

Just Dial

25 March 2015

Reuters: JUST.BO; Bloomberg: JUST IN

We had a meeting with Mr. V.S.S. Mani, chief executive officer and managing director of Just Dial (JDL) to understand its execution and rollout of Search Plus service. Post-meet, we reiterate our super bullish view on JDL. Its stock price has declined 17% over the past six months on account of various factors like: 1) Tentative equity dilution by Rs10bn, 2) Prospects of private equity investors liquidating a part of their stake of 35%, 3) Delay in rollout of Search Plus service, etc. We believe none of these concerns are serious enough to impact the business model of JDL. We believe at 35.6x/24.0x FY17E P/E and EV/EBITDA, respectively, JDL - based only on its core business - is undervalued. JDL has tied up with over 300,000 service providers to provide 23 Search Plus services and is aiming to take it to over 1mn, who are expected to make payment to JDL in the coming years. JDL has also connected its search service with voice command, thereby leading to greater convenience and faster transaction execution - from 30 seconds to 2 minutes. JDL's market-place model is strong enough to compete on pricing with established players like Amazon, Flipkart, Snapdeal, etc, with a guaranteed seven-hour delivery. In many cases, JDL is able to offer prices lower than its competitors with an added advantage of personal touch from the nearby retailer. JDL expects the commercial launch of its Search Plus service by April 2015 with one-time annual advertisement expenditure of Rs1bn. We have retained our estimates and Buy rating on JDL with a target price of Rs2,137 based on 40.0x/56.1x/13.8x FY17E EV/EBITDA, P/E and EV/sales, respectively, up 58% from the current market price.

- We believe JDL's business model has inherent advantages over existing e-commerce players like: 1) Strong database of 14.7mn listings, 2) Strong lead generation capability because of over 600mn annual searches on its platform, 3) Addition/updation of over 50,000 vendors on a daily basis, and 4) Edge over competitors in cash collection, logistics cost, delivery time, personal touch, etc.
- JDL has a long-standing relationship with 14.7mn vendors and knows some of these vendors very closely with a historical track record of offerings and value proposition coupled with a strong rating history from end-users.
- Flipkart and Snapdeal, two of the major online retailers in India, have just ~25mn-30mn registered users. In comparison, over 600mn searches are conducted annually on JDL's platform.
- Many people on the street believe that JDL will face strong competition from established horizontal players in each segment like flight booking, holiday package etc. We believe that JDL with ~600mn searches on its existing platform will be a strong lead generation partner for any established vertical player. Therefore, on a case-to-case basis, Search Plus will be a lead generation platform for vendors, helping JDL to monetise leads by charging commission/referrals to vendors. To cite an example, instead of competing, JDL has tied up with makemytrip.com for domestic hotel-booking, booking.com for international hotel-booking, Redbus for bus-ticketing, cleartrip.com for domestic flight-booking, Groupon for deals and offers etc. For other services where established competitors are weak, or there are no established players, JDL is building up its own offerings like grocery delivery, doctor appointment etc.
- On account of low-cost structure and micro logistics (delivery within a specified area), small entrepreneurs like owners of grocery stores, electronic shops, restaurants etc are more efficient in respect of delivery time, logistics cost, cash on delivery facility etc, compared to most of the e-commerce players. Therefore, as JDL connects these entrepreneurs to its online platform, the cost structure is expected to remain lean. • In many services JDL has launched JD Guarantee offer, where goods will be delivered within seven hours by its vendor. Based on their past track record, JDL has selected better vendors in each category in specified areas. If a vendor fails to honour a commitment, then his lead generation will be curtailed and passed on to competitors, as a result, it motivates the entrepreneurs to be more efficient.

