

May 16, 2022

Q4FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,379		1,535	
Sales (Rs. m)	15,147	19,900	14,697	19,873
% Chng.	3.1	0.1		
EBITDA (Rs. m)	2,932	4,019	3,087	4,356
% Chng.	(5.0)	(7.7)		
EPS (Rs.)	18.0	24.9	17.0	24.4
% Chng.	5.9	2.0		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. mn)	5,169	10,817	15,147	19,900
EBITDA (Rs. mn)	1,300	2,135	2,932	4,019
Margin (%)	25.1	19.7	19.4	20.2
PAT (Rs. mn)	1,351	2,143	2,399	3,320
EPS (Rs.)	10.6	16.1	18.0	24.9
Gr. (%)	106.2	51.8	12.0	38.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	45.9	27.9	18.5	21.0
RoCE (%)	28.7	20.1	17.5	20.7
EV/Sales (x)	23.9	11.5	8.2	6.2
EV/EBITDA (x)	95.2	58.2	42.6	30.8
PE (x)	91.3	60.1	53.7	38.8
P/BV (x)	34.3	10.9	9.1	7.4

Key Data

AFFL.BO | AFFLE IN

52-W High / Low	Rs.1,511 / Rs.763
Sensex / Nifty	52,974 / 15,842
Market Cap	Rs.129bn/ \$ 1,655m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.398.08m

Shareholding Pattern (%)

Promoter's	59.89
Foreign	15.40
Domestic Institution	6.37
Public & Others	18.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(23.9)	(18.7)	(6.3)
Relative	(16.2)	(7.4)	(13.8)

Aditi Patil

aditipatil@plindia.com | 91-22-66322258

Affle (India) (AFFLE IN)

Rating: BUY | CMP: Rs967 | TP: Rs1,379

Well positioned to grow higher than industry

Quick Pointers:

- Strong organic growth of 45% YoY despite weak seasonality relative to Q3.
- Organic EBITDA margins expanded, however overall EBITDA margins declined by 136bps QoQ.

Affle reported strong beat in revenue, led by solid performance across organic business (+45% YoY) and Jampp (-3% QoQ, ~35% of consolidated revenue). It is well positioned to grow higher than the industry over medium term led by 1) deeper verticalization and vernacular strategy improving direct customer share, 2) ability to capitalize on growth in ad-spends in connected TV, metaverse etc., led by consistent investments in futuristic technologies and 3) expansion in newer geographies.

We cut EBITDA margins estimates by ~150bps/100bps for FY23/24 led by slower than expected rate of improvement in Jampp margins and ongoing investments in technology and expansion in new markets. Our EPS estimates increase by ~6%/2% for 23/24 led by increase in revenue estimate in FY23 and lower than expected ETR in FY23/24.

We arrive at a DCF based TP of INR 1379 with implied earnings multiple of 55x on FY24EPS. (earlier 63x, factoring risk of reduction in ad-spends amidst global macro headwinds). Post ~21% correction in past one-month, the stock is trading at attractive valuations of 39x on FY24 EPS of Rs.25 with Revenue/Normalized EPS CAGR of 36%/35% over FY22-24. We remain structurally positive on Affle given sustained strong higher than industry revenue growth momentum, ability to smoothly scale up acquisitions and focus on developing innovative technologies to stay ahead of the curve.

- Massive beat in revenue:** Affle reported revenue of INR 3,151 mn, +122.5% YoY much above our estimates. (Ple: 102.8% YoY), led by strong growth across organic business (excluding Jampp) (+45% YoY, -9% QoQ) and Jampp (~35% of consolidated Affle's revenue).
- Strong growth in converted users; dip in CPCU rate:** Converted users at 56.6 mn grew 91% YoY. Average CPCU rate dipped slightly to INR 51.1 (-1.4% QoQ) given 1) volume (no of converted users) decline of 3% QoQ on a high base in Q3 and 2) 200bps QoQ dip in international revenue share to 67% in 4Q. However, for full year international revenue share stood at 65.3% in FY22 (vs 64.4% in 9MFY22) led by Jampp contribution. CPCU rate is expected to further improve, as Jampp scales up and as Affle expands in other international markets.
- Miss in margins:** EBITDA grew 70% YoY but EBITDA margin declined by 132bps to 18.6% (Ple: 19%), led by higher employee costs (+250 bps QoQ). Inventory and data costs decreased marginally by 20bps QoQ. Employee costs are higher in Q4 due to 1) 3.2% impact of hyperinflation accounting in one of

Affle is well placed to benefit from adoption of connected devices and metaverse as it is consistently investing in futuristic technologies to always remain ahead of the curve.

