IPO Note

Affle (India) Ltd

Profitable global ad tech solution provider

Rating

★ ★ ★ ☆ ☆

Affle (India) Ltd (Affle) is a global profitable technology business company. It is a leading ad tech solutions provider in India with international presence (56.4% of FY19 consolidated revenue). Affle engages in two business segments namely, a) Consumer Platform (CP - 97% of FY19 consolidated revenue) which provides services like new customer conversions, retargeting existing consumers for e-commerce companies via relevant mobile advertising & an online-to-offline (O2O) platform; and b) **Enterprise Platform (3%)** which provides end-to-end solutions for enterprises to enhance their engagement with mobile users. **Affle has invested and developed its technological capability thus allowing its platform to accumulate consumer data points (over 300 billion in FY19) and detect real time fraud (mFaaS) which gives it an edge over peers in a high entry barrier market like India. Affle has an asset light model and continues to focus on inorganic growth which could provide an opportunity to expand customer base and cross-sell solutions. Going ahead, smartphone penetration, focus on Tier 2 & 3 Indian cities and international markets along with strong customer base (ad/media agencies and B2C brands – Amazon, Airtel, AirAsia, BookMyShow etc) are added triggers.**

Recommendation: At higher end of the price band of ₹745, the issue is priced at P/E of 38.9x (post dilution) on FY19 consolidated basis and 36.7x on proforma basis, which we believe is fully priced. The company has no listed peer. Affle has been building and improving its Consumer Platform resulting in products spanning the entire value chain. In addition, following the acquisition of Vizury, Shoffr and RevX, the service offerings have increased. Affle could be a key beneficiary with the ad tech market expected to register global CAGR of 10% to $54 billion and India CAGR of 39% to $808 million over 2017-22 (Frost & Sullivan Report). Expansion of customer base and market penetration could aid volumes of Cost Per Converted User (CPCU). Despite the highly competitive nature of the market, Affle has reported decent financials (PAT ₹49 crore, RoE 67.4%, debt to equity 0.1x - FY19 consolidated). Being the first of its kind issue and growth prospects, despite mature valuations, investors can subscribe to the issue from a long term perspective.

Objects of the issue: The IPO consists of a fresh issue of ₹90 crore (20% of the issue size) and an offer for sale of ₹367-369 crore (80%) – by promoter *(please refer exhibit 1 for details)*. Affle will not receive any proceeds from the offer for sale. The money raised through fresh issue will be used for funding working capital requirements (₹69 crore) and general corporate purposes.

Leveraging expertise to scale business prospects: Affle has focussed on improving its CP which has helped evolve its algorithm resulting in better targeted advertisements. This could provide an edge over the peers given the requirement of real time operation to drive better volumes. As of 31 Mar'19, Affle CP had ~2.02 billion consumer profiles and accumulated 300 billion data points. Affle is now amidst integrating CP and related data points across its acquired platforms (Vizury, Shoffr and RevX).

Focus on inorganic growth so as to tap opportunities: Affle has an asset light model and has been acquiring companies in synergy with its business (2018 - Markt and Vizury Commerce Business and 2019 - Shoffr Platform Business and RevX Platform). This could help provide additional services to customers thus ensuring further penetration and delivery of more converted users.

Financials: Over FY17-19, Affle on a standalone basis registered revenue and PAT CAGR of 34.0% and 610.9%, respectively, with EBITDA margin expanding from 5.4% to 21.0%. FY19 consolidated RoE stood at 67.4% with debt to equity at 0.1x. On a consolidated proforma basis for FY19, Affle reported revenue of ₹269 crore and PAT of ₹52 crore *(please refer Annexure 1)*.

Risk factors: 1) Rapid change in digital technology trends, 2) Customer concentration (top 10 customers - 64.5% to FY19 consolidated revenue), 3) Reduction in digital ad spends by companies, 4) Emergence of competition.

Issue Details

Price Band (₹)	740-745
Face Value (₹)	10.00
Pre Issue no of Eq. share (Cr)	2.43
No. of Eq. Sh. Fresh Issue (Cr)	0.12
No. of Eq. Sh. Offer for sale (Cr)	0.50
Post Issue no of Eq. share (Cr)	2.55
Size of Issue (₹ Cr)	457-459
M. Cap. post issue (₹ Cr)	1,887-1,899
Minimum Lot Size	20.00
Issue Opens	29-Jul-2019
Issue Closes	31-Jul-2019

Shareholding Pattern (%)

	Pre Issue	Post Issue^
Promoters	92.2	68.4
Public + others	7.8	31.6

^ @Higher Band of ₹745

Issue Structure (%)

	Portion (%)
QIB	75%
Non-Institutions	15%
Retail	10%

BRLM

ICICI Securities Ltd

Nomura Financial Advisory and Securities (India) Pvt Ltd

Source: Company RHP

Rating Scale

★ ☆ ☆ ☆ ☆	Avoid
★ ★ ☆ ☆ ☆	Neutral
★ ★ ★ ☆ ☆	Subscribe for long term
★ ★ ★ ★ ☆	Subscribe
★ ★ ★ ★ ★	High conviction subscribe

Mrinalini Chetty, AVP Wealth Research

Financial Summary - Consolidated

Y/E March (₹ Cr)	Revenue	YoY (%)	EBITDA	EBITDA (%)	NPAT	YoY (%)	EPS (₹)	P/E (x)^	EV/EBITDA (x)^	RoE (%)
FY19	249	-	70	28.2	49	-	19.15	38.9	26.7	67.4*
FY19 Proforma#	269	-	74	27.6	52	-	20.31	36.7	-	-

*^Note: Higher end of the price band (₹745) has been considered, *Shareholders fund taken as on closing basis (Mar'19)*

#FY19 Proforma illustrates consolidated numbers which gives effect to the Vizury Transactions as if they occurred on 1 Apr'18

Source: Company RHP, Centrum Wealth Research

About the company

Affle (India) Ltd (Affle) is a global technology business engaged in the following segments.

- **Consumer Platform** (CP - 97% of FY19 consolidated revenue) which provides the following services:
    - New consumer conversions (acquisitions, engagements and transactions) through relevant mobile advertising;
    - Retargeting existing consumers to complete transactions for e-commerce companies through relevant mobile advertising;
    - An Online-to-Offline (O2O) platform that converts online consumer engagement into in-store walk-ins.

    CP comprises the following:
    - **Affle Consumer Platform:** The "Affle" branded consumer intelligence platform that delivers consumer acquisitions, engagements and transactions through relevant mobile advertising;
    - **RevX Platform:** The "RevX" branded mobile only self-serve programmatic platform that delivers consumer acquisitions, engagements and transactions through relevant mobile advertising;
    - **Vizury Commerce Business:** The "Vizury" branded retargeting media business for e-commerce companies and push notifications offerings for e-commerce companies on a software as a service model; and
    - **Shoffr Platform:** The "Shoffr" branded online to offline platform that converts online consumer engagement into in-store walk-ins and transactions.
- **Enterprise Platform** (3%) primarily provides end-to-end solutions for enterprises to enhance their engagement with mobile users.

