Affle (India) Limited

Adding muscle through acquisitions

Internet & new media	Sharekhan code: AFFLE	Event 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. 4,419**	
Price Target: **Rs. 6,580**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 11,777 cr
52-week high/low:	Rs. 6,287/1,449
NSE volume: (No of shares)	0.87 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	1.1 cr

Shareholding (%)

Promoters	60
DII	8
FII	25
Others	7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	-18.6	14.4	204.5
Relative to Sensex	-18.3	-25.3	4.7	158.0

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Affle (India) Limited with a PT of Rs. 6,580, given strong revenue growth potential, inorganic expansion into new markets and a presence in high-growth markets.
- Affle completed the acquisition of Jampp for $41.3 mn. This acquisition would expand its market presence in LatAm and North America, though it would be earnings dilutive in FY2022.
- Affle is confident of expanding Jampp's EBITDA margins to high-single digits within a year. Further, margin would improve to company's level of around 25-27% by FY2024.
- Presence in high-growth verticals, robust CPCU business model and favourable industry tailwinds makes the management confident of clocking a 25-30% CAGR in revenues over five years. We expect revenue/earnings to post a CAGR of 54%/23% over FY2021-FY2023E

Affle (India) Limited (Affle) announced the completion of Jampp's acquisition for a cash consideration of $41.3 million (including a contingent incremental consideration of $15 million to be paid over three years). Jampp's programmatic mobile advertising platform is used by leading app marketers to acquire new users, drive repeat usage and transactions with existing users. The acquisition of Jampp would help Affle enhance its presence in android-heavy global emerging markets, LATAM markets and strengthen its presence in some verticals in North America. Jampp has a strong brand equity in Latin America. Affle highlighted that it would retain the senior management of Jampp and convert Jampp's business model from CPI (Cost per Installation) to CPCU (Cost Per Converted User) model with immediate effect. Affle indicated that it would enhance Jampp's EBITDA margin to high single digit from flattish margin in twelve months. Subsequently, the acquired entity's EBITDA margin would improve to 15-20% in the second year of acquisition and reach the company's average margin level in FY2024. We believe that the acquisition of Jampp would be margin dilutive in FY2022E. Google announced that it will delay the phase out of Chrome web browser technology that tracks users for advertising purposes until 2023. As Affle has very negligible dependence on browsers, the ban on cookies would have a very limited impact on the company. Affle recently increased its stake in Bobble AI to 17.72% from 8% earlier for a cash consideration of Rs. 341 million. The increase in stake in Bubble AI would help Affle strengthen its presence with OEMs and operators.

Our Call

Valuation – Presence in the right spots: The acquisition of Jampp is expected to be margin-dilutive initially, but we believe it would provide high-growth opportunities in the coming years. The management remains confident that it would bring Jampp's margin at company's average in next 2-3 years of timeframe. The transaction appears to be at a fair valuation of 1.4x EV/total sales. The transaction is a step in the right direction to expand its presence in Latin America and certain verticals in the US. The stock has corrected around 16% in last one month, owing to change in the privacy policy at iOS and potential dilution of earnings in FY2022. We forecast Affle's revenue and earnings to report a CAGR of 54% and 23%, respectively, over FY2021-FY2023E. We introduced FY2024E in this note. At CMP, the stock trades at 58x/39x its FY2023E/FY2024E earnings, which is justified given its strong revenue growth potential on the back of strong industry tailwinds and presence in high-growth markets. We continue to like Affle, considering a strong balance sheet along with a positive cash flow conversion and a long runway for growth. Hence, we maintain a Buy rating on the stock with an unchanged PT of Rs. 6,580.

