“KPIT Technologies Limited Q1 FY-20 Earnings Conference Call”

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MODERATOR: MR. RAHUL JAIN – DOLAT CAPITAL

Moderator: Ladies and gentlemen good day and welcome to the KPIT Technologies Limited Q1 FY20 Earnings Conference Call hosted by Dolat Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you sir.

Rahul Jain: Thank you Lizzan. Good evening everyone on behalf of Dolat Capital. I would like to thank KPIT Technologies for giving us the opportunity to host this call. And now I would like to hand the conference over to Mr. Sunil Phansalkar who is AVP and Head IR at KPIT to do the management introduction. Thank you, over to you sir.

Sunil Phansalkar: Thanks Rahul. A very good afternoon, good evening to everybody on the call. A very warm welcome to the First Quarter Earnings Call of KPIT Technologies Limited. Today from the management we have Mr. Ravi Pandit – the Chairman and Group CEO, Mr. Kishor Patil – CEO and MD, Mr. Sachin Tikekar – President and Board Member, Vinit Teredesai – the CFO and Sunil from Investor Relations. So what we will do is, as we go ahead we will have this talk about the performance of KPIT and the positioning of KPIT and how we look at the near future, and then we'll have the floor open for your questions. So once again, a very warm welcome and I hand this over to Mr. Pandit.

Ravi Pandit: Welcome again and good evening to all of you. I would like to thank you for being on our call. You would have received our investor update. And, I would again like to thank you because quite a few of you have come back stating that you liked the way we have given the investor update this time. I would like to bucket my comments in three broad parts. In the first part, I would like to talk about what is the vision that we have for our company and what kind of company we are trying to build. So, I would like to talk about our strategy, our vision, etc. Secondly, I would like to address the question that is on the minds of some of you, which is namely that in a world of a stressed automotive industry, how do you think we will do? So, I want to address that issue. And then I would like to talk about our results, which are currently available for the first quarter. So these are the three areas in which I would like to divide my remarks.

Coming to our vision and strategy. As you would know, we did a merger and demerger of the company with a view to bring to us a very sharp focus on the mobility sector. Our vision is ***Reimagining Mobility with you, for creation of a cleaner, smarter and safer world***. You would know that we have been working in the area of mobility for the last 15-20 years. So over the years we have grown in terms of our stature and knowledge in this industry. We believe that in the years to come, specialized players will have a major role to play and a good potential of growth and profitability. With this in mind, we went through the merger and demerger with a view to sharply increase our focus on automotive and mobility. So today, that is the only industry that we work in. Today by now, we have done a great deal of effort to sharply increase our focus and our depth. Across the world there are several million vehicles today which run using our software. We have been deeply engaged with 300 plus vehicle programs across the globe. 12 out of the top 15 car OEMs are our customers, they use our software. And 10 of them have been our customers for more than a decade. So, we believe that we can play a major role in a world which is changing so rapidly. Our belief is that in the next 10 years or so the automotive industry or the mobility industry will change more than it has changed in the last 100 years. A lot of that change is driven by software and electronics. That's an area which is our sweet spot and we believe that by virtue of that we should be able to do well in this emerging scenario of mobility industry. Now that is the vision of the company. And these are some of as I mentioned, these are some of the results till today. Our strategy is to focus on a few verticals within the mobility industry. Within that to focus on a few customers and to focus on a few practices. Mobility industry for us is divided into three parts. One is passenger cars, second is commercial vehicles and third is the new mobility. Our work so far has been largely in the area of passenger cars. And I would like to say that, most of the leading car OEMs are currently our customers. Some of the large commercial vehicle manufacturers are also our customers. But that's an area where we have not tapped completely. And we believe that is a factor which should give us good growth.

As you all know, there is a new segment coming up in the mobility industry, which is the new mobility industry, which is mobility as a service. We have currently some customers in that area, we have some offerings, we see good potential for growth, and that's the third vertical that we are looking at. Our belief is that within these three verticals, we should focus on a few customers who are leading customers across the world. With that in mind, our strategy is to focus on the top 25 customers whom we call T25. Of this currently, we are already working on T17 customers. These customers are well known in the industry, these are the ones which are spread across the whole world. So we have customers who are in Europe or in the US, who are in Japan, China and in India. So in all the three major geographies, which is Japan, which is Europe, US and the rest of the world, which is Asia, etc we have a good presence through our customers. So we focus on these customers and we are seeing good traction with them.

