Just Dial (JUSDIA)

ICICI direct Research

CMP: ₹ 643 | Target: ₹ 760 (18%) | Target Period: 12 months | **BUY**

January 17, 2023

Company Update

Strong paid campaign addition likely to continue

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

Q3FY23 Results: JDL's revenue rebound continued in Q3FY23.

- Revenues grew 7.8%QoQ to ₹ 221.4 crore
- Paid campaigns grew 3.6% QoQ while realisation grew 4.1% QoQ
- Adjusted (ex-Esop) EBITDA grew ~380 bps QoQ to 13.3% to ₹ 29.4 crore

What should investors do? JDL's share price has grown by ~1.1x over the past five years (from ~₹ 573 in January 2018 to ~₹ 643 levels in January 2023).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value JDL at ₹ 760 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 23% 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 ₹ 1,350

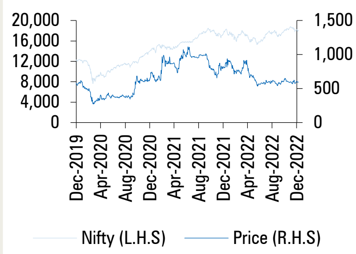
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,384.5
Total Debt(₹ Crore)	-
Cash and Investments (₹ Crore)	3,487.9
EV (₹ Crore)	1,896.6
52 week H/L	957 / 520
Equity capital	83.6
Face value	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	77.7	77.6	77.1	77.0
FII	3.4	3.2	2.9	2.7
DII	3.7	4.9	5.9	6.0
Others	15.3	14.3	14.2	14.3

Price Chart



Recent Event & Key risks

- Paid campaigns are almost at pre-Covid level now
- **Key Risk:** (i) Below expected margin performance (ii) Lower-than-expected revenue growth

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ICICI Securities – Retail Equity Research

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%	843	1,018	1,193	23%
EBITDA	155	(2.2)		86	178	256	
EBITDA Margins (%)	22.9	(0.3)		10.2	17.5	21.5	
Net Profit	214	71		123	214	277	58%
EPS (₹)	33.0	8.5		14.8	25.6	33.1	
P/E	19.5	75.9		43.6	25.2	19.4	
RoNW (%)	16.9	2.0		3.5	5.8	7.3	
RoCE (%)	19.0	2.5		4.2	7.0	8.7	

