# Affle (India) Limited

Q2 & H1 FY2024 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. Karan Taurani – Elara Capital

**This transcript has been edited to improve the readability**

**Moderator**: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Conference Call to discuss Q2 & H1 FY2024 earnings hosted by Elara Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Karan Taurani from Elara Capital. Thank you and over to you Sir!

**Karan Taurani:** Thank you Akshay. Good morning everyone. On behalf of Elara Capital we welcome you all to Q2 & H1 FY2024 earnings conference call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited represented by Mr. Anuj Khanna Sohum, who is the Managing Director & Chief Executive Officer of the company and Mr. Kapil Bhutani, who is Chief Financial & 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 some risks and uncertainties. Kindly refer to slide #24 of the company's Q2 earnings presentation for a detailed disclaimer.

I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thanks 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. I wish all of you a blessed Deepavali celebration ahead.

H1 FY2024 marked a strategic transformational milestone in our journey as Affle India! We have come a long way since 2006 and will conclude FY2024 as our 18$^{th}$ financial year. Based on our past performance trends, we are well-poised to cross Rs. 1,800+ crore of revenues this year as we look ahead towards achieving our Growth Vision 2030.

In Q2 FY2024, we attained our highest quarterly revenue run rate, highest EBITDA, highest consumer conversions and the highest CPCU rate. We continued to enhance our consumer-centric platform offerings, as well as leverage synergies towards overall operating margin expansion progressively, delivering stronger than ever quarterly EBITDA of Rs. 872 million.

We delivered a revenue growth of 21.6% y-o-y and a PAT growth of 13.8% y-o-y in Q2 FY2024. Our CPCU business achieved 72 million conversions during the quarter, at a CPCU rate of Rs. 55.6 that helped us to achieve a CPCU revenue of Rs. 4,006 million, an increase of 21.6% y-o-y.

In terms of H1 FY2024, we achieved a revenue growth of 19.3% y-o-y and a PAT growth of 16.7% y-o-y. Overall, for H1, our CPCU revenue increased by 19.4% y-o-y. Our CPCU business continues to be resilient and underlines the long-term sustainable business momentum.

Our strong anchoring in India and Global Emerging markets enabled us to perform well. Our growth for India and Global Emerging markets combined, was about 20% y-o-y, and almost all of it was organic. Notably, this is despite the fact that there was a pullback effect of about Rs. 110 million (that is about Rs. 11 crore) due to regulatory changes towards applicability of GST within the online gaming industry in India. However, this impact was completely offset by the all-round growth in advertisers' spends across other industry verticals in India. If we exclude this one-time impact of online gaming industry, our performance in India would have been much superior.

However, Global Emerging markets performed really well and grew by about 28% y-o-y, wherein this growth was also majorly all organic. That gives us confidence that broader market tailwinds in India & Global Emerging markets continue to be intact and they contributed almost 75% to our current revenues.

Speaking of Developed Markets, I am happy to confirm that our decisive turnaround action plan together with YouAppi now has started to yield positive results, where we expect consistent growth particularly from the lens of second half of FY2024, despite the pullback effect in the Fintech vertical in last quarter of about Rs. 140 million(that is about Rs. 14 crore). Our realigned approach towards up-selling and cross-selling integrated consumer platform propositions with emphasis on premium & key resilient verticals with our highest number of full-time team members anchored in the US till date, instills confidence in us to deliver broad-based consistent growth from here onwards in developed markets.

Despite the combined impact of about Rs. 250 million (that is about Rs. 25 crore) from online gaming in India and from the Fintech vertical in Developed Markets, we delivered the highest Revenue and EBITDA ever in this quarter and our CPCU business continues to be resilient and positions us strongly for the multi-year growth ahead of us.

We are consistently enhancing our strategic moats towards building sustainable global market position and I would like to highlight key anchor initiatives that we have undertaken to power our long-term sustainable growth momentum.

1. OEM anchoring partnerships: We are strengthening our strategic partnerships with greater scope and deeper touchpoints to enable premium use cases across the OEMs ecosystem and app stores. We have secured partnership with Samsung in India for their Samsung Platform 12 Touch Points across the premium Samsung Galaxy Appstore and Discover services placements where two phases of development and integrations have been achieved as of the last quarter and we are expecting to attain completion of the most significant Phase 3 in 2023 itself.
2. We have also completed development and integration on Lenovo smart phones across all the major international markets including North America, Europe, Japan, Korea, Southeast Asia and LATAM.
3. Anchoring Gen AI strategies: We are leveraging our core R&D capabilities and are investing in emerging technologies for our customers globally, with key emphasis on pursuing new tech IP and innovative use cases for responsible integration of Generative AI technology. We have recently released our 1st Generative AI-powered product which is a multilingual keyword recommendation tool for our iOS Appstore Apple Search Ads Advertising Platform. This will automate advertisers' play across search touch points to scale their iOS user acquisition effectively on Apple App Stores and engage vernacular audiences who search for apps in their native languages.

