

Kellton Tech Solutions Limited
2nd Quarter FY22
15 November, 2021

Moderator:

Ladies and gentlemen, good day, and welcome to Kellton Tech Solutions Limited Q2 FY22 earnings 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. Should you need 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.

Thank you all for participating in the company's earnings call for the second quarter of the Financial Year 2022. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's con 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 management's belief, as well 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.

Now I would like to introduce you to the management, participating with us in today's earnings call. We have with us, Mr. Niranjan Chintam - Chairman and Whole Time Director and Mr. Karanjit Singh - Chief Executive Officer, India, and Mr. Srinivas Potluri - Chief Executive Officer, United States. I now hand the conference over to the management. Thank you and over to you, sir.

Niranjan Chintam:

Thank you Nirav. Good evening, good morning, wherever you are from. I apologize for the delayed earnings call. Typically we have it at four o'clock, but since I've been traveling, I just wanted to have a decent time in the US, so the call was delayed. Thank you for being considerate towards us.

I want to start off with Q2 numbers and then we'll go into the qualitative aspect of it. The quantitative aspect first: so, the revenue for the Quarter 2 is about Rs. 209 crores which is a quarter-on-quarter growth of 2.1% and a year-on-year growth of 8.9%. EBITDA was about Rs. 27.3 crores, a quarter-on-quarter growth of 3.8% and a year-on-year growth of 5.2%. PAT was at Rs. 17.4 crores, a quarter-on-quarter growth of 6.3% and a year-on-year growth of 9.8%. EBITDA margin was about 13.1% and PAT margin was about 8.3%. The EPS for this quarter is 1.8 on a diluted basis.

Now the highlights, and these are for six months: The revenue was about Rs. 413 crores which is a year-on-year growth of 10.7% and EBITDA was about Rs. 27.3 crores. I think this is a small typing error here. It should be more than Rs. 27.3 crores. It's close to Rs. 50 crores, a year-on-year growth of 4.5%. The EBITDA margin for the whole six months is 12.9% and PAT margin is 8.2%. The EPS diluted, for the whole six months, is 3.53%.

Now, coming to a little bit of operational highlights: we won 20 clients this quarter, which is a big achievement for us. Some of the revenue has started coming and some revenue will follow through over the next few quarters. Now with that, I would like Srinivas Potluri to take over; I know we have talked about it last time: our new initiative, consolidation of all our operations, and coming up with a new way of selling. But, I would still like Srinivas Potluri to talk about One Kellton and give a little bit of highlights of what we're trying to do, why we're doing that, and where we are in that process today. Srin, can you take it?

Srinivas Potluri:

Sure. Thank you, Niranjan. Good evening, everyone. Like Niranjan spoke, One Kellton is a big initiative, which includes integration of all of our acquisitions and going to market under one brand called Kellton. That is the rally cry One Kellton. What does it mean from our employees' perspective? It means tremendous opportunities for individual growth, combined portfolio of One Kellton products and services, opportunities for cross-training, and acquiring new skills, certifications, etc. So, I think, from a career growth perspective, from a retention perspective and controlling attrition, One Kellton is going to work excellently. Our clients will also benefit significantly from One Kellton initiative since they will get access to all our business offerings under the One Kellton brand, be it digital, enterprise, or integration. We will also be able to address our clients' challenges faster, in a more agile fashion and thus, provide greater value. That is one of the driving forces. Now, what does the One Kellton mean from the perspective of the organization? We have reorganized ourselves under the One Kellton rallying cry, and all the Geos will be focused on sales. We have what are called practices. We have a digital transformation practice, which is the main practice within Kellton. And then, we have the digital enterprise practice. And with this initiative, these practices will be followed across all Geos or international areas, whether it's America, Europe, or APAC. Delivery teams will be able to take people or resources from different BUs / practices and leverage their expertise to successfully deliver projects to our customers. So, this is a very exciting time. Individuals and employees of Kellton are excited. We are rallying behind the One Kellton cry, have organized ourselves, and all our direct reports understand what the initiative means. This information is being trickled down. We have had multiple global Q&A sessions with our employees to make them understand what this change entails. So, we are in the process where the One Kellton or change will officially come into play from January 1st of 2022; but, Jan 1st is just a date. At this point, we have started the process. Individuals are wearing multiple hats. They're continuing to do what they're doing and are also getting into the new roles that are being described for them. It's a really exciting time for

Kellton. We are happy to say that this will yield great results. After all, one of the reasons for the whole one Kellton initiative is to improve sales, delivery, and increase our numbers.

