Affle (India) Limited

Q3 & 9M FY2020 Earnings Conference Call

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

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

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This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Q3 & 9M FY2020 Earnings Conference Call hosted by Axis 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. Santosh Sinha from Axis Capital. Thank you and over to you Mr. Sinha!

Santosh Sinha: Thank you Aisha. Good morning everyone. On behalf of Axis Capital, we welcome you all to the Q3 & 9M FY2020 Earnings 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 Chairman, Managing Director and CEO of the Company and Mr. Kapil Bhutani who is the Chief Financial and Operations Officer of the Company.

Before we begin with the discussion, I would like to remind you that some of the statements made in today's conference call maybe forward-looking in nature and may involve risks and uncertainties. Kindly refer to the second last slide of the Affle's Earnings Presentation uploaded on the stock exchanges for a detailed disclaimer. I will now handover the call to Mr. Anuj Khanna Sohum for the opening remarks. Thank you and over to you Mr. Khanna!

Anuj Khanna Sohum: Thank you Santosh. Good morning everyone and thank you for joining the call today. I am excited that this year marks a significant milestone in Affle's journey since we started the Company 15 years ago in Singapore in 2005. Affle has since then successfully navigated several technology changes clearly by focusing on our strategic vision and most importantly always consistently reinventing our products and businesses strongly supported by R&D capabilities, which has helped us to adapt through this journey on mobile industry evolution. I am confident and committed for the next decade, which we are looking forward to as we start 2020.

Today, we are an end-to-end integrated platform for mobile marketing powered by our deep learning algorithms and we are consistently delivering deeper and higher conversions in the funnel leading to ROI for marketers and advertisers. We have grown in scale significantly in this time; however, we are constantly and consistently enhancing our strategic moats by looking at particularly three things that I would like to highlight today.

(a) We have expanded the scope of our products from just mobile to connected devices, going well beyond mobile and looking at connected devices as a strategic focus. (b) We are looking at the consumer's journey as an omnichannel platform, integrating it across both online journeys as well as offline journeys and therefore creating new possibilities for our customers. (c) We are going deeper, and when I say deeper in terms of customers, we are looking at verticalization as a strategy, and deeper in terms of consumers is that we are looking at vernacular affinity of the consumers which will strengthen our moat in India as well as other emerging markets.

Speaking of our financial performance in particular, I am pleased that despite the tough macroeconomic factors that have been at play and impacting most of the industries, Affle has delivered and is consistently moving towards a well-balanced and sustainable profitable growth. We are extending our moat both on the business model as well as on the data and technology fronts. Affle has reported a robust performance, a year-on-year revenue growth of 27.4% in Q3 FY2020 and a revenue growth of 34.3% year-to-date (9M FY2020).

This growth has been broad based and coming from over 30% organic growth from both existing and new customers across key industry verticals in India and international markets. If you look at the overall market mix for our business, India is our dominant market and largest market. It is also growing faster than the average industry growth in digital advertising. In India, we registered year-to-date revenue growth of 47.8% in this year and our international business, which is largely focused on other emerging markets particularly South East Asia, Middle East Africa and we are also taking some initiatives in LATAM, has actually increased at 22.8% year-to-date.

Our key focus continues to remain on the emerging markets and that is where our business also has the strongest moat. This has helped us to sustain the growth momentum in profitability and our year-to-date EBITDA growth was over 34.8% and our PAT growth was 46.2%. In terms of consumer trends, Affle as you know is a consumer platform business primarily, that is our biggest business segment. This is powered by the CPCU business model, which is the Cost per Converted User business model and the consumer trends have been extremely encouraging. If you look at the overall trends, (a) there is greater time spent by the consumers increasingly beyond mobile connected devices, (b) increased adoption of online payments and (c) also consistent growth in digital marketing spends by the advertisers.

Looking at these mega trends across the emerging markets, India our anchoring market, South East Asia, Middle East Africa and now going into LATAM, we see a clear predictable path where our business should be modeled and should deliver a CAGR of 25% revenue growth at least for the next 5 years till 2025. To further support and strengthen the moat of our consumer platform business, in the last quarter, we launched what we have defined as Vizury Engage360, an artificial intelligence driven omnichannel marketing platform and that has strengthened not only our CPCU model, but also introduced a SaaS based business model within that product.

We will continue to invest in the 4V strategy particularly vernacular verticalization along with greater emphasis on vertical-only channel integrations to further enhance our market position and also expand into connected devices.

What makes this third quarter even more special is that we have been consistently recognized as a thought leader in the industry and we were awarded gold for innovative mobile advertising at many recent local as well as global events some of which included 'Best Use of Technology', 'Best Use of Programmatic' at ET BrandEquity Digiplus awards, 4 awards by exchange4media at the Maddies Awards and 2 awards at the Mobile Marketing Association Smarties APAC and Global events.

Amongst these awards, one particular award that is very dear to me is about our team culture; where we were evaluated for our team culture, a detailed analysis was done and we were awarded the 'Great Place to Work' in the midsize company category. Overall, we are a very well differentiated, profitable growing business and increasing our cash flow positive performance consistently and therefore that creates numerous opportunities for us to invest both in organic as well as inorganic opportunities. With that, I would like to handover this discussion to our CFO, Kapil Bhutani to give you a more detailed financial performance of our Company. Thank you and over to you, Kapil!

