

INFO EDGE

Capital raise to fortify business

India Equity Research | IT

Info Edge's (IEL) Q1FY21 revenue surpassed Street's estimate and significant cost-cutting measures led to massive profit beat. Consumers are fast adopting internet portals as lockdown is restricting mobility, thereby increasing their relevance. This is reflected in traffic on IEL's portals reviving to pre-covid level, followed by billing revival in July and August. Q1 billing had dipped 71% and 44% in for 99acres and Naukri, respectively. The company has infused INR18.8bn via QIP, which will help strengthen its core portfolio with strategic acquisitions. While we broadly maintain our FY22 revenue estimates, we revise up EBITDA and PAT 5.0% and 29.1%, respectively, to factor in efficiency gains and higher other income from capital raise. We are increasing our earnings multiple for core businesses as relevance of online platform rises and capital raise enables them to fortify their positions. However, considering steep valuations (51.3x FY22E EPS) for core business, maintain 'HOLD' with revised TP of INR3,303 (INR3,015 earlier).

QIP: Capital raise at opportune time

IEL has raised INR18.8bn via QIP, taking its cash and equivalent to INR34.1bn. This can be utilised for strategic acquisitions to further enhance scale and offerings in the core business. Management has highlighted that there is nothing on the cards as of now and it may take 12-18 months for IEL to complete prospective acquisitions, if any. The company already has leadership positions in the recruitment and real estate businesses, where it can broaden the portfolio; in matrimony business, IEL will require a scale acquisition to garner leadership position. In our view, although strategic acquisitions add little revenue and profits in the near term, they inherently enhance the long-term growth potential of a company, further bolstering moat of the business.

Outlook and valuation: Prospects bright; maintain 'HOLD'

IEL remains one of the best diversified internet franchises with strong execution and capital allocation track record. We see acceleration in online platform adoption and capital raise fortifying its business. Considering these tailwinds, we are revising up P/E multiple for recruitment business to 40x (35x earlier) and EV/sales multiple for real estate and matrimony businesses to 12x (10x earlier) to arrive at revised TP of INR3,303. However, we maintain 'HOLD/SP' due to expensive valuations (51.3x FY22E EPS for core business).

Financials (Standalone)

Year to March	Q1FY21	Q4FY20	Growth %	Q1FY20	Growth %	FY20	FY21E	FY22E
Revenue	2,801	3,228	(13.2)	3,128	(10.4)	12,727	11,632	16,121
EBITDA	1,046	965	8.3	1,010	3.5	4,027	4,082	5,784
Adjusted profit	832	788	5.6	749	11.1	2,057	3,904	5,649
Diluted EPS (INR)	6.8	6.4	5.6	6.1	10.9	16.7	30.2	43.7
Diluted P/E (x)						198.4	109.7	75.8
EV/EBITDA (x)						97.2	95.5	66.5
Market cap / Rev. (x)						31.8	36.5	26.4

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: INED.BO, B: INFOE IN)	
CMP	: INR 3,270
Target Price	: INR 3,303
52-week range (INR)	: 3,584 / 1,580
Share in issue (mn)	: 128.6
M cap (INR bn/USD mn)	: 426 / 1,572
Avg. Daily Vol.BSE/NSE('000)	: 319.1

SHARE HOLDING PATTERN (%)			
	Current	Q4FY20	Q3FY20
Promoters *	40.4	40.5	40.5
MF's, FI's & BK's	12.6	13.4	12.9
FII's	37.0	35.4	36.1
Others	10.0	10.7	10.5
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Technology Index
1 month	14.1	2.7	17.1
3 months	24.0	10.5	27.4
12 months	44.6	(1.0)	16.8

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Table 1: Valuation of investee companies

Investee Company	rating revenue (INR)				Multiple to sales (x)	Value (INR mn)	Stake (%)	Proportionate Share (INR mn)	Per share (INR)
	FY19	FY20	FY21E	FY22E					
Zomato Media	14,000	26,047	33,862	41,650	7.0	2,91,548	22.7	66,211	543
Etechaces Marketing and Consulting									
Kinobeo Software									
Canvera Digital Technologies									
Happily Unmarried Marketing	6,123	12,729	19,093	28,639	6.0	1,71,836	40.0	68,734	563
Mint Bird Technologies Pvt Ltd									
Green Leaves Consumer Services Pvt I									
Rare Media Company Pvt Ltd									
Total	20,123	38,776	52,954	70,289					1,106

