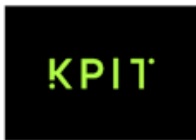




“KPIT Technologies Limited
Q2 FY 23 Earnings Conference Call”
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MODERATOR: MR. RAHUL JAIN – DOLAT CAPITAL MARKETS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Limited Q2 FY '23 Earnings Conference Call, hosted by Dolat Capital Market Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing 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 Market Private Limited. Thank you, and over to you, sir.

Rahul Jain: Yes. Hi. Thank you, Lizann. 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 I would like to hand the conference over to Mr. Sunil Phansalkar, who is Head IR at KPIT to do the management introductions. Over to you, sir.

Sunil Phansalkar: Thank you, Rahul. Good evening, and a very warm welcome to all on the Q2 FY '23 Earnings Call of KPIT Technologies Limited. I would take this opportunity to wish you and your loved ones a very happy Diwali, a healthy and prosperous Diwali.

On the call today, we have Mr. Kishor Patil, CEO and MD; Sachin Tikekar, President and Joint MD; Anup Sable, Whole-time Director and CTO; Chinmay Pandit, Whole-time Director and Head Americas; Priya Hardikar, CFO; and yours truly.

As we always do, we'll have the opening remarks on the performance of the quarter and the outlook that we see today by Mr. Kishor Patil and then we will have it open for questions. I would just request that we would have a hard stop at 06:30. So, after that time, even if you have any more questions, please feel free to write to me and we would answer those questions and publish them on the website as well as on the exchanges.

So once again, a very warm welcome to all and I hand this over to Mr. Kishor Patil.

Kishor Patil: Good evening, everyone. I'm very happy to take you through Q2 results for KPIT. First, I will go through certain financial numbers then will talk about employee side, then we'll give you some business outlook, we'll talk about also Technica acquisition.

So to begin with, I think the quarter as you all know by this time, we have a 27% constant currency growth year-on-year and 8.3% quarter-on-quarter.

And the reported growth has been 17.2% year-on-year and 4.8% quarter-on-quarter for the period. EBITDA has gone up by 33% year-on-year and net profit is up 28% year-on-year.

Now while doing this from EBITDA to net profit, during this period, the other income has gone down by INR 58 million on account of translation losses of the currency and that has basically impacted to a certain extent, net profits. Also, there is an increase in the depreciation of INR 1.70 crores, on account of two things. One is amortization of licenses, which is INR 1.2 crores, and INR 0.50 crores or INR 50 lakhs, basically due to amortization of purchase price allocation for PathPartner allocation for goodwill.

So after this, the net profit has grown 28% year-on-year. There is, overall if you really look at the TCV is INR 142 million, which we have won during the quarter and the pipeline looks pretty strong. One of the best we had with certain mega deals in the pipeline. So we feel very confident about the overall pipeline, which we have and that allows us to look at business very positive.

During this quarter, there have been increased increments which we had and the increments have been one of the best in the industry. We had a double-digit increment, including our global employees, which has been again, one of the highest we had over the last many years. This had a gross impact of more than 3% on profits, which we have been in a position to largely compensate due to strong growth as well as other productivity improvements.

On account of opportunities we are giving to our employees due of the strong growth and exciting technologies to work on, as well as the increments we have given; we see a downward trend in the attrition. While for the last quarter, it was early '20s, but as we have a 90-day forecast period, we see that what will be our attrition for the next quarter. And it will be less than 20% going forward in the next few quarters. So, we look at it as a very positive sign specifically when we are growing strongly.

Overall, during this quarter, we also acquired a company called Technica for EUR 80 million fixed payment to be done in two tranches, as we had announced some months back. And this will now be consolidated from 1st October. Overall, the revenues for this entity will be about EUR 42 million on a yearly basis with a 20% plus EBITDA.

The standalone growth rate will be 15% plus for the entity. And we expect synergy to drive more growth with this entity. While this will be the consolidation will be done, the deal expenses in Q2 will be about EUR 1.4 million, EUR 1.5 million, which we have already considered while giving EBITDA



outlook for the year. So we are very positive about Technica and we have received very positive vibes from the clients on this acquisition.

Overall, while the overall economy is a bit uncertain. We see that in our clients, which we have defined as T25 and in those clients, specifically the areas on which we are focusing, which is software-defined-vehicles, we see that the clients are going ahead with their programs and these are very essential for them for their having a market share in the future models.

