"Kellton TechSolutions India Q1 FY-19 Earnings Conference Call"

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MODERATOR:	**MS. ASHA GUPTA, CHRISTENSEN IR**

Moderator: Ladies and gentlemen good day and welcome to the Kellton Tech Solutions India Q1 FY19Earnings Conference Call. 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. If you need any assistance during the 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 over the conference to Ms. Asha Gupta from Christensen IR. Thank you and over to you ma'am.

Asha Gupta: Thank you, Rayomand. Good Morning and Good Afternoon depending on the geography you are logged in from. Welcome to Q1 FY19 Earnings Call of Kellton Tech Solutions Limited. We have mailed the results and earnings presentation to you, andthe same is available on the website of Kellton Tech. In case any of you have not received thesame, you can write to us and we will be happy to send the same over to you.

To take us through the results and to answer your questions today, we have the top management of Kellton Tech, represented by Mr. Niranjan Chintam – Chairman and Whole-Time Director; Mr.Srinivas Potluri – Chief Executive Officer,USA; and Mr. Karanjit Singh – Chief ExecutiveOfficer,India. We will start the call with a brief overview of the quarter by Mr.Niranjan and then we will open the floor for Q&A session.

I would also like to remind you that everything that is said on this call represents anoutlookfor the future and can be construed as a forward-looking statement.It must beviewed inconjunction with the risks and uncertainties that we face. These risks are included andnot limited towhat we have mentioned in the prospectus filed with SEBI and subsequentannual reports whichyou can find on the website.

With that said, I would now like to hand over the call to Mr. Niranjan Chintam.Over to you sir.

Niranjan Chintam: Good afternoon ladies and gentlemen. We had an interesting quarterwhere we performed quite well in terms of PAT whichgrewat about 10% on quarter-on-quarter and 32.3% on a year-on-year basis.Also, the EBITDA has gone up this quarter which shows that we are receivingbenefits out of the investments we made. There was a slight dip in revenue as compared to the last quarter, about 2.4% that was primarily due to the sale of one of our subsidiaries as well as phase one completion of Mauritius Government project.I am happy to inform you that Phase two of the Mauritius Government project has been awarded to us and we will be seeing revenue flow from this quarter onwards. In addition to that we also have our AGM on September 28th, I am hoping to see many of you there so that we can interact one on one and answer any additional questions or anything you want to bring to the table. We have added 12 clientsfrom America to Asia Pacific in this quarter. So, overall we had a very good quarter when it comes to addition of clients. We are also making investments in new technologies like IoT 2.0, Robotic process automation, Blockchain, conversational bots, and much more. We hopeto reap benefitson the investment over the next few years. With that, I want to open up the call for questions.

Moderator: Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Agaustya Dave from CAO Capital. Please go ahead.

Agaustya Dave: Just to clarify you said the AGM is on 20th or 28th of …..

Niranjan Chintam: 28th of September.

Agaustya Dave: Okay, thank you. Sir if you can elaborate a bit more on sale of subsidiary and what kind of revenue we have lost in that sale in terms of Q-o-Q and Y-o-Y revenues, EBITDA and PAT numbers have grown that would be of great help.

Niranjan Chintam: Sure. So, we sold a company called Bokanyi Consulting that had revenue of about $9 million.The company was sold for a little over what we paid.It is not a huge profit but the sale was primarilybecause it was a low margin, commodity business. We decided to sell so that we can improve the margins as well as get away from the low margin business. We are trying to focus more and more on the new cutting-edge side of the business while continuing to service the clients. This is more of a strategic sale.If a customer demands some of these low margin businesses, we might go back to them.But right now we are trying to reduce our exposure to the low margin business. Talking about margin improvements, on a quarter-on-quarter basis the PAT has gone up about 12.7% if you look at it from the last quarter to this quarter and on year-on-year it is about 35.7% growth. Comparing it revenue wise, we have grown at year-on-year of 19.6% compared to what it was. Like I said, QoQ revenue dipped to about 2.4%.

Agaustya Dave: You said, net profit has gone up. I thought it has gone down quarter-on-quarter.

Niranjan Chintam: It has gone up. That is inclusive of the other comprehensive income.

Agaustya Dave: Okay. So, for this year how is the visibility looking like for the entire year, how is the order book and funnel. You said you have added new clients but any other quantifiable matrix that you can share.

Niranjan Chintam: See we have added 12 new clients. We have an order book of about little over 7 months.So, typically we are averaging between 7 and 8 months. Regarding projections, we will be closer to the high teen.We anticipate that we will achieve growth over the full year.

