KPIT Cummins

Jan - Mar 2011

# INVESTOR UPDATE

# FOR

# QUARTER & YEAR ENDED 31st MARCH 2011

(NSE: KPIT, BSE: 532400) (Jan-Mar 2011)

## KEY HIGHLIGHTS

- **FY2011 revenues crossed the Rs.10 Billion (Rs. 1,000 Crore) milestone in revenues, USD revenues grew by 46% Y-o-Y to USD 224.07 Million**
- **FY2011 revenues beat the higher end of upward revised guidance of 38-40% growth.**
- **FY2011 Revenue in Rupee terms grew by 39.82% Y-o-Y to Rs. 10,230.14 Million.**
- **USD Revenue for the quarter has grown by 12.51% Q-o-Q to USD 67.92 Million registering a Y-o-Y growth of 59.18%**
- **INR Revenue for the quarter stood at Rs.3,081.97 Million, a Q-o-Q growth of12.59 % and Y-o-Y growth of 56.37%.**
- **PAT for the year grew by 10.32 % to Rs.945.82 Million, beating the higher end of the upward revised guidance of 8% - 10% growth.**
- **PAT for the quarter grew by 26.67% Y-o-Y to Rs. 263.31 Million, registering a Q-o-Q growth of 4.75%**
- **3 New customers were added during the quarter.**
- **Total headcount of as on end FY2011 stood at 6,514, a net addition of 1,596 during the year.**

# 1. CORPORATE UPDATE

## 1.1 Strategy & Revenues

In the beginning of FY2011, as the overall macro environment was slowing coming out of the global recession with the clouds of uncertainty still prevailing, we had set ourselves a goal of 25% y-o-y revenue growth, when the average industry growth was predicted to be 15% average. As we progressed in the year we increased our revenue guidance at the end of 3rd quarter to a y-o-y growth of 38% - 40% and as we close the year, we have comfortably beaten the higher end of our upward revised guidance.

- As a company, we are aligned to three industry verticals viz. (1) Auto, Transportation and Manufacturing, (2) Energy and Utilities & (3) Defense and Government. As our customers in these verticals were recovering from the recession, they were more inclined towards benefiting on the "Value + Cost" parameter than just "Cost" savings. This meant that the customers were looking for "Partners" rather than just "Service Providers", who would help them grow, gain market share, attain leadership, reduce the time to market & gain technological advantage over competitors in their respective markets and also off course, reduce costs. In anticipation of these expectations, we transformed ourselves into a Customer Focused, Practice Led Organization to offer best in class practices to the customers, to help them attain their objectives.

- In FY2010 we had created four SBUs viz. (1) Automotive & Engineering SBU (A&E), (2) Integrated Enterprise Solutions SBU (IES), (3) SAP SBU (SAP) and (4) Semiconductor Solutions Group SBU (SSG). These SBUs were (are) responsible for driving growth and profitability. This year we went a step ahead and created a Practice Based Structure within each of the SBUs. The Practice Leader is now responsible for revenue and profitability for the individual Practice. The sales, delivery and enabling functions are fully aligned to the practices. The aim is to create 8-10 Best in Class Practices with a reasonable scale ($ 50 Mn +) in each of these practices

- We believe that the Practice Led Structure is shaping up fast and our outstanding performance this year in terms of revenue growth is a validation of our Organization Restructuring Strategy.

- During the year, there has been growth across all the SBUs and geographies. Revenue for the year has grown by 45.73% to USD 224.07 Million. This growth rate has been amongst the best in the industry. Even on an organic basis, we have grown by 39.49% during the year. In INR terms, revenues have grown by 39.82% YoY to Rs.10,230.14 Million. For the quarter, our USD revenue stood at USD 67.92 Million, a Q-o-Q growth of 12.51% and Y-o-Y growth of 59.18%. Our INR revenues have grown by 12.59% Q-o-Q and 56.37% Y-o-Y to Rs.3,081.97 Million.

- Geography-wise for the quarter, US has grown by 10.99% QoQ, while Europe has grown by 3.35% & ROW grew by 42.10% QoQ. For the full year, US & ROW have grown by 56.85% & 77.57% respectively, while Europe has de-grown by 6.39%. Among the emerging markets, while India geography has led the growth, we have also started engagements with two major manufacturers in China. Our India business has grown by more than 50% during this year as compared to FY2010.

  During the year we have seen growth in our largest client, Cummins, which has grown by 5.56% Y-o-Y for FY2011 as compared with 54.64% growth in non Cummins business. Thus the share of Cummins revenue for Q4 has gone to 20.42% with the yearly share being 22.79%. Globally, Cummins has been making investments in future technologies & emerging markets and this trend is expected to continue in the coming year. We thus foresee increase in both IT and engineering spend relevant to our work in the Cummins account.
- The last quarter of FY11 has been a mix of positive & negative global economic developments. During this quarter, the world witnessed war like crisis in Middle East and the unfortunate devastating earthquake & tsunami in Japan. Our share of revenue in both these markets combined is under 3% and hence we are not majorly affected by these adverse events. On the other hand we are experiencing a steady increase in customer confidence in the US and Europe. Customers have firmed up their budgets for the calendar year 2011 and they seem to be at better levels than last year. Both IT and engineering budgets will see growth in the coming quarters.
- With the beginning of CY2011 on an optimistic note, we have seen improved order flow across all the business units during the quarter. Among the geographies, India & Asia Pacific continue to demonstrate buoyancy, while US has been leading the growth for us and Europe is gradually waking up to the new normal and still maintains cautious approach in spending on IT budgets. The practice organizations within SBUs would help us to grow with appropriate offerings and go-to market strategies. US will continue to be the leading geography for absolute dollar revenue growth in FY12, followed by Europe and India.

**1.2 Profitability:**

We have met the higher end of our upward revised Net Profit guidance for the full year with 10.32% Y-o-Y growth to Rs.945.82 Million. EBITDA for the year has declined by 5.72% over last year, while EBITDA Margin stood at 14.88%, as against 22.08% during FY2010.

Software development expenses have increased by 61.33%, while SG&A expenses for the year have gone up by 30.86%, compared to last year.

