

SELL

TP: Rs 1,970 | ▼ 41%

INFO EDGE

| IT Services

| 08 September 2020

Lower billings a cause for concern

Info Edge (INFOE) posted weak Q1FY21 revenues with a 10% YoY decline, weighed down by a 25% slump in 99acres.com revenues. Operating performance held strong with a 420bps YoY increase in EBIT margin. However, billings and deferred sales declined significantly for Naukri.com and 99acres.com, raising concerns of sharp de-growth in subsequent quarters. We raise our FY21/FY22 EPS estimates by 7%/17% to incorporate the ~Rs 18.8bn QIP. Retain SELL as we roll over to a Jun'21 TP of Rs 1,970 (vs. Rs 1,920).

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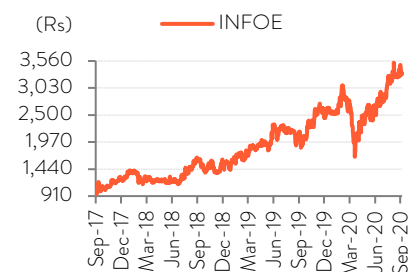
Slump in real estate segment: INFOE's revenue fell 10% YoY in Q1 (-15% est.), with recruitment solutions and other verticals down 9% and 14% respectively. The number of unique website visitors dropped 17% YoY. The real estate segment plunged 25% YoY due to fewer new listings. Broker listings on 99acres remained suppressed and owner listings are recovering slowly. Jeevansathi was the only segment to show growth. Billings at Naukri/ 99acres fell 44%/71% YoY while deferred revenue dropped 23%/44% YoY.

Ticker/Price	INFOE IN/Rs 3,314
Market cap	US\$ 5.8bn
Shares o/s	129mn
3M ADV	US\$ 18.9mn
52wk high/low	Rs 3,584/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

Aggressive cost control: With revenues down across the board, management's aggressive cost control measures helped increase EBIT margins by 420bps YoY to 33%, beating our estimate of a 550bps decline. Advertisement & marketing costs and other expenses reduced by 53% and ~31% YoY respectively. Employee expenses dipped ~7% QoQ due to a pause on salary increments and fresh hiring. Travel and administration costs also declined. In our view, current margins are not sustainable given lower billings and rising costs post-Covid.

STOCK PERFORMANCE



Traffic levels recovering: Online traffic started to recover from June, especially for Naukri, led by IT, pharma and telecom services. Jobseekers' traffic is returning to pre-Covid levels and recruiters' traffic has bounced back to 65% of base levels. Traffic at 99acres has been low with slow recovery.

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,982	12,727	11,905	12,913	14,831
EBITDA (Rs mn)	3,414	4,027	3,856	4,072	4,965
Adj. net profit (Rs mn)	3,152	3,290	3,571	4,118	4,819
Adj. EPS (Rs)	24.4	25.5	27.7	31.9	37.4
Adj. EPS growth (%)	15.2	4.4	8.6	15.3	17.0
Adj. ROAE (%)	14.2	13.7	10.1	8.6	9.4
Adj. P/E (x)	135.6	129.9	119.7	103.8	88.7
EV/EBITDA (x)	125.0	106.0	110.4	101.7	80.9

Source: Company, BOBCAPS Research

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Q1FY21 highlights

QIP funds to push pedal for core businesses

- INFOE's Rs 18.75bn QIP was subscribed at 2.74% discount to SEBI's floor price of Rs 3,177. The amount will be used to invest in adjacent inorganic opportunities around the online job, real estate and marriage listings space, if any, and to strengthen internal businesses as well. INFOE is investing in a blue-collar job portal called 'jobhai.com' and an AI-based hiring portal. It also plans to use these funds to ramp up advertisement for Jeevansaathi, as this was the only segment that showed resilience during the lockdown.

Billings decline

- Billings at Naukri and 99acres declined by 44% and 71% YoY respectively in Q1FY21. 'Other segments' remained flattish. This decline in billings will impact revenues in Q2 and also erode margins. Deferred revenues dropped 44% and 23% YoY for 99acres and Naukri respectively during the quarter.

