

CMP: ₹ 600

Target: ₹ 715 (19%)

Target Period: 12 months

October 18, 2022

BUY

Looking to reach pre-pandemic paid campaigns in FY23...

About the stock: Just Dial (JDL) generates revenues from advertisers on various subscription and fee-based packages.

- Reliance Retail Ventures now holds a 67% stake in JDL
- JDL's launch of B2B platform will be a key revenue driver in the long run

Q2FY23 Results: JDL reported strong numbers in Q2FY23.

- Revenues grew for a second straight quarter with 10%+ QoQ growth to ₹ 205.3 crore
- Paid campaigns were up 4.2% QoQ and realisation was up 6.2% QoQ
- Adjusted (ex-Esop) EBITDA grew 360 bps QoQ to 9.5% to ₹ 19.5 crore

What should investors do? JDL's share price has grown by ~1.5x over the past five years (from ~₹ 412 in October 2017 to ~₹ 600 levels in October 2022).

- We change our rating from HOLD to **BUY**

Target Price and Valuation: We value JDL at ₹ 715 i.e. 23x P/E on FY25E EPS.

Key triggers for future price performance:

- Continued increase in paid campaigns as well as realisation growth
- Ramp up in sales team is expected to drive revenue growth in both B2B and B2C businesses
- JDL will be a key beneficiary of this shift of advertising to digital medium and underpenetrated MSME (B2B) segment. The paid subscribers as a percentage of total MSME is just 1.5%
- JDL's B2B and B2C platforms are well placed to capture this demand leading to revenue CAGR of 21% in FY22-25E

Alternate Stock Idea: Apart from JDL, in our IT coverage we also like Affle.

- Key beneficiary of digital advertising spend
- BUY with a target price of ₹ 1,295

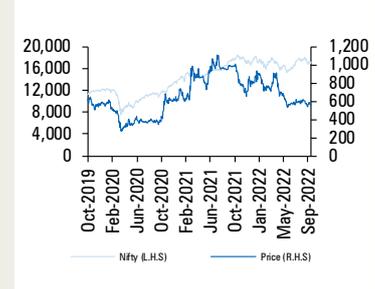
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,016.6
Total Debt(₹ Crore)	-
Cash and Investments (₹ Crore)	3,487.9
EV (₹ Crore)	1,528.7
52 week H/L	961 / 520
Equity capital	83.6
Face value	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	52	78	78	77
FII	17	3	3	3
DII	9	4	5	6
Others	22	15	14	14

Price Chart



Recent Event & Key risks

- Ramp up in employees in recent quarters
- **Key Risk:** (i) Lower-than-expected margin performance (ii) Lower-than-expected revenue growth

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Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	675	647.0	-2%	827	982	1,151	21%
EBITDA	155	(2.2)		77	156	235	
EBITDA Margins (%)	22.9	(0.3)		9.3	15.9	20.4	
Net Profit	214	71		81	196	260	54%
EPS (₹)	33.0	8.5		9.6	23.5	31.1	
P/E	18.2	70.8		62.3	25.6	19.3	
RoNW (%)	16.9	2.0		2.3	5.4	6.9	
RoCE (%)	19.0	2.5		2.9	6.5	8.3	

