

Target Price ₹ 1555
CMP ₹ 700
Index Details

Sensex	33,830
Nifty	10,450
Industry	Internet & Retail

Intrasoft Technologies Ltd (ITL), is a 3rd party (3P) multi-channel e-commerce retailer in the US operating through major online retailers (Amazon, eBay, Sears, Rakuten), with a strong back end in India. The company is a unique play in the high growth US e-commerce market and has a proven track record of delivery.

Script Details

MktCap (₹ cr)	1,022.1
BVPS (₹)	89.1
O/s Shares (Cr)	1.47
AvVol	44,800
52 Week H/L	855/306
Div Yield (%)	0.2
FVPS (₹)	10.0

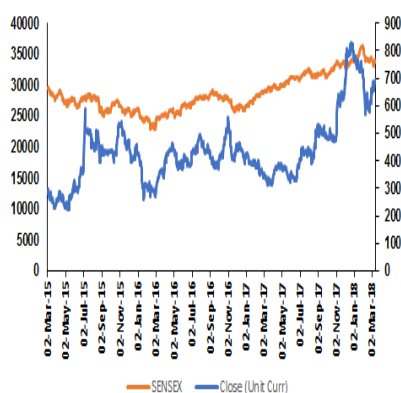
The company has a sound business and caters to products procured from vendors from the US geography. The logistics are fulfilled by UPS and FedEx which have a very high ratings on fulfillment. This in turn has helped ITL climb into the platinum club of the top 25 sellers of Amazon (USA) and its sustained rating of 97%, helps it maintain its premium listing in the market places.

ITL has further leveraged this rating and has not only expanded its listed vendor base (4.1x to 1900+ nos.) but also reached a humongous level of product SKUs on offer (8.7x to 6.25 lac units)

Shareholding Pattern

Shareholders	%
Promoters	47.5
Public	52.5
Total	100.0

On the back of the above, we expect orders to grow at a CAGR of 33% over FY17-FY20 to 67.4 lac units p.a. from 28.6 lac units ordered currently. The overall revenues are expected to grow at a CAGR of 33.7% to Rs. 2,241.9 crore by FY20 with the EBITDA growing to Rs. 44.8 crore (CAGR of 36.7%) over the same period. Margins are expected to sustain in the range of 1.8% to 2%.

ITL vs. Sensex


Further, the company has also negotiated with vendors to expand its credit period to 10 days. Also by virtue of it being a platinum reseller its receivable days are only 4 days for a large part of its product portfolio. This is expected to sharply improve its cash flows and cash conversion cycle and lower the working capital requirement. As a result, ROE and ROCE are also expected to improve by 900 bps (to 20.1%) and 623bps (to 21.6%), respectively, by FY20.

We initiate coverage on ITL as a BUY with a price objective of Rs. 1555, representing a potential upside of 122% over a period of 18 months. We have arrived at the price target by applying an EV/Sales multiple of 1.0x.

Key Financials (Rs in cr)

Y/E Mar	Net Revenue	EBITDA	Adj. PAT	EPS (₹)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV / EBITDA (x)
2016	716.9	8.4	41.5	28.2	596.3	7.2	5.0	24.8	122.5
2017	939.0	17.6	13.8	9.4	-66.8	11.1	15.3	74.5	59.0
2018E	1274.0	22.9	17.0	11.5	23.1	12.3	13.7	60.5	44.5
2019E	1702.9	32.4	26.8	18.2	57.9	17.2	17.7	38.3	31.1
2020E	2241.9	44.8	37.1	25.2	38.2	20.1	21.6	27.7	21.8

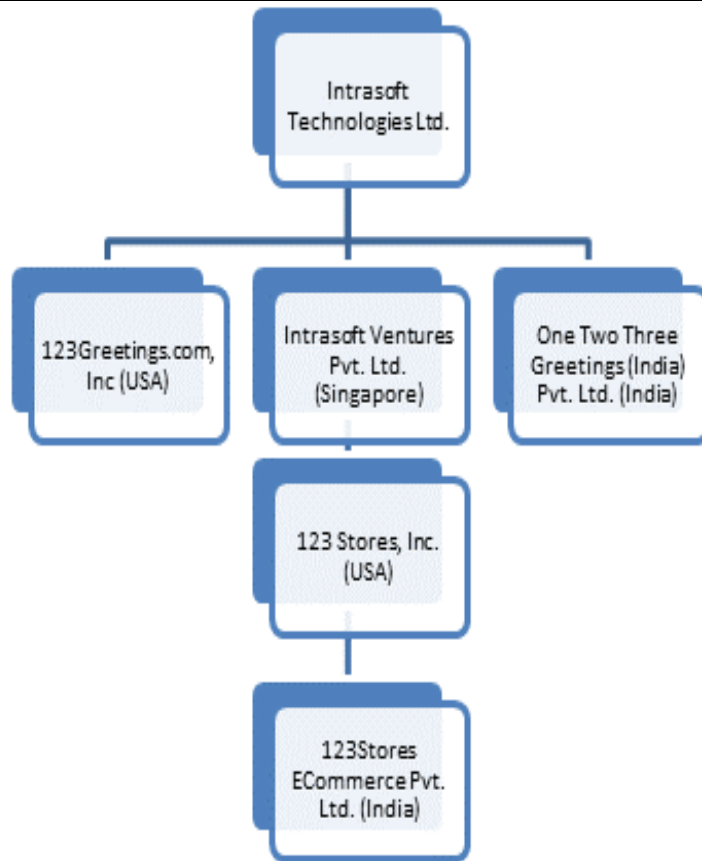
❖ **Company Background**

Intrasoft Technologies Ltd. (ITL) is a technology driven, multi-channel online retailer serving across nine e-commerce platforms in USA including Amazon.com (US), eBay.com, Sears.com, etc. The company also sells its products on its own site www.123stores.com.

ITL’s business model is to create a distribution network to offer its customers a better shopping experience by leveraging its technology, efficient supply chain management and maintaining relationships with suppliers.

ITL has three wholly owned subsidiaries viz 123Greetings.com Inc (USA), Intrasoft Ventures Pte. Ltd. and One Two Three Greetings (India) Pvt. Ltd. (India). To cater to the growing US based e-commerce business, 123Stores, Inc. (USA) was incorporated which is a wholly owned step down subsidiary of Intrasoft Ventures Pte. Ltd. (Singapore).

