

KPIT

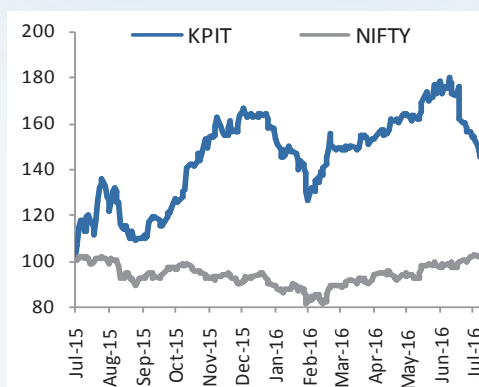
Result Update	
CMP	137
Target Price	143
Previous Target Price	
Upside	4%
Change from Previous	

Market Data	
BSE Code	532400
NSE Symbol	KPIT
52wk Range H/L	196.85/98
Mkt Capital (Rs Cr)	27.07B
Av. Volume	211673
Nifty	8,565.85

Stock Performance			
	1Month	1Year	YTD
Absolute	-29.5	19.7	41.7
Rel.to Nifty	-33.9	20.2	40.4

Share Holding Pattern-%			
	Jun-16	Mar-16	Dec-15
Promoters	16.7	16.8	17.3
Public	78.4	78.3	77.76
Others	4.9	4.9	
Total	100.0	100.0	100.0

Company Vs NIFTY



1QFY17 Result :

KPIT's 1QFY17 revenue declined by 3.5% QoQ to USD 120 Mn, after giving pre-quarter warning on 30th June, 2016 that expect drop in revenue of around 4% in 1QFY17 with a consequent drop in profit. The revenue decline was led by aggravated weakness at its top client (-12% QoQ), pressure in Product Engineering and Energy verticals, and ERP implementation.

In Pre-Quarter warning, Management said:

>> The company is going through internal changes in structure as well as external changes in the business environment.
>> The company's traditional revenue from ERP implementations are affected more than anticipated earlier, where as in good traction in cloud and digital

Tepid EBITDA Margin:

In 1QFY17, EBITDA Margin fall to 10.7% from 15.7% due to wage due to factors such as wage hikes effective April 1, 2016 and growth investments it has made. Margins were impacted because of
>> 3.5% revenue decline
>> Wage hikes (-250bp)
>> Higher investments in the form of addition of 30 account managers.

Weakness aggravates in top client:

Revenues from the top client declined by 12.3% QoQ during the quarter. The account has been under pressure for the last five quarters now, although bulk of the decline has been in 1Q. The outlook for growth in the top client remains subdued given the difficulties Cummins is facing in multiple areas.

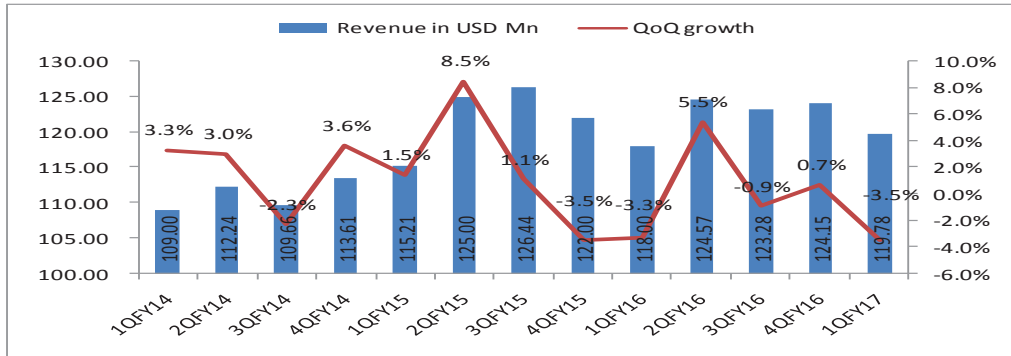
Outlook and Valuation:

We are conservative on margin front due to continuously investment and multiple pressure points. We give "Neutral" rating at the Target Price of Rs. 143 due to sluggish revenue growth momentum and consequent volatility in profits.

