

IndiaMART InterMESH Limited

Issue Snapshot:

Issue Open: June 24 – June 26, 2019

Price Band: Rs. 970 – 973 (discount of Rs.97 to eligible employees)

Issue Size: 4,887,862 eq shares (Entirely Offer for sale)

Offer Size: Rs.474.41 crs – 475.5 crs

QIB	atleast 3,658,397 eq sh
Non Institutional	upto 731,679 eq sh
Retail	upto 487,786 eq sh
Employee	upto 10,000 eq sh

Face Value: Rs 10

Book value: Rs 55.92 (Mar 31, 2019)

Bid size: - 15 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 28.77 cr

Post issue Equity: Rs. 28.77 cr

Listing: BSE & NSE

Book Running Lead Manager: ICICI Securities Limited, Edelweiss Financial Services Limited, Jefferies India Private Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	57.58	52.61
Public & Employee	42.42	47.39
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

IndiaMART InterMESH Ltd is India's largest online B2B marketplace for business products and services with approximately 60% market share of the online B2B classifieds space in India in fiscal 2017. It primarily operates through its product and supplier discovery marketplace, www.indiamart.com or "IndiaMART". Its online marketplace provides a platform for mostly business buyers, to discover products and services and contact the suppliers of such business products and services. IndiaMART had an aggregate of 325.8 million, 552.6 million and 723.5 million visits in fiscals 2017, 2018 and 2019, respectively, of which 204.8 million, 396.9 million and 550.3 million comprised mobile traffic, or 63%, 72% and 76% of total traffic, respectively.

IndiaMART refer to sellers of products and services listed on its IndiaMART marketplace as "suppliers", and suppliers that subscribe to paid services on IndiaMART as "paying subscription suppliers". It refers to each visitor to IndiaMART, including, among others, each separate visitor from the same business entity or establishment, for whom it obtains basic identifying and contact information as its "registered buyer". As of March 31, 2019, it had 82.70 million registered buyers and it had 5.55 million supplier storefronts in India. The company count business enquiries received by a supplier, including each receipt of the same business enquiry by multiple suppliers, as a business enquiry delivered. A total of 156.84 million, 289.98 million and 448.97 million business enquiries, respectively, were delivered.

IndiaMART provides a robust two-way discovery marketplace connecting buyers and suppliers. Buyers locate suppliers on its marketplace, including both Indian small and medium enterprises, or "SMEs", and large corporates, by viewing a webpage containing the supplier's product and service listings, or a "supplier storefront", or by posting requests for quotes called "RFQs" or "BuyLeads". Its marketplace offerings from which buyers can search for and view product and service listings cover a widespread range of industries spread across India, rather than relying on a single target industry or type of geography.

IndiaMART provides an effective and trusted platform to help businesses leverage the power of the internet to increase market reach and conduct commerce. Its online marketplace is particularly relevant in India, which, unlike many other countries, has no major multi-brand or multi-category offline retailer of scale for business products and services. Given the ticket sizes associated with B2B and wholesale transactions, the opportunity for B2B e-commerce is even higher as compared to B2C e-commerce market. Its online marketplace capitalizes on this opportunity by helping buyers gain access to a national pool of suppliers, comprehensive product and supplier information in a standardized format and greater transparency in prices. Its online marketplace also provides suppliers with cost-effective ways to reach new buyers across geographies.

IndiaMART's online marketplace is accessible through desktop and mobile-optimized platforms and apps on personal computing and mobile devices. Its IndiaMART mobile website, together with IndiaMART mobile app, accounted for 63%, 72% and 76% of total traffic to IndiaMART for fiscals 2017, 2018 and 2019, respectively. It earns revenue primarily through the sale of subscription packages (available on a monthly, annual and multiyear basis) to suppliers, which offer a range of benefits including the listing of their supplier storefronts on a priority basis on IndiaMART, access to lead management system, integrated access to third party online payment gateways and access to RFQs. It also earns revenue through advertising on its IndiaMART desktop and mobileoptimized platforms and IndiaMART mobile app, payment facilitation service and from the sale of "RFQ credits".

Objects of Issue:

The objects of the Offer are to achieve the benefit of listing the Equity Shares on the Stock Exchanges and for the sale of an aggregate of up to 4,887,862 Equity Shares by the Selling Shareholders. Further, the company expects that listing of the Equity Shares will enhance visibility and brand image and provide liquidity to the Shareholders. Listing will also provide a public market for the Equity shares in India. IndiaMART

will not receive any proceeds from the Offer and the entire proceeds from the Offer will go to the Selling Shareholders, in proportion to the Equity Shares offered and sold by the respective Selling Shareholder in the Offer for Sale.

Competitive Strengths

IndiaMART's strong network effects and brand recognition drives leadership in the B2B marketplace in India: IndiaMART is India's largest online B2B marketplaces for business products and services with approximately 60% market share of the online B2B classifieds space in India. As of March 31, 2019, IndiaMART provided 82.70 million registered buyers with access to 5.55 million supplier storefronts in India, which list 60.73 million products and services across 54 industries. "IndiaMART" has become an established and trusted pan India brand, primarily through word-of-mouth accounts of its suppliers' and buyers' experiences. Its proven IndiaMART platform attracts repeat buyers, leading to less dependence on paid traffic. The strength of IndiaMART brand in India and the vastness of its online marketplace is unmatched. Its strong brand recognition and market position creates the following positive effects on the business.

Comprehensive, convenient and reliable platforms for buyers: IndiaMART's offerings are well suited to the needs of buyers and enable them to receive comprehensive information on a variety of products and services, and communicate effectively with a large number of suppliers.

Access to a large number of verified suppliers, products and services: Most of IndiaMART's paying subscription suppliers have disclosed their GST registration numbers on their storefronts which adds credibility to their business establishments. Access to its large database of suppliers and products also gives buyers the benefit of competitive and transparent prices.

Diverse industry and product and service categories: IndiaMART's marketplace offers a comprehensive breadth and quality of listings across a wide spread range of industries. Its products and services are spread across 54 industries rather than relying on a single target industry. Potential buyers from varying industries may therefore reliably use its platform to fulfill much of their required products and services for their businesses. The wide assortment of industry and product and service categories enables it to secure a diversified revenue stream, which in turn allows it to further grow its marketplace and provide a broad range of products and services for its buyers.

Diverse geographies: IndiaMART products and services are spread across India rather than relying on a single geography. Potential buyers from varying geographies may therefore reliably use its platform to fulfill much of their required products and services for their businesses. The wide assortment of product and services spread across geographies makes it to further grow its marketplace by attracting buyers across geographies.

Precise and user-friendly search and reliable matchmaking service: Any buyer can utilize IndiaMART's search engine to precisely find the specific products and services that they require. Its search service provides contextual search features optimized and personalized for users and a predictive auto-suggest feature that suggests search phrases and terms, which appear under the search box while a buyer is typing its original search.

Effective tools for communication: Supplier storefronts on IndiaMART offer a number of convenient ways for buyers to connect with suppliers, such as email, SMS, call and the click-to-call feature on the IndiaMART mobile app. IndiaMART also allows buyers to easily connect with database of suppliers by posting RFQs, which gives buyers access to many suppliers that they would not have reached through traditional methods.

Efficient and effective marketing platform for suppliers: IndiaMART's service offerings are well-suited to the needs of suppliers seeking to search newer markets in an effective and economical platform to market their products and services in the following respects:

Access to a large and growing number of buyers: A total of 156.84 million business enquiries were delivered to IndiaMART suppliers in fiscal 2017 from its 39.37 million registered buyers, 289.98 million business enquires were delivered in fiscal 2018 from its 59.81 million registered buyers and 448.97 million business enquires were delivered in fiscal 2019 from its 82.70 million registered buyers. In addition, a number of leading corporate customers use its platform for their procurement needs, which may not have been accessible to such suppliers.

Subscription packages and subscription-free services: IndiaMART offers monthly pricing schemes for its subscription packages in addition to annual and multi-year subscription models. It offers basic and premium subscription models, which include a set number of RFQ credits (depending on the level of the paid subscription package) that may be used by the suppliers. In addition, its subscription-free services including supplier storefronts are intended to attract first-time suppliers to its marketplace. It also combines certain offerings, such as offering subscription packages that include TrustSEAL verification and a set of complimentary RFQ credits.

