



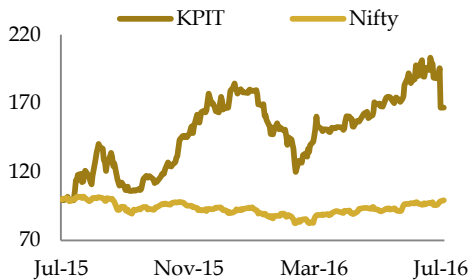
Market statistics

Current stock price (₹)	158
Shares O/S (cr.)	19.7
Mcap (₹ cr)	3,108
52W H/L (₹)	197/92
6m avg. volume	853,182
Bloomberg	KPIT.IN

Shareholding pattern

Promoters	16.82
Domestic Institution	5.15
Foreign Institution	22.39
Non-institution	55.64
of which more than 1%	
New Horizon Opportunites Master Fund	3.29
Acacia Partners, LP	3.10

KPIT vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	21.9	16.8	17.5
EPS (₹)	15.0	12.8	15.2
CEPS (₹)	18.6	16.9	19.8
P/E (x)	9.6	12.4	10.4
P/BV (x)	2.0	1.9	1.7
EV/EBITDA (x)	5.6	6.3	5.0
Income growth (%)	7.8	0.3	10.5
EBITDA growth (%)	21.9	(6.7)	18.2
PAT growth (%)	9.6	(15.0)	19.7

KPIT had, at the beginning of FY17 guided for flattish revenue growth for 1HFY17. However, on account of some internal as well as external changes in the business environment, KPIT's traditional revenues from ERP implementations are more affected compared to anticipation at the start of the year. The company now expects a 4% drop in Q1FY17 revenues in US\$ terms QoQ with commensurate decline in profitability. Q2FY17 revenues would be flattish QoQ. We believe steps taken by the management in terms of improving profitability, predictability and growth has not been able to provide a sustainable revenue growth. KPIT, though being available at compelling valuations, is not cheap on account of such volatile performances. We downgrade our rating on the stock to Hold.

Profit warning again. When it appeared that KPIT was coming back on track in terms of growth and profitability, macro-environment and certain company related issues have taken a toll on the company's revenue and translating to a lower profitability. KPIT had guided for flat revenues in first half and now guiding for 4% QoQ drop in revenues and a commensurate margin drop. KPIT indicated revenue and profitability of one its large account in Manufacturing vertical is undergoing severe stress and hence has cut down on its IT budget. Energy vertical is also experiencing slower IT budget spends.

Revenue in H1FY17 to be lower than 1HFY16. KPIT is experiencing slower growth in IES (~34% of its revenue) and may see volatile SAP practice (~23% of its revenue). The profit warning suggests a weak 1H, much weaker than a weak 1H anticipated at the start of the year. We expect revenue to dip 4% QoQ in 1QFY17. We believe EBITDA margin would dip 500bps QoQ in 1Q. Since Q2 will also remain soft, KPIT would be able to deliver earnings CAGR of just 1% over FY16-18E. KPIT has guided for a revenue decline of ~4% in Q1 and a flattish Q2, which will translate to 0.7% growth in FY17 (FY16 growth was 0.3%). The profit warning is driven by weakness in ERP and also in the top client.

EBITDA margins in FY17 to be 90 bps lower compared to FY16. KPIT will witness an erosion of ~500bps in margins in Q1 as the shortfall in revenue will flow through to the PBT. Q1FY17 will be impacted by wage hikes and increase in visa costs as well. Q4FY16 EBITDA margin of 15.7% included ~103bps of one-time benefits. We are building in FY17 margins of 12.6%, assuming some margin increases in H2FY17. Offshore utilization is currently at 70% and can be used as a lever to prop up margins. The company has recruited 19 account managers in Q1FY17 (totaling upto 30 account managers in the recent past) - in order to better mine strategic accounts. However, this would put additional margin pressure in the short term.

Client dispute liabilities not materialistic in the short term, but reputation at stake.

KPIT's client Copart Inc had filed a lawsuit against the company for US\$50mn, citing losses due breach of contract, fraudulent inducement and negligent misrepresentation by KPIT and its subsidiaries. KPIT does not expect any immediate material financial impact. KPIT will defend its position.

