



# “KPIT Technologies Limited Q4 FY2018 Results Conference Call”

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**ANALYST:**

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

**MANAGEMENT:**

**MR. RAVI PANDIT – CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER – KPIT TECHNOLOGIES**  
**MR. KISHOR PATIL - CO-FOUNDER, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR - KPIT TECHNOLOGIES**  
**MR. ANIL PATWARDHAN - SENIOR VICE PRESIDENT, HEAD – CORPORATE FINANCE & GOVERNANCE - KPIT TECHNOLOGIES LIMITED**  
**MR. VINIT TEREDESAI – CHIEF FINANCIAL OFFICER - KPIT TECHNOLOGIES LIMITED**  
**MR. PAWAN SHARMA - HEAD OF SOLUTIONS & SERVICES BUSINESS - KPIT TECHNOLOGIES LIMITED**  
**MR. CHINMAY PANDIT - HEAD OF ALTERNATE POWERTRAIN - KPIT TECHNOLOGIES LIMITED**  
**MR. SUNIL PHANSALKAR - HEAD INVESTOR RELATIONS AND AVP M&A - KPIT TECHNOLOGIES LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the Q4 FY2018 results call of KPIT Technologies, hosted by Emkay Global Financial Services. We have with us today Mr. Ravi Pandit, Chairman & Group CEO, Mr. Kishor Patil, CEO and MD, Mr. Anil Patwardhan, Senior VP and Head, Corporate Finance and Governance, Mr. Vinit Teredesai, CFO, Mr. Pawan Sharma, Head- Solutions & Services Business, Mr. Chinmay Pandit, Head- Alternate Powertrain and Mr. Sunil Phansalkar, Head Investor Relations and AVP, M&A. 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 telephone. 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:** Thank you Inba. Good evening everyone. On behalf of Emkay Global we would like to welcome the management of KPIT and invite them to take us through the Q4 number and request Mr. Sunil to take it over from here. Sir, over to you now!

**Sunil Phansalkar:** Thank you, Rahul. A very warm welcome to everybody on the Q4 FY2018 and FY2018 Earnings Call of KPIT Technologies. I hope all of you have received our investor update and have felt bit happier after reading that.

As always, what we will do is we will have the opening comments from Mr. Pandit on the performance of the company during Q4 and the year and then our outlook for the next year. After that, we will throw open the floor for questions.

I would request each one of you to limit your questions to two, so that everybody gets an opportunity to ask the questions and if there are any questions pending, please feel free to write to me and I will be happy to get back to you. So thank you, and welcome once again. And now I will hand this over to Mr. Ravi Pandit.

**Ravi Pandit:** Good afternoon. Welcome to the KPIT Q4 results for FY2018. As you know, the year for us has ended well from the revenue, EBITDA as well as from the profit point of

view. Our revenue went up on a quarter-on-quarter basis by more than 6%, on a year-on-year basis by more than 12.5% and on a yearly basis by over 15%. The quarter gave us revenue of more than \$150 million, which is actually the first time in the history of our company.

We closed the year at \$567 million. And you would remember that we have always been a growth-oriented company, and I am happy to say that our growth has come back.

Our EBITDA in the last quarter was 11.4%. But if you were to adjust the EBITDA for the expenses that we had to do on the merger and demerger, our EBITDA is at about 12.7%.

The quarter also saw a significant growth in the PAT, the Q-o-Q growth being 23% and the yearly growth being 41%.

The profitability during the year also saw its conversion into cash flow, and the cash balance increased from Rs.0.77 billion at the beginning of the year to Rs.3.18 billion at the end of the year.

Let me go a step down and look into what has contributed to our results, the revenue growth as well as the profitability growth.

So, if we were to take the offerings cut for the revenues. Our engineering revenues were the leaders in growth. They went up substantially. So, did our digital revenues. Our product revenues on a small base also increased, and so did PLM. Among the ERPs, the growth on the Oracle-based ERP was steady.

In terms of geographies, both Europe and Asia brought in growth. And in terms of the verticals in which we operate, the automotive vertical showed growth in the year and so did energy & utilities. Unfortunately, the manufacturing vertical did not show substantial growth.

If one were to look at the drivers of profitability, I would probably identify two main ones. One is on the operational part, and we began the year by saying that we would like to grow 10% in the year without increasing our people, and we ended the year with a significant growth on a year-on-year basis of around 14% and with around 3% increase in our number of people. So clearly, there was a growth in per person productivity. And this, apart from the revenue growth itself, contributed to our increasing profitability.

