Affle (India) Limited

Q2 & H1 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. Shobit Singhal – Anand Rathi Share & Stock Brokers

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY2023 Earnings Conference Call of Affle (India) Limited hosted by Anand Rathi Share & Stock Brokers. 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. I now hand the conference over to Mr. Shobit Singhal from Anand Rathi. Thank you and over to you.

Shobit Singhal: Thank you Rutuja. Good morning everyone. On behalf of Anand Rathi, we welcome you all to the Q2 and H1 FY2023 conference call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited represented by Mr. Anuj Khanna Sohum, who is 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 maybe forward-looking in nature and may involve some risks and uncertainties. Kindly refer to slide #26 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. 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.

We achieved robust organic growth in the first half of this financial year, despite the ongoing global headwinds that have impacted businesses globally. We closed this quarter with our highest quarterly revenue run-rate, highest conversions and highest EBITDA, anchored on our Affle2.0 growth strategy, tech innovations and sustainable long-term value creation.

Affle delivered organic revenue growth of 29.1% y-o-y, PAT growth of 39.6% y-o-y in Q2 FY2023 and Revenue CAGR of 61.2% in Q2 over the last 3-year period, much ahead of the industry growth trends. Our CPCU business noted a strong momentum delivering 64.7 million user conversions during the quarter, an increase of 32.7% y-o-y at Rs. 51 CPCU rate. In terms of H1 FY2023, we achieved revenue growth of 64.4% y-o-y & PAT growth of 61.4% y-o-y and this was supported by well-balanced organic growth over the first 2 quarters. Our sequential growth was approximately 10% higher on revenue in India as well as similar trend in other emerging markets and 2% higher on revenue overall in Q2, with a clear pattern of bottom-line margin expansion on both q-o-q and y-o-y basis.

Our resilient performance in these testing times is a testament to our ROI-linked CPCU business model, the broad-based balanced growth and strong on-ground teamwork across global emerging markets. However, we did see a negative impact of the global headwinds in developed markets i.e., US and Europe. If not for the negative impact in developed markets, we would have potentially earned about USD3-4 million of additional revenue in the first 2 quarters of this financial year. To mitigate this short-term impact, we have realigned our execution strategies and operating resources to focus on improving our platform level pricing and profitability; as well as maximizing our strategic partnerships and overall productivity with even greater emphasis on bottom-line margin expansion and cash flow growth.

As per our understanding of the trends in the industry forum discussions, the near-term industry growth outlook across global markets for the year is pegged at approximately 10% sequential growth in H2 vs. H1 as more advertiser budgets will get unlocked & balanced over the festive quarter and Q4 FY2023. Affle's strong organic growth momentum in H1 FY2023 should enable us to beat any short-term industry trends in H2 and we can realistically aim to end FY2023 with y-o-y organic growth % aligned with the long-term industry growth of about 25% CAGR over the next few years. Given our asset-light platform based business model, it is reasonable to expect margin expansion and thus our overall growth % on EBITDA and PAT in H2 will be significantly higher than our growth on revenue.

In view of our long-term optimistic growth outlook of about 25% CAGR, we are continuing to invest in our organic growth operations & we are also actively evaluating inorganic growth opportunities in line with our Affle2.0 growth strategy and execution track record. We are placing even greater emphasis on value driven strategic investments based on bottom-line financial fundamentals and cash flow returns. We remain optimistic about our bottom-line growth for this financial year.

Our focused execution on 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. This has further strengthened our moat and our Direct customers contribution has continued to be stable at 74% of our revenue in H1 FY2023. We further established our industry leadership position by winning the prestigious "Enabling Technology Company of the year award" for the 4th consecutive time at the MMA Smarties India 2022 and several other campaign awards in industry events. To reflect upon our platform strengths, we have also included three case studies in our Earnings Presentation focused upon Omnichannel Solutions for customers in Retail, Entertainment and Foodtech sectors in emerging markets.

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.

In Q2 FY2023, the Company reported Revenue from Operations of Rs. 3,546 million, a growth of 29.1% y-o-y. Sequentially, while our overall Revenue increased by 2.0%, we had a significant revenue growth of about 10% in India and similar growth trend in Other emerging markets, on a q-o-q basis. Except for the developed markets, which anyways has a much lower contribution for us on a consolidated basis, our business across Global emerging markets remained resilient, with strong bottom-line growth momentum and margin expansion.

Our EBITDA for the quarter stood at Rs. 723 million, an increase of 38.8% y-o-y and 5.3% growth q-o-q. EBITDA margin stood at 20.3% in this quarter vs. 19% in Q2 last year and 19.8% in Q1 sequentially.

We are focused on higher profitability and margin expansion. This quarter, our EBITDA margin crossed 20%+ after a 4 quarter period, with Profit After Tax also slightly notched up.

In terms of Opex, our Inventory and Data Cost stood at 62% of revenue from operations, witnessing improvement over our last few quarters trend.

Our employee benefit expense for the quarter increased sequentially due to investment in human resources focused on business development activities and some currency adjustments. Further, we also rolled out our other platforms in various regions including the LATAM region.