So this is where we do not see any changes in their spend patterns and while the overall economy is a bit uncertain, we see this commitment to these programs and KPIT is very strongly positioned in this area. We are involved in about 70% of the programs, which are going on worldwide. We are a part of that and some of the new wins, we expect will be in these areas.

So based on the confidence, based on the positioning, and based on the areas in which we are focusing on, we believe that we are in a better position to really increase our outlook for the year. So the yearly outlook will be 31% to 32% growth on year-on-year, including Technica. Excluding Technica, our organic growth will be 23% plus, which is up from 18% to 21% outlook we had given earlier. EBITDA will be 18.5% to 19% more than – I mean, earlier, we had given 18% to 19% So, based on these areas, we feel very positive about the business environment and future prospects for the company. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin for the question-and-answer-session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi, good evening and thank you for taking my questions. My first question is related to the Technica acquisition that you've announced. Congratulations on closing the deal. Just wanted to pickup on a couple of comments you made on synergies on the transaction. If you could just help us understand what are the sources of synergies for this transaction both from maybe a client mining as well as an operational standpoint?

Anup Sable: This is Anup here. I think most of us know and if you can imagine a V, which is usually a software development cycle, right? So our KPIT traditional scope starts from software requirements at the left side of the V goes down up to software development, software integration and then at the right-hand side on the top, it goes to requirements validation.

Now if you can increase the height of this V a little bit more, now it starts with system architecture on the left and requirements and on the right-hand



side, it increases the system validation part. This is what the increase of the height of the V is what the Technica acquisition adds to us. What it means from a customer perspective is that, we get to engage with the customer much early in the lifecycle of the development of the software development vehicle at the system architecture stages.

And in our software integration business, our ability to integrate at the system level becomes a significant differentiator, which means our stickiness to the customer would increase and the system validation part of it also is a sticky business for multiple years. So that also engages us more with the customers. So in total, we get also earlier advantage as well as stickiness throughout the lifecycle of the program.

Kishor Patil: And just to add a few things, specifically in the SDV area where it is a complex architecture, this has more relevance and mining opportunities. And that is the reason we thought these are very important for architecture part.

Chandramouli Muthiah: Got it. That's helpful. My second question is on employee utilization levels. So I think we've had a significant pickup in hiring activity over the past 12 months. So just trying to understand where we are in terms of employee utilization at this point after the hiring pickup and then what the utilization target would be in an ideal world for us?

Kishor Patil: Right now, we do not go into the details too many on the utilization. And this is, because it becomes very complex based on the business model. But to your point, we do have increased our hiring over the last few quarters. And I mean, in the first quarter, we increased our headcount by 11%, second quarter by 8%. So, during this process because specifically in the areas in which we are working, I think the time taken to make people productive is a little bit more than normal programs.

Specifically, if you also hire certain freshers from the college and you will see this utilization going up in the next two quarters. We have an opportunity to increase our utilization certainly by a few percentages.

Chandramouli Muthiah: Got it. That's helpful. And my last question is around the organic revenue growth upgrades. I think the midpoint of the previous constant currency revenue growth guidance was about 19.5%, and now we've said it will be 23% plus. So, seems to be 350 basis points, at least in terms of organic revenue growth guidance upgrade. So just trying to understand what you're seeing in your deal pipelines, and what's giving you the confidence of taking the organic revenue growth guidance higher?

Sachin Tikekar: Chandra, this is Sachin Tikekar. If you look at what we have actually said, there are five large engagements that we signed up with five different OEMs, three of them in North America, one in Asia and one in Europe in the last quarter. And then there are two additional large, what will actually call mega sort of engagements that are in the pipeline. The pipeline actually has increased to about EUR 142 million and that also gives us the confidence.

So essentially, looking at the kind of demand that we have generated and on the other hand, our ability to also scale has gone up. The attrition is going down a little bit. Our ability to attract talent is going up. So, the combination of the two gives us the confidence that it's time to sort of upgrade the guidance in line with this.

Kishor Patil: I'll just clarify one thing. EUR 142 million is the TCV of what we have won during the quarter and the pipeline is much-much larger and the strongest ever. We don't give the TCV value of the pipeline.

Moderator: The next question is from the line of Pratap Maliwal from Mount Infra Finance Private Limited.

