

CMP: ₹ 1080

Target: ₹ 1255 (16%)

Target Period: 12 months

BUY

February 7, 2023

## Emerging markets stable; some pain in developed markets...

**About the stock:** Affle India (Affle) is a technology platform that enables advertisers to do targeted advertising.

- It helps advertisers to measure the effectiveness of advertisement as it charges only when a user downloads an app or completes a transaction
- As on FY22, 99.1% business comes from consumer platforms while the rest comes from enterprise platforms

**Q3FY23 Results:** Affle reported steady Q3FY23 revenue numbers.

- Revenue grew 6.1% QoQ; converted users grew 4.8% QoQ
- EBITDA margin improved ~140 bps QoQ to 21.4%
- Average CPCU flat sequentially at ₹ 51

**What should investors do?** Affle's share price has grown by ~6.2x since listing [from ~₹ 174 (adjusted for split) in August 2019 to ~₹ 1080 levels in February 2023.

- We maintain **BUY** rating on the stock

**Target Price and Valuation:** We value Affle at ₹ 1,255 i.e. 47x P/E on FY25E EPS.

**Key triggers for future price performance:**

- Key beneficiary of a shift of advertising budget to digital medium
- Six billion connected consumer devices to be added globally by 2025
- Significant increase in India's digital user base from 525 million (mn) in FY20 to 902 mn by FY25E at 11.4% CAGR while mobile ad spend is expected to rise at 32.4% CAGR in the same period
- We expect 25.9% revenue growth in FY22-25E (organic & inorganic combined)

**Alternate Stock Idea:** Apart from Affle, in our IT coverage we also like Persistent.

- Consistent growth aided by continued strong TCV and inorganic opportunities
- BUY with a target price of ₹ 4920



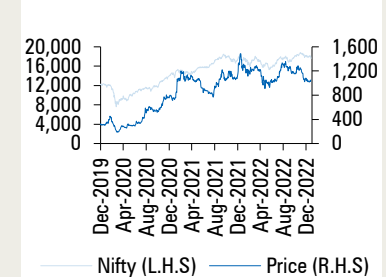
### Particulars

Particular	Amount
Market Cap(₹ Crore)	14,391
Total Debt	148.4
Cash and Invest (₹ Crore)	605
EV (₹ Crore)	13,935
52 week H/L	1380/ 872
Equity capital	26.7
Face value	2.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	59.9	59.9	59.9	59.9
FII	15.4	14.7	14.2	12.7
DII	6.4	7.5	9.1	10.5
Others	18.3	17.9	16.8	16.9

### Price Chart



### Recent event & key risks

- Likely to announce acquisition soon
- Key Risk:** (i) Lower than expected revenue (ii) Lower-than-expected margins

### Research Analyst

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### Key Financial Summary

₹ Crore	FY21	FY22	4 Year CAGR (FY18-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Net Sales	517	1,082	59.5%	1,439	1,798	2,158	25.9%
EBITDA	130	213	47.1%	295	378	464	29.6%
EBITDA Margins (%)	25.2	19.7		20.5	21.0	21.5	
Adjusted Net Profit	103	214	66.5%	233	293	356	18.5%
Adjusted EPS (₹)	8.1	16.1		17.5	22.0	26.7	
P/E	101.9	67.0		61.7	49.1	40.4	
RoNW (%)	28.7	18.1		16.5	17.2	17.3	
RoCE (%)	25.8	17.3		16.3	16.8	16.8	

Source: Company, ICICI Direct Research

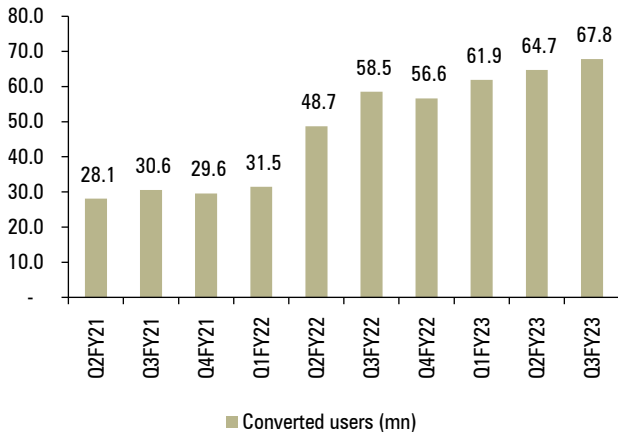
## Key takeaways of recent quarter & conference call highlights

