14 June 2022

Affle, India

Precision targeting at scale; Initiating with a Buy

Rating: **Buy**
Target Price: Rs.1,220
Share Price: Rs.980

As mobile-app transactions get more traction and become mainstream, we believe demand for Affle's user acquisition-&-retention solutions should grow manifold. Management focus on profitability has created sustainable high-growth and cash-flow generation. We initiate coverage on Affle, India, with a Buy rating and a target of Rs1,220 (based on DCF , assuming 12% WACC & 6% terminal growth rate, implied PE of 45x FY24 EPS) as greater spending on mobile advertising, tapping connected devices, deeper penetration in the top-10 verticals, newer regions, tier-2 and -3 cities in India drive Affle's long-run growth.

Mobile ecosystem healthier than ever. Digital advertising comprised ~47.2% of total ad-spend globally in 2021 and ~49.5% of the U.S. market. By 2025, digital ad-spend will comprise over 53% of total ad-spend globally. Mobile advertising accounted for a considerable chunk of the digital ad spends. With smartphones providing unparalleled reach and access to billions world-wide, every industry now is mobile-focused. According to Juniper research, despite app-store privacy changes by Apple and Google that are hitting advertisers, global mobile advertising spend will increase from $295bn in 2021 to $350bn in 2022, growing 18.6% y/y and driven by in-app growth as brands strive to secure consumer trust.

Outcome-based business model is less cyclical during a high-inflation and interest-rate scenario. While dominance in the industry is largely of companies operating on clicks, views and impressions, Affle primarily earns revenue from a 'consumer platform' on a 'cost-per-converted-user' basis. This is based on 'consumer acquisition' and 'transaction'. It focuses on acquiring customers for businesses, usually through targeted user downloads and opening an app or engaging with one after seeing an ad by a company. Thus, Affle earns revenue only if it successfully converts its audience into customers, which we believe is less cyclical because when advertising budgets are tight, advertisers would prefer conversion-linked RoI models.

Risks: Data protection and privacy policy could affect the business.

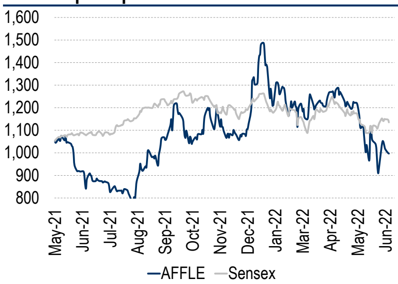
Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	3,338	5,168	10,817	14,998	20,212
Net profit (Rs m)	655	1,348	2,139	2,605	3,596
EPS (Rs)	4.9	10.1	16.1	19.5	27.0
P/E (x)	201.3	97.8	61.7	50.6	36.7
EV / EBITDA (x)	149.4	101.3	61.6	47.3	33.3
P / BV (x)	57.6	36.8	11.2	9.2	7.3
RoE (%)	43.5	45.9	28.0	20.0	22.3
RoCE (%)	31.5	22.5	15.5	13.1	16.2
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.3	0.1	-0.4	-0.4	-0.5

Source: Company, Anand Rathi Research

Key data	AFFLE IN / AFFL.BO
52-week high / low	Rs1511 / 763
Sensex / Nifty	52847 / 15774
3-m average volume	$5.9m
Market cap	Rs131bn / $1675.9m
Shares outstanding	133m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	59.9	59.9	59.9
- *of which, Pledged*	-	-	-
Free float	40.1	40.1	40.1
- Foreign institutions	19.0	19.6	20.6
- Domestic institutions	4.6	5.5	5.3
- Public	16.5	15.0	14.2

Relative price performance



Source: Bloomberg

Shobit Singhal
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	3,337.8	5,167.8	10,816.6	14,997.7	20,212.0
Growth (%)	*34*	*55*	*109*	*39*	*35*
User conversions (in mn)	72	105	195	266	359
Direct costs	1,921.4	2,977.0	6,789.3	9,523.6	12,632.5
Gross profit	1,416.4	2,190.8	4,027.3	5,474.2	7,579.5
Gross margins (%)	*42.4*	*42.4*	*37.2*	*36.5*	*37.5*
SG&A	538	894	1,896	2,700	3,638
EBITDA	**879**	**1,297**	**2,131**	**2,775**	**3,941**
EBITDA margins (%)	*26.3*	*25.1*	*19.7*	*18.5*	*19.5*
Depreciation	-133	-196	-324	-324	-324
Other income	61	415	717	700	700
Interest expenses	-14	-36	-71	-71	-71
PBT	792	1,479	2,453	3,079	4,246
Effective tax rate (%)	*17.30*	*8.71*	*12.27*	*15.00*	*15.00*
+Associates / (Minorities)	-	-2	-13	-13	-13
Net income	655	1,348	2,139	2,605	3,596
WANS	133.3	133.3	133.3	133.3	133.3
FDEPS (Rs / sh)	4.9	10.1	16.1	19.5	27.0

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	255	255	267	267	267
Net worth	2,292	3,588	11,781	14,386	17,982
Debt	638	1,168	1,484	1,484	1,484
Deferred tax liability	2	15	61	61	61
Lease & long-term liabilities	150	1,090	1,236	1,236	1,236
Capital employed	**3,082**	**5,865**	**14,574**	**17,179**	**20,775**
Net tangible assets	47	33	27	22	21
Net intangible assets	522	828	1,226	2,232	3,587
Goodwill	1,107	3,149	6,163	6,163	6,163
CWIP (tang. & intang.)	-	-	-	-	-
Right of use assets	-	-	-	-	-
Investments (strategic)	-	996	1,346	1,346	1,346
Investments (financial)	10	179	47	47	47
Current assets (excl. cash)	1,068	1,708	3,415	4,322	5,454
Cash	1,265	632	6,046	7,731	10,076
Current liabilities	938	1,661	3,695	4,684	5,918
Working capital	131	47	-280	-362	-464
Capital deployed	**3,082**	**5,865**	**14,574**	**17,179**	**20,775**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	792	1,479	2,453	3,079	4,246
+ Non-cash items	171	-171	-16	-305	-305
Oper. prof. before WC	964	1,308	2,437	2,775	3,941
- Incr. / (decr.) in WC	135	174	99	-82	-102
Others incl. taxes	-110	-117	-278	-462	-637
Operating cash-flow	719	1,016	2,060	2,395	3,407
Free cash-flow	408	523	1,334	1,389	2,051
- Acquisitions	-878	-1,124	-2,934	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	858	-	5,907	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	-439	-132	-1,900	367	364
- Misc. (CFI + CFF)	2	9	26	71	71
Net cash-flow	960	-632	5,414	1,685	2,345