For the quarter, our Net Profit has increased by 4.75% QoQ & 26.67% YoY to Rs. 263.31 Million. EBITDA for the quarter has grown by 12.35% QoQ & 12.10% YoY to Rs.433.09 Million. EBITDA margin stood at 14.05% for the quarter, flattish as compared to last quarter.

Our Profit growth for the year was lower than the revenue growth indicating a decline in the operating margins. As we had indicated at the start of the year, our profitability for the current year was going to be affected due to decreased forex realization rate, salary hikes and our intent to make certain investments for future growth.

The average Rs/USD rate for the year stood at Rs. 45.66 per USD as compared to Rs. 47.58 for FY2011. This meant that due to a 4.05% fall in the realized rate, our operating margins got affected to the tune of almost 3%. At a similar exchange rate as last year (all other things being same for FY11) we would have been at 17%+ EBITDA Margins for FY2011.

We gave salary hikes across the board at an average level of 12% for offshore and 2% for onsite, effective April 2010. This had a negative impact of again 3% on the operating margins.

We added more than 800 freshers during the year which is certainly an investment for the next year but reduced our offshore utilization for the current year, which stood at 68.48% as compared to 71.24% last year and also increased training and other costs. We believe this investment will start bearing fruit in the next year. Attrition as an industry trend was higher this year as compared to last year and KPIT was no exception. This meant that the utilization further got dampened and also the fresher utilization onto customer projects did not pick up speed as we would have liked it to. We believe the attrition will continue on a higher level during the first 2 quarters of FY12 and then settle down.

Apart from the fresher investments we also invested heavily in R&D and Front End. The front end investments were majorly in Subject Matter Experts aligned to our Practice Led Structure. We believe some of these front end investments will continue in the next year also to further strengthen our Practices. We being more driven by technology, our R&D investments continued during the year. These investments were majorly targeted towards creating IPs and best in class solutions for our customers. We also entered into the SME partnership with SAP in the US during the 3rd quarter of the financial year and have invested heavily into the same during the last 2 quarters of the year. During the year we have capitalized some of the R&D investments but majorly written off these, as depicted in the table in R&D Update Section of this document. The total R&D spend expensed out during the year was Rs. 208 Mn.

We would certainly like to improve on the profitability going ahead and we have detailed our intended actions on the same in the later paragraphs of this update.

## 1.3 R&D AND INNOVATION

We have filed for three patents during this quarter, in the area of driver assistance system (DAS) and image processing. This has taken the total number of patents filed during the year to 20 including 14 patents filed around REVOLO, and the total number of patents filed by the company to 34.

Our R&D investments during the year are detailed in the table below :

| | FY11 Rs. Mn |
|---|---|
| **Total R&D Spend** | 281.88 |
| **R&D Capitalized** | 149.54 |
| **R&D Amortized in FY11** | 75.62 |
| **R&D expensed out in FY11** | 132.35 |
| **Total expensed out in FY11** | 207.97 |

## 2.0 SBU UPDATE

### 2.1 INTEGRATED ENTERPRISE SOLUTION (IES) SBU:

IES SBU primarily addresses the Business IT offerings. Oracle is the largest practice in IES. IES also partners with our customers in the areas of Supply Chain Management (SCM), Oracle Transportation Management (OTM), Business Intelligence, Manufacturing Execution Systems (MES), ebiz solutions, Enterprise Software Support (ESS) and consulting.

In IES, apart from the Oracle ERP business where we are seeing good traction, demand for the Enterprise Consulting offerings, particularly Oracle Transportation Management (OTM) and Manufacturing Execution System (MES), is significantly high. We are also pursuing business opportunities in Government and Defense sector in India for various offerings of IES SBU. We have won a significant number of opportunities in US in the areas of Oracle ERP, Product Lifecycle Management, Value Chain Execution & Planning, Business Intelligence, Service Oriented Architecture and Managed Services from clients in the domains of manufacturing, energy & utilities and Defense.

We won a large Oracle Transportation Management (OTM) implementation project from IFFCO, the UAE headquartered manufacturer of consumer products, where KPIT Cummins will build a comprehensive transportation management platform to integrate IFFCO group’s supply chain processes as well as those of its external carriers. This is one of the largest OTM implementations in the Middle East and will be completed in 14 months. We have also initiated technology partnership with a key player in the middleware space for addressing the non-Oracle client base.

With a focus to build in innovation across all the SBUs, in IES we are undertaking definitive business development initiatives for productizing innovation in Mobility and vehicle tracking through cloud computing.

The acquisition of CPG Solutions in the year has further strengthened the Oracle consulting capability and has helped us leverage opportunities in the markets by faster integration and joint go-to-market on Oracle. The combined team has won two more projects from Cummins where the work has already been initiated. As part of our strategy to build a robust off shoring model, we have appointed a dedicated offshore services Director. The financial consolidation was completed during Q3 FY11 and the HR integration has also been completed.

IES SBU reported a 12.60% growth in revenues in FY2011 as compared to the last year. During the year we also let go some revenues in IES which were non strategic and very low margin revenues. The Q-o-Q growth in IES was 9.27%. The IES offerings are generic but we are creating a niche here by addressing specific verticals and thus carving out a specialty for ourselves in these verticals. The EBITDA margins for IES are in the range of 17% - 18% on an average.

### 2.2 AUTOMOTIVE & ENGINEERING (A&E) SBU

A&E SBU as the name suggests is the Engineering SBU for us and KPIT's niche is majorly in this SBU. The key practices in A&E are Powertrain, Infotainment, Body electronics, Clusters, AUTOSAR, In-vehicle networks, Mechanical engineering design services (MEDS) and Hybrid Technologies. We are the largest 3rd party vendor in India in Auto Embedded Electronics.

The demand scenario here has been very strong throughout the year. Europe has been the highest growing geography, while we had good customer wins across US, India & APAC. We have entered China market during this year, where we got our first customer win, besides acquiring few more projects. Korea, Japan & India are the other markets, where we see high growth. During this quarter, we won critical customer projects in Infotainment, AUTOSAR and productized solutions.

