

## Institutional Equity Research

## IndiaMART

Retail | India

IPO Product Note | June 20, 2019

Issue Size (mn shares)	4.89
Issue Open/Close	24-Jun-19 / 26-Jun-19
Face Value (Rs)	10
Price Band (Rs)	970 - 973
Offering Size (Rs mn)	4740 - 4755

## Largest Online B2B Marketplace

IndiaMART InterMESH Ltd. (IML) is the largest online B2B marketplace for business products and services. It enjoyed ~60% market share in online B2B classifieds space in India in FY17, according to KPMG. IML primarily operates in product and supplier discovery marketplace i.e. www.indiamart.com or "IndiaMART". IML earns revenues from the sale of subscription packages, from the sale of request for quote or "RFQ" credits, advertising from IndiaMART desktop, mobile-optimised platforms and revenue from payment facilitation services. The Company has 129,589 paying subscription customers in its three different packages as on FY19. IML had 82.7mn registered buyers and 5.5mn supplier storefronts in India as on FY19. Indian supplier storefronts had listed total 60.7mn products (76% goods and 24% services). IML reported an aggregate of 723.5mn visits in FY19 out of which mobile traffic constituted 76% of total traffic.

IML is coming out with an Initial Public Offering (IPO) of ~4.89mn equity shares, the Price Band of which has been fixed at Rs970-973/equity share. The issue size is ~Rs4740 - 4755mn comprising of Offer for Sale (OFS) of 4.89mn equity share. The objective of the issue is to achieve the benefit of listing the equity shares on the stock exchanges and sale of up to 4.89mn equity shares by the selling shareholders. The Company will not receive any proceeds from the Issue. The IPO opens on Monday, June 24, 2019 and closes on Wednesday, June 26, 2019.

## Key Strengths

- ▶ One of the leading B2B e-Commerce Players in India.
- ▶ Expected growth in SMEs to significantly benefit IndiaMART.
- ▶ A robust two-way discovery marketplace connecting buyers and suppliers.
- ▶ Well-placed to cash in the opportunities in India's wholesale market.

## Growth Strategy

- ▶ Plans to increase the number of free and paying subscription suppliers on IndiaMART thereby improving supplier engagement, services, retention and monetisation.
- ▶ Plans to upgrade existing technology and support infrastructure to handle high user volume and enhance buyers' experience.
- ▶ Plans to onboard large and medium enterprises along with few established brands.
- ▶ Investing in mobile platforms and capabilities to leverage the growing smartphone penetration in India.
- ▶ Attracting larger suppliers and leading brands while growing core SME segment supplier base.

## Key Risks

- ▶ General demand slowdown for the types of products and services listed by the suppliers on IndiaMART online marketplace.
- ▶ Higher competitive intensity.

Key Financials (Rs mn)	FY16	FY17	FY18	FY19
Net Sales	2,377	3,086	4,036	4,973
EBITDA	(610)	(228)	(1,912)	143
EBITDA Margin (%)	(25.6)	(7.4)	(47.4)	2.9
Depreciation	26	40	28	40
Other Income	52	137	65	360
PBT	(584)	(131)	(1,875)	463
PAT - Reported	(588)	(131)	(724)	126
ROE (%)	24.3	5.2	23.2	7.8

Source: Company, RHP, Rsec Research

Issue Details	Rs mn
Offer for Sale (mn)	4.89
Pre issue Paid up Capital (Rs mn)	29
Post issue Paid up Capital (Rs mn)	29
Post Issue Mkt Cap at Upper band (Rs mn)	27,820
BRLM - ICICI Sec, Edelweiss, Jefferies	
Registrar - Link Time	

Offer for different categories	(%)
QIB	75
HNI	15
Retail	10

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoter	58	53
Public	42	47

Name of the Sellers	#Shares(mn)
Intel Capital (Mauritius), Limited	2.59
Amadeus Iv Dpf Limited	0.26
Accion Frontier Inclusion Mauritius	0.48
Dinesh Chandra Agarwal (Promoter)	0.85
Brijesh Kumar Agrawal (Promoter)	0.58
Other Shareholders	0.14
<b>Total</b>	<b>4.89</b>

