

## AFFLE INDIA



|                |             |
|----------------|-------------|
| CMP (Rs.)      | 1,344       |
| 52WH/L (Rs.)   | 2,297 / 750 |
| M.Cap (Rs. Cr) | 3,428       |
| TTM PE         | 63          |

Affle India is a digital marketing and advertising company that focuses on targeted mobile marketing using artificial intelligence and data Analytics to show relevant mobile advertising to the user so as to convert him to click / sign up and make a purchase. It's the ads we see on social media and websites which are targeted to specific users based on their digital profile and history.

The whole play is on increasing penetration of mobile shopping, online payments, increased mobile + data penetration and changing consumer trends to make purchases online.

### The company operates in a segment that thrives on 4 key pillars:

#### 1. Discretionary spending by consumers :

Online shopping of discretionary and non-essential products & services is a key driver, though educational services and other targeted ads that target consumers mindshare during the lockdown could see higher traction **(over this could be affected in the medium term due to covid job losses income contractions etc.)**

#### 2. Advertising budgets:

Tie ups with agencies and companies along with high ad spend budgets of producers, sellers, companies are key drivers **(Near term outlook is weak on this)**

#### 3. Digital & Mobile Penetration:

Higher mobile, data, smart phone, online shopping penetration, data usage **(This lever remains intact in the long term)**

#### 4. International Competition and Technological Edge:

Data Analytics/ servers / data centres and data base of customers. Some bigger players could have much deeper and lasting data access of customer behaviour (google/ Facebook / Tiktok / amazon etc.) which affle doesn't have a direct advantage.

It's a Zero debt, non capital intensive business, with ROE Profile above 65 %.

It's at a Trailing PE of 65 with trailing (Profit) growth profile of 45 %, trading PEG of 1.4.

With 350-400 cr Topline and market cap at 3200 cr, the company is at 9-10 times Sales, which makes valuation vulnerable in the short term given hazy outlook on growth driven by discretionary consumer spending and reduction in corporate advertising budgets.

This is a long term story on penetration of digital shopping and spending where affle seems well poised to grow its position in the digital ecosystem over the long run. One must keep a close track of competition evolving in the segment by global biggies and well funded domestic players like MOENGAGE & Clear Tap.