In Automotive space, we are sharply focusing on developing a non-linear revenue model with promoting more idea generation and a culture of innovation to sustain the impetus provided by the development of REVOLO, the plug-in parallel hybrid solution. The investments in R&D are the highest in this SBU with an aim to establish us co-innovation partners for our customers. We are also working with our customers to explore different business models like joint IP development, revenue sharing or royalty based models. Strengthening non-linear revenues will help in improving the quality of our revenues, while assisting the margins, which already have been traditionally better in this SBU as compared to the company level margins.

During the year, we started working with the Indian Defense segment. Our target customers are the defense R&D organizations, where lot of electronics & embedded software work is done. In the last 2-3 quarters, we have won customer projects for our related auto embedded offerings like vision systems, hybrid, navigation systems in this segment and with the available market opportunity, we expect substantial growth in these areas in the next few quarters.

Another major highlight during this year was the acquisition of In2soft Gmbh, through which we have added the expertise in vehicle diagnostics & telematics practice. Along with the financial consolidation, the sales integration is also complete. We are working on closing some crucial customer projects in the diagnostics space. We are now focusing on the delivery & HR integration process which is expected to close over the next two quarters.

A&E SBU reported a 41.05% growth in revenues in FY2011 as compared to the last year. The Q-o-Q growth was also a stellar 13.93%. Since A&E is our specialty, the margins here are comparatively higher. Having said that the R&D expense is the maximum in this SBU and in the current year the expensed R&D was around 6% of the SBU revenue. Post the R&D investments, the EBITDA margins for A&E are in the range of 19% - 20% on an average.

### 2.3 SAP SBU

SAP SBU caters primarily to the SAP ERP along with related BI and eBiz. With the acquisition of Sparta consulting in October 2009, erstwhile Sparta's SAP business and our SAP business got merged under a single leadership to form SAP SBU.

SAP has been one of the fastest growing SBUs for the company during the year. We are seeing a lot of traction and a healthy pipeline in utilities for practices like Business Intelligence (BI), Customer Relationship Management (CRM), and Application Maintenance & Support (AMS). From a geographic stand-point, there has been strong growth in US & India, while we are seeing traction in Middle-east.

SME (Small and Medium Enterprises) has been our key investment area for the last 2 quarters, and it is going to be a strategic priority for the next year. As part of this investment we have got solutions for 2 industries certified by SAP & the third certification is underway. We have hired 15 solution architects in different states in the US to focus on the SME market and we have also appointed 8 Practice Directors focused on the SME segment. Revenue flow is expected to start in next two quarters as the investment in sales and practice teams is expected to build a healthy pipeline by that time.

We have been working to develop easy to implement cost efficient solutions, wherein we have created various templatized solutions with focus on portfolio rationalization. We have created an integrated SAP

ERP & BOBJ Edge solution for USA SME segment which has been qualified by SAP North America. Another major IP development has been the creation of SUNAS, an out of the box pointed solutions exclusively for the Utilities market in North America. During this quarter, we have won 5-6 small deals in the AMS space, where we have borne the transition costs and this has impacted the profits marginally

In SAP SBU we have grown by 62% during the year as compared to last year, if we were to annualize the Sparta numbers for last year. The Actual reported growth is 144%. The Q-o-Q growth has been an impressive 13.68%. Since this SBU currently has predominant Onsite Business and we are also investing heavily in the new SAP-SME partnership, the EBITDA margins for the SBU are in the range of 8%-9% after charging out the SME investments which are 1% of the revenues. In the next couple of years as we increase the offshore revenues and capture volumes in the SAP SME business, we expect the margins to go up to 17%-18%.

### 2.4 SEMICONDUCTOR SOLUTIONS GROUP (SSG) SBU

SSG SBU aligns with our engineering services and our offerings here are in the areas of chip design and verification. We work with the semi conductor companies who offer chips to the Automotive Vertical and hence are able to leverage our domain expertise in Automotive in this SBU.

Analog Mixed Signal (AMS) & System on Chip (SoC) are the key growing practices, where we have registered new customer and new project wins. VLSI is a key practice area, where we foresee growth for the coming quarter and we have directed our efforts to develop this further. Geography wise Europe has been growing, particularly Germany. We have been able to generate specific customer interest in India in the Defense space, where we have seen good wins during the quarter.

SSG registered a 12.18% Y-o-Y growth in revenues and a stunning 35.35% Q-o-Q growth. SSG SBU currently delivers negative EBITDA Margins. We are focusing on increasing the operational rigor to manage the cost structure in line with the business volume, which will also positively impact the quality of revenues and help us improve the margins.

## 3.0 INDUSTRY VERTICALS

### 3.1 AUTOMOTIVE, TRANSPORTATION & MANUFACTURING (ATM)

Post global economic crisis and the subsequent operational and financial restructuring of automotive businesses, recent sales figures are pointing towards renewed growth worldwide, especially in countries like India and China.

The demand in this industry vertical is driven by both regulatory pressures and consumer demands.

Governments across the globe are mandating fuel efficiency in a bid to preserve natural resources. The emission norms are getting stricter and stricter by the day. The new consumer is more demanding, especially in the areas of fuel efficiency and infotainment. There is a strong focus on cost innovations to offer the best in class features at minimum price as affordability along with “value for money” is demanded not just by the customers in the emerging economies but also in the developed world.

We are working on developing various solutions & technologies for low cost feature rich mobility solutions, different infotainment platforms, safety & fuel efficiency requirements as these are specific & current areas of investment for the entire automobile & transportation industry. REVOLO was a major step in this direction, where we have tried to address the issue of fuel efficiency at optimal cost point. Another area of focus is to create productized solutions mainly targeting the defense & aftermarket segment which will also help us to re-position ourselves from pure software provider to specialist product player. On the IT side, we are working with our customers to ensure low cost product manufacturing, reducing the overall time to market, less capital intensive IT through emerging technologies like cloud computing, templates for effective manufacturing analytics & Business Intelligence.

