

SELL

TP: Rs 2,680 | ▼ 51%

INFO EDGE

| IT Services

| 15 February 2021

Core businesses fail to revive

Info Edge (INFOE) reported a 15% YoY sales decline in Q3FY21. 99acres remained weak with 23% YoY contraction, recruitment solutions slumped 18% and other verticals also fell 8%. Deferred sales dropped 14% YoY, indicating weakness ahead. We believe that the steady sequential recovery in site traffic is not translating into revenues and expect a delayed revival in core businesses. We tweak our FY22-FY23 EPS by 3%. Reiterate SELL with a revised Mar'22 TP of Rs 2,680 (vs. Rs 2,010) due to higher Zomato valuations and rollover.

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YoY contraction continues: INFOE's Q3 revenue fell 15% YoY and billings declined 1%, coming in below our expectations. Revenue from recruitment solutions/99acres/other verticals fell 18%/23%/8% YoY. Weakness in recruitment was due to a drop in hiring activity. Billings at Naukri and 99acres contracted by 4% and 3% YoY respectively. IIMJobs – one of the investee companies – however registered 17% growth in Q3 billings. INFOE's EBITDA margin stood at 25%, down 800bps YoY but above our estimate of 20%. Employee and advertisement-promotion costs have reduced QoQ. EBIT margin stood at 21%, down 880bps YoY. PAT declined 21% YoY.

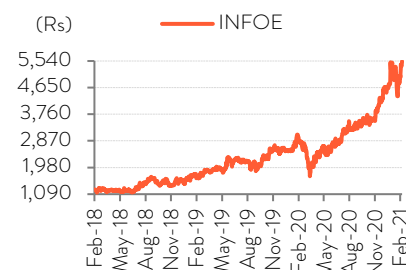
Real estate still under pressure: Sales at 99acres declined 23% YoY. The number of paid listings was also down 21% YoY, faring worse than the 12% decline seen in Q2FY21. Broker and rental listings have been slow to revive but owner listings have surged 20-30% YoY, indicating a demand-supply gap.

4B acquisition bodes well: INFOE has acquired 4B Networks Private Limited by investing Rs 90mn towards 1,747 of 4B's convertible preference shares. 4B is engaged in the business of enabling real estate developers and brokers to communicate with each other. This acquisition bodes well for INFOE's core real estate business.

Ticker/Price	INFOE IN/Rs 5,521
Market cap	US\$ 9.8bn
Shares o/s	129mn
3M ADV	US\$ 51.9mn
52wk high/low	Rs 5,880/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,982	12,727	12,486	14,186	16,509
EBITDA (Rs mn)	3,414	4,027	3,817	4,281	5,221
Adj. net profit (Rs mn)	3,152	3,290	3,525	4,236	4,960
Adj. EPS (Rs)	24.4	25.5	27.3	32.8	38.5
Adj. EPS growth (%)	15.2	4.4	7.1	20.2	17.1
Adj. ROAE (%)	14.2	13.7	10.0	8.9	9.7
Adj. P/E (x)	225.9	216.5	202.0	168.1	143.6
EV/EBITDA (x)	208.4	176.6	186.1	163.2	131.4

Source: Company, BOBCAPS Research

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Other highlights

- The average number of resumes added daily on Naukri increased 30% YoY in Q3FY21. The IT and ITeS, pharma, healthcare and life sciences segments are driving activity on the recruitment platform. The travel and hospitality segments have seen slight growth. Jobhai.com – INFOE’s blue collar platform – has now become operational in Delhi-NCR.
- Shiksha.com has done well in Q3 with revenue of Rs 132mn because of a surge in education-tech during the pandemic. INFOE has already invested in startups such as Coding Ninja and plans to invest more in ed-tech.
- Management intends to increase its advertisement spend for Jeevansaathi and 99acres depending on the ad spend by competition.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue (Rs mn)	2,723	3,205	(15.0)	2561	6.3	8,086	9,499	(14.9)
Operating Expenditure	2,041	2,146	(4.9)	2046	(0.2)	5,843	6,437	(9.2)
Cost of revenues	1,538	1,648	(6.7)	1,544	(0.4)	6,655	1,500	343.7
as % of sales	56	51	-	60	-	82	16	421.2
SG&A expenses	503	498	1.0	502	0.2	1,260	1,560	(19.2)
as % of sales	18	16	-	20	-	16	16	(5.1)
EBITDA	682	1,059	(35.6)	516	32.2	2,243	3,062	(26.7)
Depreciation	109	104	4.8	110	(0.5)	331	304	8.8
EBIT	572	955	(40.1)	406	41.1	1,912	2,758	(30.7)
Other Income	316	204	54.8	263	20.1	781	681	14.7
PBT	875	1,112	(21.4)	654	33.7	2,650	2,528	4.8
Total Tax	176	232	(24.2)	142	23.4	608	887	(31.5)
Adjusted PAT	699	880	(20.6)	512	36.6	2,042	1,640	24.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-
Reported PAT	699	880	(20.6)	512	36.6	2,042	1,640	24.5
Reported EPS	5.7	7.2	(20.6)	4.2	36.6	16.8	13.5	24.5
Margins (%)								
EBITDA	25.0	33.0	(800)	20.1	490	27.7	32.2	(450)
EBIT	21.0	29.8	(880)	15.8	520	23.7	29.0	(540)
EBT	32.1	34.7	(260)	25.5	660	32.8	26.6	620
PAT	25.7	27.5	(180)	20.0	570	25.3	17.3	800
Effective Tax rate	21.8	74.2	(5,240)	25.8	(400)	22.9	35.1	(1,220)

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, PolicyBazaar).

