



Affle (India) is a global technology company with two business segments: consumer platform and enterprise platform. The consumer platform aims to enhance returns on marketing spend through delivering contextual mobile ads and reducing digital ad fraud. The enterprise platform primarily provides end-to-end solutions for enterprises to enhance their engagement with mobile users. As on March 31, 2019, Affle's consumer platform had ~2.02 billion consumer profiles and has accumulated over 300 billion data points over the preceding 12 months, which power its prediction and recommendation algorithm for the platform.

## Consumer platform with leading position in India

According to Frost & Sullivan, the company is a leading ad tech solution provider in India. As on March 31, 2019, the company had ~571 million consumer profiles in India with services across the value chain in digital advertising, fraud detection and ad network. Affle India is one of the very few companies that has products spanning the entire value chain. While some companies are more focussed on buy side platforms, others are focused on the publisher side. The ad tech market in India is fast growing, with a market size of US\$304.9 million in 2017 and is likely grow at a CAGR of 39% to US\$808 million by 2022. The company's extensive consumer profile data, proprietary technology and local knowledge make it better placed compared to global peers to deliver profitability in India.

## Asset light, automated and scalable platform

The company's 13 years of focused research and development and investment have resulted in a platform, which is supported by a flexible and scalable infrastructure, built in-house using cloud computing infrastructure. Its platform consists of proprietary machine and deep learning algorithm for prediction and recommendation that operates in real time and at significant scale. As the ability to generate actions improves with increased user intelligence and targeting, the company believes more businesses will use its solutions and increase their marketing spend with the company. This network effect would continue to fuel its growth.

## Key risk and concerns

- Developments regarding data protection could impact business
- Revenue concentration around key customers
- Inability to compete in the highly competitive industry
- Adverse ruling in outstanding litigation may have adverse impact

## Priced at P/E of 36.4x FY19 on lower band

At the IPO price band of ₹ 740-745, the stock is available at a P/E (taking PAT of proforma consolidated financials) multiple of 36.4x-36.7x FY19.

### Key Financial Summary

₹ crore	FY17	FY18	FY19
Revenue from operations	65.6	83.8	249.4
EBITDA	3.5	16.8	70.3
EBITDA Margin (%)	5.4	20.0	28.2
Reported PAT	0.3	8.8	48.8
EPS	0.1	3.5	19.1
RoCE (%)	4.8	43.3	72.4
RoE (%)	1.6	29.3	67.4

\*FY17, FY18: Unconsolidated Ind AS; FY19: Consolidated Ind AS; EPS calculated on post issue basis  
Source: ICICI Direct Research, RHP

Particulars	
<b>Issue Details</b>	
Issue Opens	29-Jul-19
Issue Closes	31-Jul-19
Issue Size (₹ Crore)	459.0
Fresh Issue (₹ crore)	90.0
Offer for sale (₹ crore)	366.5-369.0
Price Band (₹)	740-745
No of Shares on Offer (crore)	0.5
QIB (%)	75
Non-Institutional (%)	15
Retail (%)	10
Minimum lot size (No. of shares)	20

Shareholding Pattern (%)	Pre-Issue Post-Issue	
	Promoter & promoter group	92.17%
Public/others	7.83%	31.62%

Objects of the Issue	
Objects of the Issue	Amount
a) Funding the working capital requirements of Company b) General corporate purposes	90 crore

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## Company background

Affle (India) is a global technology company with two business segments: consumer platform and enterprise platform. The consumer platform primarily provides the following services: (1) new consumer conversions (acquisitions, engagements, 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. The enterprise platform primarily provides end-to-end solutions for enterprises to enhance their engagement with mobile users.

As on March 31, 2019, Affle's consumer platform had ~2.02 billion consumer profiles and has accumulated over 300 billion data points over the preceding 12 months, which powers its predictions and recommendations algorithm for the platform.

### Consumer platform

The 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. For FY19, on a proforma basis, revenues from consumer platform contributed 97.2% of revenue while on a consolidated basis, the same constituted 97.0% of revenue from contracts with customers. The 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. It also earns revenues through awareness and engagement type advertising.

### Enterprise platform

Affle 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 (collectively, the 'Enterprise Platform'). For FY19, on a proforma basis, revenue from enterprise platform represented 2.8% of revenue from contracts with customers while on a consolidated basis, the same represented 3.0% of revenue from contracts with customers.

