Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Info Edge (India) Ltd

Decent Q3 Maintain Buy

Internet & New media	Sharekhan code: NAUKRI
Reco/View: Buy ↔	CMP: Rs. 3,464
	Price Target: Rs. 4,676 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	+	↔	+
RQ	+	↔	+
RV	=	↔	=

ESG Disclosure Score NEW

ESG RISK RATING	20.12
Updated Dec 08, 2022	

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

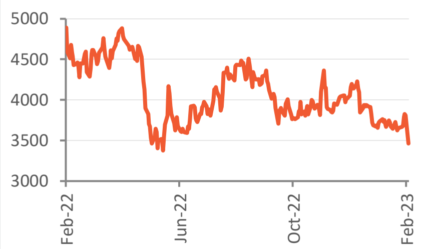
Company details

Market cap:	Rs. 44,753 cr
52-week high/low:	Rs. 4,977 / 3,314
NSE volume: (No of shares)	3.8 lakh
BSE code:	532777
NSE code:	NAUKRI
Free float: (No of shares)	8.0 cr

Shareholding (%)

Promoters	38.1
FII	31.9
DII	16.8
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	-15.5	-21.8	-24.6
Relative to Sensex	-7.5	-13.3	-23.5	-28.5

Sharekhan Research, Bloomberg

Summary

- For Q3FY23, Info Edge standalone revenues at Rs. 555.2 crore, up 33.4% y-o-y, in-line with our estimate. EBITDA margin at 39.1%, improved 450 bps q-o-q and also beat estimates by ~400 bps led by a sequential decline in advertising & promotion cost and Network, Internet and direct charges.
- Revenue growth was aided by strong traction in billings, up ~15 y-o-y, led by~18% y-o-y growth in recruitment and~ 16% y-o-y growth in 99acres. Naukri's EBITDA margin continued to improve at 62.9%, up 210 bps q-o-q.
- Management stated that it experienced longer sales cycle and spend optimization during the quarter especially for IT. The management stated that the IT hiring is muted as IT is facing some slowdown while non-IT hiring such as insurance, hospitality, retail and banking posted robust growth.
- We maintain a Buy on Info Edge with a revised PT of Rs. 4,676 given its leadership position in Recruitment and real estate verticals but we have lowered the target price to reflect lower EV/EBITDA multiple for recruitment business (due to slowdown in IT hiring) and current market value of investment in *Zomato and policy bazaar.* At CMP the stock trades at 56.1x/50.8x FY24E/FY25E EPS and 49.9x/44.3x FY24E/FY25E EV/EBITDA.

For Q3FY23, Info Edge delivered a decent performance with Revenues growing 33.4% y-o-y /4.4% q-o-q to Rs. 555.2 crore, in line with our estimates. The growth in revenues was led by Recruitment Solutions and 99acres, which grew 40.3% y-o-y/24% y-o-y respectively. EBITDA margins improved 1,000 bps y-o-y/450 bps q-o-q to 39.1% in Q3FY2023, beating our estimates by ~400 bps led by decline in advertising & promotion costs, down 10.2% y-o-y and decline of 2.3% q-o-q in Network and other direct charges. Adjusted net profit stood at Rs. 191.7 crore, rising 61.7% y-o-y. However, the company reported a loss of 84.2 crore due to write-off entire investment of Rs 276 crore in the Proptech start-up 4B Network Ltd. The management stated that the company experienced longer sales cycle and spend optimisation, during the quarter especially for IT. The management stated that the IT hiring is muted as IT is facing some slowdown while non-IT hiring such as insurance, hospitality, retail and banking posted robust growth. We maintain a Buy on Info Edge with a revised PT of Rs. 4,676 given its leadership position in Recruitment and real estate verticals but we have lowered the target price to reflect lower EV/EBITDA multiple for recruitment business (due to slowdown in IT hiring) and current market value of investment in Zomato and policy bazaar. At CMP the stock trades at 56.1x/50.8x FY24E/FY25E EPS and 49.9x/44.3x FY24E/FY25E EV/EBITDA.

Key positives

- Operating EBITDA expanded in Q3FY23 to 39.1%, up 1000 bps from 29.1% in Q3FY22
- Naukri's EBITDA margin continued to improve at 62.95, up 210 bps q-o-q

Key negatives

- Written down entire investment of Rs. 276 crore in Proptech start-up 4B Network Ltd.
- Jeevansathi's revenue declined by 26.3% y-o-y to Rs. 17.9 crore with billing declining 30.1% y-o-y to 17.1 crore.

Management Commentary

- Management stated that it experienced a longer sales cycle and spend optimization during the quarter especially for IT. Management added that IT hiring Index was down 14% while non-IT customer base sectors such as insurance, hospitality, retail and banking posted robust growth. The management cited that they are seeing higher demand for commercial space from non-IT and retail users.
- Management reiterated that Naukri remains the number one priority and that being bread and butter they need to defend market share and hence, they continue to invest in core platform. The company also mentioned that 99 acres continues to be important vertical and have set an internal billing target of Rs100 crore for Q4 .Shiksha has been growing at a reasonable rate and has turned marginally positive.
- Commenting on the write-off of the entire investment in Proptech startup 4B Networks the management expressed uncertainty regarding the overall funding environment but allayed apprehensions with respect to real estate and *99acres.*

Revision in estimates – We have fine-tuned our earnings estimates for FY23/FY24/FY25.

