KPIT

May 02, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400001.

Scrip ID: KPITTECH
Scrip Code: 542651

Kind Attn: The Manager,
Department of Corporate Services

National Stock Exchange of India Ltd.,
Exchange Plaza, C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400051.

Symbol: KPITTECH
Series: EQ

Kind Attn: The Manager,
Listing Department

Subject: - Transcript of the Post Earnings Conference Call for the quarter and year ended March 31, 2023.

Dear Sir/Madam,

In terms of Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Post Earnings Conference Call for the quarter and year ended March 31, 2023 conducted on April 27, 2023 after the meeting of the Board of Directors for your information and records.

The transcript of Post Earnings Conference Call is also made available on the website of the Company. The link to access the same is as below:

https://www.kpit.com/investors/policies-reports-filings/

Thanking you,

Yours faithfully,

For **KPIT Technologies Limited**

DESHPANDE NIDA YUNUS
Digitally signed by DESHPANDE NIDA YUNUS
Date: 2023.05.02 15:56:40 +05'30'

Nida Deshpande
Company Secretary & Compliance Officer

Encl: as above

"KPIT Technologies Limited

Q4 FY '23 Earnings Conference Call"

April 27, 2023

MANAGEMENT: MR. RAVI PANDIT – CO-FOUNDER AND CHAIRMAN – KPIT TECHNOLOGIES LIMITED
MR. KISHOR PATIL – CO-FOUNDER, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – KPIT TECHNOLOGIES LIMITED
MR. SACHIN TIKEKAR – PRESIDENT AND JOINT MANAGING DIRECTOR – KPIT TECHNOLOGIES LIMITED
MR. ANUP SABLE – FULL-TIME DIRECTOR AND CHIEF TECHNOLOGY OFFICER – KPIT TECHNOLOGIES LIMITED
MS. PRIYA HARDIKAR – CHIEF FINANCIAL OFFICER – KPIT TECHNOLOGIES LIMITED
MR. SUNIL PHANSALKAR – HEAD, INVESTOR RELATIONS – KPIT TECHNOLOGIES LIMITED

MODERATOR: MR. RAHUL JAIN – DOLAT CAPITAL MARKET PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Q4 FY '23 Earnings Conference Call hosted by Dolat Capital Markets Private Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-down phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Jain from Dolat Capital Markets Private Limited. Thank you and over to you, sir.

Rahul Jain: Thank you, Lizann. Good evening, everyone. On behalf of Dolat Capital, I would like to thank KPIT Technologies Limited for giving us this opportunity to host this earning call. And now at this point, I would like to hand the conference over to Mr. Sunil Phansalkar, who is head of IR at KPIT, to do the management introduction. Over to you, Sunil.

Sunil Phansalkar: Thank you, Rahul. Good evening and a warm welcome to everyone for the Q4 FY '23 post earnings conference call of KPIT Technologies Limited. On the call today, we have Mr. Ravi Pandit, Co-founder and Chairman, Mr. Kishor Patil, Co-founder, CEO and MD, Mr. Sachin Tikekar, President and Joint MD, Mr. Anup Sable, Full-time Director and CTO, and Priya Hardikar, our CFO. As we do always, we'll have the opening remarks by Mr. Ravi Pandit, on the year and the quarter gone by and the way we look at the immediate future. And then we'll have it open for questions. So once again, a very warm welcome to all of you and I hand it over to Mr. Pandit.

Ravi Pandit: Good evening and welcome and thank you for being present at our investor call. What I would like to do in my initial remark is to give you a quick overview of the results and maybe address a couple of questions, which are normally raised, or which have been raised in this context. And after that, we can start looking at the question answers. I trust, you have all received our investor release. As you would agree, it gives plenty of information. So, I believe that, between the note that you have got and the initial comments, many of your questions, would be addressed. And I would invite you to ask any further questions that you may possibly have.

So, as you will see, it has been a good quarter and a good year. The quarterly results show a year-on-year growth of 50%, in constant currency, and the quarter-on-quarter growth of 8.5%, in the constant currency. So, the revenue has picked up well. EBITDA, we have EBITDA of 19.1%, which is a 60% year-on-year growth and net profit, which has grown 42% year-on-year. This is about our quarterly results.

When you turn to the yearly results, the year-on-year growth in constant currency has been 37%. The EBITDA for the year has been 18.9%, which shows a 45% growth from last year. Net profit at INR 3.8 billion, shows a 39% growth over the last year. So, I trust you will agree that the top line as well as the bottom-line growth has been healthy and we have been able to meet the expectations that, we set through the outlook that we gave throughout the year. We have also given the outlook for the next year, where we believe that we could have a constant currency growth of between 27% to 30% and our EBITDA margins would be between 19% to 21%, I'm sorry 19% to 20%., I stand - corrected.

Questions have been asked about the genesis of this growth. So, it is important for us to dwell a bit on the growth that we had in the last year and the outlook that we are giving. And it is imperative to look at the underlying factors, which I would look at as an intersection of two, which is the industry change that is happening and secondly, our readiness to meet the needs of our clients, in this period of change. As we have said time again, there is a basic transformation which is happening in the mobility industry, especially in the automotive sector.

There is a change in the business model that our clients, namely the OEMs are going through. The change is driven by multiple factors. There is a change in technology because of a significant push towards electrification. And that is really in response to the climate change requirements. That is a key initiative for our clients and that's a matter of passion for us, to really come up with solutions which are clean.

The second factor which is affecting is that there is a business model change our clients are looking at. Till now, the source of income for the OEMs was the one-time sale. And now our clients are looking at potentially, a stream of revenues coming from the sale that is being made. And so, they would like to give additional functionality, over a period of time. They would like to stay in touch with the client throughout the life of the vehicle and therefore the requirement of being continuously in touch and therefore the need for making a change in the basic architecture.

