

Recruitment growth normalising; investment write-off leads to net loss...

About the stock: Info Edge provides internet based service delivery like recruitment services (Naukri), real estate (99 acres), Jeevansathi and Shiksha.

- Quasi play on Indian start up like Zomato, PolicyBazaar, Shoekonet, Ustra, Gramophone and job market, matrimony services & real estate market
- Prudent capital allocation with recruitment business EBITDA margin >50%

Q3FY23 Results: Info Edge reported strong numbers on margins in Q3FY23.

- Revenue up 4.4% QoQ aided while recruitment business grew 4.5% QoQ
- EBITDA margin improved ~450 bps QoQ to 39.1%
- Recruitment billing grew 2.1% QoQ & 17.7% YoY

What should investors do? Info Edge's share price has grown by ~2.9x over the past five years (from ~₹ 1,173 in February 2018 to ~₹ 3,390 in February 2023).

- We maintain **HOLD** rating

Target Price and Valuation: We value Info Edge at ₹ 3,265 on SOTP basis.

Key triggers for future price performance:

- Steady hiring in IT, healthcare, education, telecom and improving billing trend to drive recruitment revenues
- Continued pent up demand in housing as well as rental market driving 99acres revenues despite increasing home interest rates. Traction in Jeevansaathi, Shiksha to further drive revenues
- Expect revenues to grow at a CAGR of 18.1% over FY22-25E

Alternate Stock Idea: Apart from Info Edge, in IT coverage we also like Affle India.

- Key beneficiary of a shift of advertising budget to digital medium, continued strong growth in converted users
- BUY with a target price of ₹ 1,255

Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	1,128	1,562	14.3%	2,160	2,376	2,572	18.1%
EBITDA	302	474	15.8%	777	829	872	22.5%
EBITDA margins (%)	26.8	30.4		35.9	34.9	33.9	
Net Profit	299	451	16.7%	671	703	750	18.5%
EPS (₹)	23.0	35.0		52.1	54.6	58.2	
P/E	148.7	4.9		65.1	62.1	58.2	
RoNW (%)	6.5	3.2		4.7	4.8	4.9	
RoCE (%)	8.2	4.3		6.3	6.3	6.5	

Source: Company, ICICI Direct Research

infoedge

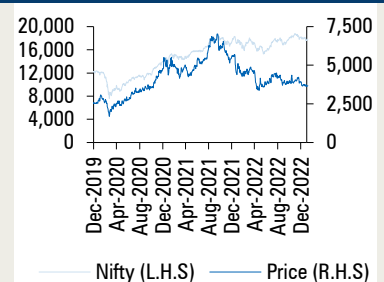
Particulars

Particular	Amount
Market Cap(₹ Crore)	43,922
Total Debt (₹ Crore)	0
Cash and Invests (₹ Crore)	573
EV (₹ Crore)	43,349
52 week H/L	5021/ 3313
Equity capital	129
Face value	₹ 10

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	38	38	38	38
FII	34	33	32	32
DII	16	16	17	17
Public	12	13	13	13

Price Chart



Recent event & key risks

- Impairment of investment in 4B Network of ₹ 276 crore
- **Key Risk:** (i) Higher than expected Naukri revenues (ii) Lower than expected margins

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Sujay Chavan
sujay.chavan@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

