

15 Jan 2016

Initiating Coverage (BUY)

Lycos Internet

CMP

INR 29

Target Price

INR 67

Stock Details	
Industry	IT Software Products
Bloomberg Code	LYIL:IN
BSE Code	532368
Face Value (Rs.)	2.00
Market Cap. (Rs. Mn)	1,378.75
52wk. High/Low (Adjusted) ((Rs.))	50.00 / 19.10

Shareholding Pattern Jun '15	
Promoter (%)	39.21
FII (%)	0.05
DII (%)	19.95
Public - Other (%)	40.79
No. of Share Outstanding (mn)	476.25

Valuation Summary				
	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	3.11	4.01	5.00	6.00
EV/EBITDA (x)*	1.86	2.26	2.86	3.35
P/BV (x)*	0.59	0.90	1.08	1.29

*Based On CMP on Reco Date for FY 15 and
Market Price as on 1st Apr is taken for FY14

Key Financial				
Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	16,734	19,570	24,462	30,578
EBITDA	3,686	5,859	7,153	8,941
Net Profit	2,210	3,422	4,201	5,326
EPS (Rs.)*	4.6	7.2	8.8	11.2

*Adjusted for stock split of 5:1 in FY16

Key Ratios				
	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	22.0	29.9	29.2	29.2
EBIT Margin (%)	17.9	27.8	27.6	27.9
Net Pro. Margin (%)	13.2	17.5	17.2	17.4
Debt/Equity (x)	0.04	0.00	0.00	0.00
RoNW (%)	5.2	20.1	25.5	24.2
RoCE (%)	18.5	24.7	23.9	23.8

One Year Price / Volume



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We recommend 'BUY' on Lycos Internet for a target of INR 67 - valuing the company at P/E of 6.0x FY17E Earning.

INVESTMENT RATIONALE:

- Fundamentally packed growth stock trading at attractive valuation
- Business is beautifully positioned in Ever expanding industry of Digital media. Which is the essence of the internet today
- Long and satisfactory track record of digital publishing with Internet giants like Google, Facebook, Yahoo etc.
- Tapping the major turnover from US & Europe where internet has deeper breach in society & hence strong business
- Lycos Internet has major opportunity to capture its share of digital marketing in India where internet has spread like a wildfire in recent years
- Lycos venturing into IoT (Internet of Things) which is the next big thing after Smart phones can turn out to be a game changer for Lycos with early move advantage as taken by aggressive management
- The digit advertisement market is of \$600 billion globally and growing at an fast pace of 20% and in India it's growing @ 30% annually and is expected to be 14-15% of the total ad spend this year while in US it's about 25%.
- Lycos serve around 35 to 40 billion impressions every month across the Web. The business of Lycos is spread in some 24 countries and is in talks to expand it in India as well as China through strategic alignment.

VALUATIONS AND VIEW:

With Lycos Internet gaining business QoQ basis very quickly & totally going unnoticed at Stock Market as a value pick, with that being said Lycos which is having about 75% of its turnover from Digital marketing & Media is high quality business with longevity.

We value the business at 6x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 67 per share.

RISK & CONCERNS:

Highly competitive market with lots of innovative product are regular challenges for Lycos

COMPANY BACKGROUND:

Lycos Internet, formally known as Ybrant Digital Limited is the new-age digital media company offering Digital Marketing solutions to businesses, agencies, and online publishers worldwide. Ybrant's digital-channel solutions, flexible and scalable platforms, coupled with massive local presence, enable targeting the right audience for advertisers, delivering the appropriate messages and better monetization for content owners.

LYCOS is one of the original and most widely known Internet brands in the world by Ybrant Digital based out of Hyderabad. Recently company re-branded & repositioned itself with changing digital scenario.

Lycos has 3 divisions with the name of Lycos Advertising dealing in Digital Marketing, Lycos Media dealing in Digital Media & Lycos Life which has recently entered into IoT (Internet of Things).

