Affle (India) Limited

Q4 & 12M FY2020 Earnings Conference Call

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DOLAT CAPITAL

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

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

Analyst: Mr. Rahul Jain – Dolat Capital

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of Affle (India) Limited hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you Mr. Jain!

Rahul Jain: Thank you Ali. Good morning everyone. On behalf of Dolat Capital, we welcome you all to the Q4 and 12M FY2020 Conference Call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited, represented by Mr. Anuj Khanna Sohum who is Chairman, Managing Director and Chief Executive Officer of the Company; and Mr. Kapil Bhutani who is Chief Financial and Operations Officer of the Company.

Before we begin with the discussion, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide 21 of the Company's earnings presentation for a detailed disclaimer. I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thank you and over to you Anuj!

Anuj Khanna Sohum: Thank you Rahul. A very good morning everyone and thank you for joining the call today. FY2020 was a super exciting year for us. It was marked with several important milestones including our record breaking IPO, completion of 15 years since inception of the Company, stronger leadership team and launch of new products and tech innovations; overall strengthening our competitive advantage and business moats.

I strongly believe that we are ready to face the backdrop of the tough macroeconomic factors particularly COVID-19 pandemic, better than ever before. Affle is **"Built to Last"** - that being our DNA and philosophy, and hence we are committed to deliver sustainable growth over the next decade as well.

Moving to our financial performance, I am quite pleased that despite the tough macro factors as all of us are aware of and have impacted the industries globally, Affle delivered a well-balanced profitable growth for this year. We closed the year with a revenue growth of 33.8% year-on-year and a PAT growth of 34.2% year-on-year. The consumer platform business powered primarily by our CPCU business model continued its high growth momentum delivering 72.3 million converted users for this year alone, compared to 55 million converted users delivered in FY2019.

Speaking of Q4 in particular, COVID-19 impacted the growth momentum for almost half of the quarter across international markets for us and towards the end of March in India as well. We registered an overall revenue growth of 32.3% year-on-year. India is our dominant and largest market. In India, we registered a revenue growth of 36.9% y-o-y beating the average industry growth rates whereas our international business increased at 27.7%.

India has continued to perform strongly for us despite the lockdown towards March-end and the growth in India was 100% due to our organic business. For the international segment, the growth was contributed because of the acquired businesses primarily. Our organic business internationally began to feel the COVID-related impact from mid-February onwards in several markets and across certain verticals.

Travel and hospitality industry was the first one to get impacted not only in the developed markets but also across all the emerging markets. Organic business in international segment therefore decreased by about 15% year-on-year. But does that make us nervous and concerned? My answer to that is NO. Our international acquisitions have actually strategically enhanced our ability to deal with this going forward. We have expanded our presence across geographies and also built a diversified customer base in international markets. The combination of our strong tech and omnichannel platforms and the Platform-as-a-Service (PaaS) business model based new strategic initiatives will definitely build our presence globally. These initiatives will help us to tap on these global opportunities even during and post the COVID-19 phase.

In terms of our PAT performance, if you look at Q4 standalone financials, growth in India PAT (all organic), has been quite strong at 59.6% year-on-year and a PAT margin expansion of 1.4% year-on-year. This is due to our scalable platform and the bottom-line efficiencies. Though our PAT for international business declined by 16.7% year-on-year primarily due to COVID-19 and also due to our increased investments to build on-ground team presence in international markets and the related operating expenses. However, overall PAT margin remained healthy for this quarter at 18.3% on a consolidated basis.

What gives me strong confidence is that majority of our business is already COVID-19 resilient and well defensible even in Q1, because over 76% of our Q4 FY2020 revenue on a consolidated basis came from the COVID-19 resilient verticals. On our previous call regarding the COVID-19 response, we had discussed that our top 10 industry verticals in categories E, F, G, H are definitely COVID resilient categories. As with the April and May performance and even in Q1 FY2021, these categories have stayed largely resilient. We will maximize on these 10 verticals while adding new innovations and strategies going ahead.

