



INVESTOR UPDATE
FOR
QUARTER ENDED 30TH SEPTEMBER 2006

KEY HIGHLIGHTS

- Net Profit for Q2FY07 was Rs. 123.48 Million - growth of 61.98% y-o-y and 19.33% q-o-q.
- Total Revenues for Q2FY07 were Rs. 1140.26 Million - growth of 46.78% y-o-y and 11.50% q-o-q.
- Offshore Revenue grew by 101.61% y-o-y and 14.44% q-o-q
- 3 additional Star customers
- 5 new customers added, of which 4 are in Advanced Technology Solutions domain
- 16 customers reach revenue run rate of over \$ 1 Million
- 500 people ODC for Renesas - Largest ODC of its kind

FINANCIAL HIGHLIGHTS

REVENUE ANALYSIS

- Consolidated revenues for Q2FY07 grew to Rs. 1140.26 Million, recording a growth of 46.78% y-o-y and a sequential growth of 11.50%.
- Revenue growth has been strong in both Star customers and non-Star customers. Star customers have shown an aggregate growth of 35.06% on a y-o-y basis and 14.59% sequentially.
- Revenues from Cummins, the leading Star customer, grew by 28.89% on a y-o-y basis and 5.76% sequentially.
- During the quarter, share of revenue from Cummins declined to 42.02% as compared to 44.30% in the previous quarter and 47.85% in the corresponding quarter of the previous fiscal.
- Aggregate revenue growth from Non-Cummins customers has been higher than the average growth rate for the company. Aggregate revenue from non-Cummins customers grew by 16.07% sequentially and 63.20% on a y-o-y basis.
- Revenue from non-Cummins Star customers grew by 43.12% y-o-y and 27.09% q-o-q. During the quarter, the company upgraded 3 of its customers to the Star customer category - 2 of these customers have been KPIT Cummins' customers while 1 has been a customer of CG Smith. On a like to like basis (considering previous quarter revenues from the new Star customers added during the quarter), non-Cummins Star customers recorded a 11.95% q-o-q growth.

Revenue Growth	Q-o-Q	Y-o-Y
Total Revenue	11.50%	46.78%
From Star Customers	14.59%	35.06%
Revenue from Cummins	5.76%	28.89%
Non-Cummins Star	27.09%	43.12%
Non-Cummins Star (like to like basis*)	11.95%	43.12%
Non-Cummins customers	16.07%	63.20%

* Considering previous quarter revenues of new Star customers added during the quarter

- Revenues for the quarter include revenues from SolvCentral.com, Pivolis and CG-Smith, which were acquired by the company earlier. Revenues from SolvCentral.com were consolidated w.e.f. Q4FY06 while revenues from the other entities were consolidated w.e.f. Q1FY07. For the quarter, revenues from these acquired entities constituted 12.99% of total revenues, as compared to 11.84% in the previous quarter. Revenues from these acquired entities have shown a 22.40% q-o-q growth reflecting a trend consistent with the pre-acquisition estimates. Organic revenues of KPIT Cummins (without considering revenues from the acquired entities), have also grown by a healthy 10.04% sequentially.