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

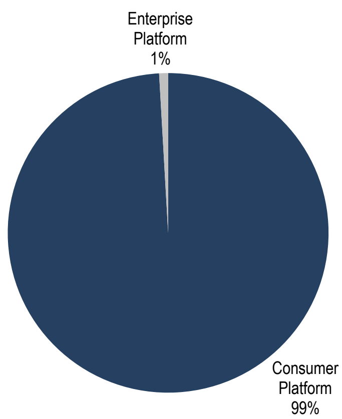
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	201.3	97.8	61.7	50.6	36.7
EV / EBITDA (x)	149.4	101.3	61.6	47.3	33.3
EV / Sales (x)	39.3	25.4	12.1	8.8	6.5
P/B (x)	57.6	36.8	11.2	9.2	7.3
RoE (%)	43.5	45.9	28.0	20.0	22.3
RoCE (%) - after tax	31.5	22.5	15.5	13.1	16.2
DPS (Rs / sh)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.3	0.1	-0.4	-0.4	-0.5
Receivables (days)	81.4	76.2	79.2	79.2	79.2
Inventory (days)	-	-	-	-	-
Payables (days)	82	89	86	86	86
CFO : PAT %	109.7	75.4	96.3	91.9	94.7

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Revenue contribution, FY22

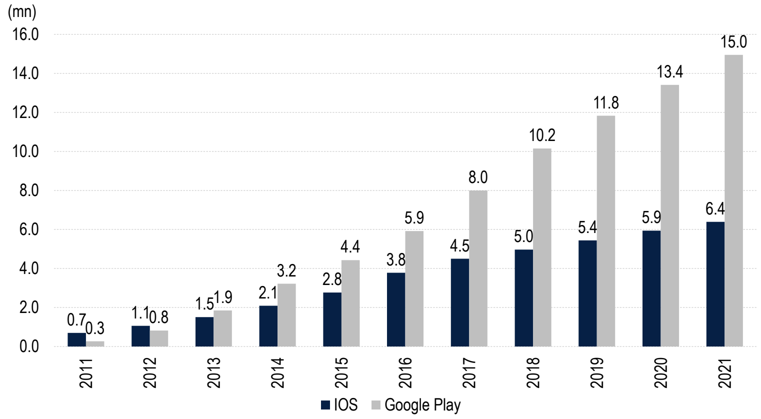


Source: Company

Mobile ecosystem healthier than ever

With smartphones providing unparalleled reach and access to billions worldwide, every industry now is mobile-focused. Publishers released ~2m apps and games in 2021, which illustrates demand to engage customers on mobile phones. This brings total apps and games released on IOS and Google Play to over 21m. Google Play accounted for 77% of apps and games released in 2021. Across IOS and Goole Play, games represented ~15% of releases in 2021. The remaining ~85% of apps span all categories of app stores, from mobile-first movers like social media to mobile-impelled industries such as insurance and healthcare.

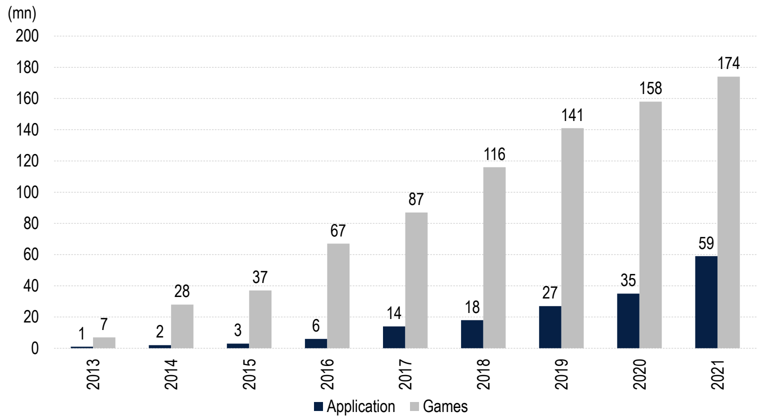
Fig 7 – Cumulative number of apps released by stores



Source: data.ai, Anand Rathi Research

Consumers migrated more of their entertainment consumption onto mobile. In 2021, there were over ~230 apps surpassing ~$100m in annual consumer spend, with ~13 of them surpassing ~$1bn. This was up ~20% y/y from 2020 at 193 apps and over $100m in annual spend and only eight over ~$1bn.

Fig 8 – Number of apps surpassing $100m in annual global consumer spend

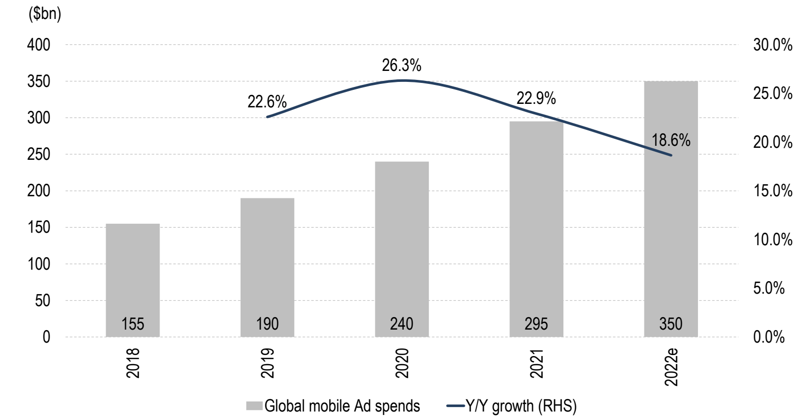


Source: data.ai, Anand Rathi Research

According to Juniper research, despite app-store privacy changes by Apple and Google that are hitting advertisers, global mobile advertising spend will increase from $295bn in 2021 to $350bn in 2022, 18.6% y/y growth and driven by in-app growth, as brands strive to secure consumer trust.

Although privacy changes by Apple and Google are restricting the potential for effective ad attribution, vast opportunities still exist. The availability of the SKAd network on IOS, for example, is a major opportunity for advertisers to access aggregated data, allowing them to target areas primed for growth.

Fig 9 – Globally, mobile ad-spends to grow manifold



Source: data.ai,, Anand Rathi Research

Outcome-based business model

Affle is a global technology company with a proprietary consumer intelligence platform that delivers consumer engagements, acquisitions and transactions through relevant mobile advertising. The platform aims to enhance returns on investment in marketing through contextual mobile ads and reducing digital ad fraud.

Fig 10 – Business models in ad tech

Business Model	Metrics	Typical pricing range
Media-based pricing model	Cost per media (eg: no. of banners, videos)	$0.15--10 per thousand impressions
Performance-based pricing model	Cost per click, cost per sale, cost per view, cost per action (such as app downloads)	$0.3--1.5 per click
Flat-fee model	A flat fee for each media / rate	Varies
Software as a service	Monthly fee based on technology stack, no. of users targeted, and so on	$15,000-35,000 a month

Source: Company, Anand Rathi Research

Fig 11 – Ad tech companies following such business models

Company	Media-based	Performance-based	Flat fee	Saas
Affle	Yes	Yes	Yes	
InMobi	Yes	Yes	Yes	
Pubmatic	Yes	Yes	Yes	Yes
The Trade Desk	Yes	Yes	Yes	Yes
Digital Turbine	Yes	Yes	Yes	Yes
Mobvista	Yes	Yes	Yes	
Liftoff	Yes	Yes		
Ironsource	Yes	Yes		
Criteo		Yes		
Freakout	Yes	Yes		

