KPIT Technologies

Operator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Ltd. Q2 FY25 earnings conference call hosted by Dolat Capital. As a reminder, all participant lines will be in 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 star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain. Thank you, and over to you, sir.

Rahul Jain – Dolat Capital: Thank you, Nazneen. Good evening, everyone. On behalf of Dolat Capital, I would like to thank KPIT Technologies for giving us the opportunity to host this earnings call. I would now like to hand the conference over to Mr. Sunil Phansalkar, Vice President CF and G and Head of IR at KPIT, to provide the management introductions. Over to you, Sunil.

Sunil Phansalkar – Vice President CF and G and Head of IR: Thank you, Rahul. A warm welcome to all of you on the KPIT Q2 FY25 post-earnings conference call. I would like to take this opportunity to wish all of you in advance a very Happy Diwali and a prosperous New Year.

On the call today, we have Mr. Kishor Patil, Co-founder, CEO and MD; Mr. Sachin Tikekar, President and Joint MD; Anup Sable, Board Member and COO; Chinmay Pandit, Board Member and Head Americas; Priyamvada Hardikar, CFO; and yours truly from IR.

As we always do, we will have the opening remarks from Mr. Kishor Patil on the performance of the quarter and how we view the year ahead. We will then open the call for questions. Once again, a very warm welcome to you all, and I will hand this over to Mr. Kishor Patil.

Kishor Patil – Co-founder, CEO and MD: Good evening, and thank you for joining the call. Welcome to the Q2 earnings call.

Some time ago, we had explained how KPIT's growth would develop and, specifically, how Q2 would look. We are happy that we are in line with our expectations, and we can see some early results of the strategy we have put in place.

In order to really understand this, let us go into the details.

Overall growth has been {? 6.5% ?} year-on-year, and in rupee terms, 1% quarter-on-quarter. We were expecting a more or less flat performance. In constant-currency terms, it is again 0.5% quarter-on-quarter and 20.2% year-on-year.

Looking at this, if you go one level below, commercial off-highway and commercial has grown 27% year-on-year and 17.6% quarter-on-quarter. As we had mentioned, this is one of the growth drivers we are looking at for now and for the future.

Passenger cars, if you really look at them, are down by about 7% year-on-year and 4% sequentially. I would like to mention here that while passenger cars look like this, if we take out our two top accounts, the sharp decline we had due to the cancellation of their programs or the reduction of their spending represents 13% of total revenue. This means that we have been in a position to make up for that decline through our growth in off-highway, commercial, and products. This is how we have been in a position to make up for it.

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The pipeline is healthy. We have had reasonable wins, and now 80-90% of the wins we see are in a very active pipeline. While it is taking some time for realization, it is an active pipeline, and we feel much more comfortable with some of the opportunities on hand.

I would like to come back to the products. We have talked about product revenue, and we will talk about this in more detail later in the year, perhaps early next year, including how we intend to proceed. We had 5% quarter-on-quarter growth in product revenue during the quarter and 25% year-on-year growth.

Overall, services revenue has been flat, but products have grown 5% quarter-on-quarter and 25% year-on-year.

In terms of profitability, our EBITDA has grown from 17.2% to 17.8%, an improvement of 60 basis points. This is largely because of the business mix, as product contributions are higher compared with the services and solutions segments. We have also continued to make investments in technology. Even during this quarter, our investments in R&D increased by a couple of million dollars.

Cash is about 6.2 billion. It has come down somewhat, basically for two or three reasons. One is that there was a dividend payment of 1.4 billion rupees. There was an acquisition payment for {? Somotif ?}, meaning the initial payment for {? Somotif ?}, of about a billion. The DSO has also increased from 51 days to 53 days.

I talked about the wins, but the wins have mainly been in autonomy, connectivity, and architecture.

In terms of AI, if you really look at it, we continue to make good progress. We believe that, for now and in the medium term, this will be a very significant differentiator. The Beacon product has been received very well. Almost all our products are based on the Beacon, while we will also take the Beacon to market in due course. This is how we are progressing in AI.

In services and solutions, we have started using AI in many of our deliveries. There are more than 9,000 users of the AI platform and the overall AI product. We have more than 5 million transactions that have taken place during the quarter. We have built 12,000 engineering agents. This is a significant change that we have made, and it is well appreciated by clients.

