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“KPIT Technologies Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q4 FY2019 results conference call of KPIT Technologies hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Emkay Global. Thank you, and over to you, Rahul!

Rahul Jain: Thank you, Ali. Good evening, everyone. On behalf of Emkay Global, I would like to thank KPIT Technologies for giving us the opportunity to host this call. Now I would like to hand the conference over to Mr. Sunil Phansalkar heads Investor Relation at KPIT Technologies to do the management introduction. Over to you, Sunil!

Sunil Phansalkar: Thanks, Rahul. A very warm welcome to everybody and good afternoon on this first quarterly earnings call after the new incarnation of KPIT Technologies into a new avatar. Today on the call we have Mr. Ravi Pandit, the Chairman and Group CEO, Mr. Kishor Patil, CEO and MD, Mr. Sachin Tikekar, President & Board Member, Mr. Vinit Teredesai, our CFO, and Sunil from Investor Relations. What we intent to do is we will have the opening comments by Mr. Ravi Pandit and we would like to spend some time on our vision mission strategy and what we stand for, after which we would throw open the floor for your questions. So once again a very warm welcome to you and I will now hand over to Mr. Pandit.

Ravi Pandit: Thanks Sunil. Welcome to all of you. This is our first call since our new Avatar. As you know in January 2018, we talked to you about the broad plan of restructure of our company making us

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into two companies, one focusing on IT and digital world and the second focusing on the automotive world. So the entire legal process got over earlier this year and the company got properly merged and demerged with effect from January 1, of this year. And we got listed about three weeks ago. So this is actually first full quarter of result and our first investor call.

Many of you have been followers of how things are going at KPIT and I am sure you have heard our thoughts and our story in the years past, but as Sunil mentioned we are in a new incarnation and what we would like to do is to use this occasion to explain the logic of what we are doing and also to explain what is our vision. As I mentioned, we are now focused entirely on the mobility industry. And if one were to look at this industry, we believe that this industry is changing now more than it had changed in the last hundred-odd years when I think way back in 1918 Henry Ford introduced the Model T and completely changed the world of automotive. A similar shift is happening at this point in time and the shift is driven by primarily four forces. One, is the drive for electrification with the world looking at this whole menace of emissions, creating a very unsafe world and so the first thing is on electrification. So hybrids, full electrics, battery electric or fuel cell electric get safer and this is the major change that is happening in this world of mobility.

The second change that is happening is on account of autonomous and that is also a major change and the question is whether going forward cars will need drivers or not. The third change is about connectivity and how do we ensure that the vehicle while it is on the road is continuously connected with the rest of the environment and it is connected with the other vehicles on the road. Last and not the least is this whole new movement towards shared mobility. So this cleaner, smarter

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shared and connected and safer world is a new thing, which is happening in the world of mobility. We believe that all these four forces that are operating on this world have their genesis in electronics especially in software and that presents to us an extraordinary opportunity for contributing to this movement. We have been working in this area for almost 20 years now and we believe that we have significant strengths in this area and we believe that at this point in time we are at the right place at the right time and therefore our focus should help. We thought that we would like to use this earlier part of this conversation to talk about what is our vision, what is our mission, what is it that we are seeking to do, what we will do and what we will not do.

So our vision is **Reimagining mobility with you for creation of a cleaner, smarter and safer world**. I think each segment of the sentence is important and I would like to share my thoughts, about these parts, so that we both understand what is it that we are trying to do with this new purpose and objective that we have. The first part is of course re-imagining. As I said this is a time for a complete transformational shift in the area of mobility and we want to be at the forefront of reimagining this and we believe that we can do that by building platforms, tools, accelerators, innovative business models, especially because we can bring to the table our domain knowledge in building such platforms and tools. We will also do this re-imagination by delivering globally with diverse things, cutting across multiple cultures, languages and thoughts.

Lastly and not the least is that we will do this by learning and applying transformational technology such as Artificial Intelligence, Digital or Big Data. We believe that in this revolution that is happening in the world of mobility driven by software, we bring to the table a deeper knowledge of the domain and a deep knowledge of software technologies. So this

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is what we are going to offer with a view to reimagining the world of mobility.

Now when we talk about mobility I think we are talking about not just passenger cars, but we are looking at things which are used for making humanity mobile, going from place-to-place and that includes passenger vehicles, commercial vehicles, off highway vehicles, and all those organizations who are engaged in the business of mobility, which till recently included largely OEMs and Tier 1's and their dealers but progressively now there is a whole new segment of industry coming in, which offers mobility as a service. So this is our spectrum of mobility.

Today we are not looking at aerospace, we are not looking at ships, but we are really looking at territory mobility. The third part of our mission is the with you part. We believe that the world that is changing will need the help of everyone to make this change happen and we want to work with every one of such stakeholders to make this change happen.

Certainly, in this ecosystem we put the customers, we put our employees and we put our partners. Our job vis-à-vis the customer is to accelerate the realization of their new vision about world of mobility. The other partners for us in this are employees and especially we are looking at employees who will have entrepreneurial spirit and a passion for this new world and an ability to bring good software technologies to satisfy the needs of our customers. Lastly, as I mentioned we would need to partner with our customers, with the mobility ecosystem, with universities, with research organizations, with stakeholders like you and other influencers who can make this vision happen. So, this is really our vision.

