



# Dealmoney

World-Class Financial Services

SECTOR OF  
THE MONTH  
**SERVICE**



PICKS OF  
THE MONTH

**#1 INFO EDGE LIMITED**

**#2 TEAMLEASE SERVICES LTD**

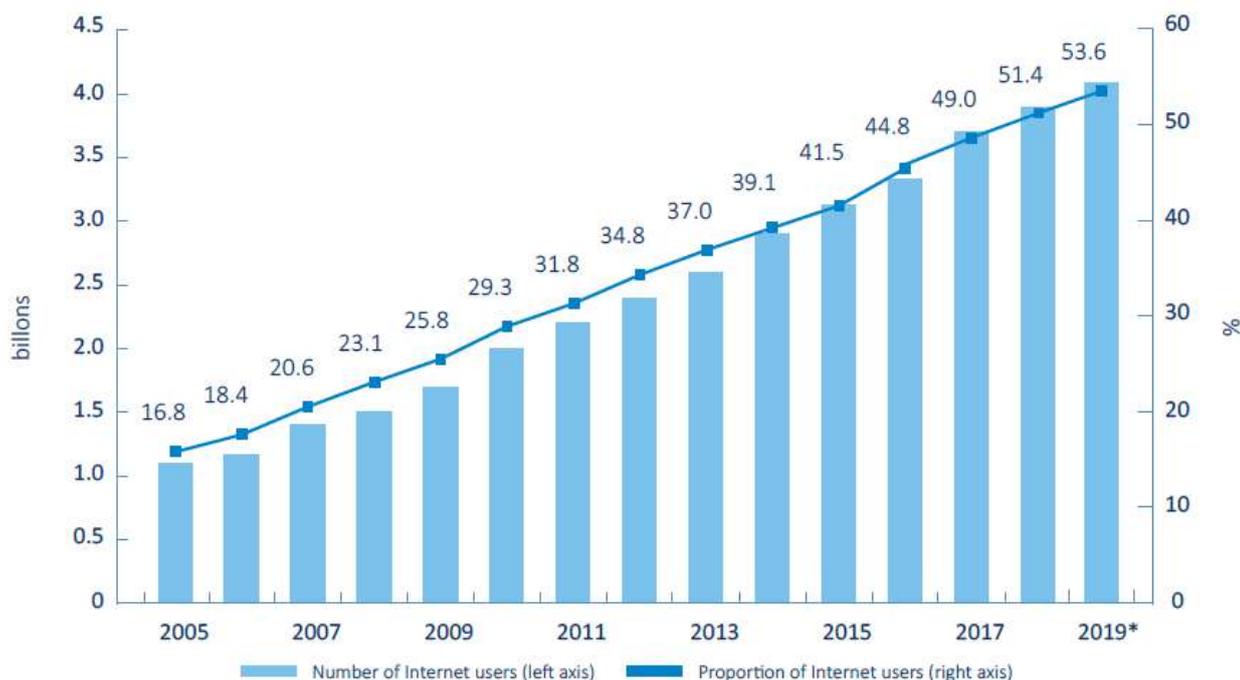
### Sector of the Month Service

The GDP growth rate is estimated to be 5% in 2019-20 as compared to 6.8% in 2018-19. The GDP growth decelerated for the sixth consecutive quarter. In 2020-21, India's GDP growth rate is expected to be in the range of 6.0%-6.5%. In the first half of 2019-20 (April-September), GDP is estimated to grow at 4.8% as compared to the 2nd half of 2018-19 (October-March) at 6.2%. The survey observed that sluggish growth of consumption and consequent decline in fixed investment led to the decline in GDP growth during this period. The survey noted that the year 2019 was a difficult year for the global economy with world output growth growing at its slowest pace of 2.9% since the global financial crisis in 2009. A weak environment for global manufacturing, trade, and demand adversely impacted the Indian economy.

Services sector is estimated to grow at 6.9% in 2019- 20 as compared to 7.5% in 2018-19. The services sector is estimated to contribute 55.3% to India's GVA in 2019-20. Currently, the services sector accounts for over 50% of the Gross State Value Added in 15 states and UTs. Sub-sectors such as trade, hotels, transport, communication & services related to broadcasting, financial and real estate services saw a deceleration during this period.

In 2017, Internet users represented 48% of the global population, with mobile phones being the primary mode of access, especially in emerging markets. With upgrades to the cellular infrastructure, proliferation of smartphones and the availability of several content options, there has been a steady growth in consumers using the Internet.

### Individuals using the Internet, 2005-2019\*



Note: \* ITU estimate. Source: ITU.