**New Deals**

- KPIT Cummins has emerged partner of first choice to a European Tier1 for a HMI development project in the Infotainment space.
- In line with KPIT Cummins’ leadership positioning in the AUTOSAR space, it has been partnered by a leading European high-end car manufacturer for a crucial AUTOSAR production ECU.
- A leading North American hi-tech manufacturer has selected KPIT Cummins for a strategic microprocessor porting from 65nm to an advanced 45nm process.

### 3.2 ENERGY & UTILITIES (E&U)

E&U vertical will probably see one of the highest investments in IT across the globe. IT spending at electric utilities in North America is expected to rise 5.3 percent over 2010 levels this year, after a flat 2010, marginally ahead of IT spending across all industries, according to a recent market analysis by IDC. According to research by IDC, the spending on smart grid in North America is expected to reach $17.5 Bn by 2013. Cumulative global investments in smart grids, including smart meter implementations as well as upgrades to the transmission and distribution infrastructure, will approach $46 billion by 2015.

This indicates overall, improved economic conditions for the region and in particular for vendors and utility progress on smart grid initiatives and renewable energy integration. Government has already been trying to reduce dependence on renewable resources and decrease energy consumption & power loss by way of adopting newer technologies like Load Management, Intelligent Metering & Smart Grid Management & Automation. All of these technologies aim at efficient distribution and usage of energy &

thus require lots of electronics and analytics. So far North America has been the major market for smart grid applications but Advance Metering Infrastructure (AMI) which deals with energy usage & analysis is gradually shifting its focus towards Europe & China also.

We have a very strong foothold in Energy & Utilities in the US market for SAP offerings. We have forged partnerships for developing real time solutions for utilities end customer. We aim to offer creative and cost effective system integration services around SAP Utilities with proprietary tools and Intellectual property. Significant investments are being made by the company in the utilities segment, where the focus is also on IP development.

A key achievement for our IP development efforts has been the creation of a pre-packaged solution SUNAS for utilities focused on North America market. This is a templatized solution which will enable utilities to lower operating costs, improve customer service and build core systems for the smart grid. It is a pre-built utilities mobile application and also includes BI solutions for Advance Metering Infrastructure (AMI) & smart grid related reporting requirements. It is a growing market and we have been making the strategic investments to capture growth and increase our market share in this industry vertical.

We will also make investment towards creating engineering solutions for this vertical. Our expertise in embedded software for the automotive and manufacturing verticals will help us to create similar embedded offerings for this vertical also. This would involve further strengthening of our domain expertise in Energy and Utilities and creating embedded offerings for Smart Grid and Smart Metering applications

**New Deals**

- A major North American aviation electronics supplier is leveraging KPIT Cummins' consulting and technical expertise in SAP, for creation and faster deployment of cutting-edge dashboards for Project Systems and Staffing.
- Reinforced positioning as a preferred partner for the Energy & Utilities space, by being partnered by a leading industrial manufacturer for strategic Oracle Apps roll-out at its Mexican Natural Gas Engine (CNGE) operations.

### 3.3 DEFENSE & GOVERNMENT (D&G)

We have recently focused on the D&G vertical a few quarters back. There is increased IT spending in the defense sector, where we foresee significant opportunities in engineering services, outsourcing activities, supply chain sourcing and associated Maintenance Repair and Overhaul activities. Moreover, because of growing engineering design and low cost manufacturing capabilities and heavy intended spending on the up gradation of the Indian Defense Forces, India has now become a favorite destination for many global defense players. With stronger focus on IT, high tech engineering and research and design capabilities, India can leverage its IT infrastructure and manufacturing potential to be one of the key global sourcing destinations for defense systems and equipment.

The Engineering Services industry related to defense is set to achieve $55 Billion in revenues by 2020. Currently out of the estimated $30 Billion spent on engineering services in the Aerospace and Defense sector, only approximately USD 700 Million is being off-shored. Traditionally only low end work like testing, validation and design documentation services have been outsourced but with increased prioritization of the sector by the Government, high end work areas related to engine control, navigation systems and air control management systems are offering huge opportunities to companies operating in this segment.

We have been looking for complementary partnerships to go after sub systems business (radar, robotics, sensors, Launcher etc.) and systems business (Tanks, Aircraft, Submarine, Missiles etc.). Our target customer segments are the Defense Labs and End user organizations (Army, Navy, Air Force) and the go to market strategy is with a dedicated sales force, network of advisors and partnerships by leveraging the existing competencies with defense labs. These applications are a natural extension of our embedded skills in the automotive area with similar, end applications. For the government sector, we are working on areas like mass transit & transportation, toll collection management, traffic management and ERP implementations for bringing in more operational efficiency in the segment.

**New Deals**

An Indian defense organization has partnered with KPIT Cummins for MEMS/Sensor development for accelerometer based applications.

## 4.0 RECOGNITION AND THOUGHTLEADERSHIP

- Mr. Anil Patwardhan, our CFO was honored with the **'CFO of the Year in Information Technology Sector'** Award by the Institute of Chartered Accountants of India (ICAI) for exceptional performance and achievements as CFO in the Information Technology category for 2010.
- The 12th Symposium on International Automotive Technology (SIAT) arranged by ARAI was recently held in Pune. KPIT Cummins participated and demonstrated various technology solutions in the areas of Infotainment, Advanced Driver Assistance Systems and Body Electronics including the recently developed "Driver status monitoring" (DSM) system. The live demos were a major attraction for the conference attendees and received significant media attention and coverage.
- Mr. Ravi Pandit, Chairman & Group CEO, delivered a keynote speech on "Automotive Electronics Global Trends: Role of India" and participated in a panel discussion on 'Sustainable Mobility - a creative challenge' at the Symposium on International Automotive Technology (SIAT) held at

ARAI. He identified care for environment, judicious use of materials and energy resources, safety and inclusivity, as part of a four pronged strategy to meet the challenges of sustainable mobility. He also highlighted the need of encouraging vehicle sharing as a concept in India and its positive impact on both environment & traffic.

