

affle

Affle (India) Limited

Research Report as on 27-06-2022

**POWERING THE
CONNECTED
NEXT**



PEE AAR SECURITIES LTD.

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Introduction

Affle (India) Limited is an India-based global technology company, which offers a consumer intelligence platform that delivers consumer recommendations and conversions through relevant mobile advertising for brands and business-to-consumer companies globally. The Company's segments include the Consumer platform and Enterprise platform. Its platforms include Appnext, Jampp, Mass, Faas, Mediasmart, mTraction Enterprise, RevX and Vizury. Its consumer platform primarily provides services, such as new consumer conversions, retargeting existing consumers, taking them closer to transactions. It also provides end-to-end solutions for enterprises to enhance their 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. Its user acquisition and engagement solutions help apps, businesses and brands to discover their customers.

Internet Accessibility

In 2020, internet users represented more than 50% of the global population, with mobile phones being the primary mode of access especially in emerging markets. With upgrades to the cellular infrastructure, proliferation of smartphones and the availability of several content options, there has been a steady growth in consumers using the Internet.

Online retailing has become a new normal globally and is on a rapid growth trajectory in India. India led the total number of app downloads from Google Play Store, followed by United States in 2020. India is expected to have more than 900 million Internet users by FY2025 and 75% of the new user growth is expected to come from rural areas.

Lower data prices and the availability of almost unlimited content for entertainment, multimedia, information and business applications has led to a massive increase in internet usage, leading to significant growth in mobile data traffic.

Digital Advertising Trends and Opportunities

Backed by technology advancements and increasing digital user base, the outlook for the digital advertising industry is highly positive. Digital advertising comprised 47.2% of total ad spend globally and 49.5% of the U.S. market in 2020. By 2025, digital ad spend will comprise over 53% of the total ad spend globally. In 2020, while overall ad spends declined by 17% from previous year, ad spends on digital witnessed a growth of 15% from the previous year, further widening the growth gap between traditional and digital advertising. Mobile advertising accounted for a considerable chunk of the digital ad spends in 2020.

Digital advertising spend in India is projected to grow at a CAGR of 30.7% to reach USD 8.25 billion in FY2025 from 2.16 billion in FY2020.

Targeted Marketing

Have you noticed that the moment you visit Flipkart or Amazon or google a product on your phone and then visit any website or App, you see the ad of that product on the e-commerce website. Then they will keep showing you the ad until you end up buying the product!

Earlier there was a time when marketing ads were placed on Billboards, posters, pamphlets, newspapers, etc. but there was one problem in these traditional marketing technique, that you don't know if the ad is going to Target Audience.

Today the world has become more digital, where billions of devices are connected to each other generating humongous data points about the consumer preference, interest and activities.

There are companies that uses the data points, apply their algorithm to generate deep consumer insights which is one of the greatest assets of 21st century. This has created the entire new marketing industry called Digital marketing. Affle India generates consumer insight and uses it for digital marketing.

Global Presence

GLOBAL FOOTPRINT
WITH A KEY FOCUS ON EMERGING MARKETS



 2.2bn+¹
Connected devices

Tapping the digital potential

Affle India uses Artificial Intelligence, machine learning and deep learning algorithms to generate consumer insights for better targeted marketing.

In terms of business model, they have a business model called CPCU (Cost per Converted User). In this the company charge on conversion while the current digital marketing industry is based on clicks, views or impressions. This sets them apart from their competitors.



**Artificial
Intelligence**



**Machine
Learning**



Business Case Study

Swiggy | Driving business growth in India

About the Advertiser

Swiggy is India's leading online food ordering & delivery platform

Objective

Drive business growth through acquisition of high-quality new users having higher propensity of ordering

