

Robust Execution; Resilient Outlook to Support Growth

Est. Vs. Actual for Q1FY25: Revenue – **INLINE**; EBITDA Margin – **BEAT**; PAT – **BEAT**; Deal Wins – **BEAT**

Changes in Estimates post Q1FY25

FY25E/FY26E: Revenue 1%/1%; EBITDA Margins 1%/1%; PAT 1%/1%

Recommendation Rationale

- The management has highlighted **robust and broad-based growth across various verticals**, supported by a solid deal pipeline and enhanced client engagement.
- Total Contract Value (TCV) remained strong in Q1FY25**, with deal wins amounting to \$202 Mn.
- The management is **optimistic about gaining medium-term demand momentum** due to deals secured in previous quarters and anticipates improvements in margins.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Strong revenue growth momentum will continue backed by robust deal wins and strong addition of capabilities. FY25 revenue growth guidance retained at 18% to 22%. EBITDA Outlook retained at 20.5%+.

Current Valuation: 58x FY26E P/E; Earlier Valuation: 47x FY26E

Current TP: 2,150/share (Earlier TP: Rs 1,750/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 Q1FY25 revenue of Rs 1,365 Cr, reflecting a 3.6% QoQ and 24% YoY increase, in line with our expectations. The operating profit was Rs 236 Cr, up 7% QoQ, surpassing expectations. Operating margins expanded by 40bps to 21.1%, driven by strong volume growth and a favourable currency mix. The net profit for Q1FY25 stood at Rs 204 Cr, marking a 23% QoQ growth due to a one-time gain.

Outlook

From a long-term perspective, KPIT Technologies Ltd. is positioned for encouraging growth, supported by multiple long-term contracts with leading global brands. The company's improved revenue visibility enhances confidence in its business growth trajectory. KPIT's strong client engagement and technical expertise underscore its potential to become one of the fastest-growing companies in the Indian IT services sector.

Valuation & Recommendation

We assign a 58x P/E multiple to its FY26E earnings of Rs 37.1/share to arrive at a TP of Rs 2,150/share, implying an upside of 16% from the CMP. Hence, we recommend a **BUY** rating on the stock.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,365	24%	4%	1393	-2%
EBIT	236	35%	7%	235	0%
EBIT Margin	17%	40 bps	248 bps	17%	8 bps
Net Profit	204	52%	23%	183	12%
EPS (Rs)	6.06	47%	0%	6.7	-10%

Source: Company, Axis Securities Research

(CMP as of 24 July 2024)

CMP (Rs)	1,852
Upside /Downside (%)	16%
High/Low (Rs)	1,929/1,039
Market cap (Cr)	50,765
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	27.19

Shareholding (%)

	Dec-23	March-24	Jun-24
Promoter	39.5	39.5	39.5
FIIs	25.91	25.91	25.91
MFs / UTI	7.49	7.49	7.49
Banks / FIs	0	0	0
Others	26.2	26.2	26.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,872	5,738	7,141
EBITDA	991	1,148	1,428
Net Profit	599	786	999
EPS (Rs)	22.3	29.2	37.1
PER (x)	67.3	51.4	40.4
P/BV (x)	19.7	15.7	12.6
EV/EBITDA (x)	40	34	27
ROE (%)	31%	32%	33%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	1%	1%
EBITDA	1%	1%
PAT	1%	1%

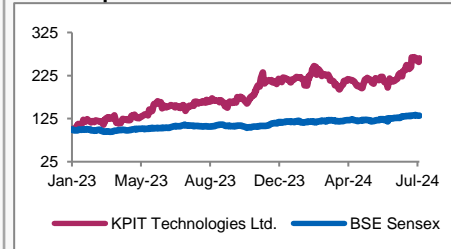
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	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 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities Research

