

IndiaMART InterMESH Ltd, incorporated in 1999, is India's largest online B2B marketplace for business products & services with ~60% market share of the online B2B classifieds space in India in FY17, according to a KPMG report. The company primarily operates through its product & supplier discovery marketplace, www.indiamart.com or "IndiaMART". As of March 31, 2019, it had 82.70 million registered buyers and 5.55 million supplier storefronts in India. In FY16-19, paying subscription suppliers grew at 21% CAGR while revenue from operations grew 25.9% in the same period.

Strong network effects and brand recognition

IndiaMART is India's largest online B2B marketplaces for business products and services with ~ 60% market share of the online B2B classifieds space in India according to a KPMG Report. As of March 31, 2019, IndiaMART provided 82.70 million registered buyers with access to 5.55 million supplier storefronts in India, which list 60.73 million products and services across 54 industries. Strong brand recognition and market position creates the following positive effects of strong network and creating community effects through large numbers of product and service listings on its marketplace. IndiaMart's vast and vibrant network of buyers and suppliers allows it to act as an enabler of scale in the Indian B2B e-commerce sector.

Deep understanding of online trade and commerce in India

With approximately 19 years of experience in online trade & commerce, the company has a deep understanding of the online commerce landscape and its participants. Its multi-tenant seller catalog management system (CMS), was developed internally and helps suppliers manage their product and service catalogs on IndiaMART. The company utilises data analytics to improve its understanding of the behaviour of suppliers and buyers on its marketplace. Further, its behavioural data driven algorithmic matchmaking platform utilises supplier behaviour patterns and buyer requirements to match them more efficiently.

Key risk and concerns

- Highly dependent on Indian suppliers purchasing paid services on India
- The company incurred losses in the preceding financial years
- Risk of technological advancement
- Higher employee costs may impact business

Priced at EV/EBITDA of 33x FY19 on lower band

At the IPO price band of ₹ 970-973, the stock is available at an EV/EBITDA multiple of 33.0x-33.1x FY19.



Particulars

Issue Details

Issue Opens	24-Jun-19
Issue Closes	26-Jun-19
Issue Size (₹ Crore)	475.0
Price Band (₹)	970-973
No of Shares on Offer (crore)	0.5
QIB (%)	75
Non-Institutional (%)	15
Retail (%)	10
Minimum lot size (No. of shares)	15
Discount to employee (in ₹)	Upto 97

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter & promoter group	57.58%	52.61%
Public/others	42.42%	47.39%

Objects of the Issue

The offer for sale is essentially to enhance company's visibility & brand image and provide liquidity to the shareholders. The Company will not receive any proceeds from the Offer

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Key Financial Summary

₹ crore	FY16	FY17	FY18	FY19
Revenue from operations	254.3	317.8	410.5	507.4
Adjusted EBITDA	-115.5	-54.4	46.6	82.3
Adjusted EBITDA Margin (%)	-45.4	-17.1	11.4	16.2
Reported PAT	(115.9)	(64.3)	54.8	20.0
EPS	(40.3)	(22.4)	19.0	7.0
Adjusted RoCE (%)	NA	NA	NA	19.6
RoE	NA	NA	NA	12.5

*FY16: IGAAP, FY17, FY18, FY19: Ind AS
Source: ICICI Direct Research, Company; RHP

Company background

IndiaMART InterMESH Ltd, incorporated in 1999, is India's largest online B2B marketplace for business products and services with ~60% market share of the online B2B classifieds space in India in FY17, according to a KPMG report. The company primarily operates through its product and supplier discovery marketplace, www.indiamart.com or "IndiaMART". As of March 31, 2019, the company had 82.70 million registered buyers and 5.55 million supplier storefronts in India.

In the past three years, the company has experienced significant growth in the number of suppliers and buyers on IndiaMART and in its revenue.

