KPIT Cummins Infosystems Ltd.

KPIT Cummins Reported Q2 FY13 earnings better than street expectations with 5% (QoQ) top line growth (*Figure: 1.1*) led by 3% Automotive & Transportation growth (contributes 39% of sales), 4% manufacturing (contributes 32% of Sales), and 17% Energy & Utilities (contributes 24% of Sales). On geographical front, revenue from US increased 6% growth (contributes 76% of revenue), while Europe reduced by 13% (contributes 12% of Sales) on a sequential basis. Company's improved its margin by 160 bps to 16.6%, on account of operational efficiencies, all leading to PAT growing by 10% on QoQ basis. The net impact of translation of foreign currency denominated assets and liabilities resulted in forex loss during the quarter.

Client matrix has also improved in a positive manner; the number of clients greater than $1mn has increased to 69 against 65 clients of Q1FY13. Company added around 4 new clients to 176 as against 3 clients added in the first quarter of FY13. During the quarter company's revenue per clients *(Figure 1.2)* increased to Rs 3.22cr from Rs 3.13cr (Q1FY13) and Rs 1.99cr (Q2FY12). Debtor Sales Outstanding (DSO) was unchanged to 75days on sequential basis, but at the end of FY12 it was 107 days. Now, DSO is on declining trend *(Detail on Figure 1.3).* Company and its subsidiaries made a net addition of 238 employees during the quarter taking the total headcount to 8111 employees as on September 30, 2012.

The cash balance as on September 30, 2012 stood at Rs 185cr as compared to Rs195cr as on June 30, 2012. Capital expenditure for the quarter stood at Rs7.84cr including CWIP. During the Quarter Company acquired additional 17.5% stake in SYSTIME for which the consideration was Rs 39cr, net loan repayments during the quarter were Rs 8.3cr. For FY13E, cash per share has reported unchanged to Rs 8 on LTM basis**.**

KPIT Cummins is participating in various working groups as a part of National Electric Mobility Mission, Recently, announced by government for which approximately Rs 23,000cr funds are being set aside for demand creation, infrastructure creation and Research & Development. Company has received consistent and positive feedback on the performance of REVOLO from the volunteers of mass vehicle trial program. Company is on track to achieve the successful launch of these vehicle trials by the end of this calendar year.

On the back of a good H1 performance and a strong pipeline, company expects to report a revenue growth of 36-39% and 15-20% PAT growth with more than 15% of EBITDA margin for FY13E, we maintain our annual guidance. However, lesser number of working days in Q3 FY 13 might impact revenue performance during the period. At a CMP of Rs 120, stock trades at 12x FY13E earnings, we recommend BUY with a Price target of Rs 145. The triggers we believe are timely operation of Revolo as guided by the management in near future and meaningful acquisitions in FY13/FY14.

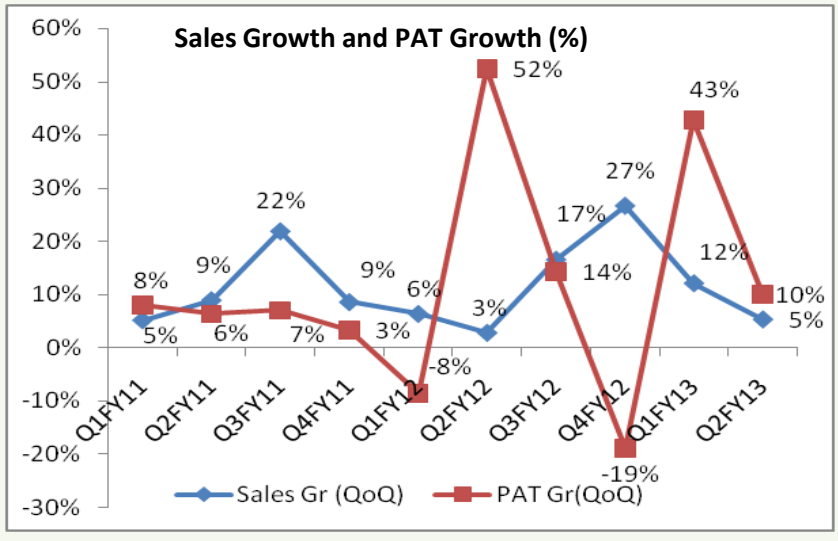

Figure: 1.1 (Source: Eastwind)

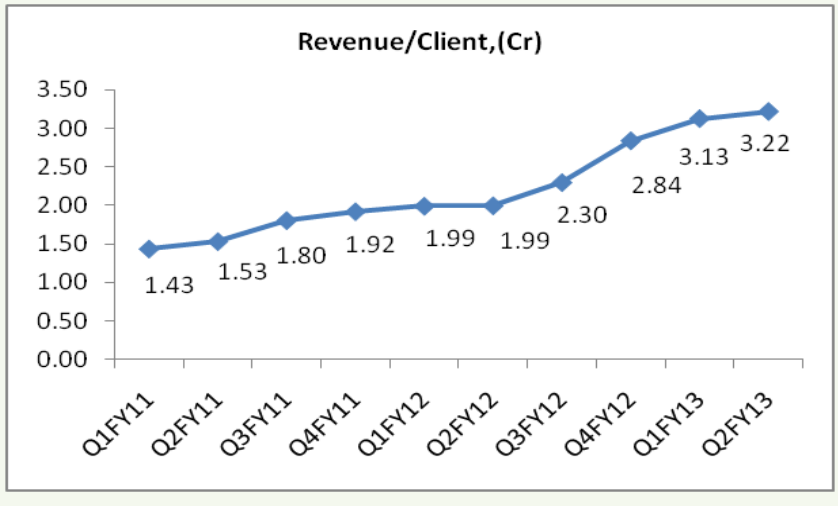

Figure: 1.2 (Source: Eastwind)

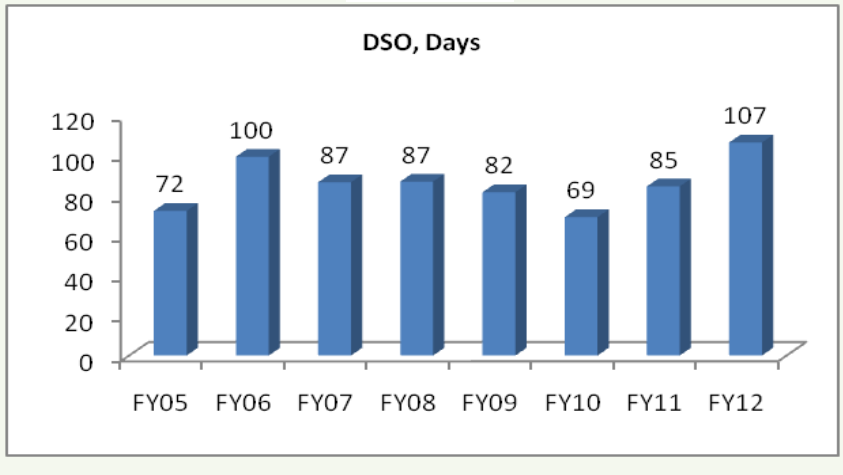

Figure: 1.3

(Source: Eastwind)