

## Key portals shine

- Recruitment solutions witnessed better-than-expected revenue growth at 27% YoY. Ebitda margins continued to improve (55%; 11pps. YoY), led by high operating leverage.
- More important, naukri.com gained market share. A market share of 61.5% during 4QFY12 was among its highest ever.
- 99acres.com is perhaps at its tipping point. Revenue grew 63% YoY during 4QFY12 and it achieved breakeven.
- Info Edge's education portals meritnation.com and shiksha.com are witnessing traction, supported by ad campaigns.
- The real-estate broking subsidiary (allcheckdeals.com) was impacted in FY12 due to a management change and lacklustre real estate transactions in Noida.
- On higher margins and revenue growth in its key portals - naukri.com and 99acres.com, we are revising our FY13/14 eps estimates upward by 10%. Maintain BUY.

## Result update

<b>CMP</b>	<b>Rs758</b>	<b>Price performance (%)</b>			
<b>12-mth TP (Rs)</b>	<b>918 (21%)</b>	<b>1M</b>	<b>3M</b>	<b>1Y</b>	
<b>Market cap (US\$ m)</b>	<b>774</b>	Absolute (Rs)	3.3	17.4	2.7
<b>Enterprise value(US\$m)</b>	<b>687</b>	Absolute (US\$)	-1.9	6.9	-14.4
<b>Bloomberg</b>	<b>INFOE IN</b>	Rel. to Sensex	5.9	19.9	10.2
<b>Sector</b>	<b>Technology</b>	<b>Cagr (%)</b>		<b>3 yrs</b>	<b>5 yrs</b>
<b>Shareholding pattern (%)</b>		EPS		4.4	
Promoter	53.6	<b>Stock performance</b>			
FII	25.8	52Wk High/Low (Rs)		840/548	
DII	10.1	Shares o/s (m)		55	
Others	10.6	Daily volume (US\$ m)		0	
		Dividend yield FY12ii (%)		0.3	
		Free float (%)		46.0	

## Financial summary (Rs m)

Y/e 31 Mar, Standalone	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13ii	FY11	FY12ii	FY13ii
Recruitment solutions - revenue	548	590	620	667	700	747	746	848	875	2,425	3,041	3,801
QoQ/YoY	(0.5)	7.7	5.1	7.6	4.9	6.7	(0.1)	13.7	3.2	24.1	25.4	25.0
Other businesses - revenue	111	122	131	148	167	163	174	211	225	512	715	965
QoQ/YoY	8.8	9.9	7.4	13.0	12.8	(2.4)	6.7	21.3	6.8	38.8	39.6	35.0
Recruitment solutions - EBITDA	230	273	302	293	343	363	378	466	429	1,098	1,550	1,903
QoQ/YoY	(4.2)	18.7	10.6	(3.0)	17.1	5.8	4.1	23.3	(8.0)	36.2	41.2	22.8
<b>Revenues (Rs m)</b>	<b>659</b>	<b>712</b>	<b>751</b>	<b>815</b>	<b>867</b>	<b>911</b>	<b>920</b>	<b>1,059</b>	<b>1,100</b>	<b>3,217</b>	<b>3,903</b>	<b>4,959</b>
% change	1.0	8.1	5.5	8.5	6.4	5.1	1.0	15.1	3.9	35.7	21.3	27.1
<b>EBITDA (Rs m)</b>	<b>204</b>	<b>214</b>	<b>275</b>	<b>284</b>	<b>316</b>	<b>322</b>	<b>349</b>	<b>421</b>	<b>418</b>	<b>805</b>	<b>1,146</b>	<b>1,596</b>
<b>EBITDA Margins (%)</b>	<b>31.0</b>	<b>30.0</b>	<b>36.6</b>	<b>34.9</b>	<b>36.5</b>	<b>35.4</b>	<b>37.9</b>	<b>39.8</b>	<b>37.9</b>	<b>25.0</b>	<b>29.4</b>	<b>32.2</b>
Interest expense (Rs m)	0	0	0	0	0	0	0	0	0	0	0	(1)
Effective tax rate (%)	32.5	32.6	31.8	32.2	31.5	29.4	29.7	28.2	30.0	37.9	36.1	34.6
Reported PAT (Rs m)	173	179	219	269	256	274	289	399	355	632	1,033	1,236
<b>Pre-exceptional PAT (Rs m)</b>	<b>173</b>	<b>179</b>	<b>219</b>	<b>269</b>	<b>256</b>	<b>274</b>	<b>289</b>	<b>399</b>	<b>355</b>	<b>632</b>	<b>1,033</b>	<b>1,236</b>
% change	30.4	3.6	22.6	22.6	(4.8)	7.0	5.3	38.3	(11.0)	21.3	63.6	19.6

