

February 07, 2023

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

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

Scrip ID: KPITTECH
Scrip Code: 542651

Symbol: KPITTECH
Series: EQ

Kind Attn: The Manager,
Department of Corporate Services

Kind Attn: The Manager,
Listing Department

Subject: - Transcript of the earnings conference call for the quarter and nine-months ended December 31, 2022.

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 earnings conference call for the quarter and nine-months ended December 31, 2022 conducted on February 01, 2023 after the meeting of the Board of Directors for your information and records.

The transcript of 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**

Nida Deshpande
Company Secretary & Compliance Officer

Encl: as above



“KPIT Technologies Limited
Q3 FY2023 Earnings Conference Call”

February 01, 2023



Dolat Capital





KPIT Technologies Limited
February 01, 2023

**ANALYST: MR. RAHUL JAIN – DOLAT CAPITAL MARKETS
PRIVATE LIMITED**

MANAGEMENT:

**MR. KISHOR PATIL – CO-FOUNDER, CHIEF
EXECUTIVE OFFICER & MANAGING DIRECTOR –
KPIT TECHNOLOGIES LIMITED**

**MR. SACHIN TIKEKAR – PRESIDENT & JOINT
MANAGING DIRECTOR – KPIT TECHNOLOGIES
LIMITED**

**MR. ANUP SABLE – WHOLE TIME DIRECTOR &
CHIEF TECHNOLOGY OFFICER – KPIT
TECHNOLOGIES LIMITED**

**MS. PRIYA HARDIKAR – CHIEF FINANCIAL
OFFICER – KPIT TECHNOLOGIES LIMITED**

**MR. SUNIL PHANSALKAR – HEAD – INVESTOR
RELATIONS – KPIT TECHNOLOGIES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Limited Q3 FY2023 earnings conference call hosted by Dolat Capital Markets Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you Sir!

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

Sunil Phansalkar: Thank you Rahul. A very warm welcome to everybody on the Q3 FY2023 earnings conference call of KPIT. Today on the call, we have Mr. Kishor Patil, Co-founder, CEO & MD, Mr. Sachin Tikekar, President & Joint MD, Mr. Anup Sable Whole Time Director & CTO, Ms. Priya Hardikar, CFO. So as we do always we will have the opening comments on the performance of the quarter and the way we look ahead by Mr. Kishor Patil and then we can have the floor open for questions. So once again a very warm welcome to all of you and I will hand it over to Mr Patil!

Kishor Patil: So good evening everyone. I am very happy to take you through Q3 results. This year we started as you know a little cautiously and we gave an outlook a bit conservatively between 18% and 21% growth, which was based on the visibility we had, but as the year progressed, I think we got better engagements, deeper engagements and many deals with our key clients. During the year we also acquired Somit Solutions and Technica and specifically on Technica I think this really accelerated our engagement with our clients. In the CES recently that is Consumer Electronics Show where we had given the full story of KPIT plus Technica, it was very highly appreciated by the clients and I think so during the year we have seen stronger engagements with clients, stronger proposition from the KPIT side and that has really started resulting into larger and deeper engagements with our clients.



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So coming back to the Q3 results, in Q3 FY2023 we had a year-on-year constant currency growth of 44.7% and 19.3% quarter-on-quarter. Organically that is excluding Technica it is 24.6% Y-o-Y and 4.9% quarter-on-quarter. In terms of profits, it is a 43.5% year-on-year and 20.4% quarter-on-quarter growth. So our profits first time crossed Rs.100 Crores mark for the quarter and our EBITDA remained at 18.5%. Now during this part overall there has been a volatility in the currency. During the quarter, the other income increased by Rs.9 Crores basically because of the rates Euro as well as the Pound being stronger. The tax rate is 25% during the quarter, but on annual basis we will remain at 23% and during the quarter we have deal expenses of roughly about Rs.14 Crores relating to Technica deal. So first thing I also would like to mention is the cross currency has also impacted in terms of reported versus constant currency growth numbers and we hope that the picture hopefully will change if the currency will stabilize henceforth. During the quarter specifically there has been a big change in the currency Euro Rupee rate and that has impacted really more in terms of the difference between the Dollar and CC growth. We have a very consistent policy of how we do this but because the variations are higher we have put on the exchanges and also on the website of KPIT what is our policy for cross currency calculation. I think that we have uploaded for people to know the calculations better. In terms of growth the feature development and integration revenues grew 20.6% year-on-year and 10% quarter-on-quarter. Architecture and middleware practice grew by 73% year-on-year and 50% quarter-on-quarter, also quarter-on-quarter numbers include Technica numbers as well. Cloud based connected services grew 49% year-on-year and 20% quarter-on-quarter.

If you look at the geography and I would like to again mention that these are not numbers that we look into but this is how it gets reported because most of our clients are global. However USA has grown 16.3% year-on-year and 1.7% quarter-on-quarter. Europe has grown 62% year-on-year and 38.6% quarter-on-quarter. Asia has been flat. However, if you take the year as a period and you will see it going forward you will see a growth across all the three geographies and all our pipeline is strong across all the three geographies. Looking at the people side there is a significant drop in the attrition which we have experienced for last two quarters consistently. The drop while we do not publish the number, I may say that the drop is about 3% quarter-on-quarter and we expect that to at least have that kind of lower attrition to continue over the next quarter if not drop further. We



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have added during the quarter 291 people from Technica. Our hiring continues to be pretty strong. Our focus is really to take the benefit of the current environment and really improve the quality of hiring and get the best talent possible.

