

## INFO EDGE

*Innovation's the name of the game*

### ■ Strength in one of the fastest growing internet markets

Internet is increasingly becoming an attractive medium for advertising, recruitment, and e-commerce, and is still at an embryonic stage in India. India's internet penetration is low at 7% (81 mn internet users), but fastest growing across Asia. This offers an attractive opportunity to monetise a credible internet based business model. Info Edge (IEL) 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.

### ■ Hiring to gain steam after a lull on back of improving corporate health

The recruitment industry is highly correlated to the economic health and growth of the corporate sector. As various businesses come out of the recent slowdown, leaving behind issues like cost cuts, stagnant expansion plans, and layoffs, the focus is back on growth. We expect hiring in financial services, retail, and infrastructure sectors to pick up and, more importantly, in the IT sector (major vertical for IEL) as utilisation has reached peak levels. We see IEL as a direct beneficiary of this trend.

### ■ Network effect playing out for *Naukri.com*

Strong growth in new resume registrations (and overall database) has attracted higher number of recruiters at *Naukri.com*, which in turn has been attracting more new candidate resumes creating a self propelling growth cycle. IEL's current resume database stands at ~19mn and is growing impressively at a pace of 12,000 new daily additions. The company's synchronised effort to constantly improvise user interface, algorithms for better job searches, and relevant profiles has led to it achieving and sustaining lead in the recruitment market, and helping it command pricing. Almost 15% of its workforce is dedicated to solutions enhancement, and *Naukri.com* serviced 34,000 unique customers (FY09).

### ■ Outlook and valuations: Long term non-linear play; initiate with 'BUY'

We believe IEL is a long term play and investors looking at internet space in India should take a 2 year plus view. The company's business model allows it to maximise earnings in a strong environment. We value IEL at INR 1,100 per share using target P/E of 32x (based on PEG of 1.1x on earnings CAGR of 29% over FY10-12E) on FY12E earnings. We initiate coverage on IEL with a 'BUY' recommendation. On relative return basis the stock is rated 'Sector Outperformer'.

#### Financials

Year to March	FY08	FY09	FY10E	FY11E
Revenues (INR mn)	2,189	2,458	2,302	2,884
Rev. growth (%)	56.9	12.3	(6.4)	25.3
EBITDA (INR mn)	635	644	641	908
Net profit (INR mn)	555	570	579	732
Shares outstanding (mn)	27	28	28	28
Diluted EPS (INR)	20.3	20.4	20.5	26.0
EPS growth (%)	79.6	0.2	0.8	26.5
Diluted PE (x)	40.2	40.1	39.8	31.4
EV/EBITDA (x)	30.2	29.3	28.5	19.3
ROAE (%)	23.0	19.2	16.4	17.5

**December 1, 2009**

Reuters : INED.BO      Bloomberg : INFO IN

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

Note:  
Please refer last page of the report for rating explanation

#### MARKET DATA

CMP	:	INR 816
52-week range (INR)	:	851 / 392
Share in issue (mn)	:	27.3
M cap (INR bn/USD mn)	:	22.3 / 479.5
Avg. Daily Vol. BSE ('000)	:	22.2

#### SHARE HOLDING PATTERN (%)

Promoters*	:	54.1
MFs, FIs & Banks	:	3.0
FIIIs	:	24.1
Others	:	18.8
* Promoters pledged shares (% of share in issue)	:	Nil

#### RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	11.6	16.0	4.4
3 months	11.2	19.2	8.1
12 months	96.8	99.6	2.8

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Table 1: Business summary and competitive scenario

	Naukri.com	Jeevansathi.com	99acres.com	Shiksha.com
<b>Description and site format</b>	# Online job portal # Enterprise driven	# Matrimonial site # Consumer driven	# Real estate portal # Enterprise driven	# Education classified # Enterprise driven
<b>Launched in</b>	March 1997	September 2004	September 2005	May 2008
<b>Key metrics to be tracked</b>	# Avg. resume registrations daily # No. of recruiters & rev. per recruiter # Traffic share movement remains important to be tracked for all portals vis-à-vis competition	# Avg. profiles added daily # Collection per client # Revenue paying clients	# Total no. of listings # Avg. rev. per listing	# College, institutes and universities or course registrations
<b>Revenue sources / services</b>	# Resume database access # Job listings # Banner and panel ads # Resume services for candidates # Ad sales / google ad sense	# Subscription fee from prospective bride / groom # Ad sales # Directory entry	# Property listings # Banners and micro site listings	# Institute information and course listings # Advertisements # Institute /college branding solutions
<b>Rationale for market growth</b>	# Overall economic growth # Shift of recruitment budget towards online mode # Faster growth of services (manpower dependent)	# Declining responsibility acceptance of intermediaries # Large population pool in 10-30 year age bracket # Break-down of traditional networks	# Increasing income levels # Value of home ownership # Easy access of home finance # Nuclear families	# Unorganised education information # Frequent changes, introduction of newer courses, etc
<b>India website ranking</b>	# Alexa 20 # comScore 9	68	251	509
<b>Competitors</b>	# Monsterindia.com # Timesjob.com # Jobsahead.com	# Shaadi.com # Bharatmatrimony.com # Simplymarry.com	# Magicbricks.com # Indiaproperty.com # Makaan.com	# Bharatstudent.com # Pagalguy.com # Minglebox.com
<b>Competitive advantage / differentiation</b>	# First brand recall for jobs # Broad spectrum of recruitment services # Highest traffic share and reach # Spinoffs (eg. Naukrigulf, Firstnaukri)	# Strong hold in North India # Pace of profile addition	# Higher traffic share and page views # Nascent stage of online real estate adoption	# Early stage to distinguish
<b>Revenue contribution</b>	83.0%	8.0%	5.0%	Negligible
<b>Current EBITDA margins</b>	38.0%	Near break-even	Investment mode	Investment mode
<b>Impact of economic downturn</b>	High correlation	Insulated	High correlation	Insulated

Source: Company, Edelweiss research

## Investment Rationale

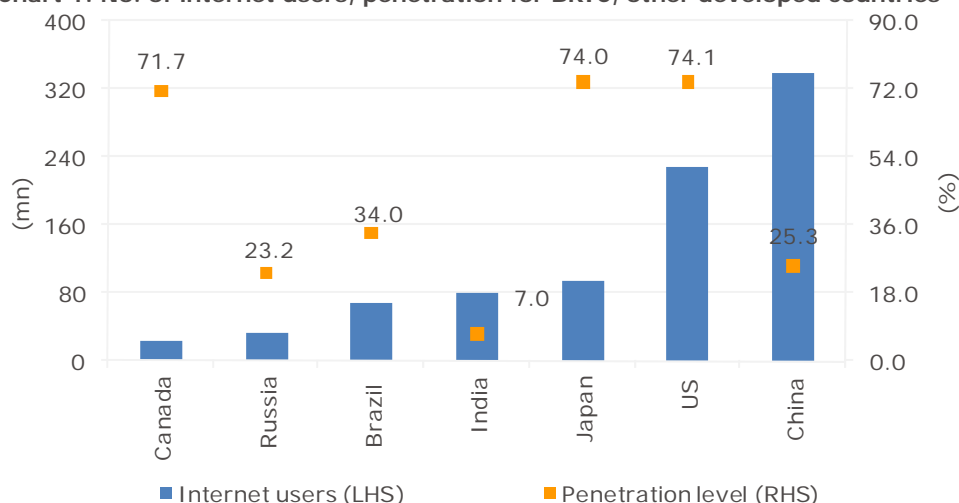
Low internet penetration offers attractive opportunity to monetize internet-based business model

- **Strength in one of the fastest growing internet markets**

Internet is increasingly becoming an attractive medium for advertising, recruitment, and e-commerce, and is still at an embryonic stage in India. India's internet penetration is low at 7% (just 81 mn internet users) as at June 2009, but growing fastest across Asia. This offers an attractive opportunity to monetise a credible internet based business model. Info Edge (IEL) with its presence in online classified market and lead in online recruitment market (through *Naukri.com*) has the potential to establish a clear market leading position and grab significant share of increasing online adoption.

IEL has created and sustained leadership position in the online recruitment market. It has consistently maintained traffic share in excess of 40% over majority of its existence history, and recently its traffic share has increased in excess of 60%. This has given the company a strong brand recall and head start in other online markets. The company's focus on product innovation and constantly improving user interface (UI) has been one of the key reasons of *Naukri.com's* success.

**Chart 1: No. of internet users, penetration for BRIC, other developed countries**



Source: [www.internetworldstats.com](http://www.internetworldstats.com)

- **Network effect in *Naukri.com* continues to give lead in recruitment market**

IEL's database of resumes includes ~19 mn candidate registrations, which is growing at a tremendous pace of 12,000 resumes per day. This has also resulted in faster growth of recruiters (corporates plus consultants) by IEL's synchronised effort, increasing its revenue realisation per recruiter. We believe the company's position as market leader in the recruitment segment has given it pricing power. Average revenue per unique customer recruiter has posted an impressive 16.5% CAGR and the growth in number of unique customers stood at a CAGR of 10.5% over the past two years (FY07-09).

Naukri.com has created a virtuous cycle of increasing candidate registrations leading to more recruiters/ jobs and vice-versa

Chart 2: Healthy database of candidate resumes

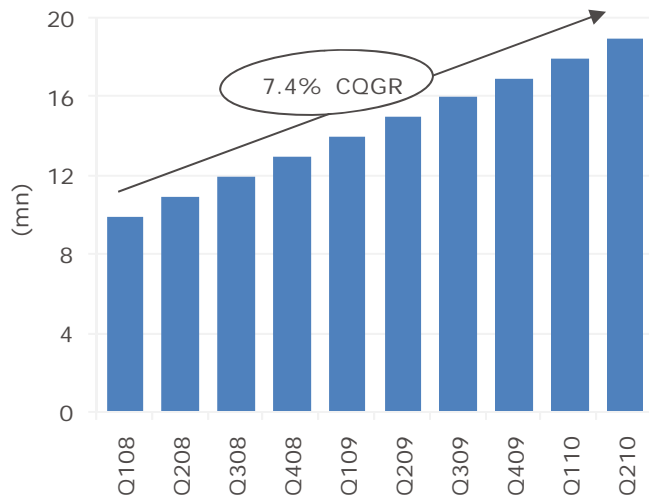
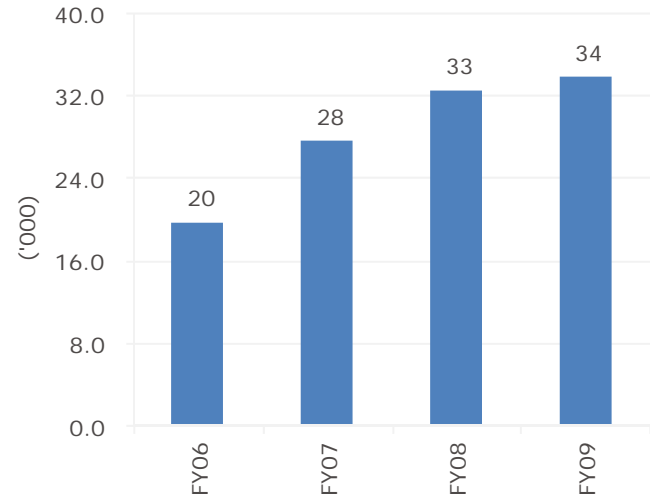
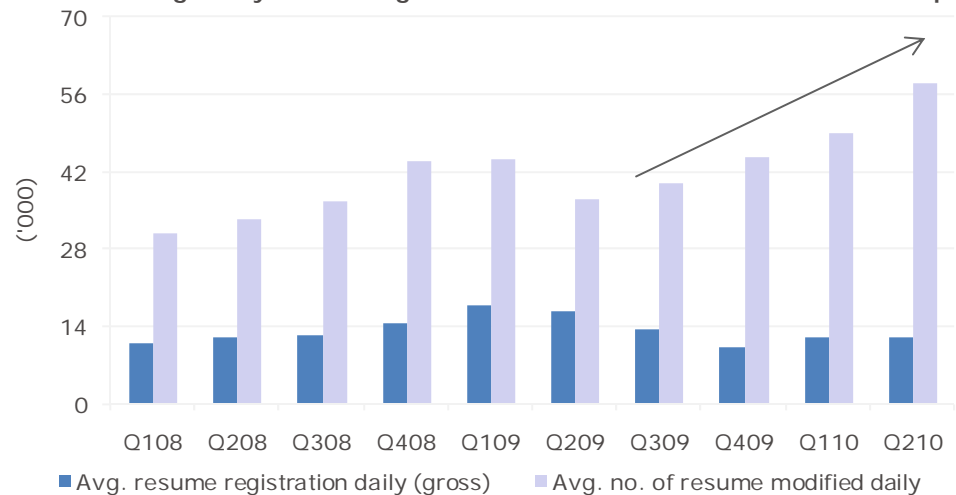


Chart 3: Impressive growth of unique customer base



Source: Company, Edelweiss research

Chart 4: Average daily resume registrations and modifications have trended up



Source: Company, Edelweiss research

Revival of GDP growth will lead to new job creation and increased job churn

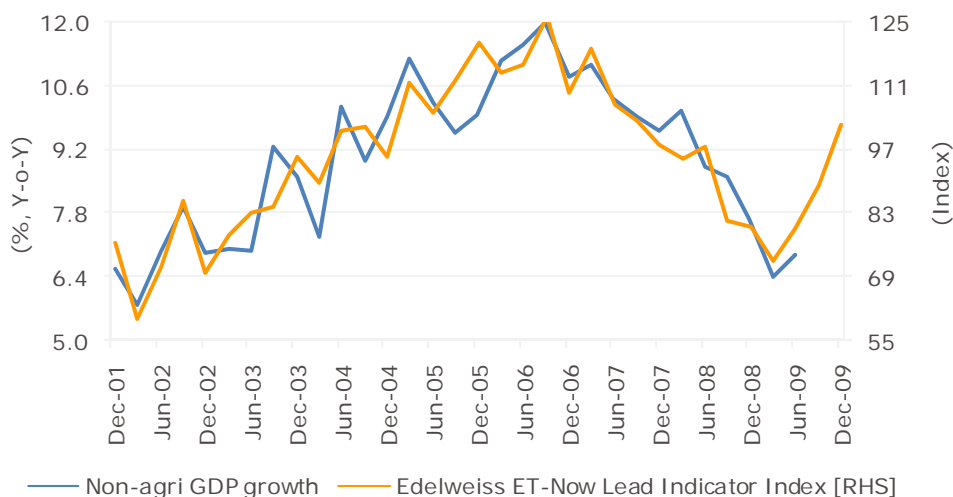
#### ■ Hiring to gain steam after a lull as corporate India's health improves

IEL is a play on the Indian economy as the company's growth prospects are highly correlated to the health of the economy. India has been growing at a fast pace over the past five years and its long term outlook remains positive. Driven by services and manufacturing sectors, activities in the job market—new job creation and replacements—are bound to increase, driving up the recruitment industry. This is further pronounced by the fact that manpower supply is limited and skill mismatch is high.

