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"Xelpmoc Design & Tech Limited Q1 FY-20 Earnings Conference Call"

August 7, 2019

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CHORUS CALL

MANAGEMENT:	**MR. SANDIPAN CHATTOPADHYAY - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, XELPMOC DESIGN & TECH LIMITED**
	MR. SRINIVAS KOORA - CHIEF FINANCIAL OFFICER, XELPMOC DESIGN & TECH LIMITED
MODERATOR:	**MR. DIWAKAR PINGLE, CHRISTENSEN IR**

Moderator:	Ladies and gentlemen, good day and welcome to the Xelpmoc Design & Tech Limited's Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.
	I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir.
Diwakar Pingle:	Thanks Bikram. Good evening everyone and thanks for joining the Q1 FY20 Earnings Call for Xelpmoc Design & Tech Limited. It gives us a great pleasure to have all of you in the call.
	The results and investor updates have been mailed to you and is also available in the stock exchanges. In case anyone does not have the copy of the release, please do write to us, we will be happy to send the press release and the presentation to you.
	To take us through the results of this quarter and answer your questions, we have today with us Mr. Sandipan Chattopadhyay – MD & CEO and Mr. Srinivas Koora – CFO of Xelpmoc. We will start the call with a brief overview of the company, Sandipan then go through the company details followed by brief financials given by Srinivas.
	I would like to remind you that everything that said on this call that reflects our outlook on the future which can be constitute as a forward-looking statement as it will be in conjunction with the uncertainties and risks that we face. These uncertainties and risks are included but not limited to what we mentioned in the prospectus, filed with SEBI which you will find on our website
	With that said, I turnover the call Mr. Sandipan Chattopadhyay. Over to you, Sandipan.
Srinivas Koora:	Hi, good evening everybody, Srinivas here CFO of the company. Welcome to Xelpmoc's earnings call for the first quarter of fiscal 2020. For the people who have joined the earnings call for the first time, I would like to brief what exactly we do before we go into the financial results.
	We provide professional and technical consultancy services with the focus on product developments, data science and analytics. We are focused on building the next generation technology especially in Artificial Intelligence and Machine Learning space, with a keen interest in Natural Language Processing & Data Analytics.
	Our clients range from entrepreneurs, start-up to established companies mainly engaged in e-commerce, transportation, recruitment, logistics, financial services.
	Now let me go through the key highlights for the quarter. Total operating revenue was Rs. 12.5 million as compared to Rs. 11.3 million during Q1 of Fiscal 19 an increase of about 6.7%.

EBITDA stood at negative Rs. 15.6 million as compared to negative Rs. 14.6 million in Q1 FY19.

Net loss stood at Rs. 13.9 million for Q1 FY20 as compared to a net loss of Rs. 14.8 million for Q1 of FY19. We are a very early stage company and our focus is on onboarding high growth startup and most of our startups are in an unrealized stage. Q1 was very encouraging. We have added four new clients from the startup space and about four new clients from the corporate side.

On the startup space we have onboarded companies like Taxitop which is a location sensitive physical advertising platform. Leadstart Publishing which is a digital platform for content and developing a brand and content for The Star In Me a platform exclusively for women and Slate which is modeled to the virtual finance and accounting assistant for SME companies.

Sandipan will brief you more on the technology front what we would be doing. Now we shall open the floor for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

Diwakar Pingle: So, let me start the first question from my side. This is Diwakar here. My first question is that you mentioned 4 new clients for start-up and corporate side each that you have added in this quarter but how does the pipeline look for the full year both from the startup side and the corporate side?

Sandipan Chattopadhyay: So, the corporate sell cycle is a longer sell cycle but again just we had indicated in the first quarter that the first two quarters we will be mostly focusing on the startups and corporate sales are happening and it will open to cushion by the third or fourth quarter. So, that is on track. Getting quality was more important and the interesting sectors was our first priority. So, we knew that there is a pent-up demand for robotic/automation development in the financial services sector which we aimed for.

