ICRA

February 05, 2024

KPIT Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term/Short-term – Fund based/Non-fund Based – Working Capital Facilities	Rs. 265.00 crore	Rs. 265.00 crore	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term – Unallocated Limits	$7.5 million	$7.5 million	[ICRA]AA (Stable); reaffirmed
Total	**Rs. 265.00 crore and $7.5 million**	**Rs. 265.00 crore and $7.5 million**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for KPIT Technologies Limited (KPIT) factors in its established business profile with its niche offerings and strong position in the automobile engineering and technology solutions space, supported by its established relationships with top global automotive players. KPIT posted healthy revenue growth (in rupee terms) of 38.3% and 60.6% in FY2023 and H1 FY2024, respectively, supported by good growth in the passenger vehicle (PV) vertical under all the three segments (Feature Development & Integration, Architecture & Middleware Consulting and Cloud-Based Connected Services) and by successful consolidation of Technica Group (Technica) that was acquired in October 2022. The integration is expected to strengthen KPIT's offering as an end-to-end player for software-defined vehicles (SDVs) and provide operational synergies, given Technica's technological capabilities and common client base. Further, in the current fiscal year, KPIT has also entered a joint venture (JV) with the ZF Group (a leading technology provider), which is expected to enable it in providing scalable automotive middleware platforms and solutions for the mobility ecosystem.

Apart from this, there is steady demand from the electric vehicle (EV) space, along with emerging technologies such as autonomous driving, and connected and shared mobility, which is expected to support revenue growth. In addition, the company's multi-year engagements for SDV with a couple of original equipment manufacturers (OEMs) provide revenue visibility for the long term. Further, the ratings continue to factor in KPIT's strong financial profile supported by healthy internal accrual generation, sizeable net worth and strong liquidity position. Also, the company remains net-debt free, which coupled with healthy internal accrual generation, has continued to result in strong debt protection metrics.

The ratings, however, remain constrained by KPIT's revenue concentration on a few clients and a single vertical (automobiles). The company generates ~80% of its revenue from its top 25 clients, exposing it to client concentration risk to an extent, as the revenue loss from its top clients may impact its revenue and profitability. However, ICRA notes that KPIT's offerings are niche and focused on entrenched relationships with top global automobile players. Additionally, industry participants, including KPIT, are exposed to challenges in the form of wage inflations, foreign exchange (forex) fluctuations, talent acquisition and retention. ICRA also notes that the company will continue to scout for opportunities to support its inorganic growth initiatives. While its healthy available cash surplus can be utilised for the same, any sizeable debt-funded acquisition can materially impact KPIT's financial risk profile and will be evaluated on a case-to-case basis.

The Stable outlook on the rating reflects ICRA's opinion that KPIT will maintain its strong credit profile and liquidity position, supported by healthy internal accrual generation and continued net-debt free status.

ICRA

Key rating drivers and their description

Credit strengths

Healthy operational profile driven by niche offerings and strong relationships with top global automotive OEMs and Tier-I suppliers – KPIT's business is focused entirely on the mobility industry with its niche offerings in power trains, autonomous and connectivity categories. The company offers software IP, software integration, feature development, and verification and validation services to global OEMs and Tier-I suppliers across its key practices. KPIT has deep-domain technical capabilities across its key practices. Further, it has an established client base, which includes most of the top 20 global OEMs, to whom it offers multiple services. KPIT's niche offerings and strong relationships have driven healthy revenue growth over the years.

Strong financial profile with stable earnings, net-debt free status and strong cash reserves — KPIT's financial performance has remained strong with topline growth (in rupee terms) of 38.3% and 60.6% in FY2023 and H1 FY2024, respectively, supported by healthy revenue growth in the PV vertical owing to successful integration of the Technica Group acquired in October 2022. Also, its OPM was healthy at 19.9% in H1 FY2024 and is likely to be largely sustained at similar levels over the near term. The company's financial profile continues to remain strong, aided by strong accrual generation, a comfortable capital structure with sizeable net worth of Rs. 1,857.2 crore and net-debt free status as on September 30, 2023. These factors have continued to result in robust debt protection metrics, which are expected to sustain over the near term, aided by strong accrual generation and no major increase in debt levels.

Increased R&D expense by global auto companies provides growth opportunities – Global EV demand is increasing owing to the high carbon emission by conventional vehicles, with Governments across countries offering incentives in electrical mobility. Moreover, the SDV concept is becoming increasingly popular in the automotive industry. This has led to an increase in R&D expenses from OEMs and Tier-I suppliers on emerging technologies such as autonomous vehicles and EVs, addition of new features and functionality in vehicles to stay competitive in the industry. Thus, all these factors provide healthy revenue visibility for KPIT over the near to medium term.

Credit challenges

Client and segment concentration risks — KPIT derives its entire revenue from the auto sector with its top 25 clients generating more than 80% of its revenues, thus exposing it to concentration risks. Consequently, any slowdown in the auto segment or decrease in technology spend by its top clients can have an adverse impact on the company's performance. However, the risk is mitigated to an extent by KPIT's established relationships with its top global auto OEM clients and its niche offerings/ technological capabilities in mobility solutions. The company's strategy to focus on its top automobile clients (OEMs and Tier-I suppliers) is in line with the concentrated nature of the industry to drive revenues by offering multiple services.

