KPIT CUMMINS INFOSYSTEMS LIMITED

INVESTOR UPDATE

FOR

Q4FY06 AND FY06 ENDED 31ST MARCH 2006

KEY HIGHLIGHTS

- **Revenue for Q4FY06 grew by 34.03% over Q4FY05 to Rs. 901.62 million. Net profit for Q4 FY06 grew by 36.73% over Q4FY05 to Rs. 102.72 million. Revenue for the full year FY06 crossed the Rs. 3 billion mark to Rs. 3,182.15 million.**
- **KPIT Cummins sets up wholly owned subsidiary in Poland**
- **Board approves increase in authorized capital to Rs. 300 million**
- **Dr. Vijay Kelkar appointed as Independent Director on the Board of KPIT Cummins.**
- **KPIT Cummins declared dividend of 35%.**
- **Guidance for FY07: Revenues between \$ 98 million and \$ 102 million (growth of 34%-40% over FY06); Net profit between \$ 11.25 million to \$ 12.00 million (growth of 51%-61% over FY06).**

FINANCIAL HIGHLIGHTS

For the Quarter Q4 FY06

- Consolidated revenue for Q4FY06 grew sequentially by 12.13% and 34.03% over Q4FY05 to Rs. 901.62 million.

- Gross profit for the quarter was Rs. 330.14 million as against Rs. 284.13 million in the previous quarter, sequential growth of 16.19% and a growth of 42.18% over Q4FY05.

- Gross margin improved by 128 basis points to 36.62% in Q4FY06 as compared to 35.34% in Q3FY06, and by 210 basis points as compared to 34.52% in Q4FY05.

- EBITDA grew by 29.14% sequentially to Rs. 150.19 million from Rs. 116.30 million in Q3FY06. EBITDA growth over Q4FY05 was 72.27%.

- EBITDA margin also increased by 2.19% to 16.66% in Q4FY06 as compared to 14.47% in Q3FY06 and by 3.70% as compared to the corresponding quarter of the previous financial year.

- Consolidated net profit for the quarter was Rs. 102.72 million, an increase of 24.14% over Rs. 82.75 million in Q3FY06, and a 36.73% increase over net profit of Rs. 75.13 million in Q4FY05.

- Net profit margin improved by 111 basis points to 11.40% in Q4FY06 compared to 10.29% in Q3FY06 and declined by 47 basis points over 11.86% in Q4FY05.

- Earnings per share for the quarter were Rs. 7.06 as compared to Rs. 5.87 in Q4FY05 and Rs 5.74 in Q3FY06. Face value of each share is Rs. 5.00

For the full year FY06

- Consolidated revenue for FY06 grew by 26.05% over the previous year, crossing the Rs. 3 billion mark to Rs. 3,182.15 million.

- Gross profit for the year also crossed the Rs. 1 billion mark to Rs. 1,121.01 million as against Rs. 859.98 million in the previous year, a growth of 30.35% over FY05. Gross margin improved by 116 basis points to 35.23% in FY06 as compared to 34.07% in FY05.

- EBITDA grew by 37.39% to Rs. 459.50 million from Rs. 334.44 million in FY05. EBITDA margin also increased by 1.19% to 14.44% in FY06 as compared to 13.25% in FY05.

- Consolidated net profit for the year was Rs. 325.64 million, an increase of 15.96% over Rs. 280.83 million in FY05. Net profit margin declined by 101 basis points to 10.23% in FY06 compared to 11.25% in FY05 primarily on account of increased depreciation and interest expenses.

- Earnings per share were Rs. 22.72 as compared to Rs. 22.14 in FY05.

- Number of days of receivables increased to 86 days at the end of FY06 as compared to 70 at the end of FY05. Of the total receivables, those below 60 days accounted for 93%.

GUIDANCE FOR FY07

- Revenues for FY07 are expected to be in the range of $ 98 million (Rs. 4,361 million) to $ 102 million (Rs. 4,539 million), representing growth, in $ terms, of 34% to 40% over revenues of FY06.

- Net profits for FY07 are expected to be in the range of $ 11.25 million (Rs. 501 million) and $ 12.00 million (Rs. 534 million), representing growth, in $ terms, of 51% to 61% over net profits of FY05.

BOARD OF DIRECTORS

- Dr. Vijay Kelkar was appointed as an Independent Director on the Board of KPIT Cummins. A Ph.D. in development economics from the University of California at Berkeley, Dr. Kelkar has served the Government of India in various capacities, most recently as the Advisor to the Ministry of Finance. Earlier Dr. Kelkar has also been Executive Director of the International Monetary Fund, USA. The company welcomes Dr. Kelkar on its Board.