As far as our strategy is concerned as I mentioned earlier our strategy will be our proposition to give faster time to market to

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our customers through the use of our solutions, tools and platforms, deep domain expertise and an ability and agility in scaling globally.

When you are defining the vision of a company, I think the question to ask is what we will do and what we will not do? What we will do? we would like to help our customers to go from design to production at a speedy rate. Thus, our offerings will include solutions that take a customer from design to production at a fast pace and our solutions will be centered on software design, development and validations. Our solutions will be more knowledge intensive and for that we will leverage platforms, tools and accelerators, these are the areas in which we have been making investments for the past few years.

This is what we will do and what is it that we will not do? So we will not engage in the sale of hardware products, because we believe that it calls for a different expertise and that is not our main play; however, we will need to build and as we have been doing, deep expertise in hardware because only the combination of hardware and software can give our customers a good feel.

Hardware products that include both hardware and software we would not do in the main company, we might do it through an associate or a partner company. So, this is what we will do and what we will not do? Where will we focus? So, our focus will be on three verticals, which are, Passenger Cars, Commercial and Off Highway vehicles and third one is the mobility provider. Within this we want to focus on a few set of customers. We have defined top 25, which we call as T25 strategic accounts, with whom we will have the deepest of relationship. It has been our culture to build longstanding relationship with our customers but till recently we had a larger

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number of customers. Now what we want to do is to work with the leaders in this industry and we are focusing on top T25 customers.

The other leg of our strategy would be to do global delivery. Now so it will be global plus local and we are calling it glocal. The point that we want to emphasize here is that there will be multiple locations in the world where we will deliver as like we are local companies. Today, we have large operations in Munich, we have large operations in Novi, Detroit, USA and we are beginning to have operations in China. We believe that these three will be the center of focus for the automotive industry and we want to be where the action is. So, this is what we want to do.

Now although the company has been formed and structurally it has been demerged with effect from the beginning of this year, we have been working on these lines for some time and therefore we are able to give you what has been the picture of the year, which is 12 months which aimed on the March 31, 2019. So last year has been a good growth year, our services revenues in constant currency grew by almost 30% in the last one year. Our EBITDA margins wherein, the operational EBITDA margins were in the region of 13% when we ended the year; however, the margins started in mid single digit numbers at the beginning of the year and we have been able to improve it. So our focus has helped us grow this business as well as grow the profitability of this business and we believe that in times to come we should be able to continue on this track. Our vision is to become a \$500 million company as a leader company in the field of automotive engineering and we believe that it is possible to reach that goal over the next three to four years. So this is the broad theme with which we are working, our team is very excited about it, our customers are very excited about it

and we hope we can bring in good results which should make all of you excited about this.

So this is the initial statement that I thought we should make and now we would like to open this conversation for your questions and we hope to be able to address the questions that you have. We would be happy to take any questions because this is really like our first call in our new avatar. So I am sure you have questions to ask and we will be very happy to address them all. Over to you!

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Kayur Shah from Emkay Global. Please go ahead.

Kayur Shah: Thank you for the opportunity. And so my question was that proposed up that for full year for KPIT Engineering FY2019 has given the EBTIDA and topline?

Sunil Phansalkar: If you look at the published results we have given a table which talks about the full year profit before tax number for the engineering business, while we have kept it at PBT level is because see the taxation is the entity specific and hence if you look at the same most of this acquisition provision will be in different entities which are split into IT and engineering so it will not give a clear picture and a correct picture about the PAT. So the PBT numbers is what we have published as a table in our published results.

Kayur Shah: And what would be that number can you just tell me that? Is it this 67 Crores?

Sunil Phansalkar: 127 Crores this is the note #15 of the published results.

Kayur Shah: Can you help me with the net debt and gross debt for the engineering business for you?

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Sunil Phansalkar: So, if you look at the overall position we have about 220 Crores of cash that we have in the engineering business as of the year end and then from in terms of the debt number the total debt that we have is around 130 Crores which has about 69 Crores of term loan and 62 Crores of working capital loan.

Kayur Shah: This for the engineering business right?

Sunil Phansalkar: That is correct this is end of the year position and if you look at in the net cash number our receivables were a little higher just to get about 87 days saying this is the first quarter after the merger demerger some customer contract novations happened during this period and hence the billing was delayed. So if you look at the total debtors outstanding majority of them are for the invoices, which we have raised in the month of March and the collections in the two months of Q1 of FY2020 have been very good for these customers.

Kayur Shah: There is one more question. So you have given the outlook for a growth of about 16% to 18% and like obviously the industry that you are trying to cater the auto industry it is not like booming but the vertical that you are trying to that you are going for obviously has a high growth I agree that but like what gives you the confidence for that as well considering the competition like can you go a little bit deeper like how do we deeper?

Kishor Patil: I think there are two, three things first is I think first is what we did in last not only two years but over last ten, fifteen years consistently this business has been the high growth business for KPIT, last two years and you look at last years as well the growth has been significantly higher, I mean it has been the highest in the industry even though currently the industry is going through some transitions whether it is to new technologies or towards business models. We are very focused on 25 customers as Mr. Pandit mentioned and we are very

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closely associated and closely working with these customers that gives us the confidence.

Kayur Shah: And can you name like the ones closest or the one where you hope to achieve a good business from?