ITL’s corporate structure

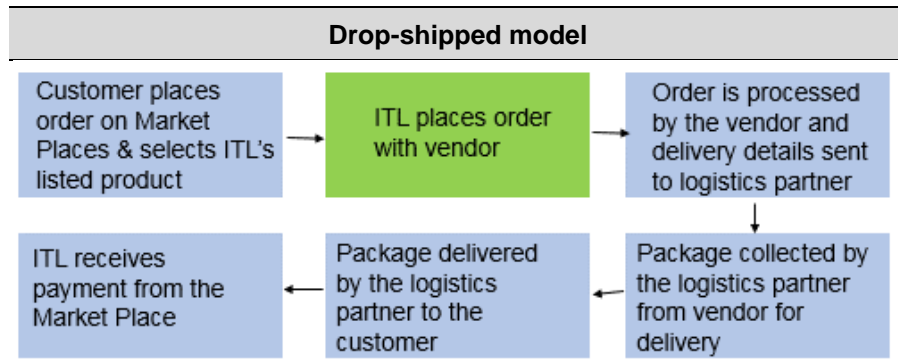


Source: Company, Ventura Research

❖ Business Model

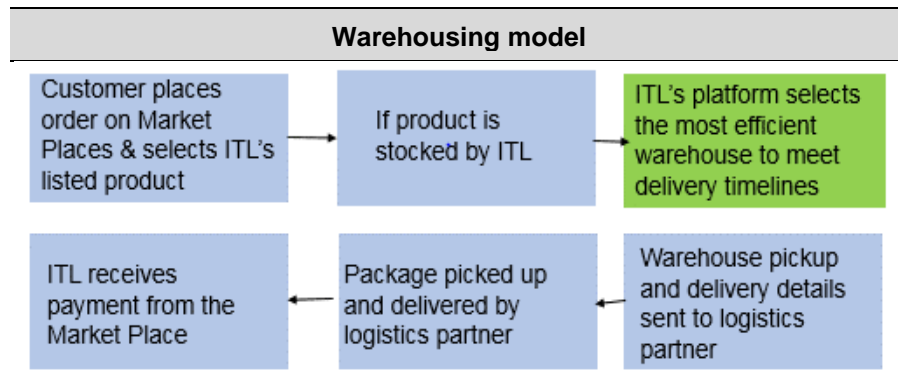
ITL operates under two business models, namely Drop-shipped (~60% of revenue) and Warehousing model (~40% of revenue).

Drop-shipped model: Under this model, ITL does not maintain any inventory and after receiving orders from market places, it directly ships products from the vendor to the customer.



Source: Company, Ventura Research

Warehousing model: Under this model, ITL maintains inventory of fast moving stocks in the various warehouses of Amazon present in multiple locations in USA. In this model the inventory risk lies with the company.



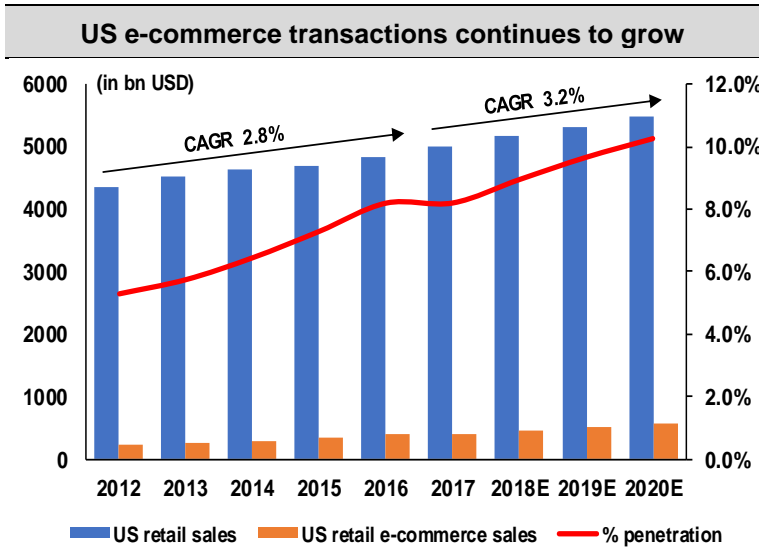
Source: Company, Ventura Research

❖ **Key investment highlights:**

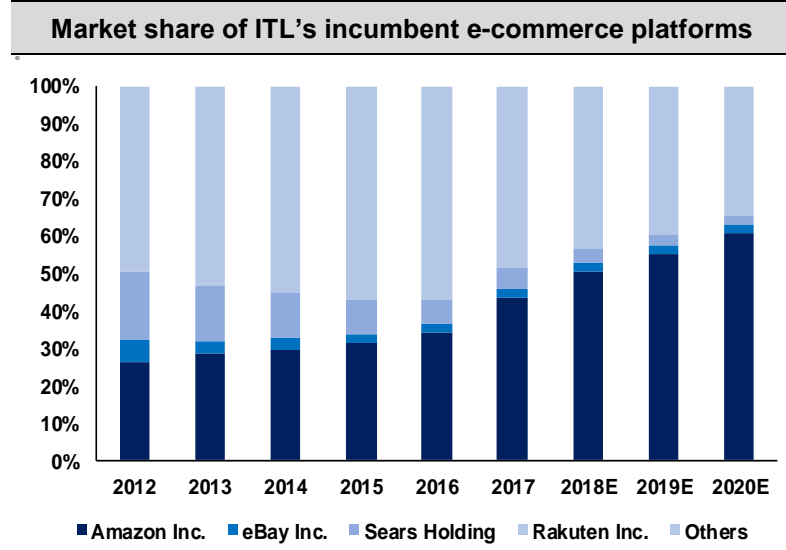
➤ **US e-commerce sales picking up pace**

Online retail sales to consumers in the US touched nearly \$410 billion in 2017, thereby registering a growth of 12.1% CAGR over 2012-2017, (whereas the US retail sales grew at 2.8% over the same period). Further, the penetration of e-commerce sales over the same has increased from 5.3% in 2012 to 8.2% in 2017.

Going forward the online retail sales is expected to grow at 11.1% CAGR over 2017-2020 to \$561.5 billion and the penetration is set to improve to 10.2% by 2020. The growth in the online retail market will benefit Intrasoft.



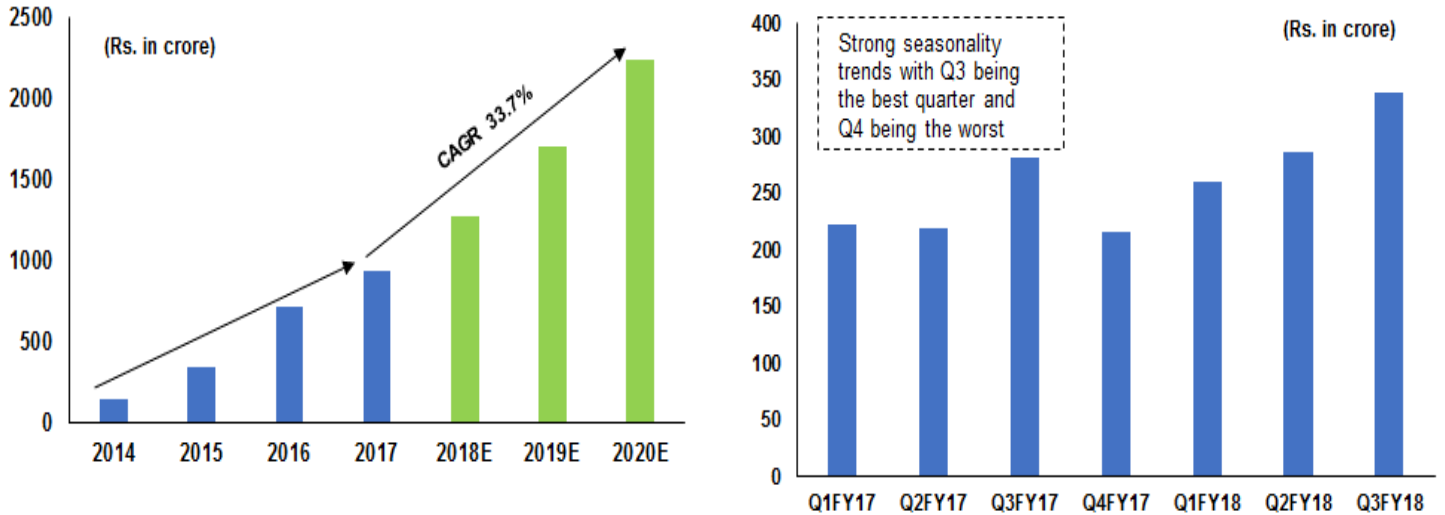
Source: Company, Ventura Research



Source: Company, Ventura Research

Since ITL is present only in the North American geography, we expect its revenues to grow at a brisk pace of 33.7% CAGR to Rs. 2241.9 crore by FY20 from the current Rs. 939 crore in FY17. This growth is expected to be driven by:

