



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

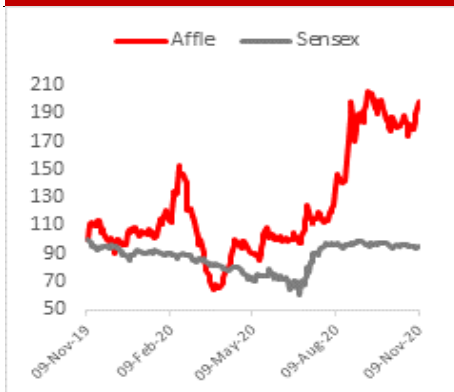
BUY

Current Price	2940
Target Price	3302
Upside	12%
52 Week Range	908/3143

Key Share Data

Market Cap (Rs. Bn)	75
Market Cap (US\$ Million)	1014
No of o/s shares (Million)	25
Face Value	10
Monthly Avg. Vol (BSE+NSE) ('000)	11
BSE Code	542752
NSE Code	AFFLE
Bloomberg	AFFLE:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	68.38	68.38
Institutions	18.71	18.54
Others	12.92	13.08
Total	100	100

Affle reported a stellar performance during the quarter with a beat on our estimates across the board

- Revenue at INR 1349 Mn, +50% qoq / +59% yoy and 1% above our estimate
- EBITDA at INR 344 Mn, +53% qoq / +58% yoy and 14% above our estimates
- EBITDA margin at 25.5% vs 25% / 25.7% in Q1FY21 / Q2FY20 and +290 bps vs our estimates
- EBIT at INR 292.9 Mn, +61% qoq / +55% yoy and +19% vs our estimates
- EBIT margin at 21.7% vs 20.2% / 22.3% and +330 bps vs our expectations
- PAT at INR 269.7, +44% qoq / +73% yoy and 7% above our estimates
- EPS at INR 10.6 vs 6.1 / 6.3 Q1FY21 / Q2FY20
- Converted Users in CPCU business stood at 28.1 Mn vs 17 Mn / 18.5 Mn in Q1FY21 / Q2FY20 and a big beat on our estimate of 21.8 Mn users
- Average CPCU rate stood at INR 40.3 in Q2FY21 vs INR 41 / 41.3 in Q1FY21 / Q2FY20

Segmental Highlights

- Consumer Platform (CP) stood at 98.5% (vs. 98.1% in Q1FY21) of the revenue and grew 51% sequentially
- Cost Per Converted User (CPCU) business stood at 85.2% of CP (vs 79.3% of CP in Q1FY21) and grew 62% qoq
- non-CPCU business stood at 14.8% of CP (vs 20.7% of CP in Q1FY21) and grew 8% qoq
- Enterprise platform stood at 1.5% of the business and grew 19% sequentially
- India business stood at 51.8% of revenue and grew 62% qoq
- International business stood at 48.2% of revenue and grew 39% qoq

Conference Call KTAs

- Verticalization and Vernacularisation strategy of Affle 2.0 scaling up well
- Closed investment in IndusOS and BobbleAI which prove beneficial for vernacular strategy and partnerships with OEMs
- Higher Employee cost during the quarter due to Investment in Human resource in Business Development and Tech development and employee addition due to acquired businesses. Higher proportion of variable pay also contributed to elevated employee costs
- Results included and accounted for 95% of Appnext ownership and 5% non-controlling interest as Affle has an option to buy the balance 28.34% stake at a fixed price in the next 2 years.
- Operating Cash Flows stood at INR 521 Mn – 114% of PAT
- Inorganic revenue contribution (i.e. Appnext + Mediasmart) stood at 24% of revenue or INR 324 Mn out of INR 1349 Mn
- Inorganic PAT contribution (Appnext + Mediasmart) stood at INR 29 Mn, which is 11% of consolidated PAT. Inorganic PAT translates into 9% PAT margin which company will scale up further.

PTO...