Exhibit 1: Details of selling shareholders

Selling Shareholders	Pre-Offer		OFS	Post-Offer	
	Eq. Holding (In Cr.)	% of total Eq. Capital	(In Cr.)	Eq. Holding (In Cr.)	% of total Eq. Capital
Promoter					
Affle Holdings Pte. Ltd	1.84	75.63	0.50	1.34	52.62
Aggregate	**1.84**	**75.63**	**0.50**	**1.34**	**52.62**

Source: Company RHP, Centrum Wealth Research

About Affle Holdings Pte. Ltd

Affle Holdings was incorporated on 16 Jul'08 in Singapore and is engaged, through its subsidiaries, in the business of research and experimental development on IT & product development for mobile software & technology. Affle's individual promoter, Mr.Anuj Khanna Sohum, is the promoter of Affle Holdings and also controls Anuj Khanna Investments Pte. Ltd. and FESS OLD NEW Pte. Ltd., the shareholders of Affle Holdings.

Exhibit 2: Key shareholders of Affle Holdings

Shareholders	Ordinary Shares	% Ownership
Fess Old New Pte Ltd	87,42,074	28.11%
Affle Global Pte Ltd	40,81,259	13.13%
D2c Inc.	28,25,385	9.09%
Microsoft Global Finance	19,37,376	6.23%
Anuj Khanna Sohum	18,78,275	6.04%
Anuj Khanna Investments Pte Ltd	18,51,232	5.95%
Bennett, Coleman & Co. Limited	16,14,480	5.19%
Itochu Corporation	11,74,167	3.78%
Richard Alan Humphreys	9,37,843	3.02%
Others	60,53,002	19.47%
Total	**3,10,95,093**	**100.00%**

Source: Company RHP, Centrum Wealth Research

Business Highlights

- As of 31 Mar'19, Affle CP had ~2.02 billion consumer profiles, of which ~571 million were in India, 582 million were in Other Emerging Markets (which comprises of South East Asia, the Middle East, Africa and others) and 867 million were in Developed Markets (which comprises of North America, Europe, Japan, Korea and Australia). During FY19, Affle CP accumulated over 300 billion data points, which influences the prediction and recommendation algorithm for Affle CP. The company is in the process of integrating the consumer profiles and the related consumer data points of the Vizury Commerce Business, the RevX Platform and the Shoffr Platform with Affle CP.

- CP 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.

- The accuracy of the prediction and recommendation algorithms for CP improve with every advertisement delivered and also enhances customers' ad content with rich media experiences, including interactive videos, games and augmented reality which increases customer engagement.

- Affle primarily earns revenue from CP on a Cost Per Converted User (CPCU) basis, which comprises user conversions based on consumer acquisition and transaction models. The 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 by Affle. The 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 by Affle. The company also earns revenue from CP through awareness and engagement type advertising, which comprises Cost Per Thousand Impressions (CPM), Cost Per View (CPV) and Cost Per Click (CPC) models.

- For FY19, on a consolidated basis, the average CPCU was ₹25.3 in India, ₹60.2 in Other Emerging Markets and ₹114.1 in Developed Markets.

- Affle has 3 registered patents in the US and 10 pending patent applications in India covering various algorithms in the area of digital fraud detection. As a part of the acquisition of the Vizury Commerce Business, Affle acquired 2 pending patent applications in India and 3 pending patent applications in the US, only 1 of which it intends to pursue, which is in the field of partner pixelling for user identification.

- As on 31 May'19, the company has 236 full time employees (of which 209 were in India) across six offices located in Gurugram (India), Mumbai (India), Bengaluru (India), Singapore, Jakarta (Indonesia) and Dubai (UAE).

- **Share Purchase and Shareholders' Agreements**

  o Affle, Affle Holdings and Malabar India Fund Ltd entered into a share purchase and shareholders' agreement dated 12 Jul'18, pursuant to which Affle Holdings agreed to sell and Malabar India Fund Ltd agreed to purchase, 16,16,214 equity shares for an aggregate sum of ₹116.45 crore. Malabar India Fund Ltd holds 6.7% stake in Affle (Pre-offer).

  o Affle, Affle Holdings and Malabar Value Fund entered into a share purchase and shareholders' agreement dated 12 Jul'18, pursuant to which Affle Holdings agreed to sell and Malabar Value Fund agreed to purchase, 2,85,214 equity shares for an aggregate sum of ₹20.28 crore. Malabar Value Fund holds 1.2% stake in Affle (Pre-offer).

Corporate Restructuring

On account of the offer, Affle undertook a corporate restructuring in which it incorporated Affle International Pte. Ltd, the Singapore Subsidiary which acquired all of Affle Global Pte's business, intangible assets and all of the equity interests in PT Affle Indonesia, the Indonesian Subsidiary, effective 1 Jul'18. Affle Global was engaged in the same business as Affle outside India and Indonesia and used the company's solutions. PT Affle Indonesia was engaged in the same business as Affle in Indonesia and used the company's solutions. Affle Holdings, the Promoter, owns 100% of the issued shares in Affle Global.

➢ With effect from 1 Sept'18:

  o Affle acquired the Vizury Commerce Business in India, associated records, the brand name 'Vizury' and other intellectual property rights and domain name credentials in India, by way of a slump sale on an as-is-where-is basis from Vizury India, and

  o Affle International Pte acquired the brand name 'Vizury' and certain other intellectual property in connection with the Vizury Commerce Business in Dubai and Singapore from Vizury Dubai and Vizury Singapore, both of which are affiliates of Vizury India.

➢ On 18 May'19, but with effect from 19 Feb'19, Affle International Pte acquired the Shoffr Platform Business by way of a slump sale on an as-is-where-is basis. This acquisition strengthened the business by providing integrated consumer journeys and allowing brands to transparently attribute the impact of digital advertising on in-store footfalls and transactions.

➢ On 28 Jun'19, but with effect from 1 Apr'19, Affle International Pte acquired the RevX Platform Business by way of a slump sale on an as-is-where-is basis. This acquisition strengthened the Affle CP for both new user acquisition and retargeting.

Products and Services

Consumer Platform

CP aims to enhance returns on marketing spends by delivering relevant mobile advertisements and by detecting and reducing digital fraud, while proactively addressing consumer privacy.

