



“Aurionpro Solutions Limited Q2 and H1 FY ’20
Earnings Conference Call”

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**MANAGEMENT: MR. PARESH ZAVERI – CHAIRMAN AND MANAGING
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Aurionpro Solutions Limited Q2 and H1 FY '20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinion, and expectation of the company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. 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 Mr. Paresh Zaveri, Chairman and Managing Director of Aurionpro Solutions Limited. Thank you and over to you.

Paresh Zaveri: Good Afternoon Ladies and Gentlemen. I am pleased to connect with you all to discuss the Q2 and H1 FY '20 performance. We have uploaded our investor presentation and I hope everybody had an opportunity to go through the same. Let me start with the bad news first, we were expecting to grow at about 25% for the year, however, in the first half the revenue was down by about 5% and EBITDA was down by about 6%. This was mainly due to slowdown in our smart city and mobility business by about 30%. This was largely due to longer than expected delay after the general elections. We were expecting our banking business to grow by about 25% to 30% as well, however, our actual growth was about 12%. This was again mainly due to overall slowdown in the banking sector and the economy at large and as also due to mergers within the PSU banks growth was hindered. These are looking up now and based on the orders in hand, we are optimistic of having positive revenue growth for the year. The green shoots are quite visible for us, our mobility business is picking up momentum and drawing global attention to our capabilities in the areas post Noida metro Going Live. We have recently won deals in Nigeria, Mexico, and Peru and have signed a partnership with a leading US-based player. Freeze in smart city has also thawed and we expect to win significant orders in the second half of the year which will help us regain long-term momentum in the business.

On cyber security, our largest deal which I had referred to in our last call is now under implementation, we will also be launching version 5.0 in early December with virtual appliances and multiple scalability and stronger analytics compared to version 4.0 launched earlier this year. We expect significant growth in the business, also with better acceptance of isolation technology and new features, the potential pipeline is huge. The current pipeline has now grown to over 50 plus customers. To sum up, notwithstanding the first half of the year, we have laid a strong foundation to capitalize on the growth opportunities and are confident of driving long-term growth value for all shareholders.

Results highlight for the Q2 and H1 of the FY '20,

Q2FY20 revenue stood at 124 crores as compared to Rs. 134 crores down by about 8%. However, sequentially our revenue was up about 5% from 117 crores in Q1 FY '20. For H1 FY '20, the company recorded revenue of 241 crores as against revenue of 254 crores in H1 '19, a

slip of about 5%. EBITDA for the quarter stood at 26 crores as compared to 29 crores in Q2 H1 '19, EBITDA on Q-o-Q basis was up by 7% from 24 crores in Q1 of FY '20. EBITDA margin stood at healthy at 21%. EBITDA for the H1 FY '20 stood at 50 crores as compared to 53 crores in H1 '19. EBITDA margin stood at 20.8% as compared to 20.9%. Despite the softness in the revenue, we were able to maintain our margin in the first half of the year. PAT for the quarter stood at about 12 crores as compared to 19 crores, PAT margin for the FY '20 stood at about 10%. PAT for the H1 FY '20 stood at about 23 crores as compared to 32 crores in H1 FY '19, PAT margin for H1 FY '20 stood at about 9.4%. Our debt position as on September 30, 2019, stood at 115 crores as against 114 crores ended March 31, 2019. That concludes my update on the financial performance and I would now like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditi Agarwal from AA Limited. Please go ahead.

Aditi Agarwal: My question is on your BFSI side, can you just give me what was the revenue contribution from your India and overseas business, and also if you can throw some light which main market would you cater in overseas market?

Paresh Zaveri To answer the second question first, our markets are essentially in India, Southeast Asia, and Africa, and in terms of our revenue for the period was about 152 crores.

Aditi Agarwal: My second question, if you can just as you said the overseas market, if you can share some light on, what are the market share you have in this market which are present?

Paresh Zaveri Honestly, Aditi, I mean in terms of overall market share, it is really very difficult to ascertain because the market is really, really huge and we are emerging players, so if you really see in terms of deals where we work with the customer, so in India we have pretty much all the large public and private sector banks who are our customers. In Middle East, we have the largest two banks, ADCB and ENBD as our customer. In Southeast Asian market, Singapore which is our major market, we have UOB and OCBC, which are two of the three largest banks, which is true for every market, so if you really bifurcate market in terms of our offering, which is in space of transaction banking and LOS systems right, we are pretty much a player to be reckoned with in this market.

Aditi Agarwal: As you said that your BFSI segment grew by 12% if I get that clearly, can you just tell me, I mean this growth has come from which market, it was largely driven by overseas market or was it Indian market that contributed this growth?

