



**“KPIT Technologies Limited Q2 FY 2016
Post Earnings Conference Call”**

October 23, 2015



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KPIT Technologies Limited
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Moderator: Ladies and gentlemen good day and welcome to KPIT Technologies Q2 FY 2016 Post Earnings Conference Call hosted by Reliance Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Apurva Prasad from Reliance Securities. Thank you and over to you Sir!

Apurva Prasad: Thanks Darryl. On behalf of Reliance Securities, I welcome all the participants to KPIT Technologies Q2 FY 2016 Results Conference Call. Joining us on the call, we have the senior management of KPIT Mr. Kishor Patil, Co-Founder CEO and MD, Mr. Sachin Tikekar, Board Member, President, Strategic Relations and Business Transformation, Mr. Anil Patwardhan, Senior VP and Head, Corporate Finance and Governance, Mr. Sunil Phansalkar, Head Investor Relations and AVP M&A. I would now hand over the call to Mr. Sunil. Over to you Sir!

Sunil Phansalkar: Thanks Apurva. A very warm welcome to everybody on the Q2 FY2016 earnings call of KPIT Technologies. I hope all of you have got our investor update and have been able to go through it to understand the performance of the quarter. As always we will have the initial comments made by Mr. Kishor Patil on the performance of the quarter and way ahead as we look it and then we will throw open the floor for questions. Once again welcome everybody on the call and I will hand this over to Mr. Kishor Patil.

Kishor Patil: Good afternoon. Welcome to the Q2 results call. We had better and quicker than expected recovery this quarter with a revenue growth of 5.3% in USD terms. EBITDA margins were at 14%, an increase of about 4% plus during the quarter (9.6% in Q1FY16) and PAT growth of about 69%. So the quarter-on-quarter growth was led mainly by SAP, mainly in utilities sector, also in automotive in Europe and also



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products and platform, which was mainly from Asia. So the growth actually came from these regions. Last quarter in the call we had mentioned that you will see some growth in the quarter but the growth was accelerated because of quicker ramp up in some of these areas. The EBITDA margin grew to 14%. It was mainly led by two to three factors. As we had mentioned that our number one focus was on operational performance. You can see that during the H1. There is a net reduction of 321 people while we have added 585 freshers. So it helped us to really improve the pyramid and increase the utilization. Also we naturally got the benefit of stronger currency- dollar. So I think with all these three the EBITDA margins improved in Q2 that also reflected into naturally the PAT growth. Overall in terms of region Europe saw very strong growth followed by Asia and then by US. If you really look at overall performance of this quarter the performance is important because of the sustainability of this performance. If you really look at the EBITDA margins as we had mentioned that the actions or the activities which we have started would have the full impact in Q3 as compared to Q2. We are happy that we could really accelerate some of these actions and most of the impact was seen in Q2 but still we have few actions take in terms of getting the full benefit of some of these actions which will continue in Q3 and Q4 but I think fundamentally the reasons why the Q2 performance the EBITDA margins expanded that remain valid for the rest of the year. Other than that naturally the currency impact which we had and unless in currency there is a change in the different direction, all these Q2 performance is sustainable from the EBITDA perspective. If you look at the revenue perspective there is nothing one time in this same as I mentioned in the margin. The revenue growth is led by strong growth in terms of our automotive vertical where we have a good pipeline and we will continue to grow in this, second led by SAP. SAP revenues grew significantly during the quarter. We believe the revenues are sustainable and other than naturally some of the cyclical nature of Q3 or so but overall the revenues are sustainable. The PAT margin can get impacted little bit because of the other income due to currency movement but overall the Q2 performance is based on concrete steps which we had taken and hence there is

nothing one time in terms of significant impact for Q2. We believe that in terms of EBITDA as well as the direction in terms of revenue growth we are on a sound footing; naturally Q3 is a soft quarter due to less number of days. Typically we lose 2% to 3% of our revenue because of lesser number of days but other than that overall as a direction we see that the performance in Q2 is sustainable. If we go to some specific areas which we discussed last time both in terms of SAP and products and platform, in case of SAP as I again mentioned the revenue is sustainable and products and platform we had a marginal growth still there are areas where the growth has not come in terms of what we had expected, but most of these revenues have got pushed to future quarters but overall still we have been in a position to get some growth into products and platform as well. In terms of overall Q3 and Q4 projection I would say that we have not given any guidance for this year but what we mentioned last time is that we will do equal to and may be a bit more than the last year revenue as well as the profits. We believe that is the position we would like to maintain, while we do not want to give any concrete guidance even now that is how we look at it. Overall the performance for this quarter was very encouraging. We could increase the revenues. We could increase the profitability. We could increase the cash flows. All the three in one quarter we could really do earlier than what we had planned and we believe that Q3 and Q4 will also show a positive direction. That is what I would like to say for this time and I would say that while the results are encouraging we will still be focused on the actions which we have started. As we mentioned this time we would like to really continue with the operational efficiencies which we still have some room and the way we want to do this time is the operational efficiency, profitability improvement is more sustainable going forward. So we will be still focused on that going forward and we are making investment in the growth areas. We believe there are few growth areas which are significant for us. We have lot of GAM accounts and we are going to invest into multiple account management team so that we can really cross sell and upscale in these areas. We have started some new practices in the last six months and we would like to continue to invest in some of these areas. We believe

that there is a good growth and potential for products and platform going forward. So we will make investment into growth area and will continue to improve our operational performance going forward. Thank you.

