

## "KPIT Technologies Limited Q2 FY 2018 Results Conference Call"

November 01, 2017







ANALYST: Ms. Ruchi Burde- Emkay Global Financial

**SERVICES** 

MANAGEMENT: MR. KISHOR PATIL - CO-FOUNDER CEO AND MD -

**KPIT TECHNOLOGIES LIMITED** 

MR. SACHIN TIKEKAR - PRESIDENT AND BOARD

**MEMBER - KPIT TECHNOLOGIES LIMITED** 

MR. ANIL PATWARDHAN - SENIOR VP AND HEAD, CORPORATE FINANCE AND GOVERNANCE - KPIT

**TECHNOLOGIES LIMITED** 

Mr. Sunil Phansalkar - Head Investor

RELATIONS AND AVP M&A - KPIT

**TECHNOLOGIES LIMITED** 

**Moderator:** 

Ladies and gentlemen good day and welcome to the Q2 FY2018 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 and there will be an opportunity for you to ask questions at the end of the day's presentation. 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 would now like to hand the conference over to Ms. Ruchi Burde of Emkay Global. Thank you and over to you Madam!

**Ruchi Burde:** 

Thank you Karuna. Good evening everyone on behalf of Emkay Global. I welcome the senior management of KPIT represented by Mr. Kishor Patil, Co-Founder, CEO and MD, Mr. Sachin Tikekar, Board Member, Mr. Anil Patwardhan, Senior VP Head, Corporate Finance and Governance and also Mr. Sunil Phansalkar from Investor Relations. I would like the management to take us through Q2 results. I now request Mr. Sunil to take it from here onward.

**Sunil Phansalkar:** 

Thank you. A very warm welcome to everybody on the Q2 FY2018 Earnings Call of KPIT Technologies Limited. I hope you have had time to go through our results and the investor update. As the normal procedure goes on, we will have Mr. Kishor Patil doing the opening remarks about the performance of the company during the quarter and how we look at the reminder of the year and then we will have it open for your questions. So, Once again a very warm welcome and I will hand it over to Mr. Kishor Patil.

**Kishor Patil:** 

Good afternoon. I am very happy to take you through the Q2 results for FY2018. Our quarterly revenues grew by 5.5% Q-on-Q and the PAT increased by 7.7%. The growth was mainly led by Digital, ePLM and Engineering Services. From the geography, we got growth across all the geographies so Asia leading it by around 9%, USA by 5%, Europe by 4%. Amongst verticals automotive and energy & utilities were the growth leaders. In case of products, we see that there is a drop in the revenue for this quarter but overall there has been a growth year-on-year.



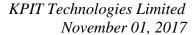
If we really look at from the customer angle, we used to earlier classify accounts in terms of Top 5, Top 10 kind of a scene, we are now aligned it with the way we look at it within the company which is top20 and top40 and there we see 1.3% growth on the top20 but 4% growth on top40 what it basically says that these top40 accounts have given us a growth and there has been a growth beyond this, so there is a good customer acquisition also during the quarter.

In terms of profitability this quarter we have improved our profitability from the last quarter by about 7.7% in spite of 2% increase in the salary. Our headcounts have gone down in line with the alignment we wanted to bring in terms of revenues. If you would remember at the beginning of the year, we have said that last year actually we had a flattish growth with 10% more employees and during this year we wanted to really reach a situation where we would get 10% more revenues with the same number of employee.

So actually during this quarter specifically our employee headcount went down by 350. In addition to that we had hired 180 freshers. So overall about 530 people added in some sense while the revenues grew. So it allows us to really bring that alignment well. Then the utilization had gone up from 68% to 70%. This is the way we look at the utilization based on total number of employee. So there is still I would say there are 2%, 3% improvement which is possible.