Our Call

Valuation – Maintain Buy on Info Edge with a revised PT of Rs. 4,676: We maintain a Buy on Info Edge with a revised PT of Rs. 4,676 given its leadership position in Recruitment and real estate verticals but we have lowered the target price to reflect lower EV/EBITDA multiple for recruitment business (due to slowdown in IT hiring) and current market value of investment in Zomato and policy bazaar. At CMP the stock trades at 56.1x/50.8x FY24E/FY25E EPS and 49.9x/44.3x FY24E/FY25E EV/EBITDA.

Key Risks

Intense competition from international and domestic players in the recruitment business could affect growth trajectory and margins of the recruitment business. Further, high competitive intensity in the real estate segment could enhance losses.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	1,562.5	2,178.4	2,455.3	2,739.2
OPM (%)	29.7	35.5	35.9	36.2
Adjusted PAT	440.4	698.2	797.2	880.3
% YoY growth	56.3	58.5	14.2	10.4
Adjusted EPS (Rs.)	34.2	54.0	61.8	68.1
PER (x)	101.3	64.1	56.1	50.8
P/BV (x)	3.2	3.1	3.0	2.9
EV/EBITDA (x)	94.9	57.0	49.9	44.3
ROE (%)	9.4	13.8	14.5	14.6
ROCE (%)	6.7	11.0	11.7	12.0

Source: Company; Sharekhan estimates

Q3FY2023 Conference Call Highlights

- **Billings growth momentum moderates:** Total billings moderated in Q3FY23, up~15% y-o-y compared to 31% y-o-y growth seen in Q2FY2023 led by moderation in Recruitment solutions and 99acres which grew ~18%/16% y-o-y, respectively. Deferred revenue growth remained strong at 34% y-o-y to Rs.835.4 crore in Q2FY2023.
- **Recruitment solutions growth moderates:** Growth in recruitment billings moderated to 15% y-o-y to Rs. 434.6 crore in Q3FY2023 with Recruitment Solutions revenue growing by 40% y-o-y to Rs. 436.8 crore. EBITDA for the quarter stood at Rs 274.7 crore, a growth of 46.5% y-o-y.
- **Activities on recruitment platforms remained strong:** The number of unique customers grew by 7% y-o-y compared to 16% y-o-y growth in Q2FY2023. Average CV additions per day increased by 11% on y-o-y to 20,000. Average CV modifications per day grew by 4% y-o-y to 4,20,000.
- ***99acres.com*:** The company's total number of listings on its 99acres platform declined 0.5% y-o-y, while total number of paid listings increased by ~18% y-o-y. However *99acres.com*'s billings grew by ~16% y-o-y to Rs. 71.1crore in Q3FY2023. 99acres.com's revenue grew by 24% y-o-y to Rs. 72.9 crore. EBITDA for Q3Fy23 losses stood at Rs. 23.2.
- ***Jeevansathi.com* - Revenue loss but market share gains:** *Jeevansathi.com* billings declined by 30.1% y-o-y to 17.1 crore compared to 30.4% y-o-y to Rs. 16.9 crore in Q2FY2023, while revenue declined by 26.3 y-o-y to Rs. 17.9 crore. Operating losses stood at Rs. 25.3 crore on account of new strategy to drive traffic by offered several free features to gain share market.
- ***Shiksha.com.com*:** Billings grew by 8.5% y-o-y to Rs. 27.8 crore, while its revenue grew by 26.2% y-o-y to Rs. 27.7 crore. *Shiksha.com*'s EBITDA stood at Rs. 1.7 crore during the quarter.
- **4B Networks:** Info Edge has written down its entire investment in Proptech startup 4B Networks. The company had invested Rs 276 crore in the company as of September 2022 and attributed the write-down due to concerns around the uncertainty of the funding environment.

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Net Sales	**555.2**	**416.1**	**531.8**	**33.4**	**4.4**
Network, internet and other direct charges	11.1	8.1	11.3	36.3	-2.3
Employee benefits Expense	226.2	186.8	225.9	21.1	0.1
Advertising and promotion cost	74.6	80.6	83.1	-7.4	-10.2
Other Expenses	26.5	19.7	27.6	34.7	-3.9
Operating profit	**216.8**	**120.9**	**184.0**	**79.3**	**17.8**
Depreciation and amortisation	11.5	9.9	10.5	16.4	9.6
EBIT	**205.3**	**111.0**	**173.5**	**84.9**	**18.3**
Other Income	39.6	42.8	49.9	-7.4	-20.7
PBT	**244.0**	**152.7**	**222.5**	**59.8**	**9.7**
Provision of Tax	52.3	34.2	54.4	53.0	-3.9
Net income	**191.7**	**118.5**	**168.1**	**61.7**	**14.1**
Minority Interest	0.0	0.0	0.0		
Adjusted Net Income	**191.7**	**118.5**	**168.1**	**61.7**	**14.1**
Exceptional Item	276.0	-217.8	0.0	-226.7	#DIV/0!
Reported Net Income	-84.3	336.4	168.1	-125.0	-150.1
Adjusted EPS (Rs)	14.8	9.7	13.8	52.5	7.5
Margin (%)				**(Bps)**	**(Bps)**
GPM	57.3	53.2	55.4	411	186
OPM	39.1	29.1	34.6	1000	445
EBIT Margin	37.0	26.7	32.6	1030	435
NPM	34.5	28.5	31.6	605	293
Tax Rate	21.4	22.4	24.4	-100	-302