Kapil Bhutani: Thank you Anuj. Whishing everyone a good day.

In 9M FY2020, the Company reported Revenue from Operations of Rs. 2,538 million, a year-on-year increase of 34.3% and in Q3 FY2020, the Revenue from Operations stood at Rs. 945 million, a year-on-year increase of 27.4%. Our conversion driven business model with technological advances made, is getting well recognized by advertisers resulting in higher business wins from both existing and new customers across the industry verticals.

Another trend that we discussed over last quarter call was a natural shift across select industry verticals where more advertisers were engaging directly with the Tech Platforms than through their advertising agencies. This trend has continued during the third quarter as well, further strengthening the Company's efforts to decrease its Top 10 Customers concentration, which for 9M has declined considerably to 47.2% from 67.2% on a comparable y-o-y basis.

Our EBITDA for 9M FY2020 has increased by 34.8%, with a margin expansion of 0.1% to reach to a margin of 26.7%. Our EBITDA for Q3 FY2020 increased by 20.0% year-on-year basis to reach Rs. 273 million. However, we should also compare our performance on a sequential basis, where our Q3 EBITDA growth was 25.6%, at a healthy margin of 28.9%.

Speaking of Profit After Tax, our PAT for 9M FY2020 was Rs. 502 million, an increase of 46.2% year-on-year, with a margin expansion of 1.4% to reach to a margin of 19.6%; where this growth is contributed by the higher topline volume as compared to the increase in total expenses. Our PAT for Q3 FY2020 was Rs. 214 million, an increase of 31.3% year-on-year, with a margin expansion of 0.3% to reach 22.3%. I wish to highlight, our PAT for Q3 FY2020 has sequentially grown by 37.6%, at a healthy margin of 22.3%.

With a long-term view to expand the reach across connected devices and to drive online and offline conversions, we continue to strategically invest in the Inventory & Data Cost.

Further, we also continued to enhance the human resource capabilities to deepen our access towards emerging markets and building products and technology in the omnichannel marketing space leading to an increase in Employee Expenses on a year-on-year basis for Q3 this year.

Also, the Company generated a healthy operating cash flow of Rs. 362 million in 9M this year.

With this, I end our presentation. Aisha, you may please open the line for the Q&A.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.

Omkar Kulkarni: Congratulations on good set of numbers. I just wanted to know you are currently having a revenue mix of 55% from India and 45% from outside India and given this quarter, I think you have just grown the revenue only 4% to 5%. So, is it negatively contributing to your bottom-line and what will be the trajectory going forward?

Anuj Khanna Sohum: Thanks for that question. I want to clarify that if you look at accounts report on the segments, there is a note from the auditor which is clearly stating that these are entity level accounts based on where the invoice is being raised by the entity, whether it is India or international. The way we look at our segments internally is based on where we deliver the business. If we are delivering a particular campaign in India that is India revenue, if we are delivering the campaign in South East Asia, Middle East Africa or other emerging international markets then that is an international revenue. Let me clarify, our India business is clearly growing above industry trends, which is over 40% growth, whether we look on Q3 basis or we look on a year-to-date basis. Similar trend is being seen in South East Asia, Middle East Africa and other emerging markets where our growth is around 25% for this quarter. Even if we look at it on an overall year-to-date basis for our international business including the developed geographies, that trend is also around 22% overall growth year-to-date. On a broad basis, if I look from a modeling perspective for the future, India is clearly growing above industry average growth rates; in other emerging markets also we are keeping our growth above industry average growth rates and in developed geographies we are at this moment a flat line. If you look at it, wherever we have an on-ground presence and have got our teams working closely with the customers, there we are beating industry growth rates. Where we do not have an on-ground presence and are working remotely from India and trying to gain customers across developed world, there we clearly have to invest more in terms of online sales presence. But overall it is a fairly healthy performance and I am not seeing international being a drag on the overall. Certainly all business units of our Company at the moment are profitable barring one, which is Shoffr, which is more a product investment at the moment and more it is going into omnichannel which we will expand into. But if I look at it either from product line or from each geography perspective, all our unit economics fundamentals are in place.

Omkar Kulkarni: Just to continue that point - say in next 5 years, how do you see your revenue mix and EBITDA contribution from international as well as domestic market. And how the margins differ between these two?

Anuj Khanna Sohum: When we start modeling it on a broad-basis, international will start growing a lot more when we open new geographies, when we start investing in on-ground presence in new geographies. We do not give a forward forecast on when we will open the new offices and so on, but if you take it from a current presence basis, you will see the India versus international revenue split is about 50% - 50%. I think you mentioned 55%, 45% split and that is not accurate. In our earnings presentation, we have provided the split between India and international and is about 50% - 50% in terms of the topline. Going forward in the long-term, we believe India will continue to grow significantly. In our strategy, it is clear that (a) India is the market we need to dominate and be the market leader; (b) in other emerging markets, we want to be in the top few players and be a market leader there and then (c) the third frontier is the global leadership of our Company. When we take in that order, in the next 5 years you will continue to see us beating industry growth rates in India and other emerging markets, and then in developed markets as and when we open new offices there, that is when you will see international having a higher percentage of the revenue versus India. Until we start doing that, you will see a broad-based trend, which is in the present range. Where we see the shifting, at least if I will borrow your numbers, we will probably see the international contributing 55% and India contributing 45%, only when we open more offices in the developed geographies, and that is when the balance will shift more significantly in favor of international.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura Securities. Please go ahead.

