

Sector: Internet sector
Results update

	Change
Reco: Hold	↔
CMP: Rs. 2602	
Price Target: Rs. 2,700	↑

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 31,827 cr
52-week high/low:	Rs. 2,684 / 1,312
NSE volume: (No of shares)	2.5 lakh
BSE code:	532777
NSE code:	NAUKRI
Sharekhan code:	NAUKRI
Free float: (No of shares)	7.3 cr

Shareholding (%)

Promoters	40.6
FII	35.7
DII	14.5
Others	9.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.5	16.2	32.1	82.5
Relative to Sensex	7.1	8.0	21.5	57.2

Sharekhan Research, Bloomberg

Info Edge (India) Limited (Info Edge) delivered strong revenue growth of 19.5% y-o-y despite a slowdown in non-IT hiring. Recruitment business growth remained strong at 18.7% y-o-y, though the growth of 99acres was strong at 26.1% y-o-y but moderating from 30%+ growth in last seven consecutive quarters. Jeevansathi reported strong growth of 13% y-o-y owing to aggressive investments in gaining market share and higher conversion of customers. On a comparable basis, EBITDA margins declined 170bps y-o-y to 29.4%, below our estimates, owing to an increase in advertisement expenses and investments in technologies. EBITDA margin for 99acres turned positive led by lower marketing expenses. Reported net profit stood at Rs. 9.3 crore owing to impairment charges of Rs. 74.9 crore for its investments in Meritnation. We believe growth in the recruitment business could taper off in medium-term owing to slowdown in non-IT hiring (60% of its recruitment revenue). Revenue growth of 99acres could moderate further owing to factors like a lower number of new launches and a liquidity crisis in NBFC industry.

Key positives

- ♦ Strong revenue growth of 19.5% y-o-y, driven by strong performance across segments
- ♦ EBITDA turned positive for 99acres; EBITDA margin for recruitment business expanded on a q-o-q basis

Key negatives

- ♦ EBITDA margin came at 29.3% (on comparable basis) down 170bps y-o-y, below our estimates
- ♦ Billing growth of the recruitment business moderated owing to a slowdown in non-IT hiring

Our Call

Valuation – reiterate Hold with PT of 2,700: We have fine-tuned our earnings estimates for FY2020E/FY2021E factoring in below-than-expected operating profitability, offset by the benefits of a corporate tax cut. We introduced FY2022E estimates in this note. We believe that leadership position in its core businesses along with improving valuation in certain investee companies (Zomato and PolicyBazaar) bodes well for the company. The stock price has moved up by around 14% in the last one month, which has capped the upside potential and captures the strong revenue growth. Hence, we maintain our Hold rating on the stock price with a revised SOTP-based price target (PT) of Rs. 2,700.

Key Risks: Intense competition from both international and domestic players in the recruitment business could affect growth trajectory and margins of the recruitment business. Further, the high competitive intensity in the real estate segment could enhance losses.

Valuation

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue	915.5	1,098.3	1,311.5	1,549.7	1,859.6
OPM (%)	32.5	31.1	32.0	33.5	35.0
Adjusted PAT	273.7	315.1	340.3	437.8	553.9
% YoY growth	31.3	15.1	8.0	28.6	26.5
Adjusted EPS (Rs.)	22.5	25.6	27.8	35.8	45.3
P/E (x)	115.9	101.6	93.5	72.7	57.5
P/B (x)	15.0	13.7	12.5	10.8	9.3
EV/EBITDA (x)	102.1	91.7	74.3	60.1	47.7
RoNW (%)	13.0	13.6	13.4	15.0	16.3
RoCE (%)	17.7	18.6	18.6	20.2	21.9

Source: Company; Sharekhan Research

Strong revenue growth on the expected lines, reported net profit missed estimates

Effective April 1, 2019, Info Edge (India) Limited (Info Edge) adopted the accounting standards of Ind-AS116. Thus, the Q2FY2020 results include the impact of Ind-AS116 and the numbers are not comparable with Q2FY2019. Info Edge delivered strong revenue growth of 19.5% y-o-y to Rs. 316.6 crore (in-line with our estimates) during Q2FY2020. Revenue growth was led by strong revenue growth of 18.7% y-o-y in recruitment solutions business and healthy revenue growth of 26.1% y-o-y in 99acres (real estate portal). Note that revenue growth in 99acres has moderated from 30%+ growth for the last seven consecutive quarters. Other businesses (such as Jeevansathi and Shiksha) registered 14.2% y-o-y revenue growth. Overall billings increased by 15.3% y-o-y to Rs. 300.5 crore, but moderated owing to a slowdown in non-IT hiring and softness in real estate business. On a reported basis, EBITDA stood at Rs.99.3 crore with EBITDA margin of 31.4%, which is below our estimates. On a comparable basis, operating profit margins declined 170bps y-o-y to 29.4%, owing to an increase in advertisement expenses and investments in technologies. Reported net profit came at Rs. 9.3 crore, below our estimates, owing to impairment charges of Rs. 74.9 crore for Meritnation. Excluding the one-time charges, adjusted net profit grew by 7.8% y-o-y and missed our estimates owing to higher-than-expected tax rate (reversal of deferred tax asset owing to adoption of new corporate tax rate).

