

## INFO EDGE

Too much too soon

- Results in line with expectations; recruitment leads growth**

Info Edge's (IEL) Q2FY11 results came in line with our expectations and continue to indicate strong environment for recruitment services. Total revenues for the quarter were at INR 712 mn, up 29.0% Y-o-Y, and net profits at INR 179 mn, up 21.4% Y-o-Y. EBITDA margins, at 30%, were up 430bps Y-o-Y, led by strong revenue growth. Revenues from the recruitment segment grew 28.3% Y-o-Y, to INR 590 mn, and due to high operating leverage EBITDA margins increased to 46.3% from 38% a year ago.

- Naukri.com continues to scale up with its network effect**

Strong growth in resume modification (i.e. active job seekers) 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 ~23 mn and is growing impressively at a pace of 13,000 new daily additions, and the more relevant average resume modification daily at 75,000. 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. The number of unique customer billed in Q2FY11 was at 21,100.

- Matrimonial and real estate continue to grow gradually**

IEL continued to invest in matrimony (*Jeevansathi.com*) and real estate (*99acres.com*) segments by raising its ad spent to gain traffic share. Though traffic share for *99acres.com* has increased to 50% and 23% for *Jeevansathi.com*, revenue flow remains gradual with each segment contributing only INR 50 mn per quarter, incurring a similar loss at the EBITDA level.

- Outlook and valuations: Too much premium; downgrade to 'REDUCE'**

IEL has generated 54% return since our initiation a year back. We continue to like its unique business model that enables it to maximize earnings in an improving environment, and also its reinvestment strategy for long-term growth. However, we see the valuations at P/E of 38.1x and EV/EBITDA of 24.6x FY12E, expensive for a 28% earnings CAGR over FY10-FY12. We, thus, downgrade the stock to 'REDUCE' from 'BUY', targeting ~10% downside from current levels and rate it 'Sector Underperformer' on relative basis.

October 22, 2010

Reuters: INED.BO Bloomberg: INFOE IN

## EDELWEISS 4D RATINGS

Absolute Rating	<b>REDUCE</b>
Rating Relative to Sector	<b>Underperformer</b>
Risk Rating Relative to Sector	<b>Medium</b>
Sector Relative to Market	<b>Equalweight</b>

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

## MARKET DATA

CMP	:	INR 635
52-week range (INR)	:	780 / 305
Share in issue (mn)	:	54.6
M cap (INR bn/USD mn)	:	35 / 777
Avg. Daily Vol. BSE/NSE ('000):	:	51.7

## SHARE HOLDING PATTERN (%)

Promoters*	:	54.1
MFs, FIs & Banks	:	7.4
FIIIs	:	26.2
Others	:	12.3
* Promoters pledged shares (% of share in issue)	:	NIL

## PRICE PERFORMANCE (%)

	Stock	Nifty EW	Technology Index
1 month	6.6	1.5	3.2
3 months	43.0	13.0	13.6
12 months	81.4	20.5	43.7

## Financials

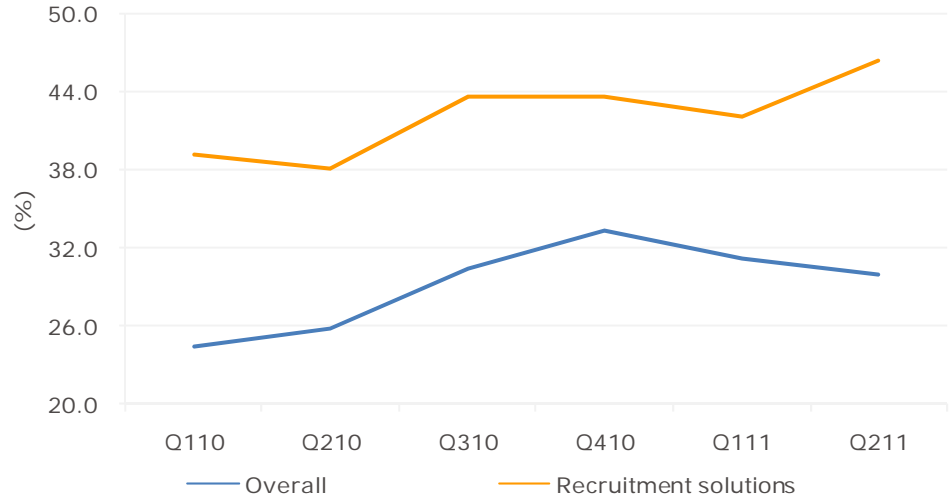
(INR mn)

