AIL/SE/RCT/Q2/2021-22

November 29, 2021

To

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001 Scrip Code: 542752	National Stock Exchange of India Ltd Exchange Plaza, 5th Floor, Plot No. C-l, G Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 Symbol: AFFLE

Dear Sir/ Madam,

Sub: Transcript of the Earnings Conference Call for the second quarter and half year ended September 30, 2021 conducted on November 12, 2021 at 09:30AM IST

Please find enclosed the detailed transcript of the Earnings Conference Call conducted on Friday, November 12, 2021 at 09:30AM IST to discuss the results and developments for the second quarter and half year ended September 30, 2021.

The same shall also be available on the Company's website.

Submitted for your information and records.

Thanking you,

Yours Faithfully,
For Affle (India) Limited

Parmita Choudhury
Company Secretary & Compliance Officer

Affle (India) Limited

Q2 & H1 FY2022 Earnings Conference Call

November 12, 2021 at 09:30AM 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. Aniket Pandey – Prabhudas Lilladher

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited second quarter and half year ended FY2022 Earnings conference call hosted by Prabhudas Lilladher. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchstone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aniket Pandey from Prabhudas Lilladher. Thank you and over to you sir.

Aniket Pandey: Thank you Janice. Good morning everyone. On behalf of Prabhudas Lilladher, we welcome you to the Q2 and H1 FY2022 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 & Operations Officer of the company. Before we begin with the questions, I would like to remind you that some of the statements made in today's conference call may be forward looking in nature and may involve some risks and uncertainties. Kindly refer to slide 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: Good morning everyone and thank you for joining the call today. I trust all of you are keeping in good health.

Affle delivered a landmark performance anchored on our entrepreneurial culture, tech innovations and continued execution focus on sustainable value creation powered by our Affle2.0 strategy. We concluded the recent quarter with highest revenue, highest conversions, highest CPCU rate, highest EBITDA and PAT till date. We delivered revenue growth of approximately 104% y-o-y and 80% q-o-q and achieved Q2 Revenue CAGR of 65.7% over the last 3 year period, much ahead of the industry growth trend. Our CPCU business noted a strong momentum delivering 48.7 million user conversions during the quarter, an increase of 73.3% y-o-y at an INR 51 CPCU rate.

Our growth was broad based across our top industry verticals and from both India and International markets. Powered by our ROI-linked CPCU business model and unique position in the industry, we continue to grow as the preferred mobile marketing company across global emerging markets and beyond.

Our India and International contribution, historically balanced at about 50:50 each has now shifted in favour of International on account of our successful integration of Jampp and our efforts to build local on-ground presence in newer international markets. The contribution stood at about 66% International and 34% India in this quarter.

Our focused execution on Affle2.0 strategy has enabled us to drive deeper verticalization for our advertisers across the E, F, G and H industry verticals. This has strengthened our moat and our Direct customers contribution has grown to 74% of our revenue in H1 FY2022 vs 57% in FY2020.

Our Consumer Platform propositions, tech IP portfolio and all our organic and inorganic investments are performing well in terms of profitable growth momentum and we continue to establish new thought leadership benchmarks in our industry globally. We won 81 recognitions across categories and geographies in the recent AppsFlyer Performance Index. Affle's Appnext Platform was recognized as the Number-1 non-Self Reporting Network platform globally on Retention Index for Android in the Non-Gaming categories and Affle's Jampp Platform was rated amongst the Top-10 platforms globally on the SKAN Index Power Rankings for iOS.

Our consistent focus on R&D and tech IP creation has consistently delivered value to our customers and partners. We are thrilled to be granted 3 recent patent grants in the US taking our total US Patents granted to 6 as on date, with 14 other patents filed and pending across jurisdictions, having many applications and use cases for the future. I am incredibly proud that Affle for the 3rd consecutive time won the coveted 'Enabling Technology Company of the Year' at the MMA Smarties India 2021 (organized by Mobile Marketing Association). This significant win came together with 7 top campaign awards for Affle's innovative mobile advertising campaigns. To ensure deeper understanding and appreciation of Affle's Consumer Platform use cases, we have included three additional case studies in our Earnings Presentation showcasing the power of our platform to deliver consumer conversions and drive value for our customers.

With the fundamental shift happening in consumers lifestyles towards mobile screens and connected devices, we remain optimistic of the global market opportunities and will continue our investments to enhance our market penetration.

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

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

Continuing our year-on-year strong growth momentum - In Q2 FY2022, the Company reported Revenue from Operations of Rs. 2,747 million, a growth of 103.6% y-o-y. Sequentially, Q2 revenue increased by 80.2% q-o-q. We have seen growth in revenue coming across the verticals, platforms and geographies. Our H1 FY2022 revenue stood at 4,272 million, a growth of 90.1% y-o-y.

Our EBITDA for this quarter stood at Rs. 521 million, an increase of 51.1% y-o-y and 48.6% growth q-o-q. EBITDA margin stood at 19.0%. Our EBITDA margin is lower than the previous period on account of the business combination of Jampp. Going ahead, we are confident of further optimizing the business model and the platform of Jampp, to enable margin expansion over time.

