



KPIT CUMMINS INFOSYSTEMS LTD

INVESTOR UPDATE

FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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KEY HIGHLIGHTS

- Net Profit for the quarter grew 19.21% sequentially
- Revenues for the quarter grew 11.04% sequentially
- The company added 5 new clients in the quarter
- The BPO subsidiary bagged its first significant contract with a large multinational for technical helpdesk solution
- Mr. Floyd Rutan, Executive Director – CBS (CBS provides centralised accounting and other shared services for Cummins globally) has joined the Board of Directors of KPIT Cummins in place of Mr. Brent Peters.
- Strong growth in Cummins and ATS businesses
- The company has reaffirmed its revenues and profit guidance for FY06
- KPIT ranked #8 in the Dataquest Financial Index for IT companies.
- KPIT's infrastructure to have 4000+ capacity by July 2006

REPORTING METRICS

KPIT Cummins Consolidated	Q2FY06	Q2FY05	Q1FY06
Geographical Spread of Revenues			
USA	67.15%	63.61%	66.24%
Europe	27.56%	34.10%	30.23%
Rest of World	5.28%	2.29%	3.53%
Industry Vertical Spread of Revenues			
Manufacturing	84.76%	77.23%	83.49%
BFSI	12.08%	21.11%	14.86%
Others	3.16%	1.66%	1.65%
Client Concentration			
Top Client – Cummins	47.85%	37.63%	43.87%
Star Customers - Non Cummins	36.60%	48.24%	40.99%
Top 10 Client Billing	88.72%	88.17%	89.81%
Clients Added during the Quarter	5	4	3
Revenue from Repeat Business	91%	90%	91%
Revenues Split			
Onsite Revenues	65.18%	69.77%	65.38%
Offshore Revenue	34.82%	30.23%	34.62%
Revenue by Contract Type			
Time and Material Basis	89%	88%	87%
Fixed Price / Time Basis	11%	12%	13%
Debtors			
Global Debtors (days)	84	80	75
Human Resources – Details			
Average -			
Development Team - Onsite	426	376	405
Development Team - Offshore	1032	656	962
Quarter End			
Development	1630	1089	1464
Gen Mgmt / Support	185	134	178
Marketing (Subsidiaries)	29	24	25
Total	1844	1247	1667
Utilisation Rate			
Onsite	95%	96%	93%
Offshore	72%	76%	70%

KPIT CUMMINS - CONSOLIDATED FINANCIALS

Particulars	Q2FY06	Q2FY05	% Chg	Q1FY06	%
	Rs Mn.	Rs. Mn	Y-o-Y	Rs Mn.	Q-o-Q
Sales	776.83	617.46	25.81%	699.62	11.04%
Software Development Expenses	507.78	406.36	24.96%	461.93	9.93%
Gross Profit	269.06	211.09	27.46%	237.69	13.20%
Selling and Marketing Expenses	30.28	23.79	27.27%	27.38	10.58%
General & Administration Expenses	133.09	102.03	30.45%	123.07	8.14%
EBITDA	105.69	85.27	23.94%	87.24	21.15%
Interest & Finance Expense, net	3.33	2.60	28.04%	1.72	93.57%
Depreciation	19.58	6.69	192.57%	17.00	15.18%
Profit After Depreciation & Interest	82.78	75.98	8.95%	68.52	20.81%
Other Income	0.02	0.23		0.04	
Profit Before Tax	82.80	76.21	8.65%	68.56	20.77%
Prov. for Taxation	6.57	6.00	9.49%	4.62	42.39%
Profit After Tax	76.23	70.21	8.57%	63.94	19.21%
Paid up Capital	71.98	64.75		70.45	
Free Reserves	1,130.47	573.04		1,041.65	
Earning per Share (of Rs. 5/-)					
Basic	5.30	5.42		4.54	
Diluted	4.28	4.25		3.60	

Q2FY06 PERFORMANCE

➤ **Revenues**

- Consolidated revenues grew by 11.04% sequentially in Q2FY06 to Rs 776.83 million (Q1FY06 - Rs 699.62 million) while they grew 25.81% compared to corresponding quarter last year (Rs 617.46 million)
- 5 new customers were added during the quarter taking the total number of active customers to 32. The number of Star customers remained unchanged at 9
- The top ten clients including Cummins contributed 88.72% of the total revenues during the quarter (Q1FY06 – 89.81%) and 88.17% in Q2FY05
- For the quarter, Cummins business revenues touched 47.85% of total revenues compared to 43.87% in Q1FY06 and 37.63% in Q2FY05
- The Star customers excluding Cummins contributed 36.60% of total revenues compared to 40.99% in Q1FY06 and 48.24% in Q2FY05
- Manufacturing vertical contributed 84.76% of total revenues (Q1FY06 – 83.49%) against 77.23% in Q2FY05, while BFSI contributed 12.08% (Q1FY06 – 14.86%) against 21.11% in Q2FY05
- On-site revenues stood at 65.18% compared to 65.38% in Q1FY06 and 69.77% in Q2FY05. Offshore revenues contributed 34.82% compared to 34.62% in Q1FY06 and 30.23% in Q2FY05
- Consolidated revenues from US markets stood at 67.15% as compared to 66.24% in Q1FY06 (63.61% - Q2FY05), while revenues from Europe stood at 27.56% against 30.23% in Q1FY06 (34.10% - Q2FY05)
- Global Debtors Days have risen to 84 days in Q2FY06 from 75 days in Q1FY06

