

# **KPIT CUMMINS INFOSYSTEMS LIMITED**

## **INVESTOR UPDATE**

### **FOR**

### **QUARTER ENDED 30<sup>TH</sup> JUNE 2006**

#### **KEY HIGHLIGHTS**

- Revenue for Q1FY07 grew by 13.42% sequentially and 46.17% over Q1FY06 to Rs. 1,022.65 Million
- Net profit for Q1FY07 grew by 61.82% over Q1FY06 to Rs. 103.47 Million. As compared to previous quarter, net profit remained flat
- 5 new customers added
- Considering expansion into China and Singapore

#### **FINANCIAL HIGHLIGHTS**

- Consolidated revenue for Q1FY07 grew sequentially by 13.42% and 46.17% over Q1FY06 to Rs. 1,022.65 Million. This is the first time the Company has crossed the Rs. 1 Billion mark for quarterly revenue.
- Gross profit for the quarter was Rs. 381.70 Million as against Rs. 330.14 Million in the previous quarter, sequential growth of 15.62% and a growth of 60.59% over Q1FY06.
- Gross profit margin improved by 71 basis points to 37.33% in Q1FY07 as compared to 36.62% in Q4FY06, and by 3.36% as compared to 33.97% in Q1FY06. Gross profit margin has improved as compared to the previous quarter on account of higher offshore revenues.
- EBITDA for the quarter was Rs. 152.34 Million as compared to Rs. 152.53 Million in the previous quarter. EBITDA growth over Q1FY06 was 74.62%.
- EBITDA margin decreased from 16.92% in Q4FY06 to 14.90% in Q1FY07. During the quarter, the Company consolidated the accounts of KPIT Infossystems Germany, KPIT Infossystems France (erstwhile Pivolis) and CG-Smith, which has led to an increase in the sales and marketing expenses and hence a consequent decrease in EBITDA margin. However, year on year EBITDA margin has increased by 2.43%.
- Interest expenses increased from Rs. 9.01 Million in Q4FY06 to Rs. 10.94 Million in Q1FY07.

- Depreciation for the quarter remained at the same level as in Q4FY06 at Rs. 25.16 Million. During the quarter the fixed assets of the acquired companies, primarily CG-Smith, were consolidated. However on account of realignment of the depreciation policies the net effect on the increase in the depreciation has been marginal.
- Consolidated net profit for the quarter was Rs. 103.47 Million, marginally higher than Rs. 102.72 Million in Q4FY06, and 61.82% higher than net profit of Rs. 63.94 Million in Q1FY06.
- Net profit margin improved by 98 basis points to 10.12% in Q1 FY07 compared to 9.14% in Q1 FY06 and declined by 1.27% over 11.39% margin in Q4FY06.
- Earning per share for the quarter was Rs. 7.01 as compared to Rs. 4.54 in Q1FY06 and Rs 7.06 in Q4 FY06. Face value of each share is Rs. 5.00.
- Debtors were 84 days of sales at the end of the quarter, compared to 86 days at the end of the preceding quarter. In Q1 FY06, debtors were 75 days.

## GUIDANCE FOR FY07

- The company has reaffirmed its guidance for the year.
- FY07 guidance issued earlier by the company expected Revenues in the range of \$ 98 Million (Rs. 4,361 Million) to \$ 102 Million (Rs. 4,539 Million) and Net profits between \$ 11.25 Million (Rs. 501 Million) and \$ 12.00 Million (Rs. 534 Million).

## OPERATION HIGHLIGHTS

### Business:

- US continued to be a dominant geography with 64.75% of Company's revenues coming from this geography. In the immediately preceding quarter too, 66.42% of revenues came from US. Revenue from Europe comprised 28.88% of total revenues as compared to 26.68% in Q4 FY06. Rest of the World, including Japan and Asia Pacific, accounted for the balance 6.37% of revenues.
- Although US has been and continues to be a traditionally strong market for KPIT Cummins, the Company has been experiencing an increasing traction from customers from other regions. Of the new customers added during the quarter, 60% are based outside US.
- Revenues from Manufacturing vertical constituted 77.33% of Q1FY07 revenues, down from 83.29% in Q1 FY06 and 80.61% in Q4FY06. However, in absolute terms, revenues from the Manufacturing vertical have increased by 8.81% as compared to revenues from this vertical in Q4FY06 and by 35.38% over Q1FY06.
- Revenues from DFS vertical constituted 8.72% of the total revenues in Q1FY07. Although it declined from 9.48% of total revenues in Q4FY06, in absolute terms, it

showed a growth of 4.33% over Q4FY06. As compared to Q1FY06 however, DFS revenues remained much lower.