On site, our utilization went from 89% to 92%. Overall the cash generation has been strong I mean last six, seven quarters we have continuously shown a good cash generation in terms of both as a percentage of profit EBITDA as well as otherwise. So we have improved our cash position to Rs. 1.71 billion from Rs. 1.34 billion from the last quarter.

Looking forward we believe the Q3 will be flattish both in terms of growth as well as the margins specifically considering the fact that last three quarters consistently we have got a very significant growth of more than 4% and naturally this quarter 5.5%. Considering also basically the less number of days in the next quarter and





the holidays. So we expect this quarter to be flattish and same with the margins, we expect the margins to be flattish during this quarter. Overall at the end of the year, we expect growth to be 12% plus and the margin may improve marginally in the Q4 from where we are, so this is how I would sum up the overall performance for the company. Thank you.

**Sunil Phansalkar:** 

Thank you and we may now have questions from you.

**Moderator:** 

Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. First question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** 

Congrats for the good quarter and thanks for taking my question. My first question is pertaining to the strategic accounts which you talked about earlier, I just wanted to understand within the top 20 strategic accounts, the volatility between growth rates across the quarter I mean would you really attribute that to project-specific work or churn within the accounts between 20 and 40?

**Kishor Patil:** 

So what actually we have made this reclassification for the exact reason why you mentioned because what happens is sometimes in the top 20 accounts or top 40 accounts, we used to get project-related revenue where we used to win a big projects but it was not really an account and we did not have multiple engagement and the revenues from that account. So what used to happen is once that project would get over, it would reflect differently in that number and which was really very difficult to explain also because those were not the strategic accounts and that is not how we track it internally also. So actually to bring that alignment we basically have categorized it into top 20 and top 40 accounts and this 40 accounts have given 4% growth and these are the accounts which are accounts in real sense, so these are truly I would say multiple engagements going with the customers and where we have a proper account management structure with account managers. These accounts are important to us and we are important to them and have a better business planning, so that is how I would put it like this.

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**KPIT** 

**Sunil Phansalkar:** 

And just to correct, these are not necessarily the top 40 accounts in terms of revenues we generate for the quarter. Obviously most of them would be in the top 40 but there would be some accounts who are not in the top 40 but they are strategic global account management customers for us, so these are basically top 40 strategic accounts.

**Apurva Prasad:** 

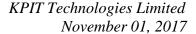
Okay that is helpful and my second question is on margins, so how do you really look at margins more from a medium to long term basis I mean what sort of leverage do you think we have I mean can we expect sub-contracting to remain at these levels or the utilization how do you see that trending?

**Kishor Patil:** 

So we do believe that there are naturally levers which we can utilize to improve the margin and as I said it will take us few quarters to get these levers work for us. The areas where there could be further improvement, at first I mentioned about the utilization which could go up by 2%-3% that is the first lever we have. The second lever we naturally have is still we are improving in terms of on-sight basically rates we need to improve and they are getting back because of the visa rules and etc., I think the subcontractors have gone up in some cases. We would like to get that aligned with our overall policy of percentages and getting more local employees. But this is a bit of long process and during that process we have to take the subcontractors so that would get rationalized. Then naturally we are looking at normal levers both in terms of off-shoring as well as we believe that many new services which we are selling are at a premium pricing. So overall mix would change but all this will take few quarters. This is specifically because in line with where we are and the industry which are important to us, we are going through some changes both in terms of investment, both in terms of bringing these changes and making these investments like local centres etc., So considering all these I think it will take at least two quarters for us to get the margins improved in a meaningful way and naturally we may see as a marginal improvement.

**Apurva Prasad:** 

Sure that is helpful and just to get that correctly you meant subcontracting expense can be further rationalized down from where it is....





**Kishor Patil:** Yes, I mean as we start hiring people locally that would come down over the period

or otherwise our realization will go up, either of that.

**Apurva Prasad:** Okay, thank you so much. All the best.

Moderator: Thank you. Next guestion is from the line of Mohit Jain from Anand Rathi. Please

go ahead.

