Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Affle (India) Ltd

Large addressable market to power growth

Internet & new media	Sharekhan code: AFFLE
Reco/View: Buy ↔	CMP: Rs. 1,327
	Price Target: Rs. 1,515 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Positive	↔	Positive
RQ	Positive	↔	Positive
RV	Neutral	↔	Neutral

ESG Disclosure Score NEW

ESG RISK RATING 32.51

Updated Jul 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

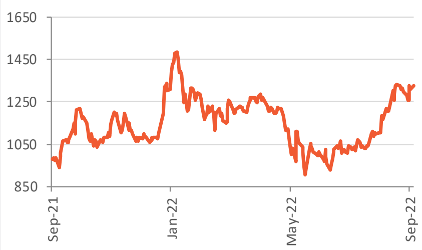
Company details

Market cap:	Rs. 17,680 cr
52-week high/low:	Rs. 1,510 / 871
NSE volume: (No of shares)	3.9 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	60
FII	8
DII	20
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.6	35.1	6.0	35.1
Relative to Sensex	12.5	21.4	-2.2	31.8

Sharekhan Research, Bloomberg

Summary

- Affle's huge addressable market (mobile ad spend to grow much higher than the 12-13% CAGR for global digital ad spending over CY21-25E), focus on high growth client verticals (e-commerce, EdTech, Foodtech, gaming and Healthtech) and 2V/2O strategies would sustain high revenue growth (expect 33% PAT CAGR over FY22-25E).
- Gradual scale-up of Jampp's EBITDA margin over next two years to high-teens level would drive 231 bps improve in Affle's EBITDA margin over FY22-25E. Further, management aims to ramp-up Jampp's revenue to $100 million (versus $54 mn in FY22) over next couple of years.
- Management expects Google's blocking of pop-up add-on gaming would have a minimal impact as revenue share from gaming is less than 10% and pop-ups are the least preferred user targeting tool for Affle.
- We maintain a Buy on Affle (India) Limited with a revised PT of Rs. 1,515 given its presence in high-growth emerging markets, robust cost per converted user (CPCU) business model, strong tech platforms and patents, focus on 2V and 2O strategies and successful acquisitions in the past. We expect revenue/earnings to post a CAGR of 33%/37% over FY2022-FY2025E.

Affle is rightly placed to sustain its high revenue growth given large addressable market (which is expected to grow more than double the rate of growth of worldwide digital ad spending CAGR of 12.4% over CY21-25E) and focus on high growth verticals of EFGH categories. With a lower exposure to developed markets and favorable industry tailwinds in the emerging market, we believe Affle is well-poised to deliver a strong 33% revenue CAGR over FY22-25E. Management aim to further scale-up margin at Jampp to high-teens level from Q1FY23 EBITDA margin of 10% would expand margin by 231 bps over FY22-25E. Overall, we expect Affle's PAT to clock robust 37% PAT CAGR over FY22-25E. We maintain Buy on Affle with a revised PT of Rs1515.

