KPIT

November 03, 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

Sub: Disclosure of events & information pursuant to Regulation 30 and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. - **Transcript of Q2 FY 24 Earnings Conference Call**

Ref: Intimation of Q2 FY 24 Earnings Conference Call dated October 23, 2023

Dear Sir/Madam,

Please find enclosed the transcript of the Q2 FY 24 Earnings Conference Call, held on October 31, 2023, after the meeting of the Board of Directors for approving unaudited financial results for the quarter and half-year ended September 30, 2023.

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

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

Kindly take the same on your records.

Thanking you,

Yours faithfully,

For **KPIT Technologies Limited**

DESHPANDE NIDA YUNUS
Digitally signed by DESHPANDE NIDA YUNUS
Date: 2023.11.03 18:28:10 +05'30'

Nida Deshpande
Company Secretary & Compliance Officer

Encl: as above

"KPIT Technologies Limited Q2 FY24 Earnings Conference Call"

October 31, 2023

MANAGEMENT:	MR. KISHOR PATIL – CO-FOUNDER, CEO & MD
	MR. SACHIN TIKEKAR – PRESIDENT AND JOINT MD
	MS. PRIYA HARDIKAR – CHIEF FINANCIAL OFFICER
	MR. SUNIL PHANSALKAR – HEAD (INVESTOR RELATIONS)
MODERATOR:	MR. RAHUL JAIN, DOLAT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to KPIT Q2 FY24 Earnings Conference Call hosted by Dolat Capital.

As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Rahul Jain from Dolat Capital. Over to you, sir.

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

Sunil Phansalkar: A very warm welcome to everybody on the KPIT Q2 FY24 Earnings Call.

I also take this opportunity to wish all of you and your families a very happy, healthy, and prosperous Diwali. On the call today, we have Mr. Kishor Patil – Co-Founder, CEO, and MD; Mr. Sachin Tikekar – President and Joint MD; Ms. Priya Hardikar – CFO; and I am Sunil from Investor Relations.

As we always do, we will have the opening remarks by Mr. Kishor Patil on the performance and the way ahead, and then we will have it open for questions. Thank you once again for participating in this call. I will now hand this over to Mr. Patil.

Kishor Patil: Good afternoon, everyone. I am very happy to take you through the second quarter of 2024, this year. Let me just first take you through where the industry is. The industry continues to do well financially. If you look at all the results, they continue to look well. However, of course, there are certain issues on their mind. If you look at the commentaries, they are a bit worried about a few things, specifically about the electrification calls which are happening, and UAW strike which is there. However, all of them are committed to software-defined vehicle's new architecture investment which is going to be very key for their future. While they are doing that, as the companies are getting closer to the timelines, I think they are realizing a lot of problems they can see into their solutioning and the areas in which they need to fix. KPIT being a company which has worked with multiple OEMs, having that experience and having a proactive solution in many of these areas, is in a best position to really help the clients realize their SDV programs. In that context, I think KPIT continues to do well and benefit from their spending into their SDV spends.

This quarter KPIT's revenue grew 51.7% in terms of constant currency and 54.2% in reported US dollar as well as the growth quarter on quarter is 9% in constant currency and 8.4% in terms of reported US dollar. If you really look at it, we continue to focus on our T25 strategy. 84% of revenue comes from these strategic clients. Pass-cars, of course, has grown higher. The revenues from commercial vehicles have also grown, where we see a larger potential going forward. We also see our EBITDA margins to be 20%. The most important part is this is after absorbing the increments which have been in higher single digits across the organization. Year on year, the profits have grown by 68.7% and quarter on quarter 5.1%. But actually, last quarter there was a special one-time other income. If we do like for like, it is about 16%+ increase in the net profit quarter on quarter. The cash realizations look strong. DSO is at 47 days. The overall headcount is 11,971, more than a 4% increase. The attrition is all-time low. It is really into the lower double digits. In terms of our critical staff which we capture, it is lower single digit, the attrition. KPIT has increased focus on the KPIT Academy. We continue to invest heavily into training and people development. We must be probably the only company, as I know, which has done the 360-degree feedback across the organization and created an individual development plan across the organization. We continue to focus on sustainability and culture of excellence which really allows us to engage with our employees meaningfully.

