

January 13, 2011

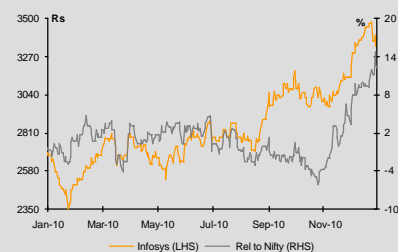
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 3,205	Rs 3,400
EPS change FY11E/12E (%)	(2) / 1
Target Price change (%)	3
Sensex	19,183
Nifty	5,752

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	2	16	20
Rel. to Nifty	5	10	9	9

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	INFO@IN
Equity Capital (Rs mn)	2871
Face Value(Rs)	5
No of shares o/s (mn)	574
52 Week H/L	3,494/2,310
Market Cap (Rs bn/USD mn)	1,938/42,945
Daily Avg Volume (No of sh)	1038839
Daily Avg Turnover (US\$m)	72.5

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	16.0	16.1	16.1
FII/NRI	55.8	55.3	55.8
Institutions	8.0	8.2	7.9
Private Corp	6.4	6.0	5.4
Public	13.9	14.5	14.8

Source: Capitaline

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- **Infy's Dec'10 show a tad disappointing when weighed against the heightened street expectations. Lower operating performance coupled with higher taxes drove profit miss**
- **Seq vol growth at 3.1% was the lowest in 5 qtrs, however improvement in price realizations/cross currency gains helped drive a ~6% QoQ revenue increase.**
- **A 1-2% QoQ growth March'11 qtr guidance is well below a 'normal' March qtr' guidance, however we see reasonable beat on it ahead.**
- **Cut FY11E EPS by ~2% to Rs 120, while tweak FY12/13E EPS up by ~1.1/4.4% to ~Rs 150/182, aided by a currency reset to Rs 45/\$. ACCUMULATE, TP Rs 3,400(V/s Rs 3,300 earlier)**

6% QoQ revenue growth ain't enough

Infy reported rev of US\$ 1,585 mn(+5.9% QoQ) missing expectations (Emkay est of 7% QoQ increase). Op mgns were down by ~10 bps QoQ to 33.2% (V/s expectations of ~20 bps increase). Profit miss was driven by lower operating performance and higher taxes. **Sequential vol growth at 3.1% was the real negative in our view, especially as the street/investors continues to warm up to a 24-25% volume growth for FY12E and could dent confidence on the same for a while.** Growth was broad based across sectors with rev from fin services/manufacturing/retail up by ~8.6/9.9/6.7% sequentially. Employee addition was strong with a net hiring of ~5,300 employees during the quarter (which included a gross lateral hiring of ~5,200. Although reported TTM attrition inched up further to 17.5%, quarterly annualized attrition declined to 18% (V/s 20%+ over the past 2 quarters). Blended pricing was up by 0.5% sequentially in constant currency terms. Co now intends to hire ~40K people on a gross level V/s 36k earlier for FY11. **Infy has already given campus offers for ~26k freshers for FY11 (V/s 20k during FY10), a clear indicator of demand strength despite the conservatism in the management commentary and sobering results.**

Muted March'11 qtr rev guidance-conservative in our view

Infy's March'11 qtr revenue guidance of US\$ 1,601-1,617 mn appears muted when weighed against co's record of reporting a 5%+ QoQ rev growth in March qtr over the past 8 years albeit for FY09 and could end up being once again a case of erring on the conservative side by the co. Full yr revenue guidance has been raised up marginally to US\$ 6,040-6,060 mn (+25.7-26.1% YoY, V/s 24-25% earlier) driving an increase in EPS outlook to ~Rs 119 (V/s Rs 115-117 earlier)

Tweak FY12/13E earnings up by 1.1/4.4% to Rs 150/182 respectively, retain ACCUMULATE

