

BUY

TP: Rs 1,390 | ▲ 19%

AFFLE (INDIA)

Technology & Internet

12 November 2021

Growth shines aided by stellar JAMPP performance

- Q2 revenue surged 104% YoY aided by above-expected rebound at JAMPP and strong native business growth
- Turnaround initiatives pay off as JAMPP recorded 5% net margins (vs. nil profits earlier) in its first quarter post acquisition
- Reiterate BUY as we roll forward to a revised TP of Rs 1,390 (vs. Rs 1,240) based on 61x Sep'23E P/E

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Strong Q2 beat: AFFLE posted stellar Q2FY22 revenue growth of 104% YoY vs. our estimate of 74%. Growth was aided by above-expected revenue from the JAMPP acquisition and a strong showing in the native business. While converted users grew 73% YoY, the average CPCU rate also grew 27% (to Rs 51.3) after a largely flat run for the last 13 quarters, as the revenue mix shifted in favour of international business. Revenue contribution from E, F, G, H verticals remains at 90%. EBITDA margin at 19% was down 660bps YoY and 410bps QoQ, below our estimate of 19% due to higher inventory and data cost (+6ppt QoQ and YoY).

JAMPP shines: AFFLE's robust revenue beat was partly due to JAMPP. With 30% revenue share in Q2FY22, JAMPP's annualised run-rate implies 50% growth over its FY21 print. The rebound was enabled by renewed AFFLE-backed growth prospects compared to its prior financial distress. Management believes JAMPP can sustain 25-30% YoY growth over the medium term. We also note impressive progress on turnaround initiatives as the acquired platform recorded a 5% net margin in its first quarter post consolidation vs. breakeven operations pre-acquisition. Management is confident of margin improvement to the teens over the next two years.

Benefits from advertisers moving to Android: Apple's recent privacy crackdown has affected the largest players in online advertising very differently, recent quarterly results show, underscoring the strengths and weaknesses of each technology giant's ad business. Alphabet's Google, the world's largest digital-ad company by revenue, tallied its highest sales growth in more than a decade in the Jul-Sep quarter. AFFLE's home ground of developing countries are all Android-dominated markets and per management, the company has benefited as more advertisers have migrated to Android post Apple iOS's stricter privacy norms.

Reiterate BUY: Following the stellar Q2 performance, outstanding JAMPP print and growth impetus from the Android ecosystem, we raise our FY22/FY23 revenue estimates by 10-16% and adjust EPS by -1%/+4% factoring in the margin impact from the acquisition. Retain BUY as we roll forward to a new TP of Rs 1,390 based on a higher Sep'23E P/E of 61x (vs. 62.5x) – in line with the average post Covid multiple.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AFFLE IN/Rs 1,169
Market cap	US\$ 419.0mn
Free float	40%
3M ADV	US\$ 2.7mn
52wk high/low	Rs 1,260/Rs 567
Promoter/FPI/DII	60%/20%/20%

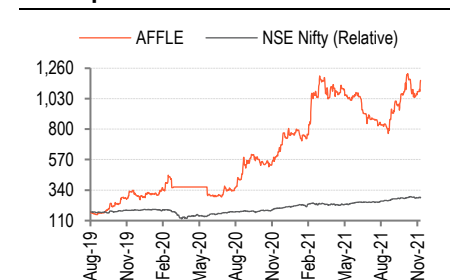
Source: NSE | Price as of 12 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,169	9,680	13,591
EBITDA (Rs mn)	1,300	1,926	2,990
Adj. net profit (Rs mn)	1,350	1,628	2,576
Adj. EPS (Rs)	10.6	12.2	19.3
Consensus EPS (Rs)	10.6	57.9	77.5
Adj. ROAE (%)	37.6	14.5	18.7
Adj. P/E (x)	110.3	95.6	60.4
EV/EBITDA (x)	23.9	16.4	10.1
Adj. EPS growth (%)	102.7	15.4	58.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Other highlights

- JAMPP integrated successfully:** AFFLE earlier had an even mix of India and international business. Post JAMPP acquisition, the international business is now 66.9% of the revenue pie (up from 50.3% earlier). The company has integrated JAMPP into its business model and will continue to make more of these tuck-in acquisitions to be funded through internal accruals.
- Deeper focus on AFFLE 2.0 strategy:** AFFLE’s 3V strategy of verticalisation and vernacularising will garner a deeper focus as the company looks into the voice market for advertisement. Connected devices also offer an opportunity. The company’s in-house data management platform reached 2.4bn connected devices vs. 2.3bn/2.2bn in Q1FY22/Q2FY21.

