Affle (India) Limited

Q1 FY2024 Earnings Conference Call

August 07, 2023 at 10:00AM IST

Management: 1) Mr. Anuj Khanna Sohum – Managing Director & Chief Executive Officer of Affle (India) Limited

2) Mr. Kapil Bhutani – Chief Financial & Operations Officer of Affle (India) Limited

Analyst: Mr. Anmol Garg – DAM Capital Advisors Limited

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Q1 FY2024 earnings conference call hosted by DAM Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anmol Garg from DAM Capital. Thank you and over to you Sir!

Anmol Garg: Thank you. Good morning everyone. On behalf of DAM Capital, we welcome you all to Q1 FY2024 conference call of Affle (India) Limited. I will take this opportunity to welcome the management of Affle (India) Limited represented by Mr. Anuj Khanna Sohum who is the Managing Director & Chief Executive Officer of the company and Mr. Kapil Bhutani who is the Chief Financial & Operations Officer of the company.

Before we begin the discussion, I would like to remind you that some of the statements made in today's conference call may be forward looking in nature and involve some risks and uncertainties. Kindly refer to slide 24 of the company's Q1 earnings presentation for a detailed disclaimer.

I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thank you and over to you Anuj!

Anuj Khanna Sohum: Good morning everyone and thank you for joining the call today. I trust all of you are keeping in good health.

On Affle's 4th IPO anniversary milestone, we would like to thank our 3,64,000+ shareholders for their continued trust and consistent support that inspires our commitment to deliver sustainable cash flow positive long-term growth with high standards of transparency and corporate governance. In Q1 FY2024, we attained our highest quarterly revenue run rate, highest consumer conversions and the highest CPCU rate. This performance is a result of the differentiated Affle2.0 strategy and the disciplined execution by our teams to enhance our consumer-centric platform offerings, further verticalize our capabilities towards high-growth emerging market verticals and to leverage acquisitive synergies for margin expansion progressively.

I am pleased that despite the challenging macro environment and our ongoing turnaround efforts in developed markets, we delivered revenue growth of 17% y-o-y and PAT growth of 21.4% y-o-y. On a CAGR basis over the last 3-year period, our growth is much ahead of the overall industry growth trends. Our CPCU business delivered 68.7 million conversions during the quarter, at a CPCU rate of Rs. 55 that helped us achieve CPCU Revenue of Rs. 3,778 million, an increase of 17.1% y-o-y. Our CPCU business continues to be resilient and underlines the long-term sustainable business momentum.

We fortified our Affle2.0 Consumer Platform Stack, advanced our value proposition in reimagining customers' business impact points and expanded our tech use cases to deliver growth across our top industry verticals in E, F, G and H Categories. This has strengthened our moat, enhanced mutual trust with our customers & partners and our direct customers contribution stood at 78% of our revenue in Q1 FY2024.

We have always been strongly anchored in India and Global Emerging Markets organically and we continued to witness broad-based growth in advertiser spends driven by our unique ROI-linked CPCU business model. Our organic growth in India and Global emerging market verticals combined was over 20% y-o-y. The market tailwinds continue to be intact, anchored on the accelerated consumer adoption of digital and the enhanced organizational shift towards digitally enabled processes. The recently approved Cabinet budget towards inclusive penetration of the internet across 6,40,000 villages would fuel further consumer adoption of connected devices in India.

Speaking of Developed Markets where macro headwinds had impacted our business over the last few quarters - we experienced expected de-growth in the months of April and May. We bottomed out in June based on the ongoing implementation of our decisive turnaround action plans as discussed in detail during the last earnings call. We successfully executed a series of tough steps mid-Q1 onwards that resulted in improved run-rate in the month of June itself. I am happy to confirm that we have rebuilt our foundation for Developed Markets with the integrated Consumer Platform approach with focus on key verticals, highest number of active customers till date and the highest number of full-time team members anchored in US. This instills confidence in our teams to go out, compete and win convincingly in US from here onwards.

Together with YouAppi now, we are stronger than ever before in developed markets with strong inroads with existing customers in the gaming vertical where we will upsell and cross sell our integrated platform. With this robust foundation rebuilt, we are confident of capitalizing on the improved macro market outlook through the competitive edge of our CPCU business model, deeply verticalized platform offerings and revived inspiration of our teams.

We also continued to fortify the premium use cases on our Affle2.0 Consumer Platform Stack with unique ad placements across O&O OEM app stores. During the quarter, we launched our full-funnel Proposition on iOS Appstore Apple Search Ads, enabling advertisers to drive premium conversions of iOS users effectively and that makes us early forerunners on advanced use cases on the Apple ecosystem including SKAN. With a key focus on upselling and cross-selling all our platform offerings, we have also rolled out CPCU model on Connected TV (CTV) with our household ID sync capabilities in India, global emerging markets and in US as of last Quarter. This will empower the advertisers to reach users across screens effectively and derive greater ROI with cross-device targeting capabilities of our platforms.

