

April 20, 2015

Pressman Advertising Limited
**“Good play in the growing advertising
business ”**

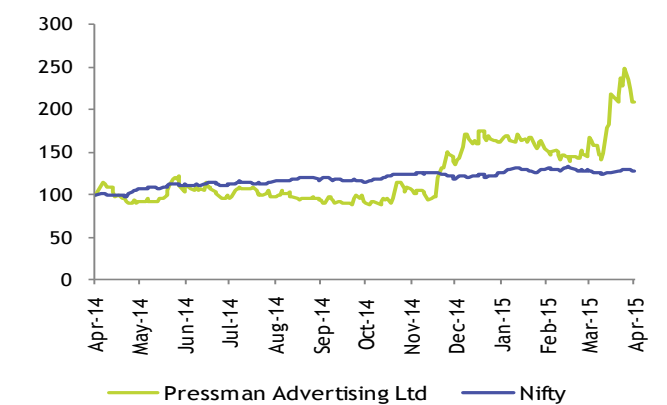
Company Report
Pressman Advertising Limited

Recommendation	BUY
CMP (Rs.)	Rs.43
Target Price (Rs.)	Rs.60

Stock Details

BSE Code	509077
Bloomberg Code	PMAL IN
Market Cap (Rs. cr)	101
Free Float (%)	33.1
52- wk HI/Lo (Rs)	52/18
Avg. Volume NSE (Monthly)	55,590
Face Value (Rs)	2.0
Dividend (FY 14)	50%
Shares o/s (Cr)	2.35

Relative Performance	1Mth	6Mth	1Yr
PMAL IN(%)	37.2	124.5	111.8
NIFTY(%)	-1.3	10.6	26.9


Shareholding Pattern as of 31 March, 2015

Promoters Holding	66.4%
Institutional (Incl. FII)	0.0%
Corporate Bodies	9.9%
Public & others	23.7%

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We had come up with an initiating coverage on Pressman Advertising Ltd. on September 6, 2013 at a price of Rs.12.8 with a target price of Rs.22.5. The said target was achieved in less than two months, yielding -90 per cent returns. We did upgrade our target price to Rs.29 on October 28, 2013. **We are now coming out with a fresh recommendation with a target price of Rs.60, potential upside 40 per cent.**

Investment Rationale

One of the oldest advertising agencies in the country: Set up in the mid-60s, Pressman is one of the oldest independent advertising agencies in the country. In fact, it was the pioneer in the financial advertising space. The company has consistently posted profit, come what may, reflecting the dedicated and conservative approach of the promoters, especially in a scenario where nearly 85 per cent of the sector is dominated by multi-national companies.

Promoted by veterans in the industry: The Company is promoted by Dr. Niren Suchanti and Mr. Navin Suchanti. With nearly 43 years of experience in this field, Dr. Niren Suchanti is a very well-known name in the advertising fraternity.

Improvement in earnings visibility: The Company's business is divided into three verticals: Advertising (around 68 per cent of revenues), Digital (around 17 per cent) and Public Relations (around 15 per cent). We expect the company to be a key beneficiary of the recovery in the economy and increased ad-spend by corporates. With 80 per cent of repeat business and strong traction expected from new clients in digital advertising space (the company is a Google Partner offering client support on Google Adwords platform), a sharp improvement in earnings going forward is on the cards.

Debt-free, cash-surplus Balance Sheet: The company has a clean balance sheet (debt-free) with total cash and cash equivalent of Rs.22 crore, over 22 per cent of the present market cap.

Valuation & Recommendation: The company has posted revenues of Rs.29 crore and profit after tax of Rs.4.1 crore for the nine months ended December 31, 2014.