- We have published and presented two papers at the 12th Symposium on International Automotive Technology (SIAT) arranged by ARAI:
  1. Increasing Fuel Efficiency and Operating Range using Regenerative Braking with Super-Capacitors
  2. Multiple Signal Database Configuration for Similar ECUs – A Cost Reduction Approach
- KPIT Cummins participated in an Automotive Motor Show event in France which was organized by the major players in the French automotive industry. We had a booth representation and participation at various conferences on the theme of "Electric Vehicles / Hybrid Vehicles – Challenges and Solutions of tomorrow".
- A paper titled "A Taxonomy for Transactional Memory Systems" has been accepted in the International Journal of Computer Science and Information Technology.
- A paper titled 'A Novel Approach for Generation of Panoramic View' has been published in the 'International Journal of Computer Science and Information Technologies (IJCSIT)', Vol. 2 (2), 2011.
- TATA Motors recently acknowledged KPIT Cummins by mentioning it as a partner for 2 out of 6 Strategic Technology Initiatives in 2009-10. Published in the Annual Report of TATA Motors for 2009-10, it is an acknowledgement of KPIT Cummins' technological strength and customer focus.

## 5.0 REVOLO UPDATE

- Road tests of pilot vehicles as well as consumer trials continue. The results so far have validated the announced performance results.
- The team is working on developing a fully engineered solution. We have significantly reduced the overall weight of the solution, improved on the durability and standardized many components across the vehicle range.
- We are focused on cost optimization for the Revolo launch. We are working both with our vendor partners as well as leveraging technology to achieve the same.
- Construction at the assembly and manufacturing location continues. We expect it to be operational in Q2 of FY12.
- We are working with various government agencies for policy frameworks for hybrid vehicles.
- We have started building teams for Operations, Solutions & Engineering and Marketing & Finance in Impact Automotive Solutions Pvt. Ltd., the JV with Bharat Forge.

- Mr. Sunil Gandhi, who has more than 26 years of experience in the Automotive Industry with more focus on Auto Components and Electric Vehicles has joined Impact and will be heading the operations at Impact. He has been associated with some of the best Indian Electronics, Electrical and Automotive companies. He brings to Impact an excellent blend of engineering knowledge, manufacturing operations, logistics, vendor development and quality management.
- KPIT Cummins was awarded the Economic Times Zigwheels **'Automotive Idea of the Year Award'** for 2010, for its intelligent plug-in parallel hybrid solution, REVOLO.
- NASSCOM has awarded the **'Promising Innovation of the Year, 2011'** Award to KPIT Cummins for REVOLO. This award is an acknowledgement of KPIT's commitment to fostering automotive technology innovation.
- KPIT Cummins' REVOLO was also awarded **'Best Electronic Product of the Year 2011'** at Indian Semiconductor Association Technovation event. This award completes the hat-trick for REVOLO.
- KPIT Cummins' REVOLO won a special recognition award for **exceptional leadership in catalyzing consumer adoption of sustainable solutions**, at the India Carbon Outlook's Parivartan Sustainability Leadership Awards.
- Considering the technological as well as policy uncertainties we have not assumed any income from REVOLO during the current year.
- As mentioned in our earlier communications, we expect the volumes for REVOLO to pick up in FY2013 where we target to achieve Rs. 3 Bn to Rs. 5 Bn in revenues.

## 6.0 DIRECTORSHIP CHANGES

- Mr. Girish Wardadkar and Mr. Deepak Malik have resigned from the directorship of the company wef April 25, 2011
- Mr. Dinesh Castellino has been appointed as an Alternate Director to Mr. Bruce Carver.

## 7.0 FOCUS FOR FY2012

Since the beginning of FY2011, we have been making investments in the high potential areas that will ensure growth over the next few years. As a strategy to facilitate this growth, we have made organizational changes and have restructured our operations both of which are delivering encouraging results. For FY2012, we would continue with the priorities we had set for ourselves in the last year.

### 7.1 PEOPLE

With a focus to build competency led people organization, we will continue with our initiatives in the area of people training & development. We have introduced various professional certification programs, which will help our people be in line with the industry developments & standards and be ready for the next level of leadership. The objective of our people policies would be to create entrepreneurs and budding leaders to get ready for the next phase of growth and market leadership.

Our hiring process for fresher intake has been strengthened during the last year and we will continue the same for next year also. This has also in a way helped us counter the impact of attrition which has emerged as the single largest challenge for the IT industry as a whole.

We will be giving annual pay hikes during Q1 FY2012 which will be at par with the industry standards, but there would be an increase from the last year level. Besides annual wage hikes, we have a policy of performance linked incentives and quarterly promotions which further encourages employees to deliver better performance.

**7.2 INNOVATION**

The company is driving its efforts to foster a culture of innovation within the organization. Increasing the share of non-linear revenues in the overall company's revenue is the second focus area for the next year. We are working on breakthrough & disruptive technologies, where we want to develop practice based frugal innovation across all the SBUs. We have filed around 34 patents and we are now working on the commercialization of those patents. We are looking to create industry & domain centric IPs and our investments in R&D will continue to come up with more such innovative solutions like REVOLO. Besides SBUs, we would also drive innovation in our enabling functions and other operational areas of the company.

**7.3 PROFITABLE GROWTH**

The focus areas for growth during the next year would be Automotive, SAP, Oracle and Emerging Markets. We will invest in front end to strengthen our sales force and also to align the sales DNA with our growth objectives. We would be targeting large deals while also bringing in scale in the existing customer accounts. We have identified target customer accounts which are must win accounts and the sales efforts would be directed to achieve breakthrough into such accounts. We have aligned the sales with individual practices to ensure focus and convert the strategic customer relationships to large customer relationships.

At the same time, we want to ensure not only growth but profitable growth.. The engineering productivity improvement measures would continue and we will target higher utilization levels by increasing billing for freshers on board. This would also help us broaden our Employee Pyramid Base. We will contemplate to increase our revenues from offshore and fixed price projects. Scaling up of existing customer accounts will also help us leverage sales costs. We would also explore opportunities to create & work on innovative business & revenue models with our clients to bring in non linearity to our revenues

## 8.0 GUIDANCE

During FY12 we will look into more qualitative changes in our revenues by concentrating on moving business offshore from onsite, especially in the acquired entities, focusing more on revenues from our focus verticals and also if required forego low margin business from non strategic customers. Despite these, we are anticipating good organic growth going into FY12.