Kishor Patil: No, you see we do not talk about individual customers or the growth in those individual customers.

Kayur Shah: Thank you.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Thank you for the opportunity Sir. Sir firstly I just wanted to know when you talk about focus in 25 customers. I just wanted to know what is the scope of scaling up these customers in what way are you planning to scale up your relationship with these customers? Will it be through a more consulting led approach or how do you plan to increase, what is your average, what would be your wallet share across the 25 customers, is it very meaningful already and if it is then how do you plan to grow from there, that is question number one? I have two follow-up questions after that.

Kishor Patil: I think first we have the relationships which are at pretty higher levels and one of the ways in which these customers we have chosen, I am carefully using the word is basically we decided to work only with certain set of customers where we believe that the customer is strategic to us and the customers feels KPIT is strategic to him and only in those cases we are really focusing on these customers. So we are building consistently the key offerings and a deeper knowledge into the practices in which we are working. So in many of these customers we have, what is happening for example is we are working in one or two key practice areas and we have multiple offerings to these

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customers that is what we are doing, we are going deeper we are going across the geography globally. Most of the customers have different vehicle programs and we are working typically on these. Engineering spends are in these programs so we are covering more and more vehicle programs so from that perspective our focus is to really deepen our relationship both in terms of the practices in which we work, the geographies in which we work, the vehicle programs in which we work and our focus has been clearly building solutions and platforms which actually allow customer come quicker to the market. Now currently the situation is most of these customers are as I mentioned about the transition in the industry, they are basically really looking towards bringing quicker electrification through the different programs more and more programs, there are certain compliance issues and that is why they have to really move that quickly so in that case basically what the customers look for is which is the company which will help them to come to the market quicker and during this process initially there were very less number of electric program but more and more new programs are happening on electric. Many of these customers have said that in couple of years basically there will be only eclectic programs which they will be producing vehicles so this is how we have mapped every practice. I just gave you one example the second example is in autonomous for example either there are certain platforms being built as well as in the vehicles there are different levels of automation and level one to three those companies are going to bring and this had just started and there are many companies if you look at say there are 35 functionalities or 40 functionalities they hardly have three or four functionalities and they want to include more and more functionalities into their vehicle programs. Now some of these companies they believe that if they go on their own only it will take them maybe 2024 to bring

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a vehicle on the road with these features. They would like to collaborate very closely in a larger way on a program basis with a company like KPIT which will help them to prepone that to say 2023 or even 2022. So these are couple of examples I took but more over I think the basic issue you see currently is in all the automotive industry the overall technology spend is significantly increasing and if you look at maybe ten years back or you look at maybe 20 years back, exponentially the software content in new vehicles has been increasing and that will continue to increase. These along with the engineering spend which the customers are planning which is in few billions of dollars that defines the market for us and that will be our potential market we can tap into. Now the customers we have chosen are the customers who will be in a position to continue with their technology spend through the volatile period of this industry, who have a certain leadership in a certain market segment into certain geography segment, but they have the financial muscle as well as they have the market leadership to go through this year and that is where we are focusing on.

Vimal Gohil: Thank you for that detailed answer. Sir my second question is on what would be on your balance sheet. So what would be the sustainable level of working capital that we could look at for you going forward, in terms of sales as a percentage of sales?

Vinit Teredesai: So from a target perspective at any point of time if you are looking at a high growth sort of a company would ideally like to have cash which can take care of a six months of operating expenses at any point of time and that is what we will be working towards.

Vimal Gohil: Six months it is, okay. And Sir could you just take me through the what is the typical, what is the roadmap of I am sorry I missed out on the initial remarks I do not know if you

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commented on this, but what is the roadmap on margin expansion you also given a very, very optimistic guidance on the year margins. So if you could just take me through the roadmap that despite onside investments how do you and most of these I believe that most of the programs for your clients will start onsite so that will require investments as well. Despite this how do you plan to increase your margins?

Kishor Patil: So the first thing is as I mentioned we are working into very critical programs so naturally our realizations are better and naturally our investment in the people is also upfront and we do make those investments. If you look at last year we have been in a position to increase our profitability almost consistently every quarter. This quarter we are at 13% so last two quarters actually we are more stabilized at around 13% and then basically we are looking at going to 14% to 15% next year, which naturally does have some element of growth but more importantly if you look at the investments we have made, last year we have almost double the number of people into the certain development centers in Europe etc. So we will be in a position to leverage that more of course there are other operational efficiencies we can bring in, both together, I think, we will be in a position to certainly add a couple of percent to our profitability.

Vimal Gohil: Thank you so much Sir all the very best.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir just within the subsegments the two sub segments ADAS and electrification. So ADAS itself I mean which are the areas are we working on the mapping side of an algorithms and how is the scalability of the engagement is it like project-by-project or you gradually expand and what is the potential?

Kishor Patil: If you really look at typically, electrification for example so there are multiple areas in which we work it could be into battery management systems where there are lot of working in terms of how do you make it efficient which allows you to really use battery which actually impacts the battery life and can help us in increasing the overall battery life of the vehicle. The other parts are inverter designs, motor designs etc., so there are multiple areas in which we work that typically we are working at a platform basis so basically when the companies come up they are basically building platform and then they build a certain model for that platform. Most of the cases we are working on the platform basis. There are of course some cases where we are working at the project level but generally we are at a platform level. The second thing we are working is there are more traditional players who have been very dominant in the powertrain area who are highly focused on conventional powertrain but they absolutely require help in terms of quickly moving towards electrification otherwise they will lose their market share. So we are also working with some of these to really prepare them for the electrification. So we are working with the OEMs as well as some of the suppliers who are supplying to the electrification industry.