Roughly 9% of our revenues come from what we call AI-first projects. As I said, it is now normal to use AI, and almost everybody uses AI in every project and product. This 9% refers to solutions that are based on AI and make a significant difference, and which we use to go to market with. This is the progress we have made, and we expect it to grow significantly.

On the people side, fixed-price projects have moved to about 70%, which is significant. It is very important because as we move more and more toward AI, I think these are the projects where we can achieve productivity or create differentiation. That is very important.

People attrition was somewhat higher during this quarter. It was in the mid-teens, but as we look at the next quarter, it is coming down substantially. We completed our increments during the quarter for certain grades, the initial grades from A to D and A to E. They have received their increments, and some other increments will be completed during this quarter and some in the last quarter.

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We therefore believe that attrition will come down reasonably, because we understand the attrition for the next quarter in advance. It will come very close to where it was earlier.

I also wanted to talk about adjacencies.

We believe that the overall need for software will continue to increase in the mobility segment. There is a significant opportunity. Even though there are certain headwinds in the market right now, the software content in cars is going to increase. Software-defined vehicles are important for most OEMs. This will transition to AI-defined vehicles, where KPIT, with the Beacon and a few other products, will be in a prime position to take the opportunity, as it has done in the SDV space.

I believe that we are excited about this opportunity, including in certain segments of passenger cars. However, we believe that we can extend some of this expertise into the adjacencies, as we have been discussing. Over time, this will allow us to have a larger addressable market by using the assets, technology, products, and domain expertise that we have built.

One area is energy tech, where some of our clients already have, like...

Management: For example, Cummins does work in energy tech areas, and we can take it to another 15-20 clients. Similarly, in the Deep Tech area, these are the two areas where we are now creating specific offerings or packaging for these specific verticals, and we will be entering these adjacencies in due course. It will take time. Although we believe that early successes will come in 2-3 quarters, it will take time to have a meaningful impact. However, this is what we have already initiated.

We are very excited about our AI-native deliveries, AI products, the overall product chain, the way we have progressed from architecture to aftersales, and the solutions we are building around products and adjacencies. While our performance is, as I said, in line with expectations but somewhat muted, we remain confident about medium-term growth and excited about the opportunity in front of us. Thank you.

Sachin Tikekar: We can open the call for questions now.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Rishabh Rathi from Goldman Sachs. Please go ahead.

Rishabh Rathi - Goldman Sachs: Hi, good evening, and thank you for the opportunity. My question is about geography-wise sales, and we had discussed the winding down of the two major customers. Europe has seen a sequential decline, but Asia has picked up in Q2 compared with Q1. Could you provide some color on whether we should see further sequential declines going forward, and whether there has been any positive development in Asia excluding the customer decline?

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Sachin Tikekar: Hi, Rishabh. This is Sachin Tikekar. The two clients where we have seen a sharp decline are, first, a client in Japan, which is part of JKC, and the other is in Europe. It is primarily because of these two clients that you see degrowth in the two respective geographies.

There is growth in the Americas, as you can see, in the US, both quarter-on-quarter and year-on-year. {? C-MA ?}, which we separate from Asia, has two parts. One is JKC—Japan, Korea, and China—and the other is Southeast Asia, India, and the Middle East. That is where we again see growth, primarily driven by India in {? C-MA ?}.

The way to look at the split is that the issue is with these two OEMs, where revenue has gone down by more than 30%. We do believe that in the next couple of quarters, both these clients will bottom out. Until that time, there is an opportunity for us to bring broad-based, more resilient growth.

What we mean by that is that growth will happen, first, in existing passenger-car clients and in new passenger-car clients that we have acquired; and second, through more clients in off-highway. Last quarter, we announced one software-defined machine engagement with one OEM. There are now two additional consulting engagements in SDM. Usually, an ongoing consulting engagement will lead to an actual SDM program. Therefore, there is positive development in off-highway as well.

The truck market has been very sluggish for the last several quarters. Finally, in the US, it is showing signs of growth. We believe that trucks, both in Europe and in the Americas, specifically in the US, will see some growth.

