Affle (India) Limited

Q4 & 12M FY2021 Earnings Conference Call

May 31, 2021 at 10:00AM IST

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. Hardik Sangani – ICICI Securities

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Q4 and FY2021 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '1' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Hardik Sangani from ICICI Securities Limited. Thank you and over to you Sir!

Hardik Sangani: Thank you Janice. Good morning everyone. I hope everyone is keeping safe and well. On behalf of ICICI Securities, we welcome you all to the Q4 and 12M FY2021 conference call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited represented by Mr. Anuj Khanna Sohum who is the Chairman, Managing Director and Chief Executive Office and Mr. Kapil Bhutani who is the 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 maybe forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide #17 of the company's earning presentation for a detailed disclaimer. I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thanks and over to you Anuj.

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

Affle concluded another landmark year with our continued focus on sustainable value creation. I am incredibly proud that we successfully delivered our promise to hit the 3 centuries and achieved 103crore+ PAT, 103crore+ Cash flow from Operations and 105million+ conversions in FY2021.

We are a young entrepreneurial company with a pioneering vision and a passionate leadership executing on our Affle2.0 strategy anchored on 2Vs (Vernacular and Verticalization) and 2Os (OEMs and Operator) partnerships. We have a consistent track record across India and global emerging markets. Affle is 'Built to Last'. We are committed to our vision of reaching over 10Bn connected devices in this decade ahead.

Changing macro landscape with greater consumer adoption of mobile & connected devices is increasingly driving the advertiser budget shifts towards ROI and data focused mobile marketing. Global brands and app marketers are increasingly engaging with us, for powering their mobile-first digital journey and delivering them high value business outcomes.

Affle delivered a broad-based growth coming from both CPCU business and Non-CPCU business, from existing and new customers across the Top-10 industry verticals in India and global emerging markets. The CPCU business noted strong momentum delivering 29.6 million conversions in Q4, an increase of 81.7% y-o-y and taking the total converted users delivered in the full year to 105.3 million.

Our tech enabled platform-focused innovations as part of Affle2.0 strategy played out well in FY2021. We successfully integrated our platforms, teams and IP Portfolio to unlock innovative vernacular consumer experiences and deeper verticalization across key customer segments. We also augmented our mobile OEM & Operators partnerships to power an open internet connected ecosystem. This has further strengthened our consumer platform and enabled greater ROI impact for our advertisers.

Our efforts towards enhancing our human resource capabilities and building local on-ground presence in some of the international geographies are also paying off well and driving traction for the business.

Affle Platforms have been consistently recognized in the industry as top performers and were recently awarded 51 wins across categories & geographies in the latest edition of the AppsFlyer Performance Index 2021. Affle continues to also be recognized as a Great Place to Work by the Great Places To Work® Institute in 2021. We take pride in our values to build an inclusive culture that boosts innovation, collaboration, learning, fun and entrepreneurship!

We thank all the investors and shareholders for their support to our strategic fundraise process. We had an approval to raise Rs. 1,080 crore, of which we decided to allocate Rs. 600 crore in QIP. We see this underpinning our growth and global expansion plans while we continue to evaluate credible inorganic opportunities that shall further enhance value for all our stakeholders.

We also remain in deep gratitude to our teams whose endless support even in Covid times led to our all-round consistent performance. Affle has been highly responsive in ensuring its employees safety and also contributed in well-governed covid relief funds to support the community at large.

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

Kapil Bhutani: Thanks Anuj and a warm welcome to all the participants on the call today. Wishing everyone a good day and hope all of you are keeping safe in these COVID times.

Continuing our y-o-y growth momentum - In FY2021, the Company reported Revenue from Operations of Rs. 5,168 million, a growth of 54.8% y-o-y. Our Q4 FY2021 revenue stood at Rs. 1,416 million, a growth of 76.9% y-o-y.

Our EBITDA for FY2021 increased by 46.4% y-o-y while the Q4 FY2021 EBITDA increased by 63.4% y-o-y. Although our third quarter in any year is the highest quarter due to business seasonality driven by festive sales and therefore, Q4 vs. Q3 (sequential comparison) will not be a good way to analyse. However, if we just compare our OPEX sequentially, our overall OPEX has come down. Our Employee cost sequentially was stable. Our Inventory and Data cost in Q4 FY2021 was at 57.4% of revenue from operations vs. 57.9% in Q3 and in line to Q4 last year.

Our minority investments have done well. We exited Indus OS while continue to be invested in Bobble AI. We recorded Gain on these investments in Q4 FY2021.

Pursuant to the introduction of the Finance Bill 2021, we had a one-time tax expense as 'Deferred Tax liability on Goodwill' amounting to Rs. 11.52 million in Q4 and Rs. 14.18 million in FY2021 due to change in the tax base.

To provide clarity on our business operations, we have Normalized Profit After Tax for the mentioned one-time Items, in our Earnings Presentation uploaded on the Stock Exchanges and on the Company's website.

