

Sector: Internet & New media

Result update

	Change
Reco: Hold	↓
CMP: Rs. 2960	
Price Target: Rs. 3150	↑
↑ Upgrade ↔ No change ↓ Downgrade	

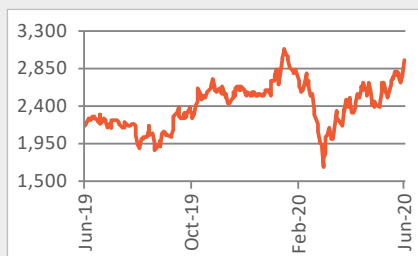
Company details

Market cap:	Rs. 36,270 cr
52-week high/low:	Rs. 3,125/1,580
NSE volume: (No of shares)	3.7 lakh
BSE code:	532777
NSE code:	NAUKRI
Sharekhan code:	NAUKRI
Free float: (No of shares)	7.3 cr

Shareholding (%)

Promoters	40.5
FII	35.2
DII	13.9
Others	10.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.8	66.1	14.1	36.0
Relative to Sensex	8.1	33.2	29.0	45.4

Sharekhan Research, Bloomberg

Info Edge (India) Limited's (Info Edge) delivered revenue growth of 10.3% y-o-y despite nationwide lockdown mandates and continued slowdown in business activities. The growth was driven by 11% y-o-y growth in the recruitment business and strong 25% y-o-y growth in Jeevansathi (accelerating for last four consecutive quarters). 99acres (real estate portal) grew by 3.6% y-o-y during the quarter, which clocked in the lowest numbers in the past eleven quarters (moderating from 35%+ growth level). Overall billings declined by 8% y-o-y to Rs. 332 crore, owing to hiring freeze and softness in the real estate business. Lockdowns mandates and slowdown in business led to a collections shortfall of Rs. 40-44 crore and Rs. 25-30 crore in recruitment and 99acres business respectively during the quarter. On a comparable basis, operating profit margins contracted by 320 BPS y-o-y to 28%, owing to higher other expenses. Excluding one-time charges, adjusted net profit declined by 5.9% y-o-y and were in line with our estimates owing to lower-than-expected tax rate. Weak collections in both recruitment and 99acres are indicative of a significant decline of revenues in coming quarters. We believe that the hiring activity resume over the next 3-4 months once the issues settle down, though the recovery in 99acres would take more time given anticipation of slower recovery in real estate activities. However, we expect normalization of growth in FY2022E given the recovery in economic activity, pent-up demand in new homes/resale and increasing attrition rate. Board approved raising of up to Rs 1,875 crore through Qualified Institutions Placement (QIP) and management expects to use this fund for investments in start-ups and/or merger and acquisition opportunities.

Key positives

- Jeevansathi revenue grew at 25% y-o-y
- Strong cash and cash equivalents of Rs. 1,544 crore as of March 31, 2020

Key negatives

- Billing growth of recruitment and 99acres business declined 6% and 24% respectively
- Management expects slower recovery in 99acres business

Our Call

Valuation – Downgrade to Hold with a PT of Rs. 3,150: We had upgraded our rating in our last report dated March 26, 2020 after a sharp fall in its stock price due to COVID-19-led uncertainties. Since then, the stock price has moved up around 46%. We continue to believe that leadership position in its core businesses along with improving valuation in certain investee companies (Zomato and PolicyBazaar) bodes well for the company. Further, we expect revenue and margin would recover sharply in FY2022E on the back of its cost control measures and resumption of economic activity. Given the anticipated sharp decline in revenues in 1HFY2021E due to lower hiring activity and slowdown in real estate business, we have revised our earnings estimate downwards for FY20201E/FY2022E. Given the limited upside potential post recent sharp run-up in stock price, we downgrade our rating to Hold from Buy on stock prices with a revised SOTP-based price target (PT) of Rs. 3,150. In long-term, we continue to like Info Edge given its dominant positioning in the online classifieds with a potential to gain market share and strong balance sheet.

Key Risks

Intense competition from both international and domestic players in the recruitment business could affect the growth trajectory and margins of the recruitment business. Further, high competitive intensity in the real estate segment could enhance losses.

