



“Xelpmoc Design and Tech Limited Q2 FY20 Earnings
Conference Call”

November 08, 2019



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MODERATOR: MS. ASHA GUPTA, CHRISTENSEN IR



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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Xelpmoc Design and Tech Limited's Q2 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you ma'am.

Asha Gupta: Thank you, Ali. Good evening everyone and thanks for joining the Q2 FY20 Earnings Call for Xelpmoc Design and Tech Limited. It gives us great pleasure to have you all in this call. The result and investor update have been already mailed to you and is available on the stock exchanges. In case, anyone has not received the release, please do write us and we will be happy to send the press release and presentation to you.

To take us through the results and to answer your questions, today we have the management of Xelpmoc represented by Mr. Sandipan Chattopadhyay – MD & CEO; Mr. Srinivas Koora – CFO of Xelpmoc and Mr. Karthik - VP, Finance. Mr. Srinivas will start the call with brief overview of the quarter gone past and we will then start the Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI that you can find it on our website.

With that said, I now turn over the call to Mr. Srinivas. Over to you, sir.

Srinivas Koora: Thanks, Asha. Good evening everyone. Welcome to Xelpmoc's earning call for the second quarter of fiscal 20. We quickly go through key financial and operational highlights for the quarter.

Total operating revenue was INR 15.1 million as compared to INR 12.1 million during Q1 fiscal 20, reflecting an increase of about 25% quarter-on-quarter. EBITDA was about negative INR13.2 million compared to Q1 of negative INR 15.1 million. Net loss for the quarter was about 10.9 million as compared to the net loss of about 13.9 million for Q1 of FY20. By the end of Q2 in total, we have served 33 clients as against approximately 28 clients till Q1. Currently, team size which includes employees and consultants have moved from 120 to 124, so in all total we have added about another 4 people.

On the portfolio side, as on 31st March it was INR about 27.44 crores and currently it is at 28.58 crores at an investment cost of about 2.68 crores. We have onboarded a few good start-ups in the last few months as a tech partner and as a technology advisor, again for cash as well as



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equity like Woovly which is based out of Bangalore helps people to search and explore bucket list of ideas and activities in social discovery platform and the other start-up was the Star In Me which is Hyderabad based start-up; they are into networking, branding, guidance platform for women of today. Leadstart Publication, which is Mumbai based start-up, they are one of the leading publishing house from India with the focus on both creative and progressive. Slate, again it is a Bombay based start-up which is virtual finance and accounting assistant for micro entrepreneurs. Taxitop India, Taxitop Media which is based out of Kolkata and they are into next evaluation of digital outdoor advertising through innovation on virtual advertising. So this was the update for the previous quarter.

Now we shall open the floor for questions for further discussions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Khaitan, an individual investor. Please go ahead.

Ravi Khaitan: I would like to know what is the list of new investments or acquisitions on the cards apart from the ones that you have added in Q1?

Srinivas Koora: In case if you look at Q1 and Q2, we have added Taxitop media, we have added Graphixstory, we have added the Star In Me, we have added Woovly and lists are being updated on the NSE, BSE website from time to time and also in the presentation we have given the list of start-ups whom we deal with.

Ravi Khaitan: And other question was regarding the profitability, so while we see that there has been improvement Q-o-Q in terms of revenue, so is it fair to assume that our revenue will continue Q-o-Q in this trajectory and whether we will breakeven at PAT in the next one or two years? How do we look at it?

Srinivas Koora: What we have spoken in the last 2 analyst calls, we stick to it and the management is of the opinion that we should reach breakeven by Q4 of fiscal 20.

Sandipan Chattopadhyay: Operational breakeven quarter-on-quarter...

Ravi Khaitan: And sir, there is a big increase in the receivable, so is it because of addition of new clients or is there any other thing that we are missing out?

Srinivas Koora: See, it is both, one is because of the addition of the clients and also in case if you look at it, the topline has grown by 25% and also you are seeing in the market, there is a slowdown in the market as well but in spite of that, we have grown by 25%. So it is mainly because of addition of new clients and growth in the revenue.