Rishit Parikh: Thanks for taking my question. Sir, congratulations on good execution in the quarter. Just a couple of questions from my side, the first one if we look from an organic standpoint the growth looks like it was slightly weaker and --- (Call dropped)

Moderator: Sir, the line for the current participant dropped.

Anuj Khanna Sohum: May I answer the question that we heard so far?

Moderator: Sure, Sir.

Anuj Khanna Sohum: I do not see that the organic trend has changed from the past. If you look at the last 5 years, our Company has given a CAGR topline growth of around 30%. Even in this quarter or in this particular financial year, our year-to-date organic growth is above 30%. So, I do not see that as any concern whatsoever and even on an inorganic front, we acquired businesses which were in turnaround situations. We are very happy with the way (a) we have transformed Vizury into the omnichannel platform, which I talked about in my conversation earlier and (b) particularly with Revx and Vizury, we have managed to integrate them into our Bengaluru R&D center very meaningfully and are expecting upgradation happening there. In terms of the bottom-line also, we are moving quite nicely. I am happy with the way the organization has come together, both organically as well as inorganically.

Moderator: Thank you. The next question is from the line of Manish from Nippon India. Please go ahead.

Manish Kumar: Thanks. Just had couple of questions. First, the cash flow number that you mentioned, is that for the nine months period?

Kapil Bhutani: Yes, it is for the nine months this year.

Manish Kumar: What is the number, 37 Crores, that is right?

Kapil Bhutani: Yes.

Manish Kumar: Q-o-Q, the cost has come down significantly, let us say both staff cost and other expenses, would you be able to explain what is the reason for the same?

Kapil Bhutani: You can see that there is a growth in the employee cost by 40% over 9 months period and the variation in between the quarters is on account of certain actuarial provisions or employee benefit provisions, which were higher due to discounting rates getting blocked in the first half of the year. This has got adjusted in the Q3 FY2020. Even for the last year, if you see the rates dropped somewhere in Q1-Q2, so our Q1 employee cost were higher than the Q2 cost, as there were some provisioning metrics. But overall the Company’s cost on employee has increased by 40% over 9 months.

Manish Kumar: What about the other expenses?

Kapil Bhutani: Other expenses are in line with the last year trend. We have not increased the other expenses and there is only 1.4% overall increase in the other expenses over a 9 months period. The trend of spending is usually less in Q3 because of the festive season, and the events which are happening, our participation is less. If you compare with the last year trend, the current year trend spending is in the same line.

Manish Kumar: I believe other expenses are largely marketing expenses, right?

Kapil Bhutani: No, there are other expenses also, but you can say about 25% to 30% is the marketing spend overall.

Manish Kumar: Sir, I am just trying to understand these will grow in tandem with let us say a new client acquisitions or sales growth?

Kapil Bhutani: At the moment, I believe that we should be able to contain these kind of expenses going forward as the Company is getting good traction of business (a) at the back of the IPO and (b) the industry recognitions which we are getting all around. So we do not see any significant increase in this, but the market situations will play out the way it plays out.

Anuj Khanna Sohum: For example, this month in February we are attending the Mobile World Congress event which is a global event and will be meeting a lot of customers and partners there. Similarly in India, we would be looking at selective events and participations for business development and marketing, and Q3 is particularly low because of Diwali, Christmas, and in fact most of the industry events are not anchored in that particular quarter. That is the factor there, but clearly you should be aware that we are not a company that plays on the back foot.

Manish Kumar: Great. All the best. Thanks.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, reference to the 34% volume growth in the converted users, could you give us breakup on the geography wise, and which were the big contributors? Second, how is CPCU rate trend in India, which is anywhere a bit lower compared to the international markets? Thanks.

Anuj Khanna Sohum: Like we mentioned in the H1 results as well, our Board has not necessarily authorized in terms of providing detailed breakup of these number because it is comparatively sensitive information. Having said that, I can tell you very clearly that the growth, which has moved from 41.6 million converted users in 9M last year to 56 million converted users in 9M this year that we have delivered, is clearly coming anchored from India as well as the mix from other emerging markets is also significant. Over 90% of these conversions have actually come from emerging markets and within emerging markets as you rightly pointed out that for India in particular the CPCU rate is lower. Even on that basis when we compare for the previous year 9 months, our average CPCU rate was Rs. 40.4 whereas the average CPCU rate realized in the 9 months of this financial year was Rs. 41.2. In terms of this quarter itself, it is largely flat, it was at Rs. 41.0 in Q3 last year and Q3 this year also it is 41.1. The trend here is and the point to be noted in terms of the DNA of our Company is that we are going for volume and we look at conversions, and clearly our scale is coming from increase in volume. In terms of the pricing, which is the quality of our business or realization at the CPCU rate, we would see that while are expanding volume we are not compromising or taking market pressure at the CPCU rate level. While India is growing significantly higher in terms of the growth rate when we balance it 50% - 50% between India and international, the CPCU rate on an aggregate level is still showing a good growth trend. On a long-term basis, if anybody is modeling our business for the next 5 years, we will be able to maintain this kind of a CPCU rate while our focus will continue to be on volume growth in terms of conversions.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura Securities. Please go ahead.

