December 16, 2014

MPS (MACIN)

₹ 740

Rating matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials

₹ Crore	CY10	FY12	FY13	FY14
Net Sales	127.4	191.0	164.0	197.3
EBITDA	(11.5)	19.8	42.9	63.0
Net Profit	(8.8)	10.9	31.9	42.1
EPS (₹)	(5.2)	6.5	19.0	25.1

Valuation summary

	CY10	FY12	FY13	FY14
P/E	NM	114.6	39.0	29.5
EV / Revenues	9.6	6.4	7.4	6.2
EV / EBITDA	NM	61.5	28.4	19.3
P/BV	18.5	17.7	15.1	13.6
RoNW (%)	NM	15.8	41.7	48.3
RoCE (%)	NM	13.0	45.9	66.0

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	1,245.0
Total Debt (Sep-14) (₹ Crore)	3.6
Cash and Investments (Sep-14) (₹ Crore)	31.0
EV (₹ Crore)	1,217.6
52 week H/L	831 / 181
Equity capital	16.8
Face value	10.0

Price performance (%)

	1M	3M	6M	12M
MT Educare	3.2	16.1	70.5	87.5
TreeHouse Edu	16.6	16.4	40.2	76.8
MPS	2.4	27.7	111.5	288.2
Repro India	16.6	56.9	80.8	136.3

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Uncomplicated…

We met Nishith Arora, CEO and MD, MPS for a business update and future strategy. The company, earlier known as Macmillan Publishing, underwent restructuring in the last two years, post its acquisition by Adi BPO in 2011. Overall, MPS has the building blocks in place and is poised to capture incremental opportunities in the publishing outsourcing space.

Publishing outsourcing large market…

The global publication industry is estimated at $550 billion with the publication outsourcing market estimated at $1.5 billion. Though ~$1.1 billion (80%) worth of services were sourced from India, the market is fragmented with a large number of smaller players and fewer listed players. That said, MPS is well entrenched in top 20 global publishers and that client stickiness may offset vendor churn. Discussions suggest MPS, which earns ~$3-5 million from its top client, could be only servicing 5-10% of its top client outsourcing spends and implies significant client mining potential. In conclusion, focused account mining initiatives and platform strategy could help sustain revenue growth momentum.

On firm footing as restructuring concludes…

MPS underwent a restructuring under its new owner Adi BPO. Mr Arora, founder of Adi BPO, is a serial entrepreneur having founded and sold International Typesetting and Composition. The restructuring helped consolidate 1) business and operating locations – shifting operations to tier-II cities such as Dehradun and 2) employee base. This resulted in revenue, EBITDA and PAT growth of 23%, 314%, 400% CAGR during adjusted FY12-14 period while H1 performance has been equally encouraging wherein revenue, EBITDA and PAT grew 19%, 59% and 139% YoY to ₹ 105.8 crore, ₹ 37.6 crore and ₹ 31.6 crore, respectively. Further, employee costs as a percentage of sales declined 13 percentage points (pp) to 43% in FY14 vs. 56% in FY12 while EBITDA per employee rose from ₹ 90k in FY12 to ₹ 2.4 lakh in FY14. Going ahead, the employee cost metric may improve further as incremental hiring may shift to Dehradun where costs are 30-40% cheaper relative to company average.

Healthy balance sheet metrics; superior dividend payout ratio

Healthy revenue growth and margin expansion led to rising RoEs and dividend payout of ~74% in FY14 (vs. ~38% in CY09). FCF/EBITDA conversion also improved to 56% in FY14 vs. 46% in CY09. MPS has ~₹ 3 crore working capital debt and could leverage balance sheet strength to fund M&A. The stock trades at 30x and 20x its FY14 EPS and H1FY15 annualised EPS of ₹ 25.1 and ₹ 37.5, respectively.

