

# Info Edge Limited (INFEDG)

Rs 907

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 940 to Rs 951  
 EPS (FY11E) ..... Changed from Rs 26.4 to Rs 26.7  
 EPS (FY12E) ..... Changed from Rs 31.5 to Rs 32.6  
 RATING..... Changed from Reduce to Add

## Growth is back...

Info Edge reported its Q1FY11 results, which were higher than our expectations. Topline for the quarter stood at Rs 65.9 crore against our expectation of Rs 62.8 crore. Topline was flat QoQ while it improved 24.5% YoY primarily on the back of higher deferred revenues. EBITDA margin at 31.0% improved by 668 bps YoY and declined 254 bps QoQ. The sequential decline in margins was due to higher employee expenses led by one-time gratuity adjustment and yearly increments. The company reported a PAT margin of 26.2% for the quarter. PAT stood at Rs 17.3 crore against our expectation of Rs 16.5 crore. PAT improved on the back of lower tax outgo and slightly higher other income compared to that in Q4FY10.

### ■ Highlights for the quarter

Revenues during the quarter grew 24.5% YoY to Rs 65.9 crore, on a relatively low base due to the slowdown in the economy last year. The Naukri Job Speak Index reported growth of 29.0% in May 2010 and 4% in June 2010, indicating a strong rebound in the job market. Recruitments across sectors saw an improvement.

Non-recruitment revenues grew 29.1% YoY. The 99acres business has shown improvement of 80.0% YoY while Jeevansathi remained flat YoY. Shiksha grew 100% due to the lower base effect as compared to the same period last year. Total losses from the non-recruitment segments were down to Rs 2.5 vs. Rs 4.4 crore in Q1FY10. Allcheckdeals clocked 80 new deals during Q1FY11.

## Valuation

At the CMP of Rs 907, Info Edge is trading at 34.0x FY11E EPS of Rs 26.6 and 27.9x FY12E EPS of Rs 32.6. We have valued the stock using the DCF methodology at Rs 951. Our target price discounts FY12E EPS by 29.2x and implies an upside of 5.0%. We are upgrading our view on the stock to **ADD** from **REDUCE**.

### Exhibit 1: Valuation Metrics

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
<b>Net Sales</b>	65.9	62.8	52.9	65.7	0.2	24.5
<b>EBITDA</b>	20.4	18.4	12.9	22.1	-7.3	58.7
<b>EBITDA Margin (%)</b>	31.0	29.3	24.3	33.6	-254 bps	668 bps
<b>Depreciation</b>	1.4	1.6	1.7	1.4	-2.1	-17.4
<b>Interest</b>	0.0	0.0	0.0	0.0	69.0	81.7
<b>Reported PAT</b>	17.3	16.5	13.3	13.2	30.3	29.8
<b>EPS (Rs)</b>	6.3	6.0	4.9	4.9	30.3	29.8

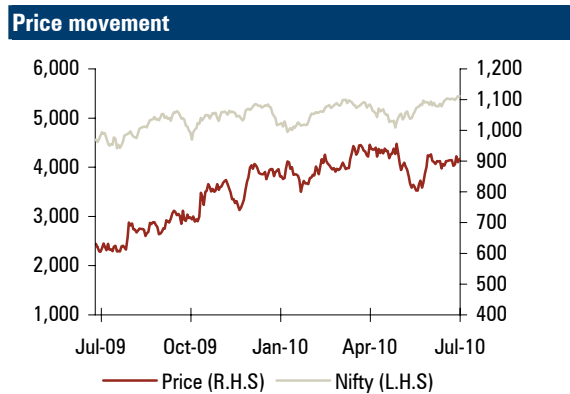
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 951
Target Period	: 12 months
Potential Upside	: 5%

Key Financials				
Rs Crore	FY09	FY10	FY11E	FY12E
Net Sales	246	237.1	272.8	310.5
EBITDA	66.2	62.5	79.9	93.3
Net Profit	57.2	52.3	72.8	88.9
EPS (Rs)	21.0	19.2	26.7	32.6

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	43.2	47.3	34.0	27.9
Target P/E	45.3	49.6	35.6	29.2
EV / EBITDA	32.3	33.3	25.0	20.4
P/BV	7.6	6.6	5.6	4.7
RoNW (%)	17.6	14.0	16.4	16.8
RoCE (%)	18.1	15.0	16.4	16.2

Stock data	
Market Capitalization	2,475.7
Variable Debt 1 (FY08)	0.4
Cash and Investments (FY08)	313.9
EV	2,162.3
52 week H/L	956 / 605
Equity capital	27.3
Face value	Rs 10
MF Holding (%)	5.7
FII Holding (%)	26.2



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### ■ Core segment shows some improvement

Increase in attrition and increasing hiring activity supported the growth for the recruitment business. The Job Speak Index reported growth of 29% in May 2010 and 4% in June 2010. Recruitment has started picking up across sectors. Sectors like IT/BPO, oil & gas and banking have increased hiring during Q1FY11.