Moderator: Thank you. Next we have a follow up question from Agaustya Dave from CAO Capital. Please go ahead.

Agaustya Dave: So, the subsidiary that we have sold, did we buy it 18 months back or two years back?

Niranjan Chintam: We bought it a little over three years back. I don't remember the exact date but as far as I remember this is the third year. Srini, do you remember the date when we bought it. I think it was January 2016.

Srinivas Potluri: You are right Niranjan it is January of 2016. We bought it.

Agastya Dave: Okay. Any other rationalization in our previous acquisitions which we would like to make.Anything on the plan on anvil or any other business that we would like to divest?

Niranjan Chintam: Wherever there is a gap that we find we might plug it the gap could be either capability or customer base. So, we want to fill that gap by doing acquisition but if you are talking about specifically any strategic disinvestment we always look at, whenever we acquire Agastya we also get what we call the commoditize business. So, we sometimes look at does it make sense to keep that commoditize business or not. So, if we believe that there is something that we can disinvest and improve the margin so that we can get better shareholder value absolutely we will look at that. For us top line is not the only criteria we also look at the strategic phase, what kind of cycles the management is putting into, maintaining some of these subsidiaries and low-end margin business we look at that and then we decide whether to keep or to get out of by our strategic sale.

Agastya Dave: And what is the use offunds we have got from all this. How are we going to use that, are we going to reduce our debt or this would be used up in our working capital or any other further investments you may be doing or looking around.

Niranjan Chintam: What we are doing is either reduce the debt or we use that for new acquisitions that we might make also that is how we are looking at and also like what we purchase in a company Agaustya, with 50% upfront 50% we get it over a period of few years, that same model when we do the strategic sale also so we may not get all cash upfront but over a period of two to three years we get all the cash back.

Moderator: Thank you. The next question is from the line of Abhishek Jain, an Individual Investor. Please go ahead.

Abhishek Jain: My question is like in which quarter the cost of goods sold there has been, in the last quarter if you see there has been Rs744 Lakhs but this quarter we have recorded only Rs3 Lakhs so any reason behind that.

Niranjan Chintam: This is when we do this is material where we put our cost of goods sold is more from a material point of view. So, whenever we offer solution in some cases there is a hardware component to it. So, we are separating that line item and showing it to there is a hardware component. Last quarter like I said earlier we completed the Mauritius Government project that had solution including hardware that we had to provide a comprehensive end to end solution so last quarter since we did not have any solution that required hardware as a part of delivery you will see the reduction in that cost of goods sold or cost of material.

Abhishek Jain: And what is the quantum of the Mauritius project in terms of revenue which we could see over the next quarters.

Niranjan Chintam: We have received the second phase of about Rs31 crores worth of order is what we received the previous one are little over Rs60 crores so this is half of that so we expect to complete it by January end or worst case by February given the time lines and the holiday cycle the government of Mauritius have there. We had lessons learned last phase one implementation. So, we are little bit mindful of that and we want to make sure that whatever dates we commit we are able to meet. I am expecting that by end of January it is where we should be able to complete the full delivery of Rs31 crores worth of order. And there is also a three-year maintenance part which is a small piece of it, it is a 5% of the order is three-year maintenance contract.

Abhishek Jain: So, the phase one implementation which has been upraised now, we will be seeing revenues from that implementation the next quarter right?

NiranjanChintam: The phase one, we will be receiving it from starting January of 2019. So, there is a one-year warranty and then we start receiving money of about Rs7 crores worth of maintenance that is left over from the previous phase one part of it and we will be using half of it in 2019 and half of it in 2020.

Abhishek Jain: Okay. And any update on the debt we added in this quarter like debt equity ratios have improved or it has gone down.

NiranjanChintam: We purchased PlanetPro so there is a slight increase in the debt I think about $2.5 million is worth of debt that was increased in this quarter but again that is due to like as I said purchase of PlanetPro and once we receive the payments from the Bokanyi sale we should be able to reduce that debt.

Abhishek Jain: Okay. So, what extent we will be able to reduce the debt if any update on that.

NiranjanChintam: We have what we need to pay in a short term and long-term basis, we are expecting that this year we will be reducing about both including if you look at earn outs and debt we might end up paying about between Rs50 - 60 crores worth of debt long term liabilities will be paying out.

Moderator: Thank you. Next question is from Bhaskar Chaudhary from Entrurst Family Office. Please go ahead.

BhaskarChaudhary: So, Rs209 crores of revenue in the first quarter versus Rs175 crores in the first quarter last year so what is the organic growth here and what is the growth that acquisitions during the last four quarters have contributed, can you just break that down?

