

February 7<sup>th</sup> 2011

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**KPIT CUMMINS INFOSYSTEMS LTD (KPIT)**

**BUY**

**CMP ₹158**

**Target Price: ₹240**

**Time: 12 months**

## Overview

We have for the last few weeks relying more on the stocks (from our past Pick of the Week basket) that we feel have good strength in this volatile and downward drifting market. Thus, this week we once again prefer repeating KPIT (Vol 3 No 15) recommended at ₹159 and projected to be priced at ₹240 in a year's time frame. Having scaled a peak of ₹193 the stock is available close to our earlier recommended price. A brief recap of the industry it is involved in: Although the automobile industry is into manufacturing and has mechanical engineering as its core function it has always used information technology (IT) in various forms, ranging from automobile component research & designing, mechanized assembling to the use of intelligent micro chips for engines. IT has been the key in providing innovative features in automobiles. In addition the automobile sector has embraced solutions like Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Production Lifecycle Management (PLM), Customer Relationship Management (CRM) and various other businesses process suites. One can say that IT has proved to be one of the key drivers for the automobile industry or for that matter the overall manufacturing industry. One company that has always maintained its focus on the manufacturing industry vertical with keen interest in automotive sector and other hi-tech sectors is KPIT Cummins Infosystems Ltd (KPIT). The company's service offerings include advanced technology solutions, ERP, business intelligence and other IT enabled services.

## Triggers

A significant change in the dynamics of the manufacturing sector has led to a rise in demand for frugal engineering along with manufacturers focusing on innovative, eco-friendly and intelligent automobiles viz. smart-cars, empowered by IT electronics. In addition to this, stricter government regulations, higher safety measures and cost pressures further increase the scope for IT applications in automobiles. KPIT an expert and dominant player within the automotive sector, is anticipated to benefit the maximum from this trend. KPIT's impressive clientele which includes 7 of the top 10 automotive OEMs and 30 Tier-1 players has helped it gain experience and expertise in the automotive sector. The company's strategic relationship with its top client i.e. Cummins Inc. US, has given the much needed exposure and has helped it strengthen technical know-how and experience in the embedded automotive space. KPIT's association with consortiums like AUTOSAR and JasPar which give companies licenses to develop new solutions and software on these platforms has given it more mileage. Over the years, the company has made continuous and dedicated efforts towards innovation and research & development which have resulted in it building a strong patent portfolio with 24 filings in its kitty.

In a recently formed joint venture with Bharat Forge, KPIT announced its automotive innovation called 'Revolvo', which is a plug-in, parallel hybrid solution. Post installment, this retrofit shall result in a minimum fuel efficiency of 40%, reduce GHG emissions of up to 30% and reduce maintenance charges at the end user level even in city driving conditions. Currently in the regulatory approval stage, this product is expected to be rolled-out by the first qtr of FY12 is anticipated to garner revenues of about ₹3-5 Bn in the first two years of its launch. KPIT is going to earn a royalty income (6-8% of total revenue). Thus, we believe the product once launched will yield exceptional returns and add to the overall performance of KPIT Cummins from FY12 onwards both at the top and operational levels. In addition to this, KPIT recently acquired two separate entities that operate in different service lines namely Sparta Consulting Inc, which is a leading SAP consultant firm with a focus on the Defense and Utilities vertical and a Germany-based firm that operates in vehicle diagnostics space. Post the acquisition of Sparta Consulting, SAP driven revenues have grown from 19.08% in Q3 FY10 to 31.48% in Q3 FY11. Hence, we believe that KPIT's strategy to grow and expand inorganically will yield handsome returns to the company in the years to come.

## Investment Concerns

Currency volatility could affect performance and client concentration is high.

## Valuation

At the CMP of ₹158, KPIT 13.1x its FY11E earnings of ₹12.1 Long term investors can add KPIT Cummins Infosystems Ltd to their portfolio.

