

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- The company reported sequentially weak numbers in Q4FY21 after a seasonally strong quarter. Revenue for the quarter stood at Rs 142 Cr, down 5.9% QoQ but up 77% YoY.
- The operating margin at 24.3%, down 180 bps due to pricing pressure and salary hikes. Net Profit stood at Rs 59 Cr, including one-time gain of Rs 36 Cr
- Converted users stood at 29.6 mn with revenue per converted user of Rs. 40.90 at the quarter end FY21Q4 vs 30.6 mn converted users at Rs. 41 per user in FY21Q3 and 16.3 mn converted users at Rs. 40.10 per user in FY20Q4.

2. MANAGEMENT COMMENTARY:

- The management is optimistic regarding the vernacular segment and expects accelerated demand in coming quarters. Rising mobile phones usages and internet consumption is expected to support growth.
- The management has guided for similar margins in forthcoming quarters.
- The current balance of India and International business is 50:50, which management expects to shift to 40:60 with focus on emerging markets.

3. SEGMENTAL ANALYSIS:

The company has two segments, Consumer Platform and Enterprise Platform. The Consumer platform provides mobile advertisement services to customers by reselling advertisement space for online publishing companies. While the Enterprise platform provides customized mobile app development services.

- For the quarter, Consumer Platform reported revenue of Rs 67.5 Cr, with margin at 14%
- Enterprise Platform reported revenue of Rs 4.7 Cr, with margin at 59%.

4. IMPORTS/ EXPORTS:

- India Business reported revenue of Rs 72 Cr, sequentially down 7.0% but up 61% YoY. Profit at Rs. 16 Cr.
- International Business reported revenue of Rs 75.3 Cr, sequentially down 3% but up 97% YoY. Profit at Rs. 49 Cr.

5. OTHER DEVELOPMENTS:

- Management expects healthy traction in Categories E, F, G, and H (e-commerce, entertainment, ed tech, foodtech, fintech, FMCG, gaming, grocery, government, healthcare).
- Management expects to grow by at least 25% CAGR growth over the next five years.
- The management does not expect new privacy laws to adversely impact the business on expectation that it will not stop the consumers from using the free services by consenting to take ads.

6. VALUATION AND OUTLOOK:

- The company is expected to show impressive growth in the Indian region led by increasing online shopping and better market penetration in tier-2 & tier-3 cities. While on international front, management see interesting opportunities in developed market like North America, Europe, Japan etc.
- With unique business model, geographical expansion and market penetration, we expect company to deliver topline growth of 25% over next few years. We recommend to ACCUMULATE the stock with price target of Rs. 4860.

RECOMMENDATION - ACCUMULATE

CMP - 4419
TARGET - 4860 (10%)

Industry	Telecommunication - Equipment
NSE CODE	AFFLE
BSE CODE	542752
Market Cap (₹ Cr)	11777
Shares Outstanding (in Cr)	2.55
52 wk High/Low (₹)	6286 / 1440
P/E	85.1
P/BV	30.1
Face Value (₹)	10.00
Book Value (₹)	140.5
EPS (FY21) (₹)	52.9
Dividend Yield (%)	0.00
Debt / Equity	0.3
Interest Coverage	41.6

SHAREHOLDING PATTERN

	Mar 21	Dec 20	Sep 20
Promoters	62.6	63.8	68.4
Mutual Funds	5.8	7.2	8.9
FII/FPI	17.3	14.9	8.4
Retail & Others	13.2	12.9	12.9
Promoter Pledging	0.0	0.0	0.0

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Core			
Sales	516.8	646.0	807.5
Sales Gr. (%)	54.8	25.0	25.0
EBITDA	129.7	161.5	201.9
EBITDA mrg. (%)	25.1	25.0	25.0
Adj. PAT	135.0	129.2	161.5
Adj. EPS (₹)	52.9	50.6	63.2
EPS Gr. (%)	105.7	-4.3	25.0
BV/Sh. (₹)	140.5	191.0	254.3
Ratios			
RoE (%)	45.9	36.0	33.0
RoCE (%)	39.2	30.6	28.1
Payout (%)	0.0	0.0	0.0
Valuation			
P/E (x)	103.2	118.6	102.8
P/BV (x)	38.8	31.4	25.6
Div. Yield (%)	0.0	0.0	0.0