Ravi Pandit: And in the area of ADAS, we are really working more on algorithms, we are working on features development, we are working on machine learning, we are actually not doing much work on apps, per se.

Madhu Babu: Sir in terms of the guidance it is like a 4.1% to 4.8% kind of CQGR assuming that 270 million to achieve the 16% to 18%. So considering there is some volatility in the end-user industry so are we expecting one or two good swing quarters for us to achieve this guidance in the upper end especially?

Ravi Pandit: I guess I think it is important that we recognize that what we have not given a specific guidance. So we have given our outlook and that outlook if you compare our growth in the current year, in the year that went by on the services revenue which was like almost 28% in USD terms we are saying that our outlook is between 16% and 18% and that is in the context of the volatility that we see around us. We believe that is doable.

Madhu Babu: So the base is 271 million right overall not the services revenue this 266. So on 271 million you will grow 16% to 18%.

Sunil Phansalkar: So what we have said is our strategy is to do away with the hardware based broad business and that will go away, so the base is 266 million.

Madhu Babu: Just one more question Sir, just on the tax rate and depreciation how should we assume for next year? Thanks.

Vinit Teredesai: See I would say from a depreciation perspective if you look at it we did the maximum amount of investments in the last 18 months. There will be few more as we expand and create our footprint in some of the other geographies. I would say a moderate amount of capex you can assume for the next year from a tax perspective we should be in the range of around 22% to 23% on effective tax rate basis.

Madhu Babu: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Kashish Shambhwani from Negen Capital. Please go ahead.

Kashish Shambhwani: Thanks for taking my question. During the last concall you gave the outlook of 20% plus growth in CC terms and recently you have give 16% to 18% so what has changed for us particularly or in the industry are you witnessing some slowdown finally from the auto players now?

Kishor Patil: I think what we were talking about is the medium term and we said that this is what is something we are looking forward to. If you look at what we have mentioned here also it is in three to four years we have looked at USD 500 million revenue. So I think right now what we are doing is looking at the volatility of the industry, which is going on and which is always more in the initial period of fresh transitions. We have given an outlook at this point in time, in view of this volatility. At the same time, we have mentioned that we desire to be a USD 500 million revenue company in three to four years.

Kashish Shambhwani: So would you say this guidance is conservative or is it the base case.

Kishor Patil: No, we are not saying it is conservative or anything we are saying this is the outlook we have given as we see it now but we are saying that in the medium-term we still believe that we can get to a USD 500 million revenue in three to four years.

Kashish Shambhwani: Can you please help me with this finance cost and depreciation cost for the full year?

Vinit Teredesai: I would say do not take our Q4 finance cost as a benchmark there were few onetime expenses because of the merger and demerger that has resulted in this extra cost. As far as our depreciation is concerned, as I said expect a modest amount of capex growth and we should expect it to increase in the range of another 10%.

Kashish Shambhwani: So how much debt you will repay in FY2020?

Vinit Teredesai: So FY2020 as of now we will be paying roughly around 25 Crores that is part of our long-term loan that we have which will be serviced over the next two years.

Kashish Shambhwani: Will it be fair to assume that finance cost will be less than 13 Crores which is right now or 10 Crores?

Vinit Teredesai: Again we will have to look at the dynamics because right now as I said we are looking at as this company and its financials are getting published for the first time, we are establishing now our credit facilities across the geographies. So we are sort of renegotiating on multiple contracts that are going, so a good part is right now the interest rate scenario across the globe is not looking at any inflating factor so we are confident that we will be able to get the best of the rates. So I do not want to comment on a specific number. We will look out for our funds requirement and appropriately take calls in terms of what is the best and optimal solution for us.

Kashish Shambhwani: Instead of finance cost and depreciation if you could help me with that delta between EBITDA and PAT margin roughly that would be helpful?

Sunil Phansalkar: Earlier, we have been saying that when we look at the full year this was not a separate company for the full year. While the full year numbers that we have published they were for an entity which did not house the full of engineering business for the first nine months of the financial year. So it is difficult to come out with a full year number for that because there would be lots of assumptions involved in it and it might not be accurate so I think what you need to do is look at the Q4 numbers. From the depreciation point of view the Q4 is a representative number for looking at the annual number as Vinit said with a little bit of additional capex going to it and the finance cost as we said obviously these are tad higher than what the normal you can take.

Kashish Shambhwani: And there is one item of 319 million in other income I am referring note #4?

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Vinit Teredesai: Yes. So we had given a clarification to that in note #4 this is basically as the company got split between the engineering and IT. Obviously there were few shares that were being held by the Employees Welfare Trust. Earlier those use to get consolidated and there was no impact of any market valuation that happened, but now since that the merger and demerger has happened the trust has shares pertaining to Birla Soft which are now mark-to-market in form of available for sale.

Kishor Patil: I think at the same time there is a exceptional items which we have which basically have we have taken a write-off of one of the products business which we had on a company called Yantra and I think both of this match so if you look at the exceptional items they more or less match both in terms of income and expenses. So the profitability is quite sustainable at a level at which it is reported.