Year to March	Q2FY11	Q1FY11	% Chg	Q2FY10	% Chg	FY10	FY11E
Net revenues	712	659	8.1	552	29.0	2,371	3,033
Gross profit	415	363	14.4	321	29.5	1,360	1,755
EBITDA	214	204	4.6	142	50.6	607	942
Reported net profit	179	173	3.6	147	21.4	521	710
Diluted EPS (INR)	3.3	3.2	3.6	2.7	21.4	9.5	12.7
Diluted P/E (x)						67.8	49.8
EV/EBITDA (x)						51.7	33.2
EV/Revenues (x)						13.2	10.3

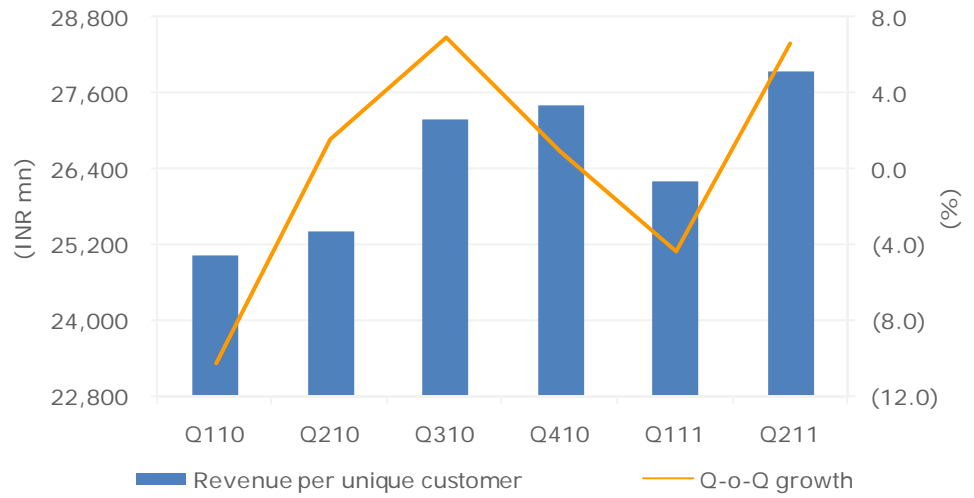
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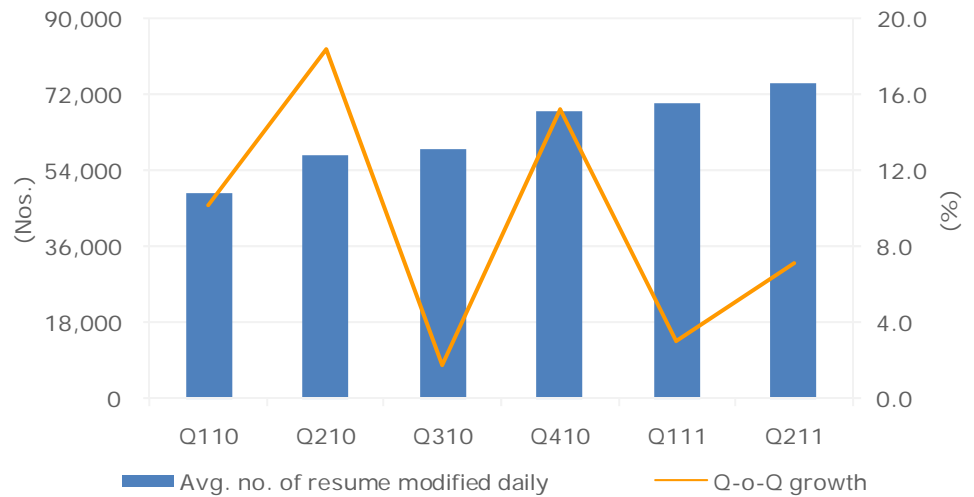
**Chart 1: EBITDA margin in recruitment solutions**



