

To

The General Manager, Listing Department, BSE Limited, 1 <sup>st</sup> 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
<b>Scrip Code: 519602</b>	<b>Scrip Code: KELLTONTEC</b>

Dear Sir/Madam,

**Subject: Transcript of Q3/FY 24 Earnings Call held on February 14, 2024**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q3/FY 24 Earnings Call held on Wednesday, February 14, 2024.

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 Kellton Tech Solutions Limited***

**Rahul Jain**  
**Company Secretary and Compliance Officer**

**Kellton Tech Solutions Limited**  
**Q3 FY24 Earnings Conference Call**  
**February 14, 2024**

---

**Moderator:** Ladies and gentlemen, good day, and welcome to the Kellton Tech Solutions Limited Q3 and nine months FY '24 Earnings Conference.

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 '\*' and then '0' on your touchtone phone. I would like to thank you all for participating in the company's earnings call for the third 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 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 management's 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 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. Niranjan Chintam – Chairman and Whole-time Director; Mr. Karanjit Singh – Chief Executive Officer, India.

I now hand over the conference to Mr. Niranjan Chintam. Thank you, and over to you, sir.

**Niranjan Chintam:** Thank you. Just a heads-up. Srinivas Potluri is not on the call. He has a family situation to take care of, so he couldn't join. It's going to be Karanjit and I today.

With that being said, I'd like to start today's call with our revenue numbers. For the Q3 FY '24, the revenue stood at about 245 crores with an EBITDA of 18 crores and a profit of 8 crores. The EBITDA margin was around 7.6% and the PAT margin of 3.3%. Yes, it was a challenging quarter for us, like everybody else in the industry. During the period under review, our number of billable hours were lower because of the holiday season in the US. There was a slight dip in the overall profitability.

The quarter presented some additional challenges, such as delayed starts. We secured a contract with LIC that required us to ramp up our workforce significantly, resulting in delayed project initiation and increased expenditure, compounded by other expenses. These are a couple reasons why Q3 FY '24 was a challenging quarter. We experienced a revenue growth of only 2% over the previous quarter, and the profits declined a bit.

However, we believe it's a one-time thing. The current quarter is turning out better than the previous quarter. Unfortunately, we had to face challenges last quarter. From a nine-month revenue standpoint, we are at 736 crores, achieving a 9% Y-o-Y increase, with an EBITDA of about 73 crores and a profit of about 40 crores. As previously stated, we secured an 8-year contract with LIC that involved creating an infrastructure accommodating approximately 150,000 people. This contract underscores the industry's confidence in us, following our previous successes with FCI and the Karnataka state government. Additionally, we've secured 11 new contracts and customers this quarter, despite the challenges. Singapore is showing an uptick in activity, with two new customers won. Furthermore, we've launched a design studio with Kellton. We're being recognized for our design capabilities, and we're excited about these developments.

Now, I want Karanjit to rope in and talk about the customer wins of the previous quarter. Karanjit, do you wish to provide a sampling of customer wins we achieved last quarter?

**Karanjit Singh:**

Yes, thank you, Niranjan, and hello everyone.

In Q3 FY '24, we added 11 new clients across various industries. But before, I'd like to give a glimpse into the type of work we're doing, centered around digital innovation. We've partnered with a broadcast media production client, where we're tasked with tracking their real-time viewership using IoT devices and upgrading their existing solutions. We're managing both tasks in accordance with the industry protocols. In another collaboration, we're working with a healthcare client, providing them with end-to-end services including SI work, aiding in the design and manufacturing of VR headsets, and integrating them with their monitoring software. Our client aims to bring about some transformative experiences through this specific solution. We've signed off a deal with a leading food and beverage company in India, assisting them in modernizing their quality control processes using our Kellton hyper automation platform. This is one incredible win under our belt. Speaking further, we've engaged with a major car manufacturing company to develop an engineering and data security app for their R&D department. We're helping an aerospace company on their SAP journey. Apart from the usual, we're actively collaborating and doing a lot of work with start-ups, such as aiding a fitness startup in the Middle East and collaborating with a video games platform. We've also initiated a partnership with one of the big four companies in Singapore, the same client Niranjan mentioned. We are focusing on enhancing their digital capabilities across different regions. These client wins from the previous quarter speak volumes about our strong presence in the digital transformation space. We look forward to further successes. Thank you, and now, I'll pass it back to Niranjan.

**Niranjan Chintam:**

Thank you, Karanjit. Now, let's open the floor for questions.

**Moderator:**

Thank you sir. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Mohammed Afroz, an individual investor. Please go ahead.

**Mohammad Afroz:** Sir, first of all, I'd like to congratulate the team on acquiring new clients. I would like to inquire about the size of these orders, such as LIC, Karnataka governments, and other clients we've recently added. Secondly, we seem to be struggling while encashing our due bills, which are reflected in our trade receivables. If I calculate, it amounts to around 275 crores. Even at a conservative 10% interest rate, this translates to 27 crores annually, while our quarterly profit stands at 8 crores. This situation raises concerns about the viability of our business. How can we address these issues and improve our outcomes? Thank you very much.

