**Kellton Tech Solutions Limited**

**Earnings Conference Call**

June 14, 2021

**Moderator:** Ladies and gentlemen, Good day and welcome to the Kellton Tech Solutions Limited Q4 FY21 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. Thank you all for participating in the company’s earnings call for the fourth quarter and the financial year 2021.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties that 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 decision. The purpose of today’s earnings conference call is purely to educate and bring awareness about the company’s fundamental business and a financial quarter under review.

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

**Niranjan Chintam**: I will start with talking about the financial numbers, and then we will give commentary on operations, and then we will take Q&A. So, we will start with year and revenue numbers. We earned 780 crores in revenue in 2021, which is better than what we had last year. It is worth mentioning that the first two quarters in 2021 have been pretty bad because of the COVID effect. But we regained our position to recover and come back strong in the next two quarters.

 Now we are back to where we were last year. That is an achievement. Now the EBITDA is around 14.4%, slightly less than what it was last year. Again, we want to note that this is because the first two quarter's achievement was below expectation. The PAT is around 9.1% in 2021. That is the number for the whole year.

 So, coming to Q4 of 2021, we have a revenue of 208 crores. It is more than last quarter, a growth by about 6%. At the same time, the EBITDA stood at 14.2%, a slight decline from the previous quarter. That is primarily due to an increase in the employment cost. Usually, we run appraisals in August every year, but due to COVID-19, we ran the assessments in December, post which we rolled increments. In addition to that, we have been hiring aggressively. Since the labor market has tightened dramatically in the IT sector, we had to spend more money than planned. It led to a decrease in EBITDA. The PAT is around 9.1% which is again slightly less than what it was for last quarter, but overall, we have managed to perform with consistency. That is again a reflection of how we are recovering from the first two quarters.

 In addition to this, in the last quarter, we added 12 new clients. Let Karanjit talk about that in detail. I will hand it over to Karanjit to speak about India APAC operations and the new client wins that we have for this quarter. While waiting for Karanjit to join, Srinivas, can you talk about US operations? What is happening in the US, and how is the performance amidst COVID-19?

**Srinivas Potluri**: In the US, things are slightly different from the way they are in India. Services have begun to open up in the US. We have seen customers put their plans together for resumption of normal operations starting June, July. Some have also informed us that Kellton consultants should plan to be on client hikes starting July, August. So, we are busy making such plans. Most of our offices are functional. Internal consultants and support staff are already coming to work three days a week as of now. Hopefully, by July, August we will all be fully operational here in the US. Travel has opened up considerably, and we are experiencing increasing activities at airports. International travel not as much, but travel internally within the US is back almost to normal.

So, we also see a tightening up of the labor market, as Niranjan has pointed out. It seems to be a global phenomenon. We are noticing it here in the US and India. Resource availability has become a challenge across all areas, not only IT. Besides, clients are losing some senior business process owners who have decided to retire rather than return to regular inputs and work as per the requests and demands made by clients. So, clients are accelerating their internal hiring to support large CAPEX projects that require internal business project owners.

 So, in general, AMS and support projects are continuing, and renewals are coming in along with small operational projects. CAPEX-related strategic initiatives and large ticket items have just begun to sign. Customers are beginning to sign those at this point, and we are beginning to see activity ramping up, etcetera. So, we should be seeing many more significant projects startups and kickoff happening in June, July, and August. So, this quarter is essential from a perspective of starting big projects. I am assuming that most of these would have started up last year if it was not for the client's internal availability.

 So, that is the update. Things are looking good. Travel is opening up, and activities are coming back to normal. If things continue to improve, we are expecting a great quarter ahead.

**Niranjan Chintam**: So, Karanjit, can you talk about the 12-client wins that we had for this quarter in addition to the India operation and the APAC operations? What is happening there? Can you give us a brief on that?