- **Large addressable market to sustain high growth:** The global digital ad marketing spend is expected to witness robust CAGR of 12.4% over 2021-2025 and reach >$785 billion (likely to account for 72% of total global media ad spending) by 2025. More importantly, Affle's addressable market (largely focused on mobile ads) is expected to grow at much higher pace led by structural drivers like rising penetration of smartphone/internet/e-commerce, high data usage led by affordable 4G/5G tariffs and customer shift toward digitalization. Affle's focus on fast-growing verticals of E (e-commerce, entertainment, EdTech), F (Fintech, Foodtech, FMCG), G (gaming, groceries and government) and H (heathtech and hospitality & travel) and 2V and hospitality & travel) and 2V (vernacular and verticalisation)/2O (OEM and operator partnership) strategies would help capture growth opportunities. We, thus expect Affle's revenue to clock impressive 33% revenue CAGR over FY22-25E.
- **Turnaround in Jampp's revenues/margin:** Post-acquisition of Jampp in July 2021, its revenues has witnessed significant ramp-up (to $54 million in FY22 versus $30 million in CY20) and meaningful turnaround in EBITDA margin to 10% in Q1FY23 versus largely negligible in the previous year. Management expects Jampp's revenue to be ramped-up to $100 mn in next few years and thus expected to maintain strong revenue growth rate. Although, further margin improve could be bit gradual given the anticipated recessionary environment in the developed markets; however management has guided to scale-up in Jampp EBITDA margin to that of Affle's margin in next two years. We expect 231 bps improvement in Affle's EBITDA margin over FY22-25E to 22% largely led by improvement in Jampp's EBITDA margin.
- **Impact of changes in privacy policies to be minimal:** Affle believes impact of Google's privacy policy to be marginal because 1) 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. 2) Company has less exposure to browsers and is more dependent on the in-app and on-device ecosystem therefore impact of ban on cookies by Google in 2024/25 will be negligible. 3) Affle has less than 10% exposure towards gaming vertical and minimal exposure in intrusive pop-up ads in gaming therefore new Google policy where it would block intrusive pop-up ads in gaming from September 30, 2022 would not be material.

Our Call

Valuation – Growth outlook intact: Given its significant investments on its consumer platform tech stack, presence in high-growth verticals in emerging markets, and end-to-end offerings in the CPCU business model, Affle is well placed to capture market opportunities in mobile advertising spends at a scale. We maintain our FY23-24 earnings estimate and introduce FY25 earnings estimate in this report. We forecast Affle's revenue and earnings to clock a CAGR of 33% and 37%, respectively, over FY2022-FY2025E. At CMP, the stock trades at 49.9x/37.6x its FY2024E/FY2025E earnings. We continue to prefer Affle, given its first-mover advantage in emerging markets, unique CPCU business model, presence in high-growth verticals across markets and a long runway for growth. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,515 (rollover of PE multiple to September 2024 EPS).

Key Risks

(1) Entry of 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. 4) Slower global GDP growth resulting in clients cutting their IT/advertising budgets. 5) High client concentration.

Valuation Rs cr

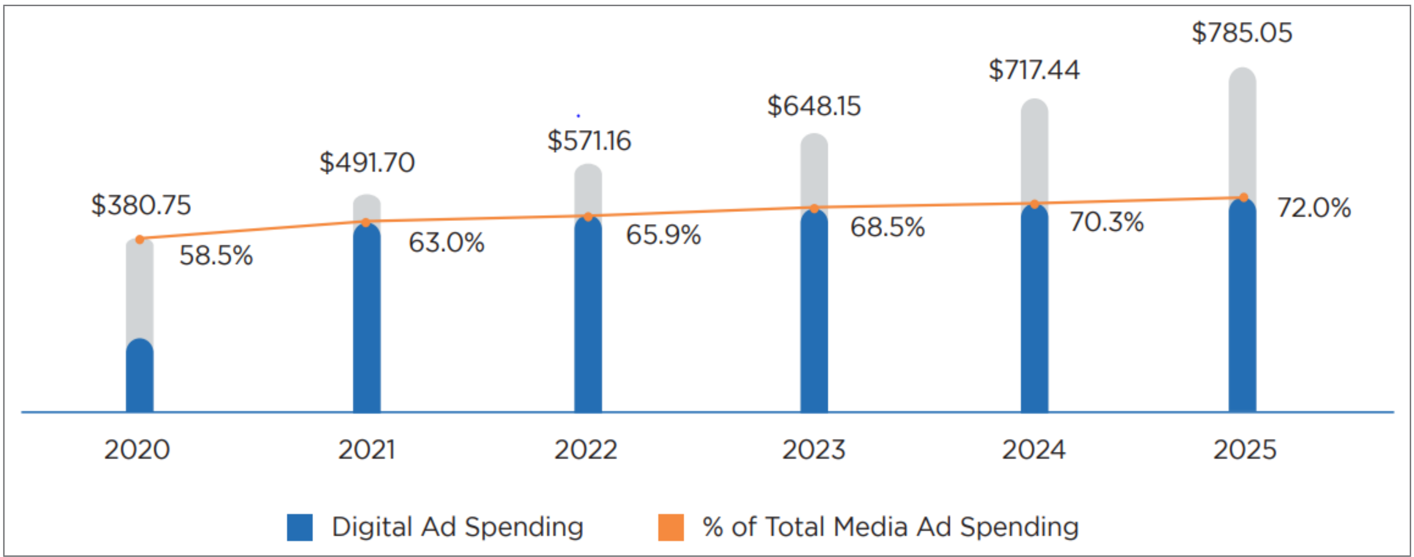
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	516.8	1,081.7	1,491.5	1,961.6	2,531.8
OPM (%)	25.2	19.7	19.9	21.4	22.0
Adjusted Net Profit	102.8	183.3	247.6	354.4	469.6
% YoY growth	*56.9*	*78.3*	*35.1*	*43.1*	*32.5*
EPS (Rs)	8.1	13.9	18.6	26.6	35.2
PER (x)	172.0	96.5	71.4	49.9	37.7
P/BV (x)	49.3	15.0	12.4	9.9	7.9
EV/EBITDA	135.8	80.8	57.3	39.8	29.1
ROE (%)	28.7	15.6	17.4	19.9	20.9
ROCE (%)	34.3	20.6	17.0	19.7	21.1

