

INFO EDGE

Sunny days back for recruitment

Revenues rebound strongly; exceptional items dent net profit

Rising demand and attrition in the IT sector, combined with improved business confidence across sectors, has led to strong pick-up in the hiring activity. Recruitment revenues, at INR 551mn, were up 10.2% Q-o-Q with EBITDA margins increasing at 43.6%. Info Edge's (IEL) net profits were at INR 132mn, including an exceptional item of INR 33.7 mn pertaining to expected diminution in value of investment in Study Places Inc. Excluding this, net profits stood at INR 170mn in line with our expectations. Reduction in operating losses in non-recruitment businesses also contributed to growth in net profit.

Investments in Jeevansathi.com to be scaled up; 99acres gains traction

We like IEL's strategy to gain share, while competitors are bleeding. Investments by way of expanding offline centers and brand building are expected to follow. This is likely to result in losses going into FY11E. However, management aims to get lead in the matrimonial segment.

Pick-up in collections a precursor to revenue growth

IEL is witnessing handsome increase in its monthly collections, with improvement in the hiring activity. This may not immediately translate into revenues, but certainly paints a strong picture for FY11. With GDP growth of ~8% next year, IEL may be able to grow its revenues in the mid-twenties.

Optimistic on internet penetration in India

Expected roll-out of 3G services and wireless broadband in FY11 are likely to increase internet penetration, which bodes well for all internet classified companies over a longer time frame. In that respect, IEL is already gearing up to have its current offerings on mobile phone.

Outlook and valuations: Improvement all around; maintain 'BUY'

We believe with growth improving in recruitment and real estate (in particular), IEL's high operating leverage will come into play. We also like the company's reinvestment strategy for long-term growth. Despite P/E at 36.5x and 27.6x for FY11E and FY12E, respectively, we see likelihood of growth surprising on the upside, going forward. We maintain **'BUY'** on the stock and rate it **'Sector Outperformer'** on relative returns.

Financials

Year to March	Q410	Q310	Growth %	Q409	Growth %	FY10	FY11E
Revenue (INR mn)	653	589	10.8	577	13.1	2,371	2,912
Gross profit (INR mn)	395	346	14.2	351	12.7	1,360	1,820
EBITDA (INR mn)	216	179	20.3	181	19.5	607	917
Net profit (INR mn)	132	156	(15.4)	138	(4.2)	521	722
Diluted EPS (INR)	4.9	5.7	(15.4)	5.1	(4.3)	19.1	26.3
Diluted P/E (x)						50.3	36.5
EV/EBITDA (x)						36.5	23.3
Market cap / Rev. (x)						11.1	9.0

April 30, 2010

Reuters: INED.BO Bloomberg: INFOE 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 961
52-week range (INR)	:	1,025 / 515
Share in issue (mn)	:	27.3
M cap (INR bn/USD mn)	:	26 / 591
Avg. Daily Vol. BSE/NSE ('000):	:	24.2

SHARE HOLDING PATTERN (%)

Promoters*	:	54.1
MFs, FIs & Banks	:	6.6
FIIIs	:	24.9
Others	:	14.4
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty EW	Technology Index
1 month	4.5	(0.9)	(3.1)
3 months	7.5	7.6	6.4
12 months	74.4	51.2	114.5