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

Nitin Padmanabhan: Great quarter and thanks for taking my question. The first one was if I look at the top client, the top client is on decent growth this quarter but the IES business has sort of remained flat, just wondering if you could give some color on the IES business going forward with the largest customer having bottomed out and actually showing growth, how do you see the pipeline and the prospects for this particular business?

Kishor Patil: In terms of manufacturing IES business I would say that there is nothing significant which warrants attention right now. See in customers there is always a cyclical moment, frankly our largest customer actually pans across different verticals and now we classify a large part of it into also automotive as well as manufacturing, so I think every customer goes through cyclical moment. I would not put any significant importance on growth or degrowth in a particular quarter but overall what we mentioned that in terms of IMS, digital and analytics some of these areas which we are talking about apart from our regular growth areas like SAP or ERP areas, those are the ones which drive growth for the manufacturing. Also we believe that in Europe as well as Asia manufacturing is also substantial presence and we see growth going forward in this sector. Many GAM accounts which we have identified are also in manufacturing sector. So I would not say there is anything particular specific for this quarter which will have also implications going forward.

Nitin Padmanabhan: More specifically from the IES business perspective would be integrated enterprise solution how do you see the pipeline there and how do you see that going forward?

Kishor Patil: Overall the pipeline is good. Naturally our pipeline in automotive is stronger that is true. Our pipeline in utilities is also stronger but our manufacturing as a vertical also has a strong base and it has also significant customer base in that area. So there is no area of concern I would say from our perspective.

Sunil Phansalkar: Nitin, large part of the manufacturing IBU is serviced by the IES SBU. So whatever is applicable for manufacturing is largely applicable for the IES SBU.

Nitin Padmanabhan: Just one other thing was if you look at ITS as a business how do you see that going forward through the year. The same thing in terms of 85% market share and revenues.

Kishor Patil: The good part is our market share remains significantly intact. The bad thing is the government really postponed spending. Actually in first six months there was almost closer to nil funding by the government. We have the orders in hand and that scheme has the funding. So it will happen but it can get pushed even out of this year as well but the fact is we retain our market share. More importantly what we have decided and what we have really put together is the widening of those offerings beyond our proper GAM accounts in terms of companies which have larger fleets whether it is energy utilities, whether it is oil and gas or manufacturing that we see. We see traction also outside India. We have got some orders from both Africa as well as Southeast Asia. So I think from that sector we have extended our market for this product and we also see there are some interesting niche segments where these products can go in other areas of transportation. All these will take some time, certainly we will not make the numbers which we made last year but at the same time the good part is the orders as well the market share is intact.

Nitin Padmanabhan: Sir if you look at the India business on the ITS side where when it could get pushed out to next year will the Africa and Southeast Asia business sort of have some reasonable compensation?

Kishor Patil: It will have some order booking in Q4 or so but most of these orders are long lead because it also depends upon other players to do their part of the job. So I believe many of these orders which we talked about the export orders get reflected significantly next year. Some part of it in Q4.

Moderator: Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Hi Sir, congrats on a good quarter. On the ITS business do you have visibility for 3Q and 4Q or is it that while you are well into the quarter only then you come to know what kind of deliveries are planned for the quarter.

Kishor Patil: We do not see significant uptake right now because we get our delivery schedule just actually a month before and then what happens is OEMs have to put together their inventory to you. So it depends upon kind of their integrated supply cycle. So at this point we see that many of these orders we get are reflected back ended. There are certain revenues which we will get in Q3 but large part will get into Q4 or Q1 of the next year.

Mohit Jain: If you could help us understand segmental growth which is expected going forward in terms of automotive and SAP and Oracle.

Kishor Patil: Let me take it differently. Let me take it from the vertical perspective first and then I will come to SBU perspective. Automotive continues to show significant growth and the pipeline is pretty strong, from that perspective that continues to lead the growth both growth as well as the margin. The second area is utility and energies even though the energy part is a bit soft, I think overall utilities will continue to do well so that is another area where we see growth. Third is in manufacturing. We believe that manufacturing part as you might have seen Europe and Asia are showing good growth. So I think on the basis of some of the customers which we have acquired we will see that growth. I mean I am not saying next quarter or so but the manufacturing will show growth based on a stronger customer base going

forward. So this is in this manner automotive followed by energy utilities followed by manufacturing. If you go to the SBU area engineering is top of the pack. It shows significant growth. I believe SAP and Oracle will show some growth, as we had mentioned the revenues what we have shown in SAP as I said are sustainable. Oracle we have won many deals so we will see some growth in these areas but I would not put it as significant growth but these two areas will continue to grow. The third area digital growth both driven by IMS and BI analytics, I think these are the areas which will continue to show growth. Right now the size of these practices is relatively less as compared to the total revenue but the growth in these areas will be higher in terms of percentage. So overall it will start showing impact as we move forward.