Affle's connected devices stood at 2.5 Bn on TTM basis (vs 2.4 Bn in Q3)

the subsidiary located in Argentina and 2) 1.8% impact due to ESOP costs and rest due to investments in employees.

- **Organic EBITDA margins continue to improve led by increased efficiency of user conversion.** Jampp's EBITDA margin stood at 7% and management mentioned that it is expected to reach mid-teen levels next year. We expect EBITDA margins to remain around 19-20% levels in the near term, given continued investments in sales for expansion in new geographies and investments in data for future growth.
- **Massive beat in PAT:** Normalized PAT stood at INR 527 mn, +99% YoY (Pl: INR 444 mn). Beat in PAT was driven by strong revenue beat. Operating cash flow to PAT is strong at 112.3% in FY22 (vs 99.9% in FY21).
- **Consistent growth in direct revenue share:** Direct customers contributed to 74% of revenue in FY22 (vs 73% in 9MFY22 and 67% in FY21) reflecting success of Affle's deeper verticalization strategy of focusing on high growth internet verticals from E, F, G, H categories. Revenue contribution from these categories remains above 90%+.
- **Affle also continued to unlock innovative vernacular experiences** for its clients. For example, Affle drove 18% growth in conversions and 20% growth in retention in Q4 on a high base Q3 for a leading vernacular content app by targeting high affinity local language users with contextually placed vernacular ads within popular entertainment and local language apps.
- Management mentioned that Affle has strong credit risk framework and its quality of revenues are anchored on customers who are expected to be there in the business for long run. Therefore, potential drying up of start-up funding amidst macro headwinds (high inflation, supply chain disruptions, global GDP growth slowdown) is not likely to impact Affle.
- **Ad-sponsored content consumption is here to stay:** Management added that strong growth digital adoption will continue to increase ad-spend in digital and mobile. Plus, management believes that consumption of ad funded content will continue over long term. This is also validated by Netflix's move to introduce ad-supported content consumption plans. Low base and strong growth in 4QFY22 amidst ongoing macro uncertainties also lends confidence that the company will be able to grow higher than industry average.
- Google's privacy policy impact will be seen over long term as Google intends to provide ample time for the ad-ecosystem to transition to stricter privacy environment. We believe that Affle is well placed to successfully navigate through the Android privacy policy changes having proved its success post iOS privacy changes. Plus, Affle's technology platform already uses Appographic and intent data (similar to Topic API proposed by Google).

Exhibit 1: Q4FY22 Result Overview (Rs mn)

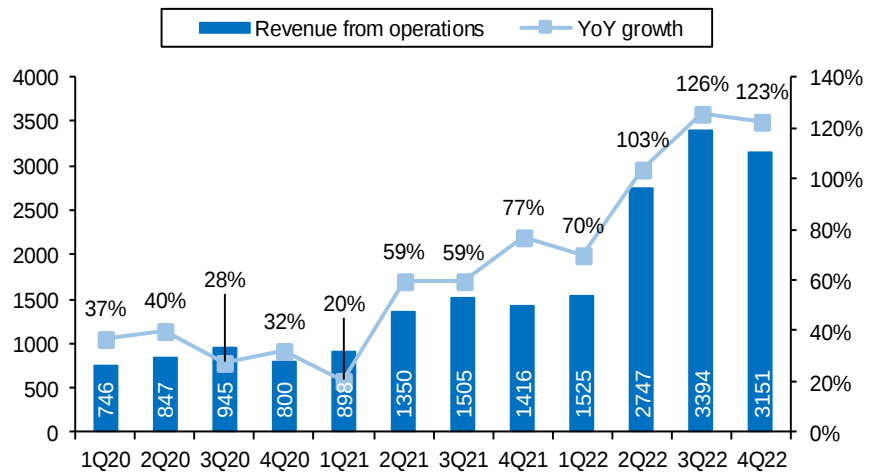
Y/e March	4Q22	3Q22	QoQ gr.	4Q21	YoY gr.	PI Estimate	PL vs Actual
Revenue	3151	3394	-7%	1416	123%	2,872	10%
EBITDA	587	677	-13%	345	70%	546	8%
EBITDA margin	18.6%	19.9%	-132bp	24.4%	-574bp	19.0%	-37bp
EBIT	494	578	-15%	293	69%	451	10%
EBIT margin	15.7%	17.0%	-136bp	20.7%	-502bp	16%	-2bp
PAT	685	621	10%	585	17%	444	54%
Normalized PAT	527	601	-12%	265	99%	444	19%
EPS	5.1	4.7	10%	4.6	12%	3	54%
Normalized EPS	3.95	4.51	-12%	2.08	90%	3	19%

