# Matrimony.com Ltd (MATCOM)

ICICI direct Research

CMP: ₹ 601 | Target: ₹ 615 (2%) | Target Period: 12 months | HOLD

November 11, 2022

## Seasonality impacts Q2; expects recovery from Q4 onwards

**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

**Q2FY23 Results:** Matrimony reported weak numbers.

- Consolidated revenues declined 1% QoQ while match making revenue declined 1.5% QoQ
- Matchmaking services EBITDA margins declined 50 bps QoQ
- Paid subscribers declined 3.5% QoQ and ATV declined 3.4% QoQ

**What should investors do?** Matrimony's share price has dipped over the past five years (from ~₹ 871 in November 2017 to ~₹ 601 levels in November 2022).

- We maintain **HOLD** rating on the stock

**Target Price and Valuation:** We value Matrimony at ₹ 615 i.e. 20x 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 (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 ₹ 1,350

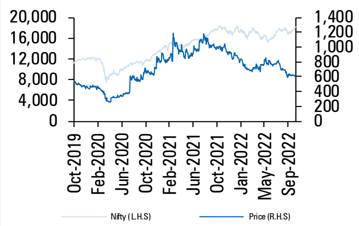
### Particulars

| Particular | Amount |
|---|---|
| Market Cap (₹ Crore) | 1,337.0 |
| Total Debt | - |
| CC&E (₹ Crore) | 312.8 |
| EV (₹ Crore) | 1,024.3 |
| 52 week H/L | 1085 / 576 |
| Equity capital | 11.1 |
| Face value | 5.0 |

### Shareholding pattern

| | Dec-21 | Mar-22 | Jun-22 | Sep-22 |
|---|---|---|---|---|
| Promoter | 50 | 50 | 50 | 52 |
| FII | 25 | 25 | 26 | 25 |
| DII | 15 | 14 | 14 | 14 |
| Public | 10 | 10 | 10 | 9 |

### Price Chart




### Recent event & key risks

- Buyback at ₹ 1150 per share completed
- **Key Risk:** (i) Better-than expected paid subs (ii) Lower than marketing expenses

### Research Analyst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Company Update

ICICI Securities – Retail Equity Research

### 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% | 458 | 495 | 547 | 8.0% |
| EBITDA | 68 | 87 | 8.1% | 79 | 90 | 105 | 6.6% |
| EBITDA Margins (%) | 17.9 | 20.0 | | 17.3 | 18.3 | 19.2 | |
| Net Profit | 41 | 54 | 6.8% | 48 | 57 | 68 | 8.3% |
| EPS (₹) | 17.8 | 23.4 | | 21.7 | 25.5 | 30.6 | |
| P/E | 33.6 | 25.7 | | 27.7 | 23.6 | 19.7 | |
| RoNW (%) | 15.5 | 17.3 | | 13.8 | 14.4 | 15.2 | |
| RoCE (%) | 19.0 | 21.2 | | 17.4 | 18.1 | 19.2 | |

