Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Affle (India) Ltd

Good Q2, Maintain Buy

Internet & new media	Sharekhan code: AFFLE
Reco/View: Buy ↔	CMP: Rs. 1,073
	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. 14,302 cr
52-week high/low:	Rs. 1300/875
NSE volume: (No of shares)	2.81 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	5.3 cr

Shareholding (%)

Promoters	59.9
FII	9.7
DII	14.3
Others	16.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	-3.6	15.7	-7.0
Relative to Sensex	0.6	-1.2	10.2	-12.2

Sharekhan Research, Bloomberg

Summary

- Affle (India) revenue grew 6.1% q-o-q/ 21.6% y-o-y to Rs. 431.3 crore, in line with our estimates of 430.6 crore. led by strong CPCU revenues, up 5.9 q-o-q/21.3% y-o-y.
- EBITDA margin rose 26 bps y-o-y to 20.2 % due to lower Inventory & data costs and employee expenses.
- Management expects a multi-year growth trend in emerging markets, including India, due to advertisers being under-calibrated on verticals. The company aims Rs 1,800 crore of revenues for FY24.
- We maintain Buy on Affle (India) with unchanged PT of Rs. 1270, given consistent growth in India and global emerging markets as well as improvement across developed markets led by turnaround plans. At CMP, the stock trades at 42.2/35.8x its FY2025/FY2026E EPS.

Revenues grew 21.6% y-o-y to Rs. 431.3 crore, in line with our estimates of 430.6 crore. Converted users grew 11.3% y-o-y to 7.2 crore, while Average CPCU rate grew 9% y-o-y to Rs 55.6. Growth was broad-based coming from both CPCU business and non-CPCU business, across India & international markets. Non CPCU-consumer platform grew 33% y-o-y to Rs 285 crore while Enterprise business declined 23% y-o-y Rs 25 crore. EBITDA margin expanded 26 bps y-o-y to 20.2 % due to lower Inventory & data costs and employee expenses beating our estimates by 19.1%. Net profit stood at Rs. 66.8 crore (up 13.8% y-o-y) but missed our estimates of Rs. 70.3 crore, due to higher depreciation and finance costs. The management expects a multi-year growth trend in emerging markets, including India, due to advertisers being under-calibrated on verticals. The company aims to reach Rs 1,800 crore in revenue for FY24. We maintain Buy on Affle India with unchanged PT of Rs. 1270, given the consistent growth in key India and global emerging markets as well as improvement across developed markets led by turnaround plans. At CMP, the stock trades at 42.2/35.8x its FY2025/FY2026E EPS.

Key positives

- CPCU business had 7.2 crore converted users in Q2FY24 vs 6.8 crore converted users in Q1FY24, up 4.8% q-o-q/11.3% y-o-y.
- Average CPCU rate was highest ever at Rs. 55.6 in Q2FY24 vs Rs. 55 in Q1FY24
- CPCU revenue at Rs 400.3 crore grew 5.9% q-o-q/21.3% y-o-y.
- Non-CPCU revenue stood at Rs 28.5 crore, rising 10% q-o-q/33% y-o-y.

Key negatives

- Enterprise business revenues, at Rs 2.5 crore, was down 14.7% q-o-q/23% y-o-y.

Management Commentary

- Management expects a multi-year growth trend in emerging markets, including India, due to advertisers being under-calibrated on verticals. They expect a shift of 50% to 60% of ad spend toward digital platforms in the next 3-4 years, driving broad-based growth. Within this range, they anticipate a growth rate of ~20%.
- The company aims Rs 1800 crore revenue for FY24.

