

HOLD

TP: Rs 1,110 | ▼ 0%

AFFLE (INDIA)

Technology & Internet

07 August 2023

Growth momentum to continue

- Q1 revenue up 14% QoQ; device addition tepid but converted user base saw a sizeable ramp-up
- International business increased 16% QoQ backed by on-ground efforts and a realigned strategy for developed markets
- Fairly valued after recent rally; retain HOLD, TP Rs 1,110

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Strong Q1: AFFLE's Q1FY24 revenue of Rs 4.1bn increased 14% QoQ (+17% YoY), underpinned by secular growth across industry verticals in both the cost per converted user (CPCU) and non-CPCU businesses. Converted users surged sequentially from 63mn to 69mn, aiding a CPCU topline of Rs 3.8bn. Overall, India and international revenue grew 19% and 16% YoY respectively. Management has successfully realigned its market strategy toward upselling and cross-selling for developed markets, which has aided growth alongside synergies from acquisitions like YouAppi.

Margin improves QoQ: EBIT margin increased 57bps QoQ but fell 93bps YoY to 16.2% in Q1 due to higher employee, data and other operating cost. Management expects the margin to remain in the high teens for FY24. Net profit for the quarter grew 6% QoQ to Rs 662mn.

Positive growth outlook: Management indicated that AFFLE is likely to achieve 20-25% growth in India and other emerging markets in FY24, and expects similar momentum in FY25. From a long-term perspective, the company expects to see multi-quarter tailwinds in device additions together with higher client acquisition, which should boost revenue potential.

Strategic initiatives to fuel growth: Management continues to target upselling and cross-selling of AFFLE's solutions, with unique ad placement across OEM and operator app stores. CPCU models provide CTV (Connect TV) solutions with household sync capabilities in the US and global emerging markets. The company has also successfully launched a full-funnel proposition on the iOS App Store, becoming a frontrunner on the Apple SKAN ecosystem

Maintain HOLD, TP Rs 1,110: The stock is currently trading at 57.5x/50.8x FY24E/FY25E EPS. We expect AFFLE to perform well in its key domestic and global emerging markets given that it is well-diversified in terms of use cases, platforms and customers/publishers. However, following the recent runup in stock price, AFFLE seems fairly valued. We thus maintain HOLD with an unchanged TP of Rs 1,110, set at 50.6x FY25E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AFFLE IN/Rs 1,111
Market cap	US\$ 360.9mn
Free float	40%
3M ADV	US\$ 4.5mn
52wk high/low	Rs 1,369/Rs 867
Promoter/FPI/DII	60%/20%/20%

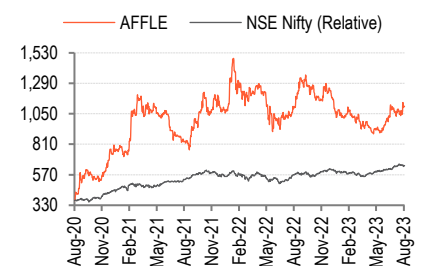
Source: NSE | Price as of 7 Aug 2023

Key financials

Y/E 31 Mar	FY23A	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)	60.5	57.5	50.8
EV/EBITDA (x)	9.3	7.8	6.8
Adj. EPS growth (%)	14.6	5.2	13.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

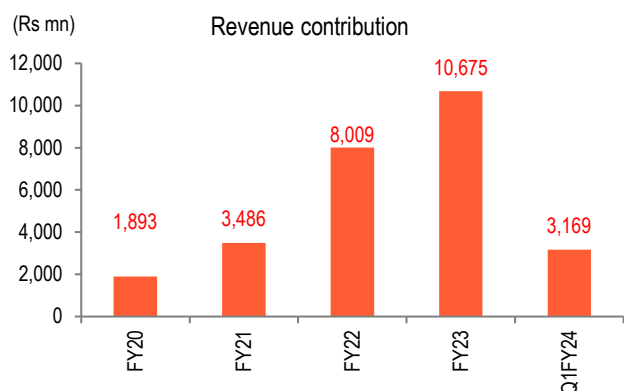


Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	4,066	3,558	3,475	14.3	17.0	3,738	8.8
EBIT	657	554	594	18.4	10.6	608	8.1
PAT	662	624	545	6.0	21.3	627	5.5
EBIT Margin (%)	16.2	15.6	17.1	57bps	(93bps)	16.3	(10bps)
PAT Margin (%)	16.3	17.5	15.7	(126bps)	58bps	16.8	(50bps)