**Karanjit Singh**: Thank you, Niranjan. Yes, I will do that. So, this quarter we had 12 new client additions. These clients were from multiple industries, including FinTech, healthcare, hotels, travels and events, manufacturing, supply chain, and warehousing management. We signed up a supply chain management company to help them digitize the disparate data points for seeking improved reporting and workflow information. Besides, we have signed up a healthcare organization to help them with legacy digital landscape modernization. Similarly, we have signed up a real estate company to help them with loyalty programs and engagement, which has become very important amidst the COVID-19-driven world. In another instance, we have signed up with a FinTech company to help them build a comprehensive digital payment solution. So, what we have seen is, COVID-19 has impacted businesses across industries, but the pandemic has also accelerated the digital transformation demand. And our client wins reflect the same.

Coming to India and Asia Pacific operations, it is similar to whatever Srinivas said. Last year there was an overall impact. However, in Q3, Q4 of last year, we have signed up some good clients. And we are happy to report that we have collaborated with a leading Indian media house to help them build the new age OTT and improve their cloud capabilities. We also signed up for a new digital initiative with a well-known QSR brand in the Middle East. We are expanding this initiative in phases across multiple countries. In addition to this, we bagged a contract to build a cutting-edge, blockchain-based NFT marketplace. So, these are all kinds of things that are happening. But, of course, the second wave of COVID-19 in India impacted the operations locally. Employees and their families were affected, which resulted in challenges concerning the delivery of projects. However, we managed to deliver the projects as planned. It is to be noted that Delhi is our development hub, and with the entire NCR (National Capital Region) badly impacted, challenges did pile up for us. Now things are coming back to normal. And as Srini said, even in the US, markets are opening up. We hope that things will only get better from here, and we will have a great quarter ahead.

**Niranjan Chintam**: Thank you, Karanjit. Now, a little bit on the European side. Let me state that the last year has been bad for Europe concerning revenue. There was a dip in revenue when it comes to Europe, but we have some exciting news. We have hired an experienced and efficient person to head the European region. He has joined us on 1st June. Thus, we are hoping that things will settle down in the UK. I know that the delta variant prediction is growing more assertive in the region, and there could be up to 100,000 cases again in the UK. But we are hoping we will have a better year than what we had last year. The person now heading the European region has a comprehensive background. He has worked with good brands and has an impressive track record. We hope to replicate some of the things that he has done within Kellton to grow the European division. So we are anticipating a positive performance in that geography too. With that, I want to open up for questions. Aisha, can you please create a queue for the questions?

**Moderator**: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Jain from M&N Investments. Please go ahead.

**Mohit Jain**: I just wanted to ask this when you are saying your expenses have increased because of the labor shortage and all. Hence, I think product also you might be having a reasonable rate. I mean pricing. Therefore, it compensates for the loss. Companies such as Wipro and Infosys generally have margins of around 18% to 22%. But why Kellton is doing 9%, 8% even when the hardware is not there now?

**Niranjan Chintam**: Their business model is slightly different. Where we have onsite staff, they are doing a lot of outsourcing work. Because of COVID-19, in some cases, we gave some discounts too. We have done something in Q1 and Q2. There is a legacy effect of that into our numbers for this year. Now, are we increasing the rates because our labor rate has gone up? No, not at this time. It is because there are still lingering effects of COVID that customers are facing. We are mindful of that, and we are also in it for the long game, where we have partnerships for years and years to come. So, that is why we have put our rates stagnant, whereas our cost is going up. But that is something that we might revisit once this COVID-19 fog fades. I mean, there are predictions about the third wave. So, we are mindful, and we have to work with our customers because their business is also are getting affected. You are quoting the big boys of IT. They do have a different business model than what we have. We have close to 1,600 employees, and 600 among them are outside India. So, that is the business model that we have, and that could potentially change. We will get better margins if projects are outsourced to India versus projects in India or near shore. So, that is taking a little bit of time for us to move the contracts over, but with COVID-19, hopefully, we would be able to move all these contracts to India to increase margins.

