



“KPIT Technologies Limited Q1 FY 2018  
Results Conference Call”

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**ANALYST:**

**MR. RAHUL JAIN - EMKAY GLOBAL FINANCIAL SERVICES**

**MANAGEMENT:**

**MR. KISHOR PATIL - CO-FOUNDER CEO AND MD – KPIT TECHNOLOGIES LIMITED**  
**MR. SACHIN TIKEKAR – PRESIDENT AND BOARD MEMBER - KPIT TECHNOLOGIES LIMITED**  
**MR. ANIL PATWARDHAN - SENIOR VP AND HEAD, CORPORATE FINANCE AND GOVERNANCE - KPIT TECHNOLOGIES LIMITED**  
**MR. SUNIL PHANSALKAR - HEAD INVESTOR RELATIONS AND AVP M&A - KPIT TECHNOLOGIES LIMITED**

**Moderator:** Ladies and gentlemen welcome to the Q1 FY2018 Results Call of KPIT Technologies, hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "\*" 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 Emkay Global. Thank you and over to you Sir.

**Rahul Jain:** Thanks Sanford. Good evening everyone on behalf of Emkay Global. I welcome the senior management of KPIT represented by Mr. Kishor Patil, Co-Founder, CEO and MD, Mr. Sachin Tikekar, President & Board Member, Mr. Anil Patwardhan, Senior VP Head, Corporate Finance and Governance and Mr. Sunil Phansalkar, Head IR and AVP M&A. I would like the management to take us through Q1 FY2018 results. I now request Mr. Sunil to take it over from here. Sir over to you now!

**Sunil Phansalkar:** Thanks Rahul. A very warm welcome to everybody on the Q1 FY2018 Earnings Call of KPIT. I hope all of you have received our investor update where we have detailed the business performance for the quarter. If we have missed out anybody please email to me or Lipika and we will be happy to send it over to you. As is a normal procedure we will have the opening comments by Mr. Kishor Patil on the performance of the quarter and the outlook for the remainder of the year post this we will have it open for your questions. Once again a very warm welcome and I now hand it over to Mr. Kishor Patil.

**Kishor Patil:** Good afternoon everyone. I am happy to take you through the quarter's salient features. This quarter has given us a consistent growth. As we showed growth in quarter four of last year, this quarter also produced a reasonable growth for us, which is 4.8% in terms of dollar term, 3.5% in terms of constant currency. As you know the growth was mainly driven because of the growth in the products business, IES - which was about 6% and PES which was like 3.8%. So largely these are the three lines of business, SBUs as we call them, driving this growth.

In terms of geographies Asia and Europe were the ones who drove the growth in terms of regions. In terms of growth in US there was a marginal de-growth. In the growth accounts, I think what is very important is also the basis for the growth. We have been focusing on certain accounts and that is why we reclassified the accounts this time. We have now looked at top 20 strategic accounts and top 40 strategic accounts. These are the accounts which we have identified as GAM (Global Account Management) or the growth accounts where there is a proper structure to grow these accounts.

Earlier, sometimes when you looked at top five or top ten, typically there could be sometimes just one of kind of accounts where there is a large project coming in, but not necessarily there was a strategic relationship in those accounts. Such accounts used to come in top five or top ten and that used to distort the picture. So in order to really align it with the way we look at it we basically said these are the top 20 accounts and these are the top 40 accounts. If you really look at these accounts I think that shows good healthy growth. It is important because the underpinning accounts have to produce that growth and we see that growth now in these accounts. Going forward in the year, the pipeline for these accounts is reasonably stable and growing. If you look at the profitability our profitability has gone down by about 1%. The impact of the currency was 1.5%. It got little bit made-up because of growth, but overall the profitability went to 9%, which is naturally a bit disappointing but which has happened because of the currency changes.

On the cash generation, we are now ₹ 134 Crores net cash as compared to ₹ 78 Crores last quarter. So good cash generation overall despite of certain additional capex this quarter. We do not have any major capex going forward apart from routine maintenance capex. Most of our capex this quarter was on the phase III construction, which is the SEZ facility which are building, which we believe will take care of our growth requirements for the next few years. That is into the completion phase so we do not see much capex on this facility, going forward.

In terms of looking forward as a year we had mentioned at the beginning of the year that we will be in the range of 6% to 8% growth and the two quarters which have given a reasonable growth, gives us a confidence that we can say we are at the top end of that number. We believe that the growth will continue, will be driven by mainly PES (engineering) as well as IES and also the digital side of the business, which includes products. So I think that is what will continue to drive the growth.

