

Tata Infomedia Ltd.

Company visit report: Initial Opinion

Person Met: Mr. Milind Kalelkar
Designation: General Manager - Finance

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We met up with Tata Infomedia (TIL) to understand the impact of the weak advertising environment on its various lines of business and to ascertain the future outlook of the company.

Tata Infomedia: Background

The company owned 50.3% by the Tata Group runs a printing press, a publications division and an information services division. As of March 2002, Yellow Pages (under information services) accounted for 40% of the company's Rs111.5 cr revenue followed by 34% from the printing press. Special Interest Publications (SIP) accounted for 13% while others, which include direct marketing solutions, Touchstone range of stationery and Brightspark range of children titles accounted for 9% and 4% respectively.

The bulk of the company's revenue either comes in the form of advertising or from advertising-supported activities. Thus the company's revenue growth is directly linked to the growth in the share of ad revenues for the print industry of the total ad revenues generated within the economy.

Highlights of our meet:

- The economic slowdown has not only shrunk the overall pie of ad spend, but has also reduced the share of print ad spend, given the relative attractiveness of the television medium. Yellow Pages are witnessing a single digit growth and are worth around Rs45 cr in annual revenues. The printing business too has been affected since clients (general interest/mass market magazines) have reduced print run and number of pages owing to the continuing slowdown. Direct marketing division has also taken a major knock this year after a good FY01. Overall, FY02 was very tough year for the company.
- TIL does not intend to expand Yellow Pages beyond the 12 large cities it currently serves (Ahmedabad, Bangalore, Calcutta, Chennai, Coimbatore, Delhi, Hyderabad, Indore, Ludhiana, Mumbai, Pune and Vadodara) since it feels that incremental revenues would not be worth the effort of expansion. It would continue to mine existing areas of coverage and also focus on expanding the concept of Yellow Pages (to cover restaurants, launch neighborhood guides) and offer Yellow Pages across media (Net, Telephone).
- Yellow Line, the company's call centre in Mumbai and Delhi currently has a staff of about 20 each handling 2000 calls a day. The company intends to grow the business gradually. The focus would be on the domestic market, such as setting up help line centres for local companies. In Yellow Line the company earns revenue from advertiser who pay to list their name and by running special messages when a call is put on hold. The business is sold as a separate service or is packaged with Yellow Pages. The business however, is yet to turn profitable for the company.
- SIP, currently worth Rs15 cr in annual revenues remain a profitable division. However, Overdrive, the car & bike magazine remains the only mass-market title in SIP with over 100,000 in circulation. While others like AV Max, Auto Monitor, Better Photography by and large remain niche publications. Dependence on the auto sector for ad support with Overdrive & Auto Monitor has affected the company's growth in this division. The company's ability to launch SIP in new areas is also restricted if ad support is not forthcoming since a business model purely based on subscription revenue is not sustainable in India. However, the company does aim to launch two

new titles in the coming months. Typically, any publication would take between 12 to 18 months to break even.

- The company's sees as Brightsparks as a growth area since there is no strong national brand in children titles. Though not very profitable, it expects to generate revenues of Rs10 cr from this division in the next two to three years from the current level of Rs2.5 cr.
- The company is open to acquisitions in its business at the right price.
- TIL has maintained a low profile with an aim of conserving resources since the business environment has always been challenging for various reasons. Company is also cautious on prospects for FY03. It still does not see FY03 to be any better than FY02. The ad environment for the print media is difficult and even if there were an overall economic recovery, benefits would accrue to the company with a 3-4 month lag.

Financials

Despite the challenges, TIL has grown steadily over the last few years, coming from new business opportunities while reducing exposure to low-value commercial printing. Revenues have grown compounded 14.6% between FY96-01, while profit before tax has grown 18.3% in the same period. Other income to PBT is high at 36% given the cash surplus profile of the company. Operating profit margin was comfortably over 17.5 % between FY99-01. However, OPM has taken a dip to levels of 14% in FY02. For the full year FY02, we expect the company to show marginal top line growth, but OPM is not likely to be better than what the company has done in the first nine months of fiscal year. Since the fourth quarter is normally a weak quarter, we believe that net profit of Rs10.45 cr that TIL recorded in the first nine months of FY02 is fairly representative of its full year's performance.

Exhibit 1: Financial Performance

(Rs in crore)

Year ending March 31 st	FY99	FY00	FY01	FY02
Months	12	12	12	9
Net revenues	85.25	99.62	1,11.57	87.13
Total expenditure	69.01	81.86	91.66	74.76
Materials consumed	24.83	26.98	28.78	21.47
Employee expenses	12.99	15.37	16.16	13.23
S, G & A	32.06	39.51	47.06	39.47
Change in stocks	-0.88	0.00	-0.35	0.59
Operating Profit	16.24	17.76	19.91	12.37
<i>OPM (%)</i>	<i>19.05</i>	<i>17.83</i>	<i>17.85</i>	<i>14.19</i>
EBIT	10.5	12.3	14.21	7.51
Interest	0.35	0.25	0.39	0.22
Other Income	5.34	6.97	8.10	7.99
VRS	0.03	3.22	2.38	0.00
PBT	15.45	15.80	19.53	15.29
Taxes	5.00	5.30	8.10	4.83
PAT	10.45	10.50	11.43	10.46
Equity Capital	7.62	7.62	7.62	11.43

Valuation

At the current market price of Rs105, Tata Infomedia trades at a price-to-sales ratio (PSR) of just over 1x sales for FY02. Price-to-earnings ratio of 11.4x (on nine month profits) is lower than the company's historical growth. However, we believe that PSR is a better indicator of value when comparing stocks

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within media, and TIL's valuation on this count incorporates the steady or slow-growing nature of the print media business and its relative unattractiveness vis-à-vis television.

For instance, the Rs95.3 cr Mid-day Multimedia, which also falls in the print media business trades at a PSR of just about 1x FY02 turnover. Against this, valuations of Balaji Telefilms (4.2x FY03 sales) and Television Eighteen (3.9x FY03 sales) may appear lofty. We however, believe that investors would discriminate against print media, as ad growth for television would outpace that for print. But at the same time, TIL offers value at the current price and we would recommend buying with a long-term perspective:

1. Proven ability to create & sustain brands in niche consumer segments. Two new SIP launches have been lined up for this year.
2. Expanding the concept of Yellow Pages to neighborhood guides (cover local business in cities) within Mumbai, Pune, Delhi and others, thereby generating long-term growth.
3. Existing brands generate surplus cash. Company has close to Rs35 cr in surplus cash. Adjusted for cash, TIL is available 0.74x annualised sales for FY02.
4. Permission of FDI/FII investment in print remains a potential trigger for a sector re-rating.
5. Economic recovery would fuel growth in ad revenues, which would improve the company's profitability and sustainability of new product launches.

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