

Likely miss of FY23 revenue target; marketing spend in FY24 similar to FY23

About the stock: Matrimony.com (Matrimony) is one of the leading providers of online matchmaking services. The company also provides post marriage services.

- Apart from a common website, the company operates ~300 community matrimony sites and 15 regional matrimony sites
- Net debt free and only profitable player among its peers

Q3FY23 Results: Matrimony reported weak numbers in Q3FY23.

- Matchmaking services revenue down 4.2% QoQ while consolidated revenue was down 3.9% QoQ
- Matchmaking services EBITDA margins declined ~520 bps QoQ to 17.8%
- Paid subscribers declined 1.7% QoQ and ATV improved 3.2% QoQ

What should investors do? Matrimony's share price has dipped over the past five years (from ~₹ 875 in February 2018 to ~₹ 558 levels in February 2023).

- We change our rating on the stock from HOLD to **REDUCE**

Target Price and Valuation: We value Matrimony at ₹ 520 i.e. 19x P/E FY25E EPS.

Key triggers for future price performance:

- Market leadership in an underpenetrated online matchmaking segment
- Transition to online from offline, healthy subscriber addition, increased penetration in north, introduction of new products and inorganic opportunity key revenue drivers (5.8% CAGR over FY22-25E)
- Higher conversion rate (paid vs. total profiles)

Alternate Stock Idea: Apart from Matrimony, in our IT coverage we also like Affle.

- Key beneficiary of advertising shift to digital medium and healthy growth in converted users
- BUY with a target price of ₹ 1,255

REDUCE



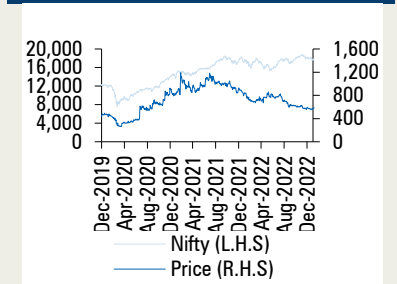
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,241.4
Total Debt	-
CC&E (₹ Crore)	312.8
EV (₹ Crore)	928.6
52 week H/L	878 / 550
Equity capital	11.1
Face value	5.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50	50	52	52
FII	25	26	25	26
DII	14	14	14	14
Public	10	10	9	9

Price Chart



Recent event & key risks

- Sold Chennai land and booked gain of ₹ 5.8 crore in Q3
- **Key Risk:** (i) Better-than expected paid subscribers, (ii) Lower than expected marketing expenses

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Key Financial Summary

₹ Crore	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Net Sales	378	434	8.2%	453	477	515	5.8%
EBITDA	68	87	8.1%	65	76	93	2.1%
EBITDA Margins (%)	17.9	20.0		14.3	16.0	18.0	
Net Profit	41	54	6.8%	39	48	61	4.3%
EPS (₹)	17.8	23.4		17.5	21.6	27.4	
P/E	31.2	23.8		31.9	25.9	20.4	
RoNW (%)	15.5	17.3		11.4	12.6	14.2	
RoCE (%)	19.0	21.2		14.1	15.5	17.3	

