

Just Dial | HOLD

Ifs and buts remain

Just Dial (JD) reported 4QFY18 revenues in-line with our estimates. However, EBITDA was below estimates due to a strong sales headcount addition even as a rationalisation of other costs, including advertising and promotion (A&P), continued. JD has expanded the cold-calling sales team by 23% over the last two quarters to drive penetration in tier 2/3 cities. However, the success has been limited so far; 2.2% YoY net addition in 4Q18 in paid-listings was the lowest ever. We suspect a concurrent attrition in extant client base, especially in the core markets of tier1 cities. We believe it's tightening of the A&P spend – ostensibly to manage margins – could hurt in the medium term given the aggressive cash-burn by most of the domain-specific apps. Thus, we maintain our soft revenue growth outlook though the management is hopeful of acceleration in FY19; flow-through of the 4QFY18 cost structure drives 2%/3% cut in our FY19/FY20 EPS estimates. While our structural concerns appear priced in the stock's 19% YTD U/P, we see no reasons to revisit our caution. Maintain HOLD.

- **4QFY18 results – a mixed bag.** Consolidated revenues grew 10.3% YoY to INR 2bn, in-line with our estimates (INR 2bn). EBITDA margin at 22.8% (-82bps QoQ), below our 24.5% estimates due to an unexpected jump in manpower costs (INR 1.2bn vs. INR 1bn in 3QFY18) following a strong sales headcount addition (+553 QoQ, highest in the last four quarters). Advertising spends stayed subdued at INR 105mn (JMFe). PAT at INR 390m (+54% YoY) was also below our estimates due to lower other income.
- **Mid-term outlook – ifs and buts remain.** Overall listings continue to grow – up 22% YoY in 4QFY18 – as JD continues to push into tier2/3 cities (21% revenue share in 4QFY18 vs. 17% in 4QFY17). However, the share of non-paying customers is growing; 2.2% YoY addition in paid-listings in 4QFY18 was the lowest ever. As such, while traffic has improved (+28% YoY), its monetisation remains uncertain. We suspect this could be a tough ask given the growing adoption for domain-specific apps that has structurally affected traffic to JD and thus, a low inclination among its extant clients (in tier1 cities) to pay a premium for listing on an omnibus platform like JD. Thus, pricing/paid-listing trade-off could remain a net drag on revenues, in our view.
- **An extreme focus on margin could hurt in the long-term.** 4QFY18 miss notwithstanding, we expect margins to recover as manpower costs get normalized. However, the 25% QoQ decline in ad-spend was contrary to the management's guidance of an increase from 4QFY18. We fear JD could be underinvesting in A&P – in contrast to the aggressive cash-burns by most domain-specific apps – which could further shrink the product/service categories where it is used by the consumers, thus affecting the extant paid-client base.
- **Our caution stays.** While our structural concerns appear largely priced in the stock's 32% correction from the YTD peak, we expect the earnings revision cycle will likely remain weak as revenue growth remains muted and limited headroom for incremental margin expansion. The long-term prognosis for JD's revenues/business model remains uncertain given the growing generic search capabilities of Google + direct web-presence by medium/small enterprises with the falling costs/increasing ease of setting up websites.



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	540
Upside/(Downside)	25.4%
Previous Price Target	540
Change	0.0%

Key Data – JUST IN

Current Market Price	INR431
Market cap (bn)	INR29.0/US\$0.4
Free Float	43%
Shares in issue (mn)	67.4
Diluted share (mn)	67.4
3-mon avg daily val (mn)	INR1,288.9/US\$18.9
52-week range	648/326
Sensex/Nifty	34,651/10,537
INR/US\$	68.0

Price Performance

%	1M	6M	12M
Absolute	-5.6	-18.5	-12.1
Relative*	-6.2	-21.0	-22.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