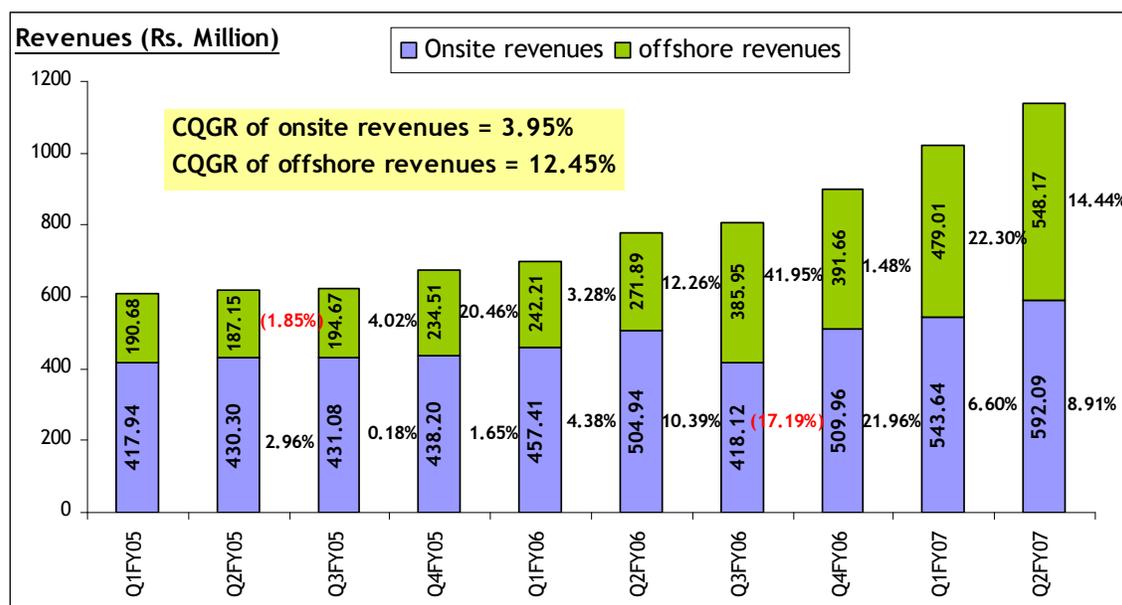
- Of the total sequential growth of 11.50% for the quarter, organic growth constitutes 8.85% and the balance 2.65% comes from inorganic components.

Revenue Components	% of Total Revenue	Q-o-Q Growth	Contribution to Growth
Organic	87.01%	10.04%	8.85%
Inorganic (aggregate)	12.99%	22.40%	2.65%
Total Revenue	100.00%	11.50%	11.50%

- Continuing with the previous trend, share of revenues from offshore services has increased further to 48.07% for the quarter. Onsite revenues have grown by 17.26% y-o-y and 8.91% q-o-q, while offshore revenues have grown by 101.61% y-o-y and 14.44% q-o-q.

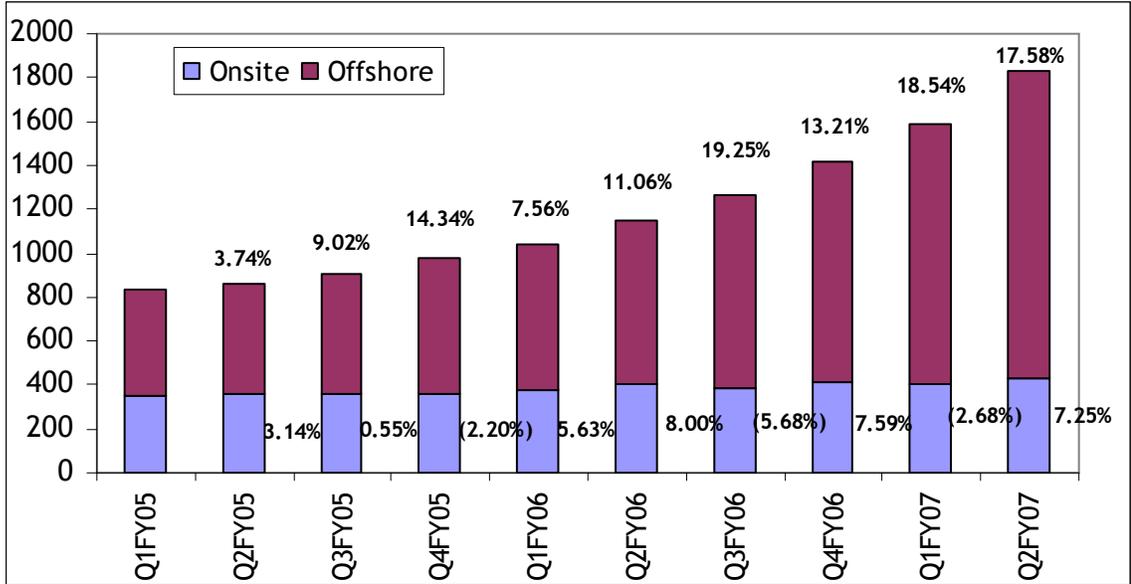
Revenue Components	Q-o-Q	Y-o-Y
Onsite revenue	8.91%	17.26%
Offshore revenue	14.44%	101.61%
Total Revenue	11.50%	46.78%

