

Infibeam Incorporation

IPO Note

Infibeam Incorporation Ltd (Infibeam) is an e-commerce company focused on developing integrated and synergistic e-commerce business models. Its operations can be broadly categorized as BuildaBazaar (BaB) e-commerce marketplace and E-retail website Infibeam.com. BaB provides cloud-based, modular and customizable digital solutions and other value added services to enable merchants to set up online storefronts. Infibeam.com is a multi-category E-retailer where it has more than 5,000 registered merchants while it sells its own products as well.

E-retail posting strong growth, Infibeam lags: At the moment, the penetration of internet users in India is at 19%, which is lower compared to countries like the US (87%) and China (46%). With an expected improvement in the number of internet users in the country, the on-line shopper base is expected to improve from the present 35mn to 180mn by 2020. As a result, the E-retail market size in India is expected to grow from US\$7bn in 2015 (1.2% of total retail) to US\$44bn (4.0% of total retail) in 2020. This positive outlook for the E-retail industry augurs well for e-commerce players. Despite such strong anticipated growth rate of the industry, Infibeam suffers from having smaller scale, absence of funding and lacks the customer mindshare that the other larger players like Flipkart have garnered. In the past, it (CAGR of 22% over FY2012-15 to ₹221) has not been able to match the revenue growth of bigger players like Flipkart India (CAGR of 260% over FY2012-15 to ₹9,537).

Higher focus on the profitable BaB marketplace business: The BuildaBazaar business of the company has grown at a CAGR of ~119% over FY2011-15 to ₹67cr. As a result, its contribution to the company's overall top-line has increased from negligible levels in FY2011 to 28.3% in 1HFY2016. The business' operating margin stood at 58.0% for 1HFY2016. Thus, the BaB business is totally mitigating the E-retail business' losses. Going forward, the company intends to use part of IPO proceeds to scale up its BaB business. However, the BaB business is in the nascent stage and considering that technological landscape being dynamic, this makes BaB a high risk reward venture.

Outlook Valuation: Infibeam's E-retail business has a similar model as Flipkart and Snapdeal, but is significantly smaller than the two dominant players which have strong PE backup. Its other business, i.e. BaB, in revenue terms is also smaller (₹67cr FY2015) compared to global players like Shopify.com (US\$205mn CY2015). Moreover, even if BaB business does gain dominant position in India, it is insufficient to justify the valuation. Considering this, we believe that the EV/Sales multiple of 4.3x-5.2x demanded by the company is steep. **Given that the company is still evolving, has an unproven profitability track record and the expensive valuation, we have a Neutral recommendation on the issue.**

Key Financial

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	1HFY2016
Net Sales	128	151	207	288	171
% chg	-	18.2	37.2	39.0	-
Net Profit	(11)	(25)	(26)	(10)	7
% chg	-	-	-	-	-
OPM (%)	(7.7)	(14.6)	(9.8)	(0.8)	6.8
EPS (₹)	(2.5)	(5.8)	(6.1)	(2.3)	1.5
P/E (x)	-	-	-	-	-
P/BV (x)	213.6	76.5	22.3	8.7	-
RoE (%)	-	-	-	-	-
RoCE (%)	-	-	-	-	-
EV/Sales (x)	14.8	12.5	8.9	6.2	-
EV/EBITDA (x)	-	-	-	-	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of price band

NEUTRAL

Issue Open: March 21, 2016
 Issue Close: March 23, 2016

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹42.7cr

Fresh Issue**: 1.04cr Shares

Offer for sale: NIL

Post Eq. Paid up Capital: ₹53.1cr

Market Lot: 34 Shares

Fresh Issue (amount): ₹450cr

Price Band: ₹360-432

Post-issue implied mkt. cap ₹1,986cr* - 2,294cr**

Note:*at Lower price band and **Upper price band

Book Building

QIBs	75%
Non-Institutional	15%
Retail	10%

Post Issue Shareholding Pattern(%)

Promoters Group	45.5
MF/Banks/Indian FIs/FIIs/Public & Others	54.5

Amarjeet S Maurya

+91 22 4000 3600 Ext: 6831

amarjeet.maurya@angelbroking.com

Milan Desai

+91 22 4000 3600 Ext: 6846

milan.desai@angelbroking.com

Company background

Infibeam is an e-commerce company focused on developing an integrated and synergistic e-commerce business model. The company owns and operates Infibeam BuildaBazaar (BaB) e-commerce marketplace and E-retail website Infibeam.com. It has also launched its .ooo top level domain registry service which helps attract merchants to its e-commerce platform.