Niranjan Chintam: Thank you Srimi. With that Nirav, let's open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. S.K. Damani from SKD Consultants. Please go ahead with your question, Mr. Damani.

S.K. Damani: Actually, I would like to ask some questions about accounts and the balance sheet. My first question is that we have some goodwill amount shown as Rs. 152 crores on the balance sheet; so, is it in any way realizable?

Niranjan Chintam: Because we have various acquisitions that we made along the way, so that Rs. 152 crores is our acquisition goodwill that is sitting on a consolidated basis. When it comes to whether or not it's realizable, yeah, the brand has value. Every year we do a goodwill impairment check to make sure that everything is fine. Also, various Geos have their own particular rules. And, we follow the rules, be it the CPAs in the US and Europe, and auditors in India, they take a look as to whether there is an impairment or not. So far, all of them have said that there is no impairment. Last year, there was small correction in the goodwill due to COVID pandemic, but at this time, they are realizable. I think the brands of the acquired companies have more value than what is sitting on the books. It's only a book entry at this time. The value is much more.

S.K. Damani: Thank you for your reply. One thing, could it be possible to list out the ways the goodwill has been calculated so that the investing community is able to assess this kind of value and then give correct value to the share price of the company. I mean, if it is acceptable, kindly share some details about the brands which have been acquired by Kellton Tech and their certified market value or something like that.

Niranjan Chintam: Like I said, it's a book entry between what the assets are and what we paid over that asset value for consideration of purchase. It's a pure accounting number. It's not a real reflection.

S.K. Damani: So, it is very difficult to categorize it in this way that X company's brand is valued this much in the market. That's why, it's not possible to give some details. Okay no problem. Coming to the next question, we have intangible assets of Rs. 28 crores in the balance sheet; is it just arranging which we are doing which we are creating this as intangible assets?

Niranjan Chintam: I will answer that. Well, let's go to the next question while our guys are pulling up the numbers.

S.K. Damani: No problem. The next one is regarding trade receivable. Rs. 225 crores are still outstanding in the market to be collected by us. I would like to know how much of it is safe and how do you view it? Because it is equivalent to quarterly sales.

Niranjan Chintam: First, let me answer the question about intangible assets. The intangible asset is 'patents and R&D'. Like you rightly pointed out, that's the value we have assigned for that. Coming to your question on receivables: yes, it's about 99 days, and we will realize 99.5% of the receivables. There is going to be 0.5% unpaid receivables because we always don't know what's going to happen. So, again, I don't see 100% as receivable, it would be around 99.5%. So far, we have not written off much. It's less than 1% of our revenue in a calendar year that we write off.

S.K. Damani: Next is regarding the current assets of Rs. 130 crores. In this bracket, we have some FDRs or something like that. So, do we have some other things as well, apart from FDRs?

Niranjan Chintam: Correct. It's a combination of FDRs, advances to our employees, and some unbilled revenues are also going to be there. So, those are the things that are there, and we categorize all of them together.

S.K. Damani: There is one more column, other current assets worth Rs. 83 crores, that are also there.

Niranjan Chintam: I'll answer that in a while. In the meantime, let's go onto the next question.

S.K. Damani: Now I'm coming to certain operational things: it is written in your presentation that you have more than 300 customers and 20 customers have been added in this quarter. So, at a given point of time, all 300 customers may or may not be active with you with some assignments. I have limited knowledge of software operations of the company, but I feel that some sort of engagement is there between client and you. Are they all active or sometimes somebody is on and somebody is off?

Niranjan Chintam: So, I'm not going into the specifics, but 80% of them are active. There is going to be 20% of our customers who deferred their projects, because of the Covid times, or because their senior employees have resigned or moved on or there's a consolidation that is going on between two companies. They say, hey, because the new parent has come in, just let's defer this project by a few quarters; so those kinds of stuff happens. But, as a general rule, 80% of them are active. And yes, you're right, 20 new customers have been acquired in the last quarter. Revenue has started coming in for some of them and revenue will start coming in the following few quarters for the others.