We had also mentioned in the beginning that we will have more balanced growth so we will not have back-ended growth. Fortunately there have been stronger quarters for last two weeks and that gives us a confidence going into the year. However, on the profitability, we had mentioned that that will be back-ended, because of two reasons - one is this currency impact the second is we will have increments next quarter, so we will have from the profitability perspective. We will have a better improvement in the profitability in H2, which is based mainly on terms of utilization improvement and the revenue mix, which we talked extensively last time. We have taken some actions. We are taking some further actions to correct it and the growth will allow us to do that but I guess that is what will be seen more in H2. So that is what we see as a year. We will be happy to take any questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Thanks for taking my question. Sir I wanted to understand when you are talking about higher end of the 6% to 8% growth for FY2018 why are we really looking at a deceleration, I am just doing the number it looks like a deceleration over the first quarter to a flattish kind of a trajectory for the remaining three quarters so is there any headwinds that we see out there?

**Kishor Patil:** We do not see any headwinds. Sometimes only the product revenues there can be little bit up and down but we do not see any headwinds. It is our practice to relook

at the numbers only at the end of the quarter three and we have been consistently following that practice, so that is the only reason I mentioned.

**Apurva Prasad:** Also if you could help me with the split of the 20 strategic accounts in terms of verticals?

**Kishor Patil:** I am not sure whether I can give right away but we will probably share it in the due course.

**Apurva Prasad:** Sir on the margin side what is the levers that we are looking at especially you are talking about higher growth in the engineering services and digital so how different would the margin profile be for these segments versus the business IT side also so I am just trying to understand with respect to the company averages, you have mentioned it is higher but if you could give throw more light on that, that will be great.

**Kishor Patil:** There are two three things first number one is the operational revival, which I talked about utilization. We did mention at the beginning of the last quarter or the year-end also about our utilization being low and ability to really take it forward. That utilization we can improve based on two things, first was naturally alignment of the skills and the requirement and the second is the growth. So that is still the single largest lever for us and the tricky part while it looks easy is just to make sure that we reduce the mismatch between the regions, the SBUs and skill set. So I think that is what we have to do and that is something where we have already initiated the actions. We have mentioned that we created a separate organization called Chief Digital Officer. The whole idea about that is really there are multiple things this organization will do but main function of that is basically make sure that all our 12000 people acquire the digital skills which are required in this area. Now this is the process and that will allow us to improve utilization or multi skilling etc. The second lever is the revenue mix. We believe as the mix will improve in the favor of engineering and as well as digital, the margins will improve. The margins in these

businesses are at least 5% more in terms of profitability, more in terms of gross contribution.

**Sunil Phansalkar:** Just wanted to answer your earlier question of the top 40 strategic accounts about 55% would be automotive vertical accounts and about 30% and this is number of accounts and not the revenue and about 30%- 35% would be manufacturing balance is energy utilities.

**Apurva Prasad:** Finally from my side if you can help me with the subcontracting cost for this quarter and last quarter please?

**Sunil Phansalkar:** This quarter it has gone up. The subcontracting cost appears in the other expenses and this quarter it is about ₹ 113 Crores. It was about ₹ 100 Crores last quarter .

**Apurva Prasad:** Thanks so much.

**Moderator:** Thank you. We take the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** First is on the hiring front like we were hoping for a headcount reduction in 1Q it has again gone up by 150 and odd people. So what should be look at it or how should you look at it by the end of the year, is there a way in which or is there an excess initiated in terms of headcounts where utilization can go up or is it something that we have to lie on sales growth coming through?

**Kishor Patil:** We are going with the both the approaches. I really consider it as a process because sometimes as I said there is a change in the mix of the revenues. So I guess sometimes it takes time even if you want to disassociate with some employees. So I think it is a process and over the period we believe that we would like to really maintain the headcount while we grow our business. So there may be a marginal growth in the headcount while we achieve the growth, which we are projecting.

**Mohit Jain:** When you say marginal increase in headcounts that 4Q 2018 versus 4Q 2017?

**Kishor Patil:** Yes so basically if you look at the annual additions during FY2018 they would definitely not be in line with whatever growth we are doing. The additions will be much lower than the growth numbers that we will achieve.

**Mohit Jain:** Sir my question is that if we are looking at this revenue numbers, which is likely to be flattish for the next three quarters, in that case so your utilization to move up the absolute headcounts should also go down?