**The key metric to track here is**

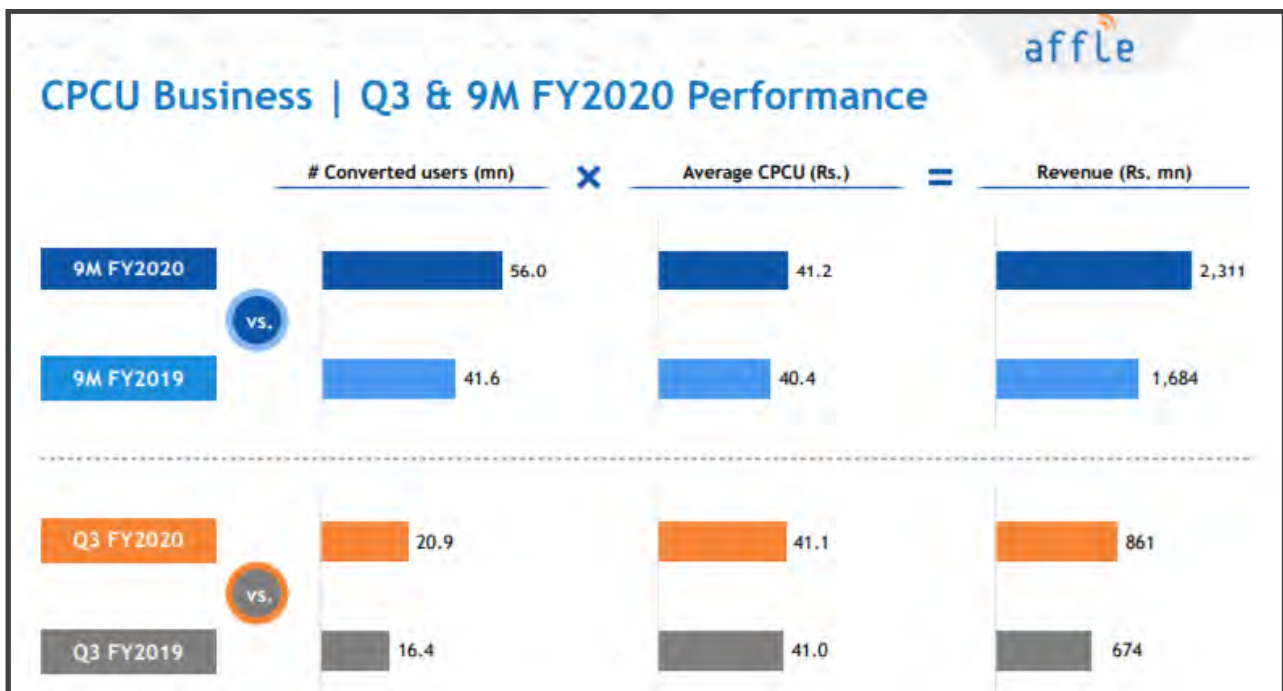
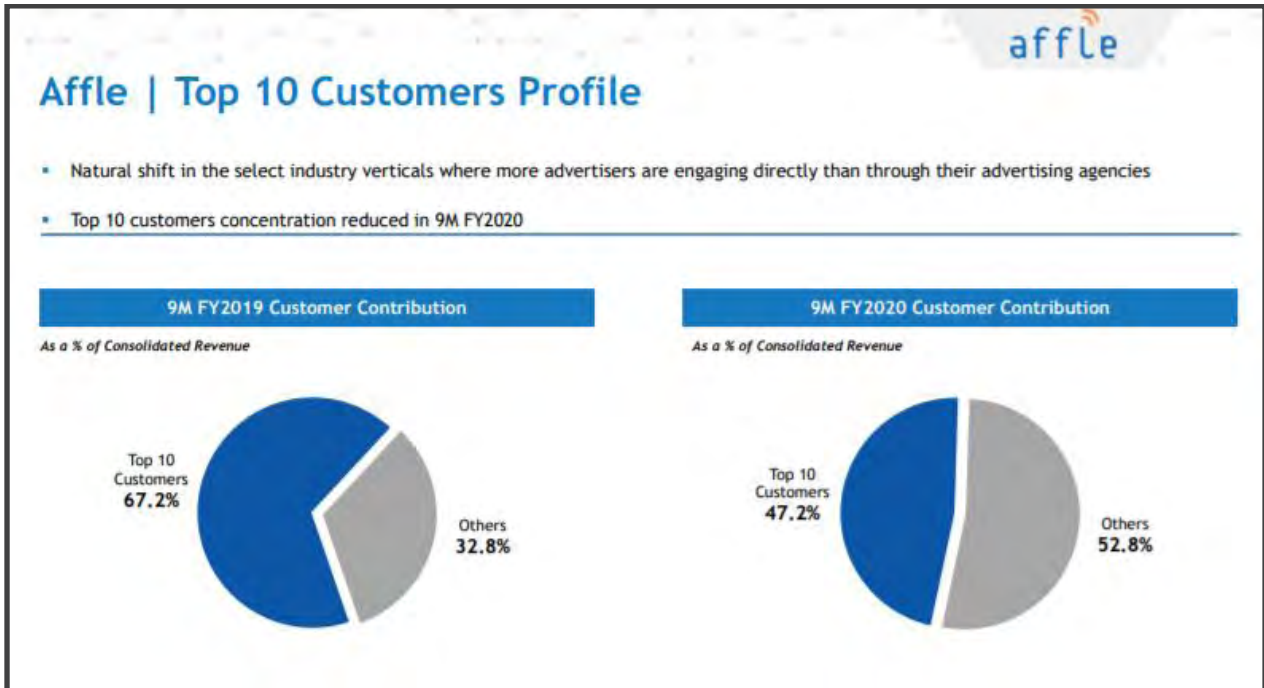
**Cost per converted users (think ARPU or Revenue per converted user) \*Number of Converted Users = Revenue**

