

Estimate change

TP change

Rating change



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Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	125.5 / 1.6
52-Week Range (INR)	9700 / 3676
1, 6, 12 Rel. Per (%)	-9/-28/-48
12M Avg Val (INR M)	1076

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	7.5	9.4	11.5
EBITDA	3.1	2.7	3.6
PAT	3.0	2.7	3.7
EPS (INR)	97.1	87.2	119.8
EPS Gr. (%)	0.6	-10.2	37.3
BV/Sh. (INR)	611.6	693.2	789.0
Ratios	42.0	46.7	34.0
RoE (%)	6.7	5.9	5.2
RoCE (%)	40.4	45.3	33.9
Payout (%)	16.5	13.2	10.6
Valuations	17.1	13.4	16.2
P/E (x)	18.0	13.9	16.3
P/BV (x)	7.5	9.4	11.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	49.2	49.5	49.8
DII	5.0	5.5	4.7
FII	24.3	24.0	26.8
Others	21.5	21.1	18.6

FII Includes depository receipts

CMP: INR4,077
TP: INR5,000 (+23%)
Buy
Collections remain robust; expect strong growth to continue
Investments to keep near term margin rangebound

- INMART delivered a strong performance in 1QFY23, with revenue up 24% YoY and 12% QoQ (in line). Collections grew a strong 49% YoY to INR2.5b, suggesting good visibility on FY23E revenue growth. Deferred revenue rose 32% YoY to INR9.6b, which should support 25% revenue growth in FY23E. Strong paying subscriber additions (up 10k QoQ) are encouraging. EBITDA margin was largely flat QoQ at 28.6% (est. 26.3%) due to lower than expected manpower expenses.
- We expect INMART to deliver 23% revenue CAGR over FY22-24 on the back of sustained paying subscriber additions and resumption of price hikes after a hiatus during the COVID-19 induced slowdown. With continued investments on growth, the management expects EBITDA margin to be in the 28-30% range in FY23. Our estimates indicate a gradual pickup in EBITDA margin as investments fall over FY24, and build in 31% margin in FY23. This, in turn, should drive 11% PAT growth over the same period.
- With a good start to the integration of Busy Infotech (a revenue of INR105m in 1QFY23), we continue to see expansion in its accounting software as a positive long-term driver for INMART's business. We remain watchful on the performance of its other investments. While Busy Infotech remains synergistic to INMART's customer base and can drive long-term differentiation, it needs to scale up to be a meaningful value add.
- INMART saw a significant de-rating due to margin concerns. We continue to view it as a key beneficiary of technology adoption within India's MSME universe as well as of a shift to a formalized ecosystem. We believe that the company remains poised to drive significant value due to its industry-leading position in the segment.
- We lower our FY23/FY24 EPS by 12.5%/2% on account of lower other income due to mark-to-market losses on investments in 1QFY23. We value INMART on a DCF basis to arrive at our TP of INR5,000 (a potential upside of 23%), assuming 12% WACC and 6% terminal growth rate, implying 42x FY24E EPS. **We reiterate our Buy rating.**

Strong operational performance, PAT miss on investment loss

- Revenue grew 24% YoY and 12% QoQ to INR2.2b (in line). Excluding inorganic gains from Busy Infotech (INR105m), revenue grew 18% YoY.
- The company posted another quarter of strong collections (up 49% YoY to INR2.5b). Deferred revenue rose 32% YoY to INR9.6b.
- It maintained its robust additions in paying subscribers (up 10k QoQ). ARPU was largely flat v/s 4QFY22 levels.
- EBITDA margin was largely flat QoQ at 28.6%, above our estimate of 26.3%, due to lower than expected manpower expenses.
- PAT fell 47% YoY to INR476m, a 25% miss to our estimate, due to MTM losses on investments as against gains in the preceding quarters.