Our Normalized Profit After Tax for the year was Rs. 1,031 million, an increase of 57.4% y-o-y. Our Profit After Tax for Q4 FY2021 was Rs. 265 million, an increase of 73.6% y-o-y. Without adjusting for one time Items, our Profit After Tax was much higher.

We remain focused on working capital management and our collections have been robust throughout the year. Our cash flow from operations was Rs. 1,030 million in FY2021, a y-o-y growth of 43.4% and the adjusted OCF-to-PAT Ratio was 100%.

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

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

Hardik Sangani: In terms of the new pricing changes such as Google's cohort-based advertising, what is the possible impact that may come in the advertising industry as a whole and how will it affect our operations? Secondly, wanted to get a breakup of organic and inorganic revenue on a Y-o-Y basis in Q4 and overall for FY2021. Lastly, in terms of investments, are we looking to enter into specific segments from the recent QIP proceeds?

Anuj Khanna Sohum: Thanks for your question. In regard to whatever Google is doing, we are not an immediate competitor to Google. On the contrary, most of the advertisers typically spend their budgets on digital advertising very differently, marking certain parts of the budget that go to Google/Facebook or their related networks. The teams looking at those budgets are usually different from the teams that look at the non-Google/Facebook part of the pie. Therefore, the non-Google/Facebook part of the pie continues to grow consistently. Most of the analysts in developed markets where digital advertising is a much bigger part of the total advertising, have opined that the non-Google/non-Facebook part of the pie is growing at least as fast as the overall digital advertising pie, if not faster. We are also seeing similar dynamics in emerging markets where we are partners with Google. The advertisers working with us can also spend some parts of their Google/Facebook budgets and sign on to our platforms to deliver conversions. Hence, we have no concerns about whatever Google/Facebook might continue to do as every platform should continue to innovate and evolve. At this moment, we are fine with co-existing, the addressable market is very large and such has been the case for last many years. The market dynamics are well settled and we are not head-on competing with Google or Facebook.

In response to your question related to QIP and strategic investments going forward - As a company, we have delivered a successful track record of executing M&As and minority investments. We are extremely prudent in managing our investments, integrating them and turning them around to become more profitable growth-oriented companies, powered by our tech and

IP integrations with them. We have a robust growth strategy. Therefore, QIP was also premised not just on inorganic growth but also on organic growth and expansion plans of the company. So, we are looking at expanding into new geographies and also doubling down on our 2Vs and 2Os strategy in the existing markets. We also continue to evaluate target companies and always had a long courtship period before making any investment. We have a mature pipeline and as and when we will find the right target, the deal dynamics will emerge. We will do the disclosures and announcements for the inorganic plans accordingly. In terms of the revenue mix - organic vs. inorganic, last year was a phenomenal success for us on all fronts. So, qualitatively we have put every single business unit that we own on a strong growth trajectory and also ensured that on a per business unit basis, we achieve profitability and cash flow positive performance, which I am extremely proud of. When you acquire a company, eventually you have to turn it around and we have a shown a strong track record on that front. Now over to Kapil to give some specific numbers with respect to this quarter on organic vs. inorganic.

Kapil Bhutani: Thanks Anuj. For Q4, we have about 18% revenue contribution coming from inorganic and about 7% PAT contribution from inorganic. This is the contribution of the Appnext, which was acquired last year in June. Mediasmart was acquired in Q4 last year and is a part of the organic growth this quarter.

Hardik Sangani: Thanks Sir. A follow-up question, in Q4 we have typically seen a greater decline in the past, but seasonality effect this quarter has been lower. Any specific reason for that?

Anuj Khanna Sohum: October, November, December quarter is typically the highest quarter for any advertising company business and Affle is no different. This consistent pattern can be seen in our last year's earnings presentation. Also, October, November, December in 2020 were more balanced out because of COVID. The advertisers put bigger budgets during that time because of Diwali, Christmas and school holidays. This year they balanced it out a bit between Q3 and Q4 which was already anticipated. The overall growth momentum of our business in Q4 has been really strong on all parameters including our consumer platform business, CPCU and Non-CPCU business, in the existing and new markets. It has been an all-around positive growth and that is why this Q4, the CPCU growth is over 80% in terms of the number of conversions that Affle delivered. This has boosted our confidence that everything is going well across industry verticals, existing and new markets. We should analyze on the standalone basis or Q4 to Q4 basis for a deeper comparison and not spend too much analysis on Q3 vs. Q4 for this time.

Hardik Sangani: Thank you.

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

Rishit Parikh: Thanks for taking my question. Firstly, how do we see growth in the next year panning out as some of these markets will start to recover in terms of spending? We have got an international presence plus we started to invest in as well, so how do we see the growth between international and India and also between mass and retargeting? What are the key drivers in each of these markets that would attribute to the next year?

