

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 Q1/FY 25 Earnings Call held on July 16, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q1/FY 25 Earnings Call held on July 16, 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

**Niranjan Reddy Chintam
01658591
Director
Date: July 18, 2024
Place: Hyderabad**

Kellton Tech Solutions Limited
Q1 & FY25 Earnings Conference Call
July 16, 2024

Moderator: Ladies and gentlemen, good day and welcome to Kellton Tech Solutions Limited's Q1 FY '25 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 this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone.

I would like to thank you all for participating in the Company's Earnings Call for the First Quarter of the Financial Year 2025. 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 the 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 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 request Mr. Niranjan Chintam to begin with the opening remarks. Thank you and over to you, sir.

Niranjan Chintam: Good afternoon, good evening everyone. Thank you for joining our Q1 FY '25 earnings call. Want to start off with the financial numbers and then we will go qualitative and quantitative stuff as we go on.

So the last of the Q1 quarter, we have a revenue of 262 crores versus last year, it's 249 crores. This is a growth of about 5.2%. And if you compare it with the last quarter, which was 248, the growth of about 5.7%.

The profit before taxes, I will talk about before taxes and after taxes for a reason. The profit before taxes is around 23 crores for this quarter and the same quarter of last year was 19.6, whereas the last quarter was 24 crores. The reason why the profit after taxes is slightly lower compared to the last quarter, I will explain to you that. But the profit after taxes is around 19.9 crores or 20 crores versus the last year which was 15.5 crores which is a growth of about 28%, whereas when you compare it with the last quarter, it is 23.9 crores.

The primary reason for this is taxation. What we account for every year is that we do a conservative estimate the first three quarters and adjust for any differences up or down in the last quarter. If

you can see in the last quarter the taxes were around 99 crores, whereas in this quarter, sorry, 0.99 crores, whereas for this quarter it is about 3 crores.

The reason for that is, like I said, we do a conservative estimate for the first three quarters and make adjustments in the last quarter since the last quarter is when its audited financial statements, all numbers are taken into consideration across all over the world. The CPAs and auditors certify those numbers. So the adjustments happen and you know whatever the difference is what we put in the last quarter.

So that's the primary difference when it comes to the PAT going down compared to the previous quarter, whereas for a year-on-year, right, the numbers are in a 28% growth. And this is reflected in the EPS too. The EPS for this quarter is Rs. 2.05, whereas last year was Rs. 1.54 paisa and compared to last quarter is Rs. 2.5. So there is a slight dip, but if you compare year-on-year growth, it's 33% growth when it comes to that. These are the financial numbers.

Now coming to the operational aspects of it, we have added seven new customers this quarter compared to in this quarter and we also have adopted what we call the AI-first strategy and that is something that I will let Karanjit and Srini talk about details of that what the strategy means and what is the impact to our customers. Karanjit, can you please talk about the AI-first strategy that we adopted?

Karanjit Singh:

So, thanks, Niranjana, and hello everyone. So, yeah, what basically the AI-first strategy that Niranjana is referring to, what we have seen is as we all know that the whole AI wave pretty much hit us all at a rapid pace, but now what we are seeing over this quarter especially is that there is an increasing, there are a lot of conversions going on by our customers on the adoption of AI.

So in the past where AI was mostly limited to say specific tasks like prediction or optimization or decision support, increasingly businesses are now talking about AI as being part of their business. So we like to call it as the AI-first approach where we don't only use it as a mere tool, but as a central driving force for all the solutions that we design.

So increasingly when we are now talking to customers, you know, there is a lot of discussion around how can this be imagined in the context of AI and not just AI as a bolt on later on. And we have had a lot of conversations. We have solved a lot of use cases where we have built IT solutions, where we have rethought of the way the business is conceived right from the beginning in the context of AI. And some of the things that are happening, this one is fairly of course up there, which is basically around data-driven decision making. So using AI for insights, providing businesses insights into the vast amount of data. That is already happening in the older world, but now with the whole GenAI, that adoption is happening a lot. The other things that are also happening are hyper-personalization or actually adaptive self-learning systems. So, these are all kind of the use cases that are happening all the way to some customers who are now actually pretty advanced in their adoption and they are even talking about disruptive business model.

