

## Retail Equity Research

# Kellton Tech Solutions Ltd

**CMP Rs. 162**
**Rating: Overweight**

### IT - Software

**NSE CODE: KELLTONTEC BSE CODE: 519602**

Kellton Tech Solutions Ltd. reported mixed results for Q2FY25, showcasing moderate revenue growth but operational headwinds. Sales grew by 3% QoQ to ₹270.69 crore, driven by steady demand for digital transformation services across key verticals. However, expenses increased by 3.6% QoQ to ₹238.22 crore, compressing operating profit margins slightly to 12%.

Net profit stood at ₹19.66 crore, down 1% QoQ, impacted by rising interest costs (+2.5%) and flat other income. Despite a 75% surge in operating profit in Q1FY25, subsequent quarters have seen a tapering effect, reflecting challenges in managing cost structures and scaling efficiently.

The company's strategic focus on emerging technologies, including AI and cloud solutions, offers long-term growth potential. However, maintaining profitability amidst rising expenses remains critical.

#### Company Data

Market Cap (cr)	Rs.	1,531.06
Enterprise Value (cr)	Rs.	1,077.45
Outstanding Shares (cr)		9.75
52 week high	Rs.	184.00
52 week low	Rs.	85.00
1m average volume (lacs)		14.23
Face value	Rs.	5.00

Consolidated (cr)	FY22	FY23	FY24
Sales	842.67	917.33	982.89
Growth(%)	9%	9%	7%
EBITDA	105.94	-88.37	106.27
EBITDA Margin(%)	12.6%	-9.6%	10.8%
PAT	70.45	-126.81	64.01
Growth(%)	-1%	-280%	150%
EPS	7.3	-13.1	6.6
P/E	11.5	-3.4	14.8
P/B	1.7	1.1	2.1
EV/EBITDA	8.6	-6.3	10.1
ROE(%)	15%	-34.0%	14%
ROCE(%)	16%	-19.2%	15.1%
ROIC(%)	13%	-21.3%	13.4%
D/E	0.26	0.43	0.35

**Financial Performance:** Kellton Tech Solutions reported Q2 FY25 revenue at ₹270-271 crores, a 12.4% YoY growth, with an EBITDA margin of 12.1% and net profit of ₹19.6 crores (PAT margin: 7.2%). For H1 FY25, revenue stood at ₹533 crores, reflecting an 8.7% YoY growth, and net profit was ₹39.6 crores, with EPS showing significant improvement at ₹4.10.

**Operational Highlights:** The company secured five significant client wins in Q2, spanning gaming, contract food services, SAP system enhancement, and manufacturing inventory management. These projects underline Kellton Tech's core capabilities in enterprise cloud migration, SAP expertise, and operational system development.

**Strategic Outlook:** Management remains optimistic about achieving its \$200 million revenue target by 2027, driven by enhanced client offerings and higher revenue per customer. While economic challenges in Europe persist, improved client decision-making post-US elections and potential tax reforms are expected to drive growth. The reduction in promoter stake was clarified as having no adverse implications.

## Key Highlights

- **Comprehensive Service Portfolio:** Kellton Tech Solutions specializes in digital transformation, ERP solutions, and a wide range of IT services, catering to industries such as fintech, manufacturing, government, retail, and e-commerce. The company's core offerings include agile software development, platform modernization, outsourced product development, and testing automation. It leverages cutting-edge technologies like IoT, Blockchain, AI, and Generative AI to deliver innovative solutions, ensuring alignment with the evolving digital landscape.
- **Innovative Digital Platforms:** Kellton Tech has developed proprietary platforms like **Audit.io** for retail audit automation, **KLGAME** for IoT-driven user experiences, and **Optima**, which integrates AI and Blockchain for energy management. Additionally, **Thrive** facilitates human capital management with automated tools, while **Kellton4Commerce** provides dynamic e-commerce solutions. These platforms showcase the company's focus on leveraging innovation to address niche business challenges.
- **Revenue and Segment Contributions:** For 9M FY24, digital transformation contributed a substantial 82% of revenues, followed by enterprise solutions (14%) and consulting services (4%). This heavy reliance on digital transformation highlights the company's role as a leader in modernizing business processes and systems for its clients.
- **Strong Geographical Presence:** Kellton Tech operates across the USA, Europe, India, and the Asia-Pacific region, with the USA accounting for 82% of its revenue. India and APAC contribute 12.7%, while Europe adds 5.3%, indicating a diversified yet US-centric business model. Its global footprint, supported by ~1,800 skilled employees, positions the company to capitalize on opportunities across multiple markets.
- **Client-Centric Focus:** The company serves an extensive client base across various sectors, including fintech, automotive, chemicals, logistics, and hospitality. In Q3 FY24, its top 10 clients contributed ~27% of revenue, reflecting a well-diversified client portfolio. Kellton Tech's focus on strategic partnerships enables deeper client engagement and recurring revenue streams.
- **Strong Order Book and Future Prospects:** With an order book of ₹800 crore as of Q3 FY24, Kellton Tech has a solid pipeline for sustained revenue growth. Management aims to achieve \$200 million in revenue by 2027 by expanding offerings, increasing revenue per client, and optimizing operational efficiency. Integration of Generative AI into its core services is expected to enhance differentiation and client value.
- **Resilient Financial Performance:** In Q2 FY25, the company reported revenues of ₹270-271 crore, up 12.4% YoY, with an EBITDA margin of 12.1%. The PAT stood at ₹19.6 crore, reflecting steady profitability despite challenges like rising costs and economic uncertainty in Europe. Digital transformation services remain a key growth driver, bolstered by strategic investments in innovation and talent.