- Over the last 10 quarters, offshore content from the total revenues have been steadily increasing from 31.33% in Q1FY05 to the present level of 48.07%. Compounded Quarterly Growth Rate (CQGR) of offshore revenues has been stronger than onsite revenues - reflecting a qualitative shift in revenues. CQGR of offshore revenues during the last 10 quarters was 12.45% as compared to 3.95% for onsite revenues. The following chart shows the trend in onsite and offshore revenues over the last ten quarters.



- Volume growth on FTE (Full Time Equivalent) basis has been stronger than the revenue growth. Sequential volume growth has been 14.98% while y-o-y volume growth has been 59.15%. With the growth in offshore content, offshore FTEs have

grown by 17.58% q-o-q and 88.16% y-o-y. Onsite volumes have grown by 7.25% q-o-q and 5.93% y-o-y.



➤ Revenues by Geography:

- US continued to be the dominant geography, followed by Europe. US geography accounted for 62.40% of the total revenues, whereas Europe constituted 28.68% of total revenues. In the previous quarter, US accounted for 64.75% of total revenues while Europe accounted for 28.88% of total revenues. Rest of the World (ROW), which includes primarily Japan and Asia Pacific, accounted for 8.92% of the revenues for the quarter, as compared to 6.37% in the previous quarter.
- In terms of growth rate, however, ROW witnessed the highest growth rate, followed by Europe and US, in that order. Growth of revenues from ROW was 56.09% q-o-q and 147.90% y-o-y. Revenues from Europe have grown by 10.73% q-o-q and 52.76% y-o-y, while that from US geography have grown by 7.46% q-o-q and 36.40% y-o-y.
- Overall, traction from customers outside US continues to be strong.

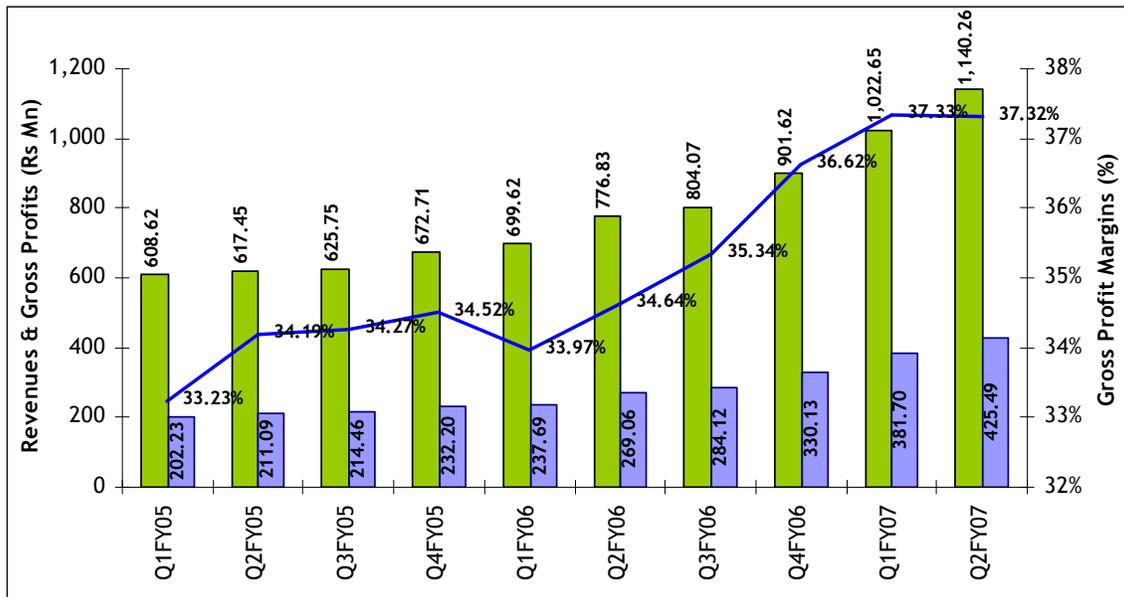
➤ Revenues by Verticals:

- Manufacturing vertical accounted for 76.34% of the total revenues for the quarter, as compared to 77.33% in the previous quarter and 84.76% in the corresponding quarter of the previous fiscal. Diversified Financial Services (DFS) as a vertical accounted for 10.77% of revenues, compared to 8.72% in the previous quarter and 12.08% in Q2FY06. Others, which include Independent Software Vendors etc, catering primarily to Manufacturing and DFS verticals, accounted for the balance 12.89% of revenues for the quarter. In the previous quarter, revenues share of 'Others' was 13.95%.

- DFS vertical has shown a growth of 37.68% q-o-q and 30.83% y-o-y. Growth in Manufacturing vertical was 10.08% q-o-q and 32.21% y-o-y. During the quarter the 'Others' segment grew by 3.03% sequentially.

PROFITS AND PROFITABILITY ANALYSIS

- Gross profit for the quarter was Rs. 425.49 Million as compared to Rs. 381.70 Million for the previous quarter.
- Gross profit has grown by 58.14% on a y-o-y basis and 11.47% sequentially.
- Gross profit margin for the quarter was stable as compared to the previous quarter at 37.32%. In the corresponding quarter of the previous fiscal, gross profit margin was 34.64%. The following chart shows the trend in the gross profits and gross profit margins.



- KPIT Cummins' subsidiaries abroad are essentially sales and marketing offices. Earlier, all indirect expenses related to the subsidiaries were categorized as General and Administrative (G&A) expenses. In order to better reflect the actual sales and marketing expenses, the Company has regrouped all the direct and indirect costs related to sales and marketing, including all expenses of the subsidiaries, into Sales and Marketing (S&M) expenses. The figures for the previous quarters have also been restated on the same principle. However, total Sales General and Administrative (SG&A) expenses remain unchanged.
- Selling and Marketing (S&M) expenses for the quarter were Rs. 122.44 Million, as compared to Rs. 106.56 Million in Q1FY07 and Rs. 81.87 Million in Q2FY06. S&M expenses have grown by 14.90% q-o-q and 49.56% y-o-y. S&M expenses for the quarter constituted 10.74% of the total revenue - in line with that in the previous quarters.

- General and Administrative (G&A) expenses for the quarter were Rs. 124.25 Million, as compared to Rs. 122.80 Million in Q1FY07 and Rs. 81.50 Million in Q2FY06. G&A expenses have grown by 1.18% q-o-q and 52.45% y-o-y. G&A expenses accounted for 10.90% of revenues, down from 12.01% in the previous quarter.
- SG&A expenses, on an aggregate basis have grown by 7.56% q-o-q and 51.00% y-o-y to Rs. 246.69 Million for the quarter. As a percentage of revenues, SG&A expenses declined from 22.43% in the previous quarter to 21.63% in the current quarter.
- EBITDA for the quarter was Rs. 178.80 Million, a growth of 69.17% y-o-y and 17.37% q-o-q. EBITDA margins have also correspondingly improved by 78bps compared to the previous quarter and by 2.08% as compared to Q2FY06 to 15.68%. Improvement in EBITDA margins is a result of the decline in SG&A expenses.
- Interest and Depreciation expenses for the quarter were Rs. 37.75 Million - a growth of 4.57% q-o-q and 64.77% y-o-y. Interest expenses, net of interest earnings during the quarter, declined to Rs. 7.34 Million from Rs. 10.94 Million in the previous quarter. Depreciation expenses have increased to Rs. 30.41 Million during the quarter. Interest and depreciation expenses as a percentage of revenues were 3.31% for the quarter as compared to 3.53% in the previous quarter.
- Profit before taxes (PBT) for the quarter was Rs. 141.34 Million. This has grown by 70.70% y-o-y and 20.99% q-o-q. PBT margin for the quarter also improved by 97bps to 12.40%.
- Consolidated Net Profit after taxes (PAT) for the quarter was Rs. 123.48 Million. PAT has grown by 61.98% y-o-y and 19.33% sequentially.
- Net profit margin improved from 10.12% in the previous quarter to 10.83% in the current quarter. In the corresponding quarter of the previous year, net profit margin was 9.81%.
- Earnings per share (EPS) for the quarter was Rs. 8.30, up from Rs. 5.30 in Q2FY06, an increase of 56.60%. In the preceding quarter, EPS was Rs. 7.01.
- Debtors were 80 days of sales at the end of the quarter, compared to 84 days last quarter.