Kashish Shambhwani: So this will like keep on recurring this other income is it like real cash outflow or inflow or it is just the accounting treatment?

Vinit Teredesai: It is a mark-to-market so till the shares are being sold and final profits are realized you may see what are the fluctuations may happen at the auto brand but there is no actual cash out now actual quality just a mark-to-market done at the end of the year.

Kashish Shambhwani: And also could you please help me with the capital employed?

Sunil Phansalkar: If you look at the balance sheet which we have given for the as of end of the year, if you look at the total equity I think it is roughly about 960 odd Crores as the networth which is there and then we have debt the long-term debt which as I said earlier the long-term debt total number is around 69 Crores.

Kashish Shambhwani: Just one last question; the debtor days right now are 87 and as you mentioned that recovery will happen in Q1 and Q2 onwards so what is the normalized number you are targeting?

Vinit Teredesai: We are looking at, at least in the next one year to bring it below 75 days, which even if from our past company perspective that is the range in which we have been maintaining already.

Kashish Shambhwani: Thank you so much that is it from my side.

Moderator: The next question is from the line of Bhaumik Bhatia from Birla Sun Life. Please go ahead.

Bhaumik Bhatia: Thanks for the opportunity. I have a couple of questions. One is on the so does the business have any quarterly seasonality so to say that is my first question and secondly how do you if one were to gauge the visibility of revenue what are the metrics that you look at in terms of gauging the visibility of revenue if you can help me with that?

Sunil Phansalkar: I think by definition there is no quarterly seasonality for this engineering business specifically naturally in some cases in very small part of the business there can be variability based on number of days but that is also going because most of the business is fixed price and it is moving in that direction and there are different business models. So, in that sense there is no real seasonality for the business. The way we look at it is in multiple ways. One is the programs in which we are operating typically most of these programs are long-term programs and over the period as we will start establishing some of the metrics more and more and it will take us sometime let me tell you that, but we are also looking. So most of these programs are also multiyear programs as I said they are production programs so these programs have a continuity over a longer

period of time that along with normal order book and over what period it is that allows us to make basically estimate of our order book and some of these metrics as we better handle on this we will publish it over the period.

Bhaumik Bhatia: So would you be in a position to give some indicative order book or something as of now?

Kishor Patil: No, we will not be publishing order book in the meantime.

Bhaumik Bhatia: Okay, so probably I assume that you will be doing it in future ones. So you have better perspective on this I guess because that will only help us in terms of having a better revenue visibility from your standpoint of this you are in the I mean you are running the business so you will have that visibility but from an outsiders point of view I think we will have some metric to look forward to?

Kishor Patil: Yes.

Bhaumik Bhatia: Thanks and all the best.

Moderator: Thank you. Next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: Thanks for the opportunity. Firstly I just wanted to understand so you mentioned the four force which are driving demand could you just highlight what percentage of your business today directly comes from work and let in these four areas would it be small, would it be a major chunk?

Ravi Pandit: As I said earlier a large part of the business comes from these areas. So if one were to map these forces with the nature of the work that we do so these are the basic areas in which we work. So we work in powertrain, both conventional as well as electrical and we do a larger amount of work on electrical than conventional. The second area that we see is in the area of

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connectivity, which is development of in-vehicle infotainment systems and all the accompanying software that goes with that that is a large area of our operation. The third area is autonomous vehicles where people are investing in level L1 to L5 and as I mentioned earlier we do a fair amount of work there on the vision systems and on the control systems that is the third area of work. The fourth area of work is on the diagnostic side, because as vehicles become more connected and as they become shared as well as more commercial the need for a having quick diagnostic both onboard and off board goes up and we are seeing a good revenue coming from diagnostics. As there is more and more intelligence in the vehicles that means more and more control in its ECUs there is a lot of work within in vehicle networking so we do a fair amount of work in that area. Almost 95% of the work that we do is in the electronics area, the remaining being in mechanical even there the work is more pending towards electromechanical or mechatronics rather than pure mechanical. So this is how I would like to map our services with the trends that you are saying. We are moving completely with the trend as a matter of fact in some areas we are on the guiding edge of these trends.

Ashish Chopra: Secondly although you already spoken about it, but just on the margins. So if you could help us maybe with brief bridge of how do you see this expanding because in the past we are seeing that wage hikes have taken toll on the margins and so perhaps the gap becomes wider as a result of that. So if you could just share what could be impact on wage hikes in this quarter and when you actually are on your path 14% to 15% EBITDA any clear low hanging levers to that could be maybe that the utilization right now is low or if there is a localization mix to it would be helpful?

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Kishor Patil: As I mentioned earlier, we have 13% margin already for last two quarters. I did mention that the levers which are again driven by growth, driven by operational efficiency, leveraging investments which we have made significant investment last year in terms of establishing centers outside India so there are many operational levers which we can fine tune further. So I would say there is more than one lever to increase the profitability. We would have our wage hike in the second quarter that is from July 1, so we believe that by that time we would have both the volumes as well as other levers to neutralize that.

Ashish Chopra: Could you share the strength of the staff that you would have built up in delivery centers of Germany and Detroit in specific?

Vinit Teredesai: We will not give any exact numbers but in Europe we have more than 700 people at this point of time in Europe.

