

12 July 2024

Affle, India

Strong growth expected across verticals, markets, upgrading to a Buy

In FY25, we expect verticals across EFGH (E-Commerce, FinTech, Gaming, Healthcare & hospitality) apart from RMG (Real money gaming) to start showing robust growth and expect strong 25% y/y growth in revenue. The RMG vertical's ~Rs150m-180m loss per quarter to continue till Q2FY25's first month; post that, the base would be favorable. We also expect company to benefit from the post-integration unlock of synergies from YouAppi in developed and emerging markets. Factoring in a turnaround in developed markets, growth in all verticals, focus on premium and integrated offerings, we raise our FY26e earnings ~4.3% and upgrade our rating to a Buy with a higher DCF-based 12-mth TP of Rs1,700, assuming a 12% WACC and a 6% terminal growth rate.

Q1 FY25 expectations. We expect Q1 revenue to have grown ~25.4% y/y (though q/q flat) due to the turnaround in developed markets and consistent growth in emerging markets. Absolute EBITDA would have risen 29.3% y/y, with margin improvement of ~60bps/y and ~44bps q/q to ~19.8%. Tax rate is expected to inch up in FY25 to ~14% (FY24 tax rate ~9%).

Anticipating 25.1% revenue CAGR over FY24-26, from 22.5% earlier. In FY25, the company would focus on three aspects: **a.** Compliance (data privacy), expanding the scope to charge more to advertisers; **b.** ConvergeAI supply cloud (preventing BOT traffic and offering clean access to consumers) and **c.** Focus on broad-based growth across verticals and regions to prevent overdependence on a single product. We expect growth to be broad-based, along with higher margins and anticipate 25.1%/32.8% revenue/EBITDA CAGRs over FY24-26 with 20.8%/22% margins in FY25/FY26.

Risks: Privacy policy could affect the business. Inability to turn around acquired companies.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	10,817	14,340	18,428	23,042	28,848
Net profit (Rs m)	2,139	2,453	2,973	3,682	4,825
EPS (Rs)	16.1	18.4	21.9	26.3	34.4
P/E (x)	93.4	81.7	67.2	54.3	41.4
EV / EBITDA (x)	88.8	65.5	52.6	39.5	29.8
P / BV (x)	17.0	13.6	8.0	7.0	6.0
RoE (%)	28.0	18.6	15.0	13.7	15.5
RoCE (%)	15.5	13.4	11.9	11.4	13.4
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.4	-0.4	-0.4	-0.5	-0.5

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price (12-mth): Rs.1,700

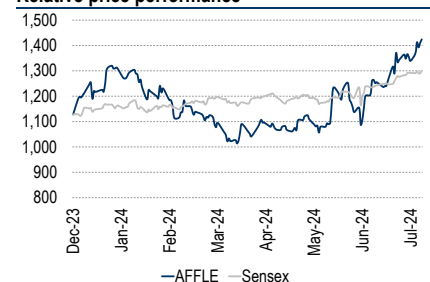
Share Price: Rs.1,424

Key data	AFFLE IN / AFFL.BO
52-week high / low	Rs1465 / 988
Sensex / Nifty	80519 / 24502
3-m average volume	\$9.2m
Market cap	Rs200bn / \$2390.4m
Shares outstanding	140m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	55.1	56.9	56.9
- of which, Pledged	-	-	-
Free float	44.9	43.1	43.1
- Foreign institutions	15.3	17.5	17.1
- Domestic institutions	16.2	14.7	14.7
- Public	13.4	10.9	11.3

Estimates revision (%)	FY25e	FY26e
Revenue	2.1	4.3
EBITDA	5..0	9.8
PAT	(0.6)	4.2

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	10,817	14,340	18,428	23,042	28,848
Growth (%)	109.3	32.6	28.5	25.0	25.2
User conversions (m)	195	257	313	385	473
Direct costs	6,789	8,843	11,254	13,940	17,309
Gross profit	4,027	5,496	7,174	9,101	11,539
Gross margins (%)	37.2	38.3	38.9	39.5	40.0
SG&A	1,896	2,609	3,575	4,309	5,193
EBITDA	2,131	2,888	3,600	4,793	6,347
EBITDA margins (%)	19.7	20.1	19.5	20.8	22.0
Depreciation	-324	-494	-715	-894	-1,120
Other income	717	543	572	572	572
Interest expenses	-71	-114	-189	-189	-189
PBT	2,453	2,823	3,268	4,282	5,610
Effective tax rates (%)	12.3	12.8	9.0	14.00	14.00
+Associates / (Minorities)	-13	-16	0	0	0
Net income	2,139	2,446	2,973	3,682	4,825
WANS	133.2	133	140	140.1	140.1
FDEPS (Rs)	16.1	18.4	21.9	26.3	34.4