Consolidated Financials (In INR Million)

YE March (Rs. mn)	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY19	2494		703	28%	488	20%	20		146		
FY20	3338	34%	879	26%	655	20%	26	34%	112	29%	27%
FY21e	4974	49%	1251	25%	974	20%	38	49%	77	30%	28%
FY22e	6238	25%	1576	25%	1175	19%	46	21%	64	26%	27%
FY23e	7587	22%	1893	25%	1411	19%	55	20%	53	24%	26%

Source: Company, Dalal&Broacha Research



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- viii. Appnext generated INR 18 Mn of PAT out of INR 29 Mn of total inorganic PAT (which is a strong scale up considering that Appnext during acquisition was at -10% Net Margins)
- ix. Capitalization: 1.3 Mn \$ in current quarter
- x. INR 3 cr of foreign currency gain on account of reversal / restatement taken in Other Expenses
- xi. Appnext realizations: Appnext is bundled with other services but realizations not scaled up much since last quarter
- xii. One can expect to achieve 25% YoY long term growth even after taking Q2FY21's stellar performance as the new base. Stat Key Triggers for long term sustainable growth: Shoppers in India itself will increase from 150 Mn to 300-400 Mn in the next 5-10 years
- xiii. Data & Inventory Costs: 45-50% is through own programmatic (proprietary APIs) or OEM presence and balance 50% is more general programmatic on the supply side
- xiv. Near Term Outlook: Historically, Q3 is generally the best quarter of the year and see no reason to for this year to be any different, however this year might be marginally impacted by COVID. Q3 will not be as robust as Q2.
- xv. Run-rate in COVID resistant top 10 verticals is better than pre-COVID levels

Valuation & Outlook

Affle is trading at 63.8x / 53.1x FY22e / FY23e EPS. We believe that the company delivered a solid set of results both on the organic and inorganic front (mainly Appnext). Margins of acquisitions such as Mediasmart and Appnext have also scaled up well (9% Net Margins in Q2FY21 vs -10% in FY20) v/s ours and management expectations. We expect Affle to continue this growth momentum into Q3FY21 – which is usually the strongest quarter in a year on the back of festive season which is usually marked by strong advertising spends. Management has reiterated 25% YoY top-line growth for the long term even on the current base which is highly encouraging.

We reiterate our BUY rating on the stock with a target price of INR 3302.



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Financial Ratio Analysis					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue from Operations	2494	3338	4974	6238	7587
% Growth		34%	49%	25%	22%
Operating Expenses					
Inventory and Data Costs	1341	1921	2609	3011	3671
Employee Benefit Expense	212	273	408	468	529
Other Expenses	237	265	331	392	574
Total Operating Expenses	1791	2459	3723	4663	5694
EBITDA	703	879	1251	1576	1893
Growth (%)		25%	42%	26%	20%
EBITDA Margin (%)	28%	26%	25%	25%	25%
Less: Depreciation	101	133	196	260	287
EBIT	602	746	1055	1315	1606
Growth (%)		24%	42%	25%	22%
EBIT Margin (%)	24%	22%	21%	21%	21%
Interest Paid	8	14	31	12	10
Other Income	4	61	87	78	64
PBT	598	792	1110	1382	1660
Tax Expenses	110	137	137	207	249
Net Profit	488	655	974	1175	1411
Adjust PAT	488	655	974	1175	1411
Growth (%)		34%	49%	21%	20%
APAT Margin (%)	20%	20%	20%	19%	19%
EPS	20	26	38	46	55
Growth (%)		30%	46%	21%	20%

