

Sector: Internet & New media Result Update

	Change
Reco: Buy	↑
CMP: Rs. 3,314	
Price Target: Rs. 3,650	↑

↑ Upgrade ↔ No change ↓ Downgrade

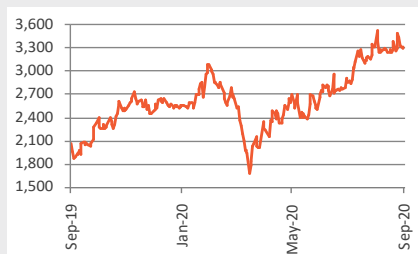
Company details

Market cap:	Rs. 42,610 cr
52-week high/low:	Rs. 3,575 / 1,580
NSE volume: (No of shares)	4.4 lakh
BSE code:	532777
NSE code:	NAUKRI
Sharekhan code:	NAUKRI
Free float: (No of shares)	7.3 cr

Shareholding (%)

Promoters	38.5
FII	39.4
DII	13.9
Others	8.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	22.5	31.1	60.1
Relative to Sensex	-6.6	9.6	23.4	56.8

Sharekhan Research, Bloomberg

Info Edge (India) Limited (Info Edge) delivered better-than-expected performance across all parameters during Q1FY2021. The company reported strong beat in margins because of lower marketing expenses in both recruitment and 99acres business and cut in administration expenses. Revenue for the quarter declined by 10.4% y-o-y to Rs. 280.1 crore, ahead of our estimates, led by better-than-expected performance across all its business units. Recruitment and 99acres business revenue declined by 8.8% y-o-y and 24.7% y-o-y, respectively, while Jeevansathi business continued its revenue growth momentum (up 13.2% y-o-y). EBITDA margin for the quarter stood at 37.7% (versus 32.3% in Q1FY2020), ahead of our estimates, led by a sharp decline in advertisement and administration expenses. However, overall billings declined by 43.9% y-o-y to Rs. 188.6 crore, owing to slowdown in hiring and softness in the real estate business in the wake of COVID-19. This indicates revenue growth could be impacted in Q2FY2021E. However, improvement in billings rate in telecom, IT, and retail, which are major contributors to its billings in the recruitment business and strong revival in traffic in 99acres would drive its billing rate going ahead. Further, in Jeevansathi, the company's aggressive investments in acquired profiles and continued improvement in realisation would drive growth going ahead. We have modeled strong revival of revenue growth (34.8% y-o-y) in FY2022E, given the recovery in economic activity, pent-up demand in new homes/resale, and increasing attrition rate.

Key positives

- EBITDA margin improved by 500 bps y-o-y to 37.3%, ahead of our estimates.
- Jeevansathi continued its growth momentum, aided by improved realisations and client addition.
- Strong cash and cash equivalents of Rs. 1,530 crore as of June 30, 2020.

Key negatives

- Billing growth of recruitment and 99acres business declined by 44.3% and 70.5%, respectively.
- Management sees slower recovery in local listings in 99acres.

Our Call

Valuation – Upgrade to Buy with a PT of Rs. 3,650: We have revised our estimates upward for FY2021E/FY2022E, factoring in strong beat in operating margin, continued growth momentum in Jeevansathi business, and gradual recovery in billings in IT and telecom segments. 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 to improve sharply in FY2022E because of the company's cost-control measures and resumption of economic activity. We prefer Info Edge, given its dominant position in online classifieds with a potential to gain market share and its strong balance sheet. Further, with the recent fund raised through QIP, Info Edge has cash balance of more than Rs. 3,300 crore, which would be largely utilised for merger and acquisition opportunities in its core areas. Hence, we upgrade our rating to Buy from Hold on the stock with a revised SOTP-based price target (PT) of Rs. 3,650.

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	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,098.3	1,272.7	1,162.4	1,566.9	1,847.5
OPM (%)	31.1	31.6	37.4	40.9	42.2
Adjusted PAT	315.1	328.9	343.5	504.2	607.3
% YoY growth	15.1	4.4	4.4	46.8	20.4
Adjusted EPS (Rs.)	25.6	26.7	26.7	39.2	47.2
P/E (x)	129.4	124.0	124.0	84.5	70.2
P/B (x)	17.4	16.7	15.8	13.7	11.8
EV/EBITDA (x)	117.1	98.9	97.1	65.8	53.9
RoNW (%)	13.6	13.5	12.8	16.3	16.8
RoCE (%)	18.6	17.9	17.0	21.5	22.3