Ashish Chopra: That is it from my side. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Parth Thakkar from JM Financial. Please go ahead.

Parth Thakkar: Thanks for the chance. My question is on the outlook which we have given for the next year and going into next four years as well so we have become from a high growth of 30% but we have guided for a 15% to 18% and also the implied growth rates over next three years would be also 16%, 17%. So has there been a sustainable slowdown in one of our clients, because maybe exposed to some of the OEMs, which have more exposure to the gasoline OEMs, or auto OEMs. So can you just breakdown geographically by where the pain is coming from, is it more autos, more auto OEMs or the vendors and which geography that would help me and so?

Kishor Patil: So two, three things I would just like to say one is our growth is across the geography so it is not really focussed in one

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geography etc. Also our revenues are much more evenly spread than probably any of the other companies across so we have a very balanced customer base as well as growth in all the geographies. I think what we have mentioned and I think Mr. Pandit mentioned about this I think what we would like to tell you at this point of time is we are in a very prime position in terms of capturing this opportunity both in terms of our competency, our thought leadership, our value proposition to the customer, our current customer base and the kind of relationship we enjoy with them. And we naturally have a very special relationship as well as the position in that regard. So that is why we are saying that we will have the probably the highest growth in the industry in this area. We talked about the larger trend which Mr. Pandit mentioned in all these technologies area there is so these expenses are not connected with the sales of automotive these are separate because if these spends are not done then their future vehicles will not come to the market and they will lose market share in future. So what we are saying is there is a huge opportunity there is a huge spend which is there we have a base of 25 customers who are leaders in this area, they have a huge spend to make, they have a ability to sustain the volatility in the industry and we are in a prime position to do that, that is what we are saying and that basically gives us that confidence that is what I mentioned earlier.

Parth Thakkar: Just a follow-up to that, so considering our existing client base wherein we are almost 75% with extra digit clients do we still have a room to grow in them do are we a dominant player or is there a risk of losing out those clients to other vendors as we still have. So the...

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Kishor Patil: I think I answered that question that we have a dominant position with them and we are quite entrenched into vehicle programs so I have answered that question already.

Parth Thakkar: Just a last one I have just. Can you just give us a broad split of how much is the revenue come from autos or auto OEMs and the vendors so like in geography wise but how much is auto and auto OEMs and how much of the vendors which are catering to these auto and auto OEMs that would be helpful?

Kishor Patil: Largely I can tell you overall largely we are focused on the OEM as customers that is the largest part of our business, but we do work with certain Tier 1s, we are working with such an Tier 1's which are special where we enjoy special relationships which is more strategic and which also in many cases cater to the OEMs we work with and I think from that perspective our current business is largely towards OEM then there are as I said we work selectively with Tier 1's but as we mentioned earlier we are working with commercial vehicles now we have started working with commercial vehicles and the new mobility these are the two segments where we are focusing more because most of the technology trends are also very of course very relevant to these areas.

Parth Thakkar: That is true. So largely it is the auto OEMs and there large vendors as well that is how it will be there.

Kishor Patil: Yes.

Parth Thakkar: Thank you so much.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBICap Securities. Please go ahead.

Deepesh Mehta: Thanks for the opportunity. I have couple of questions, first about the press release you have mentioned about some

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execution delay which we have witnessed in Q4 and which is likely to get corrected in Q1 so if you can help us understand what exactly played out and how you expect it to get address in coming quarters or coming months? Second question is about the top 25. I think you indicated about we have dominant position but is it possible for you to say let us say how much they spend on overall year and the kind of the thing which is addressable by KPIT so if you can put some number around it that would be very helpful for us to get some sense and third question is about the three bucket which you plan to address passenger car, commercial vehicle, off highway vehicle and new mobility. If you can provide some revenue mix what currently we have across the three buckets. Thank you.

Kishor Patil: Sorry I have to recollect your question, but the first part you ask was about sorry can you repeat the first part? First question.

Deepesh Mehta: Yes, we have witnessed some delay.

Kishor Patil: I think it was a very transitional thing I think we just first I have to say that we in this quarter are in line with our expectation this is exactly what we mentioned but still I think we had just mentioned that there were some projects, which were suppose to start early in the quarter which got started late quarter so already all these projects are in place, so we will see the revenues in quarter one of the new year, so absolutely that were just transaction sometimes the ramp ups take time so that was the only, one point.

Deepesh Mehta: Second question was on strategic question?

Kishor Patil: So if you look at our strategic customers typically the spend which happens is most of these programs the overall spend is in billions if you really look at their tech centers which are

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typically technology done by their own work force and what they are looking at there is a huge gap where they are trying to really work. So it is very difficult to really identify a specific number, specifically because it really depends upon what type of technology which program for which customer, but I can tell you that overall technology spend is in billions. So which is basically catered to by some of their Tier I suppliers some of their own centers and of course more and more companies are disaggregated hardware and software and working directly with companies like us so that is how it is. So that is why it is a very moving further right now so I cannot specifically put a number but I can tell you it is a very significant number where this spend can happen per customer.

Deepesh Mehta: Sir and the third question if you can help us?

