



The Trick Is To Spot Them At The Larval Stage

Intrasoft Technologies

ADD THIS E-COMMERCE PLAYER IN YOUR CART

Our Tiny Treasure for the month of Dec,16 is Intrasoft Technologies Ltd. Intrasoft Technologies is a third party multi-channel E-Commerce company based in USA and has backend low cost operations in India. It is 7th fastest growing Web-Only Retailer in US. It generates revenue through online retail sales in USA and Canada (123stores, other shop in shop market places); and on-line advertising (123greetings.com). The company has grown at a CAGR of 61% over last five years to become Rs.717cr primarily due to its unique market positioning. It has built unique platform for vendors and market places which leads to higher visibility for vendors and their product catalogues. We see that company apart from witnessing a consistently high revenue growth, also has high inventory turnover ratio, efficient working capital management and healthy vendor relationship. Due to low penetration of e-commerce in US and strong sales momentum, we expect 32% CAGR growth in topline over FY16-18E. Owing to this and compelling 2018 P/E of 9.21x, we see 30%+ upside in stock from current level.

Building supplier relationships to fuel growth: ITL has been scaling its business by building its presence through listed e-tailers. In last five years, ITL has developed relationship with over 1500 vendors along with many small businesses. ITL received positive rating (95%+ lifetime) due to its competitive pricing and shrinking order lag time. Its well integrated business model has aided e-commerce revenue growth at 61% CAGR over FY12-16.

These positives reflect in its order fulfillment growth of CAGR of 118% recorded over FY15-H1FY17. In 2QFY17, its order book stands at 669714. Its product portfolio also grew at 32% CAGR to make it 555000 number of products (34% majorly from furniture, patio and lawn & garden) over FY15-H1FY17. The company also focuses on adding new suppliers, new products and new market places to drive business in future. Due to this we expect revenue growth of 32% CAGR over FY16-18E.

It is listed in 10 market places like Amazon USA (largest contributor), Ebay (second largest contributor), Amazon Canada, Alibaba's 11main.com, Sears.com, New Egg, Bestbuy.com, Rakuten, Jet.com, 123stores.com etc. It is expected to add more market places soon.

Good working capital management leads to better margins

The company maintains higher inventory turnover ratio at 21x in FY16 which is good sign in E-Commerce retail industry. In

BSE Code : 533181

Time Duration : 1 year

CMP : ₹412 (as on 29 December, 2016)

Target Price : ₹565

Q2FY17, TTM inventory turnover ratio stood at 10.7x vs 11.4x in Q1FY17 due to stored inventory for seasonal sales in Q3FY17. The company also maintains TTM receivables at 4 days and payables at 17 days in Q2FY17. It has been able to maintain gross margin above 18% against ~80% cost of goods sold in last three years.

The company benefiting from economies of scale also saw improvement in revenue per employee to 4.62 cr. in Q2FY17 vs 2.78 cr. in Q2FY16.

Financial Performance : H1FY17- The revenue of the company rose by 62% YoY to Rs 441 cr. in H1FY17. EBITDA of the company grew by whopping 364% to Rs 9.52 cr. in H1FY17 from Rs 2.05 in H1FY16. EBITDA margin expanded by 149bps to 3.52% while PAT margin grew by 76bps to 1.82% in H1FY17 with respect to corresponding period last year.

Q2FY17- ITL's revenue grew by 42.27% to Rs 219 cr. in Q2FY17 as compare to Rs 153 cr. in Q2FY16. Operating profit rose by 280% to Rs 8.29 cr. YoY in Q2FY17. PAT of the company surged up by 224% to Rs 5.4 cr. in Q2FY17 vs Q2FY16. EBITDA and PAT margin expanded by 237bps and 139bps to 3.79%/2.47% respectively in Q2FY17 against Q2FY16. Recently, it received letter of credit of Rs 8 million from UPS capital (package delivery company) which will help in improving operation efficiency.

Valuation: The company with FY18E EPS of Rs 44.60, is trading at FY18E P/E of 9.21x which looks attractive and undervalued. Considering under penetrated US E-Commerce market (7%), scaling up of business, healthy D/E 0.31x and working capital efficiency with sales/working capital ratio of 6.67x; we recommend a BUY on this scrip in the range of Rs 400- 425 (CMP-412) with target price of Rs 565.

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var %
Net Sales	218.98	222.17	-1.44	153.92	42.27
Total Expenditure	214.07	217.57	-1.61	152.59	40.29
PBIDT (Excl OI)	4.91	4.61	6.69	1.33	270.79
PAT	5.40	2.65	104.08	1.66	224.64
PBIDTM% (Excl OI)	2.24	2.07	8.21	0.86	160.47
PBIDTM%	3.79	2.37	59.92	1.42	166.90
PATM%	2.47	1.19	107.56	1.08	128.70
Adj. EPS(Rs)	3.67	1.80	103.89	1.13	224.78

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