To reiterate our strength of delivering unique consumer experiences, we had, in total, shared 24 case studies in our earnings presentations over the last 8 quarters, that covered many of our key industry verticals. Continuing to share our success stories, this time, we have also included 3 case studies, which are focused on tech-enabled recruitment platform, FMCG and high-end gaming.

Affle continues to be recognized as an industry thought leader. Our mediasmart platform was recently awarded "Momentum Leader & High Performer" as Demand Side Platform in the G2 Spring 2023 report. We won gold for various campaigns in the CTV category at the coveted DATAMATIXX Awards 2023. We have also won 5 awards across various categories at Digixx 2023.

We are excited about growth opportunities that await ahead of us. As an AI algorithm powered consumer platform, we are further leveraging our core R&D capabilities and existing patent portfolio to build new IP, new patents and innovative use cases for responsible integration of Generative AI large language models as well. Our goal is to apply our new IP to generate better outcomes for consumer privacy protection, new data simulations based on past learnings, enhanced decisions for vernacular creatives and campaigns, self-learning algorithms to detect digital identities and advanced fraud prevention in digital advertising.

With a clear vision, committed leadership and ongoing investments in tech, we are geared up to unlock new opportunities for growth and success.

With that I now hand over the discussion to our CFO - Kapil Bhutani, to discuss the financials. Thank you and over to you Kapil!

Kapil Bhutani: Thank you Anuj. Wishing everyone a good day and hope all of you are keeping safe and well.

We have commenced FY2024 on a positive note to close Q1 FY2024 at a revenue of Rs. 4,066 million, a growth of 17.0% y-o-y. It was a broad-based growth across our industry verticals and across India & International Markets. During the quarter, India contributed 30.7% while the International markets contributed 69.3% to our revenue. Sequentially, Q1 revenue increased by 14.3% q-o-q, contributed by organic growth and on account of two months of consolidation of the acquired business.

Our EBITDA for the quarter stood at Rs. 781 million, an increase of 13.7% y-o-y, and EBITDA margin stood at 19.2%, despite the acquisitive consolidation. In terms of Opex, our Inventory and Data Cost stood at 61.1% of revenue from operations in this quarter. This was almost in line with the previous quarter while it witnessed significant margin improvement from Q1 last year.

Our Employee cost increased by 13.9% q-o-q on account of annual release of appraisals in few geographies and business consolidation of YouAppi, as well as our strategic efforts to expand our teams across platforms and markets. However, this increase in Employee cost was partially offset by the cost optimization in international markets on account of reorganized team structures in the developed markets.

Our Profit After Tax (PAT) for the quarter was at Rs. 662 million, an increase of 21.4% y-o-y. Our effective tax rate was lower this quarter primarily on account of lower contribution of profitability from select entities in developed markets and due to utilization of pre-acquisition losses of Youappi.

We remain focused on working capital management, have been extremely prudent in customers profile and as such there were no material changes in the collection risk.

We aim to play a much bigger role in the continuously evolving Martech ecosystem, with short-term macro challenges fully embraced and remain confident of the long-term business prospects to invest further in our business and tech IP.

With this, I end our presentation. Let us please open the floor for Questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Anmol Garg from DAM Capital. You can go ahead with your question, Sir!

Anmol Garg: Thanks for the opportunity. I wanted to understand how much the contribution from YouAppi would be this quarter on an absolute basis and from that standpoint, how much would be the organic growth in the company? If you can share the margin profile of YouAppi?

Kapil Bhutani: The contribution from YouAppi should be looked as consolidation of our developed market businesses. It was just a little over Rs. 450 million on the topline and YouAppi had a standalone EBITDA margin about 11%. This is an exercise to consolidate our overall developed market businesses along with the Jampp business.

Anuj Khanna Sohum: I would like to add to that. The way to look at our results for this quarter and going forward is that the organic growth is deeply & consistently anchored on India and global emerging markets where we are growing consistently over 20% y-o-y.

In terms of developed markets, because of our ongoing turnaround efforts as also discussed in our last earning call and decisive steps taken, we have now rebuilt a stronger foundation for developed markets than ever before. Together, with YouAppi and the turnaround efforts we have taken, today our revenue in developed markets has improved, especially in US on which almost 80% of our developed markets business is anchored. Our number of customers, revenue as well as the number of whole-time team members on the ground in developed markets and the inspiration of the team members being revived over the last few months under my direct leadership together with Anuj Kumar to lift it up has reached the level where we can safely say that our new cemented foundation for developed markets is larger than ever before. This provides a solid base on which we can now build upon confidently and convincingly versus where we were before for last few quarters where both macroeconomic factors as well as the internal issues were pulling us down and shaking the foundation there.

Another positive is that the macro factors in developed markets seem to be easing out. On both fronts internal issues as well as macro factors, we seem to be now in the more cemented position to build upon.

Anmol Garg: Thanks for the detailed answer and congratulations on good steps taken on the international markets recovery. Just from that standpoint, any kind of guidance that you want to give of a medium term for this geography?

