“Kellton Tech Solutions Limited Q4
and
Full Year FY18 Earnings Conference Call”

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

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q4& Full Year FY2018Earnings Conference Call of Kellton Tech Solutions India Limited.

As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you mam.

Asha Gupta: Welcome to the Q4 & Full Year FY18 Earnings call of Kellton Tech Solutions Limited. We have uploaded the results and earnings presentation on our website and have mailed them to you as well. In case you have not received them,write to us and we will be happy to send them over to you.

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

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

I would now transfer the call to Mr. Niranjan Chintam. Over to you, sir.

Niranjan Chintam: Good evening, ladies and gentlemen. Thank you for getting on the call. We look forward to meeting you in person as and when possible.

Let's start with the quick highlights of Financial Year 2018. In this year, we have acquired Planet Pro,a Silicon Valley based global firm that provides analytics and custom program services to enterprise clients. We have also forayed into the energy sector by providing an IoT-enabled AI platform using which we are doing some proof of concepts that will soon be converted into business opportunities. We have also been apprised with the CMMI Level 5 certification, which is a prestigious certification. Our teams follow global quality standards for processes and procedures which ultimately give benefit to our clients. Kellton Tech was also ranked the23rd fastest growing company by Deloitte in the Fast 50 India 2017 list. We received this award for the third time in a row.

Let's now talk about the financial numbers for the last year. The last year revenue for the whole financial year is Rs. 786 crores which is about 27% year-on-year growth with a PAT of Rs. 68.3 crores which is about 29% growth year-on-year. The quarterly revenue was Rs. 215

crores which is about 2% on a quarter-on-quarter growth and PAT was Rs. 22.3 crores which is a 31% growth over the last quarter. In addition to this, we have also added 10 new clients in this quarter. Some of them will be explained by Srinivas and Karanjit over this call.

Now I want to open the floor for questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vandit Dharamshifrom Prime Enterprises. Please go ahead.

Vandit Dharamshi: I have two questions. By when will the hefty trade receivables convert into stock? And is there any particular reason why we have this type of working cycle? My second question is do you have a plan to acquire more companies this year? And how is the company looking to pay off its debt as there is a reasonable size of debt on the balance sheet?

Niranjan Chintam: The accounts receivables or trade receivables are around 78 days which is in line with the industry. In addition to that, we have also acquired PlanetPro in the last quarter, the balance sheet of which is completely merged into Kellton Tech consolidated balance sheet. So all the trade receivables in PlanetPro's balance sheet are now reflecting in our balance sheet.

PlanetPro has entered into receivable terms with a number of customers based in the Asia Pacific region. So the period comes to about 120 days. Because of this reason, you see a little bit of lag in collections. I think we have been talking about it every quarter. The larger the customer, such as in the case of Fortune 100 customers, the longer it takes compared to smaller ones.We are engaging with a lot of large customers nowadays, hence the receivables are high. But as I said earlier, it is at 78 days, which is an industry norm. We are below the 80-day number which was there in the last quarter, and we would like to continue this way remaining within the 80-day time-frame which I do not want to exceed as an artificial threshold.

Answering a question about debt on the book, the debt on the book is about Rs. 113 crores. This has actually come down by about Rs. 6 crores as compared to the last year. What we also did was we paid back.If you look at our cash flow statement; we have paid around Rs. 40 crores worth of earn-outs. So,all in all we have paid around Rs. 46 crores towards debt and earn-outs payment. Our cash that we have and we are generating is going out to either retired debt or pay earn-outs. So, I anticipate that we will be around the same number going forward or slightly less than what we have today but we will remain in this range, because we are on a continuous lookout for acquisitions. We will continue to make acquisitions and strengthen our capability and customer base as I have always mentioned. Revenue is never a criterion for us before making acquisitions. We evaluate the cultural fit before buying a company. I do not have any specific company in mind at this point of time.

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

Agastya Dave: I have a few questions on the acquisition that you have made. We don't have a lot of details about it. So if you are comfortable please share some more details about the transaction and the capabilities and the receivables that you have mentioned, like how big is the actual absolute number of those receivables which you have acquired.

Niranjan Chintam: For confidential reasons, I cannot reveal some of the numbers. The size of the acquisition is small and some of the numbers have gone into the consolidated balance sheet. I do not have those on top of my head right now. So it suffices to say that whatever was merged in consolidation with this company had not had a huge impact on us.

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

Mayank Babla: I have two questions.One of them isI have seen there is a margin improvement in Q4 over Q3 from around 15.05% to 16.9%. Could you just give me a margin breakup for the same showing all the areas of improvement?

