

Buy**Focus sharpened further on Affle 2.0 Strategy with UN SDGs**

With world going thru digitalization and mobile becoming an important channel for advertisers (mainly in emerging markets), Affle is focusing sharply on its' Affle 2.0 strategy where it intends to focus on Vernacular (target tier 2/3 users in emerging markets), Verticalization (focus on high growth verticals – E, F, G, H) and partnerships (Make eco-system level partnerships with OEM, operators and publishers) to drive inclusive growth for all stakeholders. Affle is also targeting to reach 10Bn devices (Reached 2.3Bn till date). For growth in "long-run", Affle is building on-ground presence for South East Asia, Middle East and Africa. Affle has now voluntarily included sustainability reporting as Global Standards (identified material areas in value creation process) and UN prescribed SDGs.

Building Capabilities and First Party Data

To ensure sustained growth momentum Affle has been adding up more capabilities to scale up its total addressable opportunity and ride through the entire business value-chain. It has done several acquisitions and few strategic investments (Bobble.AI) to enhance capabilities on re-targeting, unmatched access on OEMs devices and proactively investing in upcoming key areas such as Connected Devices and Vernacular users.

Building presence in other emerging markets

Affle plans to equate the growth in International Market by entering new geographies like Russia, South Korea, Vietnam, South Africa, etc. The strategy is to enter geographies where it can achieve leadership position (similar dynamics that of India). Affle has already made investments in sales team for the geographies to scale growth. Further in June-21, Affle acquired an Ad-Tech company (Jampp) in LATAM for \$41mn to build presence in LATAM and Western markets. It plans to extend its full-capabilities offerings to Jampp's customers and expand to reach leadership position in LATAM.

Capable of turning acquisitions around

Affle has historically demonstrated its ability to turnaround acquisitions in terms of revenue growth and profitability. Cases Studies: Appnext and Mediasmart acquisitions have PBT Margin of 7.3% and 8.9% respectively.

Positioned Well to Navigate through Privacy Concerns

Affle is positioned well to navigate through privacy concerns as 1) Share of iOS business is in low single digits for Affle 2) it already complies with the GDPR and IMDA, Singapore norms. 3) Affle only collects appographic, behavioral and intent related data.

Focus on ESG

Affle has aligned its's goal with United Nations Sustainable Development Goals and adopted Global Reporting Initiative (GRI) Standards to focus on several material areas in its' business. The GRI standards and UN SDGs goals are now mapped to various capital inputs (human, financial, etc) and stakeholders of the business.

Outlook

Affle India is behavioral analytics led contextual advertising technology company operating in high-growth Mobile Advertising industry powered with a ROI-centric customer acquisition model. Affle is well placed to capture growth from increasing smartphone penetration and velocity of ecommerce transactions that would drive shift towards mobile based digital advertising in emerging markets. We believe Affle India offers a unique interplay of Digital + Mobility + Analytics theme that can offer multi-year-high-growth opportunity. With no near-term impact from privacy related threat to the digital ad industry, we believe that the company would consistently deliver robust performance and thus we maintain our Buy rating with DCF based TP to Rs5,820 (implies 82x FY23E EPS – ~3x on PEG basis)

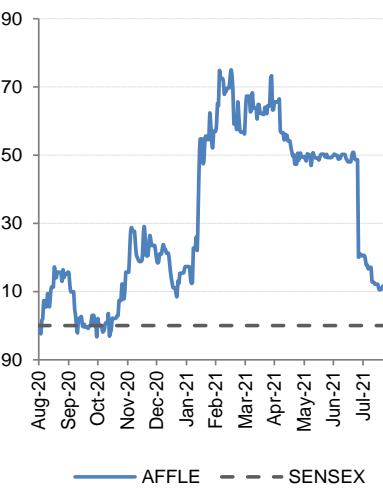
CMP	Rs 4,582
Target / Upside	Rs 5,820 / 27%
BSE Sensex	56,908
NSE Nifty	16,931

Scrip Details

Equity / FV	Rs 255mn / Rs 10
Market Cap	Rs 117bn
	US\$ 2bn
52-week High/Low	Rs 6,286/Rs 1,645
Avg. Volume (no)	69,844
NSE Symbol	AFFLE
Bloomberg Code	AFFLE IN

Shareholding Pattern Jun'21(%)