Our Normalized PAT for the quarter was Rs. 587 million, an increase of 39.6% y-o-y. Normalized PAT margin increased to 16.0% versus 14.9% in Q2 last year and 15.6% in the previous quarter sequentially.

We remain focused on working capital management. Our cash flow from operations and collection efforts have been robust. We are not seeing any increase in credit loss risk.

In regards to our balance sheet, you would have noticed a significant increase in one of the line items, that is 'Other Financial Assets'. This increase is on account of the Fixed deposits having a longer tenure of more than 12 months and thus classified as non-current.

As an update on our investment in Talent unlimited online Pvt. Limited i.e., Bobble, this investment continues to be classified as Held for Sale by the Board of the Company while we continue to maintain 26.24% stake in Bobble.

Looking ahead, we remain confident of the long-term growth prospects and will continue to invest in our organic growth as well as evaluate inorganic investment opportunities with well calibrated focus on higher bottom-line growth for FY2023 and beyond.

With this, I end our presentation. Let us please open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shobit Singhal from Anand Rathi. Please go ahead.

Shobit Singhal: I have few questions. Given the macroeconomic risk globally and especially in US and Europe, have you seen any ad budget cut from clients? What are their sentiments and how do you see H2 FY2023? Second question is how much did Jampp contribute this quarter as compared to the last quarter?

Anuj Khanna Sohum: Thanks for your questions. In my commentary, I had already provided details on the impact of developed markets. The way we should look at it is that Affle's business is in a very privileged position because of its deep focus on India as well as other global emerging markets. Because of that, we are continuing to see a very clear growth pattern in India as well as in other emerging markets on a sequential basis. When we compare Q1 to Q2, there is a clear sequential growth pattern in India and other emerging markets. Because of that a lot of the investors are saying, how come Affle is so immune to what is happening and keep on growing? We have a differentiated business model, emphasis on emerging markets and this keeps the Affle reasonably insulated and privileged on what is happening. There is definitely negative impact in the global developed markets primarily in US and Europe and in our commentary, we have also quantified that. If not for the macroeconomic global headwinds, we believe that the Company would have earned about USD3-4 million additional revenue in H1 FY2023. Even without that, I think our performance is very resilient, but in case there were no effects of budget cuts or the impact of the global headwinds, results would have been even more phenomenal.

Coming to the second part of your question, we have also given a clear direction that overall in H2, we see the industry growth outlook is pegged to be around 10% sequential growth in H2 versus H1. This is based on our assessment of the discussions in the industry forums and competitors commentary for rest of the year. So even with the macroeconomic risk factors, we will still continue to be growth oriented. As far as Affle is concerned, our growth momentum in H1 on y-o-y basis was quite substantial and on a sequential basis also, we have been able to keep a good growth momentum overall at least in the global emerging markets.

With the festive season along with the balanced budgets that the advertisers are looking to increase over the festive quarter as well as Q4, it is reasonable to look at about 10% sequential growth in H2. Even with that, we are already emphasizing that our focus is on bottom-line margin expansion and profitability which would absolutely ensure that EBITDA and PAT growth is better than the revenue growth because of the bottom-line sensibility and focus on the asset-light business. The company's every incremental growth is obviously leading to better margins and profitability.

With respect to Jampp, we are already looking at the situation where in Q2 last year we had Jampp and this year Q2 also we have Jampp and therefore, it is 100% organic-to-organic comparison. There is no need to slice & dice into Jampp vs. non-Jampp. But qualitatively speaking Jampp is more calibrated on developed markets than the rest of Affle's business, so there is impact and we have quantified that. Overall as a group now, as an integrated proposition, we are seeing clear advantages because we are also launching other products and use cases in Latin American markets. There is a lot of positive synergy in the year 2 of Jampp, in terms of business expansion and bottom-line performance. We are quite satisfied with that.

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

Abhishek Bhandari: My first question is related to the investment in CashKaro. If you could explain the rationale for that investment and how do you think that investment adds to your business moat from a medium-to-long-term perspective? Secondly on Bobble, you mentioned in the opening comment it has been classified as a financial investment and there was a press release that suggests that the deal with Krafton has not yet concluded. Maybe you could update on what is happening on that?

Anuj Khanna Sohum: The first one, CashKaro is not an investment of Affle (India) Limited, the listed company. It is a financial minority investment made by the holding company from Singapore. Since the holding company has no other operating business other than its investments in the Affle (India) Limited as a promoter as well as any other investment that it is doing, which are financial in nature. So, that is to the extent I can speak. With respect to Pouring Pounds, which is a UK-based entity that owns the business of CashKaro India. With respect to any strategic advantages with respect to CashKaro's business in India, our teams are actively exploring it. I think there will be natural inclination for CashKaro and Affle India to work together since they have a common shareholder as the holding company.