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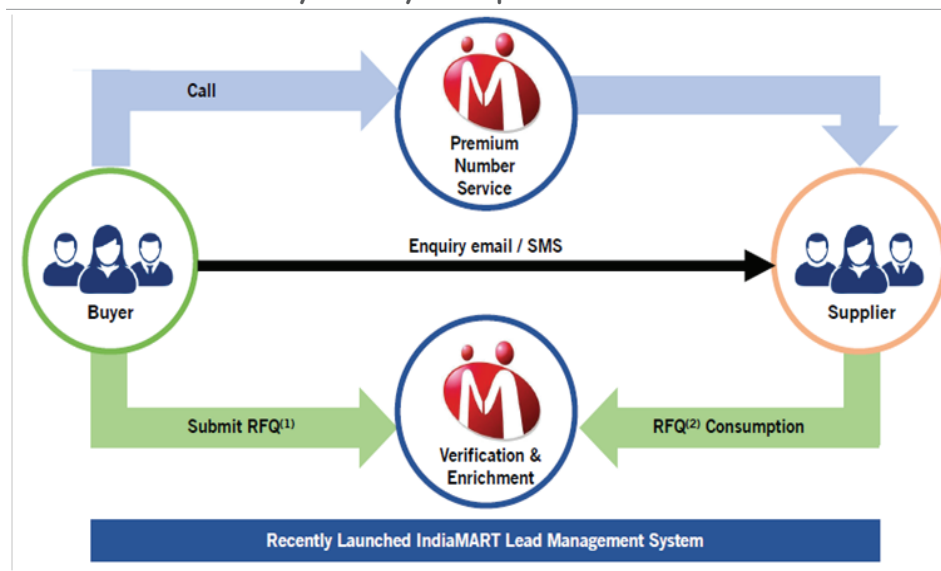
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**Sectoral Overview**

According to KPMG, the wholesale market in India is estimated to reach US\$700bn in 2020, from US\$300bn in 2015. To tap into this potential, B2B e-commerce players have started building platforms for SMEs and traders. The number of SMEs buying and selling online have increased over the years with 27% of the internet-enabled-SMEs being engaged in e-commerce in 2015, according to KPMG. IndiaMART targets the Indian B2B market with the objective of facilitating discovery of businesses through its online marketplace.

**IndiaMART – At a Glance**

**Business Overview:** IndiaMART provides a robust two-way discovery marketplace connecting buyers and suppliers. Buyers locate suppliers on its marketplace, including both Indian SMEs and large corporate houses by viewing a webpage containing the supplier's product and service listings (supplier storefront) or by posting requests for quotes (RFQs). As on FY19, IML had 129,589 paying subscription customers on IndiaMART platform. Suppliers on IndiaMART include: Indian SMEs and large businesses who are manufacturers, wholesalers, exporters and retailers. Further, IML has a number of large suppliers and leading brands including Agfa HealthCare India Pvt. Ltd., Case New Holland Construction Equipment (India) Pvt. Ltd., Hilti India Pvt. Ltd., JCB India Ltd. and Nobel Hygiene Pvt. Ltd. The top 10% of customers accounted for 40% of IML's revenue in FY19.

**Exhibit: 1. IndiaMART: 2-way Discovery Marketplace**

Source: Company, RHP, RSec Research

**Subscription Packages:** To encourage the adoption of RFQs as well as to drive higher engagement with suppliers, IML introduced subscription packages that include varying numbers of free bundled RFQ credits and offers three categories – 1) "Mini Dynamic Catalogue" or "Silver", 2) "Gold", 3) "Platinum". Silver, Gold and Platinum subscriptions are available for purchase on a monthly basis, annually or for multiple years based on supplier behaviour.

