

Info Edge (INFEDG)

Rs 688

Rating matrix

Rating	: Hold
Target	: Rs 715
Target Period	: 12 months
Potential Upside	: 4 %

Key Financials

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	218.9	245.8	228.8	267.9
EBITDA	64.5	66.2	59.5	74.5
Net Profit	55.5	57.3	58.6	69.2

Valuation summary

	FY08	FY09	FY10E	FY11E
PE (x)	33.5	32.6	31.7	26.8
Target PE (x)	35.2	34.2	33.3	28.2
EV/EBITDA (x)	28.0	23.2	25.1	19.4
P/BV (x)	6.9	5.7	4.9	4.3
RoNW (%)	20.7	17.5	15.6	16.0
RoCE (%)	29.7	26.3	23.1	23.0

Stock data

Market Capitalisation	Rs 1856.8 Crore
Debt-Cons. (FY09)	Rs 0.4 Crore
Cash & Invest.-Cons. (FY09)	Rs 322.4 Crore
EV	Rs 1490.7 Crore
52 week H/L	810 / 376
Equity capital	Rs 27.3 Crore
Face value	10.0
MF Holding (%)	3.0
FII Holding (%)	24.1

Price movement (Stock vs. Nifty)



Analyst's name

Karan Mittal
karan.mittal@icicisecurities.com

Naval Seth
naval.seth@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 595 to Rs 715
EPS (FY10E)	Changed from Rs 21.08 to Rs 21.47
EPS (FY11E)	Changed from Rs 23.90 to Rs 25.35
RATING.....	Changed from UNDERPERFORMER to HOLD

Early signs of recovery...

Info Edge reported a topline of Rs 56.2 crore in Q2FY10, a notch higher than our expectation of Rs 53.0 crore. Revenues declined 14.2% YoY, while it showed an improvement of 6.2% QoQ on the back of reviving hiring pattern exhibited by India Inc. EBITDA was up 17% QoQ to Rs 15.2 crore as compared Rs 12.9 crore in Q1FY10. EBITDA margin at 27.0% improved by 331 bps YoY and 266 bps QoQ primarily on the back of lower promotional expenditure and employee cost as compared to the same period last year. The company reported a PAT margin of 26.2% for the quarter. PAT stood at Rs 14.7 crore (including write back of provision of ~Rs 1 crore) against our expectation of Rs 13.3 crore.

■ Highlights for the quarter

The quarter was marked by a revival in hiring pattern by corporates showing signs of recovery in replacement hiring. Recruitment services revenues posted a YoY de-growth of 15% as compared to 16% in the last quarter. During the quarter, the company also launched First Naukri, aimed at campus hiring. The recruitment services performance is still far below that in the last fiscal but it is showing early signs of revival. The matrimonial business has shown improvement and broke even at EBITDA levels during Q2FY10.

EBITDA margin improved to 27.0% in Q2FY10 v/s 24.3% in Q1FY10 on the back of lower losses from the non-recruitment business that reduced to Rs 3.3 crore in Q2FY10 from Rs 4.4 crore in Q1FY10.

Valuation

At the CMP of Rs 688, Info Edge is trading at 31.7x FY10E EPS of Rs 21.5 and 26.8x FY11E EPS of Rs 25.35. The stock has generally been trading at very high P/E of above 35 in the past. However, cognizant of the testing times and slow growth we value the stock at Rs 715 using DCF methodology. Our target price discounts FY11E EPS by 28.1x and implies an upside of 4%. We upgrade our rating on the stock from UNDERPERFORMER to HOLD.

Exhibit 1: Performance Highlights

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	56.2	53.0	65.4	52.9	6.2	-14.2
EBITDA	15.2	12.5	15.5	12.9	17.8	-2.2
EBITDA Margin (%)	27.0	23.6	23.7	24.3	266 bps	331 bps
Depreciation	1.6	1.7	1.8	1.7	-6.7	-11.2
Interest	0.0	0.0	0.0	0.0	63.4	35.7
Reported PAT	14.7	13.3	15.7	13.3	10.8	-6.0
EPS (Rs)	5.4	4.9	5.7	4.9	10.8	-6.0

Source: Company, ICICIdirect.com Research

Result Analysis

■ Core business to improve gradually

Although the core segment of recruitment services is still under pressure, it has started to exhibit early signs of recovery. The management has indicated that many companies have started replacement hiring. This is good news for Info Edge. We expect the scenario to only improve from here, albeit gradually.

The Naukri.com Job Index, which broadly reflects the sentiment of the recruitment market in India, rose 4.1% MoM in September 2009. Revenue from this segment grew by 3.8% QoQ and declined 15% YoY. However, we believe the following quarters would exhibit a better trend owing to lower growth in the same quarters last year.

Naukri.com Job Index, which broadly reflects the sentiment of recruitment market in India, rose 4.1% MoM in September 2009. We believe the following quarters would exhibit a better trend owing to lower growth in the same quarters last year

The company added ~19000 resumes as compared to 17700 in the last quarter. Top contributing sectors like IT/ITeS, BFSI, and BPO have not yet started recruitments at the earlier pace. The management expects major recruitments during the current fiscal to come from non-IT sectors like pharma, education and FMCG.

The EBITDA margin for Naukri was down to 38.0% as compared to 39% in Q1FY10 and 46% in Q2FY09. Margins were down due to higher ad and promotional spend in this quarter. We expect the company to further step up its advertisement budget in this fiscal to gain market share as competitors have slowed down. The management expects the recruitment environment to improve during H2FY10E. We expect a major revival in recruitment post FY10E.