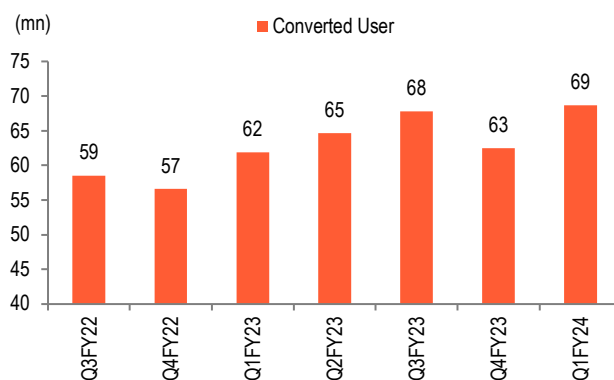
Source: Company, BOBCAPS Research

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



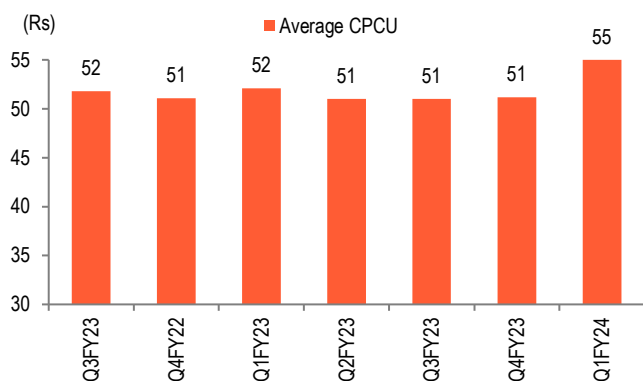
Source: Company, BOBCAPS Research

Fig 3 – Conversion trend



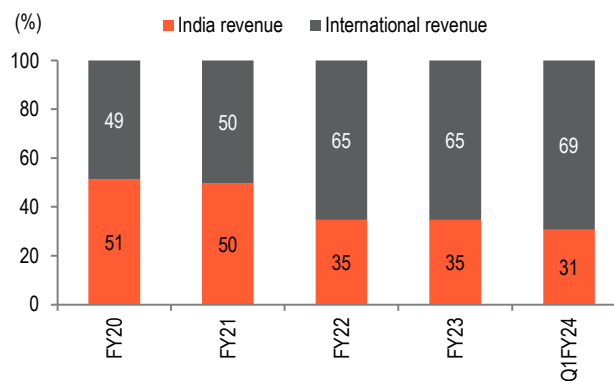
Source: Company, BOBCAPS Research

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 can potentially achieve 20-25% growth in India and other emerging markets in FY24. The CPCU business delivered 68.7mn conversions in Q1FY24 at a CPCU rate of Rs 55, totalling to a segment topline of Rs 3.8bn.
- Direct customers contributed ~78% of total Q1 revenue. Per management, the Affle 2.0 consumer platform stack is well placed to deliver growth across its categories of E – ecommerce, edtech, entertainment; F – fintech, foodtech, FMCG; G – gaming, groceries, government; and H – healthtech.
- The company believes it is well-positioned to counter short-term challenges and has taken decisive actions in areas such as people, partnerships, products and platforms, which it believes will yield results in FY24, marked by project ramp-ups in Q2 and turnaround in Q3FY24.
- AFFLE has successfully launched a full-funnel proposition on the iOS App Store and is also exploring opportunities with other OEMs and operators on Android. Additionally, it 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 57.5x/50.8x FY24E/FY25E EPS. We expect AFFLE to perform well in its key domestic and global emerging markets given that it is well-diversified in terms of use cases, platforms and customers/publishers. However, following the recent runup in stock price, AFFLE seems fairly valued. We thus maintain HOLD with an unchanged TP of Rs 1,110, set at 50.6x FY25E EPS.

