Affle India (AFFIND)

ICICI direct Research

CMP: ₹ 910	Target: ₹ 980 (8%)	Target Period: 12 months	HOLD

May 17, 2023

Company Update

Developed markets continue to face issues; recovery likely from Q2FY24 onwards…

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 FY23, 99.2% business comes from consumer platforms while the rest comes from enterprise platforms

Q4FY23 Results: Affle reported weak Q4FY23 revenue numbers.

- Revenue was up 12.9% YoY; converted users grew 10.4% YoY
- EBITDA margin declined ~120 bps YoY to 20.1%
- Average CPCU grew 0.2% YoY to ₹ 51.2

What should investors do? Affle's share price has grown by ~5.2x since listing [from ~₹ 174 (adjusted for split) in August 2019 to ~₹ 910 levels in May 2023.

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value Affle at ₹ 980 i.e. 37x 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 20.3% revenue growth in FY23-25E

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 ₹ 5170

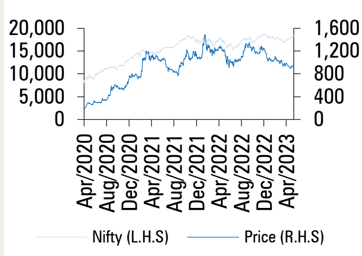
Particulars

Particular	Amount
Market Cap(₹ Crore)	12,126
Total Debt	103.1
Cash and Invest (₹ Crore)	646
EV (₹ Crore)	11,583
52 week H/L	1369/ 872
Equity capital	26.6
Face value	2.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	59.9	59.9	59.9	59.9
FII	14.7	14.2	12.7	11.4
DII	7.5	9.1	10.5	12.0
Others	17.9	16.8	16.9	16.7

Price Chart



Recent event & key risks

- Developed market is facing issues
- **Key Risk:** (i) Higher than expected revenue (ii) Lower-than-expected margins

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ Crore	FY21	FY22	FY23	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	517	1,082	1,434	53.7%	1,734	2,074	20.3%
EBITDA	130	213	293	45.1%	351	425	20.5%
EBITDA Margins (%)	25.2	19.7	20.4		20.3	20.5	
Adjusted Net Profit	103	214	245	54.4%	288	352	20.0%
Adjusted EPS (₹)	8.1	16.2	18.4		21.6	26.4	
P/E	85.9	56.5	48.5		42.0	34.4	
RoNW (%)	28.7	18.1	16.7		16.4	16.7	
RoCE (%)	25.8	17.3	17.9		14.8	15.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- The company reported steady revenue of ₹ 355.8 crore, down 5.4% QoQ & up 12.9% YoY in a seasonally weak quarter. The company mentioned that the business in developed markets was impacted by global macro headwinds with fintech & entertainment witnessing a severe impact
- India region (34.7% of the mix) declined 4.8% QoQ and grew 20.5% to ₹ 123.5 crore while the international business (65.3% of mix) declined 5.7% and grew 9.3% YoY to ₹ 232.3 crore
- Converted users during the quarter declined sharply on a sequential basis by 7.8% to 62.5 mn while YoY it grew 10.4%. Average CPCU during the quarter reported muted growth of 0.4% QoQ to ₹ 51.2. The company reported a CPCU revenue of ₹ 320 crore, up 10.6% YoY
- Consumer platform business contributed 98.9% of the revenue mix in Q4 while enterprise platform contributed 1.1% of revenue. In the consumer platform, CPCU revenue (90.1% of consumer platform revenue mix) grew 10% YoY to ₹ 317.1 crore while non CPCU revenue grew 44.9% YoY to ₹ 34.8 crore
- The EBITDA margin declined ~200 bps QoQ to 19.4% while in absolute terms EBITDA came in at ₹ 71 crore (adjusting for ₹ 2.6 crore worth of liabilities written back). The company mentioned that the margins were impacted by a decline in revenue & sequential increase of 9.4% in SG&A expenses in Q4 due to payment of auditor's fees & other annual expenses, which are generally incurred in the last quarter of the fiscal year. The company's data & inventory cost was largely steady at 60.8% in Q4 compared to Q3 while on a YoY basis it declined 260 bps
- For FY23, the company reported a revenue of ₹ 1,434 crore, up 32.6%. India region (32.9% of the mix) grew 25.7% while international business (67.1% of mix) grew 36.2%. Affle, during the year, converted 256.8 mn users, up 31.5% while average CPCU came was at ₹ 51.3, up 2.8%. The company during the year reported CPCU revenue of 1,318.2 crore, up 35.3%
- The company indicated that India & Emerging markets contributed ~81% of the revenue and these regions grew at 20-25%+ during the last fiscal year while developed markets, contributing the balance 19% of revenue mix, reported a muted performance with some segments like fintech & entertainment declining due to macro headwinds faced by them. Affle said that it started FY24 on a positive note but the deteriorating macros are likely to see continued impact on its growth especially in developed markets
- The company, however, indicated that its long term growth outlook remains strong as it believes that despite the macro headwinds its business was resilient in India & Emerging markets. Affle further added that the digital ad spending of India & emerging markets is still lower compared to developed markets wherein digital ad spends is higher than the global average of 63% of total ad spending. The said countries like China, US & UK's digital spend were at 82%, 64% & 77% of total advertising spend, respectively, while India's digital spending was at just 29% in 2021. The company mentioned that accelerated push to digital spending & the RoI linked CPCU business model will aid sustainable growth for the company in the long run
- The company mentioned that to grow its business in international markets it has implemented the following strategy:

  a) Reorganisation: The company indicated that it has reorganised its organisation structure and the CEO Anuj Soham will personally head the developed markets business in FY24. Affle added that all employees in developed markets will now report to the CEO and the employees are given additional responsibility to create more upsell and cross sell opportunities for aggressively growing the business while the company is offering them attractive incentives for certain target achievements

b) Strategic partnership: The company mentioned that it has realigned its strategic partnerships with greater focus on higher value conversion of multiyear & multi-million contracts with select supply side partners, OEMs and operator partners across developed markets

c) Connected TV Product (CTV): The company mentioned that it had introduced all its CPCU use cases on CTVs and added that it has integrated those with a leading mobile measurement platform, which will strengthen the company's competitive advantage as the only CPCU based CTV platform for advertisers. This will help Affle gain premium CTV CPCU based business aiding in growing its revenue from Q2FY24 onwards. The company added that the CTV CPCU business has huge potential not only in developed markets of US & UK but also in emerging markets

d) Apple iOS: The company mentioned that it has got a significant first movers' advantage on Apple's iOS advertising product as the company embraced the changes rolled out by Apple in 2021 very early. The company added that it now has further strengthened its position as it has rolled out Apple app store related multiple touch points providing advertisers ROI driven use cases on iOS and Apple's app store. The company also mentioned that it is also working to roll out multiple touch points on android OS & other OEMs

e) Inorganic opportunity: The company mentioned that it has recalibrated its inorganic acquisition plan for acquiring deeper access to first party data in high growth verticals like gaming. Affle said it is looking at acquisition for verticalisation scaling and gaming is a high growth segment, which contributes ~50-80% for some of its listed peers in the developed markets. The company mentioned that gaming contributes less than ~10% to its revenue. Hence, to grow its business in gaming it is looking for specific inorganic opportunity. The company mentioned that it looking to close at least one M&A opportunity in FY24

- On the FY24 outlook, the company mentioned that in FY23 despite the macro headwinds it was able to grow at 35%+. The company is now guiding for 20-25% organic revenue growth in FY24 and mentioned that any organic opportunity, if they are able to close in FY24 would be an additional revenue opportunity

- The company mentioned that it has already started the implementation of its new strategy for growing its developed markets business & the same is likely to show results from Q2FY24 onwards. The company said the growth from its new strategy is sustainable over a longer period as its current base in developed markets is very small. The company mentioned that in developed markets it has customer base of 30-40 meaningful customers and is looking to grow this base to 2-3x in the medium term. The company also mentioned that with its expansion in iOS, gaming segment & CTV products which are premium pricing models its average CPCU is likely to improve

- On the margins front, Affle mentioned that it has delivered 20%+ EBITDA margin in FY23, which is an improvement of ~70 bps compared to last year. The company mentioned that its organic business EBITDA margin is ~25% while the acquired companies are margin dilutive currently. The company mentioned that it took about three years for lifting margins to mid-teen levels for Mediasmart & Appnext while it is still working to improve the margins of Jampp. The company, however, indicated that it will continue to work on improving the overall margins but indicated that margin expansion will be gradual. Affle also mentioned it is targeting mid-teen EBITDA margin company (for acquisition vs EBITDA-breakeven in the past). Hence, margins may have potential to grow in future. The company mentioned that margin expansion at the company level will come from premiumisation of its portfolio, operating leverage in SG&A and scaling the margins of its acquired companies

