

December 14, 2021

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,496		1,496	
Sales (Rs. m)	14,603	19,811	14,603	19,811
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,072	4,415	3,072	4,415
% Chng.	-	-	-	-
EPS (Rs.)	16.2	23.6	16.2	23.6
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. mn)	5,169	10,284	14,603	19,811
EBITDA (Rs. mn)	1,300	2,029	3,072	4,415
Margin (%)	25.1	19.7	21.0	22.3
PAT (Rs. mn)	1,351	1,677	2,155	3,149
EPS (Rs.)	10.6	12.6	16.2	23.6
Gr. (%)	106.2	18.8	28.6	46.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	45.9	37.8	33.9	35.0
RoCE (%)	28.7	31.0	35.5	37.9
EV/Sales (x)	26.7	14.0	9.9	7.2
EV/EBITDA (x)	106.2	71.2	46.9	32.4
PE (x)	101.8	85.7	66.7	45.6
P/BV (x)	38.3	27.2	19.3	13.6

Key Data

AFFL.BO | AFFLE IN

52-W High / Low	Rs.1,260 / Rs.695
Sensex / Nifty	58,283 / 17,368
Market Cap	Rs.144bn/ \$ 1,896m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.487.23m

Shareholding Pattern (%)

Promoter's	59.89
Foreign	18.25
Domestic Institution	7.28
Public & Others	14.86
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.7)	3.1	47.3
Relative	(3.9)	(7.2)	16.5

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Affle (India) (AFFLE IN)

Rating: BUY | CMP: Rs1,078 | TP: Rs1,496

Full Steam Ahead, All set for accelerated growth!

Quick Pointers:

- Affle's innovation led tech DNA empowers it to navigate through changes in dynamic digital advertising industry
- Jampp's early adoption of SKAN technology for iOS increased conversion rates by 10X (since June 2021)

We attended virtual Investor Day of Affle where management highlighted their technology strengths and their Affle 2.0 strategy. Affle's higher than industry 4Y-Revenue/EBITDA CAGR of 45.7%/41.9% in challenging emerging markets with low unit economics and low online shopper penetration is result of its strong consumer technology platform powered by billions of data points and sophisticated machine learning and AI algorithms. Affle aims to reach 10Bn+ connected devices (vs current 2.4 Bn devices) over next decade through its 2.0 strategy anchored on ecosystem level partnership, vernacular focus and verticalization.

Affle's focus on developing innovative technologies – 1) multiple vernacular language detection, 2) household sync technology, 3) gesture-based, voice-intelligence driven interactions within the live streams such as podcasts, 4) block-chain based technology IP for ad-fraud detection etc. positions it well to navigate changes in dynamic digital advertising industry. Affle thrived post implementation of stringent data privacy policy by iOS by being early adopter of SKAN technology and achieved impressive growth (+10X) in conversion rates.

Our DCF based TP is INR 1496 (implied earnings multiple of 63.3x on FY24EPS). Affle having strong 37% EPS CAGR over FY22-24E is trading at 1.8x/1.2x on FY23/24 PEG, ~50-60% discount to IndiaMART (3.5x/3x on FY23/24 PEG) and Info Edge 3.8x/3.0x on FY23/24 PEG). In terms of P/E it is trading at 66.7x/45.6x on FY23/24 EPS of 16/24 with revenue/EPS CAGR of 39%/37% over FY22-24E.

- Affle 2.0 strategy to reach 10Bn connected devices:** Affle 2.0 strategy aims to reach 10Bn+ (vs current 2.4 Bn) connected devices including mobile smart phones, connected TV, smart wearables etc. to enable integrated omni-channel online and offline consumer journeys. This strategy is anchored on 1) **OEM partnership** – Affle has integrations with most of the top 10 OEMs and across ecosystem players like Bobble AI keyboard app, 2) **Vernacular** – target users in their preferred language with ability to detect mixed vernacular language affinity (e.g.: Hindi + English) and 3) **Verticalization** – deeper integration within consumer internet focused verticals
- Strong macro drivers in place** – 1) Digital Ad Market in emerging countries like India to grow at 25-30% CAGR vs global trend of 9% CAGR. Other emerging markets like SEA & LATAM are also expected to exceed global trends. 2) Smartphone penetration still at 32% in India, 51% in Brazil & 59% in Indonesia vs 80% in US/UK. 3) rapid digitization of existing with emergence of

Affle's deep domain vertical capabilities has led to continued growth in contribution from direct customers, 74% revenue in H1FY22 vs 67% in FY21. Revenue contribution from E, F, G, H categories remains at 90%

