



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 | ✗ | ↔ | ✗ |

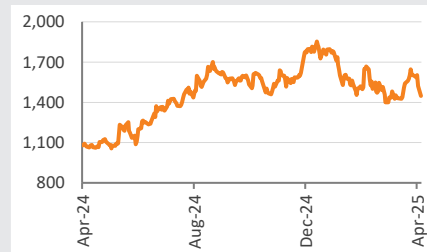
Company details

| | |
|-------------------------------|-------------------|
| Market cap: | Rs. 20,508 cr |
| 52-week high/low: | Rs. 1,883 / 1,010 |
| NSE volume: (No of shares) | 3.5 lakh |
| BSE code: | 542752 |
| NSE code: | AFFLE |
| Free float: (No of shares) | 6.3 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 55.0 |
| FII | 16.5 |
| DII | 14.6 |
| Others | 13.9 |

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|-------|------|------|
| Absolute | -1.4 | -13.2 | -4.2 | 35.0 |
| Relative to Sensex | -1.3 | -8.1 | 4.9 | 35.7 |

Source: Mirae Asset Sharekhan Research, Bloomberg

Affle (India) Ltd

Leveraging AI for the next phase of growth

Internet & new media

Sharekhan code: AFFLE

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,460

Price Target: Rs. 1,880

Summary

- We reiterate Buy with an unchanged PT of Rs. 1,880 (valued at 45x FY27E EPS). At CMP, the stock trades at 53.7/44/34.8x FY25/26/27E EPS.
- Optics AI to enhance Affle's 3i consumer platform by delivering highly personalised, hyper contextual, and hyper localised creatives, thereby optimising user experience.
- Management plans to expand its customer base significantly through connected TVs (CTVs) using CTV AI, which would leverage personalisation, localisation, and measurability to drive conversions.
- The company has trained 100 AI agents who would work in an interoperable and integrated way with 600 plus Affle employees to enhance productivity and contribute to authentic intelligence.

We attended Affle's 3i Summit where its management highlighted its plan to be future ready with 10x growth vision and plan. The company highlighted that it has grown over 10x since 2018 and aims to achieve 10x growth through its credible vision and plan. Management has introduced three key initiatives (3i): focusing on innovation with consumers as stakeholders, creating impact within the advertising ecosystem, and enhancing intelligence across its operations through trained AI agents complementing Affle's employees. Management showcased Optics AI, which will optimise the Affle 3i consumer platform by delivering highly personalised, contextual, and localised creatives. The company also showcased CTV AI, which is designed to help millions of small and medium businesses advertise effectively, driving the company's next growth phase. These innovations are expected to expand Affle's customer base by 1000x, targeting over one million advertisers this decade. Additionally, Affle has trained 100 AI agents to work seamlessly with its 600+ employees, boosting productivity and authentic intelligence. A large addressable market along with increasing adoption of Connected TV (CTV), mobile commerce, and heightened focus on privacy compliance positions the company at forefront of the fast-changing AdTech ecosystem and is expected to drive the next leg of growth. We reiterate Buy with an unchanged price target (PT) of Rs. 1,880. At CMP, the stock trades at 53.7/44/34.8x FY25/26/27E EPS.

