KPIT CUMMINS INFOSYSTEMS LTD

INVESTOR UPDATE

FOR THE QUARTER ENDED JUNE 30, 2005
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Key Highlights

- Consolidated revenues grew by 4% sequentially in Q1FY06 to Rs 699.62 million (Q4FY05 - Rs 672.71 million) while they grew 14.95% compared to corresponding quarter last year (Rs 608.62 million). The growth in revenue slowed down on account of deferral of IT investments by some of its Star customers.

- Software development expenses grew 4.86% sequentially in Q1FY06 to Rs 461.92 million (Q4FY05 - Rs 440.51 million). It grew 13.67% compared to the corresponding quarter last year. This was on account of increase in salaries as well as of headcount. The Company increased offshore salaries by 17% and onsite salaries by 3% during the quarter. The headcount went up by 186 inclusive of the 109 freshers.

- On account of the combined effect of deferral of revenues and increase in staff strength, utilization decreased to 92.50% for onsite and 69.50% for offshore in Q1FY06 from 97% for onsite and 72% for offshore in Q4FY05.

- On account of the move to new and larger premises, depreciation rose 30.19% sequentially to Rs 17 million in Q1FY06 (Q4FY05 – 13.06 million) while it rose 199.56% compared to Rs 5.67 million in Q1FY05.

- Consolidated net profit before tax grew by 6.22% compared to the corresponding quarter last year (Rs 64.54 million), while it declined by 3.74% sequentially in Q1FY06 to Rs 68.56 million (Q4FY05 - Rs 71.22 million).

- Provision for taxation in Q1FY06 stands at Rs 4.62 million compared to a tax write-back of Rs 3.91 million in Q4FY05, impacting the sequential profitability in the last quarter.

- Consolidated net profit after tax grew 4.19% compared to the corresponding quarter last year (Rs 61.37 million), while it declined 14.89% sequentially in Q1FY06 to Rs 63.94 million (Q4FY05 - Rs 75.13 million).
• The Company added two new Star customers in Q1FY06, taking the total number of Star customers from seven to nine.

• The Company has started Business Process Outsourcing (BPO) operations in its wholly owned subsidiary, in which it plans to invest Rs 45 million in FY06, which would have a capacity of 100 seats by FY06.

• The Company has set up a new 250-seat VLSI centre in a leased facility in Bangalore.

• Construction of the 205,000 sq.ft Phase II of the Software Development Centre at Hinjawadi has started in May ‘05 and is to be completed by June ‘06. This will entail a Capex of US$ 13.5 million, which will be funded primarily through long-term debt from International Finance Corporation (IFC) and balance through internal accruals.

• The Company has tied up a US$ 11 million in long term debt from International Finance Corporation (IFC) for the development of Phase II of the Software Development Centre at Hinjawadi.

• Consolidated revenue guidance for FY06 has been revised to between Rs 3,080 million to Rs 3,168 million compared to Rs 3,300 million indicated earlier.

• Net profit guidance for FY06 has been revised to between Rs 320 million to Rs 350 million compared to Rs 370 million to Rs 395 million indicated earlier.

• Earnings per share (basic) for the quarter works out to Rs 4.54.
Q1FY06 PERFORMANCE
Revenues

- Consolidated revenues grew by 4% sequentially in Q1FY06 to Rs 699.62 million (Q4FY05 - Rs 672.71 million) while they grew 14.95% compared to corresponding quarter last year (Rs 608.62 million). The growth in revenue slowed down on account of deferral of IT investments by some of its Star customers.

- The Company added two new Star customers in Q1FY06, taking the total number of Star customers to nine.

- 3 new customers were added during the quarter taking the total number of active customers to 27 (inclusive of nine Star customers).

- The top ten clients including Cummins contributed 89.81% of the revenues during the quarter (Q4FY05 89.35%) and 87.98% in Q1FY05

- Manufacturing vertical contributed 83.49% of consolidated revenues (Q4FY05 76.13%) against 75.86% in Q1FY05, while BFSI 14.86% (Q4FY05 21.67%) against 20.76% in Q1FY05

- For the quarter, Cummins business revenues touched 43.87% of total revenues compared to 35.84% in Q4FY05 and 31.07% in Q1FY05

- The Star customers excluding Cummins contributed 40.99% compared to 44.75% in Q4FY05 and 53.47% in Q1FY05

- On-site revenues stood at 65.38% compared to 65.14% in Q4FY05 and 68.67% in Q1FY05

- Offshore revenues contributed 34.62% compared to 34.86% in Q4FY05 and 31.33% in Q1FY05

- Consolidated revenues from dollar denominated US markets stood at 66.24% as compared to 61.80% in Q4FY05 (63.45% - Q1FY05), while revenues from Europe stood at 30.23% against 34.59% in Q4FY05 (34.37% - Q1FY05)
- Global Debtors Days have risen to 75 days in Q1FY06 from 70 days in Q4FY05