Key Risks

(1) Entry of a large technology player in this space; (2) Inability to generate relevant data for targeted advertisers; and (3) potential changes in the privacy policy at iOS and Android.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	516.8	944.4	1,231.2	1,587.3
OPM (%)	25.2	18.8	21.0	23.0
Adjusted PAT	135.0	131.0	204.3	299.0
% YoY growth	*106.1*	*-3.0*	*56.0*	*46.3*
Adjusted EPS (Rs.)	53.0	49.2	76.7	112.2
P/E (x)	87.2	89.9	57.6	39.4
P/B (x)	32.8	24.0	16.9	12.2
EV/EBITDA (x)	90.4	65.9	44.7	22.4
RoNW (%)	37.6	26.7	29.4	30.9
RoCE (%)	34.3	30.0	32.4	33.6

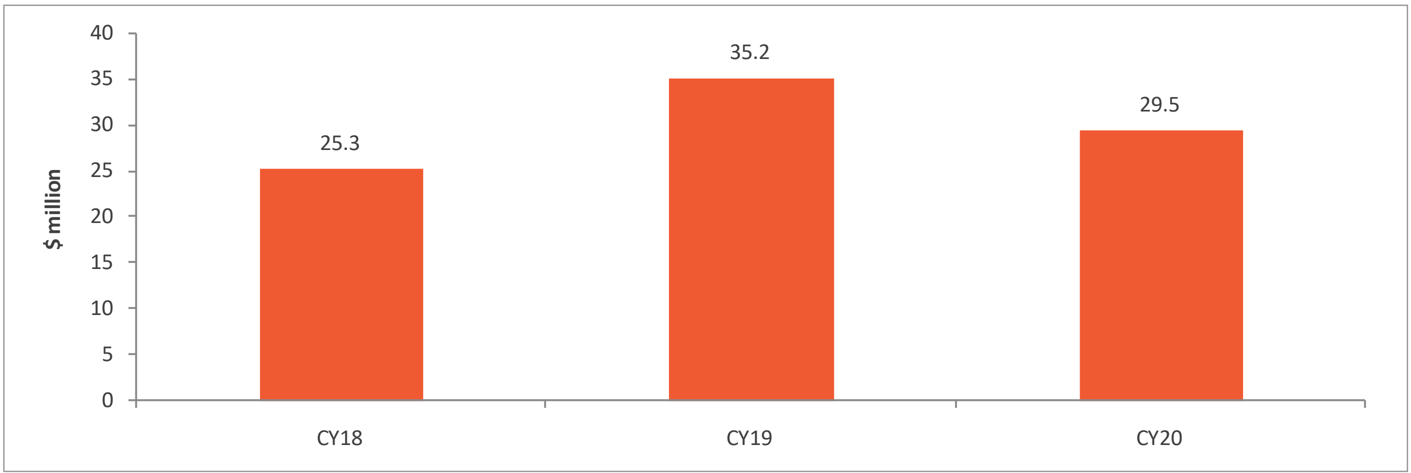
Source: Company; Sharekhan estimates

Event: completed Jampp acquisition

On June 9, 2021, Affle announced the acquisition of Jampp, a leading programmatic mobile marketing company for $41.3 million (a including contingent incremental consideration of $15 million to be paid over next 3 years). This acquisition was completed with complete acquisition of its equity and technological intellectual property on June 30, 2021. Jampp's programmatic mobile advertising platform is used by leading app marketers to acquire new users and also to drive repeat usage and transactions with existing users. The company's deep focus on leveraging unique contextual and behavioural signals to deliver in-app engagements has helped it to drive incremental growth for top marketers in North America, LatAm, APAC and many other markets.

Established in 2013 in Argentina, Jampp is one of the leading ad-tech companies with global business and teams across US, Argentina, Brazil and Singapore. Jampp's focus on in-app engagement has helped it drive incremental growth for its customers in North America, LatAm, APAC and other global emerging markets.

Total revenue ($ million) declined in CY20



Source: Company, Sharekhan Research

Jampp's revenue declined by 16% y-o-y in CY2020 after a 39% y-o-y growth in CY2019. The decline in revenue was due to loss of a large customer and lower advertising budgets of some customers in the wake of COVID-19 disruptions. Adjusted EBITDA of Jampp stood at $0.04 million in CY2020. Jampp's customer base includes Shutterfly, Boxed, Twitter, and Yelp.

