

Issue Detail

Type	100% Book Built Issue
Issue Size (Cr)	Rs.459
Offer Price	Rs.740 – 745
Retail & Employee Discount	Nil
Min App Size	20 Shares
Issue Open	29th July 2019
Issue Close	31st July 2019
Shares Offer	61,61,074
Face Value	Rs.10

Lead Mgrs ICICI Securities Limited
Nomura Financial Advisory and Securities (India) Private Limited

Listing	BSE & NSE
Registrar	Karvy Fintech Private Limited
Market Cap (Post Issue)(Cr)	Rs. 1899 cr

Market cap., Issue size, shares offer are as per Upper price band

No. of shares (Post & Pre Issue)

No. of Shares (Pre Issue)	24,288,314
Offer for Sale	4,953,020
Fresh Issue made*	1,208,054
No. of Shares (Post Issue)	25,496,368

* No. of shares as per Upper price band

Bid allocation pattern

QIB	75%	4,626,927
Non-Institutional	15%	925,385
Retail	10%	616,924
Employee	0%	

Management Team:

- ☐ Mr. Anuj Khanna Sohum
(Designation: Chairman, Managing Director and Chief Executive Officer)
- ☐ Mr. Anuj Kumar
(Designation: Director and Chief Revenue & Operating Officer)
- ☐ Mr. Kapil Mohan Bhutani
(Director and Chief Financial & Operations Officer)

Company Overview

- ☐ Affle India is in global technology business. They have two business segments: Consumer Platform & Enterprise Platform.
- ☐ Consumer Platform primarily comprises of new consumer conversions, retargeting existing consumers to complete transactions for e-commerce companies through relevant mobile advertising and online to offline ("O2O") platform that converts online consumer engagement into in-store walk-ins.
- ☐ Enterprise Platform 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.
- ☐ Company primarily earns revenue from Consumer Platform on a cost per converted user ("CPCU") basis, which comprises user conversions based on consumer acquisition and transaction models.
- ☐ Company's business is asset light and scalable.
- ☐ Company currently has business development teams outside India in Singapore, Jakarta (Indonesia) and Dubai (UAE) (opened an office in Dubai in March 2019)
- ☐ Company has Huge Number of Consumer Profiles as at March 31, 2019, Affle Consumer Platform had approximately 2.02 billion consumer profiles, of which approximately (a) 571 million consumer profiles were in India, (b) 582 million consumer profiles were in Other Emerging Markets; and (c) 867 million consumer profiles were in Developed Markets.

Competitive Strengths

- ☐ Consumer Platform has a leading position in India; a high growth market with substantial barriers to entry.
- ☐ Proven international track record.
- ☐ Profitable, low-cost business model built on an asset light, automated and scalable platform.
- ☐ Growth driven, global customer base.
- ☐ Addressing digital fraud and data safety issues that are prevalent in the industry.
- ☐ Experienced and dedicated Key Management Personnel, who are ably supported by their other employees.

Strategies

- ☐ Enhance their Affle Consumer Platform's revenue from existing and new customers in India and acquire new consumer profiles beyond Tier 1 cities.
- ☐ Expand their international business through local business development efforts and through referrals from their existing customers.
- ☐ Continue to invest in and develop their technological capabilities.
- ☐ Continue to selectively pursue acquisitions.
- ☐ Cross-sell their solutions.

Objectives of the Issue

- ☐ Funding the working capital requirements of their Company.
- ☐ General corporate purposes.

View & Valuation

The company's revenue and profits have grown consistently in last 3 years. The company is leading ad tech solution provider in India. It has unique business model, automated and scalable platform with 70% revenue from global business and rest from domestic markets. It runs an asset-light business model with debt-free status. However, company runs risk of facing intense competition from global giants. At current issue price of Rs 745 (upper end), the stock is available at 37x P/E FY19 earnings. Looking at current market, the valuations seems little stretched and hence we assign Neutral rating to the issue.

