KPIT

February 2, 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: Disclosure of events & information pursuant to Regulation 30 and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. - **Transcript of Q3 FY 24 Earnings Conference Call**

Ref: Intimation of Q3 FY 24 Earnings Conference Call dated January 24, 2024.

Please find enclosed the transcript of the Q3 FY 24 Earnings Conference Call, held on January 30, 2024, after the meeting of the Board of Directors for approving unaudited financial results for the quarter and nine months ended December 31, 2023.

The transcript of said Earnings Conference Call is also 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**

DESHPANDE NIDA YUNUS
Digitally signed by DESHPANDE NIDA YUNUS
Date: 2024.02.02 15:05:44 +05'30'

Nida Deshpande
Company Secretary & Compliance Officer

Encl: as above

"KPIT Technologies Limited

Q3 FY 24 Earnings Conference Call"

January 30, 2024

MANAGEMENT: 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
MR. ANUP SABLE – CHIEF TECHNOLOGY OFFICER AND BOARD MEMBER – KPIT TECHNOLOGIES LIMITED
MS. PRIYA HARDIKAR – CHIEF FINANCIAL OFFICER – KPIT TECHNOLOGIES LIMITED
MR. SUNIL PHANSALKAR –HEAD INVESTOR RELATIONS – KPIT TECHNOLOGIES LIMITED.

MODERATOR: MR. RAHUL JAIN – DOLAT CAPITAL MARKETS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the KPIT Technologies Q3 FY24 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you, and over to you, sir.

Rahul Jain: Thank you, Rio. Good evening, everyone. On behalf of Dolat Capital, I would like to thank KPIT Technologies Limited for giving us the opportunity to host this earnings call. And now at this point, I would like to hand the conference over to Mr. Sunil Phansalkar, who is Head of IR at KPIT, to do the management introductions. Over to you, Sunil.

Sunil Phansalkar: Thank you, Rahul. Good evening, and a very warm welcome to all on the Q3 FY24 earnings conference call of KPIT Technologies Limited. On the call today, we have Kishor Patil, Co-Founder, CEO and MD; Sachin Tikekar, President and Joint MD; Anup Sable, CTO and Board Member; Priya Hardikar, CFO; and Sunil from IR.

As we always do, we will have the opening comments by Mr. Kishor Patil on the performance of the quarter and the way forward, and then we'll have it open for questions. So thank you once again for joining the call. And I will now hand this over to Mr. Patil.

Kishor Patil: Good evening, and welcome to quarterly earnings call for KPIT. As you all know that KPIT is very sharply focused on automotive and mobility industry. We remain as the preferred independent software integrator to the mobility industry. We do work in cutting-edge technology in terms of autonomous, connected, electrification, operating systems and also about the monetization of aftermarket services, which OEMs want to do, as a change of their business models.

So we are deeply engaged with the OEMs and our key customers in doing that. And these trends are sacrosanct and people continue to make investments, specifically into software-defined vehicle, but also now, going forward, more to make it a reality. It's a lot of work beyond pure development of SDV platform, and KPIT is deeply engaged with its clients to do that.

Very recently, we had a significant presence at CES, Consumer Electronics Show, Las Vegas. And we had more than 100 clients visiting us. And we typically demonstrate the latest and the most relevant technology, we believe, for clients. Both for realizing SDV, but going beyond now making SDV more a reality, more successful, more dependable. And also, as we talked about changing their business models going forward.

So we got a very good response from the clients and really great appreciation in terms of the clear thought leadership of KPIT, in many cases, bringing new thoughts, new technology, new expertise to OEMs, which would help them in their transformation. So basically on these growing trends of technology, KPIT continues to perform well. So during this quarter, I think our revenues grew from $145.2 million to $149.1 million, in terms of quarter-on-quarter.

On a year-on-year basis, it is 31.5% in terms of constant currency, 35% on a reported dollar year-on-year basis. Our profit grew from INR100 crores to INR155 crores year-on-year, which is 54.6% growth, and on a quarter-on-quarter basis from INR140 crores to INR155 crores which is 10.3% growth. Our EBITDA grew from 20% last quarter to 20.6% this quarter, driven more by operational efficiency. We also got certain benefit of currency. As we know, the KPIT has more than 60% revenue, which is non-dollar revenue, and currency changes did help us to a certain extent in terms of other income as well as improving our realization.

EBIT went up from 16% to 16.6%. We have a healthy pipeline, but during this quarter, we closed $189 million new closures in terms of new wins. The cash balance is very healthy, moved from INR512 crores last quarter to INR829 crores. DSO improved further from 47 days to 46 days, though, I would say it is also a little bit better because of the last quarter in the calendar year where we always see more collections.