**Quarterly Financial Consolidated**

**Profit and loss account**

**(Rs Cr)**

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Sales	240.58	245.44	247.84	261.93	270.69
Growth(%)	-3%	2%	1%	6%	3%
Expenses	214.18	227.03	215.68	229.97	238.22
Operating Profit	26.40	18.41	32.16	31.96	32.47
Growth(%)	-4%	-30%	75%	-1%	2%
Other Income	0.44	0.34	0.58	0.46	0.21
Depreciation	3.61	4.40	3.97	4.16	4.15
Interest	4.49	4.82	4.68	4.89	5.01
Profit before tax	18.74	9.53	24.09	23.37	23.52
Tax	2.21	1.40	0.15	3.43	3.86
Net profit	16.53	8.13	23.93	19.94	19.66
Growth(%)	7%	-103%	66%	-20%	-1%

**Financial Consolidated**

**Profit & Loss**

**(Rs Cr)**

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Sales	770.68	775.63	842.67	917.33	982.89
Growth(%)	-5%	1%	9%	9%	7%
Expenses	658.30	667.83	737.94	823.85	878.46
Operating Profit	112.38	107.80	104.73	93.48	104.43
Growth(%)	-5%	-4%	-3%	-11%	12%
Other Income	3.94	4.70	1.21	-181.85	1.84
Depreciation	12.81	12.92	10.93	14.46	16.00
Interest	16.43	12.85	11.55	11.44	18.36
Profit before tax	87.08	86.73	83.46	-114.27	71.91
Tax	16.54	15.61	13.00	12.53	7.89
Net profit	70.53	71.12	70.45	-126.81	64.01
Growth(%)	-8%	1%	-1%	-280%	150%

**Balance Sheet**

**(Rs Cr)**

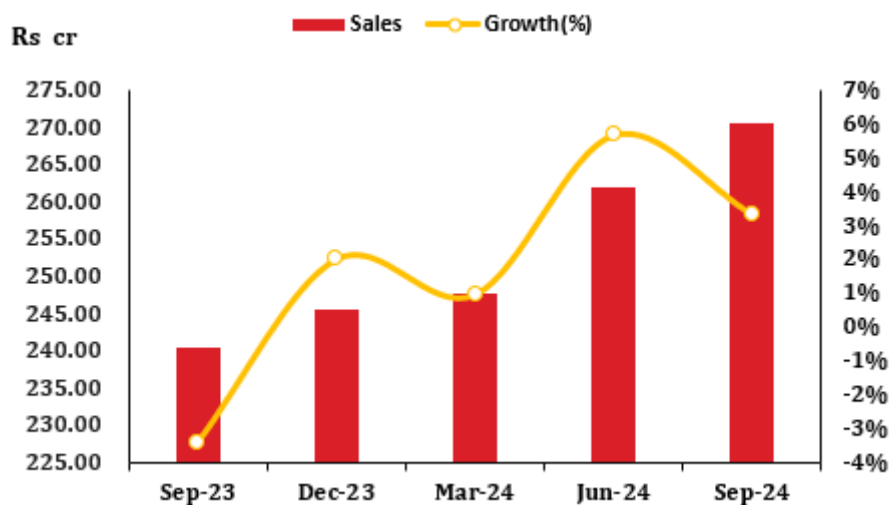
Report Date	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Equity Share Capital	48.19	48.19	48.25	48.27	48.70
Reserves	368.16	372.35	430.43	324.76	394.68
Borrowings	131.71	109.18	122.31	161.99	155.99
Other Liabilities	170.38	102.18	71.01	61.47	61.01
<b>Total</b>	<b>718.44</b>	<b>631.90</b>	<b>672.00</b>	<b>596.49</b>	<b>660.38</b>
Net Block	277.79	206.46	198.99	63.82	69.38
Capital Work in Progress	-	-	-	-	18.15
Investments	-	-	-	-	-
Other Assets	440.65	425.44	473.01	532.67	572.85
<b>Total</b>	<b>718.44</b>	<b>631.90</b>	<b>672.00</b>	<b>596.49</b>	<b>660.38</b>

