

# KPIT Cummins Infosystems

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## Shareholding (%)

Promoters	26.0
FII's	14.3
MFs / UTI	9.9
Insurance Co.	7.2
Others	42.6

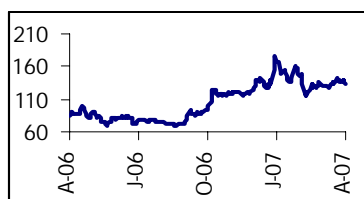
## Share price performance

52-week high/low (Rs) 164/62

	-1m	-3m	-12m
Abs (%)	3.7	-12.1	52.3
Rel* (%)	-4.9	-12.1	35.9

\*to Nifty

## Stock chart



## Q4FY07 results better than expected; maintain 'Buy'

KPIT Cummins Infosystems Ltd. (KPIT) Q4FY07 results were better than expected, with sequential revenue growth of 11.3% to Rs1.3bn and net profit growth of 5.5% to Rs141mn. The company further gave an above expected FY08E revenue growth guidance of 32.6-33.3% and net profit growth guidance of 39.8-45.8%.

Due to higher than expected guidance, we are increasing our FY08E EPS expectation by 1.6% to Rs9.7. However, we are maintaining FY09E EPS expectation at Rs14.2, implying a two year (FY07-09E) EPS CAGR of 45.3%.

Currently, the stock is quoting at FY08E and FY09E PER of 13.9x and 9.5x respectively. With the company expected to post an EPS CAGR of 45.3%, we remain bullish on the company and maintain 'Buy'.

Key highlights of Q4FY07 results are:

▲ **Volume growth drives revenue growth:** KPIT reported a sequential revenue growth of 11.3% to Rs1.3bn. Revenue growth was driven by 13.8% volume growth. Non Cummins star customer reported a sequential revenue growth of 14.5%.

▲ **EBITDA margin expands by 60bps:** Though the gross margin of KPIT expanded by 180bps due to:

- Higher utilisation. Utilisation increased from 73.3% in Q3FY07 to 76.6% in Q4FY07
- Higher offshore revenue

EBITDA margin expanded by 60bps due to:

- Higher sales and marketing expense, as the company expanded the sales and marketing team
- Investment in France and Germany
- Higher general and administrative expense, as the company capitalised the new development centre in Pune, resulting in higher G&A

# BUY

## Rs135

April 30, 2007

Market cap

Rs bn 10

US\$ mn 218

Avg 3m daily volume

1,224,065

Avg 3m daily value

USD mn 4

Shares outstanding (mn)

73

Reuters

KPIT.BO/KPIT.NS

Bloomberg

KPIT IN

Sensex

13,909

Nifty

4,084

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We further expect EBITDA margin to expand going forward, due to:

- a) Higher offshore revenue
  - b) Lower per capita employee cost, as we expect the company to add more employees at the entry level
  - c) Improving average realisations
- ▲ **Higher depreciation and interest expense impacts net income:** Net income of the company was impacted by higher depreciation. Depreciation was high on account of capitalisation of new development centre in Pune. Net profit was also impacted by higher interest expense.
  - ▲ **Guidance:** KPIT gave a strong FY08E revenue and EPS guidance. KPIT expects revenue to grow 32.6-33.3% to Rs6.15-6.18bn and net profit by 39.8-45.8% to Rs700-730mn respectively in FY08E. The company further expects to add 2,400 gross employees in FY08E with about 50% at the entry level.
  - ▲ **Forecasts:** On account of better than expected guidance, we are increasing our FY08E EPS estimate by 1.6% to Rs9.7. However, we maintain FY09E EPS estimate at Rs14.2, implying a two year EPS CAGR of 45.3%. We have also built in a rupee appreciation of 6.5% in our estimates, which are based on Rs/USD rate of Rs42.25 in FY08E and Rs42 in FY09E.
  - ▲ **Valuation:** Currently, the stock is quoting at FY08E and FY09E PER of 13.9x and 9.5x respectively. With the company expected to post above industry average EPS CAGR of 45.3%, we maintain 'Buy' on the stock.

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**Table 1. Quarterly result table (Consolidated)**

Rs mn	Q4FY07	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
Revenue	1,303	1,171	11.3%	902	44.5%
Software Development Expenses	794	734	8.1%	571	38.9%
Gross Profit	509	437	16.6%	330	54.3%
GPM	39.1%	37.3%		36.6%	
Selling and marketing expenses	153	130	18.1%	72	113.7%
General and administrative expenses	150	129	16.9%	106	42.3%
EBITDA	206	178	15.2%	153	34.6%
EBITDA Margin	15.8%	15.2%		16.9%	
Depreciation	35	30	16.3%	23	55.2%
Other Income	4	1	328.1%	0	3710.0%
Interest	17	9	81.0%	9	88.5%
PBT	157	140	12.5%	121	29.8%
Tax	17	4	276.1%	16	4.8%
Tax Rate	10.5%	3.2%		13.0%	
PAT before minority interest	141	135	3.9%	105	33.5%
Minority Interest	(0)	2		0	
PAT after Minority Interest	141	133	5.5%	105	33.6%
NPM	10.8%	11.4%		11.7%	

Source: IISL research, company

**Table 2. Estimates**

Rs mn	FY06	FY07	FY08E	FY09E
Net Sales	3,182	4,637	6,225	8,136
% change	26.0	45.7	34.2	30.7
Net Income	328	501	722	1,057
% change	15.5	52.6	44.1	46.5
EPS (Rs.)	4.6	6.7	9.7	14.2
% change	3.3	47.2	44.1	46.5
P/E (x)	30.5	20.0	13.9	9.5
ROE (%)	26.5	31.4	35.1	37.8
ROCE (%)	20.3	22.3	28.3	34.1

Source: IISL research, company

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