

Delivers Strong Growth, Better Outlook; Maintain BUY

Affle Ltd. (Affle) reported a strong recovery after a seasonally weak quarter. Q1FY21 revenue stood at Rs 153 Cr, up 7.7% QoQ and 70% YoY. The operating margin declined by 130 bps to 23% due to higher employee expenses and higher inventory and data cost but was much in line with the management expectations. The management is confident of gaining the margin profile with strong volume growth going ahead. The company recorded a Net Income of Rs 30 Cr, delivering a strong growth of 11.2% QoQ.

The management guided for CAGR 25%-30% growth over the next five years in light of robust demand and rising mobile consumption. In addition, Affle sees healthy traction in EFGH categories which are expected to drive revenues due to the strong verticalization effort initiated by the company. Furthermore, it is planning to make further inroads into Europe, North America, and South Korea. This will help it get higher volume growth and add a higher number of devices. It also has a strong focus on penetrating further into the vernacular section of India. Inorganic growth and significant shift among consumers to adopt digital technology globally prompt us to be positive on the company's long-term revenue's sustainability.

We recommend a BUY on the stock and assign 56x P/E multiple to its FY23E earnings of Rs 86.3/share which gives a TP of Rs 4,790/share, implying an upside potential of 15% from CMP.

Mixed growth performance

On the vertical front, Enterprise Platform (6.2% of revenue) was reported at Rs 3.2 Cr vs Rs 4.6 Cr in Q4FY21, representing a de-growth of 30% on a QoQ basis. CPCU Revenue (85.2% of Consumer Platform Revenue) grew by 16.4% on a QoQ basis and stood at Rs 78.6 Cr vs. Rs 67.5 Cr.

On the geographical front, India (52% of revenue) reported revenue of Rs 81.8 Cr, improved by 13.2% QoQ and 88% YoY. Outside India (55.2% of revenue) reported revenue of Rs 75.9 Cr, exhibiting a growth of 1% QoQ and 53% YoY.

Our Take

We believe Affle has a unique business model and strong strategy to penetrate the targeted geographies and verticals. With upgraded guidance of revenue growth of 25%-30% over the next five years, margin expansion, and strong return ratios, we remain positive on the stock. However, immediate pricing pressure on both international and domestic businesses may impact margins.

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Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	334	517	678	905
EBIDTA	88	130	165	226
Net Profit	66	135	152	220
EPS (Rs)	25.7	52.9	59.5	86.3
PER (x)	109.4	98.7	87.8	60.6
EV/EBIDTA (x)	81	103	81	58
P/BV (x)	31	37	29	21
ROE (%)	41%	43%	35%	38%

Source: Company, Axis Research

(CMP as of Aug 9, 2021)

CMP (Rs)	4,166
Upside /Downside (%)	15%
High/Low (Rs)	6,287/1,425
Market cap (Cr)	Rs 14,140
Avg. daily vol. (6m) Shrs.	59,605
No. of shares (Cr)	2.54

Shareholding (%)

	Dec -20	Sep -20	Jun-20
Promoter	68.4	68.4	68.4
FII's	8.5	7.5	7.6
MFs / UTI	8.6	8.8	9.0
Banks / FIIs	0.0	0.0	0.0
Others	14.5	15.3	15.0

Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
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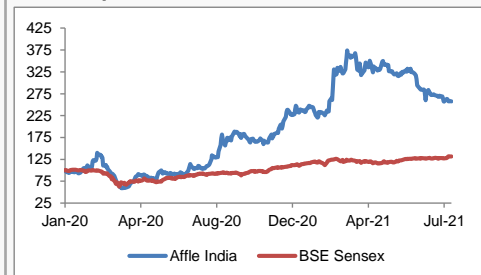
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