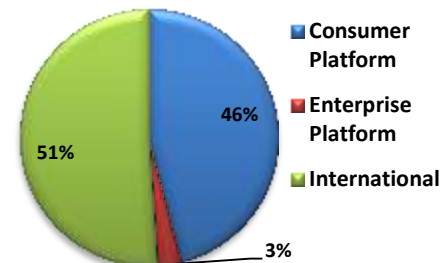
TTM

Historical P/E	85.1
Industry P/E	119.1
Historical P/B	12.1
Industry P/B	10.0

QUARTERLY PERFORMANCE

SEGMENTAL PERFORMANCE (4QFY21) (Amount in INR cr)

Criteria	CONSUMER PLATFORM	ENTERPRISE PLATFORM	INTERNATIONAL
Revenue	67.5	4.7	75.4
Revenue Share %	46	3	51
Segment Profit	9.7	2.8	49.2
Margins %	14	59	65



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY20				FY21				FY22	FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E*		
Net sales	75	85	94	80	90	135	150	142	177	517	646
YoY change (%)		40	27	32	20	59	59	77	97	55	25
EBITDA	19	22	27	20	22	34	38	34	44	130	161
Margins (%)	25	26	29	25	25	25	26	24	25	25	25
YoY growth (%)		41	20	0	20	58	41	71	97	25	25
Depreciation	2	3	3	5	4	5	5	5	5	20	20
Interest	0	0	0	1	1	1	1	1	1	4	4
Other income	0	1	2	3	2	2	1	36	1	42	5
PBT	16	19	25	18	20	30	34	64	39	148	142
Tax	3	4	4	3	1	3	3	5	3	13	13
Adjusted PAT	13	16	21	15	19	27	31	59	36	135	129
YoY change (%)		51	31	6	42	73	43	283	93	106	0
Key Performance Indicators	6										
RM Cost (% of Sales)	0	0	0	0	0	0	0	0	0	0	0
Staff Cost (% of Sales)	6	8	7	6	8	13	16	16	16	16	16
Other Costs (% of Sales)	0	0	0	0	0	0	0	0	0	0	0
EBITDA Margin (%)	25	26	29	25	25	25	26	24	25	25	25
PAT Margin (%)	18	18	23	19	21	20	20	41	20	20	20

Source: Company, Hem Securities Research.

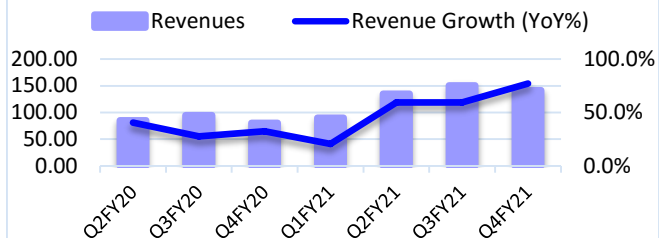
*Insights into the assumptions:

- 1> Company is guided for growth at a CAGR of 25% for next few years. Hence, topline is expected to grow by 25%.
- 2> We expect EBITDA margin and PAT margin to remain stable at 25% and 20% respectively.