In connection with the offer, the company undertook a corporate restructuring in which Affle incorporated the Singapore subsidiary. It acquired all of Affle Global's business, intangible assets and all of the equity interests in the Indonesian subsidiary, effective July 1, 2018. Affle Global was engaged in the same business as the company outside India, Indonesia and used the company's solutions. The Indonesian subsidiary was engaged in the same business as this company in Indonesia and used the company's solutions. Affle Holdings, the corporate promoter, owns 100% of the issued shares in Affle Global.

Further, with effect from September 1, 2018, (a) the company 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 (b) the Singapore subsidiary 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.

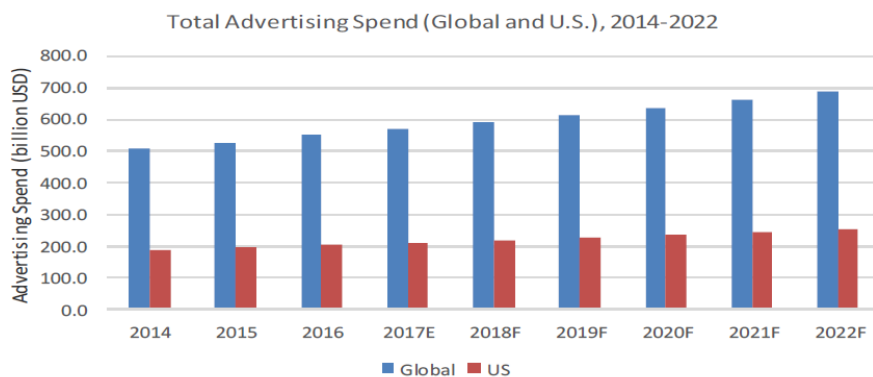
## Industry Overview

### Advertising, ad tech industry

Globally, the advertising industry has been undergoing a transformation. The number of avenues to market to a consumer has expanded widely beyond print display, television and radio to digital media. Digital, while absorbing a significant percent of ad spend today, has evolved to become more complex and includes several forms such as search, video and rich media, social media, classified and so on. For advertisers, the complexity has compounded as a result of increasing avenues to target consumers in an omni-channel world.

According to Dentsu-Aegis 2017 reports on advertising spends and Frost & Sullivan estimates, the industry is expected to grow at 3.9% CAGR (2017-22) to US\$689.63 billion, backed by economic stability and sustained spending from the US, India, Japan and China, among other countries. Digital advertising – that is advertising online – comprised 34% of total advertising spend globally, and 37% of the US market in 2017. By 2022, digital spend will comprise over 50% of total advertising spend globally.

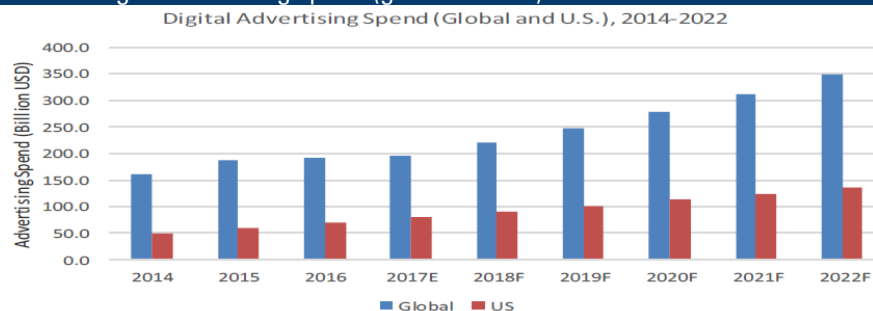
**Exhibit 1: Total advertising spend**



Source: ICICI Direct Research; RHP

Digital advertising, that is advertising online comprised 34% of total advertising spend globally and 37% of the US market in 2017. By 2022, digital spend will comprise over 50% of total advertising spend globally.

