

BSE SENSEX
29,927

S&P CNX
9,262

CMP: INR837 TP: INR1,000 (+19%)
Buy


Stock Info

Bloomberg	INFOE IN
Equity Shares (m)	121.7
52-Week Range (INR)	1,012/710
1, 6, 12 Rel. Per (%)	-2/-17/-12
M.Cap. (INR b)	97.3
M.Cap. (USD b)	1.5
Avg Val, INRm	67.0
Free float (%)	79.0

Financials Snapshot (INR b)

Y/E Mar	2017E	2018E	2019E
Sales	7.9	8.9	10.1
EBITDA	2.2	2.4	2.8
PAT	2.2	2.2	2.6
EPS (INR)	16.9	17.9	21.0
EPS Gr. (%)	30.1	6.2	17.1
BV/Sh. (INR)	159.4	169.6	182.3
RoE (%)	11.1	10.9	11.9
RoCE (%)	11.1	10.9	11.9
Payout (%)	38.6	42.8	39.4

Valuation

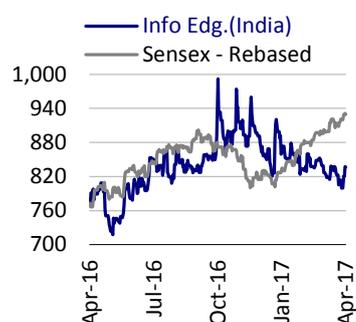
P/E (x)	47.4	44.6	38.1
EV/EBITDA (x)	36.7	32.7	27.2
EV/Sales (x)	10.1	8.9	7.7

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	42.6	42.9	43.2
DII	13.1	12.1	10.4
FII	33.3	33.9	35.1
Others	11.0	11.1	11.3

FII Includes depository receipts

Stock Performance (1-year)



Significant improvement in Zomato's performance in FY17

80% revenue growth; 81% reduction in cash burn

Zomato detailed some key financials for FY17 on its blog, indicating continued traction in the business and also detailing certain unit economics in food delivery.

Key highlights:

Food ordering drives growth

Zomato reported revenue growth of 80% YoY to USD49m in FY17, contributed by ad sales (USD38m; 78% of total) and the newly launched food ordering service (USD9m; +8x YoY). 44% of incremental revenue was driven by food ordering. Exit revenue in March 2017 was USD5m, implying annualized revenue rate of USD60m.

Unit economics explained

- Monthly order volumes in March stood at 2.1m (up four-fold YoY), 80% of which were fulfilled by restaurants and 20% by Zomato.
- Zomato has refrained from discounting, and applies it to <2% of the orders. 27% of the orders are discounted by the restaurants themselves.
- Despite not discounting, on average, Zomato makes INR21 per order fulfilled by the restaurant and loses ~INR9 per order it processes by itself. This is primarily because of higher delivery and processing costs incurred by Zomato when directly fulfilling.
- On average, INR50 per order is paid to delivery partners. It costs its partners INR62 to fulfill an order received from Zomato. Were Zomato to deliver on its own, the delivery costs would work out to INR105 per day (lower volume versus delivery partners).

Model allows less marketing spend

Zomato's classified business (has 8.5m monthly unique customers in India) makes it seamless for customers to move and transact (food ordering/table booking). This is unlike other e-commerce players which pay large amounts to first acquire customers and then to re-engage them. There is massive room to continue growing transactions without spending much, as so far <3% of Zomato's unique visitors are currently ordering as well.

Valuation and view

- The sharp reduction in Zomato's burn is a significant positive, and if revenue growth momentum continues on this base, the concerns on USD1b valuation will be abated, particularly considering multiple valuation write-downs and business shutdowns over past 12 months in the sector.
- With the standalone business' real estate segment struggling amid underlying market slowdown, the blip in recruitment growth last quarter for INFOE was a new worry. This will be the first full quarter of demonetization, and thus, the recruitment business may remain soft for a while.
- Amid growth pressure on standalone operations, robust execution in Zomato will help provide a base for the stock, and continued scale may make a case for capital raise at higher valuation. We have a **Buy** rating on the stock with a target price of ~INR1,000 (~20% upside).