Key takeaways of recent quarter & conference call highlights

- The company's matchmaking revenues declined 4.2% QoQ to ₹ 107.8 crore while they were up 0.6% YoY. The company indicated that decline in revenue was due to lower billings in Q2. The company's matchmaking services EBITDA margins declined ~520 bps QoQ to 17.8% while in absolute terms the reported EBITDA was ₹ 19.2 crore, down 25.9% QoQ
- During the quarter, the company added 2.4 lakh paid subscribers, down 1.7% QoQ & up 10.7% YoY. ATV of the company increased 3.2% QoQ to ₹ 4,535 while YoY it declined 7.8%. ATV of the company improved in Q3 due to better product mix (premium customer addition higher). The company indicated that for Q4FY23, it expects ATV to be lower. It continues to offer discounts for acquiring new profiles & conversions across its various service categories
- In the marriage services segment, the company reported revenue of ₹ 2.6 crore, up 9.4% QoQ & 97.4% YoY. On the margins front, its EBITDA losses declined to ₹ 3.1 crore compared to ₹ 3.3 crore in the previous quarter. Billing and revenues for matchmaking business are still down 32% and 40%, respectively, from pre-Covid levels
- At the company level, it reported consolidated revenue of ₹ 110.4 crore, down 3.9% QoQ and up 1.8% YoY. On the margins front, it reported an EBITDA of ₹ 12.5 crore, down 32.6% QoQ and 37% YoY while the corresponding EBITDA margins declined 480 bps QoQ to 11.3%. It indicated that decline in margins was due to negative operating leverage. The company during the quarter spent ₹ 46.1 crore on advertisement & marketing compared to ₹ 45 crore in the last quarter. Out of the ₹ 46.1 crore it spent ₹ 45.2 crore, up 1.8% QoQ on matchmaking services marketing expenses
- The company indicated that since billing has improved in Q3, it expects steady revenue growth in Q4 this year. The company is targeting around 21-22% EBITDA margins in matchmaking services in Q4FY23. It also indicated that for FY24, it continues to work on paid conversion strategy, which is expected to drive growth in FY24. The company also indicated that it expects continued pressure on ATV in FY24 due to competitive intensity (read: some features being offered complementary by the competition i.e. Jeevansathi). The company also indicated it would like to continue to capitalise on its strength i.e. market leadership in south, west and east market to drive paid subs growth while competitive intensity remained elevated in the north market. It also indicated that it had not seen meaningful growth in the north market despite its acquisition of Shadisaga recently and indicated it is re-working on strategy for business growth in the north market
- The company mentioned that as far as the international market is concerned, the competition is widely spread over countries and the user base is not growing at a healthy pace over there also. Matrimony also indicated it is difficult to grow the business in the international market on its own unless one has local partners there. The company mentioned it may look at roping in some local partners in international markets for its growth, going forward
- The company indicated that in its Elite matrimony (that is a premium product of the company with annual billings of more than 20,000 per person) is still a small part of its overall portfolio. Matrimony also mentioned that it continues to focus on growth of this business but also observed that the user base is more skewed towards females in this profile while it is finding it difficult to attract males here, which has been a major obstacle for growth in the business

- On marketing spend, the company mentioned it needs to incur marketing spend for the continued visibility of its brand. The company also mentioned that large part of its advertising takes place on TV while digital advertising still forms a small part of this spend. The company mentioned it has seen some moderation of marketing spending by the competition. Hence, now it is also open to a scaled down marketing spend. The company indicated that FY24 marketing spends are likely to be in the same range as that of FY23 and do not expect it to cross the range of 38-40% of sales
- The company during the quarter reported other income of ₹ 9.9 crore including ₹ 5.8 crore for profit on sale of land, which it had purchased from IPO proceeds. The company mentioned the land was sold for a total consideration of ₹ 49.4 crore. It has deposited the proceeds in a separate account. It further mentioned that the proceeds from sale of land will be utilised within a year on marketing spend. It has appointed a monitoring agency to oversee the utilisation of the same
- Billings for matchmaking services increased 1.6% QoQ to ₹ 108.3 crore while marriage services reported billing of ₹ 3.1 crore, up 22.2% QoQ. At a consolidated level, the company reported billings of ₹ 111.4 crore, up 2.1% QoQ
- The company indicated that its recently launched Jodi app is still in the early stage, which forms a small part of its business. It is exploring strategies to grow this segment

Exhibit 1: P&L

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	110.4	108.5	1.7	114.9	-3.9	Matchmaking services revenue declined by 4.2% QoQ while marriage services revenue grew by 9.4% QoQ
Employee expenses	36.6	33.8	9.2	36.3	0.7	
Gross Margin	73.8	74.7	-1.3	78.5	-6.0	
Gross margin (%)	66.9	68.9	-202 bps	68.4	-150 bps	
SG&A expenses	61.3	54.9	11.6	60.0	2.2	Marketing spend increase by 1.9% QoQ to ₹46.1 crore
EBITDA	12.5	19.8	-37.0	18.5	-32.6	
EBITDA Margin (%)	11.3	18.2	-694 bps	16.1	-481 bps	
Depreciation & amortisation	7.4	6.9	6.9	7.7	-4.0	
EBIT	5.1	12.9	-60.4	10.8	-52.8	
Finance cost	1.5	1.4	5 bps	1.5	-5 bps	
EBIT Margin (%)	4.6	11.9	-726 bps	9.4	-480 bps	
Other income (less interest)	10.0	4.1	143.6	4.2	137.0	Other income include profit on sale of land of ₹5.8 crore
PBT	13.8	15.5	-10.9	13.7	0.7	
Tax paid	2.0	4.0	-48.9	2.0	3.0	
PAT	11.7	11.5	2.1	11.7	0.3	

