INFOSYS TECHNOLOGIES

INR 1,930

Strong bet on outperformance despite currency woes

BUY

Edelweiss
Ideas create, values protect

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Infosys's Q1FY08 results were slightly below expectations. Revenues were flat Q-o-Q and net profits grew by 0.8% Q-o-Q (excluding a tax write back of INR 510 mn in Q1FY08 and INR 1,240 mn in Q4FY07). EBITDA margins were lower by 300bps Q-o-Q, largely on account of appreciation of the INR against the USD, which tracked expectations. The company has marginally revised its INR EPS guidance downwards by 3%, which we expected, but in our view, it could have raised the USD revenue growth guidance further than it actually did (now 29-31% growth in FY08 versus 28-30% earlier, we factor in 35-36% growth).

Given our outlook on the stable-to-slight depreciation bias of the INR vis-à-vis the USD, we continue to stay invested in the Infosys growth story from a 6-12 month perspective with a near 20% return potential. Infosys will still likely manage to retain net profit margins in FY08 within a narrow band of that in FY07. This is astonishing in a fiscal where the INR has already appreciated bye nearly 10% versus Infosys's average realization in FY07. This is a true testament not just to the strong story that Infosys is, but also to robust internal controls, gainful productivity levers, and tight expense management mechanisms that the company is able to powerfully draw on. Infosys currently derives only a modest share of the wallet of several of its clients, particularly the marquee accounts, which in our view, is primed for further penetration. This wallet share is continually increasing as Infosys expands the breadth and depth of its engagements with its active portfolio management model. The company has consistently increased its market share in the Indian IT services industry and we believe this is likely to continue.

Our EPS estimate for FY08 stands at INR 81.6 as we factor in room for the company to outperform its revised EPS (INR) guidance. We adjust our EPS estimate for FY09 by about 5% downwards to factor in the INR-USD equation to INR 102.4 (earlier INR 108). At INR 1,930, the stock trades at a P/E of 23.7x and 18.8x and EV/EBITDA of INR 18.6x and 13.3x our FY08E and FY09E earnings, respectively. We maintain our 'BUY' recommendation.

Interpretation of Q1FY08

- The revenue growth in USD for the quarter at 7.5% Q-o-Q was marginally short of expectations as we had expected Infosys to post at least 8% sequentially. However, this is an uptick over Q4FY07, in which sequential growth was 5.1%.
- The revenue guidance of 29-31% in USD terms for the year could have been upped a bit further and in our view that is the primary reason behind the immediate stock weakness post results, not the revised EPS (INR) guidance per se, which we expected.

Reuters	:	INFY.BO
Bloomberg	:	INFO IN

Market Data

52-week range (INR)	:	3,400 / 1,572
Share in issue (mn)	:	571.2
M cap (INR bn/USD mn)	:	1,102 / 27,304
Avg. Daily Vol. BSE ('000)	:	1,596.1

Share Holding Pattern (%)

Promoters	:	16.5
MFs, FIs & Banks	:	6.3
FIIs	:	32.6
Others	:	44.6

Financials

Year to March	Q1FY08	Q4FY07	*Growth %*	Q1FY07	*Growth %*	FY08E	FY09E
Revenue (INR mn)	37,730	37,720	--	30,150	*25.1*	173,245	228,765
Gross profit (INR mn)	16,040	17,510	*(8.4)*	13,490	*18.9*	78,478	106,147
EBITDA (INR mn)	10,840	11,970	*(9.4)*	8,890	*21.9*	54,296	73,296
Net profit (INR mn)	10,790	11,440	*(5.7)*	7,940	*35.9*	46,732	59,063
EPS basic (INR)	18.9	20.3	*(7.1)*	14.5	*30.5*	81.6	102.4
P/E (x)						23.7	18.8
EV/EBITDA (x)						18.6	13.3
Market cap / Revenue (x)						6.4	4.8

- We are retaining our earlier FY08E EPS of ~INR 81, believing that the company while downgrading its own FY08E EPS INR forecasts has left itself some room to outperform. Our FY09E INR EPS is revised downwards by 5% to factor in the latest INR-USD equation to INR 102.4 (earlier INR 108).

- At CMP of INR 1930, the stock trades at 23-24x FY08E and in our view is a reasonable entry point for a 15-20% upside in 6-12 months as we move forward to FY09E. Our strong assumption is that there is no room for the INR to appreciate further against the USD and in fact it could slightly depreciate from current levels.

