Affle (India) Limited

Q3 & 9M FY2021 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

Analyst: Mr. Amit Chandra – HDFC Securities

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Q3 and 9M FY2021 Earnings Conference Call hosted by HDFC Securities. 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. Amit Chandra from HDFC Securities. Thank you and over to Mr. Chandra!

Amit Chandra: Thank you. Good morning everyone. On behalf of HDFC Securities, we welcome you all to the Q3 and 9M FY2021 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 Chief Executive Officer of the Company; and Mr. Kapil Bhutani who is 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 may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide 17 of the Company's earnings presentation for a detailed disclaimer. I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thank you and over to you Anuj!

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

Affle is a global consumer platform for digital marketing focused on the emerging markets. Affle is "Built to Last" and in 2020, we laid the Affle2.0 foundation with focus on 2Vs – Vernacular and Verticalization. We are investing for future growth which is consistently reflected in our strategy, execution and financials. We are committed to our vision of reaching over 10Bn connected devices in this decade ahead.

Having attained Rs. 150crore+ quarterly revenue and further augmented our product capabilities, we are well set to hit 3 new centuries in FY2021 itself. This includes **100million+ Conversions, 100crore+ PAT and 100crore+ Cash flow from Operations** in FY2021.

We are in a multi-year technology transformation period that has accelerated consumer adoption of mobile & connected devices globally, especially in emerging markets. The consumer trends supported by advances in technology offer a tremendous opportunity for further scale, ensuring the digital ad spends will continue to increase towards ROI and data focused mobile marketing platforms.

In Q3, Affle delivered a broad-based growth coming from both CPCU business and Non-CPCU business, from existing and new customers across the key industry verticals in India and other emerging markets. The CPCU business noted strong momentum delivering 30.6 million conversions, an increase of 46.1% y-o-y and taking the total converted users delivered in 9months to 75.7 million.

Our tech enabled platform-focused strategy is playing out well. Affle's Connected TV proposition focused on video ads based cohesive experience for brands was launched in October 2020. We are now bringing it to India & South East Asia and expect to drive a favourable momentum.

As mediasmart's 1st win in Southeast Asia this quarter, we entered into a partnership with Mediabrands, the global media and data arm of Interpublic Group in Indonesia.

Aligned to our long-term verticalization vision of integrating Online-to-Offline, we introduced "In-store" by Engage360 – our omnichannel platform. In-store enables any brand to readily integrate their dynamic store calendar pick-up scheduling or product reservations by customers across multiple online channels such as website, App, chat messenger accounts, and more.

We recently launched Appnext's Out-of-Box-Experience (OOBE) powered by the acquisition of business assets of DiscoverTech. Our vernacular consumer platform offering now spans the entire daily mobile journey of a user – from the initial device setup and personalization to multiple touchpoints on the device. Some companies in the US market are driving growth primarily focused on just the OOBE and we see it significantly strengthening our comparative moat as an integrated vernacular platform for our customers across emerging markets.

We are consciously making efforts towards enhancing our human resources capabilities in India and notably investing in it. We are also building local on-ground presence in some of the international geographies like Southeast Asian markets, South Korea, Japan, Russia, and more to augment the next level of growth in the long-run.

Our focus on R&D, security and scalability resulted in Affle's platforms getting accredited for the 3rd consecutive time by the Infocomm Media Development Authority (IMDA) of Singapore. We also for the 2nd time in a row won the coveted 'Enabling Technology Company of the Year' award at the MMA Smarties India 2020 (organized by Mobile Marketing Association).

We are focused on executing our long-term Affle2.0 priorities and investing wisely to drive sustainable value creation for our stakeholders. With that, I would like to handover this discussion to our CFO, Kapil Bhutani to discuss the financials. Thank you and over to you, Kapil.

Kapil Bhutani: Thank you Anuj and a warm welcome to all the participants.

Continuing our q-o-q growth momentum - In Q3, the Company reported Revenue from Operations of Rs. 1,505 million, a growth of 11.5% q-o-q and 59.3% y-o-y.

Our EBITDA for this quarter stood at Rs. 384 million. EBITDA margin stood at 25.5% in line with Q2. In terms of Opex, Inventory and Data cost was at 57.9% of revenue from operations, in line with the previous quarter trend.

Employee benefit expenses have increased due to investment in human resource on account of a) To deepen our access in India & international markets, b) Impact of acquired businesses and c) Because of annual increments that were rolled out in October 2020.

Other Expenses were in line with Q2.