Rishit Parikh: Thanks for taking my question again, sorry I got dropped off. Just when I was finishing the question, Mr. Anuj mentioned that this quarter the organic growth was 30%. But I would have thought you had RevX this quarter versus from a Y-o-Y comparison. If you takeoff whatever 5 Crores or 6 Crores that you were mentioning, growth would have been somewhere on 20%. Sorry if I missed anything here?

Anuj Khanna Sohum: I understand that when you are doing this modeling, it is a bit hard because over the last one and half years we have acquired Vizury, RevX and Shoffr. When we talk about organic growth, the way we are looking at it is, in the last year Q3 what was Vizury's contribution and then remove that. This year's Q3 we look at Vizury, RevX and Shoffr and remove that and then compare organic to organic. That growth is over 30%. When you interpret that, last year we only had Vizury, this year we have Vizury plus RevX and on a combined basis the growth from the inorganic part has been in the early teens. There is some turnaround situation from Vizury and Shoffr because they were loss-making companies at that time when we acquired them and the bottom-line contribution was not there. We are changing the quality of Vizury business and on the other hand, RevX has come in quite nicely and hit the ground running with us. We are already in the mode of scaling it up and in terms of the integration of Vizury, which was our first acquisition, we have launched the Vizury Engage360, which is clearly an indicator on how our products have integrated meaningfully post the acquisition, and the quality of business has gone up. In terms of RevX, we have already moved it very nicely and even on a bottom-line performance we are quite comfortable with the way it is going. I hope I have answered your question.

Rishit Parikh: That is really helpful. Thank you. The other question was from a near term traction, how is Q4 looking like, basis the one month that you have already seen. Should we see that, if you look at last year our Q4 was from a sequential basis significantly lower than Q3, but again Q3 was a bumper quarter right. From that perspective, how does Q4 look like. If you can provide some colour on that, that will be helpful?

Anuj Khanna Sohum: Let us look at the seasonality of our business, we are in the business where the advertisers are on one side looking at capitalizing on the consumption patterns of the end consumer, and both sides of the ecosystem particularly behave differently in Q3, which is the October, November, December festive season. Consumers are looking to consume more consequently; advertisers are advertising more typically. Last year without the drag of macroeconomic factors, Q3 was a bumper quarter in the last financial year because of the festive season and there was nothing unnatural about it, it should have happened like that. This year in Q3, we have performed well and if you noticed my comment earlier when I started about our financials, I said despite weak macroeconomic factors we have achieved these numbers. In this particular Q3, had the economic factors not put the drag, the Company could have done - let us say 5% better on the topline performance around there. What has happened is, if you look at the advertisers typically they go bullish on Q3, they have annual budgets, and let us say till March end the budge is X, they spend a big part of their budget in Q3 and therefore, they have lesser to spend in Q4 and that is what you saw last year. This year Q3, the advertisers have still not come out as strongly, so there will be some spillover effects. Let us say if in Q3 they spent 5 Crores short, the advertisers have saved that budget and hopefully in Q4 they will put that little bit extra, though we will still see the trend of Q3 being the highest and Q4 being slightly better than before. That is all I can tell you at the macro level and this is the industry situation. Having said that, our Board has not given us the authority to provide short-term guidance on Q4.

Rishit Parikh: Perfect and just one last follow up, from a customer standpoint, how can we look at the business, is there is a way if you can provide a little more detail on say what are the customer win that you would have done. Let us say the numbers of customers that you can provide. I understand there is competitive issues in terms of how much data you can talk about. But if you can just provide let us say we won like X customers this quarter and that helps us compare what is the revenue per customer and how that metric is going forward.

Anuj Khanna Sohum: Thanks for your question. One of the ways we are trying to address the customer level of disclosure is looking at the top 10 customer performance and providing that pie-chart where we are showing that the top 10 contribution has been consistently for this year below 50% of our total topline. Therefore, what that implies is two things, (a) we are clearly broad basing our customer base, that means the denominator is growing much faster and therefore the concentration risk of the top 10 customer is coming down. (b) Another trend which I had talked about even in the last investors call is that there is a larger industry trend looming that some of the digitally savvy customers are going the path of working directly with tech platforms instead of going through the agency route. As Affle, we work with agency partners as a most important strategic partner, and at the same time we always welcome if certain customers have chosen not to work with the agencies and want to go direct, they are most welcome to directly work with Affle. We have a fairly good balance on that front and the balance is shifting from only agencies to increasing new-age digital savvy customers. Let us say fintech companies, new-age gaming companies, they would work directly with the technology platform not through agency and those are new areas of growth that is happening for our business. While of course e-commerce is continuing to grow, we are still seeing OTT entertainment as a broad category that continues to grow. Given the macro factors as well as the healthcare related concerns that are looming around, we think travel and transport as a category would be a little bit more muted at this point in time, but then other categories are like where people are perhaps staying at home a bit more and are engaging in more gaming or entertainment, those categories would grow. On a quarter-on-quarter basis, you will see certain shifts in trends, and as we go forward, we may start sharing more trend line into customer segments or giving some kind of greater insight there. But, at the moment the top 10 customer spread is a good way to look at it and hopefully, you will find that as a sufficient response.