S.K. Damani: Actually I just want to give the background why I am required to ask these types of things is for the fact that the operations, the quality of the company and the fundamentals, the financials, etc. do not reflect in the price of the share. That is why I'm trying to find areas where we lack and why our share prices are so low. I know I may or may not be approved to

discuss the share market in this conference call, but this is the reason I'm trying to find out the gaps that exist. Would you like to speak about this, if it is permitted under the law?

Niranjan Chintam: I wish I could have solved the problem, Mr. Damani. Unfortunately, I'm not able to solve it. I am being as transparent as possible to the market, to the investors, giving as much information, just like what we're talking about, anything that you have, I'm happy to answer any questions that people pose to me. I would invite you to come to our office either at Gurgaon or Hyderabad, interact with our employees and interact with some of our customers to understand what we do. This is something that has been there since we incorporated. We're saying that, come talk to our customers. We don't have anything to hide, but unfortunately, I can't help with the stock market.

S.K. Damani: I really want to thank you in the sense that you have really very honestly and transparently answered all my questions and you have given me much more confidence than what I was having before. For that, I want to thank you. Secondly, I do want to highlight when you said that the Hyderabad office was not functional for a while. And Gurgaon people also did not give me the contact numbers of the Company Secretary to better understand the company. I thought of contacting them to better understand the sudden fall in the price of the share in the stock market. I thought they could help me understand why and how it happened. So, if the correct numbers are given and the messages are reaching the right person, they can call us back. That is also the reason we tried to initiate a talk with you; so thank you very much. From my side, I am more than satisfied and I wish you all the best of luck for coming operations, thank you.

Niranjan Chintam: Thank you, Mr. Damani. To answer your question about our Hyderabad office not being available, since March, 2020, almost 95% of our staff has been working from home all over the world. So, our offices in Hyderabad as well as Gurgaon have only a skeletal staff. Hence, they may not have gotten back to you. But please send your queries to our general email addresses. I will repeat that over the next few answers that I give you on where we should reach with our complaints at kelltontech.com.

S.K. Damani: I think the email ID is nfo@kellton.com.

Niranjan Chintam: Info must have gone somewhere, but we'll answer that for you. You can also reach out to Anupam. I think she would be the right person for you to get all your answers.

S.K. Damani: Okay, there is one more thing: Would you like to give any comments on how you look at the next six months?

Niranjan Chintam: So, Mr. Damani, as Srinivas was talking about, as of now we are more focused on One Kellton initiative, our consolidations and re-launching the brand. Hence, I don't want to project anything for the next 6 months. I will be in a better position to give you that answer probably

sometime early next calendar year. So, I'm talking about probably February-March of next year.

S.K. Damani: One more question I have because of this, do you mean to say that all wholly owned subsidiaries and step-down subsidiaries will be consolidated into one company, is it like that or something else you mean when you say One Kellton?

Niranjan Chintam: So, there are two answers to that. One, you are right, yes, we are consolidating the wholly owned subsidiaries into one company; that's just a physical or a structural way of doing those things. Again, I have to caution because there are some regulatory guidelines, there are banking requirements that we have to follow before we consolidate all our subsidiaries and businesses into one company. We will be working with the banking relations and regulatory relations that we have to do that. Now, operationally, like Siri said, all of us are excited because, like he pointed out, we have all these different views that have been working on a technology specific one. We're now getting away from that. With One Kellton, we are now able to leverage what we call our pockets of excellence. And, since we have excellence in every BU, we are putting them all together and hence, are able to do a larger project than what we were doing earlier. It's not that we are not able to do large-scale projects before, it's just that the One Kellton is a complete mindset change and it's going to impact how we work, how we provide our services to our customers, and give our employees a better growth path, a better career path so the retention is always high. We are seeing a lot of lateral moves that are happening. People can go from anywhere to anywhere, say from India to anywhere in the world. Earlier there used to be a limitation, operational artificial limitation that was put; now with One Kellton, we are breaking all that up.

