



Margins under Pressure!

20th October, 2016

CMP: Rs.143
Target Price: Rs.160
Recommendation: HOLD

Stock Info

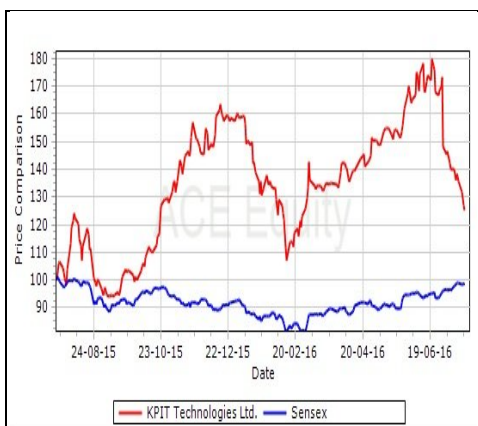
BSE Group	A
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	28,186
NSE Nifty	8,716

Market Info

Market Capital	Rs. 2,793 cr
Equity Capital	Rs.37.6 cr
Avg. Trading Vol.	104,12,60
52 Wk High/ Low	197/108
Face Value	Rs.2

Shareholding Pattern (%)	(Sep 2016)
Promoters	16.7
Domestic Institutions	30.5
Foreign Institutions	24.4
Public & Others	28.4

Price Vs Sensex Chart



■ Performance was in line with expectation:

KPIT performance during the quarter was steady performance. KPIT has reported consolidated net profit of Rs.56.18 crore for the quarter ended September 30, 2017, registering Improvement of 2.0% qoq, but de-growth of 23.8% yoy. The company's revenue stood at Rs. 830.98 crore, Inclining 3.5% qoq and grew by 2.2% yoy. Its consolidated Operating profit margin for the current quarter at 11.00% expanded by 34 bps qoq but contracted by 302 bps yoy.

■ Geographical growth:

In terms of geography, US Inclined by 2.62% while Europe decreased by 9.11% and in rest of the world increased by 14.49% on year on year basis. Revenue from the US market grew 3.08% while revenue from Europe declined by 8.80% and the rest of the world by 21.19% on a Q-o-Q basis.

■ Operating profits depressed by 20% on YoY:

Company has recorded an operating profit of Rs 91 cr, up by 6.8 % on QoQ and down by 20% YoY, PAT reported during the quarter was Rs. 56cr. Management's focus currently, is in investment phase in Products & Platforms business and hence the EBITDA in that business is negative which has an overall impact of around 150 bps on the company level EBITDA.

■ Quick Summary

- Business can be broadly divided into two buckets – Services and Solutions Business (S&S) which is ~ 95% of the total business with with a EBITDA of 12.5% and Products and Platforms (P&P) which is ~ 5% of the total business with current quarter EBITDA of (25%).
- The S&S business can be further divided into engineering (~ 35% of the S&S business) has an EBITDA margin of 20% and Business IT (~ 65% of the S&S Business) which operates at an EBITDA of 10%.
- If we further look into the Business IT revenues, then Digital Revenues are ~23% of the Business IT revenues whereas annuity revenues constitute ~45% of the business IT revenues.
- The Overall Company EBITDA at 11% is after write off of R&D investments to the P&L to the tune of 0.8% of the total revenue.

■ Outlook:

Management focuses more on growth and investing in right areas for increasing in the pace of growth. We believe most of these actions will be completed within next couple of years. We have valued stock at P/E(x) of 12x to its FY18E earnings and have arrived at fair value of Rs 160 per share. At CMP Rs 143 stock trades at 11 (x) its FY18E earnings. We have 'HOLD' rating on the stock.