Headcount, net headcount has gone up by 756 during the quarter, and that demonstrates our strong hiring and continued strong hiring. Our attrition is one of the lowest for us historically, one of the lowest in the last many years, and for sure, in the industry. And we are very happy with the overall engagement we have with the people.

We continue to invest into new technology, which is really the most important and relevant part for KPIT. As you would remember, we have created a new entity called QORIX, and we continue to build on that, and it is making good progress. During the quarter, we also invested into N-Dream, which is casual gaming to improve the experience of gaming for the future.

And we saw tremendous response again for both these - during the CES and otherwise. And already for N-Dream, many OEMs have shown interest. We do believe this will allow us to add many value-added services to the OEMs in that aspect. Last but not the least, we also continue to do innovation, which will be relevant.

We see, apart from global market, India as a strong market. We also believe that we need to and we are very deeply committed to sustainability. During the quarter, we also unveiled the technology for sodium battery, which hopefully will prove in due course to be a great alternative to the current battery chemistries and a more sustainable option.

In terms of accounts, I think our strategic accounts contributed to 85% of the revenue and most of the new wins and the opportunities are also in these accounts. We also have a few other three, four clients where we have started engaging and which we believe will convert into larger engagements in our T25.

In terms of dividend, we have a given the interim dividend of INR2.1 per share from INR1.45 per share last year, which is in line with the profit growth of the company. So overall, we are very confident about the guidance we have given. So we are confident that we will increase our revenues by 37% plus, as we have said it, so we will naturally exceed our revenue growth beyond 37%.

And the profit percentage based on increased EBITDA, we also believe that we will, for sure, exceed the numbers in the guidance we have given. So with that, I would leave it to you for questions.

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

Chandramouli Muthiah: My first question is on the Asian carmakers contract that you've announced as part of our $189 million TCV engagements this quarter. So congratulations on that. Just want to understand, is it an existing client? Is it a new client? Is there any additional colour you're able to provide here around, whether it's middleware related work, SD-related work? Any additional colour on this business win, that'll be very helpful.

Sachin Tikekar: Sure. Chandra, this is Sachin Tikekar. It's an existing client. And it's a broad-based engagement covering multiple practices, starting with vehicle engineering to autonomous driving and so forth. So it's the additional incremental growth that we have seen, if that answers your question?

Chandramouli Muthiah: Got it. That's helpful. My second question is just on the recent comments that we've seen from automakers globally. So firstly, I think Tesla has mentioned that it expects a slightly slower growth here for its own EVs. But in China, I think EV growth continues at very good pace. In Europe, in the luxury car space, EV growth seems to be relatively strong and R&D budgets in EV space also seem to be continuing if we were to judge from commentary from a lot of your peers on the visibility that they have on their contracts.

So just trying to understand what is the disconnect between maybe the US EV players and the rest of the world? And also EV spending budgets on the R&D side versus what the volume growth outlook seems to be over the near term?

Kishor Patil: So I think, we, let me take it first as a KPIT view, and then I will go beyond. I think in all our programs on electrification, we haven't seen any changes into this spend. So the first thing I always mentioned many times that increase in the production or lowering of the production does not impact us because we work on future programs. So we haven't seen any changes, and as most of our programs are long term we have not seen any changes in that area.

I think in terms of what you mentioned about Europe or China and all that, I think there're multiple things. Of course, China is leading in electrification and not necessarily pure electric, I guess, many of them are also hybrid vehicles. But now they are also entering into Europe. So naturally, the OEMs in Europe are very focused on creating more efficient, more cost-effective electric powertrains. So of course, they continue to focus on that area.

In terms of U.S., I do think that some of them had made, in my view, that's how I read it, but as I said, we have not seen any change. But the way I see it, initially, they had given a very high estimate in terms of what will be the change into electrification. And I guess they saw that it will take them little more time to really reach those numbers. And that's how they mentioned. I don't think it had any other implications, at least in my view. But maybe Sachin, you have anything to add?

Sachin Tikekar: Just to add to what Kishor said, if you look at it there is a slowdown in terms of growth in EVs. And that's why I think all they want is to just get rid of the inventory, hence, the production of actual vehicles will go down a little bit. Having said that, the number of production programs remain the same. More and more EV vehicles will hit the US market. And from our perspective, we are working on some of the programs that are in 2027, '28. So , these vehicles will get launched in '26, '27.

Kishor Patil: Also, if I may add is we are seeing also a little more proactiveness from the commercial vehicle manufacturers on electrification or alternate energy programs. And as compared to last year, for sure, this year, more opportunity is there.

Chandramouli Muthiah: Got it. That's very helpful. And my last question is just around the headcount increase this quarter. It appears to be north of 6% Q-o-Q headcount increase, seems to be relatively strong versus the past three years, three to four years, what your Q-o-Q headcount increase have been. So just trying to understand what's giving you that visibility? Is there any particular contract that's ramping up relatively fast that requires resourcing? Or is this just in scheduled course of the visibility that you have going forward?