BUY

Sector: Internet Services

CMP: Rs1,355

Target Price: Rs2,137

Upside: 58%

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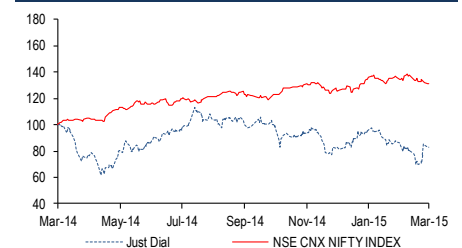
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Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$bn)	95.5/1.5
52 Wk H / L (Rs)	1,895/983
Daily Vol. (3M NSE Avg.)	394,444

One -Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Just Dial	(0.9)	(16.6)	(17.4)
Nifty Index	(2.5)	6.8	29.8

Source: Bloomberg

- If needed, JDL will build a strong team of in-house delivery persons for time-bound delivery in a specific local area. Currently, JDL is not able to cater to some grocery stores, medical stores, restaurants etc as they lack delivery capability. If JDL has in-house delivery staff, it can drive business from these vendors and can also charge an added commission. In addition, JDL can hide vendors' identity to customers and consequently its ability to command a higher commission will increase. As JDL handles the delivery of multiple products, its utilisation of delivery manpower will be high and thereby the delivery cost will be very low.
- We have compared JDL's market-place model with established e-commerce players like Amazon, Flipkart, Snapdeal (see Exhibit 2) and found out that products are available at lowest cost on JDL platform or they have prices that are very close to those quoted by Amazon, Flipkart and Snapdeal. For example, a LG double door refrigerator model Velvet Gardenia on JDL is priced 2.2%/5.1%/10.6% cheaper compared to Amazon/Flipkart/Snapdeal, respectively, Apple iPad Air with Wi-Fi + cellular 16GB silver model is 0.5% expensive on JDL compared to Flipkart, but 9.5%/8.4% cheaper compared to Amazon/Snapdeal, respectively. Canon EOS 1200D Kit camera is 3.2% expensive on JDL compared to Amazon, but 11.9%/12.7% cheaper compared to Flipkart/Snapdeal, respectively. In future, JDL may provide price comparison between itself and Amazon, Flipkart, Snapdeal etc, thereby improving convenience as well as pricing for the benefit of customers. In addition, JDL will have an edge on bulky items because of lower logistics cost and faster delivery.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	2,621	3,628	4,613	5,952	7,624	9,985
YoY (%)	42.5	38.4	27.2	29.0	28.1	31.0
EBITDA	672	1,007	1,422	1,957	2,526	3,433
EBITDA margin (%)	25.7	27.8	30.8	32.9	33.1	34.4
Adj. PAT	504	695	1,206	1,481	1,914	2,673
YoY (%)	74.9	35.8	73.5	22.8	29.2	39.6
FDEPS (Rs)	8.9	10.0	17.2	21.1	27.3	38.1
RoE (%)	49.8	26.1	25.1	25.3	27.0	30.1
RoCE (%)	49.7	26.1	25.1	25.2	27.0	30.1
P/E (x)	152.1	135.4	78.8	64.2	49.7	35.6
EV/EBITDA (x)	101.9	88.4	62.2	44.6	33.8	24.0
EV/sales (x)	26.1	24.5	19.2	14.7	11.2	8.3

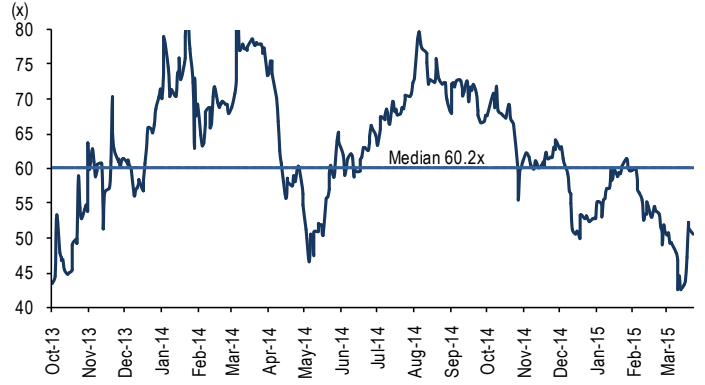
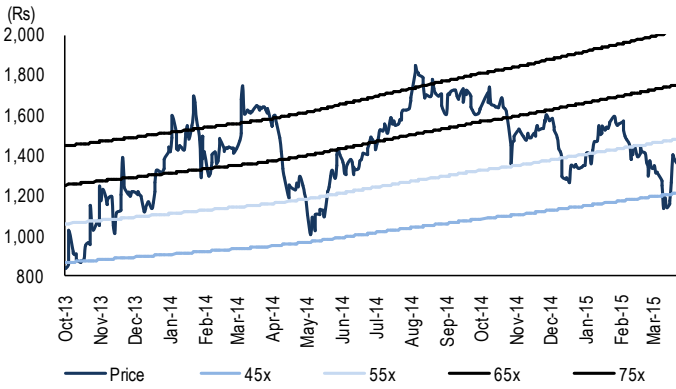
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Pricing of some products in market-place model of JDL versus its competitors

