

Morgan Stanley India Company
Private Limited+

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Stock Rating
Equal-weight

Industry View
In-Line

Info Edge (India) Ltd.

Strong Sep-11 standalone performance subsidizing subsidiaries' losses; EW

Quick Comment: Info Edge management indicated that India's slowing GDP growth could hit its hiring business with a lag. Management also indicated that it has seen clients deferring hiring decisions and taking lower-priced/shorter-duration products amid macroeconomic uncertainty.

Strong Sep-11 results: Revenues were Rs910m (+5.1% qoq, +31% yoy). EBIT margin was 33.4% (-70bps qoq, +540bps yoy). Net profit of Rs282m (+10% qoq, +58% yoy) was ahead of estimates.

Segmental performance: Recruitment business reported revenue growth of +6.7% qoq. However, revenues from other businesses declined -2.4% qoq, a drag on overall revenue growth for the company. EBITDA margins for recruitment business remain at healthy levels of 48.6% (-40bps qoq), while losses in other businesses increased qoq.

More clarity on subsidiaries' losses: Management indicated that revenues and losses in subsidiaries could increase yoy in FY12e. Management expects revenues of its subsidiaries to double in FY12e. We estimate losses in subsidiaries could be towards the lower end of ~Rs200-Rs300m in the current year.

We maintain our FY12e net profit forecast of Rs979m (+55% yoy): However, if the subsidiaries' losses for FY12e turn out to be significantly higher than our current forecast of ~Rs200m, then our FY12e-14e estimates could have downward bias.

We recommend waiting for a better entry opportunity: On a consolidated basis, the stock currently trades at ~42x FY12e and ~34x FY13e EPS estimates. Given the cautious management commentary and slowing growth rates, we maintain our EW rating.

Key Ratios and Statistics

Reuters: INED.BO Bloomberg: INFOE IN
India Internet Services

Shr price, close (Oct 20, 2011)	Rs700.10
52-Week Range	Rs772.00-460.35
Sh out, dil, curr (mn)	55
Mkt cap, curr (mn)	Rs38,222
EV, curr (mn)	Rs33,525
Avg daily trading value (mn)	Rs21

Fiscal Year ending	03/11	03/12e	03/13e	03/14e
ModelWare EPS (Rs)	11.50	17.93	21.98	26.35
Consensus EPS (Rs)\$	13.42	18.57	22.34	25.78
Revenue, net (Rs mn)	3,217	4,182	5,228	6,378
EBITDA (Rs mn)	828	1,198	1,495	1,799
ModelWare net inc (Rs mn)	628	979	1,200	1,438
P/E	58.0	39.1	31.8	26.6
P/BV	8.4	7.3	6.0	5.0
RNOA (%)	(250.6)	(227.1)	(271.7)	(308.8)
ROE (%)	16.8	22.5	22.8	22.6
EV/EBITDA	38.4	27.2	21.1	16.5
Div yld (%)	0.1	0.2	0.2	0.3
FCF yld ratio (%)	0.5	0.8	1.1	2.5
Leverage (EOP) (%)	(107.9)	(106.6)	(105.7)	(111.0)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

\$ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Exhibit 1

Info Edge: Sep-11 Standalone income statement (Rs m, %)

Year to Mar (Rs m)	Sep-10	Jun-11	Sep-11	% qoq	% yoy	Comments
Revenues	712	867	911	5.1%	28.0%	Revenues from Other business verticals declined first time in last 7 quarters
Costs	498	550	589	6.9%	18.1%	
Network charges	26	23	22	-5.8%	-15.4%	
Staff Costs	270	327	329	0.4%	21.6%	
Advertising costs	112	111	146	31.7%	31.1%	Ad expenses have historically declined qoq in 3Q ; Lower ad expenses in 3Q12 could help margins qoq
Other admin costs	90	88	91	3.2%	1.5%	
EBITDA	214	316	322	2.0%	50.9%	
Margins(%)	30.0%	36.5%	35.4%	-109bps	538bps	
Depreciation	14	21	18	-13.2%	28.2%	
EBIT	200	295	304	3.0%	52.5%	
Margins(%)	28.0%	34.1%	33.4%	-68bps	537bps	
Other income	66	79	92	17.1%	39.9%	
PBT	265	374	396	6.0%	49.4%	
Tax expense	86	118	114	-3.3%	31.9%	
Effective tax rate (%)	32.6%	31.5%	28.8%	-276bps	-382bps	
PAT	179	256	282	10.3%	57.9%	
Margins(%)	25.1%	29.6%	31.0%	144bps	587bps	
Basic EPS (Rs)	3.3	4.7	5.2	10.2%	57.6%	