Revision in estimates – We have fined tuned our earnings estimates to factor Q2FY24 performance

Our Call

Valuation –Maintain Buy with unchanged PT of Rs 1270: Affle (India) reported good quarter despite the GST impact on gaming vertical in India and pullback in Fintech vertical in developed market in US due to macro-overhang. Growth across key market India and global emerging market remains consistent while developed markets are yielding positive results led by turnaround strategies. We expect sales and PAT CAGR of 21.9/17.8%, respectively, over FY23- 26E. Hence, we maintain Buy rating on Affle (India) with unchanged PT of Rs. 1270, given the consistent growth in key India and global emerging markets as well as improvement across developed markets led by turnaround plans. At CMP, the stock trades at 42.2/35.8x its FY2025/FY2026E 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	FY23E	FY24E	FY25E	FY26E
Revenue	1,081.7	1,434.0	1,758.4	2,169.9	2,596.1
OPM (%)	19.7	20.1	19.6	19.7	19.9
Adjusted Net Profit	183.3	244.6	276.1	338.5	399.4
% YoY growth	78.3	33.5	12.9	22.6	18.0
EPS (Rs)	13.9	18.4	20.8	25.4	30.0
PER (x)	78.0	58.4	51.8	42.2	35.8
P/BV (x)	12.1	9.8	8.2	6.9	5.8
EV/EBITDA	64.9	47.6	39.0	30.6	24.5
ROE (%)	15.6	16.7	15.9	16.3	16.1
ROCE (%)	20.6	15.8	15.2	15.1	15.3

Source: Company; Sharekhan estimates

Key result highlights

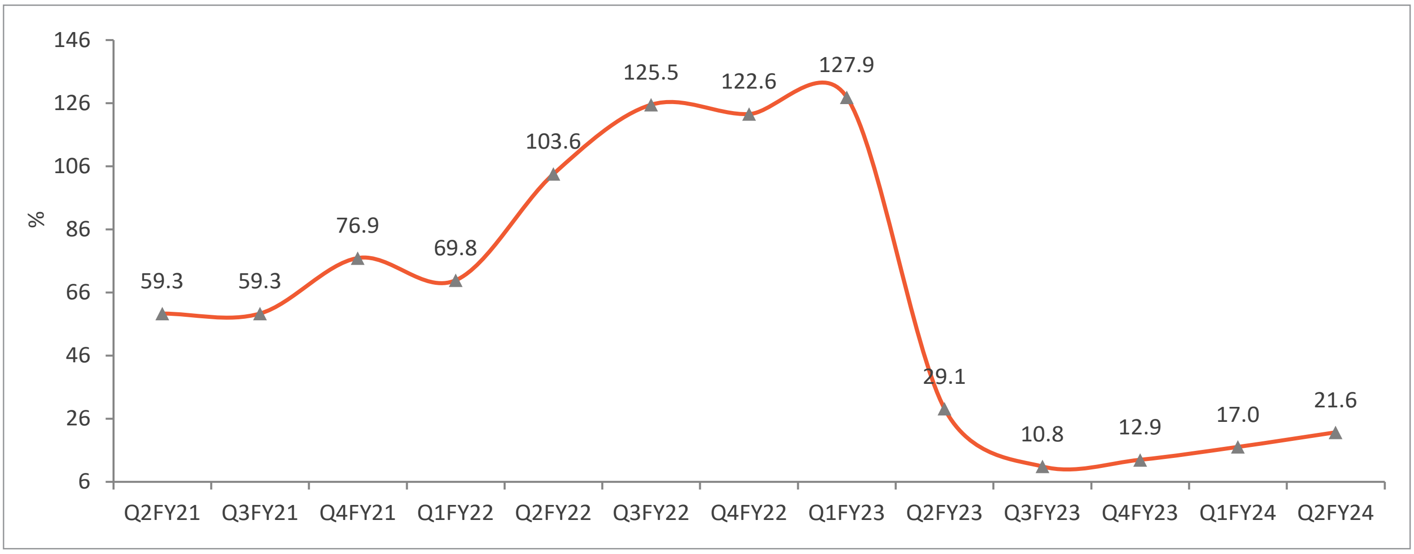
- **Revenue growth:** Revenue grew 21.6% y-o-y to Rs. 431.3 crore, in line with our estimates of 430.6 crore. Converted users grew 11.3% y-o-y to 7.2 crore, while Average CPCU rate grew 9% y-o-y to Rs 55.6. Growth was broad-based coming from both CPCU business and non-CPCU business, across India & International markets.
- **India Growth:** Due to regulatory changes, concerning the applicability of GST within the online gaming industry in India, there was an impact of Rs 11 crore. However, this impact was fully offset by the overall growth in advertisers' spend across various industry verticals in India. If the impact of the online gaming industry is excluded, the growth performance in India would have been significantly better.
