

In-line quarter... Outlook positive

CMP: Rs.211
Target Price: Rs.218
Recommendation: NEUTRAL

Stock Info

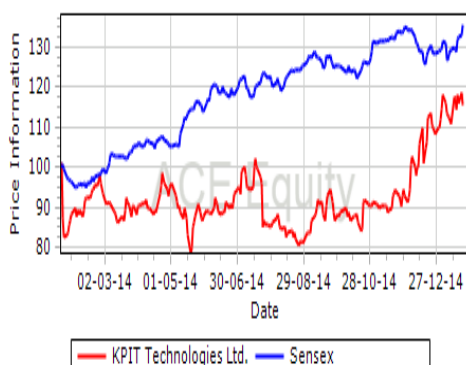
BSE Group	A
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	29,006
NSE Nifty	8,761

Market Info

Market Capital	Rs. 4,136 cr
Equity Capital	Rs.39 cr
Avg. Trading Vol.	9,22,070
52 Wk High/ Low	220/140
Face Value	Rs.2

Shareholding Pattern (%) (Dec 2014)

Promoters	21.8
Domestic Institutions	8.9
Foreign Institutions	33.6
Public & Others	35.7



22nd January, 2015

Performance was in line with expectation:

KPIT performance during the quarter was in line with our expectations. KPIT revenues grew by 3.0% QoQ to INR 780 crores (our est. was INR 775 crores). EBIDTA margin was below our estimate at 13.9% (our est. was 14.6%). PAT was INR 65 crores, -8% QoQ below our estimate of INR 66 crores, mainly due to higher selling expenses. Overall utilization level is at 74.1% (Onsite utilization level is 90.2% and offshore utilization level is 70.1%). Total headcount exceeded 10,000 for the first time. Net addition during the quarter was 358 employees. No. of US\$1 million+ Client increased by 3.

Geographical growth:

Growth during the quarter was driven by Europe (14.3% QoQ), while US (2.5% QoQ). However, ROW declined by 12.4% QoQ. The decline in ROW revenue was mainly on account of lower delivery schedule of the Intelligent Transportation Solution product.

Revenue spread verticals:

SAP grew by 4.5%, IES grew by 2.9% However, BTU and A&E declined by 4.3% and 1.8% respectively. The decline in A&E was due to reduction in ITS revenues during the quarter. Fluctuation in ITS revenue during the quarter was due to structure of deal and company to expect the revenue to grow up in the next quarter.

Operating profits increased by 7.4%:

Company has recorded an operating profit of Rs 108 crore; up 7.4% QoQ, this is in spite of many holidays during the quarter. Net profit margin during the quarter stood at 8.4%. PAT reported during the quarter is Rs. 65cr.

Concall Update:

- Company expects the overall growth for the company to be a lot better in Q4FY15 as compared to Q3FY15.
- Company expects the EBIDTA margins of Q4FY15 to be better than Q3FY15 on the back of improvement in margins in SAP SBU.
- Management has maintained FY15 \$ revenue guidance at \$ 498 Million (+12% YoY growth)

Outlook:

Company is looking to expand in new-age services like Analytics, PLM and even IMS from next quarter onwards. we have valued stock at P/E(x) of 12x to its FY16E earnings and have arrived at fair value of Rs 218 per share. At CMP Rs 211 stock trades at 11.6 (x) its FY16E earnings. We have 'Neutral' rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Net Revenue	2239	2694	3032	3463
Growth %	49	20	13	14
EBIDTA	365	423	420	585
EBIDTA Margin	16%	16%	14%	17%
Net Profit	199	249	260	358
Growth %	36%	25%	4%	38%
EPS	11	13	13	18
P/E	20.1	16.9	16.1	11.6
ROE	19.2	19.5	17.3	19.6

Source: Company data, Arihant Research

Quarterly Results:

Financials (Consolidated)					
Rs. In Crores	Q3 FY15	Q2 FY15	QoQ %	Q3 FY14	YoY %
Net Sales	780	757	3.0%	678	15.0%
Software development exp	537	532	1.0%	455	18.0%
Gross Profit	242	225	7.7%	222	8.9%
Selling exp	134	124	7.9%	118	13.2%
EBITDA	108	101	7.4%	104	4.1%
Depreciation	22	24	-10.5%	13	62.7%
Interest	5	4	30.5%	8	-35.9%
Other Income	3	4	-40.3%	2	43.2%
Exceptional Items	0	0		0	
Profit before Tax	84	77	9.3%	85	-0.7%
Tax	19	6	199.8%	24	-21.4%
Net Profit	65	71	-7.6%	61	7.4%
EPS	3.3	3.6		3.1	
EBITDA Margin (%)	14%	13%		15%	
Net Profit Margin (%)	8.4%	9%		9%	
Tax Rate (%)	22.3%	8.1%		28.2%	

Source: Company data, Arihant Research

Profit and Loss statement

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Total Revenue	2239	2694	3041	3463
Growth %	49	20	13	14
Total Operating Expenses	1874	2271	2620	2878
EBIDTA	365	423	422	585
EBIDTA Margin	16%	16%	14%	17%
Depreciation	47	54	84	84
EBIT	318	369	338	501
Interest	15	29	16	12
Other Income	-18	-7	17	8
PBT	285	333	338	497
Tax	77	94	78	139
Minority Interest & other	-9	0	0	0
PAT before Exceptional item	199	239	261	358
Extraordinary item	0	10	0	0
Net Profit	199	249	261	358
Change %	36%	25%	5%	37%
EPS	11	13	13	18

Cash Flow Statement

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Profit before taxes	285	343	338	497
Add:- Depreciation	47	54	84	84
Change in Working Capital	-109	-173	-180	-286
Others	-2	8	23	64
Cash generated from operations	220	232	265	358
Taxes paid	-100	-129	-78	-139
Net cash flow from operating activities	120	103	188	219
Purchase of fixed assets	-70	-69	-87	-92
Others	-281	-122	0	0
Net cash flow from investing activities	-351	-191	-87	-92
Inc/ (Dec) in Equity Capital	166	8	0	0
Inc/(dec) in Secured loan Fund	133	105	-41	-30
Dividend & Dividend tax	-14	-20	-34	-34
Others	-13	-14	0	0
Net cash used in financing activities	272	79	-75	-64
Exchange Difference	0	0	0	0
Net Cash Flow	42	-9	25	63
Closing Cash balance	192	191	216	279

Balance Sheet

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Shareholder's funds				
Share Capital	39	39	39	39
Reserves & Surplus	998	1237	1463	1789
Total	1036	1275	1502	1828
Minority Interest	27	0	0	0
Total Non Current Liabilities	160	153	117	92
Total Current Liabilities	561	695	737	720
Total Liabilities	1785	2123	2356	2640
Net Block	195	214	218	225
Capital Work-in-Progress	6	2	2	2
Goodwill on consolidation	442	599	599	599
Total Non Current Assets	780	934	967	985
Cash and bank balance	192	191	216	279
Total Current Assets	1005	1190	1389	1655
Total Assets	1785	2123	2356	2640

Key Ratios

Particulars	FY13	FY14	FY15E	FY16E
EPS	10.6	12.6	13.2	18.2
Book Value	53.7	65.9	76.5	93.2
DPS	0.9	1.1	1.5	1.5
Payout %	8.5	8.8	11.4	8.3
Dividend Yield %	0.7	0.9	0.7	0.7
P/E	20.1	16.9	16.1	11.6
EBIDTA Margin	16%	16%	14%	17%
PBT Margin	13%	12%	11%	14%
PAT Margin	9%	9%	9%	10%
Debt/Equity	0.3	0.3	0.3	0.2
Current Ratio	1.8	1.7	1.9	2.3
ROE	19.2	19.5	17.4	19.6
ROCE	30.7	29.0	22.5	27.4

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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