We will continue to invest in our teams to deepen our market penetration and enhance our tech capabilities. We have recently floated our Employee Stock Option Scheme (ESOS) and granted the options to key team members across the Group. The response from the team members is encouraging on the options granted.

Our Profit After Tax for the quarter stood at Rs. 476 million, a y-o-y increase of 77.1%. Normalized Profit After Tax after adjusting for the gain on fair valuation of financial instruments was Rs. 420 million, an increase of 56.3% y-o-y and 47.2% q-o-q.

We remain focused on working capital management and continue to see robust cash flows from revenue. In this quarter, we utilized our IPO proceeds for the stated purpose of working capital, for which we had seeked an extension from our shareholders.

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 Aniket Pandey from Prabhudas Lilladher. Please go ahead.

Aniket Pandey: Thank you. Congrats Anuj on Affle's great performance. I have a couple of questions. What is the revenue contribution and margin profile of the Jampp acquisition in this quarter?

Kapil Bhutani: We have a revenue contribution of about 30% on the consolidated basis and a little more than 10% PAT contribution, coming from Jampp.

Aniket Pandey: Once Jampp's tech platform gets fully integrated with Affle's platform, will there be any redundancy between Jampp and Affle employees who are completely engaged in the R&D process? Do you expect to repurpose this talent and realize some cost at this moment?

Anuj Khanna Sohum: The integration of Jampp was successfully completed in the last four months post the acquisition was concluded. We are confident that the integration that we have done and the plans that we had prior the acquisition are working well. Consequently, what you see within this Q2 itself is that not only have we managed to grow Jampp through upselling and cross-selling efforts, but we have managed to make it a profitable contributor. Jampp at the time of acquisition was at break-even and now within the first quarter itself post-consolidation, we have achieved about 5% profitability on Jampp's business. Now, as Kapil mentioned, Jampp's revenue contribution was about 30% on consolidated basis and on its own revenue, it is giving about 5% EBITDA margin and the rest of the business of Affle on an organic basis has delivered overall continual momentum of robust growth. On an organic basis, we have seen strong growth of around 34% on revenue y-o-y which is ahead of the industry growth trend and on a normalized PAT basis, around 37% y-o-y growth has been realized organically. Even on the Jampp specific investor call held after the acquisition was done, we had mentioned that it will take us some time before we graduate Jampp's bottomline to a higher level, taking it to mid-teens and then to around 20% in the next one & a half to two & a half years. So, we are confident of what we have done in Q2 where Jampp achieved around 5% EBITDA margin on its standalone revenue powered through Jampp platform. We are already on a good track and trend to build on this momentum as we continue to do further integration of certain technology components as well as the business model enhancements. The outcomes that we had registered worked well for Mediasmart and Appnext, it would also work well for Jampp and we are only getting better at it.

Aniket Pandey: Last question from my side. Previous quarter, you had mentioned that Jampp is expected to be converted to a 100% CPCU pricing model. Is it almost complete, and if not, is there any further scope of improving the price per converted user for Jampp? Thanks.

Anuj Khanna Sohum: In terms of upgrading the Jampp's business model, its fair to say that we had educated all the customers and also done the platform level initial changes. But in terms of driving the efficiencies at which that model is run whether in terms of CPCU rate pricing or with respect to the margin profile of the business, there is still a lot of progressive room for improvement. The way to look at it is that at Jampp's ~5% performance in terms of EBITDA or bottom line contribution for its revenue, our goals are clear. That within this financial year with two more quarters to go, we hope to bring it up to high single-digit contribution. Going forward into the next year, then build it to mid-teens and further closer to 20% in the coming years. That is the playbook that Affle had when we did earlier acquisitions as well and it remains the same for Jampp too. We will see further improvement which will come through further optimizations on the tech stack as well as on the business model. The cultural integration, business model integration and the initial tech integrations have already worked well and showing in this quarter results. We are encouraged by our performance in Q2 with respect to the Jampp acquisition.

Moderator: Thank you. we have the next question from the line of Manish Poddar from Nippon India. Please go ahead.

Manish Poddar: Hi Anuj. Congrats on the good performance. Two questions. Firstly, if we look at our base revenue excluding Jampp, we were at Rs. 1,350 million in Q2 last year and now we are at, let's say around Rs. 1,900 million this quarter organic basis. So, despite that the operating leverage in the business level didn't much kick in. Could you help me understand if we are passing out the incremental pricing to get more volumes, to achieve higher scale?

Kapil Bhutani: Our gross margin is quite stable, excluding the dip in the gross margin which is reflective of the Jampp acquisition and consolidation. The leverage of the efficiencies which you are not seeing, is because it is getting invested in our human resources to expand our markets and broaden our growth pace. We will continue to invest whatever leverages we are getting into the expansion of the business. We have consistently maintained that Affle is a growth organization and we will continue to invest in its processes as well as manpower to continue our growth momentum.

