



KPIT CUMMINS INFOSYSTEMS LTD

INVESTOR UPDATE

FOR THE YEAR ENDED MARCH 31, 2004

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Key Highlights for FY04

- KPIT Cummins crosses Rs 100 crore mark for the year at Rs 124 crore *(Excluding Panex)*, clocking a rise of 72% over FY03
- Consolidated Net Profit touches an all time high of Rs 14.42 crore *[Excluding Panex]*, a jump of 151% over FY03. *Exceeds top end of the guidance.* EPS at Rs 24.58
- Cummins grows 139%, Other Star customers register a rise of 119%
- Vertical growth :- Manufacturing 118%, BFSI 30 %
- Ground breaking ceremony at software development campus at Hinjawadi (Software Technology Park) for new facility. Phase I to be operational by December 2004 with a capacity of 1500 seats
- Acquired PANEX Consulting, a Houston based US \$ 7.5 million SAP consulting firm
- Added 3 new facilities during the year
- Two new high potential customers in Embedded segment in Europe
- Growth in Embedded space by more than 250% to Rs 13.8 crore
- Addition of a star customer in the BFSI segment
- Human Resource strength added 363 professionals, taking total strength at 914
- All Subsidiaries turn in profits, New branch operational in Cupertino in Q4
- VLSI dedicated facility set-up at Bangalore
- Achieved SEI-CMM level 5 certification

FINANCIAL HIGHLIGHTS

- Q-on-Q corresponding period revenues higher by 75% to Rs 37.41 crore as against Rs 21.38 crore compared to same quarter last year.
- FY04 revenues higher by 72 % at Rs 124.50 crore as against Rs 72.5 crores last year. The consolidated profit after tax is Rs 14.42 crore compared with Rs 5.74 crore the previous corresponding period showing a growth of 151%.

BUSINESS HIGHLIGHTS

- The top ten clients including Cummins contributed to 94% of the revenues in the fourth quarter where as during the year the top ten clients including Cummins contributed to 90% (83% last year) of the revenues.
- For the quarter, excluding Cummins, other Star customers contributed 37 % of the revenue. None of these customers contributed to more than 10 % of the revenue individually.
- Cummins business revenues touched 53 % of total revenue for the fourth quarter. For the entire FY04 Cummins business revenue touched 50 %, optimistic growth continues
- Both Cummins & Other Star customers have grown by 139% and 119% respectively. Therefore the qualitative growth in topline is close to 100%. However, the management strategy to reduce focus on non-Star customers has resulted in 72% growth in overall topline, as revenue from non-Star customers declined due to rationalization in this segment
- Out of the total revenues of the quarter, exports contributed over 98%, offshore contributed 45 % (42% same quarter last year) and onsite contributed 55 % (58 % same quarter last year).
- During the quarter the Company experienced significant growth in its services relating to Embedded software
- The Company also succeeded in bringing the work of some of its key customers offshore.

OPERATIONAL HIGHLIGHTS

- As on March 31, 2004 the company employs total staff of 914 people which includes 799 software professionals and 115 support staff including staff at foreign subsidiaries. The company has created a capacity close to 800 seats out of Six locations in Pune. Human resource strength continues, added more than 68 employees during the Fourth quarter and close to 363 during FY04.
- The company focuses mainly on two verticals, namely, Manufacturing and Banking/Finance/Insurance. The Manufacturing vertical contributed to 68% of the total revenue during the Fourth quarter and to 67% of the total revenue during FY04. The Banking/Finance/Insurance vertical contributed to 27% of total revenue during Fourth quarter and 26% during FY04.
- For KPIT Cummins, the expenditure on administration facilities and HR were to the tune of 13.4% (14% same quarter last year). The marketing expense during the fourth quarter amounted to 13% as compared to 11.5% last year same quarter.
- On a consolidated basis, profit margin before tax was 13% of the total sales compared with 12.6% same quarter last year. The Net Profit margin rose to 12.2% from 11.5% during the same period.
- The Contribution (gross profit after deducting software development expenses) was to the tune of 40.4% (41.8%last year) during the fourth quarter.
- Marketing infrastructure has been scaled-up with a Branch in Japan and another in Cupertino, US. The marketing staff has been doubled to enhance marketing reach.
- For a smooth transition towards growth, the company is building a physical infrastructure at its new facility at Hinjawadi spread over 9 acres with a capacity for 5000 people. Phase I to be operational by December, 2004 for 1500 people.
- Building critical competence in Practice areas – Embedded segment has grown by 250% to Rs 13.8 crore, Embedded systems team scaled up from 49 to 103 professionals. Emerging focus on building VLSI & SAP as a practice area with a sizeable scaling of human resource and strong delivery strength. New dedicated facility at Bangalore for VLSI practice.

Management Review for FY04:

Its been a year of significant achievements at KPIT Cummins. A prudent strategy perceived with a focused approach on verticals and sizeable scaling of Human Resources, the topline in Dollar terms recorded 68% rise, while rupee terms rose 66%. Our strategic customer, Cummins grew 139% during FY04. Other Star customers registered a similar rise of 119% during the same period.

Within Manufacturing, Embedded segment was a strong focus area with revenue witnessing a sizeable jump from Rs 3.82 crore in FY04 to Rs 13.9 crore, the manpower in the embedded segment was also ramped up from 49 to 103 professionals.

As a long term strategy, the company decided to reduce its focus on Non-Star customers as a result their contribution to revenue has come down to 13% in FY05 from 36% in FY04. The objective was to move out of non-focused customers to high profile customers, which have the potential to become Star customers in the near future.

During the year the company made significant investments in key areas. The company moved towards a more conservative depreciation policy which has resulted in an additional charge of Rs 1 crore. The company also expensed out additional sum of Rs 1.6 crore incurred towards expenses on M&A as well as on creation of new practices such as VLSI and SAP. During the year PBT margin rose to 11.8% in FY04 as compared to 8.2% the previous year.

KPIT Cummins begun the year FY04 with 3 facilities in Pune and is now operating through Six facilities at different locations from Pune. The Human Resource was strengthened by 363 professionals during the year, reflecting the company's capabilities in sizeable scaling-up for potential business.

During the fourth quarter, KPIT Cummins has set-up a facility in Bangalore dedicated to the VLSI segment. At present the company has in-house servicing team catering to existing clients. The Bangalore facility will now exclusively cater to VLSI requirements of existing clients, besides new clients which the company plans to target in the near future.

Targeting global markets and dispersing geographically has resulted in KPIT Cummins floating a new branch in Cupertino.

In a nutshell, FY04 was a year of consolidation and sharpening the focus on core verticals.

CAPEX PLAN

Hinjawadi Facility :

KPIT Cummins is investing in a new facility at Rajiv Gandhi Infotech Park at Hinjawadi. Spread over 9 acres, the project is being implemented in 3 phases. Phase I of the project is expected to be complete by December, 2004 and will have capacity for 1500 software professionals.

The project cost for Phase I is Rs 30.25 crore, the company has already invested Rs 6 crore out of internal accruals. The project is funded with a mix of Foreign Currency loans and Internal accruals.

Guidance

Topline (Excluding PANEX) will be in the range of Rs 173 crore to Rs 176 crore. Whereas the bottomline will be in the range of Rs 22.5 to Rs 24.5 crore. This will result in Topline growth of 40% and Bottomline growth of 63%.

To mitigate the risk relating to rupee appreciation, KPIT Cummins has covered net receivables at an average of Rs 45 to a \$ for the next 12 months.

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