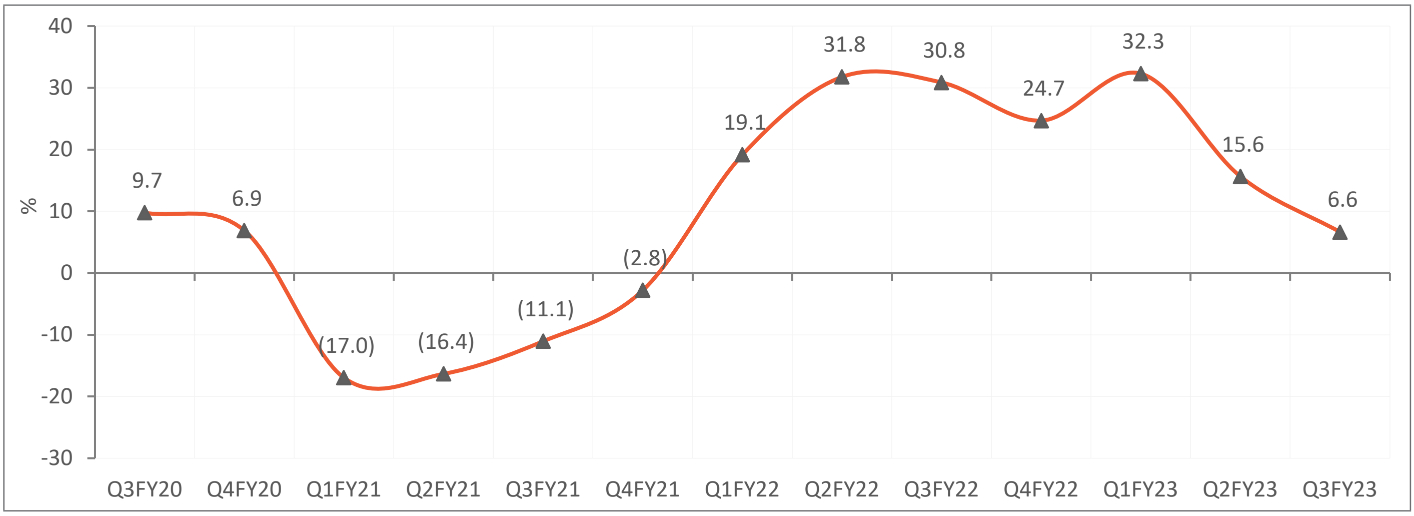
Source: Company; Sharekhan Research

SOTP Valuation

Business segment	Stake	Valuation methodology	Per share value (Rs.)
Recruitment business	100%	EV/EBITDA	3359
99 Acres	100%	EV/Sales	231
Jeevansathi.com	100%	EV/Sales	47
Shiksha	100%	EV/Sales	53
Standalone business (per share)			**3690**
Zomato Media Pvt. Ltd.	15%		426
PolicyBazzar (Etechaces Marketing)	13%		194
Others investee company			40
Cash		Per share	326
Total per share			**4,676**

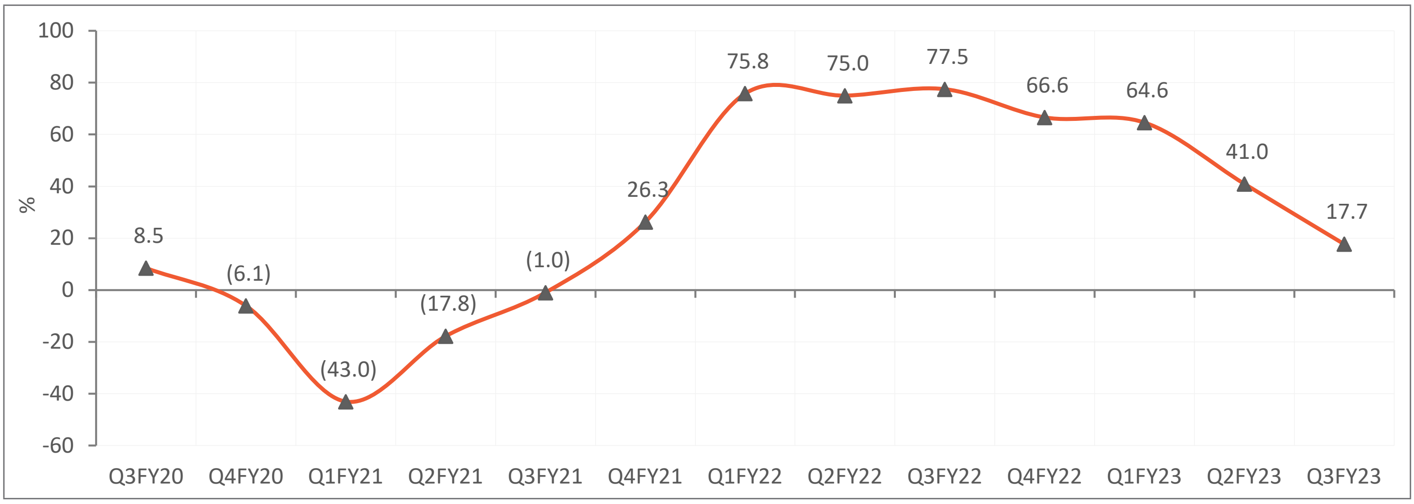
Source: Company; Sharekhan Research

Naukri: Unique paying member growth trends (y-o-y)