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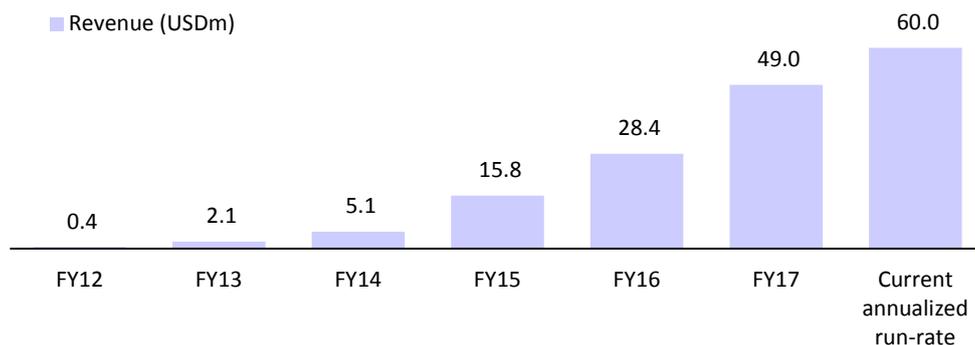
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Revenue growth of 80% in FY17

Zomato continues to report strong revenue growth, led by the introduction of new revenue streams and continued growth in ad revenue. Its March 2017 revenue stood at USD5m, translating to an annualized revenue run-rate of USD60m, 22% higher than FY17 revenue.

Zomato is clocking 120m monthly visits, up 69% over March 2016. Its monthly active user count has increased 43% YoY to 53m.

Exhibit 1: Annualized revenue run-rate now at USD60m

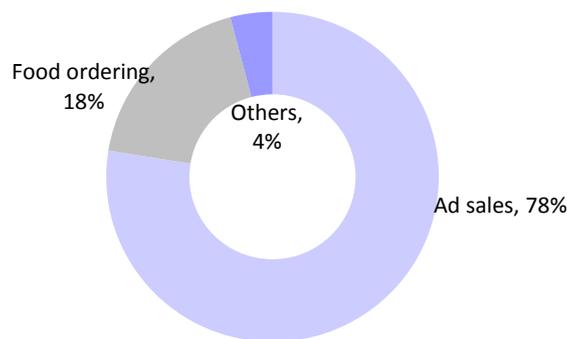


Source: MOSL, Company

FY17 revenue grew 80% YoY to USD49m, led by:

- **Ad sales:** Revenue stood at USD38m in FY17. During the year, Zomato stopped accepting advertising from low-rated restaurants, improving the quality of ads, increasing visibility and providing smarter targeting.
- **Food ordering:** Revenue stood at USD9m in FY17, exhibiting growth of 8x YoY. Effectively 44% of incremental growth in FY17 was driven by the food ordering business.

Exhibit 2: Annualized revenue run-rate now at USD60m



Source: MOSL, Company

Food ordering – the growth driver

Zomato launched online food ordering services in India and the UAE in FY16. Volumes increased gradually, reaching 0.5m in March 2016. Momentum picked up further in this offering, with 2m monthly orders and 8x jump in revenue. Momentum here should continue, as Zomato expects volumes in April to be higher by 8% compared to March 2017.

Zomato's food ordering services are on offer in 13 cities in India and 3 cities in the UAE. It intends to launch this service in Beirut in the coming year.

Exhibit 3: Improvement in the food ordering business

	FY16	FY17
Revenue (USD m)	1.1	9.0
Monthly orders (m)	0.5	2.0
Average order rating	4.0	4.2

Source: MOSL, Company

Revisiting the unit economics in food ordering (in India)

- In May 2016, Zomato processed a total of 750k orders, 80% of which were fulfilled by restaurants themselves (Type-A orders, Zomato does not deliver here) and 20% by Zomato through its last mile logistics partners (Type-B orders).
- Zomato pays INR50 per order to its delivery partners on average. It costs its partners INR62 to fulfill an order received from Zomato.
- Were Zomato to deliver on its own, the delivery costs would work out to INR105 per day. It is lower for partners as they are able to keep delivery personnel busy during lean periods for food orders (which they do by serving e-commerce and grocery).
- Processing cost includes the telco data fee incurred when automatically transmitting a new order over to the restaurant. Then there is the support cost, which is incurred when something goes wrong and the customer raises an issue with the support team.
- For Type-A orders, there is a two-way conversation to handle – between the customer and the restaurant. For Type B orders, there is a three-way conversation to work with – the customer, the restaurant, and the delivery partner's person who is on the road.
- ~35% of all orders are now paid online. The payment gateway fee is not borne by the restaurant separately.