A cost-effective platform: IndiaMART provides suppliers with a return-on-investment-driven and cost-effective method for marketing their products or services, allowing them to attract buyers or expand into new markets. It allows businesses to create an online presence and share their business and contact details with potential buyers across India.

IndiaMART premium number service provides benefits to participating suppliers: IndiaMART premium number service allotted unique phone numbers to approximately 470,053 suppliers as of March 31, 2019, and connects calls directly to suppliers while also providing them with software-based missed call alerts when a buyer calls so as to ensure that enquiries from interested buyers are not missed. In addition, its IndiaMART premium number service blocks calls from identified marketers and spammers which increases the relevance of the service for its suppliers. This service has also increased buyer satisfaction by increasing the likelihood of receiving a response from suppliers, which is leading to greater buyer engagement benefiting suppliers.

IndiaMART lead management system: With the advent of IndiaMART's mobile app, the lead management system became critical for facilitating suppliers to contact with buyers on its platform. By means of the IndiaMART lead management system, the supplier has access to comprehensive information of the potential buyers and the nature of enquiries received by them in the past. This solution also allows suppliers to manage phone, email and SMS enquiries from buyers in one place and monitor response to those enquiries. Buyers can also communicate with suppliers efficiently through the IndiaMART lead management system using features such as reminders, templated quotations and predefined template responses.

Deep understanding of online trade and commerce in India that drives innovative solutions: With approximately 19 years of experience in online trade and commerce, IndiaMART has a deep understanding of the online commerce landscape and its participants. It has continuously leveraged its experience and insights from its ecosystem of suppliers and buyers along with the strengths of its IndiaMART marketplace to introduce innovative solutions, including CMS, PNS, RFQs, LMS, payment services and algorithmic matchmaking. It utilizes data analytics to improve its understanding of the behavior of suppliers and buyers on its marketplace. Its RFQs automated search engine connects buyer RFQs with relevant suppliers on IndiaMART, giving buyers quick and free access to suppliers and offering suppliers greater choice of, and affordable access to, buyers. In addition, its digital online payment facility was implemented in fiscal 2018 to allow buyers to make payments to suppliers using multiple payment options.

Robust mobile platform: Mobile internet has been increasingly contributing to digital media advertising spends increasing from 53% in 2015 to 78% in 2017. It is considered to be the primary driver for overall internet growth, with mobile revenue projected to increase from Rs 1,351 billion in fiscal 2018 to Rs 2,489 billion in fiscal 2022. The mobile website and app that it developed are capable of handling the dynamic needs of its buyers and suppliers while remaining reliable, secure and scalable. Its IndiaMART mobile website and app is designed to optimize the buyers' experience in product, service and supplier discovery, and has generated 396.9 million visits during the year ended March 31, 2018 and 550.3 million visits during the year ended March 31, 2019. While its IndiaMART app allows buyers to search for products and services, the mobile app also serves as an effective lead management system for suppliers which allows suppliers to manage buyer enquiries, and call or reply to enquiries on their mobile devices. It continues to make investments in mobile web and app development by recruiting skilled workforce and to further enhance its user experience, provide innovative features to its buyers and suppliers and increase the speed and efficiency of its mobile platforms.

Experienced Management Team and Large Sales and Service Representatives Team with Proven Track Record of Performance: IndiaMART is led by a management team with extensive experience in the online trade and commerce segment, and a proven track record of performance. In addition, members of its management team, which comprises a mix of homegrown talent and lateral talent from leading multinational companies and firms, possess complementary skills and has extensive experience and knowledge of the online B2B and e-commerce industry. Its management team has developed strong working relationships with its employees, which adds to its stability and long-term growth. The Company is also able to utilize the relevant expertise of its Board of Directors, which comprises members from various industries and professional backgrounds including finance, venture capital and technology. It has a total of 3,316 sales and service representatives as of March 31, 2019, spread in multiple cities across India in addition to a call based customer service, which allows to effectively engage with suppliers, thereby enabling to develop its customer relationships and better understand their challenges.

Business Strategy:

Continue to increase the size of IndiaMART marketplace: The breadth and quality of suppliers and their product and service listings are critical to the success of IndiaMART's online marketplace. As of March 31, 2019, it had 5.55 million Indian supplier storefronts with 60.73 million listed products and services, which buyers can access on IndiaMART. Its strategies to increase the number of free and paying subscription suppliers on IndiaMART include:

Continue to focus on non-paying and paying supplier acquisition and customer service efforts: IndiaMART plans to expand its supplier acquisition efforts, as well as focus on developing its direct sales force as part of its efforts to up-sell higher margin, higher value subscription

packages to existing paying subscription suppliers with category and city-specific pricing models to help increase its sales and profitability. It also plans to increase the number of its telephone-based and online customer service employees and capabilities. Increasing its outsourced sales efforts compared to its physical sales footprint is expected to help to reduce its overall costs and increase revenue.

Realize the scalability of marketplace: IndiaMART's marketplace for discovery of products and services is highly scalable. As it experiences continued growth, it has taken, and will continue taking steps to ensure that its existing echnology and support infrastructure are capable of handling higher user volumes through greater adoption of automated systems and processes, including behavioral data driven algorithmic matchmaking capabilities, and reliance on outsourced call centers and Internetbased tools for free and paying customer acquisition, upselling and servicing. It further plans to leverage scale of its marketplace in developing category or vertical specific features as and when demand of such category or vertical reaches a meaningful scale.

Leverage growth in mobile penetration: IndiaMART has developed a mobile website and a mobile app for its IndiaMART platform, and it has experienced significant increases in buyers accessing its platform through mobile website and app. Leveraging increases in mobile penetration in India and promoting the use of its mobile website and app will consequently increase the number of active buyers and suppliers on its online marketplace.

Attract larger suppliers and leading brands while growing core SME segment supplier base: While Indian small and medium enterprises initially comprised the core base of the supplier community on IndiaMART, larger corporates and leading brands are a growing supplier segment on IndiaMART's platform. It therefore seeks to make IndiaMART an engaging and effective marketplace for the larger corporate and leading brand suppliers, while sustaining its efforts to grow its strong SME supplier base. Attracting large businesses facilitates creation of a network effect for its marketplace. Specifically, a brand that is onboarded helps in approaching additional brands or divisions of the same company, leading to deeper penetration within the supplier's group, in addition to attracting other competitors in the similar industry. Further, as IndiaMART increase the number of large corporates and leading brands, it expects its average revenue realization to grow from paying customers through its competitive pricing strategies. This also helps IndiaMART strengthen its credibility amongst small and medium enterprises.

Enhance buyers' experience: IndiaMART continues to enhance its buyers' experience by concentrating on its mission to "make doing business easy". Along with its efforts to provide buyers with a comprehensive discovery platform backed by a suite of products and services offered by a large number of suppliers that include large brands, it seeks to improve the quality and completeness of product and service information on its marketplace listings, including price, photos and videos so as to help buyers shortlist the appropriate suppliers. It also aims to increase its buyers' satisfaction levels by improving the buyers' algorithmic matchmaking process with suppliers and ultimately the chances of fulfilling the buyers' needs through IndiaMART. In addition, it plans to further localize its offerings by including search results in regional languages like Devnagri in addition to 'Hinglish'. Furthermore, it seeks to develop and offer suitable payment solutions for its buyers in order to provide a complete and better buying experience through IndiaMART.

Improve supplier engagement, services, retention and monetization: IndiaMART plans to maximize its engagement with suppliers on IndiaMART, including Indian SMEs and large businesses, by continuing to make IndiaMART an advantageous platform for marketing their products and services. It aims to improve its content management systems and further personalize its suppliers' experiences on IndiaMART so that they can fully leverage its platform as a channel to spearhead their marketing efforts. It also intends to increase retention and engagement of existing suppliers by improving its matchmaking algorithm which analyzes supplier data on its platform such as RFQ consumption and use of IndiaMART premium number service, payment facilitation services and lead management system, and by adding additional intelligent ranking methods to supplier search results. Additionally, it plans to help alleviate payment default risk and other payment related concerns for suppliers by means of its payment facilitation services. IndiaMART payment protection program and online payment gateway system will allow multiple payment options directly on supplier storefronts. Further, it aims to improve accessibility to its platform through low cost software as a service ("SaaS") offering. These efforts will help IndiaMART to retain its network of suppliers, which will in turn benefit and attract more buyers.