Our PAT (net of Non-Controlling Interest) for this quarter was Rs. 306 million, an increase of 14.0% q-o-q making it the highest profit earning quarter till date.

We remain focused on working capital management and our collection have been robust through the quarter. Our cash flow from operations stood at Rs. 787 million in 9M FY2021 and at 103% of the PAT vs. 72% OCF-to-PAT ratio in 9M previous year.

Pursuant to the introduction to the Finance Bill 2021, the Group is accessing its tax impact on amortization of the Goodwill. For the 9M period, amortisation of goodwill amounting to Rs. 10.56 million has been considered as the allowable expense.

With this I end my presentation. Let us open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Thank you for the opportunity. We have seen significant conversions over the last three quarters which have been partially boosted by the pandemic, increased consumer screen time and budgets shift from traditional to digital. So, are you expecting these trends to continue or there could be some normalization post pandemic? Also, could you elaborate on the CPCU trend in India and international markets? Are you seeing increased competition from large global peers? Thank you.

Anuj Khanna Sohum: Thanks for your question. As I had mentioned in my commentary, we are in a multi-year technology transformation period and the acceleration in consumer adoption of mobile and connected devices globally is here to stay. It will continue to evolve across emerging markets as a significant trend, requiring every single business to increase digital spends as soon as possible. This is true for all businesses, not just digital first that Affle is deeply focused on but also for the traditional businesses, who all need to adopt digital as soon as possible for them to stay relevant in their own industry. Therefore, this trend is here to stay and we are extremely bullish about the tailwinds. We are privileged to be in this industry which is set for strong growth and our focus on emerging markets makes it even more compelling. If we look at the percentage of digital advertising spends in emerging markets as a function of total advertising spends, there is still a lot of headroom for continued growth over the next five years. This trend is going to be supported by consumers and we are well positioned in emerging markets to tap on to this opportunity. In terms of the conversions and CPCU average trends, they have stayed consistent and our growth is not being subsidized on pricing. We are competing with a business model that is differentiated. We are going for value-based pricing and when you go for value based pricing, there is lesser pressure of volume-based discounting because the advertisers are convinced that the more volume is, the more ROI & value. Hence, it is not a case of commodity buying where advertisers are giving you higher business and therefore asking for more discount. Sometimes, there could be pressure like that but we have to defend it well. Our focus is on consistent scale, growing the number of conversions, getting higher wallet share and focusing on the consumer proposition as an integrated journey. This is where we have been investing regularly as you would see in the most recent investment as well, we have added another touch point in the consumer journey and vernacularized it as part of our Affle2.0 strategy. As long as we keep delivering higher value in the whole experience as an integrated platform for brands and advertisers, we will be able to drive higher scale without commoditizing or taking any pressure on pricing. We can defend our margins, pricing and go for higher scale by adding more value which is what Affle's business is all about. With that, I hope I have answered your question.

Amit Chandra: Yes, Sir. Thanks. All the best for the future.

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

Rishit Parikh: Thanks for taking my questions. Congrats on a decent quarter. Two questions from my side. Firstly, when I look at the portfolio, the company is now participating across the consumer journey and also moving into the media like Mediasmart model, right? So, any missing pieces in the tech portfolio beyond what you currently have? That you need to acquire or where will your future M&A be largely focused upon? Secondly, when we talked about expansion into other markets like Korea, Japan, Russia etc. Could you just help us understand how is the competition scenario there? What are your strengths to go and penetrate in those markets and what is the strategy that you are driving in general?