Kishor Patil: So there're two points. One of course, we have our planning cycle of every two quarters, so six-monthly planning cycle. So we do hire accordingly. Other part is also the fresher hiring cycle as it takes some time for us to train people and get them ready. So with the both combination, it is there. I mean, in 756, we have a fair number of freshers as well.

Moderator: The next question is from the line of Rahul Jain from Dolat Capital.

Rahul Jain: I just have two questions. Firstly, to understand from an FMS business perspective, what's the contribution for the quarter and how we expect this part of the business to do over near future?

Sachin Tikekar: Yes, Rahul. It's been a couple of years with FMS and the business is fully merged, so there is no way for us to track revenue or contribution separately. What we can say is, overall, the accounts and the practices where the FMS business got merged, we've seen improvement just like in other parts of our business. But it's hard for us to differentiate FMS business separately now.

Kishor Patil: To put it the other way, we integrated the business ahead of time because they met the targets. So in some sense, we met the targets ahead of time.

Rahul Jain: Right, right. And from an SG&A in this quarter perspective, is there -- one thing is this addition to the headcount. Is there any onetime element in this? Or this is kind of a run rate now?

Sunil Phansalkar: There is no special onetime element. But of course, I mean, the additions that happen, you don't have their cost for the full quarter. Next quarter, it will be for a full quarter. So that delta might be there.

Rahul Jain: So yes, so whatever run rate we did this quarter, on a normalized basis, ideally, we should see some growth, whatever growth it could be? There's no onetime which will be absent...

Kishor Patil: I may not exactly say that. But in the sense, the Q3 may have few provisions or something which may come onetime. Those kind of things may be there. But I mean, for your calculation, you can take it at the same run rate.

Moderator: The next question is from Karan Uppal from PhillipCapital India.

Karan Uppal: Congrats on a strong set of numbers. First question is in terms of the T25 clients. So in the past, you have mentioned that there are two clients which have crossed $100 million revenue threshold. So any update on that number?

Have you seen that number increase? And what's the potential in terms of T25 hitting the $100 million run rate?

Sachin Tikekar: Karan, what we can see is bulk of our growth, like the last years, that has been driven by our diamond and platinum accounts. And the trend will continue, even though we have added, as Mr. Patil mentioned earlier, a couple of new clients, and we'll probably add another client or two as we get into the next year. We don't provide details related to clients, but there are a couple of them that are in the $100 million range, who have crossed that threshold, and we are seeing healthy growth in both of them. So that's what we can share with you.

Karan Uppal: Okay. Okay. Secondly, in terms of commercial vehicles, you've partly answered. So in the past, it has been a bit volatile if you look at last three to four quarters' performance. So now you are expecting the volatility to reduce, and from here on, the performance should be strong?

Sachin Tikekar: Karan, as we discussed in the previous call, we have started to double down on commercial vehicles business, both on the truck side as well as on the off-highway side. The existing business is there on the truck side, which is more than 20% of our overall business. We believe that business will grow in the next year.

And we have started to understand the business problems on the off-highway side, so that we can solve them through the technologies that we have. That work is underway and we believe that the work that we are doing will yield greater results for us over the next several quarters.

It does take time. We would like to be in the same position that we are in with the passenger car, whereas we deeply understand their business problems, and we can solve them through technology to that extent others cannot solve, right? That has been our play, and that would be our effort when it comes to off-highway as well.

So it may take a little bit longer for us to go to market. But once we go there, we'll make sure that we go there in a more meaningful manner that will create value for the clients.

Karan Uppal: Last bit is on the interest expense. So interest expenses have almost doubled from what it was in last quarter -- 3Q FY23. So how should we think about it going ahead?

Priya Hardikar: So yes. So during the quarter, some bit of interest expense has increased because it has elements of Ind AS calculations of certain leases that we have acquired newly, which is the finance cost. This is a notional finance cost. And there has been a certain element of additional interest on a little bit of working capital that we used for a month, which is fully repaid as of December end. But majority is because of the notional cost incurred on account of Ind-AS methodology of accounting.

Moderator: Next question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: Congrats on the quarter. A couple of questions. The first is looking at the environment, broadly, you're not seeing any risk at this point of time is my understanding. Is that a fair assumption? And basically, existing programs and everything despite whatever nuance I'm hearing, are on track and there's nothing to really call out on?

Anup Sable: This is Anup here. Yes, there is no current impact because if you understand what we do is we essentially work on the programs that are supposed to be for future. So normally, the current environment usually doesn't play out into what very, very transformational projects that are going on in terms of product development for the future. So we see no impact on any current activity that we are doing.