Moderator: The next question is from the line of Mr. Vibhor Gupta, an individual investor, please go ahead.

Vibhor Gupta: My first question is, it has been seen from the past 3 years that we have a flat line for EBITDA and PAT on a quarter-on-quarter basis, and it has been looking the same for 3 years now. So, what is the reason for going forward? And, can we expect an improvement in the margins?

Niranjan Chintam: Thank you, Vibhor, for the question. The One Kellton is going to give us that leverage that we are talking about to get more margin; and because of FC planning operations, there is going to be an improved margin. But at the same time, like we said in earlier quarters too, in the last 3 years, we have made various structural changes. For example, we sold out 2 of our divisions. And then, there was Covid too. Hence the revenue was flat. But, we do expect improvements starting next fiscal year. And, like I earlier telling to Mr. Damani, I don't want to project any numbers for the next 6 months, because we are more focused on getting this One Kellton initiative up and running, and up and running much faster than what we want it to be so that we can start showing results to both the market as well as our employees.

Vibhor Gupta: My next question is, what does the current order book pipeline look like and are we poised for the growth for H2?

Niranjan Chintam: So, the H2 growth will be flattish as we will be more focused on One Kellton. I mean, there is going to be a slight increase in revenue for sure, but not the numbers that you're probably looking at. The slight improvement that I am talking about is likely to be in the range of 2.1% to 3%. But, the significant growth is going to be in the next fiscal year. Now coming to the order book, I think we have about 7 months' worth of order book from where we are today. The order book is pretty good. The pipeline is also increasing day by day and this new initiative is going to give us a lot more in the pipeline. We're also trying to increase our per customer revenue; so, there's going to be a targeted pitch to get more revenue not just from our new customers but also from our existing customers. Thank you, Vibhor.

Moderator: The next question is from the line of Arpana Chauhan, an individual investor. Please go ahead.

Aparna Chauhan: You people said that we have won 20 new customers last quarter; can you please elaborate a bit on the deal size and the overall type of clients that you have acquired?

Niranjan Chintam: I'll just give you a general number. The deal size is anywhere between a few \$ 100,000 to a million. Now coming to the type of customers, Karanjit, can you take the question because you are much more aware of the customers than I am.

Karanjit Singh: Yeah, a lot of these wins have been on the digital transformation side as well as enterprise to global practices. So, let me share a few of our wins here: **(Inaudible)** (27.23) we are now a partner for a nonprofit which has footprints in the US and African countries, and we are building an inside application for them. We have also been chosen by a very large Asian conglomerate for helping them build a high-performance mobility platform which will span across their various business divisions. And then we have been selected for some SAP kind of implementation as well as follow on hosting and support services by a chemical company which is a global healthcare leader in the entire region. We also have won a deal with **(Inaudible)** (28.19). So, these are new areas where we have started working on. Another thing that I would like to highlight here is a leading US company which is in the healthcare space where we are actually going to do some AI and ML work around marketing and brand consistency from **(Inaudible)** (28.43).

Arpana Chauhan: I have one more question. So, as you people said because of the One Kellton initiative, the expansion is happening across all your Geos. But, can you speak a bit about how your Europe expansion is progressing, and are we on track to achieve the revenue diversification targets that the company has set for this particular Europe Geo?

Niranjan Chintam: Arpana, we are already seeing a slight uptick in our European division. As you are aware, we have hired a new person to head that division and he has started producing results. There is, I guess, a 2% increase in the percentage of revenue from Europe. Remember there was a second and a third wave of COVID in Europe. So, there was a little bit of lag for us to take off. I think, right now there's again a surge in Europe, so we have to see how that is going to affect our revenue numbers. But today we have close to 100 openings in Europe. That shows the type of backlog that we have, the type of wins that we are doing in Europe itself. So, there is a lot of potential to grow there. And, you are also aware that there is a global shortage in talent so that is also causing some delay in starting our projects, but we will see continued growth in Europe over the next year or so.

Moderator: The next question is from the line of Sohan Joshi from Kellton Tech Solutions. Please go ahead.

