

KPIT Technologies Ltd.

BUY

Choice

Investment in new growth engines and geographies to drive growth

KPIT Technologies reported robust Q1FY25 revenues at \$165mn, up 4.7% QoQ and 24.8% YoY in constant currency. In USD terms, reported revenue was up 3.8% QoQ and 23.2% YoY. INR revenue for Q1FY25 stood at INR13,646mn, up 3.6% sequentially and 24.3% YoY. The company closed deals of TCV \$202mn during the quarter representing healthy pipeline across practices. PAT for the quarter came in at INR2,042mn (+51.2% YoY) led by one-time other income. EPS for the quarter stood at INR7.53.

- Investment and focus areas:** Sequential CC growth was led by Middleware and Powertrain domains and Asia geography. Company formally launched EcoVoyage 2030 to reduce carbon footprint in its operations and infrastructure and is also a key area focus for its clients. Other growth engine identified by the company is adjacencies, which is into truck and off-highway segment. Many global OEMs are looking at USA to increase their spending where KPIT shall play a huge role and hence, USA geography shall see growth in coming quarters. 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. On AI side, it has taken various concrete steps to improve productivity as an organization, in software development life cycle and to create differentiated offerings for its clients to bring efficiency. OEMS are looking forward to create lifelong relationships with end customers with want to provide immersive digital experiences and increase their business efficiencies along with increase in scope of collaboration with new partners. It continues to see traction in its T-25 clients as technology investments and meaningful engagements are happening with few clients while 86.5% of the revenues coming from real strategic clients. Management has retained its guidance of 18-22% cc growth for FY25E.
- Improving margin profile:** Operating margins came in at healthy 17.3% for the quarter, up 188bps YoY. EBITDA margins for the quarter expanded to 21.1%, up ~160bps YoY in-line with the guidance. The management has retained its comfortable EBITDA margin guidance of 20.5%+ in FY25E. The board has approved an ESOP scheme for employees and the ESOP cost and other incentive costs would be around INR1bn in FY25E and the guided margin is after considering all these costs.
- Net addition remains positive:** As of Q1FY25, employee headcount stood at 13,253. Sequential employee net addition came in at 397 employees (+3.1% QoQ). The attrition rate is at all-time low at high single digit at an industry level. KPIT continues to invest heavily into training and development of freshers and is the only company to create an individual development plan across the organization. The management aims to improve utilization rates hereon, thereby aiding profitability and boosting the revenue per development employee.

Valuation: KPIT expects creation of meaningful growth opportunities via investments in differentiated offerings and adjacencies and continue with the growth momentum, paving way for a fair demand visibility in the medium term. We maintain our **BUY** rating and arrive at a revised target price of INR1,980 implying a P/E of 50x on FY26E EPS of INR40.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	24,324	33,650	48,715	59,779	78,881
Gross Profit (INR Mn.)	8,218	11,693	17,012	21,445	28,753
EBIT (INR Mn.)	3,189	4,741	7,895	10,213	13,845
EBIT Margin	13.1	14.1	16.2	17.1	17.6
EPS (INR)	10.2	14.1	22.0	30.0	39.6

Source: Company, CEBPL

July 25, 2024

CMP (Rs.)	1,852
Target Price (Rs.)	1,980
Potential Upside (%)	6.9

Company Info

BB Code	KPITTECH IN EQUITY
ISIN	INE041401011
Face Value (Rs.)	10.0
52 Week High (Rs.)	1,928.7
52 Week Low (Rs.)	1,038.5
Mkt Cap (Rs bn.)	507.6
Mkt Cap (\$ bn.)	6.1
Shares o/s (Mn.)/Float(Mn.)	274.1/59
FY24 EPS (Rs.)	22.0
FY26E EPS (Rs.)	39.6

