KPIT Cummins

INVESTOR UPDATE

FOR

QUARTER ENDED 30th JUNE 2011

(NSE: KPIT, BSE: 532400) **(Apr-Jun 2011)**

KEY HIGHLIGHTS

- **Strong organic growth during the quarter led by traction in automotive business, across geographies.**
- **Fifth consecutive quarter of healthy revenue growth of 6.99% QoQ and 59.98% YoY to USD 70.09 Million.**
- **INR Revenue for the quarter stood at Rs. 3,161.30 Million, Q-o-Q growth of 6.37% and Y-o-Y growth of 57.59%.**
- **PAT for the quarter grew by 24.41% Y-o-Y to Rs.240.91 Million. On QoQ basis, it de-grew by 8.51% on account of wage hikes and higher tax rates.**
- **4 new customers were added during the quarter including one automotive customer in China.**
- **4 new patents were filed during the quarter, taking the total number of patents to 37.**

1. CORPORATE UPDATE

1.1 Strategy & Revenues

- Revenue for the quarter has grown by 6.99% QoQ and 59.98% YoY to USD 70.09 Million. In INR terms, revenues stood at Rs. 3,161.30 Million, a QoQ growth of 6.37% and YoY growth of 57.59%.
- Geography-wise for the quarter, Europe has grown by 17.76% QoQ and ROW has grown by 23.74% QoQ. US remained flattish during the quarter.
- During this quarter, we have added 4 new customers, 2 in USA, 1 in Europe and 1 in APAC taking the total number of active customers to 159.
- Cummins has grown by 4.26% QoQ and 29.82% YoY, with their current revenue share at 20.65%.
- Beginning Q1, we have changed the way we account for revenues in our income statement. All reimbursement revenues are netted off against the expenses (earlier the reimbursement amount appeared as revenue in revenues and as expense in the costs) The third party licence sale amounts now appear in revenues only to the tune of the margins on such sale (earlier the full sale amount used to appear as revenue and the cost of the licence as direct cost). As an effect the revenue for Q1 and the QoQ growth is reflected as follows :

USD Mn	Q1FY12	Q4FY11	QoQ	QoQ %
Gross Revenue	73.93	67.92	6.01	8.85%
Reim & License Revenue	3.84	2.41	1.43	59.48%
Net Revenue	70.09	65.51	4.58	6.99%

- Thus there has been a healthy organic revenue growth during the quarter driven by traction in IES SBU, followed by Auto SBU and SAP SBU. SSG SBU declined during the quarter. A more detailed description of the revenue traction in individual SBUs is included in the SBU update sections, later in the document.
- In terms of geography, Emerging markets have shown the fastest growth over the last 6-7 quarters and will continue to be so in the future. Apart from good auto embedded growth, we are also expanding business opportunities for SAP in the emerging markets. US continues to be an important market for our growth going ahead. Europe too has depicted good growth during the quarter and we expect Europe to show sustainable growth in the second half of the year. SAP SME segment which has been a key investment area for us for the last couple of quarters, registered its first sales win during the quarter. We will continue to invest in this area, specifically in front end for another couple of quarters.

- During this quarter, our China office became operational. China is an important geography for manufacturing and automotive industry and this office will help us service both our global & local customers. We have also started relationship with a Chinese Auto OEM.
- The overall macroeconomic environment is not the best at present, especially in Europe and in the US. Having said that, we currently do not see any direct impact on the R&D and IT spending by our customers in the US, albeit Europe is showing some signs of pressure on IT budgets.
- With an encouraging revenue growth in Q1, we have set a positive tone for the remainder of the year. Our deal pipeline is very strong in Auto and SAP SBUs. The IES pipeline is building up fast, especially in Oracle consulting and implementation services.

