

RETAIL EQUITY RESEARCH

Affle (India) Ltd.

Ad-Tech solutions

Sensex: 37,883

Nifty: 11,284

Unsubscribe

Price Range Rs. 740 - Rs. 745

Premium valuation...

Affle (India) Ltd is a global ad tech solution provider with two business segments: Consumer Platform (~97% of sales as of FY19) and Enterprise Platform. The company offers a variety of mobile-based marketing commerce solutions including mobile advertising, fraud detection, rich media and video, data management, audience intelligence and ad monetization. Affle caters the needs of B2C companies across various industries including e-commerce, fin-tech, telecom, media, retail and FMCG companies, both directly and indirectly through their advertising agencies.

- Business model of the company is unique as they charge clients based on conversion rather than clicks.
- On the global front, ad-tech market is expected to grow at a CAGR of 10% from US\$34 bn in FY17 to US\$54 bn in FY22, presenting vast opportunities for domestic companies like Affle, but they could face stiff competition.
- Even though the company has a good profile base, the monetization (revenue generation) is on the lower side.
- Currently profitability is very healthy but further acquisitions could dilute the RoE in the future.
- At the upper price band of Rs745, Affle India is available at a P/E of 39x FY19. With no listed peers we believe that the valuation is on premium side.
- We have an Unsubscribe view as we believe the upsides are already factored in the valuations.

Purpose of IPO

At the upper price band, total issue size stands at Rs459cr comprising fresh issue of Rs90cr and offer for sale of Rs369cr. The company plans to utilise IPO fresh issue proceeds for funding working capital requirements of the company and for general corporate purposes.

Key Risks...

- Regulatory, legislative developments regarding data protection could impact the business operations.
- Increase in competition from other players can impact the business.
- Highly dependent on key customers for revenue generation.

Issue Details			
Date of Opening	29 th July, 2019		
Date of Closing	31 st July, 2019		
Total no. of Shares offered(cr)	0.62		
Post Issue No. of shares (cr)	2.55		
Price Band	Rs. 740- 745		
Face Value	Rs. 10		
Bid Lot	20 shares		
Minimum application for retail (upper price band for 1 lot)	Rs. 14,900		
Maximum application for retail (upper price band for 13 lot)	Rs. 1,93,700		
Listing	BSE & NSE		
Lead Manager	ICICI Securities, Nomura Financial Advisory & Securities Pvt Ltd		
Registrars	Karvy Computershare Pvt Ltd		
Issue size (upper price)			
Fresh Issue	90		
OFS	369		
Total Issue	459		
Shareholding (%)			
Promoters	92	68	
Others	8	32	
Total	100	100	
Issue structure			
	Allocation %	Size	Rs.cr
Retail	10	46	
Non Institutional	15	69	
QIB	75	344	
Total	100	459	
Y.E March (Rs cr)			
Sales	66	84	249
Growth (%)	(9)	28	-
EBITDA	4	17	70
Margin%	5.4	20	28.2
PBT	0.8	14	60
Growth (%)	(84)	-	-
PAT Adj	0.3	9	49
Growth (%)	-	-	-
EPS	0.1	3	19
P/E (x)	-	-	39
EV/EBITDA	-	113.3	27
RoE (%)	2	34.5	-
P/BV (x)	-	63	12

*FY19 - Consolidated

Company Description

Affle (India) Ltd, is a mobile marketing business incorporated in 2005, with two business segments: Consumer Platform and Enterprise Platform. The platform is built to mitigate digital ad fraud, assisting consumer privacy expectations and improve returns on marketing expenses by delivering mobile ads. Affle uses user-intent indicators based on transactional data, marketing attribution and behavioral signals. Based on such information, the company predicts the likely interest of the user. It keeps on updating the system based on data to improve consumer engagement and enable consumer actions. The company runs the campaigns on data intelligence basis to drive high volumes at an efficient price. Microsoft Global finance, a subsidiary of Microsoft Corporation, has 6.48% stake in the Singapore based Affle Holdings which is one of the promoters of Affle (India). The Company holds three patents in the United States and have applied for 10 patents in India. The company acquired Markt and Vizury Commerce Business in 2018 and the Shoffr Platform and the RevX Platform Business in 2019 to enhance the platform propositions for e-commerce companies. Affle's Consumer Platform is used by business to consumer ("B2C") companies across industries, including e-commerce, fin-tech, telecom, media, retail and FMCG companies, both directly and indirectly through their advertising agencies. With a larger focus on the emerging markets the company has close to 70% of its consumer base in emerging and developed markets.