Source: Company; Sharekhan estimates

Large addressable market – to sustain high revenue growth

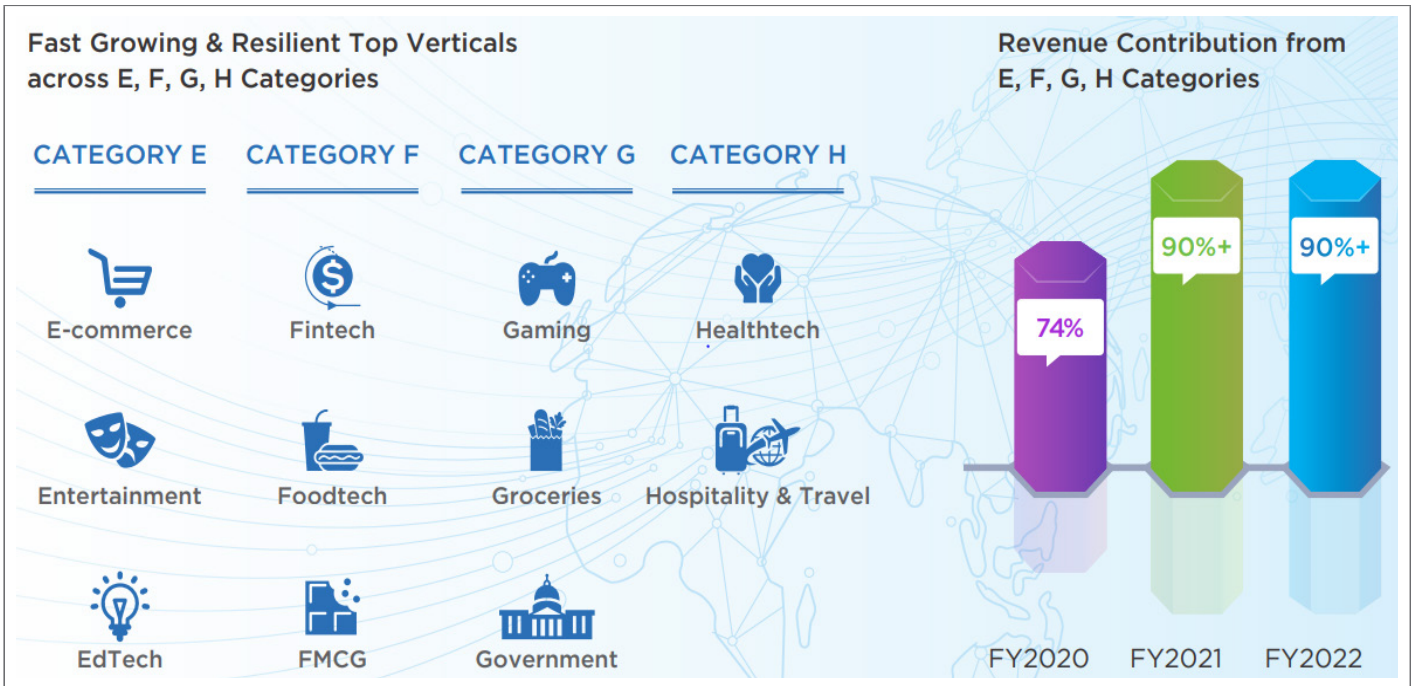
Global digital ad spends clocked a strong CAGR of 21% over CY11-21 led increased spending by the company recovery across industries and innovation on mobile and in OTT/CTV video streaming. This growth trajectory is expected to sustain and global digital ad spend is estimate to reach $785 billion by CY2025 (CAGR of 12.4% over CY21-25), accounting for 72% of overall ad spends worldwide. More importantly, Affle's addressable market (largely focused on mobile ads) is expected to grow at much higher pace led by structural drivers like rising penetration of smartphone/internet/e-commerce, high data user led by affordable 4G/5G tariffs and customer shift toward digitalisation. Affle's focus on fast growing verticals of E (e-commerce, entertainment, EdTech), F (Fintech, Foodtech, FMCG), G (gaming, groceries and government) and H (heathtech and hospitality & travel) and 2V and hospitality & travel) and 2V (vernacular and verticalisation)/2O (OEM and operator partnership) strategies would help capture growth opportunities. We, thus expect Affle's revenue to clock impressive 33% revenue CAGR over FY22-25E.