On the other side, apart from the two clients where we have seen a sharp decline, there are headwinds in Europe when it comes to passenger-car OEMs, which continue to struggle. However, from KPIT's perspective, except for the one where we have seen a sharp decline, there is an opportunity with the other OEMs because they are struggling and we have an increasing footprint there. We have an opportunity to consolidate and create efficiencies for them. That is how we see all these opportunities unfolding for us going forward.

Rishabh Rathi – Goldman Sachs: Understood. Just a follow-up on that. When you mentioned that the European passenger-car OEMs are struggling and that you see an opportunity there, is there a changing trend in which the OEMs are starting to spend again, or are they still in a wait-and-watch period, trying to decide on their strategy before finalizing their next steps? Could you provide any update on that?

Sachin Tikekar: All the passenger-car OEMs in Europe are looking to cut their costs further and dramatically, as their margins continue to decline and as they have lost wallet share and market share, specifically in China. That is also an opportunity. They have many partners in Europe and some other partners where things are simply not viable or efficient. Given our solutions, and as Kishor discussed, our AI-led transformation, we believe there is an opportunity for us to disrupt the current economics and create value for them despite declining spending.

Rishabh Rathi – Goldman Sachs: Right, sir. One last question. Since you discussed the changing strategy around products, increasing wallet share, and providing more solutions, we see that fixed-price contracts have also increased to 71%, and R&D spending is also increasing. Are there any metrics we can track, or that the company is tracking internally, with respect to the successful

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transition toward this strategy? Could you provide any update on that?

Management: Right now, we will discuss the revenues from this area in some form, which we have shared with you. By Q4, or in the next statement, when we discuss next year, we will definitely give you the parameters that we will track internally and are tracking internally. It will take us 2-3 quarters to assess that.

Sachin Tikekar: Going forward, in a nutshell, what will be critical to our strategy is vertical-wise growth in passenger cars, trucks, and off-highway. This is something we are watching very carefully. We are also watching product revenues, the solutions revenues within product revenues, and, last but not least, what Kishor discussed—AI-led transformation for us.

Rishabh Rathi – Goldman Sachs: Understood. Great. Thank you very much, and all the best.

Sachin Tikekar: Thank you.

Operator: Thank you. The next question is from the line of Ravi from Axis Capital. Please go ahead.

Ravi – Axis Capital: Hi, thank you for the opportunity, and congratulations on a good performance in the US. I have two questions. The first is more of a suggestion than a question. It would be helpful if you could start sharing product revenue every quarter, going back historically, because it is now becoming a meaningful part of your revenue and affects our margins. That would help us.

Secondly, in the US, I believe segmental margins have increased significantly because of product revenue. Is that correct?

Sachin Tikekar: No, so the first question—

Management: [overlap] —was a suggestion asking whether we would be able to share product revenues going forward. Product revenues will be something we can share, and as I said, perhaps next year we can provide more detailed reporting on that.

For the US, I think margins have increased overall. But Chinmay, you can discuss this.

Chinmay: Yes, you are right. Margins have definitely increased across both the existing engagements and some of the newer engagements that Mr. Tikekar referred to.

Sachin Tikekar: Overall, there is broad-based growth in the US. We see that growth coming from all three verticals. Passenger cars are growing, off-highway is growing, and we believe trucks will also grow. Of course, there are also product sales. It is broad-based, resilient growth that we are seeing.

Management: The overall passenger-car market has not been as impacted because it is still a protected market. I think that is another factor.

Ravi – Axis Capital: The cash flow seems to have declined somewhat in the first half. Compared with last year, when we had generated 75-80% in the first half, this time it is about {? 50, 10% ?}, referring to pretax operating cash flow to EBITDA. What has led to this?

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Management: There are a couple of reasons, which I think we mentioned in our investor deck. There have been cash outflows on account of dividends and an acquisition payment that we made for {? PiMSyS ?}. Also, as you can see, our DSOs have increased by a couple of days, which has impacted the working-capital cycle.

Ravi – Axis Capital: Only the DSOs would affect operating cash flow. The other factors you mentioned would not actually be included in operating cash flow, correct?

Management: Yes, but the fundamental reason is the working-capital cycle, which has increased because of the rise in DSOs.

Ravi – Axis Capital: All right. Thank you. I will get back in the queue.

Management: Thank you.

Operator: Thank you. The next question is from the line of Karan from PhillipCapital India. Please go ahead.

