

**SELL**

TP: Rs 2,880 | ▼ 42%

INFO EDGE

| IT Services

| 21 June 2021

### Higher momentum in other verticals to weigh on profitability

- INFOE reported below-expected Q4FY21 numbers with revenue down 10% YoY (-6.5% est.) and EBITDA margin at 18% (29% est.)
- While billing growth of 25% YoY looks encouraging, it wasn't driven by the largest Naukri.com business and came off a very low base
- We tweak our FY22-FY23 EPS estimates by -1%/-6% and reiterate SELL with a revised Mar'22 TP of Rs 2,880 (vs. Rs 2,780) on rollover

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**Subpar Q4 performance on all fronts:** Revenue contracted 10.2% YoY, falling below our estimate of a 6.5% decline. EBITDA margin stood at 18% vs. 29% expected, weighed down by the full impact of wage revision, higher variable payouts and elevated advertising spend (for 99acres.com and Jeevansaathi.com). EBITDA underperformed our estimate by 39% and consensus by 42%.

**Recovery in recruitment lags other verticals:** Segment-wise, the best performance came from non-Naukri verticals (99acres, Jeevansaathi, Shiksha), which posted flattish revenues (-0.6% YoY) while Naukri.com continued to decline (-14%). Total billing was up 25% YoY backed by 41%, 24% and 22% growth in 99acres, other verticals and Naukri respectively. Deferred sales grew 11.8% YoY, signaling better revenue growth in upcoming quarters. Here too, 99acres and other verticals led the way with Naukri lagging behind. We note that operational losses in other verticals will weigh on operating margins.

**Naukri unaffected by second Covid wave:** Management stated that the recruitment activity on its platform was surprisingly unaffected by the second Covid wave while other verticals saw a reduction in activity. Resumes uploaded increased by 2mn QoQ though the number of unique visitors rose by only 9.7% QoQ in Q4. Demand in the IT/ITES space gained momentum. IIM Jobs' revenue grew 55% YoY in Q4 and it is expected to be legally merged with INFOE in July. INFOE is also investing in blue-collar platform Jobhai.com which operates in the NCR and has shown encouraging trial results.

**Reinvesting cash in core business:** Management plans to reinvest cash from the Naukri business and Zomato stake sale in its core businesses of real estate, jobs, education and matrimony. It has no plans for dividend payouts in the near future. INFOE is looking at acquisitions in the recruitment space on the lines of its 'Zwayam' deal. Zwayam is a SaaS-based sourcing and screening solution (FY21 revenue: Rs 64.6mn) acquired by INFOE in FY21 that is expected to augment Naukri's business. The company also intends to keep investing in marketing for Jeevansaathi for the next 3-4 years.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	INFOE IN/Rs 4,978
Market cap	US\$ 8.6bn
Free float	54%
3M ADV	US\$ 43.2mn
52wk high/low	Rs 5,880/Rs 2,660
Promoter/FPI/DII	38%/39%/22%

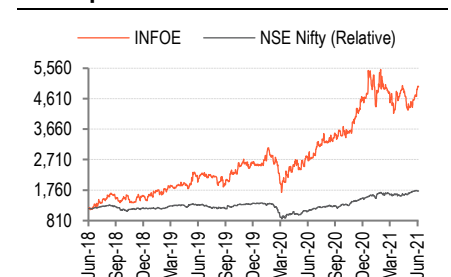
Source: NSE | Price as of 21 Jun 2021

### Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,986	13,051	15,217
EBITDA (Rs mn)	2,772	3,902	4,466
Adj. net profit (Rs mn)	2,739	3,987	4,434
Adj. EPS (Rs)	21.3	31.0	34.5
Consensus EPS (Rs)	21.3	28.5	34.4
Adj. ROAE (%)	7.8	8.5	8.8
Adj. P/E (x)	233.8	160.6	144.4
EV/EBITDA (x)	230.1	162.8	141.6
Adj. EPS growth (%)	(16.7)	45.6	11.2

