



KPIT visit update

CMP:	Rs.155
Target Price:	Rs.213
Recommendation:	BUY

Stock Info

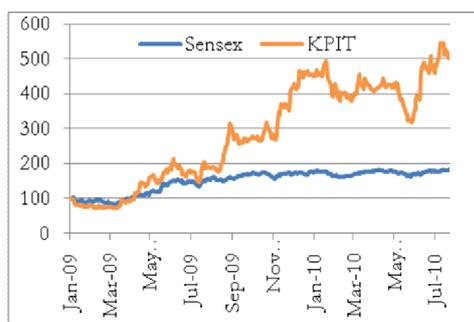
BSE Group	B
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	15881
NSE Nifty	4763

Market Info

Market Capital	Rs.1370cr
Equity Capital	Rs.17.6cr
Avg. Trading Vol.	40204
52 Wk High/ Low	198/130
Face Value	Rs.2

Shareholding Pattern (%) (30th Jun. 2011)

Promoters	26.7
Domestic Institutions	16.7
Foreign Institutions	31.5
Non Promoters Corp.	10.1
Public & Others	15.0
Govt. Holdings	-



15th December, 2011

Meeting Highlights:

We recently had a meeting with the Investor Relation team of KPIT Cummins who apprised us of the current business scenario that the company is witnessing. A brief outline of the meeting is given below:

- Deal pipeline remains strong:** KPIT is witnessing no slowdown, delays or any cancellation in its projects. The company's pipeline remains healthy and they remain confident of doing better than the 23-25% guidance that they had given earlier. The company's clientele is moving ahead with their IT projects and is not holding them back as the nature of projects that KPIT takes up are generally long-term in nature in the sense they involve the projects of companies whose completion are critical to the client's future business growth.
- Europe remains a concern area, US however doing well:** Europe continues to remain an area of concern as KPIT is witnessing flat growth in that region. The only exception is Germany which is still showing growth and is therefore a positive for the company since a major portion of European revenue comes from it. However, France and UK remains comparatively weak in terms of deal flow. US however have started to throw a number of new opportunities as the economy has started to see some signs of revival. The company therefore remains confident that they will be able to post industry leading growth organically in FY13E also.
- Systime integration going well :** The integration with Systime is going on well and the company expects to see better margin in Q3 compared to the previous quarter.
- Margin improvement measures on track:** The company's margin improvement measures are on track and we believe the rupee depreciation will provide further impetus to its margin in Q3FY12. Its SAP division which contributes ~30% remains the main drag on the it's margins. The company believes it will take another year or so to bring its' margin to the rest of the company's level. Nevertheless, the company is seeing strong traction especially in US and the SME segment in the SAP SBU and the deal pipeline remains strong. They also indicated that they expect to increase their top client Cummins' revenue contribution by 10-12% in the coming year—though other clients are expected to show much stronger growth. The company also continue to receive new deals at higher or atleast at par pricing.
- Revolvo on track:** The company has got into advanced discussion with a couple of OEMs who are in the process of testing the solution in their vehicles. The company maintains their plan of commercially launching Revolvo by 2HFY13. The KPIT team is also working on improving the battery life required for the solution and its size.
- Valuations:** KPIT is seeing good traction across its verticals as well as from its top clients. Its strategic acquisition has also started doing well. Though the softness in the European market is a concern, we expect business from US and RoW to make up for it. We believe that the stock currently is available at attractive valuation of 7.6X its FY12E EPS and would therefore recommend a 'BUY' on the stock with a target price of Rs.213 per share.

Financials:

Y/E March (Rs. in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	731.6	1023.0	1370.8	1736.9
<i>Growth %</i>	<i>(7.8)</i>	<i>39.8</i>	<i>34.0</i>	<i>26.7</i>
Net Profit	85.7	94.6	124.9	170.2
<i>Growth %</i>	<i>30.3</i>	<i>10.4</i>	<i>32.0</i>	<i>36.3</i>
EPS	10.7	11.8	15.6	21.2
P/E(x)	14.5	13.2	7.6	7.3
P/BV(x)	3.1	2.1	1.7	1.4
EV/EBITDA(x)	5.3	4.9	2.9	1.9