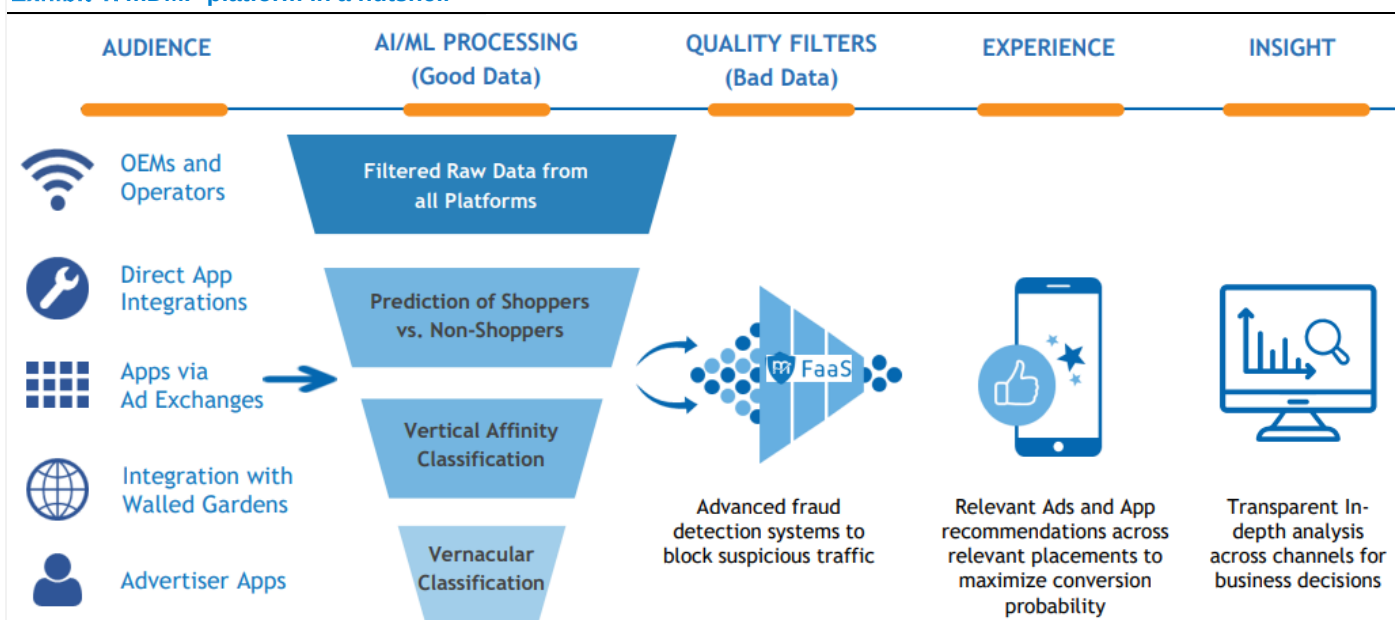
Affle has won 7 campaign awards for powering high ROI innovative campaigns of top advertisers and agencies including Discovery+, Fossil, GroupM, Merkle Sokrati, MX Takatak and Swiggy.

new internet based businesses (over 40+ unicorns emerged in 2021), 4) Rapid growth of online commerce (globally online commerce will contribute 22% of all commerce by 2024)

- **Cutting Edge technology platform:** Heart of Affle's consumer platform is the mDMP (Data monetization platform) which works on sophisticated multi-layered machine learning / AI based intelligence framework (Exhibit 2) powered by billions of data points per day across channels. Affle has been able to drive higher profitability than peers in challenging Indian market with low unit economics (CPCU pricing 1/5th of that in developed markets) and only 20% online shoppers out of 600mn online users led by superior data science capabilities of mDMP platform.
- **Innovation led tech DNA:** Affle is consistently innovating and preparing ahead of the industry as reflected by strong patent portfolio (6 patents granted in US and 14 filed in US, India and/or Singapore). In last two months, Affle received 3 US Patents Grants- 1) One is related to gesture-based, voice-intelligence driven interactions within the live streams such as podcasts and 2) Other two belong to block-chain based technology IP for fraud detection. Affle's innovative ability to detect multiple vernacular affinity will enable it show adds to users in combination of multiple languages.
- **Affle thrived post implementation of stringent iOS privacy policy:** Jampp has North America as the key market which has 50% penetration of iOS devices. Post implementation of stringent data privacy rules, Jampp was among the early movers in adopting SKAN (SKAdNetwork is a privacy centric API operated by Apple which helps measure ad activity on an aggregated level). As most of the advertisers and developers were still unprepared to face the new changes, Jampp created their own app Birthday Buzzer's to test SKAN. Using this technology Jampp drove 41%/50% more efficient conversions in SKAN campaigns vs Android/IDFA-only respectively for its client Fetch.
- **Innovative household sync technology driving conversions:** Affle's innovative household sync technologies allows to retarget users, who saw ad on CTV, on any other connected device within the household, within a certain timeframe after they have seen the ad on the big screen. Affle's Connected TV advertising coupled with Household Sync technology drove significant conversions for Discovery+ in India over last several months.
- **Appnext's** patented app recommendation 'Timeline' Technology monitors mobile user's daily journey on the device and turns behavioral data into app recommendations by predicting the type of app users are likely to use next. Appnext has access to 8 touch points on mobile devices which enables Affle to place adds on the OEM lock screen, minus one screen, app folders without accessing apps and mobile keyboards.
- **Affle has delivered significant increase in user conversions and successful ad-campaigns for clients such as Swiggy, Fossil, Discovery+, Policy Bazar, Games 24x7, FiBank, Selly, Mr.D (African food delivery company), Super Daily, ShareChat, CCC (Central Europe's largest footwear), MX Player etc.**