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## Growth in SMEs to Benefit IndiaMART

According to KPMG, 63mn MSMEs in India contributed ~30% to India's GDP in FY18. The number of MSMEs in India has increased at 6.4% CAGR through FY07-19. Digitally connected SMEs are estimated to have nearly twice the revenue growth trajectory compared to SMEs, which are offline. However, internet penetration among Indian SMEs remains low, at only 32% in India in 2017 and 17% of Indian SMEs used internet for business purposes. In comparison, ~34% of all SMEs in China were engaged in online marketing in 2015, indicating a possibly greater number engaged in e-commerce. Nonetheless, Internet penetration and mobile usage is expected to grow rapidly, driven by greater smartphone penetration and relatively affordable mobile data cost.

## Competition

Tradeindia.com and Alibaba India are some of the key competitors for IndiaMART. Its other indirect competitors include:

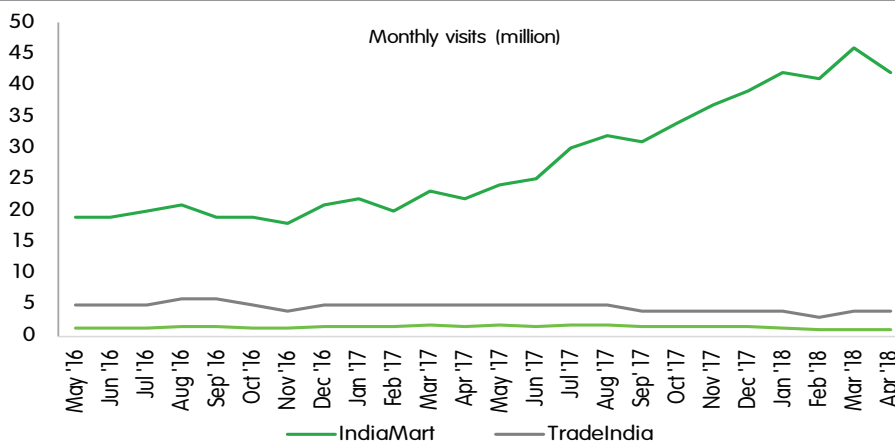
- ▶ Just Dial, a provider of business-to-consumer phone and web-based local search services in India, typically based on the immediate geographic proximity of businesses to the consumer.
- ▶ Google and other search engines – these services allow buyers to locate suppliers, provided such suppliers have a web presence
- ▶ B2B transaction-based platforms i.e. Industry Buying, Power2SME, Moglix and Bizongo.
- ▶ Traditional trading channels i.e. trade show organisers, trade magazine publishers, the yellow pages, classified advertisements and outdoor advertising.

### Exhibit 2: Number of Suppliers on Select B2B e-Commerce Platforms

B2B platform	Number of users (mn)	No. of suppliers
IndiaMART	59.8	4.7mn
Trade India	4.3	NA
Industry Buying	NA	5,000-6,000
Moglix	NA	~2,000