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	2,453	2,823	3,268	4,282	5,610
+ Non-cash items	-16	654	420	511	736
Oper. prof. before WC	2,437	3,476	3,688	4,793	6,347
- Incr. / (decr.) in WC	99	471	721	-165	-207
Others incl. taxes	-278	-403	-345	-599	-785
Operating cash-flow	2,060	2,603	2,623	4,358	5,768
- Capex (tangible + intangible)	725	922	1,156	1,446	1,810
Free cash-flow	1,334	1,681	1,467	2,912	3,958
- Acquisitions	-2,934	-1,001	-3,535	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	5,907	-81	7,412	-0	0
+ Debt raised	281	-451	590	-	-
- Fin investments	-1,900	-52	-1,082	572	572
- Misc. (CFI + CFF)	26	56	95	189	189
Net cash-flow	5,414	411	5,908	3,296	4,342

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

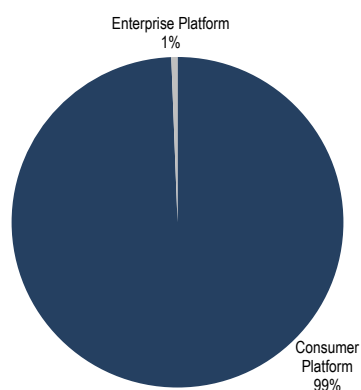
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	267	266	280	280	280
Net worth	11,781	14,651	24,980	28,663	33,488
Debt	1,484	1,031	1,777	1,777	1,777
Deferred tax liability	61	55	103	103	103
Lease & long-term liabilities	1,236	827	592	592	592
Capital employed	14,574	16,584	27,453	31,136	35,961
Net tangible assets	24	31	38	33	28
Net intangible assets	1,226	1,648	2,496	3,052	3,748
Goodwill	6,163	6,640	9,829	9,829	9,829
Right of use assets	2	25	62	62	62
CWIP (tang. & intang.)	-	-	-	-	-
Investments (strategic)	1,346	0	373	373	373
Investments (financial)	47	94	174	174	174
Current assets (excl. cash)	3,415	5,212	7,493	8,288	9,288
Cash	6,046	6,457	12,365	15,661	20,003
Current liabilities	3,695	3,523	5,377	6,336	7,543
Working capital	-280	1,689	2,116	1,952	1,745
Capital deployed	14,574	16,584	27,453	31,136	35,961

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	93.4	81.7	67.2	54.3	41.4
EV / EBITDA (x)	88.8	65.5	52.6	39.5	29.8
EV / Sales (x)	17.5	13.2	10.3	8.2	6.6
P/B (x)	17.0	13.6	8.0	7.0	6.0
RoE (%)	28.0	18.6	15.0	13.7	15.5
RoCE (%) - after tax	15.5	13.4	11.9	11.4	13.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.4	-0.4	-0.4	-0.5	-0.5
Receivables (days)	79	62	63	63	63
Inventory (days)	-	-	-	-	-
Payables (days)	86	64	76	76	76
CFO: PAT (%)	96	106	88	118	120

