

**BUY****TP: Rs 1,110 | ▲ 23%****AFFLE (INDIA)**

Technology &amp; Internet

18 May 2023

## Seasonality impacts Q4; outlook remains healthy

- Device addition remained tepid during the quarter but strong additions in converted users
- International business declined 8% QoQ though management expects momentum to return
- Healthy growth outlook backed by a diversified model; we assume coverage with BUY and a TP of Rs 1,110

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**Seasonality dents Q4:** AFFLE's Q4FY23 revenue of Rs 3.6bn was down 5.4% QoQ (+12.9% YoY) due to seasonal weakness and the impact of macro headwinds in the food tech and entertainment verticals in developed markets. International business witnessed a decline of 8% QoQ whereas India business was flattish. Converted users fell 8% QoQ to 62mn while cost per converted user (CPCU) was flat QoQ and YoY.

**Positive growth outlook:** Management indicated that AFFLE has achieved 20-25% growth in India and emerging markets in FY24, and expects similar growth in FY24. From a long-term perspective, we believe the company will see strong device additions and better client acquisition given high penetration in international markets, which should boost revenue growth potential.

**Strategic initiatives to fuel growth:** Management pointed to an increased focus on up-selling and cross-selling all platform use-cases via the CPCU business model to avoid being limited by a single platform. AFFLE has strengthened its strategic partnerships and execution strategies, and aims to secure multi-million-dollar contracts with supply-side partner OEMs and operator partners. The company has also introduced all CPCU use-cases on its connected TV product, enabling greater competitiveness in the advertising market.

**Margin guided to hover upward of 20%:** EBITDA margin declined 195bps QoQ (+85bps YoY) to 19.4% in Q4 as other operating expenses increased owing to audit fees or other professional services, while employee cost was largely stable. Management expects a margin upwards of 20% for FY24. Net profit for Q4 stood at Rs 624mn, down 9.6% QoQ owing to the weaker revenue and lower other income

**BUY, TP Rs 1,110:** The stock is currently trading at 47.5x/42x FY24E/FY25E EPS, at the lower band of its 1Y forward P/E multiple. We expect AFFLE to perform well in its key domestic and global emerging markets. Further, the company is well-diversified with regards to markets, use cases, platforms and customers/publishers. We thus assume coverage with BUY and have a TP of Rs 1,110, valuing the stock at 50.6x FY25E EPS.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AFFLE IN/Rs 901
Market cap	US\$ 292.9mn
Free float	40%
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,369/Rs 867
Promoter/FPI/DII	60%/20%/20%

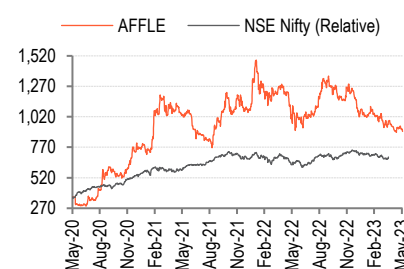
Source: NSE | Price as of 17 May 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	14,340	16,139	18,474
EBITDA (Rs mn)	2,904	2,970	3,325
Adj. net profit (Rs mn)	2,446	2,574	2,911
Adj. EPS (Rs)	18.4	19.3	21.9
Consensus EPS (Rs)	18.4	19.5	22.2
Adj. ROAE (%)	17.2	15.0	15.3
Adj. P/E (x)	49.1	46.6	41.2
EV/EBITDA (x)	7.4	5.9	5.1
Adj. EPS growth (%)	14.6	5.2	13.1

