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Company update and earnings revision

Technology

Target price Rs2,135

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 19.6	↓ 13.7
EBIT	↓ 22.7	↓ 25.2
EPS	↓ 18.6	↓ 21.1

Target price revision

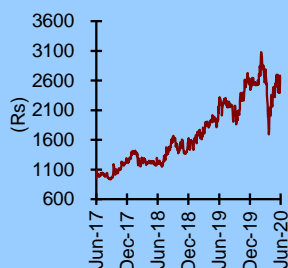
Rs2,135 from Rs2,400

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	40.6	40.5	40.5
Institutional investors	48.7	49.0	48.8
MFs and others	13.6	12.1	11.9
Insurance Cos.	0.1	0.4	1.0
FII	35.0	36.5	35.9
Others	10.7	10.5	10.7

Source: www.nseindia.com

Price chart



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Info Edge India

SELL

Maintained

Rs2,571

Anaemic collections across key segments

Infoedge provided an update on the impact of Covid-19 on its financials. April revenue of Rs904mn on a run rate basis (quarterly) already suggests a sequential revenue decline of 16% QoQ (-13% YoY) in Q1FY21 with actual numbers likely to be worse given that April billings were only 37% of Q4 average with meaningful improvement in May also unlikely. Billings declined by 6% and 24% YoY for Naukri (India) and 99acres in Q4FY20 with collections in the month of April being just 38%, 6% and 33% in Naukri (India), 99acres and Shiksha of their respective Q4 averages. We expect recruitment billings to stabilise YoY in Q3FY21 and return to normalised growth by Q4. 99acres will likely take time to recover given that builders represent 42% of revenues with a reliance on primary sales even higher at 65%. We expect overall revenues to decline by 9% in FY21. Flexibility to cut costs is limited given fixed costs of Rs6bn in FY20 and need to continue advertising spends in Jeevansathi where competitive intensity continues to remain elevated amidst a more defensive profile of revenues. Maintain SELL with a target price of Rs2135.

- **Recruitment billings down 6% YoY in Q4FY20; April collections down 62% from Q4 average.** Recruitment revenues increased by 11.2% YoY (flattish QoQ) to Rs2306mn in Q4FY20. Billings increased 16.2% QoQ but were down 6% YoY. Deferred revenue as at the end of Q4FY20 was up 3.6% to Rs3686mn. Collections in Naukri (India) were growing 13% Pre-Covid till mid-march though Covid-19 impacted execution meaningfully in H2 of March. More importantly collections in the month of April were just Rs310mn or 38% of the monthly average in Q4FY20. We expect YoY billings growth to stabilize by Q3FY21 and grow from Q4. Roughly 30% of recruitment revenues have a discretionary orientation to them or are more sensitive to the macro environment - like job listings, branding, assisted search and RMS - where recovery may be slow and gradual. In addition, ~40% of recruitment revenues are contributed by the IT/ITES vertical where even though volume growth may revert to mean by FY22, attrition trends may continue to be modest. We are still projecting a recovery to 23.5% revenue growth by FY22, which may be aggressive. April month revenue of Rs644mn suggests a sequential decline of 16% QoQ on a run rate basis in Q1FY21.
- **99acres billings down by a sharper 24% YoY; April collections negligible.** Billings in 99acres slowed to a trickle of Rs10mn in the month of April vs average monthly run rate of Rs170mn in Q4FY20. With builders constituting 42% of revenues and primary sales being ~65% of overall revenues, we expect recovery in 99acres to be more gradual. Revenues in Q4FY20 declined by 3% QoQ with YoY growth being 3.6%. Deferred revenue declined by 16.6% YoY to Rs708mn. We expect revenues to decline by 25% in FY21 though recover back to FY20 levels by FY22. 99acres revenue in the month of April was Rs156mn.
- **Maintain SELL.** As mentioned above, recovery for Infoedge will be gradual given 1) 30% revenue contribution from discretionary services in the recruitment segment, 2) high reliance on the primary sales segment within 99acres, and 3) high reliance on IT/ITES where attrition trends may remain modest into the medium term. Ability to cut costs gets constrained given the need to spend on advertising for JS and high fixed cost base of Rs6bn in FY20, where the company may not backfill attrition fully but may not retrench employees (rightly) as well. Though Zomato continues to focus on containing cash burn given the severe impact on fundamentals and tight funding environment, Infoedge's investment in the company argues for a reasonable holding company discount given the risk of a down round but more importantly as fresh funding if any will go towards primary purposes with a secondary exit (full or partial) unlikely over the medium term. Maintain SELL.