Source: Company, RHP, RSec Research

### Exhibit 3: Monthly Visits – Steady Rise in Market Share



Source: Company

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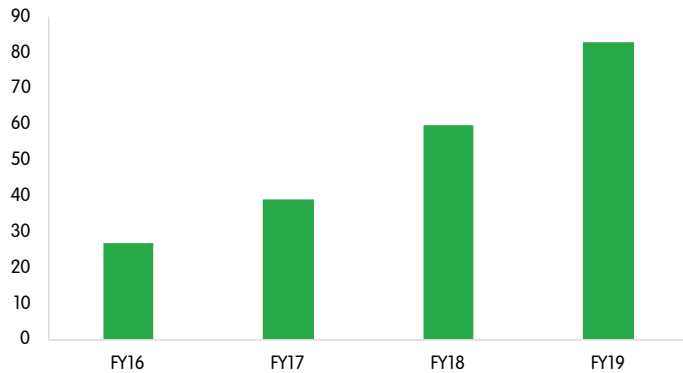
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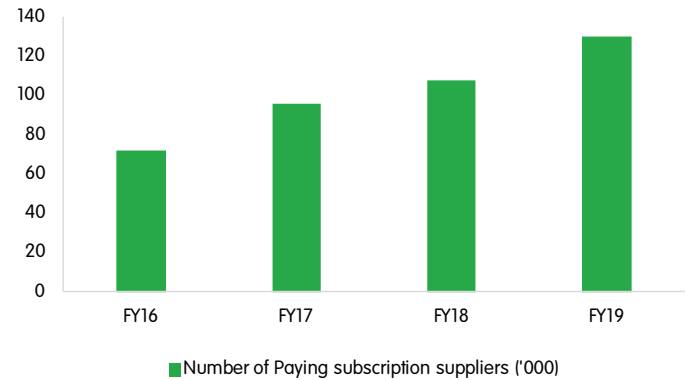
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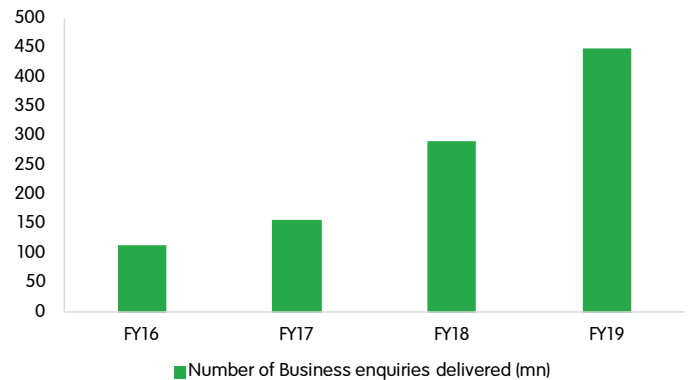
## Trends in KPI Metrics

**Exhibit 4: Number of Registered Buyers (mn)**


Source: Company

**Exhibit 5: Number of Paying Subscription Suppliers ('000)**

**Exhibit 6: Number of Suppliers Storefronts (mn)**


Source: Company

**Exhibit 7: Number of Business Enquiries Delivered (mn)**


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## Exhibit 7: Key Management Personnel

Name	Designation	Brief Profile
Dinesh Chandra Agarwal	Founder, MD	Bachelor's degree in technology (Computer Science & Engineering) with experience in the field of Internet, networking, systems development and consulting.
Brijesh Kumar Agarwal	Co-founder, Whole-time Director	Master's Degree in Management Science from Lucknow University and PGDM in Business Management.
Prateek Chandra	CFO	Prior to IndiaMART, Mr. Chandra, CA, worked with exlService.com, Bharat S. Raut & Company, and HT Media.
Dinesh Gulati	COO	BTech (Chemical Engineering) and MBA from Delhi University. Previously, he worked with Jenson & Nicholson and Bharti Airtel.
Amarinder Singh Dhaliwal	Chief Product Officer	BTech (Textile Technology) from IIT, Delhi and PGDM from IIM, Ahmedabad. Previously, he worked with Micromax Informatics, BCCL, SBICapital Markets, TIL and PowerGen (India).

Source: Company

## Exhibit 9: List of the Subsidiaries

Name	Core Activity	Ownership (%)
Hello Trade Online Pvt. Ltd.	Business facilitation services	100
Tolexo Online Pvt. Ltd.	Business facilitation services	100
Ten Times Online Pvt. Ltd.	Business facilitation services	100
Tolexo Online Pvt. Ltd.	Ecommerce services	100
Pay with IndiaMART Pvt. Ltd.	Payment gateway and consultancy services	100

Source: Company

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## Profit & Loss Statement (Standalone)