Anuj Khanna Sohum: The fact that the normalized PAT growth from the business which is about 37% plus is reflective of how we are performing. Our strategic investments in growing our presence globally and strategy for deeper verticalization execution across emerging markets as well as certain developed markets, is working out well. We are seeing an expansion in EBITDA and profit on an organic basis on the back of strong, consistent investment in our organic growth and expansion. The focus of the company is on the Affle2.0 strategic vision which is to grow the business consistently for the decade ahead. I believe the foundation in terms of the tech stack, acquisitions, IP portfolio and all these investments are working well. Now it is being backed up further by the on-ground presence and drawing our team's capability in those markets so that we can establish our increasing market leadership across key verticals where we are strong. It is consistent execution strategy and I am happy with the way things are responding and our belief in the stock option plan. I take immense pride in the way the organization is executing.

Manish Poddar: That is true. The cash on books as of date is roughly about Rs. 5,500 odd million. Can you help me understand how this cash book would be at the end of this year or for some time next year? Also, when is the outflow for Jamp expected?

Kapil Bhutani: We would be organically increasing our cash flow from operations in this annual kitty. If we may decide to make further investments in expanding the business, that will be a cash-out but there cannot be future guidance on that. Positively, there will be an incremental cash increase in the balance sheet from the operations. Coming on to the outflow for Jampp, the initial payment has been done in June 2021 and some in July 2021. The next payment tranche is due in June 2022.

Manish Poddar: To understand that better, post that our cash on books will be around the Rs. 3,000 to 3,500 million bracket?

Kapil Bhutani: The next tranche is not too heavy, it will be in the near range of around USD 8 million.

Manish Poddar: Okay, that's all, thank you.

Anuj Khanna Sohum: Historically, we have funded our acquisitions through internally accrued cash flows. As we continue to grow our profitability and convert that into cash from operations, we will see that a lot of these acquisitions are funded through operating cash flows on an ongoing basis. We expect to maintain a continuous good cash position and a strong balance sheet. When the right opportunity comes, we will do further inorganic as well as organic investments to deliver growth. That is how you should look at us.

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

Divesh Mehta: Thank you for taking my question. In terms of margins of the previously acquired businesses, starting from Mediasmart. Can we get a rough idea of how and where are they in terms of their progress of margin improvement? Also, with respect to Jampp, our current profitability is around 5%, which is on PAT or EBITDA?

Anuj Khanna Sohum: As mentioned earlier in my discourse, if we look at the pattern of the acquisition that Affle has done, we acquired companies when they were at their break-even level or just at the cusp of turning towards profitability. Then, we have a clear path to bring them to a high single-digit level of profitability in Year 1 and to mid-teens in Year 2. By the time we are in Year 3, we want them to be at the same quality of unit economics that we enjoy in our organic business. With respect to Mediasmart as well as Appnext or any prior acquisition, the phased plan to improve the bottomline contribution of the business has worked well for us. It gave us the confidence to then continue to do a bigger transaction of Jampp and further transactions with companies based in North America, South America, etc. The larger transaction side was backed by the fact that our track record in the execution of inorganic acquisition is solid and boosted our confidence. Similarly, it is with Jampp now. Your question on Jampp's 5% is a bit opaque. I would say, looking at it from both lenses, and very granularly tracking that, about 5% on EBITDA and PAT growth should not be dramatically different. You can take it as around 5% of EBITDA at this moment.

Divesh Mehta: Okay. In terms of previous acquisitions, while you have highlighted that they are going well on track? Just to quantify it in some way, again exact numbers cannot be mentioned but looking at Mediasmart and Appnext, are we already in a range of 10% to 15% EBITDA level. I don't want exact numbers but on the directions side?

Anuj Khanna Sohum: Yes, that is correct. Both these acquisitions are now in Year 2 and we are heading for mid to high teens in terms of margins at the bottomline level. It is going as per plan and was mentioned in our commentary too, that all our organic as well as inorganic investments are performing well in terms of profitable growth momentum. The momentum and trendline is doing well on every granular aspect for the investments we had made. We are confident that it is a broad-based growth happening across markets and across customer verticals. Our teams are well-aligned to achieve those goals, their KPIs, incentives and now adding to the top are the stock options which are keeping the organizational execution completely aligned to these goals.

Divesh Mehta: Last question, in terms of our expansion into other geographies, how are we doing there? Have there been any in-roads and any qualitative commentary in terms of us getting into some big clients or something which we can see to get an idea of how are we progressing on that front?

Anuj Khanna Sohum: Starting with the qualitative aspect, it can be seen with the fact that our key platforms are achieving strong recognitions, whether it is the industry indeces or the industry awards, the kind of customers campaigns winning accolades for us consistently as well as indicated qualitatively in the case studies that we have shared. In the last earnings presentation, we had shared three case studies. This time we have added three additional case studies to give a much clearer qualitative glimpse of what is happening on the platform, what are the capabilities that Affle has and how are the customers are benefiting. We are trying to ensure that you build a deeper appreciation of what is fundamentally happening at Affle, beyond just financial numbers. That is an interesting effort from our side to ensure that our investors deeply appreciate and understand the power of our platforms and how we are doing across emerging markets, not just India, but Indonesia and Malaysia case studies were shared too. We are progressively looking at the planning of the Analyst/Investor Day which will come soon and more insights into more markets can be shared. The broad-based growth and the verticalization strategies are working well. They have strengthened our moat alongside building our confidence to go ahead and invest in people on-ground presence in those markets. We will do that when we are sure. All our investments are done prudently, whether organic or inorganic. The fact that we are investing in the global expansion of those markets is a strong indicator that things are working well, our platform is delivering and our strategies are working. Therefore, we are investing to scale deeper to multiple geographies.

