AIL/SE/RCT/Q3/2023-24 February 12, 2024

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**

Sub: Transcript of the Earnings Conference Call for the third quarter and nine months ended December 31, 2023 conducted on February 05, 2024 at 10:00AM IST

Dear Sir/ Madam,

Please find enclosed the detailed transcript of the Earnings Conference Call conducted on Monday, February 05, 2024 at 10:00AM IST to discuss the results and developments for the third quarter and nine months ended December 31, 2023.

The same is also available on the Company's website at https://affle.com/investor-relations.

Please note that the audio recording of the Earnings Conference Call was submitted vide our letter AIL/EC/2023-24/Q3 dated February 05, 2024.

Submitted for your information and records.

Thanking you,

Yours Faithfully,
For Affle (India) Limited

PARMITA CHOUDHURY
Digitally signed by PARMITA CHOUDHURY
Date: 2024.02.12 22:52:50 +05'30'

Parmita Choudhury
Company Secretary & Compliance Officer

Affle (India) Limited

Q3 & 9M FY2024 Earnings Conference Call

February 05, 2024 at 10:00AM IST

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

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

Analyst: Mr. Anmol Garg – DAM Capital

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to Affle India Q3 & 9M FY2024 Earnings Conference Call hosted by DAM Capital Advisors Limited. 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 this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anmol Garg from DAM Capital Advisors Limited. Thank you and over to you Sir!

Anmol Garg: Thank you Nirav. Good morning, everyone. On behalf of DAM Capital, we welcome you all to Q3 & 9M FY2024 Conference Call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited, represented by Mr. Anuj Khanna Sohum who is Managing Director & Chief Executive Officer of the Company; and Mr. Kapil Bhutani who is Chief Financial & Operations Officer of the Company.

Before we begin with the discussion, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve some risks and uncertainties. Kindly refer to slide 23 of the Company's Q3 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.

We are glad to confirm that we have achieved a decisive and timely turnaround in developed markets anchored on our determined execution with increased investment in sales and marketing and our hands-on entrepreneurial leadership. Post-Covid, this was our first significant challenge and we were transparent with our stakeholders about our action plans since the start of this financial year and we delivered on our commitment to complete the turnaround in CY2023 itself.

We entered CY2024 with our strategic moat fortified stronger than ever before. Our 15 Gen AI patent filings have strengthened our intellectual capital and the Rs. 7.5 billion recently raised cash capital has strengthened our financial balance sheet. We consciously invested in new product use cases and ecosystem level partnerships to unlock premium inventories and touch points on connected devices including CTV, Apple SKAN, iOS App Store and other OEM app stores both in India and international markets. This was the first significant step towards our long-term strategic direction as the premium converted users enable higher lifetime value for advertisers and thus unlock the sustainable premium pricing bids for the most profitable ad campaigns across both emerging and developed markets.

Speaking of Q3 FY2024, we achieved our highest-ever quarterly revenue, highest EBITDA, PAT, Conversions and CPCU Rate till date. In Q3 FY2024, we delivered revenue growth of 32.6% y-o-y and 15.6% q-o-q. We continued to enhance our consumer-centric platform offerings progressively delivering stronger than ever quarterly EBITDA of Rs. 967 million and PAT of Rs. 768 million. Our CPCU business delivered about 84 million conversions during the quarter, at a CPCU rate of Rs. 57.0 that helped us achieve CPCU revenue of Rs. 4.77 billion, an increase of 38.2% y-o-y and 19.2% q-o-q. We continue to witness a robust market opportunity as advertisers steadily accelerate their digital spending, resulting in a broad-based growth in our CPCU business in global emerging markets.

In terms of 9M FY2024, we achieved revenue growth of 24% y-o-y and PAT growth of 14.7% y-o-y. Overall, for 9M, our CPCU revenue increased by 25.9% y-o-y and has grown at a CAGR of about 60% in the last 4-year period.

Our strong anchoring across India and Global Emerging Markets continues to be resilient and it contributed over 74% of our quarterly revenues this time. Our growth for India and Emerging markets combined, was about 24% y-o-y which was majorly all organic, and about 16% on a q-o-q basis.

While Global Emerging markets clearly performed exceptionally well and grew by about 41% y-o-y, there was a significant pullback effect of Real Money Gaming (RMG) within the Gaming vertical in India and if not for this impact India would have achieved much greater sequential growth from Q2 to Q3 in FY2024 just as we did in FY2023. Our broad-based growth across diversified verticals continues to give us the confidence that broader market tailwinds in India across most of our verticals and global emerging markets is intact.

Speaking of Developed Markets, we have significantly strengthened our foundation for the Developed Markets with our integrated Consumer Platform propositions, greater investments in sales and marketing and the confidence in our teams to convincingly win from here onwards. Despite the US Fintech Vertical continuing as a major laggard even in this quarter, our growth in Developed Markets together with YouAppi was about 67% y-o-y and 14% q-o-q. With this robust foundation rebuilt, we are confident of capitalizing on the improved macro market outlook and our outlook for FY2025 is optimistic.

While most of the other industry players are adopting Gen AI to optimize human capital and cost, Affle is investing in Gen AI powered innovations to go much beyond cost efficiencies to enable long-term revenue growth and competitive advantages.