**Mohit Jain**: What about the blockchain? I hear blockchain is a good business. I do not know exactly, but we hear blockchain is a good thing based on the news. I think you must have a good margin because it is a new area for you.

**Niranjan Chintam**: Yes, the rates are higher while dealing with such new technologies. I do not want to talk about margins specific to customers that depict the purpose of some of the stuff that we do with the customers. So, to give you an idea, yes, the new cutting-edge business always gets higher margins. Whereas while doing regular enterprise-related work, we get lower margins.

**Mohit Jain**: So, do you think the second quarter will be better, or will it be the same as the last time?

**Niranjan Chintam**: For this quarter, probably year-on-year will be much better, but we are comparing at a low base. I reiterate that the Q1 of last year was pretty bad due to the COVID surge followed by lockdowns. This year in India, yes, there is a lockdown despite the that we have been working. But the impact of COVID is still out there, so we do not have the numbers. There is pressure when it comes to the cash flow. When it comes to this quarter, people are working remotely; offices are shut down; collections are taking longer. We have all-around 50% to 60% collections that are happening. So that gives you a perspective of some of the cash challenges that we would have for this quarter. If there is a third wave and the impact is not as significant as the second wave, we will be doing much better in Q2. Q1 probably will be better than last year, but as I said, a base effect is there.

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

**Vibhor Gupta**: So, I have two questions. First is the order book pipeline looking for the next quarter and the following year for the entire year. The second one is we have won many new deals like Karanjit mentioned, around 12 client wins. So what is the ballpark deal size for these contracts? And when can we expect the revenues to be realized from the deal?

**Niranjan Chintam**: Let me answer your second question first. So the deal size varies from a few hundred thousand dollars to million dollars. Since we are in the digital transformation space, the deal sizes are smaller initially. They start with a few hundred thousand dollars where they start a new initiative and then borrow these and get into more and more. I guess other business areas get a lot of it. So, if we look at it, we always look at the long-term customer revenue perspective what we can get versus the short-term one—now coming to your question on the pipeline. The pipeline is robust. We currently have an order book of a backlog of over six months of revenue, which we had in the last year, that continues to grow. Your other question was related to when we start seeing realizing revenue. Some of these things, all the way from NFT that Karanjit talked about, we have already begun billing. Karanjit, correct me if I am wrong. I think the first time VP is due in August for the NFT project. For the people who are not familiar with it, NFTs are non-fungible tokens, which use blockchain technology to represent unique ownership of digital assets. So, that gives a perspective that we already are working with these customers. But typically, the revenue size for the first two quarters is smaller when compared to the other quarter. As customers start seeing the value of what we provide, more and more opportunities come to us, and our revenues go up.

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

**Varun Kumar**: So, I have this question the growth is there, but I see a pretty stagnant performance. So what initiative is the company taking to increase this number more in the coming times? Are we concentrating more on top-line or bottom-line consolidation in the future? What is the plan to increase numbers, to sum up?

**Niranjan Chintam**: You are right. For the last few years, the company's top line and bottom line have been stagnant. Still, I wanted to mention that we did hive off two of our subsidiaries. That impact is also there on the top line and the bottom line. If my memory serves right, we are probably at around 120 to 150 crores. I do not know the exact numbers of revenue that we lost by selling those two companies, and that is recouped by last year and this year. As you are aware, due to COVID-19, there was some significant revenue dip in the first two quarters and that also we are recovering. But your question is still valid regarding what are we doing for our company's growth. We have hired an external consultant who knows the industry and has grown companies to a billion-dollar size. He is helping us with the growth acceleration. One of the hires that we made is with his input for the European head of operations discussed earlier. So, we have many exciting things to come down the line over the next 45 days. We would be making some changes, making some announcements that would give you a perspective of all the different initiatives that the company is taking. But yes, we are mindful that we are stagnant, and we are working aggressively on the growth acceleration. Also, from the management itself, we do have a lot of day-to-day operational stuff. We can focus on the growth side. We have hired consultants and have got some excellent ideas. So, I would say, stay tuned. Give us another 45 more days, and we will be coming out with an announcement.

