Affle (India) Limited

Q3 & 9M FY2023 Earnings Conference Call

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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. Ashwin Mehta – Ambit Capital

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day, and welcome to Affle (India) Limited 3Q and 9M FY2023 Earnings Conference Call hosted by Ambit 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 an 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. Ashwin Mehta from Ambit Capital. Thank you and over to you, sir.

Ashwin Mehta: Thank you Michelle. Good morning everyone. On behalf of Ambit Capital, we welcome you all to the Q3 and 9M FY2023 Conference Call of Affle (India) Limited. I 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 may involve some risks and uncertainties. Kindly refer to slide 26 of the Company's Q3 earnings presentation for a detailed disclaimer.

I now hand it over to Anuj Khanna Sohum for his opening remarks. Thanks and over to you, Anuj.

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

We achieved robust growth in 9M FY2023 to close the period with a revenue and PAT almost at par with previous full year, while we clearly surpassed previous year's EBITDA by 4%. We reported this quarter with our highest quarterly revenue & profitability run rate, highest CPCU revenue and user conversions.

Sequentially, Affle delivered revenue growth of 6.1% and a PAT growth of 17.6% q-o-q in Q3 FY2023. We achieved revenue CAGR of 58.5% in Q3 over the last 3-year period, much ahead of the industry growth trends. Our CPCU business noted a strong momentum delivering 67.8 million user conversions during the quarter, at an INR 51 CPCU rate. Overall, our CPCU revenue for Q3 increased by 14% y-o-y, ahead of the total revenue growth of 10.8% y-o-y. Our CPCU business continues to be resilient and underlines the long-term sustainable business momentum. In terms of 9M

FY2023, we achieved revenue growth of 40.6% y-o-y, PAT growth of 40% y-o-y and this growth was largely well-balanced across the three quarters.

Despite the ongoing global headwinds that have impacted businesses globally, our strong anchoring on India and other global emerging markets has enabled us to perform well. Our growth for India and global emerging markets was approximately 23% y-o-y. Our unique CPCU business model and focused execution on higher profitability and productivity underpinned our margin expansion on both q-o-q and y-o-y basis.

However, macro headwinds continued to impact our business in developed markets in US and Europe. I have also guided in the previous call, to mitigate this short-term impact in the developed markets, we realigned our execution strategies and operating resources to focus on improving our platform level pricing and profitability as well as maximizing our strategic partnerships. We are consistently holding our ground on quality of revenue, CPCU pricing and our market position of being a high ROI verticalized business for the advertisers.

We are focused on driving deeper consumer conversions for our customers, drawing significant moat from our Affle2.0 strategy to deliver a broad-based growth across our top industry verticals in Categories E, F, G and H. This has strengthened our moat and our Direct customers contribution stood at 71.8% of our revenue in 9M FY2023.

To reiterate our strength of delivering unique consumer experiences, we have in total shared 18 case studies in our Earnings Presentation over the last 6 quarters. These were focused on some of our key industry verticals including E-commerce, Edtech, Entertainment, Finance & Banking, FMCG, Foodtech, Healthtech, Retail and so on. Continuing on sharing our customer success stories, this time we have included three unique case studies.

The first one is Tata Neu, the super app in India, driving greater consumer adoption for online transactions in India. Here, we delivered approximately 2.3 times q-o-q growth in conversions.

The second case study is from a banking app, a Bank Jago app in Indonesia. Again, focused on growing the reach for essential financial services. Here, we delivered approximately 2.5x q-o-q growth in conversions.

Now what I am emphasizing from these case studies is that these are actually supported by either traditional large conglomerates owning and getting into digital or traditional financial services like banking and essential services focused upon greater consumer adoption on digital. Therefore, there is little or no dependence on such customers that are heavily dependent on new funding or venture capital funding or what's happening with start-ups.

The third case study that we shared is of TapNation, which is of hyper casual gaming. This is a fast growing and globally resilient vertical with rising user growth of all geographies including in the US. For TapNation, we delivered approximately 1.5 million user conversions in the last quarter and brought them to be the number one app in the Android App Store in the US.

These are important qualitative indicators of what Affle is focused on and how we are building our trajectory for greater growth and possibilities, not only in global emerging markets but also finding those emerging verticals in developed markets where we can accelerate and create a high margin and sustainable growth possibility.

We remain confident of the long-term business prospects and we continue to invest in our organic growth operations to drive sustainable growth. We are also actively evaluating inorganic opportunities with calibrated focus on higher bottom line growth for FY2023 and beyond, with greater emphasis on high-growth industry verticals. Our strategy is clear. We are looking at high growth but also sustainable bottom-line expansion and not just organic growth this time, but given the market situation, we think we can apply inorganic growth as well without compromising on the margins.

Affle continues to be recognized as an industry thought leader and as a testament to that we were awarded "Momentum leader for the Demand Side Platform" and was included in the "High Performer" categories in the prestigious G2 winter Reports 2023. Recently, our platforms also won seven more awards at India DG+ 2023 and "Mobexx Awards 2022" (organized by Adgully).