The second part, which added to our profitability, was the delivery part. I think the projects that were delivered during the year were done cautiously. We ran within the company a scheme called SGSG, Start Green Stay Green, which ensured that the projects were delivered well. Now both these things put together contributed to our profitability and liquidity.

Apart from this, there are a few other happenings of the year, which I would like to take you through. One is on the Birlasoft. So, as you know, we announced the scheme of merger and demerger. We are going through the legal process relating to this scheme. This scheme has been announced. We had the open offer, and, as expected, the response was somewhat low. And now we are in the process of subsequent regulatory compliances. We believe that as per our timetable towards the end of the year or in early part of next year, we should be done with the merger and demerger part, subject to regulatory and other approvals. It is our belief that once we do that, we would have two separate companies, one focused on automotive engineering and the second one on business IT, which can both be leaders in their respective fields. And I would like to state here we appreciate the response that we have got from your community about the thought that we put forward as a part of this merger and demerger.

The second update that I would like to give you is about a legal case that we have with one of our ex clients, a company called Copart. We have been talking about this for the last four or five years. This has been a part of our notes to financial accounts and operational declaration to the SEBI.

So, this case has been going on for some time, and the jury trial just got over yesterday morning. And the jury gave their verdict and a written copy of which we got today. And there were multiple claims by them against us and one claim by us against them for the payment for the delivery of services. The judicial process in the U.S. includes a jury verdict followed by a judge's judgment. So, what we had was a jury verdict. This will be followed by the judge going through the verdict and looking at it from the legal sustainability. And then the judge will give judgment. Thereafter, we have the option to accept the judgment or go in an appeal against that. We expect that in the next few months, the first level working would be over and we will get a judgment by the first level judge. At that point in time, we will have a complete clarity about what is the result at the first level.

As we have stated in our announcement, under the current jury verdict, we have a liability to pay \$16 million. We believe that the judgment is not right under law and we would certainly be taking appropriate steps to ensure that we get to a fair and equitable judgment. We believe that this will take a few more months. We gave the intimation because as soon as we got the information from the jury verdict, we thought it is best for us to intimate everyone.

So, these are the two things, which I thought we should update you about apart from our business results for the last year.

One other thing that I would like to add is that ever since the year in which we went public, you have been meeting us. And along with us, you have been meeting our CFO, Mr. Anil Patwardhan. Mr. Anil Patwardhan is planning to retire, and this may be his last investor call in his official capacity. And I just thought some of you might want to bid him adieu.

So, this is as regards the immediate year ended where we are. Talking about the next year, our investor update speaks about what is our guidance for the next year. We anticipate that our revenue growth would be between 8% and 10% in the constant currency terms, and we anticipate that our EBITDA margins would be

between 11.5% and 12.5%. These are a little lower than our current EBITDA margins without the transaction expenses. But over the next year also, we will have the similar expenses and we have, therefore, provided for it.

So that is with regards our growth and profitability. We believe that our areas of growth will continue to be the current areas, which includes Digital, Engineering PLM and products. The geographies to bring us growth over the next period will be both Europe and Asia. We believe that the Birlasoft transaction should come through during the current year, subject to regulatory and other approvals.

So these are some of the broad observations that I had to make. We would welcome questions from you. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** Hi Sir just on the margin side so what kind of rupee assumption are you going with for FY2019 margin guidance?

**Sunil Phansalkar:** We are looking at about Rs.66 to Rs.67 as the level of the rupee. So, if the rupee stays at where it is right now, we might see some positive impact on the margins.

**Mohit Jain:** It also depends upon the cross-currency.

**Sunil Phansalkar:** Yes.

**Mohit Jain:** Sorry, what was the last point?

**Sunil Phansalkar:** So obviously, the cross-currency movements will also have an impact.

**Mohit Jain:** Right. And what is the outlook for the auto engineering business like we had fantastic FY2018, and it looks like this time, momentum continues. So our growth should have been little higher in FY2019. What is the thought there?

