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Improving profitability across all segments

Reason for report: Q4FY17 results review and earnings revision

Infoedge reported increase of 10% YoY in revenues (I-GAAP) and 13% YoY in billings in Q4FY17. Growth in billings would have been higher had it not been for the impact of changes in the sales incentive policy introduced in the recruitment segment at the start of the fiscal year, which led to the deferral of some renewals into FY18 from FY17. Billings growth should accelerate in Q1FY18 and Q2FY18 with revenue growth expected to follow with a lag. Though introduction of RERA should keep revenue growth in 99acres.com in check in the near-term, lower competitive intensity should help contain losses in the segment. Jeevansathi continued to witness strong revenue traction through FY17 with growth at 20.3% YoY in Q4FY17 and 25.9% for full year FY17. We retain ADD on Infoedge with a revised SOTP-based target price of Rs960 (Rs914 earlier) given that both revenue growth and profitability for the standalone entity should be better in FY18 than in FY17. Monetisation of Zomato stake can be an upside catalyst.

- **Recruitment billings up 13% YoY despite the changes in sales incentive policy.** Recruitment billings increased by 13% YoY to Rs198Cr with the impact from changes in the sales incentive policy having been Rs20Cr for the full year as per the management's estimate, though bulk of the impact was seen in Q4FY17 itself. Impact on Q4FY17 recruitment revenues of the same was approximately Rs7.5Cr. Recruitment revenues still increased by 9.2% YoY to Rs163Cr. Naukri India billings grew at a faster rate of 15% YoY with billings growth in Naukri Gulf being modest at 4% YoY. Number of unique paid customers in Naukri increased YoY by 7.4% to 39,000. Recruitment EBITDA margin improved from 55% in Q4FY16 to 60% in Q4FY17. Mobile form factor constituted 66% of total traffic in Naukri with 31% coming through the app and 35% through the mobile website.
- **99acres.com recovers from the post demonetisation shock but YoY growth still modest.** Though growth in 99acres.com recovered on a sequential basis to 19.2% QoQ post a demonetisation led decline of 13% QoQ in Q3FY17, YoY growth was still modest at 5.7%. Billings grew by a faster 9% YoY to Rs39Cr. EBITDA loss declined sharply to just Rs3.5Cr in Q4FY17 from a loss of Rs12Cr in Q3FY17 and Rs11Cr in Q4FY16. RERA may lead to some deferral in advertising of projects in H1FY18 but lower competitive intensity should ensure that losses in FY18 are lower than the EBITDA loss of Rs41.5Cr reported in FY17. Though mobile drove 60% of traffic in 99acres.com in Q4FY17 vs just 52% in Q4FY16, the incremental mobile traffic is coming largely through the mobile website rather than the app. Mobile website constituted 38% of traffic in 99acres (29% in Q4FY16) with the app constituting just 22% (23% in Q4FY16).

Market Cap	Rs111bn/US\$1.7bn
Reuters/Bloomberg	INED.BO/INFOE IN
Shares Outstanding (mn)	121.1
52-week Range (Rs)	984/700
Free Float (%)	57.4
FII (%)	33.3
Daily Volume (US\$'000)	856
Absolute Return 3m (%)	6.7
Absolute Return 12m (%)	13.5
Sensex Return 3m (%)	8.6
Sensex Return 12m (%)	18.0

Year to March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	7,176	8,021	9,168	10,647
Net Income (Rs mn)	1,366	1,679	2,173	2,588
EPS (Rs)	11.3	13.8	17.9	21.3
% Chg YoY	(20.2)	23.0	29.4	19.1
P/E (x)	80.9	65.8	50.8	42.7
CEPS (Rs)	13.0	15.8	20.2	24.0
EV/E (x)	75.0	44.7	36.2	30.0
Dividend Yield (%)	0.3	0.2	0.4	0.4
RoCE (%)	4.6	6.8	8.3	9.2
RoE (%)	7.8	8.9	10.5	11.5

