Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Affle (India) Ltd

Strong Outlook, Maintain Buy

Internet & new media	Sharekhan code: AFFLE
Reco/View: Buy ↔	CMP: Rs. 1,077
	Price Target: Rs. 1,400 ↓

↑ 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		↔	
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. 14,345 cr
52-week high/low:	Rs. 1,510/871
NSE volume: (No of shares)	3.17 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	-14.0	-11.0	3.3	-2.4
Relative to Sensex	-11.5	-19.3	-12.0	-8.1

Sharekhan Research, Bloomberg

Summary

- We reiterate our Buy recommendation on Affle India with a revised PT of Rs. 1,400, given the strong sector outlook, unique business model, strong presence in high-growth verticals and shift of advertising budgets towards mobiles.
- Top media agencies forecast digital advertising to be larger in size than television advertising at 45-48 % of the total domestic advertising market with digital advertising expected to grow at 30-32% in 2023. A disproportionate consumer shift to digital and connected devices to mobile augurs well and would support strong growth momentum for Affle.
- Affle's ability to provide end-to-end solutions along with extensive consumer profile data would be a key driver to address opportunities post the pandemic especially in categories such as Travel and Hospitality.
- Affle's unique CPCU model differentiates it from competitors and creates strong return on investment (ROI) for advertisers. Thus, it can keep the competition at bay and maintain/improve pricing despite concerns due to macroeconomic headwinds.

Affle India (Affle) is expected to largely benefit from the trends seen in advertising. Top media agencies forecast growth in Indian advertising expenditure for the calendar year 2023 to remain buoyant. The agencies are projecting digital advertising to be larger than television advertising due to larger adoption of connected devices leading to massive shift of advertiser's budgets to at least 50% on digital and mobiles, from 30% currently. Further, the easing of lockdown restrictions has opened categories such as Travel & Hospitality. The pandemic has added a new layer of mobile users who took to mobile apps for the first time and are now active users. So, the next 100 million shoppers in India are expected to come from these audiences with an affinity towards regional languages. Affle can provide end-to-end solutions along with extensive consumer profile data and is thus well positioned to cater to local context and product preferences as data-driven segmentation is going to be the key differentiator. Further, Affle's cost per converted user (CPCU) model differentiates it from the competitors and creates a strong return on investment (ROI) for advertisers. Hence, it can keep the competition at bay and maintain/improve pricing. We believe Affle's presence in high growth verticals will continue and expect Affle's revenue to clock an impressive 32% revenue CAGR over FY22-25E.

- **Strong Sector Outlook:** Top media agencies, such as GroupM, Dentsu and Interpublic Group's Magna forecasts Indian advertising expenditure (adex) growth for the calendar year 2023 to remain buoyant despite a slowdown seen in start-up advertising in the country. The three agencies peg Indian adex growth to be in the region of 14-16 % in 2023 led by a push in digital and television advertising. Both Dentsu and GroupM project digital advertising to be larger in size to television advertising at 45-48 % of the total domestic advertising market. TV advertising is expected to be in the region of 35-36 % in terms of size. Digital advertising has been growing at a pace of around 30-32 % per annum in 2022. These agencies expect the trend to continue in 2023 as well.
- **Well-positioned to address opportunities post pandemic:** The easing of lockdown restrictions has opened categories such as Travel and Hospitality, which were not spending during the pandemic. The pandemic has added a new layer of mobile users who took to mobile apps for the first time and are now active users. So, the next 100 million shoppers in India are expected to come from these audiences who have a vernacular affinity. In this context, to cater to local context and product preferences, data-driven segmentation is going to be key. Affle's mDMP platform uses deep learning and Machine Learning technology to go beyond just demographic-based segmentation and target according to language, interest, personas, in a privacy-first approach.
- **Resilient business model:** While the industry is largely dominated by companies operating on clicks, views, and impressions, Affle is well-differentiated as it drives cost per converted user (CPCU) model-based conversions for advertisers across the industry verticals. Affle provides end-to-end solutions along with extensive consumer profile data. Affle assists advertisers to measure the effectiveness of advertisement as it charges only when a user downloads an app or completes a transaction and thus its CPCU model differentiates it from the competitors and creates strong return on investment (ROI) for advertisers. Hence it can keep the competition at bay and maintain stable/improve pricing.