Continue investing in mobile platforms and capabilities: Mobile platforms will continue to drive the growth of online commerce in India. The number of internet subscribers is projected to increase from 425 million as on December 2017 to 867 million by fiscal 2022 primarily driven by growth in the 4G subscriber base. Since its mobile website and app are largely do-it-yourself tools, increased usage of its mobile platforms helps to increase operating efficiency. It intends to continue its investment in mobile platforms by further developing and integrating lead management system applications, user interface and notifications, customer services provided through instant messaging, GPS location capabilities, voice search technologies and other personalization features in its IndiaMART app. It intends to further encourage the use of its mobile platforms by its suppliers and buyers through targeted marketing initiatives and offering innovative and effective solutions such as integrated voice search, and by encouraging buyers to use mobile platform to upload their RFQs to IndiaMART.

Industry:**Digital India – Increasing adoption of Internet laying the groundwork****Internet growth in India**

The number of internet subscribers in India is expected to increase from 446 million as on December 2017 to nearly 900 million by FY22 primarily driven by growth in wireless broadband services. Wireline broadband services are expected to grow at a comparatively gradual rate due to constraints around high initial investment in deployment of fixed line infrastructure and increased user preference to use internet on the go.

Mobile internet the primary driver for overall internet growth, driven by smartphone adoption

The number of wireless internet subscribers is projected to increase from 425 million as on December 2017 to 867 million by FY22 primarily driven by growth in the 4G subscriber base. Rise in the adoption of high speed wireless internet (4G service) is expected to be primarily driven by the following aspects:

- Competitive data rates offered by 4G service providers (initiated by the disruptive launch of 4G services by Reliance Jio)
- Falling prices of 4G-enabled smartphones and introduction of affordable smart feature-phones by telecom operators
- Continued investments in improvement of telecom infrastructure and leading to deepening network coverage of high-speed data services
- Digital India initiative by the Government of India

The MSME Market in India

As per the National Sample Survey (NSS), there were 63.39 million non-agriculture MSMEs in India engaged in different economic activities in 2015-16 (19.67 million MSMEs were involved in manufacturing whereas 43.72 million MSMEs were involved in services, of which 23.04 million were involved in trade). The number of MSMEs in India have increased at a CAGR of 6.4% in the last 9 years from 36.18 million in 2006-07. These 63.39 million MSMEs employ around 111 million people spread across urban (55 percent) and rural (45 percent) India which represents around 40% of the working population of India.

Contribution of MSMEs in the country's economy

The 63 million Micro, Small and Medium Enterprises (MSMEs) in the country contribute a significant portion to India's GDP. This contribution from the MSME segment stood at nearly 30 percent in FY2018, with around 6 percent coming from manufacturing and around 24 percent from the service segment in past 3-5 years.⁵ As per the discussions with SME industry bodies, it was believed that on the back of government initiatives, the SME segment could target increasing the contribution to GDP to around 35 percent⁶ over the next 4-5 years.

SME Internet adoption in India – Current levels low, but a large opportunity ahead

Getting business online- Internet for businesses. As per the KPMG Google report on 'Impact of internet and digitization of SMBs in India', just 32 percent of SMEs in India were digitally connected in 2017 and 17 percent used internet for business purposes. On the other hand, 54 percent of small businesses in USA used e-mail for business in 2017 and 51 percent had their own website.⁷ In China, 89 percent of all enterprises were connected to internet by 2015.

Of the 32 percent SMEs that were digitally connected, only 2 percent were adjudged to be using the full potential of digital technologies while the remaining 30 percent were not actively promoting or selling their business online.

Government policies and their impact on the MSME sector**Make in India**

The "Make in India" initiative launched in September, 2014, aims at promoting India as a preferred investment destination and a global hub for manufacturing design and innovation. The initiative aims to increase the contribution of the manufacturing sector to 25 percent of the gross domestic product by 2025.

Good and Services Tax (GST)

The GST rollout in 2017, aims to boost competitiveness and performance in India's manufacturing sector. Some of the areas where the GST can potentially have a positive impact on SMEs are highlighted below

- Ease of starting a business – GST enables a centralized registration, making it easier to set up businesses
- Market Expansion – With the GST, tax credit will be transferred across state boundaries, irrespective of the location of the buyer and seller, which will help expand the market for SMEs
- Improved logistics and faster delivery of services.
- Reduction of tax burden on new businesses.
- It has also made it easier for B2B e-commerce platforms to onboard the SMEs with ready documentation.

The first month post the GST implementation, witnessed registration of over 1 million businesses in the system¹⁰ and this number rose to 9.8 million by December 2017. Also, as per the economic survey 2017-18, SMEs had 22 percent share in the number of filed GST returns, outlining the importance of the reform for the SME segment.

Push towards a Digital Economy

Demonetization and promotion of digital payments with initiatives like Aadhaar Pay, Bharat QR Code and the incentivization of the government’s flagship BHIM (Bharat Interface for Money) app are some of the major initiatives towards a cashless economy. The volume of transactions on UPI has increased from ~18 Mn (FY’17) to ~915 Mn (FY’18), while the value has increased from Rs70 Bn to Rs1100 Bn during the same period¹³. The importance of Aadhaar as a tool for seamless identification can be gauged by its adoption for E-KYC. As per UIDAI, the average daily E-KYC transactions in April 2018 were ~7.5 million.

Medium and Large Enterprises – Higher on the internet adoption maturity curve

The Medium and large enterprises are extremely important to the Indian economy. India has nearly 850 listed entities¹⁴ having annual revenues in excess of Rs 250 Cr each. The combined revenue of these entities was equivalent to about 58 percent of the GDP in FY17

Adoption of internet amongst LEs

More than 40 percent¹⁶ of the large enterprises with an annual turnover in excess of US\$ 1 billion listed in India are investing in emerging technologies while 20 percent of such billion dollar companies are already under way on their digital transformation journey. The spending on digital transformation by these listed billion dollar companies in India is expected to cross US \$360 million by 2020 as government initiatives like Digital India, Smart City and Make in India create numerous opportunities across different industries.

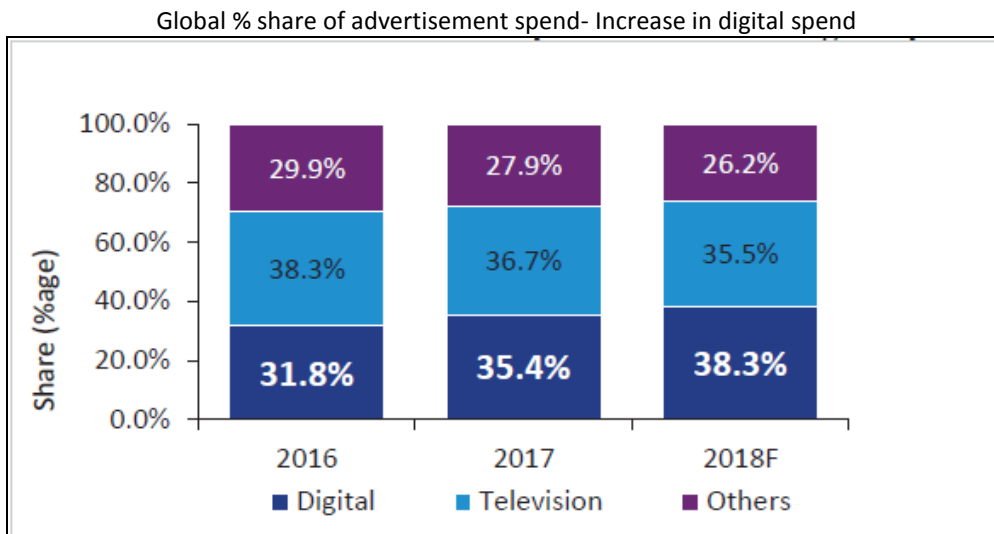
The Indian Advertising Market

Advertising revenues expected to grow driven by Digital advertising gaining prominence

The Indian Media & Advertising industry suffered the after-effects of demonetization and introduction of the Goods & Services Tax (GST) in 2017, leading to a relatively slow Ad-Ex growth at 7 percent over 2016. However, as economy and market recover, the advertisement market is forecasted to reach Rs 595 billion in 2018 growing at a rate of 12 percent over 2017. In the long term, the advertisement market is estimated to grow at a CAGR of ~16 percent from 2018 to 2021 to reach Rs 934 billion.

