

June 12, 2008

Rating	Market Performer
Price	Rs67
Target Price	Rs86
Implied Upside	28.8%
Sensex	15,250

(Prices as on June 12, 2008)

**Trading Data**

Market Cap. (Rs bn)	5.2
Shares o/s (m)	78.8
Free Float	75.4%
Avg. Daily Vol ('000)	556.6
Avg. Daily Value (Rs m)	48.0

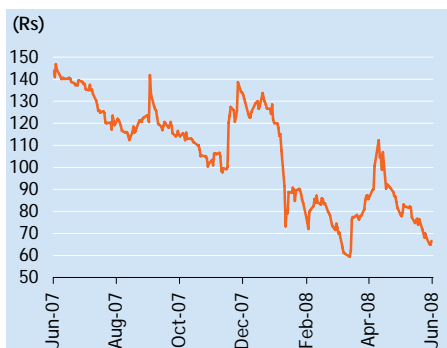
**Major Shareholders**

Promoters	24.6%
Foreign	8.3%
Domestic Inst.	18.0%
Public & Others	49.1%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(17.7)	(51.2)	(55.0)
Relative	(5.8)	(24.1)	(60.1)

Price Performance (RIC: KPIT.BO, BB: KPIT IN)



Source: Bloomberg

- **Results:** KPIT Cummins' Q4FY08 revenue grew by 9.0% QoQ to Rs1,648m, while PAT declined 26.4% QoQ to Rs104m. Operating margin declined 140bps largely due to performance incentive paid to employees, while PAT margin declined by 300bps on the back of higher depreciation & amortisation (Rs85m v/s Rs59m) and bad debts (Rs14m v/s nil).
- **Amortisation & bad debts hamper bottomline:** In Q4FY08, the company amortised Rs23.0m out of the total amount of US\$5m paid to Cummins for the acquisition of Cummins Business Services. Also it wrote-off Rs13.8m as an exceptional item towards the impairment of the value of stocks which it received as partial payment from one of its customers.
- **Others:** The Company added 329 employees during the quarter, taking the total number to 4,481. Employee utilisation witnessed marked improvement, whereby onsite utilisation increased by 230bps and offshore by 290bps. Debtor days came down to 77 from 85 in the previous quarter. The company has given revenue guidance of Rs7,400-7,600m and net profit guidance of Rs650-670m for FY09, which translates into revenue growth of 23-26% and net profit growth of 27-31%.
- **Valuation:** We expect KPIT Cummins to report revenue growth of 24.2% and 24.5% in FY09 and FY10 to Rs7,460m and Rs9,291m respectively. Also we expect it to report earnings growth of 24.5% and 32.8% in FY09 and FY10 respectively. At the CMP of Rs67, it quotes at 6.2x FY10E earnings. We downgrade our rating to Market Performer with a target price of Rs86 (8x FY10E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	4,637	6,005	7,460	9,291
Growth (%)	45.7	29.5	24.2	24.5
EBITDA (Rs m)	715	923	1,153	1,453
PAT (Rs m)	505	511	636	844
EPS (Rs)	6.8	6.5	8.1	10.7
Growth (%)	50.3	(4.0)	24.5	32.8
Net DPS (Rs)	0.7	1.0	1.3	1.6

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	15.4	15.4	15.5	15.6
RoE (%)	29.6	22.9	21.6	22.3
RoCE (%)	19.3	17.1	17.9	19.3
EV / sales (x)	1.3	0.9	0.7	0.5
EV / EBITDA (x)	8.1	6.0	4.7	3.5
PE (x)	10.4	10.3	8.2	6.2
P / BV (x)	2.6	2.0	1.6	1.2
Net dividend yield (%)	1.1	1.5	1.9	2.4