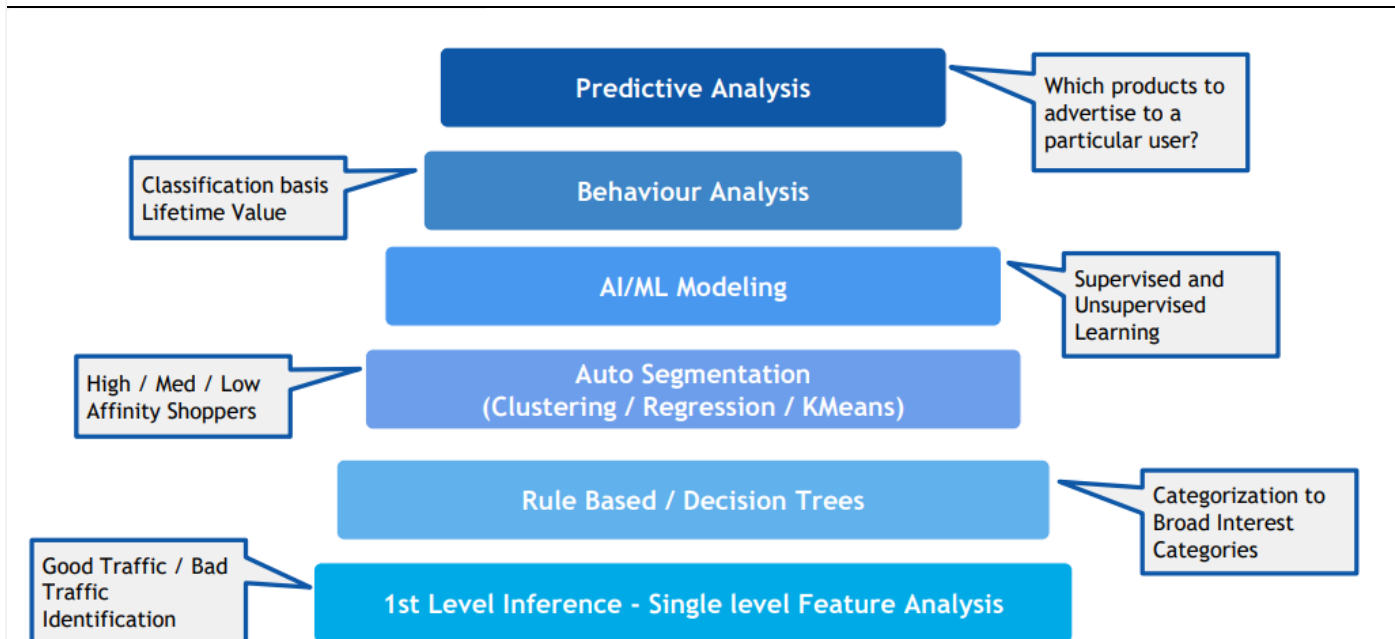
- **Privacy and data security by design:** Affle has been abiding to stringent data-privacy regulations set by Singapore Government and some of the European standards. Affle is amongst the few companies that have been accredited for its entire tech stack by Infocomm Media Development Authority of Singapore (IMDA) under the SG:D. It also appoints external auditors such as Grant Thompson, Privasec etc. for data privacy audits.
- Affle has strong management team with majority (>75%) of key management team members being Entrepreneurs in the advertising/technology field. Four key management members (Mr. Anuj Khanna Sohum, CEO, Mr. Anuj Kumar, Chief Revenue and Operating Officer, Mr. Charles Yong, Chief Architect and Technology Officer and Mr. Vipul Kedia, Chief Data and Platforms Officer) have been with firm since inception.

