

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 Q4/FY 24 Earnings Call held on May 31, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q4/FY 24 Earnings Call held on May 31, 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 Kelton Tech Solutions Limited

**Rahul Jain
Company Secretary
ICSI M. No.- A62949**

Kellton Tech Solutions Limited
Q4 & FY24 Earnings Conference Call
May 31, 2024

- Moderator:** Welcome to Kellton Tech Solutions Limited Q4 & FY24 Earnings Conference Call.
- As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 4th Quarter Financial Year 2024.
- 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 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 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 with us Mr. Niranjan Chintam – Chairman and Whole-Time Director, Mr. Karanjit Singh – Chief Executive Officer (India), and Mr. Srinivas Potluri – Chief Executive officer (US). I now hand the conference over to Mr. Niranjan Chintam. Thank you and over to you, sir.
- Niranjan Chintam:** Thank you, Darwin. Welcome, everyone. Good evening, good morning, wherever you are dialing from. Thank you for joining our financial year closing numbers as well as Q4 of FY24 Results.
- Just want to run through some of the financial numbers first and then we'll talk about the qualitative aspects of what we achieved in the year and what we achieved in this quarter.
- In the year Financial Year 2024, we have a revenue of about Rs. 984 crores or Rs. 985 crores, which is a 7.1% year-on-year growth. The company has achieved an EBITDA of about Rs. 106 crores and a net profit of Rs. 64 crores. So, the EPS is Rs. 6.6 and the PAT margin is around 6.5%. So, the quarter ending, we achieved a revenue of Rs. 248 crores, which is 1.1% quarter-on-quarter growth. The EBITDA is about Rs. 35 crores and the EBITDA margin is about Rs. 13.2 crores and the net profit stood at Rs. 23 crores. The PAT is about 9.6% for this quarter and the EPS of Rs. 2.5 per share.
- The financial highlights and operational highlights rather as you are aware, we have notified that the exchange has again picked us up in the SME market in the leading quadrant which only affirms third party or affirming our capability which is leading to some of our customers looking there and coming to us for some work to be done with us. We're also in the challenger space as it stands from SAP, S4 HANA services in the 2024 in the challenger market. We also have, I think about 7 new customers in this quarter. Once I'm done with that, Karanjit will explain the different customers that we have acquired and about 29 customers in this whole year. So, with that, I want to hand over to Karanjit to talk about the customer acquisitions that we have made in the last quarter. Karanjit, can you speak about the customers briefly on what all the markets that we are in and what is the work they're doing?
- Karanjit Singh:** Thank you. Hello everyone. So yeah, as Niranjan mentioned, we have had 7 customer wins in this quarter around the range of industries or pipes. We have won our engagement with the management consulting firm where we are helping them with the application of AI for certain government grant processing that they do for one of their customers. So, we are helping them implement the whole AI part of it for which we are consulting with their customer. We've had win with

the large Indian Pharma company where they are trying to diversify into health insurance, and we are helping them develop the digital presence over there. Clearly, we have been selected by a large Indian auto company where we are helping them with building a digital collaboration and workflow tool to help streamline their R&D process and collaborate digitally because they have their centers that are spread all over. We have also been selected by a broadcasting media production house, which already sort of has an existing platform, but we are helping them refresh the platform to the latest technology and make it more scalable. We've also had a win where we're helping a customer. We implement a managed services safety implementation in the life sciences space. So those are some of the wins. Most of them are digital, but what is also increasing and important for us are that some of these at least 2 or 3 of these are where we are working in the cutting-edge area of AI to help them realize some of the benefits of gen AI in their business processes. Thank you. Over to you, Niranjana.

Niranjana Chintam: Thank you, Karanjit. So, while Karanjit was talking about the AI, we have about 13 projects that we have launched for various customers in the AI, and they've gone live. These are successfully launched. We have a huge pipeline that is being built up in the AI space. So that is something that is exciting for us and now we're able to help our customers deploy AI based solutions to cater towards their own customers.

Also, a couple of more highlights. During the last year using the success of FCI HRMS solution, we were selected to do Karnataka state government HRMS platform that we are deploying, LIC has chosen us also to revamp their HR solution so the whole life of an employee is going to be taking care of us for more in the Karnataka state government, all the employees in the state government as well as the LIC. Every employee that is there including the retirees, will be taken care of by LIC through our platform. So, both were successfully able to use our FCI learnings as well as our credibility to win these two new contracts. And we're very excited deeply now into building the solution for them. These both are milestone-based contracts. So, the revenue is going to be coming in very soon and then when you start seeing the revenue showing up into the quarter with this.