1.2 Profitability:

- For the quarter, our Net Profit has de-grown by 8.51% QoQ & grown by 24.41% YoY to Rs. 240.91 Million. EBITDA for the quarter stood at Rs.397.15 Million, a YoY growth of 17.05%, while on a QoQ basis it has declined by 8.30%. EBITDA margin came down to 12.56% for the quarter, a decline of 201bps as compared to last quarter.
- As stated earlier, we have given wage hikes across the board to the tune of around 13% offshore and 4% Onsite. The impact of these wage hikes in Q1 was around negative 2.75% on the Operating Profit margins.
- Our net hiring during the quarter was 70. We hired 100+ freshers in the quarter. Attrition has come down to 22.5% during the quarter. Going ahead our lateral hiring will be limited to need based and more focus will be on the utilization of freshers in the system. Having said that, we will continue to add freshers every quarter to help us improve the employee pyramid on a continuous basis. We expect the employee pyramid impact to flow fully into our profitability in the second half of the year. We had some integration expenses (for SYSTIME) as a part of our SGA, inspite of which due to strong growth there was an improvement in SGA to sales ratio.
- The effective Tax Rate during the Quarter was 22.53% as compared to 13.83%in last quarter. As stated earlier, due to the discontinuance of the income tax benefits under STPI, the effective tax rate has gone up during the quarter. All our growth will now be driven through SEZs across our delivery centres viz, Pune, Bangalore and Noida. If the impact of the incremental tax is not considered, then PAT for the qtr would have been at Rs. 268 Mn, a sequential growth of 1.90%.
- Offshore Utilization for the quarter was at 71.23% compared to 69.88% in the last quarter. Onsite Utilization stood at 90.72% as compared to 90.23% last quarter. We are targeting Offshore Utilization at 75% and Onsite at 93% in the ensuing quarters, which is an important lever for profitability improvement.
- Pricing is expected to improve in the coming quarters, while there have been some price upgrades during the quarter in some of the key projects. We are also working on improving the

onsite offshore mix mainly in the acquired entities which would also provide significant leverage for profitability growth. These are some of the key levers available for improving profitability during the year and we believe these will start delivering results by H2FY2012.

1.3 R&D AND INNOVATION

We filed for 4 new patents during this quarter in the automotive domain. This includes one patent related to image processing, while the remaining three are provisional patents. We have recalled one provisional patent filed previously, this takes the total number of patents filed by the company till date to 37. We now have our focus on looking at monetization opportunities for the patents owned by us. Over the next couple of years we target not only to continue developing IPs but also to increase our non linear revenues through commercialization of the developed IPs.

2.0 SBU UPDATE

2.1 INTEGRATED ENTERPRISE SOLUTION (IES) SBU:

The Q-o-Q revenue growth in IES was 14.61%. We are witnessing growing demand for Oracle offerings in the US market mainly for transformational deals. There has been an increase in traction from our existing clients for Manufacturing Execution Systems (MES), Enterprise Application Integration (EAI) and testing services. We have won some key engagements in Oracle ERP consulting and implantation space in US primarily from manufacturing companies and are engaging with some large customers for MES in Europe and Oracle Transportation Management (OTM) in India. Another area of customer interest has been mobility applications.

The business outlook for the next quarter looks optimistic with demand coming from both existing as well new markets.

Latest Development

During the quarter, we took 50% stake in SYSTIME, an Oracle Platinum Partner and a leading provider of JD Edwards (JDE) solutions and services, with an investment of INR 1.03 Bn. With the addition of JDE to our Oracle portfolio, we expect the combined Oracle practice to be USD 125-150 Million by FY2013.

SYSTIME numbers will be consolidated only in Q4 of FY12.

The integration process has been initiated with the IT network configuration and the respective functional heads taking charge of their responsibilities as per the revised organizational structure.

2.2 AUTOMOTIVE & ENGINEERING (A&E) SBU

The Q-o-Q growth for the Automotive & Engineering (A&E) SBU was 7.29%. Automotive continues to be the growth drivers with good traction across powertrain, body electronics, AUTOSAR and in-vehicle networks practices. US, China and India have shown encouraging growth in the quarter. The deal pipeline for next few quarters looks very strong for the SBU.

We have successfully completed the HR integration for In2soft Gmbh acquisition, the combined competency of KPIT Cummins & In2soft has enabled several new business opportunities with top European OEMs and Tier Is. The quality of work is niche and specialized in vehicle diagnostics and telematics, where most of the revenues are IP and license that will provide a boost to the profitability.

2.3 SAP SBU

The Q-o-Q revenue growth during the quarter was 2.23% for the SAP SBU. We are experiencing business momentum and a healthy deal pipeline for solutions and services in the Core ERP, Customer Relationship Management (CRM) and Application Maintenance & Support (AMS) areas, primarily from the North American manufacturing and utilities corporations.

