

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

India Internet: Not just one, but several/ structural drivers in place

We believe India's advertising spend should see a structural shift where Internet companies wrest share away from print, especially in areas like job classifieds and real estate where the case for the Internet is compelling and well-established. Research from **KPMG-FICCI** indicates that the Internet's share of the advertising pie is currently only ~4%, which should increase to a ~7% share by 2014 at a CAGR of ~27%. A potent combination of favourable demographic trends, burgeoning services sector, rising urbanization and growing home-ownership all point uniformly to a well-paved growth path for Indian Internet firms in general, and Info Edge in particular.

Early (and effective) mover has the advantage

Info Edge is a pioneer in the Indian Internet space and dominates two significant segments of the market, namely Recruitment and Real estate. Its flagship recruitment website Naukri.com which accounts for >65% of group revenues attracts a traffic share of ~60%, representing a 35ppt lead over its nearest competitor *Monster.com*. Our proprietary HR survey indicates customers are less swayed by pricing but rather focus on parameters that work in favour of the incumbent i.e. Naukri. Similarly, their real estate website **99acres.com** also has a dominant 40%+ traffic share.

Creditable margin profile, healthy balance sheet and robust CF: what is not to like?

Despite investments into new verticals and growth areas, Info Edge has been able to maintain its EBITDA margins consistently at 25%+ levels, with significant room for improvement from operating leverage as revenues continue their growth trajectory. The balance sheet is healthy with negligible debtors and >Rs. 4bn in cash and investments. Cash flows have also been consistently robust with CFO-to-EBITDA conversion of 84% in FY10.

Initiate with ADD / OUTPERFORM

We value Info Edge at 35x our FY12E EPS of Rs. 17.6, which gives our target price of Rs. 620: our target multiple takes into account the fact that the stock has traded at 35x on 75% of trading days and we believe this is a fair multiple in view of growth prospects. We recommend an ADD/OUTPERFORM on the stock on our Absolute/Relative scale. We note that our DCF-based fair value with 14% cost of equity and 18% 10-year EBITDA CAGR gives a per-share value of Rs. 590. While we recommend an ADD at current levels, we would prefer to be firm Buyers into the stock on a correction to Rs. 550 levels at which point Info Edge will be the best-placed stock to play the India Internet theme.

Financial summary						
Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA(x)
FY10	2,371	625	530	9.5	64.4	47.3
FY11E	3,020	882	711	13.0	47.1	33.6
FY12E	3,807	1,169	961	17.6	34.9	25.3

Initiating Coverage

Date	Dec 22, 2010
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Market Data

SENSEX	20084
Nifty	6002
Bloomberg	INFOE IN
Shares o/s	54mn
Market Cap	Rs. 33.2bn
52-wk High-Low	Rs. 780-364
3m Avg. Daily Vol	Rs. 46mn
Index member	BSE Midcap

Latest shareholding (%)

Promoters	54.1
Institutions	33.6
Public	12.3

Stock performance

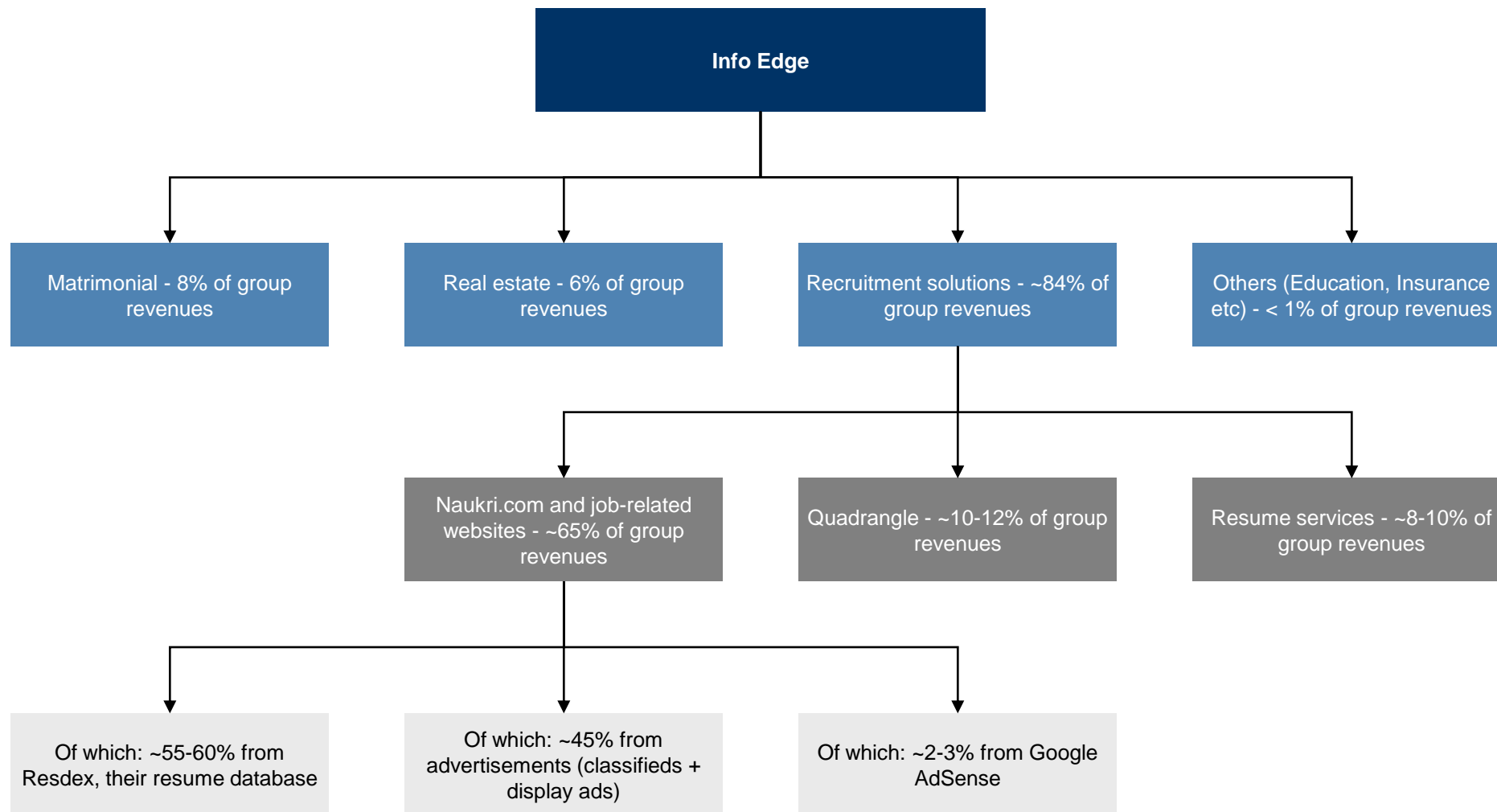
	1m	3m	12m
Info Edge	-8	1	64
Nifty	-1	1	18
CNXIT	11	13	29

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Fig 1: Info Edge – Overview of businesses



Ad spends should see gradual online shift

Research from KPMG/FICCI indicates that the Internet is the recipient of only ~4% of advertising spends in India (Figure 2), and is projected to grow its share of the advertising pie to ~7% by CY2014. According to this study, Internet advertising spends should increase at 26.9% CAGR CY10-14E, significantly higher than the estimate of 14.7% for the broader market (Figure 5). As more people spend ever-greater amounts of time browsing Internet sites, we expect the medium to become increasingly attractive to advertisers relative to other media, which explains the elevated growth expectations for Internet-based advertising vis-a-vis traditional media.