	(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	7,186	7,818	8,447	8,990	9,608
Sales Growth (%)	7.6	8.8	8.0	6.4	6.9
EBITDA	1,096	1,644	1,877	2,137	2,430
EBITDA Margin (%)	15.2	21.0	22.2	23.8	25.3
Adjusted Net Profit	1,213	1,432	1,711	2,007	2,337
Diluted EPS (INR)	17.3	21.2	25.4	29.8	34.7
Diluted EPS Growth (%)	-14.1	22.6	19.5	17.3	16.4
ROIC (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	15.2	16.1	16.0	15.9
P/E (x)	24.9	20.3	17.0	14.5	12.4
P/B (x)	3.3	3.0	2.5	2.1	1.8
EV/EBITDA (x)	25.4	17.1	13.8	11.1	8.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 22/May/2018

Exhibit 1. Key financials

	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18	Comments
Cons. revenues (INR mn)	01	7,186	1,900	1,945	1,968	2,005	7,818	
Change (YoY)	1.2%	7.6%	7.8%	7.8%	9.2%	10.3%	8.8%	Revenue grew 1.9%/10.3% QoQ/YoY to INR 2,005mn for 4QFY18 while for the full year FY18, revenue grew 8.8% YoY to INR 7,818mn
Total operating expense	1,496	6,091	1,576	1,549	1,502	1,547	6,174	
Operating profit (EBITDA)	322	1,096	325	396	466	458	1,644	EBITDA margin contracted 82bps QoQ to 22.8% (vs. 24.5% JMFe) while adjusting for ESOP charges, EBITDA margin contracted by 142bps to 24.4% (vs. 26.9% JMFe)
Operating margin	17.7%	15.2%	17.1%	20.4%	23.7%	22.8%	21.0%	
Depreciation & amortization	103	401	96	93	90	84	364	
EBIT	219	694	229	303	375	374	1,280	
EBIT margin	12.0%	9.7%	12.0%	15.6%	19.1%	18.6%	16.4%	For the full year FY18, EBITDA margin expanded 579bps YoY to 21.0%. Adjusting for ESOP charges, it expanded by 555bps YoY to 23.0%
Other income	126	871	266	201	26	166	659	
Profit before tax	345	1,565	495	503	401	540	1,939	Unearned revenue increased 16.7%/21.4% QoQ/YoY to INR 3,330mn
Income tax expense	92	351	113	129	115	150	507	
Net income from operations	254	1,213	382	375	286	390	1,432	PAT for the quarter 4QFY18 grew 36%/54% QoQ/YoY mainly due to increase in other income which stood at INR 166mn (vs. INR 26mn in 3QFY18 and INR 126mn in 4QFY17)
Change (YoY)	-28.2%	-15.0%	-2.0%	26.5%	4.2%	53.7%	18.0%	
Adjusted diluted EPS	3.62	17.35	5.45	5.44	4.24	5.78	20.95	
Change (YoY)	-27.3%	-13.6%	-2.7%	27.7%	7.3%	59.7%	20.7%	

Source: Company, JM Financial

Exhibit 2. Key execution metrics

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Comments
Total listings - mn	17.9	18.8	19.8	20.7	21.8	
Change (YoY)	9.8%	13.3%	17.2%	19.7%	21.8%	Paid listings as a % of total listings declined 9bps/39bps QoQ/YoY to 2.04%
Paid listings - period-end (nos)	4,35,360	4,35,980	4,39,700	4,40,600	4,45,110	
Change (YoY)	18.0%	12.0%	7.6%	3.7%	2.2%	Sales headcount increased 553/241 QoQ/YoY to 8,130 (4,057 in tele-marketing, 1,410 in feet-on-street marketing and 2,663 in cold-calling)
Paid listings - % of total listings	2.4%	2.3%	2.2%	2.1%	2.0%	
Avg. revenue per campaign	18,066	18,435	18,326	18,191	18,215	
Change (YoY)	-7.1%	-0.3%	-0.5%	-0.9%	0.8%	

