



“Kellton Tech Solutions Limited Q4 and Full Year
FY17 Earnings Conference Call”

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MODERATOR: **MR. DIWAKAR PINGLE, CHRISTENSEN IR**

Moderator

Good day ladies and gentlemen and welcome to the Q4 and full year FY 17 Earnings Conference Call of Kellton Tech Solutions Ltd. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concluded, should you need assistance during the Conference Call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded, I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you sir.

Diwakar Pingle

Thanks and welcome to the investors who are logged into this Q4 and Full year FY17 Earnings Call of Kellton Tech Solutions Limited. We have mailed the results and Earnings Presentation to you and the same is also available on the website of Kellton. In case any of you have not received the same you can write to us and we will be happy to send the same over.

To take us through the results and answer your questions today, we have with us Mr. Niranjana Chintam – Chairman and Whole-time Director, Mr. Srinivas Potluri – Chief Executive Officer of USA, and Mr. Karanjit Singh – Chief Executive Officer, India at Kellton Tech.

We will start the call with the brief overview of the quarter and full year gone past which will be given by Mr. Niranjana Chintam and then we will throw the floor open to Q&A.

I would like to remind you that everything that is said in this call which represents any outlook for the future can be construed as a forward-looking statement, must be viewed in conjunction with uncertainties and risks that we face. These risks are included and not limited to what we mention in the prospectus filed with SEBI and subsequent annual reports which you can find on the website. With that said, I would now like to hand over the call to Mr. Niranjana Chintam. Over to you, Niranjana.

Niranjana Chintam

Thank you Diwakar, thank you ladies and gentlemen to join the call. As Diwakar mentioned, I will talk about the quarter and then about the whole year, give you a brief highlight of what we have achieved this quarter as well as the about the whole year.

This quarter we have achieved a revenue of Rs. 165 crores which is 25% year-on-year growth and the quarter on quarter is about 4.7% growth. EBITDA was at Rs. 24 crores which is 8.6% quarter on quarter growth and 36% year on year growth. Our EBITDA margin stood at 14.5% for this quarter. Net profit is Rs.14 crores which is up by 27% year on year and 2.5% quarter on quarter. The PAT margins stood at 8.6% so this quarter we have added 160 employees this include the Lenmar Employees too. So that is the achievement of the quarter. Quick highlights of the quarter we have added 9 new clients in this quarter. These are net new clients that we have added and we expect that this is going to continue for the next quarter too.

Talking about the whole year now, for full year FY17 we have achieved Rs. 615 crores which is 33% year on year growth. EBITDA was at Rs 86 crores which is a 36% growth year on year. EBITDA margins stood at 14.1% and net profit was at Rs 53 crores which is about 36% year on year growth. The PAT margin for the whole year stood at 8.7% and EPS for full year is Rs 11.43.

Few highlights for this year, we have achieved a credit rating of A- by ICRA, we have acquired Lenmar Group, which was closed a few days before the end of March, some of the numbers reflect because that is was close before end of March a few days of that was also included in this revenue numbers. We have achieved quite a few awards this year, some of them are 'Best E-Governance Initiative of the Year' Award from Business World. We were featured as the 'Best Places to Work' by The CEO Magazine; we have achieved Skoch Award for the Best Health initiative in India. We have been recognized by WHO as the largest Mobile Health Solution in the World. We have won the digitization India award which was the Cisco and CNBC collaboration. This are the quick highlights of the year passed by. This year has been a very good with us and hoping that this will be continuing for the next year also. With that I will now open up the floor for questions and answers.

Moderator:

Thank you very much, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Diwakar Pingle

I will kind of kick off with the first question, this is Diwakar here. Just want to get a fair idea on Lenmar acquisition, you know what kind of capabilities does it get to our portfolio I mean if you have kind off permission from the company to spell out certain numbers in terms of revenues and what kind of, what was the deal value and things like that, would be interesting to hear that.

