

13 December 2011

Info Edge (India)

Leader in the high-growth online-classifieds market; Buy

Rating: **Buy**

Target Price: ₹835

Share Price: ₹626

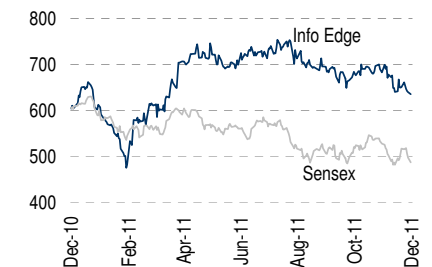
One of the oldest and largest internet companies in India, Info Edge (India) owns the country's leading online job-classifieds portal, Naukri.com. We expect it to benefit from economic growth-driven hiring in the long term and from the shift in ad-spend to online media, fuelled by rising internet accessibility. We initiate coverage with a Buy and a Sep '12 price target of ₹835.

- **Growing internet ecosystem to drive online ad-spend.** Investment by telecom operators in 3G and broad-band wireless access, and rising affordability and innovation in access devices (smart phones, laptops, tablets) have driven internet use in India. We expect this trend to drive the online advertising/classifieds segment as well as other internet-based businesses.
- **Strong business model.** Info Edge's business model is characterized by profitable operations (49% EBITDA margin for its flagship business Naukri.com), a negative working capital cycle of ~125 days and limited capex (sales to fixed assets at 5x). Long-term growth drivers for the classified-jobs business include economic growth-induced hiring and the increasing shift from off-line to online services.
- **Building assets in non-recruitment verticals.** Info Edge also has sites for matrimonials, real estate and education, which are still at an investment stage. It has built a leading position in real estate and education. These ventures have the potential for significant revenue generation in the next 3-4 years.
- **Valuation and Risk.** Our Sep '12 target of ₹835 comprises ₹613 for the recruitment business (25x Sep '13e earnings), ₹109 for other businesses (5x Sep '13e sales) and ₹112 for cash and cash equivalents. The implied target P/E of 32x (Sep '13e) is in line with the current P/E and lower than the past average of 38x. **Risks:** prolonged slowdown in economic growth leading to subdued hiring; disruptive competition from networking sites.

Key data	INFO IN / INED.BO
52-week high / low	₹772 / ₹622
Sensex / Nifty	16003 / 4800
3-m average volume	US\$0.1m
Market cap	₹34.2bn / US\$642m
Shares outstanding	54.6m

Shareholding pattern (%)	Sep '11	Jun '11	Mar '10
Promoters	53.9	54.1	54.1
- of which, pledged	-	-	-
Free float	73.5	73.9	74.0
- Foreign institutions	26.5	27.6	26.4
- Domestic institutions	8.7	7.3	7.9
- Public	10.9	11.1	11.7

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY10	FY11	FY12e	FY13e	FY14e
Sales (₹m)	2,371	3,217	3,849	4,715	6,013
Net profit (₹m)	521	631	989	1,233	1,609
EPS (₹)	9.5	11.6	18.1	22.6	29.5
Growth (%)	(8.7)	21.3	56.6	24.7	30.5
PE (x)	45.6	57.7	34.5	27.7	21.2
EV/EBITDA (x)	31.8	38.4	23.6	17.7	12.6
RoE (%)	14.9	15.6	20.8	21.9	24.3
RoCE (%)	15.4	16.1	21.4	22.5	24.9
Dividend yield (%)	0.1	0.2	0.5	0.8	1.5
Net gearing (x)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)
Cash-to-net assets (%)	104	109	108	112	115

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Consolidated income statement (₹m)

Year-end Mar	FY10	FY11	FY12e	FY13e	FY14e
Net revenues	2,371	3,217	3,849	4,715	6,013
Revenue growth (%)	(3.5)	35.7	19.6	22.5	27.5
- Op. expenses	1,745	2,390	2,636	3,167	3,943
EBIDTA	625	828	1,213	1,548	2,070
EBITDA margin (%)	26.4	25.7	31.5	32.8	34.4
- Interest expenses	20	23	25	27	30
- Depreciation	65	80	99	111	125
+ Other income	307	279	449	537	646
- Tax	318	400	513	668	893
Effective tax rate (%)	37.5	39.9	33.4	34.3	34.9
Reported PAT	530	604	1,025	1,278	1,667
+/- Extraordinary items	(38)	52	0	0	0
+/- Minority interest	28	(24)	(36)	(44)	(58)
Adjusted PAT	521	631	989	1,233	1,609
Adj. FDEPS (₹/share)	9.5	11.6	18.1	22.6	29.5
Adj. FDEPS growth (%)	(8.7)	21.3	56.6	24.7	30.5

Source: Company, Anand Rathi Research

Fig 2 – Consolidated balance sheet (₹m)

Year-end Mar	FY10	FY11	FY12e	FY13e	FY14e
Share capital	273	546	546	546	546
Reserves & surplus	3,474	3,805	4,615	5,553	6,603
Net worth	3,746	4,351	5,161	6,099	7,149
Minority interest	0	16	16	16	16
Total debt	6	7	7	7	7
Def. tax liab. (net)	(34)	(59)	(76)	(93)	(110)
Capital employed	3,719	4,315	5,107	6,029	7,062
Net fixed assets	363	741	744	738	772
Investments	1,141	2,628	2,790	3,383	4,068
- of which, Liquid	1,074	2,606	2,769	3,362	4,047
Net working capital	(576)	(1,130)	(1,196)	(1,454)	(1,825)
Cash and bank balance	2,791	2,076	2,769	3,362	4,047
Capital deployed	3,719	4,315	5,107	6,029	7,062
Net debt	(2,785)	(2,070)	(2,762)	(3,355)	(4,040)
WC days	(89)	(128)	(113)	(113)	(111)
Book value (₹/sh)	69	80	95	112	131

Source: Company, Anand Rathi Research

Fig 3 – Consolidated cash flow statement (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
PAT	521	631	989	1,233	1,609
+ Non-cash items	65	80	99	111	125
Cash profit	586	711	1,088	1,345	1,734
- Incr./decr. in WC	(25)	(553)	(66)	(259)	(371)
Operating cash-flow	610	1,265	1,154	1,603	2,105
- Capex	43	457	102	106	159
Free cash-flow	567	807	1,052	1,497	1,946
- Dividend	24	89	180	295	559
+ Equity raised	(3)	62	0	0	0
+ Debt raised	3	1	0	0	0
- Investments	959	1,486	163	593	685
- Misc. items	15	9	17	17	17
Net cash-flow	(430)	(714)	692	593	685
+ Op. cash & bank bal.	3,221	2,791	2,076	2,769	3,362
Cl. cash & bank bal.	2,791	2,076	2,769	3,362	4,047

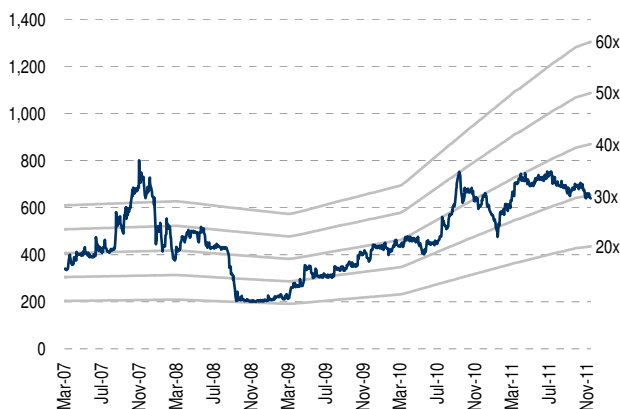
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹626

