

CMP: ₹ 4160

Target: ₹ 4590 (10%)

Target Period: 12 months

HOLD

November 15, 2022

IT growth normalising after acceleration in FY22...

About the stock: Info Edge provides internet based service delivery like recruitment services (Naukri), real estate (99 acres), Jeevansathi and Shiksha.

- Quasi play on Indian start up like Zomato, PolicyBazaar, Shoekonet, Ustra, Gramophone and job market, matrimony services & real estate market
- Prudent capital allocation with recruitment business EBITDA margin >50%

Q2FY23 Results: Info Edge reported strong Q2FY23 results.

- Revenue up 4.8% QoQ aided by recruitment business growth of 8% QoQ
- EBITDA margin improved ~250 bps QoQ to 34.6%
- Gained increased traffic in 99 acres and Jeevansathi

What should investors do? Info Edge's share price has grown by ~3.5x over the past five years (from ~₹ 1,172 in November 2017 to ~₹ 4,160 in November 2022).

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value Info Edge at ₹ 4,590 on SOTP basis.

Key triggers for future price performance:

- Improving hiring trend in IT, healthcare, education, telecom and improving billing trend to drive recruitment revenues
- Continued pent up demand in housing as well as rental market driving 99acres revenues despite increasing home interest rates. Traction in Jeevansathi, Shiksha to further drive revenues
- Expect revenues to grow at a CAGR of 17.4% over FY22-25E

Alternate Stock Idea: Apart from Info Edge, in IT coverage we also like Affle India.

- Key beneficiary of a shift of advertising budget to digital medium, continued strong growth in converted users
- BUY with a target price of ₹ 1,350

Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	1,128	1,562	14.3%	1,951	2,263	2,526	17.4%
EBITDA	302	464	15.3%	608	720	806	20.2%
EBITDA margins (%)	26.8	29.7		31.2	31.8	31.9	
Net Profit	299	440	16.1%	586	666	745	19.2%
EPS (₹)	23.0	34.2		45.5	51.7	57.9	
P/E	182.5	6.0		91.5	80.5	71.9	
RoNW (%)	6.5	3.2		4.1	4.5	4.9	
RoCE (%)	8.2	4.2		5.4	6.0	6.5	

Source: Company, ICICI Direct Research

infoedge

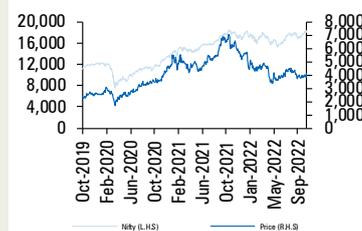
Particulars

Particular	Amount
Market Cap(₹ Crore)	53,898
Total Debt (₹ Crore)	0
Cash and Invests (₹ Crore)	573
EV (₹ Crore)	53,325
52 week H/L	6696/ 3313
Equity capital	129
Face value	₹ 10

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	38	38	38	38
FII	36	34	33	32
DII	14	16	16	17
Public	11	12	13	13

Price Chart



Recent event & key risks

- Change of strategy in Jeevansathi business
- **Key Risk:** (i) Higher than expected Naukri revenues (ii) Lower than expected margins

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Key takeaways of recent quarter & conference call highlights