Valuation	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	915.5	1,098.3	1,272.7	1,059.1	1,436.8
OPM (%)	32.5	31.1	31.6	28.1	38.7
Adjusted PAT	273.7	315.1	328.9	260.1	464.4
% YoY growth	31.3	15.1	4.4	-20.9	78.6
Adjusted EPS (Rs.)	22.5	25.6	26.7	21.1	37.8
P/E (x)	131.9	115.6	110.8	140.0	78.4
P/B (x)	17.1	15.5	14.9	13.9	12.2
EV/EBITDA (x)	116.7	104.5	88.2	121.5	64.8
RoNW (%)	13.0	13.6	13.5	10.0	15.6
RoCE (%)	17.7	18.6	17.9	13.3	20.7

Source: Company; Sharekhan estimates

Revenue beat marginally, margins missed estimates: Effective April 1, 2019, Info Edge adopted the accounting standards of Ind-AS116. Thus, Q4FY2020 results include the impact of Ind-AS116 and numbers are not comparable with Q4FY2019.

Info Edge delivered better-than-expected revenue growth of 10.3% y-o-y to Rs. 322.8 crore despite nationwide lockdown mandates and continued slowdown in business activities. The growth was driven by 11% y-o-y growth in recruitment business and strong 25% y-o-y growth in Jeevansathi. 99acres (real estate portal) grew by 3.6% y-o-y during the quarter, lowest in the last eleven quarters (moderating from 30%+ growth). Overall billings declined by 8% y-o-y to Rs. 332 crore, owing to slowdown in hiring and softness in the real estate business in the wake of COVID-19. Lockdowns mandates and slowdown in business led to a collections shortfall of Rs. 40-44 crore and Rs. 25-30 crore in recruitment and 99acres business during the quarter. On a reported basis, EBITDA stood at Rs.96.5 crore, with EBITDA margin of 29.9%, below our estimates, owing to higher other expenses. On a comparable basis, operating profit margins contracted by 320 BPS y-o-y to 28%, owing to higher other expenses. Reported net profit came at Rs. 42 crore, which was impacted by impairment charges of Rs. 37.2 crore for Startup Investment (Holding). Excluding one-time charges, adjusted net profit declined by 5.9% y-o-y and were in line with our estimates owing to lower-than-expected tax rate.

1HFY2021 to be a washout owing to slowdown in core business; expect recovery in FY2022E: The management indicated that the collection in recruitment business and 99acres have been severely impacted owing to lockdown mandates and continued slowdown business. Recruitment business billings in April and May were down by around Rs. 69 crore (dropped 56% y-o-y) owing to extended lockdown restrictions, which indicates significant deterioration in demand environment owing to hiring freeze and lower attrition. Sectors such as travel, tourism, manufacturing, real estate, construction and auto have much more impacted than IT and pharma. Further, the management indicated that customers have started asking for discounts in billing rates owing to significant pricing gap to its closest competitor. In 99acres, the billings on QTD May 2020 have dropped around 77% owing to nationwide lockdowns, implying sharp stress in both developers and brokers segment. Weak collections in both recruitment and 99acres are indicative of a significant decline of revenues in coming quarters. We believe that the hiring activity would come back in next 3-4 months once the issues settle down, though the recovery in 99acres would take more time to recover given anticipation of slower recovery in real estate activities and extended lockdown in key markets like Chennai, Mumbai, Delhi, Pune and among others. We believe that billings and revenue would remain weak in 1HFY2021E owing to lower hiring activity and slowdown in real estate. We assume normalization of growth in FY2022E given the recovery in economic activity, pent-up demand in new homes/resale and increasing attrition rate.

Info Edge board approves raising up to \$250 million (Rs. 1,875 crore) through QIP: Info Edge's board approved raising of up to Rs 1,875 crore through issue of equity shares via Qualified Institutions Placement (QIP). The management indicated that it may use this fund to aggressively invest in start-ups, take majority stake in companies in its core areas (recruitment, education, matrimony and real estate) and merger and acquisition opportunities. The company has cash and cash equivalents of Rs. 1,544 crore as of March 31, 2020.