The second question is more relevant question because it is linked to Affle India's investment in Bobble or rather Talent Unlimited, which owns and operates under the brand of Bobble in India. It is an investment that is held for sale, but at the same time the Krafton deal has not happened because Krafton is a Korean company and as a Korean company they have their own shareholders. They are a public listed company in Korea and there are certain complications with respect to the transaction, therefore the closing did not happen as per the time. In fact, we extended the closing date once and the closing still did not happen. Therefore, at the moment we are not pursuing any further discussions with respect to Krafton as a potential buyer of that equity. We are going to explore further possibilities as the time unfolds. We are happy to maintain the 26.24% ownership until we find an honorable buyer who would actually close the transaction. From a strategic point of view, Bobble continues to be an important partner and vernacular keyboard focused on innovative youth-related use cases and we are actively working with them to see how to grow that business.

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

Rahul Jain: I have a question on the outlook side to Anuj. So, you mentioned something about the realigned strategy. Could you elaborate a little bit more on that and to your comment of H2 growth of 10% over H1 would imply 18-19% growth on a Y-o-Y basis for H2. So, I understand that delivering this will be incredible given the kind of macros we are following, but in that light, is it fair to assume that FY2024 growth should be slightly lower organically while the CAGR aspiration of 25%+ maybe even over a 4-5 year period?

Anuj Khanna Sohum: On your first question on realigned strategy, the core strategy is the same. When we talk about realigning the operating resources, we are essentially talking about deeper focus on pricing and profitability. Whenever there is are recessionary conversations or backdrops, there is intuitively pressure on pricing and one of the things that we are doing is very strongly defending pricing. If we look at in Q2, we delivered our highest volume of conversions but we held our pricing at Rs.51 CPCU rate, which is quite a commendable effort by our team. Similarly, we are focused more on profitability; not just pick any business. Rather pick business that can deliver profitability, cash flows and credit risk managed business. We are looking at even more resilient business in these times and therefore delivering a better impact on the bottom-line. This is a great time actually to look at any better optimization where we can maximize the profitability. The same applies to all the assets that we are integrating, whether it is Jampp or any specific organic or inorganic activity that the company is doing. The emphasis is disproportionately higher on the bottom-line. We have always been a bottom-line centric company, unlike many other fast-growing tech companies. I think that is one thing that differentiates Affle and that is what our investors also value and take pride in. We are emphasizing here even deeper realignment on bottom-line focus.

Second part of your question is about growth. Now, what I said is about 10% higher H2 vs. H1 is the industry growth outlook that we have understood based on the recent industry forum discussions. We would love to beat it. We have always loved to beat industry average growth and whatever the times be. From a bottom-line perspective, we think that we will do significantly better than that. Overall, we are expecting to end this year at an honorable level, meeting or exceeding expectations from a bottom-line perspective. Now, like H1 we have already grown quite nicely and next year H1, I believe that you should follow a similar trend. We will continue to be optimistic because of the emerging markets focus. In H2 FY2023, if it is as per what you said the growth is going to be what it is, I think on a lower base it is actually easier to grow much faster. So, I think I would still maintain about 25% CAGR outlook for FY2024 or FY2025 and we will try to beat industry average growth comprehensively on the topline and even more so on the bottom-line.

Without giving any more detailed guidance on it, you can understand the mindset with which we are leading the company. It is growth & profitability-oriented and we would want to beat industry average growth trends even this year. If you combine H1 and H2, our goal would be to not miss on the 25% organic growth long-term trend that we have. Yes, markets are turbulent, but can we be stronger? Can we be more resilient? Can we find those pockets of growth and the answer is yes and we are pushing our teams for that. Until the last day of the year, we will be fighting for every single dollar of revenue and every single incremental dollar of profit. Let us see how Q3 and H2 unfolds and for this financial year, we have two more conversations to go. But at the moment, I would not look at it with any further clouds of pessimism.

With consumers going more & more digital and let's say even when there is recessionary pressure, let that pressure be on traditional media. If the advertising budget is to shrink, let that shrink for traditional media with minimal impact on the digital and further lower impact for CPCU model. I think we should be more and more insulated and we should find those pockets of growth is my thesis and that is how we are executing.

Rahul Jain: Just a small clarification on the margin comment that you made. Is it led by a better growth in H2 and giving us better margin in H2 or does it is also includes some potential acquisition?

Anuj Khanna Sohum: Jampp Year 1 was about integrating together which we have done phenomenally well. When I speak Affle now, I speak with the full embrace of Jampp. When we are talking about expanding the margins, it is linked to volume. Given we are asset-light business, as business grows expenses will grow slower than revenue growth and therefore there will be natural margin expansion trend. As a strategic emphasis, we are also focusing on pricing and profitability. We are picking business or picking only the volume of business that can support the profitability metrics and not give any volume-based discount because that is where the pressure comes. When people are asking for something cheaper because of the recession, there is a need for our product. There is a need for driving conversions with consumers for all our customers. What they are sometimes looking for is can they get it cheaper in this time, which means it impacts pricing and profitability. How do we aim for growth but also have a strong defense play? Being offensive and growth-oriented is one, while making sure that we are even more strong on defense than offense in the strategy, and I hope that is understood well, and that applies to Jampp. It applies to every single part of Affle's business.