- i. Improving ranking within the US retailers is an immense moat
- ii. Continuous expansion of product offerings
- iii. Its robust technology platform

ITL's strong revenue growth on cards


Source: Company, Ventura Research

➤ **Improving ranking within the US retailers is an immense moat**

Intrasoft has a presence in the US and Canada. It has a shop-in-shop (3P seller) partnership with Amazon.com (US), Amazon Canada, eBay.com, Sears.com, New Egg, Rakuten and Jet.com through its 100% subsidiary 123Stores, Inc. (123Stores). 123Stores has continuously improved its ranking over the years from 499 in 2014 and is now ranked 223 on the Internet Retailers 2017 Top 500 list. ITL is also ranked 1641 in Inc.5000 list (2014) of fastest growing private US companies.

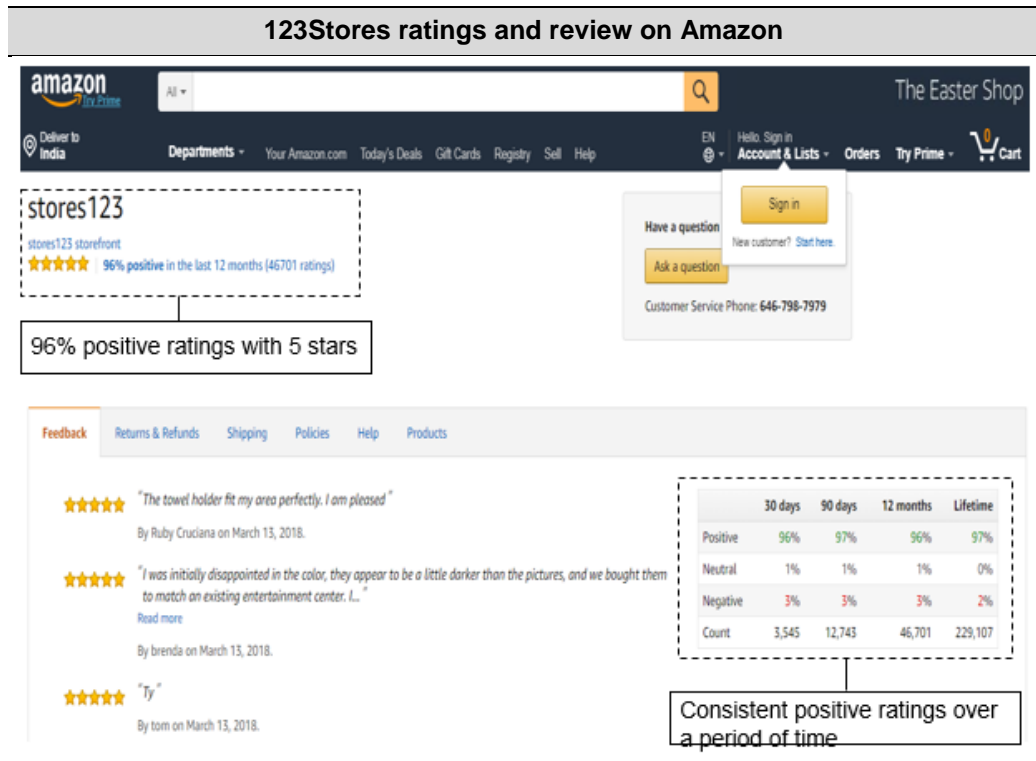
The improvement in the ranking is essential as the vendor before partnering with the web retailer takes a reference of such rankings. Thus such improvement in ranking not only assists the company in improving its vendor network but also increases the number of reviews by customers and thereby increases revenue.

Improvement in ranking on Internet Retailers 2017 top 100 list



Source: Company, Ventura Research

123Stores ratings and review on Amazon



stores123
 stores123 storefront
 ★★★★★ 96% positive in the last 12 months (46701 ratings)

96% positive ratings with 5 stars

	30 days	90 days	12 months	Lifetime
Positive	96%	97%	96%	97%
Neutral	1%	1%	1%	0%
Negative	3%	3%	3%	2%
Count	3,545	12,743	46,701	229,107

Consistent positive ratings over a period of time

Source: Company, Ventura Research

An online marketplace is a large web portal that encourages multiple sellers to showcase their products for customers. On these portals, sellers are ranked based on efficiency which may be defined as ‘offering products at the most competitive prices, at the fastest delivery time, with the lowest order cancellation rates’. On these basis market places then grant ‘preferred status to the third-party sellers. The company enjoys ‘preferred status’ ranking with almost all the marketplaces.

123Stores is a Platinum seller on Amazon.com with a seller rating of 97 out of 100. Platinum rating enables the company to realize its receivables from Amazon in four days as against seventy-one days for other sellers thereby reducing working capital requirement and encouraging suppliers/vendors to partner with it, rather than selling directly on Amazon.

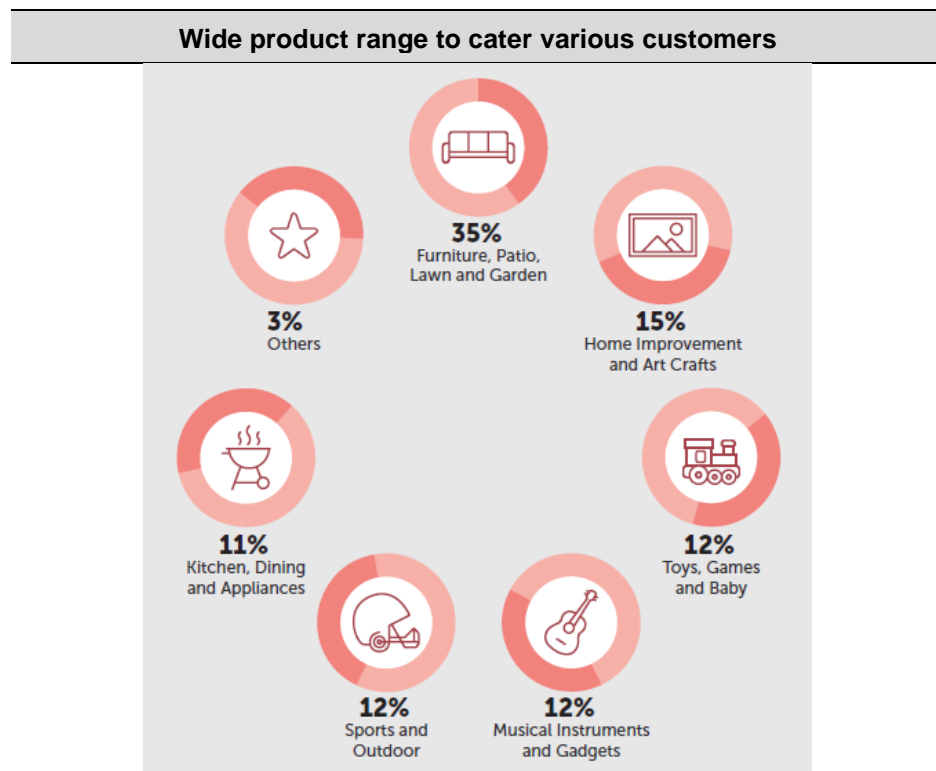
Preferred status on various marketplace	
Marketplace	Remarks
Amazon.com	Platinum Seller with a rating of 97 out of 100
eBay.com	Titanium Power Seller
Rakuten.com	More than 200k products listed
Sears.com	More than 300k products listed

