

**Kellton Tech Solutions Limited**  
**Q2 FY20 Earnings Conference Call**  
**November 15, 2019**

---

**Moderator:** Ladies and gentlemen, Good day and welcome to the Kellton Tech Solutions Limited Q2 FY20 Earnings Conference Call. We have with us on the call today, Mr. Niranjana Chintam, Chairman and Whole-time Director and Mr. Karanjit Singh, Chief Executive Officer. I would like to thank you all participating in the company's earnings conference calls for the second quarter of the financial year 2020.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature. And such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on the management beliefs as well as assumptions made from the information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "\*" then "0" on your touchtone phone. I now have the conference over to Mr. Niranjana Chintam to give his opening remarks. Thank you and over to you sir.

**Niranjana Chintam:** Thank you. Good evening, ladies and gentlemen. Thank you for getting on Q2 FY20 earnings call of ours. This quarter we have achieved about 187 crore worth of revenue, which is almost flat when it comes to growth compared to last quarter. So we are doing about the same as what we did the last quarter. Coming to EBITDA, we are around the 3 crore in EBITDA this quarter and a PAT of 1.87 crore is what we have achieved this quarter. So EBITDA is around 16% is what we have. I am sorry, EBITDA is 30 crore and a PAT of about 18 crore. My bad on the numbers and EBITDA we are doing around 16.3% and we did a PAT of about 10%. So the EPS is coming to 1.94 which is again as a little over what we did last quarter, but then almost in line with what we have achieved the last quarter. We have signed up 15 new clients and these clients vary from medium businesses all the way to fortune 1000 businesses, and we are hoping that these 15 new clients would give us revenue over the next few years we will be able to realize in a lot of revenue order. We also last quarter we have announced this, we have won the FCI contract of about 40 crore and that we have begun work and we should start seeing revenue flowing in this quarter. There are other contracts also that are in pipeline

and hopefully they will be signing up those contracts very soon. And we will be making an announcement as and when we win big contracts and big awards. With that, I want to open up for questions so that we can have much more discussions individually on specific questions that you might have on the members of the business. Yes, go ahead and open the call.

**Moderator:** Sure, thank you very much. We will now begin with the question and answer session. The first question is from the line of Saurabh Soni who is an Individual Investor. Please go ahead.

**Saurabh Soni:** Sir, I was looking at the balance sheet and there is in the last six months there is 14.5 crore increase in right to use of asset and goodwill has also increased by 38 crore. So, may I know the reason for this 53 crore increase in intangible assets on the balance sheet?

**Niranjan Chintam:** Sure. Right to use as a part of the new company law requirement or new IndAS requirement not a company law, IndAS requirement we have to show what is the lease liability of all the different office spaces that we have rented out. And that is what is reflected there it's basically this is and one side of the balance sheet we are showing the liability and the other side we are showing the asset. So, that is what you are seeing there. Now, coming to the goodwill part, there are two components in the goodwill part, one is Tivix acquisition is now showing up there, the cost of acquisition as goodwill there, in addition to that any of the currency fluctuations is also reflecting there. So, those are two reasons why the goodwill went up. And then also, we also did a revaluation we had some guess much in bankers reevaluate and they tell us what is the value of the individual subsidies that we have acquired. So, there has been illiberal revaluation of that too.

**Saurabh Soni:** Acquisition also, in this last two quarters?

**Niranjan Chintam:** So, we did this announcement of Tivix acquisition sometime in April of this year and this was not there in March balance sheet so, it is showing up now.

**Saurabh Soni:** Can I know this, how much of the total 38 crore belongs to this acquisition?

**Niranjan Chintam:** So, what I can tell you this Saurabh, that is something that there's some confidentiality with the customers we don't declare it as a standard operating procedure for us where we don't tell the amount out but suffices to say, there was announcement made both of exchange as well as what is required.

**Moderator:** Thank you. The next question is from the line of Rajan Shah who is an Individual Investor. Please go ahead.

**Rajan Shah:** And you said this FCI this orders received from Rs.40 crore from FCI?

**Niranjan Chintam:** Yes.

**Rajan Shah:** Food Corporation of India?

**Niranjan Chintam:** Yes, Food Corporation of India, that's correct.

**Rajan Shah:** So how much time limit to fulfill the order?

**Niranjan Chintam:** Karanjit can you answer that?

**Karanjit Singh:** Rajan, this is a contract over six years, where the actual implementation is about one to one and a half years followed with 5 years of maintenance.