We went for women empowerment domain and of course the other two were in the pipeline. We have just cushioned at this point of time. In the coming two quarters I hope you will see a steady stream of actual corporate contracts coming in apart from startups which is the focus that we shift from September onwards quarter basically.

Diwakar Pingle: Okay. So, I think the story I am hearing is obviously is the core focus is obviously startups. But obviously given the nature of the startups there is an intrinsic failure rate in the startups. How do you manage your risk when you work on the projects from startups versus now looking at a standard let us say a services contract with a corporate company. What is the yardstick that you take in terms of obviously the startup business model it might be slightly different than a corporate services model? So, may be if you can explain to the investors how you are kind of

looking at this and how do you expect this to kind of ramp up over the next two to three years and what can the investors see at the end of it?

Sandipan Chattopadhyay: So, let me tell you one thing that our startups are not a question of arrivals to our disposal kind of a selection process. We have previously curated sectors based on India's GDP and then selected the sectors and in these sectors, we look for people who have ideological match with us as entrepreneurs. So, sector first is our particular goal and as you know the theme of Xelpmoc like I explained last time is for the next 500 million Indians.

So, we look at sectors which are predominantly a focused towards the lower aspiring middle class and on the fringe lower class who is trying to get to the middle class. Our hypothesis is that is the growth engine of India for the next 5 to 7 years. And from there the biggest opportunities will come. Now from those sectors if you looked at it in the previous cohort, we had logistics, multilingual and agriculture as the main sectors. In this cohort we will look at MSMEs, Health and Education.

So, as you must have seen like PSIN roughly is in the educational spectrum but not really there. But you will see these things playing out more for the next cohorts as they built up.

That is how we look at it. That is our first way to mitigate the risk in terms of making sure the sector is pretty strong as a fundamental. Then comes the entrepreneur. Of course, they have the chemistry is much more important how much value they are adding, how much respect they have, can we work with these guys that is a prudence of reference which set fundamental analysis of the startup as an entrepreneur. But most importantly that is the biggest part of the gut call we take on to that part.

And third is who was the co-backers of this concept. Civil at the seed stage if you get the backing of principles like Excel, Nandan and stuff like that you know that you are on a good track. Even now if you look at the backers for some of startups, they are pretty respectable names and that gives us the additional confidence by which we know that.

The biggest risk mitigation plan that we have is we are much more involved than an observer in the process of the development of the startup. So, we are able to understand the effort and the kind of resources that we are deploying for our startup based on what we judge as the failure of risks. And over and above that the final model is I am just giving numbers not for specification because these are fundamental that if there are 20 startups, we do expect 13-14 of them to fail, we expect that. That is modeled into our success model.

But of that 6 we expect to get returns of a higher order. Now as a comparison all we are trying to make the spotting charge higher. So, in a normal VC ecosystem if the chance of success is 3% because we are involved because we have done the success, we had postulated that we will have a 25% to 30% success. Till now that number seems to hold ground, too early days but we

will see enlightenment in the sense that what we assume with 25%, as of now the run rate is close to about 50%. But that also means that going down the line because these are all fresh startups the number may dwindled to 25%.

But we already have two winners and we hope for the next call we will get two more and even if we will just get those four, we are perfectly balanced to actually disproportionate returns from that. But this is again the conjectural part.

The safety net is of course the services part that we will counter for health to make sure that we are having a revenue principle of balance and if we see that the strategy we have taken for startups is not taking lightweight we can always switch the knob and become a very service oriented company if that is the need going forward. But if I have to a risk this is the best time to take it and then play along with it because later on, on a high growth pattern becomes much more difficult than doing it right now. So, that is our strategy and that is how we mitigate the risk if I have to tell you very plain vanilla way.

Moderator: Thank you, sir. We have the next question from the line of Sushma Saraswat from Active Capital. Please go ahead.