Source: Company, Ventura Research

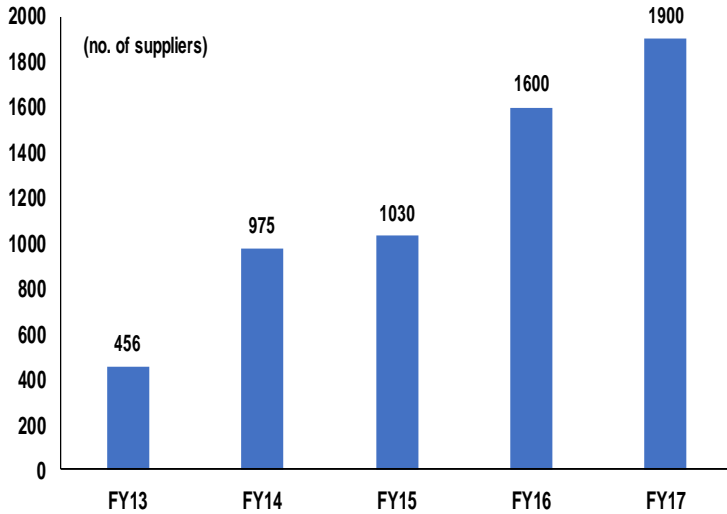
➤ **Continuous expansion of products offerings**

123Stores orders executed grew by 124% CAGR over FY14 - FY17. This was largely driven by continuous addition of its supplier base and expansion of the product catalogue. The company, in the last three years, has almost doubled its supplier base and more than doubled its product catalogue to 6.25 lacs SKUs. The 6.25 lacs SKUs includes diversified products across various categories such as furniture, lawn & garden equipment, musical instruments & gadgets, toys, kitchen & dining appliances etc. The category mix keeps changing every quarter, based on the demand of the products. However, furniture, musical instruments and toys constitute a significant portion of the category mix.

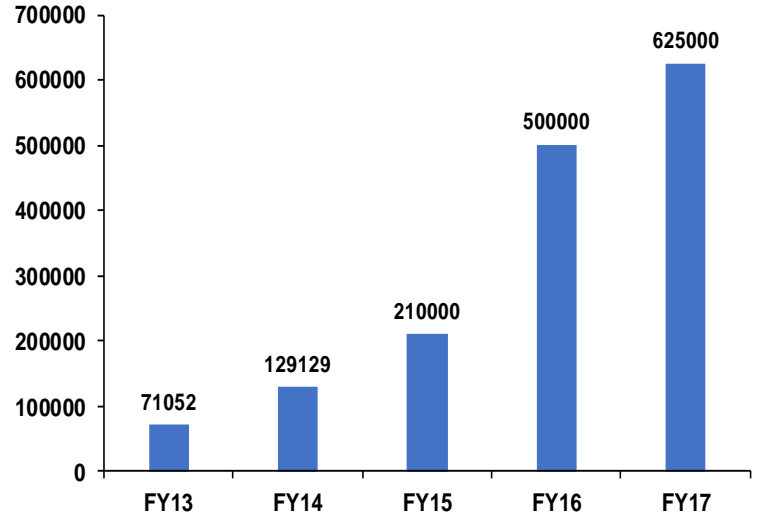
The management aims to keep adding suppliers; this will enable it to expand its product offerings and thereby, enable it to increase its orders.



Source: Company, Ventura Research

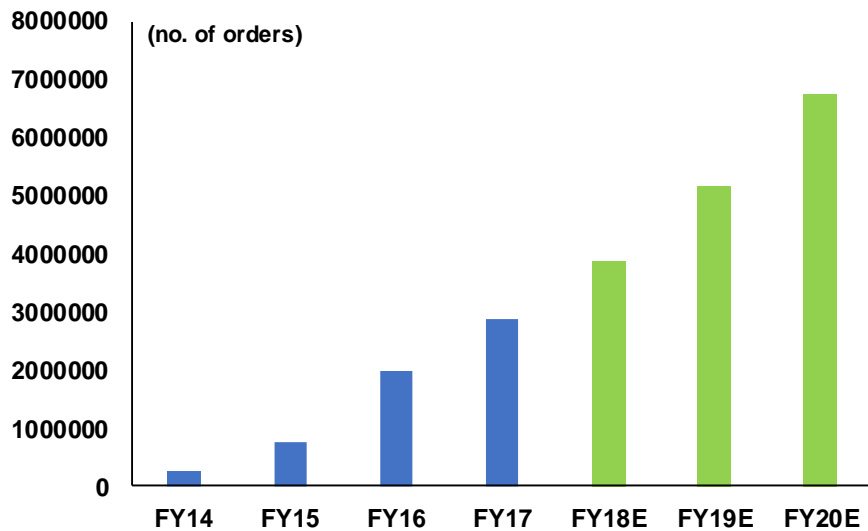
Addition in suppliers leading to...


Source: Company, Ventura Research

...Scaling up of product offering


Source: Company, Ventura Research

Based on the above, we expect the number of orders to grow at a CAGR of 34% over FY17-FY20 to 68.9 lac orders in FY20.

Expected growth in order execution


Source: Company, Ventura Research

➤ **Robust technology platform**

In the online retail business, the efficiency of the business largely depends on the technological architecture. Intrasoft has developed an in-house e-commerce platform to automate each and every process in the supply chain. The platform

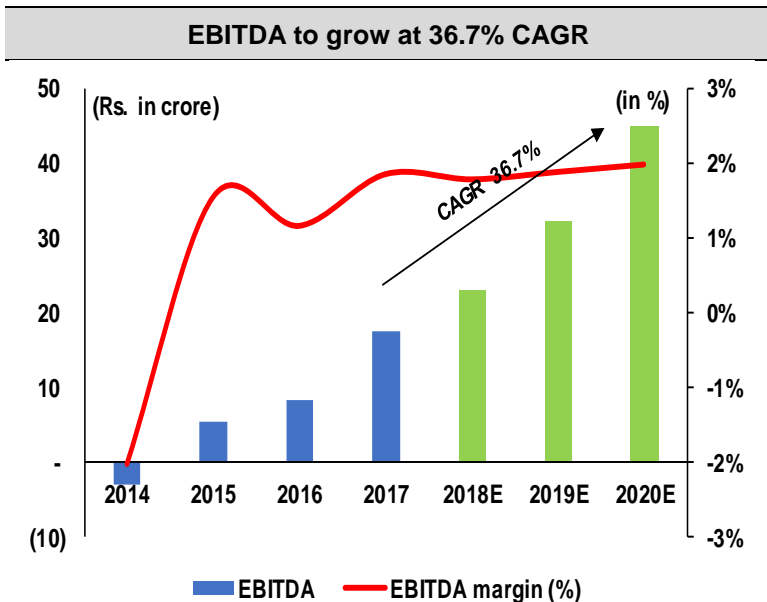
has the flexibility to integrate with various market places. The company through this platform has fully automated its ecosystem from marketplace to 123 Stores to vendors to logistics partners. As a result, maximum orders are automatically verified and forwarded to the vendors and the logistics partners, thereby requiring human intervention only in exceptional cases.

