Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Affle (India) Ltd

Mixed Quarter, Maintain Buy

Internet & new media	Sharekhan code: AFFLE
Reco/View: Buy ↔	CMP: Rs. 1,081 / Price Target: Rs. 1,330 ↓

↑ 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

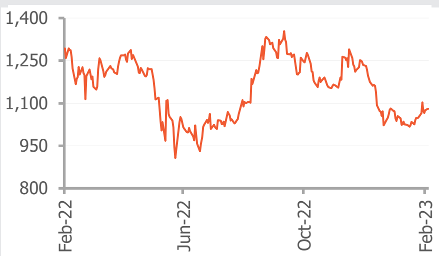
Company details

Market cap:	Rs. 14,404 cr
52-week high/low:	Rs. 1,385/871
NSE volume: (No of shares)	3.05 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	60
FII	13
DII	11
Others	17

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	(7.0)	(1.7)	(14.2)
Relative to Sensex	1.5	(6.3)	(5.3)	(17.4)

Sharekhan Research, Bloomberg

Summary

- Affle India delivered a mixed performance for Q3FY23 with reported revenues at Rs. 376.1 crore, up 6.1 q-o-q, led by a rise in CPCU revenue and Non-CPCU platform revenue that rose 4.9%/25% q-o-q, respectively, but missed our estimates by 4.5%.
- EBITDA for Q3FY23 stood at Rs 80.3 crore (up 18.7 % y-o-y/13.5% q-o-q). EBITDA margin improved 140 bps q-o-q to 21.4%, ~70 bps above estimates due to moderation in inventory and data costs and employee expenses. Adjusted net profit grew by 14.8% y-o-y/17.6% q-o-q to Rs. 69 crore, 4.5% ahead of our estimates.
- Management cited that the outlook for CY23 is favorable, since in case of developed markets the company has already found some key verticals where they can accelerate, while global emerging markets (80% of the business) has been quite resilient as reflected in 23% growth in Q3FY2023.
- Affle is well diversified with regards to markets, use cases, platforms, customers, publishers and has reasonable cash in hand. With key markets of India and global emerging markets continuing to grow steadily, Affle is well placed to capture market opportunities in mobile advertising spends. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,330.

For Q3FY2023, Affle reported quarterly revenue of Rs. 376.1 crore (up ~10.8% y-o-y/6.1% q-o-q) but missed our estimates by 4.5%. EBITDA for Q3FY23 stood at Rs. 80.3 crore (up 18.7 % y-o-y/13.5% q-o-q). EBITDA margin improved by 140 bps q-o-q to 21.4%, ~70 bps above estimates due to moderation in Inventory and data costs and Employee expenses. Adjusted net profit grew by 14.8% y-o-y/17.6% q-o-q to Rs. 69 crore and was 4.5% ahead of our estimates. The management cited that the outlook for CY23 is favorable, as in case of developed markets the company has already found some key verticals where they can accelerate, while emerging markets (80% of the business) has been quite resilient as reflected in 23% growth in Q3FY23. Growth continued in the CPCU business, delivering 6.8 crore converted users in Q3FY23 an increase of 15.9% y-o-y, while average CPCU rates improved in Q3FY23 to Rs. 51.3, from Rs. 51 in Q2FY23.Affle is well diversified with regards to markets, use cases, platforms, customers, publishers, and has reasonable cash in hand. With key markets of India and global emerging markets continuing to grow steadily, Affle is well placed to capture market opportunities in mobile advertising spends. Hence, we maintain Buy with a revised PT of Rs. 1,330.

Key positives

- EBITDA margin improved ~140 bps y-o-y to 21.4% in Q3FY2023, ~70 bps above estimate.
- CPCU business registered 6.8 crore converted users in Q3FY23, an increase of 15.9% y-o-y

Key negatives

- Finance costs jumped to 68.4% y-o-y in Q3FY2023.
- Effective tax rate was slightly higher this quarter at 13.7%, up ~90 bps as it is inching towards long-term higher tax rates on account of lower deferred tax assets of acquired businesses.

