Sharekhan by BNP PARIBAS

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Affle (India) Ltd

Mixed Quarter, maintain Buy

Internet & new media	Sharekhan code: AFFLE

Reco/View: Buy	↔	CMP: **Rs. 1,191**	Price Target: **Rs. 1,515**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Affle India delivered mixed performance for Q2FY23 with reported revenues at Rs 354.6 crore, up 29.1% y-o-y, led by a rise in CPCU revenues that rose 31.8% y-o-y but marginally missed our estimates by 1.2%. EBITDA jumped to Rs 70.8 crore (up 36.1 % y-o-y/3.1% q-o-q). EBITDA margin improved 103 bps y-o-y to 20% in Q2FY2023, in line with estimates
- Adjusted net profit grew by 40% y-o-y/6.2% q-o-q to Rs. 58.7 crore and was 1.2% ahead of our estimates led by higher other income (up 71.3% q-o-q) and lower tax rate (12.8% versus 13.9% in Q1FY23) partially offset by higher finance costs (33.1% q-o-q) and higher depreciation (40.4% q-o-q).
- The management cited that they expect the industry to grow 10% higher in H2FY23 compared to H1FY23, also as H2 is a festive period and with advertisers having additional budgets for the festive period they believe it should get evenly spent in Q3 and Q4.
- We maintain Buy rating with an unchanged PT of Rs. 1,515, given its steady earnings growth potential, strong presence in high-growth verticals and shift of advertising budgets towards mobiles.

For Q2FY23 Affle (India) Limited (Affle) reported revenues of Rs 354.6 crore, up 29.1% y-o-y, led by a rise in CPCU revenues that rose 31.8% y-o-y but marginally missed our estimates by 1.2%. Revenues from Non-CPCU-Consumer business fell by 1% y-o-y while Enterprise business grew 18.5% y-o-y. EBITDA margin improved 103 bps y-o-y to 20% in Q2FY2023, in line with estimates. Adjusted net profit grew by 40% y-o-y/6.2% q-o-q to Rs. 58.7 crore and was 1.2% ahead of our estimates led by higher other income (up 71.3% q-o-q) and lower tax rate (12.8% versus 13.9% in Q1FY23) partially offset by higher finance costs (33.1% q-o-q) and higher depreciation (40.4% q-o-q). Growth momentum continued in CPCU business delivering 6.5 crore converted users in Q2 FY23, an increase of 32.9 % y-o-y and by 4.5% q-o-q (growth of 96.5% y-o-y and 9.4% q-o-q in Q1FY23). Given its minimal exposure in Europe and US and underpenetrated digital advertising in India and global emerging markets Affle is well-positioned to deliver steady growth momentum.

Key positives

- Continued momentum in CPCU business delivering 6.5 crore converted users in Q2 FY23, an increase of 32.9% y-o-y
- EBITDA margin improved to 20%, up 103 bps on y-o-y and 20Bps on q-o-q.

Key negatives

- Depreciation and Finance costs jumped to 61.7%/34.8% y-o-y respectively in Q2FY2023.
- Employee expenses grew by 48.2% y-o-y in Q2FY23, higher than revenue growth.

Management Commentary

- Management has commented that strong sequential growth was seen in India and global emerging markets, growing ~10% sequentially while revenues from Developed markets was impacted by $3-4 million owing to headwinds due to the recessionary backdrop
- The management cited that they expect the industry to grow 10% higher in H2FY23 compared to H1FY23, also as H2 is a festive period and with advertisers having additional budgets for the festive period they believe it should get evenly spent in Q3 and Q4.
- Management opined that despite macro overhang the businesses such as theirs which are asset light and have margin expansion possibilities the bottom line should grow faster than top line.

Revision in estimates – We have tweaked our earnings estimates for FY2023E/FY2024E/FY2025, to factor Q2FY2023 results and a better H2FY23.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,515: Given the asset-light model, end-to-end offerings in the CPCU business model, strong presence in high-growth verticals in India and global emerging markets, Affle is well placed to capture market opportunities in mobile advertising spends despite headwinds faced due to macro-overhang. We maintain a Buy with an unchanged price target (PT) of Rs. 1,515.

