

# Management Discussion & Analysis

## Industry Structure and Developments (including Opportunities and Threats)

### Global Information Technology - Business Process Management (IT-BPM) Industry

Global IT services industry is currently going through a transition phase from traditional to digital technologies like cloud computing, data analytics, artificial intelligence and Internet of Things (IoT). These tools are helping accelerate innovation, boost agility and power organizations' digital transformation journeys. Rapid proliferation of digital technologies is compelling companies worldwide to seek solutions that enhance operational efficiency and customer experience.

According to Gartner, global IT services spending is expected to grow by 3.5% in 2019 to reach USD 1,016 billion from USD 982 billion in 2018. Worldwide IT spending is projected to total USD 3,790 billion in 2019, an increase of 1.1% from 2018. Higher spending on advanced technologies, demand for IT efficient infrastructure and adoption of integration and application software by organizations are supporting the growth of the market.

### Global Sourcing Market

Global sourcing market continues to grow at a faster pace with enterprises increasingly outsourcing their IT-related requirements to IT service providers. India continues to be the leading sourcing destination across the world with a 55% market share. Nearly 1,000 global delivery centers have been established in 80 countries across the world by Indian IT/ITeS companies.

### Indian IT-BPM Industry

India has emerged as the global hub for digital sourcing and IT solutions market with around 75% of global digital talent present in the country. Digital transformation is driving the industry and redefining the business landscape. With newer and modern technologies reshaping businesses, the sector is increasingly focusing on setting up Centers of Excellence, innovation hubs, upskilling talent and building platforms and products to create differentiated offerings.

India's IT-BPM industry stood at USD 181 billion in FY 2018-19, reflecting a growth of 8.3% from USD 167 billion in FY 2017-18. Demand for emerging technologies, namely Artificial Intelligence (AI), IoT, Blockchain, Robotics, Data Analytics and Business Intelligence continue to drive industry growth. Digital remained a key growth indicator, with revenue reaching USD 33 billion during the year. Exports from the industry

increased to USD 137 billion, while domestic revenues (including hardware) advanced to USD 44 billion.

While there is tremendous demand for IT-enabled services from global clients, in India, the factors that are leading to digital push include unprecedented access to internet, focus on skill development and ambitious government projects such as mobile banking, big-data analytics, Smart Cities, digital payments, demonetization, GST, Aadhaar Card, among others. Further, the country is the world's 3<sup>rd</sup> largest hub of startups, with the number of startups crossing 7,000 in 2018. The startup ecosystem has been embracing newer and advanced technologies to enhance efficiencies and performance. According to India Brand Equity Foundation (IBEF), the IT-BPM industry is estimated to reach USD 350 billion by 2025, with revenue from the digital segment expected to account for 38% of the industry revenue.

### Industry Outlook

The industry appears to be on the cusp of exponential growth with rising digitization and automation. Heightened tech-enabled innovation has resulted in economies, industry and companies becoming more digital, automated and connected. The IT services industry will continue to benefit from enterprises adopting customized and innovative technologies to improve performance and deliver a better customer experience. Further, government's strong thrust on digitization and growing digital transformation initiatives of enterprises will propel IT spending in India, leading to growth of technology services industry.

### Threats

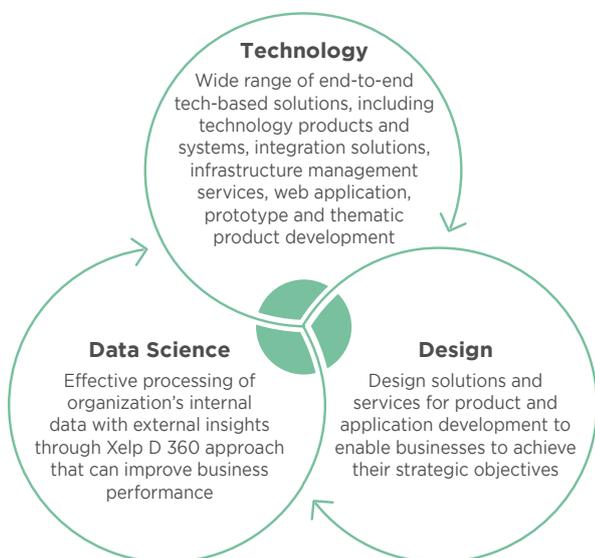
Rapid technological advances, changing delivery models and evolving standards in software development and communications infrastructure, changing and increasingly sophisticated customer needs and frequent new product introductions and enhancements characterise the industry in which we operate. Digitization is driving major changes in the global business software market, with IT leaders looking to adopt new technologies and software platforms to meet business needs, including revenue growth driven through new products and services, better customer experience and delivery mechanisms, and growth in revenue and profits. Our success depends upon our ability to anticipate, design, develop, test, market, license and support new software products, services, and enhancements of current products and services in response to evolving industry requirements.

If the markets for our services fail to develop, develop slower than expected or experience increased competition, our business may suffer. As a result, we may be unable to successfully market our existing services and products, develop and successfully launch new products and services and enhancements to existing products and services, complete customer implementations on a timely basis, or complete products and services currently under development.

### Company Overview

Xelpmoc Design and Tech Limited is engaged in providing end-to-end technology and data science solutions that solve the challenges of today as well as define the opportunities of tomorrow. Incorporated in 2015 in Bengaluru, India, the Company’s operations are spread across four states in India. It offers a comprehensive bouquet of customized technology solutions and services, including mobile and web application development, prototype development, thematic product development, data science and analytics assistance. The Company’s clientele encompasses early-stage start-ups, government enterprises and leading companies engaged in e-commerce, transportation and logistics, financial services, recruitment, social networking, among others.

Leveraging its deep domain expertise and outstanding execution capabilities, the Company enables organizations to transform their business and gain a competitive edge through its enabling solutions. It constantly strives to enhance its offerings with well-defined methodologies to capture the evolving market trends and fulfill the growing customer needs. The business of the Company spans across single segment Technology and Product Development, providing solutions and services in design, development, deployment, and Data Science enabled analytics.



### Key Strengths

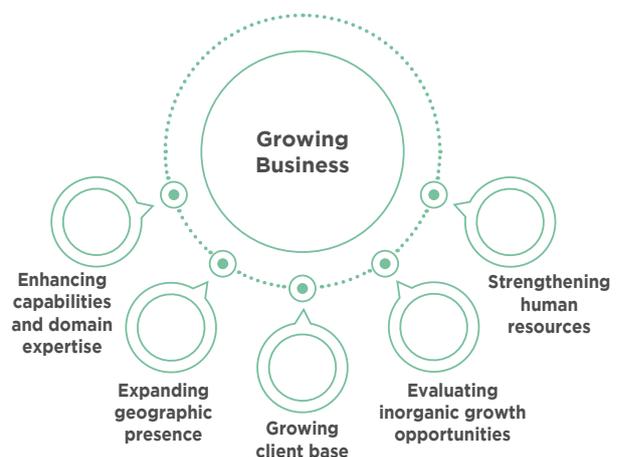
**End-to-end Offerings:** Ranging from comprehensive technology and data science solutions for established companies and government organizations to insightful offerings for supporting start-ups, the Company’s portfolio is designed to meet the requirements of its diverse clientele. Since inception, it has been on an unrelenting quest to broaden its products and services in line with the emerging technologies. The Company believes that its enhanced offerings will enable it to quickly respond to customer needs and stay ahead of the curve.

**Domain Expertise:** A highly experienced and expert management team provides the Company with the benefit of strong domain knowledge and understanding of its business. Additionally, the Company engages external experts as consultants, who assist in developing solutions driven by domain knowledge. This places the Company among the few technology service providers having access to domain experts and empowers it to service clients better.

**Structured Business:** The structured and service-oriented business model of the Company facilitates customers to access its integrated platform of service offerings, along with professionals within the verticals, regardless of the location of the project. The aim is to build long-standing relationships with clients by leveraging its sound expertise and multiple offerings. Further, the vertical structure of the Company is instrumental in promoting entrepreneurship among its employees.

### Growth Strategy

The Company’s rich domain knowledge and its ability to innovate and deliver unique solutions to customers gives it the necessary impetus to move forward proactively. It has adopted a well-framed multi-pronged strategy to capitalize on the market opportunities.



### Enhancing technological capabilities and domain expertise

Xelpmoc has built high level domain expertise and expanded its technological capabilities in artificial intelligence, data science and deep learning over the years. The Company aims to continue building capabilities both in technology and domain for strengthening its platform, enhancing offerings and gain credibility in the market.

### Expanding geographic presence

The Company plans to leverage its existing business model to foray into newer geographies beyond India to Middle East and North Africa (MENA), Australia, United States, Asia-Pacific and United Kingdom. It foresees significant opportunities for technology solutions in these markets and intends to tap the same. Additionally, it plans to expand its footprint across India by setting up offices in key markets to ensure greater access to clients. The aim is to emerge as an integrated enterprise-wide solutions provider from a services provider with higher market share and increased business.

### Growing client base

Presently, the Company caters to 28 clients across India and 4 overseas clients with majority of its revenue accruing from repeat business. It focuses on cross-selling and up-selling solutions to the existing client base to further grow operations. Going ahead, it aims to continue serving public sector enterprises and expand private sector clientele by monitoring private project databases.

### Evaluating inorganic opportunities

To further bolster offerings, expand customer base in newer verticals and drive synergies within existing business, the Company plans to evaluate inorganic ways of growth. It aims to enter into strategic long-term arrangements and technology alliances to provide customized and scalable solutions to niche and nascent companies to fulfill their requirements.

### Strengthening and supporting human resources

The Company is driven by its highly skilled and competent team. It continuously invests in building a culture of innovation and maintaining a transparent and friendly work environment to boost employee morale. Learning and development programs undertaken by the Company are aimed at upskilling the employees with transforming market trends and enabling them to grow their competencies.

### Operational Performance

At the end of FY 2018-19, FY 2017-18, and FY 2016-17, we had 28, 13, and 5 clients and 70, 64, and 50 employees respectively.

We operate development centres across Bengaluru and Kolkata, which form the backbone of our design and technology development.

We have witnessed a steady growth in revenue from operations. Our revenue from operations for FY 2018-19 is ₹ 60,886.95 (₹ in 1000s) as compared to ₹ 53,601.34 (₹ in 1000s) during FY 2017-18 and ₹ 18,838.00 (₹ in 1000s) during FY 2016-17.

## Financial Performance

(₹ in 1000s)

Particulars	Standalone			Consolidated		
	FY 2019	FY 2018	Increase/ (Decrease) %	FY 2019	FY 2018	Increase/ (Decrease) %
Net sales	60,886.95	53,601.34	13.6	60,886.95	53,601.34	13.6
Other income	2,059.71	610.04	237.6	2,059.71	610.04	237.6
Finance cost	12.38	34.94	-64.6	12.38	34.94	-64.6
Profit before tax	-49,986.22	-35,262.55	-41.8	-50,425.78	-34,931.37	-44.4
Profit after tax	-49,399.03	-36,021.94	-37.1	-49,838.59	-35,690.76	-39.6
EPS - Basic (in ₹)	-4.59	-4.01	-14.5	-4.63	-3.97	-16.6
EPS - Diluted (in ₹)	-4.59	-4.01	-14.5	-4.63	-3.97	-16.6

## Key financial ratios

Particulars	₹ in 1000s)	
	FY 2019	FY 2018
Operating Profit Margin (%) <sup>1</sup>	-81.8	-65.5
Net Profit Margin (%) <sup>2</sup>	-81.9	-66.6
Interest coverage ratio <sup>3</sup>	NA	NA
Debtors turnover days <sup>4</sup>	57.2	141.8
Current ratio <sup>5</sup>	8.3	3.4
Debt equity ratio (%) <sup>6</sup>	0.8	NA
Return on net worth (%) <sup>7</sup>	-12.3	-18.8