We change our FY22-FY23 EPS estimates by 3% each to factor in management commentary, the Q3FY21 results and declining billings. On incorporating increased Zomato valuations of US\$ 3.9bn (US\$ 3.3bn earlier) following the recent capital round, we roll forward to a revised Mar'22 SOTP target price of Rs 2,680 (vs. Rs 2,010 earlier).

Zomato's valuations have gone up to US\$ 3.9bn after it raised US\$ 660mn from 10 new investors, including Tiger Global, Luxor Capital, Baillie Gifford, Steadview, Kora Capital, D1 Capital and Mirae Asset. With the latest funding round, INFOE's stake in Zomato stands at 19%, down from the previous 22%.

Our SOTP model includes (1) Rs 1,434/sh for Naukri (42x Mar'23E EPS vs. 35x earlier), (2) Rs 263/sh for 99acres (11x sales vs. 9x earlier), (3) Rs 88/sh for Jeevansathi (9x sales vs. 5x earlier), and (4) Rs 596/sh for stakes in key investee companies (Zomato and PolicyBazaar) based on their latest funding rounds.

FIG 2 – REVISED ESTIMATES

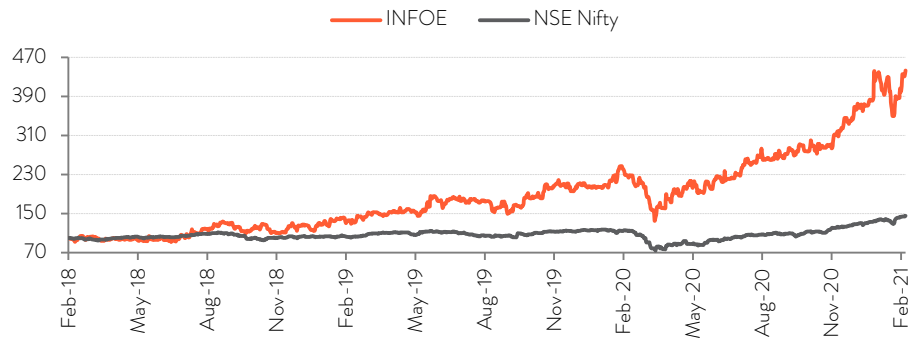
(Rs mn)	FY21			FY22			FY23		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	11,905	12,486	5	12,913	14,186	10	14,831	16,509	11
YoY growth (%)	(6.5)	(1.9)	-	8.5	13.6	-	14.9	16.4	-
EBITDA	3,856	3,817	(1)	4,072	4,281	5	4,965	5,221	5
EBITDA, margin	32.4	31	-	31.5	30	-	33	32	-
PAT	3,571	3,525	(1)	4,118	4,236	3	4,819	4,960	3
EPS	27.9	27.6	(1)	32.2	33.1	3	37.7	38.8	3

Source: BOBCAPS Research

FIG 3 – SOTP VALUATION

SOTP valuation	Method	Value (Rs mn)	% stake	Value of the stake (Rs mn)	Rs/per sh	% of total value
Naukri.com	42x P/E	184,999	100	184,999	1,434	54
99acres	11x sales	33,861	100	33,861	263	10
Jeevansathi	9x sales	11,388	100	11,388	88	3
Zomato	Valued at US\$ 3.9bn - Dec'20	296,400	19	56,316	437	16
PolicyBazaar	Valued at US\$ 2bn - as implied by latest transaction	152,000	14	20,520	159	6
Other investments	Book value	3,712	na	3,712	29	1
Cash and Cash equivalent	Book value	35,000	100	35,000	271	10

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key upside risks to our estimates are:

- favourable turnaround in India's residential real estate industry, raising growth and profitability at 99acres, and
- 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	12,486	14,186	16,509
EBITDA	3,414	4,027	3,817	4,281	5,221
Depreciation	204	414	437	497	578
EBIT	3,210	3,614	3,380	3,784	4,643
Net interest income/(expenses)	(1)	(67)	(66)	(75)	(87)
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	4,710	5,661	6,628
Income taxes	1,169	1,133	1,186	1,425	1,668
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	2,992	2,057	3,525	4,236	4,960
Adjustments	160	1,233	0	0	0
Adjusted net profit	3,152	3,290	3,525	4,236	4,960

