



**INVESTOR UPDATE**  
**FOR**  
**QUARTER ENDED 30<sup>TH</sup> SEPTEMBER, 2008**

**KEY HIGHLIGHTS**

- Net Profit grew sequentially by 28.79% to Rs. 167.01 Mn
- INR Revenues grew q-o-q by 12.11% and 30.47% y-o-y to Rs.1947.22 Mn
- USD Revenue grew sequentially by 9.94% and 31.53% y-o-y
- Profit margins improved over the previous quarter: Gross margin to 40.19% (up 1.48%); EBITDA margin to 14.61% (up 1.59%); PBT margin to 10.23% (up 1.64%) and PAT margin to 8.58% (up 1.11%).
- One of the three derivative contracts worth \$12Mn knocked out. MTM losses declined from Rs.890Mn on 31<sup>st</sup> March 2008 to Rs.470Mn on 30<sup>th</sup> September 2008 and to Rs.350Mn at present.
- 6 new customers added during the quarter, total 123 active customers.
- 1 new Star customer added, total of 26 Star customers.
- 30 customers reached revenue run rate of over \$ 1 Million.
- Filed for 2 more patents during the quarter.

## QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2008 (Q2 FY09)

### FINANCIALS

#### ➤ *Revenue Growth in Q2.*

- Revenues for Q2 FY09, in USD terms, were \$ 46.80 Million, a y-o-y growth of 31.53% and q-o-q growth of 9.94%.
- In INR terms, Q2 FY09 revenues were Rs. 1947.22 Million, y-o-y growth of 30.47% and q-o-q growth of 12.11%. Revenues included forex loss of Rs. 62.3 Mn.
- Average realization during the quarter was Rs. 41.61 / \$, as against Rs. 40.80 / \$ in the previous quarter, an increase of 1.98%.
- Manufacturing vertical led the growth with 13.23% q-o-q growth and 40.64% y-o-y growth in revenues. DFS declined 4.95% during the quarter. Others, which include ISVs etc, also showed 12.80% q-o-q growth.
- In terms of Lines of Business, Automotive LoB (which includes automotive embedded and Mechanical Engineering Design Services) and Semiconductor Solutions Group were the largest growth drivers showing 25.59% and 13.47% q-o-q growth. Part of the growth in Automotive LoB was on account of acquisition of Mechanical Engineering Design Services (MEDS) from Harita.
- In terms of geography, Europe and Rest of the World (ROW) have shown better growth with 16.76% and 25.60% respectively on q-o-q basis, as compared to US which grew by 7.16% q-o-q.

#### ➤ *Profitability improved over the previous quarter.*

- Gross profit margin during Q2 FY09 improved to 40.19% from 38.71% in the previous quarter.
  - During the quarter utilization rates, for both offshore and onsite, improved. This has improved the margin. On the other hand two factors limited the growth in margins - (i) pass through sale of SAP license, which is typically made at lower margin, and (ii) margin of the MEDS business from Harita, which was lower in the quarter (this being the first quarter post-acquisition), and expected to improve in future.

- EBITDA margin for Q2 FY09 was 14.61% as against 13.02% in the previous quarter.
    - SG&A expenses increased by 11.65% q-o-q. Sales and marketing expenses increased only marginally by 1.05% q-o-q. General and administrative expenses increased by 17.83%, including 54% increase in net forex loss during the quarter - from Rs. 27.8 Million in the previous quarter to Rs. 42.9 Million in Q2 FY09.
  - PBT margin improved by 1.64% from 8.59% in the previous quarter to 10.23% in Q2 FY09.
    - Interest expenses declined 1.31% q-o-q. Depreciation and amortization, which now also includes amortization of acquisition expenses of Harita MEDS, increased by 14.98% q-o-q.
  - Net Profit (PAT) margin also improved by 1.11% to 8.58% in Q2 FY09.
    - Average tax rate has increased from 13.64% in the previous quarter to 15.52% in Q2 FY09.
- Select Balance Sheet details (Rs. Million):

At the end of	Q2 FY09	Q1 FY09
Shareholders Equity	2337.62	2310.29
Total Debt	891.50	811.04
Total current assets	3217.77	2990.39
Cash balance	726.12	861.23
Receivables	1857.93	1462.45
Fixed Assets	1797.16	1708.29
Total Net Assets	3285.55	3170.36

- While the debt in USD terms has actually declined during the quarter, on account of the change in closing rate at the end of the quarters ended June 2008 and September 2008 by almost Rs.4/USD, the debt in INR terms appears higher than the previous quarter.

