IndiaMART InterMESH
Buy 2 Benefit

September 11, 2019

Pranav Kshatriya
+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Nisha Jain
+91 22 4040 7459
nisha.jain@edelweissfin.com

Edelweiss Securities Limited

INITIATING COVERAGE

INDIAMART INTERMESH

Buy 2 Benefit

India Equity Research| IT

IndiaMART InterMESH (IndiaMART), India's largest online B2B product and services platform, is set to sustain strong growth momentum as businesses are increasingly leveraging online channels for efficient procurement. A large and growing number of buyers and suppliers on the platform are driving up business enquiries, further increasing its attractiveness. This, we estimate, would continue to lift realisations and lure more paying customers, leading to a revenue CAGR of 24% over FY19–21. Given its high operating leverage, IndiaMART would clock CAGRs in EBITDA of 51% and PAT of 50% over the period. We see value in the stock owing to high entry barriers, network effect-driven pricing power, and negative working capital (INR7.5bn cash on books). Initiate coverage with a 'BUY' and target price of INR1,900 (33x Q3FY21E EPS).

Network effect driving enquiries

We are seeing a strong network effect at play. Growth in suppliers is luring more buyers and driving business enquiries, which in turn is attracting more sellers too. With a meagre 2.4% of the total suppliers as paying suppliers, and strong 59% CAGR in enquiries over FY16–19, we expect paying customers to continue to grow well.

Disruption risk – Lower than market expectations

Investors view disruption risk for IndiaMART from the emergence of well-funded players. It concerns us little since the so-called rivals operate in a narrow space and are far from gaining critical mass, whereas IndiaMART largely deals in long-tail products, wherein competition might affect only later. Besides, IndiaMART is building new businesses in payments, SaaS, and credit, which may create additional moats.

Outlook and valuation: Ascending prospects; initiate with 'BUY'

We believe IndiaMART is on the cusp of strong profit growth momentum led by revenue growth and high operating leverage. Deferred revenue of INR6.1bn – 1.1x of TTM – provides strong visibility. The stock's current valuation at 24x FY21E P/E is attractive vis-a-vis growth prospects in our view. We are initiating coverage with a **'BUY'** and target price of INR1,900, valuing it at 33x Q3FY21E EPS.

Financials **(INR mn)**

Year to March	FY18	FY19	FY20E	FY21E
Revenue	4,105	5,074	6,352	7,771
Revenue growth (%)	*29.2*	*23.6*	*25.2*	*22.3*
EBITDA	466	823	1,371	1,870
Margin (%)	*11.4*	*16.2*	*21.6*	*24.1*
Adjusted Profit	626	853	1,371	1,918
PAT growth (%)		*36.2*	*60.7*	*39.9*
Adjusted EPS (INR)	23	30	48	67
Diluted P/E (x)	-	54.0	33.6	24.0
EV/EBITDA (x)	-	47.6	26.0	17.0

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: INMR.BO, B: INMART IN)*	
CMP	: INR 1,600
Target Price	: INR 1,900
52-week range (INR)	: 1,718 /952
Share in issue (mn)	: 28.8
M cap (INR bn/USD mn)	: 46 / 647
Avg. Daily Vol.BSE/NSE('000)	: 309.4

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	52.6	53.0	53.0
MF's, FI's & BK's	7.0	7.0	7.0
FII's	5.8	23.0	23.0
Others	34.7	17.0	17.0

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(0.5)	41.8	42.3
3 months	(6.6)	NA	NA
12 months	(2.0)	NA	NA

Pranav Kshatriya
+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

Click on image to view video

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Nisha Jain
+91 22 4040 7459
nisha.jain@edelweissfin.com

September 11, 2019

Executive Summary

India's largest B2B marketplace

IndiaMART is India's largest online B2B marketplace with a market share of ~60% in online B2B classifieds. The company operates a product and price discovery platform, facilitating interactions between suppliers and buyers. The platform is unique as it enables two-way interactions—suppliers can post their listings and buyers too their request for quotations (RFQs). This helps IndiaMART generate high-quality leads for suppliers and gauge supplier behaviour, particularly their responsiveness.

While the portal is free for buyers, it charges suppliers for premium listing of supplier storefronts and access to buyer RFQs. A clear market leader, IndiaMART caters to about 60mn monthly visitors on its portal, which is more than 10x visitors of its closest competitor. Over the years, it has widened listings to 54 product categories spanning 5.6mn supplier storefronts and currently delivers 18mn business enquiries daily from 88mn registered buyers. With the domestic economy getting digitalised, IndiaMART is poised to benefit from exploding digital transactions.

Network effect fuelling growth

IndiaMART has aced its business model; it monetises leads by providing them to suitable suppliers. As many as 5.6mn storefronts on the platform attract 88mn buyers, which makes the platform compelling for more sellers and, thereby, fuels the network effect. Its unique two-way marketplace model affords insights into seller behaviour and yields relevant listings. Additionally, the presence of marquee brands not only lures buyers, but also other sellers, which helps build up comprehensive catalogues across product categories. IndiaMART, we believe, is at an early stage of monetisation and poised for accelerated revenue growth.

Disruption: Risk = opportunity

A very large and fragmented market, elaborate supply chain, and information arbitrage have attracted a slew of well-funded technology players to B2B e-commerce. Their emergence has made investors jittery about potential business model disruption in B2B.

We argue otherwise. After meeting B2B e-commerce companies and various stakeholders, we do not really believe competition would be able to make inroads into IndiaMART's territory since: i) the new-breed B2B players operate in a narrow space and, hence, gaining critical mass is improbable for most; ii) B2B involves way more sophisticated decision-making than B2C, which means B2C players cannot simply replicate their success or models in B2B; and iii) IndiaMART largely deals in long-tail products, wherein competition might affect later than sooner.

Besides, technology adoption in B2B tends to be slower than B2C, which would allow IndiaMART enough time to replicate best practices and adapt to evolving business models from emerging competition. That said, any slip in execution and wrong technology/business model bets are the key risks to the business in our view.

Scaling up allied businesses – Odds in favour

IndiaMART experimented with an end-to-end transaction-based model via Tolexo but failed due to execution challenges and vagaries of a maturing industry. The company is now experimenting with and contemplating the following business models that – it believes – are scalable as the industry matures: 1) payment; 2) SaaS; and 3) credit. Should the company scale up these new models, additional revenue streams will open up.

Among the three aforementioned models, we see the credit business as most promising largely due to IndiaMART's access to high quality data about its potential borrowers. The number of leads generated for a customer, their completion rate, and demand for goods in which the customer operates are key considerations in assessing their creditworthiness. IndiaMART is currently at the evaluation stage in this space. We too believe that the SaaS model is scalable considering most SMEs are yet to adopt digital modes of doing business. *That said, we are not building in any potential benefits from these three models in our estimates but do believe that their success would be value-accretive.*

Strong, profitable and sustainable growth

IndiaMART reported a robust 27.9% CAGR in revenue over FY16–19 on the back of strong paid subscriber additions and realisation improvement while deferred revenue increased at a CAGR of 31.7%. The company also turned-EBITDA positive in FY18 and further expanded margins by 500bps to 16% in FY19, demonstrating strong operating leverage. Deferred revenue of INR6.1bn – 1.1x INR5.4bn TTM revenue – provides strong visibility and, accordingly, we are building in a 24% revenue CAGR over FY19-21. High operating leverage would aid turn in CAGRs of 51% in EBITDA and 50% in PAT over the period.

Given negative working capital (upfront collections) and an asset-light model, not to mention the investment phase is largely behind, IndiaMART boasts healthy cash flow. Its Q1FY20 cash balance stood at INR7.5bn. With a clear runaway ahead, we expect it to continue to log strong revenue growth. Moreover, high operating leverage implies healthier profit growth.

Outlook and valuation: Inexpensive vis-à-vis prospects

We are initiating coverage on IndiaMART with a **'BUY'** and 'Sector Outperformer' rating. Our target price of INR1,900 is based on 33x Q3FY21E EPS. We estimate the company would generate an earnings CAGR of 50% over FY19–21 driven by strong revenue growth (24% CAGR) and high operating leverage. Our target PE of 33x is higher than 30x we ascribe to Info Edge's recruitment business due to superior growth expectations for IndiaMART, considering the network effect is just beginning to kick in.

The stock is trading at an attractive 24x FY21E EPS, considerably undershooting global peers. Besides, IndiaMART's high FCF yield and INR7.5bn cash balance cushion its valuation. That said, we believe: 1) anticipated competition from new B2B players; 2) limited number of successful peers; and 3) short trading history (stock) are keeping its valuation in check.

Key risks

- Technology/business model disruption
- Investment risk and capital misallocation
- Bad actors leveraging platform for fake products, cyber-attack, data hacking, etc
- Inflexible pricing strategy, and economic slowdown

Contents

Investment Rationale

India's largest online B2B marketplace – Leveraging network effect

IndiaMART has aced its business model; it monetises leads by providing them to suitable suppliers. As many as 5.6mn storefronts on the platform attract 88mn buyers, which makes the platform compelling for more sellers and, thereby, fuels the network effect. Its unique two-way marketplace model affords insights into seller behaviour and yields relevant listings. Additionally, the presence of marquee brands not only lures buyers, but also other sellers, which helps build up comprehensive catalogues across product categories. IndiaMART, we believe, is at an early stage of monetisation and poised for accelerated revenue growth.

IndiaMART is India's largest online B2B marketplace for products and services with a market share of 60% in the online B2B classifieds space. The marketplace is mainly a platform for businesses to discover products and services and contact their suppliers.

IndiaMART generates 10x traffic of its closest competitor

Typically, a buyer (business) visits the IndiaMART platform via a search engine while looking for a specific B2B product. In response, IndiaMART provides a list of suppliers based on its algorithmic matchmaking, incorporating buyer's location and history of suppliers to ensure that the buyer's requirements are met. The company prioritises paying suppliers' listings, thereby generating a higher number of leads for them. It does not charge buyers for contacting suppliers but does charge suppliers – based on a flat fee model (monthly, yearly or three-yearly) – for prioritising their listings to generate higher number of buyer enquiries.

At end-June 2019, IndiaMART had 88mn registered buyers and 5.6mn supplier storefronts in India. The supplier storefronts listed 62mn products—about 76% goods and 24% services. Buyers' enquiries on the platform are referred to businesses through telephonic calls, SMS and email, or an RFQ, and a total of 449mn business enquiries were delivered to IndiaMART suppliers in FY19.

Fig. 1: IndiaMART value proposition: Two-way discovery model

Source: Company, Edelweiss research

Network effect is a phenomenon whereby an increasing number of participants on a platform improve the value/attractiveness of the platform

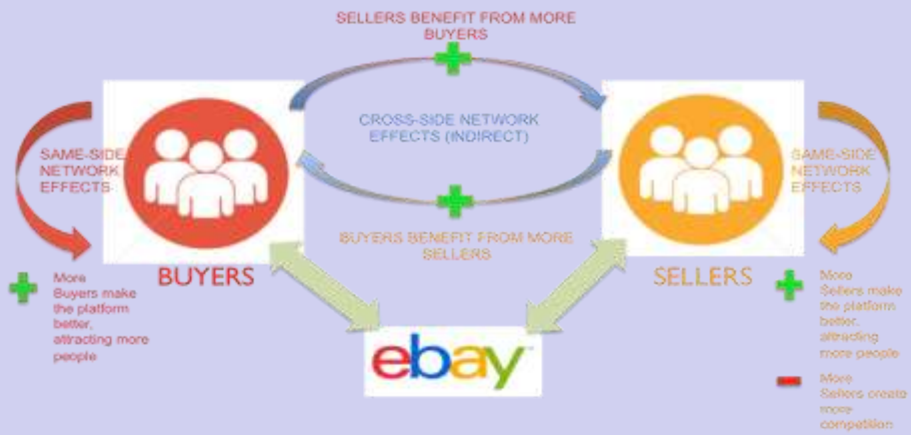
Network effect tends to create natural monopolies in internet-based companies

Network effect and platform ecosystem

Simplistically, network effect is nothing but "***Demand Side Economies of Scale***"—implying that the value of the network, service or product increases as the number of people using it increases. For example, the product provides more value to user n+1 than user n. **The importance of network effect lies in the strong moat it creates around the business.**

Consequently**,** the near insurmountable barriers to entry yield impressive returns. Being the first mover is of utmost importance in this model. That said, grabbing the market share is easier than sustaining it, and hence the need for strong entry barriers.

Fig. 2: Ebay network effect – A case study



Source: hbs.edu

We view Internet-based companies as one of the biggest beneficiaries of the network effect. The reason Facebook is a clear market leader in social media, with no close second, testifies to the **direct network effect**, i.e. when new users continue to join a platform, the potential value for existing users increases since it allows for interaction with more people. Similarly, Uber benefits from an **indirect network effect,** wherein the increase in users would lead to a rise in demand for cars as well as attract more drivers, which would improve unit cost economics, drive up accessibility and reduce turnaround time; this attracts more users to its platform.

Closer home, Info Edge's recruitment services business *Naukri,* demonstrates a similar network effect. Greater job applicants make *Naukri* an attractive/preferred platform for employers seeking applicants, which in turn brings in more applicants.

IndiaMART's first-mover advantage has helped it create a large network of buyers and suppliers

Due to network effect, IndiaMART's buyers, suppliers and business enquiries growth has moved in tandem

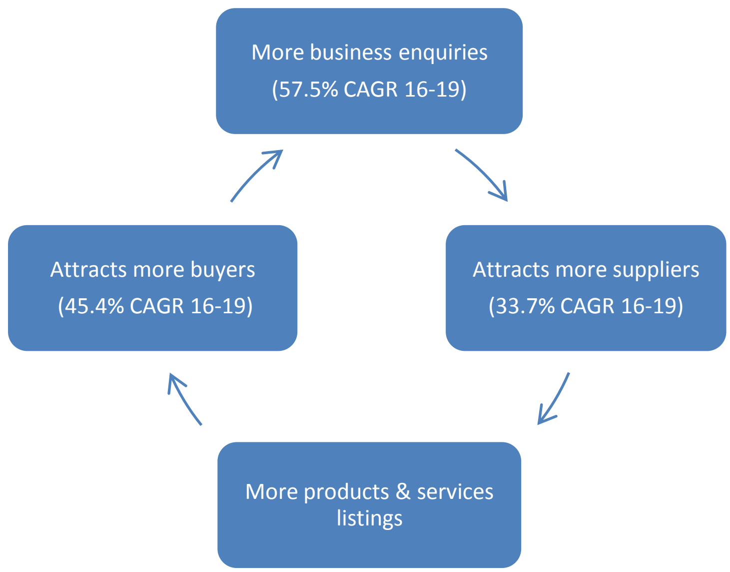
Network effects fuels IndiaMART's leadership

Since the emergence of the internet, network effect has been one of the most important drivers of the financial success of platform-based models. Network effect is a phenomenon where the value of a product or service increases as the number of its buyers or subscribers expands. IndiaMART demonstrates a strong network effect as a large number of buyers on its platform translate to more enquiries for suppliers, which in turn attracts more suppliers to register, create supplier storefronts and list products and services. This is turn attracts more buyers and so on.

Exploiting the reservoir of supplier/buyer behaviour and preferences data, IndiaMART is able to deploy analytics to implement behavioural data-based algorithmic matchmaking on its platform, thereby enabling more relevant discovery of products and services. High relevance of the search results generates repeat purchases on the platform.

IndiaMART currently logs monthly traffic of about 60mn, which it monetises via subscriptions to sellers. Given the robust buyer and supplier presence on the platform, the company enables better price discovery, and hence maximises value for all stakeholders. A large network and database of buyers and suppliers built over the years is IndiaMART's biggest asset in our view and extremely difficult to replicate.

Fig. 3: Network effect playing out for IndiaMART



Source: Company, Edelweiss research

IndiaMART has witnessed strong growth in suppliers, which is driving growth in buyers and, consequently, business enquiries. While registered buyers expanded at a 45% CAGR over FY16–19, Indian supplier storefronts and paid subscription suppliers increased at CAGRs of 34% and 21%, respectively. Total business enquiries on the platform surged at a 57% CAGR and traffic at a 40% CAGR over FY16–19. Essentially, IndiaMART is a self-fuelling machine as the higher number of supplier storefronts lures more buyers to the platform while heavier buyer traffic attracts more suppliers to the platform.

Table 1: Operational parameters – Trends over the years

Operational Parameters	FY16	FY17	FY18	FY19	FY16-19 CAGR (%)
Registered Buyers (mn)	27	39	60	83	*45.4*
YoY growth (%)		*44.4*	*53.8*	*38.3*	
Business Enquiries Delivered (mn)	115	157	290	449	*57.5*
YoY growth (%)		*36.5*	*84.7*	*54.8*	
Total Traffic (mn)	262	326	553	723	*40.3*
YoY growth (%)		*24.4*	*69.6*	*30.7*	
Indian Supplier Storefronts (mn) - Total listings	2.3	3.2	4.7	5.5	*33.7*
YoY growth (%)		*39.1*	*46.9*	*17.0*	
Paid subscriptions	72,335	96,025	108,347	129,589	*21.5*
YoY growth (%)		*32.8*	*12.8*	*19.6*	

Source: Company, Edelweiss research

IndiaMART demonstrates strong leadership on key parameters

IndiaMART: Edge over competition

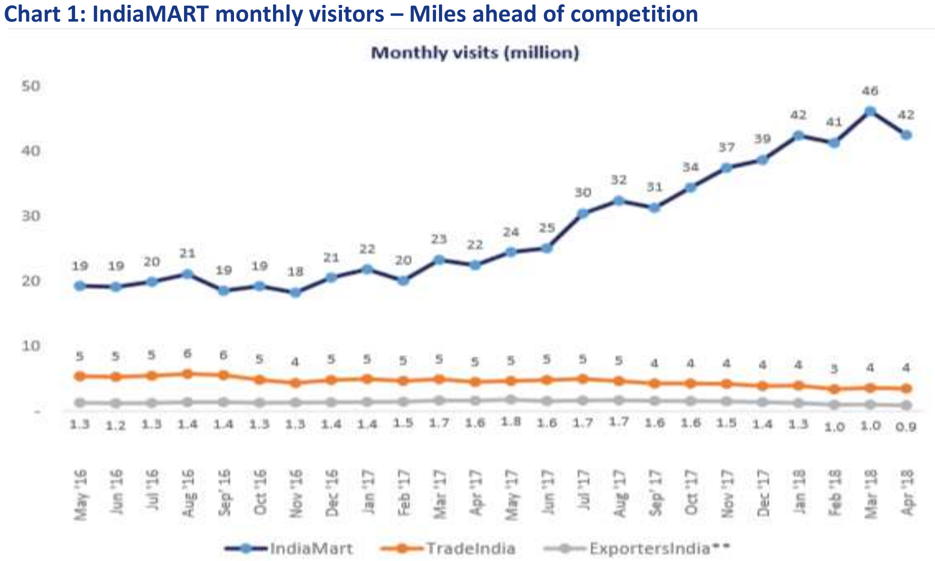
With the greatest number of industry product categories and supplier forefronts, IndiaMART has a clear edge over competitors in terms of traffic as well as buyers (Table 2). The consistent rise in monthly visits on the platform (Chart 1) is a proof of its strong network effect, which has created a solid moat that is extremely difficult to replicate in our view.

Table 2: IndiaMART vis-a-vis peers – Clear edge

May-July 2019 (mn)	IndiaMART	TradeIndia	ExportersIndia
Industry Categories	54.0	38.0	40.0
Monthly visitors	42.3	2.8	0.8
Unique Visitors	24.0	1.7	0.4
Registered buyers	83.0	3.6	1.6
Registered sellers	5.5	3.8	2.5

Source: similarweb

Chart 1: IndiaMART monthly visitors – Miles ahead of competition



Source: Company, similarweb

39% of IndiaMART sellers are also buyers over trailing 12 months

Community effect: Self-fuelling business model

A large number of listings on IndiaMART create a strong community effect as suppliers for one product or service category on the marketplace become buyers for products and services in the same or other categories, thereby increasing organic traffic to the marketplace. **Out of total 5.5mn Indian supplier storefronts as on 31 March 2019, 39% were also buyers over the last 12 months.**

For instance, a manufacturer listed as a supplier may buy various goods and services, such as raw materials, machinery and equipment or related services required for the production or sales and distribution of its manufactured goods via the IndiaMART platform. The '*community effect*' helps increase stickiness of the IndiaMART platform and business scale.

Fig. 4: IndiaMART's Network and Community Effect

Source: Company, Edelweiss research

Two-way marketplace helps IndiaMART understand supplier behaviour, resulting in a more efficient matchmaking

Focus on buyer experience; RFQs aid matchmaking; large brands inspire confidence

Apart from the number of sellers, the relevance and variety of listings are the two underpinnings of a good customer experience. IndiaMART exploits insights on seller behaviour to refine listings while the presence of marquee brands not only draws buyers, but also other brands; this helps in building up comprehensive catalogues across product categories.

What is also working in IndiaMART's favour is its development of a two-way marketplace; it not only allows buyers to search for sellers on the platform, but also to post RFQs. An RFQ may include a description of the product or service that a buyer seeks to purchase; the buyer's intended use or application of the product, estimated purchase quantity and an indicative price. If a supplier is interested in fulfilling the order under the terms of the buyer's RFQ, it can utilise RFQ credit and obtain the buyer's contact information.

The company can measure suppliers' responsiveness and preferences through their call pick-up rate, RFQ consumption, enquiry reply rates and callbacks on the platform. Suppliers' responsiveness, category preferences and location feed into behavioural data-driven algorithms for effective matchmaking between buyers and suppliers. This creates more efficient product discovery for buyers' requirements while prioritising responsive suppliers.