Exhibit 4: Improvement in the food ordering business

	Type-A Orders	Type-B Orders
Average order value	480	375
Zomato's commission	8.2%	8.2%
Delivery fee	0%	10%
Revenue for Zomato	39.4	68.3
Delivery fee paid to partners	-	50
Processing / support cost	18.4	27.4
Net revenue per order for Zomato	21.0	(9.1)
Net revenue in March for 2m orders (INR m)	41.9	(18.3)

Source: MOSL, Company

Valuation and view

■ Direct and high-quality play on promising e-commerce opportunity

- India's e-commerce industry is expected to grow from its current size of USD14b to USD70b by 2020. According to Google, the classifieds segment is expected to grow at a CAGR of 22.5%, with jobs, real estate and matrimony constituting two thirds of the market.
- As GDP growth revives in India, it will directly benefit INFOE's recruitment segment, which has had a 7-8pp historical multiplier effect for every 1pp uptick in GDP growth. Naukri.com's traffic share is almost 70%.

■ Initial signs of reducing industry burn vindicate prudent investment strategy

The scenario in venture capital funding appears to have changed over past few months, with companies making a pivot toward monetization and profitability. This would imply that the worst in terms of month-on-month burn is behind. We believe this plays into INFOE's strategy of staying put to protect its market leadership in multiple franchises (like 99acres.com), and it can now look forward to deriving the financial rewards from investments sooner rather than later.

- **Revival of GDP growth to help flagship recruitment segment:** Naukri.com should directly and disproportionately benefit from a pick-up in GDP growth. We expect revenue CAGR of 12% over FY16-19E for its flagship Naukri.com. Some pressure has been mounting up in the business due to demonetization and a slowdown in IT hiring. We expect 99acres.com to remain subdued over the near term amid real estate industry woes, and expect revenue CAGR of 8% over FY16-19 on a small base.

■ Disciplined management action drives confidence

- **Backing strong teams:** Despite buying significant stake in investee companies, the approach has been to back teams and get involved as and when guidance is sought.
- **Prioritizing:** INFOE has been quick to write off its book investments where either scale visibility dwindled and/or the company's focus changed (INR356m to date).
- **Feeding the virtuous cycle:** Irrespective of business cycles, Naukri.com's cost base increases 15-20% every year to stay ahead in terms of product innovation.

- **SOTP-based price target of INR1,000:** We adopt a sum-of-the-parts (SOTP) methodology to value INFOE. We separately value the in-house businesses – Naukri.com, 99acres.com, Jeevansathi.com, and also INFOE's share in its investee companies – Zomato.com, Meritnation.com, Policybazaar.com, Mydala.com, and Canvera.com. While the recruitment business remains the cash cow, 99acres.com, along with its holdings in Zomato.com, should drive significant value for the company, going forward. Our SOTP target price of INR1,000 implies a 20% upside. We see INFOE as a direct and preferred play on the fast-expanding e-commerce opportunity. Maintain **Buy**.

Exhibit 5: SOTP valuation

Segment	Methodology	Methodology description	Valuation (INR b)	Contribution (INR per share)
Naukri	25x recruitment NOPLAT	❖ We value Naukri.com's post-tax operating profit at 25x. Historically, INFOE traded at 30x+ when recruitment segment dominated and all others were insignificantly small (INR20 per share of investments). INFOE's valuation on overall company's profits (including yield on cash) was 30x+	66.6	547
99acres.com	6x forward sales	❖ Lower end of sales multiple of peers such as rightmove.co.uk, realestate.com.au, zillow.com, zoopla.co.uk. All trade in a tight sales band of 6-17x. Growth in 99acres.com is expected to be higher than peers once the real estate segment picks up. But we ascribe median multiple of 6x.	7.1	58
Zomato.com	Valuation ascribed in the latest round of funding	❖ Zomato raised USD60m of funding at a valuation close of USD1b. INFO did not participate in this round, bringing its stake down to ~47%	30.1	247
Meritnation	Valuation ascribed in the latest round of funding	❖ Meritnation raised USD4m in the latest round of funding on June 2015. This, as per our analysis, values the company at ~USD125m. Since there were no new investors, we keep valuation pegged at previous levels of USD100m.	3.9	32
Mydala.com	3x forward sales	❖ Earlier, Mydala.com had been looking at raising USD80m, at pre-money valuation of USD200m; there were expectations around strong revenue and profitability prospects, and target of USD40m revenues by FY17. However, INFOE is now contemplating writing this off.	0.0	0
Policybazaar.com	Valuation ascribed in the latest round of funding	❖ INFOE's deal with Temasek to sell half its stake in Policybazaar.com values the company at USD210m.	1.4	12
Jeevansathi.com	3x forward sales	❖ JS is the 3rd biggest player in the online matrimony market. We assume 15% CAGR in revenues and value the franchise at 3x forward revenues.	1.7	14
Canvera	Valuation ascribed in the latest round of funding	❖ Canvera raised INR100m from INFOE in latest round of funding (2QFY16), which increased INFOE's stake from 36% to 38%, effectively pegging the company's value at INR4,000m.	1.2	10
Cash On books			11.3	93
Total				1000