Global Advertising Trends – The Shift towards digital advertising

The global advertising market is projected to reach a size of USD 589.5 Bn in CY2018, growing at a CAGR of 3.8% from CY2015. While overall ad spend is growing, the distribution across different channels is seeing a significant shift. Digital has been the major contributor to the growth in global ad expenditure with a double digit growth while the other channels have experienced single digit or negative growth.



Growth of online advertising

Digital continues to power ad spend growth and stands at Rs 93 billion at the end of 2017 growing at 27 percent over 2016. It is forecasted to grow to Rs 116 billion by 2018 and continue growing at around 30 percent¹⁷ for the next 2-3 years.

The Local Indian search market

Spending on search advertising continues to be important with the Ad-ex increasing at a CAGR of 27 percent from Rs 18.6 billion in 2015 to Rs 30.1 billion in 2017. Despite this, the contribution of search advertisement to the total digital Ad-ex has reduced from 36 percent in 2015 to 32 percent in 2017. While video advertising is expected to be the fastest growing segment going ahead, outpacing the 30% CAGR of the overall digital advertising market, the search segment is also expected to remain robust, growing in absolute terms, albeit at a pace slower than the growth of the digital advertising market.

The Indian Classifieds market

The digital classifieds market in India is a combination of horizontal and vertical players. The horizontals offer listing across a host of goods and services, ranging from real estate, home services, pet care, used goods to medical suppliers. On the other hand, the vertical players focus on a single product/service category such as matrimonial, recruitment services etc. The digital classified market was estimated at Rs 40.2 billion in FY2017, expected to grow at a CAGR of 14 per cent over FY2017-FY2022 to reach a size of Rs 77.1 billion by FY2022. The growth in the digital classifieds market from FY2017 to FY2022 is estimated to be driven by the growth in B2B, Automotive and Real Estate classifieds, with Horizontals also continuing to maintain robust growth. The B2B digital classified market is estimated to more than double from a size of Rs 5.1 billion in FY'2017 to Rs 11.9 billion by FY2022, a CAGR of 18.5%. This market size only consists of revenues from online B2B classified websites, which are involved in the listing, discovery and matchmaking of businesses on their platform. However, given the large market of online search in India, the same also represents a large potentially addressable market for online B2B classified platforms.

Advertising spends across SMEs and Large enterprises¹⁸

Marketing spends: Offline vs Online

Compared to B2C companies which focus on a large mass of a distributed customer base, the B2B business model is geared towards maintaining relationships with a smaller number of repeat customers, who'd likely account for a significant amount of the company's business. Thus, B2B organizations are currently more likely to spend a major share of their marketing funds on the offline mode to maintain relationships with the existing customer base. With increasing use of the online medium for marketing and discoverability, the same may change depending upon the value B2B organizations are able to extract out of this emerging medium. While 56 percent of the SMEs earned less than 33 percent of their revenues from their online (including assisted online) business, 66 percent SMEs spent more than 33 percent of their marketing spends on online marketing. Large enterprises dealing with highly standardized products being sold at low volumes per order, may allocate as high as 20-30 percent of their total marketing spends towards digital marketing efforts. Large enterprises: Discussions with Large enterprises indicated that the spread of digital marketing across different sub-segments like display, video, search and classifieds depends upon the nature of products that the company has to offer and the nature of customers:

Buyer behavior on B2B e-commerce platforms

Product discovery and purchase decision

With the growing availability of products on B2B e-commerce portals, the use of internet as a medium of product discovery has increased. However, most of the buyers prefer to do their transactions offline and make use of online platforms only for the purpose of price discovery and widening their supplier base. Behavior on the online medium Popular B2B e-commerce platforms have witnessed an increase in traffic on their websites indicating an increase in B2B buyer activity. Most of the B2B buyers that come online tend to visit these B2B e-commerce sites directly. Some buyers, however, prefer to search for the desired products by using search engines before zeroing in on the appropriate B2B e-commerce website.

Deepening internet penetration fueling E-commerce growth in India

The e-commerce market in India was estimated to be around Rs 2,350 billion in 2017 and is projected to continue growing to reach Rs 5,350 billion²¹ by 2020. The e-commerce market is dominated by the online travel segment which comprises around 52 percent of the ecommerce market share. E-tail, which is the fastest growing segment in e-commerce, represented approximately 2.5 percent of the total retail sales in India in 2016. This is expected to rise to 5 percent by 2020.

The Indian B2B e-commerce market

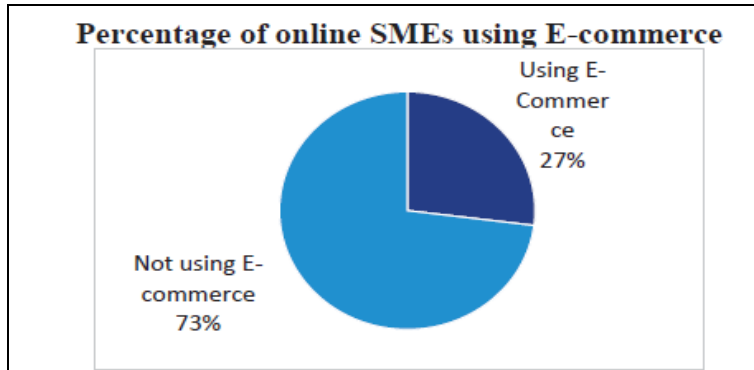
The growing B2C E-commerce market has led to a large number of sellers bringing their businesses online. As per a report by Walmart, the wholesale market in India is estimated to reach USD 700 billion in 2020, rising from an estimated USD 300 billion in 2015. In order to tap into this potential, B2B e-commerce players have started building platforms for SMEs and traders. The number of SMEs buying and selling online have increased over the years with 27% of the internet-enabled SMEs being engaged in e-commerce in 2015²⁴. In China, nearly 34 percent of all SMEs were engaged in online marketing in 2015 indicating a possibly greater number engaged in e-commerce²⁵. The government of India has allowed 100% FDI in B2B e-commerce to enable greater investments and bringing in expertise and operating knowledge of global majors.

Landscape of the Indian B2B Ecommerce market

The B2B landscape in India is largely fragmented with millions of unorganized MSMEs, distributors and wholesalers operating throughout the country. B2B e-commerce on the other hand, attempts to bring all these players onto a single platform with an aim to aggregate demand and supply. B2B e-commerce players have started building platforms for SMEs and traders. While there are several B2B e-commerce platforms with different operating models, they can be broadly categorized under two broad business models –Classifieds and Transaction based.

SMEs using third party B2B platform

Business processes are increasingly becoming data-driven and SME sector has been benefitting from the continued expansion of E-commerce in India. As per a KPMG Snapdeal report ‘Impact of e-commerce on SMEs in India’, 27 percent of the SMEs using internet are engaging in use of e-commerce for business. Further, 85 percent of the SMEs who adopted e-commerce believe that it is a cost effective medium to grow sales.



