

Result update	BUY
CMP	132
Target Price	145
Previous Target Price	145
Upside	10%
Change from Previous	0

Market Data	
BSE Code	532400
NSE Symbol	KPIT
52wk Range H/L	142/92
Mkt Capital (Rs Crores)	2548
Average Daily Volume	144511
Nifty	5991

Stock Performance	1M	1yr	YTD
Absolute	9.9	7.9	3.3
Rel. to Nifty	4.2	-9.1	-10.7

Share Holding Pattern-%	Current	4QFY13	3QFY13
Promoters	24.3	24.3	26.2
FII	30.8	30.3	26.7
DII	11.80	10.7	13.6
Others	33.1	34.6	33.5



*KPIT reported inline numbers, and margin declined impacted by wage hike*

The company witnessed sales growth by 7.6% (QoQ) in Q1FY14, led by mixed performance across the segments with the US and Europe regions including UK market performed relatively better. PAT grew by 17.4% on QoQ basis.

KPIT expects to close some more deals in next quarter, which will again drive growth and expects the company's growth to be stronger in the 2H FY14.

Company expects better earnings, confident of generating a positive cash flow for FY14, after considering the balance payments for the existing M&A deals.

**On Margin front:** During the quarter, its EBITDA margin down by 200bps to 15.75%, impacted by full quarters wage hike, employee cost on sales increased to 54% from 50% (Q4FY13). The positive impact on margin by currency depreciation added around 150bps PAT margin improved by 90bps to 9.8% on sequential basis.

**On vertical metrics,** Manufacturing and Energy & Utilities performed healthy growth with 21% and 13% sequentially; both contribute 40% and 14% of sales. While, Automotive & Transportation (contributes 36% of sales) inched down by 0.7% and other vertical declined by 9% on QoQ basis.

**Geographical revenue:** Across the geography, revenue from US increased by 6% and Europe including UK grew by 24% on sequential basis, on the back of robust deal pipeline. During the quarter company added functional safety practice by acquiring a small business named IKV with revenue potential of Euro 1.2mn.

#### key facts from Concall:

- (1) The management is confident to report USD Revenue for FY14 to be in the range of USD 465 Mn to USD 475 Mn, and expects better H2FY14E than H1FY14E,
- (2) INR PAT for FY14 to be in the range of INR 2,309 Mn to INR 2,388 Mn,
- (3) Confident of generating a positive cash flow for FY14, after considering the balance payments for the existing M&A deals.

Despite of all previous ups and down in IT sector, global demand environment is on the way of recovery and growth. Impressive organic growth despite inorganic thrust (acquired 10 companies in the last 10 yrs), Potential option value from success of its hybrid engine venture Revolo (on trial).

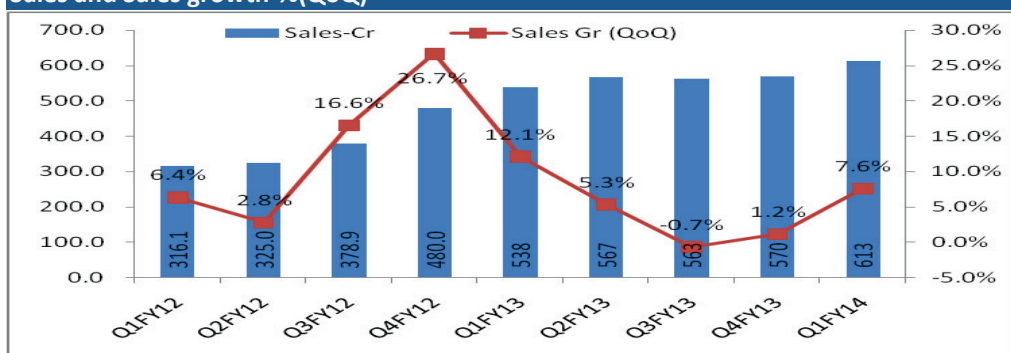
We continue to prefer KPIT's differentiated positioning and competitive edge in its focus areas, imperatives to the success of smaller-sized IT vendors. We expect KPIT to grow its revenues at a CAGR of 24% over FY12-14. The stock trades at 10.7x FY14E EPS. Maintain Buy, with a target price of Rs145.

Financials	Rs, Crore				
	1QFY14	4QFY13	(QoQ)-%	1QFY13	(YoY)-%
Revenue	613.21	569.86	7.6	538.26	13.9
EBITDA	96.6	101.3	(4.6)	80.64	19.8
PAT	60.1	51.2	17.4	45.93	30.9
EBITDA Margin	15.8%	17.8%	(200bps)	15.0%	80bps
PAT Margin	9.8%	9.0%	80bps	8.5%	130bps

(Source: Company/Eastwind)

# KPIT Cummins.

## Sales and Sales growth-%(QoQ)

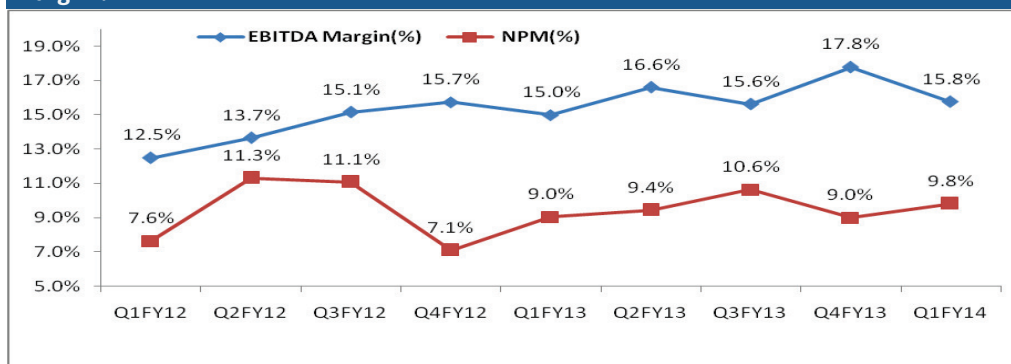


(Source: Company/Eastwind)