The second part of our strategy is to focus on a few practices, which can give us adequate depth and the investor update that we have circulated to you talks about our major practices and I would like to spend a minute on those practices and I would like to tie them in with the major changes that are happening in the automotive industry. A major practice with us has been autonomous driving. Here, we work with the best in the world and some of you would have seen the notification that came from BMW which listed, maybe two or three as software partners, which is an extraordinary recognition of the quality of software that we deliver. We do a lot of work in the area of autonomous driving. Within autonomous driving there are multiple areas of work, there is development of multiple features, which we do. And in some of them we own those features. There is a substantial amount of work on integration. There is a large amount of work on verification and validation and in each of these areas we are very, very deeply engaged.

The second area is connected vehicles which is really the area of infotainment. In this area again, we have worked across the globe both for OEMs as well as Tier Is. We have our own platforms in this area which are used by one of the world's largest OEMs.

The third area where a lot of work is currently being done is the area of powertrain. Not only the conventional powertrain such as the diesel is being improved substantially through a lot of use of electronics, there is also a lot of work happening in the world of electric. And that's an area where we work again with some of the best in the world.

Now, there are many mini computers in a vehicle and they need to talk to each other. And they talk through a protocol which is called AUTOSAR, which is Automotive Systems Architecture. We do a fair amount of work in that area we have our own offerings in that. Many customers across the world use our AUTOSAR products and services. We also work in the area of mechatronics, which goes beyond electronics and looks at the mechanical engineering. We also work in the area of vehicle diagnostics. These are the six major practices on which we work. But you know, if you were to look at the overall change in auto industry, people are talking about CASE which essentially talks about Connected, Autonomous, Shared and Electrical. So, these are the four areas which are driving the world of automotive. And in each of these areas, we work well and these six practices have covered those areas and a little bit more. We believe that by being in the forefront of the change in the automotive industry we should over the years continue to do well.

Now this is regarding our vision, this is regarding our strategy and how we are going about it. These practices which I mentioned account for almost all our revenues. Our T17 customers account for a large part of our revenue they also account for a large part of our growth in the revenues. So over the past few quarters we have seen that this focus is bringing us good traction. Question that we have been asked is about the overall automotive industry and the question that has been asked is, that in a world of stressed industry, stressed automotive industry how we are likely to do. You open the paper and every bit you practically see how the industry is suffering across the globe. And we have been quite concerned about this and at least our own belief has been that although the auto industry may not grow well, all the growth and all the R&D will happen in the area of software and electronics. And we have in our investor update presented some slides which have been brought out by McKinsey & Company, about the forecasted growth in the software and electronics and the part of automotive growth. Their report brings out whereas the automotive sales will grow maybe at 3% CAGR over the coming decade, the growth of the software and the ones that is relevant to us in this period will be around 11.5% CAGR. Our own experience in the last few quarters brings this out and that we will do better than even this growth. The report also talks about what are the software domains which will drive the growth and they talk about the same domains that I talked about earlier in terms of CASE.

So their working shows that the autonomous area will grow by about 11% CAGR, the connected area infotainment will grow by about 9%; powertrain on the electric side will do well. There will also be growth on the operating systems and the middleware. So our experience with our customers completely confirmed this note that has come from McKinsey. So, if you had to look at our own growth over the last 10 quarters or so, you would notice that quarter after quarter we have grown. Our growth over the last 10 quarters in the engineering business has been 4.8% CQGR. So, we believe that the industry, our segment of the industry which is software should continue to do well. In the light of this our annual target that we have given of the top line growth of between 16% to 18%, and EBITDA between 14% to 15% to us seems very doable. So, I believe that although the auto industry as a whole may have some problems, our segment of software and electronics will continue to do well because this is an area where almost every auto company will invest to ensure that they survive and grow and prosper in the years to come.