Source: Company, IIFL Research. Priced as on 03 May 2012

**Figure 1: Info Edge standalone financials – 4QFY12**

Income statement (Rs m)	4QFY11	3QFY12	4QFY12	QoQ	YoY
Net sales	815	920	1,065	15.8%	30.7%
Operating expenses	-531	-571	-638	11.7%	20.2%
Staff cost	-309	-341	-373	9.2%	20.4%
Advertisement cost	-108	-116	-142	23.0%	32.1%
Others	-113	-114	-123	7.8%	8.2%
EBITDA	284	349	427	22.4%	50.4%
EBITDA margins	34.9%	37.9%	40.1%	218 bps	524 bps
Depreciation & Amortization	-24	-19	-19		
Other income	85	80	152		
Exceptional items	52	0	-4		
PBT	397	411	556	35.4%	40.3%
PBT margins	48.7%	44.7%	52.2%	758 bps	355 bps
Taxes	-128	-122	-157		
Effective tax rate	32.2%	29.7%	28.2%	-149 bps	-402 bps
PAT	269	289	400	38.3%	48.6%
PAT margins	33.0%	31.4%	37.5%	611 bps	451 bps
EPS - basic (Rs)	4.9	5.3	7.3	38.2%	48.4%
<b>Performance by segment (Rs m)</b>					
Sales	815	920	1,059	15.1%	29.9%
Recruitment solutions	667	746	848	13.7%	27.1%
Others	148	174	211	21.3%	42.6%
EBITDA	284	349	421	20.7%	48.2%
Recruitment solutions	293	378	466	23.3%	59.0%
Others	-9	-29	-31	6.9%	244.4%
EBITDA margin	34.8%	37.9%	39.8%	183 bps	491 bps
Recruitment solutions	43.9%	50.7%	55.0%	428 bps	1102 bps
Others	-6.1%	-16.7%	-14.7%	197 bps	-861 bps

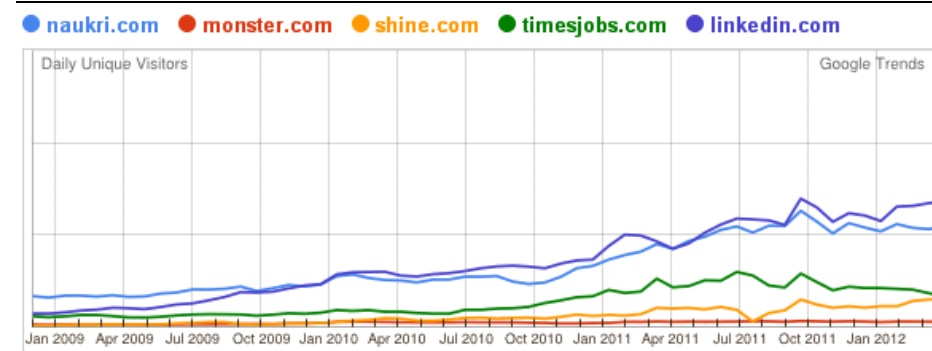
Source: Company, IIFL Research

**Naukri.com – ‘Offline’ initiatives are improving market share:**

The naukri.com portal continues to dominate India’s recruitment search portal space. During 4QFY12, the portal registered 27% YoY revenue growth against our expectation of 22.5% YoY growth. The management also indicated that its estimated market share increased to one of its highest ever during the quarter.

The demand environment for recruitment portals continues to be ‘unexciting’. However, naukri has almost constantly improved its per-client realisations over the past 12 quarters. We believe its significant expansion of sales and client servicing teams have been the main reason for improving realisations. The management commentary indicates that the company will continue to expand its sales and servicing teams aggressively in FY13.

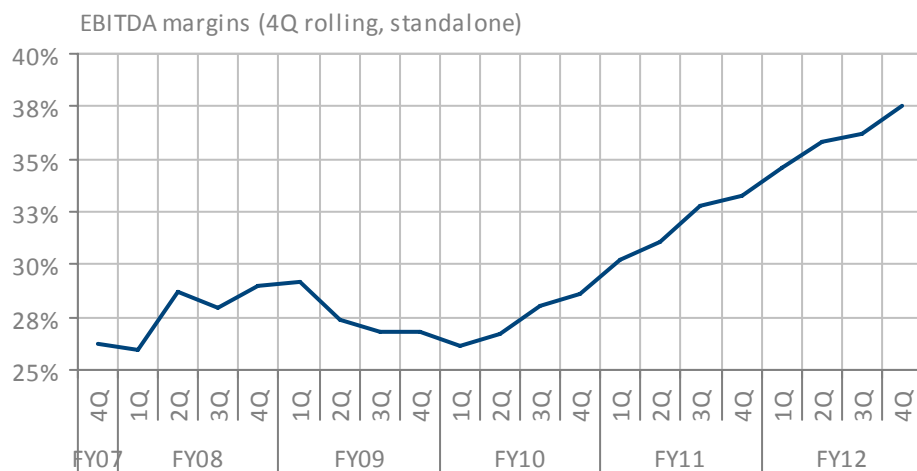
naukri.com continues to lead and gain market share despite the presence of international job portals such as monster.com and portals of media houses like the times group. In the near term, monster.com may launch its semantic search platform in India and increase competitive intensity. However, we believe naukri.com will continue to have an edge due to its much larger sales force and client servicing teams and a deeply entrenched presence. Moreover, the company is also planning to refresh naukri.com’s product in FY13.

