

INVESTOR UPDATE

FOR

QUARTER ENDED 30<sup>th</sup> JUNE 2009

(NSE: KPIT, BSE: 532400)

(Apr - June 2009)

**KEY HIGHLIGHTS**

- Net Profit grew by 73% Y-o-Y and 16% Q-o-Q to Rs. 223.78 Mn.
- EBITDA grew by 33% Y-o-Y basis to Rs. 366.15 Mn.
- Profit Margins improved Y-o-Y basis; Gross Profit Margin 42.98% (up by 3.5%); EBITDA Margin 21.19% (up by 5.5%) and PAT Margin 12.95% (up by 5.6%)
- EPS increased to Rs.2.86 from Rs.2.47 in Q4 FY2009, a growth of 16%. On Y-o-Y basis it grew by 73%.
- Revenues in INR terms for Q1 FY10 declined by 1.8% to Rs. 1728.07 Mn. on a Y-o-Y basis, the Q-o-Q decline being 17.6%. In USD terms, Revenues stood at \$ 35.26 Mn. Q-o-Q decline of 16.8%.
- 5 Customers were added during the quarter, taking the total number of customers to 133.

## FINANCIAL HIGHLIGHTS FOR THE QUARTER ENDED 30<sup>TH</sup> JUNE 2009

### ➤ *Revenues:*

- During the quarter, Revenue in INR terms declined by 2% y-o-y and 18% q-o-q. In \$ terms, revenue declined by 17% q-o-q. Q1 FY10 Revenue was USD 35.26 Mn.
- In USD terms, the absolute q-o-q decline in revenues was of USD 7.11 Mn. The decline in revenues was on account of four major reasons - decline in Revenues from our largest customer, one time license resale revenue in Q4FY09, Cyclical billing in FP Projects and decline in some other Customers. We have not lost any customer during the quarter.
- Our largest customer contributed 39% of the total revenues (USD 174.10 Mn.) for FY09. The same contribution is around 33% - 34% for the last two quarters. Almost 90% of this reduction in revenues from this customer is on account of reduction in customer IT spend due to challenging business environment, movement of work from onsite to offshore and postponement in decision making for some of the upcoming projects. The balance 10% is on account of portfolio rationalization between the IT outsourcing vendors.
- In Geography terms, out of the total Q-o-Q revenue fall of 17.6%, US contributed 8.9%, Europe 7.3% and APAC 1.4%.
- Our focus on India Geography since the last 2 - 3 qtrs is now delivering results and we are seeing a lot of traction in India. India Geography (which is a part of APAC) actually saw a Q-o-Q growth of 40% in Q1FY10. Similarly South Africa is also fetching some additional growth avenues. During the qtr we were able to break through in Australia, though the actual revenues during the qtr. were minimal.
- During the quarter we saw maximum customer response in Automotive Embedded LoB. From the geography perspective, both India and Europe were amongst the highest traction generators.

### ➤ *Profitability:*

- Profits have improved during the quarter. Net profit margins expanded by 3.74% Q-o-Q and by 5.6% Y-o-Y basis.
- Despite a fall in revenue, we have been able to maintain operating margins at 21%+ which is a result of productivity improvement and cost control measures taken over the past few quarters. SG&A costs have fallen by 4.76% (Q-o-Q) and 10.12% (Y-o-Y).

- The following factors have contributed to the improvement in profits and profitability:
  1. Our productivity improvement initiatives, namely more fixed price contracts, Improved reuse of production assets from repository, reduced rework efforts, increased zero defect deliveries to customers, increased usage of automation tools, increased customer satisfaction rating, better onsite offshore revenue mix, have been delivering improved outcomes.
  2. The reduction in SGA costs depicts the ongoing cost control and reduction initiatives like consolidation of facilities and utilization of all assets ( hardware, software, space ), usage of freeware tools, capital expenditure only on a “must have” basis, need based hiring and renegotiation of contracts with service as well as capital vendors for rate reduction. These measures will continue on an ongoing basis.
  3. Interest expense declined by 65.04% Q-o-Q and by 47.65% Y-o-Y. This was primarily on account of lower utilization of working capital credit.
  4. Depreciation in Q1FY10 was lower by 67.04% Q-o-Q. This was on account of one time write-off of the entire amount paid to Cummins for the acquisition of CBS business.
  5. The forex loss during the quarter stood at Rs. 17.82 Mn. as against Rs. 155 Mn. in Q4FY09.