We won our first customer in the Small and Medium Enterprises (SME) space, where we have been making investments over last few quarters. For the midsize businesses we also launched two pre-packaged and turn-key ERP and business process management suites, built on SAP®, (i) ComponentEDGE™ – for mid-size component manufacturers and (ii) WholesaleEDGE™ for midsize wholesale distribution companies. These solutions can be deployed in significantly less time and cost as compared to traditional ERP implementations. We are now working on finalizing the Go-to-Market strategy for these SAP certified templatized solutions.

2.4 SEMICONDUCTOR SOLUTIONS GROUP (SSG) SBU

In Q1, we merged the non-automotive embedded software activity with the SSG SBU. The revenue has declined by 33.39% QoQ. Amongst our two key practices Analog Mixed Signal (AMS) has emerged as a differentiator while customers continue to also leverage our Digital System on Chip (SoC) practice competencies. Amongst the geographies, India is an important market as we have been witnessing traction amongst the semiconductor customers and also in the Defense sector. We would continue with the operational improvements which will help in adjusting the cost structure to be in line with the growth in business volume and also help in improving the quality of revenues.

3.0 INDUSTRY VERTICALS

3.1 AUTOMOTIVE, TRANSPORTATION & MANUFACTURING (ATM)

The global auto electronics sector is going through a phase of rapid growth, as automobile companies try to improve efficiency, safety and comfort of their products. The regulation standards and consumer demand is offering us opportunities to partner with customers across powertrain, diagnostics, hybrid technology and infotainment practices. Another major driver for this rise is an increase in demand for smaller vehicles– especially in regions such as India and China – and a continued increase in the value of electronics fitted to each vehicle.

New Deals

- European leader in CAN solutions and Diagnostics is leveraging our strong domain expertise in AUTOSAR and Vehicle Networking for module development and integration, whereas European OEM has selected us as a strategic consulting and application development services partner for engagements in the diagnostics space.
- A leading Asian automotive tier 1 has engaged us for a strategic product design and development project in the Body Electronics space.
- A leading European high-tech manufacturer has selected KPIT Cummins for a strategic project in the area of system controls development for automotive microcontroller unit (MCU).
- KPIT Cummins has been selected as a consulting and implementation partner to strengthen business information infrastructure and reporting capabilities for the North America operations of an Asian manufacturer of analytical and testing devices.

3.2 ENERGY & UTILITIES (E&U)

The demand for energy continues to increase as a result of growing global population and ever increasing demand for energy across all spheres of life. The security of energy supply also poses a major challenge. In such a scenario, data analytics has emerged as a compelling factor for the utility companies. With the use of advanced IT applications, utility companies can analyze enormous data sets and thus make informed decisions.

We are working towards maximizing the growing demand and potential in the Utility industry and extensive work is currently being carried out in the SAP SBU to address the opportunities.

New Deals

- KPIT Cummins further strengthened its partnership with the Energy & Utilities industry with a strategic enterprise planning and performance management consulting and deployment engagement with a North American Utility.

3.3 DEFENSE & GOVERNMENT (D&G)

India is evolving as an important defense market globally with mega acquisition programs coupled with the government initiatives, a healthy foreign supplier base mix and an increasing number of deal closures seen over the past few years.

4.0 RECOGNITION AND THOUGHTLEADERSHIP

- Certified as CMMI- DEV v1.2 Maturity Level 5 organization by Carnegie Mellon University's Software Engineering Institute (SEI).
- Featured as a 2011 Global Services 100 provider, and ranked amongst the Top Engineering Services Outsourcing Vendors by GS100.
- The Department of Scientific and Industrial Research (DSIR) has approved KPIT's R&D Centre, CREST.
- A total of 8 papers from CREST have been accepted in reputed international conferences while a paper titled "A METHOD FOR GENERATION OF PANORAMIC VIEW BASED ON IMAGES ACQUIRED BY A MOVING CAMERA" has been accepted in International Journal of Computer Applications (IJCA). The papers, directly relevant to Driver Information Systems (DIS) and Vehicular Communications, will strengthen the positioning of KPIT Cummins for Vision and Telematics offerings.

5.0 REVOLO UPDATE

- REVOLO was named the **Best implemented sustainability innovation at** Knowledge@Wharton's second annual Innovation Tournament. As a judge, Christian Terwiesch said he was highly impressed with the REVOLO innovation because it addressed the need to improve emissions of cars already on the road. "Everybody is talking about hybrid vehicles that will be launched in the future, but what do we do with all these cars *now?*" [Published: May 25, 2011, in Knowledge@Wharton].