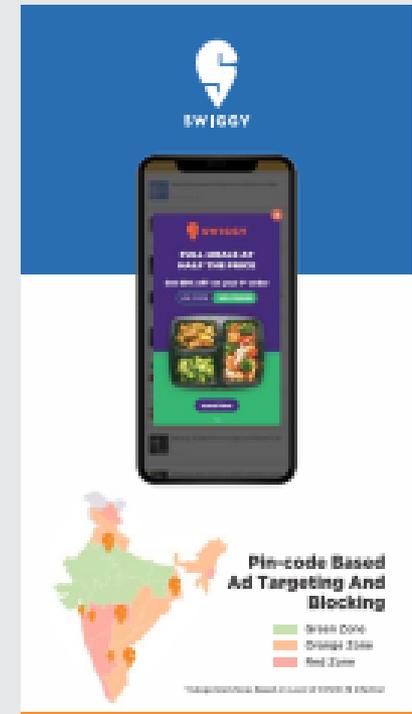
Affle Consumer Platform Solutions

Affle's Consumer platforms helped Swiggy with its three-pronged approach

- Audience intelligence & Predictive modelling to reach high potential users
- Creative optimization to deliver hyper personalised ads to maximise impact
- Daypart and Location led targeting to drive Incremental conversions

Results

- **177%** Increase in shopping conversions from new users
- **3.2X** Scale in post install orders
- **Greater ROI realization** by driving higher conversions



Note:

- 1) It is based on First Party data consented and shared by the advertiser/agency together with Affle's platform data. These have been created for entries in industry award shows;
- 2) Campaign Period: Jan '20 to Jul '21;
- 3) The ads and/or platform modules/screenshots shown here are for illustrative purpose only

Business Case Study

KFC | Boosting at home orders in Malaysia

About the Advertiser

KFC is a global leader in the quick service restaurant business

Objective

In the pandemic era in Malaysia, Ramadan celebrations were to be at home vs. in-restaurant this year. The key objective for KFC was to grow at home orders by acquiring high-intent new users to boost first purchase rates

Affle Consumer Platform Solutions

Affle's consumer platform helped KFC achieve its goals with its unified platform approach to

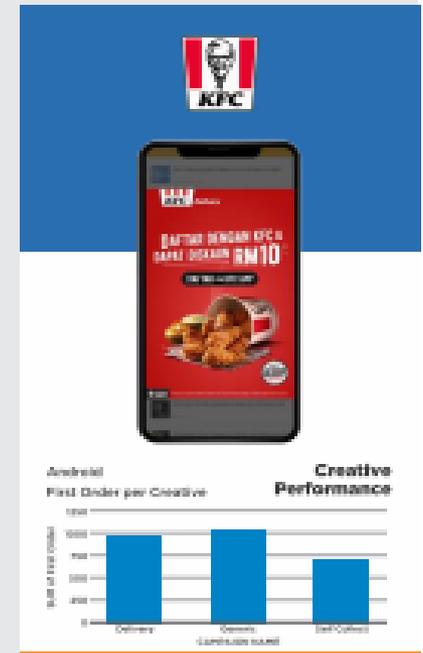
- Find high affinity users by leveraging Affle's mDMP with its lookalike audience modelling algorithms
- Location intelligence added to prioritise ads in important locations
- Custom dashboards to track and optimise for incremental conversions

Results

- **8%** Increase in the first order rates
- Successfully enabled online orders through **700+** offline stores
- **Greater ROI realization** by maximizing new orders

Note:

- 1) It is based on First Party data consented and shared by the advertiser/agency together with Affle's platform data. These have been created for entries in industry award shows;
- 2) Campaign Period: Apr-Jun'21;
- 3) The ads and/or platform modules/screenshots shown here are for illustrative purpose only



Revenue Break-up (FY2020-21)*

Consumer
Platform
98.2%



Enterprise
Platform
1.8%

Consumer Platform :

Delivers consumer acquisition, engagements and transactions through relevant mobile advertising

It enhances returns on marketing investment through contextual mobile ads and by reducing digital ad fraud

Consumer Platform

- **Differentiated Business Model**

Our consumer platform delivers consumer recommendations and conversions through relevant mobile advertising. It is driving a paradigm change with its high ROI driven Cost per Converted User (“CPCU”) business model powered by the deep connected device intelligence. While the industry is largely dominated by companies operating on clicks, views and impressions, Affle is well differentiated as it drives CPCU based conversions for advertisers across the industry verticals. Most of these conversions are deeply linked to the deep funnel matrix which are always post click and post app install events done by the consumers on their smart devices.

