

## A solid quarter helped by low ad expenses

### Positive commentary and a robust hiring environment should benefit Info Edge

Info Edge posted a solid quarter with a 13% earnings beat helped by lower-than-expected advertising expenses. We point out that Info Edge's advertising spend is a function of competitive intensity and seasonality – 3Q saw competitors spend relatively less on advertising, and even otherwise, 3Q tends to see seasonally weak ad spend. With the Jobspeak index holding steady and solid commentary on hiring from the IT industry, we see a positive environment for Info Edge going ahead. In balance, management sounded a note of caution, indicating that the threat of rising interest rates looming large might have an adverse impact on the real estate market and therefore to some extent on 99acres as well. **Overall, we continue to like Info Edge and retain an ADD/OPF rating on the stock.**

### Highlights of the quarter's performance

- **A solid environment:** Management commentary indicated a robust demand for Info Edge's offerings. Specifically, they flagged that customers tend to upgrade their requirements with Naukri to cope up with the higher hiring targets. Also, they indicated that their price hike last quarter was quite well-received by customers. With the Jobspeak index (their indicator of the job market) continuing to remain steady, we see a robust environment ahead.
- **Key metrics:** Most key metrics for IEL stack up well for the quarter – **Deferred Sales revenue up 7.2% qoq and 52% yoy**; number of paid transactions on 99acres increased to 5,100 in 3Q vs 4,900 in 2Q. Crucially, 99acres revenues increased ~74% yoy continuing the robust growth trajectory (following from 74% yoy growth in 1H). The key worry in our view continues to be their matrimonial website Jeevansathi, which saw the number of unique paid customers decline sequentially, to ~22,500 vs ~23,700 in 2Q. Being the #3 player behind Shaadi and Bharatmatrimony leaves Jeevansathi in an increasingly more difficult competitive position, in our view.
- **Reiterate positive stance:** We continue to like Info Edge considering its dominant position in structurally growing markets namely recruitment and real estate, with "embedded options" in the form of early stage investments in emerging companies. With IT hiring expectations buoyant and improving structural inroads in the underpenetrated real estate space (notwithstanding fears of rising interest rates which might cause cyclical pressures), Info Edge should benefit in the near term as well. **We have an ADD/OPF rating on the stock with a Rs 620 target price based on 35x our FY12E EPS of Rs 17.8.**

### Financial summary

Year	Revenues (Rs. bn)	EBITDA (Rs. bn)	PAT (Rs. bn)	EPS (Rs.)	P/E(x)	EV/EBITDA(x)
FY10	2,371	625	530	9.5	59.6	43.3
FY11E	3,017	929	734	13.5	42.3	29.2
FY12E	3,805	1,210	969	17.8	32.0	22.4

### 3QFY11 Update

Date: Jan 27, 2010

#### Market Data

SENSEX	18684
Nifty	5604
Bloomberg	INFOE IN
Shares o/s	54mn
Market Cap	Rs 31bn
52-wk High-Low	Rs 773-393
3m Avg. Daily Vol	Rs 32mn
Index member	BSE Midcap

#### Latest shareholding (%)

Promoters	54
Institutions	34
Public	12

#### Stock performance (%)

	1m	3m	12m
Info Edge	-13	-11	33
CNXIT	-1	8	24
Nifty	-4	-5	14

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# Info Edge

## Quarterly Financial Results

<b>CMP</b>	<b>Rs. 569</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 620</b>	<b>Relative</b>	<b>Outperform</b>

