

CMP: ₹ 970

Target: ₹ 1140 (17%)

Target Period: 12 months

May 17, 2022

BUY

Seasonally weak quarter; outlook remains strong

About the stock: Affle India (Affle) is a technology platform that enables advertisers to do targeted advertising.

- It helps advertisers to measure the effectiveness of advertisement as it charges only when a user downloads an app or completes a transaction
- As on FY22, 99.1% business comes from consumer platforms while the rest comes from enterprise platforms

Q4FY22 Results: Affle reported Q4FY22 results that were seasonally weak.

- Revenues declined 7.2% QoQ; converted users declined 3.2% QoQ
- EBITDA margin dropped 142 bps QoQ to 18.5%
- Converted users grew 85% YoY to reach 195.3 mn in FY22

What should investors do? Affle's share price has grown by ~5.5x since listing (from ~₹ 174 [adjusted for split] in August 2019 to ~₹ 970 levels in May 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Affle at ₹ 1,140 i.e. 43x P/E on FY24E EPS

Key triggers for future price performance:

- Key beneficiary of a shift of advertising budget to digital medium
- Six billion connected consumer devices to be added globally by 2025
- Significant increase in India's digital user base from 525 mn in FY20 to 902 mn by FY25E at 11.4% CAGR while mobile ad spend is expected to rise at 32.4% CAGR in the same period
- We expect 32% revenue growth in FY22-24E (organic & inorganic combined)

Alternate Stock Idea: Apart from Affle, in our IT coverage we also like Just Dial.

- Change in promoters and shift of advertising to digital medium key positives
- HOLD with a target price of ₹ 900



Particulars

Particular	Amount
Market Cap(₹ Crore)	12,925
Total Debt	148.4
Cash and Invest (₹ Crore)	605
EV (₹ Crore)	12,469
52 week H/L	1511/768
Equity capital	26.7
Face value	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	59.9	59.9	59.9	59.9
FII	18.3	16.1	15.7	15.4
DII	7.0	6.4	6.6	6.4
Others	14.9	17.6	17.9	18.3

Price Chart



Recent event & key risks

- Seasonally weak Q4
- Key Risk:** (i) Adverse regulations on data/User privacy (ii) Deceleration in converted user growth

Research Analyst

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Key Financial Summary

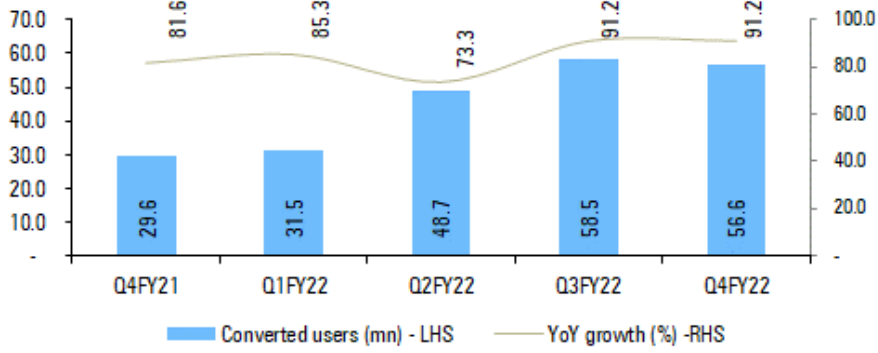
₹ Crore	FY20	FY21	FY22	4 Year CAGR (FY18-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	334	517	1,082	59.5%	1,460	1,884	32.0%
EBITDA	88	130	213	47.1%	314	424	41.0%
EBITDA Margins (%)	26.3	25.2	19.7		21.5	22.5	
Adjusted Net Profit	65	103	214	66.5%	270	352	28.3%
Adjusted EPS (₹)	5.1	8.1	16.1		20.3	26.4	
P/E	188.7	91.5	60.2		47.7	36.7	
RoNW (%)	28.2	28.7	18.1		18.6	19.5	
RoCE (%)	26.2	25.8	17.3		18.4	19.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