The platform currently executes around 3000-4000 orders per day and has the capacity to execute ~15,000 orders in a day. Further, the platform has enabled the company to reach out to approximately 95% of the total online shoppers in the US and maintain a 97%+ positive customer ratings.

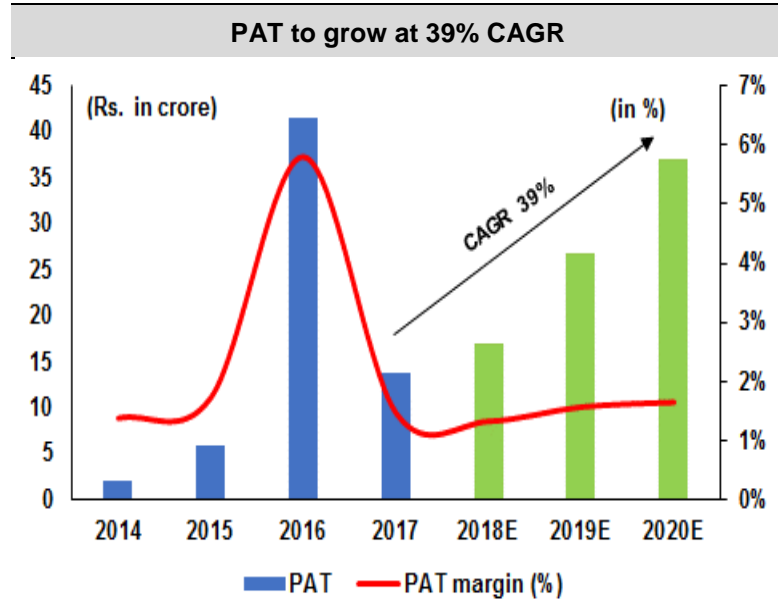
Capabilities of ITL's technology platform:-

- **Real-time data analytics:** ITL, through its data analytics platform, allows its vendors to access real-time demand for products on various market places. The platform, based on its complex algorithms, not only analysis the present demand for products but also anticipates the demand for products in the future, based on customer preferences.
- **Offers full inventory:** ITL's technology platform integrates with vendors of different sizes and types. After integrating displays the full offering of the vendors on the different market places with which it is associated.

Based on the above, we expect the EBITDA to grow at a CAGR of 36.7% over the same period to Rs. 44.8 crore. Net earnings too are expected to grow at a CAGR of 39% to Rs. 37 crore by FY20.



Source: Company, Ventura Research



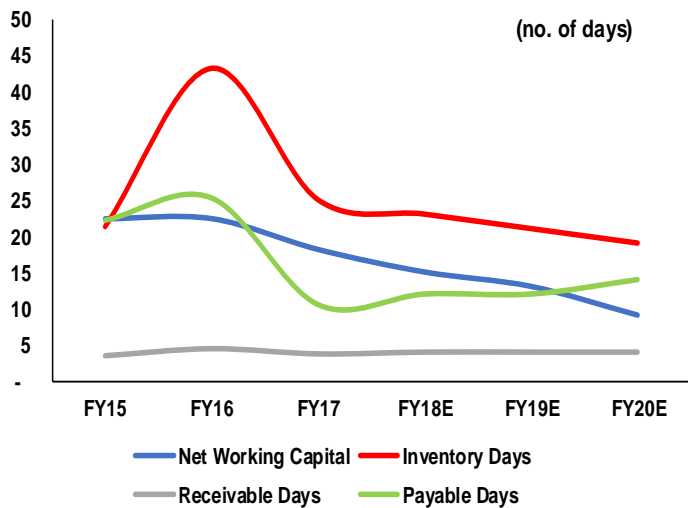
Source: Company, Ventura Research

➤ **Negotiation with suppliers to improve cash flows**

Intrasoft in Q1FY17 started negotiating new terms with its 1900+ vendors, pursuant to which it demanded a suppliers' credit as against giving advances to the vendors. The new terms have been agreed on by all its vendors, which not only shows the strength of the company's business model but will also improve the working capital of the company.

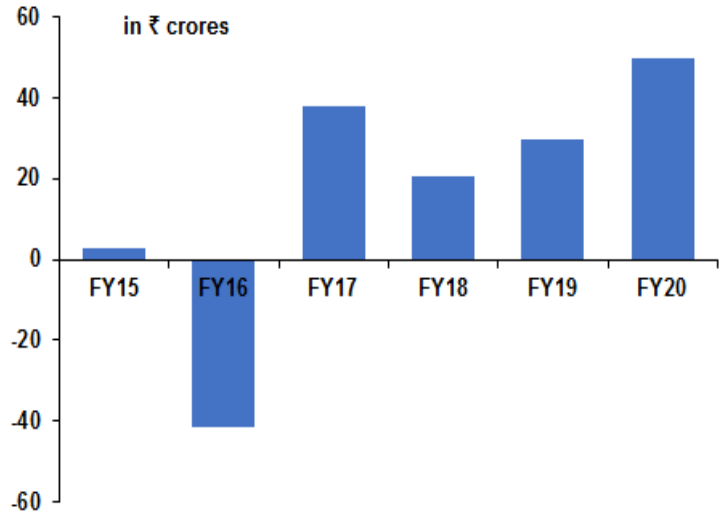
Based on the above we expect the working capital days to reduce from 18 days in FY17 to 9 days in FY20.

Reduction in working capital cycle...



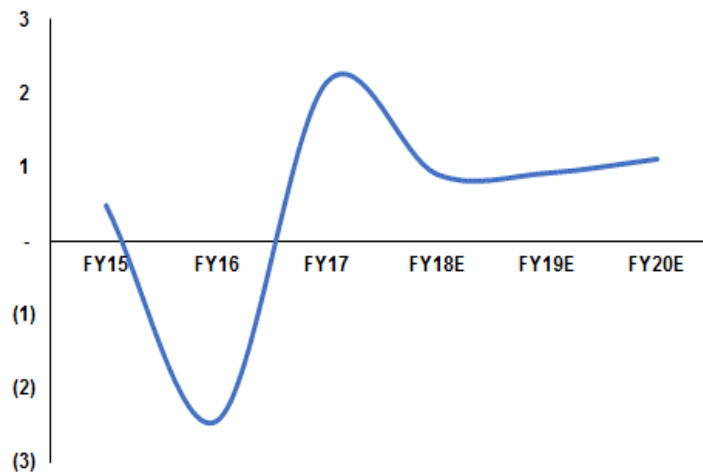
Source: Company, Ventura Research

...leads to improvement in Cash Flow from Operation



Source: Company, Ventura Research

Improving OCF to EBITDA



Source: Company, Ventura Research

❖ Financial Performance

In Q3FY18, Intrasoft reported a 20.1% YoY increase in its topline to Rs. 338.3 crore from Rs. 281.8 crore in Q3FY17. The EBIDTA margin declined by 97 bps to 2.1% from 3.1% and the EBITDA declined by 17.5% YoY to Rs. 7.2 crore. The decline in the margins was mainly on account of a declaration of bankruptcy by a major off-line retailer, which pushed all the toys in its pipeline to the online channel leading to heavy discounting. The PAT declined by 20.5% YoY to Rs.5.1 crore, on account of a weak operational performance.