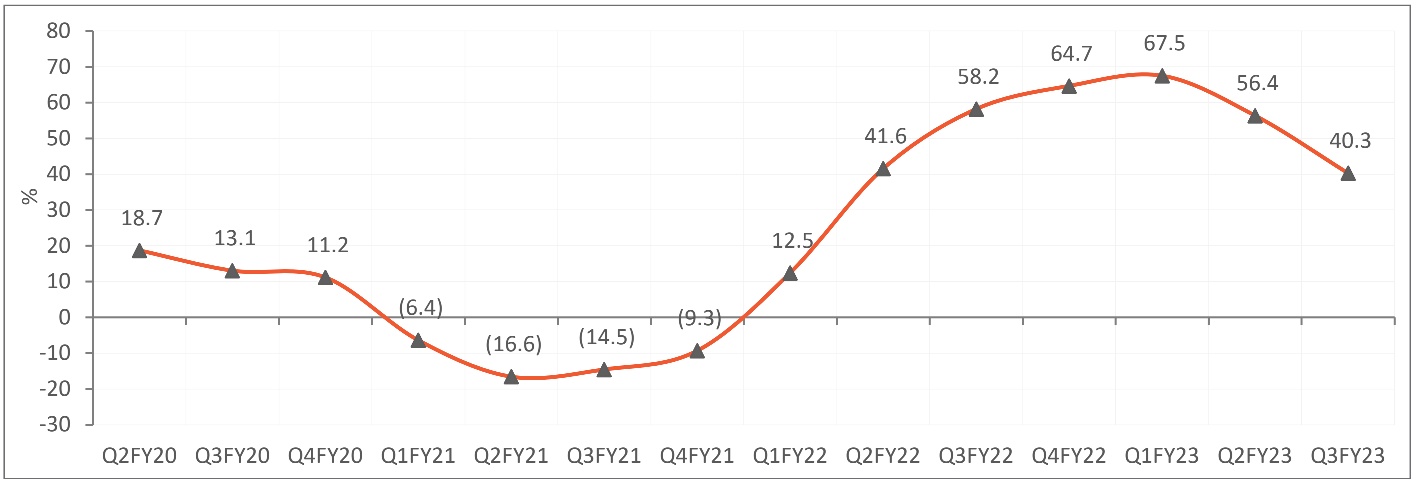
Source: Company; Sharekhan Research

Naukri billing growth trends (y-o-y)



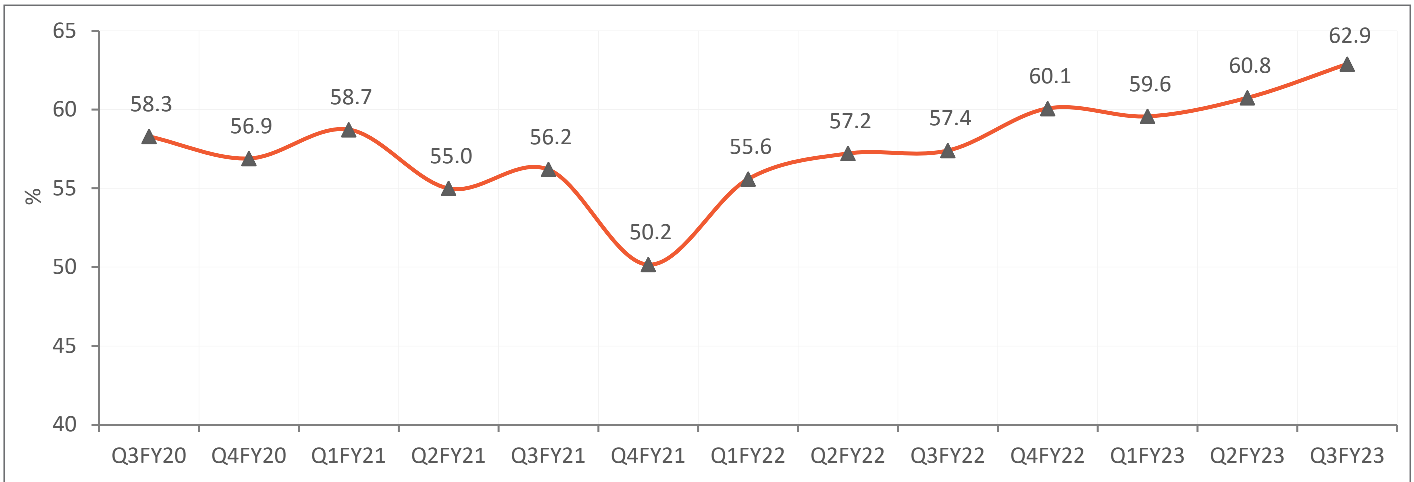
Source: Company; Sharekhan Research

Naukri revenue growth trends (y-o-y)



