

Stock Update

Strong traction across verticals

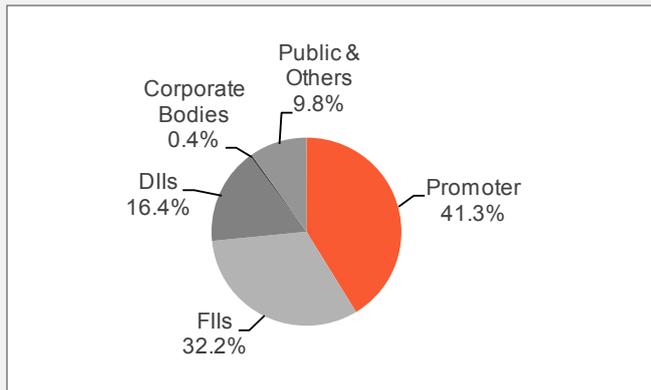
Info Edge (India)

Reco: Buy | CMP: Rs1,901

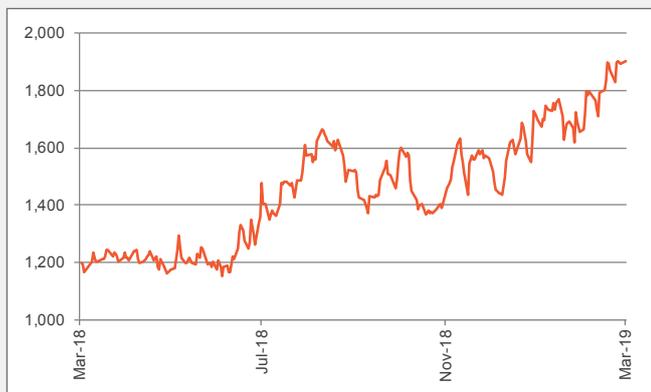
Company details

Price target:	Rs2,100
Market cap:	Rs23,217 cr
52-week high/low:	Rs1,926 /1,125
NSE volume: (No of shares)	2.2 lakh
BSE code:	532777
NSE code:	NAUKRI
Sharekhan code:	NAUKRI
Free float: (No of shares)	7.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.6	20.7	24.5	53.0
Relative to Sensex	8.5	12.8	19.7	30.7

Key points

We attended the analyst meet of Info Edge, where the management highlighted the following – a) Hiring activities continue to remain strong across verticals; b) Rationalisation in marketing spends on Naukri during Q4FY2019E, while higher tech spends could increase going ahead; c) Strength in resale market; d) Continued spend in Jeevansathi business for volumes growth; e) Elevated cash burn by Zomato to continue; and f) Company is open to investing more as well as inorganic opportunities.

- Recruitment: Sustainable growth momentum, but higher tech spends pose margin headwinds:** Info Edge's recruitment business (Naukri, 71% of total revenues) is back to a higher growth trajectory from the beginning of FY2019 after a soft revenue growth performance during FY2016-FY2018, with continued improvement in growth rate of 20.5% y-o-y in Q3FY2019 (from 12.7%/15.2%/15.7% y-o-y in 4QFY2018/1QFY2019/Q2FY2019). Higher revenue growth momentum in recruitment business was driven by the robust addition of unique customers, increased realisation aided by improvement in IT hiring and traction for its products (exa: RMS) among corporate customers. The management highlighted that it expects the rationalisation of marketing spends on the recruitment business during Q4FY2019E. However, higher spends on the promotions, product developments and tech people will continue going ahead to protect its leading market share from the competitors (Linked-in, Indeed, iimjobs.com, among others). According to management, Naukri's margin could get negatively impacted if Naukri's revenue growth rate falls below 20% y-o-y.
- 99acres to witness strong growth:** Despite lesser number of new launches and continued soft demand environment due to high inventory in the real estate space, 99acre has delivered strong revenue growth of 16% CAGR in last five years led by higher online penetration of developers and brokers and shifting of buyers to online reality portal. Given the intense competition in the real estate space, the advertisement spends increased 2x y-o-y in 9MFY2019. The management believes that the ad spends are likely to remain elevated going forward on the back of strong traction for renewals and increase in traffic. However, the ongoing NBFC liquidity crisis and upcoming general elections could limit the recovery of

demand cycle of real estate in the short-term. With 50% of overall traffic share, 99acres is well positioned to capitalise the opportunities that would arise from increasing online penetration of buyers in the real estate space and shifting of ad spend from print to online.

- ◆ **With a smart investment strategy, bets are progressing well:** Info Edge has been making small investments at attractive valuations in the early stage of companies/start-ups, with total investments in more than 20 entities. Out of these, Zomato and PolicyBazaar have emerged as big bets and are contributing significantly to the sum-of-the-parts (SOTP) valuation of the company, while Happily Unmarried and Meritnation are progressing well in their businesses. Zomato recently sold its UAE food delivery business to Delivery Hero Group for \$172 million and also raised additional \$50 million from Delivery Hero. The management also noted that Zomato has recently raised \$315 million from the global investors in the latest rounding of funding, which pegged Zomato's valuation at \$2.1 billion. With stiff competition from the closest competitor and entry of new players, the cash burns from Zomato will remain elevated going ahead. Unlike its earlier investment strategies, the management highlighted that it is open to investing more and is also scouting for inorganic opportunities in internet space.
- ◆ **Expect strong revenue growth in Q4FY2019E:** We expect Info Edge to report strong revenue growth of 20% y-o-y in Q4FY2019, led by 17% y-o-y growth in the recruitment business and 39% y-o-y growth in 99acres. Growth in the recruitment business would be driven by strong billings growth momentum in the past couple of quarters. EBITDA margin is expected to improve by 500 BPS y-o-y, owing to lower advertisement spending in recruitment business. Adjusted net profit (excluding one-time exceptional expenses of Rs.70 crore in Q4FY2018) during the quarter is expected to grow by 45% y-o-y to Rs.82 crore.
- ◆ **Improving traction across segments:** A leadership position in core businesses along with improving valuation in certain investee companies (Zomato and PolicyBazaar) is expected to bode well for the company. Zomato continues to remain aggressive on its expansion plans to protect its market share from close competitors. We believe PolicyBazaar, which commands over 50% share of total online insurance space, is set to begin its multi-year growth journey. Therefore, we maintain our Buy rating on Info Edge with a revised SOTP-based price target (PT) of Rs.2,100.

Valuation (Standalone)

Particulars	FY17	FY18	FY19E	FY20E	FY21E	Rs cr
Total revenue	802.1	915.5	1,093.3	1,246.0	1,480.4	
EBITDA margin (%)	28.4	32.5	31.0	33.5	34.5	
Adjusted net profit	208.4	273.7	316.7	391.2	465.0	
Adjusted EPS (Rs.)	17.3	22.5	26.0	32.1	38.1	
P/E (x)	110.1	84.7	73.2	59.2	49.8	
EV/EBITDA (x)	99.0	73.4	63.9	51.7	42.1	
RoE (%)	10.5	13.0	13.3	14.4	14.9	
RoCE (%)	13.4	17.7	18.0	19.2	19.8	

SOTP valuation

Business segment	Stake	Valuation methodology	Per share value (Rs.)
Recruitment business	100%	EV/EBITDA	1068
99acres	100%	EV/Sales	271
Jeevansathi.com	100%	EV/Sales	47
Standalone business (per share)			1385
Zomato Media	26%	Valued at \$2.1 billion	425
PolicyBazaar	14%	Valued at \$1 billion	76
Other investee company			29
Cash		Per share	185
Total per share			2,100

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