Q4FY2020 conference call highlights

- ♦ **Aggressive investments to continue:** The management reiterated that it would continue to invest aggressively in new products, data science, brand building and technologies across all businesses. Higher spends in Jeevansathi have resulted in higher listings in the northern part of India. The company currently focuses on gaining market share in Jeevansathi. Once it captures a significant market share in Jeevansathi, the company could invest in allied services of matrimony.
- ♦ **Lost market share in recruitment, but gained in Shiksha and Jeevansathi:** The management stated that it has lost 3-4% market share in recruitment business owing to aggressive investment by the competitors. However, it remains confident that company will gain these market share again once the situation settles down. The company has gained market share in Jeevansathi (~25% market share in west and ~35 market share in North) led by aggressive investment in last few quarters. The company has also gained market share in Shiksha business despite intense competition.

- ♦ **Annual fixed cost stood at Rs. 600 crore:** The company's fixed and committed costs were approximately Rs. 600 crore for FY2020. This includes fixed salary, facilities and technology running expenses. It has indicated that it could go for some strategic hires, but it would not impact much of its expenses.
- ♦ **Strong liquidity Position:** The company has cash and cash equivalents of approximately \$200 million at an overall group level (includes WoS, AIF and ESOP Trust). The company is well positioned to fulfil its existing contractual obligations.
- ♦ **Recruitment business growth moderated on expected lines:** Growth in the number of resumes remained strong during the quarter despite a slowdown in both non-IT hiring and outbreak of COVID-19. Billing growth in the recruitment business declined to 6% y-o-y (versus 8.5% y-o-y/20.1% y-o-y in Q3FY2020/Q4FY2019) owing to weakness in hiring activity. Naukri had a decline of collection by Rs. 14 crore (y-o-y) in Q4FY20 and Rs. 69 crore in QTD May 2020 y-o-y. This indicates a significant slowdown in the business. Deferred revenue growth remained at 1.6% but moderated on expected lines.
- ♦ **99acres:** Tough business environment continues: Management cited that the business environment remains tough owing to COVID-19 led business disruption. The sector has been facing slowdown owing to lower new launches, liquidity crunch, implementation of RERA, NBFC crisis and demonetization. 99acres had a decline of collection by Rs. 18 crore (y-o-y) in Q4FY2020 and Rs. 20 crore in QTD May 2020 y-o-y. Pre-COVID-19 growth was 13% and the lockdown had slowed down the growth to 0%, leading to a shortfall of collection of Rs. 25-30 crore. Deferred revenue growth declined to 17.6% y-o-y in Q4FY2020.
- ♦ **Jeevansathi:** Aggressive investments to continue: Revenue growth accelerated to 24.9% during the quarter. While recruitment business and 99acres felt the impact due to COVID-19 outbreak, Jeevansathi collections increased by Rs. 4 crore (y-o-y) in Q4FY2020 and Rs. 2 crore in QTD May 2020 y-o-y. The lockdown had a nominal impact on growth rate of Jeevansathi for the quarter. The company focuses on gaining market share in the western and northern parts of India and higher conversion of its customer base.

Results (Comparable)

Quarter Ended	Q4FY20			Q4FY19	
	Reported	IND Adjustment	Comparable	Reported	YoY (%)
Net Sales	322.8	0.0	322.8	292.7	10.3
Network & other expenses	38.7	6.2	44.9	32.8	37.0
EBITDA	96.5	-6.2	90.3	91.3	-1.1
Depreciation	11.0	-5.6	5.4	4.9	10.1
Financial exp	1.6	-1.6	0.0	1.6	-
Exceptional Item	37.2	0.0	37.2	17.4	113.3
Adjusted Net Income	78.8	1.0	79.8	83.8	-4.8
Adjusted EPS (Rs.)	6.4	0.1	6.5	6.8	-4.7
OPM (%)	29.9		27.8	31.2	(340)
NPM (%)	28.2		28.3	28.6	(30)

