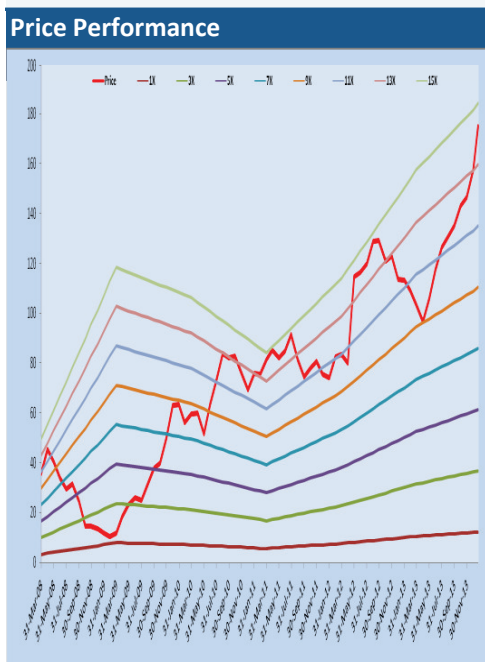


Result update	Neutral
CMP	151
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	532400
NSE Symbol	KPIT
52wk Range H/L	189/92
Mkt Capital (Rs Crores)	2910
Average Daily Volume	144511
Nifty	6267

Stock Performance	1M	1yr	YTD
Absolute	-7.95	32.66	-17.1
Rel. to Nifty	-7.65	29.16	-18.32

Share Holding Pattern-%	Current	2QFY14	1QFY14
Promoters	22.53	22.87	24.25
FII	41.96	36.42	32.79
DII	6.99	11.12	10.93
Others	28.52	29.59	32.03



KPIT Tech witnessed weak numbers, now..they will miss its earning guidance; KPIT Technologies Ltd revealed its 3QFY14 earnings with below than expectation, sales declined by 3.5%(QoQ) in INR term and 2.3%(QoQ) in USD term due to the delay in project kick-off and additional loss of billing days in Q3FY14. Despite cost optimization strategy by company, PAT dip by 9% (QoQ).

Now, Company will be in the position of short with its annual revenue guidance. The shortfall in the revenue is entirely because of deficit in SAP SBU revenue for FY14. However, on profit they are confident to exceed the higher end of the guidance despite the challenges faced on SAP SBU profitability.

The company expects better earnings, confident of generating a positive cash flow for FY14E, after considering the balance payments for existing M&A deals.

Steady set of margin: EBITDA margin almost flat at 15.3% and PAT margin declined by 50bps to 9%, sequentially. Commenting on margin, management stated that the higher margin growth business coming up apart from revenue growth would improve the margins going ahead. By next couple of quarter margin from SAP business would inch up.

Growth inside the Europe: Europe region has been the leading growth market with 9.1%. During the quarter, USA had a marginal de-growth in USD terms and APAC declined by 18%(QoQ) because of seasonality and furloughs impact. In INR terms, Europe grew by 7.7%, US down by 2.5% and APAC 19.4%, on QoQ.

Mix growth across verticals: On INR basis, KPIT reported 8% of growth from Energy & Utilities (15% contribution on sales), while Manufacturing (39% contribution on sales) down by 4%(QoQ) and Automotive & Transport-(36% contribution on sales) down by 1.5%, sequentially.

Deal Momentum: There has been good momentum during Q3 across the business lines in terms of deal closure and pipeline building. Though in 3 large deals there has been almost a quarter's delay in closure, two in SAP and one in A&E, that got closed during Q3. Company closed large deals in excess of USD 70 million during the quarter, which provides a sound platform, going into FY15E.

View and Valuation: 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). KPIT has targeted to reach \$1bn sales by 2017. Its differentiated positioning and competitive edge in its focus areas, imperatives to the success of smaller-sized IT vendors impress to investors.

Considering delay executions of some projects for next 2 quarters and ongoing change in organization structure, we have a "Neutral" view on the stock. Already we had advised to book profit on 8th Jan 2014 at a target price of Rs177(Initiated at Rs115). Our view on the stock could be change after favorable update on stock and healthy earning guidance for FY15E. At a CMP of Rs151, stock trades at 9x FY15E EPS.

Financials	Rs, Crore				
	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	677.93	702.76	(3.5)	567.02	19.6
EBITDA	103.5	108.1	(4.3)	94.1	10.0
PAT	66.7	66.7	0.0	48	39.0
EBITDA Margin	15.3%	15.4%	(10bps)	16.6%	(130bps)
PAT Margin	9.8%	9.5%	30bps	8.5%	130bps

KPIT Tech

Sales and Sales growth-%(QoQ)

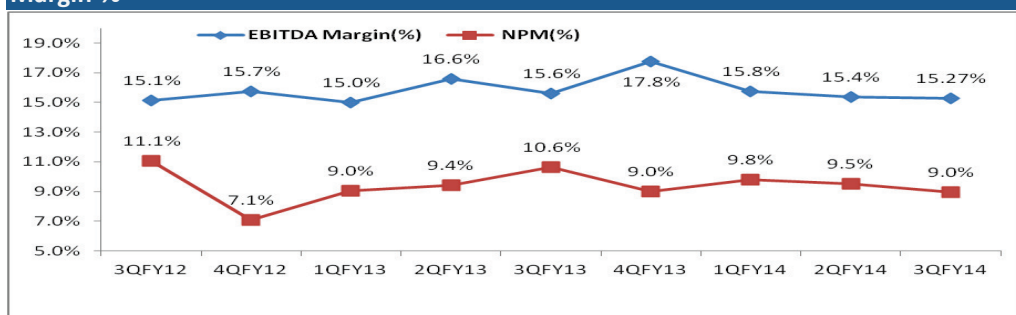


(Source: Company/Eastwind)