The third driver is also of course cost. Over the period, as the degree of electrification has increased, the number of ECUs in the vehicles have increased and now the OEMs are looking at consolidation of them. They are looking at domain controllers or centralized architecture, which will reduce the number of ECUs and make the overall software management far easier. There have been multiple reports of industry analysts, which have talked about significant demand for software R&D work that the OEMs will do. And the anticipation is that the OEMs will spend almost $40 billion every year, over the next five to seven years to make this transformation. So that is really the condition of the industry that we face today.

We have been trying for the last few years to get ourselves ready, to meet this industry challenge. We look at ourselves as partners to this industry, and we want to be responsible and trusted partners, to our clients. And with that in mind, we have been working on three or four major initiatives. We believe, it is this thinking that we have put in, over the last few years, that is beginning to show some results. Our thinking is based on four broad areas, where we need to really excel in our performance year after year.

The first is relating to our clients and our client relationships. As you all know, we have been wanting to focus not just on a single industry, but also to focus, on certain select clients, within that industry. These are the clients, which we call Strategic Clients. To these clients, not only they are strategic to us, but we are also strategic to them. So, we are a part of their thinking process, we are a part of their architectural development, we are a part of their problem solving. And we treat it, as our responsibility to ensure that the trust, they repose on us, is well guarded and is well responded to. So, our focus on a few clients and going deep into the requirements has been a main driver of our work, for the past few years.

The second area is, of course, around technology. This is an industry in which technology is changing rapidly. Our clients need our help to get a good handle on the technology. Our motto is to be a software company, which understands automotive better than any other company and to be a company, which understands software better than any OEM. And with that in mind, we have been investing and understanding these technologies, developing skills in that, developing tools, platforms, accelerators, which can help our clients do their work with speed, with low cost, and with absolute strong systems, faultlessly. So, our second area of focus has been technology.

The third area of focus has been talent. And we have been investing a lot in building talent at all levels. Not only at the technical talent at the bottom level, but also the managerial talent at the middle and the senior levels. And that's an area of focus we believe, should help us over times to come. The last and not the least important, is our delivery excellence, because the work that we deliver, because of the engine that our clients deliver to their customers, is so complex and the reliance on them is so high, it is important for us to deliver a software, which is completely error-free. And therefore, how do we develop a system or a process which can develop error-free software, in the right committed timeframe, has been a key issue for us. And we have been working on that. We have been talking about these four key initiatives with you for the last few quarters.

And we think that this is something that can put us in a good state. That is what we believe has helped our growth in the last year. And that is what we hope should help us in our current year, in the coming years. We also think that our midterm prospects in this context should be good. We believe that in the current year, the growth may be a little front ended. And so, we think that our first two quarters may do better as a part of this total overall growth.

In the investor note we have presented, we have also talked about a collaboration, the formation of a new company called Qorix. And I want to talk a bit about that in terms of the technology and the rationale of that. As I mentioned, in this new world of software-defined vehicles, the middleware, the core software is becoming a very important thing. And we believe there is room for a very good sturdy core software that can be delivered to our clients. For this, we have found a partnership with a global, well-known Tier 1 called ZF. We believe that together we can develop a good solution and deliver it to our clients. The company, Qorix, will be focused exclusively on the development of the software product. We will continue to render services around it.

To this company, we will be making an initial contribution of Euro 5 million. And over the next 12 to 18 months, we will make an extra contribution of Euro 5 million. We have currently done an MOU, and we are awaiting the final clearance from the regulatory authorities in Germany. Once that is done, we will be able to speak more about what will be the contribution that will come from ZF over a period of time. We also think that it will be useful for us to add yet another partner to that. And we are in the process of conversation regarding it. And whenever that happens, we will certainly come back to you.

So, these are really some of the broad observations that I wanted to make. The normal observations regarding the staff and the attrition, etcetera, have been covered in the note that we have given. So, with that initial comment, I would like to now open this session to your questions. Thank you very much again for being with us this evening.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone wishing to ask a question, may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line at Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi, good evening and thank you for taking my questions. My first question is on the longer-term drivers around electric mobility. It appears that the European Union will implement Euro 7 norms in mid-2025 for cars, raising the CO_2 non-compliance burden for some of your customers, they are unable to comply.

And the European Union also last month has reiterated its commitment to ban ICE vehicle sales starting in 2035. So, in your experience working with the OEMs, how many years do you think it could take to develop an affordable mass market EV, in these developed markets? So just trying to understand the length of the ongoing electric vehicle R&D cycle. Is this a short-term investment cycle that could fizzle away? Or is there a longer strategic focus at the OEMs at this point?

Kishor Patil : So, thank you for the question. I think if you really look at, I'll give you first, the broad answer. First is the European Union was the first one to really go for the proper regulations and compliance on this. Some of the companies in the US have also adopted it and many of them will be adopting it over a period of time. Then Japanese companies first have gone for more hybrid and then also electric as a combined focus. So there have been stages. So overall the different markets will come up, mature and will invest differently.

You also have to look at the commercial vehicle market, which is still in the early stages of electrification. And there are many technologies, which are coming up, maturing, which are fuel cell, hydrogen, of course and alternate battery technologies. So, there will be continuously an investment into this area.

Coming back to passenger vehicle cycle, what we see with our clients is typically these are, if you just look at the basic engine technology and engines, they have been there for more than 100 years and there is still new innovation happening every time. So actually in electrification also, there are many things which will happen, it will be on different components and also in terms of charging and other infrastructure. So, we believe that it will be a much longer cycle and at least, I would say the technologies will evolve at least for a decade, if not more.