Margins vulnerable to wage inflation and forex fluctuations – Operating in a highly labour-intensive business with a surge in attrition levels over FY2022 and FY2023, exposes KPIT's profit margins to wage cost inflation. Nonetheless, in line with its industry peers, the company's attrition rate has tapered in recent quarters, and is expected to remain at similar levels over the near term. Also, KPIT is exposed to the hiring norms of its operational countries. Further, with most of its revenues generated by global clients in foreign currencies, the company is exposed to forex risk. However, KPIT's hedging mechanism mitigates this risk to an extent.

Liquidity position: Strong

KPIT's liquidity is **strong** supported by healthy internal accrual generation, sizeable cash and investment of Rs. 627.5 crore and substantial buffer of ~Rs. 195 crore in its working capital limits, as on September 30, 2023; and no external debt repayment liability. The company has contingent consideration of ~Rs. 500 crore (as on March 31, 2023), of which ~Rs. 232 crore is payable in FY2024 and the remaining in subsequent years. Despite this, its liquidity position is expected to stay strong supported by strong accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade KPIT's ratings, if there is a sustained scale-up in revenues along with improvements in the margin, while maintaining its sizeable liquidity.

Negative factors – Pressure on KPIT's ratings could arise due to any impact on its revenue and profitability from the loss of any of its key clients, or due to demand moderation in the auto industry. A specific credit metric for a downgrade is the Net Debt/OPBDITA becoming more than 1.0 times, on a sustained basis.

ESG related comments

Environmental considerations: Given its service-oriented business, KPIT's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations: Like other Indian IT service companies, KPIT faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, the company remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled talent, leading to higher attrition rates that may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology - IT - Software & Services Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KPIT. The consolidated entities are all enlisted in Annexure-II.

About the company

KPIT is a technological company focused on automobile engineering and mobility solutions. The company offers technology solutions to automobile OEMs under different practices such as power trains (conventional and electrical), connectivity, autonomous (vision and control systems) and diagnostics. Each of its practice areas offer software IP, software integration, feature development, and verification and validation services.

Key financial indicators (audited)

KPIT - Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	2,432.4	3,365.0	2,296.8
PAT	276.0	384.5	275.8
OPBDIT/OI	18.5%	18.9%	19.9%
PAT/OI	11.3%	11.4%	12.0%
Total outside liabilities/Tangible net worth (times)	0.7	1.0	1.0
Total debt/OPBDIT (times)	0.5	0.5	0.4
Interest coverage (times)	23.3	19.7	16.7

*Source: Company, ICRA Research; * Provisional abridged financials; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years			
		Type	Amount rated	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Feb 05, 2024	Apr 06, 2023	-	Mar 04, 2022	May 27, 2021	Feb 14, 2020
1	**Working Capital Facilities**	Long term and short term	Rs. 265.00 crore	--	**[ICRA]AA (Stable)/ [ICRA]A1+**	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
2	**Unallocated Limits**	Long term	US$7.5 Million	--	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term - Fund based/Non-Fund Based-Working Capital Facilities	Simple
Long term-Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated	Current Rating and Outlook
NA	**Long Term/Short Term - Fund based/Non-Fund Based- Working Capital Facilities**	NA	NA	NA	Rs. 265.00 crores	[ICRA]AA (Stable)/ [ICRA]A1+
NA	**Long term-Unallocated Limits**	NA	NA	NA	US$7.5 Million	[ICRA]AA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KPIT's Ownership	Consolidation Approach
KPIT Technologies (UK) Limited	100%	Full Consolidation
KPIT (Shanghai) Software Technology Co. Limited	100%	Full Consolidation
KPIT Technologies Netherlands B.V.	100%	Full Consolidation
KPIT Technologies GmbH	100%	Full Consolidation
KPIT Technologia LTDA	99.9%	Full Consolidation
Microfuzzy Industry – Elektronic GmbH	100%	Full Consolidation
KPIT Technologies GK	100%	Full Consolidation
KPIT Technologies Inc.	100%	Full Consolidation
KPIT Technologies Holding Inc.	100%	Full Consolidation
ThaiGer Tec CO Limited	100%	Full Consolidation
Pathpartner Technology Private Limited	60%	Full Consolidation
PathPartner Technology Inc	60%	Full Consolidation
PathPartner Technology GmbH	60%	Full Consolidation
Somit Solutions (UK) Limited	65%	Full Consolidation
Somit Solutions Inc	65%	Full Consolidation
KPIT Technologies Employee Welfare Trust	100%	Full Consolidation
KPIT Technologies SAS	100%	Full Consolidation
Technica Engineering GmbH	100%	Full Consolidation
Technica Electronics Barcelona, S.L	100%	Full Consolidation
Technica Electronics Spain S.L	100%	Full Consolidation
Technica Engineering Inc	100%	Full Consolidation
FMS Future Mobility Solutions GmbH	25%	Equity Method
Qorix GmbH	100%	Full Consolidation

Source: Company; Note: ICRA has taken a consolidated view of the KPIT, its subsidiaries and associates while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Rashmi Gole
+91 020 66069917
rashmi.gole@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches