KPIT

October 29, 2024

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400001.

Scrip ID: KPITTECH
Scrip Code: 542651

Kind Attn: The Manager,
Department of Corporate Services

National Stock Exchange of India Ltd.,
Exchange Plaza, C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400051.

Symbol: KPITTECH
Series: EQ

Kind Attn: The Manager,
Listing Department

Dear Sir / Madam,

Sub: **Transcript of the Post Earnings Conference Call for the quarter ended September 30, 2024.**

In terms of Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Post Earnings Conference Call for the quarter ended September 30, 2024, conducted on October 23, 2024, after the meeting of the Board of Directors for your information and records.

The transcript of Post Earnings Conference Call is also made available on the website of the Company. The link to access the same is as below:

https://www.kpit.com/investors/policies-reports-filings/

Kindly take the same on your records.

Thanking you.

Yours faithfully,

For **KPIT Technologies Limited**

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Nida Deshpande
Company Secretary & Compliance Officer

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“KPIT Technologies Limited
Q2 FY '25 Earnings Conference Call”
October 23, 2024

MANAGEMENT:	MR. RAVI PANDIT – CO-FOUNDER AND CHAIRMAN – KPIT TECHNOLOGIES LIMITED MR. KISHOR PATIL – CO-FOUNDER, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – KPIT TECHNOLOGIES LIMITED MR. SACHIN TIKEKAR – PRESIDENT AND JOINT MANAGING DIRECTOR – KPIT TECHNOLOGIES LIMITED MS. PRIYA HARDIKAR – CHIEF FINANCIAL OFFICER – KPIT TECHNOLOGIES LIMITED MR. SUNIL PHANSALKAR – VICE PRESIDENT AND HEAD INVESTOR RELATIONS – KPIT TECHNOLOGIES LIMITED.
MODERATOR:	MR. RAHUL JAIN – DOLAT CAPITAL MARKETS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to KPIT Q2 FY '25 Earnings Conference Call hosted by Dolat Capital. 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 star, then zero on your touchtone telephone. 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: On behalf of Dolat Capital, I would like to thank KPIT Technologies Limited for giving us this opportunity to host the earnings call. And now I would like to hand the conference over to Sunil Phansalkar who is VP and Head of IR at KPIT to do the management introductions. Over to you, Sunil.

Sunil Phansalkar: Thank you, Rahul. A warm welcome to all on the Q2 FY '25 Earnings Conference Call of KPIT Technologies Limited. I also take this opportunity to wish you and your loved ones a very Happy Diwali. On the call today, we have Mr. Ravi Pandit, Co-Founder and Chairman; Mr. Kishor Patil, Co-Founder, CEO and MD; Mr. Sachin Tikekar, President and Joint MD; Ms. Priya Hardikar, CFO; and yours truly from Investor Relations. So, on the call today, we will have the opening remarks by Mr. Ravi Pandit and by Mr. Kishor Patil and post which we'll have the floor open for questions.

So once again, welcome all and I'll hand this over to Mr. Pandit.

Ravi Pandit: Thank you, Sunil. Good evening, and welcome to all of you. In this call today, we want to talk about three things. One is the Board resolution regarding the appointment of Mr. Vijay Gokhale. Then we are going to talk about the Board resolution regarding the QIP. And then we will talk about the operations of this quarter and how the rest of the year looks. I'm going to talk about the first two points, and my colleague, Kishor Patil will talk about the third.

So, over the years, we have recognized that as we are growing in scale, the geo-economics and geopolitical considerations are becoming more and more important to us. Therefore, understanding how these conditions are changing over a period of time is critical for us. With that in mind, we were looking to appoint a suitable person on our Board, and we are extremely happy that Mr. Vijay Gokhale had accepted our request to come on the board of the company.

Mr. Gokhale has had an illustrious career in the Indian diplomatic service, Indian Foreign Service. He has worked in all the three geographies, which are very critical for us: Asia, Europe and the US. He has served in the diplomatic missions in Hong Kong, in Hanoi and in Malaysia, and he was also our ambassador for People's Republic of China. His knowledge about China has been very widely recognized. His books from China have been extremely popular, and they are extremely incisive.

Considering the plans that we have for China; we believe that his inputs in this area would be very important. He has also served as the ambassador of India to Germany. And therefore, that's yet another market, which is very important for us. And therefore, his expertise in that area matters a lot. Lastly, he has also served at diplomatic missions in New York. And that's really our third major segment of market. And therefore, we are extremely happy to have him on our Board.

