

BUY

TP: Rs 6,530 | ▲ 20%

INFO EDGE

| Internet

| 17 August 2021

Naukri poised for accelerated growth; upgrade to BUY

- In-line Q1 with revenue up 14% YoY (deferred revenue up 36%) and EBITDA margin at 31.2%
- Tech talent crunch in IT/ITES verticals to catalyse growth for Naukri; favourable real estate market dynamics to aid 99acres
- Upgrade to BUY (vs. SELL) with a new Jun'22 TP of Rs 6,530 (vs. Rs 2,880) on better traction in Naukri and upcoming recovery of 99acres

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Robust quarterly performance: In line with our estimate, INFOE reported 14% YoY revenue growth in Q1FY22, its first quarter of positive YoY growth since the onset of Covid-19. EBITDA margin stood at 31.2%, up 13ppt QoQ (down 610bps YoY). Billing recovered significantly, rising 67% YoY. Growth was led by a 74% YoY rise in Naukri billings. Deferred sales increased 36% YoY, the best print in 11 quarters, indicating better growth in the near future.

99acres saw Covid 2.0 impact but outlook positive: Since home buying is a high involvement category, it suffered heavily during the second Covid wave. Although 99acres' billing was up 60% YoY, it declined 69% QoQ. In tandem, INFOE curtailed 99acres' advertising spend in Q1 as Covid 2.0 led to a second lockdown. Management indicated that traffic has started to return from July onwards with the easing of restrictions. A favourable real estate industry dynamic (low interest rate, better affordability and Covid-linked willingness to buy bigger houses) sets an optimistic outlook for the business. Management indicated healthy traction on rentals as well.

Tech talent crunch brightens up Naukri outlook: Naukri's Q1 revenue increased 11.2% YoY on the back of 21% YoY growth in the IT/ITES vertical. Management also indicated buoyant hiring activity on the Naukri platform led by a technology talent crunch. The Jul'21 Jobspeak index for IT/ITES reached a record high, growing 200%+ YoY and confirming robust demand. INFOE expects strong traction led by (1) higher realisation (shaped by the absence of bulk discounts, otherwise a common practice), (2) increased volumes, and (3) expansion of client base.

Covid reshaped Naukri seasonality: Deferral of annual contract renewal amid Covid-19 has changed Naukri's seasonality. Management now expects better traction for the business in Q2 and Q3 led by the altered client contract renewal cycle.

Upgrade to BUY: We upgrade INFOE to BUY from SELL on the back of a revitalised revenue and margin outlook for Naukri.com. We raise our FY22/FY23 EPS by 11%/15% and roll to a Jun'22 SOTP-based TP of Rs 6,530 (vs. Rs 2,880).

Key changes

Target	Rating
▲	▲

Ticker/Price	INFOE IN/Rs 5,446
Market cap	US\$ 9.4bn
Free float	62%
3M ADV	US\$ 41.9mn
52wk high/low	Rs 5,880/Rs 3,220
Promoter/FPI/DII	38%/38%/24%

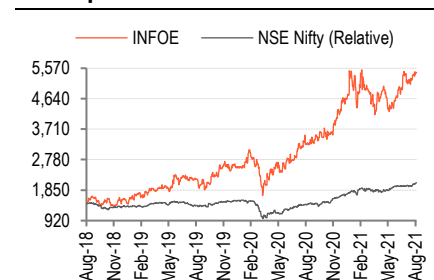
Source: NSE | Price as of 16 Aug 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,986	13,804	16,488
EBITDA (Rs mn)	2,772	4,495	5,389
Adj. net profit (Rs mn)	2,739	4,408	5,086
Adj. EPS (Rs)	21.3	34.3	39.5
Consensus EPS (Rs)	21.3	28.5	34.4
Adj. ROAE (%)	7.8	9.3	10.0
Adj. P/E (x)	255.8	158.9	137.7
EV/EBITDA (x)	251.9	154.7	128.5
Adj. EPS growth (%)	(16.7)	61.0	15.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Other earnings call highlights