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
P/E (x)	45.6	57.7	34.5	27.7	21.2
P/B (x)	6.3	8.4	6.6	5.6	4.8
P/CEPS (x)	40.1	52.3	32.0	25.6	19.9
P/Sales (x)	10.0	11.3	8.9	7.2	5.7
EV/EBITDA (x)	31.8	38.4	23.6	17.7	12.6
Dividend yield (%)	0.1	0.2	0.5	0.8	1.5
PAT margin (%)	22	20	26	26	27
Dividend payout (%)	5	14	15	20	30
DPS (₹)	0.4	1.5	3.0	5.0	9.5
RoE (%)	14.9	15.6	20.8	21.9	24.3
RoCE (%)	15.4	16.1	21.4	22.5	24.9
Net debt / equity (x)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)
Interest coverage (x)	45	63	72	86	97
Cash-to-net assets (%)	103.9	108.5	108.4	111.5	114.6
Yield on liquid invest. (%)	8.1	6.2	8.5	8.5	8.5

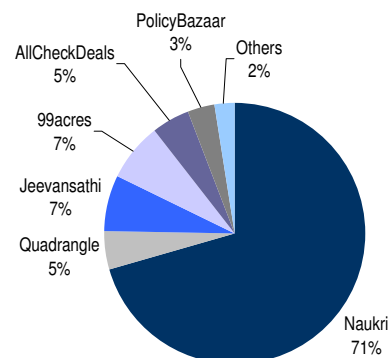
Source: Company, Anand Rathi Research

Fig 5 – P/E band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue break-up in FY11 (%)



Source: Company

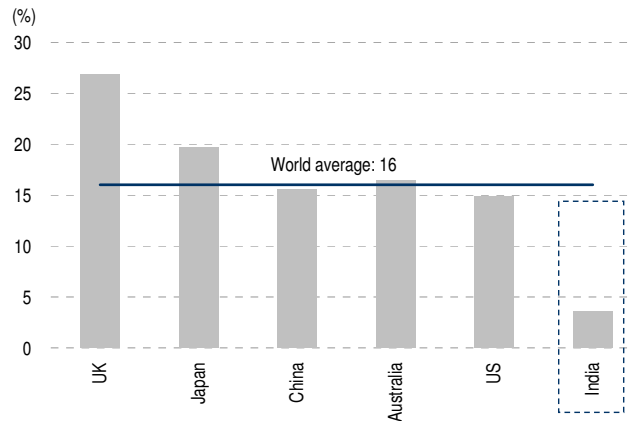
Investment Argument and Valuation

One of the oldest and largest internet companies in India, Info Edge (India) owns the country’s leading online job-classifieds portal, Naukri.com. We expect the company to benefit from economic growth-driven hiring and from the shift in ad-spend to online media, fuelled by the rise in internet accessibility. We initiate coverage on Info Edge, with a Buy and a price target of ₹835.

Internet proliferation to drive online ad-spend

Internet advertising spend registered a 48% CAGR over CY06-10 and stood at ₹8bn, according to PricewaterhouseCoopers. Yet, there is significant room for growth in internet advertising, as it accounts for just ~4% of ad-spend in the country, compared to 15% globally. We believe that the proliferation of internet access and use would drive the growth of internet advertising and other internet-based businesses.

Fig 7 – Share of internet advertising in ad-spend is smaller in India



Source: PricewaterhouseCoopers

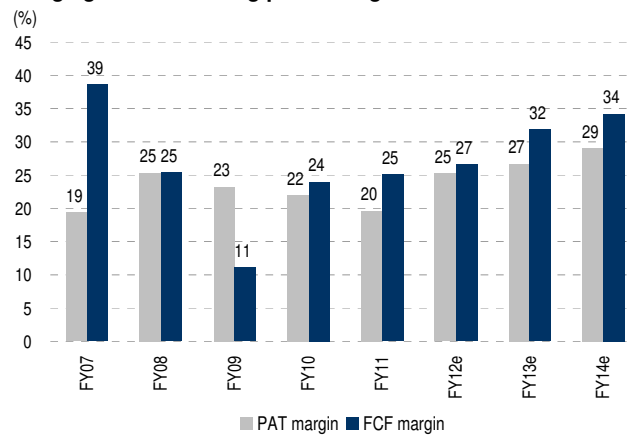
Internet services have not attracted much attention and investment in the country, compared to other telecommunication businesses such as mobile-phone services. We believe the auction of 3G and broadband wireless-access spectrum last year would be a watershed for internet growth in India. Auctions resulted in the supply of 55MHz spectrum (3G + BWA) in each circle. We believe wireless technologies hold significant potential in a developing market such as India, characterized by low fixed-line penetration and limited participation of private-sector telcos in fixed-line operations.

Strong business model

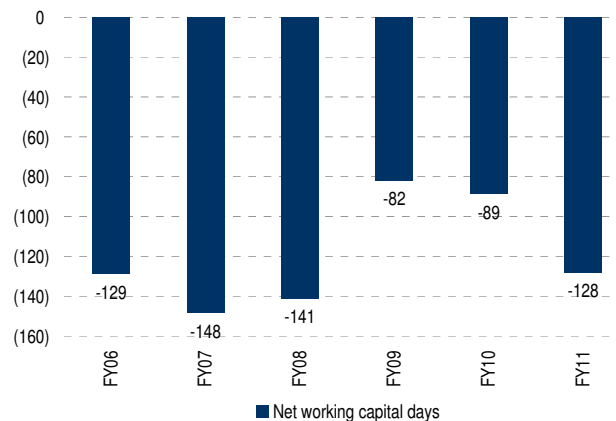
Info Edge’s business model has been characterized by profitable operations (49% EBITDA margin for its flagship business Naukri.com), a negative working capital cycle of ~125 days and limited capex (sales-to-fixed-assets at 5x). Revenue and net profit have registered 23% and 24% CAGR, respectively, over FY07-11.

Fig 8 – Summary of Info Edge's corporate structure and businesses

Info Edge (India)	
Revenues: ₹3,217m EBITDA: ₹828m EBITDA margin: 25.7%	
1. Parent Company	2. Wholly-owned subsidiaries
Revenues: ₹2,936m [91.2%] EBITDA: ₹998m [120%] EBITDA margin: 34.0%	Revenues: ₹160m [5%] EBITDA: ₹3m [0.4%] EBITDA margin: 1.9%
1A Recruitment	Real estate - AllCheckDeals
Revenues: ₹2,425m [75.3%] EBITDA: ₹1,098m [133%] EBITDA margin: 45.3%	2 (i) AllCheckDeals.com Revenues: ₹160m [5%] EBITDA: ₹3m [0.4%] EBITDA margin: 1.9% Property broking business with a success-based revenue model
1A (i) Naukri.com Revenues: ₹2,272m [70.6%] Online jobs classifieds; Supported by FirstNaukri.com (for freshers) and NaukriGulf.com (for overseas jobs)	3. Investments
1A (ii) Quadrangle Revenues: ₹153m [4.8%] Offline executive search business	3 (i) eTechAces Marketing & Consulting (40% stake) Revenues: ₹108m [3.4%] EBITDA: -₹75m [9%] EBITDA margin: -70% <i>Online aggregator of quotes of insurance products (PolicyBazaar.com)</i>
1A (iii) Education: Brijj.com (professional networking) Revenues: <₹5m [<0.15%]	3 (ii) AppleCT Learning Systems (49% stake) Revenues: ₹14m [0.4%] EBITDA: -₹38m [-4.6%] <i>(K-12) Assessment-based learning portal (MeritNation.com)</i>
1B Real estate	3 (iii) DC Foodie Bay Online Services <i>Offers information on restaurants menus, food reviews and dining options (Zomato.com)</i>
99Acres.com Revenues: ₹228m [7.1%] EBITDA : ₹4m [0.5%] EBITDA margin: 1.75% <i>Online real estate classifieds website</i>	3 (iv) Nogle Technologies Business: <i>Information sharing portal - not yet launched (Blink.me)</i>
1C Matrimonials	3 (v) Kinobeo Software <i>Online group deals (MyDala.com)</i>
JeevanSathi.com Revenues: ₹221m [6.9%] EBITDA : -₹41m [5%] EBITDA margin: -18.6% <i>Online matrimonial classifieds website</i>	3 (vi) Ninety-Nine Labels <i>Online retailing of merchandise (99Labels.com)</i>
1D Education	
Shiksha.com Revenues: ₹60m [1.9%] EBITDA : NA (Losses) <i>Online educational classifieds website</i> Source: Company	

Fig 9 – Info Edge generates strong profit margins and free-cash flows ...