Our Board has passed the resolution requesting his appointment. And now we will take this resolution to the general body very shortly, so that his appointment becomes effective. The second resolution that we had today was about the proposal to raise capital via the QIP group. As you know, over the years, we have grown organically through our multiple initiatives.

Over the years, we have done acquisitions, and we have also done investments in new assets. Our acquisitions have been done for the purpose of increasing either our presence in the market or increasing our depth in various services. We have also invested, as you know, in building facilities, etcetera.

As we continue to grow, we foresee the possibility of such acquisitions in the times to come. And they may be not so small that we can do the complete fundraising through our own sources, which is what we have done over the years so far. Therefore, keeping this possibility in mind, we have now taken an enabling resolution from the Board and which is what again we'll be proposing here is for raising capital via the QIP route up to a maximum of INR2.88 billion implying a dilution of up to 6% at the KPIT market cap of INR48,000 crores or INR480 billion. We will be seeking approval from the shareholders via postal ballot for raising capital.

Now I would like to stress again that this is an enabling resolution. By the provisions of the act, we can use this resolution for a period of 12 months to raise the capital. And we will go for it as soon as we find there is an appropriate opportunity to deploy this capital. So, you will hear from us about it as and when we are in that juncture. So, these are the two issues I wanted to talk to you about.

And now to hand over the mic to my colleague, Kishor Patil who will talk to you about the results for this quarter, which I'm sure you will be happy about. Over to you, Kishor.

Kishor Patil: Thank you, Ravi. Good evening, and welcome to our quarterly Q2 results, basically giving 17 consecutive quarters of growth both in revenues as well as profits. So, during this quarter, the revenue grew 20.1% year-on-year in constant currency terms and 19.3% in dollar terms. The growth has been largely driven through Asia.

And when we talk about Asia, in this case, it is more about Japan, Korea and India. It is driven by Powertrain and Middleware as the practice areas, and the passenger car basically is grown by 5.3% quarter-on-quarter and 26.4% year-on-year.

The EBITDA is at 20.8%, which is 27.7% year-on-year growth over the last quarter this year. This is after absorbing the increments, which we had given proper full increment. And also, additionally ESOP-cost. Last quarter, it was only an impact of 2 months. So, this quarter is of the whole cost. So, after absorbing 2.7% impact, our EBITDA is at 20.8%. Our PAT is at INR203 crores, and it includes INR29.3 crores of one-time profit. This is on account of a claim, which we got from insurance. This was about 10 years back, almost 10 years back when before the demerger we had a claim on an insurance company against a dispute with the client. And that we have got after more than 10 years, nevertheless, that has come handy during this quarter. Last quarter also, we had a onetime additional income of INR32.7 crores.

The profitability has increased on account of two main reasons. One is the fixed price projects. It is our endeavour to increase our fixed price projects as much as possible. There is a significant growth in fixed price projects over last year and this quarter. That helps us to make use of productivity increase what we are bringing every quarter and also due to the increased offshoring. These are the main reasons why our profitability has gone up despite additional expenses during the quarter.

Then on the people side, our attrition is absolutely the lowest ever. And that allows us to really be ready to focus on building competencies and building the right workforce, right talent for the complex projects for the future. If you really look at the overall environment currently, particularly at U.S.A. In the U.S., the overall environment, there are opportunities, at the same time, there is a little bit of tentativeness. However, in USA, we see opportunities for two reasons. One is USA has banned China software already. And we do believe that will help us in providing that kind of a software or integration opportunities to US OEMs.

The second thing is off-highway and commercial vehicles, which is our second area of focus. And we see that there would be a good opportunity in that. So, these two, we see as a growth opportunities in this otherwise uncertain environment. In case of Europe, we believe that most of the European OEMs are certainly struggling in terms of their financial performance. And however, we believe that in due course, there will be a consolidation and due to both the competence, relationship and the scale, KPIT will be a beneficiary of the consolidation. Even in Europe, we see that there will be an opportunity in off-highway and trucks.

Coming to Asia. Asia, we believe Japan, Korea and India will continue to grow and we see significant opportunities, both in terms of our existing Diamond clients as well as some of the gold clients growing further. There are opportunities while some of these companies are also struggling. If you look at it, it's a mix in terms of OEMs. Some of the OEMs are doing very well and some of the OEMs are struggling. And we see the same opportunities wherever the OEMs are struggling that they would look for a significant consolidation as well as the competency to expedite their road map and that we see that as an opportunity.

And the second is our current strong clients continue to grow, and there are more opportunities we see. In case of China, we continue to engage with Chinese OEMs for two reasons. One is to understand and be a part of ecosystem of innovation. So, we understand what is happening in China and take it to our clients outside and engage with them in a very select areas where we can add value both for their forays in international markets and in certain specific areas in terms of compliance, etcetera.

