

IndiaMART InterMESH Limited

24th July 2023

Decent growth but a miss on some key KPIs

IndiaMART InterMESH Ltd. (IndiaMART) reported a decent YoY revenue growth of ~26% in Q1 FY24. The addition of paid subscribers was below guidance, with only 5,000 new subscribers added during the quarter. This will perhaps result in lower-than-anticipated growth in paying supplier addition in FY24. The ARPU, however, witnessed a strong YoY increase of around 8.2%, which is higher than the projected long-term growth rate of 5%-6%. Consolidated collections from customers and deferred revenue grew by 26% and 25%, respectively, but traffic and active buyers' growth continue to remain muted on a YoY basis. Based on the above factors, we believe that the current market price captures more than the fundamental changes anticipated for FY24. Therefore, we change our rating on IndiaMART from NEUTRAL to REDUCE, with a target price of Rs. 2,738.

Lower-than-anticipated growth in paying suppliers balanced by ARPU

It was expected that IndiaMART would continue adding 8,000 paying subscribers/quarter in FY24 as well. In Q1 FY24, the Company fell short of this mark and could only add 5,000 paying subscribers. This was because the discount on the silver monthly package was rolled back during the quarter. The Company believes this pricing change will also hamper the addition of paying subscribers in Q2 FY24. We believe that this will lead to lower than anticipated addition in paying subscribers in FY24. On the other hand, ARPU balanced the low growth in paying subscribers by registering a YoY growth of ~8% in Q1 FY24, which is higher than 5-6%, which is expected to be the long-term ARPU growth rate.

Stagnation of growth in crucial KPIs

In Q1 FY24, collections from customers and deferred revenue grew almost in line with revenue by 26% and 25%, respectively, but other key indicators continue to show lackluster growth. The traffic on IndiaMART's platform has not grown in the last three quarters. Also, the growth in active buyers has remained flat since the last eight quarters. Prolonged weakness in these indicators can threaten the effectiveness of the platform in the long run.

Margin improvement in focus

In Q1 FY24, IndiaMART clocked EBITDA and PAT margins of ~27% and ~45%, respectively, registering a YoY expansion of 281 bps on EBITDA. PAT margin was strong owing to a substantial rise in other income because of MTM gains on treasury investments. The Company has a target to reach a 30% EBITDA margin in FY24.

View & Valuation

We believe it will be difficult for IndiaMART to maintain the run rate of adding 8,000 paying subscribers/quarter, but our revised estimates suggest margin expansion in FY24 compared to FY23. Based on the above-mentioned factors and our revised estimates, we believe IndiaMART's valuation captures more than the fundamental changes expected in FY24. Consequently, we change our rating on IndiaMART from NEUTRAL to REDUCE with a target price of Rs. 2,738, valuing it at 57x FY24E earnings.

REDUCE

CMP Rs. 3,047

TARGET Rs. 2,738 (-10%)

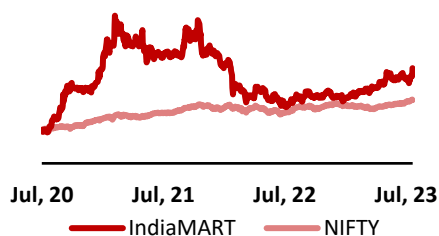
Company Data

MCAP (Rs. Mn)	1,85,559
O/S Shares (Mn)	61
52w High/Low	3,205 / 1,965
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	791

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	49.22	49.22	49.22
FIIIs	26.60	26.60	25.38
DIIIs	5.73	5.62	5.81
Non-Institutional	18.46	18.56	19.60

IndiaMART vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	9,854	11,480	13,436
EBITDA	2,679	3,329	4,031
Net Profit	2,838	2,881	3,256
Total Assets	34,447	36,622	39,438
ROCE (%)	17%	14%	14%
ROE (%)	16%	13%	13%

Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue	2,821	2,246	25.6%	2,688	4.95%	9,854
Purchase of stock in trade	0	1	-100.0%	-3	-100.0%	0
Employee Cost	1,243	925	34.4%	1,235	0.6%	4,247
Other Operating Expense	805	678	18.7%	795	1.3%	2,928
EBITDA	773	642	20.4%	661	16.9%	2,679
EBITDA %	27.4%	28.6%	-118 Bps	24.6%	281 Bps	27.2%
Depreciation	74	63	17.5%	86	-14.0%	311
EBIT	699	579	20.7%	575	21.6%	2,368
EBIT %	24.8%	25.8%	-100 Bps	21.4%	339 Bps	24.0%
Finance Cost	22	12	83.3%	21	4.8%	81
Other Income	571	10	5610.0%	307	86.0%	1,805
PBT	1,248	577	116.3%	861	44.9%	4,092
PBT %	44.2%	25.7%	1855 Bps	32.0%	1221 Bps	41.5%
Share of Associates	-106	-70	51.4%	-105	1.0%	-379
Exceptional Item	-18	0	-	0	-	0
Tax	293	40	632.5%	198	48.0%	875
PAT	831	467	77.9%	558	48.9%	2,838
EPS	13.57	7.60	-	9.14	-	46.37