- Affle added that it has defended its average CPCU even during the uncertain times despite peers dropping prices. It said it is now looking for premium business as it aims to scale iOS business & CTV products business, which may help in average CPCU growth in the medium term

Exhibit 1: P&L

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	355.8	315.1	12.9	376.1	-5.4	Converted users grew by 10.4% YoY while average CPCU increased by 0.2% YoY
Employee expenses	49.3	42.4	17.9	48.3	2.4	
Investory & data costs	216.3	199.6	9.2	228.1	-5.7	
SG&A expenses	21.2	14.7	44.3	19.3	9.4	SG&A expnses grew in Q4 due to auditors fees & other annual expenses
EBITDA	71.6	58.4	22.7	80.3	-10.8	
EBITDA Margin (%)	20.1	18.5	161 bps	21.4	-123 bps	
Depreciation & amortisation	13.6	9.3	45.4	13.5	0.2	
EBIT	58.1	49.0	18.4	66.8	-13.0	
Finance cost	3.1	1.6	91.8	3.2	-3.1	
EBIT Margin (%)	16.3	15.6	76 bps	17.8	-144 bps	
Other income	14.9	28.8	-48.4	16.5	-9.7	
PBT	69.9	76.3	-8.4	80.1	-12.8	
Tax paid	7.5	7.6	-1.2	11.0	-31.8	ETR was low during the quarter due to deferred tax benefits from subsidy
PAT	62.4	68.7	-9.2	69.1	-9.7	

Source: Company, ICICI Direct Research

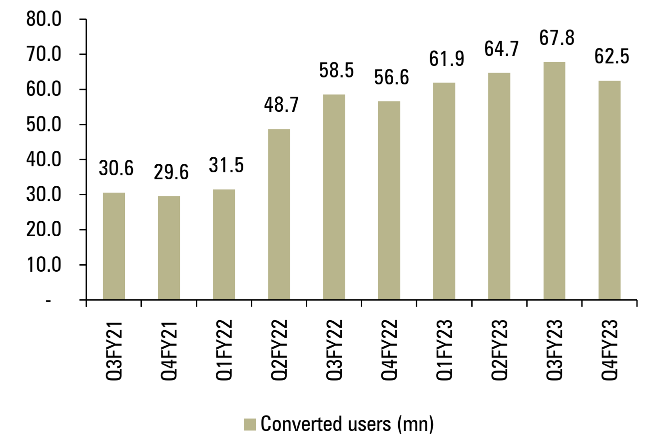
Exhibit 2: Change in estimates

	FY24E			FY25E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,798	1,734	-3.6	2,158	2,074	-3.9	We re-aligned estimates on FY23 numbers
EBITDA	378	351	-7.0	464	425	-8.3	
EBITDA Margin (%)	21.0	20.3	-73 bps	21.5	20.5	-99 bps	
PAT	293	288	-1.7	356	352	-1.1	
EPS (₹)	22.0	21.6	-1.7	26.7	26.4	-1.1	