Global ad spent market to grow at 12% CAGR over CY21-25E ($ billion)



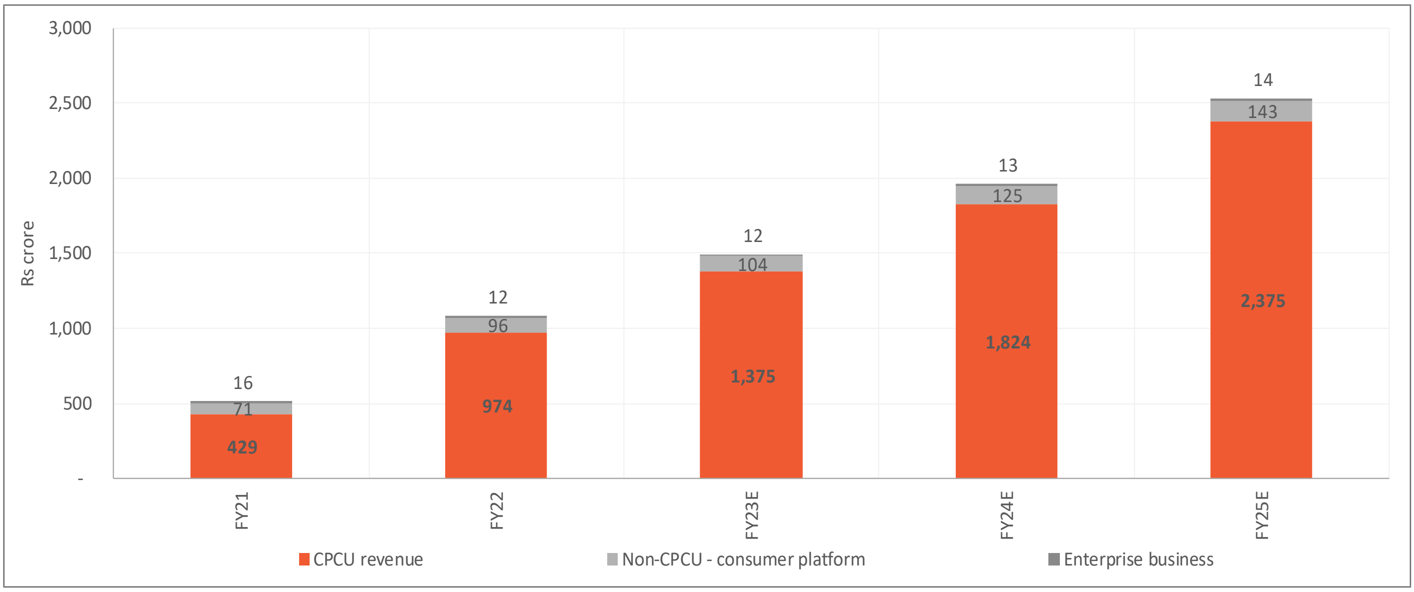
Source: Affle FY22 annual report, eMarketer estimates