**Niranjan Chintam:** Thank you, Mohammed. Let me address the second question first. I understand, and your concerns are legit. I often tell my operations team that I'm funding these large companies. Unfortunately, it's the nature of our business. We tackle these large corporations who are bad paymasters when it comes to collectibles. For instance, IBM and UPS typically have payment terms of 90 days or more, while smaller clients may pay within 30-40 days. We've different customers with different payment cycles. If we dwell on government contracts, such as Karnataka and LIC, both of them are milestone-based contracts. This means that we only receive payment after achieving certain milestones, which can take a considerable amount of time, especially in the case of government contracts where the first milestone may not be reached until around 10 months. So, while we may accrue revenue for these milestones, we may not actually receive the funds right away. This is why our DSOs are on a higher side. You're almost right about the ballpark of our receivables, but it's important to understand that this is simply the nature of the business we're in. Unfortunately, since our company isn't as large as some of the bigger players in the industry, our negotiation leverage is somewhat limited. Hence, we'll have to endure this situation a little longer if we want to attract and retain customers like them. You're correct in pointing out that we could choose to walk away and seek alternative financing, but that would mean leaving our employees idle, which comes with its own costs. Additionally, engaging with these large clients allows us to sharpen our capabilities, which is crucial for future endeavors with other clients. It also establishes us as a trusted partner for potential clients when we can demonstrate our successful collaborations with major companies. This is something we have to consider, especially when dealing with smaller startups. If we were solely focused on maximizing profits, we could adopt a different approach, but our goal is to provide cutting-edge technology solutions. Thank you, Mohammed.

**Moderator:** Thank you. We have our next question from the line of Shah Nawaz, an individual investor. Please go ahead.

**Shah Nawaz:** Sir, I have a couple of questions. The first question is regarding the order book size. What is the current order book size of the company?

**Niranjan Chintam:** Sure, let me return to you once I have your next question, and I'll provide an answer after reviewing the relevant data. I'm currently awaiting the data to arrive, and I'll get back to you as soon as possible.

**Shah Nawaz:** My second question concerns your annual report. You mentioned previously that we were projected to do \$200 million in business for FY '24-25, whereas it was \$300 million a while back. In our annual report, the guidance indicated that \$200 million is

the expectation for fiscal years 2024 and 2025. Sir, can we confidently say that we will achieve this in the upcoming financial year?

**Niranjan Chintam:** Unless we encounter quarters like the challenging one we faced last quarter, which was difficult for everyone, not just us, and considering the uncertain market conditions, especially with the possibility of a recession in the US, we believe we should be able to achieve that target. We are not backing away from the numbers we've provided; it's just that external factors may influence our performance. However, we are committed to reaching our goals. Regarding the question Mohammed asked earlier, let me address that. The LIC contract is valued at around 90 crores, and the Karnataka government contract is approximately 45 crores as well.

**Shah Nawaz:** And your order book, sir, as of now.

**Niranjan Chintam:** I am waiting for the data. I will share it with you soon.

**Shah Nawaz:** What is your employee size?

**Niranjan Chintam:** At present, we have a workforce of approximately 1800 individuals.

**Shah Nawaz:** 1800. Sir, I'd like to address one more thing. I understand that the entire industry is facing challenges, as you mentioned. However, when we look at the PAT margin or EBITDA margin, it seems that we are struggling more compared to our peers in the IT or digital sector.

**Niranjan Chintam:** I agree with that. This has been a challenging quarter for us.

**Shah Nawaz:** This is where we, as investors, are interested to know more about.

**Niranjan Chintam:** I understand our shareholders' concern, and that's what I'm trying to convey. The recent hires we made, particularly for ramping up sales and fulfilling the LIC contract, have led to higher costs. Additionally, encountering delays in project starts has compounded the issue. While the market is tight for employees, hiring remains a challenge due to associated cost factors. This situation has impacted us more significantly due to our smaller revenue base compared to others in the industry. As a result, the impact is more pronounced for us compared to larger companies who can absorb it more easily. However, I want to emphasize that we anticipate improved performance in the coming quarters, despite potential external factors influencing it. Our current order book stands at around 800 crores.

**Shah Nawaz:** So, the performance for the quarter is great, particularly in Q4 in terms of both top line and bottom line.

**Niranjan Chintam:** See today is on February 14th, right?

**Shah Nawaz:** I surmise half of the billing has been completed.

**Niranjan Chintam:** At this point, we are doing much better than last quarter, much, much better.

**Shah Nawaz:** Great, Sir. Thank you, and all the best to the team. I have a lot of faith in you. Sometimes I may come across as harsh, but I truly believe in the management. You are all in our prayers, and we anticipate achieving great things under your leadership.

**Moderator:** We have our next question from the line of Gunit Singh from Counter Cyclic PMS. Please go ahead, sir.

**Gunit Singh:** Sir, you mentioned reaching \$200 million of revenue. You also mentioned that you were doing much better in Q4 compared to Q3. So, I just want to get a sense of what kind of top line and bottom line we can expect in FY25 based on the order pipeline and the orders that you've secured.