Niranjan Chintam

So the Lenmar acquisition gave us the customers like I talked about it in last quarter earnings call when we do an acquisition, we do it for two reasons one is buy a company that has the capability that we are not well rounded in or we buy a company for its customer base. Lenmar acquisition is for the customer base, Lenmar have BFSI customer base in BFSI sector, with the customers like Deutsche Bank, BNP Paribas and other financial institutions like that. We have acquired them for that customer base so that we can sell our other services that we have in our portfolio, increase our revenue share from BFSI space, BFSI typically what is a segment that is in the leading, leader when it comes to adoption of new technology. Since we are in the digital transformation space and are constantly on the cutting-edge technology adoption so we felt that the revenue from BFSI should be increased, hence the reason why we went and bought this company. The Lenmar is giving us at \$11 million in revenue with about 10% EBITDA, so that does the number. Coming to what we pay for it that's a little bit confidential, I cannot tell you how much we paid because of confidentiality clause but it is obvious if you can look at our balance sheet.

Diwakar Pingle:

Sure. The second thing was the other interesting point that you made was on the nine clients that were acquired during the quarter that seems like a huge number of new logos that we have added to the book, again some color what sectors are this clients in, what areas we are working on you know when you would be see some kind of business traction coming from these guys or they already started delivering the revenues to us. I think some color on this and that's my final question.

Niranjan Chintam

Sure. So, this has already been giving us revenue, there are some revenue that came into and we have recognized last quarter. I would like Karanjit and Srinivas the two CEO's that we have to talk about a few that we want to highlight the space that these guys are in as well as the clients, the

type of clients and the type of work we are doing, so Karanjit if you want to take that question and then we will pass it on the Srinivas.

Karanjit Singh:

Sure, so I will talk about basically the first client, basically a leading insurance provider and what we are doing for them is in the insurance business which is lot of grant work which you get done is part of help desks. So, we are developing cognitive virtual agent solution for them using chatbots and artificial intelligence (AI) which will essentially help them on the help desk and you know the end results will be an improvement in customer service and satisfaction. Sri you want to talk about the others.

Srinivas Potluri:

Sure. Thank you Karanjit, this is Srinivas. With respect to the other wins that we had and some of the major wins that we had in the 2017, one of the major wins is the large airport, one of the larger airport in US has engaged Kellton Tech to implement a digital transformation solution utilizing block chain. Block chain is the next best thing, we are already starting to work using the block chain technology and advanced analytics and this is basically end-to-end digital transformation solution, which includes cloud services with enhanced security. This is more to work within the Airport, the logistics, the consumers and so on. This is really exciting for us. From a perspective of not really a BFSI space but almost touching a BFSI space, a leading credit reporting agency has engaged Kellton Tech to develop a digital roadmap and advanced analytics platform, this basically is to check the credit ratings of consumers that apply for either public sector or private sector loans and providing them with some analytics based on actuarial findings. So that is really exciting for us and obviously there is the third major client in US which is a leading US mobile communication solution provider and it's an existing platform for this people and for this client and we are basically scaling up the enterprise system and obviously there is a consolidation happening within the mobile communication platforms in the US. And we are working with them to support their increase demand and enabling them to achieve their performances. So those are some of the exciting wins and those are only some of them, we have some other wins which are smaller in nature but are exciting as well.

Moderator:

Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave:

I was just wondering that what is the order book situation looking like and how many deals are there in the pipe line. In the previous two conference calls, you guys have mentioned that there is a conscious effort from your end to reduce the number of clients that you have and had more substance to what you have? How is that progressing and how is the deal flow looking like as of now.

Niranjan Chintam

Yes sure. So, today we have visibility for six months of order book give or take few days, so the order book is looking good. So, talking about the customers and the deal size, the deal size has gone up and the average deal size for us has gone up by 100,000 while we are continuing to strive towards the reducing the number of customers that because of Lenmar acquisitions now we have additional customers that we are dealing with. So, we are making progress. We have reduced the number of customers probably by a handful but it is not that significant as we wanted to be but the

work in progress. So, this year hopefully we will be much better than last year. So, we should be able to reduce probably not just a handful of probably within the teens we want to reduce it while increasing the revenue.