	Players					JDL's Rank	Premium/(discount) to rivals (%)		
	MRP (Rs)	Amazon	Flipkart	Snapdeal	Just Dial		Amazon	Flipkart	Snapdeal
Mobile phones									
Samsung Galaxy S5 White (SM-G900H)	32,900	30,626	28,999	28,899	28,763	1	(6.1)	(0.8)	(0.5)
Micromax Canvas Gold A300 White And Gold	24,000	19,500	13,800	16,675	14,275	2	(26.8)	3.4	(14.4)
Google Nexus 5 D821 (16GB, Black)	29,999	23,299	24,615	22,999	24,615	3	5.6	-	7.0
Cameras									
Canon EOS 1200D Kit (EF S18-55 IS II)	31,995	23,985	28,095	28,338	24,750	2	3.2	(11.9)	(12.7)
Tablets									
Apple iPad Air with Wi-Fi + Cellular 16GB Silver	38,900	38,900	34,999	38,400	35,190	2	(9.5)	0.5	(8.4)
Appliances									
Bajaj JX 10 Juicer Mixer Grinder [410024]	4,040	2,851	2,749	2,610	3,100	4	8.7	12.8	18.8
Philips Mixer Grinder [HL1643 06]	4,995	3,790	3,790	3,930	3,675	1	(3.0)	(3.0)	(6.5)
Refrigerators									
LG Double-door Refrigerator Velvet Gardenia [GL-D322RPJL]	35,430	31,999	32,990	35,025	31,300	1	(2.2)	(5.1)	(10.6)
LG Single-door Refrigerator Sparkle Red [GL-205KMG5]	14,090	13,600	12,990	13,390	12,333	1	(9.3)	(5.1)	(7.9)
Whirlpool FP 263d Royal Multi-door Refrigerator Steel Knight	28,950	26,500	23,990	28,475	26,633	2	0.5	11.0	(6.5)
Whirlpool 205 Fusion Royal 5s Single-door Refrigerator Midnight Bloom	18,700	17,000	NA	17,075	16,500	1	(2.9)		(3.4)
Home theatre									
LG Home Theatre [NB3520A]	19,990	NA	NA	17,600	18,545	2	NA	NA	5.4
Philips HTB5570D/94 5.1 Home Theatre	29,990	NA	NA	24,500	25,900	2	NA	NA	5.7
Sony BDV-E3200 5.1ch One-touch Connect Blu-ray Home Theatre	25,990	25,490	NA	24,370	22,763	1	(10.7)	NA	(6.6)

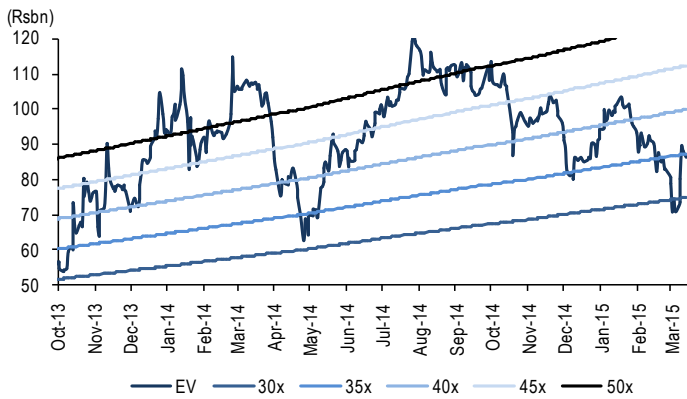
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: One-year forward P/E