We cut our FY11E earnings by ~2% to Rs 119.7 driven by marginal reduction in our US\$ revenue expectations and higher tax rate assumption despite a bwer currency reset. We raise our FY12/13E earnings estimates by 1.1%/4.4 % respectively to Rs 150/181.6 (V/s Rs 148.3/173.9 earlier) driven by higher revenue growth expectations (we build in 24.7%/20% YoY growth for FY12/13 V/s 22.5%/19% earlier), aided by a lower currency reset to Rs 45/(V/s Rs 44/\$ earlier). Retain ACCUMULATE with a revised target price of Rs 3,400 (V/s 3,300 earlier)

Financial Snapshot

	Rs Mn								
Y/E March (in Rs mn)	Net Sales	EBITDA %	PAT %	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)	
FY10	227,426	79,006	34.7	63,056	109.9	30.5	29.2	22.0	8.0
FY11E	276,614	90,872	32.9	68,650	119.7	27.2	26.8	18.7	6.7
FY12E	341,630	111,949	32.8	86,030	150.0	28.4	21.4	14.8	5.6
FY13E	410,060	132,788	32.4	104,138	181.6	28.6	17.7	12.1	4.6

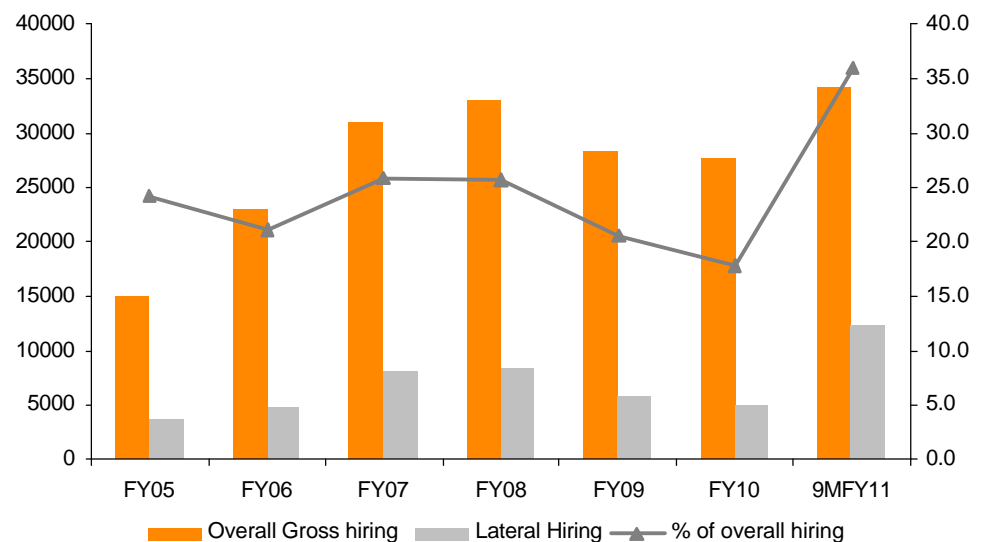
Key Financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	55,850	57,416	59,440	61,980	69,470	71,060	23.8	2.3	202,510	167,986	20.6
Operating Expenditure	36,520	37,030	38,830	42,360	46,320	47,430	28.1	2.4	136,110	109,590	24.2
Cost of revenues	29,630	30,090	31,840	34,410	37,540	38,470	27.8	2.5	110,420	88,870	24.2
as % of sales	53.1	52.4	53.6	55.5	54.0	54.1			54.5	52.9	
SG&A expenses	6,890	6,940	6,990	7,950	8,780	8,960	29.1	2.1	25,690	20,720	24.0
as % of sales	12.3	12.1	11.8	12.8	12.6	12.6			12.7	12.3	
EBITDA	19,330	20,386	20,610	19,620	23,150	23,630	15.9	2.1	66,400	58,396	13.7
Depreciation	2,320	2,310	2,200	2,050	2,170	2,160	(6.5)	(0.5)	6,380	6,850	(6.9)
EBIT	17,010	18,076	18,410	17,570	20,980	21,470	18.8	2.3	60,020	51,546	16.4
Other Income	2,360	2,310	2,080	2,390	2,670	2,900	25.5	8.6	7,960	7,360	8.2
PBT	19,370	20,386	20,490	19,960	23,650	24,370	19.5	3.0	67,980	58,906	15.4
Total Tax	3,970	4,550	4,410	5,060	6,280	6,570	44.4	4.6	17,910	12,400	44.4
Adjusted PAT	15,400	15,836	16,080	14,900	17,370	17,800	12.4	2.5	50,070	46,506	7.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0			0	0	
APAT after MI	15,400	15,836	16,080	14,900	17,370	17,800	12.4	2.5	50,070	46,506	7.7
Extra ordinary items	0	0	480	0	0	0			0	-	
Reported PAT	15,400	15,836	16,560	14,900	17,370	17,800	12.4	2.5	50,070	46,506	7.7
Reported EPS	26.9	27.6	28.0	26.0	30.3	31.0	12.4	2.5	87.3	81.1	7.7