Karan – PhillipCapital India: Hi, thank you for the opportunity. I wanted to check the growth outlook for the next few quarters, given that the headwinds will continue at two of our largest clients, while you are also positive about the pipeline. How should we think about growth over the next few quarters?

Management: We mentioned last time that H2 would be better than H1. We will maintain that view, and we also feel confident that we will make up for the decline from these clients through the broad-based growth strategy we have discussed. These are the two things I can say. There will be growth, and this is H2. I would like to reiterate both points that we mentioned earlier.

Karan – PhillipCapital India: Last time, sir, you mentioned that we should see some rebound from Q4 onward. Is that outlook intact?

Management: We expect growth, but we will not be in a position to provide any numbers now. We expect growth in that quarter.

Karan – PhillipCapital India: Understood. My second question is on commercial vehicles. The CV segment has been growing quite strongly for us for the last four to five quarters. Is that growth broad-based in this segment, or is it concentrated in one or two large accounts? Also, is this growth sustainable over the medium term?

Sachin Tikekar: When we look at CV, we look at it across two verticals. One is off-highway, primarily construction and mining, and the second is trucks.

Off-highway is somewhat new to us. We already have three clients and are adding two more. Right now, of course, the growth is concentrated at the beginning on the back of three clients, but it is becoming more broad-based. We believe there will be growth and increasing revenue over the medium term in off-highway. There are absolutely no two ways about it.

The second part is trucks. We have been in trucks somewhat longer, and the market is also recovering, especially in North America. We believe that the truck business will also pick up in the

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immediate quarters ahead, and that should provide reasonable growth over a period of time.

Neither of these is going to be a one-off development that will exist for only a year or two. We believe that both will increasingly contribute to our top line and bottom line going forward.

Management: They are especially going through the transformation that passenger cars went through four years ago. That is why we believe spending will increase, as Sachin Tikekar mentioned. We have these opportunities because, first, as you know, we probably have the maximum experience in SDV, which they are looking for. In addition, there is now the transformation toward AI-based SDV, so I think we will be in a better position to address it.

Karan – PhillipCapital India: Thank you. Just one last question on margins. As growth accelerates in H2, do you expect EBITDA margins to return to the 20–21% range at which we used to operate? What headwinds and tailwinds do you foresee?

Management: I can only say right now it will [trails off]

Management: Go up to some extent every quarter, but it will be early next year when we get that.

Karan – PhillipCapital India: Okay, thank you very much, sir, and all the best.

Management: Thank you.

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

Nitin – Investec: Good evening, and thank you for the opportunity. I have two questions on customers. First, is it fair to say that the incremental drag from these two customers should be significantly lower in H2 compared with H1? Second, as we move beyond this period, do you think these customers can start contributing to growth, or will they continue to remain a drag on growth?

Anup: Nitin, you are putting us on the spot by saying that. In all fairness, we will see quite a bit of decline in these two OEMs over the next couple of quarters. However, they will flatten out, or rather bottom out, in the next couple of quarters.

While we are discussing these two accounts, and while we are experiencing substantial degrowth because large programs were canceled, there are early signs where we are engaging and increasing our footprint. To answer your question, there will of course be some growth taking place, and growth will return in the early part of next year. It is just that, after what they have been through, it will be gradual. I hope that answers your first question. What was the second part of the question? I am sorry.

Nitin – Investec: The second part was whether, once those customers have bottomed out, you believe the same customers can start growing, or whether you think they will continue to be a drag on growth for some time.

Anup: They are two of our largest clients. We have deep relationships with them, and there is a tremendous amount of trust. We are expanding our footprint there beyond just one, two, or three offerings. We are making it broad-based growth going forward, Nitin.

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Nitin – Investec: Understood. Apart from that, I wanted some context on the Vietnam subsidiary that you have established and which markets it is looking to serve. Could you also provide some incremental context on the opportunities you are seeing in Japan, Korea, China, and SEMEA? What are you seeing incrementally in those two areas?

Anup: You are covering all the growth opportunities for us, Nitin. Let us start with Vietnam.

There are two reasons why we are doubling down on our investments in Vietnam. Number one, there is an OEM we have been working with, and we think our footprint with that OEM will grow in Vietnam. Number two, they are building a center along with a large Chinese Tier 1. It is a subsidiary of one of the largest OEMs in China. We are partnering with them to build a center in Vietnam that will deliver the China OEM's global program outside China.

