Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Affle (India) Ltd

Muted Quarter, maintain Buy

Internet & new media	Sharekhan code: AFFLE

Reco/View: Buy	↔	CMP: Rs. 921	Price Target: Rs. 1,130	↓

↑ 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 Mar 08, 2023

High Risk

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

Source: Morningstar

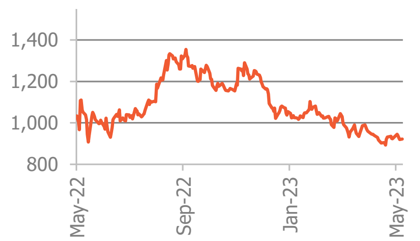
Company details

Market cap:	Rs. 12,278 cr
52-week high/low:	Rs. 1,369/871
NSE volume: (No of shares)	2.43 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	60
FII	11
DII	12
Others	17

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	(2.0)	(9.9)	(26.3)	(8.2)
Relative to Sensex	(5.2)	(11.7)	(27.1)	(26.0)

Sharekhan Research, Bloomberg

Summary

- Affle (India) reported revenue at Rs 355.8 crore, down 5.4% q-o-q/ up 12.9% y-o-y missing our estimates of Rs 380.1 crore as CPCU revenues fell q-o-q owing to seasonally weak Q4 and due to impact of macro headwinds in developed markets in Food tech and Entertainment verticals.
- EBITDA margin declined ~200 bps q-o-q to 19.4%/ up ~90 bps y-o-y in Q4FY23 missing our estimates of 21.3% as other operating expenses rose on account of audit fees or other professional services.
- Management is optimistic on India and emerging markets and expects to achieve 20-25% y-o-y growth in India and emerging markets and are aiming at an EBITDA margin of above 20% in FY24.
- We maintain a Buy rating on Affle India with a revised PT of Rs. 1130 as the company continues to grow steadily in its key India and global emerging markets and is well-diversified with regards to markets, use cases, platforms, customers and publishers. At CMP, the stock trades at 39.2/32.5 its FY2024/FY2025E EPS

Affle India (Affle) reported a revenue of Rs 355.8 crore, down 5.4% q-o-q/ up 12.9% y-o-y missing our estimates of Rs 380.1 crore owing to seasonally weak Q4 and due to impact of macro headwinds in developed markets in Food tech and Entertainment verticals. EBITDA margin declined ~200 bps q-o-q to 19.4%/ up ~90 bps y-o-y in Q4FY2023 missing our estimates of 21.3%, as other operating expenses increased owing to audit fees or other professional services, while employee costs remained largely stable. Net profit stood at Rs. 62.4 crore, down 9.5% q-o-q/ 8.9% y-o-y owing to a miss in revenues and margin and lower other income (Q4FY22 had higher other income primarily on account of gains on fair valuation of financial instruments). Converted users fell 8% q-o-q to 6.2 crore, while CPCU rate was flat sequentially and, on a y-o-y basis The management indicated that Affle has achieved 20-25% growth in India and emerging markets and is expecting similar growth in FY24. They are aiming for an EBITDA margin of above 20% and highlighted that the organic business is already at a 25% EBITDA, with some acquired companies at an 18-20% EBITDA margin. The company's revenue was hit by macro headwinds in developed markets and to counter this effect and drive success in developed markets, the company has implemented comprehensive turnaround plans. The management expects these measures to yield immediate and measurable results in FY24. We maintain Buy rating on Affle India with a revised PT of Rs. 1130, as the company continues to grow steadily in its key India and global emerging markets and is well-diversified with regards to markets, use cases, platforms, customers, publishers. At CMP, the stock trades at 39.2/32.5 its FY2024/FY2025E EPS.

Key positives

- Non-CPCU revenue at Rs 32.2 crore grew 19% q-o-q/37% y-o-y.

Key negatives

- CPCU business registered 6.2 crore converted users in Q4FY23 vs 6.8 crore converted users in Q3FY23.
- CPCU revenue at Rs 319.2 crore was the lowest quarterly CPCU revenue for FY23.

