

BUY

TP: Rs 6,200 | ▲ 33%

AFFLE (INDIA)

| Technology & Internet

| 07 September 2021

Annual report analysis: Sustained R&D focus

- Ecosystem-level partnerships fortify AFFLE's defense against data/privacy risk
- Strong R&D focus continues with expansion of the team and increased patent filings in FY21
- Retain BUY with Jun'22 TP of Rs 6,200 given strong digital marketing demand

Ecosystem-level partnerships fortify defense against data/privacy risk: With a strong emphasis on user privacy and data protection, AFFLE processes only appographic (targets users based on their unique app interests), behaviour and intent signals without accessing any personal or financial information of users. The company's 2.0 strategy reinforces ecosystem partnerships and alliances with mobile OEMs, operators and publishers to enable exclusive access to on-device touch points. This adds to its defense against privacy/data concerns and strengthens primary data access.

Moreover, the company has highlighted its successful digital marketing engagements with ecommerce giants such as Swiggy, KFC and Levi's (Indonesia) in FY21, which were based on first-party data that was consent-driven and shared by the advertiser/agency with AFFLE's platform.

R&D focus: AFFLE continues to fortify its IP assets that deliver real-time, optimised results across the advertising technology value chain. It filed 19 patents in FY21 from 18 in FY20 (aided by integration of Appnext). Most of the patents filed have been in the area of digital ad fraud detection. The R&D team now consists of 147 members vs. 126 in FY20.

Verticalised approach: Post pandemic, the company has focused on top industry verticals, viz. E – ecommerce, edtech, entertainment; F – fintech, foodtech, FMCG; G – gaming, groceries, government; H – healthtech (90% of revenues in FY21 vs. 74% in FY20). These verticals saw a growth spurt due to digitisation post Covid.

Product and platform development: AFFLE estimates that mobile advertisement spend in India will grow at 32.4% CAGR to reach US\$ 6.6bn in FY25 from US\$ 1.6bn in FY20. To capture the growing market, it launched two key products in FY21 – Appnext Out-of-Box Experience (OOBE) and Connected TV (CTV). Both products are in alignment with its 4V strategy. Apart from mobile advertising, the company is looking at connected devices as a strategic focus area. It added a vernacular keyboard and on-device recommendations among other capabilities during the year.

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Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AFFLE IN/Rs 4,673
Market cap	US\$ 1.7bn
Free float	40%
3M ADV	US\$ 3.3mn
52wk high/low	Rs 6,286/Rs 2,502
Promoter/FPI/DII	60%/20%/20%

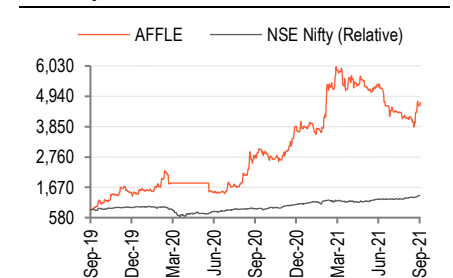
Source: NSE | Price as of 7 Sep 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,169	8,807	11,747
EBITDA (Rs mn)	1,300	1,930	2,794
Adj. net profit (Rs mn)	1,350	1,638	2,484
Adj. EPS (Rs)	53.0	61.5	93.3
Consensus EPS (Rs)	53.0	57.9	77.5
Adj. ROAE (%)	37.6	14.6	18.1
Adj. P/E (x)	88.2	76.0	50.1
EV/EBITDA (x)	95.9	64.8	44.2
Adj. EPS growth (%)	102.7	16.1	51.7