**Rajan Shah:** 40 crore is the total amount?

**Karanjit Singh:** Yes.

**Rajan Shah:** And sir valuation is not getting our sales in market as a lot of good results we have to declare but valuations in the market particularly?

**Karanjit Singh:** Go ahead Rajan, if it's a question then I'll answer it. I don't have an answer to that rather right. So, I don't know and every call I admit that I am a novice or a beginner when it comes to Bombay Stock markets or market that is something that is outside my control, whereas operation is in my control and I am able to answer that but when it comes to stock price it's something that I am unable, it's not like I am unwilling, I don't know the answer is I don't know.

**Rajan Shah:** But I will suggest that somebody give some little dividend 10%, 12% that is the valuation investors are happy to reverting in company?

**Karanjit Singh:** Rajan we are at growing company and you are aware that as a growing company I need a lot of cash to grow. We have ambitions to grow beyond this. We are getting a lot of contracts both in as leads as well as signed contracts; we should be hopefully announcing a few other ones shortly. Where we are there in the tendering stage, negotiation stage. So you see a lot of these contracts coming in all of this required cash if I give out cash then I won't have any operational money left. That is why we are not giving out, but 2021 and or 2022 beginning is when we would start giving out dividend until then I would need cash to pay down my debt as well as my honored obligations that I have. And after that, for sure I would love to give that money back to the shareholders.

**Rajan Shah:** Okay. And how much order in your hand as of now?

**Karanjit Singh:** So, typically what we have is another backlog is between six to eight months at that any given point. So, that is what we have as backlog.

**Moderator:** Thank you. The next question is from the line of Mahendra, he is a shareholder. Please go ahead.

**Mahendra:** I am a shareholder of this company and I have two questions. First question is that in Q1 concall, there was a comment mentioned about the debt reduction, what I have observed that the company is making approximately Rs.80crore in a year and if will translate into the cash flow the company has about 80 crore of the cash flow, out of that 40 crore can be used for the debt reduction, the remaining 40 crore for the growth and if we take 90 days receivable then growth can be 160 crore even without borrowing any more money and at the same time company can reduce the debt by 40 crore. So my question is that why this is not happening?

**Niranjan Chintam:** It is happening Mahendra, where we are retiring debt we are ploughing in money for the growth of the company where I think you said 40 crore were are doing more than 40 crore is what is going out in debt retirement as well as earned obligations. So, I don't have the exact brake up here but we do have both of them that is happening simultaneously. At the same time we are doing lot of business development in Europe. Because, I think that is a target that we have we want to grow the pie in Europe. So we are investing in Europe to grow. We are investing in our people. Currently, I think Mahendra, if I recall this is the first time you are asking a question, I have been talking about growing from the current \$100 million to the next level, it requires for us to invest in system, processes and people and we are investing in that. So coming to and all these things you are aware the existing people will not be able to take us to the next level. So for that we are hiring external consultants to help us in the organization building so that the current people can step up while we are hiring a senior leadership that has the ability or has the capability also to take us to a probably the 200 million, 300 million goal that we have in the future years to come. So, there is a lot of investment to that we are doing in a product called Optima, which is for the IoT based solution for oil and gas industry. So we are investing in all these things so there's a cash that is being spent, we are not booking it as a true R&D we are not capitalizing it, it's going into the P&L. Right, so there's a lot of cash that is being used for all these things. The process also, we found out that probably about six to seven months back the existing process will not scale up to what we want to grow to. So we are re-doing, or we did much other process to be able to do that systems. We are using systems now to do some of our marketing tools be it sales tools, all that there is lot of cash investment that is going on. So these are the ones that is sucking up the cash when it comes to, it's some of our operational stuff, right. So that is where all the cash is going. Yes, you are right. The same time proportionately as revenue is growing. Also receivables also growing in line. And some of the things like you're aware nowadays, the banking industry, the way the banking industry is they're not extending too many limits for us. So, some of the cash investments for working capital, the cash investment for PGs that we had to give is gone up significantly compared to what it was let say last year.

**Mahendra:** Right. Because what I, like I believe what I think, that because of the debt level is not reducing. So that is reflecting in a top line that was earlier questioned. There was a question earlier, asking about the floor price where you mentioned that, you can't comment much on that, but I believe that is what is happening because the debt level is not being reduced. At the same time company is making 80 crore. So the market is wondering where the 80 crore is going.