**Kishor Patil:** As I mentioned to you that we do not give a quarterly projection. We are not saying the numbers growth will be this much or that much next quarter. We have already initiated certain actions which we have to take where we do see a skills mismatch. When there is a growth we will hire but as a strategy as I mentioned to you our goal at the beginning of the year and which we clearly said is to have the growth of 7%, 8% without adding to any headcount and that is what we will aim for.

**Mohit Jain:** Second is on utilization earlier we used to operate at 72, 73 offshore so is that numbers to still achievable over longer timeframe like one, two years or that is something which is not likely as a target?

**Kishor Patil:** No that is absolutely achievable. We are looking at much better number beyond 75% to be achieved during the year.

**Mohit Jain:** 75% offshore.

**Kishor Patil:** Yes.

**Mohit Jain:** Sir third is with other expenses so subcontracting is the only cost which has gone up for is at I think any one time as well in other expenses?

**Sunil Phansalkar:** No that is the only cost which has gone up.

**Mohit Jain:** And should we expect this to come down or stay there?

**Sunil Phansalkar:** It should come down next quarter.

**Mohit Jain:** To the normal 100 Crores kind of a number?

**Sunil Phansalkar:** Roughly yes.

**Mohit Jain:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. We take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** Good afternoon. Congratulations for good set of numbers. Sir in the presentation, the company has highlighted about customers in which you have talked about a leading global auto manufacturer has selected KPIT for autonomous digital and there are four five other points so have not to know this how big this opportunity are and will this opportunity help you along with your existing opportunities to become a billion dollar company in the next two, three years?

**Kishor Patil:** I think in next two three years to become a billion dollar we will be very happy but that is not how the market sentiment is today but I can say that in that segment we already have a very strong positioning and basically the way we look at our future growth as we have been always saying is based on engineering and digital. The three areas if you look at we have overall five years but if we take top three areas, which is autonomous, then the second is electrification and the third is connected these are the trends so this is where the all the auto industries is going to spend. So we believe that any of these large programs and we are going after large programs, when we get into this large program I think that is what will drive our growth for next five years if not beyond. So the way I look at it is the adoption of this is increasing. So whether it is electrification program there are companies who have said that after three years they will not do any normal powertrain and their every model they will go for the next level of automation. So I think the way I would read this is it gives a significant opportunity for growth in the area of leadership for the company.



**Vikrant Kashyap:** Sir recently Ashok Leyland has also tied-up with Sun Mobility so are you looking for any big tie-ups with large companies where similar product technology or do have proposals like decision it acquisition has been done?

**Kishor Patil:** Certainly we are working with multiple large companies in many of the very big programs both on the passenger cars as well as commercial vehicles. As mentioned last time that we are working with a large German OEM in electric vehicles and we have seen a large programs and we are working with many other OEMs in both in ADAS as well as infotainment. So there are multiple such programs we are working with.

**Vikrant Kashyap:** In this quarter we have seen that digital headwind kind of flattish growth so going forward what kind of growth we are expecting from this SBU?

**Kishor Patil:** We are looking at a good growth in digital. I would not read too much in to this but more and more I will tell you we are also making a digital definition sharper and sharper for us because we believe that as much focus we do on digital that will cement our positioning as a leader and that will help us to really drive the growth. So we are also narrowing down our area of focus on digital and we feel good about the potential what we have mainly in the IoT areas than the normal digital, pure digital skills. So we are very upbeat about it and to your other question maybe I can also talk about the programs, which we are working is not only in a particular geography but it is across. We see a significant potential going forward in emerging markets or the Asian markets so maybe Sachin you want to talk a little bit about the Asia market at a high level.

**Sachin Tikekar:** We look at Asia market in four segments Japan, Korea, China one then Southeast Asia, India and Middle East, Turkey and Africa. We are seeing really good amount of traction coming out of India in all of our focused areas whether it is automotive energy utilities as well as manufacturing. In Japan, Korea and China specifically Japan we are working with most of the automotive OEMs and we have strategic relationship with most of the automotive Tier I so we see tremendous opportunities

that Kishor just talked about especially in the automotive areas both infotainment, ADAS and the battery management the alternate powertrain area. In India we also see there is a new regulation that is coming out which is AIS-140 most of the commercial vehicles as well as the yellow cabs will be require to have vehicle tracking system and emergency alert button. We are already in intelligent transportation business for the last three four years. We look at that as a big opportunity for our products business so overall also there are some areas of pockets of growth in south East Asia so for the last several quarters, we have had healthy growth coming in from Asia and Africa. We believe that the trend will continue going forward specifically driven by our expertise in automotive and transportation followed by energy and utilities.

