Affle (India) Limited

Q1 FY2023 Earnings Conference Call

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

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

Analyst: Mr. Aniket Pande – ICICI Securities

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited, Q1 FY2023 Earnings Conference Call, hosted by ICICI 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.

On behalf of ICICI Securities Lead Technology Analyst, Mr. Aniket Pande, we welcome the management of Affle (India) Limited represented by Mr. Anuj Khanna Sohum, who is 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 these statements made in today's conference call may be forward looking in nature and may involve some risk and uncertainties. Kindly refer to Slide 23 of the company's Q1 Earnings Presentation for a detailed disclaimer.

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

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

Today, we celebrate Affle's 3rd IPO anniversary together with our 385,000+ shareholders. This inspires us and instills in us greater responsibility and accountability to deliver cash flow positive long-term growth for Affle. We are elated to close yet another quarter of momentous growth. In Q1 FY2023,we achieved our highest quarterly revenue and EBITDA run-rate ever, highest conversions and highest CPCU rate ever.

We delivered revenue growth of approximately 128% y-o-y this quarter, comprehensively beating our Q1 CAGR growth trend of 67% over the last 3-year period. Our CPCU business noted a strong momentum delivering 61.9 million conversions during the quarter, an increase of 96.7% y-o-y at a CPCU rate of Rs. 52.1. We witnessed accelerated broad-based growth in ad spends driven by our unique ROI-linked CPCU business model, having achieved about 45% organic growth (which was well above the industry average growth trend) and coming across our top industry verticals in India & International markets. In the near term, while we are closely monitoring the geo-economic situation in developed markets, we remain confident of the long-term ad tech industry trends driven by the fast-evolving consumer behavior accelerated towards adoption of connected devices.

Our focused execution powered by Affle2.0 strategy anchored on the 2Vs - (Vernacular & Verticalization) and 2Os - (OEMs and Operator) level partnerships has enabled us to drive deeper verticalization for our advertisers across the E, F, G and H industry verticals. This has strengthened our moat and our Direct customers contribution has grown to 75.1% of our revenue in Q1 FY23. We continue to unlock innovative consumer experiences for the advertisers and to reflect upon our strengths, we have included three case studies in our Earnings Presentation focused upon OTT, FMCG and Fintech solutions.

We appointed 4 additional Directors to our Board in this quarter, further strengthening the Board structure. These additions are designed to support Affle's accelerated global growth momentum, provide greater accountability to the senior leadership and reflect upon the company's commitment to maintain the highest standards of Corporate Governance with enhanced depth of expertise. With this, Affle's Board will now comprise of 10 Directors led by an Independent Non-Executive Chairman and will include four Women Directors, that is 40% of our Board.

During the quarter, Affle was awarded Data Protection Trustmark (DPTM) certification for a period of three years by IMDA Singapore, making us part of a selective group of companies that made it to the DPTM and is a significant validation of our Affle2.0 strategy. We keep the consumers' interest and privacy concerns as central to our innovation and will continue to focus our endeavours to deliver customer-centric technologies, following the highest levels of data security and privacy standards.

We further enhanced our platforms while penetrating deeper across both new and existing markets as well as further verticalizing our capabilities towards high-growth emerging industry verticals. We are a differentiated business, fundamentally inspired to deliver deep tech powered futuristic use cases and innovation-led profitable growth globally.

Our investments across the products and platforms are performing well, contributing meaningfully to our overall growth, healthy margins and resulting in positive cash flow from operations. We continue to leverage upon the market opportunity drawing significant moat from our entrepreneurial culture, tech innovations and sustainable value creation powered by Affle2.0 Consumer Platform Stack.

We look forward to further leveraging our scientific and strategic expertise while keenly promoting Affle2.0 culture of diversity, equity and inclusion across the organization, enabling a sustainable ecosystem towards holistic stakeholders value creation.

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

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

Continuing our growth momentum of clocking over 120% y-o-y growth in the last three quarters, Our Q1 FY2023 revenue stood at Rs. 3,475 million, a robust growth of 127.9% y-o-y and 10.3% q-o-q, contributed by both organic growth and Jampp.

Our EBITDA for the quarter stood at Rs. 687 million, an increase of 95.9% y-o-y and a strong growth of 17.1% q-o-q.

In this quarter, our Inventory & Data cost sequentially was stable at about 63.3% of revenue. Our Employee cost increased by 1.6% q-o-q. We remain bullish on the business and continue to expand the teams for growth across platforms, markets and verticals. However, this quarter our employees expenses were down by 106 basis points as a % of revenue.

Our reported Profit After Tax (PAT) for the quarter was at Rs. 545 million, an increase of 52.6% y-o-y. Our Q1 last year and the previous quarter Q4 FY2022 included higher Other Income than the recent quarter, primarily on account of gain on fair valuation of financial instruments.

Our Effective Tax Rate is higher than last year and is inching towards a longer-term tax rate primarily on account of the deferred tax asset of our acquired businesses getting adjusted.

Our Normalized Profit After Tax was Rs. 552 million, an increase of 93.5% y-o-y, after adjusting for fair valuation gains and share of our associate. Please refer to slide 4 and 5 of our Earnings Presentation.

