

Affle India Ltd. (unlisted)

Management meet note

Founded in 2005, Gurugram-based Affle India helps businesses acquire, engage and transact by delivering contextual mobile ads through its proprietary consumer intelligence platform. Simultaneously it also focuses on reducing digital ad fraud and addressing privacy expectations of the consumers. Apart from India, the company operates in south-east Asia, MENA, Europe, US, Japan, South Korea and Australia. The management believes the key differentiator for Affle is that a significant proportion (92%) of its revenue comes from cost per converted user (CPCU) model as opposed to the traditional models such as cost per click (CPC), cost per view (CPV), cost per impression (CPM), etc. which is offered as a primary service by most of its competitors. The company's consumer platform is primarily used by clients across industries such as e-commerce, fin-tech, telecom, media, retail and FMCG, either directly or through ad agencies. Affle claims its consumer platform has over 2bn consumer profiles and 300bn consumer data points accumulated over a period of time.

Affle's portfolio includes mobile-audience-as-service 'maas' for user acquisition and brand advertisement, 'mFaaS' for mobile ad fraud detection, 'ad2campaign' for mobile marketing, 'Ripple' for cross screen advertising, 'mTraction TVSync' for TV-linked digital advertising, among other services. The company uses the excess cash it generates for inorganic acquisitions of adjacent businesses. Its most recent acquisitions include Vizury (retargeting platform for mobile ads); Shoffr (helps online-offline conversions) and RevX (retargeting platform for mobile ads) as it plans to scale its retargeting and online-offline conversion businesses. Key investors in Affle India include Microsoft, D2C, Itochu, Bennett, Coleman & Co. Ltd., Centurion.

- Key characteristics of the business:** According to the management, a key characteristic of Affle's business is its scalable and asset light model with an inbuilt benefit of operational leverage. The company uses deep learning to understand consumer behaviour and intent while simultaneously being able to address key industry issues such as privacy and ad fraud. The management believes they have a leading position in India and there are substantial entry barriers for new players. It has laid out a strategic roadmap for both organic and inorganic growth, which it will most likely fuel through internal accruals while the fresh issue from IPO is to be used for its working capital needs.
- Focus on conversion of users:** The company focuses on user conversion, as its revenues are dependent on success rather than clicks. It primarily has three use cases on which its business model is currently based – (1) new user conversion (online); (2) conversion of existing user (repeat conversion online); (3) new/existing user conversion offline. In terms of revenue model, 92% of the company's revenue comes from CPCU model while the remaining comes from CPC/CPM model. The company emphasises that its data management platform (DMP) is superior in filtering and predicting which users are most likely to convert when shown category specific ads. Moreover, the company's proprietary mFaaS software detects fraud which helps the platform identify genuine users.
- Improving profitability, along with growth:** Affle has reported three year financials in its RHP filing. While the revenue for the company grew at a CAGR of 32% during FY16-18, the growth in EBITDA was multifold. The management highlighted that this was primarily due to the inbuilt operation leverage in the model. It continues to spend a major proportion of revenue on data and inventory costs (50-60%) and management thinks it will remain in that range as it helps develop quality data for its DMP. However, employee expenses as a proportion to revenue has kept decreasing (for AHPL, from 22% in FY16 to 14% in FY18) as the company needs less incremental employees to grow. The EBITDA margins for the company have improved from 2.3% in FY16 to 22.3% in FY18.
- IPO details:** The IPO comprises of INR 900mn of fresh issue and an offer for sale of upto 4.95mn shares at the price band of INR 740-745, totaling INR 4.59bn.



