

Infotech Enterprises

STOCK INFO. BLOOMBERG
BSE Sensex: 7,971 INFTEC IN
REUTERS CODE
S&P CNX: 2,412 INFE.BO

19 October 2005

Not Rated

Rs394

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	325.9	3/05A	2,571	274	18.6	192.8	21.2	3.7	19.0	18.8	2.1	10.5
52-Week Range	517/294	3/06E	3,409	441	29.1	56.4	13.5	2.8	23.9	23.8	1.6	8.2
1,6,12 Rel. Perf. (%)	19/23/135	3/07E	4,236	598	37.6	29.1	10.5	2.5	25.8	25.6	1.3	6.0
M.Cap. (Rs b)	128.4											
M.Cap. (US\$ b)	2.9											

Infotech Enterprises reported revenue of Rs824m, up 5.3%, on the back of 10% QoQ growth in the company's engineering services (EMI) business. Revenue from geospatial services (UTG) was flat due to expected ramp down in top client British Telecom. Infotech's subsidiaries also reported good growth, barring the UK subsidiary, which saw a 27% QoQ degrowth due to the BT ramp down.

During the quarter, the company was awarded a \$6m contract by KPN Telecom and \$50m contract by Alstom Transport. The company added 11 clients during the quarter, five in UTG and six in EMI. Net employee addition for the quarter was muted at 20, while the net addition was 31 in the EMI business, UTG saw a net decline of 16 employees due to presumable rationalization at the Noida facility. EBITDA margin for the quarter improved by 200bp due to higher utilization, lower selling expenses and lower purchase for resale component.

Net profit at Rs109m was up 12% QoQ, with the profit share from the Puerto Rican subsidiary at Rs12m (Rs30m in 1QFY06 due to a one-time subsidy from the Puerto Rican government). We expect revenue to grow by 36% in FY06E and 24% in FY07E. We expect net profit to grow by 61% and 36% in FY06E and FY07E, respectively. The stock is trading at 10.5x FY06E EPS of Rs37.6. Given the growth prospects for the company, we find its valuations attractive. However, we do not have a rating on the stock.

QUARTERLY PERFORMANCE

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	579	684	656	652	782	824	873	930	2,571	3,409
Q-o-Q Change (%)	4.6	18.1	-4.1	-0.7	20.0	5.3	6.0	6.5	37.2	32.6
Direct Expenses	308	320	283	323	365	394	421	451	1,234	1,631
Sales, General & Admin. Expenses	192	242	235	199	281	269	284	301	867	1,136
Operating Profit	80	123	138	130	136	160	168	178	470	643
Margins (%)	13.7	18.0	21.0	19.9	17.4	19.5	19.2	19.1	18.3	18.9
Other Income	29	14	-9	5	-12	7	9	9	39	13
Depreciation	45	45	38	39	45	44	48	51	167	188
Interest	1	1	0	0	2	1	2	2	3	7
PBT bef. Extra-ordinary	63	91	90	95	78	122	127	134	339	461
Provision for Tax	15	25	31	19	11	25	28	30	90	94
Rate (%)	23.8	27.8	34.3	19.7	14.2	20.8	22.0	22.0	26.5	20.4
PAT bef. Extra-ordinary	48	66	59	76	67	97	99	105	249	367
Q-o-Q Change (%)	132.2	38.4	-9.9	28.6	-12.4	44.5	2.5	5.7	176.7	47.4
Share of Profit from JV (IASI)	0	0	12	13	30	12	13	15	25	71
Net profit	48	66	71	89	97	109	113	120	274	438
Q-o-Q Change (%)	132.2	38.4	8.0	25.3	9.0	12.0	3.3	6.3	304.0	60.0

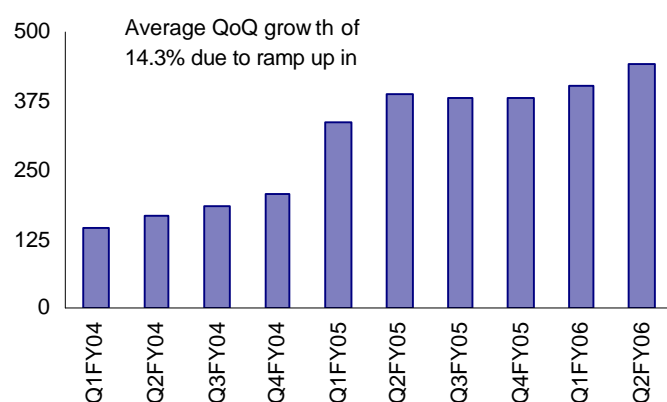
E: MOST Estimates

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Engineering services propel growth