Moderator: Thank you. The next question is from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: I have a couple of questions. Firstly, just wanted to ask Anuj that we are implying about a 25% growth for FY2023. Now, we have already in the first half done around 35% organic growth, so would this mean that seasonality of Q3 would not play out in this year? Secondly, I wanted to ask a bookkeeping question to Kapil. In this particular quarter we have seen forex gain into our cash flow statement by the tune of around Rs. 37 Crores. If you can highlight what does it regards to and how does it come out in the P&L statement?

Anuj Khanna Sohum: Thanks Anmol for your insightful questions. Let me first of all clarify that when I talk about growth or any growth percentage of the industry, I am only talking organic growth. Now this year H1 vs. last year's H1 had one difference. In last year Q1, we did not have Jampp. In this year Q1 we had Jampp and Q2-to-Q2 comparison is absolutely clear because in both Q2s we had Jampp. So, when we say that the industry will grow at an average 25%, we are talking about incremental organic growth. In our case, we have given you two commentaries, one for the full financial year - our goal is to attain organic growth of 25%, which is the industry average CAGR growth trend that we are looking at and in long term trying to keep pace with that or beat that. That excludes the Q1 with respect to Jampp. Then I have also given you some industry outlook with respect to Q3 and Q4 seasonality. Whenever there is seasonality, there is obviously incremental budgets but the customers are also hedging and they are careful. While the budget is incremental, customers may not spend all of that in the same Q3 festive season but they will spread it over Q3 and Q4. Therefore, when we are looking at H1 versus H2 and the seasonality, incremental budget will have a spillover effect in both Q3 and Q4. We expect that the industry would on an average deliver about 10% higher sequential growth from H1 to H2 and we hope to meet that or beat that. That is on the revenue side.

On the profitability side, we hope to beat that more comprehensively. I hope the math is clear. We have given clear commentary anchored on industry outlook as per our understanding. In terms of your second question which is related to the forex gain, Kapil can you please take this up as it is directed to you.

Kapil Bhutani: This pertains largely to the foreign assets getting revalued and it has been offsetted mostly from the opening reserves. It did not have an impact on the P&L. It is an adjustment of each line item as the current and non-current assets or current and non-current liabilities getting flowed into the balance sheet and getting offsetted in the reserves & surplus and other comprehensive income. It is not routed through P&L.

Anmol Garg: Just a follow up on that. Anuj, if you can also highlight that what are the margin levers that we can think about for the second half of this year?

Anuj Khanna Sohum: The margin levers are anchored on: 1. resilient pricing; 2. enough volume and growth to meet or exceed the industry trends; 3. combination of keeping a tighter balance between incremental revenue that has to come at a healthy pricing and the Opex used for productivity and efficiency. You can see from Q1 to Q2 our Opex is increasing, and a lot of people may ask why are you increasing Opex in the recession time? We are doing Opex because we believe in the long-term industry growth trend and will keep investing to ensure that we can capitalize on that growth trend and we are well resourced for that. Therefore, when we look at it with this balance, first is pricing, second is growth in volume with respect to incremental budgets for H2 vs. H1. Third, the asset-light business and scale on bottom-line expansion will also come in because Opex is not going to increase and keep pace with the growth in revenue. This is exactly what we saw in Q2 this year, whether you see it sequentially or y-o-y basis. The same trend I think will continue in H2 as well and beyond. All the investors who had earlier got confused - Affle is growing fast, it is an asset-light company, how come we do not see margin expansion? There was always organic margin expansion, but because we were also acquisitive and we were acquiring companies that were less profitable. In the previous year periods, it was averaging itself downwards because the organic growth and the inorganic growth was being blended together. Now when you see Q2-to-Q2, there is no inorganic in Q2. Q2 FY2023 compared with Q2 last year or vs. Q1 this year and you can clearly see the pattern of EBITDA and PAT margin expansion. So, those are the key levers.

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

Bharat Shah: I have two questions. In response to one of the earlier question, you made a remark that in FY2024 and FY2025, you are looking at an organic growth of 25% plus and you aim to beat the industry so long as you are in leadership of the firm. So, was that just an off-the-cuff remark or is there a change in leadership that is in contemplation?

Anuj Khanna Sohum: There is no change in leadership contemplated, as long as I am healthy, fit and fine, I hope to lead the organization for decades to come. I think the nature of that comment is to be interpreted that I am giving you a peek into my mindset. How do I set targets for this company? How do I tell my leadership team? How do I convince them? We have a strong leadership team and this is not just a one-man thing that Anuj says something and everybody has to follow. We have a vocal leadership here including Kapil. Many times we are challenged and debate ourselves, and this is my mindset. When I say we are growth oriented we have to beat the industry average growth rate. You said, line of questioning is, are we better than the rest of the players in the industry? Are we competitively stronger? The answer is yes. Is our business model differentiated? The answer is yes. Is their growth in Emerging markets? The answer is yes. So, why would not we beat the industry average growth rate. That is how I set the targets for the team and a lot of times this conviction has to be delivered top down. We have to live by that example and therefore that comment. I do not see any leadership change that would be dramatic. Our company has been led consistently for the last 17 years and I am still a young man. I am only 44 and we have a long way to go Sir.