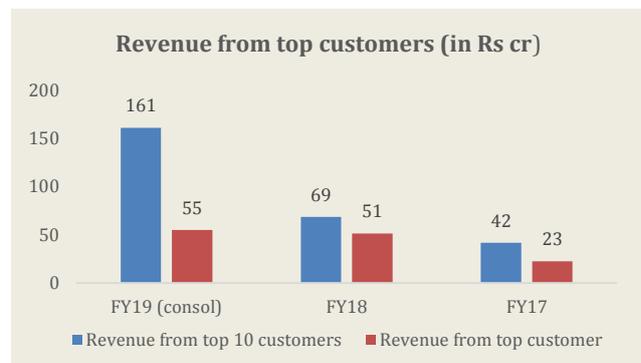
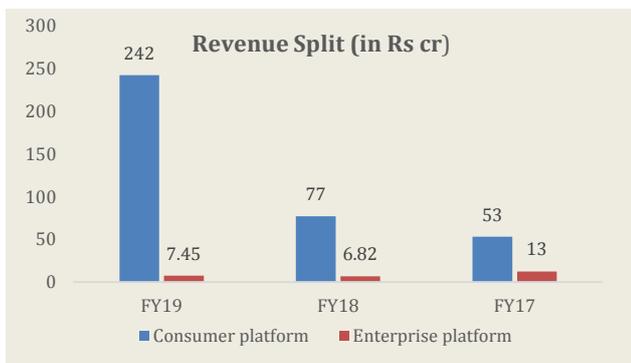
Business Segments...

- ❖ **Consumer Platform** (accounts ~97% of sales (consol) as of FY19) primarily provides the following services: (1) new consumer conversions (acquisitions, engagements and transactions) through relevant mobile advertising; (2) retargeting existing consumers to complete transactions for e-commerce companies through relevant mobile advertising; and (3) an online to offline (O2O) platform that converts online consumer engagement into in-store walk-ins. Consumer Platform is used by business to consumer (B2C) companies across industries, including e-commerce, fin-tech, telecom, media, retail and FMCG companies, both directly and indirectly through their advertising agencies.

Consumer Platform comprises the following:

- ✓ "Affle" branded consumer intelligence platform.
 - ✓ "RevX" branded mobile only self-serve programmatic platform.
 - ✓ "Vizury" branded retargeting media business for e-commerce companies
 - ✓ "Shoffr" branded online to offline platform
- ❖ **Enterprise Platform** primarily 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.

Revenue split:



Source: RHP

For FY19 on a consolidated basis, revenue from Consumer Platform and Enterprise platform contributed 97.0% and 3% respectively of revenue from contracts with customers. For Fiscals 2019, 2018 and 2017 on an unconsolidated basis, company earned 91.4%, 91.9% and 80.7% of the revenue from contracts with customers from Company's Consumer Platform, respectively. The company primarily earns revenue from the Consumer Platform on a CPCU basis, which comprises of user conversions based on consumer acquisition and transaction models. Therefore, the number of converted users the company delivers in a period has a material effect on the revenue for that period.

- **Consumer acquisition model** focuses on acquiring new consumers for businesses, which is usually in the form of a targeted user downloading and opening an App or engaging with an App after seeing an advertisement delivered.
- **Transaction model** is usually in the form of a targeted user submitting a lead acquisition form or purchasing a product or service after seeing an advertisement delivered.

The company also earns revenue from Consumer Platform through awareness and engagement type advertising, which comprises of cost per thousand impressions (CPM), cost per view (CPV) and cost per click (CPC) models. These models are relevant for brand advertisers who want to build awareness and recall and engage users online to transact with them offline/online.

Key highlights of the company as per RHP (Red Herring Prospectus)

Ad Tech solution provider in India...