- **Global emerging markets:** The global emerging markets showed strong performance, up 28% y-o-y. Growth was mainly organic, providing confidence to the management in the overall market trends in India and other global emerging markets, which contribute to about 75% of its current revenues.
- **Developed Markets:** The company's decisive turnaround plan is yielding positive results, and they anticipate consistent growth, especially in the second half of FY 2024. Despite the pullback effects in the fintech verticals, which amounted to approximately Rs 14 crore, the management remains optimistic about their performance.
- **Initiatives to power long term sustainable growth momentum:** The company is strengthening its OEM partnerships. Additionally, they have successfully integrated the technology into one of global smartphone player in major international markets and have released the first GenAI-powered product, a multilingual keyword recommendation tool. The tool aims to automate advertisers' campaigns and engage vernacular audiences in their native languages.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net sales	**431.3**	**354.6**	**21.6**	**406.6**	**6.1**
Inventory and data costs	261.1	220.0	18.7	248.3	5.2
Employee expenses	57.4	46.5	23.4	56.2	2.1
Other expenses	25.6	17.3	47.4	24.0	6.4
EBITDA	**87.2**	**70.8**	**23.2**	**78.1**	**11.7**
Depreciation	18.4	13.0	41.4	14.4	27.9
EBIT	**68.8**	**57.7**	**19.1**	**63.7**	**8.0**
Other income	9.9	12.8	-22.6	9.8	1.0
Finance cost	5.5	2.9	90.0	3.4	60.0
PBT	**73.2**	**67.7**	**8.2**	**70.1**	**4.5**
Total tax	6.4	8.7	-26.2	3.9	64.6
Minority interest	0.9	1.3	-31.8	0.6	57.5
Net profit	**66.8**	**58.7**	**13.8**	**66.2**	**0.9**
Adjusted net profit	**66.8**	**58.7**	**13.8**	**66.2**	**0.9**
EPS (Rs)	5.0	4.4	13.2	5.0	0.9
Margin (%)				**BPS**	**BPS**
EBITDA	20.2	20.0	26	19.2	101
EBIT	15.9	16.3	-34	15.7	28
NPM	15.5	16.5	-106	16.3	-79
Tax rate	8.8	12.8	-408	5.6	320