**Chart 2: Revenue per unique customer**



**Chart 3: Average resume modifications**



Source: Company, Edelweiss research

Chart 4: Revenues in non-recruitment business

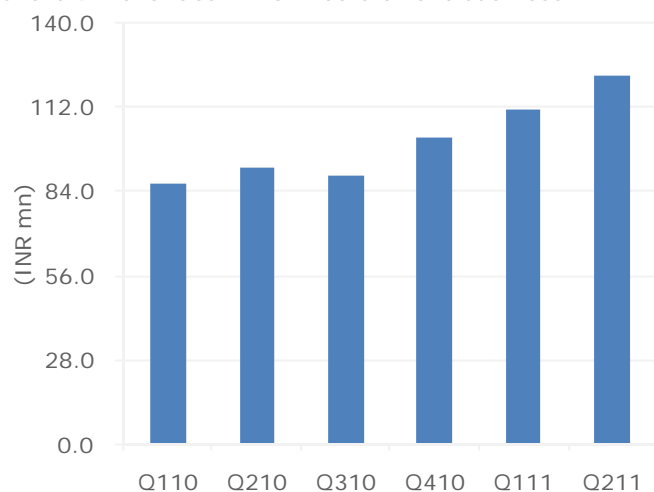
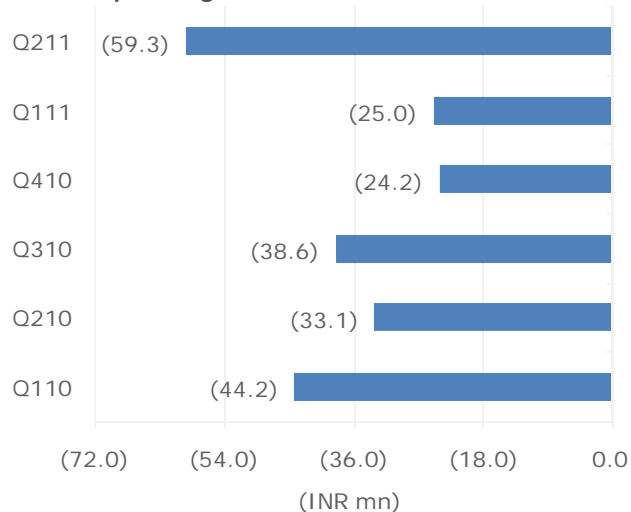