Source: Company, PL

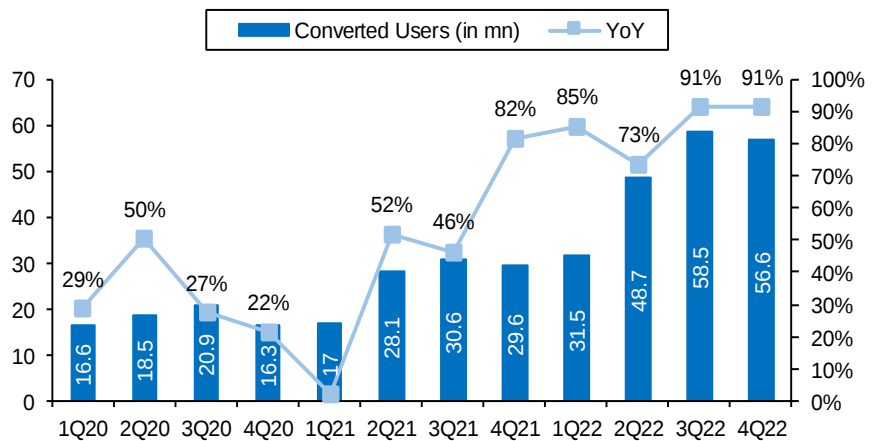
Exhibit 2: Key Assumptions

Key Estimates	FY19	FY20	FY21	FY22	FY23E	FY24E	CAGR FY22-24E
Converted Users	55	72	105	195	270	359	36%
YoY gr. (%)		31.5%	45.6%	85.5%	38.0%	33.3%	
CPCU rate (in INR)	40.2	40.9	40.8	49.9	51.8	51.6	2%
YoY gr. (%)		1.8%	-0.4%	22.3%	3.7%	-0.3%	
CPCU revenues (INR mn)	2,212	2,961	4,295	9,744	13,950	18,546	38%
YoY gr. (%)		33.9%	45.1%	126.9%	43.2%	32.9%	
Non-CPCU	208	284	781	976	1,093	1,245	13%
YoY gr. (%)		36.7%	175.0%	25.0%	12.1%	13.9%	
Enterprise Platform	75	93	93	97	104	109	6%
YoY gr. (%)		24.9%	-0.5%	4.6%	6.4%	5.5%	
Overall Revenues (INR mn)	2,494	3,338	5,169	10,817	15,147	19,900	36%
YoY gr. (%)		33.8%	54.9%	109.3%	40.0%	31.4%	
EBITDA Margins	28.1%	26.6%	25.1%	19.7%	19.4%	20.2%	
YoY Chng. (bps)		-147bp	-148bp	-541bp	-38bp	84bp	
EBIT Margins	24.1%	22.6%	21.3%	16.7%	16.7%	17.9%	
YoY Chng. (bps)		-144bp	-127bp	-461bp	-8bp	127bp	
Reported PAT	486	655	1351	2143	2399	3320	
YoY gr. (%)		34.8%	106.2%	58.6%	12.0%	38.4%	
EPS	4	5	11	16	18	25	24%
YoY gr. (%)		32.0%	100.2%	52.0%	11.9%	38.4%	
Normalized PAT	486	655	1031	1834	2399	3320	
YoY gr. (%)		34.8%	57.4%	77.9%	30.8%	38.4%	
Normalized EPS	4	5	8	14	18	25	
YoY gr. (%)		30.8%	54.6%	69.9%	30.8%	38.4%	35%

