KPIT Technologies

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Operator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Q1 FY27 earnings conference call, hosted by Dolat Capital Markets Private 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that 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 - Dolat Capital: Thank you. Good evening, everyone. On behalf of Dolat Capital, I would like to thank KPIT Technologies Limited for giving us the opportunity to host this earnings call. And now I would like to hand the conference over to Mr. Sunil Senkar, who is Vice President, CFM & G and Head of IR at KPIT, to do the management introductions. Over to you, Sunil.

Sunil Senkar - Vice President, CFM & G and Head of IR: Thank you, Rahul. Good evening and a warm welcome to all on the Q1 FY27 earnings call of KPIT Technologies. On the call today, we have Mr. Kishor Patil, Co-founder, CEO and MD, Mr. Sachin Tikekar, Co-founder and Joint MD, Mr. Chinmay Pandit, Board Member and Head of Americas, Ms. Priyanka Hardikar, CFO, and yours truly from IR. As we always do, we will have the opening remarks by Mr. Kishor Patil on the performance during the quarter and the outlook for the remainder of the year. Then we will open the floor for questions. So, once again, a very warm welcome to all and now I will hand this over to Mr. Kishor Patil. Thank you.

Kishor Patil - Co-founder, CEO & MD: Good evening. I will take you through our results for Q1. The automotive industry has been facing challenges globally for some time, especially on account of extreme competition from China. This was accentuated by certain geopolitical situations, whether it is tariffs or other issues in different parts of the world. The last challenge was the war, which was probably the most unexpected by many companies. It also had a significant impact in terms of their supply chain and input costs.

With all this, European players specifically have been the most impacted—both because they had an impact in the China market and because Chinese competition is entering their own market in Europe—and last but not least, having a restricted US market because of the tariffs or uncertainty. Finally, there were higher input costs because of the war. With all that, profitability had a significant impact, apart from the drop in the number of cars sold. This specifically impacted European players and also Japanese players, but European players were significantly impacted. With that, you could see that there have been many job cuts, profit warnings, pay cuts, ongoing restructuring, and significant write-offs.

On the back of this, one month back, we made a disclosure to the stock market about the impact on KPIT for this year. We talked about how it may pan out to some extent, and specifically for Q1, we projected that year-on-year, it would have a degrowth of 1% and a quarter-on-quarter drop of about 5% in terms of revenue, with a more than disproportionate impact on profitability. On the back of this, for this quarter, we had a constant currency (CC) revenue growth of 0.1% year-on-year and a revenue decline of 0.6% year-on-year. Quarter-on-quarter, CC revenue declined 3.6%. In terms of profits, the EBITDA was at 17.2% and EBIT was at 12.3%. PAT was at 1.17 billion rupees.

The PAT was impacted by two other accounts: one is the forex loss and also the share of loss from QORIX, which again, in some way, was an impact of the postponement of certain revenues specifically in the Europe region. That had a further impact. On the back of that, what was still good was that KPIT could secure 257 million worth of wins during the quarter. These wins were across the board but mainly driven through connected cars, after-sales transformation, and autonomous driving. These were some of the few leading areas which helped us to get these revenues.

While we reached there, I think the two things we have mentioned are that this, of course, is not where we have been in the past and we would like to return to growth. During the outlook, we have mentioned that H2 will be better than H1 and we will return to growth in H2, driven by the Q4 performance. Our profitability will return when the revenues come in; of course, there are other levers we will use before that.

The point is how we will do it. We have talked about multiple areas which could help us get there. I may say that this is not a response to this current situation. We have been working on this for many months, even during the last year. Now the issue is about how quickly we can do that. I think the drop in revenue was quicker than we realized revenues out of some of these areas we have been talking about.

First, we have been trying to broad-base the revenues in multiple ways. On the existing OEMs, apart from focusing on increasing our wallet share in the areas in which we work by taking larger responsibility for programs through multiple ways, we have also added many practices or offerings which we provide to the client. For example, in the existing areas where we are trying to focus, you recall we did the Caresoft acquisition some time back. We are now leveraging that for cost reduction programs and we will do that more aggressively. That is one area which is absolutely essential for these OEMs at this point of time. The second area is after-sales transformation. We are seeing good traction in a couple of these fast-growing areas.

Second is new passenger car OEMs. There are some very stable and successful car OEMs in Japan, Korea, and Europe with whom we have not been working enough. These are OEMs we have been engaging for the last few years. Now we see places where we could actually be in a position to accelerate their journey.

