

**SELL**

TP: Rs 2,010 | ▼ 43%

INFO EDGE

| IT Services

| 11 November 2020

## Real estate and recruitment business remain sluggish

**Info Edge (INFOE) reported a 19% YoY sales decline. 99acres remained weak with 36% YoY contraction, recruitment solutions fell 19% and other verticals also slumped 19%. Deferred sales dropped 23% YoY, indicating weakness ahead. We believe that the steady sequential recovery in traffic is not translating into revenues and expect a delayed recovery in core businesses. We keep our FY21-FY23 EPS unchanged. Reiterate SELL with a revised Sep'21 TP of Rs 2,010 (vs. Rs 1,970 earlier) due to stronger Zomato valuations and rollover.**

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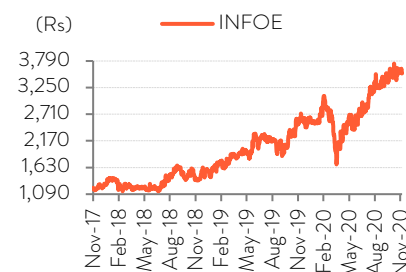
**Real estate weakness persists:** INFOE's Q2 revenue fell 19% YoY and billings declined 17%, in line with expectations following the 44%/71% billings decline in Naukri/99acres in Q1. Revenue from recruitment solutions/99acres/other verticals fell 19%/36%/19% YoY. Weakness in recruitment was due to a drop in hiring activity. Billings at Naukri and 99acres contracted by 20% and 23% respectively. PBT for 99acres (two-year low of -Rs 106mn) and other verticals stayed negative. Deferred sales decreased 23%, indicating weaker FY21 sales.

Ticker/Price	INFOE IN/Rs 3,544
Market cap	US\$ 6.2bn
Shares o/s	129mn
3M ADV	US\$ 24.9mn
52wk high/low	Rs 3,786/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

**Costs pick up:** As expected, EBIT margin nosedived from Q1FY21 levels (33%) to 15.8% in Q2 due to lower billings and rising costs post-Covid. Advertisement and promotion expenses increased 96% QoQ, driven by activity in Jeevansathi (85% of Q2FY21 advertisement expense was dedicated to it). EBIT margin at 15.8% was the lowest in the last 21 quarters. Employee expenses and network, direct charges grew 1% and 3% YoY, respectively.

## STOCK PERFORMANCE



Source: NSE

**Traffic recovery slow:** Number of unique customers visiting Naukri.com reduced 16% YoY and was up only 2% QoQ, signaling a sluggish recovery. 99acres' traffic recovery in metros has been slackening. Though lower tier cities have shown resilience, their smaller market size isn't aiding growth significantly. Traffic continued to recover QoQ, but monetisation has been poor.

## 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)	145.0	139.0	128.0	111.0	94.9
EV/EBITDA (x)	133.7	113.3	118.1	109.0	86.9

Source: Company, BOBCAPS Research

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## Other highlights

- Zomato's delivery business is growing well and is expected to retrace to pre-Covid levels in a couple of months. Order value has also gone up QoQ.
- 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 in Q2, albeit not fully. ShoeKconnect was able to raise capital from marquee investors as well. Ustraa has bagged investments from IIFL and a few others.
- The average number of resumes added daily on Naukri declined 10% YoY in Q2. IT and ITeS segment is driving activity on the recruitment platform. Travel and hospitality segment activity has remained slow.
- PAT increased 450% YoY during the quarter due to a one-time expense of Rs 749mn in Q2FY20.