Source: Company, Anand Rathi Research

Fig 10 –and has a negative working-capital cycle

Source: Company, Anand Rathi Research

The soundness of Info Edge's business model has been driven by its flagship business, Naukri.com, the leader in the online job-classifieds market, with a traffic market-share of ~60% (based on ComScore data shared by the company). Naukri.com accounted for 71% of Info Edge's consolidated revenue in FY11.

Naukri.com's revenue and EBITDA registered 18% and 25% CAGR, respectively, over FY07-11. We believe the growth rates can be sustained, due to (1) an increase in hiring, (2) an offline-to-online shift in the classifieds market, (3) shortage of talent in the country and (4) the company's pricing power and up-trading by customers.

Promising assets in non-recruitment categories

In addition to Naukri.com, Info Edge has sites for matrimony, real-estate and education. These are still at the investment stage.

Education and real estate are some of the largest advertisers in the print media. The education sector is the largest, with annual spending of ~₹18bn-20bn. Annual spending by the real-estate sector is estimated at ~₹13bn-14bn. These are potential addressable markets for online counterparts of print businesses. Info Edge has built up a leading position in the real estate and education categories.

We believe that Info Edge's ventures into these categories have the potential to significantly scale up revenues in the next 3-4 years and generate value. We have assumed a 27% combined revenue CAGR over FY11-14. In a supportive industry and economic environment, these businesses could easily exceed our forecasts.

Valuation

Sep '12 price target of ₹835

Our target price is based on a sum-of-parts valuation and factors in value from: (1) the recruitment business (₹613); (2) other businesses captured in consolidated financials (₹109) and (3) cash and liquid investments on the books (₹112). We have not ascribed any value to strategic investments in various companies due to risks associated with early-stage investing.

Fig 11 – Target price calculation based on sum-of-parts analysis

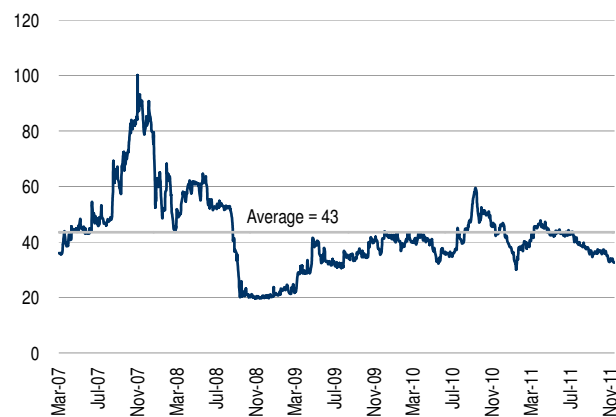
	₹m	₹/share	Comments
Recruitment business			
NOPAT (12 months ending Sep '13)	1,330		
Target P/E multiple	25		Well supported by: (1) 30% CAGR in NOPAT over FY11-14e; (2) negative working capital; (3) negligible capex
Value of the recruitment business [a]	33,469	613	
Other businesses*			
Sales	1,193		
Target price/sales multiple	5		~40% discount to target price/sales for the recruitment business
Value of non-recruitment business [b]	5,965	109	
Value of investee companies [c]	0	0	Total investments of ~₹1.25bn, conservatively valued at zero due to risks associated with early stage investing
Value of operating business [d] = [a] + [b] + [c]	39,434	722	
Consolidated NOPAT (12 months ending Sep '13)	1,064	19	
Implied core business P/E	37	37	~15% lower than past average 1-yr-forward 'core-business' P/E of 43x
Cash and liquid investments (in Sep '12e) [e]	6,130	112	
Sep '12 target price [d] + [e]	45,565	835	

Source: Anand Rathi Research

Note: * Includes business captured in consolidated financials (99Acres.com, Shiksha.com, Jeevansathi.com, AllCheckDeals.com, Merination.com), excludes investee companies

Target price supported by past valuations

Our target price implies a 1-year-forward core business P/E (i.e., excluding cash and liquid investments and associated income) of 37x. In the past four years, the stock has traded at an average core business 1-year-forward P/E of 43x.

Fig 12 – Past 1-year-forward core business P/E multiples

Source: Company, Bloomberg, Anand Rathi Research

Premium backed by fundamentals, potential turnaround in new ops

Apart from strong fundamentals in the recruitment business (30% CAGR in NOPAT over FY11-14e, negative working capital, negligible capex), the target valuations are supported by the potential turnaround in the company's other businesses. Notably, our target price implies a valuation of 25x for the recruitment business, which is reasonable in our view. We value other businesses at a price-to-sales ratio of 5x, which is at a ~40% discount to the implied valuation of the company's recruitment business and a 30-40% discount to valuations of peers – MakeMyTrip.com and Rediff.com.

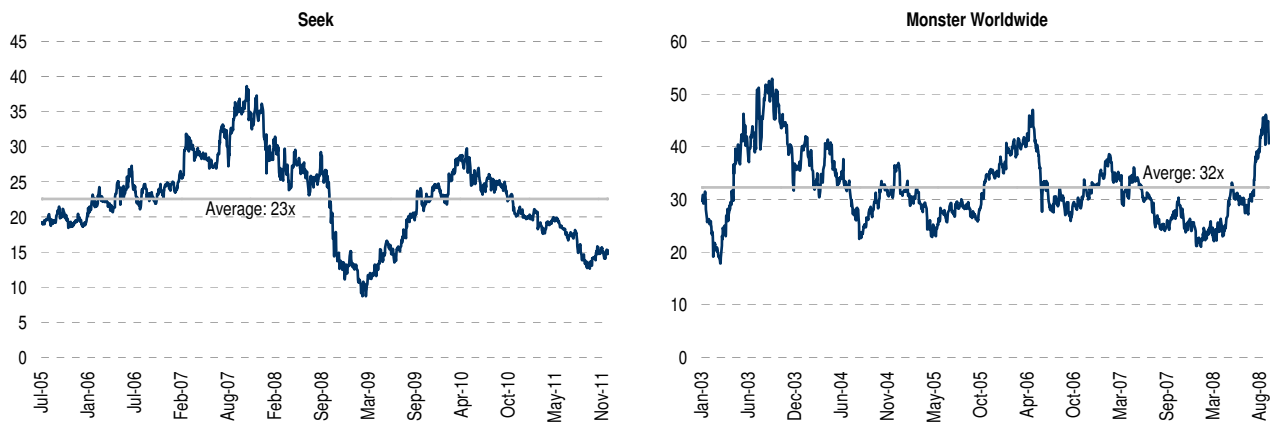
No value ascribed to strategic investments

In the last three years, Info Edge has acquired stakes in six start-ups in various verticals. We have not ascribed any value to these investments in various companies, due to the risks associated with early-stage investing (business failure, prolonged losses and investments).

Management states that most of the investee companies have seen several rounds of funding; subsequent rounds may reflect soundness of business opportunity and rising investor confidence. Management also indicates that in most cases follow-up rounds of funding (by Info Edge or external investors) have been done at higher valuations than those in previous rounds.

We believe several of Info Edge's investments deserve some value, even at an early stage. For instance, eTechAces (which runs PolicyBazaar.com) undertook a second round of funding (from an external investor) that implies a valuation of ₹1bn. eTechAces targets an IPO in 3-4 years.

