Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Affle (India) Ltd

Strong digital ad trends to aid growth; Maintain Buy

Internet & new media	Sharekhan code: AFFLE

Reco/View: Buy	↔	CMP: Rs. 1,309	Price Target: Rs. 1,535	↑

↑ 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 Updated Aug 08, 2023	20.49

Medium Risk

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

Source: Morningstar

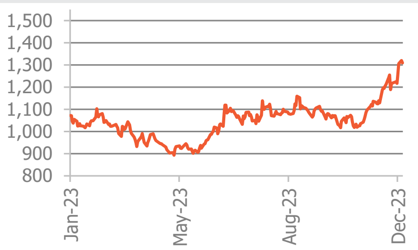
Company details

Market cap:	Rs. 18,349 cr
52-week high/low:	Rs. 1,336/875
NSE volume: (No of shares)	2.85 lakh
BSE code:	542752
NSE code:	AFFLE
Free float: (No of shares)	6.0 cr

Shareholding (%)

Promoters	56.9
FII	14.1
DII	14.1
Others	14.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.2	18.4	19.7	22.0
Relative to Sensex	8.7	9.2	8.6	4.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Affle (India) with revised PT of Rs. 1,535, as its strong foothold in the Global Emerging market including India (75% of revenue mix), makes it well placed to sustain its high revenue growth momentum. Moreover, the contribution from YouAppi's acquisition improves the outlook for developed markets. The stock trades at ~39x its FY2026E EPS.
- The company revenue/PAT has continued to grow at a healthy rate of19%/16% during H1FY24 despite high base and headwinds. The management expects a shift of 50-60% of ad spend toward digital platforms in the next 3-4 years, driving broad-based growth of around 20% y-o-y for Global Emerging markets including India.
- While growth across Global Emerging market is expected to be largely intact, stronger revenue growth from India (~30% revenue mix in H1FY24) is expected during H2FY24, driven by festive spending, Cricket World Cup, and elections. Growth in developed markets is expected to be driven by acquired mobile app marketing platform, Youappi.
- Strong cash generation (OCF/PAT for FY23/H1FY24 at ~106%/74% respectively) and recent preferential issue equips the company to aggressively pursue inorganic and AI related investments.

Affle (India) Limited (Affle) has demonstrated robust sales growth, with a 55% CAGR from FY19-23, and a 19% revenue increase in H1FY24, fueled by consistent performance in Global Emerging markets including India. The company anticipates a substantial shift of 50-60% in advertising expenditure towards digital platforms within the next 3-4 years, factoring underestimation by advertisers in key markets currently leading to broad-based growth of 20% y-o-y. While growth across the global emerging market is expected to be largely intact, stronger revenue growth from India (~30% revenue mix in H1FY2024) is expected during H2FY24 driven by festive spending, Cricket World cup and elections. Growth in developed markets is expected to be driven by the acquired mobile app marketing platform, Youappi. As per the winter update of MAGNA's 'Global Ad Forecast,' India's digital ad revenue in 2024 is expected to grow by 11.4% with digital formats expected to rise 13.9% to reach Rs. 56,900 crore. Further, the government's increased focus on the digital ecosystem through initiatives like Aadhar, UPI, DigiLocker, along with the growing internet user base, affordability of devices, and 5G application development labs, is likely to positively impact the digital advertising landscape. Strong cash generation (OCF/PAT for FY23/H1FY24 at ~106%/74% respectively) and recent preferential issue equip the company to aggressively pursue inorganic and artificial intelligence (AI)-related investments. Affle is actively expanding its patent portfolio to stay ahead in the data-driven industry, currently holding 21 patents and pursuing 15 more in advanced AI areas. The company's strategic focus on patents and recent acquisitions underpin its commitment to AI innovation to steer away from competition. Hence, we maintain Buy on Affle with a revised price target (PT) of Rs. 1,535, given strong and consistent Sales performance in its key and Global Emerging global markets, including India, and expected improvement in the international business, driven by Youappi, strong digital ad trends and AI investments. At CMP, the stock trades at ~48x/39x its FY25/26E EPS.

