

Another robust quarter – Upgrade to Buy

Info Edge posted another solid quarter with Recruitment Solutions showing a solid 20% yoy growth, 99 acres showing decent though decelerating momentum (more importantly with a Rs 5mn profit) and Jeevansathi chugging along modestly. EBITDA margins at 37.9% were 30bps above estimates helped by superior growth and the resulting higher gross margins from operating leverage.

The core Recruitment Solutions engine is showing few signs of a pause, and momentum continues largely unabated. Management commentary, however, was incrementally more muted than last time, especially on the core Recruitment Solutions front where companies have cut back on hiring and the outlook looks somewhat less sanguine than in the last 2-3 quarters.

While valuations still appear somewhat stretched, we consider Info Edge as an attractive stock in view of its non-linear growth potential and operating leverage characteristics. With the stock having corrected ~16% in the last 3 months, we upgrade the stock to BUY/OPF rating with a TP of Rs 750 based on 30x FY13E EPS.

Management commentary and metrics: While revenue growth for the quarter was strong, management commentary was somewhat muted, indicating a deferral in spends by some companies. On the margin front, management indicated that as long as the economy continues to show a 7.5-8% GDP growth, IEL tends to hold on to margins – the risk is if this decreases in which case companies may cut back hiring plans further. While we see few signs of a sharp improvement in the real estate environment ahead, 99 acres continues to do well and showed a small profit this quarter to the tune of Rs 5mn. On another note, the company is still trying to assess the impact of Comscore changing its traffic share calculation methodology from a panel approach to tagging approach – they also indicated that the slowdown may be an opportunity to take market share from competitors.

Update on investments: They flagged that on a ytd basis, the investee companies have ~Rs 350mn in revenues and an EBITDA loss to the tune of ~Rs 350mn.

Reiterate positive stance: We continue to like Info Edge considering its dominant position in structurally growing markets + "embedded options" in the form of early stage investments. Upgrade to BUY/OPF with a Rs 750 TP.

Financial summary

Year	Revenues (Rs. bn)	EBITDA (Rs. bn)	PAT (Rs. bn)	EPS (Rs.)	P/E(x)	EV/EBITDA(x)
FY11	3,223	811	313	6.2	96.8	35.7
FY12E	3,756	1,270	1,069	19.6	30.8	22.8
FY13E	4,419	1,537	1,367	25.0	24.1	18.9

3QFY12 Update

Date: Jan 27, 2012

Market Data

SENSEX	17234
Nifty	5205
Bloomberg	INFOE IN
Shares o/s	54mn
Market Cap	Rs 32.9bn
52-wk High-Low	Rs 780-460
3m Avg. Daily Vol	Rs 6mn
Index member	BSE Midcap

Latest shareholding (%)

Promoters	54
Institutions	34
Public	12

Stock performance (%)

