

## Retail Equity Research

# KPIT TECHNOLOGIES LTD

IT – Automobile

 BSE CODE : 542651      NSE CODE: KPITTECH  
 BLOOMBERG CODE: KPIT:IN    SENSEX: 56,486

**Buy**

12 Months Investment Period      Rating as per Small Cap

CMP Rs.565    TARGET Rs.680    RETURN 20% ↑

(Closing: 14-03-2022)

## Bridging the future mobility.

The company is a digital transformation consulting and software integration company. Provide cutting edge engineering solution to more than 150 companies & enterprises in the field of CASE Mobility.

- Unlike peers, KPIT technology works in the high entry barrier segment which include ADAS, Level 3-5 autonomous driving & connectivity, EV powertrain & infotainment and others.
- The company works with top 10 out of 15 OEMs globally. It derives most of it's revenue from Top 25 (T25) customers, which roughly accounts for about USD10 billion in R&D spend.
- The revenue largely derive from Software Integration. However, Scalability in the industry is huge and currently electronics account of 30% and poised to reach 50% by 2030.
- We expect the revenue and PAT to grow by 19%/22% CAGR over FY22E-24E owing to superior product mix and robust order book.
- Given the strong fundamentals and strategic change adopted in the company's segment mix, we value KPIT on 45x FY24E EPS and recommend Buy rating with a target price of Rs. 680 at CMP.

## Strong player in the high entry barrier segment

KPIT's complex manufacturing process in the autonomous vehicle computing is catching up faster in its outlook. Unlike other peers, KPIT's 100% revenue comes from the automobile software. The company works in the high entry barrier segment which includes Advanced Driver Assistant Systems (ADAS), L3-L5 autonomous driving & connectivity, EV powertrain & infotainment, digital clusters, battery management system enhancements etc. KPIT is also working with semiconductor companies to help them to integrate final products to varied operating systems of OEM. The company's expertise is likely to increase the margin outlook to 20% as electronics today plays a larger part of vehicle cost and which currently accounts 30% and poised to reach 50% by 2030 according to industry experts.

## Formidable player in the future mobility

The company derive most of it's revenue from innovative technology and the Scalability in the industry is huge. Automotive manufacturers are prioritizing investment in new age technologies and KPIT is at the forefront on these. Engineering spend by the OEMs gone up by 10% and specially the CASE (Connected Autonomous Shared and Electric) area gone up by ~20%. Over the years company has invested heavily in the technologies for automotive companies and continue to maintain it's leadership position in this area. The company is positioned well to increase it's focus on electric vehicles especially in the US and Europe with a revenue outlook of 18-20%.

## Strategic approach for customer acquisition

KPIT works with top 10 out of 15 OEMs globally. It gets most of it's revenue from the Top 25 (T25) customers, which roughly accounts for about USD10 billion in R&D spend which is growing at 10% yearly. Currently, KPIT has 21 strategic customers out of overall 50 customers. It is also working with other OEMs, Tier1 suppliers and other disruptors, to reduce it's dependence on client concentration. The company also reiterated that, it is closely in touch with Tesla for a deal confirmation.

## Valuation

The company is well placed to take the advantage of mobility and the disruptive sector (Telecom and Semiconductor). It's software integration capability with top global automobile manufacturer's will provide significant value creation compared to it's peers. KPIT's further expansion in the field of middleware (Complex Body electronics) & new architectural solutions and cloud base connected service through organic & inorganic route will bring long term revenue visibility. On a 1 yr. the stock is trading at 45x which is largely inline with it's peers. We value KPIT at 45x FY24E EPS and arrive at a target price of Rs.680 and recommend Buy rating.

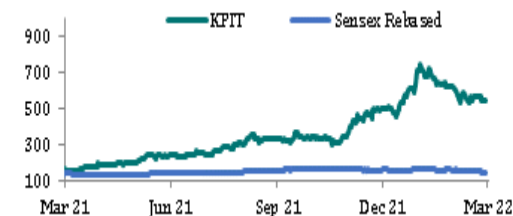
### Company Data

Market Cap (cr)	Rs 15,489
Enterprise Value (cr)	Rs 14,744
Outstanding Shares (cr)	27.4
Free Float	59.9%
Dividend Yield	0.2%
52 week high	Rs 800
52 week low	Rs 145
6m average volume (lacs)	0.21
Beta	1.10
Face value	Rs10

Shareholding (%)	Q1FY22	Q2FY22	Q3FY22
Promoters	40.1	40.1	40.1
FII's	19.8	20.9	20.4
MFs/Insti	14.2	12.6	13.3
Public	25.9	26.4	26.3
Total	100.0	100.0	100.0
Promoter pledge %	Nil	Nil	Nil

Price Performance	3month	6 Month	1 Year
Absolute Return	20.1%	70.5%	316.0%
Absolute Sensex	-2.7%	2.0%	15.0%
Relative Return*	22.8%	68.5%	300.9%

