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Kotak Institutional Equities

BRICKS TO CLICKS

The Internet is gaining commercial scale

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Internet

Sector

ATTRACTIVE

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INITIATING COVERAGE

BSE-30: 20,926

Bricks to clicks—the Internet is gaining commercial scale.

From dating to shopping, banking to travel, learning to leasing, the Internet is India's new mantra—slowly but surely it is gaining commercial scale in areas such as advertising, retail and travel. India's Internet story is unique—though it has already achieved immense scale, there is large growth potential ahead, as well. We initiate coverage of two online businesses (1) Info Edge (BUY: TP: ₹530) and (2) Just Dial (ADD: TP: ₹1,250).

The Internet—exponential growth; focus on eyeballs, monetization follows

The Indian Internet market is unique—it is already large (190 mn Internet users), but still has exponential growth ahead of it in terms of penetration (only 17%) and participation (less than 10% Internet users transact online). Over three-fourths of its users are less than 35 years old and thus keen to embrace this change. The Indian Internet market is driven by (1) bandwidth, (2) content, (3) rising disposable income and (4) increased penetration of plastic money. Companies like Google and Facebook have an advertising revenue-based model. We believe others in areas such as online retail, education and multimedia will follow a mix of transaction and subscription-based models. Although India has only a few listed companies in this space, unlike China and the US, we believe (1) Internet businesses have strong growth and cash flows and (2) the Internet will gain relevance for equity markets as commercial businesses scale up.

Nascent online retail space throws open race for leadership; advertising is small but scaling up

While sharing perspective on several business models on the Internet (social media, multi media), we focus on two key business models, (1) online retail and (2) advertising. The nascent Indian online retail market is a bud about to bloom. In it, Flipkart leads quite comfortably, with high user engagement, though peers with a similar reach and global players, such as Amazon and Ebay, have intensified the battle for leadership. Online advertising, which is limited by low Internet penetration, has strong growth potential due to increasing Internet reach and corporate interest in engaging with consumers.

Info Edge—cash in the jobs market; other businesses aim at scale, profitability; BUY (TP: ₹530)

We initiate coverage of Info Edge with a BUY rating and target price of ₹530 as we see (1) a large untapped opportunity in non-IT verticals in recruitment, real estate and education, (2) earnings CAGR of ~28% over FY2013-17E as contribution from other businesses scale up, (3) a strong cash profile and (4) reasonable valuations (~25X FY2015E P/E excluding value for Zomato and other investments) in spite of significant ex-recruitment losses. Key risks are competition across verticals, investment focus to realize opportunities and business cycle weakness.

Just Dial—increasing use, enhanced monetization to help to sustain growth; ADD (TP: ₹1,250)

We initiate coverage of Just Dial with an ADD rating and target price of ₹1,250, based on strong growth potential (increasing use in the base business, enhanced penetration from new initiatives). The company has a large and fast growing base of incoming search requests and aims to broaden the engagement and enhance monetization by enabling transactions, as well. While potential is immense the key risks include (1) scaling up monetization from unorganized businesses, (2) competition from Google, (3) likely limited use beyond large cities and (4) new initiatives that are yet to take off.

INSIDE

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The prices in this report are based on the market close of December 12, 2013.

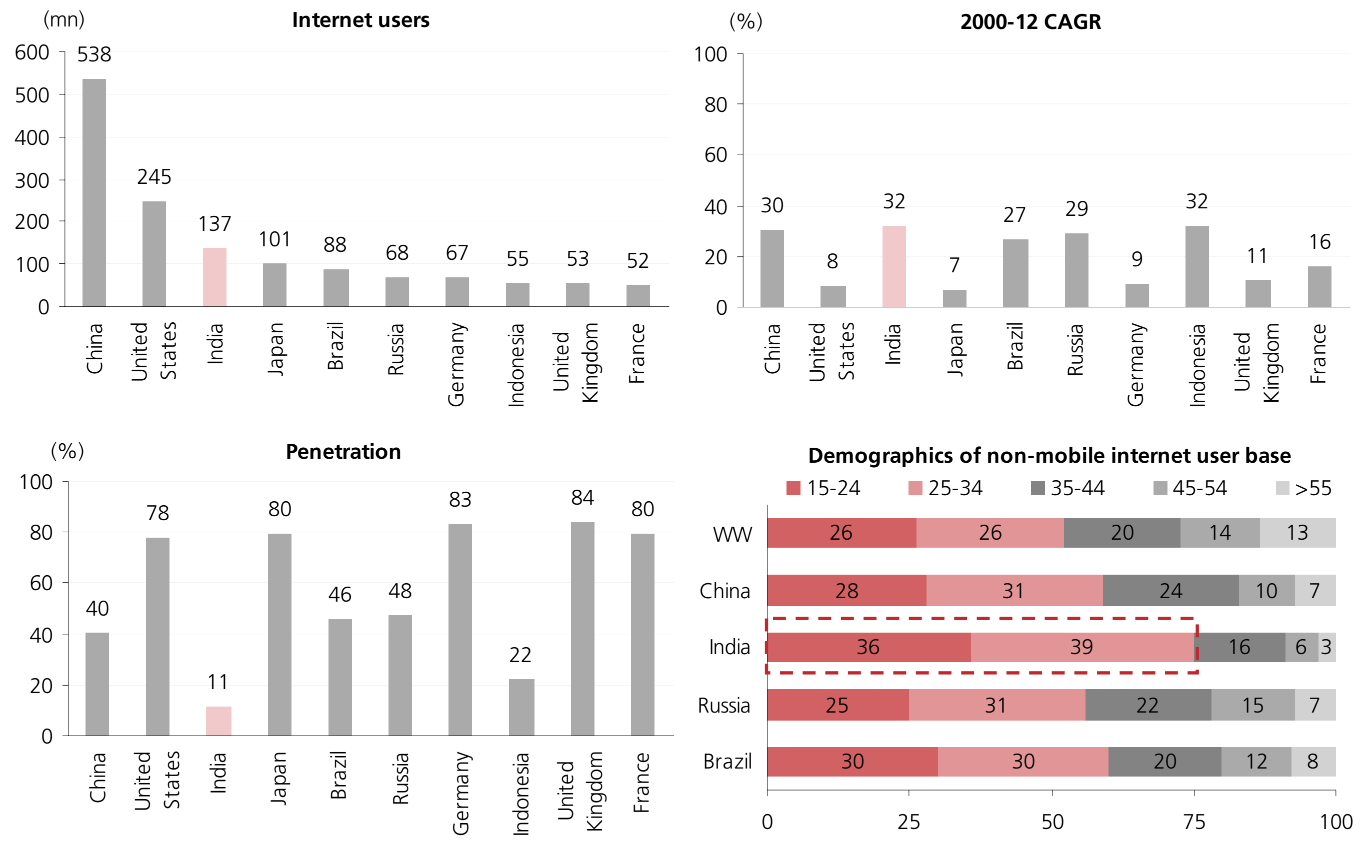
OVERVIEW—PENETRATION, PARTICIPATION TO LEAD SCALE-UP OF BUSINESS OPPORTUNITY

The Indian Internet market is large and growing, rich in inclusive reach and demographics. We expect it to grow 8X to US$20 bn over the next decade (excluding online travel) led by (1) growth in the Internet user base (can increase 3X) and (2) increase in the share of Internet users transacting online (can double to 20%). Key beneficiaries will be businesses in (1) online retail (strong value proposition) and (2) online advertising (low share in advertising but can scale up). Risks to growth of India's Internet story are (1) lack of a domestic ecosystem, unlike China, (2) regulatory constraints to foreign direct investment in online retail and (3) language issues impeding internet use.

India's Internet market—rich and diverse; growing rapidly

- **Geographically inclusive and demographically rich user base.** India's Internet market has three defining characteristics—(1) it is already a large market (~200 mn users at the end of June 2013) with 30 mn quarterly user additions (60% annualized growth), (2) it is a geographically inclusive market with key applications such as e-commerce and social media having broad-based reach and (3) its user base is high in demographic quality (three-fourths of its users are under 35 years old versus the world average of 50%).

Exhibit 1: India is a unique market in terms of scale, growth, potential and demographics
Indian Internet users as of June30, 2012 (mn %)



Notes:
(1) The demographics data is for March 2013 and limited to a subset of India's user base (home and work users over 15 years old).

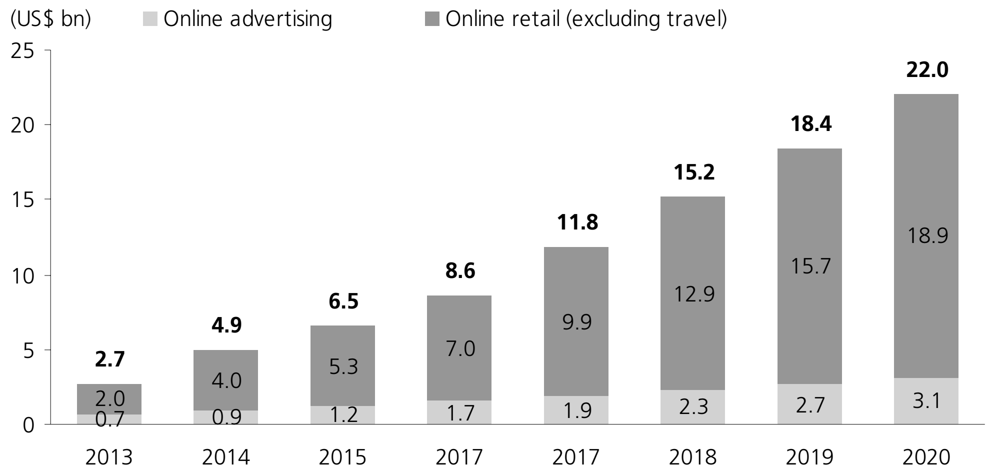
Source: Internetworldstats.com, Kotak Institutional Equities

- **Growing businesses in travel, retail and advertising.** From a business perspective, the Internet market is dominated by online travel (US$7 bn market) with air travel being the key contributor (followed by rail and hotels). The Indian customer was introduced to e-commerce through online travel (a rail ticketing site launched in 2004, air travel sites in 2006). Strong value proposition and an early start led to the online travel market growing to its current large size. The other key business stream to be added to India's Internet market was online retail (Flipkart was launched 2008) and has grown into a ~US$2 bn segment. The third component of the Indian market is online advertising, leveraging the large Indian user base. This market is small at ~US$0.5 bn including the US$120 mn classifieds market. We shall discuss these three businesses in detail subsequently.

Potential to grow 10X by 2020; enablers in place

While India has in an already large and growing Internet market, its low Internet penetration (13% as of end-March 2013) and even smaller share of users transacting online (10%) reflects strong growth potential. We expect the Internet market (excluding travel) to grow by 10X its current size (US$2.7 bn) or about US$22 bn by 2020. Our estimate factors India's Internet user base increasing by 3X (mobile penetration is 6X of that of Internet penetration) and the share in it of those transacting online doubling to 20%.

Exhibit 2: The Internet market can grow 10X by 2020 to US$22 bn
Growth trajectory of India's Internet market over 2013-2020E, March fiscal year-ends (US$ bn)



Source: FICCI-KPMG report on FRAMES 2013, Kotak Institutional Equities estimates

The key enabler of such a strong scale-up in the Internet market is likely to be mobile, based on a current high subscriber base, which is incrementally showing preference for high-end feature phones and smart phones. This is visible in TRAI's performance report for the quarter ending June 2013, which indicates that almost all the Internet user additions originated from the mobile platform (desktop user base has become stagnant). Smart phones crossed 10 mn quarterly sales in the quarter ending September 2013, accounting for 16% of handsets sold in the quarter. The 3G subscriber base reached 37 mn, against a fixed broadband subscriber base of about 15 mn. Other enablers of India's growth story are also in place—(1) a payment system in which the electronic mode has become mainstream and (2) a growing middle class, with the ability to pay for value and to access Internet.

- **Online retail.** Online retail in India is in a nascent stage with one out of 12 Internet users transacting online (excludes online travel) and the average spend is about US$170 a year, yielding a US$2 bn market size (gross merchandise value). Most of the online retail market comprises electronics (64%), followed by apparel and accessories (20%) and books (5%). The major online retail portals (Flipkart, Jabong, Snapdeal, Myntra) clock more than 15,000 transactions a day versus about 8,000 by Croma. This reflects the increased reach and acceptance of the online retail model. Interestingly, most e-commerce in India takes place outside the top-30 cities, where there is a lack of choice of brands and several products are scarce. This is expected to support penetration-led growth of online retail in the medium term.

- **Online advertising.** Online advertising is a small US$0.7 bn market, including the online classifieds market (about US$120 mn). This excludes the local search market, which is another US$500 mn. A key driver of the segment will be advertising by small and medium sized businesses (47 mn). A key player in the market is Just Dial (accounts for about half the online classifieds revenue). It has more listings than the print media put together.

- **Online travel.** About 22 mn Internet users transacted online last year, most of them using the Internet to make travel arrangements. The online travel market in India (US$7 bn) comprises air travel (US$4 bn), rail travel (US$2 bn) and hotels and others (US$1 bn). Online travel has garnered a significant 40%-plus share of the overall travel market (online share of air travel is 47% and that of rail travel is 40%). The key player in the online air travel business is Makemytrip (~50% market share) and in rail travel, IRCTC.

Exhibit 3: Key factors driving market growth are increase in Internet penetration and growing share of online transactors in it
Market sizing of Indian internet market and related assumptions, March fiscal year-ends, 2013-23E

	2013	2020	Comment
Quantum (US$ bn)			
Online advertising			
Total advertising (including classifieds)	**7.7**	**17.0**	
Digital advertising	0.5	2.5	Driven by growing penetration, tempered by efficiency gains
Classifieds	0.1	0.6	
Online advertising	**0.7**	**3.1**	
Implied share of overall advertising spend (%)	*8.5*	*18.2*	
Online retail			
Online buyers (mn)	12.0	94.6	Driven by deepending online penetration & higher share of online buyers
Per user p.a. transaction value (US$)	167	200	Assuming growth in per user p.a. transaction value
Online retail (excluding travel)	**2.0**	**19.5**	
Total market	**2.7**	**22.6**	
Assumptions (%)			
Internet penetration	13.0	35.0	Based on user addition trend and discussion with industry participants
Share of Internet users buying online	10.0	20.0	
Population (mn)	1,218	1,393	Based on historical growth rate
Internet population (mn)	158	487	
GDP CAGR for the decade (%)	7.0	7.0	
Advertising to GDP growth multiplier (X)	1.5	1.5	Based on historical trends
Growth (%)	12.0	12.0	
Efficiency gains from online advertising (%)		30.0	

Source: FICCI-KPMG report on FRAMES 2013, Kotak Institutional Equities estimates

Risks to India's Internet growth story

- **Absence of domestic ecosystem curbs potential to repeat China growth story.** India is yet to develop its domestic ecosystem to propel online retail. China benefited from favorable starting conditions (strong broadband penetration, large base of small merchants) and developed its own ecosystem for online retail (see the exhibit below, which lists major Chinese players in various facets of an online retail business model). India scores low on these conditions—(1) low single-digit broadband penetration, (2) hollow sellers' base (eBay India has 12,000 merchants versus 2 mn sellers at China's largest marketplace). The Indian online retail market would still grow, led by a strong value proposition though it may not be able to match the China growth story (the Chinese Internet market grew by15X over the past 5-6 years.).

Exhibit 4: Large US and Chinese companies

China	United States
Independent B2C	
360buy	Amazon
amazon	Staples
Suning.com	Apple
Marketplace	
TMALL.COM	eBay
Taobao	
Paipai	
Online advertising	
Baidu	Google
Taobao	Yahoo
Google	Microsoft
Express delivery	
EMS	UPS
SF Express	FedEx
Payment	
Alipay	PayPal
Tenpay	

Source: McKinsey, Kotak Institutional Equities

- Regulatory constraints. India's retail policy, allowing 51% of foreign direct investment, does not apply to online retail, with intention of protecting the interests of domestic companies from global competition. Investments in the sector are thus taking place through alternative routes—(1) separation of front-end (retailing) and back-end operations (FDI then takes place in the back-end company) and (2) adoption of the marketplace model (investment in such market platforms is allowed). While this partly resolves the issue of FDI in the sector, the regulation, in its current form, raises additional issues (branding, exit). The industry expects this regulatory constraint to be lifted as domestic companies scale up their operations.

- Limit set by English-speaking population. Another limitation to India's Internet growth story comes from its limited number of English-speaking people (estimated at 125 mn). This would require websites to having local language content and related technology to increase Internet penetration in India. Local language models would throw up issues related to (1) communication (English, as a medium, is easier to communicate in), (2) the capability of the website in terms of features that can be used and (3) the difficulty for foreign majors the drive growth in the sector.

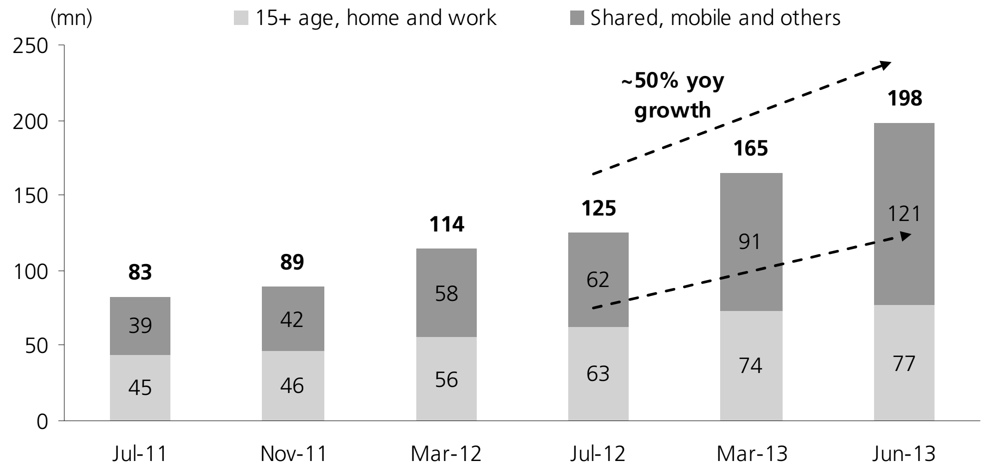
BANDWIDTH, CONTENT, INCOME, PAYMENT INFRASTRUCTURE DRIVE INTERNET GROWTH

Internet growth has been driven by the interplay of (1) bandwidth, (2) content (travel, social media and e-commerce), (3) rising disposable income and (4) increased penetration of plastic money. Accelerated growth may likely be based on (1) mobile broadband (3G and 4G), bypassing limitations of a fixed-line network and (2) deeper user engagement with scale-up in content and commercialization (online retail, multi-media subscriptions). India's scale is unique—it has the third largest online user base, the second fastest growing online population and over three-fourths of users are less than 35 years old. However, due to very low use and negligible broadband penetration, it is far away from reaching its true potential.

#1: Bandwidth—wire line is reaching its limits; wireless must take over

The Internet can be accessed through narrowband (sub-256 kbps upload speeds or sub-512 kbps download speed) or broadband (over 256 kbps upload speed and over 512 kbps download speed). Broadband is more important from an e-commerce perspective (higher speeds are beneficial for use and online payments). While the number of fixed broadband accounts is stagnating, mobile broadband is growing (3G is gaining traction). Even in overall Internet expansion, mobile Internet users have matched fixed Internet users in quantum terms and are outpacing them in growth terms. We expect mobile to incrementally take over as the key propeller of Internet reach. Exhibit 5 suggests the addition of about 30 mn Internet subscribers in the quarter ending September 30, 2013 against 50 mn additions in all of FY2013 and about 40 mn additions in FY2012. Most additions are mobile subscribers.

Exhibit 5: Mobile forms a significant share of India's user base and is driving its growth
India's Internet user base (mn)



Notes:
(1) The end of March and end of September 2013 figures for Internet subscribers are based on TRAI data.
(2) The number of home and work Internet users is interpolated from ComScore data for March 2013 and at the end of July 2013.

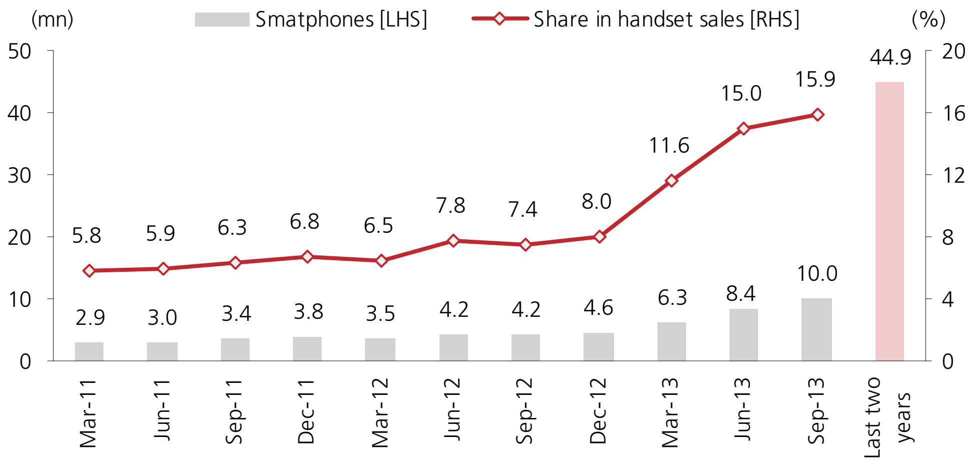
Source: ComScore, Telecom Regulatory Authority of India, Kotak Institutional Equities

Wireless—driving Internet penetration; transition to 3G positive for e-commerce

- **Most users are comfortable accessing the Internet through mobile phones.** Data from TRAI suggests 176 mn out of 198 mn Internet users in India access the Internet through wireless phones.

- **Enablers in place for transition to mobile broadband.** Most of the 143 mn mobile Internet users use narrowband Internet solutions, though we note the potential for these users to convert to faster broadband platforms. Key drivers of the transition to 3G networks are (1) increased marketing focus by service providers and (2) a surge in the adoption of smart phones (larger screen-sizes incentivize the use of video feeds, which require larger bandwidth). The quarterly run-rate of smart phone sales rose to 6 mn in 4QFY13 from 3.5 mn in 4QFY12.

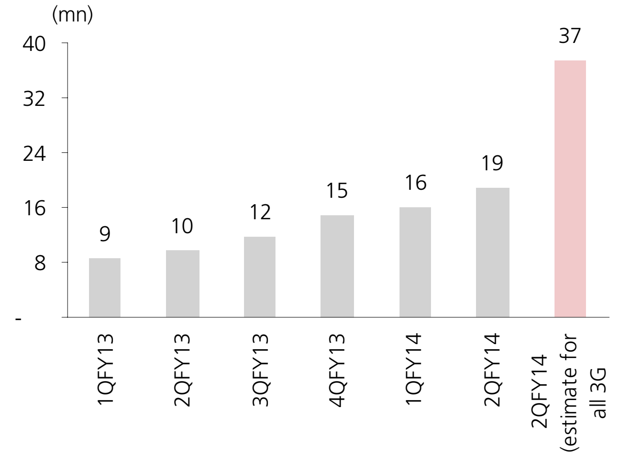
Exhibit 6: Smart phones sales jumped to 10 mn in 2QFY14 and account for 16% of handset sales
Quarterly sales of smart phone mobile handsets in India, March fiscal year-ends, 2011-13 (mn)



Source: Gartner, Kotak Institutional Equities

- **Current base has gained significantly versus fixed broadband.** Industry-level 3G connections almost doubled yoy by the quarter ended in September 2013 to 37 mn (2X the base of Bharti, Vodafone and Idea). While not exactly comparable to a 15 mn fixed broadband subscriber base (one connection at a cyber café may support many users), the 37 mn mobile base using 3G reflects the growing significance of mobiles in the broadband space.

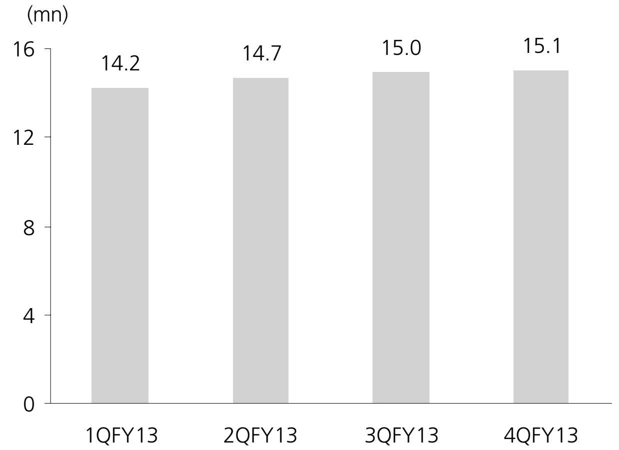
Exhibit 7: 3G connections almost doubled yoy to about 37 mn
3G connections of Bharti, Vodafone and Idea, March fiscal year ends, 2013-2QFY14 (mn)



Notes:
(1) End-September 2013 3G connections are assumed to be 2X the base of Bharti, Vodafone and Idea.

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: The quantum and growth of 3G connections assume significance against a stagnating base of fixed broadband subscribers
Fixed broadband subscribers, March fiscal year-ends, 1QFY13-1QFY14 (mn)



Notes:
(1) Fixed connections may support multiple users.

Source: TRAI, Kotak Institutional Equities

4G—improves the value proposition for mobile Internet

4G essentially provides Internet access for mobile applications (smart phones, laptops), at 100 megabytes per second (mbps) (it increases to 1 gigabyte per second for stationary applications). 4G networks enable data-heavy applications (video conferencing, high-definition TV, gaming, Internet telephony) on a mobile platform. The two 4G systems in commercial operation are (1) mobile WIMAX and (2) Long Term Evolution (LTE). Indian service providers (Airtel, Reliance, Tikona) have opted for LTE technology, the newer of the two technologies, launched in 2010.

- **Airtel: Qualcomm deal helps to expand its presence in key circles.** Airtel launched its 4G operations in June 2012 in Kolkata and expanded them to Bangalore and Pune. After it bought into Qualcomm's India broadband venture, Bharti got access to four more circles, Delhi, Mumbai, Haryana and Kerala.

- **Reliance: Only private pan-India license; aims to start from Kolkata this year.** Reliance won a pan-India license for broadband wireless access (BWA) services covering all 22 circles, for ₹128 bn—it was the only operator besides the BSNL/MTNL combine to have won a pan-India license. The company aims to launch 4G services in Kolkata (it has laid 400 kms of optical fiber cables in West Bengal). Relaince Jio recently announced a comprehensive agreement with Bharti to share telecom infrastructure. The arrangement would help Reliance to roll out 4G services in Punjab.

- **Tikona.** The company has been conservative in bidding for BWA spectrum, where it won five circles (includes only one A circle in Gujarat) for ₹10.6 bn. It earlier said it planned to launch 4G services in the latter half of CY2013 though this is yet to take place. The company has a broadband subscriber base of about 300,000 and intends to merge its 4G services with its broadband offering (wi-fi mode, when fixed; 4G mode, when mobile).

Exhibit 9: RIL and Bharti are private sector entities with key spectrum assets
4G spectrum won in May 2010 during the 2.3 GHZ BWA auction

	Circles		Amount spent	
	Total	Metro/A circle	(₹ bn)	Where launched
Infotel (RIL's subsidiary)	22	8	128.4	NA
BSNL/MTNL	22	8	128.4	NA
Bharti (including Qualcomm)	8	5	82.2	Kolkata, Bangalore, Pune, Chandigarh
Aircel	8	2	34.3	NA
Tikona	5	1	10.6	NA
Total			**385**	

Source: Department of Telecom, Kotak Institutional Equities

Other Internet mediums have limited near-term potential

Other modes of Internet adoption, cable and fiber optics networks, have limited near-term potential.

- **Cable.** Cable supports about 1 mn Internet subscribers and can potentially benefit from increased adoption of digital cable (user base of about 19 mn). However, the fragmented nature of the industry limits investment in this opportunity.

- **National optical fiber network.** The National Fiber Optics Network aims to connect 0.25 mn gram panchayats. This can translate into 8-10 mn subscribers (assuming 50 subscribers per panchayat). However, the project is running more than two years behind schedule with the first major order yet to be announced (news reports point to bids being recently opened for a ₹25 bn contract against a ₹200 bn project cost).

- **DSL.** TRAI data suggests over 15 mn fixed broadband users. However, poor quality copper loops in existing connections and a wire-line base (30 mn users) limit DSL's potential to grow Internet penetration.

Exhibit 10: Mobile has the largest broadband base and potential for scale -up in the near term
Potential for broadband scale-up in India

	Immediate covertible base		Current broadband base		
	Metric	(mn)	(mn)	Potential	Comment
Cable	Digital cable subscribers	19	1	Low	Industry fragmentation limits will to invest
DSL	Wireline tele subscribers	30	15	Low	Quality of copper loops may limit incremental penetration
Fiber optics	@50 per gram panchayat	13	Negligible	Medium	Access to 0.2 mn gram panchayats may yield 12 mn subscribers
Mobile	Mobile Internet subscribers	143	30	High	3G adoption constrained by lack of marketing spends (internationally, 30% penetration is achieved in the first five years)

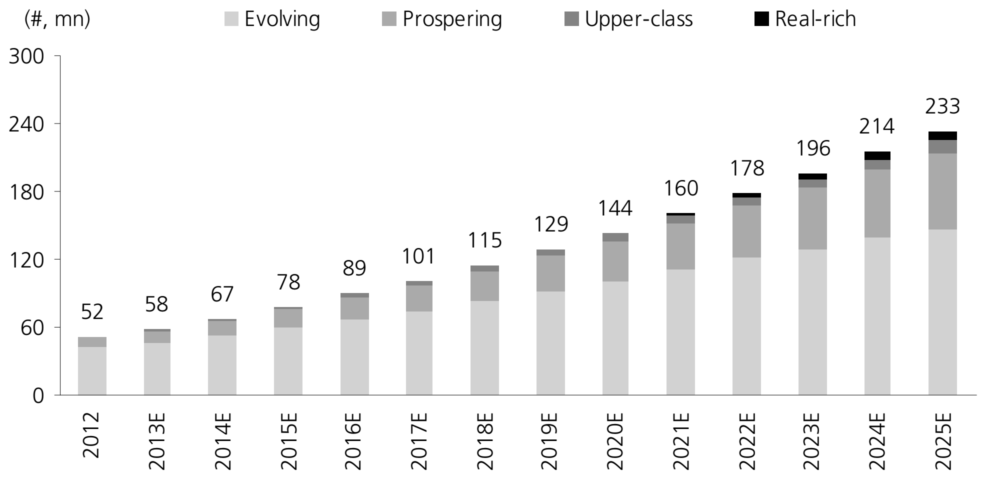
Source: Company, Kotak Institutional Equities

#2: An increasing number of people can afford broadband

Based on the National Survey of Household Income and Expenditure (NSHIE 2011) conducted by the National Council for Applied Economic Research (NCAER), India had about 31 mn middle-class households (₹0.25-1.25 mn annual income) in FY2011. This is equivalent to about 160 mn individuals and is similar to the number of Internet subscribers in India. The agency expects the number of households to grow to 53 mn (1.7X) or 267 mn individuals by FY2016.

Another analysis, based on distribution of monthly consumption expenditure (Household Consumer Expenditure Survey, 68th round, June2011-12) indicates about 52 mn households have spends of over ₹5,000 a month. The households can have single/multiple connections of mobile Internet. A GPRS connection on mobile costs about ₹100/month or a less than 2% increase in monthly expenditure. Kotak's proprietary model, RUPEES, shows the number of such households is expected to double to 100 mn by 2017.

Exhibit 11: Households with more than ₹5,000 monthly expenditure will double to 100 mn by 2017
Households with monthly expenditure of more than ₹5,000, March fiscal year-ends, 2012-25E (mn)



Source: Ministry of Statistics and Programme Implementation, Kotak Institutional Equities estimates

#3: Payments: Electronic mode becomes mainstream

Electronic transactions account for about 90% of non-ATM money transactions and a large share of the retail payments. Electronic is the mainstream mode of payment even for retail clients. This reflects the comfort of the people in transacting online. Most of these users use Internet to transfer money or make payments (only 11 mn actually buy products online). Such users can incrementally use Internet for online retail.

- **Overall mix—electronic mode is prevalent.** Electronic transactions account for over 90% of money-related transactions (excluding ATM transactions) and most of the overall transaction value. This is in sharp contrast to FY2006 when over 80% of transactions (in number and value) were made through checks.

Exhibit 12: The electronic mode of payment is mainstream
Share break-up of non-ATM payment transactions by retail and institutional customers, March fiscal year-ends, 2004-13 (%)

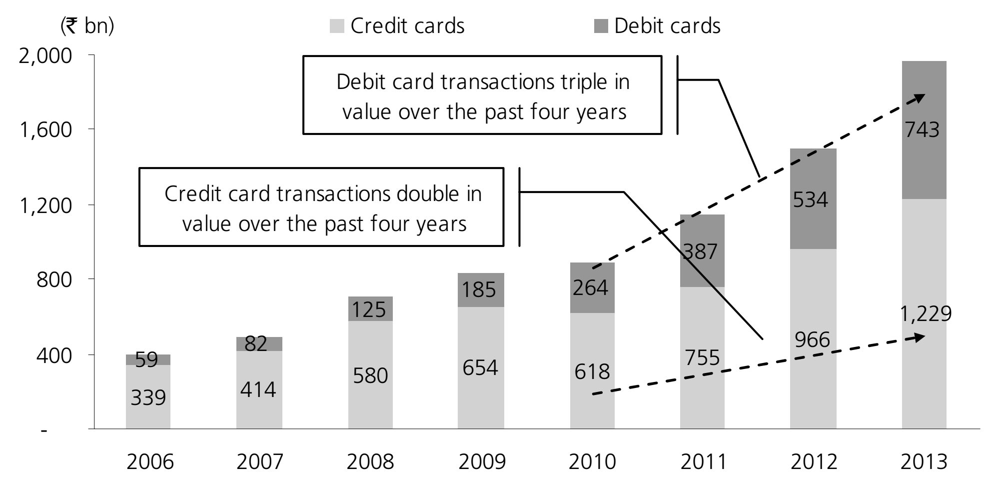
	Share in value of transactions			Share in number of transactions		
	Electronic	Checks	Cards	Electronic	Checks	Cards
2004	0.3	99.6	0.2	2.4	86.0	11.6
2005	3.0	96.7	0.3	4.2	83.6	12.2
2006	19.1	80.7	1.2	5.3	81.8	12.9
2007	37.8	61.9	0.3	8.7	78.2	13.1
2008	55.9	43.9	2.2	11.1	73.0	15.9
2009	61.9	37.8	0.3	14.1	67.3	18.6
2010	74.1	25.6	0.3	16.2	64.8	19.0
2011	78.5	21.3	0.2	19.3	59.2	21.5
2012	80.5	19.2	0.3	22.1	52.6	25.3
2013	93.8	6.0	0.1	26.0	44.6	29.4
2013 (absolute)	**569 mn**	**1,341 mn**	**678 mn**	**₹1,559 tn**	**₹100 tn**	**₹2 tn**

Source: RBI, Kotak Institutional Equities

- **Retail mix: Electronic mode preferred, especially for small transactions.** In FY2013, the transaction base of ₹1,662 tn included certain institutional payment categories such as CBLO (₹500 tn) and RTGS (₹1,000 tn). Excluding these payments, the quantum was lower, at ₹134 tn. Within these, the electronic mode accounted for most payments, especially small transactions. Checks were preferred for large payments.

- **Within the retail mix, the share of cards is growing.** Debit and credit card payments have multiplied over the past four years—transactions through debit cards tripled to ₹743 bn in FY2013 and credit card transactions doubled to ₹1.3 tn.

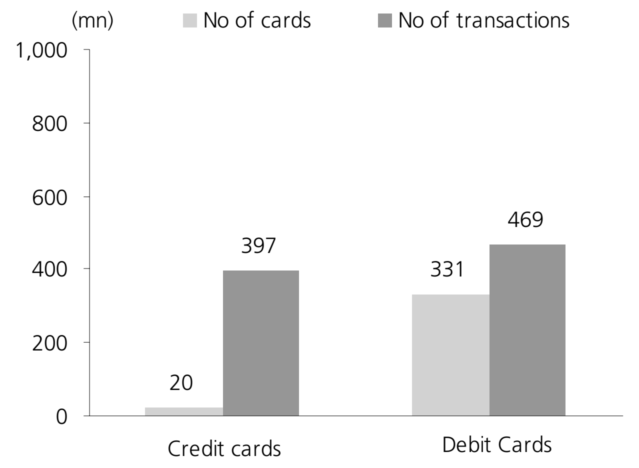
Exhibit 13: Credit and debit card transactions have multiplied, in value terms, over past four years
Debit and credit card transactions, March fiscal-year ends, 2006-13 (₹ bn)



Source: RBI, Kotak Institutional Equities

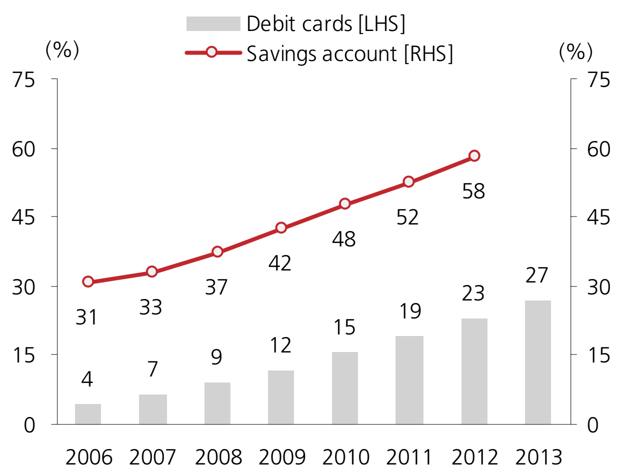
- **Debit card user base holds large potential.** We note that while the number of debit cards has been increasing (7X in seven years to 331 mn), most are used for ATM transactions. In FY2013, the debit card base yielded only 469 mn transactions, implying about 1.5 transactions a card in the year. This compares unfavorably with about 20 transactions a year for every credit card in FY2013. Put in another way, this explains why the value of credit-card transactions exceeds that of debit-card transactions in spite of the number of credit cards being one-fifteenth the number of debit cards. A large debit card base represents potential to convert incremental Internet users to online transactors.

Exhibit 14: Most debit cards are used for ATM-related purposes
Debit/credit cards issued and transactions in 2013, March fiscal year-end (mn)



Source: RBI, Kotak Institutional Equities

Exhibit 15: The wide debit card reach holds potential to turn users into transactors
Debit card and savings account penetration in India, March fiscal-year ends, 2006-13 (%)



Notes:
(1) The analysis assumes 1.5% population growth a year over the 2011 census base.

Source: RBI, Kotak Institutional Equities estimates

#4: Content: Marked preference for social networking and multimedia

Indian Internet users have concentrated interests when it comes to accessing content on Internet. This is partly led by concentration of the user base in the under-35 year-old category (more than 75% of users). Users access the Internet mainly to social network (seven out of eight online users; each using the Internet for four hours a month) and for email (four out of five online users). Entertainment is a wide category (~90% of online users access entertainment websites). Within entertainment, video is the key sub-segment (73% reach, seven hours per user a month). The categories are broadly in line with world averages in reach and two-thirds of the world average in terms of use.

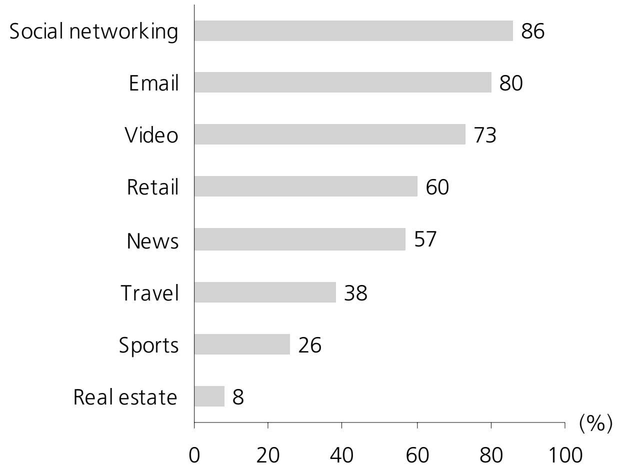
Segments in which India lags the world average reach and use by a large margin include (1) news (57% reach; 0.5 hour a month), (2) sports (26% reach, 0.5 hour a month) and (3) real estate (8% reach; 0.3 hour a month).

We expect e-governance and online retail to add to the value proposition of Internet for the Indian user.

- **E-governance.** We note the trend of public services moving online. Key instances of this trend are (1) applications for passports, (2) digitalization of land records and (3) computerization in government departments. The Government approved the National e-Governance plan, which comprises 31 mission mode projects.