- Mr. Anand Khandekar has resigned from the Board of KPIT Cummins. The company puts on record its appreciation of the valuable contribution of Mr. Khandekar in the growth and development of the company.

OPERATION HIGHLIGHTS

Business:

- The company saw increasing traction from customers in Europe and Japan. In the US geography, Cummins continued to lead the growth in revenues. Share of revenue from US, Europe and Rest of the World constituted 65.87%, 28.69% and 5.44% respectively of the total revenues in FY06 compared to 62.00%, 35.24% and 2.76% of total revenues in FY05.

- Manufacturing continued to be the dominant vertical, constituting 82.71% of FY06 revenues, up from 75.40% in FY05. Growth in revenues from manufacturing vertical has been catalyzed by the growth in revenues from Cummins as well as from other Star customers such as Renesas. For Q4FY06, Manufacturing comprised 80.61% of revenues, marginally lower than 82.35% of Q3FY06 revenue.

- Revenues from BFSI vertical declined from 22.33% of total FY05 revenues to 12.26% in FY06. In Q4FY06, share of revenues from BFSI vertical declined to 9.48% of the total revenues compared to 13.25% of total Q3FY06 revenues.

- Revenue share from the 'Others' category increased from 2.27% in FY05 to 5.06% in FY06. For the quarter also, revenue share of 'others' increased from 4.40% in

Q3FY06 to 9.91% of total revenues in Q4FY06. 'Others' primarily constitute software vendors servicing Manufacturing and BFSI verticals.

- During the year, the onsite / offshore ratio changed favourably to 60.95% / 39.04% as compared to 68.29% / 31.71% in FY05. This has resulted from the decline in some of the onsite businesses as well as an increase in the offshore business in both IT services as well as in KPIT Cummins Global Business Solutions Ltd (KCGBSL). During Q4FY06 too, onsite / offshore ratio continued to show a favourable trend. Offshore revenue increased to 43.44% of total revenues in Q4FY06 from 42.04% in Q3FY06 and 34.86% in Q4FY05. Onsite revenue correspondingly declined to 56.56% of total revenues in Q4FY06 from 57.96% in Q3FY06. The favourable offshore / onsite ratio has had a positive impact on the profitability of the company.

- Utilization level for the year declined to 93% for onsite projects as compared to 96% in FY05 and to 71% for offshore projects as compared to 75% in FY05. Overall utilization was affected as a result of the company's initiative to hire a considerable number of freshers and trainees during the year for both KPIT Cummins as well as KCGBSL. However, as the freshers were initiated into regular billable business and some of the businesses at KCGBSL migrated from 'transition' state to 'steady' state, the utilization levels are expected to improve, as is the case in Q4FY06 when utilization improved to 71% for offshore (from 70% in Q3FY06) and remained flat at 92% for onsite in Q4FY06.

M&A Initiatives:

- M&A is a part of the growth strategy of KPIT Cummins. In line with this strategy, the company completed three acquisitions during FY06. M&A transactions have been driven by three key objectives – acquisition of new customers, expansion into new geographies and establishment of new lines of business.

- The acquisition of SolvCentral.com, USA enables the company to establish business intelligence as a new line of business. Through Pivolis, France the company establishes a direct presence on the ground in a new geography - France. Through the acquisition of CG-Smith Software, Bangalore, a leading player in the automotive electronics space, the company consolidates its ATS practice in addition to getting high value customers in the automotive industry.

- The company successfully completed the integration of SolvCentral.com. Integration of the other two companies has been initiated and is progressing as per schedule.

- The company entered into a joint venture in Germany, which will not only help strengthen the company's direct presence in Germany, but also have a wider geographical coverage in continental European – a focus geography for the company.

- Through the M&A initiatives, the company has created an expanded base of products and services, has a broader customer base and has established presence in most of the relevant geographies. Thus, the company has created a platform to service its customers better and a growth engine to increase the future revenues of the company.

Customers:

- With the new acquisitions, the customer base of the company expanded significantly. At the beginning of the current fiscal, the company started with a customer base of 72, of which 51% are among the Forbes Global 1000 companies. The customer base includes 52 customers in the Manufacturing vertical, 9 in the BFSI vertical and 11 in the 'Others' category (mostly software vendors).

- Number of Star customer grew from 7 to 10 during the year. The three new Star customers added during the year included 2 manufacturing companies and a software vendor from Europe. Revenues from Star customers grew by 25% over the previous year and constituted 83.51% of the total revenues.