Valuation and view: We cut our FY17E/FY18E earnings by 20% and 17% respectively. We model 0.7% growth in FY17E and 11.3% US\$ revenue growth in FY18E. SAP SBU would start seeing normalized business from 2HFY17, while Integrated Enterprise Solutions could take some time to start showing growth again. Margins would be on an upward trajectory after 1QFY17. KPIT, though being available at compelling valuations, is not cheap on account of such volatile performances. While FY16 saw good performance on the profitability front, investors would like to see consistent and broad based revenue trajectory. However, with revenue expected to be back ended in FY17, we do not see imminent re-rating in valuations. We downgrade our rating on the stock to Hold.

ANALYST

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Exhibit 1: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	518	494	(4.6)	580	550	(5.2)
Revenue	33,678	32,333	(4.0)	37,674	35,733	(5.2)
EBITDA margin (%)	14.6	12.6	(195)bps	14.9	13.4	(145)bps
EPS (₹)	15.9	12.8	(19.5)	18.2	15.2	(16.5)

Source: Trust Research

Exhibit 2: Geographical wise Performance

Geographical mix	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
US	69.8	69.1	66.5	67.3	64.5	69.7	67.0	69.6	68.9
Europe	14.5	15.8	13.7	15.5	16.9	16.7	18.2	17.5	18.0
RoW	15.8	15.1	19.8	17.2	18.6	13.6	14.8	13.0	13.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 3: Revenue spread by LOB

Revenue Mix	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Integrated Enterprise Solutions	NA	NA	NA	36.5	36.5	NA	35.1	34.0	33.8
Product Engineering Services	NA	NA	NA	21.4	24.7	NA	26.9	26.4	28.7
Products & Platforms	NA	NA	NA	7.8	10.5	NA	4.9	3.8	5.1
SAP	NA	NA	NA	23.3	17.4	NA	21.9	25.9	22.5
Enterprise Solutions	NA	NA	NA	11.1	11.0	NA	11.1	9.9	9.9
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Employee strength at KPIT

	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Development team - Onsite (avg)	1,366	1,423	1,456	1,494	1,534	1,564	1,568	1,635	1,643
Development team - Offshore (avg)	7,139	7,224	7,518	7,868	8,317	8,514	8,416	8,190	8,279
Onsite FTE	1,231	1,293	1,327	1,348	1,316	1,362	1,430	1,474	1,486
Offshore FTE	5,064	5,068	5,383	5,519	5,456	5,654	5,870	5,655	5,813
Development (at qtr end)	8,583	8,757	9,191	9,541	10,213	10,062	9,883	9,768	10,095
General (end of qtr)	558	568	572	575	586	585	578	586	592
Marketing (end of qtr)	155	165	170	175	181	192	198	205	223
Total (at qtr end)	9,296	9,490	9,933	10,291	10,980	10,839	10,659	10,559	10,910
Onsite utilization	90.1	90.8	91.1	90.2	85.8	87.1	91.2	90.2	90.5
Offshore utilisation	70.9	70.2	71.6	70.2	65.6	66.4	69.8	69.1	70.2

Source: Company, Trust Research

Exhibit 5: Client details

	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Clients Added	3	3	2	3	2	2	2	3	3
Total active clients	198	201	203	206	208	210	212	215	218
Customers with a run rate of \$1mn+	80	83	84	87	90	87	88	94	94
Top customer - Cummins (%)	15.5	15.9	14.9	14.6	14.9	14.2	14.2	14.1	13.9
Top 5 Clients (%)	35.7	34.4	32.1	28.6	30.1	30.7	29.7	27.2	26.8
Top 10 Clients (%)	45.8	45.1	42.8	39.4	41.6	42.2	41.5	39.4	39.3

Source: Company

Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	26,940	29,899	32,243	32,333	35,733
Op. Expenses	22,708	26,328	27,890	28,271	30,930
EBITDA	4,233	3,571	4,353	4,062	4,803
Other Income	(74)	345	248	164	215
Depreciation	540	851	691	802	890
EBIT	3,619	3,065	3,910	3,423	4,128
Interest	287	279	152	60	48
PBT	3,332	2,786	3,758	3,363	4,080
Tax	941	115	830	874	1,102
PAT	2,391	2,671	2,928	2,489	2,978
Minority	-	-	-	-	-
Ex. ordinary	98	(300)	-	-	-
Adj Pat	2,489	2,371	2,928	2,489	2,978