### **GUIDANCE FOR FY09**

- The management does not wish to change the guidance since it believes that except in the case of very unusual circumstances it will be able to meet the top line and bottom line guidance.

## **EMPLOYEES**

- Utilization improved by 2.56% for onsite to 93.88% and 0.87% offshore to 71.38%.
- During Q2 FY09, y-o-y growth in onsite FTEs was 18.03% and 37.17% for offshore FTEs. On a sequential basis, onsite FTEs grew by 2.13% and offshore FTEs by 9.35%. Average size of the development team during the quarter was higher by 274 people, mostly in the offshore area.
- In Q3 FY09, 191 employees are expected to join - of which 57 freshers have already joined and 134 others are expected to join during the quarter.

## **CUSTOMERS**

- 6 new customers were added during the quarter - 3 in Automotive LoB and 3 in Manufacturing Business IT LoB - thus taking the total number of active customers to 123.
- 1 customer was upgraded to Star customers category, making the total number of Star customers 26. This customer is one of the leading European automobile manufacturers.

## **FOREX INSTRUMENTS**

- **One Derivative contract knocked-out:** One of the three derivative contracts worth \$12Mn was knocked out in the month of October 2008. At the end of September 2008, MTM loss was Rs. 470Mn, down by 48% from the MTM loss of Rs. 910Mn at the end of June 2008. After the knock-out of the derivative contract mentioned above, the estimated MTM loss is Rs.350Mn.
- **Other Hedging Instruments:** Other than the contracts mentioned above, the Company held forward contracts of \$44.05Mn maturing in H2 FY09. The average rate on the forward contracts was Rs. 40.50 / Re.

## **OTHER IMPORTANT UPDATES**

- **New Patents filed:** KPIT Cummins filed for two more patents during the quarter. These patents are in the areas of control systems and battery management. Total number of patents filed by KPIT now stands at 6.

➤ **New Partnerships:**

- KPIT Cummins & Cadence Design Systems (I) Pvt Ltd announced development of class-based Open Verification Methodology (OVM) to develop controller area network (CAN) verification IP for the automotive market. This helps in improving productivity and overall quality by identifying bugs within a few weeks of adoption.
- KPIT Cummins recently announced an alliance with GemStone Systems to offer services in High Performance Computing and Cluster Management.

➤ **Mechanical Engineering Design Services:** Following the acquisition of Mechanical Engineering Design Services (MEDS) from Harita, a TVS group company, the team has been successfully integrated with KPIT Cummins. With the new MEDS offerings, KPIT is experiencing reasonably good traction with new and existing customers. During the quarter MEDS generated ~\$1Mn. The revenue run rate from MEDS is in line with the earlier estimates.