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.

Continuing our growth momentum – our Q3 FY2023 revenue stood at Rs. 3,761 million, a growth of 6.1% q-o-q and 10.8% y-o-y. We had a significant revenue growth of over 10% in India and other emerging markets on a sequential basis and approximately 23% growth y-o-y. Except for the developed markets, which anyways has a lower contribution for us on a consolidated basis, our business across global emerging markets remained resilient, with an overall bottom-line growth momentum and margin expansion. Our nine months revenue stood at Rs. 10,781 million, a robust growth of 40.6% y-o-y.

We recorded the highest quarterly EBITDA of Rs. 804 million which was 21.4% of our revenue, an increase of 11.1% q-o-q and 18.7% y-o-y.

In terms of Opex, inventory and data cost was at 60.7% of revenue from operations in Q3, an expansion of 138 basis points sequentially, driven by our conscious efforts of focusing on higher margin revenue.

Our employee benefit expense for the quarter increased sequentially by around 4% due to appraisals in few geographies and as a percentage of revenue, it was in line with our previous quarter.

Our normalized Profit After Tax for Q3 FY2023 was Rs. 690 million, an increase of 17.6% q-o-q and 14.8% y-o-y. Normalized PAT for 9M FY2023 stood at Rs. 1,829 million, an increase of 40.0% y-o-y. Please refer to slide 4 and 5 of our Earnings Presentation.

Our effective tax rate is slightly higher this quarter and is inching up towards a longer-term higher tax rate on account of lower deferred tax assets of our acquired businesses.

We remain focused on working capital management and our cash flow from operations and collection efforts have been robust. We have been extremely prudent in customers profile and as such there are no material changes in the collection risk.

Affle is well-diversified in regard to the markets served, tech use cases, platforms, customers, publishers and has a reasonable cash in hand. We remain confident of the long-term business prospects to invest further in our business and stand committed to deliver long-term sustainable growth.

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

Moderator: Thank you sir. We will now begin the question and answer session.

Ashwin Mehta: While the question queue assembles, I will go ahead with one question for Anuj. So, international markets especially US has been a drag for us. What are we seeing from a customer decision-making perspective? How close do you think are we to bottoming out? Then given our smaller scale and capabilities, where do you see the opportunities to outperform in this market?

Anuj Khanna Sohum: Thanks for that question. It's important for all our stakeholders to understand that Affle is not only anchored deeply on India, but also on Global emerging markets which together with India, contributed almost 80% of our revenues. The developed markets contribution is smaller for us and our presence in developed markets is also relatively small. But those are very large addressable markets. Even though those markets are facing the headwinds at the moment, we are relatively small. We have a few customers there in few verticals. If those customers are holding back budgets, we will see some of those headwinds impact us, which has clearly been the case and we quantified it for H1 FY2023. We grew around 23% in India and Global emerging markets. So clearly, the developed markets did not perform fantastically well for this quarter.

But the outlook for the calendar year 2023 and FY2024 is exactly quite positive, in my opinion. The reason why it is positive is because, I just came back from the US and I have looked at what is happening in that market, more from an internal perspective. You can say how much of this loss was or the slowdown and headwinds were attributed to external factors? What else can we do in internally? What can we calibrate so that we can accelerate faster, more sharply ahead in some of the verticals? I found certain areas where I know these are low-hanging fruits. We do these 3-4 things right in the next few months or quarters and we will start seeing a more broad-based growth in developed markets. Because our base is small in developed markets and the addressable market is still very large.

So, yes, external factors are there and they have impacted us. But we are well geared up and I know a clear action plan that we need to take over there. Let's see how it turns out. But I have a feeling that within the next couple of quarters, we will turn the situation around. It should be easy for us because of our differentiated proposition and we know what we needs to be done. We just need to execute to the new ground realities and we are calibrating well towards it.

Ashwin Mehta: Thanks Anuj. Just one follow-up. We also saw margins in the international markets go up despite revenues being flattish for us. From an investment perspective, to tap these opportunities, how are we looking at that?

Anuj Khanna Sohum: See it's counterintuitive. When you think that there are headwinds, a lot of times people would say, okay, to go ahead, we need to drop our pricing or margin. When revenue is not coming easily, one straight forward reaction is that, let's do something like that. In Affle's case, in fact, we follow a very contrarian strategy. In fact, I have been commenting on that quite deeply before as well. I have earlier said that we are focused on profitability and margin expansion. When the headwind is already there, there is only so much that you can drive forward. But at least make sure that how much ever we try, we maximize and strengthen our moat and position. Hold our ground well.