Source: Company, Anand Rathi Research

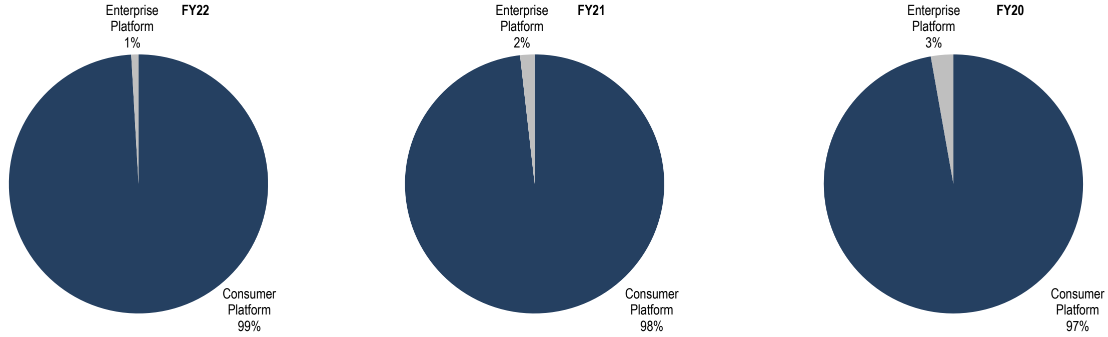
Fig 12 – Comparison of leading competitors in value-chain coverage, USP, verticals focused and geographical presence

Company	Value-Chain Coverage	Vertical Focus	Geographical Presence
Affle	In-house DMP, in-house DSP/SSP, fraud detection, Mobile in-app advertisement and on device app recommendations	E-commerce, entertainment, edtech, fintech, foodtech, FMCG, gaming, groceries, government and healthtech	India, SEA, MEA,LATAM, US, & Europe, Primarily focused on Global Emerging Markets
InMobi	DMP, DSP, SSP, fraud detection	Retail finance, gaming, e-commerce, food and beverages, hospitality	India, China, USA, Dubai, London, France, Malaysia, South Korea,Australia, Indonesia, Japan
Pubmatic	DMP, DSP, SSP, fraud detection	New, e-commerce, gaming, media, weather, fashion, technology and more	United States, EMEA, APAC
The Trade Desk	DSP,DMP, API	Media, manufacturing, retail, finance, telecom	America, Europe, APAC
Digital Turbine	Mobile content, Mobile application, Mobile games, Mobile value-added services, application management solution	Telecoms, media, gaming, entertainment	United States and Canada, Europe, Middle East and Africa, Asia Pacific and China, Mexico, Central America and South America
Mobvista	In-house DMP, in-house DSP/SSP, fraud detection,	Mobile games , banks, news	China , SEA, India, U.S. U.K.
Liftoff	Ad network, Ad retargeting, Advertising platform, mobile advertising	Technology, software, gaming media, and marketing, retail	New York, London, Paris, Singapore, Seoul, Tokyo and Sao Paulo
Ironsource	App discovery, app marketing, mobile Advertising	Media, gaming, software	San Francisco, New york, London, Tel Aviv, Bengaluru, Beijing, Seoul, Tokyo
Appier	AI,SaaS, Analytics, ML	Automotive, banking, e-commerce, retail, confectionery, food, etc	Thailand, Vietnam, Hongkong , Philipines, Malaysia, Indonesia, Korea, Japan, Australia, India, Taiwan
Criteo	Customer acquisition, dynamic retargeting, audience match, predictive bidding, product recommendation	Retail, travel, hospitality, e-commerce	95 Countries
Freakout	DSP	Media, auto, retail	APAC

Source: Company, Anand Rathi Research

The company operates two business platforms: consumer and enterprise. The first primarily provides, through relevant mobile advertising, these services: **(1)** Consumer conversions (acquisitions, engagements, transactions); **(2)** Retargeting existing consumers to complete transactions; and **(3)** An online-to-offline (O2O) platform that converts online consumer engagement into in-store walk-ins. The company aims to enhance returns on marketing spends through delivering contextual mobile ads and reducing digital ad-fraud, while addressing consumer privacy expectations.

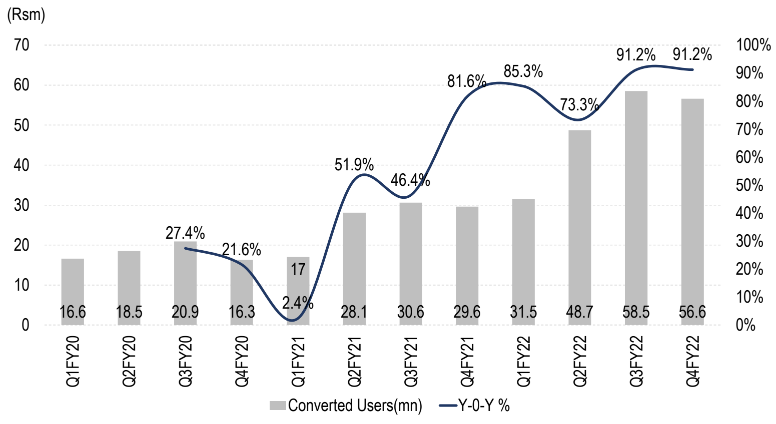
Fig 13 – The Consumer platform contributes a large chunk of revenues



Source: Company, Anand Rathi Research

The consumer platform primarily operates on a cost-per-converted-user (CPCU) for advertisers. This model comprises user=conversions based on consumer acquisitions and transactions. The consumer-acquisition model focuses on acquiring consumers for businesses, usually in the form of targeted user downloading and opening an app or engaging with an app after seeing advertising by the company. The transaction model is usually in the form of a targeted user submitting a lead acquisition form or purchasing a product or service after seeing advertising by the company.

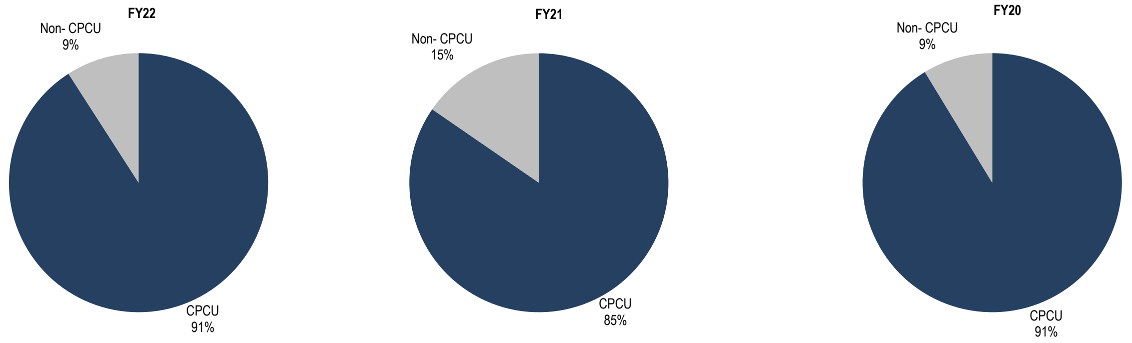
Fig 14 – CPCU business, Converted user trend



Source: Company, Anand Rathi Research

The company also earns revenue from its consumer platform through awareness and engagement advertising, which comprises cost-per-thousand impressions (CPM), cost-per-view (CPV) and cost-per-click (CPC) models. These models are relevant to brand advertisers who want to build awareness and recall as well as engage users online to transact with them offline/ online. The company understands its customers' business drivers, and works with them to choose among the audience engagement models that are the most relevant, thereby delivering measurable business outcomes for them.