**Further, our proprietary Edelweiss ET-Now Lead Indicator Index (EELII) points to non-agri GDP growth picking up in the forthcoming quarters (see chart 5).**

This indicates that the recent cyclical downturn is over and as growth will be back on track for corporate India it is likely to have a multiplier effect on IEL (as profit growth for a market leader will run ahead of revenue growth).

Chart 5: EELII points to GDP growth reviving going forward

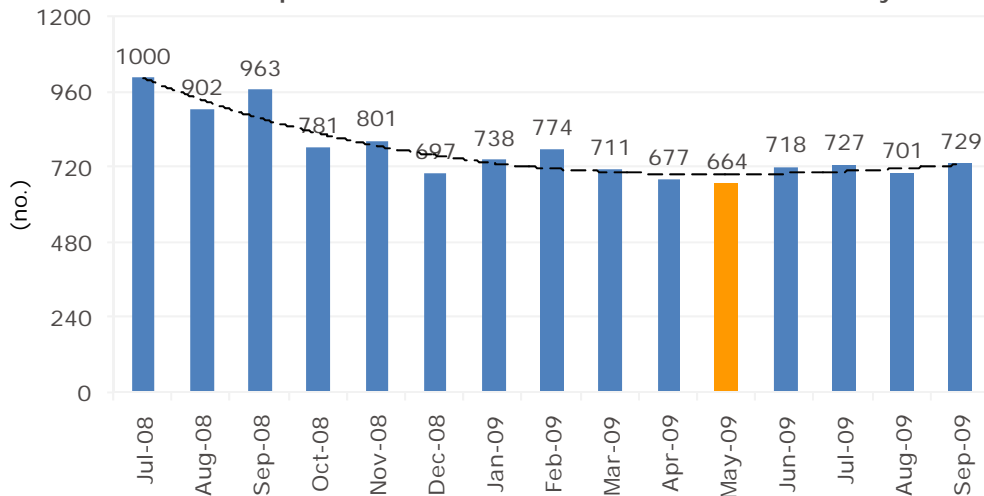


Source: Edelweiss research

Notes: EELII is a composite weighted average index of a number of macro-variables that typically exhibit a strong predictive ability of the core trends in the Indian economy. This index has historically predicted the non-agriculture GDP growth closely – the adjusted coefficient of determination (adjusted R-squared) for the multiple regression is ~0.85.

In addition, *Naukri.com*'s Jobspeak index points to the job market bottom being behind and September saw an uptick in overall job listings.

Chart 6: *Naukri.com*'s Jobspeak Index indicates revival in recruitment activity



Source: Company

Naukri's Jobspeak Index indicates job market bottoming out in May'09

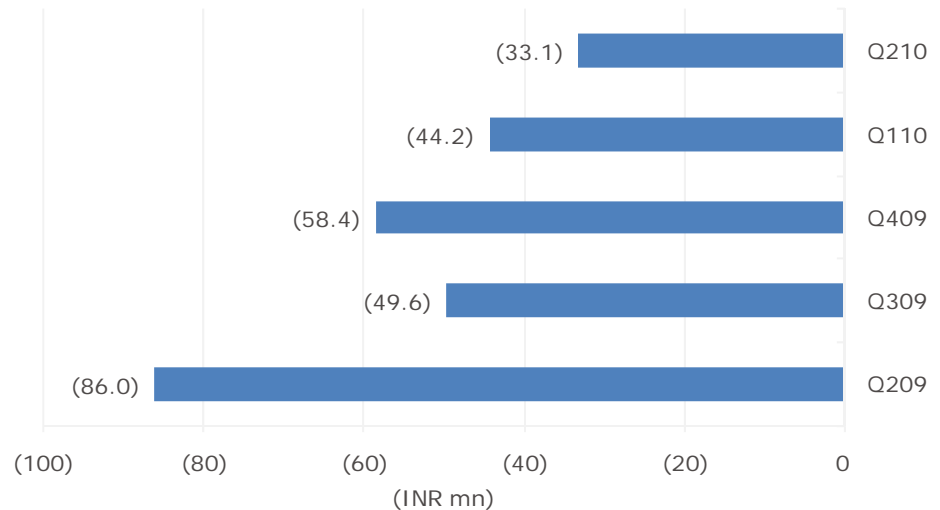
Non recruitment business yet to contribute to profits, but losses continue to decline

- Matrimony and real estate businesses to start contributing positive cash flows**

The company's other two major business segments, i.e., matrimony (*Jeevansathi.com*) and real estate (*99acres.com*) (collectively ~16% of revenues) are incurring losses at the operating profit level, adversely impacting margins. Though *Jeevansathi.com* has achieved break even in Q2FY10, we believe it may have to ramp up its advertising and marketing spending to increase dominance in select geographies over the next few quarters. However, management believes that any increase in ad spending will come through only upon increased revenue traction. We see continued revenue traction in *Jeevansathi.com* and improving traction for *99acres.com* going into FY11, as the slump

in real estate market improves. This, will aid the overall profit margin for the company, along with high cash accretion.

**Chart 7: Operating losses in non-recruitment businesses have been reducing**



Source: Company, Edelweiss research

- **Focus on innovation and entry in complementary spaces give winning edge**

The internet business is dynamic, requiring innovation and quick response to have the first mover advantage. Faster technology upgradation and adaptation is also critical. Recently, IEL has successfully integrated the *Naukri.com* portal with Google Chat, where the latter can be used to search jobs. It has also introduced the express CV concept where jobseekers can directly tag their CVs to recruiters through a SMS. Further, *Naukri.com* is also accessible through mobile handset.

Its strategy has also been to incubate new portals by exploring different market spaces adjacent/complementary to the existing ones. The company's recent innovation includes starting a portal (*firstnaukri.com*) for capturing the fresher recruitment market. Until now freshers were mostly hired on campuses and job portals played only a peripheral role. The launch of *firstnaukri.com* will further boost IEL's lead in the recruitment market and play a meaningful role in fresher's recruitment as well. This should also create more value for colleges. We believe this strategy will insulate IEL from volatility in select verticals once other businesses gain critical mass, which we see happening only after 18-24 months.

**Entering new verticals through investing in companies:** IEL's current strategy continues to improve its position in existing business segments (recruitment, matrimony, real estate, and education) and not go after incubating newer segments (over next twelve month timeframe). At the same time, to capture increasing opportunities in internet classified space and expand its vertical presence, IEL will continue making strategic investments of smaller amounts in start-ups that offer high growth potential. Table 2 below details the investments made by IEL in the past two years.

Innovation and expansion continue to be the key in sustaining the lead in internet classified businesses

Current focus on scaling up existing verticals and expanding into newer verticals only through strategic investments

**Table 2: Investments by IEL in past three years**

Date of announcement	Target company	Industry of target	Current stake (%)	Proposed Stake (%)	Portal	Deal type	Deal value (USD mn)
Sept 26, 2008	Etechaces Marketing and Consulting	Financial product comparison	19.36	49	www.policybazaar.com	Minority stake purchase	4.3
July 23, 2008	Applect Learning Systems	Assessment based education	26.17	40	www.meritnation.com	Minority stake purchase	1.5
Jan 10, 2008	StudyPlaces Inc.	Educational services	N/A	N/A	www.studyplaces.com	Minority stake purchase	3.0

Source: Company, Edelweiss research

In-house technical team continues to focus on improving user interface

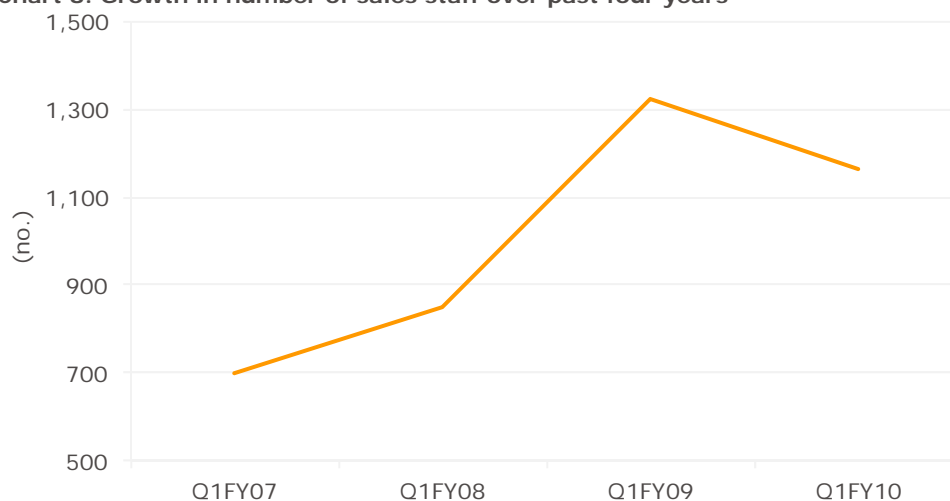
- **Focus on technology continues to remain key to generating higher traffic**

We believe IEL's focus on investing in technology has been the key in generating higher traffic with limited costs. The company has adopted open source technology and uses Linux, Apache, MYSQL, and PHP (LAMP stack), to develop its applications and websites in-house. Its technology team comprises about 225 people (almost 15% of workforce), that includes web designers, technical workforce, and a product innovation team. This team is dedicated to improving algorithms for web-based applications and accommodating larger data sets. Moreover, design and website updating and development of proprietary software are almost done in-house. Further, the company also has exclusively dedicated high-speed servers in the US, along with appropriate backups to avoid contingencies.

Sales intensive business model; performance linked pay for the sales team

- **Healthy sales engine with high incentive structure**

In the online business, the responsibility of sales increases to a great extent as awareness of benefits and value proposition to shift online needs to be explained. Further, the reach of the sales arm of the organization also becomes important to widen the new client base as breadth of clients has to increase to sustain revenue growth. Recognising this, IEL has been ramping up the strength of its sales team and incentivising the same through performance pay. This performance-based variable pay not only acts as a motivating factor for sales engine but also helps variabilising the costs, part of which can be pulled down during business pressures. Further, during a slowdown, the company has used the telesales model effectively.

**Chart 8: Growth in number of sales staff over past four years**

Source: Company

Fig. 1: SWOT analysis

<b>Strength</b>	<ul style="list-style-type: none"><li>• Established lead in Indian online job market</li><li>• Product innovation and technology investments</li><li>• Strong management</li><li>• Healthy cash position</li><li>• High operating leverage</li></ul>
<b>Weakness</b>	<ul style="list-style-type: none"><li>• Limited international presence</li><li>• Revenues linked more to client breadth than depth</li><li>• Non-leadership position in other than recruitment segment</li></ul>
<b>Opportunities</b>	<ul style="list-style-type: none"><li>• Enhancing position in matrimony and real estate and scaling education segment</li><li>• Increasing ad revenues significantly</li><li>• Geographical expansion</li><li>• Inorganic move</li></ul>
<b>Threats</b>	<ul style="list-style-type: none"><li>• Continued economic slowdown</li><li>• Inability to sustain brand recall</li><li>• System/ network failure / Online threats</li><li>• Faster competition ramp-up</li></ul>

Source: Edelweiss research



## Valuation

IEL has gained ground in the buoyant internet industry and established an early and clear basis of differentiation in the recruitment market (60% plus share). The sharp focus on innovation and leadership in the job market marks it out. We see IEL as a good investment opportunity for investors looking to play online classifieds market in India. Going forward, we believe its ability to: (1) stay at the forefront of the innovation curve, and (2) turnaround other verticals (*jeevansathi.com* and *99acres.com*) will be key factors that will determine the extent of the valuation premium it will command over other internet companies.

- **Using market approach: PEG-based valuation method; initiate with 'BUY'**

IEL, being the only listed online classified company in India, for valuation we compare it with other global internet companies in the recruitment and e-commerce segment. Though size differences exist, business models are similar, necessitating the comparison.