Exhibit 1: Financial performance

	CY10	FY12	FY13	FY14*
Income from operations (₹ crore)	127.4	191.0	164.0	197.3
EBITDA (₹ crore)	-11.5	19.8	42.9	63.0
Net profit (₹ crore)	-8.8	10.9	31.9	42.1
EPS (₹) - diluted	-5.2	6.5	19.0	25.1
PE (x)	NM	114.6	39.0	29.5
EV to EBITDA(x)	NM	61.5	28.4	19.3
RoNW (%)	NM	15.8	41.7	48.3
RoCE (%)	NM	13.0	45.9	66.0

**FY14 includes Element LLC, FY12 is 15month period ending March' 12 for all charts, Source: Company, ICICIdirect.com Research*

Sales strategy focused on mining large accounts…

MPS has streamlined its sales function and has adopted a dedicated account manager strategy to focus and mine top 20 publishing groups. We believe, this could drive growth momentum as top 50 publishing groups had cumulative revenues of €52 billion in 2013 with top 10 and 10-20 houses accounting for 54% (€28.4 billion) and 21% (€11.3 billion) respectively and implies outsourcing budgets could potentially be skewed towards large vendors with sticky relationships.

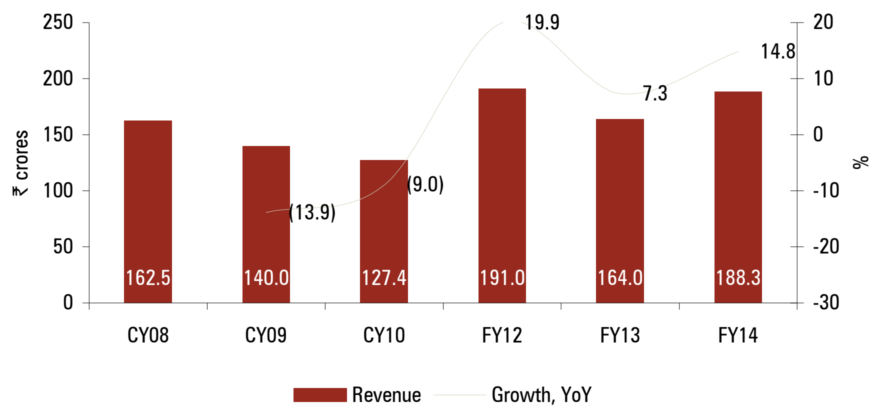
Platform strategy could be a game changer …

MPS Technologies (MPST) which creates custom and plug-n-play technology platforms for publishers currently contributes ~10% to the revenues. Current platforms such as – ContentStore, MPSTrak, MPSInsight, and ScholarStor – are focused on making e-content and digital delivery processes more efficient. The company aims to create an ecosystem by selling its platforms to publishers outside the top-20 which could help raise platform revenue contribution to 50% and drive non-linearity. Among adopters STM (science technical and medical) publishers could be early adopters of this platform strategy –MPS is pursuing one such opportunity at one of its large STM customer – while educational publishers could follow.

Acquisitions add niche capabilities…

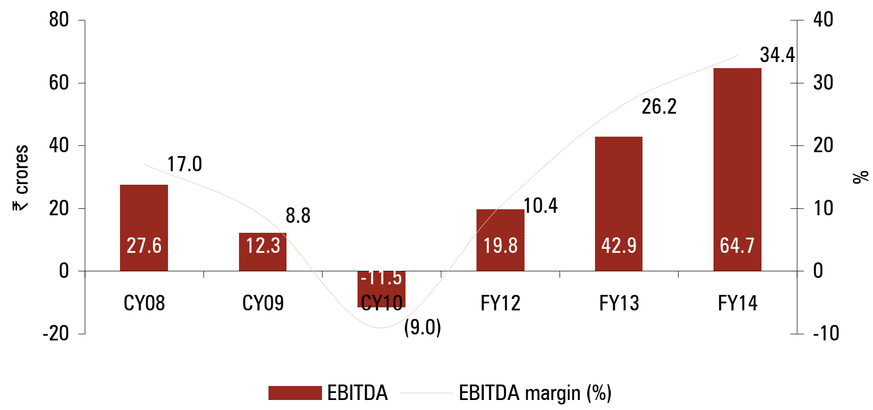
MPS' recent acquisitions – Element LLC and Electronic Publishing Services (EPS) – have added niche capabilities and market opportunities. Element, specifically focused on pre-K and K-12 markets, provides editorial, design and production, services to education sector, while EPS, focused on higher education publishing markets, provides editorial, content creation, rendering, development, design, research and production services. Together, the two acquisitions have helped MPS enter into two (K-12 and higher education) lucrative educational publishing markets. Going ahead, MPS is not averse to acquisitions – India based competitors or otherwise – in its $10-20 million sweet spot.