Nitin Padmanabhan: Perfect. Very helpful. Second is you mentioned three or four customers where you could probably end up with larger engagements. Could you give some colour on which geographies these are from or anything specific in terms of the breadth of the engagement? Do you think we can see something -- are these very large deals like what we saw last year? Or these could be gradual -- may not be a large deal, but over a course of period will be large as they keep coming up into revenue? Just some broad thoughts on those three, four clients you alluded to.

Sachin Tikekar: Sure. Nitin, what we do is during the course of the year, twice a year, we actually scan all the OEMs across the globe that are relevant to us. And we see the ones that we are not working with, whether there is a way we can create value for them and we keep looking for those entry points. And we've been working with three of them, newly. And as luck would have it, there is one each from each geography.

There is one from the US There is one in Europe and one in Asia to start with. But the list that we are scanning is about five or six, but there is a meaningful engagement where we are trying to, we have done some assessment. We have done a bunch of workshops for them, and that is related to three of them. And the way it works is it takes several workshops for us to exactly understand their problems. And then we have to go back with innovative solutions.

So for them to understand our solutions, it sometimes impacts their structure and priorities. So we have to overcome some of those things as well. So it does take some time for us to create long-term engagement. But when that happens, they really take off at some point in time. There is no way to sort of say when. But I would say that at least two out of the three, we have made reasonable amount of progress, and we'll see some growth coming from them during the course of next year.

And our hope is, again, to build a long-term partnership. We are making all these investments in them so that we can build a long-term partnership, just like our other diamond and platinum accounts. So our hope and effort would be to make sure that they get into that trajectory over the next several quarters.

Kishor Patil: And all of these clients are global.

Sachin Tikekar: Yes, they're all global. So that's really the process, Nitin. Hope that answers your question?

Nitin Padmanabhan: Sure, absolutely. And the last one was your thoughts on monetization of the sodium battery chemistries. How should we think about that? How does that work? How are you looking at it? And second is on QORIX. You were looking at adding another partner. So just some thoughts on how that is doing and where are we on our journey, on both those fronts?

Kishor Patil: So I think the sodium battery is, as I said, it shows our commitment to innovate and specifically for the local market, India, and also, it is something which will be useful for the global market too. It will take time, and the monetization models are uncertain. But at the same time, it gives us a tremendous positioning and opportunity to work with the different OEMs and their models. It's a very key area. How and when we will do it, I would not factor anything in terms of revenues for now.

On the QORIX side, I think we are making very good progress, both in terms of development of product, second is in terms of planned client tractions and also in terms of adding a new partner. Right now, actually, our own process is a bit delayed. And that's why it may take a little bit more time to add the third partner. But our own process of having a joint venture fully established is itself, due to some legal formalities, delayed. We hope it will be done in a month or so. And then, of course, we will have the third partner coming in the next two, three months.

Moderator: The next question is from Mohit Jain from Anand Rathi.

Mohit Jain: Congrats. First is on third quarter numbers. So when I look at sequential growth, is there any impact of furlough in the third quarter? And therefore, should we expect some bounce back in 4Q? That's the first one.

Kishor Patil: Yes, I think it's a yes and no. I mean, it is always there. We have a lot of fixed price contracts now they are part, so relatively, it is a lesser impact as compared to if it was fully T&M. So yes, there will be some impact there. But I mean, I would now say that the way KPIT is working, I would not put it as an additional factor for the next quarter or so. But that's how I would put it.

Mohit Jain: Right. Sir, second was on margins. Now there, we are consistently doing better than the guidance as well, and you have hired a lot of people in this quarter. So should we expect like next quarter margins, and what is your view, say, over medium term? Will we continue on this upward trajectory? Or do you think now margins would be more or less stable and the focus will be on the revenue?

Kishor Patil: I think we have mentioned it many times that if we had to maximize just the margins, we have a big headroom. However, we continue to invest into growth. We continue to invest into technologies. We continue to invest into markets. And so even though, I mean, we have hired, it doesn't mean that the margins will go down or something like that. But at the same time, you should go with the guidance or outlook we gave for the year.

I would say that is more fair because whatever we have given an annual outlook, we choose to invest the additional money into growth areas for the future.

Mohit Jain: Sir, a little longer term, like directionally?

Kishor Patil: Directionally, there is a headroom to improve.

Mohit Jain: Okay. And one housekeeping, your payouts, which are pending in Q4? And if possible for FY25.

Sunil Phansalkar: So there is one payout that will happen in Q4, which is PathPartner. It should be somewhere in the range of about INR60 crores to INR65 crores. That's the range that will happen. Then as we have said, for Technica there are a couple of payouts that will happen. Total is about EUR30 million over two years, 2.5 years from now.