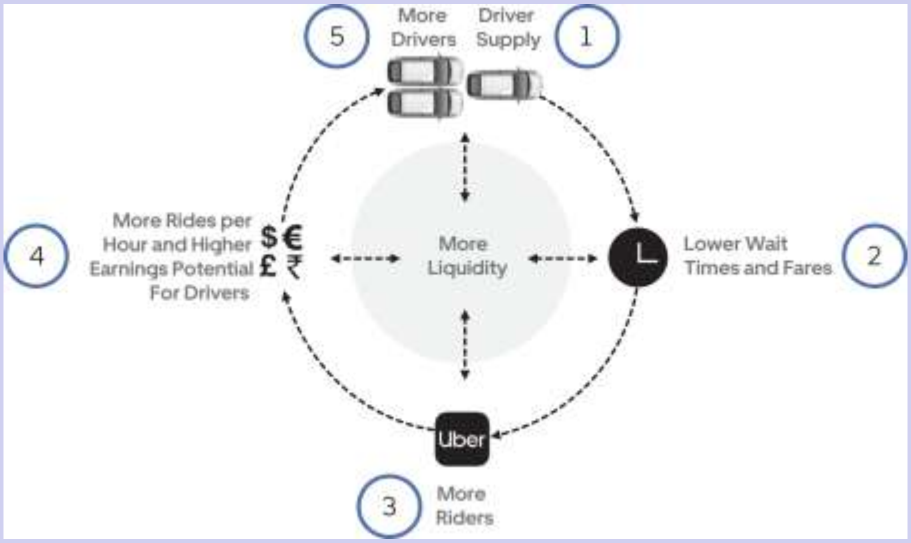
Onboarding of large brands has widened the variety and appeal of goods and services available on the IndiaMART platform

Although IndiaMART has been largely an SME-focused platform, it is aggressively targeting marquee brands, which would help buyers have wider choices. The company has formed a separate sales team to onboard large brands. Besides, onboarding large brands has a marked network effect as it helps in connecting with additional brands or divisions of the same company, leading to deeper penetration within the supplier group. It also helps to attract other competitors in the similar industry. Put together, these factors strengthen IndiaMART's credibility among small and medium enterprises (SMEs).

Case Study – Network effect: Uber

Uber is perhaps one of the best examples of the indirect network effect, leading to maximisation of value for users on the platform. A higher number of users attracted more drivers, which in turn led to better service levels (e.g. faster service) and lower cost (economies of scale). This attracts more drivers and so on. Almost a decade after its inception, the growth in the userbase (99mn monthly users at present) as well as drivers (about 39mn) is remarkable.

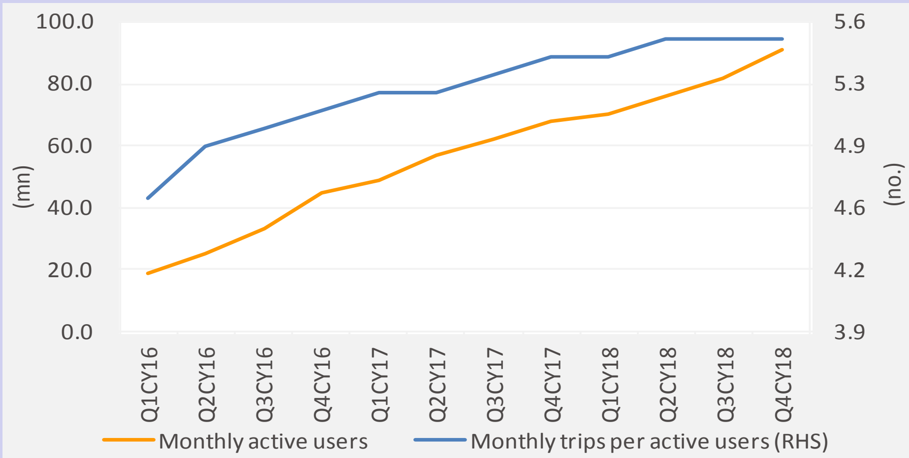
Fig. 5: Uber: Network Effect



Source: medium.com, Edelweiss research

With a steady increase in monthly active users, the number of trips per active user too has been rising (Chart 2), signaling an increase in the number of drivers and better service (lower wait time), which in turn increased active users. Uber, however, is constrained by localness. For example, to its user in India, the level of service and number of users in the US do not matter at all. The network effect for Uber is, thus, location-specific.

Chart 2: Growth in monthly active users and trips per user



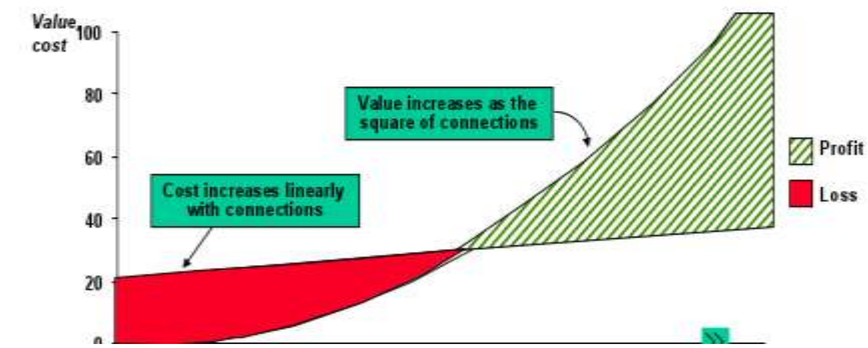
Source: SEC filings, company

Mechanics of network effect

For the network effect to kick in, a minimal number of users on the platform, called **critical mass,** is imperative. The biggest challenge lies in getting these minimal users aboard. To build up critical mass, companies could dole out benefits such as free services for a limited period and/or resort to growth hacking such as referral bonus, subsidising a service fee, etc.

Once critical mass is gained, the value obtained from the product or service is greater than or equal to the cost of the product or service. As the value increases owing to the rising number of users of a product, more users would want to latch on. As more users join, it further increases the value of the product or service, thereby creating a self-fueling machine.

Fig. 6: Critical mass

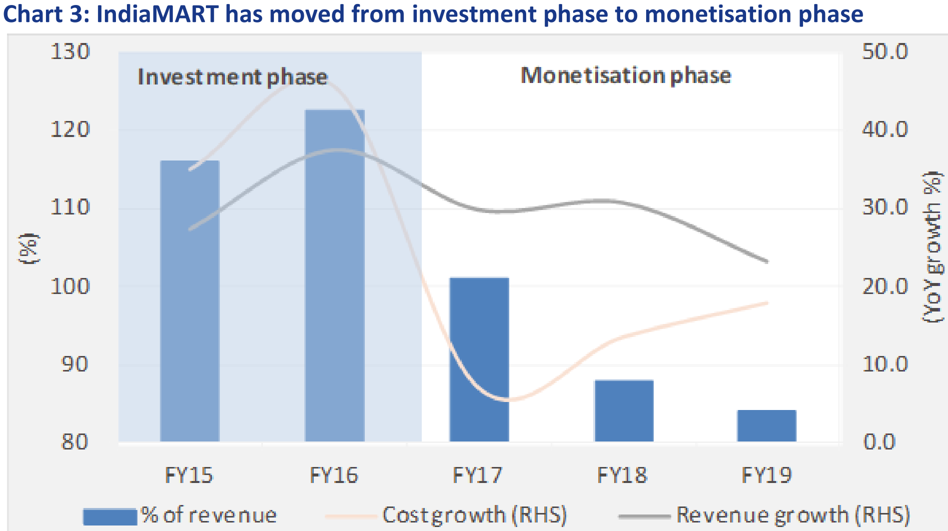


Source: Ray Stern

After gaining critical mass, IndiaMART's revenue growth trajectory remained intact despite a plunge in cost growth

In case of IndiaMART, the company made continued investments in employees, content development, buyer engagement, and customer support even at insufficient profit, as it chased critical mass. This is shown in Chart 3—with revenue growth lagging cost growth during the investment phase. However, as the company achieved critical mass, it could take the paddle off costs as the network effect started playing out. Hence, revenue grew while costs plummeted.

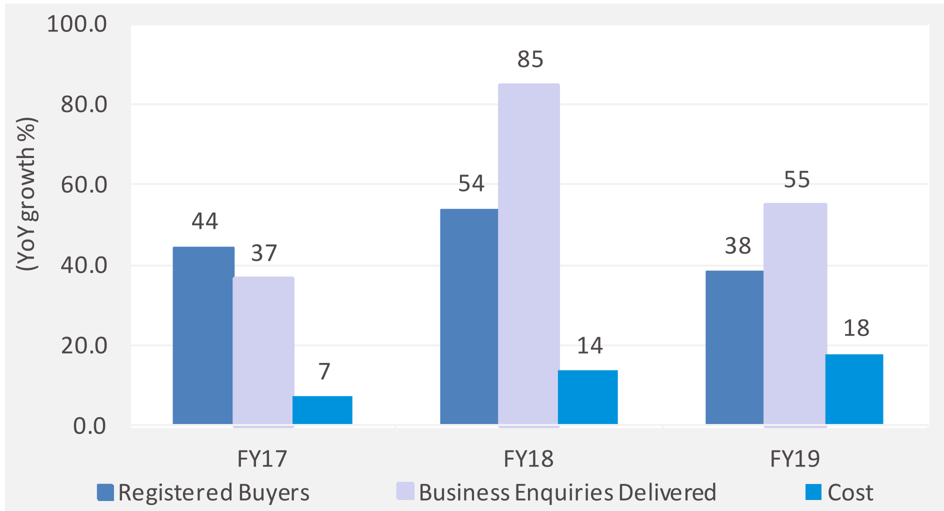
Chart 3: IndiaMART has moved from investment phase to monetisation phase



Source: Company, Edelweiss research

As chart 3 shows, as IndiaMART attained critical mass, buyer engagement metrics such as Registered Buyers and Business Enquiries Delivered took off while costs decelerated. We believe that this strong network effect will sustain and the company will be able to monetise strong buyer engagement by selling subscriptions to sellers.

Chart 4: Strong growth in Registered Buyers and Business Enquiries Delivered despite lower cost growth



Source: Company, Edelweiss research

Disruption: Risk = opportunity

A very large and fragmented market, elaborate supply chain, and information arbitrage have caught the eye of a slew of well-funded technology players to B2B e-commerce. Their emergence has made investors jittery about potential disruption in B2B.

We argue otherwise. After meeting B2B e-commerce companies and various stakeholders, we do not really expect competition would be able to make inroads into IndiaMART's territory since: i) the new-breed B2B players operate in a narrow space and, hence, gaining critical mass is improbable for most; ii) B2B involves way more sophisticated decision-making than B2C, which means B2C players cannot simply replicate their success or models in B2B; and iii) IndiaMART largely deals in long-tail products, wherein competition might affect later than sooner.

Besides, technology adoption in B2B tends to be slower than B2C, which would allow IndiaMART enough time to replicate best practices and adapt to evolving business models from emerging competition. That said, any slip in execution and wrong technology/business model bets are the key risks to the business in our view

B2B listing platforms' growth depends on industry fragmentation and SMEs' contribution to economy

The risk of disruption runs high in technology businesses with ever-emerging business models engendered by the scorching pace of technology innovation. Evolution of business model brings about risks as well as opportunities to existing players. Investors view IndiaMART's strong cash cow listing business as a possible disruption candidate considering disruption faced by Just Dial and emergence of a slew of well-funded start-ups in the B2B space. To understand the dynamics of disruption, we study the evolution of B2B marketplace/listing platforms across geographies, the factors that led to Just Dial disruption, and how this space is evolving in India.

B2B marketplace/listing platform evolution – Different across countries

We observe that the evolution of online B2B marketplace has been different across countries. In developed economies with largely organised businesses and a smaller share of SMEs, the B2B discovery platforms are not significantly large. In a developing economy such as China, for example, Alibaba has been hugely successful not only in the B2B marketplace, but also in the B2B listing space.

Chinese B2B listing platforms are much larger than those in other developed nations due to higher contribution of SMEs to the economy

We understand that evolution of the B2B commerce marketplace in a particular geography depends on industry fragmentation, contribution of SMEs, etc. In developed economies, some of the yellow pages listing and catalogue companies have successfully migrated to online platforms. In the US, W.W. Grainger (Grainger) has evolved from being a supplier for businesses via mail order and catalogues to a full-fledged B2B e-commerce retailer. In Europe, EUROPAGES is one of the leading B2B platform (more details on these companies in annexure). However, given the organised nature of these businesses in developed countries and a smaller share of SMEs in the overall economy, the B2B discovery platforms are not significantly large.

Alibaba: Flag bearer of online B2B marketplace

Founded in 1998, Alibaba is the flag bearer of the B2B online marketplace, clocking aggregate annual revenue of USD2.7bn in FY19 from its domestic B2B platform (1688.com)

Alibaba's wholesale commerce business continues to grow at a fast clip despite its high base as well as penetration

and international wholesale B2B platform (Alibaba.com). The evolution of the company's B2B online marketplace was also aided by China's emergence as an export powerhouse. China is dotted with SMEs producing a wide variety of goods, which importers across the world were keen to sell in their respective countries. Alibaba provided a ready platform to such SMEs to showcase their products to global importers.

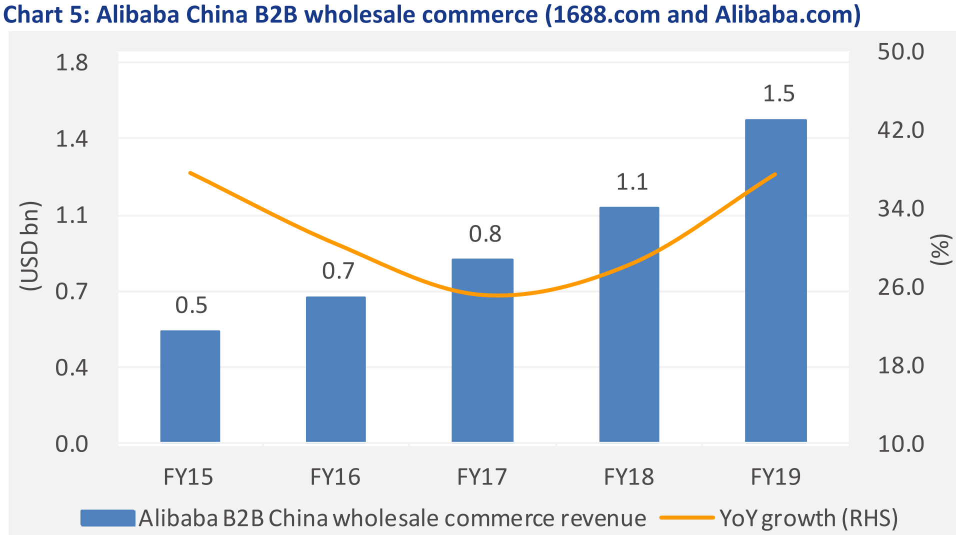
Alibaba.com capitalises on the trust deficit between international buyers and sellers, and follows a transaction-based model, charging a small fee on every transaction. Besides commissions, it sells premium membership packages to suppliers. On the other hand, to bridge the information gap among Chinese SMEs, Alibaba launched a listing website called 1688.com in 1999. The company reportedly hosts 1mn+ quality suppliers offering over 150mn types of products. 1688.com makes money from:

(i) TrustPass membership plan fees. This lets sellers host premium storefronts with access to data-analytics applications and upgraded storefront management tools; and

(ii) premium services such as premium data analytics and online marketing services.

Chart 5 shows Alibaba's revenue growth trend over the last five years, wherein its B2B wholesale commerce (domestic Alibaba.com wholesale business revenue and 1688.com revenue) clocked a CAGR of 30%. 1688.com boasts a monthly viewership of 66.2mn visitors while alibaba.com attracted 107.3mn viewers in July 2019.

Chart 5: Alibaba China B2B wholesale commerce (1688.com and Alibaba.com)



Source: Company, Edelweiss research

Case Study: Anatomy of Just Dial disruption

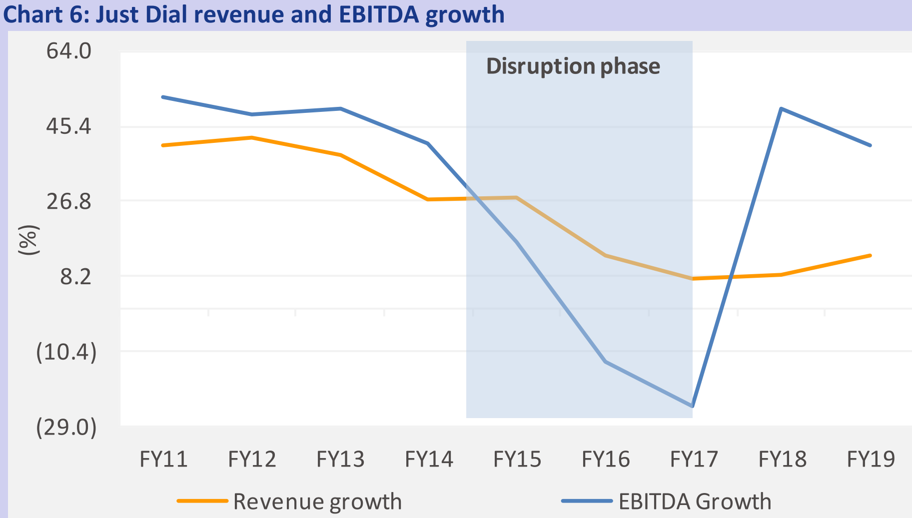
Just Dial, which has a business model similar to IndiaMART, suffered a disruption from Google, which provided supplier contact number on its platform, and the emergence of vertical-specific platforms in restaurants (Zomato), taxis (Ola, Uber), etc.

Initially, Just Dial operated a voice platform for buyers to search listings in specific categories. However, emergence of mobile internet greatly eased up customer access to website/apps for specific information. This latent demand also fueled category-specific apps with curated content and ability to facilitate end-to-end transactions—a step change from the simple search. During this disruption phase of FY15–18, the company's revenue growth plunged to 7.6% in FY17, from 27.9% in FY15, while EBITDA slid to INR1.1bn in FY17, from INR1.7bn in FY15.

Management responded by launching a super-app under the brand name Search Plus to enable transactions on the platform for as many services as possible. This plan did not pay off due to the following three factors: 1) Management focus was diverted towards executing a transaction-based model while necessary investments in the listing business were not made. 2) Management underestimated the execution risk, especially readiness of stakeholders, in transitioning to a transaction-based business model. 3) Just Dial operated in the B2C space, which has generally lower customer stickiness.

In the wake of the lack of readiness of stakeholders, the company floated a SaaS-based platform to digitalise the backend for stakeholders, called JD Omni. However, scaling it up given the size of the platform and limited engagement of stakeholders posed challenges. Subsequently, the company focused of ratcheting up organic web traffic via a dedicated sales force and advertisements. Subsequently, revenue and EBITDA growth revived, but remained short of the pre-disruption levels.

Chart 6: Just Dial revenue and EBITDA growth



Source: Company, Edelweiss research

Clearly, the Just Dial disruption was accentuated by inadequate investments in the existing business model and, later, underestimation of challenges in turning around the business model. Besides, the B2C space also tends to be a lot more prone to disruption due to faster technological adoption vis-à-vis the B2B space. Hence, we believe that in case of a similar situation, IndiaMART could see a better outcome if it does not falter on execution of its core business.

B2B tantalising start-ups

Funding overflowing to B2B e-commerce startups recently

A very large and fragmented market with an elaborate supply chain and information arbitrage has attracted many a technology player to disrupt the B2B space. The wholesale market in India is large—estimated to reach USD700bn by 2020 from USD300bn in 2015. B2B transactions too tend to be large-ticket and, hence, even a small amount of savings can materially improve absolute returns. This lures many new players to the industry on the basic premise of leveraging technology to shorten the supply chain and reduce inventory and other working capital requirements as well as other frictional costs.

With the emergence of many B2B ecommerce players armed with handsome funding, the space has witnessed hectic activity. Udaan is the most well-funded player in this space, having already raised USD680mn following the latest round of funding, valuing the company at USD2.7bn. The company – having launched operations in the clothing, electronics, and FMCG and staples verticals – is trying to connect most efficient/economical suppliers to retailers across the country. It is exploring various business models such as transaction commission, logistics aggregation, credit, etc. According to media reports, the company is estimated to be clocking USD1.2bn in annual gross merchandise value (GMV).

Moglix is another well-funded player having already raised over USD100mn from investors. The company deals in B2B procurement and supply of utility-based products in the industrial manufacturing space, particularly MRO, safety, electricals, lighting, cleaning & housekeeping, office stationery & supplies, power tools, etc.

Table 3 : B2B e-commerce start-ups and their funding to date

Startup	Year of Incorporation	Founders	Funding (USD mn)	Key investors
Udaan	2016	Amod Malviya, Sujeet Kumar, Vaibhav Gupta (ex-Flipkart)	680	DST Global, Lightspeed Venture Partners, Trustroot internet, Altimeter Capital, Footpath Ventures, GGV Capital, and Hillhouse Capital
Moglix	2015	Rahul Garg (ex- Google)	100	Accel Partners, Jungle Ventures, Ratan Tata, IFC, Tiger, Sequoia and Composite Capital
Power2SME	2012	R Narayan (ex- Denave)	77	Inventus Capital Partners, Accel, Kalaari Capital, IFC, Nandan Nilekani , InnoVen Capital
Industrybuying	2013	Swati Gupta (ex- Bain & Co) and Rahul Gupta (ex - Lehman Brothers)	40	Kalaari Capital, with participation from SAIF Partners and BEENEXT
Bizongo	2015	Ankit Tomar (ex-Microsoft)	40	B Capital Group, International Finance Corporation, Accel, Chiratae Ventures
OfBusiness	2015	Ruchi Kalra (ex- McKinsey)	49	Matrix Partners, Zodius Capital, Kotak Mahindra Bank Creation, Investments Capital Management, LLC and Falcon Edge Capital.
mSupply	2015	TGC Prasad (ex- Mindtree)	13	Artiman Ventures ; IL&FS Investment Managers

Source: crunchbase, company, Edelweiss research

Transaction models are difficult to execute in B2B environment; many start-ups have learnt the lesson the hard way

However, the B2B industry faces unique challenges due to its fragmented nature, more complex/evolved decision-making than B2C, terms of payment (credit) and larger proportion of customised deals. Varied customer requirements – product specifications, fulfillment, etc – add complexity to technology-enabled solutions. Besides, in the B2B business, a fine balance between management of working capital, credit risk and growth is imperative to maximise the return on capital.

Due to these challenges, only few B2B e-commerce players have been able to scale up; others have had to either entirely shut down (e.g. Tolexo, Justbuy Live, mSupply) or adapt their business models from end-to-end transactions services to supplementary services (e.g. OfBusiness and Bizongo).

Fig. 7: Transaction model difficult to execute; many players have changed theirs

COMPANY	Initial business model	Current business model
POWER2SME	Raw material aggregation and MRO procurement, predominantly steel	Increased focus on lending to SMEs, besides MRO and raw material aggregation
industrybuying	Online booking and delivery of Industrial material, tools and metals	Focus on Private Brands - office furniture, solar; Credit
ofbusiness	Raw material procurement	Credit
BIZONGO	Transaction based model - plastics, chemicals and polymers	Packaging and Design Solutions ; also providing credit

Source: Company websites, Edelweiss research

B2C and B2B business models: Starkly different

B2C to B2B: From instant gratification to a long-term relationship

Customer behaviour and requiremmetns in B2B and B2C business constrast quite dramatically. In the B2C business, the focus is on creating a good customer experience to drive an impulse purchase with minimal friction. However, this strategy is unsuitable for B2B as decision-making thereof tends to more methodical and stringent, and may involve hard negotiations based on the quantity, credit period, seasonality, time required to fulfill the order, etc.

