

**BUY**

TP: Rs 6,200 | ▲ 49%

**AFFLE (INDIA)**

| Internet

| 09 August 2021

**Stellar quarter**

- Q1 revenue increased 70% YoY driven by 89% growth in CPCU business, with a broad-based uptick across E, F, G, H verticals
- EBITDA margin at 23% was slightly subdued due to higher employee and data inventory cost
- Jun'22 TP stands revised marginally to Rs 6,200 (vs. Rs 6,240) – retain BUY

**Strong revenue show:** AFFLE reported stellar Q1FY22 revenue growth of 70% YoY led by peak growth of 89% in the CPCU (cost per converted user) business which contributed 87.7% of the topline. The CPCU rate stood at a record Rs 42. Growth was broad-based across the company's E, F, G and H verticals. EBITDA margin stood at 23%, down 130bps QoQ and 220bps YoY, as data inventory and employee cost increased 100bps and 300bps respectively. PAT was up 88% YoY.

**International business to ramp up:** Management expects its international business (50.3% of Q1 revenue) to grow faster than the India business as revenue from the Jampp acquisition starts coming through (no flowthrough in Q1). AFFLE is also looking to expand volumes and reach in the international market, especially in newer geographies such as LATAM, Africa and China. It further aims to raise penetration in developed markets to increase its CPCU rate and improve margins.

**Strategic roadmap:** AFFLE's near-term strategy is to: (1) focus on building strong partnerships with OEMs to deeply integrate its platform with the device interface and get first-party data, (2) deepen its vernacular component of the 4V strategy, (3) concentrate on topline and bottomline improvement at Jampp by shifting it from a cost-per-impression model to a CPCU model, (4) drive organic growth by deploying more feet on the ground, and (5) expand into emerging and developed markets.

**Privacy concerns remain:** Though concerns over privacy issues persist with Apple's iOS blocking cookies, AFFLE clarified that its business will remain unaffected as its delivery is independent of web browsers. Also, Google's decision to push back cookie-blocking to 2023 provides relief to the company. However, to derisk its business from user privacy-related concerns, it is focusing on strengthening partnerships with the OEM/carrier ecosystem to get first-party data.

**Retain BUY:** We raise our FY22 EPS estimate by ~4% post Q1 and reset our target one-year forward P/E from 62.5x to 61.8x, in line with the stock's post Covid average. Our Jun'22 TP moves to Rs 6,200 (from Rs 6,240). Marquee clientele, strong growth and robust margins are key positive growth drivers.

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**Key changes**

Target	Rating
▼	◀ ▶

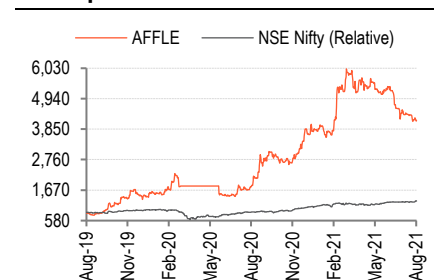
Ticker/Price	AFFLE IN/Rs 4,161
Market cap	US\$ 1.5bn
Free float	40%
3M ADV	US\$ 3.7mn
52wk high/low	Rs 6,286/Rs 1,825
Promoter/FPI/DII	60%/20%/20%

Source: NSE | Price as of 6 Aug 2021

**Key financials**

Y/E 31 Mar	FY21P	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)	78.6	67.7	44.6
EV/EBITDA (x)	85.4	57.7	39.3
Adj. EPS growth (%)	102.7	16.1	51.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**

Source: NSE



## Earning call highlights

- Management is confident of sustaining ~25% organic EBITDA margins in the near-to-mid-term.
- AFFLE has 425+ employees and plans to put more feet on the ground to increase organic growth.
- The company is currently working with very large corporates and limits itself to credit-worthy customers.
- Revenue from acquisitions (DiscoverTech, Bauble AI and Jampp) are not yet significant.