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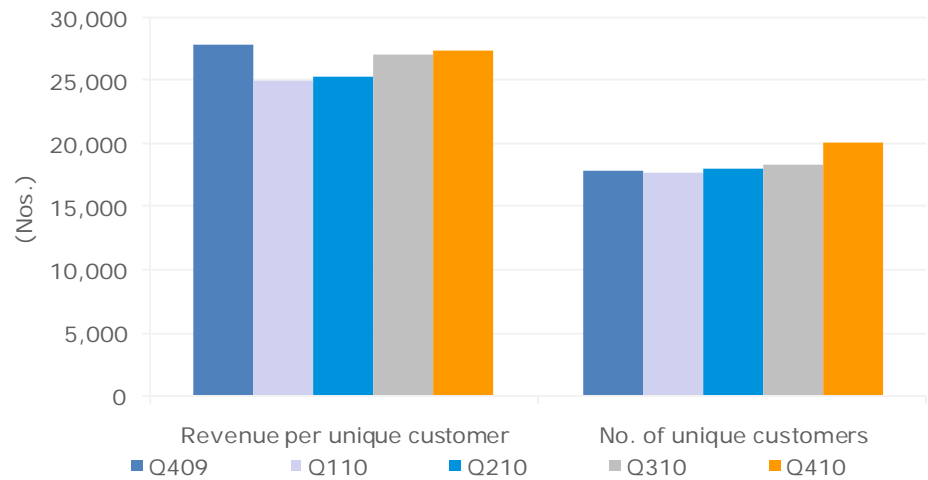
Chart 1: High operating leverage leading to continued EBITDA margin expansion

Source: Company, Edelweiss research

Table 1: Segment-wise absolute EBITDA over the past four years (INR mn)

	FY07	FY08	FY09	FY10
Recruitment solutions	456.2	814.8	921.3	803.0
Jeevansathi	(35.0)	(45.0)	(47.0)	(1.0)
99acres	(55.0)	(110.0)	(95.0)	(38.0)
Allcheckdeals+Brijj+Shiksha	-	(25.0)	(128.0)	(98.0)

Source: Company, Edelweiss research

Chart 2: Better demand environment has led to improving realisations and increase in unique customers

Source: Company, Edelweiss research

Financials snapshot**(INR mn)**

Year to March	Q410	Q310	Growth %	Q409	Growth %	FY10	FY11E	FY12E
Revenues	653	589	10.8	577	13.1	2,371	2,912	3,535
Network & other charges	22	23	(3.9)	24	(9.3)	91	102	127
Staff costs	236	220	7.1	202	16.5	920	990	1,131
Total direct cost	258	243	6.1	227	13.7	1,011	1,092	1,259
Gross profit	395	346	14.2	351	12.7	1,360	1,820	2,277
S&M Expenses	98	87	12.3	84	15.9	394	524	672
G&A expenses	81	79	2.4	86	(4.8)	359	379	431
EBITDA	216	179	8.5	181	8.9	607	917	1,174
Depreciation	14	15	(4.8)	20	(27.9)	65	76	88
EBIT	202	165	22.5	161	25.2	542	842	1,086
Other income	65	72	(9.8)	65	0.3	307	288	397
Earnings bef. tax & min. int.	266	236	12.7	226	18.1	848	1,129	1,483
Tax	96	80	20.5	87	10.2	317	373	489
Adj. net income	170	156	8.8	138	23.0	531	757	994
Reported net income	132	156	(15.4)	138	(4.2)	521	722	959
Diluted EPS (INR)	4.9	5.7	(15.4)	5.1	(4.3)	19.1	26.3	34.9

% of revenue

Gross profit	60.5	58.8		60.7		57.4	62.5	64.4
SG&A	15.0	14.8		14.6		16.6	18.0	19.0
EBITDA	33.1	30.5		31.3		25.6	31.5	33.2
EBIT	30.9	28.0		27.9		22.9	28.9	30.7
Reported net profit	20.3	26.6		24.0		22.0	24.8	27.1
Tax rate	36.1	33.8		38.7		37.4	33.0	33.0

- **Company Description**

IEL is amongst India's leading online classified companies, with presence in online recruitment, matrimony, real estate, and offline executive search. 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 USD 53 mn revenue (FY09) company, employing 1,585 people.

- **Investment theme**

IEL is a long term play on the internet space in India. 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. As various businesses come out of the recent slowdown we see recruitment industry to grow significantly as it is highly correlated to the economic health of the growth of domestic corporate sector. We expect IEL's earnings growth at 36% CAGR over FY10-12E and value it at INR 1,100 per share using target P/E of 32x (PEG of 1.1x) on FY12E earnings.