Going back to our core long-term focus - Affle is clearly **"Built to Last"**. 15 years of Affle1.0 strategic framework has clearly laid the foundations for Affle to deliver long-term value creation for all our stakeholders and now it is time for what I would like to refer as Affle2.0, going forward. Affle2.0 growth transformational framework will focus on these four pillars:

1) Market leadership: We must dominate and consolidate India and South Asian markets. We will continue to invest efforts both on vernacular innovations and verticalization in these markets.
2) Omnichannel Connected Devices: Omnichannel-connected platforms going well beyond mobile and looking at connected devices, connected households, including connected TV, voice and video innovations.
3) Vertical alignment: I have referred to this several times that we will verticalize our innovations and platforms, and focus on the growth industry verticals across categories E, F G, and H and beyond. We will deliver vertical level targeted approach and geographies and personalize/localize the scale up by verticals.
4) Global Online Collaboration: Finally, in terms of Afflers, we will work from 300+ home offices and will continue to collaborate by default in the work from home mode. We have continually invested in technology to ensure all our teams can have uninterrupted communication with our customers, partners, and so far, it is leading to a smooth (and productive) delivery of operations.

Overall, we are a very well differentiated business, growing profitably and increasing our positive cash flows performance consistently. This has powered us and will continue to power our ability to consolidate, dominate in India, Indonesia/SEA, and also look at the international geographic expansion.

With that I would like to handover this call to our CFO, Kapil Bhutani to discuss our financial performance in detail. Thank you and over to you, Kapil!

Kapil Bhutani: Thank you Anuj. Wishing everybody a good day.

In FY2020, the Company reported Revenue from Operations of Rs. 3,338 million, a year-on-year growth of 33.8%. This growth has been broad based coming from both existing and new customers, contributed by consistent growth in advertiser spends across industry verticals and across India and Other Emerging Markets.

Despite the Covid impact for half of the quarter in the International business and for the last week of March in India, the Q4 Revenue stood at Rs. 800 million, a year-on-year growth of 32.3%.

Our EBITDA for FY2020 increased by 26.3% year-on-year while the EBITDA growth for Q4 FY2020 was 5.1%, moderated on account of higher operating expenses. Opex increased primarily driven by our strategic investments in the Inventory & Data cost and Other expenses contributed by the recently acquired businesses. Although our third quarter in any year is the highest quarter due to business seasonality driven by festive sales during that time, and therefore, Q4 vs Q3 (on a sequential basis) will Not be a good way to analyse. However, if we just compare our Employee cost sequentially, the cost has come down due to reduced provisions of bonuses, leave encashment and gratuity. This helped us balance out the increase in employee cost on account of businesses acquired recently. Further, one of the acquired businesses has higher other expenses on account of consultancy and professional charges vs. direct employment of employees. Our EBITDA margin for Q4 was 26.4% in line to the overall annual trend.

Our PAT for the year was Rs. 655 million, an increase of 34.2% year-on-year. Our PAT for Q4 was Rs. 153 million, an increase of 5.7% year-on-year.

Our focus has always been on working capital management and positive cash flows. And even in times of Covid, our collection efforts are robust and our cash flows are consistent and resilient. The Company has generated healthy operating cash flows of Rs. 730 million for the year, a strong growth of 52.8% y-o-y and achieved OCF-to-PAT Ratio of 111%.

The trend of advertisers engaging directly with the Tech Platforms than through their advertising agencies continued and has remained favourable throughout the year, further decreasing our Top 10 Customers concentration to 45.5% for the year vs. 64.5% on a comparable y-o-y basis.

Also, our focus has always been on being debt-averse. However, the debt was taken during the year by our Singapore based subsidiary "Affle International", from the Affle Holdings for business acquisition activities, at a very nominal rate of interest prevalent in Singapore market, while retaining the positive net cash position of Affle India.

I wish to highlight that the Company has not changed any accounting policy during the year. During the year company has made investments in acquired businesses of RevX and Shoffr and purchase price allocation for these investments was completed in Q4. Some adjustments have been made from provisional accounting of these investments to final accounting of these investments in Q4. With the acquisition of Mediasmart, Affle International now has one more subsidiary based out of Spain.

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

Moderator: Thank you. Ladies and gentlemen. We will now begin the question and answer session. The first question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Congratulations on a very healthy Q4 in fiscal 2020. Just two questions from my side. Firstly, you had given a very detailed view on your COVID update call. But is there any other thing that you want to highlight in terms of change in customer behavior as India is normalizing now? Also, any other markets where we see restrictions led impact to be still continuing and are changing now on a month-on-month basis?

