

**Synergy will be the Key**

**17<sup>th</sup> January 2019**

<b>CMP (Combined Entity)</b>	<b>Rs 216</b>
<b>Expected price (Post de merger)</b>	<b>Rs 108</b>
<b>Target Price:</b>	<b>Rs. 115*</b>
<b>Recommendation:</b>	<b>HOLD</b>
<i>(*ex engineering business- Birla soft)</i>	

#### Stock Info

<b>BSE Group</b>	A
<b>BSE Code</b>	532400
<b>NSE Symbol</b>	KPIT
<b>Bloomberg</b>	KPIT.IN
<b>Reuters</b>	KPIT.BO
<b>BSE Sensex</b>	10,890
<b>NSE Nifty</b>	36,321

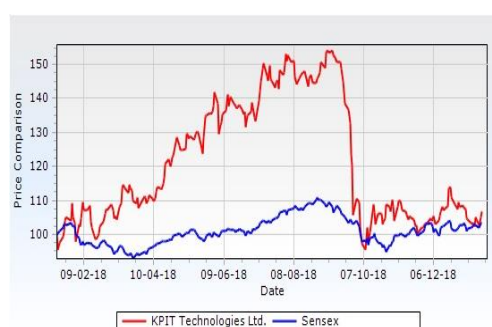
#### Market Info

<b>Market Capital</b>	Rs 4,270cr
<b>Equity Capital</b>	38 cr
<b>6MAvg. Trading Vol.</b>	2,567,389
<b>52 Wk High/ Low (KPIT)</b>	314/186
<b>Face Value</b>	2.00

#### Shareholding Pattern (%) (Dec 2018)

<b>Promoters</b>	18.91
<b>Domestic Institutions</b>	5.36
<b>Foreign Institutions</b>	46.60
<b>Public &amp; Others</b>	29.11

#### Price Vs Sensex Chart



#### Quarter Highlights (ex-engineering)

- Revenue stood at Rs 563 Crore, de growth of 7% QoQ and 0.1 % YoY.
- PAT stood at Rs 37.8 Crore, de growth of 37 % QoQ and YoY.
- EBITDA margin stood at 11.5% vs 15% QoQ.

#### Quarter Highlights including Engineering

- USD Revenue grew 5.5% Y-o-Y, decline of 2.3% Q-o-Q.
- ₹ Revenue grew 16.27% Y-o-Y, decline of 1.63% Q-o-Q.
- Net Profit for the quarter registered Y-o-Y growth of 3.63%.
- Operational EBITDA for Q3FY19 at 13% vs 13.59% on QoQ basis.

#### Geographical growth

- Among geographies, Europe registered Q-o-Q growth of 13.08% while US & APAC declined by 6.13% and 9.86% respectively.
- US Geography continues to be the largest geography with a revenue share of 59.27% and it declined by 6.13% on a Q-o-Q basis, mainly due to lower billing days and project closures.

#### Concall Highlights

- Company has seen upward traction in order pipeline.
- Going forward the growth will be driven by life sciences and energy related customers followed by CPG and Hitech.
- There is strong traction in engineering services which has seen good deal wins.
- On IT side, Company has seen improved demand for SAP S/4, Oracle cloud and Info platforms.
- KPIT shares will trade ex-engineering business from 25 January 2019.
- Engineering is expected to grow at 20% in CC terms and the IT business is expected to maintain its run rate.
- On January 29, 2018, company announced a transaction of merger and demerger involving KPIT and Birlasoft. Birlasoft is a part of the USD 1.6 billion diversified CK Birla Group.
- The merger of KPIT and Birlasoft will create a USD 700+ Million entity which will immediately demerge into two separate companies:
  - KPIT Technologies (USD 270+ Million revenue company, post-merger), a global leader in Automotive Engineering and Mobility Solutions, which will evolve from the existing Engineering business of KPIT.
  - Birlasoft (a USD 475+ Million revenue company, post-merger), a new Digital Business IT Services company, focusing on the mid-tier IT space formed by combining Birlasoft with the KPIT's IT business.

#### Valuation ex-engineering

Management expects Birla soft to maintain its current run rate. Margins are also expected to be at same levels. Q4 will be the first quarter when management will declare results for Birla soft and KPIT differently. We will get more clarity after the Q4 results. KPIT technologies will list differently on exchange in March 2019. KPIT technologies will trade ex of engineering from January 25, 2019. Every shareholder of KPIT (to be renamed as Birlasoft) will get Birla soft shares in the ratio of 1:1. We have valued Birlasoft at 10.5x PE of our FY20E EPS of Rs 11 and arrived at target price of Rs 115 with **Hold** rating on the stock.

**Quarterly Results:**
**Financial Snapshot:**

Y/E March (Rs. In Crore)	FY18	FY19E	FY20E
Net Revenue	2250	2326	2512
Growth %		3	8
EBIDTA	283	301	364
EBIDTA Margin	12.6%	12.9%	14.5%
Net Profit	191	194	216
Margins %	8.5%	8.3%	8.6%
EPS	10	10	11

**Quarterly Update ex engineering**

Quarterly Result					
Rs. In Crores	Q3FY19	Q2 FY19	Q3 FY18	YoY	QoQ
Net Sales	564	604	564	-0.1%	-7%
Total Expenditure	499	511	481	4%	-3%
EBITDA	65	92	83	-22%	-29%
Depreciation	10	15	10	-2%	-33%
Interest	3	3	2	37%	2%
Other Income	3	4	5	-41%	-19%
PBT	55	78	76	-27%	-29%
Tax	17	17	16	10%	0%
Net Profit	37.8	61	60	-37%	-37%
EPS	2.0	3.2	3.1	-37%	-37%
EBITDA Margin(%)	12%	15%	15%	-22%	-24%
Net Profit Margin	7%	10%	11%	-37%	-33%

Source: Company data, Arihant Research

**Financials ex engineering:**

Particulars in Crore	FY18	FY19E	FY20E
<b>Revenue</b>	<b>2250</b>	<b>2326</b>	<b>2512</b>
Growth		3%	8%
Employee Expense	1348	1389	1495
<b>Gross Profit</b>	<b>902</b>	<b>937</b>	<b>1017</b>
Gross Margins	40%	40%	41%
Other Expenses	619	637	653
<b>EBITDA</b>	<b>283</b>	<b>301</b>	<b>364</b>
<b>EBITDA Margins</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>
Depreciation	49	49	50
EBIT	234	251	315
Interest	8	11	18
Other Income	24	12	12
PBT	250	253	308
TAX	68	53	92
Tax Rate	27%	21%	30%
<b>PAT</b>	<b>182</b>	<b>200</b>	<b>216</b>
EPS	9.5	10.4	11.3

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### Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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