With that, Darwin, can we open up for questions?

Moderator: Certainly, Sir. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.

Gunit Singh: The current demand scenario in the IT industry was most from the guiding is that the spend on one part of customers are weak and the demand is not as good as it used to be a couple of years back. So, are we also facing any similar challenges right now or how does the market condition look to you and what kind of outlook do we see for the coming years?

Niranjana Chintam: So good question, yes, we are in a similar boat as like others. And yes, there are some challenges, spending has weakened. We are seeing early signs of recovery though we are getting inquiries from our customers specifically in US markets. Europe market is pretty much flat for us. Indian market is booming, we are probably in India is the best market in the world nowadays. So yes, the answer to your question is, there are early signs of recovery, but we don't expect major recovery to happen until after the elections that take place in UK and US. So, we are looking at probably the next 2 to 3 quarters, it is going to be slow growth and then probably starting the next calendar year is when we'll start seeing the spending coming back as aggressively as what it is to be. So, at this point right, my guidance would be that it would be a slow growth for this year with the growth coming back starting the calendar year next year.

Gunit Singh: Alright, so when you mention low growth, or do you mean low single digit growth or something within the low double digit?

Niranjan Chintam: Single digit growth for this year. And so that is how it's going to be for this year. Starting next year, right calendar year, I'm using the calendar year because in the US election will end and then recovery starts, but it may not start till probably February, March of next year is when the recovery will start. That is what they're anticipating. So that is something...

Gunit Singh: Are we facing any pricing pressures also, would we be able to maintain our better margins or how does it look?

Niranjan Chintam: The pricing services are not there at this point while the pricing pressure is more to do with inflation of the wage than really anything else. The customers are not asking for such, it's just that even with the market, the tight market that is there for demand and the employees also have the increments that they're demanding is not reduced dramatically. Yes, it has come down, but not to the extent that we are hoping for correction.

Gunit Singh: So, sir, are we hoping to maintain the margins this year?

Niranjan Chintam: Yes. Whatever we have for the whole year, we expected the similar margins for the next year, yes.

Gunit Singh: Alright, sir, what is the current order book as on date?

Niranjan Chintam: We have about 8 to 9 months' worth of revenue that we have in backlog at this point.

Gunit Singh: So, we added 29 customers this year, what is the total customer count?

Niranjan Chintam: Total customers?

Gunit Singh: Total number of customers that we have?

Niranjan Chintam: Let me get back to you on that while I take the other questions. I'll come back and answer that, Gunit. Let me just dig it out.

Gunit Singh: And we had guided about reaching 200 million in the next I think 2 to 3 years. So, are we still on track for that or?

Niranjan Chintam: We still want to achieve that number, Gunit. What we anticipated the growth for this year, we have not been able to achieve because of the various headwinds that you are aware of like last year through this year while we wanted to be in the double digit growth, we were able to achieve only the single digit growth, which is unfortunate, but that's the nature of the market that we are in and we're trying to swim with the market and we have made some certain changes. We'll also have a few products that we have successfully be able to launch this year and we are seeing early signs of revenue coming in from that and we are anticipating that revenue also would be growing over the next few years to give us another line of revenue that's coming in.

Moderator: Thank you. The next question is from the line of Shah Nawaz, an individual investor. Please go ahead.

Shah Nawaz: Congratulations, I think this quarter was better than after so many quarters, this quarter is given a better some kind of relief to us, right? I think my previous colleague person, investor has already asked you a few questions. So, I want to just

know how much is the manpower you have because you are showing drastic increase in the labor cost, Rs. 150 crores in this quarter whether you have increased the manpower?

Niranjan Chintam: It's about flat, Shah Nawaz. It's the inflation of the wages that we're talking about is there and the increase in costs have happened because of that and not because of anything else and we were not able to pass on that increase in cost to our customers. I guess the bill rate is still the same, but the pay rate went up for us.

Shah Nawaz: And I think the person has asked already, Mr. Gunit was asking that in 2024-25 you have given the guideline in your annual report that \$200 million is your aspiration?