Mukul Garg - Research analyst (Mukul.Garg@MotilalOswal.com)

Raj Prakash Bhanushali - Research analyst (Raj.Bhanushali@MotilalOswal.com)

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Highlights from the management commentary

- Collections grew 49% YoY and deferred revenue rose 32% to INR9.6b in 1QFY23.
- Priority for Busy Infotech in FY23 is to: a) double the growth rate, b) create a new customer base, and c) build a strong team to support growth.
- The management continues to invest in growth. Manpower expenses are expected to increase in line with growth over the next few quarters, keeping margin in the 28-30% range.

Strong collections to sustain; growth story intact

- Strong collections are testimony to the recovery in the demand momentum. We anticipate the momentum in collections to remain intact in the near term.
- We are confident of strong fundamental growth in operations, propelled by: a) higher growth in Digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to improve ARPU on low price sensitivity, and f) higher operating leverage.
- We have arrived at our DCF-based TP of INR5,000, assuming 12% WACC and a terminal growth rate of 6%. Our TP implies a 23% potential upside from current levels. **We reiterate our Buy rating.**

Consolidated quarterly earnings

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Gross Sales	1,816	1,824	1,881	2,014	2,246	2,250	2,385	2,538	7,535	9,420	2,255	-0.4
Change (YoY %)	18.6	11.8	8.4	12.1	23.7	23.4	26.8	26.0	12.5	25.0	24.2	-50bp
Total Expenditure	930	992	1,093	1,442	1,604	1,605	1,695	1,777	4,457	6,681	1,663	-3.5
EBITDA	886	832	788	572	642	645	690	761	3,078	2,739	592	8.4
Margin (%)	48.8	45.6	41.9	28.4	28.6	28.7	28.9	30.0	40.8	29.1	26.3	230bp
Depreciation	32	28	30	29	63	45	48	51	119	206	35	82
Interest	14	14	13	13	12	13	13	13	54	51	13	-8
Other Income	294	314	219	295	10	307	320	332	1,122	969	357	-97
PBT before EO expense	1,134	1,104	964	825	577	895	949	1,030	4,027	3,450	901	-36.0
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,134	1,104	964	825	577	895	949	1,030	4,027	3,450	901	-36.0
Tax	240	264	231	193	40	206	218	237	928	701	211	-81
Rate (%)	21.2	23.9	24.0	23.4	6.9	23.0	23.0	23.0	23.0	20.3	23.4	-1650bp
MI and P/L of Asso. Cos.	15	18	31	58	70	0	0	0	122	70	0	
Reported PAT	879	822	702	574	467	689	731	793	2,977	2,680	690	-32.3
Adj. PAT	879	822	702	574	467	689	731	793	2,977	2,680	690	-32.3
Change (YoY %)	18.6	17.8	-12.5	-13.8	-46.9	-16.2	4.1	38.2	2.4	-10.0	-21.5	-2540bp
Margin (%)	48.4	45.1	37.3	28.5	20.8	30.6	30.6	31.2	39.5	28.4	30.6	-980bp

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue indicators										
Paid suppliers ('000)	146.0	150.0	156.0	169.0	179.0	188.1	197.5	206.0	621.0	770.6
ARPU ('000)	49.7	48.4	48.0	47.4	47.6	47.8	48.3	49.3	44.6	45.7
Cost indicators										
Employees	2982	2959	3185	3672	3835				3672	
Other expenses (INR m)	250	252	273	278	359				1053	



Highlights from the management commentary

Collections and customer additions

- Collections grew 49% YoY in 1QFY23. The improvement in collections signifies the value proposition of the company to its customers.
- Deferred revenue rose 32% YoY to INR9.6b.
- The company added 10k paid customers in 1QFY23. Going forward, it plans to add 8-9k customers per quarter.
- At present, 2.5% of its customers form part of its paying subscriber base. This is in line with global classified payers.
- The management intends to hold treasury investments till maturity (next two-to-three years), which will lead to a reversal of notional treasury losses booked in 1QFY23.