Anuj Khanna Sohum: Thanks for that question. Yes, in terms of COVID-19 response call, I had provided a lot of qualitative perspectives on how to look at our business both from the macro factors of consumers, customers, and competitors as well as from the micro factors. And that is how Affle is internally dealing with the on-ground execution. Now since early February, Affle has been dealing with this, as in Singapore the COVID cases started appearing towards end of January itself and therefore our response in terms of preparing for work from home started from early February. Mid-February onwards, our South East Asia employees started working from home and by end February even in India prepared everybody to increasingly work from home. The impact in India really started towards the second half of March once the lockdown happened whereas the impact for us in Q4 for the international business was more significant. About 50% of the quarter was impacted in intentional markets. But June onwards, the tough phase of COVID-19 I believe is behind us. The world at large is starting to open up. India has started to open up. We have started to see our growth categories coming back a lot more strongly. The top 10 categories that we have also detailed out in our presentation and the other categories are taking baby steps to come back to business and start spending. If I were to look at the trend, the biggest impact period was April and May and even in April and May period, we have been able to strongly defend our 76% of the revenue from the top 10 resilient verticals. This 76% of the 80 Crores revenue of Q4 FY2020 has been defended very well even in these months. Therefore, I am able to say that we are COVID resilient as a Company. Going into June, e-commerce is coming back hopefully more strongly in India and even in other international markets which as all of you know is a big vertical for our business. The other nine verticals are also expected to grow and for the remaining 24% of the business, I am hoping at least some part of it should start coming back in the month of June. So if you look at April, May, June I would still think that there would be some impact, potentially negative 10% to 15% depending upon how well the bounce back happens in the month of June which is yet to be seen. But being conservative, I would say that there will still be some impact just like in the international business in this Q4, we saw about 15% y-o-y impact in terms of organic revenue. We will be able to manage within that range even in Q1 because of largely the 76% being strong categories. Other than that on the consumer side, the trend lines are reasonably favorable because the users screen time on mobile has disproportionately gone up and therefore it (mobile marketing) is no longer discretionary for the advertisers. For growth categories which is 76% of our business, mobile advertising is no longer discretionary because the time that the consumers are spending on mobile is disproportionately higher now and the adoption curve of the consumers in terms of ordering online or making payments online through mobile phones has actually accelerated now. This should become realizable for us in the long term once the business goes back to a bit more normalcy. Once the lockdowns are over and the advertisers are willing to spend more, the consumer trends will make sure that the advertisers/customers have to definitely invest on the mobile screen. I hope that answers your question!

Rahul Jain: Yes. Another question is we all know the advantages of advertising on this platform as you said. But any risk, we see in terms of the ad spend behavior by any category of customers? Maybe like VC backed companies, because the short-term thought process would be to conserve cash. How do we see that effectiveness from short term, of course we know long term there is no risk per se?

Anuj Khanna Sohum: If you look at our business historically over last five to six years, we have run the business with consistent growth and profitability and managed that risk very well. Like sometimes the VC funded companies may face investment/fund raising related challenges, so we are well aware of it and that is the practice that is already taken into account. We are extremely bottom-line sensible in our outlook particularly on cash flow credit risk management. We do not see any risks of funding or cash flow related issues for the 76% part of the COVID resilient business, while for the remaining 24% we are watchful and very careful on how we are reviving and how much are we taking on-board.

Kapil Bhutani: Just to add to that, our clients who have come back with opening of India market, started the campaigns but we have been a little cautious to run the scale with them. We are testing the cash flows of these customers before we go through for the full budget which the customers are proposing. We are consistently monitoring the cash flows and the client's ability to pay in these times.

Rahul Jain: Thank you.

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

Rishit Parikh: Thank you for taking my question. Two questions from my side. Anuj typically during weaker environment, what we have seen is spending in terms of digital as a percentage of total share increases. Right? So, how are you seeing that in terms of discussions with your customers, at least with the top 10 of the customers? And secondly, when you said we have defended share in the top 10 categories even in April, May, so essentially are you seeing that on an absolute level or how are we talking about it?