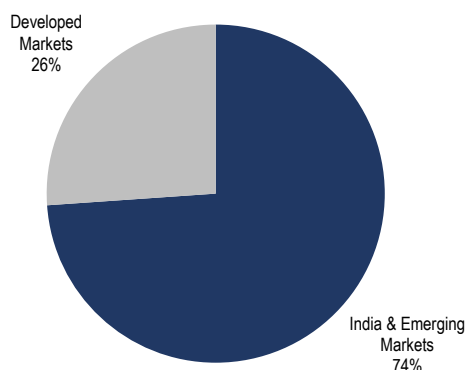
Source: Company, Anand Rathi Research

Fig 6 – Revenue contribution, FY24



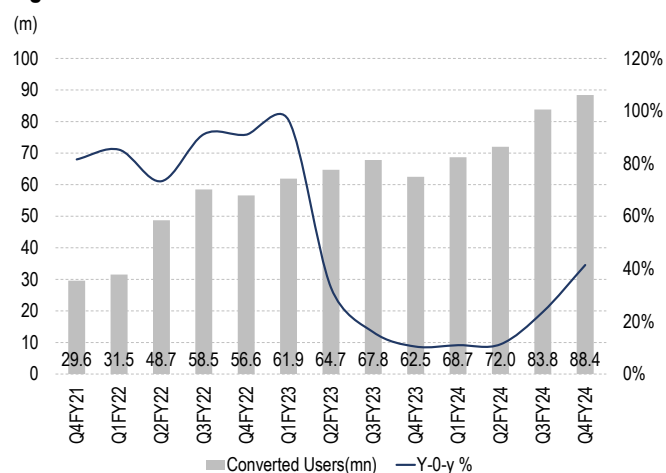
Source: Company

Fig 7 – Revenue bifurcation, FY24 (%)*



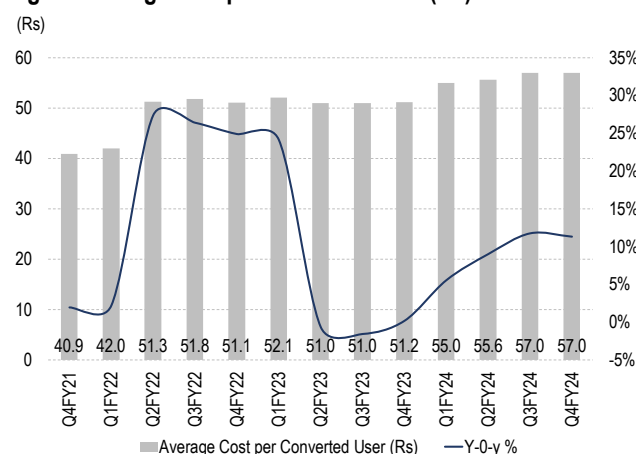
Source: Company, Anand Rathi Research * Reporting of revenue changed from India vs. International to India & emerging markets vs. developed markets

Fig 8 – CPCU business



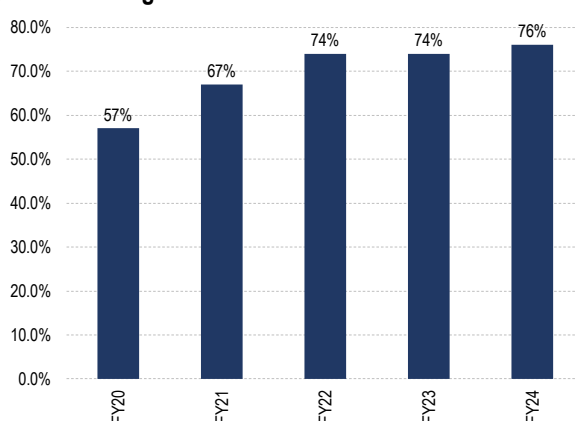
Source: Company, Anand Rathi Research

Fig 9 – Average cost per converted user (Rs)



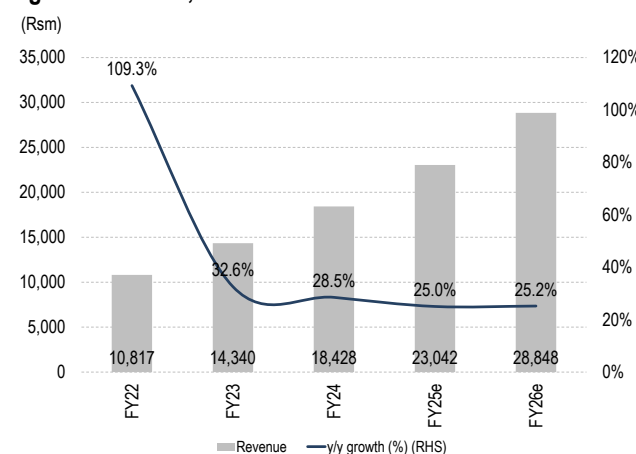
Source: Company, Anand Rathi Research

Fig 10 – Direct customer growth powered primarily by the E, F, G and H categories