Anuj Khanna Sohum: On the first question, we have laid solid foundation for Affle2.0 strategy focused on vernacular, verticalization and that is clearly reflected in our execution and financial performance. Our commitment to reach 10 billion connected devices over a decade ahead implies a strong message. One, that our foundation is strong. This means our tech stack as well as the integrated consumer platform starting with a consumer buying a new device from an OEM or from a mobile network operator; right from that moment all the way till they retire the device and take on another new device, we are mapping multiple touch points on that integrated consumer journey with vernacular experiences deeply seeded. I believe that is a very unique play, coupled with our business model where we are going to the advertisers saying that we have differentiated platform on the tech side. I do not know of any other competitor who is addressing the consumer platform the way Affle is executing on it at the moment. Our focus is on emerging markets, so from that lens we have a solid foundation. Could we add more to it? There are always going to be those possibilities but they can be addressed organically as well like we did with the launch of our Connected TV proposition. That has been completely done organically. Also, we launched In-store with Engage360 verticalized, focused on retail and online-to-offline, all done organically. Now, we are expanding our Appnext platform and we added inorganic DiscoverTech acquisition to strengthen it. So this is a blended strategy. Also, you would have noted that every inorganic transaction that we have done is extremely prudent and the way we invest is sensible. It was almost a no-brainer to have done those transactions. Going forward as well, we will use our philosophy, our culture to be very conscious, careful and conservative in our M&A approach. From tech-based acquisitions, to looking at deeper access to international markets, customers and consolidation towards market leadership could be the theme going forward if we were to take a five-year view. In terms of the market expansion into other geographies, some of them are still emerging markets like Middle East Africa, Southeast Asia, to even Russia, these are still emerging markets as far as our assessment goes and there the competitive forces are similar to what we are already used to. We are doing well versus competition in emerging markets because our moat is really strong in these areas. Why we looked at Korea and Japan is because of our vernacular technologies and that is something that we can leverage towards different languages where it is non-English market. We can go in and have some more competitive advantages versus other platforms that are not so vernacular focused in their strategy. While Korea and Japan are actually developed markets, given their proximity to Singapore and Asia where we have existing customers and partnerships, that is helping us to take some in-roads over there. Korea is important from the OEM relationship perspective and in Japan, we have so much history with our private journey with investors like D2C, etc from Japan. So, there is a definite reason for us to execute and go into those markets where we are assured of capital efficient growth and profitable outcomes. We are looking at our competitive moat carefully and only then entering into these markets where we have very strong chance of winning and coming out successful.

Rishit Parikh: Fair enough. So, broadly what I understand from the messaging is that your tech stack will be complete and consolidating the markets is where the focus will be, that is one. You are largely completing the portfolio which is driving the penetration in those markets. So, last question is when I look at one of the competitors which is potentially InMobi as they have started to advertise brands. So, how do you see your competition in markets like India given that this has been the primary driver for us in terms of growth over last couple of years? How can they disrupt?

Anuj Khanna Sohum: In my view, InMobi is pivoting as B2C, going directly to consumers, having their own products, service and proposition to the consumers. They are essentially getting into content play where they are churning out own content and that is a very different business. There is advertising linkage to that but it is direct to consumer business, fighting with traditional content players by providing their own content as a service to the consumers and that is what they are also getting into is with the acquisition of Roposo. I believe that their focus is to fill the void of Tik-Tok. That is a very different play, pivoting from their traditional advertising business. They are definitely in a different direction now and Affle is not seeing that as a comparison. Glance is not a competitor to what Affle is doing whether it is with the lens of OEM partnership or otherwise. Our focus is on the consumer journey on the device and not at any one particular point on the device. In that sense we are heavily differentiated from them. In terms of their geographic focus historically, if you look at their non-Glance ad tech business, approximately 85% or even 90% of business is focused on US, China and Japan, Korea or Australia and such developed markets. It is hard for me to know exactly because they are not public and the data is available in bits and pieces. So, whatever sources you would have perhaps as good as mine but our focus is close to 90% on emerging markets and that is very different from them. Consequently, we are deeply focused on capital efficiency, sensible organic growth and very careful inorganic investments which is a part of our culture which is not going to change.

Rishit Parikh: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: I have questions to ask in terms of our policy on the expenses which are capitalized. To understand the principle in capitalizing some of our expenses and how do we measure the subsequent efficacy of those that may be required to be write-off?

Kapil Bhutani: On the policy side, only the development cost of newer technologies in which Affle is investing is capitalized and we have an amortization policy of four years, where all capitalized technologies are amortized over a period of four years. They reflect in our amortization & depreciation line item and there will always be a small difference between the amount capitalized and the amount amortized. It will be the difference of incrementality on either higher side or lower side but the policy is of four years. On the question of efficacy testing, every quarter the cash flows generating from those technologies being capitalized is monitored as per the business plan and in case we feel that something has to be written off, it will be written off as it is being audited in that direction also.

Bharat Shah: How much expenses were capitalized in the current quarter and in nine months?

Kapil Bhutani: Approximately USD 1.4 million for the current quarter, and amortized amount is close to USD 0.7 million. For the 9M FY2021, amortized amount is about USD 2.1 million and capitalized amount is about USD 4 million.

Bharat Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Harish Kumar Gupta from Nirmal Bang Securities. Please go ahead.

Harish Kumar Gupta: In this quarter, the employee expense has been much higher than the previous quarter as well as same quarter previous year. What is the reason behind this?

Kapil Bhutani: As I mentioned in my statement, there are three reasons, a) on account of acquired businesses, b) on account of new hiring to deepen our access to key international markets and c) in this quarter specifically, we had annual increments coming in.

