



AFFLE INDIA





Market Capital: ₹ 16,919 Cr
Enterprise Value: ₹ 13,970.12 Cr
No. Of Shares: 133251060

52 Week High: ₹ 1511
52 Week Low: ₹ 763
Face Value: ₹ 2.00

Affle India

Buy

We recommend a Buy position on Affle with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation, and new policies

SECTOR OVERVIEW

The IT industry accounted for 8% of India's GDP by 2020. According to STPI (Software Technology Park of India), the export of software outside IT companies is connected to Rs. 1.20 lakh crore (the US \$ 16.29 billion) in the first half of FY21.

Revenue from the IT & BPM sector is estimated at \$ 194 billion in FY21, an increase of 2.3% YoY. The domestic revenue of the IT industry is estimated at \$ 45 billion and export revenue is estimated at \$ 150 billion in FY21. According to Gartner estimates, IT spending in India is projected to reach US \$ 93 billion by 2021 (7.3% YoY growth) and continue to grow to the US \$ 98.5 billion by 2022. The BPM sector in India currently employs more than 1.4 million people, while IT and BPM together have more than 4.5 million employees, from FY21.

India's software delivery (excluding commercial presence) has increased by 4% in FY21 compared to FY20 and is estimated at \$ 133.7 billion by 2020-21.

India's software product industry is expected to reach the US \$ 100 billion by 2025. Indian companies are focused on investing internationally to expand global history and improve their global delivery centers. In line with this, in February 2021, Tata Consultancy Services announced plans to recruit 1,500 technical personnel across the UK next year. The development will build the capacity that TCS has successfully delivered to UK customers.

As of FY21, the IT industry employs 4.5 million people.

India annotations market stands at ~ US \$ 250 million at FY20, with the US market offering ~ 60% of the total value. The market is expected to reach ~ US \$ 7 billion by 2030 due to the urgent domestic demand for AI.



Company Overview

Affle (India) Limited was merged as a privately owned company with the name Tejus Securities Private Limited 'on August 18, 1994. Affle is a global technology business. It has two business components namely Consumer Platform and Enterprise Platform.

Consumer Platform primarily provides the following services:

- New consumer conversions (acquisition engagement and transaction) with appropriate mobile advertising
- Redirect existing buyers to complete e-commerce transactions with appropriate mobile advertising
- An online to an offline platform that transforms online consumer interaction into a storefront.

Enterprise Platform provides primarily end-to-end solutions for companies to improve their interaction with mobile users. As of March 31, 2019, Consumer Platform has nearly 2.02 billion consumer profiles of which approximately 571 million in India and 582 million in other Emerging Markets (including Southeast Asia Middle East Africa, and others) and 867 million were in developed areas (including North America Europe Japan Japan Korea).

The Company is in the process of merging consumer profiles with Vizury Commerce Business-related consumer data for the RevX Platform and Shoffr Platform and its Affle Consumer Platform.

The e-commerce fin-tech telecom retail and FMCG companies both directly and indirectly through their advertising agencies. The Consumer Platform uses user-targeted indicators found in the behavioral marketing index and activity data obtained in real-time and collected above time that enhances its ability to predict things that the user may be interested in. The accuracy of predicting and recommending Consumer Platform algorithms improves with every ad we deliver as systems integrate new data while continuing to learn from previous data.

The company also provides businesses with end-of-year solutions to improve their interaction with mobile users such as Applications that allow offline trading on offline businesses with e-commerce interests and provide business-level data analysis to online and offline companies.

