

# Initiating Coverage Sector: IT-Software



## Company Profile

KPIT Cummins Infosystems, a global IT consulting organization focused on the automotive and semiconductor sectors. It got its current name when the company merged with Cummins Infotech.

The company is present in US, UK, Germany, France, Poland, and Japan, and India. It provides free technical support for NGOs and small schools in Pune. Top clients include Cummins, HP, Deutsche Bank, Unilever and Renesas.

## Concerns

- Too much dependency on US
- Higher dependency on top 10 clients among peers
- Rupee Appreciation

KPIT Cummins Infosystems Ltd (CMP: Rs. 167.7)	<b>BUY</b>
Horizon	<b>12 months</b>
Target Price (Rs.)	<b>210</b>
Upside	<b>25%</b>

## Key Investment considerations

- Strong Presence in Auto Sector
- If Revolve is successful, the stock is likely to see a further significant upward re-rating.
- Marquee clientele base

## Investment Strategy

Period	Cash
<b>Short Term</b>	Accumulate
<b>Mid Term</b>	Buy
<b>Long Term</b>	Strong Buy

Please read our detailed report below for further information, analysis and details of the Greshma CSI Ranking model and the Greshma Risk Return Matrix

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## Investment Rationale

### Well placed in Automotive Industry

Company originates more than half of the total revenue from auto sector, recently in the Union Budget 2011-12 Finance Minister has extended the exemption of custom duty and concessional excise rate of 4% on specified parts of electrical vehicles which is positive for auto sector and also reduced the excise duty on the kits that convert car engines into hybrid ones from 10% to 5%. KPIT Cummins Ltd being an experienced player in this sector is likely to be benefited significantly.

### If Revolo is successful, the stock is likely to see a further significant upward rerating.

With the rising price of crude oil and continuing fluctuations in oil prices, we expect adoption of fuel efficient technologies in auto sector. Hybrid cars will be a lucrative option if crude oil prices remain at elevated levels. Company is expecting \$100 million over the next three years on the back positive outlook of auto sector.

### Strong revenue visibility

The company has grown at a CAGR of 40 percent last year. Management has indicated that they will hiring about 2000 employees in 2011-12 and will become \$500 million Company in next two years. Increasing of workforce will adopt non-linear model for the development of new services. This gives the strong revenue visibility going ahead.

### Robust Client Base

KPIT's client portfolio includes 7 out of top 10 OEMs like Hyundai, Toyota, Volkswagen, GM, Ford, Honda, Nissan and it is also the suppliers for tier1/tier2 companies. We believe this marquee clients imbibe confidence in the company's capabilities. It is the only IT company having premium membership of the AUTOSAR and JASPAR which gives some solace to the clients. The core partners of AUTOSAR are likes of BMW Group, Bosch, Continental, Daimler, Ford, General Motors, PSA Peugeot Citroën, Toyota and the Volkswagen Group, while JASPAR includes names like Toyota, Nissan and Honda.

# BUY

<b>CMP (Rs.)</b>	<b>167.7</b>
<b>Target price (Rs.)</b>	<b>210</b>
<b>Potential upside</b>	<b>25%</b>
<b>Holding Period</b>	<b>12 Months</b>

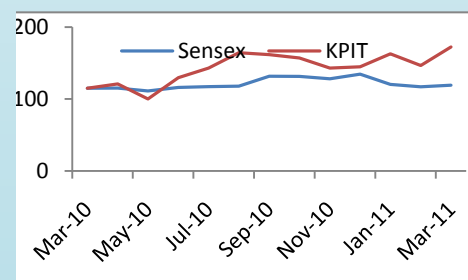
### Stock Matrix

<b>No. of shares(mn)</b>	<b>79.2</b>
<b>FV(Rs.)</b>	<b>2</b>
<b>BV</b>	<b>49.1</b>
<b>Market Cap(Rs. Mn)</b>	<b>13,096</b>
<b>52 week high / low(Rs.)</b>	<b>192-88</b>
<b>Beta</b>	<b>0.7</b>
<b>Avg. daily vol. (in lacs)</b>	<b>1.8</b>
<b>BSE Code</b>	<b>532400</b>
<b>NSE Code</b>	<b>KPIT</b>

### Shareholding Pattern (%)

	Dec - 10	Sep - 10	QoQ % Change
<b>Promoters</b>	<b>29.8</b>	<b>30.0</b>	<b>-0.6</b>
<b>Institutions</b>	<b>26.7</b>	<b>24.9</b>	<b>+7.2</b>
<b>Corporate</b>	<b>13.6</b>	<b>13.8</b>	<b>-1.4</b>
<b>Public &amp; Others</b>	<b>29.9</b>	<b>31.3</b>	<b>-4.5</b>

### Price performance



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## Outlook & Valuation

We expect automotive continues to be the primary growth driver for the company as India is one of the biggest global hub of small cars and going ahead embedded software work is required for the above mentioned technological developments. Considering KPIT's strong presence in automotive industry, opportunities in revolo and marquee client base, we initiate our coverage on KPIT Cummins Infosystems Ltd with Buy recommendation for the target price of Rs. 210. At CMP of Rs. 167.7 the stock is trading at price to earning ratio of 9.6x at its FY12E EPS of Rs.17.40. In our FY12E revenue of Rs. 1400 cr we have not considered the earnings of Revolo. Successful launch of Revolo may re-rate the stock upwards which is likely to happen. We are fundamentally positive on IT sector and expect the company to grow at a CAGR of 35-40 percent over the next two years on the back of positive outlook on auto sector.

## Company Overview

KPIT Cummins Infosystems Ltd. was incorporated in 1990 as K P I T Systems Pvt. Ltd. in Pune, Maharashtra. The company converted itself to a public limited company in 1999. The company was renamed as K P I T Infosystems Ltd. on 4 January 2001. In 2002, the company merged with Cummins Infotech Technology Ltd. and the company's name was again changed to K P I T Cummins Infosystems Ltd. on 8 January 2003. The company's registered office is in Pune.

The company deals in information technology (IT) consultancy services for manufacturing and financial services industry. It focuses on technology solutions for various industries like automotive, semiconductors, product engineering, embedded systems development, enterprise software support, industrial equipment and diversified financial services. The range of services for the automotive industry varies from engineering IT solutions to Business Processing Outsource (BPO) solutions.