BaB provides cloud-based, modular and customizable digital solutions and other value added services to enable merchants to set up online storefronts. BaB has features that include comprehensive catalog management system that enables businesses to manage their products and enables merchants to manage/fulfill/ship orders. BaB also provides cost-effective marketing solutions and access payment gateways amongst other features. Infibeam's registered merchant base on BaB marketplace as of December 2015 stood at 48,274.

The company's E-retail website Infibeam.com is a multi-category E-retailer with more than 15mn SKUs of products across 40 product categories (as on 31st December 2015). The company directly sells a wide range of products on Infibeam.com, particularly focused on fast moving product categories. Apart from selling its products, Infibeam had more than 5,000 registered merchants on its E-retail website and more than 7.8mn active users as of December 31, 2015.

As of December 31, 2015, it had six warehouses and 12 logistics centers across 11 cities in India. It also had more than 900 employees which include a large number of software engineers and IT experts.

Exhibit 1: Buildabazaar pricing and plans

15 Days Free Trial <small>No Credit Card Required</small>	Silver	Gold	Gold Plus <small>NEW</small>	Platinum
	₹ 1000 per month	₹ 2500 per month	₹ 5000 per month	CUSTOM
	TRY IT FREE	TRY IT FREE	TRY IT FREE	REQUEST QUOTE
Maximum Own Products	300	5000	15000	25,000 or more
Setup Fees	FREE	FREE	FREE	CUSTOM
Transaction Fees	Fixed 2%	Fixed 1%	0% <small>NEW</small>	CUSTOM
Listing Infibeam Products	OPTIONAL	OPTIONAL	OPTIONAL	OPTIONAL
Cash On Delivery	----	YES	YES	YES
International Shipping	----	YES	YES	YES
Search Engine Optimization	YES	YES	YES	YES
Seller Commission Paid* <small>YOU RECEIVE</small>	1%	1.5%	2%	CUSTOM
Multi-Currency <small>NEW</small>	----	----	YES	YES
Social plug-ins	----	Facebook Connect	All Plug-ins	All Plug-ins
Cross Selling Widgets	----	YES	YES	YES
Shipping Calculators	----	----	YES	YES
SMS Notification	----	----	YES	YES
Advanced Design Widgets	----	----	YES	YES
Business Intelligence Reports	----	----	----	YES
ERP Integration	----	----	----	YES
Digital Marketing	----	----	----	YES
Caching Infrastructure	----	----	----	YES

Source: Company, Angel Research

Issue details

The company is raising ₹450cr through fresh issue of equity shares in the price band of ₹360-432. The fresh issue will constitute 19.6% of the post-issue paid-up equity share capital of the company assuming the issue is subscribed at the upper end of the price band.

Exhibit 2: Shareholding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoters	2,41,65,455	56.6	2,41,65,455	45.5
Others	1,85,09,200	43.4	2,89,25,867	54.5
Total	4,26,74,655	100.0	5,30,91,322	100.0

Source: Company, Angel Research

Objects of the offer

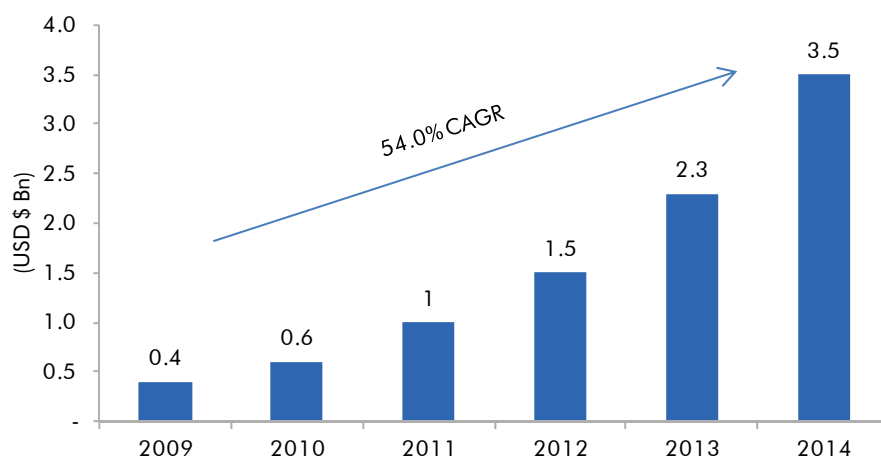
- Setting up of cloud data center and purchase of property for shifting of the registered and corporate office of the company. The company estimates to deploy ₹235cr for the said purpose.
- ~₹38cr will be utilized for setting up 75 logistics centers.
- ₹67cr is proposed to be used for purchase of software.
- The balance will be used for general corporate purposes.