- The company reported revenue of ₹ 555.2 crore, up 4.4% QoQ & 33.4% YoY while revenue including acquired business (Zwayam & DoSelect) was ₹ 571.6 crore, up 35.6% YoY. The company in recruitment business reported revenue of ₹ 436.8 crore, up 4.5% QoQ & 40.3% YoY and including Zwayam & Doselect the revenue was ₹ 453.2 crore, up 43.1% YoY. 99 acres reported steady growth of 4.6% QoQ with revenue of ₹ 72.9 while YoY it grew 24.4%. Jeevansaathi despite its change in strategy reported a marginal decline of 1.1% QoQ with a revenue of ₹ 17.9 crore while Shiksha reported strong growth of 6.7% QoQ to ₹ 27.6 crore
- Consolidated EBITDA margins of the company improved ~450 bps QoQ (~1000 bps YoY) to 39.1% while in absolute terms the company reported an EBITDA of ₹ 216.8 crore, up 17.8% QoQ & 79.3% YoY. The improvement in margins was on the back of lower marketing spend in 99acres & Jeevansaathi business. The marketing spends declined 10.2% QoQ to ₹ 74.6 (₹ 83.1 crore in Q2FY23). EBITDA margins in the recruitment business improved ~210 bps QoQ to 61.5% while in 99acres & Jeevansaathi the company reported EBITDA losses of ₹ 26 crore & ₹ 26.4 crore, respectively. In both 99acres & Jeevansaathi EBITDA losses declined due to lower marketing spends and in Shiksha the company reported EBITDA of ₹ 1.1 crore
- The company, during the quarter, reported a net loss of ₹ 84.3 crore due to exceptional item provision towards impairment of investment of ₹ 276 crore. Excluding the exceptional item, the company reported adjusted PAT of ₹ 191.7 crore
- The company for the quarter reported muted billings of ₹ 550.7 crore, up 1.4% QoQ & 14.5% YoY. Billings for recruitment business, Jeevansaathi & Shiksha grew 2.1% QoQ, 1.2% QoQ & 12.5% QoQ to ₹ 434.6 crore, ₹ 17.1 crore, ₹ 27.9, respectively, crore while billings for 99 acres declined 6.1% QoQ to ₹ 71.1 crore
- The company reported a deferred revenue of ₹ 835.4 crore, down 0.7% QoQ & up 34% YoY. The company reported that out of ₹ 835.4 crore, recruitment business, 99 acres & Others (Jeevansaathi & Shiksha) contributed ₹ 703.4 crore, ₹ 94.3 crore & 37.7 crore, respectively
- **Recruitment business:** The company indicated that IT sector hiring is now normalising after a strong last two years. The company indicated that billing for recruitment business also grew in accelerated pace in the last 1.5 years due to sudden spike in attrition. The company indicated that attrition though is still high in many IT companies, it is likely to come down in the next few quarters on gradual basis and billing is also likely to normalise. The company indicated that billing for FY24 is expected to be in the range of 15-20%. The company also indicated that in IT sector, there has been a delay in decision making and the companies are negotiating hard. The company also indicated that mass layoff in US tech sector may create an opportunity in India, if lot of that work is shifted to offshore but that at this moment there is no clear visibility on this. The company also indicated that government's push on infra related spending may bring in non-IT jobs back in the market, which may give some more push for billings. The company also indicated that as long as India grows at 6%, it should help them grow
- **On 99acres business:** The company indicated that it has witnessed increased traction in the real estate business in all three categories of new projects, re-sale and rental. Info Edge indicated that the real market has seen recovery from Covid phase but also cautioned that housing prices and continued interest rate making current housing prices less affordable to large section of the society and near term demand is expected to be subdued unless pricing coming back to equilibrium. The company also

indicated that competitive intensity in this market remains elevated. Hence, it expects EBITDA losses to continue. The company also indicated that they are not looking to add transaction based revenue model since it has around 20,000 brokers listed on their platform and transaction led model means large chunk of them would stop doing business with the company. Hence, it would like to continue with this listing led model. Info Edge also indicated that broking model is hard to scale and is not very tech intensive

- **On Jeevansathi business:** The company reiterated that by changing its strategy in Jeevansathi by offering free services, it continues to gain traffic shares over peers. The company also indicated that it has launched few paid products in the quarter to capitalise on the network share. The company also indicated that it is exploring a few more models for monetisation
- **In Shiksha business:** The company indicated that Shiksha business witnessed increased traction during the quarter and also posted small EBITDA gains during the quarter. The company indicated that the growth in Shiksha business is due to students returning to campuses but the business is facing certain hurdles due to the delay in getting US visas
- The company during the quarter has impaired ₹ 276 crore for its investment in 4B Network Pvt Ltd (4B Network). 4B Network facilitates the real estate developers & brokers to communicate with each other via the Broker Network Platform. The company indicated that 4B Network has been facing liquidity issues due to excessive cash burn and in the current macro environment where the funding for startups is squeezed it is uncertain of 4B Network's future. Hence, as a prudent policy, it is impairing the amount invested in the company
- The company mentioned that it had 28 other investments in the portfolio in various startups via the AIF route and none of them are facing funding issues at this moment.
- On its investment policy the company mentioned that it avoided investments in the Crypto business, Web3 & Meta as they are not fully convinced on their business models

