



“Aurionpro Solutions Limited Q1 FY-2020 Earnings
Conference Call”

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**MANAGEMENT: MR. PARESH ZAVERI – CHAIRMAN & MANAGING
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Moderator: Ladies and gentlemen, good day and welcome to the Aurionpro Solutions Limited Q1 FY20 Earnings Conference Call. This conference call may contain forward looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all the participants' 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Paresh Zaveri – Chairman and Managing Director. Thank you and over to you, Sir.

Paresh Zaveri: Good morning Ladies and gentleman, I am pleased to connect with you all to discuss the Q1 FY20 performance. We have uploaded our investor presentation and I hope everybody had an opportunity to go through the same.

Q1 has been a traditionally a soft quarter. Given the backdrop of general elections in India leading to a standstill in business from the government and largely from PSU banks, we would say that we have performed well. The business has started to move again and we expect significant order flows from both; Smart City, Smart Mobility and Banking in coming quarters.

One of the important announcements we made was on the fund raising in Cyberinc by a new prominent investor through the issuance of Series B-II Preferred Stock. This round of financing is authorized for up to US\$ 8 Million, the first tranche of which is closed at US \$ 4.5 Million including \$1.5 million from Aurionpro. This will result in strong further investment in the business and strong upward momentum in the coming quarters. There is also a strong interest from the investors in Cyberinc post launch of ISLA 4.0 which adds cloud capability to our traditional offerings.

On AFC, we have completed our investment in Noida. In Nagpur we have completed 10 stations and we are planning to complete our investment in SC Soft towards the end of Q2 which should start to move us towards the end of our investment cycle for the year.

Now let me quickly run you through the business highlights:

On Banking and Fintech space, our company went live with the cash management side with three to four prominent banks, namely Axis Bank, HDFC Bank and National Trust Bank of Sri Lanka. On the Lending suite side, we went live with three International banks; Emirates NBD, Thai Military Bank (TMB) in Thailand and United Overseas Bank of Thailand. We believe that with the addition of these players as our client, further adds to our growth. On Smart Cities and Mobility side:

During the quarter, SC Soft launched a spate of new products in UITP at Stockholm which has been very well received and company has immense opportunity across several countries in new transit projects.

Aurionpro, as I had said earlier will also complete its \$5 million investment in SC Soft mostly towards the end of the quarter. In our transit business, Noida is slowly increasing its ridership and we see continued upward month on month growth. The ridership will further increase over the next year on completion of its connectivity with Delhi Metro.

On Cyber Security side, we are happy to announce that we are close to signing a multiyear deal with a large customer in Malaysia. This is going to be a game changer deal and the implementations should start from the end of the month.

To sum up, we have laid a strong foundation to capitalize on the growth opportunities and confident to drive the value for all our shareholders.

Results Highlights for the Q1:

The revenue recorded was Rs. 117.3 crores as against Rs. 120.2 crores in Q1 2019.

EBITDA for the quarter remains flat at Rs. 24.1 crores on Y-o-Y basis, EBITDA margin for the quarter, after an impact of IND AS 116 stood at 20.6% against 20.1% in the last year, an increase of 51 basis points Y-o-Y basis.

PAT for the quarter stood at Rs. 10.3 crores as compared to Rs. 12.7 crores for the Q1 2019, PAT margin for the Q1 FY20 stood at 8.8% against 10.5% on Q1 FY19. However, we are optimistic of sales picking up for the coming quarters. That concludes my updates on the financial performance, and I would now like to open the floor for the questions and answers.

Moderator: Thank you very much Sir, ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sanil Mohan, an Individual Investor. Please go ahead.

Sanil Mohan: You know in the last conference call you have said that all your verticals will grow at 30%.

Paresh Zaveri: Yes.

Sanil Mohan: But we do not see that happening in the subsequent results.

Paresh Zaveri: So, as I said earlier, this was a traditionally slow quarter, specifically with the slowdown in Banking and also both on the front of new orders as well as execution of the current order, there was a marked slowdown but for the year we are still confident that overall business will grow.