Typically, B2B customers are better informed in terms of specifications of their product requirements, prices, etc. Besides, B2B decision-making tends to be a lot more methodical with clear implications for profitability of the business. Larger businesses could involve multiple layers of decision making, including a procurement-related audit that creates more complexity. Hence, decision-making in a B2B enviornment is quite analytical and hinges on value proposition of the product/listing rather than user experience.

We argue that many platforms seeking to replicate B2C success in B2B are unlikely to succeed given the later demands sophisticated decision-making. Many such platforms are trying to attract B2B customers by advertising discounts on the home page. We believe that this strategy of leveraging instant gratification is unlikely to work where a B2B customer is looking for a long-term supplier of goods at a reasonable price. In fact, for many B2B customers, apart from price, credit availability, delivery time, etc. are equally important. Since such customers would possibly look for recurring purchases and purchase of similar items, a communication channel to negotiate the terms of trade is crucial. Hence, we believe that the success of a B2B e-commerce platform hinges on the factors that are very different from the success of a B2C e-commerce platform.

Table 4 : Key differences between B2B and B2C business models

Criteria	B2B	B2C
Customer	Company	End user
Buying Decision	Planned and logical, based on needs	Emotional, based on want and desire
Decision making	Complex with mutliple authorities involved	Individual
Focus	Relationship	Product
Repeat Customers	High	Relatively low
Pricing	Can be negotiated	Mostly fixed
Complexity	High	Low
Credit	Required	Generally not required
Sales Team	Crucial ; as the deal and pricing negoiations have to been done between the parties	Not so crucial
Transaction	B2B companies use online platforms for pricing discovery and expanding supplier base and prefer transacting offline	Transactions mostly happen online itself
Relationship Horizon	Long	Short
Creation of Brand Value	Trust and Mutual Relationship	Advertising and Promotion

Source: Edelweiss research

Credit – An important cog

Credit is an important part of B2B transaction

In B2B transactions, the role of an intermediary is not just limited to bridging the gap between manufacturer and retailer of product; it extends to providing/arranging short-term credit for working capital requirements. In most cases, the intermediary also assumes inventory, transit and credit risk. Besides, SMEs, given their reliance on informal financing channels, tend to have a higher cost of capital. Hence, in their business model, wholesalers that can avail finance from formal channels extend capital to SMEs in the form of working capital loans. Manageing working capital and credit/inventory risk, therefore, is one of the key determinants of the intermediaries' RoCEs.

Considering importance of credit for frequent and large purchases, we believe that availablity of credit on the B2B platform is crucial for capturing higher market share. We believe that credit faciliation by the transaction platform itself, including third party providers of credit, would be a crucial factor in scaling up the e-commerce platform.

B2B market structure: Size of business

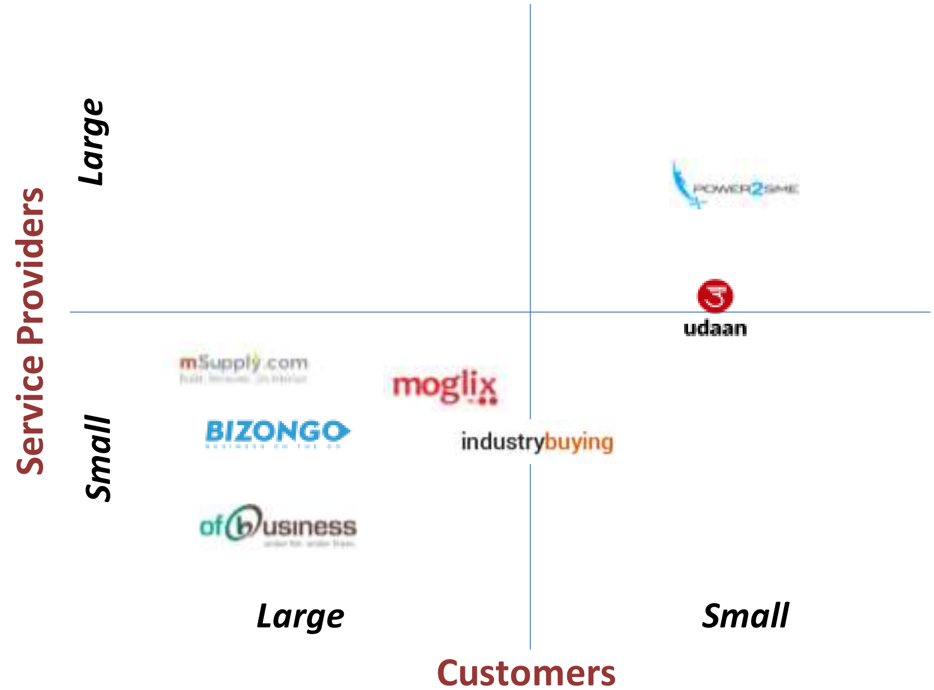
Although the B2B market is a broad terminology, it is actually segmented—by establishments catered (small/large), type of services offered (product discovery, payment, logistics, credit, etc), industries/products catered, etc. The segmentation identifies the specific problem the company is aiming to solve and the methodology it is using to do so. Although classifying intermediaries by the size of establishments they cater to is rather basic, it does help understand the role of an intermediary. We categorise intermediaries into:

1. Large businesses that deal with small businesses
2. Small businesses that deal with large businesses
3. Small businesses that deal with small businesses

B2B businesses are quite fragmented with different dynamics of each industry

Small businesses face challenges on access to credit, which could be a key determinant of purchase

Fig. 8: Matrix indicating business model of different players



Source: Company, Edelweiss research

Large businesses that deal with small businesses

Large businesses typically operate a wholesaler/distributor model to connect with retailers. The role of an intermediary in this case is to manage inventory at the regional level, provide working capital for businesses, provide feedback to producers on regional demand, manage credit risk and facilitate last-mile logistics. Although this entails a long supply chain, the role of an intermediary is much more complex than simply facilitating the transaction.

An important thing to note is that the intermediary tends to have little pricing power, which limits its return on the capital that it may invest. In the current scheme of things, highly efficient intermediaries – such as Redington India – have RoCEs of about 17%, whereas their cost of capital is 10%.

Some technology-driven companies are trying to shorten the supply chain. A case in point is Power2SME, which acts as a demand aggregator for SMEs. The company deals in input raw materials for SMEs such as chemicals, inks, paints, metals, polymers, etc. to procure industrial goods from large manufacturers such as SAIL, IOCL, GAIL, AkzoNobel and Haldia. This business tends to have low margins and providing working capital to buyers becomes essential to generate a substantial return on invested capital. Power2SME has accordingly tweaked its business model and expects incrementally higher profitability from SME financing and have applied for NBFC license.

We believe that these platforms can scale up in certain verticals where they can aggregate large demand, manage inventory, logistics and credit risk. However, setting up a strong distribution and logistics network is challenging, and margin too tends to be slim. Moreover, suppliers create redundancies to mitigate concentration risk and to ensure healthy competition among distributors, which minimises channel cost for end-consumers. But this caps the RoCE profile of the business; such a business can generate a higher RoCE over the cost of capital only if it is more efficient than the other market participants. Competitors tend to imitate best practices, which makes it harder to sustain higher RoCE over the cost of capital.

Small business to large business

Large businesses need non-critical products or services from smaller businesses. Many a time, a requirement tends to be small and infrequent, and vendor evaluation and on boarding for such transactions is inefficient. Hence, large corporations may choose to outsource long-tail product requirements to aggregators that can combine such requirements from multiple customers and leverage economies of scale to minimise the transaction cost. Typically, such costs pertain to maintenance, repair and operations (MRO) and hence such aggregators are called MRO aggregators.

Technology has diluted the entry barrier in MRO aggregator business

MRO aggregation has been a well-established business since the pre-internet era with a few companies, like Rexel, doing this business for decades. With emergence of the internet, the availability of goods and pricing can be updated in real time, which creates a level playing field. One disadvantage of this business model is the lack of pricing power and limited network effect. As a risk-mitigation strategy, large companies do not want to commit significant business to any one supplier and hence they build redundancies. This creates competition and limits network effect.

Moglix has one such online procurement management solution designed to digitise the entire procurement cycle, enabling businesses to increase and improve overall control and visibility into all stages of procurement while saving drastically on procurement costs.

Small business to small business

We are also seeing a new breed of intermediaries emerging—ones that create a digital channel for product discovery and fulfillment, enabling transaction between wholesalers/distributors and retailers. Traditionally, retailers dealing with a large number of SKUs used to discover wholesalers of products by word of mouth and in wholesale markets of particular goods. Retailers would typically build relationships with wholesalers/distributors and they would bilaterally negotiate terms of trade based on discounts and credit period. However, for a retailer, reaching out to wholesalers/distributors for different products/brands and managing various inventories is cumbersome.

New digital channels are trying to facilitate product discovery by creating availability of inventory along with pricing details. Online channels are also trying to replicate the offline negotiated deals model by opening up communication channels for negotiations on pricing etc. and making credit available to buyers.

Udaan is one such company; it has brought traders, wholesalers, retailers and manufacturers in India onto a single platform to buy and sell products. The company allows customers to interact with vendors and negotiate the terms on the platform itself. Vendors may publish their contact numbers and hence do business off-platform.

Udaan has raised USD680mn in various rounds of funding with the latest one valuing it at USD2.7bn

Udaan is also looking at creating a lending platform for merchants that transact on its platform. We believe that a transaction platform that can also offer credit can be very valuable to customers. However, a long transaction history and a sufficient scale of vendors’ transactions on the platform are crucial for its success. The company is also looking at monetising the logistics part, which we believe will require different competencies.

While IndiaMART works largely in the small-business-to-small-business segment, it is increasingly targeting listings of larger businesses. As of now, the platform primarily caters to small businesses for discovery of long-tail products.

B2B market structure by business vertical

B2B players can also be categorised basis the part of the value chain they cater to. A typical B2B value chain comprises: 1) product and price discovery; 2) negotiations and terms of trade; 3) logistics/fulfillment; 4) credit; 5) payment and related services; and 6) ancillary services such as billing management, transaction management, etc. Various intermediaries offer a combination of parts of the value chain to businesses. Fig. 9 summarises the value chain.

IndiaMART primarily operates in the product and price discovery vertical. This is a relatively easy vertical for online aggregators as the company monetises the information arbitrage, in which the aggregator collects product and price information and posts them on a web-based platform. The company is now dabbling in enabling payments and other services such as software as a service (SaaS) for SMEs.

Newer players are targeting different parts of the value chain. Power2SME, for instance, largely enables fulfillment, credit, and payment and related services. Udaan enables price and product discovery, and credit, but outsourcing logistics. These players are also eying larger/other pies of the value chain, and that comes with its own set of execution challenges.

Fig. 9: Players catering to different segments along the value chain

	Raw Material	MRO	Credit	Logistics	Price Discovery	Inventory model
POWER2SME	✓	✓	✓	✓	✓	✓
industrybuying	✓	✓	✓		✓	
ofbusiness	✓		✓	✓		✓
mSupply.com		✓	✓	✓		✓
moglix		✓		✓	✓	✓
udaan			✓	✓	✓	✓

Source: Company, Edelweiss research

Many larger players also vying for B2B pie

Along with new age companies, many large retail companies have shown interest in participating in the Indian B2B segments, for example, global e-commerce giants Amazon and Alibaba. Reliance Retail too has evinced interest in expanding in the B2B space. Since 100% FDI is permissible, the entry of global players in Indian B2B space looks probable.

However, India's vastly challenging landscape considering a very different scale of operations and a unique way of doing business imply the biggies may not have a walkover. Lack of access to credit to MSMEs, technologically underdeveloped and fragmented logistics space, particularly for larger-size goods makes operations in India quite complicated for B2B companies.

Amazon

Reliance, Amazon and Alibaba have grand B2B plans, but none has started scaling up yet

Currently, Amazon operates its B2B website www.amazonbusiness.in. However, the company is neither marketing the business aggressively nor are the prices on the platform competitive via-a-vis those offered by other wholesalers. The business model seems to be focused on B2B transactions for grocers, similar to the cash-and-carry model. We do not view this as big threat to IndiaMART considering this is a very small segment given the bulk of its enquiries pertain to long-tail products.

Alibaba

Alibaba has been opening up its B2B platform for sellers across different countries; Indian sellers too can list their products on Alibaba. However, the company's focus has been largely on exports markets and not on Indian buyers, who generally look to procure goods locally. Hence, despite its basic framework of listing platform being in place, Alibaba has not been able to expand its presence in India. IndiaMART's attainment of critical mass is a clear deterrent to Alibaba, if at all it tries to scale up this model.

Reliance

Media reports indicate that Reliance Industries has big plans to foray into B2B e-commerce, offering smartphones, televisions, garments, spices and soaps to retailers. The company is already running trials in Bengaluru for apparel through the Ajio Business, which plans to enroll more than 50,000 vendors in the coming months, and the pilot is likely to be extended to Andhra Pradesh and Telangana in near future.

In Mumbai, It will kick off its foray with FMCG and grocery, followed by smart phones, televisions and home appliances. Reliance Retail aims to tap about 12mn *kirana* outlets, with most sourcing their products from traditional wholesale markets or distributors associated with large consumer companies. Reliance Retail's platform will bring together large distributors and suppliers as well as small kiranas in a strategy the company has dubbed New Commerce. It will allow servicing of orders of varying size, even small ones, through various modes.

Given the company's focus on reaching the large number of SMEs, Reliance is likely to initially focus on fewer categories in our view. In contrast, IndiaMART largely operates in long-tail products and, hence, may not be impacted with these launches. However, if Reliance Retail succeeds in gaining market share in the fewer, fast moving categories, it may well optimise the business for complex long-tail products as well.

Allied businesses – A bonanza?

IndiaMART experimented with end-to-end transaction-based model via Tolexo but failed due to execution challenges and vagaries of a maturing industry. The company is now experimenting and contemplating the following business models that – it believes – are scalable as the industry matures: 1) payment; 2) SaaS; and 3) credit. Should the company scale up these new models, additional revenue streams will open up further boosting its growth prospects in the long run.

Among the three aforementioned models, we see the credit business as most promising largely due to IndiaMART's access to high quality data about its potential borrowers. The number of leads generated for a customer, their completion rate, as well as demand for goods in which the customer operates, are important considerations which can help in assessing the creditworthiness of the customer. IndiaMART is currently at the evaluation stage in this space. We also believe that the SaaS model is scalable considering most SMEs are yet to adopt digital modes of doing business even as the drivers of digital adoption are in place.

That said, we are not building in any potential benefits from these three models in our estimates, but do believe that their success would be value-accretive.

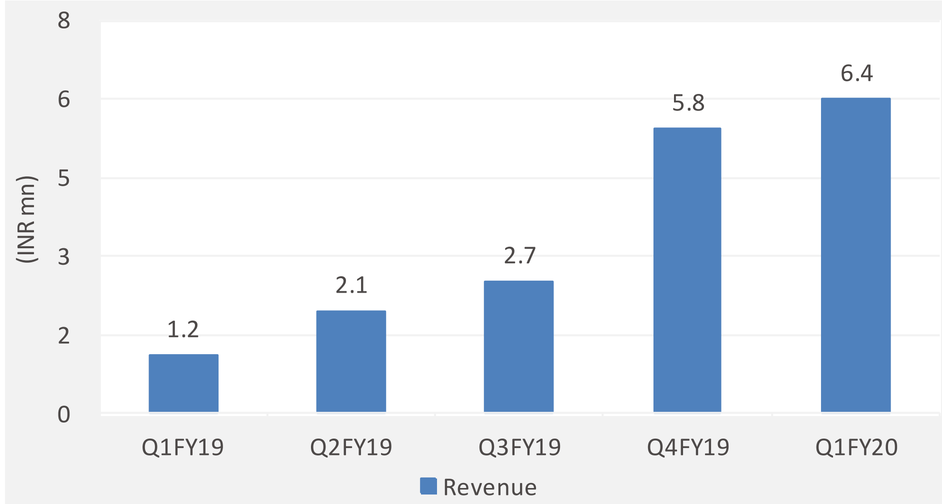
IndiaMART launched Tolexo in 2014 anticipating a shift in B2B commerce to online platforms. However, the absence of technology-enabled higher size shipping platforms, high transaction costs, and long-tail products leading to insufficient inventory turns made the business model unviable.

The company realised the end-to-end transaction model was unsustainable; it is now trying to address separate parts of transactions, such as payment, credit, various cloud-based software for SME such as billing systems, inventory management system, lead management system, etc. However, customer engagements and revenue from these solutions is small. We elaborate the company's plans and our assessment of each potential opportunity.

Payment

Payment solution is one of the more mature ancillary offerings by IndiaMART. IndiaMART payment protection program and online payment gateway system will allow multiple payment options directly on supplier storefront. The transaction charges are 1.75% and applicable GST, which we believe are prohibitive for high value and low-margin B2B transactions. In the future, the company may experiment with UPI and bank-to-bank transactions to reduce frictional costs and increase stickiness. IndiaMART is seeing strong and steady traction in the Payment business, as can be seen in Chart 7.

Chart 7: Pay with IndiaMART QoQ revenue



Source: Company, Edelweiss research

IndiaMART payment solution offers instant payment from buyer to seller with payment protection for the buyer

Pay with IndiaMART

Pay with IndiaMART is a payment gateway that allows sellers to create a payment link and send it to a customer over email, SMS, etc. The payer can click on the link and make the payment using credit card, net banking and other payment options. IndiaMART charges the seller a transaction fee of 1.75% and applicable GST (currently 18%) on the transaction fee.

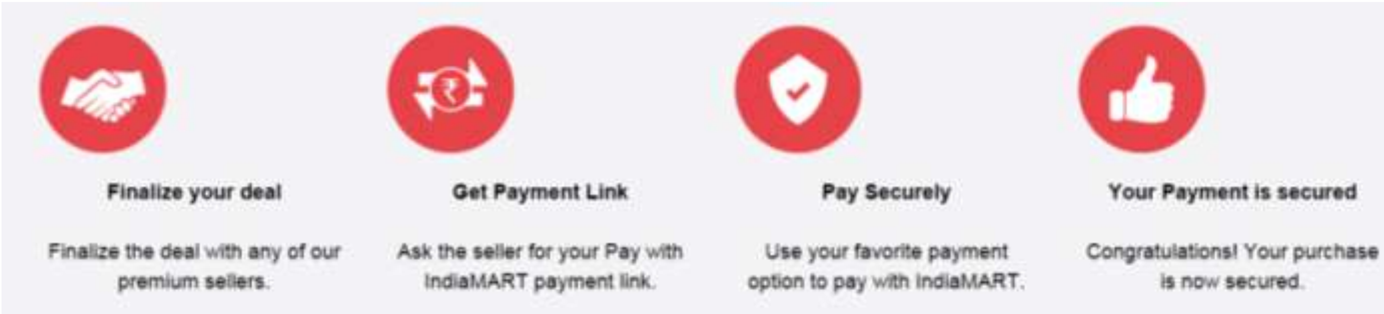
The company also offers 100% buyer protection, which covers buyers against various issues such as non-receipt of product, damage, etc. Buyers can raise a claim for a refund with IndiaMART.

Although many competitors such as PayU India, CCAvenue, Paytm, Instamojo, Razorpay, etc offer the option of a payment link, it is actually payment integration on the same platform that drives user convenience.

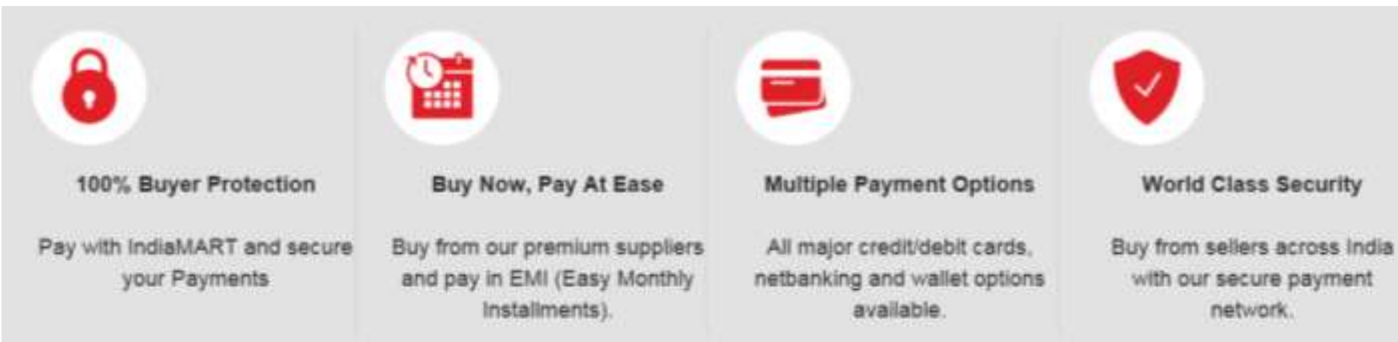
To illustrate the point, a buyer can discover a product on the IndiaMART platform, negotiate with a vendor on the IndiaMART platform, and also make the payment on the IndiaMART platform. We believe this payment service is far more convenient but point out that a transaction charge of 1.75% and applicable GST on it actually make the overall transaction noticeably expensive considering thin margins on B2B transactions.

That said, we believe the company would be able to drastically cut such costs by adopting the unified payments interface (UPI) and other bank-to-bank transaction options.

Fig. 10: Pay with IndiaMART: How it works?



Benefits



Source: Company

SaaS

As businesses moves towards the digital way, we see businesses opting for more digital tools. This provides IndiaMART an opportunity to foray into digital tools such as billing systems, inventory management systems, receivables management systems, etc. With 5.6mn supplier on its platform, IndiaMART has captive a user base that can be tapped into to scale up this platform. As these products have high stickiness, the company may monetise these products over the medium term.

IndiaMART has developed its Content Management Solution (CMS) and Lead Management Solutions (LMS). The CMS helps suppliers manage their product and service catalogues on IndiaMART while the LMS provides suppliers instant access to their IndiaMART business enquiries in one place online and the ability to manage them. The LMS also allows suppliers to arrange and respond to enquiries in one place. The CMS integrated in the mobile app allows suppliers to manage their listings and conduct business 'on the go'. The mobile app also offers instant notifications of enquiries, RFQs and replies.