Based on all this, looking at the macro environment, we do believe that our medium-term fundamentals are unchanged. KPIT's position has improved if not unchanged. And while we see certain short-term uncertainties here and there, based on what we can see, we have increased our revenue guidance to 37% plus in CC terms and EBITDA at 20% plus. We do believe that there are many things which are happening in the industry. One is the technology spend. Second is the competition like China, etc., which is really challenging, companies in Europe and the US, and they must really reduce costs substantially. I am not talking about software costs. I am talking about the overall cost of the vehicle. They need to bring in efficiency and the time to market they have to improve, I think. We believe we are in one of the best positions. We are building our offerings to address these issues. In this context, as I said, we feel good about the medium-term prospects of our company, and the commentary we gave about the future is not changed at this point.

Sunil Phansalkar: We can now open it for questions, please.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead, sir.

Chandramouli Muthiah: My first question is on the Honda contract that was won earlier this year. It appears that there has been some amount of ramp up from the QoQ growth numbers on that contract. I think Honda has been presenting to investors on the sidelines of the Tokyo Motor Show, and the Honda senior leadership did call out KPIT and CSK partners. And I think from his public comments, it appears that he is talking about closer to 3,000 employees to be engaged with KPIT. So, I just wanted to understand if you see any updates and an upside to your relationship with Honda. As I understand, I think earlier this year, KPIT had mentioned that the medium-term scope of that contract could be 2,000 employees. So, I just wanted to understand your thoughts on specifically how the Honda contract might ramp up for KPIT over the medium term.

Sachin Tikekar: It's a 7-year partnership agreement that we signed last year, and we just completed year 1 of that, and we are on track for year 1. Year 2 also, we are on track as projected. Typically, what happens, Chandru, is when we get into a partnership, we take a long-term view, and we start with something that is visible. And when we get going with the engagement, there are other things that we uncover, and our hope is that, that could also happen in the case of Honda. The partnership continues to go very well. Our hope is that we will go beyond 2000. But the agreement between the two organizations is that of 2000 as of now.

Chandramouli Muthiah: Just one more clarification on the Honda ramp-up. As I understand, I think that there were a few employees that were working from KPIT for the Honda business even before this SPV contract was signed. So, is there any rough estimate as to at this point at the end of 2Q what percentage of KPIT employees is being deployed on Honda related projects?

Sachin Tikekar: The way it works, Chandru, is that we started the work 5 or 6 years ago, and we have been working in bits and pieces, and that work has made progress over the last 5 years. However, last year both parties wanted to make a long-term partnership. That's why we came up with the partnership for the next 7 years. Because new projects get started and some of the old ones get over, it's hard to keep track of the changes that happen periodically. So, what we feel comfortable sharing with you is whatever target that we had, by the end of the year, we have achieved that target, and there is a clear target that we have set up for the calendar year 2024. And we are going to do everything possible to make or beat that target.

Chandramouli Muthiah: My second question is on the revenue-per-employee metric. I think we had a phase of offshoring through COVID, which supported margins, but maybe on a revenue-per-employee basis, that wasn't so accretive. But I think post the Technica acquisition – also Renault ramp-up and Honda ramp-up – we have seen revenue per employee now this quarter was close to 5%, better than the previous quarter. So I just wanted to understand if there are any other factors at play there, and over the medium term, how we should think about your revenue-per-employee metrics going forward.

Kishor Patil: We are happy we could do that. If you look at the overall utilization, the number of people headcount which we have added, and our revenue, we have added about 4% of headcount and our revenue has gone up by 9%. We have been in a position to really improve the utilization. We have been adding freshers for a long time, as you know. Because we are into specialized areas, it takes us more time for people to get productive. And we have been in a position to achieve that during this quarter. Barring some of these changes or barring some of the ramp-ups, I think it is constant, but some of these things will change quarter to quarter.