Apart from this organic growth, as Mr. Pandit mentioned, we see certain market shifts happening in the overall market. Market shift is happening significantly and OEMs are looking for cost reductions, improved consumer experience and their increased compliance requirement. We are looking for some inorganic initiatives to address this and tap into this growing opportunity for us. And we would do it only when, as you know, only when we find a very suitable candidate, which will help us to really establish our leadership in that area.

On the other investments which we have made in terms of QORIX. In QORIX at least certain revenues have started , though for the large offerings which we have, it will take some time. It has become a part of Eclipse Foundation and Covesa Foundation. And these two will certainly help us in our endeavour to make it really an industry-leading platform.

N-Dream, which was our gaming company, again, we have done our investment of the second tranche taken it 26% during the quarter. N-Dream has won more programs with other OEMs. And I think that is going to help us in helping clients to create a cockpit for the future and more integration revenues in due course.

With this, I would also like to say that our pipeline continues to be strong with our current wins during the quarter of $207 million which I mentioned about the various reasons why we will continue to see opportunities in the market. These are across the geographies. These are across Europe, U.S. and Asia. And with this in mind, I would like to reiterate our guidance for the year.

We believe that due to cost reduction, which we have to give to our clients, both on fixed price and especially basically reducing the cost for them. The revenues will be on the lower side of guidance while the profits will be on the higher side, while we have talked about 20.5% plus, it will be a few 0.2 to 0.3 decimals higher than what we have mentioned earlier.

So, with this, I would like to hand over to operator for the question.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: First question is just on the commentary you made during the prepared remarks around guidance that you're reiterating. So, I think you have given a range of 18% to 22% Y-o-Y constant currency revenue growth and 20.5% or higher EBITDA margin.

So, in the first half, we seem to be tracking at the higher end of the range, sort of 21-ish percent constant currency revenue growth and EBITDA margin also closer to 21%, so I just want to understand how you think about the back half. And then in the context of your commentary that, that growth might be at the lower end of that 18% to 22% for FY '25?

Kishor Patil: So right now, as I said, overall, the environment of the business, basically, the OEMs are extremely cautious. And we believe that our pipeline is very strong and not only that, that we are actually engaging in some very mega opportunities with a few of the clients. But we are not sure about their timing when these large opportunities be realized during this time.

While we again reiterate our guidance, we believe because of some of the postponement of some of these and the offshoring of many of these opportunities more than what we have done in the past. The top line may look on the lower side of the guidance. And at the same time, because of the offshoring and of course, the momentum we have, the profitability will be on the higher side.

Chandramouli Muthiah: Got it. That's helpful. Second question is just around the fund raise. So, you mentioned that it's enabling resolution for the next 12 months. Just wanted to understand, I'm sure we are already prospecting potential candidates. So, any color around is there any specific geography or any specific domain where you're looking for assets and also sort of what might be the realistic time line for potentially closing on some of the assets that you're considering?

Kishor Patil: So, we continue to prospect always with our current positioning, I think, fortunately, a lot of companies do approach us on an ongoing basis. We believe there are areas of growth, which we have identified. One is in terms of cost reduction, specifically. And the second, we have talked about adjacencies. And we have talked about certain compliances or certain key areas which are required for companies to work internationally. So, in these three areas, we are mainly looking at. There are also a few in China, small ones, but we are looking at this.

So, there are such I would say, 4 or 5 types of companies. There's no one very large, but reasonable size 3, 4 opportunities. Also, in addition to that, I must say that we have some very significant opportunity for consolidation and mega deals. We do not know whether the clients -- what time frame this can be realized, but it will also require certain investments in terms of infrastructure and etcetera, from our side. And with all this, we are looking for as much as we can, and you know that we have very strong cash flows. As much as we can, we would do it on our own. And when there would be a significant kind of opportunity, right opportunity in these areas, we would look for the funds.

Chandramouli Muthiah: Got it. That's helpful. And just last question is as we head into 3Q, historically, we've had sort of different trends in certain years, we've had 3Q because of furloughs and holidays tends to be seasonally slightly slower. And in some years, we actually had a pickup in 3Q performance. So, I just want to understand, based on some of the deal wins you've had recently, what is your thinking on how 3Q might be relative to the first half?

Kishor Patil: So, while we have got very strong good wins in last 2 quarters, based on the environment, we are not 100% sure when they would start. And so, I would consider it not so strong quarter 3 from that perspective. As of now, that's how we would put it.