Chandramouli Muthiah: Got it. That's helpful. My second question is on the cyclicality of R&D spending at the OEMs. Historically, automakers have invested in R&D projects throughout macro cycles, as is visible from their annual filings over the past sort of 10 year to 15 years. There is also a school of thought that R&D spending could be a discretionary spending item for these companies, if they want to preserve margins in a down cycle. So, could you share your thoughts on this as well, please?

Kishor Patil: Yes. So, there are basically two specific things in this area. First is, while it is called R&D, largely what we are focusing on is development and engineering. And this is a real production program, right? It is all about new technology and this is all about new architecture, many new technologies being introduced and more importantly, integration of many of these domains. So, while it is classified as R&D, it is largely a development engineering for a specific production program or development program.

As you know, one of the most important parts for the OEM is their brand and their market share in their respective key areas of focus. And if the OEMs, basically the current concern is, if they do not come up with these architectures, as there are already some companies, who are quiet, have already introduced that, they will lose the market share. So, this is not as discretionary as people think. It is actually more of a committed expenditure. There are different budgets, which have been taken out. And all the clients would like to introduce the product at the earliest to gain early mover advantage or get more market share.

Chandramouli Muthiah: That's helpful. Thank you very much and all the best.

Kishor Patil: Thank you

Moderator: The next question is for the line of Pratap Maliwal from Mount Infra Finance Private Limited.

Pratap Maliwal: And congratulations on a good set of numbers and thank you for taking my question. I just wanted to ask around our margin guidance of 20%. So, what margin levels do we have going ahead? Because with the mega deals that we've announced, they may initially have some kind of onsite presence that may be needed. So, could you just help me understand some of the margin levels to get to that 20% mark? Going ahead now?

Kishor Patil: So that I would first say that we have given a range between 19% to 20%. And if you look at last many years, we have improved our margins, generally on quarter-on-quarter, but certainly year-on-year. And it has been a very sustainable growth in the margins. What we have been saying specifically is, we would of course like to keep on improving the margins and we had given about a three-year window, few years back that, when we will exceed a 20% goal.

So, in next couple of years, we should be over 20%. The main thing what we are saying is, the way we operate is we have a certain margin, like once we get to 19% now or 20%, the additional margins we reinvest into growth areas, whether it is into new technologies, there are so many technologies coming up proactively to focus on that, so that we continue to grow and remain at the forefront of the technology roadmap of our clients, or whether we invest into people or we invest into infrastructure.

So that is how we make the decision. And as we get more comfortable around that, looking at our investments, the margins will hopefully expand. So, it is a cycle, which is a combination of what we look at is the margin plus the investments we make. As you may know, probably as a technology services company, we spend a fair amount of money into research and development, which we do report too. So that is how we look at our margin and investments.

Pratap Maliwal: Okay. Thank you for that. Now, just another question, if I heard correctly, that we believe that our growth in FY '24 may be front ended for the first two quarters. So, could I just understand what would be driving this, our technical acquisition, Technical seems to have positive seasonality in Q3 and Q4, the second half. So, why would our growth is front ended now for FY '24? And if you could maybe help me with the technical growth numbers because I believe that over-performed some of our expectations, if you could just call that out, please?

Kishor Patil: So, there are two points I would like to consider. I would like to mention the first about Technica is, we would not give a separate number, because it is a fully integrated entity. The way it has performed, what we mean by better is it's seasonality, and we thought we were expecting the revenues to go down, but they did not go down, which was expected. So, it is not that they have exceeded the performance from that further, they exceeded the performance from the expectation perspective. So, they maintained the revenues that were there last quarter.

From the seasonality perspective, what we mentioned is our H1 will be stronger. And it is on the back of the couple of large engagements we have won. And what we would like to do as a company is, we would like to ramp up as quickly as possible. And that's what, we would like to maximize in the first half. That is what we meant. And that doesn't mean we will not have growth in H2. It is not the point. We will have normal growth. But I think if you look at the significant growth we had for few quarters, I think what we are mentioning is that H1 will be stronger from that purpose.

Pratap Maliwal: Okay. Sure sir, thank you for taking my question. I will get back in the queue.

Sunil Phansalkar: Thank you.

Moderator: Thank you. The next question from the line of Vimal Gohil from Alchemy Capital Management Private Limited.

Vimal Gohil: Yes. So, my one of the questions on EV has been answered. I just wanted one bookkeeping question to be answered, which is the contribution that you've had from FMS this quarter. I believe that we started integrating the same. Just wanted to get a sense on how has it performed? Because it's been quite some time since we acquired it. So, vis-a-vis our expectations, how has that performed? How have their top clients performed if you can give us some details there. Thank you.

Sunil Phansalkar: So, there is no addition of FMS revenues to this quarter's numbers. That will happen in Q1. So, there is no change in the ownership of FMS as of this quarter, nothing has been added. The performance of that entity per se is in line with what we had expected when we did the initial stake acquisition, but there is no revenue that is added this quarter from FMS, it will happen from next quarter.

Vimal Gohil: So, in this quarter, so on a Q-on-Q basis, the entire 12% is completely organic?

Sunil Phansalkar: That is correct. It is 100% organic.

Vimal Gohil: All right. Thank you so much, all the best.

Sunil Phansalkar: Thank you.

Moderator: Thank you. We'll move on to the next question that is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Hi, good evening, a great quarter. I had a couple of questions. So one is, a few years ago, you mentioned that $500 million is a target over the next couple of years, you seem to have already on that number. And you have possibly added capability through those years, through acquisitions or partnerships. I just wanted your thoughts on, in terms of capability set, when you look at the broad set of competition that is out there, how would you compare in terms of the breadth of capabilities that you have with the competition? And how many companies would have that kind of breadth.