Internet penetration in India is still low ...

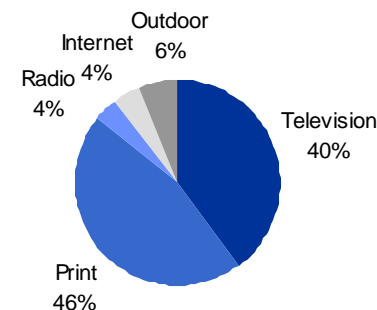
India is estimated to have ~81mn Internet connections, representing a penetration of ~6.9%: significantly lower compared to other emerging countries (Figure 3). The number of Internet users is projected to increase to ~237mn by 2015, a CAGR of 20% for 2009-15 (*"The Internet's New Billion"*, The Boston Consulting Group, Sep 2010).

The number of "active" or regular users estimated by the Internet and Mobile Association of India (IAMAI) is much smaller, at ~52mn, representing a penetration of just 4.4%. Past government policies to promote the use of broadband have suffered from lackadaisical implementation – for example, a broadband policy announced in 2004 to ensure 20 million broadband connections (installed base) by 2010 came up far short of its target, with only ~8.8mn achieved until March 2010.

... but we do not see this as a near-term bottleneck for Internet firms

While expansion of Internet penetration in India leaves a lot to be desired, we believe it is important to view it in context. The key metric to note, considering IEL's urban/services sector bias, is the penetration in urban areas rather than for the entire country. On this key "urban penetration" metric, IAMA estimates are at ~24%, significantly higher than the national-level penetration figure.

Fig 2: Internet accounts for only 4% of ad spend in India



Source: FICCI – KPMG Media Report 2010

Fig 3: India Internet penetration vs other countries

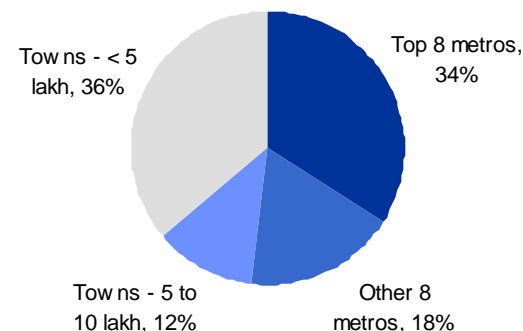
Emerging countries	2009	2015E
India	7%	19%
Brazil	33%	74%
Russia	31%	55%
China	28%	47%
Developed countries		
USA	70%	73%
Japan	93%	101%

Source: The Boston Consulting Group

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We would also highlight that India's national Internet user base has a significant proportion (~66%) of users from non-metro cities and towns (Figure 4) – in fact, fully ~36% of the Internet user base is from towns with populations < 5 lakhs. We would expect these smaller cities and towns (rather than smaller villages) to be the “first in line” in the services-led urbanization wave in the medium term. We believe, therefore that concerns hinged on the low headline penetration number as a bottleneck to Naukri's growth are slightly exaggerated, especially over a 2-3 year timeframe. As for the other services that IEL offers (education, insurance etc), monetisation thus far is still sufficiently low even in urban Internet-enabled households that we do not expect penetration to be a constraint to growth over the medium term.

Fig 4: Indian urban Internet users - distribution by type of town/city



Source: IAMA

Fig 5: Among various advertising media, Internet should show the highest growth rates (Estimated advertising market size, CAGR CY10-14E)

Rs. Bn	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	2010 - 14 CAGR
Television	61	71.1	82.5	88	98.6	113.3	132.6	155.2	181.5	16.5%
Print	85	100	108	103	113.6	126.7	141.5	157.8	176.4	11.6%
Radio	6	7.4	8.4	7.8	8.7	10	11.7	13.8	16.4	17.2%
Internet	2	3.9	6.2	7.8	11	14.6	18.2	22.8	28.5	26.9%
Outdoor	11.7	14	16.1	13.7	15	16.7	18.7	21.1	24.1	12.6%
Overall	165.7	196.4	221.2	220.3	246.9	281.3	322.7	370.7	426.9	14.7%

Source: FICCI – KPMG Media Report 2010

The Recruitment Solutions vertical comprises two parts: 1. IEL's flagship website *Naukri.com* along with its related websites *Firstnaukri* and *Naukrigulf* 2. The offline recruitment solutions business Quadrangle. We describe below the key characteristics of *Naukri.com*, the key moving part in IEL's engine.

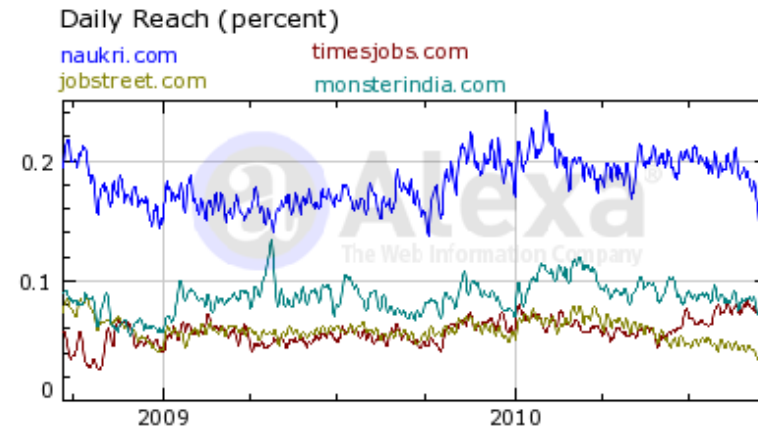
Business model: *Naukri.com* derives its revenues from corporate customers who pay to have their classifieds and banner advertisements displayed on their website. Jobseekers generally put up their resumes on the website free of charge, except for premium services which require payments (*Appendix 1*).

A market share game: The success of this business model depends on two mutually reinforcing factors: 1) Employers place their ads on the website to target the large number of jobseekers who use the website. 2) Similarly, jobseekers post their resumes on *Naukri* in view of the large number of jobs posted on the website.

Naukri.com enjoys a dominant traffic share versus competitors in the online jobs market. For example, figures from online analytics firm Comscore indicate that *Naukri.com*'s traffic share for FY10 was at an average level of ~60% vs ~25% for its nearest competitor, *Monster.com* (*Figure 7*).

Naukri.com's market dominance is also corroborated in the figures compiled by *Alexa.com* (another online analytics provider) which show *Naukri*'s daily reach at approximately twice that of *Monster.com* (*Figure 6*).