- Consumer-centric focus:** The company showcased Optics AI, which will enhance Affle's 3i consumer platform by delivering highly personalised, hyper contextual, and hyper localised creatives for an optimised user experience across different formats. Advertisers can leverage the power of Optics AI to make the creatives more impactful, thereby driving conversions. The company can currently generate a billion creatives supported on Optics AI.
- Redefining audience space:** The company aims to magnify its customer base through TV since the medium is undergoing a massive shift due to streaming of internet on connected TVs. India has over 15 million connected TV homes out of 200 million total TV homes, whereas in the U.S., CTV users double traditional TV households. Management believes India and emerging markets are likely to take the same path. This is likely to drive personalisation, localisation, and measurability similar to what has been seen in internet advertising, thereby enabling the company to deliver measurable conversions to their advertisers. The company believes CTV AI and the large addressable market of CTVs will aid in propelling the next phase of growth for the company. In India, out of ~60 million small and medium enterprises only a small part advertises on digital media and far lesser advertises on TV. The company aims to redefine audience space using CTV AI driving measurable conversions.
- Augmenting intelligence through AI agents:** The company has trained 100 AI agents who would work in an interoperable and integrated way with 600 plus Affle employees to enhance productivity and contribute to authentic intelligence. The company aspires to increase the headcount to 1,000 from current 600 plus in its vision for 10x growth, backed by at least 1,000 AI agents by the end of this decade or sooner. Management believes the authentic intelligence is likely to be raised significantly due to the assistance from interoperable integrated AI agents across the company's departments.

Our Call

Valuation - Maintain BUY with an unchanged PT of Rs. 1,880: The company is on a strong growth trajectory as industry tailwinds remain intact. Management believes the addressable market for digital advertising through connected TVs is very significant. The company has outlined three key AI initiatives to make them future ready and drive the 10x growth vision. A large addressable market along with increasing adoption of CTV, mobile commerce, and heightened focus on privacy compliance positions the company at the forefront of the fast-changing AdTech ecosystem and is expected to drive the next leg of growth. We expect a sales/PAT CAGR of 23%/21%, respectively, over FY24-FY27E. We maintain Buy with an unchanged price target (PT) of Rs. 1,880, (valued at 45x FY27E EPS). At CMP, the stock trades at 53.7/44/34.8x FY25/26/27E 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 (Consolidated)

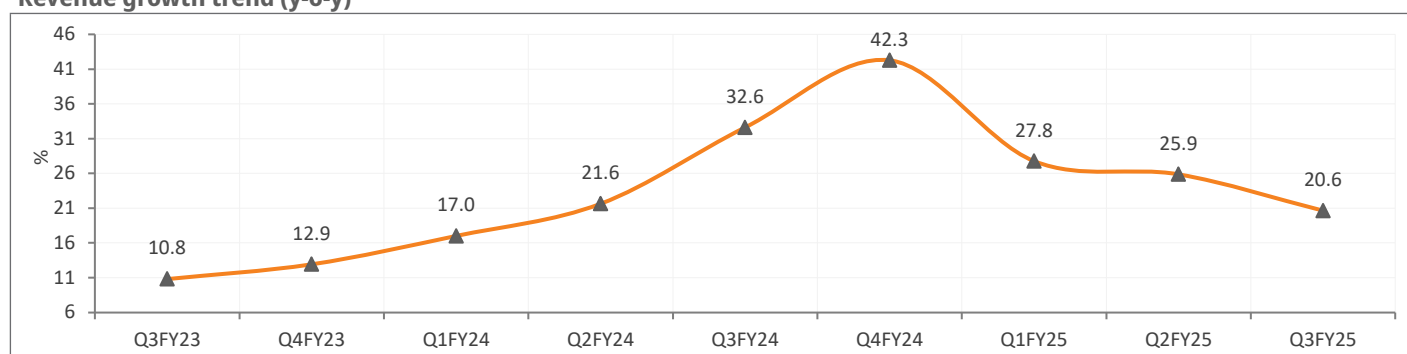
| Particulars | FY24 | FY25E | FY26E | Rs cr FY27E |
|---------------------|---------|---------|---------|----------------|
| Revenue | 1,842.8 | 2,273.7 | 2,790.2 | 3,443.8 |
| OPM (%) | 19.5 | 21.1 | 21.4 | 22.2 |
| Adjusted Net Profit | 334.2 | 381.0 | 465.0 | 587.2 |
| YoY growth (%) | 35.7 | 14.0 | 22.0 | 26.3 |
| EPS (Rs.) | 24.6 | 27.1 | 33.1 | 41.8 |
| PER (x) | 61.2 | 53.7 | 44.0 | 34.8 |
| P/BV (x) | 8.2 | 7.1 | 6.1 | 5.2 |
| EV/EBITDA | 53.8 | 39.8 | 31.3 | 23.7 |
| ROE (%) | 13.4 | 13.2 | 13.9 | 14.9 |
| ROCE (%) | 14.9 | 11.6 | 12.6 | 13.9 |