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)	QoQ (%)	YTD'11	(bps)	YoY (%)
EBIDTA	34.6	35.5	34.7	31.7	33.3	33.3	(225)	(7)	32.8	34.8	(197)
EBIT	30.5	31.5	31.0	28.3	30.2	30.2	(127)	1	29.6	30.7	(105)
EBT	34.7	35.5	34.5	32.2	34.0	34.3	(121)	25	33.6	35.1	(150)
PAT	27.6	27.6	27.9	24.0	25.0	25.0	(253)	5	24.7	27.7	(296)
Effective Tax rate	20.5	22.3	21.5	25.4	26.6	27.0	464.0	40.5	26.3	21.1	530

Source: Company, Emkay Research

Lateral hiring continues to gather pace as the demand momentum continues to get stronger after lower additions in FY09/10.



Source: Company, Emkay Research

Client concentration	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Top client contribution to revenues	4.60%	4.70%	4.60%	4.90%	4.70%	4.60%
Top client (in US\$ mn)	53.1	57.9	59.6	66.5	70.3	72.9
<i>QoQ growth, %</i>	5.1%	9.1%	3.0%	11.6%	5.7%	3.7%
Top 5 client contribution to revenues	16.50%	17.60%	15.80%	15.40%	15.80%	15.40%
Top 5 clients (in US\$ mn)	190.4	216.8	204.8	209.1	236.4	244.1
<i>QoQ growth, %</i>	4.1%	13.9%	-5.6%	2.1%	13.0%	3.3%
Top 10 client contribution to revenues	26.20%	27.50%	25.80%	26.10%	26.70%	25.70%
Top 10 clients (in US\$ mn)	302.3	338.8	334.4	354.4	399.4	407.3
<i>QoQ growth, %</i>	4.4%	12.1%	-1.3%	6.0%	12.7%	2.0%
Non Top 10 clients	851.7	893.2	961.6	1003.6	1096.6	1177.7
<i>QoQ growth, %</i>	2.3%	4.9%	7.7%	4.4%	9.3%	7.4%

Source: Company, Emkay Research

Change in estimates

(All fig in Rs mn except EPS)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	6,129	6,086	-0.7%	7,512	7,592	1.1%	8,926	9,112	2.1%
Revenues	275,564	276,614	0.4%	330,525	341,630	3.4%	392,744	410,060	4.4%
EBITDA	91,918	90,872	-1.1%	110,224	111,949	1.6%	126,393	132,788	5.1%
Net profits	70,084	68,650	-2.0%	84,774	86,030	1.5%	99,342	104,138	4.8%
EPS	122.1	119.7	-2.0%	148.3	150.0	1.1%	173.9	181.6	4.4%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	227,426	276,614	341,630	410,060
Growth (%)		21.6	23.5	20.0
Total Expenditure	(148,420)	(185,741)	(229,681)	(277,272)
Growth (%)		25.1	23.7	20.7
EBIDTA	79,006	90,872	111,949	132,788
Growth (%)		15.0	23.2	18.6
EBIDTA %	34.7	32.9	32.8	32.4
Other Income	-	-	-	-
Depreciation	(9,050)	(8,595)	(9,215)	(10,037)
EBIT	69,956	82,278	102,734	122,751
Interest				
EBT	69,956	82,278	102,734	122,751
Tax	(16,810)	(24,438)	(28,677)	(34,713)
EAT	63,056	68,650	86,030	104,138
Growth (%)		8.9	25.3	21.0
EAT (%)	27.7	24.8	25.2	25.4