That is another reason we are there. We will see more and more Chinese OEMs establishing their manufacturing footprint in Vietnam. They will also create opportunities for us. One aspect is business development, and we believe there will be growth in terms of acquiring business from Vietnam.

The second reason is the conducive business environment in Vietnam, as well as the availability of talent. Over time, Vietnam will become our hub for Southeast Asia because it is close enough to China to learn the technologies and take them out, while at the same time there is, so to speak, a Chinese wall between China and Vietnam. That is the position regarding Vietnam.

The second part is JKC, the three countries you mentioned. We see growth coming from one passenger-car OEM. Speaking about Korea first, we continue to grow with one passenger-car OEM. It is slow and gradual, but there is growth.

There is also one off-highway OEM with which we have won a consulting engagement for SDM. They are committed to launching this SDM program next year, and I think we will be in a reasonable position to win that as well.

That is the situation in Korea, with a focus on two areas. The Korean ecosystem is also important. There is a chipmaker and some Tier 1s with which we can form partnerships in Korea. In the medium term, we should see growth in Korea.

Number two is Japan. Our growth in Japan will be broad-based. This will go beyond one OEM that was one of our largest clients. We will bring back small growth there, but there is another OEM with which we are increasing our engagement. There is also a truck OEM with which we have started conversations, and I think we will find ways to enter one or two off-highway players in Japan.

In addition, both of the two large passenger-car OEMs have a solid Tier 1 ecosystem with which we can also form partnerships. There is also one Tier 1 that has been part of our T25 and continues to grow, especially in the digital cockpit space. Therefore, what you will see in Japan is broad-based growth. It will not be driven by one account going forward. It will take time, but we will get there.

China involves three things. First, China for China. We have started working with one Chinese OEM and two Chinese Tier 1s in China, as we speak. We continue to sell and increase our footprint for Technica products in China. These are the two things we are doing in China.

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The second thing we are doing in China relates to what I referred to when discussing Vietnam: what we do with Chinese OEMs and Tier 1s outside China. We discussed the Vietnam center. Second, there are three Chinese OEMs in Europe that want to increase their footprint, and we have had initial conversations with them.

One thing we are particularly proud of is ZEEKR, which is part of the Geely Group, where we have introduced our in-car gaming product. That is for the global market, so we are pleased with that win.

These are the two main levers. The third lever is to learn from China and apply those learnings globally. You will see more and more influence from China on our solutions going forward, especially solutions that we build for the SEMEA, Southeast Asia, India, and Middle East markets, and possibly beyond that. That makes our China strategy clearer. That is the position regarding JKC.

Last but not least is SEMEA—Southeast Asia, India, and the Middle East. India is our growth market. A large portion of the year-on-year and quarter-on-quarter growth you have seen has come from India, from passenger cars, trucks, and off-highway. Some are Indian OEMs, and some are global OEMs that are increasing their footprint in India. India therefore represents very broad-based and robust growth, and it will continue to grow.

Southeast Asia is primarily Vietnam, which we discussed. In the Middle East, there are two OEMs. One has just launched one car. We hope to start some engagement with at least one of them in the next 1-2 quarters, and perhaps the second one will also come on board.

We believe that SEMEA offers the largest growth opportunity for us. That is one of the reasons why we decided to separate SEMEA from the rest of Asia.

Management: Yes, and adjacencies will also be the market we pursue. From that perspective, they will also accelerate our growth in the SEMEA region.

Nitin – Investec: Very useful, and thank you for the detailed answer. I just had two more quick questions, if I may. First, in the context of what you initially said about Europe, do you believe next year will be the year in which we see significant vendor consolidation being completed in Europe? Second, what are your thoughts on when the losses from Qorix will bottom out and start showing up? That is all from my end.

Management: I believe that by the end of Q1 next year, the consolidation focus will be meaningfully concluded. It has already started to some extent, and it will take some time to conclude for different years accordingly. So yes, there will be some impact next year.

On the Qorix side, I must say that the programs that were expected to come have, as you know, been pushed out by a couple of years. From that perspective, we are looking at a few other adjacencies and at how we can generate revenue from some of our other smaller products until that time.

