

Quarterly performance weak; improvement expected

InfoEdge reported a poor set of Q2FY21 numbers that were below our estimates. The significant dip in Recruitment business (down 19.3% YoY) and 99 Acres (down 36.3% YoY) led to 19.1% YoY decline in revenues to ₹ 256.1 crore (below our estimate of ₹ 280.2 crore). EBITDA margins declined from 31.4% in Q2FY20 to 20.1% in Q2FY21. However, we believe the performance will improve in coming quarters led by opening of the economy. In addition, billing has also improved 32% QoQ indicating improving revenue trends in future.

Improving trends indicate healthy growth in long run

Covid-19 impacted revenue growth in Naukri & 99 Acres. However, billings are showing some signs of improvement on a QoQ basis. In addition, the company is witnessing improving trend in IT (that has reached pre-Covid levels in billing). The company is also seeing improving trends in healthcare, education and telecom while travel & hospitality will take time to recover. Traffic has also reached pre-Covid levels (both in Naukri, 99Acres). The company is also seeing improving trajectory in renewals. While we expect InfoEdge to witness a gradual improvement in revenues in long term, in the near term we expect revenues to remain subdued. Hence, we expect revenues to dip 10% in FY21E and increase at 22% CAGR in FY21E-23E.

Margins to face near term headwinds, long term looks healthy

The company plans to keep advertising spends higher, restore salaries and pay bonus. Hence, we expect the company's near term margins to be impacted. However, with improving growth, we expect margins to expand in long run. As a result, we assume 308 bps YoY decline in FY21E EBITDA margins to 28.6%. However, with improving revenues, cost rationalisation, we expect EBITDA margins to reach 34.6% by FY23E.

Valuation & Outlook

The company is expected to witness improving revenue and margin trends in coming quarters led by opening up of economy and market share gains. We like InfoEdge due to its prudent capital allocation, it being a quasi-play on the Indian start up ecosystem and leadership in recruitment with EBITDA margin of above 50%. In addition, the company already has two unicorns in the growing space (Zomato & PolicyBazaar) while its investment in the tech start up space makes it an attractive company. There are few other start-ups like Shoekonect, Ustra, Gramophone, which are receiving a healthy response from marquee investors and could turn out to be a long term value driver. Hence, we upgrade the stock from HOLD to **BUY** and value the stock on an SOTP basis to arrive at a target price of ₹ 4090.

infoedge

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	45,660.4
Total Debt (₹ Crore)	0.2
Cash and Investments (₹ Crore)	3,225.5
EV (₹ Crore)	42,435.1
52 week H/L	3784/ 1580
Equity capital	128.3
Face value	₹ 10

Key Highlights

- Revenue to witness robust growth in FY22E & FY23E
- EBITDA margins to see sharp improvement in FY22E & FY23E
- Upgrade from HOLD to BUY rating with revised target price of ₹ 4,090

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,098	1,273	1,146	1,419	1,706	10.3%
EBITDA	341	403	327	479	590	13.6%
EBITDA margins (%)	31.1	31.6	28.6	33.8	34.6	
Net Profit	315	329	306	427	505	15.4%
EPS (₹)	25.9	26.8	23.8	33.1	39.2	
P/E	136.9	132.3	149.0	106.9	90.4	
RoNW (%)	13.6	13.5	6.8	9.0	10.0	
RoCE (%)	18.6	18.0	9.1	11.9	13.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	256.1	280.2	316.6	-19.1	280.1	-8.6	The decline in revenues was led by 19.3% YoY decline in recruitment revenues and 36.3% YoY decline in 99 Acres
Employee expenses	136.3	133.6	134.9	1.0	129.7	5.0	
Marketing expenses	50.2	27.2	51.4	-2.4	25.6	96.2	
Network & other charges	6.0	4.8	5.8	2.8	5.5	8.5	
Other expenses	12.1	15.4	25.2	-51.8	14.8	-17.7	
EBITDA	51.6	99.2	99.3	-48.1	104.6	-50.7	
EBITDA Margin (%)	20.1	35.4	31.4	1123 bps	37.3	-1719 bps	Dip in revenues and higher employee expenses impacted margins
Depreciation & amortisation	11.0	10.4	10.1	9.4	11.1	-1.1	
EBIT	40.6	88.8	89.2	-54.6	93.4	-56.6	
EBIT Margin (%)	15.8	31.7	28.2	1235 bps	33.4	-1752 bps	
Other income (less interest)	26.3	30.7	23.2	13.3	20.3	29.8	
PBT	66.9	119.5	112.5	-40.6	113.7	-41.2	
Tax paid	14.2	30.2	26.6	-46.4	29.0	-50.8	
PAT	51.2	87.7	9.3	452.6	83.2	-38.5	
APAT	51.2	87.7	84.2	-39.2	83.2	-38.5	PAT was below our estimates due to lower than expected operating margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,205	1,146	-4.9	1,540	1,419	-7.8	1,706	We expect revenues to improve led by opening of economy and market share
EBITDA	415	327	-21.1	516	479	-7.1	590	
EBITDA Margin (%)	34.4	28.6	-587 bps	33.5	33.8	27 bps	34.6	Margins to stabilise at 34.6% in FY23E
Reported PAT	359	306	-14.6	430	427	-0.7	505	
EPS (₹)	27.9	23.8	-14.6	33.4	33.1	-0.7	39.2	

