KPIT Technologies: Steady Q2, guidance reduced at the lower end; Buy

Rating: **Buy**

Target price (12-mth): Rs.1,760

Share price: Rs.1,374

- Revenue growth momentum sustained in line with expectations, up 4.7% q/q in CC
- TCV at $207m, up 33% y/y yet down 17.5% on an LTM basis, adj. for large deals in FY23. Book-to-bill at 1.2x vs. 1.3x LTM average and 1.1x Q2 FY24
- The Q2 EBITDA margin declined 29bps to 20.8%. Net headcount declined by 166, due to 252 transferred KPIT to Qorix
- Management is confident of achieving revenue growth at the lower end of 18-22% and margins guidance revised upwards of 20.5%+ in FY25
- Asia will be a growth driver, while Europe would be faced with challenges for the next couple of quarters
- The company plans to raise Rs28.8bn (~6% equity dilution) for strategic investment aimed at inorganic growth

Key data	KPITTECH IN / KPIE.BO
52-week high / low	Rs.1,929 / 1,091
Sensex / Nifty	79,402 / 24,181
3-m average volume	$21.5m
Market cap	Rs.377bn / $4,478.6m
Shares outstanding	274m

Shareholding (%)	Sep'24	Jun'24	Mar'24
Promoters	39.5	39.5	39.5
- of which, Pledged			
Free float	60.5	60.5	60.5
- Foreign institutions	20.9	22.2	24.0
- Domestic institution	17.5	16.6	14.0
- Public	22.1	21.8	22.6

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rsm)	33,650	48,715	58,544	69,363	81,643
Net profit (Rsm)	3,808	5,944	8,202	9,537	11,112
EPS (Rs)	14.0	21.8	30.0	34.9	40.6
PE (x)	98.5	63.1	45.7	39.3	33.7
EVEBITDA (x)	56.8	36.4	29.7	24.4	20.1
PBV (x)	22.7	17.5	13.9	11.6	10.1
RoE (%)	25.7	31.3	33.9	32.2	31.9
RoCE (%)	19.0	23.3	23.6	24.7	26.0
Dividend yield (%)	0.3	0.5	0.7	1.1	1.6
Net debt/equity (x)	-0.4	-0.4	-0.5	-0.6	-0.6

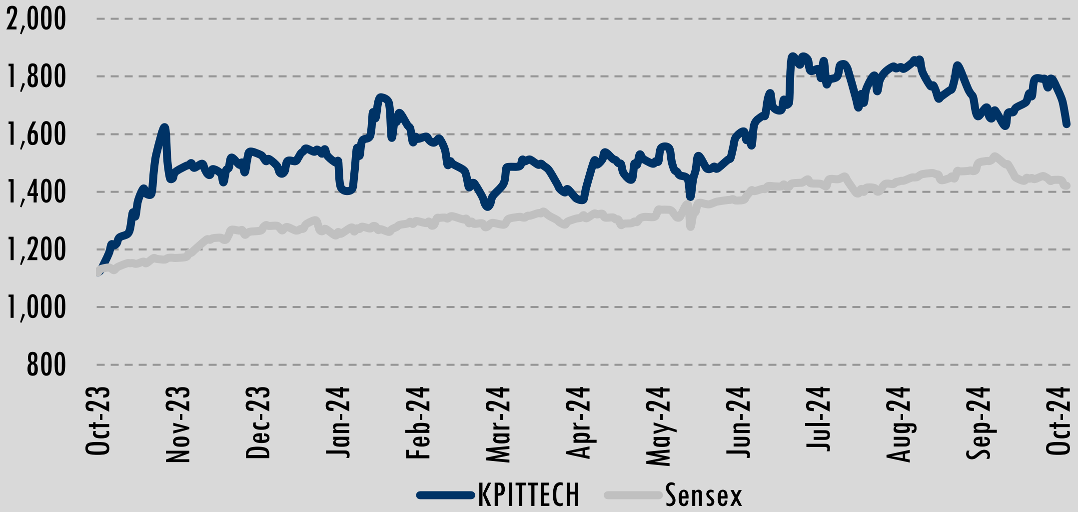
Jayalaxmi Gupta
Research Associate

KPIT Technologies: Steady Q2, guidance reaffirmed at the lower end; Buy

KPIT Technologies maintained its growth trajectory in Q2, with 4.7% q/q CC revenue growth. New TCV signed at $207m, up 33% y/y, taking LTM to $859m, down 17.5% y/y, incl. mega deals in FY23. The book-to-bill of 1.2x (last 4 quarter average of 1.3x) and management talked of a strong deal pipeline with many large deals. The company plans to raise Rs28.8bn (~6% equity dilution) towards inorganic growth. The EBITDA margin declined 29bps sequentially and 82bps y/y to 20.8% after absorbing wage hikes and ESOP costs. Further, management is confident of achieving the lower end of its revenue guidance; hence, we trim our FY25e/FY26e revenue 2.2%/3.6%. However, we see earnings improving 3% in FY25 given the one-time benefit (Rs 450m pretax) from reversal of an insurance claim. We introduce FY27 figures and lower our TP to Rs1,760 (from Rs2,000), based on 40x FY27e EPS. The TP revision includes Rs130/sh estimated value of the Qorix JV. The CMP reflects ~28% gains, resulting in a Buy (earlier Hold) recommendation.

- **Europe slows, US resilient**. KPIT has shown remarkable resilience by maintaining its growth rates over longer periods despite volatility in peers' performances. Its passenger-car division is on a high-growth trajectory and CVs steady. The company is now focusing on enhancing its execution in CVs (off-highway, trucks), aiming to sustain growth longer. Its largest region, Europe (49% of revenue), was flattish q/q impacted by weakness in Europe, especially Germany, while the US (27% of revenue) was 2.4% higher q/q. Management is cautious about the overall environment with delayed deal ramp-ups and extended timelines for revenue conversion. Within Asia (24%, up 22.8% q/q), Japan continues to accelerate, led by the Honda deal ramp-up. FP deal contribution moved up further and now brings 56.7% to revenue (51.4% a year back), reflecting strong capabilities. Competition, though, is hotting up in auto ER&D.
- **The EBIT margin declines sequentially**. The 17% Q2 EBIT margin was 26bps lower q/q, though y/y 102bps higher, after absorbing a 270bp impact from wage hikes and ESOP costs. The company transferred 252 employees to Qorix JV in Q2, taking headcount to 13,087, 9.3% higher y/y, reflecting confidence in growth ahead. Attrition declines further.
- **Business outlook**. Management is confident of achieving the lower end of its revenue guidance of 18-22% in CC and exceed its EBITDA margin guidance of 20.5%+.
- **Upgrade to Buy**. We expect KPIT to deliver 18/21/16% revenue/EBITDA/PAT CAGRs over FY25-27. The stock trades at 34x FY27e EPS, which we find attractive. **Risk:** Longer-than-anticipated slow-down in European OEM's.

Relative-price performance



Price movement

Q2 results snapshot

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q/Q %	Y/Y %
Revenue ($ m)	**111**	**124**	**134**	**145**	**149**	**159**	**165**	**173**	**5.0%**	**19.2%**
Growth Y/Y % (organic est)	15%	26%	33%	39%	35%	28%	23%	19%		
Industry Y/Y % (est.)	9.0%	10.0%	8.1%	6.4%	0.0%	0.0%	0.0%	0.0%		
Revenue (Rs m)	9,171	10,174	10,976	11,992	12,570	13,178	13,646	14,714	7.8%	22.7%
Effec. exchange rate	83.0	82.2	82.0	82.6	84.4	82.9	82.8	85.0	2.7%	2.9%
Employees (EoP)	10,490	11,013	11,571	11,971	12,727	12,856	13,253	13,087	-1.3%	9.3%
Rev. prod. ($ '000/employee)	**10.8**	**11.5**	**11.9**	**12.3**	**12.1**	**12.4**	**12.6**	**13.1**	**4.1%**	**6.6%**
Utilisation % (IT Services)	79.0%	81.0%	83.0%	85.0%	85.0%	86.0%	87.2%	88.3%	110 bps	330 bps
Attrition (est.)	25.0%	24.0%	20.9%	18.2%	15.8%	14.4%	14.1%	14.3%	26 bps	-380 bps
CoR (excl. D&A)	(6,228)	(7,091)	(7,617)	(8,319)	(8,454)	(8,837)	(9,157)	(9,909)	8.2%	19.1%
As % of revenue	-68%	-70%	-69%	-69%	-67%	-67%	-67%	-67%	-24 bps	203 bps
SG&A	(1,245)	(1,140)	(1,159)	(1,274)	(1,531)	(1,613)	(1,608)	(1,742)	8.3%	36.7%
As % of revenue.	-14%	-11%	-11%	-11%	-12%	-12%	-12%	-12%	-5 bps	-121 bps
EBITDA	**1,698**	**1,942**	**2,200**	**2,399**	**2,585**	**2,728**	**2,881**	**3,064**	**6.3%**	**27.7%**
EBITDA margins %	18.5%	19.1%	20.0%	20.0%	20.6%	20.7%	21.1%	20.8%	-29 bps	82 bps
EBIT	**1,294**	**1,520**	**1,749**	**1,918**	**2,085**	**2,201**	**2,356**	**2,503**	**6.2%**	**30.5%**
EBIT margins %	14.1%	14.9%	15.9%	16.0%	16.6%	16.7%	17.3%	17.0%	-26 bps	102 bps
Industry margins % (est.)	**15.4%**	**16.0%**	**16.1%**	**16.0%**	**15.4%**	**16.0%**	**14.8%**	**14.7%**	**-13 bps**	**-130 bps**
Other income (excl. forex)	38	63	78	86	174	159	147	65	-55.9%	-24.6%
Non-recurring / Forex	143	(120)	76	9	14	7	398	408	2.5%	4574.9%
Interest expenses	(83)	(107)	(137)	(136)	(158)	(118)	(127)	(102)	-20.2%	-25.1%
PBT	1,393	1,357	1,766	1,877	2,115	2,250	2,773	2,874	3.6%	53.1%
PBT margins %	15.2%	13.3%	16.1%	15.7%	16.8%	17.1%	20.3%	19.5%	-79 bps	388 bps
Taxes	(353)	(246)	(422)	(463)	(548)	(586)	(725)	(794)	9.4%	71.3%
ETR %	-25%	-18%	-24%	-25%	-26%	-26%	-26%	-28%	-146 bps	-293 bps
Associates / Minority	(35)	5	(4)	(5)	(14)	(21)	(7)	(43)	548.6%	685.0%
Net income	**1,004**	**1,115**	**1,340**	**1,408**	**1,553**	**1,643**	**2,041**	**2,037**	**-0.2%**	**44.7%**
Net margins %	11.0%	11.0%	12.2%	11.7%	12.4%	12.5%	15.0%	13.8%	-111 bps	210 bps
Industry net margins %	**11.6%**	**12.8%**	**12.6%**	**11.9%**	**12.4%**	**12.5%**	**12.3%**	**12.4%**	**11 bps**	**49 bps**
EPS (Rs)	3.7	4.1	4.9	5.2	5.7	6.0	7.5	7.5	-0.3%	44.4%