We filed 15 new patents in India during Q3. These patents power futuristic use cases of interaction, training and integration of Gen AI agents and cover advanced AI areas including personalization & recommendation, predictive analysis, privacy and enhanced fraud detection. As discussed over the previous earnings call, in Q3 we launched our 1st Gen AI-powered product which is a multilingual keyword recommendation engine as a premium platform to drive conversions. In addition to this, we were recently granted a new patent in US related to digital ad fraud and our total patent portfolio includes 35 patents filed or granted.

Continuing to share our customer success stories, this time, we have included 3 case studies, which are focused on travel, foodtech and e-commerce conversions for a global FMCG company.

Our Affle2.0 Consumer Platform Stack continues to be recognized in the industry as the top performer and we recently won top rankings and awards across various industry forums and indexes. For example, in the 16th edition of the AppsFlyer Performance Index, our platforms were ranked amongst the Top 10 Global Gaming Platforms and featured amongst the Global Top 10 (non-gaming) category as well. We also achieved the Number 1 non-SRN App Discovery Platform rank in India. In the Singular's SKAdNetwork rankings, we were the top DSP on SKAN 4.0 readiness.

Furthermore, we won the "Most outstanding programmatic platform of the year" award at the Adgully Mobexx Awards 2023. Lastly, we also won the "Outstanding Partner Award" at the OPPO Developer Conference.

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

Kapil Bhutani: Thank you Anuj. Thank you everybody for joining in. Wishing everyone a good day and hope all of you are keeping safe and well. This is the first time we are meeting in 2024. Wishing you a Happy New Year also.

Continuing our growth momentum – We concluded Q3 FY2024 on a strong note and delivered Revenue from Operations of Rs. 4,987 million, (i.e. Rs. 498.7 Crore) a growth of 32.6% y-o-y. During the quarter, India contributed 26.5%, while the International markets contributed 73.5% to our revenue.

Sequentially, Q3 revenue increased by 15.6% q-o-q, led by a broad-based growth in our CPCU business with robust business momentum across Global Emerging Markets and the successful turnaround in Developed Markets.

Our nine-months revenue stood at Rs. 13,366 million, (i.e. Rs. 1,336.6 Crore) a robust growth of 24% y-o-y.

In terms of Opex, our Inventory & Data Cost stood at 61.6% of revenue from operations in this quarter which was higher by about 108 basis points on a sequential basis. As also highlighted by Anuj, we are calibrating our platform on to premium inventories, touchpoints and deeper ecosystem-level partnerships.

Our Other expenses stood at 6.6% of revenue and increased by Rs. 75 million (i.e. Rs. 7.5 Crores) on a q-o-q basis, mainly on account of higher sales & marketing costs to support the developed markets growth during the festive season.

We see this as a short-term investment phase with the combined impact of increase in our Inventory & Data cost and the Other expenses, underpinning our strategic positioning and business growth globally.

Our Employee benefit expense for the quarter increased sequentially by 7.4% due to appraisals in few geographies.

We achieved our highest-ever quarterly EBITDA in Q3 which stood at Rs. 967 million, (i.e. Rs. 96.7 Crore) an increase of 20.3% y-o-y. In 9M FY2024, our EBITDA increased by 18.4% y-o-y, while the EBITDA margin stood at 19.6%.

Our Profit After Tax for the quarter stood at Rs. 768 million (i.e. Rs. 76.8 Crore), an increase of 11.4% y-o-y and 15% q-o-q.

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

In Q3, we made an investment of Rs. 372.97 million (i.e. Rs. 37.3 Crores) and acquired 9.03% stake in Explurger Private Limited on a fully diluted basis. Explurger owns an indigenous social media app for people who like to travel and explore new places. It is a strategic investment for us as it complements our verticalization strategy to go deeper into the travel vertical.

Looking ahead, we remain confident of the long-term business prospects to invest further in our business and stand committed to deliver long-term sustainable growth.

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

Moderator: The first question is from the line of Anmol Garg from DAM Capital Advisors Limited. Please go ahead.

Anmol Garg: I have a couple of questions. Firstly, we have seen a strong recovery in international business led by developed and emerging markets. I understand that some of it is because of seasonality, but even excluding the seasonality, can we expect the strong growth momentum to continue in the developed markets?

Anuj Khanna Sohum: In the developed markets, the growth what you are seeing has been long awaited. First of all, in developed markets we were degrowing for several quarters. We were dealing with deeply internal issue and sorting them out. We knew we would sort it out because we had a clear action plan. We have to see the growth in that context. This is the growth that we deserved, which belonged to us but had evaded us because of certain issues. We fixed those issues decisively and won it back. Now, when we have won it back, I would say our base is still small and the addressable market is huge. Our belief, confidence, our differentiated offerings and our commitment to deliver growth is there. The opportunity is there for us to take.

I am very optimistic that we will continue this trend because there is renewed commitment and confidence on the ground. The team has greater self-belief; it is not easy to turnaround, especially when you are fixing the team. I believe, we have done something fantastic in solving what we did in CY2023. I am very happy with where we are and we are stronger than ever before.

Our optimism, on continuing developed markets growth trajectory is positive, especially on year-on-year basis, because the last few quarters were so muted for us. The bad news of CY2023, the subdued quarters of developed markets, will appear as better performance in CY2024 because as we build up from here you will start seeing much bigger year-on-year positive trends for developed markets. I am not solely comparing on year-on-year basis only because that is the easier battle for us on developed markets going forward. However, sequentially, our fundamental strength positions us to secure what we deserve in the market because we have great products and a differentiated model. Therefore, I am quite optimistic on that.