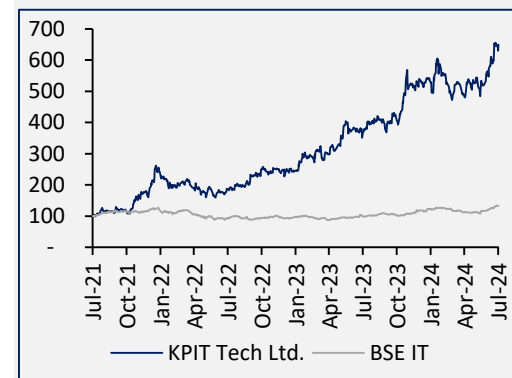
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	39.47	39.47	39.47
FII's	22.23	23.98	26.48
DII's	16.64	14.00	11.60
Public	21.66	22.55	22.45

Relative Performance (%)

YTD	3Y	2Y	1Y
KPIT	549.3	247.3	75.3
BSE IT	33.8	42.5	35.9

Rebased Price Performance



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Sequential Operating Performance

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Income Statement						
Revenues (INR Mn.)	10,174	10,976	11,991	12,570	13,178	13,646
Gross Profit (INR mn.)	3,515	3,770	4,063	4,486	4,693	4,824
<i>Gross Margin</i>	34.5	34.3	33.9	35.7	35.6	35.3
EBIT (INR mn.)	1,401	1,689	1,919	2,085	2,202	2,356
<i>EBIT Margin</i>	13.8	15.4	16.0	16.6	16.7	17.3
PAT (INR mn.)	1,116	1,340	1,409	1,553	1,644	2,042
Basic EPS (INR)	4.1	5.0	5.2	5.7	6.1	7.5
Operating Metrics						
Revenues – Geographies (%)						
US	36.1	33.5	30.4	29.9	29.7	28.2
Europe	49.6	50.8	52.6	52.9	51.7	51.5
Asia	14.3	15.7	17.0	17.3	18.6	20.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenues - Segments (%)						
Passenger cars	74.4	75.1	75.8	78.4	79.0	80.0
Commercial vehicles	24.8	21.5	20.0	17.4	17.5	16.9
Others	0.7	3.4	4.2	4.3	3.6	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenues by Business Units - New (%)						
Feature Development & Integration	61.6	61.3	61.8	62.4	62.0	61.0
Architecture & Middleware Consulting	19.2	20.9	20.2	18.5	18.7	20.5
Cloud Based Connected Services	19.2	17.8	18.0	19.1	19.3	18.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenues-Contract Type (%)						
Time & material basis	54.6	55.0	48.6	46.0	49.2	46.5
Fixed price basis	45.4	45.0	51.4	54.0	50.8	53.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Client Metrics						
Strategic Client Revenue (%)	79.5	82.6	84.0	85.0	86.4	86.5
Active Clients	60	60	60	60	60	60
Employee Metrics						
Revenue/Dev Employee (Rs.)	48,092	49,439	51,773	49,926	52,725	53,018
Total Headcount	11,013	11,571	11,971	12,727	12,856	13,253
Development	10,297	10,837	11,219	11,949	12,064	12,438
Enabling & Sales	716	734	752	778	792	815

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q1FY25

KPIT (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (INR mn.)	13,646	10,976	24.3	13,178	3.6	13,982	(2.4)
Employee Cost	8,823	7,206	22.4	8,485	4.0		
Gross Profit (INR mn.)	4,824	3,770	28.0	4,693	2.8	4,852	(0.6)
Gross Margin (%)	35.3	34.3	100 bps	35.6	(26) bps	34.7	65 bps
Other costs	1,942	1,631	19.1	1,964	(1.1)		
Depreciation	525	450	16.6	527	(0.3)		
EBIT (INR mn.)	2,356	1,689	39.5	2,202	7.0	2,195	7.3
EBIT Margin (%)	17.3	15.4	188 bps	16.7	56 bps	15.7	157 bps
Other Income	544	215	153.2	166	227.3		
Finance Cost	127	137	(7.1)	118	7.9		
PBT (INR mn.)	2,767	1,767	56.6	2,245	23.3		
Tax	725	422	71.9	586	23.9		
Adj. PAT (INR mn.)	2,042	1,345	51.8	1,659	23.0	1,699	20.2
Basic EPS (INR)	7.5	5.0	52.1	6.1	24.3	6.2	21.4