Note: KPIT does not disclose utilisation. Figures used are assumed

Management commentary

- Revenue growth was led by passenger vehicles, Asia and Middleware consulting
- CV spends in the US are expected to revive from FY26
- In Q2, the company won two deals each from the US and Europe and one in Asia. The pipeline across regions is strong
- Net headcount declined by 166 in Q2, despite adding 252 from the Qorix JV. Attrition declined further
- Wage hikes were absorbed in Q2.
- Other income had a one-time gain of ~Rs 450 (pre tax) on settlement of an insurance claim
- The company plans to raise capital vis QIP route upto Rs 450m (pre tax) for investment towards inorganic growth

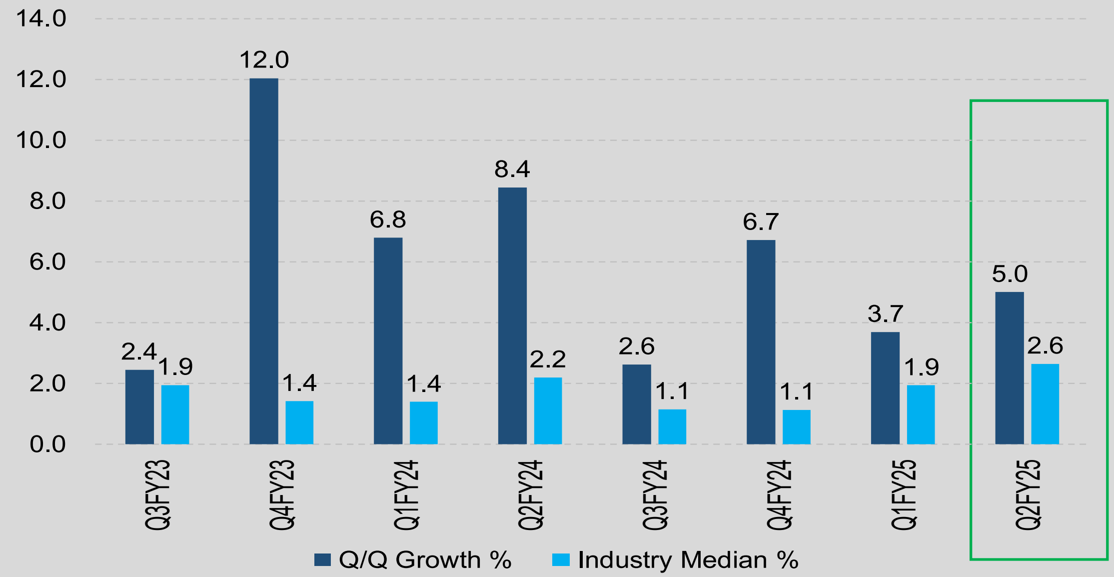
KPIT: Q2 peer comparison

	Persistent	LTTS	Cyient	KPIT	Tata Elxsi
Sales ($ m)	346	307	173	173	114
% chg. Q/Q	5.3	3.9	2.0	5.0	3.1
% chg. Y/Y	18.4	6.5	(3.0)	19.2	7.5
Sales (Rsm)	28,972	25,729	14,496	14,714	9,551
% chg. Q/Q	5.8	4.5	2.5	7.8	3.1
% chg. Y/Y	20.1	7.8	(1.8)	22.7	8.3
EBITDA (Rsm)	4,807	4,660	2,642	3,064	2,664
% chg. Q/Q	5.6	2.1	6.2	6.3	5.6
% chg. Y/Y	18.6	(2.0)	(13.0)	27.7	1.1
EBITDA margin (%)	16.6	18.1	18.2	20.8	27.9
chg. Q/Q	-4 bps	-42 bps	64 bps	-29 bps	66 bps
chg. Y/Y	-21 bps	-182 bps	-234 bps	82 bps	1 bps
EBIT (Rsm)	4,062	3,877	2,058	2,503	2,393
% chg. Q/Q	5.8	1.1	8.1	6.2	6.2
% chg. Y/Y	22.8	(4.9)	(15.6)	30.5	0.3
EBIT margin (%)	14.0	15.1	14.2	17.0	25.1
chg. Q/Q	-1 bps	-51 bps	74 bps	-26 bps	74 bps
chg. Y/Y	31 bps	-201 bps	-233 bps	102 bps	-200 bps
PBT (Rsm)	4,345	4,408	2,341	2,874	2,987
% chg. Q/Q	8.5	1.9	26.7	3.6	18.3
% chg. Y/Y	22.1	1.1	6.5	53.1	13.2
Tax rate (%)	(25.2)	(27.4)	(24.5)	(27.6)	(23.2)
chg. Q/Q	-170 bps	5 bps	-98 bps	-146 bps	388 bps
chg. Y/Y	79 bps	16 bps	-99 bps	-293 bps	100 bps
Net income (Rsm)	3,250	3,196	1,767	2,037	2,294
Net Margin %	11.2%	12.4%	12.2%	13.8%	24.0%

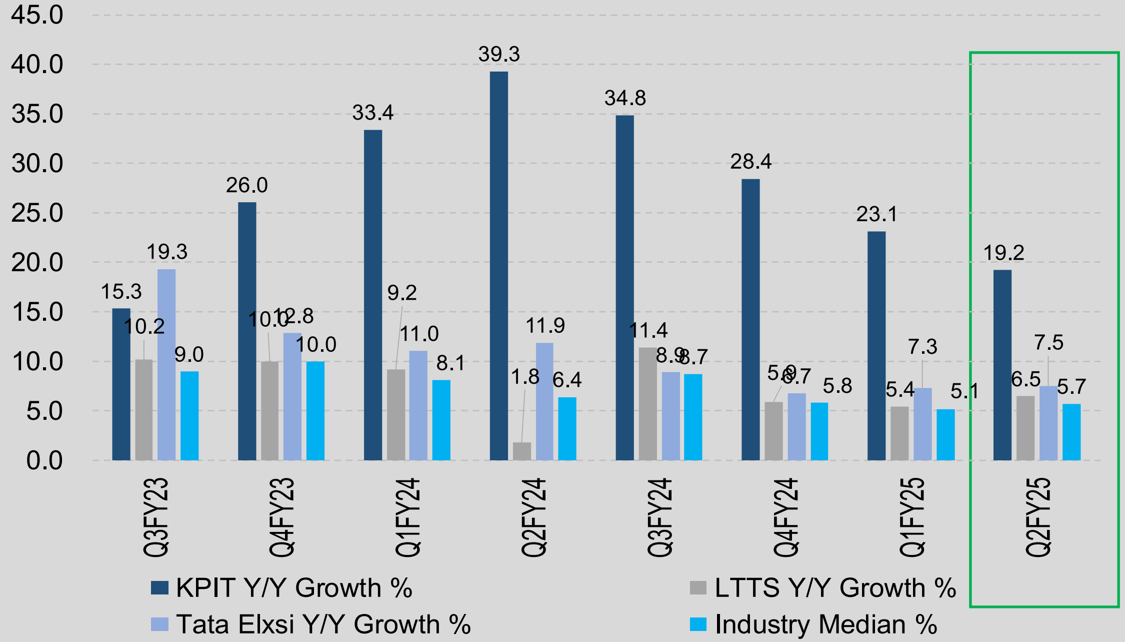
KPIT Technologies
Quarterly results

Year-end: Mar (Rs m)	Q2FY25	% chg. Q/Q	% chg. Y/Y	FY24	FY25	FY25 % chg. Y/Y	6MFY25 % of FY25
Sales ($ m)	173	5.0	19.2	587	698	18.9	48.4
Sales	14,714	7.8	22.7	48,715	58,544	20.2	48.4
EBITDA	3,064	6.3	27.7	9,911	12,176	22.9	48.8
EBITDA margin	20.8	-29 bps	82 bps	20.3	20.8	45 bps	
EBIT	2,503	6.2	30.5	7,954	9,913	24.6	49.0
EBIT margin (%)	17.0	-26 bps	102 bps	16.3	16.9	61 bps	
PBT	2,874	3.6	53.1	8,008	11,463	43.1	49.3
Tax	(794)	9.4	71.3	(2,019)	(3,125)	54.8	48.6
Tax rate (%)	(27.6)	-146 bps	-293 bps	(25.2)	(27.3)	-205 bps	
Net income	2,037	(0.2)	44.7	5,944	8,202	38.0	49.7