Source: Company; Mirae Asset Sharekhan estimates

Key Takeaways

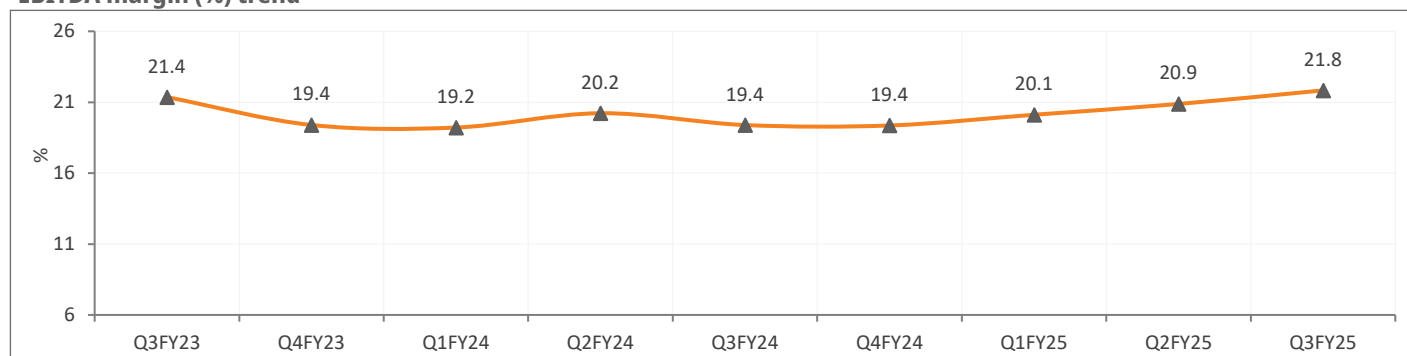
- Affle has grown more than 10x since 2018 and, thus, has the credibility to back up its vision and plan, which outlines its aspiration to grow 10x in the decade ahead.
- The company shared three key initiatives (3i) with the first being focus on innovation, which will involve focus on consumers as stakeholders. The second focus for the company will be creating impact on advertisers and advertising ecosystem with an aim to grow the addressable market and propel the next phase of growth.
- The third initiative will be intelligence, aiming to augment intelligence with AI agents.
- The company showcased Optics AI, which will enhance Affle's consumer platform by delivering highly personalised, hyper contextual, and hyper localised creatives for an optimised user experience across different formats.
- The company also showcased CTV AI, which aims to transform and scale millions of small and medium businesses to advertise effectively.
- The company believes that through innovations like Optics AI and CTV AI, it will be able to magnify its customer base by 1000x in this decade to reach 1million plus advertisers.
- The company has trained 100 AI agents who would work in an interoperable and integrated way with 600 plus Affle's employees to enhance productivity and contribute to authentic intelligence.

Revenue growth trend (y-o-y)