Mohit Jain: So in terms of these two practices SAP and Oracle do you think like on an overall basis the kind of base we have versus digital contribution is it possible to do 5% plus sort of a growth number on a sustainable basis?

Kishor Patil: I would not like to give you a specific number but I would say that these practices will show growth.

Mohit Jain: Third thing is on your commentary why profits could be flat in this particular year because from my calculation even if you maintain your run rate of profit in 3Q and 4Q you should be alright when we compare it on a YoY basis.

Sunil Phansalkar: Mohit what we said at the beginning of the year there would be marginal growth and that is something that we believe should do. As Kishor said in the earlier opening comments in Q3 there might be some impact on the net profits because of the changes in other income because of the currency movements and that is something that we will have to wait and watch but apart from that as you rightly said if we even maintain the current run rate there would be a marginal growth and that is what we had said at the beginning of the year and we maintain that today.

- Mohit Jain:** So outside of currency you should be able to maintain this kind of a rate. The only risk is currency, is that a fair assumption?
- Kishor Patil:** Yes and I also mentioned that there are areas where our EBITDA margins can expand further and that could however be more visible in Q4.
- Mohit Jain:** I just notice one thing it last from my side. You also talked about increase in debt levels for the capex that you are planning to do with the new facility. Is there a plan wherein you are looking at debt reduction significantly at the KPIT level or should we assume that the debt levels will continue to be there, absolute gross debt not net level?
- Anil Patwardhan:** Basically what we are saying is we borrow working capital for our short term needs and we maintain certain cash reserves. We have been following that policy. Term loan is very, very transaction specific. So in this case this term loan which we have got the approval from our board is specifically for our capital expenditure in the phase three. In my view the repayment of earlier term loans will continue to be done as per the existing plan but then this is an additional term loan which we are contemplating here.
- Kishor Patil:** Also to add on that I would like to look at some history and then come back to explain the logic because there are many people who ask this question. We grew organically very strongly but also we grew inorganically sometime and what it means is we really invested our resources our own as well as through borrowing. Naturally there are no further any significant payment left on the acquisitions which we have made but what we believe is as we are building forward we would like to have cash on the balance sheet, we do not have significant cash on hand right now. So instead of using all that cash into either capital investment or any of these things, we would like to preserve that cash for any opportunities which come for any significant investment. So it is always useful to have that cash at hand and for anything like this like any special capital project, basically this project will also get

over in 12 to 18 months. Secondly the kind of rate of interest which we get for this kind of thing is less than 3% more like 2.5%. Even with this cash we get we can until we put to use we can actually be positive in terms of interest earnings also on this. So as a prudent practice of having enough liquidity and financing your capital expenditure through long-term funds that is what we feel is a very prudent practice. Now going back to your question also I think you might have seen the cash generation which is very strong during this quarter. We would keep that trigger and we do believe that overall we will be net cash positive borrowing in sometime.

Mohit Jain: Understood and this new facility is purely for growth expansion or this will be used for some consolidation as well?

Kishor Patil: Right now it will be growth expansion because see we have 25 acres of land which is there and actually there are other rules also right and when you start building this it takes about 12 to 18 months to get the facility up and mainly in SEZ area etc. So I think initially it will be for expansion but naturally we can always consolidate it going forward, the facilities.

Mohit Jain: Given that explanations to maintain cash is it fair to interpret that you are open to acquisitions also.

Kishor Patil: There is nothing in the short-term we are looking at. Right now we are seriously focused on operational efficiency increment, getting to very strong EBITDA margins, investing into the organic growth areas we talked about but having cash on hand is always useful to capture any opportunities, organic or inorganic.

Moderator: Thank you. Our next question is from the line of Harit Shah from HDFC Securities. Please go ahead.

Harit Shah: Congrats on a very good set of numbers. My question was relating to your SAP business. So after a very disastrous fourth quarter you bounced back very strongly

over the next couple of quarters. I just have one query. Is there any incremental percentage of AMC revenue, in fact in the last quarter you had actually mentioned you will be looking to probably break out the AMC revenue percentage in your SAP business and maybe give last two three quarter trends also, if you could give some color on that would be really helpful.

Sachin Tikekar:

Sure so you see in quarter-on-quarter growth from Q4 to Q1 and again from Q1 to Q2. This is because of four reasons. So number one to your point I think the AMS component is going up in fact there are three large deals that we have closed which span over two or three years. So that is the good start. Obviously it is still a fairly low base so we need to continue to do more work but I think that is a good start and that has actually made a difference especially in Q2 results. So the focus will continue to do more and more AMS. I think we have a good start there are couple of large deals that gives us the confidence and the credibility. That is number one. Number two we are also doing more and more work on HANA and Hybris where SAP is actually investing more heavily and seeing more traction and we believe that is actually a level playing field for us and now that we have done substantial amount of work there that may just give us an edge going forward. Now these deals are not like any transformational deal and you do not get \$15 to \$20 million deals here but it is a good way to get started so that we can continue to expand in the right direction. That is the reason number two. Reason number three is we have seen good amount of traction and growth outside of US for the first time for SAP SBU. We have done good amount of work in Asia, which is fairly profitable that has helped the business and last but not the least as Kishor mentioned earlier on we have also closed some business in the utilities area in the US. So in terms of offerings it is the AMS and the HANA Hybris areas and in terms of geography the expansion has happened in Asia and we believe that we should see some growth in Europe in the coming quarters and from the vertical perspective it is utilities that has made the significant difference over the last two quarters.