Niranjan Chintam: Yes. We're still on and that is our aspirational number, and we want to achieve that.

Shah Nawaz: To do that quarter minimum, you need to do Rs. 400 crores. But you are doing 248, so how this jump is going to happen? What is the tool? I mean, what is the product or something like you have something in pipeline which is getting?

Niranjan Chintam: So, there are some, like you said, right that we have some products, a couple of them we have launched and third one we're still in that R&D phase of it. One is I think we have alluded to you earlier which was an industrial IoT solution that we have, and we are getting traction, we're getting revenue. Real customers coming in all the way from South America to North Africa, they have customers that are using our solution. And then we also have a hyper automation tool. We have customers in India, US and European markets. We're seeing some pipeline being built up. These are early revenues, and we are probably in the half a million range of revenue. But we anticipate right over the next 3 to 5 years, 20 to 30 million revenues will be coming in from those.

Shah Nawaz: You have said you have done some 11 customers; something is there. What is the revenue contribution of AI?

Niranjan Chintam: Let's currently answer the question on the type of work we do, but the revenue is probably in the million-dollar range at this point because since early adopters right now, people are not spending you know multi million dollars when it comes to AI based projects. People are trying out small incremental bids and we anticipate that over the next one year this will go to a few million dollars. This is just experimental stage. Everybody's curious. Everybody is trying to see what can be done, what kind of efficiencies that can bring in all that is being tried out now. So, we are in that part of that learnings for the customers, helping the customers or educating the customers in identifying different use cases that they can use AI. So that when it comes to a larger entity, right, they should be able to adopt this using some of these concepts that we have developed and some of the use cases that they use. Karanjit, do you want to add anything on top of that?

Karanjit Singh: Yeah, as Niranjan said, see, there are certain early adopters. So, like there are two categories right there are these people who are trying to build out a new idea, startups kind of thing and then of course there are mature corporations which are trying to leverage the power of AI. Most of these use cases fall into like couple of categories. So, a lot of them tend to be in this whole intelligent chat bot kind of a case where we want us to basically look at the knowledge base that the company already has and then use AI to kind of have whatever the intelligent chat bots or virtual assist, those kinds of things, but there are also use cases around, trying to automate tasks or gain insight. So, like Niranjan earlier said, you've basically delivered a lot of AI projects already to just to give you a little bit of add to flavor on that like we built, this is for somebody who's trying out a new idea. So, you build a complete marketplace platform for subject matter experts. So essentially, they created the Digi Doubles that something that we have done.

Shah Nawaz: To develop this AI, how much we will have to spend in R&D, it might have been done for 2-3 years, what could be the cost?

Niranjan Chintam: There is no real R&D as such right. We are using internally to see our efficiencies; we can build efficiencies into our own delivery kind of stuff. So, the R&D mostly is done on the job with the customer. We have some used cases that we develop internally and then we say, hey, can we sell this to the customer? Hence, it is going to be more of a sale related expense, R&D then really R&D and saying because you are not a product company, we are trying to do R&D spend on it. Here, we are developing used cases, for helping our sales team sell. So that is something that there are some of our own customers, right. They have data and working with their customer and saying hey, this is what the insights we can give using the AI. Those kinds of stuff, so it is not a significant amount of R&D on own internal money that we are spending.

Shah Nawaz: What is the manpower, sir, you have as of now in invoicing?

Niranjan Chintam: We are flat what we were last year. Ups and downs were there, there be some people left, but we were back to 1800.

Shah Nawaz: Only 1800?

Niranjan Chintam: Yes, correct.

Shah Nawaz: What is the plan for this year are you hiring?

Niranjan Chintam: At this point, we are keeping it fluid. We want to see how the demand based on the demand is what we would be increasing it. With that said, there are a lot of interns that are coming in. We are working with them and any good interns that we are making offers to become our employees. So, we are working with, as we speak right in Hyderabad office, we have about 20 plus interns that are working on various projects that we have given them. If any good staff people come out, we would like to have to give them an offer. So based on the demand that we see from the customers is what we will be hiring. I don't want to give out a prediction out that we are going to be hiring this many numbers of people, but there are continuous hiring that is happening.

Shah Nawaz: 200 million in this year you are saying you are still optimist, right?

Niranjan Chintam: Not this year. The next 2-3 years, which is what we said, yes.