- Sanil Mohan:** This slowdown was because of what reason?
- Paresh Zaveri:** See what has happened is when the elections were announced, pretty much all the orders that were there were on hold, entire payment cycle, everything was on hold, right. Only after the budget presented in the first week of July, the work has started to move again. So, during the quarter even for the proposal submitted, work was on hold, everything was pretty much at the standstill.
- Sanil Mohan:** No but you are not totally government focused, you also have a lot of private business and exports and others, so these were not on hold.
- Paresh Zaveri:** Yes, if you really see, other businesses continues as it is, so the impact was basically on the execution. And as I said, this Q1 is traditionally a slow quarter that is why you are not seeing the growth but in the coming quarters you will see the growth coming by.
- Sanil Mohan:** And also this, what is the current order book?
- Paresh Zaveri:** Our current order book remains almost same as about Rs. 500 crores but as I said during this quarter alone we should have significant new order flows which you will hear from me in the next call.
- Sanil Mohan:** Okay, also you have informed that there is, you have sold a stake in Cyberinc.
- Paresh Zaveri:** It is not a stake; it is a fresh won trade, so if you have been following the calls basically Cyberinc is developing next generation products which is based on isolation technology, one of the most cutting edge products in the Cyber Security space and the product is going through the next rounds of developments and as I said last time also we have now launched ISLA 4.0 which is a complete cloud based solution and work is continuing, so part of the growth cycle is also to have the external funding to continue to invest in the product and in the sales and towards that the fund raising was conducted, so it is not sale of stake, it is a new investment in the company.
- Sanil Mohan:** So, who is this buyer?
- Paresh Zaveri:** These are existing funds that were part of it, this new buyer is a large German fund.
- Sanil Mohan:** Okay and what is the sales of ISLA in this quarter?
- Paresh Zaveri:** Sale of ISLA in this quarter was negligible but I think in the coming quarter as I said, with the signing of this order, you will see a significant number coming in this quarter and coming quarter also.
- Sanil Mohan:** Signing of which order, this is a raised capital right?

Paresh Zaveri: So we are close to signing a multiyear deal from a large customer in Malaysia and hopefully we will again have a public release in next month or so. This is a double digit million-dollar order and a multiyear order. Because we are in talks with the customer on certain things, I cannot give you more details at this stage.

Sanil Mohan: Also, you know one and half, two years back you have sold your one business to KPMG?

Paresh Zaveri: Yes.

Sanil Mohan: You received Rs. 200 crores plus and yet all this capital has gone into development of ISLA, meanwhile the debt has increased but the interest costs have gone up substantially at 91% for this quarter and ISLA is not giving the result that the kind of commitment in the investment you have made, you have almost put more than Rs. 100 crores in this?

Paresh Zaveri: Yes, so see ISLA is basically as I have said in my calls over last 3 or 4 times, is a long term investment, this is the nature of the investment that goes into the US companies for any startup which is basically into high growth, next generation product. We remain confident of the growth in ISLA, so far as overall debt is concerned, see I am not really concerned overall debt is steady around Rs. 110 crores or so and if you really see in terms of our EBITDA vis-à-vis the debt it is not an issue, we have been investing in growth as we are realigning our business for the long-term growth. If you really see the investment that we have made including in Cyberinc in this quarter, our investment in SC Soft, our investments in Noida and Nagpur Metro, these are all the operational cash flows, so as I said again earlier, as the investment cycle comes to an end with a free cash flow, debt will continue to go down in the coming quarters and we are very comfortable with where we are, business is doing very well and it continues to grow very well.

Sanil Mohan: So, when you say you have employed Rs. 100 crores in this what has it gone into, has it gone into salaries, what is it gone into, this Rs. 100 crores development charge?

Paresh Zaveri: Yes, US you are asking? It goes into the operating expenses, mostly salaries, development work; outsource work from third parties, hosting and other costs, marketing costs.

Sanil Mohan: Okay because actually what I feel is that you have over invested in this and the results have not come in or we are not even sure if this is going to be a big payback in this, what are your views on this?

Paresh Zaveri: Look as you have seen in the fund raising that we have done in this quarter right, there is a confidence in this product and we are confident, look if we are confident, if we were not confident we always had the choice to not do this, right. So, you will have to trust us that we know what we are doing with reference towards this product. US is a very different market, the opportunities and the returns in ISLA are high and so are the investments, you cannot play high investment game without wanting to invest. We are in it and we are going to see this through.