We will continue to make right investments for our future growth in FY12 which will have an impact on the profitability for FY12. We will have the following factors affecting profitability :

a. Wage hikes which would be in the range of 12% - 14% for offshore and 3% - 4% for onsite
b. R&D and SAPSME investments equal to 3% - 4% of revenues
c. Decreased forex realized rate which may have a negative impact of around 1.5% - 2.0%
d. Increased effective tax rate which would mean a negative impact of around 1.5% - 2.0%

With the above points in reference we are pleased to provide our guidance for FY12 :

- ✓ **USD Revenue for FY12 to be in the range of $ 275 Mn to $ 285 Mn, implying a y-o-y growth of 23% to 27%**
- ✓ **PAT for FY12 to be in the range of Rs. 1,150 Mn to Rs. 1,200 Mn, implying a y-o-y growth of 22% to 27%**

**The INR/USD rate is assumed to be Rs. 45 to a dollar for the year.**

Jan - Mar 2011

## INCOME STATEMENT FOR THE QUARTER ENDED 31st MARCH 2011

| Rs. Mn | Q4 FY11 | Q3 FY11 | Q-o-Q Growth | Q4 FY10 | Y-o-Y Growth |
|---|---|---|---|---|---|
| **Sales** | **3,081.97** | **2,737.45** | **12.59%** | **1,970.94** | **56.37%** |
| Software Development Expenses | 1,989.31 | 1,794.84 | 10.84% | 1,119.39 | 77. 71% |
| **Gross Profit** | **1,092.66** | **942.61** | **15.92%** | **851.55** | **28.31%** |
| Selling and Marketing Expenses | 220.92 | 190.63 | 15.89% | 166.78 | 32.46% |
| General and Admin Expenses | 438.65 | 366.50 | 19.69% | 298.44 | 46.98% |
| **EBITDA** | **433.09** | **385.48** | **12.35%** | **386.32** | **12.11%** |
| Interest | (2.41) | 6.30 | (138.17%) | 4.33 | (155.53%) |
| Depreciation | 162.10 | 85.02 | 90.66% | 79.65 | 103.52% |
| **Profit After Depn. & Int.** | **273.40** | **294.16** | **(7.06%)** | **302.34** | **(9.57%)** |
| Other Income | 32.49 | 8.20 | 296.19% | (57.04) | (156.95%) |
| **Profit Before Tax** | **305.88** | **302.36** | **1.17%** | **245.30** | **24.70%** |
| Provision for Taxation | 42.31 | 49.33 | (14.25%) | 37.44 | 13.00% |
| **Profit After Tax** | **263.58** | **253.02** | **4.17%** | **207.86** | **26.81%** |
| Minority Interest | 0.27 | (1.64) | (83.84%) | - | - |
| Profit after Minority Interest | **263.31** | **251.38** | **4.75%** | **207.86** | **26.68%** |
| Exceptional Item | | - | | - | **-** |
| **Profit after exceptional item** | **263.31** | **251.38** | **4.75%** | **207.86** | **26.68%** |
| Paid up Capital | 175.73 | 158.94 | - | 157.05 | - |
| Free Reserves | 5,848.72 | 4,504.65 | - | 3,696.66 | - |
| EPS (Rs. 2/-Face Value each) | | | | | |
| - Basic | 3.10 | 3.17 | (2.21%) | 2.65 | 16.98% |
| - Fully Diluted | 3.00 | 3.05 | (1.64%) | 2.57 | 16.73% |
| **Common Size Analysis:** | | | | | |
| Gross Profit Margin | 35.45% | 34.43% | 1.02% | 43.20% | (7.75%) |
| Sales & Marketing Exp / Revenue | 7.17% | 6.96% | 0.20% | 8.46% | (1.29%) |
| General & Admin Exp / Revenue | 14.23% | 13.39% | 0.84% | 15.14% | (0.91%) |
| EBITDA Margin | 14.05% | 14.08% | (0.03%) | 19.60% | (5.55%) |
| Net Profit Margin | 8.54% | 9.18% | (0.64%) | 10.55% | (2.00%) |

1. *q-o-q' or 'sequential' growth refers to growth during the qtr 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 31st MARCH 2011)

| | Q4 FY11 | Q3 FY11 | Q-o-Q Growth | Q4 FY10 | Y-o-Y Growth |
|---|---|---|---|---|---|
| Revenue Spread – Geography | | | | | |
| USA | 68.27% | 69.26% | 10.99% | 67.25% | 58.74% |
| Europe | 18.87% | 20.55% | 3.38% | 22.40% | 31.73% |
| Rest of World | 12.86% | 10.19% | 42.10% | 10.34% | 94.48% |
| Revenue Spread – Verticals | | | | | |
| Manufacturing | 78.25% | 72.57% | 21.39% | 78.74% | 55.39% |
| BFSI | 3.20% | 3.02% | 19.30% | 5.18% | -3.40% |
| Energy & Utilities | 4.96% | 6.64% | (15.90%) | 7.55% | 2.75% |
| Others | 13.59% | 17.77% | (13.90%) | 8.53% | 149.13% |
| Revenue Spread – by SBU | | | | | |
| Integrated Enterprise Solutions | 38.46% | 39.60% | 9.27% | 39.67% | 54.33% |
| Auto & Engineering | 26.93% | 26.59% | 13.93% | 27.09% | 58.22% |
| SAP | 31.81% | 31.48% | 13.74% | 29.62% | 70.95% |
| Semiconductor Solutions Group | 2.80% | 2.33% | 35.10% | 3.62% | 23.00% |
| Customer details | | | | | |
| No. of Customers Added | 3 | 5 | - | 2 | - |
| No. of STAR Customers | 28 | 28 | - | 28 | - |
| No. of Active Customers | 155 | 152 | - | 141 | - |
| Customers with run rate of >$1Mn | 40 | 40 | - | 32 | - |
| Top Client – Cummins | 20.42% | 24.07% | (4.50%) | 24.87% | 28.40% |
| Top 5 Clients | 41.34% | 41.88% | 11.13% | 43.50% | 48.61% |
| Top 10 Clients | 51.19% | 51.17% | 12.63% | 54.98% | 45.59% |
| Star Customers – Non Cummins | 34.84% | 35.19% | 11.47% | 39.49% | 37.99% |
| Repeat Business | 90%+ | 90%+ | - | 90%+ | - |
| Onsite / Offshore Split | | | | | |
| Onsite Revenues | 46.08% | 46.26% | 12.15% | 44.25% | 62.86% |
| Offshore Revenue | 53.92% | 53.74% | 12.96% | 55.75% | 51.22% |
| Revenue by Contract Type | | | | | |
| Time and Material Basis | 68.66% | 68.39% | 13.04% | 69.63% | 54.19% |
| Fixed Price / Time Basis | 31.34% | 31.61% | 11.62% | 30.37% | 61.33% |
| Debtors (days) | 65 | 64 | - | 66 | - |