➤ ***Balance Sheet details (Rs. Million):***

- The Cash Balance as at June 30, 2009 stood at Rs. 1,812.09 Mn. registering an increase of Rs. 140.92 Mn. over the March 31, 2009 balance. This increase was after net repayment of loans to the tune of Rs. 148 Mn. during the quarter. The Cash Balance is being held in Current Accounts (Rs. 880.29 Mn.) and Deposit Accounts (Rs. 929.74 Mn.)
- As on June 30, 2009 our total debt stood at Rs. 1036.61 Mn. (Rs. 1184.76 Mn. as of March 31, 2009) comprising of Rs. 777.68 Mn. of Term Loan and Rs. 246.66 Mn. of Working Capital Loan. The Total Book Value of Fixed Assets is about 2.48 times of the Term Loan outstanding as at the quarter end whereas the Total Book Value of Net Current Assets is 7.34 times of the outstanding Working Capital Loan as at the Quarter End.



- o Forex Hedging instruments with maturity of more than 3 months and considered effective hedges in accounting terms are provided for as adjustment to the Reserves and Surplus in the Balance Sheet. As on June 30, 2009 these Hedging Reserves were Rs. 847.70 Mn., a decrease of Rs. 783.60 Mn. during the quarter.

Balance Sheet Summary: As at (Rs. Mn.)	June 30, 2009	March 31, 2009
Shareholders Equity	2,635.88	1,630.59
Total Debt	1,036.61	1,184.76
Minority Interest & Deferred Tax Liability	68.25	62.77
<b>TOTAL</b>	<b>3,740.74</b>	<b>2,878.12</b>
Fixed Assets	1,929.96	1,795.02
Investments	0.31	0.31
Current assets	3,968.08	4,189.08
Cash balance	1,812.09	1,671.17
Receivables	1,411.05	1,775.60
Loans & Advances	744.94	742.30
Current liabilities	2,157.61	3,106.29
<b>Total Net Assets</b>	<b>3,740.74</b>	<b>2,878.12</b>

## KEY DEVELOPMENTS

### PARTNERSHIP

- KPIT signed a Full user distribution Agreement with Oracle. This agreement enables access to Oracle's premier products and solutions, which will generate additional growth for the company
- Microsoft has renewed its Gold certified partnership with KPIT Cummins

### AWARDS AND THOUGHT LEADERSHIP

- KPIT was one among the participant speakers at the Propelling India in 2020, Chennai conference organized by Society of Indian Automobile Manufacturers (SIAM)
- KPIT participated as a panelist at the Fifth India Innovation Summit 2009. Mr. Girish Wardadkar, President and Executive Director, KPIT Cummins addressed the topic "Digital Manufacturing- Globalize, Integrate, Outperform"

- Thought Leadership in some other events and conferences like “Oracle Accelerate Events”, focused towards SMB market; seminar on “Latest Trends and Future in Automotive Electronics” organized as part of AECA 2009, a trade show on Automotive Electronics.
- The International Association of Outsourcing Professionals (IAOP) nominated KPIT Cummins in three categories.
  1. Best 5 companies by Industry Focus: *Automotive*
  2. Best 20 leaders by Service Offered: *Industry - specific*
  3. Best 20 companies by Region Served: *Japan*

## CUSTOMERS AND MARKETS

- 5 new customers were added during the quarter - 2 in Europe geography, 2 in India and 1 in US. Total number of active customers is 133. No customers lost.
- We now work or are in active discussions with 7 of the Top 12 Automotive OEMs in the world.
- We have low exposure (<3%) to the top 3 US automotive OEMs.
- We strengthened our **leadership in AUTOSAR**: won **Validator 4** project from the consortium. A leading **Japanese Tier 1** has sourced our **AUTOSAR R3.0 BSW evaluation license** for its applications.
- We have commenced a **strategic Engineering R&D engagement** with a leading European Automotive OEM.
- Two leading European Tier 1s have selected our **Network Operating System** for their automotive products.
- We have become **core members of the GENIVI Alliance**, this shall help us create and offer unique and differentiated **In-Vehicle Infotainment (IVI)** products and services that will facilitate reusability, thus reducing time to market and cost.
- Commenced design engineering engagement with 2 leading European Semiconductor companies
- We clinched a **multi-year Enterprise Support deal** with a **global enterprise middleware leader** further strengthening our leadership in providing high end 24/7 support to large customers.