- The market is likely to expect Infosys to deliver above-guidance performance in Q2 and Q3 (which historically have been strong quarters, both for the company as well as the stock). Much will depend on the direction of the INR vis-à-vis the USD and we believe the stock price will more likely track that in seeking triggers rather than business performance in the immediate term (3-6 months).

Reiterating our "back-to-growth" outlook while assessing risk

We believe that Infosys has a strong business model to withstand the impact of an appreciating INR and can draw on multiple levers to offset at current levels of INR-USD 40.5. EPS growth is likely to be back on track in FY09E, assuming a scenario of a stable-to-slightly depreciating INR against the USD.

Our current FY08E and FY09E EPS stand at INR 81.6 and INR 102.4, respectively. At CMP of INR 1,930 the stock trades at a P/E of 23.7x and 18.8x on our FY08E and FY09E earnings, respectively. We believe that the stock while struggling for near-term business-related triggers is capable of returning 15-20% over 6-12 months through the course of the fiscal when we expect the company to outshine its FY08 USD growth guidance of 29-31%. The primary risk to our call is the strengthening INR vis-à-vis the USD. We have quantified this risk in Table 1 which highlights the sensitivity of our FY08 and FY09 EPS estimates to various INR-USD exchange rate scenarios. We have modelled in the natural hedges arising from dollar-denominated expenses and provisionally assumed the cushioning impact of forex income (from hedging) in a strengthening INR environment (versus the USD).

Table 1: Assessing downside scenarios to the strengthening INR

	INR to USD equation scenario						
	42.0	41.5	41.0	40.5	40.0	39.5	39.0
EPS (08E)	84.4	82.8	81.6	80.4	79.5	78.3	77.4
% deviation from base case	*3.5*	*1.5*	-	*(1.4)*	*(2.5)*	*(4.0)*	*(5.2)*
EPS (09E)	106.5	104.4	102.4	101.1	99.9	98.8	97.6
% deviation from base case	*4.0*	*2.0*	-	*(1.2)*	*(2.4)*	*(3.5)*	*(4.7)*

Source: Edelweiss research

Guidance

Infosys has marginally upped revenue growth in FY08 to 29-31% (earlier 28-30%) in USD terms and 16.9-18.3% in INR terms (earlier 22.6-24.6%). In INR terms, FY08 EPS growth guidance is now 25.7-26.8% in USD terms and 13.0-14.1% in INR terms. We believe that the 3% downward revision in FY08 is modest, expected and is in keeping with the conservatism of Infosys. The company has assumed an average exchange rate of INR 40.58 to the USD in the rest of FY08 for guidance.

Meeting Q1FY08 EPS guidance: Only a palliative

Infosys has beaten its own Q1FY08 EPS guidance of INR 17.54 by posting INR 18.9. We had estimated it to fall short at INR 17.1. But the EPS (INR) for Q1FY08E includes the beneficial impact of tax write-back of INR 510 mn (EPS contribution of INR 0.9) and net hedging income of INR 680 mn (EPS contribution of INR 1.2). The core operating margins (EBITDA) at 28.7% showed a meaningful decline with respect to Q4FY07 (31.7%) which factors in the: (a) one-time visa expenses; and (b) salary revisions effective April. Operating margins going forward will trend upwards through the quarters of FY08E normalizing for these elements.

Analysis of Q1FY08 results

We lay out the emerging incremental positives and negatives that in our view are accruing to the business and valuations post Q1FY08 in table 2.

Table 2: On balance, a healthy picture is emerging post Q1FY08E

Positives	Negatives
+ Revenue outperformance likely in USD terms	- Volume growth in Q1FY08 marginally short of expectations
+ Business model capturing increasing walletshare	- Sustainable levers for maintaining margins remain confined to superior pricing
+ Client mining metrics continually improving	- Better utilization can work in the immediate term only
+ Performance of consulting markedly improving with beneficial downstream impact	- BPO business shows greater vulnerability to the appreciating INR relatively lacking natural hedges
+ Europe providing additional growth and currency lever	

Source: Edelweiss research

We explore each of them as follows:

Positives

- Revenue outperformance likely in FY08

  Infosys has outperformed its revenue guidance (USD) in growth terms registering 7.5% growth versus its guidance of about 5%. We had estimated 7.7% and thus believe that Infosys is on track to deliver USD revenue growth of 35-36% in FY08E. We recognize two explicit factors that underlie Infosys's conservatism:

  - Conservative pricing assumptions

    Infosys indicated that it has assumed the average pricing levels as realized in Q1FY08E through the rest of FY08 throughout FY08 in delivering its guidance. In our view, this is conservative given that Infosys has managed to realize pricing gains sequentially over the five quarters through FY07 (CQGR of 1.5% onsite, 1.1% offshore). Pricing gains flow through to the operating profit line more than volume gains.