Lycos (Ybrant) is currently in all areas of digital advertising. Lycos Internet, services businesses, agencies, and online publishers worldwide in meeting their Digital marketing needs. Their clients include leading blue chip advertisers including MTV, Samsung, Viacom, Maruti Suzuki, Airtel, Sony, Coco Cola, Star India, Vodafone, Samsung Electronics, Lenovo, ING, British Airways, Qatar Airways, Titan, Unilever, P&G, Hyundai Motors, ICICI Bank, LIC, and ITC. They partner with top global publishers such as Facebook, Twitter, LinkedIn, MSN and Yahoo!

Lycos serve between 35 to 40 billion impressions every month across the Web.

The business of Lycos is spread in some 24 countries and is in talks to expand it in India as well as China through strategic alignment.

INDUSTRY OVERVIEW:

Globally, spending on advertising will rise from \$538.75 billion in 2012 to \$676.17 billion in 2016, as the advertising industry has proved quietly resilient despite ongoing economic hurdles worldwide.

Worldwide, digital ad spending passed the \$100-billion mark for the first time last year, according to new eMarketer estimates, and will increase by a further 15.1% in 2015 to \$118.4 billion. Much of the growth is coming from Asia-Pacific, where, more than 1 billion people will use the web at least once per month. By 2016, this audience will number almost 1.4 billion. Asia-Pacific will be home to some 2.15 billion mobile phone users this year. In China alone, the mobile consumer base will top 1 billion in 2014.

That will put worldwide digital ad spending levels-including online and mobile advertising spending, other than messaging-based formats-at 21.7% of the total spent on ads in all media this year, and on track to account for more than one-quarter of all ad spending by 2016.

Digital advertising spend in Asia-Pacific is expected to rise 30.3% to total \$46.59 billion this year. Just like in 2012 and 2013, the region will boast the second-biggest share of digital ad spending worldwide, trailing only North America. This trend will continue through 2016, though Asia-Pacific will gain share during that period at the expense of North America. In 2017, Asia-Pacific will pass North America in total digital ad spending share worldwide, at 36.9% vs. 35.7%. With investments in online and mobile advertising totaling \$23.70 billion this year, China will maintain the largest share of the region's digital ad market, at 50.9%—a trend that will continue through 2018. Japan and Australia will rank second and third, with respective digital ad spending totals of \$9.07 billion and \$4.52 billion this year, eMarketer estimates.

PEER COMPARISON (Top 7 companies in the same business)

Lycos is the only listed company in its type of Digital Advertising Business. Though for comparison purpose we can group it into it companies.

Company	CMP (Rs)	P/E	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Polaris Consulta	215	13.3	2,155	6.96	47	(12.64)	518	8.55	2.3
Tata Elxsi	1,933	45.5	6,018	0.57	38	61.17	264	28.06	16.9
Aurionpro Sol.	174	4.7	345	1.73	12	(33.46)	177	(4.05)	0.7
Nucleus Soft.	252	15.9	818	1.98	5	(64.67)	85	(2.48)	1.8
R S Software (I)	127	6.4	326	2.56	8	(54.15)	65	(34.73)	1.3
Zen Technologies	109	22.2	840	0.32	(2)	64.95	6	98.28	7.0
Lycos Internet	29	4.0	1,379	-	105	27.50	565	22.79	0.9

FINANCIAL OVERVIEW

- Revenue for Q2 FY2015-16 was Rs 565.08 Crores, an increase of 13.33% Q-o-Q and 22.79% Y-o-Y.
- EBIDTA for Q2 FY2015-16 was Rs 182.72 Crores, an increase of 18.53% Q-o-Q and increase of 30% Y-o-Y.
- PAT for Q2 FY2015-16 was Rs 105.16 Crores, an increase of 15.96% Q-o-Q and increase of 27.50% Y-o-Y.
- Revenue from Digital Marketing Segment for Q2 FY2015-16 was Rs 458.38 Crores, an increase of 17.92% Q-o-Q and an increase of 33.04% Y-o-Y.
- Revenue from Software Development Segment for Q2 FY2015-16 was Rs 106.70 Crores, a decrease of 2.93% Q-o-Q and a decrease of 7.74% Y-o-Y.
- Q2 consolidated earnings per share (EPS) of Rs 2.21.