- Our India strategy focus has started showing results and we have bagged a deal in the BFSI sector from India's leading Ratings and Research Advisory Company.
- In the Business IT space we won engagements in Manufacturing ERP, CRM and product lifecycle management from a leading American transportation equipment provider, Indian Industrial Equipment Manufacturer, Indian Steel manufacturer, a leading European manufacturer of Energy efficiency products and an IT services company based in Middle East.
- We have been chosen as the Global SAP roll-out implementation partner by a leading American Industrial Machinery manufacturer.
- One of our long-standing European customers awarded us its IT award for year 2009, for successful implementation of Six Sigma initiatives in the areas of Database design, performance tuning and reporting.

## **BUSINESS OUTLOOK**

- In our last investor update, we had mentioned that we will not be providing guidance on our expected performance for FY10, considering the volatile and uncertain conditions. While we see some traction in terms of customer interest in new engineering projects, we believe that the uncertainty continues.
- Anticipating this uncertainty over the last 4 - 5 quarters, we have done significant work in the areas of higher asset utilization, open source and freeware deployment, engineers productivity improvement through asset based development and tools deployment, revenue mix, delivery and customer focus, controlled hiring, need based capex and focus on receivables, overall cost reduction & control in operations and the likes so on. Thus we are confident of efficient operations in these times of uncertain revenues.
- We will continue to invest in CREST (R&D), People Development (training) and Practice Development in selected areas
- As stated in our last communication, in spite of the expected fall in revenues, our outlook on the profitability remains strong. We are confident of not only maintaining but also of marginally exceeding the absolute profits after tax of the last financial year.
- We are confident of achieving the profit numbers even if the INR / USD rates go down to Rs. 44.50 / USD by the end of the year.



## FOREX INSTRUMENTS

- No more liabilities on the 3 derivative contracts

### Total Outstanding Hedges:

- Total amount of hedges as on 30th June 2009 : \$178.42 Mn.
  - Maturing in the next 12 months : \$ 73.37 Mn.
  - Maturing beyond 12 : \$105.05 Mn.
- The average hedge rate for FY10 is Rs. 45.73 / USD ( with an assumption of spot being around Rs. 47 / USD )



**INCOME STATEMENT FOR THE QUARTER ENDED 30<sup>th</sup> JUNE 2009**

Rs. Million	Q1 FY10	Q4 FY09	Q-o-Q growth	Q1 FY09	Y-o-Y Growth
Sales	1,728.07	2,097.59	-17.62%	1,759.58	-1.79%
Software Development Expenses	985.42	1,084.62	-9.15%	1,064.46	-7.43%
Gross Profit	742.66	1,012.97	-26.69%	695.12	6.84%
Selling and Marketing Expenses	162.93	184.74	-11.81%	164.12	-0.73%
General and Admin Expenses	213.58	210.60	1.41%	254.77	-16.17%
EBITDA	366.15	617.63	-40.72%	276.24	32.55%
Interest	5.37	15.35	-65.04%	10.25	-47.65%
Depreciation	71.17	215.91	-67.04%	66.11	7.65%
Profit After Depn. & Int.	289.61	386.37	-25.04%	199.87	44.90%
Other Income	-17.82	-155.27	-88.52%	-50.66	-64.83%
Profit Before Tax	271.79	231.10	17.61%	149.21	82.15%
Provision for Taxation	48.01	38.73	23.97%	20.35	135.93%
Profit After Tax	223.78	192.37	16.33%	128.86	73.66%
Minority Interest	-	0.81	-100.00%	0.81	-100.00%
Profit after Minority Interest	223.78	193.18	15.84%	129.67	72.57%
Exceptional Item	-	-	-	-	-
Profit after exceptional item	223.78	193.18	15.84%	129.67	72.57%
Paid up Capital	156.09	156.09	-	156.07	-
Free Reserves	2,479.79	1,529.23	-	2,135.32	-
EPS (Rs. 2/-Face Value each)					
- Basic	2.87	2.48	15.84%	1.66	72.80%
- Fully Diluted	2.86	2.47	15.84%	1.65	73.26%
<b>Common Size Analysis:</b>					
Gross Profit Margin	42.98%	48.29%	-	39.51%	-
Sales & Marketing Exp / Revenue	9.43%	8.81%	-	9.33%	-
General & Admin Exp / Revenue	12.36%	10.04%	-	14.48%	-
EBITDA Margin	21.19%	29.44%	-	15.70%	-
Net Profit Margin	12.95%	9.21%	-	7.37%	-

1. 'q-o-q' or 'sequential' growth refers to growth during the quarter compared to the immediately preceding quarter
2. 'y-o-y' growth refers to the growth during the quarter as compared to the corresponding quarter of the previous year



