

Affle 3i Ltd. – Investment BUY Call

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 14 July 2026

CMP -> 1550

Buying Range -> 1550 to 1580

Upside Potential-> 15%

Investment Horizon -> 6 to 9 Months

Target price -> 1780

1. Business Overview and Investment Rationale – AI-Led Performance Marketing Platform

Affle 3i is a differentiated AI-powered consumer technology platform operating in the global digital advertising ecosystem with a unique outcome-based Cost Per Converted User (CPCU) business model, wherein advertisers pay only when a predefined user action such as an app install, purchase, transaction or store visit is completed. Unlike conventional digital advertising companies that generate revenue through impressions or clicks, Affle's revenue model is directly linked to measurable customer outcomes, resulting in superior revenue visibility and higher client retention. The Consumer Platform contributed approximately 99.2% of FY2026 revenue, while the Enterprise Platform provides AI-powered customer engagement and analytics solutions for enterprises owned digital properties. Supported by over two decades of proprietary AI research, 39 patents, cloud-native infrastructure, strong fraud detection capabilities and an integrated advertising technology stack, the company has established a scalable and asset-light business model across more than 130 countries. Management continues to reiterate its medium-term organic revenue growth guidance of around 20% CAGR while targeting significant operating leverage, making the company well positioned for sustained earnings compounding over the next several years.

2. Q4FY26 & FY26 Financial Performance, Balance Sheet and Cash Flow Strength

Affle reported another healthy operational performance during FY2026 with revenue increasing 19.5% YoY to approximately INR 27.1 billion, driven by robust execution across both emerging and developed markets. The core CPCU business continued to witness healthy volume expansion with 456 million converted users during FY2026, while the average CPCU rate improved to INR 58.9 from INR 57.5 in FY2025, reflecting improving monetisation and pricing power. EBITDA margin expanded by 120 basis points YoY to 22.5%, marking the sixth consecutive quarter of sequential margin improvement, demonstrating the scalability of the platform. The company continues to maintain an asset-light balance sheet with healthy cash generation characteristics owing to limited capital intensity. The Board has approved a preferential warrant issue of approximately INR 11 billion to the promoter entity, of which around INR 275 crore has already been infused, significantly strengthening financial flexibility for future acquisitions while maintaining a comfortable capital structure. The promoter group has additionally secured financing facilities through non-disposal undertakings, providing ample resources to pursue inorganic growth opportunities without materially stressing the balance sheet.

3. Growth Drivers, Business Segments and Near-Term Revenue Visibility

Affle's near-term growth over the next 2–4 quarters is expected to be driven by multiple structural growth engines. The Consumer Platform will remain the principal growth contributor through rising conversion volumes, increasing CPCU pricing and deeper penetration across high-growth verticals including E-commerce, FinTech, Entertainment, EdTech, Gaming, FoodTech, FMCG, Government, HealthTech, Hospitality and Home Utilities. These sectors continue to witness accelerating digital customer acquisition spending as enterprises increasingly focus on measurable return on advertising expenditure. India and other emerging markets, which contribute nearly three-fourths of revenue, remain the largest opportunity with strong adoption of mobile commerce, digital payments and app-based services. Simultaneously, developed markets continue to offer a sizeable long-term growth runway as management expands direct enterprise relationships through strengthened local leadership. The Enterprise Platform, although currently a small contributor, provides strategic cross-selling opportunities by enabling businesses to optimise user acquisition and customer engagement across their own digital ecosystems using the company's proprietary AI capabilities.