Now what we did in this time is that we told our sales team and our customers that, look the number of conversions that we are bringing into the market are quality, deep funnel consumer conversions. There are enough takers for it. So, we were not going for volume. We were not saying that, hey, give me your volume budget or I want to get INR 400 crores of revenue in this quarter. There was no emphasis on volume of revenue. It was only quality of revenue with better pricing. We knew we had enough quality conversions to sell and we knew we had enough advertisers to give us a good price for the budget. We have conviction in that. We held our ground and kept that focus. We said, look, we have these many conversions, you take it. If you cannot pay the price, don't worry, we have other advertisers that will take it. So, we were able to hold our ground and hold our pricing.

If you see the contribution of India versus international, almost 35%-65% split, with India contribution gone up few percentage points. The CPCU rate typically should have seen some fluctuations. But in our case, we have been able to improve our CPCU rate in this time, which is counterintuitive. Most people would think that recession or these kind of headwinds would mean pricing comes down. But if you emphasize on quality, put the scarcity premium and say that we have enough advertisers to buy and we are not looking for volume. We were not pushing for another million dollars of budget. We were not scrambling like that. Given that context, we were able to hold our pricing, in fact improve our pricing. That has reflected in the margins, not only in international, but overall in global emerging markets as well as in India. That strategy helped us. We were able to hold our ground and not commoditize. When the markets will improve, we should be able to defend our pricing and margin then if we are able to defend it in current times. So, with that philosophy, I think it has held us in a good stead.

Moderator: We have next question from the line of Abhishek Bhandari from Nomura.

Abhishek Bhandari: Anuj, I just had one small question on your non-CPCU business. While it is not material, but that part of the business seems to be declining, maybe at least for the last two quarters. Historically, it has grown at a pace lower than CPCU given our focus on CPCU business. But if you could clarify what's happening on that part of the business? Also, will it be right to corelate that the increase in margins, to some extent, also has to do with a falling contribution of non-CPCU?

Anuj Khanna Sohum: Like you quantified in your question, non-CPCU business is not material and the CPCU business is bulk of our business. And it's natural that when times are tough, selling is hard, you sell what you can sell at the best price and margins. You go out there and make that happen. Our CPCU business is clearly resilient and we want to anchor ourselves as a differentiated business model, ROI-driven, verticalized for advertisers, driving higher-value conversions and so on.

The emphasis is clear. When times are tough, you work on your strength rather than on your areas of opportunity only. So, we are maximizing on our strength and the non-CPCU business continues to remain a great opportunity for massive expansion going forward. Whether it's online to offline conversions or driving newer use cases or even platform as a service, like coming out with those kind of self-serve mechanisms of licensing or enabling technology, there are many opportunities there for us. Those opportunities continue to remain as long-term opportunity. But I think in these situations, we had to choose and say that, look, we have this much execution bandwidth and let's maximize on where we can extract our greater profitability and better pricing. I think it is just the execution show. I don't think you should read into it as the opportunity of non-CPCU is shrinking. I don't think that's the correct way to look at it.

Moderator: The next question is from the line of Mayank Babla from Enam Asset Management.

Mayank Babla: My first question is regarding the revenue growth in this quarter. 11% y-o-y growth is much below than the sort of 25% annual growth that you are foreseeing in this industry, specifically in the CPCU business. What is attributing to this lower growth? Though we have a higher exposure to India and emerging markets and lower to the developed. Has there been any delayed decision-making at the clients' side. Could you throw some light on this.

Anuj Khanna Sohum: I earlier tried to answer this question in terms of the mix of growth. When we look at Affle's business, we see it in three buckets: (1) India, where we grew approximately 23% y-o-y; (2) In other Global emerging markets, where, combined with India also, the growth is in the similar range of 23% y-o-y; (3) Developed markets. Around 80% of our business, which is India and other global emerging markets have shown a reasonable consistency in terms of its long-term growth trend which is what you mentioned, about 25% annual growth.

I think it's within that range given the larger base in Q3 last year because the last year festive season did not have the headwinds as strongly as the festive season this time. It's not exactly comparable. But even with that, we delivered around 23% growth in India and other Global emerging markets. I would take it as a great performance and I am happy with our team's focus in emerging markets.

Now going to developed markets. Clearly, we saw that in the developed markets, there was a contraction and the contraction is on a small base. We have a small base of customers there. If some of those customers are holding back budget or stopping some activity for some time, then there is obviously an impact. We saw an impact in the developed markets, largely localized into few verticals and key customers particularly in US and Europe. Now is that something to become nervous about with respect to rest of FY2023 or FY2024? The answer is no. As I mentioned earlier, I just come back from the trip to the US and I am in touch with the ground realities. I know that how we can do certain improvement in our execution with internal optimization. In the developed markets, the addressable market is still large and all we have to do is to have a smarter execution strategy. There are certain emerging verticals where we believe that we will continue to find resilient budgets & growth and our differentiated pitch will help us to win more customers.

We have our action plans in place and I am reasonably confident that we show meaningful results in the next couple of quarters. The way to look at it is like 80% of the business is absolutely on track. Yes, in the US and Europe markets, there is some contraction but we are having action plans to neutralize that going forward. I hope that answers your question?