- **Key Risks**

- Heavy dependence on recruitment segment.
- Potential threat from professional networking portals.
- Continuous innovation remains a key in internet market space.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenue	2,189	2,458	2,371	2,912	3,535
Cost of revenues	807	1,024	1,011	1,092	1,259
Gross profit	1,383	1,434	1,360	1,820	2,277
Total SG&A expenses	748	789	753	903	1,103
S&M expenses	481	433	394	524	672
G&A expenses	267	356	359	379	431
EBITDA	635	644	607	917	1,174
Depreciation & Amortization	56	71	65	76	88
EBIT	579	573	542	842	1,086
Other income	207	279	307	288	397
Profit before tax	786	853	848	1,129	1,483
Provision for tax	231	270	317	373	489
Core profit	555	582	531	757	994
Extraordinary income/ (loss)	-	-	(38)	-	-
Profit after tax	555	582	493	757	994
Minority int. and others - paid/(recd.)	-	12	(28)	35	35
Profit after minority interest	555	570	521	722	959
Basic shares outstanding (mn)	27	27	27	27	28
Basic EPS (INR)	20.3	20.9	19.1	26.3	34.9
Diluted equity shares (mn)	27	28	27	27	28
Diluted EPS (INR)	20.3	20.4	19.1	26.3	34.9
CEPS (INR)	22.3	23.5	22.8	29.1	38.0
Dividend per share (INR)	0.7	0.8	1.0	2.0	2.0
Dividend (%)	7.5	7.5	10.0	20.0	20.0
Dividend payout (%)	4.3	4.2	5.9	8.6	6.5

Common size metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Cost of revenues	36.9	41.7	42.6	37.5	35.6
Gross margin	63.1	58.3	57.4	62.5	64.4
G&A expenses	12.2	14.5	15.1	13.0	12.2
S&M expenses	22.0	17.6	16.6	18.0	19.0
SG&A expenses	34.2	32.1	31.8	31.0	31.2
EBITDA margins	29.0	26.2	25.6	31.5	33.2
EBIT margins	26.5	23.3	22.9	28.9	30.7
Net profit margins	25.3	23.7	22.4	26.0	28.1

Growth ratios (%)					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	56.9	12.3	(3.5)	22.8	21.4
EBITDA	73.4	1.5	(5.9)	51.2	28.0
EBIT	81.0	(1.0)	(5.5)	55.3	29.0
PBT	99.1	8.5	(0.5)	33.1	31.3
Net profit	105.0	2.8	(8.6)	38.4	32.9
EPS	79.6	0.2	(6.2)	37.9	32.4

Balance sheet**(INR mn)**

As on 31 st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	273	273	273	274	275
Share premium account	18	28	28	28	28
Reserves & surplus	2,391	2,951	3,544	4,299	5,290
Shareholders funds	2,681	3,252	3,845	4,601	5,593
Borrowings	4	4	-	-	-
Sources of funds	2,686	3,256	3,845	4,601	5,593
Gross block	474	528	608	688	798
Accumulated depreciation	156	226	293	368	456
Net block	318	302	315	320	342
Capital work in progress	63	83	80	60	-
Deferred tax asset	11	19	19	19	19
Goodwill	-	-	-	-	-
Investments	2,667	199	516	816	1,016
Sundry debtors	36	35	39	56	58
Cash and equivalents	486	3,221	3,592	4,146	5,077
Loans and advances	124	164	180	210	250
Total current assets	646	3,419	3,811	4,412	5,385
Sundry creditors and others	976	706	831	915	1,052
Provisions	45	61	66	112	117
Total current liabilities & provisions	1,021	766	897	1,026	1,169
Net current assets	(374)	2,653	2,914	3,386	4,216
Uses of funds	2,686	3,256	3,845	4,601	5,593
Book value per share (INR)	98.1	119.2	140.8	167.9	203.4