NiranjanChintam: We are averaging about 20% right in our give or take one or two percentage here or there we are averaging about that is what we are doing year-on-year we have been doing that and that is what after deducting acquisitions and after deducting sale of Bokanyi, it is going to be closer to 20% is what it should be.

BhaskarChaudhary: Okay. And EBITDA margins for the organic piece would also be similar to what you are running on the full business.

NiranjanChintam: Yes, that is correct. We are touching around 16% is what we should be doing, which is what we were projecting that we want to be we are not there to 16% but we will be achieving 16% in the next one year.

BhaskarChaudhary: Okay. And just a follow up to the last question. What is the total debt and the total cash and equivalence on the balance sheet as of 30th June.

NiranjanChintam: I don't have the cash part I think the debt part it is little over $2.4 million so we were Rs113 croreso we are at close to about Rs140crore where we are when it comes to debt both long term and short term.

BhaskarChaudhary: Okay. Another question because the annual report is not available yet so how much operating cash flow did you do in the financial year ended March 18 and how much did you do in the first quarter.

NiranjanChintam: I can tell about operating cash we can talk about for last year we are doing around below Rs60 crores is what we did till the end of March I do not have the numbers for this quarter very handily but I think we are probably proportionately there for this quarter too.

BhaskarChaudhary: Okay. Operating cash and this includes working capital changes and tax payout right and this is a net figure.

NiranjanChintam: Absolutely this includes all that. And then we had earn out payables, we had debt reductions all that right. The cash if you are sitting in a bank it is not going to be that great because we have a debt repayable that we are doing as well as earn outs that we are paying out. So, if we look at combine I think last year closer to about Rs40+ crores is what we paid out both as a earn out as well as debt repayment. And you will have all that numbers in the annual returns, sorry AGM as a part of the annual report that we send out to you shortly. So, it is right now in the press it is getting printed out you will receive it shortly.

Moderator: Thank you. Next question is from Lohit Mamjakpa who is an Individual Investor. Please go ahead.

LohitMamjakpa: Can you give us an idea about how, when are you trying to release the pledge share.

NiranjanChintam: The pledge share this is something that the promoters had to pledge for raising debt and working capital for the company itself, for the corporation itself. It is not like we did that for our own purposes correct. So, it is a reflection of the loans they have taken and the banks they have tightened up like I talked earlier in the last quarters call we were hoping that some of our share would be pledge by March of last year and unfortunately because of whatever happened with NiravModi, Gitanjali the banks have refused to release these pledge share in fact, we had to pledge more because that is a reflection of the stock movement, price movement and not because of anything to do with the company. So, today I don't have an answer to you, the reason is the banks keep on changing the story. They have tightened everything unfortunately because of one or two bad apples right everybody is getting affected that is what everyone in the peer group that I talk to they tell us that banks have frozen a lot of things. Fortunately, for us they have not frozen but tighten lot of things previously it was easier to do certain things now it is not that easy to do. But that is something that is going to pass.Hopefully, I am hoping thatprobably by end of this fiscal year some part of our pledge will be released.

LohitMamjakpa: And also, can you give us an idea about what might be the debt-to-equity ratio by the year end.

NiranjanChintam: We are expecting that it will be below 0.6 is what we have said, is what we have peaked what we have achieved is probably 6.68 is where we were, today we are in the 0.4 is where we are and we should be below 0.6 for sure, because I do not want to predict what it would be the reason I am saying that I do not know what acquisition or what strategic investments that I will be making that may require some increase in debt or if I do a strategic sell I might bring down the debt so I do not have a prediction as such for you. But suffice to say it will be below 0.6% for sure.

Moderator: Thank you. Next question is from KaminiKashuwa who is an Individual Investor. Please go ahead.

KaminiKashuwa: Do you see any impact of new tax policy announced by the Trump in U.S.

NiranjanChintam: See that has already been reflected.Last quarter we received a good impact of that this quarter we continue to read both what we call it TRUMP Act as well as let's call it Jaitley tax or Moditax.We are in India being considered an SME so our tax bracket is 25% so there is an impact of that into it is already reflected in the earnings this quarter. So, it has already taken care of, it has already baked in.

KaminiKashuwa: Next I want to ask, any update on QIP which you announced for the last year?