Fig 13 – Globally, recruitment portals trade at high valuations in growth stages



Source: Bloomberg

Risks to our target price and ratings

1. **Major slowdown in economic growth:** Our estimates and price target assume that the slowdown in economic growth will continue for the next 2-4 quarters. However, a deeper (<6% GDP growth) or more prolonged (>4 quarters) slowdown would pose a risk to our estimates, target price and ratings.
2. **Disruptive competition:** We believe that Info Edge is strongly positioned to weather competitive pressures from traditional sources (such as Monster.com and JobsAhead.com in the case of the recruitment vertical). However, a greater-than-expected impact from disruptively unorthodox competition (such as from LinkedIn.com, a professional networking portal that increasingly focuses on recruitment) would pose a risk to our ratings and target price.

Internet proliferation to drive online ads

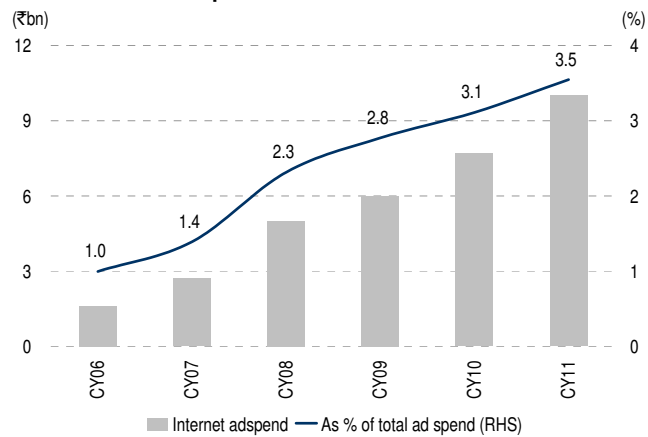
Investment by telecom operators in 3G and broadband wireless-access, and rising affordability and innovation in access devices (smart phones, laptops, tablets) have driven internet use in India. We expect this trend to drive the online advertising/classifieds sector well as other internet-based businesses.

Internet advertising has a long way to go

Internet advertising is under-penetrated in India

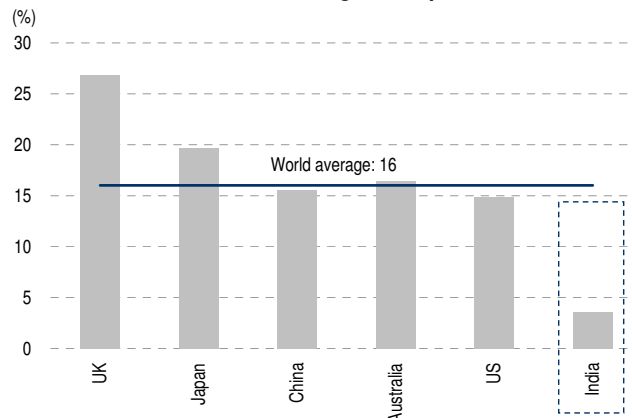
Internet ad-spend registered a 48% CAGR over CY06-10 to stand at ₹8bn, according to a report by PricewaterhouseCoopers. Yet, there is significant room for growth in internet advertising. In fact, internet advertising accounts for ~4% of ad-spend in the country, compared to 15% globally.

Fig 14 – Share of internet ad-spend is on the rise in India



Source: PricewaterhouseCoopers

Fig 15 – Lower share of internet advertising in ad-spend in India



Source: Industry reports, Anand Rathi Research.

Shift to internet advertising is a global and secular trend

There has been a secular shift in the ad-spend mix, from traditional media to new media such as the internet. The resilience in online advertising growth is evident from the fact that internet advertising continued to grow during the 2008-09 slowdown in global economic growth, despite a global ad-spend decline.

Internet proliferation to drive ad-spend in India

Internet-access had not attracted much investment in the past

Internet services have not attracted as much attention and investment in the country, compared to other telecommunication businesses such as mobile-phone services. Active internet users are estimated at ~100m, which implies ~8% penetration. This compares with an active mobile subscriber base of over 600m (~50% penetration).

Private-sector telcos have shied away from scaling up internet operations due to shortage of spectrum and the reluctance to invest in last-mile landline networks. In fact, 71% of broadband subscribers are with public-sector telcos, MTNL and BSNL, riding on their last-mile telephone network. Internet services offered by small entrepreneurs (mostly local cable operators) have not expanded the market, due to factors such as low computer penetration, the poor internet download speeds offered and high monthly commitment from subscribers.

3G and BWA services are set to significantly scale up internet access

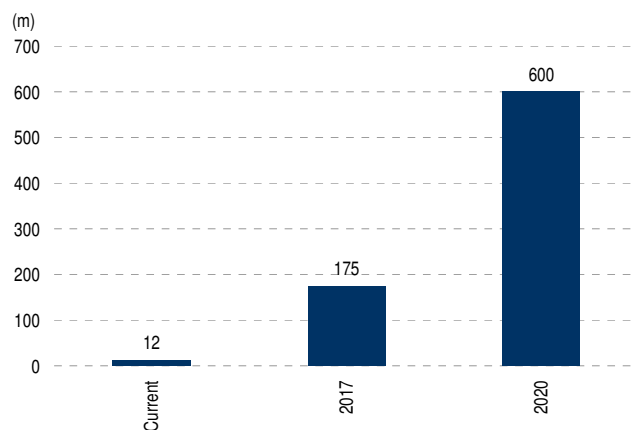
The auction of 3G and broadband wireless-access spectrum last year – which resulted in the supply of 55MHz spectrum (3G + BWA) in each circle – is likely to be a watershed for internet growth in India. We believe wireless technologies hold significant potential in developing markets such as India, which are characterized by low fixed-line penetration and limited participation of private-sector telcos in fixed-line operations. Wireless internet is the fastest-growing segment of internet access in India.

Fig 16 – Wireless internet the fastest-growing segment of internet access in India

	Dec '10	Jun '11	% growth (%)
Internet subscribers (m)	19.7	20.3	3.4
- on wireless networks	2.1	2.6	21.4
- other networks	17.5	17.8	1.2

Source: TRAI

Fig 17 – India broadband subscriber base: Current and draft NTP* 2011 targets



Source: TRAI, Draft NTP 2011 * National Telecom Policy

Strong business model

Info Edge’s business model is characterized by profitable operations (45% EBITDA margin for its flagship business Naukri.com), a negative working capital cycle of ~100 days and limited capex (sales to fixed assets at 5x). We see several long-term growth drivers for the company’s classified-jobs business, including economic growth-induced hiring and the off-line to online shift in job advertising.

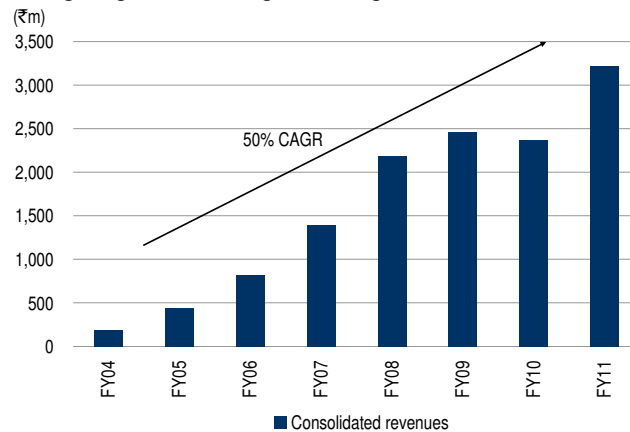
High margins, negative working capital ...

Strong growth and margins

Info Edge’s operations are extremely profitable, with EBITDA and EBIT margins of 26% and 23%, respectively in FY11. EBITDA margin in Naukri.com was ~45%.

