



Margins under Pressure!

27th April, 2017

CMP:	Rs.135
Target Price:	Rs.129
Recommendation:	NEUTRAL

Stock Info

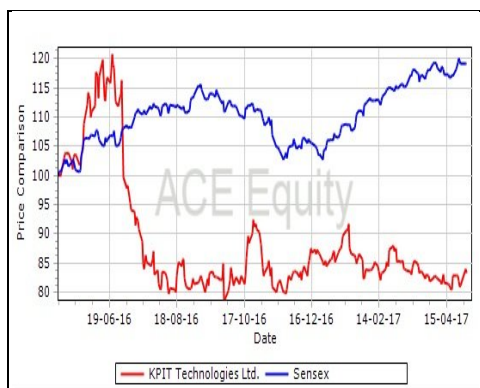
BSE Group	A
BSE Code	532400
NSE Symbol	KPIT
Bloomberg	KPIT.IN
Reuters	KPIT.BO
BSE Sensex	30,102
NSE Nifty	9,350

Market Info

Market Capital	Rs. 2,548 cr
Equity Capital	Rs.37.6 cr
Avg. Trading Vol.	10,22,510
52 Wk High/ Low	196/121
Face Value	Rs.2

Shareholding Pattern (%)	(Mar 2017)
Promoters	18.9
Domestic Institutions	15.6
Foreign Institutions	38.7
Public & Others	26.8

Price Vs Sensex Chart



■ **Performance was below expectations:**

KPIT performance during the quarter was disappointing. KPIT has reported consolidated net profit of Rs.53.70 crore for the quarter ended March 31, 2017, registering reduction of 27% qoq and growth of 42% yoy. The company's revenue stood at Rs. 858 crore, steady growth of 3% qoq and 2% yoy. Its consolidated operating profit margin for the current quarter at 10.1% contracted by 10 bps qoq but contracted by 560 bps yoy.

■ **Geographical growth:**

In terms of geography, US Inclined by 2.0% while Europe decreased by 4.0% and in rest of the world increased by 17.0% on year on year basis. Revenue from the US market declined by 0.2% while revenue from Europe Inclined by 20.0% and the rest of the world inclined by 4.0% on a Q-o-Q basis.

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

Company has recorded an operating profit of Rs 87 cr, increased by 3.0 % on QoQ and decreased by 34% YoY, PAT reported during the quarter was Rs. 53.7cr. Management's focus currently, is in investment phase in Products & Platforms business. Automotive vertical contributed 41.3%, Manufacturing vertical contributed 33.8% and Energy vertical contributed 12.3% and utility verticals contributed 1.7% of the total revenue for the quarter. The DSO at 74 days, at the quarter end, were down by 2 days as compared to last quarter.

■ **Management comments**

- Management has guided Constant Currency Revenue growth for FY18 will be in the range of 6% to 8% over FY17.
- Management expects to deliver EBITDA margin level of ~16% in next 3 quarters, mainly driven by revenue growth.
- Management expects improvement in profitability and cash flow due to lower capex in going forward.
- Management has guided for a slight improvement in profitability, with a step up in the utilisation and revenue mix.
- Management is positive on diagnostic sector and expects 15% growth in going forward.

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 8x to its FY19E earnings and have arrived at fair value of Rs 135 per share. At CMP Rs 129 stock trades at 8 (x) its FY19E earnings. We have 'NEUTRAL' rating on the stock.

■ **Financials:**

Y/E March (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Net Revenue	3224	3323	3344	3869
Growth %	8	3	1	16
EBIDTA	435	349	475	526
EBIDTA Margin	13.5%	10.5%	14.2%	13.6%
Net Profit	282	239	299	334
Growth %	18.8%	-15.3%	25.1%	11.9%
EPS	14.7	12.4	15.1	16.9
P/E	10.0	10.4	8.5	7.6



Quarterly Results:

Quarterly Result					
Rs. In Crores	Q4FY17	Q3FY17	QoQ%	Q4FY16	YoY%
Net Sales	858	831	3%	841	2%
Total Expenditure	771	746		709	
EBITDA	87	85	3%	132	-34%
Depreciation	25	19		18	
Interest	0	7		3	
Other Income	1	3		6	
PBT	63	88	-28%	107	-41%
Tax	10	14		14	
Net Profit	53.7	73.6	-27%	93	-42%
EPS	2.8	3.8		4.8	
EBITDA Margin(%)	10.1%	10.2%		15.7%	
Net Profit Margin	6.3%	8.9%		11.0%	

Source: Company data, Arihant Research



Profit and Loss statement

Particulars (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Total Revenue	3224	3323	3344	3869
Growth %	8	3	1	16
Total Operating Expenses	2789	2975	2868	3343
EBIDTA	435	349	475	526
EBIDTA Margin	13.5%	10.5%	14.2%	13.6%
Depreciation	69	83	71	81
EBIT	366	266	405	445
Interest	15	14	13	15
Other Income	25	21	31	34
PBT	376	273	422	464
Tax	83	61	124	130
Minority Interest & other	0	0	0	0
PAT before Exceptional item	293	212	299	334
Extraordinary item	11	26	0	0
Net Profit	282	239	299	334
Change %	19%	-15%	25%	12%
EPS	14.7	12.4	15.1	16.9

Cash Flow Statement

Particulars (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Profit before taxes	364	299	422	464
Add:- Depreciation	69	83	71	81
Change in Working Capital	-15	-17	-15	-16
Others	-82	-62	-74	-118
Cash generated from operations	336	303	405	411
Taxes paid	-83	-61	-124	-130
Net cash flow from operating activities	253	242	281	281
Purchase of fixed assets	-121	-120	-111	-81
Others	-123	-98	-112	-155
Net cash flow from investing activities	-245	-218	-223	-236
Inc/ (Dec) in Equity Capital	16	17	19	21
Inc/(dec) in Secured loan Fund	33	-68	-27	-25
Dividend & Dividend tax	-25	-25	-26	-26
Others	0	0	-30	-30
Net cash used in financing activities	23	-76	-64	-61
Exchange Difference	0	0	0	0
Net Cash Flow	32	-52	-6	-15
Closing Cash balance	395	343	337	322

Balance Sheet

Particulars (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Shareholder's funds				
Share Capital	38	38	38	38
Reserves & Surplus	1343	1555	1827	2134
Total	1381	1593	1864	2171
Minority Interest	0	0	0	0
Total Non Current Liabilities	219	241	270	304
Total Current Liabilities	596	616	580	538
Total Liabilities	2195	2451	2715	3013
Net Block	282	320	360	360
Capital Work-in-Progress	3	2	2	2
Goodwill on consolidation	402	362	326	359
Total Non Current Assets	917	1145	1260	1422
Cash and bank balance	395	343	337	322
Total Current Assets	1278	1305	1456	1590
Total Assets	2195	2451	2715	3013

Key Ratios

Particulars	FY16	FY17	FY18E	FY19E
EPS	14.7	12.4	15.1	16.9
Book Value	70.0	80.8	94.6	110.1
DPS	1.1	1.1	1.1	1.1
Payout %	7.5	8.9	7.3	6.5
Dividend Yield %	0.6	0.6	0.6	0.6
P/E	10.0	10.4	8.5	7.6
EBIDTA Margin	14%	10%	14%	14%
PBT Margin	12%	8%	13%	12%
PAT Margin	9%	7%	9%	9%
Debt/Equity	0.2	0.2	0.1	0.1
Current Ratio	2.1	2.1	2.5	3.0
ROE	20.4	15.0	16.0	15.4
ROCE	26.5	16.7	21.7	20.5

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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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