**INCOME STATEMENT FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2008**

Rs. Million	Q2FY09	Q1FY09	Q-o-Q Growth	Q2FY08	Y-o-Y Growth
Sales	1947.22	1736.83	12.11%	1,492.42	30.47%
Software Development Expenses	1164.56	1064.46	9.40%	939.55	23.95%
<b>Gross Profit</b>	<b>782.66</b>	<b>672.38</b>	<b>16.40%</b>	<b>552.87</b>	<b>41.56%</b>
Selling and Marketing Expenses	165.84	164.12	1.05%	142.57	16.32%
General and Admin Expenses	332.39	282.10	17.83%	175.44	89.46%
<b>EBITDA</b>	<b>284.44</b>	<b>226.16</b>	<b>25.77%</b>	<b>234.86</b>	<b>21.11%</b>
Interest	10.12	10.25	-1.31%	18.82	-46.24%
Depreciation	76.01	66.11	14.98%	57.17	32.95%
Profit After Depn. & Int.	198.31	149.80	32.38%	<b>158.87</b>	24.83%
Other Income	0.89	-0.58		0.43	
<b>Profit Before Tax</b>	<b>199.20</b>	<b>149.22</b>	<b>33.50%</b>	<b>159.29</b>	<b>25.05%</b>
Provision for Taxation	30.92	20.35	51.93%	18.46	67.46%
Profit After Tax	168.28	128.87	30.59%	140.83	19.49%
Minority Interest	(1.27)	0.81		(0.11)	
Profit After Minority Interest	167.01	129.68	28.79%	140.73	18.68%
Exceptional Item	-	-		-	
<b>PAT after exceptional item</b>	<b>167.01</b>	<b>129.68</b>	<b>28.79%</b>	<b>140.73</b>	<b>18.68%</b>
Paid up Capital	156.09	156.07	-	152.55	-
Free Reserves	2162.64	2135.33	-	2300.17	-
EPS (Rs. 2/-Face Value each)					
- Basic	2.16	1.66	-	1.84	-
- Fully Diluted	2.15	1.65	-	1.79	-
<b>Common Size Analysis:</b>					
Gross Profit Margin	40.19%	38.71%	-	37.05%	-
Sales & Marketing Exp / Revenue	8.52%	9.45%	-	9.55%	-
General & Admin Exp / Revenue	17.07%	16.24%	-	11.76%	-
EBITDA Margin	14.61%	13.02%	-	15.74%	-
Net Profit Margin	8.58%	7.47%	-	9.43%	-

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> SEPTEMBER 2008)**

	Q2FY09	Q1FY09	Q-o-Q Growth	Q2FY08	Y-o-Y Growth
<b>Revenue Spread - Geography</b>					
USA	53.88%	56.37%	7.16%	56.60%	24.21%
Europe	36.46%	35.01%	16.76%	32.47%	46.51%
Rest of World	9.66%	8.62%	25.60%	10.93%	15.28%
<b>Revenue Spread - Verticals</b>					
Manufacturing	88.87%	88.00%	13.23%	82.45%	40.64%
BFSI	5.08%	5.99%	-4.95%	8.39%	-21.03%
Others	6.05%	6.01%	12.80%	9.17%	-13.96%
<b>Revenue Spread - by LOB</b>					
Manufacturing Business IT	51.21%	54.11%	6.10%	57.24%	16.73%
Auto Electronics	29.23%	26.09%	25.59%	21.37%	78.46%
Semiconductor Solutions Group	7.36%	7.27%	13.47%	8.73%	10.00%
Diversified Financial Services	5.12%	5.27%	8.80%	7.02%	-4.86%
Global Business Solutions	7.08%	7.25%	9.55%	5.63%	64.12%
<b>Customer details</b>					
No. of Customer Added	6	6	-	5	-
No. of STAR Customers	26	25	-	21	-
No. of Active Customers	123	117	-	102	-
Customers with run rate of >\$1Mn	30	26	-	21	-
Top Customer - Cummins	40.43%	41.90%	8.17%	39.05%	35.08%
Star Customers - Non Cummins	42.55%	43.83%	0.37%	41.51%	29.22%
Top 10 Customer Billing	67.23%	72.21%	4.38%	72.29%	21.34%
Repeat Business	90.00%	90.00%		90%	-
<b>Onsite / Offshore Split</b>					
Onsite Revenues	44.01%	47.69%	3.46%	48.31%	18.86%
Offshore Revenue	55.99%	52.31%	20.00%	51.69%	41.33%
<b>Revenue by Contract Type</b>					
Time and Material Basis	83.22%	86.65%	-	88.00%	-
Fixed Price / Time Basis	16.78%	13.35%	-	12.00%	-
<b>Debtors (days)</b>	74*	72*	-	81	-

\* Receivables are stated inclusive of taxes, whereas Revenues are not. Receivables are 74 days of gross sales in Q2 FY09 compared to 72 days of gross sales in Q1 FY09.