Management Commentary

- The management indicated that Affle has achieved 20-25% growth in India and emerging markets and is expecting similar growth in FY24. They are aiming for an upwards of 20% EBITDA margin and highlighted that the organic business is already at 25% EBITDA, with some acquired companies at 18-20%.
- The management affirmed their commitment to investing in organic growth operations and strengthening partnerships with global brands, including OEMs and operator collaborations. They also expressed their intention to explore inorganic opportunities, with a focus on higher growth industry verticals, particularly gaming.
- The Management mentioned combining their product with CPCU to achieve higher-margin and higher-value conversions. They also highlighted their first-mover advantage on iOS and how they have further enhanced differentiation by adding touchpoints on the Apple App Store. These initiatives are expected to bode well for margins and CPCU rates, targeting higher-value and higher-margin segments. The management believes that these initiatives will not only benefit them in developed markets but also give them a first-mover advantage in emerging markets.

Revision in estimates – We have revised our earnings estimates for FY24/FY25 owing to macro-overhang.

Our Call

Valuation – Muted Quarter, Maintain Buy: Despite the macro headwinds, Affle has shown resilience and achieved a growth rate of around 20% to 25% in its key India and global emerging markets. Further the company has implemented several strategies such as reorganizing to focus on up-selling and cross-selling all platform use cases, strengthening partnerships, introducing CPCU on connected TV, etc. that is expected to drive growth from Q2FY24. We expect a 19.6% and 24.2% Sales and PAT CAGR, respectively, over FY23-25E. We maintain a Buy rating on Affle India with a revised PT of Rs. 1130 as the company continues to grow steadily in its key India and global emerging markets and is well-diversified with regards to markets, use cases, platforms, customers, publishers. At CMP, the stock trades at 39.2/32.5 its FY2024/FY2025E EPS.

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	FY23	FY24E	FY25E
Revenue	1,081.7	1,434.0	1,718.3	2,050.9
OPM (%)	19.7	20.1	20.7	21.2
Adjusted PAT	183.3	244.6	312.7	377.3
% YoY growth	*78.3*	*33.5*	*27.9*	*20.7*
Adjusted EPS (Rs.)	13.9	18.4	23.5	28.3
P/E (x)	67.0	50.2	39.2	32.5
P/B (x)	10.4	8.4	6.9	5.7
EV/EBITDA (x)	55.4	40.6	32.1	25.4
RoNW (%)	15.6	16.7	17.6	17.5
RoCE (%)	20.6	15.8	16.1	16.4