- **Consistent Performance:** Historically, Affle has experienced strong business performance with sales/PAT CAGR of 55%/49% over FY2019-FY2023. Despite moderation due to high base and headwinds, the company's revenue/PAT continued to grow at a healthy rate of 19%/16% during H1FY2024. While growth across the global emerging market is expected to be largely intact, stronger revenue growth from India (~30% revenue mix in H1FY2024) is expected during H2FY2024, driven by festive spending, Cricket World Cup, and elections. The company expects broad-based growth trends, with growth around 20% y-o-y for global emerging markets, including India, in line with the organic growth for these markets in Q2FY2024. Growth in developed markets (~25% revenue in H1FY24) is expected to be driven by the acquired mobile app marketing platform, Youappi. Improvement in developed markets is expected to be aided by a realigned approach towards up-selling and cross-selling integrated consumer platform propositions with emphasis on premium and key resilient verticals.
- **Digital advertising spend trends:** The management anticipates a multi-year growth trend due to underutilization of digital advertising in global emerging markets, including India, with an expected 50-60% of ad spending shifting to digital over the next three to four years to broad based growth trends, estimated at around 20%. Further, as per the winter update of MAGNA's 'Global Ad Forecast,' India's digital ad revenue, which grew to Rs. 43,645 crore, up 26 y-o-y in 2022, witnessed moderation in 2023, growing by 14% to Rs. 49,833 crore with ad share at 45% of total ad revenue. The share of mobile within digital is expected to reach 59% in 2023. As per 2024 forecast, the Indian advertising market is expected to grow by 11.4% with digital formats expected to rise 13.9% to reach Rs. 56,900 crore. Further, the government's push towards the digital ecosystem through Aadhar, UPI, and DigiLocker, rising internet user base, affordable devices, and labs developing applications using 5G service to ramp up digital business services will have a positive rub off on digital advertising.
- **Strong cash generation and QIP funds to aid investments:** Affle has raised Rs. 749 crore through a preferential issue of shares to the Government of Singapore. Net proceeds are planned to be allocated as follows: up to Rs. 335 crore for investment in technology, platform, and products; up to Rs. 150 crore for inorganic opportunities; and up to Rs. 75 crore for repayment of outstanding liabilities from past acquisitions. Remaining funds will be utilised for general corporate purposes. The company reported cash of Rs. 495.8 crore at the end of H1FY24. The company's OCF stood Rs. 260.3 crore for FY23 and at Rs. 98.9 crore for H1FY24 with OCF/PAT ratio for FY23/H1FY24 at ~106%/74% respectively. Strong cash generation and proceeds from the recent preferential issue are expected to aid the company to pursue inorganic opportunities and investment in AI. The company holds 21 patents, granted across the US, India, and Singapore. Affle has recently applied for 15 more patents, which cover advanced AI subject areas, including automated AI agents, personalisation and recommendation, predictive analysis, privacy management, enhanced fraud detection, and security. The focus on patents is strategic with the intent to lead in AI innovation. Further, while the recent Youappi acquisition is expected to provide consistent growth in developed markets, investments in travel app, Explurger, indicate the company's intent to steadily pursue AI investments.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 1,535: Affle has registered healthy revenue growth despite high base and headwinds, driven by consistent growth across key global emerging markets including India. The company is well positioned to garner a larger share from improving trends in advertising spends not only in its key markets but also in international markets, aided by Youappi's acquisition and growing investments in AI. We expect sales and PAT CAGR of ~23% and 22%, respectively, over FY2023-FY2026E. We have fine-tuned FY2025/FY2026 estimates to factor in the improving trends. Hence, we maintain Buy on Affle with a revised PT of Rs. 1,535 (the increase in PT reflects the roll forward to FY26E EPS), given consistent growth in key global emerging markets, including India as well as improvement across developed markets, aided by turnaround plans and investments. At the CMP, the stock trades at ~48x/39x 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	FY23	FY24E	FY25E	FY26E
Revenue	1,081.7	1,434.0	1,758.4	2,184.6	2,660.0
OPM (%)	19.7	20.1	19.7	21.2	21.5
Adjusted Net Profit	183.3	244.6	277.3	367.2	444.0
YoY growth (%)	78.3	33.5	13.4	32.5	20.9
EPS (Rs.)	13.9	18.4	20.9	27.6	33.3
PER (x)	95.1	71.3	62.9	47.5	39.3
P/BV (x)	14.8	11.9	10.0	8.3	6.8
EV/EBITDA	79.7	58.5	47.9	35.0	27.5
ROE (%)	15.6	16.7	15.9	17.4	17.4
ROCE (%)	20.6	15.8	15.2	16.5	16.8

Source: Company; Sharekhan estimates

Trends in India's Advertising

Media	2023 Size (Rs. crore)	2023 Growth	2023 Share
TV	36460	8.90%	33%
Digital	49833	14.20%	45%
Print	17896	8.30%	16%
Radio	1828	12.10%	2%
Outdoor	3050	26.70%	3%
Cinema	815	43.00%	1%
Total	109882	11.80%	100%
Traditional	60049	10.00%	55%
Digital	49833	14.20%	45%