Paresh Zaveri Pretty much both I think, there is no degrowth in any market so in terms of percentage growth I think Indian market had a higher percentage growth.

Aditi Agarwal: You spoke about you have a very good potential or strong pipeline, so can you just give what kind of order book pipeline you have currently in place, are these orders coming from the

existing customer or you have new orders or just some project specific or something, you can just throw some light on that?

Paresh Zaveri Our business in general Aditi 75% is recurring business from our existing customers and 25% to 30% comes from the new deals, this is a long-term trend.

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

Rohan Shah: Sir, actually I have two questions on the banking side, how many customers are you presently catering to?

Paresh Zaveri We will have about it is 50 plus banks, Rohan.

Rohan Shah: Can you name some few key banks that you are catering to or are you catering to all?

Paresh Zaveri It is 50 plus banks, so let me start as I said in the earlier question, so in India our biggest customer would be SBI, Bank of Baroda, HDFC Bank, Kotak Bank, Axis Bank. Overseas, if I say Singapore, it is OCBC Bank, UOB Bank. In the Middle East (ADCB Bank) Abu Dhabi Commercial Bank, ENBD. If I say it is RHB Bank, Affin Bank, Vietinbank, top banks in Africa if I say Kenya Commercial Bank.

Rohan Shah: What would be the average ticket size?

Paresh Zaveri It varies, let us just say, we have revenue from the banking will be little over 300 crores and if you say 50, average will come to about say 6 crores per customer, but our biggest customers will be anywhere between 30 to 40 crores and smaller customers will be 3 crores.

Rohan Shah: On the BFSI revenue, are they in Dollar terms or in Rupee terms, I mean I just wanted to check what would be the Rupee terms?

Paresh Zaveri Dollar terms or basically the local currency terms.

Rohan Shah: Could help us with the growth in constant currency?

Paresh Zaveri Growth in constant currency, I do not have it in front of me, but if you connect with my team again I will probably be able to give you separately later.

Moderator: Thank you. The next question is from the line of Sumit Patel from Nia Software. Please go ahead.

Sumit Patel: I want to know about that Isla product, so how it is growing and what would be the next plan, how and many customers are actually right now in pipeline?

- Paresh Zaveri** As I said Isla basically we have a pipeline of 50 plus customers and we are launching version 5.0 which is going to be a game changing version. As all of you know, we have been investing in Isla for some time now, so last time I had mentioned that with the new version 4.0, we are now cloud compliant product and with version 5.0 it will be cloud as well as virtual appliance, with huge amount of scalability with our new micro-architecture, so the opportunity is great. The current pipeline is more than 50 customers and it will continue to grow aggressively. In terms of another thing that is positive is that market now is understanding isolation technology, which is true every quarter, so as this technology starts to become more mainstream, the opportunities for us are tremendous.
- Sumit Patel:** Till now how many customers we have in the 4.0 version?
- Paresh Zaveri** I think if you ask incremental customer, we have currently close to about 35 plus customers and it remains same. The key is now the new customers are much bigger ticket size.
- Sumit Patel:** So are those already announced on NSE or BSE, because I am not seeing anything regarding that Isla product I mean especially for the customers, deals or whatever that is assigned?
- Paresh Zaveri** One major deal that I had spoken in last call and I am talking now, basically because of the customer agreement this thing, we will announce it officially as soon as we are live with it, so we have already started, hopefully in very near future you will see the announcement.
- Sumit Patel:** Till now there is no live customer it means like if you are saying like....
- Paresh Zaveri** Basically, there are two things right for us to go to BSE, it has to be a significant deal size for me to go to send out the message to the BSE or NSE, so that is the deal that I am talking about.
- Sumit Patel:** What I understand like if you have that deal and customer in pipeline, already online, then you should have in NSE and BSE already announced, so I am not seeing anything that is the reason I just asked this question?
- Paresh Zaveri** I will leave that to him, but in general we make announcement when the customer gives us the approval, but as of now we have 35 customers live including Axis Bank in India and one more major financial customer is expected to go live probably again in a month or two, so there are enough live customers if that is what your concern is.
- Sumit Patel:** What would be the revenue in next phase or something especially from Isla I am talking about, expecting some kind of revenue?
- Paresh Zaveri** Yes, we are expecting good revenues, but if you really ask me, so I can tell you the pipeline currently, it is 50 plus customers and value of that pipeline will be probably well over North of \$ 20 million and as we start to close, you will start to hear more, I mean only thing I would like

to say is that with the newer version and better acceptance, we expect that the number of incremental closures, every quarter will continue to grow.