4. Operating Leverage, AI Transformation and Margin Expansion Opportunity

Affle remains one of the strongest operating leverage stories within the digital advertising ecosystem. Management has guided for EBITDA margins to improve towards the 23–25% range over the medium term, supported by multiple structural drivers. More than 80% of organisational workflows are now automated through internally developed AI agents, substantially reducing incremental manpower requirements despite rising revenue. Proprietary AI products such as OpticksAI, which automates creative generation, and Niko, the AI-powered app growth co-pilot, continue to improve campaign efficiency while lowering operating costs. Employee expenses are expected to remain broadly stable even as revenues continue growing at around 20%, thereby expanding operating margins through positive operating leverage. In addition, investments currently being made towards premium data assets and inventory across international EFGH verticals are expected to normalise over the coming year, creating another tailwind for margin expansion. The company's cloud-native infrastructure, centralisation of operational functions in lower-cost geographies and continued migration towards higher-value CPCU contracts collectively strengthen profitability prospects over the next several quarters.

5. Acquisition Strategy, Business Transformation and Future Expansion Opportunities

Affle has consistently followed a disciplined acquisition-led expansion strategy by acquiring specialised ad-tech platforms and subsequently transforming them into its proprietary higher-margin CPCU model. The recently announced acquisition of selected AdColony assets from Digital Turbine, including its SDK technology and global publisher integrations across iOS and Android, meaningfully strengthens Affle's supply-side capabilities by expanding publisher reach without assuming legacy customer contracts. This acquisition is expected to enhance inventory quality, improve campaign effectiveness and generate incremental conversion opportunities across global markets while leveraging Affle's existing AI and CPCU infrastructure. Management continues to evaluate additional acquisitions under its disciplined "20/20 Rule," targeting businesses generating approximately 20% revenue growth and 20% EBITDA margins before integrating them into Affle's superior operating model. The recently approved INR 11 billion promoter-funded capital raise provides adequate financial capacity to execute further strategic acquisitions during calendar year 2026. Such acquisitions are expected to accelerate revenue growth, strengthen cross-selling opportunities, enhance operating leverage and broaden the company's global technology platform, thereby creating multiple long-term value creation avenues.

6. Sector Tailwinds, High-Margin Opportunities and Future Growth Outlook

Affle operates at the intersection of several long-term structural themes including digital advertising, artificial intelligence, mobile commerce, digital payments, e-commerce, app economy and enterprise automation. Both government agencies and private enterprises are increasingly adopting measurable digital marketing solutions as advertising budgets continue shifting toward performance-based campaigns with demonstrable return on investment. Affle's high-margin CPCU model positions it favourably to benefit from this structural transition. Future growth is expected to be driven by deeper penetration across high-value verticals including FinTech, E-commerce, Entertainment, Gaming, HealthTech and Government digital initiatives, while expansion in North America and other developed markets offers an additional growth vector. Increasing direct relationships with advertisers, broader first-party data integration, continued AI innovation, higher conversion pricing and new publisher integrations are expected to sustain healthy revenue growth. The company's scalable technology platform, strong intellectual property portfolio, recurring customer relationships and disciplined capital allocation collectively provide significant visibility for sustained earnings growth over the medium term.

7. Key Risks, Near-Term Headwinds and Investment View

Despite its strong structural outlook, investors should monitor certain near-term risks. Higher upfront investments in premium inventory and first-party data across developed markets could temporarily moderate margin expansion before operating leverage fully materialises. Delays in integrating future acquisitions or slower-than-expected conversion of acquired platforms into the CPCU model may postpone expected synergies. The business also remains exposed to changes in global digital advertising spending, platform policies of major mobile ecosystems, evolving privacy regulations and fluctuations in customer marketing budgets. Competitive intensity from global advertising technology platforms could also influence pricing dynamics in certain markets. Nevertheless, these risks appear manageable considering Affle's differentiated outcome-based business model, diversified industry exposure, robust AI capabilities, disciplined acquisition strategy and healthy financial position. With management reiterating approximately 20% organic revenue CAGR, improving EBITDA margins towards 23–25%, continued AI-driven operating leverage, expanding global presence, strategic acquisitions and strong exposure to rapidly growing digital advertising segments, Affle remains well positioned to deliver healthy earnings growth, supporting a BUY recommendation for a medium-term investment horizon of 6–9 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team