**Vikrant Kashyap:** That answers my question. It was very helpful. Thank you and best of luck.

**Moderator:** Thank you. We will take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** Thanks for taking my question. You had actually mentioned that you are seeing improvement in growth from the Oracle side of the business do you if you could just give some color about what you are seeing there and do you see that as sustainable sort of growth over the next couple of quarters or is it more near-term in terms of the view that we have there?

**Kishor Patil:** In the IES sector we are focusing on two three areas and we see good work in the logistics space, we see some good growth in the supply chain space and the JDE space is where we anyway do better. We see the growth in the middleware space and sometimes there are always if I to say these transient opportunities which come up but as I said the growth in JDE continues. MDA and supply chain what I talked about and Cloud is also picking up so I think these are the areas in which we are growing and we at least see this as a midterm opportunity.

**Nitin Padmanabhan:** If we look at products and platform segment currently the margins are negative and what do you think would be the drag on the overall portfolio from this

segment from a margin perspective and if we are going to be margin positive by the end of the year how much of a tailwind can be this be and what could be steady state margins over a period?

**Kishor Patil:** There are multiple products and they are at different stages of development. There are products, which are generating revenues and reasonable profits and there are products, which are not. So we at least believe that by the end of this year, overall we will breakeven in products. Thus according to our plan we will at least have a breakeven position by the end of the year on the P&P segment.

**Nitin Padmanabhan:** What would be the current drag on overall profitability?

**Sunil Phansalkar:** If you look at the whole SBU then it would be roughly about early teens.

**Nitin Padmanabhan:** Just the last one if I may is for the quarter specifically I think we have seen the absolute employee cost come down on a quarter-on-quarter basis just because if we look at the employee headcount it has gone up, I was just wondering why is the case that the absolute employee cost have actually come down?

**Kishor Patil:** I think the headcount has increased at offshore while the headcount an onsite has gone down.

**Sunil Phansalkar:** Exchange rate also has its impact so we have the impact on the cost booking which is onsite.

**Nitin Padmanabhan:** If I may ask two more quickly is if you look at the whole year in terms of growth, we have had some sort of volatility at least revenue from a revenue perspective historically we are still sticking to this 7% to 8% guidance but the required run rates are pretty low to achieve that so I was just wondering is there any worry that there would be a negative quarter any time or is there confidence that there can be sort of quarter-on-quarter growth across the board?

**Kishor Patil:** So we are looking at more stabilized growth environment that is what we see in all the services so that is how we look at.

**Nitin Padmanabhan:** Sir just a last one is from a margin perspective versus the earlier thought process on margins of what we could achieve as an exit by the end of the year is there any change to that thought process today considering that the margins in Q1 are actually lower than what we had thought?

**Kishor Patil:** As I mentioned initially that we have said that our growth in the margins will be higher than growth in revenues and that will be more back-ended that is what we mentioned and we maintain that.

**Nitin Padmanabhan:** Fair enough. Thank you so much and all the best.

**Moderator:** Thank you. We take the next question from the line of Adit Shah from Vibrant Securities. Please go ahead.

**Adit Shah:** I wanted to ask what is the how much of your revenue is from abroad nations and how much is from India?

**Sunil Phansalkar:** About 91%, 92% would be outside India in foreign currency.

**Adit Shah:** In this automotive segment you said that you provide services to BMW in the electrical car segment. I wanted to know what exactly service do you provide or do you provide the equipment?

**Kishor Patil:** We cannot talk about what we do with the customers.

**Adit Shah:** Okay so in general can you tell me across the automotive sector what services do you provide?

**Sunil Phansalkar:** As we said there are three major areas or if you look at our auto business, there are five major areas the first is powertrain, both traditional and electrical but more so now growing in the electric powertrain area or alternate fuel technologies, second one is the connectivity which is more to do with infotainment internal connectivity external connectivity in the car, the third is autonomous driving where we have the

lot of IPs and our solutions in what we can broadly call as ADAS advanced driver assisting systems this is like more subset for the whole autonomous car.

**Adit Shah:** Is that already generating revenues or is that at an R&D stage?

**Sunil Phansalkar:** ADAS is one of the fastest growing areas for us so if we look in the last couple of years it has grown in a big way. So I think that is already in the revenue these are all services, which are already generating revenue.