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

## Stock performance



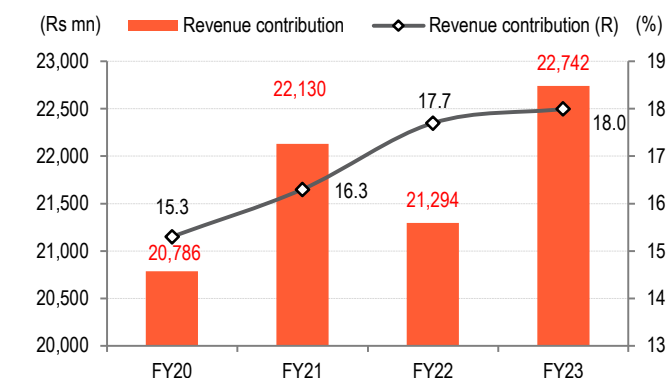
Source: NSE



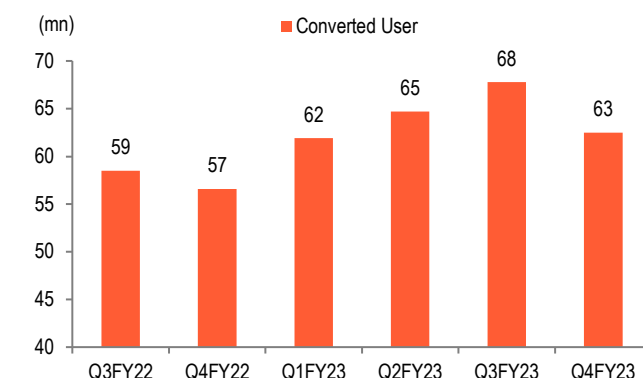
**Fig 1 – Quarterly performance**

(INR mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	3,558	3,761	3,151	(5.4)	12.9	14,340	10,817	32.6
EBITDA	690	803	584	(14.1)	18.2	2,882	2,135	35.0
PAT	624	690	528	(9.6)	18.2	2,446	2,139	14.4
EBITDA Margin (%)	19.4	21.4	18.5	(196bps)	86bps	20.1	19.7	36bps
Adjusted .PAT Margin (%)	17.5	18.3	16.8	(81bps)	78bps	17.1	19.8	(272bps)

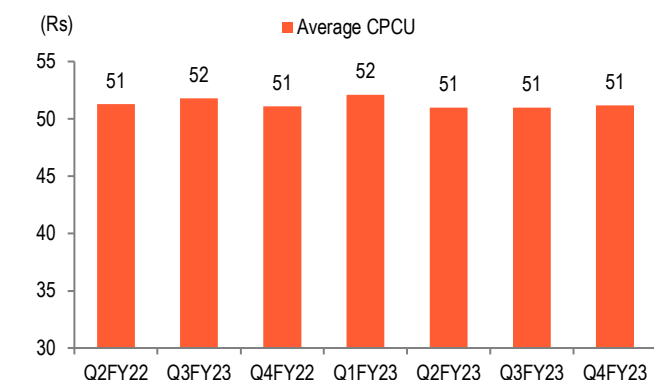
Source: Company, BOBCAPS Research

**Fig 2 – Direct customer growth primarily powered by E, F, G, H Categories**

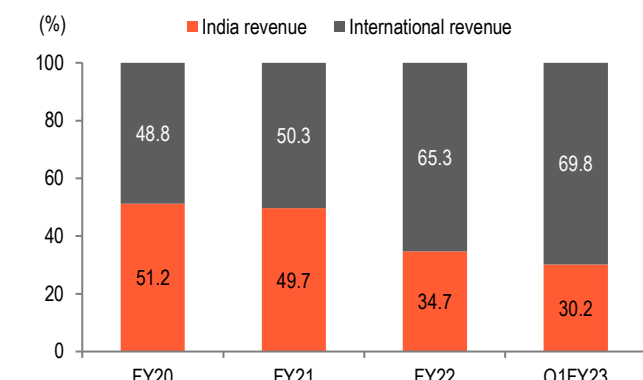
Source: Company, BOBCAPS Research | E – Ecommerce, Edtech, Entertainment; F – Fintech, Food tech, FMCG; G – Gaming, Groceries, Government; H – Health tech)