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

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenue (Rs mn)</b>	<b>2,900</b>	<b>3,228</b>	<b>(10.2)</b>	<b>2,723</b>	<b>6.5</b>	<b>10,986</b>	<b>12,727</b>	<b>(13.7)</b>
<b>Operating Expenditure</b>	<b>2,371</b>	<b>2,263</b>	<b>4.8</b>	<b>2041</b>	<b>16.2</b>	<b>8,214</b>	<b>8,700</b>	<b>(5.6)</b>
Cost of revenues	1,811	1,779	1.8	1,538	17.7	252	234	7.8
as % of sales	62	55		56		2	2	24.8
SG&A expenses	560	484	15.7	503	11.4	1,820	2,044	(11.0)
as % of sales	19	15		18		17	16	3.1
<b>EBITDA</b>	<b>529</b>	<b>965</b>	<b>(45.2)</b>	<b>682</b>	<b>(22.4)</b>	<b>2,772</b>	<b>4,027</b>	<b>(31.2)</b>
Depreciation	106	110	(3.8)	109	(3.4)	436	414	5.5
<b>EBIT</b>	<b>423</b>	<b>855</b>	<b>(50.5)</b>	<b>572</b>	<b>(26.0)</b>	<b>2,336</b>	<b>3,614</b>	<b>(35.4)</b>
Other Income	406	195	108.6	316	28.6	1,188	876	35.6
<b>PBT</b>	<b>784</b>	<b>662</b>	<b>18.4</b>	<b>875</b>	<b>(10.4)</b>	<b>3,434</b>	<b>3,190</b>	<b>7.7</b>
Total Tax	120	246	(51.2)	176	(31.7)	727.7	1,133.2	(35.8)
<b>Adjusted PAT</b>	<b>664</b>	<b>416</b>	<b>59.5</b>	<b>699</b>	<b>(5.0)</b>	<b>2,706</b>	<b>2,057</b>	<b>31.6</b>
(Profit)/loss from JV's/Ass/MI								
<b>Reported PAT</b>	<b>664</b>	<b>416</b>	<b>59.5</b>	<b>699</b>	<b>(5.0)</b>	<b>2,706</b>	<b>2,057</b>	<b>31.6</b>
<b>Reported EPS</b>	<b>5.4</b>	<b>3.4</b>	<b>59.5</b>	<b>5.7</b>	<b>(5.0)</b>	<b>22.2</b>	<b>16.9</b>	<b>31.6</b>
<b>Margins (%)</b>								
EBIDTA	18.2	29.9	(1,170)	25.0	(680)	25.2	31.6	(640)
EBIT	14.6	26.5	(1,190)	21.0	(640)	21.3	28.4	(710)
EBT	27.0	20.5	650	32.1	(510)	31.3	25.1	620
PAT	22.9	12.9	1000	25.7	(280)	24.6	16.2	850
Effective Tax rate	15.3	37.1	(2,180)	20.1	(480)	21.2	35.5	(1430)

Source: BOBCAPS Research, Company

## Valuation methodology

INFOE's stock price has increased at a 32%+ CAGR over the last decade (FY10-FY20) 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). Post Covid first wave, however, we saw sluggish recovery in Naukri while most of the overall recovery has been driven by Jeevansaathi and 99acres in Q4FY21.

We raise FY22-FY23 revenue estimates to factor in higher growth in 99acres and Jeevansathi but lower EPS by 1-6% given management commentary and the Q4FY21 results (underwhelming recovery in the Naukri.com business). On incorporating latest Zomato valuations of US\$ 5.4bn and PolicyBazaar valuations of US\$ 2.4bn, we revise our Mar'22 TP to Rs 2,880 (vs. Rs 2,780 earlier).

**Fig 2 – Revised estimates**

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	12,533	13,051	4	14,633	15,217	4
YoY growth (%)	12.9	18.8		16.8	16.6	
EBITDA	3,901	3,902	0	4,747	4,466	(6)
EBITDA, margin (%)	31.1	30		32	29	
PAT	4,002	3,987	0	4,661	4,434	(5)
EPS	31.3	31.0	(1)	36.5	34.4	(6)

Source: BOBCAPS Research

Our SOTP model (based on unchanged target valuation multiples) includes (1) Rs 1,398/sh for Naukri (45x Mar'23E EPS), (2) Rs 200/sh for 99acres (11x sales), (3) Rs 161/sh for Jeevansathi (9x sales v), and (4) Rs 807/sh for stakes in key investee companies (Zomato and PolicyBazaar) based on their latest funding rounds. Reiterate SELL.