Moderator: The next question is from the line of Mr. Bhavik Mehta from JPMorgan. Please go ahead, sir.

Bhavik Mehta: Two questions. Firstly, on the deal TCV, if you can just throw some color on what is the average duration of the deals you are signing. Is it more skewed towards shorter-duration deals which give you faster revenue conversion or is it more skewed towards medium- to longer-term deals? And secondly, on the margins, obviously it's been a good execution over the past few quarters and you have achieved a 20% target. Where do we go from here over the next 2-3 years, let's say, over the medium term? Should we assume margins keep on expanding or do you intend to keep margins at 20% and reinvest all the gains back into the business?

Kishor Patil: First I will answer on the margin part. If you look at the last 3 years, we talked about our margin between 18% to 20% and we did say that we will protect 18% and we will keep on investing into growth anything beyond that. Slowly as we become comfortable, we will increase the margins. That's how we have come to 20%. We would like to follow the same principle. We would like to invest anything beyond 20% for some time. As we become more comfortable, we will continue to increase. We believe right now the way the industry is in a flux; we need to be proactive in investing in certain solutions and new technology areas. But as we feel comfortable, I think the margins will improve from here in the next 2-3 years. But at what speed and at what stage, we will keep on giving you visibility.

The second part is about the length of the engagements. Our basic business is focusing on T25 clients. Frankly, I would request you – it is important, but – beyond a point to not look at specific numbers in a quarter. It gives an indication, but as Sachin mentioned earlier, some of these are very long-term contracts and some of them are few years' contracts. It's a mix of both. It cannot be as straight as one can make it.

Moderator: The next question is from the line of Ms. Anika Mittal from Nvest Analytics Advisory LLP. Please go ahead.

Anika Mittal: My first question is we have several programs or deals in our pipeline. Can you put some light on our programs to our deal, how are we moving as per their timelines and are we going to execute their programs well before their expected timelines?

Sunil Phansalkar: If I try to get your question, what you are asking is, are we on track to execute the new engagements as per the decided timelines. Is that the question?

Anika Mittal: Yes.

Sachin Tikekar: The way I understood the question, there are about a few hundred programs that we are running or projects that we are running at any point in time. The general trend is the vast majority of them are being executed on time. Some of them sometimes are slightly ahead of time and sometimes they are slightly delayed, but on an average, the big trend is they are all being delivered on time. That's one of the key ways for us to build trust and long-term relationships with our partners. And that's something that we have done historically fairly well. That's why the focus continues on T25, and we continue to go deeper and wider with them. Does that answer your question?

Anika Mittal: Yes, sir. My next question is currently we are having around 20% revenue from commercial vehicles. What is our strategy to penetrate this segment going ahead? Do we have any potential customers? For existing customers with whom negotiations are going on, can we expect any deals in the coming quarters?

Sachin Tikekar: As Mr. Patil mentioned earlier on, a vast majority of our business, 70% plus, comes from passenger cars and the business in commercial vehicles, there are 2 buckets. One is the trucks part, and from our perspective, second is the off-highway part that has mining and agriculture. As far as trucks are concerned, the 20% plus business that comes to us, a vast majority of that comes from trucks. And there are existing relationships on the trucks' side. And we believe that the existing relationships can go further. Plus, there is headroom to add a few more global clients to the truck part of the commercial vehicles. The area that we have started to invest in is in the off-highway part. And we are trying to understand the industry in a much better manner so that we can provide technological solutions to solve their problems. And we believe that many of the technologies that KPIT has can be extended to solve those problems. The growth from that segment you will probably see over the next 2- or 3-year horizon that will complement the overall growth.

Anika Mittal: My last question is, any update on QORIX? Have we got regulatory approvals or any business we got in this bucket?

Kishor Patil: We are making very good progress. I think soon we should get all the regulatory approvals.

Moderator: The next question is from the line of Mr. Nitin Padmanabhan from Investec Capital Services India Private Limited. Please go ahead sir.