Pratap Maliwal: So just looking at the geographic numbers, so we see that in the last three to four quarters, that US geography has been about \$32.5 million to \$34.9 million range. Asia, if you have been -- the revenue has been declining over the past two quarters. Now with the macro headwinds coming in the top of inflation and recession in Europe, particularly Germany, which is a key geography for us. It might be more vulnerable due to energy dependence on Russia. So, what factors can actually protect our growth and revenue base in case some of those natural headwinds do actually materialize in terms of recession going ahead? What can protect our growth base?

Sachin Tikekar: If you look at, I think your read on the large macro trends is true, but we have to bring it down to what we do and the industry that we serve, which is mobility and we do software for them in software-defined vehicles. There are clear indications to us that the spend on software-defined vehicles will continue to grow. Within our T25 clients, we have deep engagements with them already. That gives us the confidence that in spite of the macro trends that you see, we'll continue to have growth in the immediate future.

As far as the geography question that you brought out, we are happy to see Europe is growing robustly for us in spite of the challenges at the geography level in Europe and that's because, again, we have seven, eight of our T25 clients are in Europe and all of us, we are engaging with most of them in a very meaningful manner. And that's why we have seen that growth. When it

comes to the Americas and Asia, you see that depend on all of our T25 clients are global in nature.

And the revenue actually shifts from one geography to the other, depending on where we are going with them and how we are engaging with them. That's why I wouldn't worry too much about what happens on a quarter-on-quarter basis. What we can tell you is going by our annual operations plan, we are actually on target when it comes to Asia and Americas, there are no surprises and actually, we are slightly higher in Europe. And we have also changed the guidance that we have given to everyone. So that's probably the answer to your question.

Kishor Patil:

And just to add, as Mr. Tikekar mentioned out of five wins, we have three wins in North America and one in Europe, and I think so we are probably a very well-balanced revenue portfolio.

Pratap Maliwal:

And my second question would be around our architecture and middleware consulting vertical. So if I remember correctly, we had very good growth during Q1 and now in Q2, we've declined slightly after strong growth. Now this particular vertical, as I understand is considered to be an existential type of program for the automakers and most of the future projects, I believe would be in this area. So, can I just maybe get an update on what was the reason for the decline in the segment?

Sachin Tikekar:

Sure. If you look at the middleware programs, all of them are long-term programs. Most of the engagement that we have signed up and as Mr. Patil mentioned earlier on, we are actually part of the seven large engagements out of the 10 serious middleware programs that are going on. These are large engagements with large milestones.

Hence, I would actually hesitate to look at quarter-on-quarter. If you look at the year-on-year number, it's in excess of 32% and most of our growth from this, we believe, on a year-on-year basis will continue to be very strong going forward. And what it's also doing since we are working on the middleware, we are touching all aspects of the vehicle.

It's also helping us to get more engagements in the other areas, right? So it's also a sort of a beachhead. So on its own it will have tremendous growth and it will also impact growth of some of the other practices in a positive way.

Pratap Maliwal:

So just trying to assess that because a lot of the strategic programs in the auto space would be done with keeping the next many years in mind, maybe four or five years in mind when it comes to programs around the case



mobility. So there's no real change. That's what I'm trying to assess, is that the correct answer that there's no reason to look too much into it. And that trend is still facing strong tailwinds?

Sachin Tikekar: Yes, that's really our clear differentiator in the marketplace. Correct, there are very few companies who can do what we are doing. That's why seven out of the 10 OEMs are engaging with us. These are all long-term programs. there are tailwinds, and we are confident about the growth in the immediate future.

Moderator: The next question is from the line of Karan Uppal from Phillip Capital India Private Limited. As there is no response from the current participant, we'll move on to the next participant, the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Thanks and congratulations on a very strong set of numbers and execution. The first question is in terms of Technica, when we have announced the acquisition, the CY'21 revenue run rate used to be EUR 47 million, EUR 48 million versus the presentation now talks about EUR 40 million, EUR 42 million. So first to understand this is CY'21 rate? And is there any intercompany transactions which will knock off once we acquire as a whole? And there would be a growth of 15% or 20% on this EUR 40 million, EUR 42 million once we start consolidating for CY'22?

Sunil Phansalkar: Yes. So the way to look at the Technica numbers is not add up all entity numbers together, because it is majority intercompany. So, the EUR 42 million, EUR 44 million that we have said right now that's the actual run rate for the year because for example, Technica US and Technica Germany, 90% is intercompany. So you should not add up all those numbers and that is not how it will happen. So, when you do the consolidation, it will be around the EUR 42 million, EUR 43 million mark that we have currently set.