Anuj Khanna Sohum: This year most of the our acquired businesses whether it is mediasmart, Appnext or even Jampp, will complete three years in Affle since their acquisition and this is the year where we are consolidating and leveraging the acquisitive synergies. With YouAppi included within this year, we are making everything much more deeply synergized for margin expansion because one of the things that all our investors were consistently telling us that when you acquire, it averages the margins down.

Organically, we are seeing margin expansion but because of the acquired entities being at a lower margin relatively, it was pulling us down. This quarter also you can see the our focus is on the margin expansion. Even with the consolidation of YouAppi, we are delivering over 19% EBITDA margin and on PAT level we delivered over 21% growth on a y-o-y basis. It is a very strong indicator of how Affle is operating and how we are going for quality customers, premium propositions in the market and consolidating our group this year so that there is no margin pull down or baggage of the acquisitions. On the other hand, we are also seeing acquisitive synergies like upselling, cross-selling and integration of the teams. For developed markets and especially in the US market where we are seeing very clear execution impact of this strategy.

From a bottom-line perspective, it would be safe to see around 20% plus growth on a y-o-y basis as a sustainable and defensible growth for us, given that this year our focus is going to be on margin expansion of the acquired businesses.

Anmol Garg: One last question from my end. Can we expect that even with YouAppi full integration that will come in the next quarter, can we still expect that the margins will expand on a consolidated basis from here on?

Anuj Khanna Sohum: The way I am looking at it is definitely progressively. I would not say this quarter or next specifically, but the goal for this year is to make sure that the entire group is synergized for premium propositions, higher CPCU rate, better overall bottom-line margin expansion and giving sensible growth on y-o-y basis. At least from a bottom-line perspective, we are making sure of delivering above 20% PAT growth on a y-o-y basis.

Can I say a specific number for this current quarter or the immediate next quarter? I will not get into that. You know our execution focus is strong and typically we deliver or exceed the expectations barring last few quarters because of challenges in developed markets and we could not address promptly. However, now we have arrested the situation and rebuild the foundation. There is a positive outlook and a positive spirit with which we are now going ahead. I am glad with the way we have executed in the last quarter, given all the challenges that were on hand.

Moderator: Our next question is from the line of Raghav Behani from Citi. Please go ahead with your question.

Raghav Behani: My question is on the CPCU rates. I see a bump up on a q-o-q basis. Is it because of the revenue contribution from developed markets going up? But as per your opening remarks, DMs had actually seen some kind of a degrowth in April and May. Any comments on the CPCUs going up and what is your sense if these levels can sustain in the coming quarters?

Anuj Khanna Sohum: Yes, there are 2-3 factors that contributing to improvement in CPCU. One of the factors is, of course, developed markets where the CPCU rate is always higher there. It is also because we are taking more premium services into the market as I mentioned in the last earnings call as well. Aligned with our strategy, we are looking at iOS users in India and global emerging market verticals. In developed markets as well, we are looking at premium positions and placements where the advertisers are seeing that Affle is bringing to them premium use cases to drive premium conversions and that necessarily means that the CPCU rates should move up. The CPCU of around Rs.55 is sustainable and we should see CPCU somewhere in the range of Rs.55 to Rs.58 for the rest of this financial year. Our goal would be to move it upwards from here towards Rs. 58.

Raghav Behani: Just one more question from my side is on the appraisal cycle. This time it was 1Q so usually is at 1Q every year?

Anuj Khanna Sohum: Some business units are appraised in April, while some are appraised in October. We typically balance it out between these two cycles.

Moderator: Next question is from the line of Sanjay Ladha from Bastion Research. Please go ahead.

Sanjay Ladha: Thanks for the opportunity. It is great to see that our CPCU model is accepted by all the companies across segments. Previously, when we used to see the case studies which were more from startup community. Now, it is mix of startups and well-established 20+ year companies adopting this channel of advertisement. What has changed in the last 3-4 years in terms of our approach and companies focusing on this model? Another question would be, most of the time what we see is, it is a one-time revenue vehicle. Is it possible that we get recurring revenue from players and do you share what percentage of revenue is recurring in nature and how is the trend going forward?

Anuj Khanna Sohum: Thank you so much for that question. When you look at our business definition and how we identify our company, we clearly take great emphasis on the fact that we are a Consumer-Centric Consumer Platform company. Yes, we make money from advertising, but more specifically we make money from advertising where our almost 93% of the business is anchored on CPCU business model. It means, the consumers are accepting, engaging and reacting to those recommendations & ads and doing deeper funnel premium conversions with the advertisers.

Affle delivered 68.7 million conversions in Q1 FY2024 and the way our AI algorithms work is that they look for the highest probability of conversions within any particular instance of recommending an ads or a product to the end users. In doing so, we can give one particular recommendation to a user at any given moment out of 1000 advertiser campaigns running with us. What that does is - it creates comparative bidding between the advertisers. If they really want their campaigns to scale up or to really be promoted to those consumers, they need to have strong product propositions for the consumers at the same time they need to bid a high enough CPCU bid rates for our algorithms to prioritize them. Therefore, the way we create a premium for our platform is to create competition between the advertisers to bid for it.

