

### Affle reported a strong performance in Q1FY22 which was an all-round beat on our estimates

- Revenue at INR 1,524.7 Mn, +8% qoq / +70% yoy and 14% above our estimate
- EBITDA at INR 350.5 Mn, +2% qoq / +56% yoy and 15% above our estimates
- EBITDA margin at 23% vs 24.3% / 25% in Q4FY21 / Q1FY21 and +20 bps vs our estimates
- EBIT at INR 298.6 Mn, +2% qoq / +64% yoy and +25% vs our estimates
- EBIT margin at 19.6% vs 20.6% / 20.2% and +160 bps vs our expectations
- PAT at INR 357.3 Mn, 39% qoq / +91% yoy and +63% above our estimates.
- PAT contains Other Income of INR 83 Mn of Gain on Fair Valuation of Instruments and INR 21 Mn as Tax Outgo on Gain on Financial Instruments in Q1FY22 versus Gain on FV of Financial Instruments of INR 340 Mn minus Tax Outgo of INR 9 Mn and Deferred Tax Liability on account of Goodwill of INR 12 in Q4FY21
- EPS at INR 13.7 vs 23 / 6.1 Q4FY21 / Q1FY21
- Normalized PAT (excluding effects of Gain on Fair Value of Financial Instruments and Tax outgo as mentioned above) stood at INR 295 Mn vs INR 265 Mn in Q4FY21 and INR 187.7 Mn in Q1FY21
- Normalized EPS stood at INR 11.6 vs 10.4 / 6.1 Q4FY21 / Q1FY21 and above our est. INR 8.6
- Converted Users in CPCU business stood at 31.5 Mn vs 29.6 Mn / 17 Mn in Q4FY21 / Q1FY21
- Average CPCU rate stood at INR 42 in Q1FY22 vs INR 40.9 / 41 in Q4FY21 / Q1FY21

#### Financial Summary

Y/E Mar (Rs mn)	FY 20	FY 21E	FY 22E	FY 23E
Net sales	3,338	5,168	8,519	11,306
EBITDA	879	1,297	1,715	2,525
Adjusted net profit	655	1,029	1,410	1,903
Free cash flow	1,179	1,061	1,109	2,183
EPS (Rs)	26.1	53.3	55.3	74.6
growth (%)	30%	104%	4%	35%
P/E (x)	160.0	78.5	75.6	56.0
P/B (x)	46.5	29.7	9.7	8.3
EV/EBITDA (x)	120.6	81.9	59.0	39.1
ROCE (%)	27.4	19.7	10.4	12.9
RoE (%)	28.6	37.8	12.8	14.7
Dividend yield (%)	-	-	-	-

Source: Company

Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>5985</b>	<b>44</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>4166</b>
Market Cap (Rs.Bn)	(Rs Bn)	111.45
Market Cap (US\$ Mn)	(US\$ Mn)	1503
Face Value	Rs	10
52 Weeks High/Low	Rs	6287/1880
Average Daily Volume	('000)	21
BSE Code		542752
Bloomberg		AFFLE:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Dec-21
Promoters	59.89	63.80
Public	40.11	36.20
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Conference Call Key Highlights

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- Next quarter international contribution will increase due to Jamp consolidation from Q2FY22
- Employee cost increased QoQ due to headcount addition to enhance access and global presence. This had an impact of 1.5% on EBITDA margins. Current headcount stands at around 425 FTEs (excluding contract-based employees)
- Affle business is not dependent on cookies on the browser as Affle is in-app and on-device play therefore company is shielded from on-going commotion around privacy and cookies
- Affle should see healthy Organic growth coupled with scaling up of acquisitions' performance
- Will focus on Jamp's unit economics and aim to outperform previous growth and improve bottom-line performance as well
- Connected TV's: have done organic investment in this field and done feasibility studies, campaigns and partnered with various customers to test the market and is already generating some revenue. Focus will be on emerging markets (which is in a nascent stage and Affle is a thought leader) first and then take it to global markets.
- 60% of revenue is expensed out in P&L of which 10% is investment for growth. Balance 40% includes all other expenses and profit margin. Company has maintained margins despite several acquisitions as Affle has successfully scaled up revenues and profitability of these acquisitions. Company has yet not seen operating leverage play out and will happen in the organic business with scale. Company's equilibrium level of EBITDA margins would be at 25%+ (excluding Jamp acquisition) as company scales up in the long term
- Although direct customer (71% of revenue) relation is preferable - management sees no cost-related disruption in agency business and is indifferent

## Quarterly Performance Analysis

### Exhibit 1

Particulars	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21	Q1FY22
Converted Users (Mn)	72.3	17.0	28.1	30.6	29.6	105.3	31.5
		4%	65%	9%	-3%		6%
		2%	52%	46%	82%	46%	85%
Average CPCU (INR)	41.0	41.0	40.3	41.0	40.9	40.8	42.0
		2%	-2%	2%	0%		3%
		0%	-3%	0%	2%	-1%	2%
CPCU Revenue (Mn)	2965	697	1132	1255	1211	4296	1323
		7%	62%	11%	-4%		9%
		2%	47%	46%	85%	45%	90%

Converted users stood at 31.5 Mn in Q1FY22 while Average CPCU rate was up 3% qoq and up 2% yoy.