*Source: Company, ICICI Direct Research*

## Key takeaways of recent quarter & conference call highlights

- The company's matchmaking revenues declined 1.5% QoQ to ₹ 112.5 crore. Matrimony indicated that its operations during the quarter were impacted by higher number of inauspicious days for marriage all over India, which is a seasonal effect. However, the company indicated the impact was more severe than it anticipated. EBITDA for the matchmaking services declined by 50 bps QoQ to 23.1%
- The company's paid subscribers during the quarter were 2.4 lakh, down 3.5% QoQ and up 8.3% YoY. ATV of the company declined 3.4% QoQ and 7.2% YoY to ₹ 4,396. The ATV is lowest since Q3FY21 but the company indicated that ATV is in line with its customer acquisition strategy
- In the marriage services segment, the company reported a revenue of ₹ 2.4 crore, up 30.6% QoQ & 202.9% YoY. Matrimony reported that its EBITDA loss in the segment was down from ₹ 3.4 crore in Q1 to ₹ 3.3 crore in Q2
- At the consolidated level, the company reported a revenue of ₹ 114.9 crore, down 1% QoQ, up 4.5% YoY. Consolidated EBITDA of the company declined 6.3% QoQ to ₹ 18.5 crore while corresponding margins declined by ~90 bps QoQ to 16.1%. The company indicated that margins were down due to a decline in revenue and also due continued elevated marketing spend. The company's marketing spends during the quarter increased 2.1% QoQ to ₹ 45.3 crore with majority of marketing spend incurred on matchmaking services with ₹ 44.4 crore, up 2% QoQ
- Billing for matchmaking services was down 7% QoQ and up 0.5% YoY to ₹ 106.6 crore while that of marriage services was up 30.2% QoQ and 261.4% YoY to ₹ 2.6 crore. At the consolidated level, billing was ₹ 109.1 crore, down 6.3% QoQ and up 2.2% YoY
- The company's effective tax rate for the quarter declined to 14.3% in Q2FY23. Matrimony indicated that the tax rate was low due to lower tax on realised gains on redemption of mutual funds, which was used for funding the buyback
- In the matchmaking segment the company indicated that the higher than anticipated seasonality impact in Q2 has led to low billings in the segment. Matrimony also indicated it witnessed lower renewals, which contributes a major chunk of its revenue in matchmaking segment. Due to these, the company expects single digit growth in Q3. The company hopes demand will pick up from Q3 onwards. If it happens, it will post double digit growth on a YoY basis in Q4
- In the marriage services segment, the company indicated that shaadi saga is fully integrated as wedding bazaar and it is witnessing some integration benefits in the wedding services segment. Matrimony indicated that it has on boarded over 1.5 lakhs service providers across various categories like photographers, makeup artists, jewellers, apparels provider, etc. The company indicated it is witnessing increase in traffic/lead generations/acquisitions in the segment due to which it believes the growth momentum will continue in double digits in coming quarters. Matrimony further indicated that the losses in the segment will come down in a few quarters if it is able to sustain double digit growth momentum. The company indicated that the investments it had made earlier are enough to sustain the revenue growth till it attains breakeven margin wise. It will decide its future course of action on how to scale up the business at that time

- On marketing spend the company indicated that it marketing spend are towards brand building. It will continue to remain elevated at the current level despite it not leading to meaningful conversion in subscribers. The company indicated that since it owns multiple brands compared to its competitors and is the market leader in the segment it has to continue the marketing spend to defend its market leader position. The company also indicated that reducing the marketing spend may have short term benefits in form of margin improvement but losing market leadership will have a deep impact. Hence, it is opted to continue spending on marketing. It mentioned that its digital advertising spend is gradually increasing but majority of the marketing spend is being done on traditional media
- On the margins front, the company indicated that its margins and PAT in Q3 will be lower than Q2 due to lower revenue in Q3 and continued elevated marketing spend. The company further indicated that it will focus on optimising its other expenses to improve the margins
- The company indicated that verdict against Google by CCI is expected to benefit Indian companies doing transacting digitally. Matrimony indicated that earlier app owners had to use google billings systems and also had to route the payments through Google payment gateway. The company indicated that Google was charging ~15% of the transaction value for using its in app billing system and ~11-15% commission over and above if the company selects alternate payment gateway. Matrimony may not be a significant beneficiary as it pays 1.5-2% commission
- The company mentioned that it launched new services in the form of Rainbowluv, matching services for LGBTQIA community & Techie Matrimony, matchmaking services for IT, software & tech professionals. Matrimony indicated it expects growth backed by the launch of new services. The company also indicated that its new offering Jodi is in early stage and will continue to experiment on this offering
- The company completed the buyback of 652,173 shares at ₹ 1,150 per share for total buyback transaction of ₹ 75 crore during Q2