Anmol Garg: I have a question on the India business as well. We have seen some sequential weakness because of RMG to some extent. Is RMG now coming to the base and we will see good growth from here on?

Anuj Khanna Sohum: RMG has impacted us basically in the last two quarters - in Q2 FY2024 and Q3 FY2024. In Q2 FY2024, RMG impacted us in midway because of certain regulatory changes, which impacted the fundamentals of the RMG category and kind of ROI measurement these people do. There was a clear impact and last quarter we quantified it. This quarter the impact was bigger because typically bigger budgets were expected from RMG but they were holding back. The impact was for the whole quarter Q3 FY2024 versus half the quarter of Q2 FY2024.

If I have to eliminate RMG impact, on a comparable basis from Q2 to Q3 and festive season, we would have seen India growing comfortably around 20% year-on-year basis and sequentially we would have grown much better like we have always done from Q2 to Q3. This quarter the only vertical that I would isolate the impact to is the gaming vertical, primarily linked to RMG and the GST impact. We are hoping that in 2024, this will taper off slowly.

One of the ways to cover that is to go more premium. Just think of business fundamentals - each of these advertisers needs to make money and they need to be profitable. The only way to be profitable is if they get new users and converted users, which are going to deliver high lifetime value for them. If we give them premium users, they will have the ability to pay us and we will be having the ability to price well enough to make around 20% to 25% EBITDA. Therefore, especially, in markets like India where unit economics is harsh, the strategy of Affle to go more premium including there is enough critical mass of iOS devices focusing on iOS SKAN, iOS App store, CTV, OEM, app stores and inventories which are more premium in the market.

Getting to more premium users for our advertisers is the way to solve it and this strategy is already in place preemptively before this RMG impact. It will solve all this going forward and may take a few more quarters, but the strategy is clear and the direction is right. Once RMG budgets come back, we will be the first company to take them on to a profitable advertising campaign and deliver value for them. We are ready for it.

Anmol Garg: My last question is for Kapil. On the cost side, we have seen almost Rs.7.5 Crores increase in the other expenses. Is this because of the marketing expenses in the developed markets and how much of it will continue going ahead in Q4 FY2024 and in FY2025?

Kapil Bhutani: As mentioned in our commentary, primarily this is on account of marketing spends we have started post-Covid and maximum impetus come in Q3 FY2024. However, in Q4 FY2024, there are many events lined up internationally and in India. These expenses would continue in Q4 before it stabilizes for the next year.

Anuj Khanna Sohum: I can add further on that. As I mentioned in my commentary, when we go for a turnaround situation there are two ways of turning around. One is, which was done by some of our leaders, who had to let go off their jobs, become more defensive when the business is coming down and spend less. However, in 2023 by taking the reins of the developed markets directly, our conviction and belief led to - no, we have to back it up. We realized that, we have to do more investments in sales and marketing because we believe in our product.

If you see consistently throughout these nine months, we invested almost Rs.30 Crores more in these other expenses versus the same period in the nine months in the previous year. Now, out of Rs. 30 Crores, Rs. 15 Crores should have anyways done because of the kind of growth expectations but we doubled it down to another Rs.15 Crores and you are seeing the impact of that. But this is not a defensive view that expenses are going up. This is a more aggressive move which is showing belief into our capabilities saying guys we need to deliver this turnaround and let us make it happen. I am really glad that we did that and those investments are working and will continue to work for us as we go into 2024.

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

Arun Prasath: Anuj, I want to ask about the India portfolio. You qualified that RMG is a problem but is a spending in this vertical has completely come to a standstill? Or, it is more like a budget getting curtailed for the quarter and it will be coming up in by the year-end? What is the ground reality right now?

Anuj Khanna Sohum: The ground reality is this used to be or is expected to be a high growth profitable advertising budget. After the impact of the GST, sometime middle of Q2 FY2024, most of the spending was being held back or if there were advertising budgets they were pricing it at a level where profitability of those revenues will become a challenge. In order to fix that, one has to understand that RMG has to find its own unit economics and equilibrium again and adjust to that. We need to help that category by getting them more premium conversions so that they can make higher lifetime value on those users and get an ROI on the marketing spend, leaving enough room for everybody to make money. The issue is not only about money going away but it is hitting the profitability and the fundamental ROI of those ads spends and therefore it is going to impact pricing.

We as a company will never succumb on pricing. We will always justify that what we do and how we do it. Because their problem is also our problem; they need to make ROI on those ad spends and we need to deliver ROI to them on those ad spends. We want to make sure that, we do that while ensuring our profitability.

The challenge is both in terms of the spend is not coming and if the spend is there or some limited budget is still there, then the pricing on that budget is still waiting to bounce back. We are helping by fundamentally showing them that when you spend do not worry about pricing, focus on your ROI, we can give you profitable users and you will be able to make money. Let us work together.

All revenues are not equal. Some revenues are worth around 20% to 25% EBITDA and some revenues are not worth that. Affle is very selective & careful and not only taking up the revenue but delivering fundamental values otherwise how would we sustain? If somebody run a campaign but they do not make profit, then the next quarter they will not put the budget. How do you build sustainable, profitable and consistent growth? It is by giving ROI to the advertisers. The math of RMG still needs to find profitability and therefore sustainable growth but we are fixing it and it is work in progress.