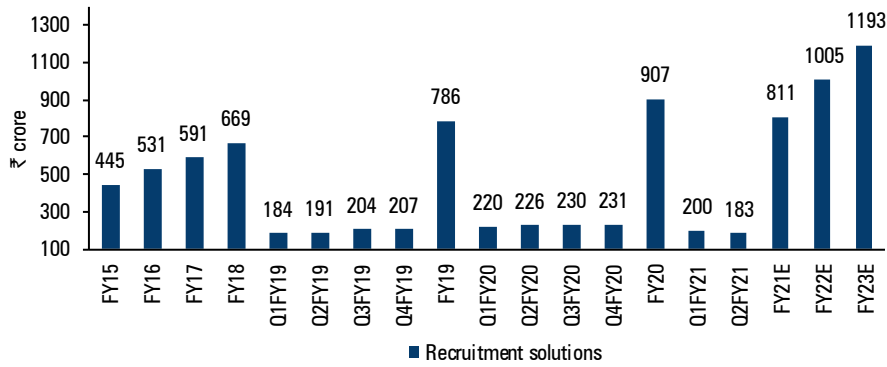
Source: Company, ICICI Direct Research

Conference Call Highlights

- Naukri Business:** Naukri reported a revenue decline of 19.3% YoY to ₹ 182.6 crore while margins declined 56 bps YoY to 51.7%. Billings in Naukri declined 20% YoY in Q2FY21 but were up 19% QoQ indicating improving trend. The company is witnessing improving trend in IT (which has reached pre Covid levels in billing). The company is also seeing improving trends in healthcare, education and telecom while travel & hospitality will take time to recover. The traffic has also reached pre Covid levels. The company is also seeing improving trajectory in renewals. The Naukri business added average of 18000 CVs every day. The Naukri database improved from 69 million CVs to 71 million. From an opportunity perspective, the company is looking to gain wallet share and enter new segments like blue collar industry. We believe digital companies will be key beneficiaries in a post Covid world. The company has indicated investment in technology across its segment to improve customer experience
- 99acres:** Revenues declined 36.3% YoY to ₹ 36.3 crore while the company made losses at the EBITDA level. Although billings have declined YoY, it has shown improvement QoQ (up from ₹ 14 crore to ₹ 46.7 crore). Further, 99 Acres traffic has reached pre Covid levels. The company is seeing improved trajectory in smaller towns, owner listing and brokers are spending higher time on websites. While a complete recovery will take time, improving trends are visible in 99Acres. With growing internet usage, we expect 99acres to witness an improved performance in the long term
- Jeevansathi:** Jeevansathi reported revenues of ₹ 23.8 crore (growth of 14% YoY) and continues to make a loss. Aggressive marketing spends continue to weigh on segment profitability but is key to driving higher growth. The company has seen maximum gain in North and West. The company has no presence in the South. InfoEdge believes high marketing spend is not sustainable for long term
- Shiksha:** Shiksha reported revenue of ₹ 13.4 crore (up 11.7% YoY). The company continued to make efforts to upgrade its content quality and user experience on its platform shiksha.com
- Margin snapshot:** EBITDA margins declined from 31.4% in Q2FY20 to 20.1% in Q2FY21 (vs. our estimate of 35.4%) mainly due to negative operating leverage. The company plans to keep advertising spends higher, restore salaries and pay bonus hence we expect the company's near term margins to be impacted. However, with improving growth we expect the company's margins to expand in long run.
- Other businesses:** Zomato is seeing a revival but not at pre-Covid levels. PolicyBazaar and Paisa Bazaar are also seeing improving trends and expected to witness recovery in H2FY21. InfoEdge's other smaller companies like Shoekonect, Ustra, Gramophone, Shippy, etc, are seeing improved interest from marquee investors
- QIP:** The company has raised ₹ 1875 crore via QIP route and issue of equities. InfoEdge will primarily invest in companies that are in their strategic verticals (99acres, Naukri, Jeevansathi & Shiksha). The company has indicated it will take 12-18 months for inorganic expansion