We remain focused on working capital management and continue to see robust cash flows from operations. Our collections were robust and the ratio of our cash flow from operations to PAT stood at 99.9%. This shows the quality of our customers and the robustness of our operations.

Further, Affle is well-diversified in regards to the markets served, tech use cases, platforms, customers, publishers and with reasonable cash in hand to invest further in our organic business, we stand confident to deliver long-term sustainable growth.

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

Moderator: We have a first question from the line of Aniket Pande from ICICI Securities. Please go ahead.

Aniket Pande: If I look at the top down macro-level approach, it looks a bit bleak. The ad outlook has increasingly dimmed over last few weeks in the midst of signs that rising inflation is beginning to affect consumer spending. We have seen that in US television networks and news, so I believe publishers also will be feeling the impact of slowdown in the advertising market.

Recently, the indication by a giant technology company related to the ad spending retrenchment has also spread aggressively. Secondly, in India also, we have seen the recently listed tech companies commenting on their concalls about reducing ad spending. I do understand that ad spends are equally important for organization to increase their reach. But like startups have entered into a bit of economic downturn, so will it have a broader impact on digital advertising business? In all this scenario, where does Affle stand? Are we facing any headwinds? The last query will be, does our entire pipeline continues to remain strong given we are more focused towards conversion model. Thank you.

Anuj Khanna Sohum: Firstly, in regard to the recent commentary from companies in US and Europe over last few weeks, it's important to note that Affle's exposure to Europe is negligible and our exposure to US or broadly developed markets is not as significant, because we are deeply anchored on the global emerging markets. In the emerging markets, especially markets like India, Indonesia, Africa, LATAM, the penetration of advertising into digital is still under calibrated. The trend we see in these markets is, let's say, if the total ad spend is 100, only 25 out of that 100 is going to digital for now and that needs to grow to 50 over time to be even sensible. So, digital is still catching up in emerging markets and even if the overall advertising budgets were to be reduced and even if that was to be true in emerging markets, we believe that the digital advertising will still continue to see significant growth.

If the average growth of the industry was expected to be in a range of about 30% to 35% range, let's say, it can still be in the range of about 25% to 30% average industry growth. It will continue to be a strong growth momentum for digital in emerging markets. So, don't compare that with the commentary of Europe and US companies which might have talked from a lens of traditional media advertising as well as digital all together. Developed markets vs. developing emerging markets will have a clear difference in the way they respond to what is happening in the world today on the macro factors. Within that, digital spends will be way more protected than the traditional ad expense. Either the traditional will get reduced or it will move to digital as the case might be between developed and emerging markets. So, we are in a pretty strong footing.

As far as tech startups linked thesis is going on, anybody running a sensible long-term business should balance what they are spending on advertising vs. what their revenue and profitability is. So, I think it's a good sign that a lot of these startups are looking at being way more sustainable on their financial fundamentals and we have welcomed it all along. Even when we work with startups, we always look for those startups, which are more sensibly minded in what they are spending.

As far as Affle is concerned, we have a large part of our business anchored on enterprise customers who are not going anywhere anytime soon for next. When we look at our customer mix, we see that at least 80%-90% of our customers should be there for next three to five years. We are also selective on who we are scaling up on our platform. Secondly, in terms of the ROI linked conversion focus of our business model, it is deeply in line with the needs of the advertisers, whether traditional advertisers or even the startups, who are becoming more ROI centric. They are never going to say that they will reduce their sales. Therefore, if Affle is delivering them ROI linked conversions and thus potentially the revenue, it will be almost wrong for them to say, okay, we are going to reduce the number of conversions that we are getting from consumers.

That is not what anybody will say. What they are saying is, I want to get as many conversions as possible with consumers with a more effective advertising spend. Hence, Affle's propositions and business model are becoming more compelling to customers who are tightening their control. Basically for those who are saying - I want a bigger bang for my buck. I want to get the same kind of revenue with less advertising.

Therefore, what this means is that they must embrace a conversion linked, ROI linked business model and I tell my sales teams clearly that in these times this is where our business model, our business proposition becomes way more compelling than ever before and let us go out there and win. I remain bullish about our growth.

Now, of course, had the macro factors not been what they are, maybe there could have been even higher growth. Are we completely insulated? No. But will we still continue to deliver superior than industry average growth? That is what our pipeline says, that is what our strategy says and that iss what we are executing upon.

Moderator: We have a next question from the line of Mayank Babla from Dalal and Broacha. Please go ahead.

Mayank Babla: My first question is regarding Jampp. For more clarity on y-o-y comparison, could you give us the contribution from Jampp as far as user conversions and the average CPCU rate is concerned?

Anuj Khanna Sohum: Jampp on a y-o-y basis saw a significant integration benefit together with Affle. We are now seeing Jampp operating close to 10% of profitability margin from its business, at the end of completion of one year together with us in June 2022. We are seeing a meaningful level of momentum towards scaled growth with the differentiated propositions, with the ability for them to pitch conversion links, CPCU based business model. We are seeing a positive qualitative as well as quantitative impact that we have had in the last one year.