  - Contribution from "big deals" not factored in

    Infosys is currently pursuing over a dozen mega deals of over USD 50 mn. It has not factored in off-take from any of them in its FY08 outlook even as the company won three such deals in Q1FY08.

  - Hiring more versus earlier indication

    Management confidence in business traction continues to be strong. Infosys has in fact raised its outlook for hires (gross additions) in the coming fiscal increasing its employee hiring (numbers) indication by 1,500 people to 25,500.

- **Business model capturing increasing wallet share**

  Infosys is continually raising the scale and scope of engagement with its clients. It has an active portfolio management strategy that is encompassing value-added services such as consulting, business transformation, business process modelling and re-engineering, package implementation, which is gaining currency with clients. In fact, about two-thirds of the incremental business over the past four quarters has come from outside the traditional application development, maintenance, re-engineering and products. This contributes to raising profile and mindshare with customers and the latter translates into market share.

- **Client mining metrics continually improving**

  Even as the company grows in size, the number of new clients bagged has not markedly increased in the recent past (see table 3). This is indicative of two factors:

  - Infosys is selective in choosing to work with new clients and is increasingly signing them up only after gauging their potential from a long-term strategic perspective.
  - Infosys is consistently raising its penetration within its client base and client mining. Its net client base has grown only 6.7% over the past 12 quarters (annualized), while revenues/client have grown 33% over the same period (annualized).

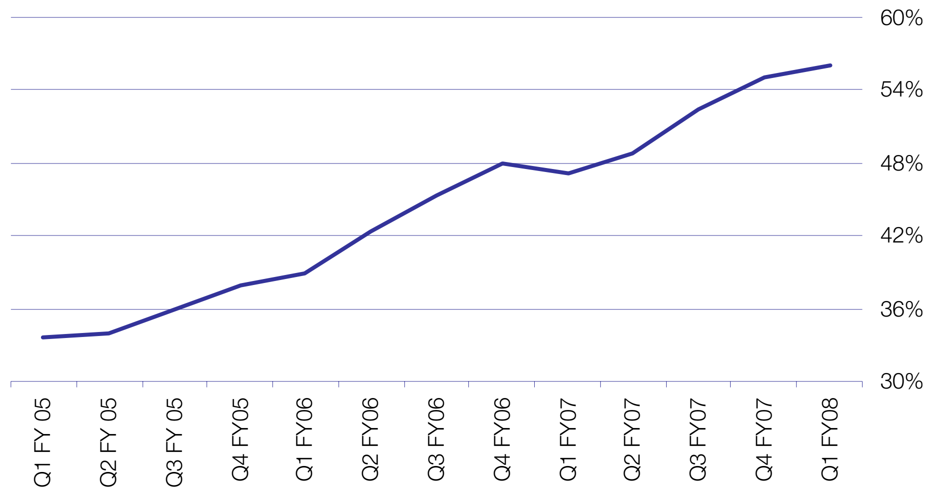
Table 3: Infosys is measured and selective in its new client addition through the recent past

	Q1FY06	Q2FY06	Q3FY06	Q4 FY06	Q1 FY07	Q2FY07	Q3FY07	Q4 FY07	Q1 FY08
New client addition	36	34	36	38	38	45	43	34	35
Active client base	443	450	454	460	469	476	488	500	509

Source: Company

Notably, the proportion of significant clients of the overall client base is increasing over time (chart 1). Also, we note, Infosys is increasingly demonstrating the ability to grow clients from one revenue milestone to another. This is evident from the fact that currently 67% of the USD 5 mn plus clients are also USD 10 mn plus clients (compared to 50% in Q1FY05). In the trailing four quarters, Infosys's top account contributed over USD 250 mn (may not be the same client all through), yet contributed only about 7% of total revenues. Currently, the company has three clients which contribute over USD 100 mn of revenue in a year. Also, Infosys now has 285 clients which contribute USD 1 mn plus revenues of the active total client base of 509. The proportion of USD 1 mn clients to the total client base has gone up substantially and continually over the years as is evident from the chart 1 below. We believe that several clients are on the threshold of inflection points, particularly in the USD 1mn – 5mn revenue category, which can potentially exhibit significant take-off. Also, Infosys has indicated that currently it is simultaneously pursuing about 10-12 deals of over USD 50 mn.