The second question was that when you look forward in terms of the next leg of the journey, what is it that you really need to add in terms of capability? And how do you think a significant part of that capability build-out is already in there right? So those are the two questions.

And lastly, from, you mentioned that the initial half of the year will be stronger. As these deals ramp up, do you think that there will be initially margin dilutive to start with or it wouldn't be? So those are the three questions. Thank you.

Kishor Patil : I will, most of the questions I remember, I'll start. First, I will answer your third question which, let me put it that it will not be margin dilutive. The growth will not be margin dilutive. Then the first question was about the competition. We look at competition in multiple ways. And I have said it before.

But more importantly, what we see resonating with our clients is we are in a very unique position currently, , because of three things. One is a very strong focus on automotive and mobility. The second is a real focus on integration and software integration and the systems integration. And the third part is the breadth of the domains across technologies. In all these three things, I may say, we are reasonably uniquely positioned on that. While we do expect that the competition will always be there, we believe we are, if I would say, ahead in the curve, and we'll continue to invest and make that differentiation go further. That's how I see it.

And the other part, what we are trying to do, as you would say, that every three months, six months, you will see that we are making some moves and which are again, unique in the industry. Maybe you can look at what we are doing right now, creating an independent company for productizing, which will create a lot of opportunity for KPIT by itself in terms of integration, but more in terms of standardization in the industry. So, we feel very good about it. And the focus and the trusted partnerships we have with the client, along with the capabilities which we have built, puts us in a unique spot. What was your third question? So, capabilities, it is a very interesting question because the markets are moving very fast in terms of technology adoption, we have to be on our feet and every month, two months, we see a few things which are coming up.

So, the way we look at it is in two buckets. One is we keep on looking at technologies, which are here and now, which will get adopted into the vehicles. The second, what we do as a part of the CTO organization and otherwise is work on technologies which will get adopted three years down the line. In both the parts, we do sometimes see new opportunities for new technologies coming up. These are areas where we work on.

Of course, while we have capabilities, as you know, autonomous or other areas are very important part and various areas of strength for us, but we do believe some of the areas in terms of cloud, AI analytics for this specific domain, not generic skills, but for this specific domain will be an area which we are investing internally very significantly and may be scaled up more in the future.

Nitin Padmanabhan: Sure. That's helpful. Thank you so much and all the best.

Sunil Phansalkar: Thank you.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions. One was on the deal pipeline, like we obviously have won few large deals last year, but how are things here at the end of fourth quarter versus, say, last year or last quarter. And the second one is related to the sharp increase on the T&M side. So is it fair to say that some of these large deals and the ramp-ups that we have witnessed, they are more on time and material side. And incrementally, we should see less of fixed price. And therefore, despite having more T&M, we should still expect significant margin expansion ahead?

Sachin Tikekar: Hi, Mohit. This is Sachin Tikekar. In terms of the engagements and the pipeline, you may have noticed that over the last many quarters, we have consistently shown growth. And we believe that the trend will continue in the new year. Specifically, there are two types. So, you heard of two specific announcements about Renault as well as Honda, similar kinds of things have been happening with many of our other OEM T25 clients over the years.

It's just that some of them have been happening incrementally and some of them have happened, and we didn't announce them or the client didn't want us to announce them. So, from that perspective, I think there were unique situations that we specifically came out and talked specifically about Honda and Renault. The point that I'm trying to make is our focus continues to be on these T25 clients. And as Mr. Patil explained earlier on, the focus is to go deep and wide as they go through the transformation as we engage with them deeper and wider, we are seeing more and more areas where they need help, and we are building capabilities to sort of provide help in different areas.

So, one point is, earlier it was about one practice getting into it. Now there are collective practices going into it and so forth. And the third part is in order to solve some of their larger problems, we are also counting on some of our ecosystem alliances to provide larger solutions. I know it's kind of a long answer to your short question, but I do hope that it throws some light on it.

Mohit Jain: And if you could please add something on US side, like we have been doing large deals across Europe or Japan in this case, but what is happening with the US OEM side? Pipeline, maybe something expected in '24 anything will help?

Sachin Tikekar: Absolutely. And then we'll come back to your T&M question. Specifically, US, we had a reasonable growth in US during last year. This year also, we expect robust growth from our existing clients, especially the OEMs, and they continue to go through transformation. As you know, electrification goals, US companies or OEMs have also set up electrification goals. They also have their road map in terms of level of autonomy that they want to build.

And most importantly, to sort of change their model and engagement with their consumers, they're also trying to build some models. So, along these lines, we see more and more engagements with the existing clients that we have in the US. And on the West Coast, as you know, there are certain new OEMs that are coming up we are working with two or three of them. These are early days, and we'll see how things unfold with them. But that's the additional part in the US that we thought we should sort of bring to your notice.

But overall net-net, we're going to see fairly balanced growth across the three geographies. Some geographies will do slightly better than the others, but we see a fairly robust growth across the key geographies. Now about your specific questions on the T&M side, you're right that it has actually gone up. And the reason is there are three or four transformation programs that we have started and especially what you may call software-defined vehicles or software-defined mobility program. As you know, these are the programs that everybody is doing for the first time. So, there is no precedence to it.

And to define what needs to be done, we have to work very closely with the client in terms of what needs to get done. And this process can take up to a year. And during the course, so to us, T&M or fixed price is just a commercial understanding. Please know that the type of engagement remains the same, which is we are taking accountability for the work that we are doing. So, we are accountable for the work that we are doing for them in the software-defined vehicle. It's just that things are not defined. It's more on T&M. As they get more defined, we can move some of that into fixed price. But the nature of the engagement doesn't change, Mohit.

