

25th May, 2020

Brightcom Group limited

Stock Information

CMP	:	₹ 6.30
Book Value	:	63.08
EPS - TTM	:	9.24
P/E	:	0.68
P/Book	:	0.10
Dividend Yield	:	0%
BETA	:	0.31

Listed : BSE / NSE
Code : 532368 / BCG
Bloomberg : BCG:IN
Reuters : BRIH:NS

Face Value : ₹ 2.00
Outstanding Shares : 47.62 Cr
Market Cap : ₹ 300 Cr
US\$ 40 Mn

Average Volume : 8,81,356
Average Turnover : ₹ 0.41 Cr

Shareholding Pattern

Promoters	-	39 %
FII's & Funds	-	8 %
Institutions	-	10 %
Retail Public	-	43 %

Board of Directors

M.Suresh Kumar Reddy
Vijay Kancharla
Allam Raghunath
Dr. K Jayalakshmi Kumari
Dr. Surabhi Sinha
Y. Srinivasa Ro

Auditors

P.C.N & Associates

www.brightcomgroup.com**STRONG BUY**

TARGET PRICE - ₹ 12

90%



brightcom group

Kalyanam Bhaskar

Senior Equity Analyst

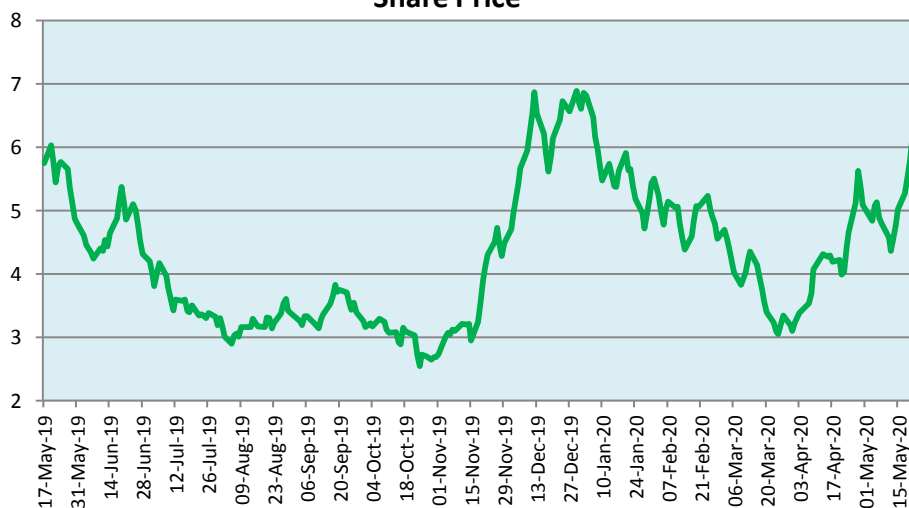
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* See last page for disclaimers

Turnaround Stock – Grabbing the eyeballs

- ❖ Niche Player in Digital Marketing, Digital Ecosystem, Artificial Intelligence and Information Management.
- ❖ Well poised to grab the opportunities arises out of **Covid-19** pandemic (social distancing - stay at home - online orders – over the top media platforms - high internet usage and increase in digital advertisement budget spending by Corporates)
- ❖ Turnaround Company with proven track record, pioneered by experienced promoters and management team.
- ❖ Attractive valuations trading at a huge discount to book value **0.20 X adj B.Value of Rs. 32** with a promising upward potential.
- ❖ Low Beta stock { **0.31** } in these volatile market conditions.
- ❖ **Only listed (small cap) pure Digital Company** in India to hedge your portfolio.

Share Price



52 Week High : 6.89 (30-Dec-19)

52 Week Low : 2.55 (24-Oct-19)

Historic High : 152.80 (14-Jun-10)

Historic Low : 2.55 (20-Nov-18)

PRELUDE

BCG – Brightcom Group (Formerly, Lycos Internet Limited - incorporated in the year Jan-1999) is a Hyderabad – Indian based Digital Marketing and Software Development Company, actively engaged in providing technical and economical solutions to Digital Advertisement, Marketing and Information Management sectors across INDIA, USA, AUSTRALIA, ISRAEL, BRAZIL, ARGENTINA, URUGUAY etc.,

The Company has 463 employees and consultants, working at 22 offices spread across the world. The software development services are based in India.

The group has the following subsidiary companies, spread across the world.