Exhibit 3: Number of converted users delivered by markets

Exhibit 4: Affle CP consumer profile and Monetization factor

Region/Country	Affle CP's consumer profile (in million) as on 31 Mar'19	Monetization Factor for FY19 (Consolidated)*
India	571	6.90%
Other Emerging Markets	582	1.80%
Developed Markets	867	0.60%
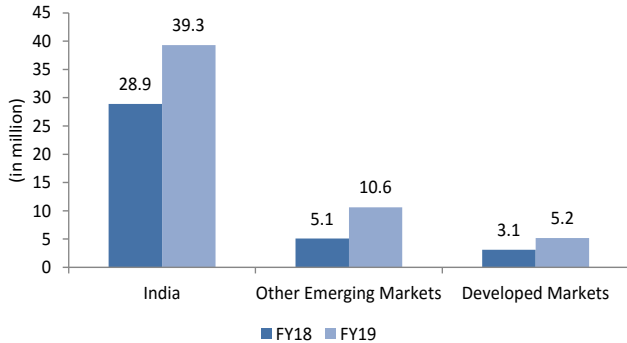
Source: Company RHP, Centrum Wealth Research
*Note: The Monetization Factor includes converted users delivered by Vizury Commerce Business. The company is in the process of integrating Vizury Commerce Business consumer profiles and the related consumer data points with Affle CP. In addition, it is also in the process of integrating the CP and the related consumer data points of the RevX Platform, which was acquired on 28 Jun'19 and the Shoffr Platform, which was acquired on 18 May'19, with Affle CP

Affle Consumer Platform

Exhibit 5: Affle Consumer Platform
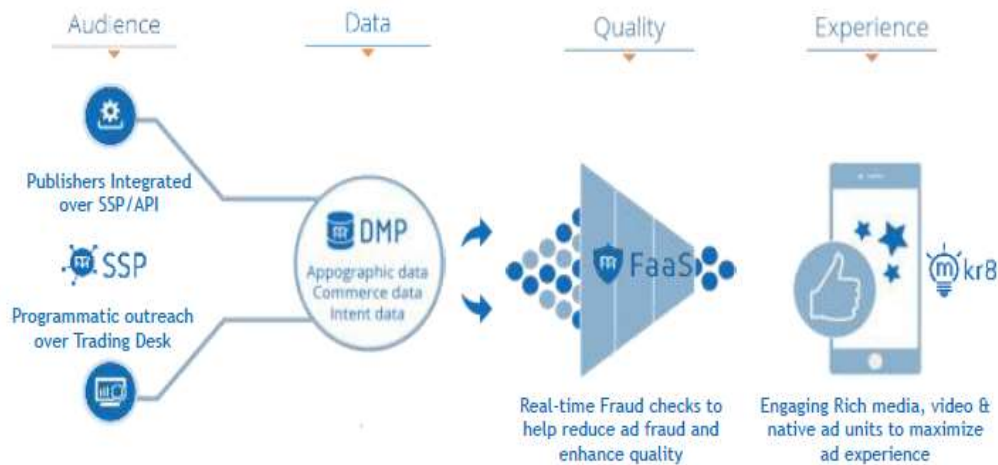
Source: Company RHP, Centrum Wealth Research

MAAS: This is Affle's mobile audience as a service platform. It is an integrated mobile advertising platform, which leverages audience data and helps optimise mobile advertising spends for the customers. When the customers execute their campaigns on the MAAS platform they also get access to Affle's other platform modules, which blend and integrate with MAAS. The key component of MAAS is its optimiser module, which helps to optimise Return on Investment (RoI) for customers by leveraging multiple data points from the platform and from customers. The MAAS platform has several components and offers different interfaces for customers, operations and data-based optimisations.

mKr8: This is Affle's mobile ad authoring platform that allows the creation of engaging rich media and video advertisement units that can be used across multiple media channels. Using mKr8, Affle can build dynamic advertisements on the basis of phone sensors (such as camera, location, and accelerometer) and global sensors (such as weather conditions, stock markets and air quality).

mSSP: This is Affle's supply side platform that is intended to enable publishers to maximise monetization from their mobile advertisement inventory. It connects to multiple advertisers to source demand and allows publishers to place these on their mobile applications and websites via application programmatic interfaces (APIs) or real time bidding platforms. mSSP allows for multiple advertisement formats to be served, including App install advertisements, native advertisements (which are a form of paid media where the advertisement experience follows the natural form and function of the user experience in which it is placed), banner advertisements (which are advertisements embedded into a web page that are intended to attract traffic to a website by linking to the advertiser's website) and video advertisements. mSSP allows publishers to manage all their advertisers via a single dashboard and offers complex bidding techniques, such as header bidding with server-side auctions to reduce latency constraints of traditional header bidding and allows publishers to evaluate bids from hundreds of exchanges, demand side platforms and networks, and direct demand in real-time.

mDMP: This is a data monetization platform that enables insight-driven audience marketing using Appographic data (Apps used by a user), intent data (click or other action initiated by user), behavioural data (in-App actions) and transaction data (purchases by users). It helps process, visualise and synchronise data across marketing and inventory channels. mDMP allows marketers to reach out to the right audience by choosing from a wide range of segments.

mFaaS: Affle's mFaaS platform processes large amounts of data to detect patterns of indicative or definitive fraud on a device, network and shared eco-system knowledge level. It detects and flags potentially fraudulent conversions and transactions on 15+ reason codes, which include click spamming, conversion hijacking, App version frauds, BOT/simulator activity and many internet protocol (IP) related fraud types. mFaaS utilises two primary interventions as part of its core detection technology: a) device-based detections, including use of the gyroscope and other sensors for human compared to rack identification; and b) server-side detections, including IP pools and device attributes. mFaaS helps to detect fraud on a real time basis, thus minimising wastage of marketing spend. mFaaS is designed such that it can be used by advertisers, advertising agencies, advertising networks and publishers to optimise return on marketing spend by helping weed out fraudulent traffic. Affle uses mFaaS in its mobile advertising display campaigns for customers and also licence it for a fee to customers.

Vizury Commerce Business: This business is focussed on retargeting, which is a type of digital marketing activity that focuses on getting lapsed/interested users to transact online by targeting them with personalized product ads after they have shown interest in those products by either browsing about them or adding them to the shopping cart. This consists of the following services, a) Mobile App Retargeting, b) Mobile App Re-engagement and c) Web Retargeting.

Exhibit 6: Retargeting customers

User is an inactive user of an App or the user checks out a product in the App but **leaves** without buying the product

We intelligently target this user across other Apps with **dynamic, deep-linked** ads

An ad leads the user back to the specific product in the App and **drives transactions for the advertiser**

Source: Company RHP, Centrum Wealth Research

RevX Platform: The platform offers services and solutions that enable marketers to engage, acquire and retain consumers through personalised dynamic ads. The RevX Platform is an intelligent cloud for mobile advertising and analytics that combines audience intelligence, App store intelligence and artificial intelligence to drive marketing outcomes in a brand-safe, programmatic ecosystem. The RevX' Platform's marketing solutions include, a) App Retargeting & Re-engagement and b) New User Acquisition.

Shoffr Platform: The Shoffr Platform drive sales of customers products and services from online marketing to offline conversion, including customer relation management, catalogue management and order management, via enablement of programmatic, personalization and data science. The platform's features are Store Inventory, Short Links, API and StoreBoard App.

Enterprise Platform

App Development: Affle develops Apps for third parties using Affle Reusable Components (ARC) platform, which allows leveraging pre-built components so that it can build high quality enterprise grade Apps in a cost-efficient way. Affle's Apps include government automation Apps, e-commerce and retail Apps, travel Apps, self-care Apps, ticketing Apps, healthcare Apps, social/chat Apps, OTT/streaming Apps and workforce management Apps.

mTraction CDP: It is an end-to-end user data, intelligence and engagement management platform for enterprises across multiple sectors and industries. Its data analytics suite enables insights on usage analytics, marketing attribution and utilises these for rules-based customer engagement to maximise the return on a customer's marketing spend. mTraction CDP allows the capturing of usage events and attribution of data points using its software development kits (SDK) or server to server (S2S) integrations and to visualise these as complex data sets, e.g., cohorts of revenue and user retention. Its segment builder allows creating user segments on the basis of each of these data points and sends customised messages to users using its push notifications module. mTraction CDP offers private cloud type of deployment options making it an attractive product for enterprises and governments that have access to a lot of personally identifiable user data and need a secure and trusted platform to store, segment and utilise it.

