

KPIT Technologies Limited

BUY

Sector: IT /Mid-Cap | Earnings Update – 4QFY20

29 May 2020

Background: KPIT Technologies is leading is a global technology company providing software solutions that help mobility companies leapfrog towards autonomous, clean, smart and connected future. The major focus areas of the company are – power train (Conventional and electrical), autonomous technology (vision and control systems), connectivity and diagnostics. The company's focus sub verticals are Passenger cars, Commercial and Off-highway vehicles and New Mobility. KPIT derives 82.60% of its revenue from strategic top 25 clients. The company has 7,105 employees to cater services to 58 clients. The company's business is spread across America (39.5%), Europe (41.5%), and Row (19.0%).

Sensex	32,286
Nifty	9,541
Price	₹ 46
Target Price (12 months)	₹ 58
Recommendation	BUY
52 Week High/Low	₹ 111.1/34.4
Bloomberg / Reuters	KPIT IN /KPIT.BO
Equity (Shares in mn)	274.1
Mkt. Cap in bn	₹ 12.2/ \$ 0.1
Avg. Daily Vol. ('000)	273.5
Avg. Daily Vol. (mn)	₹ 12.2 / \$ 0.1

Q4'FY20, witnessed a marginal impact of Covid disruptions, a significant dent expected in Q1'FY21, gradual recovery expected beginning H2'FY21

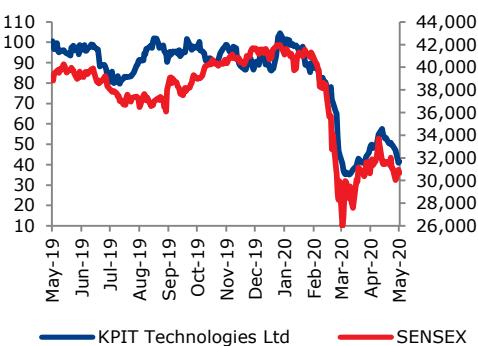
- For 4QFY20, KPIT registered 8.3% YoY growth in revenues to reach USD 76.9mn, in CC terms the growth was 11.5%. On geographic basis the revenue momentum was largely driven by a robust growth in Europe (+34% YoY) followed by a 7% YoY growth in US. However, a 22.3% YoY decline in revenues from Asia dampened the overall growth for the quarter.
- On a sequential basis amongst verticals, 'others' segment and new mobility segment led the growth (+34.3%/144.7% QoQ respectively). Revenues from passenger vehicle segment (constituting 75% of sales) remained flat sequentially. Commercial vehicle segment saw de-growth of 4.7% QoQ and the management expects recover to be gradual here.
- During the quarter EBITDA margins expanded by ~123bps YoY (11bps QoQ) to 13.51% largely supported by a decline in other opex, which stood at 19.4% of sales in 4QFY20 (vs 24.8% in 4QFY19). EBITDA growth was muted QoQ. The company has altered its employee variable costs keeping in view uncertainty ahead, created by the pandemic. PAT declined -13.3% QoQ to ₹381mn on account of one-time non-operating costs.
- Amid challenges the company was able to maintain the deal momentum with new additions across electric powertrain, AUTOSAR, Autonomous Driving and connected domain. Among major deal wins, the company signed a multi-million-dollar strategic deal with a leading Automotive Tier 1 for European Automaker's electrification program. The engagement spans in excess of 5 years and deal value is estimated at USD 50+ million.
- The company expects capex to the tune of 1.5% of FY21E sales towards IT security upgrade. KPIT currently serves 58 active customers of which top 25 contribute 82.6% of revenues. The management remains focused on increasing revenue penetration among these top-25 clients.
- The management remains cautious about FY21 owing to uncertainty due to the current covid related disruption and possibility of a relapse of the pandemic globally and hence, refrained from giving any guidance for FY21, however it expects significant impact on 1QFY21 topline -15% QoQ. The management expects significant improvement beginning 2HFY21 driven by new deal wins and operational efficiencies.
- We remain optimistic on long term growth prospects of KPIT driven by positive traction seen in key accounts (up ~20% in FY20) amid challenging situation, higher spending by Auto makers on R&D to build new tech capabilities strategic end to end client engagement model, healthy balance sheet with strong cash reserves and zero debt. The company derives majority of its revenues (~70%) from innovative technology areas such as ADAS, EV, Powertrain, and Infotainment where the size of opportunity is quiet large.

Valuation: The Company has won couple of big deals in its focus verticals which are expected to show visibility on the topline in 2HFY21. However, in the short term lack of visibility on client spending and possible changes in the execution of existing pipeline remain pain points. Despite the short term uncertainty in the topline, the management is confident of gaining traction in the medium term owing to a likely revival in demand for passenger cars. The stock is trading at a P/E of 9.5X/7.5x on FY21E/FY22E EPS, respectively. We arrive at a revised price target of ₹58 based on P/E of 9.5x FY22EPS and upgrade the rating on the stock to BUY given attractive valuations.

Risks: Macro environment uncertainty in Europe and the US; Relapse of the pandemic globally; Stress in automotive sector.

Results Summary 4QFY20

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	5,562.3	5,012.7	11.0%	5,500.9	1.1%
EBITDA	751.4	615.5	22.1%	736.9	2.0%
Depreciation	294.0	186.9	57.3%	283.2	3.8%
Other Income	124.2	355.4	-65.0%	107.4	15.7%
PBT	472.5	393.1	20.2%	481.7	-1.9%
Tax	91.5	83.3	9.9%	72.4	26.4%
PAT	381.0	309.8	23.0%	409.3	-6.9%
EBIDTA Margin (%)	13.5	12.3		13.4	0.8%
Effective Tax Rate (%)	13.5	12.3		12.8	
PAT Margin (%)	19.4	21.2		21.2	



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