So one of the payouts might happen in Q4 or Q1 and the other one, similar Q4 or Q1 of the next calendar year. So that is how it will happen for Technica. For SOMIT, there is one payout remaining, which is about GBP2.25 million.

That also should happen sometime end of '24 or beginning of '25. So these are the payouts that are remaining at this point of time.

Mohit Jain: Okay. And sir, last, if there is any update on the large deals we used to have this number a few quarters back. So in terms of pipeline, qualitatively, if you can tell us, there is something in the pipeline, should we expect something in the next few quarters? How is that coming up?

Sachin Tikekar: So, you can see that there is growth in the overall pipeline from the last quarter, and we are happy. Second thing is, given most of it is from our diamond and platinum accounts, our win ratio is also higher so that helps us. And as we put it in our investor update, all the large engagements that we announced are from our existing clients. And we believe that the three clients that we talked about, the somewhat newcomers, we believe that over the next few quarters, we'll see some growth. And at some point, our hope is that at least one or two of them will get converted into long-term engagement.

Kishor Patil: I just want to add something, I will ask Anup to add this. So I may say that over the period, what we are giving to the clients, and that's what is really helping us is not individual offering, but the impact of connecting them, having multiple offerings and increasing the impact multifold because of the overall offerings we offer to the client.

So actually, that leads to additional revenues from the clients and whether there is one deal or one announcement, you don't have to look at it like that. But I think the opportunity landscape grows significantly. Anup, you want to add something?

Anup Sable: Yes. So some of the complexity that is arising because of significant changes in the architecture, we believe we are demonstrating now a combination of multiple independent offerings integrated together to create a much larger -- a very credible way of solving the customer problem. So these kind of things we believe will create more opportunities for us with all the key customers. And we got a validation of this concept during this year with multiple customers.

Mohit Jain: Right. So what I understood is basically, we should look at the total large deals may happen, may not happen over the next two, three quarters?

Kishor Patil: Absolutely.

Moderator: The next question is from Girish Pai from Nirmal Bang Equities.

Girish Pai: Thank you for the opportunity...

Moderator: Girish, we can't hear you if you're on a handsfree, request to use the handset.

Anup Sable: Yes, Girish. Can you speak up? You're breaking up Girish, we're not able to hear you.

Moderator: We'll move to the next question. The next question is from Abhishek Pathak from HSBC.

Abhishek Pathak: Congrats on a great quarter. So I had a couple of questions. Firstly, on the Americas revenues, they've been kind of flat over the past almost three-odd quarters. So just some colour on what's happening there and we expect Europe and ROW to continue to -- stability? Or do you see North America return to growth in the short to medium term? That's one.

And the second question was just wanted to understand slightly more around the nature of the deal velocity rather. I mean FY23 was, of course, a phenomenal year. We had $1 billion in deal wins. And so far, Y-to-D, we've been slightly slow. And of course, large deals, as you said, are lumpy and may or may not happen.

But if -- I'm not asking for a guidance here, but if I were to think about growth in '25 and '26, sustaining this pace of growth or coming in the ballpark of extreme high-growth trajectory, how dependent is that on maybe increasing our deal wins to maybe slightly higher than the current run rate?

And if no -- how fast do this growth expansion happens so that, that growth keep sustaining?

Sachin Tikekar: So let me cover the Americas part first. If you look at the year-on-year growth, which is we believe is the right indicator to look at growth, it's pretty healthy. It's quite balanced across the three geographies. And in Americas, if you look at last year, what we think is it's seasonal, and I think the growth will come back. All the T25 clients there, we are having meaningful conversations with them. And then there are two or three that will add to the KPIT during the course of next few quarters.

So overall, we believe that America will be an area of growth for us, along with the other two. And there is nothing fundamentally that we see that is off as far as our engagements are concerned with these clients.

Kishor Patil: On the other part, I would say, for you to wait for a quarter, when we talk about that next year. But overall, we see a good environment, as I said. And we see good long-term trends from our clients. We see continued spending. Naturally, last year was an exceptional year so that may not be the benchmark, but we will still grow at a very healthy rate in years to come, which we have been saying it. And we see that environment, and we'll give a more concrete outlook for the next year at the year-end.

Moderator: The next question is from the line of Abhishek Kumar from JMFL.

Abhishek Kumar: I have a question around fixed price contracts. It seems very counterintuitive that for us, when we do a lot of development work. Our fixed price contract has been going up. So I just wanted to understand the kind of contracts that we are getting into -- does it involve an outcome-based pricing, and therefore, implies certain risks that we might be taking up in these contracts? How should we -- how do we explain higher FPP when we are doing a lot of development work?