Mayank Babla: Yes, that does. My second question is to Kapil regarding the margins. So great execution on margins, congratulations. If we could attribute this to good execution in the acquisitions like Jampp? Or this is purely out of better cost control in the erstwhile organic business?

Kapil Bhutani: The overall margins have been improved following the strategy to work with those clients which have a higher margin profile to further augment our CPCU business. As Anuj said, we have been prioritizing the conversions to customers who are paying better to us and where we can command a better CPCU rate. It has been a conscious strategy to focus on margins in this quarter.

Mayank Babla: Sure. Are you giving out what sort of margins is Jampp doing?

Kapil Bhutani: If you see the overall profile, we have increased our margin by about 1.4% that is 138 basis points. And if you see the breakup, India is under 100 basis point expansion and the international business has over 100 basis points expansion. There are clear synergies coming in from the all markets, which are facing headwinds, and where we are trying to work on the CPCU rates to hold on to margins and improve our bottom line performance.

Moderator: The next question is from the line of Anika Mittal from Nvest Research.

Anika Mittal: My first question is can you please explain the organizational structure as a whole?

Anuj Khanna Sohum: Company structure. I hope I'm understanding your question correctly. We are a listed company in India and we have subsidiaries around the world. We have a material subsidiary in Singapore, which is Affle International (100% owned) and all other subsidiaries are also 100% owned, except for Appnext Singapore. So basically, the listed entity is an Indian company that has all the global business under it and it has subsidiaries internationally, which are mostly 100% owned. If you have any specific query on the group structure, that you will like us to elaborate upon?

Anika Mittal: Affle is not paying any dividend while company is growing at over 35% annually. What is the company's rationale for not distributing the dividend?

Anuj Khanna Sohum: We are a fast-growing company and it is imperative for us to look at the capital allocation with respect to how we are creating value for the shareholders in the long term. We are not close to any possibilities. At the right time, we will take the right decision as the Board of Directors is always looking to maximize value for the shareholders. If utilizing our capital for organic & inorganic growth is the way to create greater value for the shareholders, we would do that with prudence, with careful calibration and in a bottom-line sensible way, making sure that we are always capital efficient. If we have surplus capital which is not needed to fund the organic and inorganic growth plans of the company, then we would certainly distribute dividend in that scenario. Kapil, if you have anything more, you can please add on?

Kapil Bhutani: Yes. Just wanted to mention a point. As we mentioned at our road shows at the time of listing, the company has made a policy for the first five years of listing, we will not distribute the dividends and will focus on growth and deploying capital for growth.

Moderator: The next question is from the line of Arya Sen from Franklin Templeton.

Arya Sen: I just wanted to check, last quarter you had given a guidance of around 10% growth in H2 versus H1 FY2023. Now based on these numbers, to achieve that, you will have to show q-o-q growth next quarter as well. So, any update on that guidance? Or are you sticking to it or any clarity on that?

Anuj Khanna Sohum: Yes. That guidance has largely held us in good stead with respect to India as well as other global emerging markets where the growth has been significant. Even on sequential basis, the trend lines have been meaningful. If you look at it from a CPCU business perspective, we have shown quite a resilient growth. It was not really a guidance, but it was more an industry outlook, which I had answered that I expect that the industry should deliver that kind of an outcome for an overall scenario.

In our case, more specifically, as I said earlier to some of the other stakeholders who were asking questions that we were not really pushing for top line maximization. For example, there was a campaign coming in and advertiser giving us a campaign for USD 20,000 at a lower CPCU rate. In some quarters, we take up those campaigns and bring the advertiser up along the way. So, you can have like a few million dollars' worth of campaigns which are maybe not as high margin or a high value in terms of pricing, but we take it and we say okay, we will pull them up along the way.

But in this quarter particularly, our emphasis was very clear. We focused on productivity, pricing and profitability. In many of those cases, we were so stiff about it and not ready to compromise. It was completely fine to not have that kind of revenue. We just wanted to make sure that we were working with our larger customers, larger accounts, which will be resilient, more profitable, better pricing and better volume. That's how we chose to execute. I hope that is consistent with what you heard from us before.

Arya Sen: Yes, it is. Just to clarify, typically we have seen a sequential decline in the March quarter i.e., Q4. So, most likely that is how it will remain, right? There is no reason to believe that this time it would be any different?

Anuj Khanna Sohum: I think this year it will be different. Q4 versus Q3 should be more flattish than the kind of sequential decline you have seen in past. The reason for that decline used to be not because there's something wrong in Q4. It was always because Q3 was where the advertisers exhausted most of the budgets due to the festive season.

Now when the festive season has headwinds in front of it and economic recession clouds on top of it, the advertisers are also more like balancing and flattening it out just to spend a little bit more in Q3. But typically, I think in this case, we will see a more balanced Q3 to Q4 versus the usual kind of a thing and that is because the Q3 was not as exhaustive in terms of the advertiser spends. So, I think Q3 to Q4 should be more flattish than otherwise.