YoY Converted Users are not comparable as Appnext was not consolidated in Q1FY21

Source: Dalal & Broacha Research, Company

### Exhibit 2 – Quarterly Trend of Active Deal Pursuits

Business Segments (% of Total Revenue)	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY20	Q1FY22
Consumer Platform	97.2%	98.1%	98.5%	98.3%	97.9%	98.2%	98.8%
Enterprise Platform	2.8%	1.9%	1.5%	1.7%	2.1%	1.8%	1.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

  

Consumer Platform (% of Consumer Platform)	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY20	Q1FY22
CPCU	91.4%	79.3%	85.2%	84.8%	87.3%	84.2%	87.8%
Non-CPCU	8.6%	20.7%	14.8%	15.2%	12.7%	15.9%	12.2%

  

Consumer Platform (Quarterly)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q4FY20	Q1FY21
CPCU	654.1	698.4	1132.5	1254.4	1210.0	3016.0	1322.7
Q-o-Q (%)		7%	62%	11%	-4%		9%
Y-o-Y (%)					85%		17%
non-CPCU	126.2	182.3	196.7	224.8	176.0	579.5	183.8
Q-o-Q (%)		44%	8%	14%	-22%		4%
Y-o-Y (%)					39%		-7%
Total Consumer Platform	780	881	1329	1479	1386	3596	1506
Q-o-Q (%)		13%	51%	11.3%	-6.3%		9%
Y-o-Y (%)					78%		13%

CPCU business reported a growth of 9% qoq and 17% yoy

Enterprise business reported a 4% qoq growth and -7% yoy de-growth

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

Affle continued to report stellar numbers with robust double-digit growth. Margins were weaker qoq and yoy due to headcount addition in order to drive global expansion. However, margins were slightly higher than our expectations. One of the key takeaways of Q1FY22 management commentary was the company's foray into Connected TVs – which we believe will be the next big trigger for Affle in the long term. As per reports, the Connected TV advertising industry, in the United States alone, stands at US\$ 13.4 Bn and is expected to grow to US\$ 27.5 Bn by 2025.

As far as mobile advertising is concerned, a key phenomenon that is playing out due to the increased privacy by Apple is shifting of ad spends from Apple to Android. While ad spend on Apple has fallen by 30% between June to July 2021, ad spend on Android has increased by more than 10% above the usual growth. We expect this to benefits of this phenomenon to indirectly flow to Affle as well.

Affle has corrected by more than 30% from its all-time high of INR 6,285 over the last 5 months. At current level of INR 4,182, the stock is trading at 76x / 56x FY22e / FY23e EPS. We believe that the stock is at attractive level after the recent correction and therefore recommend a BUY on the stock with a target price of INR 5,985.

## Financials

Profit & Loss Statement				
YE March (Rs. mn)	FY20	FY21	FY22E	FY23E
<b>Revenue from Operations</b>	3338	5168	8519	11306
% Growth	34%	55%	65%	33%
<b>Operating Expenses</b>				
Inventory and Data Costs	1921	2977	3895	4885
Employee Benefit Expense	273	540	768	857
Other Expenses	265	354	466	590
<b>Total Operating Expenses</b>	<b>2459</b>	<b>3871</b>	<b>6804</b>	<b>8781</b>
<b>EBITDA</b>	<b>879</b>	<b>1297</b>	<b>1715</b>	<b>2525</b>
Growth (%)	25%	48%	32%	47%
<b>EBITDA Margin (%)</b>	<b>26%</b>	<b>25%</b>	<b>20%</b>	<b>22%</b>
Less: Depreciation	133	197	279	415
<b>EBIT</b>	<b>746</b>	<b>1100</b>	<b>1436</b>	<b>2110</b>
Growth (%)	24%	48%	31%	47%
<b>EBIT Margin (%)</b>	<b>22%</b>	<b>21%</b>	<b>17%</b>	<b>19%</b>
Interest Paid	14	36	12	10
Other Income	61	415	179	62
<b>PBT</b>	<b>792</b>	<b>1479</b>	<b>1603</b>	<b>2162</b>
Tax Expenses	137	120	192	259
<b>Net Profit</b>	<b>655</b>	<b>1359</b>	<b>1410</b>	<b>1903</b>
<b>Adjust PAT</b>	<b>655</b>	<b>1029</b>	<b>1410</b>	<b>1903</b>
Growth (%)	34%	57%	37%	35%
<b>APAT Margin (%)</b>	<b>20%</b>	<b>20%</b>	<b>17%</b>	<b>17%</b>
<b>EPS</b>	<b>26</b>	<b>53</b>	<b>55</b>	<b>75</b>
Growth (%)	30%	104%	4%	35%
<b>Adj. EPS</b>	<b>26</b>	<b>39</b>	<b>55</b>	<b>75</b>
Growth (%)	30%	48%	43%	35%
Financial Ratio Analysis				
YE March (Rs. mn)	FY20	FY21	FY22E	FY23E
<b>Profitability Ratios</b>				
ROE (%)	29%	38%	13%	15%
ROCE (%)	27%	20%	10%	13%
ROA (%)	12%	12%	6%	7%
<b>Valuation Ratios</b>				
Book Value (Rs.)	90	141	432	506
P/E (x)	160	78	76	56
P/BV (x)	47	30	10	8
EV/EBITDA (x)	121	82	59	39
Market Cap. / Sales (x)	32	21	13	9
Market Cap	1,06,624	1,06,624	1,06,624	1,06,624
Current Market Price	4182	4182	4182	4182