Kishor Patil: Third question, if you look at the verticals we mentioned that there are three verticals we had just formed so it will take us sometime to establish certain numbers and we will start reporting as we get a better handle on this specifically new mobility is something we just started so we just do it commercial roughly if I have to tell you at a very high level Pasca accounts for about 80% of the revenue that is what I can say, other verticals we are just establishing ourselves. So we will start reporting that as we have a little more maturity with these two verticals.

Deepesh Mehta: Last question on the margin side, if I look let us say FY2018 the proforma financial which we earlier said it seems to have we have some kind of weakness in margin this year despite almost 10% of rupee depreciation can you help us understand what investment we have made in this year which are very specific for the current year?

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Vinit Teredesai: I would say you should look at the margins from two perspectives one obviously we went through this merger-demerger so there is obviously there is a deal cost that were related to and transaction cost that were related to it. Secondly last year we made the strategic decision to exit some of the hardware businesses so we took certain amount of write down on those assets that were available with us. So from that perspective the 2018-2019 financial year we are after all of these exceptional items we have been able to still generate and show a growing trend in our margins and now since these are all behind us the and we have a focus on these specific mobility sector, we are confident that we will be able to achieve our growth track going forward.

Ravi Pandit: And just to repeat if you look at Q3 and Q4 in both the quarters our operational EBITDA was about 13%. So we are already at 13% margins.

Deepesh Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Senthil Nathan from Crest Wealth. Please go ahead.

Senthil Nathan: Thank you for the opportunity. After merger and demerger what is our current promoter holding and is there any pledged shares now? Thank you.

Sunil Phansalkar: See as we have disclosed earlier the merger and demerger what will happen is after the creation of two entities currently if you look at it the KPIT erstwhile promoter holding will be in the range of about 13% and the total promoter holding would reflect at 40%+ which includes the shares held by Birla Soft Promoters in KPIT Technologies but over a period the KPIT promoters will buy these shares from the Birla Soft Promoters

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and hence eventually the KPIT promoter shareholding will be around 40% in KPIT Technologies.

Senthil Nathan: Is there any pledged share Sir now at the promoter levels?

Sunil Phansalkar: So currently there are certain shares that are pledged for the small funding that we have taken for the open offer, which we announced last month.

Senthil Nathan: What is the pledge percentage out of the promoter holding?

Sunil Phansalkar: I think we have disclosed that I do not have.

Senthil Nathan: No Sir and do you see I mean the exchanges is not there so that is why.

Sunil Phansalkar: I think all that pledging that we have done is only for the open offer and as the open offer gets completed all of that pledging should go away.

Senthil Nathan: Sir when will you buy it from Birla Soft this 13% will become 40% what would be the approximate timeline?

Kishor Patil: We have see as you know we already launched the open offer we had already made the announcement of the open offer we are now awaiting the any observations from SEBI and our expectation is that sometime by end June the actual open offer will be launched for anyone who tender their shares and all that exercise should get completed by July.

Senthil Nathan: Post that.

Kishor Patil: Post that once that is being completed the majority of the Birla Soft shareholding within KPIT Technologies will come back to the KPIT promoters. So we can say by end July it should more or less get over.

Senthil Nathan: Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** First is on the service growth for fourth quarter. So how much is the number for this particular?
- Vinit Teredesai:** Sorry we are not able to hear you properly?
- Mohit Jain:** Services growth number for the fourth quarter?
- Sunil Phansalkar:** Services growth number for Q4?
- Mohit Jain:** In services for Q4.
- Sunil Phansalkar:** Q4 the services had a slight decline. As we had said there was a certain delay in some project execution so there was a slight decline in the services number of around just and about 2%.
- Mohit Jain:** This project you have said it has already started so 1Q 2020 it will come back right?
- Sunil Phansalkar:** Yes, absolutely so we will see growth can obviously if the growth will be driven only by services so it has already started.
- Mohit Jain:** Second thing Sir you mentioned somewhere in the concall there is a six month working capital requirement but later you said receivable days will be back to 90, 95 so how will this working capital?
- Vinit Teredesai:** No, so what we try to say is that working capital we would like to aspire and always keep our working capital available with us, which will cater to a six months requirement so that is what I meant.
- Mohit Jain:** But if we have to look at it from a balance sheet perspective your receivables will come back to 90, 95?
- Vinit Teredesai:** No, we are saying I mean currently the DSOs are 87 and what we said earlier is that in an years time we will look at

receivables of around 74 days, 75 days DSO so that is what we will work on and you will see progress every quarter with DSOs coming down.

Mohit Jain: Sir six month is not the working capital the movement.

Vinit Teredesai: No it is not the DSOs.

Mohit Jain: The third thing sir Birla Soft if we have to unwind this let us assume by second quarter balance sheet so how much is the receivable payable number and what is the nature of this expense?

Vinit Teredesai: We have around roughly around 40 Crores that is the receivable from Birla Soft and we expect that to get gone down by end of June.

Mohit Jain: So this will remove your current assets other current assets and other current liabilities completely there and you will come back to the normal levels compared to what you have reported in March.

Ravi Pandit: Yes.

Mohit Jain: Okay understood. And lastly Sir any specific competition that you would like to highlight for auto business like can we benchmark our performance to some of the other guys on the listed space side?