If you're comparing it specifically from Affle's organic growth perspective, I think in my commentary, I specifically mentioned that we have seen about 45% growth in our revenue on an organic basis y-o-y for this quarter, that is excluding Jampp, which is consistent with what we have delivered in some of the previous quarters as well. So, there is robust organic growth in our business and it's 90% plus is anchored on the conversion linked business model. If you see the math of our business, revenue grew this quarter by about 128% y-o-y.

Now, if you look at the further breakdown, the conversions grew about 95%+ and the CPCU rate grew around 25%, which used to be around Rs. 42 in Q1 last year and has gone up to Rs. 52+ in this quarter. So, the growth in revenue is powered by two drivers, number of conversions as well as the CPCU rate. The conversions have grown well, the CPCU rate has also grown well and therefore revenue increased by about 128% y-o-y.

In terms of organic growth, we have seen about 45% y-o-y growth. If you're mapping it year-on-year, take the last year financials and map it up, the number of conversions growth in non-Jampp would be higher while the CPCU rate has gone up more because of Jampp. The conversions have increased because of the organic business. I hope that answers your question. Kapil, if you want add anything to it, please go ahead.

Kapil Bhutani: The bottom line performance of Jampp in this quarter was approximately 10% both in terms of its EBITDA and PAT margin and is inching up slowly as desired from almost 0% EBITDA when we acquired Jampp in June last year. We are on our track of long term sustainable EBITDA trend line from Jampp as well.

Mayank Babla: Thanks. My second question is related to Google and Android. Recently, I had read that Google will stop the unexpected pop-up ads inside the apps from next month onwards. So, a user will only be seeing ads if he or she chooses to get some rewards in games or in any other app. I wanted to understand from you, what sort of impact this might have on Affle - whether it be on the revenue or inventory or data costs and your view on that?

Anuj Khanna Sohum: Kapil in his commentary mentioned rather exclusively that we are a well diversified and balanced business, whether in terms of geography, verticals, use cases of how the consumer engagement is happening on device, in-app,programmatic, and all the entirety of the consumer journey that Affle captures. What Google is talking about is going to impact some percentage of the consumer's engagement on gaming only. All right, gaming is one of our top verticals and in those top verticals, just mathematically, it is well below 10% overall to our contribution. Within that, one of the use cases of gaming is being tweaked by Google.

Now, I believe the impact of this sort of change will be that we will see much greater conversions and engagements with the users in any case on the more meaningful rewards linked conversions vs. the intrusive kind of ads that come that actually irritate the consumer. So, what Google is trying to do is improve the experience of the consumer on the device and reduce the irritation factor. When the ad comes right in the middle of you playing the game and when the big screen ad comes, you as a consumer want to close it but you can't close it. I mean, that kind of advertising is bordering on the lines of spam advertising.

What Google is trying to do is reduce the spam and I don't think it has any material impact to us because the impact would anyways be to those who were focused disproportionately on gaming. Affle is not focused disproportionately on any one particular vertical. So, there's nominal if not no impact at all.

Mayank Babla: Okay. Thank you so much. I have a couple of more questions. I'll get back in the queue.

Anuj Khanna Sohum: I will also take this opportunity to address those of you who might have read that Google also announced they are no longer deprecating the cookie on their browser for some time to come. This was a talk for years as Google was saying, I will do it in three years, in four years and so on. Apple did it on their Safari and therefore, everybody was waiting that Google will also do so but they have not done that eventually. I'm not adding any more color to it than what the facts are. I think Google is going to fundamentally do everything that supports the advertising revenues. I believe we understand that well.

Moderator: We have our next question from the line of Arun Prasath from Spark Capital. Please go ahead.

Arun Prasath: Anuj, my question is on the overall advertising market, especially in the emerging markets. Earlier, you spoke about how emerging markets ad spending is strong, but again if you split this ad spend in the emerging markets into multiple categories. One category, which is seeing a lot more growth is the short video platforms. How Affle is placed in this value chain? Are we able to participate in it or be part of this spending or are we yet to develop any capability to deliver ads within the short video platforms?

Anuj Khanna Sohum: See, for us video as well as the theme that we have around video on connected devices, connected TV and connected households is a strong theme. Now, where are these short videos being consumed? These short videos are, if I'm not wrong, over 90% being consumed either on mobile devices or on the connected TV experiences that people are having. Affle is having a strong play in this area. The overall growth that we are seeing in terms of advertisers shifting their spends towards mobile and digital in emerging markets is basically in emerging markets. What was lagging behind is catching up to what the consumers have already caught onto.

The consumers in emerging markets are deeply connected on the mobile device and going forward on other connected devices as well. That trend is clear and Covid times have actually accelerated that adoption curve and trend. In the developed markets, consumers have already moved on and the advertisers have also moved on. In the emerging markets, consumers have moved to digital much more deeply, however, the advertisers are still catching up. So, the shift that I'm talking about from traditional spends to more digital spends in emerging markets is a mega trend, which will not get slowed down because of the macro factors.

