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Q4FY20 result review and earnings revision

Technology

Target price Rs600

Earnings revision

| (%) | FY21E | FY22E |
|-------|--------|--------|
| Sales | ↓ 27.6 | ↓ 20.2 |
| EBIT | ↓ 25.7 | ↓ 6.2 |
| EPS | ↓ 20.4 | ↓ 4.9 |

Target price revision

Rs600 from Rs685

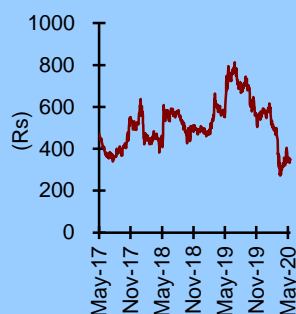
Shareholding pattern

| | Sep '19 | Dec '19 | Mar '20 |
|-------------------------|---------|---------|---------|
| Promoters | 33.0 | 33.0 | 33.4 |
| Institutional investors | 61.0 | 60.0 | 57.4 |
| MFs and other | 8.2 | 9.7 | 14.1 |
| FIs /Banks | 0.3 | 0.2 | 0.5 |
| FII's* | 52.5 | 53.0 | 42.8 |
| Others | 6.0 | 7.0 | 9.2 |

Source: www.nseindia.com

*Includes Foreign VCs

Price chart



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Just Dial

BUY

Maintained

To emerge stronger on the other side

Rs356

With collections in the month of April and May being ~40% of pre-Covid levels, we expect revenues for Just Dial (JD) to decline by ~25% QoQ in Q1FY21. For FY21, we are projecting a revenue decline of 22%. However, right sizing of cost structure should ensure that EBITDA margin remains unchanged YoY in FY21 at around 28-29%. JD should barely burn cash in Q1FY21 in our opinion and can potentially deliver higher absolute FCF in FY21 than ~Rs1.25bn generated in FY20. FCF in FY20 got impacted on account of pivot in strategy to focus on selling more monthly ECS packages, which though dilutive for collections (and therefore FCF) are accretive to revenue growth (on account of lower discounting). JD should emerge stronger once normalcy resumes post Covid given - 1) permanence to some of the cost initiatives which should ensure higher profitability whenever revenue recovers to pre-Covid levels, and 2) as the company is taking Covid driven pause to repurpose workforce to enrich B2B content with a dedicated B2B portal to be launched shortly. Maintain BUY with a DCF based target of Rs600. Current EV can be recovered through NPV of the next 5-6 year free cash generation itself.

► **Q4FY20 managed well.** Revenue was flattish QoQ (-0.2%) in Q4FY20 though EBITDA increased by 10.9% QoQ as the company managed costs through reduced advertising spends (Rs125mn vs Rs150mn in Q3FY20), lower incentives and reduction in headcount (decline in 635 employees QoQ to 12,423) as the company did not fully backfill attrition. Overall paid campaigns increased by 1276 or 0.2% QoQ (7.1% YoY) to 536,236.

► **Q1FY21 to bear the brunt of Covid-19 impacts.** Traffic in the month of April was just 49% of pre-Covid levels though has improved to 65% of pre-Covid levels in May. Likewise collections declined significantly in April/May to a run-rate of Rs300-350mn vs ~Rs750mn pre-Covid. Though the company has deferred revenue (backlog) of Rs3.36bn as at the end of Q4FY20 (down 9.5% QoQ and 17.1% YoY), we still expect revenues to decline by 25% QoQ in Q1FY21 given weak collections intensity. That said, the company has lowered operating expense run rate per month on a cash basis to ~Rs350mn from Rs520mn in Q4FY20 (excluding ESOP expenses), which should imply very limited cash burn, if at all in Q1FY21. Though P&L operating expense will be modestly higher than the cash expense, JD can still generate EBITDA margin of ~30% in Q1FY21 in our opinion.

► **Maintain BUY.** Just Dial is taking the Covid-19 driven disruption as an opportunity to 1) embrace more automation and productivity to drive permanent cost efficiencies, 2) accelerate development of the B2B portal to create an additional avenue of monetisation, and 3) create a frictionless model for SMEs by offering them the option of buying economical monthly packages while allowing them to exit at any time post a one month notice. The latter point will eventually enable a significantly wider SME population to subscribe to JD's services though paid campaigns by the 3rd week of May are down 15-16% from Q4-end levels. Likewise, the first point above should ensure that whenever revenues recover back to Q3/Q4 FY20 levels, margins are significantly higher. Monetisation can be similar to current levels with 10-15% lesser workforce as per the Management. We maintain BUY rating on JD with a DCF based target price of Rs600, which assumes zero terminal growth. Buyback of Rs2.2bn (likely to be completed by Q2FY21; record date to be in 2nd week of July) should provide support in the near-term.