Source: Company, Bloomberg, BOBCAPS Research

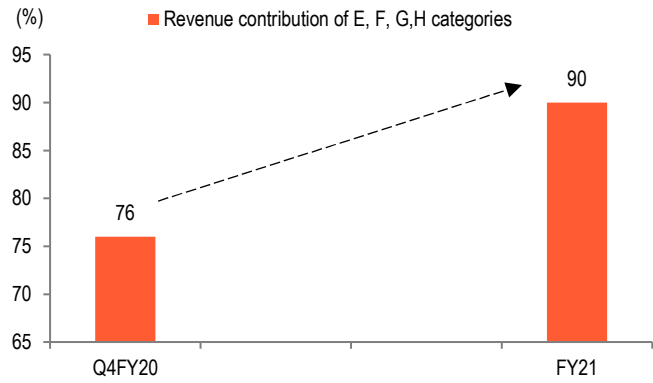
Stock performance



Source: NSE

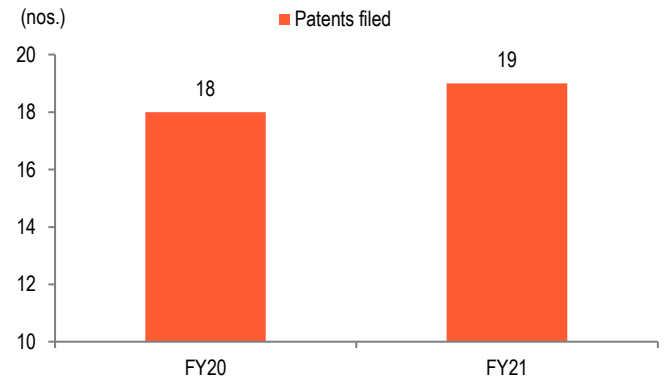


Fig 1 – E, F, G, H contribution



Source: Company, BOBCAPS Research

Fig 2 – Increase in number of patents filed



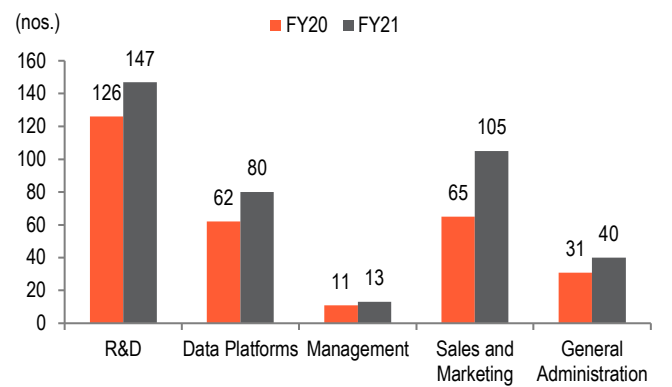
Source: Company, BOBCAPS Research

Fig 3 – AFFLE’s successes with leading ecommerce companies

Swiggy	KFC	Levi’s (Indonesia)
<ul style="list-style-type: none"> 177% increase in shopping conversions from new users 3.2x scale in post install orders Higher ROI by driving higher conversions 	<ul style="list-style-type: none"> 8% increase in first order rates Successfully enabled online orders through 700+ offline stores Higher ROI by maximising new orders 	<ul style="list-style-type: none"> 46% incremental visits to Levi’s stores 2.83x uplift for ad exposed users Significant growth in attributed visits/conversions to physical store walk-ins

Source: Company, BOBCAPS Research

Fig 4 – Employee profile in FY21 vs. FY20

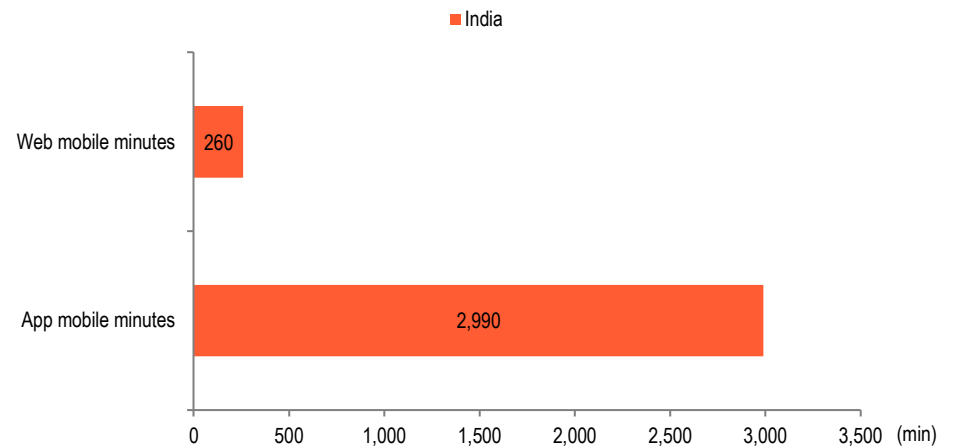


Source: Company, BOBCAPS Research

India expected to have 900mn+ internet users by FY25; 75% of new user growth likely to come from rural areas

India’s high app usage will boost AFFLE’s mobile marketing business

Fig 5 – India’s high in-app use time



Source: Company, BOBCAPS Research

Valuation methodology

AFFLE is a unique play on the fast-growing digital mobile advertising market. The company's resilient vertical exposure (90% of revenue from E, F, G, H verticals) and marquee clientele further reinforce its growth narrative. We retain our estimates and reiterate BUY with an unchanged Jun'22 TP of Rs 6,200, set at a one-year forward P/E multiple of 62.5x – this is in line with the stock's post Covid average multiple which bakes in the pandemic-led inflection for internet businesses.

