

Info Edge (India) Limited

Ticker: INFOE IS Equity
Price: Rs. 837

Recommendation: BUY
Price Target: Rs. 1,107.00

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	Revenue	Net Profit	EPS	Operating Margin (%)	ROE (%)
2008A	218.94	55.45	20.31	29.47%	23.03%
2009A	245.80	58.22	21.33	26.92%	19.62%
2010E	267.51	61.87	22.66	27.80%	17.46%
2011E	338.21	78.16	28.63	29.80%	18.55%
2012E	451.86	102.08	37.39	28.80%	20.08%

MARKET DATA

LISTING	NSE/ BSE
MARKET CAP (Cr.)	Rs. 2,284
Shares Outstanding	27295256
52-WEEK HIGH (Rs)	Rs 853
52-WEEK LOW (Rs)	Rs 392.95
BETA	0.4
Debt to Equity (x)	0.00
Dividend Yield (%)	0.09
CURRENT PE (x)	39.19
INDUSTRY PE (x)	n/a

PRICE PERFORMANCE (%)

Time Period	Stock	Sensex
1 MONTH	14.85	7.47
3 MONTH	22.56	9.0
1 YEAR	101.63	85.29

SHARE HOLDING PATTERN (%)

PROMOTER	54.15
FII	24.06
DII	3.01
PUBLIC	1.82
OTHERS	16.96

Initiating Coverage with BUY: Joining the Economic Recovery

§ Economy swings back on the recovery path: The Indian economy grew 7.9 per cent during the July-September period — its strongest in six quarters. The growth achieved beat most forecasts and prompted experts to revise their full-year growth projections. This will certainly lead to increased employment opportunities, and Info Edge being an entrenched player in the job search market would reap the maximum benefits

§ Dominant player in the spheres in which it is present: It is one of India's leading companies in the internet content based business. In fact, it is India's premier on-line classifieds company with a dominant presence in online recruitment, matrimonial, real estate and educational classifieds and related services in India

§ Diversifying into new businesses: Info Edge recognizes that the internet will witness a significant change in the near future, and thereby has committed to invest in other internet based businesses such as paid online educational assessment and online shopping of financial and insurance products. Although foraying into new businesses is a risky proposition, however keeping in mind the growth prospects of internet platform and company's past performance and track record, it is prudent to expect this expansion to yield positive results

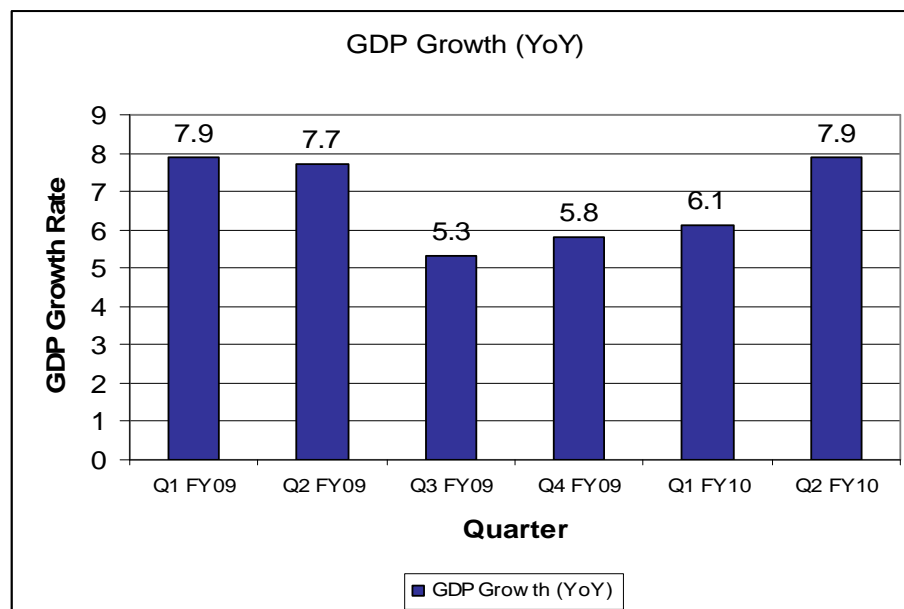
§ Buy on dips as the stock is defensive: We have used the weighted average of two different approaches and have derived a target price of Rs. 1,107 per share. The value we obtained from our DCF based model (40%weight) is Rs. 1,085/ share and from our price earnings multiplier model (60% weight) a price of Rs. 1,122 per share. Thus our one year price target is Rs 1,105/ share. Given the defensive nature (beta of 0.4) of the stock it could be added to the portfolio on dips