While China and India are lower in Internet penetration than many other countries in the world, they have the largest Internet user base followed by the United States. China led the world with a user base of over 770 million in 2017, followed by India at over 445 million and the U.S. at over 310 million.

India has been mirroring similar trends with an increasing share of data revenue vis-à-vis traditional voice services. The share of data wallet- saw an increase of 81%, as compared to a drop of nearly 19% in voice revenue, over 2013-2016.

### **THE GROWING IMPACT OF E-COMMERCE**

E-commerce comprised one-tenth of the total global retail sales at USD 2.29 trillion (Source: eMarketer 2017), with about a fifth of this contribution coming from the United States. The U.S. has over 200 million e-commerce users (comprising 74% of its Internet users) and generated about USD 460 billion in 2017. This market is expected to grow to 250 million by 2022, exceeding USD 640 billion in revenue.

The e-commerce market in India, on the other hand, is in its early growth stages. With the proliferation of high-speed internet and the ubiquity of affordable smartphones, the market has grown significantly over the past three years. Although it started as an urban trend restricted only to the tech-savvy and the young population demographic, e-commerce has caused an all-encompassing revolution in the retail industry. Since 2015, about one-fourth of all Internet users have already shopped online and this number is likely to grow at a rapid pace with the increase in the number of e-commerce companies supporting all product and service categories.

The Indian e-commerce market had revenues of USD 38.5 billion in 2017 and is likely to grow at a CAGR of 12.4% to USD 69.2 billion by 2022. However, with further increase in avenues for digital payments, accelerated broadband penetration, and an increasing number of product options across the breadth of the country, the market has the potential to grow to USD 130 billion over the same time period.

The Indian E-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest E-commerce market in the world by 2034. The E-commerce market is expected to reach US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. India's e-commerce market has the potential to grow than four folds to US\$ 150 billion by 2022 supported by rising incomes and surge in internet users. With growing internet penetration, internet users in India are expected to increase from 445.96 million in 2017 to 829 million by 2021. As of June 2019, internet subscribers in India stood at 665.31 million.

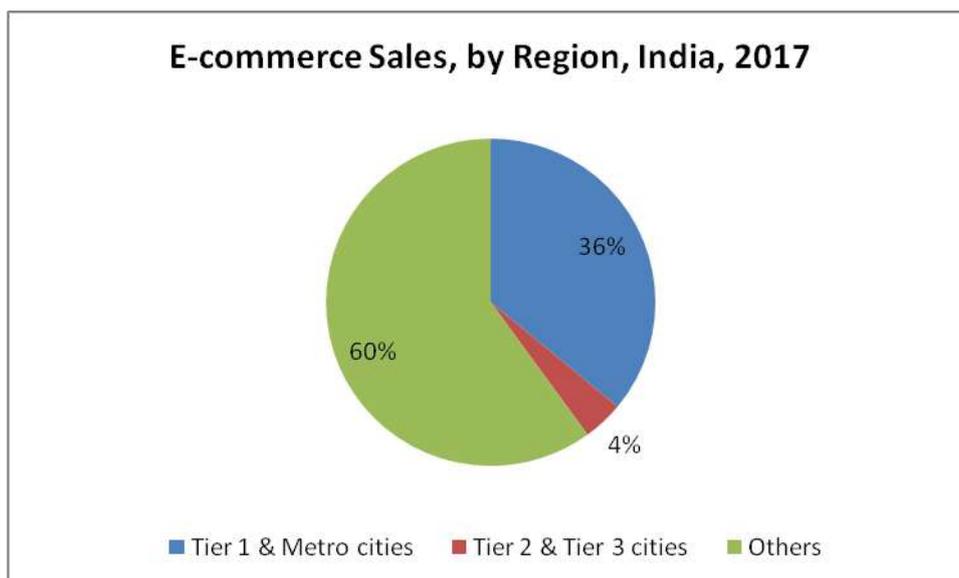
Rising smartphone penetration, launch of 4G networks and increasing consumer wealth, the Indian E-commerce market is expected to grow to US\$ 200 billion by 2027 from US\$ 38.5 billion in 2017. E-commerce is increasingly attracting customers from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations.

