

Brightcom Group limited

A Potential Re-rating Candidate

SECTOR: Digital Advertising/ Adtech

CMP: ₹ 7.60
(01/03/2021)

TARGET PRICE: ₹ 36.80
Months: 12

Equity Research Report

01 March 2021

RATING:

Upside:

BUY

384%

Company details (01 March)

Market Cap ₹ 386 Cr

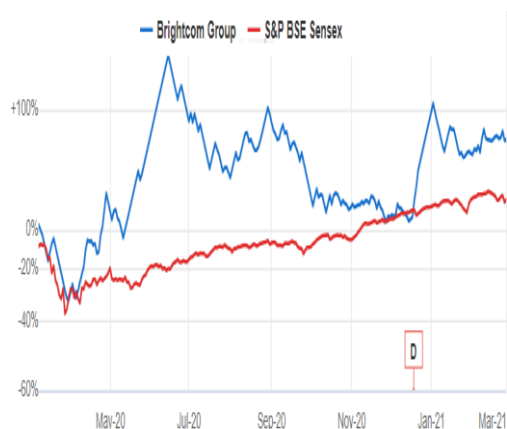
52 Weeks High/Low ₹13.02 / ₹ 2.90

Stock P/E 0.82

EPS 9.02

Dividend Yield 0.66%

Price Charts (01 March)



Price Performance (%) (01 March)

	1m	3m	YTD	12m
Absolute	6.43	54.99	10.99	66.42

Shareholding Pattern SEP20(%)

Promoter	36.76
DII	0
FII	0.71
Others	62.52

Becomes A Zero Debt Company

The Brightcom Group has completed the requisite payments (Rs 17 crore out of which Rs 11 crore last month, the balance Rs 6 crores are paid yesterday) to close out the loan account with Axis Bank Limited. Now Brightcom Group is a zero-debt company.

The Brightcom has increased its publisher strength from **10000 publisher to 47000 publishers in just two years**. Brightcom's ads.txt is currently implemented on more than 47000 websites.

The Direct accounts stands at 89704. The BCG have a major market share of 4.5% and a reseller account of 10098. There has been surge in number of ad-publisher of BCG from 10000 to 47000 in a period of 2 years.

Share warrants approval is also in the pipeline and this will usher in capital infusion thereby improving the growth phase.

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.

Brightcom Group ranks at 400 among Fortune 500 India companies.

Quarterly Financials Dec20 (Figures in Rs. Crores)

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Sales	620.84	849.86	564.94	574.98	629.57	859.52	628.25	639.55	638.34	878.55
Expenses	423.50	622.61	397.72	388.35	431.88	630.44	427.34	447.84	441.15	628.28
Operating Profit	197.34	227.25	167.22	186.63	197.69	229.08	200.91	191.71	197.19	250.27
Other Income	-3.76	2.11	2.09	-25.21	-2.49	11.50	4.86	-0.01	1.33	0.51
Depreciation	30.83	36.08	41.72	35.73	47.14	50.64	46.01	51.14	55.29	60.69
Interest	3.79	3.79	1.95	2.83	1.58	0.32	1.57	1.62	1.69	1.65
Profit before tax	158.96	189.49	125.64	122.86	146.48	189.62	158.19	138.94	141.54	188.44
Tax	52.05	51.20	18.12	39.70	41.01	45.78	50.54	37.56	38.54	49.83
Net profit	106.92	138.30	107.52	83.16	105.46	143.84	107.65	101.38	103.00	138.60
OPM	32%	27%	30%	32%	31%	27%	32%	30%	31%	28%

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
Cash from Operating Activity	18.36	146.48	105.31	210.97	275.59	242.25	151.43	314.80	509.82	89.06
Cash from Investing Activity	-14.86	304.39	-2.60	-60.01	-271.31	293.42	-79.56	313.02	-387.33	271.84
Cash from Financing Activity	-8.98	619.42	31.47	202.16	8.78	53.75	-50.86	7.09	-109.25	199.15
Net Cash Flow	-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 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
Equity Share Capital	25.42	95.25	95.25	95.25	95.25	95.25	95.25	95.25	95.25	95.25
Re-serves	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