| | |
|-------------------------|--------------------|
| Market Cap | Rs23.1bn/US\$305mn |
| Reuters/Bloomberg | JUST.BO/JUST IN |
| Shares Outstanding (mn) | 64.9 |
| 52-week Range (Rs) | 812/459 |
| Free Float (%) | 66.6 |
| FII (%) | 42.8 |
| Daily Volume (US\$'000) | 17,083 |
| Absolute Return 3m (%) | (27.0) |
| Absolute Return 12m (%) | (47.6) |
| Sensex Return 3m (%) | (23.1) |
| Sensex Return 12m (%) | (21.5) |

| Year to March | 2019 | 2020P | 2021E | 2022E |
|--------------------------|-------|-------|--------|-------|
| Revenue (Rsmn) | 8,915 | 9,531 | 7,432 | 8,945 |
| Net Income (Rsmn) | 2,069 | 2,723 | 2,039 | 2,586 |
| EPS (Rs) | 30.9 | 41.7 | 31.0 | 39.3 |
| % Chg YoY | 47.3 | 35.1 | (25.8) | 26.8 |
| P/E (x) | 11.5 | 8.5 | 11.5 | 9.1 |
| CEPS (Rs) | 36.0 | 50.0 | 38.5 | 47.4 |
| EV/E (x) | 3.2 | 2.7 | 3.4 | 2.6 |
| Capital Return Yield (%) | 9.5 | 0.0 | 8.4 | 8.4 |
| RoCE (%) | 13.9 | 14.1 | 9.4 | 13.1 |
| RoE (%) | 20.9 | 23.8 | 16.0 | 20.3 |

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review*(Rs mn, year ending March 31)*

| | Q4FY20 | Q3FY20 | Q4FY19 | QoQ (%) | YoY (%) |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 2,350 | 2,354 | 2,323 | (0.2) | 1.2 |
| Employee benefits expenses | 1,291 | 1,333 | 1,296 | (3.2) | (0.4) |
| Other expenses | 315 | 351 | 438 | (10.2) | (28.2) |
| Total Expenses | 1,606 | 1,684 | 1,734 | (4.6) | (7.4) |
| EBITDA | 744 | 671 | 588 | 10.9 | 26.4 |
| Depreciation | 127 | 128 | 83 | (1.2) | 53.1 |
| EBIT | 617 | 542 | 506 | 13.8 | 22.1 |
| Finance Cost | 23 | 26 | 1 | NA | NA |
| Other Income | 381 | 264 | 322 | 44.6 | 18.3 |
| Recurring pre-tax income | 975 | 781 | 827 | 25.0 | 17.9 |
| Taxation | 215 | 160 | 202 | 33.9 | 6.5 |
| Recurring Net Income | 761 | 620 | 626 | 22.6 | 21.6 |
| Extraordinary income/(expense) | 0 | 0 | 0 | NA | NA |
| Reported Net Income | 761 | 620 | 626 | 22.6 | 21.6 |
| Recurring EPS (Rs.) | 11.7 | 9.5 | 9.6 | 23.0 | 21.4 |
| Ratios (%) | | | | | |
| EBITDA margin | 31.7 | 28.5 | 25.3 | | |
| EBIT margin | 26.3 | 23.0 | 21.8 | | |
| Effective tax rate | 22.0 | 20.5 | 24.4 | | |
| Net profit margins | 32.4 | 26.3 | 26.9 | | |

Source: Company data, I-Sec research

Valuation methodology and key risks

We maintain **BUY** rating on Just Dial with a revised target price of Rs600/share (earlier Rs685/share) based on DCF methodology.

The key risks to our call are: i) slower-than-expected growth in paid campaigns, ii) significant decline in realizations, and iii) slower-than expected growth in traffic.

Financial summary

Table 2: Profit and Loss statement

(Rsmn, year ending March 31)

| | FY19 | FY20P | FY21E | FY22E |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Operating Revenues (Sales) | 8,915 | 9,531 | 7,432 | 8,945 |
| Operating Expenses | 6,625 | 6,802 | 5,286 | 6,138 |
| EBITDA | 2,290 | 2,729 | 2,147 | 2,807 |
| % margins | 25.7 | 28.6 | 28.9 | 31.4 |
| Depreciation & Amortisation | 337 | 521 | 490 | 530 |
| EBIT | 1,953 | 2,209 | 1,656 | 2,278 |
| % margins | 21.9 | 23.2 | 22.3 | 25.5 |
| Interest & Finance Chgs | 1 | 89 | 92 | 92 |
| Other Income | 930 | 1,397 | 1,050 | 1,130 |
| Recurring PBT | 2,882 | 3,517 | 2,614 | 3,315 |
| Add: Extraordinaries Inc/(Exp) | - | - | - | - |
| Less: Taxes | 813 | 793 | 575 | 729 |
| Recurring Net Income | 2,069 | 2,723 | 2,039 | 2,586 |