Fig 15 – Within the Consumer platform segment, CPCU contributes a large chunk of revenue



Source: Company, Anand Rathi Research

The company utilises user-intent indicators derived from behavioural signals, marketing attribution and appographic and intent data received in real time and accumulated over time, increasing its ability to predict users' likely interests. The accuracy of the prediction and recommendation algorithms for consumer platforms improve with every advertisement the company delivers as the systems incorporate new data, while continuing to learn from previous data.

Besides, the consumer platform enhances the company's customers' ad content with rich media experiences, incl. interactive videos, games and augmented reality. This, paired with data-centric scientific targeting and retargeting, enables the greater likelihood of consumer engagement, such as downloading an app or completing a transaction.

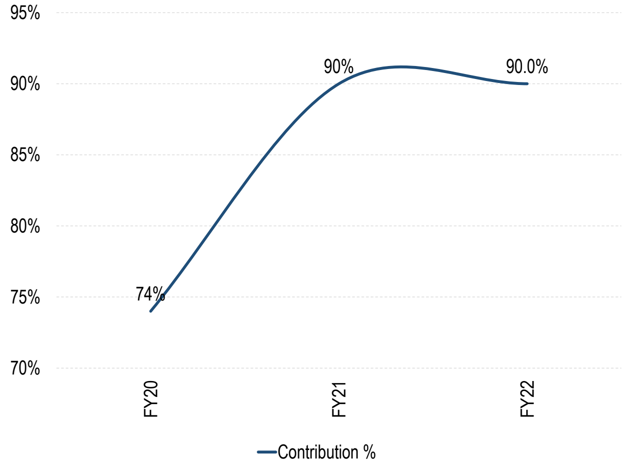
As in Q4 FY22, the company's consumer platform had ~2.5bn connected devices reached, of which ~0.8bn were in India and ~1.7bn outside. In the same quarter, the consumer platform processed over ~900bn data, which power the prediction and recommendation algorithm. The consumer platform benefits from broad access to mobile ad inventory through relations with publishers and data platforms.

Affle's proprietary optimisation algorithms enable it to buy media efficiently and at a high scale, giving it the ability to drive high volumes of CPCU-led campaigns at efficient prices. The consumer platform is used by business-to-consumer (B2C) companies, directly and indirectly through advertising agencies across industry verticals, incl. businesses involved in the following (collectively EFGH): (1) **E**-commerce, ed-tech, entertainment; (2) **F**intech, FMCG, foodtech; (3) **G**aming, government, groceries and (4) **H**ealth-tech.

Fig 16 – Fast-growing & resilient top verticals across EFGH categories

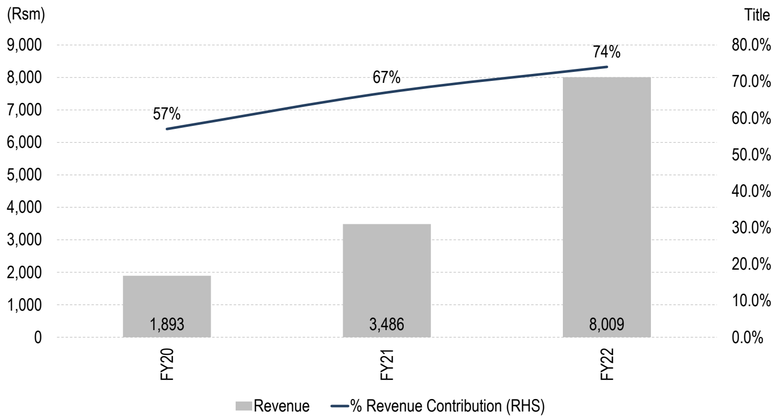
Source: Company, Anand Rathi Research

Fig 17 – Revenue contribution from E,F,G,H categories



Source: Company, Anand Rathi Research

Fig 18 – Direct customer growth primarily powered by E,F,G,H categories



Source: Company, Anand Rathi Research

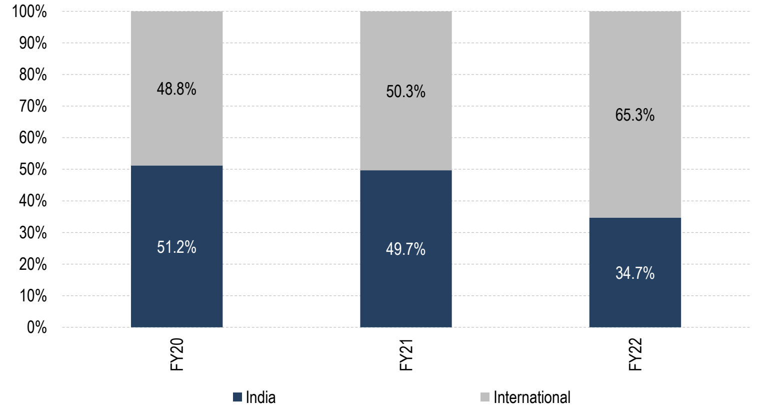
The company also provides end-to-end solutions for enterprises to enhance engagement with mobile users, such as developing apps, enabling offline-to-online commerce for offline businesses with e-commerce aspirations and providing enterprise-grade data analytics for online and offline companies (collectively, the "Enterprise Platform").

Well-defined strategic roadmap for organic and inorganic growth

In 2020 the company laid the foundation for its Affle2.0 growth strategy for the decade ahead, anchored primarily on

- **India market leadership and to other emerging markets**: The company wants to translate its success in the Indian market to other emerging markets. It now has customers in South-east Asia, the Mid-East & Africa and Latin America. It also plans to increase revenue from these emerging markets by levering data and machine-learning abilities to penetrate deeper in these markets and by increasing its on-ground presence in such markets. Besides organic growth, it plans to make strategic acquisitions in other emerging markets.

Fig 19 – Revenue contribution shift to international from Q2 FY22 on the Jampp acquisition



Source: Company, Anand Rathi Research

- **Verticalisation (focus on the top-10 resilient verticals across the E, F, G, H categories).** The company's verticalisation focus enables it to get deeper insights across industry verticals leading to greater RoI impact for its advertisers. It is also focused on increasing revenue from contracts with customers in high-growth industry verticals, in particular, companies in the EFGH segments, among which most are Covid-19 resilient.

  Category EFGH industries have prospered since the start of the Covid-19 pandemic. A recent IDC survey says people are spending an average 10-30% more online. It is estimated that by end-2022, ~77% of all the digital media spends will be through mobile devices. Mobile advertising spend is expected to register a ~32.4% CAGR over FY20-FY25 to ~$6.6bn (from ~$1.6bn).

  India has become an attractive destination for many of these companies. As digital advertising and, in turn, programmatic ad-spend grow rapidly, they drive growth of the overall ad-tech market. Retail, digital payments, gaming, travel, hospitality and e-commerce are the prime verticals contributing to market growth at present. These EFGH categories have become increasingly important to business, and revenue from contracts with customers in the EFGH sectors for FY22 was 90% (consolidated).