Mohit Jain: Understood. And sir, T&M also goes in things with higher on-site or it could be like T&M goes up, but my offshore also remain same?

Sachin Tikekar: Not necessarily, it's fairly balanced. And even if isn't, it's not very noticeable. As I mentioned, it takes about a year. So, during the year, it's about the same at the end of the day.

Mohit Jain: Understood sir Thank you very much, that's all.

Sachin Tikekar: Thank you, Mohit.

Moderator: Thank you. The next question is from the line of Deepak Rao from Qber asset Advisors. Please go ahead.

Deepak Rao: Hi, congratulations Ravi, Kishor, Sachin, Anup and the family on awesome result. So, my first question is, I think you dwelled on the CTO organizations fall, but the specific question is, in the areas of semiconductor, the area of hydrogen fuel vehicles, in the area of transportation domains adjacent to your present sub verticals. What's been the competency development? What is the business development actions? And essentially, what is the market saying what are you doing to address those things?

Anup Sable: So, I will take one by one. I think from a semicon perspective, we believe that our relationship with the semiconductor companies and our ability to interact with them, discuss with them and create solutions with them are very critical for our strategic customers, which are largely OEMs. So, we are basically making sure that we are aware of the road map, we are aware of all the new developments that are happening in this space relevant to our industry and especially our strategic customers.

So that is from a semiconductor perspective. From a hydrogen fuel perspective, I think there are two elements of hydrogen fuel. Hydrogen fuel being used in combustion engines and hydrogen fuel being used as fuel cells. In both these areas, we are very much in the technology. We understand the elements of what goes inside and we have experimented a lot with that. And as this activities shape up with our customers, we are in a very good position to handle them. As far as transformation into adjacent fields, I presume you are talking more about other relevant areas like electric vertical, off road, railways, aero vertical take-off.

We believe that in the current industry that we are operating and the current circumstances that we have, that means huge amount of changes happening, multiple dimensions of changes happening in the automotive space, the passenger car, and the commercial vehicle space that there is enough on the plate for next couple of years. So, we will focus on, what our strategic customer requirements are, what are the technology gaps that they have and what are the problems that they have? And focus on the solutions for that.

Kishor Patil: So, I'll just add to what Anup mentioned is that, so in all these three areas, we have already seen, even though initial technologies like even in case of hydrogen, we are seeing early signs of integration business coming up at a vehicle level, etcetera. So even in semicon, basically, it is about the integration of the middleware and at a lower level, integration of the software in semicon.

So, we see those opportunities. But coming back to your question on adjacencies, as we see a longer-term demand with our clients and our area of focus, we will initiate something at the end of the year or early next year, where we will start exploring adjacencies. But that we may not take it up as soon, but we'll start maybe seeding certain technologies or make some efforts next year or in the next couple of years.

Deepak Rao: Yes. Got it. Focus is good. The second question I have is the KPIT ZF product and the KPIT does the services part, obviously, you thought of it, but what is the thought behind if it's a standardized product, how is your client, European client of Honda be able to differentiate between other car manufacturers, if they're using a standardized product.

Anup Sable: Yes. So, let me define, what a Middleware is from a definition perspective, right? So, the Middleware is the essential component of software that fits between the application and the hardware to a very simple definition for it. This part of software, we are talking about the Middleware has to make the life of the application development easier. But that means the Middleware is the most complex piece of software. And it is like a fundamental infrastructure for the application software to run in.

Now, when we basically talk about standardization in this piece of software, it does not mean that it deprives the OEM to create a differentiation through the application software. So, if you look at how each OEM will derive their strategy or drive their strategy, in terms of differentiation, it will be through application software and the calibration of application software and that has really nothing to do with, how the middleware is standardized. In fact, the standardization of middleware would make their life easier in terms of launching their application software faster into the vehicle.

Deepak Rao: Thanks very much. It's been a pleasure following your story and your journey and congratulations ones again.

Anup Sable: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Sharma from M C Pro Research. Please go ahead.

Nitin Sharma: Thanks for taking my question. Congratulations on good set of numbers. I got two questions. What kind of employee addition you're looking for, given the guidance of 27% to 30% in FY '24. And how do you see utilization levels to this year?

Kishor Patil: So, the first thing is that, at a high level, we do not really report on these parameters, basically because we gave a very clear outlook for the revenue. We talked about the programs. We talked about the flexibility in that. As long as we manage the revenues and the margins, that's how we would like you to look at it.

But overall, at a company level, just to give you a historical reference, last year, we were about 8,200, this year, we are 11,000 plus so, addition of about 35% or so. And what we do is running two quarters we have our revenue visibility, and we do detailed planning based on that. And that's how we're planning. But coming back to your question, we see a very strong requirement for talent.

And we basically address it in a couple of ways. One is the fresher's we take and we have to improve, we keep on improving the quality, in terms of different places in India and outside India. And that, of course, is something which we try to increase, but looking at the complexity of our programs, we are in a business where we cannot absorb as much as some of the IT companies can do. So that is one point.

The second point is attrition, which has come down significantly for the last couple of quarters. We are at mid-teens and we expect that to continue, if not go down. So, that also is a very important factor when we look at how many people we will hire and how. So based on these two, we plan things. And we feel the environment is much better than last year to hire and have enough talent to deliver to our commitments.

Nitin Sharma: Understood. And one bookkeeping question. So, your employee cost went up significantly in this quarter. So, is there a one-time item or there is some shift towards higher wage costs going right?