	1m	3m	12m
Info Edge	1	-16	3
CNXIT	-2	-1	-20
Nifty	11	-1	-12

Srivathsan Ramachandran, CFA
srivathsan@sparkcapital.in
 +91 44 4344 0039

Anand Bhaskaran
anand@sparkcapital.in
 +91 44 4344 0040

Info Edge

Quarterly Financial Results

CMP	Rs. 603	Absolute	Buy
Target	Rs. 750	Relative	Outperform

Quarterly financial results - Standalone								
Rs. mn\Period	31-Dec-11	31-Dec-10	yoy Growth	30-Sep-11	qoq Growth	FY11	FY12E	yoy Growth
Net Sales	920	751	23%	919	0%	2,940	3,656	24%
Network and other charges	24	25	-5%	22	8%	100	96	-4%
Employees Cost	341	283	21%	329	4%	1,132	1,334	18%
Advertising and Promotion Cost	116	83	39%	146	-21%	380	526	38%
Admin & other expenses	90	79	14%	91	-1%	331	369	12%
EBITDA	349	280	25%	331	5%	996	1,331	34%
Depreciation/Amortization	19	20	-7%	18	3%	71	77	8%
EBIT	330	260	27%	313	6%	925	1,254	36%
Finance charges	0	6	-100%	0		16	0	-100%
Interest	0	0		0		0	0	
Other income	80	67	20%	84	-4%	279	360	29%
PBT	411	322	28%	397	4%	1,188	1,614	36%
Taxes	122	394	-69%	114	7%	692	483	-30%
PAT	289	-73	-498%	283	2%	496	1,130	128%
EPS	5.29	-1.33	-497%	5.17	2%	10.15	20.93	106%
Ad expenses as % of sales	12.6%	11.1%	nm	15.9%	nm	12.9%	14.4%	nm
EBITDA margin	37.9%	37.3%	nm	36.0%	nm	33.9%	36.4%	nm
EBIT margin	35.9%	34.7%	nm	34.0%	nm	31.5%	34.3%	nm
Tax rate	29.7%	122.6%	nm	28.8%	nm	58.2%	29.9%	nm

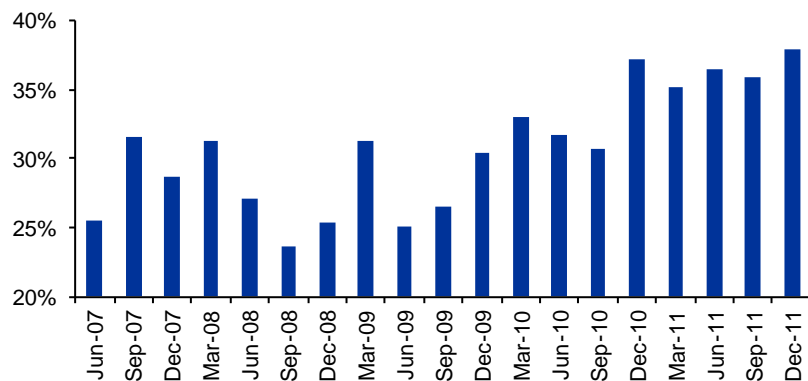
CMP	Rs. 603	Absolute	Buy
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Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	3,849	3,756	-2%	4,736	4,419	-7%
EBITDA	1,304	1,270	-3%	1,658	1,537	-7%
EBITDA margin	34%	34%		35%	35%	
PAT	1,110	1,069	-4%	1,360	1,367	0%
EPS	20.32	19.59	-4%	24.9	25.0	0%

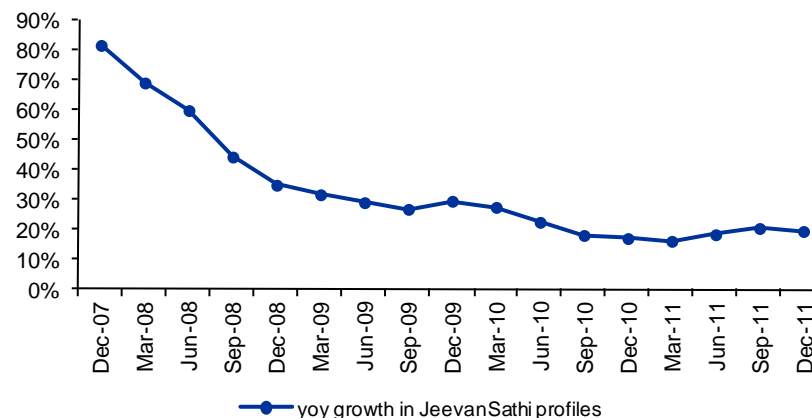
All figures in Rs. mn, except EPS, which is in Rs.

