



## Margins under Pressure!

18<sup>th</sup> January, 2017

**CMP:** Rs.138  
**Target Price:** Rs.151  
**Recommendation:** HOLD

## Stock Info

BSE Group	A
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	27,409
NSE Nifty	8,454

## Market Info

Market Capital	Rs. 2,793 cr
Equity Capital	Rs.37.6 cr
Avg. Trading Vol.	983,58,00
52 Wk High/ Low	197/108
Face Value	Rs.2

Shareholding Pattern (%)	(Sep 2016)
Promoters	16.7
Domestic Institutions	30.5
Foreign Institutions	24.4
Public & Others	28.4

Price Vs Sensex Chart



## ■ Performance was in line with expectation:

KPIT performance during the quarter was steady performance. KPIT has reported consolidated net profit of Rs.73.60 crore for the quarter ended December 31, 2017, registering improvement of 31.1% qoq and growth of 2.1% yoy. The company's revenue stood at Rs. 830.70 crore, stagnant growth qoq and 2.1% yoy. Its consolidated operating profit margin for the current quarter at 10.2% contracted by 8 bps qoq but contracted by 410 bps yoy.

## ■ Geographical growth:

In terms of geography, US Inclined by 0.4% while Europe decreased by 2.1% and in rest of the world increased by 1.8% on year on year basis. Revenue from the US market grew 2.2% while revenue from Europe declined by 1.16% and the rest of the world by 1.10% on a Q-o-Q basis.

## ■ Operating profits depressed by 27% on YoY:

Company has recorded an operating profit of Rs 85 cr, down by 7.5 % on QoQ and down by 27% YoY, PAT reported during the quarter was Rs. 73.6cr. Management's focus currently, is in investment phase in Products & Platforms business. Employee cost increased mainly due to higher insurance cost on account of change in policy hence the EBITDA in the business was lower which has an overall impact of around 410 bps on the company level EBITDA.

## ■ Management comments

- Management indicated marginal increase in revenue growth for Q4FY17. It expects margins to expand marginally from current levels.
- Management expects to deliver EBITDA margin level of ~16% in next 3 quarters, mainly driven by revenue growth.
- Employee cost gone up mainly due to higher insurance cost on account of change in policy, which is a non-recurring item and will not repeat in subsequent quarters.
- Digital revenues have grown at a CAGR of about 30% over the last two years. During the quarter, KPIT divested a small business, KPIT Medini Technologies in Germany, and the proceeds were used towards a strategic partnership with a German engineering services company, Micro Fuzzy. Management expects some organic growth from Micro Fuzzy in Q4FY17.

## Outlook:

Management focuses more on growth and investing in right areas for increasing in the pace of growth. We believe most of these actions will be completed within next couple of years. We have valued stock at P/E(x) of 10x to its FY18E earnings and have arrived at fair value of Rs 151 per share. At CMP Rs 138 stock trades at 9 (x) its FY18E earnings. We have 'HOLD' rating on the stock.

## ■ Financials:

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	2990	3224	3169	3344
Growth %	11	8	-2	6
EBIDTA	325	435	459	475
EBIDTA Margin	10.9%	13.5%	14.5%	14.2%
Net Profit	237	282	294	299
Growth %	-4.8%	18.8%	4.4%	1.6%
EPS	12.5	14.7	14.9	15.1
P/E	15.1	10.0	9.3	9.1



## Quarterly Results:

Quarterly Result					
Rs. In Crores	Q3FY17	Q2FY17	QoQ%	Q3FY16	YoY%
Net Sales	831	831	0.0%	813	2.1%
Total Expenditure	746	740		697	
EBITDA	85	91	-7.5%	117	-27%
Depreciation	19	20		18	
Interest	7	1		4	
Other Income	3	5		4	
PBT	88	75	17.2%	99	-11%
Tax	14	19		27	
Net Profit	73.6	56	31.0%	72	2%
EPS	3.8	2.9	31.1%	3.8	2.1%
EBITDA Margin(%)	10.2%	11.0%		14.3%	
Net Profit Margin	8.9%	6.8%		8.9%	

