

# INFOMEDIA INDIA

INR 139

Waiting in the wings

NOT RATED



## \* Business directories and special interest magazines - poised for growth

Rapid industrial activity and increasing affluence due to economic growth in the country has led to growth for specialized directories and magazines across business verticals. This has led to product extensions and content customization through various channels (Print, CD, web, etc.) thereby driving circulation and subscription of business directories and special interest magazines.

We believe that with a strong understanding of the customer mind set, relationships with industry bodies, pan India presence and growing number of advertisers, Infomedia is well poised to grow this division over the next few years.

## \* Foray into publishing BPO

There is a huge market for sourcing of pre-press work like typesetting, composition, indexing, graphics, multimedia solutions, etc., from the US and UK. The domestic publishing BPO market, valued at USD 250 mn in 2006, is likely to grow at ~30% over the next few years. With the recent acquisitions of Keyword Group, International Typesetting (ITC), and Cepha Imaging, coupled with the fact that less than 15% of the work is currently outsourced to India, we believe that Infomedia is well placed to exploit the opportunities in publishing BPO.

## \* New initiatives spell good growth for publishing segment

Infomedia has 12 b2b titles and eight b2c special interest magazines in its repertoire. On the back of 125 distribution partners and a pan-India presence, these titles together command an annual readership of over 1 mn. Strategic partnerships with leading global players like Reed, Disney, and Future Media, will help the company increase its repertoire of titles. With 3.1 mn copies distributed annually, its flagship product Yellow Pages is the market leader in the business directories segment. The company also plans to introduce Yellow Pages on other media channels like the web and mobile phones, thereby further monetizing its content.

## \* Financials and outlook

At CMP of INR 139, the stock trades at 27x our consolidated FY07E EPS of INR 5.1. With increased contribution from BPO business we believe that sales growth is likely to be at ~25% CAGR from FY07-09E, leading to higher EBITDA margins. But increasing interest and depreciation costs are likely to restrict net profit growth. Hence, we believe the stock will warrant a long-term view of ~18 months for any substantial returns.

### Financials (consolidated)

Year to March	FY04	FY05	FY06	FY07E
Revenues (INR mn)	1,259	1,257	1,295	1,815
EBITDA (INR mn)	222	203	133	263
Extraordinary income / loss	159	464	(22)	-
Net profit (INR mn)	242	572	71	101
EPS (INR)	21.1	25.0	3.1	5.1
EPS growth (%)	108.7	18.4	(87.6)	66.1
PE (x)	6.6	5.6	44.9	27.0
Dividend yield (%)	9.7	6.6	1.6	1.4
ROE (%)	27.2	43.7	4.7	8.5

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### Market Data

52-week range (INR) : 222 / 118  
Share in issue (mn) : 19.6  
M cap (INR bn/USD mn) : 2.7 / 62.9  
Avg. Daily Vol. BSE ('000) : 356.4

### Share Holding Pattern (%)

Promoters : 63.4  
MFs, FIs & Banks : 1.3  
FIs : 7.7  
Others : 27.7



## Risks and Concerns

- ♦ Rising raw material costs.
- ♦ Higher interest and depreciation costs may adversely affect net margins.
- ♦ Slowdown in print advertising.

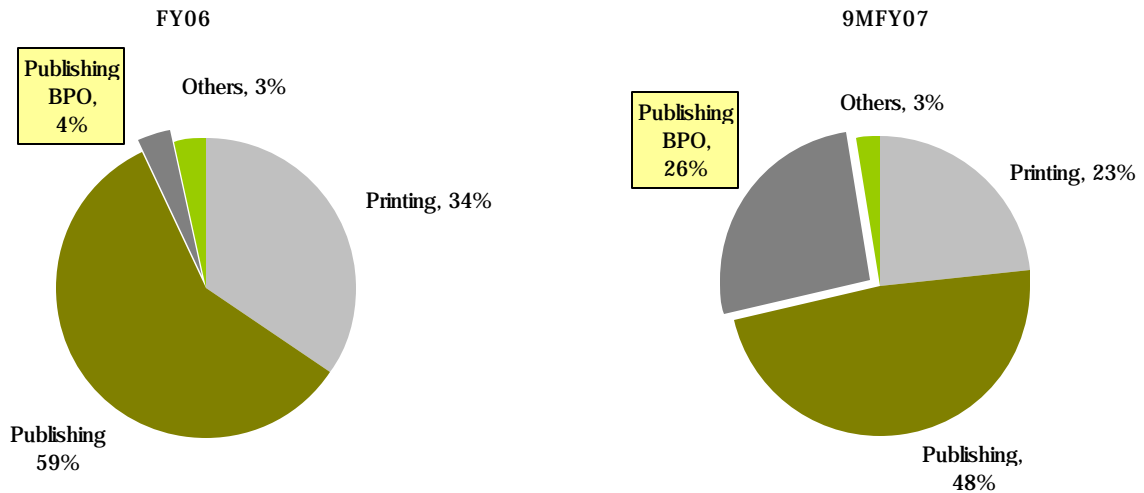
## Business Overview

Incorporated as a commercial printing press in 1955 by the name of Tata Press, the company entered the information service business in 1991 with the publication of business directories, popularly known as Yellow Pages, and was hence renamed Tata Infomedia. The company acquired its present name in 2003, when Tata's exited the business and ICICI Ventures took over their 70% stake in the company for INR 1.2 bn. Currently, ICICI Ventures holds 63.3% in the company.