	Rs Crore				
Financials	FY13	FY14	FY15	FY16	FY17E
Sales	2239	2694	2990	3224	3285
EBITDA	336	378	324	435	513
Net Profit	199	249	237	281	362
EBITDA%	15.0%	14.0%	10.9%	13.5%	15.6%
P/E	9.4	12.5	15.6	10.1	7.4

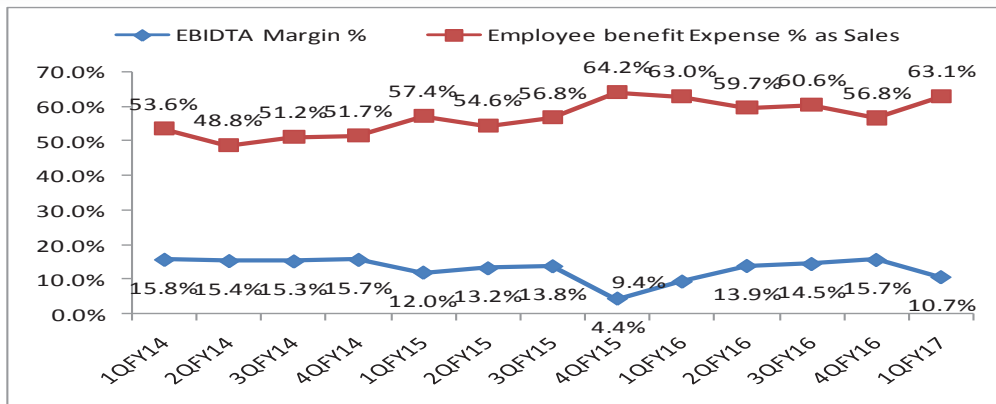
(Source: Company/Eastwind)

QoQ Revenue growth



In 1QFY17, Revenue decline on pressures in top account and Product Engineering

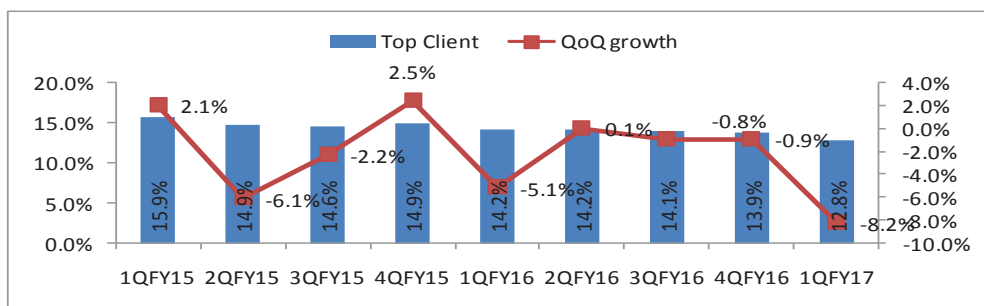
EBITDA Margin



In 1QFY17, Revenue decline and wage hike impact margins

Weakness aggravates in top client:

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Top Client	15.86%	14.90%	14.57%	14.93%	14.17%	14.18%	14.06%	13.94%	12.80%
Top 5 Client	34.37%	32.08%	28.57%	30.05%	30.73%	29.72%	27.21%	26.77%	28.11%
Top 10 Client	45.08%	42.80%	39.43%	41.57%	42.23%	41.51%	39.43%	39.28%	40.32%



Revenues from the top client declined by 8.2% QoQ during the quarter.

Investment Arguments:

- >>> Revenue growth is sluggish from past 3-4 quarters due to drop in product & platform segment and decline in top clients.
- >>> Client has reduced spending on ERP implementations and pressure in the Product Engineering business.
- >>> Revenues from the top client has been under pressure for the last five quarters now, although bulk of the decline has been in 1Q. The outlook for growth in the top client remains subdued given the difficulties Cummins is facing in multiple areas.
- >>> KPIT has a sharp focus on Automotive Engineering Services, where it has seen sustained growth over the last few years

Management Commentary :

- >> In 2QFY17, Management expect flat revenue growth over 1QFY17.
- >> FY17 revenue growth should be lower than FY16 due to huge investment in Digital.
- >> Revenue from digital to grow in future.
- >> Management indicated that pressure in both product engineering and in ERP implementations.
- >> Top client remains subdued given the difficulties Cummins is facing in multiple areas.