Accounting ecosystem

- INMART's accounting portfolio is ready to serve all types of customers (micro to large enterprises).
- Busy Infotech clocked INR130m in billing and INR105m in revenue in 1QFY23.
- It added 9k licenses, taking its total licenses to 311k.
- Priority for Busy Infotech in FY23 is to: a) double the growth rate, b) create a new customer base, and c) build a strong team to support growth.

Customer churn

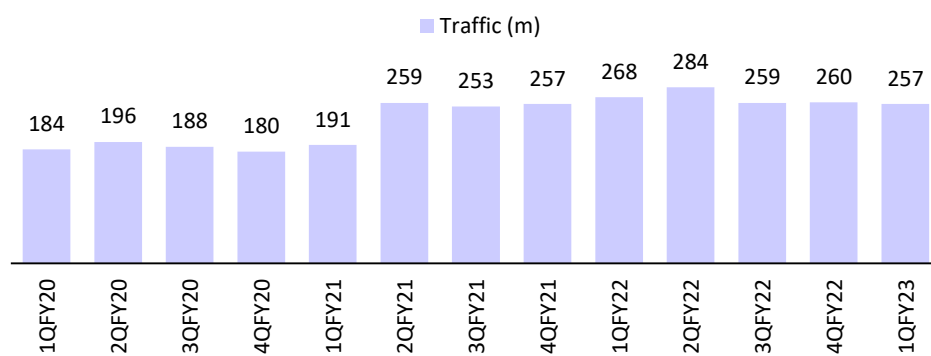
- Churn among Platinum and Gold customers is less than 10% p.a.
- Silver annual/monthly customers saw a churn of 25%/5%.
- Around 20% of customers upgrade within a year of becoming customers.

Cost and margin

- Margin in 1QFY23 was affected by higher manpower expenses and growth investments.
- The management continues to invest in growth. Manpower expenses are expected to increase in line with growth over the next few quarters, keeping margin in the 28-30% range.
- Channel costs are expected to stabilize in fewer quarters.

Other highlights

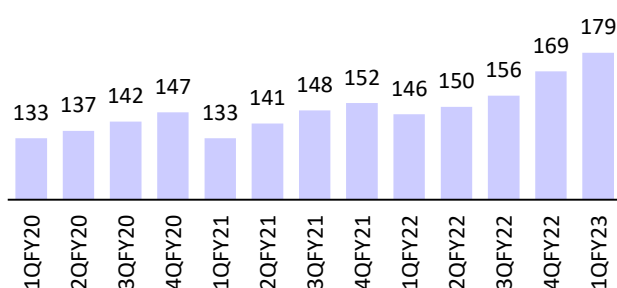
- ARPU was largely flat. The long-run guidance for ARPU growth remains at 5%.
- It will continue to invest in channel development. At present, ~50% of revenue is driven by the channel partners.

Exhibit 1: Traffic was largely flat QoQ

Source: Company, MOFSL

Exhibit 2: Paid suppliers see a meaningful jump

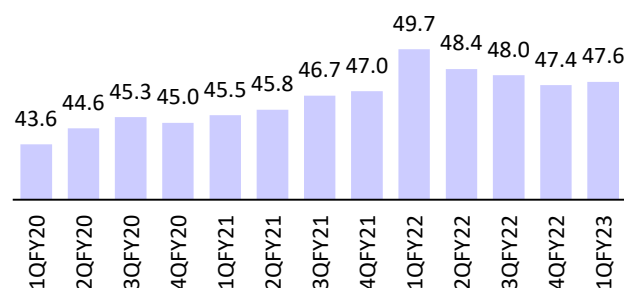
Paid Suppliers ('000)



Source: Company, MOFSL

Exhibit 3: ARPU up marginally

ARPU (INR)



Source: Company, MOFSL

Strong collections to sustain; growth story intact

- Strong collections are testimony to the recovery in the demand momentum. We anticipate the momentum in collections to remain intact in the near term.
- We are confident of strong fundamental growth in operations, propelled by: a) higher growth in Digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to improve ARPU on low price sensitivity, and f) higher operating leverage.
- We have arrived at our DCF-based TP of INR5,000, assuming 12% WACC and a terminal growth rate of 6%. Our TP implies a 23% potential upside from current levels. **We reiterate our Buy rating.**