Key Risks

(1) Entry of a large technology player 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	FY22	FY23E	FY24E	FY25E
Revenue	1,081.7	1,469.0	1,923.6	2,482.4
OPM (%)	19.7	20.0	21.4	22.0
Adjusted PAT	183.3	248.3	357.9	472.7
% YoY growth	*78.3*	*35.5*	*44.1*	*32.1*
Adjusted EPS (Rs.)	13.9	18.8	27.0	35.7
P/E (x)	96.5	71.2	49.4	37.4
P/B (x)	15.0	12.4	9.9	7.8
EV/EBITDA (x)	80.8	58.0	40.6	29.7
RoNW (%)	15.6	17.4	20.1	20.9
RoCE (%)	20.6	16.6	19.3	20.6

Source: Company; Sharekhan estimates

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	=	↔	=

ESG Disclosure Score NEW

ESG RISK RATING 32.51

Updated Oct 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. 15,864 cr
52-week high/low:	Rs. 1,510/871
NSE volume: (No of shares)	3.8 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	60
DII	14
FII	9
Others	17

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	7.8	6.4	8.0
Relative to Sensex	-11.2	4.1	-5.7	7.0

Sharekhan Research, Bloomberg

Key result highlights from earnings call

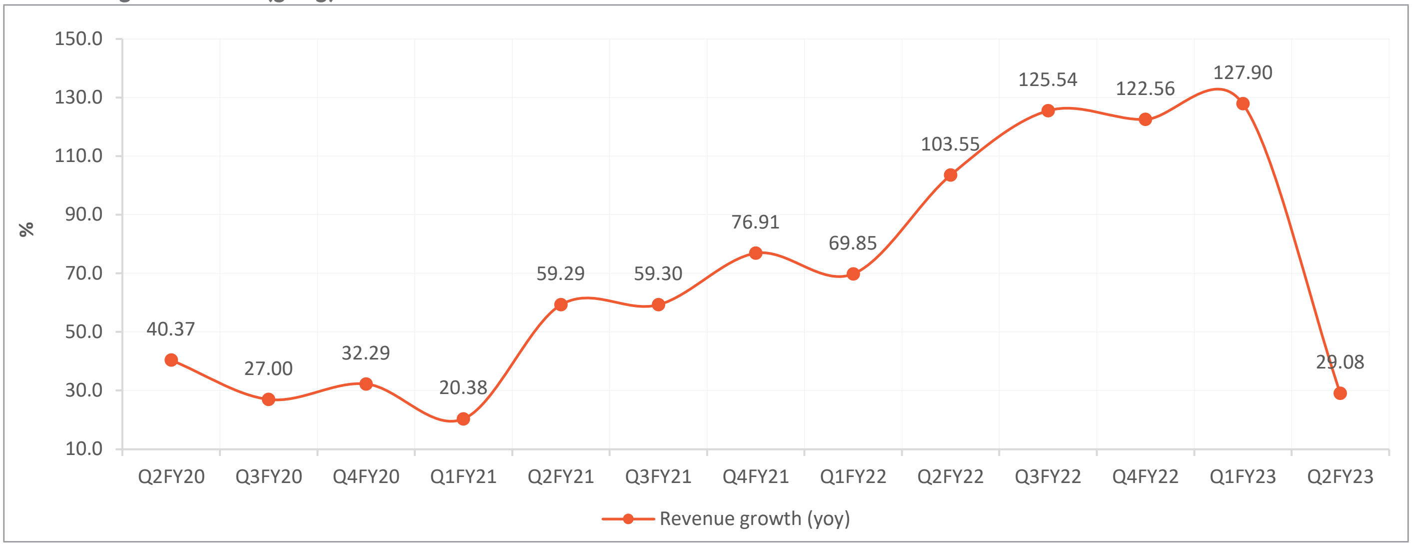
- **Decent performance continued in Q2:** Affle reported the highest quarterly revenue of Rs. 346.5 crore (up ~29.1%/2% y-o-y/q-o-q) but missed our estimates by1.2% . EBITDA for Q2FY23 was at Rs. 70.8 crore (up ~36%/3% y-o-y/q-o-q) in Q1FY23 while EBITDA margin improved 103 bps y-o-y to 20% in Q2FY2023, in line with estimates. Further, the company reported the highest conversions (6.5 crore, up 33%/4.5% y-o-y/q-o-q). however average CPCU rates moderated (To Rs. 51, down 0.6%/0.1% y-o-y/q-o-q) during the quarter.
- **Strong growth outlook in India and Emerging Markets:** Affle's management remains confident of strong growth momentum in ad-tech industry to continue over next few years, driven by growth in India as well as emerging markets. The management has commented that strong sequential growth was seen in India and Emerging markets, growing ~10% sequentially while revenues from Developed markets was impacted by $3-4 million owing to headwinds due to the recessionary backdrop. The Management said that they were seeing headwinds in US and Europe Markets, but the company has a small presence in those markets. Management cited that H2 being festive period with advertisers having additional budgets for festive period they believe they should get evenly spent in Q3 and Q4 and that the industry should grow 10% higher in H2FY23 compared to H1FY23.
- **Higher bottomline growth:** Advertising budget on digital across emerging markets and emerging verticals in both developed and emerging markets will continue to increase given strong digital transaction and consumer attention. The management expressed confidence that despite macro overhang the businesses such as theirs which are asset light and have margin expansion possibilities the bottom line should grow faster than topline.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Net sales	**354.6**	**274.7**	**29.1**	**347.5**	**2.0**
Inventory and data costs	220.0	175.5	25.4	219.9	0.0
Employee expenses	46.5	31.4	48.2	43.1	7.8
Other expenses	17.3	15.8	9.6	15.8	9.7
EBITDA	**70.8**	**52.0**	**36.1**	**68.7**	**3.1**
Depreciation	13.0	8.1	61.7	9.3	40.4
EBIT	**57.7**	**44.0**	**31.4**	**59.4**	**-2.7**
Other income	12.8	15.2	-15.8	7.5	71.3
Finance cost	2.9	2.2	34.8	2.2	33.1
PBT	**67.7**	**57.0**	**18.6**	**64.7**	**4.6**
Total tax	8.7	9.2	-5.7	9.0	-3.2
Minority interest	1.3	1.6	-20.5	1.4	-7.5
Net profit	**57.7**	**46.2**	**24.9**	**54.3**	**6.2**
Adjusted net profit	**58.7**	**41.9**	**40.0**	**55.2**	**6.2**
EPS (Rs)	4.4	3.1	40.8	4.1	7.3
Margin (%)				**BPS**	**BPS**
EBITDA	20.0	18.9	103	19.8	20
EBIT	16.3	16.0	28	17.1	-80
NPM	16.3	16.8	-55	15.6	64
Tax rate	12.8	16.1	-331	13.9	-104