So, Kellton sort of has been in the center. We have solved a lot of these use cases for some of our customers or we are in the middle of doing some projects. And this is pretty much the AI-first digital

transformation as we would like to call it. Niranjan or Srini, if you would like to add anything to that?

Niranjan Chintam: Srini?

Srinivas Potluri: Yeah, thanks, Karanjit. Thanks, Niranjan. Good evening, good afternoon everyone. Yeah, like Karanjit has mentioned, what the AI-first strategy means at Kellton is that AI cannot be an afterthought, right? AI has to be core within the DNA to address any problem statement that is put in front of us, whether it be internally at Kellton or it be from a customer. So that is exactly what we mean by AI-first because AI can uncover a lot of patterns, a lot of predictions and so on. And that is typically very transformative for business. So that's core, and we have adopted that philosophy, and we are moving forward with that and explaining to the customers what we believe is the right way to do it, and AI-first is the approach.

Niranjan Chintam: Thank you, Srini. So with that, I want to open up for questions. Nirav, go ahead and start the queue for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohammed Afroz, individual investor. Please go ahead.

Mohammed Afroz: First of all, I would like to congratulate everybody, the whole company for adding new clients and your AI strategy which is going very great. And I have three queries regarding this, of course. First of all, I would like to know what is the order book size of our company? Second question is what improvements we have done regarding the debtor days? So how can we reduce that and collect our money? And the third question is, as per last three quarters, I attended the con call, and we were supposed to generate LIC and Karnataka government contracts around September, October. So are we in line with these targets to reduce the billing cycle?

Niranjan Chintam: So, I will first answer about the question around the debtors. So the number of debtor days has actually come down compared to last quarter. So we are doing a little bit better there. I think somebody is, there is noise there. Can you mute yourself, please? So, the debtor days has come down.

Now coming to the Karnataka and LIC, the project is going as per timelines that we talked about. So we would be raising an invoice soon. There are active discussions on the delivery deadlines, because these are I think we told you is a milestone based. So, from the milestone perspective, we have reached the goal of some of these milestones and there are active discussion with the customer to raise the invoices so that we can get paid in time by September, the target that we have put ourselves.

LIC is a work in progress. We did raise the first invoice and we got paid for that. And the second milestone we are working on. Again, the second milestone timelines is around the same time that we talked about Mohammed, September timeframe. So, we are anticipating that we should be able to raise that invoice for that too.

So, coming to some, I guess the first question I missed out, Mohammed, for some reason and I just lost the track of it. What was the first question? You don't mind asking me again?

Mohammed Afroz: So the first question was regarding the order book size.

Niranjan Chintam: Order book, I am sorry, yes. So, order book, we are around eight to nine months order book is what we have. And that is something actually, I believe it's 10 months. I just got clarification from the finance team. 10 months of order books is what we have. So, when we say 10 months, right? So go with the current quarter numbers and extrapolate to about 10 months, which comes to around 850 crores is what we have an order book of.

Moderator: Thank you. Next question is from the line of Pinkesh Thakrani from Profitgate Capital Advisors. Please go ahead.

Pinkesh Thakrani: I just want to know about the countdown of the revenue that you expect to book or raise the invoice for the LIC and Karnataka to begin? And the second question is regarding, do we have any trade receivables, like any of the stables in this project, like you have booked any invoice or from some other government entity that you have worked for?

Niranjan Chintam: Yeah, sure. Let me answer the second question first, okay. So we have multiple, we have three customers, the government customers. We don't do too many of the government customers. So, to answer your question on, so that they are LIC, Karnataka State Government, and the third one is FCI.

So the quantum of the whole project size is about 140 crores, is what it is. And these are milestone based that we get. We build as we finish progress of the stuff. And these are, mind you, these are seven year term contracts, right, with probably about 70% that is going to come in in the first, I guess, the development phase of it is within the two years time frame and the rest of the stuff is maintenance that we have to do for five plus years of the term that is left over in the seven years. So the balance, the 30% part of it comes in the seven years on a quarterly payment cycle that we face, we do as we call the AMC kind of a model. So that is what the numbers are there.