Sl.No	Name of the Company	Country	% of holding
1	YReach Media Private Limited	India	99%
2	LIL Projects Private Limited	India	100%
3	Frontier Data Management Inc	USA	100%
4	International Expressions Inc	USA	100%
5	Online Media Solutions Limited	Israel	100%
6	Ybrant Media Acquisition Inc	USA	100%
7	Dyomo Corporation	USA	100%
8	Max Interactive Pty Ltd	Australia	100%
9	DreamAd	SA Argentina	100%
10	DreamAd	SA Chile	100%
11	Get Media Mexico SociedadAnonima De Capital Variable	Mexico	100%
12	DreamAd	SA Panama	100%
13	DreamAd	SA Uruguay	100%
14	Ybrant Digital Services De Publiciade Ltd	Brasil	100%
15	Ybrant Digital (Brasil) Ltd	Singapore	100%
16	LGS Global FZE	UAE	100%

REVENUE MODEL

BCG provides comprehensive online – digital marketing services to Direct Marketers, Brand Advertisers, Marketing Agencies, Ad Exchanges and Networks.

Segments -

1. **Media (Ad-Tech and Digital Marketing)**
2. **Software Services**
3. **Future Technologies**

BCG's digital marketing services involves, marketing through –

- a. Video advertisements
- b. Display advertisements
- c. Search marketing
- d. Email-marketing
- e. Lead generation
- f. Affiliate marketing
- g. Social media marketing
- h. Mobile marketing

BCG-Technology Play

Header bidding (selling) auction was introduced with SSP “Compass” - sell traffic in a more efficient way with lesser overload to the users and improved yield.

Header Bidder- Buying: BCG's bidder was implemented in several publishers, allows the company to reach and compete for new traffic sources.

Prebid JS adapter – Officially approved as a partner of Prebid.JS initiative and we're now one of the Prebid official partners in the market.

Traffic quality automation focus - Pixelate “Prebid” was officially implemented on 100% of BCG's inventory, allowing the company to guarantee control & a high level of traffic quality.

Investment in Automation “trends” reporting –indicates spikes, preventing non-habitual cases, reduces risk of budget overspending and giving the team a better control around the clock.

BCG-Major Clients

1. Yahoo	2. Google
3. American Express	4. Unilever
5. Sparcmedia	6. Mercado libre
7. Petco	8. Starcom
9. Optimedia	10. Rubicon

DIGITAL ADVERTISING INDUSTRY SCENARIO

- Global digital advertising spend, which is currently at about **US\$ 300 billion** is estimated to cross **US\$ 500 billion** by the year 2025 at a CAGR of 15%
- Globally there are over **4.38 billion internet users** with a growth of 1000% from the year 2000 to 2019
- Acceptance of mobile and wireless devices has enabled the growth of more digital marketing platforms and digital marketing software solutions.
- The DA industry is categorized into three distinctive operators
 - Advertisers
 - Publishers
 - Intermediaries
- The DA industry utilizes several channels to execute advertising campaign for brands like
 - Display marketing
 - Video advertising
 - Mobile marketing
 - Search and email marketing
 - Lead generation
 - Social media advertising

(source : company filings with stock exchanges)

COVID 19 - Immense Opportunities to Digital Media Campaign

During the lockdown, people have used internet, mobile apps and digital infrastructure for their everyday needs. This unavoidable **shift in behavior** can be capitalized for economic growth, improved productivity, cost minimization and scaling up of business and brand positioning etc., **which in turn benefit the Digital Marketing Companies like Brightcom.**

Education—Education industry will take the most advantage of technology behavior change and become easier to access for all. Online learning and teaching will be the new norm of life in the future.

Agriculture—Technology can be used to connect market, retail and supply chain basically building Virtual B2B and B2C marketplaces. This will help farmers to get competitive value for their harvest. Information about seeds availability, latest techniques to improve productivity, rainfall and weather information and patterns, crop prices etc., will be shared instantly and digitally to the farmers.

Healthcare – The WHO estimates deficit of 6 lakhs doctors and 20 lakhs nurses in India. E-consultations will vastly improve access to healthcare in rural areas. It is expected that, around 60% of cases will be diagnosed in this new form of E-consultations manner.

Technology –Virtual meetings, work from home, would be new normal in the post Covid-19 World. Since IT had been a strong point of India, the IT and digital Industry will be definitely supported by Government Reforms and Initiatives to **export the digital solutions** across the world.