**Fig 3 – Conversion trend**

Source: Company, BOBCAPS Research

**Fig 4 – CPCU rate**

Source: Company, BOBCAPS Research

**Fig 5 – Revenue contribution**

Source: Company, BOBCAPS Research

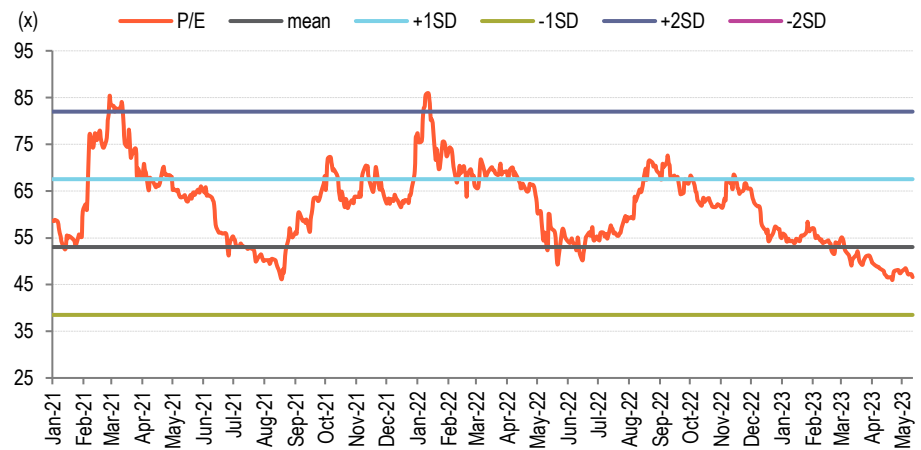
## Earnings call highlights

- Despite macro challenges, management indicated that AFFLE has shown resilience and achieved 20-25% growth in India and other emerging markets in FY24. Management remains positive about the outlook for these markets, which currently account for 81% of business, and is confident of maintaining organic growth in the range of 20-25% for FY24.
- Management expects EBITDA margin to be upwards of 20% for FY24, with a goal of meaningful margin improvement over time on the back of successful integration of inorganic acquisitions.
- AFFLE believes it is well-positioned to counter the short-term struggle in the food-tech and entertainment verticals, and has taken decisive actions in areas such as people, partnerships, products and platforms. Management expects these measures to yield immediate and measurable results in FY24, with ramp-ups in Q2 and turnaround in Q3FY24.
- The company has reprioritised its focus on up-selling and cross-selling across platforms using the CPCU business model to avoid being limited by a single platform.
- AFFLE has capitalised on its first-mover advantage on Apple iOS and is exploring opportunities with other OEMs and operators on Android. Additionally, the company is focusing on acquiring deeper access to customers' first-party data in high-growth verticals such as gaming.

## Valuation methodology

The stock is currently trading at 47.5x/42x FY24E/FY25E EPS, at the lower band of its 1Y forward P/E multiple. We expect AFFLE to perform well in its key domestic and global emerging markets. Further, the company is well-diversified with regards to markets, use cases, platforms and customers/publishers. We thus assume coverage with a BUY rating and have a TP of Rs 1,110, valuing the stock at 50.6x FY25E EPS.

**Fig 6 – P/E band**



Source: Company, BOBCAPS Research

## Key risks

- Rising subcontracting cost and cross-currency headwinds may impact EBITDA margin negatively and act as a downside risk to our assumptions.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.3	901	1,110	BUY
Coforge	COFORGE IN	3.2	4,214	4,830	BUY
HCL Technologies	HCLT IN	35.5	1,075	1,240	BUY
Infosys	INFO IN	63.8	1,247	1,760	BUY
Persistent Systems	PSYS IN	4.7	4,804	5,330	BUY
Tata Consultancy Services	TCS IN	142.9	3,209	3,580	HOLD
Tech Mahindra	TECHM IN	11.2	1,054	1,130	HOLD
Wipro	WPRO IN	25.5	382	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 17 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>5,169</b>	<b>10,817</b>	<b>14,340</b>	<b>16,139</b>	<b>18,474</b>
EBITDA	1,301	2,131	2,904	2,970	3,325
Depreciation	197	325	494	613	618
EBIT	1,104	1,806	2,410	2,356	2,707
Net interest inc./(exp.)	37	71	114	120	140
Other inc./(exp.)	415	715	528	646	710
Exceptional items	0	0	0	0	0
EBT	1,482	2,450	2,824	2,882	3,278
Income taxes	129	302	361	308	367
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	2	13	16	0	0
<b>Reported net profit</b>	<b>1,351</b>	<b>2,135</b>	<b>2,446</b>	<b>2,574</b>	<b>2,911</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,351</b>	<b>2,135</b>	<b>2,446</b>	<b>2,574</b>	<b>2,911</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,260	2,559	2,522	3,316	3,796
Other current liabilities	352	1,067	894	1,105	1,265
Provisions	27	49	52	63	70
Debt funds	1,180	1,486	1,038	1,038	1,038
Other liabilities	1,115	1,347	930	930	930
Equity capital	255	267	267	267	267
Reserves & surplus	3,371	12,026	13,950	16,940	18,752
Shareholders' fund	3,626	12,293	14,217	17,207	19,018
<b>Total liab. and equities</b>	<b>7,560</b>	<b>18,802</b>	<b>19,652</b>	<b>23,660</b>	<b>26,117</b>
Cash and cash eq.	632	6,046	6,457	8,157	9,420
Accounts receivables	1,079	2,347	2,452	3,316	3,796
Inventories	0	0	0	0	0
Other current assets	795	1,036	1,391	2,653	3,037
Investments	1,009	1,379	44	44	44
Net fixed assets	13	24	25	25	20
CWIP	0	0	0	0	0
Intangible assets	862	1,804	2,618	2,800	3,136
Deferred tax assets, net	0	0	0	0	0
Other assets	3,168	6,165	6,665	6,665	6,665
<b>Total assets</b>	<b>7,560</b>	<b>18,802</b>	<b>19,652</b>	<b>23,660</b>	<b>26,117</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,016</b>	<b>2,980</b>	<b>2,409</b>	<b>1,465</b>	<b>2,693</b>
Capital expenditures	(1,616)	(2,911)	(1,923)	(2,000)	(2,000)
Change in investments	22	715	528	646	710
Other investing cash flows	(154)	154	0	0	0
<b>Cash flow from investing</b>	<b>(1,748)</b>	<b>(2,042)</b>	<b>(1,394)</b>	<b>(1,354)</b>	<b>(1,290)</b>
Equities issued/Others	0	5,907	0	0	0
Debt raised/repaid	567	0	0	0	0
Interest expenses	(21)	(71)	(114)	(120)	(140)
Dividends paid	0	0	0	0	0
Other financing cash flows	(15)	0	0	0	0
<b>Cash flow from financing</b>	<b>531</b>	<b>5,836</b>	<b>(114)</b>	<b>(120)</b>	<b>(140)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(201)</b>	<b>6,773</b>	<b>901</b>	<b>(9)</b>	<b>1,263</b>
<b>Closing cash &amp; cash eq.</b>	<b>491</b>	<b>7,265</b>	<b>8,166</b>	<b>8,157</b>	<b>9,420</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	10.6	16.0	18.4	19.3	21.9
Adjusted EPS	10.6	16.0	18.4	19.3	21.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	142.2	460.4	532.5	644.5	712.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.6	2.3	1.5	1.1	0.9
EV/EBITDA	18.4	11.4	7.4	5.9	5.1
Adjusted P/E	85.0	56.2	49.1	46.6	41.2
P/BV	6.3	2.0	1.7	1.4	1.3