In 2005-06, the company entered the publishing space of the BPO sector on the back of three acquisitions viz., Keyword Group Ltd. (UK), International Typesetting and Composition (US), and Cepha Imaging Systems (India).

In August 2006, the company bought back 3.3 mn shares, 14% of the equity capital, from the secondary market at INR 245 per share.

Chart 1: Revenue breakup



Source: Company

Infomedia's three focal business verticals are:

**Printing:** Infomedia is one of India's largest commercial printers of magazines, annual reports, books, product brochures, and other publicity material. 'Touchstone', Infomedia's corporate gifting solutions, offers a broad range of sophisticated and customized gifting solutions—diaries, planners, folders, greeting cards, and leather accessories.

Clients in this segment include:

- ♦ Magazines: Outlook, Elle.
- ♦ MNCs, banks, and other corporations: Tata Group, AV Birla Group, Phillips, Glaxo P&G, SBI, ICICI Bank, IDBI, M&M, ACC, and Crompton Greaves.

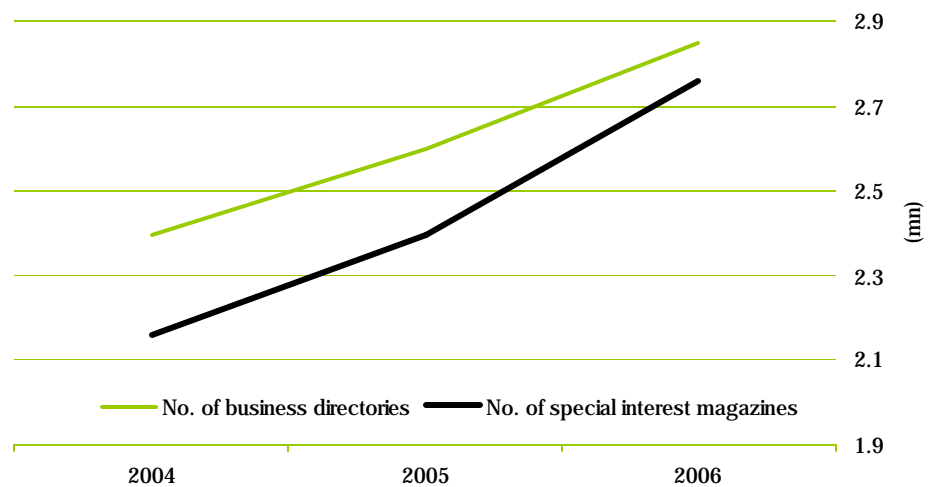
**Publishing:** Infomedia has 12 b2b publication titles. Each title is aimed at educating its stakeholders in key business verticals, thus bringing together buyers and sellers in those verticals. It also has eight b2c publications anchored in fast-growing special interest areas like interiors, cricket, audio-video industry, photography, cars, and technology. The company's 'Bright Sparks' division produces a range of children's books.

**Business directories (Yellow Pages):** These provide commercial information to Indian as well as international manufacturers and service providers across sectors. Circulated from over 21 sales offices across the country, it is the No.1 yellow pages in India, with over 3.1 mn copies distributed annually and ~56,000 advertisers as on date.

**Growth Drivers:**

- ♦ Reed Infomedia India is a joint venture with Reed Business Information, world's largest b2b publishing unit, with over 100 international titles worldwide. This joint venture launched its first title 'JCK' in September 2006.
- ♦ Infomedia has recently partnered with Disney Publishing Worldwide India, a division of Walt Disney, to publish Disney Adventures, a kids and teen magazine.
- ♦ Under a licensing agreement with Future Media, Infomedia launched 'T3 - Tomorrow's Technology Today' in December 2006. Launched in 1996 in the UK, T3 globally has a monthly circulation of over 850,000 copies.
- ♦ In line with its strategy to extend its coverage and introduce new products, Infomedia has recently launched its business directories in Jaipur, Kochi, and Vishakhapatnam, as well as state industrial directories in Tamil Nadu and Punjab.
- ♦ The company has also started trials for introducing Yellow Pages on mobile, web products, and other media channels.
- ♦ Infomedia has started initial trials to provide artwork support to US Yellow Pages publishers.