Economic Recovery Back on Track:

The Indian economy grew 7.9 per cent during the July-September period — it's strongest in six quarters. The growth achieved beat most forecasts and prompted experts to revise their full-year growth projections. This will certainly lead to increased employment opportunities, and Info Edge being an entrenched player in the job search market would reap the maximum benefits

The company's core business i.e. Naukri.com, as per the management has now taken the shape of a completely cyclical business. Where the growth in earnings is directly correlated to the economic growth rate. Hence, with the economy coming out of a period of slowdown and sluggish growth, the general employment activity in the country will increase and the company being the sector leader in the online recruitment with extensive client base and over 18 mn resumes is all set to capture this surge in the economic activity.

Moreover our statistical model yields a very strong positive correlation of around 0.93 between India's quarterly GDP growth rate and Info Edge's sales growth with a R2 of 84%. Thus we strongly believe that going forward in future the company stands high chances of strong growth owing to a rise in Indian GDP growth Rate.



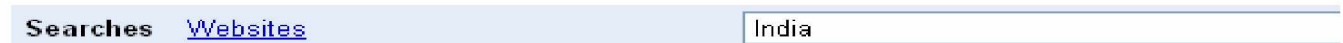
Source: CSO

Dominant Players in the Spheres in which it is Present:

It is one of India's leading companies in the internet content based business. In fact, it is India's premier on-line classifieds company with a dominant presence in online recruitment, matrimonial, real estate and educational classifieds and related services in India

- Naukri.com is no. 1 job portal in India – more than 50% share of page views amongst top 3 job sites
- Jeevansathi.com is the No. 3 matrimony website in India with over 3.3 mn profiles registered
- Launched in Sept 2005 99acres.com is the leader in emerging online real estate deal market with over 199,000 listings and pan India coverage covering 25 cities

In most of the key verticals in which the company operates, it is a sector leader or among the top 3 players and has a strong brand equity which is one the most important factor in the online classifieds business. The amount of traffic on naukri.com, which constitutes to around 84% of the company's business is much higher compared to any of the peers in the sector and is one of the core reasons behind company's success and is expected to remain the same or even grow further creating even more values for the shareholders.



Scale is based on the average traffic of **naukri.com** from India in 2009. [Learn more](#)

naukri.com 1.00 **monsterindia.com** 0.04 **timesjobs.com** 0.05



Source: Google Trends

Diversifying into new businesses:

Info Edge recognizes that the internet will witness a significant change in the near future, and thereby has committed to invest in other internet based businesses such as paid online educational assessment and online shopping of financial and insurance products.

Currently the matrimony and the internet business around 50% of the market the market now is on the Internet and only 50% of them are in print. But company's other verticals like real estate and education may be less than 5% or around 10% of the spending is online at this point of time. However, education and real estate are very, very big verticals in print; they are bigger than job and matrimony. So, we believe that they might be late to join the internet bandwagon but have strong potential to dominate the internet space as well.

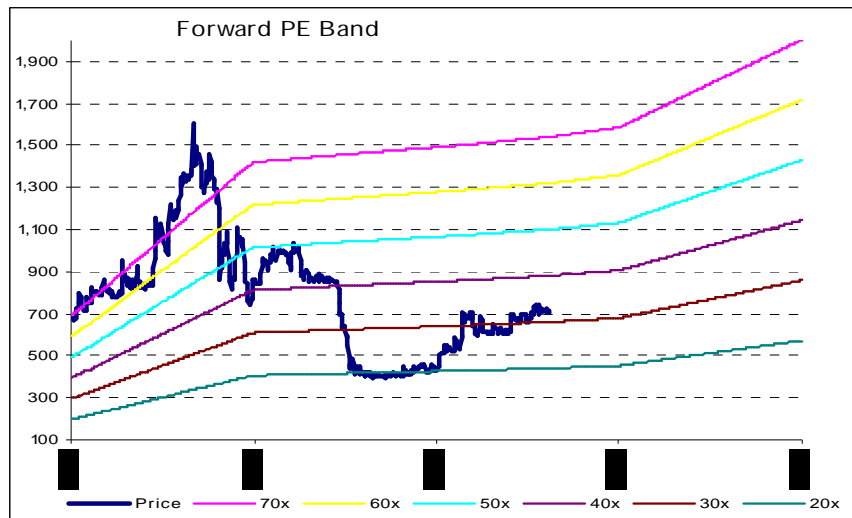
- Siksha.com:
 - Company's educational classifieds website Siksha.com launched in May, 2008 is its venture into the high growth Indian Education Sector
 - In over an year the company has aggregated over 110,000 listings and has established offices in 10 cities
 - The management believes that the business has the potential of generating advertising spend bigger than the real estate and is less likely to be affected by the slowdown
- Others: Company has also invested into many startup online companies, which it believes to be among the key drivers of its future growth.
 - like Applect (meritnation.com),
 - Etechaces (policy bazaar.com) and
 - studyplaces.com

