



17/05/2013

## JUST DIAL LIMITED

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### Issue Summary

<b>Price Band (Rs)</b>	470	543
<b>Bid Lot</b>	25 Equity Shares & in multiple of 25	
<b>Discount</b>	10% to retail investors	
<b>Face Value</b>	Rs 10	
<b>Opens on</b>	20/05/13	
<b>Closes on</b>	22/05/13	
<b>Total no of shares</b>	17,497,458 equity shares	
<b>Issue Size</b>	Rs 950.11 crore (approx.)	
<b>Pre-issue share capital</b>	69.87	
<b>Post-issue share Capital</b>	69.87	
<b>Fresh Issue Size (Rs cr)</b>	822.38	950.11
<b>P/E LATEST YEAR</b>	50.16	57.95
<b>Safety Net Arrangement</b>	To retail individual allottees as per Regulation 44 of the SEBI Regulations	

### Company & Business Profile

Just Dial Limited (JDL), a 16 year old company is one of the leading local search engines in India that provides its users with information and user reviews from its database of local businesses, products and services across India. Their search service is available to users through multiple platforms that include internet, mobile internet, telephone (voice) and text (SMS). The Company aims to provide fast, free, reliable and comprehensive information to its users, which will create a network effect to attract more search queries. In addition, through their easy to remember phone numbers and user friendly mobile phone interface, it has been able to attain significant mind-share with users for their local search needs. Mr VSS Mani is the principal founder and managing director of the Company.

JDL has a large database of approximately 9.1 million listings as of March 31, 2013. The Company believes that by providing fast and free access to its database, it can provide a compelling user experience that will create a network effect and attract a large number of users who search for information to Just Dial. These large numbers of users will, in turn, prompt more businesses to pay for listings and become paid advertisers in order to be featured in their search results on a priority basis.

### Objects of the Issue

The objects of the offer are to achieve the benefits of listing of equity shares on the Stock Exchanges and to carry out the sale of 17,497,458 equity shares by the selling shareholders. The listing of the equity shares will enhance the Company's brand name and provide liquidity to the existing shareholders. Listing will also provide a public market for the equity shares in India. The Company will not receive any proceeds from the offer.

### Investment Positives

- **Efficient and Profitable Business Model:** JDL's business model is efficient as it promotes continuity in subscriptions and cash flows. This is a difficult business model for its competitors to replicate due to the challenge of establishing the requisite credibility and relationship with paid advertisers for them to be willing to agree to its payment terms. Its paid advertisers make payments in advance of their campaigns in its searches, which significantly reduces its credit risk exposure to its customers. It has

## Shareholding Pattern

Net Issue	No. of Shares (LACS)	%
QIB's	131.23	75
HNI	26.25	15
Retail	17.50	10
<b>Total</b>	<b>174.97</b>	<b>100</b>

### BRLM

- Citigroup Global Markets India
- Morgan Stanley India

### Listing

BSE, NSE, MCX-SX

maintained focus on capital efficiency and has grown without incurring material indebtedness. As of December 31, 2012, JDL had no long-term borrowings, which is a competitive advantage for it and a platform to grow its operations without being constrained by significant reliance on external financing sources.

- **First Mover Advantage in the Indian Local Search Market:** As one of the first companies to offer comprehensive local search services in India, JDL has a first mover advantage among consumers seeking information on local businesses. It aims to provide fast and free access to its large database, which will attract more search queries, which in turn will attract more paid business listings. This creates a self-perpetuating growth cycle that enables us to maintain a position as one of the leading local search engines in India.
- **Strong Brand Recognition:** JDL has a very strong brand recall in India as evidenced by the 254.3 million searches of its database that were conducted in fiscal 2012 even though historically its brand development has been fuelled primarily through word of mouth by users based on their experience with its service and such users sharing their experiences with others.
- **Offer Attractive Value Proposition for SMEs:** Most of the business listings in JDL's database are SMEs, which is the segment of businesses where it focus most of its attention and marketing efforts. As of March 31, 2013, its database had approximately 9.1 million business listings across various cities and towns in India, as compared to 7.2 million business listings as of March 31, 2012. Through JDL's data collection team canvassing the local markets, it establishes direct relationships with many of these SMEs which is one of the key ways it differentiate itself from international search engines, which operate in India largely on a virtual basis.
- **Experience and Expertise in Local Indian Markets:** JDL has been in operation in the Indian market for approximately 16 years, and its senior management team has wide-ranging experience in the search service, advertising and IT industries in India. Its strong knowledge of the Indian market, firsthand experience with various market participants (including SMEs and users) and the experience and expertise of its management differentiate it from other generic and local search service providers and enable it to grow in an industry that has historically been difficult to monetize.
- **Multiple Platform Service on a Large Scale:** Users can access JDL's search services and obtain search results through a number of communication media, i.e. Internet, mobile Internet, voice and SMS. It is the only search services company in India that provides users with the option of performing searches and obtaining search results through multiple media on a large scale. Further, it has a large collection of reviews and ratings by users of the businesses listed with it that are regularly monitored and uploaded on its website for the benefit of potential users to enhance their

search experience and enable them to make informed choices. Multiple platform service enables JDL to provide reviews and ratings received by it from users on one platform to users across all its other platforms.