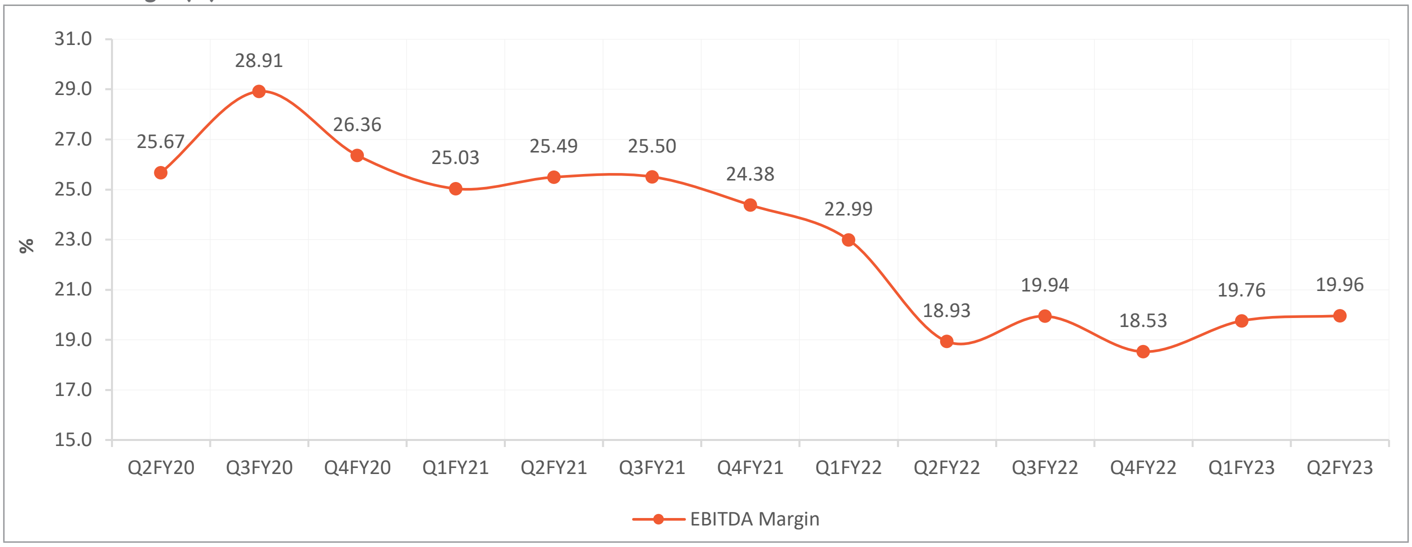
Source: Company; Sharekhan Research

Revenue growth trend (y-o-y)