Anuj Khanna Sohum: Thanks Rishit. We have always stayed away from giving short-term guidance, but the outlook for the immediate next year as well as for the next five years is extremely optimistic for Affle. Let me give you some macro insights on that and then I will drill down further on our specific situation. In terms of emerging markets specifically in India, the total mobile marketing spends as a percentage of the total advertising spend is around 20%. In developed markets, most of the mobile marketing digital spends are already at about 50% of the total advertising spends. It tells us that we will experience a similar pattern or an accelerated pattern of growth because of the COVID situation as the advertising spends in emerging markets like India will move from 20% of the total ad spend to 50%. This might happen in the next three odd years is my opinion. Our outlook is extremely optimistic because the advertisers have no choice but to spend on mobile and digital smartphone-connected devices to get the attention of the consumers. The consumers thus have accelerated their adoption curve with respect to all kinds of lifestyle services across our categories E, F, G and H which are E-commerce, Entertainment, Education, Fintect, Foodtech, FMCG, Government, Gaming, Groceries, Healthtech and all of these categories contribute over 90% of our revenues. The adoption of the consumers on these categories will continue to increase and they will do more new, repeat, online and offline conversions. We will see an all-around balanced growth across these parameters. In terms of specific clarity, ever since we went public or even before that during roadshows, we have always consistently committed to deliver at least 25% CAGR growth over the next five years. Affle has grown substantially since IPO over the last two years and the base keeps changing. Even with the new base, we are committed to y-o-y as well as CAGR growth of about 25% to 30% for the next five years. The growth is largely anchored on the fact that the macro factors are playing with massive tailwinds and continued momentum in Affle's business especially across emerging markets. In terms of India and international business, the current balance is about 50%:50%. We see that India will also continue to grow at a good pace and the international markets would grow ahead of the average growth trends in those markets. We are a global platform and are relatively smaller in those markets and the number of geographies is quite a number. We have no restrictions in which geographies we can deliver business. We can say that going forward the shift should be in favor of international markets in the 60%:40% approximate range as we go through the next year or so and find a certain balance over time. But I am also surprised to see that how quickly and deeply we can grow within India on vernacular and verticalization strategies and eventually end up with a better balance in favor of India. So, the balance will certainly shift in favor of international in the long term. Hope that answers your question.

Rishit Parikh: Surely it answers. Which are the other international geographies that we are planning to get into? Also, which are the key geographies where we are planning to have a much larger dominant presence similar to where India is today for the Company?

Anuj Khanna Sohum: We have the rightful business plan, business model, technology and team-based differentiation to establish ourselves as one of the market leaders within most of the global emerging markets, as the Affle's key strategy. In India, we are already there. We look to achieve this in Southeast Asia, Middle-East Africa and LATAM and this will be both organic and inorganic. We must make sure to execute on our focus towards other emerging markets. As we do that, we are seeing very interesting opportunities to enter into niche positions in developed markets like North America, Europe, Japan, Korea and so on. We are placing very calibrated bets and are seeing a global opportunity for our business where our strong position in India should give us a clear right to establish market leadership across all emerging global markets. As we know, India is one of the toughest emerging markets in the world and if we can achieve it here, we should be able to do that in other global markets as well. It will go in sequence to Southeast Asia, LATAM and Middle East Africa and some others in the next few years. We should be able to achieve that and we are also not leaving developed markets out of our purview. Let us make sure to go very niche in certain verticals and segments and to give the more established players in developed markets a run for their money because we are exceptionally competent to deliver business in developed markets as well.

Rishit Parikh: Will the developed market strategy largely be driven around Appnext, Mediasmart essentially? Is that the trend?

Anuj Khanna Sohum: Each platform of ours and capabilities is equally relevant globally. It is not that some platforms are only for emerging markets and some are for developed markets, but we may deploy a different strategy. When we get into a new market, we may choose to enter with a particular set of strategies over others. We always optimize it accordingly. Our thought process is to go in with one and then everything else follows behind it. We do not limit ourselves by execution strategies and we are not concerned with which way we go first. All our platforms are given the prioritization that helps us dominate emerging markets and also keep an eye on developed markets and execute on them. We do not limit any of our platforms from global possibilities and all our platforms have deep execution capabilities. Also, if you look at our management team, we have a very global management team with proven execution capabilities and by no stretch of an imagination limited to any particular geography.

Rishit Parikh: That was very detailed. Last question on the risk side. How do you see the ecosystem changing and responding to the change in Google's and iOS privacy policy changes in terms of data, apps may collect and keep notifying the users on the same? Also, how are we placed in terms of investments as some players like InMobi, one of the competitors who is getting into a more data strategy, to own the data by getting into products like Glance, etc.? What is our strategy and how do we think we are placed in that ecosystem? Thanks.