Source: Company, JM Financial

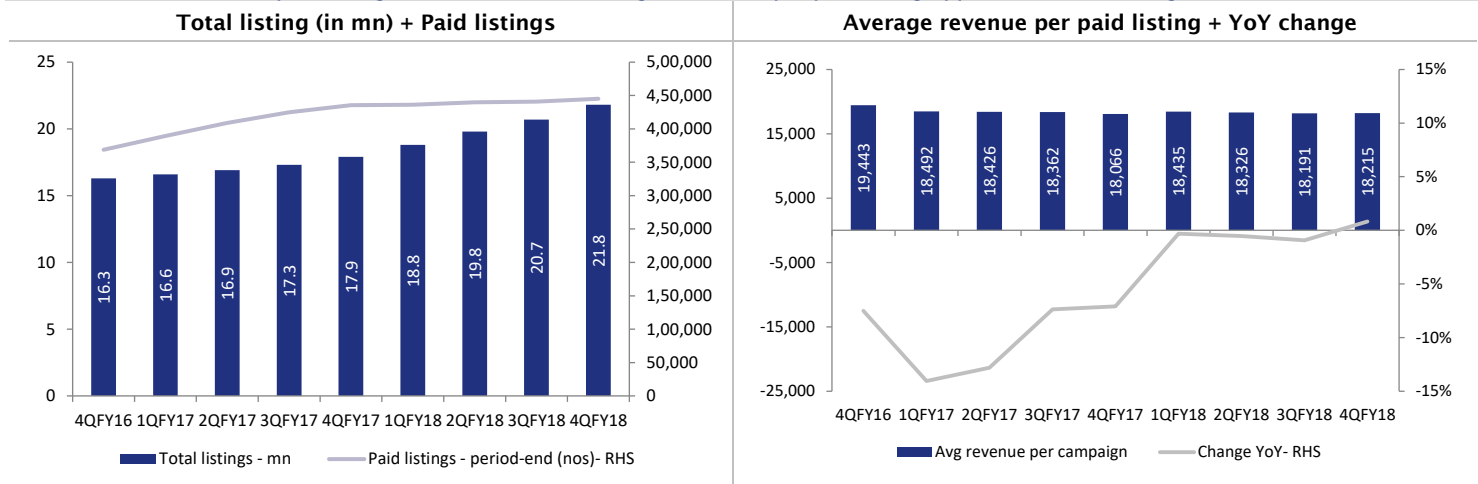
Management commentary: Key takeaways

- JD believes 15% YoY growth in revenues is achievable in FY19. The confidence is coming from the 21% growth in the unearned revenue in FY18 that should reflect in improved realization in FY19. JD is not focusing on transaction at-least in the medium-term. Goal is to make JD a search engine, compare prices and read reviews/take opinions. Transactions are to be fulfilled by third parties such as Swiggy/Zomato for home delivery and Amazon/Flipkart for e-commerce transactions.
- Tier 2/3 cities account for c.21% of revenues and c.43% of paid-listing. JD is also seeing signs of a demand turnaround in Tier1 cities. Feedbacks from the sales team suggest paid customers in Tier1 cities who exited a couple of years ago are exploring re-subscriptions.
- JD took a price hike for its non-premium listings (primarily entry-level listings) in FY18. It has not decided on a hike in FY19 though it keeps tweaking the pricing across product categories depending on the demand-supply.
- Margins could expand from the current levels if the revenue growth accelerates. The efforts to automate functions in sales and support continue that can reduce manpower dependency and neutralise the impact of annual increments. It plans to spend INR 1bn on A&P in FY19 vs. INR 650mn in FY18. However, the spend will remain opportunistic; JD does not see any direct correlation between ad-spend and revenue growth.
- JD generated INR 2.3bn operating cash flow (+c.66% YoY) in FY18. Including treasury income, cash-generation was INR 2.7bn of which INR 840mn was used in the buy-back.

JD had cash balance of INR c.12bn as of 4QFY18-end. It is open to evaluate a buyback (though that can happen only after the expiry of one-year moratorium in Sept'18).

