



IPO RECOMMENDATION: SUBSCRIBE

IN SUMMARY

We like the JUST DIAL business model and would have recommended a Strong Buy if the valuations were a tad lower. However, considering no existing investor would sell off cheap for a company which has an asset light business model, works on negative working capital cycle, high EBITDA margins and growing free cash flow year on year, (a business model almost equivalent to FMCG), etc. , we are forced to definitely consider this stock for investment (though valuations are stretched). We like the fundamental strength of the company as CRISIL has also granted 5/5 fundamental grade to the company. Despite a stretched price of the IPO and a safety net provided to retail investors by selling promoters, we recommend the investors to take this low risk potential high reward IPO and SUBSCRIBE at cut off price. Remember, retail investors get a Rs 47 per share discount.

PROTECTING PROFITS – FOR IPO ALLOTTED SHARES ONLY

IF Post Listing Price is	Action to be taken	Profits or Loss for investors
< Cut off Price	Hold till 180 days and tender under safety net back to the selling shareholders	Protected from Loss, No Profit. Worst case scenario Opportunity loss of interest for approx. 6 months + one month for receiving back the money.
> Cut off Price	Book profits in the range of 5-10% appreciation	Book profits with 5% gain (don't forget you already got 10% discount in pricing) as the valuation becomes further stretched.

* The safety net is applicable only for IPO allotted shares and not for subsequently bought quantity if you have sold the IPO allotted shares. For abundant clarity, the IPO allotted shares loses its Safety net once sold for the first time in the stock market.

In our view, the investor should look for listing gain of 5-10% within 180 trading days of listing and book profits immediately as high valuation will not support the stock for a longer period of time in short term. Post Quarterly performance results of June 2013 quarter, the investor can re-consider entry into the stock.

NEW PUBLIC ISSUE INFORMATION

- IPO opens: 20-22 May 2013
- Issue Type: 100% Book Built Issue IPO



- Price band: Rs. 470 to Rs. 543 per share
- Face value: Rs. 10
- Issue Size: Rs 822 crores - 950 crores
- Minimum bid: 25
- Minimum investment: 25 shares
- Lead managers: Citibank and Morgan Stanley
- Registrar: Karvy
- Listing: BSE / NSE
- CRISIL Rank: Grade 5/5. Indicates Strong Fundamentals

OBJECTIVE OF THE ISSUE

- Exit by existing shareholders incl. PE investors.

COMPANY BACKGROUND:

JUST DIAL LIMITED is a local search engine company. The company provides users of “JUST DIAL” search service with information and user reviews from its database of local businesses, products and services across India. The users access company’s search service through multiple platforms: Internet, mobile internet, telephone (voice) and sms (text).

As of 31st March 2012, the company had 6201 employees, of which 2971 were sales and marketing executives including 2232 tele sales executives (voice and internet marketing) and 739 feet on street executives who market through in-person meetings.

WHAT WE LIKE? THE JUST DIAL CASH GENERATION MACHINE

The company gets revenue through paid listing of businesses, products and services of SMEs. Approx. 37% of paid listing revenues are from Mumbai and Delhi markets while 48% is estimated to come from 9 large cities (major metropolitan cities). 54% of user search came from internet and mobile internet based platforms while balance 46% came through the dial in voice call at +91 8888888888.

50% of revenues are spent on Employee costs as company has tele-sales presence in over 8 cities meaning enormous flexibility to manage the cyclical downturn in the industry during times of recession. The business is asset light and very less capital intensive in nature and high on ROCE. The company delivered an ROCE of approx. 40+% in last 3 years.

The company collects the charges for paid listing upfront in advance and hence runs no risk of debt collection. The capital structure of the company is very strong and the company operates Debt Free model.



In our view, it is really tough to create a cash generating machine like JUST DIAL and what would be critical is how to drive search user traffic to JUST DIAL and how to get more paid listing.

LONG TERM REVENUE GROWTH DRIVERS

- **Geographic Expansion in India:** The 'Just Dial' brand recall remains a top of mind for Indian customers. Approx. 85+% of user search come from Top 11 cities. Geographic expansion will definitely enhance the user search and paid listing services.
- **Targeted Marketing Campaign for MSMEs:** Micro, Small and Medium Enterprises will be the focus for the company to bring in revenues from paid listing as it acts as a perfect marketing tool for SME as other forms of advertising like Print and Media remains an expensive proposition.
- **Internet Penetration:** India with 2nd largest population in the world and Internet penetration still at lower levels compared to developed markets, penetration of internet will act as a key growth driver for 'Just Dial' to bring in user searches.
- **Product portfolio expansion:** The company has significant first mover advantage and can easily transform into any internet based business delivery model. The 8 city strong call center team and top of mind recall has created a good platform for Just Dial to extend product and service lines. First one to go live will be Car buying/selling through JUST DIAL website.
- **Competition not a threat:** We hold a contrarian view that competition will not be negative on the company. In our view, in the short to medium term, Google though a potential threat works on an innovation driven business model and Just Dial's business model is not an innovation which can be scaled up easily. Other local competition firms like AskLaila, Burpp, Sulekha though in the fray have not been a real threat for Just Dial to grow in Indian markets.
- **Buy Business Data:** With its unique ability, Just Dial has been able to collect the user search and contact details and is best poised to develop this product line of business. The company launched this service in Feb 2012 and is definitely the most desired database for MSME in India.



SOME KEY CONSIDERATIONS

- IPO pricing Rs 470- Rs 543 does not provide significant upside post listing. The company is valued at Rs 3500+ crores for a FY13 estimated PAT of INR 60 crores (Trailing 12 months PE of 60) of which approx. 20% is on account of interest income from idle cash.
- Considering no comparable company listed in the Indian Stock Exchange so far, Free cash flow generation model with high ROCE, we believe the company will definitely trade at 30+ earnings multiple and will be a darling for Institutional Investors.
- In our view, post listing price will not be a run away and Retail investors will definitely get a window to buy at reasonable valuations in the next 12 months. In our view, with such a high ROCE and Free cash flow business model, competition will emerge but the company has created reasonable entry barrier with its marketing efforts and geographic coverage.

FINANCIAL HIGHLIGHTS

- Debt free company with cash on books as on 31st March 2013 of Rs 475 crores, high enough for growth capital requirement.
- Sales grew by 42% in FY2012 and 35% in 9 months ended 31st Dec FY2013. EBITDA grew by 48% in FY2012 and 32% for 9 months ended 31st Dec FY2013.
- Sustainable EBITDA margins (excl. Other Income) 22% for FY2012 and 23% for FY2013.
- Interest on high cash on hand of to support EPS delivery in FY2013-14. In our view, dividend payout (estimating 60%-70% dividend payout policy at Rs 6-7 dividend per share for FY2014) will act as a support post listing.

RECOMMENDATION: SUBSCRIBE – RETAIL SAFEY NET

- RETAIL investor's safety net is provided by the promoters if the share price falls below listing price in last 60 trading days of the first 180 trading days post listing.
- New sector and hence the craze from Institutional investors to own the stock. The Anchor Book subscription is an evidence of the kind of interest seen from institutional investors. (approx. 20 Institutional investors have invested)
- Day 1 of IPO opening has seen 50% subscription at Rs 530 price level (led by FIIs).
- **We like the JUST DIAL business model and would have recommended a Strong Buy if the valuations were a tad lower. However, considering no investor would sell of**



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