Harish Kumar Gupta: How much has been new hiring in percentage terms?

Kapil Bhutani: You can attribute about 50% increase in employee expenses on a q-o-q basis, coming from annual increments.

Harish Kumar Gupta: Thank you.

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

Rahul Jain: Thanks for the opportunity. Firstly, our international business growth has been very strong but our CPCU rate has been flat on a y-o-y basis. Is it on account of declining inventory days or like-to-like CPCU rate or the mix change?

Anuj Khanna Sohum: In terms of the overall CPCU rate of about Rs. 41 on an aggregated basis, you should look at it from the lens of how our business is working across emerging market, say about 90%+ of the conversions actually coming from emerging markets and we are going deeper in South East Asian markets like Vietnam, Indonesia Thailand, Malaysia, and so on. The CPCU rates across these markets as well as in the India markets or even Latin American markets are relatively lower compared to the CPCU rates in developed markets. We have not seen any significant pressure to drop rates because of either competitive forces or because of greater. In fact, as a consumer platform end-to-end proposition, our goal is to get as many advertisers as possible on-board and let them compete on it. At end of the day, whoever is paying us better price, we will prioritize conversions or push for those campaigns more than somebody who is not willing to pay as much. Let us say the kind of conversion price is perhaps not deriving as much value to afford those prices, so our push clearly is to let it be a competitive force and not be commoditized negotiations. As a business model when we go to an advertiser, our value proposition being so strong leads to the willingness to pay the price and then we also build a competitive comparison there saying that across this vertical other advertisers are paying a higher price for these conversions. Therefore, if somebody is not bidding high enough then we will not prioritize them as much. So that way, we are able to defend our position and inherently in our business model there are levers for us to do that. The question is not about the downward pressure on the price but the question is can Affle exercise the strength to push the price higher and there we are going for scale while defending our pricing. Hence, we haven't exercised much as we are yet to try and push the prices higher while we focus on going for higher scale and market leadership.

Rahul Jain: Another question I have is, if you can share the reason on reversing the transaction of Indus OS and some shed some light on the OOBE opportunity?

Anuj Khanna Sohum: We are seeing our minority investments in a slightly different way. We have done two minority investments in the previous calendar year which were Indus OS and Bobble AI. We are seeing those investments slightly different from our other strategic investments where we acquired the entirety of the business or the business assets. So, there is a clear difference in those strategies. Now with respect to Indus OS, we saw an opportunity to divest it within the group and we were able to utilize the cash that we generated, by deploying it into investment of 100% acquisition of business assets of DiscoverTech. It was announced on the same day when this happened, so it was more portfolio balancing strategy towards owning, 100% of the tech IP versus having just a minority stake and we will assess it closely. You would have already noted that in the Indus OS transaction, Affle International has the call option to buy it back if it is needed or if we are going to eventually try to increase our ownership, then we always have the call option to buy it at 5% or 10% premium over the next two years. We are going to evaluate and assess that option at the right time. In terms of the OOBE which is Out of Box Experience, it is an industry terminology and in fact there is one particular listed company in United States whose disproportionate part of the businesses only anchors on this one product and they are not particularly strong in emerging markets at the moment. They do not have vernacular capabilities in their product and strategy. So, Affle having launched Appnext as an overall OOBE platform globally and powering it with this acquisition of this DiscoverTech is an extremely strategic move. Affle will be able to leverage its OEMs and advertisers relationships across global emerging markets and go well ahead of its competitors specially from an emerging market lens. We can potentially even take a differentiated step at entering into developed markets to compete on their turf. This is a good strategic move that we have done. It costed us very little but we are optimistic of the long-term future impact. We are bullish about how our integrated consumer platform and vernacular experiences would lead to sustained business growth for us.

Rahul Jain: If you could give some view in terms of what kind of revenue potential this business can reach?

Anuj Khanna Sohum: Our overall guidance on the revenue potential and tailwinds of continuous long-term sustainable growth are already known. The way we look at our business from a strategic lens is that we are powering the entirety of the consumers journey from the new devise all the way till the end. When we go to our advertisers and partners, we can say that we are advertising to the consumers on so many touch points and Affle can drive much deeper conversions or ROI depending on the matrix available with advertisers and those verticals. It is not to be split into how much is going to happen or how much will happen on this platform. Our strategy for every acquisition is focused on doubling down on our consumer platform business and integrating the technologies/platforms. It should not be seen as a diversification attempt that Affle is trying to launch another product line but rather should be seen as an attempt to go deeper in the consumer journey on mobile as well as other connected devices. Our guidance remains consistent, focused on long-term growth over the next five years as we are expecting consistent profitable cash flow and positive revenue growth in line with how the industries are expected to grow.