Our Call

Valuation – Strong Outlook, Maintain Buy: Given the strong sector outlook, strong presence in high-growth verticals and shift of advertising budgets towards mobiles we expect Affle's revenue to clock an impressive 32% revenue CAGR over FY22-25E. Affle is currently trading at 57.8x/40.1x/30.3x its FY2023E/FY2024E/FY2025E EPS. We maintain a Buy recommendation on the stock with a revised PT of Rs. 1400 over the next 12 months.

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)	78.3	57.8	40.1	30.3
P/B (x)	12.2	10.1	8.0	6.4
EV/EBITDA (x)	65.2	46.7	32.5	23.6
RoNW (%)	15.6	17.4	20.1	20.9
RoCE (%)	20.6	16.6	19.3	20.6

Source: Company; Sharekhan estimates

Strong Sector Outlook: Top media agencies, such as GroupM, Dentsu and Interpublic Group's Magna forecasts Indian advertising expenditure (adex) growth for the calendar year 2023 to remain buoyant despite a slowdown seen in startup advertising in the country. The three agencies peg Indian adex growth to be at 14-16 % in 2023 led by a push in digital and television advertising. Both Dentsu and GroupM project digital advertising to be larger in size to television advertising at 45-48 % of the total domestic advertising market. TV advertising is expected to be in the region of 35-36 % in terms of size. Digital advertising has been growing at a pace of around 30-32 % per annum in 2022. These agencies expect the trend to continue in 2023 as well.

Resilient business model: While the industry is largely dominated by companies operating on clicks, views, and impressions, Affle is well differentiated as it drives cost per converted user (CPCU) model-based conversions for advertisers across the industry verticals. Affle provides end-to-end solutions along with extensive consumer profile data. Affle assists advertisers to measure the effectiveness of advertisement as it charges only when a user downloads an app or completes a transaction and thus its CPCU model differentiates it from competitors and creates strong return on investment (ROI) for advertisers. Hence it can keep the competition at bay and maintain stable/improve pricing.

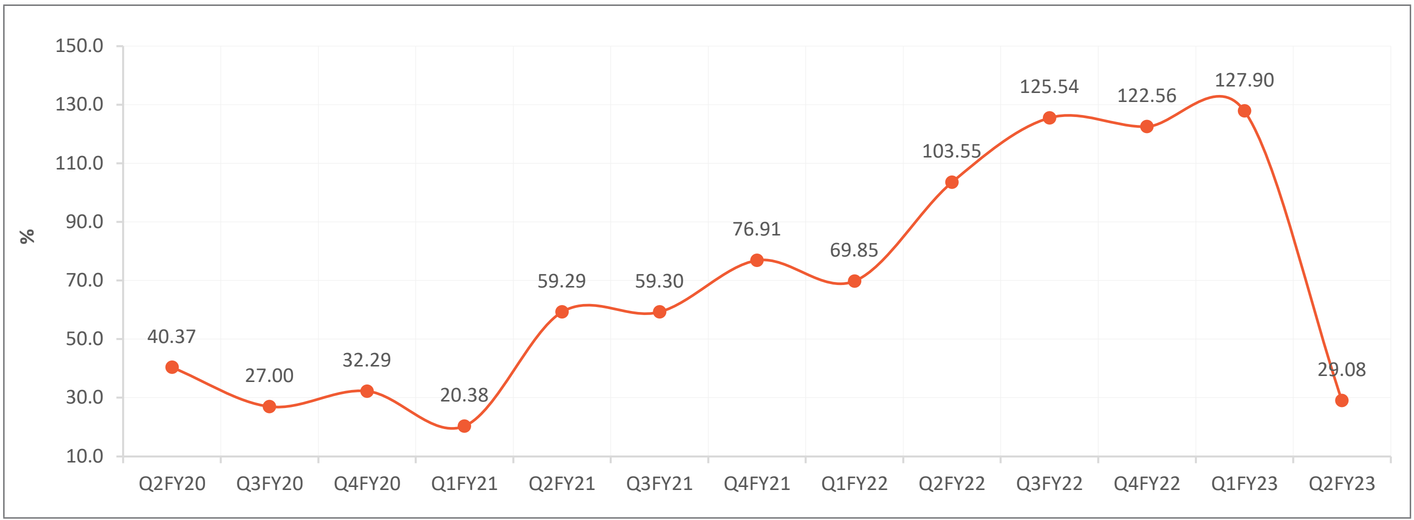
Presence in High-growth Verticals: Affle's focus on the fast-growing verticals of E (e-commerce, entertainment, EdTech), F (Fintech, Foodtech, FMCG), G (gaming, groceries and government) and H (heathtech and hospitality & travel) and 2V (vernacular and verticalisation)/2O (OEM and operator partnership) strategies would help capture growth opportunities. EFGH categories' revenue share was greater than 90% in FY22. We believe Affle's presence in these verticals to continue and expect Affle's revenue to clock an impressive 32% revenue CAGR over FY22-25E.