Source: Company data, Morgan Stanley Research

Exhibit 2

Recruitment business remained stable while other businesses reported lower revenues and higher losses

Info Edge (Rs m)	Sep-10	Jun-11	Sep-11	% qoq	% yoy
Revenues (Rs m)					
Recruitment vertical	590	700	747	6.7%	26.6%
Other verticals	122	167	163	-2.4%	33.6%
Total	712	867	910	5.0%	27.8%
EBITDA (Rs m)					
Recruitment vertical	273	343	363	5.8%	33.1%
Other verticals	(59)	(27)	(41)	51.9%	-30.5%
Total	214	316	322	1.8%	50.7%
EBITDA margins (%)	Sep-10	Jun-11	Sep-11	qoq bps	yoy bps
Recruitment vertical	46.2%	49.0%	48.6%	(41)	238
Other verticals	-48.4%	-16.2%	-25.2%	(899)	2,321
Total	30.0%	36.5%	35.4%	(109)	537

Source: Company data, Morgan Stanley Research

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(as of September 30, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1130	40%	457	46%	40%
Equal-weight/Hold	1168	42%	419	42%	36%
Not-Rated/Hold	112	4%	23	2%	21%
Underweight/Sell	400	14%	104	10%	26%
Total	2,810		1003		

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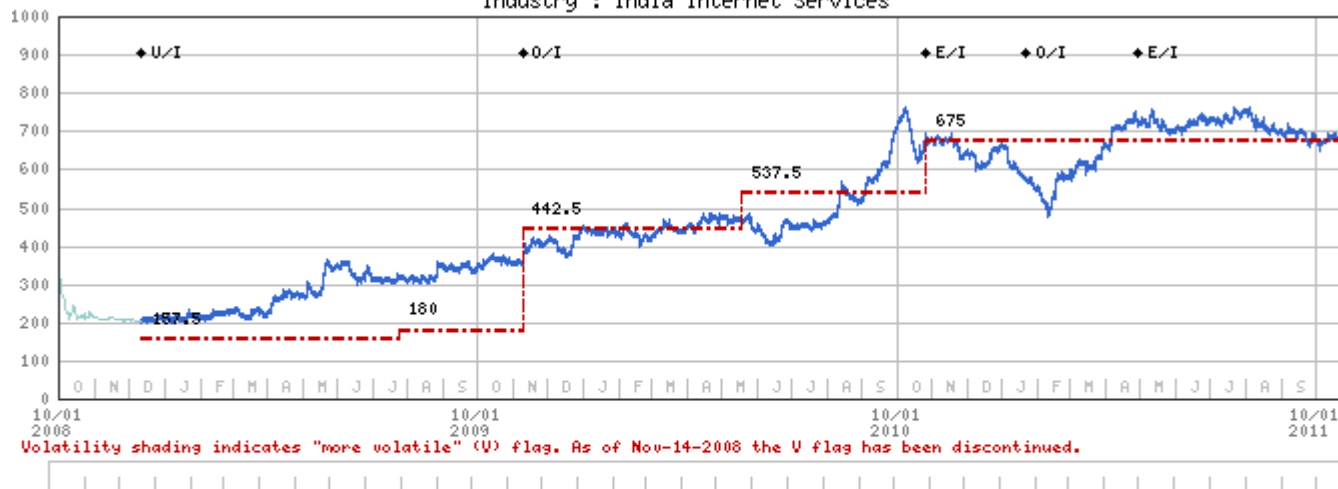
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Stock Price, Price Target and Rating History (See Rating Definitions)

Info Edge (India) Ltd. (INED.BO) - As of 10/20/11 in INR
Industry : India Internet Services



Stock Rating History: 12/12/08 : U/I; 11/9/09 : O/I; 10/26/10 : E/I; 1/21/11 : O/I; 4/29/11 : E/I
Price Target History: 12/12/08 : 157.5; 7/24/09 : 180; 11/9/09 : 442.5; 5/19/10 : 537.5; 10/26/10 : 675

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Info Edge (India) Ltd.

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Industry Coverage: India Internet Services

Company (Ticker)	Rating (as of)	Price* (10/20/2011)
Vipin Khare		
Info Edge (India) Ltd. (INED.BO)	E (04/29/2011)	Rs700.1
MakeMyTrip Limited (MMYT.O)	E (09/21/2010)	US\$27.55

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