**Exhibit 2: Digital advertising spend (global and US)**



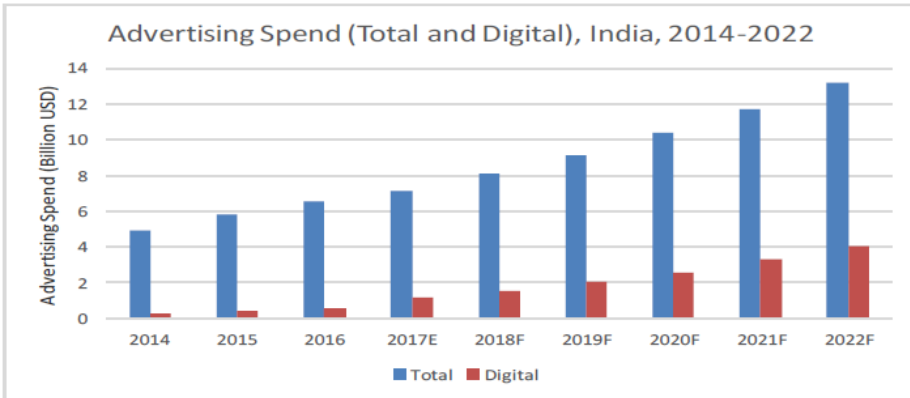
Source: ICICI Direct Research; RHP

### Overview of Indian advertising industry

India is one of the very few markets in the world where advertising spends are likely to grow in double digits. While adversely impacted by demonetisation and the introduction of GST in 2017, the industry grew 9.6% in 2017 compared to 11.9% in 2016. Increasing spends driven by e-commerce, major events such as IPL and Fifa World Cup, as well as campaigns for the upcoming elections in 2019 will likely boost higher growth

at 12.5% to US\$8.1 billion in 2018, and a CAGR of 13% to US\$ 13.2 billion by 2022. Digital advertising spend in India has ramped up in growth over the past three years. It gained US\$1.1 billion in revenue in 2017 and will likely grow at a CAGR of 28.6% to US\$ 4 billion.

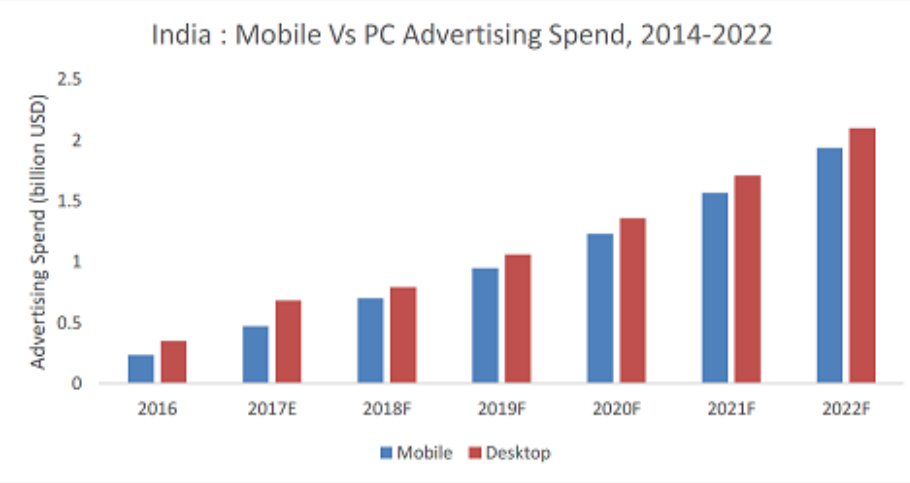
Exhibit 3: Total advertising spend (India)



Source: ICICI Direct Research; RHP

A segment that is fuelling growth for the digital segment is mobile advertising, driven by 4G penetration, cost-effective data packages, proliferation of mobile apps and social media, m-commerce and rapid growth in smartphone penetration. Mobile advertisement spend is expected to grow at a CAGR of 32.7% to US\$1.93 billion in 2022.

Exhibit 4: Mobile vs. PC advertising spend in India



Source: ICICI Direct Research; RHP

## Investment Rationale

### Consumer platform with leading position in India

According to Frost & Sullivan, the company is a leading ad tech solution provider in India. As on March 31, 2019, the company had ~571 million consumer profiles in India with services across the value chain in digital advertising, fraud detection and ad network. Affle India is one of the very few companies that has products spanning the entire value chain. While some companies are more focused on buy-side platforms, others are focused on the publisher side. The ad tech market in India is fast growing, with a market size of US\$304.9 million in 2017 and is likely grow at a CAGR of 39% to US\$808 million by 2022. The company's extensive consumer profile data, proprietary technology and local knowledge makes it better placed compared to global peers to deliver profitability in India.