Sushma Saraswat: I have a question that is looking at the topline for this quarter like Q1 FY20 versus Q4 FY19, I wanted to know if there is any cyclicity in the turnover and if it is yes then what is influences this cyclicity or is there any other reason for any degrowth of the revenue in this quarter from the last quarter which is Q4 last year?

Srinivas Koora: Srinivas here. Just to answer your question in case if you are comparing Q4 of last year versus Q1 of current year, in Q4 of last year we had a onetime revenue of about Rs. 70 lakhs because of which you will see that the Q4 revenues on the higher side. And whereas in Q1 it is regular normal revenue, even if you compare with last year of Q1 we are in the growth path and even with Q4 if you compare we are on the growth path and more importantly what Sandipan has said like we are engaging more with startups. With these startups these are long term engagements which are for 3 years.

So, you can see pipeline building over the period of three years.

Sandipan Chattopadhyay: That said I would also like to add that the first two quarters are the quarters where we really want to focus more on creating those startups because that selection process is quite long and at the beginning of the financial year is a better time to place it because if the adjustments to be done in terms of our senior management focused towards going ahead for getting the services contract or getting the overall thing averaged out then the second, third and fourth quarter are taken because for the kind of work we do third and fourth quarter also is better for the corporates sales that we do.

Sushma Saraswat: I have another question. Like recently you exited one of your startups which is 4tigo Network and it was exited with a loss. Can you please state any reasons like why was there an exit?

Sandipan Chattopadhyay: With 4tigo Network we had a joint venture between 4tigo and Xelpmoc. And we have not exited at a loss, we have exited almost at a cost price. Basically, there was this strategy where the 4tigo logistics wanted to develop technology under a different arm. That is the reason why that company was formed. But now we have taken a decision again it would be built in the main company where even Xelpmoc is also a shareholder. That is the reason why we have exited, there is no other reason for exiting.

Moderator: Thank you. We have the next question from the line of Jigraj Rai, who is an individual investor. Please go ahead.

Jigraj Rai: Sir, I have a question for you that is basically you guys are focusing on to startup right so my question is that since your whole focus is startup and most of these startups are failed to become an established company due to competition or subdued sentiment of consumer. So, how do you guys keep your revenue generation or how do you predict your revenues?

Sandipan Chattopadhyay: So, as I have said previously we have four sources of business of which we are monetizing fully one source only. Now let me give the four sources again just to reflect back. Startups, Corporates, Government and Products. The CGPS is our four strong strategy. Products are in the making which we think will add to our revenues coming in an year onwards or so and corporates are the bigger source of income for the moment but remember that as the startups grow though they have a chance of failure, agreeably, the ones which succeed we get the opportunity to growth with them. given the right bonding we have.

For example, 4tigo has grown, our revenue from 4tigo has also grown significantly along with 4tigo's growth. Even if it is a portfolio gain, so, if you have ten startups and even if one of them makes big, your return from that one starts increasing significantly exponentially. Rate of growth possible for a startup is much higher than corporate contracts because competition as the deep ingredient that you have is much lesser.

Your value additions are much more and plus you gain from two folds because of exit possibilities and the valuation of the underlying where we in some cases tech stake also. So, that is the way we want to mitigate the risk and balance it out.

Jigraj Rai: My another question is I think we are in the business of data science, machine learning and artificial intelligence. So, there are many big players in the market which are followed by some mid players. So, what is your strategy to capture the market share, could you please put some color on that?

Sandipan Chattopadhyay: Skill is the most important differential to these things. This has come to an area of not being good forced method like software development in older days were but more of creative programming and knowledge-based programming. So, the level of skill people that we are able to employ and keep and the reason they have come to work with us is because we work with startups, we work with exciting problems. I guess that is a big difference. So, even if you look at it creativity comes from smaller companies simply because they are there to do more interesting and exciting stuff. I guess that is the big difference.

