

Equities

20 January 2011 | 9 pages

Info Edge (INED.BO)

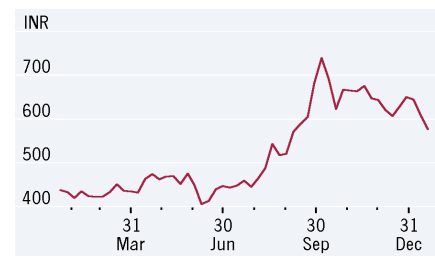
Inline Quarter

- Inline 3Q** — Revenues at Rs751m were up ~28% yoy (CIRA: Rs777m) while EBITDA margin was 36.6% (CIRA: 31.9%), an improvement of more than 600bps yoy. Ad expenditure declined ~450bps (as a % of revenues) on a qoq basis. Profits at Rs219m were up ~40% yoy (CIRA: Rs202m). The revenue growth trajectory has declined marginally this quarter after improving over the last four quarters – flattish in 3Q10, ~13% yoy in 4Q10, ~25% yoy in 1Q11 and ~29% in 2Q11.
- Pickup in deferred revenues** — Deferred revenues at the end of the quarter stood at Rs689m – up ~7% qoq and ~53% yoy. The book-to-bill ratio was 1.06x (2Q: 1.04x) indicating that some sense of stability is coming back in the backlog vis-à-vis the revenues booked.
- Recruitment Solutions steady** — Revenues at Rs620m were up ~24% yoy with EBITDA margins at 48.7% (improvement of ~500bps yoy). The traffic share, according to Comscore, continues to be ~55% highlighting the leadership position of Naukri.com. This bodes well for the future, in our view.
- Other segments picking up** — Revenues at Rs131m were up ~47% yoy with EBITDA loss narrowing to Rs27m (2Q: loss of Rs59m). While 99acres had revenue growth of ~74% yoy, Jeevansathi grew ~16% yoy. In terms of EBITDA, 99acres and Jeevansathi had losses of ~Rs4m each. Losses in Jeevansathi decreased partly because the company did not advertise on television. Real estate segment continues to do well, according to the management and with traffic share at ~50%, the company should benefit in future.
- Maintain Sell** — We are positive on the business fundamentals of Info Edge, however, valuations continue to concern us (see 26 October 2010 note, <https://www.citigroupgeo.com/pdf/SAP41140.pdf>). The stock is down ~15% in the last two months. We look toward valuations becoming more reasonable before getting constructive on the name.

Company Update

Sell/Low Risk	3L
Price (20 Jan 11)	Rs574.20
Target price	Rs640.00
Expected share price return	11.5%
Expected dividend yield	0.1%
Expected total return	11.5%
Market Cap	Rs31,346M US\$692M

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



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	570	10.45	2.9	55.0	9.6	19.2	0.1
2010A	521	9.54	-8.7	60.2	8.4	14.9	0.1
2011E	733	13.44	40.8	42.7	6.8	17.6	0.1
2012E	1,000	18.33	36.5	31.3	5.6	19.7	0.1
2013E	1,278	23.44	27.9	24.5	4.6	20.7	0.1