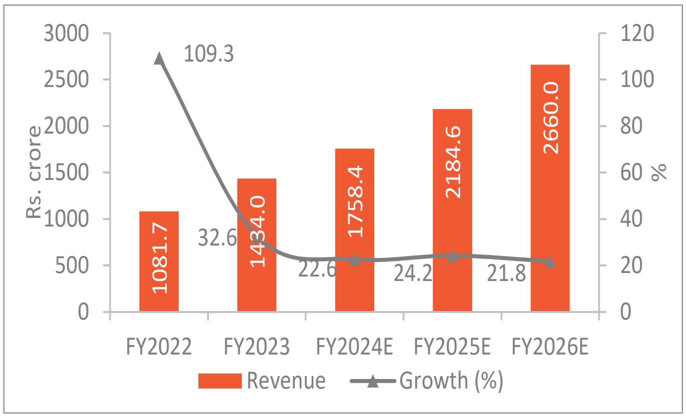
Source: Magna Global-Global Ad Forecast

Media	2024 Size (Rs. crore)	2024 Growth	2024 Share
TV	40079	9.90%	33%
Digital	56703	13.80%	46%
Print	19098	6.70%	16%
Radio	2029	11.00%	2%
Outdoor	3524	15.50%	3%
Cinema	970	19.00%	1%
Total	122403	11.40%	100%
Traditional	65700	9.40%	54%
Digital	56703	13.80%	46%

Source: Magna Global-Global Ad Forecast

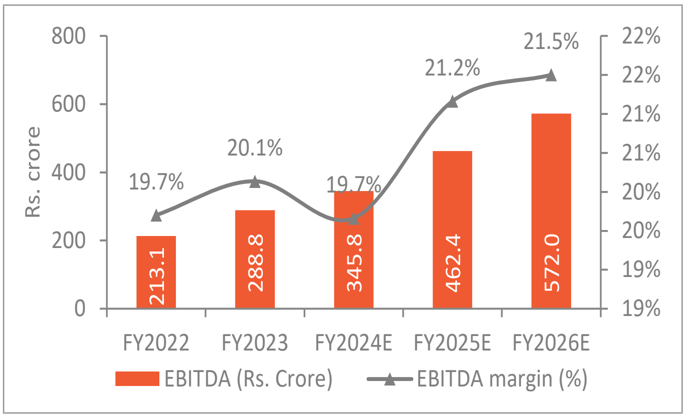
Financials in charts

Revenue (Rs. Crore)



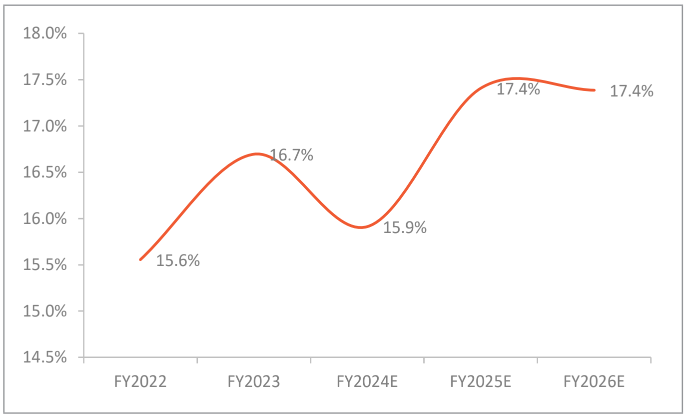
Source: Company, Sharekhan Research

EBITDA (Rs. Crore)



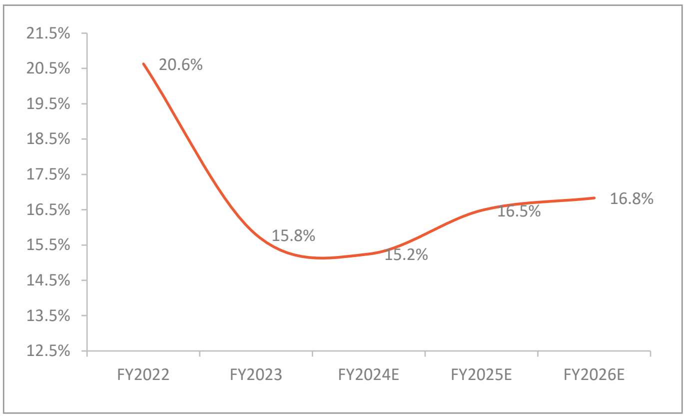
Source: Company, Sharekhan Research

RoE (%)



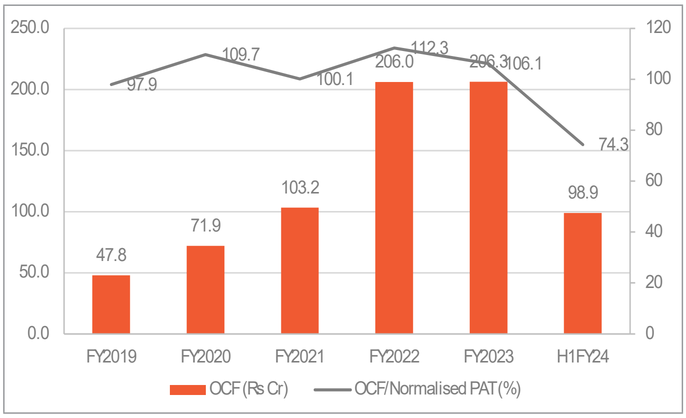
Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

OCF and OCF/Normalised PAT trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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.

