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Mumbai

CRISIL Research assigns IPO grade '5/5' to Just Dial Ltd

CRISIL Research has assigned a CRISIL IPO Grade '5/5' (pronounced 'five on five') to the proposed initial public offer (IPO) of Just Dial Ltd (Just Dial). This grade indicates that the fundamentals of the IPO are 'strong' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects Just Dial's strong position and brand in the local search market across India. Leveraging its first mover advantage in the field of phone-based search, Just Dial has built up India's largest local search database (of ~6 mn products and service providers) and a business model which competitors have found difficult to replicate. Its search volume has grown multi-fold due to its fast relevant search results, a constantly updated database and increased use of technology. The number of paying customers has tripled over FY09-11 to 120,200; Just Dial enjoys 100% advance payments from its clients, who are mostly micro, small and medium enterprises (MSMEs).

The grade takes into account that having started with phone-based search, Just Dial has been quick to embrace the new-era media - mobile phones (SMSes), internet and mobile internet. Further, the company has indigenously developed its technology platform and search algorithm which enables it to provide search results that are relevant to users' requirement. The number of search requests across all search platforms increased to ~181 mn in FY11 from ~26 mn in FY07. Going forward, Just Dial is expected to benefit from growth in number of MSMEs, and increasing telecom, internet and 3G penetrations.

The grade is further strengthened by Just Dial's experienced and proactive management who have seen that Just Dial keeps itself consistently innovating to remain ahead of competitors, who are mostly loss making. However, any aggressive move by larger players, like Google India, remains a key monitorable. As the company grows, maintaining management bandwidth to oversee growth would be a monitorable too, particularly in the backdrop of global expansion through a different promoter-entity. Also, Just Dial has to keep itself abreast of new technologies and new applications to stay ahead of the pack.

Just Dial has grown its revenues at a four-year CAGR of ~39% to Rs 1,899 mn in FY11 and improved its PAT margin to 15.1% in FY11 from 3.3% in FY07. ROE improved to 36.6% in FY11 from 14.6% in FY07. It reported EPS of Rs 5.5 in FY11. The company is debt free with negative working capital cycle.

About the company and the issue

Just Dial was incorporated in 1993 by Mr. V.S.S. Mani (MD & CEO) as A&M Communications Pvt. Ltd and started providing free local search services in 1996. Mr. V.S.S Mani has 23 years of experience in the field of media and local search services. Just Dial provides search services across two main genera: company search - a specific or any business; category search - product or service based on a given classification. The company generates revenues from paid advertisers who subscribe to its fee-based campaign packages where subscribers of the packages are given priority ranking in the search results. The company has received funding from SAIF II Mauritius Company Ltd, Tiger Global Four Holdings, Tiger Global Principals Limited, SAPV (Mauritius) and EGCS Investment Holdings.

The proposed IPO is in the form of fresh issue of shares upto Rs 3,600 mn and offer of sale (not available at the time of grading). Just Dial plans to invest Rs 1,013 mn on advertising and brand enhancement, Rs 510 mn in establishing new offices, Rs 994 mn in procurement and upgradation of computer hardware and the remaining proceeds for general corporate purposes (not available at the time of grading).

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CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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