NiranjanChintam: That still a work-in-progress, you understand how the market conditions are you can talk about NIFTY going up and why is small caps and mid-caps not going.So, there is this lot of I guess things being played out in the market where even the small caps and mid-caps today are not looked favorably so unfortunately, we are in that boat. We are not actively seeking money but if somebody calls us we are talking to them and seeing if there is something that we can work out. So, today we are going with assumption that we may not be raising money, we are continuing to progress and march towards our goal of growing this company may be via debt maybe that is not a good view from some of the analysts' perspective but if am not able to raise equity, I will still have to grow and if I do not make the strategic investments that I need to make I may be left behind so I am working on growing while being a mindful of not increasing my debt that would cause problems with operations as well as serviceability of the debt.

Moderator: Thank you. Next question is from Darsh Solanki who is an Individual Investor. Please go ahead.

Darsh Solanki: I wanted to ask, do you expect that we generate positive cash flow this year and if we do then what would it be the use of that, may be in the form of dividends cash back or to pay off some debt?

Niranjan Chintam: We are generating positive flow every year it is just that we are retiring debt and we are paying out earnouts. I think Bhaskar asked a question about what the cash is sitting in the bank or cash or cash equivalent, we have about Rs20 crores as of end of last quarter. So, there is cash being generated, it is just that we are retiring debts and we are paying earnouts. So, we will continue to make cash but how we are spending it is the question you are asking. I have already said this few times I do not want to give dividends yet. We might look at it in 2021 because I am using the cash to grow the company, because I am not able to raise equity for me this cash that is being generated from operations is important for continued investment in the new technologies, continued investment when it comes to penetrating new geographies and use for acquisitions so for that reason I do not want to distribute the cash to the shareholders yet, by 2021 we should be in a comfortable position that we should be able to do that.

DarshSolanki: What is the average project size you expect from the new client?

NiranjanChintam: So, while the ticket size has been going up I think we are close to million dollars today that includes the combination of U.S. and India customers. In India we have a few million plus dollar customers which is not an easy task in India but we are able to achieve that. So, the average ticket size has gone up to about a million dollars.

Moderator: Thank you. Next we have a follow up question from the line of Abhishek Jain who is an Individual Investor. Please go ahead.

Abhishek Jain: Sir in this quarter I see that we have pledge in 1.03% of promoter shares with respect to what, is it a private loan or loan from a financial institution?

NiranjanChintam: It is not a private loan, it is more for working capital of the company so we had to pledge the shares and other than that everything that we are doing is only for the corporation as such.

Abhishek Jain: Yes, I understand that. I am asking is, the pledge of shares is towards a private person or towards a bank or financial institution?

NiranjanChintam: It is a financial institution.

Abhishek Jain: Okay. And one more question what I want to ask is revenue from the Bokanyi Consultant as we have sold so the revenue which we lose on account of the sale has already been accounted in this quarter or revenue might further fall?

NiranjanChintam: Every quarter there is an impact so it is about $9 million in annual revenue so there is going to be a $(+2) million for every quarter it is going to be an impact right. So, that is going to be reflected into the following quarters also. We cannot just take the $9 million hit, it is a quarterly revenue that we take hit. So, little over $2 million is what the hit is going to be.

Abhishek Jain: Okay. And when we had sold the subsidiary in this quarter which month maybe if I can know?

NiranjanChintam: March. We now set in March and that is when we sold it.

Moderator: Thank you. The next question is from Jai Sharda from Kelly Gamma. Please go ahead.

Jai Sharda: The question that I had is around 19% to 20% growth rate year-on-year that we are reporting. Is it possible to kind of break it up into how much your itis coming from new clients versus thebusiness from existing ones?

NiranjanChintam: I have not done that breakup Jai. I can say a generic statement where 80% of the revenue that we get is from existing customers. So, there is going to be 20% that we are going to lose the customers and then we acquire to fill that 20% growth as well as increase revenue. But we have made some strategic investments into account management and that has given us dividends and lets Srini answer the question about how the account management is playing a big factor in some of the revenue growth? Srini you want to answer that. Srini.

SrinivasPotluri: Yes. Like you said Niranjan the rule of thumb is that we have been getting about 80% of our revenue from existing clients and then the balance (+20%) the growth is coming from net new clients and this year we started our program where we said let’s invest a little more on account management and go after our existing clients and start doing some upselling and cross-selling activities which has yielded results. I see that as of now I do not have an exact number in front of me but within our existing accounts we have seen increased activity increased sales and the numbers are growing and assuming that we should potentially be above 80% from existing accounts. Does that answer your question?

NiranjanChintam: So, there is going to be an increase. Jai the answer to your question is we are seeing increased revenue from the same customers. While there would be some customers that there will be a reduction but there are many of them that they have an increase revenue.