**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Revenue (Rs mn)</b>	<b>2,561</b>	<b>3,166</b>	<b>(19.1)</b>	<b>2,801</b>	<b>(8.6)</b>
Operating Expenditure	2,046	2,173	(5.9)	1,756	16.5
Cost of revenues	1,544	1,659	(7.0)	1,500	2.9
as % of sales	60	52	-	54	-
SG&A expenses	502	514	(2.4)	256	96.2
as % of sales	20	16	-	9	-
<b>EBITDA</b>	<b>516</b>	<b>993</b>	<b>(48.1)</b>	<b>1,046</b>	<b>(50.7)</b>
Depreciation	110	101	9.4	111	(1.1)
<b>EBIT</b>	<b>406</b>	<b>892</b>	<b>(54.6)</b>	<b>934</b>	<b>(56.6)</b>
Other Income	263	232	13.3	203	29.8
PBT	654	358	82.6	1,122	(41.7)
Total Tax	142	266	(46.4)	290	(50.8)
<b>Adjusted PAT</b>	<b>512</b>	<b>93</b>	<b>452.6</b>	<b>832</b>	<b>(38.5)</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-
Reported PAT	512	93	452.6	832	(38.5)
Reported EPS	4.1	0.8	452.6	6.8	(38.5)
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	20.1	31.4	(1,120)	37.3	(1,720)
EBIT	15.8	28.2	(1,240)	33.4	(1,750)
EBT	25.5	11.3	1,420	40.0	(1,450)
PAT	20.0	2.9	1,700	29.7	(970)
Effective Tax rate	21.8	74.2	(5,240)	25.8	(400)

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).

We keep FY21-FY23 EPS estimates unchanged in light of challenges stemming from the pandemic and declining billings. Reiterate SELL as we roll forward to a revised Sep'21 SOTP target price of Rs 2,010 (vs. Rs 1,970 earlier), factoring in increased Zomato valuations of US\$ 3.3bn (vs. US\$ 3bn earlier). Zomato's valuations have gone up to US\$ 3.3bn after it raised US\$ 160mn from Tiger Global and Temasek holdings subsidiary MacRitchie Investments in funding. In January, its valuation stood at US\$ 3bn, post raising US\$ 150mn from Ant Financial.

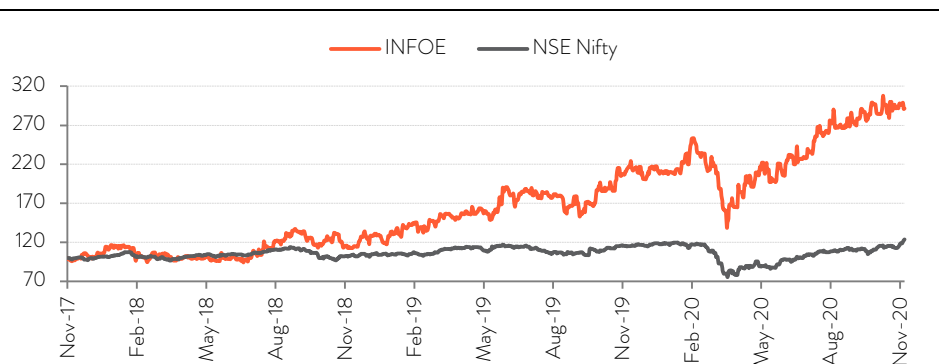
Our SOTP model includes (1) Rs 964/sh for Naukri (35x FY22E EPS), (2) Rs 134/sh for 99acres (8.5x sales), (3) Rs 43/sh for Jeevansathi (5x sales), and (4) Rs 582/sh for stakes in key investee companies (Zomato and PolicyBazaar) based on their latest funding rounds.

**FIG 2 – SOTP VALUATIONS**

SOTP valuation	Method	Value (Rs mn)	Stake (%)	Value of the stake (Rs mn)	Rs/ per sh	% of total value
Naukri.com	35x P/E	124,332	100	124,332	964	48
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\$ 3.3bn - Sep'20	250,800	23	56,932	441	22
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
<b>Target price (Rs/sh)</b>					<b>2,010</b>	

