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Powered by the Sharekhan 3R Research Philosophy

Affle (India) Limited

Ticking all the right boxes

Internet & new media	Sharekhan code: AFFLE	Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 5,809**	
Price Target: **Rs. 6,580**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 14,811 cr
52-week high/low:	Rs. 6,287 / 908
NSE volume: (No of shares)	1.04 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	64
FII	8
DII	21
Others	7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	25.4	58.8	103.4	291.5
Relative to Sensex	26.4	48.6	72.6	242.6

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Affle (India) Limited with a revised price target (PT) of Rs. 6,580, given its presence in high-growth industries, unique CPCU business model, and possible beneficiary from the change relating to cookies on browsers.
- The change relating to third-party cookies on browsers could be positive for Affle as more advertiser budgets would flow to mobile in-app and on-device advertising.
- In a year, Q3 continues to remain the highest quarter for Affle on account of business seasonality. We expect revenue to grow by 68% y-o-y to ~Rs. 135 crore in Q4FY2021, while margins are expected to contract on a y-o-y basis.
- Anticipated proceeds (Rs. 1,080 crore) from the forthcoming fund-raising activities via securities would be used to enhance its reach to connected devices by 5x over the next 10 years. We expect Affle to report a 35% CAGR in revenue over FY2020-FY2023E.

Affle (India) Limited's (Affle) differentiated business model, investments in enhancing tech capabilities, strategic decisions, and end-to-end solutions in the entire mobile programmatic landscape have positioned the company well to maintain strong growth momentum in a favourable demand environment. Google's move on phasing out of third-party cookies (by 2022) and potentially banning on any identifiers seem much less ominous in this digital advertising ecosystem, where ad-tech platform players and advertisers have been increasingly targeting connected car, connected TV, and mobile devices. Regulations or large tech companies prevent advertisers and platforms from using consented data would make app/website-related businesses virtually inutile, which could drive the ad-tech industry towards new future proofing opportunities and structures. Further, Apple's recent decision regarding the launch of app tracking transparency measure would have less negative impact on its business given its significant exposure to Android devices. The company's reach to 2.2 billion+ connected device and its breadth of offering across the value chain indicate Affle's continuous strive to be future-ready for any technological changes. Management indicated that the change relating to third-party cookies on browsers would be positive for Affle as more advertiser budgets will flow to mobile in-app and on-device advertising. Anticipated proceeds (Rs. 1,080 crore) from the forthcoming fund-raising activities would be used for reaching to more connected devices, which would enable the company to energise its growth. Notably, management aims to reach over 10 billion+ connected devices from current 2.2 billion+ connected devices over the next 10 years under its Affle 2.0 strategy. In a year, Q3 continues to remain the highest quarter for Affle on account of business seasonality. We expect revenue to grow 68% y-o-y to ~Rs. 135 crore in Q4FY2021 because of strong demand environment, while margins are expected to contract on a y-o-y basis and to remain stable on a q-o-q basis.

Our Call

Valuation: Affle is well positioned to capture opportunities from increasing advertising budgets towards mobile advertising given its unique ROI-centric customer acquisition model and presence in high-growth verticals. At the CMP, the stock trades at 88x its FY2023E earnings, which though expensive is trading at a discount to global peers. The premium valuation is justified given its strong revenue growth potential in the coming years, capabilities to capture a significant chunk of mobile advertising spends in India and enter into new developed markets. We have assigned street-high multiple of 100x to Affle to arrive at a price target (PT) of Rs. 6,580. Our target multiple is still at a discount to global peers, which are currently trading at an average one-year forward multiple of 160x. We continue to like Affle, considering its strong balance sheet along with a positive cash flow conversion and a long runway for growth. We forecast Affle's revenue and earnings to report a CAGR of 35% and 37%, respectively, over FY2020-FY2023E. Hence, we maintain our Buy rating on the stock.