**Adit Shah:** In terms of providing equipment to OEMs do you do that?

**Sunil Phansalkar:** We do not do when we say equipment we are not a hardware company so we do not do that. Whatever products we have are majorly software and that is in the products area and the hardware which is required is obviously not done by us but we do the SI part of it so if it requires for example our ITS solution required hardware to be a part of it but it was all done outside and we did the SI work. So our contribution is software. In few cases in the products area it requires a full solution and we do that.

**Adit Shah:** Who would you say is your main competitor in the automotive area?

**Kishor Patil:** It is a different for different services but the one of the largest competitor is their own engineering department so in terms of it, if you really look at the specific standards, which is whether it is a diagnostic area or when we are talking about AUTOSAR it is more German companies and when we talked about other three it is a mix. Some of it depends upon the type of service, if it is a full program service; these are largely Europeans or some Americans. So, it is a pure software part of it, then also Indian companies come and play. So, there are multiple ways of competition.

**Adit Shah:** Thank you that is all from my side.

**Moderator:** Thank you. We take the next question from the line of Satish Ramanathan from Tattva Capital. Please go ahead.

**Satish Ramanathan:** Could you just highlight the kind of product innovations and patents you have filed this quarter. How many patents have you filed? How many patents do you have currently and is there any kind of commercial value that you have ascertained on the patents that you have filed to date?

**Sunil Phansalkar:** During the quarter, we filed for about four provisional patents. This takes our total patent filings to 60, which includes 50 patents with complete specifications and 10 patents, which can be called as provisional patents. We were also granted four patents during this quarter, so now total we have about 33 patents, which are granted. Majority of these patents are in the areas of alternate fuel technologies and ADAS.

**Satish Ramanathan:** Okay and when you say alternate fuel technologies, what exactly do you mean?

**Sunil Phansalkar:** It is more of hybrid and electric powertrains or battery management systems or BMS, so these are the areas.

**Satish Ramanathan:** In terms of the overall use of these patents, I mean has there been any commercialization of these patents, have you been able to monetize, sell?

**Kishor Patil:** So, there are two types of patents. Some we use in the product, so they get monetized in the products space, but many other areas like ADAS or any other areas, when we go to the customer, that becomes our differentiation that allows us to really get into large programs., We may or may not charge separately but it is a part of our total solutions, so certainly there is a monetisation. We would like better monetisation to come through products and significant growth and profitability in future, but the fact is right now we are monetising many of our patents already.

**Satish Ramanathan:** In terms of the domestic market where there is a lot of talk about electric vehicles and the ISRO giving the battery technology and all of this, what is actually happening on the ground and how does KPIT benefit if at all India were to move say even 5% or 10% to electric cars. Is there some kind of revenue visibility because of that or we would continue to...?

**Kishor Patil:** I would say it is too early to give any revenue visibility on this, but certainly I think government intentions are strong. We are all certainly contributing to different standards or specifications or even the regulations. We contribute to whatever we can as one of the key players in this area. So, I guess that is bit too early to say that, but certainly we believe that in next few years, this will become a reality.

**Satish Ramanathan:** What is your R&D budget and when you kind of file for the patent, do you capitalize the expenses or do you write off the expenses. What is the R&D budget and how much do you spend vis-à-vis in the competition, which is in more into routine services?

**Kishor Patil:** I would say 3% to 5% of the overall engineering revenues, depending upon the timeline of the products. Similarly, there is certain percentage may be 2% to 3% on the other side (Business IT), so we overall spent about 3% to 4% on that. Now there are two types, when we do the patents and etc., we do not necessarily capitalize that, so that expenses are expended, but where we have a clear revenue visibility and it is a larger revenue visibility, at that point of time we have internal process to go through certain gateways to figure it out and then we capitalize.

**Satish Ramanathan:** So, is there any expense this quarter that you have capitalized?

**Kishor Patil:** There will be some. I think on some of the projects, which may be going.

**Satish Ramanathan:** Okay, is it material?

**Kishor Patil:** Nothing too big.

**Satish Ramanathan:** Okay.

**Anil Patwardhan:** So, just to add to what our Kishor Patil was saying it is basically you see during research phase, the entire expenditure is being written off where if we come to the development stage and we identify those products and we have a very clear visibility at that stage only, a capitalization call is taken and that is very marginal amount.

**Satish Ramanathan:** In terms of the technology shift, should not there be a very intense phase of growth for you when auto industry globally outsources or tries to develop new products or have we kind of stabilized in the electric EV business and it is more about battery and battery technology rather than the control part of it, the IT part of it?