**Mohit Jain:** Hi Sir just one follow up on the margin side, if you see last four quarters we are in

the 10% range whereas our growth has moved up from 0 to 12% odd on an annual

basis. So what I am trying to understand is why there is no operating leverage

which is currently visible in the business and given that see wage hike is behind

this, you are saying utilization can trend up on-site, off-shore can turn favorable

given that this quarter it was not worth and despite that you could see margin

expansion so are there any incremental investments that we should expect or

otherwise on from modeling perspective, your margin should trend up not flattish?

**Kishor Patil:** Yes, Q3 is certainly because the revenues are not going up and you know those

kind of things but Q4 there will be a marginal improvement but as I said the key

part we are doing during this period like I will give you an example, basically in case

of Europe or both in case of US & Europe, I think the local centre thing we are

developing, we are building. Those are taking up a lot of investments. So those

kind of things we are going through, I think we believe that is very essential for our

changes in the business or the new technology project which we get. These are

naturally initial period investments, these are not long term investment but at least

for a few quarters these investments would be there. So I think that is the reason

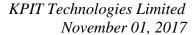
the margin would not go up in the next couple of quarters.

**Mohit Jain:** And the other thing was if you try the benchmark then we are already at the lowest

level in terms of IT service margins despite everybody investing in similar initiatives

so is there any ramp down or something else that you are expecting over Q3 or

Q4?





**Kishor Patil:** No we are not expecting any ramp down.

**Mohit Jain:** So these are pure investment driven and that is also only on account of local hiring

in various regions?

**Kishor Patil:** Yes, absolutely.

Mohit Jain: Sir any further headcount reduction plan or utilization expansion plan given that

off-shore we are still setting on surplus capacity?

**Kishor Patil:** So 2%-3% there is a headroom for the off-shore. **Mohit Jain:** Over the next

two quarters is it?

**Kishor Patil:** Yes, I mean Q3 obviously because revenues are flattish will not see a big change

but we will see the change happening from Q4 onwards.

Mohit Jain: Last thing is on headcount basis while I understand fresher would be added. On a

total headcount basis should, we expect any increase this year?

**Kishor Patil:** Yes, I think we will see some freshers coming in because that is very essential.

**Mohit Jain:** On a net basis should we expect some expansion because gross level that will come

in, but given the....?

**Kishor Patil:** Yes, you will see some marginal increase in the headcount.

**Mohit Jain:** Okay any target for margins next year like would we like to convert it into industry

level, would we not like to how you think, still?

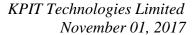
**Kishor Patil:** No I think we will come up with our estimates at the end of the March. After our

whole business planning process is over. There are levers available and we have

seen reasonable favorable environment in terms of growth and that will allow us to

really look at the margins also in a better way but I would like to give the estimates

at the end of March quarter.





**Mohit Jain:** Okay Sir. Thank you.

**Moderator:** Thank you. Next question is from the line of Manish Shah from Revelation Portfolio

Management. Please go ahead.

Manish Shah: Good afternoon Sir. Sir I would like to know what percentage of revenue comes

from electric vehicle related work.

**Kishor Patil:** So if we really look at in the PES area we have electric power train as a practice and

that is where our significant presence is there both in Germany as well as here. Right now if you look at it the overall power train is about 30% of our PES revenues

and this would be may be 50% of those revenues so 15% of our PES revenues

would be in the electric power train section

Manish Shah: Okay so do we cater to any Indian customers or this is all basically the Europe

customers?

**Kishor Patil:** These are global customers.

**Manish Shah:** Okay and how do you think this ramping up can you give some idea, some idea on

the quarter-on-quarter and year-on-year basis how this growth is?

**Kishor Patil:** Sorry I did not understand your question?

**Manish Shah:** You said this 40% and 50% how do you look at it the revenue, so can you give me

an idea of how it has ramped up on a Q-o-Q or a Y-o-Y basis this business?