- We have internally developed an ECU for the solution. The ECU will significantly improve the algorithm security and it will also help in reducing the cost of the overall system. For one of the aftermarket models, we have been able to significant reduce the weight of the solution to 129kg as against the initial weight of 175kgs.

- For two of the four critical components, primary and secondary vendor partners have been identified and we have started joint testing and solution refinement with them.

- Road tests at pilot client sites and KPIT Cummins continue and the results have been validating the announced performance. During the quarter, trials were carried out for peak summer conditions and the results have been satisfactory. The construction activities at the assembly and manufacturing plant are nearing completion and we would be operational in the next quarter.

- We continue to actively engage with potential customers both on OEM and Aftermarket segment.

Apr - Jun 2011

INCOME STATEMENT FOR THE QUARTER ENDED 30th JUNE 2011

Rs. Mn	Q1 FY12	Q4 FY11	Q-o-Q Growth	Q1 FY11	Y-o-Y Growth
Sales	**3,161.30**	**2,972.02**	**6.37%**	**2,005.98**	**57.59%**
Software Development Expenses	2,123.99	1,881.61	12.88%	1,250.82	69.81%
Gross Profit	**1,037.31**	**1,090.41**	**(4.87%)**	**755.16**	**37.36%**
Selling and Marketing Expenses	259.24	220.92	17.35%	157.81	64.27%
General and Admin Expenses	380.92	436.41	(12.71%)	258.05	47.61%
EBITDA	**397.15**	**433.09**	**(8.30%)**	**339.29**	**17.05%**
Interest	10.35	10.44	(0.92%)	14.38	(28.04%)
Depreciation	94.37	162.10	(41.78%)	80.53	17.18%
Profit After Depn. & Int.	**292.43**	**260.55**	**12.24%**	**244.39**	**19.66%**
Other Income	22.45	45.33	(50.47%)	(21.69)	(203.51%)
Profit Before Tax	**314.88**	**305.88**	**2.94%**	**222.70**	**41.40%**
Provision for Taxation	70.94	42.31	67.69%	29.06	144.12%
Profit After Tax	**243.94**	**263.58**	**(7.45%)**	**193.64**	**25.98%**
Minority Interest	3.03	0.27	-		-
Profit after Minority Interest	**240.91**	**263.31**	**(8.51%)**	**193.64**	**24.41%**
Exceptional Item	-	-	-	-	-
Profit after exceptional item	**240.91**	**263.31**	**(8.51%)**	**193.64**	**24.41%**
Paid up Capital	176.10	175.73	-	157.61	-
Free Reserves	6,153.11	5,848.72	-	3,818.17	-
EPS (Rs. 2/-Face Value each)					
- Basic	2.74	3.10	(11.61%)	2.46	11.33%
- Fully Diluted	2.66	3.00	(11.33%)	2.38	11.72%
Common Size Analysis:					
Gross Profit Margin	32.81%	36.69%	(3.87%)	37.65%	(4.83%)
Sales & Marketing Exp / Revenue	8.20%	7.43%	0.77%	7.87%	0.33%
General & Admin Exp / Revenue	12.05%	14.68%	(2.63%)	12.86%	(0.81%)
EBITDA Margin	12.56%	14.57%	(2.01%)	16.91%	(4.35%)
Net Profit Margin	7.62%	8.86%	(1.24%)	9.65%	(2.03%)

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 30th JUNE 2011)