The LMS platform also serves a communication channel between buyers and sellers to exchange information and negotiate and decide the terms of trade via features such as reminders, templatised quotations and predefined template responses. **Sellers can also integrate their leads originating outside the IndiaMART platform on the LMS, which makes IndiaMART LMS as a single unique platform for managing their entire business leads. This also makes the supplier base sticky.**

IndiaMART invested INR312mn for a 26% stake in Simply Vyapar Apps, a billing and accounting solutions firm for small and medium businesses

Exploring acquisitions, investments for building capabilities

IndiaMART recently invested INR312mn for a 26% stake in Simply Vyapar Apps (Vyapar), a company engaged in providing business accounting software (both mobile app and desktop versions) with Billing, GST Invoice, Stock Inventory & Accounting solutions. Vyapar's products are among the largest mobile app-based billing and accounting solutions for small and medium businesses with over one million downloads. We believe that this investment is a strategic fit to IndiaMART considering it can integrate with IndiaMART's lead management system and provide a holistic customer management platform for SMEs. IndiaMART will not have management control of Vyapar and its founders will continue to run by the company.

Credit

As discussed in the earlier section, the role of an intermediary may include offering a credit facility, particularly to SMEs that do not have access to organised banking channels. Larger wholesalers, which have access to organised financers, can avail finances at lower cost and make it available to SMEs in the form of credit period with interest rate and default risk built into margins.

Increasingly, intermediaries have access to high-quality transaction/leads data that can be leveraged to better assess credit risk of customers. Some intermediaries such as Power2SME, Udaan etc. are already using this data to extend credit to customers purchasing on their platform. Some intermediaries have entirely pivoted their business model to cater to working capital finance.

We believe credit business offers high potential for IndiaMART considering access to high-quality transaction/leads data can be leveraged to assess customers' credit risk

On its Q1FY20 earnings call, IndiaMART indicated its inclination to foray into this business. It has access to the data on the leads generated on its platform. Through various tools and measures, including sampling and AI, it can reasonably determine the number of customers it is catering through its platform. This can also be used to determine the performance of the customers (buyers) vis-à-vis its peers in the industry/geography. This can be a good indicator for determining creditworthiness of the customer.

We believe IndiaMART can explore two business models for providing credit to customers: 1) a commission model that involves tie-ups with multiple financial institutions; and 2) float an NBFC and leverage its balance sheet to provide credit. We expect the company to foray into the credit business via a commission-based model and then potentially consider the second model if the first business scales up well.

Enabling credit to customers will create an additional hook for the customers to stay on the platform and customers will more willingly opt for subscriptions as it will enable higher transaction volume on the platform. IndiaMART will be able to share transaction history with the financial institutions to facilitate credit assessment. In turn, additional data will enable financial institutions to underwrite risk more effectively, for which IndiaMART can charge a commission.

That said, the key risk to this model pertains to customer data privacy. Businesses that avail credit on the IndiaMART platform will have to hand over their transaction history data, which could be sensitive/proprietary for businesses, to other institutions. Some businesses may not want to risk sharing critical data for various reasons.

We believe that the company may look at setting up a full-fledged NBFC if its credit operations scale up. This would: 1) largely address the risk of data-sharing; and 2) enable the company to capture a larger value of the transaction. However, in this case, IndiaMART will have to commit significant capital to the business and it would also expose the company to macroeconomic and regulatory risk.

In 2008, Redington implement a similar model, setting up the Easyaccess NBFC. Easyaccess's overall performance with respect to underwriting risk was strong, but due to regulatory reasons, it had to commit significantly higher capital than it estimated, which dented its overall RoCE. In absence of opportunities to deploy sufficient capital, the company eventually sold the entire stake in the NBFC by 2014.

We estimate IndiaMART would report 24%, 51% and 50% revenue, EBITDA and PAT CAGRs, respectively, over FY19–21

Financial Outlook

Strong cash flow yield; investment phase behind; cheap valuations

IndiaMART reported a robust 27.9% CAGR in revenue over FY16–19 on the back of strong paid subscriber additions and realisation improvement while deferred revenue expanded at a CAGR of 31.7%. The company turned EBITDA-positive in FY18 and further expanded margins by 500bps to 16% in FY19, demonstrating strong operating leverage. INR6.1bn deferred revenue – 1.1x TTM revenue – provides revenue visibility and, accordingly, we are building in a 24% revenue CAGR over FY19–21E. High operating leverage would aid CAGRs in EBITDA of 51% and PAT of 50% over the period.

Given negative working capital (upfront collections) and an asset-light business model, not to mention the investment phase is largely behind, IndiaMART boasts healthy cash flow. Its Q1FY20 cash balance stood at INR7.5bn. With a clear runaway ahead, we expect IndiaMART to continue to report strong revenue growth. Moreover, high operating leverage implies healthier profit growth.

Note: In this section, we compare standalone numbers for a like-for-like comparison

Revenue growth momentum – Robust, and likely to continue

IndiaMART clocked robust revenue CAGR of 28% over FY16–19 on the back of a 21.5% CAGR in paid subscribers and a 5.4% CAGR in realisation. The supplier storefronts' CAGR of 33.7% has been higher than paid subscribers' CAGR of 21.5%. We attribute the faster growth in storefronts to the focus on amassing listings to attract greater traffic, which fuels creates and fuels network effect.

That said, we expect supplier storefront growth to slow down as the focus shifts towards monetisation. Anticipating the high base effect, we are building in a lower CAGR of 14.4% in paid subscribers over FY19–21E.

Chart 8: IndiaMART revenue and growth

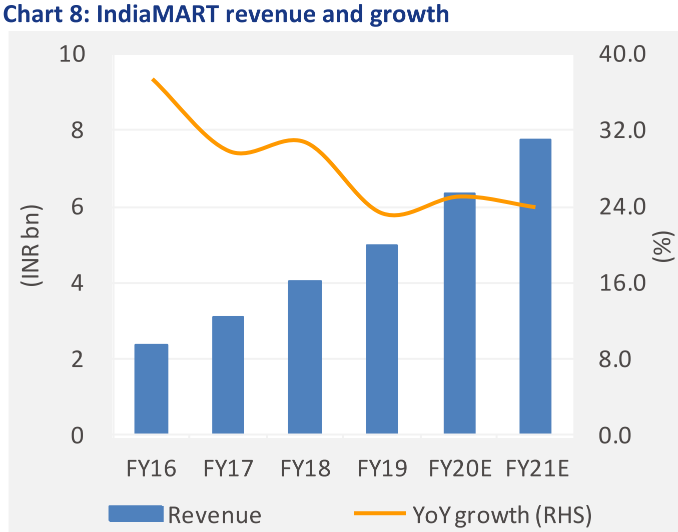
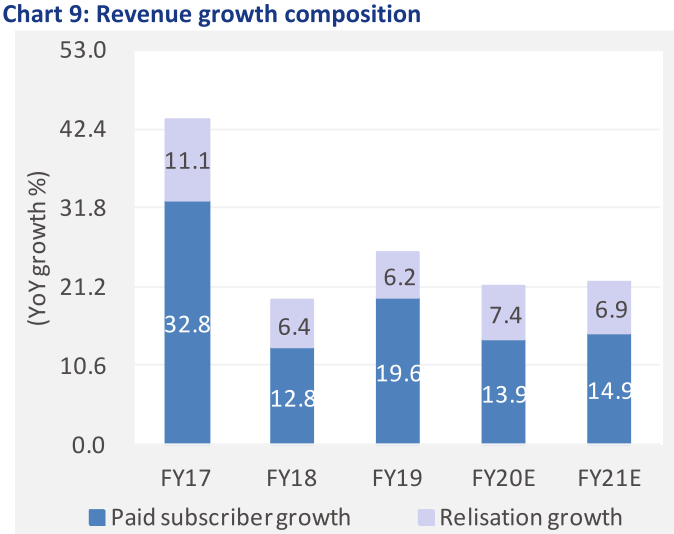


Chart 9: Revenue growth composition

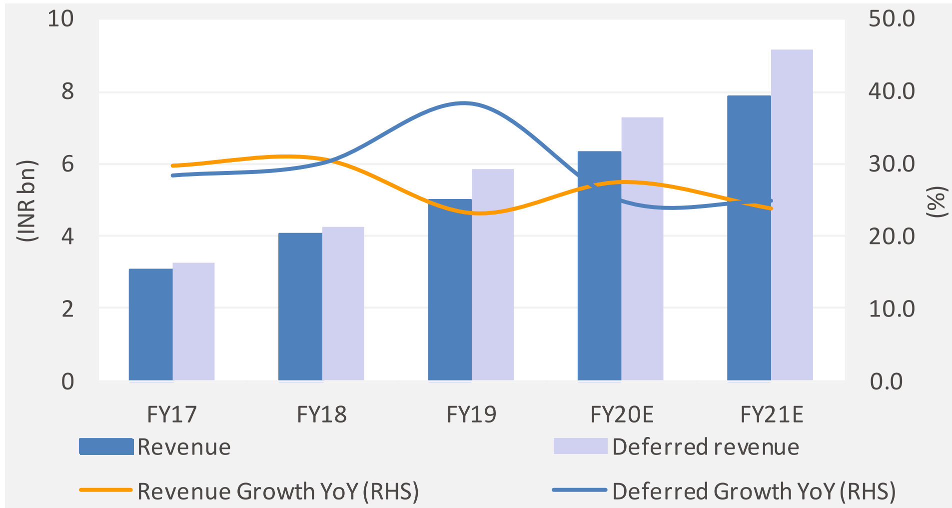


Source: Company, Edelweiss research

Deferred revenue of INR6.1bn, 1.1x TTM revenue, underpins strong revenue visibility

Deferred revenue, which is a lead indicator for revenue growth, has also grown in tandem with revenue, clocking a CAGR of 31.7%. Realisation (annualised revenue/paying subscriber) increased by a CAGR of 5.4% over FY17–19 to INR38,400 per subscriber, with a combination of upselling packages and price hikes. Going ahead, we are building in an improvement in a realisation CAGR of 7.2% over FY19–21E as the company will optimise its pricing, linking it to industries as opposed to a blanket pricing approach currently. Additionally, the increasing share of high paying brands on the platform would further aid realisations. A persistent slowdown in the economy is the key risk to our assumption.

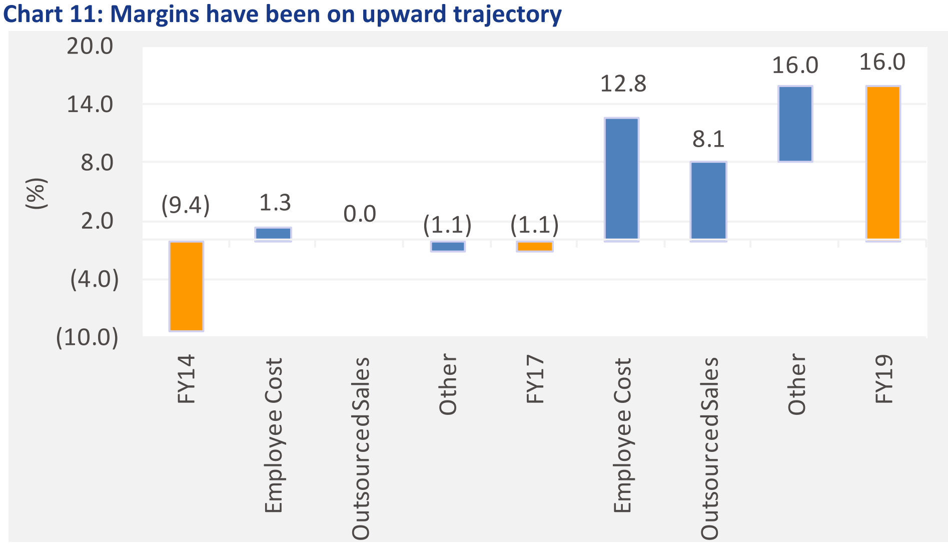
Chart 10 : Revenue and deferred revenue growth trend



Transition to monetisation phase complete

As we explain in the 'Network effect' section, internet-based companies must first invest in attaining critical mass to make the network effect self-sustainable and then start monetising the platform. Through FY16, IndiaMART invested heavily to gain critical mass. Over FY14–16, the company reported revenue CAGR of 32.3% while operating cost outpaced at a CAGR of 40.1%. Consequently, EBITDA losses deepened to INR539mn in FY16, from INR127mn in FY14.

Chart 11: Margins have been on upward trajectory

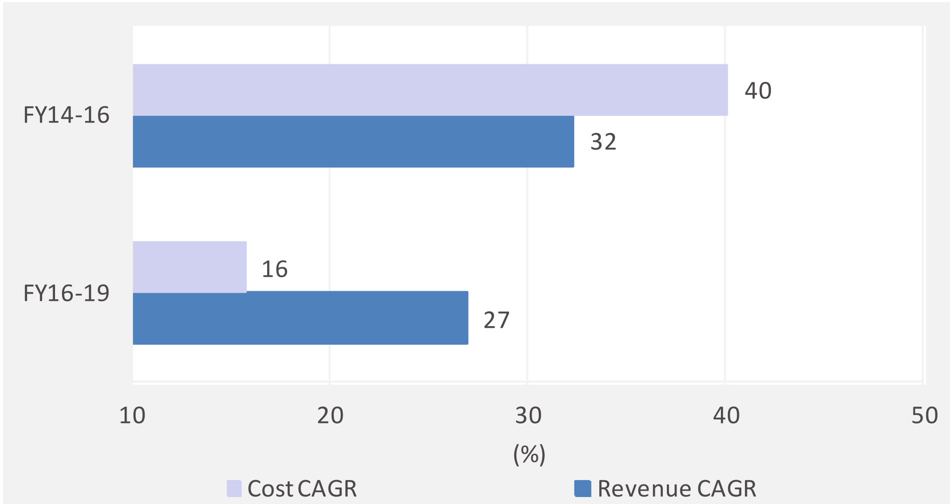


Source: Company, Edelweiss research

IndiaMART revenue growth remained strong despite deceleration in cost increase

After attaining the critical mass in FY17, the company reined in investments. Hence, its operating cost grew at meagre 16% annually over FY17–19 with revenue growth remaining unfazed at 27%. Despite decelerating operating cost, growth in other operating parameters remained robust with CAGRs of 49% in traffic, 46% in buyers, 69% in business enquiries, 31% in storefronts, and 16% in paid subscribers.

Chart 12: Operating leverage playing out: Revenue growth versus Cost growth



Source: Company, Edelweiss research

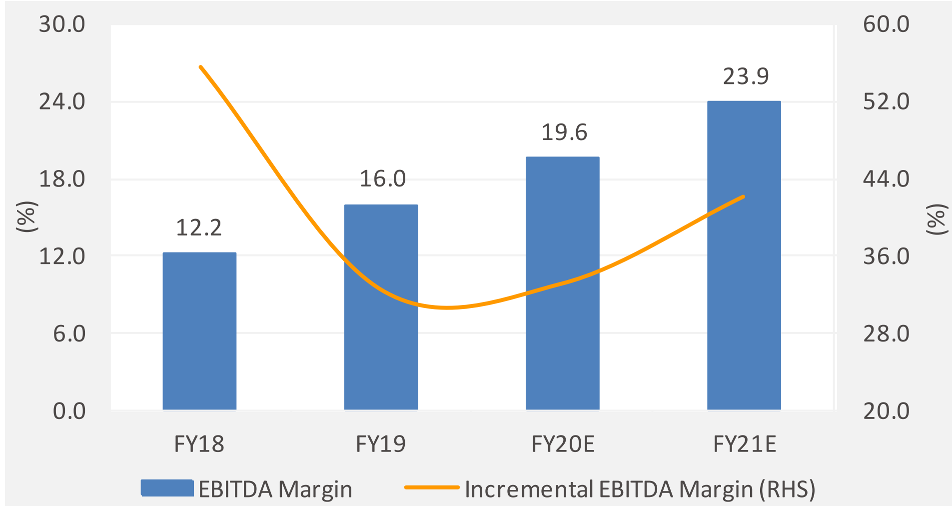
High operating leverage business

With a largely fixed-cost structure, IndiaMART demonstrates high operating leverage

We estimate IndiaMART will clock CAGRs of 51% in EBITDA and 49% in PAT over FY19–21, significantly beating the 24% CAGR in revenue due to high operating leverage. The bulk of the company's operating costs are fixed and, hence, a large portion of incremental revenue directly adds to EBITDA and PBT. IndiaMART's FY18 and FY19 incremental EBITDA margin was 56% and 33% driving improvement of 1330bps and 380bps, respectively.

We are building in an improvement of 8 percentage points EBITDA margin over FY19–21E driven by: 1) higher outsourcing of certain business functions; 2) optimised sales costs through targeted sales efforts based on supplier behaviour analytics; and 3) implementation of automated services such as digital payment and standing instructions for collection of subscriptions. On the back of strong operating leverage, we expect EBITDA to grow 1.3x over FY19–21E, with margins improving from 16% in FY19 to 24% in FY21.

Chart 13: Incremental EBITDA margin



Source: Company, Edelweiss research

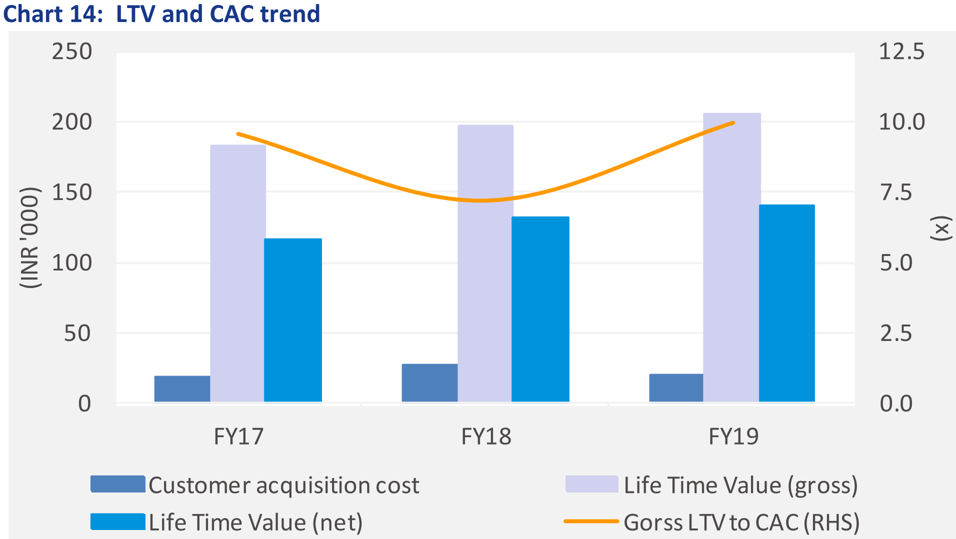
Favourable unit economics

IndiaMART has an attractive 6.8x net LTV-to-CAC ratio

For IndiaMART, we estimate customer life-time value (LTV) of INR206,042 compared with customer acquisition cost (CAC) of INR20,588. The LTV-to-CAC ratio of 10x shows IndiaMART's sustainable unit economics. Typically, a 3x LTV-to-CAC ratio is considered good. The LTV to CAC ratio is a function of average revenue per subscriber, subscriber churn, and subscriber acquisition cost, and an improvement in these metrics will continue to make unit economics favourable.

The LTV of customer refers to total revenue derived from customer during their lifetime. In order to calculate a customer's LTV, we assume the annual churn of about 20%. CAC is the average cost, be it in terms of sales employee cost or selling & distribution cost incurred to acquire a customer.

Chart 14: LTV and CAC trend



Source: Company, Edelweiss research

Customer service costs and selling & distribution expenses are a function of the number of buyers and sellers on the platform, and gross subscriber additions

Customer service costs

The functional P&L of IndiaMART reveals its high leverage, which aids earnings growth. As much as 31.9% of the company's cost is attributable to customer service, largely pertaining to employee-related expenses for client servicing, website content charges, PNS charges, SMS & email charges, and buy lead verification & enrichment costs. Customer service cost as a percentage of revenue declined to 31.9% in FY19, from 36.6% in FY17 as an increasing number of services – such as collection – are being automated.

Selling & distribution expenses

The selling & distribution expenses primarily consist of salaries of employees involved in the acquisition of new paying suppliers, and outsourced sales cost, i.e. costs incurred in connection with the outsourced telephone sales team and field force. Other expenses such as rent, power and fuel, repair & maintenance, travelling & conveyance allocated based on employee count also form part of the selling & distribution expenses. With the network effect already playing out and thus greater ease of customer acquisition, the selling & distribution expense declined from 25% of revenue in FY17 to 20% in FY19.

Technology and content expenses

Technology and content expenses include: salaries of employees in research & development of new and existing products and services; development, design, and maintenance of website and mobile application; curation and display of products and services available on websites; and digital infrastructure costs. The technology and content expenses decreased from 23% of revenue in FY17 to 20.5% of revenue in FY19 as these costs are initially high and then stabilise.

Technology and content expenses, marketing expenses and other operating expenses are largely fixed in nature

Marketing expenses

While branding and marketing activities (included in selling & distribution expenses) are mostly carried out by field sales representatives in person with potential customers, branding is supplemented with targeted digital marketing, search engine advertisements and offline advertising, not to mention advertising campaigns through television and print media. Employee benefits expense for employees involved in marketing activities are also included in marketing expenses.

The company now boasts a strong brand value, with word of mouth popularity and referrals further cementing the brand and also pulling down overall marketing expenses.

Other operating expenses

Other operating expenses primarily include: salaries of support function employees; and expenses such as rent, power and fuel, repair & maintenance, travelling & conveyance allocated basis employee count. It also includes browsing & connectivity expenses; telephone expenses; and recruitment and training expenses of branch employees. Legal and professional fees also form a part of operating expenses.

Table 5: Function-wise classification of Profit & Loss Statement

	FY17	FY18	FY19
Revenue from operations	**3,086.3**	**4,035.5**	**4,972.8**
Customer service cost	(1,129.1)	(1,347.2)	(1,584.2)
% of revenues	*36.6*	*33.4*	*31.9*
Selling & Distribution Expenses	773.5	900.0	1,004.4
% of revenues	*25.1*	*22.3*	*20.2*
Technology & Content Expenses	711.8	811.3	1,021.0
% of revenues	*23.1*	*20.1*	*20.5*
Marketing Expenses	95.0	52.0	47.8
% of revenues	*3.1*	*1.3*	*1.0*
Other operating expenses	412.1	432.8	519.6
% of revenues	*13.4*	*10.7*	*10.4*
EBITDA	**(35.2)**	**492.2**	**795.7**
% of revenues	***(1.1)***	***12.2***	***16.0***
EBIT	**(75.4)**	**464.2**	**755.7**
% of revenues	***(2.4)***	***11.5***	***15.2***
Net (loss)/gain on financial assets/liability measured at FVTPL	(74.1)	(1,192.1)	(328.8)
Impairment of goodwill	-	(1,175.6)	-
Other income	18.5	28.6	36.3
Loss before tax (E-F)	**(131.0)**	**(1,874.8)**	**463.3**
Income tax expense	-	(1,150.4)	337.4
Loss for the year	**(131.0)**	**(724.4)**	**125.9**
Paying Customers	96,025.0	108,347	133,000
Churn	20%	20%	20%

Source: Company, Edelweiss research

Deferred tax and income tax

The company has recognised deferred tax assets against unused tax losses (which shall expire during FY19–20 to FY25–26) and other deductible temporary differences since management believes deferred tax assets are recoverable. The company had a deferred tax asset of INR1,156mn in FY18, which came down to INR858mn in FY19 and would be utilised over the coming years.