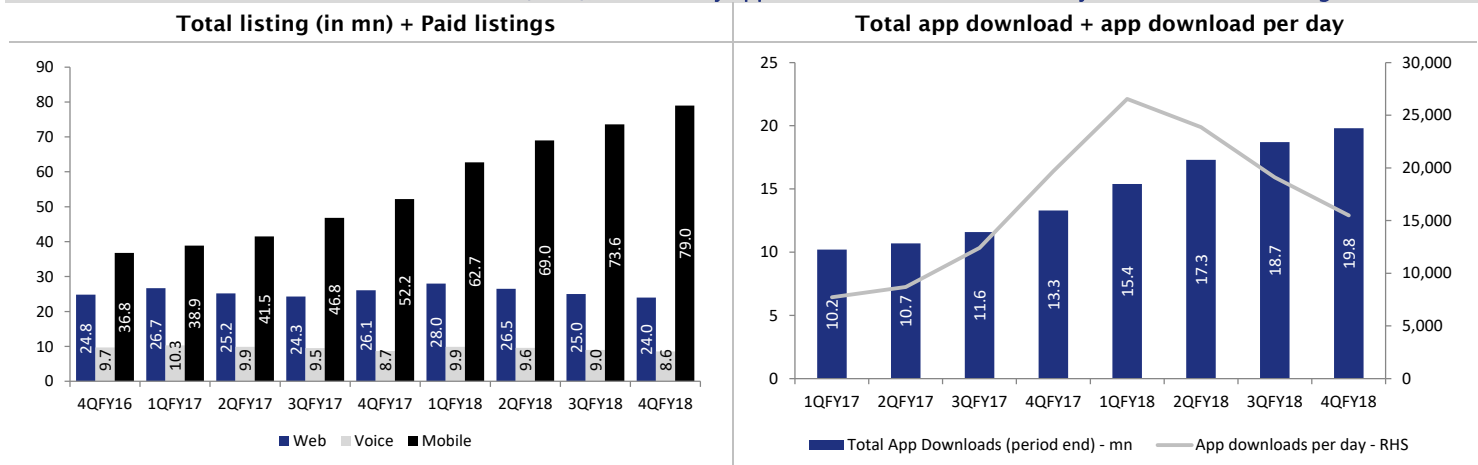
- It plans to continue adding to sales team through FY19 though for non-sales functions, it does not expect an addition given the on-going focus on automation.

Exhibit 3. YoY addition in paid listings remains weak while avg. realisation per paid listing appears to be stabilising



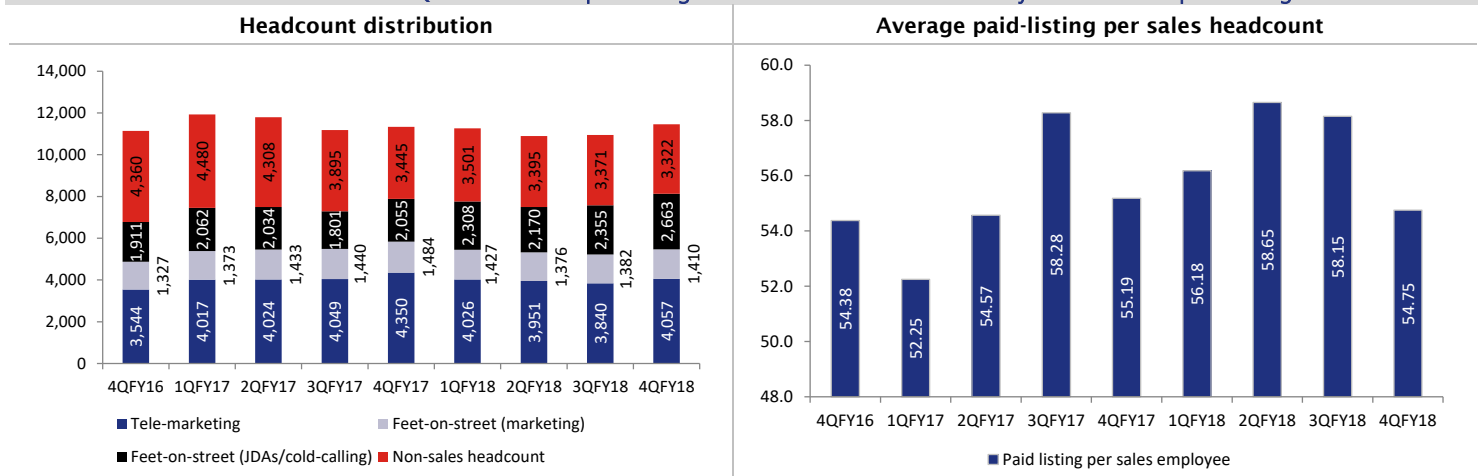
Source: Company, JM Financial

Exhibit 4. Mobile is the dominant source of traffic (70%); nos. of daily app downloads has come down by 42% from 1QFY18 high