Source: Company, ICICI Direct Research

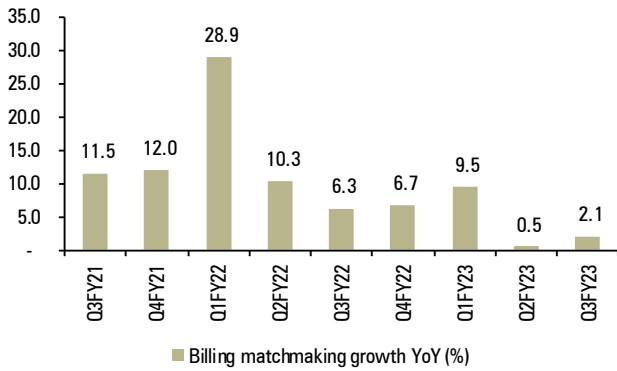
Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
(₹ Crore)										
Revenue	458	453	-1.0	495	477	-3.8	547	515	-5.9	Numbers aligned as per weak 9M performance
EBITDA	79	65	-18.3	90	76	-15.7	105	93	-12.0	
EBITDA Margin	17.3	14.3	-303 bps	18.3	16.0	-225 bps	19.2	18.0	-125 bps	we are baking in elevated employee and marketing expenses
PAT	48	39	-19.4	57	48	-15.5	68	61	-10.5	
EPS (₹)	21.7	17.5	-19.4	25.5	21.6	-15.5	30.6	27.4	-10.5	