Exhibit 1: Company scale and size

	FY16	FY17	FY18	FY19
As of March 31				
Indian supplier storefronts (in millions)	2.3	3.2	4.7	5.6
Growth, YoY		36%	49%	18%
Paying subscription suppliers	72335	96025	108347	129589
Growth, YoY		33%	13%	20%
Registered buyers (in millions)	27.05	39.37	59.81	82.7
Growth, YoY		45%	52%	38%
For the year ended March 31				
Total traffic (in millions)	262.2	325.8	552.6	723.5
Growth, YoY		24%	70%	31%
Percentage of mobile traffic to total traffic	59%	63%	72%	76%
Total business enquiries delivered (in millions)	115.1	156.8	290.0	449.0
Growth, YoY		36%	85%	55%
Indian registered buyers in millions	21.9	32.9	51.7	72.7
Foreign registered buyers (in millions)	5.2	6.5	8.1	10.0

Source: ICICI Direct Research, RHP

IndiaMART provides a robust two-way discovery marketplace connecting buyers and suppliers. Buyers locate suppliers on its marketplace, including both Indian small and medium enterprises (SMEs), and large corporates, by viewing a webpage containing the supplier's product and service listings, or a "supplier storefront", or by posting requests for quotes called "RFQs" or "BuyLeads". Its marketplace caters to a range of industries across India, rather than relying on a single target industry or type of geography.

IndiaMart's online marketplace is accessible through desktop and mobile-optimised platforms and apps on personal computing and mobile devices. IndiaMART mobile website, together with its mobile app, accounted for 63%, 72% and 76% of total traffic to IndiaMART for FY17, FY18 and FY19, respectively. Buyers can make business enquiries on IndiaMART through telephone, SMS, email or by posting RFQs. The company earns revenue primarily through the sale of subscription packages (available on a monthly, annual and multiyear basis) to suppliers, which offer a range of benefits including the listing of their supplier storefronts on a priority basis on IndiaMART, access to lead management system, integrated access to third party online payment gateways and access to RFQs. It also earns revenue through advertising on IndiaMART desktop and mobile optimised platforms and IndiaMART mobile app, payment facilitation service and from the sale of "RFQ credits".

In FY17, FY18, FY19, substantially all of revenue from operations was earned through the sale of subscription packages, and a minor portion of total revenue was earned through advertising, facilitation of payment and sale of RFQ credits.

Exhibit 2: Revenue from operations

	FY17		FY18		FY19	
	₹ crore	%	₹ crore	%	₹ crore	%
Sale of services						
Income from web services	305.828	96.2%	407.694	99.3%	501.925	98.9%
Advertisement and marketing services	11.935	3.8%	2.814	0.7%	5.492	1.1%
Total	317.763	100.0%	410.508	100.0%	507.417	100.0%

Source: ICICI Direct Research; RHP

Industry Overview

Indian B2B e-commerce market

The B2B landscape in India is largely fragmented with millions of unorganised MSMEs, distributors and wholesalers operating throughout the country. B2B e-commerce attempts to bring all these players to a single platform with an aim to aggregate demand and supply.

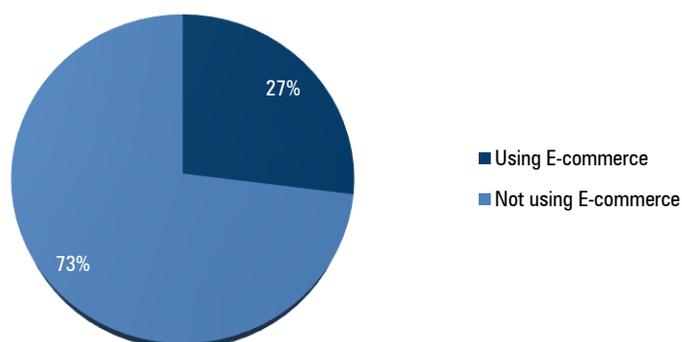
Exhibit 3: Number of suppliers on a select B2B e-commerce platforms

B2B platform	No. of users	No. of suppliers
Indiamart	59.8 million	4.7 million
Trade India	4.3 million	NA
Industry Buying	NA	5000-6000
Moglix	NA	~2000

Source: ICICI Direct Research; RHP

The growing B2C e-commerce market has led to a large number of sellers bringing their businesses online. As per a report by Walmart, the wholesale market in India is estimated to reach US\$700 billion in 2020, rising from an estimated US\$300 billion in 2015. In order 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. The Government of India has allowed 100% FDI in B2B e-commerce to enable greater investments and bringing in expertise and operating knowledge of global majors.