Omkar Tanksale
Research Analyst

Call: (022) 4267 1759, 9819327371
email: Omkar.tanksale@axissecurities.in

Key Concall Takeaways

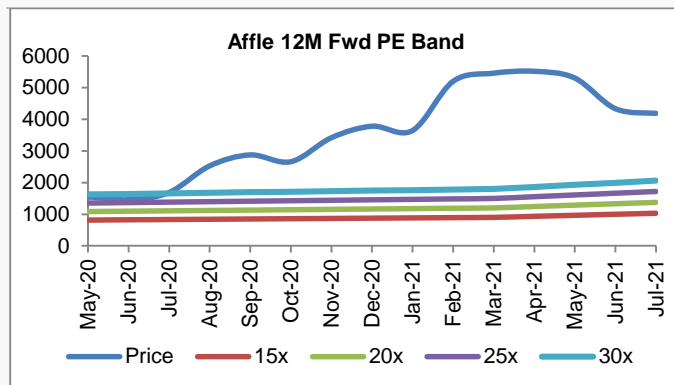
- 1) The management sees good traction in the vernacular segment and foresees accelerated demand in the forthcoming quarters. This will be aided by the rising use of mobile phones and higher internet consumption. It continues to focus on emerging markets with higher penetration with well-formed vernacularization and vernacularization strategy and further gain market share.
- 2) The management is expecting a strong uptick in the consumer segment not only in India but also across geographies. It has also indicated that the strong demand traction has been due to the accelerating use of mobile applications and internet shopping.
- 3) Categories E (Entertainment, E-commerce, Ed-Tech), F (Fintech, Foodtech, FMCG), G (Gaming, Groceries, Government), H (Healthcare). Top 10 Verticals contributed over 90% revenue in Q1FY22 vs 77% revenue in Q4FY21.
- 4) The management indicated the operating margin to be sustainable in the forthcoming quarters post strong addition of converted users and connected devices.

Valuation & Outlook

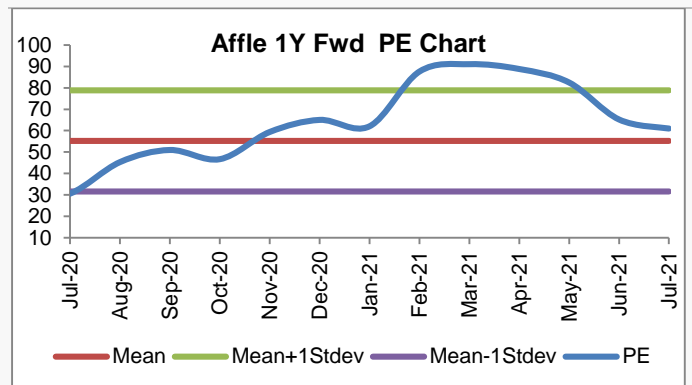
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Affle 12M Fwd PE Band



Affle 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q1 FY22	Q4 FY21	Q1FY21	% change (YoY)	% change (QoQ)
Total Revenue	152	142	90	69%	7%
Inventory and Data cost	88	81	52		
Employee benefit Expenses	19	16	8		
Other Expenses	10	10	7		
Total Operating Expenses	117	107	67		
EBITDA	35	34	22		
Margin (%)	23%	24%	25%		
Depreciation	5	5	4		
Operating Income	29	29	18	63%	1%
Margin (%)	19%	21%	20%	-80	-132
Total Other Income/(Expense)	13	36	2		
Finance Cost	1	1	1		
Income Before Income Taxes	41	64	20		
Total Taxes	5	5	3		
ETR (%)	13%	8%	14%	-142	455
Net Profit After Taxes	36	59	19	91%	-39%
Non-Controlling Interest	0	0	0		
Net Income After Extraordinary Items	36	59	19	89%	-39%
Margin (%)	24%	41%	21%	223	-1,778
EPS	13.68	22.99	7.36	86%	-40%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	334	517	678	905
Other operating income	0	0	0	0
Total income	334	517	678	905
Inventory and data Cost	192.1	297.7	401.1	538.3
Employee benefit Expenses	27.3	54.0	66.1	81.4
Other Expenses	26.5	35.4	46.0	58.8
EBITDA	88	130	165	226
Other income	6	42	44	54
PBITD	94	171	209	280
Depreciation	13	20	27	32
Interest & Fin Chg.	1	4	3	2
E/o income / (Expense)	0	0	0	0
Pre-tax profit	79	148	179	247
Tax provision	14	13	27	27
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	66	135	152	220
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	66	135	152	220

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	273	558	617	773
Net Block	162.8	360.7	368.4	371.8
CWIP	6.6	40.3	3.5	3.5
Investments	0.3	100.9	102.7	102.7
Wkg. cap. (excl cash)	35	8	119	158
Cash / Bank balance	69.6	49.1	24.6	138.4
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	273	313	393	530
Equity capital	25.5	25.5	25.5	25.5
Reserves	179	308	441	597
Minority Interests	0.0	0.4	0.4	0.4
Borrowings	43	198	110	110
Def tax Liabilities	0.2	1.5	1.5	1.5

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	212	359	46	187
Cash profit	80	158	182	253
(-) Dividends	17	36	44	64
Retained earnings	64	122	137	189
Issue of equity	1.2	0.0	0.0	0.0
Change in Oth. Reserves	(2.8)	188.7	0.0	0.0
Borrowings	34	139	-88	0
Others	116	-91	-3	-2
Applications	212	359	46	187
Capital expenditure	125.0	389.2	(40.4)	35.0
Investments	6.7	15.6	0.0	0.0
Net current assets	41.4	(25.7)	111.3	38.4
Change in cash	39.1	(20.5)	(24.5)	113.8
Closing cash	70	49	49	49