We primarily earn revenue on a Cost Per Converted User (CPCU) basis, which comprises of three use cases:

Enterprise Platform

Our Enterprise Platform offers an integrated approach to building audience-centric mobile assets and comprises:

- (a) App development for third parties
- (b) Enabling offline to online commerce for offline businesses with e-commerce aspirations
- (c) Enterprise grade data analytics for online and offline companies





New user conversion (online)

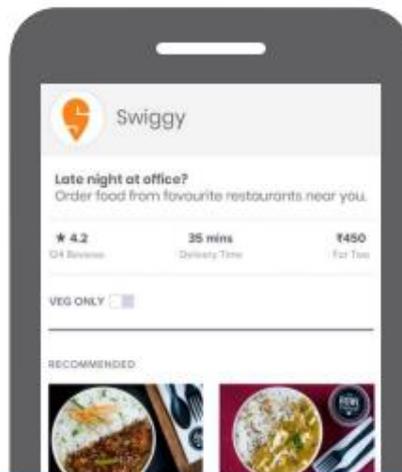


USE CASE

Targeted new user acquisition optimized to in-app transaction/ registration/event



Existing user repeat conversion (online)

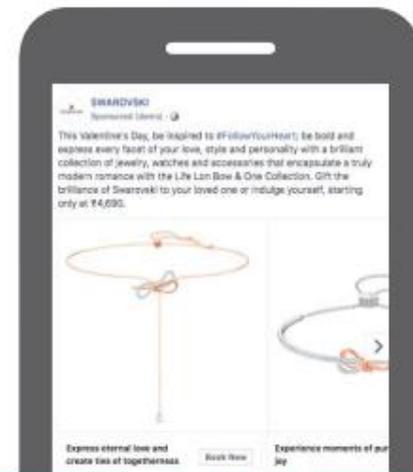


USE CASE

Target interested user to complete the transaction



New/existing user conversion (offline)



USE CASE

Online bookings to drive offline walk-ins (O2O)



Impact & Grow
offline transactions



Acquire new users &
online shoppers

Re-engage users & Maximize
online transactions



Affle2.0 growth strategy is our design-thinking approach for Powering the Connected Next that orchestrates digital priorities of the advertisers globally.

Affle2.0 aims to reach 10Bn connected devices including mobile smartphones, connected TV, smart wearables and out-of-home screens to enable integrated omnichannel online and offline consumer journeys.



Vernacular: Enables hyper-personalized consumer recommendations and targeting next set of users coming from Indian tier-II/tier-III/rural areas and other emerging markets where native, regional languages are predominant.

Verticalization: Draws deeper insights across the high-growth industry verticals leading to greater ROI impact for the customers.

Ecosystem-Level Partnerships: Partnerships with mobile OEMs, operators and publishers to enable exclusive access to on-device touchpoints and augment holistic advertisement across the consumers' connected journey.

Strengths

- **Proprietary and real time insight generation model**

Company has its own proprietary predictive and recommendation algorithm that operates in a real time and at a significant scale. It means the moment a customer looks at the product or service, relevant ads would be visible in real time.

For a technology company, the core strength is the algorithm. Affle does not depend on third party for inside generation they have their own proprietary algorithm to generate insights.

- **In house cloud computing infrastructure**

Company has its own in-house cloud-based platform to store the data and generate insights. It needs a lot of storage for terabytes of data as this cloud infrastructure is one of the biggest asset of the company. This significantly reduces their costs.

- **Proactive approach to data privacy**

Company emphasizes a lot on user privacy and data protection. They focus on consumer consent and privacy by analyzing only the behavioral data with no access to personal or financial information