We believe IEL is a long term play and investors looking at internet space in India should take a 2 year plus view. Thus while valuing IEL, we look at FY12E earnings. We value IEL at INR 1,100 per share using our PEG based valuation approach. Our target P/E of 32x is based on PEG of 1.1x on forecasted earnings growth of 29% over FY10-12E. PEG of 1.1x is arrived at by ascribing 10% premium to fair PEG of 1.0 given the positive outlook on the internet market in India and IEL's lead in Indian recruitment market. Further, this premium is also justified due to lack of alternative investment in the Indian internet market space.

- **Rationale for using PEG based valuation approach**

We believe PEG-based valuation methodology is appropriate to reflect valuations relative to growth for online classified and internet companies. The key for online-based businesses is to convert or monetise the internet traffic to revenue generating clients. Profitability will always see a lag impact as companies in order to build/sustain brand will continue spending on advertising and marketing. However, as a company achieves steady profitability, multiple to profits relative to growth is most apt. Discounting cash flows of internet companies, particularly in a growing market, in our view is not appropriate due to: a) high growth, b) high volatility in earnings, and c) lower long-term visibility in earnings. Hence, we do not use DCF as the primary valuation methodology.

PEG based valuation method appropriate for IEL

**Table 3: Comparative valuation for global online recruitment and other internet players**

	EPS (in USD)			P/E (x)			EV/EBITDA (x)			Mcap/Revenue (x)			PEG (x)	EPS CAGR (FY10-12E)	EBITDA margins (%)
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E			
<b>Recruitment companies</b>															
<b>Info Edge (India)</b>	<b>0.44</b>	<b>0.56</b>	<b>0.74</b>	<b>39.8</b>	<b>31.4</b>	<b>23.8</b>	<b>28.5</b>	<b>19.3</b>	<b>14.2</b>	<b>9.7</b>	<b>7.8</b>	<b>6.4</b>	<b>1.1</b>	<b>29.2</b>	<b>26.2</b>
51Job Inc.	0.60	0.87	1.07	30.6	21.1	17.1	20.1	11.5	8.7	4.7	3.7	3.2	0.6	33.7	16.4
Seek	0.19	0.28	0.36	29.9	20.5	16.0	20.1	15.4	13.1	8.1	6.8	5.8	0.6	36.7	46.9
Monster Worldwide Inc.	0.04	0.09	0.48	363.9	167.6	31.2	16.7	14.9	9.4	2.1	2.1	1.8	0.7	241.4	10.7
<b>Median</b>				<b>35.2</b>	<b>26.3</b>	<b>20.5</b>	<b>20.1</b>	<b>15.2</b>	<b>11.2</b>	<b>6.4</b>	<b>5.2</b>	<b>4.5</b>	<b>0.7</b>		
<b>Internet Companies</b>															
Alibaba.com	0.03	0.05	0.07	75.7	48.3	33.9	53.4	33.7	23.6	21.0	15.0	11.0	1.0	49.4	41.1
Baidu Inc.	6.37	9.15	13.19	69.0	48.0	33.3	51.4	35.4	24.9	24.0	17.0	12.0	1.1	43.9	43.1
Ebay Inc.	1.54	1.62	1.81	15.1	14.4	12.9	8.8	8.3	7.4	3.5	3.3	3.0	1.7	8.3	23.8
Google Inc.	22.74	26.17	30.66	25.5	22.2	18.9	15.2	13.1	11.0	10.6	9.1	7.9	1.4	16.1	37.3
Yahoo! Inc.	0.58	0.64	0.74	25.9	23.3	20.3	10.4	9.6	8.4	4.5	4.3	3.9	1.8	12.9	19.3
Jobstreet Corp.	0.02	0.03	0.03	17.6	15.1	12.8	11.4	9.1	7.9	4.9	4.3	3.8	0.9	17.3	49.3
Sohu.com Inc.	3.93	4.27	4.98	13.9	12.8	11.0	6.8	5.7	4.7	4.1	3.4	2.7	1.0	12.5	42.1
Sina Corp.	1.17	1.59	2.00	38.3	28.2	22.4	23.8	17.5	13.5	6.7	5.8	4.6	0.9	30.8	25.3
Ctrip.com	1.47	2.01	2.53	47.8	34.8	27.8	41.0	28.7	21.8	16.6	11.9	9.0	1.1	31.2	33.7
<b>Median</b>				<b>25.9</b>	<b>23.3</b>	<b>20.3</b>	<b>15.2</b>	<b>13.1</b>	<b>11.0</b>	<b>6.7</b>	<b>5.8</b>	<b>4.6</b>	<b>1.1</b>		

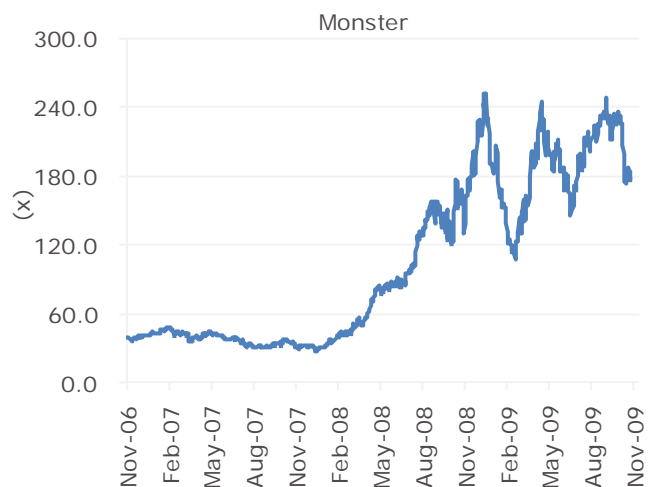
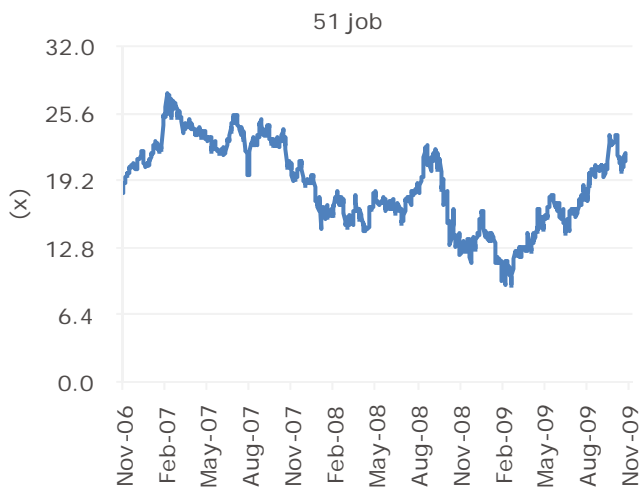
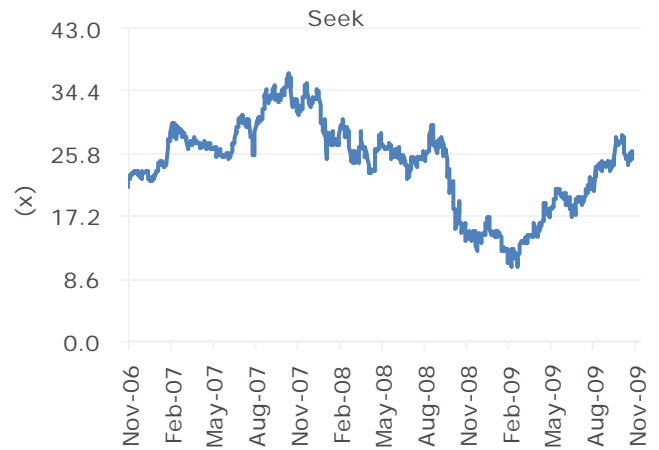
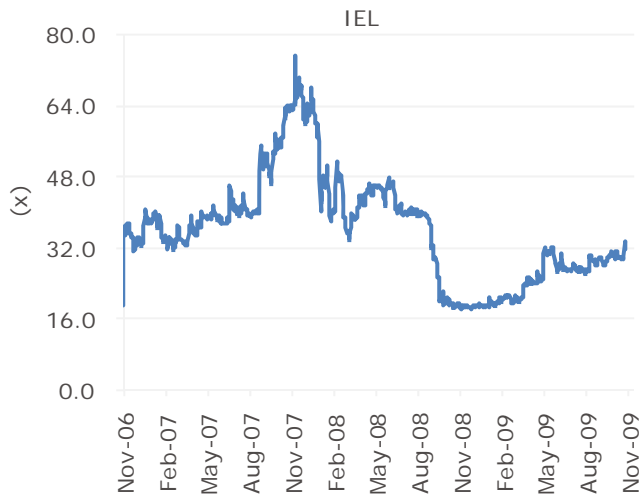
Source: Bloomberg, Edelweiss research

**Seek** is Australia based online recruitment service provider with nearly 60% market share in revenue terms. It offers online employment advertisements and online training in Australia and New Zealand.

**51job, Inc.** provides integrated human resource services in China, with a strong focus on recruitment related services. It delivers recruitment related services in both print and online formats.

**Monster Worldwide, Inc.** is a leading online recruitment service provider in the US. It charges employers and human resource professionals to post and search advertisements, and allows jobseekers to search job postings and post their resumes free of charge.

Chart 9: One year forward P/E band for IEL, Seek, Monster and 51job



Source: Edelweiss research

## Key Risks

- **Slump in economic activity after initial recovery**

IEL's business remains highly correlated to the corporate health and economic prospects. Recently, there have been initial signs of revival in the recruitment activity; however, if the activity decelerates meaningfully from here on, IEL's financials could be impacted. Continued slowdown of the economic environment will have a negative multiplier effect on the company.
- **Heavy dependence on recruitment segment**

The company derives 83% of its revenues (September 2009) from recruitment services. Other portals are still in investment mode (except *Jeevansathi.com*) and will take at least 12-24 months before starting to contribute significantly to revenues. Thus, the company's revenues and profits remain dominated significantly by the recruitment business segment.
- **Potential threat from professional networking portals**

We believe senior level lateral hiring could be affected with professional networking sites like *LinkedIn* which can capture market for specific skill sets. Though *LinkedIn* is currently at a nascent stage in India and focused on the senior level at high prices, in case of a strategic shift to mass market (junior to mid level), it could disrupt IEL's advantage in the recruitment segment.
- **Continuing losses in *99acres.com*, *shiksha.com*, and *Jeevansathi.com***

IEL's real estate and education portals are currently incurring losses at the operating level, while the matrimony portal has just broken even. These portals are not leaders in their respective segments, which indicate that IEL will have to continue to invest to gain market share, which will impact the company's profitability.
- **Continuous innovation remains key in a highly competitive market**

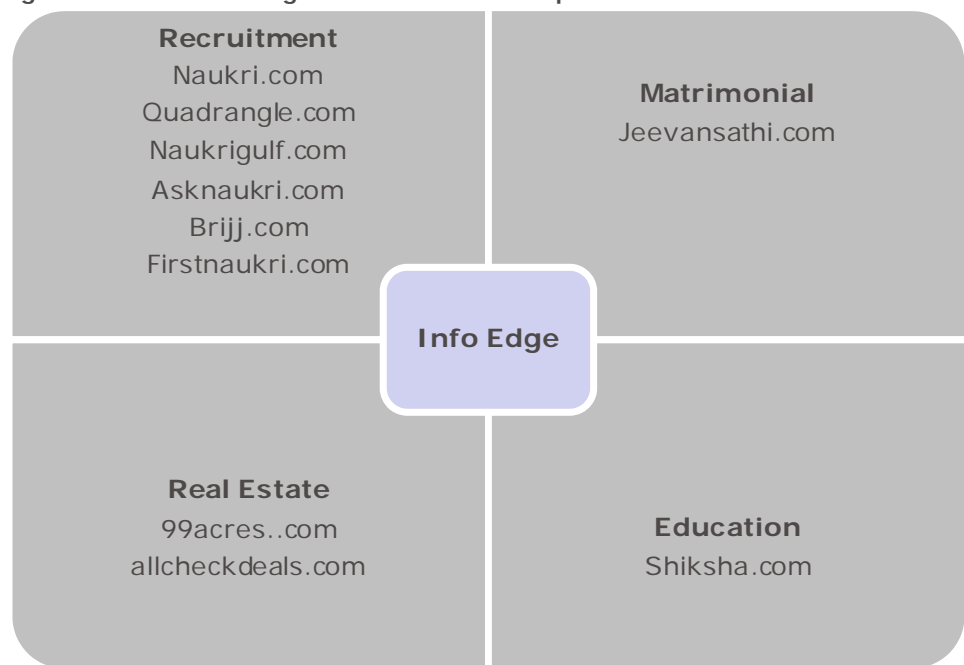
Sustaining the lead in online classified business requires continuous improvement in the form of innovation in products and enhanced user interface. Any lag/failure to respond successfully by IEL could significantly impact its brand equity and take away its market share.

## Business Model Analysis

### ■ Company description

IEL is amongst India's leading online classified companies, with presence in online recruitment (along with offline executive search), matrimony, real estate, and education. 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 is a USD 53 mn revenue (FY09) company, employing almost 1,500 people.