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

Smita Kothari: My question is, could you explain us how do you bill your product and services?

Srinivas Koora: As far as services are concerned, it is based on the scope of the work that we assign and also based on the number of man month that was spent and there is a lot of effort which goes into product development where we have close to about 25 to 30 people who always work on looking out for the new product and the innovation. See basically you should understand one thing, what is Xelpmoc? Xelpmoc basically we are into innovation and solution provider. See we are not typically a servicing company; we are more into innovation and solution provider.

Smita Kothari: And one more question, your PPE has increased this quarter as compared to March quarter, any reason for this sir?

Srinivas Koora: What has increased?

Smita Kothari: Your PPE, plan, product, and equipment.

Srinivas Koora: See basically, we have taken a new premise in Kolkata which has done so that is one of the reason.

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

Ritwik Rathod: My question is, looking into your business model, what are the key challenges you are facing in this segment related to the client acquisition?

Sandipan Chattopadhyay: I think Xelpmoc if you look at, there are two custom made segments, one is the start-up and innovation, innovation starting up kind of equipment and the other we had provision for start-up. So wherever we have gone beyond our imagination in some extent which is start-ups, the success rates are much higher and there is a healthy funnel for people wanting to work with us and we are getting as you can see interesting start-ups with reputable entrepreneurs. The corporate side in India has not been independent in the current economic atmosphere there, so that corporate accumulation has been somewhat challenge. At the same time, we have got very quality crunch and as Srinivas was saying we want to stick to our guns and make sure that we don't get into the normal trendy part of being a service provider, we want to be a solution provider that is where the value lies and that sort of a project with new initiatives likely being sort through by most companies. We have seen a slight slowdown in those aspects, that is a challenge. Let me aware you that your management is working best for the interest of everyone and though we have given it what we think is enough waiting time for the economy situation to revive, we are not going to sit down and just do nothing about it. We are preponing some of our plans and



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proactively trying to go out and trying to cater to these customers which we had not initially planned over the year back, but with the changing scenario internally, we are thinking aggressively on that part and we would make sure that this still be on focus despite and in spite what is happening around the domestic situation.

Ritwik Rathod: So are we focusing only on domestic market or are we open?

Sandipan Chattopadhyay: At the moment, we are mostly focussed on domestic market because the overseas markets are very expensive market but now the domestic situation is not looking very prospective in the next 2-3 quarters, hence we would take that chance and go and look at overseas, but again we are trying engaged to alliances and sourcing from people based out of there than trying to incur huge marketing costs and doing some adventurous marketing there.

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

Disha Mehta: Can you throw some light on the next 2 to 3 years business strategy going forward?

Sandipan Chattopadhyay: We would continue to go on and look at more interesting sectors from the start-up perspective and we would pursue a deeper interest in the overseas market as I just said in the last question. On top of that, from 2021 we anyway have plan to start our foray into similar markets to India like Africa and South East Asia and that remains on track. The European and US market which we have not talked so much because we want to focus more on the next 700 million or 3.5 billion sale. We are taking up interest in solution whether it is from both the places also in addition and we hope and speculate that by 2020 middle at least the innovation focus of corporates in India will return in the expected frequency and quantum and we will be able to reap the harvest of that and it would actually be better because we would get experience of the overseas practices to bring to our Indian companies at that juncture that is our overall outlook for the next 2 to 3 years, ma'am. Does that answer your question, or do you want some more specific to point?

Disha Mehta: No sir, that is useful and sir, I just wanted to know that what percentage of the revenue is driven from the top 10 clients?

Srinivas Koora: See, more or less as I said like we deal with start-up majority, so you can expect more than 95 to 98% of the revenue comes from the top 10 clients.

Moderator: Thank you. The next question is from the line of Jordi Putta from Ananthem. Please go ahead.

Jordi Putta: I have 2-3 questions. The first one is, there has been some revaluation of the investments that we have had made as of March and as of September, so what is the base on which this revaluation has been done? Second, what is our unique capability, we are into very interesting businesses



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which has got high opportunity, but compared to the big guys, what is the speciality of our company in making better product and making it better? So these are my primary two questions.