I would now like to come to the third part, which is the result that we have declared for this quarter. We have given as I mentioned an annual growth guideline of 16% to 18%. Our growth so far this year is 19.3%. Our growth is broad based; it is across multiple geographies and across multiple clients. Our EBITDA margin, the reported margins are 14.6%. But if you were to take out the variation that has come on account of the change in accounting standard, our EBITDA on a comparable basis is 13.6%. We believe that we are in line to achieve our 14% to 15% EBITDA margin for the year.

During the quarter, our cash has also seen improvement and that is what we have already given in our investor update. In our opinion, our growth will happen not only through the volume growth, but growth and also our profitability will be aided by the platforms, tools and accelerators that we use in the delivery of our services. During the quarter, we also have two or three unusual events. One is Copart, those of you who have been following us have known that we have carried this burden for the last almost four, five years. The initial amount of dispute was much larger; we have been able to bring it down. Although we believe that we should have won the case, we find that the annual expenses in legal fees as well as the time of the top management is too heavy. And as a result of this, we have entered into a settlement whereby we have paid $2.8 million, which is about Rs.195 million. This is the end of the Copart matter completely, there is no due on either side and there would be no more expenditure that we would incur of time and money on pursuing this area.

The second, unusual adjustment during this quarter has been on account of the sale that we have done of one part of the business. You would recollect in the earlier conversations we had stated that we would like to get out of any hardware related business. And we have been executing on that strategy and in this quarter we have sold our business which was related to ITS and VTS AIS140. And for that we have got a gain of 170 million. The total net negative on account of all the unusual expenses is Rs.75 million. So this is what we have to say regarding the results so far. We believe that this year as we have guided we will do the top line as well as the bottom line numbers. And we would continue to enjoy the support that we had from all of you.

Other thing that we have done in the investor update this time is that we have compiled all the questions that typically come from you for data, and we have put all that data as a part of our investor update and you would be able to get practically every information that you want in this area.

So, I think with that I would have answered the questions that you have had and we will be happy to take any further questions that you want. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: I have a couple of questions, first is what your hiring plans are for FY20?

Kishor PAtil: So, I think we have mentioned that in our model we are moving away from people centric model more and more. But to give you an indication, last year we hired more than 800 people from the colleges, just colleges. I can only give you some indication and we would hire little more this year from colleges, but we would not, we would prefer not to give specific numbers because really our strategy is to drive more productivity based on per person productivity.

Princy Bhansali: Okay. And this quarter the support staff is like 8% of your total tech employees. So, is this the new number going forward or this will go down what will be the rate?

Sunil Phansalkar: So, this is not a new number actually when we demerged, I think some staff was common for initial time between both the companies and we always had that cost on our profit and loss account. It just got physically transferred to us during this quarter, so there is no additional staff which we have added during the quarter.

Princy Bhansali: Okay. And in terms of the connected weaker sales, we see a year on year decline any reason for that?

Vinit Teredesai: There are some revenues which are in the nature of licenses, which were there for last year other than that there is nothing.

Princy Bhansali: Okay. And we see a high number in terms of other current assets more than 3400 million can you give me the breakup of that?

Vinit Teredesai: I think this is something that, as a balance sheet we publish it at the end of six months.

Princy Bhansali: Sure, thanks. And one last question, what is your dividend policy?

Kishor Patil: So we have followed a consistent dividend policy over the years. What we are seeking to do is to ensure two obvious things. One is that our investors continue to get higher and higher dividend in terms of quantum whereas, while we have as much retention of profit as we can and if you notice over the years our dividend payout ratio has improved and our quantum of dividend has also improved. We believe that we will have significant potential for growth inside the company. And we would need the retained earnings to fuel our growth.

Vinit Teredesai: The formal document on dividend policy is already uploaded on our website.

Princy Bhansali: No, the thing is that your cash is going up so can we see higher payout going forward?

Kishor Patil: So you would see a gradual increase in the payout. I don't think we will have an extraordinary jump in the payout. We would like to retain some cash on our balance sheet because growth calls for cash.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Thanks for the higher disclosures. Just wanted your thoughts on, we had this 75 basis point impact from employee promotions. Just wanted your thoughts on anything that you are seeing on the supply side or anything that would concern you at this point and so this will be over and above what we have in terms of compensation increases for next quarter.