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

Arun Prashant: Thanks. The first question is on the recent case filed against Google by a group of interested parties in Texas where it is alleged that Google's demand-side platform has an unfair advantage and it engaged in anti-competitive practices. In the context of India, what is your current opinion on this issue, if you could elaborate it? As a follow-up to that question, assuming that the level playing field is created as a result of this litigation, can you explain this scenario by taking us through a hypothetical campaign where Affle can benefit from this favorable outcome?

Anuj Khanna Sohum: I will take the opportunity to share with all the members on the call that Affle has sixteen years of experience in the ecosystem focused exclusively on mobile marketing unlike other companies, I can proudly say that we have not pivoted or needed to pivot our business model. Mobile marketing has been an anchoring focus and interesting regime of the company till now. The ecosystem has gone through tremendous changes and adaptations over these sixteen years, right from when we started. It was before Google had acquired Android, before Apple had launched anything on the iPhone, Nokia was then the king, Blackberry was cool and Affle was still doing mobile marketing. We saw a massive change with the touch screen compact devices and we all know that lot of changes happened in the ecosystem. Affle has maintained a strong execution track record to maneuver through various changes. The answer to that is our culture of keeping ahead with the tech innovations consistently which has helped us maneuver through any kind of ecosystem-level changes. In the last 5 to 6 years, we have seen data privacy coming in Europe, then GDPR in Singapore as the Personal Data Protection Act, we have seen that as well. Most recently, there was nervousness around iOS 14 and related policies. We have shown that we had the foresight to do the Jampp acquisition and knew some of the things that they and we were working on can be leveraged to make a head start into the new iOS 14. Our Jampp has consequently seen that as an addition to the top 10 global platforms on SKAN network. What we are trying to establish is based on Affle's historical credentials, that we have a strong track record of maneuvering through any changes that are happening at the ecosystem level. Now, with respect to Google and Facebook, Affle's view is that we operate in an ecosystem where we are Biotic. We are not head-on competing or fighting against Google or Facebook. On the contrary, we integrate our tech platform on Google and Facebook so that we can find consumer audiences and drive conversions for our customers from their touchpoints as well. Hence, we are neutral to what happened exactly, whether Google or Facebook or platforms like that will see any further slippings by any regulations or checks and balances and how much they have or don't have. My long term view is that the non-Google, Facebook part of the ecosystem will continue to grow at least at par with the rest of the digital advertising growth if not much better over time. That is with the belief that the advertisers have over-allocated their budget on Google and Facebook so far. There are a lot more competent platforms with complimenting capabilities that can drive higher ROI & value for the advertisers over time. Therefore, we will see that all of these platforms will continue to grow but the non-google, Facebook part, in my opinion, should grow faster for multiple factors. Now, specific to what is happening to India, let us wait for the outcomes of the cases. We are watching it equally with interest and preparing ourselves for all the opportunities and possibilities.

Arun Prashant: That is helpful Anuj. I wanted to understand how much of our current performance or our growth rate would be different if this level playing field is already there, if you can take a wild guess?

Anuj Khanna Sohum: The way we look at it is that, the average industry growth rate in India for digital should be in the range of 25% to 30% CAGR for the next several years to come but it is encompassing all companies like Facebook, Google in it. I believe that Affle will continue to grow better than the average industry growth trend. The last several years already show our Q2 revenue CAGR growth of 65.7% for the last 3 year period and if we try to slice and dice it with Jampp or without Jamp, then also you will find that we have a fantastic growth trend. Therefore, we are already doing well, will continue to do well and are confident and bullish about it. Can we uptick and improve it further? Let's wait and see. Let us not simulate a scenario that has not happened entirely but even if the status quo changes, I belive we will continue to do better than the average industry growth rate hopefully and if the status-quo shifts in the favor of non-Google and Facebook, we will take advantage of that.

Moderator: Thank you. The next question is from the line of Sanjay Lata from MG Investments. Please go ahead.

Sanjay Lata: Congrats on a good set of numbers Sir. In our previous interaction, you had mentioned that inventory and data cost will be in the range of 55-60% of the sales while in this quarter and half year, this ratio has increased. Can you throw some light on how should we look at this ratio going forward? Also, why there is an increase in the inventory of data cost? Lastly, what is our strategy for the same going ahead?