Moderator: The next question is from the line of Mr. Nitin Padmanabhan from Investec.

Nitin Padmanabhan: Congrats on another solid quarter. Just wanted your thoughts on a couple of things. So, the first is see, we have historically seen that our growth has consistently been very solid for maybe the last -- maybe 15 years plus in this segment. And the only time you really have a real weakness is when there is some major economic impact.

Now in that context, when we look at Europe and specifically Germany where it seems to be in a recession, and that's usually the time when we see the play. How would you sort of contrast what you're seeing in terms of behaviours on spending by OEMs today versus what you would have seen during earlier similar periods, whether it's during the COVID period or the GFC period. How would you sort of contrast it?

Sachin Tikekar: Nitin, I think it's a great question. And the point here is, as you know, some OEMs are under tremendous pressure at this point in time because of various reasons: A, the competition from China; B, the overall economic scenarios across some of the key markets. So, I think there is pressure on certain types of OEMs, especially right now, the pressure is more on Europe because they are more exposed. European OEMs have large sales in China and they are getting compromised. At the same time, the European economy is not doing as well.

The US OEMs, to some extent, because of the 100% tariffs that they have, they are not facing the competition as much from China, but they see competition from the rest of the global players. And as you know, the Asian OEMs always look at the long game and they will make investments for the long term, and they will not look at quarter-by-quarter.

So, if you look from a passenger car perspective, of course, there is pressure. And right now, they're all looking to get their -- the cost of the vehicles in the right shape. And that does create a lot of opportunities for us. It's just that, as Mr. Patil mentioned earlier, they have to reconfigure some of these things, and that does take a little bit of time. So, we believe that this will create a good environment for us from the growth perspective. And hence, as you know, in the midterm, we do see a solid pipeline coming our way. It's just that we have to get through the next few months of uncertainties for some of these OEMs. So that's our read on the passenger car side.

On the off-highway side, the cyclical nature of the agriculture, I think it's getting over. So, we think that the growth will actually come back. And it's the same case with trucks. Trucks have been slightly on decline and flattish in the current year. I think next year, they are likely to be around the same, but 2026 onwards, there will be growth on the commercial vehicle side. And that's mostly about Europe and Americas.

So overall, we believe that some of the themes will continue from the OEMs perspective, it's the reduction in the cost of the vehicle, reduction in the time to market of the vehicles as well as the features. And the third part is also trying to figure out in this changing environment, their client segments in different markets for the global OEMs. And how do you really -- how do they really differentiate themselves. And that's something I think everybody is trying to figure out, right, what it means in the change environment. Does that answers your question, Nitin?

Kishor Patil: If I may add also that the conversations are actually happening. I mean they are very serious conversations which are happening. We are saying it's a bit of timing we are not 100% sure of the conclusion.

Nitin Padmanabhan: Got it. So actually, I had 2 follow-ups. So one is that what you're seeing today is not so much of a rate reduction, but more of offshoring to sort of help clients sort of release their overall cost. Is that a fair assumption? And two, from that perspective, maybe there is near-term lower growth, but as and when things pick up, they sort of pick up. So that was one. The second is, do you think that Asia makes up for the related weakness from an incremental revenue contribution perspective, considering that geography seems to be recently solid. Do we have the pipeline and events to really make up for the related weakness?

Sachin Tikekar: So, Nitin, in the immediate future, I think the growth is actually coming from Asia. You've seen that in our Q2 H1 results as well. And we believe that, I think that growth will continue throughout. Having said that, we really believe -- again, going back to Mr. Patil's comment, there are European conversations, some serious conversations with the European OEMs as well as the American OEMs.

So, we believe that the growth will come back, we just start to figure out the timing. Is it 1, 2, 3 quarters, whatever that may be, because it's the reconfiguration of their priorities and hence, what kind of business model in which we work with them? So, it's just going to take a little bit longer. But we do believe that there are significant opportunities in Europe with passenger cars as well as trucks, and in Americas for off-highway and passenger cars.

Kishor Patil: And just to elaborate on that point, actually, our wins for last both the quarters have come from larger deals have come also from U.S. and Europe. However, there is a delay in starting of the projects, and that's what we are looking at in addition to the larger engagements.

Nitin Padmanabhan: I just have one more quick question and then I'll fall back in the queue. The fund raise that you spoke about and the areas that you spoke about. Is this sort of pre-emptive to the large opportunities that you're seeing would you need to -- do you think we'll need to buy out existing vendors who are there for that particular client as a part of that exercise or was the other...?

