

**Affle India Ltd.**  
**IPO Note**  
**(SUBSCRIBE)**

**Analyst:**

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# IPO details

Key Data	
Issue Opens	29-Jul-19
Issue Closes	31-Jul-19
Equity Shares Offered (in mn.)	6.16
QIB	Up to 75%
NIB	Min 15%
Retail	Min 10%
Face Value (₹)	10
Price Band (₹)	740-745
Max. Issue Size (₹ mn)	4,590
Lot Size (Eq. Shares)	20 and multiple thereof

Valuation	@₹ 740per share	@ ₹745per share
Market Cap (₹ mn)	18,867	18,995
Net Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	18,867	18,995
EV/ Sales	16.0	16.1
EV/ EBIDTA	80.0	80.5
P/E	107.7	108.4

\* Calculated on EPS of FY17

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	22.4	92.2%	17.4	68.4%
Public	1.9	7.8%	1.9	7.5%
Offer for sale	0.0		5.0	19.4%
Fresh Issue			1.2	4.7%
<b>Total</b>	<b>24.3</b>	<b>100.0%</b>	<b>25.5</b>	<b>100.0%</b>

## Object of the issue

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

## Recommendation

At higher end of the price band of ₹745, the issue is priced at P/E of 108.4x on FY19 unconsolidated basis. 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). Therefore we recommend **SUBSCRIBE** over the issue for a long term perspective.

## Leading ad tech solution provider in India

- ❑ Affle is a global technology business. It has two business segments: Consumer Platform; and our Enterprise Platform. The 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.
- ❑ The Consumer Platform comprises the following:
  1. “Affle” branded consumer intelligence platform that deliver consumer acquisitions, engagements and transactions through relevant mobile advertising (the “Affle Consumer Platform”);
  2. “RevX” branded mobile only self-serve programmatic platform that delivers consumer acquisitions, engagements and transactions through relevant mobile advertising (the “RevX Platform”);
  3. “Vizury” branded retargeting media business for e-commerce companies and push notifications offerings for e-commerce companies on a software as a service model (the “Vizury Commerce Business”);
  4. “Shoffr” branded online to offline platform that converts online consumer engagement into in-store walk-ins and transactions (the “Shoffr 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.
- ❑ The business is asset light and scalable as shown by the fact that its employee benefit expenses, depreciation and amortization expenses and other expenses have remained relatively unchanged despite significant changes in its revenue in the last 3 fiscal years.
- ❑ It has three registered patents in the United States with multiple patent claims in areas of advertising via data communication clients, online search system, method and computer programme and method and system for extending the use and/or application of messaging system. It also has 10 pending patent applications in India covering various algorithms in the area of digital fraud detection.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ **Consumer Platform has a leading position in India; a high growth market with substantial barriers to entry:** According to Frost & Sullivan, the 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. It provides services across the value chain in digital advertising, spanning the areas of DMP, DSP/SSP, fraud detection and ad network. It is one of the very few companies that have products spanning the entire value chain. Further, the company has increased its breadth of its service offerings, especially to e-commerce and mobile app driven companies, following the acquisition of Vizury Commerce Business and RevX Platform. 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 will likely grow at a CAGR of 39% to US\$808 million by 2022.
- ❑ **Proven international track record:** For the Fiscal 2019 on a Performa Basis the revenue from contracts with customers outside India was ₹ 1,571.88 million, which was 58.5% of total revenue from contracts with customers. For Fiscal 2019 on a consolidated basis, revenue from contracts with customers outside India was ₹ 1,405.41 million, which 56.4% of our total revenue from contracts with customers. Key international markets are Other Emerging Markets (which comprises Southeast Asia, the Middle East, Africa and others) and Developed Markets (which comprises North America, Europe, Japan, Korea and Australia). The company has three international offices: Singapore; Jakarta (Indonesia); and Dubai (UAE). As at May 31, 2019, it has international offices had 11 sales staff and India offices had 13 sales staff focused on international markets. As at May 31, 2019, it also had one sales agent in Malaysia
- ❑ **Profitable, low-cost business model built on an asset light, automated and scalable platform:** Affle Consumer Platform is the result of over 13 years of focused research and development and investment. Affle Consumer Platform is supported by a flexible and scalable infrastructure, built in-house using cloud computing infrastructure. Affle Consumer Platform consists of a proprietary machine and deep learning algorithm for prediction and recommendation that operates in real time and at significant scale. Over time, as it have attracted more marketing budgets and delivered advertisements, its data assets have grown. As a result, the accuracy of the prediction and recommendation algorithm for Affle Consumer Platform has improved, enabling us to deliver even more precisely targeted and personalized advertisements. As the ability to generate actions improves with increased user intelligence and targeting, it believes more businesses will use Affle Consumer Platform and increase their marketing spend with the company . The company expect this network effect will continue to fuel the growth.
- ❑ **Growth driven, global customer base:** The company work with customers who it believes are likely to grow, which we believe will help them to grow in the various countries in which the customers provide services. It is engaged to run ad campaigns either directly by the advertisers or indirectly via advertising agencies. Global advertising spend is managed largely through six major advertising agency groups: WPP (GroupM); Publicis; Omnicom (OMG); Dentsu Aegis Network (DAN); Interpublic Group (IPG) Mediabrands and Havas. (Source: Frost & Sullivan Report). It currently works with all of the top six global advertising agency groups and with other mobile focused advertising agencies, such as M&C Saatchi Mobile, and with domestic advertising agencies, such as Interactive Avenues and Madison.