Anuj Khanna Sohum: The long-term trend of digital spends increasing is something I am very confident about. The short term trend of digital spends increasing is because of the COVID-19 crisis situation. I believe in the long term thesis, but have we seen any immediate signs of that is something too early to say. I am not speaking from the macro trend perspective but it is a fact based on our actual data that

76% of our revenue was COVID resilient across key industry verticals. It is not just for the last quarter but it is COVID resilient as we manage to defend it in the April and May months also. Since we are able to defend it in the toughest period, I would say that this thesis is strong. Now whether they (Covid Resilient verticals) increased the digital spends and gave the same percentage share to Affle or did they shrink the digital spends and Affle grew its share into that is what we are still assessing. But on an absolute basis, we are defending our business nicely even in the tough times even though there is some impact. How I look at it is that this 76% of our business will definitely grow. So, in Q1 FY2021, we will find that the percentage contribution of this 76% business will be significantly larger. The thesis of long-term growth is that these customers will keep spending more on the digital, increasing their percentage spend on digital and I am big believer that this trend is for the long term.

Rishit Parikh: Essentially when you said there is a hit of 10% to 15%, Revenue decline is what we are guiding for or is that just general in terms of the overall business?

Anuj Khanna Sohum: International business already had a decline in Q4 because of the knee jerk lockdowns that happened for the 1.5 months period. However, we were always solving that problem by strengthening our international business with on-ground presence and so on. So, I am very glad that the problem was also fixed in the same period through the strategic acquisition of Mediasmart. Now in India, the situation was particularly more severe because in April and May the lockdown was severe. Having still defended 76% of our business both in India and International segments from these categories gives me a lot of confidence and we as a Company have always been very growth minded. For us, it is an unusual time when we say okay there is a tougher situation but our scorecard is still looking strong overall in terms of meeting at least the baseline across these 10 categories where we are defending well.

24% of revenue is more impacted in this period. We are hoping that in the month of June, 76% of our customers would become stronger and increase the digital spends than what they were doing so far in April and May. And hopefully the remaining 24% customers also, some should come back in June. So, net-net yes in terms of organic revenue there will be some impact in this 10%-15% range. But let us see how June bounces back. We decided to do our Q4 FY2020 results call on June 1, 2020 with this hope that we are looking at June optimistically and business should bounce back.

In terms of trend had COVID not happened, Affle would have potentially achieved on a consolidated basis around 1 Crores a day or close to 89 Crores to 90 Crores in revenues. But what we are trying to achieve in June is, that towards the latter half of June lets hopefully reach 1 Crore per day revenue run rate again. If we can reach that run rate, it would be a great turnaround with the COVID situation and we are working with that mindset. Sometime within June, I/we hope to achieve the business run rate back to that 1 Crores a day. Of course, April and May have been tough but the worst is behind us and now June onwards we are on a recovery path to go back to our desired run rate.

Rishit Parikh: Just one follow-up in terms of acquisition, I would assume from a PAT profitability standpoint they will be contributing pretty low. Just wanted to understand when can see those acquisitions also come back to normal company level profitability because we have spent about 100 Crores to 120 Crores roughly but profitability contribution from acquired businesses seems to be pretty low, Right?

Anuj Khanna Sohum: The way to think about it is that we are acquiring strategic quality assets in a turnaround situation. Almost all our acquisitions have been in turnaround situations and that was a part of our strategy. If you look at the slide on our inorganic growth strategy for M&A, it is very clearly defined. It is strategic in nature and it has to be turnaround situation that we are looking at because we are 100% funding those acquisitions through our internally accrued cash flows. We are not doing anything like external financing or using equity so far and therefore we are extremely prudent. Our acquisitions are strategic in nature and in a turnaround situation and we never had the thesis of extracting PAT out of them immediately. You are right, the PAT contribution from all the acquired businesses on a consolidated basis for the financial year would be less than 4% sort of range. It is really low contribution to PAT on a consolidated basis for the whole year and the contribution to topline also would be around 10% only. This is not dramatic but these are strategic acquisitions, they are giving us the right products in the right markets together with the teams and the customers. So our thesis is very clear. On a forward basis, we are only acquiring those assets that will help us to deliver the bottom-line performance of 18% to 19% PAT overall. Even with the acquisitions consolidated this year, our PAT is 19%. We are financially prudent at an overall level, which is empowering us to do the acquisitions that we believe will strengthen our business moats.

Rishit Parikh: Perfect. Thank you so much.

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

Manish Poddar: Anuj just wanted to get a sense on the cost lines largely, staff and other expenses. Let us say of Rs.140 odd million quarterly run rate, so this the run rate one should expect going ahead on a quarterly basis?