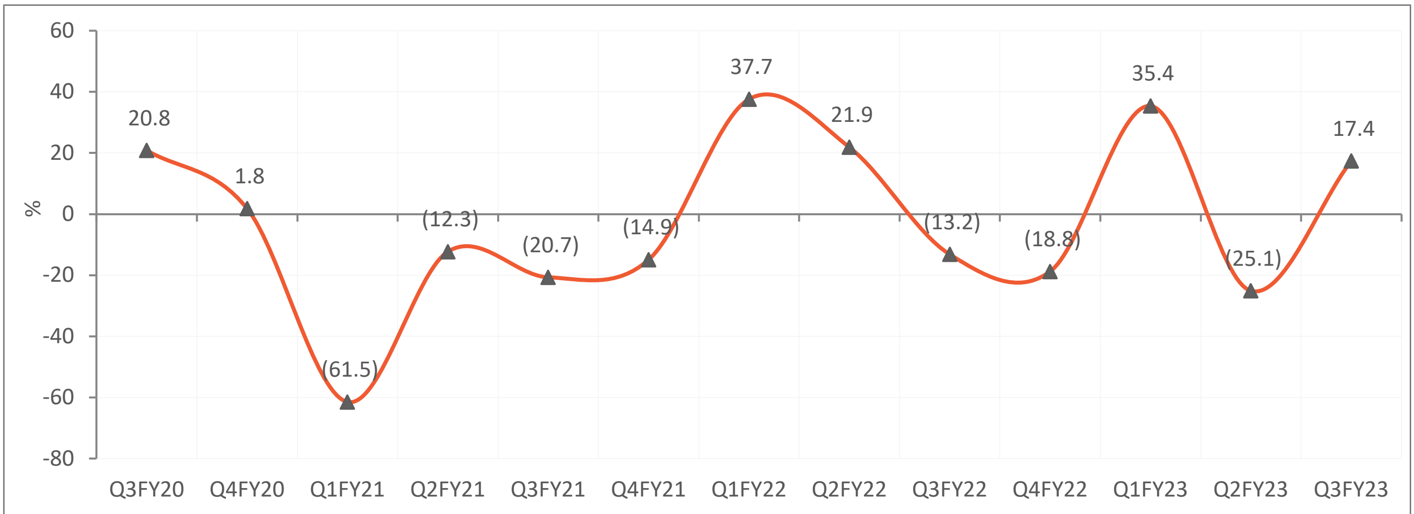
Source: Company; Sharekhan Research

Naukri EBITDA margin trends (%)



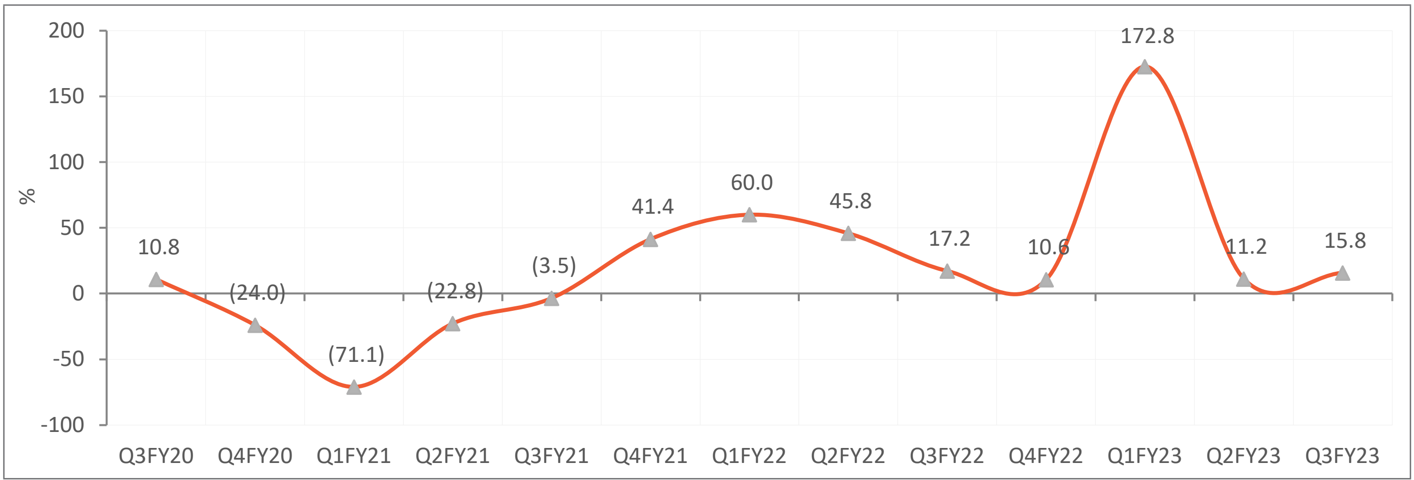
Source: Company; Sharekhan Research

99acres paid listing trends (y-o-y)



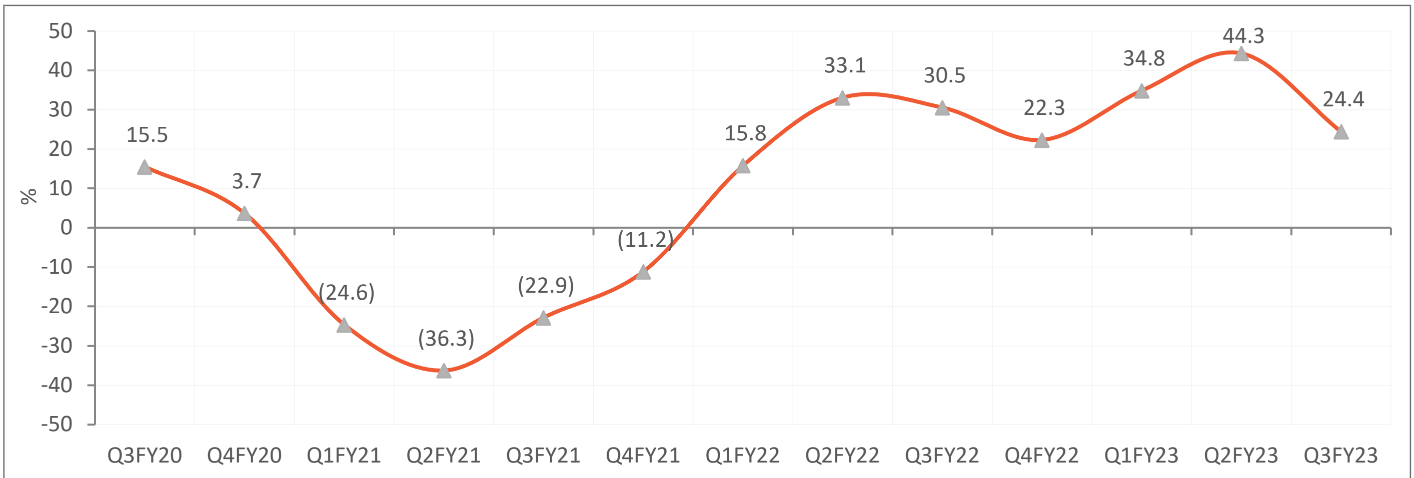
Source: Company; Sharekhan Research

99acres billing growth trends (y-o-y)