Chart 1: USD 1 mn plus clients as a proportion of total client base



Source: Company, Edelweiss research

- Performance of consulting markedly improving

  Consulting, at 4.6% of revenues in Q1FY08, is still small but has grown by 22% Q-o-Q. Growth in pure consulting has multiple concomitant benefits as well:

  - The SG&A associated with consulting stabilizes as this practice recoups investment made in its development.
  - Downstream impact in bringing in business such as transformation.
  - Increasing ability to package enterprise solutions (package implementation) with consulting that serves as a more frequent entry point for the consulting business.
  - The improving profitability of the consulting business could potentially contribute about 30-40bps (in operating margin) during FY08. But the longer-term value proposition here is to build mindshare with clients at the highest levels.

- Europe providing additional growth and currency lever

  Infosys's revenue contribution from Europe has increased by 47% CAGR over the past two years (North America by compassion has grown 39% and rest of the world excluding India at 33%). Europe is growing as Infosys is realizing traction for its traditional outsourcing services while in the US, Infosys is witnessing relatively more demand for engagements that involve consulting cum transformation. Growing contribution from Europe is important as it incrementally provides a currency lever against a scenario of an appreciating INR vis-à-vis the USD.

Negatives

- Volume growth slightly short of expectations

  While the company reported 6.9% volume growth, we had expected the number to be above 7.5%. On the positive side, this is significantly higher than the relatively tepid 3.6% in Q4FY07 and we believe this will be back on track from Q2FY07 onwards towards the trailing four quarter average of 8%.

- Pricing remains the only enduring lever to maintain margins

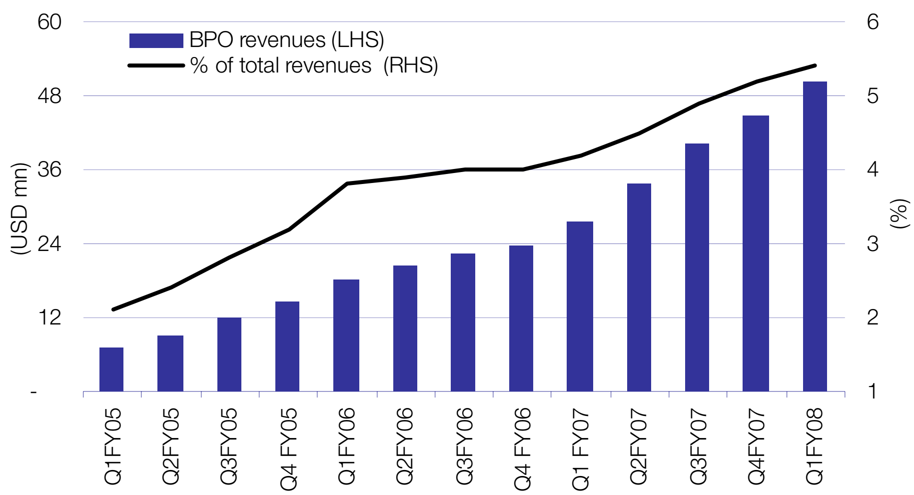
  Infosys's ability to maintain margins in the future in an environment of escalating costs and transient advantages of economies of scale will depend on its ability to raise pricing over the longer term. The long-term indications are positive as we believe that Infosys is migrating towards higher-value services while also beginning to make moves to deliver more basic services (such as application maintenance/development/re-engineering) through productized modules that lighten dependence on people intensity. Improved utilization can provide a temporary buffer against business-related and exogenous factors as we believe that the company will look to maintain utilization of between 76% and 78% (excluding trainees) as a long-term average in the interest of being ready to capitalize on opportunities on the horizon. Utilization rates of near 80%, likely in FY08, are temporary.