\*Over or under performance to benchmark index



Y.E Mar Consolidated(cr)	FY22E	FY23E	FY24E
Sales	2,470	2,950	3,477
Growth (%)	21.3	19.4	17.9
EBITDA	444	537	640
EBITDA Margin%	18.0	18.2	18.4
PAT Adj.	276	341	413
Growth (%)	94.9	23.8	21.1
Adj.EPS	10.1	12.4	15.1
Growth (%)	94.9	23.8	21.1
P/E	56.2	45.4	37.5
P/B	10.4	8.5	6.9
EV/EBITDA	33.0	26.7	21.7
ROE (%)	20.4	20.6	20.3
D/E	0.1	0.1	0.1

 Saji John  
 Research Analyst

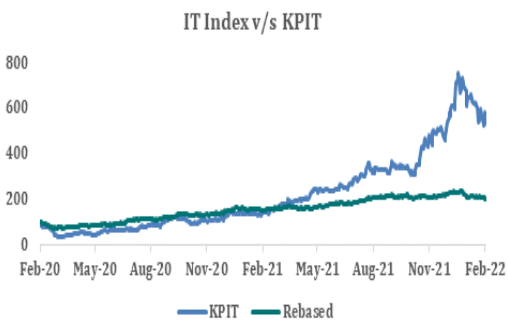
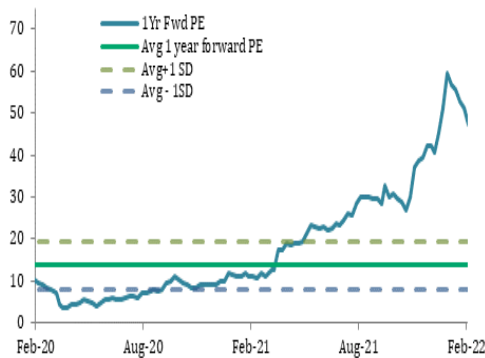
Valuation has significantly re-rated in the last 1yr, from P/E band of 18x to 30x and high to 60x, largely due to the evolution happening in the EV world. It has outperformed the IT index by 81% over the last two years.

In the last one year shareholder value creation has grown at 3x and after de-merger in 2019 from Birla soft, it has grown by 5x, outstripping gains in the IT index.

Globally the R&D spend in CASE (Connectivity Autonomous Shared Electric) by top global automakers to grow by 25% annually over CY20-CY25 (FY21-FY26).

The use of software integration in the Automobile electronics is expected to grow at 20% CAGR over the next 3-4 years.

### 1Yr Fwd. P/E (Historical Valuation)



Source: Company, Geojit Research.

### Re-rating of the valuation

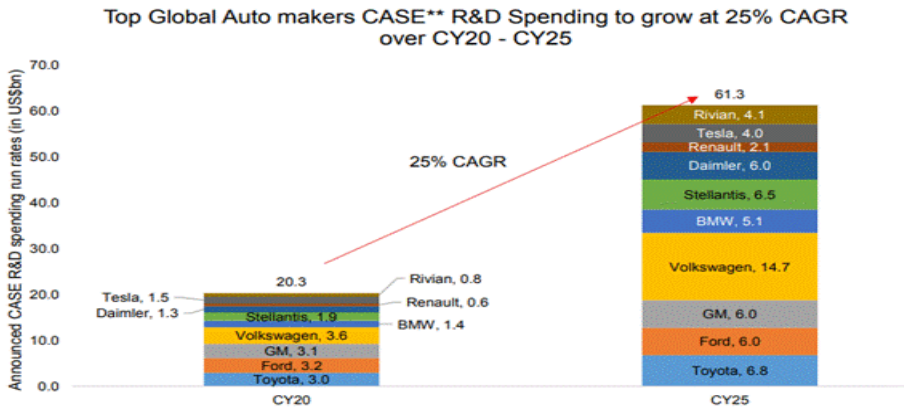
On a 1yr forward basis, valuation has significantly re-rated and its P/E band has expanded from 18x (3yr historical avg.) to 30x average in the last 1 year, in which the high was 60x and expect the trend to continue going forward in this Niche sector. This was largely due to the evolution happening in the EV world. As a Niche player in the Automotive software market the company commands higher valuation compared to traditional IT player which are diversified into different software service segment. Additionally strategic initiative taken by the company with the world Top 10 automotive players in the Level, 3 to 5 autonomous vehicle integration has justified the current valuation. We believe that KPITs long term strategy in developing CASE platforms with the Top OEMs will enhance margin expansion and profitability. KPIT is currently trading at 46x on a 1 year forward basis, which is largely inline with its peers. However, given the strong earnings outlook of 22% CAGR over FY22E-24E and consistent order book from top global auto and Tier 1 OEMs over the medium to long term makes KPIT at a stronger foot, and hence factor 19% revenue CAGR over the same period. We believe, premium valuation to continue due to high entry barrier and talent pool. We value KPIT at 45x on FY24E EPS and arrive at a target price of Rs.680.