Arun Prasath: If I understand correctly what you are saying about the unit economics part given the current regulations and how the marketable or targetable users in this universe shrunk, it is impacting the stand and which means there are fewer users to be targeted at the elevated CPCU or premium CPCU?

Anuj Khanna Sohum: It will be a mix and not pure. You need to do a mix so that in each campaign it can become better. At least, our endeavor as Affle would be to let us take the most premium segment and the budgets for the most premium segment at the most premium pricing. Let us take that the cream of the budget. Let us say, whatever budget is there for RMG, the most profitable segments, I want Affle to log that in and be the default partner for RMG or any advertiser for that matter in that segment. However, it does not mean that there will be no budgets for other users. That is not what I am implying. It is not so black and white. It is always more in the gray. What I am trying to explain to you is that the unit economics of RMG is shaken by that and it will take time to find its balance. I am explaining how Affle is helping in that and how it will take the best part of the budgets.

Arun Prasath: If you go by your commentary that without RMG we would have achieved around 24% y-o-y growth in India non-RMG business. This implies that the contribution of gaming to our India businesses is quite high which was not I had in mind. Because, I remember you were saying that no vertical contributes more than 10% to 15% but it seems like we are quite hit by this. Is there any other verticals which is the high contributing vertical. For example, currently something is happening in fintech as well with the RBI regulating one of the largest fintech. What are other risks that we are probably running at this point of time. With respect to that, it seems like one or other vertical always coming and biting us at some point of time. Could you can qualify this risk?

Anuj Khanna Sohum: Maybe I will explain to you in a slightly different way. When I say our business is broad-based, what is the meaning of broad-based? Broad-based means that we are across multiple verticals and across multiple geographies including India, global emerging markets, international markets. Across these markets, which are fairly broad-based, existing customer base is very large and new customers are getting joined in across industry verticals.

At a macro level, of course, certain verticals which are bigger than the others. For instance, fintech is relatively bigger, gaming and e-commerce is becoming important verticals for us. Category E, F, G and H, which are the four categories that we talk about. I would say category H is now bouncing back with travel is becoming stronger and we are trying to put more investments to boost that even further. In category E, which is e-commerce, entertainment and edtech. Yes, there was a time when edtech was under pressure but the other verticals were going along strong. In category F, we have put case studies on fintech and foodtech verticals several times and we are doing well. This time, we have put the case study of FMCG vertical, which is also doing well. In category G, gaming is definitely strong vertical. In category H, as I said we are improving.

Within the overall global business of our company, in some country, let us say in India, a RMG or gaming category reaching close to around 20% odd but when I look at it overall across emerging markets globally, it balance out. What level of granularity of diversification do we go? Now when we look at the US market, we have already qualified in my commentary in last couple of quarters that fintech has caused some impact there. The way I want you to look at our business is that it is a diversified broad-based growth business and in that sense it is naturally derisked.

Therefore, even if we say that we would have done maybe Rs. 23-24 Crores more business with the RMG, that would still keep it around 20% odd or lesser as a whole sort of space within India. If you look at any other Adtech player in the India market, they are probably way more deeply over calibrated. I would say almost all of them, whether it is the publishers or the partners, are easily at around 50% odd plus in the gaming category. Globally, if you look at any Adtech company, they will have more than 50% to 60% or in some cases 80% of the business is coming from gaming category.

We are a well-diversified broad-based company and if we were not, we would not have survived. When the US and developed markets took a hit we were still able to cope up because the rest of the 75% of business India and emerging market was doing well. When RMG had an impact we qualified it proactively, but the rest of India is still able to neutralize that impact because we are a broad-based company. Yes, some vertical will have an issue in some country but you must also take confidence from the fact that it is a well-diversified business. It makes me sleep much better knowing that we have naturally derisked ourselves by being broad-based and well-diversified.

Kapil Bhutani: Just to add one thing what Anuj said was we would have done 20% on Y-o-Y growth.

Arun Prasath: Yes, thanks Kapil. My second question is on the margins especially the inventory & data costs. It used to be around 50% to 55% and then we did quite a few acquisitions and then we also qualified that some of those increase in the cost is because of the investments. Now, the growth, especially in the couple of verticals, is under some pressure, is there any scope for us to revisit the strategy and reduce the near-term investments? Of course, for long term we need to invest but is there any scope for inventory and data costs going back to 55% to 58% rather than currently at around 60% to 62%? The cost is going back to those levels because there are some headwinds in these categories. Is it right to keep investing in some verticals or is it something that is under review?

Anuj Khanna Sohum: Sorry, which verticals are you suggesting that we should not be investing in?

Arun Prasath: Not at a specific vertical level but overall the growth in some countries has moderated. Is there any plan to reduce and go back to those levels of cost and cut back inventory & data costs?

Anuj Khanna Sohum: Probably, you have already observed that we are an assertive growth-oriented company. Unless we are forced to, I do not think we will play defensively. This is important to know what is the DNA of the company. Of course, it has to be balanced strategy where you play aggressive and defensive both. You cannot play one, but anybody who knows us well would know that we will continue to be an aggressive growth oriented player and our postures would hardly ever be defensive by default and therefore I would not pull back.