Fig 6: Alexa's figures indicate that Naukri has a market-leading reach



Source: *Alexa.com*

Fig 7: Naukri vs competition

	Traffic share	Number of resumes (mn)	Strengths
Naukri	~60%	22	Enjoys beneficial network effects arising from its market leadership, strong brand, familiar user interface for HR personnel and recruiting executives
Monster (India business)	~25%	na	Technology from the US-based parent, e.g. Monster's semantic search technology Trovix (via an acquisition worth >US\$ 70mn) might be hard for IEL to replicate
Timesjobs	~10%	na	Backed by the Times of India group, a leading Indian media house. Have been using their other media properties to aggressively promote Timesjobs

Source: *Spark Capital, Company data*

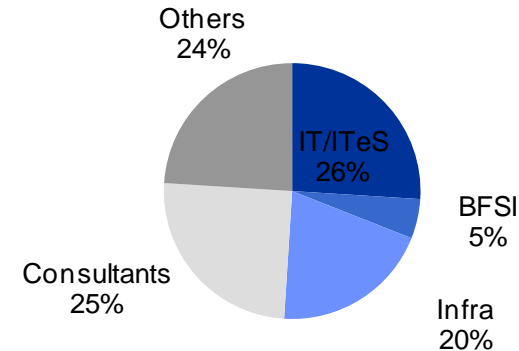
IT/ITeS is the key vertical: Naukri derives ~45% of its revenues ultimately from the IT/ITeS vertical, of which ~25-26% comes from IT firms directly (i.e. via their internal HR teams) and another ~20% from external recruiters acting on behalf of IT/ITeS firms. It is not surprising, therefore, that Naukri's fortunes are closely linked to the health of this key sector. The other key vertical is Infrastructure, which accounts for 20%+ of Naukri.com's revenues.

Revenue profile exhibits prominent "long tail": Naukri is not excessively reliant for its revenues on any single customer: it has ~35,000 customers with only 0.3-0.4% of revenues coming from the top customer. Also, Naukri.com's revenue profile exhibits a distinctive "long tail" effect, reflecting the unique economic characteristics of Internet-based firms: while 60% of revenues come from the top 3,500 customers, the remaining 40% is accounted for by 32,000+ of its customers.

We believe Naukri has significant pricing power: We believe Naukri has significant pricing power in the market partly by virtue of its dominant market share among the Internet pack, but also because recruiters are relatively less sensitive to prices in this market. ***Our proprietary survey of 29 HR executives (HR within companies + external HR consultants) indicates that out of 6 key parameters, pricing tends to be of low priority in the pecking order when recruiters select Internet job sites (Figure 9).*** We believe this is primarily because the costs per shortlisted employee with Internet job sites is extremely low as a proportion of the salary costs if a candidate gets hired. Our analysis and conversations with management indicate IEL tends to leave significant value on the table in its negotiations with customers; as IEL gains confidence in its ability to retain market share, we believe this (as yet under-utilized) lever could kick in.

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Fig 8: Revenue split by vertical



Source: Company data

Fig 9: Spark Recruiters Survey: The top priority when selecting job websites

Criterion	Priority	% of respondents
Quality of CVs	1	77%
Searchability of CVs	2	67%
Number of CVs in database	3	43%
User interface	4	38%
Industry-specific features	5	32%
Pricing	6	10%

Note: Priority of 1 indicates "highest priority". Note that respondents were allowed to select multiple parameters as their "top" priority. Source: Spark Capital

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Stepping back to see the woods: The market for job-related advertisements and classifieds involves four key forms of gathering CVs for short-listing

Print advertisements – the traditional method of placing classified advertisements in newspapers

Internet-based ads – use of Internet-based websites (e.g. Naukri.com, Monster.com)

Consultants – involves engaging external HR consultants to shortlist candidates. Recruiters pay commissions to consultants, typically structured as a pre-determined multiple of the recruited person's monthly salary

Referrals – involves sourcing CVs from the network of existing employees. Employees who make a successful referral receive reward payments based on the seniority and rank of the vacancy filled

Internet-based job classifieds – all the right elements to take share ...

Our calculations indicate that Internet-based job classifieds currently account for only ~13% of the print + Internet pie (Figure 10): we see significant headroom left for Internet to drive share gains vs print.

We see Internet-based classifieds gaining share vs print in the future considering the structurally improving cost/benefit dynamics of Internet-based classifieds. Figure 11 compares indicative rate cards for Naukri and leading print publications – note the low costs of Naukri's offerings especially as the number of advertisements scales.

The key variables most recruiters would look at are: 1. Cost per shortlisted candidate 2. Lead time for short-listing. The superior reach of print media implies their costs per shortlisted candidate could in some cases be lower than for Internet-based classifieds. However, we do not see this lasting long – as the Internet's reach improves, the cost/benefit dynamics should increasingly favour the Internet. As things stand, Internet-based classifieds have to contend with minimal marginal costs and do not have to worry about ad inventories (effectively unlimited), which combined with their searchability make for formidable competitiveness versus print. As reach also accelerates, we see an intensified share shift towards Internet away from print media.

Fig 10: Internet-based classifieds vs print classifieds – a market share comparison

	Rs mn	Comments
Info Edge - FY10 revenues	2,371	
Of which Recruitment Solutions	1992	~84% of IEL's revenues
Of which Classifieds	797	~40% of Naukri's revenues
Naukri's traffic share	60%	Average ComScore figure in the recent past
Internet job classifieds market - Implied size	1,328	Derived from Naukri's classifieds revenues + market share
Size of print ad market	113,600	FICCI/KPMG Media Report, 2010
Of which classifieds	17,040	Assuming 15% of ad revenues are for classifieds. Source: http://www.businessworld.in/index.php/Big-Media-Goes-Online.html
Of which job-related classifieds	8,520	Assuming 50% of classifieds are for jobs
Internet job classifieds market as % of (print + Internet) classifieds	13%	

Source: Spark Capital

Fig 11: A cross-section of Naukri's classifieds offerings

<i>Naukri</i>	Price/month (INR) per classified	Comments
Plain vanilla - for limited volume	475	For single listing in Classifieds section
Plain vanilla - for high volume	< 42	Rs. 9,975 for an unlimited number of listings; we assume an average of 20 listings to arrive at estimated price/month per classified ad
Premium - "Hot Jobs" - for limited volume	1575	These jobs get listed in the "Hot Jobs" section which has more visibility
Premium - "Hot Jobs" - for high volume	< 1313	Rs. 78,750 for an annual listing; we assume an average of 5 listings/month to arrive at estimated price/month
Premium - "Hot Jobs" in own format	4,200	Classified listing in Hot Jobs section in the company's own preferred format (rather than plain text)

Source: Company data, Spark Capital

Newspapers	Price per classified text advertisement	
The Hindu	Rs. 1,330 for 2x lines, Rs. 600 for an extra line	This is for the Chennai edition
Times of India	Rs. 1,500 for 2x lines, Rs. 602 for an extra line	For the Mumbai edition; implied ad rate for 2x lines calculated from the rate for 5x lines

Source: ReleaseMyAd.com

... and Naukri is best-positioned from a competitive standpoint

We view Naukri.com as the best positioned from a competitive perspective among Internet job sites. We would specifically highlight the following strengths of Naukri

- A dominant ~60% share of a market which exhibits strong network effect characteristics
- Strong relationships with ~21,000 customers; HR personnel are now accustomed to the Naukri user interface and therefore are generally reluctant to switch to competing websites. Also, IEL's ~1200-strong salesforce which has a presence in 49 cities all over the country gives it a strong foothold with customers

- Highly visible brand which in our view stands out positively even in an industry where aggressive brand-building efforts are the norm. We see this as reinforcing the already virtuous cycle makes Naukri a preferred choice of job-seekers and employers

