

## KPIT Cummins Infosystems Ltd

Recommendation	HOLD
CMP	Rs.152
Target Price	Rs.190
Sector	IT Software products

### Stock Details

BSE Code	532400
NSE Code	KPIT
Bloomberg Code	KPITIN
Market Cap (Rs cr)	1328
Free Float (%)	73.29
52- wk HI/Lo (Rs)	198.8/132.35
Avg. volume BSE (Quarterly)	58,124
Face Value (Rs)	2.0
Dividend (FY 11)	35%
Shares o/s (Cr)	8.89

Relative Performance	1Mth	3Mth	1Yr
<b>KPIT</b>	2.96%	-10.34%	-8.65%
<b>Sensex</b>	7.99%	1.25%	-11.26%



### Shareholding Pattern

31-Dec-11

Promoters Holding	26.71%
Institutional (Incl. FII)	39.82%
Corporate Bodies	9.68%
Public & others	23.79%

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### Overall Superior Performance. Company has announced 1:1 bonus.

The company reported good set of numbers and has revised guidance upwards for FY12E. For Q3FY12E, Dollar Revenues moved up 4.3% QoQ, Rupee revenues climbed up 16.6% QoQ and EBIDTA stretched 166 bps QoQ.

### Revenues advanced – Volumes grow, Pricing marginally higher

Revenues in \$ terms grew 4.3% QoQ, 21.6% YoY at \$ 73.4 mn. This was supported by 4% volume growth QoQ and Price improvement of 70-80 bps.

In Rupee terms, revenues grew by 16.6% QoQ, 38.4% YoY at Rs.Rs.378.9 crores. The Top Client 'Cummins' contributed 24% of the revenues, while the contribution from the Top 10 clients has gone down by 2.7% QoQ.

### EBIDTA margins – not a reflection of top line growth

EBIDTA margins expanded 166 bps QoQ at 15.3%. The onsite revenues expanded (SAP business where margins are comparatively lower) 84 bps QoQ and kept the margins subdued as against the robust top line growth.

SAP business contributed 33.35% to the total revenues, increase by 274 bps QoQ. Company continues to hold a strong order book position in this business.

### Profits aided by forex gain

Net Profits rose by 21.7% QoQ at Rs.41.1 crs maintaining the margins at 11%. The company made forex gains of Rs.9.8 crores during the quarter.

### Revision in Guidance

The company has upped its guidance for the full year i.e. FY12 from range of \$275 mn - \$285 mn given previously to \$289 mn - \$291 mn (excluding revenue from SYSTIME). It implies that the management expects revenue growth in the range of 2.3%-5% (in USD terms) in Q4FY12.

SYSTIME's financials will be consolidated from Q4FY12E and will contribute around \$13 mn-\$14 mn to the revenue. Company had acquired 50% of Systime for Rs 104 crs and it would acquire the remaining 50% over the next 3 years for which it would have to pay ~Rs 150-200 crs. In the current Qtr, the company has acquired additional 7.5% in SYSTIME.

In addition, the board has approved an investment of upto \$25 million in the company's wholly-owned US-based subsidiary, KPIT Infosystems Inc, in the form of loan/equity in a phased manner.

### Valuation & Recommendations

We are revising our numbers upwards for FY12E and FY13E factoring good growth the company showed in the current quarter. We have revised Revenues and PAT by 4.0% and 9.2% respectively for FY12E and by 3.4% and 0.1% respectively for FY13E. At CMP, the stock is trading 10.2x and 8.8x FY12E and FY13E expected earnings. We continue to maintain 'Hold' view on the stock with a target price of Rs.190.

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROE %
FY 10A	731.6	-6.8%	161.4	22.1%	85.7	11.7%	9.8	15.6	8.3	31.2%
FY 11A	1006.5	37.6%	152.2	15.1%	94.8	9.4%	10.8	14.1	8.1	19.1%
FY 12E	1407.6	39.9%	199.5	14.2%	131.8	9.3%	14.9	10.2	6.0	18.9%
FY 13E	1724.0	22.5%	256.3	14.9%	153.1	8.8%	17.3	8.8	4.5	17.7%