Sumit Patel: But the thing is like we have not seen anything on announcement on NSE and BSE, so how to like...?

Paresh Zaveri We will be making announcements at the right time, just have some more patience please.

Sumit Patel: One thing is like is there any mutual fund or like FII are you going to invest in this company or not, because I am not seeing any like foreign investor and mutual fund companies interested with this thing, as we know like this is the isolation solution and this is the next-generation of the cyber security, then business from other companies should be available to investors in these companies?

Paresh Zaveri My focus has to be on the business, we are listed in the market as anyone is, as far as Isla by itself is concerned, we have a very strong venture capital fund from the Silicon Valley who are the investors, so Isla by itself where we are working, we have very strong set of investors, so far as Indian markets are concerned, it is a market forces that we have to determine.

Sumit Patel: You mean to say like outside it is booming, for India it is a concern only?

Paresh Zaveri I do not want to talk about the market as to who can or cannot come right, so we are open to everyone who would be interested and we are meeting with individuals, we are meeting FII, so ultimately buying decision has to be made by them and we never try and look at that as an area, my focus is purely on business.

Paresh Zaveri I appreciate your concerns, but I mean you will appreciate also from my position right, that my focus has to be on business. We are focusing on our business, we are open and accessible to everyone. All our investor presentation, our calls, transcripts everything is there, we continue to meet investors from time to time that is also there on the BSE and NSE.

Sumit Patel: Isla is something like next-generation of cyber security then everyone is interested to invest in this company, but I am not seeing anything so that is the reason I thought let me ask you this question?

Paresh Zaveri I will go back to my position that on business, we are very, very bullish.

Moderator: Thank you. The next question is from the line of Srinath an Individual Investor. Please go ahead.

Srinath: Maybe it is kind of a follow up question on Isla, I am trying to understand there was mention of a multimillion dollar contract in previous call, is that still yet to happen or it is still under evaluation?

Paresh Zaveri This is what I mentioned earlier in the call Srinath, so we have already started the implementation and we have already invoiced the first phase of that project, pretty much on.

Srinath: I am also trying to understand the dynamics of this business, so it is a security business may be sticky and customers also test this and take it gradually, so I am trying to understand on an average, how much time a typical customer try to spend which you in terms of prototyping and so on before they actually go on to deploy?

Paresh Zaveri So are you talking about the time to take into close the deal, POC onwards?

Srinath: Exactly, yes.

Paresh Zaveri About six to nine months is the time period.

Srinath: So basically 50 or 35 customers you are saying, they will gradually mostly some of them may drop of but whoever comes along with Aurionpro, you may start seeing revenue after nine months once we start engaging?

Paresh Zaveri No, lot of them are already in pipeline, so we will start seeing revenue this quarter, next quarter onwards, but also keep in mind that Isla is a new technology, isolation is a new category of technology by itself, it was just about two years back and it was first time mentioned in Gartner and as I keep saying at every quarter the understanding of the technology and acceptance of the customer keeps increasing, so the example I would like to give is like antivirus software that was back in 90s, few and far between people had it, now everyone has it, so that is the kind of growth that one can expect from the isolation technology as well, so what will happen is that every quarter as more and more customers go live, the pipeline will start growing bigger as well as the sales cycle will keep getting shorter.

Srinath: I have confidence in the business basically, your VC stake in your firm if you can share that I am comfortable, so the only thing is that I just want to understand when derivatives actually start coming in?

Paresh Zaveri As I said this deal that I have been talking about is probably one of the biggest deals out there and actual number of users are going to be close to about 40,000 plus so in terms of size, scalability, and complexity. This is a huge, huge project and on successful completion of that the recognition and understanding of the products will be very, very different.

Srinath: My second question is of course banking question you are doing pretty decent so I do not have any question. On smart mobility or smart city side, so what do you think will be your future, are you going to focus more on metro kind of ticketing projects or do you see any other?

Paresh Zaveri As you know we do smart cities project, we do the mobility project, so as I remember last call I had discussed about our new product launches in Stockholm and as I again said earlier in the

call, we have got global attention, we are working on number of partnerships so we have just closed project as I said in Mexico, so that project is our newer product SCV 500 validators is going to be there and it is going to be implemented in first phase of the project, so they will probably go into 300 plus buses. Our project with Nigeria Railway is even more strategic because this was first time in Nigeria that they are automating the fare collection system and that will include just first phase of seven stations and our complete software platform and reservations.

