

To

The General Manager, Listing Department, BSE Limited, 1 st Floor, New Trading Wing, Rotunda Building, P.J. Towers, Dalal Street Fort, Mumbai-400001	The Manager, Listing Department, National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051
Scrip Code: 519602	Scrip Code: KELLTONTEC

Dear Sir/Madam,

Subject: Transcript of Q2/FY 24 Earnings Call held on November 15, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q2/FY 24 Earnings Call held on Wednesday, November 15, 2023.

Pursuant to Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript is also available on the website of the Company.

This is for your information and record

**Thanking You,
Yours faithfully,**

For Kelton Tech Solutions Limited

**Niranjan Chintam
Director**

Kellton Tech Solution Ltd.
Q2 Earning Conference Call
15th November 2023

Moderator:

Good day, and welcome to Kellton Tech Solutions Limited's Q2 and FY24 earnings conference call.

As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing “*” and then “0” on your touch-tone phone. I would like to thank you all for participating in the company's earnings call for the second quarter of the financial year 2024.

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 beliefs and 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 decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and the 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. Niranjana Chintam, Chairman and Whole-time director, and Mr. Karanjit Singh, Chief Executive Officer, India. I now hand the conference over to Mr. Niranjana Chintam, Chairman and Whole-time Director. Thank you, and over to you, Sir.

Niranjana Chintam:

Thank you, everyone, for joining the call. First, apologies for having this call during the India and New Zealand semifinals. Now let's start with the financial numbers for the first six months of FY 2024. The total revenues that we have achieved in this period is Rs. 490 crores, which is about a 10% year-on-year increase. The

EBITDA stands at about Rs. 54 crores, which is about 6.4% year-on-year growth; it might be around 11% for the six months. The net profit stands at Rs. 31.9 crores. The PAT margin is about 6.5%, and the EPS stood for this quarter at Rs 3.32, this is the financial review for the first six months of the year.

The revenue during the second quarter (Q2) stands at Rs. 241 crores, a 5.8% year-on-year growth. The company has an EBITDA of about Rs. 26.8 crores, about 3.1% growth year-on-year. The EBITDA margin is around 11%. The net profit for this quarter stands at Rs. 16.5 crores, a 7.1% QoQ growth. The PAT margin is about 6.8%, and the EPS stood for this quarter at Rs 1.78

Now, we are coming to the operational highlights: I'll let Karanjit explain in detail about it, but yes, we have won about 8 new clients for this quarter. We have also notified the exchange about the Karnataka state government HRMS contract, wherein we will develop the second version or Version 2.0 for the Human Resource Management System (HRMS). The development and implementation of HRMS Version 2.0 is targeted for more than 6 lakh state government employees of Karnataka. It is a significant win for us. Kellton has also achieved another milestone in the form of the 2023 Economic Times Premier Tech Company brand award. As part of our expansion strategy, we have now forayed into the Singapore market. We are in the early stages of our expansion in this market; however, our deep industry experience and aggressive investments have already started helping us acquire new customers in the digital transformation space. With that, Karanjit, can you please briefly talk about our recent wins?

Karanjit Singh:

Sure, thank you, and hello, everyone! So, as Niranjana said, we have acquired eight clients this quarter, and these clients operate across various industries, but all these projects involve significant transformative digital efforts. Also, for the first time, we have signed up two initiatives on the India Stack. The latest initiative on the India Stack is about building on from Aadhaar and onward. We will help with the supplier onboarding journey for one of these initiatives and the whole QA automation.

Similarly, on the generative AI front, while there is a lot of hype about generative AI, we can proudly state that we are actually working on almost 8 to 10 real projects in this space. In one of these projects, we are helping a startup build an SME platform; the people there are clear about what they want and have a

robust strategy. Also, in this project, the AI part also comes where the innovative technology will help take the SME and capture all his knowledge and create a digital double so that their clients can interact with the digit double, and they're always available under the scale.

We have another client, and they are an extensive retail chain. It's a company with multiple retail stores. And we are engaged with them on the data side. Then, there is another company where we are helping them with the SAP initiative on the enterprise side. We are helping with SLO, which is essentially about large-scale reconfiguration of the existing SAP implementations.