**Kishor Patil:** Yes, there are multiple opportunities. There are a lot of things, which are happening in automotive industries and these are the areas of focus for us. We are in the thick of the things. So we are hoping for better opportunities in these areas in years to come.

**Satish Ramanathan:** What I am trying to understand is this shift in your workforce, the workforce increasing is it because that you are increasing the PES part of it and then the business IT part of it is stagnating, so you are not able to retrench the workforce or reallocate the workforce. Is that the reason why the workforce is kind of increasing at the same time utilization dropping?

**Kishor Patil:** No, I would not like to say it like that, but the fact is our revenues in the PES areas or say engineering, they grow and naturally large part of that work is also delivered offshore. So, there is also a headcount increase on account of that.

**Satish Ramanathan:** Thank you Sir.

**Moderator:** Thank you. We take the next question from the line of Moiz Tambawala from Florintree Advisors. Please go ahead.

**Moiz Tambawala:** Good evening everyone. Could you give an update on MicroFuzzy performance for the quarter?

**Kishor Patil:** I think we would not like to give any specifics but I would say that we are on track in line with whatever expectations.

**Moiz Tambawala:** On your product division, when you look at your breakeven at the end of the year, what is the revenue target like at what level do you think the products division breaks even?



- Kishor Patil:** It will be somewhere between \$ 25 million and \$ 30 million.
- Moiz Tambawala:** The system integration revenues that you have shown this quarter, I think that that is largely some hardware supply for your products, is that correct?
- Sunil Phansalkar:** Yes, that is not only hardware, it also includes the software part, but it is not purely linked to any people working on it. So that is why we have separated it out.
- Moiz Tambawala:** Right, so is that like difference in margins or if you can indicate within your products division as in what would be the pure product level margins and now solution level margin?
- Sunil Phansalkar:** It changes very significantly and in a pure software product the margins are different in pure system, there are certain products, which have relatively, lower gross margins. So, it really depends up on the product, the stage and the composition of hardware and software. So one answer for all is a big difficult, but system integration margins are lower than the software margin.
- Moiz Tambawala:** Okay and what is happening with your the ITS products and what has driven the product revenues in this quarter actually and how do each individual product some sense on that?
- Kishor Patil:** So, Sachin, you would like to tell?
- Sachin Tikekar:** Overall you have seen growth in the product business and as Kishor Patil mentioned earlier on, the product business will go up and down a little bit for the next couple of quarters till the time we have all the products launched and stabilized. So, hopefully consistent growth from products will start to take place only in the next financial year. However, all of our products will get launched during this year. Specifically to address your question about ITS, I mentioned earlier on that we have a tremendous opportunity starting from April of next year on the AIS-140 initiative that the government has regulated and we believe that we can be in the forefront of that initiative and that can create growth for our ITS business for

the next couple of years. Coupled with that, we are also looking at couple of other initiatives in ITS not to just depend on one government regulation. We are also looking at to other how can we take our ITA to the corporates especially corporates that carry hazardous material and so forth so we have a solution there. That is the second part of ITS that we are pushing for and third area of growth is the number of school buses are growing, increasing in India and we have an ITS solution for school buses. So we will have at least three variations of ITS sitting the market during this year and we believe that you know we will stabilize all of these products in India and over a period of time, we can take them to other developing countries.

**Moiz Tambawala:** Lastly just on your, the EV conversion case phase and those sort of products, what has happened in that front?

**Sachin Tikekar:** Yes, so there is progress on all front as we mentioned earlier on K-Bike, we hope to have a launch later towards the end of this year. It will be a soft launch and then we will have a full-fledged launch I meant end of this calendar year and in the Q4 or early next calendar year, we will have a regular launch for K-Bike. As far as Revolo our electric power train solution is concerned, we are making good progress and we believe that we will have some buses with our technology hitting the ground running in few buses in Q3 and few more in Q4.

**Moiz Tambawala:** Thank you so much. That is all from my side.

**Moderator:** Thank you. We take the next question from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.

**Shyamal Dhruve:** Thanks for taking my question. My question is mainly on the manufacturing front like its revenue contribution has come down from 40% in Q1 FY2014 to around 32% in this quarter. So, just wanted to know whether this subdued performance is mainly due to the weakness in Cummins or are we are seeing any other advents from other accounts also and your outlook for next few years on this segment?