Source: Company, ICICI Direct Research

Key takeaways of result and conference call highlights

- The company reported revenue of ₹ 205.3 crore for the quarter, up 10.6% QoQ & 31.6% YoY. This was the second consecutive quarter the company reported 10%+ QoQ growth. Paid campaigns were at 503,840, which grew 4.2% QoQ while realisation grew 6.2% QoQ. The company reported that top 11 cities contributed ~42% of the paid campaigns and 60% of revenue. JDL reported deferred revenue of ₹ 378.6 crore, up 7.1% QoQ & 13.3% YoY
- The company reported that unique quarterly visitors were 156.5 million (mn), up 5.9% QoQ. JDL indicated that ~10% of the traffic was from inorganic route while organic contributed ~90% of the traffic. The company reported that 84.5% of the traffic was from mobile based while desktop & voice based were 11.6% & 3.9%, respectively. JDL's ratings and reviews increased 2.7% QoQ & 11.5% YoY to 137.1 mn while total app downloads were 31.7 mn, up 1.6% QoQ & 7% YoY
- The company indicated B2B traffic contributed ~25-30% of total collections and also indicated that realisation from B2B customers is 10-15% higher than average realisations. The company indicated that the sales team for B2B customers is ~650+ now and expects higher growth in collections from B2B customers as the sales team gets more efficient
- JDL reported an EBITDA of ₹ 17 crore while adjusted to Esop charges, EBITDA was at ₹ 19.5 crore. The adjusted EBITDA margin increased ~360 bps QoQ to 9.5% due to a decline in SG&A expenses
- The company reported other income of ₹ 56.5 crore including profit on sale of investments of ₹ 140.4 crore offset by MTM loss on bond yields of ₹ 89.8 crore. The company reported PAT of ₹ 52.2 crore with PAT margin of 25.4%
- JDL, during the quarter, incurred advertising expenses of ₹ 5.2 crore and indicated that it spent ~₹ 11-12 crore on advertisement expenditure in H1. The company had earlier indicated that it planned to spend ~₹ 60 crore on advertisement expenditure on core business in FY23. However, now it has indicated that it will spend ~₹ 30-32 crore on advertising expense in FY23. JDL also indicated that the decision for additional advertisement spend on new initiatives will be taken as required
- The company indicated that it has withdrawn all discounts from November 2021 onwards and has increased price in Tier 1 cities by 12-15%. JDL also indicated that it has increased price across select geographies & monthly payment option contributed ~71% of the paid campaigns. The company indicated that realisable value of signups is ₹ 230-275 crore, which implies that the core business growth is strong despite price increase
- The company hired 731 net new employees in Q2 taking the total sales team headcount to 11,332 employees. JDL indicated that it plans to continue to ramp up the sales teams keeping in mind its revenue target for the next two fiscal years. The company indicated that as its sales employees get more tenure their productivity increases, which improves monetisation, which eventually leads to margin improvement
- The company indicated that its cost of revenue (sales team salaries & incentive to sales team/ direct revenue) was 42% pre Covid. Currently, the same is at 45-46%. The company indicated that it wants to improve the Cost of revenue to its pre Covid level & as the revenue increases the employee cost to revenue will taper off going forward
- The company indicated that its core business growth is strong & it expects the paid campaigns to be back to its pre Covid level in next two quarters. With the ramp of the sales team, JDL expects strong revenue growth, going forward, and with moderation in expenses the company expects continued margin improvement. The company is aiming at **achieve EBITDA margin 25-30% in the long term**. JDL also indicated that any additional margins above the guided band would be utilised on strengthening team

- The company indicated that some of new initiatives are being capitalised on and the same is in the pilot project stage. JDL reported that it incurred ₹ 22.2 crore expenses as intangibles under development on the new initiatives in H1 and expects to incur similar amount in H2. The company indicated that it will capitalise on the above amount as the projects go live
- The company mentioned that Open Network for Digital Commerce (ONDC) programme by the government is for digitalising MSMEs. The program is in pilot stage and creating digital catalogue for the seller side app. JDL indicated that the programme is mutually beneficial for it and MSME companies and is evaluating a plan to see how they can fit in the ONDC programme
- JDL has cash & investment of ₹ 3,818.9 crore as on September 2022

Exhibit 1: P&L

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	205.3	156.0	31.6	185.6	10.6	Revenue aided by growth in campaigns as well as realisations
Employee expenses	162.5	118.8	36.8	149.0	9.1	
Gross Margin	42.8	37.2	15.0	36.7	16.8	
Gross margin (%)	20.8	23.9	-301 bps	19.7	110 bps	
Other expenses	25.8	16.5	56.6	28.3	(8.7)	
EBITDA	17.0	20.7	(18.1)	8.4	102.5	
EBITDA Margin (%)	8.3	13.3	-502 bps	4.5	376 bps	
Depreciation & amortisation	7.7	7.2	7.7	7.0	10.5	
EBIT	9.3	13.6	(31.7)	1.4	558.2	
EBIT Margin (%)	4.5	8.7	-419 bps	0.8	376 bps	
Other income (less interest)	55	34.0	61.6	(61.3)	(189.7)	
PBT	64	47.6	35.0	(59.8)	(207.3)	
Tax paid	12	9.9	22.2	(11.5)	(205.1)	
PAT	52	37.7	38.3	(48.4)	(207.9)	Profitability improved due to higher other income which was impacted in Q1 due to MTM losses on treasury portfolio