Slowdown in non-IT hiring and macro headwinds could moderate the billing growth

Though the growth in recruitment business has been driven by strong IT hiring (IT & ITeS segment contributes more than 40% of total recruitment revenue), management highlighted that it witnesses slowdown in non-IT hiring particularly financial, manufacturing, real estate, telecom, etc. The company's traffic share in recruitment business increased to 88%+ (without Indeed) on the back of investments in marketing at the beginning of the year, which helped recovery in traffic share by 4-5%. We believe the growth in recruitment business could moderate in medium-term owing to slowdown in non-IT business. Billing growth in recruitment business has already moderated to 14% during this quarter. Number of paid listing and deferred revenue of 99acres has slowed down during the quarter owing to macro issues such as ongoing liquidity crisis in the NBFC industry and lower new launches. Hence, we believe that the growth rate in 99acres could taper off further in the medium-term on account of these macro headwinds. Info Edge has been investing aggressively in Jeevansathi to gain market share and higher customer registration, which is evident from its double-digit growth rate during the quarter.

Q2FY2020 conference call highlights

- ◆ **Aggressive investments continue:** Management reiterated that it would continue to invest aggressively in new products, data science, brand building and technologies across all businesses. The higher spends in Jeevansathi has resulted in market share gains in the northern and western part of India. Employee costs have increased 20.7% y-o-y owing to high value employees in technology domain and increase in net addition of employees.
- ◆ **Recruitment business – IT hiring driving the growth:** Due to higher advertising spends at the beginning of the year, growth in number of resumes and unique profile remained strong during the quarter. Revenue growth in IT/ITeS segment stood at 20%+ as hiring in IT companies remained healthy. However, the billing growth in the recruitment business moderated owing to slow down in non-IT business (contributes ~60% of recruitment revenue). Traffic share increased to 88% (excluding indeed) and 66% including indeed. Deferred revenue growth remained robust at 18.5%, however we believe it could moderate owing to slower hiring in non-IT segment.
- ◆ **99acres: tough business environment:** Management cited that the business environment remains tough owing to lower new launches, a liquidity crunch and flattish new home sales. Brokers contribute more than 53% of its revenue. EBITDA of 99acres turned positive during the quarter owing to lower advertising spends. Deferred revenue growth has tapered off to 8.1% y-o-y in Q2FY2020.
- ◆ **Jeevansathi: aggressive investments to continue:** EBITDA loss stood at Rs. 16.5 crore owing to aggressive investments in marketing and acquiring customers. Management believes that EBITDA would turn positive once the company attains the desired level of market share and reduction in cost of acquisition of customers going ahead. The company focuses on gaining market share in the western and northern part of India and conversion of its customer base.
- ◆ **Zomato: well-positioned to combat the threat of new entry:** Monthly cash burn has reduced from \$45 million in March 2019 to \$20 million in October 2019. Management highlighted that Zomato is well positioned to sustain its market share despite the entry of Amazon enters into online food delivery space in India) given its brand and expertise in food delivery business.

Results (Comparable)

Quarter Ended	Q2FY20			Q2FY19		Rs cr
	Reported	IND Adjustment	Comparable	Reported	YoY (%)	
Net Sales	316.6	0.0	316.6	265.0	19.5	
Network & other expenses	31.0	6.0	37.0	30.4	21.8	
EBITDA	99.3	-6.0	93.3	82.5	13.1	
Depreciation	10.1	-5.5	4.6	5.2	-12.4	
Financial exp	1.7	-1.7	-	-	-	
Exceptional Item	74.9	-	74.9	-	-	
Adjusted Net Income	84.2	1.2	85.4	78.1	9.4	
Adjusted EPS (Rs)	6.9	0.1	7.0	6.4	9.4	
OPM (%)	31.4	-	29.4	31.1	(170)	
NPM(%)	26.6	-	27.0	29.5	(250)	