- Kishor Patil:** Yes, so we do believe that the momentum will be there. We had a great momentum last year. So we will see some good growth next year too. It may not be exactly what we had last year but certainly a pretty strong growth next year. See, basically, most of these technologies are very, if I had to say, specialized projects. And from that perspective, we are cautious in saying how much we can scale in some of these practices. From that perspective, we have guided realistically.
- Mohit Jain:** Any project completions or anything that you can foresee now which can happen in the first half on the auto engineering side or revenues to be stable from hereon?
- Kishor Patil:** No, the overall pipeline is very strong, both in engineering as well as in the areas which Mr. Pandit mentioned. So we will continue to drive the current growth momentum in these areas.
- Mohit Jain:** Okay Sir anything on the utilization side? What is the target level from 2018 now? And how many do we plan to hire to support revenue growth number?
- Sunil Phansalkar:** So we are looking at obviously our utilization's currently are, if you look at offshore, they are at about 72%, and we believe that there is a scope at even at the growth rate that we are, we should be I mean ideal level of utilization should be about 75%, 76%. We believe that in a couple of years, we should be able to reach that.
- Mohit Jain:** So FY2019 there is no like your utilization may still remain at current level is it?
- Sunil Phansalkar:** It should marginally go up.
- Mohit Jain:** But hiring will continue?
- Kishor Patil:** Yes, I mean, there would a specific hiring that we will do.
- Mohit Jain:** And on site, like 93% can move towards 95%?
- Sunil Phansalkar:** Starting 93%, 94% is a level that we should look at on site. We do not see it going beyond 94%.

- Mohit Jain:** So the best year done is probably 95%, right, in FY2012 or something?
- Kishor Patil:** Yes. So now, I mean, if you look at it, we are also looking at development centers at on site, especially in the areas where automotive engineering is strong. And that is why we believe 93%, 94% is a good number to look at.
- Mohit Jain:** Okay Sir that is all. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Neerav Dalal from Maybank. Please go ahead.
- Neerav Dalal:** I had a couple of questions. One, if you could give me the subcontracting cost for the quarter?
- Sunil Phansalkar:** The subcontracting cost for the quarter was about Rs.90 Crores.
- Neerav Dalal:** Rs.90 Crores. And I wanted to comment on the products in the platform, the business. How do you see would what drove the growth this quarter? And how do you see what is the outlook going ahead?
- Sunil Phansalkar:** On the product side, we do not give specific guidance for the quarters. We do believe that our products still do not have a quarter-to-quarter kind of a life cycle. So there is and there will be a variation from quarter-to-quarter.
- Neerav Dalal:** No, at least what drove the growth in the fourth quarter and the outlook for FY2019, if you could just give what products, where you are seeing traction and how they were planning out?
- Kishor Patil:** So areas in which we are looking at traction are both in IoT and/or mobility platforms, in connected vehicles, for commercial vehicles, passenger cars and two wheelers. And the second is in alternate powertrain area. In one of these areas we were looking at large growth this year, which got a bit postponed by some regulations, which are going to come but will take some more time than earlier estimated. But overall, we see that our growth last year was pretty strong. And we



will continue to grow, though the base numbers are very small. But one major change, which we are doing, is from the total solution segregate hardware and software. As far as possible, we are moving towards software-only platform. That is why the revenue may or may not grow as much because it may show a different growth number as compared to last year; however, the profitability will be better.

**Chinmay Pandit:** So on alternate powertrain side, we have already delivered our first project, but completed just at the start early April, and we see a lot of opportunities coming off on that side not only from the end customer but also from OEM partners who want to work with us to bring electrified vehicles on the road.

**Neerav Dalal:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Shyamal Dhruve from Phillip Capital. Please go ahead.

**Shyamal Dhruve:** So my question is on the guidance we have given for FY2019, 8% to 10% USD revenue growth. So just wanted to know like our engineering R&D, which is more than one-third of our total revenue and which is growing by 15%, 20% for us as well as for our competitors. So what, why this a little bit conservative guidance? Does this mean that we are seeing some weakness in other parts of business? Or any reason for it?

**Kishor Patil:** I think there are two to three things. First is we always take a view based on where we are today, and we had a very strong Q4, and we are going into the next year with a pretty good platform. We believe that we see good growth in automotive engineering and on the other side we see very good traction on digital. We see good pipeline in the PLM area, where we see good growth. Then a little bit of, I would say, the softness in the demand is on the ERP side. But I think this is a time we start building the pipeline for the next few quarters, and we may have a better view going into H2. That is basically how I would put it.

**Shyamal Dhruve:** That is what on my side. Thank you and best of luck for the next few quarters. Thank you.

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

**Abhishek S:** A couple of questions from my side. The first is on the revenue guidance. Could you add color in terms of the seasonality that you expect through the year in achieving that 8% to 10% growth?

**Kishor Patil:** I think typically our second quarter is one where we see reasonable growth. Typically, Q2 and Q4 are the strongest and then you can build on that. That is how we typically see the quarterly impact. Pawan, you want to add?

