



KPIT Cummins Infosystems Ltd.—Poised for growth

BUY

CMP: Rs.107
Target Price: 142
Industry: Information Technology

Stock Info		BSE Group		Shareholding Pattern (31st March'10)	
Market Capital	Rs.845 cr	BSE Group	B	Promoters	30.6%
Equity Capital	Rs.15.7 cr	BSE Code	532400	Domestic Institutions	15.6%
Avg. Trading Vol.	104230 (Q'tly)	NSE Symbol	KPIT	Foreign Institutions	23.9%
52 WK High/Low	142/38.9	Bloomberg	KPIT IN	Non Promoters Corp.	10.7%
Face Value	Rs. 2	Reuters	KPIT.BO	Public & Others	19.2%
		BSE Sensex	16617	Govt. Holdings	0.0%
		NSE Nifty	4987		

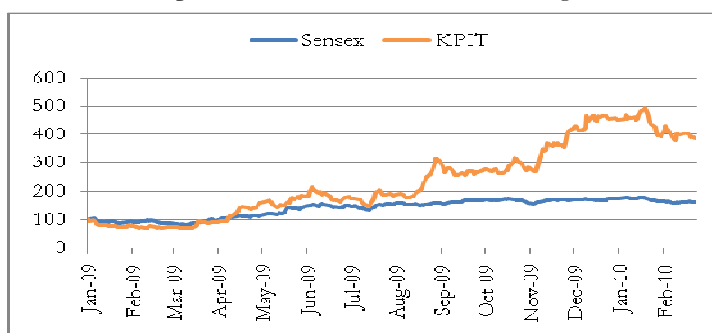
JV with Bharat Forge

- **Event:** KPIT announced a joint venture with Bharat Forge Ltd.—the flagship company of \$2.4bn Kalyani group and a leading global supplier of forged and machined components to manufacture and market an indigenously developed hybrid technology solution named **“Revolvo”**.
- **What is Revolvo:** Revolvo is a solution developed by KPIT Cummins which has the capability to substantially reduce emission levels, improve fuel efficiency and hence decrease the cost of travel. This intelligent plug-in, full-hybrid solution will be manufactured through a JV between Bharat Forge and KPIT. The solution do not require any additional infrastructure and can be retrofitted on existing vehicles in 4-6 hours. The solution is applicable to both gasoline and diesel vehicles, from 800cc to vehicles upto 3litre engines. Vehicles without an electronic engine can also be retrofitted.

The Automotive Research Association of India (ARAI) which tested the solution confirmed fuel efficiency gains of more than 40 per cent. Under city driving conditions the increase in efficiency has been found to be above 60 per cent while reduction in Greenhouse House Emission has been more than 30 per cent.

- **Working of the JV:** As part of the joint venture, KPIT will license the technology to the JV while Bharat Forge will bring in its manufacturing, assembly and integration expertise to the JV. The solution will be marketed to OEMs and fleet & individual vehicle owners through a network of certified and authorized dealerships.
- **How revenue will be generated:** The company is planning to keep the price range of the solution in the range of Rs.65,000-1,50,000 and is targeting a revenue of Rs.300-500cr with EBIT in the range of 15-18 per cent. The commercial production is expected to commence in 6 months time and therefore there would be no material impact on KPIT's revenue in FY11. There would be two sources of revenue for KPIT—firstly from profit sharing and secondly they would also be getting royalty for the solution.
- **Our view:** We have always looked at KPIT as a niche player in the automotive segment and therefore had a very positive view on its ability to come out with newer technological innovations. We believe that the JV with Bharat Forge is a step towards commercialization of its IPs (Intellectual Properties). KPIT's research based approach has enabled it to file for 14 patents till date which are in the areas such as battery management, automotive safety, etc.

KPIT's research based approach gives us the confidence wherein we can safely expect the company to further come out with newer innovations that will help it to grow its revenue substantially in the coming years—more so due to its emphasis on 'green technology'. KPIT remains our top-pick in the mid-cap IT segment. We thereby maintain our 'Buy' call on the stock with a target price of 142. On account of the JV we would like to associate an 'upside risk' to our FY12E earnings' estimate as well as to our target price.



Particulars (Rs. in cr)	FY10	FY11E	FY12E
Net Revenue	731.6	849.8	1000.2
Growth %	-7.8	16.1	17.7
Net Profit	85.7	91.7	103.9
Growth %	30.3	6.9	13.3
EPS (Rs)	10.9	11.8	13.2
P/E	9.7	9.1	8.0
P/BV	2.1	1.8	1.5

Background

Incorporated in 1990 and headed by Mr.S.B.(Ravi) Pandit who is the Chairman and Group CEO, KPIT Cummins Infosystems is a mid-sized IT company focused on few niche verticals. The company provides business and technology solutions mainly for the manufacturing vertical.