- **Advanced and Scalable Technology Platform:** JDL's award-winning technology is the key to effectively integrate the various media it use to provide its services to users, its business listing database, its paid advertisers and its information retrieval officers, or IROs. JDL's platform has a high level of reliability, security and scalability and has been designed to handle high transaction volumes. Its technology platform has interfaces developed such that it is able to scale up its sales and service capacity rapidly with relatively minimal additional time required for employee training and enables it to provide a fast, efficient and user friendly information service to its users.

### Concerns

- **Outstanding criminal proceedings against key management personnel:** There are outstanding criminal proceedings against JDL's, Managing Director and certain Directors and employees for offences of criminal conspiracy and cheating in connection with provision of services by JDL and payments related thereto. Any adverse outcome may negatively impact the business, prospects, financial conditions and results of operations.
- **Over-valued:** Considering the price bands of Rs 470-543, the expected market capitalisation is likely to be in the range of Rs 3284 - 3794 cr . At the post issue capital, the stock is likely to trade at a PE of 50.16x and 57.95x for the respective price bands, which seems to be very expensive.
- **Change of hands:** The objects of the issue involve strengthening of its brand name and providing liquidity to the existing shareholders. The proceeds of the issue will not go in the company's kitty. Thus, the IPO is effectively an offer for sale providing an exit route to the promoters and investors who are booking partial profits from the venture. As this is an offer for sale, it has to be backed by institutions, and thus 75 per cent of the issue has been reserved for QIBs.

## Financials

## Restated Consolidated Financial Information of Profits and Losses: (Rs in million)

Particulars	For the year ended				
	31-Mar-12	31-Mar-11	31-Mar-10	31-Mar-09	31-Mar-08
<b>Income from continuing operations</b>					
Revenue from operations					
Sale of search related services	2,593.98	1,796.03	1,160.62	735.39	510.18
Yellow pages publication services	-	-	148.45	123.83	185.69
Other operating revenue (revenue from reseller)	26.63	43.30	-	-	-
Other income	149.63	37.26	38.56	58.92	20.16
<b>Total revenue</b>	<b>2,770.24</b>	<b>1,876.59</b>	<b>1,347.63</b>	<b>918.14</b>	<b>716.03</b>
<b>Expenses</b>					
Employee benefits expense	1,308.37	947.17	668.82	522.77	420.54
Depreciation and amortisation	90.23	67.88	52.53	40.81	26.66
Finance cost	0.17	0.29	0.04	0.05	0.14
Other expenses	639.47	438.29	343.17	260.70	240.21
<b>Total expenses</b>	<b>2,038.24</b>	<b>1,453.63</b>	<b>1,064.56</b>	<b>824.33</b>	<b>687.55</b>
<b>Restated profit before tax from continuing operations</b>	<b>732.00</b>	<b>422.96</b>	<b>283.07</b>	<b>93.81</b>	<b>28.48</b>
<b>Tax expense/(income)</b>					
Current tax	205.96	119.24	-	35.17	41.87
Deferred tax charge /(credit)	3.26	15.49	98.82	(13.65)	(33.27)
Fringe benefit tax	-	-	-	2.89	2.78
<b>Total tax expense</b>	<b>209.22</b>	<b>134.73</b>	<b>98.82</b>	<b>24.41</b>	<b>11.38</b>
<b>Restated profit after tax before minority interests</b>	<b>522.78</b>	<b>288.23</b>	<b>184.25</b>	<b>69.40</b>	<b>17.10</b>
Share in loss of minority interest	-	-	0.09	-	-
<b>Restated profit after tax from continuing operations (A)</b>	<b>522.78</b>	<b>288.23</b>	<b>184.34</b>	<b>69.40</b>	<b>17.10</b>
<b>Discontinuing operation</b>					
Profit/(loss) before tax from discontinuing operations	4.16	(2.01)	-	-	-
Tax expense/(income) of discontinuing operations	(1.21)	0.07	-	-	-
<b>Restated profit/(loss) after tax from discontinuing operations (B)</b>	<b>5.37</b>	<b>(2.08)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Restated profit for the year (A + B)</b>	<b>528.15</b>	<b>286.15</b>	<b>184.34</b>	<b>69.40</b>	<b>17.10</b>

\*Source: RHP, Just Dial Ltd

## Valuations\*

Considering the price bands of Rs 470-543, the expected market capitalisation is likely to be in the range of Rs 3284 - 3794 cr. At the post issue capital, the stock is likely to trade at a PE of 50.16x and 57.95x for the respective price bands. The only listed player in this space so far in the Indian context is Info Edge (India), which is

trading at a trailing 12-month PE of around 37.5x. In the global context, Google Inc is trading at a PE multiple of 26.3x. Hence, looking at PE multiples in both domestic and global scenario and even market cap-to-sales, the issue seems to be expensive.

The comparable peer is valued as follows:

Company	EPS (Rs.)	P/E
Info Edge (India)	9.5	37.5x

\*Source: RHP, Just Dial Ltd

### Recommendation

JDL is an established player in the business and has a strong past track record of earnings and growth. Further, the company has a unique business model that is difficult to replicate, thus removing the threat of any immediate competitor. However, concerns of high valuations, charges against the key management personnel and sustainability of the revenues going forward do exist. Despite this, the discount of 10% and the safety net feature that operates for a period of six months provides cushion to retail investors. Further, the existing shareholders not exiting their entire investment and booking only partial profits affirms our view. Hence, we recommend investors to SUBSCRIBE for the issue for listing gains.

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