For the year ended March 31, 2014, the company's revenues and profit after tax were Rs.37 crore and Rs.6.5 crore respectively. However, this was mainly because of an exceptional income of Rs.2.1 crore and 'nil' tax provision. Operationally, the company has shown marked improvement with a near 60 percent Y-o-Y growth in EBIDTA during 9MFY15. We expect Pressman to register 45% CAGR in EBIDTA over FY14-FY16. **We expect the company to post an EPS of Rs.2.7 (Rs.2 FV) for FY16 and valuing the company at 22 times, we arrive a target price of Rs. 60.**

Particulars (Rs Cr)	Net Sales	Growth	EBIDTA	PAT	EPS (Rs.)	P/E (x)
FY'14	37.8	-14%	4.0	6.5*	2.8	15.3
FY15E	39.0	3%	6.1	4.3	1.8	23.9
FY'16E	46.8	15%	8.6	6.3	2.7	15.9

*PAT includes exceptional income of Rs.2.1 crore and recognition of deferred tax assets of Rs.0.58 crore

Source: Nirmal Bang PCG Research

INVESTMENT RATIONALE

Promoted by veterans in the industry, only listed advertising agency

The Late Mr. H. C. Suchanti had set up the business in Kolkata in the mid-60s and the present promoters, the two sons, Dr. Niren Suchanti and Mr Navin Suchanti, have been at the helm since 1993. Dr. Niren Suchanti has nearly 43 years experience in advertising, marketing, finance and public relations and is considered an authority in the field.

Pressman seems a good proxy to play the growing advertising business in the country

Pressman is one of the leading independent full service advertising agencies and has wide capabilities and most importantly, an excellent reputation built over the last four decades.

Commands strong reputation in the industry

Pressman is amongst the most respected independent advertising agencies in India and is well known for its commitment, ethical dealings and high standards. This has helped the company hold its own head high in a sector dominated by multinational companies.

Cash and cash equivalent is over 22 per cent of present market cap

Debt-free, cash-surplus Balance Sheet

The company has a clean balance sheet (debt-free) with net cash and cash equivalent totaling nearly Rs.22 crore, which is over 22 per cent of present market cap.

Impeccable track record, three verticals

The company has a steady track record and has been consistently profitable irrespective of the state of the economy. This is attributable to the conservative approach of the promoters in running the show.

The company has a dedicated team of more than 80 employees, half of whom have been with Pressman for over 15 years. The three verticals of the company: 1. Advertising 2. Digital and 3. Public Relations, are run by independent line-managers, who report to Dr. Suchanti. The business is carried out with very low capex and tight control on overheads.

The company does not believe in making an attempt to garner any business unless there is assurance of 100 per cent recovery of fees. As a result, Pressman has had insignificant bad debts over the last five years in spite of two severe bad years in the economy, which had impacted the services sector badly.

Not only the company, but the group itself has never leveraged the balance sheet. This can be substantiated by the fact that another listed group company, *Sinclairs Hotels Ltd.* is debt-free, cash-surplus in spite of operating in the hospitality segment which requires high amount of capital. In the present scenario, when some prominent names in the sector are cash-strapped, Sinclairs Hotels announced 40 per cent dividend, in addition to a buy-back offer (at Rs.390 per Share) some months ago.

Therefore, in spite of the fact that it operates in profitable, niche segments, Pressman has been able to establish itself despite tough competition.

Resilient business model providing strong revenue visibility

The company's business model is quite resilient with repeat business contributing to 80 per cent of the revenues. The company has a well-diversified business model with income streams from various verticals and has contracts with long-term as well as short-term tenures.

Pan-India network

Pressman has a strong network of 10 offices (including three representative offices) across the country, aided by a well-trained and experienced professional team of 80 people. The company has been able to effectively leverage its strong goodwill in media (especially, in print and digital media) and in corporate and financial circles. Pressman has a strong focus on government and PSU business and has been a pioneer in financial advertising, where its expertise is widely acknowledged.

Growth drivers going forward

The growth drivers for the company going forward would be its public relations and digital verticals. Both these segments contributed 30 per cent to the topline in 2013-14. The company has renewed its focus on the digital vertical which is expected to drive its growth in the years ahead. It is among the few full service agencies which has attained the status of a Google Partner. On a low base, the same is expected to do well for the company going forward.