Kapil Bhutani: As you would have seen in our earnings presentation, we consolidated Jampp's business with Affle's and that is reflected in our consolidated financials. It was mentioned in Jampp's acquisition call in July that gross margins for the standalone Jampp business are significantly lower than Affle's organic margins. There is an impact of about 4% to 5% coming only from Jampp, in our consolidated financials. Excluding Jampp, as mentioned this point earlier also, there is no impact on the gross margins on the Non-Jampp business of the company. We have increased about 100 basis points over the last year's performance of gross margins in the organic business.

Sanjay Lata: Sir, how should we look at this ratio going forward? Let's say, in the next coming two to three quarters, this ratio can come down to 58% or will this be eliminated?

Kapil Bhutani: It will not improve in the next two to three quarters. As Anuj mentioned previously, it will improve gradually from here but to say that it will come down to where Affle is, in the next two to three quarters, will not happen. Yes, we will try to improve the business model of Jampp to the extent that in the next 5-6 quarters, maybe 6 quarters, we will come close to where Affle's organic margins are.

Moderator: Thank you. The next question is from the line of Alisha Mahawala from Envision Capital. Please go ahead

Alisha Mahawala: Good Morning and thank you for taking my question. I would like to understand that the average CPCU has been in the range of INR 41 to 42 and this quarter it has spiked to INR 50+. Wanted to understand the reason behind the same.

Anuj Khanna Sohum: Typically, the CPCU is balanced basis the function of business composition between India and the international markets. The international markets have a higher rate compared to what we see in India. This quarter, because our contribution from international business is higher, consequently the CPCU average has gone up to what I believe you have mentioned now. We believe that we can sustain this level of contribution. As India and international mix stabilizes, we will see the CPCU rate stabilizing too. Also, as we improve the verticalization strategy across the newer markets where we are executing, we will have the capability to also improve the CPCU rate further and we will explain that as it happens. Until now, it was hovering between INR 40-42, now it has gone up to INR 50+. It is because of the higher contribution of international business. The average is moving up at this moment and I expect it to hover around this and then improve it further progressively with our verticalization strategy and executing deeper within the international geographies.

Alisha Mahawala: Understood, that was well explained. Wanted to clarify that while you had mentioned earlier in the call that contribution from India and international used to be 50:50 each and now it is tilting in favor of international. So, where do we expect this mix to stabilize, like you said, once verticalization and full integration of Jampp takes place. Are we saying that it will be strictly 66:34 or are we saying that it will be 70:30 or any other number?

Anuj Khanna Sohum: Hard to provide specific number at this stage but India is our home ground and our home market. We would expect it to contribute about 30% plus to our business as India is the single-largest contributing market. The international business as we already know contributes about 66% now, but because the number of markets and geographies that we will continue to invest further into and grow, we will see a higher addressable market size in the international business while India will continue to be the anchoring market for us. A lot of innovations and strategies are almost always first rolled out in India, whether it is the connected TV product, connected household item or the omnichannel platform that we see, the emphasis on execution deeply in India remains, be it the vernacular strategy or the verticalization. Our focus on India execution is disproportionately high and the teams on the ground which are looking at India are 100% focused on young India. The teams which are looking at other international geographies are also bringing market-specific execution focus in those geographies so that there is no dilution of focus happening in terms of execution, be it India, South East Asia, Middle East, Africa or any verticalized focus in developed markets as well. We are clear about our execution strategy and this contribution will be a function of how business expansion continues to happen. But for now, it should hover in the range of 30% plus for India.

Alisha Mahawala: Understood. My next question is with respect to converted users. We see very strong q-o-q and y-o-y growth, if we look at it on a full-year basis or even if we track it every quarter. Wanted to understand, where is this growth coming from? Is this simply expanding into newer geographies or now that we have some proof of concept of getting more business from the same client, any color you can share on the same?

Anuj Khanna Sohum: First and foremost, the macro factors in the industry will continue to be favorable due to the active adoption of this business model of converted users as more and more users from the emerging markets are going to become online shoppers for all kinds of lifestyle products and services across industry verticals. The consumer trend is very strong and it is a multi-layer trend as Covid has accelerated it. We expect that to continue because once people are hooked on to digital. It is a trend that is there to stay and continues to accelerate, that's one. In terms of the advertisers, the industry verticals that we are working on and the clear strategy on verticalization, where we are increasingly seeing direct advertisers working with us for over 74% of our revenues. This strategy is working well on an broad basis across the top verticals contributing over 90% of the revenues. Within those verticals, we see existing customers, new customers as well and our sales teams continuously pushing on the growth parameters and this is happening across countries. It is happening for us in India and across international markets. What gives me greater confidence is that the growth is highly broad-based. It is not that suddenly one customer has become great or one contract has become big. It is broad-based growth coming across verticals, geographies from existing and new customers and that is sustainable in my opinion. The engine of growth is working and the momentum is strong.

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

Mayank Babla: Thank you for taking my questions. Congratulations on a great set of numbers. I have 3 questions primarily. Firstly, if you could give the converted users in the organic business and what was the contribution from Jampp in the converted users this time?