Anuj Khanna Sohum: Firstly, we have to look at the fundamentals of the business model that are already at play. Whenever advertising is happening on digital, it is always for the benefit of the consumer, getting service on an app or a website either free or subsidized. That is why the consumers would typically opt-in. Now, iOS and Google are saying that we need to ensure that the users are opting in and users are better informed by each of these apps which are delivering an ad. So, the opt-in has to be done properly. We are well supportive of that, as an industry to progress to - consumers should know why they are giving consent or not. All of us as individuals on our phones would have experienced while using an app or when we land on a website, the privacy statement and it wants us to kindly accept. We move on most of the times and quicky accept it in order to access that app/website. That is the behavior pattern of all consumers. As we have some business in the US, we are also seeing that on iOS14, we can take some of the data and sample it on a statistically valid sample size to see that a lot of consumers are giving consent for a good number of apps and services. Therefore, the ecosystem will fundamentally need to go back and see if the consumers are willing to pay & not give consent to see ads, or are they willing to give consent and use the ad subsidized app. Here the interesting point is that the developed market consumers will behave slightly differently from emerging market consumers. Any sample testing that we have done in emerging markets like India or others in the world to say if you will opt for an ad subsidized app vs. if you reject the ad consent, you will get a more expensive version of it. Consumers in emerging markets are more than willing to give consent. We are not so stuck about it. Of course, the segments of consumers who are worried about their data would be smaller. Once the consumers give consent then it is business as usual. For consumers not giving their consent, there are other ways of behavioral targeting. If there are statistically large enough samples of users whose data is being processed through the system and if you are able to run your algorithms, then you can say that device A will behave in a certain way. We have no deep data on an individualized basis, but we have some cohort-based broad analysis. So, we should still be able to do meaningful advertising on those devices as well. At the moment, we are not seeing any dramatic changes in emerging markets happening because the iOS impact is very low in India and Google has not followed iOS so quickly. Google would probably take some time before they follow iOS14. By then, Affle would have already built a fair amount of adaptation with respect to these changes. Therefore, there is no immediate impact otherwise we wouldn't be so optimistic about our forward guidance for the next three to five years. Our OEM and operator strategy adds another layer of defense on this. The OEMs and operators have a lot of autonomy with respect to android devices especially in emerging markets. When we partner and make them our stakeholder in terms of the monetization possibilities of advertising revenue in this ecosystem, we get deeper insights. In terms of gaining access to data as you mentioned for InMobi, it is doing something like a Glance and working with OEMs for one of the products. They are going more into content apps similar to TikTok, Roposo, while Affle has gone deeper on the utilities like the keyboard. We are going deeper into that by investing, owning and monetizing. Hence, gaining deeper insights. Let me give you one simple insight - a keyboard on a device is used more than 100 times by each of us on an average per day across every single app that we have on our device and the keyboard must show up. But the minus one screen or some other content screen has a very limited touchpoint with the user. Even if someone is viewing video content for 15, 20 or 30 minutes in a day, it would still be one of the contexts of the experience whereas the keyboard is used across all kinds of contexts of the E, F, G, H categories or even more. Therefore, our approach and strategy on that front is sound with respect to vernacular & verticalization. This is the reason why we have investment in Bobble AI. We are executing deeply on our 2Os i.e. OEM and Operator Partnerships and 2Vs i.e. verticalization and vernacular strategy for global emerging markets. Our strategy is clear for the growth journey ahead.

Moderator: Thank you. We will take the next question from the line of Mridul Shah from Amara Capital. Please go ahead.

Mridul Shah: Congratulations on a fantastic year. How do you see the Ad tech market shaping up in a broader sense especially with respect to the efficacy around the targeted marketing? Do you see the digital ad space market continuing its effectiveness? One of the articles compared the digital ad space market to the subprime crisis of 2007. How do you see it shaping up in the broader sense?

Anuj Khanna Sohum: Let us look at the two macro factors - the advertising must only happen where the consumer attention is. Consumer attention is deeply on smartphone-connected devices. Other mediums like TV, print, radio are falling short by a mile in terms of catching consumer attention vis-a-vis digitally connected devices. When we view it from the lens of two particular consumer segments, one is the youth who have no interest in anything but a connected device from a media consumption point of view. The other is the rural audiences who due to limited affordability, would probably invest in owning just a single connected device. They will use that for all forms of lifestyle, business needs as well as personal, entertainment or consumption. There is no doubt to me that the advertisers have no option but to spend on digital advertising. Now the efficacy of digital advertising with consumer privacy taken care of, is a very sensible balance that needs to be achieved. The governments on that have said that there needs to be data privacy law and personal data protection act. It started in Singapore, Europe and the US. There consumers had a regulatory right to give consent or to withdraw the consent and that consent was being managed on a broad basis. Now, iOS14 particularly impacting developed markets said that the consent has to be much more explicit and all of these trends have already been behind us. Though iOS14 verdict still needs to be out, but initial trends suggest it is not going to stop the advertisers from spending more of their advertising spends on digital. It will certainly not stop the consumers from using the services that they want to use without paying for them by consenting to take ads. We are reasonably confident about the macro factors. In terms of how exactly will this pan out and what will happen with Google/Facebook. That is a separate issue because they are advertising companies later but first and foremost they are consumer services where they are directly taking a lot of data from the consumers and are always under the radar from a regulatory perspective. If I may say, what Apple is doing is much more targeted towards Google, Facebook than anybody else. The competing forces as well as regulatory forces are going to trim or contain the abilities of the larger players in the market and the rest of the players will become beneficiaries of that because the budgets would spill over in greater favour of the open internet ecosystem. In the US, which is the largest digital advertising market in the world with so many listed companies in the space, even their analysts are bullish despite 50% of the market being exposed to iOS14. The macro factors are supportive and the emerging markets are android heavy. Google is completely a digital advertising business model-focused company. They are not going to do something that will derail its business ecosystem. In partnership with OEMs and operators, we also hedge our risk substantially from anything that Google might do on its android platform. When you partner with the OEMs, you get on-device insights that do not necessarily require Google's permission because it does not go through the Google Play store ecosystem all the time. This is how we are keeping ourselves balanced. We have seen massive shifts in the ecosystem of Nokia, Blackberry but we have not seen any change in the consumer adoption of mobile devices. Over time, the consumers and advertisers adoption has only grown. Therefore, the rest of the ecosystem may fluctuate but Affle is extremely grounded in entrepreneurial resourcefulness and how to maneuver and deliver value and growth in this ever-changing ecosystem.