I would say that there is a great opportunity for us. Around 74% of our business is emerging markets. One vertical here or there is not going to change Affle's overall posture, but we need to be a market conqueror in these places. We are investing in our products. We are future proofing our products and capabilities. We have a differentiated proposition. We are going and winning the ecosystem. We are building ecosystem partnerships that will lock in premium relationships and partnerships for 4-5 years. That is the kind of posturing we are doing, so there should be no pullback and quite frankly we are not trying to optimize for a percentage point here or there.

We are doing what is right for our business with a long-term view and that is what we are doing even when we were turning around in the US. The focus was not only that turnaround quantitatively and deliver some number because we need to get back to those numbers. It was to fundamentally strengthen what we were doing in that market. It is like you do not renovate your house just to be at the same level as it was before. You renovate because you want to make it much better. In 2023, we have done that renovation, rebuilding the stronger foundation and there is no reason for us to be defensive to optimize and pull back anywhere. We have a very good market position and we need to keep on pushing forward and we will keep doing that.

Moderator: The next question is from line of Shobit Singhal from Anand Rathi. Please go ahead.

Shobit Singhal: I have couple of questions. First, what was the contribution from YouAppi and the organic growth during the quarter?

Anuj Khanna Sohum: I would let Kapil answer the split of organic to inorganic but qualitatively, I just want to make two comments before Kapil goes into the detail of the answer. YouAppi, unlike the other past acquisitions which were done in the Covid periods, YouAppi was post-Covid transaction. Given that, we had built our confidence both with good cases and some complications with acquisitions which are always inevitable. Our confidence was higher so we built the thesis of integrating YouAppi within one year and I am confident that we will be able to integrate YouAppi fully within our system in less than one year. We are already seeing very positive engagements in terms of what we have managed to achieve so far. With that as a backdrop, Kapil, over to you to answer the split of organic and inorganic.

Kapil Bhutani: For the Q3 FY2024, YouAppi revenue contribution is close to 14.5% and EBITDA contribution is about 9.8% of our consolidated EBITDA.

Shobit Singhal: Second question is around international business. If I exclude YouAppi, we have seen a better performance in international business. Could you give us some sense in terms of the US business? Where is that standing now and what is the expected growth rate? Whether things are aligning with our plan? Additionally, if you could share information on our performance in the other emerging nations apart from India?

Anuj Khanna Sohum: Well thanks for your question. Yes, it is correct that international markets are growing well. I covered that in detail in my commentary. Around 74% of our quarterly revenue comes from India plus global emerging markets and we are doing exceptionally well. Of course, in international markets we are doing very well as well and the developed markets turnaround has helped us. Earlier, global emerging markets and in India we were consistent, barring the RMG situation in India. However, in developed markets, we were seeing a pullback for all this time and that is the reason why you are seeing of international not growing as much. But now, with the developed markets, which were earlier degrowing, we have managed to turn this around to get it back to the growth trajectory, so you are seeing a positive impact. For next 3-4 quarters, you will continue to see consistent growth in developed markets in the international markets overall. I am very bullish about it and do not see any reason disturbing that.

In terms of more color on specific non-India emerging markets, we are doing broadly well across Latin American markets, the rest of Asia-Pacific emerging markets and Africa. Overall, global emerging markets are a strong anchor for us. The unit economics of India as well as global emerging markets is tough for other competitors to play in and therefore Affle’s approach and strategy is able to create the right kind of premium pricing to do profitable business. These markets are harsher territories for other competitors. Yes, there are competitors but we have a competitive moat which is stronger than others in these markets and that is how we are anchored.

Moderator: The next question is from line of Vikrant Gupta from ICICI Prudential Life Insurance. Please go ahead.

Vikrant Gupta: I have two questions. Firstly, if you could talk about the mobile advertising industry in India in 2023. What sort of growth rate did the industry grow at and how do you think the Affle India grew after adjusting for the impact that we quantified on the RMG side? Are we growing faster than the industry or slower than the industry? What is your sense and how is the growth for the industry as we exit CY2023?

Second, on the margins, in Q3 FY2024 despite the strong revenue growth, where we generally see a margin expansion, which did not come true because of the investments that you talked about. As per your commentary, these are front foot investments and you like to continue to invest to get that growth in developed markets. What is your view on the margin trajectory of the acquired entities which got this developed market exposure? We were thinking that at least directionally the margins would be picking up for these entities as you optimized on costs? Is there a rethinking?

Anuj Khanna Sohum: Thanks for your questions. I will take the second question first because it is more specific to us and then I will also talk about the industry, India, emerging markets and about mobile ad industry growth.

Now in terms of margin, it is important to see that this is not just usual business and growth. One is business-as-usual growth, where there is sequentially continuity. The other is a turnaround growth. Turnaround growth occurs when, on quarter-on-quarter basis, we were actually coming down in developed markets and then we had to put group efforts to lift it back up, to change the entire direction and push it back into growth but in a much stronger way. When you got back up, let us be better than where we were before. That is the kind of turnaround that you are seeing here and therefore, that has to be seen in light of what it took to do the turnaround.