GUIDANCE FOR FY07

- The company has reaffirmed its guidance for the year. Financial results for the first half of FY07 are in line with the Company's expectation and guidance for FY07.
- FY07 guidance issued 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).

STRATEGIC LOBs

- KPIT Cummins is organized into the following six lines of business (LoBs):
 - Manufacturing
 - Auto Electronics
 - Semiconductor Solutions Group (SSG)
 - Business Intelligence (BI)
 - Diversified Financial Services (DFS)
 - Global Business Solutions (GBS)
- Auto Electronics and Semiconductor Solutions Group, together comprising the Advanced Technology Solutions practice at KPIT Cummins, are the key areas of competitive advantage for KPIT Cummins.
- In the Auto Electronics LoB, the Company works with seven leading automobile OEMs and also with several of their Tier I and Tier II vendors. As a Premium Member of the AUTOSAR, the Company enjoys superior reputation and credibility among the automobile industry customers. With the expected growth in the electronics and software component in automobiles, this LoB is expected to be the growth driver for KPIT Cummins.
- Semiconductor Solutions Group is also another growth driver for KPIT Cummins. In this LoB the Company works with 4 of the top 10 semiconductor companies of the world.

ODC FOR RENESAS - A STAR CUSTOMER

- KPIT Cummins has recently announced that it has entered into an agreement with Renesas Technology Corp. (Renesas) to set up an Offshore Development Centre (ODC). Renesas is one of world's leading semiconductor system solutions providers for mobile, automotive and PC/AV markets and the world's No. 1 supplier of microcontrollers.
- KPIT Cummins relationship with Renesas extends over several years. Beginning with outsourcing of semiconductor software and hardware design, KPIT Cummins has executed design works in a number of areas including SoC products for use in digital consumer electronics, analog circuit designs employing high level technology and embedded software.
- Renesas is a currently Star customer for KPIT Cummins. With this ODC, KPIT Cummins' relationship with Renesas is expected to grow from the current volume of about 100 people to 500 people over a period of three years.
- The ODC is also significant in that it is one of the largest 3rd party outsourcing agreements. This ODC will further strengthen KPIT Cummins' position in the semiconductor and automotive areas.

OPERATION HIGHLIGHTS

Customers:

- During the quarter, the Company added 5 new active customers. The new customers include 3 in the Auto Electronics LoB, 1 in SSG and 1 in DFS LoB. In terms of geographical location, 2 customer relationships are in the US, 2 in Europe and 1 in Japan. The new customer additions further strengthen the customer base in the ATS space.
- Total number of active customers is 82. Customer base of the company includes some of the marquee names in the manufacturing and financial services verticals, including seven of the top automotive OEMs in the world and 4 of world's top 10 semiconductor companies.
- From the active customers, 16 customers have reached a revenue run rate of over \$ 1 Million.
- Revenues from top 10 customers declined to 76.29% of total revenues as compared to 79.50% in the previous quarter. In Q2FY06, the top 10 customers constituted 88.72%. With a broader base of customers, concentration of revenues from top 10 has been declining.
- Repeat business from customers continues to be high at around 90% of total revenues.