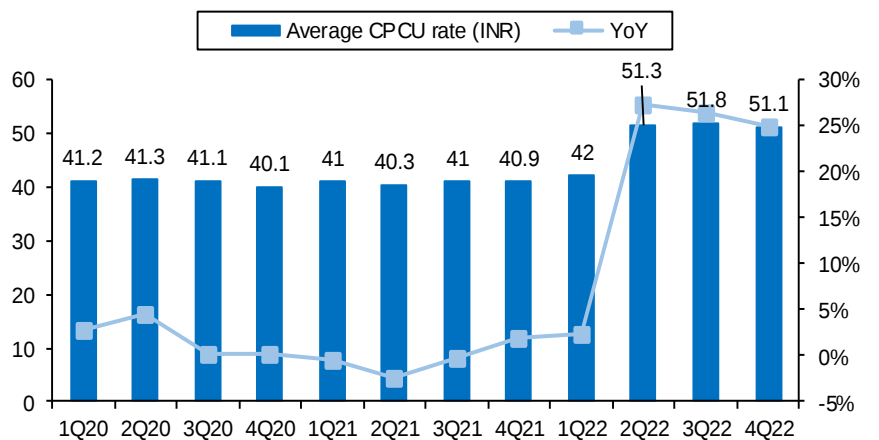
Source: Company, PL

Exhibit 3: Strong revenue growth in 4QFY22


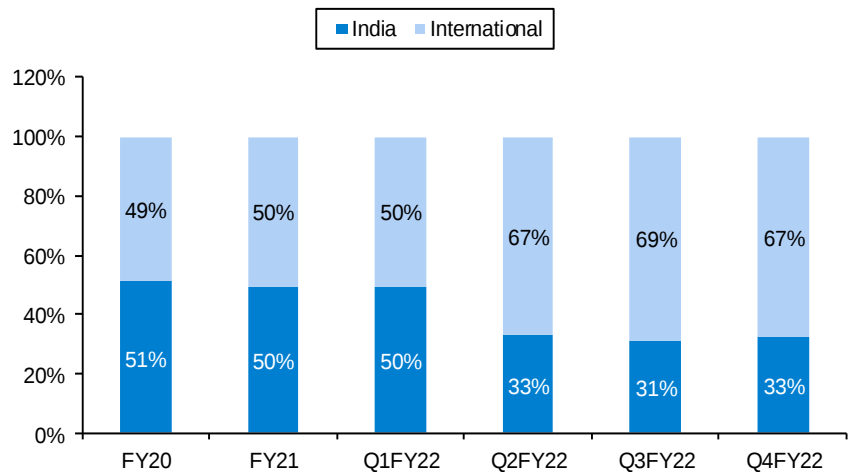
Source: Company, PL

Exhibit 4: Converted users increased 91% YoY in 4QFY22


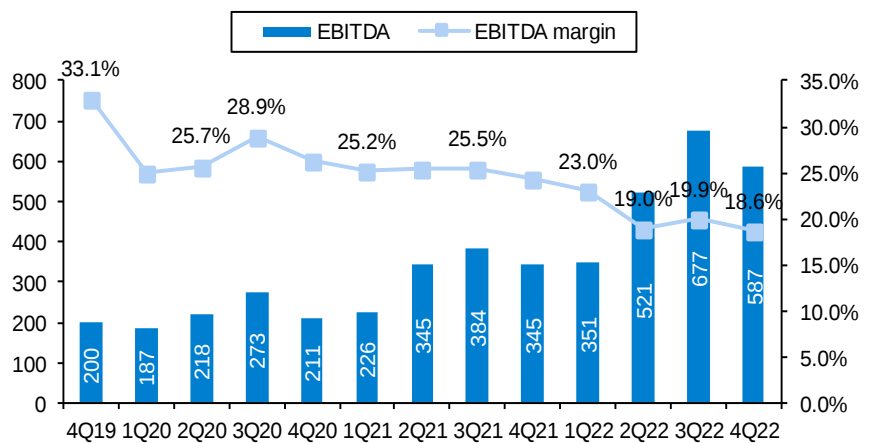
Source: Company, PL

Exhibit 5: CPCU rate decreased by 1% QoQ


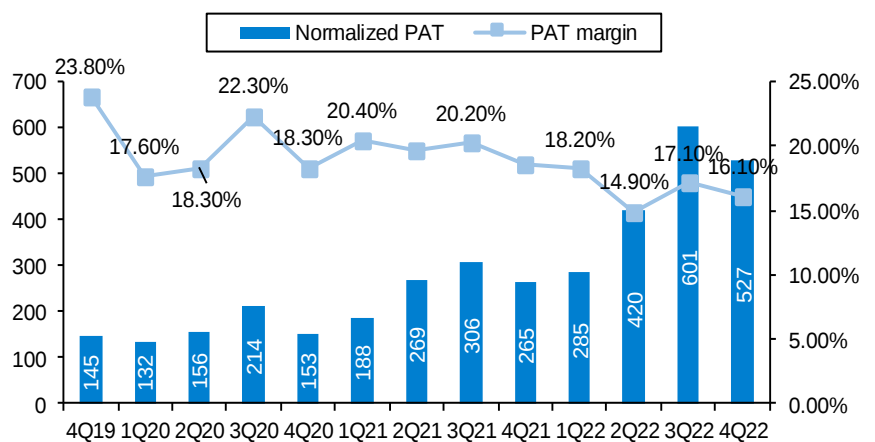
Source: Company, PL

Exhibit 6: Revenue mix shifting towards International geography


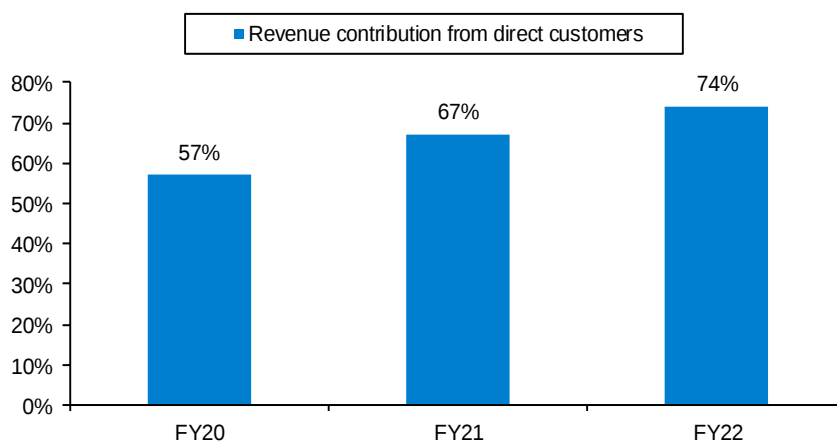
Source: Company, PL,

Exhibit 7: EBITDA margin declined QoQ due to lower operating leverage QoQ


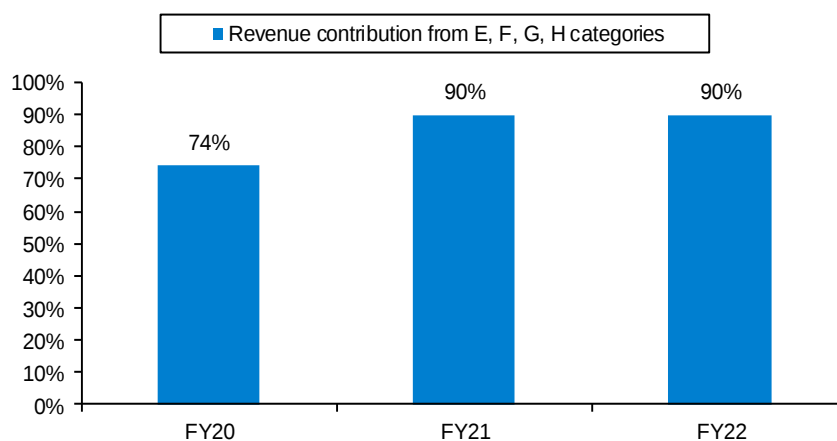
Source: Company, PL

Exhibit 8: Normalized PAT grew 99% YoY


Source: Company, PL

Exhibit 9: Consistent improvement in direct customer revenue share

Source: Company, PL

Exhibit 10: Revenue contribution from key verticals remains at ~90%+

Source: Company, PL

Exhibit 11: Change in Estimates

Particulars	FY23E	FY24E
Revenue (INR m)		
New	15,147	19,900
Old	14,697	19,873
Change (%)	3%	0%
USD Revenue growth (%)	40.0%	31.4%
EBIT Margins (%)		
- New	16.7%	17.9%
- Old	18.1%	18.9%
Change (%)	-148 bps	-94 bps
EBITDA Margins (%)		
- New	19.4%	20.2%