Bharat Shah: Sure. I just wanted to be clear what that remark was supposed to be. Thank you for that. The second question is - while it is understood that Affle is largely focused on fast-growing India and other emerging markets while developed markets are a smaller percentage for Affle and that smaller percentage have faced some setbacks. The question is with the way developed markets seem to be getting muddled due to macro headwinds, what are the structural reasons for you to believe & remain confident that the emerging markets will continue to be resilient and have strong long-term secular growth?

Anuj Khanna Sohum: I am confident about two things: Firstly, consumer adoption curve on digital and that is fundamental to our industry. These are the fundamental drivers of industry. I believe that all of us on the call today can safely say that none of us is leaving the mobile device or our connectivity on the mobile device anytime soon for the next 3-4 years. The next generation in our home is spending even more disproportionately connected time online. Therefore, the adoption curve of connectivity in India, Africa, Indonesia, Vietnam, Thailand, Malaysia, Philippines, Middle East, LATAM, etc., all these places are expected to see massive consumer adoption over the next 3-4 years. If this continues to happen, the propensity for transacting higher value, higher volumes of transactions on mobile or connected devices will actually go up. This is one of the main anchors that I see for emerging markets to have resilience and growth for many years to come.

The second trend that makes me sure about this is that the advertisers in emerging markets are still under calibrated on digital vs. developed markets. In developed markets, digital is decisively more than 50% of the total ad spend, whereas in emerging markets, depending upon which market we look at, it is either in a range of 20-to-early 30%, but it is nowhere close to being above 50%.

The advertisers will need to also face the reality and shift budgets to the more efficient digital connected mediums and where the consumer is. If the consumers are spending disproportionate time on digital and transactions are happening there, why should the money not follow. So, the advertisers would shift the budgets. Both of these anchoring megatrends, provide me the clarity that these markets will continue to grow.

What is the difference between developed markets and emerging markets? In developed market, digital adoption has already reached a certain level of maturity and digital advertising as a % of total ad spend is already more than 50%. If you compare adoption curve on both the consumer and advertiser side, in developed markets and emerging markets, one can see a clear difference. Therefore, I am confident at the industry outlook and then within that I am wanting to assure myself that our team, our platforms, our business model is competitive vs. other players. Therefore, may we grow faster than the industry average growth. So, this is my only piece, it is grounded in reality.

Bharat Shah: But would you not experience a surprise here the speed with which the developed markets seem to be getting muddled. It is one thing about maturity of the market and relatively higher penetration of digital in the developed markets, but the speed at which the whole space seems to become chaotic, is that a source of surprise or do you think it is quite in the nature of things?

Anuj Khanna Sohum: First of all, I do not know the adjectives muddled and chaotic. To me, I can see a sense in what is happening in developed markets. The customers are feeling wary of inflation, unemployment, the cost and efficiency. There are so many factors moving there right from currencies to geopolitical factors and so on. There is conservativism, but that does not mean that digital advertising will not deliver growth. Now, if you are looking at some examples, let us say the Big Tech. If your question is coming from how quickly Meta or Facebook have gone from where they were to where they are, if your question is born out of that, then I think we have to start looking at our own homes. Which teenagers are spending time on Facebook? I do not see that happening as much. It is still the older people who were once on Facebook and as a habit & inertia continue on Facebook. The consumer pool of that is down and that is why there was a need for Facebook to shift from Facebook to Meta to something else. That something else has not materialized as per the expectations that they set and therefore they are seeing a massive hit in terms of confidence levels and otherwise. Of course, Apple (iOS) has done certain changes, which have impacted them.

Looking at them as an isolated case is not shaking my thesis and belief of digital advertising as a clear trend even in developed markets. Advertising is resilient, digital advertising will be resilient and if there is a recessionary uncertainty, of course some budgets will shrink. That is something to be expected. Now we are fortunate that we are focused on emerging markets where such recessionary backdrops are weaker and we are not seeing as much impact in emerging markets and therefore Affle is in a good place. But is it making me nervous looking at US and Europe that oh my God what is happening there, the speed or muddled; no, not at all Sir. I can understand what is happening there & at Meta and I am still bullish. In fact, if this kind of fear of recession continues it should strengthen Affle's ability to find value-driven strategic M&A consolidation opportunities in developed markets also and we will keep an eye out for that. I will be careful and realistic about what we execute on. But I see an opportunity for us that when markets are down, we should go ahead and look at strategic acquisitions, look at value-driven deals because we will find them cheaper in this time. So, we need to look at our execution strategy, where there is turbulence, how do we navigate. In emerging markets, we need to grow and in developed markets we need to navigate into that turbulence carefully and find opportunities to become stronger. I would not necessarily agree that the speed and the space is all muddled and I think it is not so dire situation at all. Meta is just one example and we can decode and understand that.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Anuj, in terms of employee cost this quarter you saw an increase. So, what were the areas of investments there and does this increase continue in the near term or most of it will start to give us leverage as we go forward? The second question was to Kapil, in terms of the level of intangibles capitalization in this quarter and any outlook on the D&A going forward, which saw some increase this quarter?

