



KPIT CUMMINS INFOSYSTEMS LTD

INVESTOR UPDATE

FOR THE QUARTER ENDED JUNE 30, 2004

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Key Highlights - Q1FY05

- Completed formalities of acquiring Panex Consulting Inc., a Houston based US \$ 9.27 million SAP consulting firm
- Panex becomes subsidiary w.e.f April 04 and its financials are consolidated with KPIT Cummins for the first time
- Consolidated revenues grew by 139%, net profit grew by 114%
- Consolidated revenues (excluding Panex) grew by 75% Q-o-Q and 17% sequentially
- Consolidated net profit (excluding Panex) grew by 95% Q-o-Q and 20% sequentially
- Upward revision of Guidance for FY05 considering Panex acquisition
- Addition of one more potential Star customer in Manufacturing segment
- Without considering Panex, on Q-o-Q basis Cummins grows 52%, Other Star customers register a rise of 149%, Manufacturing vertical grew by 72% and BFSI grew by 92%
- Inclusive of Panex, manufacturing vertical constituted 76%, Cummins contributed 31% and BFSI vertical 21% to the Q1FY05 revenues
- Growth in Embedded space by 123% Q-o-Q
- Human Resource strength crosses 1100

Financial Highlights

- The consolidated revenues (including Panex) of the Company stood at Rs 60.86 crore (Rs 25.47 crore, corresponding quarter last year) thus resulting in a top line growth of 139%
- Consolidated Net Profit (including Panex) for Q1FY05 at Rs 6.14 crore grew by 114% over corresponding quarter last year
- The basic earnings per share for the quarter works out to Rs 10.17 as against Rs 4.88 for the corresponding quarter last year.
- The consolidated revenues (excluding Panex) at Rs 44.60 crore grew by 75%, while consolidated net profit (excluding Panex) at Rs 5.58 crore grew by 95%. The sequential growth (excluding Panex) for the quarter works out to 17% for the top line and 20% for the bottom line
- ROS moved from 11.24% in corresponding quarter last year to 12.48% during this quarter. ROS during preceding quarter was 12.21% (without Panex)

Revised FY05 Guidance for KPIT Cummins on a consolidated basis:

- Consolidated revenues to be in the range of Rs 230 crore to Rs 235 crore and the consolidated net profit to be in the range of Rs 24 to Rs 26 crore

Guidance for Panex on a standalone basis:

- Topline to be US\$ 13 million for the year ending 31st December, 2004 and net profit to be in the region of US\$ 250,000

Panex Consulting

- With effect from 1st April 2004, Panex Consulting, a Houston based US \$ 9.27 million SAP consulting firm, became subsidiary of KPIT Cummins. The financial results of Panex have been consolidated in KPIT Cummins results for the first time during the quarter
- Though KPIT shareholders approved the proposed acquisition of Panex in September 03 and the clearance from SEBI came in only in mid-May, KPIT has been working with Panex since January 03
- During the year 2002 (prior to KPIT-Panex relationship), Panex worked with some large end-customers and some large consulting companies. In addition, Panex also worked with many small clients. In 2002 (December end) Panex had revenue of US\$ 8.84 million and PAT of US\$ 208,000
- KPIT and Panex started working together beginning 2003. This resulted into offshore work for some of the large customers of Panex. The total amount of offshoring of SAP services by Panex during 2003 was to the tune of US\$ 637,000

Also, dependence on smaller customers came down from as high as 52% in 2002 to just 22% in 2003. At the same time, revenue from star customers grew by 56%, from US\$ 4.21 million to US\$ 6.58 million. During Q1FY05, top customer of Panex contributed 51% to Panex revenues.

Additionally, customer acquisition and offshoring of engineering companies began and new initiatives such as Net weaver were launched.