Company	Sales			EBITDA Margin %			P/E			ROE		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
KPIT Technologies	2,470	2,950	3,476	18.0	18.2	18.4	58.5x	45.4x	37.5x	20.4	20.6	20.3
Tata Elxsi	3,143	3,942	3,942	28.1	28.7	21.5	85.0x	65.2x	52.5x	36.5	39.6	39.2
L&T Technology services.	6,566	7,870	9,232	21.4	21.5	21.5	49.9x	40.6x	37.1x	24.9	25.9	26.4

Source: Bloomberg, Geojit Research.

### Industry Outlook

Today we are in the middle of the biggest revolution happening in the automotive world over 100 years and three drivers of the auto industry currently are Compliance, Competition and Change in business model, leading to adoption of EV. In latest report of Goldman Sachs the R&D spend in CASE (Connectivity Autonomous Shared Electric) by top global automakers to grow by 25% annually over CY20-CY25 (FY21-FY26). R&D spend in CASE by Top 10 automakers to triple from FY21-FY26. Spending by top R&D automakers seen at USD61bn as per the top Industry experts. As per the company, Currently electronics usage in the car accounts for 30% and poised to reach 50% by 2030, which give larger scope for software integration from a range future CASE technologies clients can include, Mobility disruptors, Semiconductor manufactures, Tech Giants, 5G Telecom providers, **While the global vehicle production CAGR is expected to be around 3-4%, and the growth CAGR for the automobile software is anticipated around 14%.** As per the management, the use of software integration in the Automobile electronics is expected to grow at 20% CAGR over the next 3-4 years. Compared to large cap IT companies who concentrates on scalability and have presence in every field of software integration whereas KPIT focus in the capability, which is operated in the Niche Automotive sector. Demand is also accelerating in the sector,

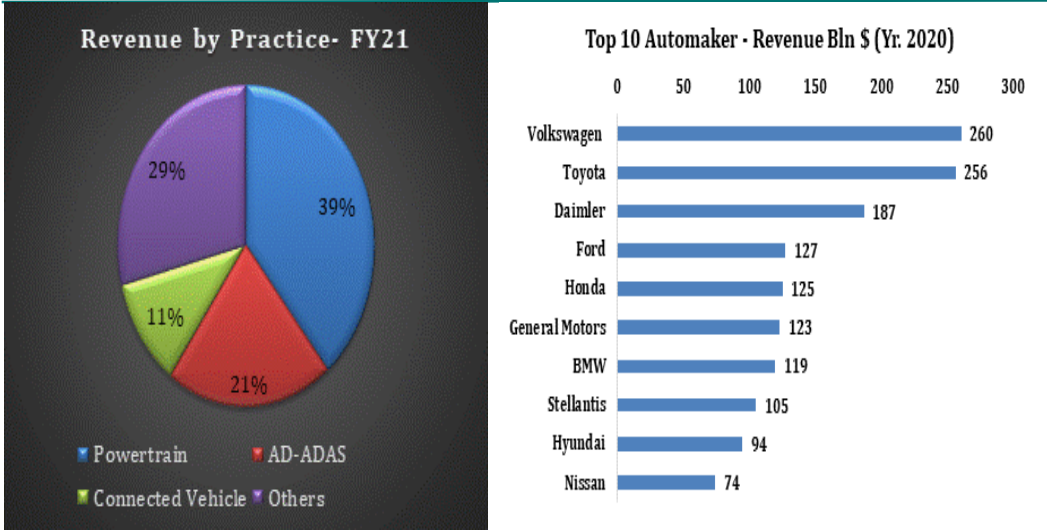


\*Connectivity Autonomous Shared Mobility  
Source: Goldman Sachs, Company, Geojit

Investment Rationale

Formidable player in future mobility

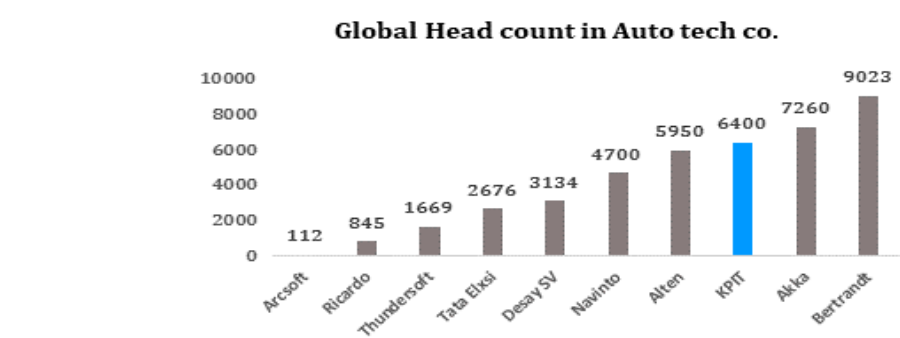
KPIT's 80% of revenue comes from newer technology areas. It offers broad range of CASE solution to customers, which are into ADAS, Infotainment, Electrification, Mobility solution, safety and diagnostics. The best part of KPIT is the list of the clients, the company deals with the 10 of the top 15 automotive OEMs globally. We believe that the adoption of EV powertrain will push the demand for Middle ware & new architecture and Cloud offering in next few years (KPIT is working on) thus provides room for increasing its margin and profitability. However, the revenue is significantly influenced by customer's spending patterns, competitive pricing pressure and increase in operating cost. KPIT current revenue is generated from Powertrain, ADAS, Connected Vehicle and others. To enhance the capacity and reach in the software integration, recently KPIT acquired 100% stake in 'Path Partner', (Pune based company), operates in a cutting edge technology of Automotive, camera, radar and multimedia device. Also acquired 25% stake in Future Mobility Solution (Frankfurt, Germany), develop-ment in Autonomous driving, ADAS & safety integration.