### Asset light, automated, scalable platform

The company's 13 years of focused research & development and investment have resulted in a platform that is supported by a flexible and scalable infrastructure, built in-house using cloud computing infrastructure. Its platform consists of proprietary machine and deep learning algorithm for prediction and recommendation that operates in real time and at significant scale. As of May 31, 2019, the company had 236 employees, of which 209 were in India. As the ability to generate actions improves with increased user intelligence and targeting, the company believes more businesses will use its solutions and increase their marketing spend with the company. This network effect would continue to fuel its growth.

### Deep data driven understanding of consumer intent, behaviour

As on March 31, 2019, the company's consumer platform had ~2.02 billion consumer profiles and over 300 billion data points in the preceding 12 months. Consumer profiles included approximately (a) 571 million consumer profiles in India, (b) 582 million consumer profiles in other emerging markets and (g) 867 million consumer profiles in developed markets. The company continually accumulates data profiles. Consumer profiles and data points are the primary building blocks that support its consumer platform. Its consumer platform uses a predictive algorithm to recommend mobile users who are most likely to engage with a particular advertisement. On that basis, it chooses to display targeted and personalised mobile display advertisements to particular users. By dynamically matching users' intent or interest with relevant advertisements, it is able to deliver more relevant and engaging experiences to consumers, which is more likely to lead to the desired action, such as downloading of an app or the purchase of a product or service. Therefore, having significant number of consumer profiles, enables the company to expand into markets and deliver results to its customers more quickly and at lower costs.

Exhibit 5: Consumer platform, converted users, monetisation factor for company in different markets

Region/Country	Company's Affle Consumer Platform's Number of converted users	Monetization Factor for FY19 on a consolidated basis*
	consumer profiles as at March 31, delivered by markets in FY19 (in millions)	
India	571	39.3
Other Emerging Markets	582	10.6
Developed Markets	867	5.2

\* The Monetization Factor includes converted users delivered by Vizury Commerce Business; Source: ICICI Direct Research; RHP

## Strategies

### Continues to selectively pursue acquisitions

Affle acquired the Vizury commerce business effective September 1, 2018, the Shoffr Platform Business on May 18, 2019, effective February 19, 2019, and the RevX Platform Business on June 28, 2019, effective April 1, 2019. The company is looking to continue acquiring businesses, assets and technologies that complement its existing capabilities, revenue streams and marketing presence and which would result in sustainable financial growth. Affle India is looking for targets that (a) have complementing teams, technology and data that strengthen its strategic focus and facilitate an efficient expansion into other emerging markets, (b) have complementing customer relationships such that an acquisition and the integrated technology and data that accompanies it would foreseeably result in enhanced growth and an increase in recurrence and retention of customers and (c) will enhance value for its shareholders, through increasing the profitability of the target and an increased price-to-earnings multiple of the target post-acquisition.

### Cross-sell its solutions

The solutions in enterprise platform enable offline to online commerce for currently offline businesses. Its enterprise platform solutions create a new segment of potential customers for its consumer platform. Having developed a relationship with them through helping them build an e-commerce business, Affle is ideally placed to get customers for their online business through its Affle Consumer Platform. Global e-commerce revenue was US\$2.29 trillion in 2017, which comprised only 10% of total global retail sales, thereby providing a significant opportunity in the medium to long term to enable the shift to e-commerce globally.

## Key risks and concerns

### Developments regarding data protection could impact business

The legal, regulatory and judicial environment around data protection and other matters is constantly evolving and can be subject to significant change. Various governments have enacted, considered or are considering legislation or regulations that could significantly restrict the company's ability to collect, process, use, transfer and pool data collected from and about consumers and devices. Trade associations and industry self-regulatory groups have also promulgated best practices and other industry standards relating to targeted advertising. Such losses could adversely impact the company's financial performance in future.

### Revenue concentration around key customers

Revenue from top 10 customers constituted ₹ 160.8 crore, which represented 64.5% of revenue in FY19. Revenue from top customer during the same period were at ₹ 54.8 crore, 22% of revenue. Inability to keep these customers or failure to attract a broader range of customers, would have a material adverse effect on its business, results of operations, cash flows and financial condition.

### Adverse ruling in outstanding litigation may impact adversely

Adverse ruling on outstanding proceedings at different levels of adjudication before various courts, tribunals and appellate authorities could have a material impact on Affle India's performance.