Rishit Parikh: That is helpful and just one last, there was charge of around Rs. 179 million, which is to selling shareholders. If you could just give us some colour on what the charges were and how that accounted for?

Kapil Bhutani: You are aware that the Company incurred expenses on IPO and about 80% of the shares, which were sold in IPO were on account of the selling shareholders, which is Affle holdings. We have charged proportionate expenses of that to the Affle holdings, for their share of expenses in the IPO.

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

Rahul Jain: Congratulations on the strong performance. Firstly, any input you want to share on the Vizury Engage360. What is potential out here, how we are going to price it and then how it is going to help us in terms of cross selling on the existing clients that we have?

Anuj Khanna Sohum: On Vizury Engage360, this is the first product that Affle has launched which is marrying marketing tech and ad tech. As you know we are in the conversion business and are driving conversions for our advertisers. From a strategic point of view, driving conversions for an advertiser on their owned channels, where they have multiple touch points with their consumers and they do not need to pay any third parties the media cost in order to drive a conversion, that is something that is deeply addressed as a cross-channel, omnichannel marketing platform in Vizury Engage360. Imagine working with an advertiser driving conversions for them without having any significant inventory cost or data related inventory cost with external parties associated with it. It is powering a new dimension to our business, when we focus on certain customer verticals say e-commerce, fintech or healthcare or these kind of categories, or even retail where we can look at driving online to offline conversions as well; and this platform is strategically important to us. In terms of the business model, it has two components, (a) there is a SaaS component where we are charging the advertisers on a recurrent SaaS model for the technology integrations that we are doing for them and then (b) there is CPCU conversion upside, which you would also be charging both on the own media as well as on the paid media, which the platform enables. This is a strategic move from the Company and it is a game changing move potentially from industry point of view as well because we are now marring marketing tech and ad tech in one integrated dashboard for consumer journeys, both online consumer journeys and increasingly offline consumer journeys.

Rahul Jain: Do you think that this would have a significant tend to a lot of other business models, mainly traditional business models, who are dependent upon one lag effect more on the CPC/CPM side?

Anuj Khanna Sohum: I do not compete with CPC/CPM models. The budgets of advertisers are broad-based and they are looking at marketing on mobile or digital or connected devices. When we go in there, our goal is to be the disruptive innovative platform which is consistently bringing to the advertiser greater value and ROI. With that as our focus and the lens I see today, our product is significantly differentiated from what is out there and when it make forays into developed geographies, this product will help us to get into those geographies because of merit and the competitive positioning of this product is very strong. In order to win customers remotely, like we are sitting in India and trying to win, either you have to build and deepen sales presence in those geographies or sharpen your product focus where you win even remotely. Vizury Engage360 is that platform and we will also be investing to create SaaS marketing organization within our Company to enhance business wins and improve the ROI of our customers.

Rahul Jain: Secondly from a regulatory side perspective, do we see any major changes that is happening around the globe which may possibly have some percussion in our business. For example, the cookie setting that the Goggle Chrome has been talking about and the CCPA rule that has come in the US?

Anuj Khanna Sohum: If you look at our business, over 90% of the business conversions that we are driving is happening in emerging markets. None of the emerging markets where we have an on-ground presence or have significant part of our business, have any data privacy regulations at the moment. Of course, most governments are talking about it and in the next three to five years, most of them will have the data privacy regulations, which will be equivalent to or some variant of what is already there in Europe in the name of GDPR and as you mentioned in the US, CCPA and so on. We are watchful. We are also a global platform, and yes, our developed geographies presence is low, but it is still something that we watch very carefully and are already preemptively complying with those regulations that are not even applicable in developing geographies. So on that front, we are well prepared and watchful. On your particular question about cookies, let's share with you, I have been an entrepreneur in the tech space for over 21 years and cookies have also been live for over 21 years. Cookies is an inefficient way of doing the business. I am happy that the industry is now taking a call finally to say, this old technology needs to go and something new needs to come. Google has not announced what that new thing would be on their browsers, but they have said cookies need to go and I think that is the right direction for the industry. But it does not impact us at all because our business is not on the web browser or the mobile web browser; our business is over 95% in-app mobile and within in-app mobile, the cookies does not have a play and since inception it has never had the play. It is more based on the device IDs, which is based on non-personally identifiable device IDs and again the in-app space is not dependent on one browser. As a consumer if you go to 1000s of websites, you go through say one or two browsers. But if you are going through 1000s of apps on the phone, you are actually working with those native apps and those native apps have to decide what they are sharing or not sharing and what consent they are seeking. Whereas in the browser world, if you change something in the browser all your consumer experience will be changed. The in-app world is naturally derisked and does not have any cookie related impact, and at the moment there is no concern. I am looking at the evolution on the browsers quite excitedly because some of our customers who work with us on particularly Vizury Engage360, as multiple touch points also have the browser integrated there. There we will learn about the cookies while its impact for us overall in the in-app business is negligible.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Sir, my question is regarding the operating margin. You have been investing for growth in the content as well as employee, so if you can just help us with what could have been a core profitability and what part is really investment for the future in the expenses? Or to put it differently if you can help us till what time you will have the inventory cost and employee cost running ahead of the revenue growth and when should we see the operating leverage kicking in? Thank you.

