sales (x)	35.0	17.4	16.6	14.1	11.9

KEYNOTE Rating History

Date	Rating	Market price at recommendation	Upside/Downside
3 rd October 2022	BUY	4,452	+16%
24 th October 2022	BUY	4,364	+19%
20 th January 2023	BUY	4,550	+12%
2 nd May 2023	NEUTRAL	5,631	+3%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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