

RESEARCH

Affle (India) | Target: Rs 6,200 | +33% | BUY

Annual report analysis: Sustained R&D focus

Power

Takeaways from call with Azure Power

SUMMARY

Affle (India)

- Ecosystem-level partnerships fortify AFFLE's defense against data/privacy risk
- Strong R&D focus continues with expansion of the team and increased patent filings in FY21
- Retain BUY with Jun'22 TP of Rs 6,200 given strong digital marketing demand

[Click here for the full report.](#)

Power

- Robust outlook on new projects and inorganic opportunities to drive strong growth with double-digit equity IRRs
- Current portfolio is purely solar but AZRE open to focus on wind energy and storage. Backward integration in modules only if bids require it
- New effective debt cost at sub-8% vs. average existing cost of sub-9%. USPs include longstanding management experience and large shareholders

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.32	0bps	3bps	60bps
India 10Y yield (%)	6.17	1bps	(6bps)	18bps
USD/INR	73.11	(0.1)	1.4	0.3
Brent Crude (US\$/bbl)	72.22	(0.5)	2.1	71.9
Dow	35,369	(0.2)	0.5	25.7
Shanghai	3,622	1.1	4.7	10.0
Sensex	58,297	0.3	7.4	51.7
India FII (US\$ mn)	03-Sep	MTD	CYTD	FYTD
FII-D	(32.8)	159.9	(1,254.0)	773.3
FII-E	(86.9)	183.6	7,574.2	247.8

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 6,200 | ▲ 33%

AFFLE (INDIA)

| Technology & Internet

| 07 September 2021

Annual report analysis: Sustained R&D focus

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Ecosystem-level partnerships fortify defense against data/privacy risk: With a strong emphasis on user privacy and data protection, AFFLE processes only appographic (targets users based on their unique app interests), behaviour and intent signals without accessing any personal or financial information of users. The company’s 2.0 strategy reinforces ecosystem partnerships and alliances with mobile OEMs, operators and publishers to enable exclusive access to on-device touch points. This adds to its defense against privacy/data concerns and strengthens primary data access.

Moreover, the company has highlighted its successful digital marketing engagements with ecommerce giants such as Swiggy, KFC and Levi’s (Indonesia) in FY21, which were based on first-party data that was consent-driven and shared by the advertiser/agency with AFFLE’s platform.

R&D focus: AFFLE continues to fortify its IP assets that deliver real-time, optimised results across the advertising technology value chain. It filed 19 patents in FY21 from 18 in FY20 (aided by integration of Appnext). Most of the patents filed have been in the area of digital ad fraud detection. The R&D team now consists of 147 members vs. 126 in FY20.

Verticalised approach: Post pandemic, the company has focused on top industry verticals, viz. E – ecommerce, edtech, entertainment; F – fintech, foodtech, FMCG; G – gaming, groceries, government; H – healthtech (90% of revenues in FY21 vs. 74% in FY20). These verticals saw a growth spurt due to digitisation post Covid.

Product and platform development: AFFLE estimates that mobile advertisement spend in India will grow at 32.4% CAGR to reach US\$ 6.6bn in FY25 from US\$ 1.6bn in FY20. To capture the growing market, it launched two key products in FY21 – Appnext Out-of-Box Experience (OOBE) and Connected TV (CTV). Both products are in alignment with its 4V strategy. Apart from mobile advertising, the company is looking at connected devices as a strategic focus area. It added a vernacular keyboard and on-device recommendations among other capabilities during the year.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AFFLE IN/Rs 4,673
Market cap	US\$ 1.7bn
Free float	40%
3M ADV	US\$ 3.3mn
52wk high/low	Rs 6,286/Rs 2,502
Promoter/FPI/DII	60%/20%/20%

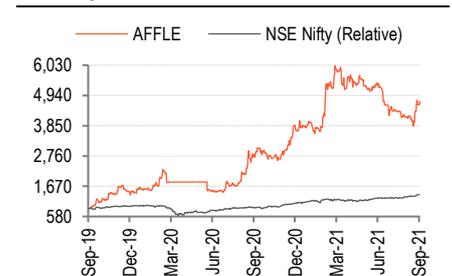
Source: NSE | Price as of 7 Sep 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,169	8,807	11,747
EBITDA (Rs mn)	1,300	1,930	2,794
Adj. net profit (Rs mn)	1,350	1,638	2,484
Adj. EPS (Rs)	53.0	61.5	93.3
Consensus EPS (Rs)	53.0	57.9	77.5
Adj. ROAE (%)	37.6	14.6	18.1
Adj. P/E (x)	88.2	76.0	50.1
EV/EBITDA (x)	95.9	64.8	44.2
Adj. EPS growth (%)	102.7	16.1	51.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE




POWER

07 September 2021

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We spoke to the IR team of Azure Power (AZRE US, Not Rated). Key takeaways:

Outlook for renewables remains robust: Renewables generation will continue to gather pace and provide ample opportunities for growth. Current challenges facing the sector such as the large backlog of SECI bids awaiting PPAs are likely to be resolved as the Covid-19 impact recedes.

Focused on solar but looking at hybrid and storage: AZRE's current portfolio consists purely of solar projects (2.1GW existing, 0.85GW under construction and 4GW of bids won currently at different stages of planning). The company is open to wind energy – top management has significant experience in developing wind assets – and hybrid projects. It focuses mostly on SECI or NTPC bids. In the storage space, it is keen to explore the technology and opportunities.

Growth through organic and inorganic means: AZRE has largely focused on organic growth so far but is open to acquiring assets that meet return thresholds. The company aims to exercise capital discipline but has refrained from setting any specific generation capacity target.

Module manufacturing as part of manufacturing-linked tender: AZRE will be putting up a module line majority owned by a domestic manufacturer to fulfil the requirements on the manufacturing-linked SECI project it has won. The company has no plans to set up any facility of its own in India. It expects PLFs to touch ~30% at its new Rajasthan project which uses bifacial modules and trackers.

Average debt cost sub-9% but new debt raised at sub-8%: The company uses both bond and debt financing. It claims to have been able to raise US dollar green bonds at the lowest coupon for any renewable company in the country. AZRE believes that it is in a strong position to leverage opportunities offered by the Indian renewables sector given its lower cost of capital, decade-plus of experience in developing/operating assets and dealing with vendors, and support from large shareholders such as CDPQ (50.3% stake) and Omers (19.4% stake).

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	116	111	HOLD
TPW IN	479	461	HOLD
TPWR IN	132	161	BUY

Price & Target in Rupees | Price as of 6 Sep 2021



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

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