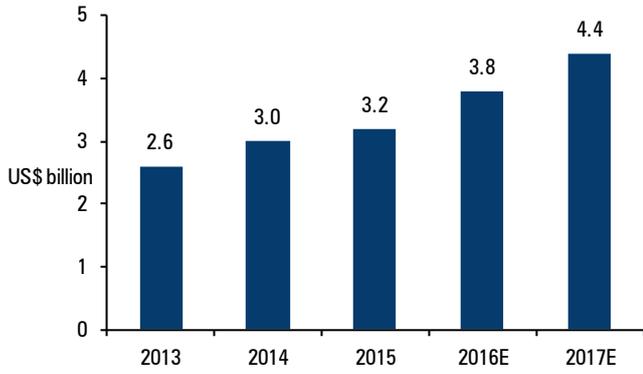
Exhibit 4: Percentage of online SMEs using e-commerce industry



Source: ICICI Direct Research; RHP

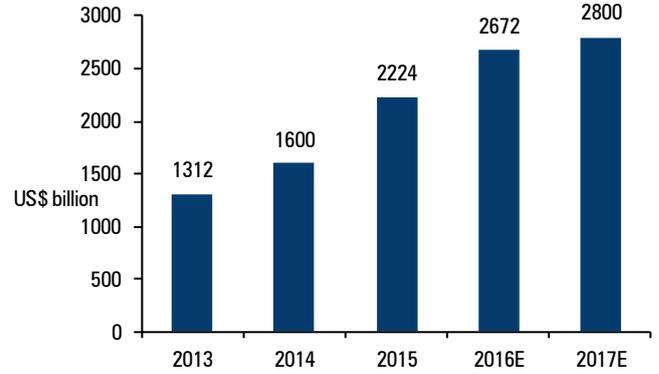
The B2B e-commerce landscape in China is at a more mature stage compared to India. The transaction value (GMV) on the B2B platforms was estimated to be US\$2.8 trillion in 2017 growing at 21% CAGR over 2014. Around two-thirds of the B2B e-commerce GMV in 2014 came from SMEs. The revenue earned by SME B2B platforms was around US\$3.8 billion in 2016 with Alibaba dominating the market along with eight other top players together comprising more than 70% of the total SME B2B e-commerce revenues. China being an export focused industry, B2B forms a large part of Chinese cross-border e-commerce, which reached 4.2 trillion Yuan (\$680 billion) in 2014, up 33% from 2013. As per China e-commerce Research Center (CECRC), B2B sales account for about 93.5% of Chinese cross border e-commerce volume.

Exhibit 5: Revenue of China's SME B2B platforms



Source: ICICI Direct Research; RHP

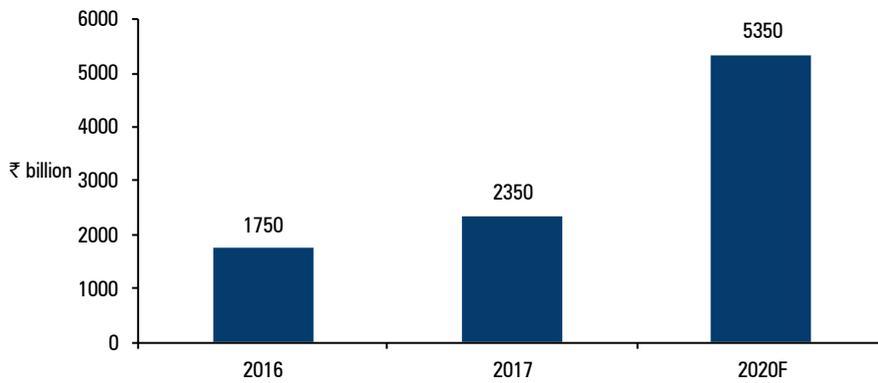
Exhibit 6: Transaction value on China's B2B platforms



Source: ICICI Direct Research; RHP

Further, the growth in internet penetration across India is helping companies move their businesses online and reach out to a larger customer base. The e-commerce market in India was estimated to be around ₹ 2,350 billion in 2017 and is projected to continue growing to reach ₹ 5,350 billion by 2020.