Harit Shah: Any kind of percentage that you can give out in terms your AMC as a percentage of SAP revenue as of now?

Sachin Tikekar: It was in the early mid 20s last year and our target is to get to in mid 30s during this year and that is what and it looks like we are on target if we continue to go down that path in Q3 and Q4 but it really needs to be at least 50% I mean that is the final goal.

Harit Shah: Second question is regarding the utilization. You had a very good pop up in the last couple of quarters especially the second quarter on your utilization rate, so now do you think that is there any further scope for upside here or would you still incrementally be looking to hire more people and then grow obviously the overall employee base has been falling over the last couple of quarters but utilization has increased so that has obviously helped your margins, so going forward any further scope for upside here on the front.

Sachin Tikekar: If you really look at it lot of operational efficiency has come in A because we have absorbed lot of the freshers and we believe that is the right model for us while there is going to be growth in business, there is a sort of a fine line between having enough utilization and going overboard with utilization. I think we have to get our freshers model right. So we have done fairly well in H1. We have to do the same thing in H2 in order to absorb enough freshers to get them ready as quickly as possible. So the kind of growth that we have seen in utilization you will not see the same kind of growth coming in H2 because we have to continue absorb the growth but gradually over a period time will continue to increase utilization because we believe that is the right model for us.

Harit Shah: So will fresher hiring continue in the second half?

Sachin Tikekar: Absolutely.

Moderator: Thank you. Our next question is from the line of Rajat Budhiraja from Banyan Capital Advisors. Please go ahead.

Rajat Budhiraja: Thanks for taking my question. My first question is on Europe geography, which has shown really very good growth. So can you please comment on that?

Kishor Patil: If you really look at Europe, Europe has been sluggish for the last few years. However some other companies have seen growth over the last year or two and finally Europe is opening up in spite of sluggishness in the economy. If you really look at the growth bulk of the growth for us in Europe actually came on the back of some of our GAM account from the auto IBU and we have done reasonably well there. We also see some growth from our manufacturing customers in Europe and our hope is that over the next few quarters we will continue to grow in a balanced way in the immediate future in automotive will continue the growth. In manufacturing we should start to see some growth. E&U would be the last area to grow for us in Europe but we want to have a balanced growth across the three verticals.

Rajat Budhiraja: My second question is on the little bit guidance that you are saying for Q3 and Q4. I am little confused whether you are saying revenue would be flat or it is slightly better. So this is in dollar terms or rupee term?

Kishor Patil: What we have said is naturally we will grow in H2 but what we said in Q3 basically we will have a flattish quarter that is what we have said, we may have a flat to marginal growth because there is typically 2% to 3% impact because of less number of days during that quarter. We will have growth in Q4. What we have mentioned at the beginning of the year we are not giving any specific guidance but what we had said at the beginning of the year is we will have the same or marginally higher revenues as compared to last year and same thing we had talked about profits and that we have said at the beginning of the year first quarter as we have not given the guidance and that is why we have given that kind of a

statement even though we have not given the guidance. The reason was we wanted to focus on what we need to do right, get the operational efficiency better, improve the margins and invest into some of these growth areas and as I mentioned we will continue to grow. So overall we do see a growth both in terms of topline in H2 and also expansion of EBITDA margin H2. So both things will happen in H2.

Sunil Phansalkar All the growth numbers are in dollar terms.

Rajat Budhiraja: Okay I understand so if I look at in rupee term so this is already like 6% to 7% move. So if I look at rupee term there should be a good growth in H2 with expansion in margins. So this is the way we should look at and assuming that the currency remains at the same level.

Sunil Phansalkar: If the currency remains at the same level then dollar growth will be equal to rupee growth and we should see some expansion in margins in H2.

Rajat Budhiraja: As well as revenue growth 7% to 8%.

Sunil Phansalkar: No we are not talking about any number for revenue growth. We are just saying that Q3 would be flattish and Q4 would be a better growth in dollar terms. We have not specified any specific numbers.

Moderator: The next question is from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity and congratulation to the management team for such a fantastic number. My first question is Sir what was the surprise element for the management during this quarter and what is the concern which we see going ahead?

Kishor Patil: So the surprise element, I would not say surprise, but I would say that we could accelerate our actions on operational performance and that gave us more benefit than we had expected during the quarter. The second surprise element was currency, which we had not expected right to give such benefit in the quarter. So these were the two I would like to say are the surprise elements.

Amar Maurya: What is the concern you see?

Kishor Patil: In terms of concern I do not have any particular as such concern right now but I think we have not really finished our actions in terms of operational performance. We have still more actions to do and as we had said basically we want to really make sure that it becomes more long-term sustainable framework of the way we will manage the operations. So I think we will continue to work on that area. I think that is the second part. On the growth part we believe overall the areas where we are and I mentioned which are the areas of growth etc so I see good opportunities in many of them. So that is good if at all you ask me about the concerns there are two areas where I would say that we will continue to watch that very closely. One is in the people part where I think the attrition rate is bit higher than what we expected or I would not say expected. We expected that but I mean that we would like to bring it down and that is number one and number two we would like to have more offshoring than what we have until now. So I think we believe both of these can help us in further improving our performance.