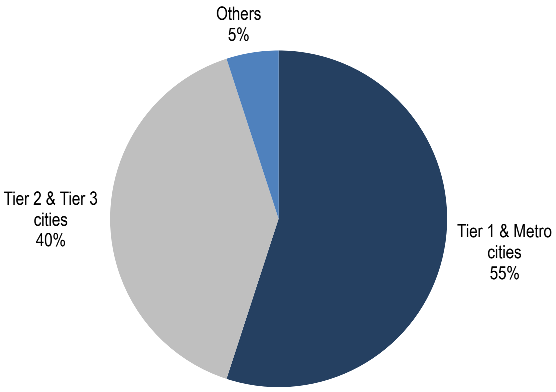
Fig 20 – Fast-growing and resilient top verticals across E, F, G, H categories

Source: Company, Anand Rathi Research

- **Vernacular deep learning (unleashing untapped markets, tier-2 and -3 cities for the next growth phase).** The company's vernacular focus enables hyper-personalised advertisement recommendations, and looking at the vernacular affinity of consumers, which would further strengthen its competitive moat. Its consumer platform drives an integrated vernacular on-device consumer experience, augmenting its CPCU model and ecosystem-connect with advertisers, OEMs and publishers across India and other emerging markets.

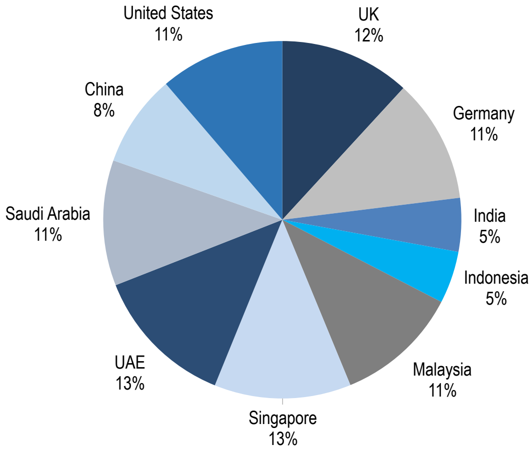
  Frost & Sullivan says 55% of all online sales in India in 2020 came from key metropolises (which are tier-I cities); the rest, from tier-2 and -3 cities (incl. rural hubs, nodal points supporting businesses in rural areas). However, transactions from tier-2 cities and beyond are growing thrice as fast as in metropolises, unleashing an untapped market for the next growth phase. Of new digital users in India, 90% are expected to have vernacular affinity. Various research reports say that ~45% of current users are adopting Indian-language or vernacular content, expected to rise to more than 70% by 2025. (source: Frost & Sullivan Report).

Fig 21 – Vernacular users to drive accelerated growth in online transactions



Source: Company, Anand Rathi Research

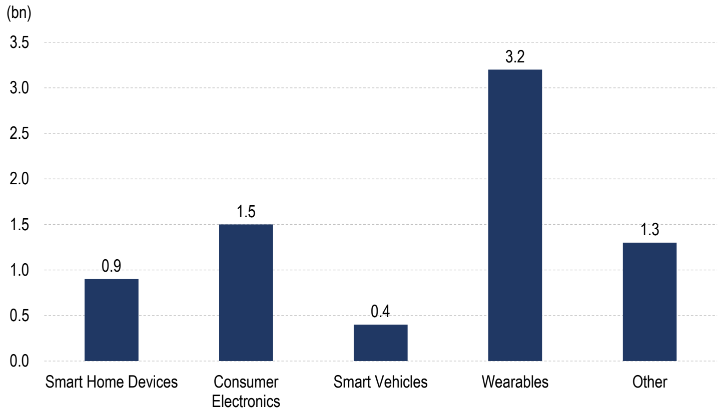
Fig 22 – Increasing smartphone adoption is one of the primary drivers that have boosted internet consumption



Source: Company, Anand Rathi Research

- **Omni-channel connected ecosystem (home devices, consumer electronics, "smart" vehicles and wearables).** ~6bn new connected devices are expected to be added by 2025 globally, with strong growth in "smart" home devices, consumer electronics, "smart" vehicles and wearables (source: Frost & Sullivan Report). We believe this is a significant growth opportunity where the company's consumer platform enables advertisers to engage with a consumer's entire daily connected-device journey. The company plans to continuously invest in enhancing capabilities to go beyond mobile phones to other connected devices, incl. connected households & TVs, and voice & video innovations.

Fig 23 – ~6bn new connected consumer devices to be added by 2025 globally



Source: Company, Anand Rathi Research

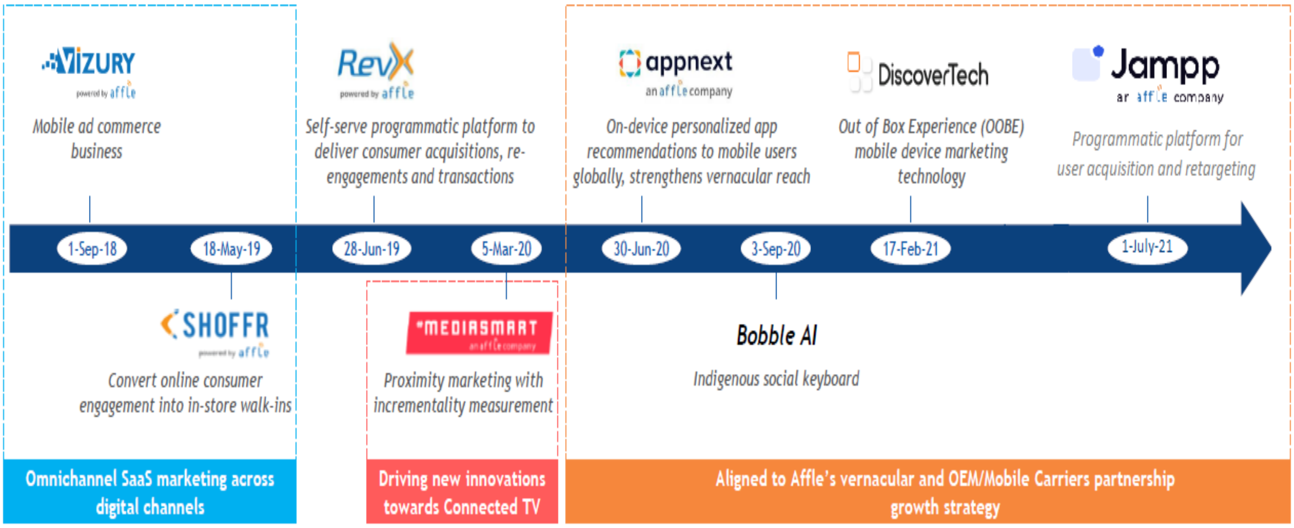
Continues to selectively pursue strategic acquisitions & investments to complement its business

The company has successfully acquired and integrated businesses, incl. Vizury, Shoffr, RevX, Mediasmart, Appnext, Discover Tech and Jampp. Using mDMP, businesses can identify interested users. Using MAAS2.0, RevX, Appnext and Jampp, businesses can acquire new users and shoppers. mKr8 drives conversations and engagements. RevX, Vizury and Jampp help re-engage users and maximise transactions. Mediasmart and Vizury provide proximity marketing with O2O.