Mridul Shah: Completely agree. Just a quick follow-up on what gives you sleepless nights? Do you fear any technological disruption, or do you see any new synergies coming into play?

Anuj Khanna Sohum: I deeply care about our team and people at Affle. Our numbers are always growth-oriented and strong, irrespective of COVID. There is no doubt in my mind that we will continue to deliver financially strong performance but what I care deeply about is people at Affle and especially when they or their families are unwell. How do you lead in such a time with empathy and concern? That is sometimes concerning. You are forced to surrender in such times because you can’t control everything. Just because you are the CEO or the Chairman, you cannot solve every part of the puzzle. Sometimes you must let things happen and you can only pray & hold on to things. We were deeply affected by the loss of one of our colleagues last year. This year many people at Affle have lost their family members but fortunately, we had no loss of any Affle employee. What I am coming down to is that how we have built a thriving culture where we take care of our team, carry everybody together as stakeholders, not just help them in their career growth but also the wealth creation journey. Affle is extremely grounded on that, sharing and carrying everybody along together. Throughout COVID, we did not have any cost-cutting or any measure that would be unfair to the employees. Rather if you see our OPEX side, we consistently made efforts to ensure that bonuses/appraisals are given on time. We have gone a step ahead and paid advances to people whose families were affected, gave loans from the company if needed and so on. Thus, culture of the organization is what we deeply care about. Today, we are almost 400 people strong across many geographies. We are making sure that in these tough times when people are not coming to office, they are still connected and deeply invested in making sure that we build a very solid culture of togetherness and care. People know that if you stay at Affle, then we all will grow together along with our families end everyone will be safe and taken care of.

Mridul Shah: Right, great to hear that. Thanks Anuj and wishing you and the team all the very best!

Moderator: Thank you. The next question is from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: Anuj, I have two questions. Firstly, I want to understand about connected TV strategy, which is quite exploding and revenue from them is increasing much faster than the mobile advertisement. Secondly, how are we trying to tackle that?

Anuj Khanna Sohum: On your first question - the comment that you made is largely true for North America as the leading developed geography. It is not entirely true for emerging markets like India where connectivity is still at a nascent stage. Though Affle has already launched its products, propositions and partnerships strategy for connected TV. We are early stage, but are watching this space closely with emerging markets like India specific and other emerging market-specific lens. We are comfortable with where we are in the space and hence, are not reacting to it in any delayed sense. We have been proactive, early and are investing in that space. We see it as a long-term growth story even in emerging markets but unlike in developed markets where it is on the bigger TV screen and the connected TV. We will see a lot more mobile-based consumption of OTT in the emerging markets. There are multiple ways to define connected TV and there is a massive opportunity for growth. We are investing in it holistically and are on top of the game as we have a dedicated team which is just looking at that.

Vikas Mistry: That is helpful. Our data costs are quite high as compared to global peers because we are operating on the CPCU method. Going forward, do you think that as operating leverage kicks in and as algo data richness increases, can we hope the data cost to decline and algorithms will become more efficient?

Anuj Khanna Sohum: The data costs in any emerging geography will be relatively higher because of the larger population in emerging markets. We have a higher per capita usage of mobile apps and devices in emerging markets vs. the revenue. So, let's compare the value of one user conversion in India vs. the user conversion in North America. And what is the average data being generated by the user in North America vs. an average user in India. We will find that the data generation in India is larger than the data generation in developed markets because data plans are cheaper, there are a lot of people and they have a lot of time. In developed markets, the cloud computing cost, the server cost on platforms such as Amazon Cloud, Google Cloud, or Microsoft Cloud, etc. do not say that the server or data is coming in from Indian devices or they are going to charge us lesser for processing on bandwidth and server processing power, compared to if the data is coming anywhere else. So, when you talk about large scalable humongous volumes of data especially India and on low unit economics of revenue, you will find that Affle is exceptionally competitive. Affle has a strong unit economic model delivering profitability which is a big competitive advantage when we go into developed markets. Because you know we will find that we are getting paid more, our cost is lesser, our profitability could be higher. For various such reasons, we had chosen to focus on emerging markets largely. We will slowly open that comparative advantage in developed markets as well overtime.

Vikas Mistry: Last question. We have done acquisitions of Mediasmart & Appnext and they are newer businesses with low ROEs. Affle has improved them significantly leading to their margin expansion. What will be our strategy going forward in terms of acquisitions? Are we going to buy out mature businesses or Salesforce kind of acquisitions or something capability kind of acquisitions?