Moderator: Thank you. The next question is from the line of Kalpit Narvekar from Allianz Global Investors. Please go ahead.

Kalpit Narvekar: Sir, congratulations on a good set of results. My first question is, this year international to India revenue contribution % is about 51:49. So, how do you see this mix evolving in next few years like 3-5 years perspective and within the EMs from a medium-term to long-term perspective. Also, which are your one or two core markets and what are the kind of growth rates coming from those markets?

Anuj Khanna Sohum: Great. Thanks for that question. For us, India is the anchoring market. India is one of the most difficult emerging markets to execute this business and we have anchored ourselves in India, ensuring our unit economics is working well. We are growing with India as our anchoring base, with almost 50% of our revenues coming from India. So, dominating India as a market strategy consistently is an important execution focus within the company. We are focused on the theme of "Live and Breathe India". There is absolutely no distraction on that theme and continue to strive how to go deeper from tier-2, tier-3 to rural India, with the advertisers on verticalization and deeper with the consumer vernacular experiences. Now, India is expected to grow about 25%-30% CAGR on a long-terms basis. It is very clear we will eventually move from 600 million connected devices to over a billion connected devices in a matter of time. The number of online shoppers will grow faster than the overall pie. There is a massive growth in India and the rest of the international markets. Therefore, because of our business model and focus on India in such a strong way, we have naturally built competitive moat for other emerging markets as well which have similar demographics like South East Asian markets, Middle East Africa, LATAM or even Russia and so on. Emerging markets is our focus and for each of emerging markets we have similar approach like that to India. A dedicated team, building local presence and going deep in those markets. In terms of the balance, one would expect that the rest of international market on an average as an industry trend should probably grow in the range of 20%-25% CAGR whereas India is expected to grow at about 25%-30% CAGR. But then as we keep unlocking new markets, we would see that international catch up to 30%-odd range. So, overall growing our business at 25%-30% CAGR on a blended basis is where we look at. In the next few years, the balance between India and the international markets from a qualitative perspective as an organizational strategy will continue to be balanced 50%:50%.

Kalpit Narvekar: That answers my question. Lastly, on the employee cost do you see any kind of operating leverage in terms of the number of people that you need to manage your customers? If the spends and the number of conversions grow, then do you need to invest more employees into a particular client?

Anuj Khanna Sohum: We are extremely asset light, highly scalable tech platform and the only reason why the employee cost must increase is because we are entering new geographies and going deeper in our existing geographies. We are enhancing our platform to add more touchpoints and to address those possibilities, we are expanding the scope of our addressable market and the addressable part of the consumer journey. What's important here is that some companies may have run their business during COVID times by trimming down their opex, but Affle is an efficient organization. All along for over last seven years, its growth was funded organically by internally accrued cash flow. So, we were always efficient as very little excess baggage in our organization and therefore there is no optimization to be done there. In COVID times also, we saw us constantly investing into strengthening and fortifying our foundation for the Affle2.0 strategy. We were launching and acquiring new products. We are investing into our future readiness and the future growth. CY2020 clearly demonstrated that in our culture, strategy, execution and also our financials. So, when the operating expenses have gone up because of the investment in employee cost, we want you to see that this company is not trying to optimize in the short-term through maximizing bottom-line profitability, but actually growing sensibly and preparing for long-term consistent growth while delivering financial fundamentals. But, if you look at how we have done on year-to-date basis on cash flows during COVID times, we delivered 118% y-o-y growth in our cash flow from operations . Hence, that demonstrates how disproportionately focused we are on bottom-line sensibility but at the same we are also investing into our continuous future growth. Now, that balance is hard to strike for many companies and we are doing exceptionally well on that front.

Kalpit Narvekar: Yes, thank you so much Anuj and good luck.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you. Congratulations Anuj and Kapil, on very good numbers. Can you just call out the impact of Appnext on the converted users as well as on the revenues. The Mediasmart also was not there on the base quarter. So if you can help with organic numbers, please?

Kapil Bhutani: The contribution from Appnext and Mediasmart (combined) you can take around Rs. 35-36 Crores.

Dheeresh Pathak: Okay, on the converted user exactly?

Kapil Bhutani: Now, on the bottom line they had a PAT margin of about 9.5%-10% of their revenue.

Dheeresh Pathak: Okay, and on the converted users?