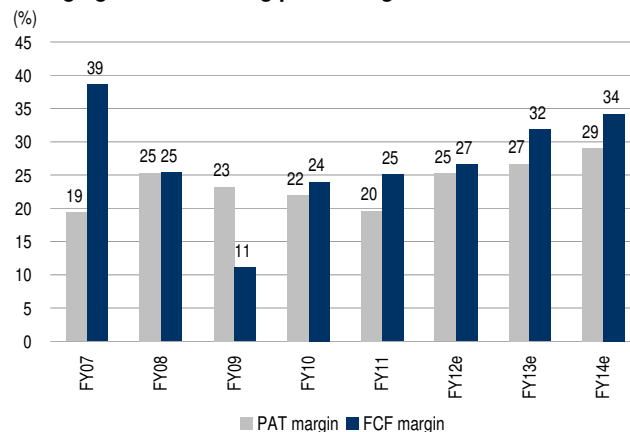
Info Edge has recorded sound revenue growth (an average CAGR of 31%) in the last five years, driven by the boom in the online classifieds market. The company’s operations are extremely profitable, with EBITDA and EBIT margins of 26% and 23%, respectively, in FY11. The EBITDA margin in Naukri.com was ~45%. Consolidated margins were weighed down by the company’s new ventures, which are still in the gestative stage.

Fig 18 – Info Edge registered strong revenue growth



Source: Company

Fig 19 – Info Edge generated strong profit margins and free-cash-flows



Source: Company, Anand Rathi Research

Strong balance sheet – Negative working capital and debt free

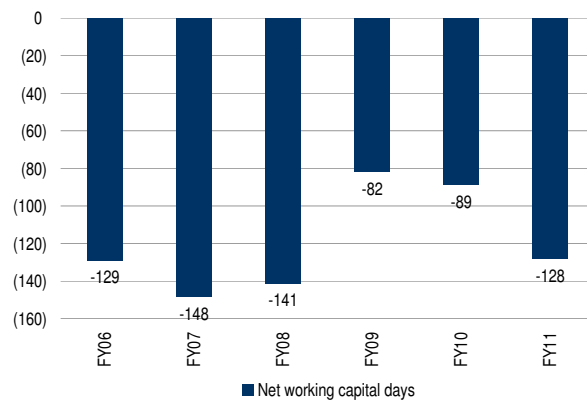
The company’s business has a negative working capital cycle, and requires negligible capital expenditure. In fact, Info Edge maintains a negative working capital cycle of 125 days, driven by Naukri.com’s subscription-based business model. This has resulted in debt-free operations.

Robust FCF

Growth, profitability and negative working capital have translated to a strong free-cash-flow profile, despite ongoing investments (mainly in the form of start-up losses) in new ventures.

The company holds cash and liquid investments of ₹4.7bn (at end-Mar ’11). Apart from a ₹1.7bn IPO in Oct ’06, most of the balance cash and cash equivalents were generated through recurring free-cash-flows.

Fig 20 – Info Edge has a negative working capital cycle

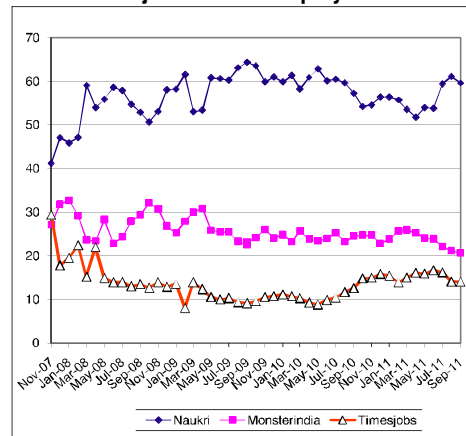


Source: Company

...driven by a dominant position in online job-classifieds

The strength of Info Edge’s business model is driven by its flagship business, Naukri.com, which accounted for 71% of Info Edge’s consolidated revenues in FY11. The leader in the online job-classifieds market, Naukri.com has a traffic market share of ~60% (based on ComScore data shared by the company).

Fig 21 – Market share of online job-classifieds players



Source: Company (ComScore)

Naukri.com's business model

Naukri.com maintains a database of resumes posted by job-seekers. In Sep '11, the portal had 27m resumes.

Naukri.com derives its revenues from the following sources:

1. Corporate customers, for access to the resume data base (~65% of Naukri.com's revenues)
2. Corporate customers, for job listing and advertisements, and
3. Other supporting services – job-seeker services (e.g., resume designing, resume highlighting, jobs screening, mobile services), advertisements (Google AdSense).

Fees charged by Naukri.com (to companies and job seekers) are collected in advance, while revenues are booked over the subscription period. The subscription period for companies (resume database access, job listing) typically varies from three months to a year.

Fig 22 – Key performance indicators for Naukri.com

Year-end: Mar; (₹m)	FY07	FY08	FY09	FY10	FY11	FY12e	FY13e	FY14e
Number of resumes (m)	9	13	17	21	25	30	34	39
Average number of resumes modified daily ('000s)	22	36	42	59	72	84	99	114
Number of unique corporate customers	27,500	32,500	34,000	35,500	42,000	46,871	52,380	60,329
Change yoy (%)	0	18	5	4	18	12	12	15
Average revenue per customer (₹)	49,431	61,354	60,174	52,435	58,632	64,495	70,848	79,350
Change yoy (%)	0	24	(2)	(13)	12	10	10	12
Revenues	1,174	1,841	2,001	1,822	2,272	2,866	3,516	4,472
Change yoy (%)	0	57	9	(9)	25	26	23	27
Revenue contribution from top 10% of customers (%)	62	63	61	59	59	58	58	57
Average revenue per customer from top 10% customers (₹ '000)	265	357	359	303	319	356	386	421
Industry-wise revenue breakup (%)								
- IT/ITES	32	30	26	26	26			
- BFSI	4.5	4	5	5	5			
- Infrastructure	20	21	22	22	22			
- Others (including placement firms)	43.5	45	47	47	47			

Source: Company, Anand Rathi Research

Rapid growth due to early mover advantage and networking

Over the years the company has seen rapid growth in the size of its database and corporate-client base and, thereby, its revenues. We believe the success of Naukri.com has been driven by:

1. **Networking effect:** More (corporate) clients lead to the largest job list. This, in turn, attracts more job-seeking traffic and leads to higher customer response in the form of successful placements. Such a customer response, in turn, leads to growth in the client base.
2. **Early mover advantage:** Having launched Naukri.com in 1997, Info Edge is a pioneer in the online job-classifieds market. Despite the entry of several others in the online job-classifieds market, the company has maintained its leading position. Generally, an early-mover advantage plays an important role in the success of an online business. In the case of Info Edge, the company commands a leading position in businesses where it was an early entrant (e.g., Naukri.com, 99Acres.com), while it is a distant third in the matrimonial vertical (JeevanSathi.com), where it was a late entrant.

3. Supporting ecosystem: Online classifieds have made significant inroads in the classified-jobs market, as both job-seekers (initial adopters were from the IT sector) and companies were tech-savvy enough to shift to the online medium.

Naukri: Long-term growth drivers in place

Naukri.com’s revenues and EBITDA have registered 18% and 25% CAGR, respectively, over FY07-11. We believe the following factors should continue to drive similar growth rates.

Economic growth to drive hiring activity

Despite any cyclical slowing down in GDP growth in the next 6-12 months, we believe the Indian economy is likely to post robust 7% plus growth rates in the long term. This, in turn, would drive hiring in the country.