Kishor Patil: We are not looking at buying out any vendor or anything from that perspective, not those kind of, but the large consolidation will require infrastructure depending upon the deals basically building the infrastructure here as well as outside people, investment, etcetera. And many of those kinds of things.

And apart from that, certain competency, as I said, we know that on the top of mind is the cost reduction for every OEM and certain other areas where we want to make sure that we are -- as we have been in SDV and other areas ahead of the market. And that's why we will make those investments in a very high-quality company.

Moderator: The next question is from the line of Bhavik Mehta from JPMorgan.

Bhavik Mehta: So, a couple of questions. Firstly, on the offshoring, can you explain like what is suddenly driving this offshoring, is this just cost efficiencies that clients are looking at their end they want to move offshore. Or is there some other factors as well? And also, is it right to assume that the volume of the work is already impacted, but the pricing is mainly because of onshore to offshore movement?

Kishor Patil: Absolutely, I think the first part is the volume is not impacted. Volume is growing. While we are trying to increase our productivity and other things, as you can see, we still continue to add net headcount in some ways and improve the productivity both. And the offshoring is happening for two reasons.

One is we have delivered a lot of complex projects and now when they are scaling up, that's when we are increasing it offshore and client is very comfortable because of the history they have with us and the work we have been doing. So, I think with both these things, we are in a position to increase the offshoring.

Bhavik Mehta: Okay. Got it. Second question was on the QIP fund raise, just a clarification. Will you say that it won't be just one large M&A could be two or three companies also you may acquire with the fund raise.

Kishor Patil: Absolutely. So, it's not a single transaction.

Moderator: The next question is from the line of Garvit Goyal from Nvest Analytics Advisory LLP.

Garvit Goyal: Congrats for a good set of numbers. I have two questions. One is like considering that we do have cash and cash equivalent of approx. INR950 crores, right? So, I want to understand from you two things. One is how management read to the numbers specifically INR 2,880 crores QIP what is the thought process behind it?

Secondly, you mentioned about three areas. Can you put some more color on all those three areas, like what is the thought process, how we are looking to diversify from the existing business by going into these three areas? So, these are my questions.

Kishor Patil: First thing is we have cash and continue to have a very strong cash conversion. As we said, we had to make multiple investments and we have been making those investments all these years, but we have to make it in infrastructure. We have to make it in some pay-outs of the old acquisition, we have to make it into some of the new acquisitions we make.

So, I think when we are looking at it, we are looking at holistically. Right now, if you look at it, it is about 3 months kind of a cash is what we have, which is not too much from that perspective, but that would allow us in a normal course of growth in our organic way.

But when we look at the new acquisitions, that's the time when we will look at the fund raise. I think I mentioned already; I think it is about the adjacencies. It is about the cost reduction and it is about certain specific compliance-related practices. I think we have talked about it a few times earlier also so. Anything beyond this would be difficult.

Garvit Goyal: One more question on the demand environment. Like you mentioned for next 1, 2, 3 quarters going to slowdown. So how do you see the FY '26 from this kind of situation?

Kishor Patil: So, we have made 2 statements. One is our growth, we are reiterating our guidance, number one. Number two, our revenues will be on a lower end of the guidance because of the offshoring and other things, while the profitability on the higher for the same reason, that is the second part.

Third thing we have said that our pipeline is strong, and our conversations are very strong for the large strategic deals. We had talked about the environment in all the 3 geographies specifically. So, we are very confident about the demand going forward. We have always come forward to share what is happening in the market as well as what we are going to do about it. So, I think in that context we talked about the external environment.

Moderator: The next question is from the line of Aman Soni from Nvest Analytics Advisory LLP.

Aman Soni: My question is already answered.

Moderator: The next question is from the line of Karan Uppal from Phillip Capital India.

Karan Uppal: The first question is related to the incremental spending. So, amongst various areas like SDV, Middleware, Electric Powertrain, autonomous, mechanical. So, which are the areas which are driving the incremental spending from OEMs and which are the ones where spending is being pushed back. Any color would be very helpful.

Kishor Patil: So, number one is the cost reduction, whatever allows clients to reduce the cost of the final product, they are very interested. Right now, that is number one priority, specifically on even the electrification as well as otherwise. So that is the number one part. The second is they want to reduce the program life cycle significantly. I want to make sure that the programs which they have announced for '26, '27 or '28 as the case may be, those are not delayed and those are delivered and if they can be delivered before because many of these OEMs have relatively less number of programs as compared to the Chinese or other OEMs.