Agastya Dave:

And in term of capabilities those you have developed organically inside the company and those you have acquired over the last 18 months - 24 months, can you just re-emphasize what you can do today and what you can't do and what would you like to do. Where is the product development and service development, how is that looking like inside the company? Are you satisfied with all the capabilities that you have today?

Niranjan Chintam

Agastya the answer to your question is we are never satisfied right, because the technology is evolving constantly. We are always investing in the R&D to become much more smarter into the new and emerging technologies. The new and emerging technologies today are AI, bots, deep learning which is involved in AI and block chains. These are some of the successful wins that we talked about we have already 8 customers that we are working with. So, the challenge is always going to be let's say the flood gate open tomorrow and we need to put 100 people in the AI space, would we have the people on the bench today, now we don't. That is going to be a challenge but it's a good challenge to have, we have constantly or mindful of these so consciously. So, what Karanjit is doing is building up a team of people what we call is technology excellence group that we have built in Gurgaon that is on lookout for the new and emerging technologies. We are constantly investing in emerging technologies because when we invest in probably 3 or 4 one of them will pan out. So, for us it's a constant evolution that we are working on because that's the nature of the beast.

Agastya Dave:

And if I can ask you two more questions than I will move back to the queue, one how is the competition shaping up from the traditional IT guys, many of them are now talking about handful chunk of the revenue coming from digital transformation and also smaller companies how is companies are shaping up? The second question was on Forex volatility how you are managing that, was that a case on any of the line items in the P&L or balance sheet because of Forex movement this quarter or subsequent quarters. What is your hedging policy like how you have moved the entire situation and does it really have a long term or medium-term business impact on you.

Niranjan Chintam

Okay, so let me first answer to the competition and then I will get to the hedging side of it. Today the competition yes you know they are claiming I am talking about the big IT companies that are probably in India that have good digital transformation presence. We know because when we met the customers they say, I will pick a few examples to talk about say a Bank in Ireland where they have all the big names IT companies working with them they call Kellton Tech and said hey Kellton Tech you know we have these four companies doing our traditional IT we want you to come and do the digital transformation even though they are claiming that they do digital transformation we know they don't have the capacity or the ability, so please help us come with the digital transformation strategy and implement it. So that is what happening with the big IT companies. Coming to the small IT companies that are specialized in niche areas so these are specialized in niche areas only I've just picking just a discussion sake let's say a company that's

structured in analytics, they have deep understanding of analytics but they do not have the holistic vision of building it digital transformation solution, that is the end-to-end solution. So, if somebody comes and say if we want you to do deep analytics in a certain space then we say okay go to that particular company, but if we want the whole complete digital transformation solution Kellton Tech is one. That is the differentiator when it comes to the smaller companies and us and/or the larger companies and us. Coming to the hedging side, touch wood so far against hedging we did not have to a hedging because our Rupee has always been favorable, depreciating when it comes to dollar. Today we are looking at the appreciation of rupee but the way we have hedged it is majority of our loans are in dollars, so it has become natural hedge for us. So, we didn't have to hedge I know nominally hit there was there in the balance sheet this year for currency loss, but that is only a nominal hit, when it comes to a real impact there is none because everything is dollars for us.

Moderator: Thank you. The next question is from the line of Neha Bhatia from IDG funds. Please go ahead.

Neha Bhatia: Since the headcount increased from 1,275 to 1,400 in Q4, is it due to Lenmar and how many are there on H1B Visa?