Growth trajectory maintained



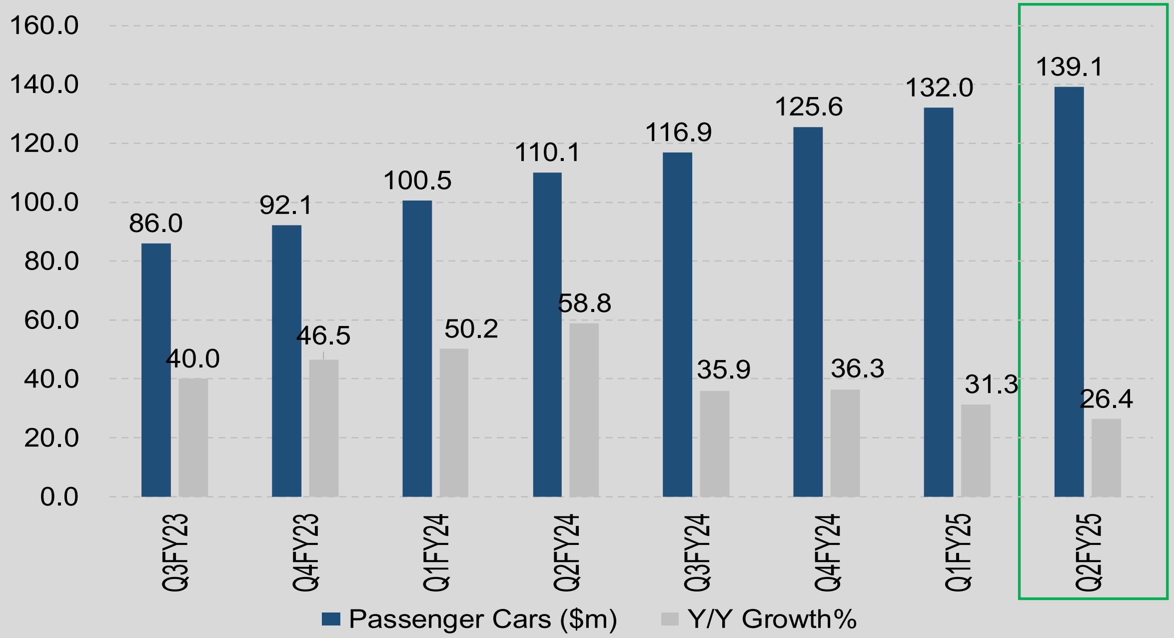
- KPIT's Q2 growth continued to surpass that of the industry, q/q, however the gap has been quite volatile in the last four quarters
- Growth was largely led by passenger cars, Middleware Consulting and Asia
- Strategic clients which brought 85.5% to revenue continued to deliver superior performances, with 21.4% y/y growth in Q2 FY25



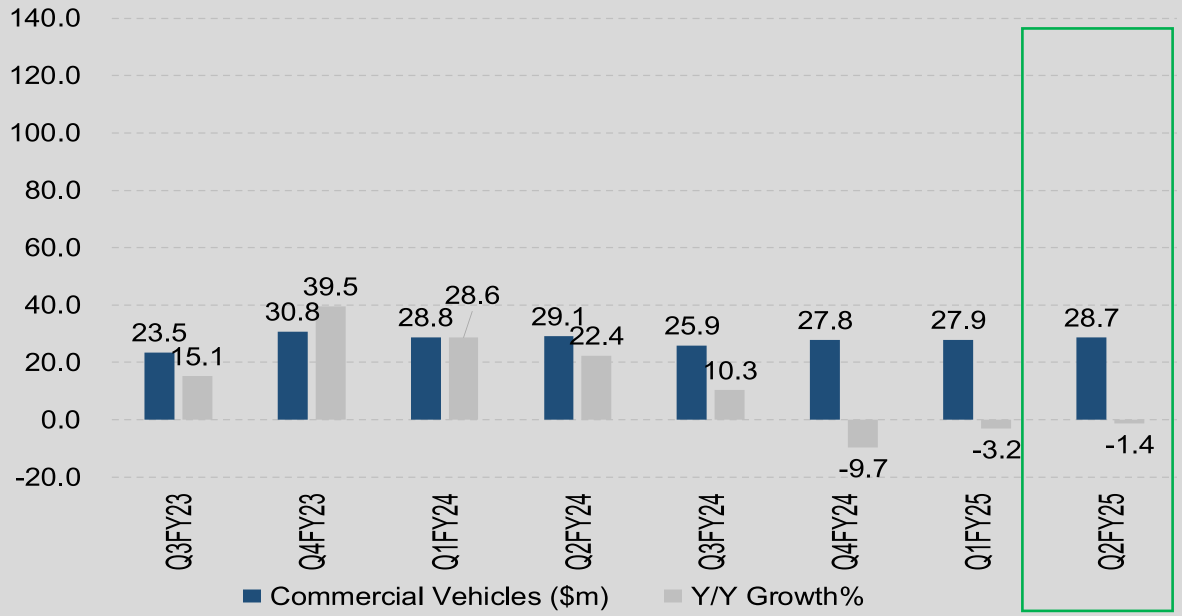
Note: KPIT y/y growth is organic estimated

- For the last six quarters, the company continued to lead its peers in y/y growth, still ~3x their pace
- Management aims at revenue growth at the lower end of the guidance (18-22% in CC)
- Within peers, LTTS has slowed down in the last three quarters; Tata Elxsi too is facing slow growth in other verticals

Passenger car segment continues to accelerate; commercial vehicles improve

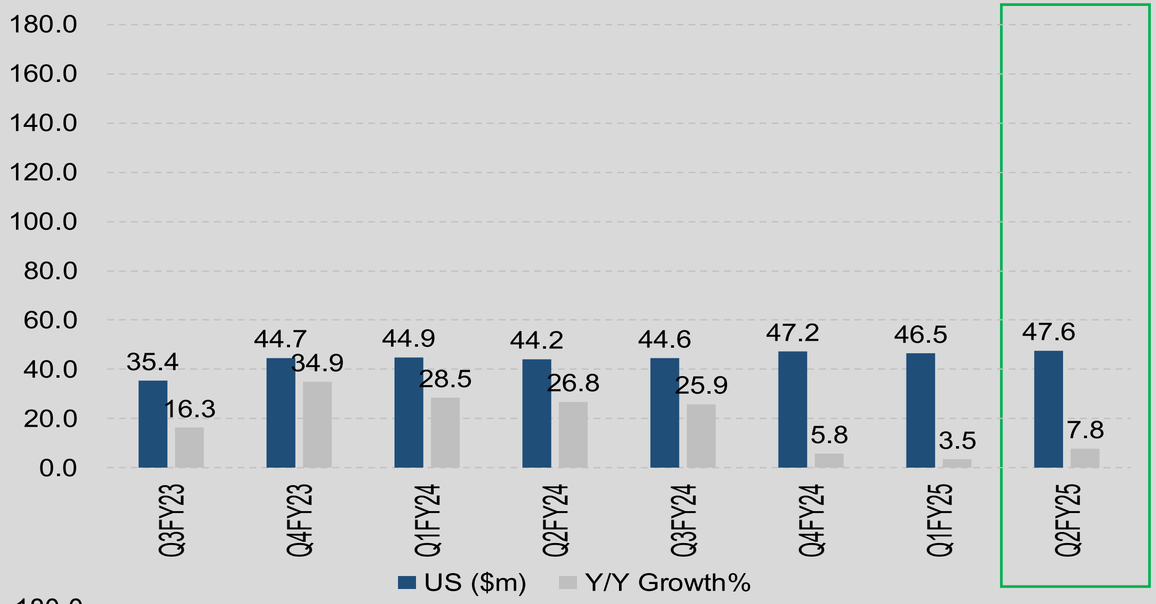


- Passenger cars have accelerated for several quarters now. In Q2, the segment grew 5.3% sequentially and is on a high-growth trajectory
- This continues to be the largest segment for KPIT, bringing 80% to revenue (76% a year back)
- Management is confidence of growth at the European OEM client in passenger vehicles reviving, which would reflect in the next couple of quarters