## Exhibit 1: P&L

| | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|
| Revenue | 114.9 | 110.0 | 4.5 | 116.0 | -1.0 | Matchmaking services revenue declined by 1.5% QoQ due to seasonality impact while marriage services revenue grew by 30.6% QoQ |
| Employee expenses | 36.3 | 31.2 | 18.1 | 36.2 | 0.5 | |
| Gross Margin | 78.5 | 78.8 | -0.3 | 79.8 | -1.6 | |
| Gross margin (%) | 68.4 | 71.6 | -327 bps | 68.8 | -44 bps | |
| SG&A expenses | 60.0 | 52.5 | 14.3 | 60.1 | -0.1 | Marketing spend increase by 2.1% QoQ to ₹45.3 crore |
| | | | | | | |
| EBITDA | 18.5 | 26.3 | -29.6 | 19.8 | -6.3 | |
| EBITDA Margin (%) | 16.1 | 23.9 | -779 bps | 17.0 | -91 bps | EBITDA margins declined due continued elevated marketing spend & drop in revenue |
| Depreciation & amortisatio | 7.7 | 6.7 | 15.2 | 7.7 | 0.2 | |
| EBIT | 10.8 | 19.6 | -44.8 | 12.1 | -10.4 | |
| Finance cost | 1.5 | 1.4 | 13 bps | 1.6 | -5 bps | |
| EBIT Margin (%) | 9.4 | 17.9 | -842 bps | 10.4 | -99 bps | |
| Other income (less interes | 4.2 | 3.9 | 6.9 | 4.7 | -11.2 | |
| PBT | 13.7 | 22.0 | -37.9 | 15.1 | -9.6 | |
| Tax paid | 2.0 | 5.4 | -63.9 | 3.2 | -38.1 | PAT helped by lower ETR due to low tax rate on realized gains on mutual fund redemption |
| PAT | 11.7 | 16.6 | -29.3 | 12.0 | -2.0 | |

*Source: Company, ICICI Direct Research*

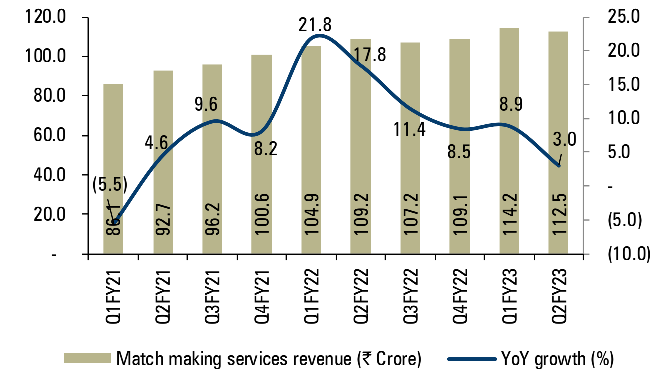
## Exhibit 2: Change in estimates

| | FY23E | | | FY24E | | | FY25E | Comments |
|---|---|---|---|---|---|---|---|---|
| (₹ Crore) | Old | New | % Change | Old | New | % Change | Introduced | |
| Revenue | 480 | 458 | -4.7 | 534 | 495 | -7.2 | 547 | Numbers aligned as per weak H1 performance as well as near term outlook |
| EBITDA | 106 | 79 | -25.3 | 121 | 90 | -25.2 | 105 | |
| EBITDA Margin | 22.1 | 17.3 | -477 bps | 22.6 | 18.3 | -438 bps | 19.2 | Marketing expense will continue to be at elevated levels due to competition and will have impact on margins |
| PAT | 68 | 48 | -29.4 | 80 | 57 | -28.7 | 68 | |
| EPS (₹) | 30.7 | 21.7 | -29.4 | 35.8 | 25.5 | -28.7 | 30.6 | |