The company plans to continue its strategy of acquiring businesses, assets, and technologies that complement existing capabilities, revenue streams and marketing presence, and which would result in sustainable financial growth. Its pre-deal assessment examines key attributes of a potential target, focusing on knowledge, customers and expected future financial results.

It looks for targets that have **(a)** complementing teams, technology and data that strengthen their strategic focus and facilitate efficient expansion into other emerging markets, **(b)** complementing customer relationships such that an acquisition and the integrated technology and data that accompanies it would foreseeably result in enhanced growth and an increase in recurrence and retention of customers.

Fig 24 – Strategic acquisitions and investments to complement the existing business

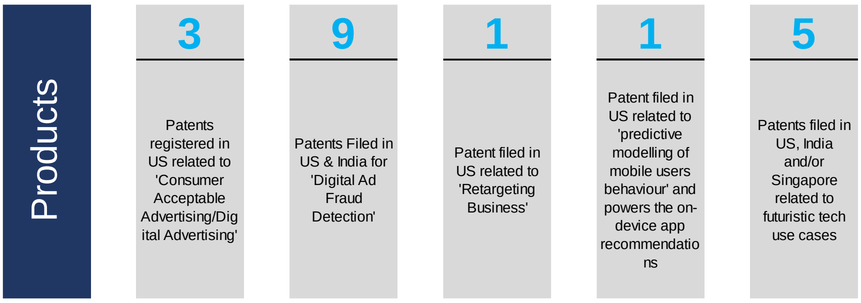


Source: Company, Anand Rathi Research

Strong R&D focus, backed by a robust patent portfolio

Strong R&D capabilities and a quest to innovate have been at the core of the business. The company continues to fortify efforts to expand the breadth of its IP assets that deliver real-time optimised results across the entire ad-tech value-chain. Affle has built itself a robust portfolio of 19 patents filed at Indian, US and Singapore patent offices. These help fortify its AI-driven intelligence and automation for consumer-acceptable conversion-driven advertising.

Fig 25 – R&D focus with a strong patent portfolio



Source: Company, Anand Rathi Research

How app publishers, advertisers are navigating privacy changes

Between legal policy changes (such as GDPR in Europe and CCPA in California) and platform-level changes (such as Google's decision to eliminate third-party cookies in Chrome by 2023), app publishers (and advertisers) are prioritising user privacy as part of how they holistically think about and approach programmatic advertising. On the mobile app front, publishers and developers are dealing with the changes that Apple has introduced with its App Tracking Transparency (ATT) framework.

ATT officially went live in the first half of 2021, when iOS 14.5 and 14.6 were rolled out globally. To comply with ATT, all apps that collect and share device-level information (as relayed and displayed by Apple's Identifier for Advertisers, or IDfA) must get consumers to opt in to having information about them gathered and disseminated.

Programmatic advertisers looking to track performance parameters such as app installs with their iOS mobile ad campaigns now have to rely on SKAd Network (SKAN), Apple's privacy-compliant tracking solution. We are optimistic that Affle will promptly adapt to these changes as its technology platform already uses appographic and intent data (in principle similar to Google's proposed Topic API).

Also, Affle's business is not on the web browser or mobile web browser. Its business is over 95% in-app mobile and within in-app mobile. It is more based on device IDs, which is based on non-personally-identifiable device IDs. Again the in-app space is not dependent on one browser. As a consumer if you go to thousands of websites, you go through say one or two browsers.

But if you are going through thousands of apps on phone, you are actually working with those native apps. Those native apps have to decide what they are sharing or not sharing and what consent they are seeking. Whereas in the browser world, if you change something in the browser all your consumer experience will be changed. The in-app world is naturally de-risked and at the moment there is no concern.

Financials

We expect 37%/36.7% CPCU/revenue CAGRs (FY22-FY24)

Affle has developed a robust CPCU model. Since the development of this model, its (consolidated) business reported a strong 44.8% CAGR in consumer platform revenue over FY19-FY21, led by increasing scale, more business from existing and new customers across industry verticals and stable pricing.

In FY22 its revenue rose ~109.3% driven by an 85.4% increase in converted users and ~22.3% growth in pricing because of the greater share of international revenue due to the Jampp acquisition. We anticipate a 36.7% CAGR in revenue over FY22-FY24 led by faster expansion in emerging international markets (LATAM, SEA, Africa) and an accelerated scale-up of platform offerings in the acquired business.

Fig 26 – Revenue break-up

	FY19	FY20	FY21	FY22	FY23e	FY24e	CAGR % FY19-FY21	CAGR % FY22-FY24
User Conversions (m)	**55**	**72**	**105**	**195**	**266**	**359**	*38.4*	*35.5*
Growth y/y %		*31.5*	*45.6*	*85.4*	*36.0*	*35.0*		
Average CPCU (Rs)	**40**	**41**	**41**	**50**	**51**	**51**	*0.5*	*1.1*
Growth y/y %		*1.6*	*-0.5*	*22.3*	*2.2*	*0.0*		
CPCU (Rs m) (A)	**2,220**	**2,964**	**4,294**	**9,742**	**13,544**	**18,284**	*39.1*	*37.0*
Growth y/y %		*33.5*	*44.9*	*126.9*	*39.0*	*35.0*		
As % of Consumer Platform	91.7	91.3	84.6	90.9	90.9	90.9		
Non CPCU (Rs m) (B)	**200**	**281**	**780**	**975**	**1,354**	**1,828**	*97.7*	*36.9*
Growth y/y %		*40.9*	*177.5*	*24.9*	*38.9*	*35.0*		
As % of consumer platform	8.3	8.7	15.4	9.1	9.1	9.1		
Overall Consumer Platform revenue (Rs m) (A+B)	**2,419**	**3,246**	**5,075**	**10,717**	**14,898**	**20,112**	*44.8*	*37.0*
Growth y/y %		*34.1*	*56.4*	*111.2*	*39.0*	*35.0*		
As % of revenue	97.0	97.2	98.2	99.1	99.3	99.5		
Enterprise Platform (Rs m)	**75**	**92**	**93**	**100**	**100**	**100**	*11.9*	*0.0*
Growth y/y %		*23.8*	*1.1*	*7.1*	*0.0*	*0.0*		
As % of revenue	3.0	2.8	1.8	0.9	0.7	0.5		
Total revenue (Rs m)	**2,494**	**3,338**	**5,168**	**10,817**	**14,998**	**20,212**	*43.9*	*36.7*
Growth y/y %		*33.8*	*54.8*	*109.3*	*38.7*	*34.8*		

Source: Company

We expect EBITDA to clock a 36% CAGR over FY22-FY24

We anticipate margins to largely be flat to 19.5% in FY24 against 19.7% in FY22, primarily led by the low-margin Jampp business. We expect the company to continue to strategically invest in inventory and data costs (62.8% of sales in FY22) to expand its reach across connected devices and build deeper insights regarding the next billion online shoppers. Margins are expected to return gradually in the next 3-5 years as and how Jampp becomes profitable.