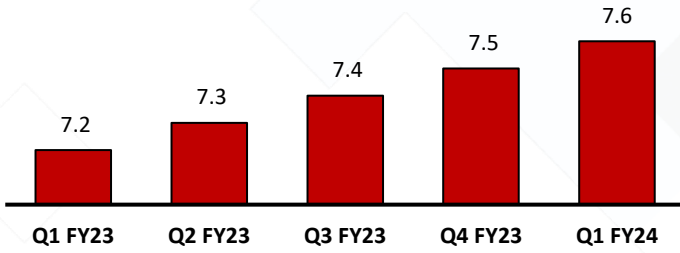
Segment Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue						
Web and related services	2,686	2,141	25.5%	2,571	4.5%	9,420
Accounting software services	135	105	28.6%	117	15.4%	434
Operating Profit						
Web and related services	762	597	27.6%	629	21.1%	2,577
Accounting software services	12	45	-73.3%	33	-63.6%	102
Operating Profit Margin %						
Web and related services	28.4%	27.9%	49 Bps	24.5%	390 Bps	27.4%
Accounting software services	8.9%	42.9%	-3397 Bps	28.2%	-1932 Bps	23.5%

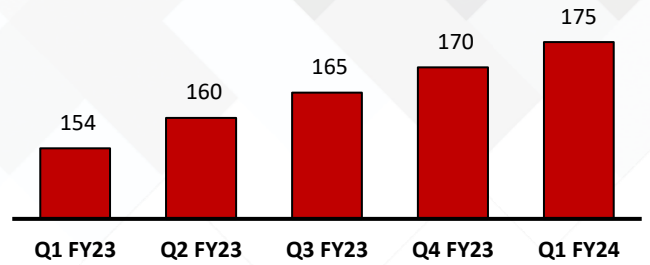
Source: Company, Keynote Capitals Ltd.

Quarterly business progression

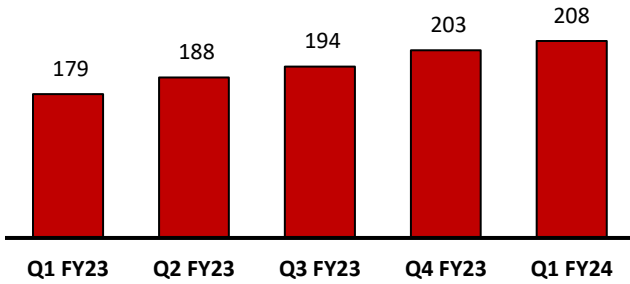
Supplier Storefronts (Mn)



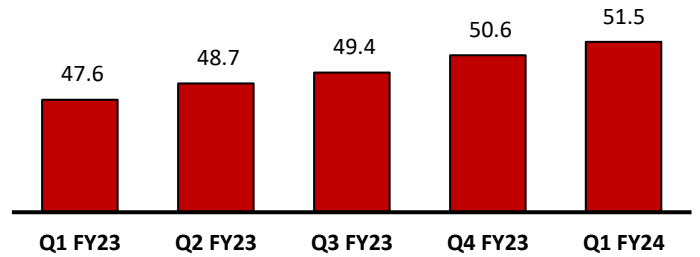
Registered Buyers (Mn)



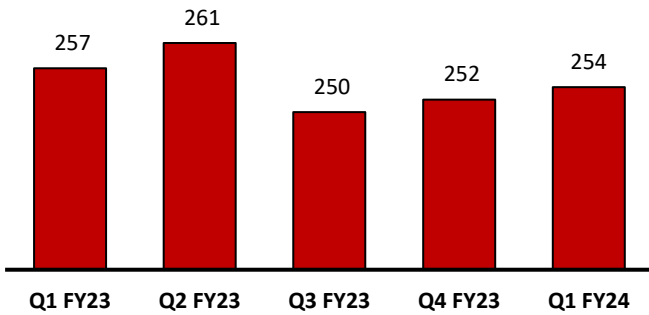
Paying subscription suppliers ('000s)