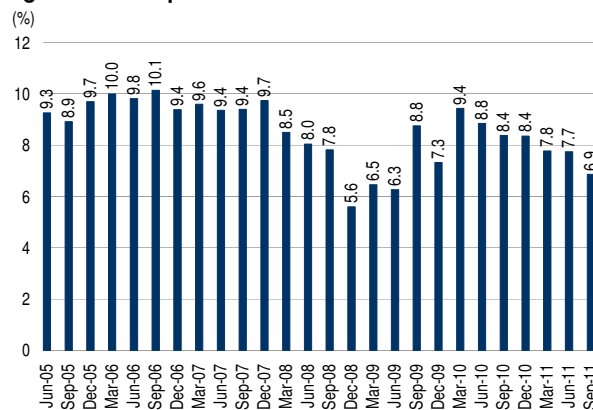
Current slowdown to have lower impact than that of FY09-FY10

Naukri.com was significantly impacted during the slowdown in the GDP growth rate in FY09 and FY10. Its revenue growth slumped from 57% in FY08 to 9% in FY09 and -9% in FY10. We expect the impact of the current slowdown to be lower due to the following:

1. Lower manpower excesses in the system: We believe the impact of FY09-FY10 slowdown on hiring was acute as the economic slowdown was sudden and came on the back of a multi-year high-growth phase. This resulted in excess manpower with firms that had hired aggressively due to the optimistic outlook that prevailed months before the slowdown hit. This in turn led to a drastic cut in hiring and churn, which impacted Naukri.com hard.

We believe the current slowdown in economic growth is less acute and more gradual than the slowdown of FY09-FY10. It also comes on the back of an economic outlook that was, at best, cautiously optimistic.

Fig 23 – GDP growth rates: past data



Source: The Central Statistical Organisation

Large Indian IT companies such as Infosys, TCS, Wipro and HCL have re-iterated their earlier announced hiring plans

2. Lower impact of the global slowdown on the IT industry: In FY09 and FY10, following the bankruptcy of Lehman Brothers, large companies in developed countries (the US, Europe) saw severe cuts in IT spends. This impacted hiring in Indian IT companies. However, this time around, Indian IT companies do not foresee such cutbacks. Large companies such as Infosys, TCS, Wipro and HCL have re-iterated their earlier announced hiring plans.

3. Services segment still registering strong growth: We believe most of the employment in the organized sector is driven by the services segment, which has grown at an average 9% rate in the past four quarters. Growth in services had slumped to 8.2% during the FY09-10 slowdown.

We have modelled 22% growth in Info Edge's recruitment revenues in 2HFY12 and FY13 compared to 27% in 1HFY12.

Shift to online classifieds likely to continue

We estimate ~20% growth in the online job-classified/advertisement market over the past five years. During the same period, the print job-classifieds/advertisements market has been almost stagnant. This clearly indicates that there has been a large shift in ad-spend from print to online media. At present, the job advertisement spend in print amounts to ₹3.5bn-4bn (~50% of total job ad-spend). There is room for further migration to online media.

Large talent scarcity in India

According to a study reported in *The Economic Times* ("India Inc. faces talent shortage: Manpower" dated 20 May '11), 67% of employers in India are struggling to meet critical hiring targets. This is significantly higher than the global average of 34%.

While the labour supply in India is high (large population, high labour-participation rate), low employability results in shortage of the desired talent. The scarcity of talent results in higher spending by employers on talent search and acquisition. This is a positive for Info Edge. Info Edge's management asserts that scarcity of talent is one of the key drivers of growth.

Pricing power and up-trading among subscribers

Info Edge's market leadership partly reflects its strong products and corporate relationship. This should result in customer stickiness and pricing power. We believe the company can manage up to 6% of price hikes annually in a supportive economic-growth scenario. This would be accompanied by customer up-trading, such as longer periods of subscription, access to a broader database (regions, functions), etc. However, a slowdown in the economic growth rate may necessitate a temporary freeze on price hikes or discounts.

During the 2008-09 economic-growth slowdown, Naukri.com recorded declines in average realisation per corporate customer, specifically 2% in FY09 and 13% in FY10. However, it recorded a sharp 12% recovery in realizations in FY11, driven by price hikes and customer up-trading.

Potential impact from professional networking sites

Globally, especially in developed countries such as the US, professional networking sites, mainly LinkedIn.com, have emerged as a disruptive force and competitive challenge to online job boards such as Monster.com. The advantages of professional networks include: (1) free or low cost of access to professional profiles for companies, (2) covert approach to job search for employees, (3) rising popularity/membership of such sites and (4) the ability to research potential employers/employees (finding referrals).

With ~10m members, LinkedIn has a strong base in India. Naukri.com's database sports ~27m resumes. However, we believe that professional

networking is a relatively new experience in India and its appeal and utility (from a job-search perspective) may be limited to savvy internet users. LinkedIn may be more suitable for head hunting or executive search functions around key cities in the country. Job boards such as Naukri.com continue to be important for general and broad-based hiring.

Building assets in new verticals

In addition to Naukri.com, Info Edge has sites for matrimony, real-estate and education. These are still at the investment stage. We believe these ventures could significantly scale up revenue and profit in the next 3-4 years and generate value, driven by market growth, and a strong and experienced management.

Strong management to spur expansion in non-recruitment markets

In addition to recruitment, Info Edge has sites for other verticals – real estate (99Acres.com, AllCheckDeals.com), education (Shiksha.com), matrimonials (JeevanSathi.com). These markets represent significant growth opportunities for the company. Education and real estate are some of the largest categories of advertisers in the print media. Education is the largest category, with annual expenditure of ~₹18bn-20bn in the print media. Annual expenditure by the real-estate sector on print ads/classifieds is estimated at ~₹13bn-14bn. These are potential markets for a shift to online counterparts.

Education and real estate are some of the largest advertisers in the print media, accounting for annual ad-spend of ₹18bn-20bn and ₹13bn-14bn, respectively. These are potential markets for a shift to online counterparts

Experienced, credible management

We believe that Info Edge has a strong and credible management to exploit the growth opportunities in these markets. The key management personnel have been with the company from inception. The team has demonstrated success in the online classified-jobs market. Management has also created promising assets in non-recruitment markets, such as real estate (99Acres.com) and education (Shiksha.com).

Fig 24 – Profile of key management personnel

Person	Designation	Qualifications	Date of joining	Previously with	% stake in Info Edge
Sanjeev Bikhchandani	Founder, Executive Vice Chairman	BA Economics St. Stephens, PGDM IIM-A	1995	GlaxoSmithKline	35.24
Hitesh Oberoi	Managing Director, CEO	B.Tech IIT - Delhi, PGDM IIM-B	2000	Hindustan Unilever	7.14
Ambarish Raghuvanshi	Group President Finance and CFO	CA, PGDBM XLRI	2000	Standard Chartered Bank, HSBC, Bank of America	2.13

Source: Red herring prospectus, Exchange filings

We believe Info Edge's ventures into non-recruitment categories have the potential to significantly scale up revenue in the next 3-4 years, and generate value. We have assumed a 20% combined revenue CAGR in these businesses over FY11-14. Our target price of ₹835 captures a value of ₹109 (₹6bn) from these businesses. In a supportive industry and economic environment, these businesses could easily exceed our forecasts.

Leading position established in real estate vertical

The company operates two real-estate-focused websites – 99Acres.com (an online classifieds site) and AllCheckDeals.com (a brokerage). These accounted for revenues of ₹228m and ₹160m, respectively, in FY11, 12% of consolidated revenues of the combined business.

99Acres.com is expected to be an important growth driver. Its revenues arise from developers for listing and advertising (banners) properties on the website. At the EBITDA level the business had turned around during FY11 but suffered a loss during 1HFY12 due to higher ad-spend for business expansion.