Sandeep Shah: And a question on CY'22 run rate. So this would have a 15%, 20% growth rate right once we consolidate?

Sunil Phansalkar: Yes, that's what I think Mr. Kishor Patil said in the opening remarks that on its own, it will be a 15% plus growth rate and with synergies we can actually look at a better growth rate than that.

Sandeep Shah: And just wanted to understand, because slightly a bigger ticket acquisition will be open to take a debt on the books or this would be largely internally financed?



Priya Hardikar: We've said in the past also this whole acquisition will be funded with internal approvals.

Sandeep Shah: And just a reply to Mr. Anup sir. So, it looks like it's a good acquisition and to be in demand going forward. So, wanted to understand why then Technica has sold at a relatively good valuation multiple to us?

Kishor Patil: Yes. I think, frankly after the acquisition a lot of companies asked us how you have done that acquisition? Basically, we have been engaged with them for quite some time and there is a commonality of purpose and excitement. These are technical experts in certain areas and they want to achieve a certain goal, in the area of SDV, they believe they can play a meaningful role in the industry.

That's what they wanted to achieve and that's why they thought that KPIT was a complementary player. From that perspective, they have been working now for some time on talking about it. So that's why, they felt very comfortable coming together, so that they can fulfill their promise.

Sandeep Shah: And the last question, if I just look at the 23% growth rates, which we are guiding for organic business, I do understand the words which we have used this 23% plus. But if I look at 23% and the ask rate for the next two quarters is 1.8% in constant currency terms.

So are we factoring a bit of a seasonal slowdown and furloughs or also some conservatism towards European clients because of the cash shortage and the recessionary pressure? Or is it one should read that what we have said, 23% plus is at least 23% growth, it could be higher than that?

Kishor Patil: So there are two points. One is we have said 23% plus, that is point number one. The second thing is, we have factored Q3 which is a seasonally weak quarter to some extent. We hope we can do better. But still it is weaker as compared to the other quarters. So that's what we have factored a bit.

Sandeep Shah: So any client has some...

Sunil Phansalkar: When we say 23% plus, I think 23% is the bare minimum that we'll do.

Sandeep Shah: And any client from Europe in terms of OEM has shown any kind of caution because shortage of gas may lead to some amount of disruption in plant operations. So, are we foreseeing any kind of this risk in the next two to four quarters going forward?



Sachin Tikekar: As we mentioned earlier on, our engagements with European T25 clients are stronger than ever before. In fact you've seen the growth in the last two quarters that we have demonstrated. We have no reasons to see that there is likely to be slowdown.

Yes, there are macro challenges. However, if you bring it down to mobility and what they have to do in order to remain relevant as an OEM that's the spend that they have to have. And fortunately for us, we are in that space that where they are committed to spending that money. We don't see in the immediate future any kind of slowdown in Europe.

Kishor Patil: I think what we believe is also the area in which we are working, I think even if they reduce their spend, I think our spend will at least remain the same if not increase and that is what we are seeing at least in some clients.

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

Nitin Padmanabhan: Good evening, everyone and congrats on a strong quarter. This quarter you mentioned that you had two mega deals that you could close over the next three to four months. Historically, I think this is the first time you are characterizing these deals as mega deals, historically have called them large deals and you've reported \$60 million kind of deals. So just wanted to sense in terms of how is the mega deal different from a large deal? Maybe roughly, if you could give in terms of size and the scope of work typically?

And second question was, I think you have done a few interesting acquisitions over the past year. And those have sort of added reasonable capability and you also have this middleware stack. So, all coupled put together do you believe that the deal sizes for you itself will inherently be much larger than what we used to close in the past? So, these were the two quick questions.

Sachin Tikekar: Nitin, I'm glad you noticed something different. Actually, we want to call them mega engagements and not deals. Because these are long-term partnerships that we are building with our T25 clients and yes, they are different. These essentially, the differentiation is these are three-digit sort of engagements that spread over five to six years and there will be two of them in the next few months.

And essentially, we'll work very closely with the client on their roadmap for the next two or three production programs and there will be some incremental changes in the technology, driven mostly by the changes in the central architecture in the middleware. So we are very excited about these engagements because it also speaks volumes about the quality of the



engagement which now we are actually becoming trusted partners to some of these OEMs and that's what we really wanted to do. But our hope is that most of our T25 clients, we become trusted partners to all of our T25 clients over a period of time. I think that answers your first question.