- The company reported revenue of ₹ 531.8 crore, up 4.8% QoQ and 46.7% YoY while revenue including acquired business (Zwayam & DoSelect) was ₹ 549.5 crore, up 50% YoY. Revenue for recruitment business (79% of mix) increased 8% QoQ & 56.4% YoY to ₹ 418.1 crore while revenue including Zwayam & Doselect was ₹ 435.8 crore, up 60.7% YoY. 99 acres continued its strong growth posting revenue of ₹ 69.7 crore, up 5.1% QoQ & 44.4% YoY. Jeevansathi revenue continued to decline due to a change in strategy reporting revenue of ₹ 18.1 crore, down 21% QoQ & 28.7% YoY while Shiksha revenue declined 17.3% QoQ & rose 20.3% YoY to ₹ 25.9 crore
- Consolidated EBITDA increased 12.8% QoQ to ₹ 184 crore while corresponding margins improved ~250 bps QoQ to 34.6%. The margin improvement was due to 5.1% QoQ decline in marketing expenses (aided by lower spend in Jeevansathi business) and flat employees cost due to easing of attrition. EBITDA margins for the recruitment business improved 120 bps QoQ at 59.4% while EBITDA loss at 99acres declined to ₹ 32.4 crore. EBITDA loss for Jeevansathi declined to ₹ 26.6 crore despite change of strategy due to lower marketing spend while for Shiksha the company reported an EBITDA loss of ₹ 1.8 crore
- For the quarter, billing at the company level remained robust and improved 3.6% QoQ, 35% YoY to ₹ 543 crore, aiding 2.6% QoQ growth in Naukri business to ₹ 425.6 crore and 99 acres, which was up 23.9% YoY to ₹ 75.7 crore. Billing for Jeevansathi & Shiksha declined 4% & 18.4% QoQ to ₹ 16.9 crore & ₹ 24.8 crore, respectively
- The company's deferred revenue increased 49.7% YoY to ₹ 840.9 crore. Recruitment business reported deferred revenue growth of 56.4% YoY to ₹ 706 crore while others (Jeevansathi & Shiksha) reported increase of 5% YoY, respectively, to ₹ 38 crore
- **Recruitment business** The company indicated that in hiring growth in IT sector in the last seven to eight quarters was very high due to high attrition aided by demand supply mismatch. The company mentioned that now attrition has started coming down. It is expected to normalise in a few quarters from now. It also mentioned that it expects growth in the IT pie of the Naukri business to normalise from here on. The company also said it would be difficult to say how fast it will moderate. It also added that the IT sector growth also depends on US market growth and current uncertainty will have some impact on IT hiring. The company mentioned that October number job index numbers can be misleading this time due to early Diwali. A clear trend can be seen from the November numbers
- The company mentioned that it has not seen any layoff in the Indian IT sector so far. Info Edge also said that start up forms a very small chunk of its recruitment business and current funding issues at start-ups will not have any impact. The company also said that historical trends suggests that a recession normally has an impact on hiring for two to three quarters. Thereafter, a normalisation takes place. Info Edge also said that BFSI recruitment scale is much smaller than of IT companies' hiring. Hence, it does not see the share of BFSI moving upward meaningfully from the current range of 6-7%
- The company added that it has increased the stake in coding Ninja from 26.1% to 51%. It said it has been investing in coding ninja for a while now. Coding Ninja is in the business of education solutions wherein it offers training courses to Jobseekers. It mentioned that it is looking to expand the offering to corporates, going forward, in terms of training. The company also added that it is looking to conduct these business separately for a while and looking to integrate these businesses in the medium term. It also expects the cost of customer acquisition to come down whenever these

businesses integrate in future. The company said that a very small chunk (5-6% of its revenue) in recruitment business comes from Jobseekers

- The company indicated that the non IT part of the recruitment business is growing as there is pent up demand. Since operations for a lot of companies are returning after Covid disruption, hiring here will continue to be strong for a while. Then, it is expected to normalise. Travel, retail, hospitality, telecom sectors continue to hire stronger, largely in sales/finance/marketing roles. The company expects the share of non-IT to increase, going forward, due to moderation of IT hiring
- Info Edge indicated that if the recruitment business grows in the range of 15-20%, it does not see any issues in sustaining margins in the recruitment business. The management mentioned that margins are likely to come down when growth is in single digits. The company also added that the margin profile of the IT sector is higher than that of the non-IT sector
- The company said that it has a small platform called 'Jobhai.com', which is being used by low income job seekers where the salary range is in the range of ₹ 15,000-22,000 per month. It added that it does not make money on this platform but observed the user base is growing strong on this platform
- The company indicated that big customers hire Naukri products for a year. Hence, even in case of any slowdown in their business, they are likely to cut hiring from other small portals than Naukri. It also mentioned that IT companies may have billion dollars of revenues. These companies pay less than US\$0.5 mn. The company sees further improvement of wallet share here. Info Edge also said that digital talent hiring has increased substantially in the non-IT space after the pandemic. The company mentioned that at the bottom of the pyramid, customers may use Naukri products not even for a month while none of the contracts have cancellation clause attached to it
- The company mentioned that it has enough growth opportunities in India as far as the recruitment business is concerned and has no plans to expand this business outside India as it can happen only through large acquisitions. It has no plans on the same
- **On 99acres business:** The company mentioned that it has seen growth both in rentals and own home space. Info Edge further increased focus on increasing marketing spend in this business. The company continue to see strong growth in this business due to shortage of supply and also on account of price increases across markets. Info Edge is now investing in product development as competitive intensity in this space continue to high. On the broker network, the company said following revenue models 1) site visits charge per site visit, 2) facilitate home loan and earn commission. It also has a third revenue model here, which gets transaction fee from developers and is in early stage of deployment. The company mentioned that new homes sales and resales are more revenue generating for them since revenue from commercial is not a big pie for them and also rental space is tough to monetise. Info Edge also said that unprecedented salary increases in IT sectors have also propelled demand in the real estate sector. It also drives home buyers. The company said Housing.com have gained market share in recent quarters on account of higher marketing spend share. This space will continue to be like this till any consolidation opportunity emerges as no market can support three to four players for a long time. The company added that it had launched premium product recently and average revenue per user has moved up on account of the same
- **On Jeevansathi business:** The company indicated that it gained substantial traffic market share especially in communities where there were regional players. Info Edge did cut down on its marketing spends there. Losses in this business are expected to come down in the medium term. The company indicated that it will not cut down marketing spend completely in this business. Info Edge has been formulating various models of monetisation's for the traffic it expects to gather. It may have lost revenue market share but gained user market share substantially in all regions in which it operates

