Affle India (AFFIND)

ICICI direct Research

CMP: ₹ 1154 | Target: ₹ 1350 (17%) | Target Period: 12 months | **BUY**

November 9, 2022

Company Update

ICICI Securities – Retail Equity Research

Developed market impacts Q2; outlook strong…

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

Q2FY23 Results: Affle reported weak Q2FY23 revenue numbers.

- Revenue grew 2% QoQ. Converted users grew 4.5% QoQ
- EBITDA margin improved ~20 bps QoQ to 20%
- Realisation declined 2.1% QoQ

What should investors do? Affle's share price has grown by ~6.6x since listing [from ~₹ 174 (adjusted for split) in August 2019 to ~₹ 1154 levels in November 2022].

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

Target Price and Valuation: We value Affle at ₹ 1,350 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 29.6% 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 ₹ 4370

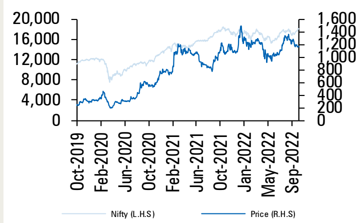
Particulars

Particular	Amount
Market Cap(₹ Crore)	15,377
Total Debt	148.4
Cash and Invest (₹ Crore)	605
EV (₹ Crore)	14,921
52 week H/L	1511/ 872
Equity capital	26.7
Face value	2.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	59.9	59.9	59.9	59.9
FII	15.7	15.4	14.7	14.2
DII	6.6	6.4	7.5	9.1
Others	17.9	18.3	17.9	16.8

Price Chart



Recent event & key risks

- Impact of US$3-4 mn in H1FY23 in US and Europe
- **Key Risk:** (i) Lower than expected revenue (ii) Lower-than-expected margins

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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%	1,460	1,884	2,355	29.6%
EBITDA	130	213	47.1%	299	396	506	33.4%
EBITDA Margins (%)	25.2	19.7		20.5	21.0	21.5	
Adjusted Net Profit	103	214	66.5%	232	301	382	21.3%
Adjusted EPS (₹)	8.1	16.1		17.4	22.6	28.7	
P/E	108.9	71.6		66.3	50.9	40.2	
RoNW (%)	28.7	18.1		16.4	17.6	18.2	
RoCE (%)	25.8	17.3		16.2	17.1	17.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- The company reported muted revenue growth of 2% QoQ and 29.1% YoY with revenue of ₹ 354.6 crore. Affle indicated its revenue in H1 was impacted to the tune of US$3-4 mn due to macroeconomic headwinds in developed markets, especially the US and Europe
- Converted users continued their strong growth increasing 4.5% QoQ and 32.9% to 64.7 mn but average realisation (CPCU) declined 2.1% QoQ to ₹ 51, which ultimately resulted in consumer CPCU revenue of ₹ 330 crore. Affle reported non CPCU revenue of ₹ 24.6 crore
- The company's consumer platform business contributed 99.3% of the quarter's revenue while the enterprise platform business contributed 0.7% of revenue. In consumer platform, 92.9% revenue came from CPCU model while 7.1% came from non-CPCU
- EBITDA margins of the company were up marginally by ~20 bps QoQ to 20%. Affle's employee cost increased 8.6% QoQ as it continues its investment in sales team, on ground presence in emerging markets and hiring in specific verticals. Despite this, margins of the company improved due to optimisation of inventory & data cost (remained flat during the quarter). The company indicated that it has further scope to rationalise data and inventory costs, going forward, as it continues to pick up volumes of better pricing
- Affle's international business contribution to revenue mix declined 190 bps QoQ to 67.8% while domestic businesses contribution was 32.1%. In rupee terms, the company's international business reported revenue of ₹ 240.8 crore, down 0.7% QoQ. The company also indicated that Jampp is fully integrated now and Jampp revenues in the quarter were impacted to the tune of potential loss number, it indicated
- On India market, the company mentioned that it grew 10% QoQ this quarter. Growth is expected to be strong in H2 as well. The company mentioned that in this market Edtech, crypto sectors are not doing well but growth is coming from retail, education, travel, etc. The company mentioned that funding issues with a lot of start-ups continues but due to wide base of advertisers, growth in this market is expected to be strong
- The company indicated that digital advertising adoption curve in India and emerging markets continue to be strong and is expected to be strong in coming years as well as time spent on mobile/tab continues to rise, especially from young generations. It mentioned that digital advertising for developed market forms 50% of the mix for emerging markets while it is still in the range of 20-30% for emerging markets depending on the country. It mentioned that there is significant scope for emerging markets to catch up developed markets, going forward. It also indicated that advertisers will continue to align their advertising budgets to digital advertising where more time is being spent
- Developed market customers, especially in the US and Europe are feeling some heat due to high inflation, geopolitical factors, which will have some impact on digital advertising in this region in the near term. The company indicated that since Q3 is a seasonally strong quarter for them, growth in H2 is expected to be 10% higher than H1. The company expects industry growth to be in the range of 25-30% in FY23. Affle expects to outperform industry on growth on an organic basis. The company also indicated that it expects 25% CAGR in revenue growth in the next three to four years on organic level
- The margin is improving over the last three quarters from 18.5% in Q4FY22 to 20% in Q2FY23. The company further indicated that it is focusing on profitability and margin improvement, going forward. The company indicated that it expects margin to improve further in H2FY23 and the following are focus areas for margin improvement