- Continuing with the favourable trend of the previous year, offshore revenues increased to 46.84% of total revenues in Q1FY07 from 43.44% in Q4FY06 and 34.62% in Q1FY06. Onsite revenue correspondingly declined to 53.16% of total revenues in Q1FY07 from 56.56% in Q4FY06. The continuing favourable offshore / onsite mix has also positively impacted the gross profit margins of the Company.

### **Customers:**

- During the quarter, the Company added 5 new customers. The new customers include 2 US based customers from the DFS vertical, 2 customers headquartered outside the US from the high-tech manufacturing segment and 1 leading European bank.
- At the end of Q4FY06, total number of active customers was 39. After the acquisition of CG-Smith Software, the customer base had increased to 72, of which over 50% were among the Forbes Global 1000. With the new customer additions, total number of active customers has increased to 77.
- Cummins continues to be the largest customer, constituting 44.30% of the total revenues in Q1FY07. Revenue from Cummins has grown by 10.97% compared to Q4FY06 and 47.61% as compared to Q1FY06.
- Revenues from non-Cummins Star customers remained flat on an aggregate basis. As a percentage of total revenue however, revenue from non-Cummins Star customers declined from 36.07% of total revenue in Q4FY06 to 31.31% in Q1FY07. Revenue from this set of customers has been mixed - while some customers have shown modest to good growth, a couple of others have declined.
- With a broader base of customers, billing from the top 10 customers has declined to 79.50% of total revenues in Q1FY06 as compared to 83.75% in Q4FY06 and 89.81% in Q1FY06.
- Repeat business from customers continues to be high at around 89% of total revenues.
- KPIT's BI practice has been the preferred services partner for Business Objects consulting services for the entire US for the last quarter.

### **Employees:**

- Total employee base at the end of Q1 FY07 increased to 2,544 - an increase of 422 over the immediately preceding quarter. During the quarter 400 technical staff was added, while the addition to marketing and support staff was 22.

- Of the total addition of 422 employees, 238 people were added on account of CG-Smith acquisition. The remaining 184 people were added as part of the on-going recruitment process of the company.

### **Sales & Marketing**

- As part of its expansion plan, the Company plans to start operations in China and Singapore. At present the Company is evaluating options of expanding into China.

### **M&A and Integration**

- During the quarter, the Company completed substantial part of the integration process of KPIT Infossystems France (erstwhile Pivolis) which was acquired towards the end of the previous fiscal.
- During the quarter, the Company also initiated an integration plan for CG-Smith. The integration plan, which focuses on integration of people, processes and policies, is expected to be completed during the current quarter.

### **Infrastructure**

- Construction of the new 205,000 sq.ft. Phase II of the Software Development Centre at the company premises at Hinjawadi, is on schedule and is expected to be available for occupancy shortly.

## **KPIT CUMMINS GLOBAL BUSINESS SOLUTIONS LTD.**

- KPIT Cummins Global Business Solutions Limited (GBS) is a wholly owned subsidiary of KPIT Cummins, which is engaged in providing high end services including knowledge process outsourcing, technical helpdesk solutions and financial accounting solutions. Customers of GBS include Fortune 500 manufacturing customers and top 10 software and hardware firms.
- During the quarter GBS added two new customers, both of which are US based financial services companies with revenues in excess of \$ 1 Billion.
- From a team size of 220 at the end of Q4FY06, total team size at GBS increased to 305 at the end of Q1FY07.
- In seven months time since its commenced billing in December 2005, GBS has achieved break even.

