

## **KPIT CUMMINS INFOSYSTEMS LIMITED**

### **INVESTOR UPDATE FOR THE Q3FY06 ENDED 31 DECEMBER 2005**

#### **Key Highlights**

- Revenue grew by 28.50% year-on-year to Rs 80.41 crore
- Net profit grew sequentially by 8.55% to Rs. 8.27 crore
- 3 new customers added during the quarter
- Improvement in Debtor days to 75 days from 84 days of Q2FY06
- Successfully concluded acquisition of SolvCentral.com
- The company has reaffirmed its revenue and profit guidance for FY06

#### **FINANCIAL HIGHLIGHTS**

- Consolidated revenue for Q3FY06 was Rs. 804.07 million, 28.50% increase over Q3FY05 and 3.51% increase on a sequential basis over Q2FY06
- Gross margin improved by 70 basis points to 35.34% in Q3FY06 compared to 34.64% in Q2FY06, and by 107 basis points as compared to 34.27% in Q3FY05.
- EBITDA margin improved by 86 basis points to 14.46% in Q3FY06 as compared to 13.61% in Q2FY06.
- Consolidated net profit for the quarter was Rs 82.75 million, an increase of 8.55% over net profit of Rs 76.23 million in Q2FY06 and 11.68% over net profit of Rs 74.09 million in Q3FY05.
- Net profit margin also improved by 48 basis points to 10.29% in Q3FY06 compared to 9.81% in Q2FY06.
- Debtor days have improved to 75 days in Q3FY06 as compared to 84 days in Q2FY06 and 76 days in Q3FY05.
- Earnings per share for the quarter was Rs 5.74 as compared to Rs 5.30 for Q2FY06 and Rs 5.72 for Q3FY05

## OPERATION HIGHLIGHTS

### ➤ Business:

- During the quarter, the company saw increased tractions with customers in Europe and Asia Pacific geographies. Revenue from Europe increased significantly from 27.56% in Q2FY06 to 34.26% in Q3FY06. Revenue from the US geography declined from 67.15% in Q2FY06 to 63.68% in Q3FY06. The balance, classified as ROW, primarily came from Japan and Asia Pacific.
- Manufacturing vertical continued to be the dominant vertical, contributing to 82.35% of the Q3FY06 revenue, marginally lower than 84.76% in the previous quarter, but higher than 72.49% of revenue in Q3FY05. On the other hand, BFSI contribution marginally improved from 12.08% in Q2FY06 to 13.26% of total revenue in Q3FY06. However, BFSI contribution remained lower than 25.62% of Q3FY05 revenue.
- During the quarter, the onsite / offshore ratio changed favourably. Offshore revenue increased to 42.04% in Q3FY06 from 34.82% in Q2FY06 and 31.10% in Q3FY05. Correspondingly, onsite revenue declined to 57.96% in Q3FY06 from 65.18% in Q2FY06 and 68.90% in Q3FY05.
- Utilization has marginally declined to 70% for offshore and 92% for onsite in Q3FY06, as compared to 72% for offshore and 95% for onsite in Q2FY06. Partially it is on account of continuing intake of freshers in Q3FY06.

### ➤ Customers:

- The company added 3 new customers during the quarter. Total number of active customers for the company thus increased to 35. The number of Star customers remained unchanged at 9. The new customers are from Europe and fall in the Manufacturing vertical.
- The top ten customers, including Cummins, contributed 86.91% of revenue in Q3FY06 as compared to 88.72% of revenue in Q2FY06 and 91.90% in Q3FY05. During the quarter, Cummins business constituted 49.63% of total revenue.
- Repeat business accounted for 88% of revenues in Q3FY06, down from 91% in Q2FY06.

### ➤ Employees:

- During the quarter, net addition of 139 employees was made. Total employee strength of the company increased to 1983 as on 31 December 2005.

➤ **Sales & Marketing**

- During the quarter, the company opened its new office in downtown Columbus, located just three blocks from Cummins headquarters. This office will essentially support recruitment, sales and marketing efforts for mid-west US and bring the company close to its customers.

➤ **Processes**

- The company's initiatives on Six Sigma are progressing as per schedule. Nine Green Belt projects are underway.
- The audit for BS7799 security certification was completed successfully during the quarter and has been recommended for award of the certification.
- The company has completed the project for implementing Internal Control program on financial reporting using COSO framework to enable comply with respect to clause 49.

➤ **Infrastructure**

- Construction of the 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 by August 2006.
- The construction of this \$13.5Mn facility is currently being funded through internal accruals. The company has not yet drawn down the \$11Mn term loan sanctioned by International Finance Corporation, Washington for this facility. The company expects to partly draw down this term loan during Q4FY06.

