Management Discussion & Analysis

Global Economy

On its face, the global economy appears to be healthy and growing. However, it would be equally apt to use the words the OECD chose in its May 2019 report characterizing conditions as “fragile,” warning that, “Trade and policy uncertainties could significantly damage the world economy and further contribute to the growing divide between people.” Escalating trade tensions — especially between the United States and China, but also among the US and other parts of the world, and disruptions in Europe depending on how Brexit plays out — along with broader and sometimes overlapping geopolitical disputes have weakened the foundations of a global economy built on trade. Other factors supporting growth may also be temporary, such as increases in consumer and corporate spending associated with changes in tax policies if those policies do not lead to an improvement in long-term economic efficiency. At the same time, narrow distributions of economic gains within societies represent additional potential sources of long-term risk, at least relative to something broader in its nature.

We can see the global advertising industry in a similar light, with emerging signs of deceleration. While global advertising trends reported on a headline basis are forecast to grow by +3.4% in 2019 (down from +6.9% in 2018), this result is heavily skewed by US political advertising, which by itself accounted for 1.5% of the world’s advertising total last year and will represent more with every passing election cycle. If we removed our estimates for this category in the US alone (the only market where the category meaningfully distorts growth rates), our reported 6.9% growth rate for 2018 would look more like +5.6%. 2019 would be +4.6% excluding US political advertising rather than the +3.4% headline figure. Notably, all of these growth figures would be lower than if a broader definition of media were used (including direct mail and directories, for example).

At a country level, outside of the US, China, Japan, India, the UK and Brazil collectively account for well over half of global growth in each of 2019 and 2020, and so deserve some focus here. China, which represents one-sixth of global advertising, is also notable among the faster-growing countries because its absolute gain is once again so large. Growth in 2020 is expected to be +5.6% vs. 2019 which should be more like +5.2% — a slowdown from pre-2018 levels, but still rapid vs. most other global markets. Brazil, now neck-and-neck with Germany for its standing as the world’s fifth-largest advertising market, stands out the most for its reversal from a -0.9% decline in2019 to a +6.1% gain in 2020, in part aided by a rebound on easy comparable, given conservative expectations this year and mid-single-digit inflation, despite mixed conditions for its overall economy. India is not forecast to be bothered by global challenges, although as with elsewhere, downside risks remain. Still, the country should still see double-digit growth in 2019 (+14%) and2020 (+13%), allowing it to surpass Australia and Canada in size by next year as the world’s eighth-largest ad market.

By medium, it should be unsurprising that internet related activity now accounts for the largest share of activity tracked here, capturing 50% of the world’s total in 2020, up from 25% only in 2014.Rather than benefitting exclusively from shifts of spending among advertisers — and some have occurred since then, to be sure — in any given year growth is generally driven by expanding numbers of distinct advertisers whose spending is skewed toward digital advertising. For example, newly established small businesses are more likely to operate nationally and internationally than on a purely local basis as may have been the case in prior decades. Further, the emergence of internet-endemic app developers and related services as advertisers — several of which now spend more than $1bn annually on advertising, skewed toward digital media — has served as a meaningful source of growth as well. While we are skeptical that significant amounts of ad spending will shift into media from non-media sources (such as trade promotion budgets directed to e-commerce platforms), given the silos that necessarily exist within large marketers, new sources of spending could still emerge. For example, we can estimate that the “China Export Market” (marketers based in China who advertise outside of their home country, and then sell and ship their products abroad) could spend $10bnon Facebook in countries outside of China this year. Twitter and Snap have also indicated that this source of revenue is meaningful for them, and the same will likely be true for Google, too.

Double-digit* Growth for Digital Continues.

For 2019 and 2020, we forecast growth of +13% in each year as digital advertising expands from $241bn in 2018 to $308bn in 2020. However, as digital media continues to mature, its share of spending will eventually plateau. Necessarily, growth will then slow with each passing year to eventually converge with global averages.

*eMarketer Report

Alternative scenarios seem unrealistic, unless relatively drastic measures are taken (for example, if today’s digital-focused media owners invest more aggressively in content to more directly replace content presently distributed by traditional media owners, eroding the margins of the digital-media owners). Other media still realizes significant usage and generally broad reach, if less than in the past, and continues to offer marketers high levels of effectiveness, and so is unlikely to be eliminated any time soon.

Indian Economy

Recent downward revisions notwithstanding, India is expected to grow 7.1% – 7.5% in FY 2020–2021 (Fitch/IMF), with an investment cycle revival and sustained consumption being the key drivers. Downside risks remain: rising protectionism, a possible slowdown in global economy, and bad debt on bank balance sheets continue to hamper domestic investment. Inflation and deficits will, we think, remain largely under control, as public investment will grow only modestly.

Indian Digital Market

The digital advertising market size is expected to reach at Rs 24,920 crore ($3.52 billion) by 2021 at an estimated CAGR of 31.96%, said a Dentsu Aegis Network report. Currently, the digital advertising market is around Rs 10,819 crore ($1.3 billion).

As of 2018, the Indian advertising market stands at Rs. 61,878 crore ($8.76 billion) and is estimated to grow with a CAGR of 10.62% till 2021 to reach a market size of Rs. 85,250 crore ($12.06 billion).

The report highlighted that television and print take the largest share of media spends at 70% aggregated followed by digital media at 17%. Digital transformation is being adopted at a substantial scale, which in turn, is increasing the adoption of digital media at a rapid pace.