- The company reported steady revenue growth of 6.1% QoQ and 10.8% YoY with revenue of ₹ 376.1 crore. Affle indicated that despite being a seasonally strong quarter the revenue growth was little muted due to the pain visible in developed markets
- The company's India region reported revenue of ₹ 137.3 crore, up 8.5% QoQ & 23.4% YoY while its international revenue reported muted growth of 0.6% QoQ & 5.6% YoY to ₹ 246.4 crore. India and international markets grew 23% YoY each
- Converted users during the quarter grew 4.8% QoQ & 15.9% YoY to 67.8 mn while average realisations remained flat sequentially at ₹ 51. The company indicated that it let go some low pricing volume for the quarter which helped in holding realisations. Affle further said the average CPCU in emerging markets is higher than average CPCU in India region. The company reported CPCU revenue of ₹ 345.8 crore, up 4.8% QoQ & 14.1% YoY
- The company's consumer platform business contributed majority of the revenue with 99.3% while the enterprise platform business contributed 0.7% of revenue. In consumer platform, CPCU contributed 91.9% of the mix with a revenue of ₹343.2 crore, up 4.9% QoQ & 13.1% YoY while Non-CPCU mix was 8.1%
- EBITDA margins improved ~140 bps QoQ to 21.4% while EBITDA in absolute terms was ₹80.3 crore, up 13.5% QoQ. Margin improvement during the quarter was aided by lower data & inventory cost which declined by ~130 bps QoQ to 60.7% of revenue (declined by from peak of 63.9% of revenue in Q2FY22). The company indicated that the steady decline in inventory & data cost was due to its focus of increasing accretive CPCU revenue business. Affle added that as it scales up the business, the inventory & data cost will remain in ~60-65% of the revenue & will not increase linearly with respect to revenue growth. The company also added that during the quarter it rolled out wage hike in certain geographies at 4%
- The company indicated that it expects lower converted users in Q4 as per historical trends as Q3 is seasonally strong quarter and clients tend to spend large chunk of their advertising budgets in Q3, leaving much small portion for Q4. Affle continues to maintain that they expect growth momentum to continue in CY23, FY24 and growth rates are likely to sustain. The company also maintained that it does not see any issues in growing at 25% CAGR for the next few years
- In the developed markets the company indicated that it has witnessed advertising budget cut from the clients. Affle also indicated that the weakness was seen in certain clients & verticals across US & Europe regions. The company added that it is calibrating its model to cater to this structural shifts. Affle also indicated that addressable market in US and Europe is huge and it is still scratching the surface in this region, which provides it with ample opportunity to grow as it continues to look to add new clients here
- On the capital allocation policy of the company, the company mentioned that it is not looking to pay dividends in the first five years of listing as the cash will be used for business growth including any potential M&A. On the M&A front, it has identified target and will make disclosures at an appropriate time. The company also mentioned that unlike its earlier acquisition of Jampp where the target entity was merely breakeven at EBITDA level, Affle is now looking for a target with healthy EBITDA margins
- On the Competition Commission of India's (CCI) judgement on Google policy the company indicated that it is too early to comment on the same. The company also mentioned that its business is not built up in keeping in view of any particular operating system. Hence, it does not see any impact of this order on their business

- The company also mentioned that it is not seeing trend of profitability pressure and corresponding advertisement budget cut spend in the Indian as well as emerging market where lot of conglomerates are continuing to go digital and spend on advertising to enhance their reach. As per the company, even large advertising companies like Google, Meta are looking to capture their next 100-200 mn customers from emerging markets. The company also mentioned that user acquisition in the emerging market continued to be the long term opportunity and the company is looking to capture this opportunity for long term sustainable growth