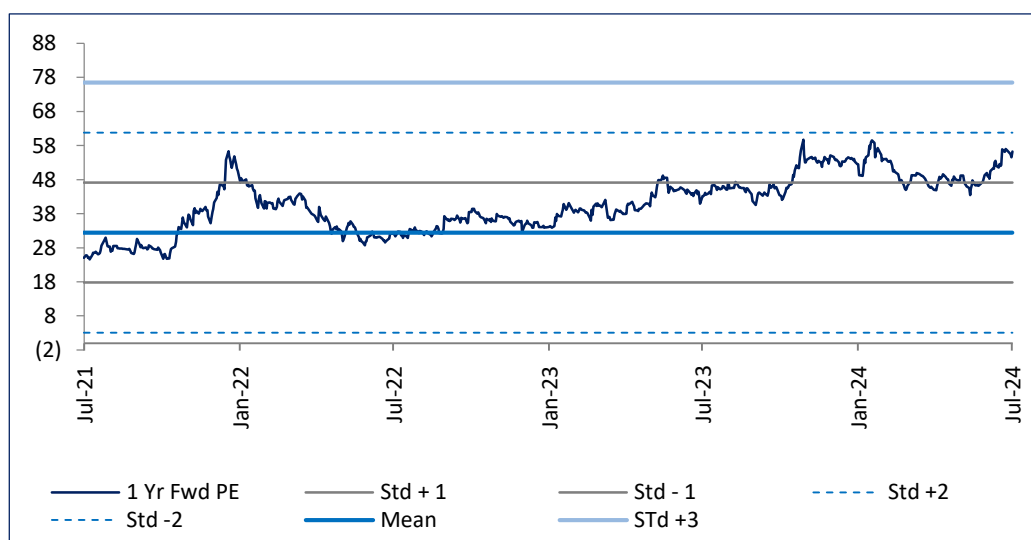
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	61,249	59,779	(2.4)	80,821	78,881	(2.4)
Gross Profit Margin (%)	35.9	35.9	(4) bps	36.5	36.5	0 bps
EBIT	10,358	10,213	(1.4)	14,104	13,845	(1.8)
EBIT Margin (%)	16.9	17.1	17 bps	17.5	17.6	10 bps
EPS	29.2	30.0	2.8	39.7	39.6	(0.3)

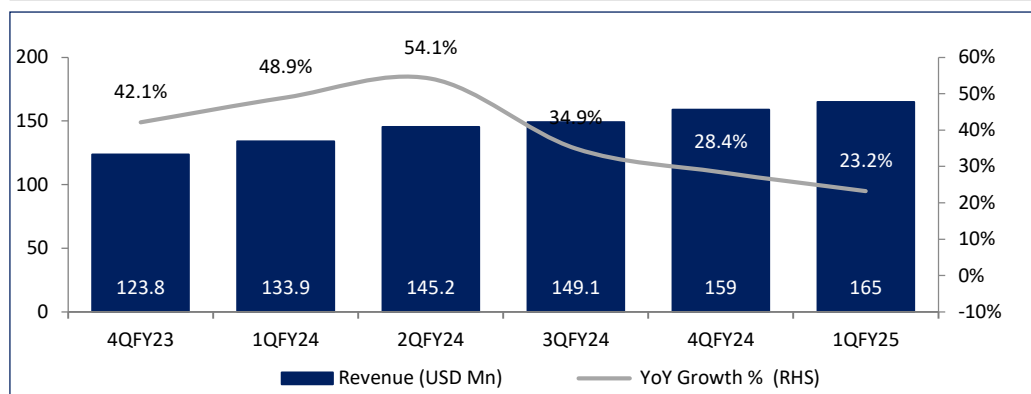
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