If you look at the strategic engagements with our client during the quarter, we closed USD 272 million worth engagements with our clients out of which one is USD 100 million with Renault. The Renault engagement is bigger but some part of it was reported last quarter which we had closed last quarter so the remaining we are accounting for here. The pipeline is pretty strong. It includes one large engagement as well that I had mentioned last time. I would like to mention that our growth is not really necessarily depending upon only the large engagements. Basically because our focus is on all OEMs and these are very significant client engagements and wherever there is though not one single engagement we are growing quarter-on-quarter very strongly in all the accounts. We have some as I had mentioned last time mega deals but otherwise also our growth is higher irrespective of such engagements because this is not how the client engages and then as you know many times they are not used to announcing such kind of engagements. Overall, we see our strategic clients have a very large spend and thus the opportunity in front of us is also larger and we would like to bring the sharper focus on the clients which we have and we believe the opportunity is much higher for us to grow going forward without making any change and actually having a sharper focus on our clients. We can certainly grow at least double digits in most of our clients from where we are. So we continue to focus on the execution of good quality deliverables with our client. Technica has been a major development during the quarter, the integration has started. During the quarter we have about USD 14 million revenue from Technica with 20% plus operating profitability. This is the best quarter during a calendar year for them. They have a bit of a seasonability where the last quarter there is a higher growth and Q1 is a weaker one where revenues come down by about 20% sequentially. Overall Technica will deliver 15% to 20% growth in the year. In FY2022-FY2023 overall as a year in spite of uncertain environment microeconomic conditions we started with an outlook of 18% to 21% growth, we increased it to 31% to 32% last quarter, with our organic growth of 23%. We believe we will beat this and our overall growth will be certainly in excess of 33% and more than 24% on an organic level. EBITDA will be between 18.5% and 19% and will remain in that range.



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Q4 has some specific things I would like to bring out. Technica revenue will drop as I mentioned and hence the margins; however, our organic growth will remain strong and the profitability which will more than make up for that to have our normal quarterly growth and profitability. That will be after also taking into consideration certain customer intangibles which we may start writing off. Overall we are very happy with the quarter and overall we are very happy with where we are specifically the positioning which we have with our clients and the confidence we have in our client engagements in spite of the economic environment. We believe that the next year also while we will give outlook, etc., at the end of the Q4 we see that this trend continuing into next year and we feel very confident about growth continuing into next year. Thank you.

Moderator: Thank you. We will now begin with the question-and-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.

Chandramouli Muthiah: Good evening and thank you for taking my questions. First question is on one of the comments on the outlook in your presentation you have called out that there is some degree of confidence that you can beat your organic revenue growth guidance now you I think have upgraded that to 24% plus in constant currency terms so could you clarify what is the 9M organic constant currency growth so far and any drivers that give us comfort around why we see upside to these targets?

Kishor Patil: When we come back to the numbers overall I think the deal closures during the quarter which I mentioned earlier as well as our existing engagements and pipeline, I think that gives us the confidence.

Sunil Phansalkar: The YTD growth in CC terms is 24% over the nine months of last year.

Chandramouli Muthiah: Got it. That is helpful. Second question is around the integration cost for Technica I think you called out it is about Rs.14 Crores this quarter and you also mentioned that this is a 20% plus margin business long term so while we see that across KPIT's accounts this quarter percentage of revenue have declined meaningfully Q-o-Q we do not necessarily see the margin benefits of the acquisition yet because of the integration costs involved so could you quantify sort of what the other



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costs are I think Rs.14 Crores you have quantified as deal cost but even over and above that there seems to be a pretty big spike in other expenses quarter-on-quarter so just trying to understand what should be an appropriate run rate for other expenses going forward because I think you have mentioned that even the next couple of quarters you might have some amount of integration costs so just any color here would be very helpful?

Sunil Phansalkar: So if you look sequentially, the other expenses this quarter also include the costs in Technica. So apart from the deal expenses I think the consolidation of Technica is the reason. There is no other specific cost that has gone up disproportionately or that has a onetime element in the other expenses.

Kishor Patil: The expenses which may to some extent will be there nothing too significant as compared to this quarter but some expenses will be there. Mainly we are taking some services from a consulting organization to ensure that the integration plan goes on well and the review of our integration plan is proper, because this is very critical for us.

Chandramouli Muthiah: Got it. This is a followup. I was just trying to understand I think the previous quarter we had about Rs.110 Crores of other expenses and if I add maybe Rs.14 Crores to that for the deal expenses that takes us to maybe Rs.124 Crores but this quarter I think we have been close to Rs.166 Crores so just trying to understand what that delta is and any color that would be very helpful?

Sunil Phansalkar: What I said is that delta is we have consolidated Technica during the quarter and if Technica margins are at around 20% delta between the revenue and margins goes to other expenses as well as the personnel expenses, so the change in other expenses is only because of the expenses of Technica, which have also got added because we have consolidated. So when we are looking at an absolute increase the absolute increase will have the increase because of Technica, it will have the increase because of the growth that we had during the quarter and the increase because of the deal expenses that we had in the quarter.

Chandramouli Muthiah: Got it that is very clear thanks for that and just lastly we have been talking about the 10 large middleware mega deals that are under discussion globally and how KPIT as of last quarter was active in seven of them you had guided to one more potential 100 million plus deal



opportunity in the first half of this calendar year so any updates on the broader middleware deal pipeline and how we should think about timing for the second opportunity?