- **On Zomato, PolicyBazaar investment:** The company indicated that it is likely to monetise these investments if i) it believes future is not bright for these companies, ii) it needs substantial cash, iii) it is looking for payout to shareholders. The company does not see any reason for divestment of these investments. It remains a topic for continuous discussion
- The company announced an interim dividend of ₹ 10 per share and set November 21 as record date for determining the eligible shareholders for payment of dividend

Exhibit 1: P&L

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	531.8	517.2	351.7	51.2	507.7	4.8	Revenue was aided by strong growth in recruitment business/ 99 acres
Employee expenses	225.9	230.2	160.5	40.7	224.4	0.6	
Marketing expenses	83.1	90.0	61.7	34.6	87.6	-5.1	marketing expenses declined due to relatively lower marketing spend in Jeevansaathi business
Network & other charges	11.3	10.0	7.1	58.6	9.8	15.7	
Other expenses	27.6	23.5	16.0	71.9	22.8	21.0	
EBITDA	184.0	163.6	106.3	73.1	163.1	12.8	
EBITDA Margin (%)	34.6	31.6	30.2	437 bps	32.1	246 bps	EBITDA margins aided by lower marketing spend
Depreciation & amortisation	10.5	10.0	9.9	5.5	9.9	5.8	
EBIT	173.5	153.6	96.4	80.0	153.2	13.2	
EBIT Margin (%)	32.6	29.7	27.4	522 bps	30.2	245 bps	
Other income (less interest)	49.9	42.0	44.0	13.4	41.9	19.3	
PBT	223.5	195.6	140.4	59.1	195.1	14.5	
Tax paid	54.4	46.7	1,077.3	-95.0	45.7	18.9	
PAT	168.1	147.9	8,355.7	-98.0	148.4	13.3	
APAT	168.1	147.9	-938.1	-117.9	148.4	13.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,951	1,951	0.0	2,256	2,263	0.3	2,526	
EBITDA	647	608	-6.1	763	720	-5.7	806	
EBITDA Margin (%)	33.2	31.2	-201 bps	33.8	31.8	-201 bps	31.9	Margins re-aligned on continued investment in manpower and tech in recruitment business
Reported PAT	615	586	-4.8	698	666	-4.7	745	
EPS (₹)	47.8	45.5	-4.8	54.2	51.7	-4.7	57.9	