And the second was about with the acquisitions we have added capabilities and so forth what does that mean? I hope that the new term mega engagement is the question. Obviously because of the acquisitions, starting with our partner and now Technica as Anup explained earlier on. it actually increases the V – we stretch the V on both sides. And we continue to differentiate ourselves from everybody else and create larger value for our clients. So hopefully, we'll see more and more of such engagements in future.

Kishor Patil:

And if I may add a bit because PathPartners gives us something which is close to hardware kind of utility low-level programming and Technica as we discussed, it increases the size of V and it won't happen in every deal. But a couple of deals we are talking about, basically, the client is giving us the full engagement and that is what makes it a big difference. And so we do expect, we do hope that we are in a position to capitalize on these competence.

Nitin Padmanabhan:

Just two more quick ones. So one is, so far, most of the large deals that you have won have been European. By when do we do start really seeing some traction in the US as well in terms of large deals? Or do you think that US is not a very large deal kind of deal and this has smaller size, but multiple of those? So that is one. And second, do you think the commercial vehicle space is sort of reaching an inflection point at some point, so that you start driving growth? So those are the two things. Thank you.

Sachin Tikekar:

Nitin, first of all, don't say that US has not grown. It has grown substantially over a period of time is 40% of our business.

Nitin Padmanabhan:

I meant large deals.

Sachin Tikekar:

I know what you mean. But that was on the lighter note. We announced five large engagements during the last quarter. It just happens so that the three of them are OEMs in the US. One of them from Europe and one of them from Asia. So, we think that the growth in US will be three pronged. One is the existing passenger car OEMs. I think, we continue to increase our footprint in them.

Second is, US has the highest number of what you will call the new type of OEMs. We have started an initial engagement, but in a meaningful manner

with two of them, so that part, we think that over the next two or three years, we'll also start to fire in a significant way.

And the third part is what you talked about, which is going to your second question on commercial vehicle. We have covered almost all the key OEMs in the US, and if you look at our growth in commercial vehicles, which is higher than passenger car growth obviously, on a smaller base. It's actually propelled by our engagements in the US. So, we continue to remain bullish on our prospects of growth in Americas, riding on these three factors; passenger car, commercial vehicles and the existing OEMs and the newer kind of OEMs. I think that was the first.

The second part was on the commercial vehicle. It's a great question. And that's something that we need to -- we've been so busy and tied up responding to the OEMs in the pas car area, we really need to create a separate bandwidth to do justice to commercial vehicles. So yes, it is reaching inflection point. If you look at our growth, it's growing. It's growing on the back of a handful of T25 clients that we have in commercial vehicles. But they are mostly from the US, there are some important ones in Europe that are part of our T25 and there are two in Asia as well. We really need to bring in focus and make sure that we do justice to that opportunity as well.

Sunil Phansalkar: Your short question, but I hope it clarifies.

Moderator: Thank you. The next question is from the line of Karan Uppal from PhillipCapital India Private Limited. Please go ahead.

Karan Uppal: Yes. Thanks for the opportunity. Just two questions from my side. One is on depreciation, so given the Technica acquisition, we have closed just now we are running at around INR 31 crores, INR 32 crores on the depreciation line. So how will this change post the close of Technica acquisition? And secondly, on FY '24. Now, FY '23, we understand that it has been a phenomenal year for you in terms of organic growth rate, but any early indications on how FY '24 may look like?

Priya Hardikar: So, I'll answer the deprecation one. See, the depreciation for Technica will be work done post the consolidation of the results from Q3. As we speak, it is not part of the results as of 30th September. And we will disclose once the working upon the consolidation happens as per IND AS as at a later stage, and in FY24 it will have a significant impact on depreciation because of the goodwill that will arise upon consolidation.

Moderator: Ma'am, the audio from your line is breaking up.

Kishor Patil: So for the next year, we will give the guidance at the end of the year generally in the month of April, but what we have mentioned, we see that overall outlook for us, but we will give that at the end of the year, but what we have mentioned in the past few years, we'll see an opportunity to grow 20% year-on-year. That's what we have mentioned in the past, but we will take our view closer to end of the year, as we always do.