Priya Hardikar: It is purely based on headcount additions pertaining to the group, the employee cost. Your quarter-on-quarter cost is what you referred to, right?

Nitin Sharma: Yes. So even if I look at per employee basis costs as well, it seems to have gone up around 8% Q & Q. So, we are trying to understand with the something abnormal onetime item is there, or new additions are at higher, some color would be helpful?

Sunil Phansalkar: So, , of course, there is a growth in the employee number. And per employee, I understand your question is more about per employee cost. So, we have promotions, which are there every quarter. And it more or less depends on that and also on the mix of hiring. So, there is nothing which is onetime or abnormal in this quarter. It is just a part of the regular promotion cycles and the natural hiring that we have done during the quarter.

Nitin Sharma: Understood. Thanks sir.

Sunil Phansalkar: Thank you.

Modeartor: Thank you. The next question is from the line of Deval Shah from RBSA Investment Managers. Please go ahead.

Deval Shah: Good evening, everyone. So, my question pertains to more on the competition. So, I was just trying to understand, where this industry competitive landscape is going. So, while I completely understand that six years, seven years we have debt, which probably reeling to the industries. That could be a chance that the OEM might developing their own in-house capability, like I read somewhere that, Fox Governance created a company for Vehicle OS by the name of Carrier or so. And they already have 6,000 employees working in that. So is there a chance that, the technology company would emerge from the OEM circle only. And at the same time, the follow-on question, on that is that, probably like what Microsoft OS is very prominent in the PCs, would there be a chance in the future, where there will be a one vehicle OS product, which will be used by many of the OEMs in order to have a standardization and on top of that, which software we will built. So, just wanted to understand your thought on this.

Sachin Tikekar : Deval, your observation is on the money, the competition landscape is changing. If you look at the ecosystem of the industry from chip to cloud and everybody in between, everybody is trying to figure out, what their role is, given the disruption brought in by software. And now everybody is trying to get that little piece of software in there. So, it's an evolving trend and everybody is trying to figure out where they can create value and how they can make money.

Having said that, we are a software company. And as you said, we do have a head start. And you're saying five years to seven years, we appreciate that. But we do believe that there is a head start, and we need to continue to hone our skills and get close to the OEMs as much as possible. And that's exactly what we've been doing. If you look at how OEMs perceive us, they see us as their software integrator. So, we are closer to them. So that, we can help them define their road map towards SDV and beyond and sort of help them, not only define it but also execute. This is where the bulk of the business actually comes. So, it's an evolving landscape.

And to your point, in some ways, to us, other than the OEMs, everybody is a competitor or an alliance, correct? So, it will keep on evolving over a period of time. And that's why we made a very conscious decision to really focus more and more on the OEMs and work with them in a trusted partnership manner.

Your second question was on the OEMs building their own software capabilities. And if you look at OEMs till about a few years ago, did not have software capabilities. They actually got hardware and software bundled together from some of the large tier 1s. So, they didn't keep as much software with them. And if some of it is going to be the differentiator as they desegregate software from hardware, it's important that they build core capabilities of their own in future.

And you are seeing that, Cariad is one example. But if you look at most of the large OEMs, that's the case with some of them. And some of the new age OEMs were actually software companies that became automotive companies. And this is like any other business if that's going to be a differentiator you need to build core capabilities. it's just that the work of software is going to be so much that they may not be able to do everything on their own, not now, not in future because it may not make sense. What they will do is what's going to be core to them and everything else our guess is they're going to trust their key partners to do for them. So that's not just the trend for today but that will continue to be the trend in future. So that's about your question on the OEMs. And the last part was about whether there is going to be, you gave an example of Microsoft operating system which is so essentially, whether anything is going to get commoditized right in some ways that's what you're referring to and then...

Deval Shah: Not commoditized sorry not exactly commoditized it's more about having the central over system which will have you know cornered the entire market and upon which the entire PC industry was evolved so in that sense I was coming.

Sachin Tikekar : Yes, so it's an interesting question. The automotive OEMs is a small world and in some areas that can happen and Mr. Sable, our CTO who talked about Qorix in that regard, you know when we talk about the middleware and architecture and some of the OEMs will go in that way and having said that it may happen. However the application feature which continues to be a differentiator, that's going to be the core work that OEMs will have to continue to do in future and they may have to depend on partners like us to get that done.

Deval Shah: Okay and that is the reason even I am excited to know more about your Qorix. So, quarters probably, after two quarters, three quarters you may want to give us some more insight on your Qorix. And just one thing on the employees so just a very basic question so when I look at your employee cost I understand it's a quite higher than the whatever the other industry player may not be your exact competitors so is it because of the we are paying a higher amount for a niche tech talent or it's more of a sun-blowing kind of we are building up the capability and probably in future we had that operating leverage kicking in, so what is the scenario?

Kishor Patil : Yes, I think there are two-three points in that, one is naturally we have to be a net talent creator because of the size and the scale we have in this domain and the growth we are having. So from that perspective really for talent acquisition we look at tier 1s and some of the OEMs and some technology companies. So, to some extent we have to provide a very quick growth for the deserving candidates so that is a point number one. But the important point is as I mentioned the fresher's which we can induct into the overall ecosystem is probably lesser than many companies which go like 75%, 80% while we are more towards 35%, 40% and maybe we have to do a better job on that over the period we will do that but that also increases our cost but our realization our contribution per person and those ratios are better in that.

Deval Shah: Okay. And all the best. Thank you.

Moderator: The next question is from the line of Saurabh Sadhwani from Sahasrar Capital.