Sachin Tikekar: Abhishek, this is Sachin. As we go up the value chain and as we solve meaningful problems of our clients, at some point, it makes sense for them as well as for us to do it fixed price. We get better control, and the client can also depend upon us to solve a meaningful problem. Within that also, we bring what we call our platform tools and accelerators that can reduce the time to market, save cost for our clients, and we can also have more profitable kind of engagement. That's something that we have done over the years and that part has been increasing quarter-on-quarter.

And if you see from the risk perspective, we monitor our deliveries very, very tightly. Actually, all the performance parameters on delivery, they have been getting better over the last couple of years. So, yes, inherently, there are certain risks that one takes. But with the platform tools and accelerators that we have at our disposal, we believe that some of these fixed-price contracts do create a win-win for us as well as for our clients.

Abhishek Kumar: Sure. My next question is on the deal tenure. Our understanding -- at least my understanding is that the programs in ER&D tend to be smaller or of smaller duration. So for us, how do we understand the TCV to kind of -- TCV and ACV growth? Is there a significant divergence? Or given these are maybe smaller tenure deals, TCV growth is also in line with -- ACV growth is also in line with TCV. Any colour around the duration.

Kishor Patil: Yes. It depends upon the client, but most of it, if I would say, the programs which we are working on, typically range from three to seven years duration. So that's how it is. I mean, typically, how the clients do. There are a few clients who're very comfortable, I mean, we have announced also in the past very long-term contracts, but I guess many of them would be about three years to seven years. three years would be more common, but maybe go up to seven years.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Congrats on a consistent execution quarter after quarter. This question is slightly strategic long term and may sound basic. So I think if I'm not wrong, we addressed almost mobility, IT services and that too on a digital side. So my question is, are we addressing 100% of the spend, if not? And where are we in terms of the spend curve of our addressable market?

Is it still in high-growth phase or in a stable growth phase or it's in a mature growth phase? So do you believe, if it's in a high-growth phase, this may continue over maybe another four, five years in the long-term?

Kishor Patil: Yes. So I think we are basically, I will not say, it's all digital IP or etcetera, it would be very confusing. We are into engineering and development spend, ER&D spend for the client. That's what we define, a large part of our business.

We are in a phase where, as you know, there are many reports which have come in the market. Even the revised report after, if I had to say, little softer environment talks about 8%, 9% growth every year in this spend. And so that's a pretty significant growth going forward.

As a company, as we go forward, we see many areas beyond the actual spend, which we can address for the client, which maybe -- because taking a higher share from the client of what they do, taking higher share from what the work they do with Tier 1s, doing a higher share in terms of creating a solution, which is more on the revenue side. So there are multiple areas we are seeing as we go. So overall, we believe we are in a very positive environment of spend.

Sandeep Shah: Okay. So in terms of gap in the offerings, any number you can put in terms of percentage that this much percentage of the target market still not addressed by us where we have gap in terms of service offerings, and which may add going forward on a quarterly basis?

Kishor Patil: I mean I wish I could answer that question. But let me tell you, we get surprised every time. So every three, four months, we find out a few areas where we could do something more and add value. Naturally, it may take a different time zone to mature those offerings. But I feel there is a headroom for us to build on.

Sachin Tikekar: And If you were to just go back a couple of years, the number of offerings that we have added to our kitty in terms of providing more broader solutions. And going forward, I think that would be our effort. And that's the continuous investment that Mr. Patil talked about earlier on. That's one area where we'll continue to make significant investments going forward.

Sandeep Shah: No. No, fair enough. Fair enough. And last question in terms of bookkeeping. There were two letter of comfort issue for the overseas subsidiary. So is it fair to assume this is to optimize working capital in the overseas subsidiary and factoring means or bill discounting where we can optimize the collection faster than what we anticipate with a lower rate of interest?

Priya Hardikar: That is correct. And these letters of comfort are not issued for any guarantees or loans or any promoter related matters. These are specifically for subsidiary and our operations in those geographies.

Moderator: The next question is from the line of Hiren Ved from Alchemy Capital Management.

Hiren Ved: Congratulations to Team KPIT on another set of very strong results. My question is that as we see the Chinese to compete very aggressively by exports and price point, which is sort of bringing deflation to the electric vehicle industry, how do you see your customers in Europe or the OEMs in Europe and US, how are they behaving? Or how do they plan to counter that? And Related to that, is that -- does that open up opportunities for us to help these OEMs to compete better with the Chinese?

Sachin Tikekar: Yes, you're spot on in terms of your observation. If you just break it up into 2, first, we'll talk about Europe and the Americas because the impact is separate. Europe, obviously, everybody is feeling the heat. Many Chinese vehicles have hit the market and gaining market share. And if you look at what we are trying to do with our clients in Europe is precisely to engage with them in a more meaningful manner and make them competitive.

That's the point. And that's what Anup actually talked about earlier on. How do we take a holistic view, starting with, we look at their architecture and then put new vehicles on the ground, that will be very competitive. So that's the on-going effort. That's something that we've been doing for the last few years, and we believe, given the added competition, it becomes even more urgent to sort of help them to solve some of these problems.