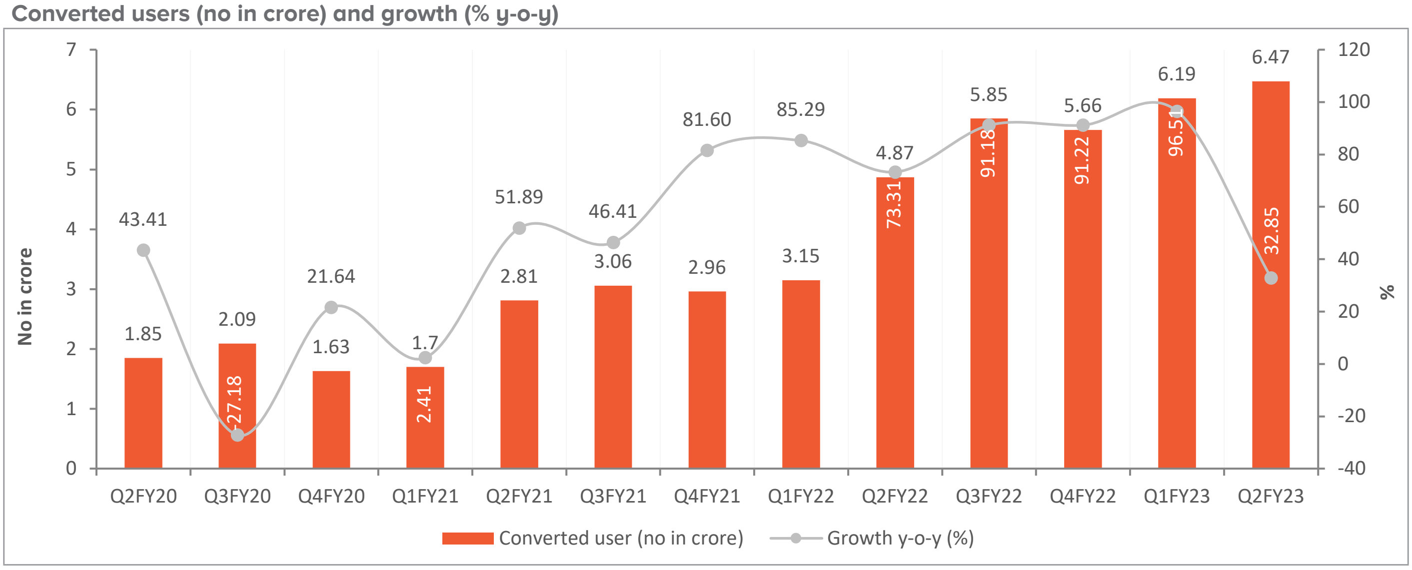
Source: Company, Sharekhan research

EBITDA margin (%) trend



Source: Company, Sharekhan research

Converted users (no in crore) and growth (% y-o-y)



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 advertisement 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.

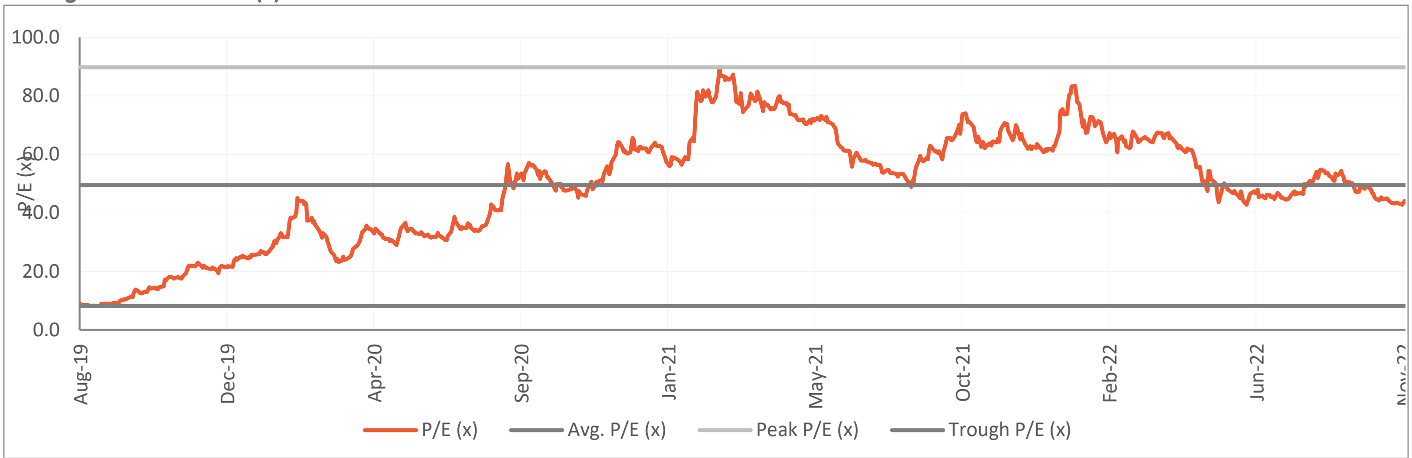
Company Outlook – Long runway for growth

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 – Maintain Buy with an unchanged PT of Rs. 1,515

Given the asset-light model, end-to-end offerings in the CPCU business model, strong presence in high-growth verticals in India and global emerging markets, Affle is well placed to capture market opportunities in mobile advertising spends despite headwinds faced due to macro-overhang. We maintain a Buy with an unchanged price target (PT) of Rs. 1,515.

One-year forward P/E (x) band



Source: 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, 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; and (3) inability to generate actionable outcomes for targeted advertisers.

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 - International
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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