These are all significant achievements and we are more ready than ever before with our products, partnerships & people and our overall position in the ecosystem is much stronger, to unlock sustained multi-year growth ahead of us.

We also want to congratulate all our shareholders and investors for their trust and support has enabled the success in our ongoing strategic fundraise process. Affle India secured a commitment letter from Gamnat Pte. Ltd, which is an entity of the Ministry of Finance, Government of Singapore, for their binding offer to invest Rs. 749 crore (approx. USD 90 million) in our company. This will definitely strengthen our next 4 years of strategic growth initiatives.

This is a certificate of credibility and confidence in our resilience as a company. It has inspired even greater loyalty in all the Afflers towards ensuring consistent success and value creation for our stakeholders against all the odds.

Continuing to share our customer success stories, this time, we have included 3 case studies, which are focused on online trading, fashion growth with a vernacular approach and loyalty program of a global FMCG company.

Affle continues to be recognized as an industry thought leader. Our platform was named amongst the top mobile advertising companies 2023 on Business of Apps. One of our platforms was recognized as a High Performer at G2 Fall Report 2023 as well as won an award in the Connected TV category at Agency Reporter's Front Benchers 2023 Awards. Another platform was recognized as 'Best in Data Technology' in e4m Real Time awards and won Silver in the programmatic category at MMA Smarties.

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

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

In Q2 FY2024, the Company reported Revenue from Operations of Rs. 4,313 million, a growth of 21.6% y-o-y. We delivered a broad-based growth of about 20% y-o-y across Global Emerging Markets including India. Emerging markets continued to be in high-growth momentum with strong operating profit performance. Our H1 FY2024 revenue stood at Rs. 8,379 million, a growth of 19.3% y-o-y.

Our EBITDA for the quarter stood at Rs. 872 million, an increase of 20.6% y-o-y. Our EBITDA margin stood at 20.2%. Despite the acquisitive consolidation, our EBITDA margin was in line with Q2 last year while it improved by over 100 basis points on a sequential basis. In H1 FY2024, our EBITDA increased by 17.3% y-o-y to Rs. 1,653 million, while the EBITDA margin stood at 19.7%.

In terms of Opex, driven by our consistent efforts towards enabling platform synergies and greater productivity, our Inventory and Data Cost stood at 60.5% of revenue from operations in this quarter, resulting in improved operational efficiencies and better margin realization on both y-o-y and sequential basis.

Our employee cost as well as other expenses remained relatively stable sequentially and increased by 2.1% and 6.4% respectively on a q-o-q basis.

Our Profit After Tax for the quarter stood at Rs. 668 million, an increase of 13.8% y-o-y. We had an impact of higher interest cost of Rs. 27 million in this quarter due to new term loan availed by our subsidiary for the acquisition of YouAppi business, as well as the higher amortization. Increased amortization was on account of intangible assets that were put to use in the quarter and amortization of identified intangible assets for YouAppi acquisition and this increase was in line with our historical Q2 trend.

We remain focused on working capital management and as such there were no material changes in our collection risk.

Our OCF for H1 stood at Rs. 989 million which is close to our target of 80% OCF-to-PAT Ratio for H1.

Further, in regard to the commitment letter we received from Gamnat Pte. Ltd., a step-down subsidiary of Ministry of Finance, Government of Singapore, the utilization of net proceeds is intended towards following 3 identified uses and the rest towards General Corporate Purpose:

1. Up to Rs. 335 crore towards investment in technology, platform & Products
2. Up to Rs. 150 crore towards inorganic opportunities
3. Up to Rs. 75 crore towards repayment of outstanding liabilities of past acquisitions

Please refer to the 'Object of the Issue' for detailed disclosure that is given as part of our "Notice to the EGM" and is available on the stock exchanges as well as mailed to our shareholders.

Looking ahead, with the anchoring growth initiatives that Anuj discussed earlier on this call, we are ready with our Generative AI initiatives and are stronger than ever before with our products, platforms, partnerships and position in the ecosystem. We remain confident of the long-term prospects and will continue to invest to drive sustainable profitable growth for FY2024 and beyond.

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

**Moderator:** Thank you very much. We will now begin the Q &A session. The first question is from the line of Karan Taurani from Elara Capital. Please go ahead.

**Karan Taurani:** Hi Anuj. My question is pertaining to the India business. You mentioned that the gaming vertical has led to a lower growth. What are the other verticals that are performing well and could possibly offset this negative impact? Secondly, what is the normal case scenario for the India business in terms of growth over the next 2-3 quarters? Historically, the growth it has been around 20%. Should we assume that for the next three quarters, India business growth could be at mid to low teens?