We do believe that strategically it will make significant sense in the medium term. That is why we continue to make some investment in the product.

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Anup, would you like to add something?

Anup: The main reason is that most of the programs referred to as Gen 4 for most OEMs were supposed to happen in 2028. Those are now mostly scheduled to happen by 2029 or 2030. Therefore, the mainstream market for Qorix's main product, which is largely a performance product that goes into middleware, has simply been pushed out.

Nitin – Investec: That is very helpful. Thank you very much, everyone, and all the very best.

Anup: Thank you.

Management: Thank you, Nitin.

Operator: Thank you. The next question is from the line of Ankur from IIFL. Please go ahead.

Ankur – IIFL: Thank you for taking my questions. My first question is about the fact that, last quarter, we saw some large OEMs being impacted by sudden actions on the back of profitability warnings they had issued. Are we past that phase now, where the only headwind is probably from the larger clients and we are not seeing that kind of sudden impact in Q2?

Anup: Ankur, we have covered this. There is continued impact from the two OEMs, and we will see that for the next couple of quarters. At the end of that period, they will bottom out.

At the same time, we are seeing the initial green shoots of growth in other areas with these OEMs. They continue to be our strategic clients, and we will rebuild the relationship one step at a time. They will bottom out in the next couple of quarters, and we will have some growth coming from them.

Management: In the meantime, as we mentioned, we will be in a position to more than make up for this during this period through the broad-based growth strategy we discussed.

Ankur – IIFL: Thank you. My second question is on the strong momentum in the CV segment. This quarter, we saw very strong growth, and to sustain growth overall, we need at least double-digit growth from this segment. Do we have visibility of achieving that kind of double-digit growth in the CV segment through the rest of the year?

Anup: The way to look at it, Ankur, is what we discussed earlier. We believe that off-highway and trucks are both important. We are adding new clients and entering into more meaningful engagements with them, as Mr. Patil mentioned earlier.

Both the off-highway and truck segments are embarking on their first SDM and SDV programs. KPIT is in a strong position to run these programs for them and create value for them. We will therefore see continued growth from trucks and off-highway, hopefully for years to come. We cannot comment specifically on how much growth there will be, but it will be healthier growth.

Ankur – IIFL: Just to reiterate, you do expect growth in both Q3 and Q4 on a headline basis. That was the comment, correct?

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Management: We reiterate what we said earlier and continue to maintain it. We said that H2 would be better than H1, and that is what we maintain.

Ankur – IIFL: Thank you very much. All the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of CA Garvit from Serene Alpha. Please go ahead.

CA Garvit – Serene Alpha: Good evening, and thank you for the opportunity. I wanted to understand our exact strategy when you say that we will continue creating value for existing European OEMs, particularly when those OEMs are significantly cutting costs even now. Given the declining budgets, how do we expect to win business from them?

Management: There are two or three things. First, I think I [cut off]

Management: [inaudible] mentioned in my opening comments. First, technology spending is not discretionary for OEMs beyond a certain point. They have to do it. How they do it is the only option they have.

As we see, European OEMs have their European ecosystem, and almost all of them are looking to move toward India. That is one point.

The second important point is that it is not just a cost issue. It is about the technology you have, the solutions you have, and the AI-native aspect. These are the three very important factors.

I think these three things will help them reduce costs and develop more differentiated solutions. While their overall spending will decline, it could substantially increase our footprint with these clients. That is essentially the reason for what we discussed.

CA Garvit – Serene Alpha: Understood, sir. That is all from my side. Thank you, and all the best for the future.

Management: Thank you.

Operator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah – Equirus Securities: Most of the questions have been answered. I have just one question. If we look at Europe as a market within passenger vehicles, apart from the top OEM, which we have said may take two more quarters to bottom out, is there any other similar risk at any of the other clients? Or are we expecting any such risk? I would appreciate an update on this.

Management: No, I think it is a valid question, Sandeep. Our footprint at other passenger-car OEMs in Europe is growing. While we believe there are probably ways for us to grow, our strategy, based on our experience with the top two OEMs, is essentially to defend and grow.

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First, we are making sure that we ring-fence our own business. We are disrupting our own business to create more value so that we are not disrupted by them. Second, we are identifying ways to increase our wallet share.