Other highlights

- Management indicated that Zomato and PolicyBazaar are currently well funded. Zomato is seeing increased interest from both new and existing investors. Food delivery is expected to gain momentum post Covid-19. During the lockdown, Zomato passed most of the costs on to customers and its margins have increased. About 65-70% of the closed restaurants have now reopened. After Covid-19, PolicyBazaar has expanded its reach in the insurance segment. PaisaBazaar clocked lower revenues because of increased loan moratoriums and difficulties executing KYC process.
- In 99acres, owner listings improved more than broker listings. The portal's traffic brand share stood at 57% vs. 55% in Q4FY20, seeing some market share gains from MagicBricks. Advertisement revenues are expected to rise post crisis.
- The Jeevansaathi platform saw profile and traffic growth QoQ. Video meetings and online meetups helped expand user engagement. INFOE plans to increase marketing and advertisement investments for Jeevansaathi.
- Portfolio companies such as ShoeKconnect, Gramophone, Ustraa and ShopKirana faced sharp revenue declines in Q1FY21 due to the lockdown. But all of them have bounced back significantly, though not fully. ShoeKconnect was able to raise capital from external investors as well.
- Average number of resumes added daily on Naukri declined 53% YoY in Q1.
- Number of paid listings on 99acres contracted 61% YoY.

FIG 1 – JUN'20 QUARTER PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	2,801	3,128	(10.4)	3,228	(13.2)
Operating Expenditure	1,756	2,118	(17.1)	2,263	(22.4)
Cost of revenues	1,500	1,569	(4.4)	1,779	(15.7)
as % of sales	54	50	-	55	-
SG&A expenses	256	549	(53.4)	484	(47.2)
as % of sales	9	18	-	15	-
EBITDA	1,046	1,010	3.5	965	8.3
Depreciation	111	99	12.5	110	1.2
EBIT	934	911	2.6	855	9.2
Other Income	203	245.3	(17.4)	195	4.1
PBT	1,122	1,057	6.1	662	69.4
Total Tax	290	389	(25.7)	246	17.7
Adjusted PAT	832	667	24.7	416	100.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-
Reported PAT	832	667	24.7	416	100.0
Reported EPS	6.8	5.4	24.7	3.4	100.0
Margins (%)					
EBITDA	37.3	32.3	500	29.9	740
EBIT	33.4	29.1	420	26.5	690
EBT	40.0	33.8	620	20.5	1,950
PAT	29.7	21.3	840	12.9	1,680
Effective Tax rate	25.8	36.9	(1,100)	37.1	(1,130)

Source: BOBCAPS Research

Valuation methodology

INFOE's stock price has increased at a 30%+ CAGR over the last decade (FY10 to date), backed by (1) strong growth and cash generation in Naukri, (2) asset diversification (99acres, Jeevansathi, active investments in internet startups), and (3) successes in select investee companies (Zomato and PolicyBazaar.com). Current core business valuations of 86x/82x FY21E/FY22E EPS (assuming Rs 725/sh of embedded value for non-core business) fully factor in the industry dominance of Naukri and 99acres, in our view.

We increase FY21/FY22 EPS by 7%/17%, solely factoring in the QIP fund infusion. Other estimates remain unchanged to build in challenges stemming from the pandemic and declining billings. Reiterate SELL as we roll forward to a revised Jun'21 SOTP target price of Rs 1,970 (vs. Rs 1,920 earlier).

Our SOTP model includes (1) Rs 964/sh for Naukri (35x FY22E EPS), (2) Rs 134/sh for 99acres (8.5x sales), (3) Rs 43/sh for Jeevansathi (5x sales), and (4) Rs 542/sh for stakes in key investee companies (Zomato and PolicyBazaar) based on their latest funding rounds.

FIG 2 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	New
Revenue	11,905	11,905	0.0	12,913	12,913	0.0	14,831
YoY growth (%)	(6.5)	(6.5)	-	8.5	8.5	-	14.9
EBITDA	3,856	3,856	0.0	4,072	4,072	0.0	4,965
EBITDA margin (%)	32.4	32	-	31.5	32	-	33
PAT	3,185	3,571	12.1	3,346	4,118	23.1	4,819
EPS (Rs)	26.2	27.9	6.8	27.5	32.2	17.2	37.7