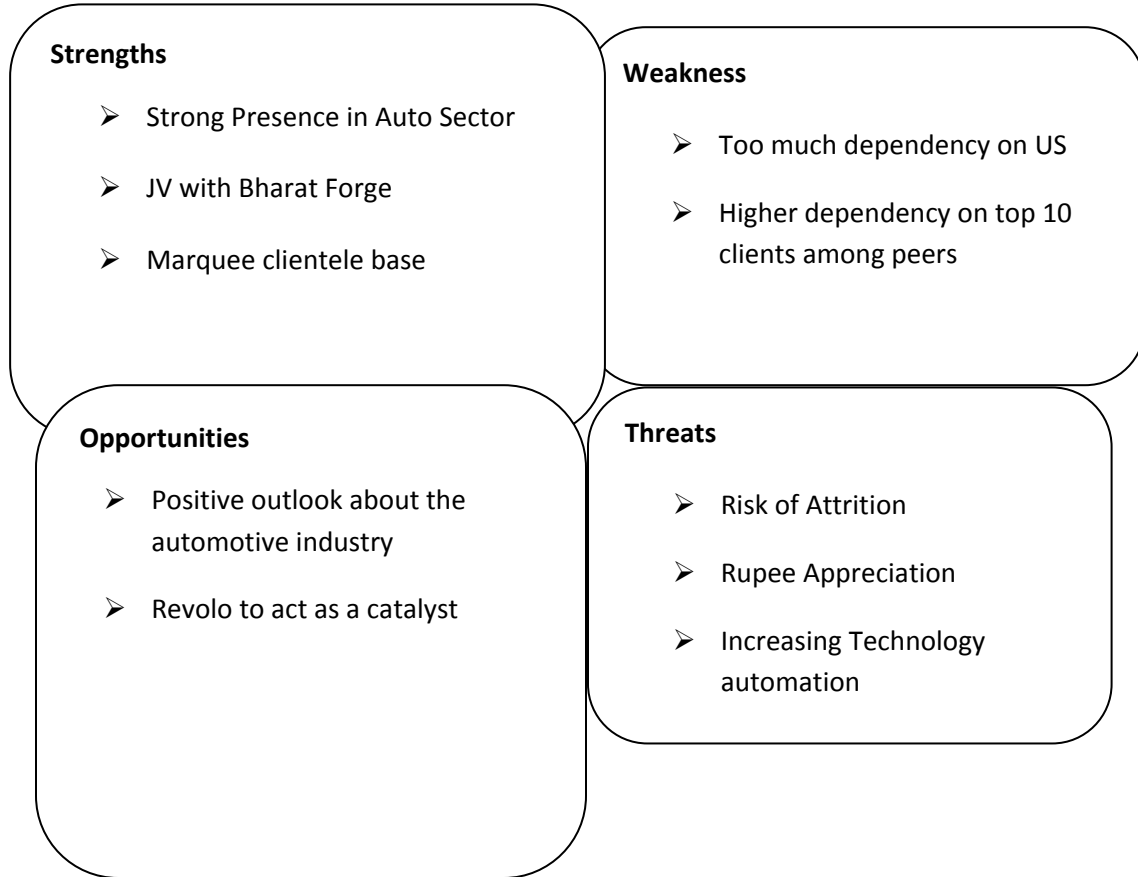
Integrated cost effective services from the company includes BPO services, business intelligence, GRC, CRM, global supply chain management, efficient manufacturing systems, chip design, PLM, Enterprise Resource Planning (ERP), MES and middleware/developmental tools. The company's offerings include advanced technology solutions for automotive electronics, mechanical design, semiconductor solution, finance & accounting, risk management & compliance like compliance management, process management, IT governance and enterprise support like infrastructure management services.

## Business Model

Business Model	Verticals						
Strategic Business Unit	Manufacturing (~73%)			Energy & Utilities (~7%)	BFSI (~3%)	Defence and Govt (~2%)	Others (~15%)
	Auto (Excluding Cummins) (~27%)	Cummins (~24%)	Non Cummins (Excluding Auto) (~22%)				
Automotive Engg (~27%)	~10% of revenue	~16% of revenue				~1% of revenue	
Integrated enterprise solutions (~40%)	~7% of revenue	~8% of revenue	~14% of revenue		~3% of revenue	~1% of revenue	~7% of revenue
SAP (~31%)	~10% of revenue	NIL	~6% of revenue	~7% of revenue			~8% of revenue
Semi Solution (~2%)			~2% of revenue				

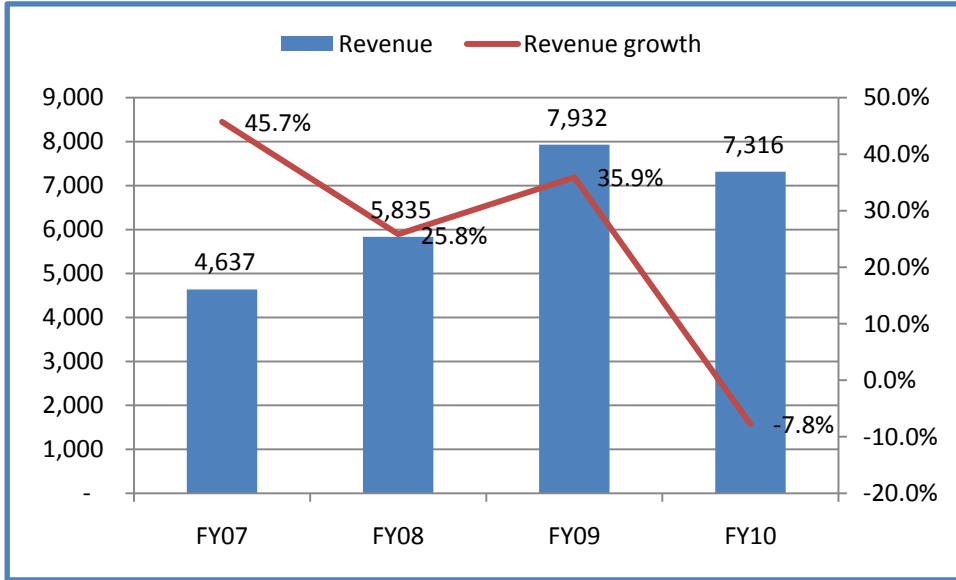
Source: Company, Greshma Research

## SWOT Analysis



**Financial Snapshot**

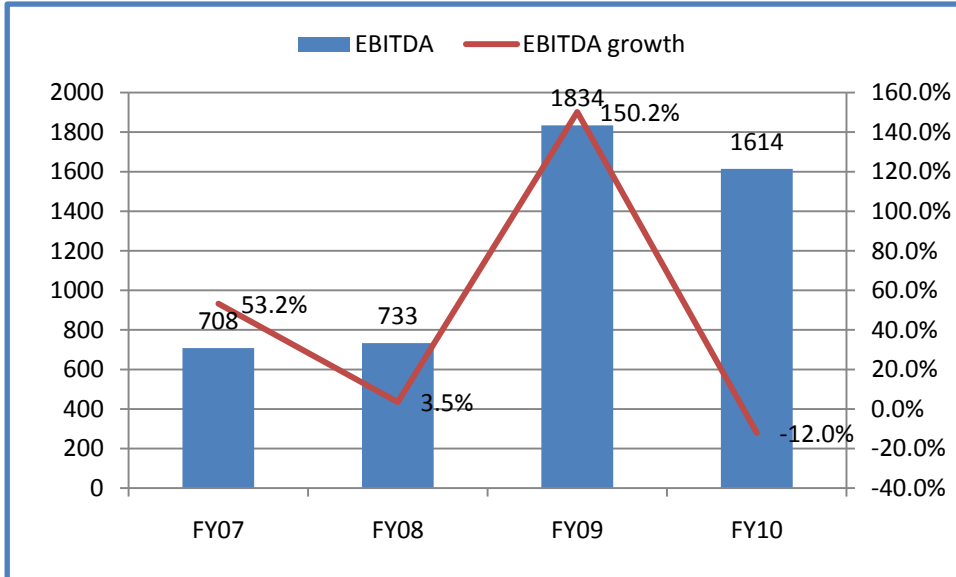
**Revenue**



Source: Company

Going ahead we expect revenue of 2011E and 2012E to grow at a CAGR of 35-40 percent, primarily due to positive outlook of auto sector