Source: Company; Sharekhan estimates

Key result highlights from earnings call

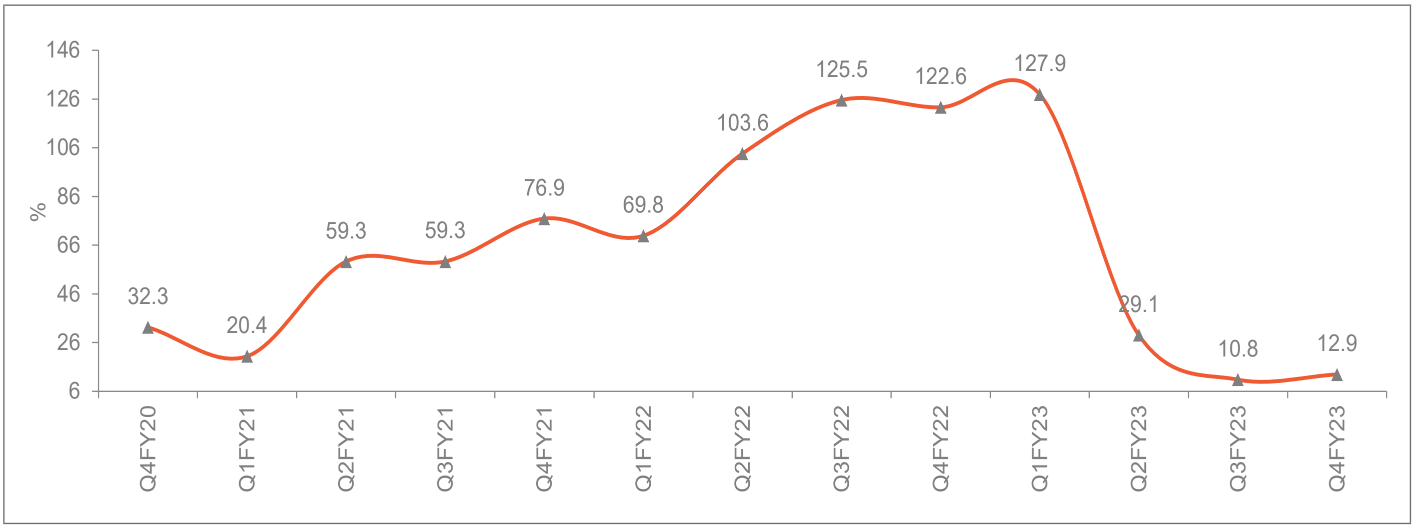
- **Outlook on India and Emerging markets:** The management stated that the Indian market, as well as emerging markets globally, will experience fewer economic challenges compared to previous financial year. Despite the challenges, Affle has shown resilience and achieved a 20-25% growth rate in India and other emerging markets. The management remains optimistic and positive about the outlook for India and emerging markets, which currently account for 81% of business. They expressed confidence in maintaining a similar level of growth in FY24 and anticipate organic growth in the range of 20-25%.
- **Developed markets:** The management acknowledged that the company's presence in developed markets is relatively small as compared to the large addressable market. The management indicated that macroeconomic challenges have affected their business in developed markets, particularly in sectors like Foodtech and Entertainment, in Q4FY23. To counter this short-term impact and drive success in developed markets, the company has implemented comprehensive turnaround plans. These plans involve taking decisive actions in areas such as people, partnerships, products, and platforms. The management expects these measures to yield immediate and measurable results in FY24 with ramp ups in Q2FY24 and turnaround in Q3FY24.
- **Strategy initiatives:** The company has reorganized its approach to focus on up-selling and cross-selling all platform use cases, using Cost per Converted User (CPCU) business model, to avoid being limited by a single platform. The reporting structure and resources have been realigned to support the hands-on entrepreneurial culture and drive growth in developed markets. Secondly, they have strengthened strategic partnerships and execution strategies. They aim to secure multi-million-dollar contracts with supply-side partner OEMs and operator partners. Thirdly, they have introduced all CPCU use-cases on their connected TV product, enabling greater competitiveness in the advertising market. They have also capitalised on the first-mover advantage on Apple iOS and are exploring opportunities with other OEMs and operators on Android. These efforts are expected to drive growth in the CPCU business starting from Q2FY24. Additionally, the company is focusing on acquiring deeper access to customers' first-party data in high-growth verticals such as gaming.
- **EBITDA margins:** The management expects margins to be upwards of 20% EBITDA for FY24, with a goal of meaningful improvement over time. They emphasised their expertise in integrating acquisitions and assured that any future inorganic transactions will contribute to EBITDA performance in FY24. The company aims for margin expansion y-o-y and is careful in managing cash flows to fund acquisitions. The management highlighted that the organic business is already reaching a 25% EBITDA level and some acquired companies are achieving 18-20% EBITDA levels. The company highlighted the importance of optimizing investments in gaming, deeper quality access to data and inventory, and other factors to drive profitability.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net sales	**355.8**	**315.1**	**12.9**	**376.1**	**-5.4**
Inventory and data costs	216.3	199.6	8.4	228.1	-5.2
Employee expenses	49.3	42.4	16.3	48.3	2.1
Other expenses	21.2	14.7	44.3	19.3	9.4
EBITDA	**69.0**	**58.4**	**18.2**	**80.3**	**-14.1**
Depreciation	13.6	9.3	45.4	13.5	0.2
EBIT	**55.4**	**49.0**	**13.0**	**66.8**	**-17.0**
Other income	17.5	29.3	-40.2	16.5	6.3
Finance cost	3.1	1.6	91.8	3.2	-3.1
PBT	**69.9**	**76.7**	**-9.0**	**80.1**	**-12.8**
Total tax	7.5	7.6	-1.2	11.0	-31.8
Minority interest	1.1	1.0	8.5	1.4	-21.9
Net profit	**61.3**	**68.2**	**-10.1**	**67.7**	**-9.5**
Adjusted net profit	**62.4**	**52.8**	**18.3**	**69.0**	**-9.5**
EPS (Rs)	4.7	4.0	17.2	5.2	-9.8
Margin (%)				**BPS**	**BPS**
EBITDA	19.4	18.5	87	21.4	-197
EBIT	15.6	15.6	2	17.8	-218
NPM	17.2	21.6	-441	18.0	-78
Tax rate	10.7	9.9	84	13.7	-299