Key risks

Key downside risks to our estimates are:

- **Inability to collect adequate data:** Any limitations imposed on consumer data collection will impair the performance of AFFLE's platform and significantly affect its business.
- **High client concentration:** The company's top 10 clients accounted for 42.8% of FY21 revenue. Slower business from top clients thus poses a risk.
- **Failure to exploit M&A synergies:** M&A is a key element of AFFLE's strategy. Inability to integrate acquisitions and realise synergies can expose the company to risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	1.7	4,673	6,200	BUY
Coforge	COFORGE IN	4.4	5,180	5,860	BUY
eClerx Services	ECLX IN	1.1	2,181	2,880	BUY
HCL Technologies	HCLT IN	43.7	1,182	1,360	BUY
IndiaMart InterMesh	INMART IN	3.6	8,753	7,200	HOLD
Info Edge	INFOE IN	10.8	6,184	6,530	BUY
Infosys	INFO IN	99.0	1,707	2,020	BUY
Just Dial	JUST IN	0.8	990	1,330	BUY
L&T Infotech	LTI IN	12.9	5,405	5,960	BUY
Mindtree	MTCL IN	8.5	3,796	2,400	SELL
Mphasis	MPHL IN	7.5	2,976	3,020	HOLD
Persistent Systems	PSYS IN	3.8	3,514	3,050	HOLD
Tata Consultancy Services	TCS IN	195.1	3,816	4,270	BUY
Tech Mahindra	TECHM IN	17.1	1,435	1,660	BUY
Wipro	WPRO IN	50.7	674	620	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Sep 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,338	5,169	8,807	11,747	15,002
EBITDA	888	1,300	1,930	2,794	3,601
Depreciation	134	197	204	255	285
EBIT	754	1,103	1,724	2,539	3,315
Net interest inc./(exp.)	14	37	59	72	80
Other inc./(exp.)	52	415	190	329	455
Exceptional items	0	0	0	0	0
EBT	792	1,481	1,855	2,796	3,691
Income taxes	138	129	212	308	406
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	2	5	4	4
Reported net profit	654	1,350	1,638	2,484	3,281
Adjustments	0	0	0	0	0
Adjusted net profit	654	1,350	1,638	2,484	3,281

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	750	1,260	2,172	2,897	3,699
Other current liabilities	128	352	603	805	1,028
Provisions	19	27	40	48	57
Debt funds	655	1,180	1,180	1,180	1,180
Other liabilities	176	1,115	1,115	1,115	1,115
Equity capital	255	255	266	266	266
Reserves & surplus	2,037	3,337	10,969	13,457	16,742
Shareholders' fund	2,292	3,592	11,235	13,723	17,008
Total liab. and equities	4,019	7,526	16,344	19,767	24,086
Cash and cash eq.	696	491	4,577	6,692	9,611
Accounts receivables	744	1,079	1,810	2,414	3,083
Inventories	0	0	0	0	0
Other current assets	881	936	1,589	2,072	2,607
Investments	23	1,009	1,009	1,009	1,009
Net fixed assets	10	13	16	18	20
CWIP	0	0	0	0	0
Intangible assets	523	828	1,078	1,296	1,490
Deferred tax assets, net	0	0	0	0	0
Other assets	1,143	3,168	6,266	6,266	6,266
Total assets	4,020	7,526	16,344	19,767	24,086

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	719	1,016	1,509	2,334	3,025
Capital expenditures	(1,188)	(1,616)	(3,555)	(475)	(481)
Change in investments	(439)	22	190	329	455
Other investing cash flows	0	(154)	0	0	0
Cash flow from investing	(1,627)	(1,748)	(3,365)	(146)	(26)
Equities issued/Others	858	0	6,000	0	0
Debt raised/repaid	548	567	0	0	0
Interest expenses	(9)	(21)	(59)	(72)	(80)
Dividends paid	0	0	0	0	0
Other financing cash flows	(10)	(15)	0	0	0
Cash flow from financing	1,387	531	5,941	(72)	(80)
Chg in cash & cash eq.	478	(201)	4,085	2,115	2,920
Closing cash & cash eq.	696	491	4,577	6,692	9,611