Kishor Patil: I would like to clarify it. I think maybe there is some miscommunication in this area. What we have said is this is our engagement with the client it does not mean that there will be seven mega deals. What we said is these are the programs in which we are engaged and I again explained just now, our basic business model is to grow with the clients and engage with them and grow quarter-on-quarter and we have very strong growth where we do not have one single large big deal with the client but what I had mentioned last time is there are two deals which I had mentioned about one of which we announced for Renault and there will be one more which we will come in sometime. That is what I had mentioned in the last quarter. Sachin do you want to add anything.

Sachin Tikekar: No there is nothing more to add. That is exactly what we said last time and the first half of the year we still have five months so hopefully you know we will have the announcement of the second one in times to come. Nothing additional.

Kishor Patil: Does this answer your question?

Chandramouli Muthiah: Yes that is very helpful. Thank you very much and all the best.

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

Vimal Gohil: Yes Sir thank you very much for the opportunity. Sir my question is firstly on the calculation that you gave about you said that \$14 million is what you have recorded this quarter from Technica now if I were to sort of adjust that with the current revenue you would come to around \$96.5 million which is close to 2.5% kind of reported USD growth and if you are going to surpass that 24% of growth for the full year that implies a very sharp improvement in the next quarter even after 20% sort of reduction from Technica so just wanted to get a sense on where is this confidence sort of coming from, I understand the deal wins have been very strong but the



growth rate is materially higher than what we have delivered in the very, very recent past?

Sunil Phansalkar: One correction the comparison of 2.5% reported growth and the 24% growth is not correct because if we look at the organic CC growth this quarter that has been 4.9% so I think that is what needs to be compared because 24% plus is the CC organic growth.

Vimal Gohil: Okay understood and Sir I just wanted to understand the seasonality difference in Technica typically companies based out of Europe or US typically have a weakish kind of a quarter in December whereas Technica is completely opposite so what drives this unusual seasonality?

Kishor Patil: Frankly, I think it is more to do with a lot of European clients. They have certain products and infrastructure which actually they provide to the clients and I think that is what mostly has resulted into this additional revenues during the last quarter. Anup you have anything to add.

Vimal Gohil: Sir another point was on attrition, you mentioned that attrition has dropped off by almost 3% points in that backdrop would it be fair to say that this year you will probably be ending at about 10700 to 10800 employees adding about 2500 odd employees will the hiring intensity continue to remain the same or do you think that in the backdrop of reducing attrition you might not require strong hiring addition as you did in the last two years?

Kishor Patil: We are planning for a strong hiring but naturally we have a clear process by which every running two quarters we plan based on the revenue visibility and attrition because you get to know about attrition three months in advance roughly. In spite of that we believe that we will have to continue on strong hiring for the next year.

Vimal Gohil: Understood Sir. I will join back in the queue but thank you very much for taking my questions. All the best.

Moderator: Thank you. The next question is from the line of Karan Uppal from PhillipCapital India. Please go ahead.

Karan Uppal: Thanks for the opportunity and congratulations on a very strong set of numbers yet again so first question is on the deal wins which we have



announced so that TCVprint continues to be very strong for last three quarters so just wanted to understand what are the major components of it be it in terms of (inaudible) 23:13 or SDV opportunity and also if you can quantify what is our share in the overall SDV related deals?

Sunil Phansalkar: The question is TCV has been stronger in the last three quarters so any sense that we can give on the type of work engagement practice.

Kishor Patil: There are three parts that we typically report one is the feature development and integration part, then the architecture and middleware and third cloud based. We are seeing growth which is fairly balanced across the three and with more and more middleware engagements that we start, at the beginning, it also sort of creates opportunities for the other two practices to grow. So something takes a lead and then it also benefits the other two practices that is the trend that we have seen over the last three or four quarters and we believe that is the trend that will continue in the immediate future which is the early part of next year. We have had a fairly balanced growth across if you take the year-on-year numbers. Quarter-on-quarter things may change but the growth looks fairly balanced going forward. Was there anything else that you wanted me to address or you just wanted me to specifically talk about whether it was balanced growth or not?

Karan Uppal: Yes Sir just wanted to ask on the software defined vehicles related opportunity can you quantify in terms of the overall deal wins which you have won how much was related to that and what is the pipeline?

Sachin Tikekar: As we mentioned last time there are six engagements we are already engaged in six of them and those are as you would imagine everybody is trying to do these kinds of engagements for the first time so we have our hands full with software defined vehicle kind of programs they are very critical to the clients. The focus is to now make sure that we are on track and we are able to deliver them successfully that will be the number one focus and as we create more bandwidth we will look at more SDV kind of engagements. Some of our other clients would also want us to engage for instance commercial vehicles they make take up some of these in a year or two so it is good for all of us that we sort of stagger them out over a period of time rather than trying to do too many things all at the same time and the earlier point when we talk about every SDV kind of engagement it



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touches all three buckets that we talked about. Initially it starts with consulting then it leads to bulk of the work on the middleware and then it leads to feature development and also going into the cloud piece right so that cycle will continue in the foreseeable future.

Kishor Patil: Just to add to that I think most of our new wins a large part of it I would say I do not have exact number but maybe around 60% to 70% are related to SDV.

Sachin Tikekar: Yes the six engagements that we already started.

Karan Uppal: Okay that is really great. Thanks for that clarity. The next question was on margins so how should we think about the margin trajectory from here given that Technica operates at a higher margin but also has a seasonality to it and organically also we are growing very well so there will be some support from the organic growth so from here on for the next four quarters how should we think about the margin trajectory for KPIT?