Promoters	68.4
MF/Banks/FIs	19.3
IIs	7.6
Public / Others	4.7

Affle Relative to Sensex

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Affle 2.0 Strategy

- Affle highlighted that connected and digital experiences are redefining the consumer preferences and pushing the limits for the enterprises globally to transcend to mobile-first priorities.
- Affle also highlighted its Affle 2.0 strategy, again, which is anchored on 1) Vernacular (enable hyper-personalized ads and target next set of users coming from tier 2 and tier 3 regions), 2) Verticalization (Draw deeper insights from high-growth verticals), 3) Partnership (Make eco-system level partnerships with OEM, operators and publishers), and 4) Driving inclusive growth for all stakeholders. Affle also aims to reach 10Bn devices which include Connected TV, wearables, etc. to target consumers on Omni channel level (online and offline).

Exhibit 1: Affle 2.0 Strategy



Source: DART, Company

MD & CEO's Commentary: Anuj Khanna Sohum

- Mr. Anuj highlighted that Affle's purpose is to 'enable a sustainable connected ecosystem' which is Affordable, Accessible, Ethical and Inclusive and this purpose is more relevant now as there is a massive consumer adoption of connected devices online.
- The MD & CEO highlighted that tech-enabled platform focused innovations (as a part of Affle 2.0 strategy) played out well in FY21 as Affle successfully integrated platforms, teams, and IP Portfolio and improved global partnerships with OEMs, operators and publishers.
- Mr. Anuj also highlighted that Affle has initiated proactive adoption of ESG principles. Affle has identified Energy Management, Water Management, Waste Management, Paper and Plastic Optimization and Environmental Awareness Programs are key material areas.

Key Product Launch and Developments

- **Launch of Connected TV (CTV) Proposition:** Affle's connected TV proposition is focused on video ads in October 2020. The platform allows brands to do programmatic advertising at scale on big screens.
- **Launch of Appnext Out-of-Box Experience (OOBE):** Appnext OUBE leverages Affle's pre-existing innovation and technology for silent / dynamic app installs at the initial boot or reset of device to enable dynamic app discovery via OEM partners and publishers.
- **Strategic In-Roads and Developments:** Affle expanded its on-ground presence in some key international markets.