So, these are the two areas always the spend is happening. So, the investment on SDV continues to be there, but it is only on the area where you can reduce the time or the cost and the overall cost reduction part, these are the 2, and the third, which I mentioned about is on the compliance.

Karan Uppal: Okay. The second question is basically, if you just step back and look at, let's say, FY '24 and '25. So, the large part of the growth was driven by large deals like Renault and Honda, which we signed earlier. Now if I look at the TCV for last 6 quarters, except for Q4 FY '24, the TCV has been in the range of 150 million to 200 million. So, you've also spoken about large deals in the pipeline. So, are you expecting any large deal to close maybe in Q3 or Q4, which can help you on the growth trajectory for FY '26?

Sachin Tikekar: So, Karan, as we discussed earlier on, there are a few clients in Europe as well as in Americas, where we are actually in conversations of building long-term large engagements. And of course, there are conversations in Asia as well. So, we do believe that there will be some engagements that are going to be fairly large to come. But we also think that from our existing clients we have business that will grow. So, it's going to be a balanced growth across, we just have to figure out the timing of it.

Kishor Patil: I mean, one thing we have said time again, that with the current clients, with the current spend that have, we can double the revenues which we have. I think these are basically -- which could happen normal in organic in the normal course of business. Some of these are the opportunities on top of it.

Karan Uppal: And last question is with respect to fund raise. So, is management thought process also in terms of diversifying the vertical, maybe looking at some of the other verticals apart from auto? Is that also a thought process?

Kishor Patil: I think we have mentioned that we –are currently looking at off-highway and trucks as an additional verticals.

Moderator: Our next question is from the line of Aayush from B&K Securities.

Aayush: Congratulation on a good set of numbers. So just wanted to understand, sir, one thing that if we see a commentary for the large deal pipeline and vendor consolidation opportunity that you have out in your opening remarks. So why are we like providing at the lower end of the guidance should be there because if we see that we are having the vendor consolidation opportunities in US, Europe, Asia and then also we are highly entrenched with the T21 clients.

So, what leads to the caution towards the lower end of the guidance? And then what are we looking forward with the strategy T21 clients for the next year, how they are shaping up their budgets or how they are seeing their programs continuing with us?

Kishor Patil: So, I think we answered this question earlier, that even where we have won the deals, some of the implementation has been delayed by a quarter or 2, specifically European OEMs, we have one. And so, this being the year-end of most of the OEMs, and you probably will see the results of European OEMs I think for a quarter or 2, they may be very cautious.

Similarly, the situation is there. So that's why we are not sure when these deals will actually realize, but as I said, these are serious conversations and even some of the deals which we have won, we have not started. So, I think in the medium term, we see good opportunities and we are confident about good growth.

Aayush: Okay. Next question is on margins. So definitely, if we consider that if we do even like the flattish margins for the next 2 quarters, we would be almost 20.7% -- 20.8% kind of figure for the EBITDA. So, are we like eyeing for 21% plus for this year? Because like the wage hike is behind us. So, it will be giving us a big lever going forward? And what is the furlough situation are we facing that can access a headwind for the next 2 quarters?

Kishor Patil: I think two things. We don't give the quarterly guidance; we give the yearly guidance. And I think we have been very clear about it. We, as a company, we have continued to make investments and some of these adjacencies, some of these growth opportunities, some of these large deals engagement, some of the key programs we have taken, we continue to grow and many of those expenses will be there. And that's why we have given what we see as a margin. Also, the currency movements have been very crazy actually last few quarters. So, I think with that, I think this is what we can see.

Aayush: And just a last question on commercial vehicles. So, if I heard it clearly, as you mentioned that 2026 will be the growth for the trucks. So, should we expect the same kind of momentum that can kick in like what we have seen in the passenger side of the vehicle part or will it be just a starting phase for that trucks and after post 2026, it would be like a kicker phase for us?

Sachin Tikekar: We actually believe that some of the programs will start sometime in 2025 because they'll have to make -- it depends on from OEM to OEM, when they have the new vehicle launches and what does that mean from -- when I said growth is coming back, that means the number of vehicles being sold will actually grow in '26 over '25. So, the build part from the OEM will actually increase in 2026. However, they continue to make investments in different technologies that are relevant to us. And those programs just start. The point here has been -- we have been sharply focused on passenger cars all these days. Even though we have had some business with commercial vehicles or the truck makers.

Now we are actually for the last few quarters, we have been doubling down on that very consciously. So, we believe just building that expertise and understanding what their needs are, would lead to additional business for us. And I think they need help in the areas where we have deep expertise. So, I think the meeting of these 2 things will happen over the next few quarters.