- Old	21.0%	21.9%
Change (%)	-165 bps	-172 bps
EPS (Rs)		
- New	18.0	24.9
- Old	17.0	24.4
Change (%)	6%	2%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	5,169	10,817	15,147	19,900
YoY gr. (%)	54.9	109.3	40.0	31.4
Employee Cost	2,977	6,789	9,543	12,565
Gross Profit	2,192	4,028	5,604	7,335
Margin (%)	42.4	37.2	37.0	36.9
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,300	2,135	2,932	4,019
YoY gr. (%)	46.2	64.2	37.3	37.1
Margin (%)	25.1	19.7	19.4	20.2
Depreciation and Amortization	197	324	409	452
EBIT	1,103	1,811	2,523	3,567
Margin (%)	21.3	16.7	16.7	17.9
Net Interest	37	71	71	67
Other Income	415	712	316	283
Profit Before Tax	1,482	2,452	2,768	3,782
Margin (%)	28.7	22.7	18.3	19.0
Total Tax	129	301	360	454
Effective tax rate (%)	8.7	12.3	13.0	12.0
Profit after tax	1,353	2,151	2,408	3,329
Minority interest	2	8	9	9
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,351	2,143	2,399	3,320
YoY gr. (%)	106.2	58.6	12.0	38.4
Margin (%)	26.1	19.8	15.8	16.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,351	2,143	2,399	3,320
YoY gr. (%)	106.2	58.6	12.0	38.4
Margin (%)	26.1	19.8	15.8	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,351	2,143	2,399	3,320