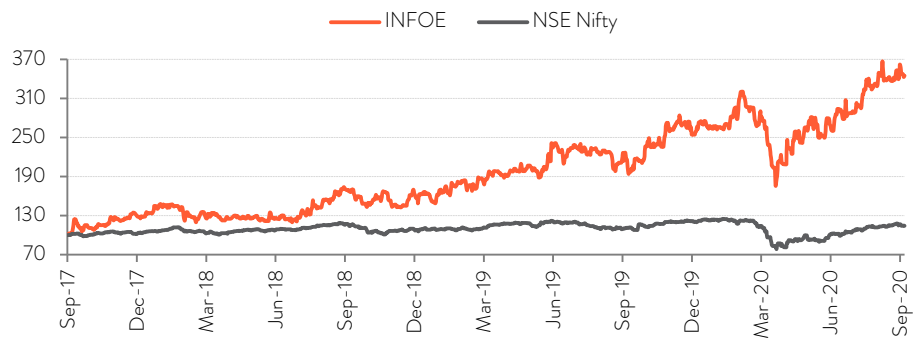
Source: BOBCAPS Research

FIG 3 – SOTP VALUATION

SOTP valuation	Method	Value (Rs mn)	% stake	Value of the stake (Rs mn)	Rs/sh	% of total value
Naukri.com	35xP/E	124,332	100	124,332	964	49
99acres	8.5x sales	17,252	100	17,252	134	7
Jeevansathi	5x sales	5,502	100	5,502	43	2
Zomato	Valued at US\$ 3bn - as implied by Jan'20 transaction	228,000	23	51,756	401	20
PolicyBazaar	Valued at US\$ 1.5bn - as implied by Jan'20 transaction	114,000	16	18,126	141	7
Other investments	Book value	3,712	na	3,712	29	1
Cash and Cash equivalent	Book value	34,050	100	34,050	264	13
Target price (Rs/sh)					1,970	

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Favourable turnaround in India’s residential real estate industry, raising growth and profitability at 99acres
- Above-expected market share gains by Jeevansathi

FINANCIALS (STANDALONE)

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,982	12,727	11,905	12,913	14,831
EBITDA	3,414	4,027	3,856	4,072	4,965
Depreciation	204	414	417	452	519
EBIT	3,210	3,614	3,439	3,620	4,446
Net interest income/(expenses)	(1)	(67)	(63)	(68)	(78)
Other income/(expenses)	1,112	876	1,396	1,951	2,071
Exceptional items	(160)	(1,233)	0	0	0
EBT	4,162	3,190	4,772	5,503	6,440
Income taxes	1,169	1,133	1,201	1,385	1,621
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	2,992	2,057	3,571	4,118	4,819
Adjustments	160	1,233	0	0	0
Adjusted net profit	3,152	3,290	3,571	4,118	4,819

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	617	697	652	708	813
Other current liabilities	5,011	5,758	5,386	5,842	6,709
Provisions	496	496	496	496	496
Debt funds	4	4	4	4	4
Other liabilities	42	42	42	42	42
Equity capital	1,220	1,220	1,281	1,281	1,281
Reserves & surplus	22,019	23,464	44,840	47,937	51,562
Shareholders' fund	23,239	24,684	46,120	49,218	52,842
Total liabilities and equities	29,410	31,682	52,701	56,310	60,906
Cash and cash eq.	683	2,876	23,864	27,428	31,969
Accounts receivables	60	70	65	71	81
Inventories	0	0	0	0	0
Other current assets	14,826	14,826	14,826	14,826	14,826
Investments	10,333	10,333	10,333	10,333	10,333
Net fixed assets	500	570	605	644	689
CWIP	20	20	20	20	20
Intangible assets	49	49	49	49	49
Deferred tax assets, net	416	416	416	416	416
Other assets	2,524	2,524	2,524	2,524	2,524
Total assets	29,410	31,682	52,701	56,310	60,906

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	3,055	2,470	3,988	4,570	5,338
Interest expenses	(986)	(67)	(63)	(68)	(78)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	860	817	(412)	505	962
Other operating cash flows	28	0	0	0	0
Cash flow from operations	2,956	3,221	3,513	5,008	6,221
Capital expenditures	(259)	(484)	(452)	(491)	(564)
Change in investments	8,164	0	0	0	0
Other investing cash flows	(10,137)	67	63	68	78
Cash flow from investing	(2,233)	(417)	(390)	(423)	(486)
Equities issued/Others	27	0	18,750	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(138)	0	0	0	0
Dividends paid	(670)	(611)	(885)	(1,021)	(1,194)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(781)	(611)	17,865	(1,021)	(1,194)
Changes in cash and cash eq.	(57)	2,193	20,988	3,564	4,542
Closing cash and cash eq.	683	2,876	23,864	27,428	31,969