Niranjan Chintam: Sure. As we have been telling you Mayank earlier that because of more and more digital transformation contracts,we have been able to improve our margins. Digital transformation has been and will continue to provide a major chunk of our margins.

Also during our one-on-one and general conversations, we have been saying that we are hiring people who are taking us to the next level of sales as well as delivery. So,we are looking across the board and not specific to a certain area.

MayankBabla: So, just wanted to understand the tax figure for Q4.It has come down from Rs. 8.6 crores in Q3 to Rs. 7.4 crores.Any particular reason?

NiranjanChintam: Sure.It is the impact of the Trump Taxbenefit that we talked about earlier wherein the tax rate went down from 30%+to 21%; when it comes to the Federal Income Tax in the US. So, there is a change of about close to 10 points that we are gaining, which is what you see there.

Mayank Babla: Can we assume the same effective tax rate for FY19 and FY20 going ahead?

Niranjan Chintam: It should be around that number. We are also doing as much as possible on tax planning by having contracts in Ireland. Our Ireland revenues are going up, so you will see these kinds of numbers going forward.

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

Agastya Dave: If you can just repeat the acquisition part I did not hear anything?

Niranjan Chintam: So Agastya, I was saying I cannot share the numbers for confidentiality reasons on a public call like this.

Agastya Dave: In that case I will not ask for anything. If you cannot make it public, then there is no point in asking the question. My next question was on your investments that you are doing in your new offices? Is there a number that you can share? How much was done for this entire year? What is the industry ballpark when you hire people in sales and marketing? My assumption is that it takes roughly 8 months to probably a year for them to become productive. So where are we in that cycle? I mean the hires that you made last year, have they started contributing now to your sales?

Niranjan Chintam: Coming to the improvements in office, I do not have a number on the top of my head to tell you about the expenditure that we have made. But, I would say that comfortably that it is less than Rs. 10 crores. Now coming to the sales people, yes we have made investment in sales people. We have invested in management and we have made some errors doing that and we have made some course correction along the way. So, yes we are reaping the benefits of the hires that we have made not just in sales, but even across the delivery and the marketing functions. So, that is what is contributing to the increased margins this quarter.

Agastya Dave: If I look at your entire year's wage bill which is Rs. 350 crores, can you provide us the split between sales and marketing and development and general administration? A rough number, please. If you cannot split this number, please let us know about the number of people in sales and marketing and the number of people in development. If you cannot share that, then probably the ratios. Anything will do.

Niranjan Chintam: I think if you are looking for what you call the big numbers or the ballpark numbers we are looking at 70:30. 70% of our staff is in delivery, while 30% are our support staff, covering the SG&A and other people. That is a ballpark number, and again, we do not have the exact numbersso I must stick to it and tell you that is70:30.

Agastya Dave: And finally sir, two questions. Did you say that the debt was Rs. 113 crores or Rs. 130 crores?

Niranjan Chintam: Rs. 113 crores.

Agastya Dave: The pledge that you have, I did not get a chance to look at it. Has it actually come down? And if it hasn’t then what sense does it make? Because obviously the network has gone up, the debt has remained constant, so the bankers must have some more comfort so that they can release some shares? Do you have any comments?

Niranjan Chintam: You would wish, right? The bankers, with whatever has happened lately with Nirav Modi, they have squeezed us more than giving us the flexibility. I think you must have heard this from many people and we are one of the people who are getting affected.

Agastya Dave: Yeah, it is across the board—domestic companies and foreign companies. Companies with subsidiaries have to pledge their subsidiaries and shares, so that the bankers can squeeze everyone. I am just trying to assume your debt-equity has improved, right?

Niranjan Chintam: Our debt-equity has improved, yes. The debt-to-equity ratio is about 0.44 which, used to be 0.68.It has improved significantly but with this tightening of the rules and across the board tightening; rather than the selective tightening we are getting squeezed.

Moderator: Thank you.We have a follow up question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: In terms of guidance for the next year, if you cannot give a guidance on the top-line how are you seeing the business general commentary, how is the funnel looking like, order book, traction in new accounts, you have added 10 new customers, what is the pipeline looking like? And the second part of the question concerns your existing customers; are you able to now mine them more effectively? Is your penetration increasing in individual client accounts?

Niranjan Chintam: Let Srini answer that question when it comes to the account mining part, because he is heading that segment when it comes to the US-based customers. Srini has a lot more detail on how the account mining is working. What we have made Agastya is a strategic decision about a year-and-a-half ago to start investing in account managers. I think we talked about it during the last few quarters,it is producing results. I will let Srini answer that and I will take the other questions from you. Srini, can you answer that question about account management and how that's going?

