

Resilient Performance in Action

Est. Vs. Actual for Q3FY25: Revenue – **INLINE** ; EBITDA Margin - **INLINE**; PAT – **BEAT**; Deal Wins – **BEAT**

Changes in Estimates post Q3FY25

FY25E/FY26E: Revenue: 3%/4%; EBITDA Margins: 13%/12%; PAT: 15%/10%

Recommendation Rationale

- **Robust Growth Across Verticals:** The management has highlighted robust and broad-based growth across various verticals, supported by a solid deal pipeline and enhanced client engagement. Europe led growth, followed by the US and Asia, with strong traction in Powertrain, Connected Vehicles, and SDVs (Software-Defined Vehicles).
- **Total Contract Value (TCV) Performance:** Total Contract Value (TCV) for Q3FY25 stood at \$236 Mn, with significant contributions from Europe and the US, reflecting higher deal conversion rates and increased client confidence in KPIT's capabilities.
- **Optimistic Outlook on Medium-Term Demand:** Management remains bullish in the medium-term demand environment, driven by strong deal wins in previous quarters. The company is witnessing strong conversations with eight new clients, further strengthening its pipeline, which grew by 20% QoQ.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Strong revenue growth momentum will continue, backed by robust deal wins and strong addition of capabilities. FY25 revenue growth guidance is retained at 18% to 22%. EBITDA outlook is revised upward to 21%+ from 20.5%+.

Current Valuation: 45x FY26E P/E; Earlier Valuation: 58x FY26E

Current TP: 1,850/share (Earlier TP: Rs 2,150/share)

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, **we recommend a BUY rating on the stock.**

Financial Performance

KPIT Technologies Ltd. reported Q3FY25 revenue of Rs 1,478 Cr, reflecting a 0.4% QoQ and 17.6% YoY increase, which is in line with expectations. The operating profit was Rs 254 Cr, up 1.3% QoQ, meeting expectations. Operating margins expanded by 29 bps to 21%, driven by revenue mix change, productivity improvement, and a favourable currency mix. The net profit for Q3FY25 stood at Rs 193 Cr, marking a 24.7% YoY growth. Further, it has announced an interim dividend of Rs 2.5/share.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,478	18%	0%	1465	1%
EBIT	254	21%	1%	245	4%
EBIT Margin	17%	40 bps	248 bps	17%	8 bps
Net Profit	193	25%	-7%	185	4%
EPS (Rs)	7.2	25%	-7%	6.7	7%

Source: Company, Axis Securities Research

(CMP as of 29th January 2025)

CMP (Rs)	1,376
Upside /Downside (%)	34%
High/Low (Rs)	1,929/1,223
Market cap (Cr)	37,720
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	27.19

Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	39.5	39.5	39.5
FIIs	22.2	21.0	17.4
MFs / UTI	9.9	10.4	12.3
Banks / FIIs	0.2	0.1	0.0
Others	28.2	29.4	30.9

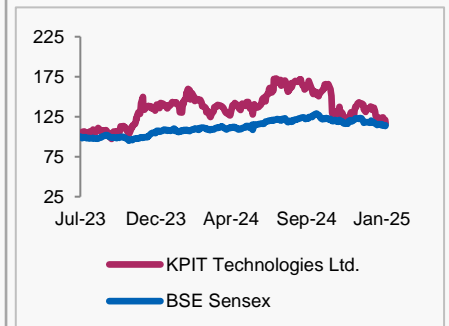
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,872	5,911	7,405
EBITDA	991	1,296	1,594
Net Profit	599	903	1,100
EPS (Rs)	22.3	33.6	40.9
PER (x)	67.3	44.7	36.7
P/BV (x)	19.7	15.3	12.0
EV/EBITDA (x)	40	30	24
ROE (%)	31%	36%	35%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	3%	4%
EBITDA	13%	12%
PAT	15%	10%

Relative Performance



Source: AceEquity, Axis Securities Research

Ankush Mahajan
 Research Analyst
 Email: Ankush.mahajan@axissecurities.in

Aman Goyal
 Research Associate
 Email: Aman.goyal@axissecurities.in

Outlook

From a long-term perspective, KPIT Technologies Ltd. is positioned for encouraging growth, supported by multiple long-term contracts with leading global brands. The company's improved revenue visibility enhances confidence in its business growth trajectory. KPIT's strong client engagement and technical expertise underscore its potential to become one of the fastest-growing companies in the Indian IT services sector.

Valuation & Recommendation

We assign a 45x P/E multiple to its FY26E earnings of Rs 41/share to arrive at a TP of Rs 1,850/share, implying an upside of 34% from the CMP. Hence, we recommend a **BUY** rating on the stock.

Key Highlights

- **Strong Demand in the Medium Term:** KPIT Technologies is experiencing strong demand, particularly in European cost optimisation deals, coupled with faster decision-making cycles. Growth in Engineering Research & Development (ER&D) services and KPIT's execution capabilities are driving accelerated revenue growth. The management remains optimistic about long-term momentum, supported by a strong deal pipeline.
- **Broad-Based Vertical Growth:** The Passenger Car vertical grew 5.7% QoQ, reflecting robust execution. Commercial Vehicles showed marginal growth of 2.8% QoQ. KPIT remains focused on deepening engagements with its Top 25 clients to drive sustained growth. Strategic revenue increased by 3.8% QoQ.
- **Robust Services Mix:** Feature development & integration services (60% of revenue) grew 2.7% QoQ. Cloud-based connected services (26% of revenue) declined by 4.2% QoQ. Architecture & Middleware consulting (29% of revenue) posted strong growth of 20.2% QoQ.
- **Geographical Performance:** North America (44% of revenue) grew 2.7% QoQ. Europe (76% of revenue) declined slightly by 0.6% QoQ. Asia (25% of revenue) reported strong growth of 23.1% QoQ (in CC terms), driven by Powertrain and Connected Vehicle solutions. KPIT's strategic focus on SDVs (Software-Defined Vehicles), AI-driven automation, and cybersecurity continues to drive strong deal wins and revenue momentum across regions and verticals.

Key Risks to Our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may negatively impact the company's operating margins.

Results Review
(Rs Cr)

Rs Cr	Q3FY25	Q2FY25	Q3FY24	% Change (QoQ)	% Change (YoY)
Total Revenue	1,478	1,471	1,257	0.4%	17.6%
Operating expenses	1,166	1,170	998		
Total Operating Expenses	1,166	1,170	998		
EBITDA	312	306	259	1.9%	20.5%
Margin(%)	21%	21%	21%	29	59
Depreciation	58	56	50		
Operating Income	254	250	209	1.3%	21.4%
Margin(%)	17%	17%	17%	177	12
Total Other Income/(Expense)	19	51	17		
Income Before Income Taxes	263	288	212	-8.6%	24.0%
Total Taxes	70	79	55		
ETR (%)	26%	28%	26%	803	19
Net Profit After Taxes	193	208	155	-7.2%	24.7%
Non-Controlling Interest	0	0	0		
Net Income After Extraordinary Items	193	208	155	-7.2%	24.7%
Margin (%)	13%	14%	20%	-123	0
EPS	7.2	7.7	5.8	-7.2%	24.7%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	3,365	4,872	5,911	7,405
Other operating income				
Total income	3,365	4,872	5,911	7,405
Cost of materials	66	72	0	0
Employee benefit Expenses	2,155	3,112	3,750	4,627
Other Expenses	534	710	865	1,185
EBITDA	635	991	1,296	1,594
Other income	40	60	142	148
PBIDT	675	1,052	1,438	1,742
Depreciation	146	196	184	215
Interest & Fin Chg.	32	55	48	60
E/o income / (Expense)	0	0	0	0
Pre-tax profit	497	801	1,206	1,467
Tax provision	110	202	303	367
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	387	599	903	1,100
Other Comprehensive Income	0	0	0	0
PAT after Comprehensive Income	387	599	903	1,100

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	2,237	2,391	2,970	3,655
Net Block	415	405	371	365
CWIP	32	15	15	22
Investments	1,457.42	1,459.32	1,459.32	1,462.57
Wkg. cap. (excl cash)	-121	138	168	227
Cash / Bank balance	454	374	957	1,580
Misc. Assets	-1	-1	-1	-1
Capital employed	2,237	2,391	2,970	3,655
Equity capital	270	270	270	270
Reserves	1,393	1,782	2,368	3,082
Minority Interests	0	0	0	0
Borrowings	323	323	323	323
Def Tax Liabilities	60	60	60	60