➤ **M&A Initiatives:**

- During the quarter, the company announced two acquisitions - SolvCentral.com, US and Pivolis, France.
- The transaction with SolvCentral.com has been successfully concluded. The company is in the process of integrating SolvCentral.com with itself.

The company has also set up Business Intelligence as a Line of Business (LOB) headed by Mr. Probodh Chiplunkar, promoter of SolvCentral.com

- In its EGM dated 20th December 2005, the shareholders of the company have approved an issue of 148,830 equity shares of face value Rs.5/- each, to the promoters of Pivolis. The FIPB and other clearances are expected shortly. The company has already initiated the process of integration of Pivolis also.

### **Share Capital and Shareholding**

- Institutional holding in the Company stood at 29.22% (excluding Lehman Brothers) as on 31<sup>st</sup> December 2005 compared to 28.32% as on 30<sup>th</sup> September 2005.

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

- During the quarter, KPIT Cummins GBS, the BPO subsidiary, has seen an increasing ramp up in its employees. The company expects team strength to grow to over 150 by the year end.

### **GUIDANCE**

- 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 without considering the acquisitions.

### INCOME STATEMENT FOR THE QUARTER ENDED 31 DECEMBER 2005

Particulars	Q3FY06	Q2FY06	% Chg	Q3FY05	%
	Rs Mn.	Rs. Mn	Q-o-Q	Rs Mn.	Y-o-Y
<b>Sales</b>	<b>804.07</b>	<b>776.83</b>	<b>3.51%</b>	<b>625.75</b>	<b>28.50%</b>
Software Development Expenses	519.95	507.78	2.40%	411.30	26.42%
<b>Gross Profit</b>	<b>284.13</b>	<b>269.06</b>	<b>5.60%</b>	<b>214.46</b>	<b>32.49%</b>
Selling and Marketing Expenses	27.72	30.28	-8.43%	27.56	0.58%
General & Administration Expenses	140.10	133.09	5.27%	96.73	44.85%
<b>EBITDA</b>	<b>116.30</b>	<b>105.69</b>	<b>10.04%</b>	<b>90.17</b>	<b>28.98%</b>
Interest & Finance Expense, net	5.12	3.33	53.60%	1.79	185.35%
Depreciation	22.48	19.58	14.84%	6.64	238.38%
<b>Profit After Depreciation &amp; Interest</b>	<b>88.70</b>	<b>82.78</b>	<b>7.15%</b>	<b>81.73</b>	<b>8.53%</b>
Other Income	0.05	0.02		0.00	
<b>Profit Before Tax</b>	<b>88.75</b>	<b>82.80</b>	<b>7.19%</b>	<b>81.73</b>	<b>8.59%</b>
Provision for Taxation	6.01	6.57	-8.62%	7.64	-21.38%
<b>Profit After Tax</b>	<b>82.75</b>	<b>76.23</b>	<b>8.55%</b>	<b>74.09</b>	<b>11.68%</b>
Paid up Capital	72.02	71.98		64.75	
Free Reserves	1,196.31	1,130.47		632.10	
Earning per Share (of Rs. 5/-)					
Basic	5.74	5.30		5.72	
Diluted	4.65	4.28		4.48	

## PERFORMANCE METRICS

KPIT Cummins Consolidated	Q3FY06	Q2FY06	Q3FY05
<b>Geographical Spread of Revenues</b>			
USA	63.68%	67.15%	59.37%
Europe	34.26%	27.56%	37.78%
Rest of World	2.06%	5.28%	2.85%
<b>Industry Vertical Spread of Revenues</b>			
Manufacturing	82.35%	84.76%	72.48%
BFSI	13.25%	12.08%	25.62%
Others	4.40%	3.16%	1.90%
<b>Client Concentration</b>			
Top Client - Cummins	49.63%	47.85%	37.07%
Star Customers - Non Cummins	34.26%	36.60%	48.19%
Top 10 Client Billing	86.91%	88.72%	91.90%
Clients Added during the Quarter	3	5	6
Revenue from Repeat Business	88%	91%	90%
<b>Revenues Split</b>			
Onsite Revenues	57.96%	65.18%	68.90%
Offshore Revenue	42.04%	34.82%	31.10%
<b>Revenue by Contract Type</b>			
Time and Material Basis	86%	89%	88%
Fixed Price / Time Basis	14%	11%	12%
<b>Debtors</b>			
Global Debtors (days)	75	84	76
<b>Human Resources - Details</b>			
<u>Average -</u>			
Development Team - Onsite	415	426	378
Development Team - Offshore	1266	1032	716
<u>Quarter End</u>			
Development	1764	1630	1208
Gen Mgmt / Support	190	185	136
Marketing (Subsidiaries)	29	29	23
Total	1983	1844	1367
<b>Utilisation Rate</b>			
Onsite	92%	95%	96%
Offshore	70%	72%	76%

## 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

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