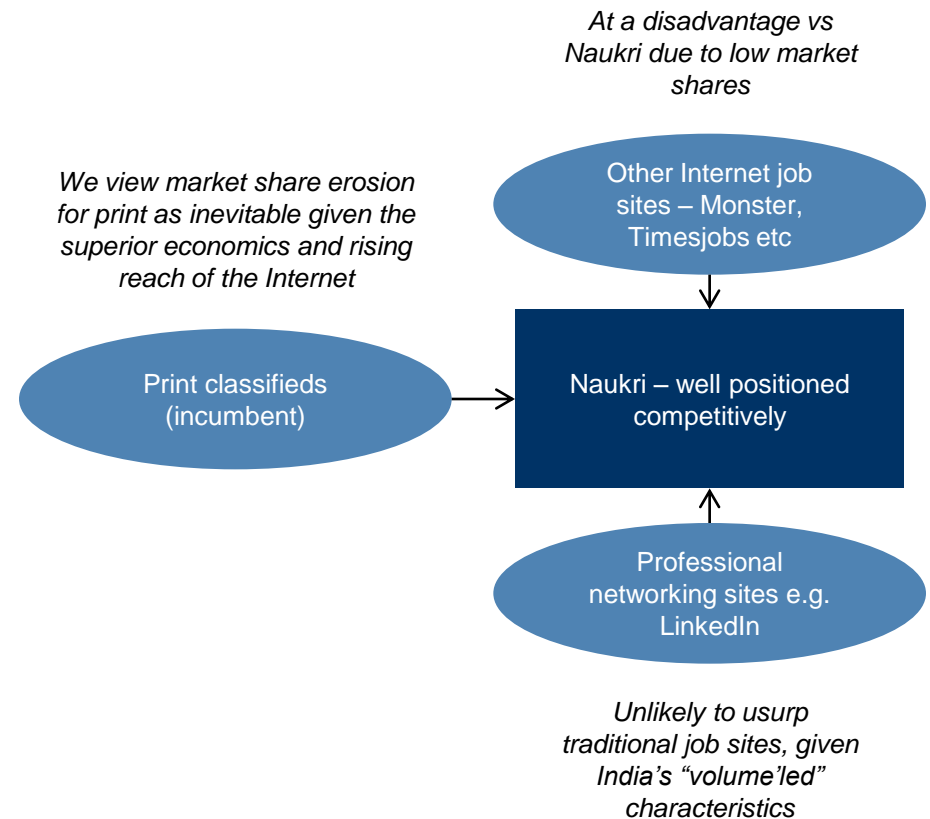
Naukri dominates the online recruitment space with a ~60% traffic share. Interestingly, the leading player in this space until 2004 was *JobsAhead.com*, which was acquired by *Monster.com* that year for Rs 400mn. Post the acquisition, the Monster-Jobsahead combine gradually lost share to Naukri, partly due to their struggles to get their branding strategy right (“Should we leverage the global Monster brand or continue to promote the locally well-known Jobsahead?”).

Besides these “direct” competitors, the other key rival for Naukri is the professional networking website LinkedIn. We believe LinkedIn has 2 key advantages over traditional job websites like Naukri:

1. It enables recruiters to search for “passive” candidates, i.e. people who are not actively seeking a new job, but who may be persuaded to switch if presented with a suitable opportunity
2. Professional networking websites have the advantage of being “trusted networks” where recruiters can verify the candidate’s antecedents (through recommendations, etc) much better than with a plain vanilla CV.

Our view (which echoes that of IEL’s management) is that websites like LinkedIn are very good when it comes to searching for laterals with specialized and relatively hard-to-find skill-sets. However, in the Indian market which is characterized mainly by “hiring in numbers” for widely available skill-sets (IT being a case in point), traditional websites like Naukri will likely be preferred. Therefore, we see LinkedIn as posing a limited threat to Naukri (and other job websites) in the near term, but this may change in the long term if and when the characteristics of the Indian job market change. Note that IEL itself has a social networking website called *Brijj.com* (launched in 2007) which is meant to compete with the likes of LinkedIn; at present, Brijj has ~3mn profiles vs LinkedIn’s ~3.4mn+ Indian users.

Fig 12: Naukri and its competition



Source: Company data

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Structural long term drivers at work here as well

The online market for properties has some key structural trends working in its favour: 1. Rising urbanization 2. Growing home-ownership among younger Indians as a result of rising purchasing power. We see *99acres.com*, with a dominant market share of ~40%, as a key beneficiary.

A two-pronged approach to real estate

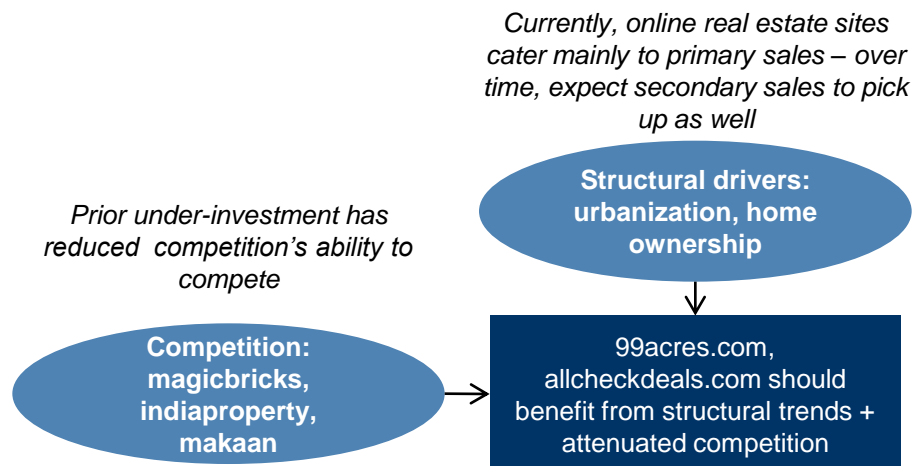
The Property vertical which accounts for slightly more than 6% of IEL's revenues has 2 websites: *99acres.com* for classifieds, and *allcheckdeals.com* for property broking. *99acres.com* (~6% of IEL's revenues) displays classified advertisements to buy, sell and rent properties. *99acres.com* currently caters predominantly to the residential segment, but they intend to push more aggressively into the commercial and rental segments as well.

The following are its key revenues sources:

- Classifieds and display ads posted by real estate developers/builders advertising new properties and brokers (usually advertising already-owned properties) split roughly in a 50:50 proportion between the two groups
- Access to their "buyers database" (conceptually similar to the resume database of Naukri)

We note that most *buyers* in India seem to be wary of revealing their contact information and therefore tend to avoid posting their requirements online. As a result, most ads on Indian property websites tend to be from prospective *sellers*. *99acres.com* is currently unprofitable, with an EBITDA loss of Rs. 38mn in FY10 on revenues of Rs.133mn. However, they have the advantage vs competition of dominating market share (~40% traffic share, according to Comscore), again in a marketplace that tends to reinforce and reward market share.

Fig 13: Real estate – The dynamics for Info Edge



Source: Company data

Further, we would note that key competitors like *Indiaproerty.com* (owned by *Bharatmatrimony.com*'s parent Consim Info) and *makaan.com* (owned by the *Shaadi.com*'s promoter People Interactive) sought to conserve cash during the downturn and are currently suffering from the inevitable after-effects of under-investment.

Even the Times of India group is said to have scaled back their investments in their property website *magicbricks.com* during the recession in 200/09; as a result, we believe *99acres.com* is the best-placed among the Indian property websites to capture structurally favourable trends, namely rising urbanization and home-ownership among a demographically young workforce with rising purchasing power. Note that Allcheckdeals, which is still in a nascent stage, operates as a subsidiary of IEL and offers broking services based on a "success fee" model.