### Quarterly financial results - Standalone

Rs. mn\Period	31-Dec-10	30-Dec-09	yoy Growth	30-Sep-10	qoq Growth	FY10	FY11E	yoy Growth
Net Sales	751	589	28%	712	5%	2,322	2,947	27%
Network and other charges	25	23	10%	26	-4%	89	108	21%
Employees Cost	283	220	29%	270	5%	871	1,110	27%
Advertising and Promotion Cost	83	87	-4%	112	-25%	374	403	8%
Admin & other expenses	79	79	0%	85	-7%	303	327	8%
EBITDA	280	179	56%	219	28%	685	999	46%
Depreciation/Amortization	20	15	34%	14	41%	61	71	16%
EBIT	260	165	58%	205	27%	624	928	49%
Finance charges	6	5	1%	5	5%	19	21	8%
Interest	0	0		0		0	0	
Other income	67	72	-7%	66	2%	320	278	-13%
PBT	322	231	39%	265	21%	925	1,186	28%
Taxes	102	80	28%	86	19%	317	382	20%
PAT	219	151	45%	179	23%	607	804	32%
EPS	4.02	2.77	45%	3.28	23%	20.86	14.89	-29%
Ad expenses as % of sales	11.1%	14.8%	nm	15.7%	nm	16.1%	13.7%	nm
EBITDA margin	37.3%	30.5%	nm	30.7%	nm	29.5%	33.9%	nm
EBIT margin	34.7%	28.0%	nm	28.8%	nm	26.9%	31.5%	nm
Tax rate	31.9%	34.6%	nm	32.6%	nm	34.3%	32.2%	nm

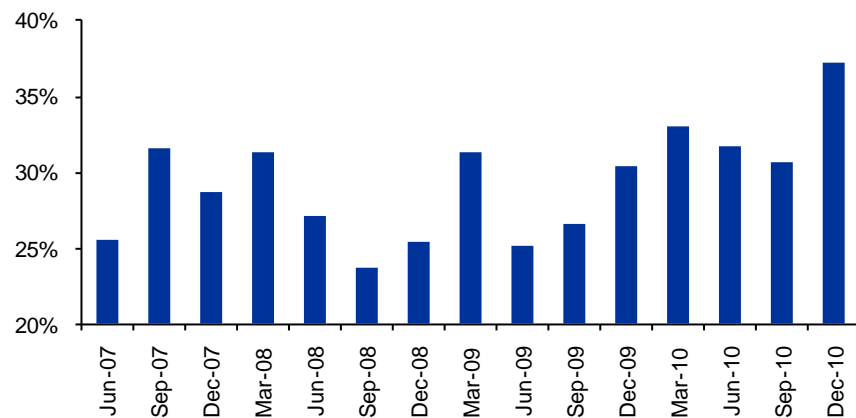
<b>CMP</b>	Rs. 569	<b>Absolute</b>	Add
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### Key estimate revision

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	3,020	3,017	0%	3,807	3,805	0%
EBITDA	882	929	5%	1,169	1,210	4%
EBITDA margin	29%	31%		31%	32%	
PAT	711	734	3%	961	969	1%
EPS	13.0	13.46	4%	17.60	17.8	1%

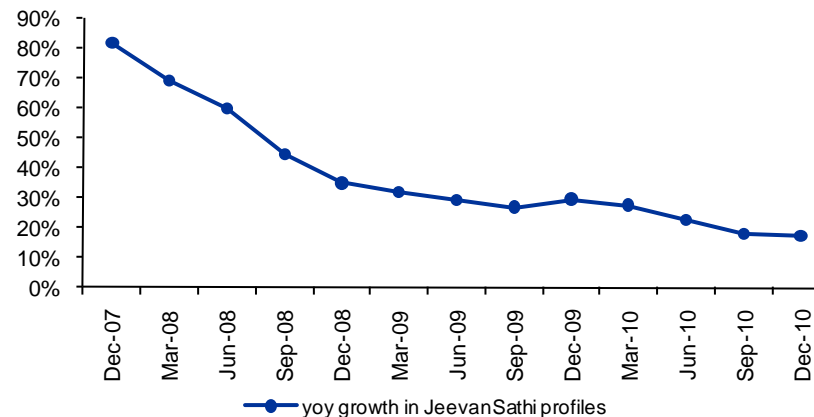
All figures in Rs. mn, except EPS, which is in Rs.