Key risks

- Better-than-expected improvement in the BFSI, retail and hi-tech verticals in developed economies represents an upside risk to our estimates.
- Further reduction in IT-related spends by target clients would be a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,111	1,110	HOLD
Coforge	COFORGE IN	3.7	4,943	4,830	HOLD
HCL Technologies	HCLT IN	38.0	1,151	1,240	HOLD
Infosys	INFO IN	71.3	1,393	1,760	BUY
Mphasis	MPHL IN	5.3	2,330	2,541	HOLD
Persistent Systems	PSYS IN	4.8	4,882	5,330	HOLD
Tata Consultancy Services	TCS IN	155.1	3,484	3,580	HOLD
Tech Mahindra	TECHM IN	12.6	1,184	1,130	HOLD
Wipro	WPRO IN	27.4	411	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	5,169	10,817	14,340	16,139	18,474
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
Reported net profit	1,351	2,135	2,446	2,574	2,911
Adjustments	0	0	0	0	0
Adjusted net profit	1,351	2,135	2,446	2,574	2,911

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	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
Total liab. and equities	7,560	18,802	19,652	23,660	26,117
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
Total assets	7,560	18,802	19,652	23,660	26,117

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	1,016	2,980	2,409	1,465	2,693
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
Cash flow from investing	(1,748)	(2,042)	(1,394)	(1,354)	(1,290)
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
Cash flow from financing	531	5,836	(114)	(120)	(140)
Chg in cash & cash eq.	(201)	6,773	901	(9)	1,263
Closing cash & cash eq.	491	7,265	8,166	8,157	9,420

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	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	FY23A	FY24E	FY25E
EV/Sales	5.7	2.8	1.9	1.4	1.2
EV/EBITDA	22.7	14.1	9.3	7.8	6.8
Adjusted P/E	104.8	69.3	60.5	57.5	50.8
P/BV	7.8	2.4	2.1	1.7	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	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
Adjusted ROAE	37.2	17.4	17.2	15.0	15.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Adjusted debt/equity	0.2	(0.4)	(0.4)	(0.4)	(0.4)

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

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BUY – Expected return >+15%

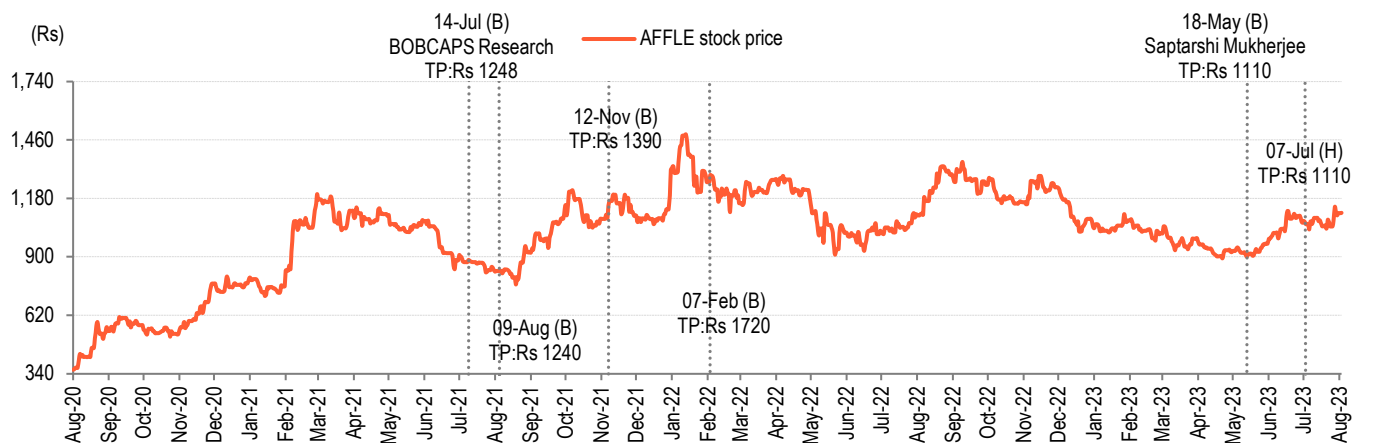
HOLD – Expected return from -6% to +15%

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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