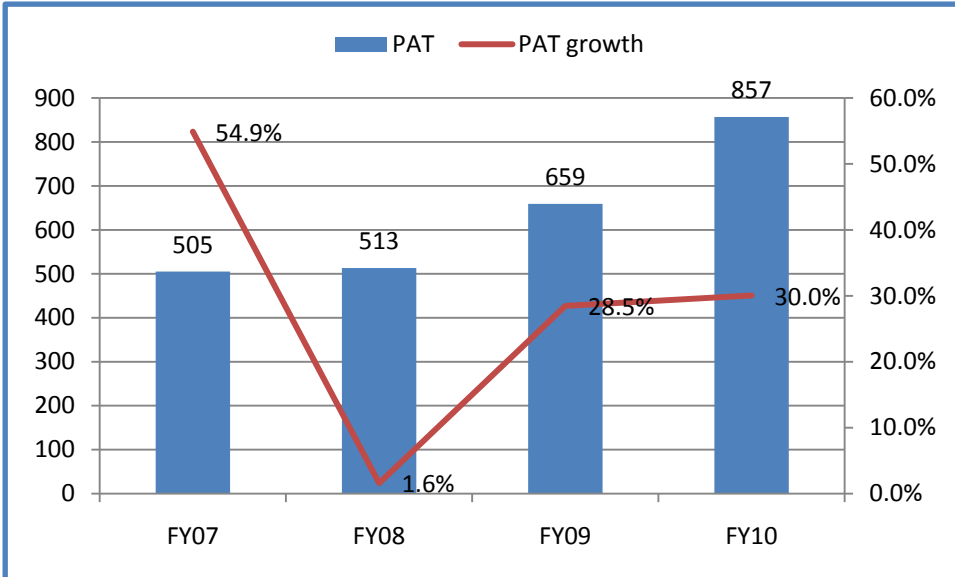
**EBITDA**



Source: Company

We expect EBITDA Margin to slip to 14.7% in 2011E due to wage inflation and increase in expenses due to recent acquisition in Q2 FY11

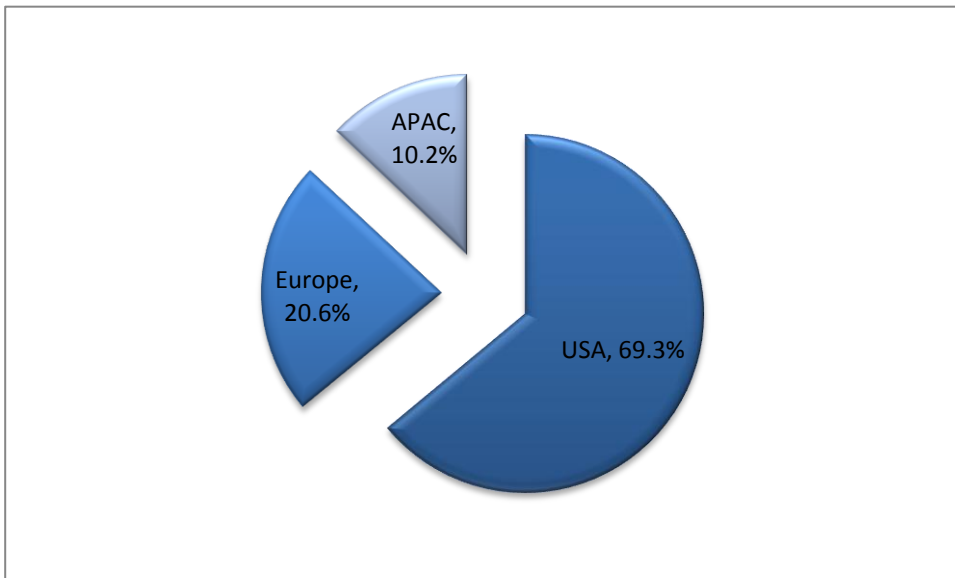
**PAT**



We expect Net profit to grow better than EBITDA going ahead as company has made some forex losses in 2010

Source: Company

**Revenue Split**



We have seen traction in revenue from USA while the revenue from Europe and APAC have declined Y-o-Y basis

Source: Company



## Operational Metrics

	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q-o-Q (%)	Y-o-Y (%)
<b>Revenue Mix (%)</b>							
<b>Geographic Mix</b>							
USA	61.1	67.3	65.7	66.9	69.3	23.2	73.4
Europe	28.5	22.4	21.7	19.9	20.6	23.1	10.1
Rest of world	10.4	10.4	12.5	13.2	10.2	-8.4	50.1
<b>Vertical Mix</b>							
Manufacturing	83.6	78.7	79.2	78.3	72.6	10.2	32.7
DFS	7.1	5.2	4.6	3.6	3	-1.3	-35.3
E&U	3.9	7.6	7.8	6.4	6.6	23.6	157.7
Others	5.3	8.5	8.4	11.7	17.8	81.5	413.7
<b>Revenue by Contract Type</b>							
Time and material	65.6	69.6	68.9	70.5	68.4	15.4	59.4
Fixed price	34.4	30.4	31.1	29.5	31.6	27.7	40.6
<b>Revenue Mix</b>							
Integrated Enterprise Solutions	49.3	39.7	38.2	35	39.6	34.8	22.8
SAP	28.6	29.6	30.8	34.6	31.5	8.2	68.5
Auto & Engineering	19.1	27.1	26.9	26.9	26.6	17.7	113.1
Semicon solution group	3	3.6	4.1	3.6	2.3	-22.1	18

Source: Company

	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q-o-Q (%)	Y-o-Y (%)
<b>Client Concentration (%)</b>							
Top Client – Cummins	30.6	24.9	24.4	23	24.1	24.5	20.2
Non Cummins	41.2	39.5	36.7	33.8	35.2	24	30.7
Top 10 Client Billing	58	48.5	54.9	55	51.2	10.8	34.8
<b>Client relationships</b>							
Clients added (organically)	2	2	3	3	5	2	3
Total clients	139	141	144	147	152	5	13
Total clients	26	28	28	28	28	0	2
Number of clients > US\$1mn+	27	32	35	39	40	1	13
Revenue from repeat business	90%	90%	90%	90%	90%	NA	NA

Source: Company

## Investment Thesis

### Well placed in Automotive Industry

KPIT Cummins Ltd has one the largest auto embedded engineers of more than 3000 in India which covers all the segments in auto in sector. Company originates more than half of the total revenue from auto sector, recently in the Union Budget 2011-12 Finance Minister has extended the exemption of custom duty and concessional excise rate of 4% on specified parts of electrical vehicles which is positive for auto sector and also reduced the excise duty on the kits that convert car engines into hybrid ones from 10% to 5%. KPIT Cummins Ltd being an experienced player in this sector is likely to be benefited significantly. Around 16 Original Equipment Manufacturers (OEMs) 6 OEMs are from top 10 global OEMs. Since inception company has executed more than 1500 projects in this segment. It is the only IT company having premium membership of the AUTOSAR (Automotive Open System Architecture) and JASPAR (Japan Automotive Software Platform & Architecture) which gives some solace to the clients.