## Sales Mix

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
<b>Sales Mix (% of Sales) - Geography</b>						
USA	73.3%	76.2%	76.4%	74.7%	76.3%	75.0%
UK & Europe	14.4%	14.6%	12.1%	13.9%	11.3%	13.1%
RoW	12.3%	9.2%	11.6%	11.4%	12.3%	11.9%
<b>Sales Mix (% of Sales) - Verciles</b>						
Automotive & Transportation	37.1%	39.6%	38.8%	40.3%	38.5%	35.5%
Manufacturing	35.0%	32.9%	32.4%	34.0%	35.4%	39.6%
Energy & Utilities	11.6%	13.7%	15.3%	14.2%	13.5%	14.1%
Others	16.4%	13.8%	13.5%	11.5%	12.7%	10.8%

## Margin-%



(Source: Company/Eastwind)

**Revolvo:** The unit has been in the process of conducting trials in 40 vehicles, which has been yielding encouraging results, with fuel savings between 30-40%. KPIT is working to bring the costs down further and attaining regulatory approvals. As per the management, by next year it could be a part of revenue.

**Revenue from Cummins:** Revenue from top client Cummins increased by 8.7% QoQ to USD19.02m (17% of Revenue). while top five accounts contributes 39% and top 10 accounts 47% of sales.

# KPIT Cummins.

## Operating Metrics

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
<b>Client Metrics</b>						
No. of Customers Added	4	3	4	2	5	6
No. of Active Customers	169	172	176	178	183	189
Customers with run rate of >\$1Mn	59	65	69	72	78	78
<b>Client Concentration</b>						
Top Client – Cummins	19.5%	20.6%	19.7%	19.1%	16.6%	16.8%
Top 5 Clients	33.0%	36.3%	35.2%	36.8%	35.2%	38.6%
Top 10 Clients	42.2%	44.0%	43.7%	45.2%	44.0%	47.3%
DSO	90	75	75	70	75	77
<b>Employee Metrics</b>						
Total Employee	7719	7873	8111	8286	8321	8456
Onsite Utilization	94.5%	94.7%	94.5%	92.8%	94.3%	94.2%
Offshore Utilization	74.3%	74.1%	74.7%	72.9%	74.1%	73.4%

## Operating Metrics

Rs, Cr	FY10	FY11	FY12	FY13	FY14E	FY15E
Net Sales-USD	153.76	224.07	306.71	410.46	475.00	608.00
Net Sales	731.64	987.05	1500.00	2238.63	2636.25	3344.00
Employee Cost	265.92	529.95	771.78	1140.79	1357.67	1755.60
Other expenses	304.70	308.82	511.97	762.32	869.96	1120.24
Total Expenses	570.62	838.77	1283.75	1903.11	2227.63	2875.84
EBITDA	161.02	148.28	216.25	335.52	408.62	468.16
Depreciation	30.80	41.12	44.49	47.16	61.97	87.77
Other Income	1.20	6.74	13.82	11.74	13.18	12.5
Extra Ordinary Items	-26.45	0.00	10.05	-1.30	-18.04	16.72
EBIT	130.22	107.16	171.76	288.36	346.65	380.39
Interest Cost	2.74	3.78	7.32	13.99	15.15	18.52
PBT	102.23	110.12	188.31	284.81	326.64	412.03
Tax	16.91	15.49	43.67	76.55	88.19	113.31
PAT	85.32	94.63	144.64	208.26	238.45	298.72
PAT (excluding EO Items)	111.77	94.63	134.59	209.56	256.49	282.00
<b>Growth-%</b>						
Sales	-7.8%	34.9%	52.0%	49.2%	17.8%	26.8%
EBITDA	-12.2%	-7.9%	45.8%	55.2%	21.8%	14.6%
PAT	129.4%	10.9%	52.8%	44.0%	14.5%	25.3%
<b>Margin -%</b>						
EBITDA	22.0%	15.0%	14.4%	15.0%	15.5%	14.0%
EBIT	17.8%	10.9%	11.5%	12.9%	13.1%	11.4%
PAT	11.7%	9.6%	9.6%	9.3%	9.0%	8.9%
<b>Expenses on Sales-%</b>						
Employee Cost	36.3%	53.7%	51.5%	51.0%	51.5%	52.5%
other expenses	41.6%	31.3%	34.1%	34.1%	33.0%	33.5%
Tax rate	16.5%	14.1%	23.2%	26.9%	27.0%	27.5%
<b>Valuation</b>						
CMP	115.00	168.05	122.90	99.00	132.00	132.00
No of Share	7.90	8.70	17.80	19.28	19.28	19.28
NW	387.11	603.19	712.55	1036.23	1258.89	1535.06
EPS	10.80	10.88	8.13	10.80	12.37	15.49
BVPS	49.00	69.33	40.03	53.75	65.30	79.62
RoE-%	22.0%	15.7%	20.3%	20.1%	18.9%	19.5%
Dividen Payout ratio	6.4%	6.8%	4.9%	7.9%	6.6%	7.6%
P/BV	2.35	2.42	3.07	1.84	2.02	1.66
P/E	10.65	15.45	15.12	9.17	10.67	8.52

(Source: Company/Eastwind)