Saurabh Sadhwani: Hello good evening. So, our revenue per development employee for this quarter has jumped significantly and if I look at it historically, we have been at $50,000 and now it we went down to around $41,000 and now we are at $48,000 so I wanted to understand what happened in this quarter was it high volumes or was it a better pricing and what other factors do affect this number?

Sunil Phansalkar: So, if you look at the movement of the per employee revenue yes it has moved in the range that you mentioned so we had said last year if you look at it there was a shift from on site to offshore for some of the large engagements we had earlier started and that was the reason why the revenue per employee went down.

If you look at it now, this quarter and of course last quarter also I think it was up from the earlier quarter. See the hirings, if you look at the last year at least in the first two quarters, three quarters the hiring was very strong as compared to the growth and now we are looking at improving what you may call as utilization but really the net realization that we have per person which is a mix of our rates, our utilization ratios and also the amount of used assets that we can use in delivery and all of those things. So, I think it is a combination of these factors that has resulted in the increase in per person revenue.

Saurabh Sadhwani: Okay. And just a clarification when you talked about the middleware so the middleware is like a Linux, Kernel on which people build Ubuntu and Fedora desktop so that way OEMs will build their Fedora and Ubuntu on that right? Is that what you are trying to build?

Anup Sable: Slightly maybe a little bit of technically different comparison Ubuntu and Fedora are somewhat like a distribution of Linux that means they are very specifically supported as Linux versions, whereas you could think about this as a Microsoft Word or a PowerPoint on top of

Windows. So, Windows is actually like a middleware and the office that you see on top or any application additional application on the top is what we call as application, the OEM application. Did I answer your question?

Saurabh Sadhwani: Yes, thank you. Sir just one more question. So, I wanted to understand right now what is the situation on middleware? Is it not standardized much or how are OEMs doing that right now?

Anup Sable: In the past there was no concept of middleware since the architecture was a distributed architecture and the way that the OEM sourced electronics or software was primarily through sourcing an electronic control unit or a hardware including software from a tier 1. In the future what is going to happen is OEM, because it wants an integrated software or an integrated user experience inside the vehicle and I can give you an example. For example, if you use a voice assist feature and you want to open your boot based on a voice command.

So, in the previous case it was difficult because the boot controller used to come from a different tier 1 and the voice recognition device used to come from a different tier 1. So, there was a lot of money, the money and pain that was being spent on integrating these two together. Now in the new scheme of things most of these application software that will open the boot as well as which will recognize the voice will be an application developed by the OEM themselves so it will be easier for them to integrate this together to create a great experience for the user and that is where the new architectures are moving and that is the main change that is happening in the industry.

Saurabh Sadhwani: Okay. Thank you. That's very helpful.

Management: Thank you. And since Anup's time is very valuable and he's given a very valuable comment, we'll be sending a bill to you. Sorry, on a lighter note.

Moderator: Thank you. The next question is from the line of Akshay Ramnani from Axis Capital.

Akshay Ramnani: Hi, congratulations on a good quarter. My first question is on the guidance. So if I look at your guidance and try to tie it up with your commentary of a stronger front-ended growth led by the mega deal ramp up, it looks like even at the top end of the guidance there is a significant slowdown which the guidance is building in H2.So I wanted to understand that is the guidance conservative or is there an offshore shift which is anticipated in H2 which is keeping that low or is there anything else to understand here?

Kishor Patil : So, the first thing is if you think 27% to 30% is a conservative guidance, I will be surprised. Hopefully you appreciate what we have been always giving as an outlook. So, our philosophy is we are giving the guidance, which certainly, we can live by. And it is based on the current pipeline, which is pretty visible and of course, the current engagements we have. We do also factor any risk if at all, if it might come in, during the year.

More importantly, in last couple of calls, we also mentioned that we are also leaving some of the long-tail accounts on the table, we are just ensuring that, our focus is sharper and of course, to your valid point, we will make some more shift towards offshore for sure. So, with all the combinations, this is what we get, which is, we believe, something pretty reasonable. I would not say, it's a very conservative versus, it's very aggressive. So, it's something a middle path, I would put.

Akshay Ramnani: Got that. And second one was on the acquisitions. Over the past 18 months you have done multiple acquisitions, which are supposed to be acquired in tranches. So, it would be good, if you can share an update on that, how much of stake for these acquisitions, we have acquired till now and what is the type of pay-outs, which we are expecting in FY '24?

Sunil Phamsalkar : So, if you look at the acquisitions that, we have done, it is Technica, PathPartner, Somit, and FMS. As we have said, when we have done these, there would be payments that will happen basis performance. For Technica, for example, the total maximum pay-out can go to about EUR 110 million. We have a fixed payment that will come up in this quarter, which will be roughly about EUR 20 million.

And then earn-outs over the next two years, which can go up to EUR 30 million at the max. So that's the pay-outs that, will happen for Technica. For FMS, the pay-outs for all 100% acquisition, will happen this year, and they would be in the range of about EUR 15 million. And for PathPartner, it could be in the range of about INR 50 crores to INR 60 crores, for the balance stake that, we need to acquire, which will also happen in this year.

Akshay Ramnani: Got that. That's helpful. Those were my two questions. Thank you, understood. Thanks.

Sunil Phansalkar: Thank you, Akshay

Moderator: Thank you. The next question is from the line of Anika Mittal from Nvest Research. Please go ahead. Anika, your line is in muted. Please go ahead

Anika Mittal: Hello, am I audible now.

Moderator: Yes, ma'am. Please go ahead

Anika Mittal: My first question is on the new company, which will be incorporated with ZF Group or how the structuring plan is and how the revenue will be shared. Is it based on the [expertise structure 01:03:22]?