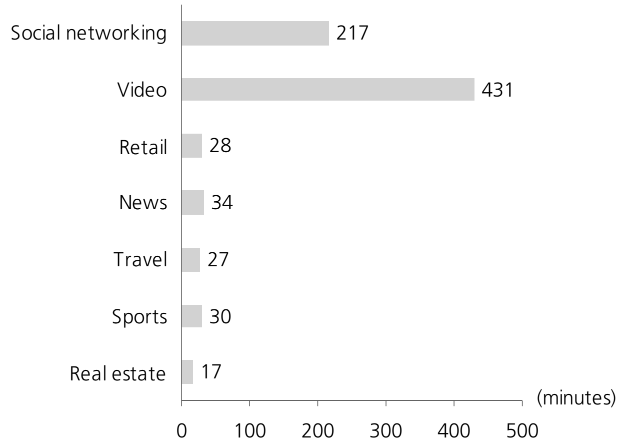
- **Online retail.** An area that is rapidly gaining ground in India is online retail. It has grown briskly in countries like the US and China and it looks very promising in India, even though online retail is in the nascent stage. We discuss more on online retail subsequently.

Exhibit 16: Marked preference for social networking and email
Share of online users in India accessing key activities, March 2013 (%)



Source: ComScore, Kotak Institutional Equities

Exhibit 17: Social networking and video—key drivers of engagement
Monthly use for key categories in March 2013 (minutes)



Source: ComScore, Kotak Institutional Equities

ONLINE RETAIL—RACE FOR LEADERSHIP IN A NASCENT, HIGH-POTENTIAL MARKET

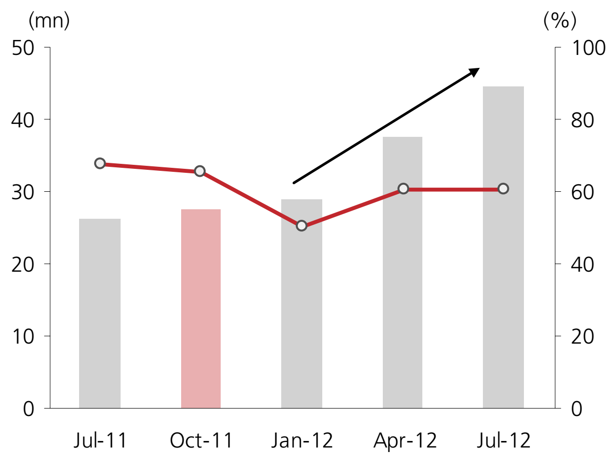
Indian online retail is a nascent market, size-wise, but it is growing briskly. Strong value proposition versus physical purchase (limited reach, time/infrastructure constraints, real estate costs) and low Internet penetration are expected to support a scale-up. The main factors affecting cost economics/solvency are (1) competition (battle for leadership and survival), (2) regulatory hurdles and (3) hard cost economics (high upfront investment in customer conversion with additional cost for customer loyalty).

E-commerce refers to the digitization of money-related transactions. IRCTC and other travel portals initially propelled e-commerce but now the segment has become more prominent due to the increasing reach of online retail. The popularity of online retail is driven by (1) infrastructure constraints—there is no need to physically get to a vendor or face the associated inconveniences, (2) convenience—a consumer can compare products online, saving time and effort and (3) high land costs for a vendor, which adds to the price of a product. Online retail also offers a platform to launch niche products (such as premium beauty products). A limited, widespread customer base for such niche businesses reduces potential to set up a physical business.

Demand—a growing user base with strong potential for growth in use

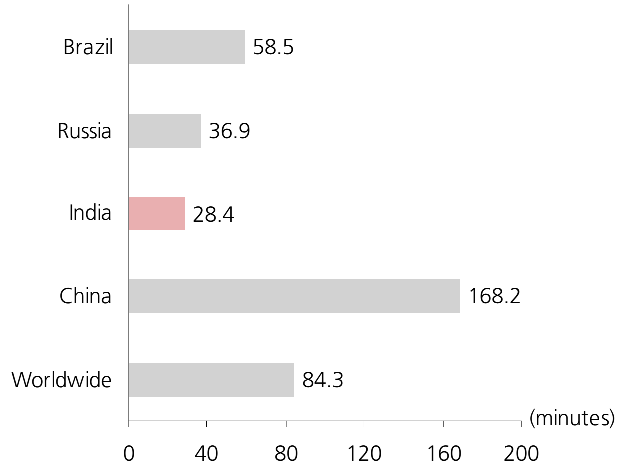
Online retail attracts a large 60% share of online users in India each month. The number of users accessing online retail portals is growing in line with the market (~30% yoy growth in March 2013). The market, though, is still under-developed—use is a third of the world average and a seventh of China's. Scale-up in use will take place as users realize the inherent value of e-commerce. Exhibits below capture the online reach and use of retail. We define online reach of a certain Internet activity as the share of online users accessing Internet for that purpose. We define use for a certain Internet activity as time spent by an average user accessing the Internet for that purpose.

Exhibit 18: Online retail reach has grown briskly since January 2012
Online reach of retail for 15 years + home and work users, March 2013 (mn, %)



Source: ComScore, Kotak Institutional Equities

Exhibit 19: India ranks very low on time spent on online retail
Comparison of online time spent per user on retail in India, March 2013 (minutes)



Source: ComScore, Kotak Institutional Equities

Supply in a state of flux—battle for leadership for some, survival for others

The history of e-commerce suggests the prevalence of large, concentrated businesses. A few firms end up developing a durable, horizontal presence (across product categories) and others build businesses in specific verticals. Such scenarios can be seen in (1) the US (eBay, Amazon) and (2) China (Alibaba, Taopao). The entry of a few of these global majors into India and the likelihood of their survival limit slots for Indian players, especially for a horizontal presence. Four portals are battling for such leadership—(1) Myntra, (2) Flipkart, (3) Jabong and (4) Snapdeal. The Exhibit below captures the investment over the past few years (53 companies were funded over CY2009-12, 11 received incremental funding in CY2013).

Exhibit 20: Significant investments have been made in online retail firms over 2009-12
Investments in e-commerce, calendar year-ends, 2009-12 (US$ mn)

Number	Category	Investment (US$ mn)	Companies		
1	School products	1	allschoolstuff		
2	Home Décor	8	zansar	urbanladder	
2	Jewellery	30	bluestone	caratlane	
2	Health & Beauty	24	healthkart	urbantouch	
2	Groceries	12	bigbasket	zopnow	
5	Miscellaneous	23			
3	Daily deals	75	dealsandyou	taggle	snapdeal
5	Baby and Kids wear	41	firstcry	hushbabies	babyoye
3	Apparel-Private label	42	zovi	freecultr	
17	Apparel and accessories	189	myntra	yebhi	
11	Horizontal	658	flipkart		
53	**Total**	**1,103**			

Notes;
(1) The above a not a comprehensive analysis of e-commerce deals.

Source: Allegro Advisors, Kotak Institutional Equities

We highlight recent investments in key online retail ventures in Exhibit 21. Flipkart raised US$160 mn in October 2013 after having raised US$200 mn in June 2013.

Exhibit 21: Flipkart raised US$160 mn in October 2013
Transactions by key Internet companies

Flipkart		
Oct-09	Accel Partners	1
Jun-10	Tiger Global	10
Jun-11	Tiger Global	20
Aug-12	MIH (Naspers), ICONIQ Capital, Accel Partners	150
Jun-13	Tiger Global, Naspers and Accel Partner	200
Oct-13	Tiger Global, Morgan Stanley Investment Management, Sofina Capital, Vulcan Capital	160
Total		**541**

Snapdeal		
Dec-10	Nexus Partners, Indo US Venture partners	12
Jun-11	Bessemer and other investors	40
Jun-13	Nexus,Bessemer, eBay, Recruit Co	50
Aug-13	Softbank andpossibly other investors	75
Total		**177**

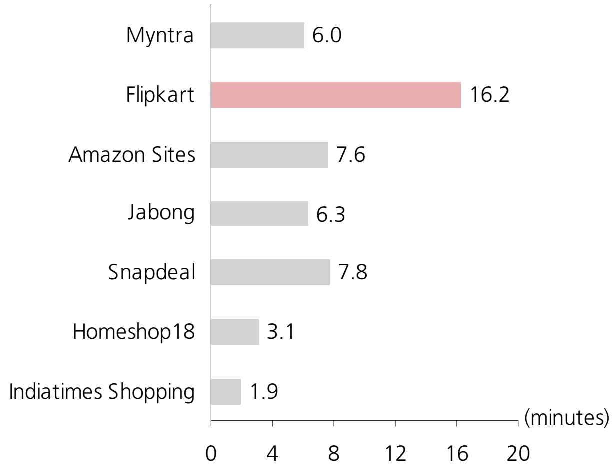
Myntra		
Nov-08	NEA-IUV, IDG Ventures and Accel.	5
Mar-11	Tiger Global, IDG Ventures, Indo-US Ventures	14
Feb-12	Tiger Global and others	20
FY2013	including Tiger Global and Accel Partners	25
Total		**64**

Source: Industry reports, Kotak Institutional Equities

Flipkart—a leader in a growing market and a complex ecosystem

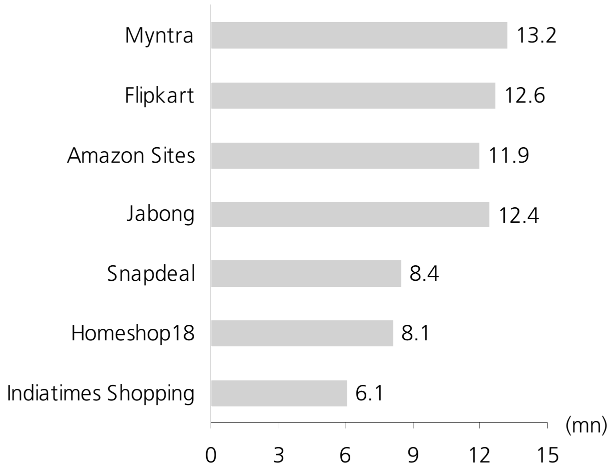
India's e-commerce market is growing strongly (in line with growth in the Internet user base) but it is under-developed—its users are a third of the world average and one-seventh of China's. In this growing market, there are about six major players (with over six minutes per user per month). Flipkart is a clear leader in engagement (16 minutes per user per month) followed by Snapdeal, Amazon sites, Jabong and Myntra

Exhibit 22: Flipkart is the leader in engagement…
Comparison of online time spent per user on retail in India, March 2013 (minutes)



Source: ComScore, Kotak Institutional Equities

Exhibit 23: …though low reach may keep activity in flux
Comparison of online reach for retail in India, March 2013 (mn)



Source: ComScore, Kotak Institutional Equities

Business complicated by regulatory hurdles, high customer-conversion cost

- **Multi-brand retail restrictions are irksome but likely to go soon.** Online retailers with foreign direct investment cannot sell their products online. This limits investment by global online retailers in India, funding for existing domestic start-ups by foreign companies. Consequently, foreign investment is routed into (1) back-end businesses (B2B companies created, in which 100% FDI is allowed) and (2) e-tailing firms that remodel to fit in the marketplace (FDI restrictions are not applicable to B2C service providers).

  Industry participants expect this restriction to be reversed. In its current form, the regulation raises issues related to (1) branding of the online retail firm (the foreign brand name is limited to the back end) and (2) the route for exiting investments (an IPO of a back-end firm may not attract interest).

  Another regulatory concern for domestic players is sales tax, wherein foreign players may have a tax advantage. Companies located in tax-free states in the US may end up not paying any sales tax (the firms can prove absence of permanent establishment in India and thus get taxed based on resident country laws).

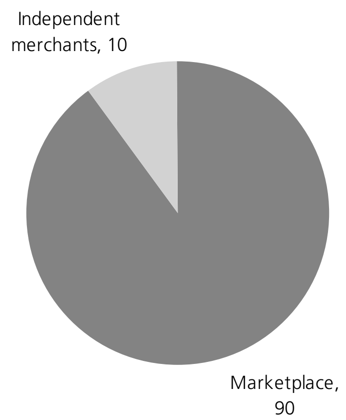
- **Challenge of high customer acquisition cost and low loyalty.** Most online retailers offer broadly the same products as competitors and thus must invest to develop customer loyalty. Although they save on land costs (incurred by a bricks-and-mortar retailer), they incur a higher cost of customer acquisition (cost of conversion plus cost of retaining loyalty). Take the example of a beauty products online retailer, we interviewed, which pays Google ₹10 per click for placing its ads on certain keyword searches. Assuming an industry-wide conversion rate of 1.5% (defined as the chance of a user clicking on an ad and actually making a purchase) it would lead to a customer conversion cost of ~₹660. This is a large investment for an average transaction size of ₹1,000 and related gross margin of ₹300. Essentially the online operator ends up investing in the customer (conversion cost greater than gross margin) hoping to garner customer loyalty over time (the company would have to spend additionally to retain customers).

  We also note options available to firms to advertise online: (1) Google (pay per click; displays an ad when certain ad words are searched), (2) Facebook (per click/impression; displays your ad to specific target audiences) and (3) pay-per-sales advertising platforms (commission-based). Google possibly has the largest share of online advertising due to the (1) large user base for its search engine and (2) focused approach to ad spend (ad directed at customers searching for related categories). Rates for online advertising are decided through bidding for targeted ad words/categories (Google charges ₹10/click for beauty product advertising).

Business models vary based on extent of operational control

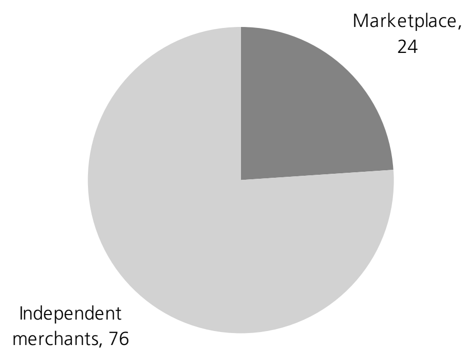
There are two key business models in the online retail space. Marketplace businesses provide a central website where a wide universe of merchants can sell merchandise. Buyers come on these platforms and buy. Merchants then take care of related functions of inventory management, logistics possibly payments (if the user opts for cash on delivery). The other business model has independent merchants buying inventory and selling it to customers. Here the independent merchant takes care of related functions (inventory management, logistics and payments). While the Chinese market has been dominated by marketplace businesses (Taopao, Tmall, Paipai), the US market is dominated by independent merchants (Amazon). The exhibit below captures the share break-up of these markets.

Exhibit 24: Marketplaces dominate the Chinese market
Share break-up in the Chinese online retail market (%)



Source: McKinsey, Kotak Institutional Equities

Exhibit 25: Independent retailers dominate the US market
Share break-up in the US online retail market (%)

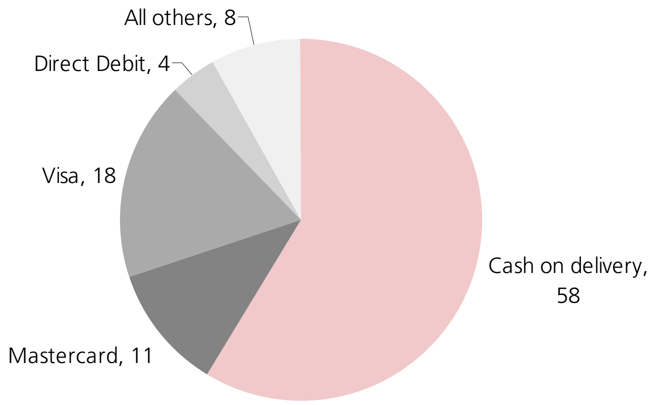


Source: McKinsey, Kotak Institutional Equities

Logistics is the key allied activity in online retail. Knowing the delivery time estimate ranks as the top factors influencing online shopping as per ComScore's survey. The survey indicates 42% of online shoppers abandon their shopping carts due to delivery dates and a third of shoppers choose to pay a fee for faster delivery. Besides logistics, there is an additional cost of reverse logistics (customer returns). Considering the complexity of the logistics process and its relevance to the Indian customer, Flipkart has its online logistics in-house.

The exhibit below plots the share break-up of transaction volumes in online retail in CY2012, suggesting a share of transactions is through cash on delivery.

Exhibit 26: Cash on delivery is the preferred payment mode for online retail transactions
Break-up of transaction volumes for online retail in India, calendar year-end, 2012 (%)



Source: ComScore, Kotak Institutional Equities

Global landscape—China story reflects levers and pitfalls to India's growth potential

- **Organized retail itself is small and e-commerce within it, even smaller.** In the Indian ~US$500 bn (₹28 tn) retail market, modern retail accounts for about 8% or ~US$40 bn. In this modern retail segment, online retail is even smaller (US$1.5 bn), implying a small 3% share of modern retail. In contrast, the US retail market is much bigger (about US$4 tn) in which modern retail accounts for about 85% or US$3.5 tn. Within this US$3.5 tn organized retail market, e-commerce accounts for 7%. China also has a large retail market of US$3.8 tn out of which about 20% or US$760 bn is organized. Within this organized retail market, online retail may have ~32% share (~US$240 bn).

Exhibit 27: The Indian organized retail market is very small and e-commerce's share in it is smaller
Size of retail market in various countries, calendar year-end, 2012 (US$ bn)

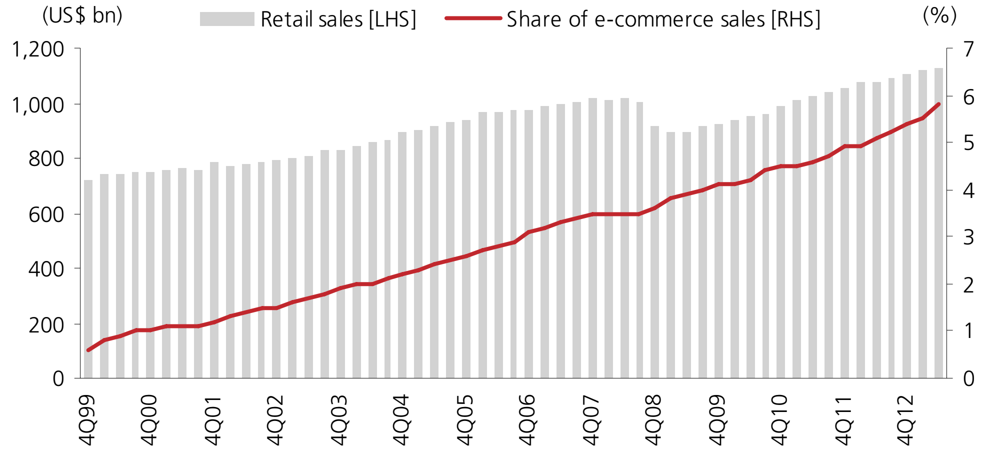
	Retail	Organized retail	E-commerce (US$ bn)	E-commerce Share of organized retail (%)
India	**930**	**40**	**2**	**4**
China	3,800	760	239	32
US	3,998	3,398	224	7

Source: US Census Bureau, National Bureau of Statistics of China, indiaretailing.com

- **China: Exponential growth in the past decade; marketplaces dominate.** China's US$240 bn online retail market is dominated by marketplaces (90% share), unlike other key e-tailing economies, with a strong presence of large business-to-consumer (B2C) sites. The marketplace model has flourished in China due to (1) physical retailers not being able to develop successful multi-channel approaches, (2) a large base of small manufacturers whose preferred channel is the marketplace model and (3) acceptance of flexible delivery times (associated with the marketplace model). India may lack certain requisite conditions (low broadband penetration, importance to timely supply), which would constrain growth of the marketplace model. While India has a strong base of small manufacturers, it would take time to leverage them (most online activity is focused on standardized products).

- **US: Steady growth; market dominated by independent merchants.** The US$224 bn US e-commerce market (based on US Census Bureau data for CY2012) is dominated by independent merchants (they account for three-fourths of total sales). The main independent merchant, amazon.com has 10-15% market share of the e-commerce market in the US and eBay has 3-5% market share (20-25% share in marketplace transactions). E-commerce accounts for about 6% of US retail sales but its share has been increasing (see Exhibit 28).

Exhibit 28: Steady increase in share of e-commerce in retail sales
Retail and e-commerce sales in the US, calendar year-ends, 4QCY99-2QCY13 (US$ bn %)



Source: US Census Bureau, Kotak Institutional Equities

Brief profile of leading domestic ventures

- **Apparel and electronics.** The market is dominated by four companies. (1) Flipkart (a generic player with full control over inventory), (2) Myntra (an apparel-focused retailer), (3) Snapdeal (a generic player, operating an online marketplace model) and (4) Jabong (a generic player operating on a hybrid model with the backing of the world's largest Internet incubator, Rocket Internet).We present a brief profile of the operations of these companies.

  - **Flipkart.** A Bangalore-based company, founded in 2007, Flipkart has grown its operations to about 15,000 transactions a day (against Croma's 8,000). The company's gross merchandise value is US$600-800 mn a year. Having started from selling books online, Flipkart is now present in several categories including movies, music, games, mobiles, cameras, computers, healthcare and personal products.

  - **Myntra.** Myntra is an online shopping retailer of fashion and casual lifestyle products. In spite of its focus being limited to apparel, its portal attracts more users than Flipkart's. It operates at 12,000-13,000 transactions a day, leading to gross merchandise value of about ₹600 mn a month (~US$100 mn a year). The company cited strong potential to grow its business due to the following key trends—(1) people do not have the time to buy offline, (2) people are getting more comfortable with online purchases (less than 15% of products are returned including those for a change in size), (3) the skew in the online base towards men is correcting (this is beneficial for an apparel company). There has been strong growth in the number of users over the past year due to an effective television campaign. Company raised US$65 mn in funding over the past five years (four rounds of funding, the latest of US$25 mn being in May 2013).

- **Snapdeal.** An online marketplace, Snapdeal handles business for about 10,000 small merchants over a wide range of product categories (electronics, apparel, home décor, books) and services (restaurants, spas, entertainment). Press reports suggest the company's gross merchandise is about ₹1 bn a month (or U$S200 mn a year). Overall, Snapdeal raised US$150-200 mn over the past three years (the last one of US$75 mn in October 2013). The company expected gross merchandise value of ₹6 bn in FY2013 and is targeting ₹20 bn of in FY2014.

- **Jabong.** Jabong is the youngest of the online retail majors, starting operations in January2012. Press reports suggest its gross merchandise is US$100-150 mn a year. The business is funded mainly by German firm, Rocket Internet, which appears to have invested US$50-100 mn so far.

- **Baby products.** The market is dominated by two companies, babyoye and firstcry. Babyoye is a pure play online seller with monthly gross merchandize value of about ₹60 mn (~US$12 mn annual sales). The company is focusing on growing its share of private label products (12% of the sales mix). Unlike babyoye, firstcry has an offline and online presence in the baby products business.

- **Home Décor.** The main companies in the online home décor business are pepperfry, urbanladder and zansar. Pepperfry.com has crossed ₹1 bn in gross merchandize value in a little over a year (~US$15 mn gross annual sales) and expects to grow its gross merchandise value by 4X in CY2013. Its business model is that of a managed marketplace with inventory being taken care of by merchants. It raised US$13 mn in all, with funding of US$8 mn in April 2013. Its competitor, urbanladder raised US$1 mn of first-round funding and aim to raise another US$5-6 mn.

Brief profile leading global companies

We profile key global online ventures to better understand their costs, growth strategy and competitive positioning. Amazon and eBay have set up large online retail businesses worldwide through various business models. Amazon follows the traditional online retail model (buys inventory to sell to customers) with focus on standard products (electronics and media). In contrast, eBay has a marketplace model that provides a platform for merchants and customers to transact. Both companies have scaled up their businesses quickly (through expansion outside North America) with Amazon being impacted by upfront costs (international markets making nil operating income). Over the past few years, Chinese online firms (Tencent and Alibaba) expanded their businesses. Tencent has grown its business 7X over the past four years and has market capitalization of ~US$100 bn (eBay's market capitalization is US$65 bn and Amazon's is US$136 bn).

- **Amazon**. Amazon is an online retailer that has a small contribution from its marketplace business (AWS marketplace). North America accounts for 70% of sales where the company makes about 5% operating margin. The remaining 30% of revenue originates from overseas markets, where it makes almost nil operating income. Amazon's business segments are (1) media (31%) and (2) electronics and general merchandise (65%).

- **Walmart**. Walmart is a mainly bricks-and-mortar retail chain with a small 12% share of revenue from warehousing and online retail. Most of its business originates in North America.

- **eBay.** eBay is a global technology company, facilitating transactions by providing online platforms and other tools and services to help individuals/small, medium and merchants to engage in online and mobile commerce and payments. The company generates revenue through marketing services, classifieds and advertising. About half the company's business originates in the US.

- **Tencent Holdings.** Tencent Holdings is a Chinese investment holding company with businesses in mass media, entertainment, Internet and mobile phone value-added services. The company boasts a US$100 bn market capitalization and is competing with Alibaba for e-commerce leadership in China. Alibaba is privately owned and may go in for an IPO next year.

Exhibit 29: Key financials of global e-commerce companies, calendar year-ends, 2008-14E (US$ mn)

eBay	
Market cap. (US$ bn)	67
US share of business (%)	48
Primary business model	Online marketplace

	2008	2009	2010	2011	2012	2013E	2014E
Sales	8,541	8,727	9,145	11,678	14,072	16,074	18,532
EBITDA	2,858	2,649	2,826	3,363	4,088	5,457	6,190
EBITDA margin (%)	**33.5**	**30.4**	**30.9**	**28.8**	**29.1**	**34.0**	**33.4**
PAT	1,841	2,660	1,798	3,206	2,609	2,908	3,368
Net Worth	11,084	13,788	15,302	17,930	20,865	23,327	27,734
P/B	6.0	4.9	4.4	3.7	3.2	2.9	2.4
P/E	36.4	25.2	37.3	20.9	25.7	23.0	19.9

Amazon	
Market cap. (US$ bn)	175
North America share of business (%)	60
Business model	Integrated online player

	2008	2009	2010	2011	2012	2013E	2014E
Sales	19,166	24,509	34,204	48,077	61,093	74,911	91,505
EBITDA	1,129	1,561	2,063	2,011	2,835	5,069	7,082
EBITDA margin (%)	**6.4**	**6.4**	**6.0**	**4.2**	**4.6**	**6.8**	**7.7**
PAT	645	902	1,152	631	(39)	378	1,279
Net Worth	2,672	5,257	6,864	7,757	8,192	9,218	11,443
P/B	65.6	33.3	25.5	22.6	21.4	19.0	15.3
P/E	271.8	194.3	152.2	277.8	(4494.9)	463.8	137.1

Walmart (Jan. fiscal year-ends)	
Market cap. (US$ bn)	255
US share of business (%)	71
Primary business model	Brick and mortar store

	2009	2010	2011	2012	2013	2014E	2015E
Sales	405,600	408,200	421,800	443,900	469,200	478,063	496,798
EBITDA	29,600	31,800	33,200	31,600	36,300	37,282	38,485
EBITDA margin (%)		**7.8**	**7.9**	**7.1**	**7.7**	**7.8**	**7.7**
PAT	13,310	15,110	15,370	15,720	17,000	17,019	17,934
Net Worth	67,500	73,240	71,660	76,160	82,260	87,511	89,863
P/B	3.8	3.5	3.6	3.3	3.1	2.9	2.8
P/E	19.1	16.8	16.6	16.2	15.0	15.0	14.2

Tencent Holdings	
Market cap. (US$ bn)	113
Primary business model	Online advertising

	2008	2009	2010	2011	2012	2013E	2014E
Sales	1,030	1,821	2,903	4,408	6,957	9,902	13,218
EBITDA	499	935	1,538	2,043	2,749	3,619	4,582
EBITDA margin (%)	**48.4**	**51.4**	**53.0**	**46.3**	**39.5**	**36.5**	**34.7**
PAT	401	755	1,190	1,578	2,018	2,607	3,340
Net worth	1,043	1,784	3,302	4,522	6,765	9,342	12,393
P/B	108.3	63.3	34.2	25.0	16.7	12.1	9.1
P/E	281.7	149.6	94.9	71.6	56.0	43.3	33.8

Source: Bloomberg estimates, Kotak Institutional Equities

ONLINE ADVERTISING—SMALL QUANTUM, BIG GROWTH POTENTIAL

India's online advertising market is smaller than such markets in large economies due to (1) a small share of organized retail (reduces the advertising pie) and (2) low Internet penetration (reduces share in advertising spend). However, online advertising spends have grown fast over the past few years. We expect sustained growth, led by (1) increased Internet penetration (advanced economies with high penetration have a 3-5X advertising share versus India's) and (2) companies realizing the need for an online presence (as social networking and blogging will lead to consumers airing views on a product or service).

The Indian online advertising market

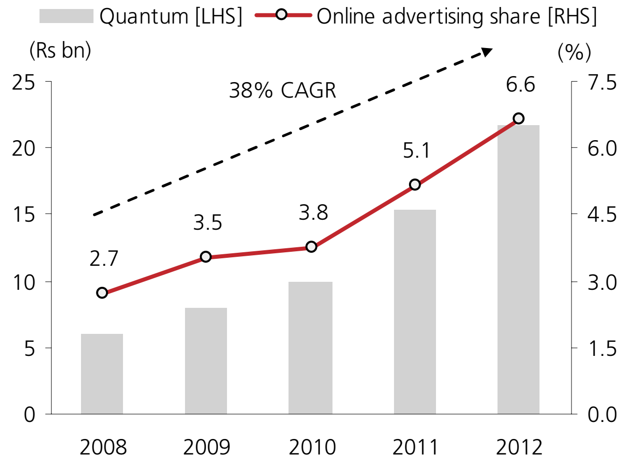
- **Global comparison: Quantum constrained by a small pie, low Internet penetration.** India's online advertising market is relatively small (US$300 mn in CY2011) versus the US (US$30 bn) and Japan (US$10 bn). India's online advertising market is small due to (1) India's low share of organized retail (reduces the advertising pie) and (2) low share in the advertising market (low Internet penetration). In advanced economies such as the UK, US, Japan and Australia, the online share of advertising is 18-33% (economies with over 75% Internet penetration). However, the Indian online advertising market has been growing at fast 38% CAGR over 2008-12.

Exhibit 30: India's share in online advertising is low at 5%
Advertising spends of key economies, calendar year-end, 2011 (US$ bn)

	Online	Overall	Online share (%)
United Kingdom	7.4	22.1	33.3
United States	30.1	172.0	17.5
Australia	2.5	13.3	18.8
Japan	10.2	48.7	20.9
Hong Kong	0.2	3.1	5.6
Singapore	0.1	1.3	8.4
India	**0.3**	**6.0**	**5.1**

Source: FICCI-KPMG report, Kotak Institutional Equities

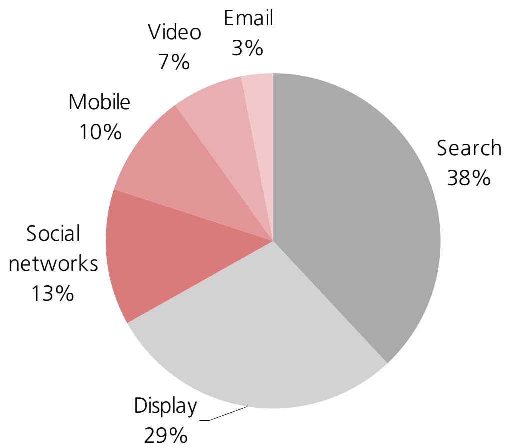
Exhibit 31: Online advertising has grown fast in recent years
Online advertising spends In India, calendar year-ends, 2008-12 (₹ bn)



Source: Pricewaterhouse Coopers , Kotak Institutional Equities

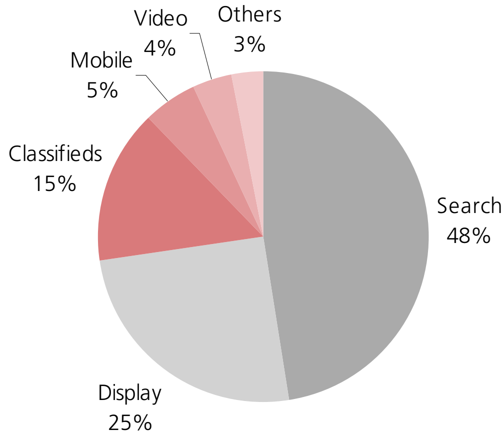
- **Search applications account for a large part of online spending.** Among various applications, searches account for the largest share of online advertising spends (~38%) followed by display (~30% share). This is similar to the break-up of global online advertising spends, where search and display account for about 80% of advertising spends.

Exhibit 32: Search accounts for two-fifths of India's online advertising spend
Advertising spends In India, March fiscal year-end, 2012 (%)



Source: IAMAI and IMRB International, Kotak Institutional Equities

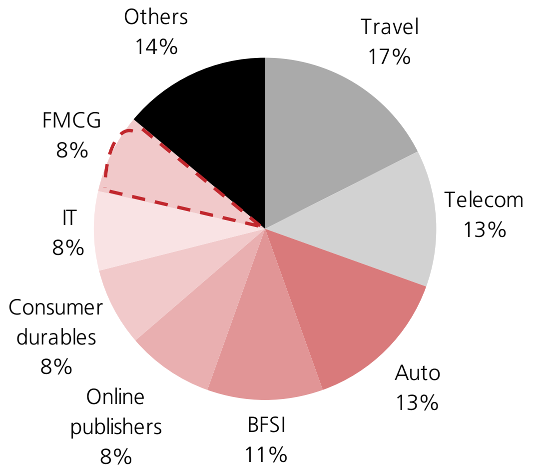
Exhibit 33: Search and display modes account for most of global advertising spends
Global advertising spends, calendar year-end, 2011 (%)



Source: PricewaterhouseCoopers, Kotak Institutional Equities

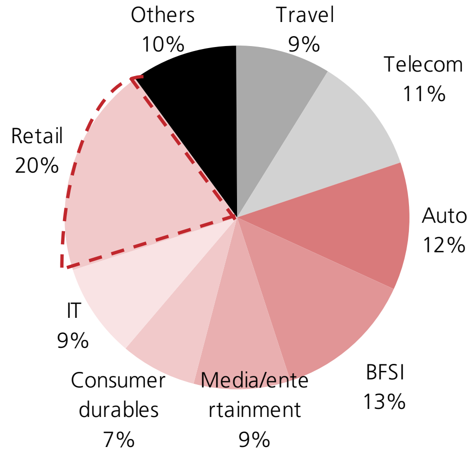
- **Sector spends skewed towards online travel, consumer products spends low.** Online travel is the single largest contributor to online advertising spends in India (18% in display advertising). The consumer products segment has a relatively low share of 8%. This is in sharp contrast to US online spending, in which retail accounts for 20%. Exhibits 34 and 35 capture the break-up of India (display advertising) and US (overall online advertising).

Exhibit 34: Online retail dominates spending; low consumer products share
Sector break-up of online display ads spend in India, March fiscal year-end, 2012 (%)



Source: IAMAI, Kotak Institutional Equities

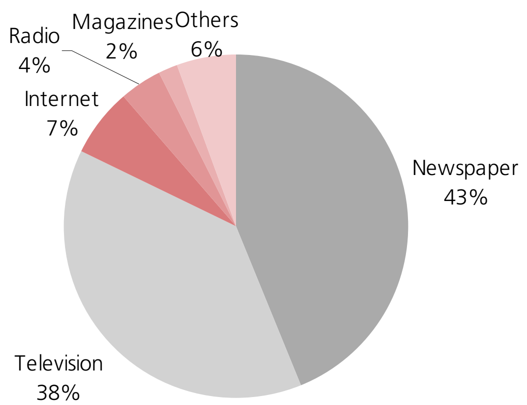
Exhibit 35: Retail has a large share in the US' online advertising spend
Sector break-up of online display ad spends in the US, calendar year-end, 2011 (%)



Source: PricewaterhouseCoopers, Kotak Institutional Equities

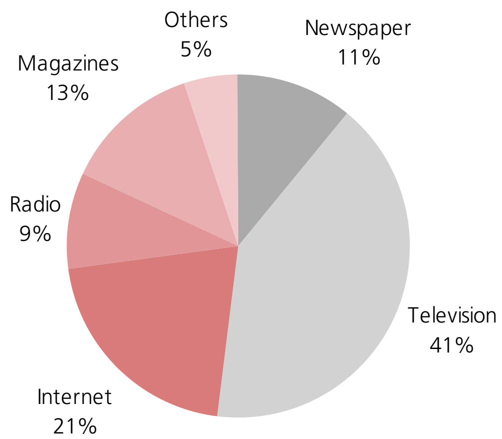
- **Large share on newspaper for advertising.** We note large share of newspaper-based advertising spend for India (>40% share) versus lower ~20% share of newspaper-based advertising in the US.

Exhibit 36: Large dependence on newspaper
Break-up of advertising spend in India, March fiscal year-end, 2012 (%)



Source: FICCI KPMG Frames report for FY2012 , Kotak Institutional Equities

Exhibit 37: Spend on internet is double of that on newspaper
Break-up of advertising spend in US, calendar year-end, 2011 (%)



Source: PricewaterhouseCoopers, Kotak Institutional Equities

Choice of formats on which companies base advertising campaigns

Companies can use various formats—display, search, mobile, social networking, video and blogs—to advertise online. The choice of format or break-up of the online ad spend depends on the (1) objective of the advertising (brand awareness, content sharing), (2) target audience (demographics) and (3) level of engagement. We interviewed a large consumer products company in the soaps business, which allocated 70% of its online ad spend to search/display advertising (brand awareness) and 30% to social media websites (brand presence and content sharing). Its target audience was in the 24-35 year-old group and advertising focused on websites such as moneycontrol.com and rediff.com. A lower level of engagement made the company not opt for video advertising. Exhibit 38 explains key modes of advertising on Internet.

Exhibit 38: Comparison of digital advertising formats in India

Format	Characteristics	Pricing mechanism
Display advertising	**Modes**: Banners and leaderboards, buttons, rectangles & boxes and skyscrapers **Types**: Simple images or flash animations (over 50% of spend) and rich media with or without video **Offering:** Mature segment priced slightly higher than paid search, with greater effectiveness	Cost per click Cost per action Cost per thousand impressions Cost per view
Paid search listings	**Modes**: 90% of the market comprises search engine marketing, the rest is search engine optimization **Offering:** Cost effective reach to target audience with active interest	Pay per click Cost per action
Mobile advertising	**Modes**: Mobile browser-based ads (75%), in-app ads (25%), SMS ads (5%) **Offering:** More targeted reach (mobile type: Handset/tablet)	Cost per install (ad-funded apps) Cost per click Cost per action Cost per thousand impressions
Sponsored posts and tweets	Twitter/social network users are paid to post specific content to leverage a large follower base **Offering**: Potential to track message effectiveness in real time	Cost per tweet Cost per click
Social network advertising	**Modes:** Fan pages and contextual banners **Offering:** Scope of highly contextual advertising (friend connections, likes)	Cost per click Cost per action Cost per thousand impressions
Video advertising	**Types:** In-video display ad banners, translucent overlay ad banners, in-video streaming ads (skippable), standard in-stream ads (non-skippable) **Offering:** Based on search string; delivers richer ad content	Cost per click Cost per view

Source: FICICI-KPMG Media and Entertainment report, Kotak Institutional Equities

Relevance of social media rises as companies move to content sharing

While companies have focused on product-specific ads (using search and display modes), incrementally, the focus will include information about a product and category. This is expected to deepen the relationship with the user who was so far being made to connect with the brand. This makes social networking sites an important source of advertising. Even for the long-standing brand awareness business, new approaches are coming up—(1) Coca Cola's campaign of putting videos of customers being delighted by receiving two cans of Coca Cola from a vending machine for the price of one and (2) Mahindra's Rise campaign building a blog for users to add their experiences when they achieved something.

Growth drivers—Internet and brand awareness

The online digital spend in India is expected to scale up as Internet reach improves. In addition, companies will realize the importance of an online brand presence, especially as users get more platforms and comfort to express opinions on a brand.

THE NETSCAPE—EYEBALLS CRUCIAL, MONETIZATION OVER TIME

Eyeballs are the center of Internet businesses. Once they have reached a certain scale, businesses use eyeballs to generate advertising revenue (email, social networking and classifieds). User monetization is generally resisted (Facebook is still resisting this despite having over a billion users) and it takes time to implement (You Tube recently started selective user monetization eight years after inception). Several scalable opportunities exist—(1) travel (high online penetration), (2) online advertising (companies are starting to pay attention), (3) multimedia subscription (audio may be the first to take off) and (4) online retail (the biggest opportunity and most keenly sought; can bypass organized retail due to India-specific physical infrastructure constraints).