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	55.0	60.2	42.7	31.3	24.5
EV/EBITDA adjusted (x)	42.5	44.4	29.7	20.8	15.6
P/BV (x)	9.6	8.4	6.8	5.6	4.6
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	10.45	9.54	13.44	18.33	23.44
EPS reported	10.45	9.54	13.44	18.33	23.44
BVPS	59.57	68.63	83.96	102.17	124.75
DPS	0.37	0.38	0.40	0.45	0.50
Profit & Loss (RsM)					
Net sales	2,458	2,371	3,073	3,987	4,972
Operating expenses	-1,867	-1,810	-2,232	-2,820	-3,482
EBIT	591	560	841	1,167	1,490
Net interest expense	262	287	265	325	397
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	853	848	1,106	1,492	1,887
Tax	-270	-318	-374	-492	-608
Extraord./Min.Int./Pref.div.	-12	-9	0	0	0
Reported net income	570	521	733	1,000	1,278
Adjusted earnings	570	521	733	1,000	1,278
Adjusted EBITDA	662	625	911	1,256	1,600
Growth Rates (%)					
Sales	12.3	-3.5	29.6	29.8	24.7
EBIT adjusted	0.1	-5.1	50.0	38.8	27.6
EBITDA adjusted	2.6	-5.5	45.6	37.9	27.4
EPS adjusted	2.9	-8.7	40.8	36.5	27.9
Cash Flow (RsM)					
Operating cash flow	80	312	779	919	1,197
Depreciation/amortization	71	65	70	89	111
Net working capital	-291	29	246	155	205
Investing cash flow	2,655	-718	112	103	147
Capital expenditure	-75	-43	-208	-221	-250
Acquisitions/disposals	2,468	-963	54	0	0
Financing cash flow	0	-24	102	-7	-47
Borrowings	-1	3	3	0	0
Dividends paid	-24	-24	-26	-29	-32
Change in cash	2,736	-430	993	1,015	1,297
Balance Sheet (RsM)					
Total assets	4,023	4,648	5,798	6,991	8,520
Cash & cash equivalent	3,221	2,791	3,784	4,799	6,096
Accounts receivable	35	80	69	90	112
Net fixed assets	385	363	501	634	773
Total liabilities	770	902	1,219	1,420	1,717
Accounts payable	0	0	0	0	0
Total Debt	4	6	9	9	9
Shareholders' funds	3,253	3,746	4,579	5,572	6,803
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.9	26.4	29.6	31.5	32.2
ROE adjusted	19.2	14.9	17.6	19.7	20.7
ROIC adjusted	na	na	na	na	na
Net debt to equity	-98.9	-74.3	-82.4	-86.0	-89.5
Total debt to capital	0.1	0.2	0.2	0.2	0.1

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Result Tables

Figure 1. Key Financials

Rs m	3Q10	2Q11	3Q11	QoQ	YoY
Revenue	589	712	751	5.5%	27.5%
Cost of revenue	243	297	308	3.9%	26.9%
Gross profit	346	415	443	6.6%	28.0%
Gross margin	58.8%	58.3%	59.0%	63bp	21bp
Operating expenses	167	202	168	-16.6%	0.9%
EBITDA	179	214	275	28.6%	53.1%
EBITDA margin	30.5%	30.0%	36.6%	657bp	611bp
Depreciation & amortization	15	14	20	41.4%	34.2%
EBIT	165	200	255	27.7%	54.8%
EBIT margin	28.0%	28.0%	33.9%	590bp	598bp
Net other income	72	66	67	1.9%	-6.8%
Profit before tax	236	265	322	21.3%	36.1%
Income tax expense	80	86	102	18.6%	28.3%
Net profit	156	179	219	22.6%	40.1%
EPS - basic/fully diluted	2.87	3.28	4.02	22.6%	40.3%

Source: Company Reports

Figure 2. Revenue Metrics

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Recruitment (Rs m)	443	460	500	551	548	590	620
- Growth yoy	-20%	-18%	0%	10%	24%	28%	24%
Other Verticals (Rs m)	86	92	89	102	111	122	131
- Growth yoy	15%	2%	-2%	31%	29%	33%	47%
Deferred revenues (Rs m)	454	457	451	533	612	643	689
- Book-to-Bill ratio	92%	101%	99%	113%	112%	104%	106%