The transparency that we built since May 2023, talking about the fact that, we have issues in developed markets, we are seeing degrowth and we need to turn around and we will turn it around by end of this year. That commentary, transparency, investing into sales and marketing are significant. It is not just sales, I am telling you the amount of time and effort on the ground as well as intensity of leadership that we have provided to this turnaround. It is of much greater magnitudes and the numbers will never show you that. It has taken us a good amount of effort to ensure that we turn this around, to change the trajectory.

One of the parameters that the number is showing you is increase in other expenses and we have qualified that. If somebody is not confident about their product or turnaround capacity, they will not put time & money on its back. I would have not put my words and credibility on it that I will turn it around by Q3 FY2024. The fact that we believed in our plan, we executed it and we were transparent about it. Now you have seen the turnaround together with that, you have seen the symptoms of higher other expenses so we are explaining that.

Now, do we have to consistently keep on investing? No, I do not think so. We do not have to be aggressive on the other expenses all the time, but give us at least another quarter or so to be sure that the turnaround is indeed steady state and then from there, we can put it to the normalization levels and see a margin expansion. I hope that has answered your question on the growth commitment and the margin aspect.

Vikrant Gupta: You are saying that we may see moderation but you are not sure yet and you would like to wait for a quarter?

Anuj Khanna Sohum: I would want to reserve my options. I am not going to spend where it is not needed but, at the same time, I just want to see how things are going. We will take it up maybe in the next earnings call. Therefore, I am not committing that I am going to pull it back or it is going to be lesser but you will see it becoming more normalized because what happened in the last nine months was a much deeper effort to turn it around versus what we would have done otherwise if we were just closing steadily. I think that distinction has to be taken note of.

With respect the India market or global emerging markets, yes these markets are growing well and in 2023 the growth in mobile ad space would have been easily around 20% to 25%. However, not all growth of mobile ad dollars in budgets is in the most profitable segment. Factors such as pricing, advertisers and payment terms vary across ad campaigns and budgets. Affle is playing the premium platform play not only because as a public company we have to attain certain level of profitability, but that has been the DNA of our company for the last 10 to 12 years. Even if, I want to or attempt to change, I cannot because it is deeply seeded in our company - profitability, cash flow positive, operations and the margin efficiency.

Most of the sales which comes in our organization involve detailed check on campaigns to determine whether we should accept it or not. We check if it deserves to go in the system or not. Even if it goes into the system, the algorithm is designed in the way that looking for premium conversions and premium pricing. If we are not making enough margin there is no point of running that campaign.

The important thing to note is that in India and global emerging markets, there is going to be a very good growth for next many years to come and that growth is anchored on the simple insight that the Adtech industry is still under-calibrated on digital versus the total advertising spends.

In China, US and Europe, the total digital mobile spend has gone up to almost 70% to 80% of the total ad spend whereas, in India and other global emerging markets it is well below half of that. In the coming years, we will see consistent growth in digital ad spend in these markets. But because these markets have tough unit economics therefore not all growth, revenue and ad campaigns will be deserving profitable execution. We need to pick up and therefore my emphasis on premium inventories and driving premium conversion so that the advertiser sees a higher ROI and when they see a higher ROI they are willing to pay for that and that is what is important to analyze our numbers. That lens is very important.

There is no other company in my opinion that are large enough to be analyzed and can deliver this kind of profitability on emerging markets. They do not know how to operate on these cost structures and these unit economics. The only way is, go CPCU and go premium. This is the only way to make money in the emerging markets and which is around 74% of our business at the moment.

Vikrant Gupta: I just have one more question for Anuj. I wanted an outlook on YouAppi for FY2025. I think you have characterized FY2024 as a year where you would optimize on the unit economics of the campaigns they are running and it may not reflect as much at the topline. So, where are we in that and how do you think FY2025 would play out for YouAppi?

Anuj Khanna Sohum: I am very confident that, we have done the right acquisition and more importantly post-acquisition we have done the right integration. We are smarter & wiser and we have covered our basis based on the learnings of what happened before. Therefore, I feel confident to say that with YouAppi we are very optimistic and positive because the product integrations, the platform integrations, the people & process integrations all of that has moved in way more smoothly than ever before. Either we got lucky or we have become better at this as the case might be but I think it is a combination of both. My outlook for rest of 2024 and FY2025 with respect to a fully integrated YouAppi is very optimistic. I would not want to quantify it any further.

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

Swapnil Potdukhe: I have a couple of questions. First is related to organic growth. If I were to look at your numbers for the last five quarters, we have not crossed 15% organic growth in any of these quarters. I understand that can be partly explained by your weakness in the developed markets. What I failed to understand is that when the underlying market, India especially, is growing 20% to 25%, why are we not being able to compensate for that and at least come closer to the market growth? Logically that should have been the case. However, we were grown in low single digit in some quarters so that disconnect is something which is not clear.

Anuj Khanna Sohum: I will explain to you the math. If your business is growing 25% in India and global emerging markets organically but in developed markets your business is coming down by $3 million to $4 million every other reporting period, you would see the overall reporting being normalized down. There is nothing I can do about that math except for telling our investors that we were not doing well in developed markets and we were seeing a pullback and we are trying to turn it around. Now, I am telling you that we have turned it around successfully and therefore you see that the revenue has grown.

If this quarter also, developed markets would have pulled itself down instead of going up, I will still be telling you the same discourse that okay we tried to turn it around and the turnaround did not happen and therefore our growth is not there in the last three to four quarters. We have been seeing this consistent pullback in developed markets. The numbers are coming down. It is not about staying stagnant or growing lesser. It is coming down and is negating some of the growth.