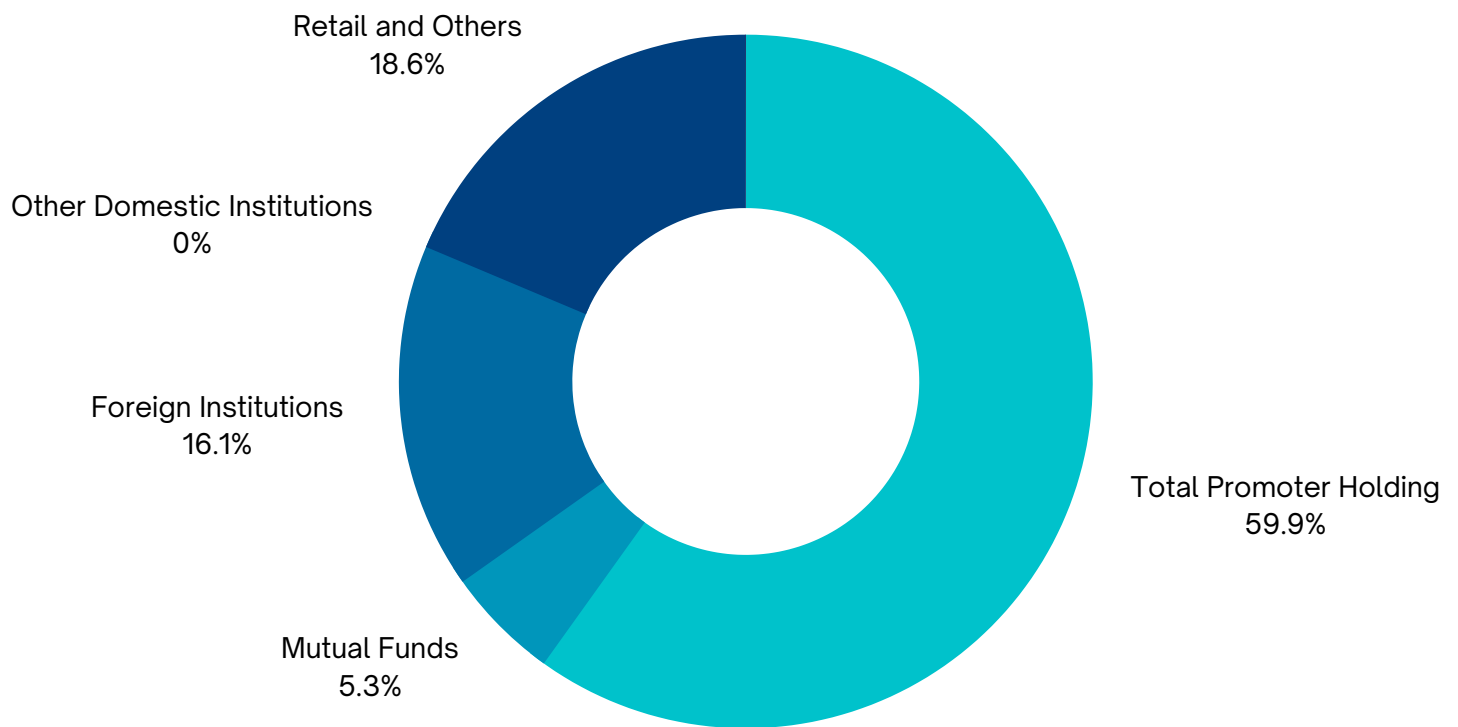


Company Financials

Consolidated (cr)	FY2021	FY2020	FY2019
P/E Ratio	104.17	39.53	25.42
ROE (%)	37.57	28.59	67.42
ROCE (%)	108	43	39
Debt to Equity Ratio	0.33	0.28	0.12
Quick Ratio	1.51	2.01	1.15
Current Ratio	1.51	2.01	1.15
Basic EPS	4.02	5.14	10.57
Return on Assets(%)	9.32	12.98	17.82
Net Profit Margin	10.58%	18.04%	13.75%
Revenue	273.18 Cr.	187.36 Cr.	121.45 Cr.
Total Debt	193.19 Cr.	165.04 Cr.	46.27 Cr.



Shareholding Pattern





Investment Hypothesis

- **Successful acquisition of Jampp:**

Affle India Ltd has completed the acquisition of Jampp, a global programmatic mobile marketing company. In June, Affle had announced the acquisition of Jampp (Ireland) Ltd and its subsidiaries. Affle MEA FZ-LLC, a subsidiary of Affle International Pte Ltd, had also entered into an Intellectual Property Purchase Agreement to acquire 100 per cent tech IP assets of Jampp.