Source: Company data, Arihant Research



### Profit and Loss statement

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Total Revenue	2990	3224	3169	3344
Growth %	11	8	-2	6
Total Operating Expenses	2664	2789	2710	2868
<b>EBIDTA</b>	<b>325</b>	<b>435</b>	<b>459</b>	<b>475</b>
EBIDTA Margin	10.9%	13.5%	14.5%	14.2%
Depreciation	85	69	67	71
EBIT	240	366	392	405
Interest	26	15	13	13
Other Income	35	25	28	31
<b>PBT</b>	<b>248</b>	<b>376</b>	<b>408</b>	<b>422</b>
Tax	11	83	114	124
Minority Interest & other	0	0	0	0
PAT before Exceptional item	237	293	294	299
<b>Extraordinary item</b>	<b>0</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>Net Profit</b>	<b>237</b>	<b>282</b>	<b>294</b>	<b>299</b>
Change %	-5%	19%	4%	2%
EPS	12.5	14.7	14.9	15.1

### Cash Flow Statement

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Profit before taxes	248	364	408	422
Add:- Depreciation	85	69	67	71
Change in Working Capital	17	-15	-17	-15
Others	17	-82	-62	-74
Cash generated from operations	367	336	395	405
Taxes paid	-78	-83	-114	-124
Net cash flow from operating activities	289	253	281	281
Purchase of fixed assets	-91	-121	-104	-111
Others	-21	-123	-98	-112
Net cash flow from investing activities	-112	-245	-202	-223
Inc/ (Dec) in Equity Capital	14	16	17	19
Inc/(dec) in Secured loan Fund	-10	33	-68	-27
Dividend & Dividend tax	-24	-25	-25	-26
Others	-20	0	0	-30
Net cash used in financing activities	-40	23	-76	-64
<b>Exchange Difference</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Cash Flow</b>	<b>136</b>	<b>32</b>	<b>3</b>	<b>-6</b>
<b>Closing Cash balance</b>	<b>364</b>	<b>395</b>	<b>399</b>	<b>392</b>

### Balance Sheet

Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Shareholder's funds				
Share Capital	38	38	38	38
Reserves & Surplus	1258	1343	1611	1882
<b>Total</b>	<b>1296</b>	<b>1381</b>	<b>1648</b>	<b>1920</b>
Minority Interest	0	0	0	0
Total Non Current Liabilities	120	219	241	270
Total Current Liabilities	854	596	616	580
<b>Total Liabilities</b>	<b>2270</b>	<b>2195</b>	<b>2506</b>	<b>2771</b>
Net Block	229	282	320	360
Capital Work-in-Progress	3	3	2	2
Goodwill on consolidation	509	402	362	326
Total Non Current Assets	955	917	1145	1260
Cash and bank balance	364	395	399	392
Total Current Assets	1315	1278	1361	1511
<b>Total Assets</b>	<b>2270</b>	<b>2195</b>	<b>2506</b>	<b>2771</b>

### Key Ratios

Particulars	FY15	FY16	FY17E	FY18E
EPS	12.5	14.7	14.9	15.1
Book Value	65.9	70.0	83.6	97.4
DPS	1.1	1.1	1.1	1.1
Payout %	8.8	7.5	7.4	7.3
Dividend Yield %	0.6	0.6	0.6	0.6
P/E	15.1	10.0	9.3	9.1
EBIDTA Margin	11%	14%	14%	14%
PBT Margin	8%	12%	13%	13%
PAT Margin	8%	9%	9%	9%
Debt/Equity	0.3	0.2	0.1	0.1
Current Ratio	1.5	2.1	2.2	2.6
ROE	18.3	20.4	17.8	15.6
ROCE	18.5	26.5	23.8	21.1

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**Stock Rating Scale**

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

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