Anuj Khanna Sohum: On the employee cost, we are basically following our organic growth plan and investing into the areas such as sales and towards enhancing our on-ground presence in emerging markets as well as going for deeper verticalization. Therefore, focusing on teams which are verticalizing our platforms even further to unlock more strategic value so we can drive greater ROI for the advertisers and drive more profitability from those verticals. This is in line with our approach and the strengthening of our moat and backing it up. I want the investors and the analysts to look at is that if the company is capable of backing its strategy and delivering resilient results, it is a sign of confidence. If you had seen that Affle is delivering better bottom-line margin expansion at the back of Opex reduction, I would not be celebrating that. The only reason to celebrate this Q2 result is to see 20%+ EBITDA while Opex was increased and invested in areas of growth. So, clearly the company is bullish. It is doing the right things and it is seeing financial fundamentals in its unit economics that when it grows it delivers margin expansion. The employee cost is broad-based backing our strategy or verticalization emerging markets and having on-ground presence. For the second part of your question, I will pass it over to Kapil.

Kapil Bhutani: The capitalization on tangible assets for the newer product lines or the newer models is almost similar to Q1 and around USD2.2 million. There is no major shift from Q1 to Q2.

Ashwin Mehta: Did the increase in terms of amortization largely happen because of translation for us?

Kapil Bhutani: If you compare this year amortization to the last year, you would see a significant change because amortization catches up to capitalized amount. In this Q2 P&L, you will see about Rs.5 Crores higher amortization as compared to Q2 last year. So, you can see that catching up effect in this quarter itself on a y-o-y basis.

Ashwin Mehta: Anuj, if I could squeeze one more question. We saw your inventory and data costs come off this quarter, so is it largely because of the Jampp efficiency starting to play out? Any perspective on where are we in the journey of Jampp profitability approaching our own profitability?

Anuj Khanna Sohum: Our emphasis is on profitability, productivity and the strengthening of partnerships and we are looking at multiple legs of it. We are looking at profitability per employee. We look productivity from the lens of profitability of each region, profitability of each vertical and so on. With respect to Jampp, the emphasis was always there because year-2 and year-3 is about maximizing profitability and some of the rationalization of revenue, which we talked about to the tune of about USD3-4 million in H1 that we could have made incrementally more had it not been for the macro headwinds. That is bringing a deeper urgency across the organization to ensure that if there is anything left to be done, can I please do it. Can I make sure that pricing is better, the margin is better, what else can I integrate within the core tech stack of the company to leverage that what is happening in let's say Southeast Asia or India that can be implemented even better in Latin America or in Africa. So, there is a lot of internal huddle towards that and that is a positive thing. Will I want to quantify Jampp's profitability % for you at this call? Perhaps not, because we are still finding that balance because in developed markets some of the revenues were not there. Let us look at it on a broad-basis by the end of this year. Qualitatively speaking, one of the investors had asked me a hypothetical question and he said, if you had to pay more for Jampp now with the hindsight of having owned it for a year, would you do that and the answer is yes. I believe it is a strong asset and it has worked out well for us.

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

Arun Prasath: My first question to Anuj. I take your point that the emerging market is strong and in developed markets we are facing some macro headwinds but if you see our own numbers, if you see the India segment topline sequentially it has grown at 10% but y-o-y it is more like 20%. We are used to see this number at a much higher 30-35%. Are we really seeing any growth slowdown in India as well at the category level or is it like more like some high base quarter issue?

Anuj Khanna Sohum: The way to look at India right now is certainly on a sequential basis. The reason why I emphasize that is because the headwinds and related issues are primarily sort of common across H1, in Q1 and Q2. When we look at emerging markets doing better vs. developed markets, that thesis can only be analyzed on a sequential basis and not on a y-o-y basis. In terms of y-o-y basis, when you start looking at it and say how come India is only growing in 20%-odd and not 30% or 40% odd. I think there are also India or emerging market-specific issues, which we are quite resilient against any which ways and I have talked about this before as well.

If one of the verticals, let us say Ed-Tech or Crypto or Fintech is down, Affle is able to still get enough conversions sold and delivered to other industry verticals in our ecosystem. Because we have broad-based growth we are able to capture that. In one particular quarter, if one vertical is impacted, one area if there is suddenly a negative trend, like during COVID times there is travel and transport, hospitality, retail was down and now that is coming back up, like with a vengeance. On the other hand we have Ed-Tech, Crypto side of Fintech, etc. these issues will happen. In a fast-growing company, in some quarters you might see 30% in one area and then suddenly you cannot expect every quarter it will be 30%, it could be let's say 26% too. We have to see long-term trends and averages. I would not read into that as India is growing slower and there is a problem. I would read into that as whatever India was at 6 months ago and where India is at today, look at the sequential trend q-o-q. This is moving nicely and that is how we should see it. We should also keep in mind that this is at the back of a lot of startups not getting funding, there are all kinds of issues and yes, Affle is able to be resilient because our base of advertisers is wide and there is always this emphasis within Affle to have broad-based growth across advertisers & across verticals. Whenever there is any customer concentration that is building up, that is a risk that I want to cure as soon as possible. That is another peek into our mindset and therefore please analyze India in that light. If you are looking at forward-looking modeling, then my guidance has always been clear whether pre-IPO, post-IPO or every other earnings call, that I expect about 25% CAGR growth for the industry and therefore I want to peg against that.