Anuj Khanna Sohum: In terms of Q4, it is fully loaded as on date. I mean there is nothing there which is suddenly getting into Q1. Though you would have noticed that we recently announced some of the key hiring like our Chief of Marketing & Omnichannel Platforms Officer, the Data Scientists and the Director for Product Management and so we are consistently strengthening our team. However, the top management team and some of the team members have volunteered to reduce their fixed pay in favor of greater variable pay linked to performance. So, that is normalizing it and it should be within that range at least for next two quarters (till 30th September 2020). Also, given we are not travelling much in these times, so travel expense would go down.

Manish Poddar: Correct thanks.

Moderator: Thank you. The next question is from the line of Nishit Shah from Nepean Capital. Please go ahead.

Nishit Shah: Thank you for the opportunity. I had some industry specific questions - with television and advertising medium facing headwinds, we see incremental traction towards digital advertisements and that for FY2021, the industry would still grow in double digits. So what is your take on that?

Anuj Khanna Sohum: I am a big believer that digital is the only place to connect/engage with consumers, especially the youth because of their choices of medium that they engage with is totally on this smart screen. The next frontier - the rural area/audience, due to affordances they basically gravitate to the one smart mobile device which will do everything for them. Hence, if the brands or any businesses want to communicate with the larger audience to promote their business and products, there is no better medium than digital and particularly mobile. Even if there are households which are spending screen time on connected TVs increasingly, then again Affle would be and is addressing that with our platforms/products programmatically with integrated data capabilities. We are strongly positioned to take on the connected devices trend. I am still hopeful that this year it should be double-digit industry growth. But even if it is not, you should look that Affle's base is still relatively small and we should be able to increase our market share in any case to hopefully maintain the longer term growth trajectory. Not just talking about a particular year but from the broader lens of next five years, I would not take any step back from the long term growth agenda that we have as a company.

Nishit Shah: Another industry report which came out, mentioned that there is 15%-25% drop in **cost of** digital inventory even though people are spending more time on the mobile phone due to excess inventory supply. What kind of impact will this have? Will this fade Affle's margins or this is excess supply which is causing this?

Anuj Khanna Sohum: It is the excess supply. In our macro factors, if you look at the consumer trend, it is mentioned that in terms of business model the excess supply in inventory essentially means Affle's ability to buy and listen to more impressions and clicks and data points for the same cost/budget. We can do more at the same price that we were doing before or we can do stay at the same level as before for a lesser cost if we need to in order to make higher margin. But essentially at the moment I am not providing any guidance towards that margin expansion because our focus would be on maintaining our CPCU rate. Can we get higher scale on that rate itself and listen more and improve our moat on the data? Can we invest more into other areas of connected devices and listen deeper and strengthen our propositions and invest more using this trend without having impact on our margins? So we want to maintain the margin in the current range which has been consistent for last four quarters and the excess supply is actually favorable to Affle. It is creating option for us to buy more or reduce costs and pass the benefit on to the advertiser in terms of CPCU pricing or ROI. Having more options as a business model is always a good thing and we see that as a positive impact to our business model.

Nishit Shah: Just the final question, which are the industries or sectors in that 76% COVID resilient portions and which are in the sectors in that 24%?

Anuj Khanna Sohum: If you look at our slide #5 in the presentation which has been uploaded we have named all the sectors and categories E, F, G and H. Category E being E-commerce, Entertainment, Edtech, category F be Fintech, Foodtech, FMCG, category G is Gaming, Groceries, Government and category H is Healthtech. These are the 10 verticals that we are clearly calling out that have enough customers which are COVID resilient in these verticals. And we are able to defend 76% of our Q4 revenue even in the toughest phase of April and May going into Q1 FY2021. The categories which are not in there are all the other categories which would be included in the rest 24% - like say hospitality, travel, transport anything to do with these categories which are deeply impacted. Or even other categories where funding in case of startups has become tight. So, we are watchful of those and therefore we will put that as a big bulk of other categories for now rather than slicing and dicing that further.

Nishit Shah: In that 76% as well, have they guided for cutting ad expenditure not digitally, but in general overall ad expenditure?

Anuj Khanna Sohum: Everybody is being prudent. What helps Affle to defend better is two things, one we are focused on mobile, second our business model is almost 90% CPCU which offers some form of clarity or ROI accountability. These two factors help Affle. Our data point is totally related to us and absolute and we are not suggesting that everybody else in this business would see similar trends. We are certainly seeing this trend and as of June 1, 2020 I am glad to tell you these data points on an absolute basis for Affle.