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Sources	916	584	770	929
Cash profit	566	850	1,135	1,375
(-) Dividends	106	210	317	386
Retained earnings	460	639	818	989
Issue of equity	0	0	0	0
Change in Oth. Reserves	64	0	0	0
Borrowings	191	0	0	0
Others	201	-55	-48	-60
Applications	916	584	770	929
Capital expenditure	1,674	406	157	246
Investments	7	0	0	0
Net current assets	-195	259	30	59
Change in cash	-570	-80	583	624
Closing cash	454	374	957	1,580

Source: Company, Axis Securities Research

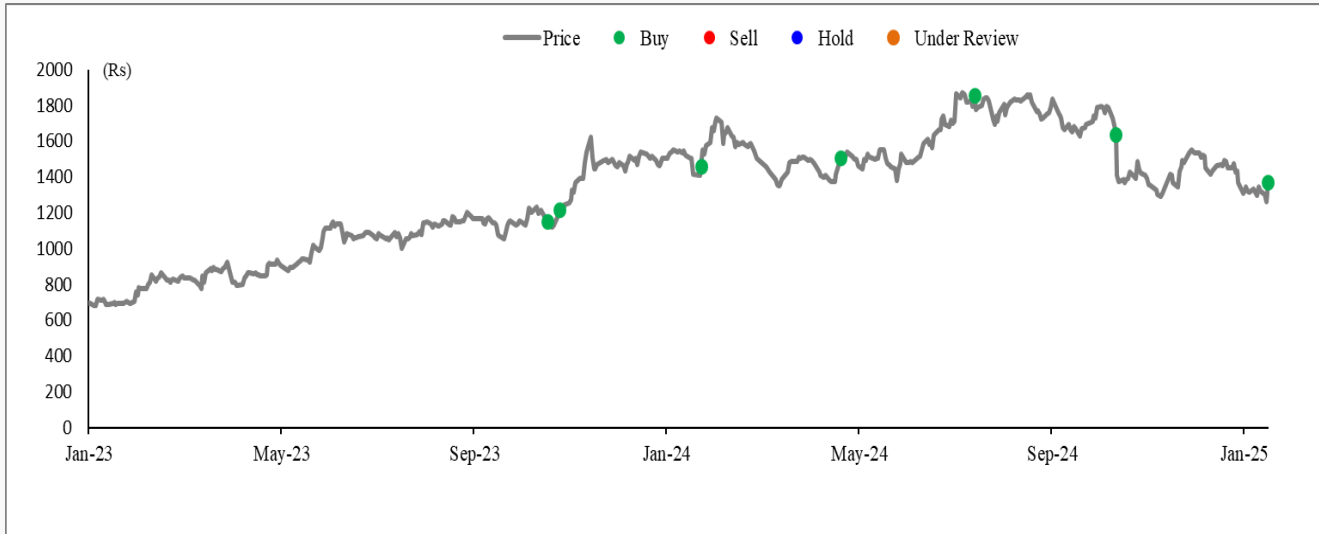
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Sales growth	38	45	21	25
OPM	19	20	22	22
Oper. profit growth	45%	56%	31%	23%
COGS / Net sales	0	0	2	1.477778918
Overheads/Net sales	19	16	16	15
Depreciation / G. block	-334	-5145	76	-2060
Effective interest rate (%)	50	37	54	106
Net wkg.cap / Net sales	0.2	0.2	0.1	0.0
Net sales / Gr block (x)	5.8	6.5	3.8	4.5
RoCE	14%	24%	27%	37%
Debt / equity (x)	0	0	0	0
Effective tax rate	17	20	22	25
RoE	15%	21%	25%	31%
Payout ratio (Div/NP)	25	25	25	30
EPS (Rs.)	14.4	22.3	33.6	40.9
EPS Growth	40%	55%	51%	22%
CEPS (Rs.)	19.8	29.5	40.4	48.9
DPS (Rs.)	3.3	6.7	10.1	12.3

Source: Company, Axis Securities Research

KPIT Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
23-Oct-23	BUY	1,500	Initiating Coverage
01-Nov-23	BUY	1,500	Result Update
31-Jan-24	BUY	1,750	Result Update
30-Apr-24	BUY	1,750	Result Update
25-Jul-24	BUY	2,150	Result Update
24-Oct-24	BUY	2,150	Result Update
30-Jan-25	BUY	1,850	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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