

Robust Execution; Resilient Outlook to Support Growth

Est. Vs. Actual for Q2FY24: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**; Deal Wins – **BEAT**

Changes in Estimates post Q2FY24

FY24E/FY25E: Revenue 0%/0%; EBITDA Margins 0%/0%; PAT 0%/0%

Recommendation Rationale

- The management has indicated strong broad-based growth across verticals backed by a strong deal pipeline and better engagement with clients.
- TCV stood strong in Q2FY24 with deal wins at \$156 Mn
- The management is confident of gaining medium-term demand momentum on the backdrop of the deals it has won in the previous quarters. It also expects improvement on the margin front.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Strong revenue growth momentum will continue backed by robust deal wins and strong addition of capabilities. FY24 guidance is upgraded to 37%+ YoY in CC terms as against 27%-30% YoY in CC terms. EBITDA Outlook increased to 20%+ from 19%-20% earlier.

Current Valuation: 43x FY26E P/E; Earlier Valuation: 43x FY26E

Current TP: 1,500/share (Earlier TP: Rs 1,500/share)

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we recommend a **BUY** rating on the stock.

Financial Performance

KPIT Technologies Ltd. (KPIT) reported revenue of Rs 1,199 Cr in Q2FY24, up 9.3% QoQ and 8.4% QoQ (in CC terms) which stood above our expectations. The company's operating profit stood at Rs 192 Cr, reporting an encouraging growth of 10% on a QoQ basis. This was also above our expectations. The company's operating margins remained flat at 20% despite of wage hike in this quarter, which is commendable. The company's net profit for Q2FY24 stood at Rs 141 Cr, registering a growth of 5% on a QoQ basis.

Outlook

From a long-term perspective, we believe KPIT is well-placed for encouraging growth, given its multiple long-term contracts with the world's leading brands. Its improved revenue visibility gives us confidence in its business growth moving forward. We believe that KPIT has strong client engagement and ability to deliver its technical expertise. We also expect the company to prove itself as one of the fastest-growing companies in Indian IT services moving forward.

Valuation & Recommendation

We assign a 43x P/E multiple to its FY26E earnings of Rs 34.9/share to arrive at a TP of Rs 1,500/share, implying an upside of 23% from the CMP. Hence, we recommend a **BUY** rating on the stock

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,199	9%	61%	1150	4%
EBITDA	240	0	82%	236	2%
EBITDA Margin	20%	15 bps	200 bps	21%	-3%
Net Profit	141.40	5%	0%	145	-2%
EPS (Rs)	5.20	5%	68%	5.33	-2%

Source: Company, Axis Research

(CMP as of 31 October 2023)

CMP (Rs)	1,218
Upside /Downside (%)	23%
High/Low (Rs)	1,254/623
Market cap (Cr)	33,377
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	27.19

Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	13.1	13.1	13.1
FII's	33.3	31.7	31.3
MFs / UTI	13.5	15.0	15.2
Banks / FI's	0.0	0.0	0.0
Others	40.1	40.2	40.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	3,365	4,706	5,585
EBITDA	635	961	1,117
Net Profit	387	617	760
EPS (Rs)	22.9	28.2	34.9
PER (x)	74.1	49.2	39.9
P/BV (x)	44	31	26
EV/EBITDA (x)	17	15	12
ROE (%)	25%	31%	31%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0%	0%
EBITDA	0%	0%
PAT	0%	0%

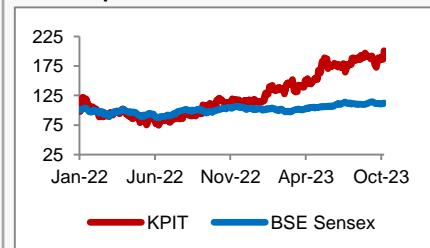
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA
Sector average	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Highlights