Well positioned to address opportunities post pandemic: The easing of lockdown restrictions has opened categories such as Travel & Hospitality which were not spending during the pandemic. The pandemic has added a new layer of mobile users who took to mobile apps for the first time and are now active users. So, the next 100 million shoppers in India are expected to come from these audiences who have a vernacular affinity. In this context, to cater to local context and product preferences, data-driven segmentation is going to be key. Affle's mDMP platform uses deep learning and Machine Learning technology to go beyond just demographic-based segmentation and target according to language, interest, personas, in a privacy-first approach.

Acquistion Strategy: Affle has made seven acquisitions and three investments over the years and has spent over $ 23 million for the acquisitions. Affle has invested in multiple sectors such as AdTech, MarketingTech, Mobile Advertising and has been largely able to deliver on its committed strategy. Recently, the company informed that its board had accepted the proposal for the preferential issue, or any other permissible mode, of up to 35 lakh equity shares of face value of Rs. 2 per equity share. This is done to facilitate any inorganic growth by the company.

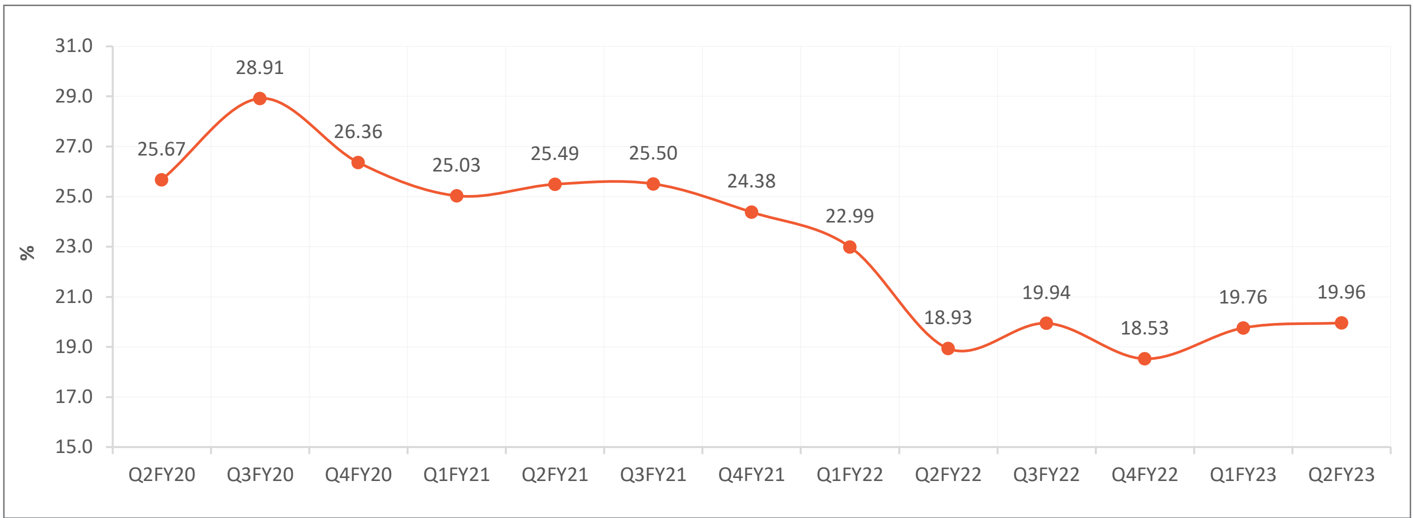
Shift in advertising budgets towards mobile devices: Although mobile adoption has increased post COVID, yet the company believes under-penetration still prevails as there are at least 600 million more connected devices yet to come in from the Indian population. For the next five years, new consumers will come on connected devices every year. Due to this, there will be a massive shift of advertisers budgets to at least 50% on digital and mobile, from 30% currently.

