

KPIT Technologies


 DOLAT CAPITAL

CMP: ₹ 146
Target Price: ₹ 185
Buy

BSE Sensex	20,659
NSE Nifty	6,155

Scrip Details

Equity	₹ 382mn
Face Value	₹ 2/-
Market Cap	₹ 30bn USD 483mn
52 week High/Low	₹ 160 / 92
Avg. Volume (no)	394,986
BSE Code	532400
NSE Symbol	KPIT
Bloomberg Code	KPIT IN
Reuters Code	KPIT.BO

Shareholding Pattern as on Sept'13(%)

Promoter	22.87
FIs	36.42
MF/Banks/FIs	11.13
Public / Others	29.58

Commentary confident: The company is confident to achieve its annual guidance based on strong deal additions and existing robust pipeline. It is witnessing better client allocations across geographies in the Automotive segment. It is also witnessing better trends on demand for upgrades and new enterprise solutions. The deal/client win has been broad based and raised management confidence in terms of better H2 over H1 which would translate achievement of its guided revenues (USD revenues growth 14-16%). Weak OPM expansion despite strong Fx tailwinds has remained a drag leading to valuation gap over other midcap peers, which we believe would improve in coming quarters as momentum picks up further alongwith likely breakeven in the SAP SBU.

Strong opportunity in Enterprise: KPIT is witnessing sustained traction for SAP's successfactor implementations however, the deal size are as low as \$70-100k. It expect the trend to be small and several to continue but would gain on account of complete offshoring nature of the business. Also, Oracle discontinuation of support for certain suites prior to 2012 would drive the wave of third party support/upgrade cycle.

IPR commercialisation due: It is close to monetise several of its key IPR assets in FY15 such as Revolo, Telematics and KIVI . Revolo is on verge of getting its Homologation process gazetted, large opportunity on telematics approved gadgets expected from JnNURM (KPIT only ARIA approved vendor in India) and incremental demand for connected vehicles would drive commercialisation efforts for KPIT-in-vehicle-infotainment IPRs. It is also working on cloud based BI tools as well as Analytics tool for opportunities in warranty management.

Fx gains reinvested: KPIT has been reinvesting most of the gains on Fx on sales efforts and strengthening its domain expertise. It has hired over 40 Subject matter experts (SME) to rev up its positioning its core Auto/Manufacturing/Energy verticals. It has also hired Mr Frederick (ex-McKinsey/Infosys) as its global head of Automotive practices. It is benefiting from its efforts of building Global Account managers team as top-15 accounts (excluding Cummins) are doing good and would see further traction due to potential cross sell leverage.

Valuation: We believe the stock would continue its financial outperformance on sustained deal flow momentum and benefits of incremental role of IT in Automobiles. We maintain our BUY rating (Preferred pick in the Mid Tier IT segment) on the stock with a Target Price of ₹ 185, valued at 10x of its FY15E earnings.

Financials

Year	Net Sales	Growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	15,000	49.0	1,727	11.5	1,454	9.7	8.2	51.7	19.2	21.5	23.0
FY13	22,386	49.2	3,170	14.2	1,990	8.9	10.4	27.6	15.1	21.8	27.6
FY14E	27,982	25.0	4,158	14.9	2,961	10.6	15.5	48.8	10.1	24.2	31.3
FY15E	33,521	19.8	5,088	15.2	3,577	10.7	18.7	20.8	8.4	23.4	31.3