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Rs cr
Net Sales	316.6	265.0	312.8	19.5	1.2	
Network, internet and other direct charges	5.8	5.2	5.8	11.9	-0.1	
Employee benefits expense	134.9	111.8	129.8	20.7	4.0	
Advertising and promotion cost	51.4	40.4	54.9	27.3	-6.3	
Other expenses	25.2	25.2	21.3	0.1	18.0	
Operating profit	99.3	82.5	101.0	20.3	-1.7	
Depreciation and amortisation	10.1	5.2	9.9	92.9	1.7	
EBIT	89.2	77.3	91.1	15.5	-2.0	
Other income	23.2	27.5	24.5	-15.6	-5.4	
PBT	110.7	104.8	113.9	5.7	-2.7	
Provision of tax	26.6	26.7	39.0	-0.4	-31.8	
Adjusted net income	84.2	78.1	74.9	7.8	12.4	
Exceptional item	74.9	0.0	8.2	-	-	
Reported net income	9.3	78.1	66.7	-88.1	-86.1	
Adjusted EPS (Rs.)	6.9	6.4	6.2	7.8	12.4	
Margin (%)				(Bps)	(Bps)	
OPM	31.4	31.1	32.3	23	-92	
EBIT Margin	28.2	29.2	29.1	-98	-94	
NPM	26.6	29.5	23.9	-288	264	

Source: Company; Sharekhan Research

*Q2FY20 numbers not comparable with Q2FY19 due to IND AS 116 implementation from 1st April 2019

SOTP Valuation

Business segment	Stake	Valuation methodology	Per share value (Rs.)	Rs cr
Recruitment business	100%	EV/EBITDA	1462	
99acres	100%	EV/Sales	309	
Jeevansathi.com	100%	EV/Sales	98	
Standalone business (per share)				1,870
Zomato Media	26%	Valued at \$3.3 billion	498	
PolicyBazaar	16%	Valued at \$1 billion	91	
Other investee company			38	
Cash		Per share	203	
Total per share				2,700

Source: Sharekhan research, Company

Outlook

India's ecommerce industry has been on an upward growth trajectory and is expected to reach \$84 billion by 2021 from \$24 billion in 2017. Info Edge's recruitment business directly and disproportionately benefits from the pick-up in GDP growth. With a strong movement from print ads to digital, we expect a high growth trajectory for 99acres going forward. Further, India's real-estate online classifieds market is expected to be Rs. 60 billion by 2030, with a 21% CAGR over 2018-30E. Among its investee companies, Zomato and PolicyBazaar have emerged as big bets and have huge potential to grow in coming years. In the long term, we believe leadership position in its core businesses along with improving traction in certain investee companies (Zomato and PolicyBazaar) would bode well for the company.

Valuation

We have fine-tuned our earnings estimates for FY2020E/FY2021E factoring in below-than-expected operating profitability, offset by the benefits of a corporate tax cut. We introduced FY2022E estimates in this note. We believe that leadership position in its core businesses along with improving valuation in certain investee companies (Zomato and PolicyBazaar) bodes well for the company. The stock price has moved up by around 14% in the last one month, which has capped the upside potential and captures the strong revenue growth. Hence, we maintain our Hold rating on the stock price with a revised SOTP-based price target (PT) of Rs. 2,700.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Info Edge is India's largest listed Internet technology player, operating in businesses such as online recruitment, real estate, matrimony and others. It operates in the online recruitment business under its flagship brand Naukri.com, which has a share of more than 70% of the recruitment market. The company's other businesses such as online real estate and matrimony divisions operate under 99acres.com and Jeevansathi.com, respectively. It also has stakes in a number of companies including Zomato and Policybazaar.com.

Investment theme

Info Edge enjoys the leadership position in its core businesses such as online recruitment, real estate and matrimony and stands to benefit from the rising adoption of these platforms with greater internet penetration. Naukri is the leader in the industry and its revenue growth is directly linked to GDP growth. Cash generated by Naukri.com supports other businesses (99acres and Jeevansathi) and investments in start-ups. 99acres is well placed to capitalise from increasing spends on the digital front by real estate developers and brokers. In addition, the company has invested in more than 20 start-ups including Zomato and PolicyBazaar. We believe Zomato is now uniquely placed with a good brand name and the expansion of the food delivery industry would remain high for the next 2-3 years.

Key Risks

1) Entry of large Internet players with aggressive expansion plans and any slower-than-expected economic recovery could affect growth trajectory and margins in the recruitment business, 2) any new technology that can provide tough competition to core businesses, 3) high competitive intensity in the real estate segment would widen losses, 4) higher competition for attracting talent in food delivery platforms would increase the cash burn rates and 5) increasing losses from companies that Info Edge has invested in.

Additional Data

Key management personnel

Sanjeev Bikhchandani	Founder and Executive Vice Chairman
Hitesh Oberoi	Managing Director & CEO
Chintan Arvind Thakkar	Director & CFO
Deepali Singh	Executive Vice President – Firstnaukri
Vibhore Sharma	Chief Technology Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bikhchandani Sanjeev	25.94
2	ENDEAVOUR HOLDING TRUST	6.89
3	Axis Asset Management Co Ltd	6.04
4	Oberoi Hitesh	5.35
5	Nalanda India Equity Fund Ltd	3.15
6	Amansa Holdings Pvt Ltd	3.00
7	LALL ANIL	2.56
8	Kapoor Kapil	2.11
9	UTI Asset Management Co Ltd	1.97
10	Vanguard Group Inc	1.75

Source: Bloomberg

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