Consolidated recruitment revenues grew 23.7% YoY while it remained flat QoQ at Rs 54.8 crore. Revenues for naukri.com increased 22.5% YoY while revenues from Quadrangle also reported growth of 17% YoY. Unique customers at the end of Q1FY11 stood at 20,900 as compared to 20,100 and 17,700 in Q4FY10 and Q1FY10, respectively. Share of top recruiters IT/ITeS increased to 27% as compared to 25% in Q1FY10 while BFSI remained more or less similar to the last quarter and infrastructure was down to 21%. Average number of resumes modified daily during the quarter increased to 70,000 from 68,000 in the last quarter. Naukri maintained its traffic share at 60%.

With the improvement in the job market and increase in attrition rate, we expect the recruitment business to exhibit strong growth in the current fiscal.

#### Exhibit 2: Recruitment services performance

No. of resumes in '000	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Number of resumes on Naukri.com (Mn)	17	18	19	20	21	22
Avg no. of resumes added daily	10	12	12	11	11	13
Avg no. of resumes modified daily	40	49	58	59	68	70

	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
No. of unique customers	17900	17700	18100	18400	20100	20900
Contribution to recruitment revenue						
IT Services/ ITES (%)	26	25	25	25	26	27
BFSI (%)	5	5	5	5	5	5
Infrastructure (%)	21	22	22	23	21	21

Source: Company, ICICIdirect.com Research

### ■ Non-recruitment on the right track

The non-recruitment segment reported a topline of Rs 11.1 crore in Q1FY11 as compared to Rs 10.2 crore in Q4FY10 and Rs 8.6 crore in Q1FY10. EBITDA losses during Q1FY11 declined to Rs 2.5 crore vs. Rs 4.4 crore in Q1FY10, down 43.2% YoY. The topline was up on the back of higher revenue from 99acres and higher contribution from Shiksha, which grew 80.0% and 100% YoY, respectively. Losses from 99acres were down 90% YoY. The management has indicated an expansion in Jeevansathi in the current fiscal. This could lead to higher losses from Jeevansathi, going forward.

With a market share of ~40%, 99acres still remains the market leader. Revenues from 99acres improved 80.0% YoY, primarily due to an increase in demand and realisation in the real estate sector. Allcheckdeals also witnessed traction while the number of deals for the quarter stood at 80.

Contribution of the non-recruitment segment to the topline stood at 17% as compared to 16% in Q1FY10 and Q4FY10.

**Exhibit 3: Non-recruitment services performance**

<b>Jeevansathi</b>	<b>Q4FY09</b>	<b>Q1FY10</b>	<b>Q2FY10</b>	<b>Q3FY10</b>	<b>Q4FY10</b>	<b>Q1FY11</b>
No. of profiles ever loaded (Mn)	2.9	3.1	3.3	3.5	3.7	3.8
Avg no. of profiles acquired daily	2,300	1,846	2,097	2,065	1,729	1,646
No. of unique paid customers	25,300	23,370	22,955	23,132	23,669	22,674
Avg amount realised in Rs	1,710	1,864	2,099	2,095	2,140	2,252