Anuj Khanna Sohum: The contribution from Jampp on converted users has not been published in our earnings reports but it will be sufficient to say that in international market, the CPCU rates are higher and the number of conversions is not so high. In terms of the contribution from organic businesses, it is more than 80%, actually hovering close to 90% is coming from organic business conversions and 10% to less than 20% is coming from the inorganic. The focus of the company as we go forward will continue to be on the converted and conversion-based ROI focussed business models as we execute and expand our business across the world. We see a very strong upward swing of this business model and what encourages us is that we can execute on this business model, even on certain verticals in developed markets on iOS as well. That is extremely encouraging and something to look forward to as we continue to scale and expand.

Mayank Babla: Thank you for that. My second question is regarding Jampp itself. Sir, we have seen strong growth in this quarterly run rate while in CY'20 (announced at the time of acquisition), the quarterly run rate for Jampp was around 7.4 million dollars which roughly converts into 545 million rupees and this quarter contribution of 30% to our consolidated revenue, amounts to around Rs. 800 million roughly. My question is, is this the normalized growth rate or what is the normalized run rate that we can assume, so that we can get some future earnings estimates?

Anuj Khanna Sohum: Let me answer that qualitatively so that you can understand much better from the ground execution perspective. Before the acquisition, Jampp was in a tough spot as it was not profitable, certainly not cash flow positive and were therefore, playing on the back foot. There was covid impact across all of their markets and their key customers were down. Therefore, from a management execution mindset, it was survival mode for them or if I may recall in cricket analogy - staying on the backfoot just to keep wickets in hand and not score runs. I believe, they were just on the backfoot. With the acquisition, we were able to bring entrepreneurial culture to the forefront, the growth mindset, the go-ahead and get the business mindset and also the fact that they are back in the limelight. The cash in the bank account of the company is back and the baggage of dealing with conflicted interests of all kinds of investors had gone away. Now it's just Affle. There is money in the bank account and clarity of direction. So, think of it that from a defensive play, keeping the wicket flat to now let us go & score, is what has changed. Cultural integration and financial integration have worked well. We got the audits and compliances achieved within a short span in this quarter across geographies. The debt integration has also got well due to better extraction of budgets from the customers because now we propose a broader set of capabilities and then we consequently see the positive impact on profitability as well. Thus, there is growth on all fronts including growth on-team quarterly investing. In the case of Jampp, their team was raw and was shown the growth path and profitable growth momentum is the keyword in order to continue to grow as that is important. The correct definition of the question to ask where the business should have been and if we look at CY'20, had they made a more clear strategy, had funding, etc., then they would have probably done better. We had analyzed all of that and when we acquired the business, our teams were clear on how we will turn it around by bringing additional scale, growth, a better business model with pricing efficiency and then one step at a time, improve its profitability. Now, where it stands now, we would want to focus on enhancing profitability metrics versus the scaling with the approximately 5% contribution on EBITDA & PAT. The priorities are clear to get the unit economics to a better place and continue to scale but priority number one is to get their unit economics right. I am not giving any guidance on continuous growth momentum and if we over-deliver on that, it is something to celebrate. The focus entirely is on execution which is clear, to improve the unit economics and scale sensibly through internal accrued positive cash flows that are generated in the business. I believe that is the best way to answer it at the moment.

Moderator: Thank you. Before we take the next question, a reminder to the participants, please limit your questions to one per participant. You may join the question queue if you need a follow-up. The next question is from the line of Ruchi Burde from BOB Capital. Please go ahead.

Ruchi Burde: Congratulations to the team for the excellent numbers. Several questions starting with the US policy changes. Though this forum has discussed it a lot but, we get a lot of questions on this. In the US with the iOS policy changes, we saw diverse impact on the businesses of the small advertisers, wherein the Android system benefited a lot in terms of rate increases. Did we also experience the same, any comments on that?

Anuj Khanna Sohum: Two comments on this. One is - Affle strongly executes in the emerging markets which consequently makes us very strong on Android and secondly, the fact that we had done the acquisition of Jampp. At the time of acquisition, if we look back, when iOS 14 rolled out, we mentioned that we want to take the opportunity heads-on and grow in that segment at the back of our credentials, that Affle is very strong on Android. When the advertisers became shaky on what will happen to iOS and looked for partners who are very strong in Android, we came out and said, hey, we are the strong players in emerging markets and Android. Choose us and also we now have an on-ground presence in North America where the iOS 14 impact was the strongest. We had differentiated capabilities that were rolled out to the advertisers to give them confidence on both fronts that hey, as an advertiser, we want to reach out to consumers and drive ROI. They were shaky on iOS and budgets, then we came out with certain innovations and re-affirmed them that Android is our home ground from an emerging markets perspective. It worked to our advantage and this is what was mentioned earlier, whenever an ecosystem-level change happens, the organizations which have the entrepreneurial spirit in culture and tech innovations backed capabilities that are pre-empted in nature are always investing for the future. We are not reacting to what happened and quickly scramble over something, we are only investing ahead. Both of these combinations with clear execution focus are the way Affle moved ahead and made the most of the opportunities. We have benefited on Android as well as on iOS. That is shown in our results. Some people might have underscored expectations and are now calibariting it as overperformance, but I believe this is the right level of performance based on the execution strategies we put in place.