**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenue</b>	<b>1,525</b>	<b>898</b>	<b>69.8</b>	<b>1,416</b>	<b>7.7</b>	<b>5,169</b>	<b>3,338</b>	<b>54.9</b>
Inventory and Data costs	884	516	71.3	812	8.9	2,977	1,923	54.8
% of revenue	58.0	57.5	-	57.3	-	57.6	57.6	-
Employee benefit expense	188	83	126.5	164	14.6	539	272	98.2
% of revenue	12.3	9.2	-	11.6	-	10.4	8.1	-
Other expenses	102	73	39.7	95	7.4	353	264	33.7
% of revenue	6.7	8.1	-	6.7	-	6.8	7.9	-
Creditors written back	0	0	-	1	-	1	9	-
<b>EBITDA</b>	<b>351</b>	<b>226</b>	<b>55.3</b>	<b>345</b>	<b>1.7</b>	<b>1,300</b>	<b>888</b>	<b>46.4</b>
Depreciation and amortization costs	52	43	20.9	52	0.0	197	134	47.0
% of revenue	3.4	4.8	-	3.7	-	3.8	4.0	-
<b>EBIT</b>	<b>299</b>	<b>183</b>	<b>63.4</b>	<b>293</b>	<b>2.0</b>	<b>1,103</b>	<b>754</b>	<b>46.3</b>
Finance costs	14	5	180.0	13	7.7	37	14	164.3
Other income	127	25	408.0	360	(64.7)	415	52	698.1
PBT	412	203	103.0	640	(35.6)	1,481	792	87.0
Tax	53	13	307.7	54	(1.9)	129	138	(6.5)
Non-controlling interest	2	0	-	1	-	2	0	-
<b>PAT</b>	<b>357</b>	<b>190</b>	<b>87.9</b>	<b>585</b>	<b>(39.0)</b>	<b>1,350</b>	<b>654</b>	<b>106.4</b>
Basic EPS (Rs)	13.4	7.36	82.1	23.0	(41.7)	53.0	26.1	102.7
Diluted EPS (Rs)	13.4	7.36	82.1	23.0	(41.7)	53.0	26.1	102.7
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	23.0	25.2	(220)	24.4	(130)	25.1	26.6	150
EBIT	19.6	20.4	(80)	20.7	(110)	21.3	22.6	120
EBT	27.0	22.6	440	45.2	(1,820)	28.7	23.7	(490)
PAT	23.4	21.2	230	41.3	(1,790)	26.1	19.6	(650)
Effective Tax rate	12.9	6.4	650	8.4	440	8.7	17.4	870

Source: BOBCAPS Research, Company

**Fig 2 – Operating metrics**

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Total revenue	847	945	800	898	1,350	1,505	1,416	1,525
YoY growth (%)	40.2	27.5	32.2	20.4	59.4	59.3	77.0	69.8
Enterprise platform								
Enterprise platform revenue (%)	3.2	2.9	2.8	1.9	1.7	1.7	1.8	1.20
Enterprise platform revenue (in Rs mn)	27	27	22	17	23	26	25	18
YoY growth (%)	-	-	-	-	(15.3)	(6.6)	13.8	7.3
Consumer platform								
Consumer Platform revenue (%)	96.8	97.1	97.2	98.1	98.3	98.3	98.2	98.8
Consumer Platform revenue in Rs mn	820	918	778	881	1,327	1,479	1,391	1,507
YoY growth (%)	-	-	-	-	61.9	61.2	78.8	71.0
% of consumer platform revenue contributed by CPCU model	93.8	91.4	91.4	79.3	85.2	84.8	87.3	87.7
Affle's CPCU revenues (in Rs mn)	766	861	654	698	1,132	1,254	1,211	1,322
YoY growth (%)	46.5	27.7	22.2	1.9	47.8	45.6	85.2	89.4
Converted users (mn)	18.5	20.9	16.3	17	28.1	30.6	29.6	31.5
YoY growth (%)	43.4	27.4	21.6	2.4	51.9	46.4	81.6	85.3
Average CPCU (Rs)	41.3	41.1	40.1	41	40.3	41	40.9	42
YoY growth (%)	1.7	0.2	0.2	(0.5)	(2.4)	(0.2)	2.0	2.4
% of consumer platform revenue contributed by non-CPCU model	6.2	8.6	8.6	20.7	14.8	15.2	12.7	12.3
Non CPCU revenue in Rs mn	51	79	67	182	196	225	177	185
YoY growth (%)	-	-	-	-	286.4	185.0	164.1	1.3
India (% of revenue)	49.7	50.8	51.2	48.0	49.9	49.3	49.7	49.7
International (% of revenue)	50.3	49.2	48.8	52.0	50.1	50.7	50.3	50.3
Number of connected devices (in bn devices)	2.1	2.2	2.1	2.1	2.2	2.2	2.2	2.3

Source: BOBCAPS Research, Company

## 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. We raise our FY22 EPS estimate by ~4% post Q1FY22 and reset our target Jun'23E P/E multiple from 62.5x to 61.8x, in line with the stock's post Covid average which bakes in the pandemic-led inflection for internet businesses. Our Jun'22 TP thus moves to Rs 6,200 (from Rs 6,240). Maintain BUY.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,807	11,747	15,002	8,755	11,715	14,954	0.6	0.3	0.3
YoY growth (%)	70.4	33.4	27.7	69.4	33.8	27.7	-	-	-
EBITDA	1,930	2,794	3,601	1,962	2,812	3,589	(1.7)	(0.6)	0.3
EBITDA margin (%)	21.9	23.8	24.0	22.4	24.0	24.0	-	-	-
PAT	1,638	2,484	3,281	1,581	2,497	3,268	3.6	(0.5)	0.4
EPS (Rs)	61.5	93.3	123.2	59.3	93.7	122.7	3.7	(0.5)	0.4