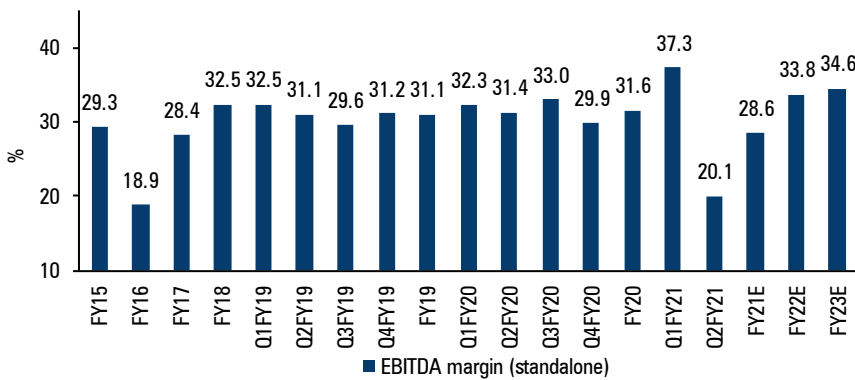
Financial story in charts

Exhibit 3: Recruitment solution expected to grow at ~10% CAGR in FY20-23E



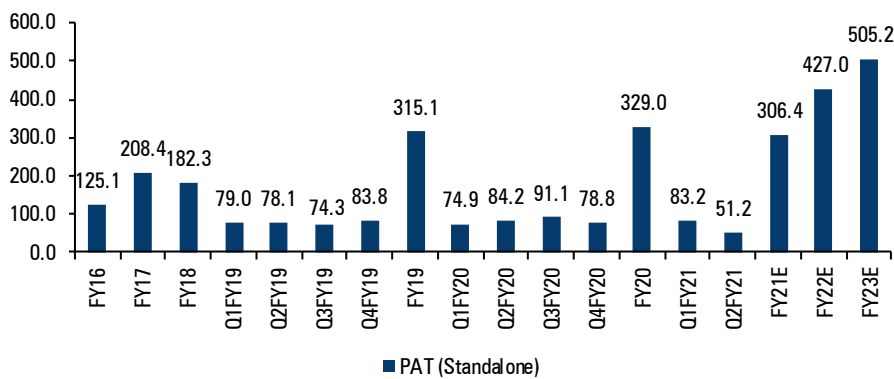
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin improves, going forward



Source: Company, ICICI Direct Research

Exhibit 5: PAT (standalone) trend



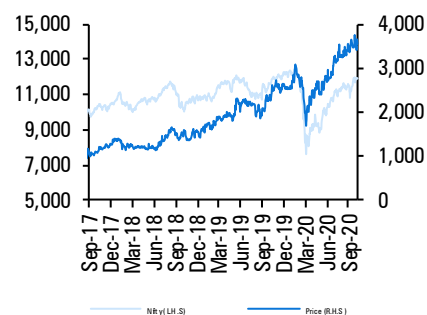
Source: Company, ICICI Direct Research

Exhibit 6: SOTP based valuation

	Valuation Method	Basis	Multiple (x)	Valuation	₹/share
Business					
Recruitment Business	PE Method	FY23E EPS	60	30312	2362.0
99 Acres	EV/Sales	FY23E Revenues	12	3822	297.8
Jeevansathi & Other busin	EV/sales	FY23E Revenues	4	821	63.9
Investee					
Zomato		22.2% stake		8258	643.5
Other Business	P/BV		5	2100	163.6
Policybazaar		15.1% stake		3932	306.4
Net Cash & financial investments				3226	251.3
Target Valuation				52470	4089
Rounded Off Target					4090
Price					4090