Exceptional items

At a standalone level, IndiaMART recorded a net exceptional item of INR2,404mn in FY18, comprising INR1,176mn of one-time impairment of goodwill and the balance INR1,228mn towards a net loss on financial assets/liabilities measured at Fair Value Through Profit and Loss (FVTPL) in accordance with Ind AS requirements. Another INR653mn of net loss on financial assets/liabilities was recognised in FY19.

Goodwill impairment – The backdrop

Goodwill to the tune of INR1,176mn was recognised in FY17 on acquisition of an online business undertaking by IndiaMART from its subsidiary. However, due to changing business and economic conditions, management is of the opinion that it might not be able to utilise the benefits in the foreseeable future and, hence, goodwill was fully impaired in FY18.

Fair value through Profit & Loss (FVTPL) – The backdrop

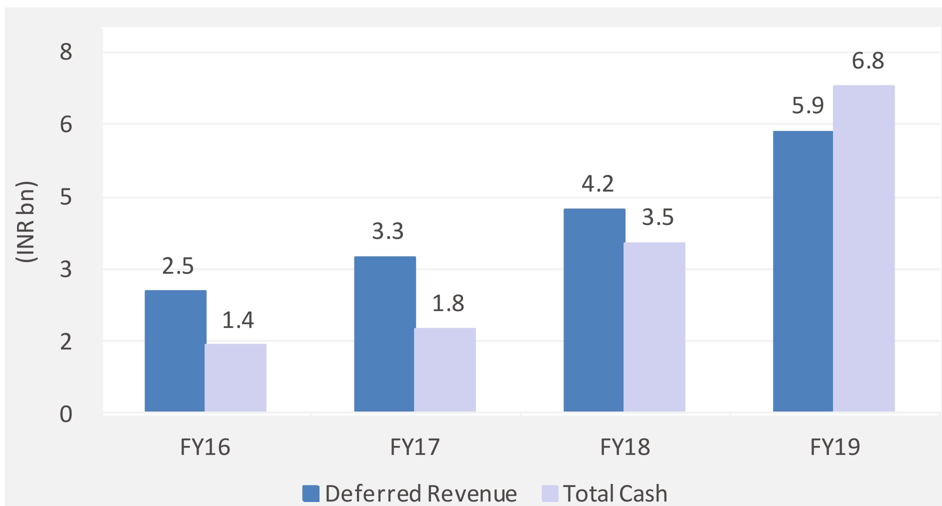
The group had issued compulsorily convertible preference shares (CCPS), whose aggregate value was about INR1.92bn. According to the terms and conditions of the CCPS, should CCPS holders desire, the company would buy them back at a reasonable approximation of fair market value in case the firm does not go public for a specified period. In light of this, CCPS were classified as financial instruments in the nature of financial liability designated to be measured at fair value.

This fair valuation led to a one-time exceptional loss in the form of a net loss on financial assets/liabilities measured at fair value through profit and loss (FVTPL) to the tune of INR1,228mn in FY18 and INR653mn in FY19. This led to the creation of share-buyback obligation reserve of INR3.73bn on the balance sheet as on 31 March 2018. However, those CCPS were converted to equity shares in September 2018, leading to a reversal of the share buyback obligation reserve.

Deferred Revenue fuels cash balance

Given the nature of the prepaid business model, the deferred revenue, i.e., the income received in advance from the customers boost the cash flow on the books of the company. As on 31 March 2019, IndiaMART's cash balance stood at INR6.8bn which jumped to INR7.5bn in Q1FY20, while the deferred revenue stood at INR5.8bn in FY19, and INR6.1bn in Q1FY20.

Chart 15: Deferred revenue and cash balance trends



Source: Company, Edelweiss research

Negative working capital: Source of short-term funding

The negative working capital, aided by negligible receivables, high deferred revenue (income received in advance) and payables is, in effect, a source of short-term funding for IndiaMART. The subscription payments are made upfront, which are utilised over a period ranging from one month to three years, which boosts cash flow.

With a largely prepaid model, there are hardly any receivables. While the payable days are about one month, the deferred revenue days stretch up to a year, which provides comfortable short-term funding. Moreover, as the company grows, a structurally negative working capital model would reduce capital requirement and push up cash balance. However, a higher proportion of customers adopting the monthly model vis-à-vis the annual model is key risk to the working capital situation.

Table 6: Negative working capital days

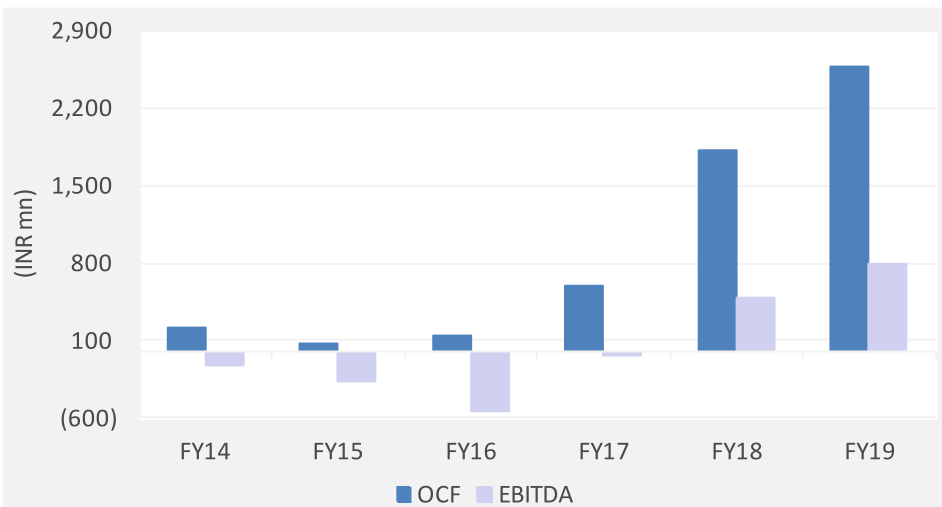
Year to March (days)	FY16	FY17	FY18	FY19
Debtors days	1	1	0	0
Payble days	32	31	36	37
Deffered revenue days	362	332	338	370
Cash Conversion Cycle	(422)	(385)	(406)	(440)

Low capex requirement and robust FCF

IndiaMART has an asset-light model, with a large dependence on cloud-based technology solutions, which are readily scalable. This has kept its capex low—less than 1% of revenue over the past three years.

Negative working capital and low capex requirements generate robust FCF. For instance, the company generated OCF of INR2.6bn in FY19 versus EBITDA of INR823mn; this has led to a substantial pile-up of cash on its books. As on 31 March, 2019, IndiaMART's cash balance stood at INR6.8bn which jumped to INR7.5bn in Q1FY20. We expect capex to remain at similar levels as earlier and expect the company to generate healthy cash flow going forward as well.

Chart 16: OCF and EBITDA



Source: Company, Edelweiss research

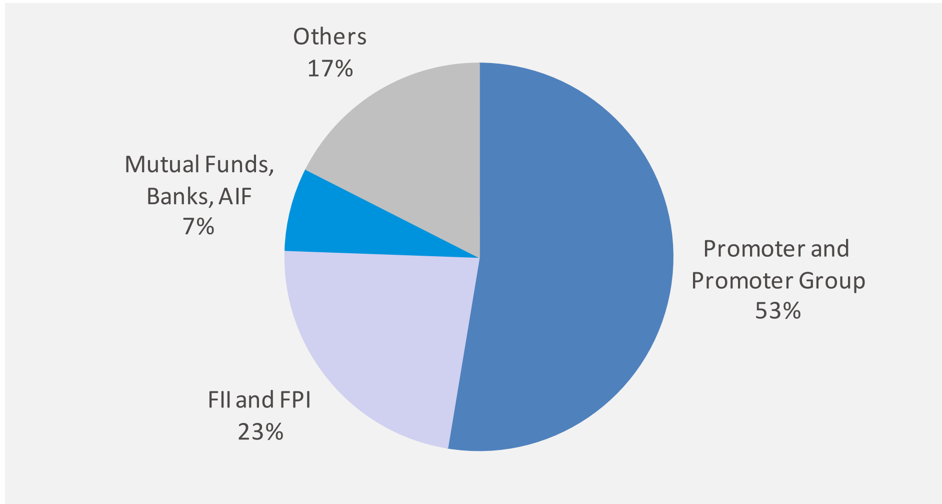
Low capital requirements drive healthy return ratios

Given the asset-light nature of the business, capital employed is very low, which in turn boosts the return ratios. We believe with strong ongoing growth in revenue and operating leverage at play, RoE and RoCE will remain high. We estimate the RoE would touch 49% and RoCE 61% by FY21. Return ratios will start compressing due to low returns from accumulating cash on the balance sheet. We expect the company to consider regular dividend distribution considering strong cash on the books and limited investment requirements.

Promoters hold majority stake

The shareholding structure, as on 30 June 2019, involves 53% promoter and promoter group holding, with 23% of foreign ownership and 7% owned by mutual funds, banks and alternative investment funds. Post-IPO, Intel Capital, Amadeus IV DPF and Accion Frontier Inclusion hold an aggregate of 12.5% of the company.

Chart 17 : Shareholding structure as on 30 June, 2019



Source: Company, Edelweiss research

Outlook and Valuation

Strong growth and cash flow yield lend comfort

We are initiating coverage on IndiaMART with a 'BUY' and 'Sector Outperformer' rating. Our target price of INR1,900 is based on 33x Q3FY21E EPS, 10% higher than 30x we ascribe to Info Edge's recruitment business due to IndiaMART's higher growth expectations. We expect IndiaMART to report earnings CAGR of 50% over FY19–21E driven by strong revenue growth (24% CAGR) and high operating leverage. The stock is trading at an attractive 24x FY21E EPS, considerably undershooting global peers. Besides, IndiaMART's high FCF yield and INR7.5bn cash balance further cushion its valuation. That said, we believe the following factors are keeping its valuation in check: 1) anticipated competition from new B2B players; 2) limited number of successful peers; and 3) short trading history of the company.

IndiaMART is trading at 24x FY21E EPS and 17x EV/EBITDA while its global peers trade at 31x FY21E EPS and 16x EV/EBITDA

IndiaMART is trading at 24x FY21E EPS and 17x EV/EBITDA while its global peers trade at 31x FY21E EPS and 16x EV/EBITDA. One thing to note that there are no global peers strictly comparable to IndiaMART as it operates in B2B listing space whereas peers like Alibaba derives bulk of the revenue from online transaction model. Higher physical infrastructure investments makes Alibaba business model asset heavy compressive RoCE (49% for FY19).

Closer home, Just Dial has similar business model but operates in B2B space whereas IndiaMART operates in B2B space. Just Dail is trading at relatively lower valuations—22x/20x FY20E/FY21E EPS, largely due to lower growth expectations and a poor execution track record. Street is building in CAGRs of 12.4% in revenue and 9% in EPS for Just Dial over FY19–21E. Other peers in the internet space, Info Edge is trading at 66x/51x FY20E/FY21E EPS, largely due to significant value of the investmetns in Zomato and PolicyBazaar.

IndiaMART reported CAGR of 28% in revenue over FY16–19E. We are building in growth of 24% in revenue, 51% in EBITDA and 50% in earnings over FY19–21E. We are valuing IndiaMART at 33x Q3FY21 EPS, versus 30x we assign to Info Edge's core recruitment business and 20x to Just Dial. IndiaMART's premium to Info Edge core business valuations, is on account of significantly higher growth expectations, and the network effect just kicking off. We believe that valuation premium for IndiaMART to sustain due to high gorwth potential. Just Dial's discount to IndiaMART factors in Just Dial's low growth expectations.

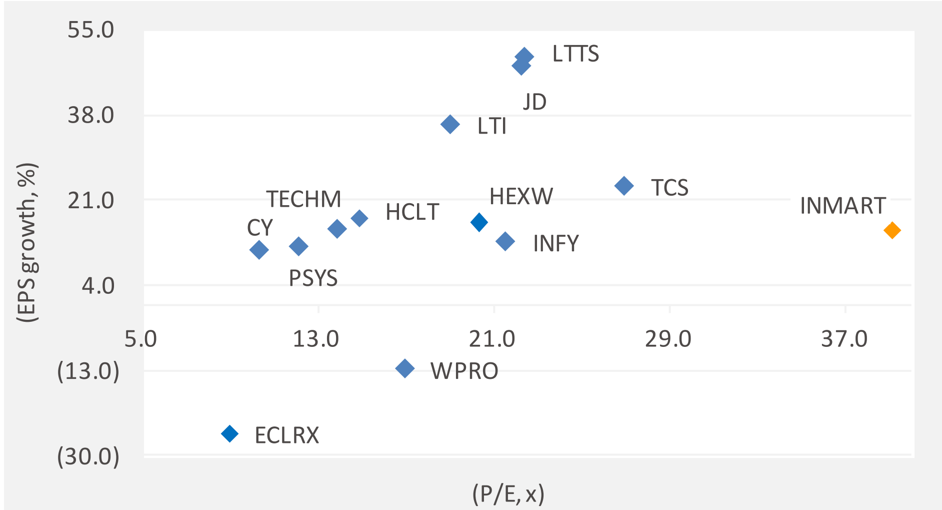
Table 7: Comparative valuation

	FY19-21 CAGR (%)			EV/ Revenues				EV/ EBITDA				P/E			
	Revenue	EBITDA	PAT	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
IndiaMART	24.0	51.0	50.0	7.7	5.6	4.1	2.8	47.6	26.0	17.0	9.9	54.0	33.6	24.0	17.1
Info Edge	20.6	17.5	21.8	13.1	19.0	18.8	16.0	50.2	69.9	57.0	54.7	27.8	37.2	63.6	64.5
Just Dial	12.4	16.3	8.7	3.7	4.3	4.7	4.2	17.7	16.8	17.3	15.4	21.1	19.5	22.6	20.2
Matrimony	9.9	34.1	20.8	4.6	3.7	2.7	2.4	19.9	23.7	14.4	10.2	22.4	35.0	29.3	19.3
Amazon	19.2	36.6	52.7	3.3	3.2	3.4	2.8	37.2	26.9	21.4	16.9	NA	74.5	55.3	41.7
Alibaba	32.4	45.8	33.0	11.7	8.1	6.2	4.8	32.0	32.4	20.7	15.5	45.1	58.3	26.3	21.0
HC Group	45.0	31.3	21.7	1.9	0.7	0.3	0.2	11.5	13.7	18.6	14.6	18.0	16.2	9.0	6.1

Source: Bloomberg, Edelweiss research

Despite its high-growth phase, IndiaMART's cash flow yield is comparable to the high-yield and low-growth IT companies

Chart 18: EPS growth and P/E valuation

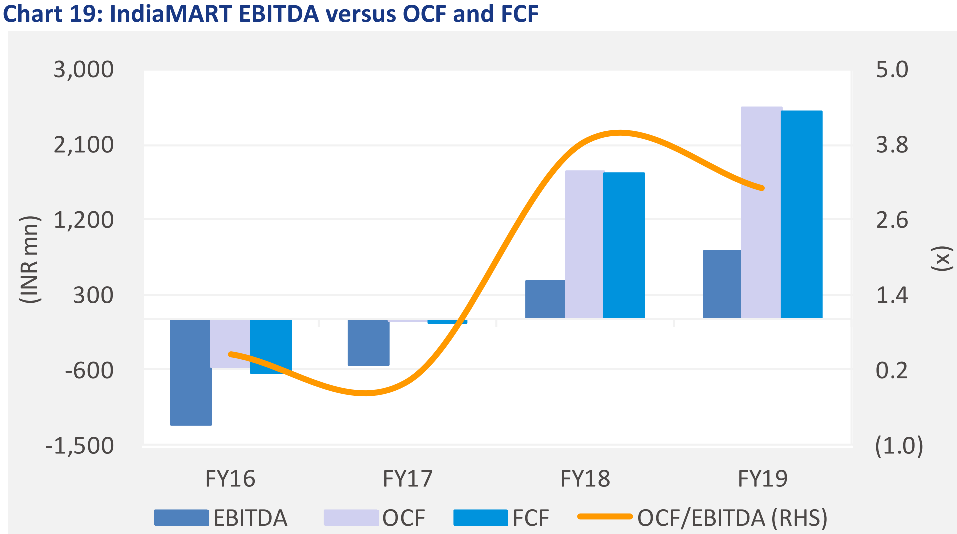


Source: Bloomberg, Edelweiss research

High cash flow yield

With largely upfront collections, IndiaMART has a negative working capital business model. This leads to meaningfully higher collections, which lead to superior OCF vis-a-vis reported EBITDA. For FY19, the company reported EBITDA of INR796mn while it turned in OCF of INR2.6bn. Given minimal capex, IndiaMART's FCF was INR2.5bn. This implies an FCF yield of 5.4% in FY19; we expect the yield to grow to 6.2% in FY20 and 6.7% in FY21. In fact, the company's FCF yields outclasses many other mature industries.

Chart 19: IndiaMART EBITDA versus OCF and FCF



Source: Company, Edelweiss research

To be precise, IndiaMART boasts a higher FCF yield than other IT companies and a better growth profile. Among various sectors, Indian IT companies have highest FCF yield. IT companies under the Edelweiss coverage universe currently have an FCF yield of 4.6%, which pales in comparison with IndiaMART's 5.4%. Similarly, IT companies under the coverage universe reported average revenue growth of 17.2% and average EBITDA growth of 24.3%, while IndiaMART reported 23.6% and 76.6%, respectively, in FY19. Just Dial is another stock with a comparable FCF yield (6.2% for FY19), although its growth rate is significantly lower than IndiaMART (Revenue and EBITDA growth of 14% and 39.2%, respectively).

Table 8: IndiaMART FCF yield versus other mature growth companies

Company	FCF Yield	FY19 Revenue growth	FY19 EBITDA growth
eClerx Services	5.0	4.8	-16.0
HCL Tech	3.9	19.5	22.1
Hexaware Technologies	3.2	17.9	11.9
Infosys Technologies	4.4	17.2	9.9
Just Dial	4.0	14.0	39.2
Cyient	4.6	17.9	17.3
Persistent Systems	8.9	11.0	23.9
Tata Consultancy Services	3.6	19.0	21.5
Tech Mahindra	5.4	12.9	34.3
Wipro	6.2	7.2	10.3
L&T Infotech	4.3	29.3	58.6
L&T Technology Services	4.2	35.5	59.1
IndiaMART Intermesh	5.4	23.6	76.6
Industry	**4.2**	**17.2**	**24.3**

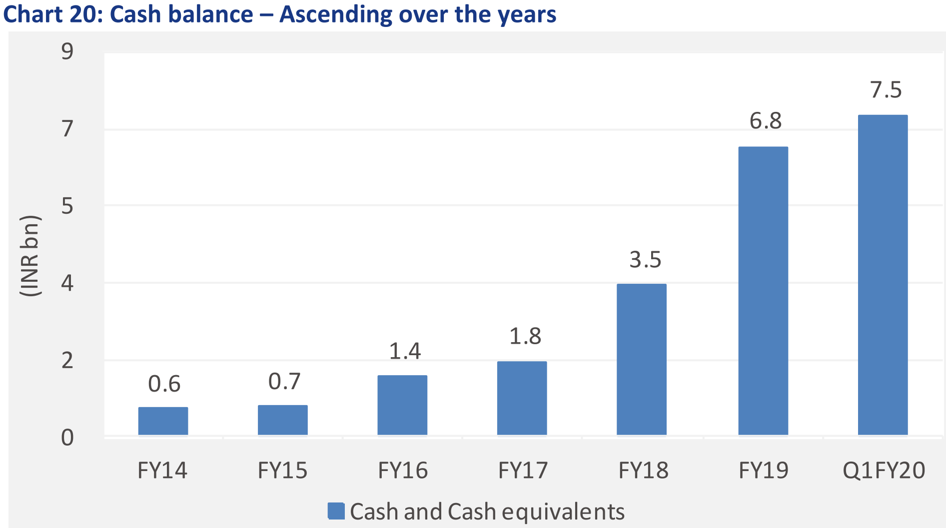
Source: Company, Edelweiss research

Strong cash balance

Cash on books worth INR7.5bn is about 16% of its market cap

Given its negative working capital and upfront collection, IndiaMART turned cash flow positive, although the company was still reporting losses. This has helped it amass INR7.5bn cash on the books through Q1FY20, which is ~16% of the overall market capitalisation. In light of the company's strong cash flow, we expect the company to have comfortable cash on its books going forward as well.

Chart 20: Cash balance – Ascending over the years



Source: Company, Edelweiss research

Key Risks

Technology or business model disruption in industry

IndiaMART has so far remained ahead of the curve in terms of technology adoption with a strong platform developed for managing customers, content, employees, etc. Given the massive scale of the B2B industry and their elaborate supply chains, we are seeing strong interest by entrepreneurs to foray into the B2B space, not to mention VC investors' keenness to finance them.

That said, IndiaMART too is experimenting with newer business models such as SaaS, payment services, etc to remain in the forefront of emerging business models. Although technology disruption in the B2B space has been traditionally slow, that may not remain the case going forward given the huge investments/increasing interest in this space. Additionally, given its large buyer and seller bases, IndiaMART may not be able to easily scale up newer technologies or business models, versus a newer player that is likely to be more agile. This may impact revenue growth and subscriber stickiness for the company.

Investment risk and capital misallocation

IndiaMART has not hesitated in experimenting with newer business models, evident from its investments in Tolexo, payment solutions, SaaS, etc. However, all investments may not fructify and may lead to loss of significant capital in case the business does not scale up along expected lines. In many cases, internet-based businesses turn unit economic positive only after attaining critical mass, and bear in mind that companies need to invest sizable amount to attain that critical mass. In many cases, this is first and biggest hurdle while at times cost curves may not be as steep as anticipated. Hence optimal capital allocation and continuous tracking of investments in newer businesses is crucial.

Pricing strategy

IndiaMART has a "*one size fits all*" approach in pricing its subscription packages. Its pricing model is not based on a specific industry or margins that the particular industry commands. We believe this poses a risk to the business, as an industry that inherently generates thin margins would find the paid subscription relatively expensive. This, in a way, also limits its ability to pass through meaningful price hikes across packages. We believe it would be beneficial for the company to follow a dynamic pricing model, wherein subscription packages are linked to specific industries and consider various factors, including their margins. This would allow the company to exploit to make the most of its customers' propensity to pay while creating stickiness.