We have seen a strong growth of ~35 % in number of converted users ( from 41.6 million to 56 million YoY for 9M ending Jan20 ) but flattish growth trend in cost per converted user at Rs. 41.2 (from 40.4 ) and this metric must improve to see sizeable impact on revenue which will directly flow down to profits. The company does have a good management team, strong patented portfolio of products, high security measures, and global tie ups with e-commerce companies, brands and agencies- thus giving it levers for sustainable growth.

Affle India, being a multinational ( with 50 % Indian revenue and 50 % international revenue) does not provide a pure domestic consumption story, and depends on emerging trends, consumer spending and international competition by local players in these foreign markets- hence keeping a track of global developments on these fronts would be critical.

*Overall this deserves some allocation in the portfolio with a long term view, despite higher valuations and near term demand headwinds, being a debt free, asset light business model providing a pure technology play, on increasing digital & mobile spending and shopping, that seems to have multiyear visibility and a long runway for growth.*

|  |            |            |              |            |              |            |            |              |
|---|------------|------------|--------------|------------|--------------|------------|------------|--------------|
| Consolidated Financial Summary  |            |            |              |            |              |            |            |              |
| In Rs. million  | Q3 FY2019  | Q3 FY2020  | Y-o-Y Growth | Q2 FY2020  | Q-o-Q Growth | 9M FY2019  | 9M FY2020  | Y-o-Y Growth |
| Revenue from Contracts with Customers   | 741        | 945        | 27.4%        | 847        | 11.5%        | 1,889      | 2,538      | 34.3%        |
| Inventory and Data Costs  | 410        | 549        | 33.9%        | 486        | 12.9%        | 1,051      | 1,462      | 39.1%        |
| Employee Benefits Expense   | 49         | 70         | 42.7%        | 78         | (10.9%)      | 148        | 209        | 40.5%        |
| Other Expenses  | 55         | 53         | (3.9%)       | 65         | (18.7%)      | 187        | 190        | 1.4%         |
| <b>EBITDA</b>   | <b>228</b> | <b>273</b> | <b>20.0%</b> | <b>217</b> | <b>25.6%</b> | <b>502</b> | <b>677</b> | <b>34.8%</b> |
| % EBITDA Margin   | 30.7%      | 28.9%      |              | 25.7%      |              | 26.6%      | 26.7%      |              |
| Depreciation and Amortisation Expense   | 24         | 32         | 31.3%        | 29         | 10.6%        | 74         | 85         | 15.4%        |
| <b>EBIT</b>   | <b>203</b> | <b>241</b> | <b>18.7%</b> | <b>189</b> | <b>27.9%</b> | <b>429</b> | <b>592</b> | <b>38.2%</b> |
| % EBIT Margin   | 27.4%      | 25.5%      |              | 22.3%      |              | 22.7%      | 23.3%      |              |
| Finance Costs   | 2          | 4          |              | 2          |              | 5          | 8          |              |
| Other Income  | (1)        | 18         |              | 6          |              | 1          | 27         |              |
| <b>Profit Before Tax</b>  | <b>201</b> | <b>255</b> | <b>26.8%</b> | <b>193</b> | <b>32.1%</b> | <b>424</b> | <b>611</b> | <b>44.0%</b> |
| Total Tax   | 37         | 40         |              | 37         |              | 80         | 108        |              |
| <b>Profit After Tax</b>   | <b>163</b> | <b>214</b> | <b>31.3%</b> | <b>156</b> | <b>37.6%</b> | <b>344</b> | <b>502</b> | <b>46.2%</b> |
| % PAT Margin  | 22.0%      | 22.3%      |              | 18.3%      |              | 18.2%      | 19.6%      |              |



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