Exhibit 1: mDMP platform in a nutshell



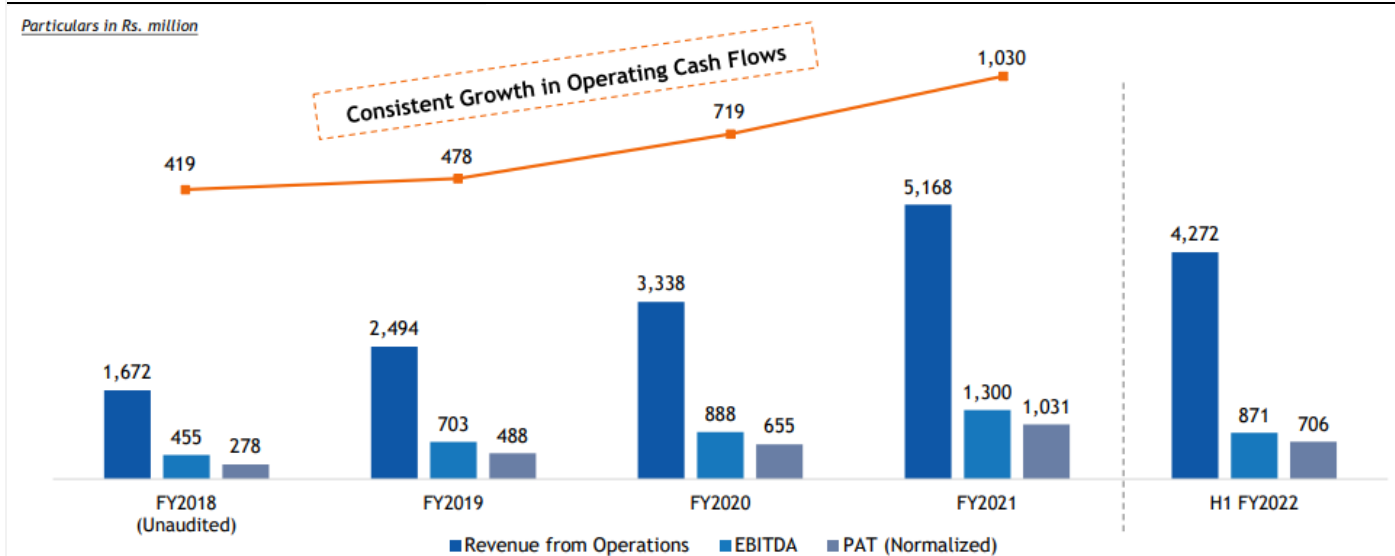
Source: Company, PL

Exhibit 2: Sophisticated multi-layered intelligence framework



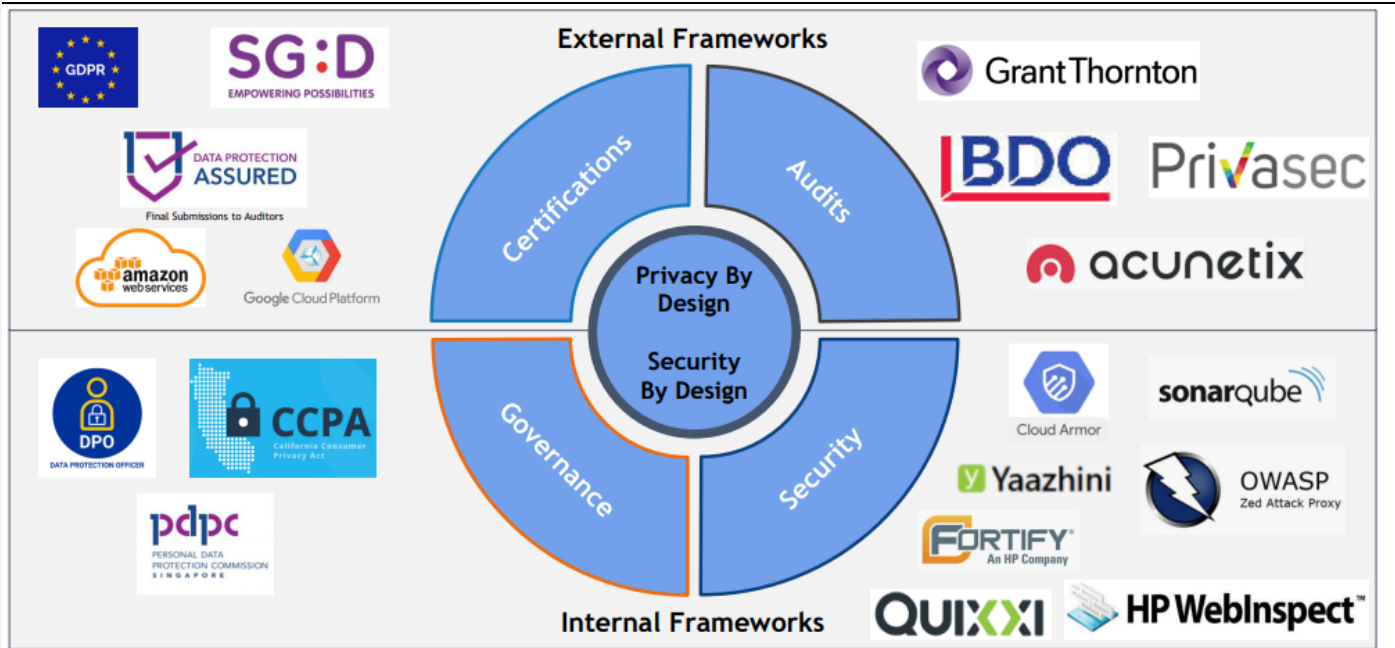
Source: Company, PL

Exhibit 3: 4-Year Revenue CAGR of 45.7%, EBITDA CAGR of 41.9% and PAT CAGR of 54.7%



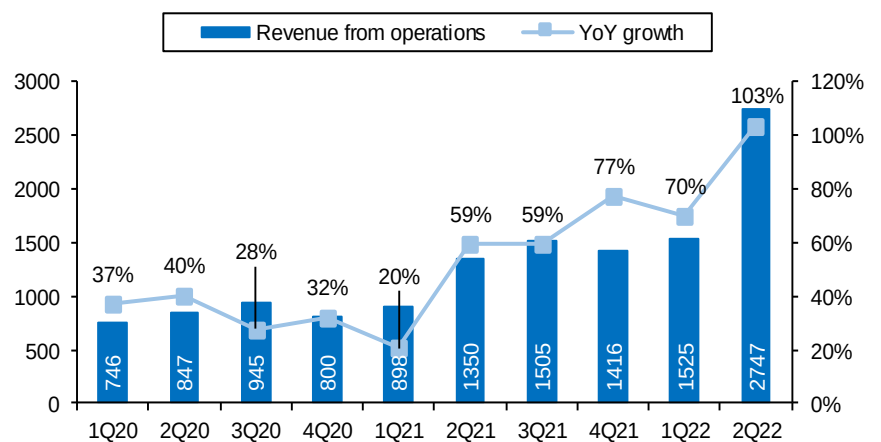
Source: Company, PL