*Source: Company, ICICI Direct Research*

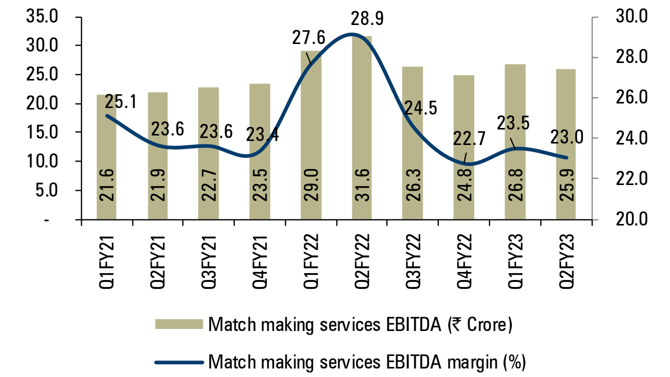
## Key Metrics

Exhibit 3: Seasonality impacts Q2 revenues



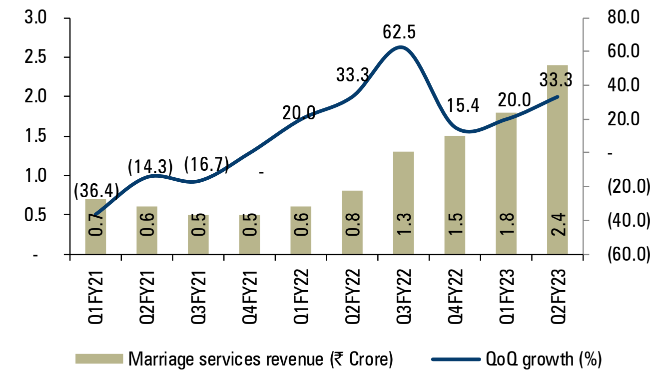

Source: Company, ICICI Direct Research

Exhibit 4: Margins further moderate



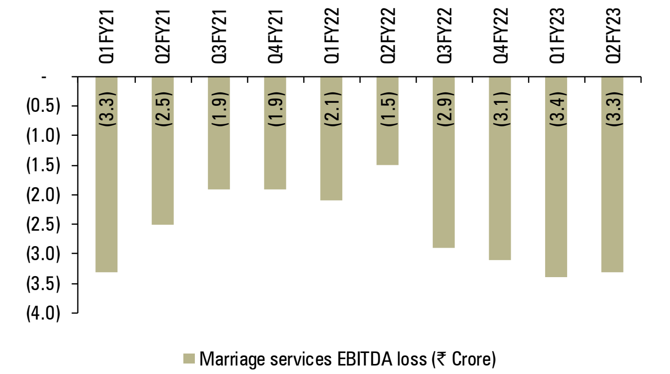

Source: Company, ICICI Direct Research

Exhibit 5: Marriage services showing recovery



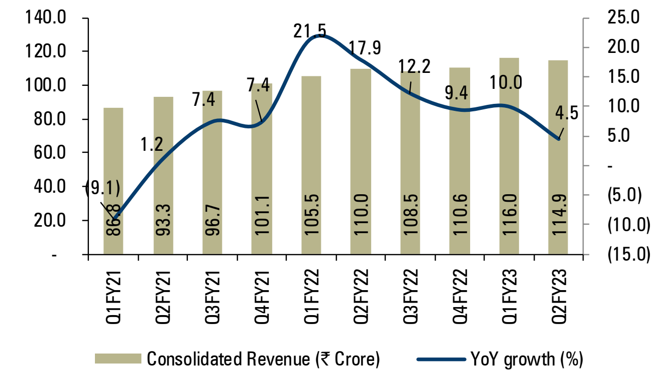

Source: Company, ICICI Direct Research

Exhibit 6: EBITDA losses also dip QoQ



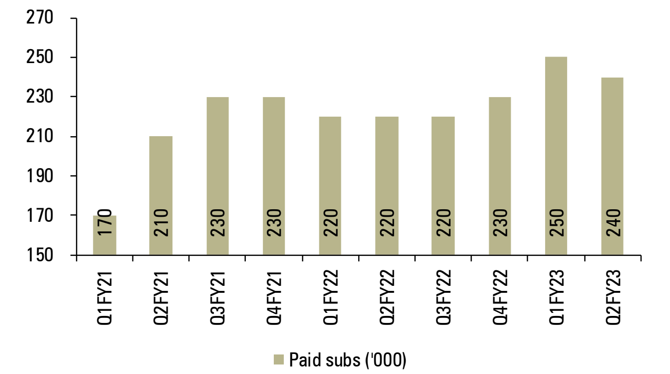

Source: Company, ICICI Direct Research

Exhibit 7: Revenue impacted by seasonality



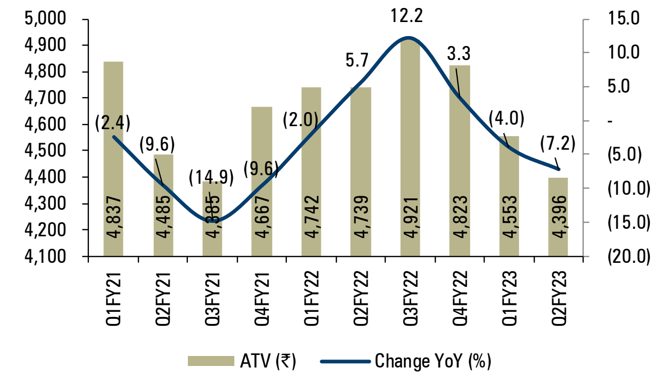

Source: Company, ICICI Direct Research

Exhibit 8: As also paid subs addition for quarter



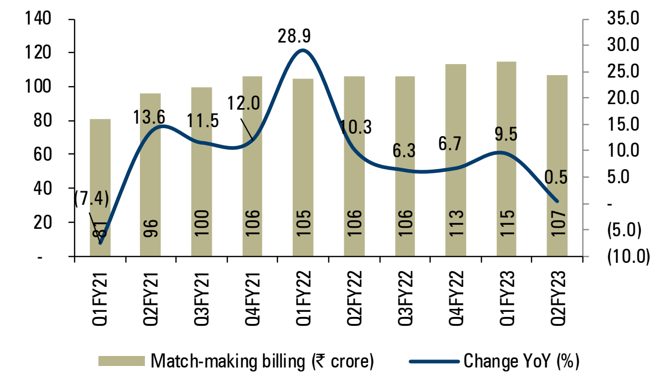

Source: Company, ICICI Direct Research

Exhibit 9: ATV declines on pricing pressure



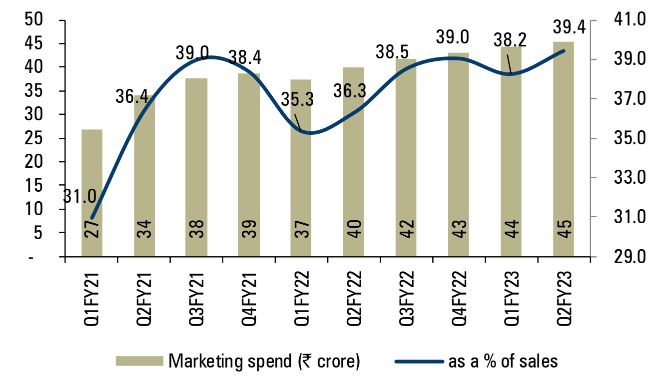

Source: Company, ICICI Direct Research