Source: Company, ICICI Direct Research

Key takeaways of result and conference call highlights

- The company continued to witness a rebound and reported revenue of ₹ 221.4 crore for the quarter, up 7.8% QoQ & 39.3% YoY. JDL indicated that the monthly ECS plans contributed ~₹ 124 crore i.e. ~56% of the revenue and grew 9.7% sequentially. JDL reported deferred revenue of ₹ 402.4 crore, up 6.3% QoQ & 23.5% YoY and indicated this revenue would be billed in eight to nine months
- Paid campaigns increased by 18,040 to 521,880, up 3.6% QoQ while average per paid realisation grew 4.1% QoQ to ₹ 4,242. The company reported that top 11 cities contributed ~42% of the paid campaigns and ~62% of revenue. On the pricing front, JDL indicated the price of paid campaigns in tier I cities is higher by 30-35% compared to tier II cities
- JDL continues to improve its EBITDA and reported an EBITDA of ₹ 27.2 crore while adjusted to Esop charges, EBITDA was at ₹ 29.4 crore. The adjusted EBITDA margin increased ~380 bps QoQ to 13.3% due to growth in revenue and operational efficiency. The company reported other income of ₹ 71.2 crore and PAT of ₹ 75.3 crore with PAT margin of 34%
- The company indicated that it has ₹ 3900 crore cash at the end of the quarter, out of which ₹ 2100 core was infused by Reliance Industries in the open offer while before that transaction, there was cash of ₹ 1500-1600 crore on the standalone entity. JDL mentioned that cash would be utilised on a) focusing on core business expansion b) on certain new initiatives being done. The company also said it operates in a disruptive sector and technology changes are very rapid. Hence, it needs to continue to invest in the business. JDL also indicated that it cannot rule out use of certain portion of the cash for inorganic opportunity if any such opportunity becomes available in the market. The company also indicated that in due course it will calibrate better utilisation of the cash. Currently, cash on yield is at 7-7.5%
- JDL mentioned that there is huge potential to increase paid campaigns in the medium to long term. The company indicated there are around 60-65 million (mn) registered SMEs in the country and more than 20 mn additional businesses in the form of gym, yoga instructors etc. Hence, the overall market opportunity is of 80-85 mn SMEs. JDL also indicated that even if it assumes 1% of them would be advertising on platforms like JD, there are potential 8-9 mn SMEs, which can advertise. The company currently has 521,000 paid campaigns. Hence, there is a huge opportunity in front of it in the medium to long term to increase this base
- On campaign additions, the company indicated that its paid campaign additions were strong in the last four to five quarters in the 10,000-20,000 additions per quarter. It expects the momentum in campaign additions to continue but paid campaign additions may not be linear, going forward, since Q3 is generally a weak quarter for it. The company indicated that during festivals in Q3, it has witnessed muted paid campaign additions. Generally, it has picked up in subsequent quarters. This trend is likely to continue, going ahead as well. The company also indicated paid campaign growth over the last four to five quarters has been broad based. As per the company none of the category contributes more than 4 to 5% of the paid campaign mix. The company also indicated that it does not see this materially changing, going forward as well. Growth is expected to be broad based as far as paid campaigns are concerned
- On EBITDA margins, the company indicated that as its business continues to return to normalcy after Covid disruption, margins are likely to continue their upward trajectory. The company also indicated that its business was operating in the EBITDA margin range of 25-28% in the pre-Covid era and it is likely to see EBITDA margins hovering around the same level next year this quarter. The company also indicated that since most of its hiring is done for new initiatives as well as far for core business in last four quarters, which was at an accelerated pace, the pace of hiring is now expected to moderate. JDL also indicated that EBITDA margin improvement is also a function of

timing since all the cost they incurred on employees has hit P&L immediately while employee takes anywhere between six to nine months to improve productivity and subsequently revenue generation. As the productivity of an employee improves, it is expected to help lift EBITDA margins. The company also indicated this along with moderated pace of advertising (6-7% of sales) will provide operating leverage

- The company indicated that 66% of its new customers, which it signed in Q3 are on a monthly payment basis. JDL also mentioned as a part of its strategy, it prefers customers who are paying it on a monthly basis and remain on their platform for the long term rather than customer making large upfront payments. The company also indicated that it is planning to take the monthly payment customers to 75% of the mix so that campaigning on its network remains affordable to it and is likely to improve stickiness. JDL also indicated that 55% of its customers have stuck with it for more than a year. It expects this number to scale up, going forward
- The company reported flattish QoQ unique quarterly visitor's growth with 0.1% growth to 156.7 million (mn). JDL reported that 85.5% of the traffic was mobile based while desktop & voice based were 10.9% & 3.6%, respectively. The company indicated that it is launching a new website with improved user experience. It would contribute to improve its traffic in desktop-based visitors. JDL's ratings and reviews increased 2% QoQ & 11.6% YoY to 139.8 mn while total app downloads were at 32.2 mn, up 1.6% QoQ & 7% YoY
- The company indicated that its realisable value of collection for Q3 was ~₹ 260-270 crore, which is higher than the pre-Covid levels of ₹ 235 crore. For the YTD December 2022, the realisable value of collections was ~ ₹760-770 crore compared to ₹435-440 crore for last year which was impacted by Covid
- The company during the quarter hired 615 net new employees taking the total sales employee strength to 11,947. JDL indicated that out the 615 employees 421 were additions to Tele marketing team while 18 & 176 were additions to Feet on Street (Marketing) & Feet on Street (JDA's), respectively
- The company indicated that its cost of revenue (sales team salaries & incentive to sales team/ direct revenue) was ~40-42% at pre Covid level & currently post the ramp up of sales team is at 47-48%. The company further indicated that it aims to be back to the pre-Covid level of cost of revenue & the same can be achieved as the productivity of its newly hired employees improves
- JDL indicated that it had capitalised ~₹ 5 crore on the new initiatives in Q3FY23 taking the total capitalisation in 9MFY23 to ~₹ 27 crore as intangibles. The company further indicated that it expects to amortise some them as it goes live from Q1FY24 as per its useful life
- In the new initiatives, the company indicated that it expects to launch JD Experts services and JDmart from Q4FY23 in major cities of India. Regarding JD shopping the company indicated that it has delayed its launch for some time as the company does not see any urgency to launch this. It also indicated that the model is not feasible on unit economics at this time. JDL indicated that at the present model the company will make ~7-8% commission from sales through JD Shopping. The company further indicated that it using this opportunity to add transaction layer to its platform wherein the users will be able to transact on the platform or use its platform for making payments to the vendors