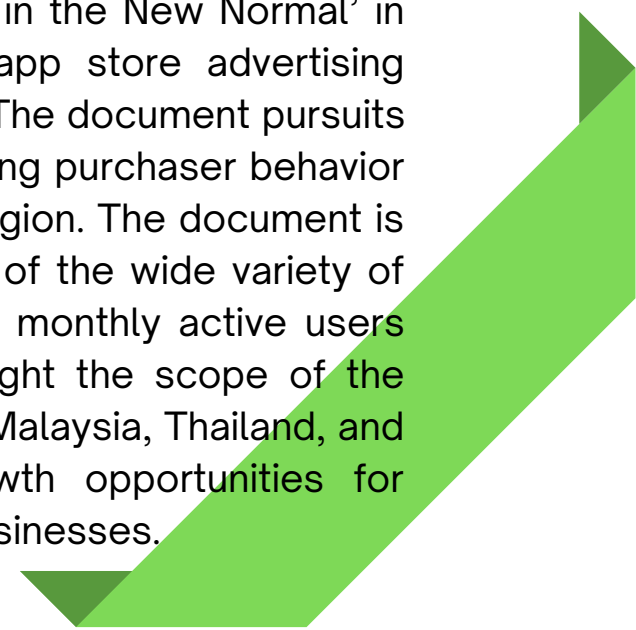
This acquisition carries great strategic merit as it strengthens Affle's CPCU (Cost Per Converted User) business model and enables it to expand into fast-growing markets like the US and Latin America, while further consolidating its position in the Asia Pacific.

Jampp's programmatic mobile advertising platform is used by app marketers to help them acquire new users and also to drive repeat usage and transactions with existing users.

Its focus on leveraging unique contextual and behavioral signals to deliver in-app engagements has helped it to drive incremental growth for marketers in North America, Latin America, Asia Pacific, and other global markets. Its consolidated revenue stood at USD 29.5 million in 2020.

- **Growth in E-commerce industry :**

Affle's mobility-as-a-service (MAAS), a unified mobile marketing and marketing platform has launched an eCommerce document titled 'The Dawn of the New-Age Shopper in the New Normal' in affiliation with Sensor Tower, a mobile app store advertising intelligence corporation centred in the US. The document pursuits to spotlight the important rising traits shaping purchaser behavior throughout purchasing apps in the APAC region. The document is primarily based totally on the assessment of the wide variety of app downloads, daily active users (DAUs), monthly active users (MAUs), and retention data. It brings to light the scope of the eCommerce enterprise in India, Indonesia, Malaysia, Thailand, and Vietnam, with strategic insights on growth opportunities for marketers, advertisers, and eCommerce businesses.





Talking approximately the strong eCommerce adoption and increase in the Asian markets, Viraj Sinh, Co-founder, Managing Partner - International (MAAS) said, “India and Southeast Asia are projected to be one of the fastest-developing eCommerce markets in the world, by 2025. With its precise demographic and fast-converting purchaser conduct traits, a paradigm shift in the direction of eCommerce is positive and it continues to occur at a fast pace.

- **Strong Financials**

Over the last three years, Affle India has grown earnings per share (EPS) fast, and from a low base. Affle India's EPS increased from ₹5.60 to ₹11.39 over the last year. A 103% year-on-year growth like that is not seen very often and that could be a sign that the business has reached a true inflection point, i.e the company is looking towards an excellent future for the next few years.

As of September 2020, Affle India had ₹987.0 million of debt, ₹650.3 million up from ₹336.7 million, over a period of one year. However, it also had ₹808.9 million in cash, hence its net debt is ₹178.2m. Taking into account Affle India's size, it seems that its liquid assets are well balanced with its total liabilities. Since it is carrying virtually no net debt, Affle India has a negligible debt load.

In order for us to accurately judge a company's debt relative to its earnings, we calculate its EBITDA and its EBIT divided by its interest expense. (The interest expense is the cost incurred by the company for borrowed funds. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit.

Affle India has a low debt to EBITDA ratio of only 0.19. Remarkably, despite having net debt, it has received more in interest over the last twelve months than it had to pay. Hence, there is no doubt that this company can take on debt without worrying.