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Key Highlights

- **Continuing strength in the demand environment in the medium term:** The UK market is experiencing an uptick in cost optimization deals coupled with faster decision-making processes. This trend, along with increasing demand for Engineering Research and Development (ER&D) services and KPIT's strong execution capabilities, is driving accelerated revenue growth. The management is optimistic about maintaining long-term momentum, supported by a robust deal pipeline.
- **Broad-based vertical growth:** On the vertical front, the Passenger Car vertical grew by 5.2% QoQ, demonstrating robust execution. Commercial Vehicle grew marginally by 0.4% QoQ. The company is focusing on the Top 25 clients to mine more business and improve client engagement. Strategic revenue grew by 3.8 % QoQ.
- **Robust Services mix:** On the Services line front, feature development and integration services (90% of revenue) showed a strong growth of 2% QoQ. Cloud-based connected services (26% of revenue) showed a growth of 0.6% QoQ, while Architecture and Middleware consulting (29% of revenue) continue to demonstrate strong growth of 13.7% QoQ.
- **Better geographical performance:** On the geographical front, North America (44% of revenue) de-grew by 1.6% QoQ, Europe (76% of revenue) grew by 3.3% QoQ, and Asia (25% of revenue) business grew by 13.2% QoQ (in 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)

Rs Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total Revenue	1,318	1,257	1,017	30%	4.8%
Operating expenses	1,045	998	835		
Total Operating Expenses	1,045	998	835		
EBITDA	279	259	170	64%	8%
Margin(%)	21%	21%	17%	447	59
Depreciation	53	50	42		
Operating Income	220	209	152	45%	6%
Margin(%)	17%	17%	15%	177	12
Total Other Income/(Expense)	16	17	6		
Income Before Income Taxes	224	212	136		
Total Taxes	59	55	25		
ETR (%)	26%	26%	18%	803	19
Net Profit After Taxes	166	155	112	49%	7%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	166	155	112	49%	7%
Margin(%)	20%	20%	21%	-123	0
EPS	6.06	5.73	4.13	47%	6%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	3,365	4,872	5,738	7,141
Other operating income				
Total income	3,365	4,872	5,738	7,141
Cost of materials	66	72	0	0
Employee benefit Expenses	2,155	3,112	3,759	4,677
Other Expenses	534	710	832	1,035
EBITDA	635	991	1,148	1,428
Other income	40	60	143	179
PBIDT	675	1,052	1,291	1,607
Depreciation	146	196	184	215
Interest & Fin Chg.	32	55	60	60
E/o income / (Expense)	0	0	0	0
Pre-tax profit	497	801	1,048	1,332
Tax provision	110	202	262	333
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	387	599	786	999
Other Comprehensive Income	0	0	0	0
PAT after Comprehensive Income	387	599	786	999

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	2,237	2,391	2,924	3,552
Net Block	415	405	371	365
CWIP	32	15	15	21
Investments	1,457.42	1,459.32	1,459.32	1,462.56
Wkg. cap. (excl cash)	-121	138	139	192
Cash / Bank balance	454	374	940	1,512
Misc. Assets	-1	-1	-1	-1
Capital employed	2,237	2,391	2,924	3,552
Equity capital	270	270	270	270
Reserves	1,393	1,782	2,292	2,940
Minority Interests	0	0	0	0
Borrowings	323	323	323	323
Def Tax Liabilities	60	60	60	60

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Sources	916	584	693	863
Cash profit	566	850	1,029	1,274
(-) Dividends	106	210	276	351
Retained earnings	460	639	753	923
Issue of equity	0	0	0	0
Change in Oth. Reserves	64	0	0	0
Borrowings	191	0	0	0
Others	201	-55	-60	-60
Applications	916	584	693	863
Capital expenditure	1,674	406	127	239
Investments	7	0	0	0
Net current assets	-195	259	1	53
Change in cash	-570	-80	566	572
Closing cash	454	374	940	1,512