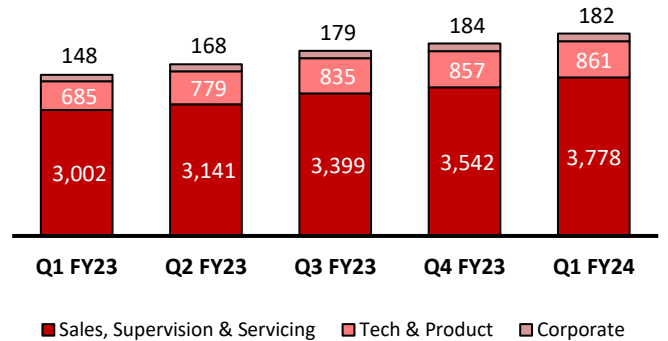
Average Revenue per Paying User (Rs '000s)



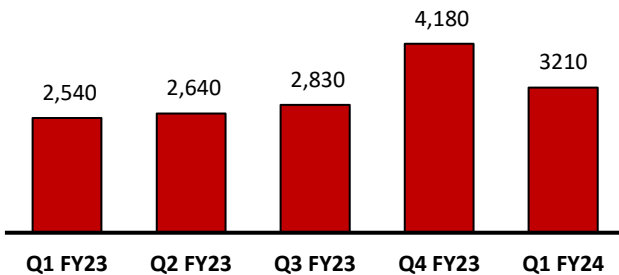
Traffic (Mn)



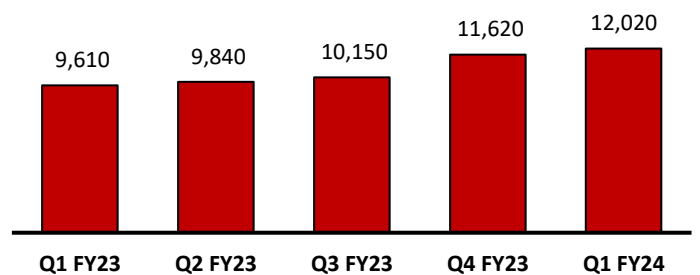
Focus on manpower strengthening



Collections from customers (Rs. Mn)



Deferred revenue (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

Q1 FY24 Conference Call Takeaways

- Growth in paying subscribers got impacted due to a withdrawal of discount which the Company started offering post-COVID. From the middle of Q1 FY24, the Rs. 2,500/pm silver monthly package has been discontinued.
- A new monthly silver subscriber will pay Rs. 3,000/pm but the existing supplier who was enrolled at the discounted price will gradually pay up over the course of a couple of renewals.
- In Q1 FY24, net profit saw significant growth on account of a material rise in other income which was driven by MTM profits of treasury investments.
- Channel partners working with IndiaMART get paid in a combination of a fixed payment which the Company makes to them on a per-person basis and a variable payout which IndiaMART gives them on customer conversion.
- Currently, IndiaMART has a 1,500-employee field force along with 150 channel partners who in turn have their own employees. This salesforce at a combined level markets IndiaMART's platform.
- The Company aims to convert 2% of its monthly paying subscribers to higher packages per annum. This run rate in management's understanding is a comfortable rate.
- Customers are not simply looking for a higher number of inquiries but are looking for a higher number of relevant inquiries. This is where IndiaMART's platform continues to deliver value despite low growth in traffic, active buyers, etc. for a few quarters now.
- Matchmaking improvement efforts are continuously going on which is the most valuable aspect of the platform. Now with machine learning technologies in place, the Company can match buyers with suppliers using more variables than before. This technology will only get better with time.
- Most of the global platforms operating in the "Freemium" classified space have a "Paying Suppliers/Total Suppliers" ratio in the range of 2-5%. As per the management, this is a comfortable range to operate in.
- The Company is planning to bring the desktop version of BUSY accounting software to cloud so that the user can access the software on the go from anywhere. This is not going to be a SaaS offering.
- Performance of BUSY so far is in line with IndiaMART's expectations and the aim in the short to mid-term is to increase the growth rate.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	7,535	9,854	11,480	13,436	15,360
Employee Expenses	2,676	4,247	4,821	5,576	6,298
Other Expenses	1,781	2,928	3,329	3,829	4,301
EBITDA	3,078	2,679	3,329	4,031	4,762
Growth %		-13%	24%	21%	18%
Margin%	41%	27%	29%	30%	31%
Depreciation	119	311	444	450	457
EBIT	2,959	2,368	2,885	3,581	4,305
Growth %		-20%	22%	24%	20%
Margin%	39%	24%	25%	27%	28%
Interest Paid	54	82	77	73	73
Other Income & exceptional	1,122	1,805	1,600	1,400	1,400
PBT	4,027	4,092	4,408	4,908	5,632
Tax	928	875	1,102	1,227	1,408
Others (Minorities, Associates)	-	(379)	(425)	(425)	(425)
Net Profit	3,099	2,838	2,881	3,256	3,799
Shares (Mn)	31	31	60	60	60
EPS	48.7	46.4	48.0	54.3	63.3