Exhibit 10: Matchmaking billings also decline in Q2



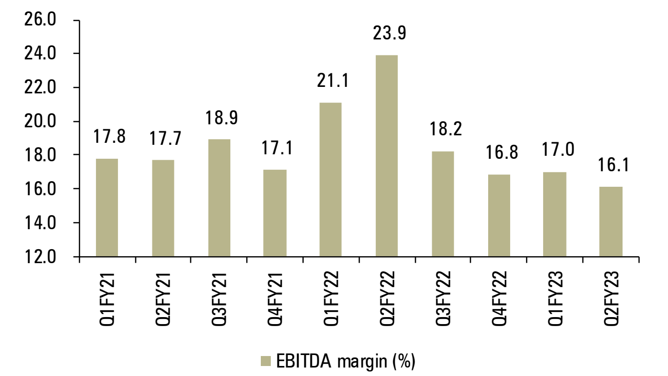

Source: Company, ICICI Direct Research

Exhibit 11: Marketing spend remains elevated




Source: Company, ICICI Direct Research

Exhibit 12: Impacting EBITDA margins




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** | **458** | **495** | **547** |
| Growth (%) | 15.0 | 5.3 | 8.3 | 10.4 |
| COGS (employee expenses) | 132 | 137 | 149 | 164 |
| Other expenses | 215 | 241 | 256 | 278 |
| Total Operating Expenditure | 348 | 378 | 405 | 442 |
| **EBITDA** | **87** | **79** | **90** | **105** |
| Growth (%) | 28.8 | (8.9) | 14.1 | 16.4 |
| Depreciation | 27 | 27 | 27 | 27 |
| Other income (net) | 13 | 13 | 13 | 13 |
| PBT | 72 | 64 | 76 | 91 |
| Total Tax | 18 | 16 | 19 | 23 |
| **PAT** | **54** | **48** | **57** | **68** |
| Growth (%) | 31.4 | (10.0) | 17.6 | 19.9 |
| **Diluted EPS (₹)** | **23.4** | **21.7** | **25.5** | **30.6** |
| Growth (%) | 31.0 | (7.3) | 17.6 | 19.9 |