Source: Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward EV/EBITDA



Source: Nirmal Bang Institutional Equities Research

Financials (standalone)

Exhibit 5: Income statement

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Net sales	2,621	3,628	4,613	5,952	7,624	9,985
Growth (%)	42.5	38.4	27.2	29.0	28.1	31.0
Staff costs	1,308	1,797	2,286	2,799	3,585	4,646
Other costs	640	823	905	1,196	1,513	1,906
Total expenditure	1,948	2,620	3,191	3,995	5,098	6,552
EBITDA	672	1,007	1,422	1,957	2,526	3,433
Growth (%)	48.1	49.8	41.2	37.7	29.1	35.9
EBITDA margin (%)	25.7	27.8	30.8	32.9	33.1	34.4
Other income	132	136	399	409	539	799
Extra-ordinary items	2	(15)	-	(187)	-	-
Interest costs	-	-	-	-	-	-
Gross profit	806	1,128	1,821	2,179	3,066	4,232
Growth (%)	64.2	40.0	61.4	19.6	40.7	38.0
Depreciation	90	144	173	226	292	359
Profit before tax	716	984	1,649	1,953	2,774	3,874
Growth (%)	69.2	37.5	67.5	18.5	42.0	39.6
Tax	210	300	442	606	860	1,201
Effective tax rate (%)	29.3	30.4	26.8	31.0	31.0	31.0
Net profit	506	685	1,206	1,348	1,914	2,673
Growth (%)	75.5	35.4	76.2	11.7	42.0	39.6
Extra-ordinary items	2	(11)	-	(134)	-	-
Adjusted PAT	504	695	1,206	1,481	1,914	2,673
Growth (%)	74.9	37.9	73.5	22.8	29.2	39.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Equity	519	695	702	702	702	702
Preference shares/warrants	20	8	-	-	-	-
Reserves	533	3,556	4,643	5,663	7,086	9,267
Net worth	1,072	4,259	5,344	6,365	7,787	9,969
Short-term loans	-	-	-	-	-	-
Long-term loans	-	-	-	-	-	-
Total loans	-	-	-	-	-	-
Deferred tax liability	(9)	9	18	38	65	104
Liabilities	1,063	4,269	5,362	6,403	7,853	10,073
Gross block	616	995	1,080	1,430	1,847	2,269
Depreciation	268	388	552	778	1,070	1,428
Net block	348	608	528	652	777	841
Capital work-in-progress	12	16	-	17	22	27
Long-term Investments	1,568	4,858	6,257	7,257	8,757	10,257
Inventories	-	-	-	-	-	-
Debtors	-	9	-	-	-	-
Cash	237	239	370	497	884	2,333
Other current assets	303	345	495	568	728	954
Total current assets	540	593	865	1,065	1,612	3,287
Creditors	44	67	72	89	113	146
Other current liabilities	1,361	1,739	2,215	2,500	3,202	4,194
Total current liabilities	1,405	1,806	2,287	2,589	3,315	4,339
Net current assets	(865)	(1,213)	(1,422)	(1,524)	(1,704)	(1,052)
Total assets	1,063	4,269	5,362	6,403	7,853	10,073