Exhibit 39: Internet opportunity landscape

Source: Kotak Institutional Equities

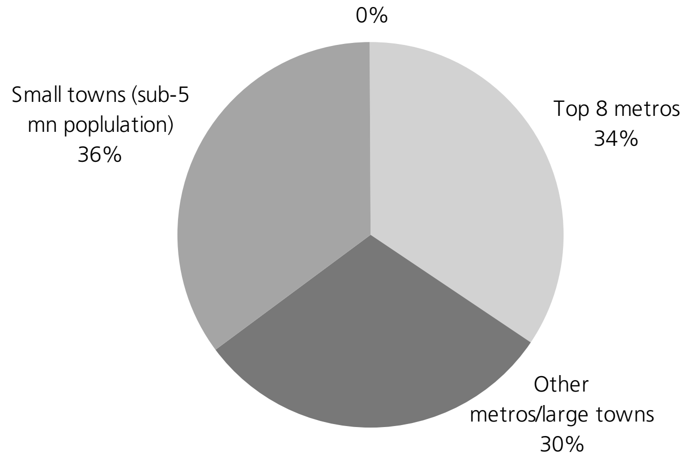
We shall discuss four Internet verticals (social media, multimedia, news media and online travel) in terms of the domestic ecosystem, status of monetization, business opportunity and global landscape.

#1: Social media—large, concentrated presence helps to stick to ad-based model

Social media has a large presence in India (86% reach). This presence is very concentrated with more than 90% of social media users accessing Facebook (LinkedIn is a distant number two with ~20% and one-tenth of Facebook's time share). Such a large reach and concentrated presence helps to leverage ad-based monetization (user information makes advertising more targeted). Facebook's recent focus at the global level has been to leverage mobile as a medium to increase the penetration of Internet and Facebook. In this context India becomes an attractive market with its large mobile reach.

- **India market—inclusive presence reflects broadbased demand.** India has a social media Internet user base of 85-90 mn (implied from 78 mn Facebook monthly active user base and ~90% penetration of Facebook among social media Internet users). Based on a study by IAMAI, this user base is spread equally in (1) the top eight metros, (2) small towns (sub-0.5 mn populations) and (3) other towns/cities.

Exhibit 40: User base well spread across metros and towns
Break-up of India's social media Internet user base as of June 2012 (%)



Source: IAMAI, Kotak Institutional Equities

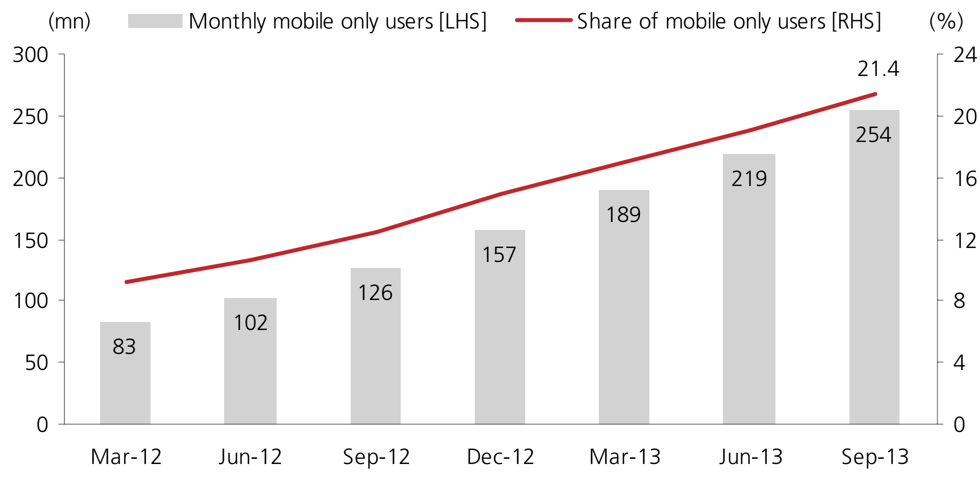
- **Facebook is the leader with ambitious plans to drive penetration.** More than 90% of social media users access Facebook (LinkedIn is a distant second with ~20% and a tenth of Facebook's time share). The company has been globally focusing on the mobile platform for as (1) users increasingly use mobile to access it and (2) mobile offers potential to create new Facebook users (as the desktop user base gets saturated). Low Internet penetration and a large mobile user base in India have attracted its attention. It has taken steps to leverage the mobile base to promote its social media platform in India. The steps include (1) partnering telecom carriers to provide users with Facebook access for an initial period, (2) developing a lighter version of Facebook for entry-level smart phones (like Lava, Karbonn) and (3) developing "Facebook for Every Phone" application to deliver a smart phone-like Facebook experience on feature phones.

- **Significant opportunity though currently under-monetized.** Facebook's average annual revenue per user (ARPU) for the Asia region is high at about US$3. A similar annual revenue per user would suggest a US$240 mn opportunity for Facebook in India and about US$300 mn for social networking (assuming 80% time share for Facebook in India). The market in FY2013 was lower than this—less than US$100 mn according to data from FICCI KPMG Frames report for FY2012 and our estimate of 40% growth in FY2013. Thus social media spending is expected to benefit from (1) an increase in ARPUs and (2) growth in the user base.

Global landscape—mobile is becoming the preferred platform

- **A growing share of mobile-only social media users adds credibility to the 'mobile driving Internet penetration' argument.** Facebook's recent results show that about 19% of its 1.15 bn user base accesses Facebook only through mobile (driven by its users from emerging markets). This suggests the relevance of the mobile medium for users to access social media applications and lends credibility to the argument that mobile phones (coupled with demand for online social media) will drive the next leg of Internet penetration in India.

Exhibit 41: ~30 mn mobile-only users are added globally per quarter
Monthly active users of Facebook globally, March 2012-September 2013 (mn %)



Source: Company, Kotak Institutional Equities

- **Facebook.** Facebook is the clear leader in the global market with about 1.2 bn monthly active users in September 2013, growing at over 20% yoy over the past few quarters. The company generates almost all its sales from advertising fees on websites, mobile applications and third-party affiliated websites or mobile applications. It is paid by advertisers for ads based on the number of impressions delivered or the number of clicks by its users. It earns about US$6.4 per user (annualized equivalent based on June-ending quarterly value) though this varies across regions: (1) US and Canada (US$13.5), (2) Europe (US$7.2), (3) Asia (US$3). Exhibit 42 captures the key financials of the company (the sharp fall in margins in CY2012 was led by a sharp increase in stock compensation expenses).

- **LinkedIn.** LinkedIn offers professionals an online network to interact and find business opportunities. The company has a global user base of about 132 mn, growing at over 25% yoy over the past few quarters. Most of its revenues come from its recruitment business (recruiters post openings), advertising fees (26% share) and subscription of premium members (20% share).

Exhibit 42: Key annual financials of Facebook, calendar year-ends, 2008-14E

Market cap. (US$ bn)	124.5

User base (mn)	1,189
Market cap./user base (US$)	105

	2008	2009	2010	2011	2012	2013E	2014E
Sales	272	777	1,974	3,711	5,089	7,344	9,700
EBITDA	—	340	1,171	2,079	1,187	4,052	5,295
EBITDA margin (%)		**43.8**	**59.3**	**56.0**	**23.3**	**55.2**	**54.6**
PAT	(56)	122	372	668	32	1,214	1,722
Net worth	335	868	2,162	12,354	11,755	13,698	15,919
P/B	372	143	58	10	11	9	8
P/E	NA	1,020	335	186	3,891	103	72

Source: Bloomberg estimates, Kotak Institutional Equities

Exhibit 43: Key annual financials of LinkedIn, calendar year-ends, 2008-14E

Market cap. (US$ bn)	24.7

User base (mn)	132
Market cap./user base (US$)	187

	2008	2009	2010	2011	2012	2013E	2014E
Sales	79	120	243	522	972	1,512	2,146
EBITDA	1	8	39	69	137	372	569
EBITDA margin (%)	**1.1**	**7.0**	**16.1**	**13.2**	**14.1**	**24.6**	**26.5**
PAT	(5)	(4)	15	12	22	182	270
Net worth	93	97	326	625	908	1,109	1,378
P/B	265	255	76	40	27	22	18
P/E	NA	NA	1604	2058	1123	136	91

Source: Bloomberg estimates, Kotak Institutional Equities

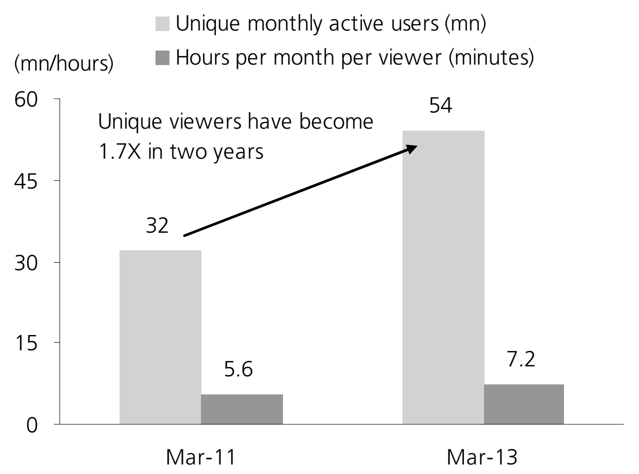
#2: Multimedia—playing catch-up; user monetization has begun

Multimedia for the Indian consumer is primarily access to online content (video and music). India is still playing catch-up on both scores (a third in terms of viewer time versus the US) though multimedia is growing fast. While video is dominated by YouTube, there is a bigger business opportunity for domestic players in music (India's penetration is higher than the global average, the content is valued globally). Both these media recently opted for subscription-based models (YouTube—paid channels, music—advertisement-free content and downloads) to support their otherwise advertising spend-based revenue model.

Video: Growing demand; opportunity taken by global majors

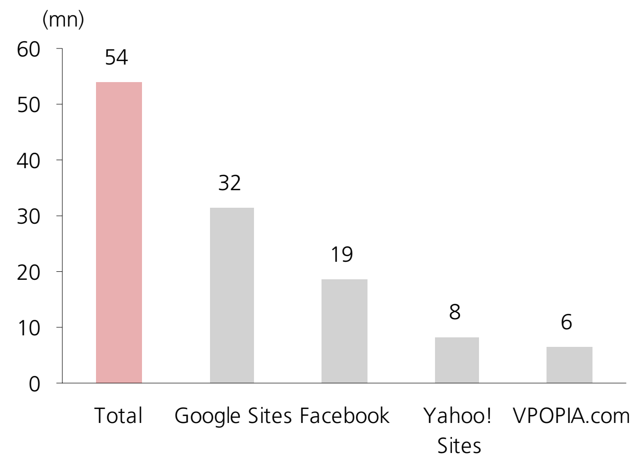
- **A growing market, dominated by global players.** As of March 2013, India had about 54 mn monthly unique viewers, accessing video portals (ComScore data) with an average viewer spending about seven hours a month. This is growing very rapidly (viewer base was 1.7X the March 2011 base; viewer time was 1.3X the March 2011 base). The related benefit though is accruing to global majors (YouTube is the clear leader, followed by Facebook and Yahoo).

Exhibit 44: Use and viewership are increasing rapidly…
Growth in India's online video market, March 2011-March 2013 (mn)



Source: ComScore, Kotak Institutional Equities

Exhibit 45: …with benefit accruing to established global majors
Unique viewers for online video websites in India, March 2013 (mn)



Source: ComScore, Kotak Institutional Equities

- **Monetization limited to ad-based mode, subscription can grow market 10-fold.** Significant user base and concentrated market share facilitate ad-based monetization in this space. The high cost of content and limited scope of advertising, though have led to YouTube starting to monetize the user for subscribing to select YouTube channels. The market for video websites is small as monetization is limited to ad-based revenue. The market for video ads is US$50-60 mn (as per a FICCI report). The big boost to revenue will come from monetization of users. Netflix has a subscriber base of ~35 mn subscribers paying US$7.99 a month (a third the rate offered by Time Cable). It offers users a chance to watch regular programming with a slight delay (or can retrieve it later any time for viewing) coupled with new, original content that viewers otherwise may not have been able to see. A third of video users converting to paid customers at a third of the cable cost (~US$2 a month) can yield a market of about US$500 mn.

Audio: Domestic eco-system; global opportunity

- **Domestic ecosystem**. Key players in this space are (1) Dhingana, (2) Gaana and (3) Saavn. The category has higher business potential (global demand is driven by the presence of a large Indian diaspora across the world) especially for domestic players (global players have not yet entered India). Unlike in the video segment, online reach in music is more in India (65%) than in the US (35%).

- **Global opportunity**. Unlike video, domestic music players have content (Bollywood songs) valued by users globally. Market leader Dhingana boasts of a 40% business share from users outside India (the US, UK, Canada).

- **Monetization drive has started but will face challenges.** The online music market (including ringtones) is about US$120 mn (includes sales of music to digital platforms, several of which may be loss making. Advertisement-based revenues may be funding a large part of these costs. Besides, all major music portals have started monetizing users (see Exhibit 46). This can add another US$100 mn of market revenue assuming 10% of users subscribe to paid offerings (US$2 per user X 12 months X 10% X 25 mn PC users; mobile users may add a similar number of subscriptions). The subscription charges for Dhingana and other peer websites are ₹100-220 a month, based on (1) the presence/absence of advertisements and (2) the extent of downloads allowed. The free access option to stream songs is still there. Global experience suggests difficulties in monetizing the business (global leader Pandora still depends on advertising for most of its revenue).

Exhibit 46: Several music portals have monetized users over the past six months
Costing of various music subscriptions (₹)

Product	Launch	Cost per month (Rs)	Features
Gaana+	Apr-13	170	Unlimited music downloads Ad free experience Acess from multiple devices
Dhingana Gold	Jul-13	120	Unlimited music downloads Ad free experience Acess from multiple devices
Saavn Pro	Jul-13	220	3GB of saved music Ad free experience Access from multiple devices
Saavn Pro Lite	Jul-13	110	1GB of saved music Ad free experience Access from multiple devices
Hungama.com	Sep-09	99	Unlimited music, videos, mobile wallpapers

Source: Company, Kotak Institutional Equities

Global scenario—user-dominated video model; ad-dominated music model

- **Netflix: Leading video-streaming player with subscription dominated revenue.** Netflix provides on-demand Internet streaming media with geographical presence in America and Europe. It has a streaming subscriber base of 38 mn (at the end of June 2013) growing at over 30% yoy. Most of its revenue comes from the video streaming business (over 80%) for which it charges subscribers (US$7.99 a month is the basic and most common package). In addition to its offering of dated view of broadcast content, the company recently started airing original content (*House of Cards*) with flexibility in (1) length of episodes and (2) time of viewing (the whole of season 1 uploaded at once). The company leads the US real-time entertainment market for fixed access (~29%) with YouTube dominating the mobile access market (~28%).

- **Pandora: A leading radio company relying on advertising revenues.** Pandora is the world's largest Internet radio company. It creates stations and then adapts playlists based on individual feedback of each listener. It has about 70 mn active monthly users, growing 27% yoy. This has helped it to grow its subscription revenue although most of the revenue comes from advertising (over 80%). The company survives in an adverse industry environment (recently acquired a terrestrial radio station to qualify for lower royalty charges in the US). It has not been able to make profits based on large cost of content (~60% of operating cost) and inability to charge users (it recently backtracked on its free usage monthly cap of 40 hours). Like YouTube and Netflix, Pandora also figures in the top 10 peak-period applications in North America (mobile access).

Exhibit 47: Key annual financials of Netflix, calendar year-ends, 2008-14E

Netflix							
Market cap. (US$ bn)	21.9						
User base (mn)	45						
Market cap./user base (US$)	487						
	2008	**2009**	**2010**	**2011**	**2012**	**2013E**	**2014E**
Sales	1,365	1,670	2,163	3,205	3,609	4,640	5,179
EBITDA					95	329	572
EBITDA margin (%)	**0.0**	**0.0**	**0.0**	**0.0**	**2.6**	**7.1**	**11.0**
PAT	83	116	161	226	17	151	293
Net worth	347	199	290	643	745	895	1,188
P/B	63	110	75	34	29	24	18
P/E	264	189	136	97	1,277	146	75

Source: Bloomberg estimates, Kotak Institutional Equities

Exhibit 48: Key annual financials of Pandora Media, January fiscal year-ends, 2009-15E

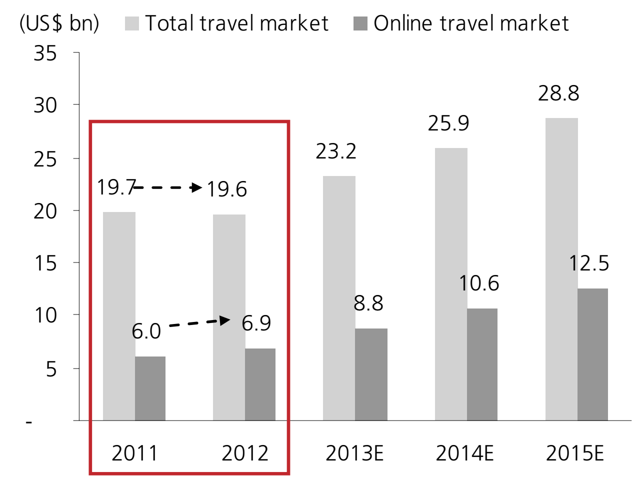
Pandora Media							
Market cap. (US$ bn)	5.6						
User base (mn)	71.2						
Market cap/user base (US$)	79						
	2009	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**
Sales	19	55	138	274	427	643	862
EBITDA	(26)	(14)	1	(7)	(31)	7	54
EBITDA margin (%)	**(136.0)**	**(25.8)**	**0.9**	**(2.4)**	**(7.2)**	**1.1**	**6.3**
PAT	(32)	(25)	(11)	(20)	(38)	4	38
Net worth	(1)	17	44	105	99	94	142
P/B	NA	329	128	54	57	60	39
P/E	(175)	(225)	(509)	(283)	(147)	1400	147

Source: Bloomberg estimates, Kotak Institutional Equities

#3: Online travel—profitability woes sustained in a growing market

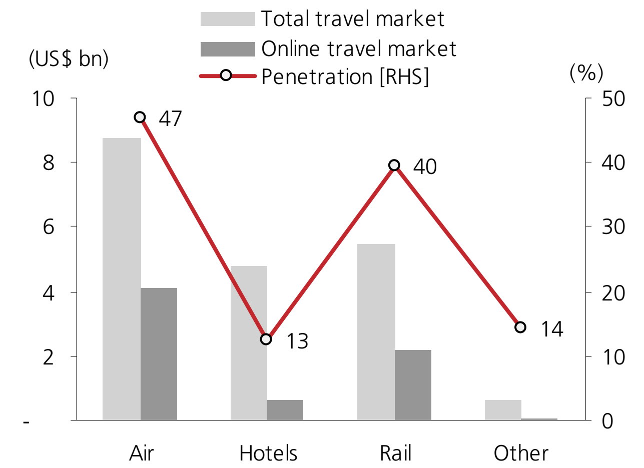
Online travel was one of the early drivers of e-commerce in India. The launch of IRCTC supported the growth of reach of the Internet over 2005-08. This was expanded by recent additions such as social networking and online retail. With the acceptance of IRCTC as a mode of making online travel bookings, other travel websites for air travel (cleartrip.com, makemytrip.com, yatra.com) also gained prominence. While the portals achieved material scale of business (which continues to grow rapidly), declining commissions from airlines led to profitability woes being sustained. Exhibit 49 shows the growing relevance of the online travel market as a proportion of the total travel market in India. Online share of penetration increased to 38% in 2013 from 30% two years ago. In CY2012, the online share in air travel was 47% and in rail was 40%.

Exhibit 49: The online travel market grew in 2012 in spite of a flattish travel market
Trajectory of travel market in India, calendar year-ends, 2011-15E (US$ bn)



Source: Makemytrip, PhoCus Wright June 2013 report, Kotak Institutional Equities

Exhibit 50: Air and rail travel have a significant share of online enablement
Break-up of travel market in India, calendar year-end, 2012



Source: Makemytrip, PhoCus Wright June 2013 report, Kotak Institutional Equities

- **IRCTC**. The company has built a US$34 mn online ticketing business in the year ended March 2013 (gross sales value in excess of US$2 bn). It booked 141 mn tickets or about 230 mn passenger journeys, accounting for 45-50% share of reserved railway passenger tickets (530 mn in FY2012). Exhibit 51 captures the growth of IRCTC.

Exhibit 51: IRCTC booked about 140 mn tickets in FY2013
Number of tickets booked on the Indian Railways' website, March fiscal year-ends, 2006-13 (mn)

	IRCTC tickets (mn)	Growth (%)	Sales (₹ mn)
2006	3		
2007	7	172	3,170
2008	19	177	6,780
2009	44	133	17,000
2010	72	63	38,830
2011	97	35	60,110
2012	116	20	94,890
2013	141	21	124,190

Source: IRCTC annual reports, RBI, Kotak Institutional Equities

- **Online air ticketing portals**. Online air-ticket portals comprise agents (makemytrip.com, cleartrip.com, yatra.com) and airlines' websites. ComScore data suggests makemytrip.com is the leader (8 mn monthly users) versus yatra.com (3 mn) and cleartrip.com (2.5 mn). Makemytrip makes about 3.8 mn air ticketing transactions a year (US$15 commission per transaction) and 0.6 mn hotels/package transactions (US$50 commission). In total, the company makes about US$84 mn in commissions. In terms of gross bookings, makemytrip accounted for almost half of the online travel sales in India.

Exhibit 52: Makemytrip is making losses at the EBITDA level
Key annual financials of makemytrip.com, March fiscal year-ends, 2009-15E

Market cap. (US$ mn)	668

	2009	2010	2011	2012	2013	2014E	2015E
Sales	69	84	125	197	229	266	326
EBITDA	(8)	(4)	6	7	(14)	(18)	(7)
EBITDA margin (%)	**(11.9)**	**(5.3)**	**4.7**	**3.5**	**(6.2)**	**(6.8)**	**(2.1)**
PAT	(6)	(6)	5	7	(27)	(23)	(8)
Net worth	(27)	(25)	76	119	102	79	71

Source: Bloomberg estimates, Kotak Institutional Equities estimates

Exhibit 53: Commissions per transaction have declined over the past few years
Number of transactions and commissions for Makemytrip, March fiscal year-ends, 2009-2QFY14

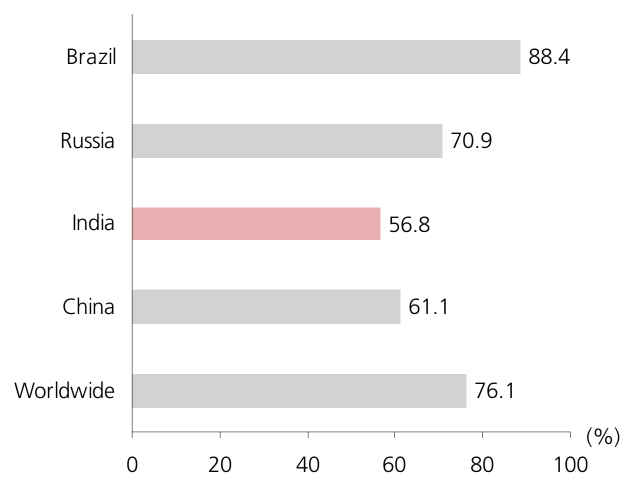
	2009	2010	2011	2012	2013	1HFY14
Number of transactions (#)						
Air ticketing	1,251	1,767	2,824	3,715	3,794	1,848
Hotels and packages	81	110	176	343	568	291
Commissions (000 US$ mn)						
Air ticketing	18,733	31,134	47,622	66,251	56,769	28,755
Hotels and packages	5,554	7,996	10,907	18,226	27,592	15,796
Gross bookings (000 US$ mn)						
Air ticketing	260,945	408,603	647,847	839,234	939,637	513,036
Hotels and packages	52,366	57,273	94,608	153,723	229,921	123,838
Gross margin (%)						
Air ticketing	7.2	7.6	7.4	7.9	6.0	5.6
Hotels and packages	10.6	14.0	11.5	11.9	12.0	12.8

Source: Company, Kotak Institutional Equities

#4: News—under-developed, low growth market limits monetization

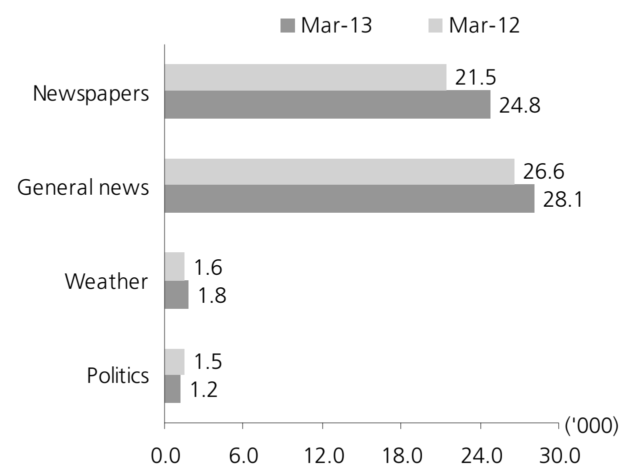
News media is an under-developed market in India with online reach much lower than the world average. This, along with low growth (10-15% yoy versus ~30% growth in the Indian online user base) and low usage (half hour per user per month) lowers attractiveness of news media websites for ad spends. The segment though offers opportunity to advertise to the NRI community as key websites attract a significant share of their viewers from outside India. About 40% of viewer share for websites of Times of India and NDTV comes from outside India.

Exhibit 54: India has large reach; though below world average
Comparison of online reach of news media in India in March 2013 (%)



Source: ComScore, Kotak Institutional Equities

Exhibit 55: 10-15% yoy growth seen in user base
Change in online user base of news media in India, March 2013 and March 2012 (mn)



Source: ComScore, Kotak Institutional Equities

kotak® Institutional Equities

Info Edge (INFOE IN Equity)

Internet

BUY

December 13, 2013

INITIATING COVERAGE

Sector view: Attractive

Price (₹): 452

Target price (₹): 530

BSE-30: 20,926

Cashing-in on jobs. Info Edge runs India's leading online recruitment portal, naukri.com, along with real estate, education and matrimony portals, which are in investment mode and consume about a fourth of the recruitment EBITDA. We initiate coverage with a BUY rating and target price of ₹530, looking beyond the cycle, at untapped opportunities in real estate, education and non-IT recruitment. Valuations are reasonable (25X FY15P/E adjusted for Zomato at transaction valuation and others at 3X P/B) for strong cash-flows (FCF yield of ~3.5% in FY2015E) and earnings growth (25% CAGR FY2014-17E) driven by scale up of contribution from other businesses (real estate particularly).

A leading online classifieds company with investments in non-recruitment online businesses

Info Edge, a leading Internet company, dominates the online recruitment market—naukri.com's traffic is more than twice that of other job sites. It has businesses in areas like real estate (99acres), matrimony (jeevansaathi) and education (shiksha). Naukri.com's success (~₹4 bn of revenue at ~50% EBITDA margin) is due to (1) a virtuous cycle of resumes and recruiters, driven by brand, (2) mix of advertising and subscription-based revenue streams and (3) its monetization with a large customer base (~50,000 paid customers). Other verticals (Meritnation, Policybazaar and Zomato), neutralize about a fourth of recruitment EBITDA.

Strong cash flow from recruitment, other verticals expected to lower EBITDA level losses

We expect Info Edge to have average operating cash flow of ₹2.2 bn a year over FY2014-17 and EPS CAGR of ~28% over FY2013-17 with about 16% revenue growth and margin expansion, led by its non-recruitment businesses. We expect the recruitment business EBITDA to post ~14% CAGR. Scale up of EBITDA in other businesses would support earnings.

Opportunity, growth, free cash flow make for superior valuations

We initiate coverage with a BUY rating and target price of ₹530, based on (1) 25X FY2017E standalone EPS discounted to FY2015E, (2) ₹40 value to Zomato (based on recent transaction valuation) and (3) ₹50 to other business investments (3X book). We believe valuations are supported by (1) a large, untapped opportunity in the real estate and non-IT recruitment verticals, (2) earnings CAGR of ~28% over the next four years, (3) a strong cash profile and (4) cyclical pressure on current earnings visibility, which can ease. The stock trades close to its historical average multiples (33X one-year forward earnings and 6.5X one-year forward book).

Risks: Strong competition, investment-focused strategy to realize potential and business cycle

The business cycle has a strong correlation with the job cycle (growth, churn). This correlation is strengthened by (1) market leadership, (2) significant online penetration in the key IT recruitment space and (3) limited offline-to-online migration in other sectors. Continued investments to fend off competition and maintain mindshare pose a challenge and risk.

Company data and valuation summary

Company data	Stock data	High	Low	Price performance	1M	3M	12M
Rating: BUY	52-week range (Rs)	484	276	Absolute (%)	11.5	47.2	27.3
	Priced at close of:		December 12, 2013	Rel to BSE-30 (%)	8.1	39.2	17.7
Current Price (Rs)	**Capitalization**			**Forecast/valuation**	**2013**	**2014E**	**2015E**
453	Market cap (Rs bn)		49.3	EPS (Rs)	10.6	11.6	14.2
	Net debt/(cash) (Rsmn)		(3,461)	P/E (X)	42.8	39.1	31.9
	Free float (%)		47.8	RoAE (%)	20.2	19.0	21.0
	Share Outstanding (mn)		109.2	EV/EBITDA (X)	36.4	30.6	22.9

Source: Company data, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research

FINANCIAL OVERVIEW

Exhibit 56: Forecasts and valuations, March fiscal year-ends, 2010-17E

Year end March	Revenues (₹ mn)	EBITDA (₹ mn)	Net Profit (₹ mn)	EPS (₹)	P/E (X)	EV/EBITDA (X)	P/B (X)
2010	2,371	626	530	5.1	88.0	74.1	14.1
2011	3,217	827	605	5.3	84.6	56.9	12.9
2012	3,904	1,168	944	9.5	47.1	39.6	10.4
2013	4,700	1,186	1,011	10.6	39.0	32.3	9.8
2014E	5,525	1,393	1,178	11.6	14.1	14.1	8.7
2015E	6,381	1,811	1,494	14.2	31.8	24.3	7.6
2016E	7,369	2,438	1,972	18.2	24.8	17.5	6.5
2017E	8,554	3,140	2,507	22.6	19.9	13.0	5.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 57: Financial snapshot for Info Edge (consolidated), March fiscal year-ends, 2009-17E (₹ mn)

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Profit model									
Total operating income	**2,458**	**2,371**	**3,217**	**3,904**	**4,700**	**5,525**	**6,381**	**7,369**	**8,554**
Operating expenses	**(1,796)**	**(1,745)**	**(2,390)**	**(2,736)**	**(3,513)**	**(4,133)**	**(4,570)**	**(4,931)**	**(5,414)**
Employee expenses	(934)	(920)	(1,279)	(1,482)	(1,983)	(2,415)	(2,687)	(2,893)	(3,244)
Network, internet and other direct charges	(90)	(91)	(110)	(105)	(164)	(194)	(227)	(266)	(313)
Administration and other expenses	(339)	(340)	(495)	(586)	(616)	(701)	(778)	(851)	(918)
Advertising and promotion cost	(433)	(394)	(506)	(563)	(750)	(822)	(877)	(920)	(938)
EBITDA	**662**	**626**	**827**	**1,168**	**1,186**	**1,393**	**1,811**	**2,438**	**3,140**
Other income	279	307	281	411	499	501	572	665	774
Depreciation	(71)	(65)	(80)	(83)	(118)	(129)	(153)	(170)	(194)
Pre-tax profit	**853**	**848**	**1,005**	**1,473**	**1,540**	**1,732**	**2,197**	**2,900**	**3,687**
Taxation	(270)	(318)	(400)	(529)	(528)	(554)	(703)	(928)	(1,180)
Recurring PAT (before minority interest)	**582**	**530**	**605**	**944**	**1,011**	**1,178**	**1,494**	**1,972**	**2,507**
Minority interest & associate profits	(12)	28	(24)	98	142	83	53	13	(44)
Reported PAT	**570**	**521**	**632**	**1,034**	**916**	**1,261**	**1,547**	**1,985**	**2,464**
Balance sheet									
Shareholders funds	3,252	3,746	4,367	5,247	6,189	6,900	7,792	8,959	10,431
Loan funds	4	6	7	3	5	—	—	—	—
Total source of funds	**3,256**	**3,753**	**4,374**	**5,250**	**6,194**	**6,900**	**7,792**	**8,959**	**10,431**
Net fixed assets	385	363	741	643	1,620	1,792	1,939	2,069	2,175
Investments	183	1,141	2,628	3,152	2,614	2,614	2,614	2,614	2,614
Cash balances	3,221	2,791	2,076	2,855	3,466	4,146	5,155	6,445	8,265
Net current assets excluding cash	**(552)**	**(577)**	**(1,130)**	**(1,441)**	**(1,551)**	**(1,696)**	**(1,961)**	**(2,214)**	**(2,667)**
Total application of funds	**3,256**	**3,753**	**4,374**	**5,250**	**6,194**	**6,900**	**7,792**	**8,959**	**10,431**
	2009	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**	**2016E**	**2017E**
Cash flow statement									
Operating profit before working capital changes	671	615	708	1,049	1,157	1,340	1,680	2,175	2,734
Change in working capital/ other adjustments	(295)	24	553	311	110	145	265	253	453
Cash flow from operating activites	**375**	**639**	**1,261**	**1,361**	**1,267**	**1,484**	**1,945**	**2,428**	**3,187**
Fixed assets	(75)	(43)	(457)	14	(1,095)	(300)	(300)	(300)	(300)
Investments	2,471	(959)	(1,486)	(525)	538	—	—	—	—
Cash (used)/ realised in investing activities	**2,396**	**(1,001)**	**(1,944)**	**(510)**	**(557)**	**(300)**	**(300)**	**(300)**	**(300)**
Free cash flow	**2,771**	**(362)**	**(683)**	**850**	**710**	**1,184**	**1,645**	**2,128**	**2,887**
Borrowings	(1)	3	1	(4)	2	(5)	—	—	—
Dividend paid	(24)	(24)	(48)	(127)	(127)	(517)	(633)	(813)	(1,009)
Cash (used)/realised in financing activities	**(17)**	**(44)**	**(34)**	**(180)**	**0**	**(588)**	**(688)**	**(851)**	**(1,024)**
Cash generated/ utilised	2,735	(430)	(714)	779	611	680	1,009	1,290	1,819
Cash at end of year	**3,221**	**2,791**	**2,076**	**2,855**	**3,467**	**4,146**	**5,155**	**6,445**	**8,265**

Source: Company, Kotak Institutional Equities estimates

INFO EDGE—DOMINANT IN RECRUITMENT, OTHER BUSINESSES IN INVESTMENT MODE

Info Edge is a leading Internet company with a dominant presence in recruitment and other offline-to-online classified plays (real estate, matrimony). The company has built a durable recruitment business (two-thirds of sales) based on (1) subscription and advertisement contribution, (2) high churn (42 mn resume modifications a year) and (3) a large customer base (~50,000 paid customers). A third of the business comprises loss-making online ventures in real estate, matrimony and education (account for a quarter of recruitment EBITDA).

Info Edge operates mainly in the online classifieds business, in four segments—(1) recruitment, (2) real estate, (3) matrimony and (4) education. It leads the market with naukri.com and its 99acres.com has a high share of Internet traffic. Besides, it invested in online ventures such as Meritnation and Zomato, which are subsidiaries, and in Policybazaar, an associate.

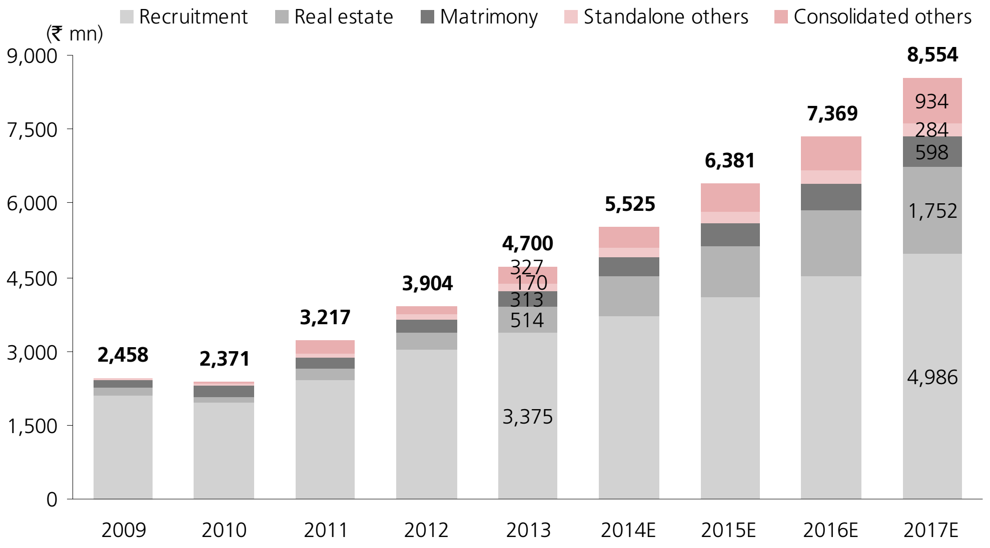
Exhibit 58: Info Edge's business is dominated by recruitment and supported by offline-to-online plays
Key business segments of Info Edge (standalone), March fiscal year-end, 2013

	FY2013 revenues (₹ mn)	Rev. share (%)	FY2013 EBITDA (₹ mn)	Product/service	Revenue model	Position
Recruitment	3,375	77	1,658	Online classifieds site for recruitment listings; focus on bulk purchases	Subscription (2/3 share) advertising (1/3 share)	Market leader
99 acres	514	12	(8)	Online classifieds site for real estate listings	Similar contribution from advertising (primary sales dependent) and subscription	One of two pan-India players
Jeevansathi	313	7	(75)	Online classifieds match-making site	Subscription	One of the top three
Others	170	4	(77)	Shiksha.com offers study options beyond Class XII	NA	NA
Total	**4,372**		**1,498**			

Source: Company, Kotak Institutional Equities

Info Edge's online real estate business and the other non-recruitment businesses are expected to drive growth over the next three years.

Exhibit 59: Real estate and investee companies to drive revenue growth over the next three years
Break-up of revenue of Info Edge (consolidated), March fiscal year-ends, 2009-17E (₹ mn)



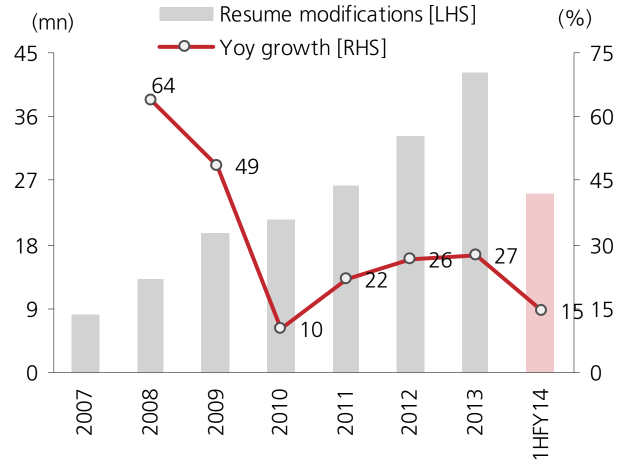
Source: Company, Kotak Institutional Equities

Recruitment—strong traffic, monetization; needs to enhance value proposition

Recruitment accounts for about two-thirds of Info Edge's business and contributed about half its EBITDA margin in FY2013. Naukri.com, which has 94% share in segment sales, majority traffic among online recruitment portals and high penetration in key sectors, such as IT, is the company's key contributor. Resume additions on the website have stabilized at 4-5 mn a year though naukri.com still has a large, dynamic resume database. It has 50,000 paid customers (they pay for advertising and database access) and the top 10% of customers account for more than 60% of its business.

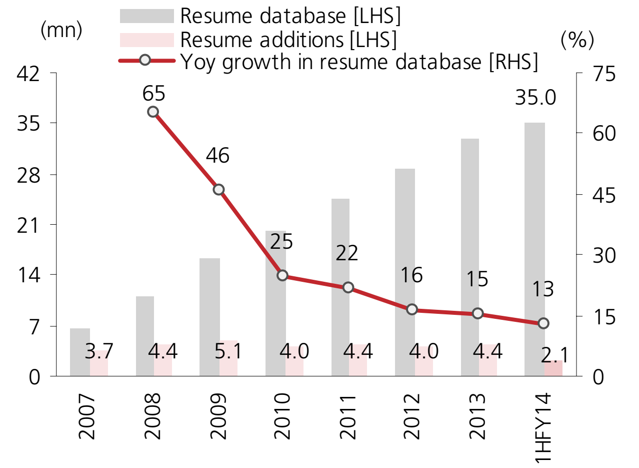
- **Large, dynamic database.** Naukri.com had a resume data base of 35 mn as of September 2013 and adds 4-5 mn resumes a year. The large, growing database supports frequent resume updates. The portal recorded 42 mn modifications in FY2013, growing 27% yoy (in line with past growth trends). This suggests about 7 mn active users (assuming a modification every two months per user). ComScore, a US Internet analytics company, arrived at a similar figure for monthly active users on naukri.com (does not include mobile-only users, which should be a small number).