Exhibit 1: P&L

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	221.4	158.9	39.3	205.3	7.8	Revenue aided by additions of 18K paid campaigns in Q3 & increase in realizations
Employee expenses	167.3	129.6	29.1	162.5	3.0	
Gross Margin	54.1	29.3	84.6	42.8	26.3	
Gross margin (%)	24.4	18.4	599 bps	20.8	357 bps	
Other expenses	26.9	24.1	11.7	25.8	4.2	
EBITDA	27.2	5.2	421.5	17.0	59.9	
EBITDA Margin (%)	12.3	3.3	899 bps	8.3	400 bps	EBITDA margins excluding ESOP expenses increased by 380 bps QoQ to 13.3%
Depreciation & amortisation	8.5	7.3	16.5	7.7	9.9	
EBIT	18.7	(2.1)	(1,007.8)	9.3	101.5	
EBIT Margin (%)	8.4	(1.3)	974 bps	4.5	393 bps	
Other income (less interest)	69.0	26.5	160.8	55.0	25.6	
PBT	87.7	24.4	259.5	64.2	36.5	
Tax paid	12.4	5.0	147.4	12.1	2.5	
PAT	75.3	19.4	288.4	52.2	44.4	

Source: Company, ICICI Direct Research

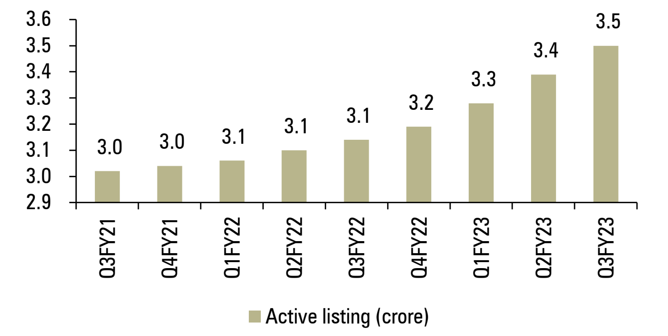
Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	827	843	1.9	982	1,018	3.7	1,151	1,193	3.7	Re-aligned numbers on strong 9MFY23 performance
EBITDA	77	86	11.2	156	178	13.9	235	256	9.1	
EBITDA Margin (%)	9.3	10.2	85 bps	15.9	17.5	157 bps	20.4	21.5	107 bps	EBITDA margins are likely to see expansion on moderation of employee additions and advertising & promotion expenses
PAT	81	123	53.3	196	214	9.0	260	277	6.7	
EPS (₹)	9.6	14.8	53.3	23.5	25.6	9.0	31.1	33.1	6.7	