### Indian E-commerce Market (US\$ billion)



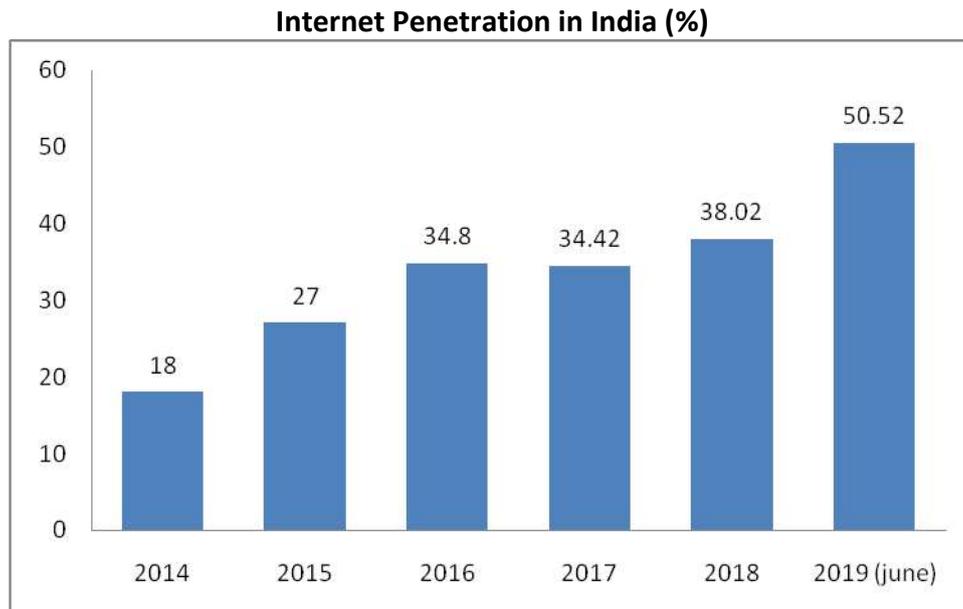
A majority of 60% of all online sales in India in 2017 were contributed by the 8 metro cities, while the remaining sales were generated from 3,133 Tier 2 and Tier 3 cities (including 1,233 rural hubs- which are nodal points supporting businesses in rural areas).

### E-commerce Sales, by Region, India, 2017



### Growth in internet penetration to support growth

With an urban India population of 444 million as per 2011 census. Urban internet subscriber base stood at 427.05 million and its penetration was 101.63 per cent in FY20. Rural India, with an estimated population of 906 million as per 2011 census. Rural internet subscriber base stood at 238.26 million and rural India penetration was 26.57 per cent in FY20. Internet penetration in India grew from just 4 per cent in 2007 to 50.52 per cent in 2019, registering a CAGR of 24 per cent between 2007 and 2017.



The Government of India's (GoI) focus on its 'Digital India' programme along with market enablers like availability of cheaper smart phones, declining data tariffs, and increasing digital literacy is clearly helping to make products and services more accessible.

The single most important driver of rapid internet penetration across India is the widespread adoption of mobile internet in India. In fact, 97% of the users of internet utilise mobile phone as one of the devices — if not the primary device — to access the net.

The growing digital economy — coupled with rising per capita income and favourable demographics — presents a huge market potential for internet based technology-led disruptions. High growth potential and the size of the market continue to attract significant interest from global capital providers like Private Equity (PE) and Venture Capital (VC) funds. PE/VC funds have already invested over USD25 billion over the last five years in Indian e-commerce and consumer internet. The confidence of investors has grown as evidenced by the increase in the size of deals in these spaces. India is now considered as a profitable investment destination for e-commerce and consumer internet.

Source: Ace equity, CARE, IBEF

**Pick of the Month (Info Edge Ltd.):**

**CMP: 2537**

**Target: 2960**

Info Edge has an in-depth understanding of the Indian consumer internet domain. With years of experience in the domain, strong cash flow generation and a diversified business portfolio, it one of the very few profitable pure play internet companies in the country.

**Its business portfolio comprises:** Recruitment: Online recruitment classifieds, www.naukri.com, a clear market leader in the Indian e-recruitment space, www.naukrigulf.com, a job site focused at the Middle East market, offline executive search (www.quadranglesearch.com) and a fresher hiring site (www.firstnaukri.com). Matrimony: Online matrimony classifieds, www.jeevansathi.com, is among the top three in India's online matrimonial spac. Real Estate: Online real estate classifieds, www.99acres.com, is India's largest property marketplace covering almost all the major cities and a large number of agents and developers. Education: Online education classifieds, www.shiksha.com, is the smartest gateway for students to achieve their goals.

**Acquired Uber eats in India:** Info edge hold around 22% stake in Zomato. It had reduced the stake from 26% in the past. It acquired Uber Eats for Rs. 2,485 crores which had made Zomato by number of orders and size ahead of swiggy. Also, the company mentioned that its burn rate (EBITDA loss) was lowered down by 60%. This will bring faster turnaround in terms of profitability for the company.