Standalone EBITDA margin evolution



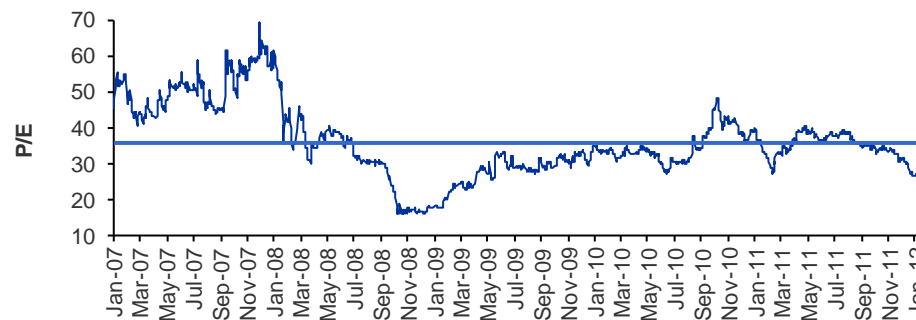
Source: Company data, Spark Capital

Growth in Jeevansathi profiles tapering off



Source: Company data, Spark Capital

Info Edge 12-m forward P/E



Source: Bloomberg, Spark Capital

Info Edge

Financial Summary

CMP

Rs. 603

Absolute

Buy

Target

Rs. 750

Relative

Outperform

Abridged Financial Statements				
Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
Profit & Loss				
Revenues	2,371	3,223	3,756	4,419
Netw ork and other charges	91	110	100	125
Employee costs	920	1,279	1,414	1,606
EBITDA	625	811	1,270	1,537
Depreciation and amortisation	65	80	77	108
EBIT	560	731	1,193	1,430
Other income	307	274	360	573
Finance charges	20	1	0	0
PBT	848	1,004	1,553	2,002
Tax	318	692	483	636
PAT	530	313	1,069	1,367
Diluted EPS	9.5	6.2	19.6	25.0
Balance Sheet				
Share Capital	273	546	546	546
ESOPS	28	31	43	43
Reserves	3,446	3,449	4,455	5,758
Netw orth	3,746	4,026	5,043	6,346
Secured Loans	6	7	6	6
Total liabilities	3,753	4,032	5,050	6,353
Net block	294	539	604	896
Investments	1,141	2,969	3,501	3,501
Debtors	80	39	80	95
Cash	2,791	1,437	2,604	3,864
Current liabilities	812	1,216	1,411	1,677
Provisions	84	142	165	196
Net Current Assets	2,194	321	1,279	2,289
Total Assets	3,753	4,032	5,050	6,353

Key metrics				
Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
Cash flows				
Operations	525	1,331	1,479	1,787
Financials	-784	-1,914	236	173
Investing	-784	-1,914	236	173
Closing Cash	2,792	1,465	2,604	3,864
Key ratios (%)				
Revenue grow th	-4%	36%	17%	18%
EBITDA grow th	-5%	30%	57%	21%
PAT Grow th	-9%	-41%	242%	28%
EBITDA margin	26%	25%	34%	35%
EBIT Margin	24%	23%	32%	32%
PAT Margins	22%	10%	28%	31%
ROE	14%	8%	21%	22%
ROCE	15%	18%	24%	23%
Valuation metrics				
Shares o/s (mn)	55	55	55	55
Fully diluted shares (mn)	55	55	55	55
Market cap (Rs. mn)	32,924	32,924	32,924	32,924
EV (Rs.mn)	28,992	28,992	28,992	28,992
EV/Sales (x)	12.2x	9.0x	7.7x	6.6x
EV/EBITDA (x)	46.4x	35.7x	22.8x	18.9x
P/E (x)	63.2x	96.8x	30.8x	24.1x
EPS(E) / Current market price	1.6%	1.0%	3.2%	4.2%
Per share data (Rs.)				
Book value	69	74	92	116
Cash	51	26	48	71
Operating cash flow	10	24	27	33
Free cash flow	-5	-11	31	36

CMP	Rs. 603	Absolute	Buy
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Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History				
Date	CMP	Target price	Absolute Rating	Relative Rating
25-Oct-11	690	780	ADD	OPF
2-May-11	715	740	ADD	OPF
25-Jan-11	569	620	ADD	OPF
10-Jan-11	627	620	ADD	OPF
22-Dec-10	615	620	ADD	OPF

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