Nishit Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Thanks for taking my question. Sir if we look at some of the marketers from the advertiser side, there are different objectives of doing advertising and one of the important objectives is brand building. Now we deliver lot of performance marketing, lot of conversion so how are you placed as far as the brand advertising is concerned? Do we have a play on that as well and do you believe the digital media or the mobile platform offers a good platform for doing brand advertising as well?

Anuj Khanna Sohum: Yes, absolutely brand advertising is an important play for advertisers even in these times. For some categories, the consumer may not buy now but can definitely be influenced from branding perspective. Digital is an extremely effective medium to enable that. Historically, Affle has anchored itself to drive conversions, where one would classify us a lot more in the realm of performance or ROI linked advertising. But I can tell you one thing that digital branding is not a spray and pray approach. Branding is also leading towards conversion tracking and we are working with a lot of our customers educating them that branding can also be conversion linked. Whereas the definition of conversion could be deep funnel actions that the consumers are taking that demonstrate intent. Secondly, we are also looking at branding from the linkage of online to offline conversion or touch less, contact less ordering and picking up and so on. We are also looking at innovations in these areas. So yes, branding is definitely within the scope of what Affle is brings to the marketers. It is not a very big part of our revenue at the moment, but clearly it is not a proposition that has any limiting factors in terms of technology, data and products. Even in terms of business model, we try to find metrics related to branding campaigns and measuring consumer conversions or deeper conversations/actions.

Yogesh Kirve: That is quite helpful. Secondly, during our COVID call that we did couple of weeks back and you said that we may take a call on whether to pass the benefits of the lower data and inventory costs in terms of the lower cost to the advertiser. Any movement on that?

Anuj Khanna Sohum: At the moment we see business as usual. Yes, the cost of impression and click is coming down but we are at the moment not building any short term extraction out of it. We are investing into building our data sets for the long term and maintaining that as an important factor for us. Further, it also depends on the advertisers because if advertisers come to us and says can we get lower pricing on the CPCU, then we are able to defend that by saying we are investing more at this time. We try to defend our price because once the price goes down it is harder to bring it up. So, keeping it up there and not passing it on for the short term is perhaps a prudent strategy and that is what we are doing today. We are not easing on that front for now.

Yogesh Kirve: Thanks a lot and all the best.

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

Dheeresh Pathak: Hope you are doing well. For the organic revenue growth you gave a number for the international business on the segment data. If I take out what you said 15% de-growth, then it is about Rs.13 Crores contribution on the international side so that would be all Mediasmart, Right?

Anuj Khanna Sohum: Kapil could you take that question?

Kapil Bhutani: No, it is not all Mediasmart. There is a portion of RevX also into it.

Dheeresh Pathak: Just walk us through the organic growth. The reported revenue is Rs.80 Crores, now Vizury was there in the base. The difference between reported versus organic numbers would be RevX and Mediasmart for the like-to-like numbers possible on the growth rate. Correct?

Kapil Bhutani: India is all organic only and if you see the international business there is a decline of about 15% on our organic base from last year. But on an overall basis, 27.7% growth in International revenue is contributed by the inorganic business.

Dheeresh Pathak: The number that I am coming through Kapil is that there was a 10% organic growth from Rs.60 Crores last year based quarter to 66.4 Crores. If I take out RevX and Mediasmart, which were not there in the base quarter last year. Could you please tell me if these are in that range?

Kapil Bhutani: The way we have done that analysis is that how much has international business (which includes the inorganic business) has contributed. International business has contributed about Rs.38.6 Crores in this Q4 versus Rs.30.2 Crores in Q4 last year. We say that on Rs.38.6 Crores, Rs.13 Crores is coming from inorganic and the rest Rs. 25.6 Crores is the organic international business. So, there is a downfall by 15% from Rs.30 Crores on the international side. The India segment growth to Rs.41.4 Crores in this Q4 from Rs. 30.2 crores in Q4 last year is all organic growth.

Dheeresh Pathak: You are saying RevX is all overseas business? There is no India business.

Kapil Bhutani: Yes, the acquired business of RevX was only international as we did not acquire RevX India.