During FY17, Intrasoft's revenues stood at Rs.939 crore registering a growth of 31% YoY. Further, the EBIDTA margin increased by 70 bps YoY to 1.9% and the EBITDA increased to Rs. 17.6 crore. PAT (before exceptional income) increased by 95% YoY to Rs. 13.8 crore on the back of improved operating performance and increase in other income (mainly includes net gain on sale of current investments).

Financial Performance (Rs in crore)				
DESCRIPTION	Q3FY18	Q3FY17	FY17	FY16
Net Sales	338.3	281.8	939.0	716.9
Other operating income	0.0	0.0		
Net Sales & Other Operating Income	338.3	281.8	939.0	716.9
Growth (%)	20.1%		31.0%	
Total Expenditure	331.0	273.0	921.5	708.5
EBITDA	7.2	8.8	17.6	8.4
EBITDA Margin	2.1%	3.1%	1.9%	1.2%
Depreciation	0.5	0.5	1.9	1.6
EBIT (Excl. OI)	6.8	8.3	15.7	6.8
Other Income	0.5	1.4	7.5	4.6
EBIT	7.2	9.7	23.1	11.4
Interest	1.0	1.2	3.6	2.4
Exceptional Items	0.0	0.0		-34.4
PBT	6.2	8.5	19.6	43.5
PBT Margin	1.8%	3.0%	2.1%	6.1%
Tax	1.1	2.2	5.8	2.0
Profit After Tax	5.1	6.4	13.8	41.5
Profit Margin	1.5%	2.3%	1.5%	5.8%

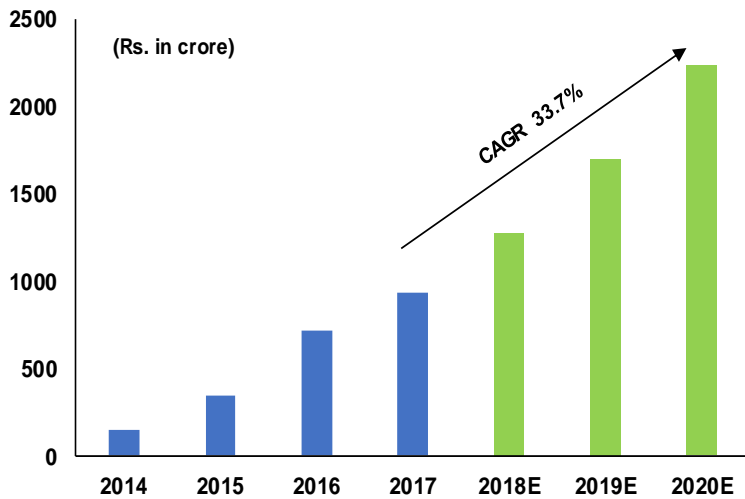
Source: Company, Ventura Research

Exceptional items: In FY16, the company sold the shares held by the Intrasoft Beneficiary Trust resulting in exceptional gains. The funds by sale of shares were used for expansion and growth related to its business. The treasury shares (12 lac shares) were transferred in FY16 by the promoters by diluting their stake to 47.5% from the erstwhile 55.6%.

❖ Financial Outlook

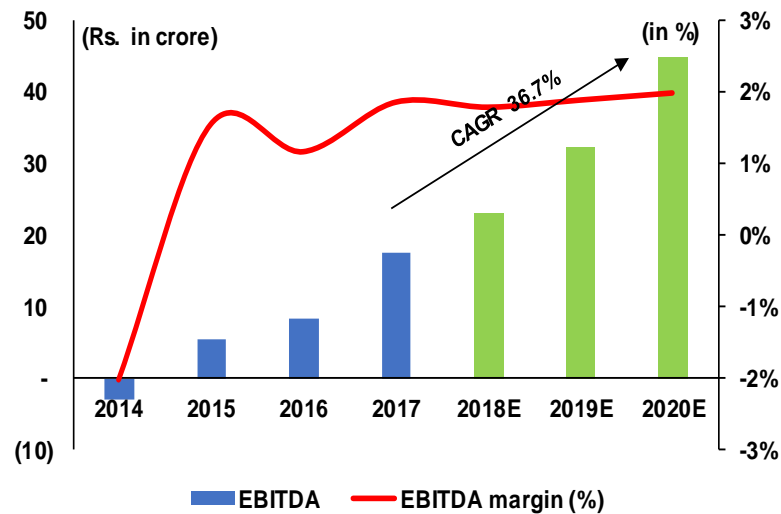
The revenue growth trajectory is expected to continue, going forward, on the back of continuous vendor addition and an increase in the SKUs being offered. Further, we expect the order shipment to grow at a 33% CAGR over FY17-FY20 and the overall revenues to grow at a CAGR of 33.7% over FY17-20E to Rs 2241.9 crore from Rs 939.0 crore reported in FY17. Further, the EBITDA and PAT are expected to grow at a CAGR of 36.7% (to Rs. 44.8 crore) and 39% (to Rs. 37.1 crore) respectively, over the same period.

