Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Affle (India) Ltd

Strong Q1, Inorganic boost

Internet & new media	Sharekhan code: AFFLE
Reco/View: Buy ↔	CMP: Rs. 1,114 / Price Target: Rs. 1,270 ↑

↑ 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 20.49

Updated Aug 07, 2023

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 14,841 cr
52-week high/low:	Rs. 1,369/875
NSE volume: (No of shares)	3.06 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	59.9
FII	9.9
DII	13.6
Others	16.6

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.4	20.0	4.8	1.3
Relative to Sensex	4.4	12.0	-4.6	-11.7

Sharekhan Research, Bloomberg

Summary

- Affle (India) reported revenue at Rs 407 crore, up 14.3% q-o-q/ 17% y-o-y beating estimates aided by organic growth and largely on account of contribution from the acquired business YouAppi.
- Converted users grew 11% y-o-y to 6.9 crore, while the CPCU rate grew by 5.6% y-o-y with higher revenue mix from international markets. EBITDA margin declined 55 bps y-o-y to 19.2% in Q1FY24 due to higher Inventory and data costs, and employee expenses.
- The management aims to increase the CPCU rate to Rs.55-58 and eventually reach Rs. 58 for the remainder of FY24. Management is confident of achieving 20% plus growth in India and emerging markets globally and has guided for 20% growth in PAT for FY24
- We maintain Buy rating on Affle India with revised PT of Rs. 1270, given the consistent growth in key markets and further supplemented by turnaround in developed markets on account of implemented strategies and contribution from YouAppi acquisition. At CMP, the stock trades at 50.5/40.4x its FY2024/ FY2025E EPS.

Affle (India) revenue grew 17% y-o-y to Rs. 407 crore, beating our estimates by 8.6%. Converted users grew 11% y-o-y to 6.9 crore, while the CPCU rate grew by 5.6% y-o-y with higher revenue mix from international markets. Growth was broad-based across industry verticals, across India and International markets. Revenue growth was aided by organic growth and on account of two months' consolidation of the acquired business. EBITDA margin declined 55 bps y-o-y to 19.2% in Q1FY24 due to higher Inventory and data costs and employee expenses but exceeded our estimates by 40 bps. EBITDA grew 13.8% y-o-y during the quarter. Net profit came at Rs. 66.2 crore (up 21.4% y-o-y), led by beat in revenue and margin, partially offset by lower other income (down 44% y-o-y).India witnessed broad-based growth across top industry verticals, and the CPCU business experienced strong market traction while the international business was driven by robust growth in emerging markets, on-ground efforts, a realigned market strategy for developed markets, and the acquisition of YouApp. The management aims to increase the CPCU rate to Rs.55-58, eventually reaching Rs. 58 for the remainder of FY24. Management is confident of achieving 20% plus growth in India and emerging markets globally and has guided for 20% growth in PAT for FY24. We maintain Buy rating on Affle India with a revised PT of Rs. 1270, given the consistent growth in key India and global emerging markets and further supplemented by turnaround in developed markets led by strategies and contribution from YouAppi acquisition. The stock trades at 50.5/40.4x its FY2024/FY2025E EPS at CMP.

Key positives

- CPCU business registered 6.9 crore converted users in Q1FY24 vs 6.2 crore converted users in Q4FY23.
- Average CPCU rate was highest ever at Rs. 55 in Q1FY24 vs Rs. 52 in Q4FY23
- CPCU revenue at Rs 377.9 crore grew 17.2% q-o-q/18.4% y-o-y

Key negatives

- Non-CPCU revenue at Rs 25.9 crore declined 20% q-o-q.
- Enterprise business revenue at Rs 2.9 crore was down 34.8% q-o-q/8% y-o-y.

Management Commentary

- Management has identified contributing factors to the improvement in CPCU and aims to increase the CPCU rate to Rs.55-58, eventually reach Rs. 58 for the remainder of the financial year.
- Management is confident of achieving 20% plus growth in India and emerging markets globally and has guided for 20% growth in PAT for FY24.
- Positive tailwinds are expected due to the festive season in Q2 and Q3. Company may see some positive impact from certain categories of advertisers due to events like World Cup cricket which may neutralize the impact of certain additional tax on some of the gaming real money.