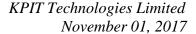
Sunil Phansalkar: I think just to clarify 30% is the overall power train business of our PES business,

40% to 50% of that is the power train so overall from company basis, it is probably 14%-15% from PES perspective, it is probably 14%-15% of PES business, yes I think

that is what you wanted to know right?

Manish Shah: I just wanted to know that how it is scaling up on year-on-year or quarter-on-

quarter basis?





**Sachin Tikekar:** 

I think there is a little bit of growth, as you know there is a bigger spend on the epower train part. At the same time the spend on the conventional power train is going down a little bit, so net-net there is growth and I think we will continue to see that growth in a moderate way going forward.

**Manish Shah:** 

Right and one more last question, Sir is it possible to give the detail whether it is one or two customers or we cater to a number of customers in this field?

Sachin Tikekar:

There are several customers so there are a few handful in the Americas. There are few in Europe and now there are some in Asia as well. So it is fairly broad based.

**Manish Shah:** 

Fine Sir, thanks a lot. That is all from me.

**Moderator:** 

Thank you. The next question is from the line of Neerav Dalal from May Bank.

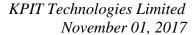
Please go ahead.

**Neerav Dalal:** 

I had a few questions one is the growth in the non-40 strategic accounts. What has driven that growth and how do you see this sustain?

**Kishor Patil:** 

Yes, so what we call is, overall if you look at we have more than 200 customer, so 40 are strategic when we say what it means is the 40, they have a full structure in terms of account management, there is a common planning in terms of budgets, projects, going forward. There are multiple other accounts which are we call it as a potentially who can become strategic accounts which is served and over a couple of years, they may become a strategic account. So we see a good growth in those accounts. These are not small accounts or anything, these are quite good size accounts and where our engagement is on ongoing process. Actually there are few places where there is a one off kind of a project which come in but both projects come in every year so for example there are some implementation projects etc., which come in, they come in every year. So when we see non-strategic accounts, it includes both. It includes this potential GAM account as well as net new account.





**Neerav Dalal:** So had there been no seasonality impact in Q3, we would have seen growth in

these accounts as well?

**Kishor Patil:** Yes, absolutely.

Neerav Dalal: Okay and the other thing is regarding products and platforms, any comment on

that and how do you see that now going ahead into the second half?

Sachin Tikekar: As you can see there is a little bit of drop quarter-on-quarter but on year-on-year,

it has grown and we are bringing, some of our products one or two products on

the ITS side, they are going through a change what worked in the past is not

working so we are bringing new products to the market and it will take another few

quarters before they start to earn revenues for the company, so we believe that

next year we will see growth coming from products as far as ITS is concerned and

there are one or two other products again they likely to hit the market towards the

end of this financial year, early next year so we believe that there will be growth

coming in next year.

**Neerav Dalal:** Okay and then in terms of the SAP and the ORACLE business do you see... in terms

of the ORACLE business when do you see bottoming out, how do you see that

going?

Sachin Tikekar: And we believe as you know ORACLE business it has stabilized, I mean the

profitability has gone up, we have seen little bit of growth. So we believe that in JD

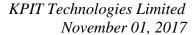
Edwards as well as some of the cloud-based solutions of ORACLE, we will see

growth going forward, obviously the big ERP EBS related projects are few and the

size of JD Edwards as well as the cloud project even though we are winning quite a

few that is comparatively smaller. So we think that we have turned the corner on

ORACLE and it should be stable going forward.





**Neerav Dalal:** 

And in terms of digital transformation deals, they are more small size and limited period or they are more than three to six months?

**Sachin Tikekar:** 

There are different types of digital projects, we see more and more in case of IOT related projects within that there is a more a longer term kind of a projects which will go from 6 months to 12 months but the other projects, there are some projects which are more in other areas which could be between three to six months so there is a mix of the projects but most of the project focused areas where we have those we are seeing between 6 to 12 months kind of a project.