While most of the advertisers are on a recurring basis working with us for several years but we do not guarantee to the advertisers that we will definitely deliver your conversion. What we tell them is, please come on our platform & bid and our AI algorithms will provide consumer recommendations as per bids. As long as the consumer is engaging and converting, you will be invoiced and you will see a conversion benefit and ROI from there. It is not a typical scenario where we are trying to get lock-in budgets of the advertisers. We are giving them good guidance and competitive pressure to bid higher on our platform so we can give them better volumes of conversions and that is how the platform works.

We typically balance across our verticals and avoid concentration of any one customer or any one vertical or market. We aim to keep a broad-based growth and provide a variety of recommendations to the consumers so we can balance out the repeat conversions and new conversions. I hope that makes some sense but essentially advertising is how we earn our money but the core business model being CPCU is very consumer centered which is a core differentiation and a moat for our company.

Kapil Bhutani: Just to add to Anuj. We have seen the adoption of online payments using UPI or RuPay cards, which comes with lower transaction cost. This shift to digital payments has facilitated our expansion into various verticals. The availability of various payment gateways for different verticals is supporting growth of these verticals and enabling our deeper penetration with clients across the verticals.

Sanjay Ladha: I have one more question. Since last 2-3 quarters we have seen that our growth has little slow down as compared to our previous quarters and still we say that we are growing faster than the industry. Does it mean that industry growth of 30% plus has been also slow or how should we look at it?

Anuj Khanna Sohum: In the industry there are several categories of customers. If we just go by the metric of revenue growth, there are many categories of customers. What we do is selectively pick those quality of customers who will continue to sustain, grow and be together with us for many years to come where payments and credit risk is reasonably predictable and controllable. Because, when we do this business, we want to make sure that that we are giving sustainable quality revenue growth, premium conversions with premium customers and so on.

This is not about just getting all kinds of revenue and growing. If we were focused on that, we may not be seeing as stronger bottom-line strength that we have today. When you look at it from a cash flow lens, Affle has delivered superior quality of revenue. Affle is selective about which customers to choose and work with. You identified that in your question as well that instead of just taking money of start-ups who have recently been funded. It is more about waiting for them to mature a little more till we can absolutely scale them up. I think those factors are contributing to it.

In terms of looking at around 20% plus revenue growth in India and emerging market verticals globally, that is a sustainable and a sensible performance and at least in those markets we are also doing north of 20% plus EBITDA. As far as developed markets are concerned, we saw a pullback and because of that effect you see that the overall growth might be looking a little bit more subdued. However, the long-term tailwinds and long-term moat of our company is intact. Our confidence and outlook remains positive for the long term.

Moderator: Our next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Hi Anuj. I wanted to get an update on the OEM partnership that we were wanting to sign. Has the contract being signed and when do we and how much should be the benefit from this? When should it start to kick in?

Anuj Khanna Sohum: We have been cautious about setting a precedence of announcing every contract that we signed. Having said that, we have made clear commentary about the fact that we are strategically focusing on O&O OEM app stores. We have highlighted about the fact that we rolled out the product for iOS App Store and Apple search ads. We have remained a bit more guarded about the other OEM contracts where we are enabling monetization for several years on the app stores already for them. It is a continuing relationship, but what we are emphasizing is that we are going deeper strategically with them. Some of the contracts in this regard have already been signed and they are currently in the integration mode. We will announce it at appropriate time when partners are ready. At the same time, the business is already on and it is seeing incremental premiumness and benefiting us as we continue to grow. Please give us few months before we can make specific announcements but it is all in good stead and we are in a solid position.

Ashwin Mehta: Thanks Anuj that is good to hear. The second question is in terms of India market. We have seen some softness in terms of India from a sequential perspective. We are kind of flattish for the last three quarters and you have already talked about that this will be a slightly back ended year wherein the holiday season is pushed out. How do we see the remaining say 6-7 months of this year from an India perspective and especially in light of the cricket world cup as well. What are you hearing from the CMOs?

Anuj Khanna Sohum: The broad long-term trends for India as well as global emerging verticals are really encouraging and the outlook is favorable and positive. I elucidated that in my commentary earlier as well but if you are looking at specifically within this year, there are few macro factors. For example, there is additional tax on real money gaming and certain other factors. We are still calibrating what will be the impact. But on positive side, a lot of the other verticals are really rising & shining and there is no hang up or any pull down effect. We have cricket world cup ahead and the festive season in October, November and December. There are a lot of positive tailwinds but let us be conservative and continue to see that we will defend our organic growth trends in India and global emerging markets and across all our verticals. There is no reason to not uphold that and to continue to do better pricing on CPCU, more premium proposition even in India and global emerging verticals. I am confident about our execution and strategies, and the clarity with which we are pursuing them is strong and defensible. Can I give you any immediate guidance on numbers? I think we will wait for the results to come.