Equity Shares O/s (m)	127	133	133	133
EPS (Rs)	10.6	16.1	18.0	24.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	860	1,253	2,947	3,838
Tangibles	32	26	51	76
Intangibles	828	1,226	2,896	3,762
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	860	1,253	2,947	3,838
Tangibles	32	26	51	76
Intangibles	828	1,226	2,896	3,762
Capital Work In Progress	-	-	-	-
Goodwill	3,149	6,163	7,455	8,748
Non-Current Investments	1,000	1,350	1,350	1,350
Net Deferred tax assets	(5)	(32)	(32)	(32)
Other Non-Current Assets	-	45	45	45
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,079	2,347	3,320	4,362
Cash & Bank Balance	632	6,046	5,455	6,372
Other Current Assets	69	220	220	220
Total Assets	7,526	18,269	21,637	25,780
Equity				
Equity Share Capital	255	267	267	267
Other Equity	3,337	11,515	13,914	17,234
Total Network	3,592	11,794	14,181	17,500
Non-Current Liabilities				
Long Term borrowings	893	891	841	791
Provisions	16	18	18	18
Other non current liabilities	7	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	275	593	573	553
Trade payables	1,260	2,559	3,860	5,004
Other current liabilities	401	1,135	1,085	1,035
Total Equity & Liabilities	7,526	18,269	21,637	25,780