Fig. 2: Four business segments and individual portals of IEL



Source: Company

Gaining market share by expanding recruitment services

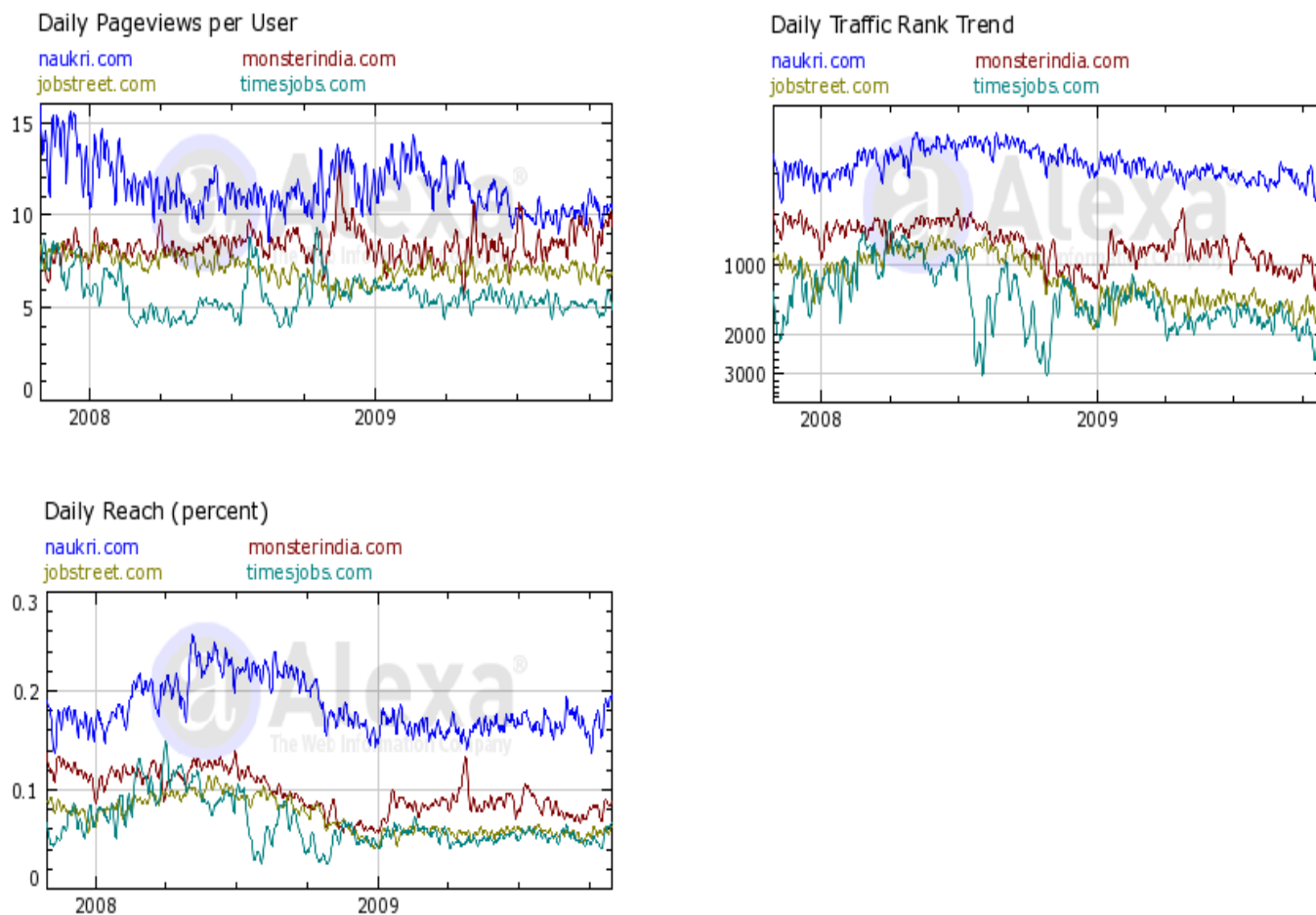
#### a) Recruitment: *Naukri.com* and others

*Naukri.com* is IEL's flagship brand that runs the online recruitment business, which along with its offline entity (*Quadrangle*) accounts for majority (83%) of the company's revenues as at September 2009 quarter. Leveraging its leadership position, *Naukri.com* has been expanding recruitment services by launch of *Naukrigulf.com* and *Asknaukri.com*, and *Firstnaukri.com*. Moreover, it has consistently left behind its closest peer Monster India in terms of reach and traffic trend. The portal has continued to increase its market share to 60% plus for more than past three months as of July 2009 (source: comScore) and it remains major revenue generator in this business segment for IEL. High page views and reach have led to building an extensive database of resumes and corporate clients are now patrons of *Naukri.com*. Large database of jobseekers and comprehensive client list by itself creates a self-generating cycle that propels business growth on sustainable basis.

**Revenue stream** includes two major sources viz., (a) job listings and employer branding and visibility; and (b) resume database access for recruiters (corporate and recruitment consultants). Apart from these major sources, other avenues of revenue generation include job seeker services (resume sales, mobile CV management), resume shortlisting and screening, and Google Ad Sense.

Revenues for *Naukri.com* and *Quadrangle* are highly correlated with the state/health of the economy, as recruitment activity tends to be high during expansionary economic phase and halts during deceleration or slowdown.

**Chart 10: Daily page views per user, traffic rank and reach trend for major job sites in India**



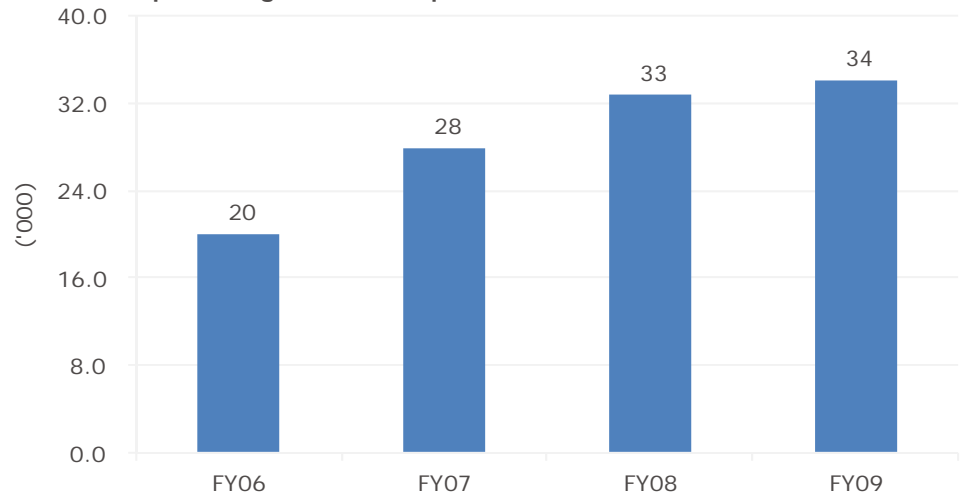
Source: [www.alexacom](http://www.alexacom)

Strong growth in resume database and unique customers

#### **Impressive growth in customer base as well as resume registrations**

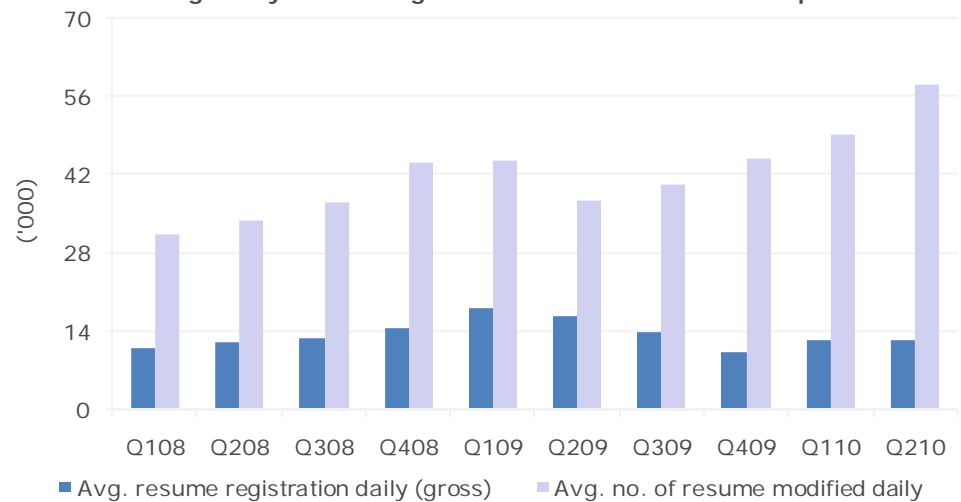
Over the past few years the self propelling cycle at *Naukri.com* has led to impressive growth in unique customer base that now stands at 34,000 (for FY09). At the same time, not only the resume database has risen but the pace of new resume registrations is also increasing. The total database of candidate resumes now stands at 19 mn, and number of new additions daily is ~12,000, while the average daily modifications are ~58,000. Further, the total client serviced (unique customers) have increased from just 20,000 to 34,000 over FY06-09.

Chart 11: Impressive growth of unique customer base



Source: Company, Edelweiss research

Chart 12: Average daily resume registrations and modifications in past



Source: Company, Edelweiss research

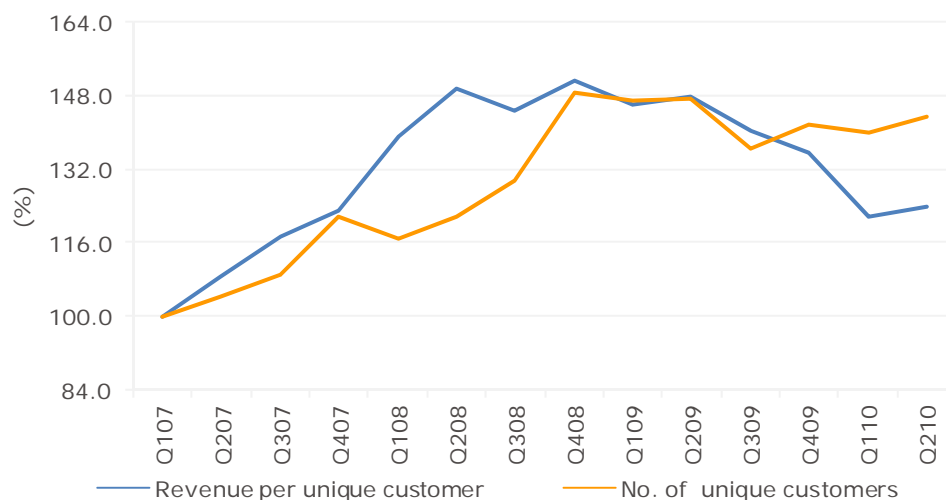
Slowdown in economy impacted per customer realizations...

IEL has leveraged *Naukri.com's* leadership in the job market by not only increasing its number of clients, but also raising realizations per client. Basing revenues per unique customer to 100 for Q107, the realisation pre-slowdown (Q4FY08) increased to 151 (an increase of 6.1% CQGR) based on our estimates. Strong position in the recruitment market and cost benefit offered by online mode (leading to shift from offline print to online) through *Naukri.com* have led to higher pricing power, leading to this increase.

...which we see improving going forward, aiding operating profit margin growth

However, as the business model of *Naukri.com* is highly correlated to corporate health and overall economic environment, the fall out of the sub-prime crisis last year has affected employment opportunities, and recruitments were virtually frozen (across sectors). IEL's performance was also impacted by this; thereby realizations and volumes have come off. As per our estimates, *Naukri.com's* realizations declined to 124 on relative basis from 151, a decline of 3% quarterly compounded over Q408-Q210, and so did revenues. Nevertheless, as recruitment activity picks up, customer discounts will come down (from current 10-20%) thereby aiding improvement in realizations and rate hike may also kick in.

Chart 13: Revenue/customer trended down during slowdown



Source: Company, Edelweiss research

More than 60% of traffic share; ranked top 9<sup>th</sup> web property in India

Nevertheless, *Naukri.com* continued to maintain its dominant traffic share of more than 60% as at July 2009. It is also ranked as top 9<sup>th</sup> web property in India by ComScore (May 2008). In our view, over the long term, reach and traffic share will determine pricing power, which clearly is in *Naukri.com's* favour. We remain confident about realisations improving over the next one year which will help margin expansion.