In fact, when the macro factors become tighter and all of these companies marketing and advertising spends come under a stronger sort of a review that - hey, where is the ROI coming? You will see a faster adoption towards digital and a faster trimming down from traditional to digital. And if you segment the digital further, yes, digital has many formats. Affle is well-diversified across all those formats, such as video and short video, is inclusive of it. In fact, one of our case studies that we have shown is talking about video, connected TV and connected households in this earnings presentation itself.

Kapil Bhutani: Just to add here, we work with short video formats, on both the sides, as a client as well as a customer and on the publishing side also. Affle has capabilities to place ads in short video formats.

Arun Prasath: Okay. That wass helpful. My second question is more from the Bobble divestment, it is mentioned in your notes to accounts in the reported financial statements, that you are considering the sale of Bobble investment. Our understanding is that Bobble was supposed to help you through getting a lot of first-party data. So, what happened in this front?

Anuj Khanna Sohum: Our strategic intent and relationship with Bobble is a five-year long partnership where we are the exclusive partner with our SDK integrated within the Bobble keyboard to leverage the monetization capability. So, we can bring the consumer experiences, the consumer recommendations, and enhance the consumer experience while delivering conversions for the advertisers. Now that is a five year partnership. That is obviously more anchored together with the fact that we also are a significant investor. In the last three years, we have been the only major investor who was invested in Bobble, in the year 2020, 2021 and 2022.

Now, in 2022, we are looking at maybe more investors coming into Bobble and therefore, there could be an opportunity for us to sell some part of our equity and take a great ROI return on our investment in it while still holding one of the highest investors position in the company on their cap table and continuing to be a long-term strategic partner. So, the equity ownership position and the commercial strategic relationship are two independent transactions.

What we are looking at is also to strengthen our own cash position in the company. Since, Bobble is today an associate company of us. About 25% ownership that we have earned in Bobble over the period of time and the optimal position for us would be to take a minority, but a significant major investor position within Bobble, but not necessarily to bring it, to become an associate of our company, which as a public listed company has several other implications on Bobble.

We are bullish about what we can do on a strategic basis together with Bobble and that includes leveraging consumer insights, powered by data, leveraging the ability to have that touchpoint 100 times a day to connect with consumers. But Bobble is not necessarily a company that Affle would want to own more than a 20% or a 51% at this point in time. I'm not closing those possibilities, but at this point in time our strategic intent is to be more broad based with multiple keyboard partners, multiple publishers and there are other keyboards that already work with us.

We don't want to show that we are so deeply in Bobble that others start feeling threatened. You see. We want to be go deep with Bobble, but at the same time, we want to work with other keyboard companies as well around the world. As part of this plan, it makes sense to keep our ownership at a certain level and not beyond that.

Moderator: We have our next question from the line of Nikhil Chandak from JM Family Office. Please go ahead.

Nikhil Chandak: My question was on the same Google privacy norms. If I read the blog correctly, the official blog by Google, it's not that they have abolished the plan completely of phasing out third-party cookies, the decision has just got postponed to 2024. So, what I wanted to understand is if you could specify what impact can this have, assuming this goes ahead in 2024 or in 2025, for example, somewhere it's tough to believe that this can't impact the company. We have seen the kind of havoc what created on Meta because of the Apple IDFA changes. So, it's tough to believe that if Google does actually go ahead, maybe with a delay,then it can't have an impact on Affle. So if you could explain what will be the exact impact, assuming the same happens in 2024 or 2025?

Anuj Khanna Sohum: First of all, the cookies are only applicable and relevant in a browser scenario, meaning that somebody is going to a website from a mobile browser or a PC browser and only then a cookie comes into play. Affle's business has almost, not even like 1% to 2% impact of anything to do with the browser. Our business is almost distinctly of on-device partnerships with OEMs, operators, in-app, like on apps, which are downloaded on the mobile devices or even on connected TV and working with those apps either directly by integrating with SDK API or through programmatic means.

So, today, or in fact, for the last 17 years, ever since when Affle was started, our business was always on device in-app mobile embedded experiences for the consumers. It was never about the browser on mobile, because I always felt since inception that the browser was a little bit too slow. Having said that, even those whose business is on the browser, I believe that by the time Google is going to implement cookies, as in replace cookies, they will implement something that will be even more effective and efficient for advertisers and advertising than the cookies. Because Google wants to enable advertising to continue, while addressing the obsolete technology of cookies if I make call it that. Cookies have been around ever since Internet has been around and there has been no evolution in that for almost 25, 30 years. This needs to change.

Nikhil Chandak: To be sure, none of the changes proposed by Google would have an impact on Affle is what you are saying.

Anuj Khanna Sohum: Yes. So, the two changes that were today talked about on the call today, one was on within gaming apps Google is saying that certain types of ads, which are intrusive and potentially spam-ish should not be allowed, and that has nominal or no impact onus. Second topic of Google that we talked was about cookies and that is largely limited to websites and browser. I can tell you whether today or in 2023, 2024, as of today there is very little exposure that Affle has to anything to do with the browser or websites and cookies. So again, no impact of that.

