

SELL

TP: Rs 1,920 | ▼ 35%

INFO EDGE

| IT Services

| 24 June 2020

Bleak outlook for core businesses

Info Edge (INFOE) posted muted YoY revenue growth of 10% in Q4FY20, the lowest in the last 12 quarters. Core businesses Naukri.com/99acres.com posted subdued growth of 11%/4% YoY and billing declines of 6%/24% YoY. Online traffic also took an ~80% hit during the lockdown. Management expects Q1FY21 to be even worse. Given the declining sales growth, reduced profitability and bleak outlook, we lower our FY21/FY22 EPS estimates by 17%/19%. Retain SELL with a reduced Mar'21 TP of Rs 1,920 (vs. Rs 2,080).

Ruchi Burde | Seema Nayak

research@bobcaps.in

Poor quarterly performance: Net sales grew just 0.7% QoQ and YoY growth moderated to 10.3% weighed down by a poor performance in all verticals. EBIT margin contracted 310bps YoY and 330bps QoQ to 26.5%. Advertising and marketing spending in 99acres and Naukri has been curtailed to cut costs. Employee salary increments have also been frozen.

Ticker/Price	INFOE IN/Rs 2,955
Market cap	US\$ 4.8bn
Shares o/s	123mn
3M ADV	US\$ 16.2mn
52wk high/low	Rs 3,130/Rs 1,581
Promoter/FPI/DII	40%/36%/23%

Source: NSE

Bleak outlook: Online traffic dropped 80% for 99acres.com and 60-70% for Naukri.com in the first month of lockdown. Education portal Shiksha.com saw reduced advertising revenues due to delayed admissions. Being a digital product, Jeevansaathi's traffic was not affected by Covid-19. Traffic growth at Naukri and 99acres has bounced back in June but is running 15-20% lower than last year. Billing/revenue recovery will come with a lag, painting a grim picture for the near future. Real estate is expected to remain weak in the short-to-near term. On the whole, management expects Q1FY21 to be even worse with uncertainty thereafter.

STOCK PERFORMANCE



Source: NSE

QIP to strengthen core business: INFOE's board has approved a Rs 18.75bn QIP fund raising for the purpose of (1) strengthening its core recruitment and real estate portals, (2) investing in adjacent inorganic opportunities around the online job, real estate and marriage listings space, and (3) investing in attractive financial opportunities, in that order.

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	9,155	10,982	12,727	11,905	12,913
EBITDA (Rs mn)	2,973	3,414	4,027	3,856	4,072
Adj. net profit (Rs mn)	2,737	3,152	3,290	3,185	3,346
Adj. EPS (Rs)	22.3	25.6	26.8	25.9	27.2
Adj. EPS growth (%)	31.4	15.2	4.4	(3.2)	5.1
Adj. ROAE (%)	13.4	14.2	13.7	12.3	11.8
Adj. P/E (x)	132.7	115.2	110.4	114.0	108.5
EV/EBITDA (x)	122.0	106.2	90.0	93.7	88.3

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



Other result highlights

- Covid takes severe toll on real estate business:** Jobs in the real estate sector have been harder hit by the pandemic. Total listings on 99acres.com declined 6% QoQ in Q4FY20. The portal also lost some customer mindshare due to a lack of aggressive marketing spend. However, southern markets are bouncing back faster post lockdown. Mumbai and Delhi remain the worst affected cities due to the rising number of Covid-19 cases.

The real estate segment was already reeling from the impact of policies such as demonetisation and RERA besides the systemic liquidity crunch. The pandemic caused billings to decline 24% YoY. Given the sustained pressure, brokers and builders are moving towards consolidation.

- Growth subdued across verticals:** The number of resumes on Naukri.com grew 3% QoQ and 9.5% YoY in Q4. Billings were down 6% YoY. The pandemic has affected SMEs more than large organisations, dampening recruitment. Among verticals, real estate and manufacturing performed poorly while ITES and banking showed resilience. About 30.9% of Naukri's revenues come from IT services/ITES.

Naukri and 99acres which together form 89% of INFOE's revenues posted YoY declines of 6% and 24% respectively. Shiksha saw a dip in ad revenues. Jeevansaathi sales growth remained flat due to the nature of the business.

- Zomato and PolicyBazaar well-funded:** Management indicated that Zomato and PolicyBazaar are currently well funded and do not require outside funding. Zomato is seeing increased interest from both new and existing investors. Food delivery is expected to gain momentum post Covid-19. During the lockdown, Zomato passed most of the costs on to customers and its margins have increased. PolicyBazaar expanded its reach after Covid-19.
- PaisaBazaar under pressure:** PaisaBazaar clocked lower revenues because of increased loan moratoriums.