Source: International Organisation of Motor Vehicle Manufactures (OICA), Company, Geojit

Strong relationship with T25 clients

Currently 80% of revenue comes from top 25 clients. KPIT said in it's statement on the demand environment, that the world's top class OEM players spends more than \$1billion in R&D space, and there is three digit deal opportunity available in the market place on focussing the T25 customer. With the marquee clients list comprising the likes of BWM, Cummins, Denso, Fiat, GM, Hitachi, Honda, JohnDeere, Continentals, MAGNA among others, KPIT is aggressively localising it's workforce in US and Europe to clinch large deals in engineering service. The firm has around 6500 engineers out of which 800 are located in client geographies in Europe. Generating clients in coming times, for that it would add 15% more engineers every year to sustain it's business growth.



Source: Goldman Sachs, Company, Geojit

High entry barrier segment

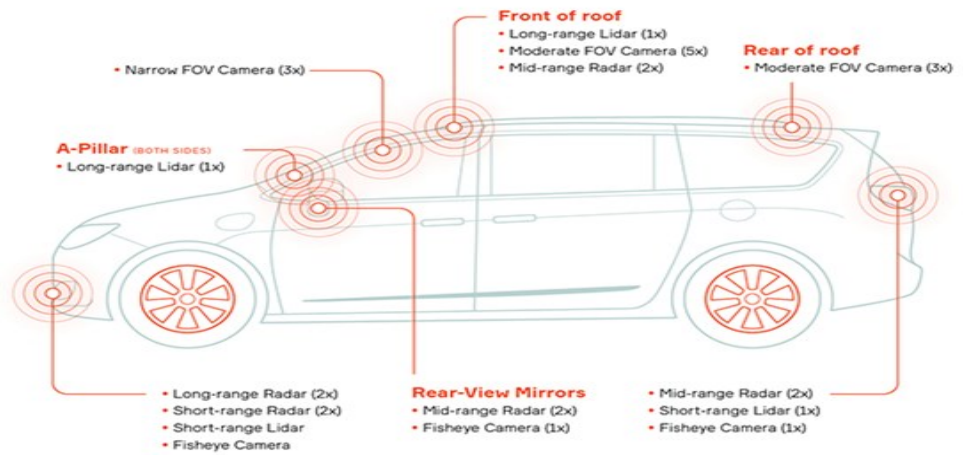
The company operates in a high growth area where the complexity of the work involved is manifold. KPIT works in the Level3-Level5 autonomous driving, Vehicle anywhere connectivity, Shared mobility, Battery management system etc. The area has a huge margin potential due to newer technology area. Unlike its peers KPIT's expertise in the niche automotive software market led the engineers to focus on high entry barrier segments. The company is also working with varied semi conductor manufactures to integrate their final product with the OEMs architectural design. KPIT relationship with the Top global clients has brought to engage with multiple complex manufacturing process, that enabled them to work for future software integration project. The company is also carrying out extensive work in hybrid cars, hydrogen fuel cells, multiple battery technologies and other alternative fuels to gain mass acceptance.

Company's 80% revenue comes from Europe and US and operates 100% in Automobile.



The company operates in the High Entry barrier segment, specially in the Level 3-5 Autonomous driving.

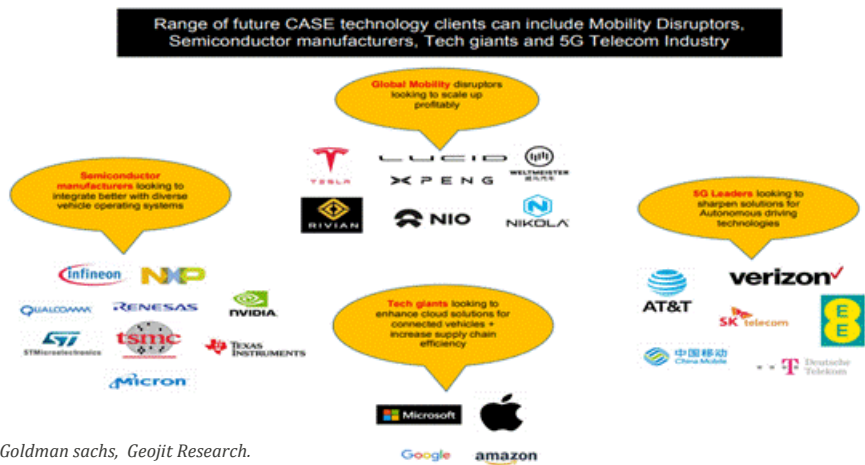
### Sensor Enabling Level4/5 Autonomous



Source: APTIV, Geojit Research.