INDUSTRY OVERVIEW

- ❑ The Indian e-commerce market had revenues of USD 38.5 billion in 2017 and is likely to grow at a CAGR of 12.4% to USD 69.2 billion by 2022. However, with further increase in avenues for digital payments, accelerated broadband penetration, and an increasing number of product options across the breadth of the country, the market has the potential to grow to USD 130 billion over the same time period.
- ❑ M-commerce (goods and services purchased via mobile) contributed about 55% of the total Indian e-commerce market in 2017. With increasing data speeds, along with falling data access prices, this is likely to grow to over 70% of the e-commerce market by 2022.
- ❑ **Regional Focus across India**
Transactions from Tier 2 cities and beyond are growing 3X faster than metropolitan cities, unleashing an untapped market for the next growth phase. Initiatives by the government including the Jan DhanYojana-Aadhaar-Mobile (JAM) scheme, and Unified Payments Interface (UPI) have led to the adoption of digital payments. While they are yet to drive critical mass in adoption, they will be essential in boosting large-scale uptake among rural users.
- ❑ **Targeting the e-commerce shopper in India**
E-commerce spending in India is still reserved and currently at an annual average of USD 385 compared to USD 1,700 in the U.S.
- ❑ **The Growing Influence of Amazon Over the Internet**
Apart from the U.S., which continues to be its single biggest market, the company has had considerable success in Germany, Japan, the U.K., China and India, and through its international shipping feature enables selling to customers across 100 countries.
- ❑ **THE ADVERTISING AND THE AD TECH INDUSTRY**
India is one of the very few markets in the world where advertising spends are likely to grow at double digits. While adversely impacted by demonetisation and the introduction of GST in 2017, the industry grew by 9.6% in 2017 compared to 11.9% in 2016, increasing spends driven by e-commerce, major events such as IPL and World Cup FIFA, as well as campaigns for the upcoming elections in 2019 will likely boost higher growth at 12.5% to reach USD 8.1 billion in 2018, and a CAGR of 13% to USD 13.2 billion by 2022.
- ❑ 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.
- ❑ India has become an attractive destination for many of these companies. Frost & Sullivan estimates that the Indian ad tech market with a market size of USD 304.9 million in 2017 will likely grow at a CAGR of 39% to USD 808 million in 2022. As digital advertising and in turn programmatic ad spend will grow at a rapid rate, it will help drive growth of the ad tech market. Retail, digital payments, gaming, travel, hospitality and e-commerce are the prime verticals contributing to the market growth currently.
- ❑ **Competitive Landscape**
Very few companies such as us, Criteo and the Trade Desk have products that span the entire value chain. While some companies are more focussed on buy-side platforms, some others are focused on the publisher side. While competitors are dispersed geographically, China, South East Asia and India prove to be regions with high potential in the near future.
- ❑ **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., making 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.
- ❑ Ad tech, while being extremely attractive, hinges on the success of data acquisition and several vendors globally have demonstrated low profitability or losses even in high CPC markets. 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.

COMPANY OVERVIEW

- ❑ Company is in global technology business. They have two business segments: Consumer Platform; and Enterprise Platform. Consumer Platform 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. Enterprise Platform primarily provides end-to-end solutions for enterprises to enhance their engagement with mobile users.
- ❑ Consumer Platform aims to enhance returns on marketing spend through delivering contextual mobile ads and reducing digital ad fraud, while proactively addressing consumer privacy expectations.
- ❑ 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 contributed 97.2% of their revenue from contracts with customers. Company primarily earn revenue from Consumer Platform on a cost per converted user (“CPCU”) basis, which comprises user conversions based on consumer acquisition and transaction models. Company also earn revenue from Consumer Platform through awareness and engagement type advertising, which comprises 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. Company understand their customers’ business drivers and work with them to choose audience engagement models that are the most relevant for them, thereby delivering measurable business outcomes for them.
- ❑ Company also provide 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. Enterprise Platform represented 2.8% of revenue from contracts with customers.
- ❑ Company solutions are sold through sales and marketing team, which as at May 31, 2019 comprised 51 persons across six offices, one sales agent in Malaysia and through referrals from existing customers. Their customers include the companies for which they undertake a mobile ad campaign as well as the advertising agencies acting for such companies.
- ❑ Company business is asset light and scalable as shown by the fact that their employee benefit expenses, depreciation and amortization expenses and other expenses have remained relatively unchanged despite significant changes in their revenue in the last three fiscal years.
- ❑ Company is a leading ad tech solution provider in India. As at March 31, 2019, Affle Consumer Platform had approximately 571 million consumer profiles in India. 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.

