



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 4,502	
Price Target: Rs. 6,100	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

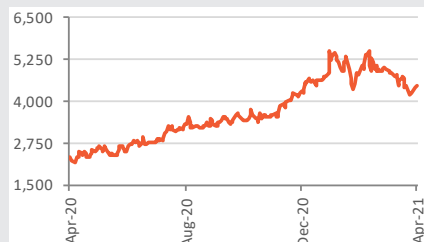
Company details

Market cap:	Rs. 57,978 cr
52-week high/low:	Rs. 5,876 / 2,049
NSE volume: (No of shares)	7.3 lakh
BSE code:	532777
NSE code:	NAUKRI
Free float: (No of shares)	7.3 cr

Shareholding (%)

Promoters	38.5
FII	41.4
DII	11.7
Others	8.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.0	-18.2	29.1	92.4
Relative to Sensex	-5.6	-19.7	2.9	28.8

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Info Edge (India) Limited with a PT of Rs. 6,100, given improving macro environment and strong prospects of its investee companies. Recent stock price correction provides a good entry point to investors from a long-term perspective.
- We believe Info Edge continues its trend of sequential recovery across all its operating segments in Q4FY2021. Overall billings likely to achieve pre-COVID level, aided by strong traffic recovery across its platforms.
- Though expansion of the food delivery business by Amazon is likely to increase competition, we believe Zomato's end-to-end services are well poised to capture its share in the expanding online food delivery market in India.
- We continue to like Info Edge given its dominant position in online classifieds, proactive in its new product offerings, a strong balance sheet, and prudent capital allocation.

We believe Info Edge would continue its trend of sequential recovery across all its operating segments in Q4FY2021 and is expected to report y-o-y growth in overall billings level. Improved billing performance will be driven by significant growth in hiring activities across major industries and strong recovery in real-estate transactions. Strong growth in hiring activity across experience bands (up 23% m-o-m) during February 2021 and rising traffic share on its recruitment platform indicate higher billings growth in the recruitment business during Q4FY2021. We expect billings growth in 99acres would remain strong in Q4FY2021 because of strong recovery in real estate transactions because of slash in stamp duty and lower home loan interest rate. Management indicated that strong profile addition on Jeevansathi platform would continue because of higher traffic, given travel restrictions and more time spent at home. We expect improved billing growth across its operating segments would help the company to report higher billings in Q4FY2021 versus its pre-COVID level. Management is currently testing its newly launched product (Jobhai.com) in the blue collar hiring segment of the recruitment business in select markets and targets to expand coverage depending on the outcome. We believe strong growth recovery in 99acres in FY2022E is because of improving demand from brokers and increasing market share in the online real-estate segment. Though Amazon India has started expanding its food delivery business, we believe Zomato's end-to-end services (including listings, discovery, reviews, ordering, and delivery) are well poised to capture its share in the expanding online food delivery market in India. We expect Info Edge's revenue decline would moderate to 6.9% y-o-y in Q4FY2021 due to strong recovery in traffic share on its platforms, while EBITDA margin is expected to contract by 10 bps y-o-y to 29.8%.

Our Call

Valuation – Maintain Buy with a PT of Rs. 6,100: We expect revenue and margins to improve sharply in the subsequent years, led by improving economic activity, rise in recruitment across sectors, strong recovery in the 99acres.com business, and continued growth momentum in Jeevansathi and Shiksha businesses. The stock price has recently corrected around 18% from the peak of the past two months, which offers a good entry point to investors given its leadership position in its core businesses and strong prospects of its portfolio companies. We have considered higher valuation for Zomato, given its leadership position in the emerging market, faster adoption of food delivery in India, long growth runway, and anticipated improving valuation post its listing like its global counterparts. Info Edge had a cash balance of Rs. 3,500 crore as of December 2020, which would be largely utilised for merger and acquisition opportunities in core business areas. Hence, we maintain a Buy rating on the stock with an unchanged SOTP-based price target (PT) of Rs. 6,100.