Kishor Patil: I think the way I would put it is we have given a guidance or outlook which has been pretty consistent. Initially we gave 18% to 19% then we have given 18.5% to 19% and we will be in that range. We will give our outlook for the next year at the end of the next quarter. Overall our strategy has been to really have EBITDA margin within this range and invest for any future growth; however, if we see that there is additional opportunity to improve the margins, we will let you know when we give outlook for the next year.

Karan Uppal: Thanks for that answer and all the best for FY2024.

Moderator: Thank you. We have the next question from Mohit Jain form Anand Rathi. Please go ahead.

Mohit Jain: Sir first was you spoke in the opening remark about intangible write off that you are anticipating I could not get the context of that but is there any such thing which you are planning for 4Q or for FY2023?

Sunil Phansalkar: The context there is the Technica acquisition. When we do the acquisition we actually have a period of one year to recognize the intangible assets that we can have which will reduce the goodwill on the books. So that exercise we are currently doing and there is a possibility that we might be



able to account for those assets for Technica that we have acquired and then start the amortization of those assets. It could happen in Q4 this year or it could start from Q1 next year but that is something that will happen when we do the purchase price allocation of Technica. so that is what we were talking about.

Mohit Jain: Understood and second if you could comment little bit on the deal pipeline like because we have very strong bookings this quarter has it moved up, how much has it moved up anything that will help us understand?

Sachin Tikekar: Overall if you look at the trend for the last seven to eight quarters now it has grown substantially quarter-on-quarter and the last quarter was not an exception it improved substantially from the previous quarter to that almost a 70% to 80% growth in that and we do see strong demand coming our way and we believe that as we enter the next year we should start the next year on a strong pipeline and again as Mr. Patil mentioned earlier on the bulk of it is actually coming from our existing strategic accounts and it is not going to be something that is going to be separately carved out or called as a large engagement. It is just that because the way in which we engage with them there is just so much more that we can do with the client.

Mohit Jain: But that will pass through your TCV numbers that you report right irrespective of the size?

Sunil Phansalkar: That is correct.

Mohit Jain: Okay and a follow-up was you said 70% to 80% 3Q FY2023 versus 3Q FY2022 is that the right number?

Sachin Tikekar: Yes.

Mohit Jain: Coming to margins we had this Rs.14 Crores integration cost which practically takes margins above 20% for Q3 itself assuming there are cross currency tailwinds for the next quarter and supply side is inching up should not we expect that margins eventually head towards or in that direction for 2024?



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- Kisho Patil:** I think I explained that. Right now the way we are focusing on I think the biggest focus for the company is the best execution for our clients and that is why we have given certain range and we will remain range bound. Every quarter is different that something else comes like during this quarter we got other income which we may or may not get next quarter it really depends on but as a company what we are doing is keeping it into that range and the rest we can allocate for better execution or growth we do that and naturally that allows us to continue with the strong growth and better execution with the client which is very critical to our success. For the next year as a whole how it will pan out we will give you some indication at the end of the Q4.
- Mohit Jain:** Correct Sir. That is all from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Akshay Ramnani form Axis Capital. Please go ahead.
- Akshay Ramnani:** Congrats on a good set of numbers so the first question was on client matrix so when I look at the client matrix active clients are flat Q-o-Q while client concentration has reduced after acquiring Technica so is it fair to assume that we were already working with all of the Technica's clients and also does Technica integration change our thought on the strategic T25 customers bucket which we have?
- Sachin Tikekar:** So let me address the first part. The strategic intent does not change. In fact Technica fits in really well with what we are trying to do with our T25 clients and there was a really good validation as Mr. Patil mentioned during CES that many such clients were excited about having Technica being part of KPIT. Technica allows us to go deeper and wider within the existing clients and that is something that we will continue going forward as well. Now on to your second question yes of course the point is not here to add clients quarter-on-quarter we are very selective about adding clients and that is something that we decide at the beginning of the year so when we plan for next year we will have clarity in terms of which clients we will really focus on adding for the next year but your question about the concentration, I think there are certain revenues in Technica that are not related to our T25 clients that came in and so organically we have had growth which has been very sound. With Technica coming in there are certain clients that are not in line with our T25 as of now that is why you



see a little bit of **fluctuation**, but you will see that over the next few quarters it will come back to the same.. We are also disengaging with certain clients which are not in line with our focus so it worked out the same number, but it may not be exactly the same.

Akshay Ramnani: Got that and another question was to understand the cost structure of Technica better so we added about 290 employees from Technica about \$14 million of revenue which translates to a fairly high revenue per employee is it fair to assume that Technica would also have high subcontracting cost in their cost structure which might be sitting in the other expenses and if that is the case how do we plan and do we expect to continue with the similar cost structure or is there a change we think about that?

Sunil Phansalkar: If you remember when we announced the deal, there is an entity in Tunisia which works exclusively for Technica so those employees are not a part of KPIT today. We will acquire that entity going forward but right now those employees are not a part of the total employees of Technica but they provide services for Technica and hence you will see that it is appearing to be a little bit higher right now which is essentially the subcontracting cost.

Akshay Ramnani: Okay thank you.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec Capital Services India. Please go ahead.

