

Company In-Depth

30 July 2007 | 10 pages

Info Edge (INED.BO)

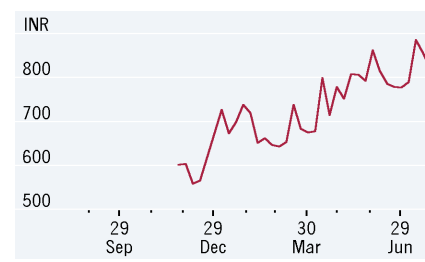
1QFY08 Results: Once Again Ahead of Expectations as Profits Soar

 Rating change
 Target price change
 Estimate change

- Strong 1Q results: profits soaring** — Revs of Rs465m (+8.5% QoQ, +62% YoY) handily beat our Rs405m estimate. Net profit of Rs116m (+15% QoQ, +123% YoY) was more than double our Rs52m estimate. Excluding other income, mainly composed of interest and dividend income, net profit still rose 62% YoY.
- Naukri remains India's #1 online jobs site** — Naukri was the key rev driver in the quarter, up 59% YoY, and remains the #1 online jobs site in India. Key metrics: resumes increased to over 10m (from ~9m last quarter), and corporate clients topped 14k vs. 12k in 1QFY07.
- Jeevansathi maintains good momentum** — On average, Jeevansathi added 2,500 profiles daily this quarter, bringing the total number of profiles to 1.7m (from 0.8m last year). Average revenue per customer was Rs1,400.
- 99acres** — Total revs and number of paid transactions continued to rise steadily. However, the number of listings declined to 55k at June-end vs. 65k in March-end due to a weaker real estate market from tightening credit; some of the decline was due to the company's removal of >3-month-old listings.
- New educational initiative planned** — The company is exploring the online educational classifieds space and is planning to launch a portal primarily targeting working professionals in the next few months.
- Twinking our TP to Rs995** — Info Edge continues to enjoy a scarcity premium as the only India-listed Internet play. Our new TP represents FY09E P/E of 40x.

Buy/Medium Risk	1M
Price (27 Jul 07)	Rs827.50
Target price	Rs995.00
	<i>from Rs920.00</i>
Expected share price return	20.2%
Expected dividend yield	0.1%
Expected total return	20.4%
Market Cap	Rs22,587M
	US\$559M

Price Performance (RIC: INED.BO, BB: INFOE IN)



See Appendix A-1 for Analyst Certification and important disclosures.

Figure 1. Statistical Abstract

Year to 31 Mar	Revenues (Rs Mils.)	Net profit (Rs Mils.)	GAAP FD EPS (Rs)	Non-GAAP FD EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)
FY06	824	133	6.09	6.37	74.6	129.8	78.7
FY07	1,396	271	11.31	11.53	80.9	71.8	59.6
FY08E	2,149	429	15.75	15.98	38.6	51.8	37.5
FY09E	2,995	648	23.77	24.10	50.8	34.3	21.6
FY09E	4,060	950	34.84	35.29	46.5	23.4	13.7

Source: Company Reports and Citigroup Investment Research

Jason Brueschke¹

+852-2501-2482
 jason.brueschke@citi.com

Catherine Leung¹

+852-2501-2746
 catherine.y.leung@citi.com

Alicia Yap, CFA¹

alicia.yap@citi.com

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¹Citigroup Global Markets Asia