Key Risks

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

Valuation

Particulars	Rs cr				
	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,098.3	1,272.7	1,109.0	1,477.9	1,827.1
OPM (%)	31.1	31.6	28.3	38.1	44.3
Adjusted PAT	315.1	328.9	282.1	457.3	639.4
% YoY growth	15.1	4.4	-14.2	62.1	39.8
Adjusted EPS (Rs.)	25.6	26.7	21.8	35.3	49.4
P/E (x)	175.8	168.4	206.5	127.4	91.1
P/B (x)	23.6	22.6	21.8	19.1	16.2
EV/EBITDA (x)	159.6	135.0	181.1	100.8	69.9
RoNW (%)	13.6	13.5	10.7	15.3	18.1
RoCE (%)	18.6	17.9	13.9	20.3	24.0

Source: Company; Sharekhan estimates

Hiring activity in India accelerates

There has been significant rebound in hiring activity over the past couple of months, with faster-than-expected recovery of India's economic activities, a flush of optimism for businesses, and acceleration in roll-out of vaccines. We believe hiring activity would improve further in the coming months with removal of operating restrictions in troubled verticals such as airlines, hospitality, and entertainment industries. Improved business activity in these impacted sectors would have a positive rub-off effect on other associated industries serving them.

As per Naukri's February 2021 Jobspeak Index, recruitment activity grew by 22%+ m-o-m compared to a 2% m-o-m decline in January 2021. Growth was led by strong growth across sectors such as IT and ITes (up 33% m-o-m), telecom/ISP (24%), BFSI (17%), oil and gas (13%), and auto and auto ancillary (11%). According to the jobs portal, most industries saw a positive sequential uptick in recruitment activities for the first time after the COVID-19 outbreak. Strong growth in hiring activity across experience bands (up 23% m-o-m) indicates increasing recruiter engagement on the recruitment platform during Q4FY2021.

Expect billings to return to pre-COVID level

The decline in billings in the recruitment business has moderated to 4.1% y-o-y in Q3FY2021 from 20.3%/44.3% y-o-y in Q2FY2021/Q1FY2021. On a sequential basis, billings growth in the recruitment business has been strong (up 19.2%/20.4% in Q2FY2021/Q3FY2021) for the past couple of quarters. The traffic in recruitment platform has returned to pre-COVID level with strong hiring activities in the IT and ITes sector, which contributes 42%-44% to its total revenue. With improvement in recruitment activities across major industries, we believe there will be strong growth in activities from both jobseekers and recruiters on its recruitment platform. Apart from strong acceleration in sequential monthly hiring activity in major industries (IT and ITes, BFSI (excluding insurance), oil and gas, and auto and auto ancillary), there has been relatively modest growth of around 5% m-o-m each in the construction/engineering/cement/retail sector.

In 99acres, management indicated about the sequential recovery of billings across sub-segments such as new homes, rental, commercial, and resale. Traffic on 99acres.com has returned to pre-COVID levels, though builders are still cautious over advertising spend. Management indicated that buyer's preference has shifted to ready-to-move homes category. We believe billings growth in 99acres would continue in Q4FY2021 because of strong recovery in real estate transactions, aided by slash in stamp duty in certain states and lower home loan interest rate.

Profile growth on Jeevansathi platform has improved significantly (higher than pre-COVID level) because of higher traffic, given travel restrictions and more time spent on the internet. Management indicated that it would continue to spend more on advertisement to sustain the profile growth momentum on the platform.

We expect improved billing growth across its operating segments would help the company to report higher billings in Q4FY2021 versus its pre-COVID level.

Focusing on to take first-mover advantage in the blue/gray collar job segment

Info Edge has launched a product and service offering, jobhai.com, for the blue/grey collar job segment. It is currently focusing on NCR region and the product is live only in Delhi, Noida, and Gurgaon. The company has been focusing on strategies such as features, digital marketing, job acquisition, and resume acquisition. As the company has made some good progress in the initial days, it plans to roll out this product in 2-3 other cities over the next 3-6 months. Management also indicated that it is testing its newly launched product in the blue collar hiring segment of the recruitment business in select markets and targets to expand coverage depending on the outcomes.