Kishor Patil: Structuring. It will be a basically, currently it's a 100% subsidiary of KPIT. May be Priya, you can compare.

Priya Hardikar: Yes. So Qorix, right now, is set up as a 100% subsidiary of KPIT. As Mr. Patil and Pandit explained that the regulatory approval process in Germany will take a few months. And after that, additional share capital will be issued to ZF and an independent company will be formed, few more partners are also expected to join in later. But at present, it is our subsidiary.

Anika Mittal: Okay. Sir, my next question is, can about you provide some guidance. Reasons by the CFO say, divided by EBITDA ratio, which may consistently 100% in earlier year has decreased to 73% in financial '23?

Sunil Phansalkar: If I understood your question correctly, you're asking for some guidance on the conversion, cash conversion and CFO as a percentage of EBITDA. As you rightly said, that has been on the higher side, but we would not like to give, put any number. All we can say is that we'll continue to have focus on cash conversion, and that would be one of our important parameters to look at.

Anika Mittal: Sir, can you provide the reasons why it has decreased in this, yes?

Sunil Phansalkar: So, if you look at this year, we have said there were some pay-outs that, we have done already for the acquisitions that we have made, and there are dividend pay-outs and the capex. So, these are some reasons. There is one thing apart from these reasons that, we mention every quarter in the Investor Update, we mention the capex numbers and the pay-outs that we have done, per acquisition.

Kishor Patil: So, there were some long-term employee incentives, which we have paid, during this quarter.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: Thank for the opportunity. And congrats on a very good set of numbers. I just have one question on the KPIT ZF thing. I just wanted to understand, what is the scope of work that KPIT and ZF, so what are each of these companies is to going bring on table? And the second question was, if you can just highlight us the size of opportunity, which can get created from year over the longer term. I do understand, you don't want to give near-term numbers or guidance's, but maybe a little more medium-term view, would be really helpful?

Kishor Patil: Basically, both KPIT, basically, first, it is a KPIT subsidiary. So, we will have some of the IPs, which we have in this domain, we'll move it to the subsidiary., We signed an agreement with ZF, for a common development last year, 18 months back or so. So, we have been developing certain software with a common road map. That will also get into the subsidiary. And in addition to that, as Mr. Pandit mentioned, we will invest about 5 million in cash, during the next three months to six months, and another 5 million in 12-18 months. That's what, we will do. So how much the others will do, we will announce once, once we have the announcement made by the ZF and agreement is signed.

Management: The second part of the question on the size of opportunity.

Kishor Patil: Yes, so as I mentioned, it's a new start-up kind of condition, we are very, very excited about it because we have seen this opportunity from working with many clients and be along with, ZF along with some potential partners. We do believe this is an opportunity as the earlier discussion in terms of creating another industry leader, in this domain. That's what we think. The opportunity, it's very important because, as KPIT has been a software integration partner, though we continue to have IPs as well as accelerators.

So that we do continue to have. But it's very hard to have a product company and a services company, both in terms of culture and it's also, to some extent, it's also a potential conflict in certain cases. So, we believe that the way, we have set this up will be to capture the maximum share from the market and could be a potential leader. That's what, we believe.

KPIT will remain a system software integrator. And for these areas, we would have a natural advantage apart from the fact that, it also gives us opportunity to work, which we continue to work in any alternative products, if at all they come or if OEM chooses to develop their own. So that becomes a very clearer model to KPIT. So, it really makes it a clearer separation between the product and the services business. It protects and potentially increases our opportunity in services significantly. And second, it puts us in a very significantly good phase, where the integrations could be easily between 3x to 4x of revenue of the independent company.

Niket Shah: Got the point, sir. Perfect. Thank you so much, I will come back again. Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll be taking the last question. That is from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta: Thank you and congratulations for a very strong quarter. Just one question. On the large deal, I understand that maybe over the life of the deal the margins remain the same but how does it evolve over the course of the deal of the day, when it's ramping up? Because my understanding is that, you might have some initial investment, which should be concluded when the deal starts to ramp-up, which might hurt margins in the short term, maybe for a couple of quarters before the deal fully ramps-up.

So, can you just throw some light on that, how should we look about margins, so in large deals over the course of the deal, when it ramps-up?

Sachin Tikekar : Bhavik, good to have you on the call and thanks for the question. Typically, these are all longer-term engagements, and they're different in nature. So, there is no specific model, where investments are all upfront or so forth. But in certain cases, we do have to invest, make some investment.

Usually that happens for the first one quarters or two quarters. After that, it pretty much evens out. That's how it works. And that's been the case with some of the larger engagements that we have announced in the recent past and some of the ones that we've been doing, for the last few years.

Kishor Patil: But just to add on this, what Mr. Tikekar mentioned, these are not very significant investments. These are relatively smaller investments, mainly to initially set it up and some related infrastructure relatively not so significant.

Bhavik Mehta: OK, got it. And just to follow up on that, in the large deal, you typically start initially with higher on-site billing and then gradually move it offshore over the course of the day, or you can start it directly from the offshore location right from the beginning?

Sachin Tikekar: See some of these clients, the OEMs, many of them, we've been working with them for quite some time and we've been engaged with them and we have had some business with them for a long period of time. And given all of that, in most cases, there is no real difference that we see.

And it can happen during the course of the different cycles of the project. So, it's nothing, as I had mentioned earlier on, it's negligible, if any, during the course of the entire program.

Bhavik Mehta: Okay, okay, got it. This is very helpful. Thanks.

Anup Sable: Yes, thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Sunil Phansalkar: So, thank you all for your participation in the call, and you have a great evening. Thank you and take care, bye. Thank you.

Management: Thank you.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Dolat Capital Markets Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.