Considering the strong balance sheet of the company, inorganic growth cannot be ruled out. However, we have not factored anything from this strategy in our projections.

Marquee list of clients

The company has a marquee list of clients. Usually, activities like public relations (PR) and investor relations (IR) are segments, where a customer does not easily change agencies unless and until compelled to do so; and thus, the company has a large percentage of repeat business

RISKS & CONCERNS

Further weakening of the economy

In the event of the investment cycle not taking off, the environment could turn depressed for fund-raising and for ad-spending, which could have a negative impact on the advertising industry and the company.

COMPANY BACKGROUND

Pressman Advertising was established in the mid-60s by late Mr. H. C. Suchanti. The agency got its INS (Indian Newspaper Society) accreditation in 1968.

Pressman is one of country's few full-service agencies with ISO 9001:2008 certification. It is also accredited with DAVP (Directorate of Advertising and Visual Publicity) and a member of AAAI (Advertising Agencies Association of India) and IBF (Indian Broadcasting Foundation) .

The business comprises of a comprehensive package of services in the field of advertising, digital and public relations. The business is carried out through a network of offices located in Kolkata, Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Bhubaneshwar, Nagpur, Siliguri and Patna.

The company's clients include leading names from sectors like banking, asset management, investment banking and leading corporates, across other sectors. In the government category, clients include several state and central government bodies as well as top-ranking public sector and state government undertakings.

The Company is a Shareholder member of ECCO International, one of the world's leading independent public relations networks with a presence in nearly 50 countries.

INDUSTRY BACKGROUND

The Indian advertising and public relations industry has a very large number of players which include global multinational giants at one end of the spectrum and small regional and local agencies at the other. The industry is dominated by large multinational players.

As per a report by consultancy firm KPMG and the Federation of Indian Chambers of Commerce (FICCI), the total advertising revenue in India in 2014 is estimated at around Rs.37,440 crore. Despite the economic slowdown, advertising revenues grew by 10 per cent in 2013 as against 9 per cent in 2012 and 13 per cent registered in the year 2011. Print and television continue to dominate the industry while radio and online are posting high growth rates. (Source: FICCI-KPMG Indian Media & Entertainment-Industry Report 2015).

With India already housing the world's second largest population of internet users after China, traditional media houses are being slowly driven to explore digital. "Several print players are already investing heavily in digital media, making services such as news delivery possible via mobile applications and web portals", the report noted.

In terms of advertising revenue, print media drew some Rs.17,600 crore last year and will expand at a compound annual growth rate (CAGR) of 9.7% till 2019. Television advertising revenue, which stood at Rs.15,490 crore last year, will outstrip print by the end of the decade, with a CAGR of 14.1%.

Despite the steady growth in print and television, the sharpest growth was in India's online advertising spending in 2014 – at 44.5% year-on-year. Still, digital platforms – at Rs.4,350 crore in 2014 – draw much lower ad revenues compared to print and television. As things stand currently, print controls 43% of all advertising revenue, with television trailing at 37%. Digital has only 10.5% of the pie. But as more Indians access content on smart phones, digital advertising could potentially grow 274% over just five years to reach Rs.16,250 crore. That's a CAGR of 30.2%.

VALUATION AND RECOMMENDATION

The company has posted revenues of Rs.29 crore and profit after tax of Rs.4.1 crore for the nine months ended December 31, 2014.

For the year ended March 31, 2014, the company's revenues and profit after tax were Rs.37 crore and Rs.6.5 crore respectively. However, this was mainly because of an exceptional income of Rs.2.1 crore, 'nil' tax provision and recognition of deferred tax assets of Rs. 0.58 crore. Operationally, the company has shown marked improvement with a near 60 percent Y-o-Y growth in EBIDTA during 9MFY15. We expect Pressman to register 45% CAGR in EBIDTA over FY14-FY16.

A clean balance sheet coupled with dedicated promoters and being the only listed advertising agency in the country, we value the company the 22x FY16 EPS (Rs2.7) to arrive target price of Rs.60 over the next 9 -12 months.

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