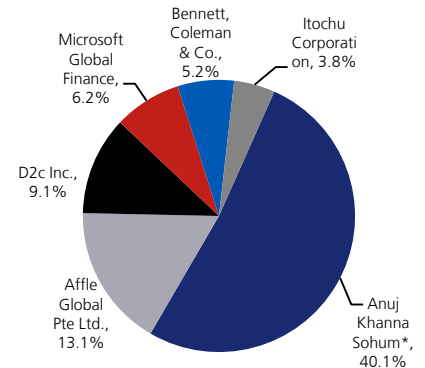
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Affle Holdings Pte. Ltd. (AHPL): Shareholding



Source: RHP, JMFL. Note: AHPL and Affle Global Pte. Ltd. own 75.63% and 16.54% stake, respectively, in Affle India Limited. Please refer Exhibit 11 for more details.* includes direct and indirect shareholding of Anuj Khanna Sohum (promoter).

Affle: Key Management Personnel

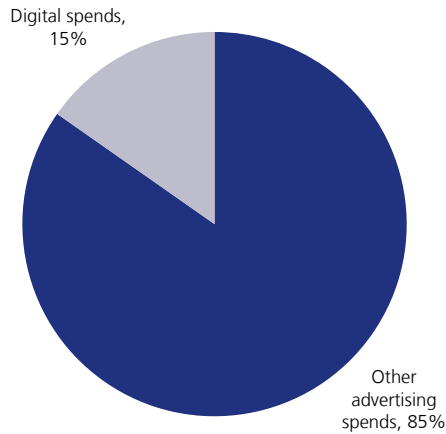
Name	Designation
Anuj Khanna Sohum	Founder, Chairman & CEO
Anuj Kumar	Chief revenue & operating officer
Charles Foong	Chief architect & tech. officer
Kapil Bhutani	Chief financial & operations officer
Mei Leong	Chief fin. & commercial officer
Richard Humphreys	Advisor (Affle India)
Jay Snyder	Advisor (Affle India)

Source: Company presentation

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

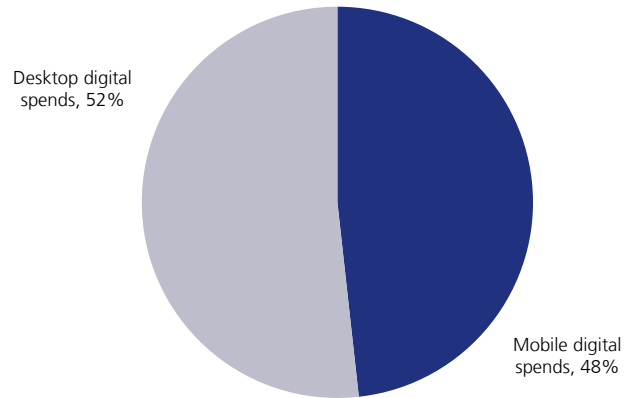
Exhibit 1. Advertisers spend a small amount of ad budget on digital mediums in India according to a Frost & Sullivan report which highlights that this proportion will likely improve



Source: RHP, JM Financial

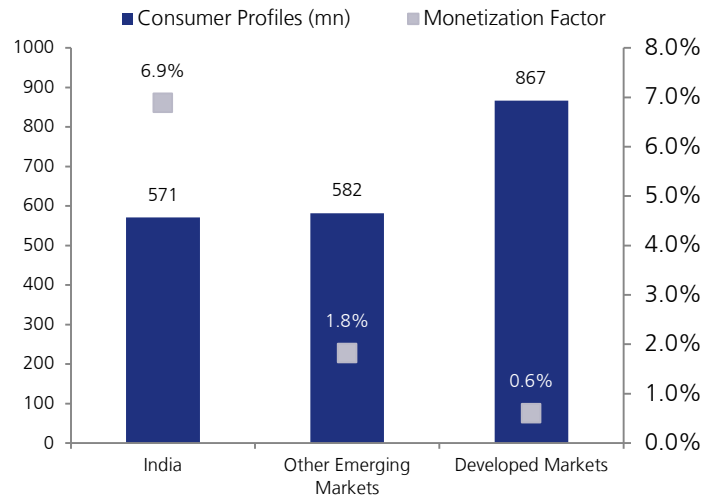
Exhibit 2. The report estimates c.48% of digital spend will go to mobile medium by 2022E owing to rising m-commerce, which will touch 70% of total e-commerce in India by 2022E