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	768	583	3,595	7,183	11,238
Current Investments	23,008	22,719	22,717	22,717	23,287
Debtors	13	71	23	27	31
Inventory	-	-	-	-	-
Short Term Loans & Advances	476	56	56	56	56
Other Current Assets	137	206	206	206	206
Total Current Assets	24,402	23,635	26,597	30,189	34,818
Net Block & CWIP	562	5,533	5,169	4,819	4,463
Long Term Investments	4,209	5,117	4,692	4,267	3,842
Other Non-current Assets	1,931	163	163	163	163
Total Assets	31,104	34,447	36,622	39,438	43,285
Creditors	184	272	287	336	384
Provision	50	77	77	77	77
Short Term Borrowings	-	-	-	-	-
Other Current Liabilities	6,349	8,211	8,211	8,211	8,211
Total Current Liabilities	6,582	8,560	8,575	8,624	8,672
Long Term Debt	-	-	-	-	-
Deferred Tax Liabilities	156	239	239	239	239
Other Long Term Liabilities	5,625	5,062	5,062	5,062	5,062
Total Non Current Liabilities	5,781	5,301	5,301	5,301	5,301
Paid-up Capital	306	306	306	306	306
Reserves & Surplus	18,435	20,279	22,440	25,208	29,006
Shareholders' Equity	18,741	20,585	22,746	25,513	29,312
Non Controlling Interest	-	-	-	-	-
Total Equity & Liabilities	31,104	34,447	36,622	39,438	43,285

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	4,027	4,092	4,408	4,908	5,632
Adjustments	(710)	(751)	(1,079)	(877)	(870)
Change in Working Capital	1,800	2,551	62	45	44
Total Tax Paid	(971)	(754)	(1,102)	(1,227)	(1,408)
Cash flow from operating Activities	4,146	5,137	2,289	2,849	3,398
Net Capital Expenditure	(42)	(160)	(80)	(100)	(100)
Change in investments	(3,770)	(4,012)	-	-	-
Other investing activities	459	933	1,600	1,400	1,400
Cash flow from investing activities	(3,354)	(3,240)	1,520	1,300	1,300
Equity raised / (repaid)	5	(1,244)	-	-	-
Dividend (incl. tax)	(455)	(61)	(720)	(488)	(570)
Other financing activities	(125)	(128)	(77)	(73)	(73)
Cash flow from financing activities	(575)	(1,433)	(797)	(561)	(643)
Net Change in cash	217	465	3,012	3,587	4,055

Valuation Ratios

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	49	46	48	54	63
Growth %		-5%	4%	13%	17%
Book Value Per Share	613	672	379	425	489
Return Ratios					
Return on Assets (%)	11%	10%	8%	9%	9%
Return on Equity (%)	18%	16%	13%	13%	14%
Return on Capital Employed (%)	18%	17%	14%	14%	14%
Turnover Ratios					
Asset Turnover (x)	0.3	0.3	0.3	0.4	0.4
Sales / Gross Block (x)	7.1	2.7	1.8	2.1	2.4
Working Capital / Sales (%)	241%	167%	144%	147%	155%
Receivable Days	0.6	1.6	1.5	0.7	0.7
Payable Days	8.2	8.4	8.9	8.5	8.6
Liquidity Ratios					
Current Ratio (x)	3.7	2.8	3.1	3.5	4.0
Interest Coverage Ratio (x)	75.5	51.2	58.2	68.3	78.2
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	0.0	0.0	-0.2	-0.3	-0.4
Valuation					
PE (x)	44.4	54.1	65.6	46.2	39.6
Earnings Yield (%)	2%	2%	2%	2%	3%
Price to Sales (x)	17.5	15.6	16.8	14.4	12.6
Price to Book (x)	7.0	7.5	8.5	7.6	6.6
EV/EBITDA (x)	42.7	57.1	57.7	47.7	40.4
EV/Sales (x)	17.4	15.5	16.7	14.3	12.5

Source: Company, Keynote Capitals Ltd. estimates

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%
24 th July 2023	REDUCE	3,047	-10%

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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