Moderator: The next question is from the line of Rajit Aggarwal From Atharva Investment Managers.

Rajit Aggarwal: This question is specific to the Volkswagen Groups and their strategy. Recently, there were news reports that they have dropped their all electric vehicle target for 2030 and have incorporated -- and have actually said that, that target now includes hybrid vehicles as well. So, while you have addressed the immediate headwinds for the next few months, do you think that development itself...

Sachin Tikekar: Will you please repeat the last part of your question, you got cut off.

Rajit Aggarwal: Hello. Can you hear me?

Sachin Tikekar: Yes, yes. Just the last sentence, if you could repeat, please.

Rajit Aggarwal: So basically, I just wanted to understand the impact of Volkswagen's resetting of their 2030 target on the overall spend vis-a-vis electric vehicles and our engagement with them. In the medium term, does it impact our outlook of our relationship with them?

Sachin Tikekar: We believe that there are significant opportunities with the Volkswagen Group. As you know, it's -- you looked at some of the announcements that Volkswagen Group have made. They really need -- they are in the process of reinventing themselves in many ways, given the impact that they have faced in China and the competition that they're facing from China. And they are reprioritizing some of their areas. They are also trying to consolidate their efforts across the plan so that there could be substantial cost leverage that can be taken. And we are part of some of those conversations, right?

So, in general, we think that as soon as that dust settles down, we'll have significant opportunities coming from Volkswagen Group. Coming specifically to powertrain part. You're right, I think like many OEMs -- some OEMs have pushed out the battery electric vehicle program. However, some of them are actually revisiting their hybrid programs, whether it's a mild hybrid for markets or plug-in hybrid for the other markets. So, we believe that there will be more alternate powertrain opportunities coming our way.

In fact, if you look at our results and some of the large engagements that we have closed, there is quite a bit of a contribution from what we call propulsion that covers different types of powertrain. So, we remain -- we believe that going forward, the alternate powertrains will remain a significant part of our business.

Rajit Aggarwal: So as of now, you do not see any negative impact on your outlook over the next 2 to 3 years as far as that specific relationship is concerned?

Sachin Tikekar: Absolutely. I'm glad that you brought up over the next 2 to 3 years, we feel very confident about growing that relationship.

Rajit Aggarwal: No, I'm always looking at 2 to 3 years, sir. I understand...

Sachin Tikekar: No, we remain very optimistic about our partnership.

Rajit Aggarwal: Wonderful. So next quick question on QORIX. Any thoughts or any guidance on when do you see this becoming substantial and are these revenues from our existing customers? Or are they -- or is there any new customer onboarded with QORIX?

Kishor Patil : Well, first thing is QORIX revenue will not be consolidated in KPIT accounts. So, it's just actually, the profit or loss from their operations, our share. And it being a product company, which is investing into this initiative, we do not expect big revenues in the near future and it has not been factored in whatever guidance we give.

However, as and when they build a new client, the services revenue of integration will come directly to KPIT. So that is where we are looking at those opportunities. We are in a very good position right now, and we believe it will take time. I mean, when we actually announced also, I have mentioned that it will take 12 to 18 months to come out with the main product.

Until that time, their revenues have started which are smaller in numbers. Nevertheless, the client engagement has started, and we have started getting the revenue, we mean QORIX has started getting revenue.

Moderator: The next question is from the line of Garvit Goyal from Nvest Analytics Advisory LLP.

Garvit Goyal: My question is answered, sir.

Moderator: The next question is from the line of Sanjaya Satapathy.

Sanjaya Satapathy: Just quickly trying to reconfirm. So, you have said that you've cut down your revenue guidance to the lower end because the mix is shifting towards offshore, but at the same time, part of the margin benefit do you think that you will be spending in your capability? Is that correct, sir?

Kishor Patil: So, first, we have not cut down our guidance. We have reiterated our guidance. I've just given you a color on that, that it won't be at a high end because people assume when we have given certain range, where it could be. And the second is we have given the reason why it will be, and that is the reason I said the margins will be better. But -- so earlier, we had expected a certain margin. Our margins will be better.

So please understand we have given a guidance. Very few companies have given -- I mean, it is about 2x or 3x of the next companies who have given the guidance. And we are just saying that it will be at the lower end of the range we have.

Sanjaya Satapathy: On the top line. But overall, on the bottom line, you are maintaining your guidance, that is what you are saying?

Kishor Patil: Not only that we think the profitability is higher than what we have said. We had given 20.5%, it will be higher.

Sanjaya Satapathy: Also, you have made a fair comment that not many people have given guidance and not only KPIT has given guidance but have -- based on this which made us still kind of feel that you will always beat it by a big margin. That is only in which we have gotten used to.