This is our strategy for other passenger-car OEMs in Europe. We have engagements with all of them, which is a positive. We believe there could be additional opportunities where our footprint is smaller. Some of these clients are new to us.

As Mr. Patil discussed, as supplier consolidation and value creation emerge on the back of AI-led transformation, there is an opportunity for us to disrupt their existing model and create significant value for them. This is something we are working on now, but we will see its actual impact in H1 of next year.

Sandeep Shah – Equirus Securities: Thank you, and all the best.

Management: Thank you.

Management: Thank you, Sandeep.

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

Rahul Jain – Dolat Capital: Thank you for the opportunity. We understand the general challenges you have highlighted, but are there any important trends changing in the industry that are compelling companies to act? What are these companies' needs around AI, such as conversational in-car AI, or perhaps battery efficiency, like what we recently saw Tesla announce? Are there any developments where spending might be revived faster because of industry requirements that may play out?

Management: Are you talking... you were breaking up in between.

Management: His question is whether there are any major industry trends [crosstalk] which could actually accelerate growth.

Management: Right. Of course. We have to understand that in Europe, spending will continue to decline because companies really have to determine their cost structure. However, they will prioritize spending.

We know that spending on digital cockpits continues to be high, comparatively speaking. There is spending on diagnostics, over-the-air updates, sales and aftersales transformation. Given the ongoing threats related to cybersecurity, there will be additional focus on cybersecurity.

These are the areas of spending. Of course, if you look at the broader trend of autonomous driving, it went on the back burner for 2-3 years immediately after COVID, but it has now rebounded substantially.

NOA, or navigation on autonomy, has become a standard in China and will become somewhat of a standard in Europe as well as in the US. There are also additional investments by some of the new companies in robotaxis. Therefore, there is spending in these areas.

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Whatever budget they have, more of it is being allocated to these areas. Fortunately for us, we have a footprint in all of them, so we look forward to capitalizing on our strengths to increase our wallet share.

Management: I think there is one area we discussed, which is the product area, specifically validation. Validation is very important both from a quality perspective and for reducing time. Many of our products are aligned with this area.

Overall, our product portfolio is one area that may accelerate the capture of spending.

Rahul Jain – Dolat Capital: I understand. You have been discussing this, but it is a very mission-critical decision and may take more time in the thought process. Thank you for that color.

Secondly, we are discussing that growth might start improving from Q4. From the current cost base, do we see some scope for optimization? The company was probably designed for much higher growth, and we may return to those levels, but in the interim, do we see a need for some correction in aspects of our current cost base?

Management: There is absolutely such an opportunity. It is mainly because of two changes. First, what we want to do with AI and products. Second, what customers are looking for. As we mentioned, European players are also looking to perform more work remotely rather than on-site, which is what they have been accustomed to.

Our mix may certainly change in terms of the capacity we have in different centers, shifting from high-cost to low-cost centers. However, more importantly, in terms of capabilities and expectations, we will never optimize our technology investments or the team we have.

The mix of the client-engagement team may change depending on what clients are looking for. That is something we have started optimizing, and we will continue to optimize it.

Rahul Jain – Dolat Capital: Lastly, regarding the comment on losses in the {? COVES ?} business, are we thinking about when it could stabilize on an annualized basis, or could you provide any other color on that?

Management: It will certainly take some time. It is not something we can fix immediately. However, there are a few other avenues we are considering.

First, as I said, we are in the exploration stage with adjacencies. These include areas such as robotics, where this operating system may be adopted, but we still need some time to explore that and ensure that it can happen.

Second, we can look at additional partners in that area to drive growth along a more strategic path. These are a couple of options we will explore, but we will know how that develops only over time.

Rahul Jain – Dolat Capital: Thank you for those insights. Those are my questions.

Management: Thank you.

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Operator: Thank you. The next question is from the line of Vaibhav Yadav from TradeNet. Please go ahead.

Vaibhav Yadav – {? TradeNet ?}: Good evening, and thank you for the opportunity. My question relates to the recovery outlook. Given the persistent weakness in the European automotive market, does management anticipate any change to its previously indicated recovery timeline, or is there a possibility that the recovery could be delayed further? Thank you.

Management: [pause] All right. Here is the situation. There are two aspects. When you say recovery, there is recovery for KPIT, and then there is recovery for European passenger cars.