Exhibit 1: P&L

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	555.2	550.4	416.1	33.4	531.8	4.4	Recruitment business grew by 4.5% QoQ while 99 acres & Shiksha grew by 4.6% QoQ & 6.7% QoQ respectively
Employee expenses	226.2	233.9	186.8	21.1	225.9	0.1	
Marketing expenses	74.6	82.6	80.6	-7.4	83.1	-10.2	marketing expenses declined due to relatively lower marketing spend in 99acres & Jeevansaathi business
Network & other charges	11.1	11.0	8.1	36.3	11.3	-2.3	
Other expenses	26.5	27.5	19.7	34.7	27.6	-3.9	
EBITDA	216.8	195.4	120.9	79.3	184.0	17.8	
EBITDA Margin (%)	39.1	35.5	29.1	1000 bps	34.6	445 bps	EBITDA margins aided by lower marketing spend
Depreciation & amortisation	11.5	11.0	9.9	16.4	10.5	9.6	
EBIT	205.3	184.4	111.0	84.9	173.5	18.3	
EBIT Margin (%)	37.0	33.5	26.7	1030 bps	32.6	435 bps	
Other income (less interest)	39.6	45.0	42.8	-7.4	49.9	-20.7	
PBT	244.9	229.4	153.8	59.2	223.5	9.6	
Tax paid	52.3	55.7	34.2	53.0	54.4	-3.9	
PAT	-84.3	172.7	336.4	-125.1	168.1	-150.1	The company reported loss due to impairment of investment of ₹276 crore in 4B Networks Pvt. Ltd.
APAT	191.7	172.7	118.5	61.7	168.1	14.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	1,951	2,160	10.7	2,263	2,376	5.0	2,526	2,572	1.8	Revenue re-aligned on strong 9M performance
EBITDA	608	777	27.8	720	829	15.2	806	872	8.1	
EBITDA Margin (%)	31.2	35.9	479 bps	31.8	34.9	310 bps	31.9	33.9	198 bps	Higher margins in Naukri business pushing overall margins higher
Reported PAT	586	671	14.6	666	703	5.6	745	750	0.6	
EPS (₹)	45.5	52.1	14.6	51.7	54.6	5.6	57.9	58.2	0.6	

Source: Company, ICICI Direct Research

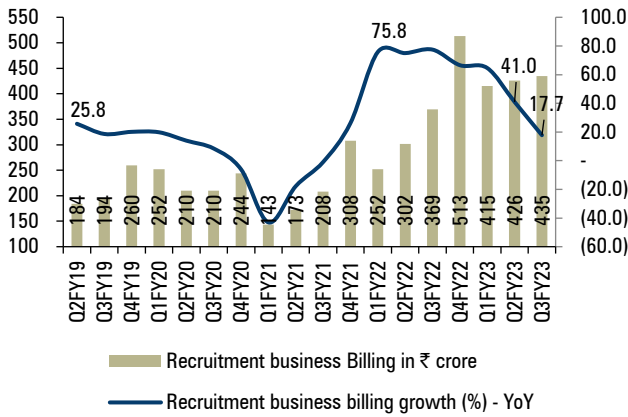
Exhibit 3: SOTP based valuation

New	Valuation Method	Basis	Multiple (x)	Valuation	₹/share
Business					
Recruitment Business	PE Method	FY25E EPS	35	26,234	2,038
99 Acres	EV/Sales	FY25E Revenues	6	2,030	158
Jeevansaathi & Other business	EV/sales	FY25E Revenues	2	343	27
Investee					
Zomato		14.03% stake	Mcap	6215	483
Other Business	P/BV		1	1120	87
Policybazaar		12.77% stake	Mcap	3097	241
Net Cash & financial investments				3000	233
Target Valuation				42039	3266
Rounded Off Target Price					3265