So you're absolutely right when it comes to Europe, everybody is feeling the pinch now. The case with the US is slightly different. None of the Chinese OEMs that we have talked to have plans to be in the US I think the geopolitical issue is the fact that there is a 20% tariff. So they don't look at US as a market. But when it comes to Asia, you see that their footprint has increased in most of the larger markets in Asia.

And the story, what is true for Europe, is also true for the OEMs in Europe or in Asia who are serving the Asian market. There is a continuous effort to help them be more competitive. And that creates more opportunities for us. So that's really our take, Hiren, we are watching that market very carefully too.

And the whole thing we are looking at from China perspective since we are on the topic, there are two things.

One is, what is it that we can learn from the Chinese OEMs and help our global OEMs making them more competitive? And secondly, there are gaps in some of the OEMs from China, especially when they have aspirations to be global, is there a role for us to play? So those are the two things that we are exploring at this point in time.

Hiren Ved: So if I understand on your second answer that do we see an opportunity in the Chinese market as well? And do you think that working in China would be as remunerative as working in the other geographies?

Sachin Tikekar: We are looking at China very, very closely. Unfortunately, for the last three years, it was difficult to go to China. So we couldn't quite go there now that for the last nine months or so, there is an opening, we have been seriously working on our strategy in China. But we do believe, like I said, there are two things that we want to do out of China. One is what is it that we can do for the OEMs in China. I think there is value that we can create, whether it's on the propulsion side or some of the other things for Chinese OEMs in China. And secondly, for Chinese OEMs who have global aspirations, how can we help them to be global because the standards are different in every country when they go out.

And the third part, these are two sides of the same coin. But the second part is what is it that we can learn from the Chinese OEMs that may be applicable to our global OEMs. So we are not only looking at China as a market, but also a learning ground in some areas to help our global OEMs.

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

Ankit Agrawal: My first question is on the sodium-ion technology. It seems like we are among the few pioneers globally. So I just want to understand like how differentiated and efficient is our technology? How much investment have we done so far on this? And what is so special about our results that we were able to crack this technology?

Kishor Patil: I won't be in a position to give some of the financial themes for multiple reasons. But I think if you really look at it, this is a long-term investment we have made out, over the last seven years. So it is not something we have done today or tomorrow. So we continue to make investments. So I'm sure we are making some investments, which technologies may come up to life after three, four years, and we have spent ahead of time.

So I think the key point is, first is, when we identified sodium as a possible chemistry, it was not very common actually. In the last two, three years, we started seeing it even in China now or outside it. The second is there is not really an Indian technology, which is pure Indian technology, which is at that level. The third is we have done it along with collaboration with the research institutions in India and build it over the time.

So naturally, batteries are more complicated technology. So there're certain parts which needs better understanding of other parts of technology beyond software and some parts of the engineering. So that's what we have done. So we believe this opens up a lot of things for us, and we are in multiple discussions. Because of the China issue, I think there are enough companies who are interested in that, and I think we will get a very big headway because we understand it in a very core way, the technology.

Now that's what I said we have not factored any revenue yet on that. But for sure, there will be opportunities for us in future when it is adopted, either as a technology or a chemistry by any of the clients, we will be in a much better position. I can only tell you that right now, we have done at lab plus level, the validation of the technology. And after that, then the investment cycle is very big. So that's where we had to see what business models come up. As a KPIT, we are not into manufacturing. So we will not make those investments It is for a partner to do those.

Ankit Agrawal: Okay. Understood. And the second question is on the quarterly numbers. In the architecture and middleware consulting this quarter -- I mean, quarter-on-quarter, we have seen a decline in growth. Is this just the random quarterly noise? Or is there something to read into it?

Sachin Tikekar: Yes. As I mentioned earlier on, if you look at the year-on-year growth, if you look at the growth over the last two years, it's been phenomenal. And all I can say is the pipeline for the next year also looks very good. So we are on a sound footing for that practice, and we believe that it will continue to be an area of key growth for us.

Moderator: The next question is from the line of Gagandeep from Invest Analytics Advisory.

Gagandeep: Congrats for a good set of numbers. So my question is on the QORIX side. So are there -- what are the new developments that are happening on the company? That is one. And secondly, why the legal hurdles are taking so much time. I think in May '23, we started off and now also we are into the regulatory hurdles only. So is this going to be risk related to any kind -- like the QORIX will face any legal hurdles going forward?

Kishor Patil: The first thing is there's no legal hurdle from that perspective because we had to take a clearance form over six, seven countries because it's a joint venture. So, wherever ZF has the presence and KPIT has a presence, we have to go through all those countries, and it included some difficult countries also. I will not name them, some countries which are in war and some are otherwise, so etcetera.