Balance Sheet				
Particulars	FY20	FY21	FY22E	FY23E
<b>EQUITY</b>				
Equity Share Capital	255	255	266	266
Other Equity	2037	3337	10736	12638
<b>Total Equity</b>	<b>2292</b>	<b>3592</b>	<b>11002</b>	<b>12905</b>
<b>LIABILITIES</b>				
<b>Non-Current Liabilities</b>				
<b>Financial Liabilities</b>				
Borrowings	281	893	593	543
Other Non-Current Financial Liabilities	118	1067	2177	2917
<b>Total Non-Current Liabilities</b>	<b>433</b>	<b>1998</b>	<b>2795</b>	<b>3485</b>
<b>Current Liabilities</b>				
<b>Financial Liabilities</b>				
Trade Payables				
Others	743	1256	1546	1821
<b>Total Current Liabilities</b>	<b>1276</b>	<b>1936</b>	<b>2188</b>	<b>2453</b>
<b>Total Equity and Liabilities</b>	<b>4000</b>	<b>7526</b>	<b>15985</b>	<b>18843</b>
<b>Non-Current Assets</b>				
<b>Property Plant &amp; Equipment</b>				
Gross Block	24	223	523	873
Less: Depreciation	14	210	490	905
<b>Net Block</b>	<b>10</b>	<b>13</b>	<b>33</b>	<b>-32</b>
Goodwill	1107	3149	5900	6000
Other Intangible Assets	474	425	425	425
<b>Total Non-Current Assets</b>	<b>1689</b>	<b>5018</b>	<b>8232</b>	<b>8486</b>
<b>Current Assets</b>				
<b>Financial Assets</b>				
Trade Receivables	744	1079	1774	2168
<b>Cash and Cash Equivalents</b>	<b>696</b>	<b>491</b>	<b>5081</b>	<b>7074</b>
Other Financial Assets	10	179	63	254
<b>Total Current Assets</b>	<b>2321</b>	<b>2507</b>	<b>7753</b>	<b>10357</b>
<b>Total Assets</b>	<b>4010</b>	<b>7525</b>	<b>15985</b>	<b>18843</b>
Cash Flow Statement				
Particulars	FY20	FY21	FY22E	FY23E
<b>PAT</b>	<b>655</b>	<b>1359</b>	<b>1410</b>	<b>1903</b>
Less: Non Operating Income	-61	-415	-179	-62
Add: Depreciation	133	197	279	415
Add: Interest Paid	14	36	12	10
<b>Operating Profit before WC Changes</b>	<b>742</b>	<b>1177</b>	<b>1523</b>	<b>2266</b>
(Inc)/Dec in Current Assets	-370	-818	-798	-610
Inc/(Dec) in Current Liabilities	504	660	252	265
<b>Net Cash Generated From Operations</b>	<b>876</b>	<b>1019</b>	<b>977</b>	<b>1920</b>
<b>Cash Flow from Investing Activities</b>				
(Inc)/Dec in Fixed Assets	-1182	-2547	-3243	-419
(Inc)/Dec in Investment (Strategic)	-37	-978	-250	-250
Add: Non Operating Income	61	415	179	62
<b>Net Cash Flow from Investing Activities</b>	<b>-1169</b>	<b>-3110</b>	<b>-3315</b>	<b>-607</b>
<b>Cash Flow from Financing Activities</b>				
Inc/(Dec) in Total Loans	329	1562	810	690
Less: Interest Paid	-14	-36	-12	-10
<b>Net Cash Flow from Financing Activities</b>	<b>1244</b>	<b>1470</b>	<b>6785</b>	<b>680</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>950</b>	<b>-622</b>	<b>4448</b>	<b>1993</b>
<b>Opening Balance</b>	<b>305</b>	<b>1265</b>	<b>632</b>	<b>5081</b>
<b>Closing Cash and Cash Equivalents</b>	<b>1255</b>	<b>643</b>	<b>5080</b>	<b>7074</b>
Free Cash Flow Statement				
INR Mn	FY20	FY21	FY22E	FY23E
EBITDA	879	1297	1715	2525
FC Investment	9	199	300	350
WC Changes	134	-158	-546	-346
Depreciation Tax Shield	23	16	34	50
Tax Expenses	152	105	206	303
<b>FCFF</b>	<b>1179</b>	<b>1061</b>	<b>1109</b>	<b>2183</b>

Source: Dalal &amp; Broacha Research, Company

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