Anuj Khanna Sohum: On the converted users as mentioned earlier, the way we look at our businesses it is that these are the touch points that we are enabling across the boards. Let us say as a consumer if you are seeing a particular app recommendation on your device or seeing it in-app, across our platforms the campaign could run where the user has actually engaged on more than one touch point for a conversion to happen. It is very hard to attribute conversions to a particular platform. It is very hard to just take down and say this conversion is here, that conversion is there. It does not necessarily work like that from integrated consumers journey experience. We have to see the consumer platform as an integrated consumer journey with many touch points being enabled.

Dheeresh Pathak: Sure. The minority interest that is coming in the last two quarters is almost half as my understanding is primarily right on Appnext. But, I would have assumed that with the higher business that we had overall in the company this quarter and Appnext profitability would have improved. Then, why is that minority interest lower?

Kapil Bhutani: On your question of minority interest, minority interest shown in financial statements is calculated on entity-wise, whereas we are giving you the financial contribution on overall basis because the tech platform is invested in Dubai entity. Secondly, there are these cost of pricing adjustments because these are recently acquired assets with some transfer pricing adjustments required, We would like you to base your view on our next quarter financials, where the complete transfer pricing will be ready for the acquired businesses. Thirdly, new hirings have happened not only in the existing business but also in the newly acquired businesses. When you acquire an asset, they are not fully optimized to gear it for the growth and that is where the investments like these need to come in. But we are giving you a view of the profitability, the profitability view is on a holistic basis not on an entity basis.

Anuj Khanna Sohum: I would also like to comment on this. On the profitability lens, I am actually very satisfied with the way we are seeing the bottom-line contribution coming from both Appnext and Mediasmart. I believe, last quarter we were close to 9% PAT margin on their standalone basis Revenue and in this quarter, we have seen it move up comfortably to about 10% for them. So, consequently our own PAT number for this quarter which was around Rs.30.6 Crores, about 88% plus of the PAT for this quarter has come from organic contribution and around 11% plus has come from the Appnext & Mediasmart. That is how we look at our own internal business unit accounting. It is quite important because the transfer pricing arrangements are between the subsidiaries and how your auditors govern them. But from the MIS that we look at, we are driving it comfortably. Even though we are making incremental investments for their long-term growth whether it is launch of the OOBE platform globally or expanding Mediasmart into India, Southeast Asia, launching Connected TV proposition, etc. a lot of these new investments have not yet yielded revenues. But even with these investments, we are able to derive bottom line sensibility and the DNA of those organizations are getting aligned. Everybody is being largely questioned on when are these business getting to the 18%-20% performance level. When you build the culture like that in the organization then you have to invest and deliver bottom-line sensible financials, which will only get balanced when you deliver growth in the long run. I am extremely satisfied as the CEO of the company with the way this is moving at the moment.

Dheeresh Pathak: Okay, thanks Anuj.

Kapil Bhutani: Just to add to Anuj, because the integrations are in nascent stages comparing quarter-on-quarter on non-controlling interest would not give you a true color and numbers which we have stated is on a holistic basis.

Dheeresh Pathak: Sure, understood. Just Anuj, on this AGPL where you have parked your minority interest of Indus OS as this is more like a funding arrangement, right? Does AGPL hold on other IP assets which are in the competing line of business or this is the IP parked with AGPL?

Anuj Khanna Sohum: There is no IP here. It is the minority interest / equity interest and that is the only asset that this company was owing that has been acquired by AGPL. There is absolutely no competing intention. In fact, we have clear non-compete arrangement from Affle holdings, Affle Global and my own self. There is a clear systematic structure here to ensure that there should absolutely be no conflict of interest whatsoever. That is why this transaction if you see it as a financing arrangement, I may be seen like that. But the upside potential for Affle India as a listed company is very much secured w.r.t to the call options that are in place. I believe it is a very sensible transaction and one has to see it with the lens of timings. We have also done the DiscoverTech transactions and of course as an organization which is built around Ips, we want to own the IP in the listed entity. The clear strategic decision is anchored on financial stability.

Dheeresh Pathak: Sure, one last question Anuj. On this Bobble AI additional rights, the rights have not expired. Can you just explain that part?

Kapil Bhutani: We have not accounted for the rights because the integrations for the monetization drive and the testing is still in progress. The revenue would start somewhere around March or April from those agreements and once the monetization is on its way, the recognition of the derivatives or the income from the derivatives will begin to be recognized. At the moment, the rights are there but there is no material impact.