Financials Snap Shot

Income Statement					Rs in Crores			
	Unconsolidated (Ind AS)			Consolidated (Ind AS)				
Y/E March	FY17	FY18	FY19	FY19				
Revenue (Net)	65.63	83.76	117.79	249.40				
Other Income	1.17	1.12	3.65	0.40				
Total Revenue	66.80	84.88	121.45	249.79				
Inventory and data costs	32.38	42.43	62.29	134.11				
Employee benefits expense	17.62	15.95	19.55	21.23				
Other expenses	12.11	8.61	11.21	23.75				
Total Expenses	62.11	66.99	93.04	179.09				
EBITDA	4.69	17.89	28.40	70.71				
Depreciation	2.31	3.21	4.41	10.10				
EBIT	2.39	14.67	23.99	60.61				
Finance Costs	1.59	1.08	0.45	0.81				
Profit before Tax	0.80	13.60	23.54	59.80				
Exceptional item	0.0	0.0	0.0	0.0				
Total tax expense	0.47	4.77	6.86	10.98				
PROFIT AFTER TAX	0.33	8.83	16.68	48.82				
Share in Profit/(Loss) of Joint Ventures	0.00	0.00	0.00	0.00				
Profit For the Period/Year After Tax	0.33	8.83	16.68	48.82				

Key Ratios					
	Unconsolidated				Consolidated
Y/E March	FY17	FY18	FY19	FY19	
EPS	0.14	3.63	6.86	20.09	
Book Value Per share	8.65	12.41	19.04	29.80	
Valuation(x)					
P/E (Upper Band)	5485.91	205.00	108.54	37.08	
P/E (Lower Band)	5449.09	203.62	107.81	36.83	
Price / Book Value	86.08	60.01	39.13	25.00	
EV (crs)	1894	1885	1891	1885	
EV/Sales	28.86	22.51	16.05	7.56	
EV/EBITDA	403.52	105.40	66.56	26.66	
Profitability Ratios					
RoE	1.6%	29.3%	36.0%	67.4%	
RoCE	11%	47%	50%	75%	
PAT Margin(%)	0.50	10.54	14.16	19.58	
Liquidity Ratios					
Interest Coverage Ratio	1.5	13.6	53.7	74.7	
Current Ratio	1.20	1.56	1.19	1.28	