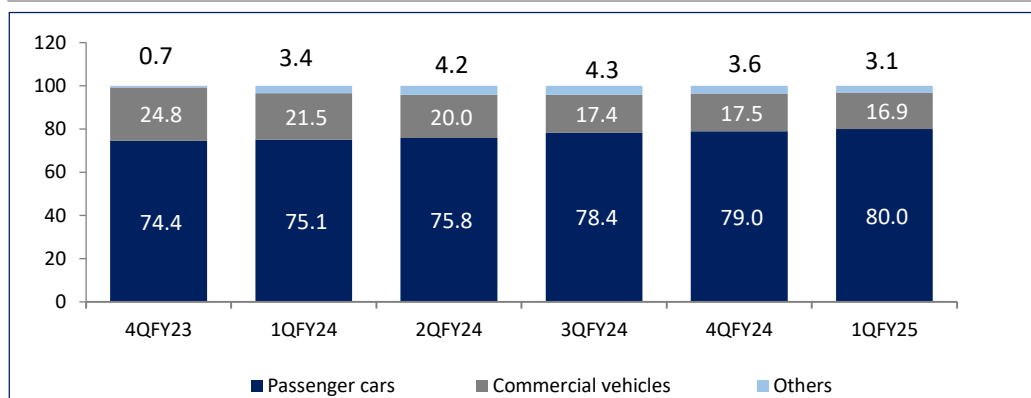
Source: Company, CEBPL

Robust revenue growth



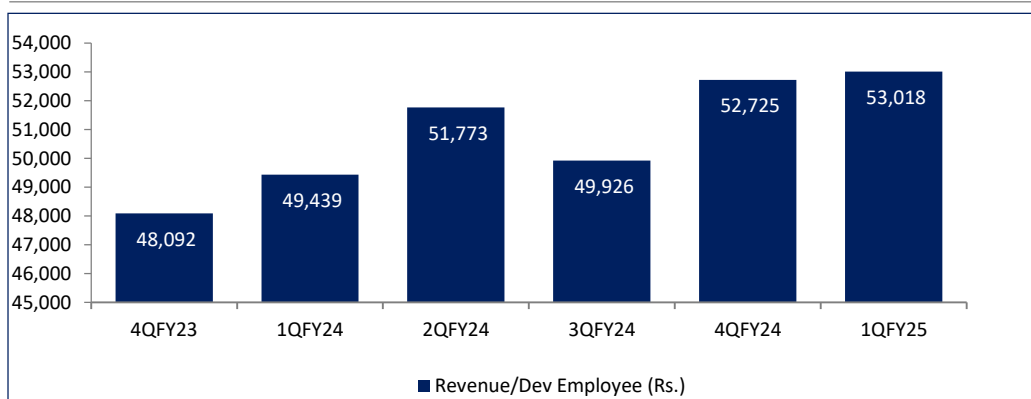
Source: Company, CEBPL

Revenue – Segmental Contribution



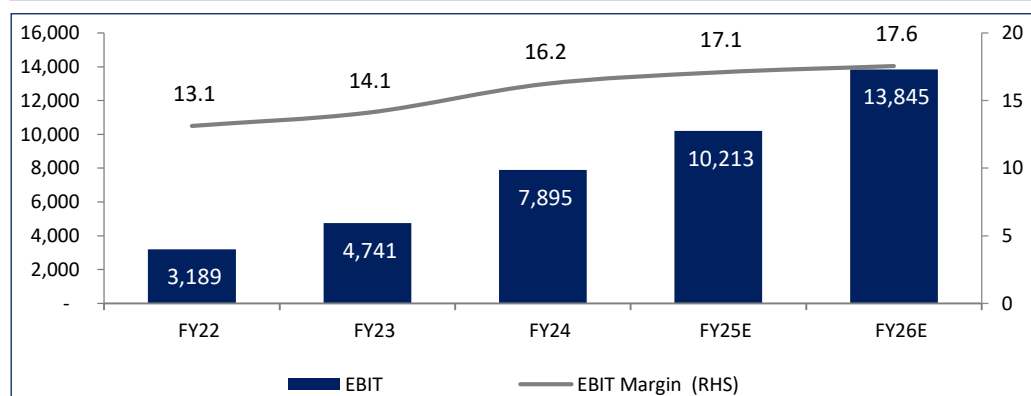
Source: Company, CEBPL

Revenue per Dev. employee



Source: Company, CEBPL

EBIT margins to expand



Source: Company, CEBPL

Management Call - Highlights

- During the quarter, the company launched Eco Voyage 2030 to further its commitment to sustainability. The company's goals include helping clients reduce their carbon footprint and minimizing its own environmental impact through improvements in infrastructure and operations. KPIT has made a historic commitment to achieving net zero emissions by 2030.
- The majority of the company's growth is driven by its T-15 clients in the T-25 category.
- Overall, Asia has been a significant driver of growth, while Europe has continued to maintain the growth momentum for KPIT. Management believe that the USA will also experience growth momentum in due time.
- During the quarter, the company provided salary increments, which were in the higher single-digit range.
- During the quarter, the company recorded a one-time gain of INR396mn, attributed to two factors. First, the company transferred certain IPs to Qorix in the previous quarter when Qorix was a fully owned subsidiary. Now that Qorix is a joint venture, the company received credit in its books for 50% of the IP value. Second, while Qorix was