Kapil Bhutani: As you might have noticed our acquisition strategy over a period of time, we have acquired more technologically focused businesses. But Geographic focus was the second main reason. As we go forward, the geographic expansion would be the main dominant factor for us than the technological factor because we have all the key stacks in our tech platforms at the moment.

Vikas Mistry: That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Thanks for taking my question. Congratulations Anuj on a great year. Thanks for the clarity on the iOS and android privacy. I have a couple of questions. First is, as you said that Google might take another two to three years to introduce privacy measures like Apple did for iOS. So, do you see the accuracy of mobile advertising reducing over the next two to three years as more and more privacy norms are released, thereby impacting our realizations or increasing the data acquisition cost?

Anuj Khanna Sohum: Short answer to that is no. First of all, our business is calibrated and anchored on emerging markets. Thus, we are deeply android skewed and in that sense, we are insulated with respect to changes happening in iOS14 in developed markets. Since iOS has a very little exposure or market share as compared to android, in emerging markets, thus we are deeply insulated from those changes. That gives us a huge advantage and privilege because we will be able to analyze what is happening in iOS14. Using that knowledge, we can build models, predictions, action plans with respect to what might happen on android if this were to be done in a few years time on android as well. Now android and iOS are very different ecosystems because iOS is completely in control of Apple. Apple can make any change if they want whereas on Android, Google has to work with OEMs and consider their factors because each of them has varying levels of control and autonomy with respect to what they do on their devices. Affle is already deeply partnered with operators and OEMs across emerging markets and therefore, we are making sure that we have much deeper capabilities and insights with respect to any future changes that might come. The second difference between these two ecosystems from a larger emerging market vs. developed markets perspective is that the consumers, people like you and me are much happier to give consent and have a cheaper ad-funded experience vis-a-vis developed markets where there would be more proportion of users who will be willing to pay for it but will not want to see an ad. In that sense in emerging markets, we expect a much higher percentage of consent vs. that in developed markets. Therefore, once the percentage of consent reaches a certain statistical threshold then it does not matter because our system does not work necessarily on each device and already works on aggregated insights. You and I may have never met, but you and I might be behaving so similarly on our mobile-connected devices. There are a few hundreds of consumer segments and patterns, which most people conform into. As long as we can gain that level of statistical valid sensible capabilities, then the systems would work and perform and will not see any efficacy issues. Hope that answers your question. We are pretty confident that a) the changes on Android in emerging markets will take a fair bit of time to happen and even when those changes happen the OEMs and operators would have a say and we in partnership with them would have an ability to gain deeper insights and b) there will be enough and sufficient statistical sampling of consumers who will be giving their consent because of the fundamentals of achieving a cheaper ad-funded service vs. non-consented, non-ad funded premium service.

Mayank Babla: Thank you for this answer. My second and third question is regarding what would be the latest employee count and when is the next wage hike cycle be? Please throw some light on why the finance cost is slightly spiked in this quarter? Also, if you could give the EBITDA margin profile in this quarter?

Kapil Bhutani: As Anuj mentioned, we have 400+ employees around the world today. The major appraisal cycle will happen in October. We had shifted the April appraisal cycles last year for unifying it with October cycle. We earlier had two appraisal cycles. There would be a small percentage of employees who got their increments in the April cycle also. Thus, the effect is seen in Q1 as well. On the EBITDA margin, the (adjusted) EBITDA margins are about 18% to 20% on forecasted basis for the Appnext side. On the finance cost, there are two elements to it, a) the financing was taken by the company to do an acquisition of Appnext last year, which was about USD 10 million in Singapore and the cost is coming from that side. Secondly, the contingent consideration which is to be paid over a period of three years on these acquisitions is discounted for fair value & present value and this cost is reflected in P&L. This is an non-outgoing cash, but is accounted as an interest item for the present value of the liabilities due in future for more than two years.

Mayank Babla: Thank you and best of luck for the next year.

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

Rahul Jain: Most of my questions have been answered. Just one question - any clarity on the inventory base and eventual CPCU rates in the domestic market? Are we seeing any uptake, downtake on these parameters? Our check suggests that inventory cost in general is going up, so are we getting commensurated with higher CPCU on an incremental basis? Secondly, the iOS14 impact on the Affle's International market, though we understand India is largely an Android market but an overall exposure for us?