Pinkesh Thakrani: So this 140 crores is for seven years, out of which 70% would be booked in the first five years.

Niranjan Chintam: First two years.

Pinkesh Thakrani: First two years. And when does this begin, like it would be the following or?

Niranjan Chintam: Yeah, FCI, right? FCI, we are in the annual maintenance, AMC mode at this point, right? So, LIC we started this project this January and this goes on for two years from now, let's say. And the Karnataka state government, we started this in our last August. So this goes on till '25 August. So those are the timelines. It started at different periods of the time. So we don't have exactly right, okay, how much we are going to get this year. I know the number, somewhere we have it, but I can't give you an answer right now.

Pinkesh Thakrani: Any update regarding your overseas business?

Niranjan Chintam: So overseas again 80% of our revenue comes from international. Actually U.S. 80% and 5% comes from Europe. We are making some traction in Singapore too. So, we have some good projects that we are working in both in the traditional digital transformation and AI-based digital transformation just like Srimi and Karanjit, now the discussions are around how do you take AI to the core. So pretty much AI is going to be embedded or into any and every solution that will be offering when it comes to the digital transformation side of it.

Moderator: Thank you. Next question is from the line of Bhuvan MG from Tiger assets. Please go ahead.

Bhuvan MG: As you have introduced AI to all your digital transformation services, can we expect your EBITDA margins to increase for the historical averages of 14 to 15?

Niranjan Chintam: See, yes, the answer to your question is yes. You know, we have retooled ourselves to deliver this AI solutions by using some of these AI systems like CoPilot, which is what we put into our earnings presentation too. So, what is it that's going to give us? It's going to give us a better quality code and also the number of people also. We have the bench strength, a huge bench strength that also be optimized on the bench strength. So we are expecting better margins going forward. Yes, to answer your question there.

Bhuvan MG: So, is it fair to assume that we will be historical averages of 20 to 15?

Niranjan Chintam: I can't give the exact numbers at this point. Okay. But there will be continuous improvements as we go on, as more and more adoption happens within the company, as well as the customers accepting some of the stuff that they are doing.

Bhuvan MG: Any revenue guidance for the next quarter and the year-end?

Niranjan Chintam: No, we are going to do the similar growth pattern that we have shown quarter-on-quarter. So, we are expecting that similar growth that's going to continue on.

Bhuvan MG: So you have presently 850 crores of order book and if I add this quarter revenue as well, it will somewhere come between 1,100 to 150 crores. So is it fair to assume that by the end of the financial year we will do at least 1,150 crores?

Niranjan Chintam: Like I said, right, I don't want to predict the numbers. Let's just go with the guidance of quarter-on-quarter growth will be there and similar kind of growth will be there for quarter-on-quarter.

Bhuvan MG: Sorry, I think I missed out. So, can you tell me the quarter-on-quarter growth which you have guided?

Niranjan Chintam: So we have done a quarter-on-quarter growth of a little over 5% and we anticipate that is going to continue on for the balance of the year 2.

Moderator: Thank you. Next question is from the line of Sumit Chaudhary from Investwell Agents. Please go ahead.

Sumit Chaudhary: My first question is that how much customer are you acquired in this quarter?

Niranjan Chintam: So, we have acquired seven customers.

Sumit Chaudhary: And what is the target for the year ended?

Niranjan Chintam: Customers we just can't predict, because that varies based on how many customers we are talking. And also what we are trying to do is, this is something that is an important, I guess, good question that you asked and I will segue into what we want to state. We are looking not for the numbers but the quality of the customer. While we have traditionally been on the cutting edge side of it, now we are going after the enterprise market. So, we are trying not for the numbers, but the quality as well as the total customer value is what we are going after. So, that is something that is very important for us.

We have changed some of our strategies while we continue to pursue what we were doing earlier. We are putting more or actually spending more on the enterprise side of it so that we can get deeper relationship and long-term relationship. While we have a lot of customers in the enterprise space, we are also doing a lot of startups, I wouldn't say startups, but more of the ICV kind of customers and we are focused more on the enterprise as well. So, I do not want to predict on the number of customers.