Sales Mix

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Sales Mix (% of Sales) - Geography								
USA	73.3%	76.2%	76.4%	74.7%	76.3%	75.0%	71.9%	72.6%
UK & Europe	14.4%	14.6%	12.1%	13.9%	11.3%	13.1%	13.8%	15.4%
RoW	12.3%	9.2%	11.6%	11.4%	12.3%	11.9%	14.4%	12.0%
Sales Mix (% of Sales) - Verticles								
Automotive & Transportation	37.1%	39.6%	38.8%	40.3%	38.5%	35.5%	36.1%	36.4%
Manufacturing	35.0%	32.9%	32.4%	34.0%	35.4%	39.6%	39.7%	38.9%
Energy & Utilities	11.6%	13.7%	15.3%	14.2%	13.5%	14.1%	13.6%	15.1%
Others	16.4%	13.8%	13.5%	11.5%	12.7%	10.8%	10.7%	9.7%

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.

Client Metrics: Amongst the top customer accounts, Cummins has grown by 4.7% on a Q-o-Q basis with revenue share at 17.9% during the quarter. The top 5 and top 10 customers had Q-o-Q decline of 3.2% and 1% respectively.

Headcounts Metrics: During the quarter, Considering the ramp up of deals, this quarter was good for hiring prospect, adding around 300+ people during the quarter. Over the next few quarters, we expect, company will introduce multiple initiatives to develop individuals to take on more responsibilities in future. During the quarter, Attrition at 18% (LTM).

KPIT Tech

Operating Metrics

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Client Metrics								
No. of Customers Added	4	3	4	2	5	6	3	3
No. of Active Customers	169	172	176	178	183	189	192	195
Customers with run rate of >\$1Mn	59	65	69	72	78	78	78	78
Client Concentration								
Top Client – Cummins	19.5%	20.6%	19.7%	19.1%	16.6%	16.8%	16.5%	17.9%
Top 5 Clients	33.0%	36.3%	35.2%	36.8%	35.2%	38.6%	38.0%	38.2%
Top 10 Clients	42.2%	44.0%	43.7%	45.2%	44.0%	47.3%	46.3%	47.6%
DSO	90	75	75	70	75	77	75	76
Employee Metrics								
Total Employee	7719	7873	8111	8286	8321	8456	8816	9136
Onsite Utilization	94.5%	94.7%	94.5%	92.8%	94.3%	94.2%	92.4%	88.1%
Offshore Utilization	74.3%	74.1%	74.7%	72.9%	74.1%	73.4%	72.9%	71.3%

Financials

Rs, Cr	FY10	FY11	FY12	FY13	FY14E	FY15E
Net Sales-USD	153.76	224.07	306.71	410.46	449.39	543.42
Net Sales	731.64	987.05	1500.00	2238.63	2696.33	3233.33
Employee Cost	265.92	529.95	771.78	1140.79	1367.04	1649.00
Other expenses	280.65	254.81	430.30	762.32	903.27	1067.00
Total Expenses	570.62	838.77	1283.75	1903.11	2270.31	2715.99
EBITDA	161.02	148.28	216.25	335.52	426.02	517.33
Depreciation	30.80	41.12	44.49	47.16	58.32	77.73
Other Income	1.20	6.74	13.82	11.74	13.48	16.17
Extra Ordinary Items	-26.45	0.00	10.05	-1.30	-18.61	16.17
EBIT	130.22	107.16	171.76	288.36	367.70	439.60
Interest Cost	2.74	3.78	7.32	13.99	24.31	24.59
PBT	102.23	110.12	188.31	284.81	338.26	447.35
Tax	16.91	15.49	43.67	76.55	94.71	123.02
PAT	85.32	94.63	144.64	208.26	243.55	324.33
PAT (excluding EO Items)	111.77	94.63	134.59	209.56	262.16	308.16
Growth-%						
Sales	-7.8%	34.9%	52.0%	49.2%	20.4%	19.9%
EBITDA	-12.2%	-7.9%	45.8%	55.2%	27.0%	21.4%
PAT	129.4%	10.9%	52.8%	44.0%	16.9%	33.2%
Margin -%						
EBITDA	22.0%	15.0%	14.4%	15.0%	15.8%	16.0%
EBIT	17.8%	10.9%	11.5%	12.9%	13.6%	13.6%
PAT	11.7%	9.6%	9.6%	9.3%	9.0%	10.0%
Expenses on Sales-%						
Employee Cost	36.3%	53.7%	51.5%	51.0%	50.7%	51.0%
Other Exp	38.4%	25.8%	28.7%	34.1%	33.5%	33.0%
Tax rate	16.5%	14.1%	23.2%	26.9%	28.0%	27.5%
Valuation						
CMP	115.00	168.05	122.90	99.00	151.00	151.00
No of Share	7.90	8.70	17.80	19.28	19.28	19.28
NW	387.11	603.19	712.55	1036.23	1263.99	1565.76
EPS	10.80	10.88	8.13	10.80	12.63	16.82
BVPS	49.00	69.33	40.03	53.75	65.56	81.21
RoE-%	22.0%	15.7%	20.3%	20.1%	19.3%	20.7%
Dividen Payout ratio	6.4%	6.8%	4.9%	7.9%	6.5%	7.0%
P/BV	2.35	2.42	3.07	1.84	2.30	1.86
P/E	10.65	15.45	15.12	9.17	11.95	8.98

(Source: Company/Eastwind)