Kishor Patil: I think there are two three types of competitions we look at one is their own internal centers that is if I have to say that is a I would not say it is a competition but it from the share of engineering business that is something we have to share it with their internal tech centers. The other competition if you look at there are certain European companies and there are certain we have to really look at practice-by-practice and there are different kind of companies which practice I think if as you

know there is hardly any company which you completely focus in mobility in this part of the world at least. There are few companies in Europe they are also largely focused in to automotive as well as defense. So largely for most of the programs our competition is largely European in some cases of course there are certain Indian companies we compete with, but substantially it is more about companies in Europe.

Moderator: Thank you. We will move to the next question from the line of Sumit Pokharna from Kotak Securities. Please go ahead.

Sumit Pokharna: Sir if you can please share more clarity about your business model in terms of how the pricing is done and how the business has been generally been acquired, just to get a clarity more from a business perspective.

Kishor Patil: I think largely as I mentioned it really depends upon the practices but mostly our programs are related with platforms, which are vehicle platforms, and there are three or four types of engagements, which we have. Most of the engagements are more and more moving very fast as fixed price which allows us to bring in some of our platforms, some of our tools and do more automation so that is the large part of our business in some areas while we work in that area there are the billing we do it in time and material though most of the time the project management responsibilities are with us. Only in cases where there is we believe scope is not most well defined on these are new technologies that is why we do it. The third which is again increasing part we are doing is the platform we have build certain platforms and we go for the vehicle programs I think this platforms we take to the company and that is where we talked about bringing customers quickly into the market so in that case it is, it can be both fixed price or it could be sometimes licenses plus fixed price. So that is what it is and

there are certain few products very few products where it is licensing model so these are different models in which we are currently engage with.

Sumit Pokharna: Okay. And second question if you can share more just to get a sense of a more in immediate key competitors.

Kishor Patil: I think I just spoke about it just one question before that it really changes from practice-to-practice largely it is largely we compete with European players which are global players that is where our major competition is in some areas we do compete with Indian players.

Sumit Pokharna: Okay thank you very much that is all from my side.

Moderator: Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: Hi sir, just one question from my side what are your Capex plans for the FY2020.

Vinit Teredesai: As I mentioned in the earlier questions we are looking at only a modest amount of Capex in the coming year. So most of our investments is pretty decent. So you can say us roughly if I want to just put a number I would say max 10%.

Princy Bhansali: 10% of sales right.

Vinit Teredesai: 10% of our existing capex that is how I would say.

Princy Bhansali: Thank you.

Sunil Phansalkar: Roughly about 2% of sales.

Princy Bhansali: Okay.

Moderator: Thank you. The next question is from the line of Apurv Prasad from HDFC Securities. Please go ahead.

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Apurv Prasad: Thanks for taking my question. A few data points if you could help me with first is the onsite offshore mix the attrition number and if you can share the top ten contribution.

Sunil Phansalkar: No so I think some of these metrics that we have mentioned, we are looking internally at different metrics that we need to drive for this business because it is a different business than the typical IT business, so I think at this point of time what we are saying is we will work on these metrics which we believe are important for the business and then we will come out with the right metrics for disclosure. In terms of top customers I think we have mentioned about the T25 customer revenue percentage we believe that is the right number to look at instead of looking at the top ten customers. So we should focus on the T25 accounts and that number is what we have disclosed around 75% of the total revenues.

Apurv Prasad: Right you do not have the attrition in onsite offshore right now which you can share.

Sunil Phansalkar: No, what we believe is that there are a lot of changes that happened we have our onsite centers people are moving there coming to offshore going so it is not the correct metric to look at.

Apurv Prasad: And so what would be the average project duration on a blended basis currently as you say and if you can share the annuity component I understand that must be smaller than your IT services but if you can share that number.

Kishor Patil: So roughly our project size is if you really look at it is anywhere between 18 months some projects 12 to 18 months there are some projects which go beyond two years it really production programs typically go beyond two years so that is how it is. So I think in the early stage of this call I mentioned, we mentioned

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that we are, we will bring some of the metrics like annuity business is start reporting those in that, because it is very difficult to define the annuity, you have to define it correctly and we will track those indices. So currently this is the first quarter in that sense as we are looking at metrics for this business. So we will establish that and we will start publishing it in next few quarters.

Apurv Prasad: And also hearing from some of the competitors that there is some slowdown in decision making and new programs especially as there is more R&D collaboration happening across OEMs so anything of that sort that you are seeing within your base.

Kishor Patil: Absolutely we discuss about less number of cars being sold but as I mentioned it has nothing to do with the engineering spend because engineering spend typically is being done for programs for next three to four years so that is there. Collaborations are happening across and we see that as an opportunity and when we have picked up out 25 customers I think that is the specific consideration we have in terms of our best judgment in terms of which customers would work and collaborate and we see that as an opportunity actually to work with this as you know we already there are have been some announcement and we are working with certain consortiums.

Apurv Prasad: Sure and on the margin aspiration level three year which we have provided so would that be on a constant currency basis or you building something on the dollar rupee there.

Kishor Patil: No we will be getting it as basically at that point of time, so it is based on the current rupee or the other currencies are so we do not factor in anything beyond what it is today.

Apurv Prasad: Thanks and all the best.

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Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to the management for their closing comments.

Sunil Phansalkar: Thank you very much for being on the call and I hope we have been able to answer your questions. If you still have some questions or you get some questions after this call, please feel free to write to me and I will be happy to get back to you. Thank you once again and have a great evening.

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