- For the year ended December 03, Panex' revenues were US\$ 9.27 million while net earnings stood at US\$ 217000
- One of the synergies of the acquisition is that KPIT Cummins is now in a position to offer SAP services to its existing customers while offshoring option may be considered by existing Panex customers
- Panex has staff strength of 100 people, mostly comprising technical staff
- At the time of amalgamating with KPIT Cummins, Panex' networth was US\$ 729,000

Business Highlight

- 1 more potential star customer in manufacturing vertical added during the quarter
- The top ten clients including Cummins contributed 88% of the revenues (inclusive of Panex) during the quarter.
- For the quarter, Cummins business revenues touched 31% of total revenues. Other Star customers contributed 53% of the revenues
- On Q-o-Q basis, without considering Panex both Cummins and other Star customers have grown by 52% and 149% respectively. However, the management strategy to reduce focus on non-Star customers have resulted in revenues from non-Star customers declining from 22% in Q1FY04 to 12% in Q1FY05
- Offshore contributed 43% excluding Panex and 31% including Panex and onsite contributed 57% without Panex and 69% with Panex
- During the quarter, the company experienced significant growth of 123% Q-o-Q in its services relating to embedded software

Operational Highlight

- 126 people were added during the quarter taking the total staff strength (excluding Panex) to 1040
- KPIT Cummins continues to focus mainly on two verticals, Manufacturing and Banking/finance/insurance. The manufacturing vertical contributed 66% excluding Panex (76% including Panex) of the total revenues, registering a growth of 72% over corresponding quarter last year. The BFSI contributed 29% excluding Panex (21% including Panex) registering a growth of 92% over corresponding quarter last year
- The expenditure on administration facilities and HR for the quarter were to the tune of 14.9% (14.2% corresponding quarter last year). The marketing expenses during the quarter amounted to 11.8% as compared to 12.2% in the corresponding quarter last year
- PBT margin, on a consolidated basis (including Panex) works out to 10.6% while the net profit margin works out to 10.08% for the quarter
- The Contribution inclusive of Panex (gross profit after deducting software development expenses) was to the tune of 33.25% during the quarter
- The phase I, which will cover 1500 people at the new facility at Hinjawadi with a total capacity for 5000 people will be operational by December 2004

Quarterly Management Review

FY05 started on a promising note. With acquisition of Panex Consulting now complete and its financials consolidated with KPIT Cummins, the top line and the bottom line reflected strong Q-o-Q growth of 139% and 114% respectively.

Even excluding Panex, KPIT Cummins continued its strong performance in Q1FY05 with revenues growing by 75% and net profit registering 95% growth Q-o-Q and sequential growth (excluding Panex) for the quarter works out to 17% for the top line and 20% for the bottom line.

KPIT Cummins acquired 100 per cent of Panex valued at US\$ 1.88 million in cash and stock. This would be payable over three years. Our strategic move to acquire Panex will yield benefits in more than one ways. Our key focus areas are manufacturing and banking and finance, and our implementation services were earlier restricted to Oracle applications. Since SAP is one of the major enterprise resource planning (ERP) solutions in both manufacturing and banking and finance sectors, the acquisition filled a strategic gap in our service offerings.

Since early 2003, KPIT Cummins and PANEX successfully bid for and gained projects with Star customers. The work we did together to date reflects an excellent cultural fit. We have already begun to offer outsourcing services to some of the major Panex customers in the area of manufacturing. Going forward, we will be able to drill deep among other large customers for SAP & Non-SAP offshore/onshore work. The marketing expertise of the Panex team will be an additional asset. Panex, for its financial year ended December 2004, is expected to post revenue of about US\$ 13 million and net profit of about US\$ 250,000.

Within Manufacturing vertical, Embedded segment was a strong focus area with revenue witnessing a sizeable jump of 123% while BFSI as a vertical grew by 92% Q-o-Q.

Our strategy to reduce focus on Non-Star customers continues and as a result their contribution to revenue has come down to 12% in Q1FY05 from 22% in Q1FY04. We continue to focus on acquiring and cultivating customers which can become Star customers in a couple of quarters. Along this line, during Q1FY05, we acquired a customer in Manufacturing vertical which, we believe, has potential to become a Star customer.

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