**Sunil Phansalkar:** I think Cummins does not form a part of manufacturing majorly. It is majorly automotive, but if you look over the years, what we have said and what has happened is we have had larger growth in automotive and that is the reason why as a relative percentage share, the share of the manufacturing vertical has gone down. There have been some changes that we have made in terms of sub-verticals that we focus on. We believe that there are newer areas like the digital area, smart manufacturing factory 4.0 or even wearables technologies where we have seen good traction in the manufacturing area. We look at med-devices, hi-tech and industrials as the three main sub-verticals and we believe that the growth there should be stable, but having said that the automotive vertical will grow much faster and hence the relative share of manufacturing might not grow, but there will be absolute growth there.

**Kishor Patil:** The other point you said, I would say that most of the other companies club automotive and manufacturing together because of our special focus on automotive, we have separated that, but importantly a lot of manufacturing customers have come through ERP, so those are the revenues and naturally as the changes in the IT landscape and how we start delivering them digital, smart manufacturing solutions, I think those are the areas where we see traction in manufacturing.

**Shyamal Dhruve:** Thanks for the clarification. That is all from my side.

**Moderator:** Thank you. We take the next question from the line of Adit Shah from Vibrant Securities. Please go ahead.

**Adit Shah:** Circling back to the automotive sector, do you get repeat orders from clients?

**Sunil Phansalkar:** I mean if you look at it, we have been working with most of our customers for more than 10 years now, the OEM customers, so we have ODCs (Off-Shore Development Center) setup for these customers and projects keep coming on. So, majority of the business is repeat business.

- Adit Shah:** So, what is the average time period of a project?
- Kishor Patil:** It depends upon the type of projects. If you look at the production programs any production program would run anywhere between two to two and a half years. That is the thing and then later on naturally you have to maintain those on an ongoing basis. Most of these programs will go beyond it, but then in that case, it will go into a maintenance stage, while some of the smaller projects will go up to six months, that is the variation.
- Adit Shah:** Okay and could you give me the division between time contracts and fixed price contracts?
- Kishor Patil:** Overall breakup at the company level?
- Adit Shah:** Yes.
- Sunil Phansalkar:** I think what we are currently looking at is about 60% is time and material, about 35% to 36% is fixed price.
- Adit Shah:** And in the automotive sector?
- Sunil Phansalkar:** Automotive sector, it will be more, the fixed price percentage would be higher more closer to like 45%.
- Adit Shah:** That is it from my side. Thank you.
- Moderator:** Thank you. We take the next question from the line of Saurav Shah from Kedia Securities. Please go ahead.
- Saurav Shah:** Thanks for the opportunity Sir. Considering the disruptions happening in the automotive sector and also within the IT sector and considering the leadership position that we have built in the automotives sector itself in our company, which currently comprises 40% of our average revenue and it is continuously growing. Sir,

can we expect that let us say two or three years down the line, this 40% forms a majority percent of our revenue let us say 80%, 90% or may be 70%?

**Kishor Patil:** The growth rate in that area is higher and the products are also largely in automotive. So as our products as well as the service area would keep on growing at a faster rate. The percentage may change, while we see opportunities on the other side as we have seen during this quarter or otherwise energy utilities or manufacturing we do, see opportunities, but we believe our current positioning gives us fast growth rates in the automotive sector.

**Saurav Shah:** Yes, that is it Sir.

**Moderator:** Thank you. We take the next question from the line of Abhishek S from Equirus Securities. Please go ahead.

**Abhishek S:** Thanks for the opportunity. I know you would not like to comment about particular customer, but you know the top customer revenues have grown for the first time I think in eight quarters, so I mean is driving this growth and is this trajectory sustainable? Thank you.

**Kishor Patil:** Basically I talked about it in the beginning. I think what we have done is we have looked at our top strategic accounts as a classification, because what happens sometimes you get the one of kind of a project and during that time, those revenues come into top 10 account and then the project is over, they go down and that is what we realize is this was more Arithmetical calculation and not consistent with the way we look at it as a business of the company. So, that is why we have picked up only those accounts, which are strategic where there is account management as governance and which we consider as a long-term our customers and those revenues are going up.

**Abhishek S:** I was more referring through your revenues from top client, which remains consistent with what you have reported in the past and if I look at the growth rates

on a Y-O-Y basis for this quarter, you know it has grown around 9%, which is you know first probably in eight quarters?

**Kishor Patil:** So you were talking only about one customer.

**Abhishek S:** Right Sir.

**Kishor Patil:** We do not like to comment on that, but I think we mentioned last time that they have considerably reduced their spend, but may be Sachin in a better position to answer that question.