Fig 1 – AFFLE’s Q2FY22 case studies

Tokopedia – Indonesia’s biggest online marketplace	CoinDCX – India’s first crypto unicorn	Fossil – leading global fashion & accessories brand
<ul style="list-style-type: none"> • 6x+ boost in conversion rate by Video Ads • 5.3x increase in ROAs on Video Ads • 3x+ boost in app engagement with Dynamic Ads 	<ul style="list-style-type: none"> • Over 75k conversions delivered in Q1 & Q2 • 10%+ MoM growth • 40%+ uplift in registration 	<ul style="list-style-type: none"> • 87% online leads converted to in-store sales • 23x return on investment • Double-digit growth in offline sales from online channels

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue	2,747	1,350	103.5	1,525	80.1	4,272	2,248	90.0
Inventory and Data costs	1,755.0	777	125.9	884	98.5	2,639	1,293	104.1
% of revenue	63.9	57.6	-	58.0	-	61.8	57.5	-
Employee benefit expense	314.0	131	139.7	188	67.0	502	214	134.6
% of revenue	11.4	9.7	-	12.3	-	11.8	9.5	-
Other expenses	158.0	97	62.9	102	54.9	260	170	52.9
% of revenue	5.8	7.2	-	6.7	-	6.1	7.6	-
Creditors written back	0	0	-	0	-	0	0	-
EBITDA	520.0	345	50.7	351	48.1	871	571	52.5
Depreciation and amortization costs	81.0	51	58.8	52	55.8	133	94	41.5
% of revenue	2.9	3.8	-	3.4	-	3.1	4.2	-
EBIT	439.0	294	49.3	299	46.8	738	477	54.7
Finance costs	22	9	144.4	14	57.1	36	14	157.1
Other income	151.0	16	843.8	127	18.9	278	41	578.0
PBT	568.0	301	88.7	412	37.9	980	504	94.4
Tax	92.0	31	196.8	53	73.6	145	44	229.5
Non-controlling interest	2.1	0.9	-	2	-	4	1	-
PAT	473.9	269.1	76.1	357	32.7	831	459	81.0
Basic EPS	3.6	2.1	68.2	2.7	32.7	6.2	3.6	73.9
Diluted EPS	3.6	2.1	68.2	2.7	32.7	6.2	3.6	73.9
Margins (%)			(bps)		(bps)			(bps)
EBITDA	18.9	25.6	(660)	23.0	(410)	20.4	25.4	500
EBIT	16.0	21.8	(580)	19.6	(360)	17.3	21.2	390
EBT	20.7	22.3	(160)	27.0	(630)	22.9	22.4	(50)
PAT	17.3	19.9	(270)	23.4	(620)	19.4	20.4	100
Effective Tax rate	16.2	10.3	590	12.9	330	14.8	8.7	(610)

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 – ecommerce, edtech, entertainment; F – fintech, foodtech, FMCG; G – gaming, groceries, government; H – healthtech) and marquee clientele further reinforce its growth narrative.

We raise our FY23 EPS estimate by 4% following the stellar Q2FY22 performance, roll valuations over to Sep'23E and reset our target P/E multiple from 62.5x to 61x, in line with the stock's post Covid average which bakes in the pandemic-led inflection for internet businesses. This translates to a revised TP of Rs 1,390 (vs. Rs 1,240).