India: Mobile vs. PC advertising spend (2022E)



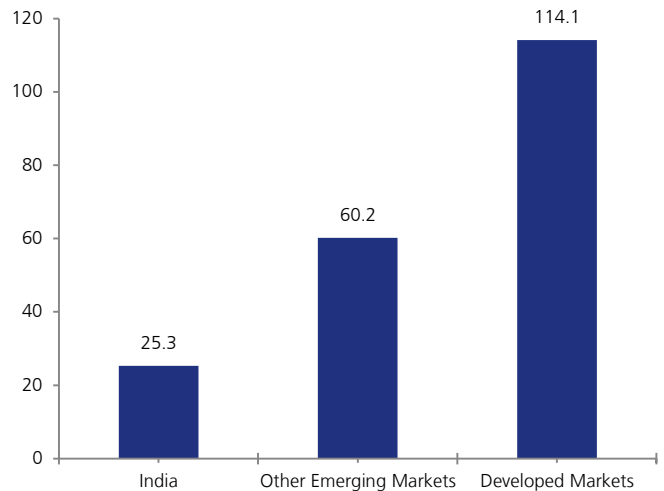
Source: RHP, JM Financial

Exhibit 3. Affle's region-wise consumer profiles and conversions indicate India has higher conversion ratio



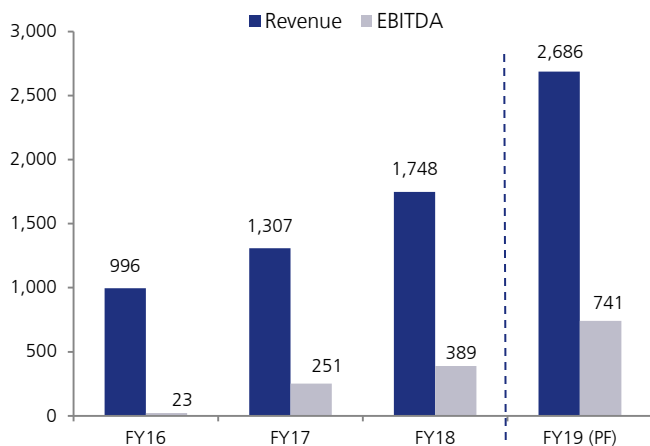
Source: RHP, JM Financial

Exhibit 4. Its consumer platform's CPCU (INR) however remains low in India vs. other geographies



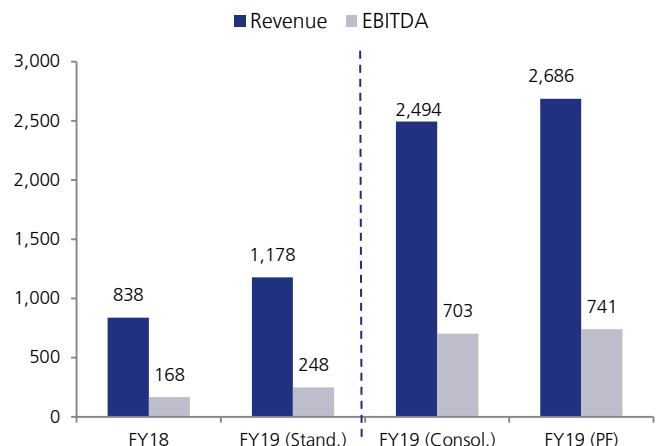
Source: RHP, JM Financial

Exhibit 5. AHPL financials (all numbers are in INR mn)