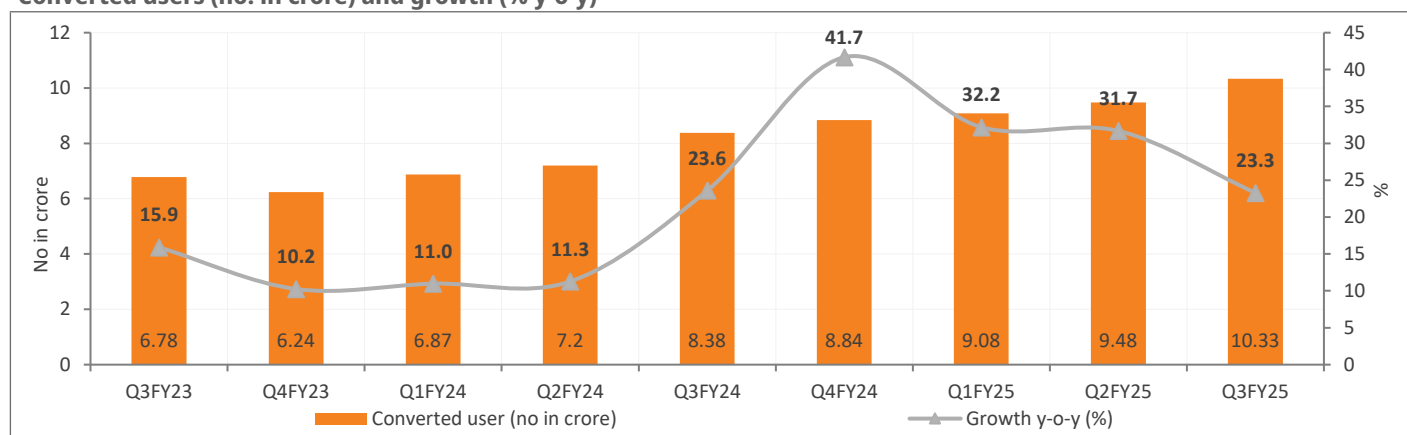
Source: Company; Mirae Asset Sharekhan Research

EBITDA margin (%) trend



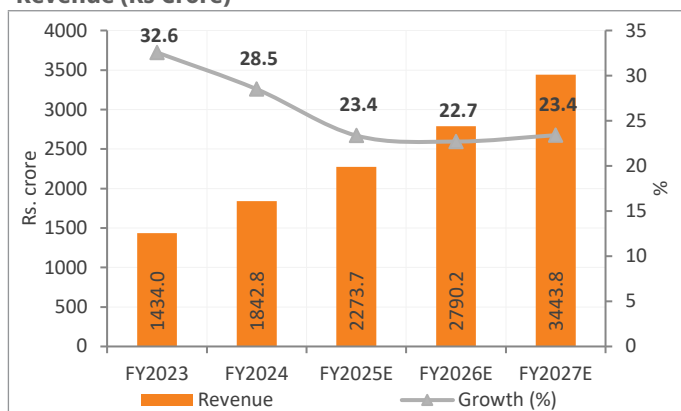
Source: Company; Mirae Asset Sharekhan Research

Converted users (no. in crore) and growth (% y-o-y)

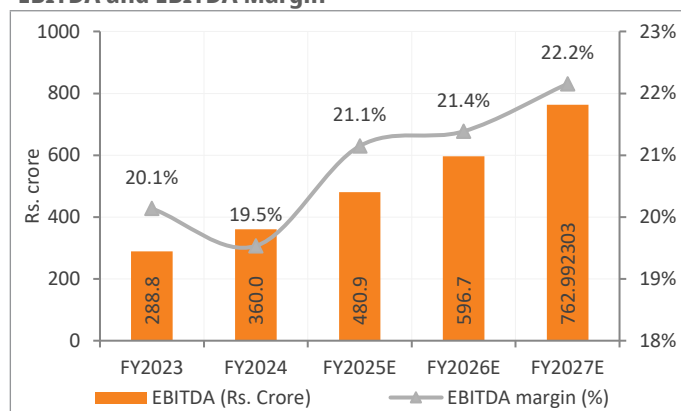


Source: Company; Mirae Asset Sharekhan Research

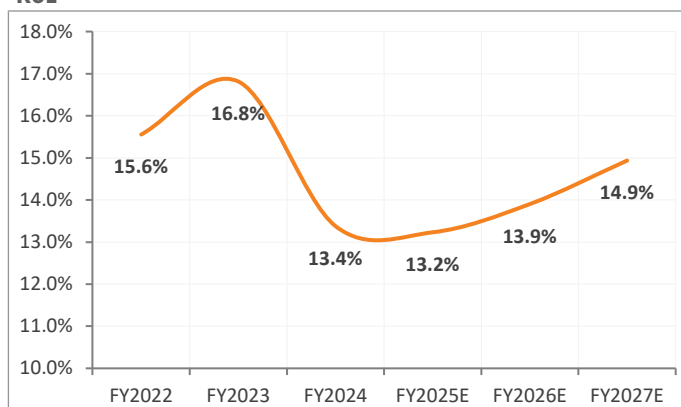
Financials in charts

Revenue (Rs Crore)