Revision in estimates: We have fined tuned our earnings estimates for FY24/FY25 to factor Q1FY24 performance and contribution from YouAppi acquisition.

Our Call

Valuation –Maintain Buy with revised PT of Rs 1,270: Despite the macro challenges, India witnessed broad-based growth while the international business was driven by robust growth in emerging markets, on-ground efforts, a realigned market strategy for developed markets, and the acquisition of YouApp. We expect a 30.2% and 25% Sales and PAT CAGR, respectively, over FY23- 25E. Hence, we maintain the Buy rating on Affle India with a revised PT of Rs. 1270, given the consistent growth in key markets and further supplemented by turnaround in developed markets and contributions from YouAppi acquisition. At CMP, the stock trades at 50.5/40.4x 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 the management of consumer data and respect for privacy.

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,081.7	1,434.0	1,831.7	2,280.3
OPM (%)	19.7	20.1	19.0	19.3
Adjusted PAT	183.3	244.6	293.7	367.7
% YoY growth	78.3	33.5	20.1	25.2
Adjusted EPS (Rs.)	13.9	18.4	22.1	27.6
P/E (x)	81.0	60.7	50.5	40.4
P/B (x)	12.6	10.1	8.4	7.0
EV/EBITDA (x)	67.5	49.5	40.0	30.9
RoNW (%)	15.6	16.7	16.7	17.3
RoCE (%)	20.6	15.8	15.5	16.0