Figures in ₹ mn

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December 17, 2013

INCOME STATEMENT					CASH FLOW				
	₹ mn								
Particulars	Mar12	Mar13	Mar14E	Mar15E	Particulars	Mar12	Mar13	Mar14E	Mar15E
Net Sales	15,000	22,386	27,982	33,464	Profit before tax	1,886	2,847	4,071	4,935
Other Operational income	0	0	0	58	Depreciation & w.o.	445	472	571	634
Total Income	15,000	22,386	27,982	33,521	Net Interest Expense	19	0	0	0
Total Expenditure	12,828	18,745	23,252	27,799	Direct taxes paid	(268)	(765)	(1,110)	(1,357)
Employee Expenses	7,706	11,408	13,931	16,645	Change in Working Capital	(870)	(947)	15	(13)
Other COR	1,407	7,337	9,321	11,115	Other	(208)	(92)	0	0
S&M Expenses	2,496	0	0	0	(A) CF from Opt. Activities	1,005	1,516	3,547	4,198
G&A Expenses	1,220	0	0	0	Capex	(538)	(1,422)	(1,415)	(1,625)
Revolvo Expenses	0	0	0	39	Inc./ (Dec.) in Investments	(2,353)	(1,454)	0	0
EBIDTA	2,172	3,641	4,729	5,722	Other	68			
Depreciation	445	472	571	634	(B) CF from Invt. Activities	(2,822)	(2,876)	(1,415)	(1,625)
EBIT	1,727	3,170	4,158	5,088	Issue of Equity/ Preference	65	1,620	0	0
Interest paid	79	140	255	210	Inc./ (Dec.) in Debt	1,160	413	(53)	(900)
Other Income	239	(78)	167	57	Interest exp net	(69)	0	0	0
Profit Before Tax & EO Items	1,886	2,952	4,071	4,935	Dividend Paid (Incl. Tax)	(72)	(178)	(178)	(178)
Tax Expenses	437	765	1,110	1,357	Fx change on translation on cash	(20)	(46)		
Net Profit	1,450	2,082	2,961	3,577	(C) CF from Financing	1,064	1,809	(230)	(1,078)
Minority Interest	4	(92)	0	0	Net Change in Cash	(754)	448	1,901	1,495
Net Profit	1,454	1,990	2,961	3,577	Cash on acquisition of subsidiaries	146	0	0	0
					Opening Cash balances	2,080	1,473	1,921	3,822
					Closing Cash balances	1,473	1,921	3,822	5,318
					E-Estimates				
BALANCE SHEET					IMPORTANT RATIOS				
Particulars	Mar12	Mar13	Mar14E	Mar15E	Particulars	Mar12	Mar13	Mar14E	Mar15E
Sources of Funds					(A) Measures of Performance (%)				
Equity Capital	356	382	382	382	Contribution Margin				
Share premium	2,015	0	0	0	EBIDTAMargin	14.5	16.3	16.9	17.1
Other Reserves	4,754	10,182	13,235	16,634	EBIT Margin	11.5	14.2	14.9	15.2
Net Worth	7,125	10,564	13,617	17,016	Interest / Sales	0.5	0.6	0.9	0.6
Minority Interest	326	270	0	0	Tax/PBT	23.1	26.9	27.3	27.5
Secured Loans	822	1,459	1,459	1,459	Net Profit Margin	9.7	8.9	10.6	10.7
Unsecured Loans	1,664	142	91	(809)					
Loan Funds	2,812	1,872	1,550	650	(B) As Percentage of Net Sales				
Total Capital Employed	9,938	12,436	15,167	17,666	Employee Expenses	51.4	51.0	49.8	49.7
					S&M Expenses	16.6	0.0	0.0	0.0
Applications of Funds					(C) Measures of Financial Status				
Net Block	4,961	6,428	7,272	8,263	Net 'Debt / Equity (x)	0.2	(0.0)	(0.2)	(0.3)
Intangibles	421	-	-	-	Interest Coverage (x)	21.8	22.7	16.3	24.2
Capital Work in Progress	92	1,373	1,373	1,373	Average Cost Of Debt (%)	2.8	7.5	16.4	32.3
Investments	582	2,036	2,036	2,036	Debtors Period (days)	128	91	83	81
Current Assets, Loans & Advances					Fixed Assets Turnover (x)	3.0	2.9	3.2	3.5
Sundry Debtors	4,380	4,673	5,698	6,844	Working Capital Turnover (x)	3.9	8.6	6.2	5.6
Cash and Bank Balance	1,473	1,921	3,822	5,318	Non Cash Working Capital (Rs Mn)	2,407	678	663	676
Loans and Advances	1,452	1,417	1,577	1,774					
<i>sub total</i>	7,305	8,010	11,097	13,935	(D) Measures of Investment				
Less : Current Liabilities & Provisions					EPS (Rs.)	8.2	10.4	15.5	18.7
Current Liabilities	2,820	1,904	2,304	2,484	CEPS (Rs.)	10.7	12.9	18.5	22.1
Provisions	605	3,507	4,307	5,457	DPS (Rs.)	0.7	0.8	0.8	0.8
<i>sub total</i>	3,425	5,411	6,611	7,941	Dividend Payout (%)	8.6	7.7	5.2	4.3
Net Current Assets	3,880	2,599	4,485	5,994	Book Value (Rs.)	40.0	55.3	71.3	89.1
Total Assets	9,938	12,437	15,167	17,666	RoANW (%)	22.1	22.5	24.5	23.4
E-estimates					RoACE (%)	20.2	28.3	30.1	31.0
					RoAIC (%) (Excl Cash & Invest.)	27.6	38.7	46.8	51.9
					(E) Valuation Ratios				
					CMP (Rs.)	157	157	157	157
					P/E (x)	19.2	15.1	10.1	8.4
					Market Cap. (Rs. Mn.)	27,937	29,972	29,972	29,972
					MCap/ Sales (x)	1.9	1.3	1.1	0.9
					EV (Rs. Mn.)	28,694	27,886	25,663	23,267
					EV/Sales (x)	1.9	1.2	0.9	0.7
					EV/EBDITA (x)	13.2	7.7	5.4	4.1
					P/BV (x)	3.9	2.8	2.2	1.8
					Dividend Yield (%)	0.4	0.5	0.5	0.5
					E-estimates				



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside of upto 5% or downside of upto 15%
SELL	Downside of more than 15%

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