Exhibit 4: Data Privacy and Security by design



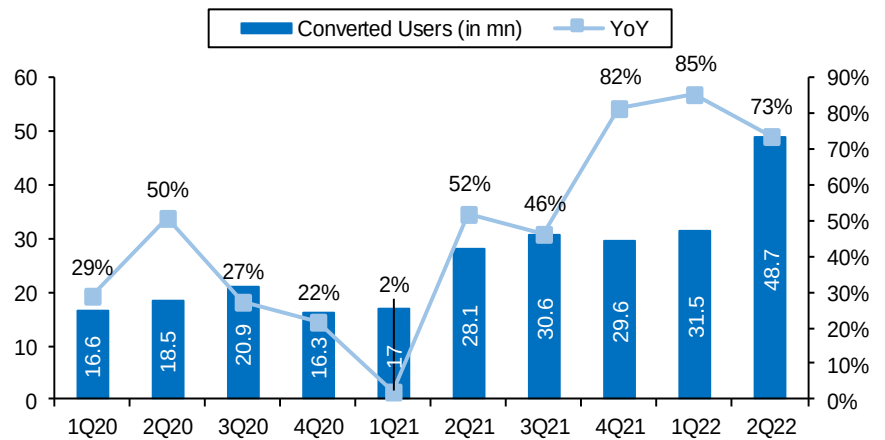
Source: Company, PL

Exhibit 5: Strong revenue growth in 2QFY22 aided by addition of revenue from Jampp acquisition



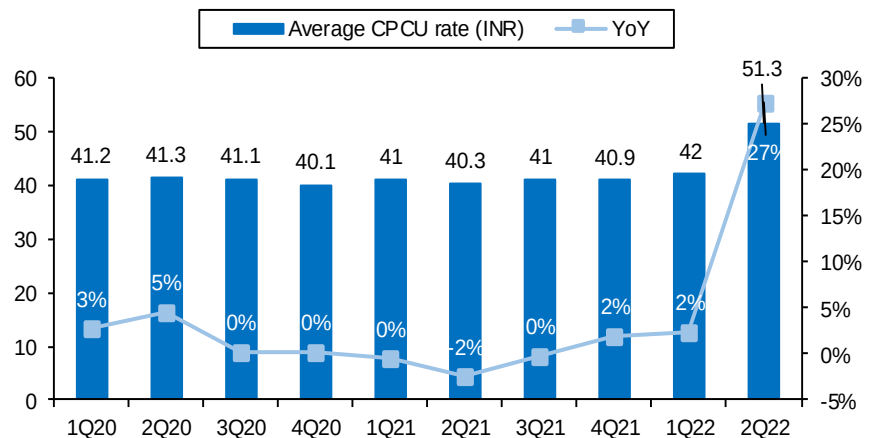
Source: Company, PL

Exhibit 6: Converted users jumped 73% YoY led by both organic CPCU business and Jampp