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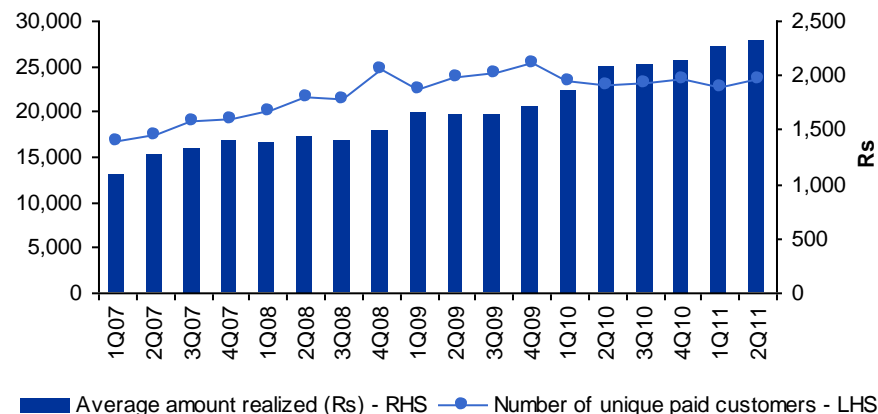
Matrimonial

IEL's matrimonial offering is *Jeevansathi.com* (acquired in 2004), which is #3 in the market and lags Consim Info's *Bharatmatrimony.com* and People Interactive's *Shaadi.com* in traffic share. The matrimony market is not a "national" one but instead demarcated sharply along lines of religion, caste and language, etc. In this fragmented market, Jeevansathi has a strong foothold in the so-called "Hindi heartland" (i.e. Uttar Pradesh and adjoining regions) and Maharashtra, but remains relatively weak in other regions. Jeevansathi posted revenues of Rs. 199mn (~8% of group revenues) in FY10, with an EBITDA loss of Rs. 1mn. The website is free for basic services, and the revenues come from premium services (e.g. for contacting prospective brides or bridegrooms). While Jeevansathi suffers from a weak market position, there are some encouraging signs in the form of steady improvement in the number of unique paid customers, and also average realizations from these customers (Figure 14). We do not believe Jeevansathi's market share will improve substantially in the near term, mainly due to the same network effects that put IEL's other properties Naukri and 99acres in such a dominant position. However, we think their revenue trajectory should continue to sustain, helped by continued investments from IEL.

Other verticals

IEL's other verticals relate to its investments in education (*Shiksha.com*), insurance aggregation (*policybazaar.com*), restaurant listings (*Zomato.com*, erstwhile *Foodiebay.com*), and other new ventures it might invest in. The Other verticals combined currently constitute <1% of IEL's revenues. With the founder Sanjeev Bikhchandani stepping into a new role within the company to focus almost exclusively on acquisitions, we believe IEL is likely to step up its activities in other verticals in the future. Our conversations with management indicate these investments in general are likely to be "idea-driven" and primarily in early-stage companies.

Fig 14: Jeevansathi - Encouraging trends



Source: Company data

Considering IEL's experience in the Internet space and the opportunities we believe will emerge in India in this area, we are inclined to agree that this strategy is a sensible deployment of IEL's cash reserves. For example, TAM Media's research indicates that the education sector is currently the highest print advertiser with a 15% share of spend among various sectors in 1HCY10, and a website like Shiksha.com could benefit from part of this spend migrating to the Internet. We agree that this approach has its risks and could result in investment write-offs once in a while (e.g. a ~Rs. 38 mn write-off on education website *Studyplaces* in FY10), but we still believe the strategic case behind their acquisition strategy is fundamentally sound, and the benefits are likely to out-weigh the risks.

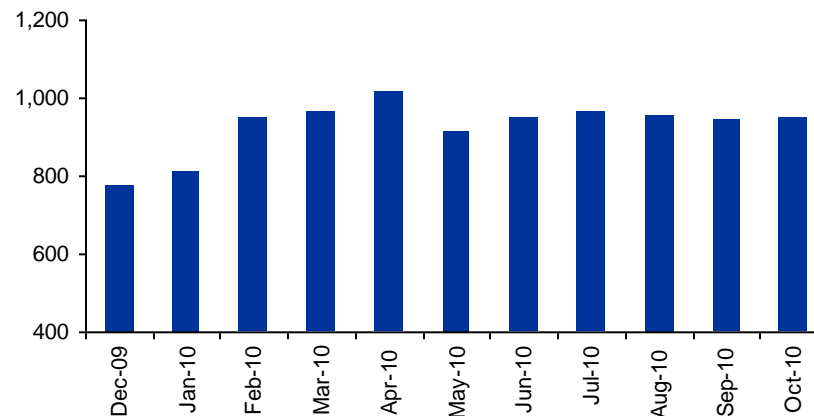
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We expect growth momentum to continue

IEL has demonstrated double-digit yoy growth for the last three quarters after a similar length of double digit decline in yoy revenues. This growth has been driven by strong growth in recruitment vertical, 99acres and Shiksha, though Shiksha is of a low base. We forecast revenue CAGR of 25% from FY10-13E. Growth expectation is underpinned by

- Strong demand for Naukri's service offering due to increased hiring across sectors and especially IT/BPO. Naukri's Jobspeak Index has improved significantly since Dec-09/Jan-10 levels
- IEL adopts a policy of not entering into a contract of not more than 1 year for its services and contracts and we believe this feature would allow IEL to improve its price realisation. Wage levels have increased across the economy and with cost of recruitment a function of wage levels, Naukri would be in a strong position to increase its price realisation in our opinion
- 99acres has registered ~78% yoy growth in revenues in 1HFY11 driven by improved quality of listings and revival of demand of residential real estate properties. Coupled with the increased market share within the online realty classifieds, structural drivers for internet growth would drive revenue growth for 99acres. We highlight that currently 99acres generates most of its revenues from advertisements in the site, however with increased homeownership secondary market transactions are an attractive opportunity in our opinion
- Jeevansathi.com: We expect below-IEL growth rates for Jeevansathi, given its lagging competitive position. Moreover, the market opportunity for online matchmaking is limited and is not a large secular opportunity when compares to job portals realty and education in our view

Fig 15: Naukri Jobspeak Index has improved significantly vs Dec-09/Jan-10 levels



Source: Company data

- Others: Shiksha offers immense potential, as education accounts for 15% of print ad spends. Our positivity stems from the likelihood that individuals exploring education opportunities will tend to leverage the Internet.

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Operating leverage would drive margin expansion: We expect EBITDA margins on a consolidated basis to expand 600 bps to 32.5% over the next three years. Standalone 2QFY11 EBITDA margins of 30.7%, 400 bps yoy improvement was driven by increased profitability of Naukri and lower losses in 99acres.com. Our margin expansion assumptions are backed by high operating leverage exhibited by online portals in the event of robust revenue growth. Naukri improved operating margin by 20ppts from FY04 to FY09 with revenues growing 11x. We expect Naukri to improve margins owing to its strong growth. Strong revenue momentum should also turn 99acres profitable over our estimate period.

FY10-FY13E EPS CAGR of 32%

EPS CAGR of 32% would be driven by revenue growth margin expansion and slight decline in tax rates due to change in investment policy. We note that IEL is transitioning from investing in Bank FDs to liquid mutual fund resulting in decline in tax rates.