Dheeresh Pathak: Yes. Is there a change in view in terms of the attractiveness of that investment due to absence of reasonable certainty? What does that mean like are you concerned about the revenue potential of Bobble AI keyboard opportunity? Is that the way to look into that?

Kapil Bhutani: When we see from the accounting standard point of view and the business point of view, it is little different. We have to give a reasonable certainty that we will be able to exercise the option in next two year to three years of the revenue targets mentioned in those options. Yes, the data produced so far may not exhibit the potential and testing more to be accounted for when we present it to the auditors. As we go forward, in Q4 or Q1 next year, there will be some data to document the asset around it.

Anuj Khanna Sohum: The way we see it is, we have joined hands with Bobble AI with the minority investments and the five years exclusive monetization business partnership with them. In doing so, we are fundamentally listing that organization from very low revenues to a high scale of revenues and in contributing that, we have secured options to own more shares in the company where the valuation is already pre-defined and pre-decided. Think of it like as stock options that one would get for having delivered the incremental value creation by re-generating revenue and business for them. Hence, I believe this is fundamentally the structure that makes a lot of sense because we would be disproportionately helping them to grow not just in India but beyond India. The strategic view is very clear as those options are secured. It is really a case of prudent accounting and whatever is the appropriate decision which the auditors and the audit committee would take would be the basis for showing it in the financials as and when they come. It is clearly a strategic and valuable part of our plans going forward because it is a vernacular keyboard that supports all Indian languages. It is getting pre-embedded on handset manufacturers whereas this keyboard is a very unique app on the device which is opened more than 100 times a day by an average consumer and it touches every single app irrespective of whether it is a small companies app or a large global company's app. The keyboard is needed in every single app and the consumers journey experience on keyboard is invaluable when it is vernacularized and therefore it is extremely strategic. I believe it is being held and handled very appropriately.

Moderator: Thank you. The next question is from the line of Kuldeep Khanapurkar from Barings . Please go ahead.

Kuldeep Khanapurkar: Good morning team. Congratulations on great numbers. Just a couple of questions, very conceptionally how should I think about you in terms of market share of Mobile advertisements? Also, as you grow do you expect your ad rates manifested in terms of CPCU rates to go up or is it scale vs. pricing? How would it play out?

Anuj Khanna Sohum: Thank you for your question. In terms of market share there are all kinds of data points and market search reports that you would have access to. One could see that the total mobile and digital marketing in emerging markets at the moment is still hovering around 20%-odd of total advertising. Within that, if you look at the data to see what the total advertising opportunity is globally and within that what percentage is digital and mobile in emerging markets. If we take that number as a percentage, there is a massive room for growth even if the total addressable market stays at that 20%-odd of the total advertising size. But the most exciting part of this industry is that one can reasonably expect that this 20%-odd of the total advertising which is happening on digital in emerging markets would actually grow to about 40% to 50% of the total advertising in the next three to five years. So, from market share today to what will be the total addressable market five years from now, there are massive tailwinds for consistent growth. The addressable opportunity is large not just in emerging markets but as mentioned Affle has global ambitions. In terms of the average CPCU rates as it is a function of value based business model, it is not commodity cost plus business model. When you go for value based business model you have got to look at it as what is the average purchasing power of consumers across emerging markets and the value of conversions that they are willing to do on digital devices. On all of those parameters, we are seeing that the volume of is growing, the volume of transactions on digital is growing and the average value of those transactions in emerging markets is also going up. Because more consumers are becoming comfortable transacting for higher ticket size items on digital connected devices. When that continues to happen, the ability to justify larger share of that value in the CPCU pricing should come about. What perhaps important is not really the pricing but the ability to defend our margins to continue to offer unique propositions and get larger wallet share. At the moment for next two years medium-term view, we are focused on driving scale and not looking at pushing the price up. When the right opportunity emerges, we will certainly exercise that possibility but at the moment the execution focus is on driving scale, leading market leadership, higher wallet share and so on.

Kuldeep Khanapurkar: Great, thanks. One more question that I had was on ESG. How to track issues like data privacy etc? Your thoughts could be helpful. Thank you.