### Standalone EBITDA margin evolution



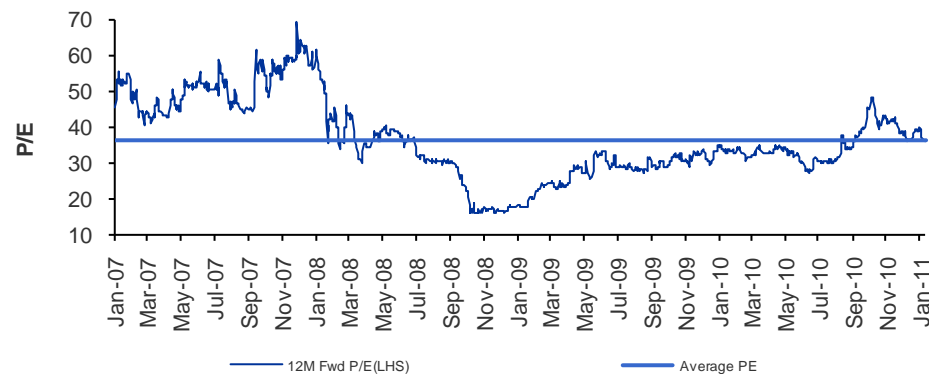
Source: Company data, Spark Capital

### Growth in Jeevansathi profiles tapering off



Source: Company data, Spark Capital

### Info Edge 12-m forward P/E



Source: Bloomberg, Spark Capital

# Info Edge

## Financial Summary

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### Abridged Financial Statements

Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
<b>Profit &amp; Loss</b>				
Revenues	2,371	3,017	3,805	4,685
Network and other charges	91	111	136	158
Employee costs	920	1,180	1,438	1,743
EBITDA	625	929	1,210	1,576
Depreciation and amortisation	65	71	107	146
EBIT	560	858	1,104	1,430
Other income	307	278	364	393
Finance charges	20	21	20	20
PBT	848	1,116	1,448	1,803
Tax	318	382	479	574
PAT	530	734	969	1,229
Diluted EPS	9.5	13.5	17.8	22.5
<b>Balance Sheet</b>				
Share Capital	273	546	546	546
ESOPS	28	40	40	40
Reserves	3,446	3,843	4,749	5,914
Networth	3,746	4,429	5,335	6,500
Secured Loans	6	8	8	8
<b>Total liabilities</b>	<b>3,753</b>	<b>4,437</b>	<b>5,342</b>	<b>6,508</b>
Net block	294	621	915	1,169
Investments	1,141	1,871	1,871	1,871
Debtors	80	69	87	108
Cash	2,791	2,718	3,589	4,788
Current liabilities	812	1,098	1,385	1,705
Provisions	84	107	135	167
Net Current Assets	2,194	1,731	2,343	3,255
<b>Total Assets</b>	<b>3,753</b>	<b>4,437</b>	<b>5,342</b>	<b>6,508</b>

### Key metrics

Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
<b>Cash flows</b>				
Operations	525	1,320	1,469	1,863
Financials	-784	-897	-36	-7
Investing	-784	-897	-36	-7
Closing Cash	2,792	2,745	3,589	4,788
<b>Key ratios (%)</b>				
Revenue growth	-4%	27%	26%	23%
EBITDA growth	-5%	49%	30%	30%
PAT Growth	-9%	38%	32%	27%
EBITDA margin	26%	31%	32%	34%
EBIT Margin	24%	28%	29%	31%
PAT Margins	22%	24%	25%	26%
ROE	14%	17%	18%	19%
ROCE	15%	19%	21%	22%
<b>Valuation metrics</b>				
Shares o/s (mn)	55	55	55	55
Fully diluted shares (mn)	55	55	55	55
Market cap (Rs. mn)	31,030	31,030	31,030	31,030
EV (Rs.mn)	27,098	27,098	27,098	27,098
EV/Sales (x)	11.4x	9.0x	7.1x	5.8x
EV/EBITDA (x)	43.3x	29.2x	22.4x	17.2x
P/E (x)	59.6x	42.3x	32.0x	25.2x
EPS(E) / Current market price	1.7%	2.4%	3.1%	4.0%
<b>Per share data (Rs.)</b>				
Book value	69	81	98	119
Cash	51	50	66	88
Operating cash flow	10	24	27	34
Free cash flow	-5	8	26	34

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## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
10-Jan-11	627	620	ADD	OPF
22-Dec-10	615	620	ADD	OPF

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