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	23.2	15.9	27.7	31.9	37.4
Adjusted EPS	24.4	25.5	27.7	31.9	37.4
Dividend per share	6.0	4.2	6.9	8.0	9.3
Book value per share	180.2	191.4	357.6	381.6	409.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	38.9	33.5	35.8	32.1	27.1
EV/EBITDA	125.0	106.0	110.4	101.7	80.9
Adjusted P/E	135.6	129.9	119.7	103.8	88.7
P/BV	18.4	17.3	9.3	8.7	8.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	75.7	103.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	129.6	88.3	138.8	152.0	144.8
EBIT margin (EBIT/Revenue)	29.2	28.4	28.9	28.0	30.0
Asset turnover (Revenue/Avg TA)	39.4	41.7	28.2	23.7	25.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.1	1.1
Adjusted ROAE	14.2	13.7	10.1	8.6	9.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	20.0	15.9	(6.5)	8.5	14.9
EBITDA	14.8	18.0	(4.3)	5.6	21.9
Adjusted EPS	15.2	4.4	8.6	15.3	17.0
Profitability & Return ratios (%)					
EBITDA margin	31.1	31.6	32.4	31.5	33.5
EBIT margin	29.2	28.4	28.9	28.0	30.0
Adjusted profit margin	28.7	25.8	30.0	31.9	32.5
Adjusted ROAE	14.2	13.7	10.1	8.6	9.4
ROCE	13.2	8.4	9.9	8.5	9.3
Working capital days (days)					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	19	19	21	19	19
Ratios (x)					
Gross asset turnover	21.8	23.8	20.3	20.7	22.3
Current ratio	2.5	2.6	5.9	6.0	5.8
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	0.0	(0.1)	(0.5)	(0.6)	(0.6)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

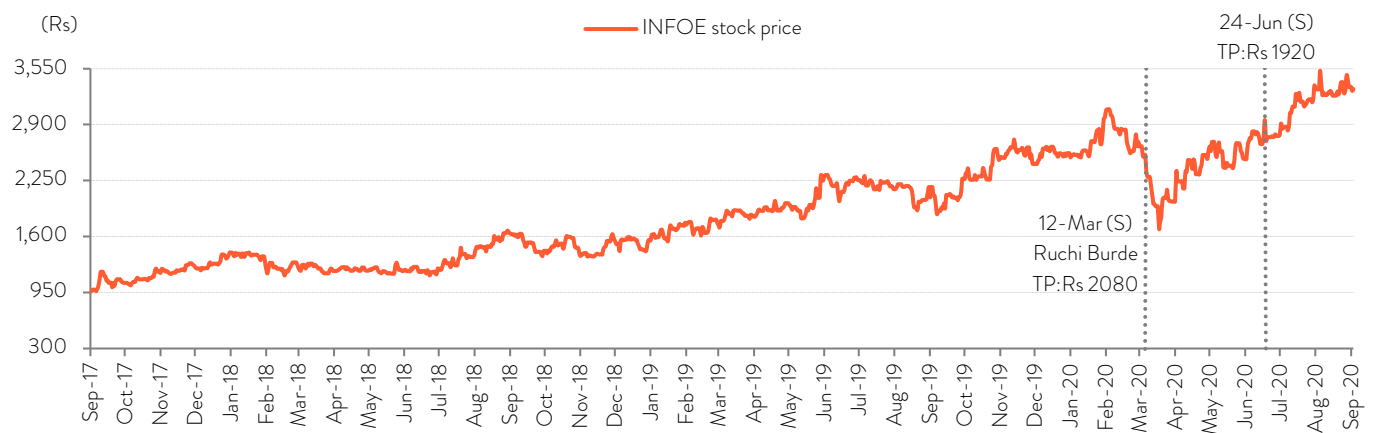
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INFO EDGE (INFOE IN)



B – Buy, A – Add, R – Reduce, S – Sell

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