**Anuj Khanna Sohum:** Thanks for your question Karan. Yes, the GST impact on the online gaming industry in India definitely has had a measurable impact. We have quantified this impact at about Rs.110 million worth of pullback effect for us. If we have to eliminate this impact and assess our growth in non-gaming-to-nongaming comparison our growth has been highly resilient.

We are a broad-based company with our presence across multiple industry verticals and gaming is just one of the industry vertical. We have over 10 industry verticals under our EFGH categories which includes entertainment, e-commerce, education tech, fintech, foodtech, FMCG, gaming, government, groceries, healthcare and hospitality. Lot of these categories having broad-based set of advertisers are working with us and this is where the strength of Affle lies. It gives me confidence that we are broad-based sufficiently and able to take the impact of Rs. 110 million pullback in the gaming industry. If you see, overall India did really well and neutralized gaming vertical impact. Also, in global emerging markets we saw broad-based growth across all our industry verticals. Overall across emerging markets including India, we were still able to achieve about 20% growth on y-o-y basis, it was mostly all organic because of this broad-based risk managed approach.

Going forward on a normalized scenario where there is no one-off event or surprise events impacting us, because whenever there is any such surprise event there will be a little bit of a hiccup until the industry finds its feet again and that particular segment of the industry finds its feet again gets back into a certain predictable rhythm and pattern. We have a multi-year growth trend ahead of us because in emerging markets like India and global emerging markets the advertisers are under calibrated on digital. I expect around 50% - 60% of the ad spend to decisively go to digital in the next three to four years. Therefore, we will see broad-based growth trends and yes, we should calibrate that within a range around 20%.

**Karan Taurani:** The second question is around the international business. Even excluding YouAppi, we have seen a better performance in the international business. Could you please give us some sense in terms of the US business. Where is that standing? Because we are expecting some kind of a turnaround there, what is the expected growth rate, traction and whether things are aligning with our plan? Additionally, could you share information on our performance in the other emerging nations apart from India?

**Anuj Khanna Sohum:** Sure. In our reporting since pre-IPO till now, we have been adding more colour and emphasis around India & international perspective. The way to see our business is India, other global emerging markets and developed markets. Because the behavioral patterns of India and emerging markets globally are a lot similar and that is almost 75% of our business and roughly 25% of the business came from the developed markets.

Firstly, of all the internal decisive steps that we have taken to turnaround the internal issues of the company, I think that has already been well rested, settled and we are in a positive spirit and momentum to go ahead and capture the growth that we deserve. In terms of our team and our people on the ground, the spirit and motivation are high. I have just returned from a sales offsite with our North America & Developed Market focus team, discussing on plans to continue growing from here. The pipeline and the spirit is strong. All of those internal issues have been fully addressed now.

In terms of the external issues, the pipeline and the results of all the industry verticals that we are addressing in developed markets, more specifically in the US are all doing well except for the one that we have quantified for you in my commentary where we spoke about Fintech vertical because of the interest rates on loans being very high, there was a pullback effect in that in the last quarter and we quantified it to be about 14 crore.

If this scenario had not been there, about Rs. 25 crore of revenue could have seen coming in the pipeline. But that did not happen because of India gaming and developed markets Fintech verticals. Even without that revenue and the pullback effect, we saw fairly resilient growth across other verticals. Gaming has been a positive vertical in developed markets for us while in India that was not so positive in the last quarter.

Developed market wise, we have a confidence in our team, our products, our unique propositions and our premium placements on Affle's ecosystem. I think we have a very strong position. I am bullish today than ever before in terms of our position in developed markets and with US of course as the anchor market, we are also seeing it extend towards Europe as well as Japan.

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

**Mayank Babla:** Good morning. I was wondering what was the contribution from YouAppi during the quarter. Last quarter we had around Rs. 45 crore of contribution in two months of consolidation. If we just adjust for that in this quarter presuming equal contributions of around Rs. 67 crore was from YouAppi, then y-o-y organic business growth rate falls significantly to 2.5% y-o-y. Two main sources of impact that you quantified were Rs. 11 crore from emerging markets and Rs. 14 crore from developed market. Am I on the right track?

**Kapil Bhutani**: On extrapolation of YouAppi revenue, it is not very sequential as Anuj mentioned that we are on path of integration, so there is somewhat consolidation of revenue on the YouAppi side and it cannot be seen on a linear way for the last quarter.

**Anuj Khanna Sohum:** You are doing the math broadly correctly. The way to look at it is that most of the contribution from YouAppi is obviously towards developed market. Now in the developed market, we have seen a combined effect. Even though we are stronger than ever before but we also experienced a pullback effect of about Rs. 14 crore in Fintech category in the last quarter.