Sustained economic slowdown

Revenue generated by IndiaMART can be categorised as advertisement expenditure, which tends to be discretionary. In economic slowdowns, enterprises tend to cut discretionary costs and, hence, we believe IndiaMART may not skirt economic slowdowns – like the one that's underway – unscathed. Enterprises that depend on IndiaMART for a significant portion of their revenue may consolidate their advertising budgets, but we expect proportion of such entities to be small.

On the other hand, a sanguine economic outlook drives market share aspirations and enterprises are more willing to increase their advertising budgets. Hence, better than strong economic growth will drive better revenue growth for the company.

Bad actors leveraging platform: fake products; cyber-attack; data hack

IndiaMART is an open platform and suppliers can upload their product catalogues without any intervention on their respective storefronts. Besides, IndiaMART cannot verify the authenticity of the products. This creates an opportunity to sell fake products. Although IndiaMART has no role in completion of the trade, and buyers and sellers are expected to negotiate the terms of trade and conclude the trade, any fraud may pose a severe reputational risk.

Besides, given its access to important database pertaining to storefronts, including product data, contact numbers, GSTN, buying and selling behaviour, all of which bear high economic value as well as privacy risk, IndiaMART is an attractive target for hackers. The company has so far managed data privacy and security well by investing in technology and people. The company's ability to minimise damage by such fake products and hacks will be a key factor in its success.

Significant shift to organised businesses

IndiaMART relies on long-tail product discovery for generating revenue on its platform. With smaller players consolidating their businesses, the tail is shortened. As the industry consolidates further, buyer's requirement for long-tail product discovery would go down, which would undermine attractiveness of aggregators.

Various steps such as GST implementation and tighter tax compliance are narrowing the tax arbitrage, while larger players bring in economies of scale. These structural changes are driving consolidation. However, we expect this shift to be gradual; hence, we do not expect this shift to impact IndiaMART in the medium term.

Company Description

India's largest B2B marketplace

IndiaMART is India's largest online B2B marketplace with a market share of ~60% in online B2B classifieds. The company operates a product and price discovery platform, facilitating interactions between suppliers and buyers. The platform is unique as it enables two-way interactions—suppliers can post their listings and buyers too their request for quotations (RFQs). This helps IndiaMART generate high-quality leads for suppliers and gauge supplier behaviour, particularly their responsiveness.

While the portal is free for buyers, it charges suppliers for premium listing of supplier storefronts and access to buyer RFQs. A clear market leader, IndiaMART caters to about 60mn monthly visitors on its portal, which is more than 10x visitors of its closest competitor. Over the years, it has widened listings to 54 product categories spanning 5.6mn supplier storefronts and currently delivers 18mn business enquiries daily from 88mn registered buyers. With the domestic economy getting digitalised, IndiaMART is poised to benefit from exploding digital transactions.

Overview

IndiaMART is India's largest online B2B marketplace for products and services with a market share of 60% in the online B2B classifieds space. The company primarily operates through its product and supplier discovery marketplace—ww.IndiaMART.com or IndiaMART. The marketplace is mainly a platform for business buyers to discover products and services and contact their suppliers.

Typically, a buyer visits the IndiaMART platform via a search engine while looking for a specific B2B product. In response, IndiaMART provides a list of suppliers based on the buyer's location and history of suppliers to ensure that the buyer's requirements are met. IndiaMART prioritises paying suppliers' listings, thereby generating a higher number of leads for them IndiaMART does not charge buyers for contacting suppliers, but it charges suppliers for prioritising their listings in order to generate higher number of buyer enquiries. It currently runs a flat fee model, which can be paid on a monthly, yearly or three-yearly basis.

As on 30 June 2019, IndiaMART had 88mn registered buyers and 5.6mn supplier storefronts in India. The supplier storefronts listed 62mn products—about 76% goods and 24% services. Buyers' enquiries on IndiaMART are referred to businesses through telephonic calls, SMS and email, or a request for quotation (RFQ). A total of 290mn and 449mn business enquiries were delivered to IndiaMART suppliers in FY18 and FY19, respectively. For the year ending 31 March 2019, the company had 73mn daily unique buyer requests, out of which 55% were repeat buyers calculated on the basis of the past 90 days.

Value proposition: Two-way discovery marketplace

IndiaMART – A robust two-way discovery marketplace connecting buyers and suppliers. Buyers locate Indian suppliers on the marketplace, both small and medium enterprises (SMEs) and large corporates, on a webpage containing a supplier's products and service listings or a supplier storefront, or by posting RFQs or "BuyLeads". The marketplace offerings through which buyers can search and view product and service listings cover a wide range of industries spread across India. As on 31 March, 2019, the company had listings across 54 industries.

Fig. 11: IndiaMART's value proposition

Source: Company

IndiaMART provides an effective and trusted online platform to help businesses deepen market reach and garner more business. The company's online marketplace is particularly relevant in India, which, unlike many other countries, does not have any major multi-brand or multi-category offline retailer of scale. Furthermore, according to a 2018 KPMG Report titled "Market Assessment of B2B e-commerce and digital classifieds in India", the growing B2C e-commerce market has encouraged a large number of sellers to take their businesses online, which is also driving traction in the B2B e-commerce market.

History

IndiaMART InterMESH was founded by brothers, Dinesh Agarwal and Brijesh Agarwal. The company began as a website focused on enabling buyers outside India by aggregating data of Indian SME exporters. However, since exports did not pick up from India, the company had a tough time scaling up and finally gave up the idea. Management then changed course and pivoted its business model on targeting Indian buyers by aggregating data of sellers on the platform. This helped many buyers reach out to a wider number of sellers across geographies, thereby enabling efficient product and price discovery.

To leverage its low customer acquisition cost and capture a higher share of value of the transaction, the company launched an online transaction marketplace for business goods through its wholly owned subsidiary, Tolexo. However, unfavourable unit economics due to the higher cost of order fulfillment and, consequently, steep working capital requirements forced the company to shelve the business. The company is now trying to capture additional value of the transaction by offering payment services, SaaS, etc.

Subscription-based business model – Sales cycle

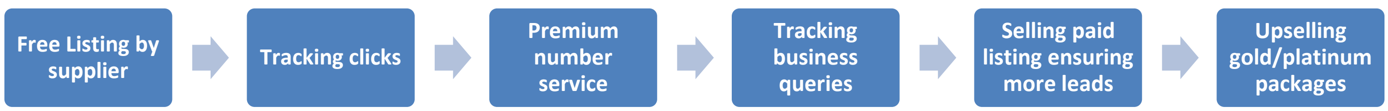
IndiaMART derives more than 95% of its revenue from subscription fee charged to suppliers. Suppliers generally begin with a free listing on the platform, and track the number of calls/leads they receive thereof. Once a supplier begins to register adequate leads/clicks, IndiaMART prescribes a premium number service, wherein a unique mobile number is allocated to every supplier, which ensures that they do not miss out any buyer enquiries.

This reduces the odds of losing out on opportunities. As on 31 March, 2019, a total of 470,053 suppliers had availed the IndiaMART premium number service.

Buyers registered on the platform can either contact suppliers directly, or submit an RFQ, i.e. a business enquiry. The sales team then gets to work on converting this supplier into a paid supplier, by explaining the benefits of a paid listing, particularly preferential search results over free listings and the higher number of potential enquiries the supplier might receive. The sales team also attempts to upsell the Gold/Platinum packages to paying suppliers.

IndiaMART also earns revenue by selling advertising space. Revenue from advertising on the IndiaMART platform accounted for a small portion of its total revenue in FY19.

Fig. 12: IndiaMART sales cycle snapshot



Source: Edelweiss research

Competitive Landscape – IndiaMART miles ahead

In the Indian online B2B classifieds space, IndiaMART is the clear leader with a market share of about 60%. The company is more than 10x the size of its closest competitor – TradeIndia. The scale of operations, visitor traction on the platform (as can be seen in Table 9) testifies to the deep moat around IndiaMART's business, thanks to the network effect. Much like IndiaMART, closest competitor TradeIndia follows a listing and subscription model, while ExportersIndia follows a pay-per-view model wherein it earns revenue by selling leads to suppliers. However, these players are very small compared with IndiaMART.

Another competitor in this space is Just Dial. The company earns revenue by providing listing services to businesses across customer-focused businesses. It had a comprehensive database of 26.5mn listings at end-June 2019. Just Dial operates both in the B2C and B2B classifieds space, and has lists over 50 industry categories in the latter.

Table 9: Competitive landscape: Operational parameters

Similarweb data	India Mart	Trade India	Exporters India
Industry Categories	54	38	40
Reqistered Buyers	83	3.6	1.6
Registered Sellers	5.5	3.0	2.5
Total visits - July 2019	43.94mn	2.77mn	0.72mn
India	73.2%	77.7%	56.6%
US	3.8%	3.4%	6.9%
Others	23.1%	18.8%	36.5%
Traffic source			
Direct	12.8%	13.4%	14.0%
Referrals	0.5%	0.9%	2.3%
Search	83.9%	81.7%	76.6%
Social	0.8%	0.9%	1.7%
Mail	2.1%	3.0%	5.8%
Display	0.0%	0.0%	0.0%
% of Organic search traffic	100.0%	99.9%	99.9%
Bounce Rate	36.6%	65.6%	56.1%
Avg visit duration (min)	3.22	2.55	2.46
Pages per visit	3.53	2.67	3.18
Global rank	1,144	21,964	83,160
India Rank	68	1,371	5,737
Android app download	10mn+	0.1mn+	0.1mn+
Rating	4.6	4.0	2.2
Votes	3,18,901	5,961	1,415

Source: similarweb, company, Edelweiss research

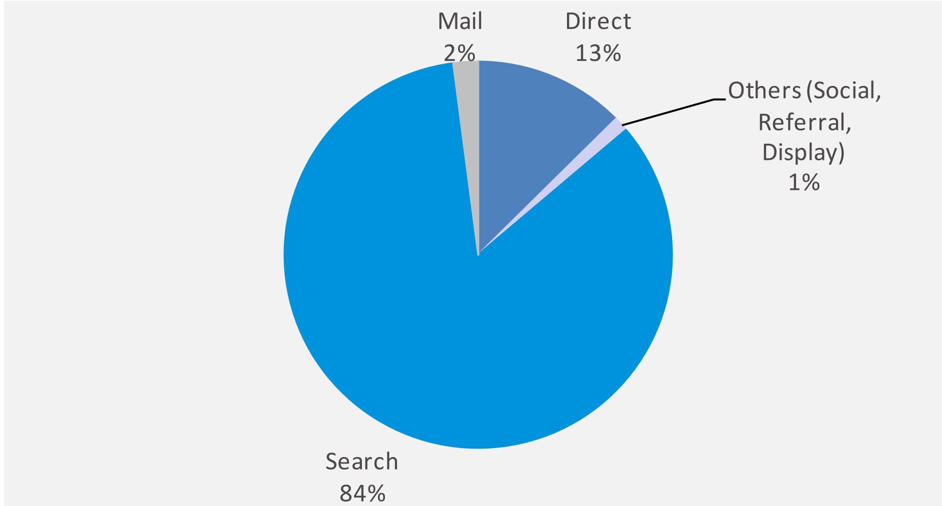
IndiaMART: The business process flow

Demand/buyers' side:

Buyers can utilise the search engine to find specific products and services they require. The search results can be filtered—by location or nature of supplier's business (for example, wholesaler, manufacturer, exporter, retailer or service provider).

The search engine supports several languages, including English. The search results include information about product suppliers, including their profile and business type, verification status, GST registration number, TrustSEAL (if any), location, product photographs and videos (in certain cases) and descriptions along with price.

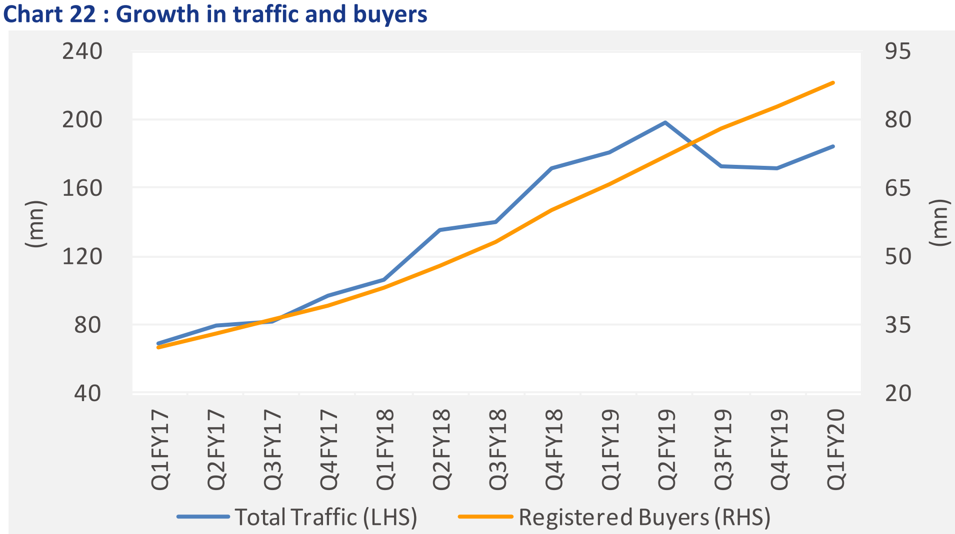
Chart 21: Source of traffic on IndiaMART



Source: Similarweb

The company currently logs monthly traffic of ~60mn, with 84.1% of visitors coming on the platform from search engines like Google. However, it does not include data pertaining to customers that access the platform via its app. We believe the traffic generated from the app is insignificant. That said, network effect has led to an increase in the traffic for the company.

Chart 22 : Growth in traffic and buyers



Source: Company, Edelweiss research

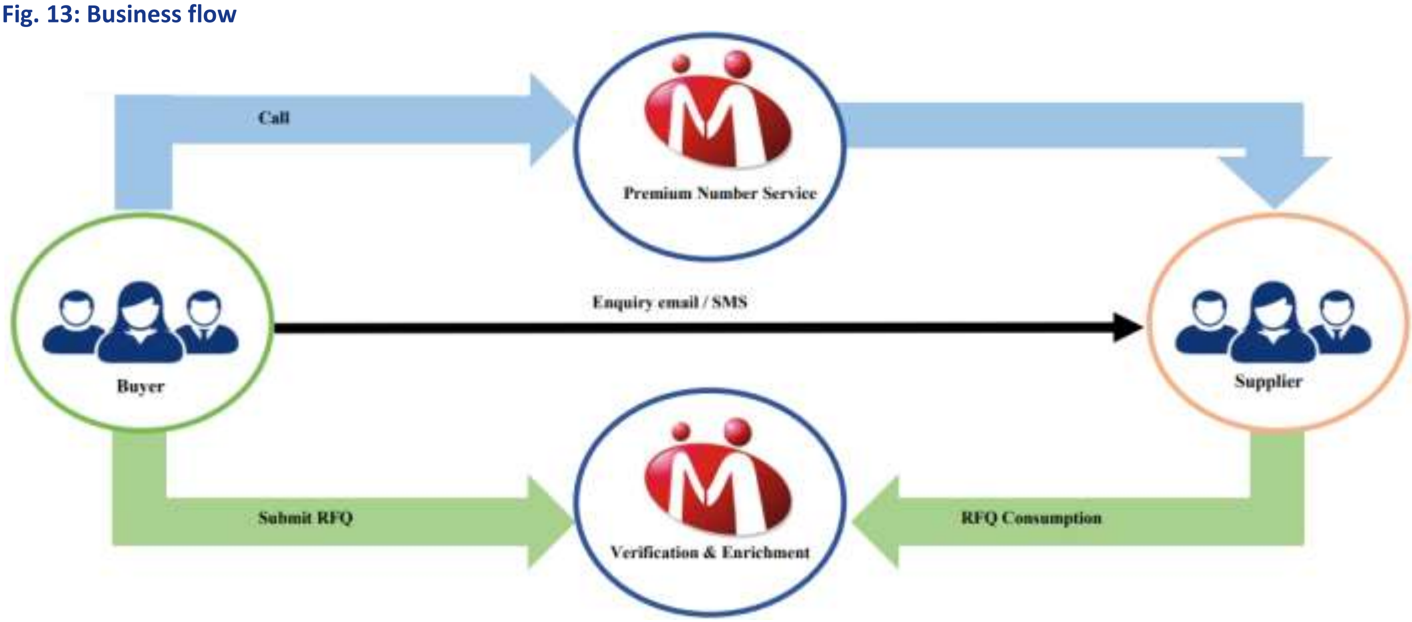
RFQs

In addition to utilising search engines to contact suppliers through their publicly available contact information, a registered buyer may enquire about a product or service on the marketplace via an RFQ, which suppliers can respond to. As part of the RFQ-enrichment process, IndiaMART makes direct phone calls, or uses SMS and other verification tools to validate a buyer's mobile or e-mail. If a registered buyer searches for a product or service on its platform, the company calls up the buyer to obtain exact requirements, which is then published as an RFQ on the platform.

An RFQ may include a description of the product or service that a buyer seeks to purchase, the buyer's intended use or application of the product, the estimated quantity required and an indicative price. If a supplier is interested in the transaction under the terms of the buyer's RFQ, the supplier can utilise RFQ credits and obtain the buyer's contact information (from within the RFQ).

Buyers that submit an RFQ online receive a list of suppliers that, based on a behaviour data-driven matchmaking algorithm, are relevant to their specific requirements.

Fig. 13: Business flow



Source: Company

Supply /seller's side

Free listing

As discussed earlier in this section "Subscription-based business model – Sales cycle", IndiaMART is accessible to suppliers across India that completes the free registration process. A supplier can create a supplier storefront at no charge to display information about their company, products and services. The company selectively verifies mobile numbers and e-mail addresses of new supplier registrations via automated systems. IndiaMART acquires a significant portion of suppliers by identifying those that can enhance the overall database and then itself creating supplier storefronts for their products and services.

A comprehensive suite of free services enables suppliers to attract buyers on IndiaMART. Free services for suppliers include:

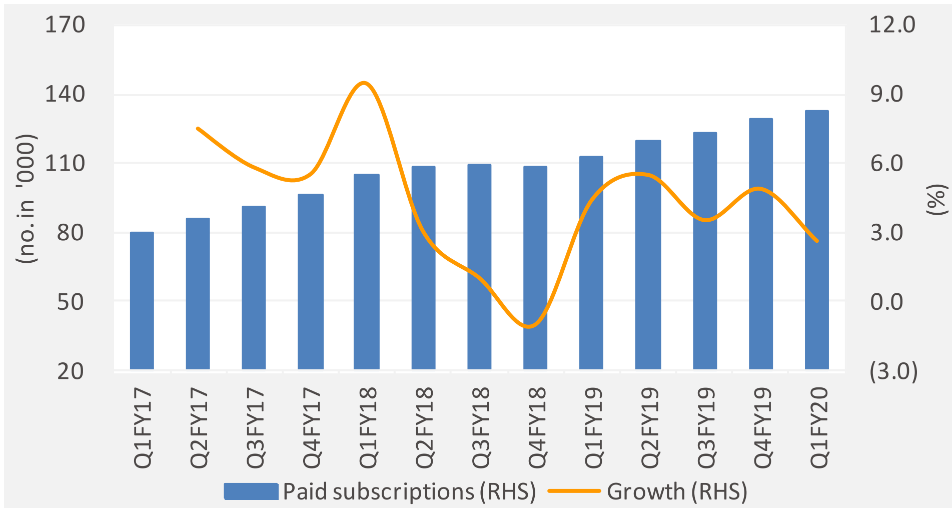
- **Supplier storefronts**: Suppliers can create storefronts, which are webpages on the IndiaMART website that allow suppliers to display their products and services.
- IndiaMART runs a **premium number service**; it allots unique phone numbers to suppliers and connects buyers with them directly. Besides, it keeps suppliers informed via software-based missed call alerts. The company has so far assigned ~0.5mn premium numbers.

- **Lead management system (LMS)** provides suppliers access to comprehensive information about potential buyers and the nature of their historical enquiries. This allows suppliers to manage phone, email and SMS enquiries from buyers in one place and connect with them.
- **Content Management System (CMS)** helps suppliers manage their product and service catalogues on IndiaMART.

Paid listings by suppliers

It offers suppliers the following multiple levels of paid subscriptions that include various features designed to increase a supplier's visibility and access to buyers on IndiaMART. A dedicated customer service team assists new paying-subscription suppliers to design and create their supplier storefronts and catalogues of products and services, providing continuous service from initial provisioning through final hosting, once supplier storefronts are available for access by buyers. To encourage the adoption of RFQs as well as to drive higher engagement with suppliers, the company introduced subscription packages that include a variety of free bundled RFQ credits.

Chart 23: Indian supplier storefronts growth versus growth in paid subscriptions



Source: Company, Edelweiss research

Paid listings as a proportion of total supplier storefronts have reduced from 3.2% in Q1FY17 to 2.4% in Q1FY20. Out of a total of 5.6mn Indian supplier storefronts, there are 1,33,000 paid subscribers.

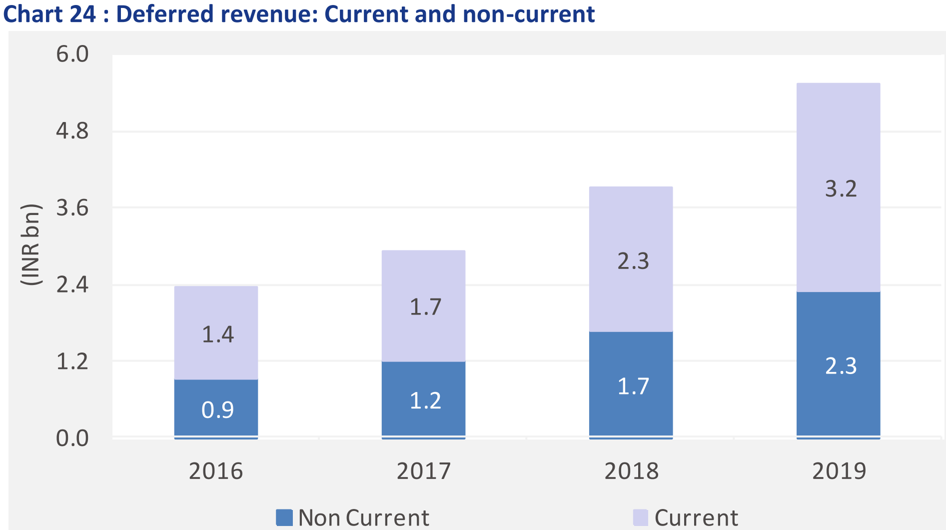
Table 10: Subscription packages

Package	Features
Silver	Package Fee : INR25,000 annually 7 RFQ credits every week Priority Listing is done, either city specific or category specific : higher than non-paying suppliers Customisable Supplier storefront, webpage, display products/services
Gold	Package Range : INR25,000 - 50,000 annually Gold (i) Silver package plus TrustSEAL ; 14 RFQ credits every week Gold (ii) Maximiser package : Silver package plus fully customisable storefront and webpage ; 21 RFQ credits every week Priority Listing is done, either city specific or category specific : higher than silver and non-paying suppliers
Platinum	Multi-tiered variations : Silver plus Gold plus further priority in lisiting Industry Leaders, Featured Premium Listing Suppliers, Leading Suppliers and Star Suppliers are listed from top to bottom Further RFQ credits basis the tier of the supplier

Source: Company, Edelweiss research

Each of the Silver, Gold and Platinum subscriptions is available for purchase on a monthly basis and annual basis, or even for multiple years at discretion based on supplier behaviour. Longer-term subscription packages offer discounts relative to short-term subscriptions. The deferred revenue pattern over the years suggests the recent shift from long-term to short-term subscriptions. To improve supplier retention, the company has automated payment processes and adopted automatic renewal mechanisms that debit accounts or cards at standard fixed intervals.