Market Cap	Rs315bn/US\$4.2bn
Reuters/Bloomberg	INED.BO/INFOE IN
Shares Outstanding (mn)	122.5
52-week Range (Rs)	3125/1580
Free Float (%)	59.5
FII (%)	35.9
Daily Volume (US\$'000)	12,453
Absolute Return 3m (%)	(7.8)
Absolute Return 12m (%)	11.3
Sensex Return 3m (%)	(11.4)
Sensex Return 12m (%)	(14.3)

Year to March	2019	2020E	2021E	2022E
Revenue (Rs mn)	10,983	12,728	11,581	14,339
Net Income (Rs mn)	2,817	2,525	3,612	4,310
EPS (Rs)	25.9	27.5	29.4	35.1
% Chg YoY	14.5	6.4	6.7	19.3
P/E (x)	99.4	93.4	87.5	73.3
CEPS (Rs)	27.6	31.1	32.7	38.9
EV/E (x)	88.1	74.6	72.8	60.1
Dividend Yield (%)	0.2	0.4	0.5	0.5
RoCE (%)	10.5	11.2	10.9	12.2
RoE (%)	14.2	14.2	14.3	15.7

- **Jeevansathi the bright spot but too small to matter.** Jeevansathi billings increased by 20.4% YoY to Rs238mn. JS collections have been resilient in the month of April as well at Rs72mn. Shiksha billings though were only Rs15mn in April vs Rs134mn in Q4FY20. JS and Shiksha revenues increased by 25.3% and 2.8% YoY to Rs227mn and Rs132mn in Q4FY20. April revenue for JS and Shiksha was Rs57mn and Rs43mn respectively though weak billings acquisition in Shiksha in April/May should weaken revenue contribution from the segment relative to April levels.

Table 1: Key Financials – Quarterly Update

<i>Rs mn</i>	Q4FY20#	Q4FY19	YoY (%)	Q3FY20	Apr'20#
Billing					
Info Edge*	3,319	3,608	-8.0%	2,999	408
- Recruitment	2,440	2,598	-6.0%	2,100	311
- 99Acres	507	667	-24.0%	543	10
- JS	238	198	20.4%	224	72
- Shiksha	134	146	-8.5%	133	15
Revenue					
Info Edge*	3,228	2,927	10.3%	3,205	904
- Recruitment	2,306	2,074	11.2%	2,303	644
- 99Acres	564	544	3.6%	582	156
- JS	227	181	25.3%	214	57
- Shiksha	132	128	2.8%	107	43
Operating EBITDA %					
Info Edge*	28%	31.1%		31%	
- Recruitment	56%	53%		57%	

Note: * Info Edge standalone financials. Segmental data for Naukri and 99acres

Above EBITDA numbers for FY 19-20 have been readjusted for IND AS 116 to ensure comparison with FY 2018-19 numbers. Accordingly, it may differ from reported numbers to that extent.

#Unaudited, subject to adjustments in the course of audit.

Source: Company Data

Table 2: Valuation by SoTP methodology

	FY21E	FY22E
Recruitment Business		
Revenues (Rsmn)	8,303	10,252
YoY Growth	-8.5%	23.5%
EBITDA (Rsmn)	4,982	5,844
EBITDA Margin	60.0%	57.0%
YoY Growth	-1.7%	17.3%
EV/EBITDA (x)		27
EV (Rsmn)		1,57,783
Per share value (Rs)		1,283
99acres		
Revenues (Rsmn)	1,705	2,289
YoY Growth	-25.2%	34.3%
EV/Sales (x)		6
EV (Rsmn)		13,731
Per share value (Rs)		112
Investee Companies - Zomato & PolicyBazaar		
Valuation in the last round of fund raise (Rs mn)		2,45,375
Infoedge's share @22.7%		55,725
Post holding company discount @30%		39,007
Per share value of Zomato (Rs)		317
PolicyBazaar Valuation		1,00,000
Infoedge share @15.85%		15,850
Post holding company discount @20%		12,680
Per share value of PolicyBazaar(Rs)		103
Book Value of Investee companies ex Zomato & Policy Bazaar		4,392
Price/Book Value		3
Per share value of other investee companies (Rs)		114
Jeevansathi & Others sales		
Revenues (Rs mn)	1,574	1,798
YoY Growth	14.0%	14.2%
EV/Sales (x)		3
Per share value (Rs)		44
Net Cash/share (Rs)		163
SoTP value (Rs)		2,135
CMP (Rs)		2,571
Upside (%)		-17%

Source: I-Sec research

Valuation methodology and key risks

We maintain our **SELL** rating on Info Edge (India) with a revised target price of Rs2,135 (earlier Rs2,400) based on SOTP methodology.

The key risks to our call are: i) higher growth in billings in the recruitment segment, ii) acceleration of billings and revenue growth in 99acres, iii) next funding round in Zomato happening at a materially higher valuation with a partial secondary exit opportunity for Infoedge, and iv) lower losses in the non-recruitment businesses and/or investee companies.