On one side we were turning around developed markets, on the other hand we saw RMG in India has an issue. After the Q1 FY2024 earnings in July or August, the announcement on GST was made. There were these few significant pullback events and yet with all of that we ended Q3 in December with the results that I have announced today. We ended it with the preferential issuance of Government of Singapore investment, with 15 patents filed and turnaround being achieved. Qualitatively and quantitatively, in every way, our financial balance sheet, our intellectual balance sheet and our market position all of that has turned around.

2023 was a year, where you were living in Affle which was being renovated, fixed and at the same time punching ahead. We have finished all of those projects, we have fully renovated, our foundations are strong and now we are living and breathing and saying "wow, we are entering 2024 calendar year stronger than ever before." It was a tough year no doubt but if you are trying to make sense of the numbers and the math, the only way to make sense of it is India and global emerging markets consistently growing well till a pullback in RMG come in. Developed markets were pulling it lower therefore the reporting for last four quarters was always not the usual one from Affle.

This is the fifth year since we went public and we navigated all the challenges with almost perfection and I think everybody started believing that in Affle nothing will ever go wrong. But it is not like that. Affle is also another company which is exposed to all kinds of things. But, this was an important moment, a significant challenge post-Covid came, how we dealt with it, how did we communicate our action plan since May 2023 till now to deliver a turnaround. I am deeply satisfied with how our team has performed in that context.

Has it changed the thesis of growth of the company? Is India and emerging markets going to grow slower now? No, nothing like that. It is what it is. We are reporting transparently and trying to make everybody understand how we are executing. I am very happy with where we are.

Swapnil Potdukhe: Just slightly extending that point. Would it be fair to say that the worst is behind us and now we should start factoring in more than 20% organic growth on overall consolidated basis?

Anuj Khanna Sohum: I would love to say that but I have been advised by our IR team/ senior team to be conservative. There is no reason to be over conservative in guidance on what you should calibrate in your models. It gives us a chance to over deliver and surprise you. For me that makes a lot of sense, please go ahead and model us conservatively and allow us to come back to you with positive results. My state of mind is very clear - I want to grow this company and keep it growing disproportionately but most importantly with much better profitability than any other Adtech industry player in the world. For next five years I would like to see Affle to set a benchmark that this is how you run an Adtech company and I think we will set a great example if we can do that. That is what we will work hard for.

From that qualitative message, if you can do a conservative modeling please do so that. It will be much better versus if you are always putting it aggressive then we will always be under more pressure which we should not be. Because we should execute to how the situation on the ground is.

Kapil Bhutani: Swapnil, just to add to what Anuj answered to the previous question raised by Vikrant. We like to keep the short-term guidance in a muted state because we need one more quarter to be very sure on how our turnaround plan is working. We have done it for one quarter and let us give one more quarter before we come to the next earning call to give you a more concrete vision around it.

Anuj Khanna Sohum: Also, next quarter is significant because there will be no festive season. Even if the turnaround has truly happened it is not a festive season turnaround. It is turnaround that must continue to show without the festive season. Our teams are working really hard and we are on the right track. We should come back with positive outcomes but let it be one more quarter.

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

Rahul Jain: Thanks for the opportunity. Just wanted two to three data points and one question. If you could tell what is the current RMG mix if we could share that? Is the non-CPCU business going down in this Q3, is recalibration of our contract in the CPCU part or it is also because of decline in the RMG business. These are the clarifications.

Just one incremental thought, Anuj if you could share - You said that the 50% odd or whatever percentage people are spending in digital should go higher for emerging market just like the Western world. Do you think this advancement would be function of a better outcome that Adtech player like you can deliver for them? Is it more about their awareness about spending on the premium inventory as you highlighted or it the general adoption that would happen on its own natural pace?

Anuj Khanna Sohum: I will take the second question first. The thesis of having the conviction in Adtech space for next three to five years, especially on India and emerging markets, is broadly anchored on two key aspects. First, we as consumers are deeply spending our time on digital, our attention is completely consumed by digital connected devices and that is not likely to change anytime soon in the next three to five years. The youth or rural to urban all demographics of users, we can safely say next three to five years everybody would be spending around 75% to 80% of their attention span on digital media. On the other hand of the ecosystem, the advertisers have no option but to calibrate up and to catch up to spend their ad spends also in proportion of where the consumer's attention is going. It is a cause and effect.

The consumer has already been on the devices, why is the advertiser not catching fast enough. I started Affle in 2005 and since that time, I believe mobile should be the dominant media and it took a long time. We are turning 19 years old now as a company and still it is under calibrated. It is only a natural course inertia time. It is inevitable that the spending of the advertisers on digital needs to double up from where it is right now. In terms of percentage, I think it has to get into around 70% to 80% zone eventually and I think three to five years is the time for that.

It will have many things. It will have regulation support, technology support and it will have players like us who are saying better ROI, Gen AI and a lot of other things but the fundamental thing is the consumer trend. More and more people are transacting higher value and higher volume on mobile and digital. This is the answer to your second question. If I may bother you, could you kindly repeat your first question. It will help me to answer.

Rahul Jain: It was data point. What is the RMG mix a year back? A reverse math suggested 20% plus or so. What percentage it would be now? Any data would help here.