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

Rajesh S: I had a few questions on the kind of another customer profile from the projects. So out of the revenue of almost Rs. 1,000 crores about what percentage would be kind of annuity projects or projects which are regularly ongoing and what would be like coming from one-off projects?

Niranjan Chintam: Around 80% of our revenue is from repeat from the same customers, right, 20% is what you will get, typical. That has been our historical numbers and that continues to be the historical thing. To answer the AMS part, it is probably 5% to 7% of our revenue. We are not doing AMS like the large, big boys. We don't do it. We support the projects that we have deployed, and we do what that patch, fix, upgrade that kind of stuff we do, but not to the extent of having let us say a

call center or a light on lights off kind of a thing. We are not doing it as offering at this point, but then 80% is coming from the same customers for us, revenue wise. It goes on year-on-year.

Rajesh S: If you are saying that only 5% is from AMS, then where is most of the revenue coming from? Is it like staffing?

Niranjan Chintam: No, it is the projects that we build right, it is the outsourced projects that we do for our customers, we outsource project and then we go on to the next project.

Rajesh S: And I think you have an impressive record of I think if you look at the previous history, I think every year almost 30 new customers get added, but how does it translate, so it doesn't seem to translate into that kind of steep growth in the annual revenues, right or are these small projects or are these one-off projects which do not sustain?

Niranjan Chintam: When we start off with a new customer, right, initially it is going to be a few \$100,000 worth of business that we do with them. And then it goes on to multi million over the next few years, right. And at the same time, there are like I said, 80% is the same person, 20% drop off. So, these customers, new customers give us the new and the growth that we get. What we call the existing new and the net news right, it continuously goes on like that.

Rajesh S: And in this latest quarter, I see that the operating margin is at 13%. I think it is higher than it has been for quite a few quarters. Any specific reason or is it more due to revenue cost recognition?

Niranjan Chintam: It has various reasons where one is in what we call the balancing quarter where since the end of the year quarter, right, we adjust for whatever we missed out in the last few quarters. Typically, this quarter is going to be slightly different from the other quarters because we balance out the taxes, the revenues that were missed out, the expenses that were missed out or added that should not be. All that adjustment happened this quarter.

Moderator: Thank you. We have the next question from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: Sir, my first question is on order book. You have already said that you have 8 to 9 months of revenue in backlog orders. So, can you give it in absolute terms like what is the amount of order book that we have?

Niranjan Chintam: Let me pull it up. It is about Rs. 800 crores.

Tushar Vasuja: About Rs. 800 crores?

Niranjan Chintam: Yes.

Tushar Vasuja: And can you give a segmental revenue break as in like what type of, like what is the number of order for your different business verticals?

Niranjan Chintam: For us 80% of our revenue is from digital transformation, right, it is all digital is what we call. So that is the primary side of it. And then we have about close to 7% to 8% of SAP business and the balance is what we call the me-too. So, we do our anything that the customer asks and to make the customer happy, that is what it said what we call it consulting is what we call. That is what the revenue wise breakup. Now, when it comes to the industry breakup, if you are looking for an industry breakup, we have BFSI, which is about 8.5%, then Health and Life Sciences is about 14% and then we call

information service and technology. These are all the new age companies, IT companies, right, IT companies, being Amazon like companies and or ISV kind of companies those is about 30% and the next largest one is, some consulting that I told you about we do, and the retail is going to be about 12% of our business. This is a big one, right and the media and entertainment is 6.1%, energy and utility is about 7.4%. So, these are the larger ones that picked only the ones that above 5% to give you some other stuff.

Tushar Vasuja: And my next question would be on pricing. So, like, how does pricing work in your industries, like what are the factors that affect your margins?

Niranjan Chintam: I will let Karanjit answer this question, but I think what we have been told is sometimes our prices are higher than the big boys. But I will let Karanjit answer. Karanjit, can you take that, please. And also, this is a T&M, we do time and material kind of a contract as well as a fixed price kind of contract. So, it varies the pricing.

Karanjit Singh: So, in terms of pricing for our digital work, as Niranjan said, when we give out our rate card, we often hear that your pricing is pretty sort of on the higher side or on the premium side. But generally, we try to be within the range of whatever the typical digital engineering kind of work it should be. Fixed price engagements are also about 10%-20% of what we do and those are of course they tend to be based on the scope of work and whatever we estimate at that time. And those are obviously fixed price projects. There could be, obviously, there are negotiations on fixed outcomes and there we have some our margins would be a little bit more challenging there.

Niranjan Chintam: So typically what happens there, Tushar, is our prices are higher, but what we are able to deliver is much faster than the others. So that is the reason why customers pick us because they can produce solution much faster sooner than others usually do.

Tushar Vasuja: So what is the competitive intensity on your scale of operations like what are the challenges that you face from other players of your size?

Karanjit Singh: So obviously, when we go out there, so there are two kinds, right. We have existing accounts and as Niranjan said, 80% of the revenue comes from our existing customers. So when we get into a net new, obviously it is a competitive situation. You will have at least 3, maybe 5 initial people that you are competing against and then of course, you kind of go through the sales process and whatever you merge a bidder, and obviously it is intense at that point. On the existing accounts, obviously the endeavor is once we have acquired a customer, the endeavor always is to kind of deliver good work, do it faster as Niranjan said, so that then you are able to kind of work with them and get repeat business where obviously you would just, there should be no competition. That is the ideal thing and that is what happens in most of the cases. Sometimes even repeat business, let us say, if I get into existing customer new area, then it could happen that there may be one or two other vendors that we face, but net use, obviously there is competitive intensity.

Tushar Vasuja: And one last question, on the different channels through which you can get your business, you mentioned earlier that you are an SAP partner, so you must get some small chunk of business from them. Are there any other channels through which you can get more customers, more business?

Niranjan Chintam: Yes, so we have various channels, right all the way from the hyperscalers. We work with hyperscalers, now that we have good ratings, gives us some customers. So, we get from those kind of rating agencies that we get the business. We have partnerships with various like Microsoft is a partner of ours, various partners, channels we get and there are a few other

channel markets also we do get. Again, I don't want to name names because we don't have permission to reveal it, but there are some channel partners we get and then, we have direct sales, right. Most of our business is direct sales. We have a large sales enablement team in sitting out of India and then we have field salespeople in the US and the different geos where all they are doing is proposal, different kind of things with respond to RFP's. So, we get invited for RFP and then referral, right. We got a lot of business through referral. People have either moved from their existing, let us say one CTO that we worked with in one company has moved to a different company. He calls us because we have done some good job there. So, we go work with them. These are all the different channels that we get business from. There is no concentration saying that okay, we get only from this, but most of our business comes from referrals.

Tushar Vasuja: Sir, I couldn't get that, most of the business comes from?

Niranjan Chintam: Referrals.

Tushar Vasuja: **And could you also quantify the business that you get directly from your sales team?**

Niranjan Chintam: **From RFP, because everything is a sales team, right in a sense, like, there once the referral happens, we still need to watch out.**

Tushar Vasuja: I was more asking about the without any reference...

Niranjan Chintam: Cold call kind of stuff, is that what you are talking about?

Tushar Vasuja: Yes, sir.

Niranjan Chintam: You are talking about cold calling is that what you are looking at?

Tushar Vasuja: Yes, sir.

Niranjan Chintam: Karanjit, do you have a metrics on that?

Karanjit Singh: Yes, I do not have a metrics, but in terms of basically, most of our business, I mean there is referral, so referral could be like a large part, but yes, we would get about 40%, 50%, 60% of our business which is through either our outreach or through other channels.

Moderator: Thank you. The next question is from the line of Brijesh Mishra, an individual investor. Please go ahead.

Brijesh Mishra: We are following your company for the last 4 years and really this time I am very pleasantly surprised to get margins done. Good job this time. So, are you in condition to maintain the same margin going forward?

Niranjan Chintam: And that is what we are trying to, and we want to achieve that, Brijesh. There are no guarantees, right, but we are trying to achieve this. This is the target that they have given all our operational things to get these kinds of margins.

Moderator: Thank you. Sir, would you like to proceed with any closing comment, sir?

Niranjan Chintam: Yes.

Moderator: Over to you, sir. Please go ahead.

Niranjan Chintam: Thank you. Thank you everyone for joining our Q4 and Financial Year 24 earnings call. I look forward to talking to you in the next quarter and look forward to your participation in the AGM in September, but we have one more quarter that we will be announcing that results and look forward to talking to all of you again. Thank you. Thank you, everyone. Bye, bye.

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