**Neeray Dalal:** 

Okay and finally just if you could give the subcontract cost in this quarter?

**Sunil Phansalkar:** 

So it was around Rs.1,039 million.

**Neerav Dalal:** 

Thank you.

**Moderator:** 

Thank you. Next question is from the line of Abhishek S from Equirus Securities.

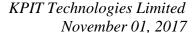
Please go ahead.

**Abhishek S:** 

Hi Sir thanks for the opportunity. Sir while this year number suggest that now you could do at least 12% growth I know it is too early but what is your sense on what is the sustainable growth going into FY2019?

**Kishor Patil:** 

Yes so as I mentioned earlier we will come out with I mean we are one of those few people who gave the guidance at the beginning of the year, we intend to give it next year as well. But if I have to give you some understanding I think we have a good pipeline naturally it depends upon the conversion and the time it takes for that. We are going through the business planning process, overall this year reasonable growth environment we are not seeing any, naturally most of the services in most of the regions have a favorable business environment. Now how much growth we will bring in and how much the pipeline will convert into that is something we will take a closer view and share with you in the March end.



**Abhishek S:** 

Thank Sir. That is helpful and second question is on H1 2018-H1 2017 comparison basis both in the auto continues to see a upwards of 20% Y-o-Y growth and utilities too only pain point remains manufacturing. So when do you see the growth getting manufacturing moving to at least double digit on a Y-o-Y basis? Thank you.

**Kishor Patil:** 

I think it really you know sometimes there are... it's very hard to give that answer because it is very difficult sometimes there are specific accounts which have some issues and .our basic approach has been to really come out with the solutions for this into the newer technology areas which is digital part of the business and really take this solutions to this because the business have to change whether they are doing well or not and that is what we are trying to do. We do believe the manufacturing sector should do well generally, so we expect that to do well. In energy, you are aware of some of the challenges it has had and though that can also come as an opportunity, it can also come as a problem. Now basically whether and which year the company will come to those levels of growth depends really on customer to customer basis, so that is why it is very difficult to give that answer.

**Abhishek S:** 

Thank you Sir for taking my question and best of luck for the rest of the year.

**Moderator:** 

Thank you. Next question is from the line of Nitin Padmanaban from Investec. Please go ahead.

Nitin Padmanaban: Hi Sir, thanks for taking my question. Compared to same time last year do you see that the overall pipeline and deals that have been closed are much higher than what we have seen in the past and are you seeing a much more robust pipeline?

**Kishor Patil:** 

So the way I would say is we have much more robust pipeline I am not saying that they are getting closed fast and it depends upon the geography. In some cases it is taking little more time but at the same time as I said our pipeline is overall looking better than last year but this time of closure is still little bit unpredictable I think that is how we see it.

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Nitin Padmanaban: Sure and the second part that I wanted to understand was if you take the SAP and the IES business and roughly I think broadly if I include FY2018 and analyze the number over the past 2016, 2017, 2018, numbers have been almost flattish. Now from a portfolio perspective, do you think that going forward this is the business that one at best can assume very low growth or it is from a portfolio perspective, it is still very early for this business to be high single digit or may be even double digit from a SAP and IES perspective?

**Kishor Patil:** 

SAP and IES business will look at medium-to-higher single digit numbers that is what we expect but it also depends sometimes upon how the customer behaves in a particular way in a particular year. See for example in case of IES some of these projects came this year and gave us a reasonable growth more than we expected. So I think it we believe that this as an industry we believe that it is medium-tohigher single digit.

**Sunil Phansalkar:** 

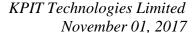
I think Nitin in terms of the mix obviously if you look at what was it was in 2016 and what it was today which there is much more digital much more newer technology, cloud-based work that we are doing than what we used to do earlier and that has been growing and the impact of that growth on the overall growth of the SBU will start showing now.