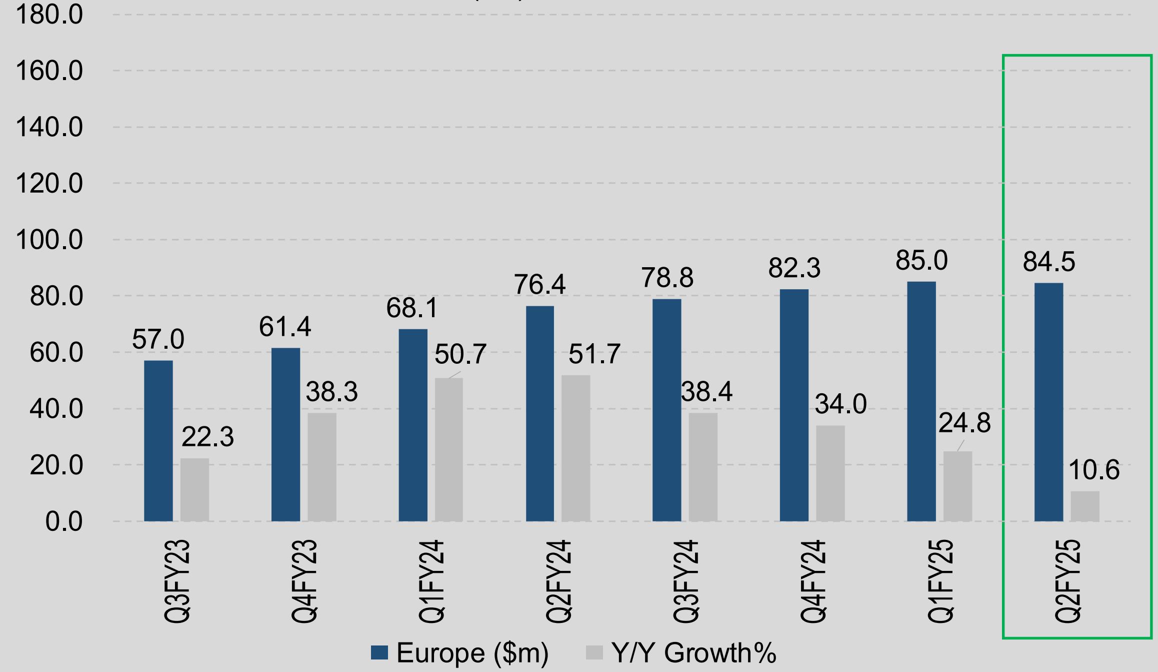


- On the other hand, commercial vehicles have stagnated in the last several quarters. In Q2, though, they swung up slightly sequentially but continued to decline (1.4%) y/y
- Management says commercial vehicles are expected to grow from FY26, mostly in Europe and the US
- While off-highway and truck volumes are expected to resume growth as the cyclical nature of the agriculture business is getting over.

Europe stable, US grows q/q

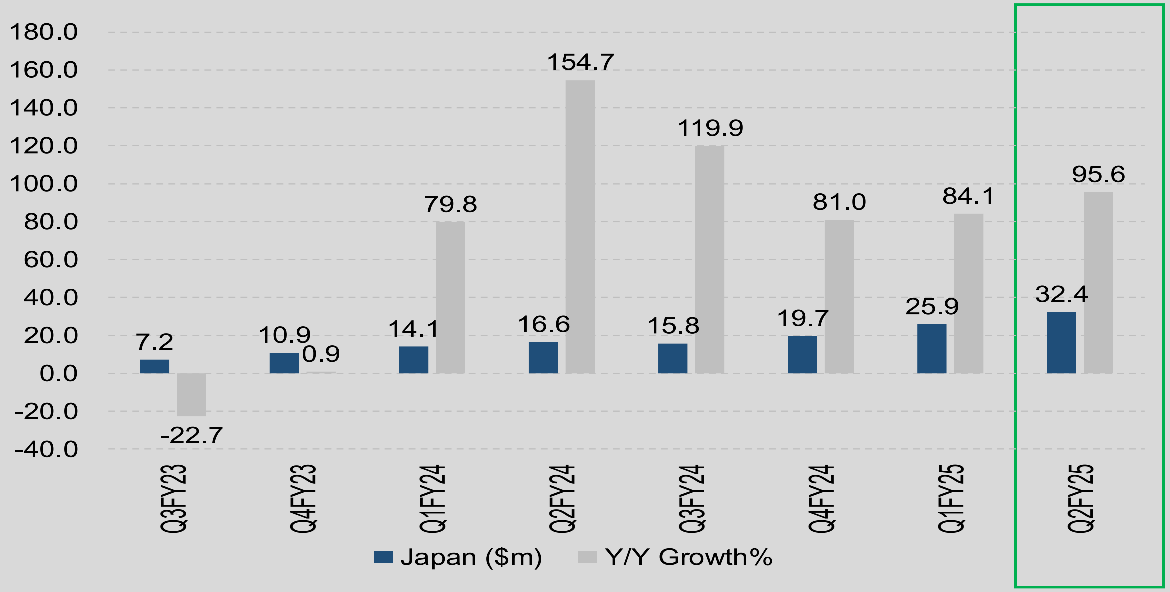


- **US growth improves.** In Q2, US revenue rose 2.4% q/q. For KPIT, the US has been range-bound in the medium term
- With the US ban on Chinese software, an opportunity arises to offer similar software and integration solutions to US OEMs
- Besides, off-highway and CV's have vast potential, likely to drive growth in the region

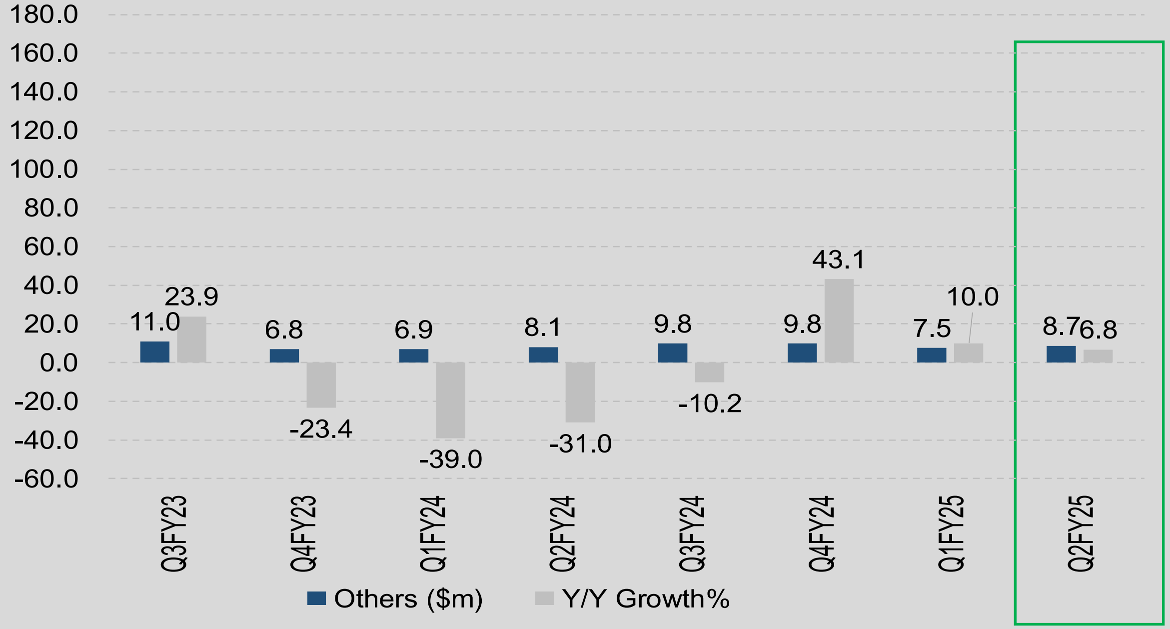


- **Europe flat sequentially,** although y/y up 10.6%
- Management said most of OEMs in European region are faced with financial challenges due to the slowdown in Germany
- Also, the company expects to see opportunities in European region given the strength area of off highway and trucks