Although foraying into new businesses is a risky proposition, however keeping in mind the growth prospects of internet platform and company's past performance and execution track record, it is prudent to expect this expansion to yield positive results

Valuation:

We have used the weighted average of two different approaches and have derived a target price of Rs. 1,107 per share. The value we obtained from our DCF based model (40% weight) is Rs. 1,085/ share and from our price earnings multiplier model (60% weight) a price of Rs. 1,122 per share.

- § Given company's industry dominance, low financial leverage and high growth trajectory we have come up with a DCF price target of Rs 1,085/ share, given a Cost of Equity of 10.2% and a long term terminal growth rate of 4.5%
- § Since its IPO in late 2006 the company has traded in an average P/E (ttm) of 39.59, with a high and low of 97.04 and 17.9 respectively. Given its current market price of Rs 841 the company is trading at 27.3x its FY11E EPS of 28.63 and 20.91x its FY12E EPS of 37.39. Our P/E based price target is Rs 1121/ share given its FY12E EPS of 37.39 and a forward P/E of 30. The reason we have assigned a forward P/E of 30, because as per our base case estimates the company's EPS is expected to grow at a CAGR of around 35% over the next three years and as per its historical valuations and forward P/E band, a P/E of 30 is a conservative valuation assigned to the stock.



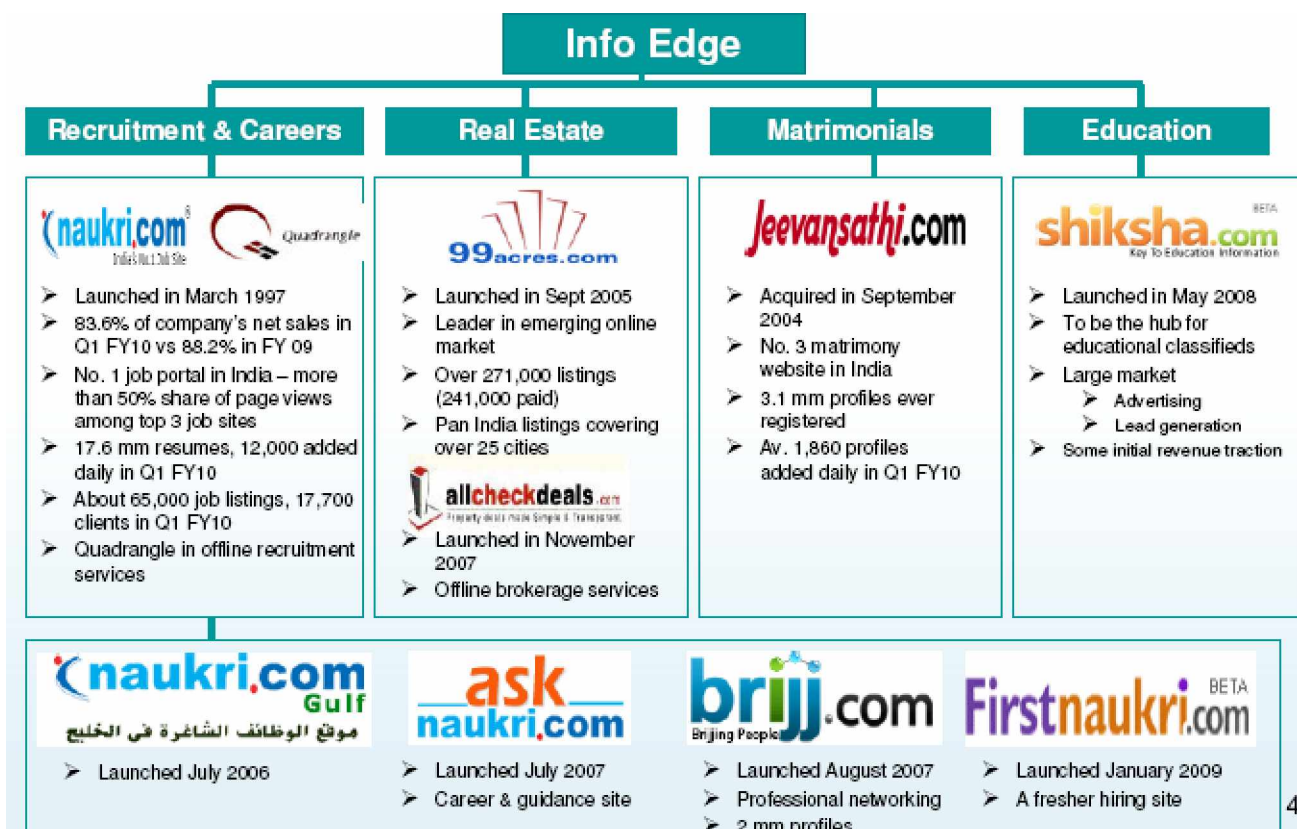
Source: Kredent Analysis

Risks to Our Price Target:

- § Economic Slowdown: Any slowdown in the US/global or domestic economy, especially in the IT Services sector, that would directly impact employment and recruiting demand
- § Increased Competition: Even though the company is a leader in majority of domains it operates, the competition is ever increasing which could possibly impact its bottom-line
- § New Business: Apart from Naukri.com, none of the company's businesses is currently making any money and the more time it takes those business to breakeven the more risk they pose to the company's overall bottom-line

Company Overview:

Info Edge operates India's leading online recruitment and classifieds portal Naukri.com, which was launched in 1997. In addition to online recruitment, it generates revenue through an executive search agency named Quadrangle, as well as a matrimony portal (Jeevansathi.com) and a property portal (99acres.com). It also has a recently launched education portal, Shiksha.com.



Equity Research



Income Statement & Ratios

Rs. Crore

Source: Company Documents, Kredent Estimates

Particulars	2008	2009	2010E	2011E	2012E
Sales	218.94	245.80	267.51	338.21	451.86
Operating Expenses	154.41	179.62	193.14	244.18	326.24
EBITDA	64.53	66.18	74.38	94.03	125.63
Depreciation & Amortization	5.55	7.11	9.39	10.37	13.53
EBIT	58.98	59.07	64.99	83.66	112.10
Interest Expenses	1.12	1.73	1.48	1.87	2.50
Other Income	20.72	27.92	27.80	33.55	41.03
PBT	78.58	85.26	91.31	115.34	150.63
Taxes	23.13	27.04	29.43	37.18	48.56
Net Profit	55.45	58.22	61.87	78.16	102.08
EPS (Basic) Rs.	20.31	21.33	22.66	28.63	37.39

Source: Company Annual Report & Kredent Forecasts

Particulars	2008	2009	2010E	2011E	2012E
EBITDA MARGIN	29.5	26.9	27.8	27.8	27.8
EBIT MARGIN	26.9	24.0	24.3	24.7	24.8
PAT MARGIN	25.3	23.7	23.1	23.1	22.6
ROE	23.03	19.62	17.46	18.55	20.08

Source: Kredent Forecasts

Equity Research



Balance Sheet

Rs. Cr

Source: Company Documents, Kredent Estimates

Particulars	2008	2009	2010E	2011E	2012E
Sources Of Funds					
Equity					
Paid-up-Capital	29.06	30.13	29.19	29.69	30.49
Reserves & Surplus	239.07	295.12	354.45	429.40	527.29
Loan Funds					
Secured Loans	0.44	0.36	0.55	0.69	0.92
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Total Source	268.57	325.61	384.19	459.78	558.70
Application of Funds					
Goodwill	0.03	0.03	0.03	0.03	0.03
Gross Block	47.40	52.82	50.30	63.59	84.96
Less: Depreciation	15.58	22.59	31.98	42.35	55.88
Net Block	31.82	30.23	18.32	21.24	29.08
Capital Work In Progress	8.80	11.83	6.17	7.37	9.29
Investments	265.36	18.25	376.96	452.99	549.47
Current Assets, Loans & Advances					
Sundry Debtors	3.56	3.45	4.09	5.17	6.91
Cash & Bank	48.53	322.10	73.51	92.94	124.09
Loans & Advances	12.55	16.38	17.97	22.72	30.36
Total Current Assets	64.64	341.93	95.58	120.83	161.36
Total Current Liabilities & Provisions	102.08	76.66	112.85	142.68	190.53
Net Working Capital	-37.44	265.27	-17.28	-21.84	-29.17
Total Applications	268.57	325.61	384.19	459.78	558.70

Source: Company Annual Report & Kredent Forecasts

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