Source: Company, ICICI Direct Research

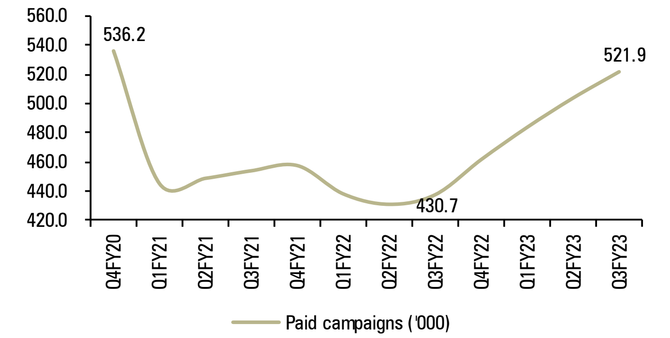
Key metrics

Exhibit 3: Active listings continue to grow



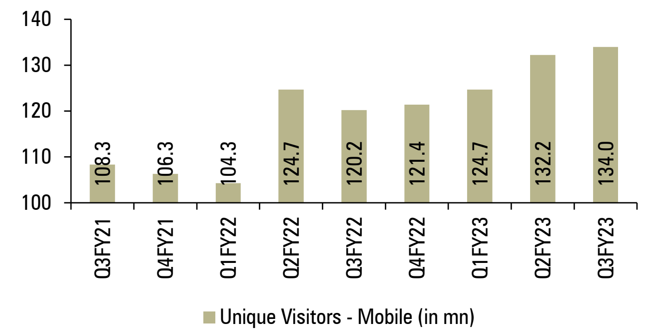
Source: Company, ICICI Direct Research

Exhibit 4: Campaigns almost at pre-Covid levels



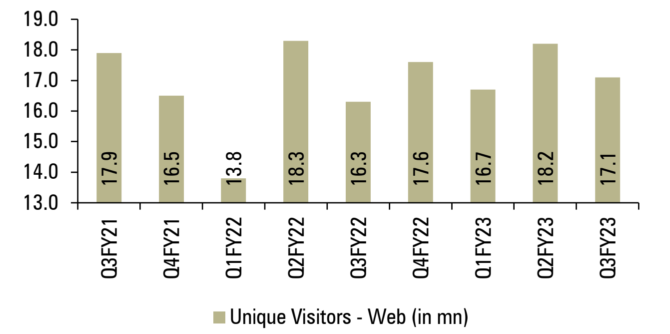
Source: Company, ICICI Direct Research

Exhibit 5: Unique mobile visitors dominate traffics



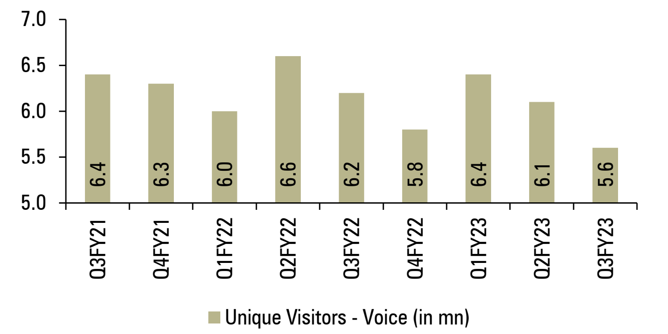
Source: Company, ICICI Direct Research

Exhibit 6: While unique web visitors decline in Q3FY23



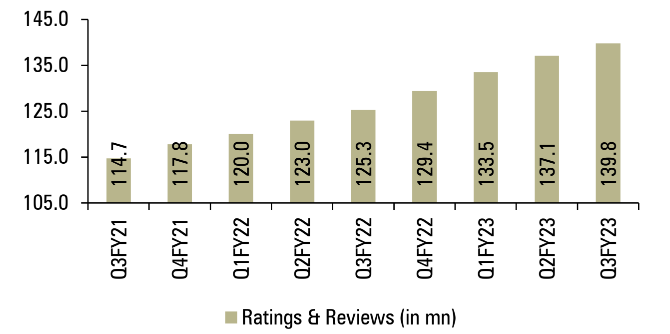
Source: Company, ICICI Direct Research

Exhibit 7: Unique voice visitors trend



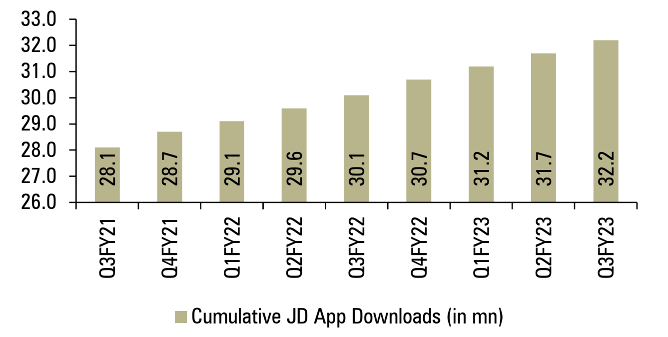
Source: Company, ICICI Direct Research

Exhibit 8: Ratings & reviews trend



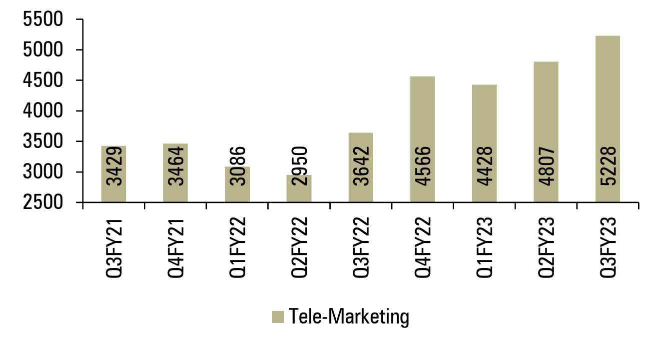
