

KPIT Technologies Ltd | BUY



On a roll

KPIT's healthy top-line growth in 3QFY24 (+4.3% cc QoQ vs JMFe: 2.7%) defied subdued performance/commentary by peers recently. Growth was led by T-25 strategic clients (+5.5% JMFe). Even the deal bookings for the quarter (USD 189mn TCV) came entirely from these strategic accounts. As we argued in our recent initiation ([Charged up for a long-range](#), 8 Jan 2024), KPIT is pursuing a middleware-led land and expand strategy to grow. 3Q results - growth and bookings - suggest the strategy continues to yield result. With just couple of these accounts above USD 100mn ARR currently, we see significant growth headroom in the existing accounts. It also continues to add new logos, augmenting its mining efforts. That lends support to the medium term growth outlook. c.USD 960mn LTM deal TCV (book-to-bill: 1.7x), on the other hand, provides visibility to the near-term growth. Consistent improvement in EBITDA margin (236bps YoY), despite onsite-centric acquisitions, indicate KPIT has been able to integrate these well. Higher entry barriers in ER&D and KPIT's head-start should allow KPIT to maintain its growth momentum, sustaining its earnings trajectory and hence valuations. Our FY24-26E EPS are up 1-3%. We continue to value the stock at 60x 24-M forward EPS (2x PEG). Maintain BUY with a revised TP of INR 1,860 (from INR 1,830).

- 3QFY24 – beats expectations:** KPIT reported 4.3% cc QoQ growth, ahead of JMFe: 2.7%. Growth was led by APAC (+4.4% QoQ USD) and EU (+3.4% QoQ) while US growth was muted (+0.9%). Among verticals, passenger cars drove the growth (6%) while commercial vehicles dragged (-11%). However, the company indicated that they continue to focus on CVs (Trucks and Off-highways). EBIT margin expanded by 56bps QoQ to 20.6%, ahead of expectations. PAT came in at INR 1.6bn, up 11% QoQ. Net cash balance improved by c.60% QoQ to INR 8.3bn. Company declared INR 2.1 div/share.
- Deal wins and outlook:** The company reported USD 189bn TCV of deal wins (book-to-bill of 1.3x). Deal wins came from existing diamond and platinum accounts, where KPIT's win rates are higher. The company indicated a healthy growth in pipeline too. The company is engaged with three new logos and expect at least couple of them to convert into long term engagements. The company also sounded far more sanguine compared to other peers around US growth outlook. Also, it has started to explore Chinese OEMs given the rising ER&D spend and market share of new-age Chinese EV players. In terms of guidance, while the company did not change its FY24 revenue/EBITDA margin guidance (37%/+20%), management indicated that they will easily exceed both of them
- Limited changes to estimate; Maintain BUY:** A higher than expected cross-currency headwind in 3Q resulted in minimal changes to our FY24-26E USD revenues, despite a strong 3Q beat. We have also largely maintained our margin assumptions driving 1-3% increase in FY24-26E EPS. However, robust performance in a seasonally weak quarter makes our FY25E USD revenue growth (18%) more achievable (4.5% CQGR). Consistency in performance, a long growth run-way and a clear head-start are strong reasons for its valuation to sustain. c.6% fall in the stock in past one-week should, in our view, be used to accumulate the stock. We maintain BUY with INR 1,860 TP.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	1,860
Upside/(Downside)	27.6%
Previous Price Target	1,830
Change	1.6%

Key Data – KPITTECH IN

Current Market Price	INR1,457
Market cap (bn)	INR399.5/US\$4.8
Free Float	57%
Shares in issue (mn)	270.8
Diluted share (mn)	270.9
3-mon avg daily val (mn)	INR2,197.7/US\$26.4
52-week range	1,640/688
Sensex/Nifty	71,140/21,522
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-3.7	36.0	105.4
Relative*	-2.3	26.5	71.8