Moderator: Thank you. Next question is from the line of Rupam Jaiswal from Investwell Agents. Please go ahead.

Rupam Jaiswal: I just have one doubt like what is the headcount as of now in terms of the manpower?

Niranjan Chintam: So, we have a little over 1,700 people is where we are.

Rupam Jaiswal: So, like last con call, you reported like the employee cost increased by 40 crores, like in this quarter, we saw a decline of that. So, is this because like we are not doing much of a hiring or we are decreasing a headcount?

Niranjan Chintam: One second. You said a 40 crore increase in labor cost for last year. Are you talking about the whole year?

Rupam Jaiswal: Yeah, no I was talking about the quarter.

Niranjan Chintam: It may not be the quarter 40 crores increase. We are going to check the number. Let me answer your question. Yes, you know, like I was telling earlier, there was streamlining of our bench. While we continue to hire people, we are hiring people at a higher level of competency and so the cost actually, you know, it's not a like-to-like replacement. It's actually we are hiring a little bit higher competent people to help us with the next part of the growth journey. So, the numbers may have come down when it comes to our headcount, but the costs have not come down significantly in proportion rather. Okay. We are checking where this 40 crore that you have. I will answer that as a part of because we are just doing the number crunching at the back end. I will answer that as a follow-on for other questions you might have or others might have.

Moderator: Thank you. Next question is from the line of Tanvir Suri from Mint Wealth. Please go ahead.

Tanvir Suri: So, you know, this is my first call with Kellton and I am an independent investor actually. So, just wanted to know that since maximum of your revenues coming in from the U.S., what is the outlook for the next few quarters? Are we seeing growth coming back and distribution coming back? That was the first question.

The other question I have is that does Kellton also have an on-site team based out of the U.S. or our entire team worked out of India?

Then the third question I had was, what is it that really is the U.S.P. or how do we differentiate or what is our strength which as compared to other tech players out there? So, these are the questions that I have.

Niranjan Chintam: So, Tanvir, I will answer your questions backward, the last question first. So you asked about the U.S.P. See, we have a number of logos. Since you said it's the first time you are getting on the call, so I will take a little bit longer to answer your question. So, we have a number of logos that we have successfully delivered.

Just talk about just the AI solutions that we have offered. I think we did say that the big four of the consulting industry we are working with them to provide solutions for their customers. I am talking about the big four consulting companies, right? So we are working with them on that. So, that gives you the kind of the technical capability that we deliver a solution in are successfully delivered.

So, we have seen where large consulting companies who have failed in delivering IT solutions, we have gone and successfully delivered that failed solutions that the big companies, big IT companies were unable to deliver. So, our USP has been that if Kellton cannot deliver, nobody else can deliver.

So, that's something that we are, our guys have a chip on their shoulders whenever they go to a customer says we will deliver. And that's something that we have a lot of logos to reflect that, our ability in delivering complicated solutions, and our ability to deliver solutions where others have failed. So, we have done that. So, that is our credentials that is there.

So, we have a lot of referral customers that come in based on word of mouth, because we have successfully delivered, let's say a CIO of one corporation goes from one company to another company, he calls us and says, "Now I moved to the company, come help me fix whatever it is that they are having problems with." So those kinds of, I guess, that kind of credibility we have with the people we have worked with.

The second question is on the on-site. On-site, yes, we have 300 plus people delivering solutions for us in the U.S. So, we have a large presence in the U.S. So we have 300 plus customers, sorry, people in the U.S. that are delivering our solutions. And these are largely billable people. We have what we call in our only field salespeople when it comes to the U.S. and the rest of the back end where we call the force multipliers, the lead generators happens from India.

And your question on the U.S. market, I will defer that to Srinu to answer because he sits in U.S. He is a better person to answer that. Srinu, can you answer the U.S. markets, what are we seeing, is there growth coming back, those kinds of questions? I know I want to add a caveat there, Tanvir, that yes, the market is going to be dependent on the elections. A lot of people are on a wait and watch mode to see what the outcome of the election is going to be in November. So, there will be a, I guess, changes that might come up because of the election, who wins? Srinu, can you talk about what you are seeing now currently?

