

Analyst & Advisor: Abhishek Jain
www.stocksidea.com
+91-98260-41144

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Kpit Cummins Infosystems Ltd— BUY—72—INR

Sector — Software
Regd.Off.— Rajiv Gandhi Infotech Park, MIDC Phase-I, Hinjawadi, Pune-411004
Listed — NSE, BSE.

Company overview—

KPIT Infosystems Ltd. was promoted by Kirtane & Pandit, an accountancy firm to add Information Technology to its suite of services. The group is one of the front-line Indian groups in the area of Information Technology, Business Consulting and Management. The company has its headquarters at Pune, and has two other India offices in Bangalore and Mumbai to house its various functions. The company was incorporated in 1989 and came out with its premium public offering (IPO) in February 1999 at Rs 90 per share, aggregating Rs 11.61 crore. KPIT has partnership agreement with CONSOR AG, a leading IT consulting and solution provider in Switzerland. CONSOR has been providing IT consulting services and solutions over the last 20 years. It provides technical consultation for project conception and design. The client list of CONSOR includes some of the biggest names in the Swiss market and will act as the front-end in the Swiss market. In May 2002, the IT subsidiary of engine major Cummins India-Cummins Infotech (CIL) has merged with KPIT Infosystems, for forming a mid-sized software developer, KPIT Cummins Infosystems.

Products & services—

KPIT Infosystems Limited provides software development, maintenance and implementation services for the banking & finance, consumer packaged goods, engineering, and telecommunications software sectors. Company's strengths lie in Internet consulting and development, re-engineering & migration, software product development & management, business intelligence solutions, oracle applications, control automation and engineering solutions. Company has four core areas of its operations i.e. Advanced Technology solutions, Manufacturing Business IT, Diversified Financial services, BPO. Company is CMM Level 5, ISO 9001:2000 certified.

Advanced Technology solutions:

Company has expertise in product development and embedded systems at optimal costs and faster timeframe. Company offers turnkey technology solutions from pre-product design to its release and maintenance. These solutions encompass industries like Automotive Electronics, Industrial Automation, and Semiconductor Solutions. Company has presence in development of Supervisory Control and Data Acquisition systems, projects in automotive engine controls, development of high speed Video DAC for HDTV and video/graphics applications, I/O Cells Development, and open source (GNU) tool chain for a family of micro-controllers.

Manufacturing business IT:

Company has presence into development of our proprietary Business Intelligence tools, center of excellence of the Oracle Apps practice and the focused SAP practice, consulting

projects in supply chain management, product lifecycle management, and architecture consulting. We have developed strengths in ERP Audits, Risk Management and Compliance consultancy services and Activity based costing.

Diversified financial services:

In the Diversified Financial Services domain we create applications through IT, support through BPO, and manage change through consulting. KPIT Cummins' has a strong lineage in the financial industry - being a descendant of KPCA, one of the country's most prominent accounting firms providing financial services to national and global banks since the past six decades. Our business consultants have extensive experience in securities services, retail banking, credit cards, fund administration, leasing and finance, insurance.

Business Process Outsourcing:

Company is involved into Knowledge Based outsourcing in Risk Management & Compliance Services, Sarbanes Oxley, SAS-70 Compliance, BS7799, Internal Controls, Audits related to Business & IT Processes, Business Intelligence & Data Analytics, Business Process Transformation Services, Skills & Rules Based, Finance & Accounting and Related Services, Transaction Management, General Accounting, Financial Reporting, Financial Analysis, Human Resource Managed Services, Compensation & Benefits, 401(K) & Retirement Services, Employee Stock Options (ESOP), Stock Options Management / Administration, Human Resourcing Activities, Human Resource Administrative Activities, Transaction Processing Services, Mortgage, Insurance. In technology based services company has presence in Security Operations Center, Network Operations Center and Technical Help Desk.

Financials—

1st quarter results for apr-jun2009

Description	Amount(Rs. million)
Interest Earned/Net Income from sales/services	1,728.07
Cost of Sales/Services	-985.42
Software Development Expenses	-985.42
Gross Profit	742.66
General Administrative Expenses	-213.58
Selling and Distribution Expenses	-162.93
Depreciation	-71.17
Operating Profit Before Interest	294.98
Interest	-5.37
Operating Profit After Interest and Exceptional Items	289.61
Other Income	-17.82
Profit (+)/ Loss (-) from Ordinary Activities before Tax	271.79
Tax	-48.01
Net Profit (+)/ Loss (-) from Ordinary Activities after Tax	223.78
Net Profit	223.78
Net Profit after Mino Inter & Share of P & L	223.78
Income Attributable to Consolidated Group	223.78

Equity Capital	156.09
Face Value (in Rs)	2.00
Reserves	2,479.79
Basic EPS after Extraordinary items	2.87
Diluted EPS after Extraordinary items	2.86
Percentage of Public Shareholding	72.61

Recent developments—

KPIT Cummins has acquired substantial part of mechanical design services business of Harita TVS Technologies, a part of the TVS Group. Harita TVS offers design services under two segments viz, automotive and construction and industrial machinery.

KPIT Cummins Infosystems, product engineering partner to the automotive industry and VaST, a player in electronics virtualisation, have announced a partnership to deliver electronic virtualisation tools and specialised services to global automotive OEMs, and Tier-1 suppliers and ODMs. The partnership between VaST and KPIT focuses on methodology adoption services that speed up the deployment of advanced virtual prototyping tools and methodologies such as networked ECU Virtual-Hardware-In-the-Loop simulations. Electronic virtualisation is highly effective in reducing engineering costs while simultaneously enabling improved end-system software quality.

Valuation—

A relationship-based and vertical focused business model (Focus on two verticals: Manufacturing & Diversified Financial services) has helped the company to grow at a fast pace with top line revenue growth of 10x and increase in market capitalization of 15x over the last 5 years. Its 95 plus active global clients and strategic partnerships with some of the largest & renowned players in their respective areas are a testimony to its business model.

At CMP, stock trades at very attractive valuation of 6.42 P/E multiple of its FY2010 Estimated Earnings. We recommend investors to “Strong BUY” “KPIT Cummins” for medium to long-term investment horizon.

We invite Readers to send Valuable feedback, stock and subscription queries at E-mail Id- investment_guru1@yahoo.com

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