Financial Ratio Analysis					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Profitability Ratios					
ROE (%)		29%	30%	26%	24%
ROCE (%)		27%	28%	27%	26%
ROA (%)	22%	12%	13%	13%	13%
Financial Leverage Ratios					
Debt / Equity (x)	0.1x	0.3x	0.3x	0.2x	0.1x
Interest Coverage (x)	87x	62x	40x	133x	197x
Interest / Debt (%)	9%	2%	4%	2%	2%
Asset Turnover Ratios					
Debtors (Days)	105	110	118	110	105
Creditors (Days)	70	81	75	80	80
Valuation Ratios					
Book Value (Rs.)	28	90	128	174	229
P/E (x)	146	112	77	64	53
P/BV (x)	103	33	23	17	13
EV/EBITDA (x)	106	85	59	47	38
Market Cap. / Sales (x)	30	22	15	12	10
Net Cash / Mkt Cap (%)	0%	1%	1%	2%	4%
Dividend Yield (%)	0	0	0	0	0
Dividend Per Share	0	0	0	0	0
EV					
Market Cap	74,933	74,933	74,933	74,933	74,933
Net Cash	215	627	866	1610	2777
Net Debt	-215	-627	-866	-1610	-2777
Dividend Payout Ratio (%)	0%	0%	0%	0%	0%
Current Market Price	2939	2939	2939	2939	2939

Free Cash Flow Statement				
INR Mn	FY20	FY21E	FY22E	FY23E
EBITDA	879	1251	1576	1893
FC Investment	790	773	350	350
WC Changes	134	-40	-378	-217
Depreciation Tax Shield	23	24	39	43
Tax Expenses	152	154	236	284
FCFF	398	617	1123	1653

Balance Sheet					
Particulars	FY19	FY20	FY21E	FY22E	FY23E
EQUITY					
Equity Share Capital	243	255	255	255	255
Other Equity	481	2037	3011	4185	5596
Total Equity	724	2292	3265	4440	5851
LIABILITIES					
Non-Current Liabilities					
<i>Financial Liabilities</i>					
Borrowings	69	281	481	431	381
Total Non-Current Liabilities	87	433	515	465	415
Current Liabilities					
<i>Financial Liabilities</i>					
Borrowings	21	357	357	307	257
<i>Trade Payables</i>					
Others	517	743	1082	1167	1373
Other Financial Liabilities	199	70	82	94	106
Total Current Liabilities	771	1276	1616	1669	1842
Total Equity and Liabilities	1583	4000	5396	6574	8109
Non-Current Assets					
Property Plant & Equipment					
Gross Block	15	24	333	583	833
Less: Depreciation	8	14	210	470	758
Net Block	7	10	123	113	75
Goodwill	325	1107	1570	1670	1770
Other Intangible Assets	240	474	474	474	474
Financial Assets					
Investments	0	0	990	1490	1740
Total Non-Current Assets	592	1679	3247	3850	4176
Current Assets					
Contract Asset	132	199	274	343	417
Financial Assets					
Trade Receivables	479	744	1022	1367	1663
Cash and Cash Equivalent	206	696	713	858	1675
Total Current Assets	991	2321	2149	2725	3933
Total Assets	1583	4000	5396	6574	8109

Cash Flow Statement					
Particulars	FY20	FY21E	FY22E	FY23E	
PAT	655	974	1175	1411	
Less: Non Operating Income	-61	-87	-78	-64	
Add: Depreciation	133	196	260	287	
Add: Interest Paid	14	31	12	10	
Operating Profit before WC Changes	742	1115	1368	1644	
(Inc)/Dec in Current Assets	-370	-379	-431	-391	
Inc/(Dec) in Current Liabilities	504	340	54	173	
Net Cash Generated From Operations	876	1075	990	1427	
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-1182	-774	-363	-363	
(Inc)/Dec in Investment (Strategic)	-37	-990	-500	-250	
Add: Non Operating Income	61	87	78	64	
Net Cash Flow from Investing Activities	-1160	-1678	-784	-550	
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	329	82	-50	-50	
Less: Interest Paid	-14	-31	-12	-10	
Net Cash Flow from Financing Activities	1244	51	-62	-60	
Net Inc/Dec in cash equivalents	960	-552	144	817	
Opening Balance	305	1265	713	858	
Closing Cash and Cash Equivalents	1265	713	858	1675	



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