One way to double-check a company's growth is to look at how its revenue, and earnings before interest and tax (EBIT) margins are changing. Affle (India) maintained stable EBIT margins over the last year, all while growing revenue 67% to ₹5.8b. That's a real positive. During the last three years, Affle India produced sturdy free cash flow equating to 66% of its EBIT, about what we'd expect. This free cash flow puts the company in a good position to pay down debt, when appropriate. Annual profits have been improving for the last 2 years which have further strengthened its position.



PROJECTS

- The company has three registered patents in the United States that have multiple patent applications in advertising platforms through data communication clients online search and computer programming and how to simplify the use and use of the messaging system.
- The company also has 10 pending patent applications in India that include various algorithms in the area of digital fraud detection. As part of its acquisition of Vizury Commerce Business, the company has received two pending patent applications in India and three pending patent applications in the United States with only one company intending to pursue a partner in the pixellating industry for user identification.
- Affle India Establishes a new R&D Center in Bengaluru to Improve and Advance in Mobile Technology using AL and ML.
- Affle International has partnered with IMDA to join the Indigenous Cloud Community. This partnership will allow SGD Accredited Affle for multi-cloud distribution of assets, such as software applications, across multiple cloud locations. It will also enable the emergence of emerging technologies as part of the widely used asset services in a variety of applications as the entire business process does not need to be redesigned from scratch and the existing functionality can be applied to multiple sources. Affle International will allow APIs (Application Programming Interfaces) to disclose partial resources to users and promote re-branding by producing new business processes, products or services to facilitate communication between services.
- Affle mTraction Enterprise BU focuses on helping companies access the internet through location-based application development that allows successful startups and large businesses to solve complex business challenges through mobility solutions.



Peer Comparison

Company	MCAP	P/B	P/E	EPS	ROE (%)	ROCE(%)	EV/EBIT
Affle India	14,443 Cr	38.79	20.61	52.96	37.57	27.11	81.61
Infosys	7,41,310 Cr	10.6	29.99	49.2	25.34	31.73	25.61
Sonata	8803 Cr	9.85	28	29.9	30.70	41.60	25.53
HCL Tech	314,717 Cr.	6.38	31.6	52.5	19.0	23.0	18.8
Wipro	353,150 Cr	5.72	29.2	21.9	19.6	22.1	18.8
Tech Mahindra	160,378 Cr.	6.38	31.6	52.5	19.0	23.0	18.8
Mphasis	60,182 Cr.	9.94	45.5	70.8	19.7	25.2	29
Nucleus Software Exports Ltd.	1477 Cr	2.08	11.85	40.62	17.55	22.57	8.01
Newgen soft tech	4239Cr	6.03	28.8	21	20.70	27.60	17.2
Happiest minds	18411cr	31.6	113	10.8	39.90	34.50	74.2



Infosys

Revenue: 1,02,673 cr
Net Profit: 19,351 cr
Employees: 2,59,619

Infosys Ltd is a global technology services firm that outlines designs and delivers IT-enabled business solutions to its customers. The company provides end-to-end business solutions that enhance their customers' technologies including integrating and building product engineering technology for package-enabled consulting and implementation integration programs and infrastructure management services.

Infosys Worldwide has 116 development centers and 84 sales and marketing offices, 18 international offices making the company the largest. able to turn its quality clients into partnerships. This brought them a good investment and benefited them in the long run.

Sonata

Revenue: 4,255.83 cr
Net Profit: 243.96 cr
Employees: 4,200

Sonata Information Technology Limited based in India where it provides both software development and consulting services and re-selling of product licenses to leading international software companies such as Microsoft IBM Oracle, etc.

The company uses and manages platforms from technology partners such as Microsoft and SAP for customers and businesses that have already embarked on a number of business transformation programs.



HCL Tech

Revenue: 75,379 cr
Net Profit: 20,655 cr
Employees: 187,634

HCL Technologies is a next-generation global technology company that helps businesses rethink their businesses in the digital age. Its technology products and services are built over forty years of innovation, with world-renowned management philosophy, a strong culture of innovation and risk-taking, and a never-ending focus on customer relationships. HCL is proud of its diversity, social responsibility, sustainability, and education programs. With its global network of R&D venues and co-branding labs, global delivery capabilities, and over 187,000+ 'Ideapreneurs' in 50 countries, HCL delivers complete services to all verticals in the industry in leading businesses, including 250 for Fortune 500 and 650 for Global.