(source : research report by CA Dassani Associates)

BCG FINANCIALS

Consolidated

ANNUAL PROFIT & LOSS SUMMARY - CONSOLIDATED			Rs. Cr			
FY March Ending			2019	2018	2017	2016
Revenues			2577.72	2420.28	2452.00	2255.85
YOY growth	%		7%	-1%	9%	
Operating Expenses			1820.88	1706.97	1721.99	1582.23
EBITDA			756.84	713.31	730.01	673.62
YOY growth	%		6%	-2%	8%	
Finance Cost			13.17	14.79	15.24	15.89
Depreciation			135.10	108.14	95.74	63.64
Taxes			164.56	183.35	1.90	1.95
Net Profit			443.97	407.00	429.24	399.51
EBITDA Margin			29.36%	29.47%	29.77%	29.86%
Net Margin			17.22%	16.82%	17.51%	17.71%

BALANCE SHEET - CONSOLIDATED			Rs. Cr			
FY March Ending			2019	2018	2017	2016
Share Capital			95.25	95.25	95.25	95.25
NetWorth			3003.75	2825.20	2408.55	2031.95
Bank Liabilities-Indebtedness			162.73	171.81	92.84	84.64
Current Liabilities			285.91	254.12	339.16	315.24
Net Block			808.77	843.36	638.55	654.73
Investments in Affiliates			225.45	106.48	106.53	108.52
Sundry Debtors			889.77	875.12	776.77	719.7
Sundry Creditors			84.41	77.21	87.01	89.71
Current Assets			2217.01	2111.12	1907.58	1477.47
Total Assets			3464.30	3262.57	2852.5	2444.16
Return on Equity	%		15%	14%	18%	20%
Return on Assets	%		13%	12%	15%	16%
Current Ratio	ratio		7.75	8.31	5.62	4.69
Debt-Equity Ratio	ratio		0.05	0.06	0.04	0.04
Payables turnover	days		17	17	18	21
Receivables turnover	days		126	132	116	116
Outstanding Shares	Cr		47.63	47.63	47.63	47.63
E.P.S	Rs.		9.32	8.55	9.01	8.39
B.Value	Rs.		63.07	59.32	50.57	42.67

Standalone

ANNUAL PROFIT & LOSS SUMMARY - STAND ALONE			Rs. Cr			
FY March Ending			2019	2018	2017	2016
Revenues			456.72	454.82	466.23	459.40
YOY growth	%		0%	-2%	1%	
Operating Expenses			444.66	442.56	452.78	448.82
EBITDA			12.06	12.26	13.45	10.58
YOY growth	%		-2%	-9%	27%	
Finance Cost			13.17	14.78	15.23	15.88
Depreciation			1.00	1.07	1.42	2.17
Taxes			1.07	-0.67	-0.53	-1.06
Net Profit			-3.20	-2.94	-2.80	-6.53
EBITDA Margin			2.64%	2.70%	2.88%	2.30%
Net Margin			-0.70%	-0.65%	-0.60%	-1.42%

BALANCE SHEET - STANDALONE			Rs. Cr			
FY March Ending			2019	2018	2017	2016
Share Capital			95.25	95.25	95.25	95.25
NetWorth			583.01	583.00	585.25	593.87
Bank Liabilities-Indebtedness			72.82	87.49	92.84	84.64
Current Liabilities			126.27	116.88	101.68	100.03
Net Block			1.76	2.75	3.64	4.91
Investments in Affiliates			508.88	509.03	508.98	510.97
Sundry Debtors			227.63	228.37	218.23	223.05
Sundry Creditors			33.70	32.21	31.07	37.95
Current Assets			361.56	358.86	351.03	349.37
Total Assets			877.33	876.99	869.50	870.35
Return on Equity	%		-1%	-1%	0%	-1%
Return on Assets	%		0%	0%	0%	-1%
Current Ratio	ratio		2.86	3.07	3.45	3.49
Debt-Equity Ratio	ratio		0.12	0.15	0.16	0.14
Payables turnover	days		28	27	25	31
Receivables turnover	days		182	183	171	177
Outstanding Shares	Cr		47.63	47.63	47.63	47.63
E.P.S	Rs.		-0.07	-0.06	-0.06	-0.14
B.Value	Rs.		12.24	12.24	12.29	12.47