### If Revolo is successful, the stock is likely to see a further significant upward rerating.

Revol solution will improve the fuel efficiency by 60-80 percent and also it will increase the life of the engine which results reduction of maintenance cost. With the rising price of crude oil and continuing fluctuations in oil prices, we expect adoption of fuel efficient technologies in auto sector. Hybrid cars will be a lucrative option if crude oil prices remain at elevated levels. KPIT has entered into a JV with Bharat Forge for producing plug-in parallel hybrid solution (revolo) primarily for passenger cars and it has already done the capex of Rs. 90mn in developing revolo. Company is already in talks with several OEMs and at present about 13 million cars are on the road and it is expected to grow five-fold to 400 million by 2050. Company is expecting \$100 million over the next three years on the back positive outlook of auto sector.

#### Benefits of Revolo:

- Solution will help to improve the fuel efficiency by 40% as observed in test at ARAI. The solution however provides 60% to 80% improvement during city driving conditions & above 50% during highway driving.
- Solution will increase the life of the engine and will help to reduce the maintenance cost.
- Since the consumption of fuel will go down on account of the hybrid solution, the government would be able to save through the reduction in subsidy and foreign exchange outflow.

The solutions prices are ranged between Rs.60000-Rs.150000 depending upon the engine of the cars. Management has indicated that kit bought outside OEMs would cost around \$3000-\$4000 for the cars in the Rs. 10-15 lakh range.

## Revolo

Assumptions for 800CC cars					
Daily Usage of Car in KM	30	40	50	60	70
Petrol price (INR Rs.)	63	63	63	63	63
Milage per litre	14	14	14	14	14
Efficiency Per litre (Revolo)	22.4	22.4	22.4	22.4	22.4
Power Cost Daily (Revolo) (INR Rs.)	9	9	9	9	9
Additional Battery Cost (Petrol) (INR Rs.)	13	13	13	13	13
Savings Per Day (INR Rs.)	28	45	62	79	96
Yearly Savings (INR Rs.)	10,152	16,227	22,302	28,377	34,452

Source: Greshma Research

Savings per year					
	CMP of Petrol Price	Petrol prices hike by 5%	Petrol price hike by 10%	Petrol prices down by 5%	Petrol prices down by 10%
<b>Petrol Prices</b>	63	66	69	60	57
<b>Daily Usage of Car</b>					
<b>30</b>	10,152	11,063	11,974	9,240	8,329
<b>40</b>	16,227	17,442	18,657	15,012	13,797
<b>50</b>	22,302	23,820	25,339	20,783	19,264
<b>60</b>	28,377	30,199	32,022	26,554	24,732
<b>70</b>	34,452	36,578	38,704	32,325	30,199

Source: Greshma Research

Based on our above assumptions, one can save ~Rs. 10,152 in one year of time if the person at least travels for 30km a day in 800 CC car. We have considered cost of power for Revolo solution as Rs. 9 per day and expecting the fuel efficiency of 60%, which will save ~Rs. 28 per day. Similarly if the person travels for 70 km in a day will save ~Rs. 96 per day and Rs. 34,452 yearly. Revolo solution will not only the improve the fuel efficiency but also reduces the greenhouse emission by around 30% which makes the solution environmental friendly.

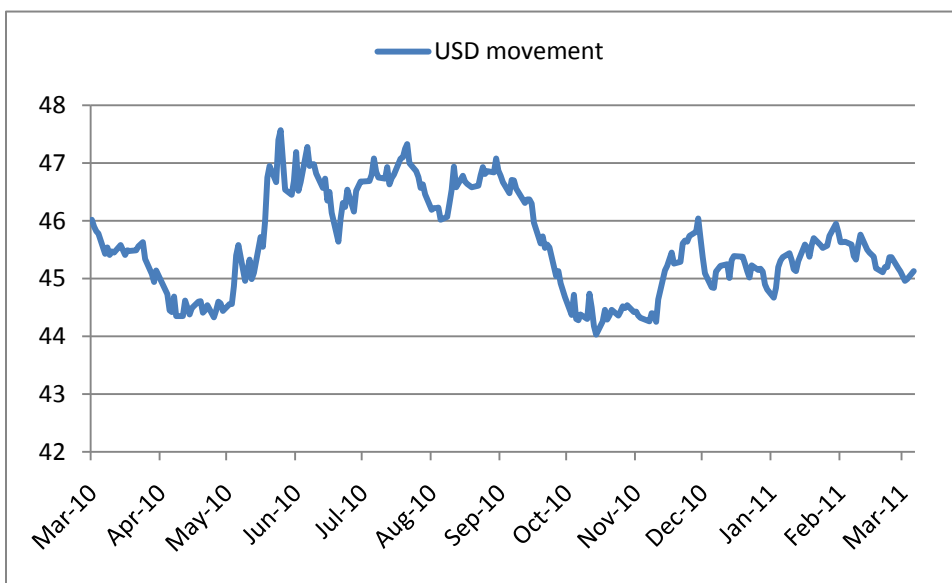
**Concerns:** Revolo requires charging batteries on every 100 km, though charging can be done through normal electricity socket, but it takes about 5-6 hours to get fully charged.

Revolo is reportedly cheaper and better than competing products; nevertheless, there is a challenge for the Company to get market acceptance – from OEMS as well as actual users. This process will have some gestation. Nevertheless, since we have not factored any revenue from Revolo in our estimates, success of Revolo would only result in an upward re-rating of the target price.

## Risks & Concerns

### Rupee appreciation

Movement in exchange rates continue to be the major threat for IT companies. About 67% of the revenue comes from US, therefore, appreciation of the rupee against US dollar would decrease the topline of the company. Company is currently adopting the hedging strategies on selective basis and also company will increase the share in Domestic revenue which will reduce the risk. These measures will reduce the impact of un-favourable movements in currency.



### Cientele risk

About 55% of the revenues originated from Top 5 clients, which is highest among its peers and about 24% of the revenue originates from Cummins. Therefore, reduction of assignments or postponement from top clients will negatively affect the company profitability.

### Risk of Attrition

KPIT Cummins Info systems Ltd is in an industry where attrition is one of the major concerns being addressed. KPIT's annualised attrition rate stood high at 30%

## Forex Update

Total Outstanding Hedges:

Total amount of USD hedges as on 31st Dec 2010 : \$ 73.10 Mn

Maturing in next 3 months : \$ 13.10 Mn

Maturing beyond FY2011 : \$ 60.00 Mn

The average hedge rate for remainder of FY2011 is Rs. 44.40 / USD.

The average hedge rate for the hedges beyond FY11 is Rs. 45.00 / USD

Company have also started hedging in Euro and GBP on a rolling 2 Qtr basis. As of Q2 end KPIT are hedged for 75% of the net exposure in Euro in GBP for the next 2 qtrs.