Chart 5: Operating losses in non-recruitment business



Source: Company, Edelweiss research

Table 1: Key operating metrics for Jeevansathi.com

Jeevansathi	Q110	Q210	Q310	Q410	Q111	Q211
Total profile ('000s)	3,100	3,300	3,500	3,700	3,800	3,900
Q-o-Q growth (%)	7.3	6.5	6.1	5.7	2.7	2.6
Quarterly Y-o-Y growth (%)	28.1	27.8	29.6	28.0	22.6	18.2
Avg. profiles added daily	1,860	2,097	2,095	1,726	1,646	1,860
Q-o-Q growth (%)	(19.1)	12.7	(0.1)	(17.6)	(4.6)	13.0
Quarterly Y-o-Y growth (%)	(2.5)	17.8	22.3	(25.0)	(11.5)	(11.3)
No. of unique paid customers	23,370	22,955	23,132	23,669	22,674	23,660
Q-o-Q growth (%)	(7.6)	(1.8)	0.8	2.3	(4.2)	4.3
as a % of total profiles (%)	0.8	0.7	0.7	0.6	0.6	0.6
Collection per client (in actual INR)	1,864	2,069	2,095	2,140	2,252	2,309
Q-o-Q growth (%)	9.0	11.0	1.3	2.1	5.2	2.5
Quarterly Y-o-Y growth (%)	13.0	26.5	27.7	25.1	20.8	11.6
Revenues (INR mn)	43.6	47.5	48.5	50.7	51.1	54.6
Q-o-Q growth (%)	0.7	9.0	2.0	4.5	0.8	7.0
Quarterly Y-o-Y growth (%)	16.9	22.0	21.6	17.1	17.2	15.0

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY11	Q1FY11	% Change	Q2FY10	% Change	FY10	FY11E	FY12E
Net revenues	712	659	8.1	552	29.0	2,371	3,033	3,866
Network & other charges	26	27	(1.6)	22	19.5	91	119	139
Staff costs	270	269	0.4	209	29.1	920	1,159	1,314
Direct costs	297	296	0.2	231	28.2	1,011	1,278	1,454
Gross profit	415	363	14.4	321	29.5	1,360	1,755	2,412
S&M expenses	112	77	44.5	98	13.4	394	442	735
G&A expenses	90	81	10.6	80	12.1	359	371	445
EBITDA	214	204	4.6	142	50.6	607	942	1,233
Depreciation	14	14	1.9	16	(9.8)	65	64	119
EBIT	200	191	4.8	126	58.0	542	878	1,114
Other income	66	66	0.4	93	(29.4)	307	230	326
Profit before tax	265	256	3.6	219	20.9	848	1,108	1,440
Tax	86	83	3.8	72	19.9	317	363	475
Core profit	179	173	3.6	147	21.4	531	745	965
Reported net profit	179	173	3.6	147	21.4	521	710	930
Diluted EPS (INR)	3.3	3.2	3.6	2.7	21.4	9.5	12.7	16.7

## As % of net revenues

Gross profit	58.3	55.1		58.1		57.4	57.9	62.4
SG&A	15.7	11.7		17.8		16.6	14.6	19.0
EBITDA	30.0	31.0		25.7		25.6	31.1	31.9
EBIT	28.0	28.9		22.9		22.9	29.0	28.8
Reported net profit	25.1	26.2		26.7		22.0	23.4	24.0
Tax rate	32.6	32.5		32.8		37.4	32.8	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's TTM revenue is USD 56 mn and, employee strength of 1,761 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 28% CAGR over FY10-12E. However, we see the valuations at P/E of 38.1x and EV/EBITDA of 24.6x FY12E as expensive.

- **Key Risks**

- Faster than anticipated scale up of non-recruitment segments
- Strong profitability from investee companies.

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenue	2,189	2,458	2,371	3,033	3,866
Cost of revenues	807	1,024	1,011	1,278	1,454
Gross profit	1,383	1,434	1,360	1,755	2,412
Total SG&A expenses	748	789	753	813	1,179
S&M expenses	481	433	394	442	735
G&A expenses	267	356	359	371	445
EBITDA	635	644	607	942	1,233
Depreciation & amortization	56	71	65	64	119
EBIT	579	573	542	878	1,114
Other income	207	279	307	230	326
Interest expenses	-	-	1	-	-
Profit before tax	786	853	848	1,108	1,440
Provision for tax	231	270	317	363	475
Core profit	555	582	531	745	965
Extraordinary income/ (loss)	-	-	(38)	-	-
Profit after tax	555	582	493	745	965
Minority int. and others - paid/(recd.)	-	12	(28)	35	35
Profit after minority interest	555	570	521	710	930
Basic shares outstanding (mn)	55	53	56	56	56
Basic EPS (INR)	10.2	10.7	9.4	12.7	16.7
Diluted equity shares (mn)	55	54	56	56	56
Diluted EPS (INR)	10.2	10.7	9.4	12.7	16.7
CEPS (INR)	11.2	12.0	11.2	13.9	18.8
Dividend per share (INR)	0.4	0.4	0.5	2.0	2.0
Dividend (%)	3.7	3.8	10.0	20.0	20.0
Dividend payout (%)	4.3	4.2	5.9	17.7	13.5