Markt: This is Affle's commerce platform that enables offline, businesses and enterprises to conduct end-to-end online commerce. It is an enterprise grade, omni-channel, commerce platform consisting of multiple custom-built modules that offer web service APIs for easy and fast integration. The platform is modular in nature and can integrate with any custom interfaces or systems. Markt's key modules include a catalogue management system, inventory management, order management, payments handler, and delivery management. Markt supports two primary implementation scenarios: offline to online store enablement; and offline to online marketplace enablement.

Strong Clientele

Affle Consumer Platform

Affle currently works with all of the top 6 global advertising agency groups (WPP (GroupM), Publicis, Omnicom (OMG), Dentsu Aegis Network (DAN), Interpublic Group (IPG) Mediabrands and Havas) who largely manage the global advertising spend. It also works with other mobile focussed advertising agencies, such as M&C Saatchi Mobile and with domestic advertising agencies, such as Interactive Avenues and Madison.

Affle has engaged in mobile advertising campaigns for some of the largest e-commerce and mobile App companies / brands like Amazon, Flipkart, Goibibo, Zee, Dunzo, Dailyhunt, Meesho, Games 24x7, Shipt, Jabong, BookMyShow, Wynk, ALTBalaji, PhonePe, Gojek, Spotify, Sivvi, and well-known companies in other industries such as Airtel, Reckitt Benkiser, Johnson & Johnson, McDonalds, Nissan, Air Asia, Axis Bank, Citibank, and BTPN.

Customer Case Studies

BookMyShow (Movie/Event Ticketing App/Website in India)

Background

Bigtree Entertainment Pvt. Ltd. (Bigtree) is India's premiere comprehensive ticketing, information and analysis solutions provider. It owns and operates BookMyShow, a movie and event ticketing App/website.

Objectives

Bigtree engaged Affle to grow BookMyShow's consumer base and help acquire more users for its mobile App in India and also do real time tracking and data analytics of its mobile App users.

Solution and Results

The company utilized its Affle CP to help BookMyShow meet its objectives. With the existing consumer profile information, the company used its predictive algorithm to identify potential users who were interested in movies and likely to purchase from BookMyShow using its mobile App. The relevant and recent movie ads for BookMyShow were then shown to these identified users inside apps and/or websites that they frequently visited. Affle CP further built its consumer intelligence each time a user, a) clicked on BookMyShow's ad (thus showing intent), b) downloaded BookMyShow's App (thus showing interest), c) had an active session on BookMyShow's App (showing purchase intent), or d) made a purchase from BookMyShow (showing conversion of the targeted user to becoming a consumer for BookMyShow). Affle tracked all of this data, which was integrated with BookMyShow's App. This campaign was executed in the period from Apr'17 to Mar'18 during which Affle helped deliver over 3,50,000 App users for BookMyShow.

ALTBalaji (Video on Demand Platform in India)

Background

ALT Digital Media Entertainment Ltd (ALTBalaji) owns and operates ALTBalaji, a subscription-based video on demand platform that was launched in India in 2017.

Objective

ALTBalaji engaged us to grow its consumer base and acquire more users for its mobile App in India during its launch phase. ALTBalaji wanted to target only those users who were likely to subscribe and pay for mobile entertainment content.

Solution and Results

Affle utilized its Affle CP to help ALTBalaji meet its objectives. With the existing consumer profile information, the company used its predictive algorithm to identify potential users who were frequent users of video and entertainment content on their mobile and had shown some affinity to e-commerce in the past. ALTBalaji's ads werethen shown to these identified users inside Apps and/or websites that they frequently visited. Affle CP further built its consumer intelligence each time a user, a) clicked on ALTBalaji's ad (thus showing intent), or b) downloaded and paid for ALTBalaji's App (thus showing interest). This campaign was executed in the period of Apr'17 to Mar'18 during which Affle helped deliver more than 1.5 million App users (paid) for ALTBalaji.

Vizury Commerce Business: Customers include many well-known e-commerce companies in the Middle East, Africa and India.

RevX Platform: Acquired contracts with 9 customers of RevX Inc. as a part of its acquisition of the RevX Platform Business, which included contracts with e-commerce companies, primarily in South East Asia and the Middle East, and a well-known marketing platform for mobile brands, which is a reseller partner of the RevX Platform. Affle did not acquire the customer contracts of RevX Inc.'s Indian subsidiary as part of its acquisition of the RevX Platform Business.

Shoffr Platform: Currently has one direct customer and two customers (a well-known toy manufacturer and a well-known jewellery company) are being billed by Shoffr on a back-to-back with Affle.

Business Strategy

➢ **Enhance Affle CP's revenue from existing and new customers in India and acquire new consumer profiles beyond Tier 1 cities:**
India ad tech market is expected to register a CAGR of 39% to $808 million over 2017-22. Affle is looking at increasing the CP business in India by further penetrating existing customers. Historically, Affle has focussed on Tier 1 cities. Given the growth in smartphone usage and ramp-up in broadband penetration, there has been an increase in interest users along with e-commerce shoppers. Affle is thus looking at Tier 2 and 3 cities along with rural markets. To enhance consumer intelligence, Affle has partnered with Micromax Informatics Ltd.

➢ **Expand international business through local business development efforts and through referrals from existing customers**
Affle is looking at improving its Monetization factor for CP's consumer profile outside India. It has business development teams outside India in Singapore, Jakarta (Indonesia) and Dubai (UAE) (opened an office in Dubai in Mar'19). Affle is now looking at building a business development team in North America during FY20 to service the North American market. This is to win more advertising campaigns with local and international companies operating in the region by demonstrating the successful track record internationally and through ground presence to deliver better support and build more trust with the market participants.

➢ **Drive further penetration in top customers and deliver more converted users for large e-commerce companies**
During FY19, Affle had 80% recurrence of top 10 customers for FY18 on a standalone basis and during FY18, the same was at 100% for FY17. The main aim of the CP platform is to deliver more converted users for large e-commerce companies, such as Amazon, Flipkart and Gojek globally by being part of their expansion plans. Affle has delivered converted users for Amazon and its related group entities in 21 countries across North America, South America, South East Asia, Europe, the Middle East and Africa in FY19 (consolidated).

➢ **Continue to invest in and develop technological capabilities**
On a consolidated basis, Affle spent ₹9 crore (3.6% of FY19 consolidated revenue) on addition and ₹2.6 crore on acquisition (1.1%) of software development. Affle plans to continue investing more in research and development into: artificial intelligence, machine learning & deep learning in identifying and classifying consumer profiles; a combination of data science and artificial intelligence, machine learning & deep learning in identifying fraud; moving to cloud agnostic platforms to enable multi-cloud deployments; using database lakes that utilise multiple best of breed database technologies to distribute the data load and reduce costs and in some cases increase the speed of processing.

