



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

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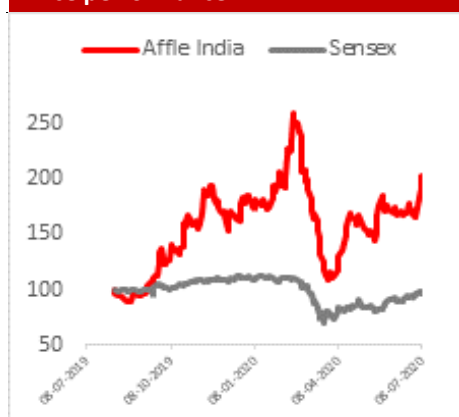
BUY

Current Price	1852
Target Price	2015
Upside	9%
52 Week Range	751/2296

Key Share Data

Market Cap (Rs.Bn)	47.23
Market Cap (US\$ Mn)	630.24
No of o/s shares (Mn)	25.50
Face Value	10
Monthly Avg. Vol (BSE+NSE) '000	1110
BSE Code	542752
NSE Code	AFFLE
Bloomberg	AFFLE:IN

Price performance



% Shareholding	Mar-20	Dec-19
Promoters	68.38	68.38
Public	31.62	31.62
Others	0.00	0.00
Total	100	100

Affle (India) is a global technology company offering consumer intelligence platform that helps in delivering consumer engagements, acquisitions and transactions with the help of mobile advertising.

Investment Rationale

High growth ad-tech industry coupled with differentiated Cost per Converted User (CPCU) model serve as key triggers for Affle

Digital ad or ad-tech industry is estimated to grow (ex-COVID) at 32%+ in India and 20%+ in the international market over the next 3 years. Key drivers for this strong double-digit growth are better internet and smartphone penetration, affordable data, spread of e-commerce and therefore, a shift in ad spend from other mediums such as TV, Print, etc.

Additionally, Affle's Cost Per Converted User (CPCU) is a differentiated business model in an industry which usually operates on Cost per Media (CPM) (Media based business model) or Cost per Click (CPC) model. A CPCU model means that revenue is earned when a user is converted into a consumer by clicking on the ad followed by a download or purchase or registration; as opposed to CPM / CPC which earn revenues on a "per 1000 views" basis or merely "click basis". Therefore, clients are attracted not only due to higher accountability but also because Affle's participation in driving client targets / revenue is higher. Affle derives 88.8% of its topline 'from CPCU model and 8.4% of revenue from non-CPCU (i.e. CPM or CPC model).

CPCU model to ensure robust volumes and premium realizations

A CPCU business model involves higher engagement/participation (since it is a performance-based model) into a client's revenue conversion and also a higher success rate compared to CPM and CPC (which is media-based pricing for example cost per thousand impressions) and therefore client preference is increasingly shifting towards the former model. CPCU model also commands premium realizations, i.e. US\$0.1 – US\$0.3 per click compared to CPM model which is priced at US\$0.15 – US\$5 per 1000 impressions. This differentiated business model is also reflected in the historical performance as converted user volumes have grown at 32% CAGR over the last 5 years. Going ahead (ex-COVID), one can expect volumes to grow at 25% CAGR over the next 3 - 5 years and realizations to improve by 3% over the next 2 years. Ex-COVID, one can expect company to deliver 25% yoy revenue growth. However, given COVID situation, expect company to deliver revenue growth of 10% yoy in FY21e and 25%+ yoy in FY22e while margins should be range bound in 20-24% over the next 2 years.

Consolidated Financials (In INR Mn)

Particulars	Revenue (INR Mn)	Growth (Y-o-Y)	EBITDA (INR Mn)	EBITDA Margin (%)	PAT (INR Mn)	PAT Margin (%)	EPS (INR)	ROE (%)	P/E
FY19	2494	49%	703	28%	488	20%	20	67%	92
FY20	3338	34%	879	26%	655	20%	26	29%	71
FY21e	4005	20%	881	22%	681	17%	27	23%	69
FY22e	5407	35%	1298	24%	1027	19%	40	26%	46

Note: Drop in RoE in FY20 over FY19 is due to the acquisition of RevX and MediaSmart contributing less to the bottom line which is not comparable.

Source: Bloomberg Estimates, Dalal&Broacha Research



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Presence across the Ad-tech ecosystem differentiates Affle and provides a competitive edge

Affle has strategically placed itself across the ad-tech value chain and ecosystem by taking an organic and inorganic approach. On the advertiser side, Affle is present in the Data Management space (which packages publisher's data for advertisers) through its Data Management Platform (mDMP) and offers bid aggregation solution through its Demand Side Platform (DSP). On the Publisher's side, it offers inventory aggregation space through its mobile Supply Side Platform (mSSP). Moreover, it is present in the non-CPCU or CPM or Media based pricing model and the Performance Based CPCU model organically whereas it is present in the SaaS business model through its acquisitions of RevX and Vizury (in 2018 and 2019 respectively).

Lastly, Affle was earlier present only in the in-app advertisement space and acquired Mediasmart and Appnext to enter the online to offline user conversion and "out-of-app" space as well. Thereby ensuring its presence throughout the ad-tech ecosystem.

Valuation & Outlook

Affle's presence across the ad tech ecosystem coupled with its capabilities of in-app, outside-the-app and online to offline advertising and user conversion put the company in a unique position with a considerable competitive advantage in an industry which has a shortage of formidable competitors. We believe that performance of Category E (E-commerce, Ed-tech and Entertainment) and Category F (Fintech and Foodtech) will be the biggest triggers as lockdowns ease and consumption activity resumes. **Considering that the stock has rallied since we gave a 'positive outlook' in our note on 'Appnext Acquisition & Affle 2.0' (dated 12/06/20) and the volatile nature of the market in the COVID-19 situation, we recommend investors to BUY the stock with a staggered approach starting with 25% of the intended quantity and assign a target price of INR 2,015 (50x FY22e EPS).**



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