FIG 1 – MAR'20 QUARTER PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue (Rs mn)	3,228	2,927	10.3	3,205	0.7	12,727	10,982	15.9
Operating Expenditure	2,263	2,013	12.4	2,146	5.5	8,700	7,568	15.0
Cost of revenues	1,779	1,540	15.5	1,648	7.9	6,655	5,812	14.5
as % of sales	55	53	-	51	-	52	53	(1.2)
SG&A expenses	484	473	2.3	498	(2.8)	2,044	1,756	16.4
as % of sales	15	16	-	16	-	16	16	0.5
EBITDA	965	914	5.6	1059	(8.9)	4,027	3,414	18.0
Depreciation	110	49	125.5	104	5.3	414	204	103.0
EBIT	855	865	(1.1)	955	(10.4)	3,614	3,210	12.6
Other Income	195	304	(36.0)	204	(4.5)	876	1,112	(21.2)
PBT	662	1,169	(43.4)	1,112	(40.5)	3,190	4,162	(23.4)
Total Tax	246	331	(25.6)	232	6.0	1,133	1,169	(3.1)
Adjusted PAT	416	838	(50.4)	880	(52.7)	2,057	2,992	(31.3)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-
Reported PAT	416	838	(50.4)	880	(52.7)	2,057	2,992	(31.3)
Reported EPS	3.4	5.4	(37.2)	7.2	(52.7)	16.7	24.4	(31.4)
Margins (%)								
EBITDA	29.9	31.2	(130)	33.0	(310)	36.7	31.1	113
EBIT	26.5	29.6	(310)	29.8	(330)	32.9	29.2	649
EBT	20.5	39.9	(1,940)	34.7	(1,420)	29.0	37.9	79
PAT	12.9	28.7	(1,580)	27.5	(1,460)	18.7	27.2	(133)
Effective Tax rate	37.1	28.3	890	20.9	1630	28.3	28.1	(147)

Source: Company, BOBCAPS Research

Valuation methodology

INFOE's stock price has increased at a 30%+ CAGR over the last decade (FY10 to date), backed by (1) strong growth and cash generation in Naukri, (2) asset diversification (99acres, Jeevansathi, active investments in internet startups), and (3) successes in select investee companies (Zomato and PolicyBazaar.com). Current core business valuations of 86x/82x FY21E/FY22E EPS (assuming Rs 725/sh of embedded value for non-core business) fully factor in the industry dominance of Naukri and 99acres, in our view.

We reduce FY21/FY22 EPS estimates by 17%/19% to build in challenges stemming from the pandemic. Note that our estimates do not factor in new equity infusion through QIP and resultant EPS dilution.

Our SOTP model includes (1) Rs 1,011/sh for Naukri (33x FY22E EPS), (2) Rs 140/sh for 99acres (8.5x sales), (3) Rs 45/sh for Jeevansathi (5x sales), and (4) Rs 568/sh stakes in key investee companies (Zomato and PolicyBazaar) based on their latest funding rounds. Reiterate SELL on INFOE with a revised Mar'21 SOTP target price of Rs 1,920 (vs. Rs 2,080 earlier).

FIG 2 – REVISED ESTIMATES

(in Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	14,591	11,905	(18.4)	16,599	12,913	(22.2)
YoY growth (%)	14.2	(6.5)	-	13.8	8.5	-
EBITDA	4,872	3,856	(20.9)	5,299	4,072	(23.2)
EBITDA, margin	33.4	32	-	31.9	32	-
PAT	3,865	3,185	(17.6)	4,153	3,346	(19.4)
EPS (Rs)	31.4	26.2	(16.7)	33.8	27.5	(18.7)

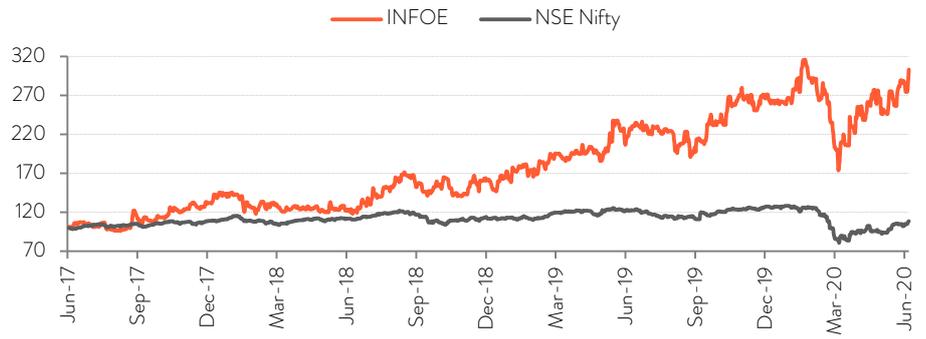
Source: BOBCAPS Research

FIG 3 – VALUATION SUMMARY

SOTP valuation	Method	Value (Rs mn)	% stake	Value of the stake (Rs mn)	Rs/per sh	% of total value
Naukri.com	33x P/E	124,332	100	124,332	1,011	53
99acres	8.5x sales	17,252	100	17,252	140	7
Jeevansathi	5x sales	5,502	100	5,502	45	2
Zomato	Valued at US\$ 3bn - as implied by Jan'20 transaction	228,000	23	51,756	421	22
Policybazaar	Valued at US\$ 1.5bn - as implied by Jan'20 transaction	114,000	16	18,126	147	8
Other investments	Book value	3,804	na	3,804	31	2
Cash and Cash equivalent	Book value	15,510	100	15,510	126	7
Target price (Rs/sh)					1,920	