Amar Maurya: Sir when we say about the operational efficiencies which we have bought like what were the actions primarily if you can just and why it has actually yielded a better than expected result because I believe in first quarter our commentary was little bit dull about that. So just wanted to understand more like what has actually surprised us if you can on a pricing front.

Sunil Phansalkar: Sure I think six, seven months ago we said that we needed to focus on the operation then the results will take two to three quarters to realize that and the

areas that we were working on are basically span of control, people pyramid, hiring of freshers just having a sort of an operating system ready not only for today but something that will sustain for the next two or three years. So we sort of revamped that entire operating system for KPIT. It took us two or three months to put that in place and we have been executing very well on it for the last three four months and now you can start seeing the results of it especially during Q2 and since Q3 is going to be flattish I think we will not see much of an impact here or there but as Kishor said earlier on, Q4 onwards you will see marginal improvement as we continue to go down that path. So essentially we were just focused on putting together an operating system that will work for us going forward and not just for today.

Amar Maurya: So what you want to say here is that this is the restructuring or whatever reorganization which you did primarily on the people front or on the client restructuring front or on the focus areas front. This is like to stay for a long-term or there would be further investment which we will be doing, so how long this investment is likely?

Sunil Phansalkar: So if you look at it I think on the operational side we have created a sustainable model. It should help us over the next couple of years to sustain and gradually improve on the operational efficiency side. Second part that we talked about six months ago was the long-tail customer part. Some customers were not aligned to our verticals and we were not strategic to them and we were not making money out of them. Those customers are done with. We have done the transition there. That is also helping us to bring in sharp focus and put our key resources with the customers that matter to us. So that part is also done. From sustainability perspective the customer thing was a one time thing. So that will not be a factor going forward. However all the operational efficiencies that we have put together as the business increases that should have a positive impact on the EBITDA over a period of time.

Amar Maurya: Sir now second question is on the revenue visibility front. Like we are pretty much confident that at least we will be closing the quarter, second half would be better than the same time last year second half. So what gives us the confidence like why I am asking this thing to you if I see Cummins, Cummins has just bounce back after so many quarter of degrowth. Now if I see the automotive, automotive has given a significant spark but is it sustainable. Secondly talking about the energy and utility vertical bad days are over for this particular segment. What gives us the confidence that now the second half and these revenue look sustainable over a period of time?

Kishor Patil: Three things. One is we have probably some more expanded base of customers which I would say GAM. Certainly it gives you more flexibility or more ability to address customer-specific issue. That is point number one. Point number two is we had made certain investment into some new area. We did not have IMS as a practice. We did not have digital. So we have added that and slowly but steadily. I think those offerings have come up and we have started seeing some traction in that area. So the areas I mentioned in terms of growth are just that we have expanded the footprints of our GAM accounts. That is where we want to invest in terms of account managers. So that to bring sharper focus on growth of these accounts and I think we have analyze this right after looking at what is the spend what is our competitive positioning. What we are doing etc. So looking at all these three areas and the macro I would say macro factors which would enable growth in these segments. That tells us that we would have a better growth now. Coming back to operations I think what we mentioned last time is we have put some underlying processes in place whether it is CRM process or certain I mean naturally we always had CRM process but the stronger CRM process one KPIT process integration of multiple MIS systems to have a better predictability. That work is in progress but because of the rigor which we have brought and the changes we have made we are more comfortable in making this statement.

- Amar Maurya:** Sir what I understood from the explanation is that probably they top accounts growth which we got during this quarter is more to do with the new offerings and new service line which we had started.
- Kishor Patil:** Yes partially because of the new investments that we have made and new services have started and little bit from the existing also we have seen as in case of SAP and product engineering services. So I think it is a combination of the two.
- Amar Maurya:** Sir what was the contribution of digital in this quarter. I believe last quarter it was 12% right.
- Sunil Phansalkar:** It is about same number 12% during the quarter.
- Amar Maurya:** What was the contribution from product platform?
- Sunil Phansalkar:** Overall there is a growth of more than 20%. Yes it is about 24% growth in the quarter.
- Amar Maurya:** In product itself excluding the product engineering right.
- Sunil Phansalkar:** Yes that is correct.
- Amar Maurya:** IMS would be contributing 2% to 3% revenue today overall.
- Sunil Phansalkar:** Yes it is roughly in that range.
- Amar Maurya:** AMS and IMS.
- Sunil Phansalkar:** No only IMS.
- Amar Maurya:** Only IMS. AMS would be higher right.
- Sunil Phansalkar:** Yes. I mean it is spread across all the SBUs.

Moderator: Thank you. Our next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Regarding this head count reduction was there any involuntary attrition at the top end of the pyramid or any onsite reduction which gave this margin benefit?