Related to Industry

Industries related to IT sector are:

- **Semiconductors and semiconductor**

Semiconductors are devices that can conduct electricity under certain conditions, but not others, making them ideal for controlling electrical currents. Silicon is a commonly used substance as a semiconductor. This industry group includes both companies that make semiconductors and companies that make peripheral equipment for semiconductors. Delays also have a direct impact on the supply chain.

- **Internet software and services**

Companies that develop and market internet software or provide internet services, including online databases or interactive services. This also includes companies whose revenue mainly comes from online advertising. It plays vital role and delay have a direct impact on the Supply Demand Chain .

- **IT services**

Companies that provide IT services or systems integration services, including IT consulting and information management. Provides data processing or output services, including automated office services. Develop and produce business software or consumer applications, including business applications and technology software. It has direct impact on the supply demand chain.

- **Communications**

Companies that produce communication equipment, including local area networks (LAN), routers, telephones, and switchboards. Delays have a direct impact on the supply chain.

- **Technology hardware, Instruments and components**

Companies that manufacture electronic equipment as Manufacturer of Materials (OEM). OEM is a company that makes part or parcel used in another company's final product. It distributes hardware and technology equipment to other companies, but does not manufacture or sell these machines to consumers. This includes companies that distribute communication tools, computers, servers, electronic products, motherboards, audio and video cards, monitors, keyboards and printers.

It plays vital role and delay have a direct impact on the Supply Demand Chain.



Risk and Concerns :