Moderator: Thank you. Next we have a follow-up question from the line of Darsh Solanki who is an Individual Investor. Please go ahead.

Darsh Solanki: I wanted to ask you that on last conference call you all have said that you all are going to focus lot on Europe and you have set up office and all. What the kind of percentage of revenue you are getting from Europe and what kind of growth we can expect?

Niranjan Chintam: So, today we are about 4% revenue is coming from Europe and we want to increase that so we will be increasing investments into Europe and Asia Pacific.These are the two geographic areas that we have targeted for investment as well as growth markets. While we are mindful that we have right now about 90% of our revenue is coming from U.S. we are mindful that is a geographic risk that we have so we are making investments in to Europe and Asia Pacific for that growth. So, this quarter there is already we are seeing some improvement in revenues coming from Europe and we are making investments into Asia Pacific that we hope that from next quarter onwards we should be seeing them also bearing fruit.

DarshSolanki: One more question. The office which you all have set up at Ireland is it particularly to service Europe clients or is it just to service Ireland and may be UK.

NiranjanChintam: It is to service for all the European clients. We also are doing some service of U.S. also from Europe because it is closer from a time zone perspective, we are able to leverage the time zone of Ireland to America and also the language issues that we might have here we are able to offset that by servicing U.S. customers from there.

Moderator: Next we have a follow up question from Agaustya Dave from CAO Capital. Please go ahead.

Agaustya Dave: Can you talk a bit about the mergers that you are doing with your company. It is a very confusing name sir I do not remember it is another Kellton company?

NiranjanChintam: It is Kellton DbyDX, if you are a math person you DbyDX so it is a calculus deferential equations that is how the company was formed. So, it is a subsidiary of Indian company. In India the merger process is quite laborious so we have to file with NCLT earlier it used to be High Court now we have to do with NCLT. So, that process we started we anticipate that might take about 6 months to a year to complete that merger. It is more of an administrative reason why we are doing it because of the compliance part. Be it the taxation be it now the GST components all that is putting an overhead. So, we decided that let’s just merge it and then I take the pain now versus continue to do it every month and quarter on that we have to file all the returns.

Agastya Dave: Okay. So, this is a wholly-owned subsidiary.

NiranjanChintam: Yes, it is a wholly owned subsidiary.

Agastya Dave: Okay. And just last question from my side our AGM is on 28th so by then will the annual report be out, is it out already because I have not received it I was just wondering if the annual report is out?

NiranjanChintam: It is not, I think by end of the month is what we expect to be shipping it out.

Moderator: Thank you. Next we have a follow up question from Abhishek Jain who is an Individual Investor. Please go ahead

Abhishek Jain: Sir I see that this quarter, the employee cost has gone up by Rs5 crores so on what account it has gone up.

NiranjanChintam: This is reflection of when your acquisition that we have made for PlanetPro as well as increasing some of yearly we have to do appraisals. There will be again a bump again in August because then we will do India appraisals so that is the reason why it has gone up.

Abhishek Jain: Okay. And last question, which company do you see as your peer in Indian market?

NiranjanChintam: We don't have a peer in Indian pure play. I guess what we compare ourselves when we talk to Globant which is a South American based company but listed in NASDAQ. So, we compare ourselves with them and so some extent Luxoft is another company that we compare ourselves to it. There is not one company in India that has all the corporate solutions that we have. So, hence there is nothing equivalent. Closest probably is Mindtree but again like I said closest it is not, it is probably about 60% of what we do.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to the management for closing comments.

NiranjanChintam: Sure. Thank you for joining the call and I was saying earlier we are making investments both for acquiring new customers, both on a geographic basis as well as into new technologies. I want to repeat that new technologies from the stuff we are doing we are working on IoT2.0where we are trying to take more and more intelligence to the edge device. We are investing in Robotic process automation which probably was not cool or not sexy earlier now all of a sudden that everybody is talking about it and we see lot of tractions and customer on robotic process automation. We are working with blockchains and then conversational bots are the ones that Google probably Pichai has showed us how to make reservations right. Those are some of the stuffs that we are working where we are making it feel like the other side there is a person and not a bot that is making the reservation. So, we are working on next gen technologies and making a lot of investments. So, I think the future is good for us and also want to remind everybody that the AGM is on September 28, and I am hoping that many of you can attend so we can do a one no one interaction. Thank you.

Moderator: Thank you very much. On behalf of Kellton Tech Solutions Limited that concludes this conference. Thank you for joining us ladies and gentlemen you many now disconnect your lines.