Now if you look at the team, the team has executed several of these key projects in their personal capacity in previous organizations and previous capacities. So, the capability is obviously unquestionable. Once we are able to home and fine tune that for a particular specific problem be it from a startup or for the innovation of a corporate it comes out with clear resounding returns on their part.

If you put aside the startups just to do it on a case-to-case basis the kind of revenue generation and important work that we have been able to do for these stalwart corporates is almost at par or even better in some ways in many of the established companies. And established companies have a strength we surely do not the strength to execute a 100-man month per month project on a large scale, that is not our forte.

But if there is an innovation to be hired where people are trying to battle with even in the direction of a problem, I think there we are even in skill with even the largest companies. And innovation finally makes way for that part. We believe we are more geared towards innovation than larger companies because of the kind of skill sets and mindset of the people who join and work with us.

Moderator: Thank you. We have the next question from the line of Rajeev Singh, individual investor. Please go ahead.

Rajeev Singh: I would like to know what are the growth drivers going forward for the company?

Sandipan Chattopadhyay: Growth drivers of course are returns that you expect from the startups which we are investing in that is the investment territory. From the next quarter onwards as we have specified in the previous calls., we are going to have a concerted effort on growing the corporate sales part, including in some foreign countries. We have already started the ground work for that.

And in the near future, next financial onwards or so we expect to get some growth drivers from the traction of some of the products that we have deployed and, are in the testing, or being developed and we will deploy in the next 6 to 7 month timeframe.

Moderator: Thank you. We have the next question from the line of Sushma Saraswat from Active Capital. Please go ahead.

Sushma Saraswat: I wanted to ask like in the last quarter it was mentioned that the company will go breakeven this year by Q4?

Sandipan Chattopadhyay: That is right.

Sushma Saraswat: And that too without any exits so that just need the revenue from the corporates. I wanted to know if this still holds true and if it is then how many new corporate clients has the company onboarded so far in this fiscal and which firms are those or the sector which they come from?

Sandipan Chattopadhyay: That holds good in Q4 as we said in our last earnings call that we would be making a breakeven in Q4 of fiscal 2020 and we not only generate revenue from corporates, we do generate revenue from startups as well. For example, in case if you look at our current revenues close to about 60%, 65% revenues come from startups and the balance 35%, 40% comes from the corporates.

In Q1 fiscal 2020 we have onboarded four corporates apart from four startups.

Sushma Saraswat: Can we talk about which firms are those corporates or which sector are they coming from?

Sandipan Chattopadhyay: Basically because of the confidentiality I cannot disclose the name of these corporates but yes on the startup as it is mandatory, we are given it to exchange that is a reason why we were able to disclose the startups.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Sir, over to you.

Sandipan Chattopadhyay: So, thank you everyone for taking interest and asking questions and we hope to keep that curiosity and the interest in Xelpmoc alive for some time. As of now we are extremely bullish. In my mind this has been one of our best quarters internally that we feel because we have always spotted a good team and a good startup, we feel very blessed about it.

This quarter we think we have at least two big potential we have among the four startups. Two of them have already raised big rounds of funding, even the seed funding of one of them was pretty large from very, very marquee investors. So, we are very bullish and the sectors are very interesting. I would like to add what Srini said about the corporate. Corporate cycles are slightly lengthier so the cushions and all happen in third quarter, fourth quarter once we start in the first quarter.

But the fourth one that we have done interestingly two of them are overseas and we are trying out the overseas model to see how against time zones and time horizons things have done. So, these are trial projects of small parts but the unit economic showing they have been pretty encouraging.

We are looking at non-traditional overseas markets also where we feel that the demographic likeness with India is pretty significantly high and our systems can be tuned much better to those situations. We have done some preliminary investigation in to the Southeast Asia and African markets and I hope that will be some exiting news that I will share in two, three quarters from now on.

On that note I would like to close my closing comments and hand it over to the coordinator for taking it forward from me.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf Xelpmoc Design & Tech Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.