Vaibhav Yadav – {? TradeNet ?}: Recovery for both, sir.

Management: Let me discuss both. First, we will discuss the industry. The recovery for European auto OEMs is going to be very long-drawn. There is continued pressure, and it will continue for some time.

As I mentioned earlier, while it will take some time, they will prioritize investments in certain areas, and we have identified those areas. That is where we see opportunities for KPIT.

In passenger cars, there is going to be a long-drawn recovery for European OEMs. In trucks and off-highway, that is not the case. We are seeing trucks recover slowly, and off-highway continues to perform reasonably well. That is the industry outlook in Europe.

What does this mean for KPIT? We have taken a significant haircut in Europe, especially from one client in the recent past, and that will bottom out in the next couple of quarters. After that, as Mr. Patil mentioned, there are sufficient opportunities for KPIT to grow within the passenger-car market, given that OEMs will have to do everything more cheaply, better, and faster.

Given our products and our AI-led transformation, we believe that as consolidation begins toward the end of the year, it will materialize in H1 of next year and create opportunities for KPIT to grow in the European passenger-car market.

Does that answer your question?

Vaibhav Yadav – {? TradeNet ?}: Thank you, sir.

Operator: Thank you. The next question is from the line of Gokul from BTS Capital. Please go ahead.

Gokul – BTS Capital: Hi, am I audible?

Management: Yes.

Gokul – BTS Capital: Thank you for taking my question. I wanted to understand, first, the off-highway segment that you mentioned at the beginning of the call. You also mentioned that this is a new segment for us and that we have started finding new clients there.

I want to understand how different this is in terms of scope of work from passenger vehicles, where we have our expertise. Are there any other nuances you can share regarding the margins we have

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here, the addressable market, or how sticky the revenues are? Any color you can provide on this segment would help us understand the sustainability of this vertical better.

Management: If you look at the transformation that this particular industry is pursuing, it is exactly along the lines of what passenger cars went through in terms of the SDV transition. The terminology is different. It is called software-defined machines rather than software-defined vehicles, but the fundamental technology is the same.

In fact, we are in a very strong position here because we have not only the experience from SDV in vehicles, but also fairly advanced solutions and the work we have done through AI to accelerate these programs. That is why we are the preferred partner to carry out these transformations.

Gokul – BTS Capital: In terms of the segments where you classify the work as feature development, integration, architecture, cloud-based work, and so on, could you provide us with any mix within commercial vehicles?

Management: It is exactly the same thing. There will be a few elements that may not be relevant. For example, the cockpit experience for an off-highway vehicle may be slightly different. From a technology perspective, however, it does not make any difference.

Most of the head-unit or cockpit experience is built on Android. Most of the other elements are built on body electronics. Most of the architecture is central-zonal. Therefore, all the technology elements remain the same.

We are very comfortable, and we can demonstrate significant value to the customer by bringing in all this technology.

Management: We will see growth in all three segments: architecture, feature development, and after-integration.

Management: After-sales, aftermarket, diagnostics, and aftersales. There is opportunity in all three areas.

Gokul – BTS Capital: Understood. Secondly, I wanted to understand your employee base. I believe it has been stagnant over the last couple of years, if I am not mistaken. Going forward, given that our fixed-price mix is also increasing, do we expect some operating leverage here, where employee costs will not rise in proportion to revenues when recovery takes place in Europe and the rest of—

Gokul – BTS Capital: —other geographies? Will we see employee costs not rise in proportion to revenues? Do you expect to add meaningfully to headcount going forward?

Management: That will certainly happen for products and solutions, and we discussed our fixed-price projects. I think AI leverage is another factor. These are the three elements we have for increasing revenue {? total ?} leverage.

However, it will not apply to all customers because it also depends on the client's adaptability to a particular technology and its ability to manage those engagements.

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Gokul – BTS Capital: Right. You mentioned two new verticals. One was SDM; what was the other one?

Management: Energy Tech and Deep Tech.

Gokul – BTS Capital: Deep Tech. Okay, thank you.

Management: Okay, thank you.

Operator: Thank you. That was the last question for today. I now hand the conference over to management for closing comments.

Management: Thank you, everyone, for your active participation. Have a great evening ahead. Bye.

Management: Thank you, everyone.

Management: Thank you. Bye-bye.

Operator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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