Third is off-highway and trucks. We mentioned that we had started focusing on this some time back. There are new logos across the US, Europe, and Asia with whom we are engaging. As you know, like SDV, we also look at SDM, which is software-defined machines. This has a tailwind across off-highway and trucks. Specifically in off-highway, there has been a big success. Some leading off-highway companies have a market cap bigger than most OEMs and are highly profitable, growing very well over the last few years. These are some of the clients we are engaged with and we would like to double down on these new logos.

The fourth thing is products and solutions. We have multiple products and solutions where we have made investments and developments. Some of the latest are In-Dream, after-sales transformation, ADAS technical products, CycurMOTIVE, and cybersecurity. We have been putting these together to integrate the whole story across the software development cycle and the vehicle development life cycle. This is all being powered by the vKon automotive intelligence platform. We have done a partnership with Microsoft for a global go-to-market in the automotive area, and that becomes the base for all this.

Technica becomes the infrastructure for validation, which is powered by vKon. ADAS becomes after-sales powered by vKon. Similarly, we are looking at the overall product life cycle across which we can build autonomous solutions, where we have built the World Foundation Model. Across these areas of offering powered by vKon, we are providing products. This is one area where products and solutions are really helping us to grow, and this will be margin-accreting over time.

We are also looking at other adjacencies. One is micro-mobility, where we are already seeing good traction and have secured some wins in last-mile connectivity. The second is deep tech, where we are looking at several opportunities. With all this, we are trying to see that we have improved wallet share expansion across all practices and create cross-practice offerings for these clients.

This has been our strategy. This is where we have invested and how we were furthering our strategy. Unfortunately, there has been some gap between the impact we had versus the revenue realization. But we do believe that this will be overall revenue-accreting and we will return to growth. As we said, by Q4, we will be back to growth and hence produce the reasonable margins that we have been used to. I would like to say that we are not very comfortable where we are. We believe that mobility as an area is very much present in multiple forms. It will expand its scope and we will continue to have balanced, broad-breadth growth across clients, practices, and adjacencies. Thank you.

Operator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan – Investec: Hi, good evening. Congratulations on the strong deal wins despite a tough quarter. I had a couple of questions. First, when do we think commercial vehicles will really come back to growth? Could you give some color on why we saw the weakness there during this quarter, especially because you have had reasonable deal wins and client additions in off-highway and commercial vehicles? Second is regarding the Europe perspective. We seem to have a reasonable number of deal wins in Europe despite the weakness that you spoke about. Also, it looks like some of the OEMs have a reasonable number of model launches or updates by the end of next year. In that context, do we believe that this weakness can be temporary? I just have one last question on margins which I will ask after this.

Management: Nitin, we have been mentioning that we do not think these are permanent drops. We enjoy a very healthy relationship with the clients and we have also broadened our scope. Many of them have to reinvent themselves, and they look at KPIT as a natural partner. We are engaged with all the OEMs you are talking about. That is the reason our pipeline is strong. What we are not sure in the current case is when these deals will realize. We are not at all worried about whether we would get our share of the business; it is about the timing. That is why, at least in the short term, we have discounted that part for a few quarters.

On commercial vehicles, we will be on for growth next quarter. This quarter, one specific thing happened: a quarter before, we had one significant revenue in a particular area. That is why it looks this way, but I think you will see growth next quarter.

Nitin Padmanabhan – Investec: Perfect. Lastly on the margins, during the analyst day, you spoke about an aspiration of achieving 22-24% by FY29. Does that aspiration still hold or would you worry about it at the moment?

Kishor Patil – Co-founder, CEO & MD: I would say the medium-term outlook remains good for two or three reasons. I will not just make a statement; there are specific factors. We believe that our product and solution revenues will grow exponentially. We have already seen success in some areas. In solutions, there are many we have identified, and some are in the initial stages. We believe in the next quarter or two, they will also be ready to be deployed. With this, we believe that our growth will be largely driven by products and solutions, which will be margin-accretive. In the medium term, because some of these follow an outcome-based business model, we do believe we will be in a position to get where we mentioned.

Nitin Padmanabhan – Investec: Perfect. Thank you so much and all the very best.

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

Karan Uppal – Phillip Capital India: Thanks for the opportunity. The first question is on the US geography. It has done well this quarter. Can you break down the growth between OEMs and off-highway, and do you expect this momentum to sustain for the next few quarters?

Chinmay Pandit – Board Member and Head of Americas: Yes. The growth in the geography is fairly well-balanced across the entire portfolio. We have seen good growth on the commercial vehicle side and some of our long-established relationships on the passenger car side as well. I think we have fairly good visibility for the upcoming quarters for it to continue in the same line.