Anuj Khanna Sohum: If you look at the momentum of our business overall and the financial fundamentals with which this momentum is being carried forward, you would find that we are (a) consistently growing our revenues organically over 30% and

(b) you would also find that in terms of our bottom-line performance our EBITDA has been in that range of a healthy 29% in this quarter. Even last year we were at about 29%, so the bottom-line performance in terms of margins is quite sensible. In terms of PAT also, if you look at year-to-date performance, our PAT is consistently in the 18.5% to 20% range. We are investing in the employee cost, we are investing in data and inventory cost and launching new products as well as expanding our strategies towards connected devices, online to offline, verticalization and vernacular. All of these are clearly forward-looking initiatives of our Company preparing us for the next decade and we need to consistently keep doing that. And while doing it, and being an internet-based growth Company which is investing heavily in this area, we are still delivering cash flow sensible performance with cash flow positive EBITDA and PAT. This trend line should be maintained for the future and if you are modeling us for the long-term, I have already provided that you should look at emerging markets focus play of Affle to be over 25% revenue CAGR growth. In terms of bottom-line sensible performance I have mentioned even in the CPCU comment, that we are going for volume growth without compromising our pricing and therefore, our bottom-line stability is intact. You should model us in this fashion and we will deliver it hopefully consistently.

Pranav Kshatriya: Sir, that is very helpful. Thank you for the explanation, but I just wanted to understand that how much portion is the investment and how much portion is the profitability. I am not doubting and can clearly see that the performance is very strong. As a Company, which is growing so fast and still has many opportunities, should certainly invest in the business. But just trying to understand let us say 2% of the margin is in the investment or 5%, the quantum is what I am trying to understand?

Anuj Khanna Sohum: At this moment, I have not taken internal audit review detailed number on that, but as a management unaudited perspective I can tell you that around 10% of whatever cost that you see on the data and inventory cost would be going towards more of forward looking investments and learnings to expand our possibilities for the future. That is because the possibilities are immense today, we do not do enough on location, today we are expanding and looking at online and offline journey being mapped. We are looking at going deeper within India to understand vernacular affinities and investing so much beyond mobile. All this is about data and intel, and we are building those algorithms and those investments. Even our R&D center in Bengaluru does those investments which are all forward looking investments and the product launches are clearly indicative of that. In the last three years, we have been winning consistent recognition in the industry as a Best Technology Enabler and so on. For a Company that has been 15 years in business to be so fresh with its products on a forward-looking basis is only possible if we consistently invest, and we will keep doing that. But you are seeking an answer, I tried my best to give you that answer and I will go back to check on the exact breakdown of the numbers further.

Pranav Kshatriya: That was very helpful, thank you so much.

Moderator: Thank you. The next question is from the line of Anirudh Bhandari from 16 Street Capital. Please go ahead.

Anirudh Bhandari: Thank you for the opportunity. My question is on receivables, what were the receivables at the end of December 2019. Also, if you could give industry dynamics in terms receivable days in India and outside India?

Kapil Bhutani: On the receivable days, we are seeing the same trend as H1. Also, there is movement up and down on the receivable spends.

Anuj Khanna Sohum: I can tell you a little more. Like in India typically customers take a slightly easier approach to payments, but we are still very particular about chasing and we are a significant partner for our customers. Let us say customer is working with us and has not paid for a couple of months, we will put a pause or stop there. One of the things is that we are a bottom-line sensible company, we are not from mindset where we have taken big investors funding before and then are happily burning it. We have been cash flow positive with a sensible DNA for over 6 years now and that DNA is not changing with respect to the post IPO scenario as well. In terms of collections and credit checking of customers who are working with us particularly the start ups or the ecosystem where funding is becoming tighter; we are extremely watchful of that and we will make sure that our AR balance is always sensibly maintained. In terms of international markets also, we do a clear credit checking before we have customers onboarded and one of reports that I have personally tracked very closely is how much cash we have added on a weekly basis, and that should give you a sense of how we run our Company.

Anirudh Bhandari: In terms of quantification I wanted to know the number, if you could share what are the receivable days on an average and what are the receivables as on December 2019?

Kapil Bhutani: The receivable days are in the range of 90 to 95 days, which has been the trend from the past and H1. You will have the balance sheet for H1 with you and there is no change in the trend of receivables or payable days.

Anirudh Bhandari: The quantity of receivables as on December 2019, is?

Kapil Bhutani: It will be in the range of about 40 Crores on a standalone basis.

Anirudh Bhandari: Ok. What is your cash flow from operations for the 9 months?

Kapil Bhutani: We had given this figure of 36.2 Crores, that is 362 million on a consolidated basis.

Anirudh Bhandari: On the debtor side, your H1 debtor number was around 80 Crores, so at the end of December is 40 Crores?

Kapil Bhutani: You are seeing standalone or you are seeing consolidated?

Anirudh Bhandari: Consolidated.

Kapil Bhutani: You need to add the unbilled revenue, which is there on the last day of the month and that increases it right. I am talking of the total services provided that are billed or unbilled, and we calculate the number of days, basis on the billed and unbilled both. We do not look at only on the billed basis.

Anirudh Bhandari: On comparable basis, H1 debtor number was 80 Crores, so what would be the same number for 9 months FY2020?

Kapil Bhutani: I will not have the exact breakup ready with me, but yes, the 9M FY2020 comparable billed number will be about 74 Crores to 78 Crores, on a consolidated basis.