Nitin Padmanabhan: Good evening. Congrats on the strong quarter. My question was on margins so this quarter excluding the integration cost obviously margins would have been higher by maybe 140 bps or 150 now what has sort of driven this delta on margins during the quarters is it anything related to realizations or is it the positive seasonality or what of Technica or do you think in some way the gains that were made in these margins are somewhat defensible so I just wanted to understand the drivers of this margin improvement for the quarter so that is the first one and the second one is if I have missed during the call was about I think in the last quarter you spoke about two mega deals and I think one has come through and just wanted your thoughts on the second and also if there are any more in the pipeline of this size and structure and lastly just wanted to understand these deals are basically for model launches in 2025 and 2026 and I presume companies OEMs who are



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looking to launch these models would be in a hurry to sort for the deals to really come out so is this the right way to think that a lot of these deals will be upfronted in terms of the way they accrue to you or do you think the deal structures for the other clients are a little more broken down and not as integrated so these were the three questions?

Kishor Patil:

Let me address the second question first. Yes, we did talk about two very long-term large engagements one which we announced during the last quarter and second one as I mentioned earlier on is in the first half of this calendar year four or five months to go and our hope is that we will conclude that in the next few months to come that is the first part of your question. Second part is about you are right some of these engagements that we have signed up for some in nature of what you will call mega sort of engagements other are just projects and programs being carved out and coming our way but all heading towards 25-26 model year. Yes that will continue. As we mentioned that we hope that there is one more that we will announce in the near future and then maybe one or two going forward not all of them are going to come in that kind of front end. To your point many of them will also come as part of an extension of the work that we are doing or just programs coming our way but not quite structured in a mega engagement kind of so it is going to be a mixed bag across. On the margin part, so if you look at it the major contribution obviously is the revenue growth and when we have revenue growth also the freshers that we have added earlier and they have got one or two projects so that process is continuing and there is a net realization improvement which we focus every quarter which is a combination of rate increases plus productivity improvement that we focus on so I think all of these things has played their part in the margins that we have shown after the deal expenses.

Nitin Padmanabhan:

So these margins are defensible, it is just a choice that you would make on a going forward basis as to how much you would want to retain and what you want..

Kishor Patil:

Absolutely and it is a consistent basis that the margin and this has been the case for more than a year.

Nitin Padmanabhan:

Is this one thing I think what we have demonstrated over the past years is that margins have been on a consistent upward trajectory and we have



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never maximized on margins in any particular year you always use some of that for a growth so when we think out as investors is it fair to assume that directionally because of the kind of structures you are in there will always be room to improve margin at the same time it will be very calibrated over longer periods of time?

Kishor Patil: That is true.

Nitin Padmanabhan: Perfect. Thank you so much. All the very best.

Moderator: Thank you. The next question is from Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Thanks for the opportunity. Couple of questions. Entering into next year what do you find more challenging in terms of demand side situation or supply side because we are growing at half yearly rapid growth trajectory so do you think which one would be more challenging for one look at calendar 2023, second question is about TCV number what we report can you help us understand it includes only new portion or it includes new plus renewal what happened the during quarter?

Sunil Phansalkar: Sorry I will just answer that question. The TCV number includes both renewal as well as new.

Anup Sable: So going forward I think definitely it is an issue of supply side and if you look at the SDV programs which Mr. Patil talked about in terms of being the largest contributor to current as well as the future growth. There are certain elements in the SDV which requires reasonably good understanding of what competencies are required so there is a shift in the competency so from a supply perspective getting the right people, making sure that they have the right competencies and of course then delivering and focusing on the execution on that is the biggest challenge.

Kishor Patil: Basically, we are in a position to hire a number of people I think the quality is something which we are looking to improve.

Sachin Tikekar: If I may just add a further nuance to what Mr. Sable and Mr. Patil said in our opinion the supply side in terms of quantity it will get easier it is already getting easier it is going to be quality but more importantly, I think this



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execution is very complex program that is going to be the number one challenge. The programs that nobody else has done before right so that will be our number one challenge.

Dipesh Mehta: Understand and if I can ask two more questions first about the commercial vehicle, if I look it is showing some kind of moderation for the last three to four quarters, see if you can provide some outlook on the demand trend what we are seeing and last is about the Technica you indicated some kind of subcontracting arrangement with some company and we may potentially acquire if you can give some detail what is that what we are looking at here, thanks?

Sachin Tikekar: So let me address the commercial vehicle part. Commercial vehicle I think looking at anything for just one quarter is not a fair way of looking at it. It is like looking at our growth across geographies where we believe that the growth will be balanced across geographies it may change from quarter-to-quarter and it is the same thing with commercial vehicle. Our business over the last two years has grown consistently in commercial vehicle and we believe that it will continue to grow in the coming years. It is just that passenger car business growth has been significant, driven by software defined vehicle but we are still quite bullish on commercial vehicles and if you look at the numbers I think Y-o-Y growth is about 15% in CV and even if you look at last quarter the sequential growth was very strong at 6%, so the growth has been stronger it is just this quarter that it is flattish but if you look at the Y-o-Y trend or even the YTD trend you will see that growth is there.

Kishor Patil: So on the last part let me explain you, there need not be any confusion. When we acquired Technica they had multiple centers and one of the centers is Tunisia which is their own company but little differently structured and we decided to acquire it after fulfilling some changes in their structure, etc., We do not have to pay anything additional for it, it is just our choice to get few things done before we acquire it and that is why it is appearing as a subcontracting. Otherwise, there is no difference. Did I answer your question?

Dipesh Mehta: Understand. Thank you.