Sunil Phansalkar: I mean if you do the basic calculation you can see that overall there was a reduction across all levels in KPIT. That includes the top of the pyramid. It also includes some people onsite but I do not think there was a focus on any particular area. I think it was we just had to get to the pyramid right. We had to bring in the right kind of freshers and we had to keep the right kind of DNA in the organization that will help us fuel growth going forward.

Madhu Babu: Could you talk about Oracle portfolio I mean with this could migration substantially happening there also. Would there be any volatility in the enterprise solutions segment of our business?

Kishor Patil: In case of Oracle there are two sectors to Oracle. One is the JD Edwards and second is non-JD Edwards. In case of JD Edwards it is I mean there is not a significant impact from the cloud factor in that segment. Relatively slow I would say impact in that sector and there the opportunity is more in terms of more products surround JD which are largely Oracle or non-Oracle products and integration with that. So I think that is how it is. In case of Oracle there is pure Oracle e-business as I would say. I think there are areas in the cloud which are there but in that segment our AMS percentage of revenue are still reasonable and actually we see some of these new products coming in as a growth opportunity.

Madhu Babu: Could you talk about how much of a business is in enabling to cloud migration etc in Oracle, JDE as well as SAP combined?

Kishor Patil: Right now I will not be in a position to give the number but we will give the numbers next time.

- Moderator:** Thank you. Our next question is from the line of Dipen Kapadia from Phillip Capital. Please go ahead.
- Dipen Kapadia:** Congratulation Sir on a good set of numbers. Is it possible to give us a margin breach in terms of the impact of utilization currency and stuff like that because largely the benefit has come in from the gross margins perspective, employee utilization and currency has been the large beneficiary? So if you could give me a margin breakup it will be good if possible?
- Sunil Phansalkar:** So the currency impact is about 70 bps on the quarter's margin. I think if you look at the expansion in gross margin it is couple of factors other than currency. One is the growth that happens. The qualitative growth that happens with marginal increase in the cost of employees and the second factor was the reduction in the total number of employees plus the change in pyramid. It is difficult to quantify this individually but I think these were the three main factors why there was expansion in gross margin. The currency factor was about 70 bps but the major contributors were operational efficiencies, majorly employee pyramid and reduction in total people cost.
- Dipen Kapadia:** Just one more question largely if you look at there if we do a small incremental growth analysis largely 70% of the growth is coming from product engineering services in the last quarter also it was coming from the same place. So could you give me some drivers of what is leading to such strong growth in product engineering services and how should we look at it going ahead because its now contributing roughly \$43 million and its contributed 70% of your incremental revenue.
- Kishor Patil:** There are multiple drivers for that. Overall we had talked about three four large drivers and they continue to be one area of growth is basically as I said I am talking about some of the new areas, which is basically your autonomous vehicle or any functionality about region systems. That is the significant area very I mean less skills

available across the world and most of the companies want to come up with some features are the other in every program what they are doing. So that is probably the highest growing area. The second is area in terms of infotainment which is also high growth area. The third area is in terms of electrification of powertrains and the battery management system etc. That is the third area and then the fourth is the standardization in terms of tools, functional safety as well as autosar or any of these areas. So these are some of the key drivers. There are also few other factors than the areas I mentioned. One is the government regulations specifically something like North America. You have to show strong performance improvement overall in specific areas like emissions etc every year or fuel efficiency. So that is the point number one. Point number two is because of the increasing competition etc the number of programs has increased and then to differentiate I think new features have been added more rapidly. If you come to some other areas even Asia and I would say going forward even in some case of China as it becomes more globalized I think these companies also they are looking at global markets and they need help specifically because most of them do not have the competency and in some case like Japan they do not have the scale to build on this. So that is what overall is driving the thing. One more area in that is transportation in automotive. Public transportation is becoming more critical, also commercial transportation along with the public transportation so that again is an area because of the investment in multiple market that is also growing. We have actually not expanded many of these offering in the manufacturing sector which remains an untapped opportunity.

Dipen Kapadia:

So Sir going ahead, to put it in simple words, our two levers is going to be product engineering service growth and SAP growth because enterprise in spite I mean enterprise has remained weak with JD Edwards going through the impact of cloud. We might have some problem. So going ahead we will be concentrating more on the product engineering service given the service of the product engineering to be

given to manufacturing and growing growth in SAP am I am correct in my interpretation.

Kishor Patil: Product engineering it does have significant opportunities but beyond that I mentioned that digital area is a significant opportunity we can give. As I mentioned in both ERP areas we do see opportunity for growth because of expansion of new customers in more globalized market not only USA which you see Europe as well as Asia. So overall from our practice perspective that remains an opportunity for growth as well.

Moderator: Thank you. Our next question is from the line of Jagdish Bhanushali from Florine Tree Advisors. Please go ahead.

Jagdish Bhanushali: Could I get some sense of how the Japanese OEM is coming for us and when are we in line to receive the first tranche of revenue from them?

Kishor Patil: We work with almost all OEMs globally including Japanese. We do have relationship almost 70%, 80% of if not more of the OEMs worldwide. So naturally the speed of growth is different across different OEM but actually we do believe that Japanese market is more open currently for multiple reasons for outsourcing and we will see some growth going forward from that.

Jagdish Bhanushali: How about the North American OEM for KIVI Infotainment?