a fully owned subsidiary, all expenses incurred by Qorix were written off in the company's books. With Qorix now a joint venture, these expenses, along with corresponding assets and liabilities, have been allocated to the joint venture partner, providing an additional benefit to the company.
- The quarter ended with a net cash balance of INR10.01bn, reflecting a net cash addition of INR1.5bn. DSO stood at 46 days.
- KPIT in the upcoming quarter, anticipates a 2.8% impact on margins from salary incremental factors and the full-quarter effect of ESOP.
- Growth prospects in the US hinge on three factors: expansion with existing OEM clients in the passenger car segment, heightened significance of the US market for global OEMs due to tariffs on Chinese vehicles, and strategic investments in the off-highway segment, which includes key players based in the US.
- The pipeline includes five significant engagements averaging between INR25-30mn each. These deals comprise two from the US, two from Europe, one from Asia, and one from another business segment.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	24,324	33,650	48,715	59,779	78,881
Gross profit	8,218	11,693	17,012	21,445	28,753
EBITDA	4,385	6,205	9,853	12,583	17,000
Depreciation	1,196	1,464	1,958	2,370	3,155
EBIT	3,189	4,741	7,895	10,213	13,845
Other income	448	541	664	1,236	1,183
Interest expense	194	323	548	543	710
Exceptional items	(2)	(4)	-	-	-
PAT	2,742	3,810	5,945	8,148	10,739
EPS	10.2	14.1	22.0	30.0	39.6