- **Continuing strength in demand environment in the medium term:** The UK is seeing higher cost optimization deals (with faster decision-making). Increasing demand for ER&D services and strong execution capabilities are helping KPIT to grow with accelerated revenue growth momentum. The management is also confident in gaining momentum over the long term backed by the robust deal pipeline.
- **Broad-based vertical growth:** On the vertical front, the Passenger Car vertical grew 9.5% QoQ, demonstrating robust execution. The management is also confident in continuing growth momentum in the near term. Commercial Vehicle grew 1% QoQ. The company is focusing on the Top 25 clients to mine more business and improve client engagement. The strategic revenue from these clients grew by 10.3% on a QoQ basis. Client concentration has also increased from 82.6% in Q1FY24 to 84% in Q2FY24.
- **Robust Services mix:** On the Services line front, Feature development and integration services (90% of revenue) showed a strong growth of 9.2% QoQ, Cloud-based connected services (26% of revenue) continue with strong growth of 9.7% QoQ, Architecture and Middleware consulting (29% of revenue) continue to demonstrate strong growth of 4.9% QoQ growth.
- **Better geographical performance:** On the geographical front, while North America (44% of revenue) declined by 1.7% QoQ, Europe (76% of revenue) grew by 12.2% QoQ, Asia (25% of revenue) business grew by 17.8% QoQ (in the CC terms).

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Crs.	Q2FY24	Q1FY24	Q2FY23	% change (YoY)	% change (QoQ)
Total Revenue	1,199	1,098	745	61%	9%
Operating expenses	959	1,119	607		
Total Operating Expenses	959	1,119	607		
EBITDA	240	220	182	32%	9%
Margin(%)	20%	20%	24%	-443	-4
Depreciation	48	45	33		
Operating Income	192	175	105	82%	10%
Margin(%)	16%	16%	14%	184	5
Total Other Income/(Expense)	9	8	10		
Income Before Income Taxes	188	177	109		
Total Taxes	46	42	26		
ETR (%)	25%	24%	23%	133	94
Net Profit After Taxes	141	134	84	69%	5%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	141	134	84	69%	5%
Margin(%)	20%	20%	21%	-123	-
EPS	5.20	4.95	3.09	68%	5%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	3,365	4,706	5,585	6,789
Other operating income	0	0	0	0
Total income	3,365	4,706	5,585	6,789
Cost of professionals	65.9	-	-	-
Employee benefit Expenses	2,155.3	3,067.0	3,658.4	4,446.8
Other Expenses	533.8	678.7	809.9	984.4
EBITDA	635	961	1,117	1,358
Other income	40	91	140	170
PBIDT	675	1,052	1,257	1,528
Depreciation	146	183	184	215
Interest & Fin Chg.	32	57	60	60
E/o income / (Expense)	0	0	0	0
Pre-tax profit	497	811	1,013	1,253
Tax provision	110	194	253	313
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	387	617	760	940
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	387	617	760	940

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Total assets	2,237	2,437	2,946	3,559
Net Block	414.5	417.6	384.1	377.6
CWIP	32.5	15.0	15.0	21.5
Investments	1,457.4	1,459.3	1,459.3	1,462.6
Wkg. cap. (excl cash)	-121	111	117	149
Cash / Bank balance	454.2	435.8	971.2	1,549.5
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	2,237	2,437	2,946	3,559
Equity capital	270.3	270.3	270.3	270.3
Reserves	1,393	1,794	2,287	2,897
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	323	323	323	323
Def Tax Liabilities	60.0	60.0	60.0	60.0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Sources	916	583	677	825
Cash profit	566	858	1,003	1,214
(-) Dividends	106	217	267	330
Retained earnings	460	641	737	885
Issue of equity	0.3	0.0	0.0	0.0
Change in Oth. Reserves	64.0	0.0	0.0	0.0
Borrowings	191	-0	0	0
Others	201	-57	-60	-60
Applications	916	583	677	825
Capital expenditure	1,674.1	370.7	134.8	214.8
Investments	6.9	0.0	0.0	0.0
Net current assets	(194.9)	231.2	6.4	31.6
Change in cash	(569.6)	(18.4)	535.4	578.2
Closing cash	588	588	588	588