## Q3 FY11 Highlights

As on Q3 FY11 KPIT Cummins Infosystems Ltd has reported the revenue of Rs. 2,737 mn registering the growth of 16.5% sequentially and Y-o-Y growth of 48.2%. Geography wise US & Europe has shown the growth of 21% while APAC has shown the de-growth of 10%.

EBITDA for the quarter stood at Rs. 385.5 mn growth of 5.8% Q-o-Q basis, while EBITDA margin has declined by 142 bps to 14.1% primarily due to increase in software development expenses by 18.8%.

During Q3 FY11 company have added 172 freshers taking the headcount to 6,229 in Q3 FY11 against 5,953 in Q2 FY11

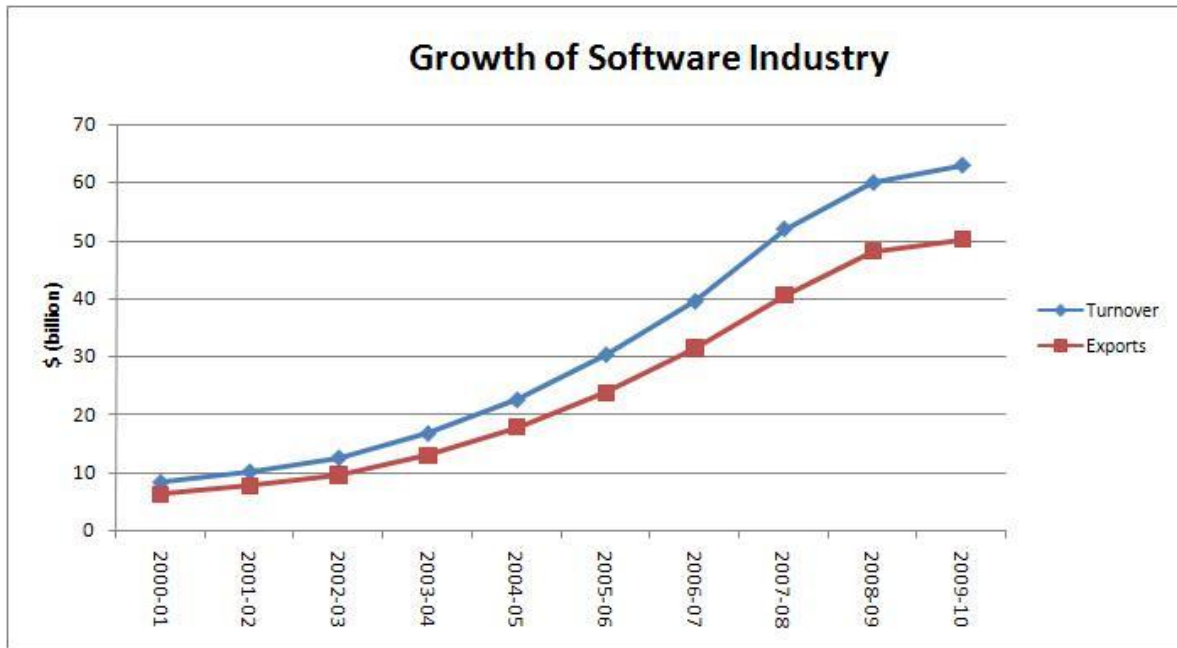
Particulars	Q3 FY11	Q2 FY11	Q-o-Q Chg	Q3 FY10	Y-o-Y Chg
<b>Total Revenue</b>	2,738	2,350	16.5%	1,848	48.2%
<b>Total Expenditure</b>	2,354	2,000	17.7%	1,454	61.9%
<b>EBITDA</b>	383	349.7	9.6%	457	-16.1%
<b>EBITDA Margin</b>	14.0%	14.9%	-6.0%	24.7%	-43.4%
<b>Depreciation</b>	85	83.6	1.7%	81.4	4.4%
<b>Interest</b>	6.3	3.1	103.2%	12.6	-50.0%
<b>Net Profit</b>	253.2	237.5	6.6%	213.7	18.5%
<b>EPS</b>	3.20	3.00	6.6%	2.70	18.5%

Source: Company, Greshma Research

## Industry Overview

Indian IT industry has seen the momentum in present decade and has established the country as a premium destination for IT outsourcing across the globe as well as one of the leading centres for the global IT. The Indian IT industry has witnessed the strong recovery over the last few quarters on the back of major companies across the world hiking the IT budget gradually. According to industry body NASSCOM, the exports segment of Indian IT industry is expected to reach \$175 billion by 2020 and domestic will contribute \$50 billion. Together, the export and domestic markets will bring close to \$225 billion of revenue by 2020. This growth is primarily due to new opportunities emerge in area such as healthcare segment and as geographies including Brazil, Russia and China may opt for outsourcing.

**Growth to recover FY11:** According to estimates prepared by NASSCOM, the sector has grown by around 6% in FY10. However, even though the growth is much slower as compared with historical performance, the industry has shown the growth improving in last few quarters sequentially; we have seen the results of December quarters very encouraging with majority of IT majors surpassing street expectations. We expect Industry to grow double digit in FY11.



Source: Ace Equity

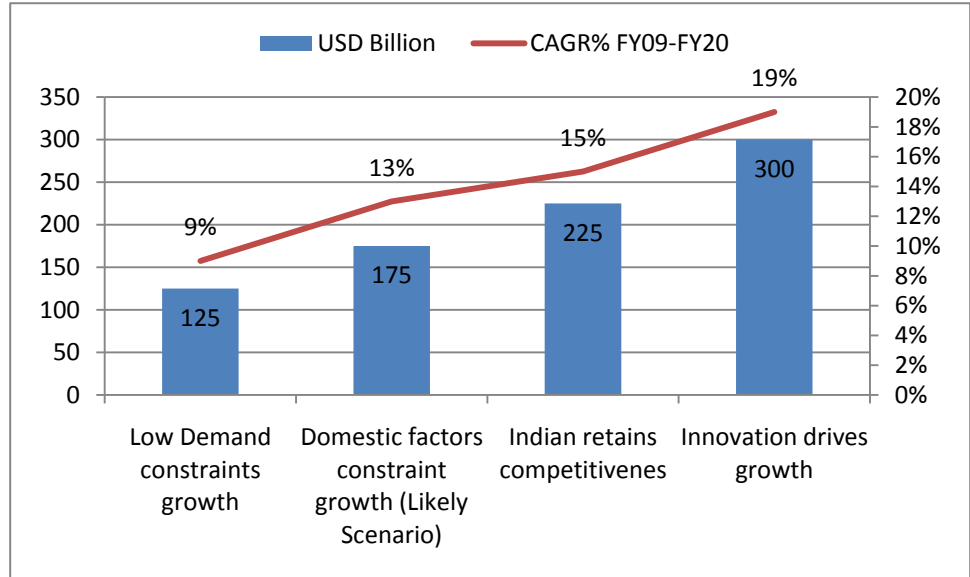
We expect Industry to do well in the coming years, but still there are some issues like rupee appreciation which can act as a drag. Indian IT companies have learnt to tackle the volatility of currency movement to some extent, but there is no support for an exporter than stable currency value. The situation is more dicey in mid-cap segment as these companies are under pressure due to pricing and any substantial rupee appreciation from current levels will affects the margins of the companies significantly.