Source: Company, ICICI Direct Research

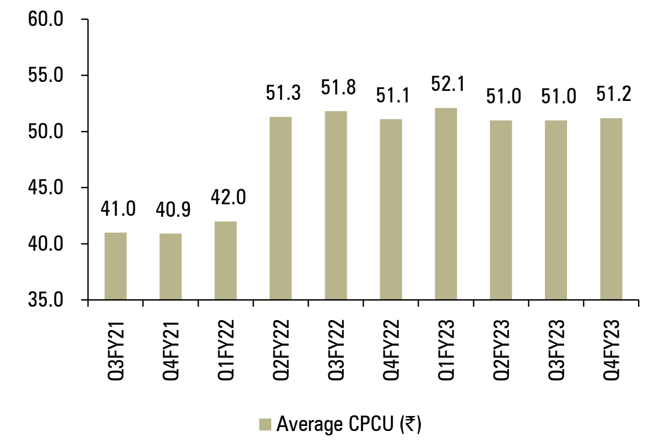
Key Metrics

Exhibit 3: Converted users decline in Q4 due to seasonality



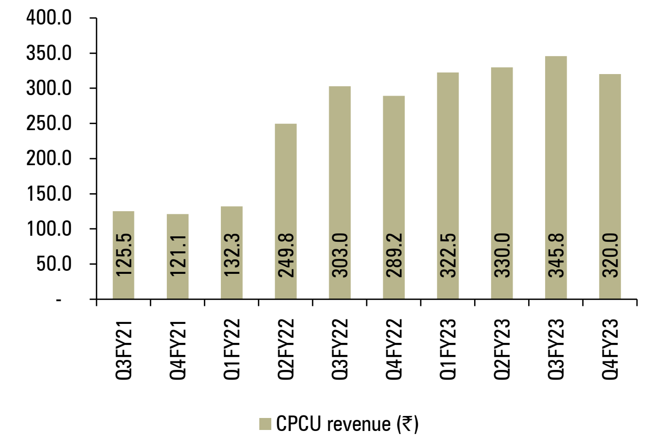
Source: Company, ICICI Direct Research

Exhibit 4: Average CPCU steady despite macro headwinds



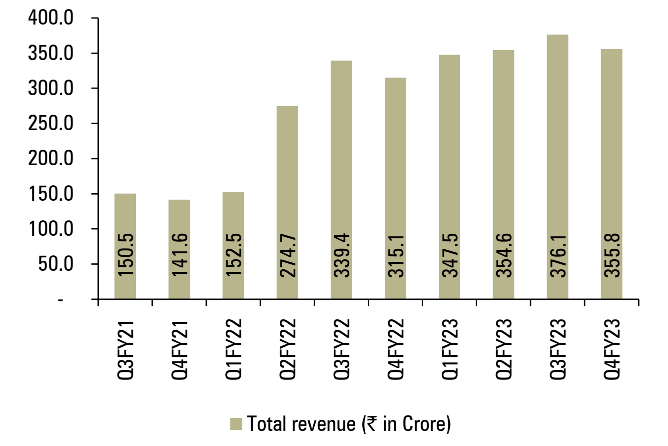
Source: Company, ICICI Direct Research

Exhibit 5: CPCU revenue decline in Q4 due to seasonality



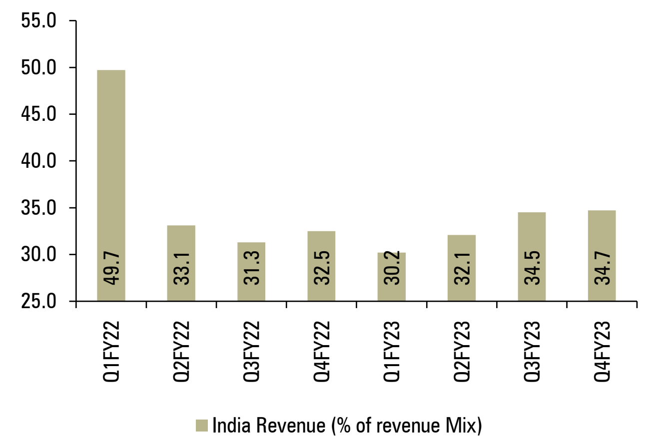
Source: Company, ICICI Direct Research

Exhibit 6: Total revenue trend



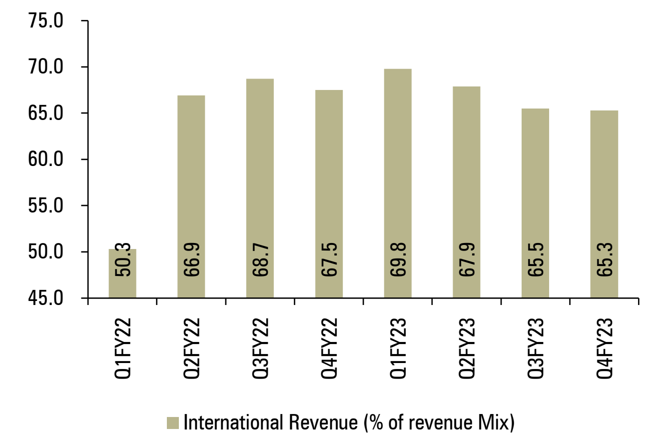
Source: Company, ICICI Direct Research

Exhibit 7: India revenue mix (%)