Ashwin Mehta: We have earlier talked about 20% - 25% growth for this year. Now in the context of the current numbers and uncertainty how are we looking at that?

Anuj Khanna Sohum: If you allow me some flexibility, I still want to maintain the math of those numbers but more so on PAT level growth. We are confident of delivering sensible bottom-line margin expansion based growth this year. It gives us a room to consolidate, derive acquisitive synergies for the next three quarters and deliver overall organic plus inorganic healthy growth and robust platform to build upon going forward. We are aiming for bottom-line growth of over 20% which we have delivered in this quarter also. Of course, there was some tax efficiency involved but that is where we want to be measured. If you are modeling our company then you can absolutely note that we are aiming to deliver the bottom-line growth of above 20%.

Moderator: Thank you. Our next question is from the line of Mayank Babla from Enam AMC. Please go ahead.

Mayank Babla: Congratulations on consolidating & integrating YouAppi to the organization. My first question is to Kapil about YouAppi. Apologies but I missed the earlier commentary on it. What was the contribution YouAppi had to our EBITDA this quarter. Could you give us some clarity on that?

Kapil Bhutani: As I previously mentioned, the contribution of YouAppi to our topline was just above 11% and YouAppi is sitting at its own EBITDA margin of close to 11%.

Mayank Babla: So, for modelling sake, what can we assume on YouAppi for rest of FY2024?

Kapil Bhutani: We are looking at these synergies to drive in and we commented already in the previous call that we will be taking YouAppi margins to the mid-teens kind of levels, by the year end. That means by June-2024, that is after 12 months of its integration.

Mayank Babla: My second question is to Anuj about the Connected TV (CTV) space. You mentioned that it is being rolled out during the quarter. What sort of response have you seen from clients in this space and what was the contribution to the revenue for this quarter? Also, what can be the potential & outlook for the CTV space over the next two years? Thank you.

Anuj Khanna Sohum: Thanks for that question. When we emphasize that our business is a Consumer Platform business, essentially the core tenet of that is wherever the consumer is, Affle platforms should be able to engage with the consumer over there. Now this necessarily means that mobile and smart phone devices becomes the anchoring point of contact with the consumer but then very quickly from there we are seeing that within a household, within a family there is a CTV at home. There are multiple smart devices at home and then there is a very interesting technology capability that we have which we call household ID based household sync technology.

When we drive a consumer conversion, which could have happened when we showed an ad recommendation to the consumer on the mobile device as well as when showed an ad recommendation to the consumers family or household ID on other connected devices including the CTV. While there is one conversion that has happened with the consumer, the consumer may have been engaged on multiple touch points within that household ID.

Therefore, when we talk about revenue attribution, it's essential to understand that we are an integrated platform. The ads and ad formats are varied, the touch points of those ads on various consumer connected devices are also varied. Therefore, when we derive efficiencies of cross device campaigns, connected mobile devices, CTV and so on, we are able to get highest ROI and efficiency as well as much deeper insights than many of the competitors.

What we have done is, we have taken our differentiated business model of CPCU and launched that on CTV as well. If an advertiser is spending budget with us on CTV, we are no longer charging them for just showing their ads. We are saying that we will charge you if we derive deeper funnel conversions on CPCU-based model and that is creating a differentiation of how we are going to market with CTV. This is especially noticeable in India and other global emerging markets and now in US as well where our CTV launch is being received well. We have seen our platform being ranked well in industry forums where we are seen as a thought leader winning the gold award in various campaigns on CTV category that I mentioned about the DATAMATIXX award in 2023.

All of these are indicators underlines that qualitatively we are on the right track. The customers are receiving it well and the industry is taking note of it. We have a differentiated go-to market strategy as well as the product proposition with the household ID and sync capabilities being brought to market. We are positive about the direction that we are taking. In terms of quantifying or taking out the segmental contribution to our revenue, it is still part of the CPCU business. We are not slicing and dicing percentage of ads that are on CTV versus on mobile. Mobile is by far the dominant force and the CTV is an emerging touch point for consumers. I think this touch point will be a lifestyle shift, which will happen across most of the affluent households across the world.

Moderator: Our next question is from the line of Swapnil Potdukhe from JM Financial. Please go ahead.

Swapnil Potdukhe: I have couple of questions. My first question is on the international markets revenue growth. If I were to slice out your YouAppi acquisition and then consider that the currency has depreciated, the INR has depreciated versus USD. Can you give us a sense of what would be the constant currency growth that you have achieved ex-of YouAppi in international markets? My second question is with respect to the impact of IPL and the cricket world cup which is going to come in the next few months. How does that generally affect the advertising budgets and do we get a certain boost because of these events?