Chart 2: Circulation details



Source: Company

**Publishing BPO:** Infomedia acquired 100% stake in UK-based Keyword Group Ltd., and a majority stake in Cepha Imaging Systems, Bangalore, to enter the publishing BPO space in December 2005. In April 2006, it acquired International Typesetting and Composition (ITC), operating through its two legal entities, a front-end called Software Services, LC, US, and back-end operations at American Devices India Private Limited, based out of Noida, India. American Devices India Private Limited provides pre-press and publishing services catering primarily to the North American market. Key customers include McGraw-Hill, Thomson Learning, Wolters Kluwer, Pearson Education, Taylor and Francis, and the World Bank.

Services offered under this segment include typesetting, composition, copy-editing, indexing, graphics, design, XML, multimedia solutions and project management.

With combined sales of INR 350 mn and net profit of INR 100 mn, the three publishing BPO companies were acquired for INR 780 mn. The combined entity had EBITDA and net profit margins of 34% and 29%, respectively, in FY06.

**Growth Drivers:**

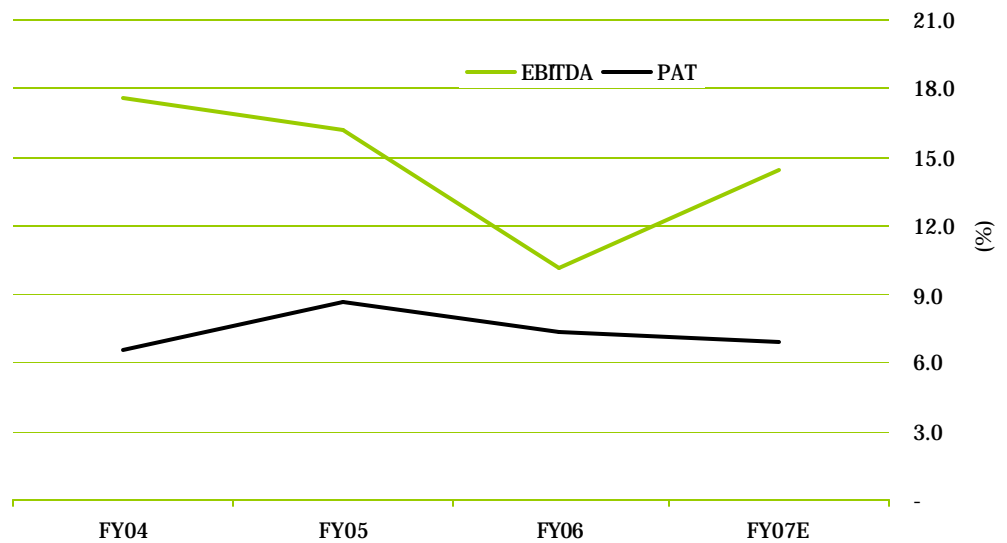
- ♦ Leverage advantage of multiple locations in India, and front-ends in the US and UK.
- ♦ Look out for inorganic growth opportunities.
- ♦ Exploit Infomedia's unique position by extending service offerings to Yellow Pages and magazine publishers.

## Outlook

Infomedia posted revenues of INR 1.35 bn with publishing BPO contributing INR 356 mn during 9MFY07. EBITDA and PAT margins for the same period stood at 14.6% and 7.5%, respectively. Assuming similar margins going forward, we expect a 430bps Y-o-Y jump in FY07E EBITDA margins, attributable to the contribution of high margin publishing BPO business.

During FY06, the company shifted its corporate office to a rented premise, opened nine new branches, and made two acquisitions in the publishing BPO segment, thereby acquiring offices in the UK and US. All these developments led to a rise in employee and other operating costs, thereby suppressing EBITDA margins.

Chart 3: EBITDA and net margins trend



Source: Edelweiss research

As seen in the graph above, although operating margins are on the rise, net margins continue to remain under pressure due to high interest and depreciation costs which are an offshoot of the consolidation. Hence, we believe the stock will warrant a long-term view of ~18 months for any substantial returns.

## Financial Statements (consolidated)

### Income statement

Year to March	FY04	FY05	FY06	FY07E
Total revenues	1,259	1,257	1,295	1,815
Raw Material Cost	304	289	267	345
Employee Cost	206	248	313	499
Power oil & fuel	35	40	49	73
Other Manufacturing Expenses	75	73	61	73
Selling & Administrative exp	342	322	350	436
Miscellaneous exp	75	83	123	127
Total operating expenses	1,037	1,054	1,162	1,552
EBITDA	222	203	133	263
Other income	73	53	62	60
Interest expense	1	1	2	40
Depreciation	184	88	76	128
Profit before tax	111	168	116	155
Provision for tax	28	60	21	29
Profit after tax	83	108	95	126
Extraordinary income / loss	159	464	(22)	0
Minority interest			(3)	(25)
Net profit	242	572	71	101
Earnings per share (INR)	21.1	25.0	3.1	5.1
Shares outstanding (mn)	11.4	22.9	22.9	19.6
Dividend (INR/share)	13.5	9.1	2.3	2.0