### Scalability to new age technologies.

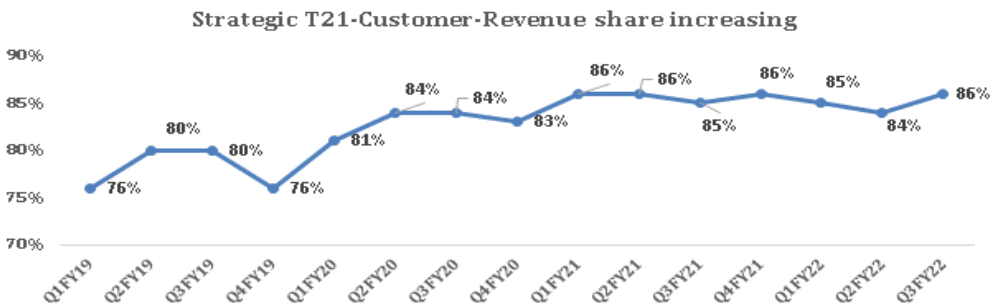
There are range of future CASE technologies like clients those who are into Mobility disruptors, Semiconductor Manufacturers, Big Data, 5G telecom Industry and similar. While electrification and Autonomous driving have attracted interest from companies beyond just automotive and technology. The L3+ technologies are largely involved with multiple service providers and KPIT act as strong integrator between the Tier1 supplier and OEMs. The companies like Lucid, NIQ, Rivian, Tesla as well as the tech giants like Google, Microsoft, Apple and like 10 newer age companies. It is also working closely with semi-conductor companies to integrate their hardware to software of these Auto companies. Given the autonomous car has to be supported by strong real time connectivity every where , they need to closely work with 5G Telecom service providers to support the CASE technology landscape.



Source: Goldman sachs, Geojit Research.

### Strategic approach to customer acquisition

KPIT wants most of it’s revenue from top 25 strategic customers. Currently KPIT has 21 of the 25 strategic customers it need, Though it has about 50 customers overall. It’s working closely with other OEMs and Tier 1 supplier to reduce the risk of client concentration. BMW announced KPIT as the strategic software development partners for automobile software. Likewise ZF Group has collaborated to develop middleware for the e-mobility ecosystem like high performance computing, intelligent sensors smart Actuators. Original equipment manufacturers are moving towards a central-compute architecture software platform that can host varied domains such as Autonomous Driving/ADAS, Digital Cockpit, Electric Powertrain, and Body Control Module. The company is incubating plan to onboard some of the well funded disruptors including names like Lucid, NIO, Rivian and Tesla. On boarding any of these clients



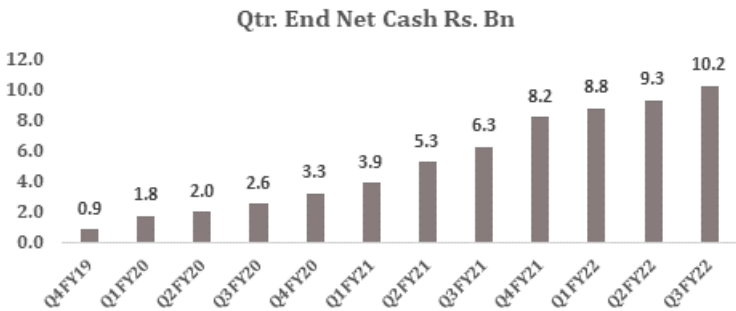
Source: , Company, Geojit Research.

Currently, the Strategic Accounts (T25) contributed around 86% of the overall revenues as compared to around 82% last year.

High cash flow with zero debt

After the de-merger, the Group started the year with a net cash balances of Rs.329 cr. and ended the year with Rs822cr. as on 31 March 2021 with zero debt. In addition, Cash flow generated during the last 3 quarters was Rs1,023 cr.. Almost 70% of the net worth of KPIT is represented by Net Cash. The Company has a clear road map on the usage of cash. The amount will be strategically used for Inorganic growth and which will enable KPIT to expand its presence in collaboration with other disruptors to scale the business in different domain. As a zero debt company we expect the ROE of the company to improve and remain above 20% going forward. This is largely driven by higher margin profile in the field of evolving CASE technology led automotive development, talent development, R&D and technological adoption. between the hedged item and hedging instruments.