And sir, of course, you've given huge amount of clarification as to your fund raising and what will be the deployment and considering the kind of cash you have and the kind of money that you're looking at, it looks like it is going to be a huge one, which will probably bring in its own set of challenges in terms of integration and all that, and I'm sure the company is ready for that. And then you are pretty close to the deal. Otherwise, you not have announced this kind of fund raising. Is that correct? Because you have always been disciplined about capital?

Kishor Patil: I will just comment that we have a reasonably successful history of integration. We have grown every acquisition we have done and leveraged it very appropriately or significantly because they all have been very strategic acquisitions. And we expect that, and as I said, time frame, we cannot say, but we are in certainly in active discussions.

Moderator: The next question is from the line of Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: First follow-up is just around, I think, over the past 2 to 3 years, we've given long-term outlook that it's a really good industry to be in and you see sort of longer-term 20% plus organic growth opportunity with 30, 25 clients that you're working with. So just in the context of maybe the slight change in macro environment, a little bit of geopolitical uncertainty. And also, maybe slight delays in execution of some of these strong opportunities. Does that sort of range of 20% plus organic growth opportunities has changed a little bit over the near term?

Kishor Patil: I think those opportunities are there. In this case, I explained to you what we see right now. But we do believe I have mentioned that we can be at least 2x of our size of more with the current clients and the current focus we have. So absolutely.

Chandramouli Muthiah: Got it. That's helpful. And just in terms of the company's long history of M&A integration, I think that the largest transaction we've done has been Technica. And I think we've executed pretty well on it over the past couple of years. So, I just want to understand internally before you decide to allocate capital to a particular asset. Are there any financial metrics in terms of minimum IRRs or hurdle rates of return or payback periods that you keep in mind? And could you just contrast what typical net margin you'd like an asset versus the current yield on cash that you have?

Kishor Patil: So of course, we are extremely careful. I may say that there are significant numbers of deals we have walked away from than what we engage. And the reason is our careful diligence on that because it's a lot of effort. And while the organic growth is strong, which basically in some way, you are investing into a larger initiative. So, 2, 3 things. First, we make sure that it is not a margin dilutive in a certain period, maybe 12 to 18 months it is not a margin dilutive. It's not dilutive on EBITDA, that's the first point.

Second, it is not EPS dilutive, that is the second part we look at. These are the minimum things. Third, we look at cash conversion, which is very important for us. And that we look at a fairly good return. The IRR, etcetera, I mean, you know our return on capital has been very strong, and we continue to drive it. I think if we drive the certain profitability and a certain growth, I guess, that is how it comes. So, we ensure that those are some of the criteria we look at.

Of course, the most important part is how critical it is for our clients, whether it is on the top of our client's mind because that allows us to really get a positioning premium and the growth. So that is very, very important, and it should put us in the top 2 or 3 players in the world in that area. These are very, very important for us. And this is what we drive.

Moderator: The next question is from the line of Ruchi Mukhija from ICICI Securities.

Ruchi Mukhija: I wanted to check the change in demand dynamics that you alluded earlier, that it was concept through the quarter? Or it was more a quarter-end phenomena?

Kishor Patil: Sorry, we couldn't understand your question. Could you please repeat?

Ruchi Mukhija: Yes. I want to check the change in demand dynamics that you alluded in your commentary where we're experiencing offshoring and it indicates slight slowness in the second half. Is this kind of demand scenario persist through the quarter? Or it was more quarter-end conversation with the client? I'm trying to assess whether KPIT managed to deliver 4.6% growth despite these dynamics, or we started to see change in the client conversation more towards the end of the quarter only?

Kishor Patil: I think the offshoring is, of course, we have started earlier because we had to hire people, etcetera. But as the cost, as we mentioned that we have won a lot of deals and the mix has changed specifically to ensure that we deliver on the project in a lower cost to the client.

Moderator: The next question is from the line of Ankit Agrawal from Yellowstone Equity.

Ankit Agrawal: I had a quick question on QORIX. You had mentioned that you might add one more partner to the JV, probably an OEM. So just wanted to see if there is an update on that?

Kishor Patil: So, first thing is we never said it would be an OEM actually. But yes, it will be a very important partner, and we are in advance discussion. Absolutely.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sunil Phansalkar: So, thank you. Thank you for your participation in the call, and have a great evening. If you still have some questions, please feel to write to me, and we will be happy to get back to you. Thank you, and bye.

Kishor Patil: Thank you.

Sachin Tikekar: Thank you.

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