Source: Company; Sharekhan estimates

Key result concall highlights

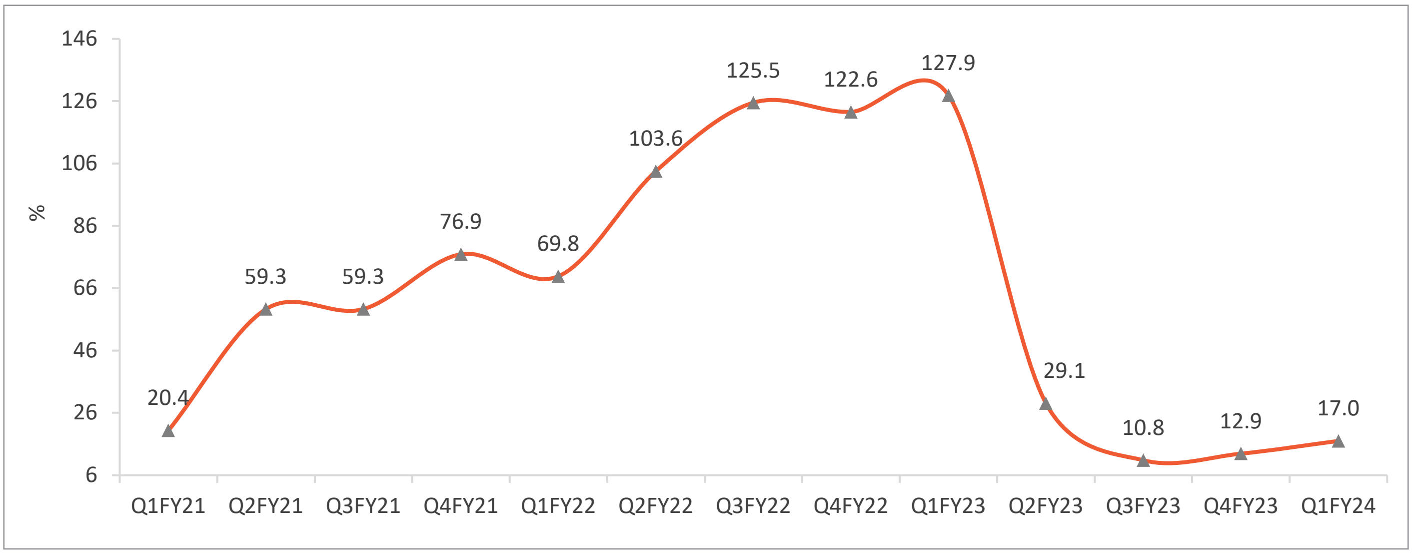
- **Strong sequential revenue growth:** The company reported revenue at Rs 407 crore, up 14.3% q-o-q/ 17% y-o-y. Growth was broad-based across industry verticals, across India and International markets. Revenue growth was aided by organic growth and on account of two months' consolidation of the acquired business. Management stated that YouAppi contribution to the topline during Q1 was a little higher than 45 crore.
- **Outlook on markets:** The organic growth is primarily focused on India and emerging markets globally, where consistent growth is achieved. Management is confident of achieving 20% plus growth in India and emerging markets globally. Developed markets were impacted by macro headwinds, causing expected de-growth in April and May. The growth is primarily observed in India and emerging market verticals, while degrowth was seen in the developed markets. To address this, the company has implemented strategic turnaround measures and inorganic initiatives to solidify their position in the developed markets. Post implementation of turnaround action plans the company experienced improved performance in June.
- **Strategy:** The management expressed confidence in capitalising on the improved macro market outlook by leveraging their CPCU business model, verticalised platform offerings, and motivated teams. They have strengthened their premium use cases on the Affle 2.0 Consumer Platform Stack, including unique ad placements in OEM app stores. They have also expanded their CPCU model to Connected TV, allowing advertisers to target users across screens and achieve greater ROI through cross-device targeting capabilities.
- **CPCU factors and outlook:** Management stated that three factors contribute to the improvement in CPCU (Cost Per Converted User). One factor being, the contribution from developed markets, where CPCU is generally higher. Another factor is the introduction of more premium services to the market. The company is focusing on strategies such as targeting iOS users in India and global emerging market verticals and providing premium use cases to drive conversions for advertisers. As a result, the CPCU rate is expected to increase to a range of Rs. 55-58 for the rest of the financial year, to reach Rs. 58.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net sales	**406.6**	**347.5**	**17.0**	**355.8**	**14.3**
Inventory and data costs	248.3	219.9	12.9	216.3	14.8
Employee expenses	56.2	43.1	30.3	49.3	13.9
Other expenses	24.0	15.8	52.0	21.2	13.6
EBITDA	**78.1**	**68.7**	**13.8**	**69.0**	**13.2**
Depreciation	14.4	9.3	55.2	13.6	6.4
EBIT	**63.7**	**59.4**	**7.3**	**55.4**	**14.9**
Other income	9.8	7.5	31.3	17.5	-43.9
Finance cost	3.4	2.2	58.0	3.1	10.7
PBT	**70.1**	**64.7**	**8.3**	**69.9**	**0.3**
Total tax	3.9	9.0	-56.6	7.5	-47.8
Minority interest	0.6	1.4	-59.9	1.1	-48.0
Net profit	**66.2**	**54.5**	**21.4**	**62.4**	**6.0**
Adjusted net profit	**66.2**	**55.2**	**19.8**	**62.4**	**6.0**
EPS (Rs)	5.0	4.1	20.3	4.7	6.2
Margin (%)				**BPS**	**BPS**
EBITDA	19.2	19.8	-55	19.4	-18
EBIT	15.7	17.1	-142	15.6	8
NPM	16.3	15.7	58	17.5	-126
Tax rate	5.6	13.9	-831	10.7	-513