Investment rationale

E-retail posting strong growth, Infibeam lags

The E-retail market is among the fastest growing markets in India which is estimated to have posted a CAGR of ~54.0% over CY2009-14 as per industry reports. This has been on the back of factors such as improved internet connectivity, discounted prices, convenient payment options, and customer friendly return policies. Going forward, E-retail is expected to continue to grow on the back of rising number of internet users and online buyers.

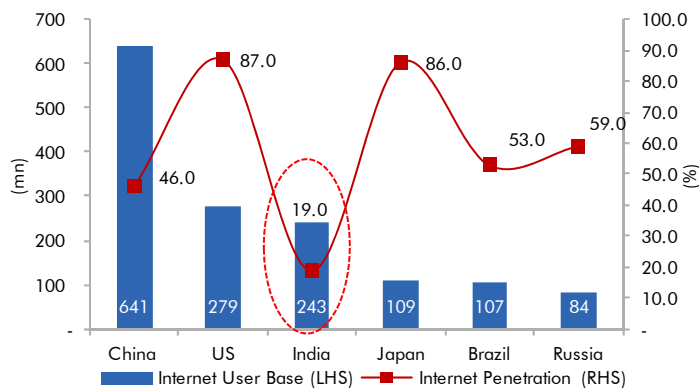
Exhibit 3: India E-retail growth



Source: IAMAI, CRISIL, Gartner, PwC

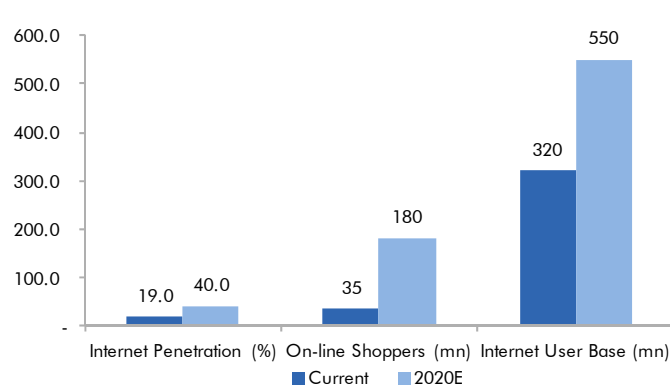
As per industry reports, there were an estimated 243mn internet users in India (data as of 2014) in comparison to 279mn in the US and 641mn in China. Internet penetration level in the country is lower at 19% compared to 46% in China and 87% in the US, thus signaling significant scope of improvement. Of the present ~318mn (estimated as of 2015 on basis of RHP data) internet users in India, ~11% or 35mn are estimated to be shopping on-line.

Exhibit 4: Internet user base and Penetration (2014)



Source: PwC, Angel Research

Exhibit 5: Projected user base and Penetration



Source: Company, Angel Research

Driven by increasing penetration of smart phones and roll out of 4G internet services, the internet user base is expected to grow to 550mn and the penetration level is expected to reach ~40% by 2020. Consequently, the on-line shopper base is estimated to grow from 35mn currently to 180mn over the same period. Led by increasing internet users and on-line shopper base, the E-retail market size is expected to grow from US\$7bn in 2015 (1.2% of total retail) to US\$44bn (4.0% of total retail) in 2020.

Despite such strong anticipated growth rate of the industry, Infibeam suffers from having smaller scale, absence of funding and lacks the customer mindshare that the other larger players like Flipkart have garnered. In the past, it (CAGR of 22% over FY2012-15 to ₹221) has not been able to match the revenue growth of bigger players like Flipkart India (CAGR of 260% over FY2012-15 to ₹9,537).