**Operations**

- During the quarter, the company continued to invest in major support functions such as Process Excellence Group, Learning Organisation, Talent Search and Deployment, HR & ITS.
- The Company also continued to invest in its key practice areas such as Advanced Technology Solution (including VLSI and Tools and Embedded), Oracle and SAP.
- KPIT Cummins was one of the few Indian companies to participate in the trade show ‘Engine Expo 2005’ at Stuttgart, Germany. The event generated active interest from participants and the Company is currently working on selected RFPs.
- Three new process initiatives launched by the Company last year – ATLAS (Global Project Management System), Six Sigma Process and BS7799 Certification – are progressing well.
- The Company is internally implementing SAP for enhancing its accounting and delivery capabilities. It is expected to go live by Q2FY06.

**BPO**

- The Company has started BPO operations in its wholly owned subsidiary KPIT Cummins Global Business Solutions Ltd. This subsidiary has started delivering solutions for Accounting, Human Resources and Technical Support.
- Mr. Pawan Sharma has been appointed as the head of BPO operations.
- The Company plans to invest Rs 45 million in its BPO operations during FY06.
- During FY06, BPO operations are expected to be scaled up by increasing capacity from 31 people at present to 100 people.
Infrastructure

- The Company’s state-of-the-art VLSI facility spread across 24,000 square feet in Bangalore will be operational in Q2FY06. The existing staff in the current facility will also be moving to the new facility. The new facility has a capacity of 250 seats.

- Construction of the 205,000 sq.ft, Phase II of the Software Development Centre at Hinjawadi, has started in May ’05 and is to be completed by June ’06. This will entail a Capex of US$ 13.5 million, which is being funded through long term debt and internal accruals.

- Depreciation rose 30.19% sequentially to Rs 17 million in Q1FY06 (Q4FY05 – 13.06 million) while it rose 199.56% compared to Rs 5.67 million in Q1FY05

Human Resources

- A net addition of 186 employees was made during the quarter, taking the total employee strength to 1667 as on June 30, 2005

- The Company reinforced its domain expertise with 77 lateral recruits from customer industries (manufacturing, auto and accounting)

- 109 freshers were also added during the quarter thereby strengthening the junior rung in the organisation.

- Software development expenses grew 4.86% sequentially in Q1FY06 to Rs 461.92 million (Q4FY05 - Rs 440.51 million). It grew 13.67% compared to the corresponding quarter last year. This was on account of increase in salaries as well as of headcount. The Company increased offshore salaries by 17% and onsite salaries by 3% during the quarter. The headcount went up by 186 inclusive of the 109 freshers

- On account of the combined effect of deferral of revenues and increase in staff strength, utilization decreased to 92.50% for onsite and 69.50% for offshore in Q1FY06 from 97% for onsite and 72% offshore in Q4FY05.
Sales & Marketing

- The Company has increased its investment in the German and Japanese markets while it continues to invest in its traditional geographies.

Share Capital & Shareholding

- Institutional holding in the Company is up from 22.73% as on 31st March 2005 to 29.35% (excluding Lehman Brothers) as on 30th June 2005 on an expanded capital base of Rs 70.45 million.

Profitability

- Consolidated net profit before tax grew by 6.22% compared to the corresponding quarter last year (Rs 64.54 million), while it declined by 3.74% sequentially in Q1FY06 to Rs 68.56 million (Q4FY05 - Rs 71.22 million).

- Provision for taxation in Q1FY06 stands at Rs 4.62 million compared to a tax write-back of Rs 3.91 million in Q4FY05, impacting sequential profitability in the process.

- Consolidated net profit after tax grew 4.19% compared to the corresponding quarter last year (Rs 61.37 million), while it declined 14.89% sequentially in Q1FY06 to Rs 63.94 million (Q4FY05 - Rs 75.13 million).

- Earnings per share (basic) for the quarter works out to Rs 4.54.
LOOKING AHEAD – FY06 PERFORMANCE
Guidance – Financial Year 06

- On account of the postponement of IT investments by some of its Star customers, consolidated revenue guidance for FY06 has been revised to between Rs 3,080 million to Rs 3,168 million compared to Rs 3,300 million indicated earlier.

- Net profit guidance for FY06 has been revised to between Rs 320 million to Rs 350 million compared to Rs 370 million to Rs 395 million indicated earlier.
Safe harbour

Some of the statements in this update that are not historical facts are forward-looking statements. These forward-looking statements include our financial and growth projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business and the markets in which we operate. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. These risks include, but are not limited to, the level of market demand for our services, the highly-competitive market for the types of services that we offer, market conditions that could cause our customers to reduce their spending for our services, our ability to create, acquire and build new businesses and to grow our existing businesses, our ability to attract and retain qualified personnel, currency fluctuations and market conditions in India and elsewhere around the world, and other risks not specifically mentioned herein but those that are common to industry.
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