Nitin Padmanabhan: My first question is on what we are hearing broadly. There are a lot of these news reports around VW, GM, and Ford halting production of EVs citing low demand, Ford losing over $36,000 per car, and GM & Honda having scrapped a $5 billion joint initiative to develop affordable EVs, and so on and so forth. And there are some reports on shifting focus to hydrogen. In this context, it will be great to have a sense of how you are reading what is actually happening on the ground. And basically you did allude to this in some form, but is there any risk of any interim slowdown? I am well aware that you are pretty spread across this technology stack; so either way it goes, you should be fine but still good to get your thoughts on the same. And finally, some color on the order pipeline as well.

Kishor Patil: Overall, we think the trend towards electrification will be there in some way or the other. If not pure electric, it may be hybrid, it could be fuel cells, or multiple technologies, but of course, EV will remain dominant. Timelines can shift a bit here and there, but as we always mention, our spend is more for the future programs. So, largely it should be intact. Of course, there could be some minor changes here and there. But to just tell you, there are many companies we have already started working with on fuel cells and we are working on hybrid technology. We are otherwise ready for any alternate changes for power train from that perspective. But the bigger opportunity we see in this – because any problem for our client is always an opportunity here – is to bring efficiency in terms of technology and cost efficiency for them to favorably compete with the Chinese and other players. And that is something we will double down on and we are engaged, of course, with some OEMs on that. Those will be our opportunities. Now, you gain somewhere, you have to figure it out in some other parts. That is there, but this is overall we see good about it because of our understanding of the overall space and our different skills which we have. Also, on the charging and other infrastructure, we have seen very significant traction. So, all in all, I think from that perspective, we feel comfortable about space.

Sachin Tikekar: About the pipeline, as Mr. Patil mentioned earlier on, the pipeline from our perspective remains robust and it has been robust for quite some time. We have not seen any kind of noticeable change in terms of creation of the pipeline or the closure of actual engagement. So, the trend continues, Nitin, in our case.

Moderator: The next question is from the line of Mr. Vimal Jamnadas Gohil from Alchemy Capital Management Private Limited. Please go ahead, sir.

Vimal Jamnadas Gohil: My question was on vehicular architecture and its evolution. We have seen vehicles going from dispersed architecture going to domain-specific architecture. And now probably we are moving towards centralized architecture. And you highlighted efficiencies as well and that this could be a part of a centralized architecture that OEMs want to adopt. I just wanted to get a sense as to what how will the software intensity increase over here and the role of third-party service providers like us? What role can we play here?

Kishor Patil: I think the complexity goes multiple fold times. It is not only about the software content going up, but complexity goes up multiple times. And I think that is where exactly we are bringing out the solution, both for integration perspective as well as architectural blueprinting, etc. I think it's becoming very complex. Just to give you some idea, the overall testing and validation is going to go by 3x plus than what it was being done earlier. I think there are multiple opportunities in this area. At the same time, I must bring out that it is not a simple, straightforward software including testing or this. It is all performance based and the complexity of architecture is very high. That really requires you to understand the architecture even to do any kind of activity downstream.

Vimal Jamnadas Gohil: You alluded to some short-term uncertainties that you are facing although may not be very serious, but if you can just highlight something more on the short-term uncertainties you alluded to?

Kishor Patil: We are not facing it. The industry is facing it. That's why I mentioned that. For example, UAW strikes. We just wanted to call it out that there are these uncertainties industries are facing right now.

Moderator: The next question is from the line of Mr. Mohit Jain from Anand Rathi Financial Services Limited. Please go ahead.

Mohit Jain: Sir, congrats first of all; a good quarter on all fronts. Was this related to the deal pipeline? It is a follow-up to the previous one also. From a large-deal standpoint, like we had very good FY23 last 4 quarters. How is your large-deal pipeline looking like after the Honda deal? And should we expect the deal momentum of TCV that we announced to be maintained broadly at a similar level?

Sachin Tikekar: Mohit, what is happening is there are certain companies who like to go out and make an announcement of a large engagement, and then there are certain that just happen where there is no announcement. Having said that, as we work more closely, as I mentioned earlier on, with these T25, we have had long-standing relationships with many of them. The business continues to grow. There is not necessarily one large engagement per se all the time, but there are several projects and programs that we start as we go deep and wide with them, and we are seeing more and more of that with our existing clients across pass car and commercial vehicles. That's what I would say in response to your question.