Infotech Enterprises reported revenue of Rs824m, up 5.3%, on the back on 10% QoQ growth in the company's engineering services (EMI) business. EMI reported a volume growth of 10.5% QoQ, with employee utilization picking up from the low levels in 1QFY06. EMI, therefore, improved to 53.6% of overall revenue in 2QFY06 from 51.3% in 1QFY06.

EMI REVENUE GROWTH (RS M)



Source: Compnay/Motilal Oswal Securities

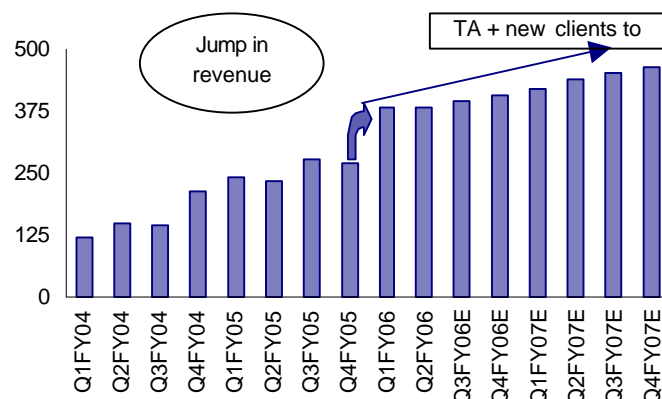
Infotech Enterprises recently signed a five-year, \$50m contact with Alstom Transport to provide Engineering Design and Analysis, Technical Publication, Embedded and Engineering Software Development Services. Infotech would be setting up a dedicated design centre for Alstom, which was added as a client in 1QFY05, at Bangalore, and the revenues are expected to start coming in the next quarter. The revenue is likely to be spread more or less evenly through the five-year period, and would add 6% and 9.5% to the topline in FY06 and FY07, and 3.7% and 7.2% to the EPS in FY06 and FY07, respectively. We expect the growth momentum in EMI to continue with greater volumes from Bombardier and Alstom in the second half of the year.

Geospatial services flat due to ramp down in top client

Revenue from the geospatial services business (UTG) was flat due to the expected ramp down in one of its top clients (British Telecom), wherein revenue from BT reduced to 1/5th the original inflow. Consequently, UTG's share in overall

revenue dropped to 46.5% during the quarter from 48.8% in 1QFY06. However, the drop in revenue was compensated by new accounts in Europe and Australia. The company also signed a \$6m deal with KPN Telecom, to be executed out of the company's UK subsidiary – Infotech Enterprises, Europe, over a period of 18 months, which is expected to start in 3QFY06. We expect revenue growth for UTG, which has been flat in the first half of the year, to pick up in the second half as the new clients start ramping up.

UTG REVENUE GROWTH (RS M)

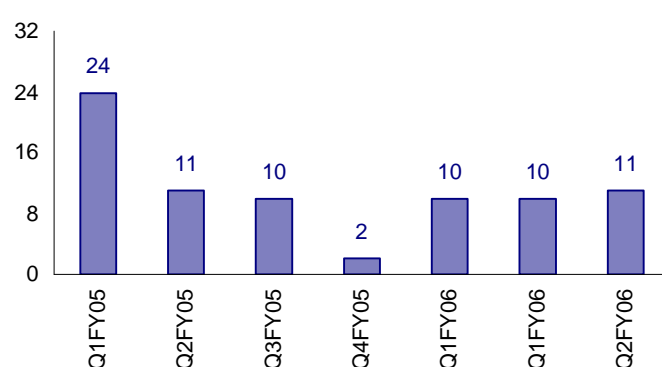


Source: Compnay/Motilal Oswal Securities

Client addition continues to be robust

Infotech added 11 new clients during the quarter, with five clients added in UTG and six in EMI. Client addition, which had dwindled to two in 4QFY06, has been fairly robust since then, with about 10 clients being added every quarter. Additionally, some of these are big ticket clients, which have the potential to boost revenue in the quarters to come.