Japan continues to accelerate; Asia growth healthy



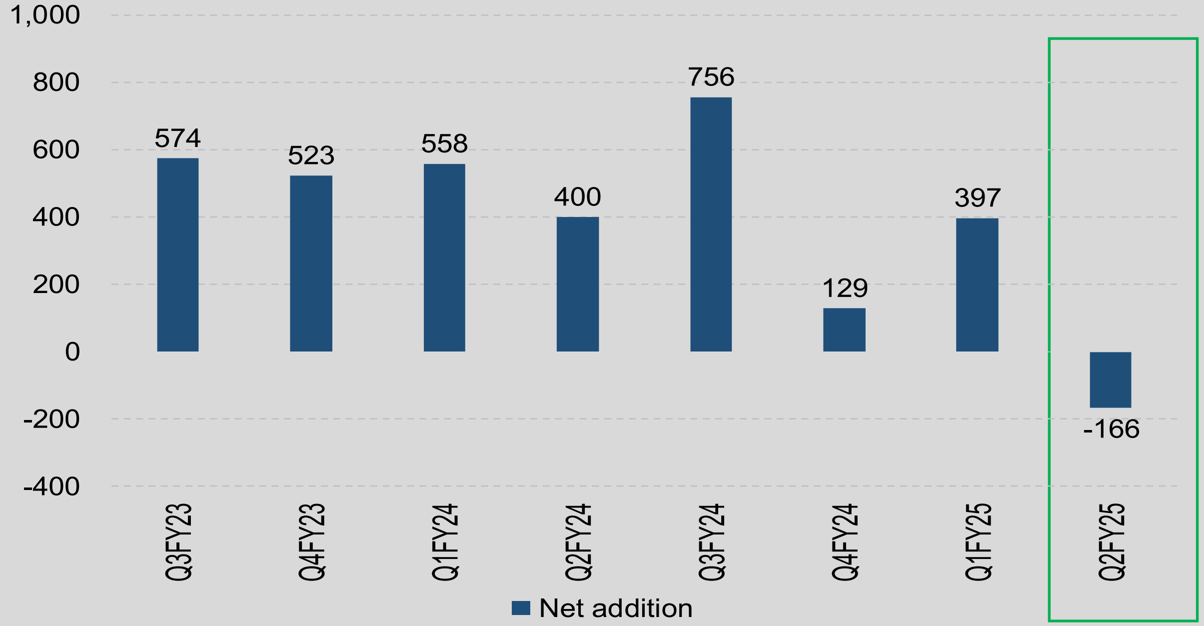
- **Within Asia, Japan remains strong y/y.** Growth in Japan in the last six quarters has been consistently strong y/y (though on a smaller base), driven by the Honda ramp-up. Sequentially, it grew 25% in Q2 on the back of 31.5% growth in Q1
- Given the size of its clients in this region, it provides a huge opportunity for KPIT to expand here



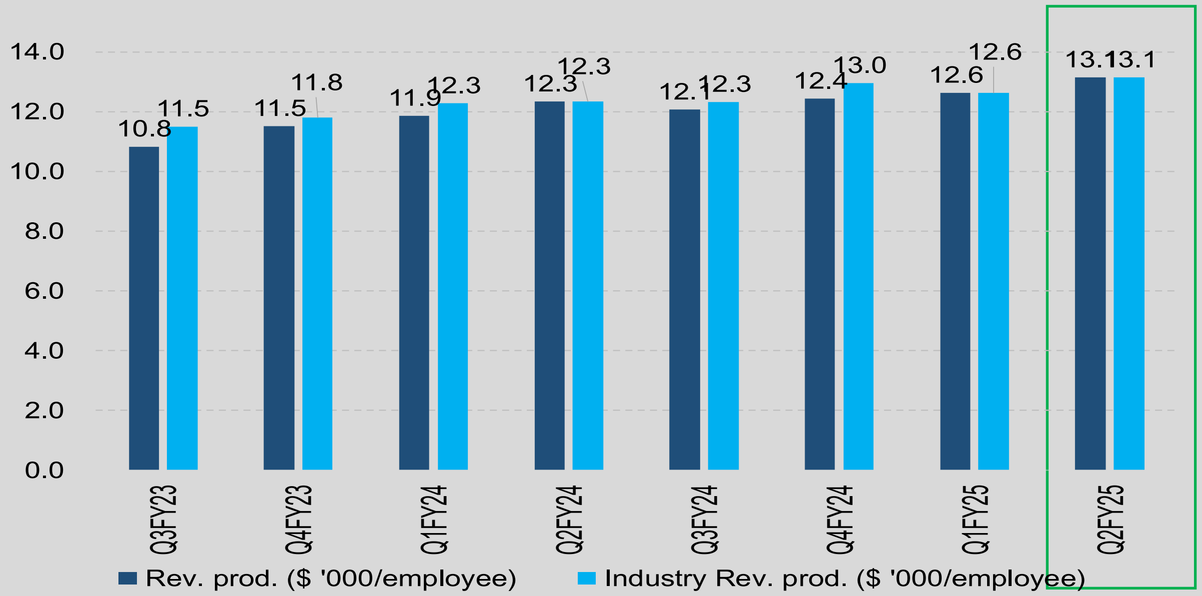
- **Outside Japan improves sequentially**, Asia turned positive sequentially in Q2, up 16% q/q after revenue declined in Q1
- Within Asia, the company is confident of broad-based growth in Korea, China, Thailand and India. Further, growth in the region is expected to be on the higher side. However, it may not be large enough to move the company’s growth rates

Note: Others is excl. Japan

Net headcount declines in Q2; revenue productivity up

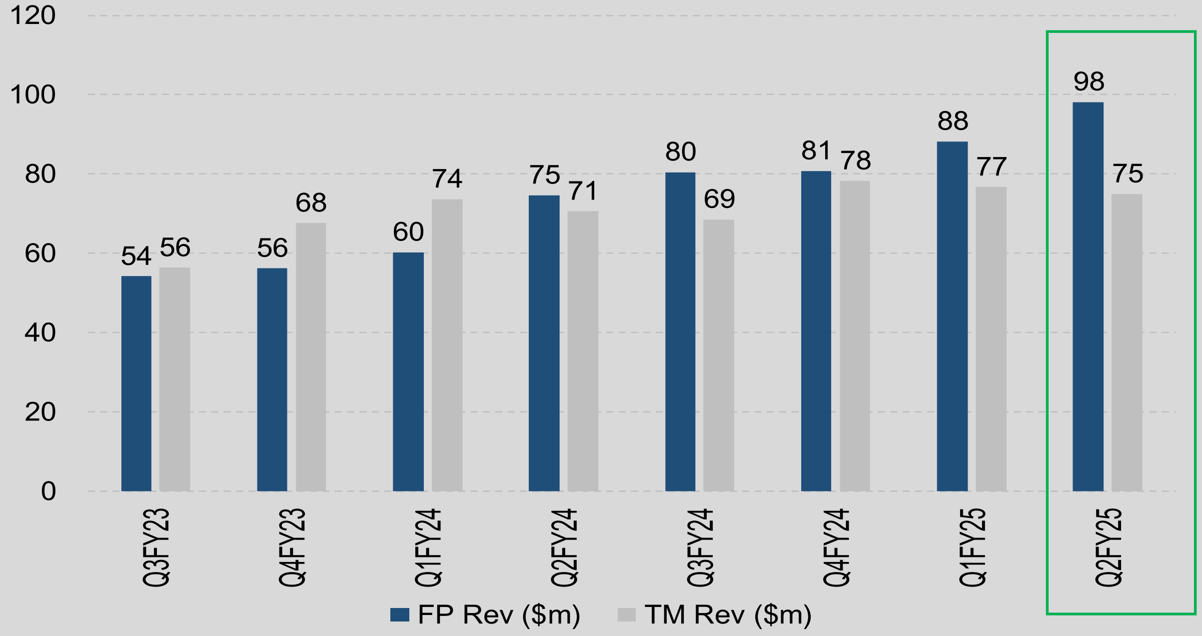


- **Net headcount declined by 166.** KPIT reported net headcount added of 1,116 in the last 12 months, raising the total 9.3% y/y, largely contrary to the industry. This reflects its strong growth trajectory through FY25
- It transferred 252 employee in Q2 as a part of the Qorix JV
- Further, attrition continues to be low

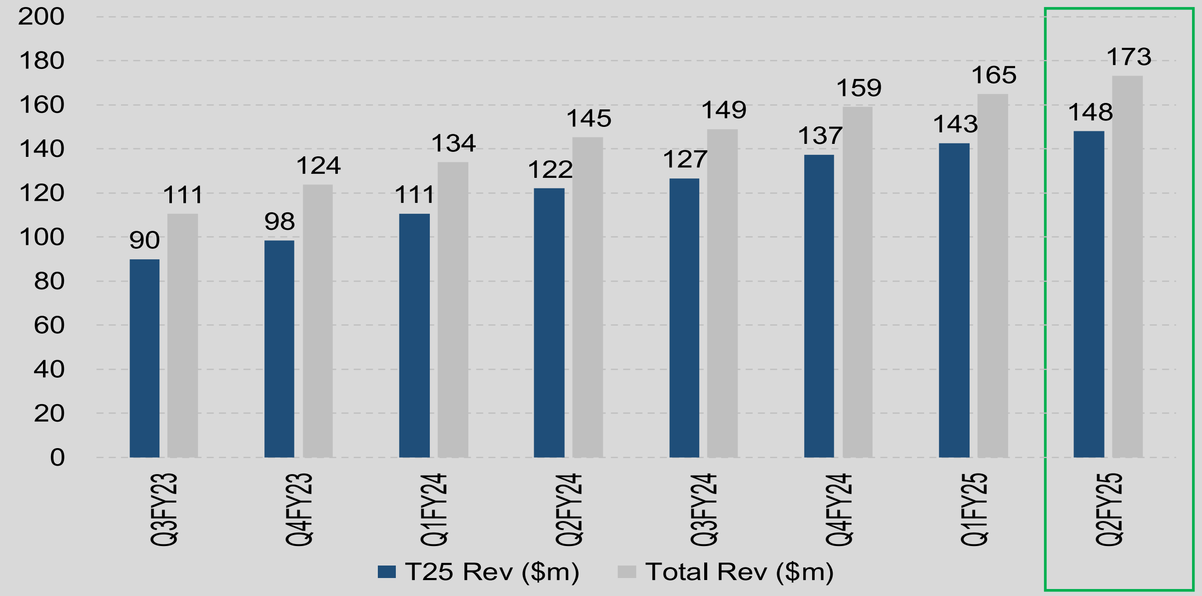


- **Revenue productivity** continues to trend upward and improved 4% q/q in Q2, led by strong revenue growth and lower hiring than in earlier quarters
- FP contracts increased in the quarter, leading to greater productivity
- We expect revenue productivity to hover around similar levels for the next couple of quarters