A zero debt company. we expect the ROE of the company to improve and remain above 20% going forward.

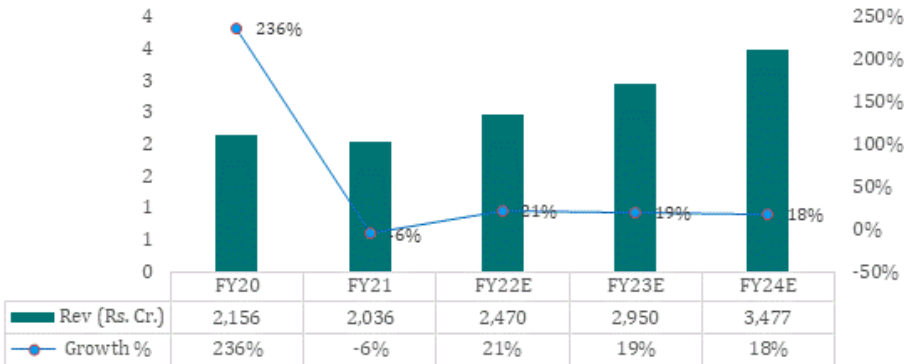


Source: Company, Geojit Research.

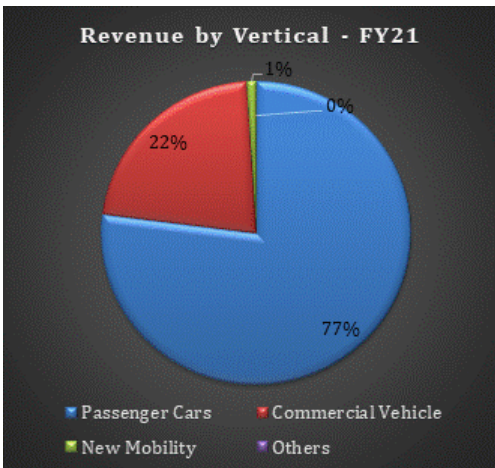
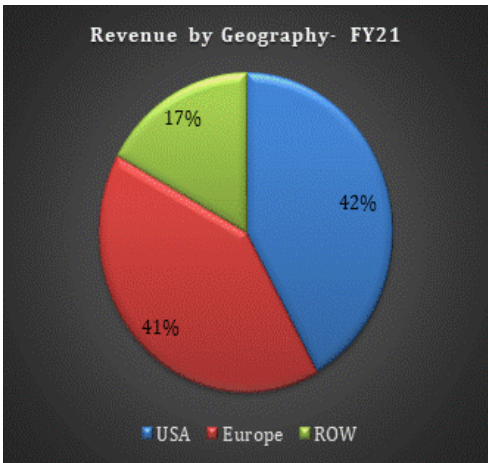
Revenue to grow by 19% CAGR over FY22E-FY24E

The Group derives revenues primarily from providing engineering services which includes design engineering services, embedded software development with its related services and from the sale of licenses and product. During this year, dollar revenue stood at \$ 274.77 Million, against \$ 303.81 Million in FY20. During the second half of the year, there was a considerable shift in the work from onsite to offshore and thus in terms of volumes the revenue decline during the year was limited. In rupee terms, revenue for the year was reported at Rs.2,036 cr. as against Rs.2,156cr in FY20. In the 9MFY22, the growth was 19%YoY and factor 21%YoY for the full year, largely due to higher utilization and increase in offshoring. The passenger cars vertical contributed around 77% of the total revenue in FY21 whereas the commercial vehicles segment contributed around 22% of the revenue. New Mobility is a new vertical of focus and contributed just around 1% of the revenue whereas the balance was from other small segments. In terms of geography, US contributed around 42%, Europe 41% and the balance 17% came from Asia. All the strategic clients are global in nature and hence the geography break-up is increasingly becoming global.

Revenue to grow by 10% CAGR over FY22E-24E



US contributed around 42%, Europe 41% and the balance 17% came from Asia

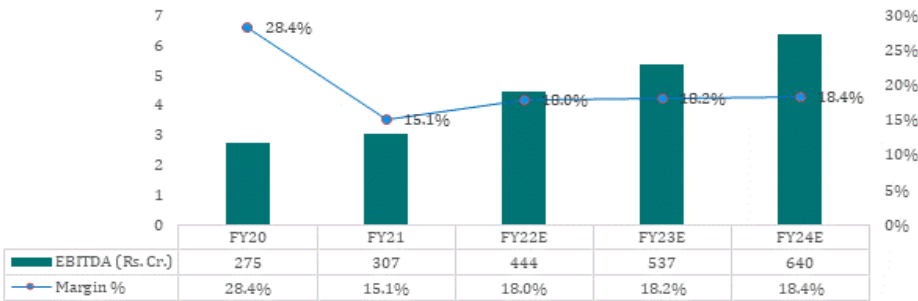


Source: Geojit, Company.

We expect the PAT to grow by 22% CAGR over FY22E-24E owing to superior product mix and increase in order book.