Source: MOSL

Exhibit 6: 1-year forward P/E band

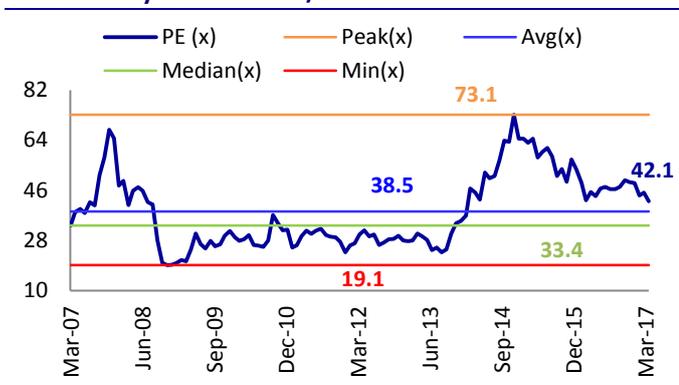
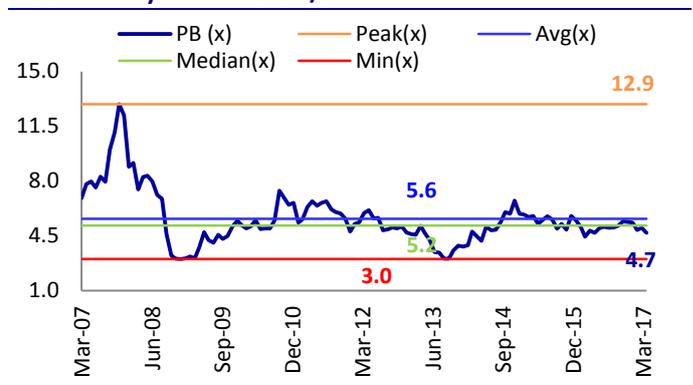
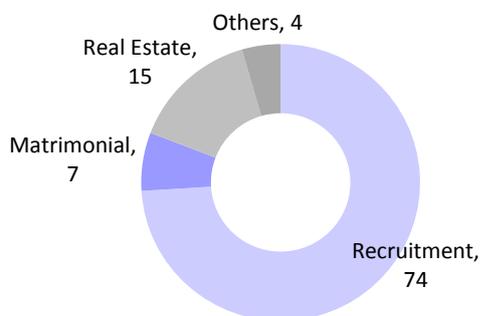


Exhibit 7: 1-year forward P/B band



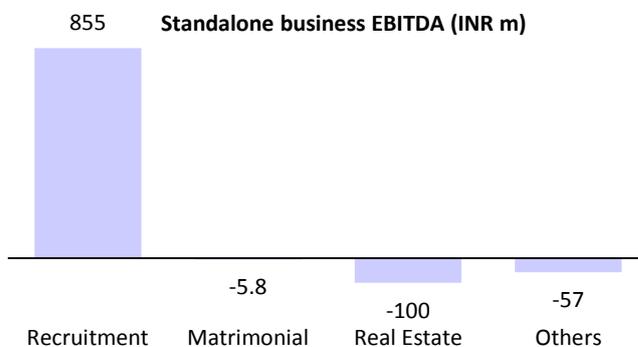
Story in charts

Exhibit 8: Recruitment segment dominated the standalone business...