Focus on high growth verticals - EFGH categories revenue share increases to 90%+ in FY22



Source: Company

Affle's revenue to clock 33% CAGR over FY22-25E

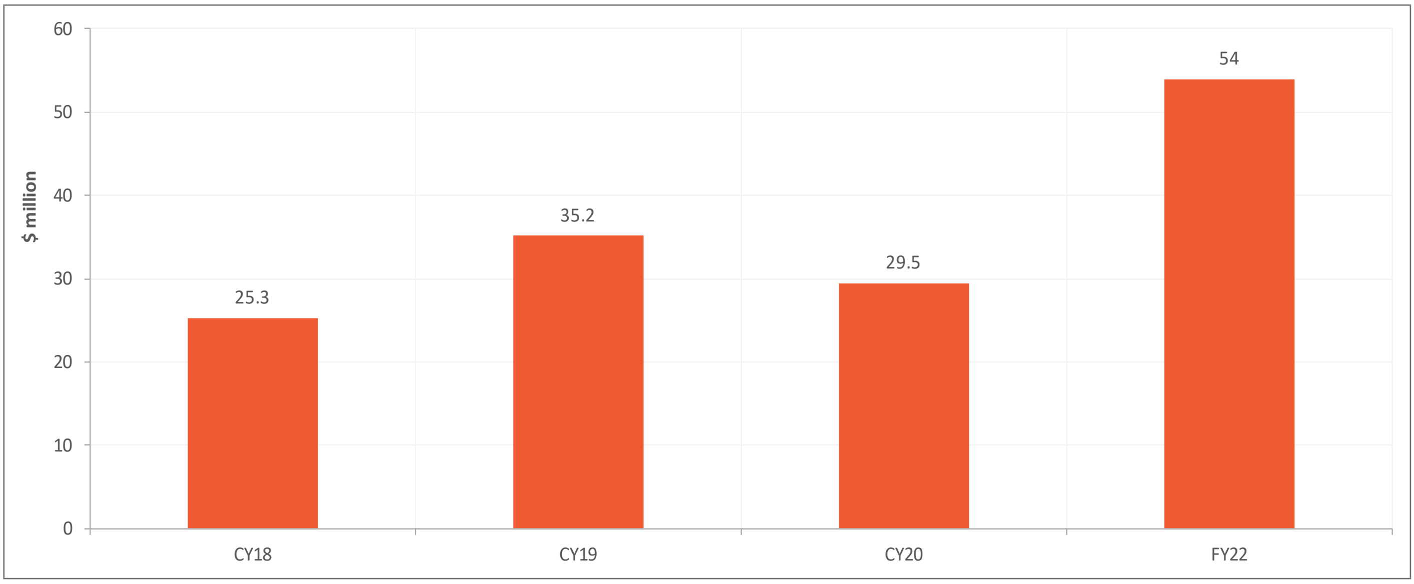


Source: Company, Sharekhan estimates

Turnaround in Jampp's revenues

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. After completing the acquisition of Jampp on July 1, 2021, Affle included Jampp in its CPCU linked business model and strongly supported their management. Jampp's revenue increased by 83% to $54Mn in FY22 from $29.5Mn in CY20 and Affle expects Jampp's revenues to clock $100 million in the next few years with EBITDA margins at Affle's levels of 23-25%. Revenue contribution from India has significantly declined from 50% in FY21 to 35% in FY22, primarily after completing the acquisition of Jampp.