- BPO, though a stellar performer, is a drag in the current appreciating currency environment

The revenue composition in this division is increasingly value-added on the back of penetration in finance and accounting and knowledge services (for e.g., financial research covering equity and fixed income). Infosys's BPO business, with a limited operating history, has already achieved meaningful size. Its revenue contribution was USD 169 mn in the previous four quarters, which increased to USD 50.1 mn during the current quarter and the revenue was up 11.7% Q-o-Q and 81% Y-o-Y (see chart 2).

Net profit margins for Infosys BPO stood at about 14-15%, for the quarter, steeply down from 23% in the previous quarter. This decline stemmed from the lack of natural hedge (USD denominated expenses) against the appreciating INR vis-à-vis the USD. We expect this business to continue to grow sequentially over 10% CQGR through FY08. Assuming a stable-to-slightly depreciating INR going forward, we expect that the worst in the BPO business has already been absorbed in Q1FY08.

Chart 2: BPO growth through the quarters

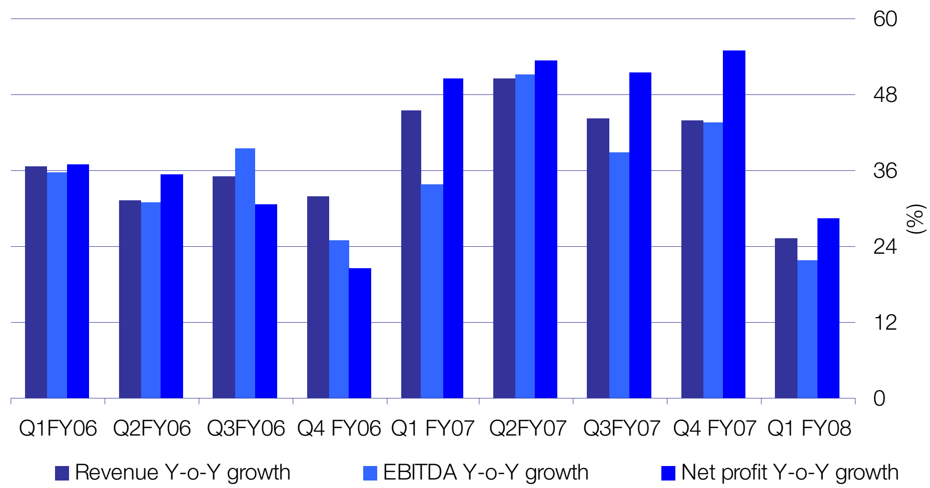


Source: Company, Edelweiss research

Net result: The positives outweigh the negatives

Currency woes, an exogenous factor, have taken a toll on Infosys's operating performance (see chart 3). We believe the company is close to the bottom and growth rates in Q2FY0E are likely to be healthier by comparison. The company can offset 40-50% of the currency impact through hedges (USD 925 mn is the hedged position as against USD 470 mn in Q4FY07 marked-to-market). Business momentum is strong, profile of services is improving, penetration of clients is deepening and levers to effect productivity improvements and extract cost-efficiencies exist. The theme of outsourcing taking centre stage and offshoring growing in adoption is an ever-strengthening one and Infosys, as a leading vendor in the offshore world, will continue to benefit from the same. We believe that setbacks such as the INR appreciation should be regarded as mere hiccups on the way to Infosys continuing to chart a strong growth path. That said, we believe that near-term triggers for the stock are more likely to be aligned to the volatile exchange rate scenario while we wait for business triggers to set in through better-than-guided operating performance in Q2, Q3, and Q4 of FY08.