Srinath: Any other Metro you are expecting in the near future in India or?

Paresh Zaveri We are expecting lot of Metros including probably one large Metro in Mumbai itself probably in the near future, as well as our pipeline is quite large, across India as well probably all major Metros that are going to come, we are talking to them. In fact some of the earlier deals that other people had won, they are talking to us, so post Noida Go Live we are pretty much the player to talk to.

Srinath: Can I say that smart city or smart mobility segment revenue kind of bottomed out and it may only move upwards from this?

Paresh Zaveri This will definitely move upward, see one of the reasons as I have again said earlier right that we had this unexpected slowdown was that due to general election, right some of the things went up and basically after the budget was presented in July 5th, it took some time for that and decision making had slowed down considerably, so we almost lost four to four-and-a-half months of six months' time before the market started to consolidate and then funds were available for the cities and bidding process to start, it has started and in fact you will see in the second quarter that in spite of negative 30% by end of the year, we would have gotten it back into the green.

Srinath: Last question Paresh, how you are going to see our debt level going forward and are there any plans...?

Paresh Zaveri Basically, now onwards we will be seeing one way downturn in debt. If you really see again over last one year, we had been again from strategic point of view, we are in investment mode even if you see in the first half, we have invested about 12 crores plus in SC Soft, in Isla we invested over 10 crores, in Nagpur we invested another 6 crores plus and of course buyback dividend we ended up with buyback of 10 crores, but now that most of the investment cycle is over, we plan to reduce the debt and I would expect that debt will start going on monthly basis by 3 to 5 crores.

Moderator: Thank you. The next question is from the line of Umesh Matkar from Sushil Finance. Please go ahead.

Umesh Matkar: Couple of questions, now what would be the current order book as of date?

Paresh Zaveri As of today, it is little over 350 crores.

Umesh Matkar: How do we see this order book going forward, do you see a pickup?

Paresh Zaveri We are expecting lot of orders in the second half, so probably by end of the year the order book should be up by at least by 50% to 100%.

Umesh Matkar: I just heard that you have been doing investments in Mumbai Metro and also you have done investment in... ?

Paresh Zaveri No, we are not doing any investment in Mumbai Metro.

Umesh Matkar: But you have done investment for Nigeria as well as Mexico?

Paresh Zaveri It is not an investment, it is an order win where we will provide our products and services and bill them for their revenue.

Umesh Matkar: So for this you do not see, it would be funded by internal accruals that is what I wanted to know?

Paresh Zaveri We are not making the investment, it is an order, so for example Mexico as I said, so for 300 plus buses we are providing our validator, the new product that we had launched, SCV 500 and the revenue is little over \$ 200,000 for that project in the first phase and the customer is opening the LC on us, we will provide them with validators and will collect our money.

Umesh Matkar: What would be the duration for these two projects of Nigeria and Mexico?

Paresh Zaveri Mexico will be I think probably next two or three months, we would have executed the project. Nigeria also probably first seven stations we should be able to finish it by March.

Umesh Matkar: These would be a long-term project?

Paresh Zaveri As I said, what happens is the Mexico City is the first project, they do not have only 300 buses they have thousands of buses. It is the first phase of the project in fact for that matter with our new validator we are talking to players in US, we are talking to some leading players in India, so there are hundreds of thousands of buses out there and as automated fare collection for buses and all starts to become more standard, we expect lot of business coming our way from there.

Umesh Matkar: Couple of balance sheet questions I have, you have other current assets of around 162 crores as on 1H of FY '20, this is bit on a higher side so what would this include?

Paresh Zaveri I do not have it in front of me, can you just connect with my team and they will give you the details.