Kishor Patil: Yes, as Mr. Pandit mentioned we are into really an if I'd say, new technology high tech area, so we have to really, we are building a net new talent. So for example, if you look at an area like autonomous we could be one of the largest in the industry globally and we have to really build and create skills and hire some of the best people across the world. So, from that perspective we are making sure that we are in a position to give growth to our people. And from that perspective we have taken a more aggressive policy in where we provide the growth opportunity to our team members. We do quarterly promotions on ongoing basis. It is not once or twice in a year we do promotions every quarter. And this is a part of our normal expenses but last quarter we made a little more because this was the first quarter after our demerger. And for the last six months, we had not made promotions before demerger. So that's why there was a little higher promotion than normal.

Nitin Padmanabhan: Thank you and the next was within the autonomous space ADAS of the T17 customers of the T17 customers that we have how broad base would it be in terms of adoption by these customers?

Sachin Tikekar: This is Sachin Tikekar, its substantial. So there are in T17 there are some that are OEMs and some are Tier I. Most of our autonomous drive programs are with some of the leading OEs especially passenger cars. And on some of the ADAS features we work with the leading Tier I companies. In passenger car segment is substantial and is growing now into the commercial. So I would say more than 60% of our existing T17 customers use either our AD Solutions or the ADAS ones.

Nitin Padmanabhan: Sure. Let say we can take customer base and the deal wins that we announced this quarter on the update. How do you see the traction on the new deals do you think it's improving and how large is it, does it add to significant visibility going forward and within the passenger and what you call commercial space, how do you see the incremental demand environment overall would be helpful?

Kishor Patil: So if you look at last few quarters this quarter we had the highest wins as compared to last three, four quarters. And we see a strong demand environment both in passenger cars as well as commercial vehicles, so the wins have been broad based during this quarter.

Nitin Padmanabhan: Sure. Sir any number you would like to highlight in terms of how significantly higher it is versus the last four quarters?

Kishor Patil: We have not been giving any numbers on this consistently for all the years. We have not given these numbers specifically of order book.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.

Ashish Aggarwal: Sir Couple of questions. First of all, one of your peers highlighted a client specific issue and one of the largest customers. Are you seeing any client specific issues among your T17 customers and can that impact growth rate. Secondly, on the margins front, when you give this just want to clarify when you give this 14 to 15% margin guidance, we are comparing 13.5% what we did in Q1 while giving this guidance, so if that so what would be the margin levers for us looking at margin expansion given that Q2 will have an impact to the wage hikes?

Ravi Pandit: So couple of things. One is that our growth has been across our T17 customers. So, we don't see any customer specific issue that could damage our overall outlook. Secondly, as I mentioned in my initial comments, our growth in margins will happen from the top line growth which we have shown consistently over the last 10 quarters. It will also happen through the application of what we call as the PTA strategy, which are platforms, tools and accelerators in which we have been doing investment over the last many, many quarters. As you would notice in our investor update we have given the amount of investment that we do in R&D. So that is really the driver of our growth.

Ashish Aggarwal: But how much of our revenues will be coming from these tools and accelerators now?

Ravi Pandit: So these are as I said, they are essentially accelerators to our revenue and we are looking at pure revenue from them. So my suggestion to you would be, to look at the aggregate growth on the top line on an annual basis and the aggregate EBITDA margins on an annual basis. That is what I think would be the best way to look at our performance.

Ashish Aggarwal: So just to clarify, right so when we say 14 to 15 we are comparing 13.5% margins right?

Vinit Teredesai: 13.6%.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: Just want to understand the changing nature of the business if I look time and material versus fixed price over last one year, we have seen substantial change so if you can help us understand how business is changing and how we are addressing the changing requirement of client by supply side issues if you can help us understand that part?