➢ **Continue to develop award-winning fraudulent data detection and prevention platform**
The mFaaS application gives Affle an edge over competitors as it offers a real time solution for addressing fraud, which is a major issue for mobile advertising. Affle needs to continually evolve its technology with this regard so as to ensure better returns to customers. Affle has applied for 10 patents in India covering various algorithms in the area of digital fraud detection, all of which are pending at the moment.

➢ **Continue to selectively pursue acquisitions**
Affle has acquired companies that complement its business (Markt, Vizury Commerce Business, Shoffr Platform Business, RevX Platform), thus enabling it to strengthen its product offering and services. Affle does a pre-deal assessment that examines the key attributes of the potential target, with a focus on the target's knowledge, customers and expected future financial results.

➢ **Cross-sell solutions**
The Enterprise Platform enables offline to online commerce for currently offline businesses, thus creating a new segment of potential customers for the CP. The company has developed relationships which could augment more customers for Affle's CP and retarget customers via solutions in the Vizury Commerce Business and the RevX Platform. Global e-commerce revenue stood at $2.29 trillion in 2017, which comprised only 10% of the total global retail sales, thereby providing significant opportunity in the medium to long term to enable the shift to e-commerce (Frost & Sullivan).

Industry Overview

There has been a rise in internet users globally with penetration of mobile phone usage given the upgrade in cellular infrastructure, lower data prices, availability of content for media & entertainment etc. In India, large-scale availability and affordability of smartphones is expected to drive the growth of internet users. Currently, the rural internet density (i.e., the number of Internet subscribers per 100 people) is at 14.89, compared to 76.76 for the urban population (TRAI Performance Index Report May'17). India is expected to have 730 million Internet users by FY20 with a 60% penetration; 75% of the new user growth is set to come from rural areas (NASSCOM, 2017).

Exhibit 7: Share of Mobile Minutes
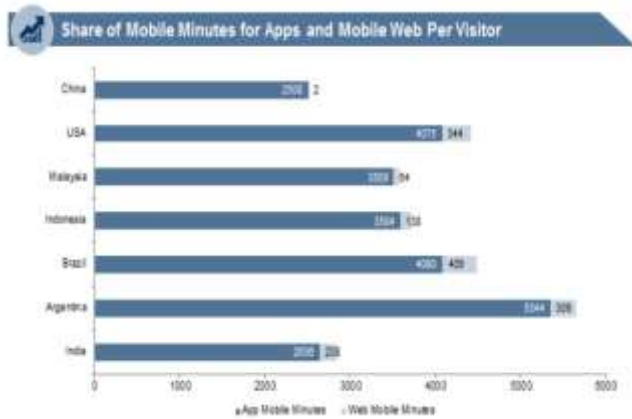
Exhibit 8: Smartphone Penetration, 2017 (%)

Source: Company RHP, Centrum Wealth Research
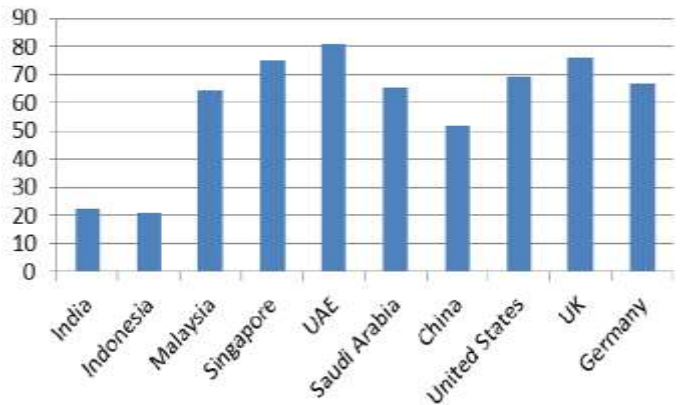
Exhibit 9: E-commerce Market Size and Forecast for India 2017-2022 ($ billion)
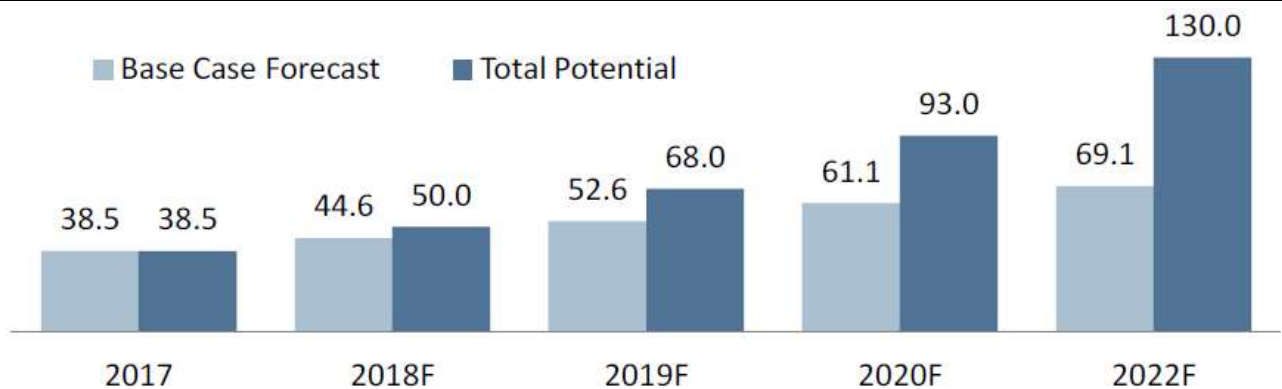
Source: Company RHP, Centrum Wealth Research

Regional Focus across India

A majority of 60% of all online sales in India in 2017 were contributed by the 8 metro cities; while the remaining sales were generated from 3,133 Tier 2 and Tier 3 cities (including 1,233 rural hubs- which are nodal points supporting businesses in rural areas).

Exhibit 10: Estimates of Number of E-commerce Users and Average Spend Per Shopper, 2017-2025, India

Source: Company RHP, Centrum Wealth Research

Exhibit 11: Investments in the E-commerce Market, India, 2017

Company Name	Sub-Vertical	Investors' Name	Amount USD million
Flipkart	E-commerce Marketplace	Softbank Group	2,500.0
		Microsoft, eBay, Tencent Holdings	1,400.0
		Naspers	71.0
		Bennett, Coleman and Co. Ltd (BCCL)	38.7
		Total Investments	**4,009.7**
Paytm	Mobile Wallet & E-commerce Marketplace	Softbank Group	1,400.0
		Alibaba	200.0
		Total Investments	**1,600.0**