**Figure 2: Among career portals in India, only linkedin matches naukri.com’s popularity:**


Source: Google trends IIFL Research

Despite an expanding sales force, naukri.com benefits from significant operating leverage. Its Ebitda margins have improved by 15pps since the 2008 lows (impacted by discounts). Along with improving profitability at its 99acres.com, standalone Ebitda margins also improved by 15pps since the 2008 lows.

**Figure 3: High operating leverage at naukri.com**



Source: Company, IIFL Research

**Tipping point at 99acres.com:**

99acres.com witnessed revenue growth of 63% YoY during 4QFY12. We believe the strong growth at 99acres.com, despite a lacklustre real estate market, indicates that it is increasingly converting brokers to use its platform for listings. Compared with a likely greater potential to monetise revenue through broker listings, we believe builders have been easy pickings so far. Unlike its recruitment portal naukri.com, real estate classified listings entail numerous issues (quality of content, verification of the broker/property etc.). From our earlier interactions with the management, we understand that it has made significant investments in ‘educating’ the broker in the use of the platform. We believe this initiative is starting to pay dividend.

**Zomato diversifies into e-commerce (event bookings):**

Although we liked Zomato’s utility of providing restaurant menus and an exhaustive list of search tags, we were sceptical about its ability to monetise restaurant classifieds. However, the portal recently expanded its bouquet of offerings. It strengthened its position in the restaurant information space by launching city-specific restaurant guides (available on flipkart). In addition, it has expanded into event bookings - a lucrative space with high margins.

**Education content/course portals are witnessing traction:**

Info Edge launched an ad campaign for its education portals (shiksha.com and meritnation.com). The education portals have numerous competitors such as free resources and khan academy); the management indicated that it has started witnessing good traction. We believe the space is at a nascent stage and the first mover is likely to have a formidable lead.

**Policybazaar – Navigating the regulatory risk:**

Policybazaar is a clear leader among insurance comparison sites in India. However, the IRDA regulation of limiting online lead generation commissions created a significant risk. We understand that policybazaar.com had to limit its ‘commissions’ following the regulation, but it was able to compensate through other services (incl. a BPO) to insurance companies. However, the risk of further regulation will continue to be an overhang.

**Valuation summary (Rs m)**

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
<b>Revenues (Rs m)</b>	<b>2,371</b>	<b>3,217</b>	<b>3,903</b>	<b>4,959</b>	<b>6,214</b>
EBITDA margins (%)	25.6	25.0	29.4	32.2	34.7
Pre-exceptional PAT (Rs m)	521	632	1,033	1,236	1,671
Reported PAT (Rs m)	521	632	1,033	1,236	1,671
Pre-exceptional EPS (Rs)	9.5	11.6	18.9	22.6	30.6
Growth (%)	(8.7)	21.3	63.6	19.6	35.2
IIFL vs consensus (%)				2.6	11.4
<b>PER (x)</b>	<b>79.4</b>	<b>65.5</b>	<b>40.0</b>	<b>33.5</b>	<b>24.8</b>
ROE (%)	14.9	15.6	21.5	21.3	23.6
Net debt/equity (x)	(1.0)	(1.1)	(1.0)	(1.0)	(1.0)
<b>EV/EBITDA (x)</b>	<b>61.9</b>	<b>45.6</b>	<b>31.4</b>	<b>21.9</b>	<b>15.5</b>
Price/book (x)	11.0	9.5	7.9	6.5	5.3

Source: Company data, IIFL Research

**Assumptions**

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Standalone revenue growth (%)	(5.3)	26.4	27.9	26.9	25.0
Standalone EBITDA margins (%)	28.7	33.3	37.5	39.7	41.9
Revenue growth of subsidiaries (%)	666.8	478.6	(47.8)	31.2	32.1
Income from Associates (Rs m)	(5.6)	(1.4)	(30.0)	(40.0)	(40.0)
Income tax rate - Standalone (%)	35.8	32.3	29.5	30.0	30.0