**PERFORMANCE METRICS (QUARTER ENDED 30<sup>th</sup> JUNE 2009)**

	Q1 FY10	Q4 FY09	Q-o-Q Growth	Q1 FY09	Y-o-Y Growth
<b>Revenue Spread - Geography</b>					
USA	55.53%	54.66%	-16.30%	56.37%	-3.25%
Europe	36.39%	37.30%	-19.63%	35.01%	2.08%
Rest of World	8.08%	8.04%	-17.22%	8.62%	-7.79%
<b>Revenue Spread - Verticals</b>					
Manufacturing	82.68%	85.03%	-19.90%	88.00%	-7.73%
BFSI	7.63%	6.24%	0.80%	5.99%	25.11%
Others	9.69%	8.74%	-8.58%	6.01%	58.40%
<b>Revenue Spread - by LOB</b>					
Manufacturing Business IT	52.27%	50.79%	-15.22%	54.11%	-5.13%
Auto Electronics	26.05%	29.07%	-26.18%	26.09%	-1.96%
Semiconductor Solutions Group	5.56%	6.52%	-29.73%	7.27%	-24.85%
Diversified Financial Services	7.88%	6.12%	6.18%	5.27%	46.78%
Global Business Solutions	8.23%	7.50%	-9.53%	7.25%	11.58%
<b>Customer details</b>					
No. of Customers Added	5	2	-	6	-
No. of STAR Customers	26	26	-	25	-
No. of Active Customers	133	128	-	117	-
Customers with run rate of >\$1Mn	25	28	-	26	-
Top Client - Cummins	33.76%	33.26%	-16.36%	41.90%	-20.86%
Star Customers - Non Cummins	48.40%	46.49%	-14.23%	43.83%	8.46%
Top 10 Client Billing	69.52%	65.84%	-13.01%	72.21%	-5.44%
Repeat Business	90%+	90%+	-	90%+	-
<b>Onsite / Offshore Split</b>					
Onsite Revenues	41.93%	43.39%	-20.39%	47.69%	-13.65%
Offshore Revenue	58.07%	56.61%	-15.49%	52.31%	9.02%
<b>Revenue by Contract Type</b>					
Time and Material Basis	77.74%	74.11%	-	86.65%	-
Fixed Price / Time Basis	22.26%	25.89%	-	13.35%	-
<b>Debtors (days)</b>	74	69	-	72	-

- We had done factoring in Q4FY09, which we have not resorted to in Q1FY10 in view of the strong liquidity position that we are in. Net of factoring, the DSO is in the same range for Q4FY09.



	Q1 FY10	Q4 FY09	Q-o-Q Growth	Q1 FY09	Y-o-Y Growth
<b>Human Resources - Details</b>					
Development Team - Onsite (Avg)	496	561	-	618	-
Development Team - Offshore(Avg)	3,539	3,673	-	3,475	-
Onsite FTE	461	534	-13.67%	564	-18.26%
Offshore FTE	2,389	2,623	-8.92%	2,450	-2.49%
Development (at Qtr end)	3,973	4,168	-	4,391	-
Gen Mgmt / Support (at Qtr end)	348	357	-	364	-
Marketing (Subsidiaries) (at Qtr end)	49	51	-	47	-
Total (at Qtr end)	4,370	4,576	-	4,802	-
Onsite utilization	92.93%	95.24%	-	91.32%	-
Offshore utilization	67.50%	71.41%	-	70.51%	-

## CONFERENCE CALL DETAILS

Conference name : KPIT Cummins Q1 FY2010 Conference Call  
Date : Tuesday, 21<sup>st</sup> July 2009  
Time : 1600 Hrs (IST)  
Dial-in numbers : Primary : +91 22 2821 3311  
Standby : +91 22 2821 8855  
Toll Free : 1800 425 4061 / 1800 425 4250

### **About KPIT Cummins Infossystems Ltd.**

KPIT Cummins Infossystems Limited (BSE: 532400; NSE: KPIT), a leading global product engineering partner to the Automotive & Semiconductor industry, is focused on co-innovating domain intensive technology solutions for Manufacturing corporations (with special focus on Automotive, Industrial Machinery and Hi-Tech verticals) to help its customers become efficient, integrated and innovative enterprises.

A leader in IP (Intellectual Property) led technology solutions and services, KPIT Cummins currently partners with 100+ global Manufacturing corporations [including 50+ OEMs / ODMs (Original Equipment Manufacturers & Original Device Manufacturers)] helping them globalize efficiently & bring complex technology products/systems faster to their global markets.

For more information, you can visit our company website at [www.kpitcummins.com](http://www.kpitcummins.com)



## 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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