Source: Company RHP, Centrum Wealth Research

The Advertising and the Ad Tech Industry

Exhibit 12: Total Advertising Spend (Global and US)   **Exhibit 13: Digital Advertising Spend (Global and US)**
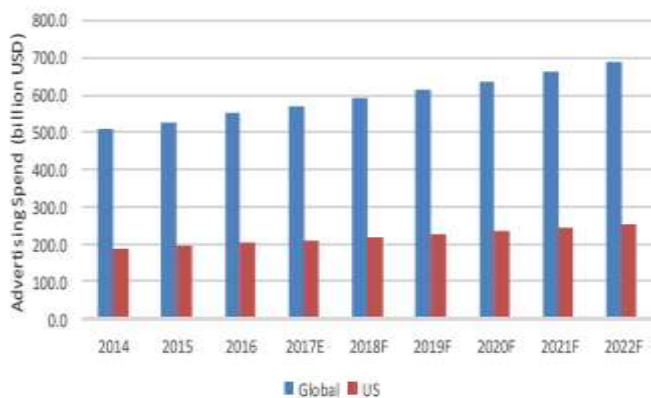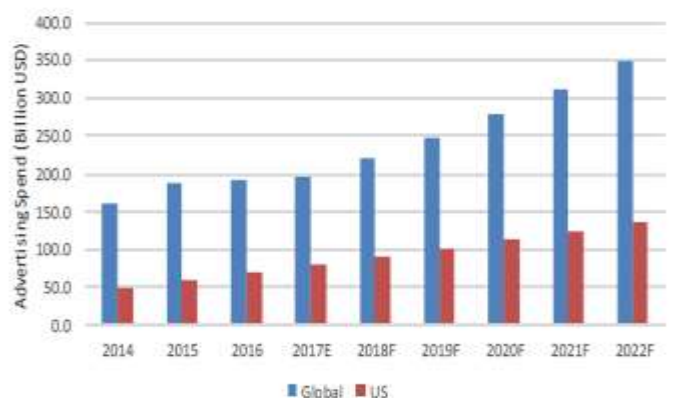
Source: Company RHP, Centrum Wealth Research

Exhibit 14: Advertising Spend (Total and Digital), India

Exhibit 15: India: Mobile Vs PC Advertising Spend
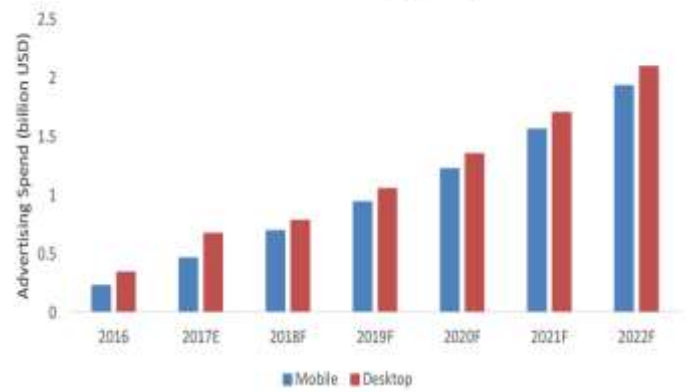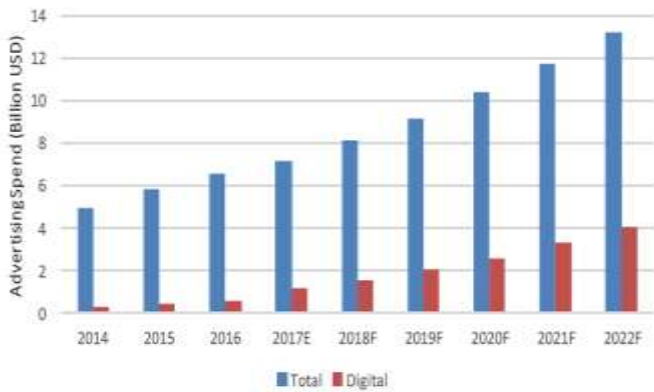
Source: Company RHP, Centrum Wealth Research

Exhibit 16: Digital Advertising Spend Across Industry Vertical, India
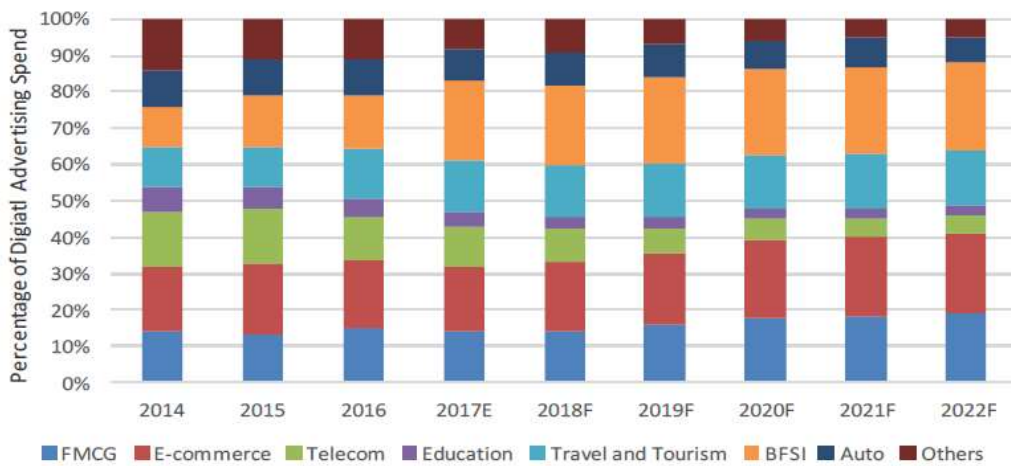
Source: Company RHP, Centrum Wealth Research

Exhibit 17: Value Chain of Digital Advertising
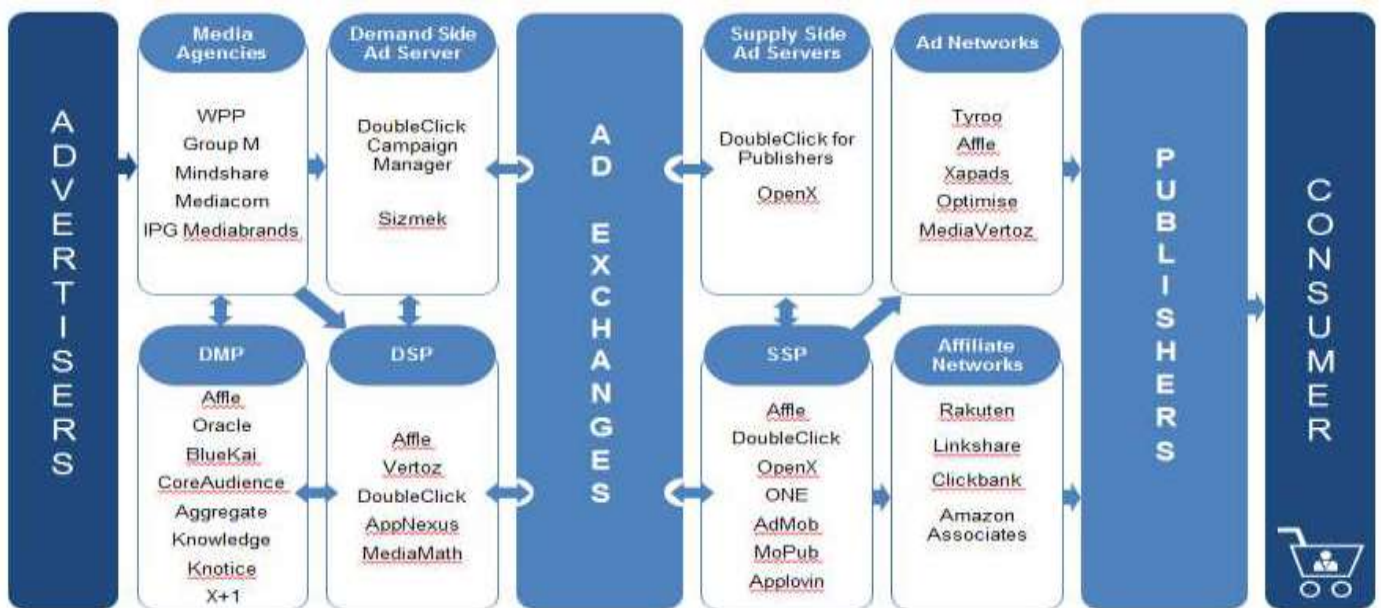
Source: Company RHP, Centrum Wealth Research