Source: Company, ICICI Direct Research

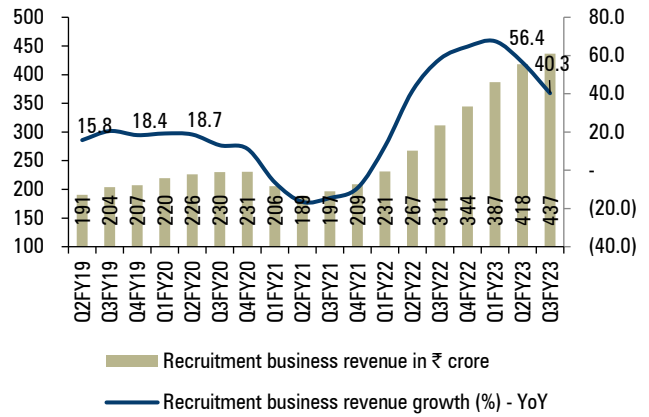
Key Metrics

Exhibit 4: Billings normalising in recruitment business



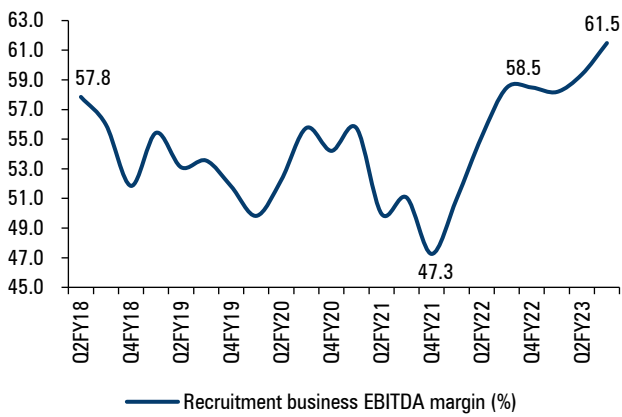
Source: Company, ICICI Direct Research

Exhibit 5: Revenue growth to also normalise



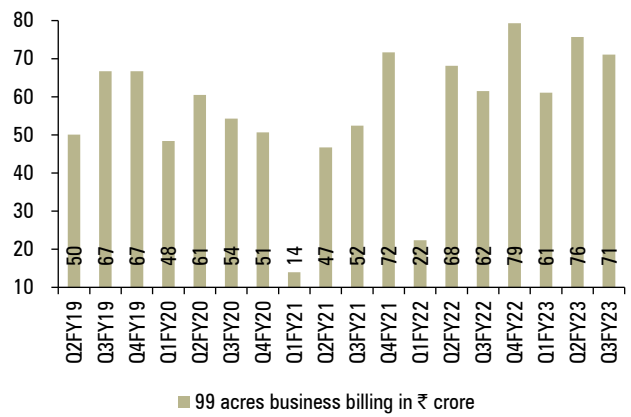
Source: Company, ICICI Direct Research

Exhibit 6: Naukri margins continue to inch up



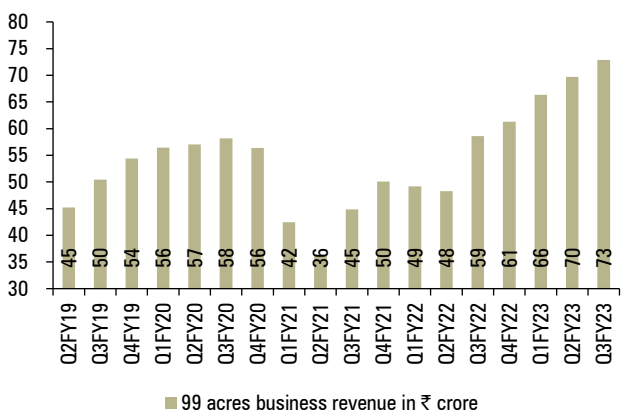
Source: Company, ICICI Direct Research

Exhibit 7: High interest rates impacting 99 acres billing



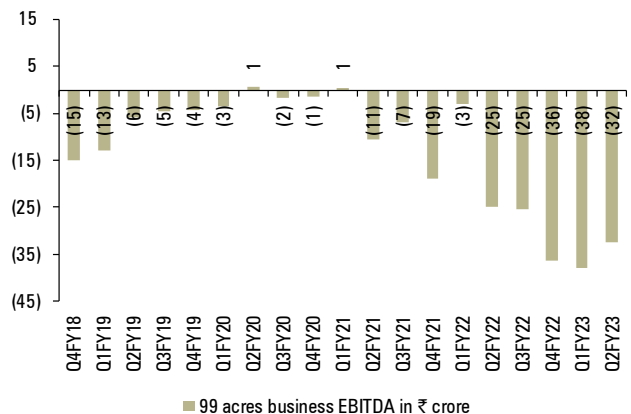
Source: Company, ICICI Direct Research

Exhibit 8: 99 acres revenue trend



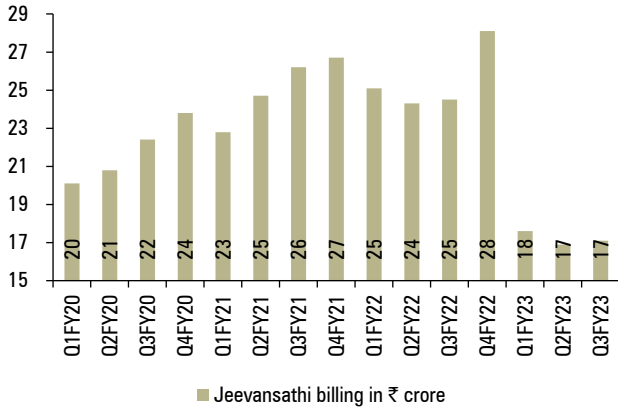
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA losses come down in Q3