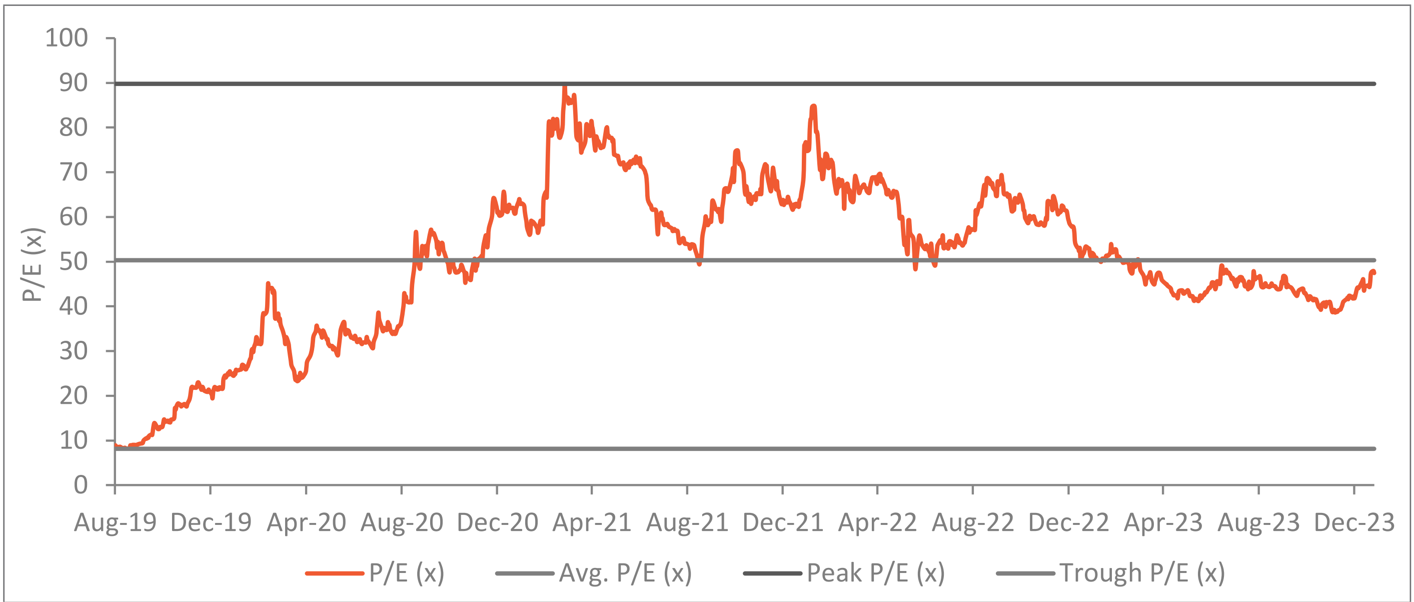
■ Company Outlook – Long runway for growth

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 1,535

Affle has registered healthy revenue growth despite high base and headwinds, driven by consistent growth across key global emerging markets including India. The company is well positioned to garner a larger share from improving trends in advertising spends not only in its key markets but also in international markets, aided by Youappi's acquisition and growing investments in AI. We expect sales and PAT CAGR of ~23% and 22%, respectively, over FY2023-FY2026E. We have fine-tuned FY2025/FY2026 estimates to factor in the improving trends. Hence, we maintain Buy on Affle with a revised PT of Rs. 1,535 (the increase in PT reflects the roll forward to FY26E EPS), given consistent growth in key global emerging markets, including India as well as improvement across developed markets, aided by turnaround plans and investments. At the CMP, the stock trades at ~48x/39x its FY2025/FY2026E 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 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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Gamnat Pte Ltd	4.9
2	Nippon Life India Asset Management	4.1
3	ICICI Prudential Asset Management	3.5
4	ICICI Prudential Life Insurance Co	3.0
5	MALABAR INDIA FUND LTD	2.7
6	Franklin Resources Inc	2.2
7	abrdn plc	1.7
8	Vanguard Group Inc/The	1.4
9	BlackRock Inc	0.8
10	Sundaram Asset Management Co Ltd	0.7

Source: Bloomberg

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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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