	Q1 FY12	Q4 FY11	Q-o-Q Growth	Q1 FY11	Y-o-Y Growth
Revenue Spread - Geography					
USA	64.16%	68.28%	(0.04%)	65.08%	55.37%
Europe	21.04%	19.00%	17.76%	22.15%	49.65%
Rest of World	14.80%	12.72%	23.74%	12.77%	82.73%
Revenue Spread - Verticals					
Automotive, Transportation & Manufacturing	68.74%	68.37%	6.94%	75.15%	44.14%
Energy & Utilities	5.78%	4.81%	27.84%	1.77%	413.05%
Defense & Government	2.15%	0.31%	629.27%	0.59%	472.28%
Others	23.33%	26.51%	(6.38%)	22.48%	63.60%
Revenue Spread - by SBU					
Integrated Enterprise Solutions	41.86%	39.08%	14.61%	39.05%	71.49%
Auto & Engineering	26.53%	26.46%	7.29%	26.41%	60.71%
SAP	29.16%	30.52%	2.23%	29.21%	59.68%
Semiconductor Solutions Group	2.46%	3.95%	(33.39%)	5.33%	(26.27%)
Customer details					
No. of Customers Added	4	3	-	3	-
No. of Active Customers	159	155	-	144	-
Customers with run rate of >$1Mn	48	40	-	35	-
Top Client - Cummins	20.65%	21.06%	4.26%	25.06%	29.82%
Top 5 Clients	38.04%	43.98%	(8.00%)	44.98%	33.29%
Top 10 Clients	49.25%	55.38%	(5.42%)	55.71%	39.32%
Repeat Business	90%+	90%+	-	90%+	
Onsite / Offshore Split					
Onsite Revenues	44.15%	42.96%	9.29%	40.00%	73.91%
Offshore Revenue	55.85%	57.04%	4.16%	60.00%	46.71%
Revenue by Contract Type					
Time and Material Basis	68.42%	68.03%	6.98%	68.21%	58.08%
Fixed Price / Time Basis	31.58%	31.97%	5.07%	31.79%	56.55%
Debtors (days)	71	65	-	68	-

Apr - Jun 2011

	Q1 FY12	Q4 FY11	Q-o-Q Growth	Q1 FY11	Y-o-Y Growth
Human Resources - Details					
Development Team - Onsite (Avg)	729	731	-	547	-
Development Team - Offshore(Avg)	5,326	5,253	-	4,132	-
Onsite FTE	661	660	(0.15%)	496	33.27%
Offshore FTE	3,794	3,671	3.35%	2,828	34.16%
Total FTE	4,455	4,331	2.86%	3,324	34.03%
Development (at Qtr end)	6,063	5,998	-	4,895	-
Gen Mgmt / Support (at Qtr end)	416	414	-	387	-
Marketing (Subsidiaries) (at Qtr end)	105	102	-	62	-
Total (at Qtr end)	6,584	6,514	-	5,344	-
Onsite utilization	90.72%	90.23%	-	90.73%	-
Offshore utilization	71.23%	69.88%	-	68.45%	-

FOREX INSTRUMENTS

Total Outstanding Hedges:

- Total amount of USD hedges as on 30th June 2011 : $ 54.00 Mn
- Maturing in next 3 months : $ 7.5 Mn
- Maturing beyond FY2012 : $ 28.50 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 Q1FY2012 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 June 30, 2011 stood at Rs. 1,319.90 Million as compared to Rs.2,572.51 Million as on March 31, 2011.
  - Investments include an amount of Rs.1,045.10 Million for 50% stake investment in SYSTIME.
  - Capital expenditure for the quarter stood at Rs. 70.75 Million including CWIP.
  - As on June 30, 2011 our total debt was Rs. 1,071.33 Million (Rs.1,105.44 Million as of Mar 31, 2011) comprising of Rs. 259.06 Million of Term Loan, Rs. 786.03 Million of Working Capital Loan and Rs. 26.24 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 June 30, 2011 these Hedging Reserves were Rs. 94.83 Million as compared to Rs. 136.24 Million as of Q4FY11 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)	Jun 30, 2011	Mar 31, 2011
Shareholders' Equity	6,334.07	6,031.91
Total Debt	1,071.33	1,105.44
Minority Interest & Deferred Tax Liability	38.76	63.71
Total	**7,444.16**	**7,201.05**
Fixed Assets	1,600.34	1,580.71
Investments	1,530.07	476.50
Goodwill on Consolidation	1,303.08	1,299.91
Total Current Assets	4,749.93	5,718.65
Cash Balance	834.93	2,096.01
Receivables	2,795.46	2,525.44
Loans & Advances	1,119.53	1,097.20
Current Liabilities	1,739.26	1,874.72
Total Net Assets	**7,444.16**	**7,201.05**

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

CONFERENCE CALL DETAILS

Conference name : **KPIT Cummins Q1 FY2012 Conference Call**

Date : **Friday, 22nd July, 2011**

Time : **1600 Hrs (IST)**

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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.

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