Source: Company; Sharekhan estimates

Beat on all fronts

Info Edge delivered better-than-expected performance across all parameters. Standalone revenue declined by 10.4% y-o-y to Rs. 280.1 crore despite nationwide lockdown and continued slowdown in business activities, ahead of our estimates. The revenue beat was led by lag in billings revenue on higher tenure of the contract. Revenue from the recruitment business declined by 8.8% y-o-y in Q1FY2021, while revenue of 99acres (real estate portal) business declined by 24.7% y-o-y. Revenue from Jeevansathi grew by 13.2% y-o-y during the quarter. Overall billings declined by 43.9% y-o-y to Rs. 188.6 crore, owing to slowdown in hiring and softness in the real estate business in the wake of COVID-19. EBITDA stood at Rs. 104.6 crore, with EBITDA margin of 37.7% (versus 32.3% in Q1FY2020), ahead of our estimates, led by a sharp decline in advertisement and other expenses. Adjusted net profit grew by 11.1% y-o-y and was ahead of our estimates, supported by higher profitability.

Sharp decline in billings likely to impact Q2 revenue; Expect strong recovery in FY2022E

Management indicated that collections in the recruitment business and 99acres have been severely impacted due to slowdown in hiring activities and weakness in the real estate business due to COVID-19 crisis. Recruitment and 99acres business billings were down 44.3% y-o-y and 70.5% y-o-y, respectively, during the quarter, which implies possibilities of lower revenue growth in Q2FY2021E. Sectors such as travel, tourism, manufacturing, real estate, construction, and auto have been much more impacted than IT and pharma. Management indicated that it has witnessed improvement in billings rate in telecom, IT, and retail, which are major contributors to its billings in the recruitment business. In 99acres, management indicated strong revival in traffic in July and August, and it expects strong revival in this business as clients want to advertise on its platform. In Jeevansathi, the company's aggressive investments in acquired profiles and continued improvement in realisation would drive growth going ahead. We have modeled strong growth revival in FY2022E, given the recovery in economic activity, pent-up demand in new homes/resale, and increasing attrition rate.

Q1FY2021 Conference Call Highlights

- ♦ **Raised \$250 million (Rs. 1,875 crore) through QIP:** Info Edge's management highlighted that it has successfully raised Rs. 1,875 crore through issue of equity shares via Qualified Institutions Placement (QIP) amid the COVID-19 crisis. The company's board approved and authorised the opening of the QIP on July 27, 2020, and it was closed on August 4, 2020. The applications received by the company were around 6x of the planned fund raised from both existing and marquee new investors. The company's board approved the issue and allotted 60,67,961 equity shares to eligible qualified institutional buyers pursuant to the QIP at an issue price of Rs. 3,090 per equity share (discount of 2.74% to SEBI floor price), aggregating to approximately Rs. 1,875 crore. 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. Apart from the fund raised via QIP, the company has cash and cash equivalents of Rs. 1,530 crore as of June 30, 2020.
- ♦ **Recovery in recruitment business, but billings down 44.3%:** Revenue of the recruitment business declined by 8.8% y-o-y in Q1FY2021, ahead of our expectations. However, recruitment billings were down 44.3%, which implies lower revenue growth in Q2FY2021. EBITDA margin in the recruitment business improved to 60.3% due to nil expenditure in marketing. Management witnessed recovery across various segments of the recruitment business, which implies some signs of revival in business as the economy unlocked. Billings in this segment improved to -32% y-o-y in June from -54% y-o-y in April. IT and telecom, major contributors of billings, improved from -45% y-o-y in April to -27% y-o-y in June. Travel, hospitality, automotive, and manufacturing verticals are most impacted due to COVID-19 crisis. Management highlighted that it sees revival in the retail vertical. Nationwide lockdown has impacted activities of both job seekers and recruiters on its platform. The company has curtailed marketing spends substantially in this segment, considering less activities from competitors. However, traffic share on the portal was not impacted during the crisis. The company has started experiencing significant improvement in activities on its platform as the economy opened up. Management indicated that job seeker traffic has come back to pre-COVID level on a y-o-y basis, while recruiter traffic has improved significantly (from a 65% y-o-y decline in May to a decline of 35% y-o-y in June). IIMjobs.com reported billings decline of 44.1% y-o-y to

Rs. 3.16 crore, while its revenue increased by 4.67% y-o-y to Rs. 4.94 crore. Management has reiterated its earlier stance that it would continue to invest on recruitment management system, automation and technology such as remote collaboration.