Anuj Khanna Sohum: Yes I would say around 20%. It is not reverse math, I am actually stating that number. Considering the budgets, at the beginning of the year i.e. pre-GST time, we forecasted what is going to come in this financial year in the various quarters. When I look at those plans, we see that we should have grown comfortably in India over the Rs.150 Crores plus revenue. However, this pullback in RMG which we have discussed extensively, has impacted our projections. It took away the profitability, changed unit economics and therefore impacted the ad campaigns which are eventually going to deliver.

There is an impact and there is no running away from it. The way to solve this problem has also been provided some insight. We should just see it as it is a blessing that Affle has a diversified broad-based business and these situations will happen in the industry and some will be for a few quarters and some will be for a year. However, I am confident that we will navigate through that gracefully and sensibly.

Rahul Jain: One last question. What led to the non-CPCU part of the business going down is it re-contracting?

Anuj Khanna Sohum: No, it is not re-contracting. I will highlight the case study that we shared. Non-CPCU campaigns are basically branding or some other forms of ad campaigns that are running. If you look at the case study, it is FMCG customer, which is typically doing branding campaigns. Even for those categories of products, we are increasingly seeing greater adoption of conversion led metrics and doing CPCU business, running ads to drive users, high intent users to e-commerce stores to convert and create a purchase transaction. We are seeing more and more people adopting CPCU business. It is a natural phenomenon.

For all practical purposes, you have to see Affle as a conversion led consumer platform company. Within that space, there will always be some advertisers who want to use our platform and intelligence to run other forms of campaigns and we would not stop that. However, our endeavor is always to encourage them to drive ROI and conversion because that is how we are positioned and how we want to be known.

Moderator: The next question is from line of Aditya Chandrasekar from UBS Group. Please go ahead.

Aditya Chandrasekar: I just have a quick question on the Connected TV (CTV) space. We are seeing the expanding universe of CTV. I just wanted to get your thoughts on how Affle is performing in this segment especially on the CPCU model that you rolled out recently? Thank you.

Anuj Khanna Sohum: Thanks for that question. I love forward-looking questions and especially when they are on our products where we are doing well. CTV is an important aspect of what we are doing not only because this is an expansion in the market where we are seeing linear TVs budgets getting spent into CTV budget. It is expanding the digital pie more because of TV spend over to digital in this particular manner so this is of course a strategic area.

It is also strategic for us because it is fits well with our connected devices discourse. In any household, there will be one or two connected TVs and several smart mobile phone devices. Now, how do you create the appropriate contextual sort of engagement and recommendations and experiences for these households is an important aspect in how we run a campaign. The business on CTV is doing well. In fact, across all verticals we are blending CTV as integrated proposition.

For example, in North America it is an integrated proposition. We are going and selling mobile and CTV, at least the pitching from the sales team and going to the customer. All of that is happening in an integrated fashion and it is seen by our customers. We also got direct feedback that we are one of the few companies that is pitching it as an integrated proposition of connected devices of CTV plus mobile. Some of our competitors are now starting to catch up with that and talk about it. It is doing well for us.

It is building thought leadership for us and qualitatively in emerging market. CTV is still at a more nascent level as the market size is not large enough. In developed markets, CTV is a much bigger phenomenon already. However, when we go there as a combined proposition of mobile plus CTV and presented with our CPCU business model it is being received very well by the customers. Our sales team feels more confident that we have a differentiated way to go to market, which is helping us in many ways.

Aditya Chandrasekar: A quick follow-up. Do you get any kind of data from CTV or is there any technology evolved for the CPCU model to work well in that segment?

Anuj Khanna Sohum: CPCU model is a calibration which absolutely works in a scenario where you combine CTV together with mobile. That is why I was explaining to you that it is CPCU on connected devices. Connected devices meaning in a household the CTV is not an isolated device. CTV shows ads to a consumer in household, in that household consumer is also using the smartphone. If there is a conversion, it occurred because you showed the CTV ad together with mobile or you showed only on mobile or CTV then it becomes more of a question of attribution.

When we do CTV business, we go to the advertiser and say this is our product, give us your campaign and we will drive a conversion with the consumer. That consumer is having this connected devices access and we are able to hopefully deliver. The campaign will run across CTV and mobile as a combined pit with all the units taken into account but you cannot simply isolate and say this is a pure CTV conversion or this is a pure mobile. The conversion is always linked to a consumer and the consumer will have exposure to more than one connected devices and that is the reality we are living with.

CTV as a another ad unit. On mobile you can show a video ad, while on CTV you can show a video ad or a banner ad and you can show different kinds of ad formats. The end goal is to drive a conversion. Once you drive a conversion, you then attribute and say how much was the effect of showing. If you showed the campaign on CTV the conversions were higher. However, if you did not show the campaign on CTV the conversions were lower. It is kind of data analysis that we are able to show to advertisers.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint we will take that as a last question. I will now hand the conference over to the management for closing comments.

Anuj Khanna Sohum: Thank you very much for joining our earnings call today and for your insightful questions. I have always enjoyed talking about our company and especially in the context of the fact that we have achieved the turnaround that we had promised and on time. I feel confident, reassured and looking forward to delivering greater outcomes in CY2024. I am looking forward to FY2025 starting from April. Thank you very much and stay well.

Moderator: Thank you very much. On behalf of DAM Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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