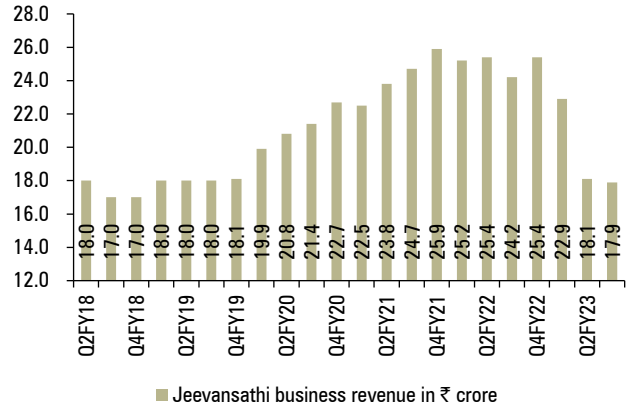
Source: Company, ICICI Direct Research

Exhibit 10: Jeevansathi billings steady since Q2



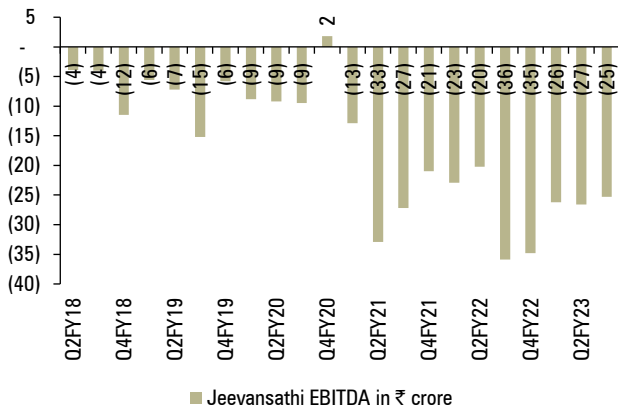
Source: Company, ICICI Direct Research

Exhibit 11: Revenues may bottom out in next few quarters



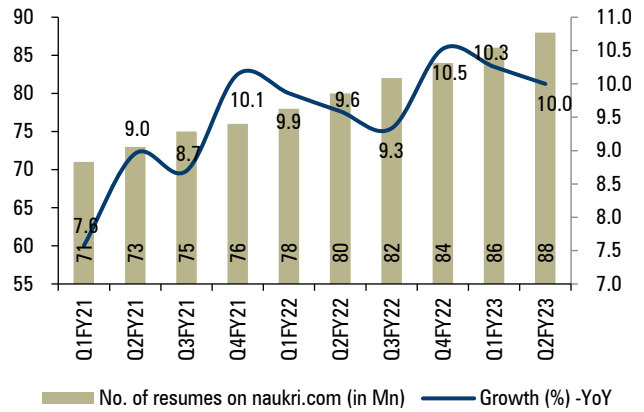
Source: Company, ICICI Direct Research

Exhibit 12: Jeevansathi losses coming down



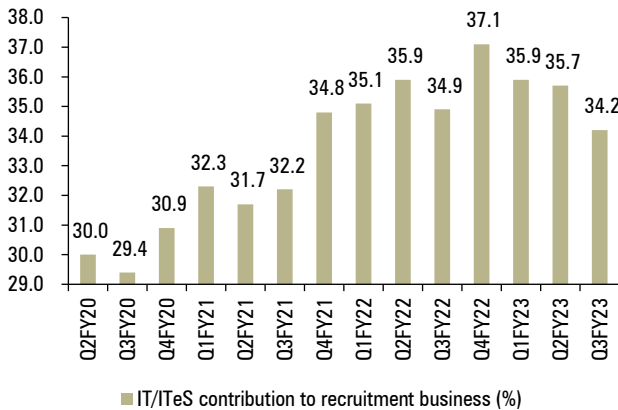
Source: Company, ICICI Direct Research

Exhibit 13: Number of resumes & YoY growth trend



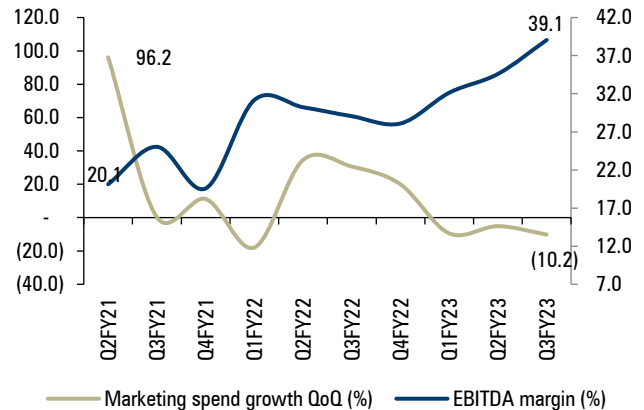
Source: Company, ICICI Direct Research

Exhibit 14: IT/ITeS contribution declining



Source: Company, ICICI Direct Research

Exhibit 15: Marketing spend moderation aiding margins



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total operating Income	1,562	2,160	2,376	2,572	
Growth (%)	39	38	10	8	
Employee Expenses	703	914	1,022	1,132	
Marketing Expenses	285	322	356	386	
Network and Other Charge	30	44	50	54	
Other Expenditure	70	104	119	129	
EBITDA	474	777	829	872	