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	129.8	71.8	51.8	34.3	23.4
EV/EBITDA adjusted (x)	98.8	56.6	34.3	19.7	12.6
P/BV (x)	73.1	9.3	8.9	7.2	5.6
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Per Share Data (Rs)					
EPS adjusted	6.37	11.53	15.98	24.10	35.29
EPS reported	6.09	11.31	15.75	23.77	34.84
BVPS	11.32	89.19	92.85	115.08	147.82
DPS	0.75	0.75	1.02	1.31	1.80
Profit & Loss (RsM)					
Net sales	824	1,396	2,149	2,995	4,060
Operating expenses	-626	-1,070	-1,638	-2,123	-2,762
EBIT	198	326	511	871	1,298
Net interest expense	-4	-7	0	0	0
Non-operating/exceptionals	17	76	117	96	119
Pre-tax profit	210	395	628	967	1,418
Tax	-77	-124	-198	-319	-468
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	133	271	429	648	950
Adjusted earnings	139	276	436	657	962
Adjusted EBITDA	226	372	574	963	1,429
Growth Rates (%)					
Sales	87.1	69.4	54.0	39.4	35.6
EBIT adjusted	619.1	64.7	56.7	70.6	49.0
EBITDA adjusted	483.0	65.0	54.3	67.7	48.4
EPS adjusted	74.6	80.9	38.6	50.8	46.5
Cash Flow (RsM)					
Operating cash flow	328	520	588	842	1,228
Depreciation/amortization	28	46	64	92	131
Net working capital	120	185	14	-119	-201
Investing cash flow	-153	-2,047	31	-24	-43
Capital expenditure	-61	-54	-86	-120	-162
Acquisitions/disposals	1	0	0	0	0
Financing cash flow	-10	1,621	-24	-33	-42
Borrowings	1	2	0	0	0
Dividends paid	-11	-19	-24	-33	-42
Change in cash	165	94	595	785	1,143
Balance Sheet (RsM)					
Total assets	634	2,842	3,524	4,412	5,678
Cash & cash equivalent	321	416	1,011	1,798	2,941
Accounts receivable	12	23	34	48	65
Net fixed assets	95	104	126	154	185
Total liabilities	387	708	993	1,275	1,648
Accounts payable	358	664	941	1,213	1,571
Total Debt	2	4	4	4	4
Shareholders' funds	247	2,135	2,531	3,137	4,030
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	27.4	26.7	26.7	32.2	35.2
ROE adjusted	74.6	23.2	18.7	23.2	26.8
ROIC adjusted	na	na	na	na	na
Net debt to equity	-129.2	-19.3	-39.8	-57.2	-72.9
Total debt to capital	0.7	0.2	0.2	0.1	0.1

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Key takeaways from the conference call

Online recruiting services demand remains strong

Naukri and other recruitment services revenues grew strongly by 59% YoY this quarter. Management indicated that the demand environment for recruiting services remains robust in India. We continue to believe that this is a market that should benefit from favorable macro drivers in the medium to long term.

During the quarter, the average number of resumes added daily increased to 10,700 from 10,000 during last quarter, bringing the total number of resumes in the Naukri database to over 10m, from over 9m last quarter.

The number of corporate customers increased to over 14k this quarter from over 12k in the first quarter of last year, an encouraging sign that the company is expanding its customer base as the demand environment remains strong.

The company also recently launched AskNaukri.com, a career guidance website that has shown encouraging signs of growing traffic, although management noted that it is too early to comment on the success of this initiative.

Naukri continues to expand its presence in the Gulf cities to service the Middle Eastern community and plans to expand to a few more cities in the near term.

The company is in the process of obtaining licenses in these new cities, though the company did not give specifics.

Naukri retains market leading position: Competition lessened in the quarter

Management noted that the online recruiting services market remains competitive, though competitive activity appears to have lightened slightly in 1Q and 2QFY08. For instance, Monster appears to have spent slightly less on TV advertising and Timesjobs has halted their aggressive advertising campaign touting itself as the #1 online job portal (while denigrating Naukri).

For Naukri, price competition remains a larger concern. Pricing pressure is concentrated at the lower end of the market, where small companies only need to hire a small batch of people (e.g., 20-30 hires). As Naukri continues to penetrate smaller cities, we believe that pricing pressure may intensify.

Notwithstanding this, in 1QFY08, Naukri implemented a slight price increase for selective products.

Appreciating Rupee is a negative but limited risk

On the call, management also cautioned investors of the potential impact by the rising Rupee, which has appreciated by c.10% against the US dollar YTD.