Kishor Patil: As you have seen during this quarter the fixed price deals have been higher as compared to T&M, but overall our direction wise, let me put it differently, I would say more than 90% of the work we do, we own program/project management, these are where we take the responsibility of delivering the whole project. Now, depending upon whether there is a full clarity or in some cases where because the maturity of customer or maturity of technology of the stage of projects we may take certain projects on T&M basis. And in some cases, we are in a position to take it as a completely fixed price project. So, overall our proposition to the customer is quick to market. So we actually get them ready to go to market quicker than the other and Mr.Pandit mentioned the PTA strategy of platform, tools and accelerator is basically to bring this solution faster. So that actually works best in case of fixed price project and that's why the customers also prefer as well as we prefer to bring that into a PTA side. But in some cases where the technologies are really new and we believe it may be difficult to estimate, we charge on T&M basis. But as I said more than 90% of the projects we take the ownership of project delivery.

Dipesh Mehta: Sir considering the sector the way fixed price is gaining more incremental share of the revenue, because there it increases risk profile also in terms of, if some cost overrun then we have bare it kind of thing. So if you can help us understand risk mitigation strategy, which we are planning to take and our experience so far?

Kishor Patil: So actually our margins generally in fixed price projects are at least equal if not higher. The second thing let me tell you, over that the world has changed over the period and people, not only I am talking about KPIT but about any other customer whether you are on time and material or a fixed price, your obligations remain the same. And if you do not deliver in terms of your estimate even though it is not a fixed price, there have been many cases where you have to own the responsibility of not delivering on time or in the efforts. But where we feel there are any risk we don't accept explicitly any liability or for some of these projects and then we move to a really pure T&M and above projects.

Dipesh Mehta: Second question is about the attrition because I think your presentation is not continuing that matrix so if you can help us understand how the attrition is playing out considering overall industry wide we are seeing some increase in attrition and shortage of talent related?

Kishor Patil: Yes. I think what has happened is after the demerger, we see under new branding as you might have seen there is a tremendous excitement in the people, the focus has brought back huge energy and the exciting projects we are working on is something people really love to work on. So, actually our attrition was higher in the past, but it is now coming down. We see actually attrition coming down. Our attrition was around 18%, but now we see it going down quarterly. So, actually we see a downward trend in attrition.

Moderator: Thank you. The next question is from the line of Prakash Chellam from Marathon Asset Management. Please go ahead.

Prakash Chellam: Just a couple of questions. One, you had spoken a little bit about your broad base growth. Could you give us a sense off; you have done extremely well on your flagship project which you indicated with your German OEM customer? Could you give us a sense of how much of this growth comes from the top one client versus non top one. Can you give us a sense of how broad based this?

Kishor Patil: We don't make statements about individual customers. But as I said earlier, this is a broad base growth and not driven by a single customer.

Moderator: Thank you. The next question is from the line of Raj Shah an Individual Investor. Please go ahead.

Raj Shah: So, I understand that you got a good understanding of ADAS EV powertrain in Germany. First question is, how many of these, how of the OEMs in Germany, France and Scandinavian countries are more than $10 million?

Sunil Phansalkar: See, there are many companies, customers who are more than $10 million. But we would not want to give customer by customer information on this. But if you can, simple math is that the revenues that we have got is coming mostly from 17 customers. They are all large customers and it's an evenly spread revenue across.

Raj Shah: So, would it be fair to assume you have got 5 customers or 10 customers, Scandinavian players who are greater than $10 million?

Sunil Phansalkar: I think what we are trying to say is that we are not looking at top five or top 10, we have a strategy to focus on top 25 customers. So T25 is our strategy out of which we have currently about 17 customers. And in our investor update we have given the contribution of revenue from these strategic customers and the growth that we had. So if you look at those numbers, about 81% of the total revenue is contributed by the strategic customers.

Raj Shah: Okay, let me just rephrase that question, actually. So would it be fair to assume that you have got a significant penetration in for ADAS and EV powertrain across Germans and Scandinavian OEM?

Ravi Pandit: I think we need to take a global view we look at our geographies as US, Europe and Asia. The 17 customers are evenly spread across the three geographies. And we have a fairly broad base growth coming from all 17 customers across the three geographies.

Kishor Patil: Just to add on this, I think probably we would be one of the very few companies who has a very even revenue base also from US, Europe and Asia. And so, I think all these customers are global.