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	227,630	272,118	327,484	395,073
Minority Interest	-	-	-	-
Networth	230,490	274,978	330,344	397,933
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Deferred Tax Liabilities	2,320	2,320	2,320	2,320
Total Liabilities	232,810	277,298	332,664	400,252
Goodwill				
Gross Block	78,390	90,390	102,390	117,390
Less: Depreciation	28,930	37,525	46,740	56,777
Net block	49,460	52,865	55,650	60,614
Capital WIP	4,090	4,090	4,090	4,090
Investment	37,120	37,120	37,120	37,120
Current Assets	182,370	234,983	302,617	380,615
Inventories	-	-	-	-
Sundry debtors	34,940	43,197	53,350	64,037
Cash & bank balance	105,560	140,252	183,749	234,566
Loans & advances	41,870	51,533	65,518	82,012
Other current assets	-	-	-	-
Current Liab & Prov	44,550	56,081	71,134	86,506
Current liabilities	23,430	29,556	37,439	44,938
Provisions	21,120	26,525	33,695	41,568
Net current assets	137,820	178,902	231,484	294,109
Misc exps	-	-	-	-
Deferred Tax	4,320	4,320	4,320	4,320
Total Assets	232,810	277,298	332,664	400,252

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	63,056	68,650	86,030	104,138
Add : Depreciation	9,050	8,595	9,215	10,037
Add : Misc exp w/off				
Net changes in WC	(5,830)	(11,531)	(15,053)	(15,372)
Operational Cash Flows	62,430	70,854	86,161	102,367
Capital expenditure	(9,060)	(12,000)	(12,000)	(15,000)
Investments	-	-	-	-
Investing Cash Flows	(9,060)	(12,000)	(12,000)	(15,000)
Borrowings	-	-	-	-
dividend paid	(16,740)	(24,094)	(30,194)	(36,549)
Issue of shares	1,020	(0)	(0)	(0)
Share Premium	540	-	(470)	-
Financing Cash Flows	(44,370)	(24,551)	(30,664)	(36,549)
changes in cash	9,000	34,303	43,497	50,817
Opening balance	96,950	105,560	140,252	183,749
Closing balance	105,560	140,252	183,749	234,566

Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
EPS (Rs)	109.9	119.7	150.0	181.6
CEPS (Rs)	125.7	134.7	166.1	199.1
Book Value Per Share (Rs)	401.9	479.4	576.0	693.8
Dividend Per Share (Rs)	25.0	35.9	45.0	54.5
Valuations Ratios (x)				
PER	29.2	26.8	21.4	17.7
P/CEPS	25.5	23.8	19.3	16.1
P/BV	8.0	6.7	5.6	4.6
EV/EBIDTA	22.0	18.7	14.8	12.1
EV/Sales	7.6	6.2	4.9	3.9
M-Cap/sales	6.8	5.6	4.5	3.8
Profitability Ratios (%)				
RoCE	33.7	32.3	33.7	33.5
RoNW	30.5	27.2	28.4	28.6
EBITDA Margin	34.7	32.9	32.8	32.4
EBIT Margins	30.8	29.7	30.1	29.9
Net Profit Margin	27.7	24.8	25.2	25.4

Recommendation History: Infosys Technologies – INFO IN

Date	Reports	Reco	CMP	Target
15/10/2010	Infosys Technologies Q2FY11 Result Update	Accumulate	3,080	3,300
13/07/2010	Infosys Technologies Q1FY11 Result Update	Accumulate	2,795	3,200
13/04/2010	Infosys Technologies Q4FY10 Result Update	Accumulate	2,781	3,200
16/03/2010	Infosys Technologies Co Update	Accumulate	2,701	3,100

Recent Research Reports

Date	Reports	Reco	CMP	Target
22/12/2010	TCS Company Update	Accumulate	1,150	1,250
07/12/2010	Infinite Computer Solutions Initiating Coverage	Buy	170	250
26/11/2010	Mphasis Company Update	Hold	599	600
23/11/2010	Mphasis Q4FY10 Result Update	Hold	561	630

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