Exhibit 6: E-retail and future prospects

	2015	2020
Total Retail (USD bn)	585	1,100
Organized Retail (USD bn)	53	190
E-tail (% Total Retail)	1.2%	4.0%
E-tail (% Organized Retail)	13.0%	24.0%

Source: Company, Angel Research

Focus on profitable BaB market business

Apart from significant portion (~72% as on 1HFY2016) of the revenues derived from the sale of products via its E-retail website Infibeam.com, the company also generates revenue from solutions provided through BaB market place. The revenue from sale of software and e-commerce related ancillary services has grown at a CAGR of 118.7% over FY2011-15 to ₹67cr and the segment has posted revenue of ₹48cr for 1HFY2016. The BaB business is profitable compared to products business with margins at 58% for 1HFY2016. Going forward, the company intends to scale up its BaB business by boosting its IT infrastructure and logistics capabilities, strengthening merchant acquisitions, and increasing value added offerings. The company has steadily increased the share of the non-products business to 28.3% of total revenues as of 1HFY2016 and its increasing contribution will support the overall profitability of the company. However, the BaB business is in the nascent stage and considering that technological landscape being dynamic, this makes BaB a high risk reward venture.

Exhibit 7: Segmental break up

Particulars	FY2012	FY2013	FY2014	FY2015	1HFY2016
Revenue					
Sale of products	123	139	177	221	123
change yoy (%)	140.3	13.2	26.9	25.4	
% of total	96.1	92.0	85.1	76.8	71.7
Sale of software and e-commerce related ancillary services	5	12	31	67	48
change yoy (%)	71.2	140.8	155.7	117.2	
% of total	3.9	8.0	14.9	23.2	28.3
Total net sales	128	151	207	288	171
Profit					
Sale of products	(5)	(13)	(19)	(23)	(5)
% of sales	(3.9)	(9.1)	(10.7)	(10.4)	(3.9)
Sale of software and e-commerce related ancillary services	2	6	19	40	28
% of sales	35.5	49.4	62.6	59.8	58.0
Unallocated Expenses	7	17	27	29	19
Total	(10)	(24)	(26)	(12)	4

Source: Company, Angel Research

Valuation

Infibeam's E-retail business has a similar model as Flipkart and Snapdeal, but is significantly smaller than the two dominant players which have strong PE backup. Its other business, i.e. BaB, in revenue terms is also smaller (₹67cr FY2015) compared to global players like Shopify.com (US\$205mn CY2015). Moreover, even if BaB business does gain dominant position in India, it is insufficient to justify the valuation. Considering this, we believe that the EV/Sales multiple of 4.3x-5.2x demanded by the company is steep. **Given that the company is still evolving, has an unproven profitability track record and the expensive valuation, we have a Neutral recommendation on the issue.**

Risks

Intense competition: The company faces intense competition from players like Flipkart, Snapdeal, etc for its E-retail business which entails heavier discounting to gain market share, thus resulting in higher operating losses for the business.

Unproven track record for profitability: The company has reported continuous losses from ₹18cr in FY2011 to ₹10cr in FY2015. Although, it has reported maiden profits amounting to ₹6cr in 1FY2016 there lacks a proven track record in terms of profitability.

Government regulatory issues: Any unfavourable regulations for internet and ecommerce industry can have a negative impact on the company's business growth.

Profit & Loss (consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	1HFY16
Total operating income	128	151	207	288	171
% chg	-	18.2	37.2	39.0	-
Total Expenditure	138	173	228	291	160
Raw Material	120	134	168	223	118
Employee Cost	7	11	22	21	13
Other Expenses	11	29	37	47	29
EBITDA	(10)	(22)	(20)	(2)	12
% chg	-	-	-	-	-
(% of Net Sales)	(7.7)	(14.6)	(9.8)	(0.8)	6.8
Depreciation & Amortisation	1	3	7	13	8
EBIT	(11)	(25)	(28)	(15)	3
% chg	-	-	-	-	-
(% of Net Sales)	(8.7)	(16.6)	(13.4)	(5.3)	2.0
Interest & other Charges	1	1	1	1	1
Other Income	1	1	2	7	3
(% of PBT)	(12.1)	(5.7)	(6.4)	(71.0)	54.0
Recurring PBT	(11)	(25)	(27)	(10)	6
% chg	-	-	-	-	-
Prior Period & Extra. Exp/(Inc.)	-	-	-	-	-
PBT (reported)	(11)	(25)	(27)	(10)	6
Tax	-	-	0	0	-
(% of PBT)	-	-	(0.0)	(0.1)	-
PAT before MI & Adj. (reported)	(11)	(25)	(27)	(10)	6
Extraordinary Items	-	-	-	-	-
Less: Minority interest (MI)	-	0	1	1	0
Less: Share of Associates	(0)	0	(0)	(1)	(0)
ADJ. PAT	(11)	(25)	(26)	(10)	7
% chg	-	-	-	-	-
(% of Net Sales)	(8.5)	(16.5)	(12.5)	(3.4)	3.8
Basic EPS (₹)	(2.5)	(5.8)	(6.1)	(2.3)	1.5
Fully Diluted EPS (₹)	(2.5)	(5.8)	(6.1)	(2.3)	1.5
% chg	-	-	-	-	-