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	26.1	53.0	61.5	93.3	123.2
Adjusted EPS	26.1	53.0	61.5	93.3	123.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	89.9	140.9	420.8	514.0	637.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	37.4	24.1	14.2	10.5	8.0
EV/EBITDA	140.5	95.9	64.8	44.2	33.4
Adjusted P/E	178.8	88.2	76.0	50.1	37.9
P/BV	52.0	33.2	11.1	9.1	7.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	82.6	91.1	88.3	88.9	88.9
Interest burden (PBT/EBIT)	105.0	134.3	107.6	110.1	111.3
EBIT margin (EBIT/Revenue)	22.6	21.3	19.6	21.6	22.1
Asset turnover (Rev./Avg TA)	83.0	68.7	53.9	59.4	62.3
Leverage (Avg TA/Avg Equity)	1.8	2.1	1.5	1.4	1.4
Adjusted ROAE	28.5	37.6	14.6	18.1	19.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	33.8	54.9	70.4	33.4	27.7
EBITDA	26.7	46.4	48.4	44.8	28.9
Adjusted EPS	30.0	102.7	16.1	51.7	32.1
Profitability & Return ratios (%)					
EBITDA margin	26.6	25.1	21.9	23.8	24.0
EBIT margin	22.6	21.3	19.6	21.6	22.1
Adjusted profit margin	19.6	26.1	18.6	21.1	21.9
Adjusted ROAE	28.5	37.6	14.6	18.1	19.3
ROCE	19.4	15.4	11.0	13.4	14.4
Working capital days (days)					
Receivables	67	64	60	66	67
Inventory	0	0	0	0	0
Payables	69	71	71	79	80
Ratios (x)					
Gross asset turnover	327.9	386.3	549.2	642.8	746.7
Current ratio	1.8	1.7	2.8	3.0	3.2
Net interest coverage ratio	53.9	29.8	29.2	35.3	41.4
Adjusted debt/equity	0.0	0.2	(0.3)	(0.4)	(0.5)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

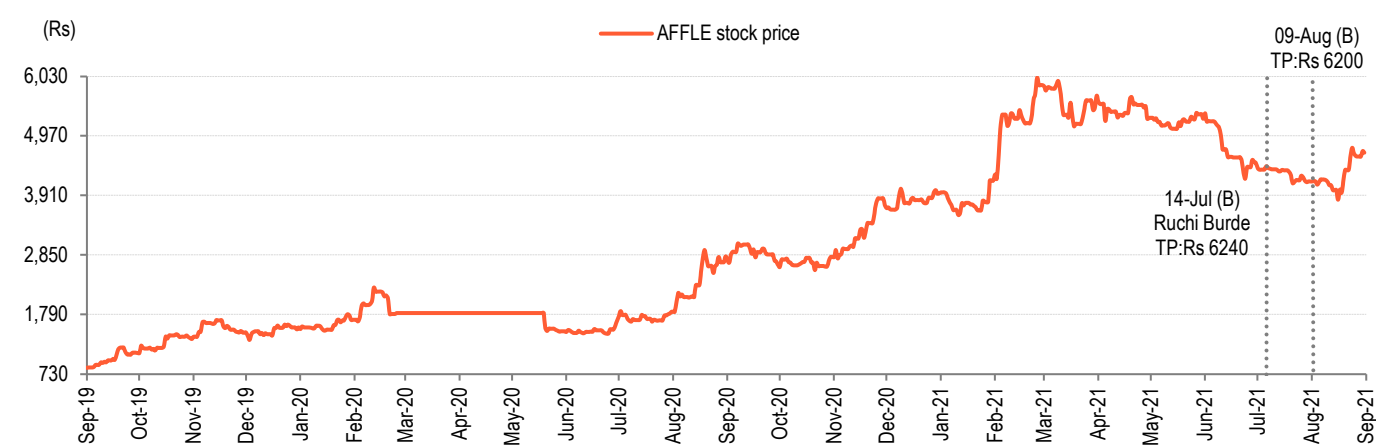
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AFFLE (INDIA) (AFFLE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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