Risks

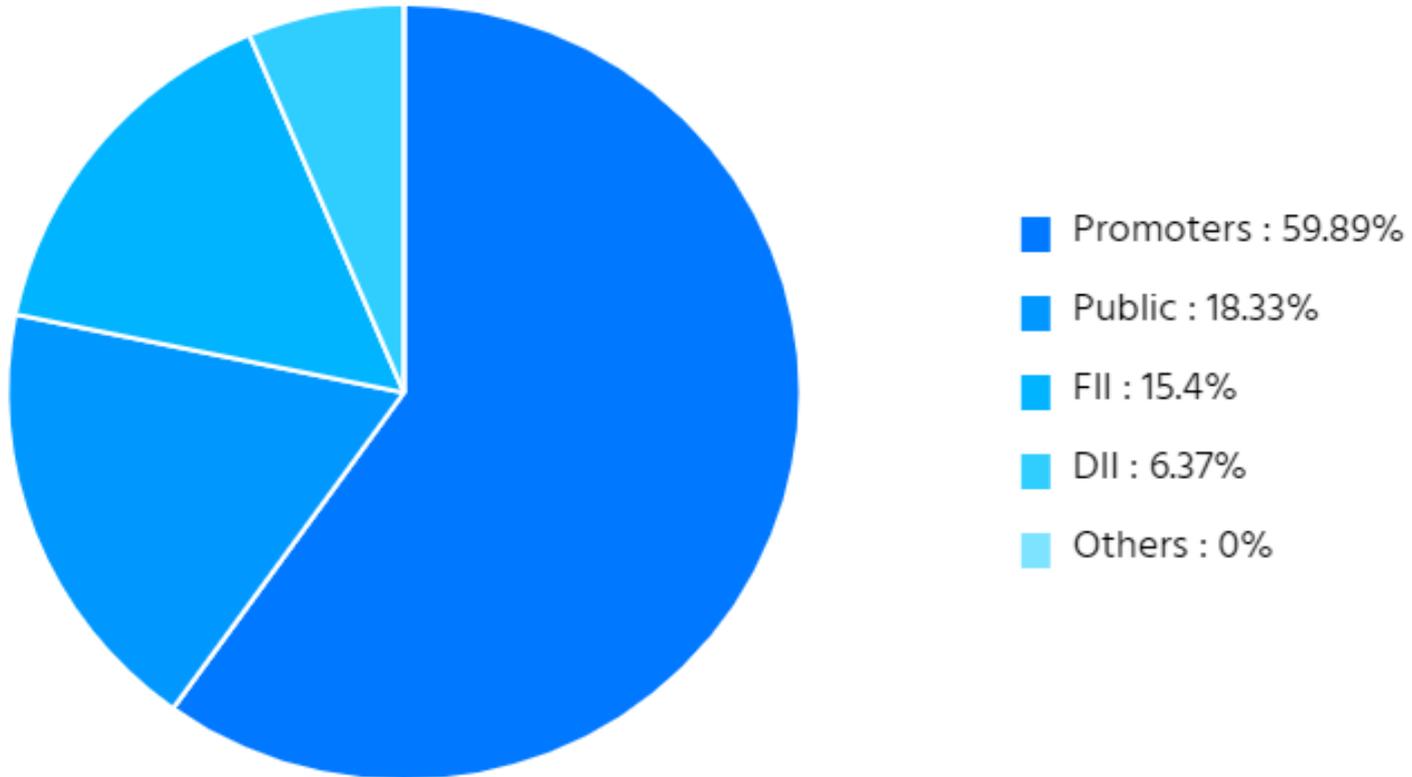
- **Competition Risk** : The strong competitors are social media giant Facebook and search engine giant Google. Mobile advertising industry is competitive, dominated by digital giants such as Google and Facebook and rapidly changing with multiple smaller players coming in.

Affle continue to invest in enhancing the product offerings and platform capabilities, with a greater tech emphasis. These are the key differentiators for its business sustainability. Company says “We do not head-on compete with any of the walled gardens but rather see ourselves co-existing and being in a symbiotic relationship with them. We focus towards further strengthening our relationship with the customers”

- **Systems, Data and Digital Infrastructure Security Failures** : Failures in systems and the digital infrastructure supporting the systems could significantly disrupt its operations. We

Affle has a comprehensive disaster recovery and business recovery plan for its Consumer Platform tech infrastructure. The risk mitigation strategy aims for distributed architecture of services and speed of restoration of services. The active architecture distributes the servers across multiple cloud providers/countries/regions/zones, allowing us to dynamically scale for load bursts or adapt for sudden failures.