So we have come a long way. There're a few clearances now we need in India, which we will do shortly. So there is nothing fundamentally problematic, this has taken undue time to our liking for sure and we are equally anxious in getting it done. So apart from that, I think there are lot of positive moment in terms of technology and plans.

Anup Sable: But from a technology perspective, we have, as we work with more and more customers, especially on the advanced programs, the SDV programs, we have understanding of more and more challenges that come. And as a result, the product is taking up a direction, which basically addresses this problem which is of interest to the entire industry.

So we are in good discussions right now. The product is quite differentiated. And the multi-technology angle that we are bringing together, the fact that we are able to integrate it as KPIT, the fact that QORIX is itself now a product that has come out of a lot of learning in the industry, and the fact that Technica also brings a lot of understanding of network and platform specialty, I think that is turning out to be beneficial for the product.

Gagandeep: Understood, sir. That's good. And sir, we came across a disclosure from QORIX itself regarding the collaboration with Qualcomm. So can you provide more details on the collaboration with Qualcomm Technologies for launching software packages for the digital platforms?

Anup Sable: It's, when we work on a platform software, sometimes it is called also as a middleware, there is going to be some very tight integrated work with the application processor or the SoC providers. And for that, there needs to be a tie-up, there needs to be a lot of information handshake that needs to happen to be able to make a good vertical integration ahead of time so that the all the juice that the system on chip has is extracted and properly used by the platform so that the application developers don't really have to worry about many of the technical aspects.

So I think that is the reason why we require these partnerships. Qualcomm being in whatever position they are in the industry, we believe that it's very critical to have this partnership going and do some advanced integration ahead of time.

Gagandeep: So what is the market potential for software packages catering to these programs do we see?

Kishor Patil: I think QORIX, some point of time in the future we can say that, yes, as we formalize that.

Gagandeep: And sir, is there any update on the prospective client that the company was talking about in earlier con call with regard to QORIX?

Kishor Patil: We have won certain clients, but I guess give us some time, then we formalize the announcement once our JV gets done.

Gagandeep: Okay. Sir. And lastly, looking at nine-month revenue. So it seems that we will comfortably achieve 37% guidance in top line. So are you looking to revise our guidance for FY24 to upside?

Kishor Patil: We don't give actually quarterly guidance. We typically give a yearly guidance. Then if there is a substantial change, then we change it once in the year. Typically, we do it at the end of the third quarter. But this time, there was a very big change, which was evident at the end of the second quarter, so we revised it. We have said 37% plus, right? And we have said that, but I think it's something which is not a big variation you can imagine.

Moderator: The next question is from the line of Nitin Sharma from MCPro Research.

Nitin Sharma: Just one question. Is there any specific ceiling in terms of the revenue contribution that comes from your strategy client?

Sachin Tikekar: Can you repeat that question, Nitin, not sure whether I understood it.

Nitin Sharma: Yes. So is there any specific ceiling. So currently, your strategic clients are contributing around 85% of the revenue. Is there an upper ceiling that in mind that how much they can contribute to the total revenue?

Sachin Tikekar: Yes. I think, as Mr. Patil mentioned earlier on, the more we engage with them, the more areas that we figure out where we can create differentiated offerings and solve some complicated problems for them. So earlier on, a couple of years ago, getting to a $50 million account was a big thing. And now we have $100 million, I think a couple of clients have already passed that.

So as we get more and more engaged with them, we see more and more opportunities for growth. So as of now, with some of these clients, we don't see a ceiling in the immediate foreseeable future. And that's really our model. I mean, we just worked with a handful of clients so that we can build long-term partnership and continue to grow, create value for them so that they can grow and we can also grow with them. That's been the whole model for us, Nitin, if that answers your question?

Nitin Sharma: Yes. It does.

Moderator: The next question is from Sunil Rahul, who is an Individual Investor.

Sunil Rahul: Congratulations on the good set up. I just have two questions. What is your current backlog -- total backlog? And what is the 12-month backlog? And is there any growth compared to previous quarter in 12-month backlog? And my second question is around the freshers. So how much is the time normally takes to get them on billables?

Kishor Patil: So on the freshers, we take three to four or five months depending upon certain areas. But three to four months is more likely, unless they really go through our desired level and productivity we don't put them on to the production programs. On the first part, we do not give any backlog numbers. And that's why we give the win numbers every quarter.

Moderator: Thank you very much. Due to time constraint, we'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sunil Phansalkar: So thank you, everyone, for your participation on the call. And if you still have questions, please feel free to write to me, and we'll be happy to get back to you and have a great evening. Bye.

Sachin Tikekar: Thank you.

Moderator: Thank you very much. On behalf of Dolat Capital, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.