99acres: Expect strong growth in FY2022E

Contrary to expectations at the beginning of the outbreak of COVID-19, the real estate sector witnessed smart recovery during the second half of FY2021 due to lower stamp duties in certain states (especially Maharashtra), lower home loan interest rate, and rise in pandemic-driven household savings. It was reflected in the smart recovery in the number of paid listings (up 2.2x from Q1FY2021 to Q3FY2021) on its portal and strong sequential recovery in billings over the past two consecutive quarters. Management believes the sequential growth momentum in 99acres would continue in the coming quarters of FY2022, as it would

continue to invest aggressively to retain its market share in the online real estate market. The company has moved to a different model (encouraging brokers to boost their listings rather than posting it again) in some markets, which would impact the number of listings by brokers. We believe strong growth recovery in 99acres in FY2022E is due to improving demand from brokers and increasing market share in the online real-estate segment.

Zomato: An IPO on the cards

The food-tech delivery industry is expected to reach \$14 billion GMV in the next five years because of greater adoption of outside food, strong increase in the user base, and higher ordering frequencies. Further, the industry has undergone a consolidation phase in the past 2-3 years as *UberEats* (India) and *Scootsy* are being acquired by larger players and shut down of operations of *FoodPanda*. COVID-19 has accelerated the adoption of food delivery as more restaurants opt out the food delivery route to drive business, more users prefer to order food at home, and increased online penetration. Though the market has become duopolistic with two large companies, Zomato is India's largest food-tech company with a dominant market share in delivery and restaurant classifieds. Though Amazon India's plan to expand its food delivery business could increase competition, we believe Zomato's end-to-end services (including listings, discovery, reviews, ordering, and delivery) are well poised to capture the expanding online food delivery market in India. The latest round of capital raising for Zomato includes \$250 million from investors, including Kora Management and Fidelity Management & Research Co., at a valuation of \$5.4 billion. We believe the upcoming listing of Zomato is expected to drive Info Edge's overall valuation.

Expect revenue decline to moderate in Q4FY2021, while margin continues to improve

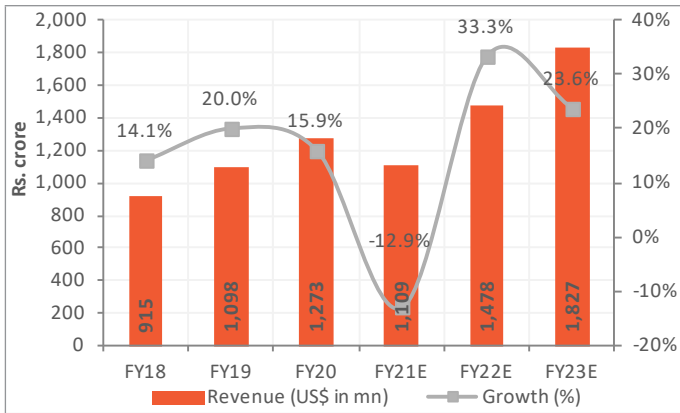
We expect Info Edge to report a decline of 6.9% y-o-y in its revenue in Q4FY2021. The moderation in revenue decline would be driven by improving recruiter activities on its recruitment platform, rising transactions on the real-estate sector, and strong profile addition on *Jeevansathi* platform. However, the company would continue to report sequential revenue growth in Q4FY2021 because of better macro environment, improving hiring activity across major industries, and increasing billings over the past two consecutive quarters. EBITDA margin is expected to contract by 10 bps y-o-y to 29.8%. Management indicated that it would continue to spend more on advertising in 99acres and *jeevansathi* to gain market share. Net profit during the quarter is expected to decline by 1.2% y-o-y to Rs. 77.8 crore.