Source: Company, Edelweiss research

Table 2: SOTP valuation

(INR mn)								(INR mn)	
Segment	Parameter	FY19	FY20	FY21E	FY22E	Multiple (x)	Value (INR mn)	Type	
Recruitment Business	Net Profit	2,796	3,290	3,539	4,805	40.0	1,92,214	Price to Earnings	
Other	Sales	3,124	3,660	3,322	4,684	12.0	56,209	EV/Sales	
Investee Company							1,34,945	From table 1	
Cash		6,003	13,139	35,267	40,300	1.0	40,300	On Book Value	
Total							4,23,668		
No of shares							128		
Target Price							3,303		

Source: Company, Edelweiss research

Key Highlights

IEL reported better-than-expected revenue of INR2.8bn (down 10.4% versus Street's estimate of 16.4% decline). Billings fell 44% YoY to INR1.9bn as the lockdown continued to hamper operations of the company.

EBITDA margin sprung a positive surprise coming in at 37.3% (up 500bps YoY) compared to Street's estimate of 20.2%.

The company cut promotion and advertising costs substantially and also reduced its admin spends.

Management mentioned that it will continue to evaluate any new acquisition opportunities over the next 12-18 months.

Recruitment

In the recruitment segment, billings declined 44% YoY to INR1.4bn and revenue fell 9% YoY to INR2.0bn. Operating EBITDA increased 5% YoY as the company curtailed its marketing spend during the quarter.

IEL managed to maintain its traffic share on the job portal. Management mentioned that job seeker interest is back to pre-covid level.

Real Estate

On expected lines, the real estate segment was hit the hardest as billings declined 71% YoY to INR0.14bn and revenue declined 25% YoY to INR0.43bn. All business verticals were

impacted by the lockdown. However, the management mentioned that daily listings by owners had returned to pre-covid levels by the end of the quarter. Broker and developer listings recovery has been slightly slower. Traffic share has also improved compared to the previous quarters.

Matrimony

Matrimony was the only segment which remained unscathed by the pandemic. Billings and revenue grew. Jeevansathi also saw acceleration in profile growth rate. The company continues to spend more on marketing to gain market share in the matrimony segment.

Financial snapshot

(INR mn)

Year to March	Q1FY21	Q4FY20	% Change	Q1FY20	% Change	FY20	FY21E	FY22E
Net revenues	2,801	3,228	(13.2)	3,128	(10.4)	12,727	11,632	16,121
Network & other charges	55	58	(4.3)	58	(5.3)	234	205	274
Staff costs	1,297	1,392	(6.8)	1,298	0.0	5,396	5,200	6,610
Direct costs	1,352	1,450	(6.7)	1,356	(0.2)	5,630	5,406	6,884
Gross profit	1,449	1,779	(18.5)	1,772	(18.2)	7,097	6,227	9,237
S&m expenses	256	484	(47.2)	549	(53.4)	2,044	1,283	2,164
G&a expenses	148	329	(55.2)	213	(30.9)	1,026	862	1,290
EBITDA	1,046	965	8.3	1,010	3.5	4,027	4,082	5,784
Depreciation	111	110	1.2	99	12.5	414	449	440
EBIT	934	855	9.2	911	2.6	3,614	3,633	5,344
Other income	203	195	4.1	245	(17.4)	876	1,655	2,267
Profit before tax	1,122	1,034	8.5	1,139	(1.5)	4,423	5,227	7,550
Tax	305	272	12.3	395	(22.8)	1,052	1,338	1,900
Exceptionals	-	(372)	(100.0)	(82)	(100.0)	1,233	-	-
Reported net profit	832	416	100.0	667	24.7	3,290	3,904	5,649
Adjusted Profit	832	788	5.6	749	11.1	2,057	3,904	5,649
Diluted EPS (INR)	6.8	6.4	5.6	6.1	10.9	16.7	30.2	43.7
Diluted P/E (x)	-	5.0	-	-	-	198.4	109.7	75.8
EV/EBITDA (x)	-	7.4	-	-	-	97.2	95.5	66.5
Market cap / rev. (x)	-	-	-	-	-	31.8	36.5	26.4