Table 4: *Naukri.com* is amongst Top 9 web properties in India

Properties	Total unique visitors (000)		Growth (%)	Rank
	May-08	May-07		
<i>Total internet : Total audience</i>	28,886	22,805	27.0	
Google Sites	19,746	14,597	35.0	1
Yahoo! Sites	18,704	14,664	28.0	2
Microsoft Sites	11,980	10,800	11.0	3
Rediff.com India	9,246	7,740	19.0	4
<b>Naukri</b>	<b>5,105</b>	<b>3,295</b>	<b>55.0</b>	<b>9</b>
eBay	5,020	4,204	19.0	10
Indian Railways	4,454	N/A	N/A	11
BharatMatrimony.com	3,420	2,336	46.0	14
Monster Worldwide	3,301	2,854	16.0	15

Source: comScore World Matrix

Note: \*Excludes traffic from public computers, such as internet cafes or access from mobile phones/PDAs. \*\* Total India - Age 15+, Home and Work Locations

Launch of Brijj.com to target passive job seekers

#### ***Brijj.com* to complement existing recruitment business**

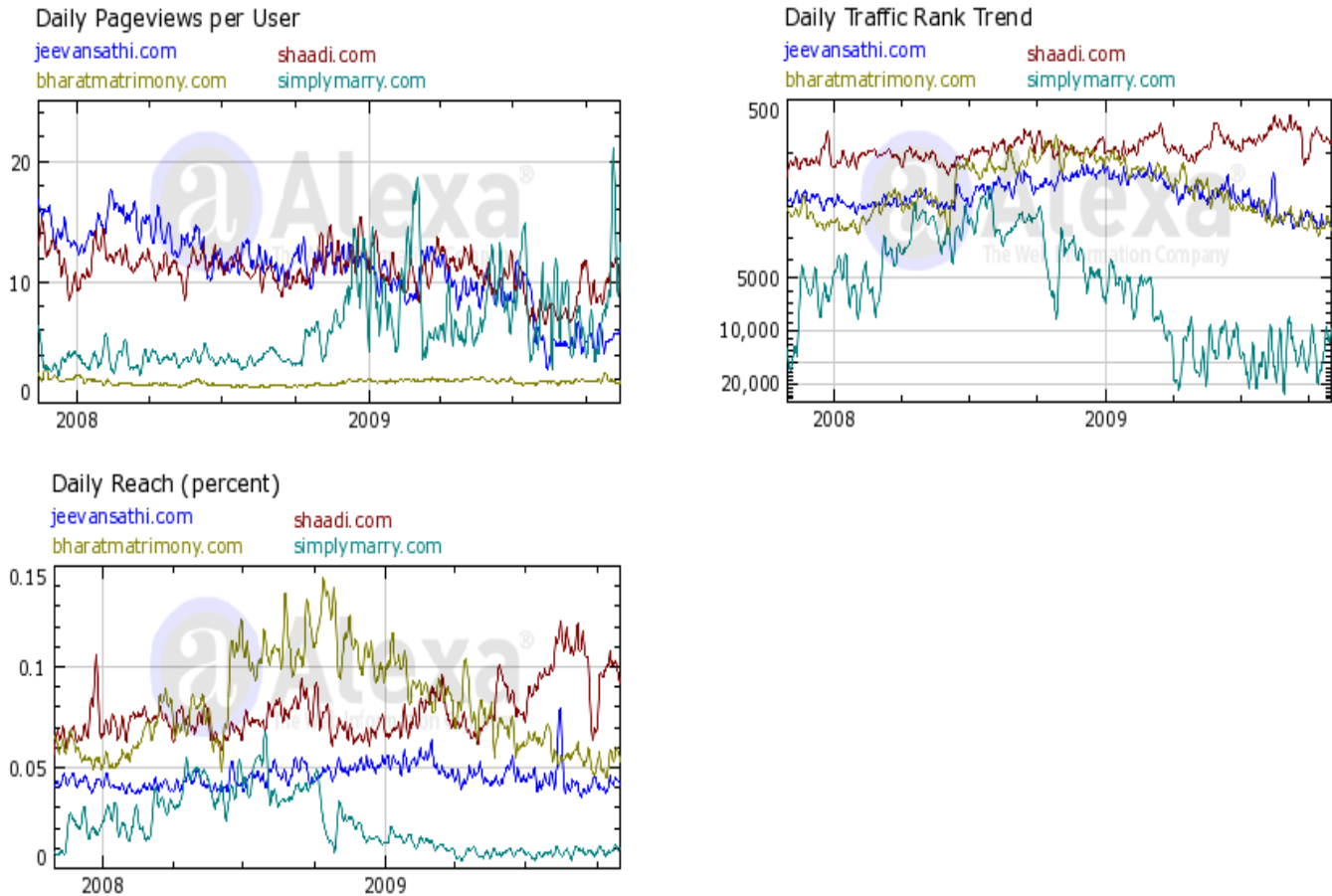
IEL launched *Brijj.com*, a professional networking site, in August 2007. This launch was essentially to tap into the increased popularity of social networking sites, which is now extending to professional networking. This acts as an add-on to the recruitment business and targets passive job seekers along with potential employers. It has already attracted 2.4 mn profiles and is increasing on an average of 3,650 daily. However, we believe the success of this kind of professional networking site is yet to be seen in the market and will require significant marketing investments to create visibility and also product improvements to enhance networking.

Jeevansathi.com offers free profile creation, search, interest expression and accepting others interest

#### b) Matrimonial classifieds: *Jeevansathi.com*

IEL runs its matrimony business under *Jeevansathi.com* which is India's third-largest matrimonial portal. It is a consumer-driven marriage portal, providing information-exchange service to prospective brides, grooms, and their relatives. Services like profile creation, search, expressing interest, and accepting others' interest are offered free; one has to pay only to get contact details. The company has also opened offline centers (now 14) to cater to this market, which has delayed the break even as it increases administrative and marketing costs.

Chart 14: Jeevansathi.com lags peers in daily traffic rank and reach trends



Source: Alexa.com

Key to success in matrimony business is attaining lead in select chosen communities

#### Matrimonial business dynamics

Online matrimonial business dynamics require focus on two factors—first, client acquisition and second, client conversion. We believe the first factor is primarily dependent on word of mouth and attaining lead in select communities, as marriages in India tend to be within the same or allied communities. However, the second factor, of converting a registered user into revenue paying user, is critical and is dependent on suitable people search with community and regional biases. Thus, the key is to gradually improve the lead position across chosen communities to build scale that can be enhanced through a discovery-led and preference-mapped focus. As a next step in evolution of the matrimony market, major players in this segment have been opening offline centers that provide personalised access to people who are not internet savvy and those who do not have enough patience to search and browse through many profiles. IEL has been launching its own offline centers under



Offline centers to provide personalised services

the 'Jeevansathi Match Point' brand. It has already started its first phase with 14 centers.

*Jeevansathi.com* has about 3.3 mn registered users with about 2,100 new additions daily in Q2FY10. However, the conversion rate remains low, at 0.7% in Q2FY10, and has declined from 1.2% in two years. The key operating metrics for the past two years are shown in table 5.

**Table 5: Key operating metrics for Jeevansathi.com**

Jeevansathi	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210
Total profile ('000s)	1,589	1,845	2,064	2,247	2,421	2,583	2,700	2,890	3,100	3,300
Q-o-Q growth (%)	22.3	16.1	11.9	8.9	7.7	6.7	4.5	7.0	7.3	6.5
Quarterly Y-o-Y growth (%)	98.7	105.0	87.6	72.8	52.3	40.0	30.8	28.6	28.1	27.8
Avg. profiles added daily	2,449	2,780	2,380	2,011	1,907	1,780	1,713	2,300	1,860	2,097
Q-o-Q growth (%)	(7.3)	13.5	(14.4)	(15.5)	(5.2)	(6.7)	(3.8)	34.3	(19.1)	12.7
Quarterly Y-o-Y growth (%)	5.8	36.5	1.0	(23.9)	(22.1)	(36.0)	(28.0)	14.4	(2.5)	17.8
No. of unique paid customers	20,000	21,700	21,500	24,800	22,600	23,800	24,300	25,300	23,370	22,955
Q-o-Q growth (%)	4.2	8.5	(0.9)	15.3	(8.9)	5.3	2.8	4.1	(7.6)	(1.8)
as a % of total profiles (%)	1.3	1.2	1.0	1.1	0.9	0.9	0.9	0.9	0.8	0.7
Collection per client (in actual INR)	1,379	1,428	1,396	1,490	1,649	1,636	1,640	1,710	1,864	2,069
Q-o-Q growth (%)	(1.5)	3.5	(2.2)	6.8	10.6	(0.8)	0.2	4.3	9.0	11.0
Quarterly Y-o-Y growth (%)	27.1	12.3	5.9	6.5	19.5	14.6	17.5	14.7	13.0	26.5
Revenues (INR mn)	27.6	31.0	30.0	37.0	37.3	38.9	39.9	43.3	43.6	47.5
Q-o-Q growth (%)	2.6	12.3	(3.1)	23.1	0.8	4.5	2.4	8.6	0.7	9.0
Quarterly Y-o-Y growth (%)	51.8	39.2	19.8	37.5	35.1	25.7	32.8	17.0	16.9	22.0

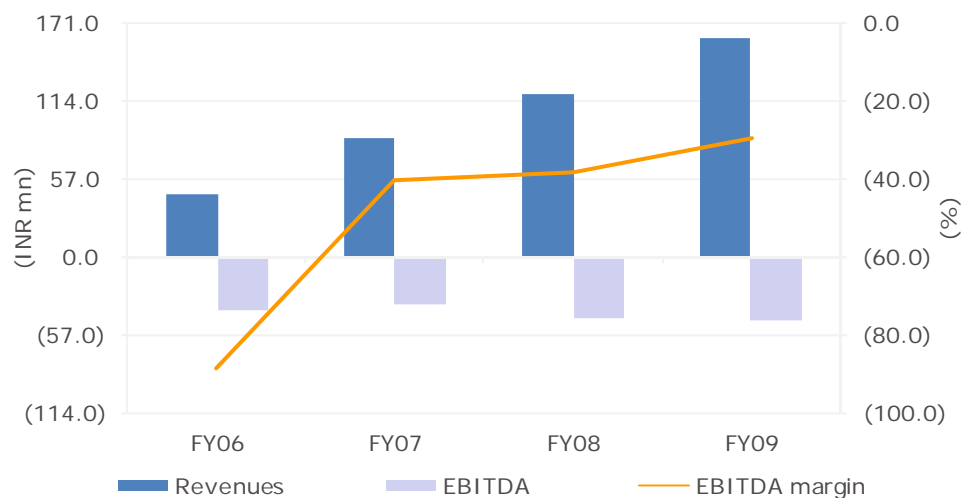
Source: Company, Edelweiss research

#### *Jeevansathi.com* until now was in investment mode

*Jeevansathi.com* broke even in Q2FY10

IEL is still investing in *Jeevansathi.com* with continuous promotional and brand building exercises to increase its visibility. Towards this, the company is also setting up several offline centers. The benefits of these investments are expected to flow in over the long term, as profile registration and conversion rates increase. Currently, the portal lags its peers on total registrations and number of offline centers. We note that as at September 2009, *Jeevansathi.com* achieved break even, which in our view may not sustain in case the company goes for market share gains.

**Chart 15: *Jeevansathi.com*'s revenue, operating profitability in past four years**



Source: Company, Edelweiss research

**Table 6: Jeevansathi.com lags peers on both parameters meaningfully**

	Profiles (mn)	Offline centers (no.)
Shaadi.com	10+	~155
Bharatmatrimony.com	20+	~64
Jeevansathi.com	3.3	14

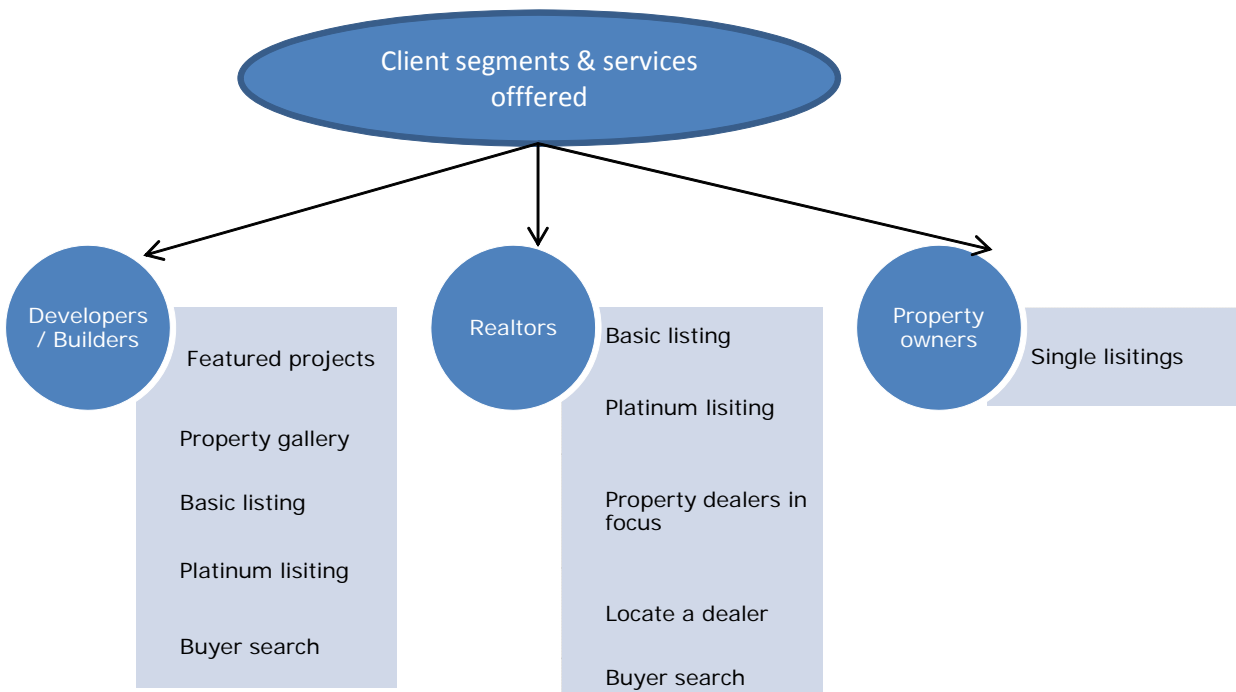
Source: Companies

Online real estate market still at nascent stage in India

**c) Real estate: 99acres.com and allcheckdeals.com**

IEL launched its real estate portal, *99acres.com*, in September 2005, to provide a forum to buy, sell, or lease real estate (residential, commercial, or industrial) in India. It provides a platform for property developers and brokers to list their property (advertisements). The portal currently has almost 200,000 listings, which have declined from 287,000 two quarters ago, but increased from 61,000 two years ago. Further, paid transactions for the company as of the latest quarter, i.e., Q2FY10, stood at 4,600. The company's real estate segment also includes *Allcheckdeals.com* which is positioned as the online broker for the real estate sector. It provides services to customers like property selection, site visit, booking, documentation, home loan, and after sales.

