

BUY

TP: Rs 1,720 | ▲ 40%

AFFLE (INDIA)

Technology & Internet

18 February 2022

Limited impact from Google’s new privacy measures

- Google plans to adopt new privacy initiatives (termed Privacy Sandbox) to curtail tracking across apps on Android smartphones
- We expect no impact on digital advertisers for at least two years and smooth transition thereafter led by Google’s collaborative approach
- AFFLE’s growth drivers remain intact and it continues to be our preferred internet stock; reiterate BUY with TP of Rs 1,720

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Google’s new privacy measures: In a multiyear initiative termed Privacy Sandbox, Google plans to develop more privacy-focused replacements for the alphanumeric identifiers associated with individual smartphones that some apps use to gather and share information about users. In its official statement, Google emphasised that the new solution will help (1) publishers generate revenue from advertising inventory, and (2) advertisers secure value for money from advertising spend (see [press release](#)).

Key proposed changes: Some of Google’s work-in-progress proposals are Topics API (interest-based ad system) and FLEDGE (a system that allows advertisers to show ads based on their own definition of a “custom audience” without having to rely on individual identifiers).

Limited impact on digital advertisers: We see no short-term impact on digital advertisers as Google is committed to supporting existing Android and Chrome policies (AdID) for at least two years and has promised to provide substantial notice ahead of any possible future changes. Moreover, the replacement solution will be developed in collaboration with various industry stakeholders (developers, privacy advocates, regulators and other interested parties). Beta testing will begin by the year-end and scale up in 2023. In our view, Google’s pragmatic and collaborative approach will ensure a smooth transition for digital advertisers.

Industry stakeholders see ample time for transition: Unlike Apple’s iOS privacy changes, the industry response to Google’s proposals is positive and acknowledges the ample time provided for the ecosystem to transition to the new solution. The Trade Desk CEO said this may have a positive business impact while Meta’s Vice President of Advertising Ecosystem said it was encouraging (detailed comments on Page 2).

AFFLE’s growth thesis intact; reiterate BUY: We are optimistic that AFFLE will promptly adapt to these Android changes as its technology platform already uses appographic and intent data (in principle similar to Google’s proposed Topic API). AFFLE’s successful growth post iOS privacy changes lends further confidence. Reiterate BUY with an unchanged TP of Rs 1,720 set at 61x FY24E P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AFFLE IN/Rs 1,229
Market cap	US\$ 437.3mn
Free float	40%
3M ADV	US\$ 9.7mn
52wk high/low	Rs 1,511/Rs 763
Promoter/FPI/DII	60%/20%/20%

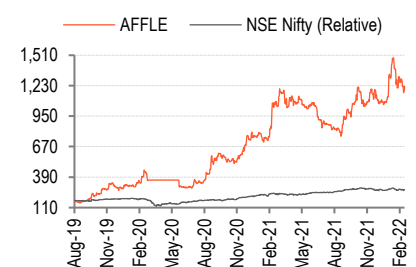
Source: NSE | Price as of 17 Feb 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,169	10,302	14,346
EBITDA (Rs mn)	1,300	2,048	3,156
Adj. net profit (Rs mn)	1,350	1,825	2,733
Adj. EPS (Rs)	10.6	13.7	20.5
Consensus EPS (Rs)	10.6	57.9	77.5
Adj. ROAE (%)	37.6	16.0	19.3
Adj. P/E (x)	116.0	89.7	59.9
EV/EBITDA (x)	25.2	16.2	10.1
Adj. EPS growth (%)	102.7	29.3	49.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



What industry stakeholders say?

- **Dennis Buchheim, Meta's Vice President of Advertising Ecosystem:**
"Encouraging to see this long-term, collaborative approach to privacy-protective personalised advertising from Google. We look forward to continued work with them and the ecosystem on privacy-enhancing tech through industry groups."
- **Jeff Green, Trade Desk CEO:** "...I don't believe that this will have a negative impact on our business and I think it has a good chance of having a positive impact on our business. So, in order to understand that though... you just have to acknowledge that Google is getting hit from all sides as it relates to antitrust scrutiny as well as privacy scrutiny. So, this move by Google is not a surprise. It's not like Android could just sit around and be the only platform not to pull back on implicit data sharing, but they created an amazing transition period, which I think is very good for the industry and something that they've learned from... Apple's mistake on this."