As % of net revenues

Gross profit	51.7	55.1		56.7		55.8	53.5	57.3
SG&A	14.4	25.2		24.4		24.1	18.4	21.4
EBITDA	37.3	29.9		32.3		31.6	35.1	35.9
EBIT	33.4	26.5		29.1		28.4	31.2	33.1
Reported net profit	29.7	24.4		23.9		16.2	33.6	35.0
Tax rate	27.2	26.3		34.7		23.8	25.6	25.2

Change in Estimates

	FY21E			FY22E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	11,632	12,394	(6.1)	16,121	16,380	(1.6)	
EBITDA	4,082	3,698	10.4	5,784	5,509	5.0	
EBITDA Margin	35.1	29.8		35.9	33.6		
Adjusted Profit	3,904	3,044	28.3	5,649	4,375	29.1	
After Tax							
Net Profit Margin	33.6	24.6		35.0	26.7		
Capex	219	219	0.0	219	219	0.0	

Company Description

IEL is amongst India's leading online classified companies, with presence in online recruitment, matrimony, real estate, and offline executive search. It pioneered the online recruitment business under its flagship brand Naukri.com and operates offline recruitment business under the Quadrangle brand. The company's online matrimony and real estate divisions operate under Jeevansathi.com and 99acres.com, respectively, and are currently in investment mode. New launches include Firstnaukri.com (fresher recruitment site), Brijj.com (professional networking site), asknaukri.com (career guidance website), and shiksha.com (education information portal). IEL's TTM revenue is INR12.7bn and, employee strength of 4,590 people.

Investment Theme

IEL is a long term play on the internet space in India. With lead in the online recruitment market (through Naukri.com) and presence in the online classified space has the potential to establish a market leading position and grab large pie of increasing online adoption. As various businesses come out of the recent slowdown we see recruitment industry to grow significantly as it is highly correlated to the economic health of the growth of domestic corporate sector.

Key Risks

Slower than anticipated scale up of non-recruitment segments

Losses increasing from investee companies.

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Unique cust. (nos)	77,266	84,992	93,492	102,841
Rev. per unique cust.	101,707	106,680	88,892	111,211
Jeevansathi				
Unique paid cust. (nos)	121,741	131,480	141,999	153,359
Collection/client (INR)	6,091	6,451	6,831	7,884
99acres				
Paid transactions ('000)	146	163	183	205
Rev per transaction(INR)	13,172	13,964	9,796	13,619
Cost assumptions				
Employees cost	41.8	42.4	44.7	41.0
S&M expenses (% of rev.)	16.0	16.1	11.0	13.4
G&A expenses (% of rev.)	9.2	8.1	7.4	8.0
Revenue growth (%)	20.0	15.9	(8.6)	38.6
Financial assumptions				
Cash yield (%)	11.7	11.9	8.6	7.0
Tax rate as % of PBT	28.4	23.8	25.6	25.2
Capex (INR mn)	259	237	219	219
Debtor days	2	2	3	2
Payable days	51	43	47	42
Dep. (% gross block)	12.3	14.8	11.4	10.6

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	10,983	12,727	11,632	16,121
Cost of revenues	4,807	5,630	5,406	6,884
Gross profit	6,176	7,097	6,227	9,237
Total SG&A expenses	2,762	3,070	2,145	3,453
S&M expenses	1,757	2,044	1,283	2,164
G&A expenses	1,005	1,026	862	1,290
EBITDA	3,413	4,027	4,082	5,784
Depreciation	204	414	449	440
EBIT	3,210	3,614	3,633	5,344
Less: Interest Expense	1	67	61	61
Add: Other income	1,111.52	876.18	1,654.84	2,266.98
Profit Before Tax	4,320	4,423	5,227	7,550
Less: Provision for Tax	1,169	1,133	1,323	1,900
Reported Profit	3,151	3,290	3,904	5,649
Exceptional Items	334	1,233	-	-
Adjusted Profit	2,817	2,057	3,904	5,649
Shares o /s (mn)	122	122	128	128
Adjusted Basic EPS	23.1	16.9	30.4	44.0
Diluted shares o/s (mn)	123	123	129	129
Adjusted Diluted EPS	22.9	16.7	30.2	43.7
Adjusted Cash EPS	24.8	20.2	33.9	47.5
Dividend per share (DPS)	6.0	5.9	6.0	6.0
Dividend Payout Ratio(%)	27.0	25.9	22.9	15.8