Specifically, a rising Rupee would have two main effects:

1. Negative impact on Naukri's clients, who are dependent on overseas income, e.g., IT and BPO sectors that generate revenues from outsourcing. These sectors are Naukri's largest revenue contributors.
2. Negative impact on Info Edge's own receivables from overseas clients, because Info Edge's financials are reported in Rupee.

Overall, we believe the total forex exposure of the company is limited at 6-7%. Moreover, the company had hedged approximately 50% of its receivables for the next 6 months at current exchange rates. Accordingly, we believe that although an appreciating Rupee would be a downside risk to the company, this risk is limited.

Jeevansathi and 99acres remain in investment mode

Revenues from the other verticals – primarily Jeevansathi and 99acres – grew by 177% YoY in 1QFY08 and now comprise 11% of total revenues.

Jeevansathi continues to gain good traction in the online matrimony market. On average, Jeevansathi added 2,500 profiles daily this quarter, bringing the total number of profiles to 1.7m (from 0.8m last year). Average revenue per customer was Rs1,400.

99acres has been negatively affected by the slow real estate market, which has been hit by tightening credit. As a result, the total number of listings declined to 55k at June-end vs. 65k in March-end, although some of the decline was due to the company's removal of >3-month-old listings. Total revenues and number of paid transactions continued to rise steadily.

Planning to expand into education services

The company is exploring the launch of an online education services portal mainly targeted at working professionals. We believe that it is too early to have high expectations of this initiative, especially as management noted that it has not yet seen an extremely successful business model.

The company clarified that the portal would not deliver any educational content in the form of courses, but would resemble an online educational classifieds site that matches buyers with sellers.

Info Edge thus would potentially generate revenues from brand advertising on the site or commission (from generating leads).

1QFY08 results – Fundamentals remain solid

Info Edge reported another strong set of results on Friday after the market close. Revenues of Rs465m (+8.5% QoQ, +62% YoY) handily beat our Rs405m estimate. Net profit of Rs116m (+15% QoQ, +123% YoY) was more than double our Rs52m estimate.

The company explained that other income had been stronger than usual this quarter, due to higher interest and dividend income. Excluding other income, net profit rose 62% YoY. We do not believe that this level of other income is sustainable. The dividend income also enjoys lower tax rates than the company's core business. As a result, effective tax rate in 1Q was only 27.6%, lower than the 33% tax rate guidance given on the previous results call.

Adjusting our estimates

We have adjusted our estimates to reflect the stronger than expected 1QFY08 results. We are also introducing our FY10 estimates.

We have raised our revenue estimates mainly to reflect the stronger than anticipated demand in the core recruitment services business.

Our operating margin assumptions for FY08 remain largely unchanged. We are lowering our cost of services assumptions slightly to take into account higher gross margin trends. This is offset by higher operating expense assumptions. We note that operating expenses in 1QFY08 came slightly ahead of our estimates. We also believe that the company will spend materially more on advertising in 2QFY08 than in 1QFY08, given that it noted that it had spent less than budgeted on advertising in 1Q. Moreover, the strong bottom line was partially attributable to greater than expected "other income", mainly from interest and dividend income (from the company's investments in mutual funds and debt instruments). We expect other income to decrease in the following quarters in FY08.

We have also increased our operating margin assumptions for FY09, and now model operating margin of 29.1% (vs. 26.8% previously), mostly due to our higher revenue estimates that is only partially offset by increasing operating expenses. We have increased our personnel cost assumptions given that the company has been expanding its headcount as it enters into new cities.

