

# Brightcom Group limited

SECTOR: SECTOR : SOFTWARE & SERVICES

## Equity Research Report

23 December 2020

CMP: ₹ 6.65

(23/12/2020)

### Company details (23Dec)

**Market Cap** ₹ 337.59 Cr

**52 Weeks High/Low** ₹13.02 / ₹ 2.90

**Stock P/E** 0.74

**EPS** 9.31

**Dividend** 0.75%

— Brightcom Group — S&P BSE Sensex



### About the Company:

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 through Ad-tech, New Media and IoT based businesses across the globe, primarily in the digital eco-system.

Brightcom Group is a leading global provider of comprehensive online or digital marketing services to: direct marketers, brand advertisers, and marketing agencies.

The Company is divided into three major divisions: (i) Media (Ad-Tech and digital marketing), (ii) Software services, and (iii) Future technologies. The Company's primary clients are end advertisers, agencies and publishers, but also include ad exchanges & networks

The Company has 22 office locations and has 463 employees and consultants worldwide. Brightcom client list contains some of the biggest names i.e Airtel, British Airways, Coca-Cola, Hyundai Motors, ICICI Bank, ITC, ING, Lenovo, LIC, Maruti Suzuki, MTV, P&G, Qatar Airways, Samsung, Viacom, Sony, Star India, Vodafone, Titan, and Unilever. Brightcom works with agencies like Havas Digital, JWT, Mediacom, Mindshare, Neo@Ogilvy, Ogilvy One, OMD, Satchi&Satchi, TBWA, and ZenithOptiMedia, to name a few.

The Company achieves this by selling targeted and measurable online advertising campaigns and programs for advertisers and advertising agency clients, generating client leads, online sales and increased brand recognition on their behalf with online consumers.

The Company's digital marketing services involve marketing through various methods, including: (i) video ads, (ii) display ads, (iii) search marketing, (iv) email marketing, (v) lead generation, (vi) affiliate marketing, (vii) social media marketing, and (viii) mobile marketing. Niche Player in Digital Marketing, Digital Ecosystem, Artificial Intelligence and Information Management

Turnaround Company with proven track record, pioneered by experienced promoters and management team.

Only listed (small cap) pure Digital Company in India.

Brightcom Group ranks at 400 among Fortune 500 India companies.

### Price Performance (%) (23Dec)

**1m** **3m** **YTD** **12m**

**Absolute** 29.33 5.35 0.30 4.35

### ShareHolding Pattern SEP20(%)

**Promoter** 36.76

**DII** 0.13

**FII** 5.51

**Others** 63.01

**Quarterly Financials (Figures in Rs. Crores)**

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
<b>Sales</b>	544.60	620.84	849.86	564.94	574.98	629.57	859.52	628.25	639.55	638.34
<b>Expenses</b>	377.05	423.50	622.61	397.72	388.35	431.88	630.44	427.34	447.84	441.15
<b>Operating Profit</b>	167.55	197.34	227.25	167.22	186.63	197.69	229.08	200.91	191.71	197.19
<b>Other Income</b>	-2.96	-3.76	2.11	2.09	-25.21	-2.49	11.50	4.86	-0.01	1.33
<b>Depreciation</b>	26.48	30.83	36.08	41.72	35.73	47.14	50.64	46.01	51.14	55.29
<b>Interest</b>	3.66	3.79	3.79	1.95	2.83	1.58	0.32	1.57	1.62	1.69
<b>Profit before tax</b>	134.45	158.96	189.49	125.64	122.86	146.48	189.62	158.19	138.94	141.54
<b>Tax</b>	43.21	52.05	51.20	18.12	39.70	41.01	45.78	50.54	37.56	38.54
<b>Net profit</b>	91.24	106.92	138.30	107.52	83.16	105.46	143.84	107.65	101.38	103.00
<b>OPM</b>	31%	32%	27%	30%	32%	31%	27%	32%	30%	31%

Quarter profit remain consistence even in covid era. OPM % is consistence for the company it is a good sign for it. Net sales of the firm is consistence. The company has shown positive signs in controlling the operating expenses due to which the profit of the company has increased over last couple of quarters. I expect the numbers to increase in third quatr for current financial year.