Nitin Padmanaban: Sure, just another thought is that if you look at these two businesses over a two three quarter perspective looking forward and if you look at visibility compared to what it was may be a year ago or two years ago if the predictability of the business is much more better than may be a year ago for these two businesses?

**Kishor Patil:** 

I would say.

Nitin Padmanaban: Okay and lastly on the product engineering services business, this year automotive and the business seen a good sort of pickup and I think even you have mentioned quite a few wins with OEMs. Any color in terms of how that is looking and what incremental work is coming through?



**Kishor Patil:** 

I think if you take a longer term view of the automotive industry we believe that our practices are very well aligned and we should have robust growth over a period of time but we really need to take a sort of a three year view of that, there are still some win places there so you will see some ups and downs but from longer term perspective we truly believe that you know we have made the right kind of bet and we will see good robust growth coming over the next three year of horizon. So we are very optimistic about that.

**Nitin Padmanaban:** Sure fair enough. Thank you so much and all the best.

**Moderator:** 

Next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla:

Good evening Sir. Congratulations on a great set of numbers. I had two questions Sir, the production platforms commentary that you gave earlier that new products will be launched by the end of FY2018. Sir what will be the major focus areas of these products, is it in automotive only or .....?

**Sachin Tikekar:** 

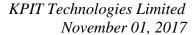
Yes, the products are in three categories one is our electric power train product that will take some time as you know and second is the intelligent transportation, there are two three products segments there, they will also get launched early next year, there are couple of solutions. So those are the two broad categories of products, both of them are in the automotive transportation area.

Mayank Babla:

And Sir secondly some of our peers they have excelled a lot in autonomous platform space. So are we looking at something like that in the next two to three years... are we focusing on that?

Sachin Tikekar:

Last three years or more we have been investing in what you call advance driver assistance features and autonomous vehicle, we are working with number of OEMs in tier 1 across the globe and we believe that in the next three years, it will be one of the fastest growing areas I mean there is tremendous growth in the industry for the next five years and we also believe that it will contribute tremendously to our





growth over the next three to five years. So we are already there. The short answer is, we are already there, we are doing a good amount of work in the autonomous vehicle areas.

Mayank Babla: Okay. Sir I am just squeezing in one more small question, so what would be the

R&D expenses as a percentage of sales currently and plan going ahead?

**Sunil Phansalkar:** So they are about 2.5% to 3% of the overall revenues, the R&D expenses.

**Mayank Babla:** Okay and maintain steady going ahead?

Sunil Phansalkar: Yes, obviously I mean it should be at that level or marginally be up in absolute

numbers, so as a percentage it should be more or less the same.

Mayank Babla: Okay. Thank you so much.

**Moderator:** Thank you. Next question is from the line of Vikrant Kashyap from Kedia Securities.

Please go ahead.

Vikrant Kashyap: Good afternoon Mr. Patil and congratulation on very good set of number. Sir my

first question relates to growth in digital, it is been growing very well for company,

so in second half or may be in FY2019 what kind of growth do we see from this?

**Kishor Patil:** So we do see a reasonable growth coming from digital as Mr. Tikekar mentioned

that as the growth in digital or the new technologies is growing but at the same

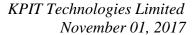
time in some other cases traditional thing it will be subdued or it can go down little

bit so but net-net we see a seasonable growth coming out of digital.

**Vikrant Kashyap:** Can you quantify it like say 20-odd%?

**Kishor Patil:** So the point is I can quantify but I do not want you to take that number because it

will also mean that there will be some reduction into some of our traditional





business so that perspective but to your point every year we do here expect it to go beyond 20%.