Chart 24 : Deferred revenue: Current and non-current



Source: Company, Edelweiss research

TrustSEAL: The TrustSEAL programme is the company's verification process to address buyers' concerns around suppliers' credibility. Under the TrustSEAL program, a third-party service provider independently verifies a supplier's certain corporate filings, registrations, certifications and licences. The concern over reliability of online suppliers deters potential buyers from using B2B online platforms, and the TrustSEAL programme addresses this concern and draws more buyers to the marketplace.

RFQ Credits: IndiaMART connects buyers with suppliers through an automated behavioural data-driven algorithmic matchmaking engine that matches buyers RFQs with relevant suppliers listed on the platform and shares the buyer's requirements with such suppliers. Furthermore, most of the buyer requirements posted on the platform are made visible to all suppliers, whether they are listed or not. Any supplier interested in obtaining the buyer's contact information may do so by utilizing an RFQ credit, which was either purchased by the supplier individually or as part of a subscription package. Although bundled RFQ credits are included in all subscription packages, many suppliers often purchase additional RFQ credits. Furthermore, RFQ credit utilisation provides information about supplier behaviour that is further used in enhancing the matchmaking relevance.

Pay with IndiaMART: This service enables paying-subscription suppliers to receive payments from buyers via debit or credit cards by using third-party gateway services. This requires a minimal set-up and can be used on a pay-as-you-go basis. Paying-subscription suppliers pay a fee of about 1.75% for each transaction without any fixed charges.

Sales, customer acquisition and robust service

IndiaMART boasts a robust sales and service network comprising a large team of sales and service representatives in multiple cities across India in addition to a call-based customer service team, which adds another layer of assistance to suppliers. **A significant supplier acquisition strategy has been to identify suppliers that can potentially enhance IndiaMART's database and, at no charge, create online supplier storefronts for these suppliers and their products and services**. Then these suppliers are notified of their new storefronts by email or SMS.

IndiaMART is continually strengthening its sales and marketing teams to generate new customer leads. The sales representatives can now collate or update available supplier-related information such as products, description along with price, images, geolocation, GST registration and other details via mobile-compatible technology solutions, which further improve representatives' efficiency and productivity. In addition, IndiaMART is increasingly tracking behavioural patterns to target potential paying subscription suppliers, which helps it to methodically acquire suppliers.

Most suppliers that purchase subscription packages are assigned a relationship manager, who serves as the single point of contact for issues or inquiries related to their activities on the IndiaMART marketplace. Relationship managers maintain regular contact to educate, engage and service these customers. Consequently, relationship managers have a deep understanding of their customers' businesses, which opens up potential opportunities to up-sell subscriptions based on the customer's business needs.

As on 31 May, 2019, the sales team operated 72 offices across 37 cities in India, implying a direct presence and better serviceability in each of these cities. As on 31 March, 2019, the in-house sales team numbered 407 and the outsourced sales team 1,067, largely field sales representatives.

References and recommendations from existing customers have played a key role in winning new customers in the past and, as a result, IndiaMART continues to focus on providing excellent after-sales support. Furthermore, as on 31 March, 2019, 1,842 employees made up the in-house servicing team responsible for providing aftersales support and up-selling higher value subscription packages to customers.

Tolexo

Background

Funded by IndiaMART, Tolexo Online (Tolexo) was incorporated in July 2014. An online B2B e-commerce platform, Tolexo listed predominantly industry supplies, including everything from safety and lab equipment to hand and power tools on its platform, providing a hassle-free medium for buyers and sellers to procure and sell products, respectively. Within a year of operations, Tolexo boasted 8K sellers and about 1.5mn monthly visitors. The company was founded by Brijesh Agarwal (IndiaMART co-founder), Navneet Rai (a seasoned entrepreneur) and Harsh Kundra (former CTO, Jabong.com).

Business model

Unlike its parent IndiaMART, Tolexo followed a transaction-based model. Revenue for Tolexo came from three streams—marketing fee from sellers for displaying products and order-handling (covering logistics); from customers, it charged a shipping fee for delivering the order. Tolexo had tie-ups with external delivery agents for logistics. It had also embarked on a credit-based payments system, wherein larger, reputed clients could avail as many orders during the month as they wanted, and pay for the same on a prefixed date.

However, post-demonetisation, the general financial health of SMEs deteriorated, which affected Tolexo. The company suffered severe delays in payments and logistics too was not turning out to be profitable (as most SMEs had already established supply chain channels). Additionally, the high advertising and customer acquisition cost made the business economically unviable. Hence, the founders decided to shut the company.

Marketing and branding: A 'digital-first' approach

With a 'digital first' approach, most of the marketing and branding activities at IndiaMART are targeted towards online media. One of the major changes over the past few years has been the shift from above-the-line marketing to more-targeted social media marketing and digital videos to capitalise on the immense growth in online video consumption among Indian users. The company makes use of online campaigns for buyers and sellers in order to drive engagement and improve traction on the platform.

Technology advancements and product development

IndiaMART has been investing to deploy the latest technology for a better customer experience and greater business efficiency. The company's webpages and main databases use licensed technology and popular open source tools. Such tools reduce the time needed for programs and web services to load webpages and communicate with servers.

IndiaMART uses virtualisation technologies and cloud-based services to optimise its servers, processors and other hardware resources. These technologies allow multiple processes to run simultaneously on servers, which accelerate content delivery and shore up platform security.

Insights on conversion rates

IndiaMART follows a robust feedback mechanism to track the conversion rate of RFQs, as well as to assess the platform's utility to customers. For all RFQs posted on IndiaMART's platform, a survey is conducted to collect buyer feedback, particularly about the transaction, pricing discovery, etc. This feedback is important it signifies the platform's utility to buyers, and indicates the average conversion rate of customers/buyers. It also helps IndiaMART identify areas of improvement and target new suppliers for its platform.

Robust mobile platform

The online marketplace is accessible through desktop, mobile-optimised platforms and apps on personal computing and mobile devices. The mobile website and app that IndiaMART has developed is capable of handling dynamic needs of buyers and suppliers while remaining reliable, secure and scalable .The IndiaMART mobile website, together with the IndiaMART mobile app, accounted for 76% of total traffic on IndiaMART in FY19. Buyers can make business enquiries on IndiaMART through telephone, SMS, and email or by posting RFQs.

As on 31 March, 2019, the IndiaMART mobile app had been installed 10.84mn times and 76% of paid suppliers have been active on the app in the last 30 days. The app is available on Android and iOS. While the app allows buyers to search for products and services, it also serves as an effective lead management system for suppliers, which allows them to manage buyer enquiries and call or reply to enquiries via their mobile devices. The company has also developed a mobile ERP application in-house, thereby further enhancing user experience by providing innovative value-added features to buyers and suppliers.

IndiaMART payment facilitation

In April 2017, the company launched the IndiaMART Payment Protection programme, which addresses suppliers' concerns pertaining to the payment risk and assures buyers that they will receive the product or service prior paying up. Through this programme, the buyer and the supplier first finalise the deal; the buyer then makes the payment to IndiaMART. Once the supplier confirms the delivery and if the buyer doesn't dispute the product/service within a specified time frame, IndiaMART releases the payment to the supplier.

The company also offers payment gateway services, which require a minimal set-up but offer great convenience to suppliers in receiving payments via debit or credit cards or third-party gateway services. A small fee per transaction is charged. IndiaMART Payment Protection is currently in the beta stage, and the company continues to develop and refine the service.

Management Overview

Dinesh Chandra Agarwal – Managing Director

Mr. Dinesh Chandra Agarwal is a bachelor of technology (computer science and engineering) from Harcourt Butler Technological Institute, University of Kanpur. His experience spans Hindustan Management and Technical Services, HCL America, Inc., HCL, HCL Hewlett-Packard, Centre for Development of Telematics (C-Dot) and CMC. Mr. Agarwal is a charter member of The Indus Entrepreneurs (TiE) and sits on the governing council of the Indian and Mobile Association of India.

Brijesh Agarwal – Whole-Time Director

Mr. Brijesh Kumar Agrawal a master of management science from University of Lucknow and holds a postgraduate diploma in business management from Northern Institute for Integrated Learning in Management, New Delhi. Prior to IndiaMART, Mr. Agarwal worked with H N Miebach Logistics. He is a charter member of The Indus Entrepreneurs (TiE), a global network of entrepreneurs and professionals.

Prateek Chandra – Chief Financial Officer

Mr. Prateek Chandra assumed the role on 16 February, 2015. He is a bachelor of commerce from Shriram College of Commerce, University of Delhi, and a qualified chartered accountant. Prior to joining IndiaMART, Mr. Chandra worked with EXL Service.com, Bharat S Raut & Co., Chartered Accountants and HT Media.

Dinesh Gulati – Chief Operating Officer

Mr. Dinesh Gulati has been associated with the company since 12 March, 2012. He is a bachelor of technology (chemical engineering) from University of Kanpur and a master of business administration from Faculty of Management Studies, University of Delhi. Mr. Gulati has experience in the field of sales, strategies and operations. He has previously been associated with Jenson & Nicholson, Bharti Airtel, Kodak India, Reliance Infocomm, the Indian Express and Swan Telecom.

Amarinder Singh Dhaliwal – Chief Product Officer

Mr. Amarinder Singh Dhaliwal has been associated with the company since 27 June, 2016. He is a bachelor of technology (textile technology) from the Indian Institute of Technology, Delhi, and a postgraduate in management from Indian Institute of Management, Ahmedabad. Mr. Dhaliwal's experience spans product management. He has worked with Micromax Informatics, BCCL, SBI Capital Markets, TIL and PowerGen.

Manoj Bhargava – Legal, Compliance

Mr. Manoj Bhargava is the Company Secretary, Senior Vice President (Legal and Secretarial) and Compliance Officer and has been associated with the company since 28 December, 2017. He is a bachelor of commerce and a bachelor of law from University of Delhi, and a master of law from Guru Gobind Singh Indraprastha University, Delhi. He also holds a postgraduate diploma in intellectual property rights law from Indian Law Institute and a postgraduate diploma in cyber laws from Amity Law School, New Delhi. Mr. Bhargava has worked with Capital Cars, Integrated Databases (India Today group), Barista Coffee Company, Varun Beverages and HT Media.

Annexure 1: Brief description of new players

Udaan

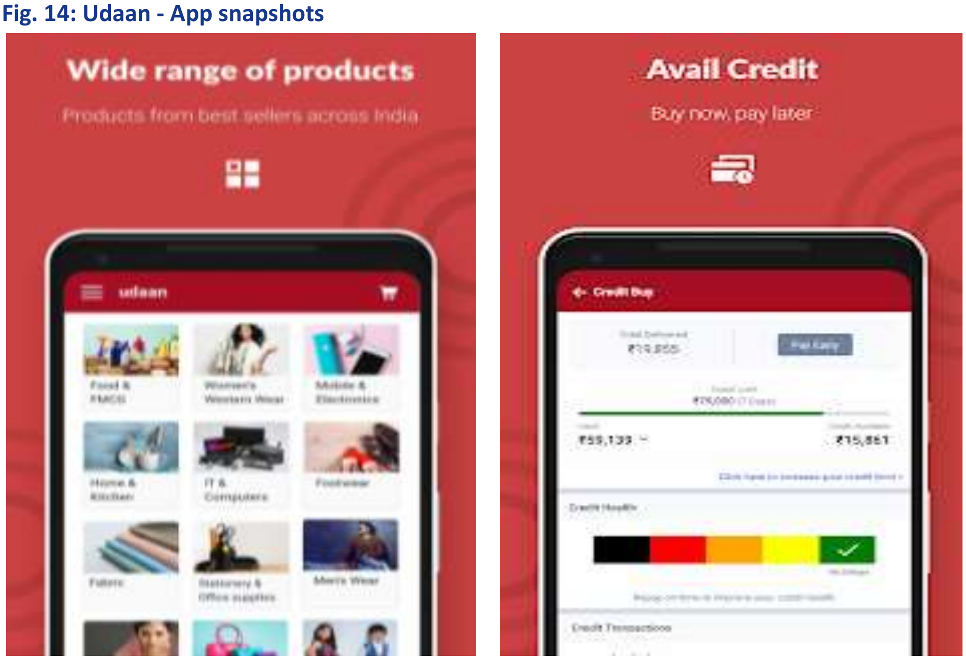
Background

Udaan, founded by former Flipkart employees Sujeet Kumar, Amod Malviya and Vaibhav Gupta in 2016, is one of the best-funded B2B e-commerce players. It has already raised ~USD380mn in various funding rounds with latest round valuing company at USD1bn. Udaan aims to bring traders, wholesalers, retailers and manufacturers in India onto a single platform, where they can buy and sell products. The company is dabbling with credit, transaction commission, and logistics in order to monetise the platform.

Business model

Udaan is a pure-play horizontal B2B trade platform for small & medium businesses in India. It brings traders, wholesalers, retailers and manufacturers in India onto a single platform, wherein they can buy and sell products. With insights into active trends, and B2B trade features, Udaan brings to its users the power of technology to scale and nurture their business. The company provides logistics, payment and technology support. At present, it is focusing on three categories—clothing, electronics, and FMCG and staples. Apart from being a platform for retailers and wholesalers to buy and sell, Udaan has started underwriting loans for small businesses.

Fig. 14: Udaan - App snapshots



Source: Company

Within a short span of about 22 months of operations, Udaan has been able to onboard about 1,80,000 sellers and buyers on the platform. While 80% of this is buyers comprising small-scale retailers, the remaining 20% are manufacturers that sell inventories on the platform. Udaan has been working with manufacturers in about 130 cities and delivering to buyers in about 1,000 cities. With the combination of a marketplace, logistics, and lending, it turns out that Udaan has been building a full-stack platform for SMEs.

The Udaan online B2B marketplace

- Allows customers to interact with vendors and negotiate the terms on the platform itself
- Vendors can publish their contact numbers and hence business can be off-platform
- Currently limited categories - initially started with IT/Electronics/mobile accessories
- Udaan seems to be staying away from the non-consumer long-tail products such as construction equipment
- Accepts both cash and credit modes of payment

Lending platform for merchants

Udaan seems to be following the transaction-based model, wherein it charges commission on transactions, and also charges for logistics. However, if one delves deeper, Udaan wants to become a lending platform for merchants that transact on the platform. Financing working capital has been a major headache for retailers. Udaan intends to be a working capital 'fund' for them and currently charges an interest of 15–18%. So far, it has built a loan book of ~INR2bn and intends to take this up to about INR7.5bn in a year.

Despite hectic activity in the overall B2B lending space, none of the startups has been able to make a mark. Most lending companies focus on facilitating the loan to midsized sellers who have a credit history. None is willing to finance small merchants. Udaan is banking on sellers' transaction history to understand the size of their working capital requirements. We believe that in absence of 'feet on street', limited part of the transaction happening on its platform, and lack of transaction history, Udaan is bound to face teething troubles in collections.

Fig. 15 : Udaan takes care of end-to-end logistics for the SMEs

Source: Edelweiss research

Logistics: Fostering relationships

Logistics essentially helped Udaan to foster a relationship with the buying and selling community in the B2B space. For more than a year and a half, Udaan offered logistics at subsidised rates, which helped it gain significant exposure to the community. More importantly, logistics allows Udaan to gain first-hand insights into who is buying what. Essentially, the company's deliberate goal was to build a database of buyers and sellers before getting into the supply business.

Moglix

Background

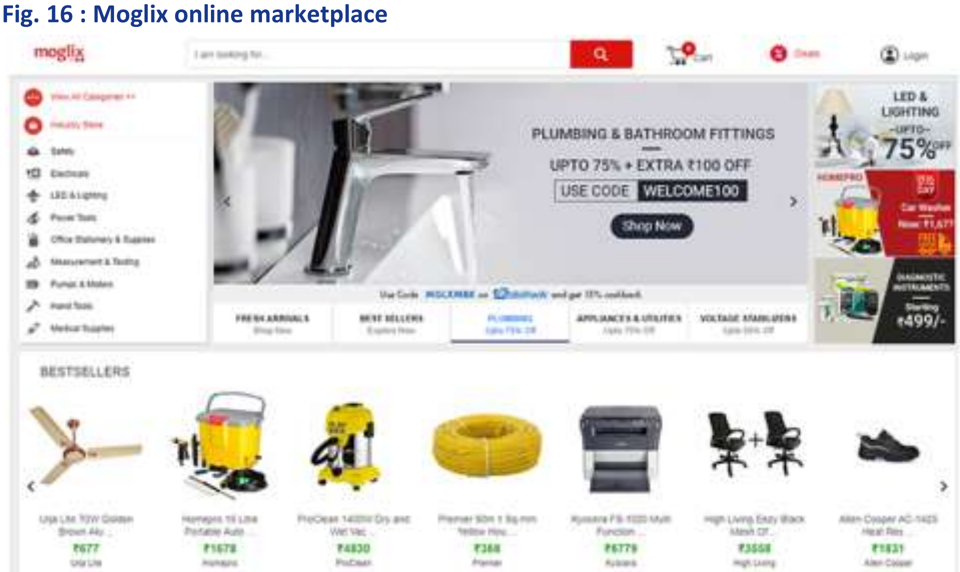
Launched in 2015, Noida-based Moglix is an online B2B marketplace for MRO (Maintenance, Repair, and Operations). It is intensively inclined towards B2B procurement and supply of utility-based products in the industrial manufacturing space, in particular, MRO, safety, electricals, lighting, cleaning & housekeeping, office stationary & supplies, power tools, etc.

Founded by Rahul Garg, former Head of Advertising Exchange at Google Asia, Moglix has successfully raised about USD100mn to date. Its investors include Accel Partners, Jungle Ventures, Ratan Tata, and IFC with the most recent round of funding by Tiger, Sequoia Capital and Composite Capital.

Business model

Moglix is predominantly an online B2B marketplace for procurement and supply of utility-based products in the industrial manufacturing space. The clients (buyers) are generally large manufacturing organisations looking to streamline the sourcing of utility products, thereby eliminating the need to interact with various small suppliers. Moglix provides buyers a one-stop solution with access to numerous suppliers while enabling them to compare and procure products.

Fig. 16 : Moglix online marketplace



Source: Company

Products

A. Moglix marketplace

- Moglix provides marketplace services to customers and suppliers.
- All the products on the website are sold by suppliers registered with Moglix directly to customers.
- Customer can either look up the product directly on the website or submit an RFQ. In case of latter, Moglix executives contact the customer with a list of suitable products.
- Moglix has tied up with various delivery partners for last-mile delivery.
- Its vendors cannot be directly contacted, make it impossible to conduct business off platform.

B. Vendor consolidation: Business at speed of thought

Moglix Vendor Consolidation is a one-stop solution for all indirect/MRO needs by any enterprise without the hassle of coordinating with multiple suppliers. The procurement cycle is digitised end-to-end.

Moglix Vendor Portal

It is an online procurement management solution designed to digitise the procurement cycle across the board, enabling businesses to increase and improve overall control and visibility into all stages of procurement while drastically increasing their savings on procurement costs.

With Moglix Vendor Portal, businesses and organisations can automate their procurement process end-to-end—right from the point of procurement requisition to delivery of payment without manual intervention. This helps to streamline the procurement processes, which improves operating efficiencies and inventory optimisation. The portal enables users to remain compliant with their industry's prevailing standards and policies as well.

Fig. 17 : Moglix Vendor Portal : Offerings

Source: Company

Moglix Vendor Portal addresses the following day-to-day problems plaguing organisations:

1. **Manual communication with multiple suppliers**

   Most manufacturing companies operate plants in different locations and may have to deal with more than 1,000 suppliers across India. The interaction between vendors and individual buyers are offline and happen via email, phone calls and other modes, leading to excessive manual effort, loss of information and exchange of incorrect information at times.

   The Portal can be integrated to any ERP system used by manufacturing companies and automate communication with suppliers, thereby greatly improving man-hour efficiency of sourcing managers.

2. **Lack of transparency and visibility to evaluate supplier performances**

   A manufacturing unit may have to deal with 1,000-plus suppliers and to evaluate their performance based on quality of products and delivery time is hard when suppliers do not use technology to source the material.

   Advanced analytics and reports enable evaluation of suppliers' performance and thus help in identifying the key suppliers. As a result, one can build an improve relationships with key suppliers and engage in co-supplier innovation. Buyers can evaluate the performance of suppliers on various parameters: quality problem report, pending quantity, failed delivery, monthly QR rejection rate, etc. This can help buyers identify and establish relationships with key suppliers.

3. **GST non-compliance and unoptimised inventory**

   Under the GST regime in India, if a buyer's ledger mismatches the vendor's, their Input tax credit (typically 18–28% of working capital) gets blocked. Hence, it made great sense for manufacturers to streamline and digitise their procurement interactions with vendors.

   GST-compliant invoice generation and reconciliation: A vendor's invoice value must match the client's purchase order. In case of a discrepancy in value, taxation, quantity, freight, amortisation or any other charges, the system does not generate ASN. The Portal addresses this problem of invoice mismatch at the source before the material is dispatched, which helps in timely compliance with GST regulation.

GreenGST

Following the GST rollout, Moglix launched GreenGST, a unique SaaS-based solution for the manufacturing sector that will make the entire customer ecosystem GST-compliant and future-ready, marking another milestone towards its commitment to the space.