Moderator: The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Andrey Purushottam Thank you and congratulations for a consistent record of EBITDA and revenue growth. I had two questions. One more related to Technica and the other two operating expenses. As far as Technica has concerned, you said that Technica allows you to come in earlier in the software development cycle. Now, does that also mean that the value side of the deal will increase as a regard of this? That's question one. And the second question is, are there any capabilities that Technica brings that may allow you to get clients outside the T25 that you may want to attach to this point of time?

Sachin Tikekar: Let me answer the two questions. A, as we mentioned earlier on, I think we were answering Nitin's question earlier on about, yes, it does increase. It does stretch the V on both sides. It's not only we get engaged earlier in the cycle, but we also stay much longer. Because we are stretching the right side of the V, as well and that all leads to more meaningful longer-term engagement, so we absolutely see that going forward.

The second question was whether, the good thing with Technica is, their major clients are our major clients, so there is a good amount of overlap, and there is a lot more that we can do together in our other T25 clients with Technica. So that's something that we are going to focus on immediately.

Having said that, Technica also has one or two clients in the Bay Area that are of interest to us from the new OEMs perspective. So those are the two that we'll look at very closely, but I think that's going to be our go to market pretty much with Technica. Anup, do you want to add?

Anup Sable: I just want to reiterate, the focus from Technica acquisition perspective is leveraging within our existing customers and their existing customers, so the theoretical answer of whether we could go out of T25 is, yes. But the choice remains scaling up with our customers and their customers at the moment.

Andrey Purushottam: And as far as the operating expenses are concerned, is it possible for you to give us a broad sense of the variance both Q-on-Q and year-on-year? And

both on the operating expenses and the EBIT margin? And would it be right for me to presume that the salary hikes and the lower utilization because of a higher-pressure intake may be largely responsible for the lower profit figure?

Sunil Phansalkar: So, as we said earlier, the gross impact of the salary hikes was around 300 bps, but if you see at the net impact on the EBITDA line, it's about 90 bps. So, that is majorly because – not majorly, all of it is because of the salary hikes as compared to the last quarter, the reduction in the EBITDA. If you look at the other expenses, I think on a broad level, because we are slowly getting back to operations starting from office, there are certain expenses that are going up, but obviously, I mean, if you look at the growth in those expenses over a period as compared to the growth in revenues, that has been lower. And that is how we have leveraged and improved our profitability.

Kishor Patil: And I would like you to appreciate that our profitability is not low. I think it is in the range what we have mentioned.

Sachin Tikekar: And I think we should also look at the year-on-year numbers. Those are the real reflection of the performance and on all three parameters, whether it's the revenue, the EBITDA and PAT, I think we have demonstrated reasonably on the growth.

Andrey Purushottam: So can the structural margin trends improve going forward because that's what you are seeing to indicate, right, in terms of your outlook and what would be the contributors to the improvement in the structural margin?

Management: And the margins -- basically, can the margins go up in the near future? And if yes, what would be the contributors to that?

Kishor Patil: So, we have given right now, 18.5% to 19%, I think, we have improved our outlook on the profitability, and that is what it will be for this year. Going forward, we have a certain levers in our hands. Apart from leveraging, first is growth, which is leverage over fixed expenses. We always invest ahead of time.

The second is offshoring, I think many of these deals have started which are as I said, large complex deals. So, after six months to eight months, we have an opportunity to move a lot of work offshore. We believe our realizations will also improve. So these are some of the areas which we would like to say.

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



Ankit Agrawal My first question is in the input end segment, one of our deal from BMW. Given that BMW is a core client for us and infotainment is a segment where we also have service offerings. Just trying to understand, did we participate in the deal and what is the kind of trend in terms of market share we have with BMW?

Kishor Patil: We would not like to comment on our client specific project or this, but I can only tell you that we have a very significant market share in that account. And they are probably one of the largest players in that account on the software side.

Ankit Agrawal: Okay. And in general, just a broader question then on the infotainment segment. Is that still a focus area because you don't mention it in the footnotes in the future development and integration?

Sunil Phansalkar: No, the third business unit, which we talked about the cloud and connected services. That includes connected infotainment and digital cockpit. And that is actually grown quite significantly.

Ankit Agrawal: And then the second question is, just in general, some of the peers also announced that they are focusing more on system integration services. So, what is the kind of competitive intensity you're seeing specific to integration space?

Sachin Tikekar: The way we look at our clients, as I mentioned earlier on, I think our T25 clients is where we are moving to a space where we are becoming trusted partners and with many of them, we work with them on long-term engagements. And as far as competition is concerned, we don't see much competition in those where we are trusted partners in because in most areas that are relevant to us and common to them, we are the only ones and that's what we are going to do more of going forward.