Affle is one of the leading ad tech solution providers with approximately 571 mn consumer profiles in India. The company provides services across the value chain in digital advertising, spanning the areas of DMP, DSP/SSP, fraud detection and ad network. Affle is one of the very few companies that have products spanning the entire value chain. Further, the company has increased breadth of their service offerings, especially to e-commerce and mobile app driven companies, following the acquisition of Vizury Commerce Business and RevX Platform. The ad tech market in India is fast growing, with a market size of US\$304.9 million in 2017 and will likely grow at a CAGR of 39% to US\$808 million by 2022. Affle's extensive consumer profile data, proprietary technology and local knowledge makes them better placed compared to global peers to deliver profitability in India. The company intends to continue to grow Affle Consumer Platform business in India by increasing revenue from existing customers by deepening relationships with them, gaining new customers in the fast-growing e-commerce market through existing sales team in India and through referrals from existing customers.

Asset light business model...

Affle Consumer Platform is supported by a flexible and scalable infrastructure, built in-house using cloud computing infrastructure. The Consumer Platform consists of proprietary machine and deep learning algorithm for prediction and recommendation that operates in real time and at significant scale. Affle's business is asset light and scalable as shown by the fact that the company's employee benefits expenses, depreciation and amortization expense and other expenses have remained relatively unchanged despite significant changes in the revenue from contracts with customers in the last three fiscal years. Affle's revenue from contracts with customers, on an unconsolidated basis, was Rs1,177.94 mn, Rs 837.56mn and Rs656.29 mn for FY 19, FY18 and FY17, respectively.

Over time, the company has attracted more marketing budgets and delivered advertisements, data assets have grown. As a result, the accuracy of prediction and recommendation algorithm for Affle Consumer Platform has improved, enabling them to deliver even more precisely targeted and personalised advertisements. As Company's ability to generate actions improves with increased user intelligence and targeting, it is expected that more businesses will use Affle's Consumer Platform and increase their marketing spend with the company. Moreover, this network effect is expected to continue to fuel Affle's growth.

Deep data driven understanding of consumer intent and behavior...

Consumer profiles and data points are the primary building blocks that support the Consumer Platform. For FY19, Affle Consumer Platform accumulated over 300 billion data points. Affle's Consumer Platform uses predictive algorithms to recommend mobile users who are most likely to engage with a particular advertisement and on that basis, it chooses to display targeted and personalised mobile display advertisements to particular users. Affle is able to deliver more relevant and engaging experiences to consumers, which are therefore more likely to lead to the desired action, such as the downloading of an App or the purchase of a product or service, on the basis of which company earns revenue. Therefore, having significant number of consumer profiles and data points enables the company to expand into markets and deliver results to their customers for Consumer Platform more quickly and at lower costs.

Addresses digital fraud and data safety issues....

Affle's mFaaS platform helps to detect fraud on a real time basis, thus minimising wastage of marketing spend. It processes large volumes of click and conversion data using multiple algorithms to detect patterns of indicative or definitive fraud. The mFaaS sets them apart from competitors as it offers a real time solution for addressing fraud, which is a major issue for mobile advertising. mFaaS also helps advertising agencies, advertising networks and publishers to optimise the spend on marketing for their customers by helping weed out significant amounts of fraudulent traffic. Affle intend to continue to build more fraud checks to detect and prevent mobile advertisement fraud and hence ensuring actual returns to their customers.

Focuses to expand its international presence...

Affle Consumer Platform has approximately 2.02 bn consumer profiles, of which approximately 571mn were in India and 1,449 mn were outside of India (approximately 582mn in Other Emerging Markets and 867mn in Developed Markets). For the FY19 on a consolidated basis, the average CPCU was Rs 25.3 in India, Rs 60.2 in Other Emerging Markets and Rs114.1 in Developed Markets. Even though the number of Affle Consumer Platform's consumer profiles outside India was 71.7% of Affle Consumer Platform's total consumer profiles and the average CPCU for the FY19 on a consolidated basis was more outside India. The company currently have business development teams outside India in Singapore, Jakarta (Indonesia) and Dubai (UAE) (opened an office in Dubai in March 2019). Affle plans to expand its international business through local business development efforts and through referrals from existing customers by demonstrating their successful track record internationally and through on the ground presence to deliver better support and build more trust with the market participants.

