

UBS Investment Research

Infosys Technologies Ltd.

Entering low growth phase

■ FY09 guidance: downward revision higher than expectations

While we anticipated lower FY09 US\$ revenue guidance of 16-18% YoY, Infosys' guidance of 13.1%-15.2% YoY was below consensus and UBS expectations. The company expects FY09 constant currency revenue growth of 16-18% and EPS growth of 12.6% YoY in US\$ terms. Infosys' Q2 FY09 revenue rose 11.6% QoQ, EBITDA margins improved 260bp QoQ and net profit rose 10% QoQ. Revenue rose 5.3% QoQ in US\$ terms; 7.1% for constant currency and 6.5% for volume growth.

■ Q2 FY09 results ahead of estimates, but initial signs of strain

We believe there are initial signs of strain as: 1) BFSI, telecom and retail verticals, which contribute 64% of revenue have slowed; 2) the manufacturing vertical has contributed about 52% to incremental revenue on both QoQ and YoY basis, which increases concentration risk and puts growth at risk; and 3) revenue from new clients reflects almost no ramp up, which indicates weak momentum for FY10.

■ Lower earnings estimates and price target

We lower Infosys EPS estimates for FY10 and FY11 from Rs119.33 and Rs131.83 to Rs107.49 and Rs110.65, respectively, and lower our price target 26% from Rs2,150 to Rs1,600.

■ Valuation: maintain Buy, we like Infosys on a relative basis in the sector

We base our 12-month price target of Rs1,600 on DCF methodology, using intermediate growth of 15%, terminal growth of 5% and a WACC of 13.7%. We maintain our Buy rating, on valuation, and we like Infosys as a relative outperformer in the sector.

Highlights (Rsm)	03/07	03/08	03/09E	03/10E	03/11E
Revenues	138,930	166,920	216,477	239,851	270,165
EBIT (UBS)	38,770	46,400	61,664	64,815	69,420
Net Income (UBS)	38,500	45,380	57,858	61,400	63,202
EPS (UBS, Rs)	67.40	79.45	101.29	107.49	110.65
Net DPS (UBS, Rs)	11.50	33.25	29.00	34.00	46.00

Profitability & Valuation	5-yr hist av.	03/08	03/09E	03/10E	03/11E
EBIT margin %	28.4	27.8	28.5	27.0	25.7
ROIC (EBIT) %	100.5	76.2	86.3	81.6	78.6
EV/EBITDA (core) x	20.6	18.3	9.0	7.9	6.9
PE (UBS) x	26.1	22.5	12.1	11.4	11.1
Net dividend yield %	2.7	1.9	2.4	2.8	3.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,226.70 on 10 Oct 2008 23:38 BST

Govind Agarwal

Analyst
govind-b.agarwal@ubs.com
+91-22-2286 2050

Global Equity Research

India

Software

12-month rating **Buy**
Unchanged

12m price target **Rs1,600.00/US\$33.02**
Prior:Rs2,150.00/US\$44.38

Price **Rs1,226.70/US\$24.67 (ADR)**

RIC: INFY.BO BBG: INFO IB

13 October 2008

Trading data (local/US\$)

52-wk range	Rs1,992.85-1,226.70/US\$51.18-24.67
Market cap.	Rs701bn/US\$14.1bn
Shares o/s	571m (ORD)/571m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	74%
Avg. daily volume ('000)	395/640
Avg. daily value (Rsm)	625.8/23.5

Balance sheet data 03/09E

Shareholders' equity	Rs179bn
P/BV (UBS)	3.9x
Net Cash (debt)	Rs103bn

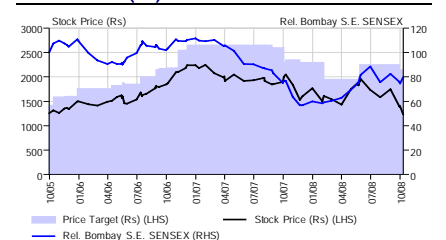
Forecast returns

Forecast price appreciation	+30.4%
Forecast dividend yield	2.5%
Forecast stock return	+32.9%
Market return assumption	13.7%
Forecast excess return	+19.2%

EPS (UBS, Rs)

	03/09E		03/08	03/10E
	From	To	Cons.	Actual
Q1E	22.25	22.25	-	18.00
Q2E	24.25	25.07	-	19.26
Q3E	27.48	26.49	-	20.68
Q4E	27.12	27.41	-	21.52
03/09E	101.29	101.29	102.44	
03/10E	119.33	107.49	119.79	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities India Private Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of UBS in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.ubs.com/independentresearch or may call +1 877-208-5700 to request a copy of this research.

Infosys released its Q2 FY09 earnings recently. While quarterly results were ahead of estimates, the scale of downward revision for FY09 revenue and EPS guidance was a negative surprise.

The following are the key takeaways of our analysis:

Results versus estimate

Table 1: Quarterly financials (Indian GAAP consolidated)

(Rs m)	Q2 FY09E	Q2 FY09	Chg YoY	Chg QoQ
Sales	53,151	54,180	32.0%	11.6%
EBITDA Margin	31.5%	33.1%	1.8%	2.6%
EBITDA	16,727	17,940	39.7%	21.3%
Reported Net Profit	13,877	14,320	30.2%	10.0%

Source: Company data, UBS estimates

Key metrics of the results

(All figures in US\$ terms, unless mentioned otherwise)

- Infosys revenue rose 5.3% QoQ, 7.1% in constant currency terms.
- Infosys' IT Services revenue growth of 6.2% QoQ, comprised onsite revenue growth of 4.8% and offshore revenue growth of 7.7% QoQ. Additionally, BPO revenue remained flat QoQ.
- IT Services revenue growth of 6.2% QoQ in comprised volume growth of 6.5% and a blended realisation decline of 0.3% QoQ. Onsite volume was up 4.1% QoQ, while offshore volume was up 7.6% QoQ.
- US revenue rose 3.4% QoQ, Europe revenue rose 8.4% QoQ. Fixed-price revenue rose 9.5% and time and material revenue rose 3.2% QoQ.
- Among horizontals, application development revenue rose 1.3% QoQ, but application maintenance revenue fell 5.8% QoQ. Consulting and package implementation revenue rose 12.4% and infrastructure management revenue rose 9.0% QoQ. Products revenue fell 2.8% QoQ, product engineering services revenue rose 0.5% QoQ and BPO revenue rose 0.3% QoQ.
- Infosys added 40 new clients and increased its over US\$10m clients by three in the Q2 FY09 to 94. The number of clients with LTM billing of more than US\$100m fell by one, to five clients in Q2 FY09. Top client revenue grew 1.3% QoQ, the top two-five client revenue fell 3.5% QoQ and top two-10 client revenue fell 3.3% QoQ. Outside the top-10 clients, revenue growth was at 8.4% QoQ.
- Among verticals, banking, financial services and insurance revenue rose 1.9% QoQ, manufacturing revenue rose 15% QoQ, and telecom revenue rose 1.5% QoQ. Utilities revenue rose 7.2% QoQ, while retail revenue rose 4.4% QoQ.

- Infosys added 10,117 employees on a gross basis and 5,927 on a net basis, taking its total employee base to 100,306 employees. It has maintained its gross hiring guidance for FY09 at about 25,000 employees and plans to hire 4,500 employees in Q3 FY09.
- The attrition rate for software services on a LTM basis declined 80bp to 12.8%. Onsite effort fell 70bp QoQ to 30.7%. Utilisation (excluding trainees) rose 190bp to 72.8% and utilisation (including trainees) increased 90 bp to 69.2%.

Lower guidance due to macro economic concerns

Infosys has lowered its FY09 guidance in US\$ terms, while maintaining Rs guidance, aided by Rs depreciation against the US\$. In US\$ terms it has lowered its revenue growth guidance from 21% to 15.2% (at the higher end). We expected a guidance revision of 16-18%.

The company attributed lower guidance to: 1) cross-currency movement—US\$ appreciation against £, € and A\$, which had an impact of 3%, and 2) a cautious outlook due to the deteriorating macro economic environment accounting for 2.8%.

There has been no impact on Infosys' business so far—no project cancellations and no pricing decline with any major clients. Q2 FY09 results indicate the same; that is volume growth: 6.5% QoQ, constant currency revenue growth: 7.1% QoQ (against guidance of 5.2%-6.1% QoQ growth) and stable pricing.

While there has been no impact on its business so far, Infosys has adopted a cautious stance on its revenue outlook for Q3 FY09 and Q4 FY09. FY09 US\$ revenue guidance now implies negative/flat sequential growth on a QoQ basis for Q3 FY09 and Q4 FY09.

Table 2: Revised FY09 guidance

FY09 guidance	IFRS		Indian GAAP	
	Low end	High end	Low end	High end
Revenue (m)	\$4,720	\$4,810	Rs213,090	Rs217,310
YoY growth	13.1%	15.2%	27.7%	30.2%
EPS (excluding tax reversals)	\$2.23		Rs100.51	
YoY growth	12.6%		26.6%	

Source: Company data

Table 3: Q3 FY09 guidance

Q3 FY09 guidance	IFRS		Indian GAAP	
	Low end	High end	Low end	High end
Revenues (m)	\$1,175	\$1,220	Rs55,190	Rs57,300
QoQ growth	-3.4%	0.3%	1.9%	5.8%
EPS	\$0.57	\$0.56	Rs26.63	
QoQ growth	1.8%		6.4%	

Source: Company data

Deal flow has remained strong

Infosys signed five transformational deals and five outsourcing deals in Q2 FY09. The outsourcing deals signed are all over US\$50m, with two deals over US\$100m and the five transformational deals signed are each over US\$30m. Infosys is pursuing 12 large deals, which it might close over the next 9-12 months.

In BFSI vertical Infosys indicated a benefit from M&A activity among global banks. Infosys has: 1) started an engagement with two banks/financial institutions; 2) started initial conversations with two banks; and 3) two clients have invited it provide consulting on possible M&A/restructuring activity.

We believe participation in the integration work of global banks could be a significant opportunity for Indian IT companies in FY10/11, once volatility reduces in the macro economic environment. We believe Infosys may be a significant beneficiary of the IT integration/consulting work due to restructuring/M&A activity at its clients.

Hiring guidance unchanged

Despite lower revenue growth guidance, Infosys has maintained its FY09 hiring guidance at 25,000 employees on a gross basis. Infosys hired 10,117 employees in Q2 FY09 and plans to hire 4,500 employees in Q3 FY09.

Manufacturing driving growth for Infosys—not a good sign

We note the manufacturing vertical has driven Infosys' growth in the past few quarters. The sharp divergence in growth across verticals was most noticeable in Q2 FY09, when growth in the manufacturing vertical was 72% YoY and BFSI was 9%, telecom 10% and retail 15%. BFSI, telecom and retail contribute about 64% of Infosys revenue and low revenue growth among these verticals indicates some visible signs of strain for Infosys.

Table 4: Vertical growth rates

(US\$ terms, YoY)	Jun-07	Sept-07	Dec-07	Mar-08	Jun-08	Sept-08
BFSI	39%	34%	26%	21%	19%	9%
Manufacturing	32%	36%	51%	68%	68%	72%
Retail	57%	90%	51%	46%	41%	15%
Telecom	75%	49%	52%	36%	11%	10%
Energy & Utilities	28%	30%	27%	43%	37%	24%
Transportation & logistics	-2%	17%	58%	106%	30%	19%

Source: Company data

In terms of incremental revenue, the manufacturing vertical has contributed 52-53% of the incremental revenue on both a YoY basis and QoQ basis. We note demand in the manufacturing vertical has been strong so far. However, the manufacturing vertical will also have an impact of recession in the global economy, which might put Infosys' revenue growth under pressure.

Table 5: Analysis of incremental revenues (US\$ m)

	QoQ comparison	QoQ comparison
Full company	194	61
Manufacturing vertical	102	32
Contribution of manufacturing vertical (%)	52.7%	52.3%

Source: Company data

FY10 indicator: revenue from new clients reflect almost no ramp up

Infosys derives close to 95-98% of its revenue from repeat business, which it defines as the revenue from clients that existed at the start of any fiscal year. The revenue contribution from repeat business declines from Q1 to Q4 of each fiscal year.

Revenue from new clients is an indicator of a ramp up from new clients in the current year, which typically take three to four quarters to ramp up. Revenue from new clients was 0.2% of Infosys revenue in Q2 FY09, which is the lowest contribution reported over the past seven years. More importantly, in absolute terms the contribution from new clients was almost 10% of the contribution in the corresponding quarter in FY08.

Table 6: Revenue from new clients

	Q2 FY03	Q 2FY04	Q2 FY05	Q2 FY06	Q2 FY07	Q2 FY08	Q2 FY09
repeat business %	95.0%	95.7%	96.3%	96.5%	95.2%	97.7%	99.8%
revenue from new clients (US\$ m)	9.1	10.8	14.0	18.3	35.8	23.5	2.4

Source: Company data

While a high level of repeat business indicates strength in attracting existing clients, it is also a risk for future growth, as typically client ramp ups reach a maximum after three to four quarters and this indicates a weak funnel for FY10.

Earnings revision and price target change

We lower our earnings estimates for FY10 by 10% and FY11 by 16%. The revision in earnings is because: 1) we lower our revenue estimates 7.8% and 12.5% for FY10 and FY11, respectively; 2) we lower our EBITDA margin assumptions 70bp/100bp for FY10/11; and 3) we include the increase in tax rates for FY11 to 22% (from 20% earlier).

We have lowered our revenue growth estimates based on a muted growth outlook for FY09, implied by the revised FY09 revenue guidance. We have factored in the recession in US and Europe into our model and accordingly reduced the revenue growth estimates. We have also factored in a pricing decline of 2% in both FY10 and FY11, from earlier flat pricing assumption. This has resulted in lower EBITDA margin assumptions.

We have increased the tax rates for FY11 from 20% to 22% as we believe the lower revenue growth in FY10E and FY11E will result in lesser contribution from special economic zone (SEZ) scheme and consequently higher tax rates.

Table 7: Earnings revision

Infosys	FY08	FY09E	FY09E		FY10E	FY10E		FY11E	FY11E	
Rs m		(Old)	(New)	chg (%)	(Old)	(New)	chg (%)	(Old)	(New)	chg (%)
Revenue	166,920	216,477	216,477	0.0%	260,009	239,851	-7.8%	308,590	270,165	-12.5%
YoY (%)		29.7%	29.7%		20.1%	10.8%		18.7%	12.6%	
EBITDA	52,380	68,550	68,550	0.0%	81,362	73,479	-9.7%	93,607	79,285	-15.3%
YoY (%)		30.9%	30.9%		18.7%	7.2%		15.0%	7.9%	
EBITDA margin	31.4%	31.7%	31.7%	0.0%	31.3%	30.6%	-0.7%	30.3%	29.3%	-1.0%
chg YoY (bp)		0.3%	0.3%		-0.4%	-1.0%		-1.0%	-1.3%	
PAT	45,380	57,858	57,858	0.0%	68,165	61,400	-9.9%	75,304	63,202	-16.1%
YoY (%)		27.5%	27.5%		17.8%	6.1%		10.5%	2.9%	
EPS	79	101	101	0.0%	119	107	-9.9%	132	111	-16.1%
YoY (%)		27.5%	27.5%		17.8%	6.1%		10.5%	2.9%	

Source: UBS estimates

We lower our price target for Infosys 26% from Rs2,150 to Rs1,600, factoring in the earnings revision and lowering our intermediate growth rate to 15% (from 16% earlier). We lower our intermediate growth rate assumption for FY12-FY18 in our DCF model, as we factor in a gradual increase in EBIT from FY09-11E growth rates of 6%.

We base our 12-month price target of Rs1,600 on DCF methodology, assuming an intermediate growth rate of 15%, WACC of 13.7% and terminal growth of 5%.

Table 8: Infosys earnings sensitivity analysis (FY 2010E)

		Sales growth y/y				
EPS (FY10)		6.8%	8.8%	10.8%	12.8%	14.8%
EBITDA Margin	28.6%	96.9	98.7	100.5	102.3	104.1
	29.6%	100.3	102.1	104.0	105.9	107.7
	30.6%	103.6	105.6	107.5	109.4	111.3
	31.6%	107.0	109.0	111.0	113.0	115.0
	32.6%	110.4	112.4	114.5	116.5	118.6

Source: UBS estimates

Infosys Technologies Ltd.

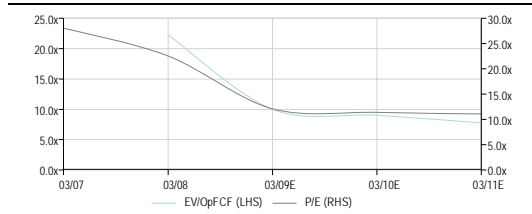
Income statement (Rsm)	03/04	03/05	03/06	03/07	03/08	03/09E	% ch	03/10E	% ch	03/11E	% ch
Revenues	48,530	71,297	95,210	138,930	166,920	216,477	29.7	239,851	10.8	270,165	12.6
Operating expenses (ex depn)	(32,588)	(47,946)	(64,300)	(95,020)	(114,540)	(147,927)	29.1	(166,372)	12.5	(190,879)	14.7
EBITDA (UBS)	15,942	23,350	30,910	43,910	52,380	68,550	30.9	73,479	7.2	79,285	7.9
Depreciation	(2,367)	(2,869)	(4,370)	(5,140)	(5,980)	(6,886)	15.1	(8,664)	25.8	(9,866)	13.9
Operating income (EBIT, UBS)	13,575	20,481	26,540	38,770	46,400	61,664	32.9	64,815	5.1	69,420	7.1
Other income & associates	200	81	(790)	380	120	(1,000)	-	(500)	-50.0	(500)	0.0
Net interest	1,034	1,159	2,170	3,320	6,920	7,404	7.0	9,661	30.5	12,109	25.3
Abnormal items (pre-tax)	(97)	452	0	60	1,210	0	-	0	-	0	-
Profit before tax	14,712	22,173	27,920	42,530	54,650	68,068	24.6	73,975	8.7	81,028	9.5
Tax	(2,285)	(3,348)	(3,130)	(3,860)	(8,060)	(10,210)	26.7	(12,576)	23.2	(17,826)	41.7
Profit after tax	12,426	18,825	24,790	38,670	46,590	57,858	24.2	61,400	6.1	63,202	2.9
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	(110)	0	0	-	0	-	0	-
Net income (local GAAP)	12,426	18,825	24,790	38,560	46,590	57,858	24.2	61,400	6.1	63,202	2.9
Net Income (UBS)	12,523	18,373	24,790	38,500	45,380	57,858	27.5	61,400	6.1	63,202	2.9
Tax rate (%)	16	15	11	9	15	15	1.7	17	13.3	22	29.4
Pre-abnormal tax rate (%)	15	15	11	9	15	15	-0.5	17	13.3	22	29.4
Per share (Rs)	03/04	03/05	03/06	03/07	03/08	03/09E	% ch	03/10E	% ch	03/11E	% ch
EPS (local GAAP)	23.48	34.79	44.98	67.51	81.56	101.29	24.2	107.49	6.1	110.65	2.9
EPS (UBS)	23.66	33.95	44.98	67.40	79.45	101.29	27.5	107.49	6.1	110.65	2.9
Net DPS	32.38	11.50	50.00	11.50	33.25	29.00	-12.8	34.00	17.2	46.00	35.3
Cash EPS	28.14	39.25	52.91	76.40	89.91	113.35	26.1	122.66	8.2	127.92	4.3
BVPS	63.17	98.29	126.40	197.04	241.51	313.80	29.9	387.29	23.4	451.93	16.7
Balance sheet (Rsm)	03/04	03/05	03/06	03/07	03/08	03/09E	% ch	03/10E	% ch	03/11E	% ch
Net tangible fixed assets	10,319	15,742	22,260	37,710	47,770	55,044	15.2	62,830	14.1	73,464	16.9
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	(3,536)	9,603	6,260	16,290	19,960	20,214	1.3	20,855	3.2	19,504	-6.5
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	6,782	25,344	28,520	54,000	67,730	75,258	11.1	83,685	11.2	92,968	11.1
Investments	9,434	12,087	7,530	250	720	720	0.0	720	0.0	720	0.0
Total capital employed	16,216	37,432	36,050	54,250	68,450	75,978	11.0	84,405	11.1	93,688	11.0
Shareholders' equity	33,431	53,186	69,660	112,550	137,950	179,243	29.9	221,221	23.4	258,148	16.7
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	33,431	53,186	69,660	112,550	137,950	179,243	29.9	221,221	23.4	258,148	16.7
Net debt / (cash)	(17,215)	(15,754)	(33,610)	(58,300)	(69,500)	(103,264)	48.6	(136,816)	32.5	(164,460)	20.2
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	16,216	37,432	36,050	54,250	68,450	75,978	11.0	84,405	11.1	93,688	11.0
Cash flow (Rsm)	03/04	03/05	03/06	03/07	03/08	03/09E	% ch	03/10E	% ch	03/11E	% ch
Operating income (EBIT, UBS)	13,575	20,481	26,540	38,770	46,400	61,664	32.9	64,815	5.1	69,420	7.1
Depreciation	2,367	2,869	4,370	5,140	5,980	6,886	15.1	8,664	25.8	9,866	13.9
Net change in working capital	11,200	(13,095)	3,549	(9,780)	(3,400)	(254)	-92.5	(641)	152.0	1,351	-
Other (operating)	(76)	(611)	(1,605)	(330)	(4,750)	0	-	0	-	0	-
Operating cash flow	27,066	9,644	32,854	33,800	44,230	68,296	54.4	72,838	6.7	80,637	10.7
Net interest received / (paid)	0	0	0	0	0	0	-	0	-	0	-
Dividends paid	(9,730)	(3,520)	(14,120)	(7,510)	(22,250)	(16,565)	-25.6	(19,421)	17.2	(26,276)	35.3
Tax paid	(2,285)	(3,348)	(3,130)	(3,860)	(8,060)	(10,210)	26.7	(12,576)	23.2	(17,826)	41.7
Capital expenditure	(4,853)	(7,633)	(9,490)	(20,530)	(11,560)	(14,160)	22.5	(16,450)	16.2	(20,500)	24.6
Net (acquisitions) / disposals	(9,245)	(2,653)	4,558	7,300	(470)	0	-	0	-	0	-
Other	1,137	1,692	1,170	3,650	8,250	6,404	-22.4	9,161	43.1	11,609	26.7
Share issues	1,660	4,358	6,014	11,840	1,060	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	3,750	(1,461)	17,856	24,690	11,200	33,764	201.5	33,552	-0.6	27,644	-17.6
FX / non cash items	0	0	0	0	0	0	-	0	250.0	0	-
Balance sheet (inc)/dec in net debt	3,750	(1,461)	17,856	24,690	11,200	33,764	201.5	33,552	-0.6	27,644	-17.6
Core EBITDA	15,942	23,350	30,910	43,910	52,380	68,550	30.9	73,479	7.2	79,285	7.9
Maintenance capital expenditure	(2,367)	(2,869)	(4,370)	(5,140)	(5,980)	(6,886)	15.1	(8,664)	25.8	(9,866)	13.9
Maintenance net working capital	11,200	(13,095)	3,549	(9,780)	(3,400)	(254)	-92.5	(641)	152.0	1,351	-
Operating free cash flow, pre-tax	24,774	7,386	30,089	28,990	43,000	61,410	42.8	64,174	4.5	70,771	10.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

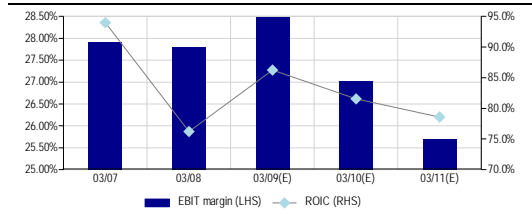
Company profile

In terms of revenue, Infosys is the second largest IT services company in India and has approximately 94,000 employees. Its services include application development and maintenance, consulting services and package implementation, business process management, infrastructure management, testing services etc. It provides these services to overseas clients through various offshore development facilities in India. Infosys derives 62% of its revenue from US, 28% from Europe, and the rest from Asia Pacific. The key industries it services are banking, finance, insurance, retail, telecoms, and manufacturing.

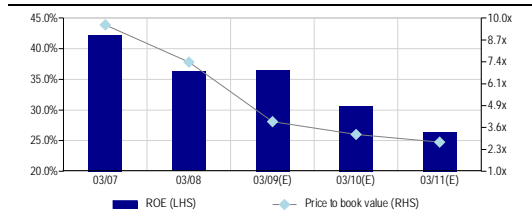
Value (EV/OpFCF & P/E)



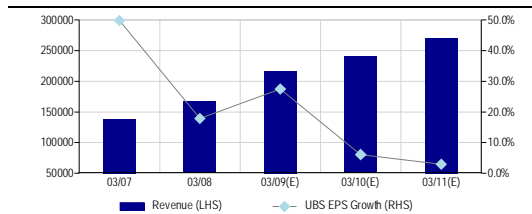
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
P/E (local GAAP)	26.1	28.0	22.0	12.1	11.4	11.1
P/E (UBS)	26.1	28.1	22.5	12.1	11.4	11.1
P/CEPS	22.3	24.8	19.9	10.8	10.0	9.6
Net dividend yield (%)	2.7	0.6	1.9	2.4	2.8	3.7
P/BV	9.1	9.6	7.4	3.9	3.2	2.7
EV/revenue (core)	6.7	7.2	5.7	2.8	2.4	2.0
EV/EBITDA (core)	20.6	22.8	18.3	9.0	7.9	6.9
EV/EBIT (core)	23.8	25.8	20.7	10.0	9.0	7.9
EV/OpFCF (core)	26.2	NM	22.3	10.0	9.0	7.8
EV/op. invested capital	NM	NM	NM	8.6	7.3	6.2

Enterprise value (Rsm)	03/07	03/08	03/09E	03/10E	03/11E
Average market cap	1,046,305	1,022,717	700,703	700,703	700,703
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(45,955)	(63,900)	(86,382)	(120,040)	(150,638)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	(720)
Core enterprise value	1,000,350	958,817	614,321	580,663	549,345

Growth (%)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
Revenue	39.8	45.9	20.1	29.7	10.8	12.6
EBITDA (UBS)	36.4	42.1	19.3	30.9	7.2	7.9
EBIT (UBS)	37.7	46.1	19.7	32.9	5.1	7.1
EPS (UBS)	38.6	49.8	17.9	27.5	6.1	2.9
Cash EPS	36.7	44.4	17.7	26.1	8.2	4.3
Net DPS	14.2	-77.0	189.1	-12.8	17.2	35.3
BVPS	37.6	55.9	22.6	29.9	23.4	16.7

Margins (%)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
EBITDA / revenue	32.9	31.6	31.4	31.7	30.6	29.3
EBIT / revenue	28.4	27.9	27.8	28.5	27.0	25.7
Net profit (UBS) / revenue	26.4	27.7	27.2	26.7	25.6	23.4

Return on capital (%)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
EBIT ROIC (UBS)	NM	NM	NM	NM	NM	NM
ROIC post tax	-	NM	64.7	73.3	67.7	61.3
Net ROE	40.8	42.3	36.2	36.5	30.7	26.4

Coverage ratios (x)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	2.6	5.9	2.4	3.5	3.2	2.4
Div. payout ratio (% , UBS EPS)	67.2	17.1	41.9	28.6	31.6	41.6
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
Revenue / op. invested capital	3.6	3.4	2.7	3.0	3.0	3.1
Revenue / fixed assets	5.0	4.6	3.9	4.2	4.1	4.0
Revenue / net working capital	12.7	12.3	9.2	10.8	11.7	13.4

Investment ratios (x)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
OpFCF / EBIT	0.9	0.7	0.9	1.0	1.0	1.0
Capex / revenue (%)	11.5	14.8	6.9	6.5	6.9	7.6
Capex / depreciation	2.7	4.0	1.9	2.1	1.9	2.1

Capital structure (%)	5Yr Avg	03/07	03/08	03/09E	03/10E	03/11E
Net debt / total equity	(46.4)	(51.8)	(50.4)	(57.6)	(61.8)	(63.7)
Net debt / (net debt + equity)	(86.7)	NM	NM	NM	NM	NM
Net debt (core) / EV	(4.3)	(4.6)	(6.7)	(14.1)	(20.7)	(27.4)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,226.70 on 10 Oct 2008 23:38 BST Market cap(E) may include forecast share issues/buybacks.