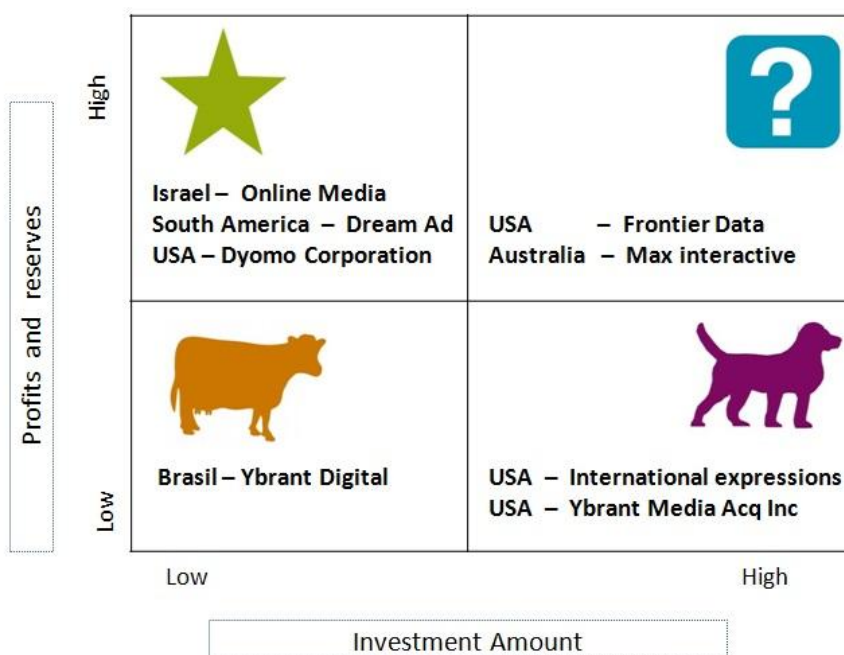
FINANCIAL SUMMARY - QUARTERLY - Consolidated		Rs. Cr						
Quarter Ending		Dec-19	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18
Revenues		871.02	627.08	575.24	567.03	851.96	617.08	541.64
QOQ growth	%	39%	9%	1%	-33%	38%	14%	
Operating Expenditure		630.42	431.87	388.33	397.71	622.58	423.47	377.04
EBITDA		240.60	195.21	186.91	169.32	229.38	193.61	164.60
QOQ growth	%	29%	4%	10%	-26%	18%	18%	
Finance cost		0.32	1.57	2.83	1.95	3.79	3.79	3.66
Depreciation		50.64	47.14	35.73	41.71	36.07	30.83	26.47
Taxes		45.78	41.01	39.69	18.12	51.19	52.04	43.21
Bad Debts written off				25.48				
Net Profit		143.83	105.46	83.16	107.52	138.33	106.91	91.23
QOQ growth	%	73%	27%	-23%	-22%	29%	17%	
EBITDA Margin	%	28%	31%	32%	30%	27%	31%	30%
Net Margin	%	17%	17%	14%	19%	16%	17%	17%
Outstanding Shares	Cr	47.63	47.63	47.63	47.63	47.63	47.63	47.63
E.P.S	Rs.	3.02	2.21	1.75	2.26	4.52	3.63	5.35

FINANCIAL SUMMARY - QUARTERLY - Standalone		Rs. Cr						
Quarter Ending		Dec-19	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18
Revenues		124.02	114.08	114.8	120.81	112.67	113.19	110.03
QOQ growth	%	9%	-1%	-5%	7%	0%	3%	
Operating Expenditure		106.20	110.38	111.56	117.71	106.49	112.34	108.09
EBITDA		17.82	3.70	3.24	3.10	6.18	0.85	1.94
QOQ growth	%	450%	14%	5%	-50%	627%	-56%	
Finance cost		0.31	1.57	2.83	1.95	12.26	3.79	3.66
Depreciation		0.21	0.21	0.21	0.24	0.25	0.26	0.25
Taxes		-0.20	1.44	-0.72	0.30	-0.14	-0.22	0.91
Bad Debts written off				25.48				
Net Profit		17.50	1.43	-24.56	0.58	-0.14	-3.18	-2.90
QOQ growth	%	-171%	-106%	-4334%	-514%	-96%	10%	
EBITDA Margin	%	14%	3%	3%	3%	5%	1%	2%
Net Margin	%	14%	1%	-21%	0%	0%	-3%	-3%
Outstanding Shares	Cr	47.63	47.63	47.63	47.63	47.63	47.63	47.63
E.P.S	Rs.	0.37	0.03	-0.52	0.01	4.52	3.63	5.35