We have also signed up with a couple of other customers in the US. There's one product company where we will do all the product engineering. They were not happy with the present vendor. We're almost the hot swap. With the release expectation within the end of that month, we took over that. This is significant work, and we took on that. We are now trying to put an order into that release process. We did the first release and continue to work with them on multiple initiatives. And there were a couple of other clients we signed up in manufacturing. There is a large media house in India. We have worked with Zee in the past. We signed up with another media house to develop their content management system. Which is, again, a very large project that we took on. So yeah, these briefly should give you a sense of the kind of engagements in terms of the transformative assets in the digital space. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Shahnawaz, who is an individual investor. Please go ahead.

Shahnawaz:

Hi, Sir. Good evening. First of all, the number what we saw in May when there was like the different we are going to grow eventually along with a good EBITDA but this quarter again was a very unfortunate number. So I mean even revenue has dropped down to 21 as well as the EBITDA is similar and if you look at the balance sheet which has a lot of outstanding receivable is very high. So what is EBITDA we are earning? Again, it is almost six months that also almost 5 to 6% will go as an interest because of the high receivable. I mean hard issues like you have said Karnataka state, you have won an order then can you define the value of the order? What is the size of the order because if it is big so at least

the market should know what is the value of the order in how you are doing business because I just want to see the comparison in AI when we search there are two emails are there and they are able to give 24-25% EBITDA. So I could not compare, but there is a tier of course Saksoft is there that company has performed 4-5X and because of that, if you look at the revenue and manpower side is also less. But they are far better than even cash flow. In fact, they are given dividends also. So what do you say and how do you see the future, Sir, I mean always we talk and sometimes back you said 300 million we came to 200 million. By 2025, but I don't see even by 2025. I'd appreciate it if you could answer these questions.

Management:

Thank you, and I appreciate you asking the questions. So let me answer each one of them. Kindly correct me if I'm wrong on the Karnataka government order side; it's about Rs. 45 crores, but there is a lag between when we can raise an invoice because of the milestone-based fault. So there's almost a 10-month lag before the 1st invoice goes to the Karnataka government. So that's the reason why some of the things that you're seeing right are not a group unless we meet the milestone, we cannot accrue the revenue into our books. That's the reason why some of this revenue that you have probably seen there is a cost high income now versus the revenue coming in a little bit later.

Also, you asked the question about revenue-wise: the revenue a little bit lower than the last quarter. It's also due to deferred orders. Some of the orders that we have won are deferred by a quarter in most cases, and some of them are by two quarters. This is just because of the headwind that the industry is facing in the US and not a reflection of what we're doing. It is actually a reflection of how all the other companies are facing; their budgets also have been pushed back.

So we will be starting a lot of these contracts, starting probably the first quarter of the calendar year 2024. So all these deferments that are going on, we continue to hear, yes, we are the finalists. We have won it. But the start date is getting pushed back, sometimes by a few months, and sometimes by a few quarters. That's the reason you see that difference.

To answer your question about the AI-based company, you're comparing us with somebody else, though I am not sure which company. I understand your question that our margins are lower compared to others. It is because we are delivering on-site, many

of our projects, especially in the US and some in Europe. We're delivering on-site whereas some of these companies are able to deliver by bringing back the contracts to India and delivering from India. We have been experimenting with some of them, we are successful, some of them we are not as a customer insisting that they need to see the faces, they need to sit there and do the work. Because of that, our margins are lower. So it looks slightly different. We have always started with that model where we have many on-site personnel delivering projects in the country versus offshoring into India. There is a significant difference between them and us; I understand our model is different from others; therefore, you see that margin difference.

Coming to the revenue numbers, you asked about this, we are confident that we are going to achieve the 200 million target that we have done right now. We are in this planning exercise for 2024 and 24 on a turning calendar that is where all of our people have been traveling around and talking about the management, Srinu is on a plane as we speak. That's the reason why he couldn't get on the call. But 2024 is looking much better. We're hoping that the headwinds that they're facing are going to go away. There are many projects in the pipeline that we have, and the pipeline looks very solid, and 2024 will be much better than 2023. Again, I'm talking about a calendar year at this point because we do calendar year planning, whereas the recording comes to a financial year deposit. That's the reason why you see the difference.