**Outlook**

From a long term point of view, we believe the Indian IT industry is slowly decreasing its dependence on the US economy. While it is looking at other opportunities in Europe and Japan, we believe the next big driver for the industry in the long run will come from the domestic demand. Indian economy is close to reaching the threshold level where demand for the IT services takes-off in a big way which provides strong growth visibility in the longer run.

**India IT Export Market in FY2020-different scenarios**

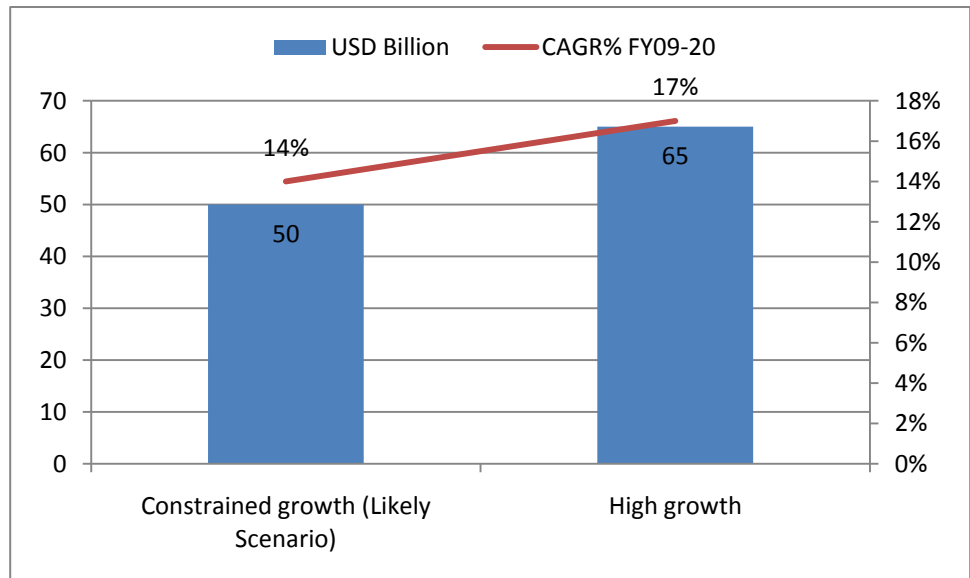
In a worst-case, Indian IT exports are expected to reach US\$125 billion in FY20 from US\$47 billion in FY09; in the most optimistic, exports are expected to reach US\$300 billion in FY20. In either case, Indian IT companies have potential to grow at double-digit rates over FY09-FY20E.



Source: NASSCOM-Mckinsey

**Domestic IT Market in FY20-different scenario**

In a worst-case scenario, Indian domestic is expected to reach to \$50 billion in FY20 and in the most optimistic case; domestic revenue is expected to reach to \$ 65 billion in FY20.



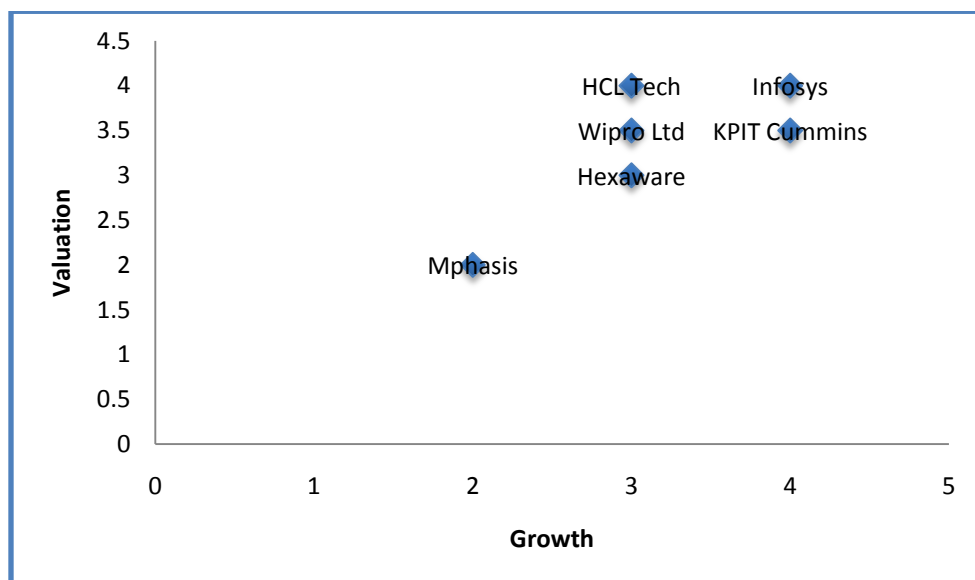
Source: NASSCOM-Mckinsey



## Peer Valuation and Growth

Company Name	Infosys Tech	Wipro Mar-	Mphasis Oct-10	Hexaware Dec-10	HCL Tech. Jun-10	KPIT Mar-10	TCS Mar-10
Year End	Mar-10	10	Oct-10	Dec-10	Jun-10	Mar-10	Mar-10
EPS (Rs.)	100	20	47	9	16	<b>10</b>	29
CMP (Rs.)	3051	450	440	106	448	<b>169</b>	1067
P/E (x)	30.4	22.5	9.3	12.3	28.8	<b>16.9</b>	37.3
BV (Rs)	383.9	71.6	138.52	26.48	69.74	<b>49.25</b>	76.73
PATM (%)	27.22	21.29	26.44	25.54	20.8	<b>18.37</b>	24.38
Cash Profit Margin (%)	31.04	23.81	29.51	29.37	26.2	<b>24.97</b>	26.42
ROA (%)	28.89	24.04	39.4	18.51	20.45	<b>19.88</b>	39.24
ROE (%)	28.89	32.87	40.42	18.57	26.39	<b>28.1</b>	39.62
ROCE (%)	37.52	28.45	43.22	19.36	24.27	<b>24.45</b>	44.55
Asset Turnover(x)	1.06	1.13	1.49	0.72	0.98	<b>1.08</b>	1.61
Debtors Turnover(x)	6.37	5	8.36	6.43	2.84	<b>3.74</b>	6.52
Net Sales Growth(%)	4.32	6.58	10.72	-2.39	8.63	<b>-33.71</b>	2.86
EBIT Growth(%)	11.29	54.81	24.76	200.39	2.82	<b>23.69</b>	23.95
PAT Growth(%)	-1.1	64.71	19.12	237.89	5.94	<b>24.98</b>	19.64
EPS Growth(%)	-1.44	64.37	18.92	237.89	4.61	<b>24.22</b>	-40.27

Source: Company, Greshma Research



On the left axis there is Valuation where 1 signifies Low valuation and 5 is High Valuation. On the X axis there is the growth of the company, 1 being low growth and 5 being high growth. One should buy companies which are high growth and high valuations and avoid those with low growth and high valuations.