Srinivas Potluri: Sure.So from a perspective of account mining and account management, some of the investments that Niranjan spoke about earlier, on the sales side are having dedicated account managers for our strategic accounts. So what we have is a set of dedicated account managers for all our large strategic accounts. It is now mandatory for account managers to carry account mapping, understand the landscape of the clients, and look at adjacent technologies that they are using, as well as cross-sell and up-sell within our existing client base.So, from that perspective, we have seen a significant improvement in our projects from the existing clients in areas in which we do not serve them before. This strategy had worked out for us, though it isa little early; just about 6 months,but we already are seeing some results. Is there anything specific about the account management that you would like to know?

Agastya Dave: How are you structuring your sales team there? Actually,I do not know this for the entire organization as such. Can you also describe the structure of your organization just from the sales and marketing side? Which would include your pre-sales andafter-sales staff? So if you have, I do not know the number of customers now but let us say if you have 200 customers, how many account managers are there for these customers?How many accounts does each sales person actually manage? And then how many people are responsible for new business in the sales team? How many people are responsible for after sales service? How is the entire structure? I am pretty sure there are some intersections there and some unions there so I do not know how the structure is, if you could describe that?

NiranjanChintam: Let me answer that and Srini, step in wherever you can. I guess we are following a traditional model just like others are doing.We have sales support which we call asour lead generationand digital marketers whowork out of Hyderabad and Gurgaonand are responsible for getting the first contact with the customersand generating interest from the customers.Theyput in alot of marketing efforts.They also go all the way up till proposal writing.Then we have the field sales staff defending the proposals and initial face-to-face meeting with the customers. Within a month following the sale, when the delivery happens, or delivery is happening, the account manager steps in.

SrinivasPotluri: That is right. The rule of thumb is mostly about a month.If it is a large complex client and a relationship-based client, then we make sure that the transition is smoother and it takes a longer time.But typically the rule of thumb is about a month. After we open a new account, it is handed over to the account managers.

Agastya Dave: Anything about the guidance for the next year? How is traction in the business pipeline, all those things?

NiranjanChintam: As you are aware**,** the traction for the business is digital transformation.Digital Transformation is the latest buzzword and we say that we are"Born Digital."So, we are seeing a lot of traction in the digital transformation space and that is what everybody is talking about nowadays I guess. We are alwayson track, and we have now gone on to the next wave of IT services which we are calling—IoT 2.0.We are doing robotic process automation andare involved in exploringAI-related combination with IoT 2.0. So we are doing a lot of work on both thesefronts from a proof of concept toimplementation of live projects.

We are seeing a lot of traction with the advent ofnew-age technologies.For instance,mobile used to be a cool buzzword about 4 or 5 yearsback. Now,all companies needa mobile-based solution offering for anything that they do. We similarly believe that IoT is going to be in that space probably by next year when everything and anything that people will dowill require IoT.So that is why we are investing a lot in IoTas well as in Robotic Process Automation.Everybody is excited about that space.We are working on live projects as well as proof of concepts in some specific manufacturing industries. Coming to projections, I want to be conservative because our base has been growing up. I will say about 15% to 20% range is the anticipated growth for the next year. That is what we want to project.

Agastya Dave: On the sales side, another question that I have is,that you are not a product company, are you?So when you approach a new client, where you have absolutely no previous contact, how do you actually make that entry? Do you have tie-ups with, let us say, a company which is making mobile product solutions and then you say that "Oh we are the preferred partner for them."Do you have a joint market strategy?You touched upon it last time, right?You were saying that you have you have developed some analytics platform for S/4HANA and there was also some SAP thing if I am not mistaken.So,do you bulk off your order bench, or do they come through this route where you are partnering a product company?Do you enter the picture when the decision about the product is already made? What is the situation there? How do you make that initial breakthrough?

NiranjanChintam: It is all of the above.Karanjit, do you want to take that?

Karanjit Singh: Typically, the best entrypoint for us is, when the customer has already decided that they want to disrupt the market or they have a CDO or a CIO who has got a distant roadmap and they want to do something around digital. That is the best entrypoint for usand we get the most traction here.Our probability to take it to closure is also at its best at this point.So typically for us, we are trying to get inbound leads, we have referrals, and we also do outbound outreach through email as well as callthe best leads to go ahead.So it starts when the customer has already realized the need for digitaltransformation and is looking for a company like us to help him shape or refine that vision into certain projects. We sometimesdecide to do something on mobility or analytics; or sometimesthe company definesthe project and looks for a vendor.