- ♦ **Activities on recruitment platform impacted by COVID-19:** Growth in the average number of resumé added daily declined by 53% y-o-y during Q1FY2021, while the number of unique customers declined by 17% y-o-y. Deferred revenue in the recruitment business declined by 22.8% y-o-y.
- ♦ **99acres: Expect gradual improvement going ahead:** Management cited that all business verticals such as new home, resale, rental, and commercial were impacted due to strict lockdown mandates. Hence, the number of clients and average billings were impacted in this segment during the quarter. Management indicated that smaller cities showed lower decline compared to large metros. The company has reduced its operating expenses by 32% y-o-y in both marketing and other expenses during the quarter. Daily listings by owners recovered to pre-COVID level, while local listing is recovering at a slower rate. Traffic share recovered to 85% of pre-COVID level in June 2020, while management has witnessed strong revival in traffic in July 2020 and August 2020. During the last week of August 2020, the traffic share was up by 11% of pre-COVID level. Management expects the traffic share to sustain going ahead, as clients want to come back and advertise on the platform.
- ♦ **Jeevansathi: Growth momentum continued:** Revenue of Jeevansathi business grew by 13% y-o-y to Rs. 22.5 crore during the quarter. Growth was led by aggressive marketing spends for acquisition of profile and continued improvement in realisation. Billings in this business grew by 13.3% y-o-y to Rs. 22.3 crore. The lockdown had a nominal impact on the growth rate of Jeevansathi for the quarter, as the company experienced acceleration in profile on its platform led by the lockdown. Further, the company's offerings in video calling and video profile, which were launched in FY2020, helped to drive its growth during the quarter. Management indicated that aggressive spends on marketing would continue to gain market share.
- ♦ **Education business impacted due to deferment of the admission season:** Shiksha.com billings declined by 28.4% y-o-y to Rs. 11.5 crore, while its revenue was down 11.8% y-o-y to Rs. 14.9 crore. Revenue in this segment was impacted mostly due to deferment of admission. Management indicated that it would continue to invest in content.
- ♦ **Aggressive investments to continue:** 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 acceleration in client additions. The company currently focuses on gaining market share in Jeevansathi.

Results (Standalone)

	Rs cr				
Particulars	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Net Sales	280.1	312.8	322.8	-10.4	-13.2
Network, internet and other direct charges	5.5	5.8	5.8	-5.3	-4.3
Employee benefits expense	129.7	129.8	139.2	0.0	-6.8
Advertising and promotion cost	25.6	54.9	48.4	-53.4	-47.2
Other expenses	14.8	21.3	32.9	-30.9	-55.2
Operating profit	104.6	101.0	96.5	3.5	8.3
Depreciation and amortisation	11.1	9.9	11.0	12.5	1.2
EBIT	93.4	91.1	85.5	2.6	9.3
Other income	20.3	24.5	19.5	-17.4	4.1
PBT	112.2	113.9	103.4	-1.5	8.5
Provision of tax	29.0	39.0	24.6	-25.7	17.7
Adjusted net income	83.2	74.9	78.8	11.1	5.6
Exceptional item	-	8.2	37.2	-	-
Reported net income	83.2	66.7	41.6	24.7	100.0
Adjusted EPS (Rs.)	6.8	6.2	6.5	11.1	5.6
Margin (%)				(Bps)	(Bps)
OPM	37.3	32.3	29.9	504	743
EBIT Margin	33.4	29.1	26.5	423	686
NPM	29.7	23.9	24.4	576	530

Source: Company; Sharekhan Research

SOTP Valuation

Business segment	Stake	Valuation methodology	Per share value (Rs.)
Recruitment business	100%	EV/EBITDA	2,112
99acres	100%	EV/Sales	341
Jeevansathi.com	100%	EV/Sales	96
Standalone business (per share)			2,549
Zomato Media	24%	Valued at \$4.5 billion	647
PolicyBazaar	16%	Valued at \$2.5 billion	231
Other investee company			50
Cash		Per share	172
Total per share			3,650