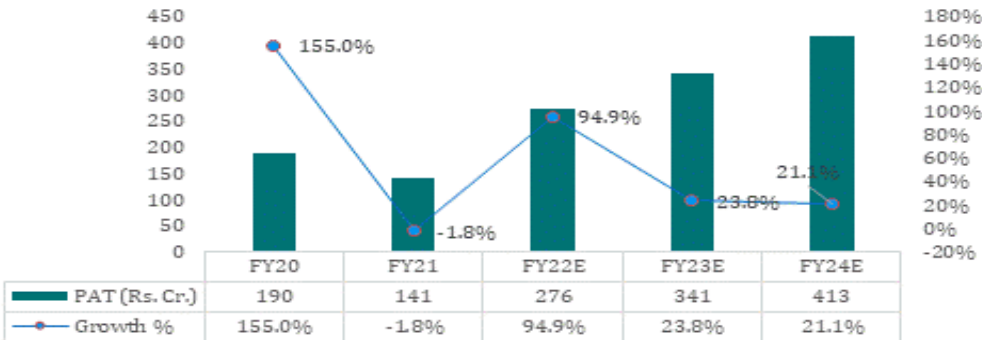
### Superior product mix to cushion margin

The EBITDA for FY21 stood at 15.2% as against 13.7% for FY20. The EBITDA for FY21 was ₹ 3,101 Million as against ₹ 2,954 Million for FY20. The Net Profit for FY21 stood at ₹ 1,461 Mil- lion. KPIT has highlighted that the company had higher than normal wage hikes during the year and will continue to invest in fresher's & client facing. In the medium term, the firm want to focus on improvement in operating profitability with emphasis on productivity improve- ment, increase in offshore revenues, broadening of offshore employee pyramid, leveraging of fixed costs and scaling up in our strategic accounts. These factors will continue to build on margins and expect EBITDA to be around 18% in medium term.



Source: Geojit, Company. CMIE

### PAT to grow by 22% CAGR over FY22E-24E



Source: Geojit, Company. CMIE

### Highlighting some key risks

- ◆ Cyclical nature/Disruption in Automobile industry.
- ◆ Top talent retention and attraction
- ◆ Economic and political events impacting business stability
- ◆ Major currency fluctuation
- ◆ Delivery Excellence.

### Company profile

KPIT is an independent automotive and mobility software developer / integrator helping large global auto maker’s transition towards future ready technologies including (1) electrifi- cation of powertrains, (2) autonomous driving and (3) connected vehicles.

For instance, if BMW is using a battery supplied by Panasonic or an electric motor that is supplied by ZF, in this situation KPIT writes the software that integrates the supplier elec- tronics to BMW’s vehicle operating system.

The company’s headcount of ~6,500 people is among the largest globally in the field of auto- motive technology solutions. Incumbent passenger car and commercial vehicle customer’s contributed the majority of the company’s revenue.

FY21 revenue, which are geographically diversified into US (42%), Europe(41%) and Rest of the world (17%). Though forward targets include, more focus on EV disruptors and automo- tive semiconductor suppliers and the market certainly seems to be backing its plans.

The company’s top management include:  
**Mr. S B (Ravi) Pandit - Chairman & Group CEO**

**Mr. Kishor Patil - CEO & Managing Director**

**Mr. Sachin Tikekar,**

As on 31-12-2021, the company has a total of 27.41 cr. shares outstanding.

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E*	FY23E	FY24E
Sales	2,156	2,036	2,470	2,950	3,477
% change	236.2	-5.6	21.3	19.4	17.9
EBITDA	275	307	444	537	640
% change	12.7	15.1	18.0	18.2	18.4
Depreciation	108.1	133.2	122.3	141.7	164.8
EBIT	167	174	322	395	475
Interest	16.9	17.3	17.1	16.2	14.7
Other Income	28.3	15.8	42.0	50.1	59.1
PBT	181	178	347	429	519
% change	168.8	-1.7	95.4	23.6	21.1
Tax	32.8	30.5	71.1	87.9	106.5
Tax Rate (%)	18.2	17.2	20.5	20.5	20.5
Reported PAT	146	147	276	341	413
Adj.	23.6	51.5	0.0	0.0	0.0
Adj. PAT	144	141	276	341	413
% change	327.7	-1.8	94.9	23.8	21.1
No. of shares (cr)	27.4	27.4	27.4	27.4	27.4
Adj EPS (Rs)	5.3	5.3	10.1	12.4	15.1
% change	327.7	-1.8	94.9	23.8	21.1
DPS (Rs)	2.1	0.0	0.0	0.0	0.0