Management Commentary

- Management cited that the outlook for CY23 is favorable as in case of developed markets the company has already found some key verticals where they can accelerate, whereas emerging markets (80% of the business) has been quite resilient with 23% growth in Q3FY23.
- Management stated that it would continue to invest in organic growth operations to drive sustainable growth. Management also stated it is also actively evaluating inorganic opportunities with a calibrated focus on higher bottom-line growth for CY23 and beyond with greater emphasis on high-growth industry.

Revision in estimates – We have tweaked our earnings estimates for FY2023E/FY2024E/FY2025.

Our Call

Valuation – Mixed Quarter, Maintain Buy: Affle is well diversified with regards to markets, use cases, platforms, customers, publishers, and has reasonable cash in hand. With key markets of India and global emerging markets continuing to grow steadily, Affle is well placed to capture market opportunities in mobile advertising spends. Hence, we maintain Buy with a revised PT of Rs. 1,330

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 the management of consumer data and respect for privacy.

Valuation Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	1,081.7	1,438.4	1,883.2	2,415.5
OPM (%)	19.7	20.3	21.0	22.0
Adjusted PAT	183.3	247.6	338.1	449.3
% YoY growth	*78.3*	*35.1*	*36.5*	*32.9*
Adjusted EPS (Rs.)	13.9	18.7	25.5	33.8
P/E (x)	78.6	58.2	42.6	32.0
P/B (x)	12.2	10.1	8.2	6.5
EV/EBITDA (x)	65.4	47.0	33.9	24.4
RoNW (%)	15.6	17.4	19.2	20.3
RoCE (%)	20.6	16.3	18.3	19.9