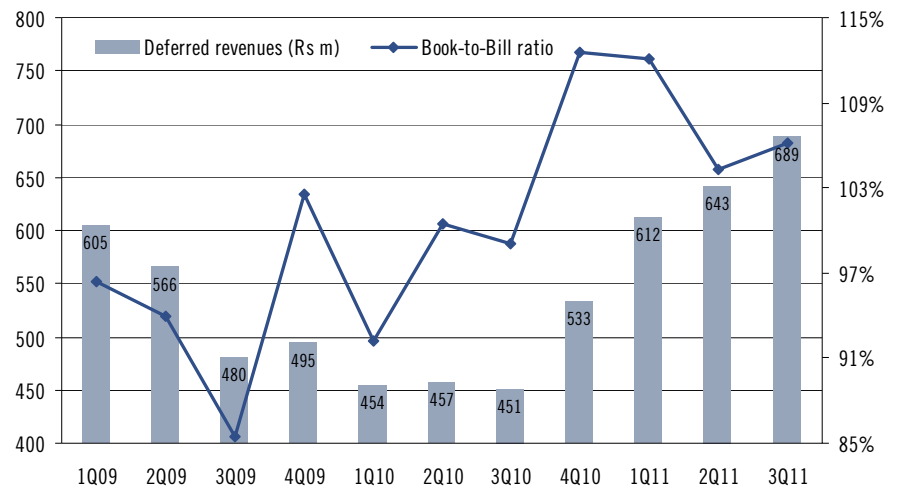
Source: Company Reports

Figure 3. Operating Metrics

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Naukri.com							
# of resumes (m)	18	19	20	21	22	23	24
Avg # of resumes added daily ('000s)	12	12	11	11	13	13	10
Avg # of resumes modified daily ('000s)	49	58	59	68	70	75	70
# of unique customers	17,700	18,100	18,400	20,100	20,900	21,100	21,000
Naukri.com - revenues							
- IT Services/ITES	25%	25%	25%	26%	27%	27%	27%
- BFSI	5%	5%	5%	5%	5%	5%	5%
- Infrastructure	22%	22%	23%	21%	21%	20%	20%
Jeevansathi							
# profiles ever loaded (m)	3.1	3.3	3.5	3.7	3.8	3.9	4.1
Avg # profiles acquired daily	1,860	2,097	2,065	1,726	1,646	1,860	1,750
# unique paid customers	23,370	22,955	23,132	23,669	22,674	23,660	22,495
Avg amount realized (Rs)	1,864	2,069	2,095	2,140	2,252	2,309	2,375
99acres							
# listings ('000s)	271	199	164	151	160	177	196
# paid transactions ('000s)	4.9	4.6	4.4	4.7	5.1	4.9	5.1
Brijj							
# profiles (m)	2.0	2.4	2.7	3.0	3.3	3.6	3.8
Avg # profiles added daily	2,440	3,650	3,400	3,100	3,200	3,210	2,500

Source: Company Reports

Figure 4. Deferred Revenue Trends



Source: Company Reports

Info Edge

Valuation

Our target price is Rs640 based on 35x Mar'12E EPS. The target multiple is within the last three-year trading band of 20-77x and is closer to the average of ~36x. We believe that this is fair, given that we expect revenues and EPS CAGR of ~28% and ~35% respectively over FY10-13E and we believe market leaders in cyclical industries such as Info Edge will particularly benefit from an economic up-cycle. We use a P/E-based valuation as it is the most commonly used valuation method for such stocks.

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Analyst: Vishal Agarwal
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	27-Mar-08	2L	*437.50	400.98
2	1-May-08	*1L	*650.00	482.93
3	25-Jul-08	1L	*500.00	429.00
4	17-Sep-08	*2L	*430.00	379.63

	Date	Rating	Target Price	Closing Price
5	26-Oct-08	*2H	*237.50	206.15
6	4-May-09	*1L	*310.00	263.65
7	14-Oct-09	1L	*425.00	370.10
8	3-May-10	1L	*550.00	470.28

	Date	Rating	Target Price	Closing Price
9	23-Jun-10	1L	*510.00	439.65
10	26-Oct-10	*3L	*640.00	684.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Info Edge (INED.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Vishal Agarwal
Covered since May 20 2010



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12 Month Rating			Relative Rating		
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45%	44%	40%	0%	44%	0%

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