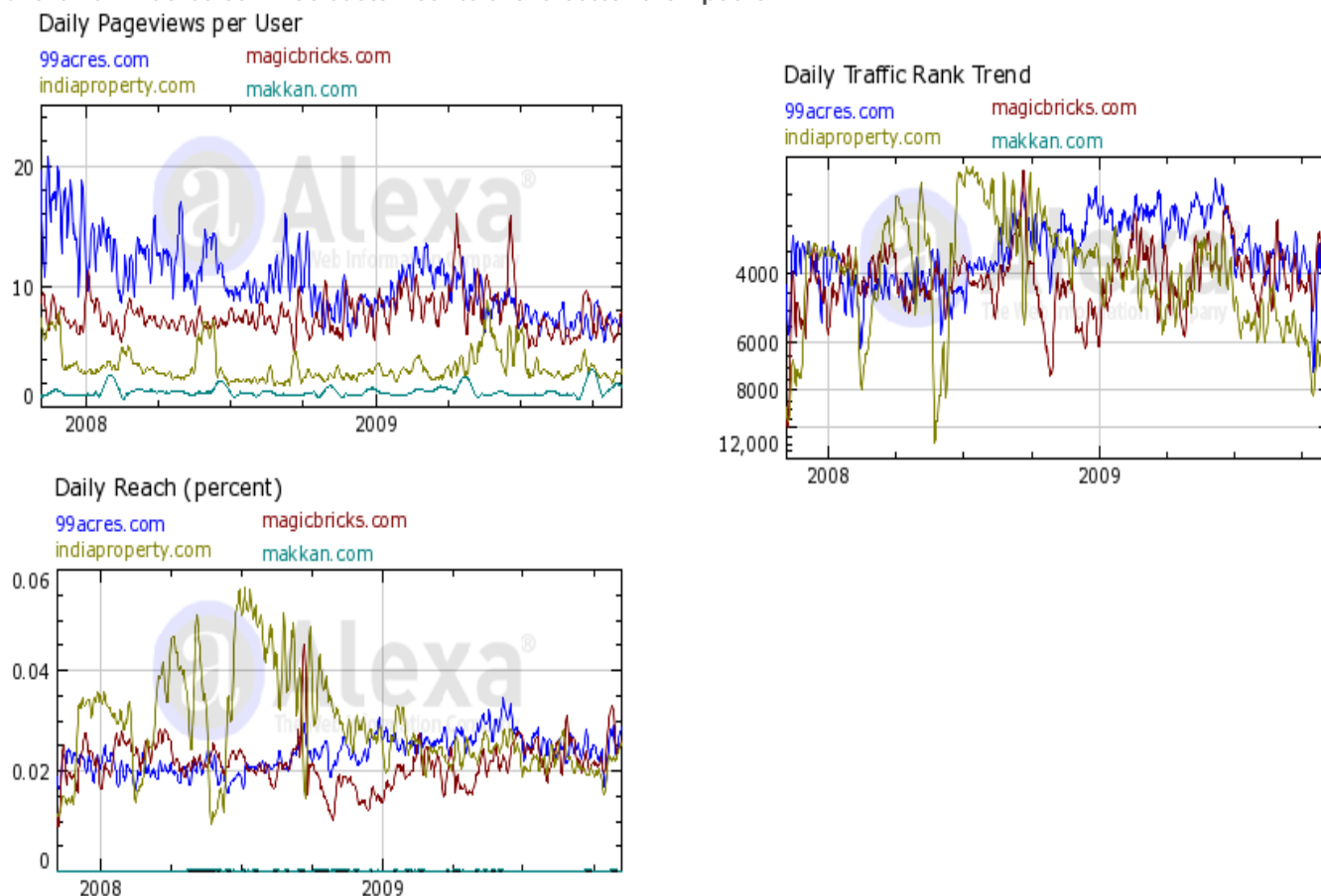
**Fig. 3: Client segment and services offered in 99acres.com**



Source: Company, Edelweiss research

We believe the online real estate market is still at a nascent stage. In this stage of evolution, presence of more players is helping educate and develop the market, though competition is high. However, in this downturn *99acres.com* has sustained its traffic share, while the competition has lost share. The long-term potential of the real estate market remains high despite the current non-conducive macro environment.

Chart 16: 99acres.com has sustained its share better than peers



Source: Alexa.com

Shiksha.com: Youngest business segment for IEL

#### d) Education: *Shiksha.com*

Education has been the most recent business launch by IEL through its website *Shiksha.com*. Launched in May 2008, it is a B2B portal, connecting education seekers with education providers. It provides information about colleges, courses, scholarships, and admission procedures, amongst others, to students.

*Shiksha.com's* business model is similar to *Naukri.com*, wherein instead of jobs the portal lists education courses. It provides subscription-based course listing, keyword-based advertising and branding solutions to colleges, institutes, universities, consultants, and tutors. To build content on the site, the portal is currently offering limited free listings. As at September 2009 it had 85,000 listings. We believe investments in the portal will continue for the next 18-24 months, until it gains scale and contributes enough to move the needle. In addition, the company has acquired 40% stake in Applert for INR 65 mn that develops content focusing on assessment based learning for the K-12 segment.

**Table 7: List of competitors across four business segments of IEL**

	Website	Owned by/ Country
<b>Job portal</b>	Naukri.com	Info Edge
	Monsterindia.com	Moster US
	Monster.com	Moster US
	Jobsahead.com	Webneuron Services, Monster subsidiary
	Timesjobs.com	Times Group
	Seek.com	Australia
	Clickjobs.com	Consim Info
	Jobstreet.com	Jobstreet Malaysia and Network 18 Group
<b>Matrimony</b>	Bharatmatrimony.com	Consim Info
	Shaadi.com	People Interactive (I)
	Jeevansathi.com	Info Edge
<b>Real estate</b>	Magicbricks.com	Times Group
	Indiaproperty.com	Consim Info
	99acres.com	Info Edge
	Allcheckdeals.com	Info Edge
	Makaan.com	People Interactive (I)
	<b>Education</b>	Shiksha.com
	Bharatstudent.com	Northgate Technologies
	Pagalguy.com	Inzane Labs
	Minglebox.com	India

Source: Edelweiss research

## Management Overview

IEL benefits from effective leadership of the senior management team with diverse background and experiences. The key members of the team have commendable credentials with a strong and accomplished work experience that has helped the company build a strong foundation and thought leadership.

**Table 8: Overview of senior management at IEL**

Name	Designation	Qualification	Background / Previously with
Sanjeev Bikhchandani	Managing Director & CEO	BA Econ. St. Stephen's. PGDM IIM-A	Held positions in Lintas and Glaxo SmithKline in the small tenure of 6 yrs in the service
Hitesh Oberoi	Whole time Director & COO	B.Tech IIT - Delhi, PGDM IIM-B	Worked as a Regional Planning and Distribution Manager for the Ice Cream Division of Hindustan Unilever for 4 yrs
Ambarish Raghuvanshi	Whole time Director & CFO	CA, PGDBM XLRI	Associated with Bank of America & HSBC in their corporate and investment banking department
V.Suresh	Sr. VP – Naukri	B.E. (Instr.& Control), Masters in Mgmt. (Sathya Sai Institute of Management)	Xerox
Sudhir Bhargava	Sr. VP - Corporate Finance	B.E., MBA (FMS, Delhi University)	HSBC, ICICI Bank
Vineet Singh	Sr. VP – 99acres	PGDBA, IPM	Previously with Xerox
Vivek Khare	Sr. VP - Jeevansathi	M.Sc (Physics) IIT - Kanpur. PGDBA	Helped Naukri.com to adopt new web platform, which reduces the turnaround time for projects along with the capital cost
Harveen Bedi	Sr. VP – Quadrangle	PGDBA, Birla Institute of Management Technology	Nestle
Vibhore Sharma	Sr. VP - Technology	B.Sc IGNOU	He has worked with the web division of Pioneer newspaper prior to joining naukri
Deepali Singh	Sr. VP – New Business	Bachelor of Science, Law Degree, Delhi University. PGDBA, IPM	Aptech
Sharmeen Khalid	Sr. VP – Human Resources	MBA IRMA	More than 12 years of experience in the entire gamut of HR functions. Previously with Polaris and Parsec Technologies
Shalabh Nigam	Sr. VP – Brijj	B Tech IIT - Kanpur	Baypackets

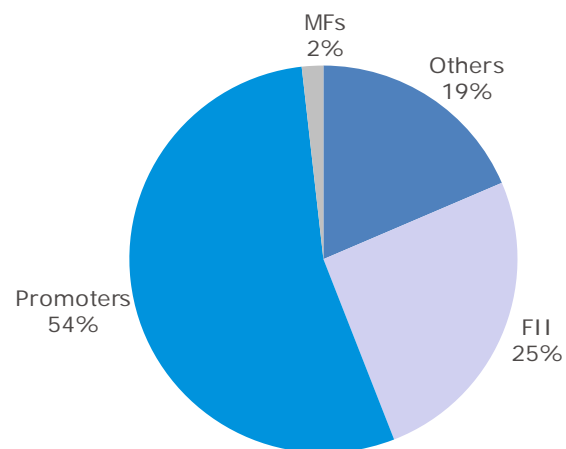
Source: Company

Fig. 4: Brief history and milestones

May 1998 - Incorporated as a private company
May 1997 - Launched Naukri.com
April 2000 - VC investment from ICICI Ventures (INR 70mn)
Nov. 2000 - Acquired Quadrangle - offline executive search firm
Sep. 2004 - Acquired 100% stake in Jeevansathi.com
Sep. 2005 - Launched 99acres.com
July 2006 - Expanded naukri.com in Gulf by launching naukrigulf.com
Nov. 2006 - Got listed on Indian bourses
July 2007 - Launched asknaukri.com - career and guidance site
Aug. 2007 - Launched Brijj.com - professional networking site
May 2008 - Commenced education portal - Shiksha.com
Jan. 2009 - Launched Firstnaukri.com - a fresher hiring site

Source: Company

Chart 17: Shareholding pattern



Source: NSE

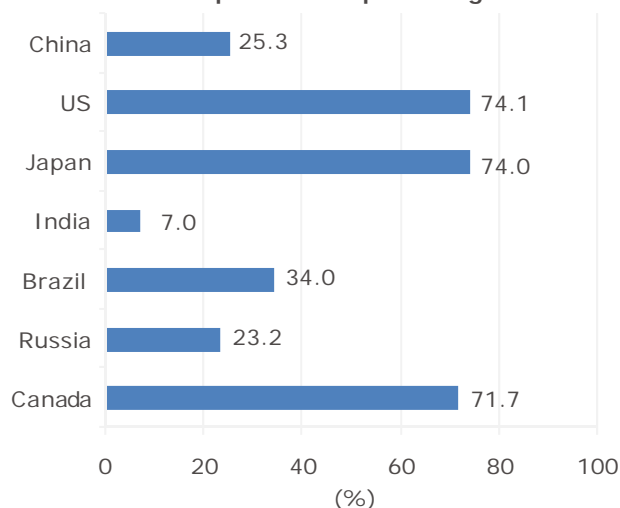
## Industry Overview

Internet penetration though low currently, has huge long-term potential

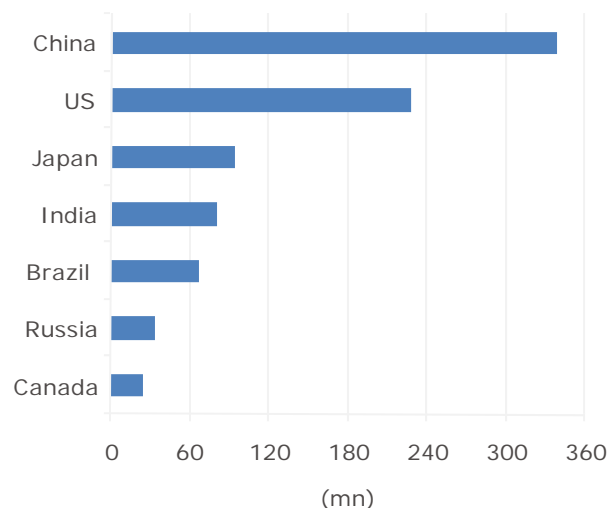
- **Internet penetration in India continues to rise at fast pace**

India's internet penetration level is currently quite low at just 7% as of June 2009 (81 mn internet users) compared with 70% levels in developed countries and 25% plus in emerging economies (see chart 18). Thus, the long-term potential of the industry is vast and untapped. Increase in the number of users and traffic share will invariably attract advertisers and clients to adopt incremental online spending. This bodes well for most internet companies that focus on online classified as well as e-commerce activities.

**Chart 18: Internet penetration percentage**



**Chart 19: Absolute number of internet users**



Source: [www.internetworldstats.com](http://www.internetworldstats.com)

Job search remains the top activity after emailing

- **Recruitment market witnessing increased online adoption**

Among the key activities undertaken by internet users, job search is among the second activity after emailing (Source: Juxtconsult's India Online 2009 Report). There is a clear trend of increased online adoption in the recruitment market that is accelerated from candidate's side. Further, one of the key market being created by recruitment services is the database access that does not exist in print mode. This is compelling companies also to graduate to online mode from offline mode.