Source: Company, ICICI Direct Research

Exhibit 8: International revenue mix (%)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit & loss statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	**1,082**	**1,434**	**1,734**	**2,074**
Growth (%)	109.3	32.6	20.9	19.6
COGS (employee and Inventory)	809	1,072	1,293	1,545
Other expenses	60	74	89	104
Total Operating Expenditure	869	1,145	1,382	1,649
EBITDA	**213**	**293**	**351**	**425**
Growth (%)	63.6	37.5	19.9	21.1
Depreciation	32	49	56	56
Other Income (net)	64	42	36	36
PBT	245	282	331	405
Total Tax	30	36	43	53
Reported PAT	214	245	288	352
Adjusted PAT	**214**	**245**	**288**	**352**
Growth (%)	107.5	14.4	17.6	22.4
Reported EPS	**16.2**	**18.4**	**21.6**	**26.4**
Adjusted EPS (₹)	**16.2**	**18.4**	**21.6**	**26.4**
Growth (%)	100.2	13.9	17.2	22.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	245	282	331	405
Add: Depreciation	32	49	56	56
(Inc)/dec in Current Assets	(171)	(46)	(108)	(123)
Inc/(dec) in CL and Provisions	161	(1)	421	169
Taxes paid	(28)	(40)	(43)	(53)
CF from operating activities	**206**	**260**	**621**	**419**
(Inc)/dec in Investments	(243)	(5)	48	48
(Inc)/dec in Fixed Assets	(366)	(192)	(106)	(127)
CF from investing activities	**(556)**	**(197)**	**(58)**	**(79)**
Interst expenses	(3)	(6)	(12)	(12)
Others	619	(53)	20	25
CF from financing activities	**615**	**(59)**	**8**	**13**
Net Cash flow	267	4	572	353
Exchange difference	-	-	-	-
Opening Cash	49	316	332	904
Closing Cash	**316**	**332**	**904**	**1,257**

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	27	27	27	27
Reserve and Surplus	1,153	1,441	1,729	2,081
Total Shareholders funds	1,179	1,467	1,755	2,108
Total Debt	148	103	123	148
Long term provisions	124	83	173	207
Deferred Tax Liability	6	5	262	314
Total non current liablity	130	88	436	521
Total Liabilities	**1,457**	**1,658**	**2,315**	**2,778**
Assets				
Property,plant and equipment	3	6	8	12
Goodwill	616	664	664	664
Intangibles	80	116	164	231
Intangible assets under development	42	49	49	49
Other assets	142	12	12	12
Cash	316	332	904	1,257
Bank	288	314	314	314
Trade receivables	235	245	297	355
Unbilled revenue	76	104	125	150
Prepayment & O.fin.assets	6	11	13	15
Other current assets	22	159	192	230
Total Current Assets	943	1,164	1,844	2,320
Trade payables	256	252	305	365
Unearned revenue	4	2	3	3
OCL & provisions	109	98	118	142
Total Current Liabilities	369	352	426	510
Net Current Assets	573	811	1,418	1,810
Application of Funds	**1,457**	**1,658**	**2,314**	**2,778**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Adjusted EPS	16.2	18.4	21.6	26.4
Cash EPS	18.5	22.5	25.9	30.7
BV	88.5	110.2	131.8	158.3
DPS	-	-	-	-
Cash Per Share	45.4	48.5	91.4	117.9
Operating Ratios (%)				
EBITDA margin	19.7	20.4	20.3	20.5
EBIT margin	16.7	17.0	17.0	17.8
PAT Margin	19.8	17.1	16.6	17.0
Debtor days	79	62	62	62
Unbilled revenue	26	26	26	26
Creditor days	88	65	65	65
Return Ratios (%)				
RoE	18.1	16.7	16.4	16.7
RoCE	17.3	17.9	14.8	15.0
RoIC	22.3	25.3	28.2	31.9
Valuation Ratios (x)				
P/E	57.1	49.1	42.5	34.7
EV / EBITDA	55.4	40.0	31.8	25.5
EV / Net Sales	10.9	8.2	6.4	5.2
Market Cap / Sales	11.3	8.5	7.1	5.9
Price to Book Value	10.4	8.4	7.0	5.8
Solvency Ratios				
Debt/EBITDA	0.7	0.4	0.4	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.9	1.5	1.5	1.5
Quick Ratio	0.7	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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