a) **Pricing**: The company indicated that its pricing has been resilient despite a challenging macro scenario. Affle further indicated that it expects to sustain/improve its pricing, going forward, which would help to improve its margins

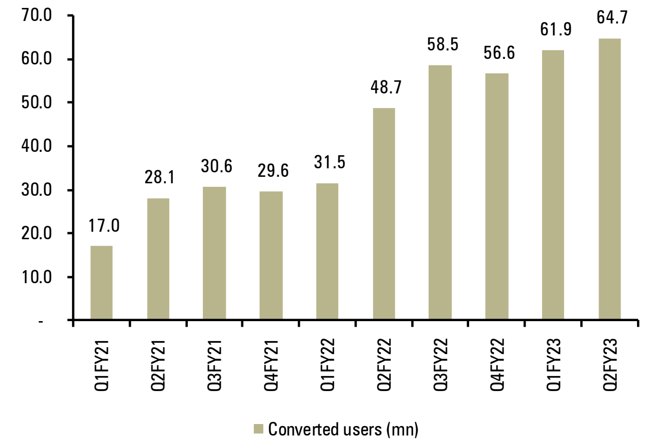
b) **Volume growth**: The company indicated that it expects volume growth, going forward, at appropriate pricing, which will help it to maintain its margin improvement lever. Affle also indicated that it continues to strengthen its business development team to increase its user base which would lead higher volumes

c) **Operating leverage**: The company indicated that it expects its costs to increase at a slower pace compared to revenue resulting in margin expansion

- The company also indicated that due to developed market slowdown, there is an opportunity for a company like Affle to pick up a few assets for inorganic growth as valuations of some companies are now attractive. The company continues to look for such opportunities but also indicated that it is not looking to acquire a company for a scale purpose as the last three acquisitions that Affle did, were in the range of US$10-40 mn consideration. The company indicated that while evaluating the acquisitions it is mindful of i) acquisition consideration preferably in that similar range (US$10-40 mn) that it did historically, ii) baggage of risks the potential companies are carrying. iii) it is not looking at falling in size and cheap valuation trap
- Regarding Bobble divestment, Affle continues to hold 26.24% stake in Bobble as the deal with South Korea based Krafton Inc. did not go through despite the extension of closing date due to certain regulatory hurdles. The company indicated that it is not pursuing this deal further. The investment continues to be categorised as ‘held for sale’