Jan - Mar 2011

| | Q4 FY11 | Q3 FY11 | Q-o-Q Growth | Q4 FY10 | Y-o-Y Growth |
|---|---|---|---|---|---|
| Human Resources – Details | | | | | |
| Development Team – Onsite (Avg) | 731 | 696 | - | 549 | - |
| Development Team - Offshore(Avg) | 5,253 | 4,878 | - | 3,803 | - |
| Onsite FTE | 660 | 620 | 6.45% | 489 | 34.97% |
| Offshore FTE | 3,671 | 3,296 | 11.38% | 2,748 | 33.59% |
| Total FTE | 4,331 | 3,916 | 10.60% | 3,237 | 33.80% |
| Development (at Qtr end) | 5,998 | 5,743 | - | 4,478 | - |
| Gen Mgmt / Support (at Qtr end) | 414 | 407 | - | 380 | - |
| Marketing (Subsidiaries) (at Qtr end) | 102 | 79 | - | 60 | - |
| Total (at Qtr end) | 6,514 | 6,229 | - | 4,918 | - |
| Onsite utilization | 90.23% | 89.07% | - | 89.12% | - |
| Offshore utilization | 69.88% | 67.57% | - | 72.25% | - |

## INCOME STATEMENT FOR YEAR ENDED 31ST MARCH 2011

| Rs. Mn | FY 2011 | FY 2010 | Growth |
|---|---|---|---|
| **Sales** | **10,230.14** | **7,316.41** | **39.82%** |
| Software Development Expenses | 6,599.34 | 4,090.50 | 61.33% |
| **Gross Profit** | **3,630.80** | **3,225.91** | **12.55%** |
| Selling and Marketing Expenses | 762.47 | 663.73 | 14.88% |
| General and Admin Expenses | 1,346.26 | 947.75 | 42.05% |
| **EBITDA** | **1,522.08** | **1,614.43** | **(5.72%)** |
| Interest | 13.02 | 27.41 | (52.49%) |
| Depreciation | 411.25 | 308.04 | 33.51% |
| **Profit After Depn. & Int.** | **1,097.81** | **1,278.98** | **(14.17%)** |
| Other Income | 4.77 | (252.53) | (101.89%) |
| **Profit Before Tax** | **1,102.58** | **1,026.45** | **7.42%** |
| Provision for Taxation | 154.86 | 169.14 | (8.45%) |
| **Profit After Tax** | **947.72** | **857.31** | **10.55%** |
| Minority Interest | 1.91 | - | - |
| Profit after Minority Interest | 945.82 | **857.31** | **10.32%** |
| Exceptional Item | - | - | |
| **Profit after exceptional item** | **945.82** | **857.31** | **10.32%** |
| Paid up Capital | 175.73 | 157.05 | - |
| Free Reserves | 5,848.72 | 3,696.66 | - |
| EPS (Rs. 2/-Face Value each) | | | |
| - Basic | 11.78 | 10.97 | 7.38% |
| - Fully Diluted | 11.37 | 10.8 | 5.28% |
| **Common Size Analysis:** | | | |
| Gross Profit Margin | 35.49% | 44.09% | (8.60%) |
| Sales & Marketing Exp / Revenue | 7.45% | 9.07% | (1.62%) |
| General & Admin Exp / Revenue | 13.16% | 12.95% | 0.21% |
| EBITDA Margin | 14.88% | 22.07% | (7.19%) |
| Net Profit Margin | 9.25% | 11.72% | (2.47%) |

## PERFORMANCE METRICS (YEAR ENDED 31st MARCH 2011)

| | FY 2011 | FY 2010 | Y-o-Y Growth |
|---|---|---|---|
| Revenue Spread - Geography | | | |
| USA | 67.71% | 60.36% | 56.85% |
| Europe | 20.16% | 30.06% | (6.23%) |
| Rest of World | 12.13% | 9.58% | 77.06% |
| Revenue Spread - Verticals | | | |
| Manufacturing | 76.94% | 82.80% | 29.93% |
| BFSI | 3.53% | 6.78% | (27.25%) |
| Energy & Utilities | 6.31% | 3.03% | 191.19% |
| Others | 13.22% | 7.39% | 150.19% |
| Revenue Spread - by SBU | | | |
| Integrated Enterprise Solutions | 37.91% | 49.07% | 12.95% |
| Auto & Engineering | 26.82% | 27.71% | 41.05% |
| SAP | 32.15% | 19.17% | 142.34% |
| Semiconductor Solutions Group | 3.12% | 4.05% | 12.28% |
| Customer details | | | |
| No. of Customers Added | 14 | 13 | |
| No. of STAR Customers | 28 | 28 | |
| No. of Active Customers | 155 | 141 | |
| Customers with run rate of >$1Mn | 40 | 32 | |
| Top Client - Cummins | 22.79% | 30.18% | 5.56% |
| Top 5 Clients | 42.36% | 49.98% | 18.51% |
| Top 10 Clients | 52.06% | 58.06% | 25.35% |
| Star Customers - Non Cummins | 35.06% | 44.52% | 10.13% |
| Repeat Business | 90% | 90%+ | - |
| Onsite / Offshore Split | | | |
| Onsite Revenues | 43.68% | 40.21% | 51.87% |
| Offshore Revenue | 56.32% | 59.79% | 31.72% |
| Revenue by Contract Type | | | |
| Time and Material Basis | 69.06% | 69.77% | 38.40% |
| Fixed Price / Time Basis | 30.94% | 30.23% | 43.11% |
| Debtors (days) | 65 | 66 | - |
| | | | |