Figure 2. Info Edge Earnings Estimates Revisions

	Revenues (Rs Mils.)		Proforma FD EPS (Rs)			Net Profit (Rs Mils.)	
	Old	New	Old	New	% Chg	Old	New
FY08E	1,993	2,149	15.11	15.98	5.7%	407	429
FY09E	2,803	2,995	22.83	24.10	5.5%	616	648

Source: Citigroup Investment Research

Figure 3. Info Edge – Consolidated Income Statement (Rs in Millions)

Year to Mar 31	FY06	1Q	2Q	3Q	4Q	FY07	1Q	2QE	3QE	4QE	FY08E	FY09E	FY10E
Recruitment services	780	261	292	335	389	1,277	415	438	493	564	1,910	2,648	3,574
Other verticals	45	18	25	28	47	119	51	53	52	83	239	347	486
Revenues	824	279	317	363	436	1,396	465	491	545	647	2,149	2,995	4,060
<i>Revenues yoy growth</i>	<i>87.1%</i>	<i>75.0%</i>	<i>60.5%</i>	<i>70.9%</i>	<i>72.8%</i>	<i>69.4%</i>	<i>66.7%</i>	<i>54.8%</i>	<i>50.3%</i>	<i>48.3%</i>	<i>54.0%</i>	<i>39.4%</i>	<i>35.6%</i>
Cost of services (network and others)	30	13	51	35	16	59	13	17	19	23	72	105	142
Gross profit	794	266	267	328	420	1,337	452	474	526	624	2,077	2,890	3,918
Gross margin	96.3%	95.4%	84.1%	90.2%	96.3%	95.8%	97.1%	96.5%	96.5%	96.5%	96.6%	96.5%	96.5%
Personnel expenses	273	100	73	95	162	487	162	177	185	197	721	900	1,137
Administrative and other costs	288	92	134	115	140	472	170	209	188	207	774	1,018	1,340
Employees stock option plan comp	7	1	1	1	1	5	1	1	2	2	6	9	12
Deferred revenue expenditure written off	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	568	193	208	211	303	964	334	387	375	406	1,502	1,927	2,489
EBITDA	226	73	59	117	117	372	118	87	151	218	574	963	1,429
<i>EBITDA margin</i>	<i>27.4%</i>	<i>26.3%</i>	<i>18.5%</i>	<i>32.1%</i>	<i>26.7%</i>	<i>26.7%</i>	<i>25.5%</i>	<i>17.7%</i>	<i>27.7%</i>	<i>33.7%</i>	<i>26.7%</i>	<i>32.2%</i>	<i>35.2%</i>
Depreciation	28	10	11	11	14	46	12	16	16	20	64	92	131
Operating profit	198	64	48	105	102	326	106	71	135	198	511	871	1,298
Other income	17	14	9	16	37	76	55	21	21	20	117	96	119
Interest and financial charges	(4)	(0)	(0)	(0)	(0)	(7)	(0)	-	-	-	(0)	-	-
Profit before tax	210	78	57	121	139	395	161	93	156	218	628	967	1,418
Total tax	(77)	(26)	(21)	(40)	(38)	(124)	(44)	(31)	(51)	(72)	(198)	(319)	(468)
Net profit	133	52	36	82	101	271	116	62	105	146	429	648	950
Deferred tax credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-	-	-	-	-	-	-	-
Gratuity and leave encashment	(2)	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax credit	1	-	-	-	-	-	-	-	-	-	-	-	-
Adjust net profit	132	52	36	82	101	271	116	62	105	146	429	648	950
EPS (Rs) - after ESOP	6.09	2.39	1.73	3.30	3.71	11.31	4.27	2.27	3.83	5.37	15.75	23.77	34.84
EPS (Rs) - before ESOP	6.37	2.46	1.80	3.35	3.74	11.53	4.32	2.33	3.89	5.44	15.98	24.10	35.29
Weighted average shares (m)	21.84	21.84	20.51	24.76	27.35	23.94	27.26	27.26	27.26	27.26	27.26	27.26	27.26

Source: Company Reports and Citigroup Investment Research

Info Edge

Company description

Info Edge operates India's leading online recruitment and classifieds portal – Naukri.com, which was launched in 1997. The company was incorporated in 1995. In addition to online recruitment, the company generates revenue through an executive search agency named Quadrangle, as well as a matrimony portal (Jeevansathi.com) and a property portal (99acres.com). Info Edge has been listed on the Bombay Stock Exchange since November 2006.