Technology

Target price Rs960

Target price revision

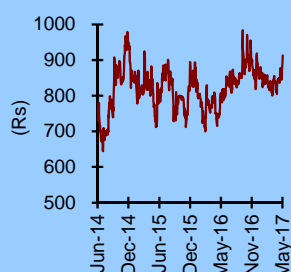
Rs960 from Rs914

Shareholding pattern

	Sep '16	Dec '16	Mar '17
Promoters	42.9	42.6	42.4
Institutional investors	45.8	46.3	46.3
MFs and UTI	12.1	13.1	13.0
Insurance Cos.	-	-	-
FII	33.7	33.2	33.3
Others	11.3	11.1	11.3

Source: www.nseindia.com

Price chart



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- **Jeevansathi made rapid strides in FY17; pre-marketing EBITDA margin at 44%.** Jeevansathi revenues increased by 25.9% to Rs58.9Cr in FY17 with EBITDA loss being just Rs4Cr as against an EBITDA loss of Rs13Cr in FY16. Revenues increased by 17.3% sequentially and 20.3% YoY to Rs16.3Cr in Q4FY17. Billings increased by 25% YoY to Rs18Cr. Though EBITDA loss increased in Q4FY17 to Rs2.3Cr from Rs1.8Cr in Q3FY17 on higher marketing spends, interestingly, EBITDA margin pre marketing spends in FY17 was 44% in Jeevansathi. Mobile drives 88% of overall traffic in Jeevansathi with the app constituting 60% and mobile website driving the other 28%.
- **Investee company financials witness material improvement in FY17.** Revenues at the 11 investee companies in aggregate increased by 39.8% YoY to Rs664Cr in FY17. However, revenues of the partially owned subsidiaries in Meritnation and Canvera was flattish in aggregate with Canvera being the primary source of weakness posting revenue decline of 13% in FY17 to Rs49Cr. EBITDA losses at investee companies reduced to a loss of Rs219Cr in FY17 as against a loss of Rs664Cr in FY16. Zomato revenues increased by 80% to Rs332Cr. Food ordering constituted ~20% of overall revenues in FY17. EBITDA losses at Zomato reduced to Rs93Cr in FY17 from Rs441Cr in FY16. Cash burn in Zomato was down to just US\$250k per month on average in the period from December 2016 to March, 2017. Zomato constitutes Rs159/share of our SOTP valuation for Infoedge of Rs960.

Table 1: Valuation by SoTP methodology*(Rs mn)*

	FY19E
Recruitment Business	
Revenues (Rs mn)	7,814
YoY Growth	15.1%
EBITDA (Rs mn)	4,454
EBITDA Margin (%)	57.0%
YoY Growth	15.1%
EV/EBITDA	15
EV (Rs mn)	66,807
Per share value (Rs)	550
99acres	
Revenues (Rs mn)	1,555
YoY Growth	20.8%
EV/Sales	5
EV (Rs mn)	7,777
Per share value (Rs)	64
Investee Companies	
Valuation in the last round of fund raise (Rs mn)	60,000
Info Edge's share @47%	27600
Post holding company discount @30%	19320
Per share value of Zomato (Rs)	159
Book Value of Investee companies ex Zomato (Rs mn)	2,484
Per share value of other investee companies (Rs)	23
Jeevansathi & others sales	
Revenues (Rs mn)	1,278
EV/Sales	3
Per share value (Rs)	32
Net Cash/share (Rs)	132
Info Edge value per share (Rs)	960
CMP (Rs)	910
Upside (%)	5.4%