| | FY 2011 | FY 2010 | Y-o-Y Growth |
|---|---|---|---|
| Human Resources - Details | | | |
| Development Team - Onsite (Avg) | 634 | 559 | - |
| Development Team - Offshore(Avg) | 4,723 | 3,753 | - |
| Onsite FTE | 569 | 512 | 11.13% |
| Offshore FTE | 3,234 | 2,674 | 20.94% |
| Total FTE | 3,803 | 3,186 | 19.37% |
| Development (at Qtr end) | 5,998 | 4,478 | - |
| Gen Mgmt / Support (at Qtr end) | 414 | 380 | - |
| Marketing (Subsidiaries) (at Qtr end) | 102 | 60 | - |
| Total (at Qtr end) | 6,514 | 4,918 | - |
| Onsite utilization | 89.80% | 91.63% | - |
| Offshore utilization | 68.48% | 71.24% | - |

**FOREX INSTRUMENTS**

**Total Outstanding Hedges**:

- Total amount of USD hedges as on 31st Mar 2011 : $ 61.50 Mn
- Maturing in next 3 months : $ 7.50 Mn
- Maturing beyond FY2012 : $ 25.50 Mn

The average hedge rate for FY2012 is Rs. 45 / USD.

The average hedge rate for the hedges beyond FY12 is Rs. 45.20 / USD

We have also started hedging in Euro and GBP on a rolling 2 Qtr basis. As of Q4 end we are hedged for 75% of the net exposure in Euro and GBP for the next 2 qtrs.

- ***Balance Sheet details:***
  - The Cash Balance as at March 31, 2011 stood at Rs.2,572.51 Million as compared to Rs. 1,546.24 Million as on December 31, 2010. During the quarter, we completed allotment of 7,758,621 shares to Warhol Limited, Mauritius on a preferential basis at an issue price of Rs.145 per equity share which amounted to an aggregate consideration of Rs.1,125.00 Million.
  - Capital expenditure for the quarter stood at Rs. 220 Million including CWIP.
  - As on March 31, 2011 our total debt was Rs.1,105.44 Million (Rs.1,228.79 Million as of Dec 31, 2010) comprising of Rs. 280.80 Million of Term Loan, Rs. 785.27 Million of Working Capital Loan and Rs.39.36 Million of short term loan.
  - Forex Hedging instruments with maturity of more than 3 months and considered effective hedges in accounting terms are provided for as adjustment to the Reserves and Surplus in the Balance Sheet (OCI). As on March 31, 2011 these Hedging Reserves were Rs. 136.24 Million as

compared to Rs. 155.11 Million as of Q3FY11 end. As a result of rupee appreciation during the quarter and also reduction in total outstanding hedges as of quarter end as compared to last quarter, there was this reduction in Hedging Reserve.

| Balance Sheet Summary: As at (Rs. Mn) | Mar 31, 2011 | Dec 31, 2010 | Mar 31, 2010 |
|---|---|---|---|
| Shareholders' Equity | 6,031.91 | 4,680.46 | 3,871.01 |
| Total Debt | 1,105.44 | 1,228.79 | 1,107.74 |
| Minority Interest & Deferred Tax Liability | 63.71 | 69.75 | 51.15 |
| **Total** | **7,201.05** | **5,979.00** | **5,029.90** |
| Fixed Assets | 1,580.71 | 1,428.48 | 1,521.57 |
| Investments | 476.50 | 468.43 | 746.98 |
| Goodwill on Consolidation | 1,299.91 | 1,291.50 | 949.97 |
| Total Current Assets | 5,718.65 | 4,321.13 | 3,117.00 |
| Cash Balance | 2,096.01 | 1,077.81 | 1,052.29 |
| Receivables | 2,525.44 | 2,051.27 | 1,387.68 |
| Loans & Advances | 1097.20 | 1,192.03 | 677.03 |
| Current Liabilities | 1,874.72 | 1,530.55 | 1,305.62 |
| **Total Net Assets** | **7,201.05** | **5,979.00** | **5,029.90** |

** Investments include investment of surplus cash in Liquid Funds.*

## CONFERENCE CALL DETAILS

| | | |
|---|---|---|
| **Conference name** | **:** | **KPIT Cummins Q4 FY2011 Conference Call** |
| **Date** | **:** | **Tuesday, 26th April, 2011** |
| **Time** | **:** | **1600 Hrs (IST)** |
| **Dial-in Numbers** | | |
| Primary number | : | **+91 22 6629 0547** |
| Secondary number | : | **+91 22 3065 2478** |
| Local access | : | 6000 1221<br>**Available in - Delhi, Bangalore, Chennai, Hyderabad, Kolkata**<br>*Accessible from all major carriers except BSNL/MTNL.* |
| | : | 3940 3977<br>**Available in - Gurgaon (NCR), Bangalore, Kolkata, Cochin, Pune, Lucknow, Ahmedabad, Chandigarh**<br>*Accessible from all carriers.* |
| Toll Free Number | : | USA- 1 866 746 2133<br>UK- 0 808 1011573<br>Singapore- 800 101 2045<br>Hong Kong- 800 964 448 |

### About KPIT Cummins Infosystems Ltd.

KPIT Cummins Infosystems Limited (BSE: 532400; NSE: KPIT), a trusted global IT Consulting and product engineering partner, is focused on co-innovating domain intensive technology solutions for Manufacturing corporations (with special focus on Automotive, Hi-Tech & Industrials verticals) to help its customers become efficient, integrated and innovative enterprises.

A leader in technology solutions and services, KPIT Cummins currently partners with 100+ global Manufacturing corporations including 50+ Original Equipment Manufacturers (OEMs), semiconductor companies and Tier 1s, helping them globalize efficiently & bring complex technology products/ systems faster to their global markets. Please visit www.kpitcummins.com for more information.

### Forward Looking Statements

*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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