Growth (%)	57	64	7	5	
Depreciation	40	46	51	32	
EBIT	434	731	778	840	
Interest	5	5	5	5	
Other Income	170	170	156	156	
PBT	600	891	934	995	
Total Tax	1,178	220	231	246	
Reported PAT	8,933	671	703	750	
Adjusted PAT	451	671	703	750	
Growth (%)	51	49	5	7	
Adjusted EPS (₹)	35.0	52.1	54.6	58.2	

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	8,933	671	703	750	
Add: Depreciation	40	46	51	32	
(Inc)/dec in Current Assets	(6)	(18)	(5)	(5)	
Inc/(dec) in CL and Provisions	12	190	109	99	
Others	272	(363)	(257)	(129)	
CF from operating activiti	735	782	731	747	
(Inc)/dec in Investments	(692)	10,243	(194)	(176)	
(Inc)/dec in Fixed Assets	(24)	(24)	(24)	(24)	
Others	(339)	482	312	156	
CF from investing activiti	(1,054)	10,390	(62)	(44)	
Proceeds from fresh issue of s	-	0	0	(300)	
Inc/(dec) in loan funds	1	-	-	-	
Dividend & DDT	(206)	(268)	(281)	-	
Others	(5)	(5)	(5)	(5)	
CF from financing activiti	(224)	(287)	(300)	(319)	
Net Cash flow	(543)	10,884	368	383	
Exchange difference					
Opening Cash	635	132	11,017	11,385	
Closing Cash	132	11,017	11,385	11,768	