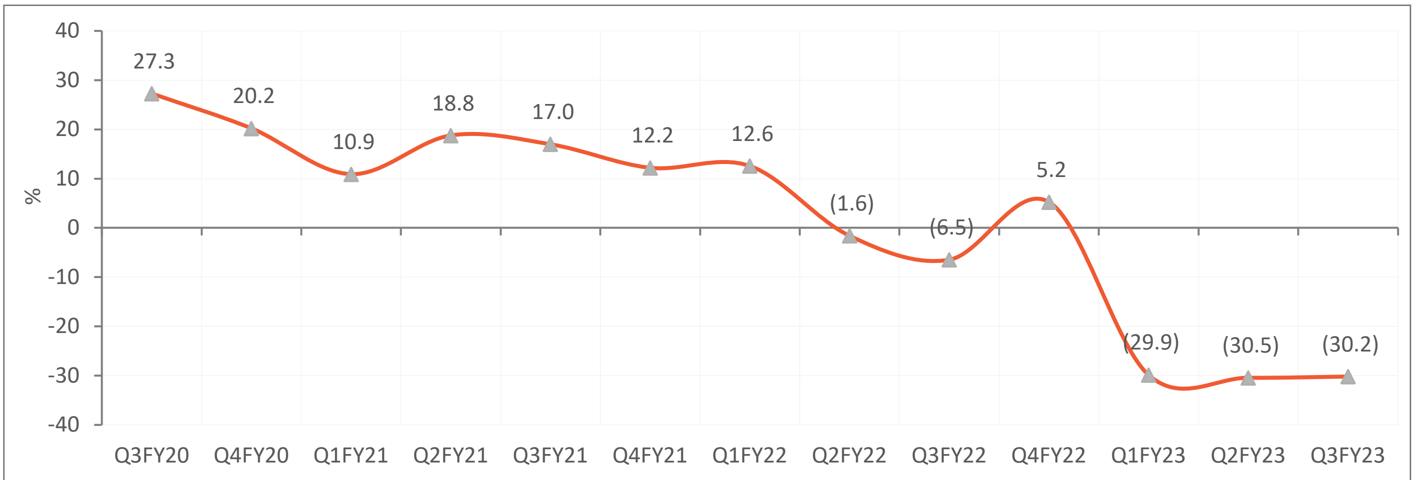
Source: Company; Sharekhan Research

99acres revenue growth trends (y-o-y)



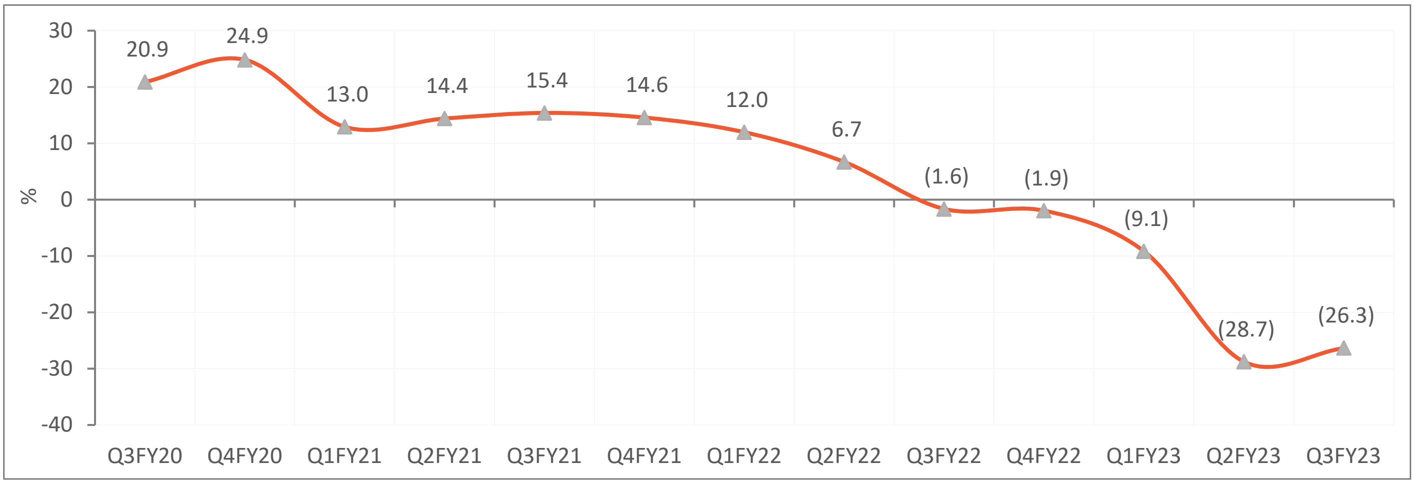
Source: Company; Sharekhan Research

Jeevansathi billing growth trends (y-o-y)