Source: Company; Sharekhan Research

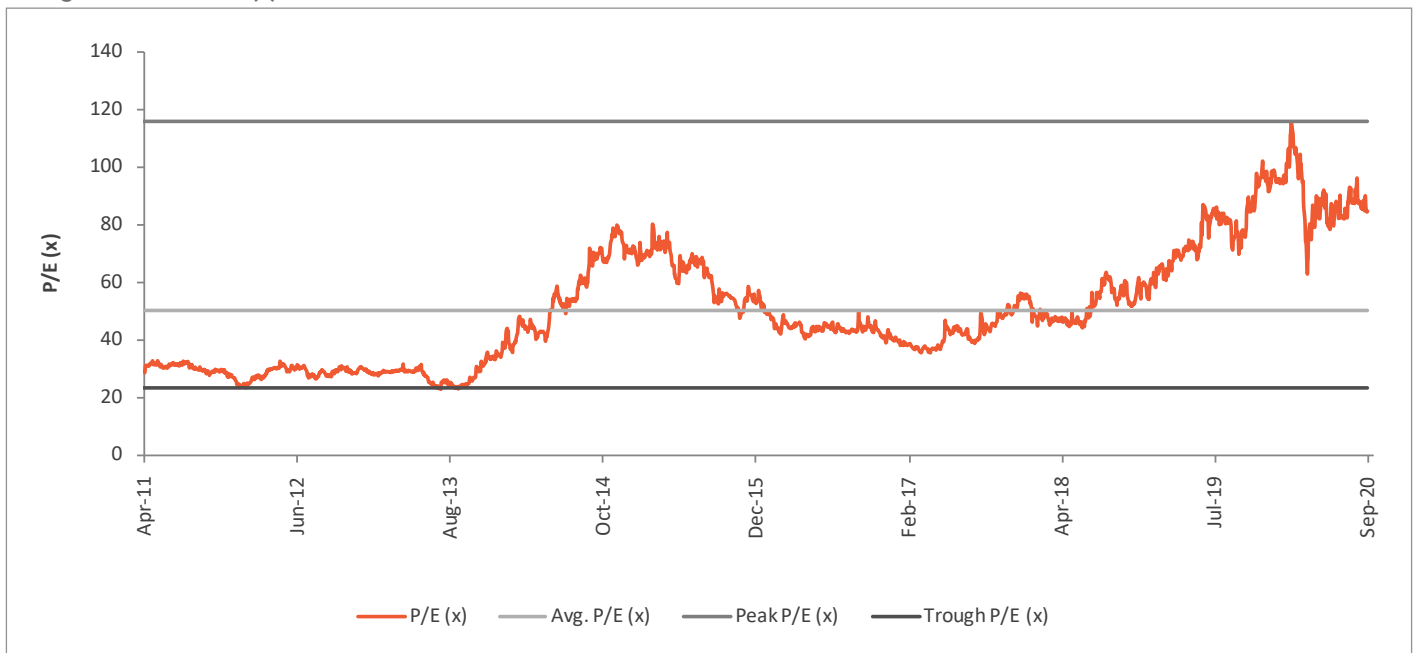
Outlook

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 shift from print ads to digital and lower interest rate, we expect a high-growth trajectory for 99acres in the 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 model strong growth in FY2022, given pent-up demand, resumption of economic activity, and pick-up in hiring activity across industries.

Valuation

We have revised our estimates upward for FY2021E/FY2022E, factoring in strong beat in operating margins, continued growth momentum in Jeevansathi business, and gradual recovery in billings in the IT and telecom segments. 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 improve sharply in FY2022E because of its cost-control measures and resumption of economic activity. We prefer Info Edge, given its dominant position in online classifieds with a potential to gain market share and strong balance sheet. Further, with the recent fund raised through QIP, Info Edge has cash balance of more than Rs. 3,300 crore, which would be largely utilised for merger and acquisition opportunities in its core areas. Hence, we upgrade our rating to Buy from Hold on the stock with a revised SOTP-based PT of Rs. 3,650.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Just Dial	370	2,400	11.1	9.3	13.3	9.7	1.8	1.6	12.3	14.2
Info Edge	3,314	42,610	124.0	84.5	97.1	65.8	15.8	13.7	12.8	16.3

Source: Company, Sharekhan estimates

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 of 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
Dr. Pawan Goyal	Chief Business Officer - Naukri.com
Maneesh Upadhyaya	Chief Business Officer- 99Acres.Com

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management Co Ltd	4.46
2	Nalanda India Equity Fund Ltd	3.00
3	LALL ANIL	2.44
4	Kapoor Kapil	1.94
5	WF Asian Smaller Cos Fund Ltd	1.83
6	Vanguard Group Inc	1.73
7	Cartica Capital Limited	1.61
8	Schroders PLC	1.58
9	Amansa Holdings Pvt Ltd	1.56
10	Ward Ferry Management BVI Ltd	1.50

Source: Bloomberg

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