Fig 27 – Cost of operations

Cost of operations	FY19	FY20	FY21	FY22	FY23e	FY24e	CAGR % FY19-FY21	CAGR % FY22-FY24
Inventory and Data Cost	**1,341**	**1,921**	**2,977**	**6,789**	**9,524**	**12,632**	***49.0***	***36.4***
As % of revenue	*53.8*	*57.6*	*57.6*	*62.8*	*63.5*	*62.5*		
Gross profit	**1,153**	**1,416**	**2,191**	**4,027**	**5,474**	**7,579**	***37.9***	***37.2***
Gross profit margin %	*46.2*	*42.4*	*42.4*	*37.2*	*36.5*	*37.5*		
Employee benefits expense	**212**	**273**	**540**	**1,296**	**1,800**	**2,425**	***59.5***	***36.8***
As % of revenue	*8.5*	*8.2*	*10.4*	*12.0*	*12.0*	*12.0*		
Other Expenses	**237**	**265**	**354**	**600**	**900**	**1,213**	***22.1***	***42.2***
As % of revenue	*9.5*	*7.9*	*6.9*	*5.5*	*6.0*	*6.0*		
EBITDA	**703**	**879**	**1,297**	**2,131**	**2,775**	**3,941**	***35.8***	***36.0***
EBITDA margin %	*28.2*	*26.3*	*25.1*	*19.7*	*18.5*	*19.5*		

Source: Company, Anand Rathi Research

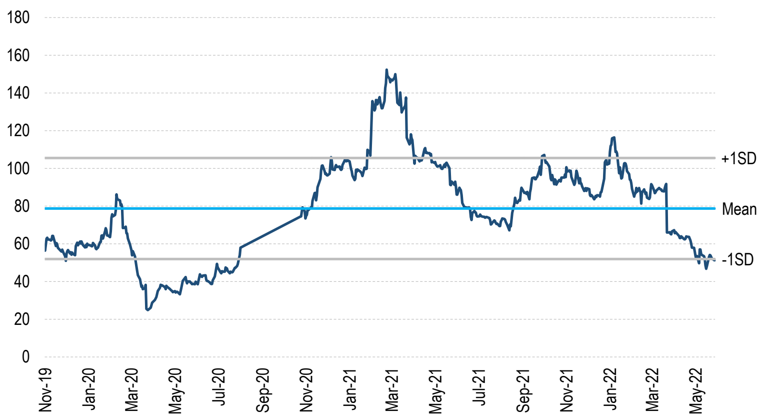
Valuation

Affle unifies and simplifies the fragmented ad-tech ecosystem by providing an end-to-end integrated platform for mobile advertising powered by deep-learning algorithms. Its deep-learning artificial intelligence-powered algorithms transform ads into consumer recommendations delivering conversions, enhancing returns on marketing investments and reducing digital ad-fraud for the brands globally.

In 2020 the company laid down the foundation for Affle2.0 growth strategy for the coming decade, anchored primarily on 1) its India market leadership and in international markets particularly emerging markets like the SEA and the MEA, 2) verticalisation (focus on the top-10 resilient verticals across the E, F, G and H categories), 3) Vernacular deep learning (unleashing untapped markets like tier-2 and -3 cities for the next growth phase), 4) an omni-channel connected ecosystem (home devices, consumer electronics, smart vehicles and wearables).

We initiate coverage on Affle, India, with a Buy rating and a target of Rs1,220 (based on DCF , assuming 12% WACC & 6% terminal growth rate, implied PE of 45x FY24 EPS), as greater spending on mobile advertising, tapping connected devices, deeper penetration in the top-10 verticals, newer regions, tier-2 and -3 cities in India drive its long-term growth.

Fig 28 – SD Chart



Source: Bloomberg, Anand Rathi Research

Fig 29 – Indian and global peer comparison

Name	Ticker	M.Cap	Revenue ($ m)				EBITDA ($ m)				EV / Sales (x)			PE		
		($ m)	FY21	FY22	FY23e	FY24e	FY21	FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY22	FY23e	FY24e
India internet companies																
Nykaa	NYKAAINEquity	8,783	328.8	506.6	702.3	975.2	22	21.9	46.4	79.2	21.3	12.6	9.1	1,919.90	382.5	196.1
*IndiaMart	INMARTINEquity	1,669	87	97.9	128.1	155.9	42.6	40	43.2	55.1	16.6	12.7	10.4	42.1	40.8	33.4
ZOMATO LTD	ZOMATOINEquity	6,667	268.6	562.7	745.9	1018	-62.9	-248.4	-190.7	-121.2	14.7	8.4	6.2	NA	NA	NA
*AFFLE INDIA LTD	AFFLEINEquity	1,784	68.9	144.2	199.8	269.5	17.3	28.4	37	52.6	12.1	8.8	6.5	61.7	50.6	36.7
INFO EDGE	INFOEINEquity	5,992	150.9	213.3	250.2	297.3	36.8	58.9	82.7	104.3	36.6	24	20.2	130.4	69.1	55.6
PB FINTECH LTD	POLICYBZINEquity	3,339	119.5	191.3	267.1	373.8	-21.5	-124.1	-86.8	-49.2	19.2	10.6	7.6	NA	NA	NA
ONE 97 COMMUNICA	PAYTMINEquity	5,151	377.6	667.7	957.9	1275	-238.1	-314.1	-246.3	-184.3	5.9	4.7	3.5	NA	NA	NA
US Ad-Tech companies																
Pubmatic	PUBMUSEquity	1,044	148.7	226.9	284.5	349.4	47.5	84	104.7	132.7	NA	3.2	2.6	36.8	28.8	20.5
The Trade Desk	TTDUSEquity	25,609	836	1,196.50	1,588.20	2,014.50	211.5	215.1	613.7	782.1	36.5	15.6	12.3	327.3	61.1	48
Digital Turbine	APPSUSEquity	1,983	138.7	313.6	747.60	844.80	16.2	69.7	175.9	242	23	6.2	2.8	133.5	79.4	12
Ironsource	ISUSEquity	2,880	331.5	553.5	769	976.00	90.9	106.5	236.8	317.5	7.6	3.2	2.5	119.2	17.2	13.4
Asia Ad-Tech companies																
Mobvista	1860HKEquity	1,032	516.1	755	1142	1620	8.3	10.9	35	91	1.8	0.8	0.6	42.7	28.4	20.8
Criteo	6094JPEquity	234	230.8	274.5	234.8	269.8	6	13.1	11.5	17.8	1.3	1.1	0.9	58.7	342.4	44.3

*Source: Bloomberg estimates, *Notes- IndiaMart and Affle India is of Anand rathi estimates*

Key risks

- Regulatory, legislative or self-regulatory developments regarding data protection and privacy policy could affect the business.
- Reduced marketing spends by customers or drying up of funding to start-ups.
- Inability to turn around acquired companies.
- The ad-tech segment is highly fragmented and keenly competitive.