- Sanil Mohan:** And how much does Aurionpro own in Cyberinc as of now?
- Paresh Zaveri:** 62%, on full diluted basis.
- Sanil Mohan:** So, there has been dilution, earlier it was 80%.
- Moderator:** The next question is from the line of Atul Shah from Progwell Securities. Please go ahead.
- Atul Shah:** Sir I would like to know as to what is our revenue growth guidance and margin guidance for FY20?
- Paresh Zaveri:** So, for the year, as I had said earlier right, we are looking to grow at around 30%, right. So, I think we pretty much are staying at that level. I think margins should be probably the same as last year around 21% - 22%.
- Atul Shah:** Sir one another thing, the Banking and the Fintech verticals have shown a muted quarter despite digital business picking up globally, so can you give us a guidance and order pipeline for the same?
- Paresh Zaveri:** So, as I said during the first quarter there was not any significant growth in order pipeline but pipeline on all the areas has significantly grown and in fact we are close to closing some of the large orders and you will see the announcement coming this month, next month onwards on incremental order closing.
- Moderator:** Thank you. The next question is from the line of Amit Shah from AM Securities. Please go ahead.
- Amit Shah:** Sir my question is on ISLA, so you told this is a long-term investment, so I just wanted to know when would we start seeing the profits on this investment?
- Paresh Zaveri:** I mean profit on investment obviously you will see in terms of when we exit the business but if you are asking about the revenue and profitability of the business we expect that this quarter onwards we will start to sign large deals, the pipeline has grown significantly, in addition to the deal that we have signed in Malaysia, we have some other large deals in the pipeline where we expect closures in coming months. These are all large million dollars plus deals and as the business continues to mature and grow, we expect revenue growth to be significantly higher in coming quarter.
- Amit Shah:** Good to hear that and one last question on the Cyber Security side, how much money we have invested till date and going ahead how much we plan to invest?
- Paresh Zaveri:** So, if you see our incremental investment was \$1.5 million as I said during the quarter when we did the fund raising. Earlier investment was basically done from the US when we had sold our

services business in US to KPMG, part of that revenue after paying down all the debts and everything is US and other investment was used for the development of the business. I think collectively the investment would be over Rs. 200 crores.

Moderator: Thank you. The next question is from the line of Raj Joshi from Ace Securities. Please go ahead.

Raj Joshi: I have a couple of questions, the first is the, where do we see the debt level for FY20?

Paresh Zaveri: So, basically as I said we are currently at about Rs. 110 crores, with the growth in business and everything during the year, I expect working capital to grow but I am very confident that with the free cash flow that we are expecting in coming quarters, debt should be down between Rs. 30-50 crores minimum by March '20.

Raj Joshi: Okay and another one is can you give us the range for the margin in each of the business-like Banking, Smart projects and ISLA?

Paresh Zaveri: So, overall we have been 20-22% margin range, so I do not want to bifurcate the business but broadly we should continue to be at the same level, if not better depending on how some of the project closes but wherever we are, we should only have an upward trend in the margin and not downward.

Moderator: Thank you. The next question is from the line of Sachin Shah from H.S. Securities. Please go ahead.

Sachin Shah: Can you just throw some light on your order visibility with respect to the Smart City and Smart Transport Project? In terms of you are getting orders from which company, can you just elaborate on that?

Paresh Zaveri: Our current orders are with Central Government, with State Government in Chhattisgarh, in MP, in Rajasthan. We have some Smart City projects specifically in Jaipur, we are bidding for some of the city projects in Maharashtra, in Rajasthan, in Punjab but since they are in pipeline, I will not be able to give you the specific names of the projects but they are mostly in these states.

Sachin Shah: Okay and so what will be your tentative proportion of orders from your State Government or State Boards and Private Boards?

Paresh Zaveri: Proportion in terms of overall revenue?

Sachin Shah: Yes.

Paresh Zaveri: In terms of overall revenues, Smart City & Smart Mobility, represents around 40% of this thing and we expect this year's trend to continue, as we see some of the large order in SC Software

and its subsidiary and maybe we will see some uptake in coming quarters there but broadly the proportion of the revenue should continue because the Banking is also growing very well for us.

Sachin Shah: Okay and of your live tenders which is happening, which you have already bided, what would be your quantum size, what would be your strike rate; generally it is 10-20%, what is your scenario on that?