Arya Sen: On the outlook for India and emerging markets, which are continuing to do quite well, what is the outlook there? Are you seeing any further improvement there? Or does it continue to be similar? Or can there be a risk there next year? What's the outlook on that part?

Anuj Khanna Sohum: From a competitive moat standpoint, Affle is in a very strong and happy place. A lot of our competitors, big or small ones, they are not calibrated on India and emerging markets. They are in developed markets where the headwinds are stronger and the business conditions are harsher at the moment. So, our competition is getting weaker.

In terms of India and emerging markets, our competitive moat is quite strong. I have no reason to believe that what we have delivered in 2022, we should be able to at least deliver that kind of growth and hopefully a much better as we go along and execute in the calendar year 2023. Given the macroeconomic situation, nobody wants to hear an absolutely unqualified bullish statement. But if I could make one, I would say, India and other emerging markets will hold us in good stead.

If we get our act together on some of the execution plans that I have put in place after my recent visit to the US, I think we will surprise our stakeholders with the resilient continued growth performance going forward.

Moderator: The next question is from the line of Pranav from ASK Investment Managers.

Pranav: Is it possible to share the breakup of the converted users between India and outside India for this quarter and last year?

Anuj Khanna Sohum: I wish it was possible. It's not at the moment, because we believe it is competitively sensitive information to reveal our CPCU average pricing for India as well as other markets. Having said that, qualitatively speaking, I can tell you that India is one of the most difficult markets in terms of unit economics. The fact that we are successfully running sustainable growth performance with healthy margins, it should give you a lot of confidence that if Affle with its capabilities over these years can do well in India, then it is able to do better in other emerging markets like Indonesia, Africa or other Southeast Asian emerging markets and then follow into LATAM.

This is a good thing because the CPCU pricing is better in other emerging markets than it is in India and of course, in developed markets, it's multiple times better. Overall, I can give you this level of detail and insight at the moment. As and when we feel that we are competitively safe enough to reveal more details about our pricing across markets and verticals, we will definitely keep you informed.

Pranav: Just a follow-up on that. Based on your previous commentary, better pricing was the sole reason for our CPCU rates to remain flattish on a y-o-y basis despite the skew increasing towards the Indian geography?

Anuj Khanna Sohum: Basically, even in these times, we are able to make sure that we can keep our pricing intact and still deliver meaningful growth across India and other emerging markets. So yes, it was linked to pricing. Even in the past, India vs. international, we have shown how the CPCU has progressed with the mix of business.

Moderator: The next question is from the line of Hitesh Malla from Steinberg India Advisors.

Hitesh Malla: I just had one question. I wanted to get your view on the recent updates to the Google Play policy for India. How do you think it will impact the industry as a whole? And how should we quantify the potential benefit to Affle given your strong OEM relationships?

Anuj Khanna Sohum: Thanks for that question. This is super important for the ecosystem in all emerging markets around the world. It's important for the industry to have a fair playing field for especially when we have ecosystem players that can have disproportionate control. They are the umpires of the match and also playing the match. I think in those kinds of situations in any industry, it is important to have some balancing factors coming in. We are happy to see that the Indian ecosystem is progressing towards that. Having said that, I think Google has a fair book. They have seen this across many geographies.

It will be an ongoing process. It is not going to be as simple as that there is a certain order that has come. It is too early to take sides or to start celebrating one way or the other. It is going to be a long-drawn process. But the end goal of any efficient marketplace or a business dynamic or a healthy business to happen is to have a fair balance in the playing field. I think that is a good thing for the industry. For us, as Affle, we were able to negotiate our growth quite well when Google was dominating unchecked. Now that they are being checked, I think it should still be a meaningful play for us. I am not calibrating my business plans around what happens to Google. Independent of whether they are kept in check or they are not, Affle has a resilient growth plan. Other than that, for an overall ecosystem level, I am actually quite happy to see what is happening one step at a time, but still it is a long way to go.

Hitesh Malla: Just a quick follow-up on that. Is it possible to give us some rough idea of the scale of your OEM business? How big would that be with respect to the overall company?

Anuj Khanna Sohum: I am not at liberty to give that breakup at the moment, but I can tell you that one of the clear areas of emphasis is how do we maximize ecosystem level strategic partnerships. We talk a lot more about the 2Vs and 2Os in Affle2.0 strategy. The 2Vs is Verticalization and Vernacular.

The 2Os re Operators and OEM partnerships. Operators and OEMs are important players in the ecosystem and we can absolutely partner with them and aid them to navigate through this journey. Then we would treat them more like a publisher partner with whom we can gain symbiotic relationship in the ecosystem. We see a lot of value in that collaboration across emerging markets especially and also in the developed markets progressively. But can I quantify that and give that you right away? No. But it is an area of consistent growth and value add for us.

Moderator: The next question is from the line of Rahul Jain from Dolat Capital.

Rahul Jain: Just to have sense in terms of your comment regarding India and emerging markets grown at 23% y-o-y. If I do my basic math, it implies that there is approx. 20% kind of a decline in the developed markets. So firstly, a clarification on that aspect please?