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,479	2,448	2,768	3,782
Add. Depreciation	196	324	409	452
Add. Interest	25	35	71	67
Less Financial Other Income	415	712	316	283
Add. Other	(393)	(371)	(325)	(292)
Op. profit before WC changes	1,308	2,437	2,923	4,010
Net Changes-WC	(174)	(99)	258	32
Direct tax	(117)	(278)	(360)	(454)
Net cash from Op. activities	1,016	2,060	2,821	3,588
Capital expenditures	(1,616)	(2,911)	(3,395)	(2,637)
Interest / Dividend Income	27	162	316	283
Others	(159)	(2,811)	-	-
Net Cash from Invt. activities	(1,748)	(5,559)	(3,079)	(2,354)
Issue of share cap. / premium	-	5,907	-	-
Debt changes	567	281	(50)	(50)
Dividend paid	-	-	-	-
Interest paid	(21)	(31)	(71)	(67)
Others	(18)	14	(200)	(200)
Net cash from Fin. activities	528	6,171	(321)	(317)
Net change in cash	(204)	2,672	(579)	917
Free Cash Flow	524	1,334	(574)	951

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.6	16.1	18.0	24.9
CEPS	12.1	18.5	21.1	28.3
BVPS	28.2	88.5	106.4	131.3
FCF	4.1	10.0	(4.3)	7.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	28.7	20.1	17.5	20.7
ROIC	24.4	22.0	21.6	25.2
RoE	45.9	27.9	18.5	21.0
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.4)	(0.3)	(0.3)
Debtor (Days)	76	79	80	80
Valuation(x)				
PER	91.3	60.1	53.7	38.8
P/B	34.3	10.9	9.1	7.4
P/CEPS	79.7	52.2	45.9	34.2
EV/EBITDA	95.2	58.2	42.6	30.8
EV/Sales	23.9	11.5	8.2	6.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	1,525	2,747	3,394	3,151
YoY gr. (%)	69.8	103.5	125.5	122.5
Raw Material Expenses	884	1,755	2,154	1,996
Gross Profit	640	992	1,240	1,155
Margin (%)	42.0	36.1	36.5	36.7
EBITDA	351	521	677	587
YoY gr. (%)	55.1	51.0	76.3	70.1
Margin (%)	23.0	19.0	19.9	18.6
Depreciation / Depletion	52	81	99	93
EBIT	299	440	578	494
Margin (%)	19.6	16.0	17.0	15.7
Net Interest	14	22	19	16
Other Income	127	151	144	290
Profit before Tax	412	570	706	771
Margin (%)	27.0	20.7	20.8	24.5
Total Tax	53	92	81	76
Effective tax rate (%)	12.8	16.1	11.4	9.9
Profit after Tax	359	478	625	695
Minority interest	2	2	2	2
Share Profit from Associates	-	1	2	3
Adjusted PAT	357	476	623	693
YoY gr. (%)	88.1	76.8	103.1	18.4
Margin (%)	23.4	17.3	18.3	22.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	357	476	623	693
YoY gr. (%)	88.1	76.8	103.1	18.4
Margin (%)	23.4	17.3	18.3	22.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	357	476	623	693
Avg. Shares O/s (m)	131	133	133	133
EPS (Rs)	2.7	3.6	4.7	5.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-22	BUY	1,535	1,270
2	08-Feb-22	BUY	1,672	1,292
3	04-Jan-22	BUY	1,530	1,194
4	14-Dec-21	BUY	1,496	1,078
5	12-Nov-21	BUY	1,496	1,169
6	05-Oct-21	BUY	1,411	1,123
7	24-Sep-21	BUY	1,405	1,035

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,535	1,270
2	Coforge	BUY	5,295	3,646
3	Cyient	BUY	1,208	899
4	HCL Technologies	Accumulate	1,169	1,099
5	Infosys	Accumulate	1,899	1,749
6	L&T Technology Services	Accumulate	4,549	4,244
7	Larsen & Toubro Infotech	BUY	6,369	4,593
8	Mindtree	BUY	4,778	3,958
9	Mphasis	BUY	3,379	2,843
10	Persistent Systems	BUY	4,915	4,309
11	Redington (India)	BUY	200	150
12	Sonata Software	Accumulate	833	748
13	Tata Consultancy Services	BUY	4,221	3,696
14	TeamLease Services	Accumulate	4,647	4,034
15	Tech Mahindra	BUY	1,426	1,203
16	Wipro	BUY	616	509
17	Zensar Technologies	BUY	371	297

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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