Exhibit 18: Business Models in Ad Tech, 2018

S.No	Business model	Metrics	Typical Pricing Range
1	Media-based Pricing Model	Cost per media (for example, number of banners, videos)	USD 0.15 –USD 5 per thousand impressions
2	Performance-based pricing Model	Cost per click, Cost per sale, Cost per view, Cost per Action (such as app downloads)	USD 0.1 –USD 0.3 per click
3	Flat Fee Model	A flat rate for each media / channel	Varies
4	Software as a Service	Monthly fee based on technology stack, number of users targeted and so on	USD 15,000 –USD 35,000 per month

Source: Company RHP, Centrum Wealth Research

Exhibit 19: Business Models in Ad Tech Comparison by Companies, 2018

	Media based	Performance based	Flat Fee	SaaS
Affle	Y	Y	Y	
Vizury	Y	Y		Y
InMobi	Y	Y	Y	
RevX	Y	Y		Y
Vserv	Y	Y		Y
The Trade Desk	Y	Y	Y	Y
Criteo		Y		
FreakOut	Y	Y		
Mobvista	Y	Y	Y	

Source: Company RHP, Centrum Wealth Research

Comparison of Leading Competitor Profiles

Company Profiles, Ad Tech, 2017

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, US & Europe, South East Asia
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, US, UK
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	US, Korea, UK, India, Germany, Brazil, Japan, Saudi Arabia

Note: DMP – Data Management Platform, DSP – Demand Side Platform, SSP – Supply Side Platform

Financial Metrics Comparison

As per the RHP, the financial metrics comparison done below is on the basis of FY17 annual reports as filed by or shared by the respective companies for their international group holdings and not just revenue from India.

Exhibit 20: Ad Tech Market, Profit Margin 2017
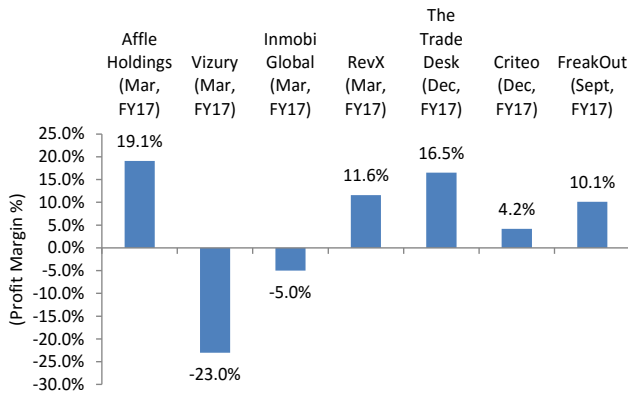
Exhibit 21: Ad Tech Market, Revenue Growth Rate, 2017
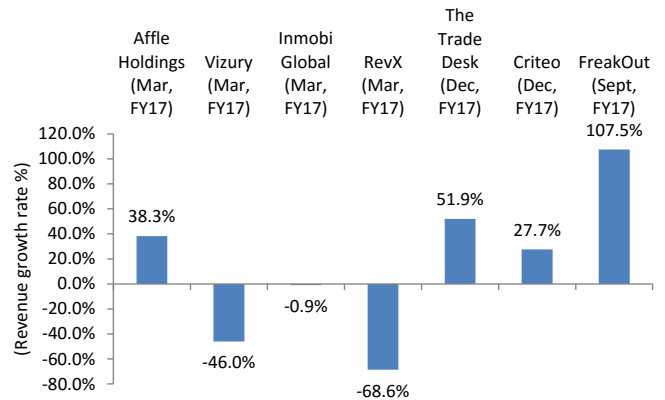
*Source: Company RHP, Centrum Wealth Research, *NM – Not Meaningful*

Exhibit 22: : Ad Tech Market, ROCE, 2017
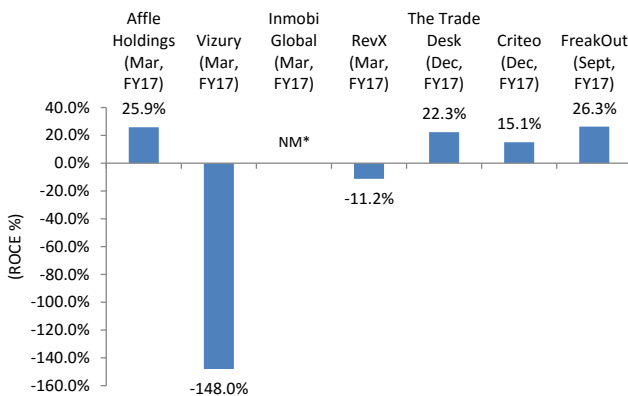
Exhibit 23: Ad Tech Market, RoE, 2017
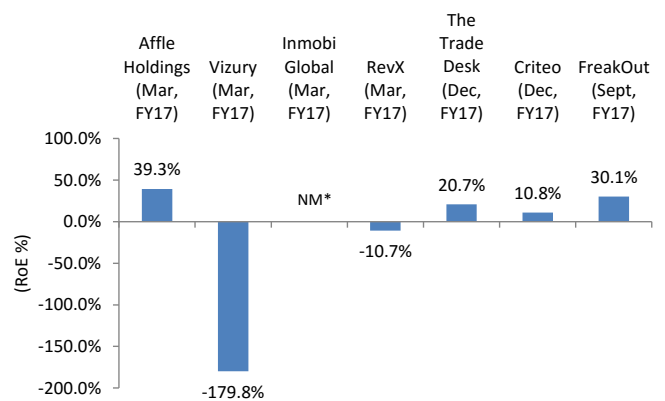
*Source: Company RHP, Centrum Wealth Research, *NM – Not Meaningful*

Financials - Standalone

Income Statement

Y/E Mar (₹ Cr)	FY17	FY18	FY19
Revenue	**66**	**84**	**118**
Growth %	-	*27.6*	*40.6*
Inventory and Data Costs	32	42	62
% of sales	*49.3*	*50.7*	*52.9*
Personnel expenses	18	16	20
% of sales	*26.9*	*19.0*	*16.6*
Other expenses	12	9	11
% of sales	*18.4*	*10.3*	*9.5*
EBIDTA	**4**	**17**	**25**
EBIDTA margin %	*5.4*	*20.0*	*21.0*
Depreciation	2	3	4
Interest	2	1	0.4
Other Income	1	1	4
PBT	1	14	24
Provision for tax	0.5	5	7
Effective tax rate %	*58.8*	*35.0*	*29.2*
Net Profit	**0.3**	**9**	**17**
Growth %	-	*2,576.1*	*88.9*
PAT margin %	*0.5*	*10.5*	*14.2*