- JobHai.com, INFOE's blue collar hiring platform, is being tested in the Delhi-NCR market.
- Naukri's Gulf business has recovered only modestly as there are no IT sector tailwinds there.
- IIMJobs, INFOE's premium hiring platform, showed robust revenue growth (170% YoY) as well profitability in Q1FY22, although on a small base.
- Traffic on 99acres has started recovering from July onwards.
- INFOE will continue to spend heavily on Jeevansaathi's marketing, especially in the Hindi-speaking belt. Marketing spend for 99acres will depend on the real estate demand environment.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue	3,197	2,801	14.1	2,900	10.2	10,986	12,727	(13.7)
Operating Expenditure	2,200	1,756	25.3	2371	(7.2)	8,214	8,700	(5.6)
Cost of revenues	1,742	1,500	16.1	1,811	(3.9)	252	234	7.8
as % of sales	54	54	-	62	-	2	2	24.8
SG&A expenses	459	256	79.3	560	(18.1)	1,820	2,044	(11.0)
as % of sales	14	9	-	19	-	17	16	3.1
EBITDA	997	1,046	(4.7)	529	88.4	2,772	4,027	(31.2)
Depreciation	103	111	(7.3)	106	(2.4)	436	414	5.5
EBIT	894	934	(4.3)	423	111.1	2,336	3,614	(35.4)
Other Income	410	203	102.1	406	0.8	1188	876	35.6
PBT	1,290	1,122	15.0	784	64.6	3,434	3,190	7.7
Total Tax	280	290	(3.3)	120	133.3	727.7	1133.2	(35.8)
Adjusted PAT	1,010	832	21.4	664	52.2	2,706	2,057	31.6
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-
Reported PAT	1,010	832	21.4	664	52.2	2,706	2,057	31.6
Reported EPS	7.9	6.8	16.0	5.2	52.2	21.0	16.9	24.5
Margins (%)								
EBITDA	31.2	37.3	(610)	18.2	1,290	25.2	31.6	(640)
EBIT	28.0	33.4	(540)	14.6	1,340	21.3	28.4	(710)
EBT	40.4	40.0	30	27.0	1,330	31.3	25.1	620
PAT	31.6	29.7	190	22.9	870	24.6	16.2	850
Effective Tax rate	21.7	37.1	(1,540)	15.3	640	21.2	35.5	(1,430)

Source: BOBCAPS Research, Company

Valuation methodology

We upgrade INFOE to BUY from SELL on a revitalised growth outlook for Naukri. Baking in higher revenue growth coupled with operating margin leverage at the jobs portal, we raise our FY22/FY23 EPS estimates by 11%/15%.

We use the SOTP method wherein we value (1) Naukri.com at 110.5x P/E (average one-year forward post Covid multiple of INFOE sans Zomato and PolicyBazaar valuation), and (2) 99acres/Jeevansaathi.com at 18x/12x sales (vs. 11x and 9x sales earlier). Zomato is valued at US\$ 14.3bn (per current valuation) and PolicyBazaar at US\$ 2.4bn (per latest funding round). Post rollover, we have a revised Jun'22 TP of Rs 6,530 (vs. Rs 2,880 earlier).

Fig 2 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	13,804	16,488	19,225	13,051	15,217	5.8	8.4
YoY growth (%)	25.6	19.4	16.6	18.8	16.6	-	-
EBITDA	4,495	5,389	6,216	3,902	4,466	15.2	20.7
EBITDA margin (%)	32.6	32.7	32.3	29.9	29.3	-	-
PAT	4,408	5,086	5,623	3,987	4,434	10.6	14.7
EPS (Rs)	34.2	39.5	43.7	31.0	34.4	10.6	14.7

Source: BOBCAPS Research

Fig 3 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Naukri.com				
Revenue growth YoY (%)	(15.0)	20.8	20.8	17.6
EBITDA Margin (%)	56.2	59.0	59.0	57.5
99acres.com				
Revenue growth YoY (%)	(23.8)	18.8	18.8	16.6
EBITDA Margin (%)	(6)	(10)	(10)	(10)

Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

SOTP valuation	Method	Value (Rs mn)	% stake	Value of the stake (Rs mn)	Value (Rs/sh)	% of total value
Naukri.com	110.5x P/E	511,058	100	511,058	3,972	61
99acres	18x sales	44,142	100	44,142	343	5
Jeevansaathi	12x sales	27,566	100	27,566	214	3
Zomato	Valued at US\$ 14.3bn – as per Aug'21 valuation	1,086,800	15	165,520	1,287	20
PolicyBazaar	Valued at US\$ 2.4bn – as implied by latest transaction	380,000	14	51,300	399	6
Other investments	Book value	5,059	na	5,059	39	1
Cash and Cash equivalent	Book value	35610	100	35,610	277	4

Source: BOBCAPS Research

Fig 5 – Peer comparison

Company	Price (Rs/sh)	TP	Revenue CAGR FY21-24E %	EPS CAGR FY21-24E %	PE (x)		RoE (%)		
					FY22	FY23	FY21	FY22	FY23
Infoedge	5445.8	6,530	23	36	159	138	7.8	9.3	10.0
IndiaMart	7180.2	7,200	21	17	65	54	30.3	19.0	19.3
Affle India	4179.6	6,200	43	32	68	45	37.6	14.6	18.1
Just Dial	958.3	1,330	11	3	79	29	16.8	4.2	7.5

Source: BOBCAPS Research

Key risks

- A key downside risk to our estimates is the real estate sector taking longer to recover post Covid 2.0.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	1.5	4,180	6,200	BUY
IndiaMart InterMesh	INMART IN	2.9	7,170	7,200	HOLD
Info Edge	INFOE IN	9.4	5,446	6,530	BUY
Just Dial	JUST IN	0.8	958	1,330	BUY

Source: BOBCAPS Research, NSE | Price as of 16 Aug 2021

Financials (Standalone)

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Total revenue	12,727	10,986	13,804	16,488	19,225
EBITDA	4,027	2,772	4,495	5,389	6,216
Depreciation	414	436	483	577	673
EBIT	3,614	2,336	4,011	4,811	5,543
Net interest inc./(exp.)	(67)	(57)	(72)	(86)	(100)
Other inc./(exp.)	876	1,188	1,951	2,071	2,071
Exceptional items	(1,233)	(32)	0	0	0
EBT	3,190	3,434	5,891	6,797	7,514
Income taxes	1,133	728	1,483	1,711	1,891
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,057	2,706	4,408	5,086	5,623
Adjustments	1,233	32	0	0	0
Adjusted net profit	3,290	2,739	4,408	5,086	5,623

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	592	601	756	903	1,053
Other current liabilities	4,890	5,501	6,242	7,455	8,692
Provisions	549	662	662	662	662
Debt funds	2	1	1	1	1
Other liabilities	761	652	652	652	652
Equity capital	1,223	1,285	1,285	1,285	1,285
Reserves & surplus	23,094	44,357	47,662	51,475	55,691
Shareholders' fund	24,317	45,642	48,947	52,761	56,976
Total liab. and equities	31,110	53,059	57,261	62,435	68,037
Cash and cash eq.	4,254	6,332	10,470	15,580	21,110
Accounts receivables	70	54	76	90	105
Inventories	0	0	0	0	0
Other current assets	8,722	23,545	23,545	23,545	23,545
Investments	14,672	15,000	15,000	15,000	15,000
Net fixed assets	434	318	360	409	467
CWIP	0	0	0	0	0
Intangible assets	41	37	37	37	37
Deferred tax assets, net	335	363	363	363	363
Other assets	2,582	7,410	7,410	7,410	7,410
Total assets	31,110	53,059	57,261	62,435	68,037

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Cash flow from operations	3,256	2,828	5,695	6,924	7,568
Capital expenditures	(237)	(81)	(525)	(627)	(731)
Change in investments	907	2,560	0	0	0
Other investing cash flows	819	(21,981)	72	86	100
Cash flow from investing	1,489	(19,502)	(453)	(541)	(631)
Equities issued/Others	3	18,752	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(199)	0	0	0	0
Dividends paid	(978)	0	(1,103)	(1,273)	(1,407)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,174)	18,752	(1,103)	(1,273)	(1,407)
Chg in cash & cash eq.	3,571	2,077	4,138	5,110	5,530
Closing cash & cash eq.	4,253	6,332	10,470	15,580	21,110