1. Decrease in Operating Profit Margin is due to increase in employee and technical consultancy costs.
2. Decrease in Net Profit Margin is due to increase in employee and technical consultancy costs.
3. Company has availed interest free unsecured loans from the Directors. Accordingly, Interest coverage ratio is not applicable.
4. Decrease in Debtors turnover days is due to accelerated realisation of trade receivables.
5. Increase in current ratio is on account of higher cash balances on account of deployment of unutilised IPO funds in short term liquid investments and fixed deposits.
6. There are no borrowings as at the end of FY 2018. Accordingly, debt equity ratio is not applicable for FY 2018.
7. Return on net worth is impacted in FY 2019 due to increase in capital employed on account of IPO.

## Risk Management

The Board of Directors reviews the Company's business risks and formulates strategies to mitigate those risks. The Senior Management team, led by the Managing Director, is responsible to proactively manage risks with appropriate mitigation measures and implementation thereof.

Below are some of the key risks and concerns in our business:

### Market Risk

Volatility in domestic as well as global economic environment, political uncertainties and changes in government policies may affect the technology industry. Slowdown in the industry may adversely impact the Company's operations. To mitigate the market-specific risks, the Company aims to expand its presence and client base across multiple geographies and industries.

### Competition Risk

The Company operates in a highly competitive industry where the number of players is increasing rapidly. To stay ahead of competition, companies need to incorporate new technologies and create enriching applications for customers. Strong domain expertise, innovative technological capabilities and powerful customer-focused solutions characterize the operations of the Company, enabling it to outlast competition.

### Technology Risk

With rapid technological advances, evolving business models and newer software and product introductions, organizations will be required to embrace futuristic technologies to drive efficiencies. The success of a technology service company will depend on its ability to develop impactful solutions for its customers. To combat this risk, the Company focuses on enhancing its services and offerings in response to evolving industry requirements.

### Talent Risk

Workforce shortage may pose a big challenge for the technology industry. At Xelpmoc, human capital is the most important asset of the Company. Recognizing its crucial role in driving success, the Company strives to foster a conducive and inclusive environment in addition to providing employee benefits. It encourages a culture of innovation and entrepreneurship within the organization and undertakes trainings and programs for growth of employees.

### Human Resources

Xelpmoc believes that people excellence is a strong enabler of business growth. For this reason, the Company is committed to creating an ecosystem that encourages overall growth of employees along with fulfillment of organization's objectives. Numerous learning and development activities are conducted that enable the employees to gain the required skills

and knowledge. The HR policy of the Company is aimed at recruiting, attracting, training and retaining the right set of talent to ensure best-in-class performance. Steadfast focus is given on nurturing a culture of diversity, inclusion, innovation, care and respect. In addition to this, the Company strives to infuse enthusiasm among its personnel and keep them motivated through employee engagement activities and competitive benefits. As on 31<sup>st</sup> March 2019, the Company had a total of 70 employees.

### Internal Controls

We have put in place internal control systems and a structured internal audit process vested with the task of safeguarding the assets of the organisation and ensuring reliability and accuracy of the accounting and other operational data. We have appointed a Chartered Accountant firm to carry out and conduct the internal audit. The external Chartered Accountant firm reports to the Audit Committee of the Board of Directors.

Similarly, we maintain a system of monthly review of the business as a key operational control wherein the performance of units is reviewed and corrective

action is initiated. We also have in place a capital expenditure control system for authorising spend on new assets and projects. Accountability is established for implementing the projects on time and within the approved budget.

The Audit Committee and the Top Management are regularly apprised of the internal audit findings and regular updates are provided to the Top Management of the action taken on the internal audit reports. The Audit Committee reviews the quarterly, half yearly and the annual financial statements of the Company. A detailed note on the functioning of the Audit Committee and of the other Committees of the Board forms part of the section on corporate governance in the Annual Report.

During the year, we carried out a detailed review of internal financial controls. The findings were satisfactory and suggestions for improvement have been taken up for implementation. Policy guidelines and Standard Operating Procedures (SOPs) continue to be updated where required to keep pace with business requirements.