Source: Company Data; PL Research

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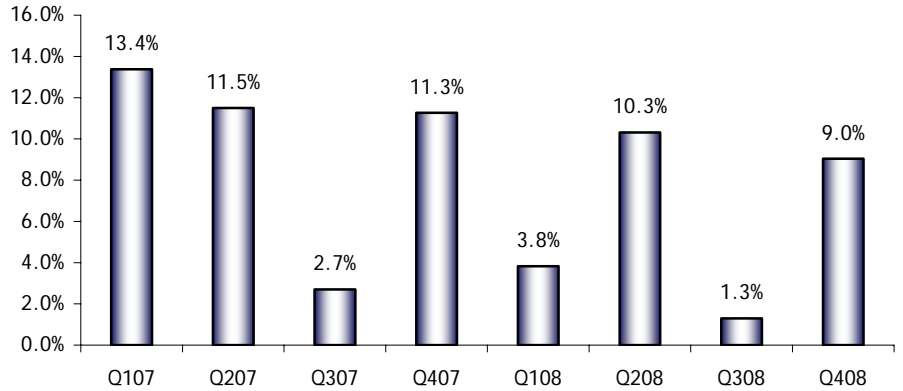
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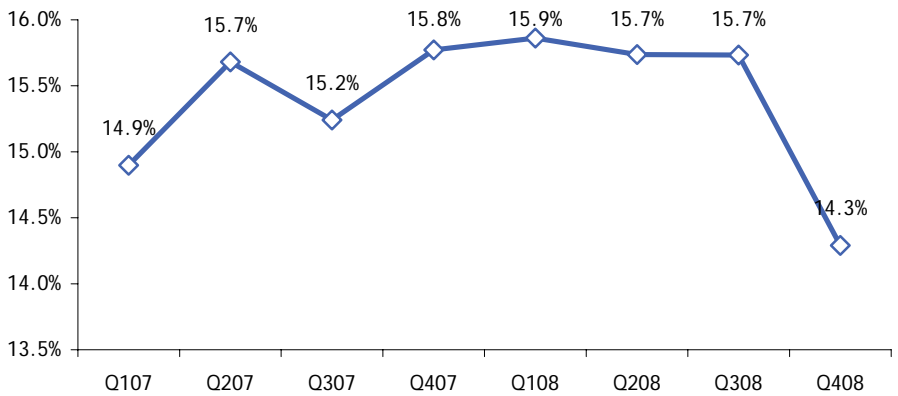
## Highlights

Revenue grew 9.0% QoQ...



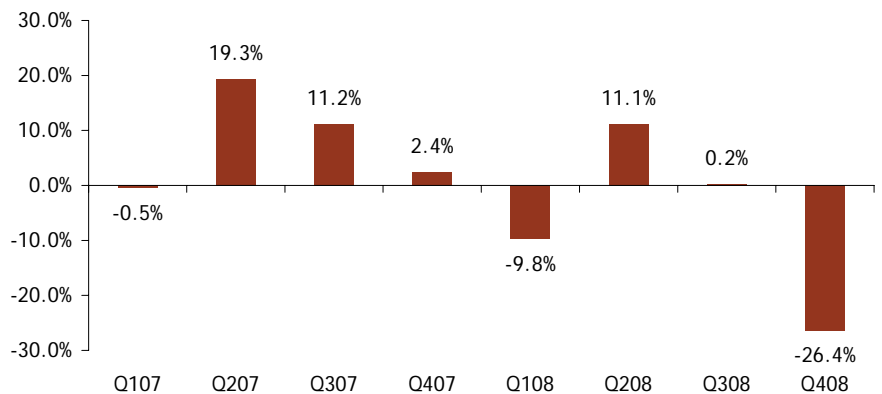
Source: Company Data, PL Research

But operating margin declined (140bps decline QoQ)...



Source: Company Data, PL Research

While PAT was down 26.4% QoQ due to amortisation of Rs23.0m (payment made to Cummins) and bad debts of Rs14.0m