Financial summary (Standalone)

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Revenues (Sales)	10,983	12,728	11,581	14,339
Operating Expenses	7,569	8,696	7,449	9,331
EBITDA	3,413	4,031	4,133	5,007
% margins	31.1	31.7	35.7	34.9
Depreciation & Amortisation	204	407	364	430
EBIT	3,210	3,624	3,768	4,577
% margins	29.2	28.5	32.5	31.9
Finance cost	1	67	65	65
Other Income	1,112	1,010	1,113	1,235
Recurring PBT	4,320	4,567	4,816	5,747
Less: Taxes	1,169	1,182	1,204	1,437
Less: Minority Interest	0	0	0	0
Net Income (Recurring)	3,151	3,386	3,612	4,310
Add: Extraordinaries	-334	-861	0	0
Reported Net Income	2,817	2,525	3,612	4,310

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Current Assets	15,569	16,866	18,200	21,397
Current Liabilities & Provisions	6,125	7,297	6,688	8,158
Net Current Assets	9,444	9,569	11,512	13,239
Non-current investments	10,333	10,633	10,933	11,233
Net Fixed Assets	549	1,199	1,085	955
Capital Work-in-Progress	20	20	20	20
Other Assets	2,939	3,484	3,208	3,873
Total Assets	23,285	24,905	26,758	29,319
Liabilities				
Borrowings	4	4	4	4
Other non-current liabilities	42	602	598	606
Equity Share Capital	1,220	1,220	1,220	1,220
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	22,019	23,080	24,936	27,490
Net Worth	23,239	24,300	26,156	28,710
Total Liabilities	23,285	24,905	26,758	29,319

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Mar-19	Jun-19	Sep-19	Dec-19
Net sales	2,927	3,128	3,166	3,205
% growth (YoY)	21.6	20.5	19.5	14.0
EBITDA	913	1,010	993	1,059
Margin (%)	31.2	32.3	31.4	33.0
Other income	304	245	232	204
Extraordinaries Inc / (Loss)	174	82	749	30
Recurring Net Income	838	749	842	911

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Op. CF before WCap changes	2,097	2,850	2,929	3,571
Working changes	860	918	2,050	617
Capex	(262)	(200)	(250)	(300)
Free Cash flow	2,694	3,568	4,729	3,887
Cash Flow from other Invst Act (Ex Capex)	(1,970)	(147)	813	935
Proceeds from Share Capital	27	(861)	-	0
Inc/(Dec) in Borrowings	1	-	-	-
Dividend paid	(808)	(1,464)	(1,756)	(1,756)
Others	(1)	682	(65)	(65)
Inc./(Dec.) in Cash & cash eq.	(57)	1,778	3,720	3,001

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic Recurring)	25.9	27.5	29.4	35.1
EPS(Reported)	22.9	20.5	29.4	35.1
Recurring Cash EPS	27.6	31.1	32.7	38.9
Dividend per share (DPS)	6.0	10.0	12.0	12.0
Book Value per share (BV)	190.5	199.2	214.4	235.3
Growth Ratios (%)				
Operating Income (Sales)	20.0	15.9	(9.0)	23.8
EBITDA	14.8	18.1	2.5	21.2
Recurring Net Income	15.1	7.4	6.7	19.3
Basic Recurring EPS	14.5	6.4	6.7	19.3
Basic Recurring CEPS	13.6	13.0	4.9	19.2
Valuation Ratios (x)				
P/E	99.4	93.4	87.5	73.3
P/CEPS	93.3	82.5	78.7	66.0
P/BV	13.5	12.9	12.0	10.9
EV / EBITDA	88.1	74.6	72.8	60.1
EV / Sales	28.2	24.2	26.2	21.0
EV / FCF	111.7	84.3	63.6	77.4
Operating Ratios				
Personnel Cost/Total Revenues (%)	41.8	42.7	43.7	41.1
Other op. exp. / total revenue (%)	26.5	23.7	18.9	22.2
Other Income / PBT (%)	25.7	22.1	23.1	21.5
Effective Tax Rate (%)	27.1	25.9	25.0	25.0
NWC / Total Assets (%)	32.1	29.7	34.4	35.3
Fixed Asset Turnover (x) on average	20.0	14.2	10.0	13.8
Receivables (days) on average	2	3	3	3
Current ratio	2.5	2.3	2.7	2.6
Return/Profitability Ratios (%)				
Recurring Net Income Margins	28.7	26.6	31.2	30.1
RoCE (Based on Avg)	10.5	11.2	10.9	12.2
RoNW (Based on Avg)	14.2	14.2	14.3	15.7
Dividend Payout	23.2	36.3	40.9	34.2
Dividend Yield	0.2	0.4	0.5	0.5
EBITDA Margins	31.1	31.7	35.7	34.9

Source: Company data, I-Sec research

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