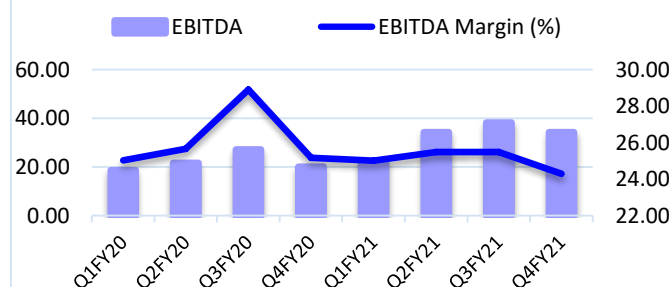


STORY IN CHARTS

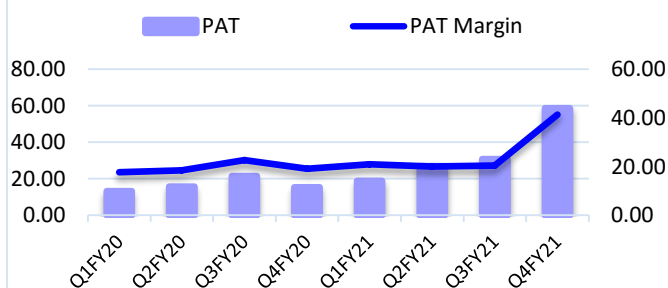
Revenue & Growth



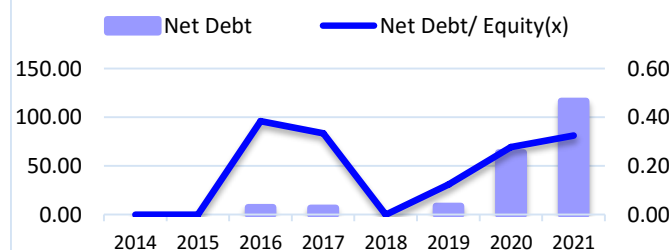
EBITDA & EBITDA Margin



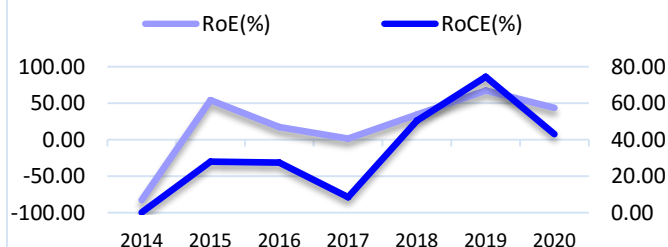
PAT & PAT Margin



Trend in Debt Levels



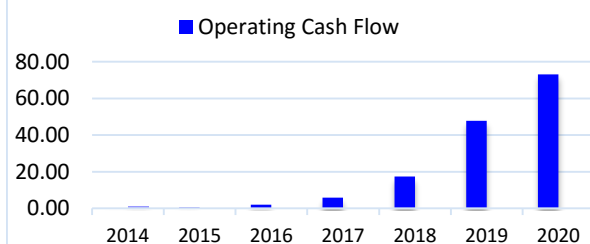
Trend in Return Profile



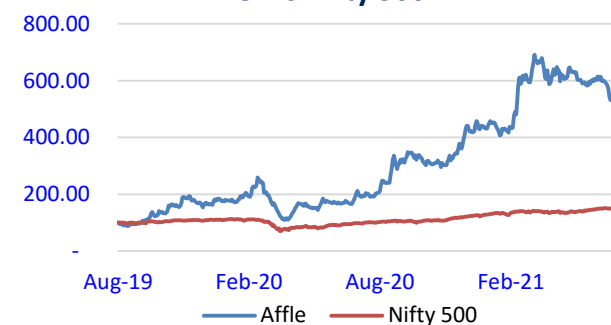
Key Revenue Segments



Trend in Cash Flow



Affle. Vs Nifty 500



INDUSTRY OVERVIEW:

- The total Digital ad spend in India is projected to increase to Rs. 539 billion by FY2024, representing a (FY19 - FY24) CAGR of 27.5%. Digital advertising is set to become the largest platform amongst all media channels including TV, print, radio, out-of-Home, etc.
- Mobile advertising is fuelling growth for digital advertising segment driven by 4G penetration, cost-effective data packages, proliferation of the mobile apps and social media, m-commerce and rapid growth in smartphone penetration.
- Despite macro-economic headwinds due to covid-19 pandemic, digital adoption has continued to evolve at tremendous speed. Mobile internet users are expected to increase at the CAGR of 4.6% during 2019-25 from 3.8 bn to 5.0 bn in 2025 with mobile penetration increasing from 49% to 61%.