Anuj Khanna Sohum: Firstly on the CPCU rate, we have been holding steady and our strategy is clear that we are going for volume, scale and growth. When we do that, we automatically derive certain efficiencies along the way. We are not trying to change our CPCU price too much and giving higher ROI outcomes & benefits to our advertisers across the industrial verticals. In terms of the inventory rates, the observation that the inventory rates are going up is not true. We have a natural leverage because we are a larger player in emerging markets. We should be able to keep our margins at similar levels. Secondly, our business in international market is disproportionately focused on emerging markets and we do very little business in developed markets. Our exposure on iOS would be not more than 5% to 10% and even on that 5%-10% exposure, we do believe that we have already got the necessary innovations and initiatives to keep our customers continue to spend on iOS. That is because the consumers are not going off from iOS and the advertising budgets still deserve to be spent on iOS. There is also an opportunity that if any advertiser is trying to switch from iOS to android for their advertising budgets, then again we are quite strong. We can either switch them from iOS advertising spends to Android in those markets or upsell more because we have not sold enough in developed markets. Therefore, there isn't any material impact with respect to iOS14 changes. On the contrary, we might even be growing better than some of the other competitors who are deeply seen as iOS14 developed markets players vs. we are seen as largely focused on Android in the emerging markets. Our solutions can be sold more aggressively in developed markets especially when iOS becomes a bit of a doubtful area in case the advertisers are rethinking. We have a better chance of winning larger budgets for Android there.

Rahul Jain: Lastly, can you give any data of the acquired entity such as Mediasmart, Appnext and DiscoverTech? What are the revenue run rates?

Kapil Bhutani: In Q4, Appnext revenue was about USD 3.5 million and Mediasmart was about USD 1.5 million. Discover Tech is negligible as it was pre-revenue acquisition. We expect that its revenues may flow in from Q3 onwards.

Rahul Jain: Right. Lastly, on the Indus OS transaction. Have we received all the money? Also, rationale why we have exited this right of buyback, in just a matter of two months of the transaction?

Kapil Bhutani: On Indus OS, we earlier took buyback rights as we had anticipated a certain growth and realization of profits in the Indus OS investment. We believe it was the right time to surrender the buyback rights with the kind of valuation we were getting. Thus, we exited and made profits as we thought it was the optimal thing to do at the moment. The rationale was that Affle (India) investment philosophy is more strategic in nature while this was seeming as a financial investment and as we thought that the gains are good enough for us to the realize, we did that.

Rahul Jain: But what was the urgency of exiting the rights as well? We kept it for one year and two years option, so was the price was too good to catch up on?

Kapil Bhutani: Yes, the price was good to catch up on. I understand as we move forward, we will need cash for our future growth. Thus, we realized given the timing and on basis of cost-benefit analysis.

Rahul Jain: Right. Ofcourse, we made a strong money on the overall investment but the reason for asking this is when the parent entity (as per the media article) is acquiring more stake in the same company, I do not understand the difference between how we are thinking about the potential of the Indus business vs. how the parent entity is thinking about the same business and are acquiring at much higher price and much higher stake?

Kapil Bhutani: As answered, our investments are more strategic for furthering the business growth and Affle Holdings may invest for financial gains. So, we have opportunities to deploy money in more strategic areas also than just deploy money for financial gains.

Anuj Khanna Sohum: It will be fair to mention that if Affle Holdings is doing any investments, it is their own thesis and decision. It will not be appropriate for Affle (India) to discuss that but would suffice to say that the holding company and the promoter group is deeply invested in Affle (India) and would not do anything, which would harm Affle India's interest. On the contrary, any strategic possibility with any other company that Affle Holdings may have invested in would 100% accrue to the benefit of the listed company. As far as the Affle (India) & its subsidiaries are concerned, we must make sure that our financial and strategic interests are always intact. In regard to the Indus OS transaction, the financial interest has been fully realized and it is a material gain for the company. Therefore, the board decided in its favor. As far as any strategic spillover effect or positive effect, Affle (India) would continue to be the beneficiary of that if it were to ever come with respect to any investment that the promoter group may have done.

Rahul Jain: I appreciate that. Any comment on Bobble AI ? How the investment is shaping up and what are the strategic thoughts on this investment?

Anuj Khanna Sohum: Yes, Bobble AI is doing really well. We are bullish and confident about both the financial as well as strategic gains that Affle (India) would derive from it. We are happy with this investment and are looking forward to continuing it for the long term.

Rahul Jain: Much appreciated. Thanks and best of luck for the time ahead.

Moderator: Thank you. The next question is from the line of Devang Bhatt from ICICI Direct. Please go ahead.

Devang Bhatt: Thank you for taking my question. Firstly, in this quarter our organic growth was approximately 45% Y-o-Y. Are we being conservative in saying that we might grow 25% to 30%? Secondly, our Appnext margin are still at about 7%, so when do we expect it to reach the company level margins? In Q1, some states had restricted the e-commerce selling non-essential goods. So in Q1, can we expect any impact of these e-commerce restrictions or any impact of employee absenteeism?

Kapil Bhutani: There is no impact of employee absenteeism. Yes, we had some employees or their families affected early in the month of April, but as of now the employee strength is fully back. This impact was more with employees based out of Gurgaon rather any other part based in the India. Also, in regard to e-commerce restrictions, we have not seen any major impact which is material during this period. Yes, some adjustments may have happened during the quarter for the allocated advertiser budgets, but there is no indication that there will be a major shift in strategy at the moment.

Devang Bhatt: For Appnext margins, when do we expect to reach the company level?