Paid customers on third party B2B Ecommerce platforms

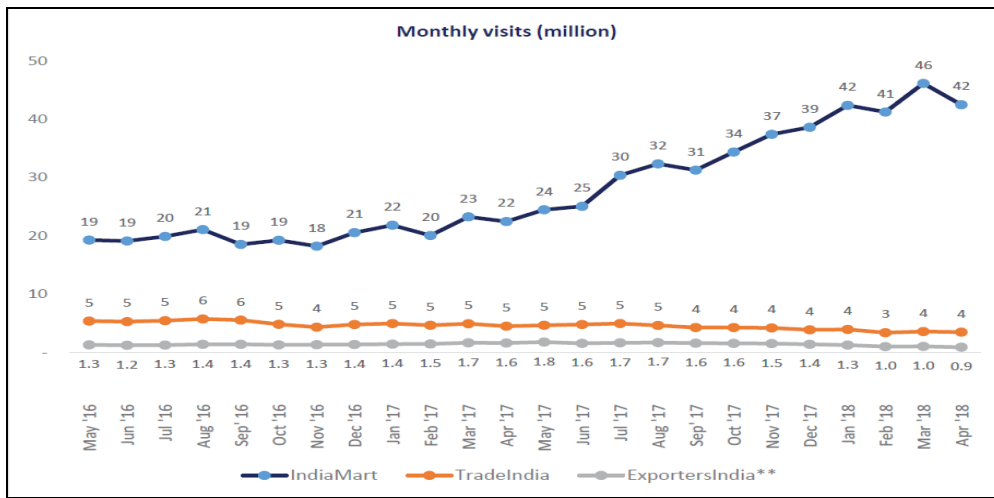
With the increasing benefits of e-commerce, the number of SMEs on B2B platforms have been growing over time. This has resulted in increased competition on such platforms for customer leads and made it imperative for suppliers to improve their visibility in the respective categories and capture relevant leads as far as possible. Thus, more number of suppliers are subscribing to premium packages which helps them get higher number of relevant leads. Some examples of subscription numbers for B2B Ecommerce platforms are outlined below. The number of suppliers using paid services on Indiamart has increased from 72,000 in FY16 to 96,000 in FY17 and 108,000 in FY18.

Conducting business online- E-commerce and finance

As per a KPMG Snapdeal report ‘Impact of e-commerce on SMEs in India’, 27 percent of the SMEs using internet are engaging in use of e-commerce for business²⁶. This implies that less than 10 percent of the overall SME base of 63 million may be engaging in use of e-commerce for business. B2B E-commerce platforms are creating a business ecosystem which is enabling smoother transactions, procurement of raw materials and industrial goods, and forging a better connection between established brands and small shop owners. These B2B platforms have already on boarded a large number of small business, as outlined below:

Number of suppliers on a select B2B e-commerce platforms

B2B platform	No. of users	No. of suppliers
Indiamart	59.8 million ²⁷	4.7 million
Trade India	4.3 million ²⁸	NA
Industry Buying	NA	5,000-6,000
Moglix	NA	~2,000



In addition to the B2B classified platforms, search engines like Google can be looked as a competitor in terms of businesses using the search engine for discoverability. However, Google is also an enabler for B2B classified platforms for directing generic business queries to their platforms. This can be corroborated by the high percentage of search traffic being directed to the classified platforms.

Key Opportunities and Trends in B2B Ecommerce and Potential for future products/services

The Indian SaaS Market

- Personalization of B2B Ecommerce platforms – Driving user traction
- B2B Platforms - Leveraging Social Media
- Digital Payments on B2B Platforms
- B2B Platforms – Multi System Integration

The Logistics opportunity for B2B Ecommerce companies

Key Concerns:

IndiaMART had incurred significant operating losses in the past and it may not be able to improve its financial position or generate sufficient revenue to achieve positive net worth: As at March 31, 2017 and 2018, IndiaMART had a restated net worth of Rs (3,900.46) million and Rs (3,212.69) million as derived from its Restated Financial Statements, respectively. As at March 31, 2019, it had a positive net worth of Rs 1,598.88 million. Its negative net worth as at March 31, 2017 and 2018 was primarily attributable to its operating losses and net loss / (gain) on financial assets and liabilities designated at fair value through profit or loss (“FVTPL”) in the respective fiscal / period. These operating losses has primarily resulted from increasing expenditures related to employee benefits, content development and advertising in order to expand its sales network, develop its in-house technologies, provide premium numbers to participating suppliers, and increase the scale of its operations. These expenditures may not yield additional revenue as IndiaMART anticipates or at all. If it is unable to achieve revenue growth that outpaces the growth of its expenses, it may not maintain profitability, its net worth may continue to be negative, its cash position may deteriorate and IndiaMART may become insolvent.

If IndiaMART is unable to maintain a critical mass of suppliers and buyers on its online marketplace, the perceived usefulness of its services may decline, and the business, revenue and prospects could suffer: IndiaMART earns revenue on IndiaMART through (i) the sale of subscription packages (available on a monthly, annual and multi-year basis) to suppliers, which offers a range of benefits including the listing of their supplier storefronts and products on a preferential basis on the IndiaMART marketplace; (ii) revenue from the sale of request for quote, or “RFQ”, credits, which is generated when, in response to a buyer’s RFQ, a supplier purchases a credit in order to obtain the buyer’s contact information from within the RFQ and contact the buyer; (iii) advertising revenue from its IndiaMART desktop and mobile-optimized platforms and IndiaMART mobile app; and (iv) revenue from payment facilitation services. It cannot be assured there will be continued demand for the types of products and services listed by suppliers on its online marketplace or that its efforts to attract and retain suppliers and buyers will succeed. A decline in the popularity of, or demand for, certain products and services listed on its online marketplace could reduce the number of buyers using its marketplace. Any decline in overall activity on IndiaMART online marketplace may result in it generating less revenue from fewer new and renewed subscriptions by suppliers on IndiaMART. If it is unable to maintain a critical mass of suppliers and buyers for its online marketplace, the perceived usefulness of its services may decline, and its business, revenue and prospects could suffer.

Competition from new and existing companies may reduce demand for services or cause to lose visitor traffic, market share or paying subscription suppliers: IndiaMART is India's leading online marketplace for business goods and services, with approximately 60% market share of the online B2B classifieds space in India. IndiaMART had an aggregate of 325.8 million, 552.6 million and 723.5 million visits in fiscals 2017, 2018 and 2019 respectively. Although it maintains a large market share and strong competitive position, the online commerce industry is highly competitive, and it expects competition to intensify in the future. It faces competition from other Indian and foreign online B2B marketplaces that seeks to provide services similar to its such as Tradeindia.com, Exporters India and Alibaba India which are some of the key competitors for IndiaMART. It also competes indirectly with Internet search engines, traditional brick and mortar suppliers and online business-to-consumer service providers. It may lose visitor traffic, market share and experience a decline in revenue if its position deteriorates as to these and other market factors. IndiaMART may also lose market share to competitors with longer or more successful operating histories, superior strategy and execution, greater resources including available and accessible financial capital, greater brand recognition or a larger user base than it.

Business, financial condition, results of operations and cash flows could be materially and adversely affected if IndiaMART is unable to retain existing paying subscription suppliers on or attract new paying subscription suppliers to IndiaMART: Substantially all of IndiaMART's revenue comes from suppliers who list their products and services on IndiaMART. Its revenue from IndiaMART originates primarily from suppliers purchasing subscriptions. It seeks to attract new paying subscription suppliers to IndiaMART in order to increase its revenue, the number of products and services listed by suppliers on its marketplace, the number of buyers that use its marketplace, as well as to mitigate the loss of paying subscription suppliers that it is unable to retain. There are a number of reasons why an existing supplier may decide not to renew its paid services on IndiaMART. It cannot be assured that it will be able to replace lost paying subscription suppliers, which may lead to a decline in the revenue of IndiaMART. If its IndiaMART suppliers do not continue to list their products and services and renew their paid subscriptions, the quantity and variety of products or services that are offered through IndiaMART may decline, which may adversely affect the business, financial condition, results of operations, cash flows and future growth.

Earn most of the revenue from Indian suppliers purchasing paid services on IndiaMART: IndiaMART suppliers include Indian small and medium enterprises ("SMEs") as well as large corporations, and it is expected such suppliers to continue to be a significant contributor to IndiaMART's future growth through their purchases of subscriptions and RFQ credits. It may experience stagnation or reduction in the size of its user base and product listings on IndiaMART if its suppliers do not continue to adopt online platforms such as its in increasing numbers in the future. Businesses anticipate and respond to adverse changes in economic conditions and adjust their production and spending patterns accordingly, and this has a direct impact on their sales made through online marketplace and its revenues. Factors that could adversely affect the business of Indian Suppliers Unfavorable changes in business and economic conditions affecting Indian suppliers could result in reduced marketing expenditures by suppliers. This may lead to fewer suppliers purchasing IndiaMART subscription packages and RFQ credits and decrease in its revenue, which may have a material adverse effect on the business, financial condition, results of operations, cash flows and prospects.