Reiterate BUY.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,680	13,591	18,084	8,807	11,747	15,002	9.9	15.7	20.5
YoY growth (%)	87.3	40.4	33.1	70.4	33.4	27.7	-	-	-
EBITDA	1,926	2,990	3,978	1,930	2,794	3,601	(0.2)	7.0	10.5
EBITDA margin (%)	19.9	22.0	22.0	21.9	23.8	24.0	-	-	-
PAT	1,628	2,576	3,540	1,638	2,484	3,281	(0.6)	3.7	7.9
EPS	12.2	19.3	26.6	12.3	18.7	24.6	(0.6)	3.7	7.9

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Revenue	5,169	9,680	13,591	18,084
YoY growth (%)	55	87	40	33
EBITDA margin (%)	25.1	19.9	22.0	22.0
Converted users (mn)	105	177	246	332
Average CPCU rates (Rs.)	41	49	51	51

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Price (Rs/sh)	Mcap (Rs mn)	Rating	Target Price (Rs)	Revenue CAGR FY21-24E (%)	EPS CAGR FY21-24E (%)	PE (x)		RoE (%)		
							FY22	FY23	FY21	FY22	FY23
Info Edge	6406.5	825,055	BUY	6,530	22.5	36.3	187	162	7.8	9.3	10.0
IndiaMart InterMesh	7548.5	229,474	BUY	8,430	21.5	18.4	66	55	30.3	19.6	19.8
Affle (India)	1168.6	31,202	BUY	1,390	51.8	35.9	96	60	37.6	14.5	18.7
Just Dial	785.55	48,547	BUY	1,190	9.1	(0.3)	80	29	16.8	3.4	6.2

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. Slower 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	1,169	1,390	BUY
Coforge	COFORGE IN	4.5	5,418	6,680	BUY
eClerx Services	ECLX IN	1.2	2,367	2,880	BUY
HCL Technologies	HCLT IN	42.7	1,172	1,440	BUY
IndiaMart InterMesh	INMART IN	3.1	7,544	8,430	BUY
Info Edge	INFOE IN	11.1	6,407	6,530	BUY
Infosys	INFO IN	101.8	1,780	2,000	BUY
Just Dial	JUST IN	0.7	786	1,190	BUY
L&T Infotech	LTI IN	17.1	7,243	7,980	BUY
Mindtree	MTCL IN	10.9	4,914	3,390	SELL
Mphasis	MPHL IN	8.4	3,353	3,510	HOLD
Persistent Systems	PSYS IN	4.5	4,147	4,170	HOLD
Tata Consultancy Services	TCS IN	177.7	3,526	4,630	BUY
Tech Mahindra	TECHM IN	18.6	1,585	1,890	BUY
Wipro	WPRO IN	49.0	660	840	BUY

Source: BOBCAPS Research, NSE | Price as of 12 Nov 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	3,338	5,169	9,680	13,591	18,084
EBITDA	888	1,300	1,926	2,990	3,978
Depreciation	134	197	302	302	333
EBIT	754	1,103	1,624	2,688	3,646
Net interest inc./(exp.)	14	37	66	72	80
Other inc./(exp.)	52	415	320	284	416
Exceptional items	0	0	0	0	0
EBT	792	1,481	1,878	2,899	3,981
Income taxes	138	129	244	319	438
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	2	6	4	4
Reported net profit	654	1,350	1,628	2,576	3,540
Adjustments	0	0	0	0	0
Adjusted net profit	654	1,350	1,628	2,576	3,540

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	750	1,260	2,387	3,351	4,459
Other current liabilities	128	352	663	931	1,239
Provisions	19	27	42	53	65
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	10,959	13,540	17,083
Shareholders' fund	2,292	3,592	11,226	13,806	17,350
Total liab. and equities	4,019	7,526	16,612	20,436	25,407
Cash and cash eq.	696	491	3,827	6,031	9,192
Accounts receivables	744	1,079	1,989	2,793	3,716
Inventories	0	0	0	0	0
Other current assets	881	936	1,732	2,375	3,114
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	16,612	20,436	25,407

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	719	1,016	1,429	2,468	3,307
Capital expenditures	(1,188)	(1,616)	(4,348)	(475)	(481)
Change in investments	(439)	22	320	284	416
Other investing cash flows	0	(154)	0	0	0
Cash flow from investing	(1,627)	(1,748)	(4,028)	(191)	(65)
Equities issued/Others	858	0	6,000	0	0
Debt raised/repaid	548	567	0	0	0
Interest expenses	(9)	(21)	(66)	(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	5,934	(72)	(80)
Chg in cash & cash eq.	478	(201)	3,335	2,204	3,161
Closing cash & cash eq.	696	491	3,827	6,031	9,192