Chart 3: Y-o-Y growth rates have sunk to their lowest levels in five quarters



Source: Company, Edelweiss research *Adjusted for tax write-backs*

Other details of Q1FY08

- Gross profits stood at INR 16 bn (down 8.4% Q-o-Q and 18.9% Y-o-Y). Gross margins declined by 390bps to 42.5% from 46.4%, bearing the brunt of the INR appreciation of 5% during the quarter (350bps) and the impact of wage hikes (250bps) has been partially offset by better realization (100bps plus) and improved utilization (150bps).
- EBITDA for the quarter stood at INR 10.84 bn, down 9.4% Q-o-Q and 21.9% Y-o-Y. EBITDA margin declined by 300bps on account of gross margin decline. SG&A as percentage of revenues declined to 13.8% of sales as against 14.7% in Q4FY07 (this offset gross margin decline to the extent of 90bps).
- Infosys added gross of 7,004 employees (net 3,370 employees) in the quarter and the total employee count now stands at 75,971. Attrition during the quarter was at 13.7%, same as in the previous quarter.
- Onsite rates went up by 1.5% Q-o-Q and offshore rates were up by 1.0% Q-o-Q. Pricing is on an uptrend and sequential rise has not been assumed for the guidance for the rest of FY08.
- Utilisation rate including trainees remained flat at 71.2% in the current quarter (compared to 67.9 in Q4FY07). This has provided about 150bps cushion to margins in Q1FY08 and can be raised further to provide additional margin comfort.

✻ Valuations

Infosys now has 285 customers billing over a million dollars a year, up 30% from Q1FY07 (221). The company has demonstrated superior mining skills and we expect the million dollar customers, who largely belong to the Fortune 1000 space, to be a potent source of growth.

We believe that Infosys will likely outperform its revenue guidance in FY08 and have factored this in our EPS estimates for FY08. Our EPS estimates for FY08 and FY09 stand at INR 81.6 and INR 102.4, respectively. At CNP of 1,930, the stock trades at a P/E of 23.7x and 18.8x and EV/EBITDA of INR 18.6x and 13.3x our FY08E and FY09E earnings, respectively. We maintain our **'BUY'** recommendation.

Financials snapshot (INR mn)

Year to March	Q1FY08	Q4FY07	*Growth %*	Q1FY07	*Growth %*	FY07	FY08E	FY09E
Total revenues	37,730	37,720	*0.0*	30,150	*25.1*	138,930	173,245	228,765
Software dev expenses	21,690	20,210	*7.3*	16,660	*30.2*	74,580	94,767	122,618
Gross profit	16,040	17,510	*(8.4)*	13,490	*18.9*	64,350	78,478	106,147
Selling & marketing exp	2,050	2,680	*(23.5)*	2,040	*0.5*	9,290	10,394	14,092
General & admin exp	3,150	2,860	*10.1*	2,560	*23.0*	11,150	13,788	18,759
Overhead expenditure	5,200	5,540	*(6.1)*	4,600	*13.0*	20,440	24,182	32,851
EBITDA	10,840	11,970	*(9.4)*	8,890	*21.9*	43,910	54,296	73,296
Depreciation	1,440	1,450	*(0.7)*	1,060	*35.8*	5,140	6,319	8,236
EBIT	9,400	10,520	*(10.6)*	7,830	*20.1*	38,770	47,978	65,061
Other expense	-	(10)		30		20	-	-
Other income	2,530	1,190	*112.6*	1,280	*97.7*	3,720	5,710	4,900
PBT	11,930	11,720	*1.8*	9,080	*31.4*	42,470	53,688	69,961
Tax	1,140	270	*322.2*	1,060	*7.5*	3,860	6,921	10,774
Adjusted net profit	10,790	11,450	*(5.8)*	8,020	*34.5*	38,610	46,767	59,187
Minority Interest	-	(10)	*(100.0)*	(80)		(110)	(35)	(124)
Reported net profit	10,790	11,440	*(5.7)*	7,940	*35.9*	38,500	46,732	59,063
EPS basic (INR)	18.9	20.3	*(7.1)*	14.5	*30.5*	69.2	81.6	102.4
as % of net revenues								
Gross profit	42.5	46.4		44.7		46.3	45.3	46.4
Selling & marketing exp	5.4	7.1		6.8		6.7	6.0	6.2
Admin exp	8.3	7.6		8.5		8.0	8.0	8.2
EBITDA	28.7	31.7		29.5		31.6	31.3	32.0
Adjusted net profit	28.6	30.4		26.6		27.8	27.0	25.9
Reported net profit	28.6	30.3		26.3		27.7	27.0	25.8
Tax rate	9.6	2.3		11.7		9.1	12.9	15.4

Company Description

Infosys is the second-largest IT services company in India providing consulting and IT services to clients globally. It is also among the fastest growing IT services organization in the world and a leader in the offshore services space with a pioneer in Global delivery model. Infosys provides business consulting, application development and maintenance and engineering services to over 509 active clients spread across Banking, Financial Services, Insurance, Retail, Manufacturing, and Utilities verticals and 29 countries. The company has also its own proprietary core banking software - *Finacle* used by some of the leading banks in India, Middle East, Africa and Europe. Infosys also has a BPO arm, Infosys BPO which employs more than 12,000 people. Infosys' IT services employee force stands at 75,971 and the company's revenues for the last twelve months (TTM) stood at INR 146.5 bn (USD 3.4 bn).