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	24,324	33,650	48,293	57,081	66,618
Sales Growth (%)	19.5	38.3	43.5	18.2	16.7
EBITDA	4,385	6,204	9,704	11,476	13,625
EBITDA Margin (%)	18.0	18.4	20.1	20.1	20.5
Adjusted Net Profit	2,742	3,810	5,940	7,244	8,637
Diluted EPS (INR)	10.2	14.1	21.9	26.7	31.9
Diluted EPS Growth (%)	85.6	38.9	55.5	22.0	19.2
ROIC (%)	54.0	48.6	46.9	42.4	40.8
ROE (%)	21.8	25.7	31.4	30.3	29.3
P/E (x)	143.5	103.3	66.4	54.5	45.7
P/B (x)	30.4	24.1	18.7	15.0	12.3
EV/EBITDA (x)	88.0	62.7	40.0	33.7	28.2
Dividend Yield (%)	0.0	0.3	0.3	0.5	0.7

Source: Company data, JM Financial. Note: Valuations as of 30/Jan/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Key Highlights from the call

- Outlook:** Company maintained its earlier guidance of 37% Revenue growth and remains confident of achieving it. The company is in conversation with a few clients and expects to turn into significant engagement in the near future. KPIT has not observed any changes in spending on electrification programs by OEM's despite the slowdown in EV sales volume. Per management company's projects are generally long-term, and changes in production or volume do not significantly impact KPIT. The company has observed increased proactiveness from commercial vehicle manufacturers in embracing electrification and alternate energy programs compared to last year.
- Demand:** Per management deal pipeline remains strong. The majority of the growth is attributed to diamond and platinum accounts, contributing to a higher win ratio. Company expects new clients to contribute materially to growth in coming quarters. One or two of these newer clients are expected to transition into long-term engagements.
- Supply:** Net headcount increased by 756 during the quarter, which includes fresher as well as laterals.
- Sodium ion battery:** Company has unveiled technology for sodium-ion battery as an alternative to current batteries. The sodium-ion battery technology holds the potential to reduce dependency on imported core battery materials. The technology has undergone validation at a lab-plus level. Per management next phase involves significant investment, and KPIT is exploring potential business models, looking for partners as it doesn't engage in manufacturing. While the monetization model for this is still uncertain, the initiative enables KPIT to collaborate with various OEMs.
- Cost Pressure from Chinese OEMs:** The European market is facing challenges due to increased competition from Chinese vehicles gaining market share. KPIT's focus is on a holistic approach, starting with a re-evaluation of architecture and delivering new, highly competitive vehicles to the market. **U.S:** Geopolitical issues and a 20% tariff create barriers, dissuading Chinese OEMs from viewing the U.S. as a viable market. **Asia:** Chinese automotive OEMs have expanded their footprint in most significant markets across Asia. KPIT is actively exploring opportunities to learn from Chinese OEMs and leverage those insights to assist global OEMs in becoming more competitive.

Exhibit 1. 3QFY24 Result Summary

			Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)	Estimate (Consensus)	Variance (vs. consensus)	QoQ estimate	
	3Q24 A	2Q24 A						JMFe	Consensus
USD-INR	84.36	82.59	2.1%	83.29	1.3%	84.36	0.0%	0.9%	2.1%
Revenue (USD mn)	149	145	2.6%	148	1.0%	147	1.1%	1.6%	1.5%
QoQ cc			4.3%						
Revenue (INR mn)	12,570	11,992	4.8%	12,286	2.3%	12,432	1.1%	2.5%	3.7%
EBIT (INR mn)	2,085	1,918	8.7%	1,915	8.9%	2,022	3.1%	-0.2%	5.4%
EBIT margin	16.6%	16.0%	59bp	15.6%	100bp	16.3%	32bp	-41bp	27bp
PAT (INR mn)	1,568	1,414	10.9%	1,464	7.1%	1,494	5.0%	3.5%	5.7%
EPS (INR)	5.70	31.0	-81.6%	5.20	9.6%	5.50	3.6%	-83.2%	-82.3%