Acquisition to enhance its market presence, but would be margin dilutive in FY2022

The acquisition of Jampp would help Affle enhance its presence in android-heavy global emerging markets, LATAM markets and strengthen its presence in some verticals in North American markets. Jampp has a strong brand equity in LATAM market. Affle highlighted that it would retain the senior management of Jampp and convert the company's business model from the CPI to CPCU model with immediate effect. Jampp's revenue stood at $29.5 million in CY2020, which is 42% of FY2021 revenues. However, the company's adjusted EBITDA stood at $0.04 million in CY2020, translated into a flattish margin. However, management indicated that it aims to boost the acquired company's EBITDA margin to high single digit in next 12 months. Subsequently, the acquired entity's EBITDA margin would improve to 15-20% in the second year of acquisition. Affle's management remains confident to take Jampp's EBITDA margin to company's level of 25-27% by FY2024. We believe this acquisition would be earnings dilutive for Affle in FY2022.

Heavy exposure towards Android users; Google delays removal of cookies until 2023

Management stated that digital advertising benefits consumer in terms of getting services or offers through app or websites in a subsidised way. The management believes that the recent decision regarding the launch of app tracking transparency measure by Apple would have a less negative impact on its business given its significant exposure to Android devices (only 5-10% exposure to iOS devices). Further, the company's OEM and operator strategy provides a shield as OEMs and operators have a lot of autonomy with respect to Android devices, especially in emerging markets. Further, Google announced that it will delay the phase out of Chrome web browser technology that tracks users for ad purposes until 2023. One must note that Affle has a negligible dependence on browsers, hence the ban on cookies would not have any impact.

Increased stake in Bobble AI to strengthen its partnerships with OEMs

Affle recently increased its stake in Bobble AI to 17.72% from 8% earlier for a cash consideration of Rs. 341 million. Affle acquired equity ownership (comprising Equity Shares, CCPS Series A and Series B) at pre-determined terms through a secondary transaction from the shareholders of Bobble AI, at an aggregate consideration of Rs. 120.9 million. Further, the Company has also entered into a definitive agreement to subscribe to equity shares of Bobble AI and acquired 1,674 fully paid-up CCPS (Series C1) for a consideration of Rs. 220 million. This transaction would help the company to strengthen its presence with OEMs and operators.

Outlook and Valuation

■ Sector view - Expect strong growth in mobile ad revenue to continue

Digital advertising spends are expected to report a 32.5% and 18% CAGR, respectively, in India and Southeast Asia (SEA) in the next five years because of rising active internet users, rapid adoption of smartphones and connected devices, and a young population. Mobile advertisement spends are projected to reach a share of 50% of total advertising spend from 20% currently over next 3 years. The combined opportunities in mobile-app video, OTT, and CTV programmatic advertising spends across the globe are expected to post a 17% CAGR over 2020-2025.