Exhibit 7: India e-commerce size



Source: ICICI Direct Research; RHP

Investment Rationale

Strong network effects and brand recognition

IndiaMART is India's largest online B2B marketplaces for business products and services with ~ 60% market share of the online B2B classifieds space in India according to a KPMG report. As of March 31, 2019, IndiaMART provided 82.70 million registered buyers with access to 5.55 million supplier storefronts in India, which list 60.73 million products and services across 54 industries. Strong brand recognition and market position creates the following positive effects as- 1) Strong network effects as a large number of buyers on online marketplace results in more enquiries for suppliers, which, in turn, attracts more suppliers to register, create supplier storefronts and list products and services, consequently attracting more buyers; 2) creating community effects through large numbers of product and service listings on its marketplace, focus on B2B commerce and targeted customer acquisition initiatives, thereby increasing organic traffic to company's marketplace. IndiaMart's vast and vibrant network of buyers and suppliers allows it to act as an enabler of scale in the Indian B2B e-commerce sector.

Efficient, effective platform for suppliers & buyers

IndiaMart's offerings are well suited to the needs of buyers and enable them to receive comprehensive information on a variety of products and services, and communicate effectively with a large number of suppliers. Similarly, its service offerings are well-suited to the needs of suppliers seeking to search newer markets in an effective and economical platform to market their products and services in the following respects.

Deep understanding of online trade and commerce in India

With ~19 years of experience in online trade and commerce, the company has a deep understanding of the online commerce landscape and its participants. Its multi-tenant seller catalog management system (CMS), was developed internally and helps suppliers manage their product and service catalogs on IndiaMART. The company utilises data analytics to improve its understanding of the behaviour of suppliers and buyers on its marketplace. Further, its behavioural data driven algorithmic matchmaking platform utilises supplier behaviour patterns and buyer requirements to match them more efficiently. In addition, online payment facility was implemented in FY18 to allow buyers to make payments to suppliers using multiple payment options.

Key risks and concerns

Company incurred losses in preceding financial years

IndiaMART had a net worth of ₹ 321.3 crore and ₹ 390 crore in FY18 and FY17, respectively, based on the restated financial statements. The said negative net worth was primarily attributable to its operating losses and net loss/ (gain) on financial assets and liabilities designated at fair value through profit or loss (FVTPL) in the respective fiscal/period. These operating losses have primarily resulted from increasing expenditures related to employee benefits, content development and advertising in order to expand sales network, develop in-house technologies, provide premium numbers to participating suppliers, and increase the scale of operations. Such losses could adversely impact the company's financial performance in the future.

Highly dependent on Indian suppliers' purchasing paid services on IndiaMART

The company's suppliers include Indian small and medium enterprises (SMEs) as well as large corporations. The company expects such suppliers to continue to be a significant contributor to IndiaMart's future growth through their purchases of subscriptions and RFQ credits. Unable to adopt online platforms in future, the company may experience stagnation or reduction in the size of its user base and product listings on IndiaMART. Unfavourable changes in business and economic conditions affecting Indian suppliers could result in reduced marketing expenditures by suppliers. This may lead to fewer suppliers purchasing IndiaMART subscription packages and RFQ credits thereby impacting financials of the company.

Adverse ruling in outstanding litigation may have adverse impact

Adverse ruling on outstanding proceedings at different levels of adjudication before various courts, tribunals and appellate authorities could have material impact on IndiaMart's performance.

Exhibit 8: Litigation involving company and directors

S.No	Nature of proceedings	Number of outstanding proceedings	Aggregate amount involved (₹ crore)
Litigation against company			
1	Criminal proceedings	3	0.1
2	Action taken by statutory/regulatory authority	1	Not ascertainable
3	Direct tax proceedings	5	2.0
4	Indirect tax proceedings	1	2.3
5	Civil proceedings	1	15.0
Litigation by our Company			
1	Criminal proceedings	4	0.0
2	Civil proceedings	1	Not ascertainable
Litigation involving Directors*			
1	Criminal proceedings against its Directors	2**	0.0
2	Action taken by a statutory/regulatory authority against its Directors	1**	Not ascertainable
Litigation involving Promoters			
1	Criminal proceedings against its Promoters	2**	0.0
2	Action taken by a statutory/regulatory authority against its Promoters	1**	Not ascertainable