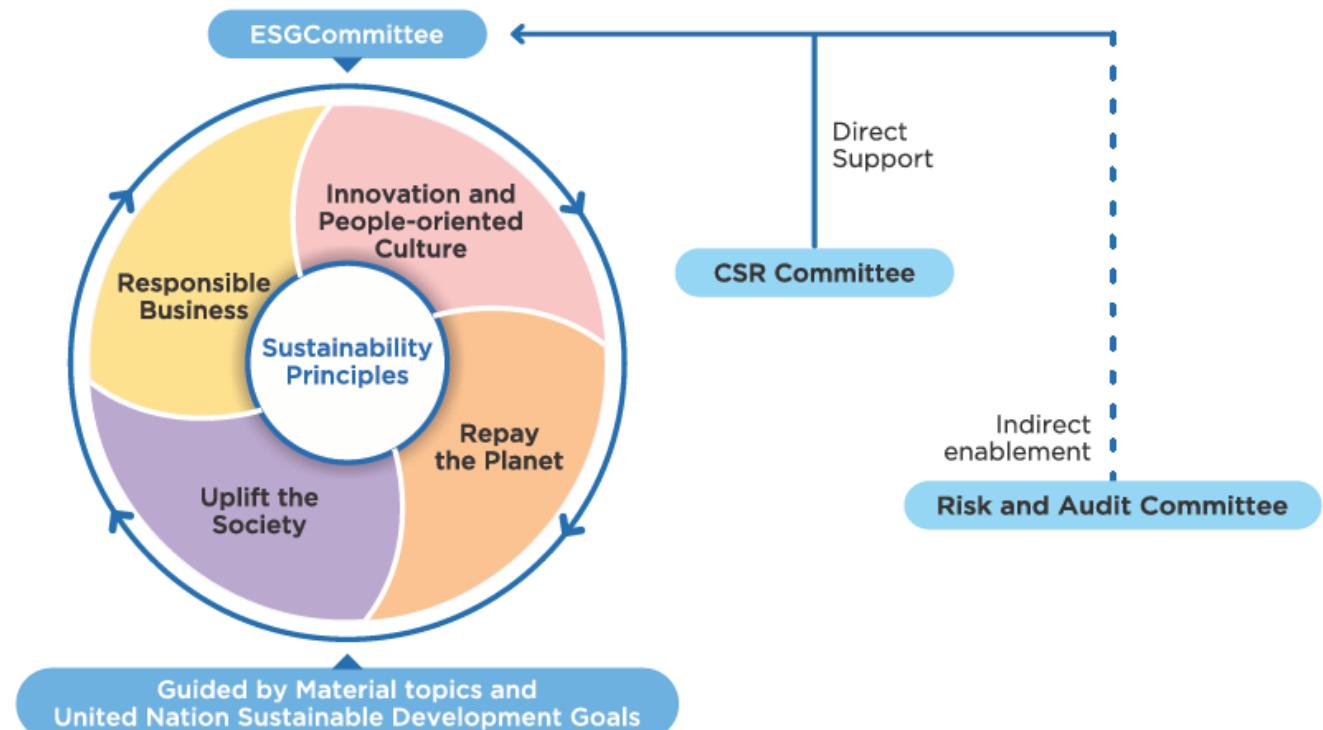
Industry Trends

- Affle highlighted a Frost & Sullivan Report where Digital advertising spend in India are projected to grow at a CAGR of 30.7% to reach \$8.25Bn in FY25 from \$2.16Bn in FY20. This is largely from Mobile advertisement spend growth at a CAGR of 32.4% to reach \$6.6Bn in FY25 from \$1.6Bn in FY20.

ESG Update

- On August 7, 2021; Business Responsibility Reporting Committee was formalized into ESG Committee. The primary role of ESG committee will be to integrate sustainability initiatives across business initiatives (Guided by Material topics decided and United Nations Sustainable Development Goals).

Exhibit 2: ESG Policy Framework



Source: DART, Company

Exhibit 3: ESG Core Focus Areas



Source: DART, Company

Other Key Takeaways

- Affle highlighted that its platforms were accredited for the 3rd time by IMDA, Singapore. Company also highlighted that they process only appographic, behavioral and intent signals with no access to any personal or financial user information. It has not received any regulatory complaint regarding breach of consumer privacy or loss of consumer data.
- The ratio of women employees in the workforce is 33% and ratio of women employees in middle level management is 39%. In FY21, 90% of the Affle employees received atleast 1 training program. Affle has also launched a digital learning platform in Jan 2021 which covers over 200 courses.

Exhibit 4: Employee Breakup

Particulars	FY21	FY20
R&D	147	126
Data Platforms	80	62
Management	13	11
Sales and Marketing	105	65
General Administration	40	31

Source: DART, Company

- Affle noted that it has grown the data science team organically and inorganically through hiring. Affle has also increased trainings in Data Science and many employees within the team have taken up the learnings. Affle has increased the use of tools that allow for data science to be used by product managers and staff for faster insights and behavioral analysis.
- The median remuneration is Rs. 0.66Mn (based on standalone basis (275 employees). The reported median increase in KMP remuneration is 3.4% and non-KMP remuneration is 7.0%.

Subsidiary Data

- The subsidiary data highlighted that Mediasmart had Revenue of \$7.8Mn and PBT of \$0.7Mn (PBT Margin: 8.9%). Appnext had Revenue of \$12.5Mn and PBT of \$0.9Mn (PBT Margin: 7.3%).

Remuneration Data

Exhibit 5: Top 10 Employees (Remuneration Wise)

Name	Designation	FY21 (Rs. Mn)	FY20 (Rs. Mn)
Mr. Vipul Kedia	Chief Data & Platforms Officer	11.0	11.6
Mr. Kapil Mohan Bhutani	Chief Financial & Operations Officer	9.8	9.3
Mr. Anuj Kumar	Director, Chief Revenue & Operating Officer	9.4	8.5
Mr. Viraj Sinh	Managing Partner - International	8.9	8.1
Mr. Ankit Rawal	Director- Business Development	6.4	5.2
Mr. Sujoy Golan	Chief of Marketing & Omnichannel - Platforms	6.3	NA
Mr. Tarun Aditya	Associate Director - Data Sciences	5.5	NA
Mr. Rajat Das	Director- Product	4.6	NA
Mr. Pranesh Sharma	Associate Director - Data Platforms	4.5	NA
Mr. Ayush Aggarwal	Director - Data Platforms	4.2	NA

Source: DART, Company, Rajat Das is not associated with the Company w.e.f Feb, 2021, Ayush Aggarwal is not associated with the Company w.e.f March, 2021.