Source: Company, MOSL

Exhibit 9: ...and is the only materially profit-making business in the group



Source: Company, MOSL

Exhibit 10: Recruitment business is closely linked to GDP growth...

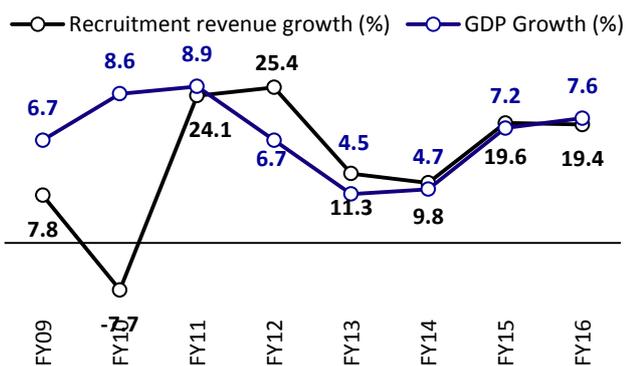


Exhibit 11: ...but leadership position to sustain on network effect

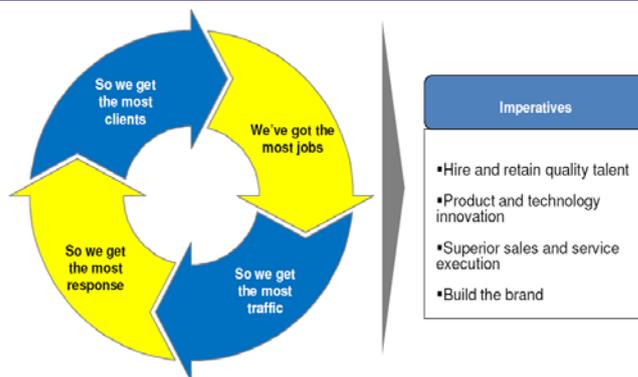


Exhibit 12: Investee company details

Company	Amt. Invested (INR m)	Holding %	FY16 summary (INR m)	
			Revenue	EBITDA
Zomato.com	4,838	46	1849.7	-4409.6
Meritnation.com	968	59	287.1	-414.2
Policybazaar.com	325	10		
Mydala.com	270	42		
Canvera.com	901	49		
Happily Unmarried.com	163	44	2,708.6	--1,647.8
Vacationlabs.com	60	26		
Bigstylist.com	64	25		
Bluedolph.in	74	35		
Total	7,663		4,845.4	-6,471.6
Written off / provisioned for				
Studyplaces.com	45	13		
99labels.com	285	47		
Floost.com	26	31		

Source: MOSL, Company

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net Sales	3,771	4,372	5,059	6,116	7,235	7,933	8,856	10,056
Change (%)	28.3	16.0	15.7	20.9	18.3	9.7	11.6	13.5
EBITDA	1,442	1,498	1,668	1,822	1,580	2,184	2,405	2,831
EBITDA Margin (%)	38.3	34.3	33.0	29.8	21.8	27.5	27.2	28.2
Depreciation	77	94	174	173	210	249	273	293
EBIT	1,366	1,404	1,494	1,649	1,370	1,935	2,132	2,538
Interest	20	25	51	30	1	1	0	0
Other Income	395	465	432	764	827	992	945	1,064
Extraordinary items	0	-293	0	292	-160	174	0	0
PBT	1,740	1,551	1,876	2,675	2,037	3,100	3,077	3,602
Tax	511	528	591	736	621	869	892	1,044
Tax Rate (%)	29.3	34.1	31.5	27.5	30.5	28.0	29.0	29.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	1,230	1,022	1,285	1,939	1,416	2,231	2,185	2,557
Adjusted PAT	1,230	1,315	1,285	1,647	1,575	2,058	2,185	2,557
Change (%)	46.4	7.0	-2.3	28.2	-4.3	30.6	6.2	17.1