Niranjan Chintam Okay, so it actually went up by 130 people. So, Lenmar added 100 people and rest 30 was added because we see continuous growth in the space that we are in Neha. So, what is happening is it takes probably a year or two before we can get an engineer to be productive in the Digital transformation stage if we are coming from the traditional space. So, one of the reason hit in margins for the standalone was because Karanjit has hired a number of people in the last quarter to get them ready for probably six months down the road. So, we are constantly investing in our people and hence the reason why you see the increase in the headcount, actually it was 1200 plus that became now close to 1400.

Neha Bhatia: From the total numbers of employees that has been increased in the last quarter how many of them are on H1B Visa.

Niranjan Chintam So H1B increased is only the Lenmar people who came on board, I think of the probably the 100 employees that we added we are looking at probably around 20% came from H1, so this is a company run by lack of better words White Americans so they had many of the employees are the citizens and or card holders. So, we have a very small exposure to H1 there.

Moderator: Thank you. The next question is from the line of Harsh Kapadia, he is an individual investor please go ahead.

Harsh Kapadia: I just wanted to ask is there any update on the fundraising plans?

Niranjan Chintam Harsh as you know that the market has not been kind to IT industry, so we have not gone to the markets probably for almost a year now to look for money. As and when IT companies have again looked favorably on and will go back to the market but as on today there is no update, it's a work in progress.

- Harsh Kapadia:** Do you see it happening anytime in this year or it could take a little while longer?
- Niranjan Chintam** I don't know the answer to your question Harsh because the reason is we are waiting for I guess the IT industry whatever it is today is going through the bad phase or bad market let's put it that way, bad market press. Once that sentiment is improved we will go back to the market.
- Harsh Kapadia:** Would it affect your growths plans in anyway if the fundraising doesn't go through in probably a year, and year and half time?
- Niranjan Chintam** See it might slow down the growth but we have been making acquisitions, we have been growing using our internal accruals as well as rising from debt. So, we are being growing using debt, but debt is probably not good in the long-term but in the short-term we don't see any issues because we are able to service the debt and also if you look at it as a debt-equity ratio we are where we were last year, so the ratio is 0.68, so we are about the same as what we are last year, even though on the number while yes, we went up but we are about the same when it comes to debt-equity ratio. But in the long-term we don't want to continue to grow by debt but we feel that in today or for the next one year debt is of any concern for us.
- Moderator:** Thank you. The next question is the follow up from the line of Agastya Dave from CAO Capital, please go ahead.
- Agastya Dave:** Last couple of quarters especially this quarter the pledge share account has gone up so I was wondering what's the situation there? Or will it be increasing again or this is the highest we have seen and by when can we expect that this number would be lowered?
- Niranjan Chintam** Agastya the reason why we are pledging the shares is to raise the debt for the growth of the company, we as promoters have not to take and will not probably in the foreseeable future pledge our shares for the own personal reasons. We are pledging the shares to raise debt which was the last time we raised the debt was for the Lenmar acquisitions hence now we have to pledge the shares. As you know Agastya that we are in the software or IT industry, where there are no tangible assets that we can pledge, so we have only intangible assets. For that reasons, the banks are demanding our promoters shares to be pledged to give us the loans that we need for the growth of the company. Your second question, I don't see that we would need to pledge shares again in the foreseeable future but if we do it, it will only be for profitability of the company and not for anything else.
- Agastya Dave:** And your mobility product, M-Sehat, I believe when it was initially launched it was for five or six districts in U.P and now that requirement has come in, any traction there? Is there any probability that we can see a minutely adopting there on the districts or other states, it seems you have got a, you are reading a presentation that will featured as case studying WHO reports, so any traction there?
- Niranjan Chintam** See we are talking to a number of states to get this going. There are I guess I am going to pick states just for discussion sake, Madhya Pradesh, Andhra Pradesh we are talking to various stake

holders to get this implemented there. Now coming to the UP part itself, because of the change in government, government is still trying to what we call find its pick, we are still trying to figure out what project they want to take up and what projects they want to grow. We have met the ministry and some of the stakeholders and the stakeholders have told us, this is something that they are very excited about, they are actually a few tweets coming out of this Chief Ministers office as well as the Minister, about the project that we did and how good is doing. We believe that as they stabilize themselves, start looking at some of these projects, the indications today are that they are excited about this and they want to take it to the next level. They are also talking about taking the platform that we have built and use it for other services that they want to offer around it. This is something that we believe that the investment that we have made for the five districts is going to bear fruit soon, but I don't have any base today to say okay this is going to happen now.