Source: Company, ICICI Direct Research

Exhibit 9: JD app download trend



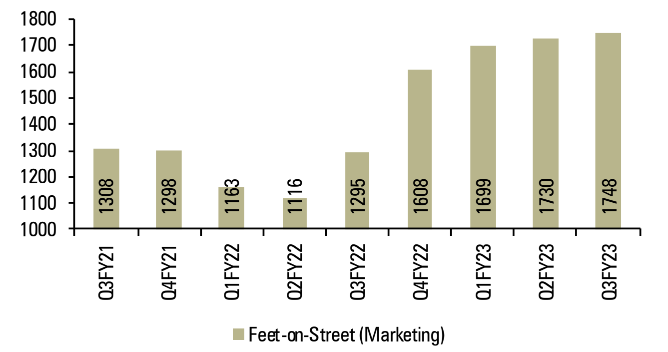
Source: Company, ICICI Direct Research

Exhibit 10: Telemarketing hiring continues



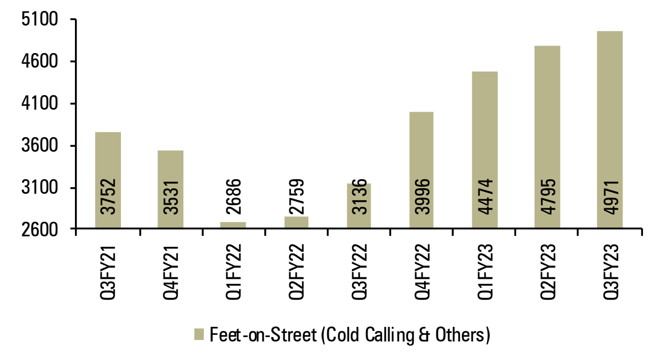
Source: Company, ICICI Direct Research

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



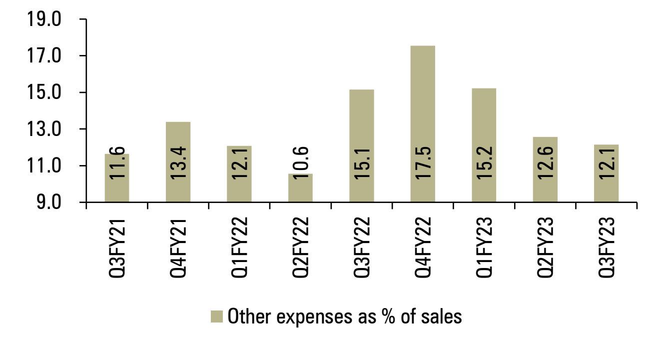
Source: Company, ICICI Direct Research

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



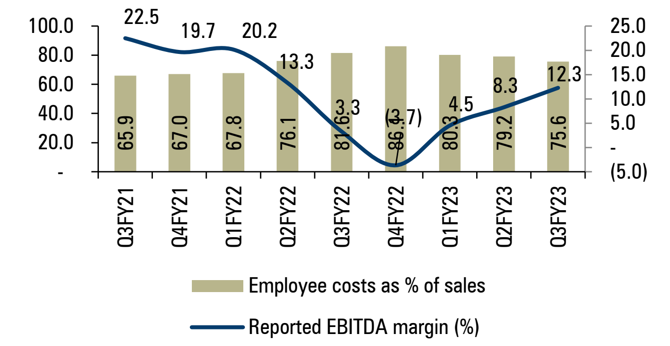
Source: Company, ICICI Direct Research

Exhibit 13: Other expenses as percentage of sales moderating



Source: Company, ICICI Direct Research

Exhibit 14: Operating leverage aiding margin improvement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & loss statement (₹ crore)