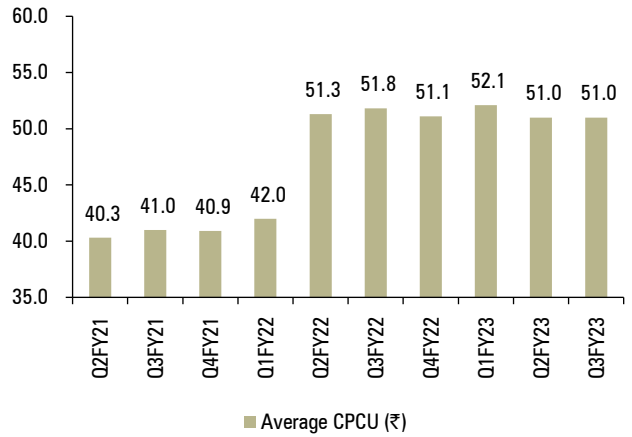
## Key Metrics

Exhibit 1: Converted users increasing steadily



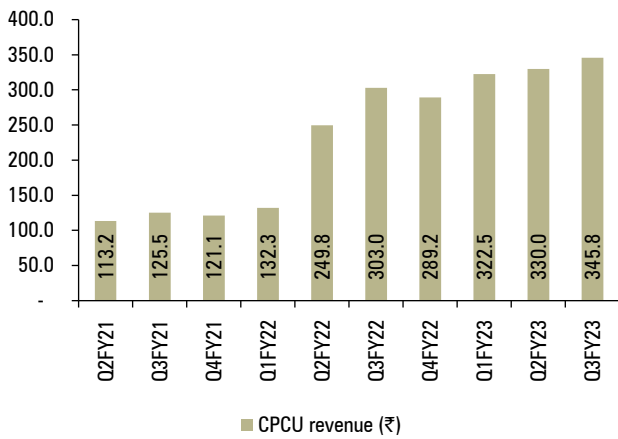
Source: Company, ICICI Direct Research

Exhibit 2: Average CPCU steady despite macro headwinds



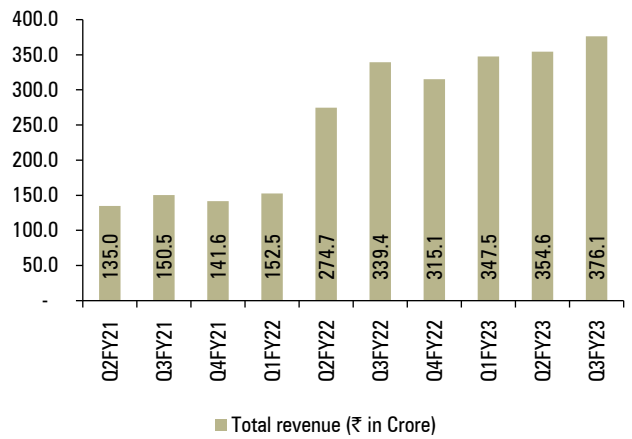
Source: Company, ICICI Direct Research

Exhibit 3: CPCU revenue growing steadily



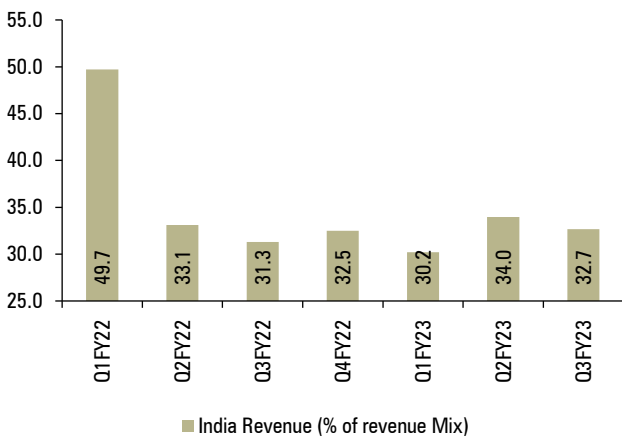
Source: Company, ICICI Direct Research

Exhibit 4: Total revenue trend



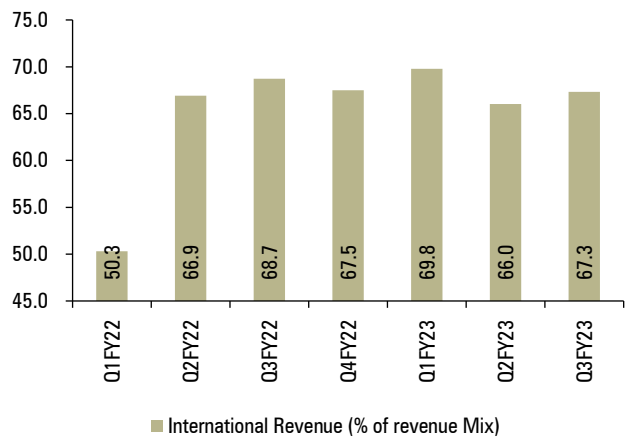
Source: Company, ICICI Direct Research

Exhibit 5: India revenue mix (%)



Source: Company, ICICI Direct Research

Exhibit 6: International revenue mix (%)



Source: Company, ICICI Direct Research

**Exhibit 1: P&L**

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	376.1	339.4	10.8	354.6	6.1	Revenue growth aided by continued increase in converted users while realisation remained flat QoQ
Employee expenses	48.3	37.1	33.4	46.5	4.3	
Inventory & data costs	228.1	215.4	6.5	220.0	4.1	
SG&A expenses	19.3	19.3	0.3	17.3	11.4	
EBITDA	80.3	67.7	18.7	70.8	13.5	
EBITDA Margin (%)	21.4	19.9	142 bps	20.0	140 bps	Margin increased due to operating leverage
Depreciation & amortisation	13.5	9.9	37.2	13.0	3.8	
EBIT	66.8	57.8	15.5	57.7	15.7	
Finance cost	3.2	1.9	68.8	2.9	10.6	
EBIT Margin (%)	17.8	17.0	72 bps	16.3	148 bps	
Other income	16.5	14.4	14.2	12.8	28.6	
PBT	80.1	70.4	13.8	67.7	18.3	
Tax paid	11.0	8.1	35.7	8.7	26.1	ETR high in the quarter due to lower deferred tax
PAT	69.1	62.3	11.0	58.98	17.2	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