## Financial Summary

Particulars	Consolidated P&L (INR mn)									
	2009A	Q3 FY10	Q4 FY10	2010A	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	2011E	2012E
<b>Operating Income</b>	<b>7,932</b>	<b>1,848</b>	<b>1,971</b>	<b>7,316</b>	<b>2,031</b>	<b>2,350</b>	<b>2,738</b>	<b>3,107</b>	<b>10,225</b>	<b>14,009</b>
Total Expenditure	6,098	1,454	1,585	5,702	1,722	2,000	2,354	2,650	8,726	11,767
EBITDA	1,834	394	386	1,614	309	350	383	457	1,499	2,241
EBITDA Margin	23.1%	21.3%	19.6%	22.1%	15.2%	14.9%	14.0%	14.7%	14.7%	16.0%
Depreciation	436	81	80	308	81	84	85	82	331	456
EBIT	1,397	312	307	1,306	229	266	298	374	1,167	1,786
Interest	45	13	4	27	6	3	6	7	23	(12)
Other Income	(574)	(46)	(57)	(253)	(30)	9	11	15	4	15
Exceptional Items	-	-	-	-	-	-	-	-	-	-
PBT	778	254	245	1,026	193	272	303	382	1,149	1,813
Tax	120	40	37	169	29	34	49	63	190	435
<b>PAT</b>	<b>658</b>	<b>214</b>	<b>208</b>	<b>857</b>	<b>164</b>	<b>238</b>	<b>253</b>	<b>319</b>	<b>959</b>	<b>1,378</b>
PAT Margin	8.3%	11.6%	10.5%	11.7%	8.0%	10.1%	9.2%	10.3%	9.4%	9.8%

Source: Company, Greshma Research

Valuation Summary				
Particulars	2009A	2010A	2011E	2012E
Revenues (INR mn)	7,932	7,316	10,225	14,009
EBITDA (INR mn)	1,834	1,614	1,499	2,241
Net profit (INR mn)	658	857	959	1,378
Capital Employed (INR mn)	1,631	3,871	4,831	6,208
Market Cap(INR mn)	11,957	11,957	11,957	11,957
Market Cap/Sales, x	1.5	1.6	1.2	0.9
Gross Block (INR mn)	2,489	3,464	3,566	3,888
EPS, Rs	8.3	10.8	12.1	17.4
CEPS, Rs	13.8	14.7	16.3	23.1
BVPS, Rs	20.6	48.9	61.0	78.4
P/E, x	18.2	13.9	12.5	8.7
P/BV, x	7.3	3.1	2.5	1.9
EV/EBITDA, x	6.6	7.4	8.0	5.4
EV/Sales, x	1.5	1.6	1.2	0.9

Particulars	Balance Sheet (INR mn)			
	2009A	2010A	2011E	2012E
<b>Sources of Funds</b>				
<b>Shareholder's Funds</b>				
Share Capital	156	157	157	157
Reserves & Surplus	1,475	3,714	4,674	6,051
<b>Total Shareholders Funds</b>	<b>1,631</b>	<b>3,871</b>	<b>4,831</b>	<b>6,208</b>
<b>Loans</b>				
Secured Loans	1,185	1,108	1,229	1,147
<b>Total Loans</b>	<b>1,185</b>	<b>1,108</b>	<b>1,229</b>	<b>1,147</b>
Deffered Tax Liability	60	51	70	70
Minority Interest	3	-	-	-
<b>Total Liabilities</b>	<b>2,878</b>	<b>5,030</b>	<b>6,129</b>	<b>7,425</b>
<b>Application of Funds</b>				
<b>Fixed Assets</b>				
Gross Block	2,489	3,464	3,566	3,888
Less: Dep & Amort	1,042	1,278	1,610	2,065
<b>Net Block</b>	<b>1,447</b>	<b>2,186</b>	<b>1,957</b>	<b>1,823</b>
Capital WIP	348	286	286	286
Investments	0	747	468	468
<b>Current Assets</b>				
Sundry Debtors	1,776	1,388	2,073	2,763
Cash & Bank balance	1,671	1,052	1,831	2,986
Other Current Assets	67	59	82	112
Loans & Advances	383	619	1,196	1,261
<b>Total Current Assets</b>	<b>3,896</b>	<b>3,117</b>	<b>5,182</b>	<b>7,122</b>
Less: Current Liabilities				
Current Liabilities	2,716	1,076	1,534	2,045
Provisions	97	230	230	230
<b>Total Current Liabilities</b>	<b>2,813</b>	<b>1,306</b>	<b>1,763</b>	<b>2,275</b>
<b>Net Current Assets</b>	<b>1,083</b>	<b>1,812</b>	<b>3,418</b>	<b>4,848</b>
<b>Total Assets</b>	<b>2,878</b>	<b>5,030</b>	<b>6,129</b>	<b>7,425</b>

Source: Company, Greshma Research

Shareholders fund includes INR 16.6 mn of Employees Stock Options in 2010

Sundry debtors includes INR 51.3 mn of doubtful debt in 2010

Provisions includes Staff benefits of INR 121.5 mn and provision of taxation of INR 40.7 mn in 2010

Non cash adjustments includes forex gain of INR 80.9 mn in 2009 and Forex loss of INR 22.8 mn in 2010

Investments of INR 747 mn are purchase of Mutual Funds in 2010

Repayment of term loan of INR 237 mn done in 2010

Consolidated Cash Flow Statement (INR mn)				
Particulars	2009A	2010A	2011E	2012E
PAT	658	857	959	1,378
Depreciation	436	308	331	456
Non-Cash Adjustments	(17)	80	19	-
Change in working capital	113	(169)	(829)	(273)
<b>Cash Flow from operation</b>	<b>1,191</b>	<b>1,076</b>	<b>481</b>	<b>1,560</b>
Capital Expenditure	(493)	(238)	(102)	(322)
Change in Investment (Dec)/inc	1	(747)	279	-
Other investing cash flows	(177)	(450)	-	-
<b>Cash Flow used in investing</b>	<b>(669)</b>	<b>(1,435)</b>	<b>176</b>	<b>(322)</b>
Issue of equity'				
Issue/Repay Debt	161	(237)	121	(82)
Dividend paid	(64)	(55)	-	-
Other financing cash flows	85	160	-	-
<b>Cash Flow from Financing</b>	<b>182</b>	<b>(132)</b>	<b>121</b>	<b>(82)</b>
<b>Net Cash</b>	<b>930</b>	<b>(619)</b>	<b>778</b>	<b>1,156</b>
<b>Opening Balance</b>	<b>740</b>	<b>1,671</b>	<b>1,052</b>	<b>1,831</b>
<b>Closing Balance</b>	<b>1,671</b>	<b>1,052</b>	<b>1,831</b>	<b>2,986</b>