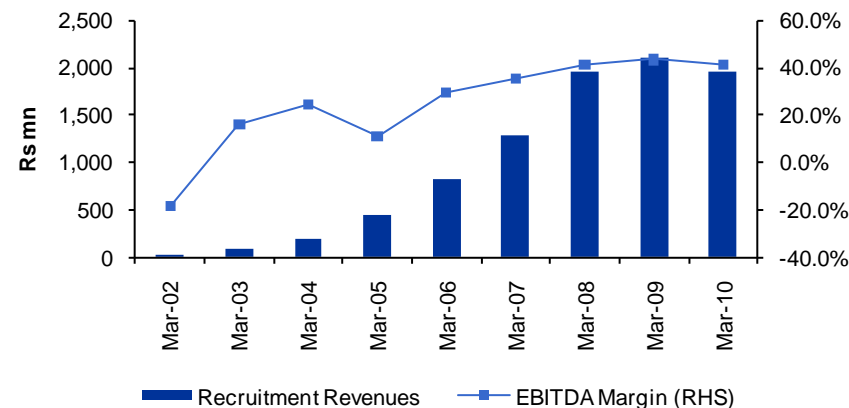
Key risks

Key risks we see to Info Edge are: Increased competition for Naukri from Monster India which has the technology backing from its global parent and also the marketing wherewithal to make inroads into Info Edge's dominant market share. To illustrate, Monster owns a semantic search engine called "Trovix" which distills relevant matches on search queries posed by jobseekers and recruiters. In general, there are also the ever-present risks in the Internet space of keeping up with technology trends and warding off new competitors who might disrupt the market with their offerings.

Also, we see the Times of India's Internet portals (*Timesjobs* etc) as being a formidable competitive threat in view of their wide-ranging media presence and ability to cross-leverage their various media outlets.

From a mid- to long-term perspective, we also see risks from sluggish broadband rollout in India that could limit growth potential for Indian Internet firms in general.

Fig 16: Significant operating leverage evident in margin expansion accompanying revenue growth



FY05 saw a Rs.. 70mn, hit due to ESOP pool creation.
Source: Company data

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Overall, a strong core business ...

We believe Info Edge has a solid business franchise from nearly every angle: leadership positions in significant portions of the market, a solid balance sheet with robust cash flows and a well-regarded, stable management team. We also agree with their strategic plans to continue picking up stakes in other Internet businesses to capture emerging opportunities in the Internet space.

...with a diversified portfolio of “embedded options”

While Info Edge derives a significant portion of its value from *Naukri.com*, the investments in other business be it *99acres.com* or *policybazaar.com*, have an embedded option value. Given the pace at which naukri.com scaled up, we are positively inclined especially towards 99acres.com. We note 99acres.com's leadership position in a sanguine end market could propel 99acres.com to contribute a substantial portion of Info Edge's market cap. Naukri's history suggests 99acres.com could surprise with the extent of operating margins in the event of sustained high growth.

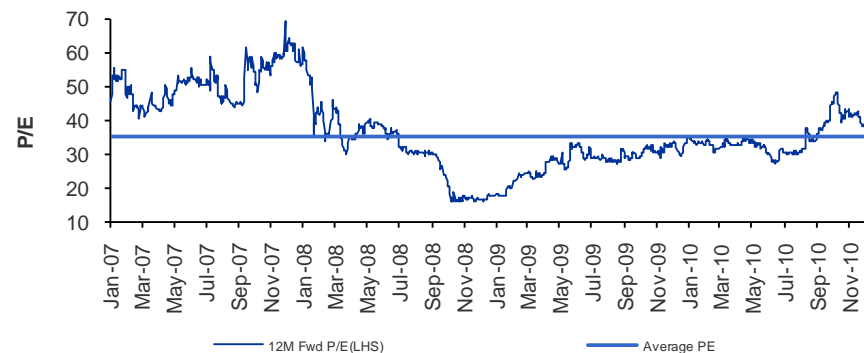
Stock trades broadly in-line with historical multiple

At Rs. 615, the stock trades at 34.9x FY12E earnings, which is broadly in-line with Info Edge's trading history given that the stock has traded at 35x on 75% of trading days.

What is the DCF factoring?

We performed a DCF to understand what would be the fair value given a reasonable high-growth trajectory. Our DCF factors in an EBITDA and FCF CAGR of 20% and 21% respectively. Though BETA calculations yield a very low beta of 0.4, we prefer to take Ke of 14% for discounting resulting in a current fair value of Rs. 590.

Fig 17: Valuation



Source: Company data

Initiate with ADD/OUTPERFORM

We value Info Edge at 35x our FY12E EPS of Rs. 17.6, which gives our target price of Rs 620: our target multiple takes into account the fact that the stock has traded at 35x mean (34x median) on 75% of trading days and we believe this is a fair multiple in view of growth prospects. We recommend an ADD/OUTPERFORM on the stock on our Absolute/Relative scale. While we recommend an ADD at current levels, we would prefer to be firm Buyers into the stock on a correction to Rs. 550 levels at which point Info Edge will be the best-placed stock to play the India Internet theme.

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

Fig 18: Home page illustration

Home-page banner ads – usually command the highest ad rates

Panels

Links to promote jobseeker services (resume preparation, etc)

Hot vacancies. Pricing ranges from Rs.1,500 – 30,000

Source: Info Edge

Fig 19: Search Results page illustration (2/2)

Job Listings.
Pricing range from
Rs. 1,000 to Rs.
25,000

The screenshot displays the Naukri.com search results for 'corporate sales' in Delhi. The page layout includes a top navigation bar, a search bar, a sidebar with filters, and a main content area with job listings. Several advertisements are highlighted with red circles and arrows:

- Banner ad:** A red circle highlights the 'KARVY Team Leaders Marketing Executives' banner at the top of the page.
- Featured companies:** A red circle highlights the 'Jobs from Featured Companies' section on the right side of the page.
- Google AdSense:** A red circle highlights the 'Sponsored Links' section at the bottom of the page, which includes links for 'Employees/Corporate Gifts', 'Corporate Marketing', 'Custom Bags & Accessories', 'Corporate Video Marketing', and 'Sharper Image Gifts'.
- Job Listings:** A red circle highlights a specific job listing for 'Sales Manager - Corporate Sales' (5-10 yrs.) at HCL Infosystems Ltd.

Banner ad

Featured companies

Google AdSense

Source: Info Edge

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

A brief history

Info Edge was incorporated as Info Edge India (Pvt) Limited in May 1995 and started the Naukri.com website for Internet-based job classifieds in 1997. A brief timeline of the group is presented in Figure 20. The first pre-IPO venture investor in IEL was ICICI Technology Ventures which invested Rs 72mn in April 2000 for a 15% stake valuing the firm at Rs 480mn. Later, in 2004-05, IEL bought back 5% of ICICI Ventures' stake for Rs 50mn, valuing IEL at Rs 1000mn. The last round of pre-IPO funding was from a Kleiner Perkins-Sherpalo VC combine that invested US\$ 5mn (~Rs 225mn) for a 5% stake in April 2006 via a secondary purchase, valuing the firm at Rs 4500mn. While Naukri.com remains Info Edge's flagship website, the group has since diversified into other verticals like education, real estate and restaurant listings.