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Moderator: Thank you. We have the next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes thanks for the opportunity and congrats for a very strong execution. Just a first question after Technica coming into your bag or umbrella is it fair to say now we have addressed all the gaps to be addressed in terms of the software defined vehicle or is this trend or do we still have gaps and if not then in that scenario getting position in terms of a larger sized deals would be much stronger going forward versus what it used to be around one quarter back?

Sachin Tikekar: We have addressed some of the gaps especially on the upper left-hand side of the software development and upper right-hand side of the software development, so system networking, system proof of concept and system validation part and it is a very strong fit in terms of what we have. The pursuit of what the customer wants and what are the white spaces that are available is an ongoing thing and as we speak we are continuously finding out new whitespaces in the SDV space as the customer is also finding out some of the new whitespaces in the SDV space. We will keep on discovering them and focusing on them. So far so good but I think going forward you will see many more white spaces coming up which we will capture and if you look at last two years some of these gaps have been bridged. We used the strategy of build vs buy and partnerships, some of these we have actually built internally and some through the acquisition of Technica .In the entire ecosystem one company cannot do it all so we also have to partner with some other key players to provide a more comprehensive solution to the clients.

Sandeep Shah: Helpful and just looking at the macro scenario in the Europe is there any instance despite the projects which we work are critical for the models to be launched in the future, clients are slightly behaving conservative in terms of their decision making or in terms of awarding deals or after awarding start of the projects or after start ramping up the projects any instances are you witnessing?

Sachin Tikekar: I think there are two answers so overall given the macro scenario all clients are going to be very cautious. Some clients have taken some proactive steps to cut costs. Fortunately for us they are cutting costs in other areas and they are prioritizing things like software defined vehicles and so forth.



So overall yes, clients are becoming more and more cautious about the spend but as far as KPIT and our pipeline and our programmes are concerned we have not seen anything that is likely to impact us in the immediate future.

Sandeep Shah: Just last few bookkeeping questions so I think this quarter in the P&L we had a cost of goods sold related to material consumption and the finished good inventory so is it largely related to Technica and will it continue in future quarters or it is more specific to third quarter being seasonally a strong quarter as a whole?

Sunil Phansalkar: It is completely related to Technica and it will go up and down but it will be there going further also.

Sandeep Shah: In the initial remarks we said the effective tax rate on a going forward basis would be 23% right?

Priya Hardikar: On annual basis it would be 23%.

Priya Hardikar: Yes so on annual basis will be around 23 plus.

Sandeep Shah: With amortization of intangibles for the Technica do you believe the depreciation amortization as a percentage to revenue may go up or may actually come down with some of the other assets which are organic becoming older and their depreciation may come down?

Sunil Phansalkar: I think we will have to really decide on the quantum that we will arrive at for doing this and obviously then we do it initially it will have some marginal impact but of course as the revenue grows that percentage will come down but obviously we have not yet decided what is the quantum we will have to work on it and then come up with a number which we will share with you once it has been done.

Sandeep Shah: In the presentation you said M&A related cost is still pending so will it come largely in Q4 or it may come still 1Q of next financial year and what could be the quantum?

Sunil Phansalkar: As Mr. Patil said in initial remarks some costs that we will do for integration will come in the next two quarters.



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- Sandeep Shah:** The quantum may decline in Q4 and Q1 related to some of the consultant cost?
- Sunil Phansalkar:** Yes.
- Moderator:** Thank you. The next question is from Saurabh Sadhwani from Sahasrar Capital. Please go ahead.
- Saurabh Sadhwani:** Hi thanks for the opportunity. So in this quarter as employee expenses have not grown as much as our revenue and they have also decreased as percentage of our revenue so how did this happen and is it sustainable?
- Sunil Phansalkar:** I think if you look at it as we have said with growth and with improved productivity, we intend to have that number to be in this range or slightly lower as we move ahead so that is what this number is. It is also a fraction of the freshers that we have recruited over the last three, four quarters and that has improved the overall cost structure.
- Saurabh Sadhwani:** So we have better utilization now, yes?
- Sunil Phansalkar:** Yes we will have it as we move forward.
- Saurabh Sadhwani:** Also we commented that we could grow double from our current position with most of our clients so is it an aspiration or are you aiming for that and what would be the timeline for that?
- Sachin Tikekar:** I think it is a great question. When we say that we will focus on handful of clients actually we have no choice but to double the revenue in there, Jokes apart what we have realized is as we engage with them deeper we are also getting broader insights into the areas in which they need help and as Mr. Sable pointed out earlier we are also responding to their needs and creating offerings that are relevant to them and this goes back to becoming a truly trusted partner to them and given that model we think that over the next three to four years we will be able to double our growth within the same clients.
- Saurabh Sadhwani:** Thank you. That answers my question.
- Moderator:** Thank you. We have the next question from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.