Exhibit 60: The large quantum of updates reflects the dynamic nature of the database
Resumes modified at naukri.com, March fiscal year-ends, 2007-1HFY14



Source: Company, Kotak Institutional Equities

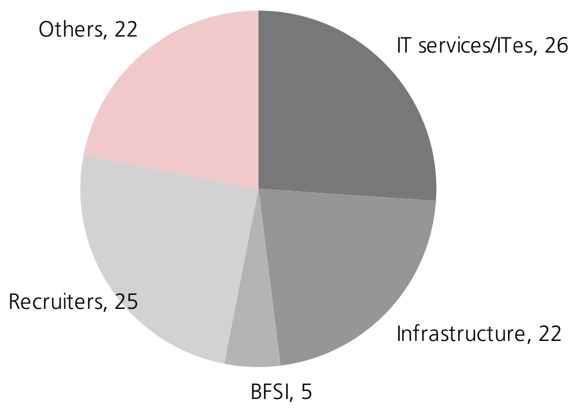
Exhibit 61: The database adds 4-5 mn resumes a year
Resumes added at naukri.com, March fiscal year-ends, 2007-1HFY14



Source: Company, Kotak Institutional Equities

- **IT commands a third of the share of the recruitment business.** About half the customer base comprises companies from (1) IT/ITeS (26%), (2) infrastructure (20%) and (3) BFSI (5%). A quarter of sales comes from recruitment agencies, out of which half may be going to IT companies. Both these yield an IT share of business of about 35%.

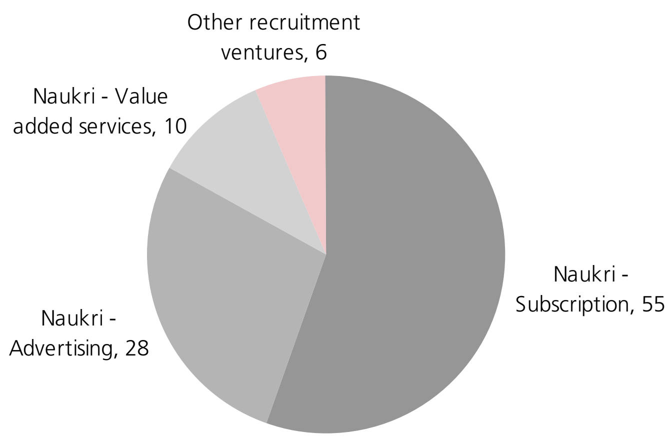
Exhibit 62: IT/ITeS the key contributor to naukri.com sales
Customer mix for naukri.com for the year ending March 2013 (%)



Source: Company, Kotak Institutional Equities

- **Balanced mix of advertising and subscription.** Exhibit 63 is a break-up of Info Edge's recruitment sales. Most of Info Edge's business comes from company subscription fees to access Naukri's resume database. Advertising contributes 28% of revenue and value-added services (paid by users) and recruitment ventures, apart from naukri.com, account for 15-16% of revenue.

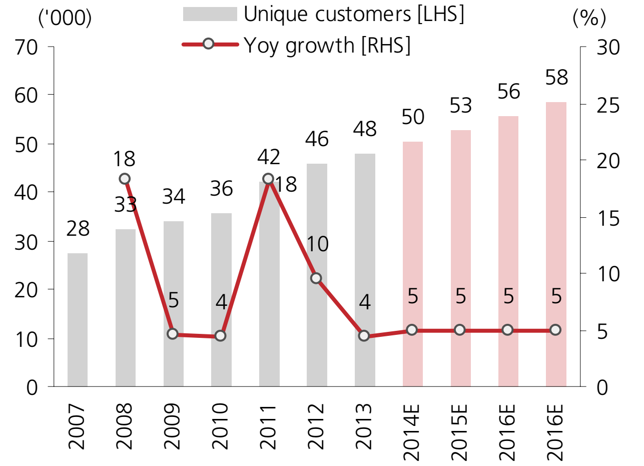
Exhibit 63: Most of the sales are from subscriptions to the database
Rough break-up of Info Edge's annual recruitment sales (%)



Source: Company, Kotak Institutional Equities estimates

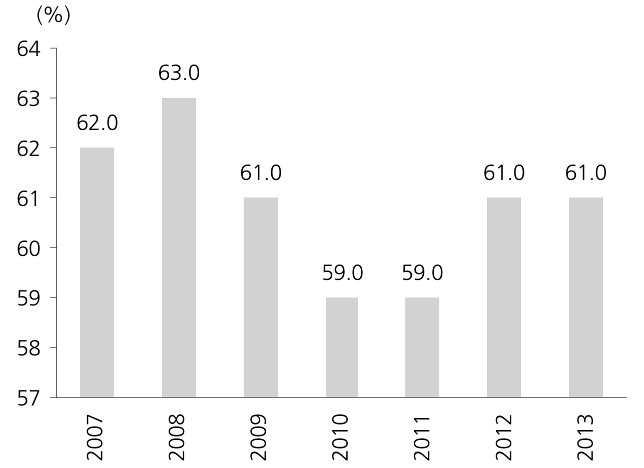
- **Majority of the business is from the top 10% of customers.** The top 10% of customers account for most of Info Edge's business, which weakens the potential and benefit of new customer additions. Top clients would be paying ₹12-15 mn a year. Naukri.com serviced 48,000 unique customers in FY2013.

Exhibit 64: Naukri.com supports a large customer base
Unique customers of naukri.com, March fiscal year ends, 2007-17E



Source: Company, Kotak Institutional Equities estimates

Exhibit 65: Top 10% of customers contribute most of the revenue, reducing impact of new customer wins
Share of top 10% of customers, March fiscal year-ends, 2007-13 (%)



Source: Company, Kotak Institutional Equities

Coping with competition—the need to add to the value proposition

Info Edge categorizes competition into (1) portals with similar business models (such as Shine, Monster and Timesjobs), (2) niche portals (Iimjobs) and (3) LinkedIn. Out of these, Info Edge is most concerned about LiinkedIn due to its (1) scale, (2) reach, (3) technology and (4) funding and it realizes that LinkedIn has potential to disrupt and change the recruitment market. Gradually, companies with low employee intake are showing interest in using LinkedIn for its high quality of resumes and options for reference checks. Info Edge is less concerned about competition from similar generic portals (it is 4X the size of the second largest competitor in terms of traffic) and niche players (the market is not large enough).

Our channel checks with human resources teams of large companies in non-IT sectors suggest slightly negative takeaways for naukri.com—(1) high pricing (prices have tripled over the past three years), (2) quality of resumes (relatively low share of active resumes; most applicants have an IT background) and (3) an elaborate process of filtering resumes.. Interestingly, the human resources teams observed that many companies subscribed to naukri.com more to establish their presence on the site (for advertising purpose) with the access to its resumes database being of secondary value.

Companies with low employee intake seem to be comfortable with consultants. Such companies lack a large recruitment team of their own and rely on consultants to shortlist/refine resumes and for reference checks.

We discuss the substitutes to Info Edge in India.

- **LinkedIn—getting relevant but still not a head-on competitor.** LinkedIn offers professionals a platform to connect, network and seek job opportunities. It has become relevant in India with a large and growing user base (9 mn monthly PC users, up 32% yoy in April 2013). LinkedIn recently set up a recruitment business, offering users access to its user database. The Indian venture betters naukri.com's offering (better quality resumes, reference checks) though it has steered away from the bulk recruitment (junior to mid-level hiring) segment, naukri.com's key domain. However, should it venture into the bulk side of the business, it would be a big risk for naukri.com. This risk becomes more relevant as India is Linkedin India's second largest market, after the US, with about 10% share of users.

- **Shine.com—leveraging personal networks.** Shine.com, started in 2008 by Firefly e-ventures and acquired by HT Media in May 2013, has a 12 mn-strong candidate database. The website enables a recruiter to reach out to a candidate's personal network and connections. It offers integrated print and online offering (through Shine Jobs, HT's Tuesday supplement). ComScore's April 2013 data indicates a strong 20% yoy growth in its online user base (~3 mn monthly users).

- **Monster.com—losing out to competition.** This recruitment portal is comparable in terms of database and resume additions to naukri.com—it has (1) a resume database of 30-35 mn and (2) daily resume additions of 15,000 (4-5 mn additions a year). The global nature of its offering (the only global portal in India's recruitment space) is its key differentiator. ComScore's April 2013 data suggests a sharp contraction in its user base (down ~20% yoy to 3.3 mn).

- **Iimjobs—a better target audience; expanding scope. Launched in 2008, ii**mjobs.com attracts interest from job-seekers from tier-1 management institutes (focus is on quality of job openings to improve quality of resumes). The company is not monetizing the corporate side of the business (companies can post job openings for free) as it aims to increase its network from 0.3 mn unique users a month. It recently launched another website specifically for technology jobs (hyrist.com).

Recruitment is a complex process, which leaves room for various channels to simplify the process. These include (1) company websites (for quality and a focused response for equal effort and less cost), (2) internal referrals and (3) pre-trained manpower from training vendors such as NIIT.

Seek—takeaways for Indian business

Seek is an online global recruitment search engine based out of Australia. The company has a similar business model to Info Edge in terms of having a central recruitment business with investments in other offline to online plays. The company reported sales of US$714 mn in FY2013 (9X the size of Info Edge) and has a market capitalization of US$4.5 bn (5X of that of Info Edge). We present below key takeaways from its international business.

- **Market leadership adds to competitiveness and growth potential.** We present an example of Seek (an Australian online job marketplace) to point out the relevance of market leadership in a fluid recruitment market. Seek is the market leader in Australia with a high 26% market share in all job changes. Despite operating in a weak macro environment, it has reported stable performance leveraging its market leadership to benefit from migration of recruitment funds to the online platform (63% of the recruitment spend in Australia is online). At the end of June 2013, the company's Australian recruitment revenue declined by just 5% yoy even though the job market index declined by 18%.

- **Limited threat of LinkedIn to online job sites based on its US performance.** While LinkedIn is a threat to online job sites, the company's performance in the US suggests limited potential to garner market share in its current form. There, online employment job boards are still a dominant source of interviews (12X of LinkedIn) and placements (18X of LinkedIn). We note LinkedIn has deep penetration in the US in terms of user base.

Naukri.com's competitiveness lies in bulk purchases, limiting use of other such levers

Naukri.com's key lever of competitiveness is its large, dynamic database, which it leverages to service bulk purchases (companies with large hiring requirements). Naukri chose to stay in the bulk side of the business—it charges a large subscription fee and a small incremental fee per job login. This, in effect, makes it a database provider, competing through its ability to deliver bulk data at a competitive price.

Recent acquisitions aim at improving the value proposition

Info Edge made two technology-based acquisitions for its job portal over the past 12 months—it acquired (1) toostep.com to more efficiently manage back-end activities like resume management and (2) makesense for its semantic developing engine. The more relevant acquisition is that of the semantic search engine, which helps to match the needs of recruiters with skills of job seekers (the search engine uses meanings of needs and skills to generate matches). It supports response management for recruiters by reducing the amount spam for them. The technology also helps naukri.com in propagating jobs on social media. Monster.com pioneered the technology for recruitment purposes.

Exhibit 66: Naukri scores over other domestic portals; Linkedin has a higher active user base
Comparison of various online jobs portals in April 2013

	Alexa traffic	Total unique visitors ('000)		Total pages viewed (mn)		Total visits ('000)		Average minutes per visit	
Media	India rank	Apr-2013	% change	Apr-2013	% change	Apr-2013	% change	Apr-2013	% change
LinkedIn	NA	8,989	31.9	271	33.1	36,085	58.1	5	3.0
Naukri	24	6,790	1.1	229	15.3	22,947	6.8	7	13.6
Monsterindia	136	3,280	(18.8)	62	(3.2)	10,054	65.1	5	19.2
Shine	141	2,990	18.7	33	37.2	5,840	77.4	4	44.2
Timesjobs	163	3,626	4.0	39	(6.5)	5,692	20.1	4	(2.6)

Source: Alexa rankings, ComScore, Kotak Institutional Equities

Launch of new features has received good response

Naukri.com has recently added new features in (1) recruiter's profile (updates on application, (2) employee referral (job listing by an employee shared with his social network), (3) improved search algorithm (semantic search) and (4) launch of android app. Of these, the company cited that the employee referral and android app have received good response.

Penetration-led growth may have peaked; Job Speak Index reflects weak cycle

- **Key IT market almost fully penetrated.** IT accounts for 35% of naukri.com's revenue and the company said there was limited potential for further penetration. IT companies recruit 70-80% of their job requirements online, with job portals accounting for half the online recruitment (naukri.com has majority share). Headcount data of top IT companies corroborates naukri.com's share—a ₹9 bn IT recruitment market in FY2013 with ₹1 bn IT recruitment spending on naukri.com. In FY2013, IT accounted for about a third of Naukri's total recruitment business of ₹3.2 bn (that is, ₹1.2 bn).

Exhibit 67: Naukri.com holds a material share in the overall IT recruitment spend
Net recruitment additions for major IT companies, March fiscal year-ends, 2003-13 (#)

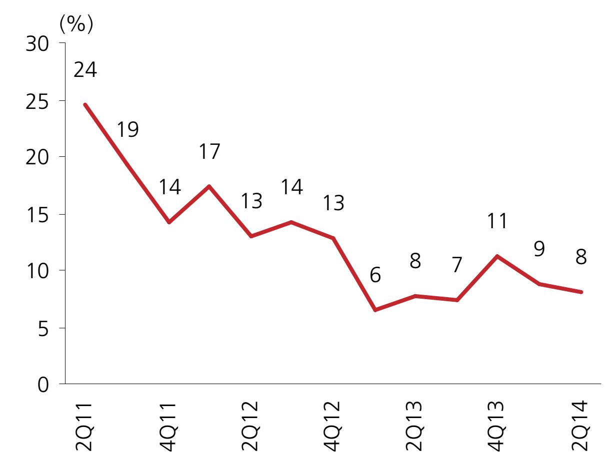
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TCS	24,168	30,121	45,714	66,480	89,419	111,407	143,761	160,429	198,614	238,583	276,196
Infosys	15,876	25,255	36,750	52,715	72,241	91,187	104,850	113,796	130,820	149,994	156,688
Wipro	13,723	19,202	26,184	37,655	50,354	95,567	97,810	108,071	122,385	135,920	145,812
HCL Technologies	10,041	16,358	24,090	32,626	42,017	50,741	54,216	64,557	77,046	84,319	84,403
Satyam Computer	9,759	14,032	19,164	26,511	35,670	45,969	41,267	23,596	29,266	33,353	36,587
MphasiS	3,905	6,278	8,375	11,414	14,679	27,037	33,810	37,119	41,739	37,179	38,814
Tech Mahindra	1,889	2,451	5,617	10,493	19,749	22,884	24,972	33,524	38,333	40,763	47,498
Mindtree	1,889	3,753	5,617	10,493	19,749	22,884	24,972	33,524	38,333	40,763	47,498
Hexaware	1,231	2,351	3,745	3,797	5,361	6,534	4,860	4,917	6,271	8,172	8,217
Polaris	3,802	4,523	5,493	5,580	7,823	9,075	8,417	8,656	10,137	11,597	11,768
Cognizant	5,852	9,677	15,860	25,000	40,800	54,425	59,470	80,300	104,000	131,600	151,600
Total	**92,135**	**134,001**	**196,609**	**282,764**	**397,862**	**537,710**	**598,405**	**668,489**	**796,944**	**912,243**	**1,005,081**
Net additions		41,866	62,608	86,155	115,098	139,848	60,695	70,084	128,455	115,300	92,838
Net additions (sector level [b])		127,000	194,000	222,000	315,000	269,000	184,000	77,000	206,000	196,000	149,000
Gross additions (assumed at 2X net additions)		254,000	388,000	444,000	630,000	538,000	368,000	154,000	412,000	392,000	298,000
Related recruitment market (₹ mn)											**8,940**
Info Edge's IT recruitment business (₹ mn)											**1,206**
Share of Info Edge in IT recruitment spend (%)											**13.5**

Notes:
(a) The recruitment market is calculated at 10% commission for ₹3 mn cost of company.
(b) NASSCOM estimate.

Source: Company, NASSCOM, Kotak Institutional Equities

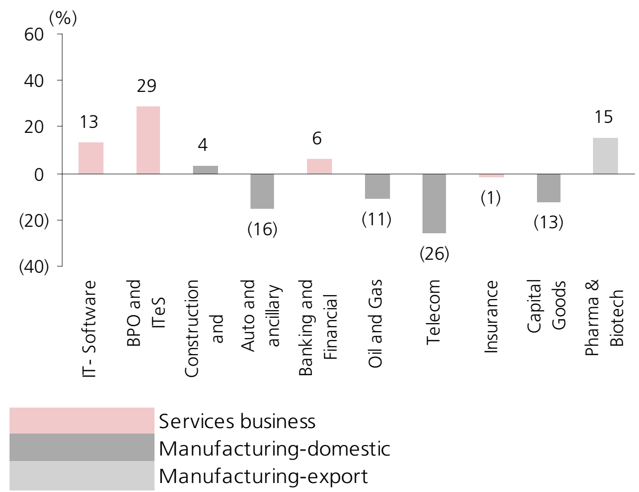
- **Job Speak Index—continues to moderate, reflects a weak cycle.** Naukri.com's Job Speak Index indexes job listings (added, refreshed) to naukri.com during a month on a July 2008 base (1,000). The yoy growth in this index over the past 4-5 quarters has been sedate at 6-11%. In 2QFY14 the index grew 8% yoy, driven by export-oriented (pharmaceuticals, IT, BPO and ITeS) and service-oriented (BFSI) sectors. Sectors related to manufacturing declined yoy.

Exhibit 68: Growth in the Job Speak Index has slowed over the past few quarters
Yoy growth in Naukri's Job Speak Index, March fiscal year-ends, 2Q11-2Q14 (%)



Source: Company, Kotak Institutional Equities

Exhibit 69: Services and export-oriented companies support the index
Segmental yoy growth in Naukri's Job Speak Index in 2QFY14, March fiscal year-ends (%)

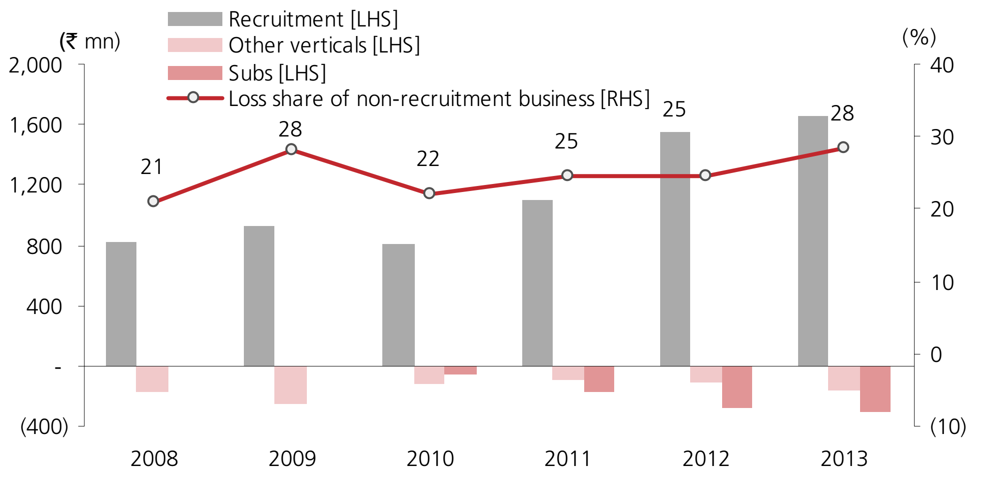


Source: Company, Kotak Institutional Equities

Beyond jobs—education, real estate, marriage businesses in investment mode

Info Edge's online ventures, besides recruitment, Shiksha.com, 99acres.com and Jeevansaathi.com, contribute about a third of the top-line and negate about a quarter of its recruitment business EBITDA. The businesses can be categorized as follows—(1) investee companies with recent investment, where the market is nascent and losses are scaling up with business growth and (2) investments made earlier, where markets are more mature and losses are led by marketing spends (to fend-off competition). Exhibit 70 captures the EBITDA loss contribution from such investments against EBITDA generation from the recruitment business.

Exhibit 70: Subsidiary/investee losses account for 20% of standalone EBITDA
EBITDA of the standalone and subsidiary/investee businesses, March fiscal year-ends, 2008-13

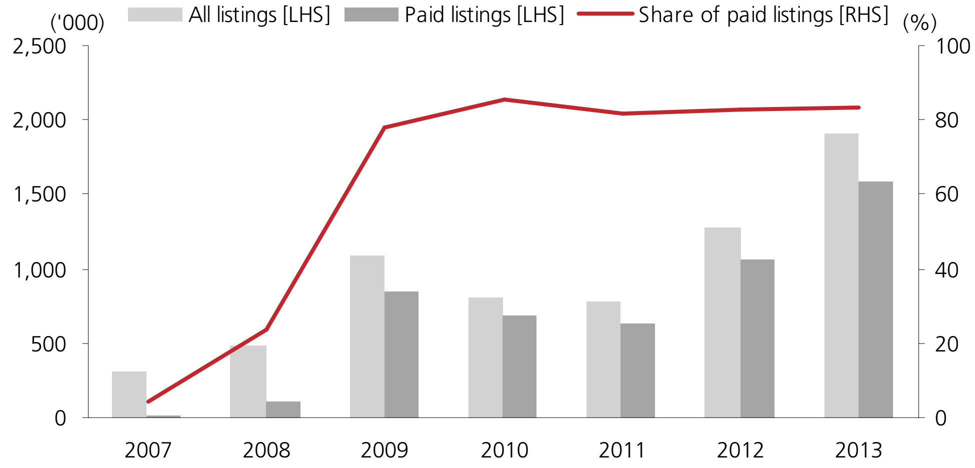


Source: Company, Kotak Institutional Equities

99acres.com—digitization supports scale-up; competitive pressure boosts spends

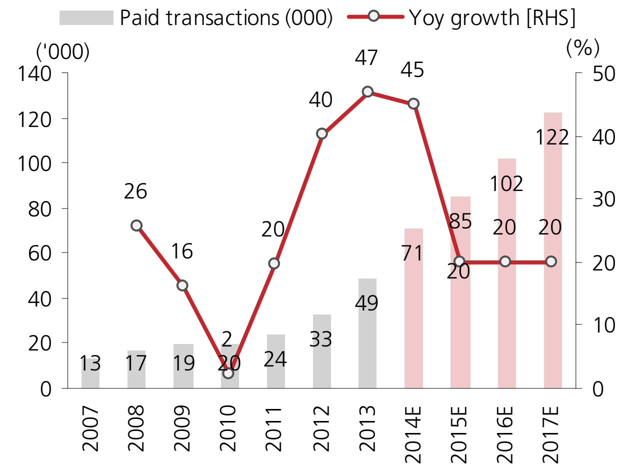
This real estate classifieds site earns revenue from paid listings and advertising from real estate developers. The company continues to grow amid the declining overall volume of real estate transactions, reaffirming the flow of such transactions to digital platforms. Competitive pressure pushed the company to invest in the business (marketing, product development), leading to nil profitability over the past three years in spite of the top-line more than doubling over this period. During Info Edge's recent earnings call the management said it expected 99acres to break even over the next 18-24 months if it continues to grow at the current rate of 50% yoy. The company faces stiff competition from magicbricks.com, the other pan-India player. 99acres scores in terms of traffic and bounce rate (loading time is half that of magicbricks.com), based on data from alexa.com.

Exhibit 71: There has been strong growth in listings on 99acres.com over the past three years
Listings on 99 acres.com, March fiscal year-ends, 2007-13 ('000, %)



Source: Company, Kotak Institutional Equities

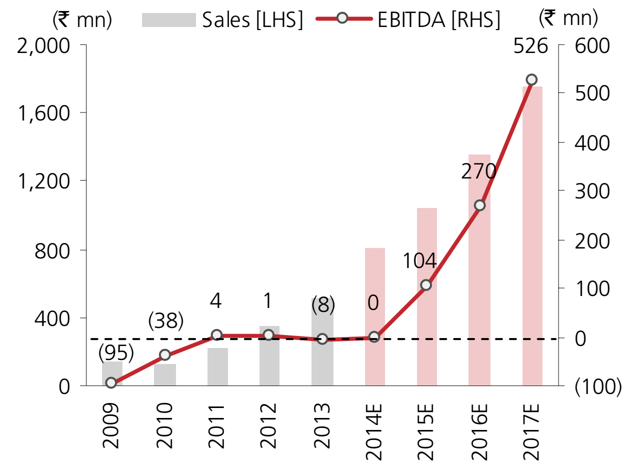
Exhibit 72: Paid transactions are growing briskly
Paid transactions for 99acres.com, March fiscal year-ends, 2007-17E ('000)



Notes:
(1) Paid transactions include contributions from paid listings and advertising.

Source: Company, Kotak Institutional Equities

Exhibit 73: EBITDA contribution expected to grow over FY2015-17E
Sales and EBITDA of 99acres.com, March fiscal year-ends, 2009-17E (₹ mn)



Source: Company, Kotak Institutional Equities

Exhibit 74: 99acres.com scores over Magicbricks in traffic and loading time
Comparison of real estate classifieds websites, September 12, 2013

	Loading time (sec)	India traffic rank (#)	Bounce rate (%)
99acres	3.2	178	32.0
Magicbricks	6.9	231	36.0
Makaan	4.1	799	37.0
Propertywala	1.5	1,513	43.0

Notes:
(1) Bounce rate is defined as the share of single page visits.

Source: Alexa rankings, Kotak Institutional Equities

Exhibit 75: Leading real estate Internet companies have significant market capitalizations
Comparison of companies with online real estate classifieds business, calendar year-ends, 2012-14E (US$ mn)

	Market	Sales			EBITDA			PAT			P/E (X)			EV/EBITDA		
	Cap.	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Soufun Holdings (China)	3,960	430	590	713	207	308	371	152	225	272	26.1	17.6	14.6	20.1	12.9	9.8
Zillow Inc. (US)	3,390	117	190	268	19	22	50	6	(24)	2	574.6	(143.0)	1,412.5	172.1	147.6	62.3
E-House (US)	1,200	462	628	751	(24)	63	87	(57)	21	52	(21.1)	56.9	23.3	(41.6)	16.7	12.3
Sina Corp. (China)	5,290	511	643	809	21	53	151	32	17	106	166.9	304.0	49.9	216.9	86.1	29.6

Notes:
(1) Sina Corp. has other online businesses besides recruitment.

Source: Bloomberg Equities, Kotak Institutional Equities

Zomato's stake sale indicates large valuation for 99acres.com

Recent equity investment in Zomato of ₹2.3 bn (US$37 mn) values the company at about US$150 mn. This leads to a valuation of 25X FY2014E revenues, based on expectation of the company tripling revenues over its FY2013 base. A similar 25X multiple to 99acres' FY2014E revenues yields a US$250 mn valuation for the real estate venture or a contribution of ₹150/share to Info Edge's fair price. Unlike Zomato, we do not assign separate value to 99acres in our target price of Info Edge. We expect 99acres to contribute about ₹500 mn to Info Edge's FY2017E EBITDA versus nil contribution in FY2013. This implicitly values 99 acres at an EV of ₹6 bn (discounted to FY2015E).

Indian, Chinese markets similar—heavy dependence on advertising but lack of scale

We note companies in China and the US that have established large businesses in the online real estate classifieds and services segments. Key companies include (1) Soufun in China (US$430 mn sales and US$ 4 bn market capitalization) and (2) ZIllow in the US (US$120 mn sales and US$3.4 bn market capitalization).

- **The Chinese market**. The Chinese market is more of an advertising market with listings accounting for a minority of revenues. Three large online real estate portals account for most of the market—(1) Soufun, (2) E-House and (3) Sina. Soufun is the largest player with US$330 mn of online revenue from real estate (excluding the e-commerce business). Most of the revenue is driven by advertising (listing accounts for a quarter of its real estate revenue).

- **The US market.** The US$10 bn US real-estate advertising market comprises (1) purchase sales advertising (US$8 bn) and (2) rental-related advertising (US$2 bn). Zillow is the leading online real estate portal with revenue of US$117 mn (in CY2012). Most of the revenue is based on listings and other services for real estate agents (website, performance analytics). Display advertising accounts for a quarter of the business.

- **The India market.** The Indian primary housing market is possibly about ₹2.1 tn supporting an online advertising business of about ₹22 bn. In addition to it, we size the online advertising revenue potential of rental market at about ₹4 bn. This provides the market size of real estate related online advertising at about ₹25 bn currently. 99acres is one of two pan-India players, with advertising accounting for most of its ₹500 mn top-line in FY2013.

Exhibit 76: Primary and rental real-estate related advertising potential

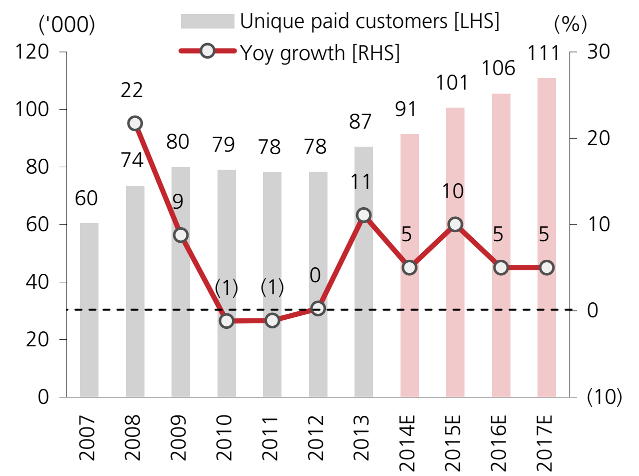
Primary sales	
Primary sales (mn sq. ft)	430
Sales (₹/sq. foot)	5,000
Total primary sales (₹ bn)	2,150
Advertising spend (₹ bn; @2.5% of sales)	54
Online share of advertising (%)	20
Advertising revenues	**11**
Secondary sales	
Total primary sales (₹ bn)	2,150
Advertising spend (₹ bn; @1% of sales)	22
Online share of advertising (%)	10
Advertising revenues	**2**
Rentals	
Total hosuseholds in top 11 cities (mn)	15
Households on rent @20% share)	3
Churn per households (per annum)	0.5
Commission per change (₹)	25,000
Revenue for brokerage (₹ bn)	38
Potential online advertising pie of the same (10%)	**4**
Total real estate revenues for online portals	**17**

Source: Kotak Institutional Equities estimates

Jeevansaathi.com—realization-led growth as volumes have long plateaued

Jeevansaathi is an online match maker, operating a subscription-based model. A typical customer pays jeevansaathi.com close to ₹4,000 to access its database for three months. Jeevansaathi.com's business, however, has stagnated in terms of its paying customer base and the revenue growth has been almost completely supported by double-digit growth in realizations. The venture generated a top-line of ₹370 mn in FY2013 and made EBITDA losses on this income of ₹74 mn. Its market share is probably lower than that of bharatmatrimony.com and shaadi.com. Info Edge recently hinted at experimenting with new business models to increase business for jeevansaathi.com.

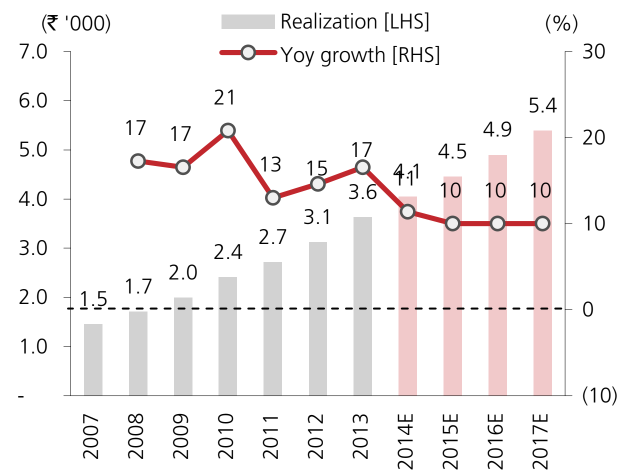
Exhibit 77: Unique paid customers have stagnated over the past four years at Jeevansaathi
Unique paid customers for jeevansaathi.com, March fiscal year-ends, 2007-17E ('000)



Notes:
(1) Unique paid customers in 2013 were bumped up due to a strong 4QFY13 and accompanied by a fall in realizations, after which the number flattened in 1QFY14.

Source: Company, Kotak Institutional Equities estimates

Exhibit 78: Unique paid customers have stagnated over the past four years at Jeevansaathi
Unique paid customers for jeevansaathi.com, March fiscal year-ends, 2007-15E ('000)



Source: Company, Kotak Institutional Equities estimates

Shiksha—information portal that earns advertising spend from education institutions

Shiksha.com, an information exchange, was launched in May 2008. Its revenue is generated from advertisements placed by colleges, educational institutions and universities—net sales grew by 30% in FY2013 to about ₹100 mn in FY2013. Collection growth was lower than revenue growth due to a larger share of deferred products in the sales mix. The site had more than 110,000 listings at the end of March 2013.

Other businesses—revenues and losses scale up

Besides, Info Edge invested ₹2.5 bn in several companies, most of the investment being in Zomato (ranked 160th in India by Alexa.com in terms of traffic) and Meritnation (ranked 657th by Alexa.com). The investee companies reported cumulative sales of ₹1.08 bn and had EBITDA-level losses of ₹1.8 bn. Costs and revenues increased briskly, leading to a build-up of losses at the EBITDA level. However, in 1QFY14, zomato.com broke even. We note that Info Edge wrote down its investment of ₹131 mn in Ninety Nine Labels—a risk associated in other Info Edge ventures with accumulated losses.

Exhibit 79: Revenues, costs and losses are scaling up in many companies that Info Edge invested in
Operating metrics of the companies in which Info Edge invested

Investee company	website	Business	Investment (₹ mn)	Shareholding (%)	Sales (Rs mn) 2012	Sales (Rs mn) 2013	Operating EBITDA (Rs mn) 2012	Operating EBITDA (Rs mn) 2013
Partly owned subsidiaries								
Zomato Media	www.zomato.com	Restaurants	860	57	20	114	(72)	(100)
Applect Learning Systems	www.meritnation.com	Education	615	54	41	98	(54)	(214)
Associates								
Etechaces Marketing and Consulting	www.policybazaar.com	Insurance	325	32				
Kinobeo Software	www.mydala.com	Deals	270	47				
Canvera Digital Technologies	www.canvera.com	Lifestyle	354	23	537	866	(297)	(456)
Happily Unmarried Marketing	www.happilyunmarried.com	Lifestyle	50	25				
Nogle Technologies	www.floost.com	News monitoring	26	31				
Total			**2,500**		**598**	**1,078**	**(424)**	**(771)**
Wholly owned subsidiary								
Allcheckdeals India	www.allcheckdeals.com		70	100	107	142	(37)	(7)

Source: Company, Kotak Institutional Equities

Zomato: Continues to expand geographical presence while confining scope

Zomato is a hotels reviews website. It is expanding its scope in overseas geographies (35% of its business originates from outside India). The company has decided against broadening its scope beyond food reviews (unlike Just Dial) into associated services (hotel reservation, home delivery).

Recent investment by Sequoia Capital (along with Info Edge values the company at ₹9 bn. Company generated ₹110 mn of revenues in FY2013 and expects to triple its revenues in FY2014E. The transaction thus values the company at 25X FY2014E revenues. The company has recently achieved break-even at the EBITDA level.

Meritnation: Online assessment offering for school students

Meritnation is a kindergarten to class XII assessment based learning portal. It provides online educational assessment for school students and free solutions (mathematics, science) for standard VI to XII. For the online assessment and teaching solutions, the portal has a paid product. The portal generated about ₹100 mn of revenues in FY2013 with large ₹200 mn of EBITDA losses (high advertising and employee cost). We expect majority of the revenues for the portal to be generated from subscriptions. Based on a ₹2,500 subscription estimate, the website is currently having about 40,000 users.

Info Edge had a 54% stake in Meritnation for an investment of ₹618 mn as of end FY2013.

Exhibit 80: Profile and traffic data for key investee companies of Info Edge

Investee company	Profile	Year of launch	Alexa India traffic data Rank (#)	Bounce rate (%)
Zomato	Online restaurant guide providing information about home delivery, dining out, cafés and night life in Indian cities	2008	160	23.6
Mydala	Online shopping deals site	2009	613	35.8
Meritnation	Online learning portal for school children	2009	657	40.0
Policy Bazaar	Online life insurance and general insurance comparison portal	2008	1348	43.6
Canvera	Online photography company, providing mass customized printed products and e-commerce solutions to professional photographers	2008	14,576	46.6

Notes:
(1) Bounce rate is calculated as share of single page visits on a website.

Source: Alexa.com , Company, Kotak Institutional Equities

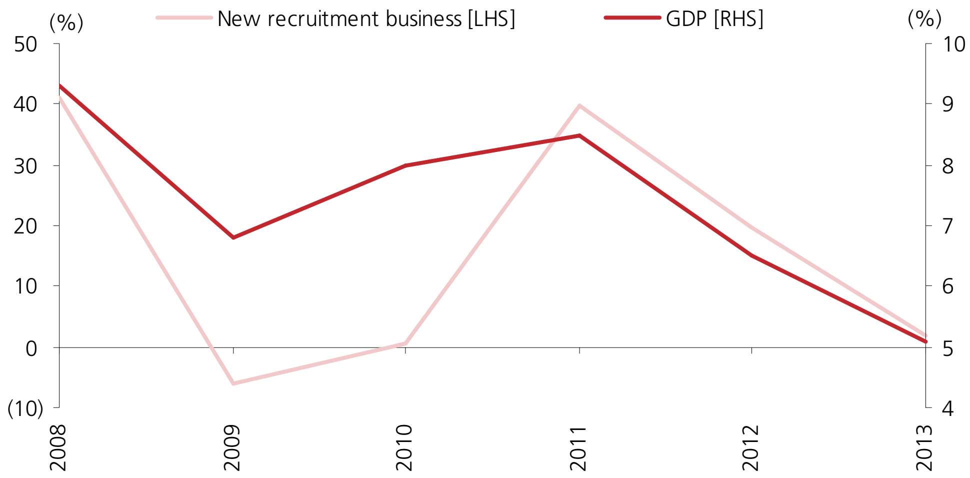
INVESTMENT-FOCUSED STRATEGY INCREASES SENSITIVITY TO BUSINESS CYCLE

The business cycle has a strong correlation with the job cycle (growth, churn) and is the key determinant of Info Edge's business. This correlation has been made more direct for Info Edge by (1) its leadership positioning, (2) significant online penetration in key IT recruitment space and (3) limited offline-to-online migration in other sectors. The additional overhang of investments to fend off competition and grow mindshare increase sensitivity to the cycle. We note that competition is itself a risk for Info Edge's businesses in (1) recruitment (market leader; threat of Linkedin), (2) real estate (magicbricks.com) and (3) Zomato (Just Dial).

Job cycle is closely linked to the business cycle

Info Edge's bread-and-butter business, recruitment, is driven by hiring activity, which is heavily dependent on economic growth. Growth in economy spurs new employment opportunities and increases the rate of attrition or churn. The correlation of the job cycle to the business cycle has become more direct for info Edge due to (1) its market leadership (less potential for share gains), (2) high online penetration in its key IT recruitment business and (3) limited migration from offline to online in the recruitment business in other sectors. We note that Info Edge's recruitment business flattened in FY2013, when economic growth slowed to 5%. Although incrementally, the IT segment benefited from the Rupee depreciation, this has yet to translate into more business for Info Edge.