Anuj Khanna Sohum: The growth that we are seeing for our business in India is also consistent with the growth that we are seeing in other global emerging markets. It is almost uncanny how similarly India and the global emerging markets is behaving for us. Where we saw almost 23% y-o-y growth in this quarter. Then the terminology used is that developed markets, that is the international developed markets primarily countries like the US and Europe, where we have a smaller base of customers but it is a large addressable market.

Now when you have, let's say, 20 -30 customers in the US market specifically and if some of them due to the economic pressure hold back certain budgets, you would see a certain contraction and that is what we have seen. We have quantified that for H1 in our previous earnings call. If not for that in developed markets, we would have delivered even more fantastic outcomes. That is how we are looking at it.

Rahul Jain: Sure, I was able to get through that. So that's fine. Secondly, with the kind of growth that you are seeing in different markets and the kind of mix you may have, is there a new aspirational margin that we should keep in our mind now? Or is there a number that we should chase, in specific?

Anuj Khanna Sohum: Look, We should look at Affle as a company that is not only looking for a certain healthy level of growth but for us, growth comes almost in the same breath with margin expansion and sensible bottom-line execution. We do not limit ourselves with EBITDA and PAT. We are very granularly focused on cash flows and we have shown that consistently as a company. This is not something that is new to us because we have gone public and because of the market dynamics. For the last 10 years, this is the DNA of our company. We have always grown like that. We have been capital efficient, cash flow efficient and bottom line centric. Now one of the things that we have done in the last three years is that we have done inorganic growth. We acquired companies which were at breaking even and they averaged us down in terms of margins.

Now we have reached a level where we are at a ~20% plus EBITDA margin and ~17% odd PAT margin. I think that is a healthy place to be in. As you know we are a asset-light business model and as we continue to scale up, our revenues would hopefully grow but the increase in cost will be lower as compared to revenue. Therefore, there should be margin expansion on a consistent basis.

Talking about M&A, we think in 2023 we will find the right pricing to buy already meaningful profitable companies, which we then can unlock greater growth for them and for us, as a combined strategic unit. We do not think that now onwards when we do M&A, at least in 2023, that should not average us down in terms of our margins.

So, yes, it is reasonable to see us defending our margin position over time and expanding it further. If we take a 2- 3 year view, I am reasonably confident that there is enough merit in our business to defend and expand the margin one step at a time. But can I give you a number right now? Please spare me that as I am not allowed by our Board to provide guidance with such granularity.

Moderator: The next question is from the line of Karan Taurani from Elara Capital.

Karan Taurani: Two questions from my side. One is if there is any kind of shift within the business model or the offerings that you have? I think the growth in the last 2-3 years has been driven by lot of the companies which were up for customer acquisition and that's one of your larger revenue contributors. So in terms of getting more users for a particular app.

The second one is on increasing frequency for the existing user. Have you seen any kind of shift from just about customer addition towards an increase in frequency? And what kind of an impact this has on your margins or your revenue growth?

Anuj Khanna Sohum: At least in emerging markets, the emphasis is clear for us and it is on new users and new customer acquisition. It is true because the demand from the advertisers is always going to be to get to the next 100 million, next 200 million new users in emerging markets globally. You can see in the case studies that we also share consistently, in which advertisers are looking for more user acquisition, more market share and expansion.

New entrants are also coming in. Many large traditional conglomerates, every other business, which is out there is now going digital. When they go digital and if they are consumer-focused, they need that reach. Even larger established digital companies like Google, Facebook, Apple or Amazon who have advanced technology and digital capabilities and data insights, but when they come to emerging markets and they want to get to the next 200 million people, they also need to do digital advertising.

For Affle, there are enough big budgets to expect from large enterprise customers. At the same time, we are also carefully picking on larger players among the new age companies that are reasonably well funded, where we know that we can continue to work with them for many years and at least get our collections eventually. We are managing our risk in this way, but user acquisition in emerging markets will continue to be a key driver.

The definition of those use cases is also evolving, like from mobile, mobile to off-line, where we go into driving footfall and user acquisitions & transactions and so on. Having said that, in developed markets, we also see an opportunity to help our customers to drive repeat conversion where the users have already been onboarded.

Karan Taurani: Yes, thanks. Now the next question to follow up on this was that a lot of these companies right now, like e-commerce, fintech, gaming or the new age companies are spending a large chunk of advertising money on digital. I think, within digital, a more chunk of ad spends actually coming towards the new user acquisition part, which is now dropping and they are focusing on profitability. They are trying to cut the ad spends on new user acquisition and increase ad spends on repeat user and conversion. Just connecting the dots, is there a bigger negative impact for a player like Affle because of these kinds of reasons? Because I think these new age companies or internet or commerce companies or other could have digital ad share of close to 60-70%.

When times were good last year, they were spending a big amount of budgets over there. But what is the broader impact in terms of budget cuts? I understand that 23% y-o-y growth is what you are expecting in the emerging markets and this factors in the negative impact. But can things get worse from here?