Balance Sheet						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	546	1,092	1,092	1,202	1,209	1,211	1,211	1,211
Reserves	5,198	5,563	6,530	15,422	16,431	18,211	19,459	21,009
Net Worth	5,744	6,654	7,622	16,624	17,640	19,422	20,670	22,220
Debt	3	5	4	3	60	48	48	48
Deferred Tax	0	0	0	0	0	0	0	0
Total Capital Employed	5,747	6,659	7,626	16,627	17,700	19,469	20,718	22,268
Gross Fixed Assets	908	1,378	1,501	1,635	1,901	2,067	2,407	2,747
Less: Acc Depreciation	376	471	645	700	881	1,130	1,403	1,696
Net Fixed Assets	531	908	857	935	1,020	937	1,004	1,050
Capital WIP	94	98	95	0	0	0	0	0
Investments	3,666	4,526	6,306	14,552	7,762	10,176	10,176	10,176
Current Assets	3,183	2,974	2,558	3,934	11,795	11,547	13,266	15,146
Debtors	36	45	50	98	118	69	82	91
Cash & Bank	2,985	2,710	2,311	3,007	9,522	8,399	10,009	11,605
Loans & Adv, Others	162	220	196	829	2,155	3,079	3,175	3,450
Curr Liabs & Provns	1,728	1,847	2,189	2,794	2,877	3,191	3,728	4,104
Curr. Liabilities	1,496	1,606	1,865	2,341	2,448	2,844	3,381	3,758
Provisions	231	241	324	452	429	347	347	347
Net Current Assets	1,456	1,127	368	1,140	8,918	8,356	9,538	11,041
Total Assets	5,747	6,659	7,626	16,627	17,700	19,469	20,718	22,268

Financials and Valuations

Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	11.3	12.0	11.8	13.7	13.0	16.9	17.9	21.0
Cash EPS	12.0	12.9	13.4	15.1	14.7	18.9	20.2	23.4
Book Value	52.6	60.9	69.8	138.3	145.3	159.4	169.6	182.3
DPS	1.0	1.0	2.5	3.0	4.0	5.4	6.4	6.9
Payout (incl. Div. Tax.)	10.4	9.7	23.4	26.4	37.0	38.6	42.8	39.4
Valuation(x)								
P/E				58.4	61.6	47.4	44.6	38.1
Cash P/E				52.8	54.4	42.2	39.6	34.2
Price / Book Value				5.8	5.5	5.0	4.7	4.4
EV/Sales				14.3	11.1	10.1	8.9	7.7
EV/EBITDA				48.0	50.7	36.7	32.7	27.2
Dividend Yield (%)				0.0	0.0	0.0	0.0	0.0
Profitability Ratios (%)								
RoE	23.7	21.2	18.0	13.6	9.2	11.1	10.9	11.9
RoCE	24.0	21.5	18.5	13.8	9.2	11.1	10.9	11.9
RoIC	-125.7	-119.6	-116.2	-112.9	-380.7	207.7	212.1	353.4
Turnover Ratios (%)								
Fixed Asset Turnover (x)	6.0	4.3	5.3	6.5	7.1	8.5	8.8	9.6
Debtors (No. of Days)	3	4	4	6	6	3	3	3
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.5	-0.4	-0.3	-0.2	-0.5	-0.4	-0.5	-0.5

Cash Flow Statement

(INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Adjusted EBITDA	1,442	1,498	1,668	1,822	1,580	2,184	2,405	2,831
Non cash opr. exp (inc)	-245	-421	-334	146	-771	-656	-892	-1,044
(Inc)/Dec in Wkg. Cap.	385	-187	-425	2	6,706	-1,617	429	92
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	1,582	890	908	1,970	7,515	-88	1,942	1,879
(Inc)/Dec in FA & CWIP	-1,103	-2,012	-1,024	-2,151	-1,620	-530	-340	-340
Free cash flows	479	-1,122	-115	-181	5,895	-619	1,602	1,539
(Pur)/Sale of Invt	517	988	9	-6,279	7,744	-7,810	945	1,064
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-586	-1,024	-1,015	-8,430	6,124	-8,340	605	724
Inc/(Dec) in Net Worth	0	-18	-36	7,497	25	20	0	0
Inc / (Dec) in Debt	-1	2	0	-4	0	1	0	0
Divd Paid (incl Tax) & Others	-48	-127	-255	-337	-726	-796	-936	-1,007
CF from Fin. Activity	-49	-143	-291	7,156	-701	-775	-936	-1,007
Inc/(Dec) in Cash	947	-276	-398	696	12,938	-9,204	1,611	1,595
Add: Opening Balance	2,038	2,986	2,709	2,311	3,007	15,946	6,742	8,353
Closing Balance	2,986	2,709	2,311	3,007	15,946	6,742	8,353	9,948

NOTES

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