Paresh Zaveri: If you win it is 100% and if you not it is 0. But in general we have been very selective and historically we are at about 2/3rd win ratio and I think we should expect that to continue.

Sachin Shah: Okay and just a last question, so on the margin front, so you expect, so whatever bid you do, you are generally an L2 or L3 or how it works or you are in L1 in that case?

Paresh Zaveri: Mostly we go where the technical capabilities are, so generally we avoid the projects which are purely on L1 basis. So, we go wherever it is T1-L1 or T1-L2, so those kinds of projects we maybe L1 or L2. Normally, some of the projects you do not up being the part, unlike the project where you know, it is given 60-40 to L1 and L2 in some of the cases. So, wherever we win we are L1.

Moderator: Thank you. The next question is from the line of Rohan Shah from Harsh Capital. Please go ahead.

Rohan Shah: I wanted to ask a couple of questions regarding the guidance of EBITDA margins in segment wise, so I just wanted to understand that where will the next growth be coming from which segment?

Paresh Zaveri: So, as I said, our Banking as well as the Smart City, Smart Mobility both are growing, so in terms of Banking, we are working on some of large projects on our LOS size, we have 2 active deals that are near closure in Vietnam, one in the Middle East and one in Asia. In our cash management we have 3 or 4 deals near closing, in our kiosk couple of large deals with very large banks in India are near closing, so those are the deals that are really in the pipeline that you should see the closure.

Rohan Shah: Sir, can you give light on the EBITDA margins on the Government and Security business?

Paresh Zaveri: Security business, basically as we said we have been in the investment mode and as the revenue comes hopefully during the year, we will end up being positive on EBITDA in that business with the revenue growing, so at this point in time, I am not really counting on much of a EBITDA support from the Cyberinc but rest of the businesses as I said, we are at overall 21% - 22% and that is going to continue.

Rohan Shah: And my last question is relating to the CFO who has resigned recently, so can you throw some light on that, when would be a new CFO coming in or something?

- Paresh Zaveri:** Yes. So, we are in the process. and as soon as we have the right candidate, you will see the announcement.
- Rohan Shah:** Okay Sir. I just remember another question which I wanted to ask. Sir what would be our EBITDA and EBITDA margin if we would have to negate the effect of IND AS 116?
- Paresh Zaveri:** Good point, about 2%.
- Moderator:** Thank you. The next question is a follow up from the line of Sanil Mohan an Individual Investor. Please go ahead.
- Sanil Mohan:** You just gave the guidance of about 30% in revenue, so that comes to about somewhere between Rs. 675 crores to Rs. 700 crores and PAT of about 70 to 75, you match that with the revenues, is that even possible in the next three quarters?
- Paresh Zaveri:** Well, if it was not possible, I would not have been talking about it.
- Sanil Mohan:** Yes, because then that seems that what you are saying is that the PAT will probably double each quarter for the next three quarters because this time was Rs. 11 crores, so to match that you will have to at least you know, go almost at 100% CAGR for....
- Paresh Zaveri:** 100% quarter to quarter will take you from 11 to 22 to 44 to 88, right?
- Sanil Mohan:** No, not that but then you need to do it like 21 each quarter for the next three quarters to match that 30% because last time you had said that you were 30% and for two consecutive quarters it did not come out, so I am just asking in case you want to lower the guidance.
- Paresh Zaveri:** At this point I am not looking to lower the guidance.
- Sanil Mohan:** Okay, second question is on buyback. So, it has been three months since you have bought back some five lakh shares, so you will have to pay tax on this buyback, the recently introduced tax on buyouts.
- Paresh Zaveri:** Yes, so we are continuing with the buyback and whatever tax has to be paid, we will pay on it.
- Sanil Mohan:** I mean this concludes in the next three months, so this needs to be concluding in the next three months?
- Paresh Zaveri:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr Paresh Zaveri for his closing comments, over to you Sir.

Paresh Zaveri:

So, as I said, let me reiterate again. Business is growing quite well and we are confident of achieving the margins and the top line growth for the coming quarters and hopefully when I talk to you in next conference call after the Q2 Earnings, you will hear of some of the new deals that are in the pipeline and near closure. In the meantime, thank you all for joining us today.

Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of Aurionpro Solutions Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.