Expected topline growth of 33.7% CAGR



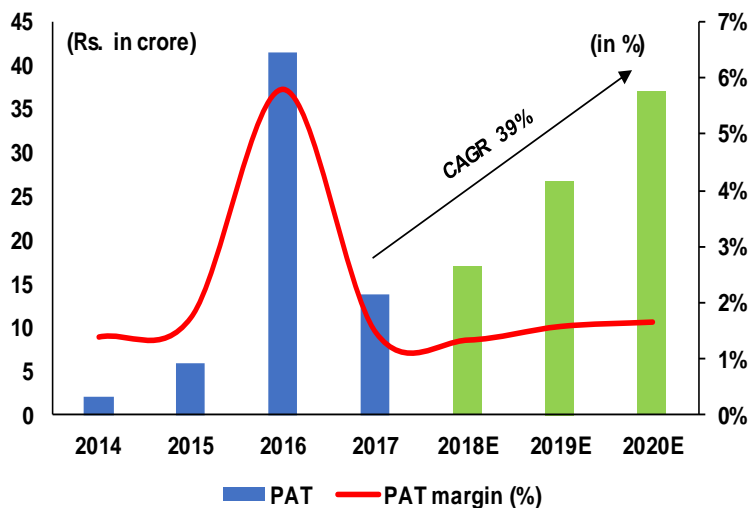
Source: Company, Ventura Research

EBITDA to grow at 36.7% CAGR



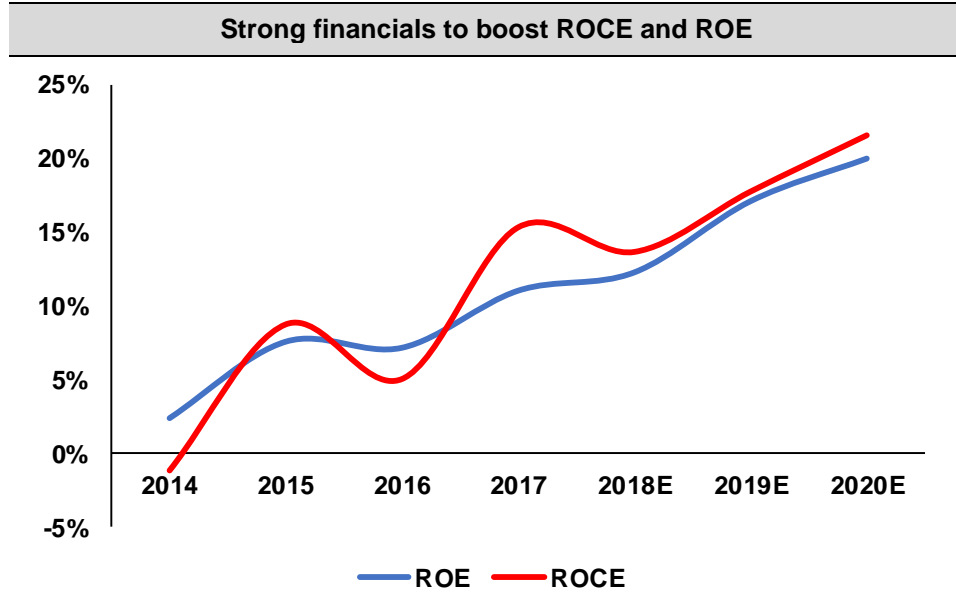
Source: Company, Ventura Research

PAT to grow at 39% CAGR

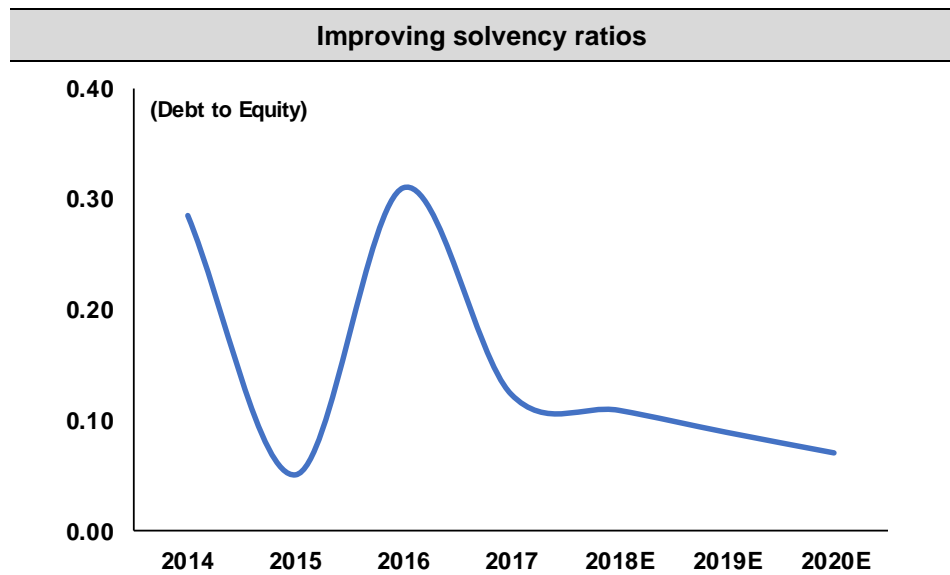


Source: Company, Ventura Research

Further, the return ratios - ROCE and ROE - are also expected to improve by 623 bps and 900 bps to 21.6% and 20.1% from 15.3% and 11.1%, respectively by FY20.



Source: Company, Ventura Research



Source: Company, Ventura Research

❖ Key Risk

- **High client concentration:** Amazon accounts for more than 65% of its revenues. According to the management, although the company is increasing its business with other platforms, Amazon's share will remain high.
- **Inventory risk:** In FY17, Intrasoft derived ~60% of its revenues from the drop-ship model and the balance from the Amazon fulfillment model (Inventory model) where the company is required to maintain inventory. Going forward, we expect a higher concentration in the inventory model, thus any variance in predicting the demand by the software will increase the company's inventory risk.
- **Vendors shifting:** Intrasoft lists the products being offered by its vendors on the market place and acts as an intermediary between the vendor and the market places. The vendors may start selling the products directly on the market place. However, we believe that this will not happen as a vendor getting its products listed through Intrasoft has various advantages as the company enjoys preferential status in the market places.

❖ Valuation

We initiate coverage on Intrasoft as a BUY, with a price objective of Rs. 1555, representing an upside of 122% over a period of 18 months from the CMP of Rs. 700. We have assigned an EV/Sales of 1.0x to arrive at the target price.

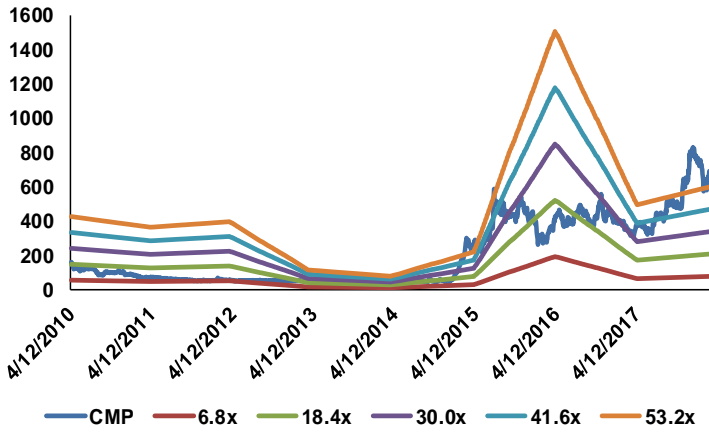
Valuation		
Particulars	Multiple	Amt (Rs. in cr)
Sales	1.0x	2,241.9
Enterprise Value		2,241.9
Less: Debt		13.9
Add: Cash		62.9
Equity Value		2,290.9
Outstanding Shares (in crs)		1.5
Target Price		1,555.1

Source: Ventura Research

Peer Comparison										
Company	Currency	Mcap	Revenue	EBITDA	Net Profit	EPS	P/E	EV/Sales	EV/EBITDA	
Intrasoft	INR in crore	2015	343.3	5.4	6.0	4.0	62.0	1.0	38.0	
		2016	1022	716.9	8.4	41.5	28.2	24.8	1.4	122.5
		2017		939.0	17.6	13.8	9.4	74.5	1.1	59.0
Wayfair	USD in crore	2015	225.0	-4.9	-7.9	-1.0	-	1.6	-	
		2016	708.1	338.0	-14.1	-19.4	-2.3	-	0.8	-
		2017		472.1	-14.8	-24.5	-2.8	-	1.5	-
Olympic Cards	INR in crore	2015	54.5	7.2	0.1	0.1	250.7	1.4	9.5	
		2016	14.5	54.1	7.0	-3.1	-1.9	-	1.5	10.6
		2017		52.8	8.4	-1.7	-1.0	-	1.5	8.4
Amazon	USD in crore	2015	10700.6	851.4	59.9	1.3	537.7	3.0	37.1	
		2016	56602.4	13598.7	1230.2	237.6	4.9	152.7	2.6	28.6
		2017		17786.6	1558.4	224.8	4.6	256.6	3.3	37.2
ebay	USD in crore	2015	859.2	309.0	190.2	1.6	17.6	3.9	11.5	
		2016	3883.5	897.9	299.1	187.3	1.6	18.1	3.8	11.3
		2017		956.7	293.8	132.2	1.2	30.4	4.5	14.6
Overstock Inc.	USD in crore	2014	149.7	3.0	0.9	0.4	69.3	0.3	13.4	
		2015	44.5	165.8	2.6	0.3	0.1	95.6	0.1	6.2
		2016		180.0	1.9	0.2	0.1	298.1	0.2	8.4