Karan Uppal – Phillip Capital India: Thanks. Second is on Europe. Revenues did not fall off versus what we were expecting, so can we expect the impact in Q2? Also, can you quantify the revenue impact for European geographies?

Kishor Patil – Co-founder, CEO & MD: There are two things. First, optically it looks like that, but there were two reasons. There were certain revenues we were expecting which did not come, so you will see that impact next quarter. We saw a reasonable impact in Europe, which was about 4% for the quarter at a geography level. But we also see that this impact will not be at a company level because it will be made up by the US and SEMA. This quarter shows a specific result because of one transaction. The revenue dropped, so that drop looks big. However, we are seeing significant growth in SEMA as well. With the growth in the US, you will see that, but the Europe impact will be seen next quarter.

Karan Uppal – Phillip Capital India: There were two SDV programs which were going to be ramped down. Are they in the base now or do you expect the impact to continue? If they are in the base, then should we expect the Japan, Korea, and China (JKC) geography to bottom out?

Management: One program from Europe is almost getting over now and will go to start of production, but that has been planned. The one in Japan was actually cancelled at the last minute. Both these programs are coming to a natural end. To clarify, the actual vehicle program was cancelled, and that is the impact. We do have a pipeline from these clients, but we are not sure when we will be in a position to get further revenue given the timing.

Karan Uppal – Phillip Capital India: Got it. Just a last question on the margins. Other expenses were up significantly this quarter, which is surprising to see. Are there any one-timers there? How should we expect the margin trajectory from here on for the next two quarters?

Priyanka Hardikar – CFO: Regarding other expenses, there has been an impact because of the foreign exchange rate as well. As you know, these are consolidated accounts. Secondly, there have been some provisions because of the acquisitions that we did and some subcontracting costs in the European region that we incurred for our clients. These are operational. Going forward, the way we see it is that margins will improve, but it will improve incrementally, not significantly, until our revenue returns. Revenue will be the major driver. We will be in a position to optimize costs, but only incrementally. Second, the QORIX loss will continue for at least the next quarter or two.

Karan Uppal – Phillip Capital India: Thanks, thank you and all the best.

Operator: Thank you. The next question is from the line of Chandra Molly from Goldman Sachs. Please go ahead.

Chandra Molly – Goldman Sachs: Hi, good evening and thank you for taking my questions. My first question is around the prepared remarks. Over the past 18 months, European OEMs have found it harder in China because of the higher luxury taxes there. On the other side, Chinese OEMs have been taking market share in Europe. KPIT has been trying to seed businesses in China for the past two and a half years to contribute to Chinese OEMs. Over the past three to six months, have there been any developments there which might enable KPIT to participate more in this trend, which seems structural?

Kishor Patil – Co-founder, CEO & MD: We have said we will be very patient with China but we will continue to grow and invest there. We have engaged with two OEMs and are about to get to a meaningful engagement with at least one of them. We have found reasonable traction for our products and solutions in China. Most Chinese companies are aware that they will be in a position to grow profitably only outside China. They see KPIT as a partner that has been in China and has strong client relationships and an ecosystem play outside China. We believe in our strategy for China. Furthermore, many global OEMs are forming partnerships in China, which we believe we can leverage significantly going forward.

Chandra Molly – Goldman Sachs: That is helpful. You previously indicated that the first two quarters of the year might be similar, but that things will improve in the back half. What are the key drivers of that? Relative to the investor day, the thought process was that there could be a possibility for organic double-digit growth year-over-year. Is that run rate feasible for the back half of the year once the first-half headwinds are cycled?

Kishor Patil – Co-founder, CEO & MD: When we were of the opinion that in the first half our revenues would go down because of the cancellation of SDV programs, we shared that at the earliest. After the original investor day, there were major changes in the European ecosystem. Many European OEMs had an impact on their results and subsequent actions. This created uncertainty because it takes time for people to figure out what they will do. That is the impact. Beyond this, H2 will be better than H1 and by Q4 we will have meaningful growth. We believe in our medium-term and next-year growth strategy because of the multiple actions we have taken. The impact was significant in a couple of accounts, but the growth has been more broad-based across multiple clients. We believe that by next year, these accounts will bring meaningful growth.

Chandra Molly – Goldman Sachs: Over the past two to three quarters, it has become visible that your fixed-price contracting is increasing by 600 to 700 basis points versus last year. From a margin standpoint, how should that be construed? You also mentioned working with AI tools for productivity. How do these points together figure into the steady-state profitability of the company in this business model?