**Sachin Tikekar:** First of all let me just say that our relationship with top customer continues to be very strong. We are strategic to them, they are strategic to us as their business stabilizes, and I think there will be more opportunities for us to grow together. So, you know last eight quarters, I think the industry has had struggled, but I think you know our relationship remains strong. We will work on some strategic go to market together. So, it is not only our growth with the top account, I think with the help of this customer, I think we may just take some joint solutions to the market, which may create growth opportunities for both the organizations. That is all that I would like to say at this point.

**Abhishek S:** Okay, that is helpful. Thank you for taking my question.

**Sachin Tikekar:** Thank you.

**Moderator:** Thank you. We take the next question from the line of Rahul Jain from Emkay Global. Please go ahead.

**Rahul Jain:** On this if you would share more on the digital transformation stuff like Quick Pick or IoT, what is the status there, how much clients we have progressed on this kind of things and how we see shaping up going forward?

**Sachin Tikekar:** On Quick Pick, we started working on Quick Pick about little more than year ago. We did three pilot projects in three different geographies and now one customer,

which is a very large Life Sciences customer they have placed a larger order on the Quick Pick. So, we believe that it has good potential. We are in discussions with multiple other customers and we believe that we will see growth coming in with Quick Pick and our objective is to have Quick Pick up in running atleast with six to eight customers during the course of this year. So we see for a product that is our solution that is just getting launched, we are very optimistic at this point in time. As far as rest of the IoT solutions are concerned, I think again they are in the same boat. We started working on them in the last year, year and a half and there are pilot projects that are going on. Some are showing signs of growth. Some, we will have to wait and watch.

**Rahul Jain:** Okay and only the softwares of the Oracle kind of thing, which we have on the logistic side of it, though there is significant traction in the market, but are we seeing that because of the high price of Oracle Cloud Solution, it is a constraint to certain extent given the price sensitivity of the customers nowadays?

**Sachin Tikekar:** Specifically talking about Oracle Logistic Solution, they are a dominant player in that area. Many logistic companies and companies that require to manage large logistics, Oracle continues to be their choice and KPIT specializes as Kishor mentioned earlier on that one of the areas where we stand out in the Oracle space is probably their supply chain execution, warehousing logistics area. We are seeing good growth opportunities in South East Asia as well as in India and we are working on some opportunities in the US. So, as far as Oracle's Logistics Solutions are concerned, we believe that is going to be an area of growth not only for Oracle, but also for KPIT. As far as the Cloud Solutions are concerned, I think again, we have multiple projects that are going on in Asia and Africa specifically in India, South East Asia as well a in Middle East and if you look at the overall cost of ownership that is going down for the customers as far as the licensing is concerned. So, you know more and more customers are actually moving to cloud even though it may seem bit on the price year side as compared to Oracle's competitors.

**Sunil Phansalkar:** Just to add to what Sachin said, overall as we see the growth on Oracle Cloud there are some recognitions that we have got so. Oracle recognized us as the ERP Cloud partner of the year 2016 at Oracle Open World, India. So, I think we see good traction in Cloud ERP, Cloud MDM or even Cloud OTM as Sachin said. So, these are the areas where we see good traction.

**Rahul Jain:** We saw that you were representing in this event in Delhi, so have we seen any traction because of Oracle incremental focus on India as the geography and you being established partner for them in this market?

**Kishor Patil:** We believe that it positioned both Oracle and KPIT in a differentiated manner especially when it comes to the smart city initiatives across India. I think our joint go to market was well received, but as you know different smart city projects in India are at different levels, it is too early to see. So, that was our biggest sort of an objective of participating in that event. As far as regular deals are concerned especially the deals from Cloud and supply chain planning and supply chain execution on Cloud with Oracle, we are seeing some deals coming our way due to the visibility that we receive, but we believe that the real traction will come over a period of time, because smart city initiatives will take some more time before they come to fruition, but it was a good thought.

**Rahul Jain:** That is it from my side.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Rahul Jain from Emkay Global for closing comments.

**Rahul Jain:** I just want to thank management for their wonderful insights and giving us the opportunity to host this call. Now I hand it over to Sunil for the closing remarks for the management.

**Sunil Phansalkar:** Thanks Rahul. Thank you everybody for joining the earnings call. If you have any further questions, please feel free to write to me and I will be more than happy to answer you. Thanks once again and have a great evening. Thank you.





*KPIT Technologies Limited*  
*July 20, 2017*

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.