**Niranjan Chintam:** Okay, so the debt to equity is currently at 0.35. So this is not significant. Again I am not justifying the stock price or anything I am just telling you what the numbers are right it's 0.35 which is, I would say much below whatever our peers have it. I'm not comparing myself with the big boys but in the small revenue range and we are there. The other thing Mahendra is so far I have not raised a single penny from the market. All the investment have been either promoter funding or through debt. So, I am growing for that I would need cash.

**Mahendra:** Right. So, that is another observation which I have, I am shareholder from last six months or so. But what I have observed that one time the stock price was even more than 100. I don't know why the company has not raised money at that time when the stock price is so high.

**Niranjan Chintam:** We tried Mahendra, it's not because of we didn't try. We had IDFC tried to raise money for us, and again at that time people were not aware about digital transformation. Now everybody is talking about digital transformation. Okay, at that time people were not aware. So hence, we did not, again I don't want to speculate on why we didn't get the money, but we were unable to raise money. There were multiple attempts to raise money and for the last two years probably we are staying quiet. We said, okay, let's stabilize the operations will come back when market is more receptive, and the market has not been receptive. We are not actively seeking money today. But if anybody calls us we are responding, and we are talking to them.

**Mahendra:** Okay. But right now there is no point because the stock price is so low, trading it is just to multiple. At the same time when we compare the industry it may be trading at 10,12, 10?

**Niranjan Chintam:** Yes, fair enough.

**Mahendra:** Okay, now I have my last second question. How much of the earn out payable at the end of Q1, and how much at the end of Q2?

**Niranjan Chintam:** So, I'll tell you what it is now. So Mahendra let me dig that up, let me go to the next question that is there. I'll answer that question to you because I need to dig it up the exact amount. But, we'll get back to you on the call I'll answer that question, before we get off the call I'll answer that.

**Moderator:** Thank you. The next question is from the line of Rohit Mal who is an Individual Investor. Please go ahead.

**Rohit Mal:** I just want to ask when our stock is trading at our half the book value and I see the value since around 200 crore then why are we not buying back the stock from the market?

**Niranjan Chintam:** See we don't have, we are first time entrepreneurs let me start with that. And I don't have unlimited cash, all my cash has been invested in the company, all my assets have been based in the bank for working capital of the company, I don't have cash to buy out. So, coming to you using the cash to buy out from the market of the company cash. Right now, the cash for the company need is greater than me buying out share for the market the reason why I say that because we are investing in the growth if I do that I will not be able to invest in the growth as well as, the contracts that will be coming in the pipeline, I will not have working capital divided out. That is the reason why we are not buying out shares from the market.

**Rohit Mal:** Thank you. But again we can see we are generating 80 crore of almost like 50 crore of cash every half year. So we are not even seeing the kind of growth that should have come. Even the debt has not been reduced. So I'm not sure where is the money going on from here?

**Niranjan Chintam:** So, I think we talked about it right, it is going to the reduction in debt is happening because we have a quarterly payment that we have to make to the bank, you have some monthly payments.

**Rohit Mal:** Yes. But I can see the debt has increased by 5.73 crore.

**Niranjan Chintam:** Yes, it did go up, because when I was telling about the new contracts that we have received, example the FCI contract and also the Tivix acquisition, there is some cash need that was there. For every time that we are getting new contracts, we are pumping in cash for working capital. So you are aware right, some of these contracts have a long gestation period, before we can raise the bill we have to invest. And then we can raise the bills. There are some bank guarantee requirements. And like I was saying earlier, the banks are not cooperative anymore. So we had to put some 100% cash to get some BGs. So we are doing all these kinds of things. And that is where the cash is getting stuck.

**Rohit Mal:** So all this is reflecting in the balance sheet sir?

**Niranjan Chintam:** It is reflecting in the balance sheet, everything is reflected in the balance sheet. There is nothing outside the balance sheet we are doing everything is in the balance sheet.