Exhibit 6: Director/KMPs Remuneration change (YoY)

Name	Designation	FY21 (Rs. Mn)	FY20 (Rs. Mn)
Anuj Khanna Sohum	MD & CEO	0.3	0.3
Anuj Kumar	Chief Revenue Officer	9.4	11.6
Kapil Mohan Bhutani	CFO	9.7	9.3
Mei Theng Leong	Non-Executive Director	0.0	0.0
Bijynath	Independent Director	1.4	0.7
Sumit Mamak Chadha	Independent Director	1.6	1.4
Vivek Narayan Gour	Independent Director	1.2	1.1
Parmita Choudhury	Company Secretary	0.9	0.7

Source: DART, Company

Annual Report Marco View

Particulars	Details		
Key Management	Diego Meller (Cofounder Jampp), Elad Natanson (CEO – Appnext), Eran Karit (CTO – Appnext), Guillermo Fernandez Sanz (CTO – Mediasmart), Martin Anazo (Cofounder – Jampp) have been added to Management.		
Board of Directors	Mr. Bijynath, Ms. Sumit Mamak Chadha and Mr. Vivek Narayan Gour were appointed as Independent Directors. Mr. Naresh Chand Gupta and Mr. Sudhir Mohanlal Jatia's term as Independent Director ended. Mr. Charles Yong Jien Foong and Mr. Kapil Mohan Bhutani resigned as Executive Director.		
Auditors	No Change. S.R. Batliboi & Associates		
Credit Ratings	Company has no credit rating.		
Pledged Shares	Company has no pledged shares.		
Macro-economic factors	Affle highlighted the CY22 IMF growth projections of 4.4% for advanced economies and emerging economies at 5.2%. Affle also shared that despite the macro headwinds in FY21, digital adoption is evolving at a fast pace which benefits companies like Affle.		
Key Holders	Particulars (%)	FY20	FY21
	Promoters		
	i) Promoter Shareholding	68.4	62.6
	Bank, FIs, Insurance Companies & Mutual Funds		
	ii) Mutual Funds	11.4	6.9
	iii) FIs & Banks	6.3	4.8
	iv) Insurance Companies	0.0	0.0
	Non-Institutions	7.5	17.3
		6.3	8.5

Source: DART, Company

Financial Performance – FY21

Profit & Loss Analysis

- **Revenue:** Affle India Revenue grew by 54.8% YoY. The organic growth was 20.7% YoY. The CPCU Revenue (83% of Revenue) grew 44.9% YoY. The CPCU Revenue growth was led by growth in number of converted users which increased to 105mn from 72mn in FY20. The CPCU rate declined marginally by 0.5% YoY to Rs. 40.8. The Other Operating Revenue (Non-CPCU Revenue + Enterprise Revenue) stood at Rs. 873Mn (up 134% YoY). The strong increase in Other Operating Revenue was due to inorganic contribution from Mediasmart business (Full year in FY21, versus just 1 quarter in FY20).
- **Geographic Trend:** The India Business (49.7% of Revenue) grew by 50.3% YoY to Rs. 2,568Mn and International Business (50.3% of Revenue) grew by 59.6% YoY.
- **Costs:** The Inventory and Data Cost grew by 54.9% YoY (largely in-line with Revenue growth). The Employee Expenses cost increased by 97.8% YoY due to acquisitions and leadership & sales hiring in International markets. The Increase in Other Expenses was 33.9% YoY which was lower than topline growth due to savings in Rent and Travelling Cost. The Business Promotion Expense within the Other Expense increased by 135.2% YoY to Rs. 93Mn. The Capitalized Expense increased to Rs. 429Mn from Rs. 257Mn in FY20.

Exhibit 7: Capitalized Costs Breakup

Particulars	FY21 (Rs. Mn)	FY20 (Rs. Mn)
Salaries, allowances and bonus	342.9	204.3
Rent	0.8	2.9
Power and fuel	0.0	0.1
Printing and stationery	0.0	0.1
Repairs and maintenance - others	0.4	1.0
Communication	0.1	0.3
Cloud hosting charges	84.7	48.1

Source: DART

- The EBIT Margin declined by 105bps to 21.3% for FY21 (which can be largely attributed to acquisition of companies having lower margin and investment in sales and marketing).
- PAT grew by 105.8% YoY to Rs. 1,348Mn. This includes Rs. 340Mn one-time gain from sale of Indus OS stake. The Adjusted PAT grew 54.2% YoY.

