



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Management Meet @ Dalal&Broacha

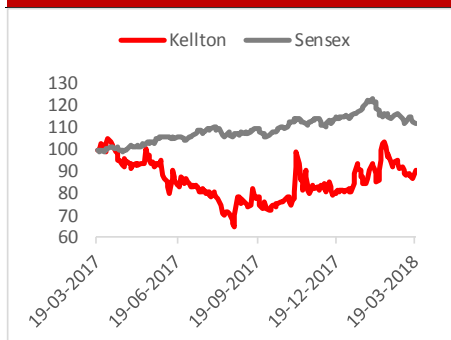
BUY

Current Price	121
Target Price	162
Upside	34%
52 Week Range	80/149

Key Share Data

Market Cap (Rs.bn)	5.8
Market Cap (US\$ mn)	89
No of o/s shares (mn)	47.4
Face Value	5
Monthly Avg. Vol(BSE+NSE) Nos ('000)	82.6
BSE Code	519602
NSE Code	KELLTONTEC
Bloomberg	KTSL.IN

Price performance



% Shareholding	Dec-18	Sept-17
Promoters	61.6	61.7
Public	38.4	38.2
Others	0	0
Total	100	100

Kellton Tech offers information technology (IT) solutions, strategic technology consulting, Digital Services and Enterprise Resource Planning solutions.

Investment Rationale:

High concentration of Digital Transformation revenues to enable Kellton to outperform average industry growth rate: Kellton Tech generates 66% (as of Q3FY18) of its revenues from Digital Transformation services, which is one of the highest amongst its peers (large & small) in the Indian IT space. Considering that the Digital Transformation space is expected to grow at a 22% CAGR to \$798 Bn by 2025, we believe that Kellton will be one of the key beneficiaries with offerings across the ISMAC spectrum. Kellton has enabled key clients such as PayTM, Snapdeal, makemytrip, Flipkart in their journey of digital transformation apart from enabling companies such as Coca Cola, TheyssenKrupp, Pan Pacific, US Foods, etc in Enterprise Digital adoption. With start-up culture growing aggressively around the globe and push to SMEs, we believe that Kellton can play a key role as it derives 30% and 20% from each segment, respectively (balance 50% is derived from Large enterprises wherein the company has over 40 clients from Fortune 500 companies).

With expertise in IoT offerings, AI, Big Data apart from flagship innovations such as KLGAME™, Kellton is well equipped to breakout into the big league: KLGAME is a platform that uses iBeacon technology to create multiple industry specific solutions for Travel, Hospitality, Retail, Entertainment, Advertisement, Healthcare and offers features such as Automated Check-ins, Navigation assistance, networking, Gamification, Location-based advertisement, Push notifications, Monitoring and Security. Kellton has key marquee clients such as Nasscom, MYTEKSI, Cargo Chief, etc and we believe that it has immense potential to drive higher client engagements going ahead.

Management Meet Update

We met with Kellton Tech and following are the key takeaways:

- Management is confident of achieving a 3-fold growth in revenues to \$300 Mn by FY21 (FY17 dollar revenues stand at \$95 Mn). Furthermore, expect EPS to grow 3x FY21E on the back of steady margins and strong revenue growth.
- Digital initiative projects such as mSehat, Kandla Port Trust and digital transformation by Republic of Mauritius have enabled the company to showcase its capability in the digital space
- Company will adopt the inorganic route to drive growth. For example, Kellton acquired US based Lenmar Consulting in Q4FY17, which enabled the company to expand its presence in the BFSI space.
- Borrowings should remain in a similar range of INR 900 – 1000 Mn range as it will be the main source of financing acquisition.
- Kellton has reported a strong financial performance of 81% CAGR revenue growth, 106% CAGR in EBITDA and 125% CAGR in PAT between FY14 and FY17. Expect the company to deliver a similarly strong performance going ahead.

Outlook and Valuation:

Taking into consideration that Kellton Tech powers 30% of India's \$21 Bn e-commerce industry, which is a high growth industry, guidance of 3x revenue growth by FY21E and high concentration of Digital revenues (66% of Q3FY18 revenues), we believe that Kellton Tech is well placed to deliver a minimum 22% CAGR revenue growth between FY17 and FY20E on a conservative basis. Given that the company steadily manages its EBITDA margin at 14.5%, we believe that a 2.1x growth in EPS is achievable. At CMP, the stock is trading at 7.3x and 5.2x FY19E and FY20E. We assign a BUY rating on the stock as we apply a multiple of 7x to its FY20E EPS of INR 23.2 to arrive at a target price INR 162.

Consolidated Financials (In INR Mn)

	Net Sales	Growth (%)	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)	EPS	P/E	ROE (%)	ROCE (%)
FY16	4624.4	163%	624.2	13.5%	395.6	8.6%	8.4	14.5	31%	22%
FY17	6147.7	33%	852.5	13.9%	534.1	8.7%	11.3	10.7	30%	21%
FY18E	7469.8	22%	1083.1	14.5%	649.9	8.7%	13.7	8.8	27%	21%
FY19E	9019.6	21%	1307.8	14.5%	784.7	8.7%	16.6	7.3	25%	19%
FY20E	11010.2	22%	1706.6	15.5%	1101.0	10.0%	23.2	5.2	26%	19%

Source: Company, Dalal & Broacha Research



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