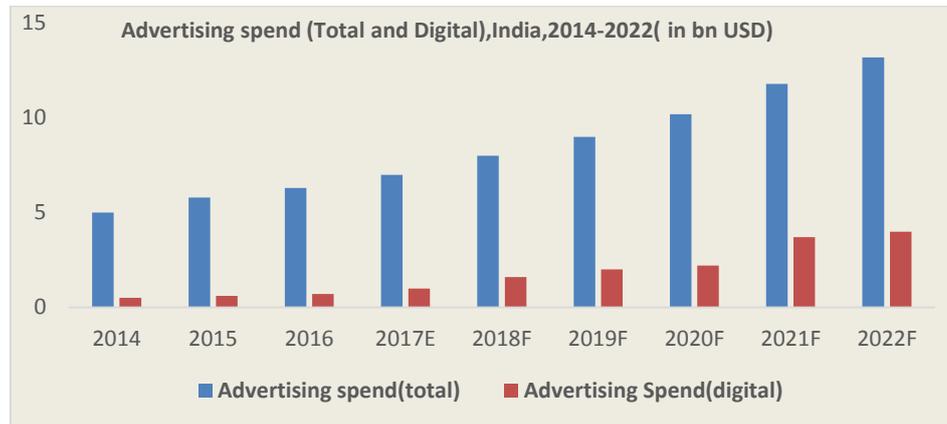
Region wise user base and CPCU		
Country	Total profile base –Millions No.	Average CPCU –In Rs
India	571	25.3
Other emerging markets	582	60.2
Developed markets	867	114.1
Total users	2020	

Source: RHP, Geojit Research

Industry Outlook

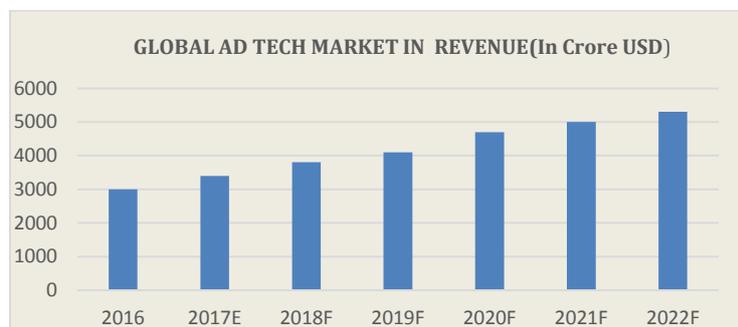
Overview of the Indian Advertising Industry

Digital advertising spend in India has ramped up in growth over the past three years. It gained USD 1.1 billion in revenue in 2017 and will likely grow at a CAGR of 28.6% to USD 4 billion. A segment that is fuelling growth for digital segment is mobile advertising, driven by 4G penetration, cost-effective data packages, proliferation of the mobile apps and social media, M-commerce and rapid growth in smartphone penetration. Mobile advertisement spend is expected to grow at a CAGR of 32.7% to reach USD 1.93 billion in 2022 (Source: Dentsu Aegis Reports and Frost & Sullivan Estimates).



Source: RHP, Geojit

Frost & Sullivan estimates that the global ad tech market earned revenue of USD 34 billion in 2017 and is likely to grow at a CAGR of 10% over the next five years.



Source: RHP, Geojit

The global advertising technology market is highly competitive, with multiple regional and global players. Although it is dominated by digital giants such as Google and Facebook, there are over a hundred companies who offer one or more components of this solution. However, only a few – such as Affle, InMobi, Criteo, The Trade Desk, FreakOut, Mobvista and YouAppi – operate internationally.

Capturing India

India with its rapidly growing Internet user base has become an attractive destination for international ad tech vendors, including Criteo, Mobvista, FreakOut – who have set up recently, alongside existing companies such as Affle, RevX, InMobi, among others. However, India presents its unique set of challenges such as a disjointed demographic which is just getting habituated to digital applications (such as use of e-commerce, digital payments, etc.). Only 10% of Internet users are active (i.e., make a purchase at least once per month) e-commerce customers. Frost & Sullivan believes that this makes it a more challenging landscape for marketing tech to be able to discern the users who have the highest propensity to transact online.

It can be a hard market to sustain, even for market participants who are globally successful. With an average CPC at USD 0.1 to 0.3, the price points are quite low compared to the global market. Frost & Sullivan believes that achieving profitability in such a price-sensitive market is possible only for companies that are familiar with the dynamics of consumer profiles and have a track-record of working alongside brands locally for years. Frost & Sullivan believes that India, with its constraints of low CPC, inadequate availability of data and technology will pose significant challenges for scalability and growth, even for established international companies.