Exhibit 2: Recruitment services performance

No. of resumes in '000	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Number of resumes on Naukri.com	14	15	16	17	18	19
Avg no. of resumes added daily	17	17	14	10	12	12
Avg no. of resumes modified daily	44	38	45	40	49	58

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
No. of unique customers	18500	18600	17200	17900	17700	18100
Contribution to recruitment revenue						
IT Services/ ITES (%)	27	25	26	26	25	25
BFSI (%)	5	5	5	5	5	5
Infrastructure (%)	22	23	23	21	22	22

Source: Company, ICICIdirect.com Research

■ Non-recruitment on the right track

The non-recruitment segment reported a topline of Rs 9.2 crore in Q2FY10 as compared to Rs 8.6 crore in Q1FY10. EBITDA losses during Q2FY10 reduced to Rs 3.3 crore as compared to Rs 4.4 crore in Q1FY10. This was largely due to higher revenue from Jeevansathi.com, which grew 16% YoY. Jeevansathi took a price hike during the quarter leading to higher realisation. It broke-even at EBITDA level in Q2FY10. The management expects it to turn PAT positive at the end of the current fiscal.

Revenues from 99acres witnessed a YoY decline of 33% due to a slowdown in the real estate sector. However, the losses for the quarter

stood at ~Rs 1.0 crore as compared to Rs 1.5 crore in the last quarter. Northern India has witnessed some improvement in the real estate sector while the southern part of the country, which is to an extent related to performance of the IT sector, is still to show signs of improvement.

All check deals clocked 350 deals during the quarter. Shiksha also witnessed some traction. The management expects higher growth from the non-recruitment business compared to recruitment services, during the current fiscal year.

The contribution of the non recruitment segment has been improving over the last few quarters. In this quarter, these segments contributed about 17% to the topline as compared to 16% and 14% in Q1FY10 and Q4FY09, respectively.

Exhibit 3: Non-recruitment services performance

Jeevansathi	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
No. of profiles ever loaded (Mn)	2.4	2.6	2.7	2.9	3.1	3.3
Avg no. of profiles acquired daily	1,907	1,780	1,713	2,300	1,846	2,097
No. of unique paid customers	22,600	23,800	24,300	25,300	23,370	22,955
Avg amount realized in Rs	1,649	1,636	1,640	1,710	1,864	2,099

The company took a price hike for Jeevansathi, which led to an increase in realisation during the quarter. The number of profiles acquired daily increased to 2097 from 1846 in the last quarter.

99acres	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Number of listings in '000	250	153	242	287	271	199
Number of paid transactions in '000	2.3	5	4.4	4.9	4.9	4.6

Brijj	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Number of profiles in million	1	1.2	1.6	1.8	2	2.4
Avg number of profiles added daily	5,000	5,000	3,000	2,000	2,440	3,650

Source: Company, ICICIdirect.com Research

Outlook & valuation

Outlook

The recruitment and realty business segments of the company are still under pressure. The IT/ITeS sectors, which are the major recruiters, have started some hiring but the major revival is expected to be seen only in the next fiscal. Meanwhile, the non IT/ITeS segments have started replacement hiring. This indicates early signs of recovery in the industry.

H1FY10 was challenging for the company, wherein the topline declined by 16% over H1FY09. We believe the company would perform better in H2FY10E, backed by a revival in the recruitment market. Nonetheless, on an overall basis, FY10E would register YoY de-growth of 6.9% in topline.

The company has been able to consolidate its position in the recruitment business and gained market share over its competitors in these testing times. This shows the intrinsic strength in the company's strong and cash rich business model. We expect Info Edge to emerge as an even stronger player once the economy gets back to its earlier growth trajectory.

Valuation

At the CMP of Rs 688, Info Edge is trading at 31.7x FY10E EPS of Rs 21.5 and 26.8x FY11E EPS of Rs 25.35. The stock has generally been trading at a very high P/E of above 35 in the past. However, cognizant of the testing times and slow growth we value the stock at Rs 715 using DCF methodology. Our target price discounts the FY11E EPS by 28.1x and implies an upside of 4%. We upgrade our rating on the stock from **UNDERPERFORMER** to **HOLD**.

Exhibit 4: DCF assumption

<i>Rs in Crore</i>	
WACC	9.4%
Revenue CAGR over FY10-20E	10.4%
Present Value of Cash Flow till FY20E	645.6
Terminal Growth	3.0%
Present Value of terminal cash flow	965.2
Total present value of the firm	1,610.8
Less: Current Debt	0.4
Total present value of the Equity (excluding current cash)	1,610.5
Number of Equity Shares outstanding	2.73
Per Share Value (excluding current cash)	590.0
Add Current Cash Per Share	124.8
DCF - Target price (Rs)	714.8

Source: Company, ICICIdirect.com Research

Exhibit 5: One year forward P/E chart

Source: Company, ICICIdirect.com Research

Exhibit 6: Valuation table

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	245.8	12.3	20.9	2.9	32.6	23.2	17.5	26.3
FY10E	228.8	-6.9	21.5	2.7	31.7	25.1	15.6	23.1
FY11E	267.9	17.1	25.3	18.1	26.8	19.4	16.0	23.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): + -10% return;

Underperformer (U): -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka
 Andheri (East)
 Mumbai – 400 093
 research@icicidirect.com**

ANALYST CERTIFICATION

We /I, *Karan Mittal MBA Naval Seth MBA* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Karan Mittal MBA Naval Seth MBA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Karan Mittal MBA Naval Seth MBA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.