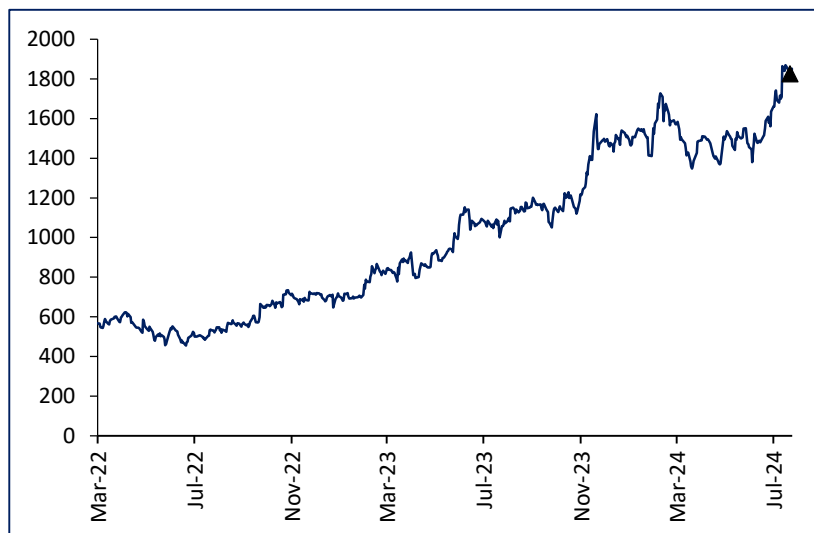
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	4,444	4,795	5,434	5,916	6,442
Goodwill & intangible assets	1,968	12,375	14,300	14,871	15,471
Investments	755	821	780	842	909
Cash & Cash equivalents	3,421	4,542	6,550	7,789	9,787
Other non-current assets	1,052	999	1,001	1,081	1,167
Other current assets	11,721	10,474	13,614	16,215	19,322
Total assets	23,361	34,006	41,679	46,714	53,098
Shareholder's funds	13,096	16,515	21,459	25,533	30,902
Minority interest	155	118	171	171	171
Borrowings	26	492	447	447	447
Lease liabilities	2,246	2,373	2,840	2,997	3,163
Other non-current liabilities	1,181	3,826	2,755	2,879	3,010
Other current liabilities	6,657	10,682	14,006	14,687	15,405
Total equity & liabilities	23,361	34,006	41,679	46,714	53,098

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	4,750	4,624	10,018	8,129	11,362
Cash flows from Investing	(3,024)	(2,023)	(5,637)	(1,616)	(2,498)
Cash flows from financing	(1,267)	(1,831)	(2,400)	(4,043)	(4,210)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	19.5	38.3	44.8	22.7	32.0
Gross Profit	18.4	42.3	45.5	26.1	34.1
EBITDA	44.0	41.5	58.8	27.7	35.1
EBIT	86.1	48.7	66.5	29.4	35.6
Margin Ratios (%)					
Gross Profit Margin	33.8	34.7	34.9	35.9	36.5
EBITDA Margin	18.0	18.4	20.2	21.0	21.6
EBIT Margin	13.1	14.1	16.2	17.1	17.6
Profitability (%)					
Return on equity	21.1	23.4	27.9	31.9	34.8
Return on invested capital	17.4	12.0	14.3	20.3	22.2
Return on capital employed	15.7	11.1	13.4	19.1	21.0
Valuation					
OCF / Net profit (%)	171.9	119.5	167.3	99.8	105.8
EV / EBITDA (x)	34.9	81.3	51.0	39.9	29.4
Book Value per share (x)	48.0	60.5	78.6	93.3	113.1
Free Cash flow Yield (%)	2.6	0.7	1.7	1.0	1.5

Source: Company, CEBPL

Historical recommendations and target price: KPIT Technologies Limited



KPIT Technologies Ltd.

1.	10-03-2022	Outperform,	Target Price 689
2.	27-04-2022	Add,	Target Price 657
3.	27-07-2022	Add	Target Price 584
4.	31-10-2022	Neutral,	Target Price 724
5.	01-02-2023	Neutral,	Target Price 792
6.	28-04-2023	Reduce,	Target Price 794
7.	27-07-2023	Reduce,	Target Price 920
8.	25-09-2023	Neutral,	Target Price 1,030
10.	01-11-2023	Add,	Target Price 1,375
11.	31-01-2024	Add,	Target Price 1,705
12.	18-03-2024	Buy,	Target Price 1,705
13.	29-04-2024	Buy	Target Price 1,670
14.	25-07-2024	Buy,	Target Price 1,980

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