### Common size metrics as % on revenues

Year to March	FY04	FY05	FY06	FY07E
Operating expenses	82.4	83.8	89.8	85.5
Raw Materials	24.2	22.9	20.6	19.0
Depreciation	14.6	7.0	5.9	7.1
EBITDA margins	17.6	16.2	10.2	14.5
PAT margins	6.6	8.6	7.4	6.9

### Growth metrics (%)

Year to March	FY04	FY05	FY06	FY07E
Revenues	(24.7)	(0.2)	3.0	40.1
EBITDA	11.1	(8.4)	(34.8)	98.5
PBT	(32.4)	52.3	(31.0)	33.7
Net profit	128.2	136.8	(87.6)	42.0
EPS	108.7	18.4	(87.6)	66.1

### Cash flow statement

(INR mn)

Year to March	FY05	FY06	FY07E
Cash flow from operations	660	147	229
Cash for working capital	201	(350)	(261)
Net operating cash flow- A	861	(202)	(32)
Net purchase of fixed assets	0	(282)	(488)
Net Purchase of investments	(343)	601	381
Net cash flow from investing- B	(343)	319	(106)
Proceeds from equity	0	0	(809)
Proceeds/Repayments from borrowings	3	85	608
Dividend payments	(209)	(52)	(44)
Net cash flow from financing- C	(206)	33	(245)
Net cash flow (A+B+C)	312	150	(383)

## Balance sheet

As on 31st March	FY04	FY05	FY06	FY07E
Equity capital	114	229	229	196
Reserves & surplus	1,015	1,263	1,284	637
Shareholders funds	1,129	1,492	1,541	832
Secured loans	0	0	65	704
Unsecured loans	0	0	32	0
Net Deferred tax liability	58	61	50	51
<b>Source of funds</b>	<b>1,187</b>	<b>1,553</b>	<b>1,688</b>	<b>1,587</b>
Gross block	1,107	1,108	1,381	1,878
Depreciation	703	782	870	985
Net block	404	326	511	893
Capital work in progress	1	0	9	0
Net fixed assets	406	327	521	893
Investments	600	934	376	25
Cash, bank bal & deposits	23	335	484	101
Inventory	84	111	158	221
Sundry debtors	147	204	319	497
Loans & advances	407	201	329	455
Total current assets	661	851	1,290	1,274
Sundry creditors	97	115	191	268
Others	203	210	216	205
Provisions	179	235	91	133
Proposed dividend	137	183	46	44
Others	42	51	46	89
Total current liabilities	479	559	498	605
Net current assets	182	292	792	669
<b>Application of funds</b>	<b>1,187</b>	<b>1,553</b>	<b>1,688</b>	<b>1,587</b>
Book value per share (INR)	99	65	79	43

## Ratios

Year to March	FY04	FY05	FY06	FY07E
ROE (%)	27.2	43.7	4.7	8.5
ROCE (%)	24.5	41.8	4.5	8.6
Inventory days	24	32	44	44
Debtor days	43	59	90	100
Fixed assets t/o	1.1	1.1	0.9	1.0
Debt /Equity	-	0.0	0.1	0.8

## Valuation parameters

Year to March	FY04	FY05	FY06	FY07E
EPS (INR)	21.1	25.0	3.1	5.1
YoY growth (%)	108.7	18.4	(87.6)	66.1
CEPS (INR)	37.2	28.8	6.4	11.7
PE (x)	6.6	5.6	44.9	27.0
Price/BV (x)	1.4	2.1	1.8	3.3
EV/sales (x)	2.1	1.9	1.8	1.8
EV/EBITDA (x)	12.1	11.7	17.6	12.6

## Edelweiss Securities

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Ajay Saraf - 40979820	WEALTH MANAGEMENT	Indore
Hitesh Shah - 40979804	Anurag Mehrotra - 22864987	Uttam Srimal - 0731-4266631/32/33/34
Amit Mamgain - 40979818	BUSINESS DEVELOPMENT	Jaipur
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Fundamental	Priti Devpuria - 40979846	Jodhpur
Prakash Kapadia - 40979843	BRANCHES	Amit Choudhary - 0291-3204551/4/7
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Sanjeev Rohra - 40979844	Nitin Maheshwari - 022-67252555-58	Kamal Jeswani - 033-30580101/02/03/04
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Prachi Hattangadi - 40979845	Rajiv Jhaveri - 079-30088445	Rajendra Joshi - 022-25615441/42/43/44
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