

Retail Equity Research

KPIT Technologies Ltd.

IT - Automobile

BSE CODE : 542651

NSE CODE: KPITTECH

BLOOMBERG CODE: KPITTECH:IN SENSEX: 81,741

BUY

12 Months Investment Period

Rating as per Mid Cap

CMP Rs.1,841 TARGET Rs.2,216 RETURN 20% ↑

(Closing: 31-07-2024)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Long term positive outlook...

KPIT Technologies Ltd., a digital transformation consulting & software integration company, provides cutting edge engineering solutions to more than 150 companies & enterprises in the field of CASE mobility.

- Q1FY25 revenue came in at 30% YoY, driven by middleware architecture consulting and software integration from the top strategic clients.
- EBITDA margin improved by 102bps driven by strong volume growth and favourable currency mix. We expect the margin to stabilize at 20-21% owing to investments in technology & talent.
- The growth in the mobility & autonomous space is a priority for customers and KPIT continues to hold strong domain expertise by adding more capabilities through JV and acquisition.
- We expect revenue and PAT CAGR to grow by 26% and 40% over FY24-FY26E respectively, on the back of deal wins, pricing benefits and expansion.
- We value KPIT at 55x FY26E EPS and maintain Buy rating at CMP.

Strong player in the high entry barrier segment

Q1FY25 revenue grew by 24% YoY and 3.6% QoQ. (Sequentially, 4.7% constant currency). The company reported dollar revenue of 3.7% QoQ (23.1% YoY), led by Middleware architecture consulting and software integration from the top strategic accounts. Segment wise passenger vehicles grew by 5.2% QoQ, contributing largely by Asia and Europe. Both the region grew by 13.2% and 3.3% respectively. While CV marginally grew by 0.4% QoQ. EBITDA margin expanded by 102bps YoY owing to strong volume growth and favourable currency mix. PAT grew by 52.4% YoY due to increase in other income. The company added a TCV (Total contract value) of \$202M. In addition, the yearly growth outlook was revised to 24% through organic growth and overall growth to +33%, with a margin estimate of 19 to 20% range. However, it needs to win one mega deal every year to maintain the sustainability of 20%+ growth, which needs to be watched given the valuation burden.

Readiness to meet the needs of the EV- clients

The company derives most of its revenue from the Passenger vehicle segment through its innovative technology, long-term relationships with T25 clients throughout the product cycle. Automotive manufacturers are prioritising investment in new-age technologies and partnering with reliable partners. The company is also focussing on the US market to expand its capability in the commercial vehicle segment. Currently the segment contributes 16.8% respectively. Hence, the KPIT has engaged with ZF to form a 50-50 JV to establish Qorix GmbH to facilitate middleware architecture for commercial vehicles KPIT is at the forefront of these due to its strong domain expertise, integrity, problem-solving skills, and reliability for outsourcing. Despite weak global macros, engineering spend by OEMs has gone up by 10%, especially in the CASE (Connected Autonomous Shared and Electric) area, where it has gone up by ~20%. Over the years, the company has invested heavily in technologies to maintain its leadership position in this area and improved the deal size from \$50 to \$200 million. The company is well positioned to increase its focus on electric vehicles, especially in the US and Europe, with a top client concentration of T25 globally.

Margin to remain resilient.

KPIT has improved its margin in FY24 and currently it is at 20.3% with an expansion of 150bps. This trend is likely to stabilize and continue for a sustainable period. Company is also strengthening its presence in China where it is getting unique products and technologies to Chinese OEMs. Company is investing in and launching formal leadership development programs for next 12-18 months to focus on multiple initiatives at the same time.

Valuation

Despite the industry becoming more cautious about spending, KPIT has not seen any deal rollover from its top clients in the near term. However, it is expected that the growth will be reasonable for H2 due to the offshore shift. Given the strong deal win and superior execution capability, we value KPIT at 55x FY26E with a target price of Rs.2,216 and recommend Buy rating.