## KPIT Cummins Infosystems Ltd

Q3 FY12 Result Analysis (in Rs Crs.)	Q3 FY12	Q2FY12	Q-o-Q	Q3 FY11	Y-o-Y
<b>Revenues</b>	<b>378.9</b>	<b>325.0</b>	<b>17%</b>	<b>273.7</b>	<b>38%</b>
Software development exp	249.3	213.2	16.9%	179.5	38.9%
Gross profit	129.6	111.8	15.9%	94.3	37.5%
General & Administration exp	42.1	41.9	0.5%	36.7	14.8%
Selling & Marketing exp	29.5	25.6	15.5%	19.1	54.9%
<b>EBITDA</b>	<b>58.0</b>	<b>44.4</b>	<b>31%</b>	<b>38.5</b>	<b>50%</b>
<i>Margin</i>	<i>15.3%</i>	<i>13.6%</i>	<i>166 bps</i>	<i>14.1%</i>	<i>122 bps</i>
Depreciation & Amortization	13.3	11.6	15.3%	8.5	56.7%
Finance charges	1.6	1.3	23.9%	0.6	152.7%
Other income	10.8	11.0	-1.5%	0.8	1221.8%
<b>Income before taxes</b>	<b>53.9</b>	<b>42.5</b>	<b>27%</b>	<b>30.2</b>	<b>78%</b>
<i>Margin</i>	<i>14.2%</i>	<i>13.1%</i>	<i>115 bps</i>	<i>11.0%</i>	<i>318 bps</i>
Income taxes	12.8	8.8	46.2%	4.9	159.9%
Minority Interest	(0.5)	(0.1)	347.9%	-0.2	NA
Share in profit of associate	0.5	2.8	NA	0	NA
<b>Net Income for the period</b>	<b>41.1</b>	<b>36.5</b>	<b>13%</b>	<b>25.1</b>	<b>63%</b>
<i>Margin</i>	<i>10.8%</i>	<i>11.2%</i>	<i>(38)bps</i>	<i>9.2%</i>	<i>166 bps</i>
<b>EPS Rs.</b>	<b>4.6</b>	<b>4.1</b>	<b>12%</b>	<b>3.2</b>	<b>47%</b>

Source: Company data, Nirmal Bang Research

### Revolvo update

KPIT plans to initiate a major trial for a period of 6 months, effective April 1, 2012 and would focus majorly on the end consumers. The company plans to convert 200 vehicles into plug-in hybrid vehicles by installing REVOLVO kits. Of these 200 kits, almost 10%-15% would be fitted in with lithium ion batteries. REVOLVO was presented in the Delhi Auto Expo, 2012 and received positive response and feedback from all the industry stakeholders. The company is also in progressing its the conversation with the government to seek permission for putting larger number of REVOLVO fitted vehicles on road.

### Valuation & Recommendation

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Revision in estimates					
	FY12E		FY13E		
	Revenues		PAT		
<b>Current</b>	1407.6	1724.0	<b>Current</b>	134.3	152.1
<b>Earlier</b>	1353.1	1668.0	<b>Earlier</b>	122.9	151.9
<b>Variation %</b>	4.0%	3.4%	<b>Variation %</b>	9.2%	0.1%