In terms of whether we would go with the platform or not, that is entirely a decision based on the customers' IT landscape, right? So if I am a SAP customer and I have decided that, say, SAP or IBM is my standard platform then we propose a SAP Hybris ecommerce solution to him. But then he might say that Hybris is going to bevery costly while our ecommerce is not as expensive, and ask us to consider an open source or customized solution - which is always the case. We, as an IT Services company, will not impose our decision. We will rather try to choose the best of the alternatives from a value perspective which is based on the cost, delivery timeline, and the client's potential success - which we have been doing and will continue to do. For instance, if he is already using an IBM platform, we can just leverage that and deploy a bespoke solution that we think will fit at thatpoint of time.

NiranjanChintam: Can you also talk about word of mouth referrals to get new customers?

Karanjit Singh: Yeah, good point Niranjan. We do get a lot of business opportunities from the word of mouth as we have been able to meet or exceed customer expectations. We yielded business through client's recommendations as they are satisfied with our services and approach to propose the most feasible of solutions based on the customer requirements. We receive referrals frompitches madeby our ex-employees as they have been part of the journey which gives them a lot of confidence to make client pitches.

Moderator: Thank you. The next question is from the line of SaketBansalfrom Dinero Wealth. Please go ahead.

SaketBansal: I wanted to ask about the AI and the IoT-based platform which you are developing for Oil Exploration company. So any update on that,any breakthrough orders?

NiranjanChintam: Currently we are buildingproof of conceptsfor multiple clients from different continents. So both in Asia Pacific as well as in South America and North America, we are doing a lot of proof of concepts. It willtake us time before you see the jump in sales;but we anticipate that within this calendar year there will be a significant amount of orders that we will be getting on this, because people are excited about what we are presenting now. Whatever we presented we are now proving it as a proof of concept, so we see a lot of traction there.

SaketBansal: Any ballpark figure like what kind of revenues we can get from this?

NiranjanChintam: I just don't want to speculate. All I can say is probably within the next few years, we should be getting 10% of our revenue from these kinds of opportunities involving IoT-based solution around AI…Like,I was talking earlier about IoT 2.0, we will be seeing a lot of traction there.

SaketBansal: In terms of employee cost it is currently at 45% versus 49% year-on-year,according to me. So can you guide me at which level can we consider this employee cost to be as a percentage of sales?

NiranjanChintam: See our goal is to get to about 50% and it is where we are comfortable with because we are looking at a gross margin of 50%+.So, ideally there are different goals that we give for Indiaand US. For India, we look at 50% plus when it comes togross margin. In the US, the margins are smaller because our employees are very expensive.When talking about new-age technologiesand the limited number of staff, supply and demand plays into that.Hence, I would ideally love to be around the same number 45% to 46%. But given that we are playing with the new cutting-edge technologies, we would probably be touching 50% on some quarters and maybe even beyond, based on the opportunities that we are working on.

SaketBansal: What is the bench strength currently?

NiranjanChintam: Almost negligible. So that is the challenge for us. We are unable to keep a bench, because whenever I ask Karanjit and Srini to start having a bench, they come back and tell me okay we have hired 30 to 60 fresh employees. Karanjit, for instance,has about 60 people last year and then he tells me that the bench is gone within 6 months once the candidates are trained. So,we always have a problem keeping our bench.

SaketBansal: So youwould be hiring people in this quarter?

NiranjanChintam: There should be some hires. Karanjit, you want to talk about the hiring plans?

Karanjit Singh: As Niranjan said, the people that we hired last year have all been absorbed into projects. They are at the peak of productivity. So this year again, we are repeating the same exercise. We willhire around 70-80 new people between now and the end of the year.After hiring new employees, we will start investing in them so that they are productive for us starting fromthe last quarter of this year. We are also looking at lateral hires.

Moderator: Thank you. The next question is from the line of VanditDharamshi from Prime Enterprises. Please go ahead.

VanditDharamshi: What is your usual client retention rate? And would top-line sustainability be around 15%-20% as you have already mentioned?

NiranjanChintam: We have 80% of our revenue coming from repeat customers rather than from the new customers. At any given point of time, we lose about 20% of our customers not because we were not doing a good job, rather because the project has ended, or the funding has ended.We move on or they decide to move on for that reason. So 80% of projects are from the same customers that we had. Some of our customers are around for 10+ years now. And they will continue to be with us, which is what Karanjit was saying.

We got a lot of referral customers because they are happy with the solution or the service that we have provided. They all recommend us to others. To answer your question, about 15%,like I said, are our referral customers.We want to be very conservative.Ourtop line has been growing and we want to be conservative and I would say a range of 15% to 20% will be an organic growth going forward.

VanditDharamshi: So as we spoke about some amount coming from Ireland, because of some of your, tax savings. What percentage does it come to?

