

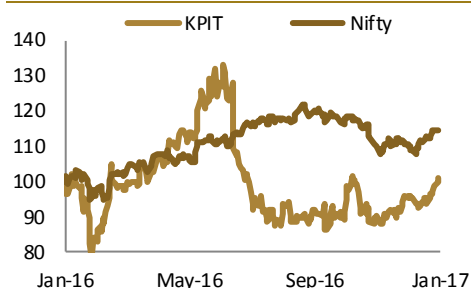
**Market statistics**

Current stock price (₹)	138
Shares O/S (cr.)	19.74
Mcap (₹ cr)	2,741
52W H/L (₹)	197/108
6m avg. volume	1,015,542
Bloomberg	KPIT.IN

**Shareholding pattern**

Promoters	16.72
Domestic Institution	1.07
Foreign Institution	52.61
Non-institution	29.60
of which more than 1%	
Warhol	9.87
Acacia Institutional Partners, LP	2.33

**KPIT vs Nifty**



**Capital efficiency & valuations**

Particulars	FY16	FY17E	FY18E
RoE (%)	21.8	14.4	15.2
EPS (₹)	15.0	10.9	13.0
CEPS (₹)	18.6	14.9	17.8
P/E (x)	9.6	12.7	10.7
P/BV (x)	2.0	1.7	1.6
EV/EBITDA (x)	5.6	6.7	5.4
Income growth (%)	7.8	2.7	8.2
EBITDA growth (%)	21.9	(18.5)	18.2
PAT growth (%)	9.6	(27.1)	19.0

**KPIT's 3QFY17 revenue increased 0.65% QoQ in cc terms (comparable revenue). Q3FY17 revenues stood at US\$122.9mn. EBITDA margin was at 10.2%, down 82 bps QoQ. Recurring PAT was at ₹475mn. Amid sluggish revenue growth momentum, upcoming investments and multiple pressure points, we are unable to see sustainability on the margins front. We maintain our Hold rating on the stock.**

**Disappointing profitability performance:** KPIT's 3QFY17 revenue decreased 0.4% QoQ to US\$122.9mn (divested functional safety product business during the quarter - resultant revenues which went out were ~US\$0.5mn for 2 months). In terms of industry verticals, Automotive declined by 4% QoQ while Manufacturing grew by 5.1%. Energy vertical grew 3.8%, Utilities declined 24.8%. Amongst SBUs, DT grew by 16.9% QoQ while PES and IES declined by 4.9% and 1% respectively. Products & Platform SBU declined by 13.9%. SAP SBU increased by 2.1%. EBITDA margin decreased by 82bps to 10.2% (KPIT added 215 people coupled with low utilization due to less number of billing. Wage hikes to a part of employees, resulted in increase in employee cost with flat revenue). KPIT sold off a functional safety product business and netted Rs261mn.

**Other Key details** – 1) Amongst geographies, US grew by 3.8% on a QoQ basis while Europe and APAC declined by 11.5% and 6.9% respectively. 2) There was a 3.8% QoQ decline in the top customer account. The top 2-10 customers' total revenues grew by 2.6%. 3) The overall digital revenues for KPIT now stand at ~18%. Digital revenues have been growing at 30%+ for KPIT. 4) Cash at Sep-end was Rs4.8bn (compared to Rs4.4bn in Sep'16). 5) Revenues from MicroFuzzy were not consolidated during the quarter.

**KPIT still has some margin levers going ahead.** KPIT believes the employee pyramid correction is done; some benefit will accrue in 4Q. Revenue growth is a focus for FY18, with Growth, utilization improvement and non-billable cost management will be the 3 key levers for profitability improvement going ahead. While 2HFY16 saw a focus on higher utilisation, we expect FY18 to see more hiring-led growth.