Source: Company, ICICI Direct Research

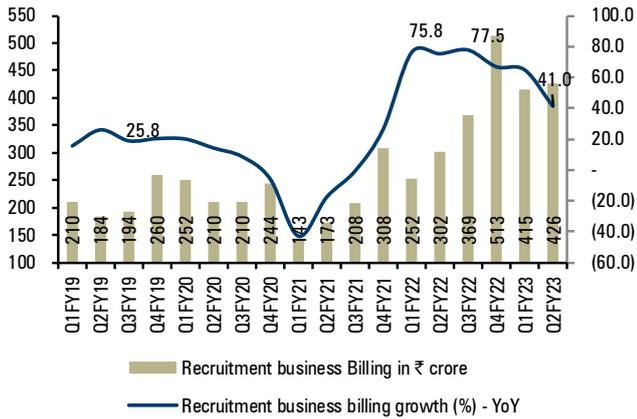
Exhibit 3: SOTP based valuation

New	Valuation Method	Basis	Multiple (x)	Valuation	₹/share
Business					
Recruitment Business	PE Method	FY25E EPS	48	35,762	2,779
99 Acres	EV/Sales	FY25E Revenues	8	2,575	200
Jeevansaathi & Other business	EV/sales	FY25E Revenues	3	1,152	89
Investee					
Zomato		15.23% stake	Mcap	9215	716
Other Business	P/BV		4	4233	329
Policybazaar		15.1% stake	Mcap	2637	205
Net Cash & financial investments				3500	272
Target Valuation				59074	4590
Rounded Off Target Price					4590