Ruchi Burde: That is great to hear. Anuj, we are predominantly operating in the Android market but even if we look at market mix in India also, the iOS would make up, if not more, at least double-digit number mix. If we look at our devices, how was your experience on the iOS devices in the last quarter? Did you see any drop in the efficacy of your platform especially for the iOS devices or it was not material?

Anuj Khanna Sohum: We wouldn't say that the change was immaterial. The industry has seen that the change is material but with that material change, there are some fundamentals of our industry which will not change. The advertisers budget did not shrink and the advertisers budget for digital is only increasing; whether it is going to Android or iOS or to Google, Facebook, etc. It is an all-round growth in terms of advertisers who want to spend on digital to connect with consumers. This macro trend is a pillar of strength as the demand for digital advertising from the businesses, small and large across verticals and markets is strong. Next is the consumers trend. The consumers who use iOS device are still valuable and they will continue to do conversions from the mobile phone, whether this way or that way. They are also deeply married to their devices. There are two sides to the ecosystem. On one side, the advertisers budget are there and on the other side consumers are not leaving the trend. The rest of it is technical execution at this stage of what will happen and how to make it happen. The thing is those who can adapt are rising faster and those who are unable to adapt would scramble through just in time. As mentioned earlier, we benefited on both sides on iOS as well as Android. I am confident that we will continue to further improve and execute better going forward. The nervousness or risk around the chain is behind us because we have crossed that hurdle with strong outcomes. It builds confidence because we have seen customers across verticals which is a huge booster in our conviction of where we are headed.

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

Rahul Jain: Thanks for the opportunity and congratulation on a great set of numbers. Most of my questions have been answered. Just couple of minor things that I would like to clarify. Firstly, Jampp was well explained in terms of outlook but from a more sustainable point of view, given the kind of market it is playing in and with the cultural shift that we spoke about, what are the ideal growth rate it should aspire for because the market opportunities could be a little different from what we have, 25%-30% kind of a mindset at the corporate level. So, any inputs on that?

Anuj Khanna Sohum: The underlying assessment for any acquisition that Affle does and it is our internal assessment which I am sharing with you as not only does it apply to Jampp or our earlier acquisitions, but also in future if we do any further acquisitions. The playbook is clear. One, we will only acquire those businesses that we believe we can continue to build and grow with the kind of growth momentum that we expect from Affle overall which is to beat the industry growth trend. With about 25% to 30% CAGR growth that we see from a broad business base of digital advertising, we expect every part of the business to grow that way, that's one. Secondly, we expect to turnaround the acquired businesses where they are at break-even or struggling to be profitable over this period and for that we give ourselves about 2 to 3 years to bring them to high teens and then around 20% EBITDA margin performance over that period. Earlier, we talked about Jampp from a bottom-line growth perspective and now, we ask about Jampp from a top-line growth perspective. Let's say, give us 1+ year to make their unit economics reach to a level where the growth is organically funded through profitable cash flows, which is number one. Then, the next priority comes where we get to the same level of CAGR growth rate for the future, which should be at least 20% if not higher and then growing it to about 25-30% CAGR over the longer term.

Rahul Jain: Thanks. Last question is related to the capital available on our balance sheet. Firstly, are we at a point given the stability in the Jampp integration process, to consider another big acquisition if it comes our way? Secondly, in the standalone operations of this quarter, a significant jump in the inventory and Data cost is seen i.e 25%. Is it because we might have some optimization in terms of booking this cost at an enterprise level in the standalone operations or is it only relevant for the standalone revenues? Thank you.

Anuj Khanna Sohum: On your first question with respect to bandwidth, whether it is financial bandwidth proportion of the acquisition or management bandwidth proportion of the acquisition, we can assure you that the acquisition of Jampp has only increased our management bandwidth and capability and not consumed or entangled it. The quality of the management team of Jampp is strong i.e. the top leadership and the depth of it. The fact that we now have a strong management team that is aligned with us for the long-term in those geographies is a big advantage of the Jampp acquisition. Therefore, the ability for us to do any acquisition whether in terms of financial bandwidth or terms of management bandwidth is strong. Having said that, we are highly prudent with respect to the acquisitions and the investments that we do. Over time, we have learnt that doing a carefully calibrated acquisition is more important than just completing a transaction. There is no undue pressure or stress even if have cash sitting there, let us do something or we have the bandwidth, so why don't you do something? If we find the right targets, we assure you that we will do it. Also, finding the right target has many factors that one has to see and we will carefully calibrate it. There is no short-term or medium-term guidance for this. The readiness, capabilities and options are there and we will choose the right time to do it. For the second part of the question, Kapil can help you understand better.

Kapil Bhutani: The inventory cost was compared on a sequential basis with standalone. Request you to compare it on a y-o-y basis because every quarter has its availability of inventory and the costs associated with it. If one compares it with the y-o-y September standalone, we will find that the metrics are apt.

Rahul Jain: Sure, Thank you.