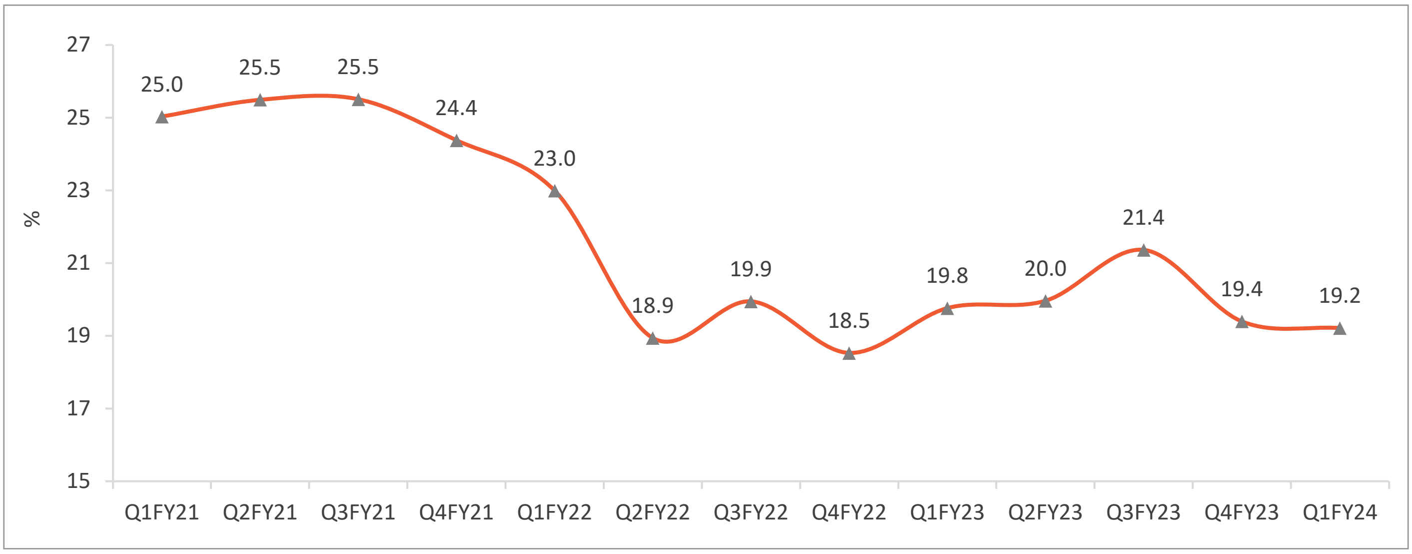
Source: Company, Sharekhan Research

Revenue growth trend (y-o-y)



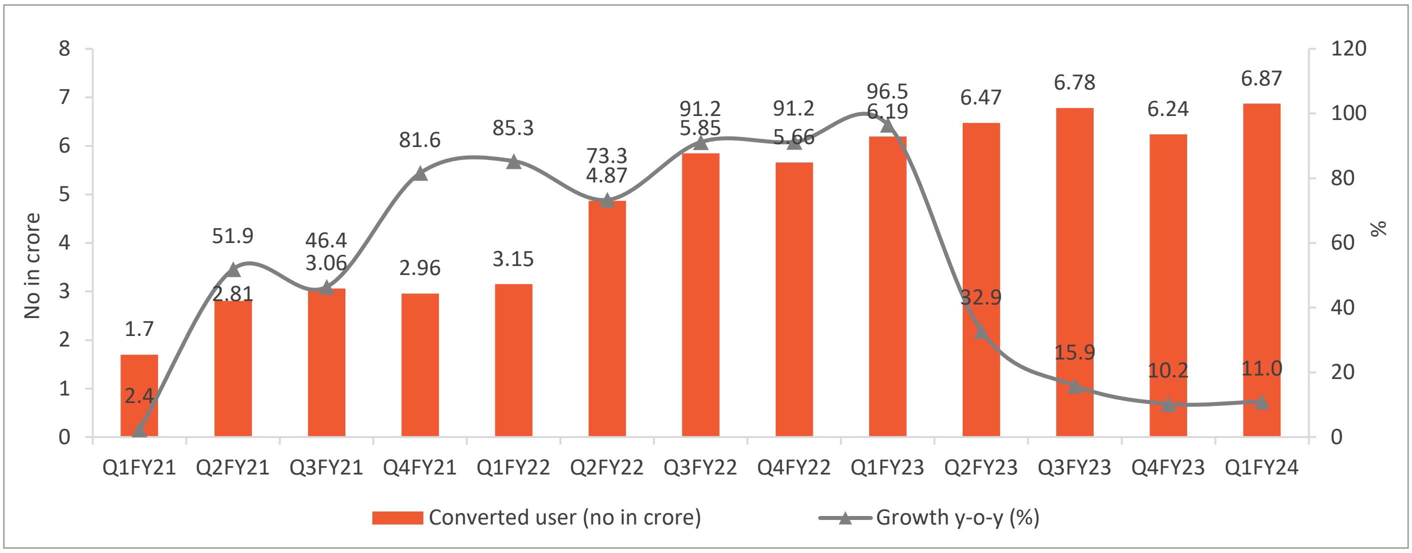
Source: Company, Sharekhan Research

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.