Nikhil Chandan: I am sorry, I am harping on this, but any other changes, for example, to the Android platform or anything which potentially can have an impact in two to three years down the line?

Anuj Khanna Sohum: Google has talked about doing something on android which is a diluted or a much more acceptable version of what Apple did last year on iOS in 2021, with respect to IDFA and certain changes. Google has started to talk about doing similar changes many years later than what Apple did. Now that has some implication. However, that implication is at least a few years out, what one can see is that on cookies, Google has reacted four to five years later or even much more later than what Apple did.

Then even on the in-app ecosystem, Google is not necessarily going to accelerate its path as is evident to us from their track record. Most importantly, when Apple made these changes in 2021, what did Affle do? Affle went and acquired Jampp and together with Jampp, we went into the US market with our revised sort of proposition for iOS and did really well in that segment. This means that even after Apple did the changes, Affle together with its newly acquired subsidiary, went into the US market, which is not Affle's home ground and became one of the top successful platforms in the US market on Apple's revised policy.

So, we negotiated Apple's changes in 2021 and made it into a business opportunity for us vs. our competitors. Our fundamental is clear, the consumer is not going away from mobile devices, the advertisers' budget is not going away from digital and mobile. These two things are the anchor pillars of our business thesis. Within these two things, whether it is privacy laws or whether it is Apple changing something or Google changing something, one thing that they cannot change is that consumer is not moving away from these devices and the advertisers consequently are not shifting the budgets away from these devices.

Therefore, as long as we find the technology solutions to implement and create the right ROI metrics, we will continue to thrive vs. competition in this business, like we did in 2021 and continue to do in 2022. We are not nervous about it. But are we immune to it? No, of course, changes happen. I read every single bit of this progress with deep interest and we build strategies to combat that and diversify our business to combat that and we are comfortably placed where we are today.

Moderator: We have our next question from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: Hi, Anuj and Kapil. Firstly, wanted to understand that from the last three-quarters, we have not seen any improvement in our gross margin, per se, when I am talking about gross margin, I mean, the inventory & data costs as a percentage of revenue. We have not seen much improvement over there. Why is the improvement in Jampp's margin not visible in the inventory cost at consolidated level? Is it because of a decline in the margins of India business? What can be the reason for the same?

Anuj Khanna Sohum: No, the way you have to see the ability for improving the margins in Jampp business is to create much more operational efficiency in terms of how the technology cost is working as a function of the overall cost and how we are enabling incremental scale up without incremental increase in the OPEX of Jampp. So, our tech stack is actually leapfrogging Jampp and the acquired business, why only Jampp, I mean, Mediasmart and Appnext and so on, the same playbook has workedfor all.

You acquire a company that is breaking even, you help that company to leapfrog ahead without investing further in cost, because they are leveraging Affle's backbone. In Jampp, only one year has passedsince it was acquired and we still have two more years to go before we bring them to about the level of profitability that we enjoy in Affle's business organically.

If you look at Affle's business organically is around 25% EBITDA, the acquired business of Jampp was 0% margin when we acquired them and now it has come to about 10% margin on the bottom-line and still work-in-progress. How will this work-in-progress happen? In the next year and the next two years, there will be a lot of areas of improvements, how to scale up, how to bring more efficiencies, how to charge the advertiser a bit more while the inventory & date cost stays the same. As a percentage of revenue, it changes because you are now able to charge more because you are delivering more value to the advertiser for conversions. So, how can we increase our price without increasing data? There are multiple optimizations that are not yet deployed and work-in-progress with respect to Jampp.

Now, to attribute and say that India margin has gone down, that is not true. I mean, if you look at it on a standalone basis, transfer pricing adjustments across our countries and entities, such adjustments will continue to happen as per the policies that the auditors have approved. But fundamentally, what we are seeing is the drivers of our growth are more consumer conversions, defensible pricing of CPCU rates, organically over Rs. 40, organic plus inorganic over Rs. 50 and so on.

The defensibility of our pricing, the ability to scale up on consumer conversions and to attract a diverse range of verticals with a diverse set of advertisers to continue to on our business model is unique. That is what is driving our revenue growth and our margins, Last several quarters, the efficiencies have absolutely been there. Even on a q-o-q basis, we saw about 17% growth in EBITDA and about 10% growth in revenue. So, even if you take the immediate sequential quarter, you see that there are margin efficiencies that are coming on the bottom-line.

The other aspect that I want to touch upon and take the opportunity is that what is exactly inventoryand data cost, while it is a line item on the P&L, which is fully expensed out in each reporting period. Data and inventory is also an investment that Affle is making in our 2Vs, Vernacular, verticalization strategy. I mean, when we say vernacular, verticalization, what does it mean? Are these just words that sound good? They reflect in how we are investing in the deeper inventory and data cost.

Our data systems, our DMP platform is verticalizing the knowledge. It is building the intent of the consumer on the vernacular stack as well, to see how we can go deeper with consumer recommendations and engagements on that basis. To do these two things, we need to invest in inventory and data costs. We cannot just say these strategies and then not follow it up. We are actually following it up.