## Future road ahead

- ❑ **Enhance the Affle Consumer Platform's revenue from existing and new customers in India and acquire new consumer profiles beyond Tier 1 cities** : 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. (Source: Frost & Sullivan Report). Revenue from contracts with customers from the Consumer Platform on an unconsolidated basis has grown by 40.0% from ₹ 769.40 million in Fiscal 2018 to ₹ 1,076.83 million in Fiscal 2019. It intend to continue to grow Affle Consumer Platform business in India by increasing revenue from existing customers by deepening relationships with them. For example, it has conducted mobile ad campaigns in India for a number of well-known e-commerce and mobile App companies, such as Amazon, Flipkart, Dunzo, Zee, Dailyhunt, Jabong, BookMyShow, and PhonePe.
- ❑ **Expand international business through local business development efforts and through referrals from existing customers**: it currently has business development teams outside India in Singapore, Jakarta (Indonesia) and Dubai (UAE) (we opened an office in Dubai in March 2019),.the company has planned for increasing business development efforts outside India is to build a business development team in North America during Fiscal 2020 to service the North American market. This is to win more advertising campaigns with local and international companies operating in the region by demonstrating successful track record internationally and through on the ground presence to deliver better support and build more trust with the market participants.
- ❑ **Drive further penetration in its top customers and deliver more converted users for large e-commerce companies** : During Fiscal 2019, the Company had 80% recurrence of the Company's top 10 customers for Fiscal 2018 on an unconsolidated basis and during Fiscal 2018, the Company had 100% recurrence of the Company's top 10 customers for Fiscal 2017 on an unconsolidated basis. For Fiscal 2019 on an unconsolidated basis, the Company's top customer was an advertising agency group. The revenue from the Company's top customer grew at a CAGR of 56.0% over the last three fiscal years. One of the goals is for the Consumer Platform to deliver more converted users for large e-commerce companies, such as Amazon, Flipkart and Gojek globally by being part of their expansion plans. It has delivered converted users for Amazon and its related group entities in 21 countries across North America, South America, Southeast Asia, Europe, the Middle East and Africa in Fiscal 2019 on a consolidated basis
- ❑ **Continue to selectively pursue acquisitions**: It has successfully acquired and integrated businesses, including Markt in March 2018, which it acquired as it had an offline to online commerce platform through which the company could enhance it platform propositions for e-commerce companies. It has 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. There are over 100 companies around the world that offer one or more components of the digital advertising technology. Only a few companies/groups operate internationally, such as us, InMobi, Criteo, Trade Desk, Freakout, Mobvista and YouAppi, among others, thereby providing the company with opportunities for consolidation. (Source: Frost & Sullivan Report)