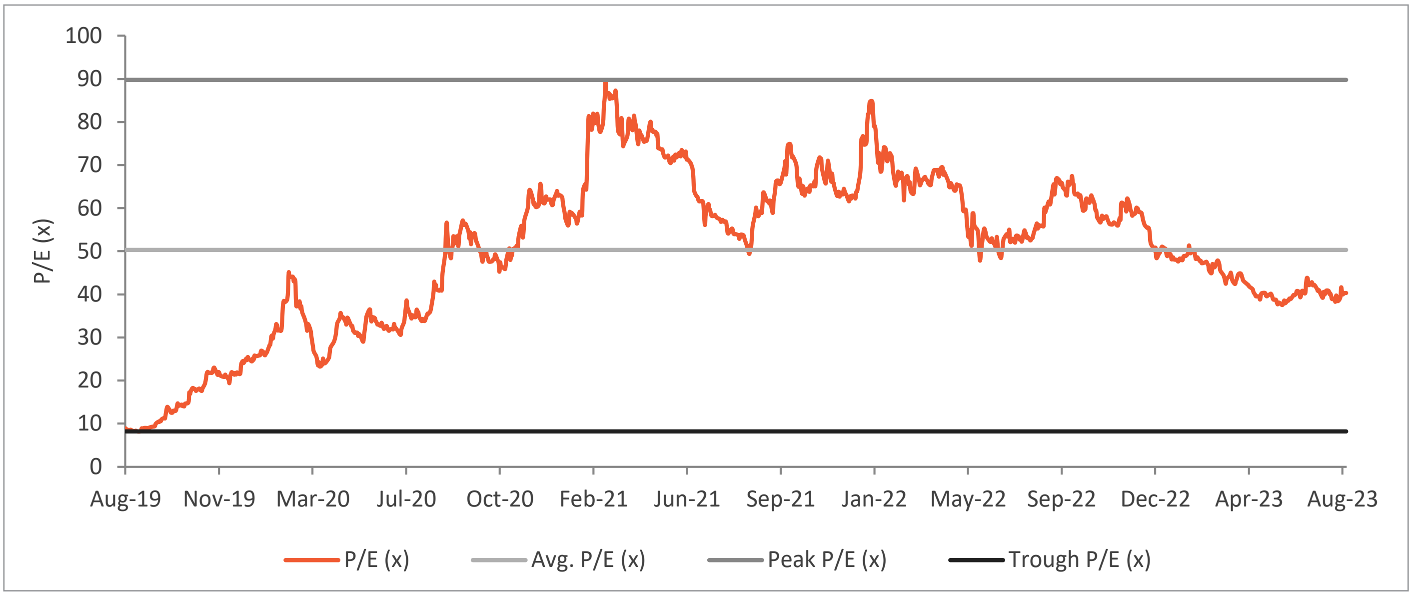
■ Company outlook - Long runway for growth

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 revised PT of Rs 1270

Despite the macro challenges, India witnessed broad-based growth while the international business was driven by robust growth in emerging markets, on-ground efforts, a realigned market strategy for developed markets, and the acquisition of YouApp. We expect a 26.1% and 22.6% Sales and PAT CAGR, respectively, over FY23- 25E. Hence, we maintain Buy rating on Affle India with revised PT of Rs. 1270, given the consistent growth in key markets and further supplemented by turnaround in developed markets and contributions from YouAppi acquisition. At CMP, the stock trades at 50.5/40.4x its FY2024/FY2025E EPS.

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

Investment theme

Affle, a leading ad tech 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	4.11
2	ICICI Prudential Asset Management	3.41
3	ICICI Prudential Life Insurance Co	3.2
4	MALABAR INDIA FUND LTD	3.09
5	Abrdn plc	2.12
6	Franklin Resources Inc	2.09
7	Vanguard Group Inc/The	1.04
8	ABERDEEN STD ASIA FO PLC	1.01
9	BlackRock Inc	0.83
10	Sundaram Asset Management Co Ltd	0.6

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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