INVESTMENT RATIONALE:

- Affle India Ltd is a global technology company with a unique business model delivering contextual mobile ads for new consumer conversions, retargeting existing consumers and provide online to offline platform to convert online consumer engagement into in-store walk-ins. The company also works on reducing digital ad fraud. The Platform is used by business across industries like e-commerce, fin-tech, telecom, media, retail and FMCG companies. The low-cost business model is asset light, automated and scalable, which support easy expansion and handsome margins.
- The company operates in a high growth market with substantial entry barriers and provides services across the value chain. This makes the company a good portfolio pick and is expected to outperform the broader market.
- The company has been reporting good results despite macroeconomic challenges. The company is planning to expand operations in Europe, North America and South Korea.

RISK FACTORS:

- Change in regulatory framework and privacy laws regarding data protection could severely impact the business operations
- Introduction of better technology amid increasing competition can impact the business.

COMPANY RECAP

- Industry is dominated by companies operating on clicks, views and impressions, while Affle drives CPCU based conversions for advertisers. Most conversions are post clicks and post app install events done by the consumers on their smart devices.
- 18 patents files in India, USA and Singapore help fortify AI-driven intelligence and automation for consumer acceptable conversion-driven advertising
- Platforms are asset light, automated and highly scalable coupled with a fraud detection technology and has continuously delivered outcomes profitably, resulting in a low cost and positive cash flow business model.
- Prediction and recommendation algorithm operate in real time and at a significant scale, setting the company apart from competitors
- Ranked amongst top 250 companies on NSE BSE
- 15 years + track record.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement						(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Revenue from operations	65.6	83.8	249.4	333.8	516.8	646.0	807.5
Growth YoY (%)	-25.4	27.6	0.0	33.8	54.8	25.0	25.0
Total Expenditure	62.1	67.0	179.1	247.3	387.1	483.9	604.88
(%) of sales	94.6	79.9	71.8	74.1	56.5	25.0	25.0
EBITDA	3.5	16.8	70.3	86.5	129.7	162.1	202.6
EBITA Growth (%)	-25.0	281.1	0.0	32.9	49.9	25.0	25.0
EBITA Margin (%)	7.2	21.4	28.3	28.1	25.0	25.0	25.0
Depreciation	2.3	3.2	10.1	13.3	19.6	19.6	19.6
EBIT	3.1	16.8	69.9	92.5	151.5	142.4	182.9
EBIT Growth (%)	-51.4	515.0	0.0	33.0	63.7	-6.0	28.4
Net Interest Expenses	1.6	1.0	0.8	1.4	3.6	3.6	3.6
Other Income	1.2	1.1	0.3	7.5	41.5	5.0	5.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before Taxes	0.8	13.6	59.8	79.2	147.9	143.8	184.3
EBT Margin (%)	1.2	16.2	23.9	23.7	28.6	22.2	22.8
Tax-Total	0.5	4.7	10.9	13.7	12.8	12.5	16.0
Rate of tax (%)	58.8	35.0	18.3	17.3	8.7	8.7	8.7
Net Profit	0.3	8.8	48.8	65.5	135.0	131.2	168.2
PAT Growth (%)	-86.2	2,576.0	0.0	34.2	106.1	-2.7	28.1
PAT Margin (%)	0.5	10.5	19.5	19.6	20.5	20.3	20.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	0.3	8.8	48.8	65.5	135.0	131.2	168.2
EPS	0.1	3.6	20.1	25.7	52.8	50.5	63.2
EPS Growth (%)	-86.2	2,576.0	0.0	27.8	105.7	-4.3	25.0