Exhibit 81: New recruitment business flattens in FY2013 as GDP growth moderates to 5%
Yoy growth in real GDP and Info Edge's recruitment new business, March fiscal year-ends, 2008-13 (%)



Source: Company, MOSPI, Kotak Institutional Equities

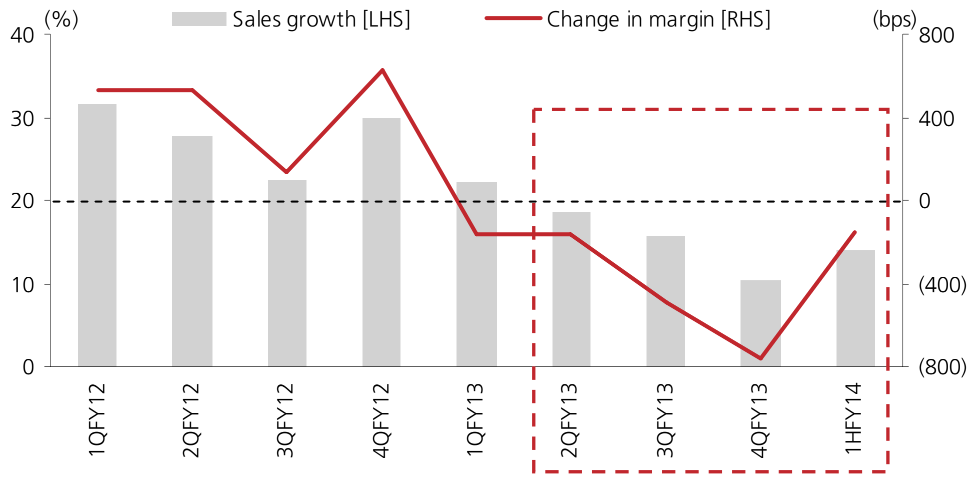
Investments (to fend off competition, grow mindshare) increasing sensitivity

In spite of the slowdown in the recruitment space, Info Edge has continued to invest in its businesses to (1) fend off competition and (2) grow mindshare in upcoming businesses (meritnation.com, shiksha.com). These factors can delay-breakeven in the non-recruitment businesses, increasing neutralization of recruitment EBITDA, thus increasing sensitivity of Info Edge's business to the cycle.

High growth requirement to sustain margins

Info Edge said it needed sales growth of over 20% to maintain margins (in the recruitment business, it requires 15% sales growth). Recent sales growth (10% sales growth in 4QFY13, 14% sales growth in 1QFY14) and a sharp margin decline (500-600 bps yoy) indicate the sensitivity of Info Edge's margins to sales growth.

Exhibit 82: EBITDA margin decline is sensitive to the sales growth threshold of 20%
Yoy sales growth and EBITDA margin change, Info Edge (standalone), March fiscal year-ends, 2012-2QFY14



Notes:
(1) 1HFY14 data taken due to high advertising spend in 1QFY14 (normalized in 2QFY14).

Source: Company, Kotak Institutional Equities

Competition necessitates continued investment in product and mindshare

Info Edge has strong market positioning in its key online businesses—it is (1) the market leader in recruitment (naukri.com) and has a food review website (zomato.com) (2) among the top two in the real estate space (99acres) and (3) among the top three in the matrimony space (jeevansaathi.com). However competition remains strong and necessitates significant spending to maintain user mindshare and build the product. Competition is intensifying in its recruitment (linkedin.com), real estate (common floor etc.) and Zomato's foods reviews businesses (Just Dial).

OPPORTUNITY, GROWTH, FREE CASH FLOW MAKE FOR SUPERIOR VALUATIONS

We initiate coverage on Info Edge with a BUY rating and target price of ₹530, based on 25X FY2017E standalone EPS, discounted to March15E and ₹90 for its business investments. We believe valuations are supported by (1) a large, untapped opportunity (real estate, non-IT verticals in the recruitment space), (2) earnings CAGR of ~28% over FY2013-17E, (3) a strong cash profile and (4) cyclical pressure (which may ease) on earnings visibility. The company trades at average historical valuations (33X one-year forward earnings). The reverse DCF methodology, based on near-term estimates (sedate recruitment business, breakeven in other businesses), suggests a modest 15% decadal CAGR requirement to justify the current stock price.

Although a weak cycle and early-stage loss-making businesses may hinder near-term performance, the business' structural growth drivers are intact—(1) a large untapped recruitment opportunity (non-IT verticals in the recruitment space have low online penetration), (2) potential for growth of the real-estate business (99acres is one of two pan-India companies; market leaders in China and the US are a multiple Info Edge's market capitalization) and (3) a strong cash profile (operating free cash over the past five years actually exceeds reported PAT because of negative working capital).

We initiate coverage on Info Edge with a BUY rating and target price of ₹530, based on 25X FY2015E standalone EPS and ₹90 for its business investments.

Exhibit 83: We arrive at an SOTP value of ₹530 for Info Edge
SOTP valuation of Info Edge

	Paramater	Value (₹ mn)	Multiple (X)	Valuation basis	Valuation (₹ mn)	Stake (%)	Value of stake (₹ mn)	Per share value (₹)
Standalone business	2017E earnings	2,420	25.0	P/E discounted to FY2015E	60,496	100	47,800	438
Zomato	Transaction valuation			Transaction	9,000	50	4,500	41
Other investments	2013 book	4,623	3	P/B	13,868	37	5,131	47
Total								**526**

Source: Company, Kotak Institutional Equities estimates

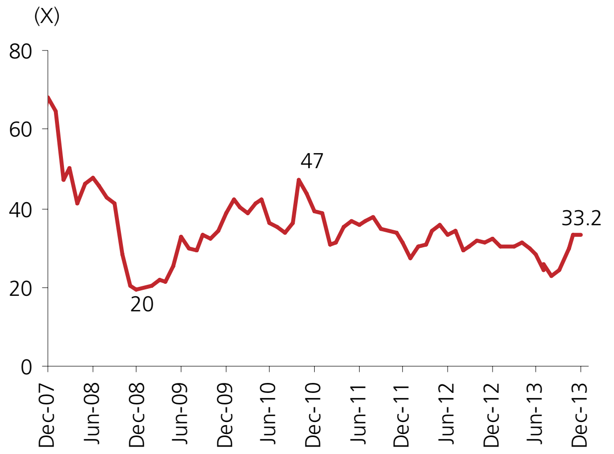
Strong free cash flow offers comfort

Adjusted for other income, we estimate average annual free cash flow of ₹1.3 bn over FY2014-17 against current market capitalization of ₹33 bn (adjusted for cash and investments). This implies free cash flow yield of 4%.

Info Edge trades at average historical valuations

Info Edge trades close to its average decadal historically valuation multiples at 33X one-year forward earnings. It trades at 6.5X one-year forward P/B (averaged 6.2X since the IPO years). These multiples are based on our estimates of 16% sales CAGR with a stable recruitment margin and improving profitability in other businesses.

Exhibit 84: Info Edge's P/E trajectory, December 2007-December 2013 (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 85: Info Edge's P/B trajectory, December 2007-December 2013 (X)

Source: Bloomberg, Kotak Institutional Equities estimates

Info Edge needs 15% decadal CAGR to justify its current market price

The reverse DCF methodology implies decadal growth requirement of 14% over FY2016-25E (followed by 5% perpetual growth assumption). The analysis assumes the benefit of investee EBITDA losses halving over FY2014-15E and the recruitment business remaining sedate over the period. This translates into 15% revenue CAGR and ~450 bps improvement in EBITDA margin (over FY2013-16E), with margins stabilizing at 30%.

Exhibit 86: Reverse DCF methodology implies 15% growth requirement for Info Edge at the current market price
Reverse DCF for Info Edge, March fiscal year-ends, 2010-2031E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2031E
Total gross revenues	**2,371**	**3,217**	**3,904**	**4,700**	**5,525**	**6,381**	**7,369**	**8,554**	**42,639**
EBIT	561	747	1,084	1,069	1,264	1,658	2,268	2,947	14,497
EBIT*(1-tax rate)	351	450	695	702	859	1,128	1,542	2,004	9,858
Depreciation/Amortisation	65	80	83	118	129	153	170	194	(67)
(Inc.)/Dec. in working capital	24	553	311	110	145	265	253	453	668
Capital expenditure	(43)	(457)	14	(1,095)	(300)	(300)	(300)	(300)	(508)
Free cash flows	**397**	**626**	**1,104**	**(165)**	**833**	**1,245**	**1,666**	**2,350**	**10,086**
Years discounted	—	—	—	—	—	1	2	3	17
Discount factor	1.0	1.0	1.0	1.0	1.0	0.9	0.8	0.7	0.1
Discounted cash flow	**397**	**626**	**1,104**	**(165)**	**833**	**1,102**	**1,304**	**1,629**	**1,263**

Enter current price	**450**

Near-term growth (FY2017-26E)	**15.2**
Long term growth (FY2026-31E)	5.0

WACC used (%)	**13.0**
Terminal gorwth rate	5.0
Capitalization rate	7.5
Terminal value calculation	—
Cash flow in terminal year	10,086
Terminal value	141,198
Discount period (years)	17
Discount factor	0.1
Discounted value	17,680

NPV calculation	
Sum of free cash flow	28,755

Enterprise value	**46,436**
Add Investments	2,614
Net debt	(90)
Net present value-equity	49,140
Shares o/s (mn)	109
NPV /share (Rs)	**450**

Key assumptions									
EBIT margin (%)	23.6	23.2	27.8	22.7	22.9	26.0	30.8	34.4	34.0
Effective tax rate (%)	37.5	39.8	35.9	34.3	32.0	32.0	32.0	32.0	32.0

Source: Kotak Institutional Equities estimates

Peer comparison—Info Edge trades at a premium to Seek and 51jobs

Info Edge trades at premium to Seek (a leading online marketplace in Australia) and 51jobs (a leading online marketplace in China with 2X the resume database of Info Edge) on CY2015E earnings. It trades higher than the multiple for Monster (contracting business).

Exhibit 87: Info Edge's valuation multiples with global peers on a trailing basis, calendar year-ends, 2012-2015E (US$ mn)

		Sales				EBITDA				PAT				P/E			
	Market Cap.	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
LinkedIn	25,940	972	1,518	2,163	2,955	137	372	573	864	22	22	84	204	1,200.9	1,173.8	309.5	127.3
Seek	3,780	637	683	714	785	239	271	304	339	145	149	175	206	26.1	25.4	21.6	18.3
Monster	627	890	809	790	803	143	136	142	148	(259)	33	31	35	(2.4)	19.0	20.3	17.9
51jobs	2,180	232	264	304	352	83	90	108	129	76	79	90	108	28.9	27.6	24.2	20.2
Google	359,900	39,990	46,841	54,880	64,994	21,176	25,177	30,196	35,257	12,516	14,853	21,407	25,167	28.8	24.2	16.8	14.3
Facebook	120,200	5,089	7,344	9,700	13,301	1,187	4,052	5,295	7,542	1,073	1,214	1,722	3,818	112.0	99.0	69.8	31.5
Just Dial	1,286	58	75	103	133	16	23	35	49	11	17	26	36	118.3	73.9	49.7	36.0
Info Edge	**778**	**75**	**88**	**101**	**117**	**19**	**22**	**29**	**39**	**18**	**20**	**25**	**32**	**42.5**	**38.8**	**31.7**	**24.7**

Source: Bloomberg, Factset, Kotak Institutional Equities

Info Edge trades at 32X FY2015E earnings. This is at par with the average valuation of other consumer products companies.

Exhibit 88: Info Edge trades in the middle of the valuation range set by other consumer products companies

Comparison of Info Edge's business and multiples with those of other consumer products companies, March fiscal year-ends, 2013-15E (₹ bn)

	Market Cap.	Sales			EBITDA			PAT			P/E (X)			EV/EBITDA		
	(₹ bn)	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
Asian Paints	484	126	145	165	20	23	27	13	15	17	38	33	28	23	20	17
Colgate	173	36	41	47	7	8	9	5	6	7	36	30	26	26	21	18
Dabur	287	71	82	94	12	14	16	9	11	13	31	26	22	24	20	17
GSK Cons	193	37	44	50	7	8	9	5	6	7	37	31	27	27	22	19
GCPL	299	79	94	109	12	15	18	8	10	12	37	30	25	26	20	17
HUL	1,252	281	313	349	44	50	56	36	40	43	35	32	29	27	24	21
ITC	2,528	330	375	425	118	138	159	85	99	113	30	26	22	21	18	15
Jubilant	88	18	24	30	3	4	5	1	2	3	59	43	32	29	22	17
Marico	139	46	52	58	7	8	9	5	6	6	28	24	22	19	16	14
TGBL	91	77	81	86	7	8	9	4	5	6	21	19	16	13	11	10
Titan	200	120	139	160	11	14	16	8	9	11	26	22	19	18	15	12
FMCG composite	**6,299**	**1,221**	**1,390**	**1,573**	**249**	**290**	**335**	**179**	**207**	**237**	**35**	**30**	**27**	**22**	**19**	**16**
Just Dial	81	5	6	8	1	2	3	1	2	2	74	50	36	52	34	24
Info Edge	**49**	**6**	**6**	**7**	**1**	**2**	**2**	**1**	**2**	**2**	**39**	**32**	**25**	**32**	**24**	**18**

Source: Company, Kotak Institutional Equities estimates

Shareholding—well spread institutional holding among large MFs and FIIs

Promoters hold most of Info Edge's shares (52%), followed by FIIs (27%) and mutual funds (12%).

Exhibit 89: Details of shareholding in Info Edge as of September 30, 2013 (%)

	Shares		Shareholders
	(mn)	(%)	(#)
Promoters	57.0	52.2	8
Mutual Funds	12.4	11.3	23
Financial Institutions/banks	0.0	0.0	2
FII	29.0	26.6	67
Bodies Corporate	0.3	0.2	233
Induviduals	5.3	4.8	9,133
NRIs	4.6	4.2	178
Others	0.6	0.6	384
Total	**109.2**	**100.0**	**10,028**

Source: bseindia.com, Kotak Institutional Equities

The public shareholding of the company is well spread across a number of large MFs and FIIs. Exhibit 90 captures the public shareholders with more than 1% holding in Info Edge.

Exhibit 90: List of public shareholders in Info Edge with greater than 1% holding as of September 30, 2013

	Shares	
	(mn)	**(%)**
Shareholders with greater than 1% share		
HDFC Trustee Company - HDFC Prudence Fund	6.2	5.7
Reliance Capital Trustee Company - A/C Reliance Tax Saver (Elss) Fund	3.1	2.8
Nalanda India Equity	3.9	3.5
Kapil Kapoor	3.8	3.5
Smallcap World Fund	3.2	2.9
Anil Lall	3.1	2.9
Matthews India Fund	2.9	2.7
T. Rowe Price International Discovery Fund	2.3	2.1
SBI Contra Fund	2.0	1.8
Fid Funds (Mauritius)	1.9	1.7
Acacia Partners	1.6	1.5
National Westminster Bank	1.3	1.2
Total	**35.1**	**32.2**

Source: bseindia.com, Kotak Institutional Equities

FINANCIALS: STRONG RECRUITMENT CASH FLOWS; OTHER PORTALS CONSUME PART OF IT

We expect Info Edge to post ~28% EPS CAGR over FY2013-17E, based on about 16% revenue growth and margin expansion, led by the non-recruitment business. We expect the recruitment business EBITDA to post about 14% revenue CAGR and earning growth to be supported by reduced EBITDA losses in the non-recruitment businesses. The balance sheet is strong with a small fixed-assets base and negative working capital apart from ₹2.6 bn of strategic investments in subsidiaries and associates. We expect Info Edge to have average operating free cash flow of ₹2.2 bn a year over the next four years.

Near-term EPS growth to be led by breakeven of non-recruitment businesses

We expect Info Edge to post consolidated PAT CAGR of 28% over FY2013-17E due to (1) 16% CAGR in revenue and (2) margin expansion of 1,150 bps to 36.7%.

- **Revenue growth driven by non-recruitment businesses.** We expect Info Edge's consolidated revenue to clock 16% CAGR over the next three years. The growth will be led by non-recruitment businesses (recruitment will register 14% CAGR). We expect standalone revenue CAGR of 15% with subsidiaries/associates growing the top-line at 30% CAGR.

- **Margin expansion based on non-recruitment businesses breaking even.** We expect Info Edge's consolidated EBITDA margin to improve to 36.7% from ~25% in FY2013. This reflects our expectation of non-recruitment businesses breaking even—(1) 99acres in FY2014-15E (₹500 mn EBITDA contribution in FY2017E), (2) Jeevansaathi breaking even in FY2017E and (3) subsidiaries breaking even in FY2017E. We note that in FY2013 non-recruitment businesses negated about 28% of the recruitment EBITDA.

- **Free cash flow growth will exceed EPS growth.** Negligible capex requirement and large negative working capital will support free cash flow generation, whose 42% CAGR is expected to outstrip EPS over FY2013-17. Adjusted for other income, we estimate average annual free cash flow of ₹1.3 bn over FY2014-17 against current market capitalization of ₹33 bn (adjusted for cash and investments). This implies free cash flow yield of 4%..

The exhibit below captures our estimates for the various businesses of Info Edge.

Exhibit 91: Recruitment business expected to remain sedate; other businesses to drive profitability improvement
Key assumptions for Info Edge (consolidated) , March fiscal year-ends, 2010-17E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Total								
Sales	2,322	2,936	3,771	4,373	5,100	5,828	6,650	7,620
Sales growth (%)	(5.3)	26.4	28.4	16.0	16.6	14.3	14.1	14.6
EBITDA	685	998	1,443	1,498	1,657	1,983	2,480	3,005
EBITDA margin (%)	29.5	34.0	38.3	34.3	32.5	34.0	37.3	39.4
EPS (₹)	**5.6**	**7.2**	**11.3**	**12.0**	**12.3**	**14.6**	**18.3**	**22.2**
EPS growth (%)		29.7	56.1	6.9	2.3	18.9	24.9	21.1
Recruitment								
Unique paid customers	35,500	42,000	46,000	48,000	50,400	52,920	55,566	58,344
Growth in the number of customers (%)	4.4	18.3	9.5	4.3	5.0	5.0	5.0	5.0
Growth in per customer realization (%)	(11.6)	4.9	14.5	6.4	5.0	5.0	5.0	5.0
Sales	**1,954**	**2,425**	**3,041**	**3,375**	**3,721**	**4,102**	**4,523**	**4,986**
Growth (%)	**(7.7)**	**24.1**	**25.4**	**11.0**	**10.3**	10.3	10.3	10.3
EBITDA	**803**	**1,098**	**1,550**	**1,658**	**1,823**	**2,051**	**2,352**	**2,593**
EBTDA margin (%)	41.1	45.3	51.0	49.1	49.0	50.0	52.0	52.0
Jeevansaathi								
Unique paid customers	79,051	78,158	78,369	87,052	91,405	100,545	105,572	110,851
Growth in the number of customers (%)	(1.2)	(1.1)	0.3	11.1	5.0	10.0	5.0	5.0
Growth in per customer realization (%)	18.5	12.3	14.6	11.1	12.5	10.0	10.0	10.0
Sales	**199**	**221**	**254**	**313**	**370**	**448**	**517**	**598**
Growth (%)	**17.1**	**11.1**	**14.9**	**23.4**	**18.1**	**21.0**	**15.5**	**15.5**
EBITDA	**(1)**	**(41)**	**(49)**	**(75)**	**(74)**	**(67)**	**(39)**	**0**
EBTDA margin (%)	(0.5)	(18.6)	(19.3)	(23.9)	(20.0)	(15.0)	(7.5)	0.0
99 acres								
Paid transactions	19,800	23,700	33,200	48,800	70,760	84,912	101,894	122,273
Growth in paid transactions (%)	2.1	19.7	40.1	47.0	45.0	20.0	20.0	20.0
Growth in per customer realization (%)	(6.2)	43.2	8.6	0.8	8.0	8.0	8.0	8.0
Sales	**133**	**228**	**347**	**514**	**805**	**1,043**	**1,352**	**1,752**
Growth (%)	**(4.3)**	**71.4**	**52.2**	**48.1**	**56.6**	**29.6**	**29.6**	**29.6**
EBITDA	**(38)**	**4**	**1**	**(8)**	**0**	**104**	**270**	**526**
EBTDA margin (%)	(28.6)	1.8	0.3	(1.5)	0.0	10.0	20.0	30.0
Others								
Sales	36	62	129	170	204	235	258	284
Sales growth (%)	41	72	107	32	20	15	10	10
EBITDA	**(79)**	**(63)**	**(59)**	**(77)**	**(92)**	**(106)**	**(103)**	**(114)**
EBITDA margin (%)	(218.5)	(101.6)	(46.2)	(45.5)	(45.0)	(45.0)	(40.0)	(40.0)

Moderate sales growth coupled with strong margin expansion leading to strong EPS growth

We build sedate growth and margin improvement for recruitment business

We build improving profitability for the non-recruitment businesses

Source: Company, Kotak Institutional Equities estimates

P&L—strong growth, driven by loss-making ventures turning around

On a consolidated basis, Info Edge has grown by more than 20% over the past three years. The growth was driven by the scale-up of the non-recruitment businesses and back-ended accounting of recruitment revenues (the new recruitment business otherwise stagnated in FY2013). These non-recruitment businesses are loss-making ventures and their ramp-up is leading to a decline in overall profitability. Exhibit 92 captures the decline in EBITDA margin of Info Edge’s consolidated operations, led mainly by higher staff costs (driven by non-recruitment businesses).

Exhibit 92: Margin pressure is being led by higher employee costs
Profit and loss statement of Info Edge (consolidated), March fiscal year-ends, 2009-17E (₹ mn)

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Profit model									
Total operating income	**2,458**	**2,371**	**3,217**	**3,904**	**4,700**	**5,525**	**6,381**	**7,369**	**8,554**
Operating expenses	**(1,796)**	**(1,745)**	**(2,390)**	**(2,736)**	**(3,513)**	**(4,133)**	**(4,570)**	**(4,931)**	**(5,414)**
Employee expenses	(934)	(920)	(1,279)	(1,482)	(1,983)	(2,415)	(2,687)	(2,893)	(3,244)
Network, Internet and other direct charges	(90)	(91)	(110)	(105)	(164)	(194)	(227)	(266)	(313)
Administration and other expenses	(339)	(340)	(495)	(586)	(616)	(701)	(778)	(851)	(918)
Advertising and promotion cost	(433)	(394)	(506)	(563)	(750)	(822)	(877)	(920)	(938)
EBITDA	**662**	**626**	**827**	**1,168**	**1,186**	**1,393**	**1,811**	**2,438**	**3,140**
Other income	279	307	281	411	499	501	572	665	774
Financial charges	(17)	(20)	(23)	(22)	(28)	(33)	(33)	(33)	(33)
Depreciation	(71)	(65)	(80)	(83)	(118)	(129)	(153)	(170)	(194)
Pre-tax profit	**853**	**848**	**1,005**	**1,473**	**1,540**	**1,732**	**2,197**	**2,900**	**3,687**
Taxation	(270)	(318)	(400)	(529)	(528)	(554)	(703)	(928)	(1,180)
Recurring PAT (before minority interest)	**582**	**530**	**605**	**944**	**1,011**	**1,178**	**1,494**	**1,972**	**2,507**
Minority interest & associate profits	(12)	28	(24)	98	142	83	53	13	(44)
Recurring PAT	**570**	**559**	**581**	**1,043**	**1,153**	**1,261**	**1,547**	**1,985**	**2,464**
Extraordinary items, net of tax	—	(38)	52	(8)	(237)	—	—	—	—
Reported PAT	**570**	**521**	**632**	**1,034**	**916**	**1,261**	**1,547**	**1,985**	**2,464**
Dividend paid	(21)	(21)	(41)	(109)	(109)	(441)	(541)	(695)	(862)
Dividend tax	(3)	(4)	(7)	(18)	(18)	(75)	(92)	(118)	(147)
Retained earnings	**546**	**497**	**585**	**907**	**789**	**745**	**913**	**1,172**	**1,455**
Year ending number of shares	109	109	109	109	109	109	109	109	109
Weighted average number of shares	109	109	109	109	109	109	109	109	109
Weighted diluted number of shares	109	109	109	109	109	109	109	109	109
EPS based on diluted shares (₹)	**5.1**	**5.2**	**5.1**	**5.3**	**9.5**	**10.6**	**11.6**	**14.2**	**18.2**
Growth (%)									
Revenues	12.3	(3.5)	35.7	21.3	20.4	17.6	15.5	15.5	16.1
EBITDA	2.6	(5.5)	32.3	41.1	1.6	17.4	30.0	34.6	28.8
PAT	2.8	(2.1)	4.0	79.5	10.6	9.4	22.6	28.3	24.1
Key ratios (%)									
Employee cost/sales	38.0	38.8	39.7	38.0	42.2	43.7	42.1	39.3	37.9
Advertising cost/sales	17.6	16.6	15.7	14.4	16.0	14.9	13.7	12.5	11.0
Other operating expenses/sales	17.5	18.2	18.8	17.7	16.6	16.2	15.8	15.2	14.4
EBITDA margin	**26.9**	**26.4**	**25.7**	**29.9**	**25.2**	**25.2**	**28.4**	**33.1**	**36.7**
Tax rate	31.7	37.5	39.8	35.9	34.3	32.0	32.0	32.0	32.0
PAT margin	23.2	23.6	18.1	26.7	24.5	22.8	24.2	26.9	28.8
Dividend yield	0.0	0.0	0.1	0.2	0.2	0.9	1.1	1.4	1.8

20% growth leading to flattish EBITDA

Employee cost growing due to scale-up in subsidiary business, leading to lower margin

Source: Company, Kotak Institutional Equities estimates

High cash share, negative working capital lead to negative core capital employed

Most of Info Edge's capital employed is in the form of cash and financial investment. At a consolidated level, fixed assets are funded by negative working capital with a small portion of equity being required to fund the company's strategic investments. The core business (standalone excluding business investments) actually operates with negative capital employed (cash and financial investments account for more than 100% of the asset base).

Exhibit 93: Key balance sheet financials of Info Edge (consolidated), March fiscal year-ends, 2008-17E (₹ mn)

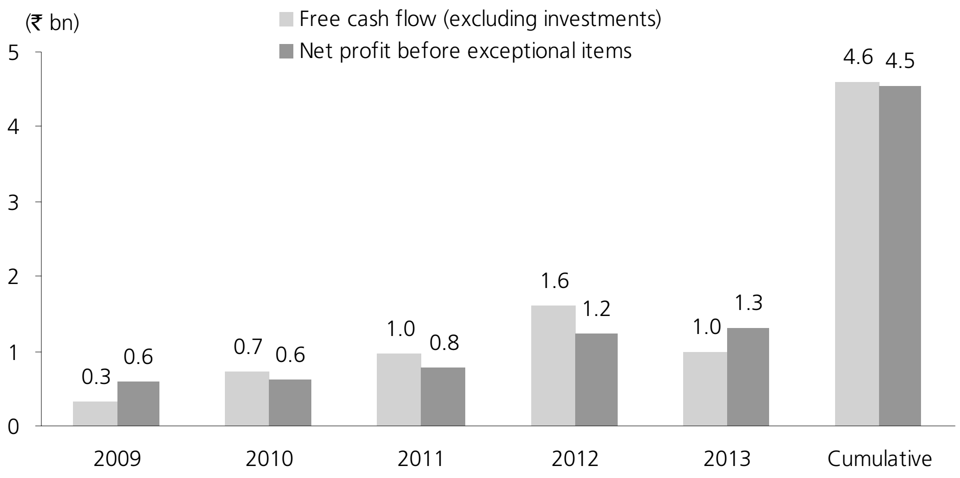
	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Balance sheet										
Equity share capital	273	273	273	546	546	1,092	1,092	1,092	1,092	1,092
Reserves & surplus	2,408	2,980	3,474	3,805	4,726	4,993	5,620	6,459	7,613	9,130
Minority interest	—	—	—	16	(25)	105	188	241	254	210
Shareholders funds	**2,681**	**3,252**	**3,746**	**4,367**	**5,247**	**6,189**	**6,900**	**7,792**	**8,959**	**10,431**
Loan funds	4	4	6	7	3	5	—	—	—	—
Total source of funds	**2,686**	**3,256**	**3,753**	**4,374**	**5,250**	**6,194**	**6,900**	**7,792**	**8,959**	**10,431**
Net block	382	385	294	587	549	965	1,137	1,284	1,414	1,521
CWIP	—	—	69	154	94	98	98	98	98	98
Goodwill	—	—	—	—	—	557	557	557	557	557
Net fixed assets	**382**	**385**	**363**	**741**	**643**	**1,620**	**1,792**	**1,939**	**2,069**	**2,175**
Investments	2,654	183	1,141	2,628	3,152	2,614	2,614	2,614	2,614	2,614
Cash balances	486	3,221	2,791	2,076	2,855	3,466	4,146	5,155	6,445	8,265
Current assets	**173**	**214**	**319**	**363**	**412**	**510**	**608**	**716**	**898**	**971**
Current liabilities and provisions	**1,021**	**766**	**896**	**1,492**	**1,853**	**2,061**	**2,304**	**2,677**	**3,111**	**3,638**
Current liabilities	976	706	812	1,358	1,618	1,819	2,162	2,515	2,926	3,425
Provisions	45	61	84	135	235	242	141	162	185	213
Net current assets excluding cash	**(848)**	**(552)**	**(577)**	**(1,130)**	**(1,441)**	**(1,551)**	**(1,696)**	**(1,961)**	**(2,214)**	**(2,667)**
Deferred tax assets	12	19	34	59	41	45	45	45	45	45
Total application of funds	**2,686**	**3,256**	**3,753**	**4,374**	**5,250**	**6,194**	**6,900**	**7,792**	**8,959**	**10,431**
Key ratios										
RoE (%)	20.7	19.2	16.0	14.3	21.7	20.2	19.3	21.1	23.7	25.4
RoCE (%)	20.9	19.6	16.3	14.6	22.0	20.5	19.6	21.4	24.0	25.6
P/B (X)	18.3	15.1	13.1	11.3	9.4	7.9	7.1	6.3	5.5	4.7

Source: Company, Kotak Institutional Equities estimates

FCF almost equals reported earning, assuming no incremental investment

Info Edge's free cash flow, adjusted for investments, almost equaled reported earnings (before minority interest and exceptional items) over FY2009-13.

Exhibit 94: Capex/investment outflow exceeded operational cash flow in FY2013
Cash flow for Info Edge (standalone), March fiscal year-ends, 2009-13 (₹ bn)



Source: Company, Kotak Institutional Equities

Exhibit 95: Key cash flow financials of Info Edge (consolidated), March fiscal year-ends, 2009-17E (₹ mn)

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Cash flow statement									
Cashflow from operating activities									
Net profit before tax and extraordinary items	853	848	1,005	1,473	1,540	1,732	2,197	2,900	3,687
Add: Depreciation/ amortisation/ non-cash prov	71	65	80	83	118	129	153	170	194
Add: Financial charges	17	20	23	22	28	33	33	33	33
Tax paid	(270)	(318)	(400)	(529)	(528)	(554)	(703)	(928)	(1,180)
Operating profit before working capital changes	671	615	708	1,049	1,157	1,340	1,680	2,175	2,734
Change in working capital/ other adjustments	(295)	24	553	311	110	145	265	253	453
Cash flow from operating activites	**375**	**639**	**1,261**	**1,361**	**1,267**	**1,484**	**1,945**	**2,428**	**3,187**
Cash from investing activites									
Fixed assets	(75)	(43)	(457)	14	(1,095)	(300)	(300)	(300)	(300)
Investments	2,471	(959)	(1,486)	(525)	538	—	—	—	—
Cash (used)/ realised in investing activities	**2,396**	**(1,001)**	**(1,944)**	**(510)**	**(557)**	**(300)**	**(300)**	**(300)**	**(300)**
Free cash flow	**2,771**	**(362)**	**(683)**	**850**	**710**	**1,184**	**1,645**	**2,128**	**2,887**
Cash flow from financing activities									
Issue of share capital	25	(3)	36	(27)	153	(34)	(22)	(5)	18
Borrowings	(1)	3	1	(4)	2	(5)	—	—	—
Dividend paid	(24)	(24)	(48)	(127)	(127)	(517)	(633)	(813)	(1,009)
Interest charges	(17)	(20)	(23)	(22)	(28)	(33)	(33)	(33)	(33)
Cash (used)/realised in financing activities	**(17)**	**(44)**	**(34)**	**(180)**	**0**	**(588)**	**(688)**	**(851)**	**(1,024)**
Deferred revenue expenditure	(8)	(15)	(25)	18	(4)	0	—	—	—
Extraordinary receipts/ (payments)	(12)	(9)	27	90	(95)	83	53	13	(44)
Cash generated/ utilised	2,735	(430)	(714)	779	611	680	1,009	1,290	1,819
Cash at beginning of year	486	3,221	2,791	2,076	2,855	3,466	4,146	5,155	6,445
Cash at end of year	**3,221**	**2,791**	**2,076**	**2,855**	**3,467**	**4,146**	**5,155**	**6,445**	**8,265**

Source: Company, Kotak Institutional Equities estimates

1HFY14—recruitment business remains sedate; non-recruitment scaling up

Info Edge's management believes it must continue to invest in its non-recruitment businesses. Standalone sales grew 14% yoy in 1HFY14 with the recruitment business (75% of sales) growing 8% and other verticals growing 36% yoy (led by 99acres). EBITDA margin contracted by 180 bps yoy (to 33%) due to (1) higher advertising/administrative spends (40 bps impact; 1Q carried the impact of recent TV campaigns) and (2) higher employee/network expenses (140 bps impact). This led to 8% higher EBITDA of ₹805 mn. Higher depreciation (on buildings capex) led to a flat recurring PAT of ₹653 mn. We estimate 14% standalone sales growth in FY2014 (10% growth in recruitment; 25% growth in other businesses) and 140 bps fall in margin (stable recruitment margin; decline led by scale-up in other businesses).

Exhibit 96: Double-digit top-line growth translates into flattish PAT in 1HFY14
Standalone financials of Info Edge, March fiscal year-ends,2013-14E (₹ mn)

				% growth				Yoy growth			Yoy growth
	2QFY14	**2QFY13**	**1QFY14**	**yoy**	**qoq**	**1HFY14**	**1HFY13**	**(%)**	**FY2014E**	**FY2013**	**(%)**
Total operating income	**1,230**	**1,078**	**1,208**	**14.1**	**1.9**	**2,438**	**2,138**	**14.0**	**4,970**	**4,373**	**13.7**
Employee expenses	(475)	(411)	(472)	15.6	0.7	(947)	(811)	16.7	(1,992)	(1,672)	19.1
Network, Internet and Other dir	(45)	(36)	(41)	25.0	8.7	(86)	(64)	33.8	(158)	(139)	13.7
Administration and Other expen	(134)	(123)	(129)	9.4	4.4	(263)	(230)	14.5	(553)	(486)	13.7
Advertising and Promotion cost	(139)	(138)	(197)	1.1	(29.4)	(337)	(288)	16.9	(630)	(576)	9.4
Operating expenses	**(794)**	**(708)**	**(839)**	**12.2**	**(5.4)**	**(1,633)**	**(1,393)**	**17.2**	**(3,334)**	**(2,874)**	**16.0**
EBITDA	**436**	**370**	**369**	**17.8**	**18.4**	**805**	**744**	**8.1**	**1,637**	**1,498**	**9.2**
Other income	97	112	134	(13.5)	(27.5)	231	219	5.9	462	465	(0.7)
PBDIT	**533**	**483**	**503**	**10.5**	**6.1**	**1,036**	**963**	**7.6**	**2,098**	**1,963**	**6.9**
Financial charges	(6)	(6)	(6)	(7.8)	5.7	(11)	(12)	(5.1)	(30)	(25)	21.2
Depreciation	(40)	(20)	(40)	93.6	(0.3)	(79)	(39)	102.3	(113)	(95)	19.9
Pre-tax profit	**488**	**456**	**458**	**7.1**	**6.7**	**946**	**912**	**3.7**	**1,955**	**1,844**	**6.0**
Taxation	(155)	(123)	(138)	26.8	13.0	(293)	(261)	12.4	(626)	(528)	18.4
PAT (recurring)	**333**	**333**	**320**	**(0.2)**	**3.9**	**653**	**651**	**0.2**	**1,329**	**1,316**	**1.1**
Exceptional items	-	-	(26)	NA	NA	(26)	-	NA	-	(293)	NA
Reported PAT	**333**	**333**	**294**	**(0.2)**	**13.2**	**627**	**651**	**(3.8)**	**1,329**	**1,023**	**30.0**
Key ratios (%)											
Direct cost of sales	42.3	41.5	42.5			42.4	41.0		43.3	41.4	
Fixed cost of sales	22.3	24.2	27.0			24.6	24.2		23.8	24.3	
EBITDA margin	**35.5**	**34.4**	**30.5**			**33.0**	**34.8**		**32.9**	**34.3**	
PAT margin	27.0	30.9	26.5			26.8	30.5		26.7	30.1	
Tax rate	31.8	26.9	30.1			31.0	28.6		32.0	28.7	

Source: Company, Kotak Institutional Equities estimates

- **Recruitment: Benefits from a stabilizing IT business, share gains in a sedate market.** The recruitment business grew by 7% yoy to ₹900 mn in 2QFY14 (similar to 1QFY14). Collections also grew by 7% yoy. The growth was supported by (1) stabilizing IT business (35-40% exposure) and (2) a growing number of customers (35,000 versus 33,500 in 1HFY13 possibly reflecting share gains). Other operating metrics were steady—(1) 10,900 resume additions a day (flat yoy) leading to a 35 mn strong database (31 mn at the end of 2QFY13) and (2) 139,000 modifications a day (up 8% yoy).

- **99 acres: Large opportunity attracts competition but incentivizes investments.** 99 acres grew 57% yoy with EBITDA loss of ₹10 mn as it expanded its presence to 15 cities. The large opportunity size (a ₹20 bn-plus market, 10% online penetration) is expected to see stiff competition over the next three years. The large opportunity also incentivizes the company to continue to invest in the business (it plans to expand to the 34-35 cities where naukri.com has offices). These factors are expected to lead to near-term losses and delay breakeven (at least 1.5 years assuming the company can sustain its breakneck 50% yoy growth).

- **Jeevansaathi: Growth continues to be realization-led.** The growth in the business continues to be led by realization. The company is trying to modify its business model to increase growth potential in a plateaued market.

INFO EDGE—MEET THE MANAGEMENT

Info Edge's promoters have focused of growing the recruitment business and diversifying into other offline-to-online plays in real estate, matrimony and education. The promoters have strong sales and marketing experience with multinational companies such as HLL, Glaxo Smithkline and Nestle.