Source: Company, ICICI Direct Research

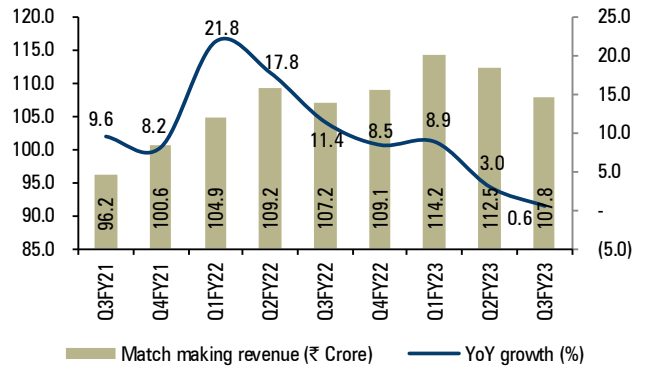
Key Metrics

Exhibit 3: Matchmaking billing growth weak in Q2 YoY



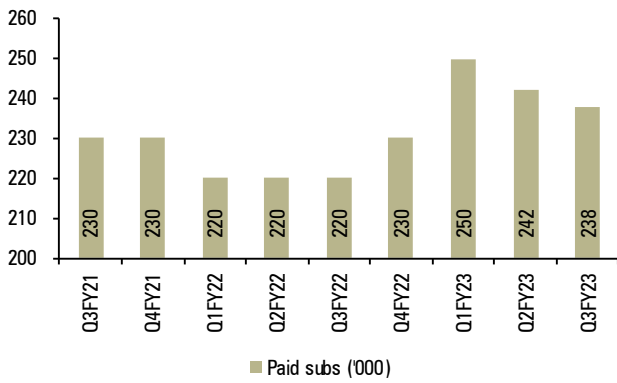
Source: Company, ICICI Direct Research

Exhibit 4: Resulting in only 0.6% YoY revenue growth in Q3



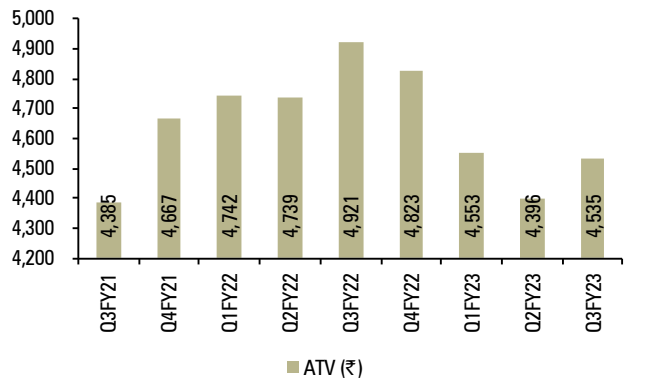
Source: Company, ICICI Direct Research

Exhibit 5: Paid subs drive growth for matchmaking YoY



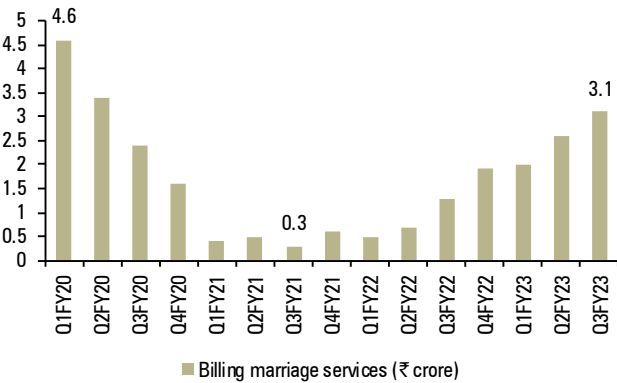
Source: Company, ICICI Direct Research

Exhibit 6: While ATV under pressure on YoY



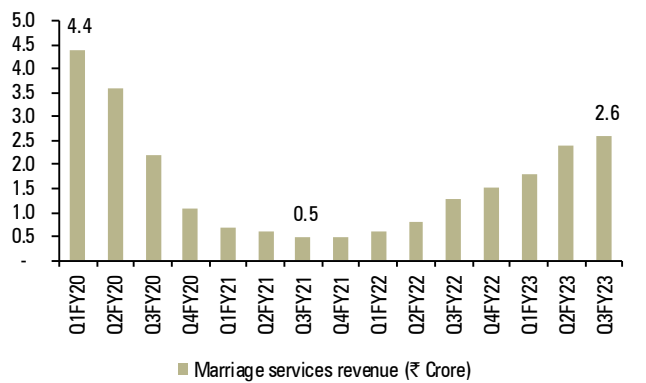
Source: Company, ICICI Direct Research

Exhibit 7: Marriage services billing improving gradually



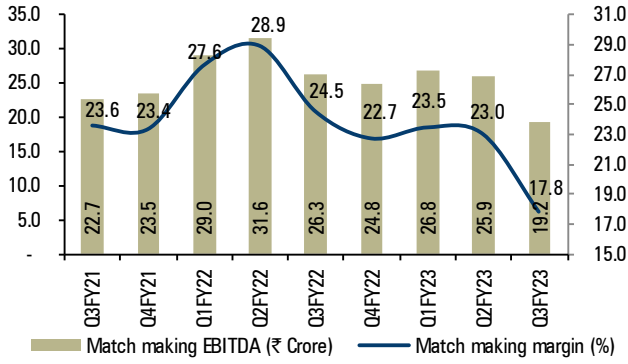
Source: Company, ICICI Direct Research

Exhibit 8: Revenue still 40% below pre-Covid run rate



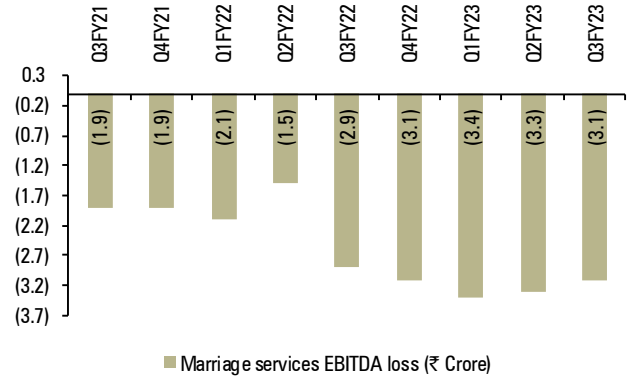
Source: Company, ICICI Direct Research

Exhibit 9: Matchmaking margins impacted by elevated costs



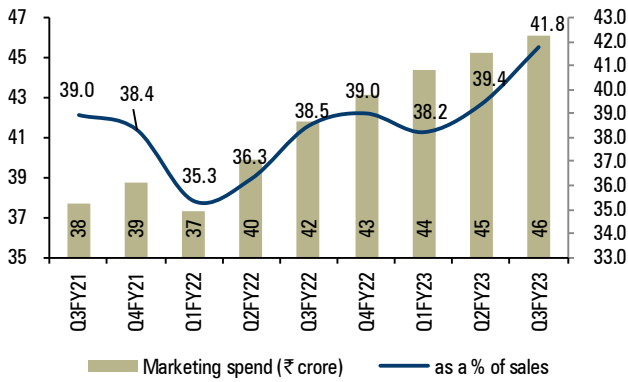
Source: Company, ICICI Direct Research

Exhibit 10: Marriage services losses coming down



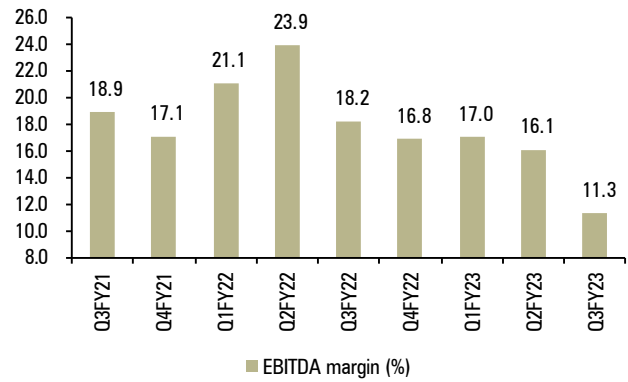
Source: Company, ICICI Direct Research

Exhibit 11: Marketing spend remains elevated



Source: Company, ICICI Direct Research

Exhibit 12: Impacting EBITDA margins at company level



Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total operating Income	434	453	477	515	
Growth (%)	15.0	4.3	5.2	8.0	
COGS (employee expenses)	132	146	153	165	
Other expenses	215	242	248	257	
Total Operating Expenditure	348	389	400	422	
EBITDA	87	65	76	93	
Growth (%)	28.8	(25.5)	17.8	21.5	
Depreciation	27	27	27	27	
Other income (net)	13	13	13	13	
PBT	72	50	62	78	
Total Tax	18	11	14	17	
PAT	54	39	48	61	
Growth (%)	31.4	(27.5)	23.5	26.9	
Diluted EPS (₹)	23.4	17.5	21.6	27.4	
Growth (%)	31.0	(25.3)	23.5	26.9	

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
PBT	72	50	62	78	
Add: Depreciation	27	27	27	27	
Others	(10)	(13)	(13)	(13)	
Inc/(dec) in working capital	7	(3)	6	9	
Taxes paid	(19)	(11)	(14)	(17)	
CF from operating activities	78	50	67	84	