Shahnawaz:

Apologies for the interruption, but as I see it, we are doing a lot of projects on-site, right? And I assume this trend will continue. So, whether the pressure on margin will continue like this, or do you have a mitigation plan, which is implemented, or 75% is done, and you are planning because overall you see the bottom line and even your cash flow is feeble? The operating cash is hardly 11 crores. I mean, we are such a big company. So, how do you see the improvement in the EBITDA margin, as I have seen you also have done some pledging process.

Management: Our share price has more to do with the operating money we took from the bank. It has nothing to do with our work. Personal needs are more for the company. We are not Tata, Birlas. Hence the only asset we have that is not pledged is the shares, and the banks demand more and more, whenever we ask for a small amount of money. And we have to price issue pleasure shares to get that operating. Let's look at the Karnataka government project that we talked to you about the first milestone that we can raise ten months from now. Whereas every month, there is over one crore of employee costs that we have to incur, in addition to other costs like infrastructure costs, the office set-up, all that stuff, right? We're talking just the employee costs here. So we are almost like the time when we raise a bill we are about 15 crores into the project. So, these kinds of projects require significant upfront investments whereas the revenue comes later. So that's why you see this kind of pressure on the cash rate improvements and all that stuff. I hope I answered your question.

Shahnawaz: I got it, Sir. So I assume that for another ten months or so, the pressure in the margin will be there or how you are seeing the problem.

Management: You're just looking at only one contract, right? However, we have many contracts like that; let me give you an example.

Shahnawaz: Overall, like with the discussion on where the market can get some confidence to yes, Kellton is going to bring EBITDA on track.

Management: The exhibition is also happening. So when we have this large milestone project, we would have these cash flow pressures that we're facing as an economic cost today. That revenue cannot have to extend the cost today. Yeah, that's where the challenge is coming.

Shahnawaz: How is the future, Sir?

Management: 2024 is looking much better than the calendar year 2023.

Moderator: The next question is from the line of Mohammad Afroz Namakwala, an individual investor. Please go ahead.

Mohammad: Sir, Happy Diwali to your team and everybody from my side! Sir, I would like to know about two quarters previously that profit was a

bit low. So the reason was that we have done over costing and it was said that in the next coming quarter, you will be looking at this over costing effects in our balance and this P&L. So, would you please clarify and put light so why this quarter our profit is also flat?

Management:

So first, you're referring to some of my comments. As I said, our employee costs have increased, whereas our bill rates for our clients have not increased that much. So the bill rate, the way it happens at the time of renewal is when the one-year contracts where the rates are locked in the cycle of the renewal cycle, every customer has a different renewal cycle. So we negotiate an increase in the bill rate. Now, some of them have come in place, some of them are going to come in. It's a process that goes on over a period of the next year; it's when the bill rates start going up. Some of these rates are facing headwinds. And for the companies, they are facing headwinds. And they are asking to freeze it or say I reduce it too to some extent, some of the customers, so we have a combination of those two. There's the balance without over the period of the year. And at this point, I don't have a date where I can say that everything has returned back to normal. I don't have that date because it is a continuous evolution process. And yes there are companies that are facing headwinds in the Western world. So we are seeing that in the factory when it comes to some of those raises that we're looking at some of the bill rate apart from customer's rights, new-age customers and we're able to ask demand for the community. We're getting some of these AI-related ones we discussed earlier. Where you can build a significantly better margin than the old technology-wise that we do provide services.

Mohammad:

And there is one more question that I would like to ask you; it is regarding our debts. I mean the data, the sales we do when we have to collect our money back, our data days are around two quarters, that is around 180 days, which is dragging our profit because of the interest we are paying and our funds are stuck with those data. Even though we have clients, big companies, how it could be that we should get this money earlier or fast cycle money.