Source: Company, ICICI Direct Research

Exhibit 7: Three year price chart



Source: ICICI Direct Research, Bloomberg

Financial summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total operating Income	1,273	1,146	1,419	1,706	
Growth (%)	16	(10)	24	20	
Employee Expenses	540	601	567	668	
Marketing Expenses	204	138	234	282	
Network and Other Charg	23	19	24	29	
Other Expenditure	103	61	115	138	
EBITDA	403	327	479	590	
Growth (%)	18	(19)	46	23	
Depreciation	41	40	46	53	
EBIT	361	288	433	537	
Interest	7	6	6	6	
Other Income	88	125	140	140	
PBT	442	407	567	671	
Total Tax	113	101	140	166	
Reported PAT	206	306	427	505	
Adjusted PAT	329	306	427	505	
Growth (%)	4	(7)	39	18	
Adjusted EPS (₹)	26.8	23.8	33.1	39.2	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	206	306	427	505	
Add: Depreciation	43	40	46	53	
(Inc)/dec in Current Assets	(1)	2	(5)	(6)	
Inc/(dec) in CL and Provisions	(13)	16	125	131	
Others	(58)	(130)	(110)	(108)	
CF from operating activities	302	234	483	576	
(Inc)/dec in Investments	679	436	(246)	(258)	
(Inc)/dec in Fixed Assets	(24)	(24)	(24)	(24)	
Others	(459)	25	40	40	
CF from investing activities	197	437	(230)	(242)	
Proceeds from fresh issue of ₹	0	1,875	(0)	0	
Inc/(dec) in loan funds	(0)	-	-	-	
Dividend & DDT	(118)	(123)	(171)	(202)	
Others	(0)	(6)	(6)	(6)	
CF from financing activities	(142)	1,722	(201)	(232)	
Net Cash flow	357	2,393	53	101	
Exchange difference					
Opening Cash	70	427	2,821	2,873	
Closing Cash	427	2,821	2,873	2,974	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	122	128	128	128	
Reserve and Surplus	2,309	4,362	4,618	4,921	
ESOP	-	-	-	-	
Secured Loan	0	0	0	0	
Minority interest	-	-	-	-	
Other non-current liabilities	57	57	57	57	
Sources of funds	2,489	4,547	4,803	5,107	
Assets					
Gross Block	235	283	332	380	
Less: Acc Depreciation	106	146	192	246	
Net Block	128	137	139	134	
Capital WIP	-	-	-	-	
Net Intangible assets	4	4	4	4	
Other Investments	-	-	-	-	
Liquid Investments	255	255	255	255	
Inventory	-	-	-	-	
Debtors	7	6	8	9	
Loans and Advances	-	-	-	-	
Cash	427	2,821	2,873	2,974	
Other Current Assets	615	713	817	921	
Other Non-Current Assets	1,674	1,238	1,484	1,742	
Creditors	60	54	66	80	
Provisions	55	49	61	74	
Other current liabilities	508	524	649	781	
Net Current Assets	682	3,168	3,176	3,226	
Application of Funds	2,489	4,547	4,803	5,107	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
Reported EPS	26.8	23.8	33.1	39.2	
Cash EPS	20.1	26.9	36.7	43.3	
BV	198.0	348.5	368.4	391.9	
DPS	6.0	9.5	13.3	15.7	
Cash Per Share	34.8	218.9	223.0	230.8	
Operating Ratios (%)					
EBITDA Margin	31.6	28.6	33.8	34.6	
EBIT Margin	28.4	25.1	30.5	31.5	
PAT Margin	25.8	26.7	30.1	29.6	
Debtor days	2	2	2	2	
Creditor days	17	17	17	17	
Return Ratios (%)					
RoE	13.5	6.8	9.0	10.0	
RoCE	18.0	9.1	11.9	13.3	
RoIC	20.0	19.6	25.8	28.6	
Valuation Ratios (x)					
P/E	132.3	149.0	106.9	90.4	
EV / EBITDA	111.7	130.0	88.7	71.9	
EV / Net Sales	35.3	37.2	30.0	24.9	
Market Cap / Sales	35.9	39.8	32.2	26.8	
Price to Book Value	17.9	10.2	9.6	9.0	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.0	1.1	1.1	1.0	
Quick Ratio	1.0	1.1	1.1	1.0	

Source: Company, ICICI Direct Research

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Sell: <-15%



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