**FY18 to see higher growth compared to FY17.** KPIT guided to a slightly positive revenue growth in 4Q, while 2HFY17 would see higher growth on account of investment done during FY16 and 1HFY17. Management guided to a positive margin scenario during 4qFY17. KPIT is looking at several margin levers to provide a buffer to the margin during the year. KPIT has added 50 account managers during the last 6 months which has resulted for higher costs for the quarter.

**Deal wins showing traction:** Over recent quarters, KPIT won deals across Engineering, SAP, JDE, EPLM, and ES. There was an increased traction in the areas of AMS & IMS combined, around SAP, Oracle, BI and ES. These opportunities seen were across all geographies, including Europe and Asia. Their investments in SBU & IBU and focus on large deals will start showing results. KPIT's Strategic Client Engagement team is focusing on winning large annuity deals.

**Valuation and view:** We model 0.4% growth in FY17E and 10.3% US\$ revenue growth in FY17E/18E. SAP SBU would start seeing normalized business from FY18, while Integrated Enterprise Solutions is looking positive. Margins would be on an upward trajectory. We maintain our Hold rating on the stock on compelling valuations.

ANALYST

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**Exhibit 1: Quarterly details**

₹ mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>123.3</b>	<b>123.4</b>	<b>122.9</b>	<b>(0.4)</b>	<b>(0.3)</b>	Comparable revenue up 0.65% in cc terms.
<b>Revenues</b>	<b>8,133</b>	<b>8,310</b>	<b>8,307</b>	<b>(0.0)</b>	<b>2.1</b>	
- Operating costs	6,966	7,396	7,461	0.9	7.1	
<b>EBITDA</b>	<b>1,167</b>	<b>914</b>	<b>846</b>	<b>(7.5)</b>	<b>(27.5)</b>	
<b>EBITDA margin (%)</b>	<b>14.3</b>	<b>11.0</b>	<b>10.2</b>	<b>(82)bps</b>	<b>(416)bps</b>	KPIT has margin levers like people productivity, span of control and employee pyramid to gain expansion
- Interest expense	37	14	66	384.5	77.2	
- Depreciation	180	200	191	(4.1)	6.1	
+ Other income, net (incl forex)	38	49	29	(40.6)	(23.5)	
<b>PBT</b>	<b>987</b>	<b>750</b>	<b>618</b>	<b>(17.6)</b>	<b>(37.4)</b>	
- Taxes	267	188	143	(24.0)	(46.4)	Tax rate to be ~24-26%
Effective tax rate (%)	27.0	25.1	23.1	(194)bps	(387)bps	
<b>PAT</b>	<b>721</b>	<b>562</b>	<b>475</b>	<b>(15.5)</b>	<b>(34.1)</b>	
Net margin (%)	8.9	6.8	5.7	(104)bps	(314)bps	
<b>Reported profits</b>	<b>721</b>	<b>562</b>	<b>736</b>	<b>31.0</b>	<b>2.1</b>	Sold functional safety product business and netted Rs261mn

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	499	493	(1.2)	556	543	(2.3)
Revenue	32,954	33,127	0.5	36,162	35,856	(0.8)
EBITDA margin (%)	11.7	10.7	(95)bps	12.6	11.7	(85)bps
EPS (₹)	12.6	10.9	(13.5)	15.2	13.0	(14.5)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US	67.3	64.5	69.7	67.0	69.6	68.9	67.5	67.2	70.1
Europe	15.5	16.9	16.7	18.2	17.5	18.0	18.4	16.2	14.4
RoW	17.2	18.6	13.6	14.8	13.0	13.1	14.1	16.6	15.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**LOB wise Performance:** In terms of industry verticals, Automotive declined by 4% QoQ while Manufacturing grew by 5.1%. Energy vertical grew 3.8%, Utilities declined 24.8%

Amongst SBUs, DT grew by 16.9% QoQ while PES and IES declined by 4.9% and 1% respectively. Products & Platform SBU declined by 13.9%. SAP SBU increased by 2.1%.