Source: Company, JM Financial

3QFY24 result review

Exhibit 2. Key Financials

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Revenue (USD mn)	89.9	94.2	110.5	123.8	133.9	145.2	149.0
QoQ cc growth	6.0%	8.3%	19.3%	8.5%	7.1%	9.0%	4.3%
Revenue (INR mn)	6,857	7,448	9,171	10,174	10,976	11,992	12,570
Employee benefit expenses	4,528	4,964	5,652	6,409	7,135	7,753	7,904
Other operating expenses	997	1,104	1,850	1,942	1,702	1,839	2,081
EBITDA	1,332	1,380	1,669	1,823	2,139	2,399	2,585
EBITDA Margin	19.4%	18.5%	18.2%	17.9%	19.5%	20.0%	20.6%
D&A expenses	310.2	327.4	404.1	422.1	450.4	480.9	499.6
EBIT	1,022	1,052	1,265	1,401	1,688	1,918	2,085
EBIT Margin	14.9%	14.1%	13.8%	13.8%	15.4%	16.0%	16.6%
Other income (Net)	99	39	129	-39	78	-41	30
Profit Before Tax	1,121	1,091	1,394	1,362	1,766	1,877	2,116
Income tax expense	244	256	353	246	422	463	548
Net income from operations	877	836	1,041	1,116	1,344	1,414	1,568
EPS	2.70	2.73	3.54	3.42	4.91	5.16	5.69
Growth	5.3%	0.9%	29.8%	-3.3%	43.4%	5.1%	10.3%

Source: Company, JM Financial

Revenue growth led by APAC (+4.4% QoQ USD) and EU (+3.4% QoQ)

Margin expanded 60bps sequentially aided by operational efficiencies and favourable currency movement

Exhibit 3. Key Operating Metrics

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Revenue mix							
By geography - (USD mn)							
USA	35.0	34.8	35.4	44.7	44.9	44.2	44.6
Europe	35.9	41.1	57.0	61.4	68.1	76.4	78.8
Rest of World	19.0	18.2	18.1	17.7	21.0	24.7	25.8
By verticals - (USD mn)							
Passenger cars	67.0	69.3	86.0	92.1	100.5	110.1	116.9
Commercial vehicles	22.4	23.8	23.5	30.8	28.8	29.1	25.9
By Practices - (USD mn)							
Feature Development & Integration	61.64	64.86	71.53	76.21	82.14	89.72	93.11
Architecture & Middleware Consulting	12.83	12.04	18.07	23.83	28.03	29.40	27.61
Cloud Based connected services	15.41	17.26	20.85	23.75	23.77	26.08	28.42
Employee Metrics							
Revenue per development employee (USD)	41,951	40,569	45,105	48,092	49,439	51,773	49,926
Employee							
Development	8,570	9,284	9,795	10,297	10,837	11,219	11,949
Enabling & Sales	613	632	695	716	734	752	778
Total	9,183	9,916	10,490	11,013	11,571	11,971	12,727

Source: Company, JM Financial

Maintain BUY, Revised TP of INR 1,860

We raise our Revenue and margin estimates by 0.5% and 40bps respectively to factor in Q3 actuals. A higher than expected cross-currency headwind in 3Q resulted in minimal changes to our FY24-26E USD revenues, despite a strong 3Q beat. This translates into 0.6% to 2.9% changes to our EPS estimates. We continue to value KPIT Tech at 60x, maintain BUY with a revised TP of INR 1,860.

Exhibit 4. What has changed

	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Exchange rate (INR/USD)	82.76	83.20	83.20	83.03	83.20	83.20	0.3%	0.0%	0.0%
Consolidated revenue (USD mn)	578	685	801	581	686	801	0.5%	0.2%	-0.1%
Growth in USD revenues (YoY)	38.3%	18.3%	17.1%	39.0%	18.0%	16.7%	70bp	-33bp	-36bp
Consolidated revenue (INR mn)	47,891	56,952	66,673	48,293	57,081	66,618	0.8%	0.2%	-0.1%
EBITDA margin	19.7%	20.1%	20.4%	20.1%	20.1%	20.5%	40bp	-1bp	10bp
EBIT margin	15.8%	16.2%	16.6%	16.2%	16.2%	16.6%	34bp	-3bp	7bp
Adjusted PAT (INR mn)	5,775	7,122	8,583	5,940	7,244	8,637	2.9%	1.7%	0.6%
Adjusted EPS (INR)	21.3	26.3	31.7	21.9	26.7	31.9	2.9%	1.7%	0.6%