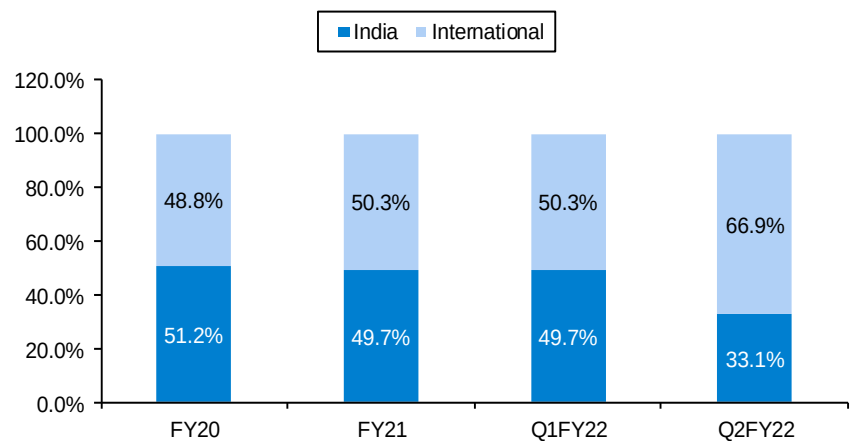
Source: Company, PL

Exhibit 7: CPCU rate jumped up 27% YoY due to shift of revenue mix in favor of international markets led by addition of Jampp