Balance Sheet (consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	1HFY16
SOURCES OF FUNDS					
Equity Share Capital	30	38	40	43	43
Reserves & Surplus	(29)	(14)	43	170	183
Equity Application Money	8	-	-	-	-
Shareholders' Funds	9	24	83	213	225
Minority Interest	2	2	1	0	-
Total Loans	55	43	9	5	5
Long-term provisions	1	0	1	1	1
Other long term liabilities	-	-	-	-	0
Total Liabilities	66	69	93	219	232
APPLICATION OF FUNDS					
Gross Block	17	31	56	75	92
Less: Acc. Depreciation	8	11	17	30	39
Net Block	9	20	39	45	54
Capital Work in Progress	4	6	8	26	24
Goodwill	5	5	6	6	6
Investments	0	0	-	-	-
Current Assets	15	51	37	121	148
Inventories	2	5	9	12	18
Sundry Debtors	7	36	17	33	43
Cash	1	4	4	60	70
Loans & Advances	4	6	5	11	11
Other Assets	0	1	1	5	6
Current liabilities	8	51	42	49	52
Net Current Assets	6	0	(5)	72	96
Long term loans and advances	41	38	44	69	52
Other Non Current Assets	0	0	1	0	0
Mis. Exp. not written off	-	-	-	-	-
Total Assets	66	69	93	219	232

Cash Flow Statement (consolidated)

Y/E March (₹cr)	FY2012	FY2013	FY2014	FY2015	1HFY16
Profit before tax	(11)	(25)	(27)	(10)	6
Depreciation	1	3	7	13	8
Change in Working Capital	(31)	9	(2)	(18)	(17)
Interest / Dividend (Net)	1	1	0	(3)	(3)
Direct taxes paid	0	(0)	(1)	(5)	(1)
Others	(1)	2	12	2	2
Cash Flow from Operations	(40)	(11)	(11)	(21)	(3)
(Inc.)/ Dec. in Fixed Assets	(5)	(16)	(15)	(50)	9
(Inc.)/ Dec. in Investments	(0)	(1)	(2)	(41)	10
Cash Flow from Investing	(6)	(17)	(17)	(91)	19
Issue of Equity	-	7	65	123	-
Inc./(Dec.) in loans	48	24	(37)	45	(6)
Dividend Paid (Incl. Tax)	-	-	-	-	-
Interest / Dividend (Net)	(1)	(1)	(0)	(1)	(0)
Cash Flow from Financing	47	30	28	168	(6)
Inc./(Dec.) in Cash	1	3	1	56	10
Opening Cash balances	0	1	4	4	60
Acquisition / (sale) of business	-	(0)	0	-	-
Closing Cash balances	1	4	4	60	70

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015
Valuation Ratio (x)				
P/E (on FDEPS)	-	-	-	-
P/CEPS	-	-	-	557.1
P/BV	213.6	76.5	22.3	8.7
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	14.8	12.5	8.9	6.2
EV/EBITDA	-	-	-	-
EV / Total Assets	25.5	15.8	13.7	6.7
Per Share Data (₹)				
EPS (Basic)	(2.5)	(5.8)	(6.1)	(2.3)
EPS (fully diluted)	(2.5)	(5.8)	(6.1)	(2.3)
Cash EPS	(2.2)	(5.1)	(4.3)	0.8
DPS	0.0	0.0	0.0	0.0
Book Value	2.0	5.6	19.3	49.8
Returns (%)				
ROCE	-	-	-	-
Angel ROIC (Pre-tax)	-	-	-	-
ROE	-	-	-	-
Turnover ratios (x)				
Asset Turnover (Gross Block)	7.5	4.9	3.7	3.8
Inventory / Sales (days)	5	13	15	16
Receivables (days)	21	86	30	42
Payables (days)	14	92	44	26
Wc cycle (ex-cash) (days)	12	7	2	31

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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