Key Risks

(1) Entry of large technology players in this space; (2) Inability to generate relevant data for targeted advertisers; and (3) Government regulations related to management of consumer data and respect for privacy.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	249.4	333.8	510.0	651.5	814.9
OPM (%)	28.2	26.6	25.4	25.8	26.2
Adjusted PAT	48.8	65.5	102.7	132.1	167.8
% YoY growth	*75.4*	*34.2*	*56.7*	*28.6*	*27.0*
Adjusted EPS (Rs.)	20.1	26.1	41.0	51.8	65.8
P/E (x)	303.4	226.1	144.3	112.1	88.3
P/B (x)	204.6	64.6	44.6	31.9	23.4
EV/EBITDA (x)	210.3	166.0	113.5	87.0	68.1
RoNW (%)	67.4	28.6	30.9	28.5	26.6
RoCE (%)	95.6	41.4	35.5	32.3	29.8

Source: Company; Sharekhan estimates

Forewarned is forearmed

Google has recently made another announcement relating to the future of identity in the online advertising space. In January 2020, Google first announced that it would block third-party cookies from its Chrome browser by 2022 to meet growing data privacy standards in Europe and the US, a move that is similar to other browsers, such as Apple's Safari and Mozilla's Firefox. Notably, Google Chrome has an estimated global share of 62.8%. In March 2021, Google went even a step further and announced that after third-party cookies are phased out, it won't build alternative tracking technologies to track individuals as they browse across the web or use those being developed by other entities, for its own ad buying tools to replace third-party cookies. Google's move on phasing out of third-party cookies (by 2022) and potentially banning on any identifiers (once third-party cookies are phased out) seem much less ominous in this digital advertising ecosystem, including connected car, connected TV, and mobile devices. For advertising on these connected devices, ad-tech companies, including Affle does not rely much on cookies (which currently contribute to 20% of data-driven ads).

The use of data from a customer, who has given his/her consent, by tech platforms could not be categorised as illegal. Even regulations from General Data Protection Regulation (EU GDPR) and California Consumer Privacy Act (CCPA) does not disallow brands and platforms collecting emails and other personal identification from consumers and even does not prevent brands and platforms from using data attached to it if they have acquired active and informed consent for customers before collecting and processing their personal information. Regulations or large tech companies prevent brands and platforms from using consented data would make these businesses (app/website) virtually inutile.

Affle primarily earns revenue from consumer platform on a Cost Per Converted User (CPCU) basis. The company's CPCU business is focused on around mobile ecosystem (in-app mobile marketing, on-device app advertising, advertising on Bobble AI keyboard, and among others) and exposure to third-party cookies or personally identifiable information remain very minimal. Hence, we believe the recent announcement by Google related to third-party cookies on browsers and alternate identifiers would not affect Affle's business. Further, Apple's recent decision regarding the launch of app tracking transparency measure would have less negative impact on its business given its significant exposure to Android devices. The company's reach to 2.1 billion+ connected devices indicate that the company has been able to build competencies across various technologies via both organic and inorganic route. Hence, we believe the company is well equipped with future-ready talents to cope with any technological changes. Management indicated that the change relating to third-party cookies on browsers would be positive for Affle as more advertiser budgets will flow to mobile in-app and on-device advertising.

Airtel's advertising platform targets digital advertising pie

Bharti Airtel has recently launched an advertising platform that will focus on connecting any brand to its customers. Airtel Ads has so far enabled campaigns for more than 100 brands across categories, including fast-moving consumer goods, banking, financial services and insurance, and digital startups, among others. Airtel's data research and analytics will help identify and connect target customers to brands selling products or making offers across its platform. Airtel does not plan to cater to customers from outside. Though Airtel targets to capture a portion of digital advertising spends pie, Affle is well placed to continue its strong growth momentum given its differentiated outcome-based business model. This model is more attractive to advertisers as Affle's solutions deliver higher ROIs to its advertisers than CPM/CPC based advertising. Further, Affle has established strong partnerships with leading mobile network operators, original equipment manufacturers, content publishers, media agencies, and advertisers. Further, Airtel is one of its marquee customers, for which Affle runs mobile campaigns.

Board approved fund raising of Rs. 1,080 crore; Funds will be utilised for growth

Affle's board approved raising upto Rs. 1,080 crore through issue of securities including warrants and bonds (whether convertible or non-convertible) or preferential issue and/or Qualified Institutions Placements (QIP). There will be an extraordinary general meeting on March 24 to get shareholder approval for this fund raising. The company has been able to reach connected devices of 2.1 billion+ since its inception, with negligible fund raising of $30 million. However, management indicated that the anticipated proceeds (Rs. 1,080 crore) from the forthcoming fund-raising activities would be used for acquisition of connected devices. Notably, management aims to reach over 10 billion connected devices from current 2.1 billion+ connected devices over the next 10 years under its Affle 2.0 strategy.