Our India and emerging markets growth of about 20% y-o-y in last quarter was largely organic. In developed markets, there was a pullback effect and you have added YouAppi for one additional month. If you do the math of that, you see there is a growth of approximately Rs. 10 to 11 crore in developed markets because you reduced Rs. 14 crore and added around Rs. 20+ crore for the additional month of YouAppi because I know you are slightly enticing it that way. I would encourage you to look at it and also tie it up with my commentary for about 20% y-o-y growth in India & global emerging markets and a pullback effect of about Rs. 14 crore in developed markets.

That is how you look at a math but sometime over analysis does not give you the essence of the business. The essence of our business is that India and global emerging markets have strong tailwinds and in developed markets together with YouAppi now, we have revived our position to be in a situation where we can look at consistent growth going forward. That is a very important turnaround that we wanted to achieve within this year. In the last quarter of this financial year, we will see decisive and very clear numbers anchoring what I am saying right now.

**Mayank Babla:** Sure. Anuj. In the beginning of the call in your commentary, you mentioned about some partnership with Samsung but I missed that. Could you please repeat that?

**Anuj Khanna Sohum:** Absolutely. So, in regard to Samsung in India, I had mentioned and I am just quoting what I was saying earlier that our partnership with Samsung in India for their Samsung platform which has 12 touch points across and including the premium Samsung Galaxy Appstore and Discover Services where we have already completed two phases of development and integrations have been also achieved as of the last quarter. We are expecting to attain completion of the most significant Phase 3 in 2023 itself.

**Moderator:** Thank you. The next question is from the line of Aditya Chandrasekar from UBS. Please go ahead.

**Aditya Chandrasekar**: Hi good morning. Just a couple of questions from my side. On the CPCU rate, we have almost come to around Rs.56 this quarter. You had previously said that the range would be between Rs. 55 to 58 for the year. Just wanted to check if you think that we can hit this upper end of this range or even exceed it going forward ahead into FY2025. How do you see this growth in CPCU rates and is there a kind of theoretical cap at which it stops growing? That is my first question and second question is, I just wanted to kind of get an update on the Connected TV space. I think you had mentioned in the last quarter just to get a sense of how it is on the ground and what is the kind of outlook for this space? Thank you.

**Anuj Khanna Sohum:** Aditya thank you for the very important question. I think your question about CPCU and the pricing band of CPCU between Rs.55 to 58 and whether we may hit the upper end of band is an important question but not so much from a quantitative length but from a qualitative aspect. We are consistently moving up in the value chain closer to more premium segment of consumers, more premium segments and touch points be it the partnership with Samsung on Galaxy Stores touch points, be it the gen AI related product that is addressing vernacular capabilities on the Apple app store search ads . There is a very clear method that is coming out in all our commentary and that method is directed towards going to the more and more premium segments so that we can deliver higher value to the advertisers. This involves offering better quality touch points, better quality of consumer audiences and greater tech enabled powered experiences due to better partnerships and better pricing. Better pricing almost necessarily means better margins in most business models.

We are a fast growth company and we do not want to give the power to our customer to bring the price down just because they are saying they are spending more with us. The only way to defend that is it to go for more premium products. We say that our products are becoming more premium so please pay us more and we will deliver you more ROI. Therefore, it all makes business sense.

What you see in our CPCU pricing and what you seen in our product & partnership initiatives in my commentary today is influencing that and will definitely consistently inch upwards and positive. Because, we are building the company not just to deliver revenue growth but deliver profitable cash flow and improved margins. The starting point of that is we are going to sell at the right price. We are going to sell something premium and we need to take a defensible mode on those ecosystem positions and that is what we are doing.

Moving to your second question on the CTV space, CTV is an important strategy for us not because we are a Consumer Platform company and a lot of the consumer households are going to adopt CTV. In both emerging and developed markets, CTV has already adopted in a significant way and you will see more CTVs as one of the influencing touch points for the consumers. You will have smart phone devices, tablets and CTV in your home and it helps us to create an integrated consumer experience to drive conversions for the advertisers and that is our endeavour.

CTV product has been ready and household sync, an important enabler for how CTV would connect to other connected devices in the households is also been out in the market. We are consistently educating and building top leaderships across emerging markets and seeing positive tractions. However, when a user converts for an advertiser it would necessarily always be with some touch point on mobile and on CTV and it has to work in conjunction. In our opinion, technology wise, product wise, proposition wise, we do not want to segment it out but we want to say that it is an end-to-end Consumer Platform where you can connect with the consumer on one additional touch point which is CTV and may play a positive role in the consumer conversion that we deliver to the advertiser.

**Moderator:** Thank you. The next question is from the line of Arun Prasath from Avendus Spark. Please go ahead.

**Arun Prasath:** Good morning, Anuj and Kapil. My first question is on OEM partnership in the last couple of quarters. I was just wondering, this OEM partnership we always add to Appnext. What is different this time from what we have been doing or what Appnext was doing for several years. Is the partnership only differing in the size or it is differing qualitatively. Can you help us understand this please?