Despite intent and efforts to have genuine items listed/content available on online marketplace, it has been and may continue to be subject to allegations and lawsuits or negative publicity: IndiaMART has received in the past, and it anticipate it will receive in the future, communications alleging that items listed or made available through online marketplace or any content made available in connection therewith, infringe third-party copyrights, trademarks, patents or other intellectual property rights. It has put in place a broad range of measures to prevent infringing, illegal, counterfeit and pirated goods from being offered on its marketplace, as well as spamming, fraudulent telemarketing and other notorious or malicious activities. It maintains strict procedures to address issues pertaining to infringing, illegal, counterfeit and fictitious listings on its marketplaces, as it receives confirmation, as a condition to use its platform, from users posting any contents to their authenticity and legality. Furthermore, a supplier whose content is removed or whose services are suspended or terminated by it, regardless of its compliance with the applicable laws, rules and regulations, may dispute its actions and commence action against IndiaMART for damages, make public complaints or allegations or organize group protests and publicity campaigns against it or seek compensation. Any costs incurred as a result of liability or asserted liability relating to the unlawful sale of goods or other infringement could harm the business.

Any factors that negatively affect the growth and profitability of the online commerce industry in India could adversely affect the business, financial condition and results of operations and prospects: IndiaMART's future operating results will depend on numerous factors affecting the development of online commerce, which may be beyond its control. These factors include the rate of growth of personal computers, tablets, mobile devices, Internet and broadband usage and penetration, extant laws, regulations and policies governing online commerce, consumer confidence in online commerce, media publicity regarding online commerce, concerns on online data privacy and general economic conditions globally and in particular India. Further, if online commerce in India and Internet adoption by Indian SMEs does not continue to develop as it expects them to, or if it fails to identify and anticipate changes in trends and preferences in the online commerce industry and address them in time or at all, its business, financial condition and results of operations and prospects will be materially and adversely affected. Concerns about fraud, privacy, lack of trust and other problems may also discourage businesses from

adopting the Internet as a medium of commerce. If these concerns are not adequately addressed, they may inhibit the growth of online commerce and communications. In addition, if a well-publicized breach of Internet security or privacy were to occur, general Internet usage could decline, which could reduce the use of its services and products and impede its growth. Its business, financial condition, results of operations and prospects will suffer to the extent the Internet, the online commerce industry and the use of the Internet as a medium of commerce in India do not continue to grow.

Acquire a significant portion of suppliers on IndiaMART through the unsolicited creation of supplier storefronts and such suppliers may refuse to consent to their information being made publicly available on online marketplace: A significant supplier acquisition strategy that IndiaMART has implemented for IndiaMART has been to identify suppliers that can enhance its database and create supplier storefronts for these suppliers and their products and services at no charge and based on publicly available information. It notifies these suppliers of their new supplier storefronts by email or SMS, after which time they remain suppliers on IndiaMART for as long as their contact information is current or until they elect to delist their supplier storefront. A portion of suppliers for whom IndiaMART creates supplier storefronts typically request that the supplier storefront be delisted and that it de-register the supplier from IndiaMART. In addition, as it creates supplier storefronts based on publicly available information or other postings made by them at other platforms about their business, products and services, it may be exposed to various legal claims. It may be required to spend significant money and divert personnel and management attention away from other priorities to resolve these types of claims. It does not maintain insurance to cover the cost of defending or settling such claims. If it is unable to defend against such claims, and even if it is successful, its reputation may be harmed and its business disrupted. As a result, its expenses may increase, its revenue may decline, and its business, financial condition, results of operations and reputation and brand may be adversely affected.

The growth of business depends on the growth of mobile Internet penetration and supporting infrastructure in India: The fall in data prices coupled with increase in availability and affordability of smartphones has resulted in users increasingly consuming content on their mobile devices, and the number of wireless internet subscribers in India is projected to increase from 425 million as on December 2017 to 867 million by fiscal 2022, primarily driven by growth in the 4G subscriber base. While the growth potential of this market is difficult to forecast, it has identified its IndiaMART mobile website and app as a potentially strong growth source for its business. As with its other growth initiatives, it is expected to incur significant costs in introducing, continually updating and supporting its marketplace through mobile app and mobile website, and its efforts may not be successful. Furthermore, as its app distribution depends on the designated app stores for major operating systems such as Android and iOS, any changes to their app store policies may adversely affect the distribution, accessibility and availability of its app. IndiaMART may lose all or a substantial portion of its investment in the growth initiative for its mobile app, which may have a material adverse effect on its business, financial condition, results of operations and cash flows.

Rely on telecommunications and information technology systems, networks and infrastructure to operate the business: IndiaMART's ability to collect, process and disseminate data using the Internet in a secure and efficient manner is dependent on telecommunications and information technology systems, networks and infrastructure, including but not limited to systems that it develops itself. Its systems including its website, mobile app and mobile website are vulnerable to technical failures of its hardware or software, breakdowns in the servers on which its online marketplace is hosted, difficulties in linkages with third-party systems, corruption or loss of its electronically stored data, computer viruses, power loss, electronic intrusion attempts, break-ins, sabotage, vandalism or other disturbances or disruptions in the Internet generally. In particular, as it stores a large quantity of data through cloud-based service providers, its accessibility to the data stored in such systems may be affected by changes in the costs of maintaining and operating cloud services, applicable government policies and regulations, security breaches or any other disruption affecting the operations of such cloud service providers. Its business could also be impacted by the failure of telecommunications network operators to provide it with the requisite bandwidth which could also interfere with the speed and availability of its online marketplace, as well as by breakdowns at the level of its Internet service providers. Its success will depend upon third parties maintaining and improving Internet infrastructure to provide a reliable network with adequate speed and data capacity and telecommunication networks with good clarity and lower congestion. Continued disruption in the telecommunication networks where it operates may lead to a reduction in the number of paying subscription suppliers on IndiaMART and have a materially adverse effect on its business, financial condition and results of operations.

Failure to manage growth and scalability could affect the performance: During the past few years, IndiaMART has experienced significant growth in its business operations as its total revenue from operations has increased from Rs3,177.63 million in fiscal 2017 to Rs5,074.17 million in fiscal 2019. This growth has placed, and will continue to place, a significant strain on its management, operational, and financial infrastructure. As its operations grow in scale, it must continuously improve, upgrade and adapt its systems and infrastructure to continue offering new or enhanced services, current features and superior functionality on pace with rapidly evolving customer demands. It may be liable for any losses incurred if the IndiaMART payment protection program fails to deliver the assured payments, goods or services to the appropriate parties or if any of the third party payment modes fail to process the payments and it do not maintain insurance for such losses or claims. Its inability to maintain the reliability and integrity of its systems and infrastructure in a cost-efficient and competitive manner may prevent it from providing new or enhanced services effectively, which could negatively impact its brand, reduce the attractiveness of its

marketplace to new suppliers and buyers, or result in it not being able to retain existing suppliers and buyers, any of which could adversely affect the business, financial condition and results of operations.

IndiaMART's continued success is substantially dependent on the strength of its brand and reputation: Brand recognition is important to the success of the business. The recognition and reputation of IndiaMART brand among suppliers and buyers have significantly contributed to the growth of the business. To be successful in the future, IndiaMART must continue to preserve, grow and leverage the value of its brands. Many factors, some of which are beyond its control, may negatively impact its brands and reputation. Reputational value is based in large part on perceptions of subjective qualities. An isolated incident or the aggregate effect of individually insignificant incidents can erode the trust and confidence of its current and potential suppliers and buyers, particularly if those incidents result in adverse publicity, governmental investigations or litigation. Maintaining and enhancing the recognition and reputation of brand is critical to its business and competitiveness. This may require it to make substantial investments, including major television and digital marketing campaigns. Such investments may not be successful or generate sufficient revenue to cover their significant upfront costs. As a result, its financial condition may be adversely impacted.

If IndiaMART does not adapt to technological developments or industry trends, the performance and features of its marketplace may become outdated: The industry in which IndiaMART operates is characterized by rapidly changing technology, evolving industry standards and norms, and the introduction of new platform features or other products and services. Technological developments and industry trends rapidly evolve, and the systems, infrastructure and technologies it currently employees may become obsolete quickly or over time. Its continued growth will depend, in part, on its ability to identify, develop, acquire or license leading technologies that are applicable to its business, enhance its existing services, develop new services and address the increasingly sophisticated and varied needs of its existing and prospective suppliers and buyers. The success of new products and services will depend on factors such as proper identification of market demand and trends and the competitiveness of its marketplace relative to the platforms and services of its competitors. If IndiaMART do not appropriately maintain, expand and upgrade its systems and online marketplace in a timely manner or at a reasonable cost or both, it may lose market opportunities or damage its attractiveness and reputation with suppliers and buyers that use its marketplace, which may adversely affect the business, financial condition and results of operations.