Presence in high-growth verticals likely to drive its growth momentum

Revenue contribution from the top 10 verticals (e-commerce, entertainment, edu-tech, foodtech, fintech, FMCG, gaming, grocery, government, and healthcare) has remained above 90% over the past three quarters. Affle's top 10 resilient industry verticals have reported a CQGR of 22% versus 17% CQGR of its overall revenue over the past four quarters. Management highlighted that e-commerce is the largest contributor to its revenue i.e., 30% of total revenue. Management expects the players in these verticals would not consider ad spends on mobile is discretionary in nature as its end-users prefer to use smartphones for transactions. Hence, Affle is expected to deliver strong growth in the coming years, led by strong growth momentum of its top 10 verticals, which would continue to contribute 90%+ to its revenue. Affle operates in under-penetrated markets such as India, South East Asia, Middle East, Africa, and Latin America, while the company has started building local on-ground presence in some of its international geographies such as South East Asian markets, South Korea, Japan, and Russia, among others, to augment the next level of growth in the long run. Management indicated that its vernacular experience technology would help the company expand its presence in Korea and Japan. Management expects India to post a 30% CAGR in a five-year perspective, led by higher smartphone penetration and rising number of shoppers, while the international market would report a 20%-25% CAGR over the same period. Overall, management expects growth would be in at 25%-30% in the next five years.

Strong show continues

During February 2021, Viant Technology, which operates a demand-side advertising platform called Adelphic, has recently made a strong stock market debut. Viant was priced at $25 per share and opened at $44. In December 2020, sell-side advertising platform, PubMatic had also launched its IPO with a strong start. Viant generated $108.8 million in revenue in 9MCY2020, a decline of 3.7% versus 39% y-o-y growth in Affle's revenue. Notably, PubMatic generated $93 million in revenue in 9MCY2020, registering 16% y-o-y growth. Both PubMatic (at $56) and Viant Tech (at $43) are currently valued at 215x and 190x, respectively, on one-year forward EPS. Despite strong revenue growth and higher margin profile, Affle has been trading lower to its global peers.

Peer Comparison

Particulars	CMP ($)	Revenue growth (%)		EBITDA Margin (%)		P/E (x)	
		CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Trade desk	756	34.6	28.5	33.9	35.0	229	170
Digital Turbine	87	116.9	30.5	24.0	25.9	207	100
PubMatic	57	24.3	20.3	26.8	28.0	285	219
Viant tech	44	30.1	-	15.0	-	191	-

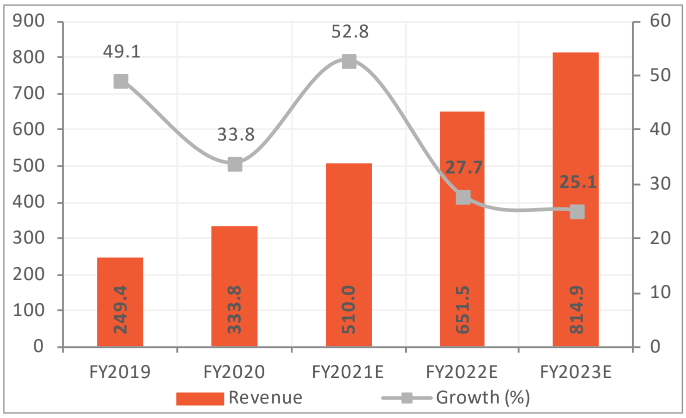
Source: Company, Sharekhan research

Expect revenue growth to accelerate in Q4FY2021

In a year, Q3 continues to remain the highest quarter for Affle on account of business seasonality. Hence, we believe Q4FY2021 revenue would be lower compared to Q3FY2021 revenue, which would result in a decline in revenue on a sequential basis. However, growth is expected to accelerate on a y-o-y basis. During Q3FY2021 concall, management indicated that the company is well set to achieve 100mn+ conversions (75.7 million in 9MFY2021), Rs. 100 crore+ of net profit (Rs. 76.3 crore in 9MFY2021), and Rs. 100 core+ cash flows from operations (Rs. 78.7 crore in 9MFY2021) in FY2021. Hence, we expect revenue to grow by 68% y-o-y to Rs. 134.8 crore in Q4FY2021 on account of a strong demand environment, while margins are likely to decline on a y-o-y basis (expect to remain flat on a q-o-q basis).