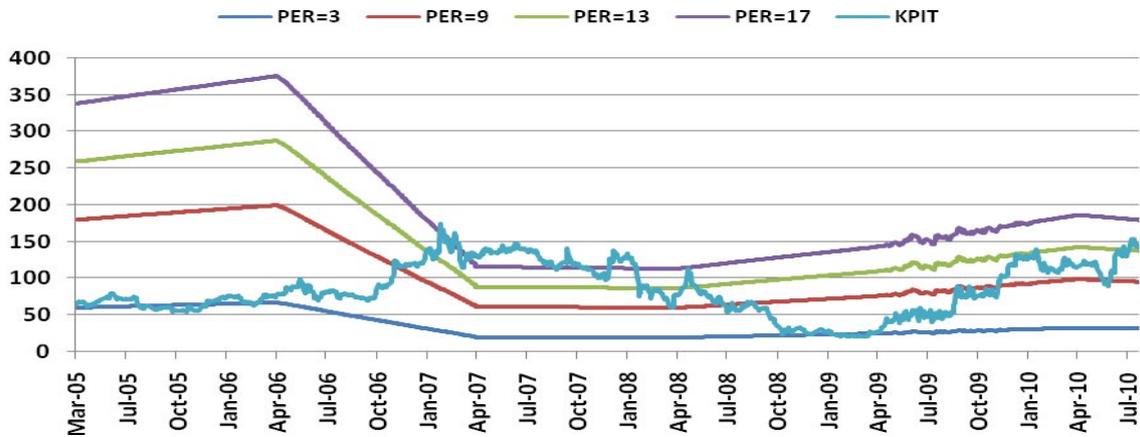
Source: Arihant Research



Quarterly results

Rs in cr.	Q2FY12	Q2FY11	YoY%chng.	Q1FY12	QoQ%chng.
Sales	325.0	234.9	38.3%	316.1	2.8%
Software development expenses	213.2	151.0	41.2%	212.4	0.4%
Gross Profit	111.8	84.0	33.2%	103.7	7.8%
Selling and marketing expenses	25.6	19.3	32.5%	25.9	-1.3%
General and Administration expenses	41.9	28.2	48.3%	38.1	9.9%
Profit before interest,depreciation,tax & Ex gain/(loss)	44.4	36.4	21.8%	39.7	11.7%
Depreciation/Amortisation	11.6	8.4	38.2%	9.4	22.4%
Op. profit before int,excep. items,min. int,ex gain/loss	32.8	28.1	16.9%	30.3	8.3%
Interest and financial expenses,net	1.3	0.3	316.1%	1.0	24.0%
Exceptional items (net of tax)	0.0	0.0	0.0%	0.0	0.0%
Op. profit before tax,excep. items,min. int,ex gain/loss	31.5	27.8	13.6%	29.3	7.8%
Other income	11.0	-0.6	-1964.4%	2.2	391.1%
Profit before tax and minority interest	42.5	27.2	56.5%	31.5	35.0%
Tax expense	8.8	3.4	156.4%	7.1	23.7%
Net profit after tax before minority interest	33.8	23.7	42.1%	24.4	38.3%
<i>Effective tax rate</i>	<i>20.6%</i>	<i>12.6%</i>		<i>22.5%</i>	
Less/Add: min. (profits)/losses to the extent of min. int.(net)	0.1	0.0	0.0%	0.3	0.0%
Share of profit from associates	2.8				
Net profit after minority interest	36.5	23.7	53.6%	24.1	51.4%
EPS	4.1	3.0	36.7%	2.74	49.6%

PE band



Source: Arianth Research



Profit & Loss Statement (consolidated)

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	731.6	1023.0	1370.8	1736.9
YoY%	-7.8	39.8	34.0	26.7
S/w dev. exp.	409.1	659.9	899.6	1056.0
Gross Profit	322.6	363.1	471.2	614.5
Selling & Marketing exp	66.4	76.2	109.5	118.0
G&A expense	94.8	134.6	167.9	178.0
Other exp.	-	-	-	30.0
EBIDTA	161.5	152.2	193.7	288.5
EBIDTA%	22.1	14.9	14.1	16.6
Interest	2.7	1.3	2.9	1.2
Depreciation	30.8	41.1	44.9	52.0
Other income	-25.3	-0.5	13.4	20.0
PBT & ex. item	102.7	110.3	159.3	255.3
Tax	16.9	15.5	37.2	64.0
Effective tax rate%	16.5	14.1	23.3	25.1
Exceptional item	0.0	0.0	0.0	0.0
Profit before minority int.	85.7	94.8	122.1	191.3
Minority int.	0.04	0.2	0.7	21.0
Share of pft from associates	-	-	3.5	-
Net Profit	85.7	94.6	124.9	170.2
YoY%	30.3	10.3	32.0	36.3