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
(₹ Crore)								
Revenue	882	827	-6.3	964	982	1.8	1,151	
EBITDA	124	77	-37.6	183	156	-14.8	235	
EBITDA Margin (%)	14.0	9.3	-467 bps	19.0	15.9	-310 bps	20.4	EBITDA margins are expected to take a hit due to continued strong employee additions for B2B as well as B2C business expansion
PAT	285	81	-71.7	327	196	-40.0	260	
EPS (₹)	34.1	9.6	-71.7	39.1	23.5	-40.0	31.1	

Source: Company, ICICI Direct Research

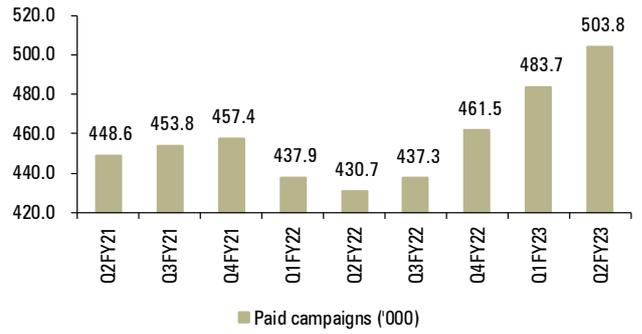
Key metrics

Exhibit 3: Increase in active listings



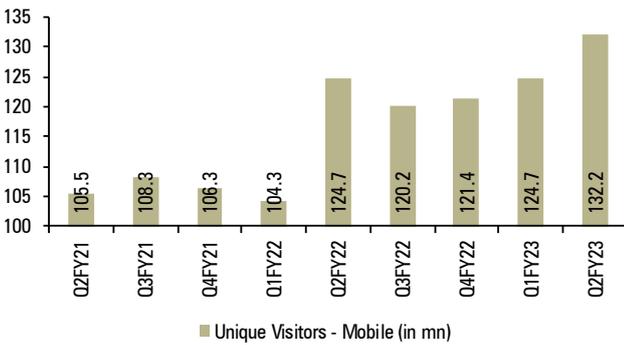
Source: Company, ICICI Direct Research

Exhibit 4: Paid campaigns only 6% below pandemic level



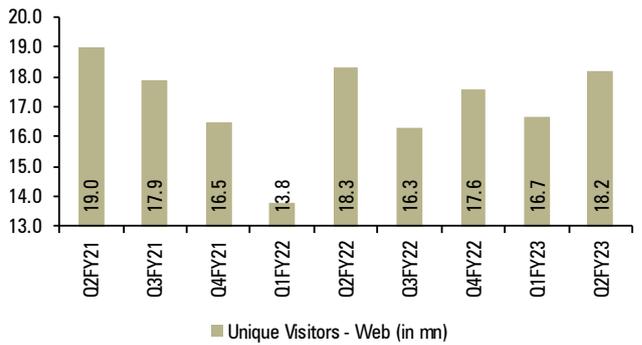
Source: Company, ICICI Direct Research

Exhibit 5: Unique mobile visitors trend



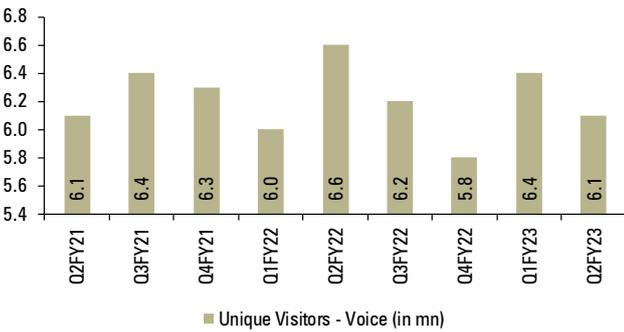
Source: Company, ICICI Direct Research

Exhibit 6: Unique web visitors trend



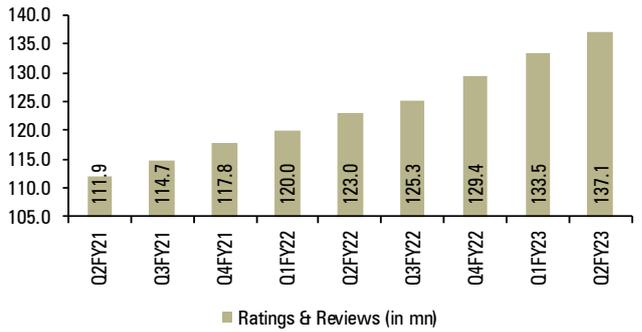
Source: Company, ICICI Direct Research

Exhibit 7: Unique voice visitors trend



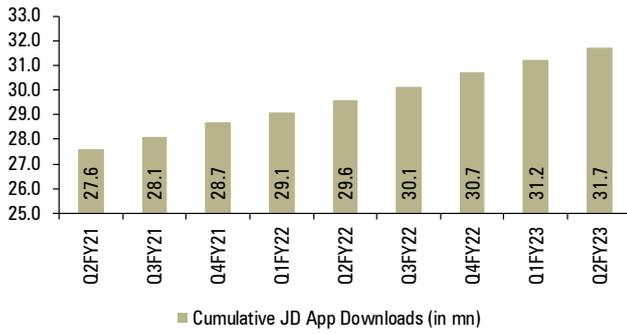
Source: Company, ICICI Direct Research

Exhibit 8: Ratings & reviews trend



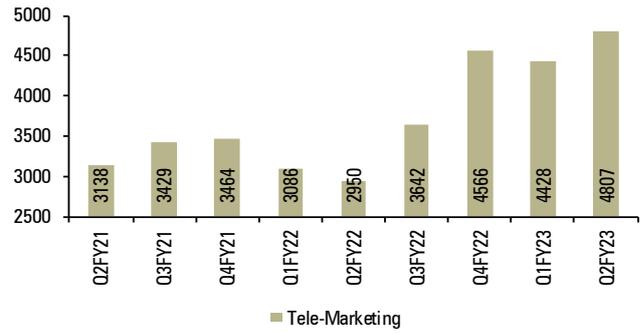
Source: Company, ICICI Direct Research

Exhibit 9: JD app download trend



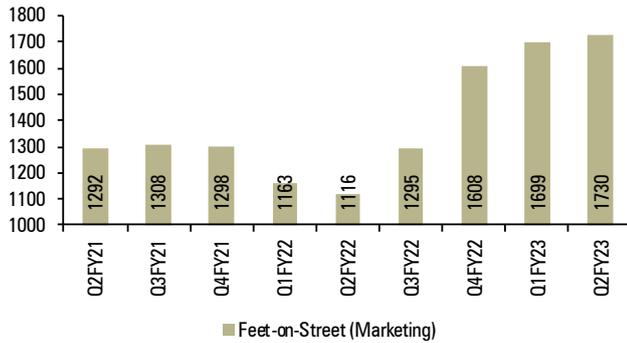
Source: Company, ICICI Direct Research

Exhibit 10: Telemarketing team trend



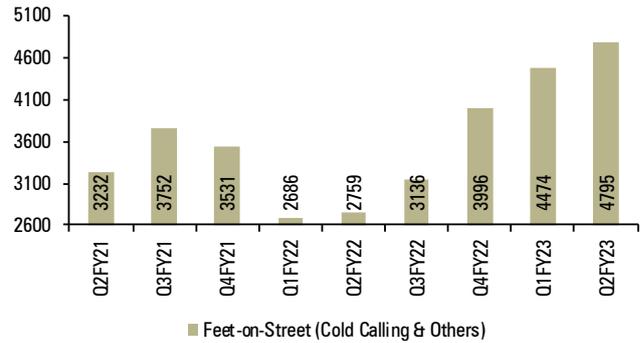
Source: Company, ICICI Direct Research

Exhibit 11: Feet-on-street (Marketing) team trend



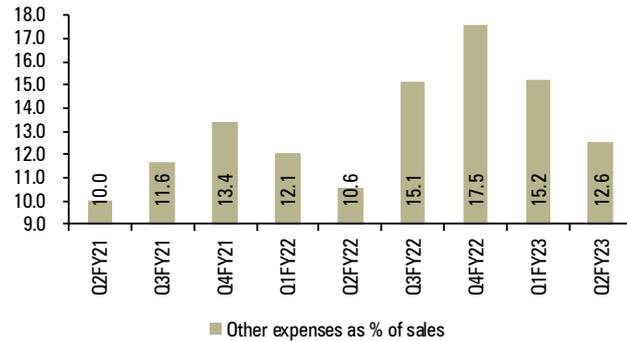