Srinivas Koora:

First question I will take it and second question would be responded by Sandipan. See, coming to your first question on like if you look at it March 2019 versus September 2019, there is a change in the NAV of the investing companies or the portfolio. Basically what we do is every 6 months we get this valuation done under the discounted cash flow method and more or less we just go with the last round of funding whatever the start-up has raised the funds and the OCPS which we are holding, optionally convertible preference shares, those are recorded at cost only. So in case if you look at our portfolio, the cost is about INR 2.68 crores versus the current NAV is about INR 28.58 crores and OCPS are recorded at cost even under this method as well. Only the equity, we are going for the current valuation that too based on the discounted cash flow method and we are ensuring that we are just capturing whatever in the last round of investment, any investor had invested in those particular start-ups.

Sandipan Chattopadhyay:

I will take the second question as Srini said, what is the differentiation factor. I guess the fact that we work more and is like people with commitment to the project like there are certain ethics we follow, we work with one entrepreneur in one sector because we think us almost as cocreators for the ITR or the business and the second aspect is if you look at it, all our businesses have a particular theme because of this small overlapping and they are targeted towards the same customer base. So the entire USP stems from the fact that we are pretty aware of the user scenario and the grammar of this user base, we know the technology in position, we know the design paradigm which people like, we know the inadequate which they have, whether it is for logistic solution or for an agricultural solution or for a solution which is about market risk the target audience groups per suite and technological preferences in use-cases remain constant and that we are able to inculcate as a value into all our start-ups. The second aspect it is being worked with great chemistry with the founders and we choose our founders very clearly and it is a selection process on both sides. We are not a vendor that we go and walk for anyone who bids, we look at our long-term treatment in terms of work ethics and ideology and brain picking and that we believe is a big chance of success increment factor for any start-up and everyone knows that start-up is not a formula based thing, it is more based on X factors, it is a high-base and high-return thing, so risk return ratio is something different and we think that we have been able to ace that in terms of the success of the portfolio in terms of ratio vis-à-vis other places simply because we are not sitting on the side-lines as an observance but because we are coworking with these guys on the same project and that goes true for any process of innovation. So apart from the start-ups also, we have been instrumental in the success and growth of our more establish customer I would say because we don't hold the partnership back there. The reason is we take it almost like an internal start-up for the customer in the corporate and try to incorporate all the values on that one. For even there the basic theme remains same. Our customers again serve the next 700 million Indians mostly or the 3.5 million that is the task the company would work with so that you can leverage on our expertise and have the singularity across all the channels.



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Jordi Putta: And one more question, with regard to our product there are many products and what stage of development are they? Are they fully deployable? The ones that are mentioned in the investor...

Sandipan Chattopadhyay: They are partially developed and according to our full vision. These products will never end. Two of them are having some traction and we are using it in some of the used cases. Some cases the revenue is coming in, but they are not much. I think, we are looking at another gestation period of 6 to 9 months for the first two products to settle in and the other 2, 3 are in the development stage. See, the thing is it takes one used case to kick or to mature to realize that we should invest more time in it. We don't want to waste time on pursuits without the market feet. We are very agile and frugal company that way and we don't want to change the DNA of that part.

Jordi Putta: But which are two products that are commercialised?

Sandipan Chattopadhyay: X-pand has some users and there is a X-Tract. These two have been used.

Jordi Putta: Okay, those are the ERP modules one?

Sandipan Chattopadhyay: X-pand helps in identifying where to set up the next shop and X-Tract is for understanding semantics conversation with customers and all and trying to find out more value in these conversations. We will have the first deployment on customer premises in the middle of January next year, that is the schedule as of now. We do have a pilot customer, which is a listed entity. That is the one we are deploying it for first.

Jordi Putta: So after this pilot?

Sandipan Chattopadhyay: That is trial run, it is not a product we marketed, we are partnering with investment and they have willingly become the first consumer of it to help us gather more expertise to make it a market product.