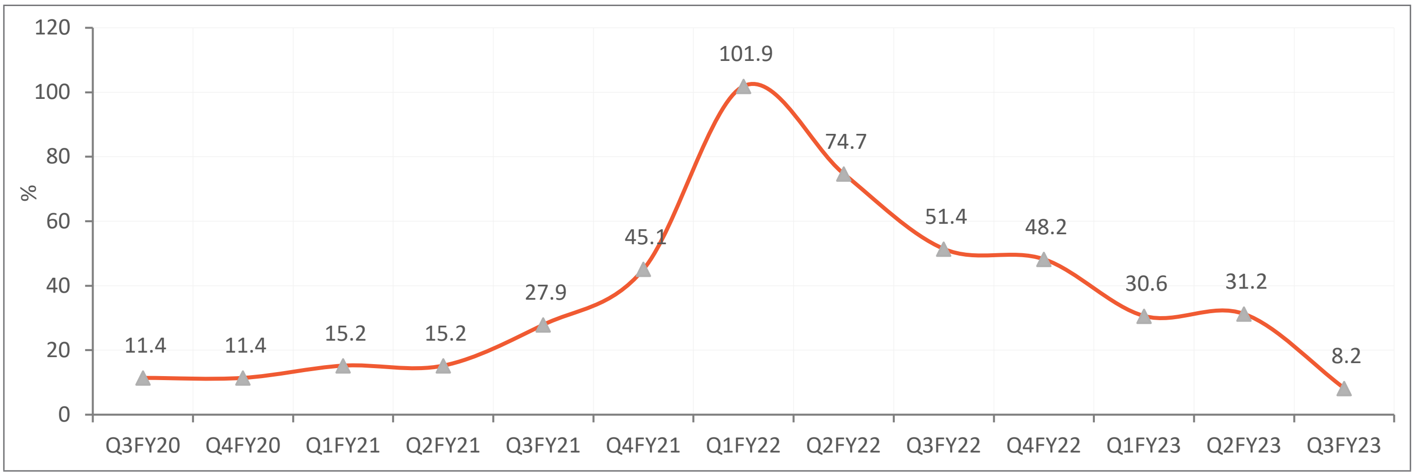
Source: Company; Sharekhan Research

Jeevansathi revenue growth trends (y-o-y)



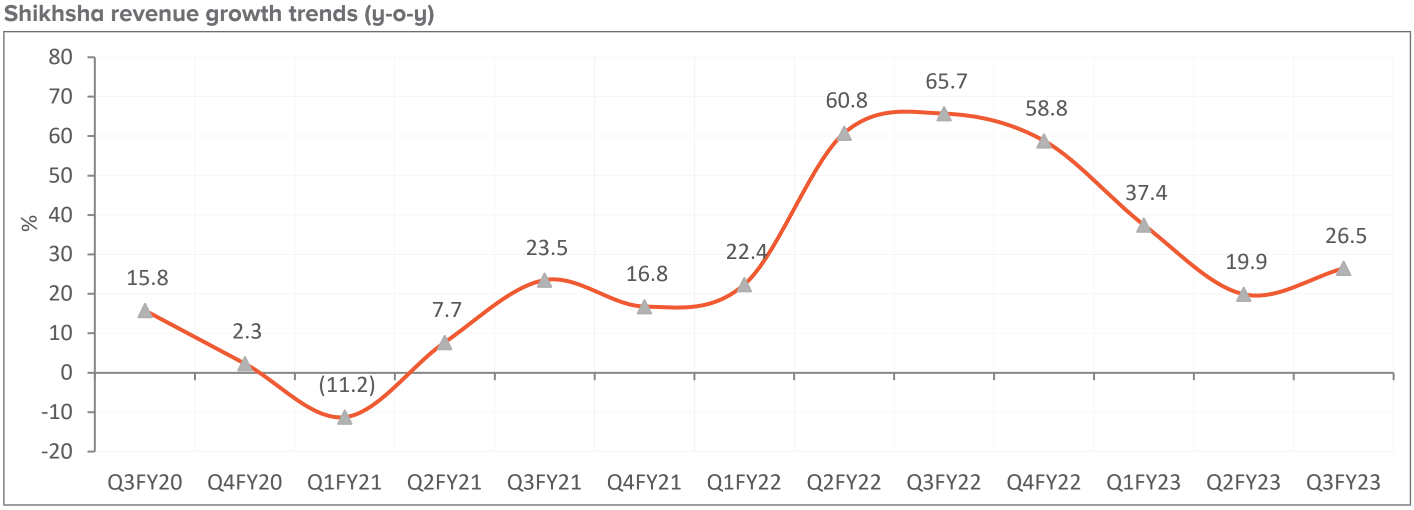
Source: Company; Sharekhan Research

Shikhsha billing growth trends (y-o-y)



Source: Company; Sharekhan Research

Shikhsha revenue growth trends (y-o-y)



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect acceleration in internet businesses going forward

Info Edge's recruitment business directly and disproportionately benefits from pick-up in GDP growth. With a strong shift from print ads to digital and lower interest rate, we expect high-growth trajectory for 99acres.com in the long term. Further, India's real estate online classifieds market is expected to be worth Rs. 60 billion by 2030, with a 21% CAGR over 2018-2030E.