**Pawan Sharma:** No, I think that is it.

**Abhishek S:** That is helpful. On the margin guidance, could you I think last year you gave really high things the second quarter. So have we thought about the wage hikes for the year and any comments on that perspective?

**Kishor Patil:** It is too early to talk about those because we have not announced it internally as well. So I think we will cover it when it comes.

**Abhishek S:** Okay. And lastly, just a bookkeeping question on the tax rate Sir. What could we expect for FY2019?

**Anil Patwardhan:** So I think, we have been planning based on tax rate of around 24%, 24.5%. So we can expect our tax expense in the same sort of tax rate. If there is any opportunity to improve that, then we will continue to work on that.

**Abhishek S:** That is helpful. And just last one, again, for bookkeeping. The depreciation for the quarter jumps significantly, anything that we should be aware of?

**Anil Patwardhan:** No, there was nothing significant. There was some additional depreciation on account of the new building which was capitalized during the quarter. So our phase III new investment that has got capitalized, and that depreciation has come in the last quarter.

**Abhishek S:** Thank you for taking my question Sir.

**Moderator:** Thank you. Our next question is from the line of Apoorva Prasad from HDFC Securities. Please go ahead.

**Apoorva Prasad:** Sir my first question, we want to understand if there are any one-offs in this quarter revenue if at all?

**Sunil Phansalkar:** So there is nothing as we said, there has been growth in the products business, and products business is one business where it has variations quarter-on-quarter. So apart from that, there is nothing one-off in the quarter.

**Apoorva Prasad:** Right. And just if you can probably give more color in terms of how you are seeing the automotive product engineering business, maybe if you can talk toward the competitive landscape, that will be helpful. And also if you can talk about how do you see margins trending there.

**Kishor Patil:** So on the automotive business, we do believe that in the new technology areas, we are very well placed, typically the growth, which is coming specifically from Europe and Asia as well as US in this area, where we are working in a really cutting edge kind of areas. And our competition is largely more with the European boutique players as well as the large companies in the space. So we are happy where we are today, and that growth will continue from that prospect. What was your second question?

**Apoorva Prasad:** The growth margins on the segment?

**Kishor Patil:** So margins for this business, we are growing. I think this is the time when as I mentioned, these skills are typically pretty difficult to get, and when we are scaling

in this area, both in India as well as outside, we are building these development centers as well is what we are doing here. Apart from that, we are investing substantially in building the technology for this business. So there are a lot of investments we are making in this area. Because of that, our current margins in both the business are similar. But as in a year or two I think these margins will go up significantly as the volumes will go up.

**Apoorva Prasad:** So can these margins potentially go towards high teens?

**Kishor Patil:** Yes, certainly I mean, there is nothing wrong with the rate or there is nothing wrong with anything else. It is about deliverables. But we cannot exactly tell you, which year, we can talk about this year.

**Apoorva Prasad:** Sure. And lastly if you can provide a headcount number for distribution?

**Sunil Phansalkar:** So total number of people engaged in PES?

**Apoorva Prasad:** Yes.

**Sunil Phansalkar:** About 6,500.

**Apoorva Prasad:** Okay thanks.

**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 and best of luck, Anil. You will be missed. Sir basically my question was around the performance on the engineering services this quarter. May has been quite strong, and what is driven by any specific large deals that drove the strength this quarter? Or is it pretty broad-based kind of a growth?

**Kishor Patil:** It is a pretty broad-based kind of a growth that we have seen in this business. We have grown in all the geographies and so there is not a particular project, there is

not a particular customer. It is pretty broad-based, across the regions. So there is nothing specific to this quarter.

**Nitin Padmanabhan:** Sure. And going forward, how do you see this business in terms of growth? So this year has been particularly very strong. And do you think these levels of growth rates can be sort of sustained considering the environment, or at least potentially, can it be sustained? I know there is a guidance, but looking at the demand, would it be out of the ambit of opportunity to have this kind of growth?

**Kishor Patil:** Our external environment is pretty strong for the growth. As I mentioned, we are very well positioned. Our pipeline is strong. Overall the strong growth will continue in the business. I cannot say that it will be like last year's level. It was particularly very strong. But we are very confident about at least growing the numbers we have mentioned in the past of 15%, 20% growth.

**Nitin Padmanabhan:** Sure. And just last one from our side. On the products and platforms, you were looking at a couple of maybe OEMs or in the overseas markets as well, I think, OEMs for transport companies in the overseas markets. Anything specific there? We have seen Eicher this quarter from the Indian market. Anything in the overseas market that likely to fructify?