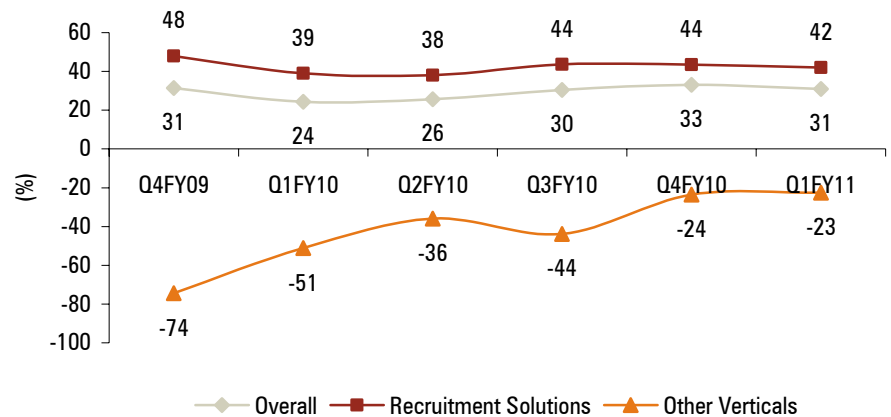
<b>99acres</b>	<b>Q4FY09</b>	<b>Q1FY10</b>	<b>Q2FY10</b>	<b>Q3FY10</b>	<b>Q4FY10</b>	<b>Q1FY11</b>
Number of listings in '000	287	271	199	164	151	160
Number of paid transactions in '000	4.9	4.9	4.6	4.4	4.7	5.1

<b>Brijj</b>	<b>Q4FY09</b>	<b>Q1FY10</b>	<b>Q2FY10</b>	<b>Q3FY10</b>	<b>Q4FY10</b>	<b>Q1FY11</b>
Number of profiles in million	1.8	2	2.4	2.7	3	3.3
Avg number of profiles added daily	2,000	2,440	3,650	3,400	3,100	3,200

Source: Company, ICICIdirect.com Research

### ■ EBITDA margin

The EBITDA margin for the recruitment business improved to 41.9% as compared to 39% in Q1FY10 while the margin for naukri.com stood at 44.8%. Overall margins during the quarter stood at 31.0% as compared to 24.3% in Q1FY10. Margins improved due to lower ad spend during Q1FY11 and lower losses from other verticals coupled with higher revenue realisation during the quarter. Losses from non-recruitment dipped to Rs 2.4 crore from Rs 4.4 crore in the same period last year. We expect the margin to dip marginally in FY11E, led by higher investments in Jeevansathi and higher ad spends in the coming quarters as indicated by the management.

**Exhibit 4: EBITDA margin**

Source: Company, ICICIdirect.com Research

## Outlook & Valuation

### Outlook

Info Edge posted a better than expected performance during Q1FY11 led by higher proportion of deferred revenues. An increasing attrition rate and recruitment by corporates led to a gradual improvement in the job index and positive sentiments in the recruitment market. The recruitment segment reported a revenue increase of 23.7% YoY reflecting an improvement in the core business of the company. IT/BPO, oil& gas and banking were major recruiters and have started some hiring but the major revival is expected to be seen in the current fiscal. 99acres.com, which has the highest market share of ~40%, reported a growth of 80.0% YoY, improving primarily due to an increase in demand and realisation in the real estate sector. This signifies an improvement in the real estate segment as well.

The management has indicated expansion in Jeevansathi, which would increase the losses in the segment in the current fiscal. However, with the company's cost efficient business model, we do not expect any major dent in the margin. We expect the losses to further move down by ~15.0% in the current fiscal.

Info Edge has maintained its market share at 60% in online recruitment business. It has also been maintaining a healthy market share in other verticals. This shows the strength of the management to sail through the environment of intense competition.

### Valuation

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#### Exhibit 5: DCF assumptions

*Rs in Crore*

WACC	10.6%
Revenue CAGR over FY10-20E	15.9%
Present Value of Cash Flow till FY20E	836.7
Terminal Growth	3.0%
Present Value of terminal cash flow	1,392.8
Total present value of the firm	2,229.5
Less: Current Debt	0.6
Total present value of the Equity (excluding current cash)	2,228.9
Number of Equity Shares outstanding	2.73
Per Share Value (excluding current cash)	816.6
Add Current Cash Per Share	134.3
DCF - Target price (Rs)	950.9

Source: Company, ICICIdirect.com Research

#### Exhibit 6: Valuation table

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY09</b>	245.8	1.1	21.0	1.0	43.2	32.3	17.6	18.1
<b>FY10</b>	237.1	-3.5	19.2	-8.7	47.3	33.3	14.0	15.0
<b>FY11E</b>	272.8	15.1	26.7	39.2	34.0	25.0	16.4	16.4
<b>FY12E</b>	310.5	13.8	32.6	22.1	27.9	20.4	16.8	16.2

Source: Company, ICICIdirect.com Research

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 Buy: Between 10% and 20%;  
 Add: Up to 10%;  
 Reduce: Up to -10%  
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