Bor- rowings	17.02	205.98	187.52	157.89	94.46	81.17	79.18	76.76	67.02	36.02
Other Liabili- ties	277.3 0	598.94	379.47	485.81	460.57	328.21	361.67	357.70	390.59	407.52
Total	466.3 0	1,700. 05	1,605. 20	1,802. 90	2,084. 94	2,441. 34	2,849. 40	3,259. 67	3,461.3 7	3,270. 00
sNet Block	66.93	307.02	283.59	273.87	257.92	482.54	567.33	542.29	524.38	827.11
Capital Work in Pro- gress	-	41.70	41.70	41.70	269.74	172.20	71.44	301.30	284.62	135.78
Invest- ments	2.00	7.84	7.84	8.74	6.06	108.74	106.52	106.49	225.46	251.15
Other Assets	397.3 7	1,343. 49	1,272. 07	1,478.5 9	1,551.2 2	1,677.8 6	2,104.1 1	2,309. 59	2,426. 91	2,055. 96
Total	466.3 0	1,700. 05	1,605. 20	1,802. 90	2,084. 94	2,441. 34	2,849. 40	3,259. 67	3,461.3 7	3,270. 00
Work- ing Cap- ital	120.0 7	744.55	892.60	992.78	1,090. 65	1,349. 65	1,742.4 4	1,951.8 9	2,036. 32	1,648.4 4
Debtors	254.2 2	722.81	638.01	786.10	845.29	719.71	776.77	875.13	889.78	974.71
Debtor Days	198.5 2	208.8 6	145.55	172.54	158.12	116.78	115.66	131.95	125.87	132.14
Return on Eq- uity	29%	21%	5%	19%	22%	20%	18%	14%	15%	16%
Return on Cap- ital Emp		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 holds 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.

ANNUAL	2020	2019	2018	2017	2016
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 of 0.82 which is very low for Brightcom Group. Book Value 59.1 which is very attractive with the stock price Rs 7.60 (As on 1st March 2021). The Retail investors are showing positive attitude towards the stock and taking high delivery over past few weeks. The company is almost debt free and its reserves are constantly increasing over the years which is very good sign for the company.

ROE of 15.7% is highly attractive for the investors which is a good 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 an excellent current ratio of 4.80. Company has D/E ratio of 0.01 which means that the company has low proportion of debt in its capital which is excellent for the company.

Business Highlights for current Quarter:

1. B-local product recruited more than 60 newspapers in the US. Names such as Seattle times, Boston Globe, Las Vegas Sun, CBS Local and Time Out New York are our publishers now.
2. Set up a new European office in Berlin headed by Dania Sanlov.
3. The company was listed amongst Fortune 500 India companies (Ranked 400).
4. Brightcom is IAB TCF certified Vendor now.
5. The company has settled its entire debt with Axis Bank.

Revenue for Q3 FY2020-21 was Rs. 878.55 Crores, an increase of 2.21 % Y-o-Y and an increase of 37.63 % Q-o-Q. EBIDTA for Q3 FY2020-21 was Rs.250.78 Crores, an increase of 26.32 % Q-o-Q and an increase of 4.24 % Y-o-Y. PAT for Q3 FY2020-21 was Rs. 138.60 Crores, an increase of 34.56 % Y-o-Y and a decrease of 3.64 % Q-O-Q.

Revenue from Digital Marketing Segment for Q3 FY2020-21 was Rs.796.13 Crores, an increase of 42.86 % Q-o-Q and an increase of 6.24 % Y-o-Y. PBT from Digital Marketing Segment for Q3 FY2020-21 was Rs.188.27 Crores, an increase of 33.17 % Q-o-Q and an increase of 8.95 % Y-o-Y. Revenue from Software development Segment for Q3 FY2020-21 was Rs.82.42 Crores.

Key Qualitative positive for Brightcom Group quarter results

- FII/FPI have increased holdings from 0.23% to 0.71% in Dec 2020 qtr.
- Promoters holding remains unchanged at 36.76% in Dec 2020 qtr.
- Debt Level: BCG's debt to equity ratio (0.01) is considered very good.
- Reducing Debt: BCG's debt to equity ratio has reduced from 4% to 1.2% over the past 5 years.
- Debt Coverage: BCG's debt is well covered by operating cash flow (481.3%).
- Interest Coverage: BCG earns more interest than it pays, so coverage of interest payments is not a concern.