Comparative Analysis

There are just a few international companies that work closely with advertisers and brands facilitating targeted advertising. Companies such as Criteo, Affle, RevX and InMobi have been working for major global brands including Airtel, Amazon, Coca-Cola, Rakuten, JC Penney, ESPRIT, Zalora, Namshi, Flipkart and many others.

Company	Value chain Coverage	Vertical Focus	Geographical Presence
Affle	In-house DMP, In-house DSP/SSP, Fraud Detection	E-commerce, entertainment, banking and financial services	India, U.S. & Europe, SEA
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
Criteo	Customer acquisition, dynamic retargeting, audience match predictive bidding, product recommendation	Retail, travel, hospitality e-commerce	95 countries
Mobvista	In-house DMP, In-house DSP, Fraud Detection	Mobile games, banks, news	China, SEA, India, U.S., U.K.
RevX	In-house DSP, In-house DMP, Creative Services	E-commerce, travel, gaming and food apps	Middle East, South East Asia, India
TAB	In-house DSP, Ad network,	Gaming, utilities, entertainment, transportation, lifestyle, betting and travelling	U.S., Korea, U.K., India, Germany, Brazil, Japan, Saudi Arabia

Source: RHP, Geojit Research

The ad tech market has been extremely dynamic in terms of requirements, spiking the need for constant innovation. Among the competitors, Affle, InMobi, and Criteo hold patents across their product line, but only Affle and InMobi have patents that relate to the mobile advertising segment.

The market shows inconsistent growth rates across vendors, reflecting the heightened level of competition. Companies such as Affle Holdings, Criteo, and The Trade Desk reported high growth rates of 38.3%, 27.7%, and 51.9% respectively, implying a stable and sustainable market presence. FreakOut, which reports over 90% of its revenue from Japan demonstrated a growth rate of 107% in 2017, largely because of its M&A activities, acquiring three companies outside Japan.

Promoter and promoter group

Promoters and Promoter Group hold, in aggregate, 22,386,882 Equity Shares, representing 92.17% of the issued and paid-up equity share capital of the company. After this offer, promoter and promoter group shall hold 68% of the post-offer paid up equity share capital of the company. The Promoters of the Company are Anuj Khanna Sohum and Affle Holdings. Affle Holdings is engaged, through its subsidiaries, in the business of research and experimental development on IT & product development for mobile software & technology. Individual Promoter, Anuj Khanna Sohum, is the promoter of Affle Holdings. Further, he also controls Anuj Khanna Investments Pte. Ltd., and FESS OLD NEW Pte. Ltd., the shareholders of Affle Holdings. Microsoft Global finance also holds a 6.23% ownership in Affle Holdings.

Brief Biographies of Directors

Company currently has 10 Directors on its Board, including five Independent Directors

- ❖ **Anuj Khanna Sohum**, is the individual Promoter, and the Chairman, Managing Director and Chief Executive Officer of the Company. He is a technopreneur with over 18 years of experience in leading technology products/ platforms-based businesses. He received the “Mobile Advertising Person of the Year (Gold)” at the MOBEXX 2018 Awards. He has been associated with the Company since January 25, 2006.
- ❖ **Anuj Kumar**, is the Director and Chief Revenue & Operating Officer of the Company. He has earlier worked in J Walter Thompson (Hindustan Thompson Associates Limited), WPP Marketing Communications India Private Limited in its Mindshare business and ESPN Software India Private Limited. He has been associated with the Company since January 25, 2006.
- ❖ **Kapil Mohan Bhutani**, is a Director and Chief Financial and Operations Officer of the Company. Prior to joining the Company, he has worked in KMG Infotech Ltd. and M/s. S. Mohan & Co. He has been associated with the Company since August 5, 2014.
- ❖ **Charles Yong Jien Foong**, is a Director of the Company and the Chief Architect & Technology Officer of Affle International. He has been associated with Affle Global since 2008 as the Director Online Services and has been associated with Affle International since July 1, 2018. He has over 19 years of experience in product management and solution consulting/architecture and has in the past held positions with The Edge Consultants Pte. Ltd. and Okilabs Pte. Ltd.