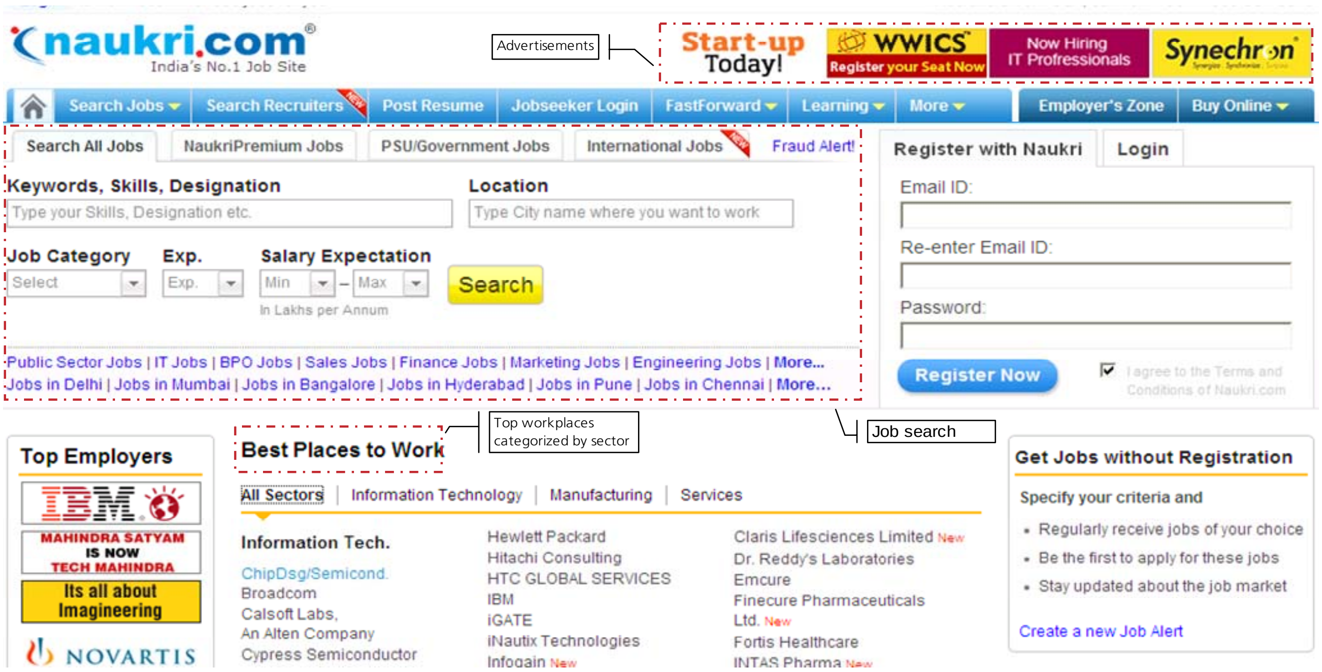
Exhibit 97: Rich promoter experience in sales and marketing and long standing relationships of key senior management personnel
Profiles of Info Edge's key management personnel

Name	Designation	Details
Promoters		
Sanjeev Bikhchandani	Founder and Executive Vice-Chairman	Mr Sanjeev Bikhchandani is the founder of Info Edge, and prior to that he worked at Lintas (advertising), HMM (marketing) and CMYK Pintech (senior management).
Hitesh Oberoi	Managing Director & CEO	Mr Hitesh Oberoi has graduated from Indian Institute of Technology, Delhi in 1994 and has done his MBA from IIM Bangalore in 1996. At IIM he figured in the Director's Merit List. He joined Info Edge in 2000
Ambarish Raghuvanshi	Group President-Finance and CFO, Director	Mr Ambarish Raghuvanshi is a Chartered Accountant and joined Info Edge in October 2000, before which he worked with Standard Chartered Bank, HSBC and Bank of America.
Surabhi Motihar Bikhchandani	Prinipal Consultant	Ms Bikhchandani has completed her PGDM from IIM, Ahmedabad in 1989. She started her career with Nestle in 1989. She has been associated with the management search division at Info Edge (India) in offline recruitment business.
Other board directors		
Kapil Kapoor	Non-executive chairman	Mr Kapil Kapoor obtained a Bachelor of Arts degree from the University of Delhi and an MBA from IIT, Ahemdabad. Prior to joining Info Edge in 2013, he has worked in e worked Timex (exited as COO) and Bausch & Lomb
Arun Duggal	Non-Executive, Independent Director	Mr Arun Duggal is an exprerienced international banker and an advisor to several major financial institutions. He worked with Bank of America for 26 years (exited as CEO, India operations in 2001).
Saurabh Srivastava	Non-Executive, Independent Director	Mr Saurabh Srivastava obtained a Bachelor in Technology degree from IIT, Kanpur and an MS degree from Harvard University, US. He is one of India's leading IT entrepreneurs and has co-founded and was Chairman of NASSCOM
Naresh Gupta	Non-Executive, Independent Director	Mr Naresh Gupta obtained a B. Tech degree (gold medalist) in Computer Science from IIT, Kanpur. He is widely known as a computer science expert in shape, motion, image understanding and artificial intelligence research
Bala Deshpande	Non-Executive, Independent Director	Ms Bala Deshpande has been Senior Managing Director with New Enterprise Associates (India), Mumbai since 2008. B. She has launched leading e-commerce ventures like Traveljini and BillJunction
Ashish Gupta	Non-Executive, Independent Director	Mr Ashish Gupta has graduated in Computer Science from IIT, Kanpur, (awarded the President's Gold medal) and a doctorate in database technology from Stanford University. He is co-founder of Tavant Technologies.
Other member from senior management team		
Sudhir Bhargava	EVP - Corporate Finance	Mr Sudhir Bhargava joined the organization in 2006. He holds a Bachelor of Engineeering degree and MBA from Delhi University. Previously he worked with HSBC and ICICI Bank
Vivek Khare	EVP - Corporate Development	Mr Vivek Khare joined the organization in 2000. He holds a Master of Science degree in physics from IIT Kanpur and perviously worked with Birla Institute of Technology
Vineet Singh	EVP and Business Head - 99acres	Mr Vineet Singh joined the organization in 2000 and holds a Bachelor of Arts (Hons) degree in English Literature from Ramjas College, Delhi University and a post-graduate diploma in business administration (marketing) from IPM Ghaziabad
V.Suresh	EVP and National Head Sales - Naukri	Mr V. Suresh is a graduate in engineering and holds a post-graduate degree in management from Sri Sathya Sai Institute of Higher Learning. He has over 15 years' experience in sales, relationship and account management.
Vivek Jain	EVP – Naukri Product and Analytics	Mr Vivek Jain joined the company in 2010. He is a Bachelor of Technology, IIT Delhi and holds a post-graduate diploma in management from IIM, Bangalore. Before joining the company he has worked with Isoft, Adobe, IBM and ICICI Securities

Source: Company, Kotak Institutional Equities

APPENDIX I: SNAPSHOT OF NAUKRI.COM

Exhibit 98: Snapshot of the naukri.com portal



Source: Naukri.com, Kotak Institutional Equities kotak® Institutional Equities

Just Dial (JUST IN Equity)

Internet

ADD

December 13, 2013

INITIATING COVERAGE

Sector view: Attractive

Price (₹): 1,161

Target price (₹): 1,250

BSE-30: 20,926

Just Dial—Google and more… and a few risks. Just Dial, a local search business, derives its value from a large, fast growing (over 30% yoy) base of incoming queries (~500 mn in FY2014E) from users on the verge of making a transaction. It aims to broaden this engagement, leveraging mobile and social trends, and enhancing monetization (transaction enablement). While the potential is immense, we initiate coverage with an ADD rating (TP: ₹1,250) due to high valuations (~36X FY16E EPS). Key risks include (1) scaling up monetization from unorganized businesses, (2) competition from Google, (3) likely limited use beyond large cities and (4) new initiatives that are yet to take off.

Just Dial—a leading local search engine with a strong physical and brand presence

Just Dial, a leading local search engine, facilitates transactions on platforms such as voice, mobile, Internet and text. It has achieved significant scale in search requests and business listings—its product offerings pull in searches, which drive merchant spends. It has created a credible brand through its physical presence, prompt responses and "user first" focus.

Increasing penetration, use and new initiatives (monetization opportunities) aid growth

Just Dial is well placed to capture emerging Internet opportunities from mobile, social networking and growing e-commerce. Just Dial is going beyond search into local e-commerce, which allows a user to (1) get competitive quotes for standard products from local vendors and same day delivery, (2) do other transactions such as book a doctor's appointment, restaurant table or order food. We attempt to size this opportunity and find it comparable to Just Dial's current revenue size with likely rapid growth. There is competition from start-ups but a dominant user mindshare (through search) can be an advantage.

We initiate coverage with an ADD, see potential but are aware of valuation, business pitfalls

We initiate coverage with an ADD rating and target price of ₹1,250 (based on 32X FY2017E multiple discounted to March 2015E). We choose FY2017E earnings to capture strong near-term growth potential and additional revenue streams. Our target multiple is based on comparable one-year forward multiple for consumer companies. We take comfort in FCF yield of 2% in FY2015E, rising to 4% in FY2017E. Just Dial trades close to Yelp (a US-based local search company; market cap.: US$4.3 bn, CY2012 sales: US$137 mn) in terms of P/sales (9.6X on FY2016E basis) and is cheaper on a P/E basis (36X on FY2016E basis; Yelp makes losses currently) though Just Dial has proportionately larger growth opportunity.

Financials: Surge in searches, enablement top-up, margin expansion to drive huge growth

We expect 44% earnings CAGR over FY2013-17, driven by (1) 28% CAGR in search requests at constant monetization, (2) revenue contribution from new businesses (₹0.3 bn in FY2015E, ₹1.4 bn in FY2017E) and (3) and operating leverage-led margin expansion. We expect new business opportunity of ₹4 bn (at current prices) to materialize over the next five years and Just Dial to be able to garner a 30% share of this opportunity by FY2017.

Company data and valuation summary

Company data	Stock data	High	Low	Price performance	1M	3M	12M
Rating: ADD	52-week range (Rs)	1,440	581	Absolute (%)	14.5	50.2	NA
	Priced at close of:	December 12, 2013		Rel to BSE-30 (%)	11.0	42.0	NA
Current Price (Rs)	**Capitalization**			**Forecast/valuation**	**2013**	**2014E**	**2015E**
1,160	Market cap (Rs bn)		81.1	EPS (Rs)	10.1	15.6	23.2
	Net debt/(cash) (Rsmn)		(5,097)	P/E (X)	114.6	74.5	50.1
	Free float (%)		66.8	RoAE (%)	26.1	23.8	30.1
	Share Outstanding (mn)		70	EV/EBITDA (X)	75.0	51.9	33.7

Source: Company data, Kotak Institutional Equities estimates

INSIDE

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Kotak Institutional Equities Research

Important disclosures appear at the back

FINANCIAL OVERVIEW

Exhibit 99: Forecasts and valuations, March fiscal year-ends, 2010-17E

Year end March	Revenues (₹ mn)	EBITDA (₹ mn)	Net Profit (₹ mn)	EPS (₹)	P/E (X)	EV/EBITDA (X)	P/B (X)
2010	1,309	304	193	4.0	287.8	180.1	84.6
2011	1,839	454	288	5.4	214.4	129.6	63.1
2012	2,621	672	504	8.5	137.1	86.9	58.3
2013	3,628	1,008	685	10.2	113.7	74.9	18.9
2014E	4,696	1,447	1,097	15.7	74.0	51.8	16.5
2015E	6,465	2,200	1,629	23.3	49.8	33.6	13.8
2016E	8,390	3,068	2,248	32.1	36.1	23.8	11.2
2017E	10,850	4,203	3,001	42.8	27.1	16.8	9.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 100: Financial snapshot of Just Dial (consolidated), March fiscal year-ends, 2009-17E (₹ mn)

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Profit model									
Total operating income	**859**	**1,309**	**1,839**	**2,621**	**3,628**	**4,696**	**6,465**	**8,390**	**10,850**
Operating expenses	**(780)**	**(1,005)**	**(1,385)**	**(1,948)**	**(2,619)**	**(3,249)**	**(4,265)**	**(5,323)**	**(6,647)**
Employee expenses	(523)	(669)	(947)	(1,308)	(1,779)	(2,310)	(2,972)	(3,729)	(4,586)
Operating and other expenses	(257)	(337)	(438)	(640)	(841)	(939)	(1,293)	(1,594)	(2,062)
EBITDA	**79**	**304**	**454**	**672**	**1,008**	**1,447**	**2,200**	**3,068**	**4,203**
Pre-tax profit	**100**	**292**	**423**	**713**	**1,000**	**1,589**	**2,361**	**3,257**	**4,350**
PAT	**75**	**193**	**288**	**504**	**685**	**1,097**	**1,629**	**2,248**	**3,001**
Weighted diluted number of shares (mn)	48	48	53	60	69	70	70	70	70
EPS (₹)	**1.6**	**4.0**	**5.4**	**8.5**	**10.2**	**15.7**	**23.3**	**32.1**	**42.8**
Balance sheet									
Equity share capital	9	9	519	519	695	695	695	695	695
Reserves & surplus	439	646	433	542	3,556	4,204	5,166	6,493	8,266
Shareholders funds	**450**	**657**	**954**	**1,033**	**4,259**	**4,899**	**5,861**	**7,188**	**8,961**
Loan funds	—	**3**	**1**	—	—	—	—	—	—
Total source of funds	**450**	**661**	**956**	**1,033**	**4,269**	**4,899**	**5,861**	**7,188**	**8,961**
Net fixed assets	**142**	**188**	**272**	**360**	**623**	**741**	**831**	**890**	**934**
Investments	416	808	1,182	1,568	4,858	4,858	4,858	4,858	4,858
Cash balances	203	114	196	237	239	869	1,801	2,866	5,012
Net current assets excluding cash	**(438)**	**(477)**	**(707)**	**(1,102)**	**(1,452)**	**(1,570)**	**(1,629)**	**(1,425)**	**(1,843)**
Total application of funds	**450**	**661**	**956**	**1,034**	**4,269**	**4,899**	**5,861**	**7,188**	**8,961**
Cash flow statement									
Operating profit before working capital changes	114	243	357	595	846	1,279	1,840	2,489	3,258
Change in working capital/other adjustments	17	39	230	395	350	118	60	(204)	418
Cashflow from operating activites	**131**	**282**	**586**	**990**	**1,196**	**1,396**	**1,899**	**2,285**	**3,675**
Fixed assets	(57)	(96)	(152)	(179)	(407)	(300)	(300)	(300)	(300)
Investments	5	(391)	(375)	(386)	(3,290)	—	—	—	—
Free cash flow	**78**	**(205)**	**60**	**425**	**(2,501)**	**1,096**	**1,599**	**1,985**	**3,375**
Issue of share capital	2	14	8	(425)	2,541	(8)	—	—	—
Cash (used)/realised in financing activities	**2**	**17**	**6**	**(427)**	**2,541**	**(457)**	**(667)**	**(920)**	**(1,229)**
Cash generated/utilised	67	(89)	82	41	2	630	932	1,064	2,146
Cash at beginning of year	137	203	114	196	237	239	869	1,801	2,866
Cash at end of year	**203**	**114**	**196**	**237**	**239**	**869**	**1,801**	**2,866**	**5,012**

Source: Company, Kotak Institutional Equities estimates

JUST DIAL—MORE THAN JUST CONNECTIONS, PLUS THE OPTION TO MONETIZE

Just Dial, a leading local search engine, does more than simply connect people. It links search requests with businesses over platforms such as voice, mobile, Internet and text and has grown into one of India's top Internet properties by traffic. It has perhaps the most valuable traffic—people on the verge of a buying decision. It has a credible model to monetize this traffic with merchants. It aims to deepen its value proposition and open new channels of monetization with initiatives such as (1) inviting reviews, (2) increasing the share of web and mobile-based use and (3) enabling transactions like ordering food and making medical appointments.

One of India's leading local search engines, Just Dial facilitates connections between consumers and merchants through voice, mobile, text and Internet. It shares contact details of users and merchants after a user places a search request and earns revenue from merchants, listed in its database, by providing them with preferential visibility when a consumer searches for a related category.

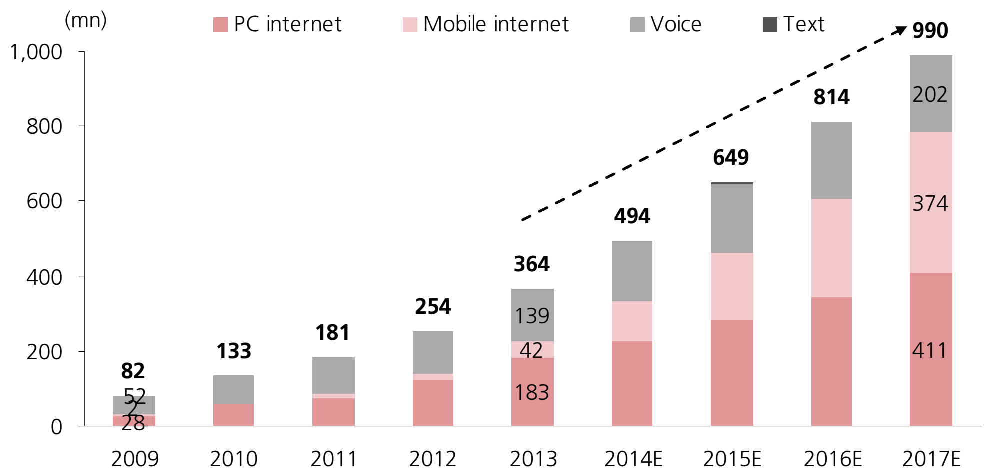
However, Just Dial is not only about commissions from connections. It is expanding its scope through features like online ordering and reservations while adhering to its guiding principles of (1) putting the consumer first—it does not charge the consumer and (2) bringing buyer and seller together, not fulfilling transactions.

Large traffic with the Internet becoming the preferred medium

The consumer side of the of the business

In FY2013, Just Dial notched up 364 mn user searches, up 35% yoy. 62% of the searches were through the Internet (including mobile) and 38% through voice. The share of Internet (including mobile) increased to 68% in 2QFY14. The mobile platform had a significant, double-digit share in the searches (21% in 2QFY14), growing more than 150% yoy in 1HFY14. This is in sharp contrast to FY2009, when voice dominated the search share (63%).

Exhibit 101: Just Dial's search requests have doubled over the past two years; Internet dominates
Break-up of searches on Just Dial, March fiscal-year ends, 2009-17E (mn)



Source: Company, Kotak Institutional Equities estimates

Note the data used counts Internet searches as a number of unique visits. A user may make several enquiries on a single unique visit, understating search data from the Internet (a user may search for 2-3 categories at one go).

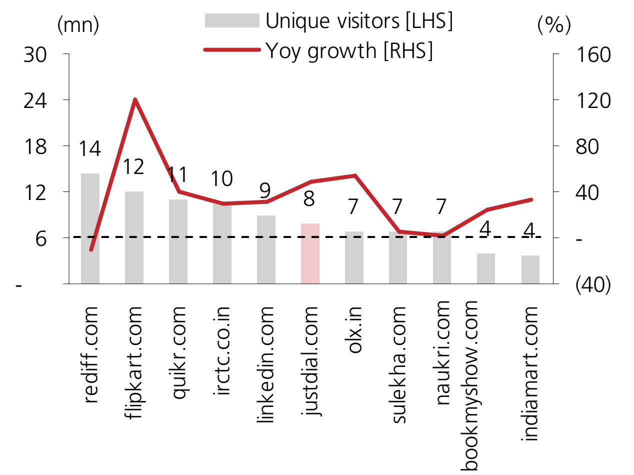
Search requests valuable with users on the verge of a transaction

On Just Dial, a user initiates communication by placing a request for a service or product. The lead is potentially followed up by a merchant (if a user consents). The merchant now has access to customers who want to buy, which makes the lead purposeful for a merchant. The merchant pays to get access/be accessible to a focused lead. On average, Just Dial possibly earns a similar amount per search visit (₹9-10) as Google AdWords and a similar amount per click. Just Dial's conversion rate is likely to be a multiple of 1.5-2% of Google's conversion rate.

Traffic compares favorably with similar websites

According to April 2013 data from comScore, a US-headquartered Internet analytics company, Just Dial had 8 mn unique, home and work PC users (up 49% yoy) above the age of 15 years (excluding mobile-only users). On this count, Just Dial is above naukri.com (7 mn unique users) and bookmyshow.com (4 mn unique users). At 8 mn monthly unique visitors, Just Dial has an 11% reach of online users in India. The company's traffic (unique visitors, visits) is outpacing other peer websites in growth terms.

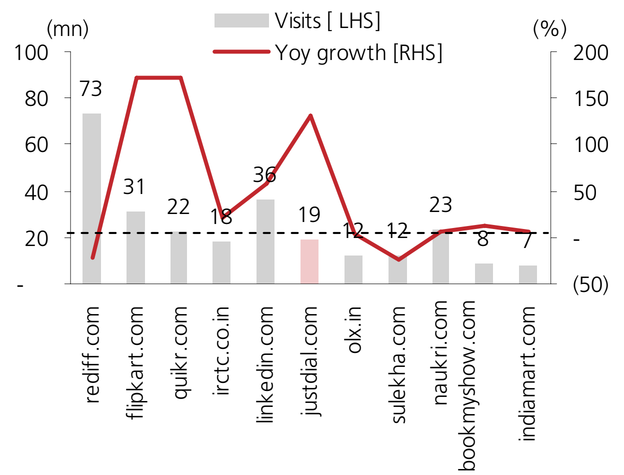
Exhibit 102: Just Dial had 8 mn monthly unique visitors on the Internet
Unique visitors on Just Dial and other websites in April 2013 (mn)



Notes:
(1) ComScore data captures data for users over 15 years old on home and work PCs (excluding mobile only and shared users).

Source: ComScore, Kotak Institutional Equities

Exhibit 103: Just Dial receives 19 mn monthly user visits on the Internet
Visits on Just Dial and other websites in April 2013 (mn)



Notes:
(1) ComScore data captures data for users over 15 years old on home and work PCs (excluding mobile only and shared users).

Source: ComScore, Kotak Institutional Equities

Listings uploaded free of charge; leads used to induce monetization

The merchant side of the business

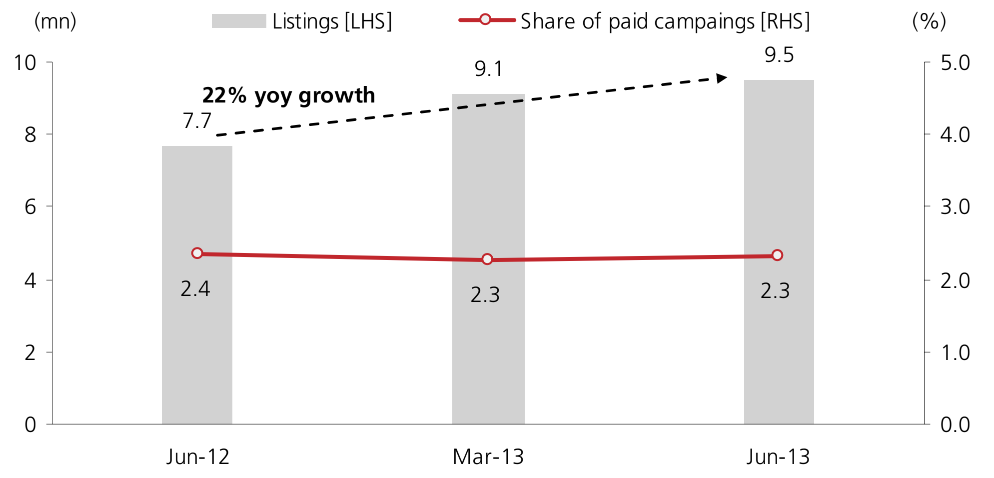
Just Dial's database team works with its sales and marketing team to maintain and update merchant listings on its website. The database team is the primary point of contact for merchants with free listings. Merchants with free listings also get some of Just Dial's leads. Once merchants approach the database team to enquire about paid subscriptions, the database team forwards their details to the sales and marketing team, which helps the merchant to choose an appropriate pricing plan.

Large listings database suggests strong potential for monetization

As of June 30, 2013, Just Dial had about 9.5 mn business listings (up 23% yoy and from 9.1 mn listings at the end of March 2013). Paid campaigns account for a very small (2.3%) share of the listings database. This share is expected to increase with the launch of new services (transaction enablement) and with the company easing initial payment norms for new customers.

The database team (320 people at the end of March 2013) maintains Just Dial's database This team updates the database with new businesses by (1) talking to new business registrations and (2) offering a resellers program (third parties collect and provide new entries for a fee). Alternatively, merchants contact Just Dial to be listed.

Exhibit 104: Listings have grown 23% yoy, out of which paid listings form a stable 2.3% share
Trajectory of business listings on Just Dial at the end of recent quarters

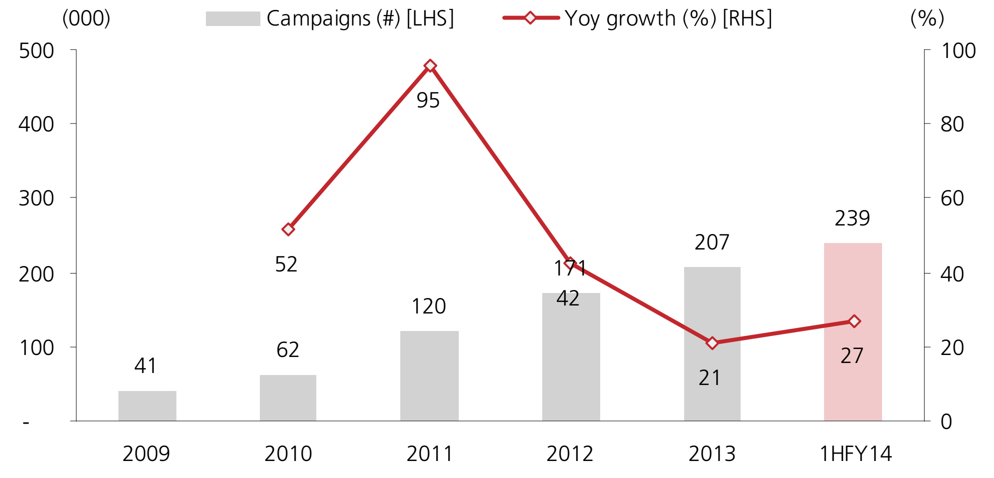


Source: Company, Kotak Institutional Equities

Paid campaign numbers rising; premium customers contribute half the revenue

As of September 30, 2013, Just Dial conducted 239,000 "paid campaigns", up 22% yoy. A merchant paying Just Dial is a paid campaign. Exhibit 105 shows the growth of campaigns over the past few years.

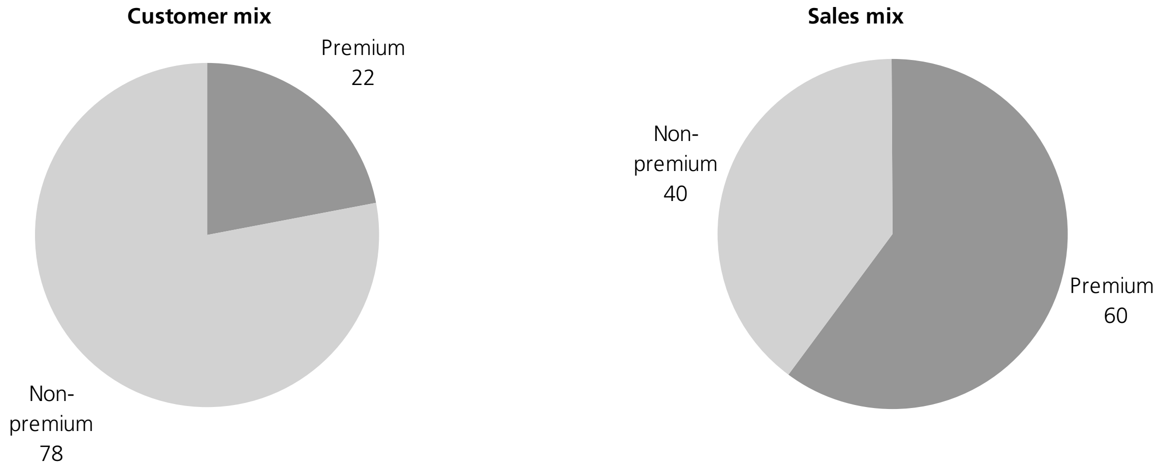
Exhibit 105: Campaigns for paid advertisers by Just Dial, March fiscal year-ends, 2009-1HFY14 (000, %)



Source: Company, Kotak Institutional Equities

About 22% of overall campaigns are conducted for premium clients (they list as number one or number two on search queries in their categories), contributing about 40% of Just Dial's search revenue. A year's advance payment is collected for such campaigns.

Exhibit 106: A balanced mix of premium and non-premium customers
Share break-up of customers and sales, March fiscal year-end, 2013 (%)



Source: Company, Kotak Institutional Equities

Flexible pricing plans appropriate to target SME businesses

Pricing plans for merchants are of three types—(1) entry level (₹399 a week), (2) payment-based (the share in total contribution in a specific category and region decides the share of leads given to the merchant) and (3) premium position (available at a price suggested by Just Dial's pricing engine). As part of the entry-level pricing plan, the business listing is displayed as a sponsored listing on all Just Dial's platforms—voice, Internet and WAP. A sponsored listing would have additional promotional content (video ad, photo gallery) besides basic contact details. Merchants can pay more than the basic fee for a higher priority in search requests and a higher share of incoming leads (based on share in the payment pool of a specific category and location). Merchants can also upgrade their membership to "diamond" (ensures number two position in a category search) or "platinum" (ensures number one position in a category search).

- **The pricing engine.** Just Dial's pricing engine is used to calculate the price for premium membership for product categories in specific locations. The price arrived at is based on past data on search requests, price paid for premium membership by merchants in the category and geography, indexed to the increased number of search requests for the related category/location combination. Just Dial establishes the number of calls/leads originating, based on search requests generated on its platform as the phone numbers of merchants are co-hosted, so Internet/mobile-based search is as valuable as a direct voice call. These search requests are calculated on the basis of a user's mobile number using Just Dial through (1) an online account (Internet, mobile) and (2) voice.

- **Just Dial encourages longer term contracts with ECS mandates.** Merchants were previously required to pre-pay for three months and subsequently give weekly or monthly mandates. From May 15, 2013, Just Dial relaxed this requirement for new paid campaigns, substituting it with an ECS mandate. The company added 15,000 net campaigns in the quarter ending June 2013 and another 17,000 campaigns in quarter ending September 2013. Most recent campaigns are monthly sign-ups).

Merchant feedback, particularly from SMEs, generally positive

Our interviews with Just Dial's feet-on-street team, which verifies details of physical establishments listed with the company, and with paid customers indicate positive feedback.

- **Premium positions being leveraged for visibility by large brands.** Just Dial offers the following premium positions for its listings (1) platinum (number one on listings) and (2) diamond positions (number two on listings). These positions are awarded at a fixed price for one year, after which a user may extend the position for another year at a new price. The Just Dial sales team suggested the slots were in short supply with most users renewing subscriptions. We note additions to Just Dial's premium customer base of (1) large companies with location-agnostic offerings (such as gold loans) and (2) well known service brands (Thomas Cook). Such a move is a result of Just Dial's increasing reach, benefiting and possibly obligating large customers to be present at the top on the Just Dial platform.

- **Low entry-level pricing, word-of-mouth, proactive effort to reach new businesses**. We interviewed taxi drivers and real estate agents who recently took Just Dial's entry-level subscriptions encouraged by peer feedback. They said shortly after registering, Just Dial approached them with a proposal to take a package. They also said response from Just Dial was positive in terms of queries.

B2B—likely low demand leads to some dilution of search results

Just Dial also operates a B2B search. Key categories in this search include food and beverage, construction machinery, electrical equipment and logistics services. Selective searches suggest merchants took premium membership for all the regions in a city. For example, a search for a diesel generator dealer in Nariman Point would give the name of a platinum customer from Vasai (68 kms away) as the first listing and of a diamond customer from Mazgaon (8 kms away) as the second listing. The non-premium results would suggest dealers in places closer to Nariman Point. This may be reflective of low customer spending in these categories, enabling customers to buy premium slots for the entire city.

Brand push to value proposition

Strong brand attracts user interest and merchant business

Just Dial has developed an image of a trusted brand through its (1) dedicated workforce for physical verification of merchant establishment details, (2) prompt responses to searches (3) a growing base of ratings and reviews of listings (friends' ratings enhance related value) and (4) advertising (Just Dial has been using Mr Amitabh Bachchan, a celebrity, as its brand ambassador).

Merchants take comfort in significant physical presence

Just Dial has a large workforce (~1,000 feet-on-street employees, one seventh of its workforce). This is in addition to the 2,700 tele-sales executives. The feet-on-street team complements efforts of the database team (takes business information over the phone) in keeping the listings database updated with relevant details about businesses. The process helps to develop trust, for users, in the listing information.

Prompt response across platforms increases user loyalty

Personal use of Just Dial's voice search suggests Just Dial responds to user calls almost immediately. Such a prompt response to a voice call is not seen with most service-call centers. Even in case of Internet searches, Just Dial loads faster than its key competitor, Sulekha. Data from Alexa, a company that offers data about websites, suggests 3.1 seconds loading time for Just Dial's website versus 4.2 seconds for Sulekha. Exhibit 107 compares Just Dial's position with peers in traffic and loading time.

Exhibit 107: Just Dial scores over the competition in scale, use and growth
Comparison of Just Dial with peers

	Alexa data (November 29, 2013)			comScore data			
	Traffic ranking	Bounce rate	Loading time	Unique visitors (000)		Minutes (mn)	
Media	**(#)**	**(%)**	**(sec)**	**Apr-2013**	**% Change**	**Apr-2013**	**% Change**
justdial.com	38	44	3.1	7,941	49	44	23
sulekha.com	62	51	4.2	6,838	6	28	(13)
indiamart.com	95	44	2.9	3,762	33	21	54
asklaila.com	165	58	2.4	3,732	43	11	48

Source: Alexa Rank, comScore, Kotak Institutional Equities

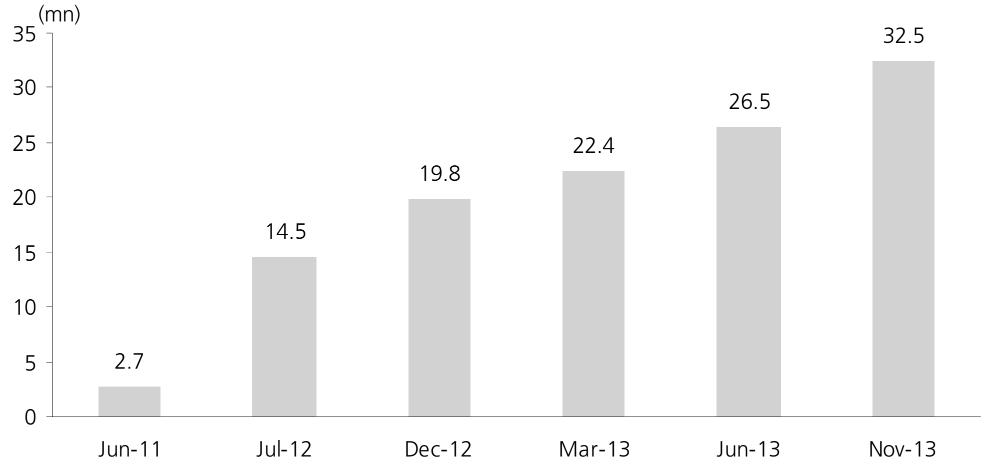
User ratings help to build confidence; but only numeric rating limits assessment

Just Dial's data indicates its ratings and reviews are growing at 1 mn a month—a significant number versus about 38 mn monthly Internet visits. The growth in ratings and reviews helps users to differentiate among merchant offerings (providing feedback to a merchant). Besides, seeing a friend's ratings helps a user to determine the value of a listing after viewing reviews of people with similar tastes. Note that friends are retrieved from a user's mobile contact list when the user logs on to Just Dial.

However, user reviews on Just Dial are numeric ratings on a scale of one to five and not detailed, subjective reviews like those on sites like Tripadvisor and Zomato. They are, consequently, less informative and do not provide perspective into various aspects of user experience such as ambience, quality of product/service or choice of products.

We note the disconnect between growth of reviews with overall searches as reviews likely get taken only on those searches originating from a voice call. Voice traffic accounts for a minority 32% of total traffic for Just Dial.

Exhibit 108: Users are adding reviews and ratings at the rate of ~1 mn a month
Reviews and ratings on Just Dial (mn)



Source: Company, Kotak Institutional Equities

Brand ambassador enhances trust in the Just Dial brand

Just Dial has gone a step further than its peers by making a celebrity, Mr Amitabh Bachchan, its brand ambassador. This conforms with and enhances the image of a trusted brand.

DIVERSIFICATION, INCREASED USE WILL SUPPORT JUST DIAL'S GROWTH

Just Dial is taking its business to the next level—it is diversifying and will not be just an information exchange. We believe the core business will grow due to increased use through adoption of mobile apps, deeper Internet penetration and strengthened user connect. Diversification will increase growth as it can help to take penetration beyond the urban mobile population. However, risks to Just Dial's growth story are (1) execution (it has added, and will add, major features in quick succession), (2) credibility of its offerings, linked to user experience and (3) the need to defend market share in a growing market. We take comfort in Just Dial's 16 years' experience.

Diversification will drive penetration; increased use will support core business

#1: Diversification will make the value proposition more broadbased

- **Just Dial's new business plans leverage the online platform to enhance its presence.** Success in its new businesses would help to broaden Just Dial's value proposition beyond the 'on-the-move' urban population and the features will take Just Dial beyond being just an information exchange. Just Dial has started its online food ordering service, signing up 4,700 restaurants. Just Dial also plans to diversify in other areas—(1) 24x7 food delivery, (2) taxi bookings, (3) movie-ticket bookings, (4) get quotes (reverse auction), (5) courier services, (6) buying of medicines, groceries and wine. These features, expected to be operational by April 2014, will be accessible through a common application, called the 'master app'. We believe they will deepen Just Dial's engagement with its users and enhance brand loyalty. The company has added a feature of searching for specific products, wherein users can get information of product features, pricing and dealer contacts. Incrementally it aims to launch a transaction engine where the user would be able to compare, choose and order products online.

- **Reverse auction essentially turns Just Dial into a market place, like Ebay.** The get-quotes (reverse auction) feature would be the online equivalent of Best Deals, through which an online request for price would be responded to with quotes from various merchants in a product category. Just Dial's reverse auction offering will ensure (1) the response would be from validated physical merchants, listed on Just Dial and (2) delivery would take place the same day as merchants would be in the city in which the online request was made. This would turn broader e-commerce into a local marketplace.

- **Business potential may be significant versus the current scale.** A very rough cut analysis of the new businesses Just Dial plans to enter suggests potential of about ₹4 bn in commissions a year. This will be driven by its marketplace (reverse auction) and doctor's appointment offerings. Assuming this market opportunity takes five years to be realized and Just Dial gets half of this opportunity, it would be able to generate revenue of ₹2 bn by FY2019E. We assume a 30% share of this business accruing to Just Dial in FY2017E.

Exhibit 109: Revenue size of the new business opportunity can be comparable to Just Dial's current revenue size
Calculation of opportunity for Just Dial from its deepening of presence in enablement (₹ mn)

	Online competitors	Transaction value (₹)	Transactions per annum (mn)	Commissions (%)	Commissions (₹ mn)	
Doctor's appointment	practo, bookmydoctor	600	6	10	356	(15 hospitals) X (3 specialists) X (8 specialties) X (5 doctors for every specialist) X (11 cities) X (₹600 consultation fee) X (4 patients) X (300 days) X (25% of Doctors) X 10% commission
Hotel reservations	eveningflavors, bookmyrestaurant	800	2	7	90	(50 hotels) X (10 tables) X (4 slots) X (11 cities) X (365 days) X (₹800 per outing) X (20% usage) X (7% commission)
Marketplace - electronics and home decor sales	kambola, jeetle	10,000	6	2	1,200	(15 mn households) X(2X Rs10,000 annual spend)*(20% potential buyers comparing) X (2% commission)
Food ordering	foodpanda, titbit, tastykhana	300	8	7	169	(100 hotels) X (11 cities) X (20 orders) X (365 days) X (Rs300) X (7% commission)
Movie tickets	Bookmyshow	200	31	10	927	(50 cinemas) X (11 Cities) X (3 screens) X (4 shows) X (3 days per week) X (52 weeks) (300 seats) X (50% occupancy) X (30% customers) X (Rs20 per seat)
Total market commissions		**3,117**	**22**	**4**	**2,742**	

Notes:
(1) Transaction value of marketplace initiative taken on a per household basis (three transactions a year of about ₹10,000 each).

Source: Kotak Institutional Equities estimates

#2: New offerings will benefit from growing Internet reach

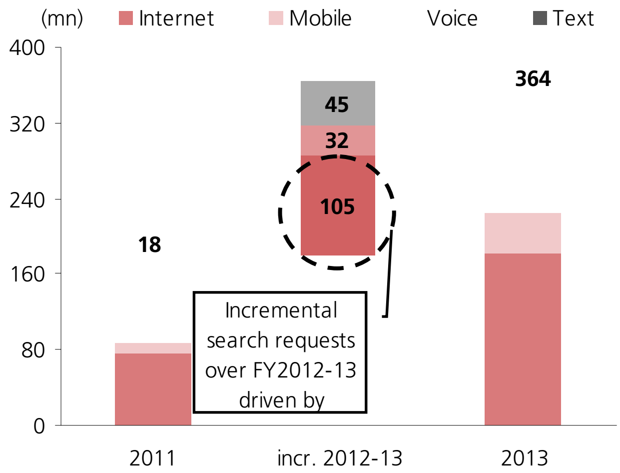
The success of Just Dial's diversification is firmly rooted in Internet reach. We are positive about the growth of the Internet. We note the potential of mobile phones to drive Internet penetration, based on increased use of smart phones and faster Internet networks though 3G/4G technology.

#3: Rising share of Internet to drive use, enhance quality of leads

A large portion of growth in Just Dial's search requests originates from the Internet. The trend is positive for (1) use (a user can access Just Dial at any time; an Internet search is interactive and informative) and (2) quality of leads (Internet searches typically originate as category searches versus directory search on phones).

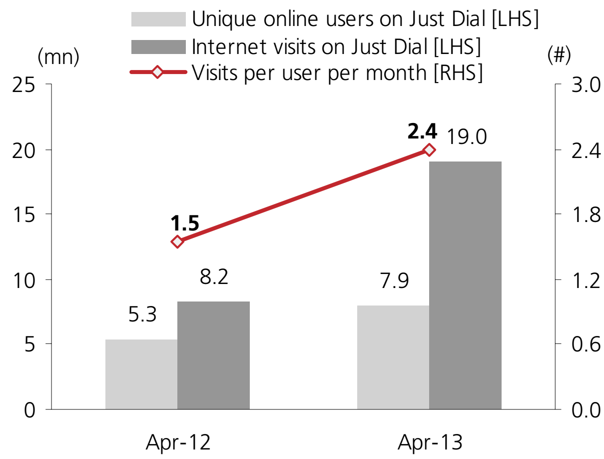
- **Use can double from current levels.** ComScore's April 2013 data suggests Just Dial had about 8 mn monthly online PC users, each making about two visits a month (19 mn visits overall). We expect this to double to four visits a month as users become more conversant with Just Dial's offerings.