SOTP Valuation			Rs cr
Business segment	Stake	Valuation methodology	Per share value (Rs.)
Recruitment business	100%	EV/EBITDA	3,385
99acres	100%	EV/Sales	489
Jeevansathi.com	100%	EV/Sales	168
Standalone business (per share)			4,042
Zomato Media	19%	Valued at \$12.5 billion	1,426
PolicyBazaar	15%	Valued at \$3.0 billion	295
Other investee company			65
Cash		Per share	272
Total per share			6,100

Source: Company; Sharekhan Research

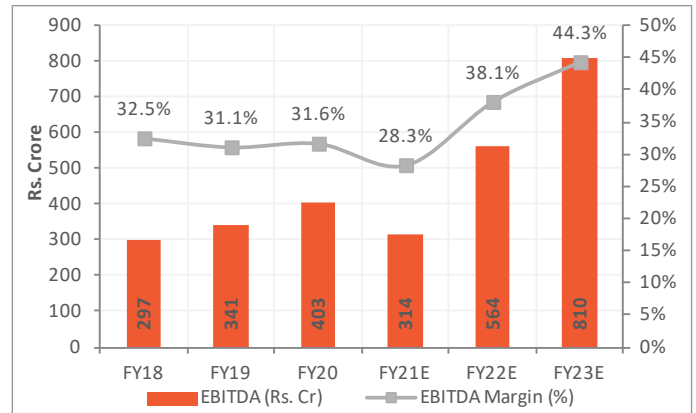
Financials in charts

Revenue (Rs. cr) and growth (%)



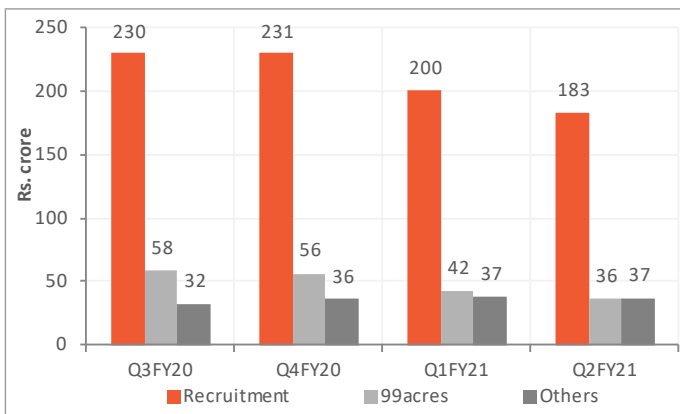
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and margin (%)



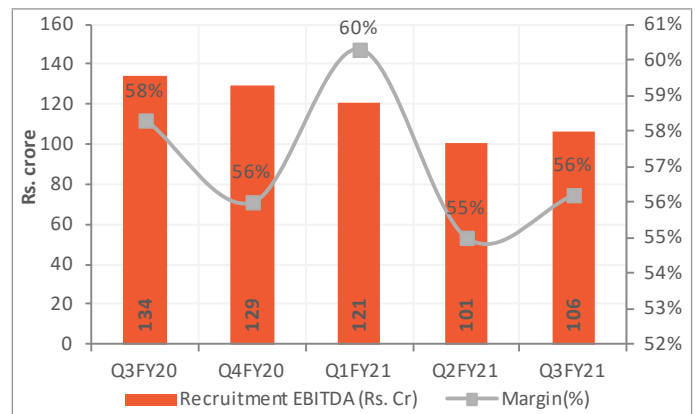
Source: Company, Sharekhan Research

Segmental Revenue (Rs. Cr)