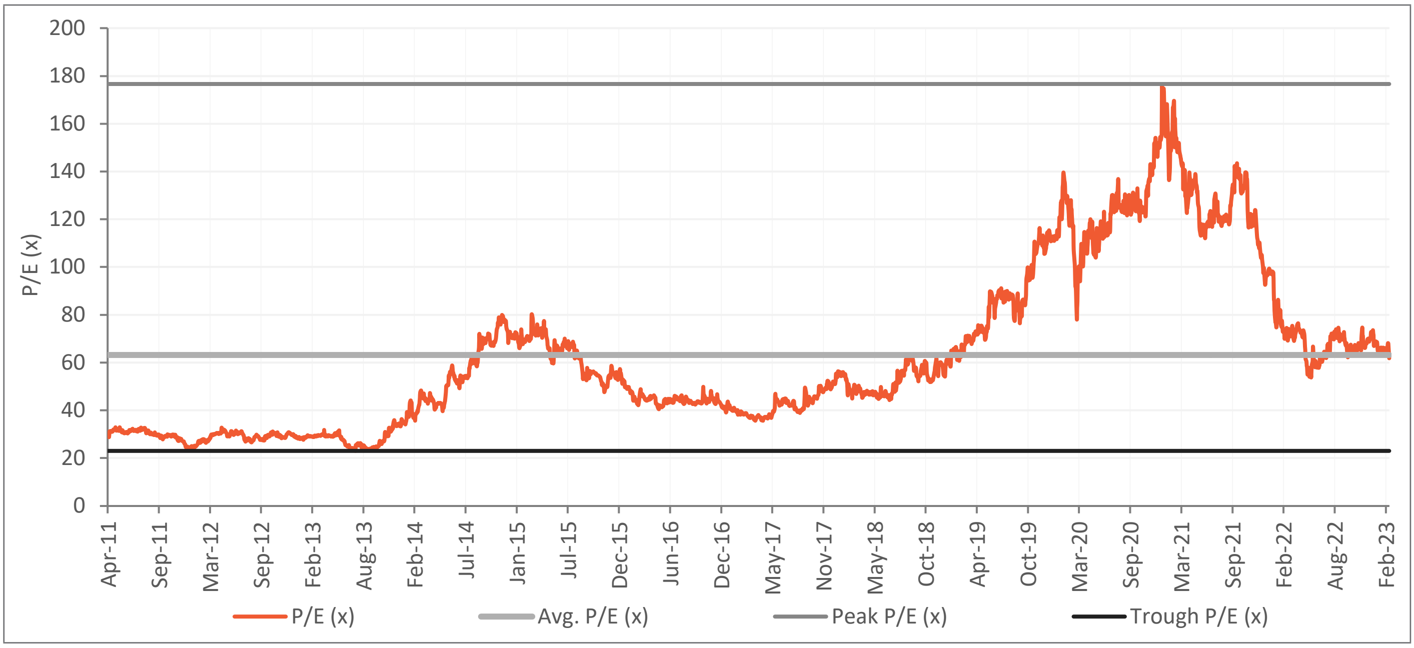
■ Company Outlook – Poised to lead the pack

Info Edge is a leading online classifieds company with a strong position in recruitment, real- estate, matrimony, and education. Info Edge continues to sustain its strong traffic share across its core businesses over the past few quarters. Among its early investments in start-ups, Zomato and PolicyBazaar.com have emerged as big bets and have a huge potential to grow in the coming years. In the long term, we believe market-leading position across core businesses along with improving traction in certain investee companies and potential higher valuation for its financial investments would bode well for the company.

■ Valuation – Maintain Buy on Info Edge with a revised PT of Rs. 4676

We maintain a Buy on Info Edge with a revised PT of Rs. 4,676 given its leadership position in Recruitment and real estate verticals but we have lowered the target price to reflect lower EV/EBITDA multiple for recruitment business (due to slowdown in IT hiring) and current market value of investment in Zomato and policy bazaar. At CMP the stock trades at 56.1x/50.8x FY24E/FY25E EPS and 49.9x/44.3x FY24E/FY25E EV/EBITDA.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Info Edge is India's largest listed internet technology player, operating in businesses such as online recruitment, real estate, matrimony, and others. The company operates in the online recruitment business under its flagship brand *Naukri.com*, which has a share of more than 80% of the recruitment market. The company's other businesses such as online real estate and matrimony divisions operate under *99acres.com* and *Jeevansathi.com*, respectively. The company also has stakes in a number of companies, including *Zomato* and *Policybazaar.com*.

Investment theme

Info Edge enjoys a leadership position in its core businesses such as online recruitment, real estate, and matrimony and stands to benefit from the rising popularity of these platforms with greater internet penetration. Naukri is the leader in the industry and its revenue growth is directly linked to GDP growth. Cash generated by *Naukri.com* supports other businesses (*99acres and Jeevansathi.com*) and investments in start-ups. 99acres is well placed to capitalise from increasing spends on the digital front by real estate developers and brokers. In addition, the company has invested in more than 20 start-ups, of which some investments (Zomato and Policybazaar) have created higher value for the company. We believe Zomato and Policybazaar are now uniquely placed with a good brand names.

Key Risks

1) Entry of large internet players with aggressive expansion plans and any slower-than-expected economic recovery could affect growth trajectory and margins of the recruitment business, 2) any new technology that can provide tough competition to core businesses, 3) high competitive intensity in the real estate segment would widen losses, 4) higher competition for attracting talent in food delivery platforms would increase cash burn rates, and 5) increasing losses from companies that Info Edge has invested in.

Additional Data

Key management personnel

Sanjeev Bikhchandani	Founder and Executive Vice Chairman
Hitesh Oberoi	Managing Director and CEO
Chintan Arvind Thakkar	Director and CFO
Dr. Pawan Goyal	Chief Business Officer - Naukri.com
Maneesh Upadhyaya	Chief Business Officer- 99Acres.Com

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management Co Ltd	6.97
2	ENDEAVOUR HLDG TRUST	6.42
3	Life Insurance Corp of India	5.05
4	Nalanda India Equity Fund Ltd	2.98
5	BlackRock Inc	2.21
6	Vanguard Group Inc	1.96
7	UTI Asset Management Co Ltd	1.81
8	UTI FLEXI CAP FUND	1.8
9	First State Investments ICVC	1.35
10	Arisaig Asia Fund Ltd	1.07

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.