Source: Company, ICICI Direct Research

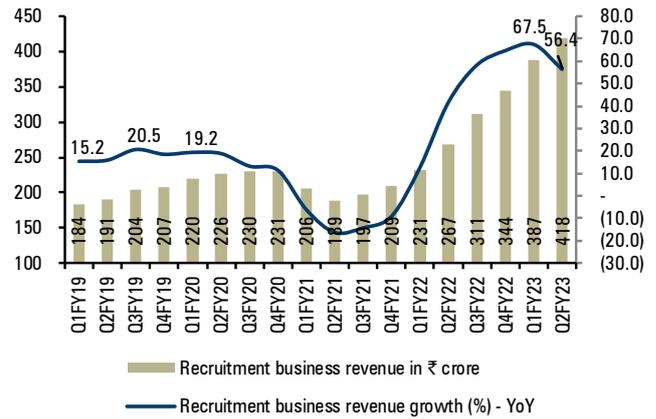
Key Metrics

Exhibit 4: Billings returning to normal after accelerated FY22



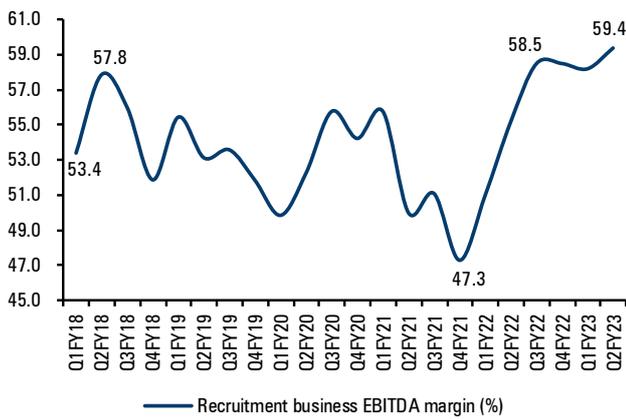
Source: Company, ICICI Direct Research

Exhibit 5: Revenues expected to moderate in H2



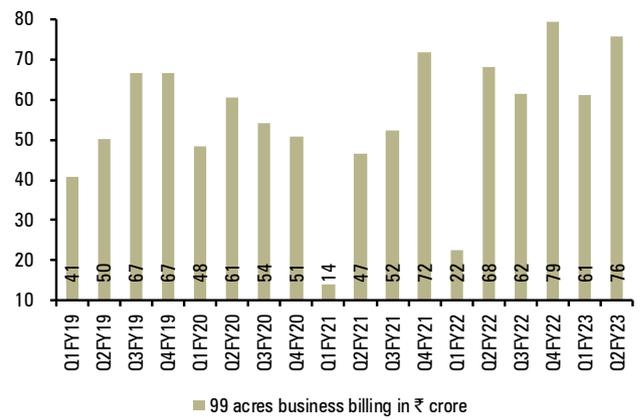
Source: Company, ICICI Direct Research

Exhibit 6: Naukri margins high on pricing increase



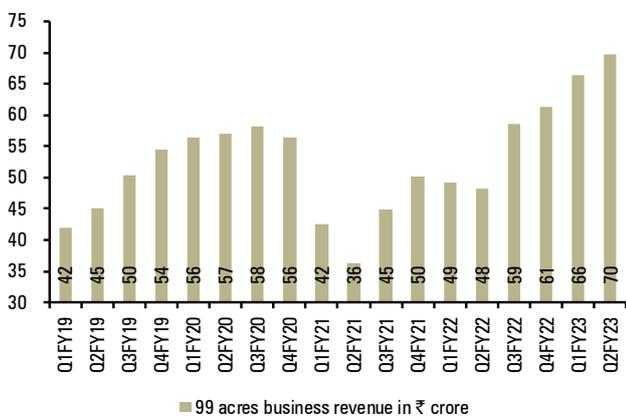
Source: Company, ICICI Direct Research

Exhibit 7: 99 acres billings improving on market recovery



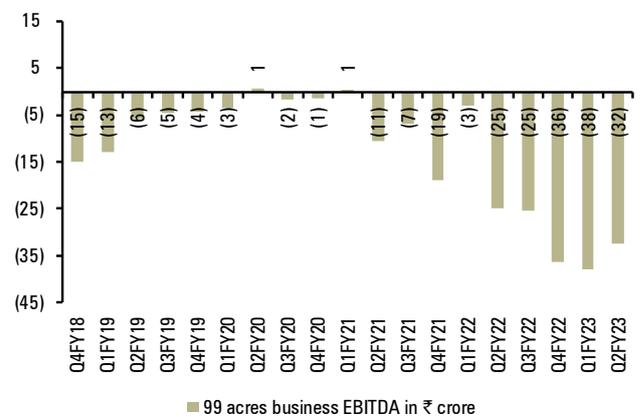
Source: Company, ICICI Direct Research

Exhibit 8: 99 acres revenue trend



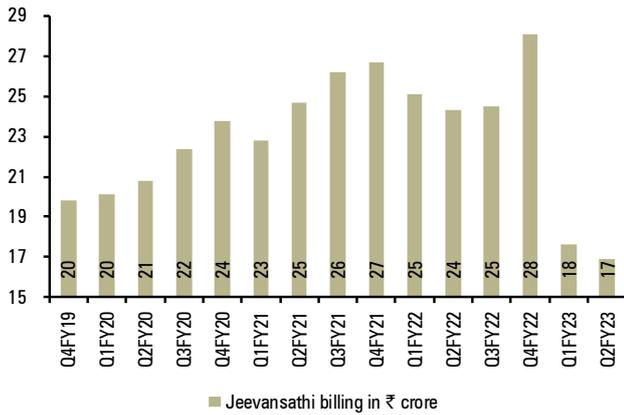
Source: Company, ICICI Direct Research

Exhibit 9: Higher marketing spend impacting margins



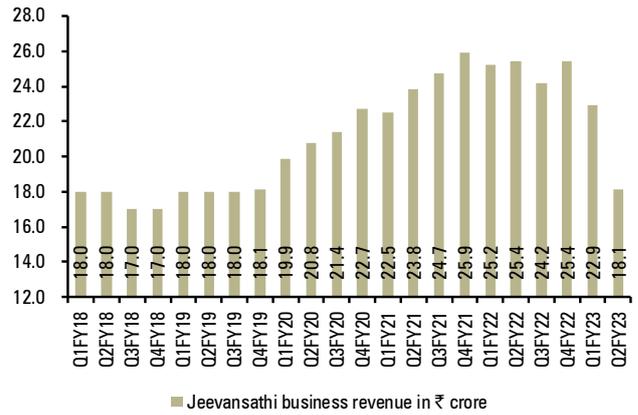
Source: Company, ICICI Direct Research

Exhibit 10: Jeevansathi billings hit by change in strategy



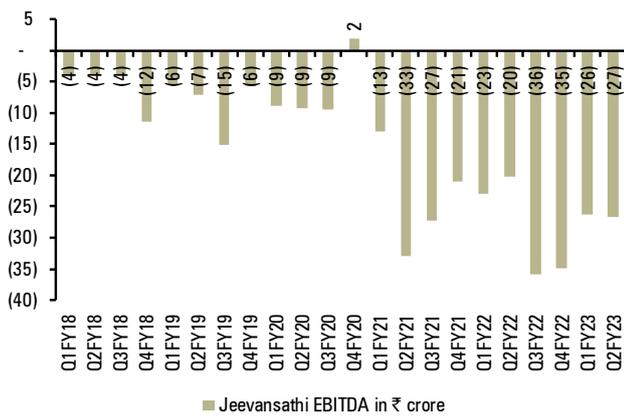
Source: Company, ICICI Direct Research

Exhibit 11: Revenues likely to be subdued for few quarters



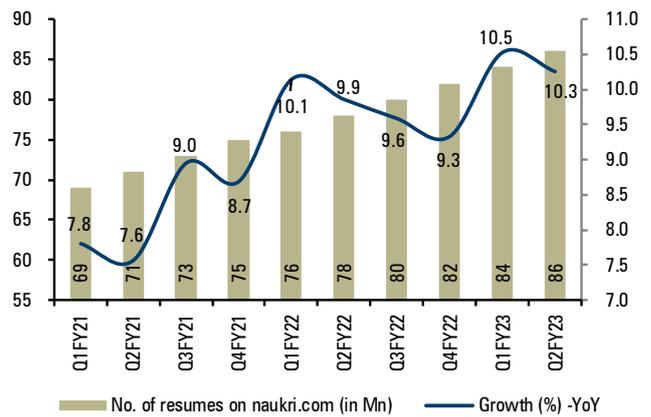
Source: Company, ICICI Direct Research

Exhibit 12: Jeevansathi losses expected to be lower in H2



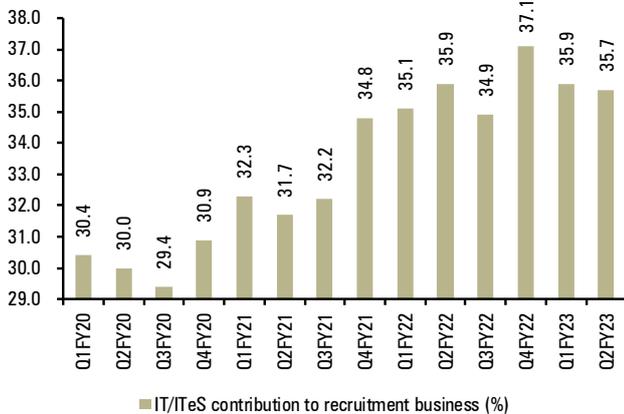
Source: Company, ICICI Direct Research

Exhibit 13: Number of resumes on Naukri remain high



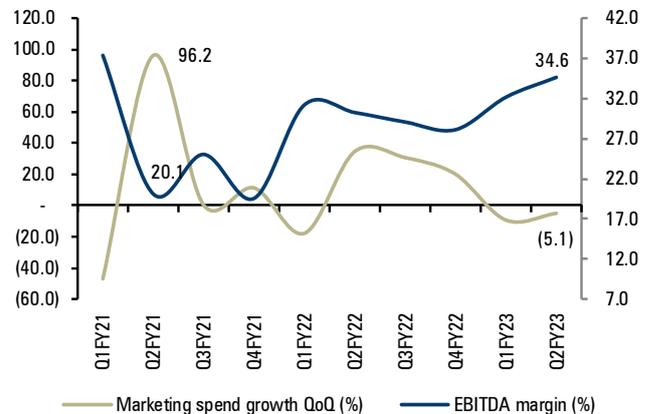
Source: Company, ICICI Direct Research