Kishor Patil: Overall North America market is very hot you can see from the employment index etc., of Detroit also, overall significant opportunities there. Multiple programs being taken. I would not comment on a particular product but in the overall domain of infotainment there is a lot of opportunity. For KIVI kind of products which we have we see more emerging markets opportunity for now.

Jagdish Bhanushali: Another question was that do we see a subcontracting job expenses coming down from here on as well?

Sunil Phansalkar: As you can see it has been reducing over the quarters over the last three quarters. So there is obviously a conscious effort to keep it to the minimum level as possible. Difficult to say whether it will keep on coming down but what we are saying is it is not going to significantly increase from here. There could be some movement either way but the aim is to obviously bring it down as much as we can.

Jagdish Bhanushali: Could I get a sense of which part of the quarter like did we get a fresh hiring of 415 fresh graduates?

Sunil Phansalkar: So obviously during the quarter we have not got the full benefit of that pyramid and some of it will flow into the next quarter.

Jagdish Bhanushali: When I see that in past year majorly we have hired fresh graduates mainly into product and engineering services so wanted to understand that do we have any targets to ramp up our utilization in H2 and this is what from 70% we need to move from 70% to 75% by the end of H2.

Sunil Phansalkar: Obviously we want to improve it the offshore utilization currently is at 70% and we believe that we should take it up by about 4%, 5% point. We would not like to comment on the target quarter when we want to do it but obviously there is scope and that is something we will keep working on.

Kishor Patil: It is also that when you take the fresher utilization goes down for sometime as well, so it is a combination. I mean naturally we want to make them productive as soon as possible that is where we are making the maximum investment and that is the reason we cannot exactly predict which quarter. We will keep that number.

Jagdish Bhanushali: I wanted to understand is there any further scope of rationalization of pyramid?

Sunil Phansalkar: So this fresher addition is definitely what we said will continue and that should help better the pyramid as we move.

- Moderator:** Thank you. The next question is from the line of Neerav Dalal from May Bank. Please go ahead.
- Neerav Dalal:** Thank you for the opportunity. I had one question regarding the net addition. When do you see them turning positive or do you see this trend to continue for a couple of quarters?
- Sachin Tikekar:** I think as we said before we will continue to hire freshers; that is the model. Rest of the model I think we probably have little bit of head room for now given how Q3 is. So we will see I think for the rest of the year I think we have enough head room to work with what we have.
- Neerav Dalal:** So still the net reduction to be possible.
- Sachin Tikekar:** No I think what I am saying is I think we are comfortable where we are. We will continue to increase people will continue to take people from campus but as far as the rest of the people are concerned we are comfortable with what we have for the outlook that we see for Q3 and Q4.
- Neerav Dalal:** Do you have a target fresher addition number for the year?
- Sachin Tikekar:** At this point in time we know that will continue to hire in Q3 and Q4. The number actually gets finalized during the quarter working with all the SBU; right now we cannot really share a number.
- Neerav Dalal:** What is the capex guidance for the full year?
- Anil Patwardhan:** We are looking at investing around 130 to 140 Crores for the year as a whole which includes our maintenance capex and which includes we have been adding couple of big facilities for which the capex is being done during the financial year. So I think nothing beyond that.
- Neerav Dalal:** So this is excludes the approval regarding the new capex that you would be doing?

- Anil Patwardhan:** That basically includes but I do not see major capex happening remaining part of the financial year. It will be initial.
- Neerav Dalal:** So this year will be the addition that you have done the facilities plus the material capex?
- Anil Patwardhan:** Cash flow perspective it will not have major cash outflow, this is inclusive of what number I just stated.
- Neerav Dalal:** So the cash outflow would not be 130-140 Crores, it will be lower than that.
- Anil Patwardhan:** 130-140 is inclusive of the cash outflow for the new facility.
- Moderator:** Our next questions from the line of Rahul Jain from Systematix shares. Please go ahead.
- Rahul Jain:** Yeah, sorry if I sound little repetitive here, but I am able to reconcile the thoughts in terms of what the outlook we are sharing for the second half because if I see the Y-o-Y number for the first half we have almost achieved what we were we did in the fiscal 2015 first half and obviously the last year we had a very sad Q4 number so we would not obviously be anticipating similar kind of a thing happening in Q4 or Q3 so why we are seeing a flattish kind of a number for the whole year both on the growth as well as margins?
- Kishor Patil:** I think you need to interpret what we have said, first we are not giving any guidance, what I mentioned is we are maintaining what we have said at the beginning of the year. At the same time we have also said that in terms of margin we have been in a position to expand it in Q4 further going. We said that the next quarter will be flattish because of the number of days Diwali as well as Christmas holidays and overall nature, we have said that the Q4 will see the growth. So I think you have to put it together. Considering all this we just mentioned that we are

maintaining what we have said at the beginning of the year. But we are not giving any specific guidance.

Rahul Jain: Okay, now I got that. and just from an operating leverage perspective if I see from utilization front I think offshore utilization run rate is way pretty low compared to the industry standard so what you would see the road map there and how quickly we could see industry kind of a number there on the offshore utilization front?