**Table 9: Top 10 online activities**

Rank	Online activity	% undertaking in 2009	% undertaking in 2008	Increase (%)
1	Job search	72	71	1.0
2	Instant messaging/ chatting	68	70	(2.0)
3	Check news	63	63	-
4	Dating/Friendship	56	50	6.0
5	Check sports	53	57	(4.0)
6	Check cricket content/score	53	50	3.0
7	English info search	50	49	1.0
8	Matrimonial search	50	50	0.5
9	Listen/ stream music online	49	48	0.6
10	Download music	48	42	6.0

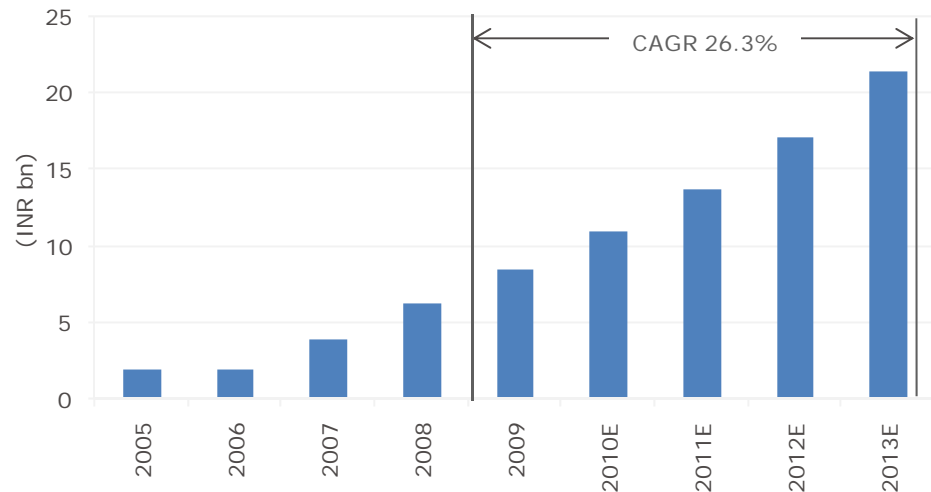
Source: Company, Juxt Consult - India online survey 2009

Online advertising to post CAGR of 26% over next 5 years

- **Online advertising: Fastest growing medium of advertisement**

Internet advertising is among the fastest growing sector in the media and entertainment industry. Currently, the internet advertising market in India is at 8.4 bn (i.e. 1.3% of overall M&E industry) and is expected to increase to almost INR 21.5bn by 2013 at a CAGR of 26% (Source: FICCI-KPMG Media & Entertainment Industry Report 2009). This increase in the online ad spending will offer tremendous opportunity for leading internet players to monetise the traffic share.

**Chart 20: Internet advertising growing fastest in media and entertainment industry**



Source: FICCI-KPMG Media & Entertainment Industry Report 2009

- **Economic growth prospects remain healthy**

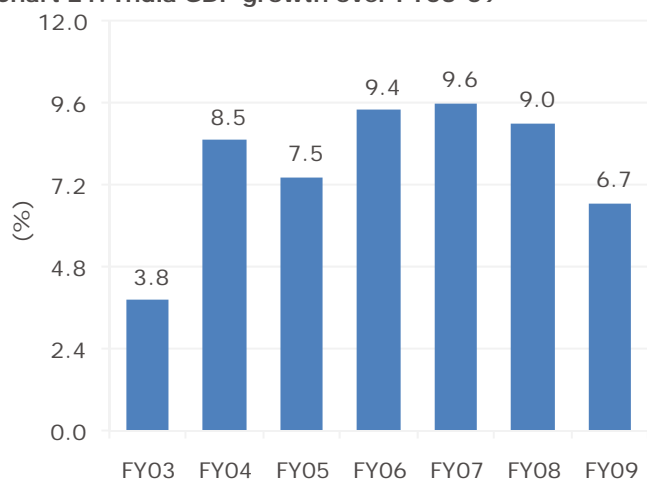
India has been growing at a fast pace over the past five years and its long term outlook remains positive. Driven by services and manufacturing sectors, activities in the job market—new job creation and replacements—are bound to increase, driving up the recruitment industry. This is further pronounced by the fact that manpower supply is limited and skill mismatch is high. Further, as highlighted earlier in our Investment rationale section the recent cyclical downturn is over and growth is expected to be back for corporate India. In addition to this, India's workforce participation is quite lower at 35% of total population compared to 45% plus in other major countries (see chart 22).

Further, as per a report by Economist Intelligence Unit – *Foresight 2020*, most number of new job creations in world economy are expected in India. In absolute terms from 2005-2020, 142mn new jobs are expected to be created i.e. 30% of world net increase (see table 10).

India to account for 30% of new jobs in world economy (from 2005 – 2020)

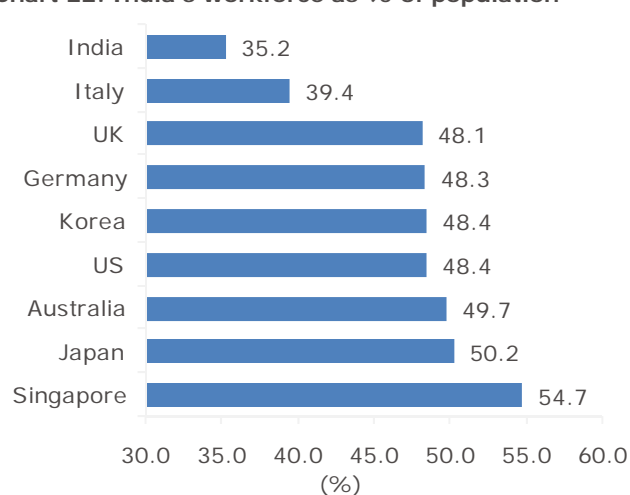


**Chart 21: India GDP growth over FY03-09**



Source: CSO

**Chart 22: India's workforce as % of population**



Source: IMF, Labour bureau, Edelweiss research

**Table 10: New job creation in the world economy**

	millions	% of world net increase
Developing Asia	315.5	67.0
China	65.0	13.8
India	142.4	30.2
Latin America	45.0	9.5
US	12.5	2.6
EU25	8.4	1.8
<b>Total</b>	<b>471.3</b>	<b>100</b>

Source: Economist Intelligence Unit

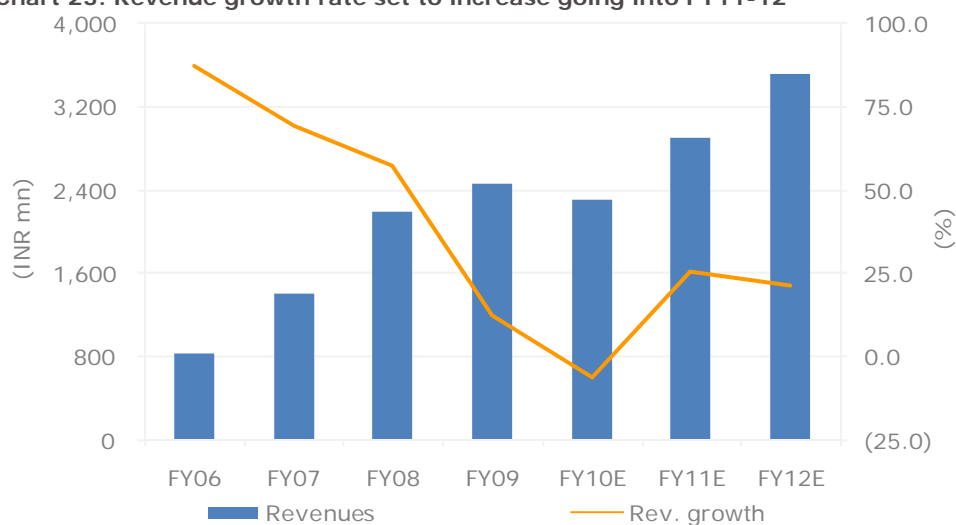
## Financial Outlook

- **Current fiscal likely to be tough; H2 may offer some respite**

IEL's growth has taken a strong beating due to the slowdown in the current fiscal and its revenues are forecasted to decline by 6% (first time in its history) in FY10. In fact, in H1FY10, revenues declined by 16% Y-o-Y. However, with improved macro environment we anticipate H2 to be much better and estimate H2FY10 to post growth of 5% over H2FY09.

In FY11 and FY12, we estimate IEL's revenues to post a CAGR of 23%. Further, due to high operating leverage and reducing losses in matrimony and real estate segments we estimate operating profit margins to increase from 28% to 33% in the same period.

**Chart 23: Revenue growth rate set to increase going into FY11-12**



Source: Company, Edelweiss research

Recruitment segment to continue to drive growth, accounting for majority share

- **Recruitment solutions to account for major share of revenues**

We expect IEL's recruitment segment to continue to account for a significant share of overall revenues until FY12. Our projections show the recruitment business declining 9% and its contribution to total revenues at 84% of total in FY10E. While the growth from non-recruitment business segments remains higher than recruitment segment, due to its lower base it may still not be able to dent the growth rates for the company as a whole. We expect low revenue pick up in the education segment until FY11 end.

**Table 11: Absolute revenues and % contribution from major business segment**

	(INR mn)					
	FY07	FY08	FY09	FY10E	FY11E	FY12E
Recruitment solutions	1,276	1,964	2,117	1,924	2,413	2,920
% growth		53.9	7.8	(9.1)	25.4	21.0
% of total revenues	91.4	89.7	86.1	83.6	83.7	83.4
Non-recruitment revenues	120	225	341	377	471	582
% growth		88.3	51.3	10.7	24.7	23.6
% of total revenues	8.6	10.3	13.9	16.4	16.3	16.6
Total	1,396	2,189	2,458	2,302	2,884	3,502

Source: Company, Edelweiss research

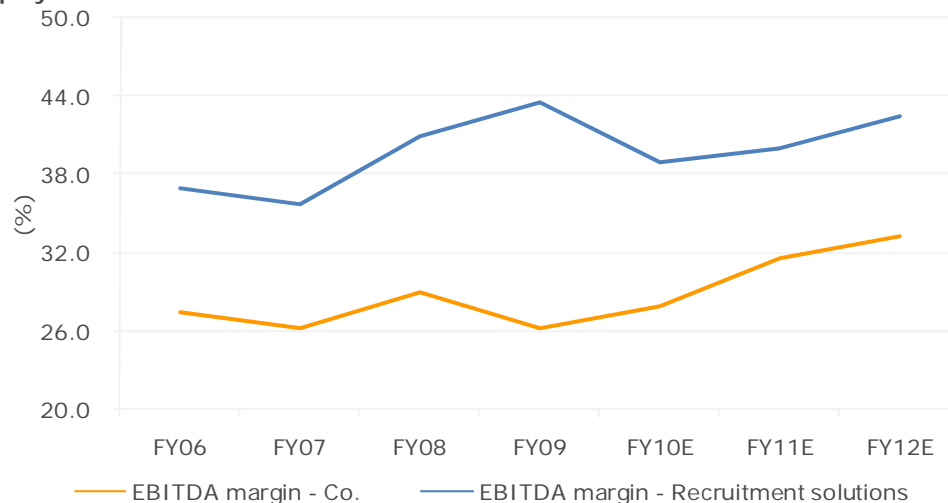
Margin improvement through operating leverage in Naukri.com

■ **Operating leverage in recruitment business to aid margin improvement**

Naukri.com has now achieved critical size of over USD 40 mn in revenues and operating margins currently are at 37%. We expect margins to improve to more than 42% by FY12E as revenue traction improves and benefit of operating leverage plays out.

We note quarter-to-quarter, volatility in margins could be higher due to small base on which any variation in the marketing/ad spend will have significant impact. However, Y-o-Y we remain convinced about margin expansion.

**Chart 24: EBITDA margin to see positive spiral as operating leverage comes to play**



Source: Company, Edelweiss research

High free cash flow on account of lower capex requirement and higher profitability

■ **Cash accretion to accelerate here on; utilization remains the key**

Internet business is marked by low capital requirement and high profitability. Thus, cash generation in this business is immense and non-linear (i.e., profitability grows disproportionately to revenues) nature of the business compels companies to either reinvest in new verticals or return to shareholders via dividends. IEL's free cash flows are estimated to post a CAGR of 56% over FY10-12E. In addition, the company currently (i.e. end of Q2FY10) has INR 3.3bn as cash and equivalents in its balance sheet.