Mohit Jain: Let me try it once more. We had almost $990 million TCV in FY23. And FY24, do you think given whatever we have done so far or whatever is the pipeline, you need to deliver growth on that, or do you think in multiple years you get one such year where you touch almost $1 million TCV?

Sunil Phansalkar: Mohit, as Sachin was trying to explain, what we have been saying is that not every large engagement we would be able to announce or talk about it upfront when we work on it. There would be some such engagements where we will work on them, execute them, and over a period, they will actually turn out to be mega engagements. It might not reflect, as we were able to do it for the large deals that we announce. But if you ask about the conversion rates and about the win rates, there is no reason why it should be different going forward.

Mohit Jain: And the second follow-up was, you guys are doing so well in Europe, but the US seems to be more or less flattish over the last 2-3 quarters. How is your outlook changing in the US? Plus, or minus? And when should we see the US maybe getting back to growth or do you expect it to remain steady?

Sachin Tikekar: If you look at the year-on-year growth, it's still quite robust. What happens is more and more programs are actually becoming global. So, the recognition of revenue can actually shift from one geography to the other. That is true. And we are seeing more and more of that. Again, that's one of the outcomes of having a T25 strategy. Essentially, we are growing with the clients where their footprint exists, and it exists across the globe. So, just looking at geography may not be the most accurate measure of broad-based growth. Having said that, if you look purely from the US OEM perspective, there has been a reasonable amount of growth, and we believe that the geography will continue to grow on its own.

Moderator: The next question is from the line of Mr. Sandeep Shah from Equirus Securities. Please go ahead, sir.

Sandeep Shah: Again a question related to the previous participant's. I think we have done extremely well and congratulations for the same. Even in this year, if I skip out the inorganic growth, the organic growth would be in the high 20s. But it looks like it has been supported through some mega deal wins as well. So your growth outlook on organic basis with a target and the vision to grow at 20% CAGR on organic basis still continues with whatever macro uncertainty remains? And will that be dependent in terms of 1 or 2 large deals to be signed each year or that is independent of that because the kind of programs we are getting involved in, even the current TCV quarterly basis would be enough for us to post 20% kind of organic growth?

Kishor Patil: I think, Sandeep, we have answered this question multiple times. But at a high level first, even this year, our organic growth has been more than 30%, not 20%. That is one point. Second, I did mention in the beginning that our medium term whatever we mentioned about the outlook remains the same. We are not changing any commentary for the long term. Whatever we have been talking about, it is there. Naturally, for a specific year, we will come back and talk about it in the month of April what we feel about the next year, but overall, in the medium term, all the fundamentals are unchanged. KPIT's position is unchanged. And actually, as we said, there are multiple areas in which we can go out and help our clients. And there are areas such as commercial and other areas which have still a lot of potential which we have not captured yet. So, overall, we believe in the medium term, the market potential is unchanged.

Sandeep Shah: This is the last question. Earlier, we saw KPIT is involved in many strategic engagements related to SDV with 7 out of 10 OEMs. Any update on that? Whether that number from 7 has gone up and the potential for the same to go up?

Sachin Tikekar: First of all, I think there is, of course, potential to go up. There will be more and more OEMs in the future who will embark on the SDV journey. And there are different parts of the journey and we will be part of more and more such journeys going forward. Not all of our T25 clients have fully embarked on the journey, so we see headroom over the next year or two to have more SDV programs.

Moderator: The next question is from the line of Mr. Abhishek Pathak from HSBC. Please go ahead, sir.

Abhishek Pathak: My question was, despite a strong H1, the implied CQGR seems to be meaningfully lower, maybe at around 2% to 2.5%. Just to get some clarity, has there been some ramp-up which has been front-loaded, which won't happen in the second half? Or are there some short-term factors at play in the second half? I do see the irony in saying 37% guidance as cautious, but for want of a better word, what's driving the outlook? And is there any upside to this guidance?