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	91.1	87.1	86.6	89.3	88.8
Interest burden (PBT/EBIT)	134.2	135.7	117.2	122.3	121.1
EBIT margin (EBIT/Revenue)	21.4	16.7	16.8	14.6	14.7
Asset turnover (Rev./Avg TA)	68.4	57.5	73.0	68.2	70.7
Leverage (Avg TA/Avg Equity)	2.1	1.5	1.4	1.4	1.4
<b>Adjusted ROAE</b>	<b>37.2</b>	<b>17.4</b>	<b>17.2</b>	<b>15.0</b>	<b>15.3</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	54.9	109.3	32.6	12.5	14.5
EBITDA	46.5	63.8	36.3	2.3	12.0
Adjusted EPS	102.8	51.2	14.6	5.2	13.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.2	19.7	20.2	18.4	18.0
EBIT margin	21.4	16.7	16.8	14.6	14.7
Adjusted profit margin	26.1	19.7	17.1	15.9	15.8
Adjusted ROAE	37.2	17.4	17.2	15.0	15.3
ROCE	15.3	10.2	12.8	10.4	10.9

### Working capital days (days)

Receivables	64	58	61	65	70
Inventory	0	0	0	0	0
Payables	71	64	65	66	70

### Ratios (x)

Gross asset turnover	386.3	446.2	570.9	638.0	940.3
Current ratio	1.7	2.5	2.6	2.8	2.9
Net interest coverage ratio	29.8	25.4	21.1	19.6	19.3
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(0.4)</b>

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

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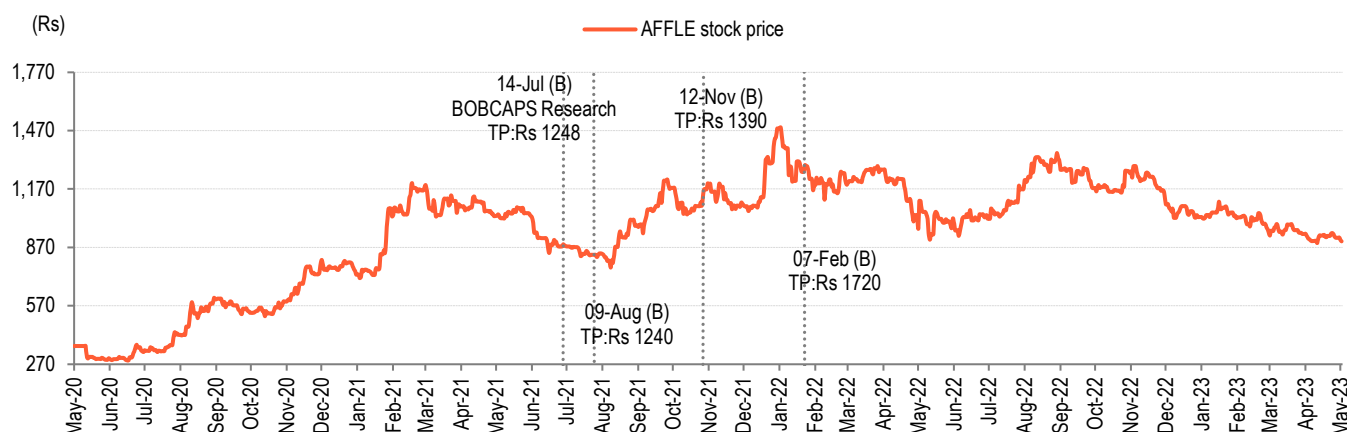
**HOLD** – Expected return from -6% to +15%

**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.

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

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