?	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
(₹ Crore)										
Revenue	1,460	1,439	-1.5	1,884	1,798	-4.5	2,355	2,158	-8.4	we are baking some impact in developed markets
EBITDA	299	295	-1.5	396	378	-4.5	506	464	-8.4	
EBITDA Margin (%)	20.5	20.5	0 bps	21.0	21.0	0 bps	21.5	21.5	0 bps	
PAT	232	233	0.5	301	293	-2.8	382	356	-6.8	
EPS (₹)	17.4	17.5	0.5	22.6	22.0	-2.8	28.7	26.7	-6.8	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit & loss statement (₹ crore)				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>1,082</b>	<b>1,439</b>	<b>1,798</b>	<b>2,158</b>
Growth (%)	135.0	33.0	25.0	20.0
COGS (employee and Inventory)	809	1,072	1,331	1,586
Other expenses	60	72	90	108
<b>Total Operating Expenditure</b>	<b>869</b>	<b>1,144</b>	<b>1,421</b>	<b>1,694</b>
<b>EBITDA</b>	<b>213</b>	<b>295</b>	<b>378</b>	<b>464</b>
Growth (%)	63.6	38.4	28.0	22.9
Depreciation	32	55	68	82
Other Income (net)	64	28	28	28
PBT	245	268	337	410
Total Tax	30	35	44	53
Reported PAT	214	233	293	356
<b>Adjusted PAT</b>	<b>214</b>	<b>233</b>	<b>293</b>	<b>356</b>
Growth (%)	107.5	8.8	25.8	21.6
<b>Reported EPS</b>	<b>16.2</b>	<b>17.5</b>	<b>22.0</b>	<b>26.7</b>
<b>Adjusted EPS (₹)</b>	<b>16.1</b>	<b>17.5</b>	<b>22.0</b>	<b>26.7</b>
Growth (%)	98.6	8.8	25.8	21.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement (₹ crore)				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	245	268	337	410
Add: Depreciation	32	55	68	82
(Inc)/dec in Current Assets	(171)	(183)	(130)	(130)
Inc/(dec) in CL and Provisions	161	114	153	153
Taxes paid	(28)	(35)	(44)	(53)
<b>CF from operating activities</b>	<b>206</b>	<b>191</b>	<b>357</b>	<b>434</b>
(Inc)/dec in Investments	(243)	35	35	35
(Inc)/dec in Fixed Assets	(366)	(88)	(110)	(132)
<b>CF from investing activities</b>	<b>(556)</b>	<b>(53)</b>	<b>(75)</b>	<b>(97)</b>
Interst expenses	(3)	(7)	(7)	(7)
Others	619	(21)	26	32
<b>CF from financing activities</b>	<b>615</b>	<b>(28)</b>	<b>19</b>	<b>25</b>
Net Cash flow	267	110	301	362
Exchange difference	-	-	1	1
Opening Cash	49	316	426	727
<b>Closing Cash</b>	<b>316</b>	<b>426</b>	<b>727</b>	<b>1,089</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	27	27	27	27
Reserve and Surplus	1,153	1,386	1,679	2,036
Total Shareholders funds	1,179	1,413	1,706	2,063
Total Debt	148	127	154	186
Long term provisions	124	144	180	216
Deferred Tax Liability	6	7	9	11
Total non current liability	130	151	189	227
<b>Total Liabilities</b>	<b>1,457</b>	<b>1,691</b>	<b>2,048</b>	<b>2,475</b>
<b>Assets</b>				
Property, plant and equipment	3	4	6	9
Goodwill	616	616	616	616
Intangibles	80	112	151	198
Intangible assets under development	42	42	42	42
Other assets	142	142	142	142
Cash	316	426	727	1,089
Bank	288	288	288	288
Trade receivables	235	300	375	451
Unbilled revenue	76	147	183	220
Prepayment & O.fin.assets	6	56	70	84
Other current assets	22	19	24	29
Total Current Assets	943	1,236	1,668	2,160
Trade payables	256	351	438	526
Unearned revenue	4	16	20	24
OCL & provisions	109	95	119	143
Total Current Liabilities	369	462	578	693
Net Current Assets	573	774	1,090	1,467
<b>Application of Funds</b>	<b>1,457</b>	<b>1,691</b>	<b>2,048</b>	<b>2,475</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Adjusted EPS	16.1	17.5	22.0	26.7
Cash EPS	18.5	21.6	27.1	32.9
BV	88.5	106.0	128.0	154.8
DPS	-	-	-	-
Cash Per Share	45.4	53.6	76.2	103.4
<b>Operating Ratios (%)</b>				
EBITDA margin	19.7	20.5	21.0	21.5
EBIT margin	16.7	16.7	17.2	17.7
PAT Margin	19.8	16.2	16.3	16.5
Debtor days	79	76	76	76
Unbilled revenue	26	37	37	37
Creditor days	88	93	93	93
<b>Return Ratios (%)</b>				
RoE	18.1	16.5	17.2	17.3
RoCE	17.3	16.3	16.8	16.8
RoIC	22.3	25.7	31.2	36.2
<b>Valuation Ratios (x)</b>				
P/E	67.0	61.7	49.1	40.4
EV / EBITDA	65.4	46.8	35.8	28.4
EV / Net Sales	12.9	9.6	7.5	6.1
Market Cap / Sales	13.3	10.0	8.0	6.7
Price to Book Value	12.2	10.2	8.4	7.0
<b>Solvency Ratios</b>				
Debt/EBITDA	0.7	0.4	0.4	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.9	1.1	1.1	1.1
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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