Exhibit 14: IT/ITeS contribution remains strong



Source: Company, ICICI Direct Research

Exhibit 15: Marketing spend moderation aiding margins



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	1,562	1,951	2,263	2,526
Growth (%)	39	25	16	12
Employee Expenses	711	871	973	1,136
Marketing Expenses	285	351	430	455
Network and Other Charg	32	33	38	40
Other Expenditure	70	88	102	88
EBITDA	464	608	720	806
Growth (%)	54	31	18	12
Depreciation	40	46	51	32
EBIT	424	562	669	774
Interest	5	5	5	5
Other Income	170	220	220	220
PBT	589	778	884	989
Total Tax	1,178	192	218	244
Reported PAT	8,923	586	666	745
Adjusted PAT	440	586	666	745
Growth (%)	47	33	14	12
Adjusted EPS (₹)	34.2	45.5	51.7	57.9

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	8,923	586	666	745
Add: Depreciation	40	46	51	32
(Inc)/dec in Current Assets	(6)	(13)	(8)	(7)
Inc/(dec) in CL and Provisions	12	84	158	133
Others	272	(546)	(366)	(186)
CF from operating activit	725	523	686	717
(Inc)/dec in Investments	(692)	10,432	(281)	(236)
(Inc)/dec in Fixed Assets	(24)	(24)	(24)	(24)
Others	(339)	660	440	220
CF from investing activiti	(1,054)	10,628	(85)	(40)
Proceeds from fresh issue of s	-	0	0	(298)
Inc/(dec) in loan funds	1	-	-	-
Dividend & DDT	(206)	(234)	(266)	-
Others	(5)	(5)	(5)	(5)
CF from financing activiti	(224)	(253)	(285)	(317)
Net Cash flow	(553)	10,898	316	360
Exchange difference				
Opening Cash	635	132	11,030	11,346
Closing Cash	132	11,030	11,346	11,706