Kishor Patil: First thing is, I think at the beginning of the year we had said that as the environment was a little, if I have to say, soft during that time. We said that we will maximize our opportunity in the first half year. We had said that earlier so that we could maximize it and ramp it up ahead of time. And we are very happy we could do that. That is number two. Third thing is, I don't know how you did the calculations, but I think the calculations are a little better than what you mentioned. I think it is still a reasonable number even to get to 37%, and we have said 37% plus because frankly, , as I said, there are some smaller nuances here and there. I guess some of these strikes can get closed tomorrow, but you have to be cautious in saying what you say. With all that, I think 37% is not a bad number and the profit number in our opinion is pretty good what we have mentioned. This is what we see today. As I said, the fundamentals are unchanged and KPIT's position remains unchanged.

Moderator: The next question is from the line of Mr. Rajit, an individual investor. Please go ahead, sir.

Rajit: The question is related to the JV. I missed the initial update, but my question is more related to how the JV will pan out in terms of client ownership, client serviceability, and revenue distribution. And the reason I am asking you is I am assuming that a certain IP is moving to the JV from our side. There will be certain revenue which might move to the JV as well. And going forward, do you see KPIT as it stands now foregoing some revenue to the JV? And in turn, will there be something accruing to the KPIT as of today? Basically, how would it pan out 6 months down the line and maybe 5 years down the line in terms of our own turnover?

Kishor Patil: The first thing the reason we did the JV, as we mentioned in the genesis of the JV, was from classic AUTOSAR, the whole thing moved towards a middleware which includes adaptive AUTOSAR plus safety, plus, plus, OTA and other things. So, it is much more than that. So, the investments required were very significant, in excess of about 100 million were the investments required to realize the product. That was point number one. Point number 2, if it has to become an industry standard, we wanted to catch up and leverage partners. And we did say that we have 1 partner today, but we may look at additional partners. That was the idea. So, the first idea was to really reduce the investment. The second was to get a better market share and KPIT the way it will really benefit from is all the integration will come to KPIT so revenues will come to KPIT. From that perspective, it's a win-win because that's how KPIT will benefit from this plus it will, of course, get the share of profits in due course from the JV as well. That is the genesis of the JV.

Rajit: My second question is related to the finance cost. This is an item which has been there for the last couple of quarters at least which is unwinding of certain contracts. And that number is although small, but over a period of time, I think it's more than 10 crores. I just wanted to understand a little bit more in detail what are those contracts and how are we accounting for the unwinding costs and are these actually cash costs.

Priya Hardikar: If you look at finance cost per se in a particular quarter, that does not include the unwinding cost of hedges that you mentioned. If you look at the published results, we will give a table of what is the actual working capital borrowing cost and what is the IndAS accounting treatment on various leases or other items. So, the finance cost is not the one that you are referring to. If you look at the note in the published results, you will get the answer.

Rajit: I am sorry. I might be referring to the other income or the other costs, but anyhow, I will come back to you on that.

Priya Hardikar: If you look at the other income, then yes. Other income we have had a profit this time because of some of the hedges that have turned profitable to us.

Rajit: And these are actual cash....?

Priya Hardikar: Yes.

Rajit: Are these derivatives or are these plain simple forward contracts?

Sunil Phansalkar: Our hedging policy, we have said, is plain forward contracts. And in our investor update, you will find the details of the hedge quantity and the average hedge rate that we have at the end of every quarter.

Rajit: If I may, just last follow-up. We cancel those forward contracts in an event when we don't have an incoming receipt against those forward contracts and then book the profit. Is my understanding correct?

Priya Hardikar: There is a particular treatment in accounting under IndAS 30. You may connect subsequently with Sunil, and he will explain to you. But the accounting standards mandate the accounting treatment.

Sunil Phansalkar: And there is a one-for-one underlying for our forward contracts. If you look at the quantum of hedges that we have made and the inflow of the foreign exchange, we typically are in the range of about 75% to 90% of our net exposure – not the gross exposure but the net exposure – in foreign currency. All forward contracts have a strong underlying associated with them.