Source: Company data, IIFL Research

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
<b>Revenues</b>	<b>2,371</b>	<b>3,217</b>	<b>3,903</b>	<b>4,959</b>	<b>6,214</b>
<b>EBITDA</b>	<b>606</b>	<b>805</b>	<b>1,146</b>	<b>1,596</b>	<b>2,159</b>
Depreciation and amortisation	(65)	(80)	(83)	(104)	(141)
Ebit	541	725	1,062	1,493	2,018
Non-operating income	307	279	410	459	573
Financial expense	0	0	0	(1)	(1)
PBT	848	1,004	1,472	1,952	2,590
Exceptionals	(38)	52	(8)	0	0
Reported PBT	810	1,056	1,464	1,952	2,590
Tax expense	(318)	(400)	(529)	(676)	(880)
PAT	492	656	935	1,276	1,711
Minorities, Associates etc.	28	(24)	98	(40)	(40)
<b>Attributable PAT</b>	<b>521</b>	<b>632</b>	<b>1,033</b>	<b>1,236</b>	<b>1,671</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	9.5	11.6	18.9	22.6	30.6
DPS	0.4	0.8	2.0	2.4	3.2
BVPS	68.6	79.7	96.3	116.2	143.0
<b>Growth ratios (%)</b>					
Revenues	(3.5)	35.7	21.3	27.1	25.3
Ebitda	(6.0)	32.9	42.3	39.3	35.2
EPS	(8.7)	21.3	63.6	19.6	35.2
<b>Profitability ratios (%)</b>					
Ebitda margin	25.6	25.0	29.4	32.2	34.7
Ebit margin	22.8	22.5	27.2	30.1	32.5
Tax rate	39.2	37.9	36.1	34.6	34.0
Net profit margin	20.8	20.4	24.0	25.7	27.5
<b>Return ratios (%)</b>					
ROE	14.9	15.6	21.5	21.3	23.6
ROCE	24.2	24.7	30.5	33.5	36.5
<b>Solvency ratios (x)</b>					
Net debt-equity	(1.0)	(1.1)	(1.0)	(1.0)	(1.0)
Net debt to EBITDA	(6.4)	(5.8)	(4.7)	(4.0)	(3.7)
Interest coverage	0.0	0.0	0.0	NM	NM

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Cash & cash equivalents	3,864	4,678	5,349	6,418	8,022
Inventories	0	0	0	0	0
Receivables	80	149	181	229	287
Other current assets	219	200	243	309	387
Creditors	209	351	395	475	566
Other current liabilities	686	1,141	1,480	1,741	2,189
<b>Net current assets</b>	<b>3,268</b>	<b>3,535</b>	<b>3,898</b>	<b>4,740</b>	<b>5,942</b>
Fixed assets	345	694	729	750	784
Intangibles	19	47	29	29	29
Investments	68	26	511	671	831
Other long-term assets	54	72	91	113	143
<b>Total net assets</b>	<b>3,753</b>	<b>4,374</b>	<b>5,280</b>	<b>6,364</b>	<b>7,829</b>
Borrowings	6	7	7	7	7
Other long-term liabilities	0	16	16	16	16
<b>Shareholders equity</b>	<b>3,746</b>	<b>4,351</b>	<b>5,257</b>	<b>6,341</b>	<b>7,807</b>
<b>Total liabilities</b>	<b>3,753</b>	<b>4,374</b>	<b>5,280</b>	<b>6,364</b>	<b>7,829</b>

### Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY10A	FY11A	FY12ii	FY13ii	FY14ii
EBIT	541	725	1,062	1,493	2,018
Tax paid	(318)	(400)	(529)	(676)	(880)
Depreciation and amortization	65	80	83	104	141
Net working capital change	29	547	308	227	402
Other operating items	0	0	0	0	0
Operating cash flow before interest	317	951	925	1,147	1,681
Financial expense	0	0	0	0	0
Non-operating income	307	279	410	459	573
<b>Operating cash flow after interest</b>	<b>624</b>	<b>1,231</b>	<b>1,335</b>	<b>1,607</b>	<b>2,254</b>
<b>Capital expenditure</b>	<b>(39)</b>	<b>(393)</b>	<b>(100)</b>	<b>(125)</b>	<b>(175)</b>
Long-term investments	34	41	(515)	(200)	(200)
Others	(34)	(19)	79	(62)	(70)
<b>Free cash flow</b>	<b>584</b>	<b>860</b>	<b>799</b>	<b>1,220</b>	<b>1,809</b>
Equity raising	0	0	0	0	0
Borrowings	3	1	0	0	0
Dividend	(24)	(48)	(128)	(152)	(205)
Net chg in cash and equivalents	563	813	671	1,069	1,604

Source: Company data, IIFL Research

#### Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

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