➤ **Profitability**

- The company grew its margins on a sequential basis. Gross margin improved by 67 basis points to 34.64% while net margin improved by 68 basis points to 9.81% in Q2FY06
- Consolidated net profit before tax grew by 20.77% sequentially in Q2FY06 to Rs 82.80 million (Q1FY06 - Rs 68.56 million) while it grew 8.65% compared to corresponding quarter last year (Rs 76.21 million)
- Provision for taxation in Q2FY06 stands at Rs 6.57 million compared to Rs 4.62 million in Q1FY06 (Q2FY05 - Rs 6.00 million)
- Consolidated net profit after tax grew 19.21% sequentially in Q2FY06 to Rs 76.23 million (Q1FY06 - Rs 63.94 million) while it grew 8.58% compared to corresponding quarter last year (Rs 70.21 million)
- Earnings per share (basic) for the quarter works out to Rs 5.30

➤ **Operations**

- Utilization increased to 95% for onsite and 72% for offshore in Q2FY06 from 92.5% for onsite and 69.5% offshore in Q1FY06 with the trainees becoming productive
- Renewed focus on Lines of Business and utilization of technical staff in Q2 has helped improve billability. Going forward, specific initiatives have been launched to balance intake of new people, converting freshers to billable engineers and internal utilization of partly non-billable engineers. In Q3 specifically, the Company expects ATS and GBS to demonstrate higher billability
- KPIT's Advanced Technology Solutions (ATS) line of business (LOB), which includes VLSI and Tools & Embedded, continued to generate improved traction and open new opportunities within the industry. Revenues from ATS grew 20% sequentially in Q2FY06. ATS LOB customers include the top five VLSI companies in the world

- During the quarter, the Company went live on SAP Financials
- The Company initiatives on ATLAS, a Global Project Management System, are progressing well. By the end of the year, 85% of the projects are expected to go live on ATLAS. This program will enable the Company to increase its focus on project management and quality assurance
- The Company has embraced Six Sigma as the way forward. Nine green belt projects are under way and additional green belts would be taken up through the year
- The Company's plans for the BS7799 certification is also progressing well and it is expected that the certification will be obtained for both the Pune and Bangalore sites in Q3
- During the quarter, the Company extended the reward and recognition program, 'Cheers', for its onsite engineers
- The Company's initiatives on CMMI certification is progressing well and it should be ready to offer itself for certification by the end of the year
- With renewed focus on practice and domain building, the Company is in the process of launching 'vocation teams' in Q3. These teams will specifically focus on key practice areas

➤ **KPIT Cummins Global Business Solutions Ltd.**

- KPIT Cummins GBS, the BPO subsidiary, bagged its first significant global support contract for a technical helpdesk solution with a large multinational. The contract commences Q3FY06
- The BPO Subsidiary has started delivering solutions for Accounting and Technical Support

➤ **Infrastructure**

- Construction of the 205,000 sq.ft. Phase II of the Software Development Centre at Hinjawadi is on schedule. This Capex so far has largely been funded through internal accruals. The effect of depreciation will be reflected in the financial statements only in the next year
- Depreciation rose 15.19% sequentially to Rs 19.58 million in Q2FY06 (Q1FY06 – 17 million) while it rose 192.61% compared to Rs 6.69 million in Q2FY05

➤ **Human Resources**

- A net addition of 177 employees was made during the quarter, taking the total employee strength to 1844 as on September 30, 2005
- The Company reinforced its domain expertise with 88 lateral recruits from customer industries (manufacturing, auto and accounting)
- 89 freshers were also added during the quarter thereby strengthening the junior rung in the organisation
- Software development expenses grew 9.93% sequentially in Q2FY06 to Rs 507.78 million (Q1FY06 - Rs 461.93 million). They grew 24.96% compared to the corresponding quarter last year (Q2FY05 – Rs 406.36 million)

➤ **Sales & Marketing**

- The Company has recruited a domain expert having institutional experience to oversee the sales and marketing in the BFSI vertical. He will also be part of the client engagement team

➤ **Share Capital & Shareholding**

- Institutional holding in the Company stood at 28.32% (excluding Lehman Brothers) as on 30th September 2005 compared to 29.42% as on 30th June 2005 on an expanded capital base of Rs 71.98 million

➤ **Dataquest Survey**

- KPIT has been ranked #8 among the top listed IT companies in a survey done by Dataquest (up from #12 last year)
- The survey took into account seven parameters - sales, profits, gross block, sales growth, profit growth, gross block growth and ROCE
- KPIT was ranked #2 in sales growth, #15 in profit growth and #3 in gross block growth

LOOKING AHEAD – FY06 PERFORMANCE

➤ **Guidance – Financial Year 06**

- The Company has reaffirmed its revenue and profit guidance for FY06
- The Company had indicated consolidated revenue guidance of between Rs 3,080 million and Rs 3,168 million. Net profit guidance for FY06 was between Rs 320 million and Rs 350 million
- The Company is confident of achieving its revenue and net profit guidance

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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