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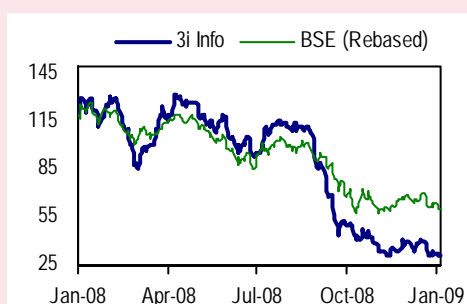
STOCK DATA

Market Cap	Rs4.2bn
Book Value per share	Rs49
Eq Shares O/S (F.V. Rs.10)	130.7mn
Median Vol (12 mths)	371,562 (BSE+NSE)
52 Week High/Low	Rs140/28
Bloomberg Code	III@IN
Reuters Code	TIIN.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(21.8)	(36.9)	(73.8)
Relative	(11.9)	(27.2)	(47.6)

STOCK PRICE PERFORMANCE



3i Infotech Ltd. (3i) reported net sales of Rs6.1bn, a QoQ growth of 1.2%. Though sales were in-line with our expectations, higher operating expenses towards new initiatives such as its e-governance venture led to a greater than expected drop in OPM, which declined by 90bps sequentially to 18.1%. Additionally, higher depreciation costs led to net profits getting impacted which led to a 6% QoQ dip to Rs645mn.

● **Organic growth rates softening but this was expected**

The sluggish macro environment is beginning to impact 3i's organic growth rates as it faces elongated sales cycles across markets. Organic sales grew by 25% YoY in Q3 as compared to a growth of ~39% in H1.

● **Order book provides near term visibility**

Though an unstable environment is impacting sales cycles and hampering future visibility, 3i's order book executable over 12 months grew by 3.4% sequentially to Rs14.2bn. We believe this offers near term visibility over revenues inspite of a difficult environment.

● **Cutting FY10 growth outlook on the back of increasing uncertainty**

Though 3i's order book offers comfort with respect to achieving our FY09 estimates, the unstable environment has led us to further cut our expectation for FY10. We have cut our sales and net profit estimates for FY10 by ~5% & ~9% respectively. We have estimated organic revenues (excl. Regulus) to grow at 10% in FY10 as compared to our earlier assumption of 15%

VALUATIONS AND RECOMMENDATION

We expect 3i to be one of the fewer mid tier Indian IT companies to post growth rates which are relatively superior to its peers, hence we believe that current valuations are at an extremely attractive level. Consequently, we also believe that factors such as an unstable economic environment in key markets, impact on profits in the light of FCCB refinancing and lack of ability to further leverage its balance sheet would limit valuation expansion. Therefore, we maintain our 'BUY' recommendation but with a revised 12 month price target of Rs40. (prev. Rs58)

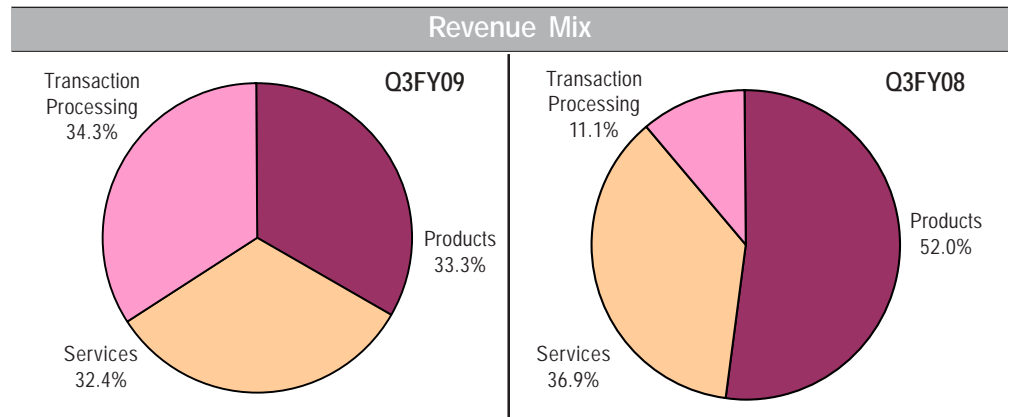
KEY FINANCIALS (CONSOLIDATED)

Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	6,553	12,053	21,735	25,126	26,163
YoY Gr. (%)	56.8	83.9	80.3	15.6	4.1
Op. Profits	1,322	2,549	4,062	4,594	4,739
Op. Marg.(%)	20.2	21.2	18.7	18.3	18.1
Net Profits	1,037	1,766	2,456	2,670	2,780
Eq Capital	563	1305	1,313	1,313	1,313