Srinivas Potluri:

Sure, Niranjana. Thanks, Tanvir, for the question. The U.S. market definitely is showing an uptick compared to the initial part of the year, the first half of the year. Towards the end of the first half and the beginning of the second half, we are seeing, personally, some growth with next new investments coming in from customers for new projects, specifically on the AI side. So, with our approach of AI first, we are seeing some traction, we are seeing some spend from our customers. That doesn't mean that we can predict if it will continue, if it will deteriorate, which way it will go. But we have seen a small but significant growth curve that's going up.

Now again, like Niranjana explained, the elections are the key, people are there until the time they are in control. So, as I was saying, the predictability of how the economy will go is going to be dependent on the election results. But at this point, there is nothing. There are no indicators. People are just waiting and watching. That is the state we are in.

Niranjana Chintam:

Thank you, Srinivas. So, to answer your question, Tanvir, we are seeing some signs of improvement. And I think, Fed is also probably going to cut at least one round of interest rates cut. That also will lead to more investments coming in, and I mean more and more spend coming in. So, we are hoping to see that sooner than later. I think the expected is August, September timeframe is when one round of interest rate cuts will happen.

So, Mr. Jaiswal, I think you asked a question about the employee cost going up. Employee cost was a year-on-year, so the whole year it went up by 20 crores. It is not a quarter. So it was 20 crores and not 40 crores. That number probably may have missed out somewhere, but it's a 20 crore employment cost that went up on a year, complete year.

So, Nirav, go ahead for the next question, please.

Moderator:

Thank you. Next question is from the line of Shanawaz, individual investor. Please go ahead.

Shanawaz:

So, first of all, I want to congratulate you. Now we are up 250 crores, right? But the bottom line is not changing, sir. So, you know the market, how market, what market actually need and as a shareholder what we look forward, right? So, I have seen your press release basically. So, the press release that you spoke about enthusiasm in the new some analytics companies has given good rating to you and some more thing you talk about AI. So, in our previous call, you said the AI value is hardly 1 million in a year. So, as you said, we are very much enthusiastic about AI. So, what is the revenue and margin you are looking in AI segment? This is my first question. How you are seeing that this is the visibility in the coming year?

And second, you have mentioned because of the big two consulting companies, you are seeing a lot of improvement in the revenue and the growth and you have mentioned growth. So, the growth means what kind of growth you are looking in? Like, how the growth is going to be in the quarter two and quarter three and so on so forth?

And the third question I am looking is the on the order book basically, and my request is not to give me three quarter answer. At least give me some number and value because that give a more picture to the shareholders where the organization is working. Because you have added 13 customers, it's quite a big number, right?

Niranjan Chintam:

Let me answer your questions, Shanawaz, okay. One by one I will answer the questions, okay. So we will start off with the big four that we talked about. See, what that does is gives the credibility, right? If, let's say, I go tomorrow to another customer and say, hey, we have provided or successfully delivered a solution to a couple of big four companies, you know, that builds up instant credibility because you understand, right, these big four companies have a lot of enterprise customers and the credibility of our delivery ability as well as the complexity of some of the solutions that we are giving is going to give a lot of credibility not only in a pattern of back for us to say that yes, we can deliver a solution, it also to the customer just gets validation by saying that hey, they have worked with these big four companies. That is what we meant by opportunities are opening up.

The last time, you are right, last time when we talked about it, but what we have seen is lot more discussions happening. I think we did talk about a huge pipeline being built in the AI space. The pipeline continues to grow for us. There are a lot of active discussions going on not only within a smaller ICVs that we talked about, even the enterprises too when it comes to the AI delivery capability of ours as well as some of the projects, right? Most of the projects that today that we are doing is going to be small in amount because people are trying out what it's going to be. The full benefit of this is going to be coming in the near future.

What Karanjit keeps talking about the hype cycle. I will let Karanjit answer about how this hype cycle works and then what happens in the growth phase and all the stuff. Karanjit, can you take about and talk about that? Before that, let me answer the quantitative stuff that you asked.