Arun Prasath: My second question is related to the forex. The kind of fluctuations in rupee depreciation we have seen in this quarter - generally speaking keeping aside the accounting for a moment, is rupee depreciation good for you or bad for you? As a follow-up to this, I would also like to understand what would be the constant currency growth that you had for Q2 in revenue as well as at the bottom-line level?

Kapil Bhutani: Affle is diverse in emerging markets where everything happens in the local currency. To give you an answer whether the currency movement is advantageous or disadvantageous, it depends on which currency is such movement happening. So, there are certain pockets where we have advantage because of the US dollar getting stronger. While the costs are generally in dollars, so there is a pressure on the cost on the dollars, but it gets neutralized on the other side. So, at the moment, if I take the impact of currency movement on an average basis, we would be mostly neutral to it. If you see our bottom-line, the impact of currency movement is largely more muted as we are quite hedged. On your question of constant currency, we have historically not presented constant currency financials for the comparison basis. We are not maintaining and commenting on that because if I comment on it, then I will be asked to comment on last three quarters also for an accurate comparison.

Anuj Khanna Sohum: The way to look at business is that we are naturally hedged on the currency risk. When we see INR vs. USD or across the board the currencies, in some markets we see a negative impact. In some markets we see a positive impact and that balance is thankfully quite held up. In the sense that neither do we see a positive fluctuation nor do we see a negative fluctuation with respect to currency.

We have seen INR move from 70 to 82 and many times up & down over a period of time. In this entire journey both as a public company and even when we were privately held, not because we are doing some massive currency management but our business is naturally hedged. Based on where all we are doing business, what percentage of business is where, what cost and so on, we have been naturally blessed and hedged on that.

Internally, yes, it is something to be also seen that what else should we do beyond the natural balance that we are enjoying, but there is not a huge currency management function that we do within our finance or operations teams at the moment. The reason for that is because we see that balance. We have seen it consistently that we are naturally hedged and it does not impact us dramatically.

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

Mayank Babla: Congratulations on a good set of numbers. Just wanted a clarification on what was the reason for the inventory and data cost to come off significantly and can we expect this to be the new normal and the trajectory going ahead?

Anuj Khanna Sohum: To me, the inventory and data cost did not really come down. It just stayed flat as a percentage of revenue while the revenue overall increased 2% y-o-y but emerging markets did better. There is no dramatic trend to take out of it but I do think that there are levers within our hands to make sure that the inventory and data cost can be optimized. Which means we can buy cheaper because the inventory and data cost is what we are paying out. We are buying the programmatic inventory or we are paying for the impressions and clicks. As we get more volume, in terms of the commodity pricing we can pressure that down. If we play it smartly, for example we can commit more volumes to certain sources and so on. Those kind of levers are there and we are working on those efficiencies and we started to do that in the last 6 months a lot more. We have always maintained a neutral stance that we will let our algorithm decide where we buy from because we are looking for conversions or the probabilities of conversions. However, there is some optimization there. To see, if we are spending some amount with some particular platform or supply source or a publisher, can we go and do some negotiation there and see what we can further optimize? There are certain levers that are being used, but I would not really call out any trend there at the moment. To call it a trend, we may need to assess it for a bit longer but it should be range bound. In some cases. a percentage here or there.

Moderator: Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: I had a question regarding the CPCU. We have seen that the CPCU have been on an upward trajectory for a while now. Given the business models, it augurs well for you as well. But we have been seeing with Meta, Snapchat, etc., that they are losing on the price per ad for a while now be it in the developed markets or in the rest of the world markets for them. How do you see this trend going ahead for you? Do you see that there is some risk to the upside from here? What are the risks that you see and how do you see CPCUs going forward considering that the larger players are losing out on the price per ad for a few quarters now?

Anuj Khanna Sohum: The fundamental aspect about Affle and you can check the history also. We always have identified ourselves as a consumer platform company. Even though we are a B2B company and we are not direct to consumer, but we still call our tech stack, the consumer platform stack. In essence, I am trying to tell you is that our revenue is coming from the actions that the consumers are taking and delivering almost an assured ROI linkage with respect to performance to our advertisers. When you say price per ad is coming down, that should mean that I should see efficiency in my inventory and data cost because inventory for us is the price of ad that we pay because we are buyer of ads / ad spaces. We buy the ads and we deliver conversions to the advertisers. When we deliver conversions to the advertisers, the question then becomes that as long as the end consumer is increasing their average wallet percentage spend online and if the consumers are doing more conversions with higher-value products online over time, you should be able to see a higher CPCU rate because CPCU stands for cost per converted user. The cost per conversion which is being maintained, there is actually an opportunity to push that up. When we say that we will be resilient on our pricing, we are saying let us go for volume without discounting the price. But at some point in time, it appears to say let us go for volume while increasing the price. I am not in the business of selling commodity where on volume we will give discount. While most of the buyers may still ask for it, but we try to defend it and we explain to them that it is an ROI-linked business model justification of CPCU.