KEY RATIOS

	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	7.9	13.4	18.7	20.3	21.2
ROCE (%)	14.7	16.4	15.0	13.7	13.1
RONW (%)	31.2	34.0	33.2	28.4	24.0
P/E (x)	4.1	2.4	1.7	1.6	1.5
EV/Sales (x)	1.5	1.2	1.0	0.8	0.6
EV/EBDIT (x)	7.3	5.6	5.2	4.2	3.5

Quarter Variance			
Rs mn	Actual	PINC Est.	Var (%)
Net Sales	6,088	5,987	1.7
Op. Profits	1,100	1,100	-
Op. Marg. (%)	18.1	18.4	(30bps)
Net Profits	697	729	(4.3)



Source: Company Data

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	21,799	21,735	(0.3)	26,366	25,126	(4.7)
Op. Profit	4,071	4,062	(0.2)	4,818	4,594	(4.6)
Net Profit	2,518	2,456	(2.5)	2,939	2,670	(9.2)
Diluted EPS	19.2	18.7	(2.5)	22.4	20.3	(9.2)

Financial Results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	6,088	3,173	91.9	16,789	8,554	96.3	12,053
Expenditure	4,988	2,504	99.2	13,635	6,750	102.0	9,504
Staff Cost	2,758	1,283	115.0	7,325	3,457	111.9	4,870
SG&A Expenses	2,230	1,221	82.6	6,310	3,293	91.6	4,634
Operating profit	1,100	669	64.5	3,154	1,804	74.8	2,549
Other Income	68	61	10.6	152	161	(5.5)	183
PBDIT	1,168	730	60.0	3,306	1,965	68.2	2,732
Interest	254	130	95.6	670	363	84.5	505
Depreciation	196	64	203.9	467	164	184.9	244
PBT	719	536	34.0	2,169	1,438	50.8	1,983
Provision for current tax	21	40	(47.0)	171	108	58.2	151
PAT	697	496	40.6	1,998	1,330	50.2	1,832
Minority Interest	(52)	(12)	-	(83)	(52)	-	(66)
Net Profit after Min. Interest	645	485	33.2	1,915	1,277	49.9	1,766
Equity Capital (F.V. Rs 10)	1,308	1,304	-	1,308	1,304	-	1,305
Reserves (excl. rev. res.)	-	-	-	-	-	-	5,135
EPS for the period (Rs)	4.9	3.7	32.8	14.6	9.8	49.5	13.5
OPM(%)	18.1	21.1		18.8	21.1		21.1
NPM(%)	10.6	15.3		11.4	14.9		14.6
Exp. (% of Net Sl.)							
Staff Cost	45.3	40.4		43.6	40.4		40.4
SG&A Expenses	36.6	38.5		37.6	38.5		38.4
Other Expenses	0.0	0.0		0.0	0.0		0.0

Segmentwise results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Segment Revenue							
Products	2,028	1,648	23.1	6,022	4,165	44.6	5,961
Services	1,973	1,171	68.4	5,720	3,330	71.8	4,639
Transaction Processing	2,087	353	491.0	5,047	1,059	376.7	1,453
Total	6,088	3,173	91.9	16,789	8,554	96.3	12,053
Segment Gross Profit							
Products	1,057	904	16.9	3,246	2,284	42.1	3,269
Services	692	442	56.7	2,069	1,292	60.2	1,892
Transaction Processing	612	142	330.7	1,469	383	283.8	437
Total	2,362	1,488	58.7	6,784	3,959	71.4	5,598
Revenue Split							
Products	33.3	52.0		35.9	48.7		49.5
Services	32.4	36.9		34.1	38.9		38.5
Transaction Processing	34.3	11.1		30.1	12.4		12.1
Gross Profit Margins (%)							
Products	52.1	54.9		53.9	54.8		54.8
Services	35.1	37.7		36.2	38.8		40.8
Transaction Processing	29.3	40.3		29.1	36.2		30.1
Total	38.8	46.9		40.4	46.3		46.5