Source: Company, Axis Securities Research

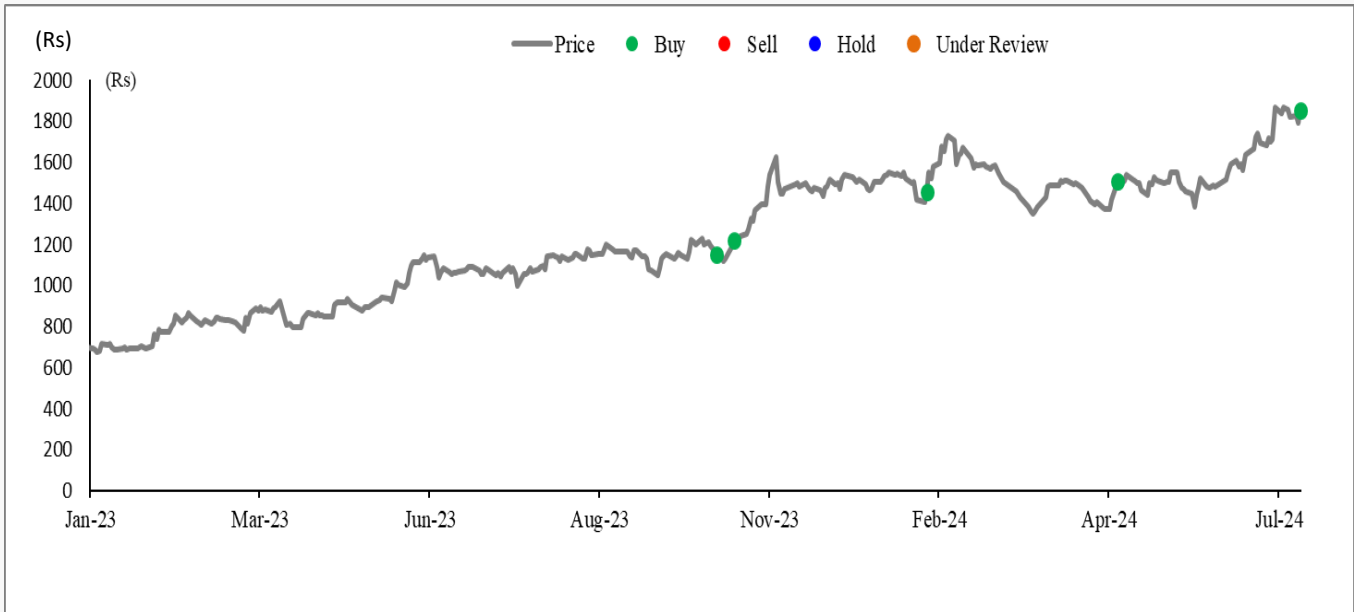
Ratio Analysis

(%)

Y/E March	FY23E	FY24	FY25E	FY26E
Sales growth	38	45	18	24
OPM	19	20	20	20
Oper. profit growth	45%	56%	16%	24%
COGS / Net sales	0	0	2	1.5
Overheads/Net sales	19	16	16	15
Depreciation / G. block	-334	-5145	76	-2060
Effective interest rate (%)	50	37	54	106
Net wkg.cap / Net sales	0.2	0.2	0.1	0.0
Net sales / Gr block (x)	5.8	6.5	3.8	4.5
RoCE	14%	24%	27%	37%
Debt/equity (x)	0	0	0	0
Effective tax rate	17	20	22	25
RoE	15%	21%	25%	31%
Payout ratio (Div/NP)	25	25	25	30
EPS (Rs.)	14.4	22.3	29.2	37.1
EPS Growth	40%	55%	31%	27%
CEPS (Rs.)	19.8	29.5	36.0	45.1
DPS (Rs.)	3.3	6.7	8.8	11.1

Source: Company, Axis Securities Research

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
31-Jan-24	BUY	1,750	Result Update
30-Apr-24	BUY	1,750	Result Update
25-Jul-24	BUY	2,150	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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