<b>Common size metrics</b>					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Cost of revenues	36.9	41.7	42.6	42.1	37.6
Gross margin	63.1	58.3	57.4	57.9	62.4
G&A expenses	12.2	14.5	15.1	12.2	11.5
S&M expenses	22.0	17.6	16.6	14.6	19.0
SG&A expenses	34.2	32.1	31.8	26.8	30.5
EBITDA margins	29.0	26.2	25.6	31.1	31.9
EBIT margins	26.5	23.3	22.9	29.0	28.8
Net profit margins	25.3	23.7	22.4	24.6	24.9

<b>Growth ratios (%)</b>					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	56.9	12.3	(3.5)	27.9	27.5
EBITDA	73.4	1.5	(5.9)	55.3	30.9
EBIT	81.0	(1.0)	(5.5)	62.1	26.8
PBT	99.1	8.5	(0.5)	30.7	29.9
Net profit	105.0	2.8	(8.6)	36.3	30.9
EPS	79.6	4.9	(12.0)	36.0	30.7

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

As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Equity capital	273	273	273	557	558
Share premium account	18	28	28	28	28
Reserves & surplus	2,391	2,966	3,444	3,720	4,619
Shareholders funds	2,681	3,268	3,745	4,305	5,205
Borrowings	4	3	6	-	-
<b>Sources of funds</b>	<b>2,686</b>	<b>3,271</b>	<b>3,751</b>	<b>4,305</b>	<b>5,205</b>
Gross block	474	527	581	1,381	1,491
Accumulated depreciation	156	225	287	439	558
Net block	318	301	294	942	933
Capital work in progress	63	83	69	60	-
Deferred tax asset	11	19	34	34	34
Investments	2,667	211	1,161	819	1,019
Sundry debtors	36	38	80	58	64
Cash and equivalents	486	3,218	2,791	3,250	4,113
Loans and advances	124	166	219	210	250
Total current assets	646	3,422	3,090	3,519	4,427
Sundry creditors and others	976	705	812	893	1,027
Provisions	45	61	84	176	181
Total current liabilities & provisions	1,021	766	896	1,069	1,208
Net current assets	(374)	2,655	2,194	2,450	3,219
<b>Uses of funds</b>	<b>2,686</b>	<b>3,271</b>	<b>3,751</b>	<b>4,305</b>	<b>5,205</b>
Book value per share (INR)	49.1	61.4	67.3	77.3	93.2

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

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	555	570	521	710	930
Depreciation	56	71	65	64	119
Others	(163)	(203)	(231)	(196)	(291)
Gross cash flow	447	438	355	578	758
Less: Changes in WC	(259)	240	(22)	(137)	(94)
Operating cash flow	707	198	376	715	852
Less: Capex	324	86	44	791	50
<b>Free cash flow</b>	<b>382</b>	<b>112</b>	<b>332</b>	<b>(76)</b>	<b>802</b>

**Cash flow metrics**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Cash flow from operations	447	438	355	578	758
Cash for working capital	259	(240)	22	137	94
Operating cash flow	707	198	376	715	852
Net purchase of fixed assets	(324)	(86)	(44)	(791)	(50)
Net purchase of investments	(439)	2,642	(998)	341	(200)
Others in cash flow metrics	152	7	258	230	326
Investing cash flow	(612)	2,563	(784)	(219)	76
Dividends	(24)	(24)	(24)	(31)	(126)
Proceeds from issue of equity	-	-	-	-	61
Proceeds from LTB/STB	1	(1)	3	(6)	-
Interest paid & other items	-	-	(1)	-	-
Financing cash flow	(24)	(26)	(22)	(37)	(65)
Net cash flow	71	2,735	(430)	459	863