Moderator: Thank you. The next question is of the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Sir, the first question is in terms of revenue, is it possible for you to break it up in terms of how much are you dependent on the new vehicle development by the OEMs and what would be the other in terms of the function of the OEM sales volume?

Ravi Pandit: So if you look at new technologies like the ADAS or the electric powertrain, these are really the new models which will be coming onto the market in the next two or three years. And that is where most of the global R&D investments are happening. And so a substantial part of work comes from there. But as I mentioned in my earlier comment, we have revenue coming from our existing production programs also. So, we have supported more than 300 production programs globally. And so, there is revenue coming from them as well.

Dhruv Bhatia: Sure, so this visibility that you have, in the CEOs guidance which was given 16 to 18% is more dependent on the existing production plans of the OEMs?

Kishor Patil: Yes, so typically OEMs plan two or three years. So, our work with them is in line with those plans.

Dhruv Bhatia: So, the upside and the downside would to some extent be linked for this year based on the overall auto sales of the customers your service, fair to say that?

Kishor Patil: So the way I would look at it is that, our upside or downside is dependent on our customers commitment to work on all the future trends in the automotive industry. All the automotive industry is looking at the trends of connected vehicles, autonomous vehicle, smarter vehicles and electric vehicles and we are working in line with that. Those of the OEMs who want to continue to be in business in the years to come, we believe will have to make investments in these areas, which is what our experience has brought out, which is what the McKinsey report also brings out.

Dhruv Bhatia: Sure. And sir on the capabilities that you have and you are focusing on ADAS, power train and the other two verticals just wanted to understand is that how many of these top 25 customers who you are focusing on, you already are providing more than one of the vertical services that you provide in terms of understand to understand the cross sell opportunity that is there from these top 25 customers?

Ravi Pandit: As I mentioned earlier, we are focused on T25. We are looking at good revenues. So, obviously there is a substantial amount of work on selling multiple services within the same OEM. And most of the customers buy more than one set of services and we see headroom for growth in those areas. That is the reason why we are looking at the annual growth of 16 to 18%. We believe we should be able to do that kind of a growth and also if you look at our performance over the last 10 quarters, I think it's a reasonable indication that such a growth is possible and doable.

Dhruv Bhatia: And sir the last question is that in terms of the direction of the spends of the OEM and the Tier I are you seeing any kind of delay in OEMs taking decisions in terms of new spends that they intend to do because of the softer OEM sales globally as well as concerns around trade and etc.

Kishor Patil: So it really depends upon the quality of customers and the customers we generally are working with, we have been very selective in this case, these are the customers who have some kind of leadership, some segment or some of the areas and there we are not seeing any such behavior. There are certain trends where people are collaborating with other OEMs. And that provides us a better opportunity to work with both of the partners and give more integration services to both. So in order to reduce very large ticket items, there is more collaboration which is happening but that allows us, basically opportunity to work with more customers.

Dhruv Bhatia: Sure. And just one housekeeping question, could you just share the revenue of the top five clients, revenue concentration?

Sunil Phansalkar: No, I think that is something we discussed earlier also. What we would like to focus on is the customer share or the revenue share from our top 25 customers. I think that is something that we want to focus on. And that is something that we have shared in the investor update.

Moderator: Thank You. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: So I have one question regarding the McKinsey study that you have shared. So how we should trend on our growth prospect compared to this industry growth rate across segment and what part of your revenue should be directly related to that, for example your powertrain data it is adjusted for convention fuel so we may also have certain spend which would be only conventional or not so growing area so if that is the split in our revenue**?**

Sunil Phansalkar: So the question is how do we link our revenue shares with McKinsey report which has been shared? So that is the question?