**Vikrant Kashyap:** Sir what percentage of total revenue comes from this Sir?

**Sunil Phansalkar:** So currently if you look at it, it is in the range of about 18% to 20%.

**Vikrant Kashyap:** And where we can see after two years revenue if you have any idea?

**Sunil Phansalkar:** No I think you just have to put the growth number Mr. Patil mentioned just now.

**Vikrant Kashyap:** Thank you. My next question is in customer highlight section we have talked about

ten-odd tie-ups and you have talked about some tie-ups with large OEMs, so can you name some of them who are they and what is the total business potential from

them in coming years and when we are going to implement, when we expect the

implementation on this new customers.

Sunil Phansalkar: These are not new tie-ups so majority of this deal wins are with our existing

customers. So if you go through our investor update typically we mentioned about

the top deals that we have won. Unfortunately I would not be able to share names

with you of the customers. Contractually we are not allowed to do that but these

are all the global OEMs across the globe.

**Vikrant Kashyap:** Okay Sir, thank you and wish you best of luck.

Moderator: Thank you. The next question from the line of Ashish Kacholia from Lucky

Investments. Please go ahead.

Ashish Kacholia: Good afternoon Kishore and congratulations on a great set of numbers. My

question pertains to a long-term margin aspirations can we hope for 15% kind of

margins two three years down the line?

**Kishor Patil:** Absolutely it is absolutely possible and because I think the areas in which we are

working can command better rate, in the areas in which we are working over the



period can have a good mix of on-site, off-shore, and so that is absolutely possible. In the medium term I think these changes which are happening is really impacting the margin.

**Ashish Kacholia:** 

And my second question pertains to the growth in our automotive engineer product in the PES business. Can we aspire for 20% kind of growth rate in that business?

**Kishor Patil:** 

The way I would like to answer this question is we have made some choices in this, we have decided to work with fewer customers and in the fewer areas, so we believe that we will work with chosen customers and in five to six specific areas, where we specialize in that will give a much longer term visibility. So this year we believe that it will be closer to 20% growth even this year. So that growth we would have achieved this year as well. So we certainly think that is possible but we have taken a clear choice of focusing on few things but over the medium term if you ask me this is what where really the high growth will come.

**Ashish Kacholia:** So 20% growth rate can we hope to sustain that is a bigger question?

**Kishor Patil:** Absolutely it can be.

**Ashish Kacholia:** Great. Thanks and all the best.

**Moderator:** Thank you. Next question is from the line of Rahul Jain from Emkay Global. Please

go ahead.

Rahul Jain: Hi Sir congrats on good numbers. Specifically if you could share about the

autonomous deal that we have won in the quarter and how we see the overall big

picture in this space which everybody is trying to work and invest into?

Sachin Tikekar: As far as this autonomous area is concerned we cannot talk about specific

customer I have not mentioned. As I had mentioned earlier on, we are engaged

with many OEMs and tier 1 suppliers, maybe we have a handful. Let me just correct

myself saying that handful of OEMs and handful of tier 1 supplier. However all



these are long-term contract. I think these program take time to build these are all new areas, they require good amount of testing and also thinking before we can jump into that. So we may not see immediate growth at a high level. We will see a moderate growth in the immediate future but I think in the next two or three years this is going to take off big time. So we are actually making the right kind of investments right now. We also have the right kind of financial with the right OEMs that we have won. We are setting up a platform for a longer term sustainable growth in this area. But there is no magical portion that is going to yield results tomorrow.

**Rahul Jain:** 

Thank you Sir. And also on the electric or hybrid, we were one of the very early player into this. It took time because of slower adoption or higher cost of battery and all those things. How we are placed and how we are trying to play this space?

**Sachin Tikekar:** 

I think there is a little more acceptability and so the challenge still continues. I think the cost of the battery is still substantially high. Especially in developing countries, it is still not affordable from mass public transportation perspective. So some of those challenges are there. On passenger car side also the price has come down I mean the batteries are getting switched on smaller cars and so forth. So there is potential I think it has gotten better year-on-year but before it really becomes mainstream, it is still going to be two three years and as you know, we have been making investments in this area and taking some long-term bet. We have been in this for last six years from product perspective, for last three years from practice perspective. We will continue to work on these areas because we really believe that it will give us a platform to have a long-term sustainable growth.