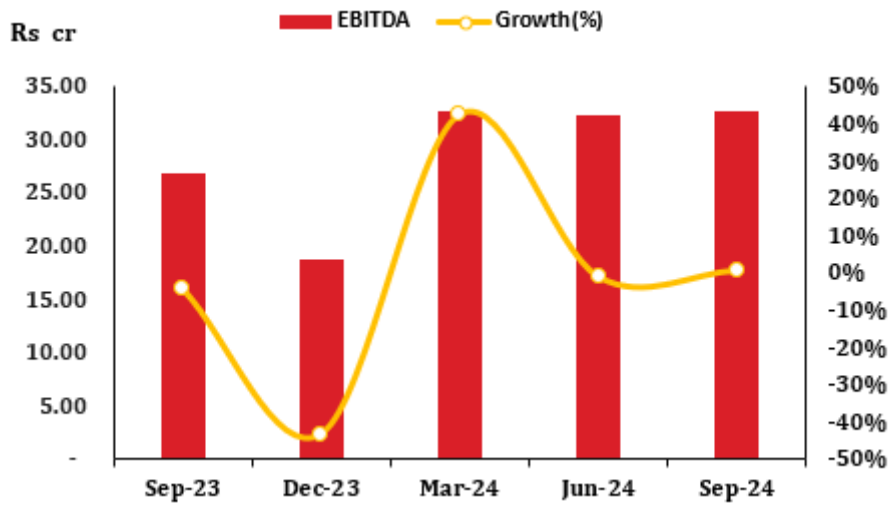
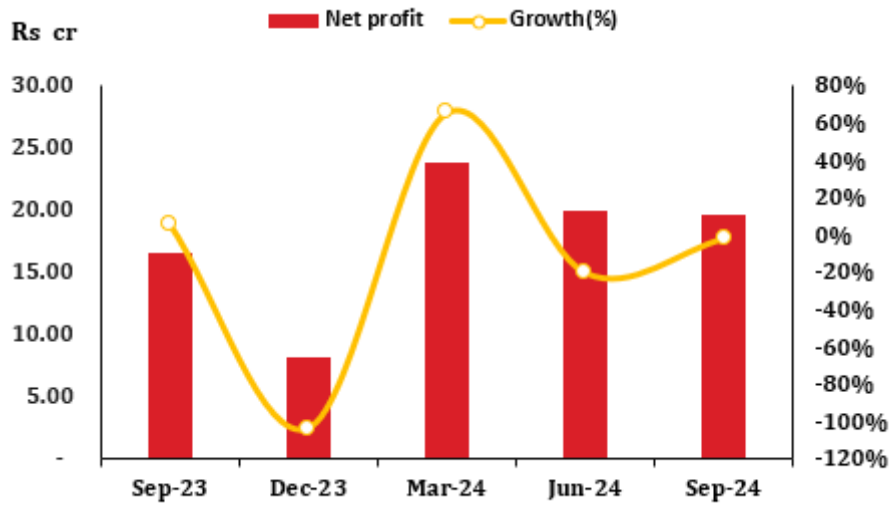
**Cash Flow**

**(Rs Cr)**

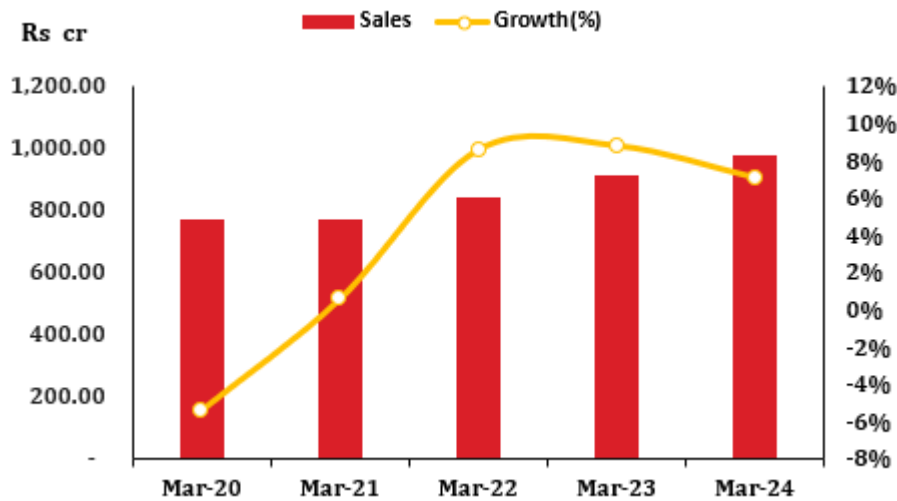
	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Cash from Operating Activity	56.48	79.5	0.67	24.28	56.2
Cash from Investing Activity	-39.07	31.54	-4.14	-72.13	-39.64
Cash from Financing Activity	-13.32	-102.17	-10.53	52.86	-18.69
Net Cash Flow	4.1	8.87	-14	5.01	-2.13