Source: Red Herring Prospectus, Dealmoney research

# Summary Financials

## Income Statement

₹ mn	FY19	FY18	FY17
Total Income	1,177.9	837.6	656.3
Operating Expense	942.0	669.9	621.1
<b>EBIDTA</b>	<b>235.9</b>	<b>167.7</b>	<b>35.2</b>
Depreciation	44.1	32.1	23.1
Other Income	48.1	11.2	11.7
Finance Costs	4.5	10.8	15.9
<b>PBT</b>	<b>235.4</b>	<b>136.0</b>	<b>8.0</b>
Exceptional items	-	-	-
<b>Profit before tax</b>	<b>235.4</b>	<b>136.0</b>	<b>8.0</b>
Provision for Tax	68.6	47.7	4.7
<b>Profit for the year</b>	<b>166.8</b>	<b>88.3</b>	<b>3.3</b>

₹ mn	FY19	FY18	FY17
EBIDTA Margin	24.1%	21.4%	7.2%
Net Margin	13.6%	10.4%	0.5%
ROE	67.4%	29.3%	1.6%
ROCE	72.4%	43.3%	4.8%

## Balance Sheet

₹ mn	FY19	FY18	FY17
<b>Liabilities</b>			
Share capital	243	243	243
Share Warrants & Outstandings	-	-	-
Reserves and surplus	220	59	(33)
Minority Interest	-	-	-
Long-Term Borrowings	-	-	5
Deferred tax liabilities(Net)	3	-	-
Contract liabilities	3	3	1
Long term provisions	15	11	9
Other financial liabilities	105	25	60
Trade payables	324	220	160
Other current liabilities	23	18	12
Short term borrowings	-	-	28
Short Term Provisions	1	1	1
<b>Total Liabilities</b>	<b>936</b>	<b>580</b>	<b>487</b>
<b>Assets</b>			
Net Block	7	4	4
Goodwill	134	59	59
Other intangible assets	95	88	80
Intangible assets under development	18	-	3
Investment in subsidiary	138	-	-
Investments	0	0	0
Loans	0	6	6
Deferred tax asset (net)	-	5	19
Other non-current assets	-	0	0
Other Current Assets	-	-	-
Contract asset	96	77	39
Trade receivables	269	158	135
Cash and cash equivalents	85	137	58
Other bank balance other than (ii) above	15	8	30
Loans	8	2	0
Other financial assets	13	0	0
Current tax asset (net)	36	24	28
Other current assets	22	12	24
<b>Total Assets</b>	<b>936</b>	<b>580</b>	<b>487</b>

Source: Red Herring Prospectus, Dealmoney research

# Key Risks

- ❑ There are outstanding litigations against the Company, the corporate Promoter, the individual Promoter and certain of the Directors and any adverse outcome in any of these litigations could have an adverse impact on the business, results of operations, cash flows and financial condition.
- ❑ It had negative cash flow generated from investing activities for Fiscal 2019 on a consolidated basis. It had negative cash flow generated from investing and financing activities for Fiscal 2019, 2018 and 2017 on an unconsolidated basis and it may experience negative cash flows in the future.
- ❑ It does not own any of the properties from which it operate. If the company is unable to renew the current leases or if it renew them on terms which are detrimental to the Company, it may suffer a disruption in the operations or increased relocating costs, or both, which could adversely affect the business, results of operations, cash flows and financial condition.
- ❑ If the company has ability to collect significant amounts of data from various sources is restricted by consumer choice, restrictions imposed by customers, publishers and browsers or other software developers, or changes in technology it may have a material adverse effect on the business, results of operations, cash flows and financial condition.
- ❑ Regulatory, legislative or self-regulatory developments regarding data protection could adversely affect its ability to conduct the business

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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