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 – ecommerce, edtech, entertainment; F – fintech, foodtech, FMCG; G – gaming, groceries, government; H – healthtech) and marquee clientele further reinforce its growth narrative. The JAMPP acquisition lends an added fillip to growth.

Following Google's announcement regarding proposed privacy changes, we keep our EPS estimates for AFFLE intact as we believe the company has ample time (two years) to maneuver this change. Our TP remains at Rs 1,720, set at an unchanged 61x P/E – in line with the stock's post Covid average which bakes in the pandemic-led inflection for internet businesses. Retain BUY.

Fig 1 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	5,169	10,302	14,346	19,078
Growth YoY (%)	54.9	99.3	39.3	33.0
EBITDA margin (%)	25.1	19.9	22.0	22.0

Source: Company, BOBCAPS Research

Fig 2 – Peer comparison

Company	Price (Rs/sh)	Mcap (Rs mn)	Rating	Target Price (Rs)	Revenue CAGR FY21-24E (%)	EPS CAGR FY21-24E (%)	P/E (x)		ROE (%)		
							FY22E	FY23E	FY21	FY22E	FY23E
Info Edge	4540	584,673	BUY	6,780	22.9	30.3	7.9	108.7	7.8	6.0	5.2
IndiaMart	5017	152,515	BUY	7,660	18.9	14.7	46.7	40.2	30.3	18.5	18.3
Affle (India)	1230	32,841	BUY	1,720	54.5	38.5	89.8	59.9	37.6	16.0	19.3
Just Dial	801	49,483	BUY	990	6.8	(10.4)	99.6	40.0	16.8	2.8	4.6

Source: BOBCAPS Research

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. A slowdown in business from top clients thus poses a risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,229	1,720	BUY
IndiaMart InterMesh	INMART IN	2.0	5,008	7,660	BUY
Info Edge	INFOE IN	7.8	4,548	6,780	BUY
Just Dial	JUST IN	0.7	801	990	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Feb 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,338	5,169	10,302	14,346	19,078
EBITDA	888	1,300	2,048	3,156	4,197
Depreciation	134	197	302	302	333
EBIT	754	1,103	1,731	2,854	3,864
Net interest inc./(exp.)	14	37	70	72	80
Other inc./(exp.)	52	415	443	293	435
Exceptional items	0	0	0	0	0
EBT	792	1,481	2,104	3,075	4,219
Income taxes	138	129	272	338	464
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	2	7	4	4
Reported net profit	654	1,350	1,825	2,733	3,751
Adjustments	0	0	0	0	0
Adjusted net profit	654	1,350	1,825	2,733	3,751

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	750	1,260	2,540	3,537	4,704
Other current liabilities	128	352	706	983	1,307
Provisions	19	27	44	55	68
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	11,157	13,894	17,649
Shareholders' fund	2,292	3,592	11,424	14,161	17,916
Total liab. and equities	4,019	7,526	17,008	21,030	26,289
Cash and cash eq.	696	491	3,992	6,346	9,706
Accounts receivables	744	1,079	2,117	2,948	3,920
Inventories	0	0	0	0	0
Other current assets	881	936	1,835	2,499	3,277
Investments	23	1,009	1,009	1,009	1,009
Net fixed assets	10	13	761	716	670
CWIP	0	0	0	0	0
Intangible assets	523	828	1,028	1,246	1,440
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	17,008	21,030	26,289

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	719	1,016	1,475	2,607	3,487
Capital expenditures	(1,188)	(1,616)	(4,348)	(475)	(481)
Change in investments	(439)	22	443	293	435
Other investing cash flows	0	(154)	0	0	0
Cash flow from investing	(1,627)	(1,748)	(3,905)	(182)	(46)
Equities issued/Others	858	0	6,000	0	0
Debt raised/repaid	548	567	0	0	0
Interest expenses	(9)	(21)	(70)	(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	5,930	(72)	(80)
Chg in cash & cash eq.	478	(201)	3,500	2,354	3,361
Closing cash & cash eq.	696	491	3,992	6,346	9,706