Sachin Tikekar: No as Sunil mentioned earlier on there is obviously headroom to improve that but given the intake of freshers we don't want to put a timeline, our target is to get to 75% in the near future but whether it is going to happen in three months or six months we don't want to put a timeline to it but we are working very hard to get there.

Rahul Jain: So 75 for off-shore are you are saying blended?

Sachin Tikekar: Off-shore.

Rahul Jain: So from current level of 69 we could take it to 75%?

Sachin Tikekar: Yes, current level of 70.

Moderator: The next question is from the line of Raj Kantawala from Equirus capital private limited. Please go ahead.

Raj Kantawala: Thank you for the opportunity and congratulations on a good set of numbers. Just few questions on pricing, are we facing any pricing ratios in any of the segment in terms of product engineering and even on the digital front?

Sunil Phansalkar: We see a very positive environment. We do not see any issues other than energy sector in some parts of the world specifically North America where we see some pressure on the rates.

- Raj Kantawala:** Which is the segment that we are facing the least amount of competition and the maximum amount of competition in terms of let us say, product engineering or digital or any other sector?
- Sunil Phansalkar:** So if I understand your question correctly and to put it as you said is the area where we face the least competition and the area where we face the maximum competition.
- Raj Kantawala:** Correct.
- Kishor Patil:** I think we face competition every where right, I think we are just very well placed in the area of our expertise and leadership so I think in automotive and engineering we are very well placed. We are, I would say both in case of some of the specific areas in terms of digital part in terms of like IOT we are very well placed. We are very well placed in some areas in the JD space we are very well placed because being the leaders in that area, in case of SAP is some of the cloud products and HANA are some of the areas we are very well placed. So there are areas naturally where we are very well placed. In spite of some of the other sectors whether you would say AMS or IMS we are not as very well placed as compared to these offerings.
- Raj Kantawala:** Sir just last question on the pyramid, we continue to hire a lot of freshers, so are we seeing any competition from startups or any other from for raising the salary gap and have we changed the salary structure for the freshers this year compared to the last year or how is it?
- Sachin Tikekar:** If I were to add one thing to Kishor's areas of strength I think we have done very well in terms of our campus connect. We work with very specific colleges and universities and we are there on Day Zero. We run many programs with colleges that start touching the students in their year one and year two and we continue to do well there, so we do not see an issue getting to the number that we have to get to in terms of the fresher intake and the quality of those freshers.

- Raj Kantawala:** Right Sir. So have we taken any base salary increase or change this year compared to the last year for freshers.
- Sachin Tikekar:** Yes, we have changed the model and we have also increased the salary for our freshers for this year starting next year.
- Raj Kantawala:** Okay got it. Thank you so much and all the best.
- Moderator:** Our last question is from the line of Jagdish Bhanushali from Florine Tree Advisors. Please go ahead.
- Jagdish Bhanushali:** Just one thing I wanted to understand is that FY'16 you have already given a sense of how SAP will look, wanted to understand how FY'17 comes up for us in SAP vertical?
- Kishor Patil:** We talked about overall what we are doing and naturally these actions are not for one quarter or two quarters but overall. If you ask me only about SAP or etc. so we talked about it there are certain opportunities in SAP area like S4 HANA or some of these which we believe can really increase and bring back some of the growth in the implementation areas, so there are certain sector areas in analytic part or cloud products, there are certain segments and we are focusing on that but apart from that we would give any specific guidance only towards the end of the year on any of these points.
- Jagdish Bhanushali:** Just to understand that in the SAP itself do we see the AMS part moving at a higher growth than the implementation?
- Sachin Tikekar:** As I mentioned earlier on, there are three four levers in SAP. AMS obviously as percentage of the total revenue is very less, it was about mid 20% last year, it is going to be mid 30s this year, so we will see a shift but that is still not good enough, we need to get to 50% kind of a range over the next few quarters.

- Moderator:** We have question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Due to certain events in the last few months there been increased focus on hybrid vehicles, so wanted to understand during the interaction with customers are you seeing increased requirement of spending in this space that you would be better positioned to cater to that and also in the PES space what proportion of the revenue would be from direct OEM sales and what would be from tier I suppliers?
- Kishor Patil:** I mentioned earlier that electrification overall is one of the major trends which include hybrid as well as electric vehicle, so there is a significant opportunity and we are in a very good position there. To your question in terms of OEMs our significant business or a higher percent of our business is with OEMs as compared to tier 1.
- Srinath Krishnan:** Sure thank you Sir. Would it be some like 80 from OEM and 20 from Tier I?
- Kishor Patil:** No that I would not like to give those details but I would say dominant position in the OEMs.
- Srinath Krishnan:** Okay sure. But in the power train generally the spending is happening from the OEM side or from the tier I side because more of component suppliers would increase the spending here?
- Kishor Patil:** It's largely OEM.
- Moderator:** Thank you and that was the last question and I now hand the floor over to Mr. Apurva Prasad for closing comments.
- Apurva Prasad:** On behalf of Reliance Securities I would like to thank the management for giving us the opportunity to host the call and all the participants for joining the call. Thank you and all the best.



KPIT Technologies Limited
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Moderator: Thank you very much Mr. Prasad. On behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.