**Chinmay Pandit:** So we are actively engaged, looking at a couple of OEMs outside of India for the electric powertrain, and we see that traction growing.

**Kishor Patil:** The other factor, I would say, is in our PES business, not our pure product business, we work with many large OEMs across the region. And some parts of our IP in this products business are leveraged in providing services in the PES business, like battery management.

**Nitin Padmanabhan:** Sure. So consequently margins can be actually far better in those cases. Sure. Thank you Sir.

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

**Rahul Jain:** Congrats on strong numbers. Firstly, on the battery management side and in engine electric opportunities, if we have to see where we are positioned and what is the medium-term to long-term kind of opportunity for us? Because, I think, suddenly in the last two years, the news flow in the space has seen significantly with government talking lot of things across markets. So how we are positioned competitively, and what is the opportunity for us in this space?

**Kishor Patil:** The first answer is, as I mentioned, this opportunity exists in both PES areas as well as products and platforms. In the PES area, as I just mentioned, most of the companies where we were engaged with the conventional powertrain, they are investing more and more in all the parts of the world but specifically in Europe, in the electrification part. And that is where we are engaged. And I think some part of our actual vehicle programs; we will change more towards the electric. Over the period, the conventional powertrain programs, they get converted into more electric powertrain programs; however, next few years, I think there is an opportunity to do both, and I think that is the significance. So that is one part. On the products and platforms?

**Chinmay Pandit:** So on the products side, you are right, especially in India, a lot of interest has picked up. In the last quarter, we announced our collaboration with Eicher. The vehicle is certified. We have actually won some deals together with them, and we see opportunities opening up.

**Rahul Jain:** I mean, my question was more in terms of any size, any number, any growth that we looked because I mean, that people who be vendors, who would benefit in the space would be really exponential. So how we see being part of that play even though on a hypothetical basis there?

**Kishor Patil:** Especially in India, as well as Southeast Asia, it still is nascent market even though there is a lot of discussion. The market will pick up very quickly. But the structure

of the market is still evolving. In our case, as we mentioned, we would like to be a technology player, and that is why we would collaborate with certain companies like Eicher and as Chinmay mentioned, about some parts in Southeast Asia. That is what we will do. So as this opportunity increases and this year we got pretty well established, we would access the market, we will ride on that.

**Rahul Jain:** Okay. And secondly, given the kind of segment that we are in and the kind of growth that we displayed right now, I think the growth rate in these segments are projected better than the markets compared to the traditional overall mix of the IT services pool. So in that light, why do we see this guidance where it is, and why not far better than that?

**Kishor Patil:** I think we have talked about this in the past, right? We would like to maintain that, and we will revisit, if we are in a better environment going forward.

**Rahul Jain:** So but in general, do we see that these spaces on the relative basis are doing better because there is a better growth rate projected for the software as in market that is better growth projected for ENR in this case? So does that put at least on advantage basis, if not from pure growth perspective kind of a question but from a market, well, the market for other peers?

**Pawan Sharma:** No obviously that is what we have said around that. The areas in which we are especially, engineering and digital and PLM are areas where we see good growth opportunities. And we are also very well placed in these areas.

**Rahul Jain:** Understood. Thank you that is all from my side.

**Moderator:** Thank you. Our next question is from the line of Neerav Dalal from Maybank. Please go ahead.

**Neerav Dalal:** I just wanted to understand if you could share something more about the Eicher relationship. Could you explain how the relationship will work and what are the prospects of that?

**Chinmay Pandit:** Sure. It is the technology collaboration where we are working with Eicher and we have co-developed the electric bus. And from a product development point of view, the product is validated and certified, and now we are kind of working together to bring this product to market. Our role is primarily on the technology side, but given this is a nascent technology, we have worked together on multiple fronts as well.

**Neerav Dalal:** And then how would the revenue sharing on that happen? Is there something that you can disclose?

**Chinmay Pandit:** It is a technology fee kind of an arrangement.

**Neerav Dalal:** Okay. Sir now, Eicher will be bidding for electric bus tenders and won so that is how all this would work, right?

**Chinmay Pandit:** Yes, you are right. Also, the vehicle has joint branding. So our alternate powertrain brand, which is Revolo, will be on the vehicle as well.

**Neerav Dalal:** Okay. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, Sir!

**Sunil Phansalkar:** Thank you, everybody, for attending the call. And I hope you all got opportunities to ask your questions. But still if you have anything, please feel free to write to me, and have a good evening. Thank you very much.

**Moderator:** Thank you, members of the management. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.