Dheeresh Pathak: Then, on an overall consolidated business, the organic growth is just over 10% if you take out Rs.13 Crores of inorganic?

Kapil Bhutani: You can say that if you take it out on an overall basis. But you should see it market/geography-wise, because these two geographies have been impacted differently and differently times during the last three months.

Dheeresh Pathak: That is helpful. Just wanted to get to that analysis. Anuj you said that international e-commerce was doing quite well right because India did have a very different version of lockdown which affected e-commerce but international geographies, the e-commerce did very well because they did not put on those restrictions on e-commerce. So, why was international organically down 15%?

Anuj Khanna Sohum: Yes, the e-commerce segment did well. It continues to be resilient and even so in April and May it was resilient. But some of the other categories definitely took an impact. Even within e-commerce there were certain customers in United States who stopped and while figuring out why they stopped because they were doing well. We learnt they were doing so well that they had the problem of managing the deliveries and logistics. Therefore, they stopped marketing for some time because there was too much of good news/business for them. Similarly, the groceries vertical and certain other categories, they had operational challenges to meet the naturally increased demand. Hence, asking for more conversions at that time was difficult for their marketing team. So, there has been all kinds of impact. COVID had negative impact on many industries and also had this kind of an impact which happened in very unique ways for certain verticals. So it is correct that e-commerce was working well in those markets and yet certain verticals had to stop because of dealing with their own operational challenges.

Dheeresh Pathak: For the whole company you gave 74% as resilient verticals contribution for FY2020. Does the rest 26% makes it so different for internationally versus India?

Anuj Khanna Sohum: I will have to look at the data. It is a very specific question but we have actually done the verticalization analysis across geographies and getting to the 76% contribution in Q4 FY2020. But a short answer to that is whether I look at the Mediasmart business or whether I look at the international or India business of our own organic business, that ratio is well within the 70%-80% range. S Thankfully across all geographies our businesses are seeing that kind of resilient support system.

Dheeresh Pathak: One more question, Kapil. This cash flows on investing there is a negative Rs.31 Crores investments in the intangibles. Can you just walk us through what is that for?

Kapil Bhutani: These are basically investment into our creation of intangibles that are there because the tech development onto further development of RevX platforms or the Vizury platforms or the new products, which have been rolled out, like Vizury Engage360.

Dheeresh Pathak: Can you just walk me through the policy like what do you capitalize and what do you expense on the P&L in terms of R&D investments?

Kapil Bhutani: So in terms of policy, there is no change in the accounting policies. Our research and the initial feasibility is not capitalized. It is a different team that looks into the products. Only the development charges or the development costs which are incurred in actually developing the product post the feasibility, once it goes into the Capital work-in-progress and once the product is complete and tested then only it is capitalized. You will see two line items as a working progress line item and also capitalized line items.

Dheeresh Pathak: On an annualized basis, for this capitalization of intangibles, would you spend in a similar range say Rs.30 Crores to 40 Crores in FY2021? In FY2020, you spent about Rs.30 Crores on product development, would you spend that similar range in FY2021?

Kapil Bhutani: Yes, this is the run rate we are expecting for the future also. What we are investing is also being depreciated and amortized. On the P&L you would see that coming in the depreciation and amortization consistently so that part actually is quite normalized so it is part of the P&L.

Dheeresh Pathak: Correct but in terms of the run rate, you do not amortize on a one year basis, right? You monetize it on a slightly longer basis?

Kapil Bhutani: You can see that there is an opening capitalization amount as well which gets into this Depreciation & Amortization line item. It is not only for the current year but it is a past trend of the Company and it is in line to the standard accounting policy of our industry. Affle, along with various other listed companies in our Industry across the globe also follow such metrics. This is basically when you have to invest in long-term for developing the technologies.

Dheeresh Pathak: It is very helpful. Just one more question is gross margin seems quite volatile. Like for last year, it was very high and now it has trended lower compared to the full year average that we had last year. So can you just explain that what is driving that gross margin lower versus what we had in the last year?

Kapil Bhutani: There are two factors to it. There is impact of the acquired businesses as well as an impact of investments made in various geographies where we have long-term interest. So, I am building the data points in really building the data stack. So, there is a two-fold impact on that.

Dheeresh Pathak: But this would be the spend that you are doing on publishers' side, right?