Our target multiples for 99acres and Jeevansaathi are at 40-50% discount to Naukri's sales multiple of 17.8x because of their relatively inferior performance (negative EBITDA margins and lower market share). For Naukri, our target multiple is 45x which is the pre-Covid five-year average adj. P/E of INFOE's core business (excludes Zomato and PolicyBazaar whose IPO buzz in FY21 led to a sharp pickup in overall stock price).

**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	P/E	179,872	100	179,872	1,398	49
99acres	11x sales	25,750	100	25,750	200	7
Jeevansathi	9x sales	20,675	100	20,675	161	6
Zomato	Valued at US\$5.4bn -Jun'21	410,400	19	79,207	616	21
Policybazar	Valued at US\$2.4bn - as implied by latest transaction	182,400	14	24,624	191	7
Other investments	Book value	5,059	na	5,059	39	1
Cash and Cash equivalent	Book value	35,920	100	35,920	279	10
Target price (Rs/sh)					2,880	

Source: BOBCAPS Research, Company

## Key risks

Key upside risks to our estimates are:

- favourable turnaround in India's residential real estate industry, thus raising growth and profitability at 99acres, and
- above-expected market share gains by Jeevansathi.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>10,982</b>	<b>12,727</b>	<b>10,986</b>	<b>13,051</b>	<b>15,217</b>
EBITDA	3,414	4,027	2,772	3,902	4,466
Depreciation	204	414	436	457	533
EBIT	3,210	3,614	2,336	3,445	3,933
Net interest inc./(exp.)	(1)	(67)	(57)	(68)	(79)
Other inc./(exp.)	1,112	876	1,188	1,951	2,071
Exceptional items	(160)	(1,233)	(32)	0	0
EBT	4,162	3,190	3,434	5,328	5,925
Income taxes	1,169	1,133	728	1,341	1,491
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>2,992</b>	<b>2,057</b>	<b>2,706</b>	<b>3,987</b>	<b>4,434</b>
Adjustments	160	1,233	32	0	0
<b>Adjusted net profit</b>	<b>3,152</b>	<b>3,290</b>	<b>2,739</b>	<b>3,987</b>	<b>4,434</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	617	592	601	715	834
Other current liabilities	5,011	4,890	5,501	5,901	6,881
Provisions	496	549	662	662	662
Debt funds	4	2	1	1	1
Other liabilities	42	761	652	652	652
Equity capital	1,220	1,223	1,285	1,285	1,285
Reserves & surplus	22,019	23,094	44,357	47,346	50,671
Shareholders' fund	23,239	24,317	45,642	48,631	51,956
<b>Total liab. and equities</b>	<b>29,410</b>	<b>31,110</b>	<b>53,059</b>	<b>56,563</b>	<b>60,986</b>
Cash and cash eq.	683	4,254	6,332	9,779	14,144
Accounts receivables	60	70	54	72	83
Inventories	0	0	0	0	0
Other current assets	14,826	8,722	23,545	23,545	23,545
Investments	10,333	14,672	15,000	15,000	15,000
Net fixed assets	500	434	318	358	403
CWIP	20	0	0	0	0
Intangible assets	49	41	37	37	37
Deferred tax assets, net	416	335	363	363	363
Other assets	2,524	2,582	7,410	7,410	7,410
<b>Total assets</b>	<b>29,410</b>	<b>31,110</b>	<b>53,059</b>	<b>56,563</b>	<b>60,986</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Cash flow from operations</b>	<b>2,956</b>	<b>3,256</b>	<b>2,828</b>	<b>4,873</b>	<b>5,974</b>
Capital expenditures	(259)	(237)	(81)	(496)	(578)
Change in investments	8,164	907	2,560	0	0
Other investing cash flows	(10,137)	819	(21,981)	68	79
<b>Cash flow from investing</b>	<b>(2,233)</b>	<b>1,489</b>	<b>(19,502)</b>	<b>(428)</b>	<b>(499)</b>
Equities issued/Others	27	3	18,752	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(138)	(199)	0	0	0
Dividends paid	(670)	(978)	0	(998)	(1,110)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(781)</b>	<b>(1,174)</b>	<b>18,752</b>	<b>(998)</b>	<b>(1,110)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(57)</b>	<b>3,571</b>	<b>2,077</b>	<b>3,447</b>	<b>4,365</b>
<b>Closing cash &amp; cash eq.</b>	<b>683</b>	<b>4,253</b>	<b>6,332</b>	<b>9,779</b>	<b>14,144</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	23.3	16.0	21.0	31.0	34.5
Adjusted EPS	24.5	25.6	21.3	31.0	34.5
Dividend per share	6.0	6.0	0.0	7.7	8.6
Book value per share	180.6	189.0	354.8	378.0	403.8