- Vimal Gohil:** Yes Sir thank you for the opportunity again. My question on some of the hardware cost has been answered. If you can help us revise you had done this acquisition sometime back of FMS which was into ADAS, etc., if your current quarterly numbers on the share of associates is anything to go by there has been some slowdown there if you can just highlight what is update there, how is the company performing, is it line in with our estimate or is it line with our expectations or not, what is the current revenue run rate that it is clocking?
- Kishor Patil:** I think it is in line with what we discussed I think the company is doing well but we are still a minority shareholder in that I think the trigger for acquisitions will come in next quarter or so, so we will give the details once we conclude that. Right now it may not be appropriate to share the details but the company is doing well and on the profitability front we are in line with the company profitability.
- Vimal Gohil:** While the number is not significant as of now but the sharp decline is not related to FMS or do we have any other entity there or how is it?
- Priya Hardikar:** No there is no correlation there.
- Vimal Gohil:** Okay the share of associates Madam is regarding which entity right now?
- Priya Hardikar:** It is for FMS.
- Sunil Phansalkar:** The answer is that it is just a quarterly phenomenon and we should not take that as a trend in FMS but we are saying if we take the year as a whole we are on track to do the targets that we had in mind in terms of revenue and profits, so though quarter-on-quarter it has gone down we will see that going up and there is no issue as such in terms of the targeted revenue or the targeted profits that we had in mind.
- Vimal Gohil:** Understood Sir. Thank you so much Sir. Thank you once again.
- Moderator:** Thank you. The next question is from Karan Janthi from Jetha Global. Please go ahead.
- Karan Janthi:** I had a few questions. The first has been on whether there is any integration risk with this Technica acquisition I know it is a different country and really



kind of combining workforces in anyway so is it fair to say there is very limited integration risk?

Sachin Tikekar: Every company that is acquired carries some kind of a risk so we have done a very detailed risk assessment and we have a regular fortnightly meetings to mitigate and plan in terms of what needs to be done. So far so good we do not see any major risk right now.

Kishor Patil: Actually they are very excited looking at the opportunity they see with our strategic plan. From their point of view they would have never got that kind of exposure to these clients globally.

Kishor Patil: We have overall excitement at the moment in terms of the opportunities that we see and what real value add we could do to the clients together.

Karan Janthi: Got it and then I guess one other question relating to how you think about this Renault deal I am curious about the offshore and onshore ratio for that deal is and even if you look at kind of revenue EBIT per share is that accretive for the current business it is a sort of a new deal you might have a better view on it?

Kishor Patil: We do not provide the breakup in terms of onsite and offshore revenue. Our engagements swing basically depending upon their stage, location where we are engaged so we keep away from the split, but as we mentioned that if you look at a year back the onsite has gone up overall our people on site have gone up and that is for multiple reasons but looking at our engagements we need to execute, , but most of this work will be largely delivered out of offshore locations not necessarily India over a period of time.

Karan Janthi: Got it and then just a last one. I think your TCV based on the last four quarters I think started reporting four quarters ago is about \$700 million US dollars maybe the overall TCVs we had in that how do we think about conversion and visibility does that mean if you have a three-year average deal life you are looking at 40% revenues being visible in the coming fiscal or what is the right way to think about that?

Kishor Patil: Many of these deals are anywhere between three to five years kind of duration so it changes.



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Sachin Tikekar: Hard to sort of put a formula and tell you. I think there are different flavors to it and as Mr. Patil said earlier on we are in a good position at this point in time. We have revised the guidance and by end of next quarter we will give you the guidance for the next year but it is kind of hard to translate.

Karan Janthi: Got it. Thank you.

Moderator: Thank you. The next question is from Dhanshree Jadhav from Anvil Share & Stock Broking. Please go ahead. As there is no response from the current participant in the queue we will move to the next question. The next question is from the line of Deval Shah from RBSA Investment Managers. Please go ahead.

Deval Shah: My question is related with the business unit so I just wanted to understand our three business units so how are they different in terms of our client engagement as well as on the margin profile and what as KPIT we are strategizing so is it we are going to be more focused on the middleware or we are going to focus on the cloud base so I am talking about more on the 5 to 10 years?

Kishor Patil: I think as we mentioned these are the three important parts for the OEMs and even in SDV programmes all the three parts are relevant. The reason we have made it because this is how the buying centers at the client side run, so we have mapped our organization to the client side and the second thing is earlier we used to give it practice wise but that is not how the organization works at the client side that is why we changed the structure to map with the client organization so to your point our focus is across but some of the areas like architecture, middleware, and cloud based connected services these are in some way recent in last couple of years and size is relatively modest as compared to the one where it is electrification, autonomous etc. which we have built over last five to six years so that is why they are growing faster but at the same time as Mr. Tikekar mentioned I think one leads to another so it is a kind of combined story and that is why actually with Technica and other acquisitions we are in a position to give a blue print to the execution full story from KPIT.

Deval Shah: Just on the margin profile also so are these three have a similar kind of margin profile and term of contract?



- Kishor Patil:** At a gross contribution on this level there are some changes I think there are little more profitable than the others but volume is higher in some cases versus some scale is different so it changes but the mix is not going to impact significantly anything what we have mentioned.
- Deval Shah:** Got it and my another question is more on margins so I understand that we have given the guidance of 18.5% to 19% as of now but looking at the kind of services we aspire to provide so what is our long-term aspirational margins even after 3 to 5 years so if we are providing more value-added services and more integrated services to our clients then what would be our aspirational EBITDA margin we are looking at?
- Kishor Patil:** Basically what we have mentioned always is we will show a consistent growth in the margins and we will invest anything over and above if we can meaningfully invest into growth or delivery so we have said that we will cross 20% in next couple of years that is what we mentioned. As I always said there is always a lever to grow margins. It is our choice to invest into growth and new technology investment which we will continue to do because I think that is important for us and that is how we are managing.
- Deval Shah:** Understood. That is it from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.
- Chirag Kachhadiya:** Congratulations on good set of numbers. Broadly questions with regards to the rest of world geography so which are the countries where we are present other than US and Europe and what current environment there which is supportive to us and what possibility we look in these geographies other than US and Europe?
- Sachin Tikekar:** In Asia bulk of our revenues actually come from Japan and there are some revenues from Korea and China and we have one client in Vietnam and of course there is some business that is in India where we service some of our global clients. So those are the ones, bulk of the revenues come from Japan and we think that we will continue to grow in Japan, also in Korea, the situation in China has been very difficult over the last three years now the things are opening up finally we will have to see how to sort of trigger



into China over mid to long term. Japan will continue to be the key growth driver for Asia in the immediate future.