Anirudh Bhandari: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Sangoi from Birla Sun Life Asset Management. Please go ahead.

Kunal Sangoi: Thank you for the opportunity. My question is with regards to - as we gear up for the next 5 years, you said that given the kind of opportunity 25% CAGR is achievable till 2025. If you can highlight some of the investment areas in terms of product and also on the client facing side that will be helpful?

Anuj Khanna Sohum: Can you repeat the question?

Kunal Sangoi: My question is with regards to as we gear up, the kind of growth that we are targeting, what would be the key strategic initiatives that you would be driving over the longer term?

Anuj Khanna Sohum: I have mentioned that earlier in the call and for the benefit of the question will repeat. The key strategic initiatives from a geographic perspective would be that (a) we will be focusing on doubling down on the depth of our capabilities in India market, so that we continue to be a market dominant player and (b) we will be looking at expanding the capabilities to verticalization, and vernacular capabilities of our product, so that from a advertiser side we are going deeper into verticals with our customers. In terms of the consumer side also, we are going deeper into the vernacular affinity of the Indian consumers; let us say going beyond tier 3 cities into rural areas perhaps as we expand over the next 5 years, and also mapping the online and offline journeys of the consumers as an omnichannel platform. These strategies are relevant across all other emerging markets where we have a play. Rolling out these innovations incrementally first within India, then in other emerging markets and then global, is the order of our strategic execution. On the product side, I have already mentioned the broad directional expansions that we are looking and doing. In terms of geography and execution, our focus is very clear and this is how our growth would be powered as we go along.

Kunal Sangoi: Sure, that was helpful, thank you.

Moderator: Thank you. The next question is from the line of Chirag Jain from Goldman Sachs AMC. Please go ahead.

Chirag Jain: Thank you for the opportunity. Just one bookkeeping question and I am sorry for repeating this, but can you provide the RevX, Vizury, and Shoffr revenue for the 9 months and 9 months base quarter as well for Vizury and the profitability?

Anuj Khanna Sohum: I can give you a qualitative response, at the moment. This level of breakup is something that we do on a regular basis in the management view, but not in the audit perspective. The overall contribution to topline in the 9 months, or even in this Q3 from any of the acquired businesses on a combined basis would be less than 15% on the topline, actually it close to around 12% odd. In terms of the bottom-line contribution, the contribution is less than 10%, actually about 8% to 9% for all the businesses. Some may be contributing more and some contributing lesser, but if I go granularly and focus on what has happened in these acquisitions and how are they contributing to the Affle business more strategically; then on the financial side the impact is not significant. In terms of the strategic impact, the impact is extremely significant because there we have turned the Vizury product into this omnichannel strategy and that was primary purpose of the acquisition. In terms of Shoffr, we have strengthened the capability of online to offline capabilities into our products for the future, so that is again very significant as we build our strategies. In the case of RevX, I had mentioned earlier we have hit the ground running, we are looking at expanding that because with the tech integrations, we are already getting it into a bottom-line sensible performance and hope to bring greater synergies of this business as we expand further. We have done the right acquisitions, have channeled them, integrated them properly and we are feeling confident going forward and that is where is our Board is also getting confident that we should look at such strategic opportunities more in 2020 and beyond.

Chirag Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Ashis Das from Sharekhan Limited. Please go ahead.

Ashis Das: Thanks for the opportunity. My question is basically to know the trend on near-term, you mentioned that your India business is growing faster than the average industry growth. What was the industry growth rate in Q3 and what kind of growth rate you see from starting of January that has improved or similar, could you just highlight those things?

Anuj Khanna Sohum: In terms of Q3 or even let us say year-to-date this year, India at an average overall is growing above 40% in terms of year-on-year trend and that is comfortably above various industry reports that they talk about that India digital should be growing; some are saying it is 26%, and some are saying 29%. I am not an expert there, but I can tell you broadly that we are doing quite well and I am very happy with the way our India team is performing and winning recognition as a market leader not by our own admission, but by how other peers in the industry are looking at us, and how the customers are looking at us. Clearly our qualitative as well as quantitative strength within India is well anchored and our directional view on that remains that we should be able to continue to sustain the above industry average growth in India on a long-term basis as well, because of the strategies that I have talked about multiple times on the call today. In terms of other emerging markets also, the same trend is applicable and in order to beat the industry trend or to put a strong growth in developed geographies, we will need to invest in on-ground sales presence and we will do it sensibly. Because we are not looking at going into those geographies without the right products or without the right on-ground sales presence. With Vizury Engage360, that is the product which is going to put us in a winning position even in developed geographies from a remote execution perspective. From India, we can start winning that without even investing in the on-ground presence and as we win those, we will start doubling up with on-ground presence to expand the capabilities in those market. I have taken your question as an opportunity to answer a broader sense, but in terms of industry trends there are multiple reports that one can rely upon and there are some analyst reports also, that one could look at for that.

Ashis Das: To understand more, have you seen the improvement in the spending from advertisers because you mentioned that Q3 was a top demand environment, has that environment changed from January or do you see similar kind of environment from January?