The correct way to account for inventory and data, which I believe in strongly, but I don't think the auditing and the accounting standards are up to the mark to do that and complicate life too much for everyone to understand - that some percentage of that data and inventory cost is actually an investment, is actually a balance sheet event, is not a P&L event. The investment that we are making into a strategy shows that we are bullish about how the future growth will come, otherwise one would not invest. If I will report a higher profit in the short-term and not invest into a future strategy by having lesser data and inventory cost, it does not make a good case. So, please do take this in context that we are fully expensing it out, but it has an element of investment in it. Thank you.

Kapil Bhutani: Just to add here - you have to see the three-quarters together, India did not go down in Q4 FY2022 as much as the international markets went in vs. Q3 FY2022, given Q3 is our highest quarter. So, largely it is a balancing act between the movement of Q3 to Q4 and now to Q1 FY2023. The budgets move and this was in the first quarter. Secondly, we don't see this as a decline itself because India had a nice Q4 FY2022 as compared to international, India event did not show any major dip in Q4 FY2022 vs. Q3 FY2022. So it is in line with overall numbers.

Second, related to the gross margin, there are two implications to it. One is the transfer pricing, which is getting affected because few operators have stopped billing from India entities and they are now billing from international entities. So, their bill goes to our international subsidiaries and then there is a cross-charge to it. There is a transfer pricing cost which is also going on.

It's not just the factor of the margin on the standalone. However, because of the geopolitical reasons, few of these OEMs have stopped billing from their India entities. They say that we don't want to operate our India entities and that is why we are getting indirect inventories through our subsidiaries based out of India.

Moderator: We have our next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Thanks for the opportunity and congratulations on strong performance. One structural question, which is that on this Apple privacy policy impact, what we're hearing from several publishers that the monetization on the store has been impacted. I understand that you have been growing on this, because of your size and positioning, but more on an overall industry sense, who in your view would take the hit eventually? Is it the publisher side or is it higher customer acquisition cost for the advertiser or at the growth margin would be the bigger hit? Second thing, on the Jampp side, we have been growing well, so if you could help, what is driving our momentum here? Is it more about attractive pricing or better conversion efficacy and the clarification on Jampp margin, is it 10% margin or 10% contribution?

Anuj Khanna Sohum: So that's three questions. I will try to answer all in one breath. The changes that you are seeing on the iOS platform, while it may happen at an ecosystem level. I strongly believe that they were sharply pointed at the big technology companies or the big advertising tech companies like Google, Facebook and the likes. I believe that Apple has been kind in the way they have opened up their backend platforms, capabilities, and the kind of APIs and ability for platforms like us to integrate with them. I think we have seen a fairly good, transparent and sensible approach there. We believe that the changes that are happening on iOS, the biggest pie to take the hit would be the likes of Google and Facebooks and similar tech companies potentially.

With respect to overall growth that we are seeing in digital advertising from brands who are working with us, I believe that the fundamentals of unique differentiated business model, which is giving ROI-linked conversions to the advertisers is a key factor in terms of how we are achieving outcomes. The second is that we focus on emerging markets disproportionately while competitors who we can see as credible technology platform players & who have invested meaningfully or have been around long enough to compete with us meaningfully, are all focused on developed markets disproportionately. They have relatively weaker focus or emphasis in emerging markets, whether it is in their R&D plans, whether it is in their teams that they assign or the strength of the offices that they open in the emerging markets.

It is interesting for us to go and compete with all the top global names in the ecosystem in emerging markets, where we are the strongest player and then we have all these strong looking names, but they are weaker in their presence and therefore, we are able to beat. So, unique business model and clear competitive advantages in emerging markets make us a strong player to continue to win greater market share vs. industry average growth rates in emerging markets. You had a third question, but sorry, my memory has got -- skipped it. I only remember the…

Kapil Bhutani: On your last question, Jampp’s EBITDA & PAT margin was about 10%

Moderator: We have our next question from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Hi, Anuj. If we see the impact of Apple's IDFA and the recent macro environment, one thing which is picking up quite smartly is this plan of putting out first party ad networks by multiple properties, multiple large data sets which are out there in the world. Can you just share some thoughts on how you see this impacting the market as a whole because this obviously puts out a lot more credible and highly correlated data out in public domain, which can improve the efficiency of the ad networks? Also, whether this will enable relatively newer startups in the space to catch up to the large data sets, which we have collated over the last many years?

Anuj Khanna Sohum: Firstly, if you look at the emerging markets, exposure to Apple devices in emerging markets will be low and ad spends on iOS will be insignificant. As I see, well over 90% of mobile in emerging markets is Android. So, when we talk about Apple IDFA or even the macroeconomic factors, we must straight away take the context to developed markets. Europe has negligible contribution to Affle, US market is a large market and Affle is a very small there as a percentage, even within our scheme of things. And The numbers are small that suddenly the macro factor is not impacting what Affle is making in that market today. I think, when you take the question in the context of Affle, it becomes a question that is more intellectual for us to look at what's happening in the market, not how is that impacting Affle so deeply. US market is a small percentage of Affle's business and as a percentage of total US market, it is even more negligible. There is enough Android business in the US market for Affle to go and win that and still continue to grow disproportionately in the US. All of these factors have to be taken into account.