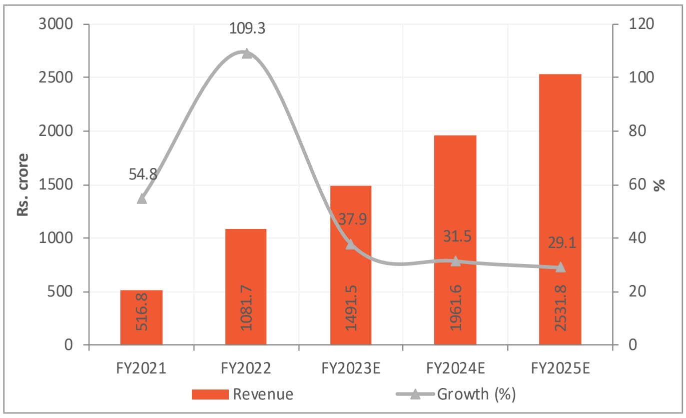
Significant improvement in Jampp's FY22 revenues



Source: Company; Sharekhan research; 9MFY22 revenues have been annualized to get FY22 revenues

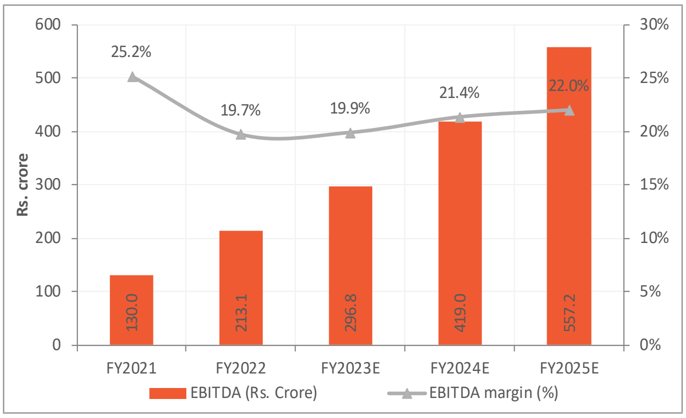
Financials in charts

Revenue (Rs. cr) and growth (%)



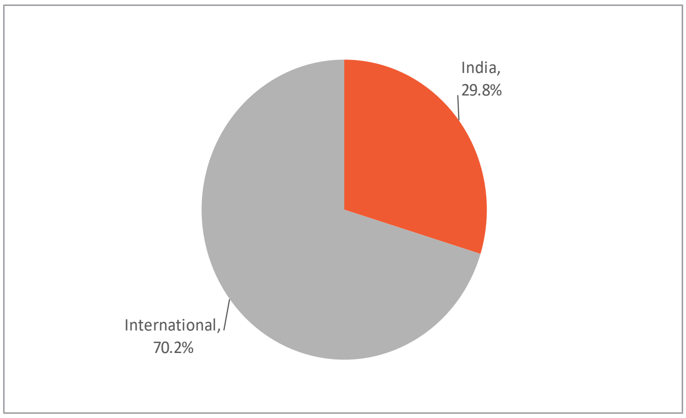
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and margin (%)



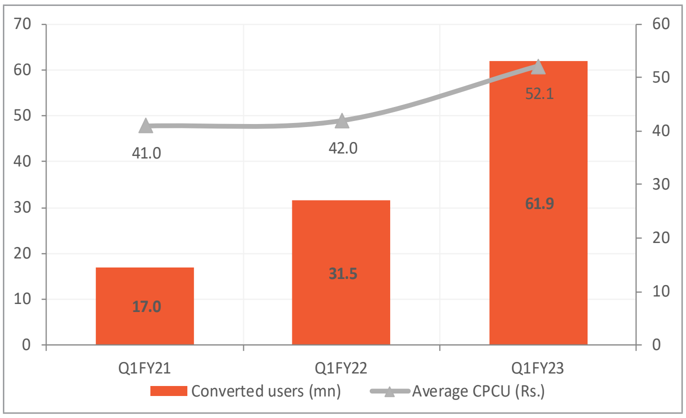
Source: Company, Sharekhan Research

Global presence



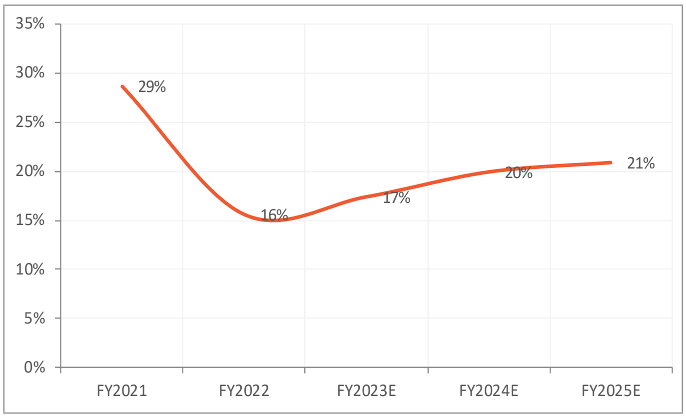
Source: Company, Sharekhan Research

Converted users (mn) and average CPCU



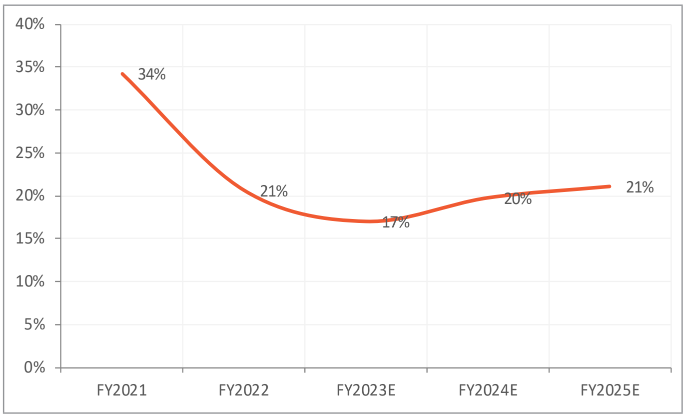
Source: Company, Sharekhan Research

RoE (%)



Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Expect strong growth in mobile ad revenue to continue

Digital advertising spends are expected to report 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 advertising spends are projected to reach 50% of total advertising spends from 25% currently in India over the next three years. 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.