Management: Okay, so let me answer that. We are a small company when it comes to these companies like Adani. Unfortunately, because of whatever happened, there was some pressure on them and that pressure also got transferred to us. Now we are back to normal.. So, those are the things that we cannot negotiate with them, as we're a very small player in the industry. You either take it or lose it to somebody else. I agree with you that what we used to get in 30 days has now increased to 45 to 60 days. So, yes, those delays are there. However, we can not do much about it. It is because our customers are facing cash flow issues, the pressure is coming on to us and there is not much we can do about it. But overall our long-term customers have been fantastic for us. It's just that things are not going great for them and we have to share the burden.

Moderator: We now have the next question from the line of Shahnawaz, an individual Investor. Please go ahead.

Shahnawaz: Sir, what is the backlog we have?

Management: So, we have about eight months' worth of backlog. So if you look at the revenue, we have over two and a half quarters' worth of revenue. But in some cases, right, some of the contracts are ready, but today they have about eight months' worth of backlog.

Shahnawaz: And is there any write-off in the outstanding?

Management: So, there will be a very small write-off if you're going to do anything. It's a very small write-off. It's probably, I would say, I'm just making stuff up here. Probably less than 1% is what we write off. I think last year was probably less than that, but this year maybe 1%; It's just that's the nature of the business that your insurer talked about earlier, that's the nature of the business. We are at a milestone some of these payments get paid off in the next month's cycle where we're going involved, then we get there. The cycle of 30 to 60 days to 90 days, 7 cycles. So we end up getting much almost like five to six months before we have realized the cash.

Shahnawaz: Thank you, Sir. But I hope our results increase. Thank you so much.

Moderator: Thank you. The next question is from Rajesh Mundra, an individual investor. Please go ahead.

Rajesh Mundra:

Even after implementing One Kellton, why are we not seeing a significant increase in our revenue in these six months?

Management:

So you're asking why there is no significant increase in our revenues post One Kellton initiative, correct? So, let me answer this. I think we just finished it, like I said earlier, right, so we just did the brand refresh recently. So there's a cost because of the brand refresh as well; right now, our brand is looking a little bit refreshed compared to what it was before. We did that experience that was completed also. And we have made some very high-profile hires, a couple of seniors in the last quarter. One of the practice heads that was hired in the US, we recently hired a North America salesperson here. So these costs are all coming into play. We are increasing, I guess, probably the overhead at this point with the anticipation of increased revenue in the calendar year 2024. Hence, this is why these costs are loaded in structuring revenue already. The force of the preference that we have hired at house cost has already been recovered by the sales that he has provided, so the contracts that we have won because of him. So those are some of the things that I'm getting basic. So these are all the stuff that is a process that is going on, it's not an upfront, we won't get it. But over a period, in the next one year, you'll start seeing. We started seeing margins as well as increased debts.

Rajesh Mundra:

Sir, another question, how is the USA economy doing? Is it recovering? It's crucial for us as our revenue largely depends on the USA market.

Management:

Yes. So we have the customers. However, some customers are deferring new starts by a quarter, some are deferring the new starts by a few months, and some of them even by six months. If we talk about inflation, it has slowed down to about 3.3% from the predicted rate of 3.7%. So, yes, improvements are happening. However, from a macroeconomic situation, the US economy is still not out of the woods yet. We will see how this quarter is almost from a cyclical point of view, our bill rates revenue numbers are not that great for this quarter because of the holiday season; Thanksgiving has already started. I mean, we're doing some planning exercises around this part-time of the year. I'm listening to videos for that. So we see that a slowdown has happened, the slowdown is going to be affected till probably mid of January and then when it's going to take off. So to answer your question, we will not know till Q1 of current year 2024 is when we will know

how the economy is going to be. So we would get a better handle on that. However, there is some slowdown, everybody is seeing it and we are seeing it while we are still continuing to get new customers, existing customers, there are some deployments and some customers which we were given a verbal to execute a signed order. They're taking some more time because of their budgetary reasons they're waiting for next year's budget.

Moderator:

We have no further questions. I would now like to hand the conference over to the management for closing comments. Over to you, Sir.

Management:

Thank you, everyone, for joining again! Hopefully, we did not miss much of the cricket match. Looking forward to talking to you next quarter. Until then, thank you, and good luck India!

Moderator:

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