Kapil Bhutani: Publishers and a lot more listening of data on cloud. When you open to a lot more listening, you spend lot more on cloud traffic also.

Dheeresh Pathak: Anuj, as I look at it - India business was better than international and I thought India is where your strength is, so the cost of publishers and inventories should have gone down and margin should have gone up. Can just give the insights into this?

Anuj Khanna Sohum: Inventory & Data Cost have two components: 1) What you pay to the publisher, in terms of placing the ad, the impression and clicks that we are getting and 2) the data and cloud computing costs. So even if you are not placing an ad but you are listening to a lot of traffic. Without the exact numbers, let us say we have listened to three times more in terms of volume of data and traffic or we have seen significantly more volume of data sets that we processed for customer data segments, going deeper to more connected devices within and beyond mobile in existing and new geographies. That is an area of consistent investment. While it comes as 100% expensed line on the P&L because the accounting policy has no other way of looking at it. But for us as a business you have to see it as a big investment. Going into this current financial year FY2021, with clear knowledge of over 72 million conversions that we have already delivered, is a huge asset empowering our business. It has to be seen from that lens. Secondly, if you look at it on a serialized basis comparing Q1, Q2, Q3, Q4, you will not find volatility but a consistent trend. For this financial year even at the time of IPO, I believe all the discussions have been cleared that we are looking at this investment to be in this range and it has been maintained that way for the last four quarters. There is no dramatic volatility there. In fact the ability to maintain that range, lies in the fact where we choose to invest more even if the price is low because we believe this is a strategic asset for the Company and big part of our moat.

Dheeresh Pathak: Very helpful Anuj. Thank you.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: My question also relates to this Inventory & Data Cost, and who is this usually paid to? I mean can you name a few people who this is paid to?

Anuj Khanna Sohum: We work with all the large ad exchanges, over 36-ad exchanges, where the traffic or the inventory & data cost is being paid to as well as a long tail of publishers including premium publishers which are integrated through APIs and programmatically with our system as well. As well as any large walled gardens or platforms like Google and Facebook. The most insightful way to answer this question would be that let us say 100 is the inventory & data cost. Around 85% is going towards the programmatic exchanges, OEMs and network platforms and around 15% is going towards platforms like Google and the Facebook which are also partners integrated programmatically through our platform. That is how we would split this. However, there is no sort of concentration with any one partner here.

Deepak Mehta: So you are saying that it is a wide variety of agencies or exchanges and it is not to a single large company like say Google or Facebook. Is that correct understanding?

Anuj Khanna Sohum: Yes, that is the correct understanding. I would like to say that Affle's platforms and business model works across the entire pie of these spends that an advertiser could do digitally. Whether it is social on Facebook or it is on Google related properties or whether it is a long tail of apps that they access programmatically. Increasingly we are also looking at building strength in direct OEM engagements where the handset manufacturers also are having assets on the device where you could have differentiated touch points with the consumers. We are looking at this holistically and not building or allowing any kind of a bias towards one channel or the other. For us, the end point is the consumer. Let us say you are the consumer and on your phone, you may have 20 different apps that you use. It could be an OEM app or Facebook or Google apps, it could be long tail of other apps, but we will find the most efficient way to find the conversion with you for our advertisers in an unbiased way. Our algorithm would work and not be wanting to work with one publisher more over the others. We are quite neutral and are not dependent on any. Tomorrow if let us say some new publisher comes and becomes important in the ecosystem, Affle will work with them as well. We are not married to anybody on the publisher's side.

Deepak Mehta: Sir, just a suggestion in future investor releases if you could give us a breakup between the India P&L and overseas P&L. That could also help us understand the business better because I believe that a lot of these data and inventory cost relates to lot of the overseas acquisitions and overseas businesses. While India, I think is on a steady state basis generating much higher margins. So just to help us understand the business better this is the suggestion. Thank you very much and all the best.

Anuj Khanna Sohum: Thanks for the suggestion. We will take it to our board and take their view on it as well but appreciate your thought process.

Moderator: Thank you. That was the last question. Over to you Anuj for closing comments.

Anuj Khanna Sohum: Thank you everybody for taking the time today and I hope and wish that June 1, 2020 onwards would be recovery towards greater growth for all industries and businesses. Wish all of you and your families to stay well and we look forward to the next call with the results of Q1 FY2021.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this call for today. Thank you for joining us. You may now disconnect your lines.

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