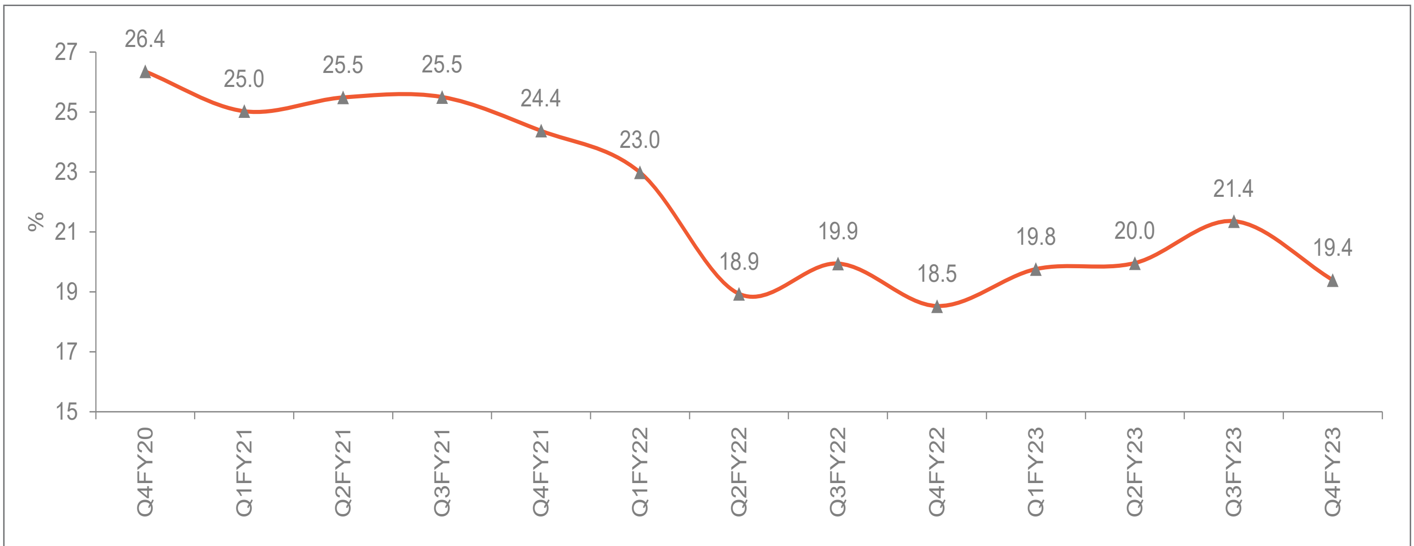
Source: Sharekhan Research

Revenue growth trend (y-o-y)



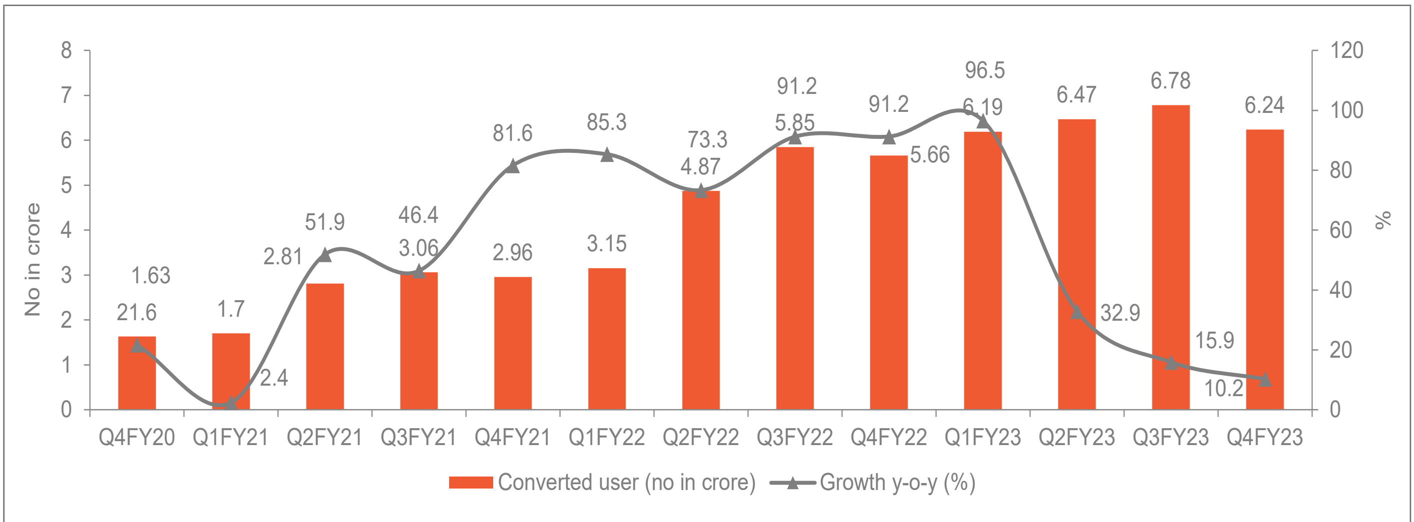
Source: Sharekhan Research

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.