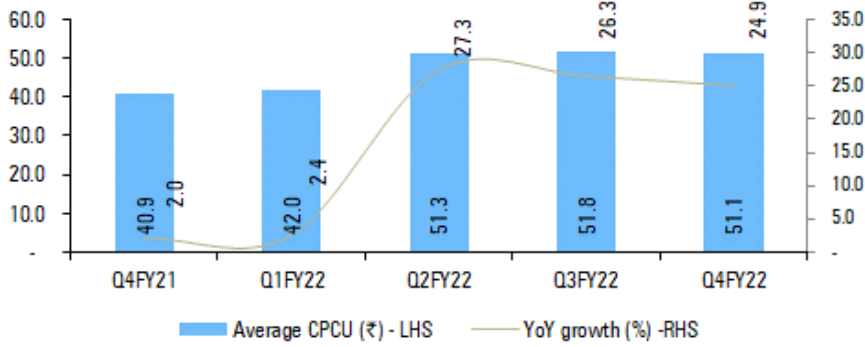
- Q4 is seasonally a weak quarter for the company as advertisers spend heavily in Q3 due to the festive season and there is moderation in Q4 vs. Q3 as per historical trends
- Converted users declined 3.2% QoQ to 56.6 million (mn) (up 91.2% YoY) while average cost per converted user (CPCU) declined 1.4% QoQ (up 24.9% YoY) resulting in 4.5% QoQ decline in consumer CPCU business revenue at ₹ 289 crore (it was up 139% YoY)
- At the company level (Consumer+ Enterprise), it reported revenues of ₹ 315 crore for the quarter, which was down 7.2% QoQ (up 122.5% YoY). For FY22, it reported 85% growth in converted users to 195.3 mn while average CPCU was up 22% to ₹ 49.9, resulting in consumer business revenue growth of 127%. Overall revenues were up 109% in FY22. Our back of the envelope calculation suggests organic revenues grew 47% in FY22 while the rest has been contributed by Jampp
- EBITDA margins for Q4FY22 were down 140 bps QoQ, 580 bps YoY to 18.5% while for FY22, it was down 550 bps to 19.7% due to increase in employee as well inventory data costs. The company indicated that adjusted EBITDA for Q4 (adjusted for ESOPs and hyper inflationary costs in one of the subsidiaries in Argentina) was ₹ 60.7 crore while margins were at 19.3%
- Affle sees minimal impact of Google's privacy policy due to i) as per the company, Google's privacy policy is a diluted version of Apple's iOS policy which came in 2019, ii) the privacy policy is expected to be in a testing phase at least for the next two years before becoming commercial, only in year three, iii) the company had seen much stringent iOS policy earlier. They are well placed/prepared to tackle the issue. The company also indicated that, compared to other global advertisement companies i.e. Facebook, they have minimal exposure to iOS
- The company's consumer platform business contributed 99.1% of FY22 revenue while the enterprise platform business contributed 0.9% of revenue
- Affle's international revenue share increased to 65.3% in FY22 compared to 50.3% in FY21. The company's India's revenue share dropped to 34.7% in FY22 from 49.7% share in FY21
- The company indicated that EBITDA margins for FY22 also include contribution from Jampp (Jampp being at breakeven in FY21 moved to 6-7% EBITDA margin in FY22). Affle indicated that Jampp is expected to move to mid teen EBITDA margins in FY23 and further high teen in FY24, on account of which overall margins at the company level are expected to improve, going forward
- The company does not see any disruption in the near term on privacy policy changes globally due to i) consumer continue to spend ample time on smartphones, ii) digital advertisers continue to allocate large pie of their advertisement spend on digital advertising. Affle indicated that digital advertising growth rate in India as well as few emerging economies is expected to around 35% for the foreseeable future while growth rates in the mature markets are expected to be in the range of 30-35%