Exhibit 2: Revenues grow at 3% CAGR during FY09-14



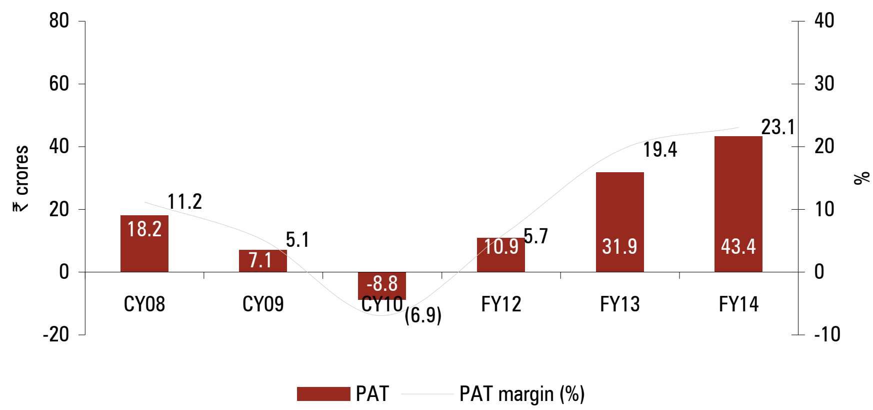
Standalone FY14, Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA margins improve 17.4 pp during FY09-14



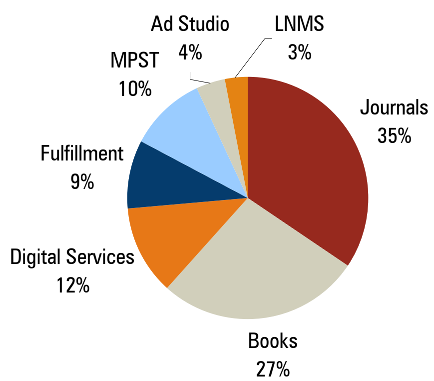
Standalone FY14, Source: Company, ICICIdirect.com Research

Exhibit 4: PAT grows at 19% CAGR during FY09-14 led by margin expansion



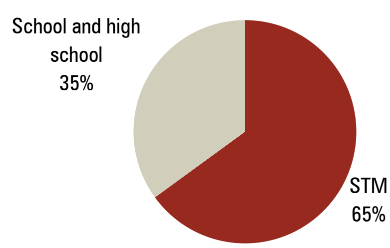
Standalone FY14, Source: Company, ICICIdirect.com Research

Exhibit 5: Revenue breakup – service wise



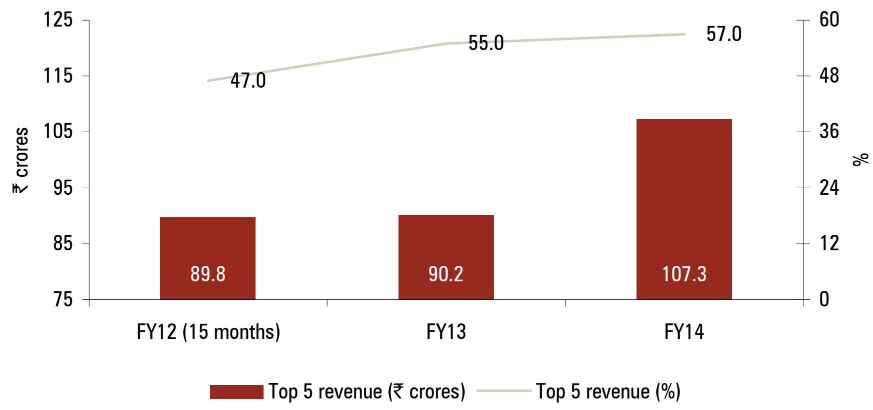
FY14, Source: Company, ICICIdirect.com, Research