■ Financials:

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	2990	3224	3469	3664
Growth %	11	8	8	6
EBIDTA	325	435	403	422
EBIDTA Margin	10.9%	13.5%	11.6%	11.5%
Net Profit	237	282	250	262
Growth %	-0.9%	18.8%	-11.1%	4.8%
EPS	12.5	14.7	12.7	13.3
P/E	15.1	10.0	11.1	10.6



Quarterly Results:

Financials (Consolidated)					
Rs. In Crores	Q2FY17	Q1FY17	QoQ%	Q2FY16	YoY%
Net Sales	831	803	3.5%	813	2.2%
Total Expenditure	740	718		699	
EBITDA	91	86	6.8%	114	-20.0%
Depreciation	20	19		17	
Interest	1	6		5	
Other Income	5	12		8	
PBT	75	73	3.1%	100	-25%
Tax	19	18		27	
Net Profit	56	55	2.0%	74	-24%
EPS	2.93	2.87	2.1%	3.9	-24%
EBITDA Margin(%)	11.0%	10.7%		14.0%	
Net Profit Margin	6.8%	6.9%		9.1%	

Source: Company data, Arihant Research



Profit and Loss statement

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Total Revenue	2990	3224	3469	3664
Growth %	11	8	8	6
Total Operating Expenses	2664	2789	3066	3242
EBIDTA	325	435	403	422
EBIDTA Margin	10.9%	13.5%	11.6%	11.5%
Depriciation	85	69	73	77
EBIT	240	366	330	345
Interest	26	15	14	15
Other Income	35	25	31	34
Extraordinary item	0	11	0	0
PBT	248	364	347	364
Tax	11	83	97	102
Net Profit	237	282	250	262
Change %	-1%	19%	-11%	5%
EPS	12.5	14.7	12.7	13.3

Cash Flow Statement

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Profit before taxes	248	364	347	364
Add:- Depreciation	85	69	73	77
Change in Working Capital	17	-15	-17	-15
Others	17	-82	-62	-74
Cash generated from operations	367	336	341	353
Taxes paid	-78	-83	-97	-102
Net cash flow from operating activities	289	253	244	251
Purchase of fixed assets	-91	-121	-110	-117
Others	-21	-123	-98	-112
Net cash flow from investing activities	-112	-245	-208	-229
Inc/ (Dec) in Equity Capital	14	16	17	19
Inc/(dec) in Secured loan Fund	-10	33	-68	-27
Dividend & Dividend tax	-24	-25	-25	-26
Others	-20	0	0	-30
Net cash used in financing activities	-40	23	-76	-64
Exchange Difference	-1	0	0	0
Net Cash Flow	136	32	-40	-43
Closing Cash balance	364	395	355	312

Balance Sheet

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Shareholder's funds				
Share Capital	38	38	38	38
Reserves & Surplus	1258	1343	1567	1802
Total	1296	1381	1605	1840
Minority Interest	0	0	0	0
Total Non Current Liabilities	120	219	241	270
Total Current Liabilities	854	596	616	580
Total Liabilities	2270	2195	2462	2691
Net Block	229	282	320	360
Capital Work-in-Progress	3	3	2	2
Goodwill on consolidation	509	402	362	326
Total Non Current Assets	955	917	1145	1260
Cash and bank balance	364	395	355	312
Total Current Assets	1315	1278	1317	1431
Total Assets	2270	2195	2462	2691

Key Ratios

Particulars	FY15	FY16	FY17E	FY18E
EPS	12.5	14.7	12.7	13.3
Book Value	65.9	70.0	81.4	93.3
DPS	1.1	1.1	1.1	1.1
Payout %	8.8	7.5	8.7	8.3
Dividend Yield %	0.6	0.6	0.6	0.6
P/E	15.1	10.0	11.1	10.6
EBIDTA Margin	11%	14%	12%	12%
PBT Margin	8%	11%	10%	10%
PAT Margin	8%	9%	7%	7%
Debt/Equity	0.3	0.2	0.2	0.1
Current Ratio	1.5	2.1	2.1	2.5
ROE	18.3	20.4	15.6	14.2
ROCE	18.5	26.5	20.6	18.8

**Arihant Research Desk**

E. research@arihantcapital.com
T. 022-42254830

Head Office

#1011, Solitaire Corporate park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

research@arihantcapital.com

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of

ARIHANT capital markets ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880

www.arihantcapital.com