Kapil Bhutani: On the currency front, I will take that question. For over nine months the currency has been quite stable. The currency has been constant and last quarter also, INR was about Rs.82 per dollar and we deal across multiple currencies. That question of slicing YouAppi in the light of the currency needs to be re-checked out by you.

Anuj Khanna Sohum: On the first question, I also wanted to give you some insights. When we look at India as one and international markets another, this is at a broad basis the way we have always reported since we went public or even during our roadshows before the IPO. Within international, there is further bifurcation into emerging markets and developed markets. Developed markets is majorly anchored on the US, while emerging markets is anchored on Southeast Asian emerging markets, Middle East, Africa, LATAM and several other countries. The emerging markets are behaving in a similar organic growth trends as India is and we have seen similar dynamics in those markets. Whether the advertisers are showing stronger affinity to the CPCU business model or the kind of innovations that you bring into the market and so on. We are also seeing similar competitive forces within emerging market and anchored out of India becomes a competitive advantage for us. Affle is one of the very few companies in this space that is deeply anchored on global emerging markets. When you see from that lens, you will find that a big part, organically over 80% plus of our businesses comes from India and global emerging markets. In these regions, the organic growth is very resilient, whether you take currency adjustment or any other angle you look at it. Whether it is CPCU conversion, revenue or customers growth, broad based organic growth is robust across 80%+ of our business.

In developed markets, we have already given clear commentary for last several quarters now and mentioned that we were facing macro headwinds, internal issues and how are we coping with that and changing it in order to rebuild our foundations to a bigger base than ever before. We provided details of our actions we have already taken and given an update on that as well in this commentary. We should be assessed based on that. I am confident that even in developed markets the base that we have now is defensible, solid and robust on which we can then build up sensibly with all the product and platform initiatives, strategies and the team focus. We are in a good shape today and also the macro factors have eased out a bit, so we are more optimistic that we can take this head on.

In terms of the second part of your question on IPL and cricket world cup. There will always be certain events or festivals, which will create some boost effect but advertisers typically plan a budget for the whole year and then they typically optimize that budget between different quarters and different markets based on such events. For example, if there is an IPL happening, some advertiser would double down at that point, while some advertiser might hold back and say there is already too much noise, too many advertisers and they may work around it strategically. We are seeing that for the world cup too. We should see some positive impact from certain categories of advertisers. That will at least help to hopefully neutralize impact of certain other things sch as introduction of certain taxation in real money gaming or any other factors.

We are looking at it in a balanced way, whether it is IPL, cricket world cup or festive season these are a definitely positive factors. This is not a one-off event. There are other such events which are constantly happening in each year. Overall, budget of the advertiser for the year is now being optimized and but there is no dramatic shift in the overall annual budget that the advertisers put on the paper.

Moderator: Our next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Thanks for the opportunity. I have three questions. Firstly, the run rate which you mentioned for YouAppi for the quarter suggests that this is like a flat year for them on a y-o-y basis. Any clarity or input on this front will be helpful. Secondly, the exposure and potential impact from new GST taxation norm that has been announced in India for RMG companies. Lastly, any expected trend in Q2 for domestic business this year given that the festivals are a bit delayed. Do we expect a softer Q2 sequential trend versus past years?

Anuj Khanna Sohum: With respect to any acquisition that we have done in the past, typically in most scenarios our focus within the year 1 of the acquisition is to try to improve the profits and the margin expansion of those businesses. As you can imagine in any company which is pushing for topline growth, some of that topline is coming from segments which are not profitable. They are just pushing for topline growth and want to increase the sales. It is ok for them if the margin is not there. To bring that discipline, in any acquisition, in year 1 we are focused on rationalizing the process, where we only work on unit economic basis. Every campaign, project and activity in every region must have a discipline of bottom-line sensible sustainable growth. There is some recalibration that typically happens and therefore our focus for this year is to bring the entire group in a consolidated way with acquisitive synergies extracted for progressive margin expansion. It should not be seen as flattish performance.

There are lot of growth opportunities in gaming but it is important to pursue the growth which is sensible & profitable and then scale up further. Without unit economics and margin, we would see a situation that you are getting the growth but not seeing the margin expansion. We need a few quarters to make sure that the integration and synergies are consolidated for margin expansion before we press the pedal for acceleration on that new base of unit economics. That is how I would like to answer your question on YouAppi and its a consistent pattern across our acquisitions.

With respect to Q2 and Q3, delayed festive season is one aspect. It is normal for the advertisers to set their budget for the whole year around certain sort of events and it might be balanced by certain other events. Whether it is a cricket world cup, festive period or the impact of GST, there will be both positive and negative effects. Overall, we remain optimistic and positive on the long-term trends. Even for the immediate Q2 and Q3, it is fair to expect flattish with an upward trend. How much of these effects pan out with respect to the cricket world cup, the festive period and the GST, not everything can be fully quantified. But what we are hearing from the market, it gives us a confidence that we are on a positive trajectory.