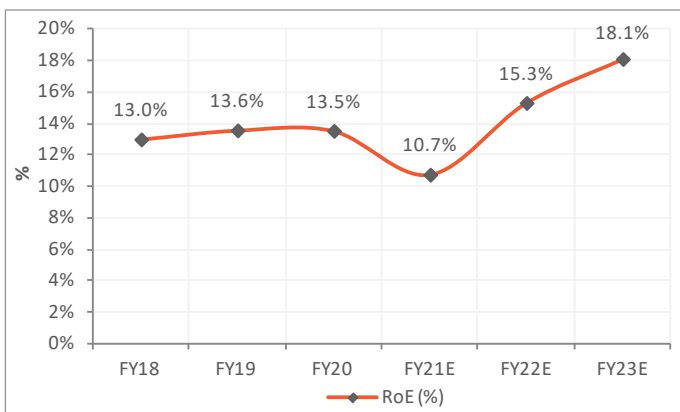
Source: Company, Sharekhan Research

Recruitment EBITDA trajectory



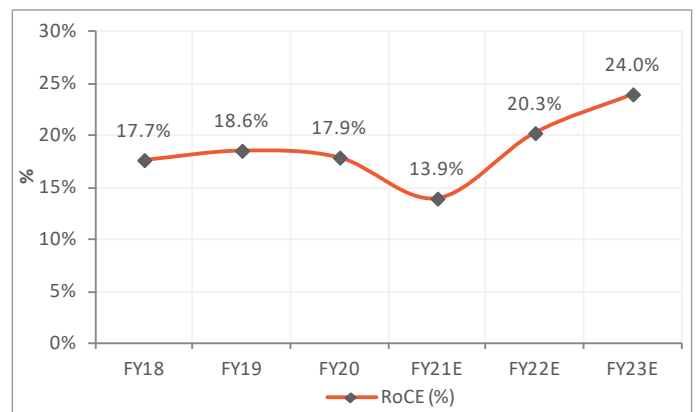
Source: Company, Sharekhan Research

RoE (%)



Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view – Expect acceleration in technology spending going forward

India's e-commerce industry has been growing steadily and is expected to reach a size of \$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 worth Rs. 60 billion by 2030, with a 21% CAGR over 2018-2030E.

■ Company outlook – Dominant core positioning

Info Edge is a leading online classifieds company with a dominant position in recruitment, real-estate, matrimony, and education. Info Edge witnessed strong recovery in traffic share across its core businesses and expects the sequential growth momentum to continue in the coming quarters. Info Edge prefers to invest at an early stage in companies. 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 core businesses along with improving traction in certain investee companies (*Zomato* and *PolicyBazaar*) would bode well for the company.

■ Valuation – Strong business model

We expect revenue and margins to improve sharply in the subsequent years, led by improving economic activity, rise in recruitment across sectors, strong recovery in the 99acres.com business, and continued growth momentum in Jeevansathi and Shiksha businesses. The stock price has recently corrected around 18% from the peak of the past two months, which offers a good entry point to investors given its leadership position in its core businesses and strong prospects of its portfolio companies. We have considered higher valuation for Zomato, given its leadership position in the emerging market, faster adoption of food delivery in India, long growth runway, and anticipated improving valuation post its listing like its global counterparts. Info Edge had a cash balance of Rs. 3,500 crore as of December 2020, which would be largely utilised for merger and acquisition opportunities in core business areas. Hence, we maintain a Buy rating on the stock with an unchanged SOTP-based price target (PT) of Rs. 6,100.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Just Dial	865	6	5,351	24.1	22.7	32.1	23.9	3.6	3.0	16.5	16.0
Affle India	5,466	3	13,936	135.7	105.5	106.8	81.8	42.0	30.0	30.9	28.5
Info Edge*	4,502	13	57,978	206.5	127.4	181.1	100.8	21.8	19.1	10.7	15.3

Source: Bloomberg, Sharekhan Research; *Standalone

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.com*) 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 and CEO
Chintan Arvind Thakkar	Director and 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.	4.74
2	Nalanda India Equity Fund Ltd.	2.99
3	WF Asian Smaller Cos Fund Ltd/Caym	1.95
4	Vanguard Group Inc/The	1.94
5	BlackRock Inc.	1.81
6	Matthews International Capital Man	1.66
7	Ward Ferry Management BVI Ltd/Hong	1.57
8	Schroders PLC	1.47
9	Amansa Holdings Pvt. Ltd.	1.31
10	Goldman Sachs Group Inc/The	1.27

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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