Below is the Standalone Quarterly Performance. As per the nature of business of Lycos it will be better to refer to the consolidated performance than Standalone.

Q2 FY16 Performance Highlight (Standalone Basis)							
(in Million)	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	YoY (%)	QoQ (%)
Revenue	133.00	106.62	122.18	115.78	111.09	-16.47%	-4.05%
Other Income	3.39	-0.75	8.43	2.48	3.07		
Total Income	136.39	105.87	130.61	118.26	114.16	-16.30%	-3.47%
Expenditure	-124.16	-99.91	-125.53	-113.78	-109.51		
As a % of Sales	93.35%	93.71%	102.74%	98.27%	98.58%		
Interest	-6.19	-4.97	-2.75	-3.94	-4.09	-33.93%	3.81%
PBDT	6.03	0.99	2.33	0.55	0.56		
As a % of Sales	4.53%	0.93%	1.91%	0.48%	0.50%		
Depreciation	-6.01	-0.94	-2.36	-0.47	-0.47		
PBT	0.02	0.06	-0.03	0.08	0.09	350.00%	12.50%
As a % of Sales	0.02%	0.06%	-0.02%	0.07%	0.08%		
Tax	-0.01	-0.02	1.67	-0.03	-0.03	200.00%	0.00%
Net Profit	0.02	0.04	1.64	0.05	0.06	200.00%	20.00%
As a % of Sales	0.02%	0.04%	1.34%	0.04%	0.05%		
Equity	95.25	95.25	95.25	95.25	95.25	0.00%	0.00%
EPS (Rs)	--	--	0.03	--	--	#VALUE!	#VALUE!
CEPS (Rs)	0.13	0.02	0.08	0.01	0.01		
OPM %	9.19	5.59	4.15	3.88	4.18		
NPM %	0.01	0.03	1.34	0.05	0.05		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	12,632	16,011	16,734	19,570	24,463	30,578	36,694
Other Operating Income	-	-	-	-	-	-	-
Expenditure	10,254	14,944	13,062	13,853	17,316	21,645	25,974
EBITDA	2,377	1,067	3,672	5,717	7,147	8,933	10,720
Depreciation	168	260	688	414	405	425	435
EBIT	2,210	806	2,983	5,303	6,741	8,508	10,285
Interest Expenses	277	352	269	225	338	387	486
PBT	1,933	455	2,714	5,078	6,404	8,121	9,799
Tax	359	88	519	1,798	2,209	2,803	3,383
Other Income	343	143	15	142	7	8	9
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	1,918	510	2,210	3,422	4,201	5,326	6,425
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	1,918	510	2,210	3,422	4,201	5,326	6,425

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	953	953	953	953	953	953	953
Reserves & surplus	7,999	9,430	10,640	14,347	18,492	23,818	29,868
Share Warrants	356	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	9,307	10,382	11,592	15,299	19,445	24,771	30,821
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	606	515	408	60	-	-	-
Net deferred tax liability	(10)	29	36	96	96	96	96
Other Long-term Liabilities	873	768	50	45	56	70	367
Long-term Provisions	37	39	74	47	59	74	89
Total Liabilities	10,813	11,734	12,161	15,549	19,657	25,013	31,375
Net block	3,487	3,253	3,156	5,277	5,696	6,164	6,621
Investment, Loan & Adv.	1,505	1,530	1,920	1,907	2,351	3,002	3,648
Total Current Assets	11,999	11,269	12,953	13,666	15,759	20,966	27,311
Current Liabilities & Provisions	6,178	4,319	5,869	5,302	4,149	5,121	6,208
Net Current Assets	5,821	6,950	7,084	8,364	11,610	15,845	21,103
Total Assets	10,813	11,734	12,161	15,549	19,657	25,013	31,375

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	2,756	1,490	3,119	4,348
Cash Flow from Investments	(2,713)	(1,270)	(1,546)	(1,540)
Cash Flow from Financing	88	(220)	(165)	(264)
Net Changes in Cash	131	(0)	1,408	2,545
Opening Cash	430	561	561	1,969
Closing Cash Balance	561	561	1,969	4,514

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