	FY22	FY23E	FY24E	FY25E
Total Revenues	**647**	**843**	**1,018**	**1,193**
Growth (%)	(4.2)	30.2	20.8	17.2
COGS	504	648	723	800
Other Expenses	145	109	117	137
EBITDA	**(2)**	**86**	**178**	**256**
Growth (%)	(101.4)	(4,070.0)	107.4	44.0
Depreciation	30	30	28	28
Other Income	122	98	120	120
Interest paid	7	7	6	6
PBT	83	147	264	342
Growth (%)	(67.3)	76.2	79.7	29.7
Total Tax	12	23	50	65
PAT	71	123	214	277
Adjusted PAT	**71**	**123**	**214**	**277**
Adjusted PAT (Growth %)	(66.9)	74.3	73.1	29.7
EPS - diluted	8.5	14.8	25.6	33.2
EPS (Growth %)	(74.3)	74.3	73.1	29.7

Source: Company, ICICI Direct Research,

Exhibit 16: Cash flow statement (₹ crore)

	FY22	FY23E	FY24E	FY25E
Net profit before Tax	83	147	264	342
Depreciation	30	30	28	28
(inc)/dec in Current Assets	2	(16)	(20)	(20)
(inc)/dec in current Liabilities	21	101	132	132
CF from operations	**39**	**148**	**240**	**303**
Other Investments	(2,172)	98	120	120
(Purchase)/Sale of Fixed Assets	(15)	(5)	(6)	(7)
CF from investing Activities	**(2,187)**	**93**	**114**	**113**
Inc / (Dec) in Equity Capital	2,166	-	-	-
Othes	(22)	(22)	(22)	(22)
Dividend & Buyback	-	(62)	(107)	(139)
Interest Paid on Loans	-	(7)	(6)	(6)
CF from Financial Activities	**2,109**	**(90)**	**(135)**	**(166)**
Cash generating during the year	(38)	150	219	249
Opening cash balance	61	22	173	392
Closing cash	**22**	**173**	**392**	**641**

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet (₹ crore)

	FY22	FY23E	FY24E	FY24E
Equity	84	84	84	84
Reserves & Surplus	3,403	3,464	3,571	3,710
Networth	3,486	3,548	3,655	3,793
Minority Interest	-	-	1	1
Total Debt	-	-	-	-
Other long term liabilities	124	145	175	205
Source of funds	**3,610**	**3,693**	**3,830**	**3,998**
Net Block	131	122	116	110
CWIP	-	-	-	-
Other intangible assets&Goo	3	3	3	2
Other long term assets	363	365	378	390
Current investments	3,465	3,465	3,465	3,465
Other financial assets	9	15	18	21
Cash & Cash equivalents	23	173	392	641
Loans and advances	0	1	1	2
Other Current Assets(OCA)	40	52	63	74
Trade payables	15	18	22	26
Other Current liabilities	395	471	569	667
Provisions	14	14	14	14
Application of funds	**3,610**	**3,693**	**3,830**	**3,998**

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Adjusted EPS (Diluted)	8.5	14.8	25.6	33.1
BV per share	417.0	424.3	437.1	453.7
DPS	-	7.4	12.8	16.6
Cash per Share	2.8	20.6	46.9	76.7
Operating Ratios				
EBITDA Margin (%)	(0.3)	10.2	17.5	21.5
EBIT Margin (%)	(5.0)	6.6	14.7	19.1
PAT Margin (%)	10.9	14.6	21.0	23.2
Creditor days	8	8	8	8
Return Ratios (%)				
RoE	2.0	3.5	5.8	7.3
RoCE	2.5	4.2	7.0	8.7
Valuation Ratios (x)				
P/E	75.9	43.6	25.2	19.4
EV / EBITDA	NA	16.4	6.7	3.7
Price to Book Value	1.5	1.5	1.5	1.4
EV / Net Sales	2.9	1.7	1.2	0.8
Market Cap / Sales	8.3	6.4	5.3	4.5
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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