Exhibit 6: Litigation involving company and directors

S.No	Nature of proceedings	Number of cases outstanding	Aggregate amount involved (₹ crore)
<b>Litigation against company</b>			
1	Direct tax matters	3	0.7
2	Indirect tax matters	1	0.3
3	Other matters exceeding ₹ 0.83 crore or other material litigation	1	1.8
4	Pending actions by statutory or regulatory authorities	1	-
<b>Litigation against Corporate promoter</b>			
1	Other matters exceeding ₹ 0.83 crore or other material litigation	1*	44.4
<b>Litigation against Individual promoter</b>			
1	Other matters exceeding ₹ 0.83 crore or other material litigation	1	-
2	Criminal matters	2	-
<b>Litigation against certain Directors</b>			
1	Criminal matters	5	-
2	Direct tax matters	2	1.0

\* Counter-claim filed in a proceeding initiated by corporate Promoter  
Source: ICICI Direct Research; RHP

## Inability to compete in highly competitive industry

The market for mobile advertising solutions is highly competitive and rapidly changing with multiple regional and global players. Although it is dominated by digital giants such as Google and Facebook, there are over a hundred companies around the world who offer one or more components of this solution. However, only a few companies operate internationally, including, among others, Affle India, InMobi, Criteo, Tradedesk, Freakout, Mobvista and YouAppi. Some of these companies could leverage their positions to make changes that could be significantly harmful to its business and results of operations, cash flows and financial condition. A few of these companies also have access to a significantly larger pool of data than Affle India. This larger pool of data may allow them to foreclose opportunities that may otherwise be available to the company. Any of these developments would make it more difficult for the company to sell its solutions and could result in increased pricing pressure, reduced gross margins, increased sales and marketing expense and/or the loss of market share, any of which may have a material adverse effect on its business.



## Financial Summary

### Exhibit 7: Profit & Loss Statement

(₹ Crore)	FY17	FY18	FY19
<b>Revenue from operations</b>	<b>65.6</b>	<b>83.8</b>	<b>249.4</b>
Employee benefits expense	17.6	16.0	21.2
Inventory and data costs	32.4	42.4	134.1
Other expenses	12.1	8.6	23.7
Total Operating Expenditure	62.1	67.0	179.1
<b>EBITDA</b>	<b>3.5</b>	<b>16.8</b>	<b>70.3</b>
Finance Cost	1.6	1.1	0.8
Depreciation & Ammortization	2.3	3.2	10.1
Other Income	1.2	1.1	0.4
<b>PBT</b>	<b>0.8</b>	<b>13.6</b>	<b>59.8</b>
Tax	0.5	4.8	11.0
<b>Reported PAT</b>	<b>0.3</b>	<b>8.8</b>	<b>48.8</b>
EPS	0.13	3.46	19.15

\*FY17, FY18: Unconsolidated Ind AS; FY19: Consolidated Ind AS; EPS calculated on post issue  
Source: ICICI Direct Research; RHP

### Exhibit 8: Balance Sheet

(₹ Crore)	FY17	FY18	FY19
Equity Capital	24.3	24.3	24.3
Reserve and Surplus	(3.3)	5.9	48.1
Total Shareholders funds	21.0	30.2	72.4
Total Debt	3.4	-	9.0
Minority Interest			
Other long term liabilities	-	-	0.3
Long term provisions	0.9	1.1	1.5
<b>Total Liabilities</b>	<b>25.3</b>	<b>31.3</b>	<b>83.2</b>
Fixed Assets			
Tangible	0.4	0.4	0.7
Intangible	8.3	8.8	25.8
Goodwill	5.9	5.9	32.5
Deffered Tax assets	1.9	0.5	-
Other non current assets	0.7	0.6	0.1
Total Non Current Assets	17.2	16.2	59.2
Contract asset	3.9	7.7	13.2
Trade receivables	13.5	15.8	47.9
Cash and Bank balances	8.7	14.5	30.5
Other current assets	5.3	3.8	7.5
Total Current Assets	31.5	41.8	99.1
Trade Payables	16.0	22.0	51.7
Other current liabilities	7.2	4.6	23.0
Short term provisions	0.1	0.1	0.3
Total Current Liabilities	23.4	26.7	75.1
Net Current Assets	8.1	15.1	24.0
<b>Total Assets</b>	<b>25.3</b>	<b>31.3</b>	<b>83.2</b>

Source: ICICI Direct Research; RHP

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ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective



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