Investment in Subsidiaries & their performance

Rs. Cr

SI No.	Name of the entity	Country	% Holding	Share in Investment		Share in Profit		Share in Net worth	
				%	Amount	%	Amount	%	Amount
	Parent - Standalone					-0.72%	(3,20,59,514)	19.41%	5,83,01,88,452
	<u>Indian</u>								
1	YReach Media Private Limited	India	99%	0.00%	99,000	0.00%	51,725	0.00%	29,609
2	LIL Projects Private Limited	India	100%	0.00%	99,980	0.00%	27,001	0.00%	1,92,695
	<u>Foreign</u>								
3	DreamAd SA	Argentina	100%						
4	DreamAd SA	SA Chile	100%						
5	Dream Ad- Get Media	Mexico	100%	10.68%	54,32,40,000	20.02%	88,88,89,957	14.73%	4,42,57,33,464
6	Dream Ad - SA	Panama	100%						
7	Dream Ad - SA	Uruguay	100%						
8	Online Media Solutions Limited	Israel	100%	10.18%	51,78,81,121	42.76%	1,89,86,63,061	33.61%	10,09,52,26,331
9	Frontier Data Management Inc	USA	100%	25.52%	1,29,84,77,349	15.74%	69,90,24,158	22.79%	6,84,47,63,334
10	Dyomo Corporation	USA	100%	0.01%	4,67,300	10.84%	48,13,40,972	9.07%	2,72,43,89,938
11	Ybrant Digital Services De Public	Brasil	100%	0.01%	2,65,932	3.93%	17,46,99,353	4.29%	1,28,80,57,615
12	International Expressions Inc	USA	100%	20.54%	1,04,53,63,208	3.71%	16,47,17,439	13.32%	3,99,98,94,083
13	Max Interactive Pty Ltd	Australia	100%	8.20%	41,74,90,000	3.70%	16,44,06,897	2.91%	87,28,62,230
14	Ybrant Digital (Brasil) Ltd.,	Singapore	100%	0.00%	45	0.00%	-	0.00%	45
15	Ybrant Media Acquisition Inc	USA	100%	24.86%	1,26,52,40,000	0.00%	-	-3.18%	(95,51,48,787)
16	LGS Global FZE	UAE	100%	0.00%	2,43,650	0.00%	-	0.00%	2,43,650
	Total			100.00%	5,08,88,67,585	100.00%	4,43,97,61,049	116.94%	35,12,64,32,659
	Less :Adjustments in Consolidation				-		-	16.94%	5,08,88,67,585
	Total			100.00%	5,08,88,67,585	100.00%	4,43,97,61,049	100.00%	30,03,75,65,074



INVESTMENT POSITIVES

- ✓ Niche Player in global digital marketing market, with a track record of more than twenty years.
- ✓ Operations - strategically spread across the world with more than 22 offices, in order to target, penetrate and capitalize on the demand for digital media across the globe.
- ✓ Proven track record with consistency in turnover. Top MNCs are BCG's major clients.
- ✓ Loaded with latest technology solutions and global marketing network, Brightcom is well poised to grab the **opportunities flooding out of Covid-19 pandemic**, with reference to digital advertisement, growing mobile and internet penetration and change in consumer behavior towards digital economy.
- ✓ Preferential Issue at this time is a huge morale and financial booster to the company. BCG is coming closely into the vicinity of **Bull's Eyes for strategic acquisition** by Funds / MNCs due to its pure digital play and may to be a multi-bagger stock in the future.
- ✓ **Only listed (small cap) – pure digital** marketing company in Indian Stock Market, to hedge your portfolio during these volatile market conditions with a very **low beta of 0.30**
- ✓ Attractive Valuations. BCG's current **market price of Rs 6.30** is trading at a huge **discount of 0.20 X times to adjusted Book Value of Rs. 32.27** (see page no. 11)

MARKET RECOGNITION OF DIGITAL RELATED STOCKS

(During COVID-19 turmoil in the last two months)

Name of the company - stock	Symbol	Currency	Price		% gain
			March-20 low	22-May-20	
Alphabet Inc - Google	GOOG	\$	1,056	1,413	34%
Facebook Inc - Facebook	FB	\$	146	235	61%
Netflix Inc - Netflix	NFLX	\$	298	429	44%
Amazon Inc - Amazon	AMZN	\$	1,676	2,436	45%
Bharti Airtel	BHARTIAIRTL	Rs	404	593	47%
Reliance Industries - Jio	RELIANCE	Rs	884	1,433	62%
Affle (India) Limited	AFFLE	Rs	1,085	1,550	43%
Brightcom Group	BCG	Rs.	3.05	6.30	107%