FP revenue and top-25 continue to grow

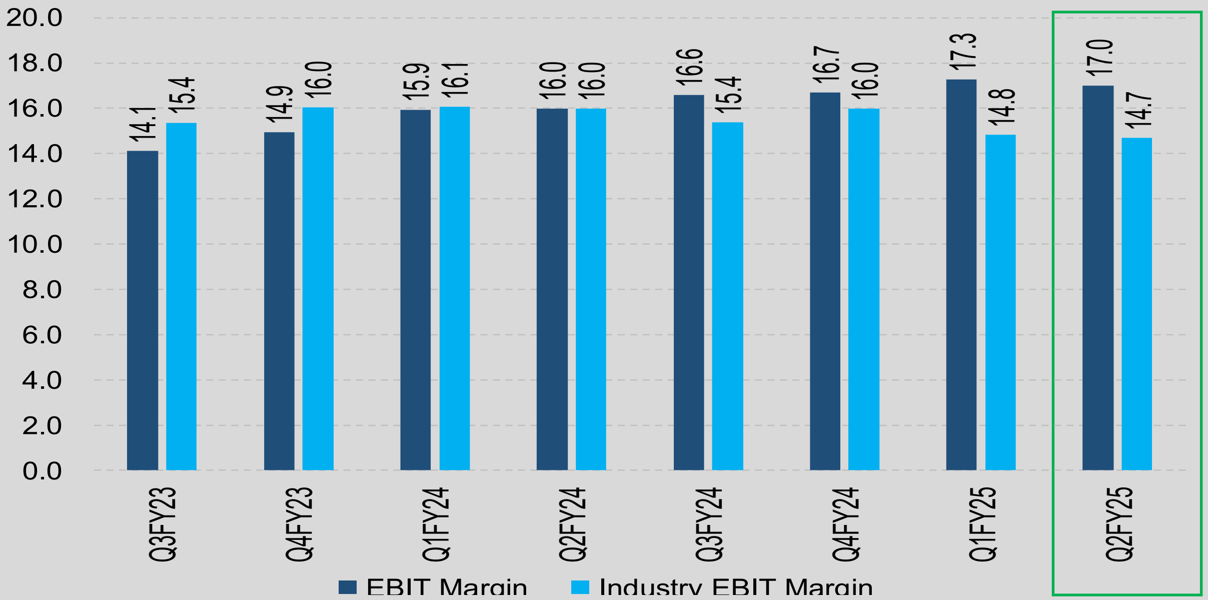


- **FP continues to accelerate vs. T&M.** FP revenue trended above T&M revenue for the fifth consecutive quarter, with almost all growth in Q2 coming from FP
- This translated to better productivity gains and margin tailwinds for KPIT as it gained efficiencies in a zero-defect delivery model
- In the quarter, the company has reduced prices for F&P clients, impacting FY25 revenue

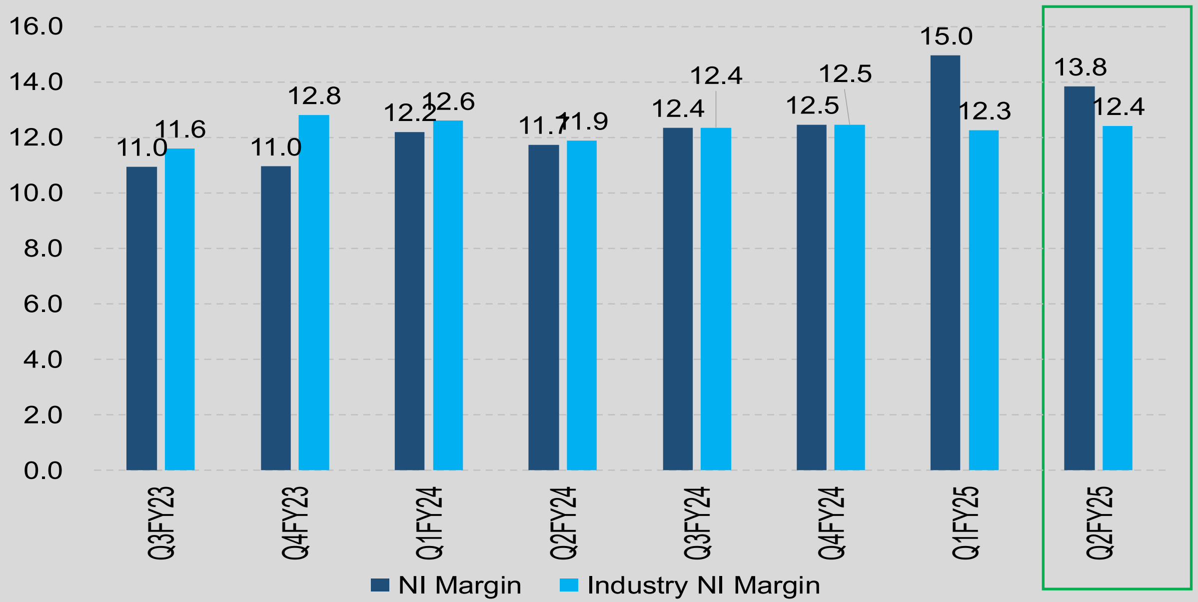


- In Q2, the top 25 clients registered strong 3.8% growth q/q, 21.3% y/y, and has been delivering a superior performance over the last several quarters
- The company still sees a significant opportunity to grow in strategic clients as there is still headroom given their large R&D budgets

Profitability dips sequentially



- **EBIT margin declines sequentially.** The company continues to operate at higher-than-industry margins and has reiterated its guidance to deliver 20.5%+ EBITDA margins in FY25, after absorbing the wage hike and contribution toward ESOP cost (combined impact of 2.7%), partially offset by higher F&P contracts and more offshore
- Absolute EBITDA grew 4.7% q/q, 25.8% y/y
- Management is confident of exceeding the 20%+ EBITDA margin guidance for FY25



- In Q2, the company had an exceptional gain of ~Rs450m on a settlement of an insurance claim. In Q1, too, there was an exceptional gain in the IP transfer to the Qorix JV, leading to an overall increase in net margins in the last two quarters
- PAT in Q2 is not comparable y/y

Conference call highlights: Q2 FY25

- European OEMs are faced with challenges due to huge exposure to a slowing Chinese market and a weak European economy, while US OEMs, though shielded from direct Chinese competition by tariffs, are contending with greater pressure from other global competitors. The pressure on OEMs is likely to lead to consolidation in the industry, which KPIT sees as a potential opportunity
- Germany's recession could lead to reduced spending by German OEMs, which, combined with US OEMs facing keener competition from global players despite tariff protections, highlights a challenging landscape for the automotive industry in the region.
- The company anticipates medium-term demand recovery from European and US OEMs, despite uncertain timing as some OEMs delay fully electric vehicle plans. They are shifting investments to alternative powertrain technologies like mild and plug-in hybrids, providing ongoing growth opportunities for KPIT in powertrain. The company is confident of its potential to significantly increase revenue from its top 25 clients without needing to acquire clients
- The company raised Rs2.88bn (~6% equity dilution) to support many smaller strategic acquisitions, infrastructure, and strategic initiatives that will enhance its market position; this QIP aligns with it strategy of combining inorganic growth with organic efforts to capitalise on shifts in automotive software and engineering services
- The company is poised to capitalise on OEMs' cost-reduction strategies by leveraging offshoring to India and sees strong medium-term growth potential in passenger cars. A key driver is its partnership with the Volkswagen Group, where collaborative efforts on software and engineering consolidation, particularly as Volkswagen integrates hybrids into its 2030 targets, offer significant opportunities for the company to expand its impact across Volkswagen's brands

Business outlook

- FY25 growth to be at the lower end of 18-22% in CC, and EBITDA margins to be 20.5%+

Conference call highlights: Previous quarters

Q1 FY25 (Growth q/q: 5% organic, y/y: 19.2% organic, EBIT margins 17%)

- On passenger cars division, the company believes that the existing OEM clients have more room for growth, as there ER&D spend budgets are very large. On US, momentum is expected to revive, as many OEMs are looking to increase their spend in US market. Of the investments made in off highway, three to four key clients are based out of the US.
- The company has transferred IP's in Qorix, for which the company received credits, 50% of value of the IP's. Hence, there was Rs396m addition to the other income in Q1. The company may look at adding a third partner to their joint venture, Qorix. In the absence of ESOP costs, Q1 margins would have been 0.7% higher. Another 1.0% impact will come in Q2. In addition, wage hikes will lower Q2 margins by 1.8%, taking the total gross margin impact to 2.8%.
- FY25 growth outlook maintained at 18-22% CC, and EBITDA margins to be 20.5%+. Q2 will have 2.8% impact on margin, impacted by wage hike and ESOP cost. However, incremental gross impact from Q1 will be ~230bps.