**Anuj Khanna Sohum:** Yes, the premium partnerships mean that you are moving up in the value chain within the partner ecosystem. There are different touch points that one can go to and I could safely say that going into the app store of an OEM partner and partnering with them on and around the app store is perhaps the highest premiumness that one could achieve. This is highlighted in the commentary that I made earlier today. Going deeper with partners means that you are integrating tech at a deeper level. It also means that you are having a long-term relationships with those partners so more predictable path for consistent growth and you are doing higher impact, so not only is the partner important to us but we become important to that partner and take it to a new level.

What Appnext was doing before was a very important stepping stone to take on premium and deeper partnerships which we had now and it brought us to a level of maturity that we can now start talking about some of those partnerships like Lenovo. There are many ecosystem partnerships but I am only highlighting those which are premium or impactful partnerships to give you a stronger indication to our strategy.

**Arun Prasath:** Right, which means that we will have a much better conversion and predictability of the conversion and it also removes uncertainty for the customer as well. That is how we should say?

**Anuj Khanna Sohum:** See, the conversions is always linked to the consumer but what it is absolutely achieving for us when we have these kind of OEM deeper partnerships is that it is a message to the ecosystem that Affle as a platform will help the advertisers to reach the most premium segment of consumers, to drive the most premium conversions and therefore Affle deserves a higher CPCU pricing and a better margin. That is what premiumness does and this is what I was trying to answer to the earlier question from Aditya as well when he asked how your CPCU pricing is going up.

When you go with premium products where you are solving gen AI, going deeper on the vernacular verticalization, go into app stores and do deeper tech integrations then you go to the advertisers and say that all of these products and partnerships with ecosystem level market position deserve a better price. Of course the advertisers would eventually judge it and say if I am paying you Rs.56 or Rs.58 CPCU and did you achieve the ROI that you had in mind in the campaign. However, it makes business sense and you are right that by having these partnerships is one step deeper and closer to charging more premium pricing to have better margins.

When we look at it with a four year perspective, these are multi-year long-term deeper integrations and partnerships and will give us more predictable and sustainable modes of the conversion.

**Arun Prasath:** If I translate this in terms of numbers and current margin, is there still have a lot of potential to go upwards? Is this the right way of reading from what you have said?

**Anuj Khanna Sohum:** We have already delivered good outcome in the last quarter, with all three months of YouAppi are fully loaded. It is less than six months since we acquired YouAppi, we have delivered over 20% EBITDA in this quarter on a consolidated basis. We have acquired the company at the lower level of EBITDA, that means our business is already on an organic basis is in a healthier zone of much above 21% to 22%. That is where we are constantly striving and it is not just numbers as numbers are a result of decisive action and the clarity of strategy.

Our strategy revolves around growing more premium, deeper and building better product, build a deeper connection within partnership ecosystem, ensuring predictable long-term PAT and delivering higher pricing ROI to the advertisers. We are inching one step at a time and as we are entering into new quarter and going into the next year 2024, I feel we are in more stronger position than ever before.

**Kapil Bhutani:** Just to add to what Anuj said. We should look at from the lens of sustainability and growth rather than from looking at the margins. This discourse is to bring out the sustainability and the growth potential of the company.

**Arun Prasath:** Understood. My second question is on the capital allocation. I understand that recently you have filed with stock exchanges for the proposed fundraise. It indicates some broad counters of how you will be using the Rs.750 crore which is coming in. But, if you look at our balance sheet we have a cash balance of around Rs.500 crore and now our cash balance will go more than Rs.1,200 crore. I am just wondering how we can effectively use these resources without diluting ROCEs. What is your vision for this in the near term? Of course, long term will have much better sync, we can go for acquisitions whenever it makes sense but near term do we find any use for this cash?

**Kapil Bhutani:** The first object of our utilization is on the tech development and the AI development. It is not expected to be substantial in next one or two years. The time to utilize this money is about four years from now so adjusted ROCE or ROCE will not get impacted till we have consumed the amount mentioned in the object clause for the purpose of innovative tech developments. The impact is going to be smaller as we will remain larger on cash balances for the period.

**Moderator**: Thank you. The next question is from the line of Ankur Baheti from JP Morgan. Please go ahead.

**Ankur Baheti:** My question is regarding the digital ad market dynamics in India. It is a fact that it continues to remain healthy but there are as some ad publishers like Truecaller, Dailyhunt, and ShareChat which has seen y-o-y decline or slowdown in ad revenues in 2023, largely driven by falling CPM while ad impression growth and other variables continues to remain strong. I wanted to know which pockets in the market are underperforming and seeing weaker growth momentum and what is driving the low CPM in such pockets of the market?