Source: Company; Sharekhan estimates

Key result highlights from earnings call

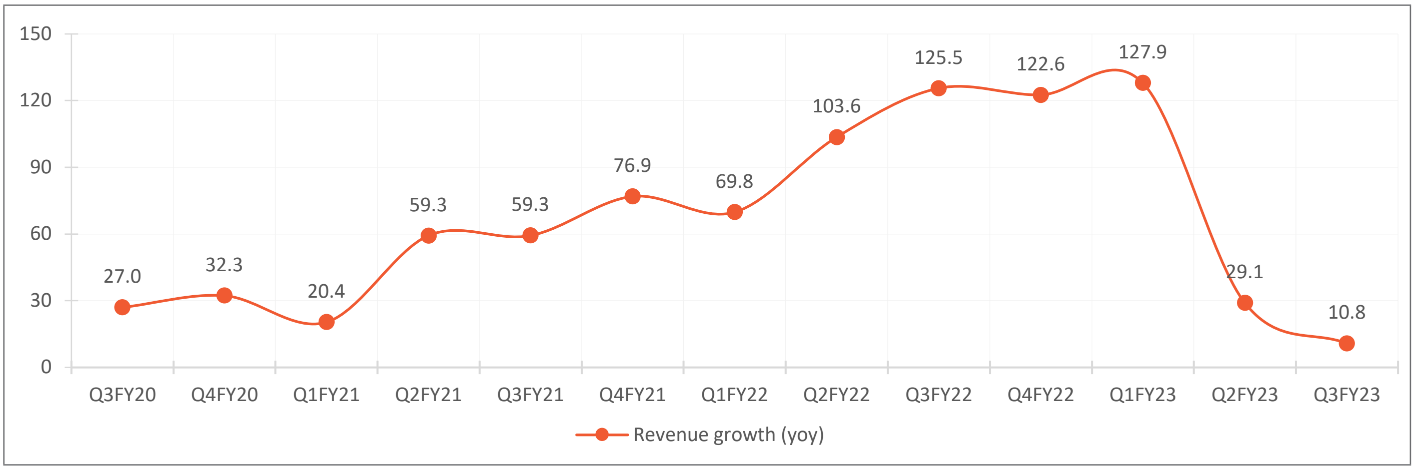
- **Mixed performance continued in Q2:** Affle reported quarterly revenue of Rs. 376.1 crore (up ~10.8% y-o-y/6.1% q-o-q) but missed our estimates by 4.5%. EBITDA for Q3FY23 stood at Rs. 80.3 crore (up ~18.7% y-o-y/13.5% q-o-q) in Q1FY23 while EBITDA margin improved ~140 bps y-o-y to 21.4% in Q3FY2023, ~70 bps above estimates. The company reported the highest conversions (6.8 crore, up 15.9% y-o-y). Average CPCU rates improved in Q3FY23 to Rs. 51.3, from Rs. 51 in Q2FY23.
- **Strong growth outlook in India and Emerging Markets:** Company stated that India which is their biggest market (approximately 30-35% of revenue) has grown well around 23% y-o-y which in- line with its guidance. Management also stated that 80% of the total business comes from global emerging markets, which has grown at 23% y-o-y, while the company is clearly seeing headwinds in the U.S. and Europe, which is a small portion of the overall business. Management expects India as well as global emerging markets to continue to grow north of 20%. The company cited it aspires to achieve EBITDA/Net Profit growth of 25% y-o-y for the next year and is working towards it.
- **Business cases:** Management highlighted three potential/resilient areas – E-commerce (super apps from large conglomerates) where there is no funding constraint; banks, which are providing financial inclusion, and gaming. The company indicated that gaming would continue to be resilient even in recessionary times and believes it is one of the verticals where it is actually under-calibrated at the moment and anticipates the addressable market to be large.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net sales	**376.1**	**339.4**	**10.8**	**354.6**	**6.1**
Inventory and data costs	228.1	215.4	5.9	220.0	3.7
Employee expenses	48.3	37.1	30.3	46.5	3.9
Other expenses	19.3	19.3	0.3	17.3	11.4
EBITDA	**80.3**	**67.7**	**18.7**	**70.8**	**13.5**
Depreciation	13.5	9.9	37.2	13.0	3.8
EBIT	**66.8**	**57.8**	**15.5**	**57.7**	**15.7**
Other income	16.5	14.4	14.2	12.8	28.6
Finance cost	3.2	1.9	68.8	2.9	10.6
PBT	**80.1**	**70.4**	**13.8**	**67.7**	**18.3**
Total tax	11.0	8.1	35.7	8.7	26.1
Minority interest	1.4	1.1	19.3	1.3	6.6
Net profit	**67.7**	**61.1**	**10.8**	**57.7**	**17.4**
Adjusted net profit	**69.0**	**60.1**	**14.8**	**58.7**	**17.6**
EPS (Rs.)	5.2	4.5	15.1	4.4	17.2
Margin (%)				**BPS**	**BPS**
EBITDA	21.4	19.9	142	20.0	140
EBIT	17.8	17.0	72	16.3	148
NPM	18.0	18.0	0	16.3	174
Tax rate	13.7	11.5	221	12.8	85