Q4 FY23 (Growth q/q: 6.7%, y/y: 28.4% organic, EBIT margins 16.7%)

- In UK, there is an increase in cost optimization deals with faster decision-making processes. The rising demand for ER&D services and strong execution capabilities are driving KPIT's accelerated revenue growth. The management remains confident about sustaining this growth momentum over the long term, supported by a strong deal pipeline.
- Passenger vehicle demonstrated a robust execution, where management is confident of the growth momentum in the near term. The company is focusing on the Top 25 clients to mine more business and improve client engagement. R&D spending will continue to grow, especially in future-focused areas like Software-Defined Vehicles and new business models. OEMs are spending on new business models, as well as on areas such as aftersales transformation and safety. They are prioritizing investments in these future-focused areas while gradually phasing out older programs for efficiency gains.
- Business outlook: KPIT has guided for revenue growth of 18%-22% in CC and an EBITDA margin of 20.5% in FY25.

Q3 FY24 (Growth q/q: 2.6% organic, y/y: 34.8% organic, EBIT margins 16.6%)

- The company continues to make investments in SDV and is deeply engaged with the OEMs and key customers in autonomous, connected, electrification, operating systems and also monetization of aftermarket services.
- The technology for a sodium battery has been unveiled, and there is hope for its approval in due course. This could potentially serve as a promising alternative to the current battery chemistries, offering a more sustainable solution.
- China is taking a lead in electrification and hybrid vehicles. It is expanding its presence in Europe through these technologies. European OEMs are highly focused on enhancing efficiency in their offerings.
- Business outlook: FY24 growth outlook increased to 37%+ in CC, and EBITDA to be in line with revenue growth (vs. 20%+ earlier). Expect strong growth to continue in FY25.

Q2 FY24 (Growth q/q: 8.4% organic, y/y: 39% organic, EBIT margins 16%)

- The Honda partnership is doing well, although the contract is for 2,000 employees, it is expected to go beyond. There is vast competition in China, Europe and the US, which led to reducing the cost of a vehicle; hence, the company believes it needs to bring efficiency and time-to-market as companies in these region are seeking to grab the opportunity. Besides, KPIT is working to address these issues.
- Overall vehicle testing and validation is up >3x versus what was done earlier; the company believes there are many opportunities here. Currently, the industry is undergoing significant changes, and the company needs to be proactive in investing in certain solutions and new technology. Management expects margins to improve in the next 2-3 years.
- Business Outlook: FY24 growth outlook increased to 37%+ from 27-30% earlier in cc, and EBITDA to be 20%+ from 19-20% earlier.

Factsheet

Revenue-split, by industry

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Passenger Cars	78	74	75	76	78	79	80	80
Commercial Vehicles	21	25	21	20	17	17	17	17
Others	1	1	3	4	4	4	3	3

Revenue-split, by region

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
North America	32	36	34	30	30	30	28	27
Europe	52	50	51	53	53	52	52	49
APAC	16	14	16	17	17	19	20	24

Client profiles (LTM)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Client Concentration								
Top 25 %	81.4	79.5	82.6	84.0	85.0	86.4	86.5	85.5
Growth Q/Q %	11.8%	9.4%	12.4%	10.3%	3.8%	8.5%	3.8%	3.8%
Growth Y/Y %	30%	35%	45%	52%	41%	40%	29%	21%
Active clients	60	60	60	60	60	60	60	60
Revenue per active client ($ m / quart)	1.8	2.1	2.2	2.4	2.5	2.7	2.7	2.9

Employee Movement

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Employee Movement								
Employees (EoP)	10,490	11,013	11,571	11,971	12,727	12,856	13,253	13,087
Gross additions (est.)	1,161	1,087	981	812	1,188	577	854	295
Attrition (est.)	587	564	423	412	432	448	457	461
Net additions	574	523	558	400	756	129	397	-166
Utilization % (blended, est)	79	81	83	85	85	86	87	88

Revenue-split, by delivery type and billing (%)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Billing Type								
T&M	51	55	55	49	46	49	47	43
FP	49	45	45	51	54	51	54	57

Key verticals and horizontals growth (%)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Verticals growth (Y/Y)								
Passenger Cars	40	47	50	59	36	36	31	26
Commercial Vehicles	15	40	29	22	10	(10)	(3)	(1)
Others	(46)	(58)	705	428	519	525	8	(12)
Region growth (Y/Y)								
North America	16%	35%	28%	27%	26%	6%	3%	8%
Europe	22%	38%	51%	52%	38%	34%	25%	11%
APAC	0%	-10%	10%	35%	42%	66%	60%	66%

Revenue Split by services (new)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
New Split, Contribution %								
Feature Development & Integration	65	62	61	62	62	62	61	60
Architecture & Middleware Consulting	16	19	21	20	19	19	20	23
Cloud Based Connected Services	19	19	18	18	19	19	19	17
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Y/Y% Growth								
Feature Development & Integration	21	25	33	38	30	29	22	15
Architecture & Middleware Consulting	73	143	118	144	53	25	21	38
Cloud Based Connected Services	50	44	54	51	36	29	28	12

Estimates: Lowered for FY26

KPIT	FY25			FY26		
(Rs m)	New	Old	% Change	New	Old	% Change
Revenue ($ m)	698	714	-2.2	828	859	-3.6
Revenues	58,544	59,331	-1.3	69,363	71,634	-3.2
EBITDA	12,176	12,403	-1.8	14,785	15,218	-2.8
EBITDA margins %	20.8%	20.9%	-11 bps	21.3%	21.2%	7 bps
EBIT	9,913	10,169	-2.5	12,429	12,902	-3.7
EBIT margins %	16.9%	17.1%	-21 bps	17.9%	18.0%	-9 bps
PBT	11,463	10,735	6.8	13,295	13,429	-1.0
Net profit	8,202	7,941	3.3	9,537	9,971	-4.4

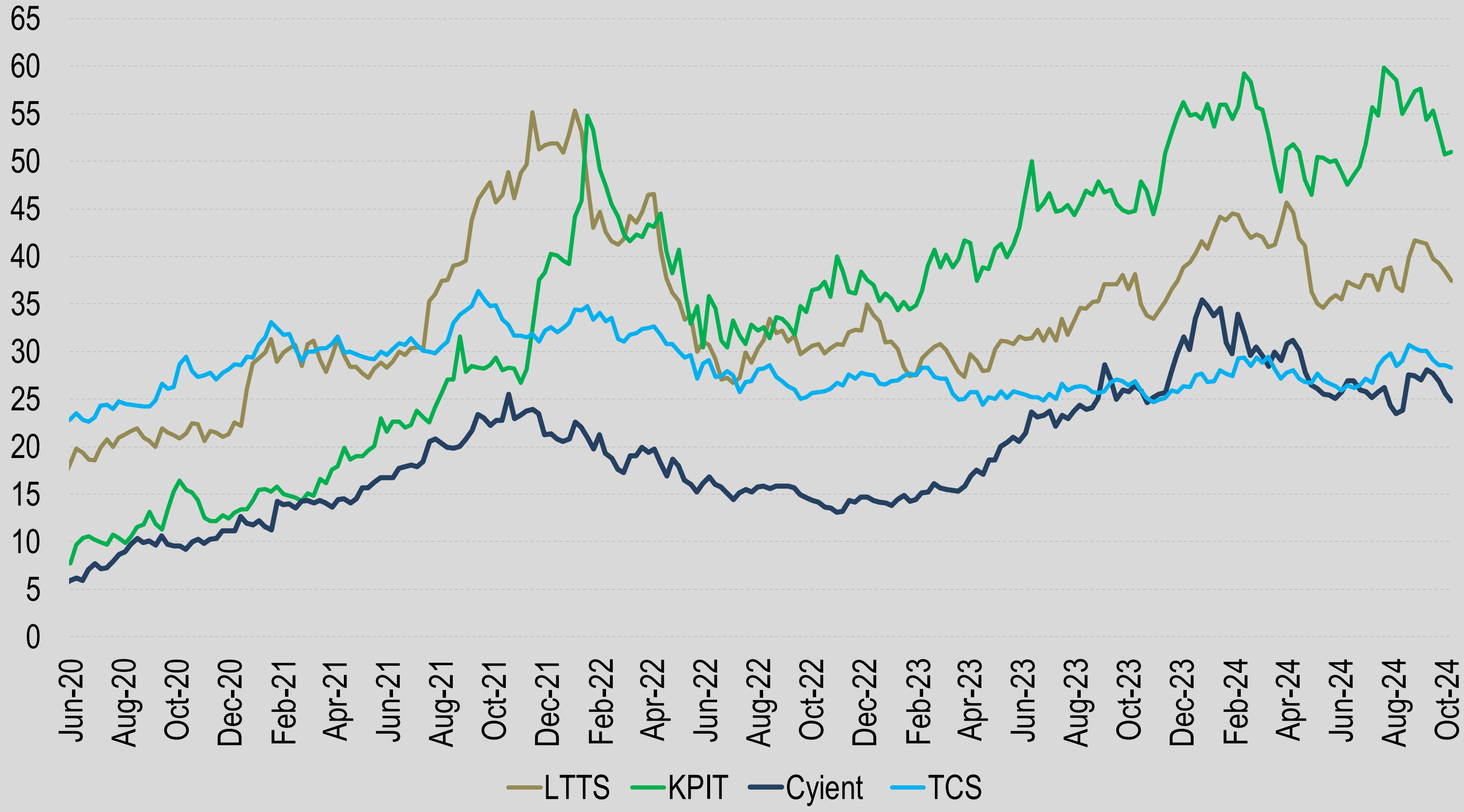
Key estimates and changes

- We lower our FY25e/FY26e revenue 2.2%/3.6% given the growth guidance at the lower end of 18-22% in CC

- We expect 20.8%/21.3% EBITDA margins in FY25/FY26, higher than peers (excl. Tata Elxsi), driven by hyper growth at KPIT and its single-vertical focus leading to lower investments and sharpened capabilities (translating to better revenue productivity). The favorable supply situation (weak hiring at the sector level) is helping the company, given IT-sector growth rates

- We introduce FY27 figures and expect the company to deliver an 18% revenue CAGR over FY25-27, with 21% EBIT and 16% PAT CAGRs.