NiranjanChintam: The Ireland tax ratesare very low compared to the rest of the world. And I think everybody, all the big organizations; all the way from Coco Cola to Google and Apple hasan office there because they want to take advantage of that and just like everybody else we want to follow the leaders, when it comes tothe tax advantage Ireland is offering. So we are also getting a lot of traction in Europe when it comes to it. We get 7% of our business revenue from Ireland.

VanditDharamshi: Now the currency rate has become little fluctuating, so is there any type of hedging that you are doing because you have some good amount of revenue coming from America?

NiranjanChintam: For us it is the natural hedge. The reason why I say it is a natural hedge is because we have expenses in dollars and euros, and we are getting revenues in dollars and euros. So I do not need to hedge. For instance, the revenue coming into India is around which we need to do some hedging if required. The reason why I say we need to do hedging is because the dollar is in the favor when it comes to a company like us. But having said that, we are also borrowing in dollars in India, so again it becomes a natural hedge for us. So we do not do any hedging for that reason.

VanditDharamshi: I was just waiting for the Ireland number. You can give me sometime later.

Moderator: Thank you. The next question is from the line of Jay Shardul from Kelly Gamma. Please go ahead.

Jay Shardul: What is the sort of competition? Is there a flavor you can add to that? Mysecond question is, what is the raw material cost that we are seeing this quarter? I know you touched up on this earlier but could you just repeat that please? Is it something that you expect to stay the same in the future as well?

NiranjanChintam: Let me answer the first question related to the raw material. The raw material in this case isa solution that included some hardware for the Government of Mauritius. Welaunched the solution along with providing the hardware for the government initiative. So that is likely to continue as we are told aboutgetting a follow-on order.So yes, for the next probably 2 or 3 quarters there will againsome raw material consumption that is going to happen, because we need to provide the solution around the hardware.Coming to your question about the competition - like I was saying earlier - unlike others we were born digital. We keep saying that digital is in our DNA. So we do not see too much competition out there but with that said, we are facing competition from everybody, right? When we go to a customer we do face competition from large global companies to the big boys of Indian companies who are also there to compete with us. But once we get past the initial ice-breaking and get to a table or a technical discussion table, we do not lose many of the things because by virtue of our prior experience and our technical abilities, we are able to succeed in most cases.

Jay Shardul: Just one more question.We have seen in the last quarter that our revenues from the US were about 82%, whichhas gone up to 84.6%; and I understand that we are trying to reduce our dependency on the US. So is there something to read here or is it just the regular gyrations on a quarterly basis?

NiranjanChintam: This is agyration of the quarter, and the reason for that is the Mauritius Government contract that skewed in. But we have been around 24%, and yes we do want to shift it to other places, Europe, like I said earlier. Europe is where we are focusing on and we want to expand.We already have that coming from there.With some of the other initiatives such as plans to reduce taxes, there should be some increase in European base revenue as well.

Moderator: Thank you. The next question is from the line of Manish Jain from A.K.Paper Products Limited. Please go ahead.

Manish Jain: Just wanted to know about your 2020 vision which you outlined about a yearago, is that inline or not?

NiranjanChintam: The vision that we came up with was rested on the money required for the growth of the company. Like I was saying earlier also, today we have not raised any money from outside entities other than family and friends. So we need money for us to achieve the 2020 vision that we had. If I do not have the required money, would I be able to achieve it? I may not achieve it in 2020, I may achieve in 2021 or 2022.Because my growth rate will slow downwithout the money and there is a drag on the balance sheet when it comes to that. So I will be taking less risk when it comes to some other things that I need to do to get to that magic number of 2020 vision. I will definitely achieve that; if not 2020, by 2021 or 2022, I will achieve the number.

Manish Jain: What is the 2020 vision right now?

NiranjanChintam: I want to still say that I want to achieve the number right? But given the short time space,I am not able to get the thing. Let us just go with that 15% to 20%year-on-year growth that I will be doing.

Moderator: Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.

NiranjanChintam: Thank you, gentlemen and ladies for getting on the call. I really appreciate you getting on the call and keeping us on our toes on what we are doing and how we are doing. We look forward to meeting some of you face-to-face during my journeys or if you come down to Hyderabad we would love to meet you and tell our story again. What we are doing is something that we are really excited about.We are excited and we consider ourselves as pioneers in this space.Hopefully we will be able to get a lot more business and revenue out of the customers that we currently have and whom we are targeting. Thank you again for getting on the call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Kellton Tech Solutions India Limited, I amconcluding this conference call for today. Thank you for joining us and you may now disconnect your lines.