- Umesh Matkar:** I went through your annual report, in that you have other current assets of 145 crores and out of 145, 109 was other receivables, so wanted to know what are these other receivables?
- Paresh Zaveri** Advance to supplier was the major amount and retention money was there, so advance to supplier was about 51 crores, retention money was 17 crores, and due to demerger there is a group company advances which is 74 crores.
- Umesh Matkar:** Now, you are saying that there is some pickup and you are seeing green shoots, so how will be the second half and FY '21 guidance that you can provide us?
- Paresh Zaveri** As I said earlier for the second half, we are looking at based on the current order book that is under execution that we should still have the growth for the year compared to the last year, so probably it will not be as high, but it will still be a single digit growth and as I have mentioned all across right that the changes that we have been making into our product line and our business to make it long-term scalable business that underlying theme is pretty much still there, so I would pretty much like to reaffirm that we are still as confident as we ever were that the scalability of business is very, very solid, we will be able to maintain the margin and keep focusing on generating cash.
- Moderator:** Thank you. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.
- Siddharth Oberoi:** I want to know what is the reason for this buyback closures so early?
- Paresh Zaveri** I mean closure was on the time, so what happened for the first half of the year, the EBIT that we generated was lower by about 15 to 20 crores compared to our expectations and as I mentioned earlier, we were also in the middle of the other investments as I said, we invested in the first half in SC Soft, in our US investment and in Nagpur, so including buyback and all in the first half investment was little over 45 crores of which Cyberinc investment was unplanned, so looking at overall scenario, it was a hard call but we felt that with reference to maintaining the debt level and looking to bring it down over a period of time as well as softness in the business as well as overall in the economy, it is better to be prudent.
- Siddharth Oberoi:** So basically at 150 you were aggressively buying and 84 you kind of closed it, so the message is like so you basically wanted to conserve cash and so you did that?
- Paresh Zaveri** When we closed it I think even till last price soar but did we lose it because that was the timeline, the timeline to buyback was six months and I think on the October 4th was the last date when we bought the share, so it was more of a compliance thing that was the last day of the buyback.
- Siddharth Oberoi:** This is regarding the balance sheet, so the intangible portions of the balance sheet is now to 70 crores, what does this constitute majorly?

- Paresh Zaveri** It is majorly because of the Isla because in US we have invested in Isla over all these years and keep investing, so that amounts to major, other than Isla our banking and Fintech is just about 70 crores.
- Siddharth Oberoi:** When you say you spent on Isla, what do you spend on, do you spend on salaries or what you spend?
- Paresh Zaveri** Salaries of the people, so development works from Phase 1 to Phase 2 if you really see the cumulative investment.
- Siddharth Oberoi:** My question is should this not be routed through the P&L?
- Paresh Zaveri** What will happen is because the product and market both were at the early stages, probably in next couple of quarters as the product becomes mature and we start probably from this quarter, we will start to have it routed it through P&L.
- Siddharth Oberoi:** The future expenses or even this will go through the P&L, you cannot take it out?
- Paresh Zaveri** I think as the product development gets over it will now start to get I think probably from the next year onwards, it should start to get into P&L.
- Siddharth Oberoi:** That would result in a loss probably if these revenues do not match?
- Paresh Zaveri** Considering the market is also starting, based on the current number I would wager that next year it should be a profitable business, but then we will let the future play out and if it is a loss, it is a loss in the sense it is a great product and it is a great market, but I think from next year onwards, it will get into operational mode.
- Siddharth Oberoi:** What are your expectations of this product that you have put in 200 crores in Isla?
- Paresh Zaveri** Earlier if you were on the call, I had more detailed answer on the customers and pipeline and the growth.
- Siddharth Oberoi:** Basically, what is the future plan of this, are you planning to monetize it, send it to a larger company and move out just like private equity?
- Paresh Zaveri** I mean whenever we get good deal yes, that is how the US businesses go, so eventually yes, but we never know when this kind of deals come through, till then we will continue to grow the business.
- Siddharth Oberoi:** What is the state now, Aurionpro own in Cyberinc?
- Paresh Zaveri** It is just a little about 62%.

- Siddharth Oberoi:** What happens if growth is below 50% then probably the consolidation goes away?
- Paresh Zaveri** It will go away, yes then it will become an associate.
- Siddharth Oberoi:** Eventually that may happen, what happens to this 200 crores that Aurionpro invested in Isla product?
- Paresh Zaveri** Keep in mind that the investment is also including the private equity investment, so 20 million plus money has come from the private equity investors as I said earlier from the silicon valley investors, but it gets reflected into the overall value of the business, so even as we said right that we had the funding that was done recently, again the private equity and outside investors there, so if you really look at that even at current price when business is yet to take off the value of Aurionpro holding will be little over 150 crores, so I am very confident that if business scales as we expect it to scale that value can go up substantially.
- Moderator:** Thank you. Ladies and Gentlemen, I now hand the conference over to Mr. Paresh Zaveri for closing comments.
- Paresh Zaveri:** Thank you all. As I said, we believe that second half of the year is going to be much stronger and we will outperform compared to what we did in the first half and again to reiterate I think in Isla we have a great opportunity in the business going ahead. Finally, I take this opportunity to thank each one of the stakeholders, particularly the shareholders, employees, and our customers for your continued support which is critical to building the next version of the Aurionpro. I hope we have been able to address the queries you had. For any further information, kindly get in touch with my team or Strategic Growth Advisors, our Investor Relationships advisors. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Aurionpro Solutions Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.