Kapil Bhutani: Just to add, with regards to GST impact on the RMG sector, we are in touch with our clients over this period to see how they are going to react. We have not seen any immediate reaction but let us be patient to fully understand the impact of GST which is going to be effective from October 1, 2023.

Rahul Jain So, July is so far trending in a usual behavior?

Kapil Bhutani: No, initially there was about 15-20 days of kneejerk reaction but it has got stabilized now.

Rahul Jain: Anuj just a want a small clarification. I appreciate your color on YouAppi. The process which you explained has really helped us to understand all the past transactions that you have done. But from this quarter point of view, are those recalibrations that you mentioned – a big part of that would already be behind us or you think it is too early and you would review each and every aspect over a period of time? So, could some run rate volatility still exist for some time and then we would see the real potential to play out?

Anuj Khanna Sohum: Yes absolutely. We are not in a rush to impress. What is important is we are building for long-term, sustainable, profitable and positive cash flow growth. It requires a different kind of a mindset to run and that mindset to be transferred to the next in line of leadership. This is why it is important that I am stepping forward and being the CEO of Jampp, being the CEO of Appnext and even the CEO of YouAppi. As the CEO of Affle, I am driving and leading from the front to ensure that we embrace, consolidate and derive the acquisitive synergies as we grow.

Together with the management team of Affle and the next in line leaders of these acquired entities, who are mature and professional, we are on a good stead. I am positive about our direction. There is no urgency. Let us press the pedal and extract every element of growth even though it may not have the unit economic sensibility. We have been very disciplined about it because once you allow some room and leave it, then it becomes a bad habit. We do not want to entertain any campaigns or any budgets which are not following the unit economic model that we insist upon.

Moderator: Our next question is from the line of Alisha Mahawala from Envision Capital. Please go ahead.

Alisha Mahawala: Thank you for the opportunity. With respect to the growth guidance earlier you mention that we are expecting CPCU of Rs.55 to sustain and CPCU for the year is expected to be in a range of Rs. 55 to Rs. 58. Even the number of users that we are adding are healthy, then why the hesitation in giving an outlook for the year?

Anuj Khanna Sohum: No there is no hesitation. It is just about being prudent. What we are guiding for and being transparent is about what we are doing inside the company. What products are we rolling out, what is the focus of the management, who is managing, which markets and so on. We are giving as much transparency as much as anybody could give including on things that are working well as well as on things that have challenges that we are working and hustling to turnaround. There is absolutely no hesitation in our transparency.

When I talk about going for premium use cases and propositions into the market and in the context of that it is a clear trend that the CPCU rate is moving upwards because of two factors, developed markets contribution as well as the premium use cases in emerging market verticals. It is not something that I am giving guidance on. It is something that one can see the trend line that is going to be in a range of Rs. 55 to Rs.58. It is not some guidance but the fact that is reasonably evident today itself and what I am saying is that it is defensible and sustainable.

The same thing I am saying about our profits. We have grown our profits in this quarter y-o-y over 20%. Some people would say there were some tax advantage, so is it going to be sustainable? My answer is yes, it is sustainable. Why it is sustainable? Because there are several areas of growth that we are expecting to drive robust profitability as well as we will continue to see certain tax advantages for the rest of this year. Therefore, we have also given guidance on the bottom-line aspect.

In terms of topline, I have given clarity that our focus is on making sure that we take out the acquisitive synergies as a group and do margin expansion progressively. Therefore, I am not pressing the accelerator of any areas where the margin is not so high and just let us get the incrementally high revenue. What we want is disciplined execution from our team where they know there is no leeway. Where do you draw the line? We are talking about 650 people organization operating across so many geographies. We need to have certain rules for internal discipled execution and that means that we are giving a strong message to our sales teams and execution teams, on what is allowed and what is not allowed.

With full transparency, there is absolutely no hesitation whatsoever. We have given long term guidance and we will stick by that. Overall, the long-term organic growth in India and emerging growth verticals is absolutely intact. In developed markets, we have rebuilt the foundation by doing certain tough decisions organically as well as cementing that position inorganically by adding YouAppi. This gives us critical mass of customers, employees in those markets so that we can build upon that.

Alisha Mahawala: That is helpful. Just one last clarification that the 17% y-o-y growth that we have achieved, how much will be organic growth?

Anuj Khanna Sohum: I think the answer to that again is in my commentary. At least as far as the organic business, which is over 80% in India and global emerging verticals, has delivered over 20% organic growth for us. In developed markets, we had a de-growth in April and May, but in June we were able to recover the trend. We obviously had y-o-y de-growth in developed markets versus where we were before, but we have cemented that position with the inorganic growth. What we have now achieved is the baseline run rate in developed markets that is higher than ever for us and therefore it is a new baseline to achieve.

The growth is in India and emerging market vertical, the de-growth is in the developed markets and we have solved it by taking turnaround steps as well as the inorganic cementing of our position there.

Moderator: Our next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: My question was regarding a clarification which you mentioned earlier. In April and May, there was de-growth in developed markets and June was a turnaround for you. How has been trend for July and has the turnaround still there? How is the trend now?