Share Holding Pattern



BALANCE SHEET

as at March 31, 2021

Particulars	As at	
	March 31, 2021	March 31, 2020
ASSETS		
I. Non-current assets		
(a) Property, plant and equipment	13.38	10.18
(b) Right of use asset	19.03	36.54
(c) Goodwill	3,149.33	1,106.73
(d) Other intangible assets	424.57	474.25
(e) Intangible assets under development	403.41	48.00
(f) Financial assets		
(i) Investments	758.43	0.26
(ii) Derivative instrument	237.80	-
(ii) Loans	3.34	3.34
(g) Income tax asset (net)	9.58	19.14
Total non-current assets	5,018.87	1,698.44
II. Current assets		
(a) Contract assets (net)	526.53	198.75
(b) Financial assets		
(i) Trade receivables	1,079.11	744.35
(ii) Cash and cash equivalent	491.49	695.90
(iii) Other bank balance other than (ii) above	140.96	568.81
(iv) Loans	20.65	44.05
(v) Other current financial assets	179.46	10.40
(c) Other current assets	68.57	58.70
Total current assets	2,506.77	2,320.96
Total Assets (I + II)	7,525.64	4,019.40
EQUITY AND LIABILITIES		
III. EQUITY		
(a) Equity share capital	254.96	254.96
(b) Other equity		
Retained earnings	2,455.85	1,106.19
Capital reserve	25.71	25.71
Securities premium	845.56	845.56
Other reserves	5.50	59.17
- Equity attributable to equity holders of the parent	3,332.62	2,036.63
- Non-controlling interests	4.24	-
Total equity	3,591.82	2,291.59

Particulars	As at	
	March 31, 2021	March 31, 2020
LIABILITIES		
IV. Non-current liabilities		
(a) Contract liabilities	174.06	-
(b) Financial liabilities		
(i) Borrowings	893.21	280.60
(ii) Lease liabilities	7.47	20.08
(iii) Other non-current financial liabilities	893.04	117.58
(c) Long-term provisions	15.54	12.79
(d) Deferred tax liabilities (net)	14.52	1.80
Total non-current liabilities	1,997.84	432.85
V. Current liabilities		
(a) Contract liabilities	58.65	8.03
(b) Financial liabilities		
(i) Borrowings	275.22	357.24
(ii) Trade payables		
- dues of micro enterprises and small enterprises	4.39	6.85
- dues of creditors other than micro enterprises and small enterprises	1,255.50	743.33
(iii) Lease liabilities	11.42	17.09
(iv) Other current financial liabilities	241.76	70.34
(c) Short-term provisions	11.62	6.59
(d) Liabilities for current tax (net)	25.51	36.26
(e) Other current liabilities	51.91	49.23
Total current liabilities	1,935.98	1,294.96
Total equity and liabilities (III + IV + V)	7,525.64	4,019.40

STATEMENT OF PROFIT AND LOSS

Particulars	Notes	For the year ended	
		March 31, 2021	March 31, 2020
I. Revenue			
Revenue from contracts with customers	19	5,167.79	3,337.83
Other income	20	415.31	60.88
Total revenue (I)		5,583.10	3,398.71
II. Expense			
Inventory and data costs	21	2,977.02	1,921.40
Employee benefits expenses	22	539.92	272.93
Finance costs	23	36.35	14.22
Depreciation and amortisation expense	24	196.35	133.31
Other expenses	25	354.25	264.60
Total expense (II)		4,103.89	2,606.46
III. Profit before tax (I-II)		1,479.21	792.25
IV. Tax expense:	8		
Current tax [includes INR 7.81 million for earlier year (March 31, 2020: INR 1.48 million)]		119.80	138.35
Deferred tax charge / (credit)		9.04	(1.27)
Total tax expense (IV)		128.84	137.08
V. Profit for the year (III-IV)		1,350.37	655.17
VI. Other comprehensive income			
Items that will be reclassified to profit or loss in subsequent years			
Exchange differences on translating the financial statements of a foreign operation		(53.67)	53.57
		(53.67)	(53.67)