Source: JM Financial estimates

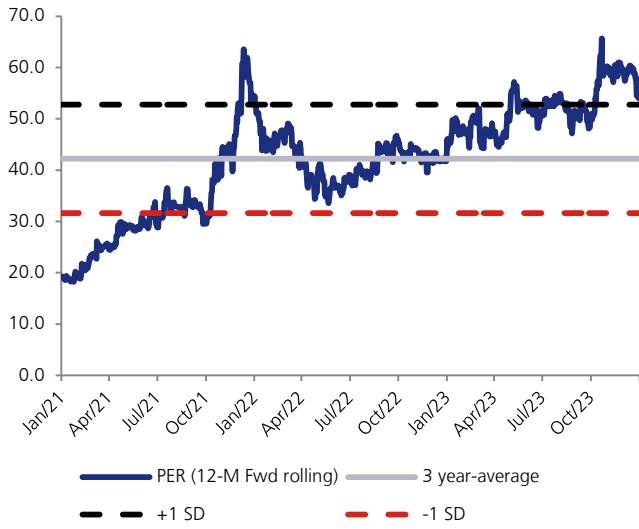
Valuation Table

Exhibit 5. ERD – Valuation Comp

Company	CMP (LC)	Mcap (USD m)	P/E			PEG	EV/EBITDA			EV/Sales		
			FY24	FY25	FY26		FY24	FY25	FY26	FY24	FY25	FY26
India												
KPIT*	1,457	4,807	66.5x	54.5x	45.7x	2.6x	40.7x	34.4x	29.0x	8.2x	6.9x	5.9x
Tata Tech*	1,121	5,471	64.8x	55.6x	48.0x	3.4x	47.3x	40.0x	34.1x	8.7x	7.7x	6.7x
L&T TS	7,595	5,691	58.8x	50.1x	42.0x	2.7x	43.3x	36.8x	31.1x	12.9x	11.0x	9.3x
Cyient	5,475	6,966	44.4x	38.3x	33.0x	2.4x	28.9x	23.7x	20.5x	5.8x	5.1x	4.4x
Tata Elxsi	2,032	2,709	30.3x	24.8x	20.9x	1.2x	17.2x	14.9x	13.0x	3.2x	2.8x	2.4x
Average			53.0x	44.7x	37.9x		35.5x	30.0x	25.5x	7.7x	6.7x	5.8x
Global												
Alten	144	61	18.4x	16.1x	14.7x	1.4x	11.2x	10.2x	9.3x	1.2x	1.2x	1.1x
Bertrandt	50	6	11.0x	8.2x	7.3x	0.4x	5.5x	4.8x	4.5x	0.6x	0.5x	0.5x
EDAG	13	4	10.5x	9.4x	8.4x	0.8x	6.1x	5.6x	5.2x	0.7x	0.7x	0.6x
Desay SV	90	598	33.4x	24.1x	18.1x	0.7x	29.2x	20.8x	15.8x	2.5x	2.0x	1.6x
Etteplan	14	4	16.5x	14.2x	12.7x	1.0x	9.3x	8.2x	7.8x	1.2x	1.1x	1.1x
Assytem	52	10	18.8x	15.7x	14.8x	1.3x	14.8x	13.3x	12.1x	1.3x	1.2x	1.2x
Ricardo	435	3	12.4x	10.7x	9.1x	0.6x	6.5x	6.0x	5.4x	0.8x	0.7x	0.7x
Thundersoft	53	293	30.0x	23.0x	17.2x	0.7x	22.3x	17.0x	12.9x	3.4x	2.7x	2.1x
Arcsoft	29	141	81.8x	49.7x	32.8x	0.9x	57.0x	31.2x	20.0x	14.1x	10.5x	7.4x
Average			24.6x	18.3x	14.5x		16.8x	12.3x	9.8x	2.6x	2.1x	1.7x