Investment Theme

Infosys is known for its excellent project execution skills, which makes it the most preferred tier 1 vendor. With rapidly increasing numbers of service lines and domain capabilities, Infosys has readied itself for multiple possible points of initiating and growing client engagements. The company has also demonstrated its ability to engage with larger client organizations and winning increasing proportion of their wallet share. Infosys' growth over the last three to four years reflect its abilities to benefit from the improving macro environment, as reflected in its above-peer group growth in its offshore revenues, key verticals and service lines.

Key Risks

Key risks to our investment theme include –

- Slowdown in US,
- Significant increase in the salary hikes and attrition rate creating cost pressures
- Reduction in the number of H1B visas granted by US will have an adverse impact and
- Further appreciation of rupee against US dollar, Euro and GBP.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Revenues	71,297	95,216	138,930	173,245	228,765
Software development charges	37,647	50,654	74,580	94,767	122,618
Gross profit	33,650	44,562	64,350	78,478	106,147
Selling & marketing expenses	4,610	6,005	9,290	10,394	14,092
General and administrative exp	5,690	7,639	11,150	13,788	18,759
Operating expenditure	10,300	13,643	20,440	24,182	32,851
EBITDA	23,350	30,918	43,910	54,296	73,296
Depreciation	2,869	4,371	5,140	6,319	8,236
EBIT	20,481	26,547	38,770	47,978	65,061
Total other income	1,239	1,396	3,720	5,710	4,900
Provision for investments	(1)	11	20	-	-
Profit before tax	21,721	27,932	42,470	53,688	69,961
Tax	3,256	3,132	3,860	6,921	10,774
Profit after tax	18,465	24,801	38,610	46,767	59,187
Extraordinary income(loss)	452	-	-	-	-
Minority int. and others	(0)	(202)	(50)	(35)	(124)
Reported PAT	18,917	24,599	38,560	46,732	59,063
Adjusted EPS basic (INR)	35.2	45.1	69.2	81.6	102.4
CEPS (INR)	40.6	53.1	78.5	92.6	116.6
Dividend (%)	115	900	232	500	600
Dividend pay out (%)	19	57	19	34	33

Common size metrics - as % of revenues

Year to March	FY05	FY06	FY07	FY08E	FY09E
Software development charges	52.8	53.2	53.7	54.7	53.6
Gross profit	47.2	46.8	46.3	45.3	46.4
Selling & marketing expenses	6.5	6.3	6.7	6.0	6.2
General and administration exp	8.0	8.0	8.0	8.0	8.2
EBITDA margin	32.8	32.5	31.6	31.3	32.0
EBIT margin	28.7	27.9	27.9	27.7	28.4
PAT margin	26.5	25.8	27.8	27.0	25.8

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Revenues	46.9	33.5	45.9	24.7	32.0
EBITDA	46.5	32.4	42.0	23.7	35.0
EBIT	50.9	29.6	46.0	23.7	35.6
Net income	52.1	30.0	56.8	21.2	26.4
EPS	50.4	27.9	53.7	17.8	25.5

Balance sheet (INR mn)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Equity share capital	1,353	1,380	2,860	2,865	2,885
Share premium account	8,999	15,430	27,680	33,080	43,080
Reserves	41,900	52,850	82,010	112,628	152,220
Total shareholders funds	52,251	69,660	112,550	148,573	198,184
Preference shares issued by subsidiary	935	-	-	-	-
Minority interest	1	680	40	75	199
Sources of fund	53,188	70,340	112,590	148,648	198,384
Gross fixed assets	22,873	29,830	46,420	56,420	68,920
Depreciation	10,308	13,280	18,360	24,679	32,914
Net fixed assets	12,565	16,550	28,060	31,741	36,006
Capital WIP	3,177	5,710	9,650	10,230	9,280
Investments	12,108	7,550	250	400	640
Deferred tax asset	444	650	920	384	384
Cash & bank balances	15,756	34,290	58,710	89,511	130,335
Debtors	13,220	16,080	24,360	27,143	34,060
Loans & advances	10,244	12,970	12,140	15,175	18,969
Total current assets	39,220	63,340	95,210	131,829	183,363
Sundry creditors	6,560	9,340	14,690	17,628	21,154
Provisions	7,765	14,120	6,810	8,308	10,136
Total current liabilities	14,326	23,460	21,500	25,936	31,290
Working capital	24,895	39,880	73,710	105,893	152,074
Application of funds	53,188	70,340	112,590	148,648	198,384
Book value per share (BV) (INR)	95	122	202	259	344