Anuj Khanna Sohum: Sir, when people focus on profitability then there are two ways to gain the profit. One is that you are getting a repeat conversion from an existing user and secondly, by getting a new conversion from a new user.

If you have 2 choices: 1) Get INR 10 of sales from existing customer; 2) Get INR 10 of sales from a new customer, which one would you prefer? It is easier to get the revenue from the new customer because the existing one, I might anyways get this month or next month. But the new customer, I do not want to lose it to competition.

Now as far as Affle's business model is concerned, it is ROI linked for the advertiser. It is a no-brainer for the advertisers to work with Affle to drive conversions. Affle also deliver conversions from existing users i.e., repeat conversions. My product works for all the use case scenarios, new user conversion, repeat user conversion, online to offline conversion, connected TV conversions. Our technology stack is allowing us to go deep as well as wide. What I was telling you was that this is the advertiser sentiment.

Then you were right that the advertiser is focused on more profitability and ROI. They are being more careful with where they are spending their digital budgets. That is helping us more because we are cost per converted user ROI linked business model, whether it is a conversion from a new user first time or a repeat user online second time, or whether it is online to offline conversion from a new or repeat, all three use cases, Affle has been supporting prior to our going public and we continue to support those.

I was only telling you where the industry trend is and not whether Affle is more on this side and less on that side. Affle is able to address all of those use cases. If my customer wants to spend 80% budget on repeat, I can do that. If they want to spend 80% on new user acquisition, I can do that. I was giving you my outlook that the advertisers are still spending and saying, Affle, if you can get me that conversion from a new user, please get that first. If you cannot get it from a new user, okay, fine, let's get it from a repeat user also.

Karan Taurani: How margins are different for both these segments for Affle as a company?

Anuj Khanna Sohum: We are reasonably balanced on that and it is not dramatically different in terms of margins. Technically, we have a chance of charging more for new user acquisition. But while it is a new user for the advertiser, who has got the conversion from Affle platform working across thousands of advertiser apps promoted with us, chances are that user has already converted through Affle platforms before. Technically, if you think about it, everything that Affle might be doing is a repeat conversion. From an Affle platform perspective, for a certain advertiser it might be a new user.

Moderator: The next question is from the line of Arun Prasath from Avendus Spark.

Arun Prasath: I just wanted to get a clarification. We say that we have very low base in the developed markets. We are mostly towards the emerging markets internationally also. So, it's still then puzzling that our international business has grown only by around 6% on a y-o-y basis. Can you give us qualitative outlook on each country is which operating under the international portfolio. How it is there and how they have performed and what is the kind of outlook that you are expecting in calendar year 2023?

Anuj Khanna Sohum: Sure. I can explain it again. You can look at our business as India contributing in a range of about 30-35% of our revenue. You can then look at other Global emerging markets, contributing another around 45-50% to our revenue and developed markets contributing roughly 20% of our revenue. Now, therefore, India and other emerging markets was approximately 80% of our revenue. On that, we delivered consistent growth. Now, India has grown by around 23% y-o-y. What are countries in the other emerging markets we are talking about? We are talking about countries like Indonesia, Thailand, Malaysia, Philippines, Vietnam and so on in Southeast Asia, along with African emerging markets as well as Latin American markets. When we look at emerging markets on a broad basis, the growth of this market is actually in tandem with India's growth.

When you say international business, then it becomes around 65% of our revenue, of which around 45% was emerging markets and around 20% was developed markets. If the developed markets see a contraction and the emerging markets grow by around 23%, they are neutralizing each other, net-net, we are still growing.

The margin expansion and better pricing have delivered a much more positive outcome for our company in the last quarter. Because from a bottom-line perspective, we have seen margin expansion. From a top line growth perspective, we have continued to see strong resilient growth in almost 80% of our business. Wherever there has been an impact, we have a clear action plan with a hands-on clear leadership on the ground to go, execute and solve it.

In developed markets, our base is small. The contribution of developed markets to us is small, but the addressable market is very large. Even if that market is shrinking next year or next two years, it is still a large addressable market for a small base. We need to execute into that market to find our growth and we will certainly give you updates on that in the next couple of quarters and how we are doing that.

Arun Prasath: Just to clarify, you are saying that out of the international pack, the emerging markets continue to grow at over 20% each and the developed markets are declining, so that's how the weighted average number 6% is coming. Is this what I'm hearing?

Anuj Khanna Sohum: That is absolutely right. When we say developed markets is contracting, you have to see it on a small base, few customers and some of those customers have held back their spends or their budget because of the economic factors that they are seeing. Therefore it is not something that I am losing my sleep over. If I was, I would have sensitized our investors about it.

Moderator: The next question is from the line of Anmol Garg from DAM Capital.