Free cash flow**(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	555	570	521	722	959
Depreciation	56	71	65	76	88
Others	(163)	(203)	(298)	(253)	(362)
Gross cash flow	447	438	289	545	684
Less: Changes in WC	(259)	240	(106)	(51)	(100)
Operating cash flow	707	198	394	596	784
Less: Capex	324	86	77	60	50
Free cash flow	382	112	317	536	734

Cash flow metrics

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Cash flow from operations	447	438	289	545	684
Cash for working capital	259	(240)	106	51	100
Operating cash flow	707	198	394	596	784
Net purchase of fixed assets	(324)	(86)	(77)	(60)	(50)
Net purchase of investments	(439)	2,642	(317)	(300)	(200)
Others in cash flow metrics	152	7	345	288	397
Investing cash flow	(612)	2,563	(50)	(72)	147
Dividends	(24)	(24)	(24)	(31)	(62)
Proceeds from issue of equity	-	-	53	61	61
Proceeds from LTB/STB	1	(1)	(4)	-	-
Interest paid & other items	-	-	-	-	-
Financing cash flow	(24)	(25)	26	30	(1)
Net cash flow	71	2,736	370	554	930

Profitability & efficiency ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	23.0	19.2	15.8	17.1	18.8
ROACE (%)	(2,969.1)	37.3	17.0	23.7	26.0
Debtors days	5	5	6	6	6
Payable days	137	125	118	109	102
Cash conversion cycle (days)	(132)	(120)	(113)	(103)	(96)
Current ratio	0.6	4.5	4.2	4.3	4.6

Operating ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.9	0.8	0.7	0.7	0.7
Fixed asset turnover	10.4	7.9	7.7	9.2	10.7
Equity turnover	0.9	0.8	0.7	0.7	0.7

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	20.3	20.4	19.1	26.3	34.9
Y-o-Y growth (%)	79.6	0.2	(6.2)	37.9	32.4
CEPS (INR)	22.3	23.5	22.8	29.1	38.0
Diluted PE (x)	47.3	47.2	50.3	36.5	27.6
Price/BV (x)	9.8	8.1	6.8	5.7	4.7
EV/Revenues (x)	10.6	9.3	9.3	7.3	5.8
EV/EBITDA (x)	36.4	35.4	36.5	23.3	17.3
EV/EBITDA (x) +1 yr forward	35.9	37.6	24.1	18.2	-
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
HCL Technologies	HOLD	SP	H	Hexaware Technologies	BUY	SO	M
Info Edge	BUY	SO	M	Infosys Technologies	HOLD	SU	L
Infotech Enterprises	BUY	SO	H	Mphasis	HOLD	SU	M
Patni Computer Systems	HOLD	SU	M	Tata Consultancy Services	BUY	SO	L
Wipro	BUY	SP	L				

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

Edelweiss
Ideas create, values protect

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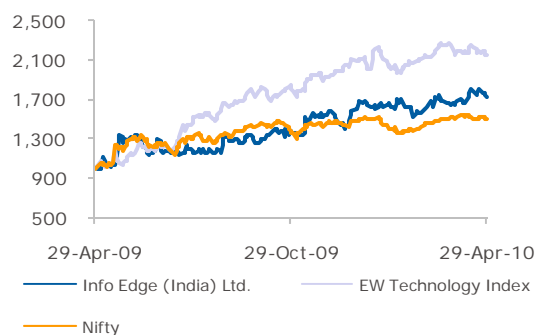
Coverage group(s) of stocks by primary analyst(s): IT

HCL Technologies, Hexaware Technologies, Infosys Technologies, Info Edge, Infotech Enterprises, Mphasis, Patni Computer Systems, Tata Consultancy Services, Wipro

Info Edge



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Apr-10	Patni Computer Systems	Supply side constraints dent growth; <i>Result Update</i>	537	Hold
29-Apr-10	Hexaware Technologies	Top-line growth to be back; <i>Result Update</i>	71	Buy
23-Apr-10	Wipro	Good quarter on multiple counts; <i>Result Update</i>	692	Buy

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