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
EBIT	668	968	1,249	1,731	2,234	3,075
Non-cash adjustments	6	6	-	-	-	-
Restated EBIT	674	975	1,249	1,731	2,234	3,075
(Inc.)/dec. in working capital	444	314	340	228	567	798
Cash flow from operations	1,118	1,289	1,589	1,960	2,801	3,873
Other income	6	(86)	399	409	539	799
Depreciation	90	144	173	226	292	359
Deferred liabilities	-	-	9	20	28	39
Interest paid (-)	-	-	-	-	-	-
Tax paid (-)	(209)	(307)	(442)	(606)	(860)	(1,201)
Dividend paid (-)	-	-	(164)	(327)	(491)	(491)
Extraordinary items	-	-	-	134	-	-
Net cash from operations	1,005	1,039	1,564	1,815	2,309	3,377
Capital expenditure (-)	(164)	(361)	(78)	(367)	(422)	(427)
Net cash after capex	841	678	1,487	1,448	1,887	2,950
Inc./dec. in short-term borrowing	-	-	-	-	-	-
Inc./dec. in long-term borrowing	(2)	(1)	-	-	-	-
Inc./dec. in preference capital	334	-	(8)	-	-	-
Inc./dec. in borrowings	332	(1)	(8)	-	-	-
(Inc.)/dec. in investments	(1,092)	(3,190)	(1,399)	(1,000)	(1,500)	(1,500)
Equity issue/(buyback)	(41)	2,513	45	-	-	-
Cash from financial activities	(801)	(678)	(1,362)	(1,000)	(1,500)	(1,500)
Others	-	5	-	-	-	-
Opening cash	175	215	239	370	497	884
Closing cash	215	214	370	497	884	2,333
Change in cash	40	-	130	127	387	1,450

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March	FY12	FY13	FY14	FY15E	FY16E	FY17E
Per share (Rs)						
EPS	8.9	10.0	17.2	21.1	27.3	38.1
Book value	21	61	76	91	111	142
Valuation (x)						
P/E	152.1	135.4	78.8	64.2	49.7	35.6
P/sales	26.8	26.0	20.6	16.0	12.5	9.5
P/BV	65.6	22.1	17.8	14.9	12.2	9.5
EV/EBITDA	101.9	88.4	62.2	44.6	33.8	24.0
EV/sales	26.1	24.5	19.2	14.7	11.2	8.3
Return ratios (%)						
RoCE	49.7	26.1	25.1	25.2	27.0	30.1
RoE	49.8	26.1	25.1	25.3	27.0	30.1
Margins (%)						
EBITDA margin	25.7	27.8	30.8	32.9	33.1	34.4
PBIT margin	22.2	23.8	27.1	29.1	29.3	30.8
PBT margin	27.3	27.1	35.7	32.8	36.4	38.8
PAT margin	19.2	19.2	26.1	24.9	25.1	26.8
Turnover ratio						
Asset turnover ratio (x)	2.5	0.8	0.9	0.9	1.0	1.0
Avg. inventory period (days)	-	-	-	-	-	-
Avg. collection period (days)	-	1	-	-	-	-
Avg. payment period (days)	8	9	8	8	8	8
Growth (%)						
Sales	42.5	38.4	27.2	29.0	28.1	31.0
EBITDA	48.1	49.8	41.2	37.7	29.1	35.9
PAT	74.9	35.8	73.5	22.8	29.2	39.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
11 June 2013	Buy	675	800
23 July 2013	Buy	685	800
5 August 2013	Buy	696	800
6 August 2013	Buy	679	800
12 August 2013	Buy	666	800
28 October 2013	Buy	1,030	1,300
9 December 2013	Buy	1,200	1,502
28 January 2014	Buy	1,481	1,705
29 January 2014	Buy	1,290	1,705
6 May 2014	Buy	1,005	1,705
13 May 2014	Buy	1,105	1,705
15 May 2014	Buy	1,130	1,705
4 July 2014	Buy	1,486	1,705
30 May 2014	Buy	1,625	2,010
10 October 2014	Buy	1,740	2,010
21 October 2014	Buy	1,687	2,062
22 October 2014	Buy	1,643	2,062
6 January 2015	Buy	1,405	2,062
30 January 2015	Buy	1,553	2,137
25 March 2015	Buy	1,355	2,137

Note: We had released IPO note on 20 May 2013, with a Subscribe rating to the IPO priced at Rs530/share

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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