Source: I-Sec research

Table 2: Segment-wise growth

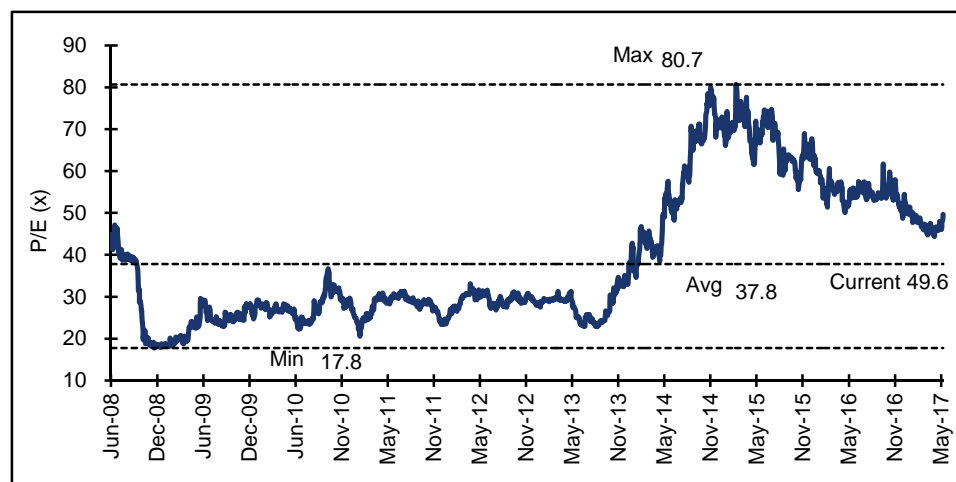
(Rs mn)	FY16	FY17	FY18E	FY19E
Revenues				
<i>naukri.com</i>	5,106	5,694	6,509	7,505
Quadrangle	183	260	281	309
<i>jeevansaathi.com</i>	468	587	678	783
<i>99acres.com</i>	1,083	1,122	1,288	1,555
<i>Others</i>	335	358	412	495
Operational revenues	7,176	8,021	9,168	10,647
% Contribution to sales				
<i>naukri.com</i>	71.2	71.0	71.0	70.5
Quadrangle	2.6	3.2	3.1	2.9
<i>jeevansaathi.com</i>	6.5	7.3	7.4	7.4
<i>99acres.com</i>	15.1	14.0	14.0	14.6
<i>Others</i>	4.7	4.5	4.5	4.6
Operational revenues	100.0	100.0	100.0	100.0
YoY growth (%)				
<i>naukri.com</i>	17.9	11.5	14.3	15.3
Quadrangle	54.0	41.6	8.0	10.0
<i>jeevansaathi.com</i>	19.2	25.4	15.5	15.5
<i>99acres.com</i>	7.8	3.7	14.8	20.8
<i>Others</i>	25.2	6.9	15.0	20.0
Operational revenues	17.4	11.8	14.3	16.1

Source: I-Sec research

Valuation methodology and key risks

We maintain ADD rating on Info Edge (India) with a revised target price of Rs960 (earlier Rs914) based on the SoTP methodology.

The key risks to our call are: i) lower growth in the recruitment business, ii) substantial growth deceleration in *99acres* and Zomato, and iii) higher losses in the non-recruitment businesses and/or investee companies.

Chart 1: P/E chart (1-year forward)

Source: I-Sec research

Financial summary (Standalone)

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY16	FY17	FY18E	FY19E
Operating Revenues (Sales)	7,176	8,021	9,168	10,647
Operating Expenses	5,821	5,746	6,358	7,260
EBITDA	1,355	2,275	2,810	3,387
% margins	18.9	28.4	30.7	31.8
Depreciation & Amortisation	210	241	277	319
Gross Interest	1	2	1	1
Other Income	785	625	688	757
Recurring PBT	1,930	2,657	3,220	3,823
Add: Extraordinaries	(115)	363	0	0
Less: Taxes	564	978	1046	1235
Net Income (Reported)	1,251	2,043	2,173	2,588
Recurring Net Income	1,366	1,679	2,173	2,588