Balance Sheet						(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021		
Equity Share Capital	24.3	24.3	24.3	25.5	25.5		
Reserves & Surplus	-3.3	5.9	48.1	203.7	333.3		
Minority Interest	0.0	0.0	0.0	0.0	0.4		
Total Shareholder's Funds (A)	21.0	30.2	72.4	229.2	359.2		
Long Term Borrowings	0.0	0.0	6.9	28.1	89.3		
Deferred Tax Liabilities	-1.9	-0.5	0.3	0.2	-1.5		
Other Long Term Liabilities & Provisions	-0.5	-0.5	-0.5	-0.5	-0.5		
Total Non Current Liabilities (B)	-0.5	0.6	8.7	43.3	197.3		
Short Term Borrowings	2.8	0.0	2.1	35.7	27.5		
Trade Payables	16.0	22.0	51.7	75.0	126.0		
Other Current Liabilities	8.4	9.1	36.8	40.2	40.1		
Total Current Liabilities (C)	27.2	31.1	90.6	150.9	193.6		
Total Equity and Liabilities (A+B+C)	47.8	61.9	171.7	423.4	750.1		
Property, Plant & Equipment	14.3	15.1	57.3	162.8	399.1		
Capital Work in progress	0.3	0.0	1.8	4.8	0.0		
Other Non Current Assets	0.7	0.6	0.1	0.4	102.8		
Total Non Current Assets (A)	15.3	15.7	59.2	167.9	501.9		
Inventory	0.0	0.0	0.0	0.0	0.0		
Debtors	13.5	15.8	47.9	74.4	107.9		
Cash and Bank Balance	8.7	14.5	30.5	126.5	63.3		
Loans and advances	10.0	15.8	30.8	52.0	0.0		
Other Current Assets	0.2	0.1	3.3	2.6	76.6		
Total Current Assets (B)	32.5	46.2	112.5	255.5	247.8		
Total Assets(A+B)	47.8	61.9	171.7	423.4	749.7		



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	2.7	0.5	10.5	19.6	19.6
EBITDA margin (%)	7.1	7.2	21.4	28.4	28.2
EBIT margin (%)	5.6	3.6	17.5	24.3	24.2
ROE (%)	17.1	1.6	34.5	67.4	43.5
ROCE (%)	27.5	8.5	50.4	74.5	43.1
Working Capital & liquidity ratios					
Payables (Days)	97.0	124.5	106.8	105.8	96.9
Inventory (Days)	0.0	0.0	0.0	0.0	0.0
Receivables (Days)	80.2	82.9	64.0	70.1	66.9
Current Ratio (x)	1.3	1.2	1.5	1.2	1.7
Valuations Ratios					
EV/sales (x)	0.3	0.3	0.1	0.0	7.6
EV/EBITDA (x)	3.9	4.8	0.5	0.0	26.8
P/E (x)	0.0	0.0	0.0	0.0	39.5
P/BV (x)	0.0	0.0	0.0	0.0	11.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Return on Assets (%)	5.9	0.7	16.1	28.4	22.0
Leverage Ratio					
Debt/Equity (x)	0.4	0.3	0.0	0.1	0.3

Cash Flow Statement					(₹ Cr)
Y/E March	2017	2018	2019	2020	2021
Profit after tax	0.8	13.6	59.8	79.2	147.9
Adjustments	5.0	5.4	10.5	18.3	-17.2
Changes in Working Capital	0.6	1.3	-13.8	-13.5	-17.4
CF from Operating activities (A)	5.8	17.4	47.8	73.0	101.6
CF from Investing Activities (B)	-5.7	-1.4	-50.2	-163.7	-174.8
CF from Financing Activities (C)	-2.2	-8.1	8.4	139.7	53.1
Incr/Decr of Cash (A+B+C)	-2.1	7.9	6.0	49.0	-20.1
Add: Opening Bal.	7.9	5.8	14.6	20.6	69.6
Closing Balance	5.8	13.7	20.6	69.6	49.2

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	$< -5\%$

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
03-July-2021	ACCUMULATE	4860

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Name of the Research Analyst: Priya Gupta

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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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