**Profitability & efficiency ratios**

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	23.0	19.2	15.9	17.6	19.5
ROACE (%)	(2,969.1)	37.3	19.2	28.9	29.0
Debtors days	5	5	9	8	6
Payable days	137	125	117	103	91
Cash conversion cycle (days)	(132)	(119)	(108)	(94)	(85)
Current ratio	0.6	4.5	3.4	3.3	3.7

**Operating ratios**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	0.9	0.8	0.7	0.8	0.8
Fixed asset turnover	10.4	7.9	8.0	4.9	4.1
Equity turnover	0.9	0.8	0.7	0.8	0.8

**Valuation parameters**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	10.2	10.7	9.4	12.7	16.7
Y-o-Y growth (%)	79.6	4.9	(12.0)	36.0	30.7
CEPS (INR)	11.2	12.0	11.2	13.9	18.8
Diluted PE (x)	62.5	59.6	67.8	49.8	38.1
Price/BV (x)	12.9	10.3	9.4	8.2	6.8
EV/Sales (x)	14.4	12.4	13.2	10.3	7.8
EV/EBITDA (x)	49.7	47.1	51.7	33.2	24.6
EV/EBITDA (x) +1 yr forward	48.9	50.1	33.3	25.4	-
Dividend yield (%)	0.1	0.1	0.1	0.3	0.3





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	REDUCE	SU	M	Infosys Technologies	HOLD	SU	L
Infotech Enterprises	BUY	SO	H	Mphasis	REDUCE	SU	M
Patni Computer Systems	HOLD	SP	M	Tata Consultancy Services	BUY	SO	L
Wipro	HOLD	SU	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
Sector Underperformer (SU)	Stock return < 1.25 x Sector return
	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



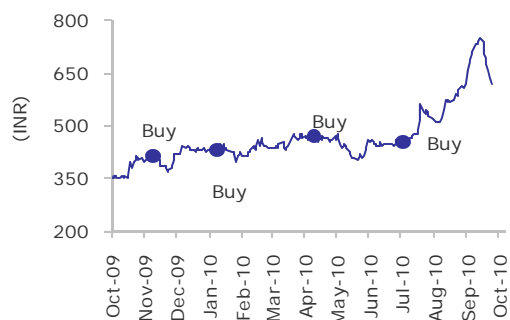
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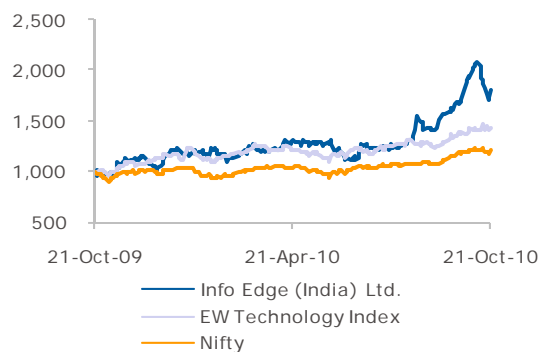
### Coverage group(s) of stocks by primary analyst(s): IT

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*	116	45	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

#### Recent Research

Date	Company	Title	Price (INR)	Recos
22-Oct-10	<b>Wipro</b>	Mellow quarter in a buoyant environment; <i>Result Update</i>	449	Hold
21-Oct-10	<b>TCS</b>	Picture perfect; <i>Result Update</i>	986	Buy
20-Oct-10	<b>HCL Technologies</b>	Delivering revenue growth; <i>Result Update</i>	426	Hold

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