**Good Quarterly performance:** The Company reported a topline growth of 9.7% on YoY basis to Rs. 3408.9 crs in Q3FY20. In the revenue mix, the company earns majority of the revenue from recruitment solutions which grew from Rs. 2036.71 crs to Rs. 2302.6 crs on YoY basis. 99acres reported a growth of 15% on YoY basis. Profitability improved by 18.5% to Rs. 880.44 in December quarter.

**Outlook:** Though the valuations looks a little stretched out but the overall the company is in catching up pace growth wise. In 99acres it is able to keep double digit growth despite weak consumer sentiment in the sector. Its investee companies are hitting profitability faster which might aid the overall growth in the company. At the CMP of Rs. 2537, we recommend a buy at the target price of 2960.

NSE / BSE Code	NAUKRI/ 532777
Sector	IT
Industry	BPO/ITeS
Face value / Book Value (Rs per share)	10
Dividend yield (%)	0.20%
52 H/L (Rs.)	3130/1589
Market Cap. (Rs. Cr)	37687.81
Shares Outstanding (Cr)	12.25

(In Rs.Cr)	FY16	FY17	FY18	FY19
Net Sales	747.5	887.6	988.2	1150.9
Sales Growth	2.1	18.7	11.3	16.5
EBITDA	80.0	171.1	263.0	318.7
EBITDA Margin	71.7	29.7	35.6	38.1
PAT	419.4	146.9	545.1	902.1
NPM%	56.1	16.6	55.2	78.4
Adj. EPS (Rs.)	11.2	-2.0	42.1	49.5

	FY16	FY17	FY18	FY19
P/E (x)	68.5	0.0	27.7	37.3
P/B (x)	6.2	6.5	7.2	8.9
EV/Sales(x)	12.2	10.6	14.2	19.3
EV/EBITDA(x)	17.0	35.6	39.9	50.6
ROCE(%)	32.4	12.7	34.9	45.0
ROE(%)	29.0	9.8	31.5	40.2

Source: Ace equity, CARE, IBEF

**Pick of the Month (TeamLease Services Ltd.):**

**CMP: 2336**

**Target: 2830**

Teamlease Services's core business is providing staffing solutions across industry sectors and diverse functional areas. The majority of its Associate Employees are engaged in sales, logistics and customer service functions. It focuses on people, processes and technology to enhance business productivity by enabling its clients to outsource their staffing requirements and allowing them to focus on operating and growing their core businesses. The company is managed professionally by a high quality management team with deep extensive market and industry expertise, exhibiting thought leadership on matters of public policy.

**Significant improvement in specialised staffing margins:** Specialised staffing revenue grew 32.2% YoY due to inorganic headcount additions in the IT staffing business, while telecom staffing continued to report a soft quarter due to project rationalisation. EBITDA margin also improved 100bps/170bps QoQ/YoY to 7.3% in 3QFY20 (c.20bps ahead of JMFe) due to significant improvement in IT staffing business margins (both organic as well as inorganic businesses).

**Q3 Result performance:** During the December quarter, the company reported topline growth of 15.28% to Rs. 1351.4 crs. In the operating part, employees cost jumped by 15.65% on YoY basis to Rs. 1281.8 crs. Profit after tax was flattish as the finance cost and depreciation witnessed a rise. PAT was at Rs. 25.46 crs during the December quarter.

**Valuation:** At the CMP of Rs. 2325, the stock is currency trading at the P/E of 40.8x TTM FY19. We recommended at buy at current level with the price target of Rs. 2830.

NSE/BSE Code	TEAMLEASE / 539658
Sector	Miscellaneous
Industry	Miscellaneous
Face value/Book Value (Rs.per share)	10 / 350
Dividend yield(%)	0
52H/L(Rs.)	3192 / 2159
Market Cap.(Rs.Cr)	4015
Shares Outstanding (Cr)	1.71

(InRs.Cr)	FY16	FY17	FY18	FY19
NetSales	2,504.9	3,041.3	3,624.1	4,447.6
SalesGrowth	24.8	21.4	19.2	22.7
EBITDA	23.8	36.8	67.6	94.1
EBITDAMargin	1.7	1.9	2.3	2.5
PAT	37.8	51.5	72.8	96.8
NPM%	1.0	1.9	2.0	2.2
Adj.EPS(Rs.)	14.5	33.7	43.0	57.3

	FY16	FY17	FY18	FY19
P/E(x)	61.4	29.1	51.6	52.4
P/B(x)	54.8	26.3	45.7	47.1
EV/Sales(x)	0.5	0.5	1.0	1.1
EV/EBITDA(x)	31.0	25.9	43.3	44.6
ROCE(%)	16.0	15.1	18.4	20.4
ROE(%)	10.8	17.1	18.5	20.3

Source: Ace equity, CARE, IBEF

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