Rahul Jain:

But if you see there is lot of government interest and they even talk about the plan for 2025, 2030. Are they even working on some part from a procurement perspective because the cost and scale are cash vented to kind of a situation. If there is no volume, there is no low cost. If there is no low cost, there is no volume.

**Sachin Tikekar:** 

I think it is a great objective the great initiative that the government has taken up but as you know it is for 2030 and most of it will come to realization in the last five to seven years, so we have to start doing some work now but it is going to take time. There are no easy answers to overcome the basic cost of the battery and making it viable. We are working with the government to figure out how to sort of make it operational for developing countries. We do believe that it is going to happen but we really need to work through some of these models and that will take a little bit time before you can see a good amount of progress being made in this area.

**Sunil Phansalkar:** 

And the intent Rahul has always been there I mean if you remember in 2012 there was this electric hybrid mission setup by the government but for things to move on the ground it takes some bit of time and that is what we are experiencing right now so the intent is there but for the actual actions to happen on the ground, it will need some more time.

**Rahul Jain:** 

And one more thing on the increased technology for the vehicle kind of thing. This is a theme that we have been trying to play for some time. It has happened how we see our progress on that path and how we see more and more adoption of it has been there in terms of OEMs trying to spend more on these or may be putting these things on the vehicle far more across their products or what would that like that next like into our kind of financials?

Sachin Tikekar:

So it was actually happening and that is why you see 20% growth year –on-year even with KPIT mostly happening because of the exact reason you talked about and that is when Mr. Patil said that 20% growth in the engineering side is sustainable. We do believe that the complexity of the electronic in vehicles will continue to increase. You also have to understand that when the complexity of the electronics increases when there is more electrical power trains some of the old work that we have that will also go down. So net-net we know that there is going to be an increase and we believe that this will lead to 20% sort of sustainable growth on our engineering business in the automotive field, so I think we have

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fixed the right kind of areas to invest in, we are already seeing the results and we do not see any reason why we cannot sort of continue to see them in a sustainable manner.

**Rahul Jain:** 

Just one part of it which if you could like for example what I mean to say is that the product of offering for OEM, if you see even the entry level vehicles now are far more equipped with the features which you should be part of only luxury sedan and all. Those things are coming in compact cars or entry level sedans as well. So is this trend taking the mass of those things into a different league altogether or we are yet to see that?

**Sachin Tikekar:** 

Certainly that is happening, specifically in all the new technology areas it is as much applicable to smaller cars compared to luxury, specifically in certain areas like connectivity, infotainment, those areas. In terms of other areas, they are marginal but specifically in the connectivity and smart vehicles areas, there are features which are coming in to small cars and we are seeing that.

**Rahul Jain:** 

And just last one from my side, are we even trying to propose revenue model as a subject of volume or are they still based this on the project basis itself?

**Kishor Patil:** 

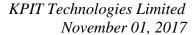
It is, so there has been couple of instances where we have gone with the royalty model along with some vehicle and we had a successful such launches last year. So there are few examples but by and large that is not a business model, it is along with our some licensing along with other services revenue, licensing of our platform but not on per vehicle basis but overall and the services revenue.

**Rahul Jain:** 

Understood. Thank you and that is it from my side.

**Moderator:** 

As there are no further questions from the participants, I would now like to handover the floor to the management for their closing comments. Over to you Sir.



**Sunil Phansalkar:** Thank you everybody for participating in the call and for your views, if you still have

any questions please feel free to write to me and we will be happy to answer you.

Thank you once again and take care, bye.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global

Financial services that concludes this conference call. Thank you for joining us and

you may now disconnect your lines.