Kishor Patil: No, I think it is just indication that these are the areas in which we are working are the areas of growth and absolutely we are connected with them. We are focused on all these areas. Actually, the way I would look at it is it just indicates that there is no direct connection between the engineering trend and the sale of vehicles. And basically what we are saying is the engineering spend is much, much higher as compared to vehicle sales and has no relation with the automotive sales. The areas which are mentioned there indicate also the areas where we see more growth in the sense ADAS of course there is a strong growth, powertrain is also strong because what powertrain mentions is basically, there is a electrification part which is growing much faster and that’s the area where we are growing. And the report shows less basically because of the conventional powertrain which is, but we are seeing basically growth in electrification more. So these are the areas in which we see growth. The other point what we mentioned is also we work in two other verticals which is commercial vehicles as well as the new mobility which includes shared mobility, two wheelers, etc. So, I think those are also new area which have a higher growth.

Rahul Jain: Sir let me rephrase it in some way like, on the ADAS part let say we are saying 11% CAGR over 20 to fiscal 30. So, how we should read this in our perspective should we ideally grow better than this or given that we are already with lot of important customers, so this is the right benchmark for us?

Kishor Patil: Yes, of course as you know that when they talk about the market growth actually the technology providers grow much more than that, just to correlate this with in the, when basically technologies companies have much higher share of their growth based on this, basically because the scalability as I said, as well as the expertise which we are focusing on is what they are not in a position to really do. In different market the propositions are a bit different. So, in short our growth rates will be higher than what is mentioned in this report.

Rahul Jain: Got it. And what is the status towards T17 to T25. What are the current level of engagement with these eight large potential customers?

Sachin Tikekar: Currently, we have about T17 and we believe that we will be able to add at least three to four in the next six months. We have a very good pipeline that will actually fill up the rest of T25. But to what Mr. Patil said, the growth is actually coming from commercial vehicles and new mobility's as those two verticals grow for us, I think that's what will actually fill up the remaining T25. Having said that, the next 25 customers are also lining up, we just have to make smart choices and pick the right ones to grow with.

Rahul Jain: So, when you say this next 25 this will be a good combination of the new mobility or how we see this put forth?

Sachin Tikekar: You are right. They would have some customers that will come from new mobility, again new mobility has three sub verticals, there are some two wheelers, there are some fleet owners and then there is a typical shared mobility. So, some of them will represent new mobility and obviously will add a few more customers from the commercial vehicles side.

Rahul Jain: Okay. And though you have shared this in your presentation. So, we are saying that there is no potential risk liabilities toward the demerge entity just like we happened in this quarter and secondly, how do we going to see this mark to market towards this. Is this going to be every quarter kind of a feature to whatever extent, or how we are going to address this thing going forward?

Vinit Teredesai: Rahul this investment is not a strategic investment for us and we will be disposing of the shares at the appropriate time and we will not have these coming up on a regular basis. At this point of time. We can only reflect what is there for the current quarter.

Rahul Jain: Right and on the Copart kind of incident there's no?

Vinit Teredesai: There is nothing.

Kishor Patil: First there is no further liability on Copart and secondly, there is no other customer for which there is any liability which is going to come. In our demerger agreement there is no other liability which will come to KPIT.

Rahul Jain: And sorry if I may one, what is the current count on this ESOP portfolio?

Vinit Teredesai: It is around 3.8 million shares.

Moderator: Thank you. The next question is from the line Manish Shah from Revolution Portfolio Managers Private Limited. Please go ahead.

Manish Shah: Sir Will you be able to tell me the shareholding of the promoters of the erstwhile KPIT and Birlasoft in our company as of today?'

Sunil Phansalkar: As of today if you look at it the erstwhile KPIT promoters own about 13.5%, the total promoter holding is about 40% plus. But as a part of the merger and demerger over a period of time all the shareholding that is currently held by Birlasoft promoters in KPIT is going to be purchased by the erstwhile KPIT promoters and that should happen over the next year , it will happen in two tranches. A major tranche will happen probably in a month or two and the balance should happen very early next calendar year.

Manish Shah: Okay, so that is as per the fixed agreement is it going to happen at a fixed price or it is a market?

Sunil Phansalkar: As we have been saying that it has been agreed about a couple of years back.

Manish Shah: So it is, as I understand the open offer price?

Sunil Phansalkar: I think we have not disclosed it. It is between two parties that we have agreed as I said about two years back.

Manish Shah: Okay. And what is the KPIT holding in Birlasoft as of today?