Particulars	Notes	For the year ended	
		March 31, 2021	March 31, 2020
Items that will not be reclassified to profit or loss in subsequent years			
Re-measurement (losses) /gains on defined benefit plans	26	(0.95)	1.55
Income tax effect		0.24	(0.39)
		(0.71)	1.16
Other comprehensive income / (loss) net of tax		(54.38)	54.73
VII. Total comprehensive income for the year (V+VI)		1,295.99	709.90
VIII. Profit for the year attributable to:		1,350.37	655.17
- Equity holders of the parent		1,348.03	655.17
- Non-controlling interests		2.34	-
IX. Other comprehensive (loss) / income for the year attributable to:		(54.38)	54.73
- Equity holders of the parent		(54.38)	54.73
- Non-controlling interests		-	-
X. Total comprehensive income for the year attributable to:		1,295.99	709.90
- Equity holders of the parent		1,293.65	709.90
- Non-controlling interests		2.34	-
XI. Earnings per equity share:			
Equity shares of par value INR 10 each			
(1) Basic	27	52.96	26.13
(2) Diluted	27	52.96	26.13

Cash Flows Position

Net Cash generated from / (used in) (In Rs. million)	FY2020-21	FY2019-20
(a) Operating Activities	1,016.16	718.52
(b) Investing Activities	(1,748.40)	(1,627.42)
(c) Financing Activities	530.86	1,386.94
Net change in cash and cash equivalent (a+b+c)	(201.38)	478.04
Cash and cash equivalent as at the beginning of year	695.90	206.08
Total Cash and cash equivalent as at the end of year (excluding Other Bank Balance)	491.49	695.90

The cash and cash equivalents as of March 31, 2021 (excluding Other Bank Balance) was Rs. 491.49 million, as compared to Rs. 695.90 million as of March 31, 2020. This was primarily driven by (a) increase in net income (excluding gain on fair value assessment of financial instruments, and excluding non-cash charges to net income such as depreciation, amortization, and changes in working capital); (b) proceeds from borrowings; (c) redemption in bank deposits (having original maturity of more than three months); and (d) interest received on bank deposits. However, this was partially offset by (a) investment made for the acquisition of a subsidiary; (b) investments in bank deposits (having original maturity of more than three months); (c) repayment of borrowings; (d) purchase of property, plant & equipment, intangible assets including capital work in progress; and (e) purchase of investments.

FINANCIAL REVIEW

In Rs. million	FY2020-21	FY2019-20	Change (%)
Revenue from contracts with customers	5,167.79	3,337.83	54.8%
Other income	415.31	60.88	
Total revenue	5,583.10	3,398.71	64.3%
Inventory and data costs	2,977.02	1,921.40	54.9%
Employee benefits expenses	539.92	272.93	97.8%
Finance costs	36.35	14.22	155.6%
Depreciation and amortisation expenses	196.35	133.31	47.3%
Other expenses	354.25	264.60	33.9%
Total expenses	4,103.89	2,606.46	57.5%
Profit Before Tax (PBT)	1,479.21	792.25	86.7%
Total tax expense	128.84	137.08	
Profit for the year	1,350.37	655.17	106.1%
<i>% Profit Margin</i>	24.2%	19.3%	
Non-controlling interests	2.34	-	
Profit attributable to equity holders of the parent*	1,348.03	655.17	105.8%
<i>% Profit Margin</i>	24.1%	19.3%	

*Profit after tax (PAT) net of non-controlling interest

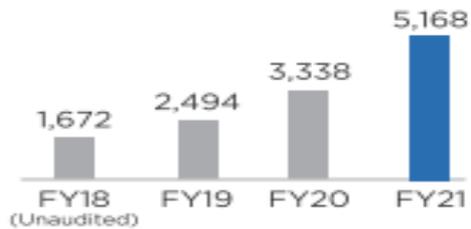
Profit and Loss Analysis

Inventory and data costs were Rs. 2,977.02 million for FY2020-21, represented 57.6% of the Revenue from contracts with customers and is a major part of the total expenses. Affle continue to strategically invest in the Inventory & data costs to expand its reach across connected devices and build deeper insights towards the next billion online shoppers.

Profit before tax registered a strong growth of 86.7% to stand at Rs. 1,479.21 million for FY2020-21 as compared to Rs. 792.25 million in FY2019-20. Profit after tax attributable to equity holders of the parent registered a strong growth of 105.8% to stand at Rs. 1,348.03 million for FY2020-21 as compared to Rs. 655.17 million in FY2019-20. If we normalize this profit to exclude the gain on fair value assessment of financial instruments, related tax expense and one-time deferred tax liability on account of non-amortisation of goodwill, then the Normalized PAT stood at Rs. 1,030.99 million in FY2020-21, a y-o-y growth of 57.4%.