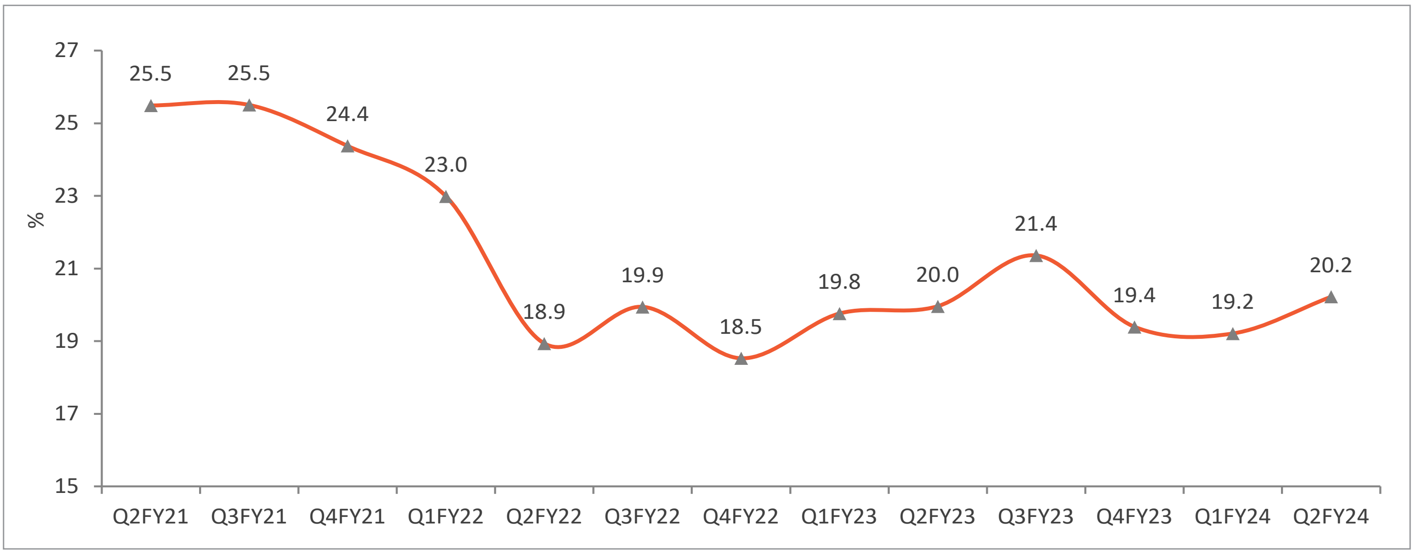
Source: Company, Sharekhan Research

Revenue growth trend (y-o-y)



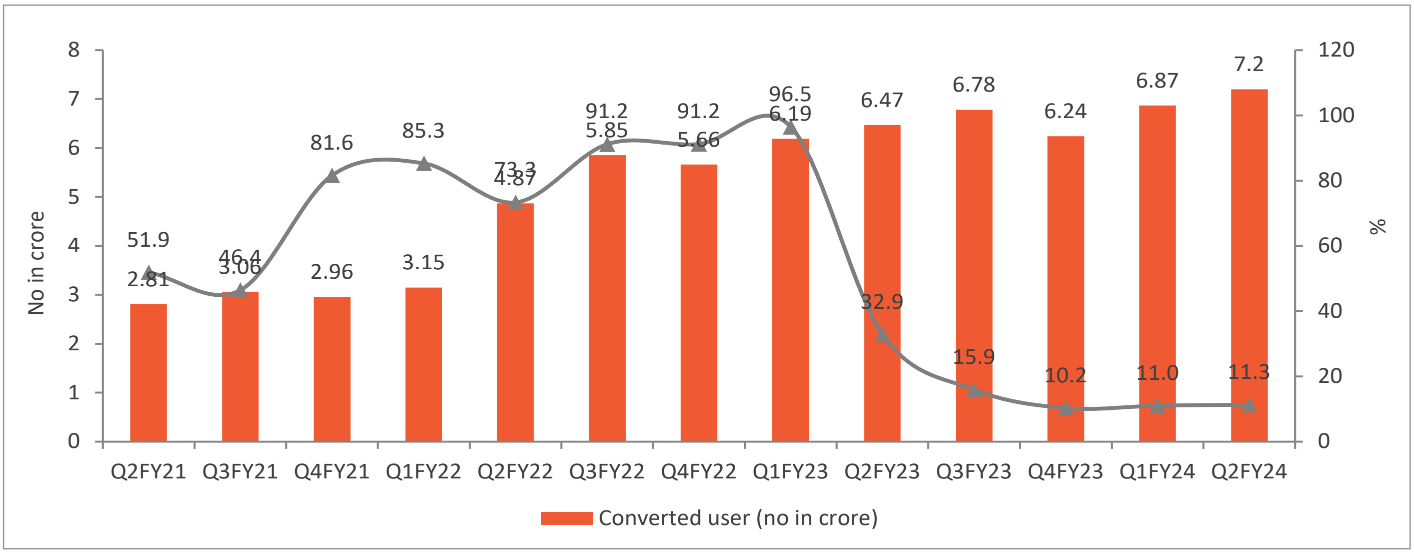
Source: Company, Sharekhan Research

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.