Fig 20: IEL's subsidiaries and associates

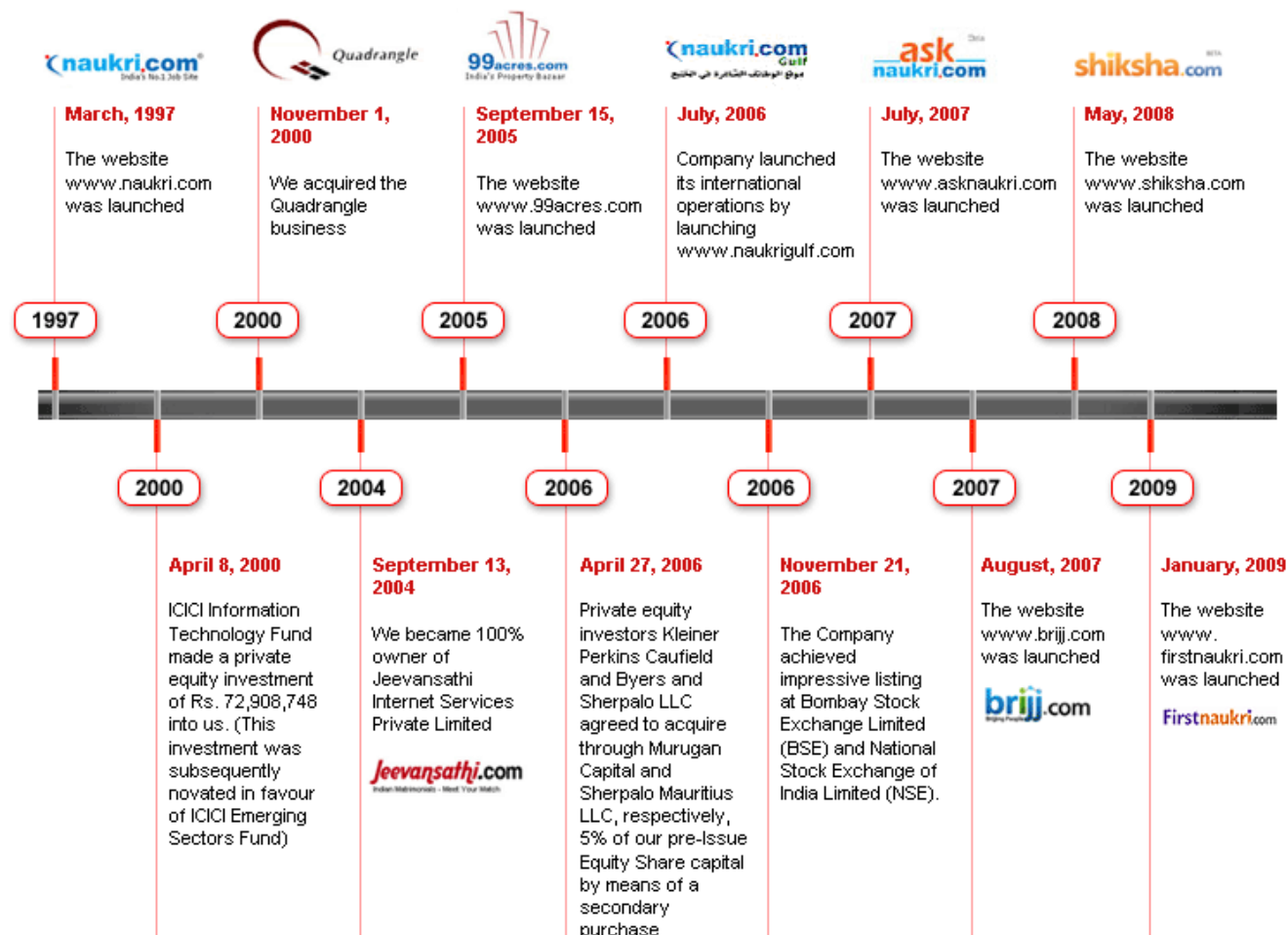
Subsidiaries	% stake	Comments
Jeevansathi Internet Services Pvt Ltd	99.98%	Matrimonial-related services
Naukri Internet Services Pvt Ltd	98%	Related to core recruitment solutions
Info Edge India Mauritius Ltd	100%	Related to core recruitment solutions
Allcheckdeals India Pvt Ltd	99.99%	Online real estate brokerage
Info Edge USA Inc	nm	Related to core recruitment solutions
Applect Learning Systems Pvt Ltd (operates <i>meritnation</i>)	40.02%	K-12 education space
Associates		
Etechaces Marketing and Consulting Pvt Ltd (runs <i>policybazaar</i>)	32.34%	Operates the insurance policy shopping portal <i>policybazaar.com</i>
Others		
Study Places Inc	14.41%	Internet-based of information on educational opportunities
Zomato (erstwhile Foodiebay)	na	Restaurant-related website

Notes: % stake as of 31 March 2010

Source: Company data

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

Fig 21: Info Edge - A timeline



Source: Info Edge

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

Solid management team

We believe Info Edge has a solid management team – the stability at the top throughout IEL's existence is encouraging, in our view. The company's founder Sanjeev Bikhchandani is one of the pioneers of online job classifieds in India, and is well-regarded in the Indian technology space. The CEO Hitesh Oberoi and CFO Ambarish Raghuvanshi have been with the company for over 10 years now, and possess strong credentials in our view. Further, we view favourably the composition of the Board of Directors, both in terms of member credentials and the presence of five independent directors despite regulations stipulating the requirement for only three independent directors (since the Chairman is non-executive, non-promoter). Overall, we believe the management team and the Board are a reassuring factor for investors.

Fig 22: Management and Chairman of the Board - Extracts of biographies

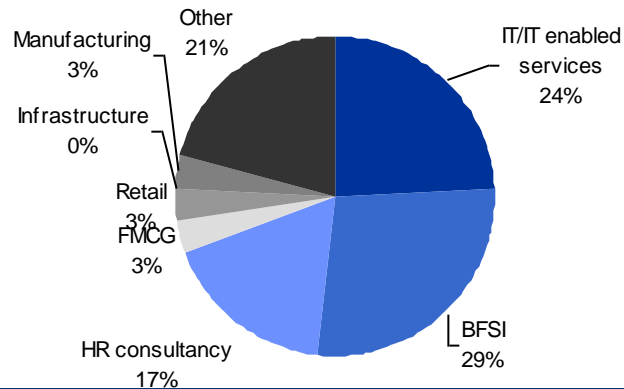
Executive	Position(s)	Details
Sanjeev Bikhchandani	Founder & Executive Vice Chairman	Mr. Bikhchandani obtained a Bachelor of Arts degree in Economics from St. Stephen College, Delhi University in 1984 and a Post Graduate Diploma in Management ("PGDM") from IIM, Ahmedabad in 1989. His work experience includes an advertising position at Lintas India Limited, a marketing position at HMM Limited (now known as Glaxo SmithKline), and a senior management position at CMYK Printech Private Limited (owner of The Pioneer newspaper).
Hitesh Oberoi	Managing Director and Chief Executive Officer	Mr. Oberoi obtained a Bachelor of Technology degree in Computer Science from the Indian Institute of Technology, Delhi in 1994 and MBA from IIM Bangalore in 1996. At IIM he featured in the Director's Merit List. Mr. Oberoi has set up IEL's sales and marketing operations and has been instrumental in launching new products and services at Naukri.com and has also helped set up the Jeevansathi.com, 99acres.com and Shiksha.com and other new businesses.
Ambarish Raghuvanshi	Group President-Finance and Chief Financial Officer.	Mr. Raghuvanshi obtained a Bachelor of Commerce degree from St. Xavier's College, Kolkata in 1983 and a Post Graduate Diploma in Business Management ("PGDBM") from XLRI, Jamshedpur in 1987. He is a qualified Chartered Accountant. Mr. Raghuvanshi joined IEL in Oct 2000 and has been part of the early management team.
Kapil Kapoor	Chairman and non-executive Director	Mr Kapoor obtained a Bachelor of Arts degree in Economics from the University of Delhi and a Post Graduate Diploma in Management (PGDM) from Indian Institute of Management, Ahmedabad. Mr. Kapoor is currently the Chief Operating Officer for Timex Group USA, Inc. Before that he has been the Managing Director of the publicly held Timex Group India Limited from Oct 2000 and until Oct 2009 was the Senior Vice President of the Asia-Pacific Region for the Timex Group.