Source: Company; Sharekhan Research

Result (Standalone)					Rs cr
Particulars	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Net Sales	322.8	292.7	320.5	10.3	0.7
Network, internet and other direct charges	5.8	5.5	6.0	4.6	-4.0
Employee benefits expense	139.2	121.2	135.7	14.9	2.6
Advertising and promotion cost	48.4	47.4	49.8	2.1	-2.8
Other expenses	32.9	27.3	23.1	20.7	42.5
Operating profit	96.5	91.3	105.9	5.7	-8.9
Depreciation and amortisation	11.0	4.9	10.4	125.5	5.3
EBIT	85.5	86.4	95.5	-1.0	-10.4
Other income	19.5	30.4	20.4	-36.0	-4.5
PBT	103.4	116.8	114.3	-11.5	-9.5
Provision of tax	24.6	33.1	23.2	-25.6	6.0
Adjusted net income	78.8	83.8	91.1	-5.9	-13.5
Exceptional item	37.2	17.4	3.0	113.3	1135.4
Reported net income	41.6	66.3	88.0	-37.3	-52.7
Adjusted EPS (Rs.)	6.5	6.9	7.5	-5.9	-13.5
Margin (%)				(Bps)	(Bps)
OPM	29.9	31.2	33.0	-129	-315
EBIT Margin	26.5	29.5	29.8	-303	-330
NPM	24.4	28.6	28.4	-421	-400

Source: Company; Sharekhan Research;

*Q4FY2020 numbers not comparable with Q4FY2019 due to IND AS 116 implementation from April 1, 2019

SOTP Valuation

Business segment	Stake	Valuation methodology	Per share value (Rs.)
Recruitment business	100%	EV/EBITDA	1830
99acres	100%	EV/Sales	270
Jeevansathi.com	100%	EV/Sales	119
Standalone business (per share)			2,219
Zomato Media	24%	Valued at \$3.5 billion	522
PolicyBazaar	16%	Valued at \$1.5 billion	175
Other investee company			48
Cash		Per share	186
Total per share			3,150