## Snapshot

52 week H/L: 193 / 88	M Cap (INR Mn): 12480
<b>Face Value: Rs. 2</b>	
BSE Code 532400	NSE Code KPIT

## Annual Performance

(INR mln)	FY 2009A	FY 2010A	FY 2011E
Sales (Net)	7932.0	7316.0	10198.2
EBITDA	1834.0	1614.0	1494.0
EBITDA (%)	23.1%	22.1%	14.6%
Other Income	-574.0	-253.0	-19.7
Interest	45.0	27.0	21.4
Depreciation	436.0	308.0	334.2
PBT	779.0	1026.0	1118.7
PAT	659.0	841.0	957.2
Equity	156.1	157.0	158.4
EPS (INR)	8.4	10.7	12.1
EBITDA/Share	23.5	20.6	18.9

## Quarterly Performance

(INR mln)	Dec-10	Sep-10	Jun-10	Mar-10
Sales (Net)	2737.5	2349.5	2061.3	1970.9
EBITDA	385.5	364.2	339.3	386.3
EBITDA (%)	14.1%	15.5%	16.5%	19.6%
Interest	6.3	3.1	6.1	4.3
Depreciation	85.0	83.6	80.5	79.7
PAT	253.0	237.5	193.6	207.8
Equity	158.9	158.1	157.6	157.1

## Ratio Analysis

Ratio Analysis	FY 2009A	FY 2010A	FY 2011E
EV/EBITDA (x)	6.5	7.8	6.6
EV/Sales (x)	1.5	1.7	1.3
M Cap/Sales (x)	1.6	1.7	1.4
M Cap/EBITDA (x)	6.8	7.7	7.0
Debt/Equity (x)	0.7	0.3	0.2
ROCE (%)	49%	26%	23%
Price/Book Value (x)	7.6	3.2	2.5
Price/CEPS (x)	11.3	10.9	8.2
P/E (x)	18.9	14.8	13.1

## Share Holding Pattern as of December, 2010

	No. of Shares	%
Promoters	23584732	30%
Institutions/MF	21176479	24%
Public	34425045	46%
Total	79186256	100%

## Insurance Update - Guaranteed Returns:

**Guaranteed Returns at the Rate of 6% per annum on the Policyholder's Account throughout the term.**

•Additional Returns: Additional Interest may be declared on Policyholder's Regular Premium Account based on Corporations experience.

•Easy Liquidity – Loan can be availed after completion of 1 year

LIC's BIMA ACCOUNT - I (PLAN NO. 805)					
Eligibility Conditions		Minimum	Maximum		
Age	Entry	11 years	50 years		
	Maturity	18 years	57 years		
Term		5 years	7 years		
Premium	Yearly	7000	14000		
	Half - yearly	4000	7000		
	Quarterly	2000	3500		
	Monthly (ECS)	600	1100		
Top-up premium		1000	Total of regular premiums paid		
Sum-Assured	In Multiples of Annualised premium	10 x AP	Upto35 years	Upto36-45 years	Upto46-50 years
			20xAP	14xAP	10xAP

LIC's BIMA ACCOUNT - II (PLAN NO. 806)					
Eligibility Conditions		Minimum	Maximum		
Age at Entry		8 years completed	60 years nearest Birthday		
Age at Maturity		18 years completed	70 years nearest Birthday		
Policy Term		10 years	15 years		
Regular Premium	Yearly 15000		No Upper Limit		
	Half - yearly 8000				
	Quarterly 4000				
	Monthly (ECS) 1250				
Top-up premium		1000	Total of regular premiums paid		
Face Ammount / Basic Sum Assured		10 times Annualised Premium ( AP)	Upto35 years	Upto36-45 years	Upto46-50 years
			30xAP	20xAP	10xAP

**GEPL Insurance Broking Pvt. Ltd.**

D-21, Dhanraj Mahal, CSM Marg, Colaba, Mumbai - 400 001

Tel.: +91-22-6618 2400 Fax: +91-22-22043452 Email: geplinsurance@geplcapital.com