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Favourable turnaround in India’s residential real estate industry, uplifting growth and profitability at 99acres
- Above-expected market share gains by Jeevansathi

FINANCIALS (STANDALONE)

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	9,155	10,982	12,727	11,905	12,913
EBITDA	2,973	3,414	4,027	3,856	4,072
Depreciation	215	204	414	417	452
EBIT	2,758	3,210	3,614	3,439	3,620
Net interest income/(expenses)	(1)	(1)	(67)	(63)	(68)
Other income/(expenses)	971	1,112	876	880	920
Exceptional items	(913)	(160)	(1,233)	0	0
EBT	2,814	4,162	3,190	4,257	4,472
Income taxes	991	1,169	1,133	1,071	1,126
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	1,824	2,992	2,057	3,185	3,346
Adjustments	913	160	1,233	0	0
Adjusted net profit	2,737	3,152	3,290	3,185	3,346

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	506	617	697	652	708
Other current liabilities	4,197	5,011	5,758	5,386	5,842
Provisions	456	496	496	496	496
Debt funds	3	4	4	4	4
Other liabilities	41	42	42	42	42
Equity capital	1,216	1,220	1,220	1,220	1,220
Reserves & surplus	19,859	22,019	23,464	25,861	28,378
Shareholders' fund	21,074	23,239	24,684	27,081	29,598
Total liabilities and equities	26,278	29,410	31,682	33,662	36,690
Cash and cash eq.	740	683	2,876	4,824	7,808
Accounts receivables	44	60	70	65	71
Inventories	0	0	0	0	0
Other current assets	13,886	14,826	14,826	14,826	14,826
Investments	8,263	10,333	10,333	10,333	10,333
Net fixed assets	506	500	570	605	644
CWIP	0	20	20	20	20
Intangible assets	23	49	49	49	49
Deferred tax assets, net	359	416	416	416	416
Other assets	2,457	2,524	2,524	2,524	2,524
Total assets	26,278	29,410	31,682	33,662	36,690

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	2,683	3,055	2,470	3,602	3,798
Interest expenses	(913)	(986)	(67)	(63)	(68)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	1,166	860	817	(412)	505
Other operating cash flows	132	28	0	0	0
Cash flow from operations	3,067	2,956	3,221	3,127	4,236
Capital expenditures	(137)	(259)	(484)	(452)	(491)
Change in investments	(9,180)	8,164	0	0	0
Other investing cash flows	7,274	(10,137)	67	63	68
Cash flow from investing	(2,043)	(2,233)	(417)	(390)	(423)
Equities issued/Others	48	27	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(137)	(138)	0	0	0
Dividends paid	(667)	(670)	(611)	(789)	(829)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(757)	(781)	(611)	(789)	(829)
Changes in cash and cash eq.	268	(57)	2,193	1,948	2,984
Closing cash and cash eq.	740	683	2,876	4,824	7,808

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	14.8	24.3	16.7	25.9	27.2
Adjusted EPS	22.3	25.6	26.8	25.9	27.2
Dividend per share	5.5	6.0	4.2	6.5	6.8
Book value per share	171.5	189.1	200.8	220.3	240.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	39.6	33.0	28.5	30.4	27.8
EV/EBITDA	122.0	106.2	90.0	93.7	88.3
Adjusted P/E	132.7	115.2	110.4	114.0	108.5
P/BV	17.2	15.6	14.7	13.4	12.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	97.3	75.7	103.1	74.8	74.8
Interest burden (PBT/EBIT)	102.1	129.6	88.3	123.8	123.5
EBIT margin (EBIT/Revenue)	30.1	29.2	28.4	28.9	28.0
Asset turnover (Revenue/Avg TA)	36.3	39.4	41.7	36.4	36.7
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.3	1.3	1.2
Adjusted ROAE	13.4	14.2	13.7	12.3	11.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	14.1	20.0	15.9	(6.5)	8.5
EBITDA	30.7	14.8	18.0	(4.3)	5.6
Adjusted EPS	31.4	15.2	4.4	(3.2)	5.1
Profitability & Return ratios (%)					
EBITDA margin	32.5	31.1	31.6	32.4	31.5
EBIT margin	30.1	29.2	28.4	28.9	28.0
Adjusted profit margin	29.9	28.7	25.8	26.8	25.9
Adjusted ROAE	13.4	14.2	13.7	12.3	11.8
ROCE	8.7	13.2	8.4	12.1	11.6
Working capital days (days)					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	18	19	19	21	19
Ratios (x)					
Gross asset turnover	16.8	21.8	23.8	20.3	20.7
Current ratio	2.8	2.5	2.6	3.0	3.2
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	0.0	0.0	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: INFO EDGE (INFOE IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 May 2020, out of 92 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 55 have BUY ratings, 20 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.