C. Moglix Packaging Solutions

Moglix also provides customised packaging solutions catering to large companies and SMEs.

Corporate: e-procurement

With a mission to tide over the gap between B2B merchants and consumers, Moglix's vision is to develop an exclusive trade ecosystem, tailor-made to satisfy the diverse needs of buyers. Moglix automates the procurement of office supplies, which simplifies the process and eliminates the need to interact with small vendors.

Office solutions

Office supplies constitute a recurring expense for any organisation, and it is crucial to maintaining efficiency of business operations. Moglix automates the procurement process of all day-to-day business essentials for organisations.

Fig. 18 : Categories offered in office solutions

Source: Company

Hospital Solutions

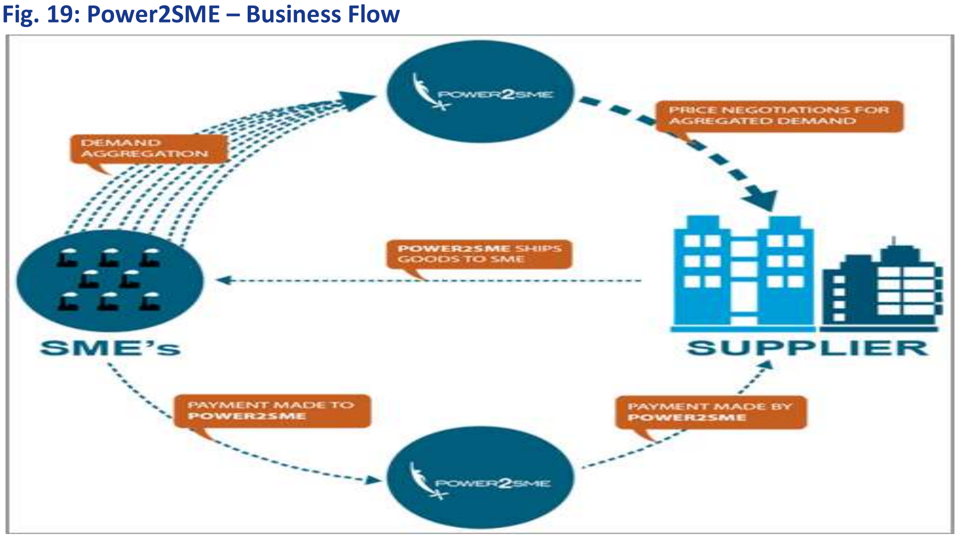
Similarly, for any healthcare organisation, Moglix automates the procurement of medical supplies, which constitute a recurring expense and are crucial to maintaining efficiency of business operations.

Power2SME

Background

Founded in 2012, Gurugram-based Power2SME is the first 'Buying Club' for SMEs. It aims to build a B2B digital ecosystem for SMEs facilitating raw material and MRO procurement at competitive prices and access to finance at competitive rates, which in turn lifte efficiencies and profitability. While the company started as a predominantly *Large to Small* B2B marketplace, it expanded into lending to SMEs, recognising it as a clear pain point for SMEs and a lucrative business opportunity for Power2SME.

Fig. 19: Power2SME – Business Flow



Source: Company Website

Power2SME has grown steadily and now has more than 50,000 registered SMEs, 140+ loans approved and more than 7,24,000 industrial SKUs listed on its website. The company boasts a wide range of SME clients with turnover ranging from INR10mn to INR2.5bn, and works with established suppliers such as SAIL, GAIL, Rathi Steel, Jindal Steel, and Haldia Petrochemicals, among others. The company has raised a total of USD77mn from investors including Inventus Capital Partners, Accel, Kalaari Capital, IFC and Nandan Nilekani. The most recent round of funding was led by InnoVen Capital. The company posted revenue of INR9.5bn in 2018.

Table 11: Power2SME - Value Proposition

SMEs	*Suppliers*	*Financial Institutes*
✓ Lower cost of raw material, hence improved margins ✓ Improved access to bank financing with cheaper ROI ✓ Transparency with GPS tracked deliveries ✓ Provide a level playing field to SMEs to list their products on B2B marketplace	✓ A fillip to institutional sales ✓ Reduced cost of client servicing ✓ Improved efficiency in working capital management	✓ Access to credit worthy SMEs who have passed robust ✓ Accreditation test at Power2SME ✓ Access to complete transaction history with P2S ✓ Negligible CAC

Source: Company Website

Business Model

Raw material aggregation

Power2SME procures raw materials directly from manufacturers and sells them to SMEs, thereby eliminating intermediaries such as distributors and wholesalers. It acts like an aggregator of industrial raw materials such as steel, chemicals and polymers, which helps SMEs overcome the disadvantages of low scale and consequent low pricing power. Additionally, Power2SME provides SMEs access to a larger pool of quality suppliers, thereby further optimising procurement pricing and quality. Suppliers too do not face the hassle of dealing with myriad buyers and benefit from improved working capital management.

Power2SME essentially has a transaction-based business model, marking up the selling price for its commission. It takes complete ownership of the order process, including taking the title of goods, thereby ensuring quality of raw materials. The company also provides flexible payment options. SME customers can track their orders, delivery status, and payment notifications on the online platform.

FinanSME

Power2SME plays the role of intermediary between NBFCs and SMEs. The company earns a commission from NBFCs while it underwrites a certain portion of the risk for the loans NBFCs extend to SMEs.

Since SMEs procure the bulk of the raw materials from Power2SME, and with reasonably long transaction history, the company can assess the risk it is undertaking and earn commission from it. PowerSME also provides bill financing facility and collateral-free loans to its partner SMEs, which eases working capital pressures and facilitates smooth running of business for SMEs. In order to capture the entire value of the transaction while avoiding volatility in financing arising out of its dependence on NBFCs, the company itself has applied for an NBFC licence.

SMEshops: Addressing SMEs' MRO requirement

SMEshops is an online marketplace for all SME MRO requirements. With over 150,000 SKUs, SMEshops is one of the fastest moving companies in product acquisition and gaining seller trust across geographies.

Other B2B players

Industry buying

Background

Founded in 2013 by siblings Swati Gupta and Rahul Gupta, Industrybuying facilitates online booking and delivery of industrial materials, tools and metals. It provides an online B2B marketplace, wherein buyers and sellers interact and strike a deal. Engineering, procurement and construction (EPC) players as well as manufacturing firms form a major chunk of its customer base. It is a relatively small player with USD40mn worth of funding from investors such as Kalaari Capital, SAIF Partners and BEENEXT.

Business model and pitfalls

Industrybuying followed a zero inventory, transaction-based model; it charges a commission of 12–15% per transaction. This model led to operational issues as Industrybuying did not have control over delivery of goods, resulting in delays and so on. Additionally, nagging problems of thin margins, a system predominantly dependent on credit, and small-ticket size plagued the company. Demonetisation and GST dealt further blows, thereby disrupting the business for the company.

Shift in strategy

After considerable erosion in revenue, Industrybuying has turned its SME e-commerce business profitable after changing its strategy to focus on private brands in the industrial and business e-commerce space. The company has launched its private brands across major categories. Since then, private brands have quickly risen to form over a third of its revenue. Solar, tools, office furniture, agri equipment and core MRO categories are proving to be hot-sellers for the company.

Bizongo

Background

Bizongo began as a transactional B2B platform in 2015 connecting suppliers and buyers in the plastics, chemicals and packaging industry. Within two quarters of operations, the company realised that the scope for pricing evolution was negligible with little control over margins in the nearly commoditised chemicals industry. Additionally, apart from supply chain optimisation and a slight pricing advantage over competitors, Bizongo did not offer any other advantages to customers. This prompted them to shut the chemicals and polymers business, which then contributed 95% of revenue.

Shift in strategy

The company now focuses provides packaging and design solutions to SMEs. It lists containers, bags, boxes, and pouches frequently used by the retail, FMCG, food and hospitality, and ecommerce industries, among others. The platform also has several custom packaging and branding options. Additionally, the company has also forayed into the financing vertical, and offers credit to fulfil SMEs' working capital needs.

OfBusiness

Background

Gurugram-based OfBusiness was incorporated in 2015 as an online marketplace for procurement of raw material. Within a year, it changed its strategy and shifted to sort the very issue that was affecting the business – credit. It now offers financing products, both secured and unsecured credit lines, to SMEs for procurement of raw materials. It ensures end use of funds through its raw material fulfillment and new opportunities platform called **Bidassist.** This integrated offering generates a higher business yield, repetitive loan transactions and better asset quality.

According to the company's website, OfBusiness reached an AUM of INR1bn in August 2016 and has been growing steadily. The company has received about USD49mn in funding from marquee investors, including Matrix Partners, Zodius Capital, and Kotak Mahindra Bank. It received the latest round of funding from Creation Investments Capital Management, LLC and Falcon Edge Capital.

Business model

OfBusiness provides '*Purchase Financing*', wherein it aggregates raw materials, gets them financed by local distributors and financiers, and then passes most of the aggregation benefits – such as volume discounts from manufacturers – to SME. OfBusiness combines the two very diverse operating models – financing and fulfillment –through technology. Right from lead acquisition to underwriting the loan to fulfilment of raw materials and settlement are built on the in-house developed ERP backbone called OASYS.

mSupply

Founded in 2015, mSupply started as an online B2B marketplace for construction materials, pipes, machinery, electronic products, home and interior products. It also offered logistics and fulfillment, receivables and payment management services. Additionally, it facilitated credit facilities through its supplier network or from banks and NBFCs. mSupply.com caters to about 22,000 pin codes in the Indian sub-continent with access to a 14,000-supplier network on the platform.

Business model

mSupply forms exclusive partnerships with local, regional, and global manufacturers that typically do not have marketing and distribution reach and sells their products to wholesalers and dealers. Wholesalers and retailers use the digital platform to secure credit from banks/NBFCs as well as access potential customers such as retailers and project customers.

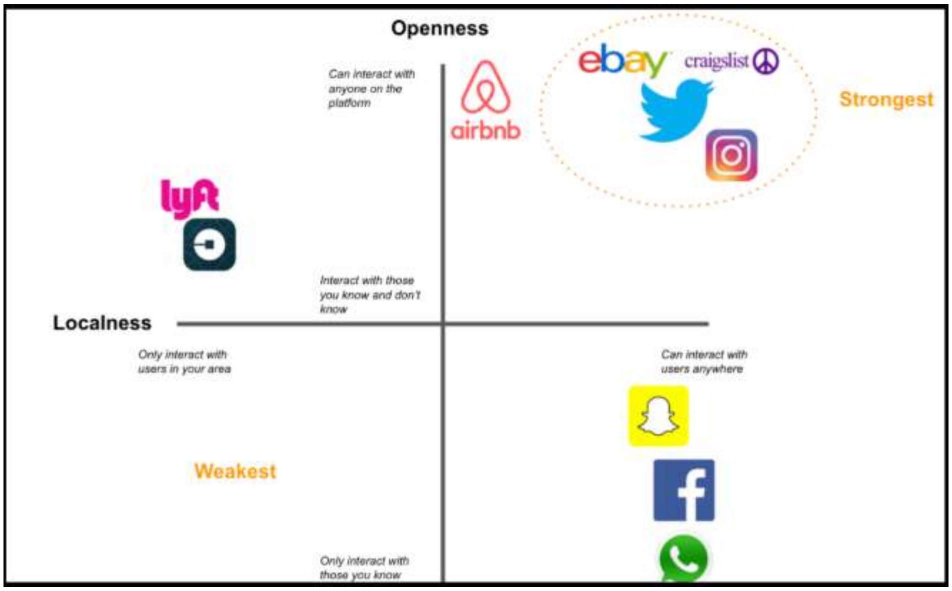
After two rounds of funding to the tune of USD13mn, mSupply started facing difficulties in gathering interest from investors for a third round. It has allegedly shut operations due to lack of funds.

Annexure 2: Strength of network effect

A qualitative analysis of the network effect depends on two critical factors: 1) Openness and 2) Localness. Openness refers to the level of discoverability and likelihood of interaction with new people on the platform. For example, an open network would be one that does not require people to have a pre-existing relationship in order to interact, like eBay. The other end of spectrum has applications such as Facebook, where one can choose to be contacted by strangers or not. **Higher the openness, stronger the network effect.**

"Localness" is the extent to which the location of a given user matters. **The *less* location matters, the *higher* the potential for interaction and thus the *stronger* the network effect.** For example, ridesharing companies benefit from area-specific network effect, as someone in India would not be affected by the service in China. On the other hand, a company like *Airbnb* is not bound by location. Its value continues to rise as more and more people join the network at a global level.

Fig 20 : Framework to assess the strength of the network effect



*Source: **https://medium.com***

IndiaMART is Open and not constrained by location

The very nature of the **IndiaMART** platform, which entails buyers and suppliers to interact with each other, irrespective of location or without the pre-requisite of knowing each other is a testimony to the strong network effect it enjoys. Any buyer can look up for suppliers on the platform and interact with them. Hence, a greater number of suppliers implies wider options for buyers, which facilitates better price discovery and value maximisation. **Being one of the early movers in the online B2B classifieds business, IndiaMART benefits immensely from network effect.**

Financial Statements

Key assumptions				
Year to March	**FY18**	**FY19**	**FY20E**	**FY21E**
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Paid subscriptions	108,347	129,589	147,623	169,563
YoY growth	12.8	19.6	13.9	14.9
Revenue per campaign	40,173	42,652	45,826	49,001
YoY growth	6.4	6.2	7.4	6.9
Cost Assumptions				
Employee cost as a % of rev.	47.5	45.3	42.3	40.2
Other exp. as a % of rev.	41.2	38.4	36.1	35.7
Financial Assumptions				
Depreciation as a % of rev.	0.7	0.8	2.3	2.5
Capex (INR mn)	22	51	255	201
Deferred Revenue	4,230	5,850	7,313	9,141

Income statement				(INR mn)
Year to March	**FY18**	**FY19**	**FY20E**	**FY21E**
Revenues	4,105	5,074	6,352	7,771
Cost of revenues	1,949	2,300	2,686	3,124
Gross profit	2,157	2,774	3,666	4,647
Total SG&A expenses	1,690	1,951	2,295	2,777
EBITDA	466	823	1,371	1,870
Depreciation & amortization	29	41	148	195
EBIT	437	782	1,223	1,675
Add: Other income (net)	190	410	586	848
Add: Exceptional items	(1,229)	(653)	-	-
Profit Before Tax	(601)	539	1,809	2,523
Less: Provision for Tax	(1,149)	339	438	605
Reported Profit	548	200	1,371	1,918
Less: Exceptional Items (Net of T	(79)	(653)	-	-
Adjusted Profit	626	853	1,371	1,918
No. of Shares outstanding	19	29	29	29
Adjusted Basic EPS	33	30	48	67
No. of shares outstanding	27	29	29	29
Adjusted EPS	23	30	48	67
Adjusted Cash EPS	34	31	53	74
Dividend per share (DPS)	-	-	-	-
Dividend Payout Ratio (%)	-	-	-	-

Common size metrics- as % of net revenues				
Year to March	**FY18**	**FY19**	**FY20E**	**FY21E**
Cost of revenues	47.5	45.3	42.3	40.2
Gross margin	52.5	54.7	57.7	59.8
SG&A expenses	41.2	38.4	36.1	35.7
EBITDA margin	11.4	16.2	21.6	24.1
EBIT margin	10.7	15.4	19.3	21.6
Net profit margins	15.3	16.8	21.6	24.7

Growth metrics (%)				
Year to March	**FY18**	**FY19**	**FY20E**	**FY21E**
Revenues	29.2	23.6	25.2	22.3
EBITDA	(185.7)	76.6	66.5	36.4
PBT	(6.3)	(189.7)	235.5	39.4
Adjusted profit	(239.0)	36.2	60.7	39.9
EPS	**(194.1)**	**29.0**	**60.7**	**39.9**

Balance sheet				(INR mn)
As on 31st March	**FY18**	**FY19**	**FY20E**	**FY21E**
Share capital	100	286	286	286
Reserves & Surplus	(3,312)	1,313	2,684	4,602
Shareholders' funds	**(3,213)**	**1,599**	**2,970**	**4,888**
Long Term Liab. & Provisions	3,791	99	208	208
Deferred tax liability (net)	(1,156)	(858)	(799)	(723)
Sources of funds	(577)	840	2,379	4,373
Gross Block	139	188	238	288
Net Block	73	85	92	90
Capital work in progress	2	2	2	2
Intangible assets	8	6	106	115
Total Fixed assets	**82**	**92**	**200**	**206**
Investments	3,111	6,074	6,074	6,074
Cash and cash equivalents	467	777	4,321	8,270
Sundry debtors	7	6	10	9
Loans & advances	64	18	20	22
Other assets	540	382	397	415
Total current assets (ex cash)	611	405	427	445
Trade payable	419	450	642	652
Deferred revenues	3,920	5,860	7,313	9,141
Other Current Liab. & ST. Prov.	509	200	689	831
Total current liab. & provisions	4,848	6,510	8,643	10,623
Net current assets (ex cash)	(4,237)	(6,105)	(8,216)	(10,178)
Uses of funds	(577)	840	2,379	4,373
Book Value per share	**(118.6)**	**55.9**	**103.9**	**170.9**

Free cash flow

Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	548	200	1,371	1,918
Add: Depreciation	29	41	148	195
Interest (Net of Tax)	-	-	-	-
Others	(83)	625	(527)	(772)
Changes in WC	1,297	1,684	2,112	1,962
Operating cash flow	1,791	2,551	3,104	3,303
Less: Capex	22	51	255	201
Free cash flow	1,769	2,500	2,848	3,102

Cash flow metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	1,791	2,551	3,104	3,303
Financing cash flow	152	141	91	(18)
Investing cash flow	(1,653)	(2,758)	348	665
Net cash flow	291	(65)	3,543	3,950
Capex	22	51	255	201
Dividend paid	-	-	-	-

Profitability & liquidity ratios

Year to March	FY18	FY19	FY20E	FY21E
Inventory days				
Debtors days	1	0	0	0
Payble days	68	69	74	76
Cash Conversion Cycle	(67)	(69)	(74)	(75)
Current Ratio	0	0	1	1

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total asset turnover	(4.1)	38.6	3.9	2.3
Fixed asset turnover	47.9	58.1	43.5	38.3
Equity turnover	(1.2)	(6.3)	2.8	2.0

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adjusted Diluted EPS (INR)	23.1	29.8	47.9	67.1
Y-o-Y growth (%)	(194.1)	29.0	60.7	39.9
Adjusted Cash EPS (INR)	34.2	31.3	53.1	73.9
Diluted Price to Earnings Ratio (	-	54.0	33.6	24.0
Price to Book Ratio (P/B) (x)	-	28.8	15.5	9.4
Enterprise Value / Sales (x)	(0.9)	7.7	5.6	4.1
Enterprise Value / EBITDA (x)	(7.7)	47.6	26.0	17.0
Dividend Yield (%)	NA	-	-	-

Additional Data

Directors Data

Dinesh Chandra Agarwal	MD	Elizabeth Chapman	Director
Brijesh Agarwal	Whole Time Director	Vivek Narayan Gour	Director
Dhruv Prakash	Director	Rajesh Sawhney	Director

Auditors - S.R. Batliboi & Associates LLP

**as per last annual report*

Public Holding - Top10

	Perc. Holding		Perc. Holding
Aditya Birla Sun Life Asset Manage	0.87	ICICI Prudential Asset Management	0.66
SBI Funds Management Pvt Ltd	0.65	Invesco Asset Management India Pvt	0.55
Bhartia Abhishek	0.43	HDFC Asset Management Co Ltd	0.37
Sundaram Asset Management Co Ltd	0.36	Axis Asset Management Co Ltd/India	0.32
Kotak Mahindra Asset Management Co	0.18	Jain Amit	0.17

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
NA				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
NA			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Cyient	BUY	SP	H	ECLERX SERVICES	BUY	SP	M
HCL Technologies	BUY	SP	H	Hexaware Technologies	HOLD	SP	M
Info Edge	BUY	SP	M	Infosys	BUY	SO	L
Just Dial	HOLD	SP	M	L&T Infotech Ltd	BUY	SO	M
L&T Technology Services Ltd	BUY	SO	M	Persistent Systems	BUY	SP	L
Redington India Ltd	BUY	SO	L	Tata Consultancy Services	HOLD	SP	L
Tech Mahindra	BUY	SP	M	Wipro	HOLD	SP	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: *research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=SERVICE, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, postalCode=400011, st=MAHARASHTRA, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, cn=ADITYA NARAIN
Date: 2019.09.11 18:14:36 +05'30'

Coverage group(s) of stocks by primary analyst(s): IT

Cyient, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, Just Dial, L&T Infotech Ltd, L&T Technology Services Ltd, Persistent Systems, Redington India Ltd, Tata Consultancy Services, Tech Mahindra, Wipro

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Sep-19	**Tech Mahindra**	Announces multi-year deal with AT&T; *Edelflash*	695	Buy
13-Aug-19	**Info Edge**	Strong execution; *Result Update*	2,178	Buy
13-Aug-19	**Redington India**	Broad-based growth despite economic headwinds; *Result Update*	95	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

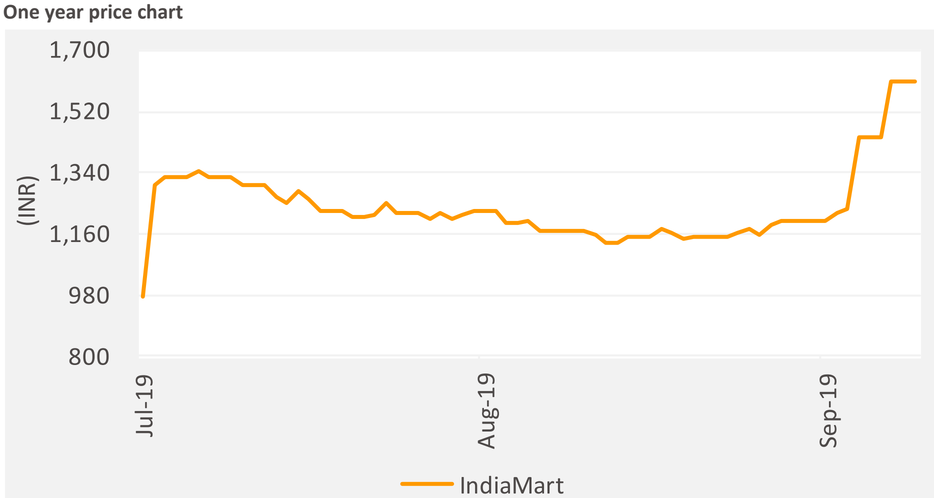
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Edelweiss

Ideas create, values protect

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai 400 098
Tel: +91 22 4009 4400. Email: research@edelweissfin.com