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	12.3	13.8	15.0	12.8	15.2
CEPS	15.1	18.1	18.6	16.9	19.8
BVPS	65.7	66.8	71.0	81.1	93.3
DPS	1.1	1.1	2.2	2.2	2.5
Payout (%)	10.4	9.5	17.4	20.5	19.2
Valuation (x)					
P/E	11.8	9.0	9.6	12.4	10.4
P/BV	2.2	1.9	2.0	1.9	1.7
EV/EBITDA	5.1	4.4	5.6	6.3	5.0
Dividend Yield (%)	0.7	0.9	1.5	1.4	1.6
Return ratio (%)					
EBITDA Margin	15.7	11.9	13.5	12.6	13.4
PAT Margin	8.9	8.9	9.1	7.7	8.3
ROAE	18.9	20.9	21.9	16.8	17.5
ROACE	25.3	21.6	24.5	19.7	21.4
Leverage Ratios (x)					
Long Term D/E	0.1	0.1	0.1	0.1	0.0
Net Debt/Equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Debt/EBITDA	0.4	0.3	0.4	0.3	0.2
Interest Coverage	12.9	9.7	24.1	54.5	81.7
Current ratio	1.7	1.5	2.1	2.4	2.6
Growth Ratios (%)					
Income growth	20.3	11.0	7.8	0.3	10.5
EBITDA growth	16.0	(15.6)	21.9	(6.7)	18.2
PAT growth	19.4	11.7	9.6	(15.0)	19.7
Turnover Ratios					
F.A Turnover x	19	17	11	11	11
Debtors Days	77	84	78	77	73
Payable days	18	19	17	16	17

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	371	376	395	397	397
Reserves & Surplus	12,380	12,585	13,413	15,391	17,797
Total Shareholders Fund	12,751	12,961	13,808	15,788	18,194
Non-current liabilities	1,244	683	1,668	1,045	796
Long term Borrowings	1,301	780	1,673	1,023	723
Deferred tax liabilities	(289)	(520)	(520)	(520)	(520)
Other LT liabilities & prov	233	423	516	542	593
Current Liabilities	7,164	8,536	5,956	5,797	6,115
Short-term borrowings	3,089	3,677	498	298	98
Trade payables	1,021	1,308	1,233	1,239	1,356
Other cur liabilities & Prov	3,054	3,551	4,225	4,260	4,661
Total Liabilities	21,160	22,181	21,432	22,630	25,105
Assets					
Non-current Assets	2,548	3,336	5,150	5,355	5,783
Fixed assets	1,441	1,720	2,850	3,048	3,258
Goodwill	6,714	5,696	3,505	3,505	3,505
Non-current investments	118	225	225	225	225
Long-term loans & adv	887	1,266	1,942	1,949	2,154
Other non-current assets	103	125	133	133	147
Current assets	11,897	13,149	12,777	13,771	15,817
Current investments	1,741	590	0	0	0
Inventories	34	229	380	266	294
Trade receivables	6,743	6,979	6,861	6,821	7,538
Cash & bank balances	1,908	3,638	3,953	5,089	6,223
Short-term loans & adv	744	681	795	797	881
Other current assets	727	1,032	788	797	881
Total Assets	21,160	22,181	21,432	22,630	25,105

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	3,332	2,786	3,758	3,363	4,080
Depreciation	319	621	691	802	890
Interest Exp	287	279	152	60	48
Others	(172)	(300)	-	-	-
CF before W.cap	3,766	3,386	4,601	4,226	5,018
Inc/dec in W.cap	1,657	100	(105)	(204)	564
Op CF after W.cap	2,109	3,286	4,705	4,429	4,455
Less Taxes	941	115	830	874	1,102
Net CF From Operations	1,168	3,171	3,876	3,555	3,353
Inc/(dec) in F.A + CWIP	353	1,130	1,822	1,000	1,100
(Pur)/sale of Investments	1,618	(2,062)	(2,782)	-	-
Others	(287)	(279)	(152)	(60)	(48)
CF from Invst Activities	(2,258)	652	808	(1,060)	(1,148)
Loan Raised	1,177	67	(2,286)	(850)	(500)
Equity Raised	149	(1,907)	(1,574)	2	-
Dividend	250	253	508	511	572
CF from Fin Activities	1,077	(2,093)	(4,368)	(1,359)	(1,072)
Net inc/(dec) in cash	(13)	1,730	316	1,136	1,133
Op. bal of cash	1,921	1,908	3,638	3,953	5,089
Cl. balance of cash	1,908	3,638	3,953	5,089	6,223



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