Employees:

- Total employee base at the end of Q2FY07 increased to 2,809 - an increase of 265 over the immediately preceding quarter. During the quarter 223 technical staff was added, while the addition to marketing and support staff was 42.
- Of the total employees added, 50 were added to KPIT GBS, taking the total employee strength of KPIT GBS at the end of Q2FY07 to 355.
- The lateral hires in KPIT Cummins during the quarter include people with significant technological expertise and domain knowledge in our key areas.

Sales & Marketing

- In accordance with the plans for the Asia Pacific region, the company has already opened a branch in Singapore.

Infrastructure

- The Company expects to fully commission the SDC-II during this quarter.

INCOME STATEMENT FOR THE QUARTER ENDED 30 SEPTEMBER 2006

Particulars	Q2FY07	Q1FY07	% Chg	Q2FY06	%
	Rs. Mn	Rs Mn.	Q-o-Q	Rs Mn.	Y-o-Y
Sales	1140.26	1022.65	11.50%	776.83	46.78%
Software Development Expenses	714.77	640.94	11.52%	507.78	40.76%
Gross Profit	425.49	381.70	11.47%	269.06	58.14%
Selling and Marketing Expenses	122.44	106.56*	14.90%	81.87*	49.56%
General & Administration Expenses	124.25	122.80*	1.18%	81.50*	52.45%
EBITDA	178.80	152.34	17.37%	105.69	69.17%
Interest & Finance Expense, net	7.34	10.94		3.33	
Depreciation	30.41	25.16		19.58	
Profit After Depreciation & Interest	141.05	116.24	21.35%	82.78	70.39%
Other Income	0.28	0.58		0.02	
Profit Before Tax	141.34	116.82	20.99%	82.80	70.70%
Provision for Taxation	17.65	13.15		6.57	
Minority Interest	-0.21	-0.19			
Profit After Tax	123.48	103.47	19.33%	76.23	61.98%
Paid up Capital	74.36	74.35		71.98	
Free Reserves	1,547.04	1,476.40		1,130.47	
Earning per Share (of Rs. 5/-)					
Basic (Rs.)	8.30	7.01		5.30	
Diluted (Rs.)	6.73	5.67		4.28	
Margin Analysis:					
Gross Profit Margin	37.32%	37.32%		34.64%	
EBITDA Margin	15.68%	14.90%		13.61%	
Net Profit Margin	10.83%	10.12%		9.81%	

* Restated Sales and Marketing expenses and General and Administrative expenses

Note

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

	Q2FY07	Q1FY07	Q2FY06
Revenue Spread - Geography			
USA	62.40%	64.75%	67.15%
Europe	28.68%	28.88%	27.56%
Rest of World	8.92%	6.37%	5.28%
Revenue Spread - Verticals			
Manufacturing	76.34%	77.33%	84.76%
DFS	10.77%	8.72%	12.08%
Others	12.89%	13.95%	3.16%
Client Concentration			
Top Client - Cummins	42.02%	44.30%	47.85%
Star Customers - Non Cummins	35.69%	31.31%	36.60%
Top 10 Client Billing	76.29%	79.50%	88.72%
No of Clients Added	5	5	5
Repeat Business	90%	89%	91%
Revenues Split			
Onsite Revenues	51.93%	53.16%	65.18%
Offshore Revenue	48.07%	46.84%	34.82%
Revenue by Contract Type			
Time and Material Basis	90%	90%	89%
Fixed Price / Time Basis	10%	10%	11%
Debtors			
Global Debtors (days)	80	84	84
Human Resources - Details			
<u>Average -</u>			
Development Team - Onsite	461	435	426
Development Team - Offshore	1942	1,675	1032
<u>Quarter End</u>			
Development	2529	2,306	1630
Gen Mgmt / Support	238	208	185
Marketing (Subsidiaries)	42	30	29
Total	2809	2,544	1844
Utilisation Rate			
Onsite	93.00%	92.00%	95%
Offshore	72.00%	71.00%	72%

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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