Investment thesis

We rate Info Edge shares as Buy/Medium Risk (1M) with a target price of Rs995. Info Edge's naukri.com is India's leading online recruitment classifieds portal, a service that is well suited to the early stages of the India Internet market, in our view. Naukri contributes ~90% of the company's revenues, and upside exists through the company's operation of matrimony sites and a real estate site that stand to benefit from rising adoption of the Internet in the country. This could enable Info Edge to become one of the dominant Internet players in India. Over FY06-09E, we forecast a revenue CAGR of 50% and a net profit CAGR of 67%.

Valuation

Our target price of Rs995 is based on 40x our FY09E EPS (YE March), adjusted for ESOP costs, and implies a PEG of 1.1x. Our target multiple is set at a 40-60% premium to our China and Global Internet peer groups, given the scarcity premium applied to the stock (being the only pure-play Internet company currently listed in India) and a market positioning that we see as delivering a 45% CAGR in net profit over FY07-10E.

Risks

Under our quantitative risk-rating system, a default Speculative rating would be applied to Info Edge shares given that the stock has been publicly traded for less than a year. However, in light of the company's track record of profitability and its market leadership, we have been assigning a High Risk rating. We recently further reduced the rating to Medium Risk, as we believe risks have further lessened. We note Info Edge has demonstrated it is able to fend off aggressive private competitors Monster India and Timesjobs while growing revenues and earnings in the process. Strong results from the new verticals also improve the risk/reward.

Downside risks that could prevent the shares from reaching our target price include: 1) any slowdown in the Indian economy that would directly impact employment and recruiting demand; 2) increasing competition; 3) increased churn of posted resumes; 4) lack of policies against online fraud; and 5) greater and more prolonged losses from new verticals.

Appendix A-1

Analyst Certification

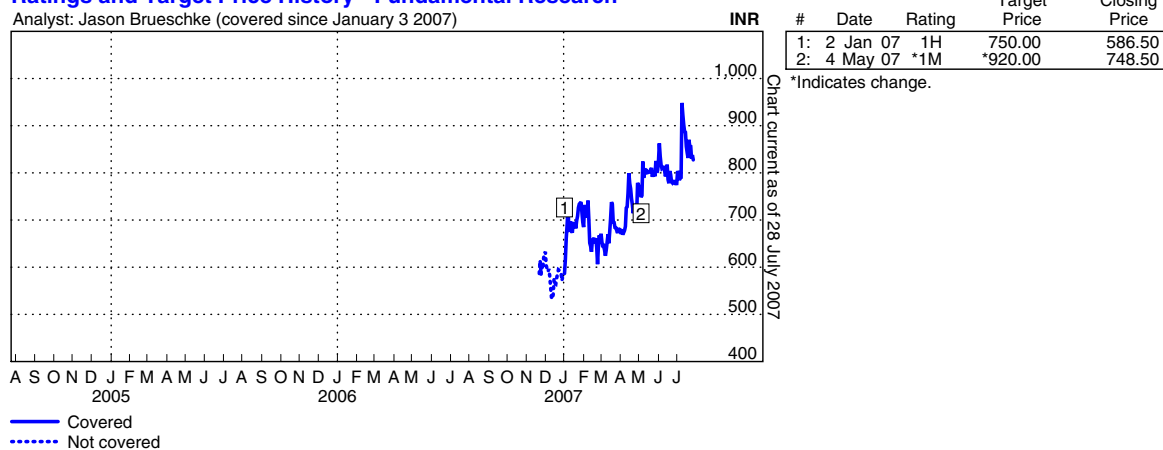
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Info Edge (INED.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Jason Brueschke (covered since January 3 2007)



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