Kishor Patil – Co-founder, CEO & MD: Any change in the business model essentially starts with moving to the fixed-price model. Once we do that, we have multiple options. Number one is the usage of AI, though it takes time to move completely to AI-based delivery depending on the client's infrastructure. Second is the solutions we bring in as part of fixed-price delivery which have better margins. Third is the products. For example, vKon has two business models: one as a platform which is subscription-based, and the second is what we use for delivering to the client. We have combinations and flexibility to maximize these. We believe this allows us to improve margins for the contracts we are signing. We continue to hold a premium against the competition and even in competitive geographies, we can move towards better margins over time.

Chandra Molly – Goldman Sachs: That is very helpful. Thank you very much and all the best.

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

CA Garvit Goyal – Serin Alpha: Good evening, sir. When we say Q4 will be stronger in terms of growth, are you seeing European OEMs start using KPIT solutions to compete against Chinese competition? I am asking because to return to our earlier trajectory of 20-25% organic growth and the margins we did earlier, we need a decent contribution from existing European OEMs.

Sachin Tikekar – Co-founder and Joint MD: Let us talk about European OEMs. There are three forces at play. Their share in China has gone down. In their home territory, Chinese OEMs are gaining market share. Because of the tariffs, they are becoming less competitive in the US. They are under tremendous pressure and realize this requires structural change. They are rethinking their strategies.

From KPIT's perspective, they look at us as a partner to help them reduce the cost of their product by 30-40% and reduce the cost of their production. If they bring these price points down, they become competitive again. These conversations have already been initiated. While it will take time, we believe these cost-reduction initiatives will yield revenues over the next couple of quarters.

Additionally, our effort over the last six quarters has been to have broader-based growth across Europe, America, SEMA (Southeast Asia, India, Middle East, and Africa), and JKC. We have started engaging with new OEMs in Korea, Europe, the US, and Japan. We have also opened seven different OEMs in the off-highway segment and started working with four different OEMs in the truck and bus business. The composition of our revenue is going to be more balanced than it has been over the last three or four years. This transformation is taking place as we speak. When this happens, we believe we can go back to our growing ways. The learning from recent challenges is that we just need to have more intensity and run faster.

CA Garvit Goyal – Serin Alpha: Regarding the deep tech side, what exactly is the thinking there? We previously spoke about sodium-ion and hydrogen fuel technologies, but we have not heard much recently.

Kishor Patil – Co-founder, CEO & MD: We continue to work on hydrogen tech, but meaningful revenues will take some time. The government is pushing hydrogen, but we will be careful in factoring that into our growth. Regarding adjacencies, we are looking at areas like drones, humanoids on the production floor, and electric vertical take-off and landing (eVTOL) aircraft. We are in the process of putting together the overall plan. Another opportunity is in data centers, where clients like Cummins are engaged. We are already working with a few clients in these areas. We have not yet made a full organizational focus on it, which we are exploring.

CA Garvit Goyal – Serin Alpha: And on sodium-ion technologies, what are the updates? It has been more than 2 years.

Kishor Patil – Co-founder, CEO & MD: We took certain NRE revenues last year. Battery technology takes about 2 to 3 years just to set up a pilot production plant, requiring an investment of more than 100 million dollars. It is not something that is immediate from a revenue perspective.

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

Sandeep Shah – Equirus Securities: Thanks for the opportunity. On the fact sheet, there has been marginal growth in Europe and strategic customers have not declined materially lower than the company average. Is it fair to assume what we anticipated in June regarding a decline in Europe-centric OEM revenue has not happened yet and may come in Q2?

Kishor Patil – Co-founder, CEO & MD: We were expecting higher growth there which has not turned up. However, we have committed the costs as we are in the middle of projects. You will see that impact coming in the next quarter. But the impact will be at a regional level, not a company level, because we will see broader growth in the US and SEMA.

Sandeep Shah – Equirus Securities: Regarding the margin uplift, you expect major uplift to happen with the growth turnaround by Q4. Are we talking on a quarter-on-quarter or a year-on-year basis for that turnaround?

Kishor Patil – Co-founder, CEO & MD: It will certainly be quarter-on-quarter. I don't have a clear answer right now, but I guess it will be at least flattish in Q4, and we should get back to a certain number by then.

Operator: Thank you. The next question is from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta – JP Morgan: Thank you, sir. During the end-quarter update in June, you said Q2 revenue will be flattish and Q4 will see significant growth. Does that still hold? Also, when you say you expect to go back to normal levels of margin by Q4, are you indicating 20% plus EBITDA?

Kishor Patil – Co-founder, CEO & MD: The last part is related to growth. It really depends on that, but fundamentally, taking out European costs takes much longer than in other regions. Considering that, it will take time. When we get to revenue growth, we will be in a position to bring the margins back.