Kishor Patil: We don't cancel any forward contracts as they are plain simple contracts.

Moderator: The next question is from Mr. Akshay from Axis Capital Limited. Please go ahead, sir.

Akshay Ramnani: You talked about Chinese OEMs becoming aggressive in the market and your role to help the developed market OEMs for cost efficiency. If you can please elaborate on that point what did you exactly gain by those cost efficiencies? Were you talking about offshoring or was there something else as well which you were trying to convince?

Sachin Tikekar: Akshay, if you look at it, typically in a normal vehicle, there is a cost difference of 20% between the like-to-like Chinese electric vehicle versus the ones that are available in the western part of the world. The key here is how to reduce the overall vehicle cost. And from KPIT's perspective, what we are doing is we are actually looking at their entire architecture. The new architecture along with the blueprint and execution of it will provide substantial cost benefit to the OEMs per vehicle. That's one area where we are creating efficiency for the OEMs from the architecture and software perspectives. And that's our way of helping them. Of course, there are multiple other ways that they can actually reduce the cost, but this will really going to be our role in helping them. That is one part; one is cost competitiveness. And secondly, just making the overall vehicle more attractive. And there are other aspects to it. Some of the Chinese OEMs, if you look at their off-board experience, they are taking the lead. It also creates an opportunity for KPIT to create whether it's the in-cabin experience or off-board data and services, there are certain learnings that we have from some of the Chinese OEMs that we can take to the global OEMs outside of China. So, it's both ways. The first part is to actually reduce the cost of their vehicles and the second part is to make the vehicles more attractive and competitive.

Akshay Ramnani: But just thinking out loud, these things typically have been done in-house historically. What drives your confidence for a company like KPIT being chosen for these kinds of engagements?

Sachin Tikekar: One is the evidence. We are already engaged with some of the OEMs and there are ongoing conversations with some of the others. That gives us the confidence that, a) We can actually do it and we are doing it. b) If you look at the expertise, the deep expertise that is needed, very few OEMs actually have that at scale, if any. And that's why they need a proven scalable partner with the deep expertise to help them make that journey. So, it's a two-way street.

Akshay Ramnani: Sir, another question was on the revenue per development employee which you report. That has been steadily increasing every quarter for the past 4 quarters. I wanted to get some color around that. I know you touched upon utilization, but it would be good if you could break that more to what other factors would have contributed like utilization, on-site mix, or price hikes if you would have seen anything of that sort. Nothing quantitative but qualitatively, which are the factors which are more predominant in helping that number go up?

Sunil Phansalkar: Akshay, what we have said and we have been focusing upon is improving the net rate realization and that has got multiple components. It includes the actual rate that you bill to a client and we have been focusing on taking that up steadily in every new engagement that we do. The second part of it is related to your efficiency which is utilization. When we were in the ramp-up stage for the large engagements, we had hired ahead of time, and of course, there were also freshers hired who were getting utilized and hence the utilization has gone up. And the third factor is the productivity. Productivity is, one is we talked about our platforms, tools, and accelerators that we can use. The more fixed projects we do, the better it helps for net rate realization and also personal productivity. These are some of the components of rate realizations which have been improving across quarters. If you look at the last 4 or 5 quarters, they have been continuously improving. And I think that has resulted in an improvement in the net revenue per employee.

Akshay Ramnani: The last one from my side would be, you talked about the JV with ZF. I wanted to understand who the competitors would be who would be developing a similar middleware platform similar to what this JV tries to achieve. And any color around that?

Sachin Tikekar: There are the traditional tier 1s who are trying to build a platform. Some of the large traditional tier 1s are in the play. And then, some of the OEMs may also want to take the platform that a company like KPIT is building for them to their siblings or cousins, so to speak. That's another option that they have. And there are other system integrators who are also thinking about getting into this. So, it's an evolving field at this point in time. It's new in some way and that's why it will continue to evolve. And we are certain that it will face new competition as the years go by.

Moderator: The next question is from the line of Mr. Puranik from ENAM Holdings Private Limited. Please go ahead, sir.