INVESTMENT CONCERNS

- ✓ Though the consolidated financials seems to be consistent and maintaining, however the parent company – **standalone financials are not doing well** and losing money year after year.
- ✓ BCG's Investments in Subsidiaries (recorded at cost value) and their return on equity are not encouraging. Also the Financials of the subsidiaries were not audited regularly. Needs **big write-off in the value of Investments** for adjustments towards fair value.
- ✓ The contingent liabilities, tax dues and bank borrowings will be a big constraint for the company.
- ✓ Due to the shocking economic disruption for the world wide lockdowns to curtail Covid-19 spread, most of the BCG's clients may not be in a position to clear the **receivables**. Due to which, the company has to **provide much for the bad debts**.
- ✓ **Illiquid stock** BCG's average daily turnover is around 0.88 mln shares with an average daily turnover of Rs. 4.14 Mln (US\$ 0.06 mln)

PEER GROUP

Name of the company	Symbol	CMP - Rs.	Market Cap	Revenue	Net Profit	Net Worth	P/E	P/B.V	Financial
		22-May-20	Rs. Cr	Rs.Cr	Rs.Cr	Rs.Cr	Ratio	Ratio	Period
AFFLE (INDIA) LIMITED	AFFLE	1,550	3,952	341	67	230	59	17	Dec 19- 9M Anld
BRIGHTCOM GROUP	BCG	6.30	300	2,577	443	3,003	0.68	0.10	Mar-19 year end

RECOMMENDATION

With an excellent track record and a proven player in the Global Digital Marketing Space, Brightcom is all set to penetrate more and capitalize on its technological and networking strengths and grab the opportunities coming up in the Digital Marketing Industry in the world, due to Covid-19 pandemic. With the raise of equity capital by way of Preferential Issue and reducing the Bank Liabilities to a major extent, BCG's fundamentals may look attractive in the future and the company may become Investor Friendly in the future.

VALUATION

ADJUSTED BOOK VALUE		Date	Rs.Cr
Shareholder's Equity as on		31-Mar-19	3,003
+ Add			
Consolidated Net Profit for 9 months		31-Dec-19	332
Proceeds from preferential issue		01-May-20	31
- Less			
Provisions for bad debts	25%		222
Writeoff in Investments - adjusting fair value	25%		127
Indebtedness		31-Mar-19	162
Legal & Tax Liabilities		31-Mar-19	86
Contingent Liabilities		31-Mar-19	29
Dividend's Payable		31-Mar-19	10
Net Book Value			2,730
- Less			
DLOM - Discount for lack of marketability of	40%		1,092
Subsidiary Companies Shares			
Adjusted Net Book Value			1,638
Outstanding shares post preferential issue	in Cr		50.76
Adjusted Book Value per share	Rs.		32.27

- Though BCG is posting consistent consolidated revenue and bottom line coupled with EBITDA & Net Margins, However the parent - standalone bottom line is still under pressure with low margins and losses. The consolidated profitability of the group may not be used for valuation purpose, since the subsidiaries financials are not audited regularly.
- Except for Affle (India) Limited, which came for an IPO and listed last year, there are not much Small Cap Indian Peer Group companies (pure digital companies), listed in Indian stock exchanges in order to consider comparable market multiples for valuation. Affle's market cap is around Rs. 3,95s Cr., when compared Rs. 300 market cap of BCG. Affle is a subsidiary of a Singapore Based Company and is purely into mobile marketing platform and a regional play, where as BCG is a global play.

- However, considering the Shareholder's Equity-Book value of the group, we arrived at an **adjusted Book Value of Rs. 32.27** after providing for necessary adjustments and discounts to the book value.
- We recommend a **STRONG BUY** of the BCG share at the **current price of Rs. 6.30** with a **target price of Rs. 12.00** (upside potential of around 90%)
- Target price will be revised after analyzing the FY 2019-20 year end annual and March 20 quarterly results, once announcement by the company.

Kalyanam Bhaskar

Senior Analyst, Valuer, Consultant & Ex Fund Manager
SEBI – NISM Registration No. **NISM-201800165521**

Cell : +91 9989 800180 (India)
Cell : +971 56 1845784 (Dubai)
Email : bhaskarkalyanam@gmail.com

Menasa Management Consultants

Email : bhaskar@menasa.in
Web : www.menasa.in

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