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity Capital	129	129	129	129	
Reserve and Surplus	13,843	14,246	14,668	15,118	
ESOP	-	-	-	-	
Secured Loan	0	0	0	0	
Minority interest	-	-	-	-	
Other non-current liabilitie	32	32	32	32	
Sources of funds	14,004	14,407	14,829	15,279	
Assets					
Gross Block	287	326	364	402	
Less: Acc Depreciation	186	231	282	282	
Net Block	88	95	82	120	
Capital WIP	-	-	-	-	
Net Intangible assets	3	3	3	3	
Other Investments	-	-	-	-	
Liquid Investments	441	441	441	441	
Inventory	-	-	-	-	
Debtors	8	10	11	12	
Loans and Advances	-	-	-	-	
Cash	132	11,017	11,385	11,768	
Other Current Assets	2,522	2,537	2,542	2,546	
Other Non-Current Assets	11,896	1,653	1,847	2,023	
Creditors	104	115	127	137	
Provisions	79	127	139	151	
Other current liabilities	902	1,092	1,201	1,300	
Net Current Assets	2,018	12,671	12,911	13,178	
Application of Funds	14,004	14,407	14,829	15,279	

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
Reported EPS	35.0	52.1	54.6	58.2	
Cash EPS	696.7	55.6	58.6	60.7	
BV	1,084.9	1,116.2	1,148.9	1,183.9	
DPS	13.0	20.8	21.8	-	
Cash Per Share	10.3	855.4	884.0	913.8	
Operating Ratios (%)					
EBITDA Margin	30.4	35.9	34.9	33.9	
EBIT Margin	27.8	33.8	32.8	32.6	
PAT Margin	28.8	31.1	29.6	29.1	
Debtor days	2	2	2	2	
Creditor days	24	19	19	19	
Return Ratios (%)					
RoE	3.2	4.7	4.8	4.9	
RoCE	4.3	6.3	6.3	6.5	
RoIC	3.2	24.7	25.8	27.0	
Valuation Ratios (x)					
P/E	4.9	65.1	62.1	58.2	
EV / EBITDA	91.4	41.8	38.7	36.4	
EV / Net Sales	27.7	15.0	13.5	12.3	
Market Cap / Sales	28.1	20.3	18.5	17.1	
Price to Book Value	3.1	3.0	3.0	2.9	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.3	1.9	1.7	1.6	
Quick Ratio	2.3	1.9	1.7	1.6	

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	1,114	1,220	BUY	3,02,302	49.8	53.6	59.2	22.4	20.8	18.8	24.2	26.2	27.7	21.8	22.2	23.3
Infosys (INFTEC)	1,608	1,730	BUY	6,76,585	52.1	60.7	70.8	30.9	26.5	22.7	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,535	3,780	BUY	12,93,475	104.7	118.5	133.4	33.7	29.8	26.5	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,018	1,100	HOLD	99,033	63.1	63.0	75.5	16.1	16.2	13.5	22.5	20.9	22.2	20.7	18.6	19.8
Wipro (WIPRO)	406	455	BUY	2,22,540	23.5	23.3	26.4	17.3	17.4	15.4	18.8	18.9	20.5	19.6	18.7	20.3
LTIM (LTINFO)	4,691	4,940	BUY	1,38,758	133.4	153.9	176.8	35.2	30.5	26.5	34.1	33.2	33.1	27.6	27.2	27.1
Coforge (NIITEC)	4,330	4,870	BUY	26,371	106.5	148.9	172.7	40.6	29.1	25.1	25.6	31.8	31.5	24.2	28.5	28.0
TeamLease (TEASER)	2,495	2,335	HOLD	4,266	22.5	73.7	77.5	111.0	33.9	32.2	15.4	15.5	14.3	(4.7)	15.3	14.0
Infoedge (INFEDG)	3,390	3,265	HOLD	42,603	35.8	52.1	54.6	94.7	65.1	62.1	4.3	6.3	6.3	3.2	4.7	4.8

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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