N. G. N. Puranik: Fantastic quarter. Nice to see you in the 20% margin bracket and 30% plus growth bracket. I have a question on the vehicle architecture you're developing. It's amongst the highest in the value chain. How design and architecture intensive it is in terms of people, process and all. You also mentioned the testing and validation intensity of this. How intensive is this in terms of people, process, and opportunity and this in turn gives you a lot more fixed price contracts and better margin?

Kishor Patil: Absolutely. What actually we have realized is, specifically the way the vehicle changes to the central architecture, the most critical part is the architecture. It really defines the cost, quality, and time one will take to deliver on the contract. So, we have really doubled down on that. As you know, we did some very good acquisitions like Technica. We, of course, had a lot of expertise earlier. We actually put all this together and now we are developing future areas where we can really create what we call as shifting of the quality, where the quality is driven by architecture. And basically, subsequently the validation and virtualization is also done as early in the stage as possible and through software rather than the hardware. That is where our focus is and I think that's where we see tremendous opportunity.

N. G. N. Puranik: And the intensity in terms of effort spent on both architecture and testing & validation?

Kishor Patil: Yes, the complexity is very high. So, we would like to automate as much as we can and make it into what we call blueprinting and basically bring all the knowledge into either the architecture or the platform we are building for this and de-skill the efforts which we will have to do on a project.

N. G. N. Puranik: When you say a vehicle architecture platform, can you explain what the elements that this platform has both in terms of domain technology, process, and regulation?

Kishor Patil: There are 2 points I mentioned about. One is that I talked about architecture. When you talk about architecture, it talks about vehicle architecture, it talks about software architecture, and basically it talks about network architecture. All these need to be, if I have to say, in harmony. And last but not the least is the data architecture which is also there. This has to be in harmony and that is the most critical part, and that's where most of the clients which have made mistakes have made in that part. The other part of this is when you do this along with the semicon and the hardware part, then the performance can be very different. And you can see that what you have envisaged in software or network architecture cannot be realized in a physical form. So, we have created certain tools so this can be virtualized ahead of time. And the performance as well as the issues which can come can be picked up earlier. That is what really brings our uniqueness.

N. G. N. Puranik: These tools, components, and subsystems, how do they get used up in a project development?

Kishor Patil: In the specific projects, we use it as a part of our components.

N. G. N. Puranik: When you say vehicle architecture, let's say you are doing it for another client, how do you leverage these tools?

Kishor Patil: These are basically blueprints kind of a thing if I have to say in some way that we give. And in the case of network architecture, these are tools which are sold to them.

N. G. N. Puranik: And you also have productivity tools?

Kishor Patil: Productivity tools are internal software productivity tools. Of course, we have many. .

N. G. N. Puranik: Kishor, where do you make your 20% to 30% margin? Is it in architecture or in validation testing?

Kishor Patil: We actually would do both ways because if you just do it at very high-end, it is difficult, as you know. So, we have to do it as both sides. So, we have to have downstream revenues to realize the margin and volume.

N. G. N. Puranik: The fixed price component is what part of the revenue?

Kishor Patil: It has gone up by almost 5% during this quarter. So, it is going up. As our SDV programs go forward, I think we will see that increasing.

N. G. N. Puranik: As you rightly said, cost, quality, & time is very important. That is important for fixed price projects also and for the margin also. Isn't it?

Kishor Patil: Yes.

N. G. N. Puranik: That's where you make your 20% to 30% margin?

Kishor Patil: We just do 20%.

N. G. N. Puranik: I don't think you need to do more than 20%. If you reinvest in the business, 20% is really great. That's fantastic. When will you get your next $100 million account?

Kishor Patil: We spoke about it, I think. We look at every big OEM as our opportunity to be there. In some cases, we upfront announce it. In other cases, we build it over the period.

Moderator: In the interest of time, that would be the last question. I would now like to hand over the conference to the management for closing comments.

Sunil Phansalkar: Thank you for your participation. If you still have some questions, please feel free to write to us and we will be happy to get back to you. Have a great evening. Thank you and bye-bye.

Moderator: On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.