**Human Resources:** In Q3FY17, there was a net increase of 215 people. KPIT plans to add ~750-1000 fresh graduates in FY18.

**Exhibit 4: Employee strength at KPIT**

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Development team - Onsite (avg)	1,494	1,534	1,564	1,568	1,635	1,643	1,651	1,634	1,664
Development team - Offshore (avg)	7,868	8,317	8,514	8,416	8,190	8,279	8,553	8,986	9,238
Onsite FTE	1,348	1,316	1,362	1,430	1,474	1,486	1,470	1,464	1,483
Offshore FTE	5,519	5,456	5,654	5,870	5,655	5,813	5,826	6,214	6,267
<b>Development (at qtr end)</b>	<b>9,541</b>	<b>10,213</b>	<b>10,062</b>	<b>9,883</b>	<b>9,768</b>	<b>10,095</b>	<b>10,450</b>	<b>10,816</b>	<b>11,017</b>
General (end of qtr)	575	586	585	578	586	592	604	608	616
Marketing (end of qtr)	175	181	192	198	205	223	234	242	248
<b>Total (at qtr end)</b>	<b>10,291</b>	<b>10,980</b>	<b>10,839</b>	<b>10,659</b>	<b>10,559</b>	<b>10,910</b>	<b>11,288</b>	<b>11,666</b>	<b>11,881</b>
Onsite utilization	90.2	85.8	87.1	91.2	90.2	90.5	89.0	89.6	89.2
Offshore utilisation	70.2	65.6	66.4	69.8	69.1	70.2	68.1	69.2	67.8

Source: Company, Trust Research

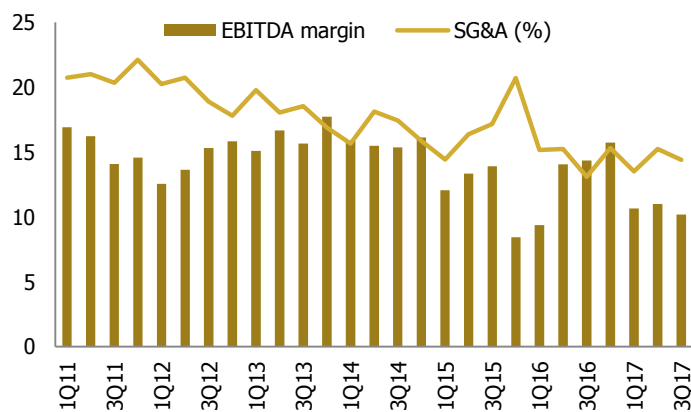
**Client details:** Amongst geographies, US grew by 3.8% on a QoQ basis while Europe and APAC declined by 11.5% and 6.9% respectively. There was a 3.8% QoQ decline in the top customer account. The top 2-10 customers' total revenues grew by 2.6%.

**Exhibit 5: Client details**

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Clients Added	3	2	2	2	3	3	2	3	2
Total active clients	206	208	210	212	215	218	220	223	225
Customers with a run rate of \$1mn+	87	90	87	88	94	94	88	90	89
Top customer - Cummins (%)	14.6	14.9	14.2	14.2	14.1	13.9	12.8	13.1	12.6
Top 5 Clients (%)	28.6	30.1	30.7	29.7	27.2	26.8	28.1	27.8	27.2
Top 10 Clients (%)	39.4	41.6	42.2	41.5	39.4	39.3	40.3	38.6	38.9