**Chart 25: Cash and equivalents expected to grow at healthy pace**



Source: Company, Edelweiss research

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	2,189	2,458	2,302	2,884	3,502
Cost of revenues	807	1,024	937	1,082	1,237
Gross profit	1,383	1,434	1,365	1,802	2,265
S&M expenses	481	433	389	519	666
G&A expenses	267	356	335	375	438
Total SG&A expenses	748	789	725	894	1,103
EBITDA	635	644	641	908	1,162
Depreciation & Amortization	56	71	67	76	88
EBIT	579	573	574	832	1,074
Other income	207	279	316	283	390
Profit before tax	786	853	889	1,116	1,464
Tax	231	270	296	368	484
Core profit	555	582	594	747	981
Profit after tax	555	582	594	747	981
Minority int. and others - paid/(recd.)	-	12	15	15	15
Net profit after minority interest	555	570	579	732	966
Shares outstanding (mn)	27	27	27	27	27
EPS (INR) basic	20.3	20.9	21.2	26.7	35.1
Diluted shares (mn)	27	28	28	28	28
EPS (INR) diluted	20.3	20.4	20.5	26.0	34.2
CEPS (INR)	22.3	23.5	23.6	29.5	38.3
Dividend per share	0.7	0.8	1.0	2.0	2.0
Dividend (%)	7.5	7.5	10.0	20.0	20.0
Dividend pay out (%)	4.3	4.2	5.3	8.4	6.4

### Common size metrics - as % of revenues

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Cost of revenues	36.9	41.7	40.7	37.5	35.3
Gross margin	63.1	58.3	59.3	62.5	64.7
G&A expenses	12.2	14.5	14.6	13.0	12.5
S&M expenses	22.0	17.6	16.9	18.0	19.0
SG&A expenses	34.2	32.1	31.5	31.0	31.5
EBITDA margin	29.0	26.2	27.8	31.5	33.2
EBIT margin	26.5	23.3	24.9	28.9	30.7
Net profit margins	25.3	23.7	25.8	25.9	28.0

### Growth metrics (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	56.9	12.3	(6.4)	25.3	21.4
EBITDA	73.4	1.5	(0.6)	41.7	28.0
EBIT	81.0	(1.0)	0.1	45.0	29.1
PBT	99.1	8.5	4.3	25.4	31.3
Net profit	105.0	2.8	1.5	26.5	31.9
Diluted EPS	79.6	0.2	0.8	26.5	31.9

**Balance sheet****(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity share capital	273	273	273	274	275
Share premium account	18	28	28	28	28
Reserves	2,391	2,951	3,508	4,238	5,204
Total shareholders funds	2,681	3,252	3,809	4,541	5,507
Borrowings	4	4	-	-	-
<b>Sources of funds</b>	<b>2,686</b>	<b>3,256</b>	<b>3,809</b>	<b>4,541</b>	<b>5,507</b>
Gross fixed assets	474	528	608	688	798
Less: Accumulated depreciation	156	226	293	368	456
Net fixed assets	318	302	315	320	342
Capital WIP	63	83	80	60	-
Investments	2,667	199	516	816	1,016
Deferred tax asset	11	19	19	19	19
Cash & bank balances	486	3,221	3,533	4,060	4,960
Debtors	36	35	38	55	58
Loans and advances	124	164	180	210	250
Total current assets	646	3,419	3,751	4,326	5,268
Sundry creditors	976	706	807	888	1,021
Provisions	45	61	66	112	117
Total current liabilities	1,021	766	873	1,000	1,138
Working capital	(374)	2,653	2,878	3,326	4,130
<b>Application of funds</b>	<b>2,686</b>	<b>3,256</b>	<b>3,809</b>	<b>4,541</b>	<b>5,507</b>
Book value per share (BV) (INR)	98	119	140	166	200

**Free cash flow****(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	555	570	579	732	966
<i>Add : Non cash charges</i>					
Depreciation	56	71	67	76	88
Others	(163)	(203)	(301)	(267)	(374)
Gross cash flow	447	438	344	540	679
Less: Changes in working capital	(259)	240	(82)	(48)	(96)
Operating cash flow	707	198	427	589	775
Less: Capex	324	86	77	60	50
<b>Free cash flow</b>	<b>382</b>	<b>112</b>	<b>350</b>	<b>529</b>	<b>725</b>

**Cash flow statement****(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Cash flow from operations	447	438	344	540	679
Cash for working capital	259	(240)	82	48	96
Operating cashflow (A)	707	198	427	589	775
Net purchase of fixed assets	(324)	(86)	(77)	(60)	(50)
Net purchase of investments	(439)	2,642	(317)	(300)	(200)
Others	152	7	301	268	375
Investments cashflow (B)	(612)	2,563	(93)	(92)	125
Dividends	(24)	(24)	(24)	(31)	(62)
Proceeds from issue of equity	-	-	5	61	61
Proceeds from LTB/STB	1	(1)	(4)	-	-
Financing cash flow (C)	(24)	(25)	(23)	30	(1)
<b>Change in cash (A+B+C) + (D)</b>	<b>71</b>	<b>2,736</b>	<b>311</b>	<b>527</b>	<b>900</b>

**Ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	23.0	19.2	16.4	17.5	19.2
Debtors (days)	5	5	6	6	6
Payable (days)	137	125	120	107	99
Cash conversion cycle	(131.9)	(119.7)	(114.2)	(101.4)	(93.6)
Current Ratio	0.6	4.5	4.3	4.3	4.6
Fixed assets turnover (x)	10.4	7.9	7.5	9.1	10.6
Total asset turnover(x)	0.9	0.8	0.7	0.7	0.7
Equity turnover(x)	0.9	0.8	0.7	0.7	0.7
Adjusted debt/Equity	0.0	0.0	-	(0.1)	-

**Valuation parameters**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	20.3	20.4	20.5	26.0	34.2
<i>Y-o-Y growth (%)</i>	79.6	0.2	0.8	26.5	31.9
CEPS (INR)	22.3	23.5	23.6	29.5	38.3
Diluted P/E (x)	40.2	40.1	39.8	31.4	23.8
Price/BV(x)	8.3	6.8	5.8	4.9	4.1
EV/Revenues (x)	8.7	7.7	7.9	6.1	4.7
Mcap/Revenues (x)	10.2	9.1	9.7	7.8	6.4
EV/EBITDA (x)	30.2	29.3	28.5	19.3	14.2
EV/EBITDA (x)+1 yr forward	29.7	29.4	20.1	15.0	
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

## Appendix 1: Preferred website for job search

Activity	Rank1	Row %	Rank2	Row %	Rank3	Row %
<b>Gender</b>						
Male	Naukri	42.0	Monster	26.0	Timesjobs	16.0
Female	Naukri	43.0	Monster	22.0	Timesjobs	14.0
<b>Age Group</b>						
13-18 years	Naukri	36.0	Monster	26.0	Google	12.0
19-24 years	Naukri	34.0	Monster	27.0	Timesjobs	19.0
25-35 years	Naukri	51.0	Monster	23.0	Timesjobs	13.0
36-45 years	Naukri	48.0	Monster	23.0	Timesjobs	11.0
Above 45 years	Naukri	46.0	Monster	18.0	Timesjobs	17.0
<b>Socio Economic Classification</b>						
SEC A	Naukri	48.0	Monster	26.0	Timesjobs	13.0
SEC B	Naukri	45.0	Monster	27.0	Timesjobs	16.0
SEC C	Naukri	40.0	Monster	27.0	Timesjobs	14.0
SEC D	Naukri	43.0	Timesjobs	22.0	Monster	21.0
SEC E	Yahoo	26.0	Monster	26.0	Naukri	18.0
Rural 1	Naukri	48.0	Timesjobs	14.0	Monster	14.0
Rural 2	Naukri	38.0	Monster	24.0	Timesjobs	13.0
Rural 3	Naukri	32.0	Monster	21.0	Timesjobs	19.0
Rural 4&5	Naukri	41.0	Timesjobs	18.0	Monster	17.0
<b>Region</b>						
North	Naukri	49.0	Monster	25.0	Timesjobs	12.0
East	Naukri	41.0	Monster	27.0	Timesjobs	12.0
South	Naukri	39.0	Monster	23.0	Timesjobs	16.0
West	Naukri	41.0	Monster	26.0	Timesjobs	19.0
<b>Place of Access</b>						
Home	Naukri	42.0	Monster	29.0	Timesjobs	14.0
Place of work (office/school/college)	Naukri	43.0	Monster	25.0	Timesjobs	16.0
Cyber cafe	Naukri	40.0	Monster	27.0	Timesjobs	14.0
In transit (while traveling)	Naukri	51.0	Monster	30.0	Timesjobs	10.0

Source: Juxt Consult - India online survey 2008

## Appendix 2: Preferred website for matrimony

Activity	Rank1	Row %	Rank2	Row %	Rank3	Row %
<b>Gender</b>						
Male	Bharatmatrimony	36.0	Shaadi	34.0	Jeevansaatl	8.0
Female	Bharatmatrimony	36.0	Shaadi	35.0	Jeevansaatl	10.0
<b>Age Group</b>						
13-18 years	Shaadi	33.0	Bharatmatrimony	24.0	Jeevansaatl	3.0
19-24 years	Bharatmatrimony	35.0	Shaadi	31.0	Jeevansaatl	8.0
25-35 years	Shaadi	38.0	Bharatmatrimony	36.0	Jeevansaatl	10.0
36-45 years	Bharatmatrimony	40.0	Shaadi	35.0	Jeevansaatl	6.0
Above 45 years	Bharatmatrimony	39.0	Shaadi	33.0	Jeevansaatl	6.0
<b>Socio Economic Classification</b>						
SEC A	Shaadi	38.0	Bharatmatrimony	36.0	Jeevansaatl	9.0
SEC B	Shaadi	37.0	Bharatmatrimony	36.0	Jeevansaatl	8.0
SEC C	Shaadi	35.0	Bharatmatrimony	35.0	Jeevansaatl	8.0
SEC D	Shaadi	34.0	Bharatmatrimony	34.0	Jeevansaatl	7.0
SEC E	Bharatmatrimony	35.0	Shaadi	16.0	Jeevansaatl	9.0
Rural 1	Bharatmatrimony	36.0	Shaadi	27.0	Jeevansaatl	10.0
Rural 2	Bharatmatrimony	36.0	Shaadi	27.0	Jeevansaatl	9.0
Rural 3	Bharatmatrimony	41.0	Shaadi	29.0	Jeevansaatl	5.0
Rural 4&5	Bharatmatrimony	35.0	Shaadi	20.0	Jeevansaatl	5.0
<b>Region</b>						
North	Shaadi	44.0	Bharatmatrimony	23.0	Jeevansaatl	11.0
East	Bharatmatrimony	46.0	Shaadi	28.0	Jeevansaatl	7.0
South	Bharatmatrimony	49.0	Shaadi	24.0	Jeevansaatl	4.0
West	Shaadi	41.0	Bharatmatrimony	25.0	Jeevansaatl	11.0
<b>Place of Access</b>						
Home	Bharatmatrimony	37.0	Shaadi	35.0	Jeevansaatl	9.0
Place of work (office/school/college)	Shaadi	36.0	Bharatmatrimony	34.0	Jeevansaatl	8.0
Cyber cafe	Bharatmatrimony	38.0	Shaadi	33.0	Jeevansaatl	9.0
In transit (while traveling)	Shaadi	37.0	Bharatmatrimony	33.0	Jeevansaatl	11.0

Source: Juxt Consult - India online survey 2008



## Appendix 3: Preferred website for real estate

Activity	Rank1	Row %	Rank2	Row %	Rank3	Row %
<b>Gender</b>						
Male	Google	23.0	99acres	15.0	Yahoo	14.0
Female	Google	21.0	Magicbricks	17.0	Yahoo	13.0
<b>Age Group</b>						
13-18 years	Google	27.0	Realestates	22.0	99acres	16.0
19-24 years	Google	32.0	Yahoo	15.0	Realestates	14.0
25-35 years	99acres	17.0	Google	17.0	Magicbricks	16.0
36-45 years	Magicbricks	22.0	99acres	16.0	Yahoo	15.0
Above 45 years	99acres	20.0	Magicbricks	19.0	Yahoo	12.0
<b>Socio Economic Classification</b>						
SEC A	Magicbricks	21.0	99acres	18.0	Google	18.0
SEC B	Google	21.0	99acres	17.0	Magicbricks	15.0
SEC C	Google	26.0	Realestates	18.0	99acres	13.0
SEC D	Google	28.0	Yahoo	18.0	Realestates	14.0
SEC E	Yahoo	49.0	Realestates	15.0	Google	8.0
Rural 1	Google	33.0	99acres	12.0	Magicbricks	11.0
Rural 2	Google	-	31% Yahoo	15.0	Realestates	14.0
Rural 3	Google	34.0	Realestates	18.0	Yahoo	14.0
Rural 4&5	Google	37.0	Yahoo	19.0	Realestates	13.0
<b>Region</b>						
North	Google	24.0	Magicbricks	15.0	99acres	14.0
East	Yahoo	24.0	99acres	17.0	Google	15.0
South	Google	26.0	99acres	15.0	Realestates	14.0
West	Google	21.0	Magicbricks	16.0	99acres	13.0
<b>Place of Access</b>						
Home	Google	20.0	99acres	17.0	Magicbricks	16.0
Place of work (office/school/college)	Google	21.0	99acres	15.0	Yahoo	14.0
Cyber cafe	Google	20.0	Yahoo	16.0	99acres	15.0
In transit (while traveling)	Magicbricks	27.0	99acres	26.0	Google	15.0

Source: Juxt Consult - India online survey 2008

Company	Absolute reco	Relative reco	Relative risk
Infotech Enterprises	Buy	SO	H
Rolta India	Buy	SO	H
Tata Consultancy Services	Buy	SO	L
Mphasis	Hold	SP	M
Wipro	Buy	SP	L
Infosys Technologies	Hold	SU	L
Patni Computer Systems	Hold	SU	M
HCL Technologies	Hold	SU	H
Hexaware Technologies	Buy	SO	H

### 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

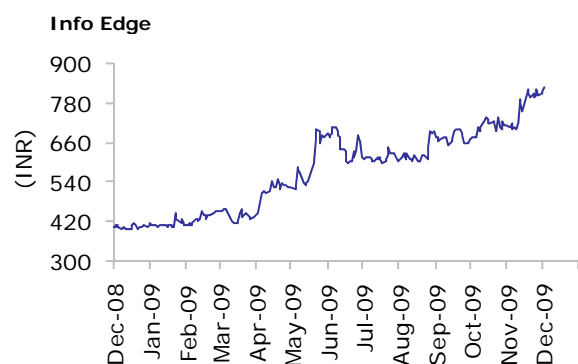


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### Coverage group(s) of stocks by primary analyst(s): Information Technology

HCL Tech, Hexaware Technologies, Infosys, Infotech, Mphasis, Patni, Rolta, TCS, and Wipro



### Recent Research

Date	Company	Title	Price (INR)	Recos
26-Nov-09	Hexaware Technologies	Expect upward re-rating on improving fundamentals; <i>Visit Note</i>	90	Buy
25-Nov-09	Mphasis	Results in line, but growth abates; <i>Result Update</i>	670	Hold
03-Nov-09	IT	Are TCS and Wipro pulling Ahead of Infosys?; <i>Sector Update</i>		
31-Oct-09	Patni Computer	Gearing up for growth; <i>Result Update</i>	445	Hold

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	87	51	13	153

\* 2 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	94	43	16

### 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

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