Source: Company, ICICI Direct Research

Exhibit 12: Feet-on-street (Cold Calling & Others) team trend



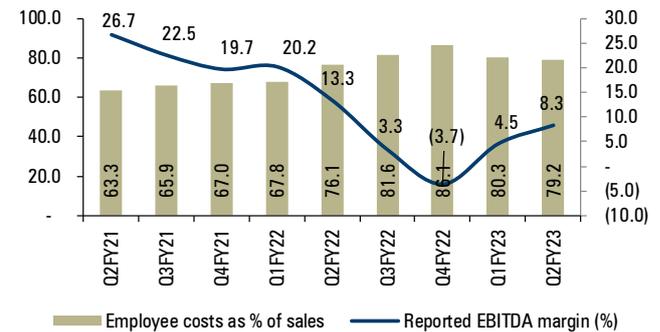
Source: Company, ICICI Direct Research

Exhibit 13: Other exp. as percentage of sales moderating



Source: Company, ICICI Direct Research

Exhibit 14: as is employee cost leading to improving EBITDA margin



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & loss statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
Total Revenues	647	827	982	1,151
Growth (%)	(4.2)	27.8	18.8	17.2
COGS	504	643	713	789
Other Expenses	145	106	113	127
EBITDA	(2)	77	156	235
Growth (%)	(101.4)	(3,668.8)	102.5	50.3
Depreciation	30	29	28	28
Other Income	122	57	120	120
Interest paid	7	6	6	6
PBT	83	99	242	321
Growth (%)	(67.3)	19.0	144.3	32.5
Total Tax	12	19	46	61
PAT	71	81	196	260
Adjusted PAT	71	81	196	260
Adjusted PAT (Growth %)	(66.9)	13.7	143.6	32.5
EPS - diluted	8.5	9.6	23.5	31.1
EPS (Growth %)	(74.3)	13.7	143.6	32.5

Source: Company, ICICI Direct Research,

Exhibit 16: Cash flow statement (₹ crore)				
	FY22	FY23E	FY24E	FY25E
Net profit before Tax	83	99	242	321
Depreciation	30	29	28	28
(inc)/dec in Current Assets	2	(14)	(17)	(19)
(inc)/dec in current Liabilities	21	89	117	127
CF from operations	39	134	210	282
Other Investments	(2,172)	57	120	120
(Purchase)/Sale of Fixed Assets	(15)	(5)	(6)	(7)
CF from investing Activities	(2,187)	51	114	113
Inc / (Dec) in Equity Capital	2,166	-	-	-
Othes	(22)	(22)	(22)	(22)
Dividend & Buyback	-	(40)	(98)	(130)
Interest Paid on Loans	-	(6)	(6)	(6)
CF from Financial Activities	2,109	(68)	(126)	(158)
Cash generating during the year	(38)	117	198	237