\* Not Comparable

CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E*	FY23E	FY24E
Net inc. + Depn.	289	311	469	571	684
Non-cash adj.	42	42	17	16	15
Other Adjustments	-73	-28	-71	-88	-106
Changes in W.C	130	308	388	-5	-4
C.F - Operating	389	628	803	494	588
Capital exp.	-270	-684	-117	-185	-167
Change in inv.	0	0	0	0	0
Other invest.CF	132	184	0	0	0
C.F - Investing	-138	-501	-117	-185	-167
Issue of equity	1	1	0	0	0
Issue/repay debt	-7	-5	-17	-16	-15
Dividends paid	-57	0	0	0	0
Other finance.CF	129	219	0	0	0
C.F - Financing	-177	-115	-42	-41	-40
Chg. in cash	73	12	643	267	381
Closing cash	276	286	929	1196	1578

BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E*	FY23E	FY24E
Cash	381	701	929	1,196	1,578
Accounts Receivable	461	339	406	485	572
Inventories	12	0	0	0	0
Other Cur. Assets	165	161	189	226	267
Investments	9	127	105	150	176
Gross Fixed Assets	500	650	789	929	1,068
Net Fixed Assets	389	460	477	475	450
CWIP	5	12	12	12	12
Intangible Assets	619	384	376	377	378
Def. Tax (Net)	16	27	27	32	38
Other Assets	836	598	697	832	981
Total Assets	1,672	2,016	2,345	2,790	3,322
Current Liabilities	421	522	603	723	856
Provisions	25	22	14	16	19
Debt Funds	165	229	204	179	154
Minority Interest	12	36	42	49	56
Equity Capital	274	274	274	274	274
Reserves & Surplus	780	938	1,213	1,554	1,967
Shareholder's Fund	1,049	1,207	1,482	1,823	2,236
Total Liabilities	1,672	2,016	2,345	2,790	3,322
BVPS	37	43	53	66	81

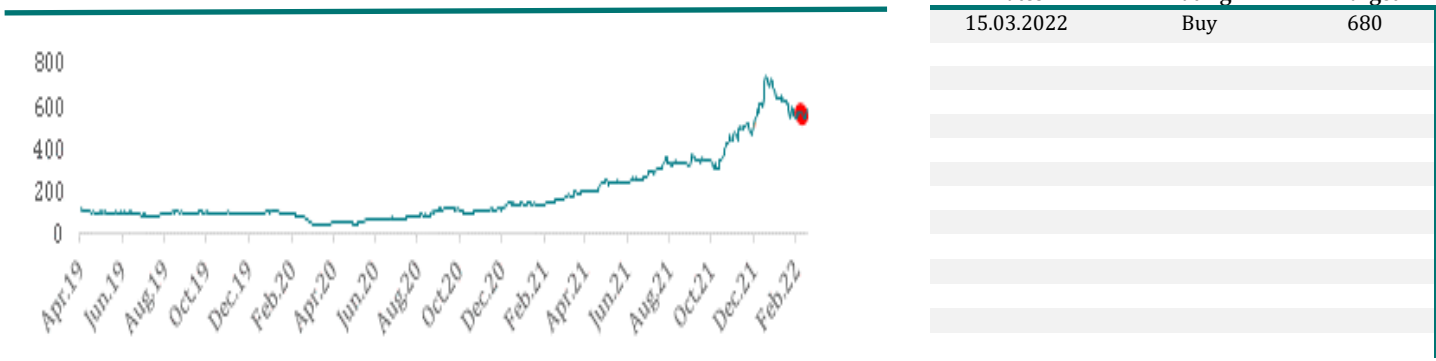
RATIOS

Y.E March	FY20A	FY21A*	FY22E*	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	12.7	15.1	18.0	18.2	18.4
EBIT margin (%)	7.7	8.5	13.0	13.4	13.7
Net profit mgn.(%)	6.7	6.9	11.2	11.6	11.9
ROE (%)	14.3	12.5	20.4	20.6	20.3
ROCE (%)	11.2	9.8	14.9	15.4	15.5
W.C & Liquidity					
Receivables (days)	90.1	71.7	55.0	55.1	55.5
Inventory (days)	2.5	1.0	0.0	0.0	0.0
Payables (days)	25.0	30.6	31.2	29.1	29.6
Current ratio (x)	2.1	2.3	2.5	2.7	2.9
Quick ratio (x)	1.7	1.8	2.1	2.2	2.4
Turnover & Levq.					
Gross asset T.O (x)	5.3	3.5	3.4	3.4	3.5
Total asset T.O (x)	1.3	1.1	1.1	1.1	1.1
Int. covge. ratio (x)	9.9	10.1	18.8	24.4	32.4
Adj. debt/equity (x)	0.2	0.2	0.1	0.1	0.1
Valuation ratios					
EV/Sales (x)	7.1	7.3	5.9	4.9	4.0
EV/EBITDA (x)	55.7	48.5	33.0	26.7	21.7
P/E (x)	107.6	109.6	56.2	45.4	37.5
P/BV (x)	14.7	12.8	10.4	8.5	6.9





RECOMMENDATION CHART (Since Listing)



Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral		-	

**Definition:**

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral :** The analyst has no investment opinion on the stock.

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To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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