

**KPIT Cummins: Story intact for now.....**

KPIT Cummins registered better numbers and revised its guidance for FY13E

Company witnessed 12% (QoQ) PAT growth, while Sales was down by 1% because of loss on nuted realization. On USD term, company's revenue was flat. As typically is the case with Q3 of any financial year, due to comparatively more holidays and leaves, both at offshore and onsite, there was a loss of 2-3 billing days on an average, across the organization.

**On Geographical front:** During the quarter, company's revenue from US (contributes 75% of sales) declined by 2.8%, Europe (contributes 14% of sales) up by 14.4%.

**On Vertical Metrics:** Company's major Segments Auto & Transportation (Contributes 40% of sales) and Manufacturing (contributes 34% of sales) increased by 3% and 4%, while Energy & Utilities were down by 7.8% sequentially.

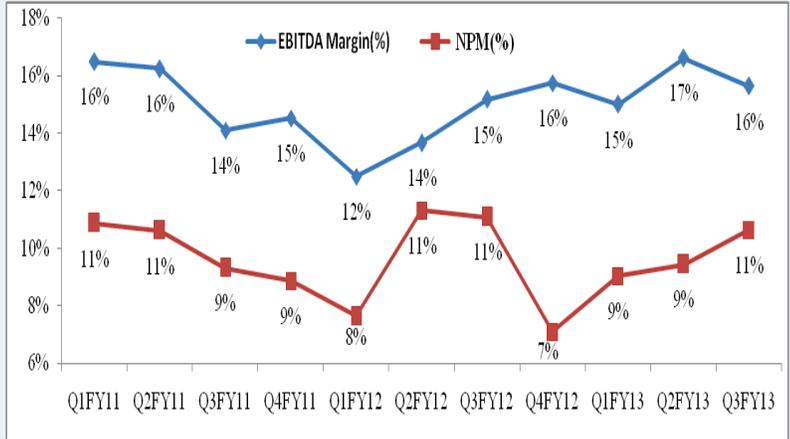
**Sales mix on SBU front,** Company's Integrated Enterprise Solutions (contributes almost half of its revenue) has seen a robust growth by 5.3%. SAP contributes almost 30% of sales, grew by 4%. While, Auto & Engineering down by 4.8% sequentially. The impact of loss of billing days was the maximum on SAP SBU due to a relatively higher proportion of onsite revenues.

Company's EBITDA margin for the quarter stood at 15.66% as against the 16.66% in Q2FY13. The loss of billing days during the quarter, coupled with decline in average realization rate, led to dip in the margins. However, management is confident of beating that target and actually registering an increase of 100 bps to 150 bps in the EBITDA margins for FY13 as compared with FY12.

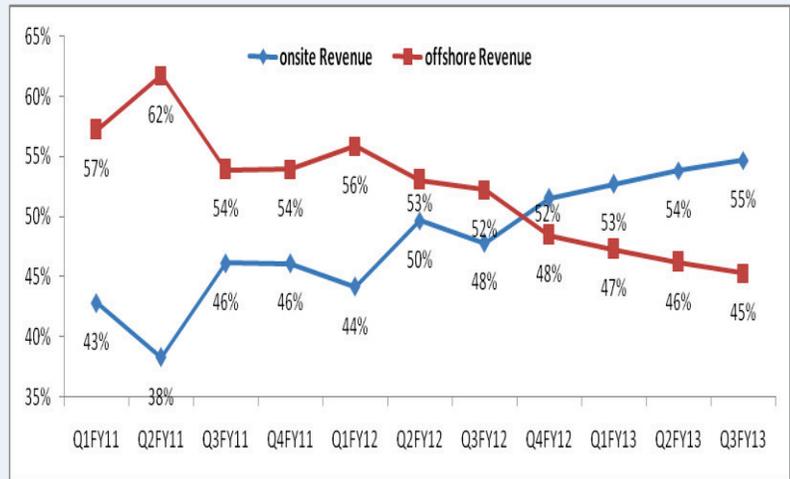
**Earnings Guidance:** Company revises its profit guidance to Rs196-200 crore, a Y-o-Y growth of 35% to 38% for FY13E. During the last 9months, Company has already reported 144cr. Company expects to maintain it revenue guidance of 32%+ Y-o-Y growth.

**Clients Metrics:** During the quarter, KPIT has added 2 clients to 178. Revenue from Cummins (Top client) has declined to 19.1% from 19.7% (Q2FY13), while third quarter last year; Cummins was a revenue contributor of 25%. Company's revenue from Top-5 clients increased by 160bps to 36.8% and top-10 clients inched up by 80bps to 45.2% on sequential basis. **Company DSO decreased to 70day from 75days of Q2FY13.**

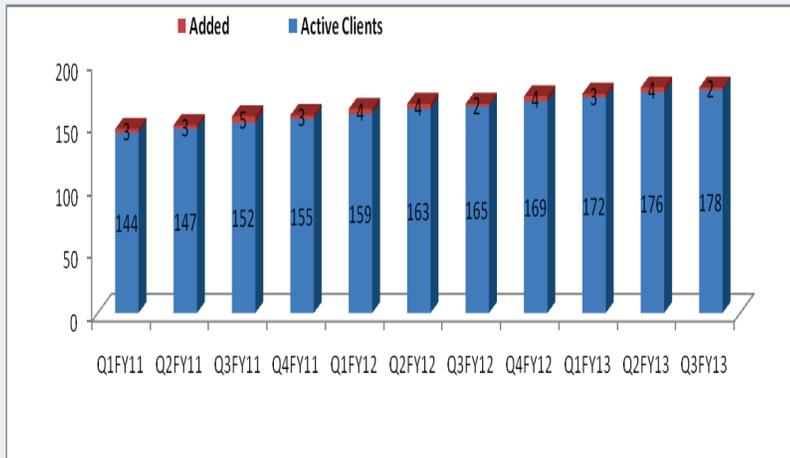
**Hedging Details:** The currency market has been extremely volatile in the recent period and the company has major exposure in 3 currencies- USD, Euro and GBP. As per its hedging policy, company covers 75% of the net exposure through forward contracts for the next two quarters. Total amount of USD hedges as on 31st December 2012 was at \$ 91.36 mn (\$ 21.60 million maturing in FY13, and \$ 69.76 million in FY14). The average rates for these hedges are INR 52.15 (FY13) and INR 52.07 (FY14). **Continued....**