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

**Agastya Dave:**

Again sir, sorry to beat a dead horse. But what all the other previous shareholders and participants have said I would also repeat that I get the cash constraint and the need to invest in the business, but at least the debt because of which some of our shares are pledged if you can just replace that amount of debt. And at least get the pledges out. That is such a big overhang plus the fact that our growth has actually come down quite dramatically. So we were till last year growing at 20% now Y-o-Y we are not growing. I do see that the debtor margins have improved. But growth as such is missing. So, one first question that I have is, when do we see quarter-on-quarter growth coming back because we have had last four quarters I've been seeing we have had some pretty decent client acquisitions. In the presentations, we see that but, when do we see revenue kicking in from all of them and quarter-on-quarter growth returning. And if this is the steady state that we are going to be for some time, then my request would be yes, I get the constraint that you can't buy back or the dividend or anything else, at least repay that portion of the debt because of which your shares appraised. At least reduce that leverage; it may not be I am pretty sure it is not the entire amount. But even if it is, let's say 20 crore or 25 crore that much you can afford, if that goes and the pledges are released. And even if we have to sacrifice, because today the stock is not factoring in the growth potential at all. Today, the stock is factoring in 50% of the liquidation value, it seems like because it's half the price to book so my request to you would be at least take some cash and at least release the pledges. And then the second question is when do we see quarter-on-quarter growth coming back?

**Niranjan Chintam:**

Okay, so let me answer both of them. The first one is the debt part and I'll take it under advisement we will review this and see what to do and we'll figure out a solution for that. But the pledge share because of stock price the way it is, we had to pledge additional shares even though we are bringing down debt. So for one of the bank, Indusind Bank, what shares we pledged earlier, the debt has come down from that perspective for we have been paying down quarterly. While we are doing that the stock price fell, so we had to pledge additional shares. So, there was no release actually we had to give little more shares for that. So, we will again take it under advisement and review and see if there is a better way to handle that and we will definitely take your input into consideration there Agastya. Now coming to the growth part, the growth, the reason why we are not comparing the last two quarters. Prior to this, we have sold out a couple of entities. I think we talked about this Agastya where we said that we saw **Vakrangee**, supreme softso, there was almost a 20 million revenue drop. So because of that, we are now in a catch up game to get back to what we call, you said the steady state part of it right. So, to answer your question probably, we are now in what we are calling ourselves, we are trying to put our arms around everything that we have consolidation and we are looking at how to build up the organization for the next level of growth. So, we are focused more on building up the organization now. So, we should have the growth starting up not this quarter from next quarter we should start seeing growth. Again coming up, it may not be as significant as what it was earlier, but we should start seeing growth coming from next quarter onwards.

**Agastya Dave:** You mean sirQ4 or Q3?

**Niranjan Chintam:** Q4. Q3 like I said it won't be significant, but you will start seeing the growth what's coming back up.

**Agastya Dave:** Okay. Sir on this the earn out obligations, that also that is one point that I understand because when we met in the previous years, AGM you guys explained that how much money you have paid. So my another request to you is that if you can break that number up and one gentleman has asked you for that number. But that is one number which is not very apparent until unless the annual report comes out. And that's just a once in a year phenomenon. So on a quarterly basis, if you have notes if you can break that number up, I don't really know where you report that number. And I've seen that number coming down year on year. So if you can break it up quarterly, because that is also kind of a debt. It's not interest bearing but still it's something which is an obligation. So, if you share that, that would give a better understanding to everyone where this cash flow that you are generating is going. So that is another suggestion sir. Second the recent orders that we have won, when do you see them ramping up and what is generally the case, do you take six months to ramp up, how soon do you see the revenues coming in? So for example the ones that you have declared are in this presentation, right. So this is page number 8. So when do you expect all of these to start contributing to revenue, there I can see seven of them.

**Niranjan Chintam:** So let Karanjit answer, this question Agastya. But to talk about earned piece of it absolutely. We will start doing that quarterly going forward so that it's clear to investors as to what the obligations is. Karanjit can you answer that question?

**Karanjit Singh:** So I will answer it in two parts so there is this large orders last orders, call it FCI or the large orders. So where there are those schedules like in this case, it's about there's are some milestones but I am only talking about significant milestones. So the first significant one is I think, with a lack of about, so obviously there is some small amount that we are part of advances. Sorry the first installment but that is very minor. The next one comes in at about four months or five months. And then afterwards there's something like nine months. And then there's a final thing where they hold back the final 10%. But that is a 50%, or 40% of the order, 40 to 50% of the order, the remaining 50% is spread over the remaining five years right. Now coming back to the normal enterprise orders. So the normal enterprise orders as we have explained Agastya, especially you are aware. We start off with basically the potential of a customer so, the idea is to acquire a logo and getting into the account first, so we start with any size. So there are various sizes, so in the enterprise side. Typically, of course, there's always that advance payment which they will pay you anywhere from 10 to 20%, 25%. And the remaining will actually pan out anywhere between of course we try to make sure that at least there is an invoice every quarter, so if not monthly but we try anywhere from 45 days to a month to a quarter kind of invoice and typically these tend to be the first engagements tend to be fixed price kind of thing. So, in fixed price usually it is not that so you don't wait six