**Varun Kumar**: Recently you announced a product, KeLive, that is the new real estate solution. Do you see any traction over there from these lines? Could you tell us about KeLive in detail?

**Niranjan Chintam**: I will let Karanjit answer this. But to inform you, KeLive was primarily for the UK market. We felt the need for a ready property management solution that could be customized for resident management companies in the region to deliver exceptional living experiences to modern residents living in apartments. Karanjit, would you like to add?

**Karanjit Singh**: Yes, we have worked with some real estate customers, especially in the UK. We realized we could create something new as we had the right exposure. So, what we did is we said let us use our cumulated knowledge around this and use our experience there. We launched this product. The strength there is AI and smart analytics. We made KeLive technologically sound to enable integration with newer workflows. So, this kind of solution has numerous advanced features, apart from this usual tenancy and property management apps. It has got all these other things like package tracking, parking management, visitor management, and more. In terms of traction, we got a lot of inquiries right after the launch. But again, as Niranjan explained, the COVID-19 pandemic disrupted the markets in the UK. Conversations are continuing, and where we are continuing to engage with the clients on and off. We hope that we will have some traction very soon.

**Moderator**: Thank you. The next question is from the line of Gopal Krishnan. Please go ahead.

**Gopal Krishnan**: So, I have a question about segment-wise revenue growth. I see improvement in the revenue concerning digital transformation. But in an enterprise solution, it keeps on decreasing. Is it a good thing for the company? Any plan to increase the revenue and interplay solution also?

**Niranjan Chintam**: Most of these enterprises have a legacy system to answer your question, so the work on legacy systems is typically run and maintained. They are not doing new initiatives or what we call the capital investments Karanjit and Srinivas discussed earlier. So, they are just making sure that the system is up and running and the patch and ready to go with the new software versions. So, any new initiatives they are doing in the digital transformation space with that said, what happens is because the legacy system is there, we would have to build some hooks to work with the legacy system. So, what we do is we provide a front-facing middleware solution, which hooks into the backend. It works with the digital transformation side that could be the web, mobile, or any new IoTs stacks, AI, and all that stuff. So, the backend work is going to reduce. As our revenues go up, there will always be enterprise services that we would be offering. The demand for digital transformation is gaining investments, and there are innovations linked to it. Some enterprise software is becoming obsolete, while a few others are revamping with the new demand. Some solutions like SAP offer new edge solutions with the digital in mind while the legacy software is undergoing digital transformation.

**Gopal Krishnan**: The second question is about debt? In the earnings call before this, you mentioned by 2022; we will be in the process of becoming a debt-free company. Do you still believe so?

**Niranjan Chintam**: We are working towards that. The only caution that I am going to make is two things. One, yes, in these challenging times, we are conserving cash. We want to keep money safe to pay the debt, especially when COVID-19 has hit us hard in the first two quarters. Yes, currently, we are sitting on a little bit of cash, but we have tightened up again this quarter. So, we are mindful of that. Debt is not that bad. Yes, we are reducing on debt. We are careful when it comes to the debt-related obligations that we have just one number. Last year we were about 115. Now we are at 101. If you look at the numbers, in March 2020, we were about 116. So, we did reduce it, but not significantly. But it is coming down. Still, we would be paying down more debt as we go on every quarter. Still, working capital is something that we would want. We want to keep it because today the cost of finance has come down dramatically, specifically in the international markets where we are paying around 45%, which is almost nothing we would keep. We have cash. We do want to make investments into R&D; in probably new jobs that we want to create, specifically in Europe, we have been investing a lot over the last few years. We would continue to make investments with the example that said we did have a new European head and build the team around him. We are also in Poland. I think you are aware that with the labor market tightening we are looking to, that is an area we should invest in growth when it comes to hiring people too. So, we are looking at various things, so we are making investments, we are still a growing company. So, we would always have some debts, but we are at 0.24%, which is very small if you look at the debt-equity ratio.