Exhibit 6: Revenue breakup – vertical split



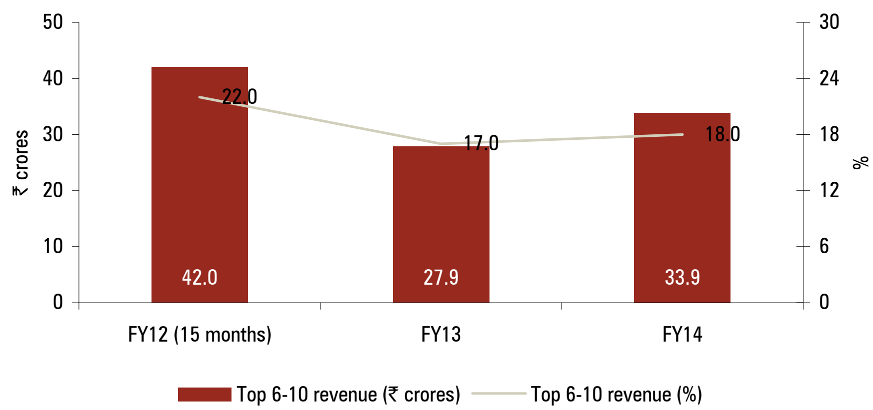
FY14, Source: Company, ICICIdirect.com, Research

Exhibit 7: Focus on client mining led to exceptional 49% CAGR growth in top 5 accounts



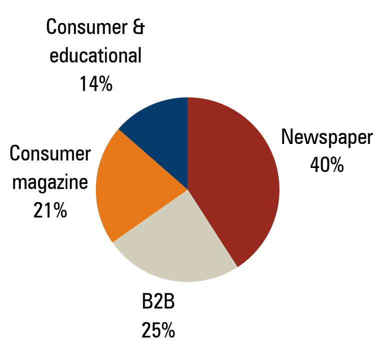
Standalone FY14, Source: Company, ICICIdirect.com Research

Exhibit 8: Though revenues from top 6-10 stable during FY12-14, management indicated strong uptick likely in these accounts as mining strategy matures



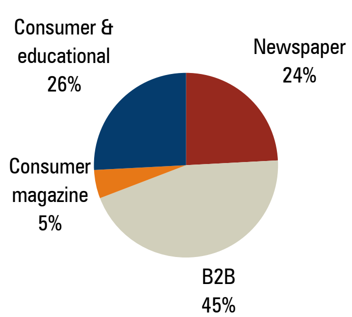
Standalone FY14, Source: Company, ICICIdirect.com Research

Exhibit 9: Global print publishing market - $379.7 billion



FY12, Source: Company Report, ICICIdirect.com, Research

Exhibit 10: Global digital publishing market - $33.6 billion



FY12, Source: Company, ICICIdirect.com, Research

Financial summary

Profit and loss statement — ₹ Crore

(₹ crores)	CY10	FY12	FY13	FY14
Total Revenues	127.4	191.0	164.0	197.3
Growth (%)	(9.0)	19.9	7.3	20.3
Total Operating Expenditure	138.9	171.2	121.1	134.3
EBITDA	(11.5)	19.8	42.9	63.0
Growth (%)	NM	NM	117	47
Depreciation & Amortization	6.7	10.7	7.4	5.3
Other Income incl interest income	9.0	6.7	5.0	6.7
Interest costs	0.5	1.3	0.6	0.4
PBT before Exceptional Items	(9.7)	14.6	39.9	64.0
Growth (%)	NM	NM	174	60
Tax	(0.9)	3.7	8.1	21.8
PAT before Exceptional Items	(8.8)	10.9	31.9	42.1
Exeptional items	-	-	-	-
PAT before MI	(8.8)	10.9	31.9	42.1
Minority Int & Pft. from associates	-	-	-	-
PAT	(8.8)	10.9	31.9	42.1
Growth (%)	NM	NM	193	32
EPS	(5.2)	6.5	19.0	25.1
EPS (Growth %)	NM	NM	193	32