Revenue growth trend (y-o-y)



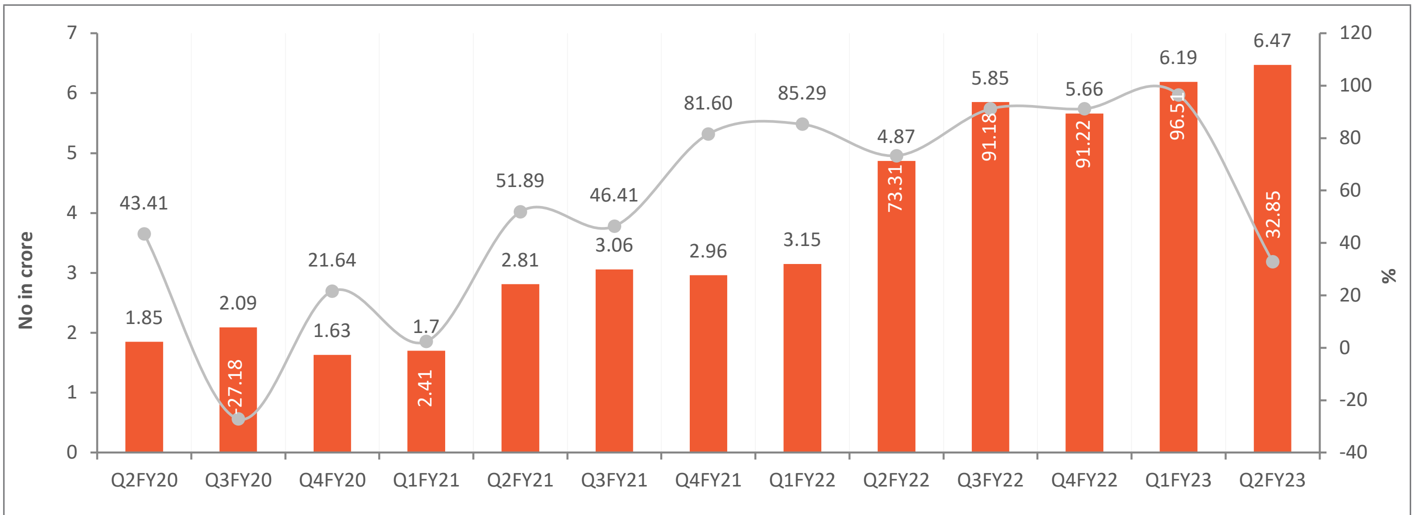
Source: Company, Sharekhan Research

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 – Strong Outlook, Maintain Buy

Given the strong sector outlook, strong presence in high-growth verticals and shift of advertising budgets towards mobiles we expect Affle's revenue to clock an impressive 32% revenue CAGR over FY22-25E. Affle is currently trading at 57.8x/40.1x/30.3x its FY2023E/FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1400 over the next 12 months.

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, 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	4.23
2	MALABAR INDIA FUND LTD	3.53
3	Nippon Life India Asset Management	2.21
4	Franklin Resources Inc.	2.19
5	ABERDEEN STD ASIA FO PLC	1.29
6	William Blair & CO LLC	1.17
7	Vanguard Group Inc.	1.02
8	ICICI Prudential Life Insurance Co Ltd	0.93
9	Blackrock Inc.	0.70
10	Sundaram Asset Management Co Ltd	0.57

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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