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	58.3	50.3	58.1	48.7	41.6
EV/EBITDA	187.4	158.8	230.1	162.8	141.6
Adjusted P/E	203.2	194.7	233.8	160.6	144.4
P/BV	27.6	26.3	14.0	13.2	12.3

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	75.7	103.1	79.7	74.8	74.8
Interest burden (PBT/EBIT)	129.6	88.3	147.0	154.7	150.7
EBIT margin (EBIT/Revenue)	29.2	28.4	21.3	26.4	25.8
Asset turnover (Rev./Avg TA)	39.4	42.1	26.1	23.8	25.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>14.2</b>	<b>13.8</b>	<b>7.8</b>	<b>8.5</b>	<b>8.8</b>

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	20.0	15.9	(13.7)	18.8	16.6
EBITDA	14.8	18.0	(31.2)	40.8	14.5
Adjusted EPS	15.2	4.4	(16.7)	45.6	11.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	31.1	31.6	25.2	29.9	29.3
EBIT margin	29.2	28.4	21.3	26.4	25.8
Adjusted profit margin	28.7	25.8	24.9	30.6	29.1
Adjusted ROAE	14.2	13.8	7.8	8.5	8.8
ROCE	13.2	8.3	7.5	8.2	8.6
<b>Working capital days (days)</b>					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	19	17	20	18	19
<b>Ratios (x)</b>					
Gross asset turnover	21.8	27.3	29.2	38.6	40.0
Current ratio	2.5	2.2	4.4	4.6	4.5
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>

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

## Disclaimer

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

**BUY** – Expected return >+15%

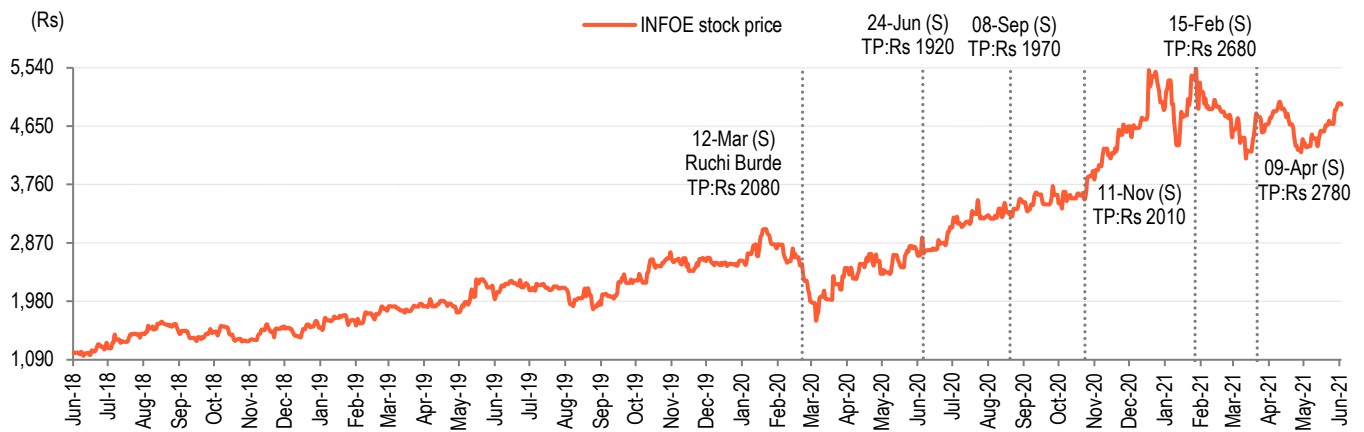
**HOLD** – Expected return from -6% to +15%

**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.

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

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