**Anuj Khanna Sohum:** Thank you Ankur for that question. I have been in this business for over 18 years and I have mentioned this over the last five years since we were in the roadshows of our IPO that the only way in our industry as well emerging markets to run a 20% plus revenue growth or 25%+ EBITDA company is not by selling the commodity of impressions on CPM prices. That business is too commoditized.

In India alone, we have around 650 million smartphone users who on an average per capita data usage of internet on smartphone devices would be one of the highest in the world. The number of impressions are getting generated on all these kind of ads is an ocean of those impressions. However, the true value lies not in the impressions but in diving deep into that ocean of impression, jumping deep with unique equipment like the DMP, the deeper connect with the OEM ecosystem, deeper product with vernacular verticalization and then you find those pearls of convergence where the user has actually converted and you have delivered an ROI to the advertisers. When you bring that out, then you charge a pricing of increasing CPCU rate of Rs. 56 or higher to make a 20%+ EBITDA. That is how the business is differentiated.

We are a buyer of impressions from a lot of the publishers. We know what is happening and understand the demand and supply economics. There are more impressions and consumer adoption of digital today than the advertiser has shifted their budgets to digital. In emerging markets, the total ad spend versus total digital ads spend ratio still has a lot of catching up to do but the consumer has gone into digital big time. There is a lot more impressions than the budget to buy those impressions. In terms of demand and supply these impressions would go down.

As intelligence become more consumer oriented, the value of each placement is not as important. However, if I can get you converted to a particular advertiser on a net premium placement then I will find a way to do that. Because that is where optimization comes in and it is driven by algorithms and AI machine learning.

Rather than look into this data point with nervousness, I would look at it with deeper understanding. There is a lot of digital consumption from consumers with a lot more ad spend coming from the advertiser into the ecosystem with the right business model and there is a good amount of consistent money to be made. Affle has been doing it for almost a decade. I do not know of any other adtech company that is around 75%

focused on emerging markets and is consistently cash flow positive for more than a decade.

If you have to sell higher value offerings, take more risk and run a system which is differentiated. This is why you can be sure that Affle will defend its pricing and will continue to charge more and inch upwards a step at a time to deliver that amount.

**Moderator**: Thank you. The next question is from the line of Animesh Yadav from Purnartha Investment Advisors. Please go ahead.

**Animesh Yadav:** Thanks a lot for the opportunity and a good set of numbers. The first question that few quarters back you shared a clear and a concise action plan and you expected that to turnaround from Q2 onwards. How do you see that, is it on track? Are Q2 numbers come up in terms of your expectation or is there any setback? Lastly, can you please give a guidance in terms of how do you expect that to reflect in terms of the measurable outcomes for Q3 and Q4?

**Anuj Khanna Sohum:** Thanks for your question, Sir. In our commentary, we have already answered almost all of your questions but let us put it this way. In May 2023, we had to do an emergency operation on our developed market – an internal team restructuring and realignment. That was a decisive action plan which is not for the faint hearted and we took that heads on. We talked about it, took those steps and the operation was largely completed by July end and we recovered by September 2023.

In October, we have completely sorted the operational challenges, fully cured and now operating at full capacity with the largest motivated sales team on the ground in developed markets than ever before along with our product partnerships. We have positioned ourselves as much stronger than ever before in developed markets and therefore, I am confident that we will deliver consistent dependable growth in developed markets from here onwards.

Of course, we cannot control macroeconomic factors but we can have strategies to cope with like we have across different verticals in India and global emerging markets. Similarly, in developed markets we have the same broad-based cross industry verticals growth strategies. Yes, in the last quarter Fintech had a pullback in developed markets and similarly we had a pullback in India in gaming vertical. Despite these pullbacks delivered dependable and sensible bottom-line results.

Our internal issues are fully resolved and we are out there to achieve our highest potential. Barring macroeconomic factors, we should be doing well consistently. If there is any particular industry vertical where there is any pullback effect, we will keep this transparency of quantifying it, bringing it back to you and keeping it measurable but at the same time building the trust that we have a broad-based growth coming in the company. One-off setbacks here and there but those are just hiccups in the journey which any mature company should be able to deal with. Affle is certainly dealing with it gracefully and we are going to continue to deliver growth.

**Animesh Yadav:** Thank you. Just a follow-up to Kapil. The other expenses look to be a bit high this quarter. Is anything specific driving this increase or does it in line with your expectation?

**Kapil Bhutani:** It is in line with our expectation. The amount which is added is coming from the acquisition of YouAppi. This is also a period where we invest on marketing activity on account of festive season.

**Moderator**: Thank you. The next question is from the line of Swapnil Potdukhe from JM Financial. Please go ahead.

**Swapnil Potdukhe:** Thanks for the opportunity. I have couple of questions. First a clarification. You mentioned that there was a hit of around Rs.11 crore because of the GST changes that happened in the gaming industry. I just wanted to understand the Rs. 11 crore impact that you mentioned was that for the entire quarter or that was on the time this GST notification came in?