Bhavik Mehta – JP Morgan: You mentioned that the pipeline in Europe remains strong but the timeline for conversion is difficult. Is this environment affecting deal-to-revenue conversion?

Kishor Patil – Co-founder, CEO & MD: In certain accounts, it is coming through. The drop has been significant in two specifically large accounts, but we did not drop overall revenues as much because of wins in other markets. Conversion has been slow, but it has not been a case of perpetually waiting for projects to start. European wins will likely involve more work out of India than Europe. We are facing two uncertain things: the revenue part in specific European accounts and the time it will take to cut costs in Europe.

Bhavik Mehta – JP Morgan: Are you seeing any vendor consolidation exercises at the OEM level and how are we faring?

Management: The answer is absolutely yes. We are doing pretty well there. Our belief is that the client engagement model will change. OEMs will go to the best of the solutions so they can compete. That is why our focus is more on solutions, products, and AI.

Operator: Thank you. The next question is from the line of Shailesh Jahangirdar from Mind Your Yadnyan. Please go ahead.

Shailesh Jahangirdar – Mind Your Yadnyan: We secured a contract from Tata Motors. What does KPIT do differently given that Tata has its own ER&D companies?

Sachin Tikekar – Co-founder and Joint MD: Tata Motors is a large, growing company. Like any other OEM, they have their own ER&D but also work with partners like us. It is not just their own ER&D and KPIT; there are other players as well. Our business with JLR is significant, and we have worked with Tata Motors for many years. This particular deal involves our In-Dream in-vehicle gaming platform. This is the first time such a platform has been launched in any vehicle in India, which is why it is significant. We continue to look at both the passenger and commercial sides of Tata Motors as a viable client for growth.

Management: The business model here is that we charge per vehicle; it is a license model.

Shailesh Jahangirdar – Mind Your Yadnyan: You said European OEMs are discussing cost structures to reduce their costs. Are there similar discussions around product development at a lower cost so they can compete with Chinese OEMs on both differentiation and cost?

Sachin Tikekar – Co-founder and Joint MD: What we said was in reference to the product itself. How do they make their product more cost-effective while offering attractive features? There are two parts: how do we reduce the cost of the product itself—if a vehicle costs 100, how can KPIT help them get it to 60 or 70—and second, how to reduce the cost of production from 50 down to 30 or 35. These are the discussions we are having with European OEMs because they are under the highest pressure, but we believe this will extend to Japan, Korea, and eventually the US.

Kishor Patil - Co-founder, CEO & MD: I want to add that it is not only about cost; it is about speed. European OEMs take too long to bring a new model, so their competitiveness goes down by the time new vehicles are on the road. We are focusing on how we can reduce the time to market by 2 years.

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

Ankur Pant - IISL: There was a planned completion and ramp-down of SDV programs and then the impact from European OEMs. One would have assumed the passenger vehicle (PV) segment would take the brunt, but PV revenues only came down by 3.5 million, while CV went lower. Does the base not yet incorporate a large part of the SDV ramp-down?

Management: In commercial vehicles, there was a one-time large license deal last quarter that is not present this quarter. That is why you see a significant impact on a smaller base. Going forward, you will see CV growing for us. In Q1, we were getting ready for growth, but that did not happen due to a last-minute setback towards the end of the quarter.

Ankur Pant - IISL: Is the Japanese program ramp-down already in the base?

Management: The Japanese part is getting over now as planned, and the one we realized towards the end of the quarter will happen. The complete impact will happen in Q2. We believe both accounts will start to stabilize in Q3.

Ankur Pant - IISL: What are your thoughts on wage hikes?

Kishor Patil - Co-founder, CEO & MD: Over the last 5 years, most companies were very soft on increments, but we have not stopped them. This is the first time we have delayed it. We will do it in stages, beginning with the younger grades soon, and senior people will get it towards the end of the year.

Ankur Pant - IISL: Your overall sequential revenues are down around 4.5% in USD terms, whereas strategic clients—which are 87% of your revenue—are down only 1.3%. This implies the bulk of the decline is from non-strategic clients, which doesn't seem to reconcile.

Management: I don't have the exact breakdown in front of me, but the degrowth has been because of the top two clients, which are strategic. We will analyze the numbers. Also, don't look at the 84% and 87% figures as absolute comparisons; they are percentages of the respective quarter's revenue. As we mentioned, one client's degrowth is not factored in completely yet and will appear next quarter.

Operator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question. I would now like to hand the conference over to management for closing comments.

Management: Thank you, everyone, for your active participation and I look forward to interacting with you in the near future. Thank you and have a great evening.

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