Valuations



- The stock quotes at 34x FY27e EPS of Rs38. In the last two years, dollar revenue registered a 33.7% CAGR incl. acquisitions (the largest being Technica). We expect it to clock an 18% CAGR over FY25-27. The company has consistently beaten growth and margin estimates, leading to higher multiples
- Ahead, the key variable to track its performance is its largest vertical, Europe and commercial vehicle margin expansion as it benefits from greater offshore (medium term) and higher utilisation
- The company has strong FCF to NI in FY24 at 87%, likely to be steady ahead
- We value KPIT at 40x FY27e EPS, implying a target of Rs1,760/sh (vs. Rs2,000 earlier) incl. Rs130 for the Qorix JV. We upgrade our recommendation to a Buy (earlier a Hold) due to steep correction in the share price

Risk

- Longer-than-anticipated slow-down in European OEM's.

Quick Glance: Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Revenues (US$m)	**418**	**587**	**698**	**828**	**974**
Growth (%)	**27.4**	**40.3**	**18.9**	**18.6**	**17.7**
Net revenues (Rs m)	33,650	48,715	58,544	69,363	81,643
Employee & Direct Costs	23,462	33,227	39,496	47,320	55,895
Gross Profit	10,188	15,488	19,048	22,043	25,748
Gross Margin %	30.28	31.79	32.54	31.78	31.54
SG&A	3,835	5,577	6,872	7,259	7,813
EBITDA	**6,353**	**9,911**	**12,176**	**14,785**	**17,935**
EBITDA margins (%)	18.9	20.3	20.8	21.3	22.0
- Depreciation	1,464	1,958	2,264	2,355	2,601
Other income	376	603	1,962	1,231	562
Interest Exp	323	548	412	366	366
PBT	4,942	8,008	11,463	13,295	15,530
Effective tax rate (%)	22	25	27	28	28
+ Associates/(Minorities)	-35	-45	-135	-86	-43
Net Income	3,808	5,944	8,202	9,537	11,112
WANS	273	273	273	273	273
FDEPS (Rs/share)	**14.0**	**21.8**	**30.0**	**34.9**	**40.6**

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	2,703	2,712	2,712	2,712	2,712
Net worth	16,515	21,459	26,912	32,328	37,257
Total debt (incl. Pref)	492	447	-	-	-
Minority interest	118	171	307	392	435
DTL/(Asset)	-699	-788	-788	-788	-788
Capital employed	**16,483**	**21,294**	**26,431**	**31,932**	**36,904**
Net tangible assets	4,795	5,434	6,390	7,313	8,059
Net Intangible assets	2,272	2,837	7,259	8,454	8,588
Goodwill	10,103	11,463	7,451	4,843	3,148
CWIP (tang. & intang.)	56	5	5	5	5
Longterm assets (Liabilities)	-5,646	-5,302	-5,832	-6,415	-7,056
Investments (Financial)	958	1,561	3,123	6,245	12,490
Current Assets (ex Cash)	9,135	11,596	13,615	16,131	18,987
Cash	5,491	7,705	10,742	12,706	11,169
Current Liabilities	10,682	14,006	16,322	17,350	18,487
Working capital	-1,547	-2,410	-2,707	-1,219	500
Capital deployed	**16,483**	**21,294**	**26,431**	**31,932**	**36,904**
Contingent Liabilities	151	177	-	-	-
	0.0	-0.0	0.0	0.0	0.0

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	4,942	8,008	11,463	13,295	15,530
+ Non-cash items	2,440	2,510	2,264	2,355	2,601
Operating profit before WC	7,382	10,518	13,726	15,650	18,131
- Incr./(decr.) in WC	1,498	-1,625	-297	1,488	1,719
Others incuding taxes	-1,260	-2,125	-4,145	-3,954	-3,930
Operating cash-flow	**4,624**	**10,018**	**9,878**	**10,208**	**12,482**
- Capex (tangible + Intangible)	1,295	1,553	1,867	1,865	1,787
Free cash-flow	**3,329**	**8,464**	**8,012**	**8,343**	**10,695**
Acquisitions	-6,229	-3,286	-1,768	-	-
- Dividend (including buyback & taxes)	892	1,287	2,748	4,122	6,183
+ Equity raised	-	-	-	-	-
+ Debt raised	-63	-156	-447	-	-
- Fin Investments	-5,280	428	1,561	3,123	6,245
- Misc. Items (CFI + CFF)	4,334	136	-1,550	-866	-196
Net cash-flow	-2,909	3,171	3,037	1,964	-1,537

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year end Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	**98.5**	**63.1**	**45.7**	**39.3**	**33.7**
EV/EBITDA (x)	56.8	36.4	29.7	24.4	20.1
EV/sales (x)	11.0	7.5	6.2	5.1	4.3
P/B (x)	22.7	17.5	13.9	11.6	10.1
RoE (%)	**25.7**	**31.3**	**33.9**	**32.2**	**31.9**
RoCE (%) - After tax	19.0	23.3	23.6	24.7	26.0
RoIC (%) - After tax	33.0	33.7	38.0	44.9	52.4
DPS (Rs per share)	4.1	6.7	10.1	15.1	22.6
Dividend yield (%)	0.3	0.5	0.7	1.1	1.6
Dividend payout (%) - Inc. DDT	29.4	30.8	33.5	43.2	55.6
Net debt/equity (x)	-0.4	-0.4	-0.5	-0.6	-0.6
Receivables (days)	84	72	70	70	70
Inventory (days)					
Payables (days)	22	23	23	23	23
CFO:PAT%	**120**	**167**	**118**	**106**	**112**
FCF:PAT% - includ M&A payout	**-76**	**87**	**76**	**87**	**96**

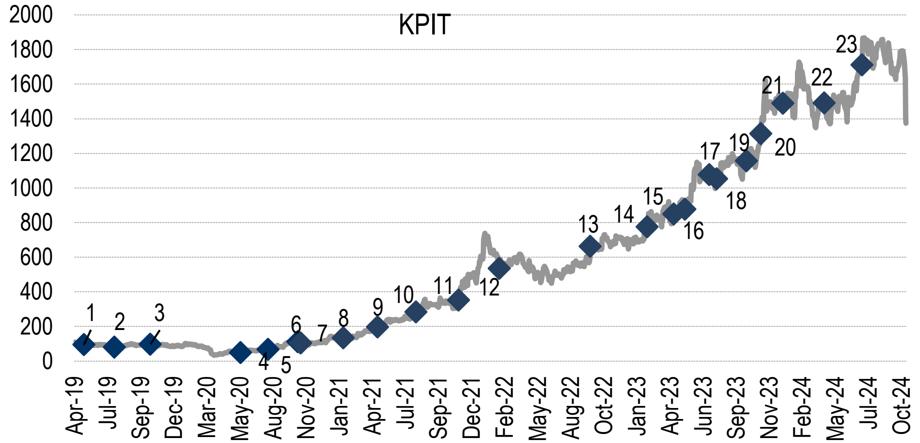
Source: Company, Anand Rathi Research

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies: Rating and Target Price History (as of 26 October 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
8	30-Jan-21	Hold	160	143
9	29-Apr-21	Hold	230	196
10	27-Jul-21	Buy	340	294
11	03-Nov-21	Buy	400	326
12	03-Feb-22	Hold	650	525
13	22-Sep-22	Hold	700	667
14	02-Feb-23	Buy	850	740
15	10-Apr-23	Buy	870	800
16	28-Apr-23	Hold	1,010	920
17	11-Jul-23	Hold	1,030	1,064
18	27-Jul-23	Hold	1,220	1,064
19	10-Oct-23	Hold	1,320	1,165
20	01-Nov-23	Buy	1,450	1,217
21	31-Jan-24	Buy	1,730	1,455
22	10-Apr-24	Buy	1,640	1,490
23	25-Jul-24	Hold	2,000	1,851

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX), and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind. Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No
ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

Research report is a product of Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) under Marco Polo Securities 15a6 chaperone service which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution by only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

As of the publication of this report, ARSSBL does not make a market in the subject securities.

Additional information on recommended securities/instruments is available on request.

Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000.

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097. Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.