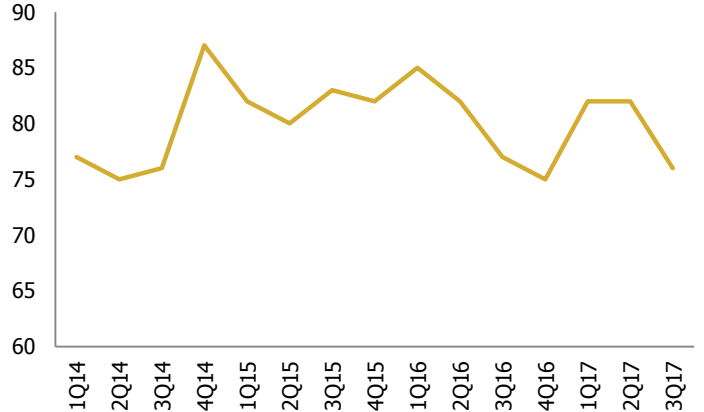
Source: Company

**Exhibit 6: OPM was down 82bps QoQ**



Source: Company, Trust

**Exhibit 7: DSO days were down 6 days QoQ to 76**



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenues</b>	<b>29,899</b>	<b>32,264</b>	<b>33,127</b>	<b>35,856</b>	<b>39,947</b>
Op. Expenses	26,328	27,922	29,588	31,674	35,054
<b>EBITDA</b>	<b>3,571</b>	<b>4,342</b>	<b>3,539</b>	<b>4,182</b>	<b>4,893</b>
Other Income	345	282	244	250	455
Depreciation	851	691	787	953	1,041
<b>EBIT</b>	<b>3,065</b>	<b>3,933</b>	<b>2,996</b>	<b>3,479</b>	<b>4,307</b>
Interest	279	165	188	124	118
<b>PBT</b>	<b>2,786</b>	<b>3,767</b>	<b>2,808</b>	<b>3,355</b>	<b>4,189</b>
Tax	115	845	679	822	1,089
<b>PAT</b>	<b>2,671</b>	<b>2,922</b>	<b>2,129</b>	<b>2,533</b>	<b>3,100</b>
Minority	-	-	-	-	-
Ex. ordinary	(300)	(113)	261	-	-
<b>Adj Pat</b>	<b>2,371</b>	<b>2,809</b>	<b>2,129</b>	<b>2,533</b>	<b>3,100</b>

### Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Per share (₹)</b>					
EPS	13.8	15.0	10.9	13.0	15.8
CEPS	18.1	18.6	14.9	17.8	21.1
BVPS	66.8	71.0	79.5	89.4	101.6
DPS	1.1	2.2	2.2	2.5	3.0
Payout (%)	9.5	17.4	24.0	23.0	22.2
<b>Valuation (x)</b>					
P/E	9.0	9.6	12.7	10.7	8.8
P/BV	1.9	2.0	1.7	1.6	1.4
EV/EBITDA	4.4	5.6	6.7	5.4	3.8
Dividend Yield (%)	0.9	1.5	1.6	1.8	2.2
<b>Return ratio (%)</b>					
EBITDA Margin	11.9	13.5	10.7	11.7	12.2
PAT Margin	8.9	9.1	6.4	7.1	7.8
ROAE	20.9	21.8	14.4	15.2	16.5
ROACE	21.6	24.5	15.7	17.0	19.2
<b>Leverage Ratios (x)</b>					
Long Term D/E	0.1	0.1	0.2	0.1	0.1
Net Debt/Equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.3	0.4	0.8	0.6	0.4
Interest Coverage	9.7	24.1	14.6	26.0	32.7
Current ratio	1.5	2.1	2.6	2.7	2.8
<b>Growth Ratios (%)</b>					
Income growth	11.0	7.8	2.7	8.2	11.4
EBITDA growth	(15.6)	21.9	(18.5)	18.2	17.0
PAT growth	11.7	9.6	(27.1)	19.0	22.4
<b>Turnover Ratios</b>					
F.A Turnover x	17	11	13	14	15
Debtors Days	84	78	76	74	73
Payable days	19	17	16	17	17

### Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	376	376	376	376	376
Reserves & Surplus	12,585	13,432	15,311	17,261	19,672
<b>Total Shareholders Fund</b>	<b>12,961</b>	<b>13,808</b>	<b>15,687</b>	<b>17,637</b>	<b>20,048</b>
Minority Interest	-	-	-	-	-
<b>Non- current liabilities</b>	<b>683</b>	<b>1,569</b>	<b>2,799</b>	<b>2,289</b>	<b>1,904</b>
Long term Borrowings	780	1,673	2,852	2,302	1,852
Deferred tax liabilities	(520)	(620)	(620)	(620)	(620)
Other LT liabilities & prov	423	516	567	607	672
Current Liabilities	8,536	5,956	6,204	6,559	7,167
Short-term borrowings	3,677	498	448	398	348
Trade payables	1,308	1,233	1,297	1,388	1,537
Other cur liabilities & Prov	3,551	4,225	4,459	4,773	5,282
<b>Total Liabilities</b>	<b>22,181</b>	<b>21,333</b>	<b>24,690</b>	<b>26,485</b>	<b>29,119</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>3,336</b>	<b>4,531</b>	<b>4,366</b>	<b>4,552</b>	<b>4,820</b>
Fixed assets	1,720	2,850	2,551	2,597	2,656
Goodwill	5,696	4,025	4,025	4,025	4,025
Non-current investments	225	118	118	118	118
Long-term loans & adv	1,266	1,510	1,634	1,768	1,970
Other non-current assets	125	53	64	69	77
<b>Current assets</b>	<b>13,149</b>	<b>12,777</b>	<b>16,039</b>	<b>17,648</b>	<b>20,013</b>
Current investments	590	0	0	0	0
Inventories	229	380	454	491	547
Trade receivables	6,979	6,861	7,079	7,662	8,537
Cash & bank balances	3,638	3,953	6,951	7,790	9,001
Short-term loans & adv	681	677	817	884	985
Other current assets	1,032	907	998	1,081	1,204
<b>Total Assets</b>	<b>22,181</b>	<b>21,333</b>	<b>24,690</b>	<b>26,485</b>	<b>29,119</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	2,786	3,767	2,808	3,355	4,189
Depreciation	621	592	787	953	1,041
Interest Exp	279	165	188	124	118
Others	(300)	(113)	261	-	-
<b>CF before W.cap</b>	<b>3,386</b>	<b>4,412</b>	<b>4,044</b>	<b>4,432</b>	<b>5,348</b>
Inc/dec in W.cap	100	(617)	310	464	642
<b>Op CF after W.cap</b>	<b>3,286</b>	<b>5,029</b>	<b>3,734</b>	<b>3,968</b>	<b>4,706</b>
Less Taxes	115	845	679	822	1,089
<b>Net CF From Operations</b>	<b>3,171</b>	<b>4,183</b>	<b>3,055</b>	<b>3,146</b>	<b>3,617</b>
Inc/(dec) in F.A + CWIP	1,130	1,822	487	1,000	1,100
(Pur)/sale of Investments	(2,062)	(2,369)	-	-	-
Others	(279)	(165)	(188)	(124)	(118)
<b>CF from Invst Activities</b>	<b>652</b>	<b>382</b>	<b>(675)</b>	<b>(1,124)</b>	<b>(1,218)</b>
Loan Raised	67	(2,286)	1,129	(600)	(500)
Equity Raised	(1,907)	(1,455)	-	-	-
Dividend	253	508	511	583	688
<b>CF from Fin Activities</b>	<b>(2,093)</b>	<b>(4,249)</b>	<b>618</b>	<b>(1,183)</b>	<b>(1,188)</b>
<b>Net inc /(dec) in cash</b>	<b>1,730</b>	<b>316</b>	<b>2,998</b>	<b>839</b>	<b>1,211</b>
Op. bal of cash	1,908	3,638	3,953	6,951	7,790
<b>Cl. balance of cash</b>	<b>3,638</b>	<b>3,953</b>	<b>6,951</b>	<b>7,790</b>	<b>9,001</b>



## Institutional Equity Team

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