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rsmn, year ending March 31)

| | FY19 | FY20P | FY21E | FY22E |
|---------------------------------|---------------|---------------|---------------|---------------|
| LIABILITIES | | | | |
| Net Worth | 9,988 | 12,877 | 12,611 | 12,892 |
| Non-current liabilities | 244 | 1,167 | 838 | 838 |
| Current Liabilities | 5,257 | 4,277 | 3,725 | 4,001 |
| Total Liabilities | 15,489 | 18,322 | 17,174 | 17,731 |
| ASSETS | | | | |
| Fixed Assets | 1,321 | 1,724 | 1,308 | 957 |
| Other non-current assets | 12,918 | 15,537 | 15,536 | 15,549 |
| Total non-current assets | 14,239 | 17,261 | 16,845 | 16,506 |
| Current Assets | 1,250 | 1,061 | 329 | 1,224 |
| Total Assets | 15,489 | 18,322 | 17,174 | 17,731 |

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rsmn, year ending March 31)

| | Jun-19 | Sep-19 | Dec-19 | Mar-20 |
|----------------------|--------|--------|--------|--------|
| Net sales | 2,402 | 2,426 | 2,354 | 2,350 |
| % growth (YoY) | 13.6 | 9.7 | 3.8 | 1.2 |
| Recurring EBITDA | 643 | 673 | 671 | 744 |
| Margin (%) | 26.8 | 27.7 | 28.5 | 31.7 |
| Other income | 311 | 441 | 264 | 381 |
| Recurring Net Income | 573 | 769 | 620 | 761 |

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rsmn, year ending March 31)

| | FY19 | FY20P | FY21E | FY22E |
|---|--------------|--------------|--------------|--------------|
| Op. CF before W Cap changes | 2,001 | 2,227 | 1,832 | 2,262 |
| Working capital change | 762 | (698) | (691) | 226 |
| Capex | (167) | (22) | (74) | (179) |
| Free Cash flow | 2,596 | 1,507 | 1,066 | 2,309 |
| Cash Flow from other Invst Act (Ex Capex) | (599) | (1,247) | 998 | 1,074 |
| Dividend paid/Buyback | (2,223) | - | (2,305) | (2,305) |
| Others | 57 | (270) | (300) | (220) |
| Inc/(Dec) in Cash | (170) | (11) | (541) | 858 |

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

| | FY19 | FY20P | FY21E | FY22E |
|---------------------------------|-------|-------|--------|-------|
| Per Share Data (Rs) | | | | |
| Earnings per share (Basic Rec.) | 30.9 | 41.7 | 31.0 | 39.3 |
| Earnings per share (Basic Rep.) | 31.0 | 42.0 | 31.0 | 39.4 |
| Diluted Earnings per share | 30.9 | 41.7 | 31.0 | 39.3 |
| Cash earnings per share | 36.0 | 50.0 | 38.5 | 47.4 |
| Dividend per share | - | - | 30.0 | 30.0 |
| Book Value per share | 149.5 | 198.4 | 192.0 | 196.3 |
| Growth Ratios (%) | | | | |
| Operating Income (Sales) | 14.0 | 6.9 | (22.0) | 20.4 |
| EBITDA | 39.3 | 19.2 | (21.4) | 30.8 |
| Recurring Net Income | 44.5 | 31.7 | (25.1) | 26.8 |
| Diluted Recurring EPS | 47.3 | 35.1 | (25.8) | 26.8 |
| Diluted Recurring CEPS | 37.0 | 38.9 | (22.9) | 23.2 |
| Valuation Ratios (x) | | | | |
| P/E | 11.5 | 8.5 | 11.5 | 9.1 |
| P/CEPS | 9.9 | 7.1 | 9.2 | 7.5 |
| P/BV | 2.4 | 1.8 | 1.9 | 1.8 |
| EV / EBITDA | 3.2 | 2.7 | 3.4 | 2.6 |
| EV / Sales | 0.8 | 0.8 | 1.0 | 0.8 |
| EV / FCF | 2.8 | 4.8 | 6.8 | 3.2 |
| Operating Ratios | | | | |
| Employee Ben Exp./Sales (%) | 55.8 | 55.9 | 55.1 | 51.4 |
| Other Expenses/Sales (%) | 18.6 | 15.4 | 16.1 | 17.2 |
| Other Income / PBT (%) | 32.3 | 39.7 | 40.2 | 34.1 |
| Effective Tax Rate (%) | 28.2 | 22.6 | 22.0 | 22.0 |
| Fixed Asset Turnover on avg | 6.3 | 9.7 | 17.3 | 195.4 |
| Payables (days) on average | 12.2 | 9.4 | 12.0 | 12.0 |
| Profitability Ratios (%) | | | | |
| Rec. Net Income Margins | 23.2 | 28.6 | 27.4 | 28.9 |
| RoCE (Based on Avg) | 13.9 | 14.1 | 9.4 | 13.1 |
| RoNW (Based on Avg) | 20.9 | 23.8 | 16.0 | 20.3 |
| Capital return Ratio | 106.4 | - | 113.0 | 89.1 |
| Capital return Yield | 9.5 | - | 8.4 | 8.4 |
| EBITDA Margin | 25.7 | 28.6 | 28.9 | 31.4 |

Source: Company data, I-Sec research

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