Key Triggers

- >> Improved revenue growth outlook and consistency from segments
- >> Progress on and acceleration in performance in ITS and Revolo
- >> Reflection of growth measures in financial performance

Key Risk

- >> Continued sluggishness in revenue growth
- >> Risk from increasing adoption of cloud based Oracle services
- >> Failure to resurrect profitability

About Company

KPIT Technologies Limited is an India-based provider of software development, IT consulting and product engineering solutions. The Company offers solutions to automotive and transportation, manufacturing and energy, and utilities verticals. The Company is also engaged in the production of integrated systems product engineering solutions. With over USD463m revenue (LTM) and 9,933 employees, company continues to focus on its chosen areas to grow, with equal thrust on organic and inorganic approaches

Financials Snap Shot

	INCOME STATEMENT			
	FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	2694	2990	3224	3285
Other Income	33	35	25	33
Total Revenue	2727	3025	3249	3318
COGS	3	85	13	12
GPM	0.00	0.03	0.00	0.00
Other Expenses	471	426	459	493
EBITDA	378	324	435	513
EBITDA Margin (%)	14%	11%	14%	16%
Depreciation	54	85	69	66
EBIT	324	239	366	447
Interest	26	26	15	16
PBT	331	248	376	464
Tax	94	11	83	101
Tax Rate (%)	28%	5%	22%	22%
Reported PAT	249	237	281	362
Dividend Paid	20	25	25	25
No. of Shares (In crore)	19	20	20	20

Source: Eastwind/Company

	FY14	FY15	FY16	FY17E
Share Capital	37	38	38	38
Reserves	1237	1258	1343	1595
Net Worth	1274	1295	1381	1632
Long term Debt	130	78	167	184
Short term Debt	309	368	50	50
Deferred Tax	0	0	0	0
Total Capital Employed	1404	1373	1548	1816
Net Fixed Assets	216	233	285	351
Capital WIP	2	3	0	0
Debtors	674	698	686	767
Cash & Bank Balances	191	364	395	537
Trade payables	102	131	123	144
Total Provisions	81	103	145	145
Net Current Assets	804	829	732	941
Total Assets	2123	2270	2195	2497

Source: Eastwind/Company

	RATIOS			
	FY14	FY15	FY16	FY17E
EPS	12.8	12.1	14.3	18.4
Book Value	65.6	65.9	69.9	82.7
DPS	1.1	1.3	1.3	1.3
Payout (incl. Div. Tax.)	8%	11%	9%	7%
Valuation(x)				
P/E	12.5	15.6	10.1	7.4
Price / Book Value	2.5	2.9	2.1	1.6
Dividend Yield (%)	0.65%	0.68%	0.90%	0.95%
Profitability Ratios				
RoE	20%	18%	20%	22%
RoCE	23%	17%	24%	25%
Turnover Ratios				
Asset Turnover (x)	1.3	1.3	1.5	1.3
Debtors (No. of Days)	91.4	85.2	85.2	0.0
Inventory (No. of Days)	486.2	98.1	1201.7	0.0
Creditors (No. of Days)	13.8	16.0	16.0	0.0
Net Debt/Equity (x)	0.10	0.06	0.12	0.11

Source: Eastwind/Company

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	343	248	376	464
Depreciation	54	85	69	66
Direct Taxes Paid	129	11	83	101
Operating profit before w	405	427	551	529
CF from Op. Activity	103	406	529	361
	146	11	0	0
Capital expenditure on fix	69	102	121	131
CF from Inv. Activity	191	24	52	131
Repayment of Long Term	18	52	0	0
Interest Paid	18	26	(1)	0
Divd Paid (incl Tax)	20	25	25	25
CF from Fin. Activity	79	(45)	(254)	(9)
Inc/(Dec) in Cash	(9)	385	224	221
Add: Opening Balance	189	191	364	395
Closing Balance	181	576	587	616

Source: Eastwind/Company