Source: Company, JM Financial

Exhibit 5. Sales headcount addition in 4QFY18 was a 4-quarter high however their effectiveness is yet to reflect in paid-listings



Source: Company, JM Financial

Maintain HOLD; target price unchanged at INR 540

Exhibit 6. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Consolidated revenue (INR mn)	8,482	9,203	10,457	7,818	8,447	8,990	-7.8%	-8.2%	-14.0%
Revenue growth rate (YoY)	1,889	2,064	2,344	1,644	1,877	2,137	-13.0%	-9.0%	-8.8%
EBITDA margin	22.3%	22.4%	22.4%	21.0%	22.2%	23.8%	-124.5	-20.0	135.9
EBIT margin	1,628	1,798	1,472	1,432	1,711	2,007	-12.1%	-4.9%	36.4%
PAT (INR mn)	24.13	27.26	27.10	21.24	25.38	29.78	-12.0%	-6.9%	9.9%
EPS	8,482	9,203	10,457	7,818	8,447	8,990	-7.8%	-8.2%	-14.0%

Source: JM Financial

Exhibit 7. How we differ from consensus

(INR mn)	Consensus			JMFe			Difference		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,359	8,971	9,507	8,447	8,990	9,608	1.0%	0.2%	1.1%
EBITDA	7.3%	7.3%	6.0%	8.0%	6.4%	6.9%	72bp	-88bp	89bp
EBITDA margin	23.4%	25.3%	26.3%	22.2%	23.8%	25.3%	-117bp	-154bp	-104bp
PAT	18.6%	20.8%	22.0%	18.2%	20.0%	21.8%	-42bp	-74bp	-15bp
EPS (INR)	1,747	2,081	2,374	1,711	2,007	2,337	-2.1%	-3.5%	-1.5%

Source: JM Financial, Bloomberg

Key Risks

- Key upside risks to our price target are: (1) better than expected pick-up in the share of paid-listing; (2) higher than expected pricing growth in the core search segment; (3) any accretive acquisition not currently priced in; and (4) re-launch of JD Omni.
- Key downside risks are: (1) significant market share loss to vertical focused classified players; b) higher than expected pricing erosion due to penetration in the tier 2/3 cities; b) higher than expected advertising spend adversely impacting margin performance.

Exhibit 8. JUST currently trades at 36% discount to its LTM peak and 32% discount to its 3 year median PER



Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	7,186	7,818	8,447	8,990	9,608
Sales Growth	7.6%	8.8%	8.0%	6.4%	6.9%
Other Operating Income	0	0	0	0	0
Total Revenue	7,186	7,818	8,447	8,990	9,608
Cost of Goods Sold/Op. Exp	0	0	0	0	0
Personnel Cost	4,409	4,416	4,615	4,857	5,141
Other Expenses	1,682	1,758	1,955	1,995	2,036
EBITDA	1,096	1,644	1,877	2,137	2,430
EBITDA Margin	15.2%	21.0%	22.2%	23.8%	25.3%
EBITDA Growth	-24.0%	50.1%	14.2%	13.9%	13.7%
Depn. & Amort.	401	364	341	337	336
EBIT	694	1,280	1,536	1,801	2,094
Other Income	871	659	780	917	1,070
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	1,565	1,939	2,316	2,718	3,164
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,565	1,939	2,316	2,718	3,164
Taxes	351	507	606	710	827
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,213	1,432	1,711	2,007	2,337
Adjusted Net Profit	1,213	1,432	1,711	2,007	2,337
Net Margin	16.9%	18.3%	20.3%	22.3%	24.3%
Diluted Share Cap. (mn)	70.0	67.4	67.4	67.4	67.4
Diluted EPS (INR)	17.3	21.2	25.4	29.8	34.7
Diluted EPS Growth	-14.1%	22.6%	19.5%	17.3%	16.4%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before Tax	1,565	1,939	2,316	2,718	3,164
Depn. & Amort.	401	364	341	337	336
Net Interest Exp. / Inc. (-)	-871	-659	-780	-917	-1,070
Inc (-) / Dec in WCap.	352	701	277	240	272
Others	0	0	0	0	0
Taxes Paid	-593	-392	-606	-710	-827
Operating Cash Flow	855	1,953	1,549	1,667	1,875
Capex	-574	-207	-226	-230	-256
Free Cash Flow	281	1,747	1,323	1,437	1,620
Inc (-) / Dec in Investments	-1,343	-2,109	0	0	0
Others	1,153	779	780	917	1,070
Investing Cash Flow	-764	-1,537	555	688	815
Inc / Dec (-) in Capital	1	-22	0	0	0
Dividend + Tax thereon	444	-670	0	0	0
Inc / Dec (-) in Loans	0	0	0	0	0
Others	0	0	0	0	0
Financing Cash Flow	444	-692	0	0	0
Inc / Dec (-) in Cash	536	-276	2,104	2,354	2,690
Opening Cash Balance	537	1,073	797	2,901	5,255
Closing Cash Balance	1,073	797	2,901	5,255	7,944

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Shareholders' Fund	9,052	9,792	11,503	13,510	15,847
Share Capital	695	674	674	674	674
Reserves & Surplus	8,356	9,118	10,829	12,836	15,173
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-239	-124	-124	-124	-124
Total - Equity & Liab.	8,812	9,668	11,379	13,386	15,723
Net Fixed Assets	1,647	1,489	1,373	1,266	1,186
Gross Fixed Assets	2,905	3,197	3,423	3,653	3,908
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,344	1,708	2,050	2,386	2,722
Capital WIP	86	0	0	0	0
Investments	9,100	11,209	11,209	11,209	11,209
Current Assets	1,570	1,095	3,200	5,556	8,248
Inventories	0	0	0	0	0
Sundry Debtors	0	0	0	0	0
Cash & Bank Balances	1,073	797	2,901	5,255	7,944
Loans & Advances	34	24	26	28	30
Other Current Assets	464	273	273	273	273
Current Liab. & Prov.	3,504	4,125	4,404	4,646	4,920
Current Liabilities	137	216	233	248	265
Provisions & Others	3,367	3,909	4,171	4,398	4,655
Net Current Assets	-1,934	-3,030	-1,204	911	3,328
Total - Assets	8,812	9,668	11,379	13,386	15,723

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	16.9%	18.3%	20.3%	22.3%	24.3%
Asset Turnover (x)	0.9	0.8	0.8	0.7	0.7
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	14.8%	15.2%	16.1%	16.0%	15.9%

Key Ratios					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (INR)	130.2	145.3	170.7	200.5	235.2
ROIC	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	14.8%	15.2%	16.1%	16.0%	15.9%
Net Debt/Equity (x)	-0.1	-0.1	-0.3	-0.4	-0.5
P/E (x)	24.9	20.3	17.0	14.5	12.4
P/B (x)	3.3	3.0	2.5	2.1	1.8
EV/EBITDA (x)	25.4	17.1	13.8	11.1	8.6
EV/Sales (x)	3.9	3.6	3.1	2.6	2.2
Debtor days	0	0	0	0	0
Inventory days	0	0	0	0	0
Creditor days	8	13	13	13	13

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
1-Jun-15	Buy	1,670	
28-Jul-15	Buy	1,670	0.0
30-Nov-15	Hold	880	-47.3
3-Mar-16	Hold	650	-26.1
17-Aug-16	Hold	440	-32.3
28-Oct-16	Hold	440	0.0
30-Jan-17	Hold	440	0.0
25-Jul-17	Hold	360	-18.2
8-Nov-17	Hold	410	13.9
24-Jan-18	Hold	540	31.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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