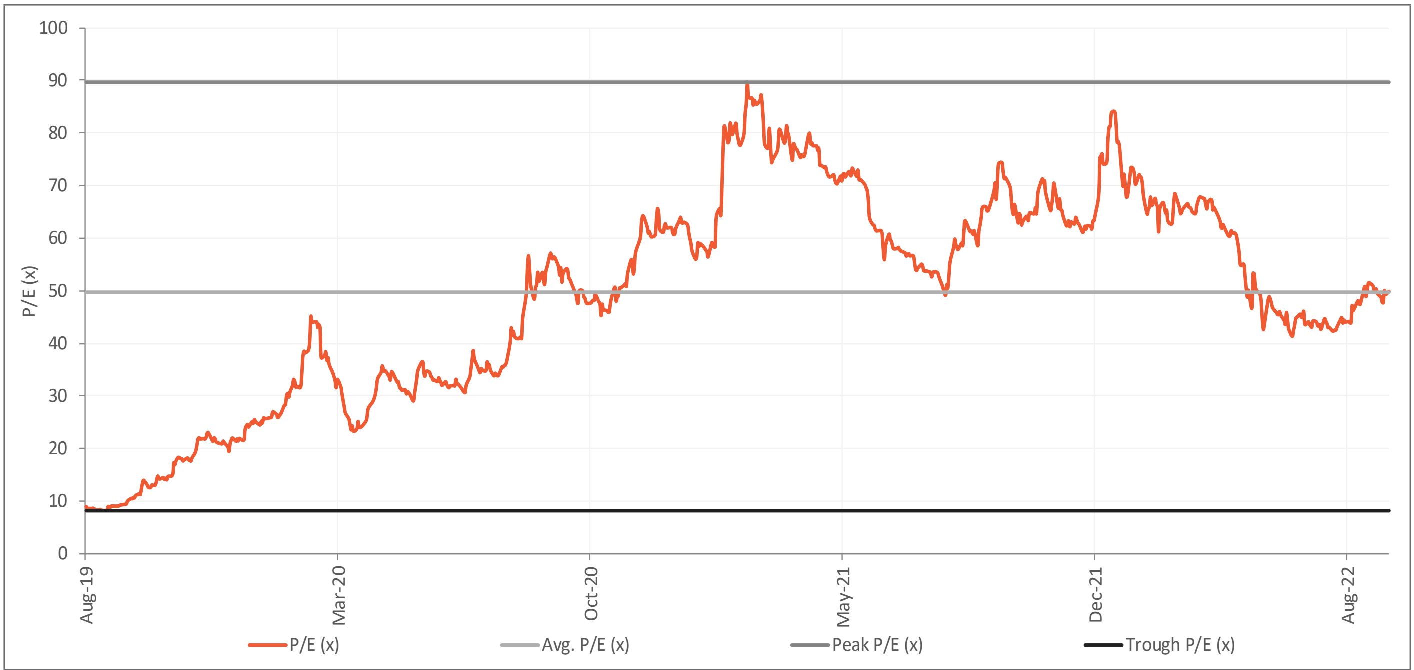
■ Company Outlook – Long runway for growth

Affle's exposure in fast-growing markets such as India and Southeast Asia and emerging verticals in developed markets 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 ad-tech value chain and the CPCU model, we believe Affle would continue to derive high RoI for advertisers. The management expects to deliver at least a 25-30% revenue CAGR in the next five years because of its CPCU model, focus on 2V and 2O strategies to strengthen its market position, expand its reach to connected devices, and entry into new geographies.

■ Valuation – Growth outlook Intact

Given its significant investments on its consumer platform tech stack, presence in high-growth verticals in emerging markets, and end-to-end offerings in the CPCU business model, Affle is well placed to capture market opportunities in mobile advertising spends at a scale. We maintain our FY23-24 earnings estimate and introduce FY25 earnings estimate in this report. We forecast Affle's revenue and earnings to clock a CAGR of 33% and 37%, respectively, over FY2022-FY2025E. At CMP, the stock trades at 49.9x/37.6x its FY2024E/FY2025E earnings. We continue to prefer Affle, given its first-mover advantage in emerging markets, unique CPCU business model, presence in high-growth verticals across markets and a long runway for growth. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,515 (rollover of PE multiple to September 2024 EPS).

One-year forward P/E (x) band



Source: Company, Sharekhan Research

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. The company owns an in-house data management platform with a reach over 2.4 billion connected devices. The company's enterprise platform helps offline companies to go online through platform-based app development, enabling of O2O (online to offline) commerce, and data analytics.

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, adtech vendors such as Affle are well placed to deliver higher growth going ahead.

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. 4) Slower global GDP growth resulting in clients cutting their IT/advertising budgets. 5) High client concentration

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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Abrdn PLC	4.32
2	MALABAR INDIA FUND LTD	3.63
3	Franklin Resources Inc.	2.08
4	Nippon Life India Asset Management	1.88
5	ABERDEEN STD ASIA FO PLC	1.39
6	William Blair & CO LLC	1.25
7	Vanguard Group Inc.	1.02
8	ICICI Prudential Life Insurance Co Ltd	0.85
9	Blackrock Inc.	0.66
10	Sundaram Asset Management Co Ltd	0.62

Source: Bloomberg (Old data)

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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