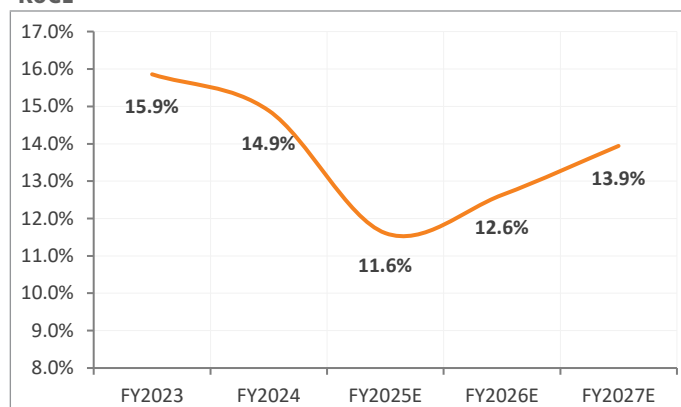
Source: Company; Mirae Asset Sharekhan Research

EBITDA and EBITDA Margin


Source: Company; Mirae Asset Sharekhan Research

RoE


Source: Company; Mirae Asset Sharekhan Research

RoCE


Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector View – Expect strong growth in mobile ad revenue to continue

Digital advertising spends are expected to report a 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 SEA 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. 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 enter into new geographies.

■ Valuation – Maintain BUY with an unchanged PT of Rs. 1,880

The company is on a strong growth trajectory as industry tailwinds remain intact. Management believes the addressable market for digital advertising through connected TVs is very significant. The company has outlined three key AI initiatives to make them future ready and drive the 10x growth vision. A large addressable market along with increasing adoption of CTV, mobile commerce, and heightened focus on privacy compliance positions the company at the forefront of the fast-changing AdTech ecosystem and is expected to drive the next leg of growth. We expect a sales/PAT CAGR of 23%/21%, respectively, over FY24-FY27E. We maintain Buy with an unchanged price target (PT) of Rs. 1,880, (valued at 45x FY27E EPS). At CMP, the stock trades at 53.7/44/34.8x FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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 an increased share of digital ad spending 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 a large tech player in this space; and (3) inability to generate actionable outcomes for targeted advertisers.

Additional Data

Key management personnel

| Name | Designation |
|-------------------|--|
| Anuj Khanna Sohum | Founder, Chairman, and CEO |
| Anuj Kumar | Co-founder, Chief Revenue and Operating Officer |
| Kapil Bhutani | Chief Financial and Operations Officer |
| Mei Theng Leong | Chief Finance and Commercial Officer – International |
| Vipul Kedia | Chief Data and Platforms Officer |

Source: Company Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|------------------------------------|-------------|
| 1 | Gamnat Pte Ltd | 4.91 |
| 2 | ICICI Prudential Asset Management | 3.23 |
| 3 | Nippon Life India Asset Management | 3.17 |
| 4 | MALABAR INDIA FUND LTD | 2.47 |
| 5 | Franklin Resources Inc | 2.17 |
| 6 | Vanguard Group Inc/The | 1.6 |
| 7 | ICICI Prudential Life Insurance Co | 1.57 |
| 8 | Sundaram Asset Management Co Ltd | 1.55 |
| 9 | Monetary Authority Of Singapore/Ne | 1.15 |
| 10 | Axis Asset Management Co Ltd/India | 0.94 |

Source: Bloomberg

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Understanding the Mirae Asset 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 deteriorating 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: Mirae Asset Sharekhan Research

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