Exhibit 4: Revisions to our estimates

	Revised estimate		Old estimate		Change (%/bp)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Standalone business						
Revenue (INR m)	9419.6	11486.8	9,568.0	11,287.9	-1.6	1.8
YoY (%)	25.0	21.9	27.0	18.0	-200bp	400bp
EBITDA (%)	29.1	31.3	28.0	29.8	100bp	150bp
EBIT (%)	26.9	29.3	26.5	28.2	40bp	110bp
EPS (INR)	87.2	119.8	99.6	122.2	-12.5	-2.0

Source: MOFSL

Financials and valuations

Consolidated Income Statement						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	4,110	5,070	6,386	6,696	7,535	9,420	11,487
Change (%)	29.2	23.4	26.0	4.9	12.5	25.0	21.9
Employees Cost	1,950	2,290	2,670	2,052	2,676	4,047	4,968
Outsourced sales cost	440	570	724	534	728	1,295	1,490
Other Expenses	1,250	1,370	1,310	828	1,053	1,339	1,436
Total Expenditure	3,640	4,230	4,704	3,414	4,457	6,681	7,893
As a percentage of Sales	88.6	83.4	73.7	51.0	59.2	70.9	68.7
EBITDA	470	840	1,682	3,282	3,078	2,739	3,593
Margin (%)	11.4	16.6	26.3	49.0	40.8	29.1	31.3
Depreciation	30	40	207	161	119	206	230
EBIT	440	800	1,475	3,121	2,959	2,532	3,364
Int. and Finance Charges	1,230	650	29	67	54	51	52
Other Income	190	410	683	866	1,122	969	1,468
PBT bef. EO Exp.	-600	560	2,129	3,920	4,027	3,450	4,780
EO Items	0	0	229	-109	0	0	0
PBT after EO Exp.	-600	560	2,358	3,811	4,027	3,450	4,780
Total Tax	-1,150	350	872	986	928	701	1,099
Tax Rate (%)	191.7	62.5	37.0	25.9	23.0	20.3	23.0
Minority Interest	0.0	0.0	14.0	27.0	122.0	70.0	0.0
Reported PAT	550	210	1,472	2,798	2,977	2,680	3,680
Adjusted PAT	550	210	1,243	2,907	2,977	2,680	3,680
Change (%)	-185.7	-61.8	491.9	133.9	2.4	-10.0	37.3
Margin (%)	13.4	4.1	19.5	43.4	39.5	28.4	32.0

Consolidated Balance Sheet						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	100	286	289	303	306	306	306
Total Reserves	-3,312	1,313	2,462	15,806	18,435	21,062	24,004
Net Worth	-3,213	1,599	2,751	16,109	18,741	21,368	24,310
Other Liabilities	5,393	2,300	3,312	3,318	3,934	4,290	5,095
Total Loans	0	0	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-244	-234	-254	-274
Capital Employed	933	2,935	5,527	19,183	22,441	25,403	29,132
Net Fixed Assets	73	85	52	22	31	51	71
Goodwill on Consolidation	8	6	5	3	2	2	2
Capital WIP	2	2	2	2	2	2	2
Other Assets	345	44	1,514	1,054	4,818	4,818	4,818
Total Investments	3,111	6,450	8,719	22,174	23,008	26,008	29,008
Curr. Assets, Loans, and Adv.	642	657	401	1,616	1,394	2,310	4,545
Inventory	0	0	0	0	0	0	0
Account Receivables	7	6	17	13	13	26	31
Cash and Bank Balance	467	402	169	401	495	1,338	3,508
Loans and Advances	168	250	215	1,202	886	946	1,006
Curr. Liability and Prov.	3,247	4,308	5,166	5,688	6,814	7,788	9,315
Account Payables	419	450	179	154	184	260	320
Other Current Liabilities	2,720	3,709	4,682	5,210	6,348	7,236	8,693
Provisions	107	149	305	324	282	292	302
Net Current Assets	-2,604	-3,650	-4,765	-4,072	-5,420	-5,478	-4,769
Misc. Expenditure	0	0	0	0	0	0	0
Appl. of Funds	934	2,936	5,527	19,183	22,441	25,403	29,132