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Cash flow from operations	21,459	27,201	45,280	58,058	72,776
Cash for working capital	(7,745)	(3,820)	(10,180)	(5,818)	(10,710)
Net operating cashflow(A)	13,713	23,381	35,100	52,240	62,065
Net purchase of fixed assets	(8,298)	(10,890)	(14,960)	(10,580)	(11,550)
Net purchase of investments	(2,200)	4,550	7,460	(150)	(240)
Others	1,141	2,110	3,150	-	-
Cash flow from investments(B)	(9,357)	(4,230)	(10,950)	(10,730)	(11,790)
Dividends	(10,206)	(4,030)	(15,320)	(16,114)	(19,471)
Proceeds from issue of equity	4,408	6,460	12,160	5,405	10,020
Cash flow from financing (C)	(5,798)	2,430	(3,160)	(10,709)	(9,451)
Exchange rate differences (D)	40	90	(70)	-	-
Change in cash(A+B+C) + (D)	(1,401)	21,671	20,920	30,801	40,824

Ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
ROE (%)	43.7	40.0	42.3	35.8	34.1
ROCE (%)	43.7	39.8	42.2	35.8	34.0
Debtor days	67.7	61.6	64.0	57.2	54.3
Fixed asset T/0	7.1	6.7	7.3	7.2	8.2

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
Adjusted EPS (INR)	35.2	45.1	69.2	81.6	102.4
Y-o-Y growth (%)	*50.4*	*27.9*	*53.7*	*17.8*	*25.5*
BVPS (INR)	94.8	122.0	202.1	259.3	343.5
PER (x)	54.8	42.8	27.9	23.7	18.8
Pr/CF (x)	50.6	38.0	25.2	20.8	16.4
P/BV (x)	21.1	15.8	9.8	7.4	5.6
EV/EBITDA (x)	46.1	34.3	23.8	18.6	13.3
EV/Revenues (x)	15.1	11.1	7.5	5.8	4.2
Market cap/Revenues (x)	15.5	11.6	7.9	6.4	4.8

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Naresh Kothari – 2286 4246	Co-Head, Institutional Equities
Vikas Khemani – 2286 4206	Co-Head, Institutional Equities

INDIA RESEARCH			SECTOR
Shriram Iyer	-	2286 4256	Head – Research
Gautam Roy	-	2286 4305	Airlines, Textile
Ashutosh Goel	-	2286 4287	Automobiles, Auto Components
Vishal Goyal, CFA	-	2286 4370	Banking & Finance
Revathi Myneni	-	2286 4413	Cement
Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps
Priyanko Panja	-	2286 4300	Infrastructure, Engineering, Telecom
Parul Inamdar	-	2286 4355	Information Technology
Priyank Singhal	-	2286 4302	Media, Retail, FMCG
Prakash Kapadia	-	4097 9843	Mid Caps
Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals
Manika Premsingh	-	4019 4847	Economist
Sunil Jain	-	2286 4308	Alternative & Quantitative
Yogesh Radke	-	2286 4328	Alternative & Quantitative

INSTITUTIONAL SALES		
Nischal Maheshwari	-	2286 4205
Rajesh Makharia	-	2286 4202
Vikrant Oak	-	4019 4712
Abhijit Chakraborty	-	4019 4823
Balakumar V	-	(044) 4263 8283
Ashish Agrawal	-	2286 4301
Nikhil Garg	-	2286 4282
Swati Khemani	-	2286 4266
Neha Shahra	-	2286 4276
Priya Ramchandran	-	2286 4389
Anubhav Kanodia	-	2286 4361
Tushar Mahajan	-	2286 4439
Harsh Biyani	-	2286 4419
Nirmal Ajmera	-	2286 4258
Ankit Doshi	-	2286 4671
Dipesh Shah	-	2286 4434

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period