## INCOME STATEMENT FOR THE QUARTER ENDED 30 JUNE 2006

Particulars	Q1FY07	Q4FY06	% Chg	Q1FY06	%
	Rs Mn.	Rs. Mn	Q-o-Q	Rs Mn.	Y-o-Y
Sales	1022.65	901.62	13.42%	699.62	46.17%
Software Development Expenses	640.94	571.49	12.15%	461.93	38.75%
<b>Gross Profit</b>	<b>381.70</b>	<b>330.14</b>	<b>15.62%</b>	<b>237.69</b>	<b>60.59%</b>
Selling and Marketing Expenses	38.52	14.49	165.77%	27.38	40.68%
General & Administration Expenses	190.85	163.11	17.01%	123.07	55.07%
<b>EBITDA</b>	<b>152.34</b>	<b>152.53</b>	<b>-0.13%</b>	<b>87.24</b>	<b>74.62%</b>
Interest & Finance Expense, net	10.94	9.01	21.45%	1.72	535.85%
Depreciation	25.16	25.14	0.06%	17.00	48.00%
<b>Profit After Depreciation &amp; Interest</b>	<b>116.24</b>	<b>118.38</b>	<b>-1.81%</b>	<b>68.52</b>	<b>69.64%</b>
Other Income	0.58	0.15		0.04	
<b>Profit Before Tax</b>	<b>116.82</b>	<b>118.54</b>	<b>-1.45%</b>	<b>68.56</b>	<b>70.39%</b>
Provision for Taxation	13.15	15.79		4.62	
Minority Interest	-0.19	-0.03			
<b>Profit After Tax</b>	<b>103.47</b>	<b>102.72</b>	<b>0.73%</b>	<b>63.94</b>	<b>61.82%</b>
Paid up Capital	74.35	72.80		70.45	
Free Reserves	1,476.40	1,335.57		1,041.65	
Earning per Share (of Rs. 5/-)					
Basic (Rs.)	7.01	7.06		4.54	
Diluted (Rs.)	5.67	5.75		3.60	

## PERFORMANCE METRICS

	Q1FY07	Q4FY06	Q1FY06
<b>Revenue Spread - Geography</b>			
USA	64.75%	66.42%	66.24%
Europe	28.88%	26.68%	30.23%
Rest of World	6.37%	6.90%	3.53%
<b>Revenue Spread - Verticals</b>			
Manufacturing	77.33%	80.61%	83.49%
DFS	8.72%	9.48%	14.86%
Others	13.95%	9.91%	1.65%
<b>Client Concentration</b>			
Top Client - Cummins	44.30%	45.28%	43.87%
Star Customers - Non Cummins	31.31%	36.07%	40.99%
Top 10 Client Billing	79.50%	83.75%	89.81%
No of Clients Added	5	4	3
Repeat Business	89%	91%	91%
<b>Revenues Split</b>			
Onsite Revenues	53.16%	56.56%	65.38%
Offshore Revenue	46.84%	43.44%	34.62%
<b>Revenue by Contract Type</b>			
Time and Material Basis	90%	89%	87%
Fixed Price / Time Basis	10%	11%	13%
<b>Debtors</b>			
Global Debtors (days)	84	86	75
<b>Human Resources - Details</b>			
<u>Average -</u>			
Development Team - Onsite	435	442	405
Development Team - Offshore	1,675	1,412	962
<u>Quarter End</u>			
Development	2,306	1,906	1,464
Gen Mgmt / Support	208	190	178
Marketing (Subsidiaries)	30	26	25
Total	2,544	2,122	1,667
<b>Utilisation Rate</b>			
Onsite	92.00%	93.00%	92.50%
Offshore	71.00%	71.00%	69.50%

## 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.*

## CONTACT DETAILS

Sanjay Sinha  
Email: [sanjays1@kpitcummins.com](mailto:sanjays1@kpitcummins.com)  
Tel.: +91 20 6652 5108

Karthik Krishnan  
Email: [karthikk@kpitcummins.com](mailto:karthikk@kpitcummins.com)  
Tel.: +91 20 6652 5013