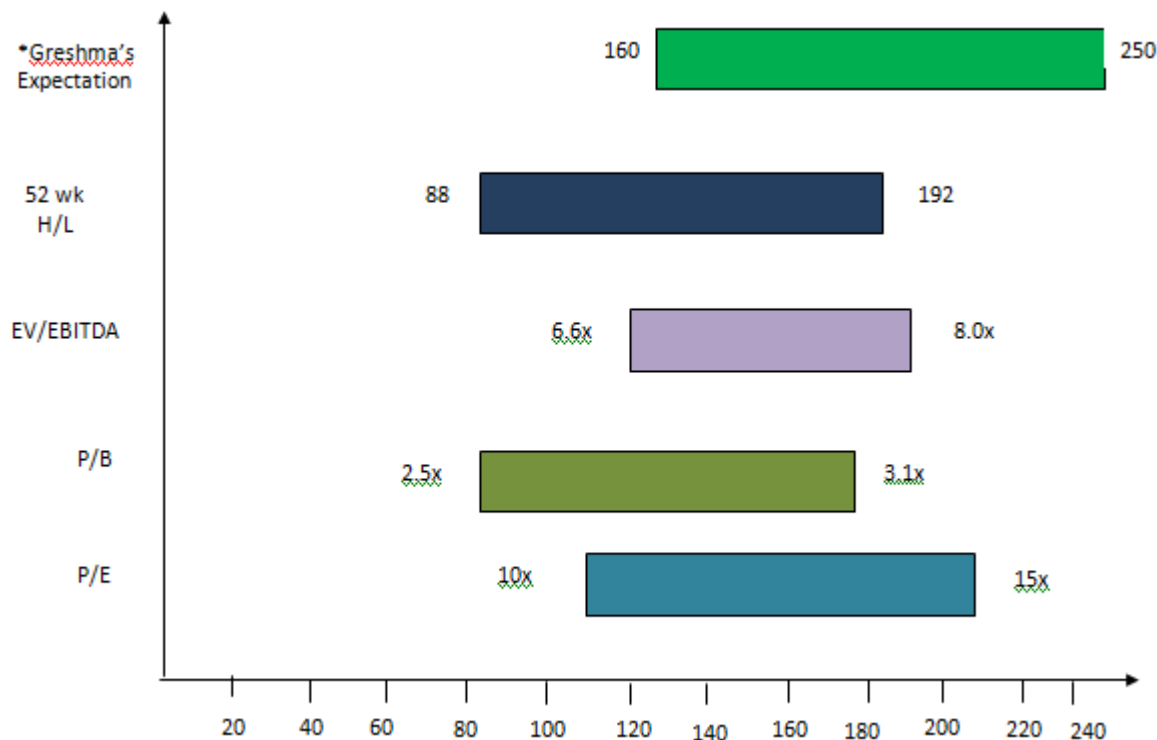
Source: Company, Greshma Research

Particulars	Key Ratios			
	2009A	2010A	2011E	2012E
EBIDTA %	23.1%	22.1%	14.7%	16.0%
PAT %	8.3%	11.7%	9.4%	9.8%
ROE %	40.4%	22.1%	19.9%	22.2%
ROCE %	43.5%	33.7%	24.2%	28.8%
ROA %	22.9%	17.0%	15.7%	18.6%
<b>Growth Ratios (%)</b>				
Income growth	35.9%	-7.8%	39.8%	37.0%
EBITDA growth	150.2%	-12.0%	-7.2%	49.5%
PAT growth	28.7%	30.3%	11.9%	43.6%
<b>Turnover Ratios</b>				
Fixed Asset Turnover x	4.4	3.0	4.6	6.6
Creditors Days	162.6	68.9	64.2	63.4
Debtors Days	76.9	52.5	65.3	77.8

Source: Company, Greshma Research

We expect EBITDA Margin to slip to 14.7% in 2011E due to wage inflation and increase in expenses due to recent acquisition in Q2 FY11

**Football Field Valuation**



Source: Greshma Research (\*Base case:210, Bear Case:160 and Bull Case (Success of revolo): 250)

Particulars	Valuation Summary			
	2009A	2010A	2011E	2012E
Revenues (INR mn)	7,932	7,316	10,225	14,009
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EV/EBITDA, x	6.6	7.4	8.0	5.4
EV/Sales, x	1.5	1.6	1.2	0.9

## Key Shareholders

Name of the Shareholder	% of Shares
ICICI Prudential Life Insurance Company Ltd	7.47
SBI Mutual Fund - Magnum Tax Gain 1993	3.04
Cummins India Ltd	6.43
Cummins Inc	5.93
Cargill Mauritius Ltd	1.86
Sajag Securities Pvt Ltd	1.11
India Fund Inc	2.39
Blackrock India Equity Fund Mauritius Ltd	1.60
Government Pension Fund Global	1.20
DSP Blackrock Equity Fund	1.31
Reliance Capital Trustee Co Ltd - Reliance Equity Advantage Fund	1.07
DSP Blackrock Small and Mid Cap Fund	1.37
Reliance Capital Trustee Co Ltd Reliance Equity Longterm Fund	1.11
<b>Total</b>	<b>35.88</b>

Source: BSE India

## Management Profile

**Ravi Pandit - Chairman and Group CEO:** He has an extensive experience of over three decades in the fields of IT, corporate strategy Formulation and Management consulting. Ravi is the chairman of K&P group which includes Kirtane & Pandit Chartered Accountants, K&P Corporate Solutions, a firm engaged in consulting and stock options and KP consulting that specializes in balance score card and activity based management. Ravi also serves on the board of Finolex

**Kishor Patil - CEO & Managing Director:** As a promoter of KPIT Cummins, Kishor has provided strategic direction and spearheaded KPIT Cummins' forays into international markets, especially the European market. His contributions have been essential in building strategic partnerships leading to a strong and prestigious customer base. He has set a standard of excellence in the areas of international operations, acquisitions, mergers and integration.

**Girish Wardadkar - President & Executive Director:** Girish, who holds a Six Sigma green belt, is a Mechanical Engineer with an MBA in Operations Management & Advanced Financial Management. He has two decades of professional experience in IT, diagnostic medical imaging, BPO and general management.

### Greshma`s CSI Ranking Model:

Valuations: A

CSI: 4/5

(CSI is arrived on the basis of the underlying strength of the company on the basis of fundamentals and growth prospects)

<b>Valuation</b>	> 20%	A	<b>HOLD</b>	<b>BUY</b>		<b>STRONG BUY</b>	
	+5% TO +20%	B				<b>KPIT Cummins Infosystems Ltd</b>	
	-5% TO +5%	C	<b>REDUCE</b>			<b>HOLD</b>	
	-5% TO -20%	D	<b>SELL</b>				
	< -25%	E				<b>SELL</b>	
			1	2	3	4	5
			VERY POOR	POOR	MODERATE	GOOD	VERY GOOD
<b>Core Strength Index</b>							

Core Strength Index	Weightage
Industry/market structure	25%
Company track record	25%
Investor orientation	25%
Opportunity spectrum	25%

**Technical View**



- The stock has been in an uptrend since March'09 forming a series of higher top and bottoms which signifies bull trend.
- The recent rise has formed a bullish belt-hold line pattern and with rise in volumes suggests the uptrend to continue.
- RSI has also entered into buy mode and is currently above the 60 levels.
- Close above the crucial hurdles of 186-192 one can expect 245 & 260 in medium term.

	<b>Supports</b>	<b>Resistance</b>
<b>1</b>	152-156	188-192
<b>2</b>	135-138	242-246



**Expected Stock Performance:**

<b>Period</b>	<b>Performance</b>
Short Term (1-3 months)	Market Performer
Mid Term (6-12 months)	Outperformer
Long Term (more than 12 months)	Outperformer

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