IndiaMART may need additional capital and it may not be able to obtain it, which could adversely affect the liquidity and financial position: IndiaMART may require additional cash resources due to changed business conditions or other future developments, including investments in brand building initiatives, expansion of its premium number service, development and augmentation of its mobile apps, or any investments or acquisitions it may decide to pursue. Its ability to obtain additional capital is subject to a variety of uncertainties, including its future financial condition, results of operations and cash flows, conditions in the capital markets in which it may seek to raise funds and general economic, political and other conditions in India and elsewhere. Any incurrence of debt would result in the incurrence of interest expense and could require it to agree to operating and financial covenants that could restrict its operational flexibility and materially and adversely affect the business.

Certain visitors and buyers on online marketplace may expose to special risks associated with compliance with applicable legal requirements under U.S. Economic Sanctions Laws: The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers certain laws and regulations, or "U.S. Economic Sanctions Laws", that restrict U.S. persons and, in some instances, non-U.S. persons like IndiaMART, in conducting activities, transacting business with or making investments in certain countries, governments, entities and individuals subject to U.S. economic sanctions, or sanctions targets. IndiaMART do not earn any revenue from such buyers, and instead earn revenue primarily from the sale of subscription packages to suppliers in India. It is possible that U.S. authorities could view certain of its past transactions with certain visitors to have violated U.S. Economic Sanctions Laws. A violation of these laws and regulations, or even an alleged violation, could harm its reputation and cause some of its U.S. investors to sell their interests in the company to be consistent with their internal investment policies or to avoid reputational damage, and some U.S. institutional investors might forego the purchase of its Equity Shares, all of which may negatively impact the trading prices of the Equity Shares.

IndiaMART may not be able to respond in a timely and cost effective manner to changes in preferences of its suppliers and buyers on its online marketplace: IndiaMART future growth depends on its ability to continue to attract new buyers and paying subscription suppliers to its online marketplace and increase the spending of existing paying subscription suppliers on IndiaMART. Its ability to achieve profitability depends on the generation of cumulative revenue and increasing cumulative gross margin for a sustained period after acquiring a new supplier. However, constantly changing customer preferences has historically affected and will continue to affect its business and the online B2B commerce industry. It is difficult to accurately and consistently predict the services and features that its suppliers will demand. Its future success depends in part on its ability to anticipate and respond to changes in customer preferences, and there can be no assurance that it will respond in a timely or effective manner. Failure to anticipate and respond to changing preferences of its suppliers and buyers and evolving trends in online commerce could lead to reduced revenue and gross margins from its online marketplace, which would have a material adverse effect on the financial condition and results of operations.

Wage pressures in India may prevent IndiaMART from sustaining its competitive advantage and may reduce revenue: Employee benefit expenses, which typically include salaries, wages, bonus and incentives, contribution to provident and other funds, gratuity expenses and staff welfare expenses represent the largest annual expense for IndiaMART, and its ability to maintain or reduce such costs is critical for its business operations. Additionally, it has experienced high employee attrition in the past and may incur additional costs to improve its employee retention rate in the future. It may need to continue to increase the levels of its employee compensation to remain competitive and manage attrition, and consequently it may need to increase the prices of its services. An increase in wages and salaries paid to its employees may result in a material adverse effect on its revenue in the event that it is unable to pass on such increased expenditure to its suppliers and advertisers without losing their business to its competitors. Likewise, if it is unable to sustain or increase the number of employees as necessary to meet growing demand, its business, financial condition, results of operations and cash flows could be adversely affected.

IndiaMART may in the future be unable to increase numbers of suppliers and buyers by attracting online search engines users to its marketplace through search engine optimization techniques or search-related marketing: IndiaMART's depend on Internet search engines and search engine optimization ("SEO"), in particular to attract and acquire new online visitors to its marketplace and retain existing suppliers and buyers. Internet search engines may change their algorithms to determine the ordering and presentation of search results or change its position in their search results in a manner that negatively affects the search engine ranking of or the placement of links to its online marketplace. As a result, its access to existing and potential users may become limited as search engines may direct these users to competitors or other alternatives. Its failure to successfully manage its SEO strategy could result in a substantial decrease in traffic to its online marketplace, which would reduce its access to existing and potential suppliers and buyers. If it is unable to reduce its dependency on search engines, it will remain subject to the operating dynamics of search engines, which may lead to a decline in traffic to its online marketplace and adversely affect the business, financial condition and results of operations.

Misconduct or poor performance by suppliers and buyers, despite efforts to monitor them, may hurt brand and reputation: Despite IndiaMART's procedures that require suppliers who purchase subscription packages or services or list their products and services on IndiaMART to undergo identity authentication and verification and agree to specific terms of use, fictitious supplier storefronts and listings, fraudulent transactions and sales of low-quality, faulty, defective, illegal, banned, counterfeit, misleading or otherwise commercially unacceptable products by its suppliers may occur. This risk becomes much higher in case of non-paying suppliers, where there is lesser stringent process of authentication and verification, coupled with lesser control over supplier storefronts and listings created by such non-paying supplier. Its continued growth depends on its ability to maintain its reputation as a trusted medium for online B2B commerce. If IndiaMART's brand or reputation is harmed, it may be more difficult to maintain and grow its user base, which could in turn materially and adversely affect the business, financial condition, results of operations and prospects.

Depend on third-party service providers for a significant portion of outsourced operational services: IndiaMART depends on various third-party service providers for certain operational services relating to its business. It outsources from time to time certain tasks including call center services, customer service functions, supplier storefront design and creation, management of its premium number service, and management of its TrustSEAL program to multiple service vendors. If its third-party service providers fail to perform adequately, experience difficulty meeting its requirements for quality and customer service standards, face operational or system interruptions or fail to comply with applicable laws, rules and regulations in India or if it is unable to locate alternate third-party service providers as needed, its brand and reputation could suffer, it may be exposed to liability on their account, and its business, financial condition and results of operations may be adversely affected. In the event that any action is initiated by the Department of Telecommunication ("DoT"), Ministry of Communications, Government of India ("GoI") or any other regulators against any of its service providers or any fee is imposed or charged in relation to its premium number service or any other service provided by it, IndiaMART may be unable to offer such service, which could have a material adverse impact on its business, financial condition and results of operations.

The data of suppliers, buyers and paid advertisers may be misappropriated by employees or third party service providers and as a result cause IndiaMART to breach its contractual obligations in relation to such confidential information: IndiaMART collect information from suppliers and buyers when they register on its online marketplace and from other third parties that contract to advertise on IndiaMART. Although it has implemented a number of measures to control access to the confidential information by its employees and third-party service providers on its servers, databases and software systems and ensure that they enter into confidentiality and non-disclosure agreements as necessary, there can be no assurance that the confidentiality and non-disclosure agreements entered into with its third-party service providers and certain of its employees will adequately prevent the disclosure of confidential information, such as the information relating to its suppliers, buyers and advertisers, by an employee or a third party service provider. It cannot be assured that it will have adequate recourse against its employees or third party service providers who disclose or misappropriate confidential information. In the absence of adequate recourse against such employees or third-party service providers, the successful assertion of any claim may have a material adverse. The introduction of new IT legislation, including for protection of privacy, may require IndiaMART to modify its existing

systems, or invest in new technologies to ensure compliance with such applicable laws, which may require it to incur additional expenses and adversely affect its financial condition. Change in existing legislation or introduction of new legislation may require it to incur additional expenditure, to ensure compliance with such legislation, which may adversely affect its financial condition.