**Kapil Bhutani:** This change came in July and the behavior of the clients changed immediately. With 28% GST deduction from the deposited amount by gamers, there was a noticeable impact, leading everyone to recalibrating their strategies and waiting for October 1, 2023. There is impact in Q2 and we will see how much it gets eased out in Q3. We are yet to see significant change in the P&L at the moment. We are in touch with the clients to see how it impacts on Q3 or Q4 going forward.

**Swapnil Potdukhe:** My second question is with respect to your developed markets trends, I was doing calculations and realized that your revenue in developed markets in 2Q was around Rs.70 crore. If I adjust the current quarter's revenue that you mentioned for the YouAppi acquisition and then add up the Rs.14 odd crores impact of Fintech, then your quarterly revenue is around Rs.55 crore. There is a difference of around Rs.15 crore on a y-o-y basis and around Rs.20 odd crore on a q-o-q basis. Here, I am not able to understand from where this difference is coming.

**Anuj Khanna Sohum:** I have already given the detailed breakup and the analysis of our numbers. Regarding developed markets, I am not sure exactly what excel sheet you are analyzing but I would encourage you to talk to our investor relations team and get the correct set of numbers.

In this quarter, around 25% of our revenues are from developed market. Whether you take out YouAppi, take out the pullback effect of select industry verticals or whatever slice & dice you do, one thing I can tell you for sure, our position and our number of active customers in developed markets on a broad basis is stronger than ever before. Our dedicated sales team, comprising top talent from competitor companies is passionate, committed and confident in our ability to deliver growth and success.

Our pipeline is strong. Moreover, the developed market is very large and whether you take the numbers that you have or what I am saying is a very small number, from a small base with a competitive product to grow from here is what is most important is where are we today. We are stronger than ever before in developed markets, we have solved our issues internal ones, quantified external issues, have a strong pipeline and we are going for consistent progressive growth from here quarter-on-quarter.

**Swapnil Potdukhe:** Sure Anuj. If you can just quantify the number of YouAppi for developed markets, that would be really helpful?

**Anuj Khanna Sohum:** I will quantify it one more time. In this quarter, almost 75% of our business is from India plus emerging markets, and roughly 25% is from developed markets. In the developed markets, majority of the contribution is coming from the US and a little from Europe & Japan. YouAppi has been a positive contributor within the developed markets and has helped to strengthen our position in developed market especially in gaming vertical.

In terms of Fintech, we have already mentioned that why in developed market especially in US there was a pullback effect and we have quantified that to Rs.14 crore.

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

**Rahul Jain:** Yes. Firstly, I want big picture view. You mentioned this in certain ways but with the changing mix of business both in terms of the technology that we offer and the mix of market where we operate, what is the best way to understand the potential growth in the near & medium term across various markets including India, other emerging markets and developed markets?

**Anuj Khanna Sohum:** Our long-term growth trends are anchored on our growth vision for 2030. Our clarity of thought, confidence in our capabilities, the commitment to pursue it relentlessly and being resilient to changing dynamics & situation positions us with lot of strength. Our big picture view is very clear. We are going to continue to keep a strong broad-based growth trend across our India and emerging markets. We are going to consistently push for more premiumness to improve our margins and strengthen our position in the ecosystem.

Now the mix of markets, India and emerging markets globally. It is fair to say that these markets for next 3-4 years will continue to deliver broad-based growth for the whole industry and of course for us. The difference between everyone else and us is that we are running for only the profit pools in this growth period. When you see growth coming and digital advertising is going to grow, it is important to note that not every dollar of growth is worth of 20%+ EBITDA. We have to pick those segments of growth where we see the profit pools are robust enough for us to make an ROI for the advertiser, charge sufficiently and make margins for ourselves. We are very selective about which pockets of growth we are going for and with that we should be able to deliver good growth in India and global emerging markets.

In developed markets, significant growth has already happened and there, growth is going to be at a macro level. However, despite this, the addressable market is very large and our base being small, we should be able to notch up and hit above our weight to get better growth than industry average with our own terms in absolute basis. This has changed our long-term growth thesis.

You also asked about the short term. In that context and acknowledging the fact that our company is going to complete 18$^{th}$ financial year by the end of FY2024. I took a liberty to emphasize our aim to reach the Rs.18 billion, which is Rs.1,800 crore revenue mark by the end of this financial year. We are well poised to work towards that direction and it is largely in this context to connect the dots. The important thing is the big picture and the tailwinds continue to be favorable with that longer term view.

**Rahul Jain:** I just want one small clarification. You are saying about the total addressable market (TAM) or you are talking about TAM where a 20% margin can be achieved even by the aspect of a large market?