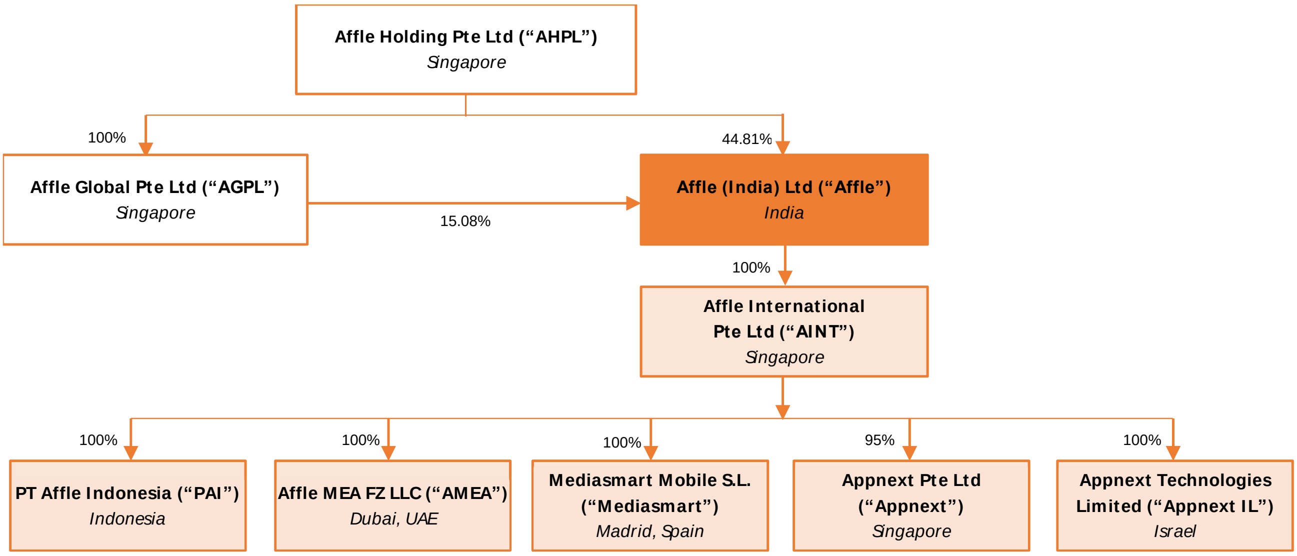
Company background, Management

Affle is a global technology company with a proprietary consumer intelligence platform that delivers consumer engagements, acquisitions and transactions through relevant mobile advertising. The platform aims to enhance returns on marketing investment through contextual mobile ads and by reducing digital ad fraud.

Focusing on the fast-growing emerging markets (India, South-east Asia, the Mid-East & Africa, and Latin America) and high-growth consumer internet segments (e-commerce, fintech, foodtech, edtech, OTT, gaming, health-tech, etc.), Affle's revenue and PAT CAGRs over FY20-22 were respectively 80% and 81%. It now has ~2.5bn connected devices and its converted users recorded a 64% CAGR over FY20-22 to ~195m.

The company's long-term vision is to reach 10bn+ next set of mobile first connected devices through Affle 2.0 strategy in the coming decade. Its scalable end-to-end platform offering has potential to grow at an accelerated pace (a 30-35% revenue CAGR in the medium term) aided by massive consumer adoption of connected devices across emerging markets.

Fig 30 – Organization structure



Source: Company, Anand Rathi Research

Acquisitions details

Through its wholly-owned subsidiary, Affle International Pte. Ltd., the company acquired the Shoffr Platform Business on 18th May'19. Shoffr is a Singapore-based online-to-offline (O2O) omni-channel platform that converts online consumer engagements to in-store walk-in and transaction.

Through its wholly-owned subsidiary, Affle International Pte. Ltd., the company acquired the platform and business assets of RevX, Inc., on 28th June'19. RevX's business offers a fully self-serving programmatic platform for mobile marketing.

Through its wholly-owned subsidiary, Affle International Pte. Ltd., the company acquired 100% control in Mediasmart Mobile S.L., Spain, a self-serving mobile programmatic and proximity marketing platform, on 5th Mar'20. Also, Affle MEA FZ-LLC, Dubai, a stepdown subsidiary of the company, acquired all Tech IP assets of Mediasmart.

Through its wholly-owned subsidiary, Affle International Pte. Ltd., Singapore, the company acquired 66.67% shares and 95% control in Appnext Pte. Ltd., for $16.45m (~Rs1,205m). Also, Affle MEA FZ-LLC, Dubai, a step-down subsidiary of the company entered into an intellectual property purchase agreement to acquire 100% of the tech IP assets of Appnext for $0.8m (~Rs58.6m). Subsequent to Q3 FY22, the company exercised its right to acquire a further 28.33% of Appnext.

On 17th Feb'21, through its step-down subsidiary, Affle MEA FZ-LLC, Dubai, the company acquired the business assets of Discover Tech for $1.15m (Rs85.3m) and a maximum success fee of $3.4m (Rs250m) based on certain milestones, to be paid over four years.

In Jun'21 the company acquired a 100% stake in Jampp (Ireland) for $40m (Rs2.96bn) incl. a contingent liability of $15m (Rs1.12bn) payable no later than 30th Jun'24. Further, AINT's wholly-owned subsidiary acquired the Tech IP assets of Jampp for $1.3m (Rs96m).

On 8th Aug'20, the company had made a strategic, non-controlling investment and acquired an 8% stake in Talent Unlimited Online Services Pvt. Ltd. (Bobble) for Rs198m through CCPS. Besides, it entered into an exclusive global monetisation agreement for Bobble's intellectual property, which provides rights to it to acquire an additional stake of up to 10.74% of Bobble through subscription/purchase to CCPS and equity shares at a pre-agreed amount upon meeting milestones as defined in the global monetisation agreement. In Q1 FY22, the company further acquired a 9.72% stake in Bobble for Rs342m.

Fig 31 – Board of directors and remuneration details

Name of Director / KMP	Remuneration FY21 (Rs m)	% change in remuneration from FY20	Board committee members	Directorship in other companies
Promoter / Executive director / Managing director / Chairman / CEO				
Anuj Khanna Sohum	0.25	-	Stakeholders, Risk Management, CSR, Investment	
Anuj Kumar	9.43	-18.89	Risk Management	
Non-independent, Non-executive director				
Mei Theng Leong	-	-	Audit, Nomination & Remuneration, Stakeholders, Risk management, CSR, Investment	
Independent director and Non-executive director				
Sumit Mamak Chadha	1.62	20	Audit, Nomination & Remuneration, CSR	
Vivek Narayan Gour	1.17	8.44	Audit, Investment	Indiamart Intermesh, Cyient
Bijynath (from 1st Apr'22, chairman)	1.35	87.50	Nomination & Remuneration, Stakeholders, Investment	
Chief financial officer				
Kapil Mohan Bhutani	9.7	34.85	Investment	
Company secretary and Compliance officer				
Parmita Choudhary	0.88			

Source: Company, Anand Rathi Research

Statutory auditor: S. R. Batliboi & Associates, LLP; Internal auditor: Grant Thornton Bharat. LLP

Appendix

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