(Source: Company/Eastwind)



(Source: Company/Eastwind)



Source: Company/Eastwind

**KPIT Cummins:**

**Headcount Metrics:** During the quarter, company has added 175 headcounts to 8286, Company's onsite utilization inched down to 92.83% from 94.5% (Q2FY13) and offshore utilization down to 72.9% from 74.7% (Q2FY13).

**Customer Highlights:** During the quarter, company has witnessed good traction for large size upgrade opportunities in the US market and won a large JDE upgrade deal. Recently, a leading North American energy corporation selected KPIT Cummins for a large enterprise consulting and system integration project spanning over 10,000 global users across 125 countries. KPIT Cummins emerged partner of choice for expertise in Mobile Supply Chain Applications and Value Chain Planning & Execution for two large North American industrial manufacturers.

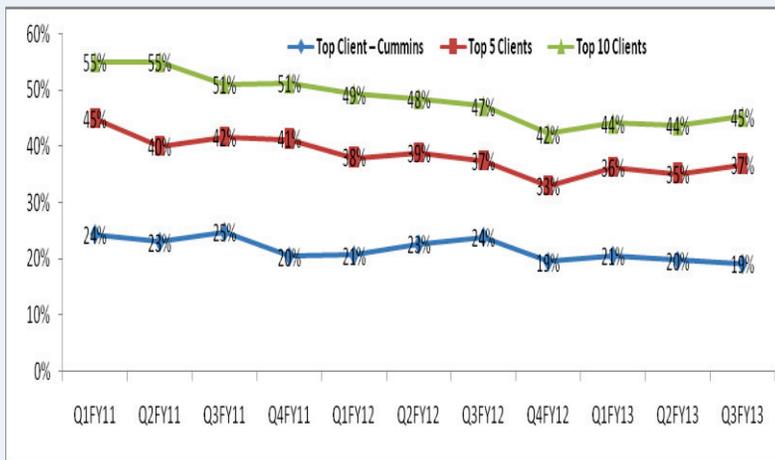
Company has been making its efforts to enhance the tap the growth areas of Big Data, Analytics, mobility, cloud and social media, indeed KPIT has registered a number of deal wins in the mobility space over last few months.

**Revolvo updates:** Company's dream project "Revolvo" is on the way of mass trial, currently have 40+ vehicles are running on the roads with REVOLVO fitted in. The results have been encouraging, both on the fuel efficiency as well as on the emissions fronts. In the mass trials, Company intends to introduce couple of more models. The progress on the homologation rules for Hybrids is satisfactory. KPI Cummins expects to begin serial production of the Revolo from March1, 2013. Thus, we do not expect manufacturing or revenue contribution from Revolo in FY13.

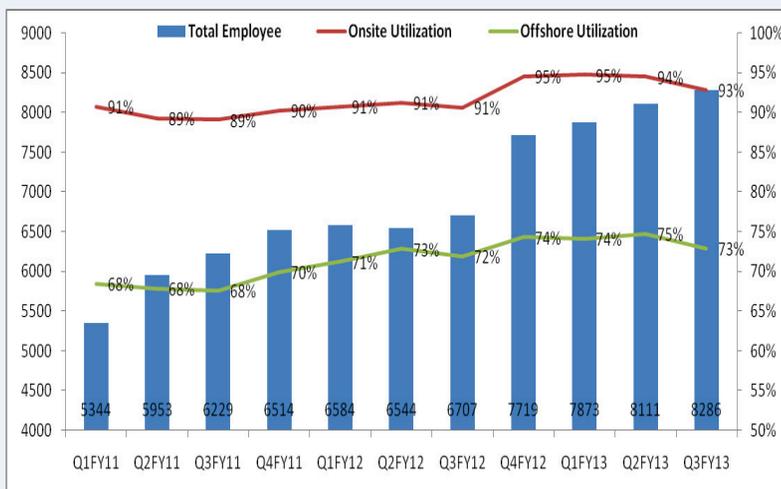
KPIT has guided for sales growth of 32-35% (\$ terms) for FY13E, which is well ahead of industry growth rates. This is backed by its domain expertise in niche areas such as automotive and enterprise solutions, and a strong order book to back this guidance. 70% of its current \$ guidance is backed by the order book. Further KPIT has guided for \$1 billion in revenue by 2017, which means 27% CAGR for the next 5 years. Further in an environment of cautious optimism in IT spending, clients will continue to disburse mid-sized opportunities, much to the benefit of mid-cap firms like KPIT.

KPIT's past track record in inorganic acquisitions and successful integration of acquired companies is stellar which has kept fuelling growth. *On an average, it has acquired 1 company every year in the last 10 year, with acquired companies cumulatively adding \$315 million to revenues. This lends credence to future growth potential (26% CAGR during FY07-12).*

Despite of all previous ups and down in IT sector, global demand environment is on the way of recovery and growth. 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 11x FY13E and 9.1x FY14E EPS. Maintain Buy, with a target price of Rs145.



(Source: Company/Eastwind)



(Source: Company/Eastwind)