- Revenues from Cummins, the dominant Star customer, grew by 66% over the previous year to approximately Rs. 1.5 billion. Revenues from Cummins comprised 46.67% of the total revenues for FY06. During the quarter, Cummins business constituted 45.28% of total revenues for Q4FY06 as compared to 49.63% in Q3FY06.

- Revenues from other customers grew by 30% over the previous year and constituted 16.49% of the total revenues.

- Revenues from top 10 customers declined during the year from 90.71% of FY05 revenues to 87.09% of FY06 revenues. For the quarter Q4FY06, revenues from the top ten customers, including Cummins, accounted for 83.75% of total revenues compared to 86.91% of revenues in Q3FY06 and 89.35% in Q4FY05.

Employees:

- At the beginning of the current fiscal, the company has employee strength of over 2,370 people, including those from the new acquisitions. At the beginning of FY06, the employee strength of the company was 1,481.

- With the acquisition of new companies, the senior management of the respective companies have also become part of KPIT Cummins' leadership team, which has therefore become stronger and better placed to lead the company to higher levels.

Sales & Marketing

- Sales and Marketing organization has been strengthened during the year. A new office was established a few blocks away from Cummins' headquarters in Columbus.

The company added a new office in Virginia near Washington DC (through the acquisition of SolvCentral) and in Detroit (through the acquisition of CG-Smith Software), a major automobile hub of the world. With this the company now has 6 offices in the US, and better placed to service its customers.

- Considering the increased focus on Europe, the company established presence in France through the acquisition of Pivolis, in Germany through the joint venture.

- The Board of Directors of the company have approved establishment of a wholly owned subsidiary in Poland. Considered as one of the most suitable centres in Europe, Poland offers an attractive mix of relatively low cost, highly educated, multi-lingual employees, a good infrastructure and high quality standards. This subsidiary will primarily offer near-shoring opportunities to customers in Europe besides strengthening the geographical presence in Eastern Europe.

Processes

- During the quarter, the company was awarded the BS7799 Certification, a globally recognized standard for the information security management system.

- The initiative of the company to complete the CMMI assessment was concluded in April 2006 and the company has been recommended for the award of CMMI Certification. Capability Maturity Model® Integration (CMMI) is a process improvement approach that provides organizations with the essential elements of effective processes.

- The company also initiated the Six Sigma process. At present there are thirteen Green Belts, and 2 Master Black Belt and Black Belt in training.

- These initiatives will enable the company to be driven by better systems and process resulting in costs savings for the company and encouraging higher value customers to engage with the company.

Infrastructure

- During the year the state-of-the-art Bangalore office became operational.

- Construction of the new 205,000 sq.ft. Phase II of the Software Development Centre at the company premises at Hinjawadi, is on schedule and is expected to be available for occupancy by August 2006.

- The company has drawn down first tranche of $ 4 million out of the $ 11 million term loan sanctioned by International Finance Corporation, Washington for this facility. The second tranche is expected to be drawn down in Q1FY07.

- Phase II will impact the depreciation in H2FY07.

Share Capital and Shareholding

- The Board of Directors approved the increase in Authorized Capital of the company from Rs. 120 million to Rs. 300 million. This is subject to the approval of the shareholders.

- The Board of Directors also recommended 35% dividend amounting to Rs. 1.75 per share of face value Rs. 5 each. Total dividend payment will amount to Rs. 25.48 million. This, too, is subject to the approval of the shareholders of the company.

- Institutional holding in the Company crossed the 30% level to reach 30.62% (excluding Lehman Brothers) as on 31st March 2006, as compared to 29.22% as on 31st December 2005.

- The shareholders of the company approved issue of shares to IFC, Washington to the extent of US$ 2.5 million at Rs. 356 per share.

KPIT CUMMINS GLOBAL BUSINESS SOLUTIONS LTD.

- KPIT Cummins Global Business Solutions Limited (KCGBSL) was formally established in Q3FY06 after about one year of preliminary work and investment by company.

- KCGBSL provides high end services including knowledge process outsourcing, technical helpdesk solutions and financial accounting solutions. It also specializes in providing consulting in SOX to Blue Chip companies. Customers of KCGBSL include Fortune 500 manufacturing customers and top 10 software and hardware firms.

- KCGBSL ramped up the team size to over 220 people by the end of FY06.

- KCGBSL is expected to turnaround in the first half of the current year.