Jordi Putta: And how is the feedback from the market, is it...?

Sandipan Chattopadhyay: I can tell you that this is a very popular name, it is a listed entity so they had some pretty good brands they won and they have gone with us, so far so good but we will know when we do the real work.

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

Ravi Kaithan: Sir, just wanted to get an idea that you have been making lot of investments, so lot of investments are at various stages now. So when we look at the monetization, how many are mature enough



to go to the next stage and if it can increase the cash flow for our company going in the next 2 to 3 years?

Sandipan Chattopadhyay: See, there are two ways we monetize on this investment companies. One is as they grow, we grow with them in terms of revenue we get from servicing them. So that has been an increasing function with all our start-ups regularly. The other way is when they get exit because we own stakes in some of them, we get partial exits. We have not come to that stage because we are a three-year-old company, our average vintage of our portfolio is 1-1.5 to 2 years. I don't think they are in a stage when we go almost at the founder equity level, we get exit still let us say in a 3-4 years' horizon minimum, right. So that means we are still looking at that events 1 to 1-1.5 years down the horizon.

Ravi Kaithan: Last question from my side, so currently it is very difficult looking at the financial positions but I just want to somehow get an idea of what is in your mind related to the EBITDA margins, say next 3 years down the line, so what do you think the company is capable of a consistent kind of margin because currently it is very difficult for us to think of one if you have any idea?

Srinivas Koora: Currently, what we are saying that is we are of the opinion that we would be breakeven by end of Q4 of fiscal 20 and given the guidance, our margins for next couple of years right now would be difficult but we will look at it based on quarter-on-quarter basis, but right now we will not in a position to give any future numbers, percentages, margins, etc.

Ravi Kaithan: Actually, I was thinking if there was any kind of sustainable margin in your mind, it is perfectly fine.

Srinivas Koora: See but basically yes, as per the margin.

Sandipan Chattopadhyay: I would like to say that we are not allowed to give margins without solid proof and the risk return ratio being of the nature it is, we cannot really tell what we believe in, but what we can guarantee more as an outlook, but it is a very bare fact that we have to be market competitive, otherwise we will perish, we understand that and we would make sure that the adherence is there. I want to tell you one thing which I have been consistently saying is that we do believe that EBITDA margin regulator is not in our hand. We have that capabilities to go out to become a full service company, should we choose to be but the reason we want to stick to start-up because it is sort of flourish on that is because we believe the value creation over long term is much higher. So let me assure you that your company is perfectly capable of switching track and going into a normal EBITDA volume, but at this point of time we believe it is a right time to funnel these two and try to maximize the potential which we have been bestowed out given our initial influence.

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



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- Ramesh Jain:** There are so many investments that were made in various stages, so what are the level of...
- Srinivas Koora:** As we said, we have not yet started monetizing of them, it will take another 1-1.5 to 2 years in case if you have to exit because we have taken a strategical strait at the initial level or you can say at the founder level. So what happens is these start-ups initially start from bootstrapping, then they go to the seed round of funding, pre-series A, Series-B. So generally, we are not looking at any exit at the stage of pre-series A or pre-series B. So it has been about some time but it will take another 1-1.5 to 2 years to take exit in any of the start-ups.
- Ramesh Jain:** Do we have any peers and if yes, who they are, can you tell me?
- Sandipan Chattopadhyay:** I would not say our peers because we are not of that size but if you look at the model, InfoEdge probably be a company to sort of look at because it also holds equity in some start-ups but unlike us they are not working with these start-ups with the level of involvement we are. They are more or less investors in a way, but as a financial outlook, there would be something you can add and try to see because they hold equity in Zomato and other start-ups I forgot the name of all of them but I think they does have a financial body of that but the mechanics and the way the principal of holding comes through, that is completely different.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- Srinivas Koora:** Thank you very much for all the participants. Please do reach out to us or write back to us in case if you have any additional queries and we have uploaded the presentation on our website. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Xelpmoc Design and Tech Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.