Source: Company; Sharekhan Research

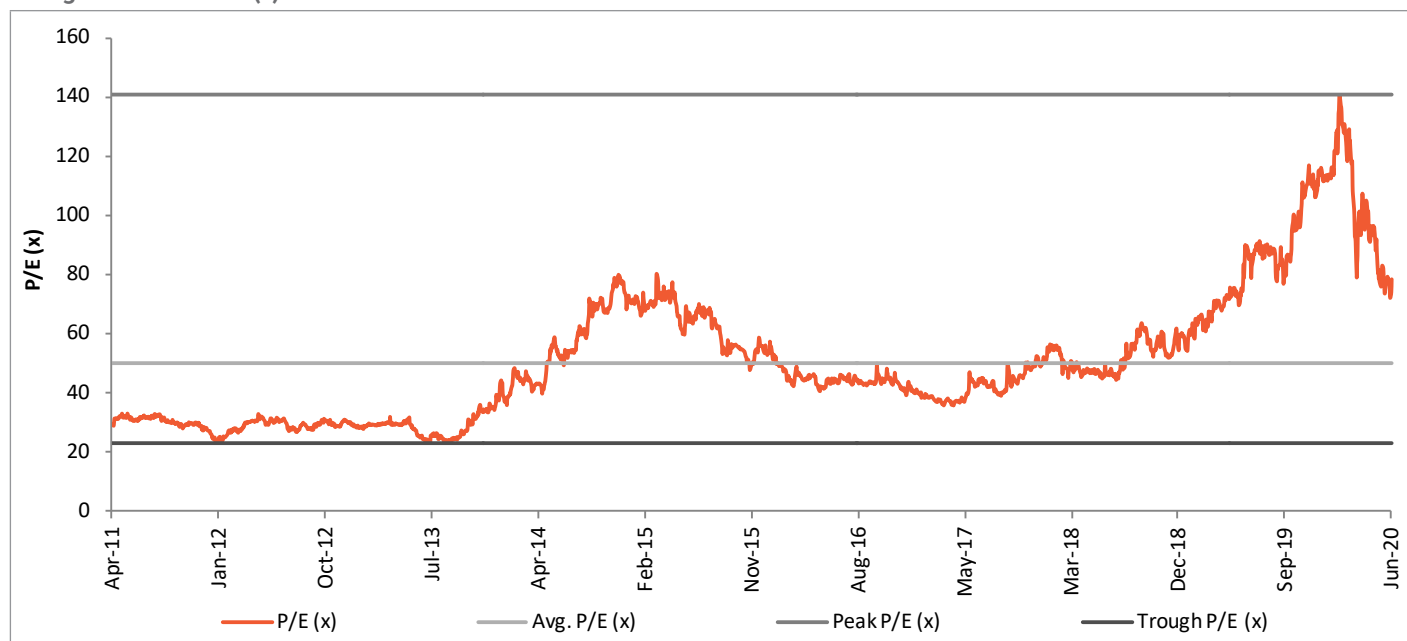
Outlook

India's ecommerce industry has been on an upward growth trajectory and is expected to reach \$84 billion by 2021 from \$24 billion in 2017. Info Edge's recruitment business directly and disproportionately benefits from pick-up in GDP growth. With a strong movement from print ads to digital and lower interest rate, we expect a high-growth trajectory for 99acres in long-term. Further, India's real estate online classifieds market is expected to be Rs. 60 billion by 2030, with a 21% CAGR over 2018-2030E. Among its investee companies, Zomato and PolicyBazaar have emerged as big bets and have huge potential to grow in the coming years. In the long term, we believe a leadership position in its core businesses along with improving traction in certain investee companies (Zomato and PolicyBazaar) would bode well for the company. However, we believe that 1HFY2021E would be a washout given lower hiring activity and slowdown in real estate business. We assume a recovery in FY2022 given pent-up demand, resumption of economic activity and pick-up in hiring activity across the industries.

Valuation

We had upgraded our rating in our last report dated March 26, 2020 after sharp fall in stock price due to COVID-19-led uncertainties. Since then, the stock price has moved up around 46%. We continue to believe that leadership position in its core businesses along with improving valuation in certain investee companies (Zomato and PolicyBazaar) bodes well for the company. Further, we expect revenue and margin would recover sharply in FY2022E on the back of its cost control measures and resumption of economic activity. Given the anticipated sharp decline in revenues in 1HFY2021E due to lower hiring activity and slowdown in real estate business, we have revised downward our earnings estimates for FY2020E/FY2022E. Given limited upside potential post recent sharp run-up in stock price, we downgrade our rating to Hold from Buy on stock prices with a revised SOTP-based price target (PT) of Rs. 3,150. In long-term, we continue to like Info Edge given its dominant positioning in the online classifieds with a potential to gain market share and strong balance sheet.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Info Edge is India's largest listed Internet technology player, operating in businesses such as online recruitment, real estate, matrimony and others. The company operates in the online recruitment business under its flagship brand Naukri.com, which has a share of more than 70% of the recruitment market. The company's other businesses such as online real estate and matrimony divisions operate under 99acres.com and Jeevansathi.com, respectively. The company also has stakes in a number of companies, including Zomato and Policybazaar.com.

Investment theme

Info Edge enjoys a leadership position in its core businesses such as online recruitment, real estate and matrimony and stands to benefit from the rising popularity of these platforms with greater internet penetration. Naukri is the leader in the industry and its revenue growth is directly linked to GDP growth. Cash generated by Naukri.com supports other businesses (99acres and Jeevansathi) and investments in start-ups. 99acres is well placed to capitalise from increasing spends on the digital front by real estate developers and brokers. In addition, the company has invested in more than 20 start-ups, including Zomato and PolicyBazaar. We believe Zomato is now uniquely placed with a good brand name and expansion of the food delivery industry would remain high for the next 2-3 years.

Key Risks

1) Entry of large internet players with aggressive expansion plans and any slower-than-expected economic recovery could affect growth trajectory and margins in the recruitment business, 2) any new technology that can provide tough competition to core businesses, 3) high competitive intensity in the real estate segment would widen losses, 4) higher competition for attracting talent in food delivery platforms would increase cash burn rates and, 5) increasing losses from companies that Info Edge has invested in.

Additional Data

Key management personnel

Sanjeev Bikhchandani	Founder and Executive Vice Chairman
Hitesh Oberoi	Managing Director & CEO
Chintan Arvind Thakkar	Director & CFO
Deepali Singh	Executive Vice President – Firstnaukri
Vibhore Sharma	Chief Technology Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Pvt Ltd	9.00
2	ENDEAVOUR HOLDING TRUST	6.82
3	Axis Asset Management Co Ltd	5.55
4	Nalanda India Equity Fund Ltd	3.14
5	LALL ANIL	2.56
6	Amansa Holdings Pvt Ltd	2.31
7	Kapoor Kapil	2.09
8	WF Asian Smaller Cos Fund Ltd/Caym	1.87
9	Vanguard Group Inc	1.80
10	Cartica Capital Limited	1.69

Source: Bloomberg

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