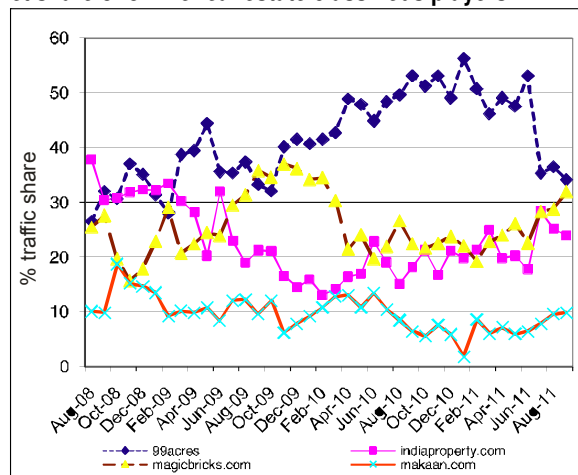
Fig 25 – Financials and key performance indicators of real-estate vertical

Year-end: Mar; (₹m)	FY08	FY09	FY10	FY11	FY12e	FY13e	FY14e
99Acres.com							
Revenues	90	139	133	228	313	407	528
Growth (%)	182	54	(4)	71	37	30	30
Number of paid listings	113	843	687	632	952	1,127	1,353
Growth (%)	769	646	(19)	(8)	51	18	20
AllCheckDeals.com							
Revenues		6	45	160	148	147	194
Growth (%)			605	258	(8)	(0)	32
Number of deals (#)			2,650	2,332	2,215	2,658	3,057
Revenue per deal (₹)			60,304	63,319	66,485	73,133	78,984

Source: Company, Anand Rathi Research

While 99Acres.com and its peers add significant value for their customers and developers, the category has not scaled up as much as the recruitment vertical. This is partly because of less awareness, understanding and ease of use of such sites by users and developers. On the other hand, the early adopters of job sites were tech-savvy IT companies and job-seekers. This helped online recruitment boards achieve scale faster.

Fig 26 – Market share of online real-estate classifieds players



Source: Company

Promising brand in the nascent education category

Shiksha.com is Info Edge’s education portal, mainly catering to students researching education options after 10+2. The site lists and details educational institutes in the country as well as career-guidance-related content. The company gets revenue from education institutes and other businesses in the education field placing advertisements on Shiksha.com. Shiksha.com’s revenues in FY11 were ₹60m.

We understand that Shiksha.com is a close market leader in the segment, competing keenly with PagalGuy.com and MingleBox.com. However, the category itself is still at a nascent stage, with leadership yet to be thoroughly established. The company’s focus is on improving content to gain more traffic.

Constricted growth in the matrimonial segment

JeevanSathi.com is the third-largest matrimonial website in India. The site generates revenue from users who pay to avail of full services (apart from the basic services, which are provided free).

Info Edge was a late entrant to this business and struggled to gain or hold on to its market share. Its strategy now is to focus on select communities (the matrimonial category is highly fragmented on community lines) and quit others. The company believes that revenue growth in this vertical would trail behind that for its other new verticals.

Fig 27 – Financials and key performance indicators of JeevanSathi.com

Year-end: Mar; (₹m)	FY08	FY09	FY10	FY11	FY12e	FY13e	FY14e
Revenues	126	170	199	221	230	259	290
Growth (%)	45	35	17	11	4	12	12
Number of unique paid subs (#)	73,552	80,005	79,051	78,158	77,810	80,144	82,548
Change yoy (%)	22	9	(1)	(1)	(0)	3	3
Average amount realised (₹)	1,711	1,994	2,409	2,722	2,962	3,228	3,519
Change yoy (%)	17	17	21	13	9	9	9

Source: Company, Anand Rathi Research

Early-stage investing approach for exposure to new/innovative ventures

Apart from its foray into various markets, Info Edge has also acquired stakes in start-ups in various categories. Through these investments, it aims to bank on innovative business driven by committed and capable entrepreneurs. Management said it may selectively undertake such investment in the future too.

Conservative approach towards investment

Info Edge has limited itself to early-stage investments, partly because of high valuations in the case of late-stage companies. It has shied away from businesses requiring huge investments (as in e-commerce). A typical investment pattern involves commitment of an amount (<₹500m) which is gradually invested in phases based on the achievement of various performance-related benchmarks.

Fig 28 – Details of Info Edge's investments

Company	% stake	Date of initial investment	Investment committed (₹m)	Number of rounds of funding	Business	Business description
eTechAces Marketing & Consulting Pvt Ltd	40.0	Apr-10	300	2	PolicyBazaar.com	Online aggregator of quotes of insurance products
Appect Learning Systems Pvt Ltd	49.0	Jun-08	315	3	MeritNation.com	(K-12) assessment-based learning portal
DC Foodie Bay Online Services Pvt Ltd	25-50	Jul-10	180	2	Zomato.com	Menus of restaurants, food reviews and ratings
Nogle Technologies Pvt Ltd	25-50	Mar-11	10	1	Blink.me	Web-based sharing platform
Kinobeo Software Pvt Ltd	25-50	Apr-11	270	3	MyDala.com	Online group deals
Ninety-Nine Labels Pvt Ltd	25-50	May-11	157	1	99Labels.com	Online retailing of merchandise

Source: Company, media reports

Financials

We expect a 23% CAGR in Info Edge's consolidated revenue over FY11-14, driven by growth in the recruitment business and a scaling-up of the non-recruitment businesses. We expect ~33% CAGR each in PAT and FCF, driven by revenue growth and declining losses in the non-recruitment businesses.

Expect softer revenue growth in the near term vs FY11

Info Edge's revenue had strongly rebounded in FY11 (36%) following revival in hiring after the 2008-09 slowdown. Revenue had grown at a subdued 4% CAGR during FY08-10, and declined in FY10.

Ahead, we expect a 23% CAGR in revenue over FY11-FY14. We have assumed slower growth, at 20% and 22% in FY12 and FY13, respectively, (compared to 36% in FY11) due to the expected slow economic growth in the next 2-4 quarters. We expect revenue growth to accelerate to 28% in FY14, driven by the expected recovery in economic growth and the increasing contribution from the non-recruitment business.

Fig 29 – Segment-wise revenue

Year-end: Mar	FY08	FY09	FY10	FY11	FY12e	FY13e	FY14e
Revenues (₹m)							
Recruitment	1,964	2,117	1,954	2,425	3,028	3,688	4,654
Real estate – 99Acres	90	139	133	228	313	407	528
Matrimonial	126	170	199	221	230	259	290
Education	0	25	35	60	102	163	261
Real estate – AllCheckDeals	0	6	45	160	148	147	194
Others	9	1	5	124	28	51	86
Total revenue	2,189	2,458	2,371	3,217	3,849	4,715	6,013
Growth (%)							
Recruitment	54	8	(8)	24	25	22	26
Real estate – 99Acres	182	54	(4)	71	37	30	30
Matrimonial	45	35	17	11	4	12	12
Education			40	71	70	60	60
Real estate - AllCheckDeals			605	258	(8)	(0)	32
Total revenue	57	12	(4)	36	20	22	28
Mix (%)							
Recruitment	90	86	82	75	79	78	77
Real estate – 99Acres	4	6	6	7	8	9	9
Matrimonial	6	7	8	7	6	5	5
Education	0	1	1	2	3	3	4
Real estate - AllCheckDeals	0	0	2	5	4	3	3
Total revenue	100	100	100	100	100	100	100

Source: Company, Anand Rathi Research

Margin improvement to drive profit growth

We expect a 36% CAGR over FY11-14 in Info Edge's consolidated EBITDA, driven by a 28% CAGR in recruitment EBITDA and lower/stagnant losses in non-recruitment businesses. We expect margins to be resilient in the recruitment business – EBITDA margin of 50% by FY14 vs 49% in 1HFY12, despite slower economic and revenue growth ahead. According to the management, staff compensation is significantly linked to sales performance, which would partly support margins even in a weaker growth-scenario. Notably, EBITDA margin in the core recruitment vertical

had not dropped much during the revenue growth slowdown of FY08-FY10.