So, your observation is right. Price per ad which in other words you are saying is price per impression, price per click is coming down and ROI-linked CPCU cost per conversion is something that we can do it more profitably. One of the ways, advertisers can ask for a CPCU adjustment is Hey, as you are buying the impression and click much cheaper and therefore your cost and your ability to earn that conversion at a lower cost has gone up and hence share some benefit with us. We should always focus on margin expansion. If it means that if at Rs.50

I can get a higher volume with my margin expansion at the lower inventory & data cost, I will take that business. Our focus on margin expansion and profitability is linked to pricing. It is linked to right at the top is pricing, right at the bottom is profitability and we are looking at optimizing that in a strong manner across all our business units.

I hope that answers the question. But please do not put just a blanket label of adtech on Affle as there is the fundamental difference. On CPCU, do not see it as a cost per impression, cost per click and therefore simply cost per conversion. The conversion is ROI-linked based event whereas impression and clicks are the raw material, the commodity within the digital advertising. I hope that makes sense. Thank you for the question.

Moderator: Thank you. The next question is from the line of Rajmohan Venkatraman, an Individual Investor. Please go ahead.

Rajmohan V: My question is in the light of you indicating - hypothetically being positively disposed to inorganic opportunities in developed markets under current recessionary environment. Will Affle even be looking at organizations like Digital Turbine whose market caps have crashed 80-90% though the revenues may be 4x-5x as that of Affle. Generally looking at it from a client addition perspective, have discussions at the Board level happened at acquiring bigger companies than Affle?

Anuj Khanna Sohum: I can tell you two things about our psyche. Yes, discussions happen because we are intellectually sharp and alert. Just as you, we are seeing possibilities in the map and we see all possibilities as well, but we are also very mindful of two things. We are executing on a solid track. When I say that I mean that to an external light, it might seem risky that they have operations in so many countries, across some many currencies. But from where I see it, it is just a predictable path of execution that we are on. Now any acquisition that we do add a certain element of risk to it such as risk of integration and risk of things going well or not. That is why all our investors are deeply observing it for at least 4-5 quarters and asking different questions as how is this number without this, with this, and how is it going, etc., and everybody has nervousness in this unknown factor of what has come.

If you look at our M&A strategy and one of the things that has worked really well for us is we have been conservative on the value that we are paying and the size of that M&A. Let us see the last 3 acquisitions. 1) Mediasmart, we paid less than

USD10 million, Appnext about USD25 million, Jampp about USD40 million. Now compared to our own market cap, revenue, bottom-line, cash & bank balance, whichever indicator I look at, I also plan for worst case scenario when executing a M&A. If it was to go bad, can we still be a strong resilient company and deliver value to our shareholders. When my answer is okay, we have covered all the risks and then only it is the right decision. But if ever we are wrong, may that not consume us.

When your acquire certain company, you also acquire a lot of baggage of those and there is a reason why those companies are losing value. There is a reason why those companies are not doing well. As industry insiders, we know those reasons many a times and we know where to go and where not to go. There are certain acquisitions that Digital Turbine has done that Affle had deep insights into and also we had the first right to do them or the opportunity to do them in terms of timing. I would not name them but we certainly were not feeling a loss that Digital Turbine acquired those companies. I said, all the best. We would not have done that acquisition. We are looking at all opportunities and respecting all possibilities though we know a lot more in terms of what is inside going on. We are extremely carefully calibrated and our execution strategy on inorganic has been flawless so far. I hope to keep that track record with no unfold errors. Affle is doing a good job.

M&A should be seen for strategic reasons, opportunistic value in terms of pricing at which we transact in terms of timing. Let us say, last year, if we have done a particular M&A, it would have been more expensive vs. this year. So, those kinds of optimizations we would do, but we would never just go and do it for size. There is no reason for us to just go and because something is cheap and is looking big, let us do it. I do not want to get tempted into that and we will be careful about it.

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

Anuj Khanna Sohum: Thank you very much everyone for insightful questions and a good dialogue. I certainly enjoyed it. I hope it was valuable for you and you have a deeper insight into Affle's mindset. Clearly for a significant part of our business, we are insulated from the macroeconomic headwinds and the good news is we still have tailwinds in the emerging markets. As far as the economic factors are concerned, there is actually some impact but that is limited and it is quantified so that you can all assess it. But there is also opportunity in there for us. Because a lot of the competitors were fundamentally not as strong on their balance sheet and not as profitable. If they lose about USD3-4 million of revenue they are deeply hurt whereas for us we can still deliver a resilient outcome. In that sense we are in a strong and privileged position to navigate through H2 FY2023. As we go along, we will continue to give you a transparent commentary on our expectations so that you know what to expect and we will talk about next financial year & beyond after that. Thank you again and stay well!

Moderator: Thank you. On behalf of Anand Rathi Share & Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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