Opening cash balance	61	22	140	337
Closing cash	22	140	337	574

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet (₹ crore)				
	FY22	FY23E	FY24E	FY25E
Equity	84	84	84	84
Reserves & Surplus	3,403	3,443	3,541	3,671
Networth	3,486	3,526	3,625	3,754
Minority Interest	-	-	1	1
Total Debt	-	-	-	-
Other long term liabilities	124	142	169	198
Source of funds	3,610	3,669	3,793	3,952
Net Block	131	123	116	110
CWIP	-	-	-	-
Other intangible assets&Good	3	3	3	2
Other long term assets	363	366	377	390
Current investments	3,465	3,465	3,465	3,465
Other financial assets	9	15	17	20
Cash & Cash equivalents	23	140	337	574
Loans and advances	0	1	1	1
Other Current Assets(OCA)	40	51	61	71
Trade payables	15	18	21	25
Other Current liabilities	395	462	549	644
Provisions	14	14	14	14
Application of funds	3,610	3,669	3,793	3,952

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Adjusted EPS (Diluted)	8.5	9.6	23.5	31.1
BV per share	417.0	421.8	433.5	449.0
DPS	-	4.8	11.7	15.5
Cash per Share	2.8	16.7	40.4	68.7
Operating Ratios				
EBITDA Margin (%)	(0.3)	9.3	15.9	20.4
EBIT Margin (%)	(5.0)	5.9	13.0	18.0
PAT Margin (%)	10.9	9.7	20.0	22.6
Creditor days	8	8	8	8
Return Ratios (%)				
RoE	2.0	2.3	5.4	6.9
RoCE	2.5	2.9	6.5	8.3
Valuation Ratios (x)				
P/E	70.8	62.3	25.6	19.3
EV / EBITDA	NA	14.0	5.6	2.7
Price to Book Value	1.4	1.4	1.4	1.3
EV / Net Sales	2.4	1.3	0.9	0.6
Market Cap / Sales	7.8	6.1	5.1	4.4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	0.1	0.1	0.1	0.1
Quick Ratio	0.1	0.1	0.1	0.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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