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	28.6	7.7	51.8	96.6	97.1	87.2	119.8
Cash EPS	28.6	7.7	51.8	96.6	97.1	87.2	119.8
BV/Share	-167.1	58.6	96.8	556.2	611.6	695.5	791.3
DPS	0.0	0.0	10.1	15.4	2.0	4.0	24.0
Payout (%)	0.0	0.0	22.7	16.0	2.1	4.6	20.0
Valuation (x)							
P/E ratio	142.6	529.5	78.7	42.2	42.0	46.7	34.0
Cash P/E ratio	142.6	529.5	78.7	42.2	42.0	46.7	34.0
P/BV ratio	-24.4	69.5	42.1	7.3	6.7	5.9	5.2
EV/Sales ratio	19.0	21.9	18.1	17.6	16.5	13.2	10.6
EV/EBITDA ratio	165.8	131.9	68.8	35.9	40.4	45.3	33.9
Dividend Yield (%)	0.0	0.0	0.2	0.4	0.0	0.1	0.6
FCF per share	92.0	91.7	90.1	111.4	129.9	99.2	146.2
Return Ratios (%)							
RoE	-34.2	-26.0	57.2	30.8	17.1	13.4	16.1
RoCE	36.0	-56.2	62.5	31.3	18.0	13.9	16.3
RoIC	30.5	-9.1	-25.5	-68.5	-102.2	-134.1	-97.2
Working Capital Ratios							
Fixed Asset Turnover (x)	56.4	59.8	122.8	304.4	243.1	184.7	161.8
Asset Turnover (x)	4.4	1.7	1.2	0.3	0.3	0.4	0.4
Debtor (Days)	1	0	1	1	1	1	1
Creditor (Days)	37	32	10	8	9	10	10
Leverage Ratio (x)							
Current Ratio	0.2	0.2	0.1	0.3	0.2	0.3	0.5
Interest Coverage Ratio	0.4	1.2	50.9	46.6	54.8	49.6	64.7
Net Debt/Equity ratio	1.1	-4.3	-3.2	-1.4	-1.3	-1.3	-1.3

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	-601	539	2,114	3,893	3,904	3,450	4,780
Depreciation	29	41	211	161	119	206	230
Interest and Finance Charges	-28	-30	33	67	54	51	52
Direct Taxes Paid	-10	-52	-186	-588	-971	-701	-1,099
(Inc.)/Dec. in WC	1,297	1,684	1,022	471	1,800	1,237	2,247
CF from Operations	687	2,183	3,194	4,004	4,906	4,244	6,209
Others	1,103	368	-589	-779	-883	-969	-1,468
CF from Operations incl. EO	1,791	2,551	2,605	3,225	4,023	3,274	4,741
(Inc.)/Dec. in FA	-22	-51	-45	2	-42	-226	-250
Free Cash Flow	1,769	2,500	2,560	3,227	3,981	3,048	4,491
(Pur.)/Sale of Investments	-1,586	-2,591	-2,047	-13,379	-356	-3,000	-3,000
Others	-44	-116	-233	1	-2,956	969	1,468
CF from Investments	-1,653	-2,758	-2,325	-13,376	-3,354	-2,257	-1,782
Issue of Shares	152	144	19	10,520	5	0	0
Interest Paid	0	-3	-199	-122	-125	-51	-52
Dividend Paid	0	0	-333	-15	-455	-123	-737
CF from Fin. Activity	152	141	-513	10,383	-575	-174	-789
Inc./Dec. in Cash	291	-65	-233	232	94	843	2,170
Opening Balance	177	467	402	169	401	495	1,338
Closing Balance	467	402	169	401	495	1,338	3,508

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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