- **Regulations to ensure privacy**

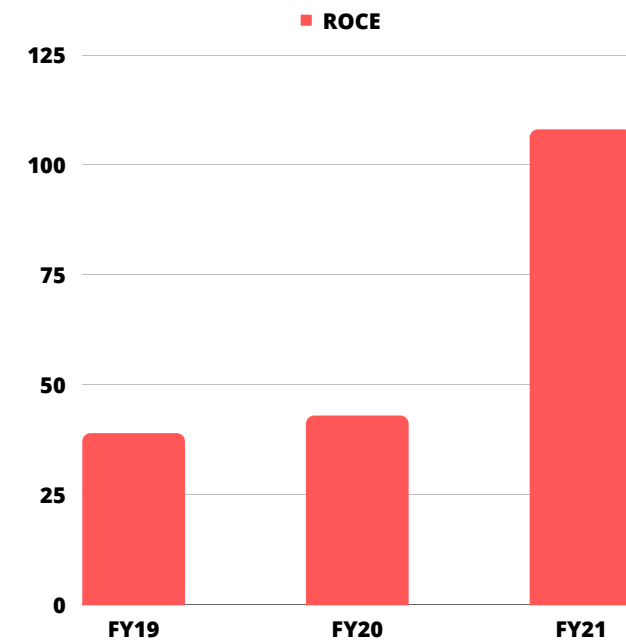
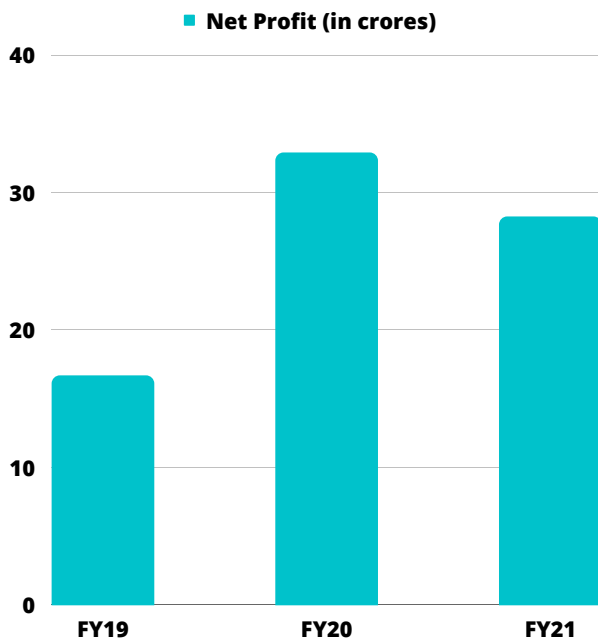
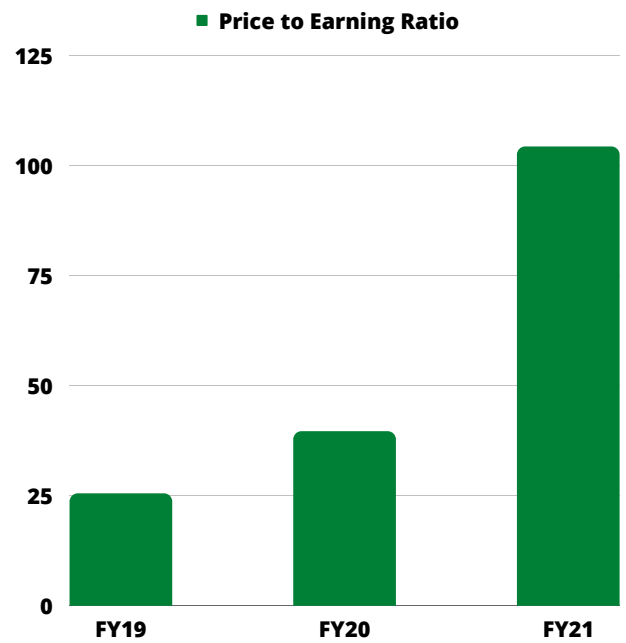
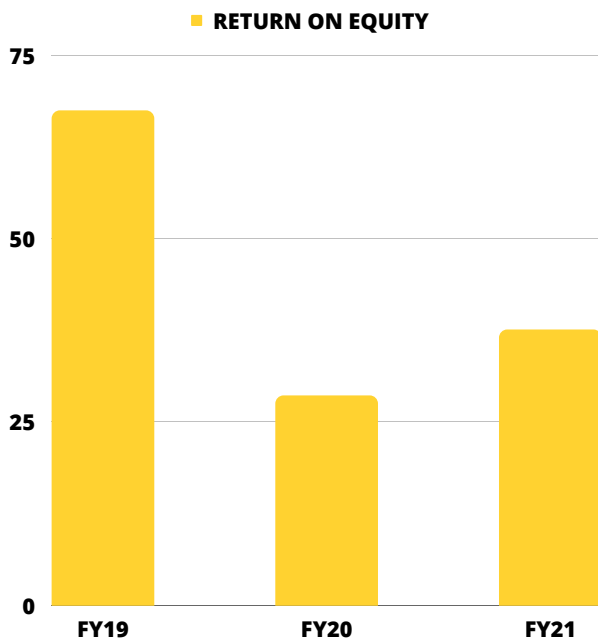
Privacy being an extra crucial price proposition, than ever, to a few big-tech companies (Apple, Microsoft, etc.), regulators and governments, the net enterprise will probably go through a paradigm shift – from in large part an advert-pushed to subscription-pushed one. Apple's impending app monitoring transparency measures can catalyze this change. Eventual catch-up via means of Android (e.g. withinside the case of 0.33 celebration browser cookies) must affect statistics exceptional and CPCUs (Cost per Converted Users) for Affle.