I did mention earlier that we have an order book of 850 crores, Shanawaz. You may have missed that answer. So that's the number that I am giving you, that we have that as an order book. Karanjit, can you talk about the AI hype cycle, where we are in that and how we fit into that?

Karanjit Singh:

Sure. I think when the whole technology always goes through hype cycle, that's a known fact. So, we are experiencing the same. We have been through this in whatever we called as mobility, and then again the digital transformation and in AI, just that it is more accelerated. And right now, I think everybody has been through the excitement. And as I said before in the call, customers are now kind of having conversations around, hey, what can we do with AI for us, or in some cases, the more advanced or the more sophisticated of them have already done a lot of work and they come to us with very, very specific asks.

If you see today, when we have an outreach to our customer base for new customers or even existing customers, all of them are always very excited to have a conversation around AI. And typically, these conversations are around two or three categories. One of them always is about, hey, you know what? What is this AI? Hey, I've heard all of this. What can you do in my context, in my business, or my industry or what are you seeing? So that's one. So these are slightly longer conversations where, obviously, then we have to see what can be leveraged horizontally in their business context.

Then there are very few limited, sophisticated customers who really actually are in the forefront of adoption. And they are very, very specific about things, right? They have already figured some use cases and they want to have much more deeper conversations on where they want to ask you, how about customizing LLM for me or those kinds of conversations.

So, these are both the conversations happening, which essentially tells us that essentially AI is now moving from that whole initial excitement to actually AI-first adoption and win customers in these two sort of buckets at the present moment. And I think as we sort of move quarter-on-quarter, we will see more and more specific conversations by our customers and already we see at least one thing where everybody is speaking about, hey, how can this solution? They are basically speaking about a solution being built in the context of AI. So, that's kind of a significant moment in this adoption of this hype cycle.

Moderator: Shanawaz, do you have any follow-up questions?

Shanawaz: Yeah, one follow-up question. Two follow-up questions basically. Any very big breakthrough in AI you have done or you are about to do? And second is when we are going to see the margin expansion, bottom line? Basically, in IT, I was just calculating, IT companies are giving 7 to 8 lakhs PAT per employee, but yours is approximately 1 lakh or 2 lakh rupees only. When that will improve per employee PAT, like any timeline?

Niranjan Chintam: I'm sorry, I lost you that what is that employee, what is that you are saying, Shanawaz?

Shanawaz: Actually, I have done certain calculations on the Indian IT industry. As per that, per employee PAT, if you look at, like you see this year, they are making per employee PAT is coming approximately 7 lakhs, but your case is hardly Rs. 1 lakh or Rs. 2 lakh. So, when that is per employee, because you have 300 people in U.S. and the profit, what really they are generating is hardly Rs. 1 lakh or Rs. 2 lakh per employee. So, that is big surprising for me as an IT industry. So, this is what I want to know, when these employees who are employed in U.S., Israeli...

Niranjan Chintam: I understood your question there Shanawaz. Okay, let me answer that. So it's a continuous improvement, right? When it comes to the margin, it's not like overnight this improvement happens. We are starting to show that.

Shanawaz: It's not happening in last 8, 10 quarters.

Niranjan Chintam: Can you hear me out please? Okay. So it started with last quarter and this quarter is a continuous process that they are doing. Yes, there is, you have to look at from an EBITDA point of view, because the tax adjustments that happen quarter-on-quarter, this may not be the same. From EBITDA, we are making continuous improvements and it will go on, right? Like I said earlier too, the number of employees has come down, but the quality of employees that we are hiring, yes, we are hiring at a higher cost because the quality of employees now we are hiring is a little bit more than what it was.

Now coming to the per employee, I don't know the numbers, how you arrived at that. I don't have the calculation in front of me. So, I will not be able to comment on that. But for the next time, we will do these kinds of calculations and probably will be in a better shape to answer that. Okay.

Moderator: Thank you. Next follow-up question is from the line of Tanvir Suri, individual investor. Please go ahead.