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	16.0	21.0	34.3	39.5	43.7
Adjusted EPS	25.6	21.3	34.3	39.5	43.7
Dividend per share	6.0	0.0	8.6	9.9	10.9
Book value per share	189.0	354.8	380.4	410.1	442.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	55.0	63.6	50.4	42.0	35.8
EV/EBITDA	173.8	251.9	154.7	128.5	110.6
Adjusted P/E	213.0	255.8	158.9	137.7	124.6
P/BV	28.8	15.4	14.3	13.3	12.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	103.1	79.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	88.3	147.0	146.9	141.3	135.6
EBIT margin (EBIT/Revenue)	28.4	21.3	29.1	29.2	28.8
Asset turnover (Rev./Avg TA)	42.1	26.1	25.0	27.6	29.5
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.2	1.2	1.2
Adjusted ROAE	13.8	7.8	9.3	10.0	10.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	15.9	(13.7)	25.6	19.4	16.6
EBITDA	18.0	(31.2)	62.1	19.9	15.3
Adjusted EPS	4.4	(16.7)	61.0	15.4	10.5
Profitability & Return ratios (%)					
EBITDA margin	31.6	25.2	32.6	32.7	32.3
EBIT margin	28.4	21.3	29.1	29.2	28.8
Adjusted profit margin	25.8	24.9	31.9	30.8	29.2
Adjusted ROAE	13.8	7.8	9.3	10.0	10.2
ROCE	8.3	7.5	9.1	9.7	10.0
Working capital days (days)					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	17	20	18	18	19
Ratios (x)					
Gross asset turnover	27.3	29.2	40.7	42.9	43.9
Current ratio	2.2	4.4	4.5	4.3	4.3
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

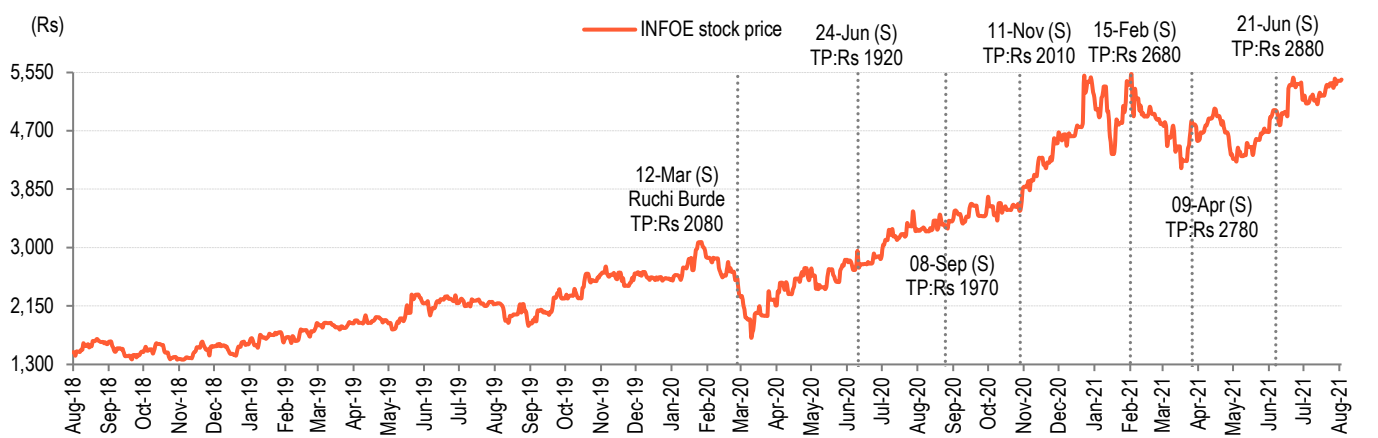
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): INFO EDGE (INFOE IN)



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

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