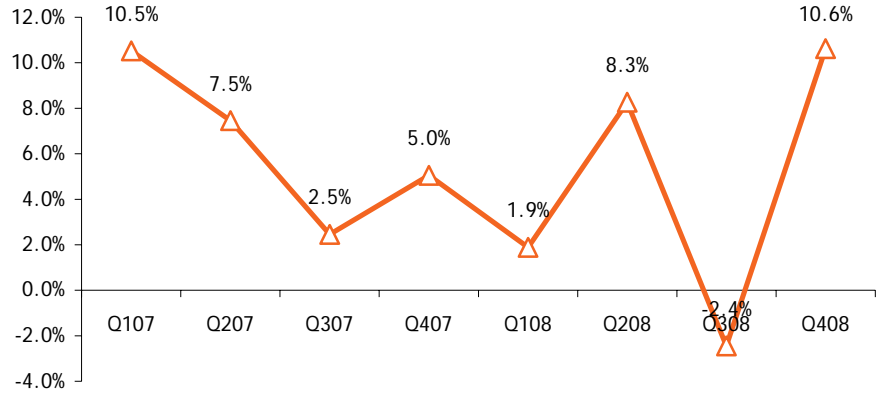


Source: Company Data, PL Research



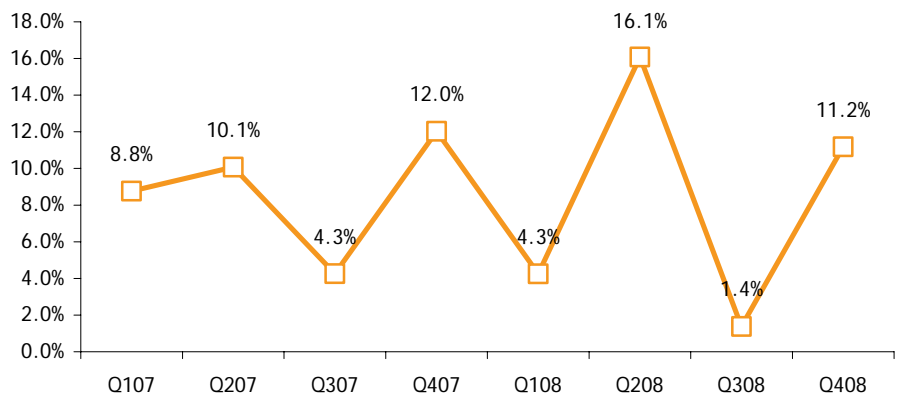
## On the positive side

USA witnessed good sequential growth of 10.6%...



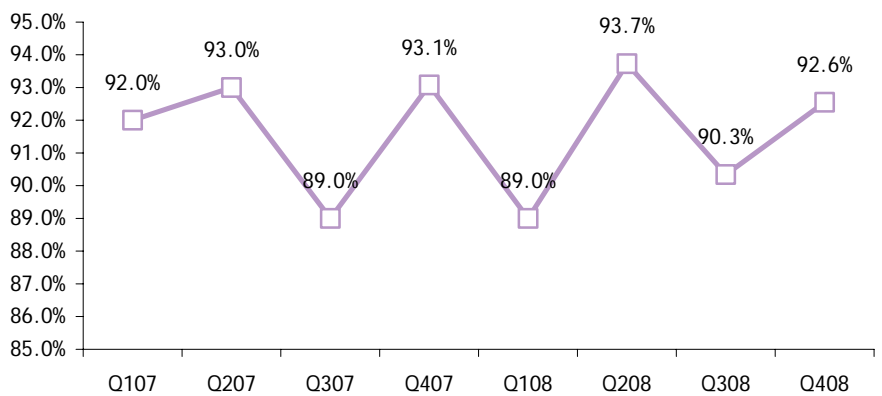
Source: Company Data, PL Research

Also, the sequential growth in manufacturing vertical bounced back...



Source: Company Data, PL Research

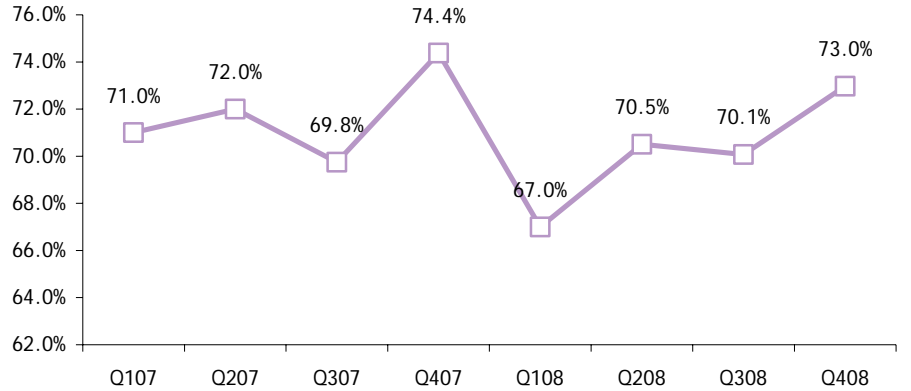
Utilisation levels improved remarkably, onsite improving by 230bps ...