Source: BOBCAPS Research

**FIG 3 – 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
<b>Total revenue</b>	<b>10,982</b>	<b>12,727</b>	<b>11,905</b>	<b>12,913</b>	<b>14,831</b>
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
<b>Reported net profit</b>	<b>2,992</b>	<b>2,057</b>	<b>3,571</b>	<b>4,118</b>	<b>4,819</b>
Adjustments	160	1,233	0	0	0
<b>Adjusted net profit</b>	<b>3,152</b>	<b>3,290</b>	<b>3,571</b>	<b>4,118</b>	<b>4,819</b>

### 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
<b>Total liabilities and equities</b>	<b>29,410</b>	<b>31,682</b>	<b>52,701</b>	<b>56,310</b>	<b>60,906</b>
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
<b>Total assets</b>	<b>29,410</b>	<b>31,682</b>	<b>52,701</b>	<b>56,310</b>	<b>60,906</b>

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
<b>Cash flow from operations</b>	<b>2,956</b>	<b>3,221</b>	<b>3,513</b>	<b>5,008</b>	<b>6,221</b>
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
<b>Cash flow from investing</b>	<b>(2,233)</b>	<b>(417)</b>	<b>(390)</b>	<b>(423)</b>	<b>(486)</b>
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
<b>Cash flow from financing</b>	<b>(781)</b>	<b>(611)</b>	<b>17,865</b>	<b>(1,021)</b>	<b>(1,194)</b>
<b>Changes in cash and cash eq.</b>	<b>(57)</b>	<b>2,193</b>	<b>20,988</b>	<b>3,564</b>	<b>4,542</b>
<b>Closing cash and cash eq.</b>	<b>683</b>	<b>2,876</b>	<b>23,864</b>	<b>27,428</b>	<b>31,969</b>

### 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	41.6	35.9	38.3	34.4	29.1
EV/EBITDA	133.7	113.3	118.1	109.0	86.9
Adjusted P/E	145.0	139.0	128.0	111.0	94.9
P/BV	19.7	18.5	9.9	9.3	8.7

### 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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	19	19	21	19	19
<b>Ratios (x)</b>					
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%

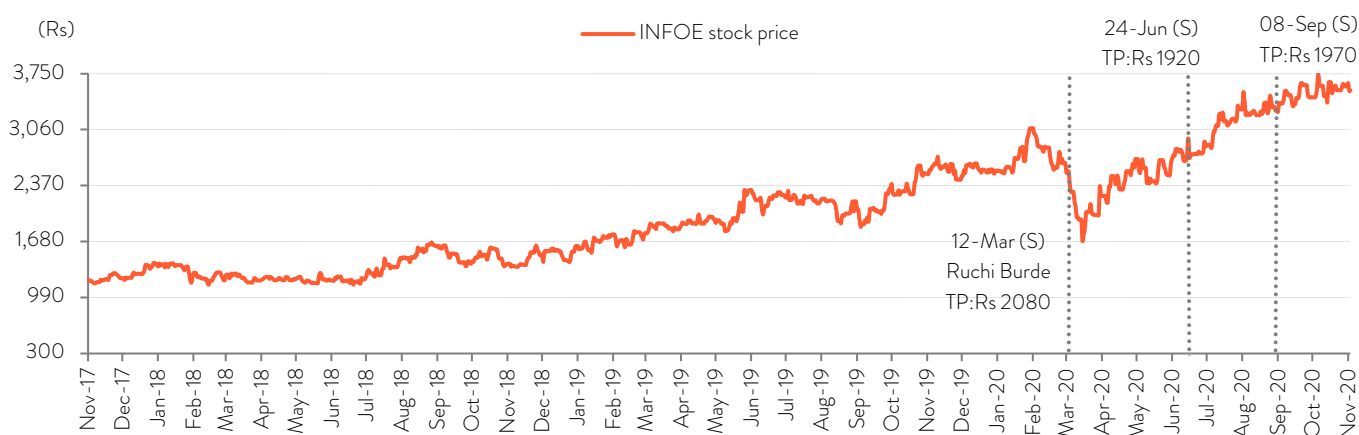
**ADD** – Expected return from >+5% to +15%

**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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