Source: Company data, I-Sec research

*Ind-AS from FY17; I-GAAP for FY16

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY16	FY17	FY18E	FY19E
Assets				
Total Current Assets	12,072	14,893	17,006	20,314
of which cash and deposits	1,493	2,908	5,048	7,593
Total Current Liabilities & Provisions	3,613	4,289	5,074	6,563
Net Current Assets	8,459	10,604	11,932	13,751
Investments	6,170	7,409	7,709	8,009
Net Fixed Assets	1,020	602	675	706
Other Assets	2,342	1,258	1,174	1,054
Total Assets	17,991	19,873	21,490	23,519
of which cash and equivalents	1,867	5,070	7,210	9,755
Liabilities				
Borrowings	4	4	4	4
Other non-current liabilities	38	38	50	58
Equity Share Capital	1,207	1,211	1,211	1,211
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	16,742	18,620	20,226	22,246
Net Worth	17,950	19,831	21,436	23,457
Total Liabilities	17,991	19,873	21,490	23,519

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Jun-16	Sep-16	Dec-16	Mar-17
Net sales	1,976	2,100	1,861	2,084
% growth (YoY)	13.1	20.7	5.8	8.0
EBITDA	478	695	471	632
Margin (%)	24.2	33.1	25.3	30.3
Other income	243	18	250	113
Extraordinaries (Inc) / Loss	0	(403)	0	40
Recurring Net Income	444	397	471	369

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY16	FY17	FY18E	FY19E
Operating Cashflow before W Cap changes	702	1,653	1,764	2,152
Working Capital Inflow / (Outflow)	401	630	907	855
Capex	(295)	(89)	(350)	(350)
Free Cashflow	807	2,194	2,321	2,657
Cashflow from other Invst Act (Ex Capex)	(54)	(1,750)	388	457
Proceeds from Issue of Share Capital	63	19	(0)	(0)
Inc/(Dec) in Borrowings	1	(0)	-	-
Dividend paid	(725)	(437)	(568)	(568)
Others	(1)	(1)	(1)	(1)
Increase/(Decrease) in Cash	91	25	2,140	2,545

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY16	FY17	FY18E	FY19E
Per Share Data (Rs)				
EPS(Basic Recurring)	11.3	13.8	17.9	21.3
EPS(Reported)	10.3	16.8	17.9	21.3
Recurring Cash EPS	13.0	15.8	20.2	24.0
Dividend per share (DPS)	3.0	1.5	4.0	4.0
Book Value per share (BV)	92.0	108.7	123.5	142.0
Growth Ratios (%)				
Operating Income (Sales)	17.4	11.8	14.3	16.1
EBITDA	(24.4)	67.8	23.5	20.5
Recurring Net Income	(17.1)	23.0	29.4	19.1
Basic Recurring EPS	(20.2)	23.0	29.4	19.1
Basic Recurring CEPS	(16.7)	21.9	27.7	18.6
Valuation Ratios (x)				
P/E	80.9	65.8	50.8	42.7
P/CEPS	70.1	57.5	45.1	38.0
P/BV	9.9	8.4	7.4	6.4
EV / EBITDA	75.0	44.7	36.2	30.0
EV / Sales	13.2	11.8	10.3	8.9
EV / FCF	117.0	43.0	40.7	35.5

Operating Ratios

Personnel Cost/Total Revenues (%)	46.7	46.8	44.8	43.2
Other op. exp. / total revenue (%)	33.6	26.0	22.8	23.5
Other Income / PBT (%)	40.7	23.5	21.4	19.8
Effective Tax Rate (%)	29.2	36.8	32.5	32.3
NWC / Total Assets (%)	39.2	43.9	44.9	45.7
Fixed Asset Turnover (x) on average	7.3	9.9	14.4	15.4
Receivables (days) on average	6	3	5	4
Current ratio	3.3	3.5	3.4	3.1
D/E Ratio (x) on average	0.0	0.0	0.0	0.0

Return/Profitability Ratios (%)

Recurring Net Income Margins	19.0	20.9	23.7	24.3
RoCE (Based on Avg)	4.6	6.8	8.3	9.2
RoNW (Based on Avg)	7.8	8.9	10.5	11.5
Dividend Payout	26.7	10.8	22.3	18.8
Dividend Yield	0.3	0.2	0.4	0.4
EBITDA Margins	18.9	28.4	30.7	31.8

Source: Company data, I-Sec research

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ANALYST CERTIFICATION

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