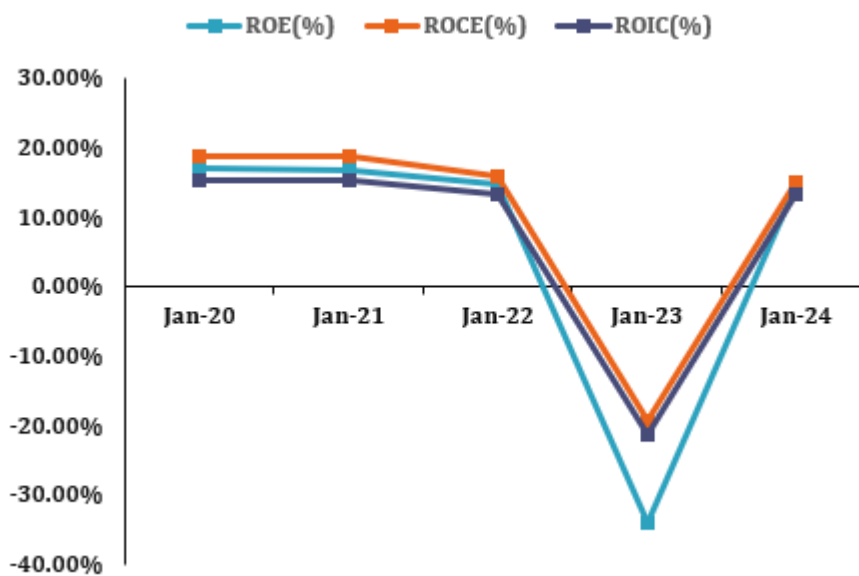
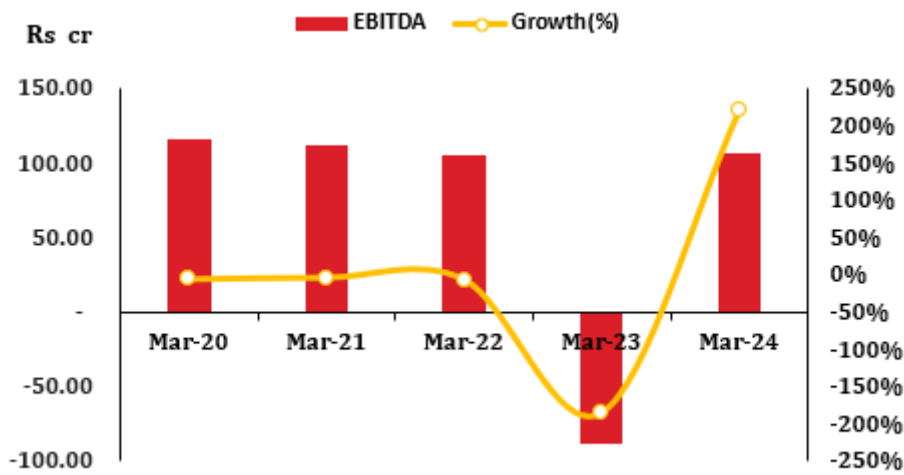
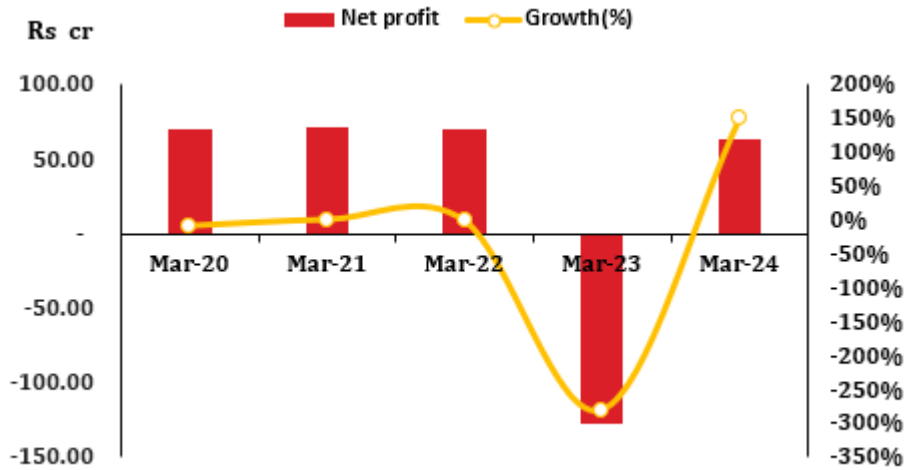
**Key Metrics: Quarterly**





**Key Metrics: Yearly**





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