Consolidated Financials (For FY19)

Profit & Loss Account

Y.E March (Rscr)	FY16	FY17	FY18	FY19
Sales	72	66	84	249
% change	84	(9)	28	-
EBITDA	6	4	17	70
% change	-	-	-	-
Depreciation	0.3	2.3	3.2	10
EBIT	5	1.2	14	60
Interest	1	1.6	1.1	0.8
Other Income	0.3	1.2	1.1	0.4
Exceptional Items	-	-	-	-
PBT	5	0.8	14	60
% change	-	-	-	-
Tax	-	0.5	5	11
Tax Rate (%)	-	58.8	35	18.4
Reported PAT	5	0.3	9	48.8
Adj	-	-	-	-
Adj PAT	5	0.3	9	48.8
% change	-	-	-	-
No. of shares (cr)	2.55	2.55	2.55	2.55
Adj EPS (Rs)	2	0.1	3	19

Cash flow

Y.E March (Rscr)	FY16	FY17	FY18	FY19
PBT	4.9	0.8	13.6	59.8
Non-cash adj.	2	4	2	2
Changes in W.C	(0.9)	1	1	(14)
C.F.O	5.8	5.8	17.4	47.8
Capital exp.	(5)	(3)	(4)	(15)
Change in inv.	-	(0.02)	(0.01)	(23.8)
Sale of investment	-	0.2	0.004	0.002
Other invest.CF	(3)	(3)	2	(11)
C.F - investing	(7.8)	(5.7)	(1.4)	(50.2)
Issue of equity	-	-	-	-
Issue/repay debt	7.97	(1)	(7.1)	(0.6)
Dividends paid	-	-	-	-
Other finance.CF	(0.74)	(1.4)	(1.0)	8.99
C.F - Financing	7.2	(2.2)	(8.1)	8.4
Chg. in cash	5	(2)	7.9	6.0
Closing cash	6.8	5.8	13.7	20.6

- FY19 figures consolidated
- FY16, FY17, FY18 Standalone

Balance Sheet

Y.E March (Rscr)	FY16	FY17	FY18	FY19
Cash	6.8	5.8	13.7	20.6
Accounts Receivable	14.8	13.5	15.8	47.9
Inventories	-	-	-	-
Other Cur. Assets	11.6	8.3	4.6	17.4
Investments	-	3.9	7.7	13.2
Net Fixed Assets	0.2	0.4	0.4	0.7
CWIP	0.13	0.00	0.00	0.00
Intangible Assets	5.2	14.2	14.7	58.3
Other Assets	3.21	2.58	0.59	0.08
Total Assets	42	49	58	158
Current Liabilities	24	23	26	75
Provisions	1	1	1	2
Debt Funds	4	3	-	9
Minority Interests	-	-	-	-
Def. Tax	-	-	-	-
Equity Capital	16	24	24	24
Reserves & Surplus	(3)	(3)	6	48
Shareholder's Fund	-	-	-	-
Total Liabilities	13	21	30	72
BVPS (Rs)	42	49	58	158

Ratios

Y.E March	FY16	FY17	FY18	FY19
Profitab. & Return				
EBITDA margin (%)	7.9	5.4	20.0	28.2
EBIT margin (%)	7.5	1.9	16.2	24.1
Net profit mgn.(%)	6.5	0.5	10.5	19.6
ROE (%)	44.4	2	34.5	-
ROCE (%)	44.0	5	34.9	88.7
W.C & Liquidity				
Receivables (days)	93.6	78.8	64.0	46.6
Inventory (days)	-	-	-	-
Payables (days)	155.4	266.6	212.5	137.4
Current ratio (x)	1.4	1.4	1.6	1.3
Quick ratio (x)	0.9	0.8	1.1	0.9
Turnover & Levq.				
Net asset T.O (x)	481.3	245.8	229.5	446.9
Total asset T.O (x)	2.0	1.4	1.6	2.3
Int. covge. ratio (x)	6.3	0.8	12.6	74.2
Adj. debt/equity (x)	0.6	0.3	-	0.1
Valuation ratios				
EV/Sales (x)	26.3	29.0	22.7	7.7
EV/EBITDA (x)	334	541	113.3	27.1
P/E (x)	-	-	-	39
P/BV (x)	144.3	90.3	63.0	12

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 - month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

General Disclosures and Disclaimers

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Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/ 659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

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