

KPIT Cummins

Rs111

OUTPERFORMER

Announces a JV for hybrid technology solution for automobiles Mkt Cap: Rs8.7bn; US\$185m

4 June 2010

BSE Sensex: 17118

Event:

KPIT Cummins has announced a JV with Bharat Forge to manufacture and market an indigenously developed hybrid technology solution for automobiles – “**REVOLO**”.

What is REVOLO?

‘REVOLO’ is a solution that has been designed, developed and engineered by KPIT Cummins that will enable both existing and new vehicles to dramatically increase fuel efficiency and engine performance, while significantly decreasing green house gas (GHG) emissions. It will give an opportunity to convert existing conventional vehicles into eco-friendly hybrids. As a parallel hybrid, this solution will enable the motor and engine to work simultaneously. Unlike an electric vehicle, the vehicle will operate as a conventional fuel vehicle even if the batteries are completely drained. As a plug-in, the vehicle can be charged through a standard external electricity source such as a domestic power outlet.

The Automotive Research Association of India (ARAI), which tested the new hybrid solution (REVOLO), confirmed fuel efficiency gains of more than 40%. Under city driving conditions the increase in efficiency has been above 60% and reduction in Greenhouse Gas Emissions (GHG) has been more than 30%.

JV structure, Investments and Commercialization

This JV would be 50:50 JV between KPIT Cummins and Bharat Forge with an initial investments of about Rs300m each. KPIT Cummins will license the technology to the JV while Bharat Forge would bring in its manufacturing, assembly & integration expertise to the JV.

The solution will be marketed to OEMs and fleet & individual vehicle owners through a network of certified and authorized dealerships. Management expects 7-9 months before REVOLO is commercially launched. While pricing and other details are not yet shared, management indicated that this business could be potentially multi Rs billion business in a few years time.

Investor Call for further details:

Company is holding an investor call to discuss further details on June 8, 2010 at 4:30pm.

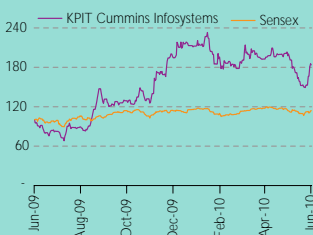
Dial-in numbers : +91 22-2598-3200 / +91 22-6608-5000

Toll free (India only): 1-800-22-7129 / 1-800-209-7129 (Security code *0#)

Valuation and View

The proposed JV is a step in a right direction towards commercialization of IPs (intellectual properties) that KPIT has developed over last few years. While positive for investor sentiments, the proposed JV might not have significant impact on near term financials. Stock at Rs111 trades at ~9x FY11E and ~8x FY12E EPS. We maintain Outperformer rating on the stock with 12 month target price of Rs162. KPIT Cummins is one of our top picks in small-mid-cap IT services space.

Price chart



Hitesh Shah, CFA
91-22-6622 2565
hitesh.shah@idfc.com

IDFC Securities Ltd.

Naman Chambers, C-32, G- Block, Bandra- Kurla Complex, Bandra (East), Mumbai 400 051 Tel: 9122-6622 2600 Fax: 91 22 6622 2501

“For Private Circulation only” and “Important disclosures appear at the back of this report”

IDFC Securities

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2500
Pathik Gandotra	Head of Research; Financials, Strategy	pathik.gandotra@idfc.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish.rane@idfc.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhil.vora@idfc.com	91-22-662 22567
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnath.s@idfc.com	91-22-662 22570
Nitin Agarwal	Pharmaceuticals	nitin.agarwal@idfc.com	91-22-662 22568
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag.shah@idfc.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika.nair@idfc.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfc.com	91-22-662 22565
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushan.gajaria@idfc.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil.desai@idfc.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement	ashish.shah@idfc.com	91-22-662 22560
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya.garg@idfc.com	91-22-662 22563
Aniket Mhatre	Automobiles, Auto ancillaries	aniket.mhatre@idfc.com	91-22-662 22559
Abhishek Gupta	Telecom	abhishek.gupta@idfc.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals, IT Services	ritesh.shah@idfc.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfc.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfc.com	91-22-662 22579
Kavita Kejriwal	Strategy, Financials	kavita.kejriwal@idfc.com	91-22-662 22558
Swati Nangalia	Mid Caps, Media, Exchanges	swati.nangalia@idfc.com	91-22-662 22576
Sameer Bhise	Strategy, Financials	sameer.bhise@idfc.com	91-22-662 22574
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfc.com	91-22-662 22566
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfc.com	91-22-662 22577
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh.sonawale@idfc.com	91-22-662 22572
Dharmesh R Bhatt, CMT	Technical Analyst	dharmesh.bhatt@idfc.com	91-22-662 22534
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6622 2500
Naishadh Paleja	MD, CEO	naishadh.paleja@idfc.com	91-22-6622 2522
Paresh Shah	MD, Dealing	paresh.shah@idfc.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal.purohit@idfc.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil.gholani@idfc.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay.panicker@idfc.com	91-22-6622 2530
V Navin Roy	Director, Sales	navin.roy@idfc.com	91-22-6622 2528
Nirbhay Singh	SVP, Sales	nirbhay.singh@idfc.com	91-22-6622 2595
Suchit Sehgal	AVP, Sales	suchit.sehgal@idfc.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfc.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh.shah@idfc.com	91-22-6622 2536
Sunil Pandit	Director, Sales trading	sunil.pandit@idfc.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh.chaturvedi@idfc.com	91-22-6622 2512
Viren Sompura	VP, Sales trading	viren.sompura@idfc.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-6622 2516

Disclaimer

This document has been prepared by IDFC Securities Ltd (IDFC SEC). IDFC SEC and its subsidiaries and associated companies are a full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, IDFC SEC, its subsidiaries and associated companies, their directors and employees ("IDFC SEC and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent IDFC SEC and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of IDFC SEC may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDFC SEC and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of, and to observe, such applicable restrictions.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

IDFC SEC and affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell, or may be materially interested in any of the securities mentioned or related securities. IDFC SEC and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall IDFC SEC, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of IDFC SEC and affiliates.

This document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. IDFC SEC will not treat recipients as customers by virtue of their receiving this report.

Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

Disclosure of interest:

1. IDFC SEC and affiliates may have received compensation from the company covered herein in the past twelve months for issue management, capital structure, mergers & acquisitions, buyback of shares and other corporate advisory services.
2. Affiliates of IDFC SEC may have received a mandate from the subject company.
3. IDFC SEC and affiliates may hold paid up capital of the subject company.
4. IDFC SEC and affiliates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company(ies) mentioned herein.