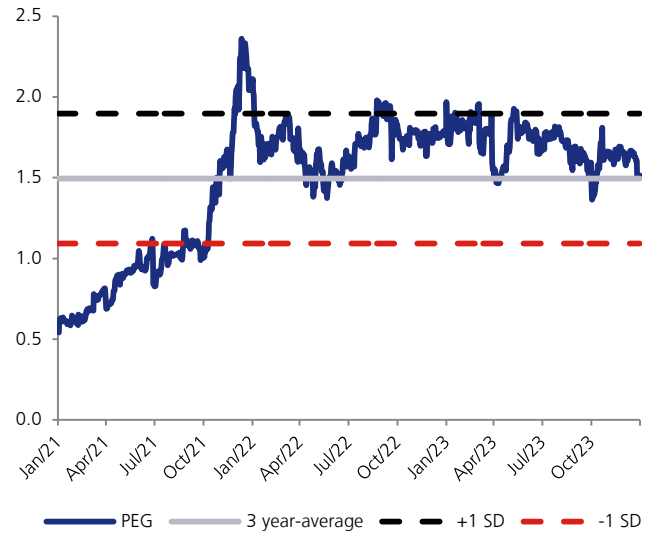
Note: JM Estimates for Tata Tech Ltd and KPIT Tech other Bloomberg estimates. Source: Bloomberg, JM Financial

Exhibit 6. KPIT – 12M forward rolling PER



Source: Bloomberg, JM Financial Estimates

Exhibit 7. KPIT - PEG



Note: PEG is calculated by dividing 12-M forward PER with two year rolling EPS CAGR; Source: Bloomberg, JM Financial Estimates

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	24,324	33,650	48,293	57,081	66,618	
Sales Growth	19.5%	38.3%	43.5%	18.2%	16.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	24,324	33,650	48,293	57,081	66,618	
Cost of Goods Sold/Op. Exp	0	404	609	799	999	
Personnel Cost	16,106	21,553	30,890	36,472	42,300	
Other Expenses	3,832	5,489	7,090	8,334	9,693	
EBITDA	4,385	6,204	9,704	11,476	13,625	
EBITDA Margin	18.0%	18.4%	20.1%	20.1%	20.5%	
EBITDA Growth	44.0%	41.5%	56.4%	18.3%	18.7%	
Depn. & Amort.	1,196	1,464	1,895	2,217	2,548	
EBIT	3,189	4,740	7,808	9,258	11,077	
Other Income	450	551	629	501	499	
Finance Cost	194	323	475	49	9	
PBT before Excep. & Forex	3,445	4,968	7,962	9,710	11,567	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,445	4,968	7,962	9,710	11,567	
Taxes	683	1,099	1,984	2,428	2,892	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	20	59	38	38	38	
Reported Net Profit	2,742	3,810	5,940	7,244	8,637	
Adjusted Net Profit	2,742	3,810	5,940	7,244	8,637	
Net Margin	11.3%	11.3%	12.3%	12.7%	13.0%	
Diluted Share Cap. (mn)	270.1	270.2	270.9	270.9	270.9	
Diluted EPS (INR)	10.2	14.1	21.9	26.7	31.9	
Diluted EPS Growth	85.6%	38.9%	55.5%	22.0%	19.2%	
Total Dividend + Tax	0	1,333	1,663	2,445	3,260	
Dividend Per Share (INR)	0.0	4.1	5.1	7.4	9.9	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,762	3,869	5,978	7,283	8,675	
Depn. & Amort.	1,196	1,464	1,895	2,217	2,548	
Net Interest Exp. / Inc. (-)	0	183	-154	-452	-490	
Inc (-) / Dec in WCap.	875	-1,769	-753	-2,933	-1,938	
Others	122	768	0	0	0	
Taxes Paid	-888	-989	-1,984	-2,428	-2,892	
Operating Cash Flow	4,067	3,525	4,982	3,688	5,904	
Capex	-685	-1,276	-4,749	-3,980	-4,358	
Free Cash Flow	3,382	2,249	233	-292	1,546	
Inc (-) / Dec in Investments	240	712	0	0	0	
Others	-2,579	-1,459	629	501	499	
Investing Cash Flow	-3,024	-2,023	-4,120	-3,478	-3,859	
Inc / Dec (-) in Capital	0	0	50	38	38	
Dividend + Tax thereon	-741	-892	-1,602	-2,032	-2,709	
Inc / Dec (-) in Loans	-5	-19	-39	-200	-200	
Others	-520	-921	-211	201	241	
Financing Cash Flow	-1,267	-1,831	-1,802	-1,993	-2,630	
Inc / Dec (-) in Cash	-224	-329	-940	-1,783	-584	
Opening Cash Balance	2,009	2,009	2,009	2,009	2,009	
Closing Cash Balance	1,785	1,679	1,069	226	1,424	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	13,096	16,515	21,281	26,494	32,422	
Share Capital	2,700	2,703	2,711	2,711	2,711	
Reserves & Surplus	10,396	13,812	18,569	23,782	29,711	
Preference Share Capital	0	0	0	0	0	
Minority Interest	155	118	160	198	236	
Total Loans	26	486	447	247	47	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	13,277	17,119	21,888	26,939	32,706	
Net Fixed Assets	6,629	17,170	20,023	21,786	23,596	
Gross Fixed Assets	1,937	2,144	2,356	2,718	3,028	
Intangible Assets	4,692	15,026	17,668	19,068	20,568	
Less: Depn. & Amort.	0	0	0	0	0	
Capital WIP	0	0	0	0	0	
Investments	0	0	0	0	0	
Current Assets	16,733	16,836	21,207	24,553	29,534	
Inventories	0	588	966	1,142	1,332	
Sundry Debtors	4,410	5,924	7,939	9,383	10,951	
Cash & Bank Balances	8,928	6,288	7,714	8,320	10,590	
Loans & Advances	0	0	0	0	0	
Other Current Assets	3,395	4,036	4,588	5,708	6,662	
Current Liab. & Prov.	10,085	16,887	19,342	19,400	20,425	
Current Liabilities	7,069	11,195	14,249	14,056	14,831	
Provisions & Others	3,015	5,692	5,094	5,344	5,594	
Net Current Assets	6,648	-51	1,864	5,153	9,110	
Total - Assets	13,277	17,119	21,888	26,939	32,706	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin		11.3%	11.3%	12.3%	12.7%	13.0%
Asset Turnover (x)		1.3	1.3	1.4	1.5	1.5
Leverage Factor (x)		1.5	1.7	1.8	1.6	1.5
RoE		21.8%	25.7%	31.4%	30.3%	29.3%