Anuj Khanna Sohum: In terms Q3 what I mentioned was the seasonality trend on a year-on-year basis historically, and forever Q3 will typically be the highest one. Whether it will be a higher peak in the sense depends on the bullishness of the macro factors that people have. Advertisers will accordingly invest more in Q3 versus being a little reserved about Q3 versus Q4. One of quarter or particular scenarios can change, but broadly the seasonality trend would remain. We have typically seen the H1 revenues of the Company versus H2 revenues of the Company being in the range of about 46% to 54%. I am taking largely the exact numbers of last financial year, that trend of 46% to 54% is what we did in the last financial year. In this financial year and also going forward in the long-term, the seasonality trend is here to stay for our business and it is not only valid in India, it is also valid globally that the Q3 October, November, December should be the peak.

Ashis Das: Thank you, just bookkeeping question like the tax rate has reduced this quarter. What kind of tax rate you can see for FY2020 and going ahead?

Kapil Bhutani: As you know that for India business, Indian entity the tax has got little better, we were already at a 25% rate in the previous year, which is now 22%. Plus our Dubai entity, as and when it grows will add to the tax efficiency rates on a consolidated basis.

Ashis Das: Thank you.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Upganlawar: Thank you for opportunity. It has been about 6 months that we as investors have been kind of being in touch with your team and basically understanding your business. In the opening remarks, you mentioned few times the aspects of business moats that your Company possess. In my understanding, moat would be an unbeatable differentiation to competitors, which last for a pretty long period of time. Do we really think that in technology-based businesses like yours, that thing exists and if you could make us understand; it will be a lot of help?

Anuj Khanna Sohum: Moat is an important factor in every business and having been a tech entrepreneur for over 21 years, I can assure you that in technology businesses moat is possible and moat is achievable. In particular to Affle, we had built this Company with strategic fundamentals since we started the Company in 2005 and have been focused on the mobile device. Having the right vision and strategy in execution is fundamental to the organization; and having the focus and the stamina to stay on with it. When we started the Company, Apple had not launched anything on i-phone, Google had not announced any plans of Android, even Facebook did not have mobile version of its app. Affle was already focused on mobile marketing at that time and a consumer acceptable marketing platform. Staying the course for 15 years and consistently enhancing our products and moats while going through various technological changes, is a core capability and a track record of Affle that cannot be doubted. Going forward, the DNA of the Company in terms of investing consistently in products and strategy is that it strengthens the moat not in isolation of a particular geography or industry vertical. I am giving you forward strategies, which are taking us deeper within India. The next 300, 400 million connected users in India may not have any brand affinity to any global large brand, they may not come in and say I want a Facebook account, they may not come in and say I want to do Google search. They may be using different kind of capabilities. Going forward we have to look at this, (a) with India lens and how can we go deeper within India. Vernacular becomes a key strategy, which will strengthen the moat and we will partner with people, we will partner with our customers and we can also partner with bigger players in the market. We will operate holistically in that space. (b) Going verticalized deeper within certain industry customer verticals and integrating with their data sets and our data sets and see how to drive conversions as an omnichannel platform across different touch points. That is again verticalization as a strategy enhances the moat in those markets. Whoever is going deeper ahead in those will see a greater defensibility, and I would say that these are definitely possible. Yes, I can appreciate from your point of view that you see technology is constantly changing how can we be sure but, you can look at the track record, strategies and the trends. Because we are in growing markets, mobile is not going anywhere and consumers are stuck to it. Advertising is not going anywhere; the advertisers will advertise and it is a part of business. As long as these businesses are advertising, as long as consumers are on mobile, there will be a role for Affle and our DNA and tech capabilities will make sure that we stay relevant and not just relevant but also growing above industry average is out key goal.

Aashish Upganlawar: Basically what I meant was is there no competitor that can better you in this business. Is that what we are saying?

Anuj Khanna Sohum: No, strengthening the moat and executing on the ground is our job, because all companies will be trying to strengthen their moats.

Aashish Upganlawar: Moat is something which is much above others, and I think we have two different point of views about the moat aspect?

Anuj Khanna Sohum: Let us break it down briefly for benefit of everyone. In India, our moat is strongest, in emerging markets of course there will be competition, but why would competition will have a tough time to beat us in these markets, a very simple thing is that if a competition - let us say is coming from a developed geography, the unit economics of our geographies where we are is so harsh that it will require them to change the tech stacks to deal with the demographic profiles of India. Today, in India there are about 600 million connected users on mobile devices, less than 15% or 20% are actual online shoppers. When we talk about massive infrastructure, we are talking about 600 million people and is very complex to find those 100 million shoppers within that. Then after you do all that heavy lifting with the technology, you only realize that you are getting paid much lesser than what you are used to as a competitor in the developed geography. So, it is a harsh terrain and, on that terrain, we have already got deep insights about consumer intent, we are working across industry verticals with our advertisers and it is not easy to come and dislodge that. Is this moat strong enough or not, I will say we are consistently strengthening that. In terms of new entrants, they can come and fine let them come, they will need to find funding, build the tech stacks, make sure they get the consumer intelligence and the data stacks. They need to make sure they get the advertisers on board, verticalized and it is not an easy task for a new entry to fight on an equal or even putting on our moat at the moment. Clearly, we have a big competitive advantage.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Anuj Khanna Sohum: I have no more comments. Thank you for joining and taking the time to understand our Company. This is going to be a long journey ahead as I started by saying we have completed almost 15 years, we are looking forward to the decade ahead and look forward to more conversations and discussions with all of the participants on the call today. Thanks again for taking interest.

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