Sohan Joshi: I am an individual investor, so I don't know why they said that I am from Kellton Tech Solutions. Anyway, I just want to ask, how are we progressing on the NFT and the new blockchains in AIML? Are the new clients only for the NFT blockchain or AI or there are some other aspects as well?

Karanjit Singh: So, if I understood your question well, you're talking about the NFT blockchain. Yes, right now **(Inaudible)** (31.43) and blockchain is really sort of in-vouch. So, we actually signed up a very important customer in the US and we have gone live with their first release, and we are actually working with them with a lot of follow-on engagements to basically deliver their roadmap, execute to their roadmaps. Our relationship has strengthened with them. Coming to your thing, are we seeing a lot of demand? Ofcourse, there is a lot of demand on NFT and the blockchain. We have also done some demand generation activities in that area. In fact, we have a healthy pipeline and we have closed a couple of other customers in the NFT blockchain space given the expertise that we have in-house in this area. The other area is that we are seeing a lot of traction or whatever you mentioned really, which is about AIML, but this is just about green shoots that are happening now. There are a lot of AIML applications. I mentioned one of the customers in healthcare where we are going to use AIML to basically help check the quality of their marketing communications. And the third area that we are really going after is really insights, data engineering, and insights, analytics.

Sohan Joshi: In this regard, are we planning any acquisitions? Maybe, say after a couple of years, OR if things go well for our company, OR maybe, once the entire integration gets over, say, by January next year? Are we planning any sort of acquisitions in this space once we have had a greater command in the US markets?

Niranjan Chintam: Currently, we are not looking at any acquisitions. That is not in the roadmap. But with that being said, if we see something that comes along the way that we believe is the right fit for

us, we will definitely look at it. But to answer your question, specifically at this time, no we're not planning any acquisitions, but we will be opportunistic based on how the trends go.

Sohan Joshi: There's one more thing that I want to tell Niranjan sir; in every concall, I hear investors crying about the PE ratio, that our share price is trading low. But sir, on the operational side, you guys are doing a phenomenal job. As a fundamental (34.26) investor, I can completely understand that share prices are not in your hands, but still every investor asks you as to why the share prices are not moving or why your performance is not getting reflected in the share price. But, you guys are doing your job well, sir. So, I must congratulate you for that. **Niranjan Chintam:** Thank you for the continued faith in us and hopefully pretty soon our performance is going to reflect in the stock price. But, we are always looking for pointers from people like you who understand the market better than us. If we are doing something wrong, please tell us, and we will correct ourselves.

Sohan Joshi: The problem is that everybody wants fast money, especially when they see the other IT companies. But, people are not really able to understand the business that you are targeting. It's very important that we target the right customers and you guys are doing it. If they don't understand the business, it's really ridiculous to ask the management as to why the share prices are not increasing. It is because the investor himself is not understanding what you people are doing.

Niranjan Chintam: Thank you, but hopefully that correction will happen soon.

Moderator: We don't have anyone in the question queue.

Niranjan Chintam: Okay. Thank you. So then, let's close it out.

Moderator: Would you like to give any closing comments?

Niranjan Chintam: Thank you everyone for joining the call. One correction, our team has told me that our order book is 9 months and not 7 months. Thank you, everyone for joining our Q2 Earnings Call. Like I said earlier, if you're interested in visiting our offices, please reach out to Anupam, so we could schedule the visit. Also like I said, most of us, almost 95%, are working from home, specifically in the Hyderabad and Gurgaon regions. And though, across the world, people have started coming into offices, we have not done that in India. We are on a wait and watch mode just to make sure that our employees are safe. Once we get the all-clear and we start seeing what is happening within the community, we would probably end up being a hybrid model because I think we have successfully delivered a lot of our projects working from home. So, a hybrid model would be followed. But when, where, how, for that, we are just keeping our ears to the ground, understanding what is going on with Covid, understanding what is happening in the market with our peers and then we'll make a decision. At this time, we are continuing to do most of our work from work from home but that might change.

But,at this point of time, we don't have any timeline as to when that will be, but we do believe that the hybrid model is going to be the future.

With that, thank you, everyone. Look forward to hearing and talking to you in the next earnings call if not sooner. Talk later. Bye.

Moderator:

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