Now, is Apple IDFA change introducing new set of quality data into the hands of the market? The answer is no. In fact, it is clipping the wings of accessibility of data through asking for consent of the consumer and therefore, only a few select players would have that. Having said that, what they have crippled is Facebook and Google's ability to go beyond their own first party on their third party networks that they were doing with other publishers and so forth.

That is the part that has impacted these guys quite a bit. So, I think there is a lot of assumption there in saying that what Apple IDFA is doing is to bring out quality data sets into the market. That is not true. These quality data sets, which are first-party data sets already existed in the market with each of those publishers. Now only those publishers who will have consent will have those data sets. So, data is becoming more premium vs. commoditized. Data is becoming harder to gain than to say that it has become easily accessible to everyone. At least that's as per my understanding.

But having said that, for any investor who's not keeping pace with this conversation or the depth of this conversation must know one thing that Affle is disproportionately anchored on emerging markets, with over 80% of our business from emerging markets. Even in the developed markets, there is almost negligible impact of Europe. So, any worry about recession or deeper impact in Europe, please, keep that out of Affle's sort of forecast and plans.

Any impact on the US market, please know Affle is very tiny with respect to how big the US market is. We are still aggressive out there because when the base is small, I think all of us agree, it's easier to grow. Our base in the US market is nothing almost. And so, even if we are in the US market, there is a way for us to grow on the Android side of the ecosystem itself, where we come across as the strong contenders of the emerging market leaders. In the US, we are still able to win business on Android and on iOS, we have been in the top 10 in the first year after the iOS changes.

We are bullish and confident. We are not completely impacted, but we are in a highly privileged position vs. most competitors in the market.

Mukul Garg: A follow up, you said that the first party data is becoming more constrained or like, people need to pay to access those datasets. Is that something which can impact us as a business? Although, we have collated a lot of data and also if someone is willing to invest, spend for those datasets. And I am again focusing on emerging markets because those datasets will emerge here also in the due course. Is that something which worries us?

Anuj Khanna Sohum: Not really because the islands of datasets never leads to the kinds of insights that we are talking about. First of all, the datasets that you are talking about are largely focused on iOS, consent based, IDFA based first-party datasets. They existed even before. Earlier, the consent wasn't really as clinically required, but now the consent is clinically required. So they are becoming a little bit harder to get.

Now coming to emerging markets there is no such scenario because about 95% of the market is Android. iOS contribution on devices is may be like 5% or lesser. So, anywhere in emerging markets globally, we find that for almost 95% of the data set, no change is happening right now at least for the next several years.

Now, where Affle is unique is the fact that we have data across, let's say we talk about India, we have non- personal identifiable data of over 600 million connected device. This data is deeply verticalized across the top 10 verticals and vernacularized over 30 different languages. When we talk about this depth of data across industry verticals, across this kind of wide consumer demographic segment, it is really hard to get. You can't just go and say, okay, you go to one publisher or one particular party and buy that data. The Consumer Privacy Laws are not allowing some free trade that anybody can go and buy and sell data.

The access to that depth of data and information and the depth and breadth of data that we have built over all these years of serving hundreds and hundreds of advertisers across these industry verticals. Therefore, we have the learning of which consumer cohort is likely to convert for which particular vertical and what is the correlation between them. There is no shortcut way of doing it. Even if I were to tomorrow, start another startup all over again, with all my experience in Affle, I will take at least three-five years to get to reach any position to give a fighting chance to have some budgets run out of Affle. So, not eliminating the possibility, I'm just saying it is hard for somebody even like me, for somebody to step out and do. It takes time. There is no shortcut to it.

Kapil Bhutani: Just to clarify because the response earlier was not fully understood by Rahul. Just to clarify that the EBITDA margin from Jampp business is about 10% and contribution at the consolidated level is little less than 20%. So, I hope it is clear because the question was getting confused between the contribution and the margin.

Moderator: We will take our last question from Mr. Sumail Choksey from Indus Equity Advisors. Due to constraint in time, Mr. Choksey, I request you to ask only one question.

Sumail Choksey: Congratulations on your third IPO anniversary milestone and my commendations to Mr. Khanna Sohum and the rest of the management on another steady set of numbers. I had a few questions, but I'll just ask two of them together. So at Affle, we have pursued a fairly robust M&A strategy, we have got many new acquisitions into the fold over the last few years and we are likely to do so in the future. Now, in this regard, what sets Affle apart from its peers in terms of being able to successfully integrate these acquired enterprises, both into your ecosystem and culture so well? Has there been any prime catalyst for this? I'm sure there have been some challenges faced in these integrations as well. So what have been the chief learning from these and how have they prepared Affle for the future? Also, on a q-o-q basis, there was a slight dip in revenues from India. Has this been due to a lack of demand or seasonality? I'm guessing if it's seasonal then it's likely to reverse in the coming quarters?