Agastya Dave:

How much can you really leverage this product we are just a government services and telling for we do something in I mean let's say distribution in retail networks, for FMCG and Pharma, appliances, I mean the applications are there, I am just wondering if you can leverage this platform and build something around it. Just purely targeting the mobility segment?

Niranjan Chintam

Actually yesterday I was talking to a Company where they are getting into what we call in the US the HMO space, Health Management Space. So, we are talking to them to see if they can use this platform to provide the health management kind of a solution, both in India as well as the US. So yes, this platform can be leveraged. We have not explored the international options too, for this because WHO has picked up and they said this was one of the best projects that was worldwide, that was done using a mobile-based solution. So, they are also excited so we are going to be in marketing that more aggressively this year, so we can get to the next level of using this mobile based platform. But there are quite platforms that we have also build for other both commercial as well as the commercial government agencies that we can leverage to provide additional solutions on top of that. We are working with a number of states in India itself, where we are building platforms for them, so that can be now replicated to other states.

Agastya Dave:

And finally, your revenue guidance till FY2021 the targets are of Rs 2000 crores any change in that have you seen more traction, are you maintaining that outlook?

Niranjan Chintam

We are maintaining that outlook as of today, as you have seen so far, we have achieved every number that we have targeted or projected and then I had, hopefully everything works well unless the sky falls which we have to be able achieve that.

Agastya Dave:

May I also ask you the tentative date for the AGM?

Niranjan Chintam

Probably we are looking at some time end of August is what we are going with. There are few revolutions we need shareholders' approval so we will be probably doing it sooner than what we did last year.

Moderator:

Thank you. The next question from the line of Jai Sharda from Equatorials. Please go ahead.

Jai Sharda: I am sorry but I missed out on the revenue and the profit guidance that was mentioned just now?

Niranjan Chintam The number that Agastya was talking of was we have ambitions to get to by FY2021 to Rs 2000 crores number, this is going to be a combination of organic and inorganic growth. We have been growing organically at around (+20%) and then there is going to be some inorganic growth that is going to get us to that number, that's what Agastya was talking about. So, we have not given any guidance for the next year but I know you'll be asking that question also so I am going to say that organically we should be achieving 15% to 20% for the next year growth, so that is the projection that we want to give today without the inorganic side of numbers.

Jai Sharda: One of the follow up questions that I had was how sacrosanct is this Rs 2000 crores number because so you have mentioned that number in the past and what is encouraging is that you're sticking to it but would you have some sort of a profitability angle attached to it as well or is it just some number that we want to get at any cost?

Niranjan Chintam We did project even the profitability too, we said we want to achieve 16% EBITDA and 9% to 10% when it comes to the PAT side for the Rs 2000 crore number and these were backed up with a lot of analysis that we did both internally and using some of our investment banker to help us come up with this numbers with a lot of analysis we came up with it and that is something that like as I said this is an ambitions of ours, touchwood if everything goes well we would be able to achieve that.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Niranjan Chintam Thank you ladies and gentlemen for getting on the bridge. As I stated earlier, this is going to be an ongoing exercise where to improve the transparency and to communicate with the investor and investment community, we would be doing this on a quarterly basis and the next opportunity probably is going to be the AGM where we would love to see all of you taking part in the AGM and we can do one-on-one interaction and a take deep dive into some of the things that you probably have the questions that you didn't want to ask me on the phone, so I appreciate you guys getting on the call and making this a success. Thank you.

Moderator: Thank you. On behalf of Kellton Tech Solutions Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.