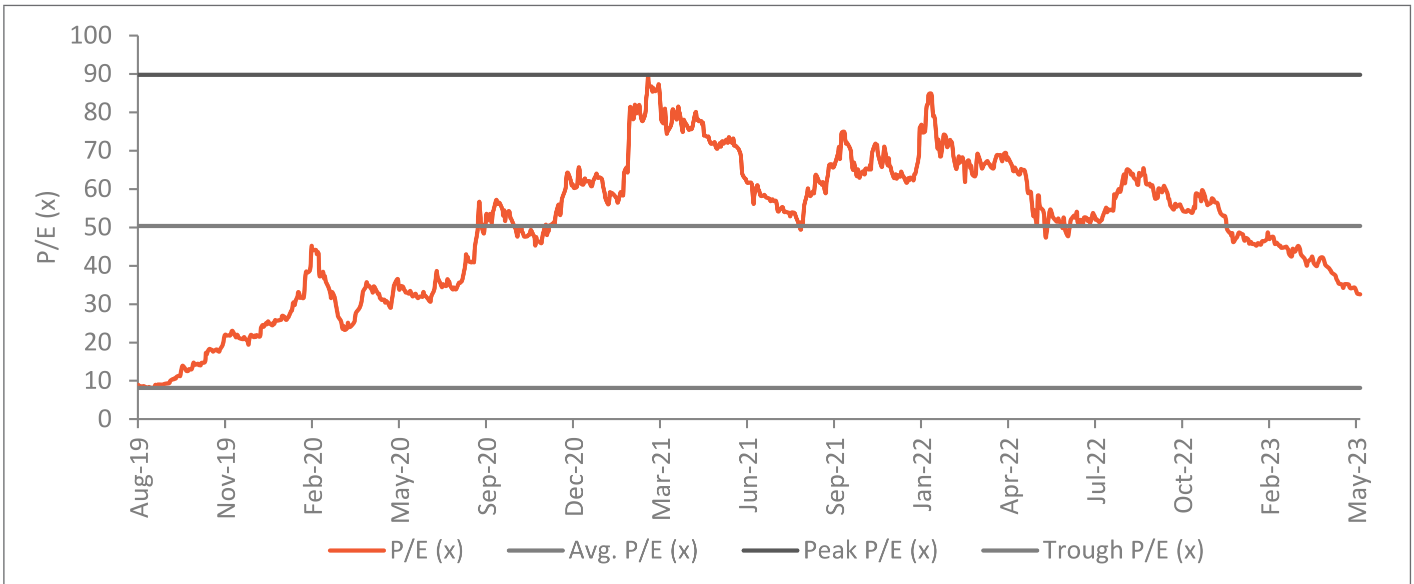
■ Company Outlook – Long runway for growth

Affle's exposure in fast-growing markets such as India and Southeast Asia and emerging verticals in developed markets and segments such as e-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 – Muted Quarter, Maintain Buy

Despite the macro headwinds, Affle has shown resilience and achieved a growth rate of around 20% to 25% in its key India and global emerging markets. Further the company has implemented several strategies such as reorganizing to focus on up-selling and cross-selling all platform use cases, strengthening partnerships, introducing CPCU on connected TV etc. that is expected to drive growth from Q2FY24. We expect a 19.6% and 24.2% Sales and PAT CAGR, respectively, over FY23- 25E. We maintain Buy rating on Affle India with a revised PT of Rs. 1130 as the company continues to grow steadily in its key India and global emerging markets and is well diversified with regards to markets, use cases, platforms, customers, publishers. At the CMP, the stock trades at 39.2/32.5 its FY2024/FY2025E EPS

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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
Vipul Kedia	Chief data and Platforms officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	3.6
2	MALABAR INDIA FUND LTD	3.1
3	ICICI Prudential Life Insurance Co	3.1
4	ICICI Prudential Asset Management	2.6
5	Abrdn plc	2.5
6	Franklin Resources Inc	1.8
7	Vanguard Group Inc	1.2
8	Aberdeen Std Asia Fo Plc	1.0
9	BlackRock Inc	0.8
10	Sundaram Asset Management Co Ltd	0.5

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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