**Cash Flows Annual (Figures in Rs. Crores)**

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
<b>Cash from Op-erating Activity</b>	18.36	-146.48	-105.31	210.97	275.59	242.25	151.43	314.80	509.82	89.06
<b>Cash from In-vesting Activity</b>	-14.86	304.39	-2.60	-60.01	-271.31	-293.42	-79.56	-313.02	387.33	271.84
<b>Cash from Fi-nancing Activi-ty</b>	-8.98	619.42	31.47	-202.16	8.78	53.75	-50.86	7.09	109.25	199.15
<b>Net Cash Flow</b>	-5.48	168.55	-76.44	-51.20	13.06	2.58	21.02	8.86	13.23	16.36

Company have made large investments last year. But net cash of the company have decreased due to non payment of bills. Good investment made by the company and good reserve implies less insolvency for the company.

**Balance Sheet (Figures in Rs. Crores)**

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
<b>Equity Share Capi-tal</b>	25.42	95.25	95.25	95.25	95.25	95.25	95.25	95.25	95.25	95.25
<b>Reserves</b>	146.56	799.88	942.96	1,063.95	1,434.66	1,936.71	2,313.30	2,729.96	2,908.51	2,731.21
<b>Borrowings</b>	17.02	205.98	187.52	157.89	94.46	81.17	79.18	76.76	67.02	36.02

<b>Other Liabilities</b>	277.30	598.94	379.47	485.81	460.57	328.21	361.67	357.70	390.59	407.52
<b>Total</b>	466.30	1,700.05	1,605.20	1,802.90	2,084.94	2,441.34	2,849.40	3,259.67	3,461.37	3,270.00
<b>Net Block</b>	66.93	307.02	283.59	273.87	257.92	482.54	567.33	542.29	524.38	827.11
<b>Capital Work in Progress</b>	-	41.70	41.70	41.70	269.74	172.20	71.44	301.30	284.62	135.78
<b>Investments</b>	2.00	7.84	7.84	8.74	6.06	108.74	106.52	106.49	225.46	251.15
<b>Other Assets</b>	397.37	1,343.49	1,272.07	1,478.59	1,551.22	1,677.86	2,104.11	2,309.59	2,426.91	2,055.96
<b>Total</b>	466.30	1,700.05	1,605.20	1,802.90	2,084.94	2,441.34	2,849.40	3,259.67	3,461.37	3,270.00
<b>Working Capital</b>	120.07	744.55	892.60	992.78	1,090.65	1,349.65	1,742.44	1,951.89	2,036.32	1,648.44
<b>Debtors</b>	254.22	722.81	638.01	786.10	845.29	719.71	776.77	875.13	889.78	974.71
<b>Debtor Days</b>	198.52	208.86	145.55	172.54	158.12	116.78	115.66	131.95	125.87	132.14
<b>Return on Equity</b>	29%	21%	5%	19%	22%	20%	18%	14%	15%	16%
<b>Return on Capital Emp</b>		40%	8%	24%	37%	33%	28%	22%	21%	21%

Company's Reserve is significantly increasing over past years. Company have reduced debt over the years. Company hold a good cash reserve. The company has a large debtor and has to work on that. The ROE and capital work in progress is less due to its debtors.

<b>ANNUAL</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Return on Equity (%)	15.57	14.78	14.4	17.82	19.66
Return on Capital Employed (%)	21.95	20.61	21.33	26.2	29.83
Return on Assets (%)	13.45	12.81	12.47	15.04	16.34
Interest Coverage Ratio (x)	98.99	47.18	40.9	41.61	38.37
Asset Turnover Ratio (x)	82.33	74.48	74.19	85.93	92.29
Price to Earnings (x)	0.34	0.34	0.54	0.86	2.25
Price to Book (x)	0.05	0.05	0.08	0.15	0.44
EV/EBITDA (x)	0.08	0.15	0.28	0.49	1.35
EBITDA Margin (%)	29.82	29.33	29.46	29.77	29.86

P/E=0.74 compared to industry 29.66 (As on 23 Dec 2020) which is very good for Bihtcom Group. Book Value 12.04 which is very attractive with an EPS of 0.46. The delivery of stock is gaining over couple of months which is showing good sign and strength in investor confidence on the company fundamentals. ROE Improved in 2 years. Assets, Net profit and low debt are strength showing in company's books.

Brightcom Group has a PE ratio of 12.65 which is low and comparatively undervalued. ROA of -0.17 % which is a bad sign for future performance. (higher values are always desirable)

A higher current ratio is desirable so that the company could be stable to unexpected bumps in business and economy. Brightcom Group has a good current ratio of 2.03. Company has D/E ratio of 0.23 which means that the company has low proportion of debt in its capital.

Brightcom Group has reported revenue growth of 1.75 % which is poor in relation to its growth and performance.

#### COVID ERA:

In March-July 2020, users invested 10% more time on digital Y/Y (vs. March-July 2019) with video (OTT/CTV) paying particular attention to the gap in ads spending between linear TV (-24%) and wired TV (+19%). The acceptance of streaming has been critical throughout the pandemic. And, with more people watching their phones, on-demand advertising-based content (AVOD) services such as Peacock and Hulu that provide free or affordable programming will provide further possibilities for marketers eager to ride the wave of digital streaming at this moment of tremendous shift.

#### Post COVID-19 ERA:

The Covid19 pandemic will theoretically lead to the end of globalisation as we know it. In order to manage the global health crisis, states have implemented emergency policies everywhere. In America, each state has been strengthened by these steps, improving localization. They cause people to stick ever closer to their families, and to their families in exchange. 4x more individuals trust advertising on news outlets than on social media in the latest epidemic.

People used the internet, smartphone applications and digital infrastructure for their daily needs during the lockdown. This eventual improvement in behaviour can be capitalised for economic growth, increased competitiveness, minimization of costs and scaling of organisation and brand branding, etc., which in turn helps digital marketing firms such as Brightcom.

In the post Covid-19 Environment, virtual gatherings, operating from home, will be a new standard. Since IT has been a strong point for India, government reforms and efforts to export technology technologies around the world would certainly benefit the IT and digital industry. For Brightcom to broaden its business where eve-ryone is linked to the internet for its essential needs, this would help.

#### Management Positive Outlook

The prediction of management is a 5.3% uptick for 2021 compared to this year. The pandemic has impacted advertising budgets, but digital advertising is still considered essential for most brands and retailers. Digital advertising offers opportunities for brands to get in front of consumers at the moments they're ready to spend

Some of the key developments that happened for the Brightcom Group are: launched a new version of core platform called Compass 2.0. Signature Optimization Algorithm to serve at the next level. Advanced Safety tool added - Protector. Improved Inventory tool added- Adaptor. Featured amongst eDigital's "Best 72 SSP for 2020" alongside AOL, AppNexus, Salesforce DMP and theTradeDesk.

Brightcom closed out Canara Bank loan in the last financial year. Next in line is the loan with Axis Bank. The Company is expanding globally and penetrating potential markets like Brazil and China. In the future, it would focus more. Consolidation of service providers may affect the Company The Company has also ventured into strategic acquisitions and tie-ups to capitalize on current market opportunities

BCG has significant policies to acquire and retain new and existing talent

Positives	Negative
<ul style="list-style-type: none"> <li>• Company has reduced debt.</li> <li>• Company is almost debt free.</li> <li>• Stock is trading at 0.10 times its book value</li> <li>• No threat to this company's solvency in the future</li> <li>• RoA Annual % is stable compared to historical averages.</li> <li>• Current price is less than the intrinsic value</li> <li>• PEG ratio is 0.23%.</li> </ul>	<ul style="list-style-type: none"> <li>• Promoter holding is low: 36.76%</li> <li>• Promoters have pledged 31.91% of their holding.</li> <li>• Company has high debtor days of 173.54.</li> <li>• Enhanced competition in the US market may reduce price and revenue margin.</li> </ul>

### Key Qualitative positive for Brightcom Group

Ads are the internet's lifeblood, the foundation of support for just about anything online that you read, see and hear. The goal of Brightcom is to make it easier for our partners to optimise yield across film, contextual, view and web platforms and gain visibility.

One of the most significant qualities is to be viewed as trustworthy in marketing. Brand communications in this way are met with less doubt. They are more likely to become your clients because prospective customers believe you. When you have their confidence, the lifetime value for each customer would rise higher. In its area, Brightcom is the strong player.

Launch of B-Local: Brightcom's B-local is a local news viewer exchange that offers direct access to people's real lives to demand partners. B-local provides marketers an alternative to the programmatic 'faceless crowds' approach, with Brightcom's unmatched 20-year business expertise, and an award-winning AI network at its heart. By re-incorporating brands into a local, recognisable culture that audiences can know and trust, B-local does so.

### Industry Trend

Global investment on digital ads, which is currently around US\$ 300 billion, is expected to surpass US\$ 500 billion by 2025 at a 15 percent CAGR. There are over 4.38 billion internet users worldwide, with a 1000 percent increase from 2000 to 2019. Mobile and wireless device adoption has helped more digital marketing channels and digital marketing software solutions to expand.

Big labels have just begun programmatic operations. In the present epidemic, rather than on social media, 4x more individuals trust advertisers on news pages.

### INVESTMENT POSITIVES

Niche Competitor, with a track record of more than twenty years in the global digital marketing industry.

Operations - geographically deployed globally with more than 22 offices in order to target, infiltrate and catch the worldwide market for new media.

Proven track record for turnover coherence. BCG's main consumers are leading MNCs.

Brightcom is well positioned to catch the opportunity flowing out of the Covid-19 pandemic, with regard to digital ads, increasing smartphone and internet adoption and transition in consumer behaviour towards the new economy, filled with latest technology solutions and global marketing network.

At this time, the preferential issue is an immense moral and financial booster for the company. Due to its pure digital play, BCG is coming close to Bull's Eyes for strategic acquisition by Funds / MNCs and could be a multi-bagger asset in the future.

Listed only (small cap)-a pure Indian Stock Market digital marketing firm, to hedge the portfolio with a very low beta of 0.30 during these competitive market conditions.

Appealing Valuations. Compared to its book value, BCG's present share price of Rs 6.65 (20 Dec 2020) is trading at a huge discount.

## INVESTMENT CONCERNS

While combined financials appear to be stable and sustained, the parent corporation does not do well and loses money year after year. Standalone financials do not do well.

BCG's investments (recorded at cost value) in subsidiaries and their return on equity are not inspiring. The subsidiaries' financials were also not routinely audited. The valuation of assets requires a substantial write-off for changes to market value.

A restriction for the company would be the contingent obligations, tax dues and bank borrowings.

Some of the BCG's clients will not be in a position to clear the receivables due to the Covid-19 spread. Therefore, the corporation needs to provide a lot for the poor debts.

## Litigation in consideration:

Lycos Inc., formed in 1995, Lycos was acquired by Terra Networks for \$12.5 billion in 2000. Lycos was later sold to Daum Communications for \$95 million in 2004. The subsidiary (Ybrant Media Acquisition Inc., USA) has failed to pay part consideration due to Daum Global Holding Corporation in respect of acquisition of Lycos Inc., considering which the district court of New York has granted receivership of 56% shares of the Lycos Inc. back to Daum Global Holding Corporation.

USD 16 Million for acquisition of M/s. Lycos Inc., to Daum Global Holdings Corporation.

The Company has had a few tax cases and a litigation case against it, which, if lost, may impact future cash flows.

## My Call

With an impressive track record and an established player in the Global Digital Marketing Sector, Brightcom is all set to penetrate further and build on its technical and networking capabilities and take advantage of the possibilities emerging from the Covid-19 pandemic in the digital marketing industry worldwide.

BCG's fundamentals look appealing in the future with the increase of equity capital through Preferential Issue and the reduction of bank liabilities to a substantial degree, the company have become Investor Friendly to invest for a good return over a long run.

By 2025, the market valuation is expected to hit US\$ 144.3 billion, with a CAGR of 4.2 percent over the period 2020-2025. The numbers for Q2-Q3 show signs of optimistic development.

**I hold my optimistic outlook and expect Brightcom in the coming years to be a multibagger.**