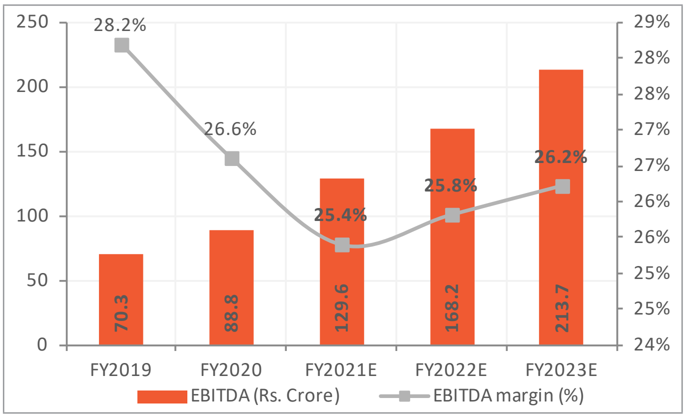
Financials in charts

Revenue (Rs. cr) and growth (%)



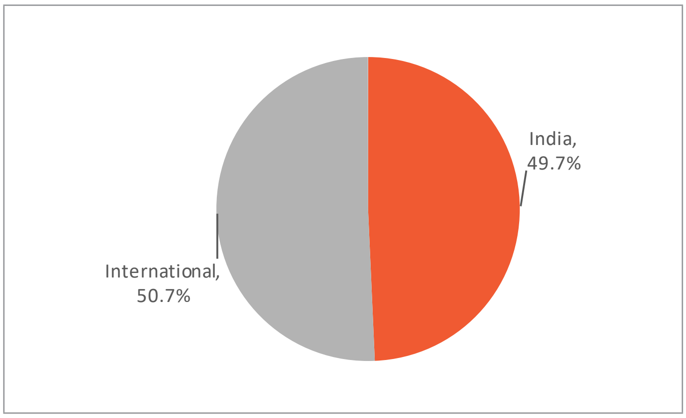
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and margin (%)



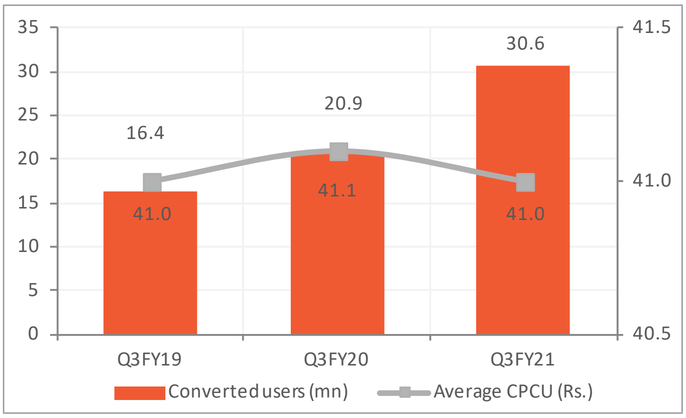
Source: Company, Sharekhan Research

Global presence



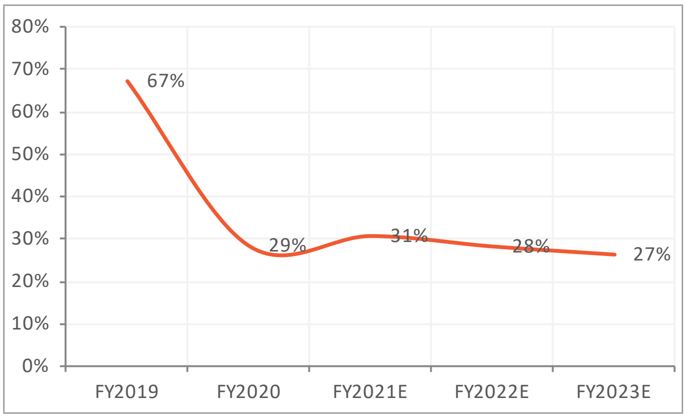
Source: Company, Sharekhan Research

Connected users (%)