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19
<b>Net Sales</b>	<b>2,377</b>	<b>3,086</b>	<b>4,036</b>	<b>4,973</b>
Growth (%)	37.5	29.8	30.8	23.2
<b>Total Expenditure</b>	<b>2,987</b>	<b>3,314</b>	<b>5,947</b>	<b>4,830</b>
Cost of Materials	88	97	105	29
Employee costs	1,539	1,806	1,888	2,217
Others	1,360	1,412	3,955	2,583
<b>EBITDA</b>	<b>(610)</b>	<b>(228)</b>	<b>(1,912)</b>	<b>143</b>
EBITDA Margin (%)	(25.6)	(7.4)	(47.4)	2.9
Depreciation	26	40	28	40
Other Income	52	137	65	360
<b>PBT</b>	<b>(584)</b>	<b>(131)</b>	<b>(1,875)</b>	<b>463</b>
Tax	4	-	(1,150)	337
Tax rate (%)	(0.6)	-	61.4	72.8
Reported PAT	(588)	(131)	(724)	126
Growth (%)	NA	NA	NA	NA
Net Margin (%)	(24.7)	(4.2)	(18.0)	2.5
Fully Diluted EPS (Rs)	NA	(14.3)	(72.6)	4.4

## Balance Sheet (Standalone)

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19
Share capital	92	92	100	286
Reserves	(2,506)	(2,623)	(3,223)	1,321
Net worth	(2,415)	(2,531)	(3,123)	1,607
Total borrowings	-	-	-	-
Other Liabilities	3,128	3,696	5,451	2,395
<b>Total liabilities</b>	<b>713</b>	<b>1,165</b>	<b>2,329</b>	<b>4,001</b>
Net block	95	1,261	79	88
CWIP	2	2	2	2
Investments	2,147	1,557	3,225	6,127
<b>Current assets</b>	<b>239</b>	<b>686</b>	<b>690</b>	<b>1,070</b>
Debtors	5	6	3	4
Cash	115	174	453	359
Loans and advances	119	276	235	322
Other Current Assets	-	230	-	385
Current liabilities	1,899	2,356	3,121	4,135
Provisions	30	38	47	52
<b>Net current assets</b>	<b>(1,690)</b>	<b>(1,708)</b>	<b>(2,478)</b>	<b>(3,116)</b>
Net Deferred Tax	-	-	1,156	858
Other Assets	160	53	345	42
<b>Total Assets</b>	<b>713</b>	<b>1,165</b>	<b>2,329</b>	<b>4,001</b>

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## Cash Flow Statement (Standalone)

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19
<b>Cash flow from operating activity</b>				
PBT	(584)	(131)	(1,875)	463
Add: Depreciation	26	40	28	40
Add: Interest	-	-	-	-
Less: taxes paid	(4)	-	1,150	(337)
Add: other adjustments	29	80	2,369	447
Less: working capital changes	698	608	1,312	1,686
<b>Total operating cash flows</b>	<b>165</b>	<b>597</b>	<b>2,984</b>	<b>2,299</b>
Operating CF w/o WC changes	(528)	(11)	522	950
<b>Cash flow from investing activity</b>				
Capital expenditure	(61)	(29)	(21)	(49)
Change in investments	(1,394)	(573)	(1,682)	(2,776)
<b>Total investing cash flow</b>	<b>(1,455)</b>	<b>(602)</b>	<b>(1,703)</b>	<b>(2,825)</b>
<b>Cash flow from financing activity</b>				
Share issuances	1,326	73	153	144
Change in borrowings	(1)	-	-	-
<b>Total financing cash flow</b>	<b>1,325</b>	<b>73</b>	<b>153</b>	<b>144</b>
<b>Net change in cash</b>	<b>36</b>	<b>68</b>	<b>1,434</b>	<b>(381)</b>
<b>Opening cash &amp; CE</b>	<b>93</b>	<b>115</b>	<b>174</b>	<b>453</b>
<b>Closing cash &amp; CE</b>	<b>115</b>	<b>174</b>	<b>453</b>	<b>359</b>

## Key Ratios (Standalone)

Y/E Mar	FY16	FY17	FY18	FY19
Income growth (%)	37	30	31	23
PBT Margin (%)	(24.6)	(4.2)	(46.5)	9.3
PAT Margin (%)	(24.7)	(4.2)	(18.0)	2.5
ROE (%)	24.3	5.2	23.2	7.8
ROCE (%)	(81.9)	(11.2)	(80.5)	11.6
Net D/E Ratio (x)	-	0.1	0.1	(0.2)
Tax rate (%)	(0.6)	-	61.4	72.8

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