Chirag Kachhadiya: One more clarification there was news a year back that some shortage of chip in automobile sector is there due to disturbances in China so does any of our clients facing such disturbances?

Sachin Tikekar: Yes it has been a huge challenge for the last couple of years for most of the OEMs. Not just in the automotive industry but in other industries as well. But it is getting easier by the day it is still not behind us but I think the supply has increased a little bit and as things have opened up globally things are actually getting better by the day.

Chirag Kachhadiya: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Abhimanyu Kasliwal from Choice India Limited. Please go ahead.

Abhimanyu Kasliwal: Firstly congratulations on good set of numbers and good organic growth, now my point Sir is that you see we are working on a revenue per employee trying to expand as much as we can and trying to decrease the cost per employee as much as we can so that we can get a good employee yield I wanted to ask what is your trajectory what is your outlook on that in the employee yields so to speak, we are increasing employees on a slightly lower rate than what could have been expected so does that mean that now we are on a sustainable improvement in employee yield that we are hoping to have more revenue per employee as opposed to cost per employee so that will lead to a better yield so if you could throw any guidance that would be very grateful?

Sunil Phansalkar: We have talked about the margins all of these metrics that you talked about viz revenue per employee, profit per employee or utilization all of that will materialize into the operating margins that we have talked about and that is the increase that we have seen. I do not think we will be able to say what will be the trajectory there. If you look at the last four quarters actually our hiring has been higher for the future than our revenue growth but if you see as a trend in the medium term obviously the aim is to improve that number as revenue per employee and also the profit per employee to go up which will result into the steady improvement in operating margins.



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Abhimanyu Kasliwal: Are we seeing any trajectory like that in terms of the contracts that we are seeing for that is higher value contracts which are more technical in nature and hence we are able to generate more revenue per employee as such or is it the same kind of contracts right now, what is happening Sir?

Kishor Patil: At a high level I can say that our realizations are improving with the new contracts.

Abhimanyu Kasliwal: Wonderful. Thank you so much Sir. That was very helpful.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Just last two things in terms of the practice revenues it looks like the Technica has been added across service lines because the incremental revenue across service lines does not?

Sunil Phansalkar: That is true.

Sandeep Shah: The 20% Technica margins are at EBITDA or EBIT level?

Sunil Phansalkar: The 20% margins are at EBIT levels.

Sandeep Shah: Thanks and all the best and congrats once again.

Moderator: We have Ms. Dhanshree Jadhav from Anvil Share & Stock Broking with the next question. Please go ahead.

Dhanshree Jadhav: Congrats on great set of numbers. My question was on the growth that we have witnessed in architecture and middleware consulting the growth is quite strong at 50% quarter-on-quarter and as you said it includes Technica so I just want to know excluding Technica what would be the growth there and what is driving this growth and what will drive this growth in near term and in long run is what I want to gauge from the management?

Kishor Patil: I do not have a big number but roughly I can say that it will be about double-digit growth quarter-on-quarter for this practice organically.

Sachin Tikekar: If you look at what middleware is it is the most critical part of the software defined vehicle, so when software needs to basically define the vehicle



middleware becomes a very important component on that and it is the first and earliest change that will happen and I think when you see all these SDV programmes being kicked in this is the first time for most developments that starts kicking in that is why there is a growth.

Dhanshree Jadhav: If I just want to add on to it like any particular client or deal has led this growth if you can call out something there and also in context with Europe you know Europe for KPIT has been witnessing very strong growth last couple of quarters this quarter it was obviously including Technica but somewhere in that context or whatever separately if you can call out for the growth organic basis is what I would like to now?

Sachin Tikekar: I am sorry can you repeat the first question I remember the second part what was the first part?

Dhanshree Jadhav: The growth in the middleware on organic any particular client, deal that is driving that organically and if that can be in context with the kind of growth we are seeing in Europe because that was quite strong for KPIT and this year obviously it was including Technica but something if you can call out in terms of any particular trend you are looking that would be helpful?

Sachin Tikekar: Okay understood. Thank you. As we mentioned earlier in the call there are about 6 SDV programmes that we are working on and as one would expect bulk of them are in Europe that is why the growth is driven by the 6 SDV programmes in the middleware and overall SDV and some of the key clients have been in Europe that has also driven the growth organically in Europe and now the Technica acquisition has even made it stronger. Does that answer your question?

Dhanshree Jadhav: Yes that is helpful and one last question management has conveyed that we would seek on sustainable basis the growth to be at 20% like annual so is that maintained or there could be some challenges to it I am asking for the long term?

Kishor Patil: I think we have given overview overall last year when we gave and we feel reasonably confident. You are seeing what we have performed this year and there is nothing which warrants any change in our view.

Dhanshree Jadhav: Yes great thanks. I think that answers most of my question.



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

Sunil Phansalkar: Thank you very much for your interest and participation. If you still have any more queries please feel free to write to me and I will be happy to address those. Thank you and have a good evening.

Moderator: Thank you. On behalf of Dolat Capital that concludes the conference call. Thank you for joining us. You may now disconnect your lines.