Exhibit 110: Search requests have doubled over the past two years, driven by the Internet
Break-up of searches on Just Dial, March fiscal year-ends, 2011-13



Source: Company, Kotak Institutional Equities

Exhibit 111: An average non-mobile Internet user visits Just Dial's website once in two weeks
Just Dial's non-mobile Internet users and visits, March fiscal year-ends



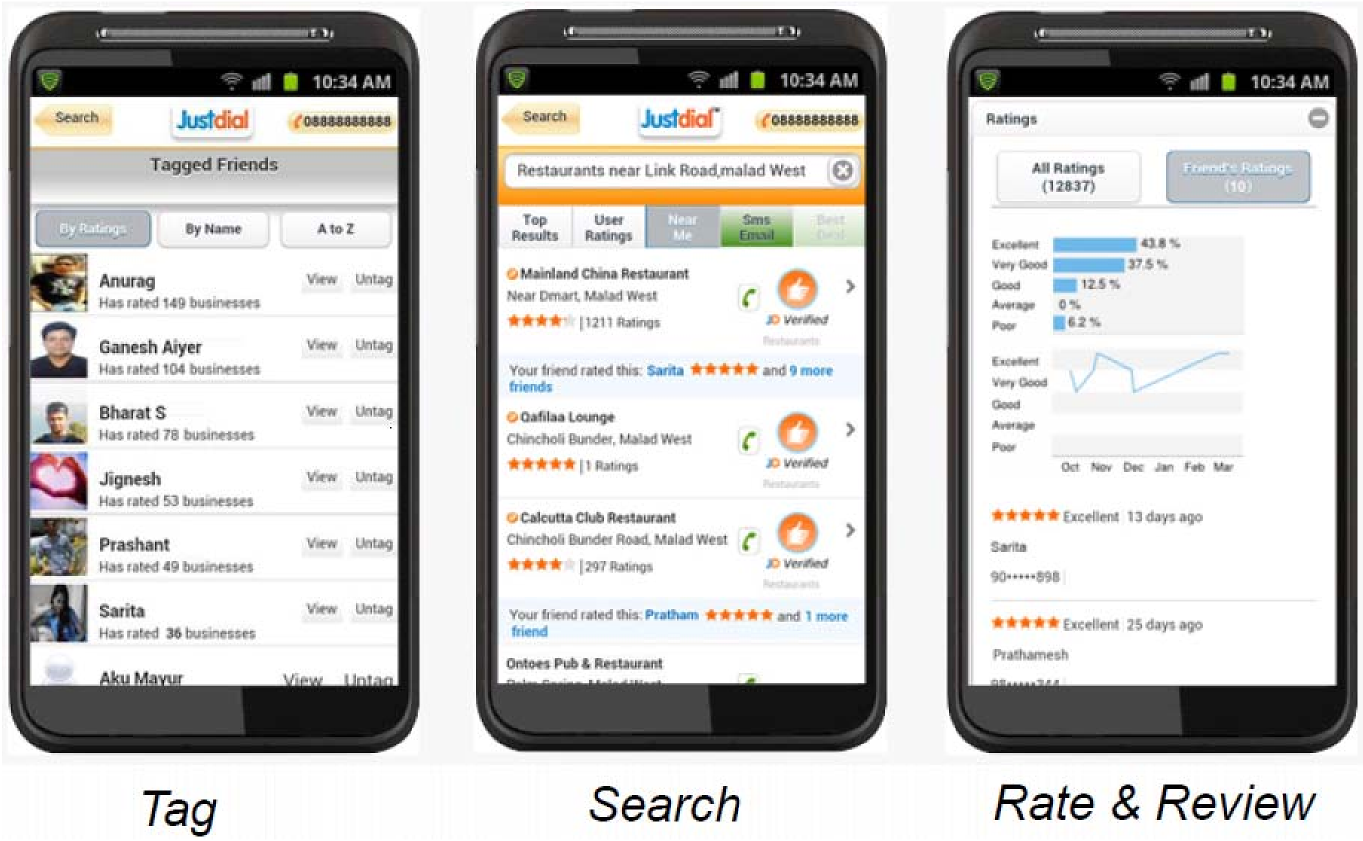
Source: ComScore, Kotak Institutional Equities

- **Growing Internet share in searches improves quality of leads**. The interactive nature of an online search makes users originate a search request as a category search instead of a product/service search. This results in a higher share of category searches as the share of Internet searches increases, resulting in a higher share of quality leads.

#4: Shift from voice to Internet to app and user content increases stickiness of user

Among PC and mobile Internet searches we note that Just Dial's share of searches from mobile phones has been increasing. This is led by Just Dial's mobile application gaining popularity. Just Dial launched its mobile application in December 2012 for android and iPhone operating platforms (it is developing an application for Blackberry and Windows phones). About one-third of Just Dial's traffic on mobile comes from its mobile application. The move towards mobile application is positive for Just Dial as it (1) increases the stickiness of the user (social interface) and (2) obviates routing of search requests through Google. The following snapshots show additional features of Just Dial's smart-phone applications. The other factor increasing stickiness of users to Just Dial is user-generated content (reviews and ratings of other users, especially of friends).

Exhibit 112: Just Dial's mobile application increases the stickiness of the user
Social interface features of Just Dial's mobile application



Source: Company's corporate presentation, Kotak Institutional Equities

Just Dial's mobile application scores over applications of Zomato and Flipkart in terms of downloads (more than 1 mn downloads from Google Play). Websites such as Burrp, Asklaila and Sulekha have less than a tenth of the number of downloads off their mobile applications compared with Just Dial. Just Dial said it had about 2 mn downloads of its application at the end of August 2013, nine months after it was launched in December 2012.

Exhibit 113: Just Dial scores over e-commerce and online classifieds companies
Number of mobile application downloads from Google Play, November 2013

	Number of mobile app downloads
Bookmyshow	1,000,000+
Just Dial	1,000,000+
Quikr	1,000,000+
Zomato	500,000+
Flipkart	500,000+
naukri.com	500,000+
Cleartrip	100,000+
Burrp	50,000+
Asklaila	1,000+

Source: Google Play, Kotak Institutional Equities

Risks—successful execution of new features crucial, failure may hurt growth

#1: New offerings increase risks related to execution, reputation

As Just Dial adds more features to its website, it runs the risk of execution-related problems—(1) the credibility of Just Dial's offerings being linked to user experience and (2) scope for glitches as interactions with the user become more active. However, Just Dial's 16 years' experience in the business offers comfort. Just Dial has also taken steps to reduce related operational risks (and safeguard its image). It (1) demands full operational control from merchants (merchant using Just Dial cannot share inventory with other online portals), (2) dissociates with the fulfillment process (once it enables transactions, Just Dial sends users details of merchants and what they would do for the user) and (3) does not rely on some brands, such as fleet-cab names, so that in case of a service deficiency, users figure out that the problem originated at the merchant's end.

#2: Primary classifieds offering-based proposition weakens beyond a few cities

Just Dial's primary offering is informational and targeted at 'on-the-move' users. Just Dial covers more than 1,800 towns and cities, but it said it had a strong presence in 11. These are possibly cities where it has sales centers. The company said more than 90% of its business came from these 11 cities (more than 40% from Delhi and Mumbai). Our analysis of census data of the 11 cities suggests the company has material share in these cities. Against 15 mn households in these cities, Just Dial possibly has a large user base. We assume the number of Just Dial monthly users to be twice as many as ComScore's data suggests—16 mn based in ComScore's April data of 8 mn users (considers only home and PC users over the age of 15 years).

Just Dial, which has significant penetration in its key cities, may have to venture beyond them, into rural regions for incremental user growth. Here, its value proposition may be weaker as the local population is well connected to small businesses and thus space for growth may be less. The company said it planned to increase its presence to 25 cities from the current 11.

Exhibit 114: Just Dial has significant penetration in its 11 focus cities
Population data of cities with Just Dial sales centers (mn)

	Households	Population
Delhi	2.5	12.9
Chandigarh	0.2	0.8
Jaipur	0.4	2.3
Ahmedabad	0.7	3.7
Mumbai	3.5	16.5
Pune	0.8	3.8
Kolkata	2.7	13.2
Chennai	1.5	6.6
Coimbatore	0.4	1.5
Bangalore	1.3	5.7
Hyderabad	0.7	3.8
Total	**14.8**	**70.7**
Just Dial's pan-India user base (1)	16.0	

Notes:
(1) Just Dial's user base is a KIE estimate is based on twice the number ComScore's estimated monthly PC users (accounting for shared and mobile users that access Just Dial).

Source: Company, Census 2011, Kotak Institutional Equities

This hypothesis is based on Just Dial's offering (informational with the addition of user ratings). If Just Dial's diversification plans succeed, it could become more relevant to a larger user base. However, there is an associated risk of Just Dial failing to develop a sustainable share in the new businesses. Already, competition is stiff—(1) in the doctor's appointment segment, practo and bookmydoctor.com are its competition, (2) in the dining and restaurant reservation segment, there are eveningflavours.com and bookmyrestaurant.com, (3) in the reverse auction segment there are kambola.com and jeetle.com and (4) in the food ordering segment there are foodpanda.com, titbit.com and tastykhana.com.

#3: Lack of a differentiated value proposition will increase vulnerability to rivals

- Google will stay a rival and offer similar service information. We note that 80% of PC Internet-related search requests originate from Google (share of mobile Internet-related queries from Google is lower at 30%). A slip in Just Dial's value proposition can lead to a swift shift of traffic to other portals (including Google). Google's competitive threat to Just Dial may diminish as its mobile application gains ground. We note that Yelp (a business similar to Just Dial's) gets a lower 50% share of traffic from Google (versus Just Dial's 80% share). This is possibly led by a larger share of Yelp's searches on its mobile application (46% search share). Presently 10% of Just Dial's overall traffic originates from its mobile application.

- Vertical targeted portals will keep putting pressure on market share. Just Dial may continue to be the single largest generic classifieds player (ahead of peers like Sulekha and Burrp) but other vertical-specific portals may eat into Just Dial's market share. Some of such players are (1) zomato.com in the restaurants space and (2) packersandmoversmumbai.com in the movers segment. Since Just Dial's offering is not a technological breakthrough, the potential of new vertical-specific players in other key segments exists.

#4: Just Dial may find it difficult to scale up unorganized business opportunities

- Unorganized opportunities may be difficult to scale up. We note that about half of Just Dial's incremental campaigns have businesses with monthly sign-ups. It may be appropriate to assume that a large proportion of them is in the unorganized sector, which may not provide a perennial source of spends for Just Dial—such businesses are difficult for Just Dial to depend on to scale up its business.

- Large companies have a substitute in Google. A material share of Just Dial's revenue comes from companies (Axis Bank has platinum membership for gold loans; Muthoot Finance has diamond membership). Such companies have the option to advertise on Google, which is possibly a better substitute for businesses that have websites to which traffic can be directed. This makes Just Dial a less sticky proposition for them. Companies that have been partly attracted by Just Dial's traffic are expected to remain on the platform as long as it attracts a large quantum of traffic.

GOOGLE—JUST DIAL'S COLLABORATOR, COMPETITOR AND SUBSTITUTE

Despite Just Dial's formidable strength in the market, it has to contend with Google, which both collaborates and competes with it. As a collaborator it directs organic search traffic to Just Dial in categories in which Just Dial is relevant and helps (through Just Dial advertising on Google) it to gain priority in searches where it is not yet relevant. As a competitor, Google provides contacts, maps, reviews on businesses and thus attracts ad-based revenue from other classifieds and physical businesses for priority in its searches. However, Google lacks a location-specific search and physical presence. Still, Google's presence as a substitute will continue to be a source of loss of business for Just Dial. Dilution of Just Dial's value proposition would increase risk to Just Dial's business (Google is likely to continue to be a default and pro-competition search gateway).

Google is the default search platform for most Internet users and so controls traffic flow for online businesses. A Google search prioritizes results for users, based on their relevance to them. Thus Google's impact on Just Dial's business is critical to understand for the success and sustainability of Just Dial's business.

Google competes and collaborates at the same time

For all its collaboration, Google competes with Just Dial for business. It acts as a collaborator for some online classifieds (directs traffic to Just Dial with Just Dial being the first organic search result in certain categories). However, Google is also a substitute search engine, throwing up results for category searches based on merchant data on Google Plus, Facebook, business websites, Google reviews and more. Google also competes for advertising revenue with Just Dial in categories where large organized businesses are present, such as personal finance (auto loans, home loans, gold loans).

- **Google lacks local capabilities and physical presence.** Google is not location-specific (page rank algorithm) and is unlikely to build the physical presence required to address a target market of small and medium enterprises (SMEs). It also lacks Just Dial's large physical presence for local business searches, which require a continuous tab to capture fluid business establishment details. Google also has advertising revenue from content aggregators such as Zomato in restaurants and there is a risk of cannibalization if it starts to directly target this SME audience itself for advertising revenue. Google's focus lies in online advertising businesses for large entities rather than focused location/category-led generation for small businesses.

- **History suggests Google's interest in the classifieds business.** History suggests several instances indicating Google's interest in the classifieds business. We note that Google bid for Yelp (an online classifieds business in the US and Europe, similar to Just Dial) in 2009 for a valuation of US$550 mn (the company went public in 2012 at a US$1 bn valuation). Over 2010 and 2011, Google was alleged to have incorporated content from Yelp's website into its own local product without Yelp's permission, leading to loss of business for Yelp. It also removed links to Yelp's website from portions of its web-based search product and promoted its own competing products (as per Yelp's IPO filing document). In September 2011, Google bought Zagat, a restaurant-review service. Google was also alleged to be involved in accessing the online database of Mocality (a Naspers-owned portal in Kenya) without consent (contacts were then allegedly used to get businesses on Google's platform.

Collaborator—Just Dial advertises on Google, is first result in many categories

Google searches account for 80% of Just Dial's PC Internet traffic (or half of its total traffic). Just Dial gained relevance in key category searches on Google (real estate agents, travel services, repairs) and is among the first few organic search results.

For categories in which Just Dial lacks relevance (restaurants), it uses Google's Ad Words feature to achieve priority above organic searches. Exhibits 115 and 116 show how Google acts as a collaborator with Just Dial.

Exhibit 115: Just Dial gets traffic through sponsored ads in categories in which it does not have a presence in organic searches

Results of a Google search for 'restaurants in Sion'

Notes:

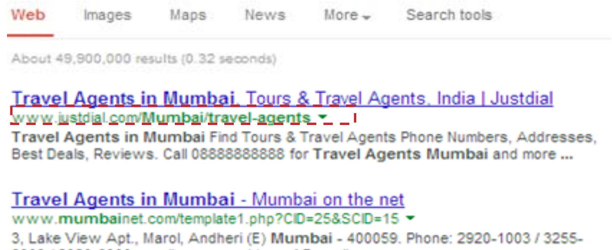
(1) Sion is a locality in Mumbai.

Source: Google search, Kotak Institutional Equities

Exhibit 116: Just Dial gets traffic from organic searches in categories in which it has a strong presence

Results of a Google search for 'travel agents in Mumbai'

Results of a Google search on 'travel agents in Mumbai'



Source: Google search, Kotak Institutional Equities

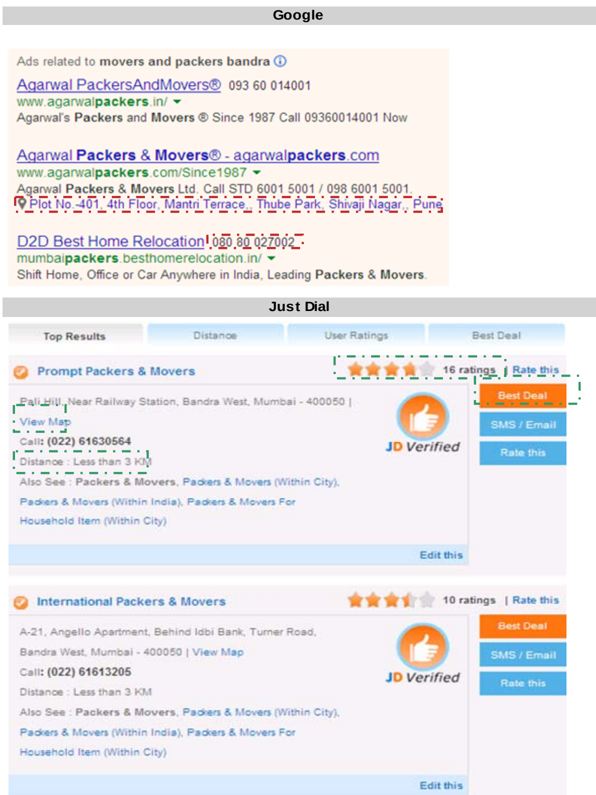
Competitor—active interest seen in presence on online platforms

Google competes with Just Dial in certain product/service categories such as restaurants and spas. We shall discuss how.

- **Google Ad Words.** Through this feature, Google monetizes interested companies by bidding out top slots (generally 1-4) in related keyword searches on its search engine. The keywords bid for by companies are generally product categories and not in specific locations, reducing the relevance of the results for local searches. The feature though is useful for new online product businesses like beauty products and other location-agnostic businesses like financial institutions. Exhibits 117 and 118 bring out the relevance and comparison of Google's sponsored ads with Just Dial's search offering.

Exhibit 117: Just Dial offers more appropriate, informative and standardized results for location-specific searches

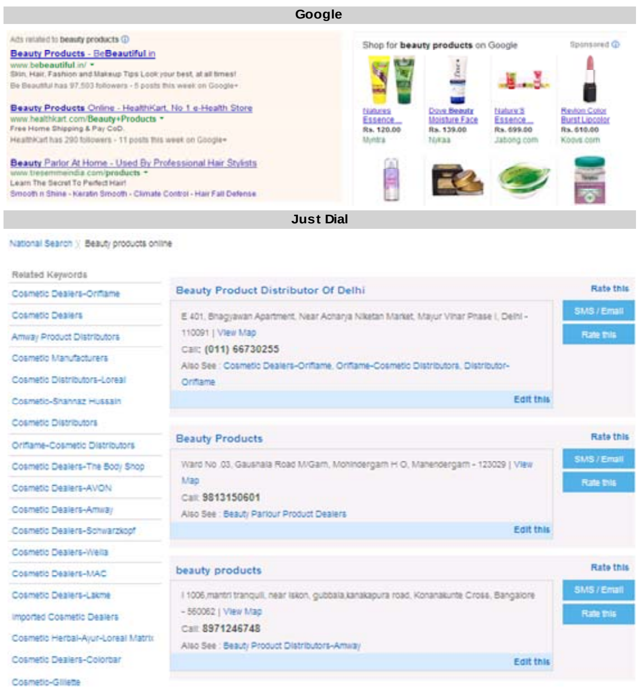
Results for a location-specific search (movers and packers in Bandra)



Source: Google and Just Dial, websites, Kotak Institutional Equities

Exhibit 118: Google gives more appropriate choices (links to related websites) for location-agnostic searches

Results for a location-agnostic search (beauty products online)



Source: Google, Just Dial, Kotak Institutional Equities

- **Google reviews.** Google has added links with user reviews to its non-sponsored searches (6-7 results get placed below the top organic search). These, besides sponsored ads, have lowered the position of Just Dial's organic search results on Google. Just Dial is impacted in categories such as (1) restaurants, (2) salons and (3) packers and movers (for city-specific searches).

Exhibit 119: Google reviews is pushing down Just Dial results for city-specific searches in some categories
Position of Just Dial in Google searches of Just Dial's top categories

	Search for options in Mumbai		Search for options in Bandra	
	Just Dial's position	**Options before Just Dial**	**Just Dial position**	**Options before Just Dial**
Resturants	#18	Zomato, Google reviews (7), burrp, asklaila, timescity, loneyplanet, eveningflavors, tripadvisor	#14	Zomato, Google reviews (7), burrp, asklaila, timescity, travel.cnn
Spas (salons)	#12	Google reviews (7), burrp (4)	#10	burrp (3), Googlereviews (7),
Packers and movers	#13	Googel reviews (5), packers and movers Mumbai, yellow pages,	#1	NA
Doctors (dermatologist)	#8	Google reviews (7)	#1	
Real estate agents	#1	NA	#1	
Travel services	#1		#1	
Repairs (mobile phone)	#1		#1	

Source: Google search, Kotak Institutional Equities

- **Google maps.** Google's navigation feature essentially shows, on a map, the position of certain product searches, such as restaurants and spas. The feature competes with Just Dial for product-specific searches.

WE INITIATE COVERAGE WITH ADD AS WE SEE POTENTIAL; MINDFUL OF VALUATION RISKS

(1) Mobile broadband penetration-led increased use (and monetization), (2) upside from diversification and (3) strength of the brand and balance sheet can help Just Dial to capture emerging opportunities in the Internet space. We initiate coverage with an ADD rating and target price of ₹1,250 (based on 32X FY2017E discounted to FY2015E). Our FY2017E estimate includes the contribution of new businesses (18% share). We note potential pitfalls in a volatile technology landscape—(1) challenge to scale up monetization from unorganized businesses, (2) competition from Google, (3) relevance beyond large urban centers and (4) new initiatives that are yet to take off.

We initiate coverage of Just Dial with an ADD rating and target price of ₹1,250, which ascribes a 32X multiple on FY2017E earnings (builds part of the upside from new businesses by then) and discounting this to FY2015E at a 13% cost of equity. We choose FY2017E earnings to capture the strong near-term growth potential and our target multiple is based on comparable one-year forward multiple for consumer companies.

While noting high valuations (36X FY2016E EPS), we take comfort in FCF yield of 2% in FY2015E, scaling up to 4% in FY2017E. We also note that Just Dial trades at multiples close to that of Yelp (a US-based local search company with a similar business model) in spite of better starting conditions (Yelp is reporting losses) and a larger opportunity (Indian market has low Internet penetration, which can scale up).

We are mindful of pitfalls (investment and valuation) related to high valuations and estimates (44% earnings CAGR over FY2013-17E and incremental 18% decadal growth requirement).

Upside risks to estimates

- **Product searches can help to increase search monetization**. We note upside to our estimates on monetization for base searches on Just Dial (assumed flat value at ₹9.5 per search over FY2014-17E) with the company launching product-specific searches. For example, a user can search for a Panasonic refrigerator and get to view product features and prices, apart from details of dealers selling the product. Such a search request is more valuable for Just Dial as it enables it to deliver (and thus charge) for higher value to the advertising merchant. As such product searches become popular and start forming a higher share of Just Dial's searches, Just Dial's per-search monetization would increase.

- **Value-based services can be extended across categories.** Our estimates assume ₹4 bn of market opportunity in transaction enablement services that Just Dial is launching, out of which we expect the company to garner a 50% share over the next five years. We note potential for Just Dial to add activities where it can deepen its presence in transaction enablement. Currently we account for opportunities in the following activities in our estimates for Just Dial: (1) marketplace (for physical retailers), (2) doctor's appointments and (3) restaurant booking. The company may be able to develop similar businesses for flower ordering, car booking, wine delivery and grocery delivery.

Investment pitfalls will test high-growth requirement

The investment pitfalls in the face of a high-growth requirement include (1) lack of differentiated value proposition (Google will stay the key traffic driver with a substitute offering), (2) vertical-specific competitors that can eat into market share, (3) inability to scale up monetization from typically unorganized businesses and (4) failure to grow beyond large urban centers.

High valuation multiples assume sustained growth beyond the near term

- **Reverse DCF suggests strong growth requirement.** Reverse DCF at the current stock price implies strong 18% decadal growth requirement over FY2018-27E. We estimate 32% sales CAGR over FY2013-17 and a 1,100 bps increase in margin to 39% in FY2017. We note risks to our reverse DCF analysis—(1) upside risk from us partly building contribution from new businesses (modeled until FY2017E) and (2) downside risk from high 44% share of terminal value (due to high 39% exit EBITDA margin).

Exhibit 120: Reverse DCF implies 18% growth requirement to justify the current stock price
Reverse DCF of Just Dial, March fiscal year-ends, 2010-31E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2028E	2029E	2030E	2031E
Total gross revenues	**1,309**	**1,839**	**2,621**	**3,628**	**4,696**	**6,465**	**8,390**	**10,850**	**12,855**	**62,104**	**65,210**	**68,470**	**71,894**
EBIT	254	386	582	864	1,265	1,990	2,826	3,947	4,756	22,979	24,128	25,334	26,601
EBIT*(1-tax rate)	168	263	411	607	873	1,373	1,922	2,684	3,234	15,625	16,407	17,227	18,088
Depreciation/Amortisation	(50)	(68)	(90)	(144)	(182)	(210)	(241)	(256)	(300)	(1,311)	(1,314)	(1,102)	(931)
(Inc.)/Dec. in working capital	39	230	395	350	118	60	(204)	418	270	486	510	536	563
Capital expenditure	(96)	(152)	(179)	(407)	(300)	(300)	(300)	(300)	(401)	(591)	(621)	(652)	(685)
Free cash flows	**60**	**273**	**538**	**406**	**872**	**1,343**	**1,659**	**3,058**	**3,404**	**16,831**	**17,610**	**18,213**	**18,897**
Years discounted					—	1	2	3	4	14	15	16	17
Discount factor	1.0	1.0	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.2	0.2	0.1	0.1
Discounted cash flow	**60**	**273**	**538**	**406**	**872**	**1,189**	**1,299**	**2,119**	**2,088**	**3,041**	**2,816**	**2,577**	**2,366**

Enter target price	**1,160**
Near-term growth (FY2018-27E)	**18.5**
Long term growth (FY2026-31E)	5.0

WACC used (%)	**13.0**
Terminal gorwth rate	5.0
Capitalization rate	7.5
Terminal value calculation	
Cash flow in terminal year	18,897
Terminal value	264,559
Discount period (years)	17
Discount factor	0.1
Discounted value	33,128

NPV calculation	
Sum of free cash flow	42,395
Terminal value	33,128
Enterprise value	**75,523**
Add Investments	4,858
Net debt	(239)
Net present value-equity	80,620
Shares o/s (mn)	70
NPV /share (Rs)	**1,160**

Key assumptions	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2028E	2029E	2030E	2031E
EBIT margin (%)	19.4	21.0	22.2	23.8	26.9	30.8	33.7	36.4	37.0	37.0	37.0	37.0	37.0
Effective tax rate (%)	33.9	31.8	29.3	29.8	31.0	31.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Capex as % of change in revenues		28.6	22.9	40.4	28.1	17.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Depreciation as a % of net fixed assets		29.5	28.5	29.3	26.6	26.7	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Year-end net WCap excl. cash (days of sales)	(133)	(140)	(154)	(146)	(122)	(92)	(62)	(62)	(60)	(60)	(60)	(60)	(60)
Long term growth (FY2023-31E)						5.0							
WACC used (%)						13.0							
Net fixed assets	188	272	360	623	741	831	921	980	1,024	4,739	4,020	3,327	2,877
Year-end net working capital (excl. cash)	(477)	(707)	(1,102)	(1,452)	(1,570)	(1,629)	(1,425)	(1,843)	(2,113)	(10,209)	(10,719)	(11,255)	(11,818)

Source: Company, Kotak Institutional Equities estimates

- **Trades close to Yelp's multiples despite better starting conditions, larger opportunity.** Just Dial trades close to Yelp (a US-based local search company) in P/sales (9.6X on FY2016E basis) and is cheaper on a P/E basis (36Xon FY2016 basis; Yelp currently makes losses) though Just Dial has a proportionately larger growth opportunity. We shall examine Yelp's business model later in this chapter.

Exhibit 121: Just Dial trades at the upper end of valuations set by other Internet companies
Comparison of Just Dial's business and valuation multiples with those of other Internet companies, calendar year-ends, 2012-14E (US$ mn)

		Sales			EBITDA			PAT			P/E (X)			P/Sales (X)		
	Market cap.	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Yelp	4,170	229	347	490	29	64	110	(10)	13	41	(434.4)	328.3	101.2	18.2	12.0	8.5
Schibsted	5,752	2,488	2,550	2,693	286	362	447	114	163	226	50.4	35.2	25.5	2.3	2.3	2.1
Tencent	108,680	9,875	13,138	16,951	3,584	4,501	5,659	2,696	3,429	4,358	40.3	31.7	24.9	11.0	8.3	6.4
Baidu	58,850	5,205	7,129	9,244	2,243	2,903	3,838	1,796	2,312	3,003	32.8	25.5	19.6	11.3	8.3	6.4
Sohu	2,580	1,402	1,754	2,098	247	280	370	66	81	111	39.2	31.8	23.2	1.8	1.5	1.2
NetEase	9,040	1,544	1,789	1,998	778	900	1,011	735	842	933	12.3	10.7	9.7	5.9	5.1	4.5
Google	353,520	46,841	54,880	64,994	21,176	25,177	30,196	12,516	14,853	21,407	28.2	23.8	16.5	7.5	6.4	5.4
Facebook	118,410	7,344	9,700	13,301	4,052	5,295	7,542	1,214	1,722	3,818	97.5	68.8	31.0	16.1	12.2	8.9
Amazon	176,670	74,911	91,505	110,035	5,066	7,076	9,289	1,138	2,024	3,555	155.3	87.3	49.7	2.4	1.9	1.6
ebay	66,110	16,075	18,533	21,344	5,453	6,190	7,158	3,567	4,123	4,789	18.5	16.0	13.8	4.1	3.6	3.1
Apple	508,350	184,025	195,234	220,734	58,782	63,484	67,400	38,622	40,970	42,488	13.2	12.4	12.0	2.8	2.6	2.3
Info Edge	763	88	101	116	22	29	38	20	25	31	38.1	31.1	24.4	8.7	7.5	6.6
Just Dial	**1,278**	**75**	**103**	**133**	**23**	**35**	**49**	**17**	**26**	**36**	**73.4**	**49.4**	**35.8**	**17.2**	**12.5**	**9.6**

Notes:
(1) Just Dial and Info Edge financials capture the next fiscal year March-ending data.

Source: Company, Bloomberg estimates, Kotak Institutional Equities estimates

- **Trades at upper end of consumer products companies' multiples range.** Just Dial trades at the upper end of the range of valuation multiples set by key consumer products companies. While there are similarities in the two businesses (scale-based business with compounding benefit of top-line and margin), technology companies carry additional risk of obsolescence. There are many examples of established Internet/technology majors seeing stagnation/decline in their businesses (Yahoo, Monster, Zynga) compared to the consumer products business

Exhibit 122: Just Dial trades at the upper end of valuations of consumer products companies on an FY2016E basis
Comparison of Just Dial's business and multiples with those of consumer products companies, March fiscal year-ends, 2013-15E (₹ bn)

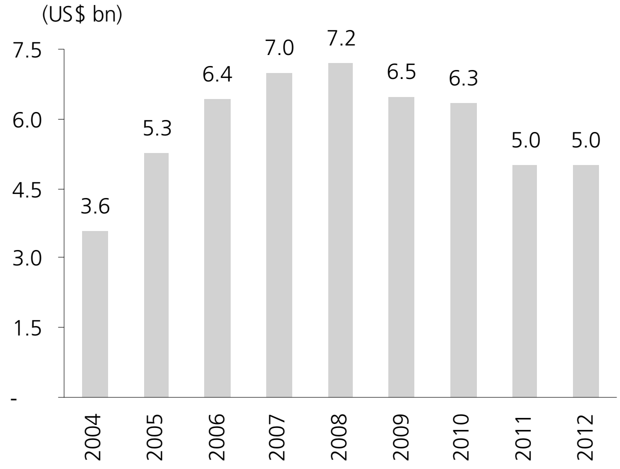
	Market Cap.	Sales				EBITDA				PAT				P/E (X)				EV/EBITDA			
	(₹ bn)	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
Asian Paints	484	110	126	145	165	17	20	23	27	11	13	15	17	43	38	33	28	28	23	20	17
Colgate	173	31	36	41	47	7	7	8	9	5	5	6	7	35	36	30	26	26	26	21	18
Dabur	287	61	71	82	94	10	12	14	16	8	9	11	13	38	31	26	22	29	24	20	17
GSK Cons	193	32	37	44	50	6	7	8	9	4	5	6	7	44	37	31	27	32	27	22	19
GCPL	299	64	79	94	109	10	12	15	18	7	8	10	12	43	37	30	25	33	26	20	17
HUL	1,252	258	281	313	349	40	44	50	56	33	36	40	43	38	35	32	29	30	27	24	21
ITC	2,528	296	330	375	425	103	118	138	159	74	85	99	113	34	30	26	22	24	21	18	15
Jubilant	88	14	18	24	30	2	3	4	5	1	1	2	3	67	59	43	32	36	29	22	17
Marico	139	46	46	52	58	6	7	8	9	4	5	6	6	38	28	24	22	23	19	16	14
TGBL	91	73	77	81	86	7	7	8	9	4	4	5	6	23	21	19	16	14	13	11	10
Titan	200	101	120	139	160	10	11	14	16	7	8	9	11	28	26	22	19	19	18	15	12
FMCG composite	**5,734**	**1,086**	**1,221**	**1,390**	**1,573**	**218**	**249**	**290**	**335**	**159**	**179**	**207**	**237**	**36**	**32**	**28**	**24**	**26**	**22**	**19**	**16**
Info Edge	48	5	6	6	7	1	1	2	2	1	1	2	2	42	38	31	24	38	32	24	17
Just Dial	**81**	**4**	**5**	**6**	**8**	**1**	**1**	**2**	**3**	**1**	**1**	**2**	**2**	**118**	**73**	**49**	**36**	**75**	**52**	**34**	**24**

Notes:
(1) Enterprise value is adjusted for financial investments.

Source: Company, Kotak Institutional Equities estimates

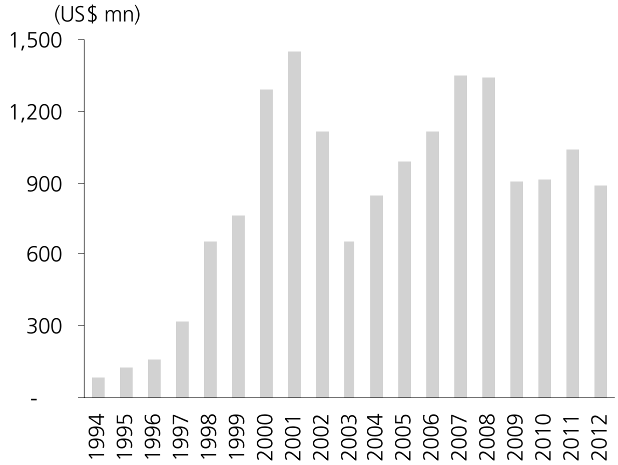
- **Technology businesses can be volatile.** We cite examples of Yahoo and Monster Worldwide below to illustrate the point.

Exhibit 123: Yahoo's sales have corrected significantly from the peak in CY2008-09
Sales trajectory for Yahoo, calendar year-ends, 2004-12 (US$ bn)



Source: Bloomberg estimates, Kotak Institutional Equities

Exhibit 124: Monster Worldwide sales have been volatile with an overall downward trend since 2002
Sales trajectory for Monster Worldwide, calendar year-ends, 2004-12 (US$ mn)



Source: Bloomberg estimates, Kotak Institutional Equities

- Such multiples are higher than those in recent PE transactions of the company.

Exhibit 125: The stock trades at higher multiples than those in recent transactions
Transaction history of Just Dial

							Acquisiton price (Rs)		One year forward valuation (X)	
Date	**Mode**	**Acquirer**	**Transferor**	**Shares**	**Total shares**	**% stake**	**Actual**	**Adj. for bonus issue**	**P/B**	**P/E**
Jul-09	Transfer	SAIF Partners	Clearmist Limited	29,503	856,218	3.4	3250	59	3.7	12.4
Jul-09	Transfer	Sequoia III	Clearmist Limited	118,014	856,218	13.8	3250	59	3.7	12.4
Sep-09	Transfer	Tiger Global Four JD Holdings	Tiger Global Four Holdings	111,422	856,218	13.0	3250	59	3.5	11.6
Sep-09	Transfer	Tiger Global Four JD Holdings	Tiger Global Principals Limited	5,863	856,218	0.7	3250	59	3.5	11.6
Sep-09	Transfer	Tiger Global Five Indian Holdings	Tiger Global Five Holdings	90,268	856,218	10.5	3250	59	3.5	11.6
Sep-09	Transfer	Tiger Global Five Indian Holdings	Tiger Global Principals Limited	4,750	856,218	0.6	3250	59	3.5	11.6
Jun-11	Transfer	SAPV	Ramani Iyer	163,763	51,908,266	0.3	345	345	9.7	32.3
Jun-11	Transfer	EGCS	V. Krishnan	163,763	51,908,266	0.3	345	345	9.7	32.3
Jul-12	Allotment	Sequoia I	NA	2,568,243	64,291,919	4.0	489	489	6.6	37.7
Jul-12	Allotment	Sequoia II	NA	2,568,243	69,428,405	3.7	489	489	7.1	40.7
Aug-12	Transfer	Sequoia I	V.S.S. Mani	548,638	69,428,405	0.8	489	489	6.9	39.2
Aug-12	Transfer	Sequoia II	V.S.S. Mani	433,638	69,428,405	0.6	489	489	6.9	39.2
Aug-12	Transfer	Sequoia II	Sandipan Chattopadhyay	100,000	69,428,405	0.1	489	489	6.9	39.2
Aug-12	Transfer	Sequoia II	Koora Srinivas	15,000	69,428,405	0.0	489	489	6.9	39.2
Sep-13		**Current price**			**69,500,000**		**1,160**	**1,160**	**12.4**	**59.1**

Source: Company, Kotak Institutional Equities estimates

Shareholding—private equity interest continues to dominate

We note that foreign investors (institutional, corporate bodies and venture capital companies) held 61.5% shares in Just Dial as of September 30, 2013. Foreign investors actually added to their share of 54% as of June 2, 2013, after the IPO.

Exhibit 126: Foreign investors own a majority in the company
Details of shareholding of Just Dial as of September 30, 2013

	Shares		Shareholders
	(mn)	(%)	(#)
Promoters	23.1	33.2	5
Mutual funds	1.5	2.1	27
Financial Institutions/banks	0.0	0.0	1
FII	15.3	22.0	67
Foreign corporate bodies	24.5	35.1	6
Foreign venture capital investors	3.1	4.4	1
Bodies corporate	0.4	0.5	178
Induviduals	2.2	3.1	6,051
Others	0.0	0.0	246
Total	**70.0**	**100.5**	**6,582**

Source: bseindia.com, Kotak Institutional Equities

As per Just Dial's draft red herring prospectus, there is a lock-in period of pre-IPO holders in Just Dial. The lock-in period is one year for public shareholders and three years for promoters. This is reflected in the static shareholding of Just Dial's large public shareholders during the period post the IPO (Saif Partners, Tiger Global, Sequoia). We note that 28% of Just Dial's shareholding is owned by such shareholders, whose lock-in period will end in June 2014.

Exhibit 127: Large public shareholders' holding static based on the one-year lock-in requirement
Details of shareholders with more than 1% shareholding in Just Dial as of September 30, 2013 (%)

	Shares	
	(mn)	(%)
Shareholders with greater than 1% share		
Saif II Mauritius Company Ltd	7.8	11.2
Tiger Global Four JD Holdings	5.8	8.2
Tiger Global Five Indian Holdings	3.6	5.1
Sequoia Capital India Investments III	3.4	4.9
SCI Growth Investments II	3.1	4.5
Sequoia Capital India Growth Investment Holdings I	3.1	4.5
Morgan Stanley Asia (Singapore) Pte	2.5	3.5
SAPV Mauritius	0.8	1.1
Swiss Finance Corporation (Mauritius) Ltd	0.8	1.1
Deutsche Securities Mauritius Limited	0.7	1.0
Total	**31.5**	**45.1**

Source: bseindia.com, Kotak Institutional Equities

Exhibit 128: Lock-in period for 61% public shareholding ended in June 2013
Details of shareholding locked in post Just Dial's IPO

	Shares (mn)	(%)	
Promoters			
Venkatachalam Sthanu Subramani	11.9	17.1	Locked for 3 years starting June-13
V Krishnan	0.3	0.5	
Ramani Iyer	0.9	1.2	
Venkatachalam Sthanu Subramani	1.9	2.7	
Anita Mani	0.3	0.5	
Total promoter share	**15.3**	**21.9**	
Public shareholders			
Saif II Mauritius Company Ltd	7.8	11.2	Locked for 1 year starting June-13
Tiger Global Four JD Holdings	5.8	8.3	
Tiger Global Five Indian Holdings	3.6	5.1	
Sequoia Capital India Investments III	3.4	4.9	
SCI Growth Investments II	3.1	4.5	
Sequoia Capital India Growth Investment Holdings I	3.1	4.5	
SAPV Mauritius	0.8	1.1	
Total promoter share	**27.6**	**39.6**	
Total	**42.9**	**61.5**	

Source: Just Dial's DRHP, Kotak Institutional Equities

Yelp: Similar business model; takeaways for Just Dial's future

Yelp is a US-based online local search portal with a focus on local businesses and thus has a similar business model to Just Dial's. Its key markets are in the US and Europe.. Its market capitalization is US$4 bn and 2012 sales amounted to US$138 mn (3X the size of Just Dial). It posted EBITDA-level losses.