CLIENT ADDITION



Source: Compnay/Motilal Oswal Securities

Existing clients also ramping up well

While the company continues to sign bigger deals with new clients, existing clients have also started ramping up. Clients such as KPN, Bombardier and Alstom Transport have offered new contracts, while some others, such as Hamilton Sundstrand and Pratt & Whitney continue to increase outsourcing to Infotech. The company's Puerto Rican subsidiary, which works for Pratt & Whitney, is expected to grow at 30% YoY in FY06, while a dedicated centre has been set up for Hamilton Sundstrand in Infotech's Hyderabad facility. Thus, the company's existing clients would add to the revenue growth due to the new clients.

Net employee addition muted at 20

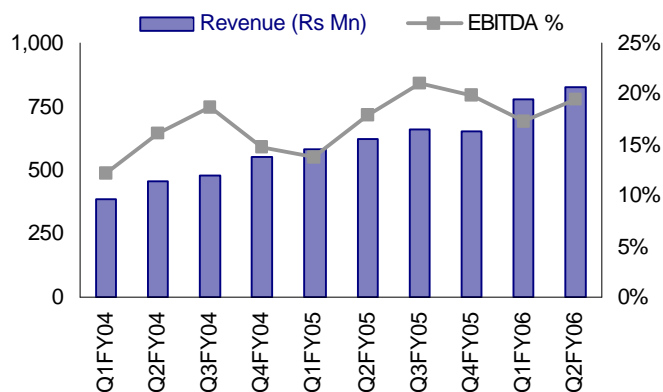
Gross addition in employees was over 200 for the quarter, but net employee addition was muted at 20 ? while the net addition was 31 in the EMI business, UTG saw a net decline of 16 due to presumable rationalization at the Noida facility. However, the company has already added 180 employees, with a high composition of freshers, in the first few days of 3QFY06, which indicated robust net additions for the quarter in anticipation of greater volume growth in both UTG and EMI.

Operating margins up 200bp due lower purchases of software for resale

Operating margin for the quarter improved by 200bp to 19.5% due to higher utilization, lower selling expenses and lower purchase for resale. While cost of revenue for the quarter was up 125bp, purchases of software for resale was down 420bp, which led to a net increase of 200bp in the operating margin for the quarter. Purchase for resale cost, which increases when the company's subsidiaries resell software in order to meet their revenue targets for the quarter, had shot up to 13.9% of revenue in the last quarter due to higher purchase of software for resale by the company's subsidiaries in the UK and Germany. This was lower in 2QFY06 due to greater revenue growth in the German subsidiary as compared to 1QFY06.

The company has stated that operating margin at 19.5% is not sustainable, and expects margins to hover in the 18-19% range in the second half of the year.

OPERATING MARGIN IMPROVEMENT



Source: Compnay/Motilal Oswal Securities

Net profit up 12% QoQ due to improved margins

Net profit at Rs109m was up 12% QoQ, with the profit share from the IASI, Infotech's 49% subsidiary in Puerto Rico, at Rs12m (Rs30m in 1QFY06 due to one time subsidy from the Puerto Rican government). The share of profit from IASI declined in 1QFY06 on a like-to-like basis over 4QFY05, which has revived in 2QFY06. We expect IASI to contribute incrementally to the net profit of Infotech Enterprises in the second half of the financial year.

Outlook and valuation

Following the ramp down of the Analytical Surveys Inc. account in FY04, Infotech Enterprises has demonstrated its ability to retain and grow its client relationships over the last few quarters. Additionally, it has also proved its capability in acquiring new clients to protect itself against revenue growth deceleration as evident from the fact that the company has maintained revenue in UTG flat even as its top client BT ramped down to 1/5th its original size. Additionally, revenue visibility is improving with the company signing larger deals such as KPN and Alstom. Consequently, we believe that the company's growth trajectory is back on track, and expect revenue to grow by 36% in FY06E and 24% in FY07E. We expect net profit to grow by 61% and 36% YoY in FY06E and FY07E, respectively. Given the growth prospects for the company and valuation of 10.5x FY06 estimated EPS of Rs37.6, the stock appears attractive. However, we do not have a rating on the stock.

INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006 E	2007 E
Sales	1,613	1,875	2,571	3,409	4,236
Change (%)		16.2	37.2	32.6	24.3
Software Develop. Exp.	726	922	1,234	1,631	2,100
SG&A	529	658	867	1,136	1,267
EBITDA	358	295	470	642	869
% of Net Sales	22.2	15.7	18.3	18.8	20.5
Depreciation	192	207	167	188	253
Interest	8	4	2	2	3
Other Income	35	35	39	13	63
PBT	193	119	339	464	676
Tax	44	26	90	94	147
Rate (%)	22.8	22.0	26.6	20.2	21.7
PAT	149	93	249	370	529
Share of Profit from JV (IASI)	0	0	25	71	69
Net Income	149	93	274	441	598
Change (%)		-37.7	194.9	61.1	35.6

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006 E	2007 E
Share Capital	145	146	147	151	159
Share Premium	451	454	454	577	577
Reserves	643	706	975	1,381	1,793
Net Worth	1,238	1,306	1,576	2,109	2,529
Secured Loans	7	6	7	7	7
Deferred Tax Liability	25	5	5	5	5
Capital Employed	1,271	1,318	1,588	2,122	2,541
Gross Block	969	1,215	1,623	2,057	2,529
Less : Depreciation	499	704	871	1,059	1,226
Net Block	471	510	751	997	1,303
CWIP	4	12	5	5	5
Investments	20	20	20	103	103
Curr. Assets	1,043	1,159	1,314	1,668	1,927
Debtors	481	636	700	934	1,161
Cash & Bank Balance	455	375	446	535	527
Loans & Advances	99	126	140	168	209
Other Current Assets	9	21	28	30	30
Current Liab. & Prov	267	384	502	646	777
Current liabilities	213	316	413	527	632
Provisions	54	68	89	119	145
Net Current Assets	776	775	813	1,022	1,150
Capital Employed	1,271	1,318	1,588	2,127	2,561

E: MOST Estimates

RATIOS					
Y/E MARCH	2003	2004	2005	2006 E	2007 E
Basic (Rs)					
EPS*	10.3	6.4	18.6	29.1	37.6
Cash EPS*	23.6	20.5	30.0	41.6	53.6
Book Value	85.6	89.6	107.3	139.4	159.2
DPS	13	13	15	2.0	2.0
Payout %(Incl.Div.Taxes)	12.3	19.6	8.1	6.9	5.3
Valuation (x)					
P/E	38.3	61.9	212	13.5	10.5
Cash P/E	16.7	19.2	13.1	9.5	7.4
EV/EBITDA	13.3	16.3	10.5	8.2	6.0
EV/Sales	3.2	2.9	2.1	1.6	1.3
Price/Book Value	4.6	4.4	3.7	2.8	2.5
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.5
Profitability Ratios (%)					
RoE		7.3	19.0	23.9	25.8
RoCE		7.2	18.8	23.8	25.6
Turnover Ratios					
Debtors (Days)	109	124	99	100	100
Fixed Asset Turnover (x)	13	14	16	16	1.7
Leverage Ratio (x)					
Debt/Equity Ratio(x)	0.6	0.5	0.5	0.4	0.3

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2003	2004	2005	2006 E	2007 E
CF from Operations	311	267	402	572	759
Cash for Working Capital	-5	-72	53	-118	-136
Net Operating CF	306	195	455	454	623
Net Purchase of FA	-113	-256	-393	-404	-642
Net Purchase of Invest.	25	13	39	-64	63
Net Cash from Invest.	-88	-243	-354	-467	-579
Proceeds from Pvt. Place.	2	4	1	127	8
Proceeds from LT/STB	0	0	0	0	0
Dividend Payments	-15	-20	-25	-34	-36
Net Financing charges	-149	-5	-3	-2	-3
Cash Flow from Fin.	-160	-31	-27	90	-31
Free Cash Flow	193	-61	62	50	-19
Net Cash Flow	57	-80	74	76	13
Opening Cash Balance	398	455	374	448	524
Add: Net Cash	57	-80	74	76	13
Closing Cash Balance	455	375	448	524	537

N O T E S

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Disclosure of Interest Statement	Infotech Enterprises
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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