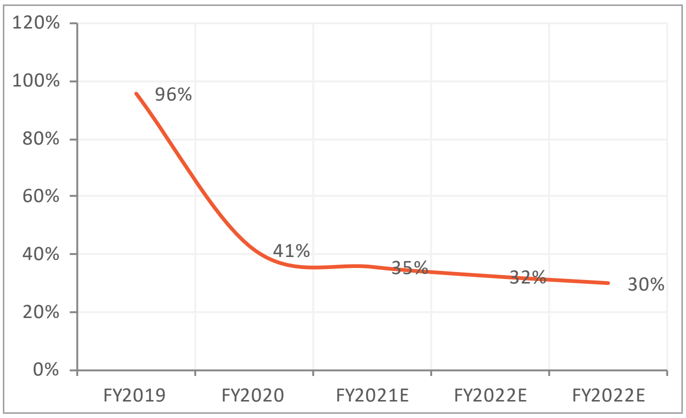
Source: Company, Sharekhan Research

RoE (%)



Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view – Strong growth in mobile ad revenue to continue

Digital advertising spends are expected to report a 29% and 18% CAGR, respectively, in India and South East Asia in the next 3-5 years because of rising active internet users, rapid adoption of smartphones, and connected devices and a young population. Total digital ad spend in India is projected to reach Rs. 539 billion by 2025. Mobile advertisement spend is projected to reach a share of 64% of total digital ad spends by 2022.

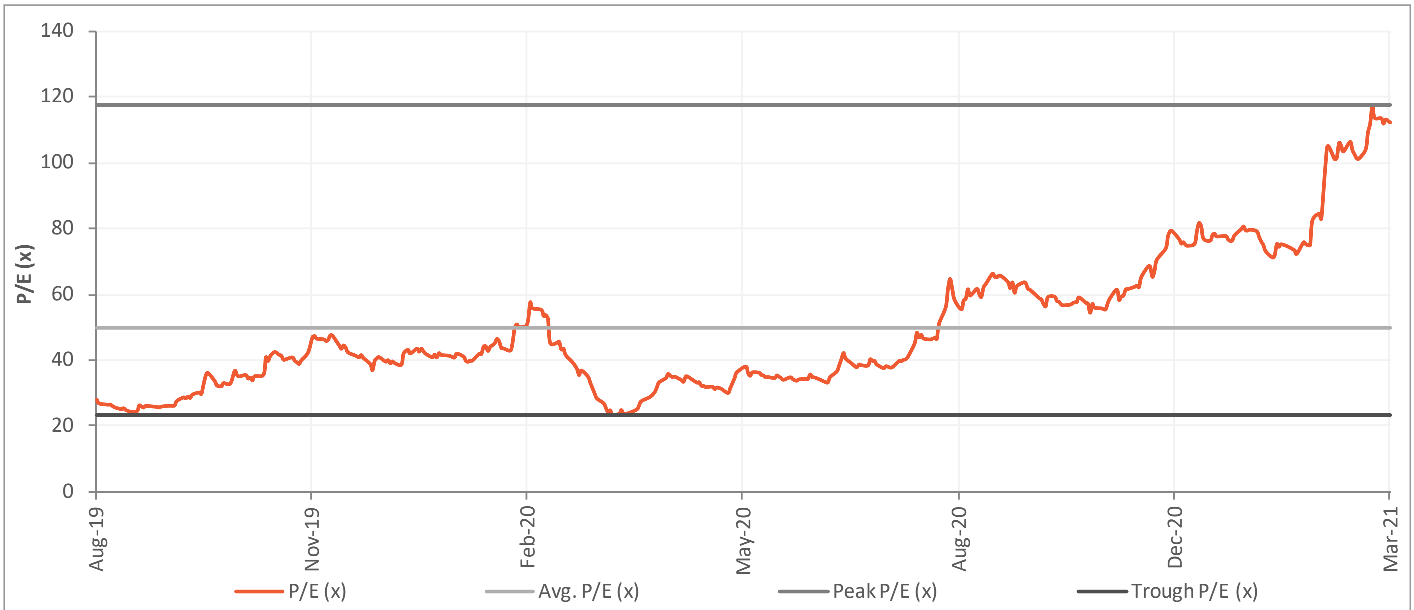
Company outlook – Long runway for growth