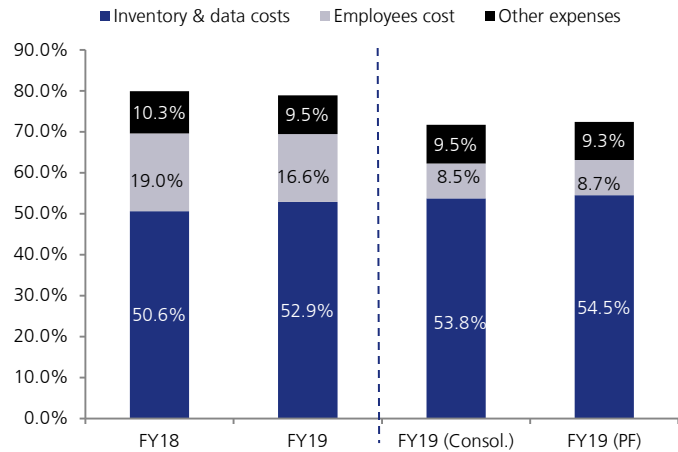
Source: RHP, Company presentation, JM Financial

Exhibit 6. Affle India financials (all numbers are in INR mn)



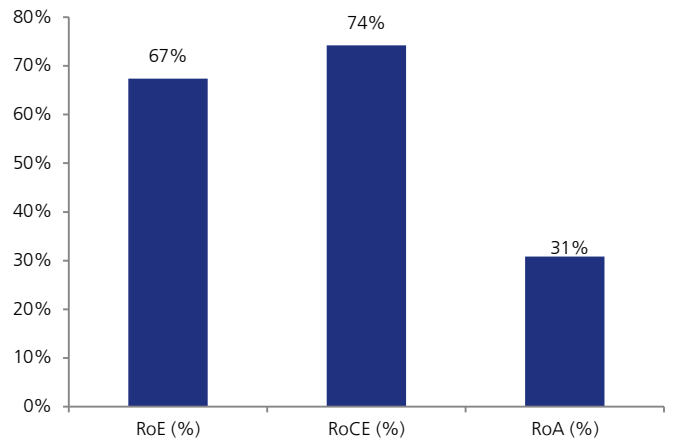
Source: RHP, Company presentation, JM Financial

Exhibit 7. Inventory & data costs account for a substantial proportion of operating expenses



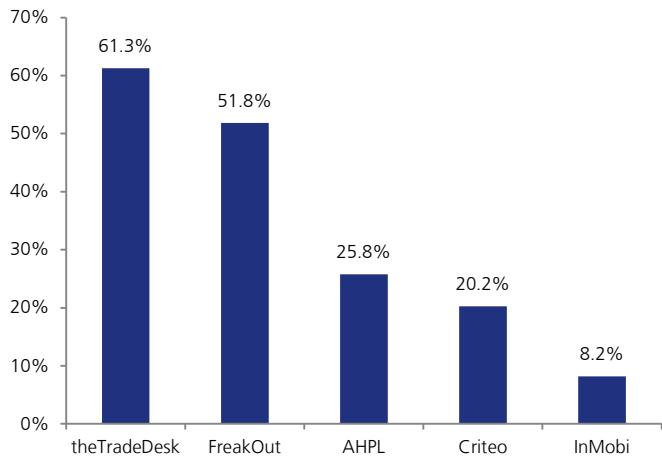
Source: RHP, JM Financial; Note: FY18/19 comparison for Affle India

Exhibit 8. Ratios – the company has high return ratios being an asset light model and high operational leverage (2019)



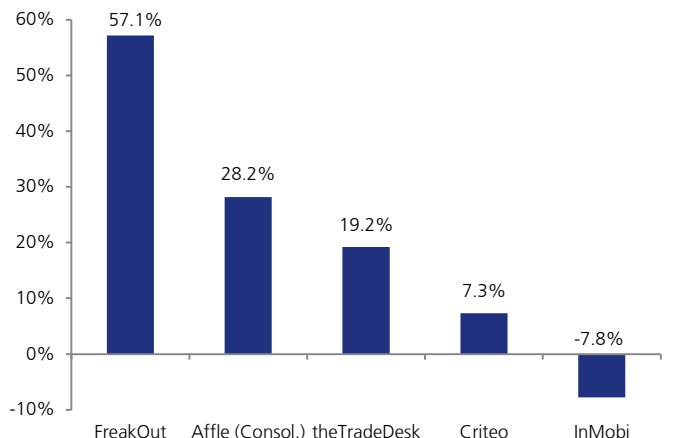
Source: Company presentation, JM Financial; Note: Ratios for consolidated entity