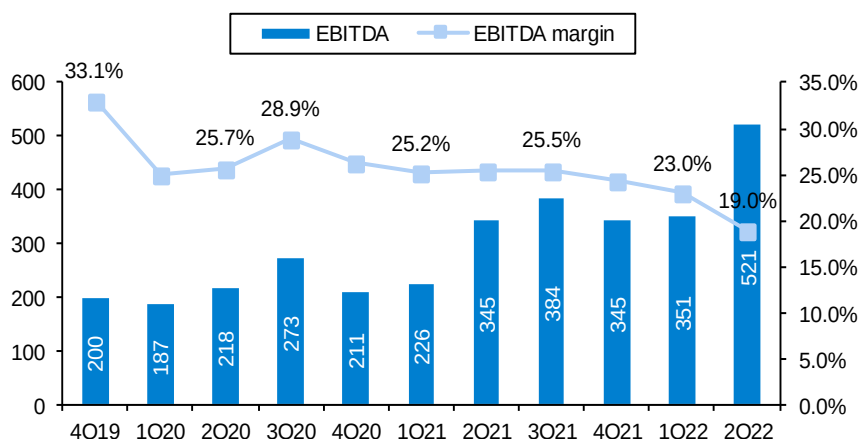
Source: Company, PL

Exhibit 8: Revenue mix shifting towards International geography



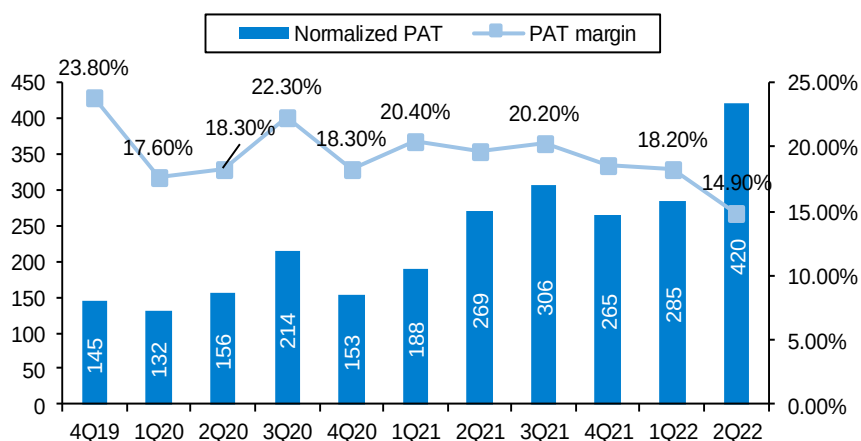
Source: Company, PL,

Exhibit 9: Dip in EBITDA margin because of lower profitability of Jampp



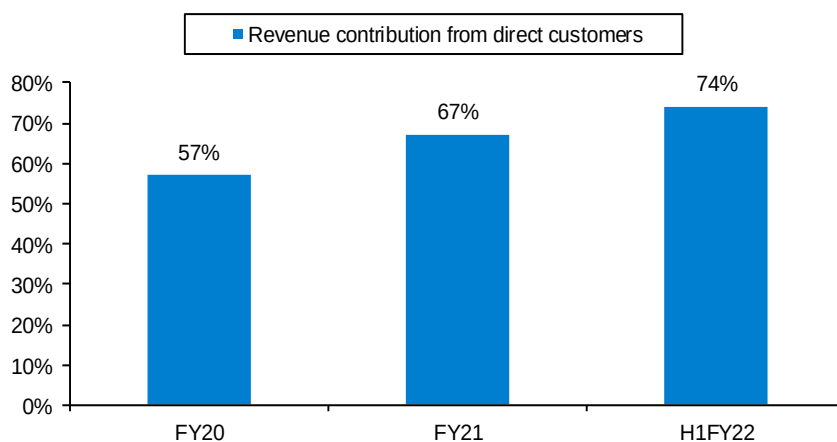
Source: Company, PL

Exhibit 10: Dip in PAT margin because of lower profitability of Jampp

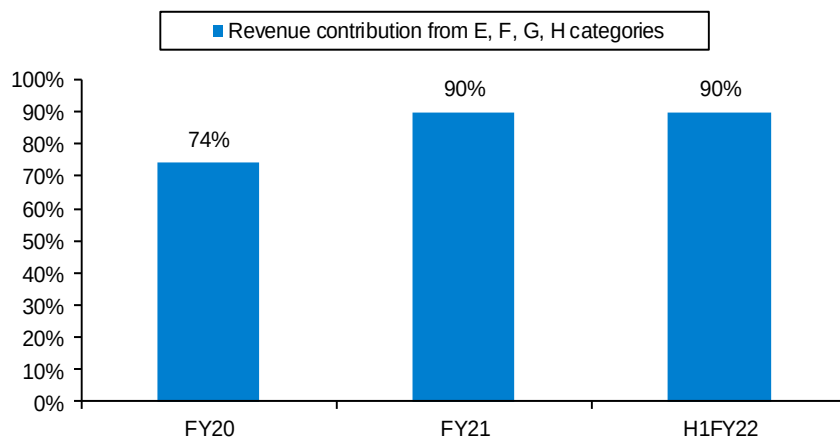


Source: Company, PL

Exhibit 11: Consistent improvement in direct customer revenue share



Source: Company, PL

Exhibit 12: Revenue contribution from key verticals remains at ~90%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	5,169	10,284	14,603	19,811
YoY gr. (%)	54.9	99.0	42.0	35.7
Employee Cost	2,977	6,412	8,975	11,929
Gross Profit	2,192	3,872	5,628	7,882
Margin (%)	42.4	37.6	38.5	39.8
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,300	2,029	3,072	4,415
YoY gr. (%)	46.2	56.0	51.5	43.7
Margin (%)	25.1	19.7	21.0	22.3
Depreciation and Amortization	197	295	418	604
EBIT	1,103	1,734	2,654	3,811
Margin (%)	21.3	16.9	18.2	19.2
Net Interest	37	80	179	169
Other Income	415	337	70	72
Profit Before Tax	1,482	1,991	2,545	3,714
Margin (%)	28.7	19.4	17.4	18.7
Total Tax	129	306	382	557
Effective tax rate (%)	8.7	15.4	15.0	15.0
Profit after tax	1,353	1,684	2,164	3,157
Minority interest	2	8	8	8
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,351	1,677	2,155	3,149
YoY gr. (%)	106.2	24.1	28.6	46.1
Margin (%)	26.1	16.3	14.8	15.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,351	1,677	2,155	3,149
YoY gr. (%)	106.2	24.1	28.6	46.1
Margin (%)	26.1	16.3	14.8	15.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,351	1,677	2,155	3,149
Equity Shares O/s (m)	127	133	133	133
EPS (Rs)	10.6	12.6	16.2	23.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	860	1,391	2,118	2,862
Tangibles	32	56	82	109
Intangibles	828	1,336	2,035	2,752
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	860	1,391	2,118	2,862
Tangibles	32	56	82	109
Intangibles	828	1,336	2,035	2,752
Capital Work In Progress	-	-	-	-
Goodwill	3,149	4,486	5,581	6,869
Non-Current Investments	1,000	1,000	1,000	1,000
Net Deferred tax assets	(5)	(5)	(5)	(5)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,079	2,198	3,201	4,342
Cash & Bank Balance	632	489	588	1,503
Other Current Assets	69	80	80	80
Total Assets	7,526	10,380	13,304	17,391
Equity				
Equity Share Capital	255	267	267	267
Other Equity	3,337	5,013	7,169	10,317
Total Network	3,592	5,280	7,435	10,584
Non-Current Liabilities				
Long Term borrowings	893	893	843	793
Provisions	16	16	16	16
Other non current liabilities	7	7	7	7
Current Liabilities				
ST Debt / Current of LT Debt	275	255	235	215
Trade payables	1,260	2,596	3,685	4,943
Other current liabilities	401	351	301	251
Total Equity & Liabilities	7,526	10,380	13,304	17,391