Balance Sheet (consolidated)

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Shareholder's fund:				
Equity Capital	15.71	17.6	17.6	17.6
Reserve & Surplus	371.4	585.6	726.8	875.0
Total Loans	110.8	110.5	110.0	110.0
Minority Interest	0.0	0.9	0.9	0.9
Deferred tax	5.1	5.5	5.5	5.5
Total Liabilities	502.9	720.1	860.7	1008.6
Application of funds:				
Goodwill	94.9	129.9	129.9	129.9
Gross Block	251.4	294.1	366.1	444.1
Less Acc. Dep.	127.8	167.8	212.8	264.8
Net Block	123.6	126.3	153.4	179.4
CWP	28.6	31.7	31.7	31.7
Investments	74.6	47.6	77.6	77.6
Sundry Debtors	138.8	252.6	296.1	356.9
Cash & bank balance	105.2	209.6	278.9	356.1
Loans & advances	67.7	109.7	142.0	162.0
Current Liabilities	107.6	163.7	216.1	248.2
Provisions	22.9	23.8	33.0	37.0
Net Current Assets	181.1	384.4	468.0	589.9
Total Asset	502.9	720.1	860.7	1008.6

Cash Flow Statement (consolidated)

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax	102.7	110.3	159.3	255.3
Add: Depreciation	30.8	41.1	44.9	52.0
Int. & financial charges	6.7	4.2	2.9	1.2
Other items	5.7	-8.4	8.9	11.2
(Inc.)/Dec. in WC	-16.9	-69.0	-55.7	-68.7
Cash generated frm Operation	128.9	78.1	160.4	250.9
Direct Tax Paid	-21.3	-24.9	-37.2	-64.0
Net Cash From Oper. Act	107.6	53.2	123.2	186.9
(Inc)/ Dec in FA	-23.8	-46.9	-72.0	-78.0
(Inc)/Dec in investments	-74.7	27.1	-30.0	0.0
Other items	-45.0	-36.7	-100.9	-47.9
Net Cash From Investing. Act.	-143.5	-56.5	-202.9	-125.9
Interest & financial charges	-6.8	-4.2	-2.9	-1.2
Dividend Paid	-5.5	-6.4	-6.4	-6.4
(Inc.)/Dec in WC loan	20.3	12.8	-3.0	-31.1
Other items	-21.3	102.3	163.6	54.9
Net Cash from Financing Act.	-13.3	104.4	151.3	16.1
Effect of change in exchange	-2.0	3.1	0.0	0.0
Net Cash Inflow/ (outflow)	-54.9	104.2	71.6	77.2
Cash at beginning	167.1	103.2	207.4	278.9
Net Cash carried forward	103.2	207.4	278.9	356.1

Ratios

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Performance Ratios				
EBIDTA %	22.1	14.9	14.1	16.6
Net Profit %	11.7	9.3	9.1	9.8
Sales per share (SPS)	93.6	127.2	170.4	215.9
Price/SPS	1.7	1.2	0.9	0.7
Dividend %	35.0	35.0	35.0	35.0
Cash per share	13.5	26.1	34.7	44.3
Assets Turnover	1.5	1.4	1.6	1.7
Du Pont Analysis				
PAT / Net Sales	0.1	0.1	0.1	0.1
Net Sales / Assets	1.5	1.4	1.6	1.7
Assets / Equity	1.3	1.2	1.2	1.1
ROE %	22.1	15.7	16.8	19.1
Valuation Ratios				
Diluted EPS	10.3	11.4	15.0	20.5
Cash EPS	14.9	16.9	21.1	27.6
P/E	14.5	13.2	7.6	7.3
P/BV	3.1	2.1	1.7	1.4
EV/ EBIDTA	5.3	4.9	2.9	1.9
EV/ Sales	1.2	0.7	0.5	0.3
ROCE	32.1	21.1	22.5	28.6

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Stock Rating Scale

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

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