March 04, 2022

KPIT Technologies Limited: Long-term rating upgraded to [ICRA]AA (Stable); short-term rating 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	Rs. 265.0 crore	Rs. 265.0 crore	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Positive)/[ICRA]A1+ reaffirmed
Long-term Unallocated	US$7.5 million	US$7.5 million	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Positive)
Total	**Rs. 265.0 crore and US$7.5 million**	**Rs. 265.0 crore and US$7.5 million**	

**Instrument details are provided in Annexure-1*

Though a part of the instruments of KPIT are denominated in foreign currency, ICRA's ratings for the same are on a national rating scale, distinct from an international rating scale

Rationale

The rating upgrade factors in the strengthening of KPIT Technologies Limited's (KPIT's) credit profile demonstrated by its steady revenue growth, improvement in profit margins, a comfortable capital structure and strong liquidity position (unencumbered cash/deposits/liquid investments of ~Rs. 1,022.6 crore as on December 31, 2021). The company is net- debt free, coupled with healthy internal accrual generation led to strong debt protection metrics. The rating also considers the sustenance of revenue growth over the near to medium term, supported by the improved demand for electric vehicles (EVs) across geographies. This has resulted in increased IT spend on EVs, along with emerging technologies such as autonomous driving, connected and shared mobility. Additionally, the ratings derive comfort from KPIT's established business profile, with its niche offerings and strong position in the automobile engineering and mobility solutions space, supported by its established relationships with top global automotive players. The company offers software IP, software integration, feature development, and verification and validation services to global original equipment manufacturers (OEMs) and Tier-I suppliers across its key practices. KPIT has deep-domain technical capabilities across its key practices, which include power trains (conventional and electric), autonomous, connected, and shared mobility. This helps the company compete with global and domestic auto-tech companies.

The ratings are, however, constrained by KPIT's revenue concentration from a few clients and a single vertical (automobiles). The company generates ~82-85% of its revenue from its top-21 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, continue to face challenges in the form of wage inflations, foreign exchange (forex) fluctuations, talent acquisition and retention. ICRA also notes the company's plans to grow inorganically through acquisitions in the short to medium term, funded by its sizeable cash and liquid investments. 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 continue to benefit from its established business profile, strong client base and the favourable demand outlook of the industry.

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, the company has an established client base, which include majority 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 and strong cash reserves – KPIT's financial profile remains strong, aided by the steady revenue growth, improved profitability, a comfortable capital structure and sizeable net worth. In 9M FY2022, KPIT's revenue grew by 19.1% YoY supported by the growth across geographies and segments. Its operating margin improved to 17.8% in 9M FY2022 from 15.3% in FY2021, supported by higher offshore billing, increased revenue from managed service model, better realisation, and improved operational efficiency. The margins improved despite high increments and incentives given to employees in 9M FY2022. The company's financial profile is also supported by its sizeable net worth of Rs. 1,360.2 crore as on December 31, 2021, and net debt-free status. KPIT's liquidity position has strengthened with the steady increase in cash and liquid investments to Rs. 1,022.6 crore as on December 31, 2021, from Rs. 822.4 crore in March 2021. The debt indicators are expected to remain comfortable, going forward, in the absence of any large debt-funded capital expenditure (capex).

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

Credit challenges

Client and segment concentration risk – KPIT derives its entire revenue from the auto sector with its top-21 clients contributing ~82-85% of its revenues, (83.8% in 9M FY2022) exposing it to concentration risks. 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 with 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 – KPIT's profit margins are susceptible to wage inflations and forex fluctuations. Being in a highly labour-intensive business, the availability and retention of a skilled workforce are its key challenges. Due to the increased demand for digitisation, the IT industry has experienced high attrition levels in the recent quarters, which is expected to increase the overall wage costs. KPIT is also exposed to the hiring norms of its operational countries. Further, with most of its revenues generated from global clients in foreign currency, the company is exposed to forex risk. However, KPIT's hedging mechanisms mitigate this risk to an extent.

Liquidity position: Strong

KPIT's liquidity is strong with healthy estimated fund flow from operations (FF) between Rs. 340 crore and Rs. 360 crore in FY2022, aided by healthy revenue growth and operating profitability. The liquidity is further enhanced by the significant cash and liquid investment of Rs. 1,022 crore and unutilised fund-based limits of Rs. 265 crore as on December 31, 2021, along with no term loan repayment liability. The company will continue to scout for investment/acquisition opportunities to support its inorganic growth initiatives. The impact, if any, of the same on KPIT's credit and liquidity profile will depend on the ticket size of these investment/acquisition and their operational and financial synergies.

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 – Negative 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. Specific credit metrics for a rating downgrade include net debt/OPBDITA of more than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Information Technology (Services)
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-2.

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. KPIT is global present in 14 countries across America, Europe and APAC.

Key financial indicators (audited)

KPIT Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	2156.2	2035.7	1,780.6
PAT (Rs. crore)	146.8	141.4	195.7
OPBDIT/OI (%)	13.7%	15.1%	17.8%
PAT/OI (%)	6.8%	6.9%	11.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6	NA
Total Debt/OPBDIT (times)	0.7	0.7	NA
Interest Coverage (times)	14.9	17.8	25.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of Sept 30, 2021	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 4, 2022	**May 27, 2021**	**Feb 14,2020**		
1	Working Capital Limits	Long-Term/ Short- term	Rs.265.0 Crore	NA	[ICRA]AA(Stable) /[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-
2	Unallocated	Long- term	US$ 7.5 million	NA	[ICRA]AA(Stable)	[ICRA]AA-(Positive)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Unallocated	Not Applicable
Long-term/Short-term – Fund-based/Non-fund Based Working Capital	Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Working capital limits	NA	NA	NA	Rs.265.0 Crore	[ICRA]AA(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	US$ 7.5 million	[ICRA]AA(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	KPIT Ownership	Consolidation Approach
Pathpartner Technology Private Limited	60%	Full Consolidation
KPIT (Shanghai) Software Technology Co. Limited	100%	Full Consolidation
KPIT Technologies GmbH	100%	Full Consolidation
KPIT Technologies (UK) Limited	100%	Full Consolidation
Microfuzzy Industry – Elektronic GmbH	100%	Full Consolidation
KPIT Technologies GK	100%	Full Consolidation
KPIT Technologia LTDA	100%	Full Consolidation
KPIT Technologies Inc.	100%	Full Consolidation
KPIT Technologies Holding Inc.	100%	Full Consolidation
KPIT Technologies Pte. Limited	100%	Full Consolidation
KPIT Technologies Netherlands B.V.	100%	Full Consolidation
ThaiGer Tec CO Limited	98.37%	Full Consolidation
Yantra Digital Services Private Limited	45%	Equity
FMS Future Mobility Solutions GmbH	25%	Equity
PathPartner Interior Sensing Private Limited	NA	Equity

Source: *KPIT ; NA- Not Available*

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

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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.

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