Key Qualitative negative for Brightcom Group quarter results

- Promoters pledge remained unchanged at 31.91% of holdings in Dec 2020 qtr.
- BCG's dividend (0.66%) is low compared to the top 25% of dividend payers in the Indian market (1.87%).

Positives

- Company has Positive Net Cash Flow
- Company has seen consistent sales growth in the last eight quarters
- Company has Strong ROE
- Company is generating increasing cash from operations
- Promoter pledge is low and not increasing
- Company is giving better long term returns than the industry
- Company's sales growth is better than the industry median
- Price to Earnings Ratio lower than 40% of the highest PE in the last 5 years
- Share warrants approval too is in the pipeline and this will usher in capital infusion too thereby improving the growth phase.

Negative

- Company has not seen consistent profit growth in the last eight quarters
- Insider have not sold stock in the past 3 months?
- Earnings to price yield is not greater than 2x AAA Bond rate
- Dividend yield is not greater than 2/3 AAA Bond yield
- High Promoter shares Pledge
- Low promoter holding

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

- The stock is considerably attractive based on intrinsic value.
- PEG ratio is heavily discounted below 1.
- Brightcom Group Ltd earnings have grown steadily, whereas share price has depreciated -20.4% CAGR over the past five years, indicating the company's share price is likely undervalued.
- Debt level is low and not considered a risk
- The company's earnings are high quality
- Profit margins decreased but not substantially
- Stock PE vs Peer: BCG is good value-based pick on its PE Ratio (0.8x) compared to Affle India (cons. PE of 167) and the IN Interactive Media and Services industry average (17x).
- Stock PE vs Market: BCG is good value based on its PE Ratio (0.8x) compared to the Indian market (18.1x).
- PB vs Industry: BCG is good value based on its PB Ratio (0.1x) compared to the IN Interactive Media and Services industry average (8.5x).

(Please note that BCG's direct and justified comparison can be done with its only listed peer, Affle India which is trading at cons PE of 167.)

Investments Concerns

- The stock is considerably attractive based on intrinsic value.
- Growing Profit Margin: BCG's current net profit margins (16.2%) are lower than last year (16.7%).

Litigation in consideration:

The BCG has completely settled its total debt with Axis Bank limited and now the brightcom group is a total debt free company on 1ST March.

With the share warrants approval in coming months, Brightcom Group will be able to settle its pending issues Daum.

Short Term Liabilities: BCG's short-term assets (₹20.1B) exceed its short-term liabilities (₹4.2B).

Long Term Liabilities: BCG's short-term assets (₹20.1B) exceed its long-term liabilities (₹128.7M).

Technical Outlook



On Technical charts the Brightcom group is having its first resistance at Rs 10.25 level and second at Rs 22.90 on Monthly basis. Currently the stock is trading at its support of 7.65 level and it's a great entry point to accumulate this stock. On approval of warrants approval and axis settlement stock can gain 6x from current level.

On crossing its 1st resistance of 10.25 the stock is likely to zoom to its second resistance of 22.90. After breaking its second resistance the stock is having no major historical resistance till 65 Rs. The stock can face a small resistance at 35 level. The stock is trading way below its book value and drastically undervalued. So, after long multiyear consolidation, the stock may see a strong momentum after closing above 10 on monthly basis.

The PE of software companies is around 36 while the PE of Affle India (peer company) is around 200....Now the Brightcom Group has become zero debt; you may call for Rerating of stock with a PE of 9-10 to begin with...

My Call

Keep Adding based on your risk appetite for BCG in the coming months, don't look at the holding value in your portfolio and get down. Instead look at the number of the shares you own. Let the number of shares grow in size as the stock has great potential to give you multibagger returns in upcoming years.

The company has good fundamentals and has good reserves to settle its pending issues with, Daum.

By 2025, the market size is expected to hit US\$ 500 billion, with a CAGR of 4.2 percent over the period 2020-2025. The numbers for Q3 show signs of optimistic development. For the coming one year I expect an 201% movement in Brightcom with a target of 22.90 Rs.

Now after paying the debt of Axis bank BCG is a debt-free company also Share warrants approval too is in the pipeline and this will usher in capital infusion too thereby improving the growth, which should boost its share price to its near-term resistance of 36.80.

Short term PE of 6 after considering share warrants allotment shall yield immediate target price of Rs 36 for BCG.

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

Disclosures:

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