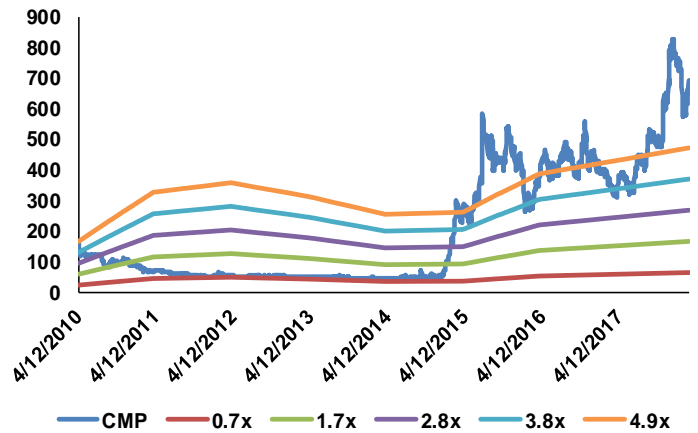
Source: Ventura Research

Intrasoft PE trend



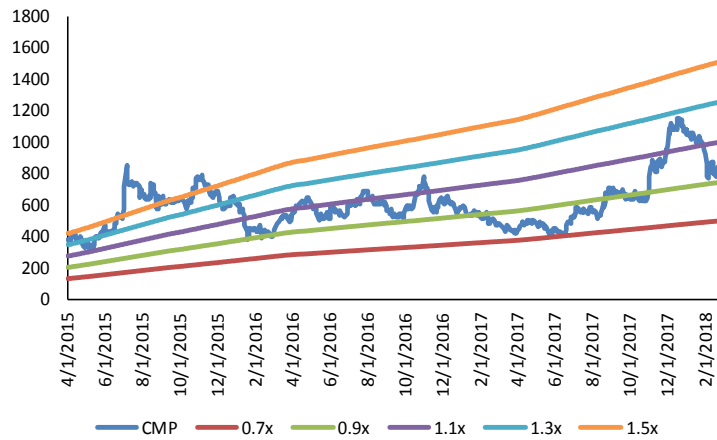
Source: Ventura Research

Intrasoft PB trend



Source: Ventura Research

Intrasoft EV/Sales trend



Source: Ventura Research

Financials and Projections

Y/E March, Fig in ` Cr	FY16	FY17	FY18E	FY19E	FY20E	Y/E March, Fig in ` Cr	FY16	FY17	FY18E	FY19E	FY20E
Profit & Loss Statement						Per Share Data (Rs)					
Net Sales	716.9	939.0	1274.0	1702.9	2241.9	Adj. EPS	28.2	9.4	11.5	18.2	25.2
% Chg.		31%	36%	34%	32%	Cash EPS	29.3	10.6	12.9	19.7	26.7
Total Expenditure	708.5	921.4	1251.1	1670.5	2197.1	DPS	2.0	0.0	2.0	2.0	2.0
% Chg.		30%	36%	34%	32%	Book Value	80.1	89.1	98.2	114.0	136.8
EBIDTA	8.4	17.6	22.9	32.4	44.8	Capital, Liquidity, Returns Ratio					
EBIDTA Margin %	1%	2%	2%	2%	2%	Debt / Equity (x)	0.3	0.1	0.1	0.1	0.1
Other Income	4.6	7.5	5.1	5.6	6.1	Current Ratio (x)	2.9	3.6	3.0	2.8	2.6
PBDIT	13.0	25.0	28.0	37.9	51.0	ROE (%)	7.2	11.1	12.3	17.2	20.1
Depreciation	1.6	1.9	2.0	2.2	2.3	ROCE (%)	5.0	15.3	13.7	17.7	21.6
Interest	2.4	3.6	1.9	1.8	1.7	Valuation Ratio (x)					
Exceptional items	34.4	0.0	0.0	0.0	0.0	P/E	24.8	74.5	60.5	38.3	27.7
PBT	43.5	19.6	24.1	34.0	46.9	P/BV	8.7	7.8	7.1	6.1	5.1
Tax Provisions	2.0	5.8	7.1	7.1	9.9	EV/Sales	1.4	1.1	0.8	0.6	0.4
Reported PAT	41.5	13.8	17.0	26.8	37.1	EV/EBIDTA	122.5	59.0	44.5	31.1	21.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	Efficiency Ratio (x)					
Share of Associate	0.0	0.0	0.0	0.0	0.0	Inventory (days)	43	25	23	21	19
PAT	41.5	13.8	17.0	26.8	37.1	Debtors (days)	5	4	4	4	4
PAT Margin (%)	6%	1%	1%	2%	2%	Creditors (days)	25	11	12	12	14
Balance Sheet						Cash Flow Statement					
Share Capital	14.7	14.7	14.7	14.7	14.7	Profit Before Tax	43.5	19.6	24.1	34.0	46.9
Minority Interest	0.0	0.0	0.0	0.0	0.0	Depreciation	1.6	1.9	2.0	2.2	2.3
Reserves & Surplus	103.3	116.5	129.9	153.2	186.8	Working Capital Changes	-41.7	23.5	-0.1	-1.0	8.7
Borrowings	36.4	16.2	15.4	14.6	13.9	Others	-45.1	-7.2	-5.2	-5.3	-8.1
Deferred Tax Liabilities (Net)	1.1	1.3	1.3	1.3	1.3	Operating Cash Flow	-41.7	37.8	20.8	29.8	49.8
Other Non Current Liabilities	0.4	0.9	1.3	1.7	2.2	Capital Expenditure	-3.5	-2.1	-2.5	-2.5	-2.6
Total Liabilities	156.0	149.6	162.6	185.6	218.9	Other Investment Activities	18.7	-5.9	-6.9	-7.6	-16.4
Gross Block	26.4	28.2	30.7	33.2	35.8	Cash Flow from Investing	15.1	-8.0	-9.4	-10.1	-19.0
Less: Acc. Depreciation	6.7	8.3	10.3	12.5	14.8	Changes in Share Capital	0.0	0.0	0.0	0.0	0.0
Net Block	19.7	19.9	20.4	20.7	21.0	Changes in Borrowings	30.6	-21.9	-2.7	-2.6	-2.4
Capital Work in Progress	0.0	0.0	0.0	0.0	0.0	Dividend & DDT	-1.8	-3.5	-3.5	-3.5	-3.5
Non current Investments	5.0	5.0	5.0	5.0	5.0	Cash Flow from Financing	28.8	-25.4	-6.3	-6.1	-6.0
Long term Loans & Advances	22.6	21.7	23.6	25.8	28.1	Net Change in Cash	2.25	4.33	5.13	13.58	24.81
Net Current assets	108.8	103.1	113.7	134.1	164.8	Opening Cash Balance	12.5	15.4	19.4	24.5	38.1
Total Assets	156.0	149.6	162.6	185.6	218.9	Closing Cash Balance	14.8	19.7	24.5	38.1	62.9

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