Exhibit 9. Revenue CAGR (for 3 latest financial years)



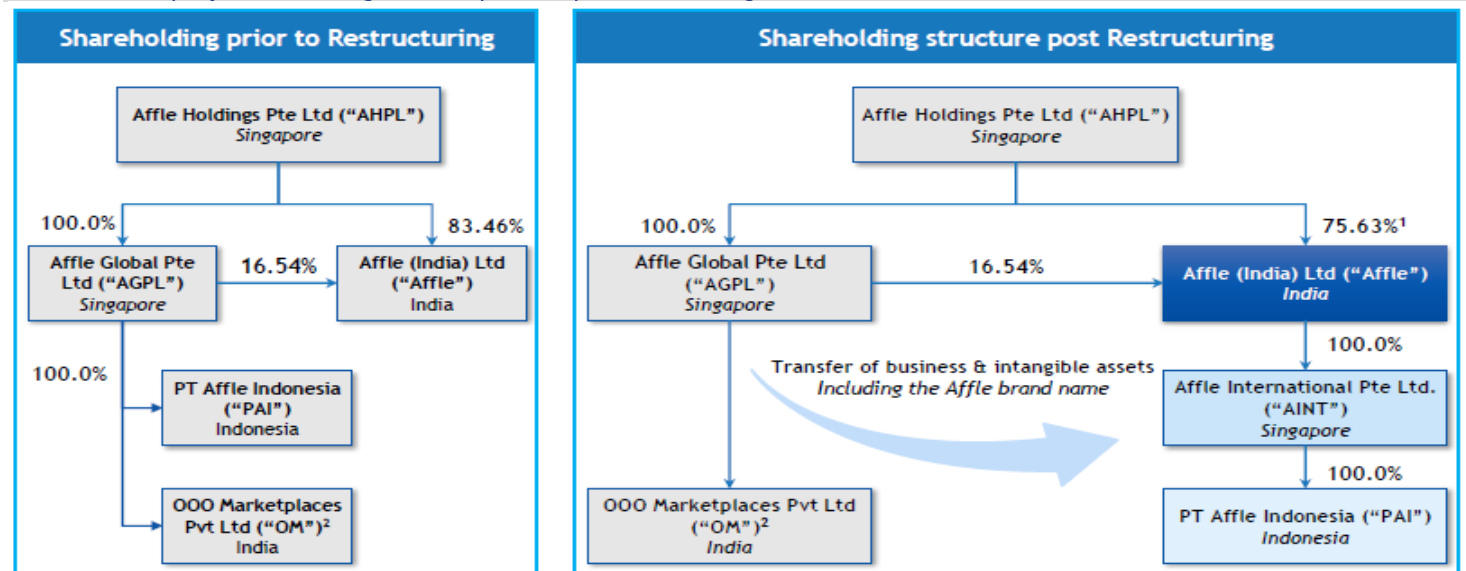
Source: RHP, Company reports, VCC Edge (for InMobi), JM Financial; Note: InMobi number till FY18

Exhibit 10. EBITDA margin (latest financial year)



Source: RHP, Company reports, VCC Edge (for InMobi), JM Financial; Note: InMobi number till FY18

Exhibit 11. Company's shareholding structure pre- and post-restructuring



Source: Company presentation; Note: 1. AHPL and the Company have entered into agreements by which AHPL has sold 1,616,214 and 285,214 equity shares of the Company (cumulatively ~7.8% shareholding) to Malabar; India Fund Limited and Malabar Value Fund for Rs.1,164.50 mn and Rs.202.84 mn, respectively.; 2. Name was changed to 'Affle X Private Limited', as of July 4, 2019.

APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Rating	Meaning
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