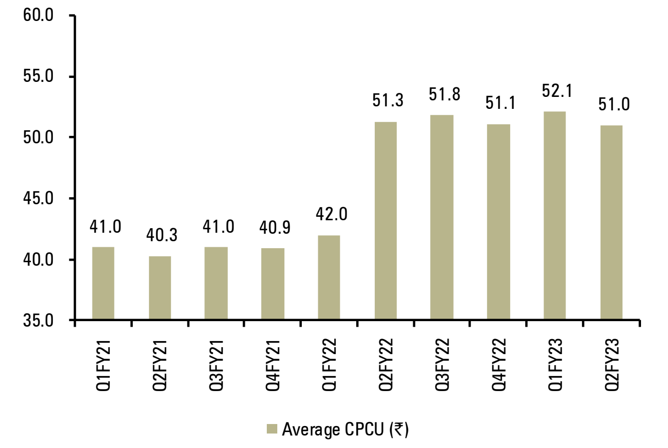
Key Metrics

Exhibit 1: Converted users increasing steadily



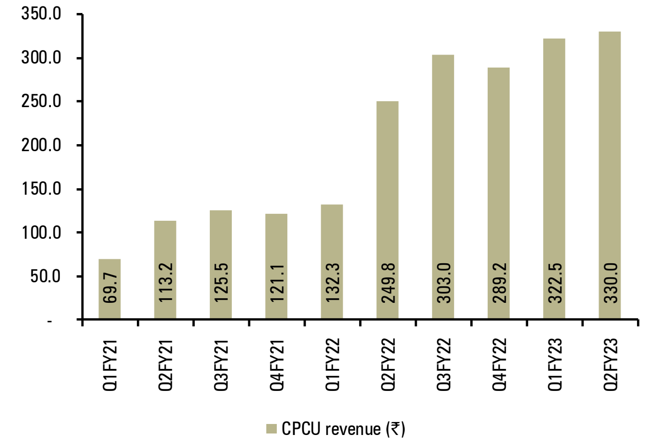
Source: Company, ICICI Direct Research

Exhibit 2: Impact of developed market on CPCU



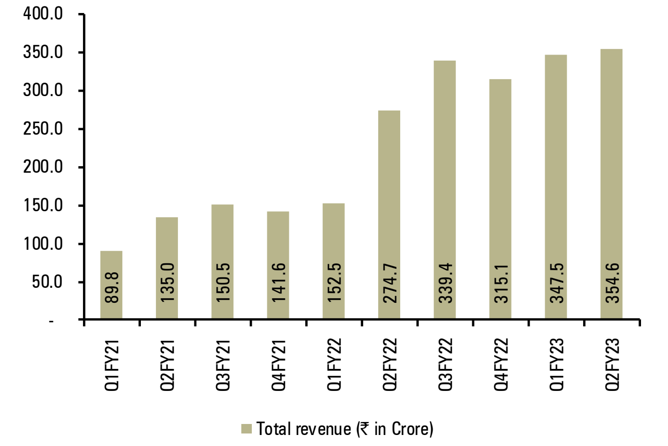
Source: Company, ICICI Direct Research

Exhibit 3: CPCU revenue trend



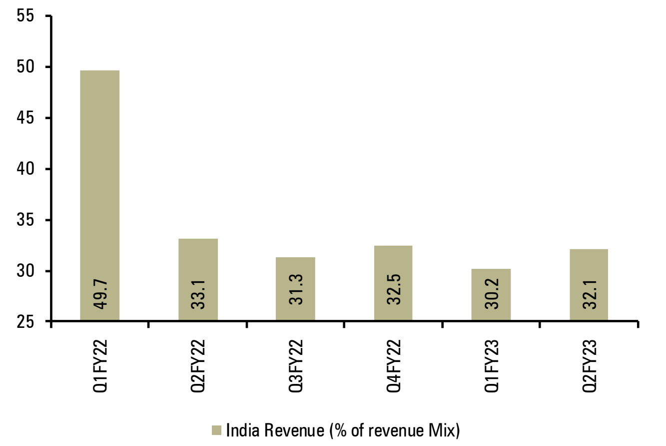
Source: Company, ICICI Direct Research

Exhibit 4: Total revenue trend



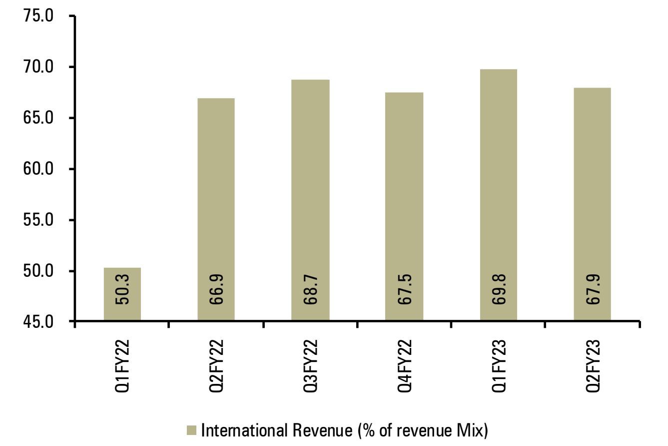
Source: Company, ICICI Direct Research

Exhibit 5: India revenue mix (%)



Source: Company, ICICI Direct Research

Exhibit 6: International revenue mix (%)



Source: Company, ICICI Direct Research

Exhibit 1: P&L

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	354.6	274.7	29.1	347.5	2.0	Revenue aided by 4.5% QoQ increase in converted users
Employee expenses	46.5	31.4	53.0	43.1	8.6	
Gross Margin	308.1	243.3	26.6	304.4	1.2	
Gross margin (%)	86.9	88.6	-169 bps	87.6	-70 bps	
SG&A expenses	237.3	191.3	24.0	235.7	0.7	
EBITDA	70.8	52.0	36.1	68.7	3.1	
EBITDA Margin (%)	20.0	18.9	103 bps	19.8	20 bps	Margin increased due to lower inventory & data cost
Depreciation & amortisation	13.0	8.1	61.7	9.3	40.4	
EBIT	57.7	44.0	31.4	59.4	-2.7	
Finance cost	2.9	2.2	34.8	2.2	33.1	
EBIT Margin (%)	16.3	16.0	28 bps	17.1	-80 bps	
Other income	12.8	15.2	-15.8	6.8	89.3	
PBT	67.7	57.0	18.6	64.0	5.8	
Tax paid	8.7	9.2	-5.7	9.0	-3.2	
PAT	59.0	47.8	23.3	55.0	7.3	PAT increased due to higher other income & lower tax