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,479	1,991	2,545	3,714
Add. Depreciation	196	295	418	604
Add. Interest	25	80	179	169
Less Financial Other Income	415	337	70	72
Add. Other	(393)	(345)	(78)	(80)
Op. profit before WC changes	1,308	2,021	3,064	4,407
Net Changes-WC	(174)	137	16	47
Direct tax	(117)	(306)	(382)	(557)
Net cash from Op. activities	1,016	1,851	2,698	3,896
Capital expenditures	(1,616)	(2,163)	(2,240)	(2,635)
Interest / Dividend Income	27	337	70	72
Others	(159)	-	-	-
Net Cash from Invt. activities	(1,748)	(1,826)	(2,170)	(2,563)
Issue of share cap. / premium	-	-	-	-
Debt changes	567	-	(50)	(50)
Dividend paid	-	-	-	-
Interest paid	(21)	(80)	(179)	(169)
Others	(18)	(88)	(200)	(200)
Net cash from Fin. activities	528	(168)	(429)	(419)
Net change in cash	(204)	(143)	99	914
Free Cash Flow	524	(312)	458	1,261

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.6	12.6	16.2	23.6
CEPS	12.1	14.8	19.3	28.2
BVPS	28.2	39.6	55.8	79.4
FCF	4.1	(2.3)	3.4	9.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	28.7	31.0	35.5	37.9
ROIC	24.4	24.7	28.5	32.1
RoE	45.9	37.8	33.9	35.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	0.0
Debtor (Days)	76	78	80	80
Valuation(x)				
PER	101.8	85.7	66.7	45.6
P/B	38.3	27.2	19.3	13.6
P/CEPS	88.8	72.9	55.8	38.3
EV/EBITDA	106.2	71.2	46.9	32.4
EV/Sales	26.7	14.0	9.9	7.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	1,505	1,416	1,525	2,747
YoY gr. (%)	59.3	77.0	69.8	103.5
Raw Material Expenses	872	812	884	1,755
Gross Profit	633	604	640	992
Margin (%)	42.1	42.7	42.0	36.1
EBITDA	384	345	351	521
YoY gr. (%)	40.6	63.5	55.1	51.0
Margin (%)	25.5	24.4	23.0	19.0
Depreciation / Depletion	51	52	52	81
EBIT	333	293	299	440
Margin (%)	22.1	20.7	19.6	16.0
Net Interest	10	13	14	22
Other Income	14	360	127	151
Profit before Tax	338	640	412	570
Margin (%)	22.5	45.2	27.0	20.7
Total Tax	31	54	53	92
Effective tax rate (%)	9.2	8.4	12.8	16.1
Profit after Tax	307	586	359	478
Minority interest	-	1	2	2
Share Profit from Associates	-	-	-	1
Adjusted PAT	307	585	357	476
YoY gr. (%)	42.6	282.4	88.1	76.8
Margin (%)	20.4	41.3	23.4	17.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	307	585	357	476
YoY gr. (%)	42.6	282.4	88.1	76.8
Margin (%)	20.4	41.3	23.4	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	307	585	357	476
Avg. Shares O/s (m)	25	25	26	27
EPS (Rs)	12.0	23.0	13.7	17.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Nov-21	BUY	1,496	1,169
2	05-Oct-21	BUY	1,411	1,123
3	24-Sep-21	BUY	1,405	1,035

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,496	1,169
2	Coforge	BUY	5,596	5,069
3	Cyient	BUY	1,315	1,160
4	HCL Technologies	BUY	1,386	1,251
5	Infosys	BUY	2,004	1,709
6	L&T Technology Services	BUY	5,621	5,132
7	Larsen & Toubro Infotech	BUY	6,710	6,606
8	Mindtree	BUY	4,804	4,364
9	Mphasis	BUY	3,674	3,396
10	Persistent Systems	BUY	4,641	4,060
11	Redington (India)	BUY	213	145
12	Sonata Software	BUY	994	918
13	Tata Consultancy Services	BUY	4,113	3,936
14	TeamLease Services	Reduce	4,259	4,668
15	Tech Mahindra	BUY	1,862	1,522
16	Wipro	BUY	736	651
17	Zensar Technologies	BUY	539	453

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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