(Inc)/dec in Fixed Assets	(8)	(11)	(12)	(13)	
Others	(45)	18	18	18	
CF from investing activities	(53)	7	6	6	
Dividend paid & dividend tax	(8)	(8)	(10)	(12)	
Others	(16)	(16)	(5)	(5)	
CF from financing activities	(24)	(23)	(15)	(18)	
Net Cash flow	1	33	59	72	
Exchange difference	(0)	-	-	-	
Opening Cash	9	10	43	102	
Closing cash balance	10	43	102	173	

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Equity Capital	11	11	11	11	
Reserve and Surplus	299	330	368	417	
Total Shareholders funds	310	341	380	428	
Total Debt	-	-	-	-	
Lease liability	56	56	56	56	
Provisions	-	-	-	-	
Other non current liabilities	1	1	1	1	
Total Liabilities	368	398	437	485	
Assets					
Property, plant and equipment	22	23	24	26	
Investments	24	24	24	24	
Intangibles	15	15	15	15	
Right-of-use assets	63	57	41	25	
Other non current assets	19	19	20	21	
Cash & bank balance	227	260	319	391	
Current Investments	86	86	86	86	
Trade receivables	8	9	9	10	
Security deposits	2	5	5	6	
Other financial assets	6	7	7	8	
Other current assets	50	49	50	50	
Total Current Assets	379	416	476	550	
Trade payables	51	47	49	53	
Lease liability	13	13	13	13	
OCL & provisions	90	95	100	108	
Total Current Liabilities	155	155	163	175	
Net Current Assets	225	261	314	376	
Application of Funds	368	398	437	485	

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
Diluted EPS	23.4	17.5	21.6	27.4	
Cash EPS	35.2	29.6	33.7	39.5	
BV	136	153	171	192	
DPS	3.5	3.5	4.3	5.5	
Cash Per Share	99	117	143	176	
Operating Ratios (%)					
EBITDA margin	20.0	14.3	16.0	18.0	
PBT Margin	16.5	11.0	12.9	15.2	
PAT Margin	12.3	8.6	10.1	11.8	
Debtor days	7	7	7	7	
Creditor days	43	38	38	38	
Return Ratios (%)					
RoE	17.3	11.4	12.6	14.2	
RoCE	21.2	14.1	15.5	17.3	
Valuation Ratios (x)					
P/E	23.8	31.9	25.8	20.4	
EV / EBITDA	10.6	13.7	10.9	8.2	
EV / Net Sales	2.1	2.0	1.7	1.5	
Market Cap / Sales	2.9	2.7	2.6	2.4	
Price to Book Value	4.1	3.6	3.3	2.9	
Solvency Ratios					
Debt/EBITDA	-	-	-	-	
Debt / Equity	-	-	-	-	
Current Ratio	0.4	0.4	0.4	0.4	
Quick Ratio	0.4	0.4	0.4	0.4	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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