Affle's exposure in fast-growing markets such as India and South East Asia and segments such as e-Commerce provide a platform for sustainable growth momentum in the long term. With a scalable end-to-end offering across the ad-tech value chain along with the CPCU model, we believe Affle would continue to derive high ROI for advertisers. Management expects to deliver at least 25%-30% revenue CAGR over FY2020-FY2025E because of its CPCU model and focus on 2V strategies to strengthen its market position and expand its reach to connected devices.

Valuation – Presence in the right spots

Affle is well positioned to capture opportunities from increasing advertising budgets towards mobile advertising given its unique ROI-centric customer acquisition model and presence in high-growth verticals. At the CMP, the stock trades at 88x its FY2023E earnings, which though expensive is trading at a discount to global peers. The premium valuation is justified given its strong revenue growth potential in the coming years, capabilities to capture a significant chunk of mobile advertising spends in India and enter into new developed markets. We have assigned street-high multiple of 100x to Affle to arrive at a price target (PT) of Rs. 6,580. Our target multiple is still at a discount to global peers, which are currently trading at an average one-year forward multiple of 160x. We continue to like Affle, considering its strong balance sheet along with a positive cash flow conversion and a long runway for growth. We forecast Affle's revenue and earnings to report a CAGR of 35% and 37%, respectively, over FY2020-FY2023E. Hence, we maintain our Buy rating on the stock.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Info Edge*	4,802	13	61,750	200.9	139.7	168.2	112.4	23.0	20.3	11.6
Just Dial	965	6	5,968	26.9	25.3	35.8	26.6	4.0	3.4	16.5
Affle India	5,809	3	14,811	144.3	112.1	113.5	87.0	44.6	31.9	30.9

Source: Sharekhan Research, Bloomberg
**Standalone*

About company

Affle is a global technology company with with a leading market position in India. The company has two business segments, i.e. (1) consumer platform and (2) enterprise platform. The consumer intelligence platform delivers consumer engagement, acquisitions, and transactions for leading brands and B2C companies through relevant mobile advertising. Affle aims to enhance returns on marketing spend through delivering contextual mobile ads and reducing digital ad fraud, while proactively addressing consumer privacy expectations. The enterprise platform helps offline companies to go online through platform-based app development, enabling of O2O (online to offline) commerce, and data analytics. The company has filed 14 patents in Singapore and the US to fortify AI-driven intelligence and automation for conversion-driven marketing with a key focus on conversational, vernacular, and voice-based intelligence.

Investment theme

Affle, a leading ad-tech company in India, provides end-to-end offerings to advertisers through mobile advertising using its proprietary mobile audience as a service (MAAS) platform for customers. Given its deep learning algorithm capabilities and ability to deliver more targeted and personalised advertisements, more advertisers have been using the consumer platform for running their digital ad campaigns on its platform. With increased share of digital ad spends and shifting of advertisers towards programmatic advertising, ad-tech vendors such as Affle are well placed to deliver higher growth going ahead.

Key Risks

(1) Entry of large technology players in this space; (2) Inability to generate relevant data for targeted advertisers; and (3) Government regulations related to management of consumer data and respect for privacy.

Additional Data

Key management personnel

Anuj Khanna Sohum	Founder, Chairman & CEO
Anuj Kumar	Co-Founder, Chief Revenue & Operating Office
Kapil Bhutani	Chief Financial & Operations Officer
Mei Theng Leong	Chief Finance & Commercial Officer
Vipul Kedia	Chief Data & Platforms Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MALABAR INDIA FUND LTD	5.54
2	Standard Life Aberdeen PLC	3.06
3	Nippon Life India Asset Management	2.11
4	ABERDEEN STD ASIA FO PLC	1.71
5	L&T Mutual Fund Tustee Ltd/India	1.57
6	Aditya Birla Sun Life Asset Management	1.26
7	State of Kuwait	1.03
8	Franklin Resources Inc	1.01
9	Sundaram Asset Management	0.62
10	Blackrock inc	0.57

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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