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,460	1,460	0.0	1,884	1,884	0.0	2,355	
EBITDA	314	299	-4.7	424	396	-6.7	506	
EBITDA Margin	21.5	20.5	-100 bps	22.5	21.0	-150 bps	21.5	Margin trimed downward on slower than expected recovery in Jampp margins
PAT	244	232	-5.2	326	301	-7.5	382	
EPS (₹)	18.3	17.4	-5.2	24.5	22.6	-7.5	28.7	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & loss statement (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	**1,082**	**1,460**	**1,884**	**2,355**
Growth (%)	135.0	35.0	29.0	25.0
COGS (employee and Inventory)	809	1,088	1,394	1,731
Other expenses	60	73	94	118
Total Operating Expenditure	869	1,161	1,488	1,848
EBITDA	**213**	**299**	**396**	**506**
Growth (%)	63.6	40.5	32.1	28.0
Depreciation	32	55	72	89
Other Income (net)	64	23	23	23
PBT	245	267	347	440
Total Tax	30	35	45	57
Reported PAT	214	232	301	382
Adjusted PAT	**214**	**232**	**301**	**382**
Growth (%)	107.5	8.2	30.1	26.8
Reported EPS	**16.2**	**17.4**	**22.6**	**28.7**
Adjusted EPS (₹)	**16.1**	**17.4**	**22.6**	**28.7**
Growth (%)	98.6	8.2	30.1	26.8

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	245	267	347	440
Add: Depreciation	32	55	72	89
(Inc)/dec in Current Assets	(171)	(191)	(154)	(171)
Inc/(dec) in CL and Provisions	161	123	181	201
Taxes paid	(28)	(35)	(45)	(57)
CF from operating activitie	**206**	**197**	**377**	**479**
(Inc)/dec in Investments	(243)	30	30	30
(Inc)/dec in Fixed Assets	(366)	(89)	(115)	(144)
CF from investing activitie	**(556)**	**(59)**	**(85)**	**(114)**
Interst expenses	(3)	(7)	(7)	(7)
Others	619	(21)	27	34
CF from financing activitie	**615**	**(28)**	**20**	**27**
Net Cash flow	267	109	313	393
Exchange difference	-	-	1	1
Opening Cash	49	316	426	738
Closing Cash	**316**	**426**	**738**	**1,131**

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	1,385	1,687	2,069
Total Shareholders funds	1,179	1,411	1,713	2,096
Total Debt	148	127	154	189
Long term provisions	124	146	188	235
Deferred Tax Liability	6	7	9	12
Total non current liablity	130	153	198	247
Total Liabilities	**1,457**	**1,692**	**2,065**	**2,532**
Assets				
Property,plant and equipment	3	4	6	9
Goodwill	616	616	616	616
Intangibles	80	112	153	205
Intangible assets under developm	42	42	42	42
Other assets	142	142	142	142
Cash	316	426	738	1,131
Bank	288	288	288	288
Trade receivables	235	305	393	492
Unbilled revenue	76	149	192	240
Prepayment & O.fin.assets	6	57	73	91
Other current assets	22	19	25	31
Total Current Assets	943	1,244	1,710	2,273
Trade payables	256	356	459	574
Unearned revenue	4	17	21	27
OCL & provisions	109	97	125	156
Total Current Liabilities	369	469	605	757
Net Current Assets	573	774	1,104	1,517
Application of Funds	**1,457**	**1,692**	**2,065**	**2,532**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Adjusted EPS	16.1	17.4	22.6	28.7
Cash EPS	18.5	21.6	28.0	35.4
BV	88.5	105.9	128.6	157.3
DPS	-	-	-	-
Cash Per Share	45.4	53.6	77.0	106.5
Operating Ratios (%)				
EBITDA margin	19.7	20.5	21.0	21.5
EBIT margin	16.7	16.7	17.2	17.7
PAT Margin	19.8	15.9	16.0	16.2
Debtor days	79	76	76	76
Unbilled revenue	26	37	37	37
Creditor days	88	93	93	93
Return Ratios (%)				
RoE	18.1	16.4	17.6	18.2
RoCE	17.3	16.2	17.1	17.6
RoIC	22.3	26.1	32.5	38.9
Valuation Ratios (x)				
P/E	71.6	66.3	50.9	40.2
EV / EBITDA	70.0	49.4	36.7	27.9
EV / Net Sales	13.8	10.1	7.7	6.0
Market Cap / Sales	14.2	10.5	8.2	6.5
Price to Book Value	13.0	10.9	9.0	7.3
Solvency Ratios				
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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