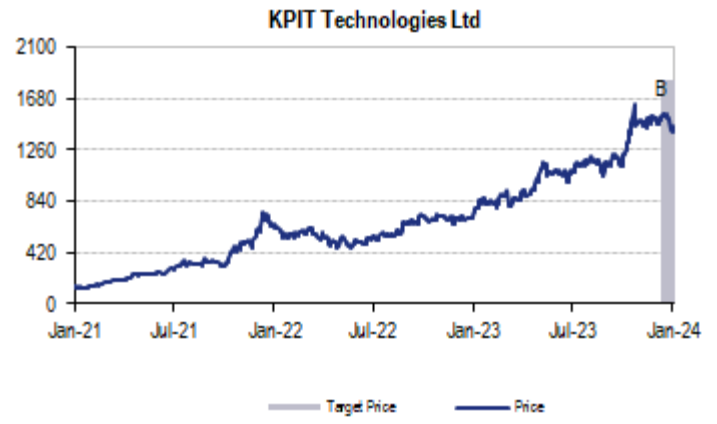
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)		48.0	60.5	78.0	97.1	118.8
ROIC		54.0%	48.6%	46.9%	42.4%	40.8%
ROE		21.8%	25.7%	31.4%	30.3%	29.3%
Net Debt/Equity (x)		-0.7	-0.4	-0.3	-0.3	-0.3
P/E (x)		143.5	103.3	66.4	54.5	45.7
P/B (x)		30.4	24.1	18.7	15.0	12.3
EV/EBITDA (x)		88.0	62.7	40.0	33.7	28.2
EV/Sales (x)		15.9	11.6	8.0	6.8	5.8
Debtor days		66	64	60	60	60
Inventory days		0	6	7	7	7
Creditor days		25	22	26	25	24

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
8-Jan-24	Buy	1,830	

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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