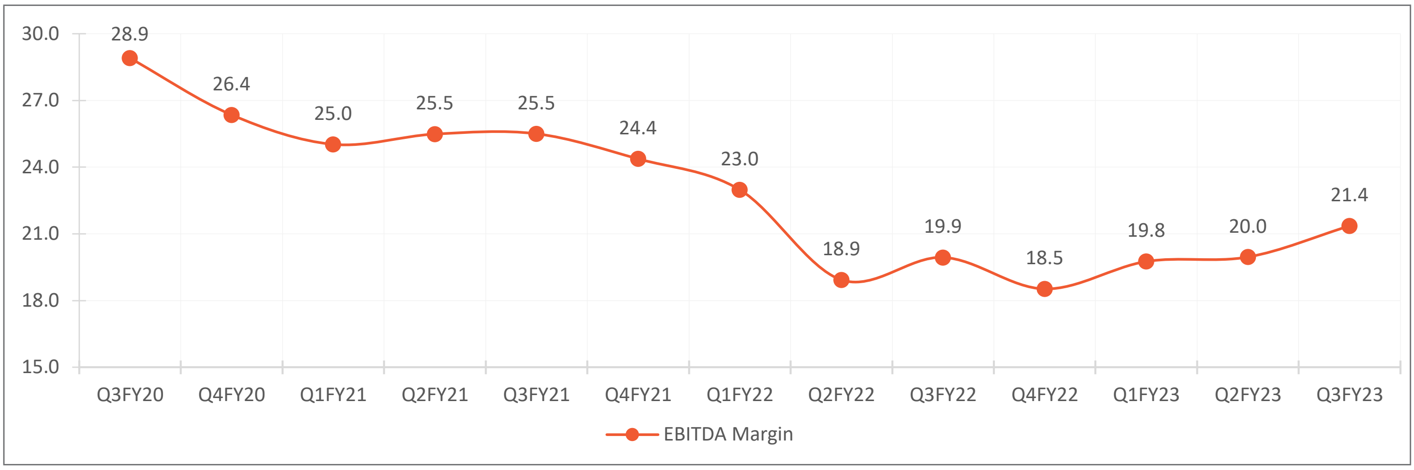
Source: Company; Sharekhan Research

Revenue growth trend (y-o-y)



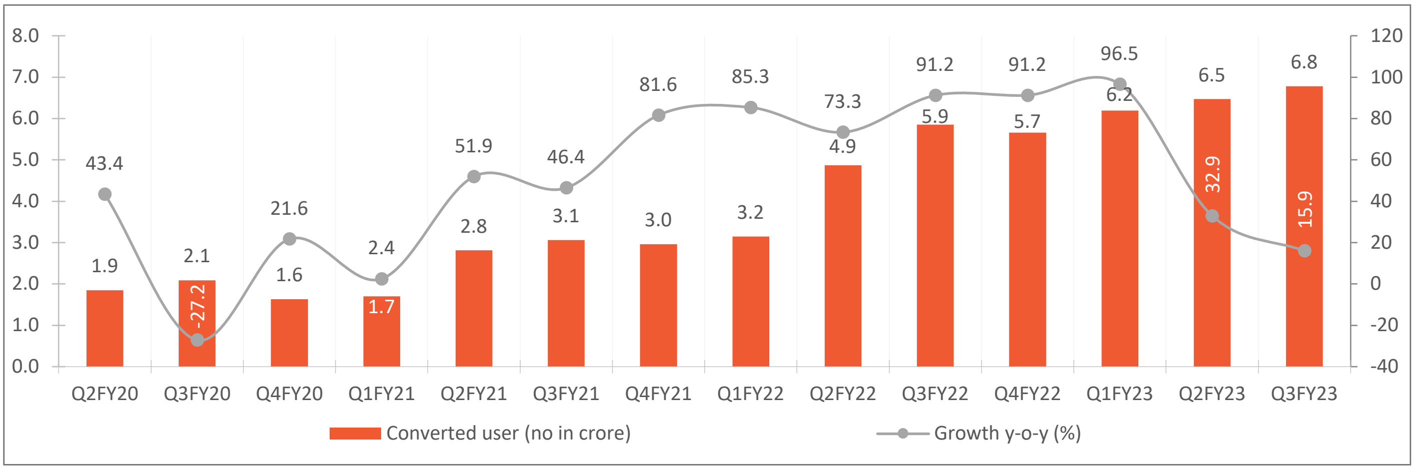
Source: Sharekhan Research

EBITDA margin (%) trend



Source: Sharekhan Research

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



Source: 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-cCommerce 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 – Mixed Quarter, Maintain Buy

Affle is well diversified with regards to markets, use cases, platforms, customers, publishers and has reasonable cash in hand. With key markets of India and global emerging markets continuing to grow steadily, Affle is well placed to capture market opportunities in mobile advertising spends Hence we maintain a Buy with a revised price target (PT) of Rs. 1,330.

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	4.23
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

Know more about our products and services

For Private Circulation only

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.