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	617	697	684	777	905
Other current liabilities	5,011	5,758	5,649	6,417	7,468
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	44,805	47,991	51,721
Shareholders' fund	23,239	24,684	46,085	49,272	53,002
Total liabilities and equities	29,410	31,682	52,961	57,009	61,917
Cash and cash eq.	683	2,876	24,118	28,114	32,960
Accounts receivables	60	70	68	78	90
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	607	650	699
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	52,961	57,009	61,917

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	3,055	2,470	3,962	4,732	5,537
Interest expenses	(986)	(67)	(66)	(75)	(87)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	860	817	(121)	852	1,165
Other operating cash flows	28	0	0	0	0
Cash flow from operations	2,956	3,221	3,775	5,510	6,616
Capital expenditures	(259)	(484)	(474)	(539)	(627)
Change in investments	8,164	0	0	0	0
Other investing cash flows	(10,137)	67	66	75	87
Cash flow from investing	(2,233)	(417)	(409)	(465)	(541)
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)	(873)	(1,050)	(1,229)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(781)	(611)	17,877	(1,050)	(1,229)
Changes in cash and cash eq.	(57)	2,193	21,243	3,996	4,846
Closing cash and cash eq.	683	2,876	24,118	28,114	32,960

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	23.2	15.9	27.3	32.8	38.5
Adjusted EPS	24.4	25.5	27.3	32.8	38.5
Dividend per share	6.0	4.2	6.8	8.2	9.6
Book value per share	180.2	191.4	357.3	382.0	410.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	64.8	55.9	56.9	49.2	41.6
EV/EBITDA	208.4	176.6	186.1	163.2	131.4
Adjusted P/E	225.9	216.5	202.0	168.1	143.6
P/BV	30.6	28.8	15.5	14.5	13.4

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	139.3	149.6	142.7
EBIT margin (EBIT/Revenue)	29.2	28.4	27.1	26.7	28.1
Asset turnover (Revenue/Avg TA)	39.4	41.7	29.5	25.8	27.8
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.2	1.2
Adjusted ROAE	14.2	13.7	10.0	8.9	9.7

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	(1.9)	13.6	16.4
EBITDA	14.8	18.0	(5.2)	12.1	22.0
Adjusted EPS	15.2	4.4	7.1	20.2	17.1
Profitability & Return ratios (%)					
EBITDA margin	31.1	31.6	30.6	30.2	31.6
EBIT margin	29.2	28.4	27.1	26.7	28.1
Adjusted profit margin	28.7	25.8	28.2	29.9	30.0
Adjusted ROAE	14.2	13.7	10.0	8.9	9.7
ROCE	13.2	8.4	9.8	8.8	9.6
Working capital days (days)					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	19	19	20	19	19
Ratios (x)					
Gross asset turnover	21.8	23.8	21.2	22.6	24.5
Current ratio	2.5	2.6	5.7	5.6	5.4
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%

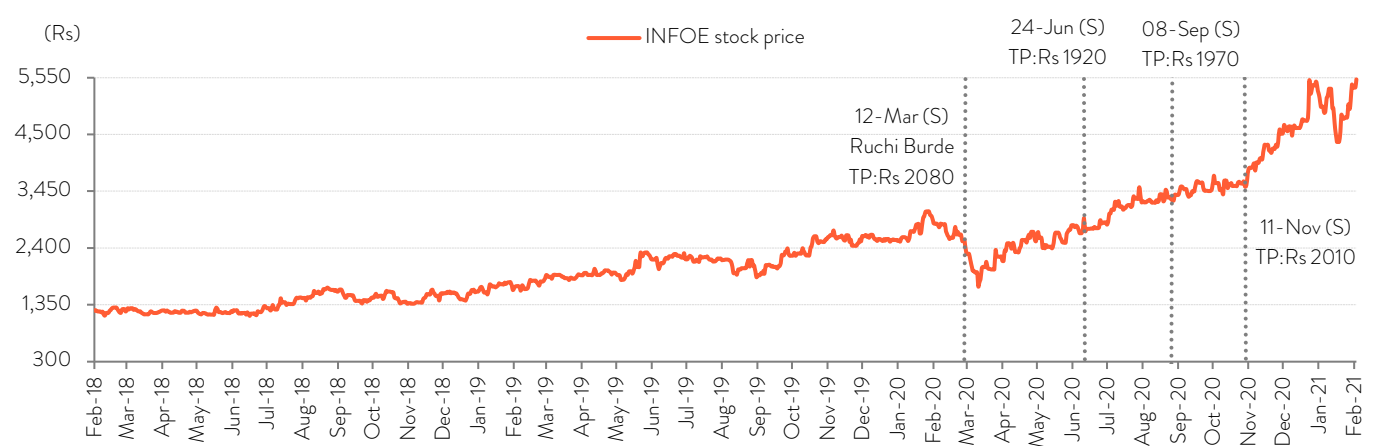
ADD – Expected return from >+5% to +15%

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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