Income Statement	2006	2007	2008	2009E	2010E	2011E
Revenues	4,178	6,553	12,053	21,735	25,126	26,163
<i>Growth (%)</i>	<i>44.5</i>	<i>56.8</i>	<i>83.9</i>	<i>80.3</i>	<i>15.6</i>	-
Total Expenditure	3,321	5,232	9,503	17,673	20,532	21,424
Operating Profit	858	1,322	2,549	4,062	4,594	4,739
<i>Growth (%)</i>	<i>78.4</i>	<i>54.1</i>	<i>92.9</i>	<i>59.4</i>	<i>13.1</i>	-
Interest & dividend income	62	155	183	152	100	100
EBIDT	920	1,476	2,732	4,214	4,694	4,839
(-) Interest	80	209	505	680	766	749
(-) Depreciation & Ammortisation	261	169	244	756	893	917
PBT & extraordinary items	580	1,098	1,983	2,778	3,036	3,173
(-) Tax provision	3	53	151	323	366	392
Net Profits	577	1,045	1,832	2,456	2,670	2,780
Minority Interest	-	(7)	(66)	-	-	-
PAT	577	1,037	1,766	2,456	2,670	2,780
<i>Growth (%)</i>	<i>79.2</i>	<i>79.9</i>	<i>70.2</i>	<i>39.1</i>	<i>8.7</i>	<i>4.1</i>
Fully diluted Eq. sh. O/s (mn no)	131.3	131.3	131.3	131.3	131.3	131.3
Book Value (Rs)	26	36	49	64	80	97
Diluted EPS (Rs)	4.4	7.9	13.4	18.7	20.3	21.2

Balance Sheet	2006	2007	2008	2009E	2010E	2011E
<i>Equity Share Capital</i>	531	563	1,305	1,313	1,313	1,313
<i>Preference Share Capital</i>	1,000	1,000	1,000	1,000	1,000	1,000
<i>Reserves & Surplus</i>	2,155	3,416	5,600	7,496	9,607	11,828
Net worth	3,686	4,979	7,905	9,810	11,920	14,142
Total Debt	3,350	6,475	12,658	18,165	18,165	18,165
Deferred Tax liability	(136)	(374)	(405)	(405)	(405)	(405)
Capital Employed	6,907	11,081	20,157	27,569	29,680	31,901
Fixed Assets	2,253	1,554	2,931	5,036	4,644	4,226
Net current assets	3,949	3,742	7,162	9,301	11,804	14,443
Investments	1	1	34	1	1	1
Goodwill	704	5,783	10,031	13,231	13,231	13,231
Total Assets	6,907	11,081	20,157	27,569	29,680	31,901

Cash Flow Statement	2006	2007	2008	2009E	2010E	2011E
PBT & extra-ordinary items	580	1098	1983	2778	3036	3173
Depreciation	261	169	244	756	893	917
Interest & dividend inc.	(22)	(155)	(183)	(152)	(100)	(100)
Interest paid	80	209	505	680	766	749
Tax paid	(53)	(44)	(151)	(323)	(366)	(392)
(Inc)/Dec in working capital	(666)	(1,416)	(1,727)	(3,380)	(896)	(126)
Other Adjustments	96	202	(66)	-	-	-
Cash from operations	276	63	604	359	3332	4221
Net capital expenditure	(1,121)	(4,211)	(6,222)	(6,061)	(500)	(500)
Net Investments	(5)	-	(33)	33	-	-
Interest recd	62	155	183	152	100	100
Cash from investing activities	(1,064)	(4,057)	(6,072)	(5,877)	(400)	(400)
Issue of eq. shares	2,055	32	2,040	8	-	-
Preference Shares Repaid	(500)	-	-	-	-	-
Change in debt	1,896	3,125	6,183	5,508	-	-
Dividend paid	(147)	(577)	(558)	(559)	(559)	(559)
Interest Paid	(80)	(209)	(505)	(680)	(766)	(749)
Cash from financing activities	3,224	2,371	7,160	4,277	(1,325)	(1,308)
Inc/Dec. in cash	2,435	(1,623)	1,692	(1,241)	1,607	2,513

Key Ratios	2006	2007	2008	2009E	2010E	2011E
OPM (%)	20.5	20.2	21.2	18.7	18.3	18.1
ROACE (%)	13.2	14.7	16.4	15.0	13.7	13.1
ROANW (%)	37.2	31.2	34.0	33.2	28.4	24.0
Sales/Total Assets (x)	0.6	0.6	0.6	0.8	0.8	0.8
Debt:Equity (x)	1.6	1.9	2.1	2.3	1.8	1.5
Current Ratio (x)	4.3	2.8	3.4	2.6	2.7	2.9
Debtors (days)	98	104	81	82	82	85
Net working capital (days)	118	154	136	132	127	124
EV/Sales (x)	1.2	1.5	1.2	1.0	0.8	0.6
EV/EBIDT (x)	5.8	7.3	5.6	5.2	4.2	3.5
P/E (x)	7.3	4.1	2.4	1.7	1.6	1.5
P/BV (x)	1.2	0.9	0.7	0.5	0.4	0.3

T E A M

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