Source: Company, Axis Securities

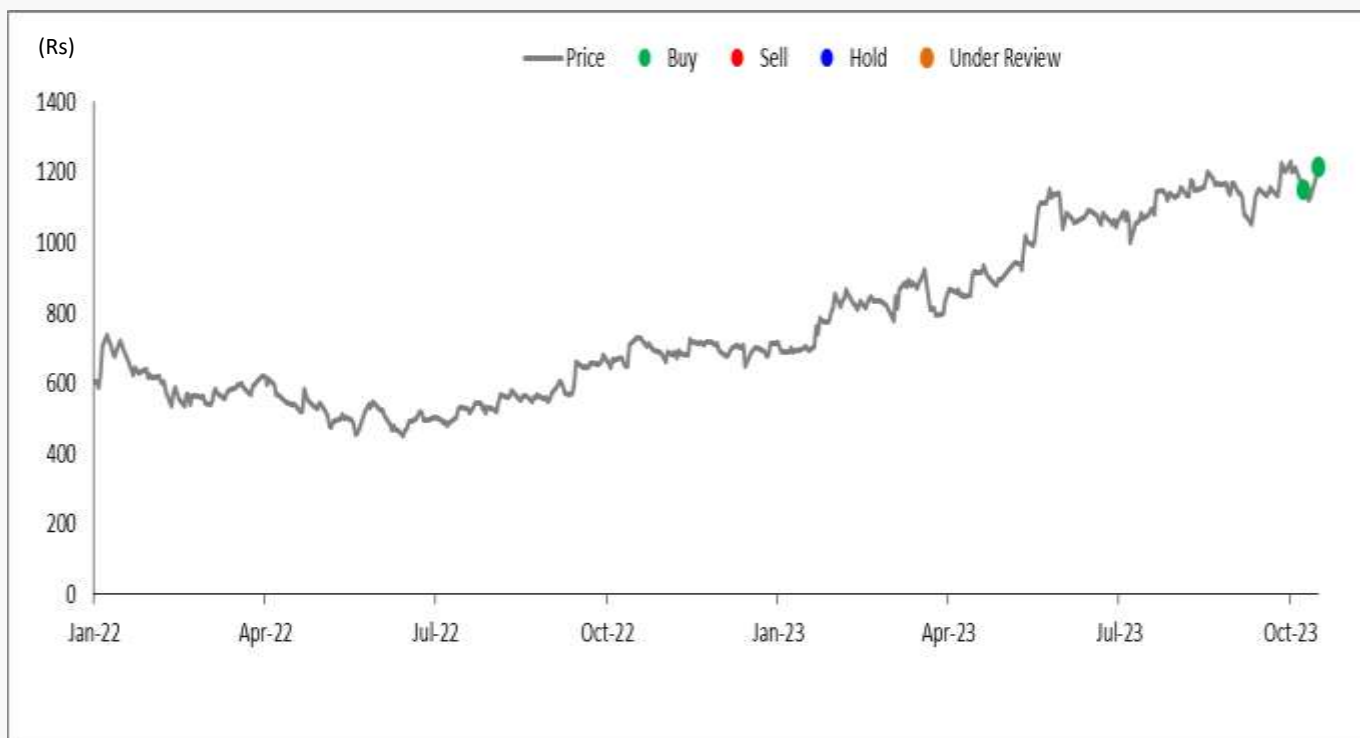
Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth	38.3	39.9	18.7	21.6
OPM	18.9	20.4	20.0	20.0
Oper. profit growth	45%	51%	16%	22%
COGS / Net sales	0.0	0.0	2.0	0.0
Overheads/Net sales	19.0	15.8	15.9	14.4
Depreciation / G. block	####	(5,144.7)	76.3	5,907.0
Effective interest rate (%)	49.6	37.2	54.0	110.5
Net wkg.cap / Net sales	0.20	0.22	0.07	0.01
Net sales / Gr block (x)	5.8	6.5	3.8	4.4
RoCE	14%	24%	27%	37%
Debt / equity (x)	0.00	0.00	0.04	0.03
Effective tax rate	17.2	19.8	22.1	23.9
RoE	15%	21%	25%	31%
Payout ratio (Div/NP)	25.0	25.0	25.0	30.0
EPS (Rs.)	14.4	22.9	28.2	34.9
EPS Growth	40%	60%	23%	24%
CEPS (Rs.)	19.8	29.8	35.1	42.9
DPS (Rs.)	3.3	6.9	8.5	10.5

Source: Company, Axis Securities

KPIT Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
23-Oct-23	BUY	1,500	Initiating Coverage
01-Nov-23	BUY	1,500	Result Update

Source: Axis Securities

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