Moderator: Thank you. The next question is from the line of Samir Choksey from Indus Equity. Please go ahead.

Samir Choksey: My congratulations to Mr. Khanna Sohum and the rest of the team on an excellent set of numbers. Will just limit my question to one and it is slightly elaborate. This pertains to Affle's future growth narrative. So far, the company has been largely focused on visual advertising as a medium. But today we see advertising through voice-based mediums is doing as well and we see for example, Spotify provides voice-based ads in it is a free version before song streaming. We are also seeing conversational e-commerce ads are growing rapidly. Therefore, bearing this in mind, do we foresee this is as a business opportunity for Affle? Is it something we believe can be addressed with our R&D capabilities? Also, would it be fair to say that the Affle2.0 strategy could accommodate a third V besides verticalization and vernacular in the form of voice?. These are used largely on the back of podcast-based IP. If you could just share some views on that, that would be great.

Anuj Khanna Sohum: That is a great question. Thanks for your references to our 2Vs strategy of Affle2.0 as well as our voice-based podcast patent that was granted to us in the US. It is right, that this is a growth opportunity for us. When we look at connected households and connected devices. I am elaborating to give a vision or an intense view of how consumers and all of us would behave going forward. The household will have voice-based devices, our wearable devices will have voice commands and we will be changing the lights and the fan speeds and the A/C turn-off using voices. Thus, home automation is expected to happen over the next several years. Our cars will have these capabilities. While the mobile device and the connected TVs will continue to be strong visually-led devices and will form a big part of the consumer experience for the next three to five years. There will be an increase in a number of wearable devices, home automation connected devices that will come, where the interactions would be different as we would be listening to it or there will be visual commands. OR when we are listening to something for example, music, none of us would necessarily want to interrupt that experience by having an ad playing in between that song, whether it is a bhajan or a Bollywood or a Hollywood etc. None of us would want sudden out-of-context audio ads playing in between. There will be components of visual advertising together with the voice-based and integrated experience of data. One of the ways to deal with it is for example when we are driving a car and see something on the screen while listening to something with ears, neither can we capture nor can we interrupt that because there is another audio playing. Then, using gestures to do a command, if we are interested in something thinking, 'Oh yeah, I like this, let us keep it for later, I will look into it will require smart gestures. Those are the kind of consumer behavior use cases where Affle has already done research on and has patents related to such technologies. The patent was granted and is a clear indicator that not only are we giving lip-service to future events but are investing into them and building comparative moat on that, before these become big market opportunities. The fact that we already launched our connected TV and connected household initiatives in India last year is a clear indicator because the market is very nascent but we have already launched our products. We are ahead of the curve and are excited about these possibilities. But the next three to five years, these visual ads are not going anywhere. It is only going to grow and the voice will be nascent, small but an exciting space and we love to be in exciting spaces. That is what we like about our industry and will continue to see that as an opportunity and build IP in that area. We are holistic in our thinking and our strategy.

Samir Choksey: Thanks for that. One quick follow-up. With regards to your new patents which we filed in the USA related to the blockchain IP for fraud detection and the podcast-based IP. Do you see these bringing in revenue anytime soon or could you give some sense on that?

Anuj Khanna Sohum: I want all the investors to know that IP and Patents are foundational blocks of any tech innovative company and are strong indicators about the future of the company. Questions like what is it that we have IP for, what are we building and what are the directional things that are happening and then why do we apply it in the US? It is because the US is one market where these IPs are most valued. It is one of the largest markets in the world. So, even though we are not necessarily on the ground executing, we make sure that our IP innovations are recognized and registered over there because that is where it is most valuable. We can then command revenue possibilities overtime over there. It is lesser about immediate revenue and financials but more about strategic long-term sustainable growth direction of the company and reflecting the culture of the organization that we are creating. We are inventors first then we are entrepreneurs. We invent new things, execute and commercialize first as entrepreneurs and then we execute for scale & growth for market leadership and thought leadership. Those are the steps. The patents that we have filed whether granted or not are clear indicators of that. It is also a defensive strategy against some of the larger companies who could throw patent walls at smaller companies to keep them out. We make sure to neutralize it by having our own set of patent portfolios to counter it when that happens. It also works as a deterrent in case somebody was anti-us on some patents. We can counter that by being on their home ground and having these patents granted, so they better watch out for that. There are forward-looking foundational strategies and also defensive strategies in the IP portfolio. We cover both grounds with what we have done. It's not just about short-term to what is happening to revenue and profits but a decade-long view for the Affle2.0 strategy. This is how you should see IP and patent-related updates from us.

Samir Choksey: Understood. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to the paucity of time we take that as the last question for today. I would now like to hand the conference back to the management for their closing comment.

Anuj Khanna Sohum: Thank you so much for joining the call today. I would like to congratulate all our shareholders and also those who are interested in evaluating Affle as an investment. Q2 result is a landmark performance and a validation of our entrepreneurial culture, innovation and continued execution focus on the Affle2.0 strategy. We look forward to updating more as we progress in the next half of this financial year. All the best and take care. Thank you.

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

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