Balance Sheet Analysis

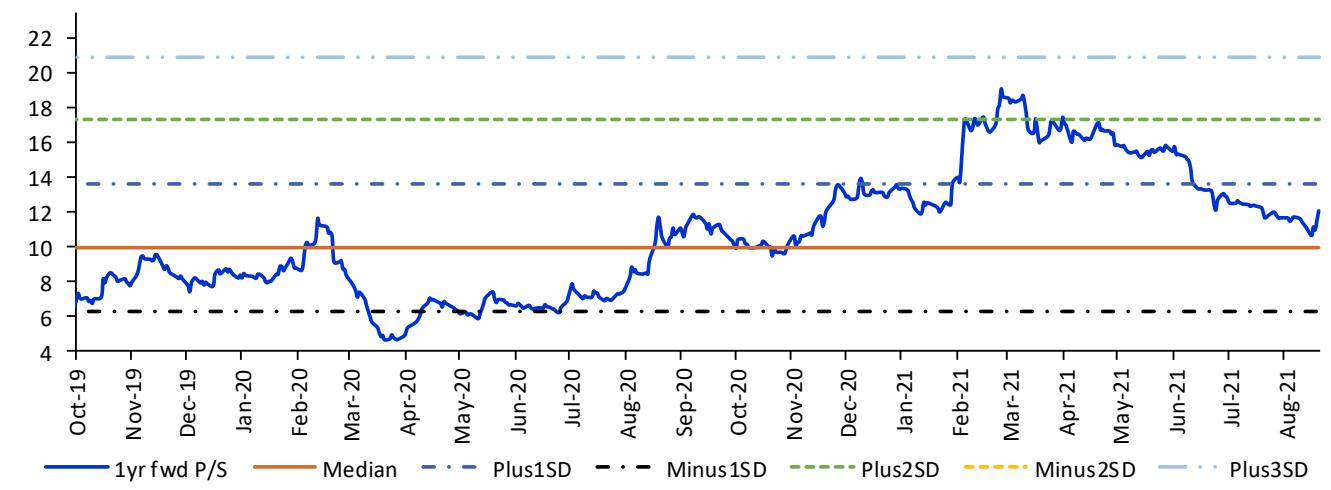
- The Non-Current Investments stood at Rs. 758Mn which includes OS Labs Investment worth Rs. 526Mn (exited now) and Talent Unlimited Online Investment (Bobble AI) worth Rs. 232Mn.
- Cash and cash equivalents (Cash + Bank) stood at Rs. 632Mn down from Rs. 1,265Mn YoY. The decrease cash balance was driven by acquisition spends (Rs. 1,124Mn in FY21).
- Billed Days Sales Outstanding improved to 76 days in FY21 compared to 81 days from last year. The Billed + Unbilled DSO stood at 113 days in FY21 compared to 103 days.

Cash Flow Analysis

- Net Cash Flow from Operating Activities grew by 39.2% YoY to Rs. 1,016Mn in FY21 from Rs. 730Mn largely driven by PBT growth. The PBT increased to Rs. 1,479Mn from Rs. 792Mn which included Rs. 340Mn Indus OS stake sale gains (non-operating gains and were subtracted in CFO calculation). The change in Working Capital was negative at Rs. 174Mn v/s negative Rs. 136Mn in FY20.
- Capex stood at Rs. 492Mn in FY21 v/s Rs. 320Mn YoY. The acquisition related payments increased to Rs. 1,124Mn from Rs. 878Mn in FY20. The FCF stood at negative Rs. 600Mn from negative Rs. 468Mn in FY20.
- The CFF was positive with Rs. 531Mn due to increase in debt worth Rs. 567Mn.