Source: Info Edge

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

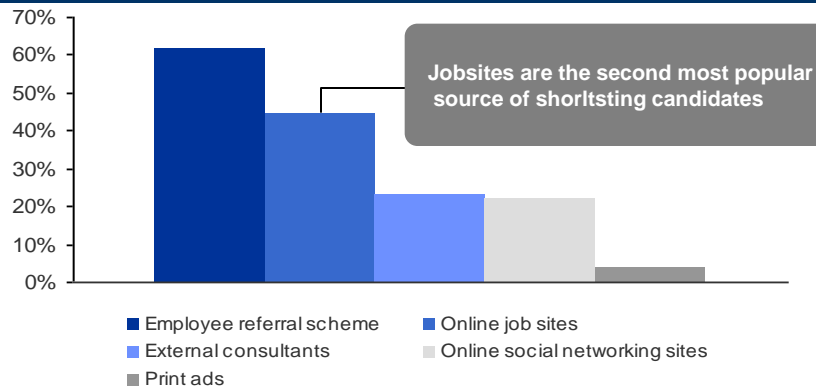
Spark Capital conducted a Recruiters Survey to better understand the mindset of recruiters, especially their preferences on short-listing methods and job-related websites. The sample was chosen to ensure a balanced mix by company size and vertical, in order to draw a representative set of conclusions. The sample size for the survey comprises 29 respondents. We present below the key takeaways from the survey.

Fig 23: Distribution of respondents by vertical



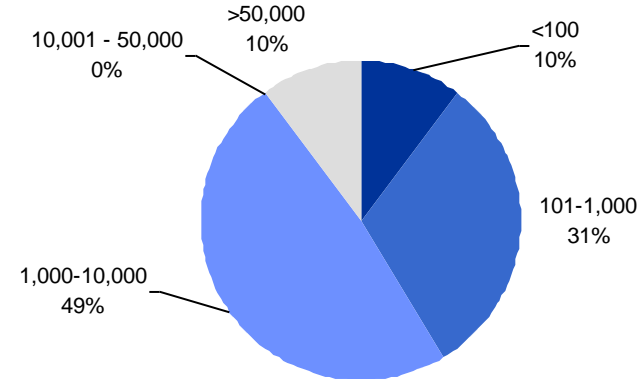
Source: Spark Capital

Fig 25: Preferred short-listing method



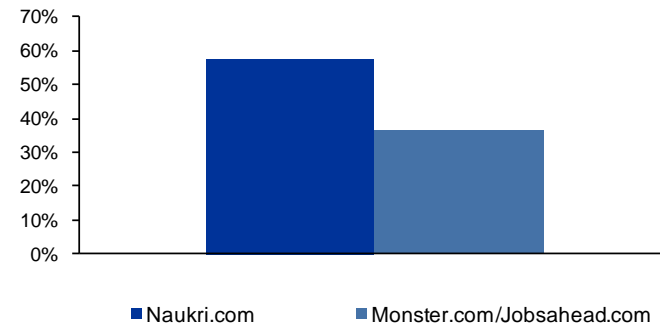
Source: Spark Capital. Note that percentages do not add up to 100% because multiple choices were allowed for this question

Fig 24: Distribution of respondents by no. of employees in company



Source: Spark Capital

Fig 26: % of respondents ranking various job sites in the range 8-10 (on a 0-10 scale, 10 being the most frequently used job site)



Source: Spark Capital

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

Abridged Financial Statements				
Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
Profit & Loss				
Revenues	2,371	3,020	3,807	4,686
Network and other charges	91	113	136	158
Employee costs	920	1,180	1,450	1,757
EBITDA	625	882	1,169	1,525
Depreciation and amortisation	65	59	85	127
EBIT	560	824	1,084	1,397
Other income	307	282	372	398
Finance charges	20	20	20	20
PBT	848	1,086	1,436	1,776
Tax	318	374	475	565
PAT	530	711	961	1,210
Diluted EPS	9.5	13.0	17.6	22.2
Balance Sheet				
Share Capital	273	546	546	546
ESOPS	28	36	36	36
Reserves	3,446	3,820	4,718	5,864
Net worth	3,746	4,402	5,300	6,446
Secured Loans	6	9	9	9
Total liabilities	3,753	4,411	5,309	6,455
Net block	294	463	778	1,051
Investments	1,141	1,094	1,094	1,094
Debtors	80	69	87	108
Cash	2,791	3,606	4,447	5,608
Current liabilities	812	1,098	1,385	1,705
Provisions	84	107	135	167
Net Current Assets	2,194	2,619	3,201	4,075
Total Assets	3,753	4,411	5,309	6,455

Key metrics				
Rs. mn	Mar-10	Mar-11	Mar-12	Mar-13
Cash flows				
Operations	525	1,273	1,428	1,812
Financials	-784	8	-28	-2
Investing	-784	8	-28	-2
Closing Cash	2,792	3,606	4,447	5,608
Key ratios (%)				
Revenue growth	-4%	27%	26%	23%
EBITDA growth	-5%	41%	33%	30%
PAT Growth	-9%	34%	35%	26%
EBITDA margin	26%	29%	31%	33%
EBIT Margin	24%	27%	28%	30%
PAT Margins	22%	24%	25%	26%
ROE	14%	16%	18%	19%
ROCE	15%	19%	20%	22%
Valuation metrics				
Shares o/s (mn)	55	55	55	55
Fully diluted shares (mn)	55	55	55	55
Market cap (Rs. mn)	33,539	33,539	33,539	33,539
EV (Rs.mn)	29,607	29,607	29,607	29,607
EV/Sales (x)	12.5x	9.8x	7.8x	6.3x
EV/EBITDA (x)	47.3x	33.6x	25.3x	19.4x
P/E (x)	64.4x	47.1x	34.9x	27.7x
EPS(E) / Current market price	1.6%	2.1%	2.9%	3.6%
Per share data (Rs.)				
Book value	69	81	97	118
Cash	51	66	82	103
Operating cash flow	10	23	26	33
Free cash flow	-5	23	26	33

CMP	Rs. 615	Absolute	Add
Target	Rs. 620	Relative	Outperform

Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History				
Date	CMP	Target price	Absolute Rating	Relative Rating
Initiating Coverage				

Analyst Certification

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

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