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Converted users (mn)	105	151	203	275
Average CPCU rates (Rs.)	40.8	41.2	41.0	41.0
CPCU revenue (Rs mn)	4,296	6,209	8,342	11,261
% of revenue	83.1	70.5	71.0	75.1
YoY growth (%)	44.9	44.5	34.3	35.0
Non-CPCU revenue (mn)	873	2598	3406	3741
EBITDA margin (%)	25.1	21.9	23.8	24.0

Source: Company, 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. 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	1.5	4,161	6,200	BUY
IndiaMart InterMesh	INMART IN	3.0	7,354	7,200	HOLD
Just Dial	JUST IN	0.8	963	1,330	BUY

Source: BOBCAPS Research, NSE | Price as of 6 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>3,338</b>	<b>5,169</b>	<b>8,807</b>	<b>11,747</b>	<b>15,002</b>
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
<b>Reported net profit</b>	<b>654</b>	<b>1,350</b>	<b>1,638</b>	<b>2,484</b>	<b>3,281</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>654</b>	<b>1,350</b>	<b>1,638</b>	<b>2,484</b>	<b>3,281</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	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
<b>Total liab. and equities</b>	<b>4,019</b>	<b>7,526</b>	<b>16,344</b>	<b>19,767</b>	<b>24,086</b>
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
<b>Total assets</b>	<b>4,020</b>	<b>7,526</b>	<b>16,344</b>	<b>19,767</b>	<b>24,086</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>719</b>	<b>1,016</b>	<b>1,509</b>	<b>2,334</b>	<b>3,025</b>
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
<b>Cash flow from investing</b>	<b>(1,627)</b>	<b>(1,748)</b>	<b>(3,365)</b>	<b>(146)</b>	<b>(26)</b>
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
<b>Cash flow from financing</b>	<b>1,387</b>	<b>531</b>	<b>5,941</b>	<b>(72)</b>	<b>(80)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>478</b>	<b>(201)</b>	<b>4,085</b>	<b>2,115</b>	<b>2,920</b>
<b>Closing cash &amp; cash eq.</b>	<b>696</b>	<b>491</b>	<b>4,577</b>	<b>6,692</b>	<b>9,611</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	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	FY21P	FY22E	FY23E	FY24E
EV/Sales	33.3	21.5	12.7	9.3	7.1
EV/EBITDA	125.1	85.4	57.7	39.3	29.6
Adjusted P/E	159.3	78.6	67.7	44.6	33.8
P/BV	46.3	29.5	9.9	8.1	6.5

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	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	FY21P	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	67	64	60	66	67
Inventory	0	0	0	0	0
Payables	69	71	71	79	80
<b>Ratios (x)</b>					
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%

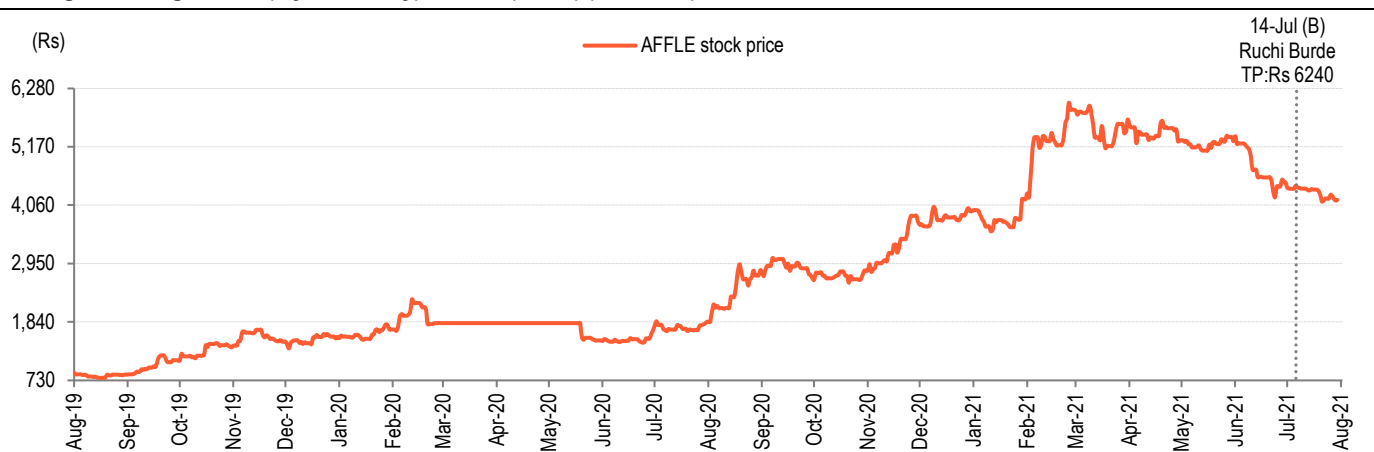
**HOLD** – Expected return from -6% to +15%

**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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