Exhibit 1: Converted users grow 91.2% YoY



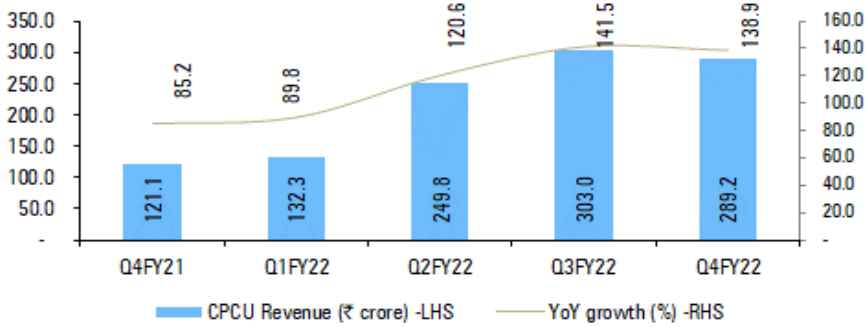
Source: Company, ICICI Direct Research

Exhibit 2: Average CPCU grows 24.9% YoY



Source: Company, ICICI Direct Research

Exhibit 3: CPCU revenue grows 138.9% YoY



Source: Company, ICICI Direct Research

Exhibit 1: P&L

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	315.1	141.6	122.5	339.4	-7.2	Revenue declined QoQ due to seasonality
Employee expenses	42.4	16.4	174.6	37.1	16.0	
Gross Margin	272.7	125.2	117.8	302.3	-9.8	
Gross margin (%)	86.5	88.4	-188 bps	89.1	-255 bps	
SG&A expenses	214.3	90.7	136.3	234.7	-8.7	
EBITDA	58.4	34.5	69.2	67.7	-13.8	
EBITDA Margin (%)	18.5	24.4	-584 bps	19.9	-142 bps	Adjusted EBITDA margins (ESOP and inflationary costs in argentina) were at 19.3%
Depreciation & amortisation	9.3	5.2	79.3	9.9	-5.5	
EBIT	49.0	29.3	67.4	57.8	-15.2	
Finance cost	1.6	1.3		1.9		
EBIT Margin (%)	15.6	20.7	-513 bps	17.0	-147 bps	
Other income (less interest)	28.8	36.0	-19.9	14.4	99.7	
PBT	76.3	64.0	19.1	70.4	8.4	
Tax paid	7.6	5.4	40.0	8.1	-6.3	
PAT	68.7	58.6	17.2	62.3	10.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,421	1,460	2.8	1,670	1,884	12.8	Re-aligned on FY22 performance as well as management guidance
EBITDA	315	314	-0.3	379	424	11.8	
EBITDA Margin	22.2	21.5	-67 bps	22.7	22.5	-19 bps	
PAT	246	270	9.9	298	352	18.1	
EPS (₹)	18.5	20.3	9.9	22.3	26.4	18.1	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & loss statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	517	1,082	1,460	1,884
Growth (%)	54.8	135.0	35.0	29.0
COGS (employee and Inventory)	352	809	1,073	1,366
Other expenses	35	60	73	94
Total Operating Expenditure	387	869	1,146	1,460
EBITDA	130	213	314	424
Growth (%)	48.3	63.6	47.3	35.0
Depreciation	20	32	55	72
Other Income (net)	37	64	53	53
PBT	148	245	311	405
Total Tax	13	30	40	53
Reported PAT	135	214	270	352
Adjusted PAT	103	214	270	352
Growth (%)	59.5	107.5	26.4	30.2
Reported EPS	10.6	16.2	20.3	26.4
Adjusted EPS (₹)	8.1	16.1	20.3	26.4
Growth (%)	59.5	98.6	26.4	30.2

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	148	245	311	405
Add: Depreciation	20	32	55	72
(Inc)/dec in Current Assets	(62)	(171)	(191)	(154)
Inc/(dec) in CL and Provisions	45	161	123	181
Taxes paid	(12)	(28)	(40)	(53)
CF from operating activities	102	206	206	398
(Inc)/dec in Investments	30	(243)	60	60
(Inc)/dec in Fixed Assets	(162)	(366)	(89)	(115)
CF from investing activities	(175)	(556)	(29)	(55)
Interst expenses	(2)	(3)	(7)	(7)
Others	57	619	(18)	32
CF from financing activities	53	615	(25)	25
Net Cash flow	(20)	267	152	368
Exchange difference	-	-	-	1
Opening Cash	70	49	316	468
Closing Cash	49	316	468	836

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	25	27	27	27
Reserve and Surplus	334	1,153	1,424	1,776
Total Shareholders funds	359	1,179	1,450	1,803
Total Debt	117	148	131	162
Long term provisions	109	124	146	188
Deferred Tax Liability	1	6	7	9
Total non current liability	110	130	153	198
Total Liabilities	586	1,457	1,734	2,163
Assets				
Property, plant and equipment	3	3	4	6
Goodwill	315	616	616	616
Intangibles	42	80	112	153
Intangible assets under development	40	42	42	42
Other assets	101	142	142	142
Cash	49	316	468	836
Bank	14	288	288	288
Trade receivables	108	235	305	393
Unbilled revenue	53	76	149	192
Prepayment & O.fin.assets	20	6	57	73
Other current assets	7	22	19	25
Total Current Assets	251	943	1,286	1,807
Trade payables	126	256	356	459
Unearned revenue	6	4	17	21
OCL & provisions	34	109	97	125
Total Current Liabilities	166	369	469	605
Net Current Assets	85	573	817	1,202
Application of Funds	586	1,457	1,734	2,163

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adjusted EPS	8.1	16.1	20.3	26.4
Cash EPS	12.1	18.5	24.5	31.8
BV	28.2	88.5	108.8	135.3
DPS	-	-	-	-
Cash Per Share	5.0	45.4	56.8	84.4
Operating Ratios (%)				
EBITDA margin	25.2	19.7	21.5	22.5
EBIT margin	21.4	16.7	17.7	18.7
PAT Margin	19.9	19.8	18.5	18.7
Debtor days	76	79	76	76
Unbilled revenue	37	26	37	37
Creditor days	93	88	93	93
Return Ratios (%)				
RoE	28.7	18.1	18.6	19.5
RoCE	25.8	17.3	18.4	19.1
RoIC	22.9	22.3	27.6	35.4
Valuation Ratios (x)				
P/E	91.5	60.2	47.7	36.7
EV / EBITDA	99.6	58.5	39.2	28.2
EV / Net Sales	25.1	11.5	8.4	6.4
Market Cap / Sales	25.0	11.9	8.9	6.9
Price to Book Value	34.4	11.0	8.9	7.2
Solvency Ratios				
Debt/EBITDA	0.9	0.7	0.4	0.4
Debt / Equity	0.3	0.1	0.1	0.1
Current Ratio	1.1	0.9	1.1	1.1
Quick Ratio	0.8	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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