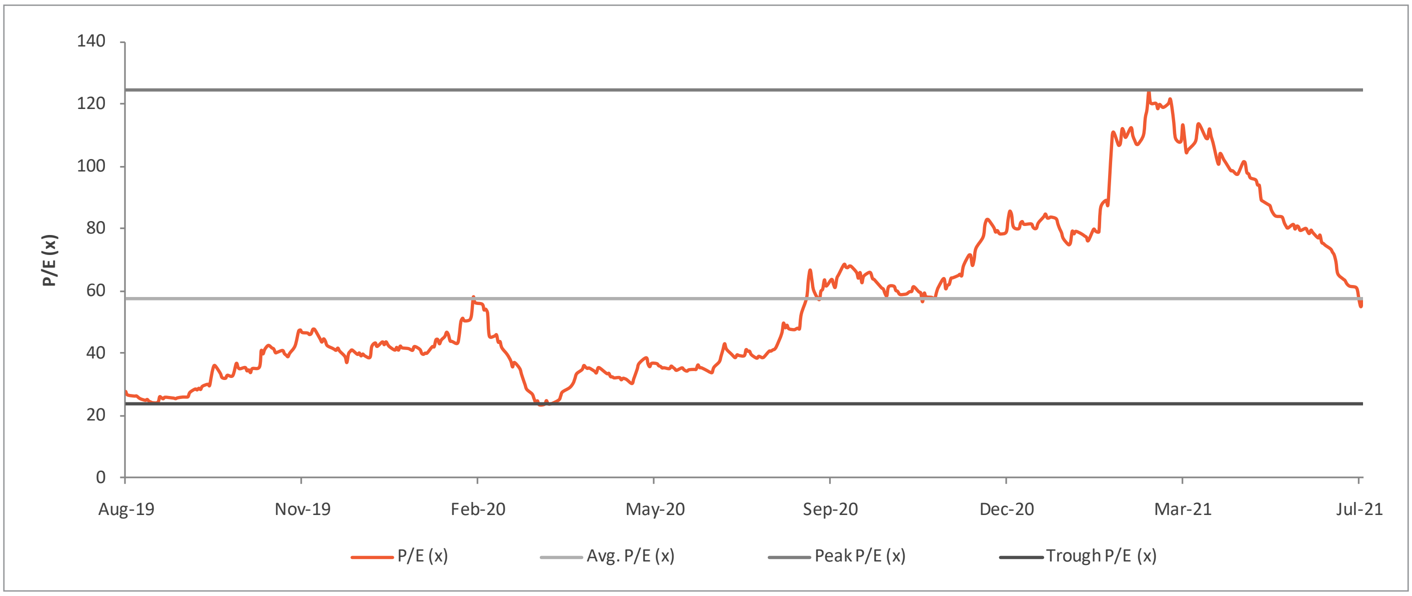
■ Company outlook - Long runway for growth

Affle's exposure in fast-growing markets such as India and SEA and segments such as e-commerce provide a platform for sustainable growth in the long term. With scalable end-to-end offerings 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 the next five years because of its CPCU model, focus on 2V strategies to strengthen its market position, expand its reach to connected devices and entry into new geographies.

■ Valuation - Presence in the right spots

The acquisition of Jampp is expected to be margin-dilutive initially, but we believe it would provide high-growth opportunities in the coming years. The management remains confident that it would bring Jampp's margin at company's average in next 2-3 years of timeframe. The transaction appears to be at a fair valuation of 1.4x EV/total sales. The transaction is a step in the right direction to expand its presence in Latin America and certain verticals in the US. The stock has corrected around 16% in last one month, owing to change in the privacy policy at iOS and potential dilution of earnings in FY2022. We forecast Affle's revenue and earnings to report a CAGR of 54% and 23%, respectively, over FY2021-FY2023E. We introduced FY2024E in this note. At CMP, the stock trades at 58x/39x its FY2023E/FY2024E earnings, which is justified given its strong revenue growth potential on the back of strong industry tailwinds and presence in high-growth markets. We continue to like Affle, considering a strong balance sheet along with a positive cash flow conversion and a long runway for growth. Hence, we maintain a Buy rating on the stock with an unchanged PT of Rs. 6,580.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Just Dial	999	6	6,220	31.7	23.3	38.2	24.6	4.3	4.2	15.3
Info Edge*	5,350	13	68,901	147.3	106.2	130.1	92.1	13.9	12.6	9.5
Affle India	4,419	3	11,777	89.9	57.6	65.9	44.7	24.0	16.9	26.7

Source: Sharekhan Research, Bloomberg
*Standalone

About company

Affle is a global technology company 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 focuses on 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 adtech 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) High client concentration; (2) entry of large tech player in this space; (3) inability to generate actionable outcomes for targeted advertisers, and (4) potential changes in the privacy policy at iOS and Android.

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 and Platforms officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MALABAR INDIA FUND LTD	4.56
2	Standard Life Aberdeen PLC	4.16
3	Nippon Life India Asset Management	1.78
4	ABERDEEN STD ASIA FO PLC	1.63
5	Aditya Birla Sun Life Asset Management	1.42
6	L&T Mutual Fund Trustee Ltd/India	1.36
7	Vanguard Group Inc	1.14
8	William Blair & CO LLC	0.98
9	Royal Bank of Canada	0.94
10	Sundaram Asset Management	0.68

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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