Fig 30 – Segment-wise EBITDA

Year-end: Mar	FY08	FY09	FY10	FY11	FY12e	FY13e	FY14e
EBITDA (₹)							
Recruitment	816	922	803	1,098	1,453	1,807	2,327
Others	(171)	(260)	(178)	(270)	(241)	(259)	(257)
Consolidated EBITDA	645	662	625	828	1,213	1,548	2,070
Growth (%)							
Recruitment		13	(13)	37	32	24	29
Others		52	(32)	52	(11)	8	(1)
Consolidated EBITDA		3	(5)	32	47	28	34
EBITDA margin (%)							
Recruitment	41.5	43.6	41.1	45.3	48.0	49.0	50.0
Others	(75.8)	(76.3)	(42.6)	(34.1)	(29.3)	(25.3)	(18.9)
Consolidated EBITDA	29.5	26.9	26.4	25.7	31.5	32.8	34.4

Source: Company, Anand Rathi Research

Correction likely in negative working capital cycle

The negative working capital cycle had touched 128 days in FY11 following a revival in the recruitment vertical. However, we expect it to decline to ~110 days in FY12 and FY13.

Healthy growth expected in free cash flows

Notwithstanding a slight slowdown in revenue growth and an increase in the working capital cycle, we expect FCF to register a robust 34% CAGR over FY11-14, driven by profit growth.

Fig 31 – Consolidated income statement

Year end Mar, ₹m	FY10	FY11	FY12e	FY13e	FY14e
Revenue	2,371	3,217	3,849	4,715	6,013
Operating costs					
Personnel expenses	(920)	(1,279)	(1,495)	(1,830)	(2,357)
Advertising and promotion cost	(394)	(506)	(536)	(648)	(757)
Administrative and other expenses	(340)	(495)	(503)	(575)	(692)
Network, internet and other direct charges	(91)	(110)	(102)	(114)	(138)
Total operating costs	(1,745)	(2,390)	(2,636)	(3,167)	(3,943)
EBITDA	625	828	1,213	1,548	2,070
EBITDA margin (%)	26.4	25.7	31.5	32.8	34.4
Depreciation	(65)	(80)	(99)	(111)	(125)
EBIT	560	748	1,114	1,436	1,945
EBIT margin (%)	23.6	23.2	28.9	30.5	32.3
Other income	17	14	15	16	16
Interest and finance income	289	266	434	521	630
Finance and bank charges	(20)	(23)	(25)	(27)	(30)
Extraordinary items	(38)	52	0	0	0
PBT	810	1,056	1,538	1,946	2,561
Current tax	(332)	(426)	(530)	(685)	(910)
Deferred tax	15	25	17	17	17
Total taxes	(318)	(400)	(513)	(668)	(893)
Net profit	492	656	1,025	1,278	1,667
Share of profit/(loss) of associate companies	(6)	(1)	0	0	0
Minority interest	34	(23)	(36)	(44)	(58)
Net profit attributable to shareholders	521	631	989	1,233	1,609
Net profit margin (%)	22.0	19.6	25.7	26.2	26.8
Number of shares (m)	55	55	55	55	55
EPS (₹)	9.5	11.6	18.1	22.6	29.5
Costs-to-sales ratio (%)					
Personnel expenses	38.8	39.7	38.8	38.8	39.2
Advertising and promotion cost	16.6	15.7	13.9	13.7	12.6
Administrative and other expenses	14.3	15.4	13.1	12.2	11.5
Network, internet and other direct charges	3.8	3.4	2.7	2.4	2.3
Depreciation	2.7	2.5	2.6	2.4	2.1
Growth rates (%)					
Revenue	(3.5)	35.7	19.6	22.5	27.5
EBITDA	(5.5)	32.3	46.5	27.6	33.7
EBIT	(5.1)	33.4	49.0	29.0	35.4
PAT	(8.7)	21.3	56.6	24.7	30.5
EPS	(8.7)	21.3	56.6	24.7	30.5
Margins (%)					
EBITDA	26.4	25.7	31.5	32.8	34.4
EBIT	23.6	23.2	28.9	30.5	32.3
PAT	22.0	19.6	25.7	26.2	26.8
Effective tax rate (%)					
Current tax rate	41.0	40.3	34.5	35.2	35.5
Deferred tax rate	(1.8)	(2.4)	(1.1)	(0.9)	(0.6)
Effective tax rate	39.2	37.9	33.4	34.3	34.9
Dividends					
Dividend per share (₹)	0.4	1.5	3.0	5.0	9.5
Dividend including tax	24.0	88.7	179.7	294.5	559.2
Dividend payout (%)	4.6	14.0	15.0	20.0	30.0

Source: Company, Anand Rathi Research

Fig 32 – Consolidated balance sheet

Year end Mar, ₹m	FY10	FY11	FY12e	FY13e	FY14e
Capital and liabilities					
Equity capital	273	546	546	546	546
Securities premium	1,583	1,310	1,310	1,310	1,310
Reserves and surplus	1,891	2,495	3,305	4,243	5,293
Networth	3,746	4,351	5,161	6,099	7,149
Minority interest	0	16	16	16	16
Loans	6	7	7	7	7
Deferred tax liability	(34)	(59)	(76)	(93)	(110)
Total invested capital	3,719	4,315	5,107	6,029	7,062
Assets					
Fixed assets					
Gross block	581	890	991	1,097	1,247
Less: Accum. Depreciation	(287)	(332)	(431)	(542)	(658)
Net block	294	558	560	555	589
Capital advances	69	154	154	154	154
Goodwill on consolidation	0	29	29	29	29
Total fixed assets	363	741	744	738	772
Investments	68	22	22	22	22
Liquid investments	1,074	2,606	2,769	3,362	4,047
Cash and bank balance	2,791	2,076	2,769	3,362	4,047
Net working capital	(576)	(1,130)	(1,196)	(1,454)	(1,825)
Current assets					
Debtors	80	149	211	258	329
Loans and advances	181	144	192	236	301
Other current assets	59	70	93	114	145
Total current assets	319	363	496	608	775
Current liabilities					
Deferred sales revenue	536	904	1,054	1,292	1,647
Creditors	209	352	397	477	594
Income tax provisions (net of advance tax)	34	47	47	47	47
Provision for dividends	24	48	44	90	147
Other liabilities and provisions	92	142	149	156	164
Total current liabilities	896	1,493	1,692	2,062	2,600
Total assets	3,719	4,315	5,107	6,029	7,062
Net debt/(cash)	(3,858)	(4,676)	(5,531)	(6,716)	(8,086)
Capex	43	457	102	106	159
Ratios and analysis (%)					
RoE	14.9	15.6	20.8	21.9	24.3
RoCE	15.4	16.1	21.4	22.5	24.9
Capex-to-sales	2	14	8	8	8
Debtor days	12	17	20	20	20
Creditor days (based on operating costs)	44	54	55	55	55
Deferred revenue days	83	103	100	100	100
Loans and advances as % sales	8	4	5	5	5
Net WC days(days of sales)	(89)	(128)	(113)	(113)	(111)

Source: Company, Anand Rathi Research

Fig 33 – Consolidated cash-flow statement

Year-end: Mar, ₹m	FY10	FY11	FY12e	FY13e	FY14e
PAT	521	631	989	1,233	1,609
Add: Depreciation	65	80	99	111	125
Cash profit	586	711	1,088	1,345	1,734
Less: Incr./(decr.) in WC	25	553	66	259	371
Operating cash-flow	610	1,265	1,154	1,603	2,105
- Capex	43	457	102	106	159
Free cash flow	567	807	1,052	1,497	1,946
Add: Equity raised	(3)	62	(0)	(0)	0
Add: Debt raised	3	1	0	0	0
Less: Dividend (including tax)	24	89	180	295	559
Less: Purchase/(sale) Investments	959	1,486	163	593	685
Add: Misc. items (Deferred tax, minority interest)	(15)	(9)	(17)	(17)	(17)
Net cash flow	(430)	(714)	692	593	685
+ Op. cash & bank bal.	3,221	2,791	2,076	2,769	3,362
Cl. cash & bank bal.	2,791	2,076	2,769	3,362	4,047

Source: Company, Anand Rathi Research

Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
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