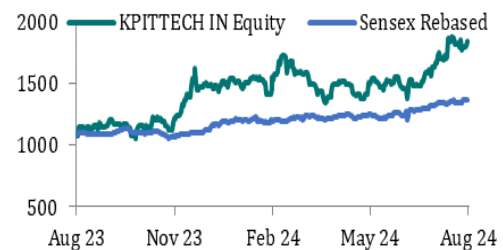
Company Data

Market Cap (Rs.cr)	51,262
Enterprise Value (Rs.cr)	50,851
Outstanding Shares (cr)	27.4
Free Float	61%
Dividend Yield	0.3%
52 week high Rs.	1,929
52 week low Rs.	1,039
6m average volume (cr)	0.13
Beta	1.2
Face value Rs.	10

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	39.5	39.5	39.5
FII's	26.5	24.0	22.2
MFs/Insti	11.6	14.0	16.5
Public	22.5	22.6	21.8
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.6%	18.6%	70.1%
Absolute Sensex	11.0%	13.8%	24.7%
Relative Return*	10.6%	4.8%	45.4%

***over or under performance to benchmark index**



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	4,872	6,248	7,714
Growth (%)	44.8	28.3	23.5
EBITDA	991	1,281	1,635
EBITDA Margin (%)	20.3	20.5	21.2
Adj. PAT	595	835	1,104
Growth (%)	56.7	43.1	32.2
Adj. EPS	21.7	30.5	40.3
Growth (%)	56.7	43.1	32.2
P/E	86.4	61.6	46.6
P/B	24.0	17.8	13.1
EV/EBITDA	51.5	38.6	28.8
ROE (%)	31.3	33.9	34.0
D/E	0.2	0.1	0.1

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr.)	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Sales	1,365	1,098	24.3	1,318	3.6
EBITDA	287	220	30.7	272	5.6
EBITDA margins (%)	21.1	20.0	102bps	20.7	40bps
Depreciation	53	45	16.6	53	-0.4
EBIT	235	175	34.3	220	7.0
Interest	13	20	-35.83	12	7.98
Other Income	54	22	153.1	17	227.38
Exceptional Items	-	-	0.0	-	0.0
PBT	277	177	56.6	224	23.3
Tax	73	42	71.9	59	23.9
Share of profit from associates	-	-	-	-	-
Minority interest	-	0	0.0	2	0.0
Reported PAT	204	134	52.4	164	24.2
Adjustments	-	-	0.0	-	0.0
Adj PAT	204	134	52.4	164	24.2
No. of Shares	27	27	-	27	-
Adj EPS (Rs)	7.4	4.9	52.4	6.0	24.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	6,034	7,141	6,248	7,714	3.6	8.0
EBITDA	1,219	1,471	1,281	1,635	5.1	11.2
Margins (%)	20.2	20.6	20.5	21.2	30bps	60bps
Adj. PAT	801	999	835	1,104	4.3	10.5
EPS	29.2	36.4	30.5	40.3	4.4	10.7

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	2,432	3,365	4,872	6,248	7,714
% change	19.5	38.3	44.8	28.3	23.5
EBITDA	427	632	991	1,281	1,635
% change	17.6	18.8	20.3	20.5	21.2
Depreciation	120	146	196	211	229
EBIT	308	486	795	1,070	1,407
Interest	19	32	55	76	83
Other Income	45	40	60	125	154
PBT	344	497	800	1,119	1,478
% change	93.9	43.6	62.0	42.4	32.1
Tax	68	110	202	280	369
Tax Rate (%)	19.8	22.2	25.0	25.0	25.0
Reported PAT	274	381	595	835	1,104
Adj*	112.9	6.7	0.0	0.0	0.0
Adj PAT	263	380	595	835	1,104
% change	86.0	44.5	56.7	43.1	32.2
No. of shares (cr)	27	27	27	27	27
Adj EPS (Rs.)	10.0	13.9	21.7	30.5	40.3
% change	86	44	57	43	32
DPS (Rs.)	2.7	3.3	3.9	3.9	3.9
CEPS (Rs.)	14	19	29	38	49