Anuj Khanna Sohum: Our company's focus has always been to be the most credible partners across the ecosystem of advertisers, OEM's, telecom operators in emerging markets and also being extremely compliant. Not just compliant in our own solution but with the validated accreditation from IMDA Singapore and otherwise as a public company in India. Any new data regulation that comes in India, I believe it will be somewhat already there in Singapore personal data protection act or Europe GDPR and so on. So, while almost 90% of our focus continues to be on emerging markets where there is not any regulation on data privacy at the moment but the company and market as far is already compliant as per Singapore standards, some of the European standards and we are quite ready to welcome data privacy everywhere else too. This trend of digital advertising is here to stay as the consumers are going to be on connected devices. We are also deeply invested in the digital experiences and therefore the advertising will definitely happen on digital. Now, in terms of government regulations we warmly welcome that because it raises the minimum bar for all the players in the ecosystem. Affle is an extremely responsible corporate citizen with credentials that inspire trust and credibility is validated. So, we think that data privacy will work to our advantage. We deal with data sensibly and that is going to help us to win more business once the regulations come.

Kuldeep Khanapurkar: Thanks for that comments. I have one more question, you spoke about vernacular focus. Could you give some example of how it is helping you in channeling your hold and how do you fight the big tech firms?

Anuj Khanna Sohum: We do not have to necessarily fight the big tech when the advertisers divide their budgets. They divide it rather cleanly and clearly saying that which part of the budget is going to big tech and which part of the budget is for the open internet which is not bound by the walled gardens of the big tech. So, the budget for the non-walled garden open internet is actually significantly large and most people in the industry believe that it is growing at faster rate than the big tech. It is not like our customers are asking us how you compete with these companies. Now, Affle actually works with the big tech companies as well, as around 10% of our business is powered to delivering conversions on the big tech platforms where we are integrated as partners. We see the entire pie as the addressable market but then we symbiotically co-exist with these big tech platforms. We do not see any particular concern there. On the vernacular strategy, it is very clear that the next 400 million connected device users or the next 300 million plus shoppers who are going to come on-board in India will have deep vernacular affinity. You need to engage with them in Tamil, Hindi, Gujarati, Kannada and all the local indigenous languages and same is the case for other emerging markets. You got to go deep, hyper-personal, hyper-local with the consumer experiences and vernacular fits that strategy perfectly. We also work with our advertisers to help them to go deeper within India and emerging markets to tier-2, tier-3, rural and also guide them on building vernacular versions of their app experiences and their ad experiences. So, this is a clear and intuitive strategy on why this could work. We deeply focus on it because of our anchoring positioning in India and other emerging markets. Whereas the company that is focused on United States, Europe is unlikely to focus on vernacular as a strategy or invest in that. So, I believe the demographic profile of emerging markets and our strategy perfectly aligns.

Moderator: Thank you. The next question is from the line of Hardik Sangani from ICICI Securities. Please go ahead.

Hardik Sangani: Thank you for the opportunity. Sir, just two questions, first is related to the recent policy changes that have been done by Apple (iOS). So does it impact our business as such in terms of the privacy laws and do we expect some other policy regulation that can come on android devices as well? Second is a bookkeeping question, what is the Effective Tax Rate (ETR) which we can expect hopefully in next year?

Anuj Khanna Sohum: Android is a very different ecosystem compared to the iOS ecosystem. iOS is deeply controlled on all vertical touch points starting from the device to software, app and browser, all by Apple. Whereas android is an open source system that goes to the handset manufacturer (OEMs). The handset manufacturers build their own variants and experiences on android and control that experience for their devices. It is not that Google can just make one decision and be done with change across all OEMs. It requires the whole ecosystems level change. Also, in emerging markets the significance of android as an ecosystem is deeply rooted across the OEM's and the telecom operators, as compared to iOS. So, Affle's focus on emerging markets insulates us from any dramatic changes on iOS but what it also does is make it a level playing field for us to advance into the global developed markets. There iOS let's say have even 50% market share for our competitors. Then those companies might be grappling with the change. It creates a much more level playing field for Affle to enter into developed markets. Fundamentals of our business and business model are much secured, advertisers need to come on mobile whereas digital and connected devices are no-brainer. Now, how exactly it will happen in developed markets on iOS, how will it be in five years from now on the android and which OEM's will be there, not there is yet to be seen. But the fundamental need for advertising on mobile for consumers to enjoy free apps is a very settled proposition. Therefore, we are in a good position.

Kapil Bhutani: Thanks Anuj, on your ETR question. We are looking at long-term range of about 12% on the effective taxes but in near future it will be 10% to 11% only.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Kapil Bhutani: Thanks everyone for joining our Q3 Earnings Call, it was pleasure dealing with all the questions. We hope we have answered all the things in right perspective for you to analyse the results in a constructive way. Thank you.

Moderator: Thank you. On behalf of HDFC Securities that concludes this conference. Thank you for joining us and you may now disconnect your line.

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