Currently, BFSI is the biggest spender on digital media with a contribution of 38% of all their marketing budgets. This is followed by consumer durables (36%), e-commerce (34%) and telecom (31%). FMCG spends heavily on the television (63%) and the retail sector spends largely on print (54%) medium of advertising.

The advertising expenditure on the digital advertising formats is led by social media (29%) followed by search (25%), display (21%) and video (20%). The BFSI vertical spends the largest share of its digital media budget on search (38%), while FMCG spends the largest share of its digital media budget on video (33%).

Currently, 18% of all digital media is bought programmatically and has grown from 15% last year. The major reason for the growth are technological advancements, improvements in data science & analytics, implementation of algorithm to automate various procedures, better ad fraud detection and improved data policies & regulations. The rapid increase in the penetration of mobile devices and internet has led to 47% of digital media spends on mobile devices and is expected to grow at CAGR of 49% to reach spends share of 67% by 2021.

Business Review

During the year under review, your Company achieved a consolidated turnover of Rs. 2,577.72 Crores as against Rs. 2,420.28 Crores in the previous year. Your Company has earned a consolidated gross profit of Rs. 756.83 Crores before interest, depreciation and tax as against Rs. 713.29 Crores in the previous year. After deducting financial charges of Rs. 13.17 Crores, depreciation of Rs. 13.51 Crores and provision for tax of Rs. 164.57 Crores, the operations resulted in a net profit of Rs. 443.97 Crores as against Rs. 407.00 Crores in the previous year.

Operational Review

- P.S. S Prasad joins Brightcom Group as President – Corporate Strategy.
- Brightcom Group ventured into new area of Artificial Intelligence and Machine learning.
- Company maintaining the revenue levels without including LYCOS Inc. revenues for the year.
- Strengthened our partnership and positioning with our top Demand Partners on the Video and Display side with a special focus on Traffic quality KPI and automated tools.
- Open RTB (Server to server) buying – Started to buy in Header Bidding – it enables us to buy in much more sophisticated way and at a higher scale.
- Our team attended the conferences, DigiDay Denver, MWC conference in Barcelona, NYC Clients Road Show.
- Brightcom is part of Trustworthy Accountability Group, known as the TAG.
- Dyomo has successfully started to provide Artificial Intelligence and. Machine Learning services and allocated. a workforce of about 100 people. This is expected to grow in terms of workforce proportion in the coming quarters. We are servicing areas of Farm Tech, Architecture, Digital Marketing and Ecommerce.
- Partnership with Confident is working very well.
- Brightcom had significant participation at Google partner conference in Ireland.
- Brightcom participated at Mobile world conference (MWC) between February 25th and 28th, 2019 in Barcelona.

Technology Review

- Header bidding (selling) auction was introduced within our SSP "Compass" - sell traffic in a more efficient way with lesser overload to the users and improved yield.
- Header Bidder- Buying: our bidder was implemented in several publishers, allows us to reach and compete for new traffic sources.
- BrightCom's Prebid JS adapter – Officially approved as a partner of Prebid.JS initiative and we're now one of the Prebid official partners in the market.
- Traffic quality automation focus - Pixelate "Prebid" was officially implemented on 100% of our inventory, allowing us to guarantee control & a high level of traffic quality.
- Investment in Automation "trends" reporting – indicates spikes, preventing non-habitual cases, reduces risk of budget overspending and giving the team a better control around the clock.

Risks

The Company has a well-structured and robust risk management mechanism, which includes a comprehensive register that lists the identified risks, its impact and the mitigation strategy. Broadly, there are some overriding risks that are listed below:

Data Security: Technical failure and breakdowns in servers could lead to interruptions of our websites and result in corruption of all data and/or security breaches. The Company has initiated a pilot project to establish a secondary site in India as a precautionary measure.

Obsolescence: Being a technology driven company, it always faces the risk of an innovation or product development that can make one or more of Brightcom Group Limited's propositions redundant. The Company remains alert with technology developments to overcome this risk.

Financial Risks: Tax Issues: the Company has had a few income tax and service tax cases against it, which, if lost, may impact future cash flows. However, none of these is material.

Enhanced competition in the US market may reduce price and revenue margin.

The Company is expanding globally, and penetrating into potential markets like China. Going forward, it would focus more.

Consolidation of service providers may affect the Company

The Company has also ventured into strategic acquisitions and tie-ups to capitalize current market opportunities.

Business can be affected by privacy legislations and other regulations.

The Company discloses all its collection statements and dissemination practices in a published privacy statement in its website.

The new tie-ups may create problems of integration.

Brightcom Group enters into an agreement after extensive research, both internally and externally.

Human Resources:

The Company firmly recognizes the importance of its human resources to achieve its vision. Brightcom Group has significant policies to acquire and retain new and existing talent. It trains its people in a variety of ways to create an extensive talent pool. Apart from providing attractive remuneration to people, Brightcom Group also focuses on providing a stimulating and multicultural work environment.

Internal Control Systems:

Brightcom Group has a proper and adequate internal control system to ensure authorized business transactions. Internal audit function is an independent function, which is carried out by internal auditors through extensive audits. Regular internal audits determine the operational and financial efficiencies of the company. Moreover, the Audit Committee of the Board of Directors conduct periodic reviews of pan organizational effectiveness and recommends improvements whenever required. The internal control system also formulates well documented policies, guidelines, authorizations and approval procedures and ensures compliance with applicable policies and statutes.