*Source: Company, ICICI Direct Research*

Exhibit 14: Cash flow statement ₹ crore

| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| PBT | 72 | 64 | 76 | 91 |
| Add: Depreciation | 27 | 27 | 27 | 27 |
| Others | (10) | (13) | (13) | (13) |
| Inc/(dec) in working capital | 7 | (2) | 9 | 12 |
| Taxes paid | (19) | (16) | (19) | (23) |
| **CF from operating activiti** | **78** | **60** | **80** | **94** |
| (Inc)/dec in Fixed Assets | (8) | (11) | (12) | (14) |
| Others | (45) | 18 | 18 | 18 |
| **CF from investing activiti** | **(53)** | **7** | **6** | **5** |
| Dividend paid & dividend tax | (8) | (10) | (11) | (14) |
| Others | (16) | (16) | (5) | (5) |
| **CF from financing activiti** | **(24)** | **(25)** | **(17)** | **(19)** |
| Net Cash flow | 1 | 42 | 69 | 80 |
| Exchange difference | (0) | - | - | - |
| Opening Cash | 9 | 10 | 51 | 120 |
| **Closing cash balance** | **10** | **51** | **120** | **200** |

*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 | 337 | 383 | 437 |
| Total Shareholders funds | 310 | 349 | 394 | 448 |
| Total Debt | - | - | - | - |
| Lease liablity | 56 | 56 | 56 | 56 |
| Provisions | - | - | - | - |
| Other non current liabilties | 1 | 1 | 1 | 1 |
| **Total Liabilities** | **368** | **406** | **451** | **506** |
| **Assets** | | | | |
| Property,plant and equipment | 22 | 23 | 24 | 27 |
| 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 | 269 | 337 | 417 |
| Current Investments | 86 | 86 | 86 | 86 |
| Trade receivables | 8 | 9 | 10 | 11 |
| Security deposits | 2 | 5 | 5 | 6 |
| Other financial assets | 6 | 7 | 7 | 8 |
| Other current assets | 50 | 49 | 50 | 50 |
| Total Current Assets | 379 | 425 | 496 | 579 |
| Trade payables | 51 | 47 | 51 | 57 |
| Lease liablity | 13 | 13 | 13 | 13 |
| OCL & provisions | 90 | 96 | 104 | 115 |
| Total Current Liabilities | 155 | 157 | 169 | 185 |
| Net Current Assets | 225 | 268 | 327 | 394 |
| **Application of Funds** | **368** | **406** | **451** | **506** |

*Source: Company, ICICI Direct Research*

Exhibit 16: Key ratios ₹ crore

| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| **Per share data (₹)** | | | | |
| Diluted EPS | 23.4 | 21.7 | 25.5 | 30.6 |
| Cash EPS | 35.2 | 33.8 | 37.6 | 42.7 |
| BV | 136 | 157 | 177 | 202 |
| DPS | 3.5 | 4.3 | 5.1 | 6.1 |
| Cash Per Share | 99 | 121 | 152 | 188 |
| **Operating Ratios (%)** | | | | |
| EBITDA margin | 20.0 | 17.3 | 18.3 | 19.2 |
| PBT Margin | 16.5 | 14.1 | 15.3 | 16.6 |
| PAT Margin | 12.3 | 10.5 | 11.5 | 12.4 |
| Debtor days | 7 | 7 | 7 | 7 |
| Creditor days | 43 | 38 | 38 | 38 |
| **Return Ratios (%)** | | | | |
| RoE | 17.3 | 13.8 | 14.4 | 15.2 |
| RoCE | 21.2 | 17.4 | 18.1 | 19.2 |
| **Valuation Ratios (x)** | | | | |
| P/E | 25.7 | 27.7 | 23.6 | 19.7 |
| EV / EBITDA | 11.7 | 12.3 | 10.0 | 7.9 |
| EV / Net Sales | 2.4 | 2.1 | 1.8 | 1.5 |
| Market Cap / Sales | 3.1 | 2.9 | 2.7 | 2.4 |
| Price to Book Value | 4.4 | 3.8 | 3.4 | 3.0 |
| **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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