Band Chart

Exhibit 8: Affle is trading 12.1x on Price/Sales basis



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	3,338	5,168	8,647	11,096
Total Expense	2,459	3,871	6,784	8,586
COGS	1,921	2,977	5,074	6,451
Employees Cost	273	540	1,106	1,395
Other expenses	265	354	603	740
EBIDTA	879	1,297	1,863	2,510
Depreciation	133	196	290	400
EBIT	746	1,100	1,574	2,110
Interest	14	36	57	54
Other Income	61	75	186	215
Exc. / E.O. items	0	340	73	0
EBT	792	1,479	1,776	2,271
Tax	137	129	212	379
RPAT	655	1,348	1,556	1,884
Minority Interest	0	2	8	8
Profit/Loss share of associates	0	0	0	0
APAT	655	1,008	1,483	1,884

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	255	255	266	266
Minority Interest	0	4	12	20
Reserves & Surplus	2,037	3,333	10,880	12,773
Net Worth	2,292	3,588	11,147	13,039
Total Debt	638	1,168	943	718
Net Deferred Tax Liability	2	15	15	15
Total Capital Employed	2,931	4,775	12,117	13,792

Applications of Funds

Net Block	1,676	4,010	6,084	7,213
CWIP	0	0	0	0
Investments	569	899	899	899
Current Assets, Loans & Advances	1,755	2,617	9,171	10,407
Inventories	0	0	0	0
Receivables	943	1,606	2,725	3,435
Cash and Bank Balances	696	491	5,914	6,422
Loans and Advances	47	24	24	24
Other Current Assets	69	495	508	526
Less: Current Liabilities & Provisions	1,069	2,751	4,037	4,728
Payables	758	1,319	2,240	2,600
Other Current Liabilities	311	1,432	1,797	2,128
<i>sub total</i>				
Net Current Assets	686	(134)	5,133	5,679
Total Assets	2,931	4,775	12,117	13,792

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.4	42.4	41.3	41.9
EBIDTA Margin	26.3	25.1	21.5	22.6
EBIT Margin	22.3	21.3	18.2	19.0
Tax rate	17.3	8.7	12.0	16.7
Net Profit Margin	19.6	26.1	18.0	17.0
(B) As Percentage of Net Sales (%)				
COGS	57.6	57.6	58.7	58.1
Employee	8.2	10.4	12.8	12.6
Other	7.9	6.9	7.0	6.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.1	0.1
Interest Coverage	52.4	30.3	27.7	39.4
Inventory days	0	0	0	0
Debtors days	103	113	115	113
Average Cost of Debt	3.9	4.0	5.4	6.5
Payable days	83	93	95	86
Working Capital days	75	(9)	217	187
FA T/O	2.0	1.3	1.4	1.5
(D) Measures of Investment				
AEPS (Rs)	25.7	39.5	55.7	70.7
CEPS (Rs)	30.9	47.2	66.5	85.7
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	89.9	140.7	418.3	489.3
RoANW (%)	43.5	45.9	21.1	15.6
RoACE (%)	35.7	27.2	18.3	15.0
RoAIC (%)	52.4	33.8	30.0	31.1
(E) Valuation Ratios				
CMP (Rs)	4582	4582	4582	4582
P/E	178.3	115.9	82.3	64.8
Mcap (Rs Mn)	116,823	116,823	116,823	116,823
MCap/ Sales	35.0	22.6	13.5	10.5
EV	116,765	117,500	111,852	111,119
EV/Sales	35.0	22.7	12.9	10.0
EV/EBITDA	132.9	90.6	60.0	44.3
P/BV	51.0	32.6	11.0	9.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	33.8	54.8	67.3	28.3
EBITDA	25.0	47.5	43.7	34.7
EBIT	23.8	47.6	43.0	34.1
PBT	32.5	86.7	20.1	27.9
APAT	34.2	53.9	47.1	27.1
EPS	27.8	53.9	40.8	27.1

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	730	1,016	2,065	2,307
CFI	(1,637)	(1,748)	(2,364)	(1,530)
CFF	1,397	531	5,722	(271)
FCFF	(468)	(600)	(299)	778
Opening Cash	206	708	503	5,926
Closing Cash	708	503	5,926	6,433

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	BUY	3,300	2,642
Nov-20	BUY	3,500	2,938
Feb-21	Accumulate	5,000	4,286
Feb-21	Accumulate	5,000	5,347
May-21	Accumulate	5,830	5,313
Jun-21	Accumulate	5,820	5,373
Aug-21	Buy	5,820	4,182

*Price as on recommendation date

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Registered office: Unit no P06-02A - P06-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

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