

CMP: Rs.145
Target Price: Rs.158
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	33,600
NSE Nifty	10,440

Market Info

Market Capital	Rs2901 cr
Equity Capital	Rs.37.7 cr
6MAvg. Trading Vol.	1,678,649
52 Wk High/ Low	151/104
Face Value	Rs.2

Shareholding Pattern (%)	(Mar 2017)
Promoters	18.9
Domestic Institutions	6.5
Foreign Institutions	43.9
Public & Others	30.7

Price Vs Sensex Chart



Quarter Highlights:

- Q2FY18 USD Revenues at \$ 142 Million, a QoQ growth of 5.5%.
- Q2FY18 INR Revenues at ₹ 916 cr, a Q-o-Q growth of 5.3%.
- Q2FY18 PAT at ₹ 59.7 cr, a QoQ growth of 7.7% and 6.3% YoY.
- CC revenue growth of 4.3% Q-o-Q in Q2 FY18.
- EBITDA margins at 9.85% (9.1% in Q1FY18) after absorption of wage hikes in Q2 FY18.
- Cash Generation continues to be high, Net Cash Balance ₹ 171 cr as at Q2 FY18 end.

Geographical growth:

- The US Geography continues to be the largest geography with a revenue share of 63.6% and during Q2FY18 it grew by 5%. Growth in the US geography was contributed largely by growth in engineering, digital, Oracle and IMS. KPIT has invested in account management over the last 18 months mainly in the US geography and the benefits of these investments are occurring on a consistent basis.
- Europe geography with a revenue share of 18.5%, grew sequentially by 3.7% during the quarter. Europe as a geography was lagging in growth till last year. This year management see a good turnaround and expects the growth momentum to continue in the geography throughout the year, led by engineering, ePLM and digital.
- Asia continues to be the highest growth geography. Asia contributed to 18% of the revenues and posted a growth of 9% in Q2 FY18. Engineering, digital and products and platforms are the higher growth contributing areas in Asia.

Management comments:

- Company saw a good business momentum with H1 growth performance. This puts KPIT in a good position to close the financial year with a double digit growth.
- To focus more on profitability improvement, this will take a couple of quarters for a meaningful and sustainable improvement.
- The growth in Q2FY18 was broad based with Asia leading the growth, followed by US and Europe. KPIT is beginning to see results of the investments made over the last 18 months.
- Management remains fairly positive for the remainder of the year, albeit Q3FY18 will be a flattish quarter due to seasonality.

Outlook:

- Management expects a flat Q3 FY18 and even margins to remain flat due to seasonality, but expects recovery in Q4FY18. With a good pipeline ahead and realisations improving we expect management to perform as per their guidance. The stock is currently trading at PE of 10.1x FY19 earnings; we have a **HOLD** rating on the stock with TP of Rs 158 at 11x PE of FY19 EPS of Rs14.4.

Financials:

Y/E March (Rs. In Crore)	FY17	FY18E	FY19E
Net Revenue	3323	3520	3717
Growth %	3	6	6
EBIDTA	349	360	375
EBIDTA Margin	10.5%	10.2%	10.1%
Net Profit	239	253	271
Growth %	-15.3%	6.1%	7.2%
EPS	12.4	12.5	14.4
P/E	10.4	11.6	10.1

Quarterly Results:

Quarterly Result					
Rs. In Cores	Q2 FY18	Q1FY18	Q2FY17	QoQ%	YoY%
Net Sals	916.0	870.4	831	5%	10%
Total Ependiture	825.8	790.9	740	4%	12%
EBITDA	90.3	79.5	91	14%	-1%
Depreation	19.3	19.0	20	1%	-4%
Interes	2.6	2.6	1	1%	91%
Other lcome	11.4	14.6	5	-22%	132%
PBT	79.8	72.5	75	10%	6%
Tax	19.5	17.0	19	15%	4%
Net Prcit	59.7	55.5	56	8%	6%
EPS	3.2	2.9	2.9	8%	8%
EBITDAMargin(%)	9.9%	9.1%	11.0%	8%	-10%
Net Prcit Margin	6.5%	6.4%	6.8%	2.2%	-3.6%

Source: Company data, Arihant Research

Profit and Loss statement

Particulars (Rs. In Crore)	FY17	FY18E	FY19E
Total Revenue	3323	3520	3717
Growth %	3	6	6
Total Operating Expenses	2975	3159	3341
EBIDTA	349	360	375
EBIDTA Margin	10.5%	10.2%	10.1%
Depreciation	83	73	78
EBIT	266	287	297
Interest	14	10	15
Other Income	21	48	74
PBT	273	325	357
Tax	61	78	86
Minority Interest & other	0	6	0
PAT before Exceptional item	212	253	271
Extraordinary item	26	0	0
Net Profit	239	253	271
Change %	-15%	6%	7%
EPS	12.4	12.5	14.4

Cash Flow Statement

Particulars (Rs. In Crore)	FY17	FY18E	FY19E
Profit before taxes	273	325	357
Add:- Depreciation	83	73	78
Change in Working Capital	142	9	11
Others	-36	-74	-118
Cash generated from operations	462	333	329
Taxes paid	-61	-78	-86
Net cash flow from operating activities	401	255	243
Purchase of fixed assets	-131	-102	-78
Others	-98	-112	-155
Net cash flow from investing activities	-229	-214	-233
Inc/ (Dec) in Equity Capital	17	19	21
Inc/(dec) in Secured loan Fund	-153	-36	-35
Dividend & Dividend tax	-25	-25	-26
Others	0	-30	-30
Net cash used in financing activities	-161	-72	-70
Exchange Difference	0	0	0
Net Cash Flow	11	-31	-60
Closing Cash balance	379	376	316

Balance Sheet

Particulars (Rs. In Crore)	FY17	FY18E	FY19E
Shareholder's funds			
Share Capital	38	38	38
Reserves & Surplus	1545	1766	2011
Total	1582	1804	2048
Minority Interest	2	2	2
Total Non Current Liabilities	170	178	203
Total Current Liabilities	768	798	792
Total Liabilities	2522	2782	3044
Net Block	323	360	360
Capital Work-in-Progress	74	2	2
Goodwill on consolidation	412	371	408
Total Non Current Assets	1058	1242	1411
Cash and bank balance	379	376	316
Total Current Assets	1463	1540	1632
Total Assets	2522	2782	3044

Key Ratios

Particulars	FY17	FY18E	FY19E
EPS	12.4	12.5	14.4
Book Value	80.3	91.5	108.7
DPS	1.1	1.1	1.1
Payout %	8.9	8.8	7.6
Dividend Yield %	0.6	0.6	0.6
P/E	10.4	11.6	10.1
EBIDTA Margin	10%	10%	10%
PBT Margin	8%	9%	10%
PAT Margin	7%	7%	7%
Debt/Equity	0.2	0.2	0.2
Current Ratio	1.9	1.9	2.1
ROE	15.1	14.0	13.2
ROCE	16.8	15.9	14.5

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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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