Source: Company Data, PL Research

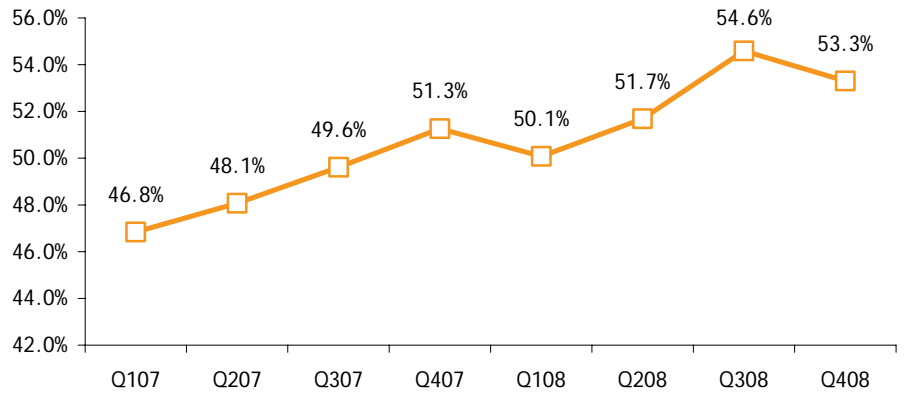


And offshore improving by 290bps ...



Source: Company Data, PL Research

However, offshore revenue contribution came down to 53.3% after a couple of quarters of marked improvement



Source: Company Data, PL Research



## Q4FY08 result update

(Rs m)

Y/e March	Q4FY08	Q3FY08	QoQ gr. (%)	Q4FY07	FY07	FY08	YoY gr. (%)
Net sales	1,648	1,512	9.0	1,303	4,637	6,005	29.5
Total expenses	1,413	1,274	10.9	1,098	3,922	5,083	29.6
Software development	1,026	923	11.2	794	2,884	3,730	29.4
Selling & marketing	144	156	(7.4)	153	512	577	12.7
Others	242	196	23.9	150	526	775	47.3
Operating profits / EBITDA	236	238	(1.0)	206	715	923	29.0
Depreciation	85	59	44.9	35	121	255	110.1
EBIT	150	179	(16.0)	170	594	668	12.5
Interest	17	20	(14.0)	17	45	75	
EBT before other income	133	159	(16.3)	153	549	593	7.9
Other income	4	4	(2.2)	4	6	9	
PBT	137	163	(15.9)	157	555	602	8.4
Tax	20	22	(9.4)	17	52	76	47.0
<i>Tax rate (%)</i>	<i>14.7</i>	<i>13.7</i>		<i>10.5</i>	<i>9</i>	<i>13</i>	
PAT before extraordinary	117	141	(17.0)	141	503	526	4.5
Extraordinary	14	-		(0)	(2)	15	
PAT after extraordinary	103	141	(26.7)	141	505	511	1.2
<b>Key ratios</b>							
<i>GPM (%)</i>	<i>37.7</i>	<i>39.0</i>	<i>(1.2)</i>	<i>39.1</i>	<i>37.8</i>	<i>37.9</i>	<i>0.1</i>
<i>OPM (%)</i>	<i>14.3</i>	<i>15.7</i>	<i>(1.4)</i>	<i>15.8</i>	<i>15.4</i>	<i>15.4</i>	<i>(0.1)</i>
<i>NPM (%)</i>	<i>6.3</i>	<i>9.3</i>	<i>(3.1)</i>	<i>10.8</i>	<i>10.9</i>	<i>8.5</i>	<i>(2.4)</i>
Adjusted EPS (Rs.)	1.3	1.8	(26.7)	1.9	6.8	6.5	(4.0)



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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