

## Infotech Enterprises

STOCK INFO. BLOOMBERG  
BSE Sensex: 9,450 INFTC IN  
S&P CNX: 2,871 REUTERS CODE  
INFE.BO

19 January 2006

Not Rated

Rs514

		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)	15.1	3/05A	2,571	274	18.6	192.8	27.6	4.8	19.0	18.8	2.8	13.9
52-Week Range	550/160	3/06E	3,567	484	32.0	71.8	16.1	3.6	26.0	25.8	2.0	10.4
1,6,12 Rel. Perf. (%)	10/51/149	3/07E	4,713	668	42.0	31.3	12.2	3.1	27.8	27.7	1.6	7.5
M.Cap. (Rs b)	7.8											
M.Cap. (US\$ b)	0.2											

- Revenues of Infotech Enterprises were up 14.2% QoQ to Rs941m, on the back of strong volume growth at 10.7% QoQ and better price realization in engineering services. The latter was due to rate hikes from top clients such as Bombardier. Engineering services (EMI) grew 17.7% QoQ during the quarter, while geospatial services (UTG) grew 10.3%.
- Revenues from the top five clients grew 8%, even as their contribution to revenue declined from 55.7% to 52.7%. The top 10 clients grew 16%, faster than the other clients, who grew 11% QoQ. The company added 9 clients during the quarter — 2 in geospatial services and 7 in engineering services.
- 679 employees (all laterals) were added during the quarter, including 559 in geospatial and 108 in engineering services. This indicates a good order pipeline for both businesses.
- Operating margins dipped 60bp due to salary hikes (Rs12m), greater onsite composition and higher purchases of software in the VARGIS subsidiary. Net profit was up 22% at Rs113m due to higher other income at Rs12m and greater profit contribution from its Puerto Rican subsidiary, at Rs14.8m.
- Business momentum continued to be strong — several significant deals were signed during the quarter. The company also launched new offerings in marine services and instrumentation design services that are likely to bear fruit over next few quarters. We expect the company to record growth in revenue and profits of 38.7% and 76.9% for FY06E and 32% and 37.8% for FY07E respectively. On an estimated EPS of Rs42 in FY07E, the stock trades at a P/E of 12.2x. **We do not have a rating on the stock.**

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>579</b>	<b>684</b>	<b>656</b>	<b>652</b>	<b>782</b>	<b>824</b>	<b>941</b>	<b>1,020</b>	<b>2,571</b>	<b>3,567</b>
Q-o-Q Change (%)	4.6	18.1	-4.1	-0.7	20.0	5.3	14.2	8.4	37.2	38.7
Direct Expenses	308	320	283	323	365	394	443	479	1,234	1,681
Sales, General & Admin. Expenses	192	242	235	199	281	269	320	350	867	1,220
<b>Operating Profit</b>	<b>80</b>	<b>123</b>	<b>138</b>	<b>130</b>	<b>136</b>	<b>160</b>	<b>178</b>	<b>192</b>	<b>470</b>	<b>667</b>
Margins (%)	13.7	18.0	21.0	19.9	17.4	19.5	18.9	18.8	18.3	18.7
Other Income	29	14	-9	5	-12	7	12	13	39	21
Depreciation	45	45	38	39	45	44	49	54	167	192
Interest	1	1	0	0	2	1	2	2	3	7
<b>PBT bef. Extra-ordinary</b>	<b>63</b>	<b>91</b>	<b>90</b>	<b>95</b>	<b>78</b>	<b>122</b>	<b>139</b>	<b>149</b>	<b>339</b>	<b>489</b>
Provision for Tax	15	25	31	19	11	25	21	25	90	83
Rate (%)	23.8	27.8	34.3	19.7	14.2	20.8	15.1	17.0	26.5	17.0
<b>PAT bef. Extra-ordinary</b>	<b>48</b>	<b>66</b>	<b>59</b>	<b>76</b>	<b>67</b>	<b>97</b>	<b>118</b>	<b>124</b>	<b>249</b>	<b>406</b>
Q-o-Q Change (%)	132.2	38.4	-9.9	28.6	-12.4	44.5	22.3	4.7	176.7	62.7
Share of Profit from JV (IASI)	0	0	12	13	30	12	15	16	25	74
<b>Net profit</b>	<b>48</b>	<b>66</b>	<b>71</b>	<b>89</b>	<b>97</b>	<b>109</b>	<b>133</b>	<b>140</b>	<b>274</b>	<b>479</b>
Q-o-Q Change (%)	132.2	38.4	8.0	25.3	9.0	12.0	22.2	5.2	304.0	75.0

E: MOST Estimates

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## Volumes drive growth in UTG, rate hikes boost growth in EMI

Infotech Enterprises reported revenue of Rs941m, up 14.2% QoQ, on the back of strong volume growth at 10.7% QoQ and better price realization in engineering services due to rate hikes from top clients such as Bombardier. Engineering services (EMI) grew 17.7% QoQ during the quarter, while geospatial services (UTG) grew 10.3%.

Volumes in the geospatial services division grew at a substantial 15.9% QoQ. The past two quarters had a higher proportion of revenue from the high billing rate, high margin photogrammetry services, whereas this quarter saw a spurt in data related work, which has lower billing rates. Hence revenue growth was lower at 10.3% owing to the shift in revenue mix.

EMI, on the other hand, saw a 5% increase in offshore pricing due to rate hikes offered by certain top customers such as Bombardier. Additionally, utilization rates for the quarter were up to 71% in 3QFY06 from 68% in 2QFY06. Therefore, the revenue growth at 17.7% was higher than the volume growth of 10.7%

### REVENUE SPLIT (RS M)

	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
Geospatial Serv. (UTG)	277.1	271.8	382.0	383.7	423.2
QoQ Change (%)	18.4	-1.9	40.5	0.4	10.3
Engineering Serv. (EMI)	381.0	380.3	401.0	441.2	519.2
QoQ Change (%)	-1.9	-0.2	5.4	10.0	17.7

Source: Company/Motilal Oswal Securities

## Top 10 clients grow faster than company average

Revenue from the top five clients grew 8%, even as their contribution to revenue declined from 55.7% to 52.7%. The top 10 clients grew 16%, faster than the other clients, who grew 11% QoQ.

### CLIENT MIX (RS M)

	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
Top 5 Client Billing	322	347	428	459	496
QoQ Change (%)	2.6	7.8	23.4	7.3	8.0
Top 10 Client Billing	400	422	503	534	619
QoQ Change (%)	6.8	5.3	19.3	6.2	16.0
Others	256	237	279	290	322
QoQ Change (%)	6.8	-7.3	17.7	3.9	11.0

Source: Company/Motilal Oswal Securities

### CLIENT CONCENTRATION (%)

	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
Top 5 Client Billing	49.0	53.2	54.7	55.7	52.7
Top 10 Client Billing	61.0	64.7	64.3	64.8	65.8
Others	39.0	36.4	35.7	35.2	34.2

Source: Company/Motilal Oswal Securities

The company's subsidiaries also reported good growth for the quarter, with the US, German and UK subsidiaries growing 20.6%, 18% and 20.7% respectively. However, the German subsidiary continued to record declining profitability due to a higher share of services versus products in the business slate.

## Deal wins, employee addition have been robust

The company added nine clients — two in geospatial services and seven in engineering services. Many of these were big ticket deals, with two clients added in the railway engineering space going straight into the top 10 list of clients. The company also signed several multi-year, multi-million dollar deals during the quarter, including a 3-year wind structure design contract with a European firm, two testing and validation deals in the avionics space, Alstom and KPN. The signing of such multi-year, multi-million dollar deals resulted in improved revenue visibility for the company compared with the period prior to the ASI (Analytical Surveys Inc.) ramp down. Additionally, widening of the client base also mitigates the risk of business downside due to ramp down from any single client.

The company added 679 staff (all laterals) during the quarter, including 559 in geospatial services and 108 in engineering services, indicating a good order pipeline for both businesses.

### EMPLOYEE ADDITION (NOS)

	2QFY05	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06
UTG	-46	168	-50	547 *	-16	559
EMI	70	25	78	152	31	108

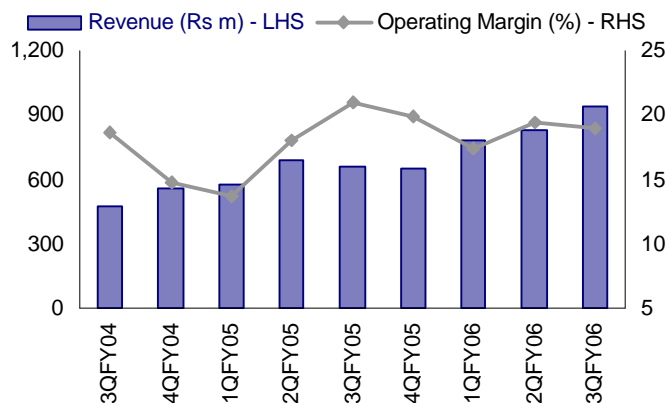
\*Due to acquisition of TeleAtlas India (550)

Source: Company/Motilal Oswal Securities

**Higher costs drive down margins by 60bp**

Operating margins dipped 60bp during the quarter due to salary hikes (Rs12m). Additionally all the employees hired during the quarter were laterals, which also put pressure on gross margins. Employee costs for the quarter, therefore, grew 12.3% on a sequential basis. The company also had greater purchases of software in its VARGIS subsidiary, and higher travel expenses, which also pushed up costs during the quarter by 260bp. However, this effect was mitigated by greater price realizations in the EMI business (6%), and lower operating expenses, which resulted in a net decrease of 60bp in operating margins to 18.9%. Net profit was up 22% at Rs113m due to higher other income at Rs12m and greater profit contribution from the company’s Puerto Rican subsidiary at Rs14.8m.

EBITDA MARGIN MOVEMENT



Source: Company/Motilal Oswal Securities

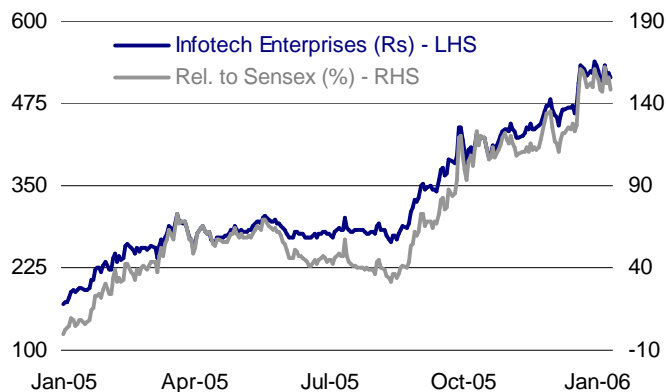
Going forward, the company has indicated that margins would be in the 18%-20% range. We expect margins to be lower in 4QFY06 due to the impact of rupee appreciation

and greater SG&A expenses (as the company actively pursues larger deals), and would revive going forward in FY07, with increased growth in higher value services in EMI.

**Outlook and view**

The management has indicated that 4QFY06 would report revenue growth of near 10%, and the subsequent quarter would report 7%-8% growth, given the revenue visibility for the company. Business momentum continues to be strong, with the company signing several significant deals during the quarter. The company has also launched new offerings during the quarter, including marine services and instrumentation design services, which are likely to post profits over the next few quarters. We expect the company to record growth in revenue and profits of 38.7% and 76.9% for FY06E and 32% and 37.8% for FY07E respectively. On an estimated EPS of Rs42 in FY07E, the stock trades at a P/E of 12.2x. **We do not have a rating on the stock.**

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>Sales</b>	<b>1,613</b>	<b>1,875</b>	<b>2,571</b>	<b>3,567</b>	<b>4,713</b>	
Change (%)		16.2	37.2	38.7	32.1	
Software Develop. Exp.	726	922	1,234	1,681	2,267	
SG&A	529	658	867	1,220	1,494	
<b>EBITDA</b>	<b>358</b>	<b>295</b>	<b>470</b>	<b>667</b>	<b>952</b>	
% of Net Sales	22.2	15.7	18.3	18.7	20.2	
Depreciation	192	207	167	192	283	
Interest	8	4	2	2	3	
Other Income	35	35	39	21	47	
<b>PBT</b>	<b>193</b>	<b>119</b>	<b>339</b>	<b>494</b>	<b>713</b>	
Tax	44	26	90	83	129	
Rate (%)	22.8	22.0	26.6	18.8	18.0	
<b>PAT</b>	<b>149</b>	<b>93</b>	<b>249</b>	<b>411</b>	<b>584</b>	
Share of Profit from JV (IASI)	0	0	25	74	83	
<b>Net Income</b>	<b>149</b>	<b>93</b>	<b>274</b>	<b>484</b>	<b>668</b>	
Change (%)		-37.7	194.9	76.9	37.8	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
Share Capital	145	146	147	151	159	
Share Premium	451	454	454	577	577	
Reserves	643	706	975	1,425	1,906	
<b>Net Worth</b>	<b>1,238</b>	<b>1,306</b>	<b>1,576</b>	<b>2,152</b>	<b>2,642</b>	
Secured Loans	7	6	7	7	7	
Deferred Tax Liability	25	5	5	5	5	
<b>Capital Employed</b>	<b>1,271</b>	<b>1,318</b>	<b>1,588</b>	<b>2,165</b>	<b>2,671</b>	
Gross Block	969	1,215	1,623	2,098	2,590	
Less : Depreciation	499	704	871	1,062	1,244	
<b>Net Block</b>	<b>471</b>	<b>510</b>	<b>751</b>	<b>1,035</b>	<b>1,345</b>	
CWIP	4	12	5	5	5	
Investments	20	20	20	103	103	
<b>Curr. Assets</b>	<b>1,043</b>	<b>1,159</b>	<b>1,314</b>	<b>1,698</b>	<b>2,071</b>	
Debtors	481	636	700	977	1,227	
Cash & Bank Balance	455	375	446	515	594	
Loans & Advances	99	126	140	176	221	
Other Current Assets	9	21	28	30	30	
<b>Current Liab. &amp; Prov</b>	<b>267</b>	<b>384</b>	<b>502</b>	<b>677</b>	<b>853</b>	
Current Liabilities	213	316	413	555	699	
Provisions	54	68	89	122	154	
<b>Net Current Assets</b>	<b>776</b>	<b>775</b>	<b>813</b>	<b>1,022</b>	<b>1,218</b>	
<b>Capital Employed</b>	<b>1,271</b>	<b>1,318</b>	<b>1,588</b>	<b>2,165</b>	<b>2,671</b>	

E: MOST Estimates

RATIOS						
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>Basic (Rs)</b>						
<b>EPS*</b>	<b>10.3</b>	<b>6.4</b>	<b>18.6</b>	<b>32.0</b>	<b>42.0</b>	
Cash EPS*	23.6	20.5	30.0	44.7	59.9	
Book Value	85.6	89.6	107.3	142.3	166.3	
DPS	13	13	15	2.0	2.0	
Payout %(Incl.Div.Taxes)	12.3	19.6	8.1	6.2	4.8	
<b>Valuation (x)</b>						
P/E		80.8	27.6	16.1	12.2	
Cash P/E		25.0	17.1	11.5	8.6	
EV/EBITDA		21.6	13.9	10.4	7.5	
EV/Sales		3.8	2.8	2.0	1.6	
Price/Book Value		5.7	4.8	3.6	3.1	
Dividend Yield (%)		0.2	0.3	0.4	0.4	
<b>Profitability Ratios (%)</b>						
RoE		7.3	19.0	26.0	27.8	
RoCE		7.2	18.8	25.8	27.7	
<b>Turnover Ratios</b>						
Debtors (Days)		109	124	99	100	
Fixed Asset Turnover (x)		13	14	16	16	
<b>Leverage Ratio (x)</b>						
Debt/Equity Ratio(x)		0.6	0.5	0.5	0.4	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
CF from Operations	311	267	402	605	856	
Cash for Working Capital	-5	-72	53	-138	-118	
<b>Net Operating CF</b>	<b>306</b>	<b>195</b>	<b>455</b>	<b>467</b>	<b>738</b>	
Net Purchase of FA	-113	-256	-393	-434	-675	
Net Purchase of Invest.	25	13	39	-56	47	
<b>Net Cash from Invest.</b>	<b>-88</b>	<b>-243</b>	<b>-354</b>	<b>-490</b>	<b>-628</b>	
Proceeds from Pvt. Place.	2	4	1	127	8	
Proceeds from LTB/STB	0	0	0	0	0	
Dividend Payments	-15	-20	-25	-34	-36	
Net Financing charges	-149	-5	-3	-2	-3	
<b>Cash Flow from Fin.</b>	<b>-160</b>	<b>-31</b>	<b>-27</b>	<b>90</b>	<b>-31</b>	
Free Cash Flow	193	-61	62	22	77	
<b>Net Cash Flow</b>	<b>57</b>	<b>-80</b>	<b>74</b>	<b>67</b>	<b>79</b>	
<b>Opening Cash Balance</b>	<b>398</b>	<b>455</b>	<b>374</b>	<b>448</b>	<b>515</b>	
Add: Net Cash	57	-80	74	67	79	
<b>Closing Cash Balance</b>	<b>455</b>	<b>375</b>	<b>448</b>	<b>515</b>	<b>594</b>	

**N O T E S**



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<b>Disclosure of Interest Statement</b>	<b>Infotech Enterprises</b>
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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