months. So typically we start invoicing and the project maybe for about six to nine months, and the invoice pretty much every quarter. But the engagement may itself is small and that is where then our account management after we have delivered the initial part starts working on it and deepening and increasing the engagement and that is where we have said it takes about a year, year and half and we are able to grow them to reasonable sizes. If the orders tend to be TNM then in any case, you are invoicing them monthly.

**Agastya Dave:** Great. Sir may I also trouble you for a bit of macro commentary and also last quarters back you guys were discussing that for the next phase of expansion, you specifically are looking to add to the workforce. So how has that proceeded? And Mr. Chintam one question to you then and then I am done for the day. Any stress you are seeing on the 184 crore receivables that we have? Any accounts where collections are a problem, these are my final questions, for the day. Thank you.

**Niranjan Chintam:** Okay, thank you Agastya. So to answer your question about the people, this year so far we have a high close to about 250 people we have hired there Agastya. And that is and there are some attritions that happens to the industry average attrition is what we have. This is the new hires that we have and we may have lost some along the way. So probably the net new hires are looking at probably around I would say, between 150 to 180 exact numbers. I don't have top of mind I am just giving you a range for that reason. Now, so there was another question there Agastya, I lost that question can you ask that question again.

**Agastya Dave:** On the receivable side.

**Niranjan Chintam:** Okay, this is on stress, so we don't see any stress on the receivables at all. With that said, we do some write offs last year was probably about 50 lakhs is what we wrote off in that 800 crore order or 800 crore revenue we wrote off about 50 lakhs, because there are some that we cannot collect. But there is no stress of the receivables to comment on that.

**Agastya Dave:** Great. And Mr. Singh if you can talk a little bit about macro what are you seeing in terms of demand any disruption because of US standard deals or exit?

**Karanjit Singh:** No, not as of now, in fact also, no not now except for the challenges around the usual the H1 and hiring people and of course the H1 people, believe you that those kind of things, but otherwise on the demand side, no. In fact, teams are doing pretty well. And as you asked the question about what about the US kind of space so, there we have actually increased our sales presence, we have moved a couple of people there. Also we have increased the travel and that may reflect in travel cost as well. And we also started trying to get specialized people in terms of our usual sales strategy, I wouldn't go in too much detail. But other things that we said is let us get people who are more equipped to out of the box, as we hire them with some emersion they become productive within two quarters or so. So that strategy was also put in place about two quarters back. So we have a couple of people who have also joined

there,they're going through the first couple of people. Of course, we have to take a lot of time trying to end the following a very elaborate process in selecting them and all that and then we go take them through an immersion and move them to support those geographies. So, all that is going on. On the macro commentary, no it is not while if you look at the whole. I agree your sentiment if you look at the whole, if you look at the public news or even India GDP is slowing down it does turn us and we discussed this but as of on the ground as of now things are fine and things are still going on in terms of pipeline building and those things they have not impacted us till there. But seeing that and some of that has bothered and there's a disconnect. I understand that is where you are coming from, but this is what we are seeing as of now.

**Agastya Dave:**

Sir the earn out obligation numbers and again, just to repeat please do consider what everyone else has suggested in some form or the other please do reduce the debt or do a buyback or in whatever capacity, even a small amount will help a lot. Thank you very much.

**Moderator:**

Thank you. As there are no further questions I would like to hand the conference back to the management team for closing comments.

**Niranjan Chintam:**

So one question that I promised to answer Mahindra, it is around 40 crore is what we have the earn out obligations Mahindra apologize that I didn't have that handy right away but that's the amount is what is outstanding that is to be paid today. Now, with that, thank you very much for getting on the call. I really appreciate you folks taking the time to get on the call. I would love to meet you folks face to face if your travels take you to either Gurgaon or to Hyderabad please look us up. Please reach out to Anupam and we will be happy to set up a meeting there and you can see and walk through our offices and interact with some of our leaders there so you can get a feel for what exactly we do and how we do it. So thank you, and looking forward to seeing you shortly.

**Moderator:**

Thank you very much. On behalf of Kellton Tech Solutions Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.