Balance Sheet					Rs in Crores			
	Unconsolidated (Ind AS)			Consolidated (Ind AS)				
Y/E March	FY17	FY18	FY19	FY19				
Share Capital	24.29	24.29	24.29	24.29				
Reserves	-3.26	5.88	21.98	48.12				
Net Worth	21.03	30.17	46.27	72.41				
Financial liabilities								
Borrowings	0.53	0.00	0.00	6.92				
Long term Provisions	0.91	1.14	1.54	1.54				
Deferred tax liabilities (net)	-	-	0.27	0.27				
Non - current liabilities	1.44	1.14	1.81	8.72				
Financial liabilities								
Borrowings	2.83	-	-	2.08				
Trade payables	16.0	22.0	32.4	51.71				
Other current liabilities	1.16	1.76	2.30	2.45				
Short term Provisions	0.15	0.11	0.14	0.35				
Contract liabilities	0.10	0.34	0.25	0.68				
Other financial liabilities	5.97	2.49	10.45	19.88				
Current liabilities	26.22	26.72	45.51	77.14				
Total Liabilities	48.69	58.03	93.59	158.27				
Property, plant and equipment	0.36	0.37	0.66	0.75				
Other intangible assets	8.01	8.82	9.47	24.02				
Intangible assets under development	0.31	-	1.80	1.80				
Investments	0.02	0.03	0.03	0.03				
Goodwill	5.92	5.92	13.44	32.53				
Loans	0.63	0.58	0.01	0.08				
Deferred tax asset (net)	1.90	0.49	-	-				
Other non-current assets	0.03	0.01	-	-				
Investment in subsidiary	-	-	13.82	-				
Non-current assets	17.19	16.22	39.21	59.20				
Contract asset	3.89	7.72	9.65	13.19				
Trade receivables	13.53	15.82	26.93	47.88				
Cash and cash equivalents	5.79	13.67	8.49	20.61				
Other bank balance other than (ii) above	2.96	0.82	1.45	9.88				
Loans	0.04	0.16	0.76	1.08				
Other financial assets	0.01	0.01	1.25	2.90				
Current tax asset (net)	2.85	2.44	3.62	1.16				
Other current assets	2.45	1.17	2.23	2.37				
Total Current assets	31.50	41.81	54.37	99.07				
TOTAL Assets	48.69	58.03	93.59	158.27				

Cash Flow Statement					Rs in Crores				
	Unconsolidated (Ind AS)				Consolidated (Ind AS)				
Y/E March	FY17	FY18	FY19	FY19					
Profit / (Loss) before tax	0.80	13.60	23.54	59.80					
Adjustments for:									
Depreciation and amortization expense	2.31	3.21	4.41	10.10					
Allowance for impairment of trade receivables and contract asset	1.12	1.12	-1.16	1.06					
Employee share based payment expense	0.34	0.31	-0.56	-0.56					
Loss/ (Gain) on property, plant and equipment and intangible assets (net)	-0.01	0.01	-	-					
Interest income	-0.39	-0.21	-0.23	-0.38					
Interest expense	1.49	1.02	0.43	0.61					
Unrealised foreign currency restatement adjustment	-0.11	-0.03	-0.02	-0.31					
Advances given written off	0.21	0.00	0.01	0.01					
Operating Profit before working capital	5.76	19.04	26.43	70.33					
(Increase)/decrease in contract asset	2.28	-4.03	-1.80	-5.13					
(Increase)/decrease in trade receivables	1.46	-3.22	-10.11	-32.33					
(Increase)/decrease in financial assets	1.26	-0.06	-1.20	-3.15					
(Increase)/decrease in other assets	0.40	1.30	-1.06	-1.15					
Increase/(decrease) in contract liability	-0.33	0.24	-0.09	0.34					
Increase/(decrease) in trade payables	-6.38	6.05	10.41	24.59					
Increase/(decrease) in other financial liabilities	2.23	0.26	1.29	1.79					
Increase/(decrease) in other liabilities	-0.31	0.60	0.54	0.64					
Increase/(decrease) in provisions	-0.01	0.18	0.40	0.61					
Cash generated from operations	6.37	20.35	24.81	56.55					
Income Tax Paid	-0.54	-2.95	-7.27	-8.76					
Net cash from operating activities (A)	5.83	17.40	17.53	47.79					
Net cash from / (used in) investing activities (B)	-5.70	-1.40	-22.29	-50.19					
Net cash from / (used in) financing activities (C)	-2.21	-8.12	-0.43	8.38					
Net Increase / (Decrease) in cash and cash equivalents (A+B+C)	-2.08	7.88	-5.18	5.97					
Cash and cash equivalents at the beginning of the Year	7.87	5.79	13.67	14.64					
Cash and cash equivalents at the end of the Year	5.79	13.67	8.49	20.60					

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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