Within the manufacturing vertical, the company focuses on three cognitive verticals that are shown in the figure below along with the percentage of revenue that is derived from each.

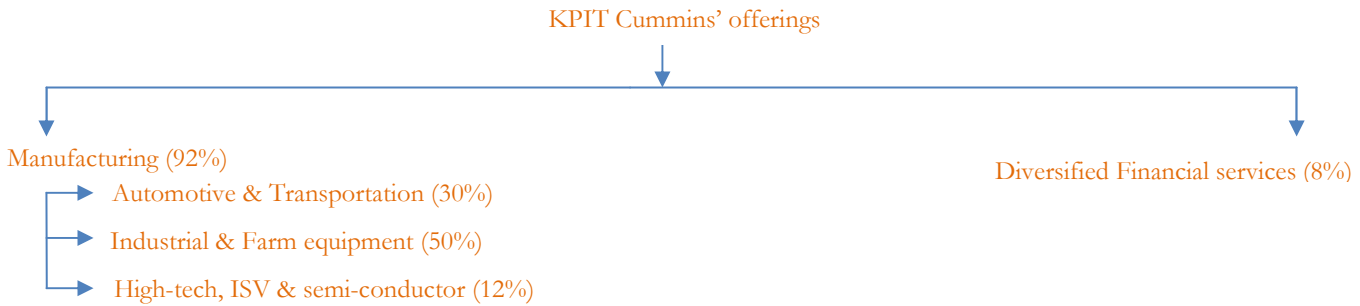


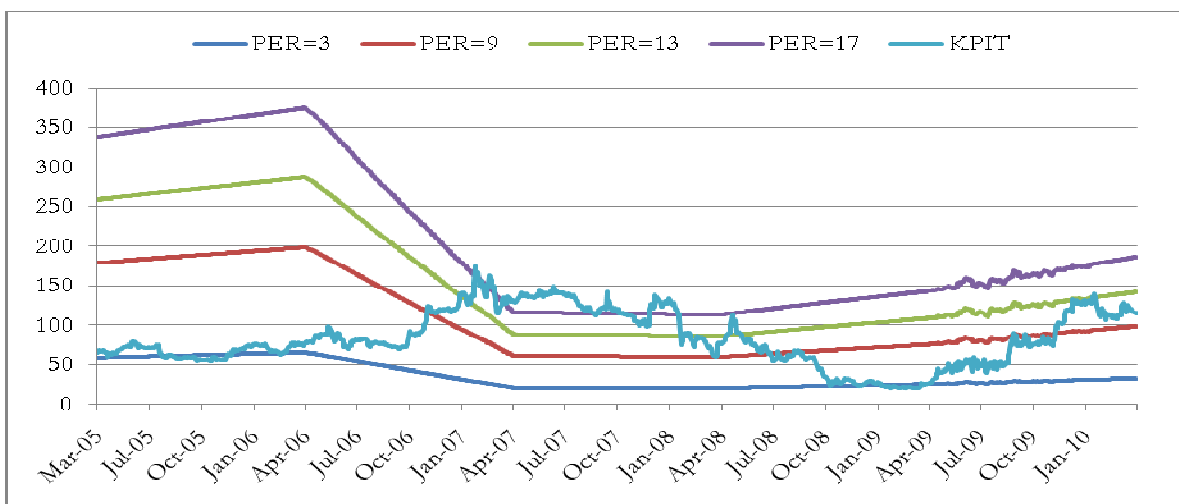
Fig: Various service offerings of KPIT Cummins

The company aims to become a full service provider to these industries. For this purpose the company has been developing unique skills and creating strategic value proposition relevant to these industries and is also planning to acquire companies in the near future that will take it nearer to this goal. Till date KPIT has made 8 acquisitions which has either helped the company to achieve domain expertise, get new customers or enter a new geography.

The company currently has a client base of 141 customer spread all over the world with a majority from the US and Europe. The client base of KPIT includes 7 out of the top 12 Original Equipment Manufacturers (OEMs) and 6 of the top 10 semi-conductor companies of the world. The company provides its services in countries like US, UK, Germany, France, Poland, India, Japan, South Africa and Korea.

The company which was originally incorporated as KPIT Infosystems changed its name to KPIT Cummins in 2002 after the merger of Cummins Infotech. This merger proved to be very beneficial to the company as it got a permanent customer in Cummins who still contributes the highest proportion of revenue to the company. The company has made acquisitions of a number of companies that complements their service line.

PE Band



Source: Arianth Research

Fig: PE band of KPIT

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Stock Rating Scale

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

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