Exhibit 129: Key financials and estimates for Yelp, calendar year-end, 2012-16E (US$ mn)

Market cap. (US$ bn)	4.3
Primary business model	Local business search

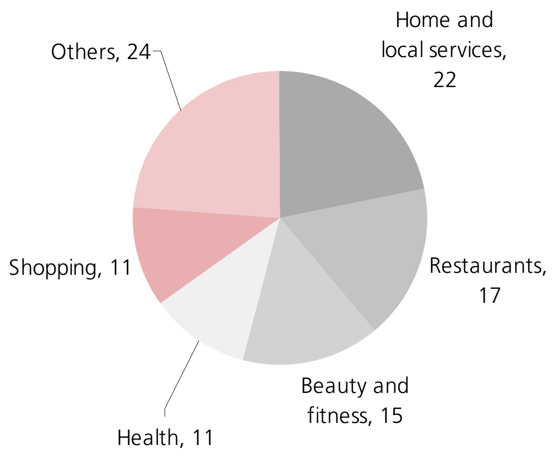
	2012	2013E	2014E	2015E	2016E
Sales	138	229	347	490	681
EBITDA	(10)	29	64	110	193
EBITDA margin (%)	**(7.4)**	**12.6**	**18.3**	**22.5**	**28.3**
PAT	(19)	(10)	13	41	94
Net Worth	172	284	347	425	566
P/B	25.0	15.2	12.4	10.1	7.6
P/E	(225.1)	(447.9)	338.6	104.4	45.9
P/Sales	31.3	18.7	12.4	8.8	6.3

Source: Bloomberg estimates, Kotak Institutional Equities

Key consumer-centric takeaways from Yelp operations

- Large share of restaurants and beauty/fitness categories. The break-up of Yelp's local advertising revenue suggests a large share from (1) restaurants (17%), (2) beauty/fitness products (15%), (3) health products (11%) and (4) retail (11%).

Exhibit 130: Restaurants and beauty/fitness account for a large share of Yelp's advertising revenue
Break-up of local advertising revenue for Yelp in the quarter ending December 2012 (%)



Source: Company, Kotak Institutional Equities

- **A significant share of mobile searches possibly helps to lower reliance on Google.** About 46% of Yelp's searches originated from its mobile app platform (60% of searches from the mobile platform). We note that half of Yelp's search traffic originates from Google.

- **Pricing at 2-3X Just Dial's pricing.** Yelp generates about US$137 mn in advertising revenues from about 290 mn search requests (implied from ~132 mn search requests from mobiles, all of which account for 46% of Yelp's total searches). This implies pricing of about US$0.5 per search (or ₹25-30) and is 2-3X the pricing for Just Dial. Adjusting for purchasing price parity, pricing of both companies is potentially comparable. This reduces potential for runaway growth in pricing for Just Dial and partially substantiates our flat monetization assumption of ₹9.5 per search request for the core business.

- **Threat from Google.** Google showed its intention to acquire Yelp in 2009 for a valuation of US$550 mn (the company went public in 2012 at a US$1 bn valuation). Over 2010 and 2011, Google incorporated content from Yelp's website into its own local product without its permission, leading to loss of business for Yelp.

FINANCIALS—INCREMENTAL USE AND MARGIN EXPANSION TO DRIVE STRONG GROWTH

We expect 44% earnings CAGR over FY2013-17, driven by (1) 28% CAGR in search requests at constant monetization, (2) revenue contribution from new businesses (₹0.3 bn in FY2015E and ₹1.4 bn in FY2017E) and (3) and operating leverage-led margin expansion. We expect new business opportunity of ₹4 bn (at current prices) to materialize over the next five years. We expect Just Dial to garner 30% of this opportunity by FY2017.

Rising search request numbers, margin expansion to lead near-term EPS growth

- **Increased use, penetration headroom to help to sustain search growth.** We expect Just Dial's search requests to grow at 28% CAGR with (1) Internet search to grow 28% CAGR, (2) mobile at 72% and (3) voice at 10% (versus 24% over the past three years). Growth in searches would be driven by use (may double from current two visits per customer per month). As the company has significant penetration in key cities, incremental growth in its user base would likely originate from internal regions, which would likely take place at a slower rate.
- **Margin expansion to be driven by growing Internet share of business.** A large share of Just Dial's cost structure is variable in nature—(1) staff cost (50% share), (2) advertising cost (7%) and (3) rent (4%). These should lead to operating leverage-led gains as business operations scale up. We expect this to lead to a 300 bps average annual margin expansion over FY2013-17. This is in excess of 150 bps average annual margin expansion over the past three years and accounts for business having achieved a certain scale, which helps it to grow on its own (calls for less investment for incremental sales than earlier).
- **Cash flow generation to exceed earnings growth despite declining negative working capital days.** We expect growth in business to negate the impact of reducing negative working capital (due to extending option credit to otherwise advance paying new non-premium customers). We thus expect Just Dial's free cash flow (excluding investments) to match PAT in CAGR terms over FY2013-17E (45%). Adjusted for other income, we estimate free cash flow of ₹1.6 bn averaged over FY2014-17 against current market capitalization of ₹76 bn (adjusted for cash and investments). This implies an FCF yield of 2%.

Exhibit 131: Estimates for Just Dial, March fiscal year-ends, 2010-17E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Sales								
Searches	**133**	**181**	**254**	**365**	**494**	**649**	**814**	**990**
Yoy growth (%)	**62.4**	**35.6**	**40.7**	**43.3**	**35.6**	**31.3**	**25.4**	**21.6**
Internet	57	77	124	183	228	285	342	411
Yoy growth (%)	104.7	35.2	61.0	46.9	25.0	25.0	20.0	20.0
Mobile	5	10	14	42	105	178	267	374
Yoy growth (%)	135.0	104.3	41.7	208.1	150.0	70.0	50.0	40.0
Voice	72	94	116	139	160	184	202	202
Yoy growth (%)	37.2	31.3	23.4	20.0	15.0	15.0	10.0	0.0
Text	0	0	1	1	1	2	2	3
Yoy growth (%)	(55.6)	150.0	566.7	50.0	50.0	30.0	30.0	30.0
Pricing per search	**8.7**	**9.9**	**10.2**	**9.8**	**9.5**	**9.5**	**9.5**	**9.5**
Search revenues	**1,161**	**1,796**	**2,594**	**3,577**	**4,696**	**6,166**	**7,734**	**9,406**
New businesses						298	656	1,444
Total revenues	**1,161**	**1,796**	**2,594**	**3,577**	**4,696**	**6,465**	**8,390**	**10,850**
Yoy growth (%)	**57.8**	**54.7**	**44.4**	**37.9**	**31.3**	**37.7**	**29.8**	**29.3**
Margin (%)								
Number of employees	3,763	4,868	6,201	7,342	8,506	9,696	10,696	11,696
Additions	705	1105	1333	1141	1100	1500	1000	1000
% growth	23.1	29.4	27.4	18.4	15.0	17.6	10.3	9.3
Wage per employee	196.1	219.5	236.4	262.7	291.6	326.5	365.7	409.6
% growth	—	11.9	7.7	11.1	11.0	12.0	12.0	12.0
Employee cost to sales	51.1	51.5	49.9	49.0	49.2	46.0	44.4	42.3
Other expenses	25.7	23.8	24.4	23.2	20.0	20.0	19.0	19.0
EBITDA margin (%)	**23.2**	**24.7**	**25.7**	**27.8**	**30.8**	**34.0**	**36.6**	**38.7**

Source: Company, Kotak Institutional Equities estimates

Business growth, margin expansion aid strong earnings scale-up

Just Dial has grown its business rapidly (revenue has almost tripled over the past three years) driven by a strong surge in search requests. In addition, the company steadily improved margin (~450 bps increase over past three years) due to increase in share of Internet business (reduces the human element in interacting with users) and scale-up in business.

Exhibit 132: Margin has improved by 150 bps a year over the past three years

Profit and loss statement of Just Dial, March fiscal year-ends, 2009-17E (₹ mn)

	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Profit model									
Total operating income	**859**	**1,309**	**1,839**	**2,621**	**3,628**	**4,696**	**6,465**	**8,390**	**10,850**
Operating expenses	**(780)**	**(1,005)**	**(1,385)**	**(1,948)**	**(2,619)**	**(3,249)**	**(4,265)**	**(5,323)**	**(6,647)**
Employee expenses	(523)	(669)	(947)	(1,308)	(1,779)	(2,310)	(2,972)	(3,729)	(4,586)
Operating and other expenses	(257)	(337)	(438)	(640)	(841)	(939)	(1,293)	(1,594)	(2,062)
EBITDA	**79**	**304**	**454**	**672**	**1,008**	**1,447**	**2,200**	**3,068**	**4,203**
Other income	59	39	37	132	135	325	372	431	403
PBDIT	**138**	**342**	**491**	**804**	**1,144**	**1,771**	**2,572**	**3,499**	**4,606**
Financial charges	(0)	(0)	(0)	(0)	(0)	—	—	—	—
Depreciation	(38)	(50)	(68)	(90)	(144)	(182)	(210)	(241)	(256)
Pre-tax profit	**100**	**292**	**423**	**713**	**1,000**	**1,589**	**2,361**	**3,257**	**4,350**
PAT (recurring)	**75**	**193**	**288**	**504**	**702**	**1,097**	**1,629**	**2,248**	**3,001**
Year ending number of share	48	48	52	52	70	70	70	70	70
Weighted average number of shares	48	48	52	52	67	70	70	70	70
Weighted diluted number of shares	48	48	53	60	69	70	70	70	70
EPS based on diluted shares (₹)	**1.6**	**4.0**	**5.4**	**8.5**	**10.2**	**15.7**	**23.3**	**32.1**	**42.8**
Key ratios (%)									
Employee cost / sales	60.8	51.1	51.5	49.9	49.0	49.2	46.0	44.4	42.3
Other operating cost / sales	29.9	25.7	23.8	24.4	23.2	20.0	20.0	19.0	19.0
EBITDA margin	**9.2**	**23.2**	**24.7**	**25.7**	**27.8**	**30.8**	**34.0**	**36.6**	**38.7**
PAT margin	8.8	14.8	15.7	19.2	18.9	23.4	25.2	26.8	27.7
Tax rate	24.5	33.9	31.8	29.3	29.8	31.0	31.0	31.0	31.0
Growth (%)									
Revenues	23.5	52.4	40.5	42.5	38.4	29.4	37.7	29.8	29.3
EBITDA	116.3	282.2	49.5	48.1	50.0	43.5	52.1	39.4	37.0
PAT	262.1	156.0	49.2	74.9	39.3	56.2	48.6	37.9	33.5

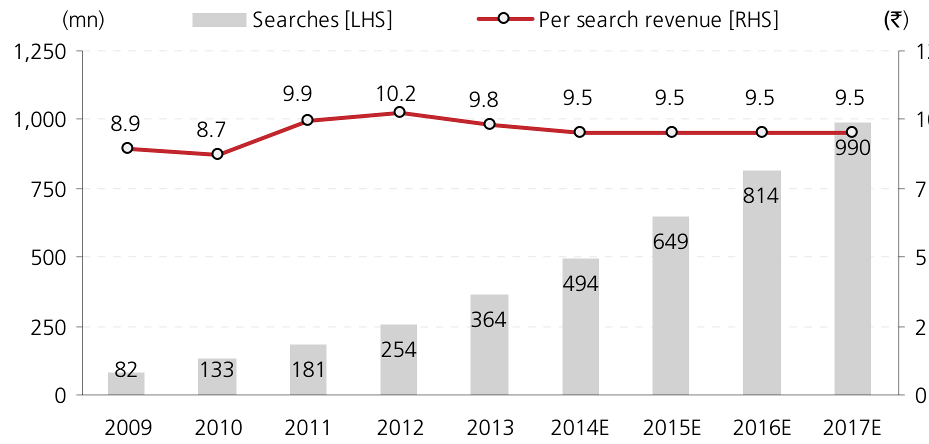
Margin has increased by about 150 bps per year

Source: Company, Kotak Institutional Equities estimates

Sales driven by search requests, enablement top-up; costs by staff expense

- **Sales driven by search requests.** Search requests are key revenue drivers for the company with per search revenue being stable at about ₹9.5-10. We expect pricing to marginally decline (₹9.5 over FY2014-17E) due to higher share of Internet-generated searches (customer intent for purchase for every request made may be lower).

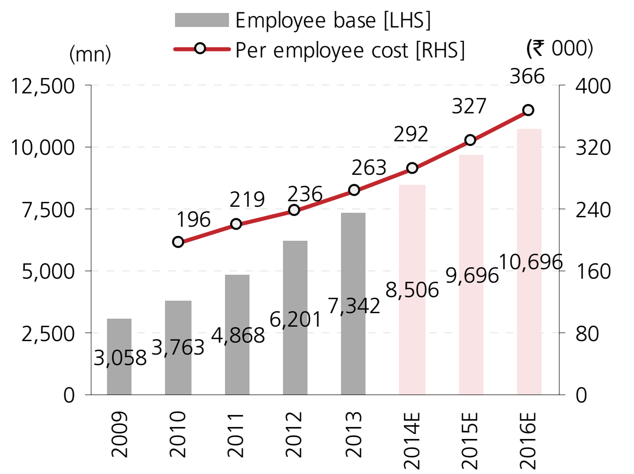
Exhibit 133: Per-search revenue estimates build benefit of higher commission on new businesses



Source: Company, Kotak Institutional Equities

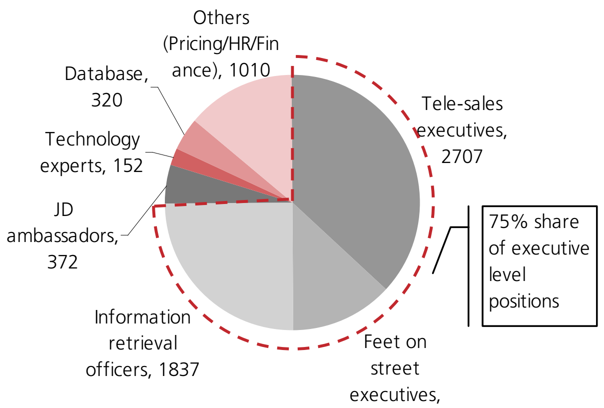
- **Cost driven by staff expenses.** Employee costs account for about 70% of operating costs and about 50% of sales. The company added 1,100-1,200 employees a year over the past few years with per employee cost rising about 11%. We expect net additions in employees to be higher over FY2015-16 (~1,500 a year) and fall to 1,000 a year in FY2017. Note that the company added about 870 employees in 2QFY14. We also estimate an 11% per employee cost increase a year over FY2013-16; similar to past history (a large share of executive-level positions reduces volatility in cost structure).

Exhibit 134: We expect 1,1000-1,200 employee additions over FY2014-17
Trajectory of staff numbers for Just Dial, March fiscal year-ends, 2009-16E



Source: Company, Kotak Institutional Equities

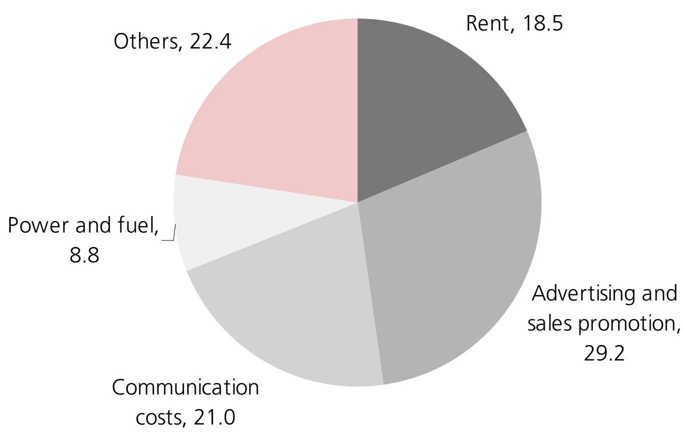
Exhibit 135: Executive level staff forms more than 75% of base
Break-up of employee base of Just Dial, March fiscal year-end, 2013 (7,342 employees at the end of March 2013)



Source: Company, Kotak Institutional Equities

Other expenses make up the remaining 30% of Just Dial's cost base and about 23% of its sales. The key component of other expenses is advertising (30% share) which was low in 1HFY14, leading to expectation of a 300 bps margin benefit in FY2014. Incrementally, we expect share of advertising expenses to increase (company would have launched most of its new initiatives by the end of FY2014E). This increase in advertising expenses is expected to negate margin benefit from operating leverage.

Exhibit 136: Advertising expense is the key cost item in Just Dial's other expenses
Break-up of other expenses for Just Dial, March fiscal year-end, 2013; ₹841 mn (%)



Source: Company, Kotak Institutional Equities

Debt-free balance sheet with large negative working capital

The company has capital employed of ₹4.3 bn, which is fully funded by equity. It has net fixed assets of ₹623 mn with about half of these being spending on computers. The company's cash position (including financial investments and IPO money) of ₹5.1 bn is more than its capital employed with large negative working capital funding fixed assets.

Exhibit 137: Key balance sheet details of Just Dial, March fiscal year-ends, 2010-17E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Balance sheet								
Equity share capital	9	519	519	695	695	695	695	695
Reserves & surplus	646	433	542	3,556	4,204	5,166	6,493	8,266
Shareholders funds	**657**	**954**	**1,033**	**4,259**	**4,899**	**5,861**	**7,188**	**8,961**
Loan funds	**3**	**1**	—	—	—	—	—	—
Total source of funds	**661**	**956**	**1,033**	**4,269**	**4,899**	**5,861**	**7,188**	**8,961**
Net fixed assets	**188**	**272**	**360**	**623**	**741**	**831**	**890**	**934**
Investments	808	1,182	1,568	4,858	4,858	4,858	4,858	4,858
Cash balances	114	196	237	239	869	1,801	2,866	5,012
Current assets	**114**	**252**	**303**	**354**	**386**	**531**	**690**	**892**
Other current assets	0	4	41	27	0	0	0	0
Loans and advances	114	247	263	318	386	531	690	892
Current liabilities and provisions	**592**	**959**	**1,405**	**1,805**	**1,956**	**2,161**	**2,115**	**2,735**
Current liabilities	579	938	1,392	1,787	1,930	2,125	2,069	2,675
Provisions	13	21	13	18	26	35	46	59
Net current assets excluding cash	**(477)**	**(707)**	**(1,102)**	**(1,452)**	**(1,570)**	**(1,629)**	**(1,425)**	**(1,843)**
Total application of funds	**661**	**956**	**1,034**	**4,269**	**4,899**	**5,861**	**7,188**	**8,961**
RoAE	34.9	35.8	50.7	25.9	31.9	40.4	45.9	66.4
RoACE	34.8	35.7	50.7	25.8	23.9	30.3	34.4	49.8
Net debt/equity	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)

Bonus share in the ratio 55:1

Cash and investments are more than capital employed with working capital funding fixed assets

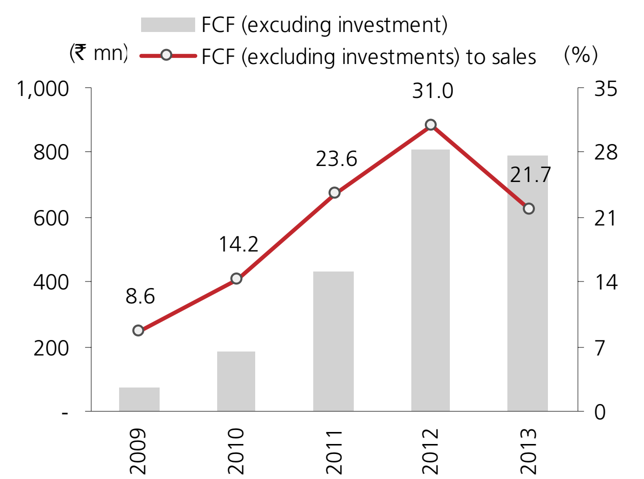
Current liabilities primarily comprise of customer advances

Source: Company, Kotak Institutional Equities estimates

Working capital benefit to decline as share of monthly sing-ups increases

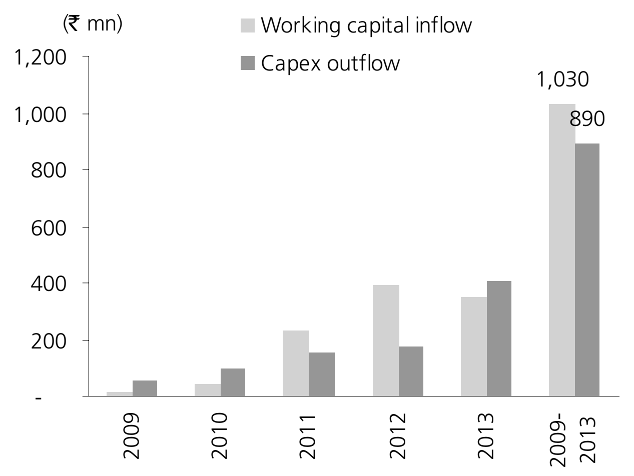
The company operates at a high negative working capital of about 150 days (at the end of FY2013). This is expected to decline as the company's non-premium customers increase (have monthly and weekly payments). We have therefore progressively reduced the working capital days of sales estimate to 160 days of sales from 120 days at the end of 1HFY14.

Exhibit 138: Just Dial has operated at over 20% FCF to sales over the past three years
Free cash flow (excluding investments) for Just Dial, March fiscal year-ends, 2009-13 (₹ mn)



Source: Company, Kotak Institutional Equities

Exhibit 139: Just Dial operates at a large negative working capital with low capex requirements
Cash flow analysis of Just Dial, March fiscal year-ends, 2009-2013 (₹ mn)



Source: Company, Kotak Institutional Equities

Exhibit 140: Cash flow statement of Just Dial, March fiscal year-ends, 20010-17E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Cash flow statement								
Cashflow from operating activities								
Net profit before tax and extraordinary items	292	423	713	1,000	1,589	2,361	3,257	4,350
Add: Depreciation/amortisation/ non-cash prov	50	68	90	144	182	210	241	256
Add: Financial charges	0	0	0	0	—	—	—	—
Tax paid	(99)	(135)	(209)	(297)	(493)	(732)	(1,010)	(1,348)
Operating profit before working capital changes	243	357	595	846	1,279	1,840	2,489	3,258
Change in working capital/other adjustments	39	230	395	350	118	60	(204)	418
Cashflow from operating activites	**282**	**586**	**990**	**1,196**	**1,396**	**1,899**	**2,285**	**3,675**
Cash from investing activites								
Fixed assets	(96)	(152)	(179)	(407)	(300)	(300)	(300)	(300)
Investments	(391)	(375)	(386)	(3,290)	—	—	—	—
Cash (used)/ realised in investing activities	**(488)**	**(526)**	**(564)**	**(3,697)**	**(300)**	**(300)**	**(300)**	**(300)**
Free cash flow	**(205)**	**60**	**425**	**(2,501)**	**1,096**	**1,599**	**1,985**	**3,375**
Cashflow from financing activities								
Issue of share capital	14	8	(425)	2,541	(8)	—	—	—
Borrowings	3	(2)	(1)	—	—	—	—	—
Dividend paid	—	—	—	—	(449)	(667)	(920)	(1,229)
Interest charges	(0)	(0)	(0)	(0)	—	—	—	—
Cash (used)/realised in financing activities	**17**	**6**	**(427)**	**2,541**	**(457)**	**(667)**	**(920)**	**(1,229)**
Cash generated/utilised	(89)	82	41	2	630	932	1,064	2,146
Cash at beginning of year	203	114	196	237	239	869	1,801	2,866
Cash at end of year	**114**	**196**	**237**	**239**	**869**	**1,801**	**2,866**	**5,012**

Source: Company, Kotak Institutional Equities estimates

1HFY14 financials reflect sustained growth

Guidance indicates business growth trajectory to stay strong

- **Sales.** The company reported strong revenue growth of 28% in 1HFY14 and has moved in tandem with campaigns (up 27% yoy).

- **Search.** Search visits grew 36% yoy in 1HFY14 driven by Internet searches (67% combine share including mobile versus 60% in 1HFY13). We note that the company adds up Internet visits to voice calls, leading to an understated number of search requests as well as yoy growth (as Internet's share in searches is increasing). On a net basis, the company continues to see stable pricing.

- **Guidance.** The company expects pricing to improve in the coming quarters. Its positive outlook business is driven by (1) recent relaxation of advance payment for new campaigns (has increased growth in campaigns) and (2) steady spend from SMEs even during the current weak demand scenario (Just Dial's result-oriented offering incentivizing SME spend).

Margin gain may normalize from 1Q levels; staff base can plateau from FY2016

- **Employee base.** Strong hiring will continue in FY2014E though may plateau after two years. The company reported a 350 bps yoy increase in EBITDA margin in 1HFY14, primarily on lower other expenses (300 bps decline possibly on lower advertising expenses). Employee cost as a share of sales was broadly flat yoy due to new employee additions (870 in 1HFY14 versus 1,141 in FY2013). While expecting the employee base to grown in the near term (plans to hire about 2,500 employees in fleet-on-street sales force and JD ambassador team over the next 1-2 years). The company hinted at the possibility of the employee base plateauing after two years as the market matures (would lead to most of the contracts becoming perpetual contracts; currently, a majority of contracts is executed in this manner).

- **Reaffirms expectation of continuous margin improvement.** The company expects to grow its EBITDA margin by 200 bps a year on increasing search share of Internet/mobile. Improvement in 2QFY14 margin was strong (up 350 bps yoy) and may lead to higher margin improvement than the 200 bps target.

Exhibit 141: Key numbers for 2QFY14 results of Just Dial, March fiscal year-ends (₹ mn)

	2QFY14	2QFY13	1QFY14	Growth (%) yoy	Growth (%) qoq	1HFY14	1HFY13	Yoy growth (%)
Sales	**1,127**	**876**	**1,046**	**28.6**	**7.7**	**2,172**	**1,693**	**28.3**
Expenses	(774)	(629)	(683)	23.0	13.4	(1,457)	(1,196)	21.8
Employee	(577)	(430)	(487)	34.2	18.5	(1,064)	(837)	27.2
Other expenses	(197)	(199)	(196)	(1.0)	0.6	(393)	(359)	9.3
Operating profit	**352**	**247**	**363**	**42.6**	**(2.8)**	**715**	**497**	**43.8**
Other income	87	18	73	391.5	18.2	160	37	331.6
Interest	—	—	—			—	—	
Depreciation	(44)	(34)	(42)	32.5	4.7	(87)	(61)	41.4
PBT	**395**	**231**	**393**	**70.6**	**0.3**	**788**	**473**	**66.7**
Tax	(108)	(72)	(113)	50.8	(4.6)	(221)	(147)	50.6
Net profit	**287**	**160**	**280**	**79.5**	**2.2**	**567**	**326**	**73.9**
Extraordinary items	—	(15)	—			—	(15)	(100.0)
Reported PAT	287	145	280	98.4	2.2	567	311	82.4
Key ratios								
Employee cost/ sales	51.2	49.1	46.6			49.0	49.4	
Other operating expenses/ sales	17.5	22.7	18.7			18.1	21.2	
EBITDA margin	**31.3**	**28.2**	**34.7**			**32.9**	**29.4**	
PBT margin	35.0	26.4	37.6			36.3	27.9	
Tax rate	27.3	30.9	28.7			28.0	31.0	
PAT margin	25.4	18.2	26.8			26.1	19.3	
Campaigns (#)	**238,650**	**187,913**	**221,500**	**27.0**	**7.7**	**238,650**	**187,913**	**27.0**
Search requests (mn)	**124**	**91**	**115**	**36.0**	**7.8**	**239**	**176**	**36.0**
PC internet	58	47	56	25.3	3.5	115	90	28.0
Mobile internet	26	10	20	168.0	33.4	46	18	159.0
Voice	40	35	39	13.7	1.3	79	69	15.1

Source: Company, Kotak Institutional Equities

JUST DIAL—MEET THE MANAGEMENT

Just Dial's promoters started the company in 1993, when they were in their late twenties. The other key person of the management team joined the company around 2010.

Exhibit 142: Promoters were early entrants; other senior management personnel have joined 3 years ago
Profile of Just Dial's management, promoters and board of directors

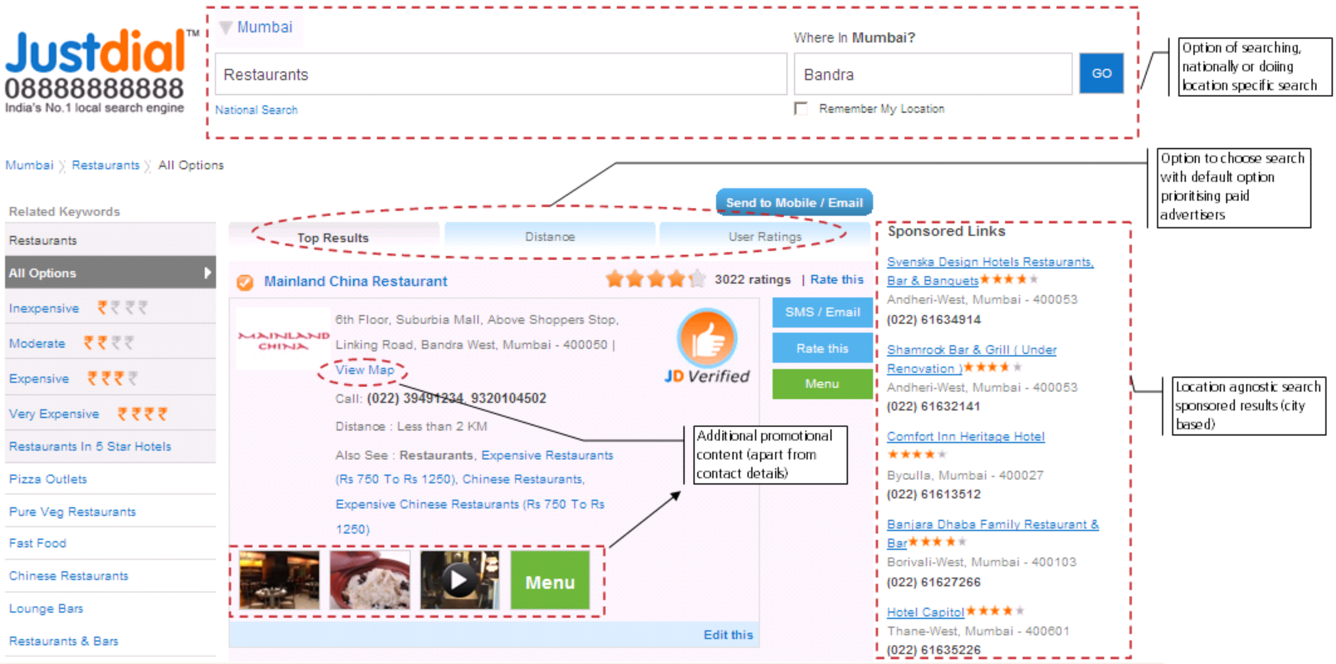
Personnel	Designation	Profile
Promoters		
VSS Mani	Managing Director	VSS Mani is the founder, MD and CEO of Just Dial. He engages in exploring possibilities for technological innovation apart from being involved in the formulation of corporate strategy and planning
Anita Mani		Ms Anita Mani has been associated with Just Dial for about 20 years. She is a director of Just Dial's group companies, JD Global and Superstar Ventures.
Ramani Iyer	Non-Independent, Non-Executive Director	Mr Ramani Iyer is a co-founder of Just Dial and his focus has been on strategic planning and execution.
V Krishnan	Non-Independent, Executive Director	Mr V Krishnan joined Just Dial in October 2005. He is a co-founder of the company and has played a key role in its business development, business expansion, operations and strategic planning.
Other members of the senior management team		
Ramkumar Krishnamachari	Chief Financial Officer	He has been associated with Just Dial since August 2010. He is a certified public accountant and a CFA Charter holder. He has 22 years' experience in finance and accounting.
Sandipan Chattopadhyay	Chief Technology Officer	He has been associated with Just Dial since January 2009. He has about 16 years' experience in technology.
Shreos Roy Chowdhury	Chief Technical Architect	He has been associated with Just Dial since September 2010. He holds a Master's degree in science from Indian Institute of Technology, Kanpur and has 16 years' experience in technology.
Koora Srinivas	Deputy Chief Financial Officer	He has been associated with Just Dial since December 1999. . He has 13 years' experience in finance and accounting.
Sachin Jain	Company Secretary and Compliance Officer	He has been associated with Just Dial since November 2010. He is a qualified company secretary and a member of the Institute of Company Secretaries of India, New Delhi. He has about 11 years' experience.
Other directors on the board		
Ravi Adusumalli	Non-Independent, Non-Executive Director	He was appointed director of Just Dial in October 2006. He holds a Bachelor's degree in economics and government from Cornell University, US. He is a managing partner and heads the India office of SAIF Partners.
Sanjay Bahadur	Independent, Non-Executive Director	He was appointed director of Just Dial in August 2011and has about 29 years' experience in construction. He is CEO of Pidilite Industries for its global constructions and chemicals division.
Malcolm Monteiro	Independent, Non-Executive Director	He was appointed director of Just Dial in August 2011. He is CEO of DHL Express, South Asia.
Shailendra Jit Singh	Non-Independent, Non-Executive Director	He was appointed director of Just Dial in June 2012. He is Managing Director of Sequoia Capital India Advisors.
B Anand	Chairman and an Independent, Non-Executive Director	He has about 26 years' experience in corporate finance, strategy and investment banking. He is the chief financial officer of Trafigura India.

Source: Company, Kotak Institutional Equities

APPENDIX I: SNAPSHOT OF JUST DIAL'S SEARCH

Exhibit 143: Listings are by default prioritized based on amount paid by advertiser

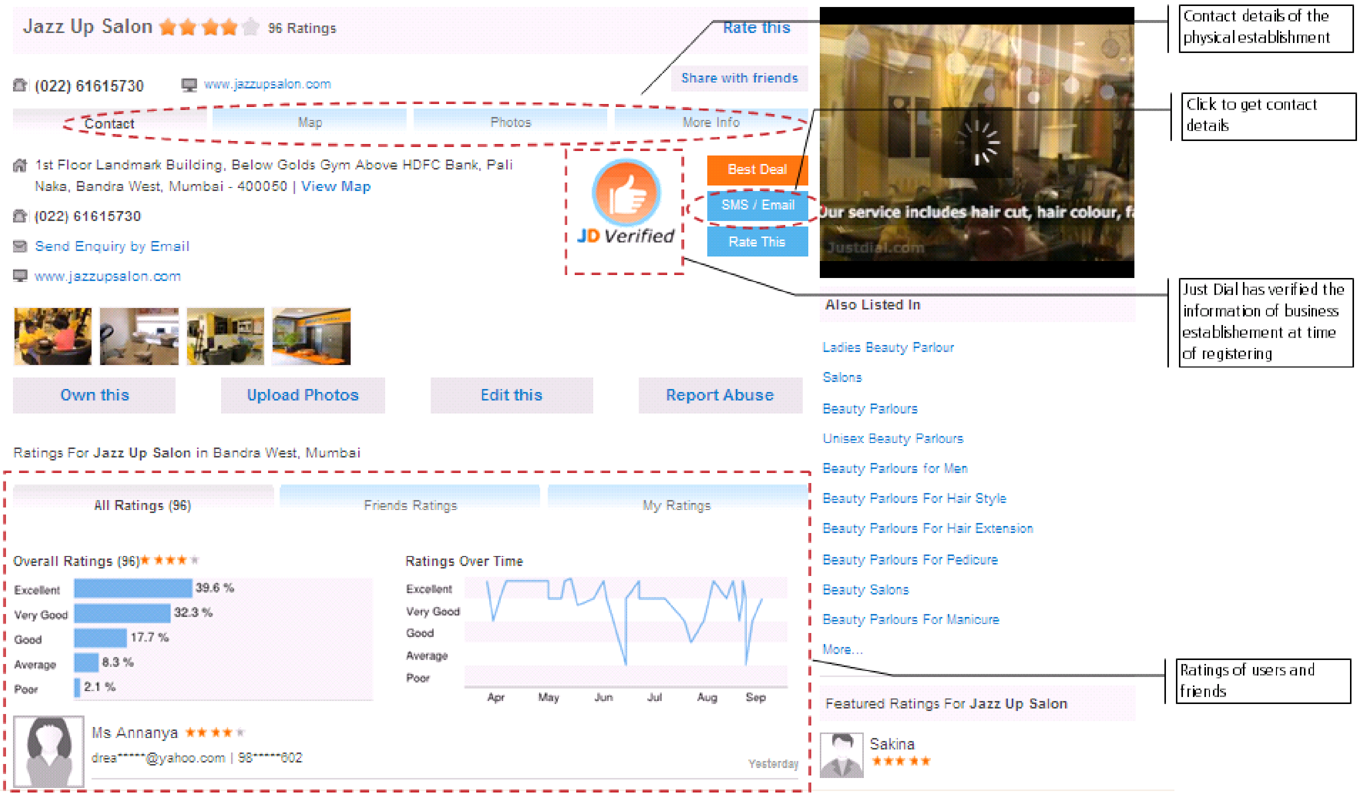
Details of a category search result



Source: Just Dial's website, Kotak Institutional Equities

APPENDIX II: SNAPSHOT OF DETAILS OF JUST DIAL'S SEARCH RESULT

Exhibit 144: Business listings contains contact/promotional details along with ratings
Details of a specific product result



Source: Just Dial's website, Kotak Institutional Equities

APPENDIX III: GOOGLE REVIEWS PUSHING JUST DIAL RESULTS BEYOND FIRST PAGE VIEW

Exhibit 145: Google reviews take Just Dial out of the fist page view in this search
Search requests of Google for 'salons in Bandra'

salons in bandra

Web Images Maps More Search tools

About 390,000 results (0.23 seconds)

Salons in Bandra West, Bandra West Salons, Mumbai - Burrp
mumbai.burrp.com/~/q_Salons/n_Bandra+West
Salons in Bandra West. Find Address, Phone no., Reviews, Menu, Photos, Location, and much more of all the Salons in Bandra West at burrp.com.

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★★★★☆ Rating: 4 - 23 reviews
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Schnell Hans Salons Spa & A..., Bandra West. 7 Reviews ... 1 Review · More in Bandra West; Shop Number 4, Casper Enclave, Pali Naka, Bandra.

Jean-Claude Biguine
www.biguineindia.com/
2 Google reviews

A 68 Chapel Road, Bandra West
Mumbai, MH
022 6522 2211

Mudd Salon & Spa
www.muddsalonspa.com/
1 Google review

B Sea Bird Building, Byramji Jeejeebhoy Road, Bandra, Bandra West
Mumbai, MH
022 2645 3309

Glory Beauty Saloon
plus.google.com
Google+ page

C 117, Muzafir Bldg Waterfield Rd, Bandra West, Mumbai, MH
022 2655 1808

Reflection Beauty Clinic
plus.google.com
Google+ page

D 10 Jaldarshan Perry Cross, Near Joggers Park
Chimbai Rd, Bandra West, Mumbai, MH
022 2644 1147

Source: Google search, Kotak Institutional Equities

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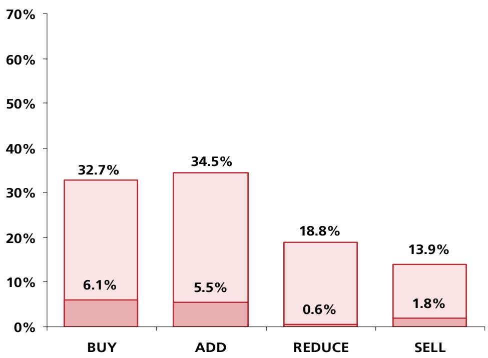
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2013 Kotak Institutional Equities Investment Research had investment ratings on 165 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2013

Analyst coverage

Covering Analyst: Lokesh Garg	
Company name	**Ticker**
ABB	ABB.BO
Adani Port and SEZ	APSE.BO
Bharat Electronics	BAJE.BO
Bharat Heavy Electricals	BHEL.BO
Container Corporation	CCRI.BO
Crompton Greaves	CROM.BO
Cummins India	CUMM.BO
GMR Infrastructure	GMRI.BO
Gujarat Pipavav Port	GPPL.BO
Info Edge	INED.BO
IRB Infrastructure Developers	IRBI.BO
Just Dial	JUST.BO
Larsen & Toubro	LART.BO
Mundra Port and SEZ	MPSE.BO
Nagarjuna Construction	NGCN.BO
Sadbhav Engineering	SADE.BO
Siemens	SIEM.BO
Thermax	THMX.BO
Voltas	VOLT.BO

Source: Kotak Institutional Equities research

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

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NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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