## KPIT Cummins Infosystems Ltd

### Financials

Profitability (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
<b>Revenues</b>	<b>731.6</b>	<b>1006.5</b>	<b>1407.6</b>	<b>1724.0</b>
% change	(7.8%)	37.6%	39.9%	22.5%
<b>EBITDA</b>	<b>161.4</b>	<b>152.2</b>	<b>199.5</b>	<b>256.3</b>
% change in EBITDA	(11.9%)	(5.7%)	31.0%	28.5%
Depn & Amort	30.81	41.12	48.32	50.50
<b>Operating income</b>	<b>130.6</b>	<b>111.1</b>	<b>151.1</b>	<b>205.8</b>
Interest	2.7	3.4	5.5	5.0
Other Income	(25.26)	2.6	24.1	0.0
<b>PBT</b>	<b>102.6</b>	<b>110.3</b>	<b>169.7</b>	<b>200.8</b>
Tax	16.9	15.5	37.9	47.7
Minority interest	0.0	(0.14)	(0.95)	(1.00)
Share of Profit from Associates	0.0	0.0	3.4	0.0
<b>PAT</b>	<b>85.7</b>	<b>94.6</b>	<b>134.3</b>	<b>152.1</b>
EPS	9.8	10.8	14.9	17.3
Quarterly (Rs. In Cr)	Mar.11	Jun.11	Sep.11	Dec.11
<b>Revenue</b>	<b>297.2</b>	<b>316.1</b>	<b>325.0</b>	<b>378.9</b>
<b>EBITDA</b>	<b>43.3</b>	<b>39.7</b>	<b>44.4</b>	<b>58.0</b>
Dep	16.2	9.4	11.6	13.3
<b>Op Income</b>	<b>27.1</b>	<b>30.3</b>	<b>32.8</b>	<b>44.7</b>
Interest	1.0	1.0	1.3	1.6
Other Inc.	4.53	2.25	11.00	10.84
<b>PBT</b>	<b>30.6</b>	<b>31.5</b>	<b>42.5</b>	<b>53.9</b>
Tax	4.2	7.1	8.8	12.8
<b>PAT</b>	<b>26.3</b>	<b>24.1</b>	<b>36.5</b>	<b>41.1</b>
EPS (Rs.)	3.00	2.74	4.14	4.64
Performance Ratio	FY10A	FY11A	FY12E	FY13E
PAT growth (%)	30.2%	10.4%	41.9%	13.3%
EBITDA margin (%)	22.1%	15.1%	14.2%	14.9%
PAT margin (%)	11.7%	9.4%	9.5%	8.8%
ROE (%)	31.2%	19.1%	18.9%	17.7%
Valuation Ratio	FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	15.6	14.1	10.2	8.8
Price / Book Value (x)	6.9	4.4	3.4	2.8
EV / Sales	1.8	1.2	0.8	0.7
EV / EBITDA	8.3	8.1	6.0	4.5

Source: Nirmal Bang Research

Financial Health (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Share Capital	15.7	17.6	18.8	18.8
Reserves & Surplus	369.7	584.9	775.0	921.0
<b>Net Worth</b>	<b>387.0</b>	<b>603.2</b>	<b>793.8</b>	<b>939.8</b>
Debt	110.8	110.4	134.2	167.2
Deferred Tax Liabilities	5.1	5.5	0.0	0.0
<b>Total Liabilities</b>	<b>503</b>	<b>720</b>	<b>928</b>	<b>1107</b>
<b>Net Fixed Ass (Incl WIP)</b>	<b>152.2</b>	<b>157.9</b>	<b>338.0</b>	<b>406.0</b>
<b>Goodwill</b>	<b>95.0</b>	<b>130.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Investments</b>	<b>74.7</b>	<b>47.7</b>	<b>48.0</b>	<b>52.0</b>
Sundry Debtors	138.8	252.5	365.0	428.0
Cash & Bank	105.2	209.6	275.0	333.0
Loans & Advances	67.7	109.7	135.0	165.0
C A L&A	<b>311.7</b>	<b>571.9</b>	<b>775.0</b>	<b>926.0</b>
CL & P	<b>130.6</b>	<b>187.5</b>	<b>233.0</b>	<b>277.0</b>
<b>Total Assets</b>	<b>503</b>	<b>720</b>	<b>928</b>	<b>1107</b>
Cash Flow (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
<b>Operating</b>				
Net Income	102.6	110.3	169.7	200.8
Change in WC	(134.74)	(98.88)	(92.21)	(49.00)
<b>CF from Operation</b>	<b>(40.71)</b>	<b>43.0</b>	<b>117.5</b>	<b>159.6</b>
<b>Investment</b>				
Capex	(119.76)	(80.77)	(82.26)	(108.00)
Other Investment	(99.95)	29.64	51.1	(4.35)
<b>Total Investment</b>	<b>(219.71)</b>	<b>(51.13)</b>	<b>(31.13)</b>	<b>(112.35)</b>
<b>Financing</b>				
Dividend Paid	(5.50)	(6.17)	(8.00)	(10.00)
Others	204.03	118.6	(13.02)	20.7
<b>Total Financing</b>	<b>198.5</b>	<b>112.5</b>	<b>(21.02)</b>	<b>10.7</b>
Net Chg. in Cash	(61.89)	104.4	65.4	58.0
Cash at beginning	167.1	105.2	209.6	275.0
Cash at end	105.2	209.6	275.0	333.0
Per Share Data	FY10A	FY11A	FY12E	FY13E
Reported EPS	9.8	10.8	14.9	17.3
BV per share	22.0	34.3	45.2	53.5
Cash per share	80.7	59.6	63.6	70.9
Dividend per share	0.7	0.7	0.7	0.7



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