Tanvir Suri: Sorry, last time actually my call got dropped. I did hear the fact that you are credible in the big four as your clients. Actually what I was more wanting to know is that, you know, what would be our forte? Would it be some technology or would it be a product that we deploy as a solution? That is something that I was looking to understand more.

Niranjan Chintam: So, I think I got your question. So yes, we have multiple frameworks that we use to deliver faster solutions. While we do have some products, but probably those are at a smaller scale compared to what your question you are asking. So, our ability to deliver solutions and our ability to deliver complex solutions is what differentiates us from others. And since you said you missed out, we have delivered solutions that others have failed. We have picked up from where others have failed. This is including the big boys of Indian IT companies, where they have failed in solutions, we have stepped up and delivered. And this is not just in India, it is across the world, including Japan, US. So, we have successfully delivered solutions that where others have failed. So, that is the USP that we have.

Tanvir Suri: I have another follow-up question is, I missed out. I am not sure if you answered it, but what are you seeing in terms of discretionary spends for your U.S. customers? Are they back to what it was pre-COVID, or is it still questionable, or is there any ramp down in projects, if you could just throw some light on that?

Niranjan Chintam: We did answer this question, but I will be happy to answer again. So right now, we are seeing early signs of recovery in a quarter on, like Srinu was mentioning earlier, the first half was not that great, but we are seeing signs of recovery. Customers are engaging with us. Customers are giving us a net new work that is going on. But we are waiting for the elections for the big changes to happen. So, a lot of companies are waiting and watching what is going to happen with the U.S. elections before they start opening up the purses.

The second thing that is going to help with this growth is that Fed going to do an interest cut. We are expecting one round of cuts this year, which will be in August, September timeframe. And when that cut happens, there will be discretionary spending coming back because the cost of finance has

come down. So that, yes, there are going to be signs, we are seeing signs that there is going to be one round of cut this year, okay.

Tanvir Suri: And what will be the cash on your books right now?

Niranjan Chintam: So let me answer that question as we go on, as we take the next question from the next person. Okay, I will answer that because we are just digging it up.

Moderator: Thank you. Next follow-up question is from the line of Mohammed Afroz, individual investor. Please go ahead.

Mohammed Afroz: Sir, I think we missed the first question of Mr. Shanawaz regarding did you got a great client in AI or you are near to attend that deadline, sir?

Niranjan Chintam: Sorry, I could not understand your question. Can you just repeat that again? I know you said something about I missed Shanawaz's question. Can you ask the question again?

Mohammed Afroz: It was Shanawaz's first question regarding the AI client that I think I also exactly possibly remember.

Niranjan Chintam: I think we did answer all the questions of Shanawaz. We did talk about AI. Yes, we did talk about, we are saying that there are lot more qualitative discussions happening with the customers that we have not seen in the first quarter or the last quarter that we talked about earnings call. We are having better conversations with our customers because the engagement is much better, much deeper. So, we expect the AI revenues to grow significantly.

Again, like we talked earlier, it's an AI first, right? It's not like these are brand new offerings. We are taking AI to the core. That means whatever it is that they have existing, we are going to be taking AI to that, and that is going to help the customers' decision-making to be faster, better, and able to provide better quality offerings to their customers. AI is going to change the way they do business delivery, is what we are helping with our customers do.

Moderator: Thank you. Next question is from the line of Manish Roy from Manish Piston. Please go ahead.

Manish Roy: So, I have a question regarding the pledge shares which your promoters have. So what am I expecting the pledge shares to be released in the future? And another question is regarding to the profit margin. Could you please give us some insights of what is the future planning to expand the profit margin?

Niranjan Chintam: So I will answer the first question. This is the pledged share. The pledged share is for working capital limits taken in India. Unfortunately, the banks in India, and unfortunately, I am not a Tata or a Birla. I don't have unlimited property to pledge.

Whatever property I have for raising the working capital limits for the company, this is the working capital being for the CC as well as the BGs that we require, we have to pledge our properties. And what the bank's relationships that we have, which we are trying to move, allowing us to pledge

200% to 300% of collateral. And since we are, like I said, we are first-time entrepreneurs and we are not Tata or Birla, I don't have, all I have is an office building and my apartment.

So, that is not enough to cover the hard collateral that the bank needs, so they are taking shares. We have been requesting them to release, but they have not released it, and we don't expect that to be released unless we move the banks to a different bank. We are exploring that option too to see if other banks would provide us the same lines with less requirement of the percentage of collateral required. Okay? So I don't have a timeline to give you on that.

Now, coming to the margin part, I think I answered that. We are expecting that there will be continuous improvements and what it is and how soon, I cannot answer that. But there will be continuous incremental improvements in our margin as we go and make changes to the way we service our customers using some of these AI assist tools that we have shared in our earnings presentation. So, we continue to see that as more and more adoption happens within the company and more and more adoption happens with our customers accepting these changes, we would be seeing more improvement in margins.

Manish Roy: I have a follow-up question. So, regarding the AI segment, since I have started investing, so I have heard that your company is in the AI way before it has become a buzz. And you also said that, yes, you are proposing on the core of AI.

Niranjan Chintam: No, no, it's a core of digital transformation. I want to make sure that since I am not sure if you are a technical person. So, I will say, see, in a core we mean, you know, it is that whole thing of how the data is used, how the cloud is used, how the security implications happen. That is the core. When you take that AI to this core, the way the businesses operate, the efficiencies of the businesses that we service will improve using AI, and also reduce their cost of service for them and cost of customer acquisition for our customers. So that is what we mean by the core. I don't mean the AI core, right? It is completely different.

Moderator: Thank you. Next follow-up question is from the line of Rupam Jaiswal from Investwell Agents. Please go ahead.

Rupam Jaiswal: Actually, I just wanted to know, like, what are your R&D expenditure which you are doing for AI solutions and right now for new software or the items we are, like, products we are developing and what are we planning to do in future? What we have done in the past and in the future, what we are planning to do?

Niranjan Chintam: See, so, Mr. Jaiswal, I will answer, Rupam or Jaiswal, whichever way. I am sorry. I am getting interchangeably. Sorry about that, Rupam. So, to answer your question, right, when it comes to AI side of it, we do have R&D that we are experimenting within the organization by way of products that we have, that we have launched and we are getting early signs of traction on those things. There is a spend that happens and we capitalize that. Exact amount, I will get to you while my team is pulling it up. But I think I have lost my train of thought. The other question that you asked, I am sorry, Rupam, go ahead. What was the other one? R&D spend and the other one you asked.

Rupam Jaiswal: I was asking what kind of, like, in future, what are we expecting to, like, in deploying in terms of percentage of revenue in towards R&D, like, in that terms, if you can give me a number?

Niranjan Chintam: That number also I will get to you because my team is pulling it up as we speak. So, to the last year, right, our R&D spend was around 2.5 million, was what our R&D spend was. This year, I think we are going to be around 3 million. 3 million or something is going to be, little over 3 million is what we would be spending in the R&D side of it. And this R&D line is going to be an investment into the products that is going to give us returns over a period of the next three to five years.

Rupam Jaiswal: And the number which you have said in 2.5 or 3 million, it is in INR or is it in USD terms?

Niranjan Chintam: USD, USD.

Rupam Jaiswal: USD, okay.

Moderator: Thank you.

Niranjan Chintam: And I will reflect on no more questions. Let's wrap it up.

Moderator: Thank you, sir. Would you like to make any closing comments?

Niranjan Chintam: Sure. Yes. Thank you everyone for joining us and giving us a chance to explain both on the quantitative side or qualitative side of our business. I think we had a few new shareholders that have come on board and have been asking some questions and I am really happy to answer. And like every time I talk about it, if you are in Hyderabad and or Gurgaon, please look us up. We would be happy to chat with you and also get you to talk to our employees who are providing these great solutions to our customers so you can get the first-time experience of sharing from them on how we do what we do that really gives you some kind of a clarity as to our capability as well as our ability to deliver. Thank you everyone. Looking forward to seeing you. I think probably we have an AGM soon. So looking forward to seeing all of you in the AGM. Thank you everyone and goodbye and have a great day.

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