Anuj Khanna Sohum: I will take your first question on the M&A strategy and then Kapil will answer the second one. Now, why our M&A strategy has worked out so well, especially with respect to Mediasmart, Appnext, Jampp, which were acquired outside India and culturally different from us. Mediasmart is in Spain, the Appnext founders from Israel, Jampp has Latin American founders. So the first reason for it to be strong is that we have a clear Affle 2.0 consumer platform stack, which we had then presented together with Jampp, Appnext, Mediasmart in December, 2021 to all our investors and analysts. This is a clear strategy on our platform stack whichhas enabled the playbook to be seamless, to bring an acquired asset on board and integrating them deeply.

The acquired asset sees an immediate benefit and the value system starts to enroll without becoming too intrusive or in the face of anyone. That's step number one. If any other company tries to do an M&A and doesn't back it up with a clear technology stack and a non-intrusive way of bringing value by bringing things together, they will have a tough time to do it. So, this is the one reason that makes it simple and that is more about technology and process, less about people and culture.

Second, in terms of people and culture, we have been extremely conservative and very careful. The point that I amm making is thatwe had exceptionally long courtship periods with ouracquired set of companies to iron out everything that could go wrong in terms of people and culture, prior to getting married business-wie. So thinking it with an analogy of marriage, is that you date someone, you live-in together, you make sure everything is clear, fully compatible, then let us get engaged and then married.

So, deep and long courtship periods, in the case of Jampp eight years, in the case of Mediasmart and Appnext about four to five years each, deeply connecting with them. Therefore, even during COVID times, we had the confidence to cross the line and to sign on the dotted line. So that's second reason. Of course, the third reason is that Affle's culture and Affle's own success creates a desirability and a pull factor. Where all of these companies are happy and feeling pride in its association with Affle.

I think the way they perceived us prior to signing the deal and how the employees perceive us after one to two years of the deal, we have risen in the internal credibility, perception and built pride for the Affle brand and that as a pull factor keeps people together. I believe these are the three factors that have led to a robust M&A success. It may seem as if we were aggressive, but I feel we have been conservative and careful and therefore successful. That is on question number one.

Sumail Choksey: Sorry, I don't mean to interrupt but just wanted to ask you again on the last part of my question. I am sure there must have been challenges, what have your chief learnings been from those? I mean have that prepared you all better for the future in terms of the integration, I mean the challenges?

Anuj Khanna Sohum: I have to admit that the expectation of challenges was always high. When we were nervous, even after doing these long courtship periods, having the confidence to do the deal is one thing, but I cannot eliminate the deep nervousness that I was also feeling entering into these transactions. I have to admit to that. In context to the nervousnesses around expectation of the challenges, that will come about or may come about, the eventual challenges that did actually come about were actually almost insignificant.

So, what kind of challenges come up? Well, sometimes there is an expectation of what kind of a long-term value creation that we can align as a path. Like we may want a 10 years togetherness plan. Well, most people don't think 10 years in our industry. I mean, most of the startups or entrepreneurs think maybe one, two or three years. They don't even know how to forecast beyond that. Affle thinks 10 years.

When we started this year 2022, Affle2.0 was our strategy from 2020 to 2030. So, graduating people to think of that and to think it authentically not just, oh, we had to give something because Anuj is saying. No. To actually believe guys, we are going to be around together for that long and 10 years passes really fast. That level of maturity and bringing that authenticity to plan for 10 years is never easy, even in a organic situation, in your own management team, to get people to think that far and deep sometimes is a challenge. I had to deal with the CEOs and entrepreneurs who had already got fixed in their ways over the years to expand that sustainable, long-term thinking which is still work in progress. But I am at it and working uponit. I know I will get through it, but that is the challenge that I want to talk about and I would spend more time on it prior to the acquisition going forward, than post.

Sumail Choksey: Sure. My second question was on a q-o-q basis, India seeing a slight dip in the revenues. I mean, has this been due to a lack of demand or is it seasonal in nature? I would guess if it's seasonal, it's likely to reverse in the coming quarters.

Kapil Bhutani: I answered this question previously also. It is to be seen in the light of Q3 FY2022 to Q4 FY2022, there was hardly any dip in India revenue from Q3 to Q4. Generally for us, the Q4 is lower than the Q3. The Q4 vs. Q3 momentum was lower for the international market as compared to India, which was largely resilient in Q4 FY2022. Hence, in this Q1 FY2023, when you compare the India revenue sequentially, balancing has taken place given the India base in Q4 FY2022 was higher. There is no other way to read it.

Moderator: Thank you. I now hand over the call to the management team for closing comments. Over to you, sir.

Anuj Khanna Sohum: Well, thank you so much everyone for joining us today on our third IPO anniversary. I did mention earlier that we celebrate it today with our 385,000+ shareholders and it is deeply humbling, inspiring and it instills greater responsibility, accountability on our shoulders to deliver the sustainable cash flow and positive long-term growth for Affle. I am looking forward to the journey ahead. Like I mentioned, we think long term, we are making all our teams think long term as well and we look forward to meeting you as the journey unfolds. So, thank you for believing in us and for supporting us.

Moderator: Thank you, sir. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may not disconnect your lines.

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