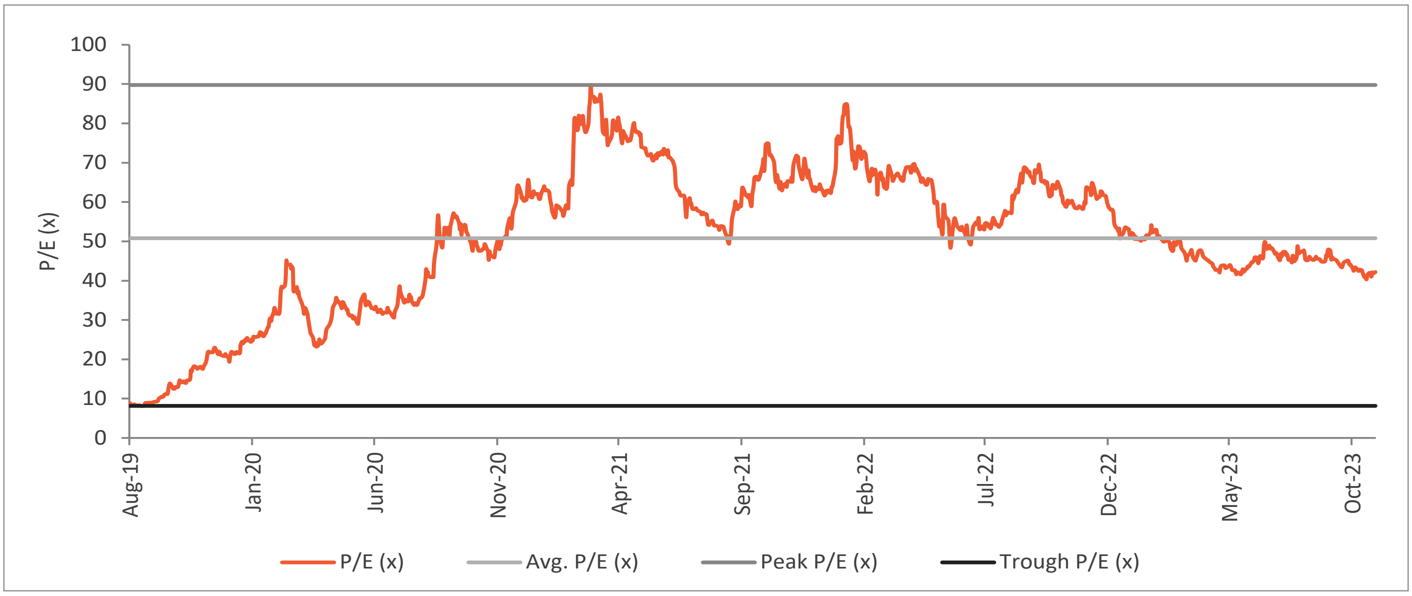
■ Company outlook - Long runway for growth

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 unchanged PT of Rs 1270

Affle (India) reported good quarter despite the GST impact on gaming vertical in India and pullback in Fintech vertical in developed market in US due to macro-overhang. Growth across key market India and global emerging market remains consistent while developed markets are yielding positive results led by turnaround strategies. We expect sales and PAT CAGR of 21.9/17.8%, respectively, over FY23- 26E. Hence, we maintain Buy rating on Affle (India) with unchanged PT of Rs. 1270, given the consistent growth in key India and global emerging markets as well as improvement across developed markets led by turnaround plans. At CMP, the stock trades at 42.2/35.8x its FY2025/ FY2026E 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	4.3
2	ICICI Prudential Asset Management	3.3
3	ICICI Prudential Life Insurance Co	3.1
4	MALABAR INDIA FUND LTD	2.9
5	Franklin Resources Inc	2.3
6	abrdn plc	2.0
7	Vanguard Group Inc/The	1.4
8	BlackRock Inc	0.9
9	Aditya Birla Sun Life Asset Manage	0.4
10	Norges Bank	0.3

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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