Govind Agarwal

Analyst

govind-b.agarwal@ubs.com

+91-22-2286 2050

■ Infosys Technologies Ltd.

In terms of revenue, Infosys is the second largest IT services company in India and has approximately 94,000 employees. Its services include application development and maintenance, consulting services and package implementation, business process management, infrastructure management, testing services etc. It provides these services to overseas clients through various offshore development facilities in India. Infosys derives 62% of its revenue from US, 28% from Europe, and the rest from Asia Pacific. The key industries it services are banking, finance, insurance, retail, telecoms, and manufacturing.

■ Statement of Risk

A sharp decline in IT Services spending could result in downward revision of our earnings estimates.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. Additional information will be made available upon request.

UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Infosys Technologies Ltd. ^{2, 4, 16}	INFY.BO	Buy	N/A	Rs1,226.70	10 Oct 2008

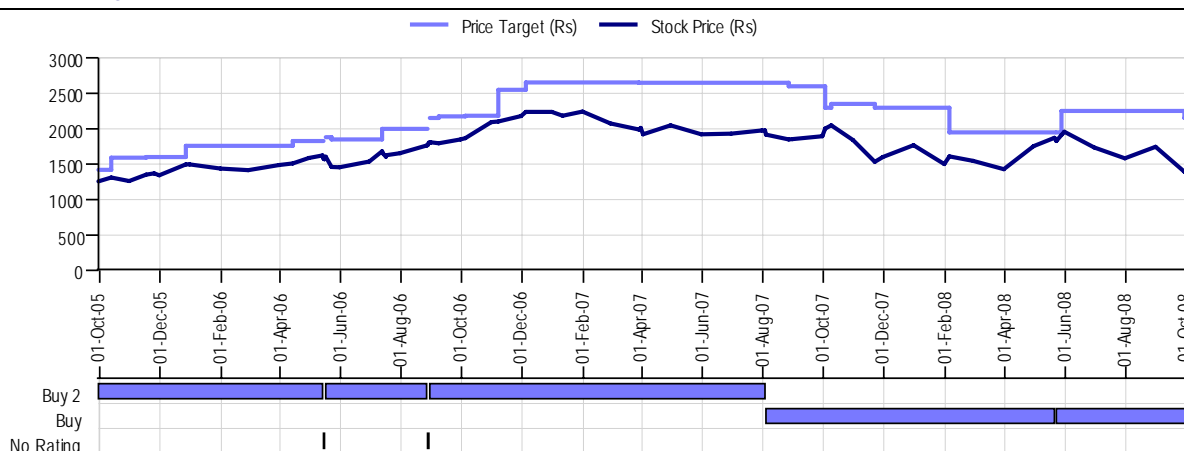
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

- 2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past three years.
- 4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
- 16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Infosys Technologies Ltd. (Rs)



Source: UBS; as of 10 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Global Disclaimer

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate'), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. Where this report has been prepared by UBS Securities Japan Ltd, UBS Securities Japan Ltd is the author, publisher and distributor of the report. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. An investment adviser and investment broker disclosure statement is available on request and free of charge by writing to PO Box 45, Auckland, NZ. **China:** Distributed by UBS Securities Co. Limited. **Portugal:** Prepared by UBS Limited and distributed by UBS Limited and UBS Bank, SA, Sucursal em Portugal. UBS Bank, SA, Sucursal em Portugal, is regulated by Comissão do Mercado de Valores Mobiliários (CMVM). Where an analyst of UBS Bank, SA, Sucursal em Portugal has contributed to this report, the report is also deemed to have been prepared by UBS Bank, SA, Sucursal em Portugal.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. © UBS 2008. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