Anuj Khanna Sohum: Yes, we have already clearly stated that we have bottomed out in developed markets. We are on the way back up and are consolidating our position to make sure that we also do progressive margin expansion. Our position is strong. The way I would want you to visualize it is that the foundation in developed markets, which was shaky for last three quarters or more, has now been cemented with the decisive actions taken both organically as well as cemented with the YouAppi acquisition and putting it together as an integrated platform having highest number of customers in developed markets. Especially in US, having the highest numbers of team members on the ground, having a strong integrated product proposition with which we can go confidently and win convincingly.

You can imagine the team that had seen revenue in developed markets going down, they were not meeting their targets and some of the people were let go. They are now re-inspired as a unit, they are seeing a bigger team on the ground than ever before and more live customers together. There is lot of inspiration back and with that lens, there is no reason to be nervous about how Affle will do in developed markets for the rest of this year. Let us have the moment to consolidate and bring it back up, get to the margin expansion and then scale up.

Onkar Ghugardare: Just a follow-up on the growth of international business, this quarter you have achieved around 16% y-o-y growth despite two months of decline in developed markets. If you calculate that for the rest of the year what kind of growth you are expecting in the international, since you are saying it has bottomed out?

Anuj Khanna Sohum: I have been asked this question multiple times and in fact it is challenging that's why we are being hesitant in giving you the numbers. Let me once again anchor it that we will look for over 20% growth in bottom-line PAT performance of the whole group by focusing on consolidation, convergence and acquisitive synergies for margin expansion.

In terms of revenue growth, I would absolutely work on that. The growth in India and global emerging market verticals continues to be resilient north of 20%. In developed markets, we have arrested the situation where it was coming down. How quickly can we press the accelerator of growth and how much growth into the developed market? Give me at least one more quarter and when we come back to you with the results for Q2 FY2024 from there onwards, I will give you even more clear guidance but let me build it up further with the team and then get back to you with the clearer guidance. The only reason why I am guiding you on the bottom-line is because those plans are clear to me and we are able to anchor on it.

Onkar Ghugardare: Why I am asking this question is because the international business is putting pressure on the overall business because in terms of India growth it is quite healthy. But if you look at the international businesses profit growth, it is flat and the revenue growth is around 16% so is putting the pressure on the entire group?

Anuj Khanna Sohum: I understand why you are asking. I can tell you that I look at our numbers right from cash flow to every aspect of our numbers deeply. What I am asking you for is to allow the team to execute this quarter and to derive the margin expansion synergies and then press the accelerator for greater growth.

There is no nervousness about further degrowth or any other thing this could pull it down. I am trying to calm the nerves on that. I am giving you confidence that with our plans for margin expansion and the unit economics in every market, geography and business unit including YouAppi, which is the most recently acquired one where we will derive consolidated acquisitive synergies, we will do margin expansion and deliver PAT growth over 20% this year. In terms of how much will we grow in developed market in terms of revenue? It should be healthy outlook, but I will give you a quantified response on it when I give you Q2 results.

Moderator: Our next question that is from the line of Mohana Kumar who is an Investor. Please go ahead.

Mohana Kumar: Congrats on executing the plan that you had mentioned during the last earnings call. It is encouraging to see that things are picking in the last couple of months. I am trying to get a sense on, are there any plans of expanding into other developed markets or we remain largely focused on the US?

Anuj Khanna Sohum: US is the largest market in the world for digital advertising today and it will continue to remain that way for a long time. Even for us in terms of developed market contribution, we believe that if we win that battlefront well, we will have a stronger turnaround situation. We are focusing on anchoring the turnaround efforts on the US market a lot more. As I mentioned earlier, the current base of revenue, integrated customers and the number of full time employees that we have in US as of now, is highest that we have ever had in the past. We have rebuilt robust new foundation, which has the ability to give us the inspiration to go and convincingly win more from here. Do we have plans to enter other developed markets? We already have some presence in Europe, but our focus would be on anchoring around turning the US, where we will see the highest impact for this financial year.

Moderator: Ladies and gentlemen due to time constraint that was the last question of our question and answer session. I would now hand the conference over to the management of Affle (India) Limited for closing comments.

Anuj Khanna Sohum: Thank you everybody for today's call and once again, as I said at the beginning of my commentary that this is a significant milestone for Affle as a group to have a 4th IPO anniversary. We got listed on August 8, 2019. We have built credibility and consistent performance anchored on the trust and the support that we have got from over 3,64,000 shareholders.

We are optimistic about not only meeting our challenges & turning around but also delivering long-term sustainable profitable cash flow positive growth. We are also deeply excited about the things that we are doing in the new areas of R&D on responsible integration of Generative AI, large language models and so on. There were no questions asked on that today, but we will certainly see more happening in that area by the time we have the next earnings call. So, stay tuned and thank you for supporting us.

Moderator: Thank you. On behalf of DAM Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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