There are a handful of clients where we are in that position today and we hope that, that number will increase substantially over the next few years. Having said that, in other T25 clients, we do see competition, but not necessarily across all of our practices, especially in the middleware area. And we feel very confident about all of our practices and growth thereof.

Kishor Patil: On the integration side, I think we have some significant advantage in terms of technology and the solutions and the platforms we have put.

Anup Sable: I think this system integration word is a very sort of 25,000 feet kind of a word and it is used differently in different industries. So, if you look at

industrial automation, system integration means completely different. manufacturing, it would mean completely different. In our space, in system integration, I think we are definitely the most -- from a competency perspective with Technica, I think we would be at the top now. So, we don't see any challenge in this particularly.

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

Hiren Ved: Hi, Kishore and Sachin, congratulations at the outset for great numbers and superb execution. I just had one question is that, how do you see the environment on the supply side easing out in terms of hiring talent both at the pressure level, as well as at the lateral level, considering that you have a very strong pipeline. Do you see that things have eased or are you finding it as difficult as it was a couple of quarters back? And as a result, are you even thinking of offshore centers outside of India?

Kishor Patil: Yes. So, I will answer it in a couple of ways. Overall, we see more easing of the supply chain over last few months. Mainly because of two things, one is we see the attrition going down, which is a very important part for us because we can leverage our current employees much better. That is the first part. The second is, of course, with more experience of these people, we can leverage the pressures also better. And again, we see campus recruitment coming back and more availability of people in that.

Having said that, looking at overall, what we intend to do in the next few years, we have taken a program called Scope, which will allow us to double our capacity in the next few years. At least create that kind of a capacity by increasing the centers in India, centers outside India then creating a better competency development, automation then improving the processes internally. So how do we build a competent set for scale? From that perspective, we have taken this program.

And we have made some significant progress in that area, having one center in India in Kochi, one center in Egypt and of course with the acquisition, we have a couple of centers in Eurozone, timezone. So we are certainly looking at in all the way to improve our scalability

Moderator: Thank you. The next question is from the line of Dev from Invest Yadnya.

Dev: Sir, you report growth in -- for geographies in dollar terms, right? So can you report in CC terms, so that will be easier for comparison?

Sunil Phansalkar: I think what we have been doing as a practice is reporting all the metrics in US dollar reported terms and that is what we have been doing. But we'll have a look at it whether it is feasible and on a consistent basis, whether we can do it.

Moderator: The next question is from the line of Karan from Dhanki Securities. Karan your line is on the talk mode, please go ahead. As there is no response from current participant, we'll move on to the next that is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Chirag Kachhadiya: Congratulations on a good set of numbers. Sir, I have a few broad strategic questions like, what's our plan with respect to the domestic Indian market going forward? And also the domestic PLI, which are being supported by government of India and many industrials. So how do we look into those tailwinds which are available for the domestic business?

And also, your outlook with respect to US and Europe because in Europe, certain peers have been affected due to this Russia, Ukraine war? And is there any one-off or a onetime business we've received in the last two quarters or then also in the same effect in current quarter order book, which you can some light on the same?

Kishor Patil: So first I will answer on the Europe and US. I think we have shown a consistent growth there and our pipeline is strong and all our conversations have been positive. We talked about the logic why the spread is there and at least we are confident about what we have talked about the growth in both these regions.

In terms of India, see some of these T25 clients are really playing in the Indian environment and we working with them, which are there. I think in certain specific new technologies, we are seeing what we have that can be leveraged for a specific, very selective Indian market clients and we are doing that very cautiously. But if we see a good realization and scale then we would do that and we are considering it in terms of certain changes, which can happen in Indian environment.

Now overall, in India, we have been involved in certain policymaking, supporting different government bodies. We are leveraging our understanding and experience what we have on a global level, because we are part of many standards committee in Europe, etcetera. So we are leveraging that experience for Indian market and selecting specific opportunities, which we will have generally through T25 and some by exception.