INCOME STATEMENT FOR THE QUARTER ENDED 31 MARCH 2006

Particulars	Q4FY06	Q3FY06	% Chg	Q4FY05	%
	Rs Mn.	Rs. Mn	Q-o-Q	Rs Mn.	Y-o-Y
Sales	**901.62**	**804.07**	**12.13%**	**672.71**	**34.03%**
Software Development Expenses	571.49	519.95	9.91%	440.51	29.73%
Gross Profit	**330.14**	**284.13**	**16.19%**	**232.20**	**42.18%**
Selling and Marketing Expenses	14.49	27.72	-47.72%	27.37	-47.04%
General & Administration Expenses	165.45	140.11	18.09%	117.65	40.63%
EBITDA	**150.19**	**116.30**	**29.14%**	**87.18**	**72.27%**
Interest & Finance Expense, net	9.01	5.12	76.12%	3.45	161.55%
Depreciation	22.74	22.48	1.14%	13.06	74.18%
Profit After Depreciation & Interest	**118.44**	**88.70**	**33.53%**	**70.68**	**67.57%**
Other Income	0.10	0.05		0.54	
Profit Before Tax	**118.54**	**88.75**	**33.53%**	**71.22**	**66.39%**
Provision for Taxation	15.79	6.01	162.86%	-3.91	-504.10%
Minority Interest	-0.03	-			
Profit After Tax	**102.72**	**82.75**	**24.14%**	**75.13**	**36.73%**
Paid up Capital	72.80	72.02		70.45	
Free Reserves	1,335.57	1,196.31		989.51	
Earning per Share (of Rs. 5/-)					
Basic	7.06	5.74		5.87	
Diluted	5.75	4.65		4.61	

INCOME STATEMENT FOR FISCAL ENDED 31 MARCH 2006

Particulars	FY06	FY05	% Chg
	Rs Mn.	Rs. Mn	Q-o-Q
Sales	**3182.15**	**2524.53**	**26.05%**
Software Development Expenses	2061.13	1664.55	23.83%
Gross Profit	**1121.01**	**859.98**	**30.35%**
Selling and Marketing Expenses	99.87	101.57	-1.68%
General & Administration Expenses	561.64	423.97	32.48%
EBITDA	**459.50**	**334.44**	**37.38%**
Interest & Finance Expense, net	19.18	9.43	103.35%
Depreciation	81.80	32.07	155.09%
Profit After Depreciation & Interest	**358.52**	**292.94**	**22.37%**
Other Income	0.13	0.79	-77.11%
Profit Before Tax	**358.65**	**293.74**	**22.10%**
Provision for Taxation	32.98	12.90	155.61%
Minority interest	-0.03	-	-
Profit After Tax	**325.64**	**280.83**	**15.96%**
Paid up Capital	72.80	70.45	
Free Reserves	1335.57	989.51	
Earning per Share (of Rs. 5/-)			
Basic	22.72	22.14	
Diluted	18.29	17.09	

PERFORMANCE METRICS

	Q4FY06	Q3FY06	Q4FY05	FY06	FY05
Revenue Spread - Geography					
USA	66.42%	63.68%	61.80%	65.87%	62.00%
Europe	26.68%	34.26%	34.59%	28.69%	35.24%
Rest of World	6.90%	2.06%	3.61%	5.43%	2.76%
Revenue Spread - Verticals					
Manufacturing	80.61%	82.35%	76.13%	82.71%	75.40%
BFSI	9.48%	13.25%	21.67%	12.26%	22.33%
Others	9.91%	4.40%	2.20%	5.06%	2.27%
Client Concentration					
Top Client - Cummins	45.28%	49.63%	35.84%	46.67%	35.47%
Star Customers - Non Cummins	36.07%	34.26%	44.75%	36.84%	48.54%
Top 10 Client Billing	83.75%	86.91%	89.35%	87.09%	90.71%
No of Clients Added	4	3	4	15	15
Repeat Business	91%	88%	90%	90%	90%
Revenues Split					
Onsite Revenues	56.56%	57.96%	65.14%	60.95%	68.29%
Offshore Revenue	43.44%	42.04%	34.86%	39.04%	31.71%
Revenue by Contract Type					
Time and Material Basis	89%	86%	89%	88%	88%
Fixed Price / Time Basis	11%	14%	11%	12%	12%
Debtors					
Global Debtors (days)	86	75	70	86	70
Human Resources - Details					
Average -					
Development Team - Onsite	442	415	366	422	374
Development Team - Offshore	1412	1266	864	1168	715
Quarter End					
Development	1906	1766	1298	1906	1298
Gen Mgmt / Support	190	190	161	190	161
Marketing (Subsidiaries)	26	27	22	26	22
Total	*2122*	*1983*	*1481*	2122	1481
Utilisation Rate					
Onsite	93%	92%	97%	93%	96%
Offshore	71%	70%	72%	71%	75%

SAFE HARBOUR

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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