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	5.2	10.6	12.2	19.3	26.6
Adjusted EPS	5.2	10.6	12.2	19.3	26.6
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	89.9	140.9	420.4	517.1	649.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	9.3	6.0	3.3	2.2	1.5
EV/EBITDA	35.1	23.9	16.4	10.1	6.9
Adjusted P/E	223.6	110.3	95.6	60.4	44.0
P/BV	13.0	8.3	2.8	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	115.6	107.9	109.2
EBIT margin (EBIT/Revenue)	22.6	21.3	16.8	19.8	20.2
Asset turnover (Rev./Avg TA)	83.0	68.7	58.3	66.5	71.2
Leverage (Avg TA/Avg Equity)	1.8	2.1	1.5	1.5	1.5
Adjusted ROAE	28.5	37.6	14.5	18.7	20.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	33.8	54.9	87.3	40.4	33.1
EBITDA	26.7	46.4	48.2	55.2	33.1
Adjusted EPS	30.0	102.7	15.4	58.2	37.4
Profitability & Return ratios (%)					
EBITDA margin	26.6	25.1	19.9	22.0	22.0
EBIT margin	22.6	21.3	16.8	19.8	20.2
Adjusted profit margin	19.6	26.1	16.8	19.0	19.6
Adjusted ROAE	28.5	37.6	14.5	18.7	20.4
ROCE	19.4	15.4	10.2	13.8	15.1
Working capital days (days)					
Receivables	67	64	58	64	66
Inventory	0	0	0	0	0
Payables	69	71	69	77	79
Ratios (x)					
Gross asset turnover	327.9	386.3	12.7	19.0	27.0
Current ratio	1.8	1.7	2.5	2.6	2.8
Net interest coverage ratio	53.9	29.8	24.6	37.3	45.6
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%

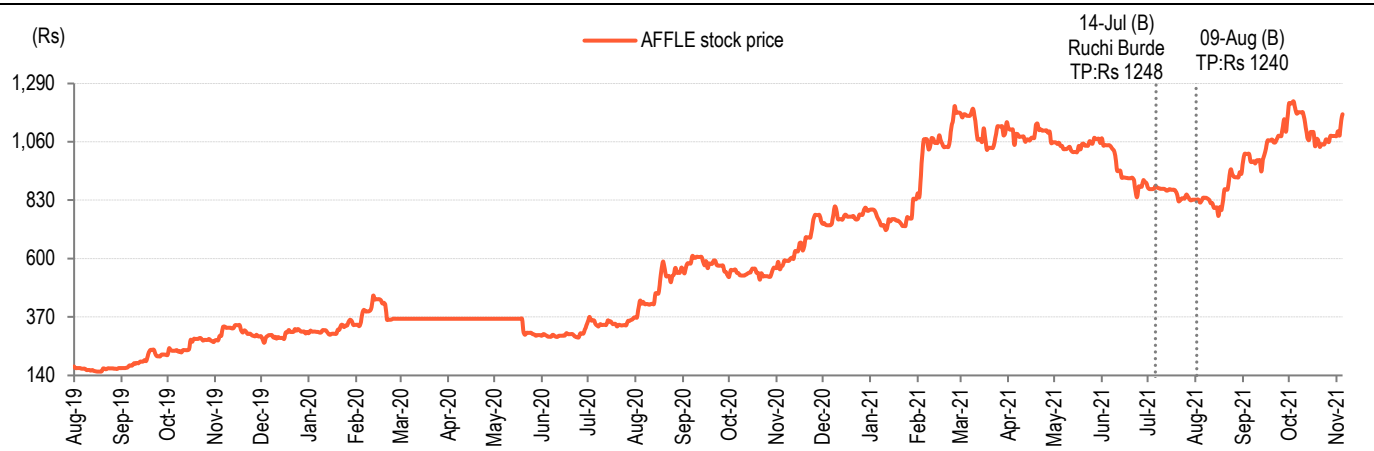
HOLD – Expected return from -6% to +15%

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

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