**Anuj Khanna Sohum:** No, I am talking about there is broad-based digital advertising growth is expected to for India and global emerging markets. Any industry report is going to tell you that digital advertising is set to grow for many years to come in global emerging markets because it is under calibrated versus what it is in developed markets. In China, US and Europe there is more than 70% to 75% of the total ad spend is digital but we are nowhere close in India and other emerging markets to that percentage. We will see higher calibration of ad spends going to digital so that is a large total addressable market.

Within that total addressable market Affle makes clear calculated decisions about which pockets of this growth should we have as our revenue. Because, we are not gunning for every revenue in the market. If the pricing is too low we would rather not take that campaign. It is very important to run an organization with a discipline and we instill this discipline in our sales team by defining a range of pricing and how we work. If we are not seeing sufficient ROI for the advertiser and margin for ourselves, it is better not to pursue that revenue. We are picking our battles carefully and we think there is sufficient growth that we will derive in this market. This growth will be premium in nature and we will get profitable sustainable growth going forward.

**Rahul Jain:** Lastly, if I can squeeze in about the resignation announcement of Elad Natanson. Do you see the management bandwidth getting slightly thinner and more responsibility coming up for you or we would look for right replacement?

**Anuj Khanna Sohum:** I do not see that to be the case. Whenever we acquire a company there will always be a clear transition that must happen. When we did the acquisitions post our IPO that was COVID time and because of COVID time we maintained the same structure in a way that we took a three-year view to the full transition, integration and getting the acquired assets to the level of unit economics that we wanted them to come to. Now, since that has been achieved in some of those acquired assets, it is time for complete transition. Elad's move was expected and has happened honorably. It has happened effortlessly and it is the right thing to happen.

**Moderator**: Thank you. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

**Onkar Ghugardare:** Good morning. My question was regarding segregation of segmental revenue between India and outside India. If you look at the revenue growth for outside India it is about 25% but when you look at that the margin growth it is around 7% to 8%. Does that mean there is compression in the margin? And that is around 70% of the overall business. Can you articulate what is the issue on that front?

**Kapil Bhutani:** If you see our results, there is a footnote on segments indicating that the segments are based on the billing entity whereas the earning presentation is based on the user's location and where the ad has been served so that those data points are not comparable.

The data given in the earnings presentation aims to provide better understanding of geographically where the consumer is based and how the market in that geography is responding. As Anuj mentioned earlier it is consumer behavior which drives the growth and adoption by the consumer. That is why we gave a different set of numbers based on the location of the ad where it was served and where the consumer is located. This explains why the reporting on the geographical information on the result sheet and earnings presentation would always be a little different. In standalone, India also if we deliver certain ads outside India then will move that revenue to the other geographies. Please see the footnotes of the segment working for clarification.

**Onkar Ghugardare:** Okay, but if you look at the margins within India and outside of India excluding the developed markets, what kind of margins are comparable to India?

**Kapil Bhutani:** Margins definitely would be higher in the international markets as we have been stating that the CPCU pricing is higher in the international market as compared to India. The unit economics in India is much tougher than the developed markets and other markets. If you see our DRHP, you will be able to understand that the India is the most toughest unit economics geography.

**Onkar Ghugardare:** The second question is on the CPCU growth even though the growth in the conversion rate has fallen down and the pricing has improved, so is that going to be the strategy going forward?

**Anuj Khanna Sohum:** Our strategy is focused on maximizing the growth as well as the pricing. I do not see that it has to be one or the other but both have to grow. We are going to drive for more conversions and pricing. Both factors are strong defensible moats of the company. Our platform's strength lies in ability to drive conversion, find consumers for necessary conversions, premium placements, partnerships and touch points across mobile as well as CTV. This showcases capability of our platform and our product and ability to deliver a ROI linked business model and improve pricing as both of these are very important.

We should not base our assessment basis one particular year or basis a few quarters, because this year has been slightly different from our usual pattern of growth. We saw pullbacks of various clients, internal issues related to Jampp, external macroeconomic factors related to certain verticals and certain markets at different times. This year was a complex year in that sense. However, if you ask me for the long-term outlook going forward, with more smartphone users and CTV users doing more active digital conversions, and higher value of digital conversions happening from consumers going forward and higher frequency of those conversions, I am confident about rise in number of conversions and it should keep up with the long-term growth trends. Regarding pricing, I have answered it a few times on this call today.

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

**Anuj Khanna Sohum:** Thank you so much for your interesting questions especially related to the strategies of the company going forward. I am confident that our company is in a better position today than ever before and as an 18-year-old and as a young corporate adult, Affle has definitely been brought up very well. I am optimistic about how we will shape up going forward in many years to come. I would look forward to the upcoming EGM for those of you who are shareholders in the company. Please participate and give us your participation & support. I wish you a very happy Deepavali and may the next year be even more successful. Take Care. Thank you.

**Kapil Bhutani**: Thank you everyone with season's greetings for the festive season.

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

*** end ***