*Includes litigation initiated against its Promoters

** Includes one litigation initiated against Dinesh Chandra Agarwal and Brijesh Kumar Agrawal

Source: ICICI Direct Research; RHP

Higher employee costs may impact business

Employee benefit expenses, the largest annual expense for the company constituted ~39.80% and ~46.51% of company's total expenses in FY19 and FY18, respectively. Additionally, high employee attrition in the past could result in additional costs to improve employee retention. An increase in wages and salaries paid to its employees may result in a material adverse effect on the company's revenue in the event that they are unable to pass on such increased expenditure to its suppliers and advertisers without losing their business to its competitors. Likewise, if inability to sustain or increase the number of employees as necessary to meet growing demand, business, financial condition, results of operations and cash flows could be adversely affected.

Any inability to adapt to technological developments

The company's continued growth will depend, in part, on its ability to identify, develop, acquire or license leading technologies applicable to its business, enhance its existing services, develop new services and address the increasingly sophisticated and varied needs of existing and prospective suppliers and buyers. Any inability to adapt or respond to changing technological standards and upgrades, may materially and adversely affect company's business in the future. Further, unable to appropriately maintain, expand and upgrade its systems and online marketplace in a timely manner or at a reasonable cost or both, could make the company lose market opportunities or damage its attractiveness and reputation with suppliers and buyers, which may adversely affect its business, financial condition and results of operations.

Financial Summary

Exhibit 9: Profit & Loss Statement

(₹ Crore)	FY16	FY17	FY18	FY19
Revenue from operations	254.3	317.8	410.5	507.4
Employee benefits expense	181.3	209.7	194.9	230.0
Net loss on financial liability designated at FV	-	19.3	122.9	65.3
Other expenses	188.5	162.5	169.0	195.1
Total Operating Expenditure	369.8	391.4	486.7	490.3
Reported EBITDA	(115.5)	(73.7)	(76.2)	17.1
Adjusted EBITDA	(115.5)	(54.4)	46.6	82.3
Finance Cost	1.0	-	-	-
Depreciation & Ammortization	3.7	4.6	2.9	4.1
Net gain on financial assets measured at FVT	-	11.9	16.2	37.3
Other Income	4.7	2.3	2.9	3.7
PBT	(115.5)	(64.1)	(60.1)	53.9
Tax	0.5	0.2	(114.9)	33.9
Reported PAT	(115.91)	(64.35)	54.76	20.04
EPS	(40.3)	(22.4)	19.0	7.0

Source: ICICI Direct Research; RHP

Exhibit 10: Balance Sheet

(₹ Crore)	FY16	FY17	FY18	FY19
Equity Capital	75.4	9.2	10.0	28.6
Reserve and Surplus	(152.7)	(399.2)	(331.2)	131.3
Total Shareholders funds	(77.3)	(390.0)	(321.3)	159.9
Total Debt				
Minority Interest	0.0	0.0	0.0	-
Other long term liabilities	79.5	368.0	539.3	230.1
Long term provisions	-	1.7	5.9	9.6
Total Liabilities	2.2	(20.3)	224.0	399.6
Fixed Assets				
Tangible	9.1	7.5	7.3	8.5
Intangible	0.8	1.2	0.8	0.6
CWIP	0.2	0.2	0.2	0.2
Deffered Tax assets	-	-	115.6	85.8
Other non current assets	16.6	5.3	34.5	4.4
Total Non Current Assets	26.7	14.2	158.3	99.5
Current Investments	125.087	136.3	311.1	607.4
Trade receivables	0.2	0.5	0.7	0.6
Cash and Bank balances	18.7	40.7	46.7	77.7
Other current assets	20.0	29.2	25.9	35.5
Total Current Assets	164.0	206.7	384.4	721.3
Trade Payables	38.3	30.2	41.9	45.0
Other current liabilities	146.3	207.0	272.0	370.9
Short term provisions	4.0	4.0	4.8	5.3
Total Current Liabilities	188.5	241.2	318.7	421.2
Net Current Assets	(24.5)	(34.5)	65.7	300.1
Total Assets	2.2	(20.3)	224.0	399.6

Source: ICICI Direct Research; RHP

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