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	5.2	10.6	13.7	20.5	28.2
Adjusted EPS	5.2	10.6	13.7	20.5	28.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	89.9	140.9	427.9	530.4	671.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	9.8	6.3	3.2	2.2	1.5
EV/EBITDA	36.9	25.2	16.2	10.1	6.9
Adjusted P/E	235.1	116.0	89.7	59.9	43.6
P/BV	13.7	8.7	2.9	2.3	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	82.6	91.1	86.7	88.9	88.9
Interest burden (PBT/EBIT)	105.0	134.3	121.5	107.8	109.2
EBIT margin (EBIT/Revenue)	22.6	21.3	16.8	19.9	20.3
Asset turnover (Rev./Avg TA)	83.0	68.7	60.6	68.2	72.6
Leverage (Avg TA/Avg Equity)	1.8	2.1	1.5	1.5	1.5
Adjusted ROAE	28.5	37.6	16.0	19.3	20.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	33.8	54.9	99.3	39.3	33.0
EBITDA	26.7	46.4	57.5	54.1	33.0
Adjusted EPS	30.0	102.7	29.3	49.8	37.3
Profitability & Return ratios (%)					
EBITDA margin	26.6	25.1	19.9	22.0	22.0
EBIT margin	22.6	21.3	16.8	19.9	20.3
Adjusted profit margin	19.6	26.1	17.7	19.1	19.7
Adjusted ROAE	28.5	37.6	16.0	19.3	20.9
ROCE	19.4	15.4	10.6	14.2	15.5

Working capital days (days)

	FY20A	FY21A	FY22E	FY23E	FY24E
Receivables	67	64	57	64	66
Inventory	0	0	0	0	0
Payables	69	71	67	77	79

Ratios (x)

	FY20A	FY21A	FY22E	FY23E	FY24E
Gross asset turnover	327.9	386.3	13.5	20.0	28.5
Current ratio	1.8	1.7	2.4	2.6	2.8
Net interest coverage ratio	53.9	29.8	24.7	39.6	48.3
Adjusted debt/equity	0.0	0.2	(0.2)	(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%

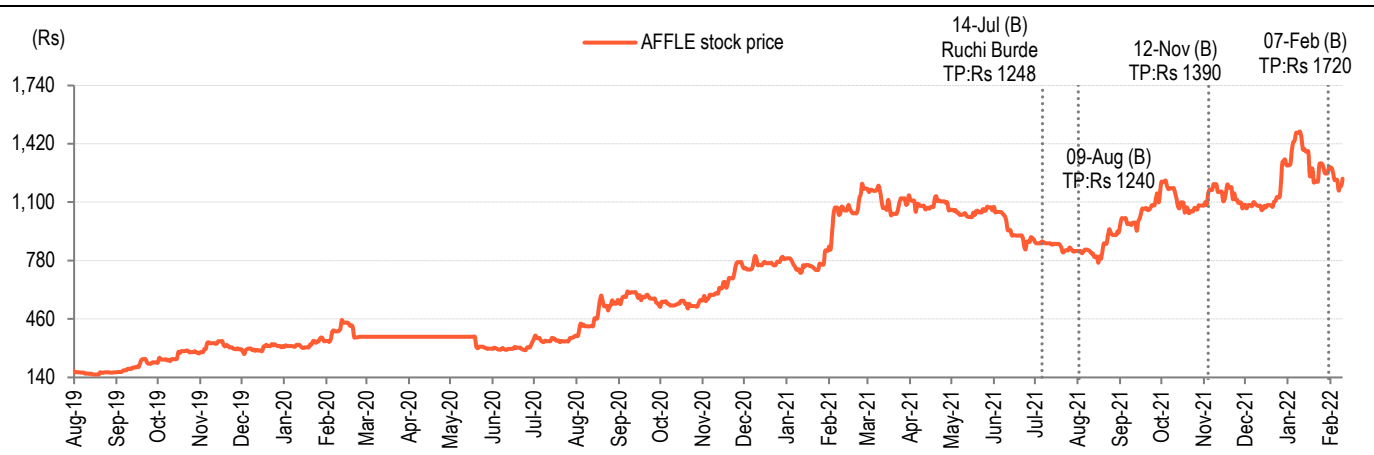
HOLD – Expected return from -6% to +15%

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

Rating distribution

As of 31 January 2022, out of 115 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 63 have BUY ratings, 32 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 14 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.