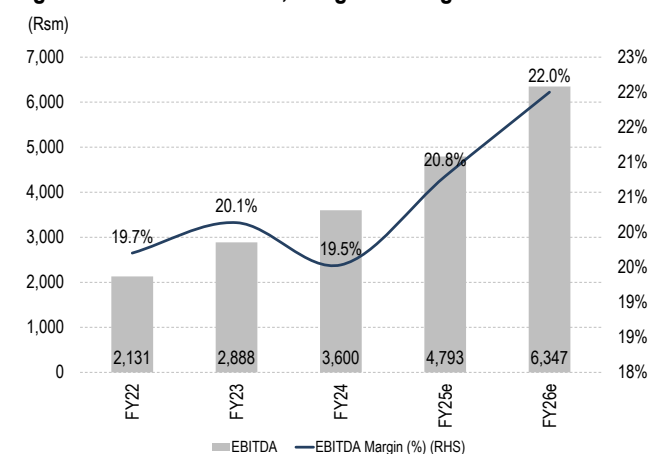
Source: Company, Anand Rathi Research

Fig 11 – Revenue, Growth



Source: Company, Anand Rathi Research

Fig 12 – Absolute EBITDA, margins during FY22-26



Source: Company, Anand Rathi Research

Valuation

Factoring in a turnaround in developed markets, growth in all verticals, the focus on premium and integrated offerings and continued investment in growth, we raise our FY26e earnings ~4.3% and upgrade our rating on the stock to a Buy with a DCF-based higher 12-mth TP of Rs1,700 (earlier Rs1,350), assuming a 12% WACC and a 6% terminal growth rate, at an implied PE of 49.5x FY26e EPS (from earlier 41x FY26e EPS)

Fig 13 – Change in estimates

(Rs m)	FY25			FY26		
	New	Old	% change	New	Old	% change
Revenues	23,042	22,558	2.1	28,848	27,650	4.3
EBITDA	4,793	4,564	5.0	6,347	5,779	9.8
EBITDA margins %	20.8	20.2	57 bps	22.0	20.9	110 bps
EBIT	3,898	3,688	5.7	5,227	4,706	11.1
EBIT margins %	16.9	16.3	57 bps	18.1	17.0	110 bps
PBT	4,282	4,072	5.1	5,610	5,089	10.2
Net profit	3,682	3,705	(0.6)	4,825	4,631	4.2

Source: Company, Anand Rathi Research

Fig 14 – SD chart



Source: Bloomberg, Anand Rathi Research

Key risks

- Regulatory, legislative or self-regulatory changes in data protection and privacy policy could affect the business.
- Reduced marketing spends by customers or drying up of funding for start-ups.

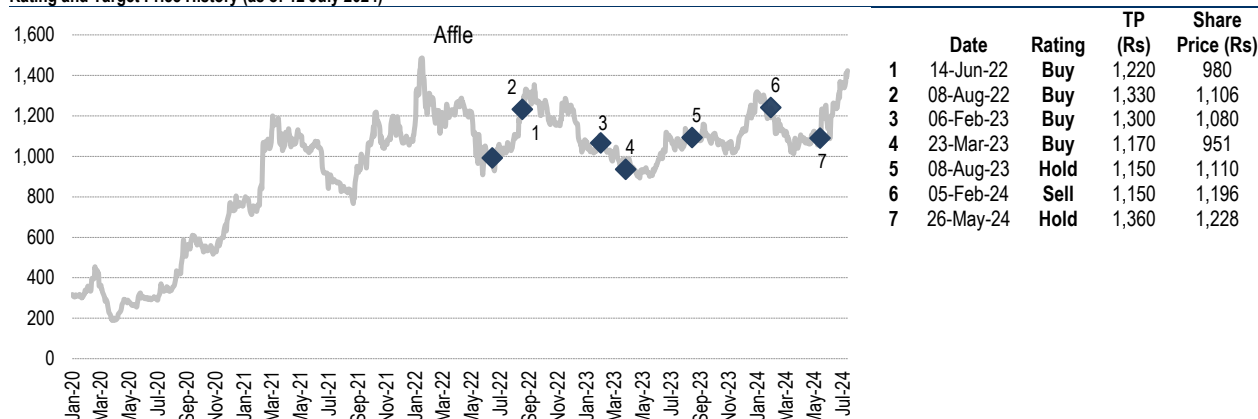
Appendix

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