FY12 is 15month period ending March' 12, Source: Company, ICICIdirect.com Research

Cash flow statement — ₹ Crore

(₹ crores)	CY10	FY12	FY13	FY14
Net profit before Tax	(10)	15	40	64
Depreciation & Amortization	7	11	7	5
WC changes	7	(0)	(2)	(12)
Other non cash adju.	(2)	(22)	(6)	(1)
Income taxes paid	1	0	(8)	(19)
CF from operations	3	-	32	38
Capital expenditure	(9)	(2)	(4)	(2)
Δ in investments	0	(11)	(3)	(2)
Other investing cash flow	-	-	-	-
CF from investing Activities	(9)	(13)	(7)	(5)
Issue of equity	-	-	-	-
Δ in debt funds	6	(5)	(1)	(0)
Dividends paid	(1)	(4)	(23)	(33)
Other financing cash flow	(0)	(1)	(0)	(0)
CF from Financial Activities	(0)	(9)	(24)	(34)
Δ in cash and cash bank balance	(1)	(16)	(0)	(1)
Effect of exchange rate changes	3	-	-	0
Opening cash	13	26	9	11
Other cash adjustments	13	(1)	2	1
Closing cash	26	9	11	12

FY12 is 15month period ending March' 12, Source: Company, ICICIdirect.com Research

Balance sheet — ₹ Crore

(₹ crores)	CY10	FY12	FY13	FY14
Equity	17	17	17	17
Reserves & Surplus	50	53	66	75
Networth	67	70	83	92
Minority Interest	-	-	-	-
LT liabilties & provisions	1	2	0	0
Source of funds	68	72	83	92
Net fixed assets	37	27	22	24
Goodwill	-	-	-	-
Deferred tax assets (net)	-	-	1	1
Long term loans and advances	12	15	18	21
Other non current assets	-	0	0	0
Loans and advances	11	8	7	2
Inventories	11	9	9	8
Current Investments	-	12	18	18
Debtors	29	24	30	32
Cash & Cash equivalents	26	9	11	12
Other current assets	-	0	1	0
Current liabilities	57	24	33	25
Provisions	1	8	0	1
Net current assets	19	31	42	46
Application of funds	68	72	83	92

FY12 is 15month period ending March' 12, Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	CY10	FY12	FY13	FY14
Per share data (₹)				
EPS-diluted	(5.2)	6.5	19.0	25.1
Cash per share	15.3	12.6	17.1	17.3
BV	40.0	41.8	49.1	54.5
DPS	-	4.0	10.0	17.0
Operating Ratios (%)				
EBITDA Margin	(9.0)	10.4	26.2	31.9
Adjusted PBT Margin	(7.6)	7.6	24.4	32.4
Adjusted PAT Margin	(6.9)	5.7	19.4	21.4
Return Ratios (%)				
RoNW	NM	15.8	41.7	48.3
RoCE	NM	13.0	45.9	66.0
RoIC	NM	11.5	39.9	47.6
Valuation Ratios (x)				
P/E	NM	114.6	39.0	29.5
EV / EBITDA	NM	61.5	28.4	19.3
Price to Book Value	18.5	17.7	15.1	13.6
EV/Total Revenues	9.6	6.4	7.4	6.2
MCap/Total Revenues	9.8	6.5	7.6	6.3
Turnover Ratios				
Debtor days	90	51	60	57
Creditors days	58	40	39	33
Solvency Ratios				
Total Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	1.3	2.0	2.3	2.8
Quick Ratio	1.3	2.0	2.3	2.8
Debt / EBITDA	NM	0.2	0.1	0.1

FY12 is 15month period ending March' 12, Source: Company, ICICIdirect.com Research

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