Sunil Phansalkar: Currently the erstwhile KPIT promoters hold about 2.7% in Birlasoft.

Manish Shah: And this employee welfare trust?

Sunil Phansalkar: As Vinit said its about 3.8 million shares of Birlasoft that employee welfare trust holds.

Moderator: Thank you. The next question is from the line Rishindra Goswami from Locus Investments. Please go ahead.

Rishindra Goswami: I just wanted to get your reaction to some of the alliances that have been struck in the AB space where OEMs are trying to reduce cost, what kind of impact could that have on technology spend for you?

Sachin Tikekar: I think it's a good thing to do, I think it will improve more collaboration and bring some of this technology faster to market. So, it will help companies to adopt this technology quicker and bring more platforms to the market and company like KPIT really is in a good position, because we have experience of building platforms and most of the customers we have chosen are the customers which are from this consortium or partnerships. So that gives an opportunity to work with both of them.

Kishor Patil: So, I think let me explain typically the nature of these consortiums. So in an ADAS space some core work is done by the consortium so everybody takes part in that. But every OEM does his own some special work, which is an extra business that comes for every OEM. The third segment of the work is in the area of integration. So that's an additional piece of work that happens. So typically, if you are working with an OEM, who is driving the consortium, your share of wallet in the overall industry goes up, because the second and the third bucket are not common. They are particular to every OEM who joins at consortium.

Rishindra Goswami: Okay. And just one data point question, what is the CAPEX plan for this year?

Vinit Teredesai: Our overall CAPEX plan is to be between 2% to 3% up of our revenue. And that's it.

Rishindra Goswami: And does that include R&D, or is that separately capitalized?

Sunil Phansalkar: No. More than 95% of the R&D work that we do is not capitalized. It is written off to the P&L.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: Just want to understand from medium term perspective we have highlighted three segments where we are focusing passenger car, commercial vehicle and new mobility. Right now it is dominated by passenger car, so if you can provide some perspective in medium term how you expect it to contribute to revenue in terms of, if you have any mix in my which one should?

Sachin Tikekar: Next few years, at least next two, three years we believe as a percentage passenger cars will be higher and not only that, the growth will also be higher because we are very deeply involved into these programs and the spend also will happen but I think over next few years the percentage from the commercial as well as new mobility will also go up because these are recent focus areas for us we have few customers earlier. So, largely in the next few years our growth will be, significant part of the growth will come from pass cars but as a percentage, but out of the growth I think we will have increasing percentage from commercial as well as new mobility.

Dipesh Mehta: New mobility because that is one of the fastest growing segment and considering where we are in terms of company's perspective can you help us understand in which area we are investing because it can be fairly significant scale business if you can provide some perspective how you trying to make it more scalable over next few years?

Sachin Tikekar: So first of all new mobility is also new for us. This is the first quarter when we have actually launched the vertical. Within new mobility there are three sub verticals that we are looking at. One is we have a two wheeler platform that is meant for shared mobility as well as last mile delivery. Second platform we have is for the fleets, the commercial fleets, mostly for trucks and buses. And the third part is on the shared mobility part which are the likes of Uber and Ola. All of them are new to us; we have over the last couple years we made some investments in building some of those platforms. And we are putting our strategy together by the end of the year we'll have a very clear strategy. So that this becomes part of our growth story over the next two to three years.

Dipesh Mehta: Sure. And sir last question is about the current return on equity, if I look at it is low teen kind of number. So, if you can help us understand how one should look the overall business profile because now it is demerged considering inherent business margin profile as well as returned. So, what would be the ideal ratio of optimal ratio one should look over medium term, return on equity for the business?

Kishor Patil: So, I think if we really take out some of the exceptional items, which have hit out in this quarter basically we believe that it would be in excess of 16% by end of this year and which will continue to grow from there. So, our goal is to get to the industry standard of 20% plus but I guess it will take little bit of time to get there.

Dipesh Mehta: So broadly 15 to 20 are near term target?

Kishor Patil: Yes, right.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Sunil for his closing comments.

Sunil Phansalkar: Thank you for your participation on the call. And if you have any further questions please feel free to write to me. Thank you and have a great evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.