Source: Company, Axis Securities

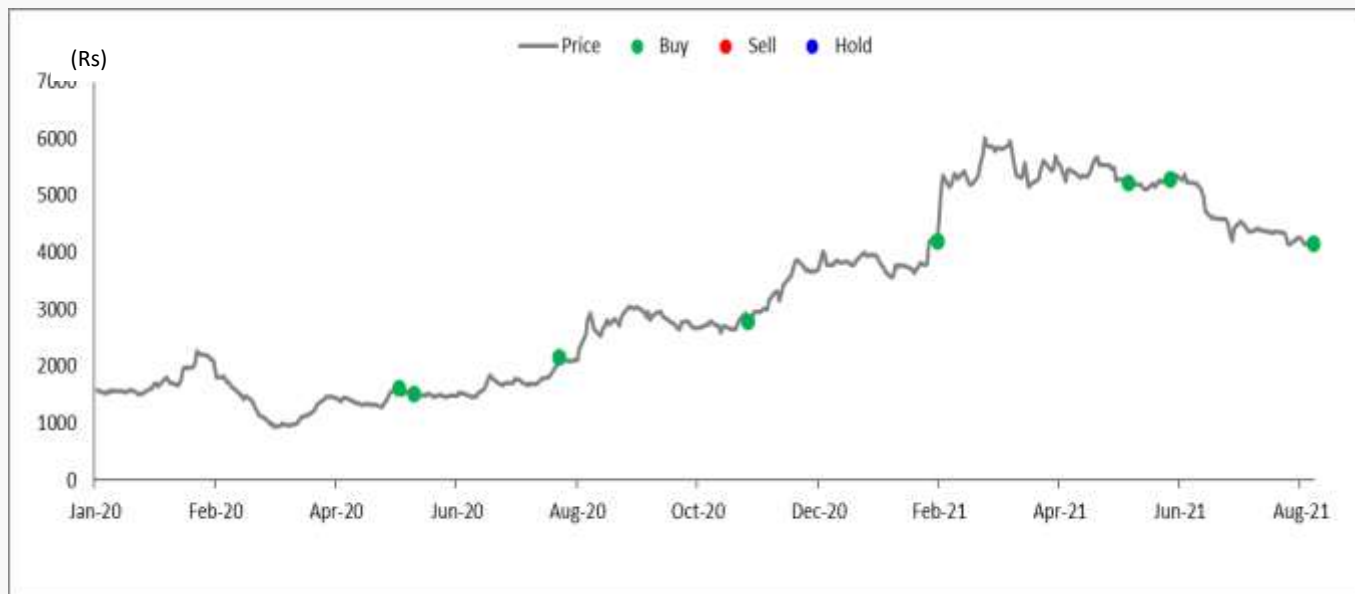
Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	33.8	54.8	31.2	33.5
OPM	26.3	25.1	24.3	25.0
Oper. profit growth	25.1	47.5	27.1	37.2
COGS / Net sales	57.6	57.6	59.2	59.5
Overheads/Net sales	7.9	6.9	6.8	6.5
Depreciation / G. block	12.6	9.9	354.2	920.9
Effective interest rate (%)	7.5	6.0	5.6	77.0
Net wkg.cap / Net sales	0.04	0.04	0.10	0.15
Net sales / Gr block (x)	1.4	1.1	1.4	1.7
RoCE	46%	36%	32%	38%
Debt / equity (x)	0.12	0.25	0.01	0.00
Effective tax rate	17.3	8.7	15.3	11.1
RoE	41%	43%	35%	38%
Payout ratio (Div/NP)	25.0	25.1	25.0	25.0
EPS (Rs.)	25.7	52.9	59.5	86.3
EPS Growth	34.3	105.9	12.5	44.9
CEPS (Rs.)	30.9	60.6	70.2	98.6
DPS (Rs.)	6.4	13.2	14.9	21.6

Source: Company, Axis Securities

Affle Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
26-May-20	BUY	1,888	Initiating Coverage
02-Jun-20	BUY	1,888	Result Update
12-May-21	BUY	6,055	Event Update
01-Jun-21	BUY	5,835	Result Update
11-Aug-20	BUY	2,430	Result Update
10-Nov-20	BUY	3,539	Result Update
09-Feb-21	BUY	4,800	Result Update
10-Aug-21	BUY	4,790	Result Update

Source: Axis Securities

About the analyst



Omkar Tanksale

Research Analyst

omkar.tanksale@axissecurities.in

Call: (022) 4267 1737

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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