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Cost of revenues	43.8	44.2	46.5	42.7
Gross margin	56.2	55.8	53.5	57.3
G&A expenses	9.2	8.1	7.4	8.0
S&M expenses	16.0	16.1	11.0	13.4
SG&A expenses	25.2	24.1	18.4	21.4
EBITDA margins	31.1	31.6	35.1	35.9
EBIT margins	29.2	28.4	31.2	33.1
Net Profit margins	25.7	16.2	33.6	35.0

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	20.0	15.9	(8.6)	38.6
EBITDA	14.8	18.0	1.4	41.7
PBT	15.9	2.4	18.2	44.4
Adjusted Profit	49.3	(27.0)	89.8	44.7
EPS	49.2	(27.2)	80.9	44.7

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	1,220	1,223	1,283	1,283	
Reserves & Surplus	24,207	25,399	47,097	51,852	
Shareholders' funds	25,427	26,621	48,380	53,135	
Minority Interest	(135)	-	-	-	
Long term borrowings	4	2	2	2	
Total Borrowings	4	2	2	2	
Def. Tax Liability (net)	(438)	(336)	(336)	(336)	
Sources of funds	24,858	26,288	48,046	52,801	
Gross Block	1,731	3,231	3,451	3,671	
Net Block	514	1,616	1,388	1,167	
Capital work in progress	1	-	-	-	
Intangible Assets	106	650	650	650	
Total Fixed Assets	622	2,267	2,038	1,817	
Non current investments	8,923	8,683	8,683	8,683	
Cash and Equivalents	6,003	13,139	35,267	40,300	
Sundry Debtors	67	91	73	102	
Loans & Advances	-	30	30	30	
Other Current Assets	15,837	9,843	9,843	9,843	
Current Assets (ex cash)	15,903	9,965	9,946	9,974	
Trade payable	702	634	756	842	
Other Current Liab	5,893	7,131	7,131	7,131	
Total Current Liab	6,595	7,765	7,887	7,973	
Net Curr Assets-ex cash	9,308	2,200	2,059	2,001	
Uses of funds	24,858	26,288	48,046	52,801	
BVPS (INR)	207.1	216.2	374.5	411.3	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	3,151	3,290	3,904	5,649	
Add: Depreciation	204	414	449	440	
Interest (Net of Tax)	(22)	(1,647)	(1,485)	(1,476)	
Others	7,236	(6,143)	(126)	(730)	
Less: Changes in WC	7,613	(7,108)	(141)	(58)	
Operating cash flow	2,956	3,022	2,883	3,942	
Less: Capex	259	237	219	219	
Free Cash Flow	2,697	2,784	2,664	3,723	

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Operating cash flow		2,956	3,022	2,883	3,942
Financing cash flow		(781)	(1,420)	17,793	(956)
Investing cash flow		(2,233)	1,970	1,436	2,048
Net cash Flow		(57)	3,572	22,112	5,033
Capex		(259)	(237)	(219)	(219)
Dividend paid		(808)	(1,176)	(895)	(895)

Profitability and efficiency ratios		FY19	FY20	FY21E	FY22E
Year to March					
ROAE (%)		12.4	7.9	10.4	11.1
ROACE (%)		19.0	17.3	14.1	15.0
Debtors Days		2	2	3	2
Payable Days		51	43	47	42
Cash Conversion Cycle		(49)	(41)	(44)	(40)
Current Ratio		3.3	3.0	5.7	6.3

Operating ratios		FY19	FY20	FY21E	FY22E
Year to March					
Total Asset Turnover		0.5	0.5	0.3	0.3
Fixed Asset Turnover		18.1	8.8	5.4	8.4
Equity Turnover		0.5	0.5	0.3	0.3

Valuation parameters		FY19	FY20	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)		22.9	16.7	30.2	43.7
Y-o-Y growth (%)		49.2	(27.2)	80.9	44.7
Adjusted Cash EPS (INR)		24.8	20.2	33.9	47.5
Diluted P/E (x)		144.4	198.4	109.7	75.8
P/B (x)		16.0	15.3	8.8	8.1
EV / Sales (x)		36.2	30.7	33.5	23.9
EV / EBITDA (x)		116.4	97.2	95.5	66.5
Dividend Yield (%)		0.2	0.2	0.2	0.2