**Niranjan Chintam:** I'm afraid I can't share such information at this point in time. I prefer not to make any projections. I can provide targets for the longer term, but I prefer not to give short-term targets at all.

**Gunit Singh:** Right, thank you! Even if you don't have an exact number, what kind of growth are you looking at for 25 years, given the current order book size and the pipeline, considering your assertion that you had ramped up operations the previous quarter.

**Niranjan Chintam:** At this point, I'm unable to give out such information, Gunit. I can share what we are currently experiencing on the order book size and what our pipeline augurs. However, I'd refrain myself from commenting on what we booked, since we're combating a number of external factors, particularly those fueled by elections taking place worldwide. I hope you understand, but I apologize, I cannot provide that information.

**Gunit Singh:** So, just to have an idea, when you set the target of \$200 million, did you have any specific time frame in mind, such as within three years, five years, or 10 years?

**Niranjan Chintam:** So, at that point, we set a three-year target, and that is the target we are currently working towards.

**Gunit Singh:** Alright! So basically, by FY '26, we should be somewhere around that number?

**Niranjan Chintam:** Correct, yes, that's what we have targeted.

**Gunit Singh:** Sir, what is the order pipeline currently?

**Niranjan Chintam:** Our order pipeline stands at around 800 crores. I am talking about the order book here. The pipeline, we expect, would be substantial, and it'd keep on changing as we pace ahead. I can't divulge any details about the pipeline. I can only give you information on the order book, such as the sales numbers and what the sales team tells us when potential deals are converted into the order book.

**Gunit Singh:** Alright, Sir. Got it. When you say that currently Q4 is much better, are you referring to quarter-on-quarter or to Q4 of last year?

**Niranjan Chintam:** We're talking about Q-o-Q as well as about Q4 last year.

**Moderator:** Thank you. We have a follow up question from the line of Mohammed Afroz, an individual investor. Please go ahead.

**Mohammad Afroz:** Sir, from what I observe, our sales figure has improved by approximately 4.7 crores since last quarter. However, our expenses have also increased significantly, with employee costs rising by 6.4 crores, interest by 0.3 crores, and other expenses by 6.4 crores, totaling 13.1 crores. Considering that our sales have only increased by 4.7 crores, why are we not seeing the expected output and reaping the benefits of these expenditures on the revenue side?

**Niranjan Chintam:** Mohammad, as I mentioned, we ramped up for certain projects that were supposed to start, but some got delayed. This was a common experience for everyone in the last quarter. There were unexpected surprises until the end of December, where certain projects that were supposed to start didn't, but we had already hired the necessary personnel who are now on board. These projects are now getting started this quarter and the next. This will contribute to an improvement in our revenue numbers and profitability. Additionally, as I mentioned, the LIC project required a significant upfront investment in employees. We needed to ramp up our workforce extensively, which involved hiring internally and engaging consultants, all of which added to our costs. These are the factors at play.

There are two main factors affecting the interest cost. Firstly, as you are aware, interest rates have increased and have hopefully stabilized now, with the expectation of them coming down. So, that has had an impact on our interest costs. It's important to note that we didn't engage in any significant additional borrowing; there were just slight increases in working capital requirements that needed to be adjusted. Particularly with government contracts being milestone-based, there's a delay in receiving payments while we still have to cover expenses such as paying employees, subcontractors, and rentals. We've also incurred costs for setting up offices in Bangalore and Bombay. These factors have resulted in tighter cash flow, leading to some slight additional working capital requirements, which are reflected in our finance costs in addition to the interest cost.

**Mohammad Afroz:** OK. So, when can we expect the billings of the LIC and Karnataka Government projects to roll out?

**Niranjan Chintam:** You were asking. I do not have the exact date on when that is since we started. Correct me if I'm wrong, but we started sometime in July or August of last year for the Karnataka project. So, 10 months from then is when we should be able to collect, but LIC was in the December timeframe. So, it will start 10 months from then, right? So, this is going to be the thing, that's how it works. So, around May is when we should be getting the money from the Karnataka government. Then LIC is going to be sometime in October, assuming that no delays happen and all that stuff.

**Mohammad Afroz:** Will these billings improve our margins drastically?

**Niranjan Chintam:** See, the billings have always been accounted for on an accrual basis. All of those things are on an accrual basis, including costs. It's not going to increase as such; it's already accounted for today. The impact is on the cash flow. So, we will receive cash

for the interest, costs will come down, and there may be some additional inflows. It's not a significant impact; it's just part of the business, so there will be some impact.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Niranjan Chintam for closing comments.

**Niranjan Chintam:** Thank you, everyone, for joining our Q3 Earnings Call. We appreciate your questions, and we encourage you to continue asking tough questions so that we can provide you with all the information. Transparency is something we pride ourselves on, and we want to offer as much information as possible to our investors to enable them to make informed decisions about our company. Thank you again, and we look forward to speaking with you in the next quarter. If you happen to be in Gurugram or Hyderabad, please feel free to reach out to us. Thank you very much.

**Moderator:** On behalf of Kellton Tech Solutions Limited, here we conclude this conference. Thank you for joining us, and you may now disconnect your lines.