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	129	129	129	129
Reserve and Surplus	13,843	14,195	14,594	15,041
ESOP	-	-	-	-
Secured Loan	0	0	0	0
Minority interest	-	-	-	-
Other non-current liabilitie	32	32	32	32
Sources of funds	14,004	14,356	14,755	15,202
Assets				
Gross Block	287	326	364	402
Less: Acc Depreciation	186	231	282	282
Net Block	88	95	82	120
Capital WIP	-	-	-	-
Net Intangible assets	3	3	3	3
Other Investments	-	-	-	-
Liquid Investments	441	441	441	441
Inventory	-	-	-	-
Debtors	8	9	11	12
Loans and Advances	-	-	-	-
Cash	132	11,030	11,346	11,706
Other Current Assets	2,522	2,533	2,540	2,545
Other Non-Current Assets	11,896	1,464	1,745	1,981
Creditors	104	104	121	135
Provisions	79	115	133	148
Other current liabilities	902	986	1,144	1,277
Net Current Assets	2,018	12,808	12,940	13,144
Application of Funds	14,004	14,356	14,755	15,202

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Reported EPS	34.2	45.5	51.7	57.9
Cash EPS	695.9	49.0	55.6	60.4
BV	1,084.9	1,112.2	1,143.2	1,177.9
DPS	13.0	18.2	20.7	-
Cash Per Share	10.3	856.5	881.0	909.0
Operating Ratios (%)				
EBITDA Margin	29.7	31.2	31.8	31.9
EBIT Margin	27.1	28.8	29.5	30.7
PAT Margin	28.2	30.0	29.4	29.5
Debtor days	2	2	2	2
Creditor days	24	19	19	19
Return Ratios (%)				
RoE	3.2	4.1	4.5	4.9
RoCE	4.2	5.4	6.0	6.5
RoIC	3.2	19.4	22.4	25.0
Valuation Ratios (x)				
P/E	6.0	91.5	80.5	71.9
EV / EBITDA	115.0	69.8	58.5	51.8
EV / Net Sales	34.1	21.7	18.6	16.5
Market Cap / Sales	34.5	27.6	23.8	21.3
Price to Book Value	3.8	3.7	3.6	3.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.1	1.8	1.6
Quick Ratio	2.3	2.1	1.8	1.6

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	1,103	1,115	BUY	2,99,317	49.8	52.8	58.3	22.1	20.9	18.9	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,594	1,670	BUY	6,70,695	52.1	59.7	68.7	30.6	26.7	23.2	36.0	35.8	38.3	29.2	29.7	31.6
TCS (TCS)	3,333	3,630	BUY	12,19,562	104.7	115.7	130.3	31.8	28.8	25.6	51.4	49.3	48.7	43.0	42.0	41.0
Tech M (TECMAH)	1,067	1,240	BUY	1,03,800	63.1	65.2	80.0	16.9	16.4	13.3	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	397	420	HOLD	2,17,607	23.5	23.1	26.1	16.9	17.2	15.2	18.8	18.7	20.3	19.6	18.5	20.1
LTI (LTINFC)	5,134	5,525	BUY	89,959	130.8	150.5	180.0	39.2	34.1	28.5	32.3	30.8	31.0	26.1	25.6	26.0
Mindtree (MINCON)	3,711	4,000	BUY	61,159	100.3	119.2	142.0	37.0	31.1	26.1	38.0	37.9	37.1	30.2	29.3	28.6
Coforge (NIITEC)	3,971	4,570	BUY	24,185	106.5	147.8	170.8	37.3	26.9	23.3	25.6	31.6	31.2	24.2	28.4	27.8
TeamLease (TEASER)	2,413	2,540	HOLD	4,125	22.5	72.9	88.0	107.4	33.1	27.4	15.4	15.4	16.0	(4.7)	15.1	15.6
Infoedge (INFEDG)	4,160	4,590	HOLD	52,280	35.8	45.5	51.7	116.3	91.5	80.5	4.2	5.4	6.0	3.2	4.1	4.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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