- Moderator:** The next question is from the line of Nitin Sharma from M.C. Pro Research.
- Nitin Sharma:** Congrats on a good set of numbers. Two questions, if I may. Just want to understand, is the work from offices fully started at your end. And if not then what kind of potential impact and time line that could help?
- Sachin Tikekar:** What we have decided is, we are moving from work from home to hybrid. That's the part that we have initiated and we're going to take one step at a time. For instance, those employees who are already here in Pune and Bangalore where we have the largest presence or Kochi in future, we are encouraging them to consider office twice a week and many of them are actually coming on their own, that's something that we have started.
- Secondly, we also believe that the training, especially that of fresher and we need to have more interaction with them. So that's another part that we will start. However, we are not in a hurry to go to the other extreme from work from home. But we will do in over a period of time is to bring in sharper focus and some guardrails around the hybrid model.
- That's something that we will do here in India where 80% of our employees are and in other geographies we'll see depending on the convenience of the clients and the convenience of the employees will figure out what's really right for them, right? So that's the approach that we are taking.
- Nitin Sharma:** Any immediate impact on the operations cost for the hybrid, because it has to be some costs from the training as well as office-related expenses this year?
- Sachin Tikekar:** I think it's already baked into our annual operations plan. We had already thought that there people will gradually start to come back and that we're baked in. So, it's not going to be a surprise to us.
- Kishor Patil:** One impact we had was the engineering schools, which worked virtually in the past two years. We thought that their training needs to be a little longer when they come into corporate world. So our training cycle has, to some extent, increase. But of course, that's a part of our plan.
- Nitin Sharma:** Okay. And if I can see the bookkeeping question...
- Moderator:** Sorry to interrupt sir, may we request that you return to the question queue. The other participants are waiting for their turn. The next question is from the line of Rithvik Sheth from One-Up Financial.

- Rithvik Sheth:** Yes. Sir, just one clarification on the depreciation question. Actually, the line was not clear. So, the impact will be significant or it will not be significant?
- Priya Hardikar:** Which one are you referring to? Are you referring to quarter-on-quarter...
- Rithvik Sheth:** So Technica acquisition and the associated depreciation, which will come in, you mentioned that....
- Priya Hardikar:** I said we can't right now mention details because the consolidation has not yet happened. We will go through the process and then disclose in the results.
- Rithvik Sheth:** You mentioned something that significant or insignificant. So, I missed that part.
- Sunil Phansalkar:** No. What we have said earlier is, when we talked about when we signed a deal, what we have said is this is going to be EPS accretive. And we are to consider certain purchase price allocation, which will impact our P&L, but, after that impact, we will still be EPS accretive on the whole. That is what we have said.
- Now the exact quantum of how much it would be and will all happen once we do the consolidation and we have a year to do it. So, what we have said is it will not have any material impact this year and when we crystallize the numbers, we will let everybody know, what are those numbers.
- Moderator:** The next question is from the line of Hasmukh Vishariya from SUD Life.
- Hasmukh Vishariya:** Congrats on the set of numbers. So, my two questions, so growth from non-top 25 clients seem to be muted from past three quarters. So, any update on the same? And secondly, if I look at the headcount addition Y-o-Y, it is nearly 50% as growth of let's say 27% Y-o-Y this quarter and for the full year as well nearly 23% sort of growth number. So any reason for the gap if you can highlight?
- Sunil Phansalkar:** No, we have already said that, if you look at the last at least two, three quarters, our headcount addition has been much higher because we are looking at good growth opportunities in the future. We are also hiring fresher's who take a little bit of more time to come into the mainstream as far as getting absorbed into projects is concerned and I think that is why the headcount addition has been higher in the last two, three quarters.
- Sachin Tikekar:** And coming to your other question on non-T25 there is a very good reason why the growth is muted because that's by design. We believe that our T25

clients, the SDV programs and their future technology is very critical. And there more and more of them are choosing us to be their partner. Our priority is to make sure that we help them be successful in their journey and we go deep and wide with them, that remains our focus. Hence, the growth from non-T25 muted.

Sunil Phansalkar: Sorry to interrupt. I think we'll have to take just one last question. And as I said earlier, if there are any more questions, please write them to me and we will answer them and publish them on the website as well as on the exchanges.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for the closing comments.

Sunil Phansalkar: So thank you everybody, for your participation on the call and as I said earlier, please feel free to write to me, if you have any further questions. And we'll end this call. And once again, I'm very happy to wish you a very happy Diwali. Stay safe and stay healthy. Thank you.

Sachin Tikekar: Thank you, everyone.

Kishor Patil: Thank you.

Priya Hardikar: Thank you. Happy Diwali.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital Market Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.