IndiaMART accept a wide variety of non-cash payment methods on IndiaMART, which subjects it to related risks: IndiaMART accept payment on IndiaMART for its services through a variety of non-cash methods. For certain payment methods, including credit and debit cards, it pays interchange and other fees, which may increase over time, raising its operating costs and lowering its revenue. It is also subject to various rules, regulations and requirements, regulatory or otherwise, governing electronic funds transfers and payment systems, which could change or be reinterpreted in a manner that makes it difficult or impossible for it to comply. If IndiaMART or its third party payment gateway operators fail to comply with these rules or requirements, it may be subject to fines and higher transaction fees and lose its ability to accept credit and debit card payments from users, process electronic funds transfers or facilitate other types of online payments, and its business, financial condition, results of operations and cash flows could be materially and adversely affected.

IndiaMART is exposed to risks associated with online security and fraud: The secure transmission of confidential information over the Internet and telephone is essential to maintaining IndiaMART's buyers' and suppliers' confidence in it. Security breaches, whether instigated internally or externally on its system or other Internet-based systems, could significantly harm the business. While it uses secure transmission protocols on its marketplace including data encryption methods, application-level security and token-based authentication and authorization, it may not be able to prevent security breaches involving the confidential information of its suppliers and buyers, including any breaches with regards to transactions from its payment services. In order to enable payments on its marketplace, it has integrated the services of third-party payment solution providers, and it re-direct its users to those services to make payments and complete their transactions. There can be no assurance that transmissions of data through its third-party providers will be protected from security breaches. Even if it chooses to deploy secure transmission protocols on its marketplace in the future, its implementation efforts may require significant additional costs or be unsuccessful, and a new set of protocols may not prevent all security breaches. IndiaMART may also be subject to other payment disputes with buyers for such sales. If it is unable to combat the use of fraudulent credit cards, its revenue from such sales could be susceptible to demands from the relevant banks and credit card processing companies, and its financial condition, results of operations and cash flows could be adversely affected.

IndiaMART may be subject to vicarious product liability claims for defective products or may be subject to fines and penalties for products sourced from or sold through online marketplace: Although IndiaMART has not been exposed to product liability claims as no sale and purchase of goods is taking place on its online marketplace, it may be exposed to vicarious product liability claims relating to personal injury, death, property or other damage in the event that products sourced or sold by the suppliers listed on its online marketplace are defective or fail to function as intended or expected. Although suppliers on IndiaMART assume liability and agree to indemnify it under subscription and other agreements that it enter with them, these contractual protections may not shield IndiaMART from all potential liability. It may be required to spend significant money and divert personnel and management attention away from other priorities to resolve these types of claims. If it is unable to defend against such claims, and even if it is successful, its reputation may be harmed and its business disrupted. As a result, its expenses may increase, its revenues may decline, and its business and results of operations may be materially and adversely impacted.

Changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws, may adversely affect the business, financial condition, results of operations and prospects: The regulatory and policy environment in which IndiaMART operates is evolving and subject to change. Such changes may adversely affect its business, financial condition, results of operations and prospects, to the extent that it is unable to suitably respond to and comply with any such changes in applicable law and policy. In addition, the General Anti-Avoidance Rules ("GAAR") became effective from April 1, 2017. The tax consequences of the GAAR provisions being applied to an arrangement could result in the denial of tax benefits to an arrangement, among other consequences. In the absence of any such precedents on the subject, the application of these provisions is uncertain. If the GAAR provisions are made applicable to their Company, it may have an adverse tax impact on IndiaMART. Uncertainty in the applicability, interpretation or implementation of any amendment to, or change in, governing law, regulation or policy, including by reason of an absence, or a limited body, of administrative or judicial precedent may be time consuming as well as costly for it to resolve and may impact the viability of its current businesses or restrict its ability to grow businesses in the future.

Financial instability in other countries may cause increased volatility in Indian financial markets: The Indian market and economy is influenced by economic and market conditions in other countries, including, but not limited to, the conditions in the United States, Europe and certain economies in Asia. Financial turmoil in Asia and elsewhere in the world in recent years has affected the Indian economy. Any worldwide financial instability may cause increased volatility in the Indian financial markets and, directly or indirectly, adversely affect the Indian economy and financial sector and its business. Although economic conditions vary across markets, loss of investor confidence in one emerging economy may cause increased volatility across other economies, including India. Financial instability in other parts of the world

could have a global influence and thereby impact the Indian economy. Financial disruptions in the future could adversely affect IndiaMART's business, prospects, financial condition and results of operations.

IndiaMART may be classified as a passive foreign investment company for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. holders of Equity Shares: A non-U.S. corporation will be classified as a passive foreign investment company (a "PFIC") for any taxable year if either: (a) at least 75% of its gross income is "passive income" for purposes of the PFIC rules or (b) at least 50% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. Based on the composition of IndiaMART's income, assets (including their expected value) and operations, although not free from doubt, it expects that it will not be a PFIC for the current taxable year or in the foreseeable future. However, its PFIC status depends, in part, on the expected value of its goodwill, which could fluctuate significantly. Therefore, it may be classified as a PFIC for the current taxable year or for any future taxable year. If it is treated as a PFIC for any taxable year during which a U.S. investor held Equity Shares, such U.S. investor could be subject to adverse U.S. federal income tax consequences.

Profit & Loss

Rs in million

Particulars	FY19	FY18	FY17
Revenue from operations	5074.2	4105.1	3177.6
Net gain on financial assets measured at FVTPL	373.2	161.6	119.1
Other Income	36.5	28.6	22.6
Total Income	5483.9	4295.3	3319.4
Total Expenditure	4903.4	4867.4	3914.5
Net loss on financial liability designated at FVTPL	652.6	1228.6	192.8
Employee benefits expense	2299.8	1948.6	2096.7
Other expenses	1950.9	1690.2	1625.0
PBIDT	580.5	-572.1	-595.1
PBDT	580.5	-572.1	-595.1
Depreciation and amortisation expense	41.3	28.9	46.3
PBT	539.2	-601.0	-641.4
Tax (incl. DT & FBT)	338.8	-1148.6	2.0
Current tax	1.3	1.8	2.0
Deferred tax (net)	337.5	-1150.4	0.0
Adj. PAT	200.4	547.6	-643.5
EPS (Rs.)	7.01	54.9	-70.2
Equity	285.9	99.8	91.7
Face Value	10.0	10.0	10.0
OPM (%)	3.4	-18.6	-23.2
PATM (%)	4.0	13.3	-20.2

Balance Sheet:

Rs in million

Particulars	FY19	FY18	FY17
Assets			
Non-Current Assets	994.6	1583.2	142.2
Property, Plant and Equipment	84.80	72.9	74.8
Capital work-in-progress	1.8	1.8	1.8
Intangible assets	5.8	7.8	12.3
Loans	1.2	0.9	1.8
Bank deposits	0.0	302.2	0.0
Others financial assets	35.6	35.3	39.7
Deferred tax asset (Net)	858.1	1,155.57	0
Other non-current assets	7.3	6.78	11.79
Current assets	7212.9	3844.0	2066.9
Investments	6074.5	3110.7	1362.6
Trade receivables	5.7	6.8	5.3
Cash and cash equivalents	402.0	467.1	176.6
Bank Balances other than cash and cash equivalents	375.5	0.0	230.0
Loans	16.8	63.2	14.5
Others financial assets	157.8	41.4	36.5
Current tax assets	105.5	91.2	83.1
Other current assets	75.2	63.57	158.35

Total Assets	8207.6	5427.1	2209.1
Equity & Liabilities			
Shareholders Funds	1598.9	-3212.2	-3900.2
Equity Share Capital	285.9	99.8	91.7
Other Equity	1313.0	-3312.5	-3992.2
Non Controlling Interest	0.0	0.5	0.3
Non-Current Liabilities	2396.8	5452.1	3696.9
Share buyback obligation		3729.3	2460.9
Other financial liabilities	2.8	2.6	5.4
Provisions	96.0	59.3	17.3
Contract liabilities	2297.9	1660.9	1213.3
Current Liabilities	4211.9	3187.2	2412.4
<i>Total outstanding dues of micro enterprises and small enterprises</i>		11.3	
Total outstanding dues of creditors other than micro enterprises and small enterprises	450.0	407.6	302.4
Other financial liabilities	0.5	0.2	0.2
Provisions	53.3	47.9	39.6
Contract liabilities	3561.9	2583.5	2041.3
Other current liabilities	146.2	136.7	28.9
Total Equity & Liabilities	8207.6	5427.1	2209.1

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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