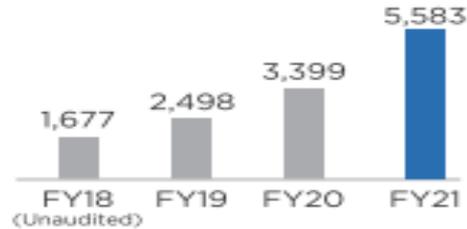
Increase in the Company's debt was primarily on account of the loan taken by our wholly-owned subsidiary Affle International Pte. Ltd., to partially finance the acquisitions of Appnext Pte. Ltd., Singapore

Revenue from Operations (Rs. MN)



45.7% CAGR

Total Revenue (Rs. MN)



49.3% CAGR

EBITDA (Rs. MN)



41.9% CAGR

Profit After Tax (Rs. MN)



69.2% CAGR

Normalized PAT (Rs. MN)



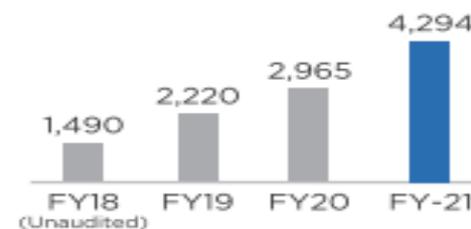
54.7% CAGR

Operating Cash Flows (Rs. MN)



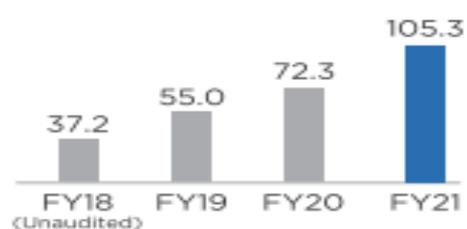
35.0% CAGR

CPCU Revenue (Rs. MN)



42.3% CAGR

Converted Users (MN)



41.5% CAGR

Note: 1. Adjusted for creditors written back amounting to Rs. 9.37 million in FY2019-20 and Rs. 3.42 million in FY2020-21.

2. FY2020-21 PAT (Net of Non-controlling Interest) normalized for Exceptional Items (net of tax)

3. Operating Cash flows adjusted for Deferred Tax Liability on account of Goodwill of Rs. 14.18 million (one-time expense)

*Data is rounded off to the nearest absolute numbers/decimal point. CAGR is computed on the reported numbers.

Key Financial Ratios

Key Ratios*	As of March 31, 2021
Return on Net Worth (%)	37.6%
Return on Capital Employed (%)	19.7%
Total Debt/Equity (x)	0.33x
Days Sales Outstanding (DSO)	113
Interest Coverage Ratio (x)	30.4x
Current Ratio (x)	1.3x
Diluted Earnings per Share (Rs.)	52.96

EBITDA and EBIT Profile

In Rs. million	FY2020-21	FY2019-20	Change (%)
Earnings before interest, tax, depreciation, and amortisation (EBITDA)*	1,300.02	888.27	46.4%
% EBITDA Margin	25.1%	26.5%	
Earnings before interest and tax (EBIT)*	1,103.67	754.96	46.2%
% EBIT Margin	21.3%	22.6%	

Key Ratio Analysis

Return on Equity: ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. Company has a good return on equity (ROE) track record: 3 Years ROE 34.14%

PE ratio: - Price to Earnings' ratio, which indicates for every rupee of earnings how much an investor is willing to pay for a share. Affle (India) has a PE ratio of 245.32 which is high and comparatively overvalued .The stock is at a premium valuation at this point.

Return on Capital Employed	
Mar 2019	108%
Mar 2020	43%
Mar 2021	39%
Mar 2022	28%

Return on Capital Employed : The ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company. Affle has healthy ROCE of 28% for the last year.

Conclusion

The conversion driven business model powered by technological advances, is getting well recognized by advertisers resulting in higher business wins from both existing and new customers across the industry verticals.

This is a company that can grow at an exponential growth rate and would always command premium valuation.