Source: Company RHP, Centrum Wealth Research

Balance Sheet

Y/E Mar (₹ Cr)	FY17	FY18	FY19
Share capital	24	24	24
Reserves & surplus	(3)	6	22
Shareholder's fund	21	30	46
Loan fund	3	-	-
Deferred Tax Liab	-	-	0.3
Total cap. employed	**24**	**30**	**47**
Net fixed assets	15	15	25
Investments	0.0	0.0	14
Deferred Tax Assets	1.9	0.5	-
Cash and bank	9	14	10
Debtors	14	16	27
Loans & adv and OCA	10	12	18
Total current assets	32	42	54
Current liab. and prov.	24	28	47
Net current assets	8	15	7
Total assets	**24**	**30**	**47**

Source: Company RHP, Centrum Wealth Research, OCA – other current assets

Cash Flow

Y/E Mar (₹ Cr)	FY17	FY18	FY19
Net Profit Before Tax	1	14	24
Depreciation	2	3	4
Others	3	2	(2)
Change in working capital	1	1	(2)
Tax expenses	(1)	(3)	(7)
Cash flow from Ops	**6**	**17**	**18**
Capex	(3)	(4)	(7)
Other investing activities	(3)	2	(15)
Cash flow from Investments	**(6)**	**(1)**	**(22)**
Borrowings/(Repayments)	(1)	(7)	-
Interest paid	(1)	(1)	(0.4)
Cash flow from financing	**(2)**	**(8)**	**(0.4)**
Net Cash Flow	**(2)**	**8**	**(5)**

Source: Company RHP, Centrum Wealth Research

Key Ratios^

Y/E Mar	FY17	FY18	FY19
Return ratios (%)			
RoE	1.6*	34.5	43.6
RoCE	4.0*	34.9	44.3
Turnover Ratios (days)			
Inventory	-	-	-
Debtors	-	64	66
Creditors	-	83	84
Fixed asset turnover (x)	-	3.8	3.9
Solvency Ratio (x)			
Debt-Equity	0.2	-	-
Interest coverage	1.5	13.6	53.7
Per share (₹)			
EPS	0.1	3.5	6.5
BVPS	8.2	11.8	18.1
CEPS	1.0	4.7	8.3
DPS (₹)	-	-	-
Valuation (x)			
P/E	5,756.0	215.1	113.9
P/BV	90.3	63.0	41.1
EV/EBIDTA	537.8	112.4	76.3
EV/Sales	28.9	22.5	16.0

^ Note: Calculations based on higher end of the price band – ₹745
* Calculated as on closing basis i.e Mar'17
Source: Company RHP, Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY19
Revenue	**249**
Growth %	-
Inventory and Data Costs	134
% of sales	*53.8*
Personnel expenses	21
% of sales	*8.5*
Other expenses	24
% of sales	*9.5*
EBIDTA	**70**
EBIDTA margin %	*28.2*
Depreciation	10
Interest	1
Other Income	0.4
PBT	60
Provision for tax	11
Effective tax rate %	*18.4*
Net Profit	**49**
Growth %	-
PAT margin %	*19.6*

Source: Company RHP, Centrum Wealth Research

Balance Sheet

Y/E Mar (₹ Cr)	FY19
Share capital	24
Reserves & surplus	48
Shareholder's fund	72
Loan fund	9
Deferred Tax Liab	0.3
Total cap. employed	**82**
Net fixed assets	59
Investments	0
Deferred Tax Assets	0
Cash and bank	30
Debtors	48
Loans & adv and OCA	21
Total current assets	99
Current liab. and prov.	77
Net current assets	23
Total assets	**82**

Source: Company RHP, Centrum Wealth Research, OCA – other current assets

Cash Flow

Y/E Mar (₹ Cr)	FY19
Net Profit Before Tax	60
Depreciation	10
Others	0
Change in working capital	(14)
Tax expenses	(9)
Cash flow from Ops	**48**
Capex	(15)
Other investing activities	(35)
Cash flow from Investments	**(50)**
Borrowings/(Repayments)	9
Interest paid	(1)
Cash flow from financing	**8**
Net Cash Flow	**6**

Source: Company RHP, Centrum Wealth Research

Key Ratios^

Y/E Mar	FY19
Return ratios (%)	
RoE	67.4*
RoCE	60.6*
Turnover Ratios (days)	
Inventory	-
Debtors	-
Creditors	-
Fixed asset turnover (x)	-
Solvency Ratio (x)	
Debt-Equity	0.1
Interest coverage	74.7
Per share (₹)	
EPS	19.1
BVPS	28.4
CEPS	23.1
DPS (₹)	-
Valuation (x)	
P/E	38.9
P/BV	26.2
EV/EBIDTA	26.7
EV/Sales	7.5

^ Note: Calculations based on higher end of the price band – ₹745
* Calculated as on closing basis i.e Mar'19
Source: Company RHP, Centrum Wealth Research

Annexure 1

Unaudited Proforma Condensed Combined Statement of Profit and Loss for the year ended 31 Mar'19 - Consolidated

Y/E Mar (₹ Cr)	P&L of Affle (India) - Historical	Vizury Interactive Solutions Pvt Ltd for 5 Months ended 31 Aug'18	Acquisition Adjustments	Combined Total
Revenue	**249**	**24**	**(4)**	**269**
Inventory and Data Costs	134	14	(2)	146
% of sales				*54.5*
Personnel expenses	21	9	(7)	23
% of sales				*8.7*
Other expenses	24	4	(3)	25
% of sales				*9.3*
EBIDTA	**70**	**(3)**	**7**	**74**
EBIDTA margin %	*28.2*	*-13.6*		*27.6*
Depreciation	10.1	0.1	0.2	10.4
Interest	0.8	0.0	0.1	0.9
Other Income	0.4	1.6	(1)	0.8
PBT	60	(2)	5	64
Provision for tax	11	0	1	12
Effective tax rate %	*18.4*	*0.0*	*13.9*	*18.5*
Net Profit	**49**	**(2)**	**5**	**52**
PAT margin %	*19.6*	*-7.4*		*19.3*
EPS (₹)	19.15			20.31
P/E (x)^	38.9			36.7

Source: Company RHP, Centrum Wealth Research

^Note: Higher end of the price band (₹745) has been considered

Appendix

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Disclosures under the SEBI (Research Analysts) Regulations 2014

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2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL	CBL is registered with SEBI as a Research entity (SEBI Registration No. INH000001469)

4	Whether Research analysts or relatives' have any financial interest in the subject company and nature of such financial interest	No
5	Whether Research analysts or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No
6	Whether the research analysts or his relatives has any other material conflict of interest	No
7	Whether research analysts have received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analysts have received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analysts has been engaged in market making activity of the subject company.	No
11	Whether CBL ,Research analyst or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;	No
12	Whether CBL ,Research analyst or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No
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