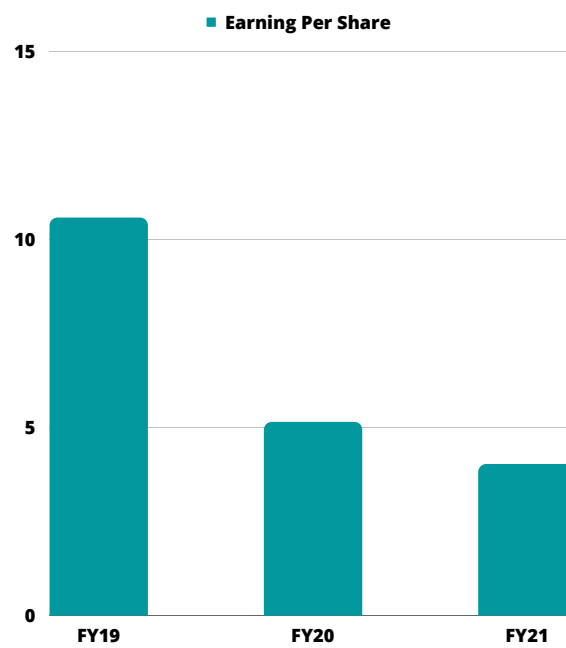
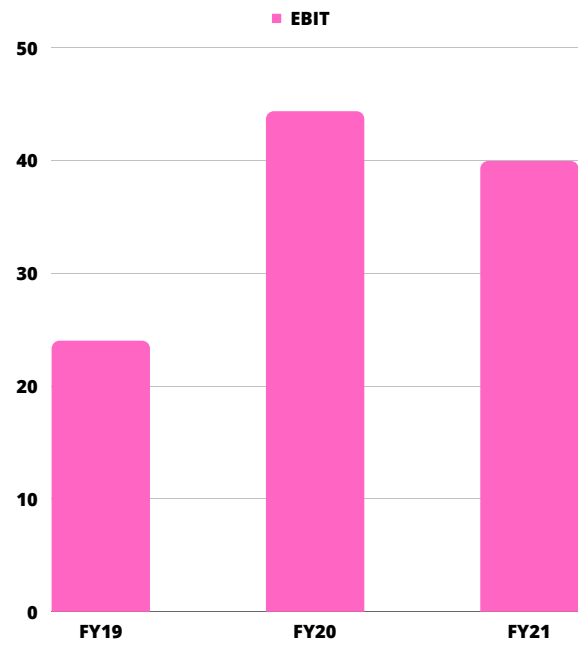
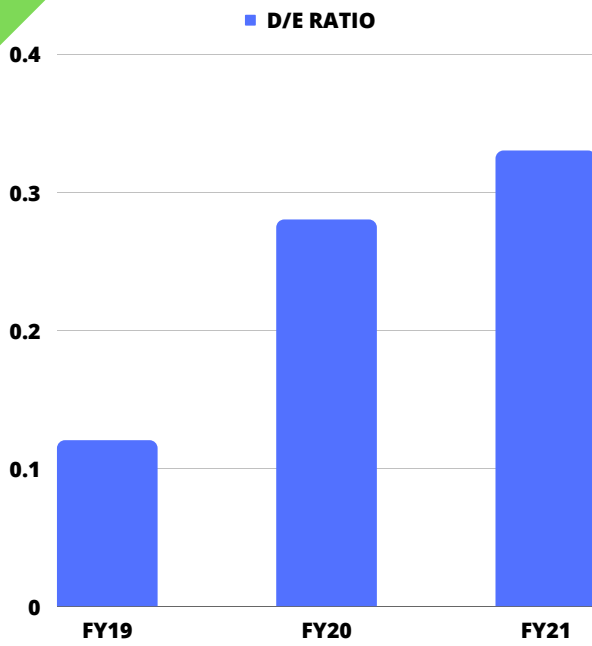
In addition, (i) insourcing via means of stopping customers and (ii) advert groups sharpening up virtual competencies can doubtlessly deflate Affle's volumes.

- **Robust Peer Rivalry**

It has robust opposition from social media joined Facebook and Search Engine joined Google. Both are US-primarily based totally companies. Other competitions consist of In Mubi, which is a non-public enterprise in India. So there is excellent opposition to Affle India.

Current valuations (120x FY22e EPS) are led by means of the 'excessive boom staple' belief and do now no longer offer the margin of protection for the above risks. It needs to be mentioned that international ad-tech giants (Facebook and Alphabet) alternate at considerably decreasing multiples (20-26x, 1yr ahead P/E). Deployment of budget from the proposed fundraise (Rs 10. eight billion) might be the important thing close to the time period monitorable.







Affle India Share Price





Summing Up

We recommend a BUY position on Affle with a medium to long term view owing to the following:

- Exciting upcoming Future
- Precast Project
- New policies
- Patents
- R&D Expansion

After looking at sector growth from recent years, and policies that the government has made recently, we expect high growth in the IT sector:

- Communications
- Technology hardware, Instruments, and components
- IT service
- Internet software and services

Any major change in these sectors will strongly affect the growth of the IT industry.

Affle is strongly placed to face the competition and its management is constantly trying to come up with new policies to take its growth further.



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