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	464	643	997	1,330	1,706
Non-cash adj.	-7	45	59	80	87
Other Adjustments	-89	-99	-202	-280	-369
Changes in W.C	87	-177	-390	30	-3
C.F. Operation	475	418	464	1,177	1,421
Capital exp.	-587	-1,242	-303	-210	-215
Change in inv.	0	0	21	0	0
Other invest.CF	308	1084	0	0	0
C.F - Investment	-279	-158	-303	-210	-215
Issue of equity	3	-21	0	0	0
Issue/repay debt	-235	-177	-55	-76	-83
Dividends paid	-74	-89	-112	-112	-112
Other finance.CF	183	106	0	0	0
C.F - Finance	-127	-183	-107	-133	-140
Chg. in cash	69	77	55	829	1,099
Closing cash	356	419	510	1,340	2,439

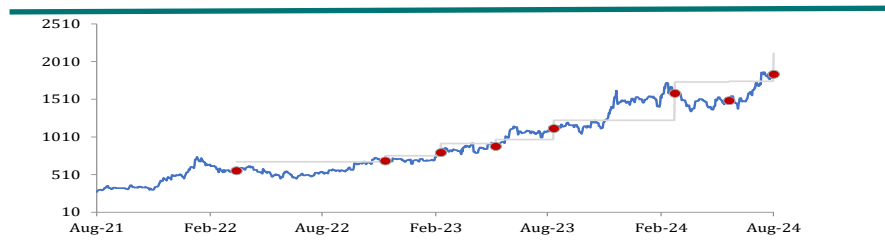
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	893	549	510	1,340	2,439
Accounts Receivable	391	621	801	993	1,226
Inventories	0	59	0	0	0
Other Cur. Assets	143	265	374	479	592
Investments	129	64	247	317	391
Gross Fixed Assets	682	795	935	1,074	1,214
Net Fixed Assets	444	474	418	346	257
CWIP	0	33	12	12	12
Intangible Assets	458	3,014	3,013	3,014	3,015
Def. Tax (Net)	35.4	37.1	53.4	68.5	84.5
Other Assets	1,293	1,202	1,375	1,763	2,177
Total Assets	2,362	3,433	3,763	4,976	6,540
Current Liabilities	687	1,100	1,108	1,474	1,846
Provisions	25.4	37.6	26.7	34.2	42.3
Debt Funds	227	286	346	401	456
Other Liabilities	113.9	357.3	143.3	166.4	190.8
Equity Capital	274	274	274	274	274
Reserves & Surplus	1040	1381	1869	2613	3668
Shareholder's Fund	1,310	1,652	2,139	2,884	3,938
Total Liabilities	2,362	3,433	3,763	4,976	6,540
BVPS (Rs.)	47	53	71	98	136

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	17.6	18.8	20.3	20.5	21.2
EBIT margin (%)	12.6	14.5	16.3	17.1	18.2
Net profit mgn.(%)	10.8	11.3	12.2	13.4	14.3
ROE (%)	20.8	25.6	31.3	33.9	34.0
ROCE (%)	15.2	18.4	22.0	24.1	24.3
W.C & Liquidity	0.0	0.0	0.0	0.0	0.0
Receivables (days)	54.7	54.9	53.3	52.4	52.5
Inventory (days)	0.0	3.2	2.2	0.0	0.0
Payables (days)	31.3	26.1	23.4	25.2	27.5
Current ratio (x)	2.1	1.3	1.5	1.8	2.2
Quick ratio (x)	1.8	1.0	1.0	1.4	1.7
Turnover & Leverage	0	0	0	0	0
Gross asset T.O (x)	3.7	4.6	5.6	6.2	6.7
Total asset T.O (x)	1.1	1.2	1.4	1.5	1.4
Int. coverage ratio (x)	15.9	15.1	14.5	14.1	16.9
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	20.8	15.2	10.5	7.9	6.1
EV/EBITDA (x)	118.6	80.8	51.5	38.6	28.8
P/E (x)	195.7	135.5	86.4	61.6	46.6
P/BV (x)	39.2	31.1	24.0	17.8	13.1

Recommendation Summary (Last 3year.)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
15.03.2022	Buy	680
11.11.2022	Accumulate	760
09.02.2023	Accumulate	923
09.05.2023	Hold	976
11.08.2023	Hold	1,231
23.02.2024	Accumulate	1,740
22.05.2024	Buy	1,821
01.08.2024	Buy	2,216

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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