**Gopal Krishnan**: And my last question is about the employees' growth. From 1400 to 1600, just that. Any focus on improving the employees' strength?

**Niranjan Chintam**: Because we are growing more and more into the European market space, some of the business we would be doing in that space is different from US space. So, we would have to build up new divisions within the company either organically or inorganically and currently have over 100 openings that he wants to hire. Srini has some numbers that he wants to hire because the pipeline is building up, and it is a challenge to hire people that were not there earlier, but that is a good challenge to have. We are coming up with creative ways of hiring or attracting new talent and retaining the existing talent. So, we are working aggressively, Karanjit do you want to add anything to that.

**Karanjit Singh**: As Niranjan said, we have about 100 positions that we are hiring for at this point. But all of you would be aware that amidst COVID, the people are stable in the market, but there are challenges in Onboarding talents. We are working on that, of course, as we are also trying to cross-sales. So, those are the kind of initiatives that we are taking to be ready for whatever the pipeline and the customer we are seeing.

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

**Mithun Sankhala:** And to be very frank, I am an old investor in the company. It is almost four years since I have invested now. I just heard the news that this time the company is trying to pay a dividend, which is excellent. My only concern is when I should expect a return. From the lows of March to April to today's highs, it has been a tremendous comeback for the company. I mean, I think of executing, we will come up with something new. I forced myself to invest in your company, but then again, despite all these years, I am not getting the kind of return for the investment.

**Niranjan Chintam**: You are correct our stock price is undervalued. There is nothing I can do about the stock price point of view. Operationally there were a few challenges that are fixed now. We are in better shape than where we were earlier. Now is the stock price the true reflection of what we have achieved in the, say, last four years. But we are doing everything we could have. From giving out information to the market, the shareholders, meeting analysts to having analyst calls; and going to some of these business channels to talk to them, writing business-related articles, doing blogs, we are doing everything that we can. However, I am open to suggestions and ideas. We are making every effort. We are trading probably between 10x and 12x lagging EPS today, whereas the industry is perhaps trading at 30. Your suggestions are welcome. If you have something specific, Mithun, I would love to chat with you offline and see if we can make some more offers.

**Mithun sankhala:** I feel that investments have been made from the FIIs, FPIs, and probably from the domestic investors. When you say the percentage has increased from 0.09 to somewhere probably about 1.6, which is excellent, that brings confidence. People are coming forward to invest in your company which is good for the future. I am not too sure if that has happened or not. If Could you elaborate on this?

**Niranjan Chintam**: I do not know the exact shareholding of this whatever we are reporting to the exchange. I have not looked at the number during the last few weeks because I was busy with this audit part of it. I would be happy to call you back once I get the hang of these numbers. If you do not mind, can you reach out to Anupam? We do not have your contact details. Anupam would get me your contact details. We would reach out to you and give you the information that you seek. And one of the things which people were pointing out, we are not investing because of dividend-paying. That is one of the reasons why we made that dividend announcement this year. I wanted to keep my promise. I do not know if you recall probably 7, 8 years back is when I said I would look at giving dividends in 21, 22 because I felt that is when we would be in a better shape both from a revenue and a cash flow point of view, and this is 2021 calendar year. We wanted to keep our word, and we looked at it; we are in a little bit of better shape when it comes to the cash flow than where we were earlier. Hence, we felt that we would start with a 5% dividend this year, and we revisit the next year to see if we did much better than what we did this year. But that is something that we want to keep our promise, and we kept our commitment when it comes to dividend side distribution. So, hopefully, the tag of the dividend-paying company could help in the market; we did this. I guess that is a very positive sign for the company because once you start paying a dividend, we come to know that the debts have come down for the company. Only when debt comes down, we would be able to pay dividends to the shareholders, which is I probably see as a good sign for the future.