Additional Data

Directors Data

Mr. Kapil Kapoor	Non-Executive Chairman	Mr. Saurabh Srivastava	Independent Director
Ms. Bala Deshpande	Independent Director	Mr. Naresh Gupta	Independent Director
Mr. Sanjeev Bikhchandani	Founder & Executive Vice-Chairman	Mr. Hitesh Oberoi	Managing Director & Chief Executive Officer
Mr. Chintan Thakkar	Whole time Director & Chief Financial Officer	Sharad Malik	Independent Director
Ms. Geeta Mathur	Independent Director		

Auditors - Price Waterhouse & Co. Chartered Accountants

Holding – Top10

	Perc. Holding		Perc. Holding
Sanjeev Bikhchandani	25.87	Endeavour Holding Trust	6.78
Hitesh Oberoi	5.30	Axis Mutual Fund	5.18
Nalanda India Equity Fund	3.14	Anil Lall	2.56
Kapil Kapoor	2.04	Wf Asian Smaller Companies Fund	1.92
Amansa Holdings	1.64	Wf Asian Reconnaissance Fund	1.57

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Cyient	BUY	SP	H	ECLERX SERVICES	BUY	SP	M
HCL Technologies	BUY	SP	H	Hexaware Technologies	HOLD	SP	M
IndiaMART	BUY	SO	H	Info Edge	HOLD	SP	M
Infosys	BUY	SO	L	Just Dial	BUY	SO	M
L&T Infotech Ltd	BUY	SO	M	L&T Technology Services Ltd	BUY	SO	M
MINDTREE LTD	BUY	SO	M	Persistent Systems	BUY	SP	L
Redington India Ltd	BUY	SO	L	Tata Consultancy Services	BUY	SP	L
Tech Mahindra	BUY	SP	M	Wipro	BUY	SP	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): IT

Cyient, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, IndiaMART, Just Dial, L&T Infotech Ltd, L&T Technology Services Ltd, MINDTREE LTD, Persistent Systems, Redington India Ltd, Tata Consultancy Services, Tech Mahindra, Wipro

Recent Research

Date	Company	Title	Price (INR)	Recos
03-Sep-20	IT	Techolution: Wave before the storm; <i>Sector Update</i>		
21-Aug-20	L&T Infotech	Techolution: Beneficiary of Tech Upcycle; <i>Post Conference Notes</i>	2365	Buy
20-Aug-20	L&T Technology Services	Techolution: On road to recovery;	1574	Buy

Distribution of Ratings / Market Cap

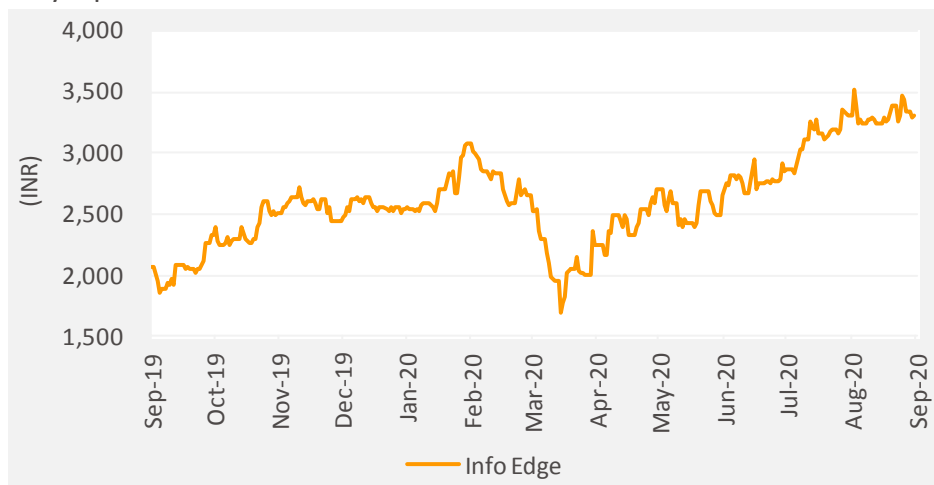
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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