Kapil Bhutani: On the Appnext margin, when we acquired this business – it was an EBITDA neutral company and in less that one year since acquisition, we have turned it around favorably. We have to be more patient for a higher margin on this. The reason is that it is aligned on the OEM and operator strategy, which needs a larger timeframe to reach where the overall company level EBITDA is. We have been able to successfully turnaround the company to an acceptable level for the year 1. We want our investors to be a little patient for year-and-a-half for seeing better results on Appnext side.

Devang Bhatt: This quarter as per my calculation, your organic growth is 45% Y-o-Y basis. So are we being conservative in guiding only 25% to 30% growth?

Kapil Bhutani: We are not conservative. As previously stated, we have always said around 25% and the statement this year has changed from 25% to 30%. So, this is an indicator of the confidence we have, but we are still measuring the long-term impact. We will need to see how it pans out, before suggesting any major change in our guidance and will reserve it for next few years basis the current trends.

Devang Bhatt: Thank you.

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

Ashwin Mehta: Thanks for the opportunity. Firstly, in terms of capitalization for the development of the top platforms this year as well as this quarter, how do you see that going forward? Secondly, in terms of the growth expectations around 25% to 30% over the next five years, what are our margin aspirations as we see possibly higher international growth/expansion? Over this period, some catch up in terms of the investments and Appnext in terms of margins? Lastly, in terms of the Platform as a Service offering, how has the take-up on that been for us? Thanks.

Kapil Bhutan: Thanks Ashwin for asking these questions. We are on the similar lines as last quarter. But yes, we are rushing on certain strategic initiatives to complete them faster. Hence, the investments were slightly higher in Q4 and will also be slightly higher in Q1. We are trying to close our initiatives by Q1, Q2 for broader growth and taking advantage of the tailwinds which will be beneficial to us. So, we trying to complete the projects a little faster and with that effect, there is a slight increase by 10% on capitalization from Q3 to Q4. We had about USD 1.4 million capitalizations in Q3. It is about USD 1.55 million to 1.6 million in this Q4. We are looking at taking the advantage of the situation at the moment and are bullish for the near term.

Anuj Khanna Sohum: Thanks Kapil. In terms of our overall growth and margin expansion possibilities from the businesses that we already have and in terms of the organic growth - we are clear that our acquired business that have already been successfully integrated over two years or so, we will be able to bring them to similar levels of the bottomline and margin efficiencies as our organic business has been. We have already demonstrated that over time because with a fair number of acquisitions, we are consistently performing not just in terms of growth and CPCU margins, our bottom-line performance has been quite resilient overall. Going forward, as the volume of business grows, we would expect it to continue. But we should be seen as a growth-oriented company where we are also consistently investing not only on our platforms, but also investing in on-ground presence across new geographies. With all of that, we should be able to achieve a similar track record of continued performance. The only criteria that that we need to be watchful is when we have further inorganic acquisitions, we will again have those same cycles of acquiring companies that are perhaps not as efficient and acquiring them as value-based transactions. And then transforming them with our tech capabilities, efficiencies and processes. For a higher level of value creation, there is always going to be that gestation period. Let us say, we do another acquisition in a few months and then we turn it around over the next few years. When we consolidate that together with us, you will see the bottomline margins on a combined basis with organic businesses performing at higher margins and the newly acquired businesses at lower margin. So, it will more mathematical modeling that the analysts or the various investors would be able to do. We are already well on our way to deliver great efficiencies from profitability and cash flow positive execution. Your final question was?

Ashwin Mehta: Regarding Platform as a Service offering?

Anuj Khanna Sohum: On Platform as a Service offering, we have got success in some early proof of concepts where we are in discussions with customers. But it is not material yet. It is still going in the omnichannel and enterprise side of the non-consumer platform business at the moment and we are carefully evaluating that opportunity. There is a big possibility there including in developed markets, but our execution focus, sales teams, relationships with customers are in emerging markets. We are already trying and talking to several customers in their early proof of concepts which we have done with them. It is positive, but it is not a substantial part of our revenue mix at the moment.

Ashwin Mehta: Thanks a lot Anuj for your insights.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I would now like to hand the conference back to the management for their closing comment.

Anuj Khanna Sohum: Great. Thank you everyone for joining the call today and all your questions were highly insightful. I hope our answers have given you a comprehensive understanding and insight into how the outlook for our business remains extremely optimistic. We see it bullish based on the macro factors of consumers adopting and converting more on digitally connected devices and as well as the advertisers spending more especially in global emerging markets where Affle aims to be a market leader. As we continue to keep our execution focus there and also have the adjacent opportunities in developed markets where our platforms and management have capabilities to compete meaningfully. Affle remains focused on sustainable, continued cash flow positive, profitable growth metrics. We hope to unlock great value for our stakeholders. About 25% to 30% CAGR growth on next five years broad basis on a larger base that we are at today is a conservative, but an important commitment from Affle and we will continue to execute on that business plan and deliver growth and value for all of you. Thank you very much and stay safe.

Kapil Bhutani: Thanks, everyone.

Moderator: Thank you. On behalf of ICICI Securities Limited, we conclude the today's conference. Thank you all for joining. You may now disconnect your lines.

*****end*****