**Moderator**: Thank you. The next question is from the line of Mohit Jain from M&N Investments. Please go ahead.

**Mohit Jain**: Sir, I want to come back on the same thing that Mr. Mithun has just said. You asked him that your company is coming at least once a year, sometime in CNBC or sometimes in the Business Today, to inform about your business. These platforms forecast growth for your company, but as Mr. Mithun said, it is not retaining the prices. Another thing I just wanted to ask is that now I think hardware division is no more required, so margins should increase actually. Still, the margins are not high. Why is that so?

**Niranjan Chintam**: I did touch upon this, Mohit. We stated we have more than, I guess, 40% of our employee base outside India. For a company of our size, that is a significant number. In contrast, other companies have probably 90% of their employee base within India. So, that reflects the margins that we make. If we get to India, the gross margin is close to 50%. When we go outside India, when we do the delivery from outside India, the gross margin is around 30%. That is itself a 20% difference. There is only 10% of the business coming from India, 90% is coming from the US. The margin pressure is because of that. We have tried unsuccessfully before COVID to move these projects to India, and I think lately, the customer is willing to work with us to move these projects to India. So, there will be an improvement in the margins. We are coming to your question on the hardware side. It is not a hardware division that we have when we do solution offerings to our customers. Mainly when it comes to the government customers, there's a mandate that we have to provide the hardware too, not just the software. Typically what happens is that the hardware cost is always more than the software side of the business. Hence, we would see the skewness regarding the margins that we make on a project, as I said for government-related ones. But we do not sell hardware. That is not the business that we are into, but when a partner requires a solution to a large project, we do provide that.

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

**Amit Kumar**: It was a pretty good quarter, and I want to wish the best of luck to the management to achieve performance excellence soon. An thank you for the dividend figure, and may there be the same kind of endurance they have increased in dividend in the year coming ahead.

**Niranjan Chintam**: I want to caution that I am worried about what would the impact of COVID third wave. If we continue this way, we would be able to give a dividend next year also, but we would revisit that based on where we are next year and the company's cash flow situation. The intent is there, but we will have to see how it plans out.

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

**Mayur Jumani**: I have been an investor in your company for the past four years as Mr. Mithun. If we can have some good analysts coming in our earnings concall, it would help understand our business models and the prospects. As you said, we should be trading around 30 EPS, but we are at 10. From the lows of March 2020, the share price has gone up from 20 to 85, but still, it has not net expectations. So a good research analyst can help us understand what could possibily be done to enhance future performances.

**Niranjan Chintam**: We are working with few research analysts also. There were a couple of requests that were given out, but that did not help. So we are continuously working with others. It is a two-way process. We would have to reach out, and they reach out, so it is a combination of both. We are working with a few of them, and I hope that there will be another research for this coming up within the next quarter or maybe two.

**Mayur Jumani:** Because we are into blockchain and other futuristic businesses and not many companies are into this kind, we should have the advantage. If we can have the analyst immediately, investors like Mithun and I can have more confidence.

**Niranjan Chintam**: I appreciate your input there, Mayur. We will work on that.

**Moderator**: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Niranjan Chintam from Kellton Tech Solutions Limited for closing comments.

**Niranjan Chintam:** Thank you, everyone, for joining our Q4 and Years' end Earnings Call. I look forward to talking with you again. Next quarter, the AGM will be held. All of you can please join our AGM. We will look forward to interacting with you again. Although it would be done virtually this year as well, we intend to keep you well-informed. You can reach out to Anupam, and we would work with her to get all the information you seek. We are also looking for inputs as to how we can improve ourselves further. Thank you all once again.

**Moderator**: Thank you. I conclude this conference on behalf Kellton Tech Solution Limited. Thank you for joining us, and you may now disconnect your lines.