Anmol Garg: I have two questions. Firstly, our data & inventory cost as a percentage of revenue have reduced somewhat drastically in the last couple of quarters. Any particular reason for the same? Also, what can be a sustainable number that we can expect from our inventory & data costs. Can it remain in the 60% range, or it can go downwards further?

Anuj Khanna Sohum: The way you have to look at it is that the ratio of inventory & data cost to the revenue is actually anchored out of the fact that 1) We are able to command a more meaningful pricing with respect to the CPCU rates and not allowing the data and inventory cost to go up. So, the incremental benefit of the CPCU rate pricing and making sure of efficiencies in the inventory & data cost has helped us; 2). We are focused on quality revenue, which Kapil also mentioned. If certain advertisers come in with smaller budget and smaller rates, in an expansionary mindset when headwinds are not there, one would say, okay, let's take it on and we will slowly scale them up and improve the pricing as we go along.

In the current state of mind, we do not want to compromise on pricing and took a very stiff execution steps and therefore, said no to some of that. When that happens, you will see margin expansion as well. In terms of any guidance on that going forward, I would say that look at from a modelling perspective, it would be somewhere within this range. I'm not suggesting that every other quarter, we will have a few percentage points expansion.

But overall, in terms of EBITDA or PAT, our goal would be to consistently look for overall margin expansion because whether it is on inventory & data costs or whether it is on Opex, we expect that it should not grow on a combined basis as much as we will grow our revenue. The revenue growth should be at a higher level and therefore, we will see margin expansion at the bottom line. But can I give you a specific number on how to model it? Not exclusively so, but it should be in a range of 60% +/- few percentage points and more so plus than minus.

Anmol Garg: Secondly, We had earlier stated that we are looking for acquisition which is relatively a sizable one. Can you talk a bit more on that? When can we expect it to close? Also, from which geography are we expecting to close this acquisition?

Anuj Khanna Sohum: It will be too early to reveal our cards because I am sure that those who we are talking to and negotiating with are also listening or will curiously listen to our earnings call. I do not want to give them any reason to negotiate better with us.

But what I can definitely tell you is that this is a good time for Affle to be a buyer in the market. We will find a value-driven appropriate transaction, which will be complementing symbiotic with us in 2023. Without giving any reference to clear timeline, in terms of transaction size, I can tell you that these transactions would be in the range of the kind of transactions that we have already done before.

When we acquired Mediasmart, it was relatively smaller and so were we. Then when we bought Appnext, we had already grown in size and then we bought Jampp. As a proportion to our own size at that time when we bought these companies, we are going to look at a similar proportion and scale. We are not changing the playbook on size or strategic segment theory. The only place where we have clearly communicated that we have changed the playbook is that, instead of after acquiring a breaking even company and waiting for year 1, 2, 3 to turn it to a higher profitability, which we have already done in Mediasmart and Appnext. We are looking that in 2023, there is a clear opportunity to calibrate our inorganic strategy towards acquiring already meaningful profitable companies, which we then can unlock greater growth for them and for us, as a combined strategic unit. We do not think that now onwards when we do M&A, at least in 2023, that should not average us down in terms of our margins.

Moderator: The next question is from the line of Najman Isa from Sumitomo Mitsui.

Najman Isa: If you could share a bit more colour in terms of the change in revenue contribution mix towards slightly less India today vs. India which was at 50% couple of years ago? Can you share the trend in terms of the traffic acquisition cost side percentage-wise versus the conversion. How much has it gone up or reduced? From my old notes, the cost of traffic acquisition 3 years ago was ~60%. I am just interested to see how has it trended since then? Also, how much change of mix will affect these numbers as well?

Anuj Khanna Sohum: I expect the inventory & data cost, which is traffic acquisition cost plus the cost of processing of data and the cloud computing related cost to be in that range. I think it will continue to be in a range of about 60%-65%. But when we invest more into going deeper into rural or trying to calibrate intel around the next sort of frontier of users and markets, we would typically invest more in certain scenarios.

But I think the trends have been quite consistent overall. What I'm also seeing now is that, for the same amount of money that we spend, we are able to listen more deeply or widely in terms of connecting with the inventory and the scale because it is no longer just looking at individual specific targeting with looking at more contextual intel. When you listen more widely, you build certain deeper contextual capabilities of what's happening across the verticals, across different segments and cohorts of different categories of users.

Our intel is much broader, wider and deeper because of the verticalization strategy that we have. We can drive more efficiencies as we go along at will. In many cases, we are also seeing that the first-party data that is coming from our partners where we work with them as a technology partner to deliver outcomes for them is also becoming a positive trend and that leads to more efficiencies as we go along.

Moderator: Thank you, sir. As that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Anuj Khanna Sohum: All right. Well, thank you so much for joining the call today. I wish all of you a successful rest of the year 2023 and a great financial year 2024 ahead. I assure you that Affle will continue to deliver resilient, growth-oriented and bottom-line sensible performance. I look forward to having our next conversation in a few months. Thank you.

Kapil Bhutani: Thank you, everyone.

Moderator: Thank you sir. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

*** end ***