



Infosys Technologies

STOCK INFO. BSE SENSEX: 14,911	BLOOMBERG INFO IN	11 July 2007	Buy
S&P CNX: 4,387	REUTERS CODE INFY.BO		
Equity Shares (m)	563.5	Previous Recommendation: Buy	
52-Week Range	2,439/1,532	Rs1,930	
1,6,12 Rel. Perf. (%)	-1/-20/-14		
M.Cap. (Rs b)	1,087.5		
M.Cap. (US\$ b)	27.0		

* 1:1 bonus in FY07, accordingly ratios are adjusted, PAT figures are adjusted PAT

- FY08 guidance revised by just 1%:** Infosys revised its dollar revenue guidance for FY08 marginally upward to 29-31% from its earlier guidance of 28-30%. Rupee sales growth guidance has been downgraded to 16.9-18.3% from 22.6-24.6%, as the company has assumed a lower Rs/US\$ rate of 40.58. EPS guidance has been revised to Rs78.2-79 from Rs80.29-81.58. FY08 dollar sales guidance implies a CQGR of 5.8%, which seems low on the back of a strong 7.6% QoQ growth in 1QFY08.
- 1QFY08 EBITDA in-line; PAT boosted by higher other income and tax reversal:** Dollar revenues of US\$929m are higher than the upper end of the guidance of US\$908m but are lower than our estimate of US\$932m. EBITDA margins were down 300bp to 28.7%. High yield on investments and forex gains pushed other income to Rs2.53b v/s our estimate of Rs1.75b. The quarter also saw a tax reversal of Rs510m. Decline in net profit at 5.7% QoQ was, therefore, lower than expected (14.5%).
- Outlook and view:** While 1QFY08 results were boosted by high other income, the marginal upgrade in guidance has been disappointing. We are downgrading our EPS estimates for FY08 and FY09 by 2.3% and 1%, respectively to factor in the higher rupee appreciation. On our revised EPS estimates of Rs80.9 and Rs98.6, the stock trades at a P/E of 23.8x FY08E and 19.6x FY09E. We remain positive on the business prospects for Infosys and believe that it is best placed to tackle supply side pressures as well as rupee appreciation in a robust demand environment. We maintain **Buy**.

Y/E MARCH	(Rs Million)									
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	30,150	34,510	36,550	37,720	37,730	41,408	45,004	48,019	138,930	172,162
Q-o-Q Change (%)	14.9	14.5	5.9	3.2	0.0	9.7	8.7	6.7	45.9	23.9
Direct Expenses	16,660	18,330	19,380	20,210	21,690	23,178	24,808	26,214	74,580	95,890
Sales, General & Admin. Expenses	4,600	5,090	5,210	5,540	5,200	5,756	6,323	6,699	20,440	23,978
Operating Profit	8,890	11,090	11,960	11,970	10,840	12,474	13,873	15,107	43,910	52,294
Margins (%)	29.5	32.1	32.7	31.7	28.7	30.1	30.8	31.5	31.6	30.4
Other Income	1,250	660	590	1,200	2,530	1,621	1,171	1,182	3,700	6,504
Depreciation	1,060	1,220	1,410	1,450	1,440	1,574	1,710	1,825	5,140	6,548
PBT bef. Extra-ordinary	9,080	10,530	11,140	11,720	11,930	12,521	13,334	14,464	42,470	52,250
Provision for Tax	1,060	1,230	1,300	1,520	1,650	1,615	1,667	1,808	5,110	6,740
Rate (%)	11.7	11.7	11.7	13.0	13.8	12.9	12.5	12.5	12.0	12.9
PAT bef. Minority	8,020	9,300	9,840	10,200	10,280	10,906	11,668	12,656	37,360	45,510
Minority Interest	-80	-10	-10	-10	0	0	0	0	-110	-1
PAT before ext-ord	7,940	9,290	9,830	10,190	10,280	10,906	11,667	12,655	37,250	45,508
Extra-ordinary items	60	0	0	1,250	510	0	0	0	1,310	510
PAT aft. Minority and ext-ord	8,000	9,290	9,830	11,440	10,790	10,906	11,667	12,655	38,560	46,018
Q-o-Q Change (%)	18.9	16.1	5.8	16.4	-5.7	1.1	7.0	8.5	56.9	19.3

E: MOST Estimates

FY08 guidance revised by just 1%

Infosys revised its dollar revenue guidance for FY08 marginally upward to 29-31% (US\$4.05b at the higher end of the band) from its earlier guidance of 28-30% (US\$4.02b), lower than street expectations and our estimate of 37.5% growth. Dollar EPS growth guidance has been raised to US\$1.92-1.94 from US\$1.86-1.89, earlier. The company has downgraded its rupee sales growth guidance to 16.9-18.3% from 22.6-24.6%, as it has assumed an exchange rate of Rs40.58/US\$ (further rupee appreciation of 5.8% assumed) against its earlier assumption of Rs43.1/US\$. EPS guidance has been revised to Rs78.2-79 (Rs77.31-78.11 excluding tax reversal of Rs510m) from Rs80.29-81.58. The management has also guided a 100-150bp dip in FY08 EBITDA margin v/s its earlier guidance of maintaining margins within a narrow band of ~50bp.

The guidance assumes flat pricing over 1QFY08 and pricing could be a lever to beat the margin guidance in FY08. In addition, utilization rate improvement (management expects high 70s - low 80s for FY08 v/s 73.9% in 1QFY08), improved profitability in subsidiaries (breakeven in Infosys Consulting and reduction in losses in Infosys China) and SG&A leverage (estimated at 80bp due to better sales productivity and variable compensation) are likely to reduce the pressure due to rupee appreciation in FY08.

The FY08 sales guidance (in dollar terms) implies a CQGR of 5.8% for the rest of FY08, which appears low on the back of a strong 7.6% QoQ growth in 1QFY08. 2QFY08 dollar revenue growth guidance of 4.7-5.8% QoQ also seems low given that 2Q is a seasonally strong quarter for Infosys. This is also contradictory to the management view of strong demand outlook in FY08. The management has increased the recruitment planned in FY08 to 26,000 people from 24,500 people earlier. This should be viewed in conjunction with the planned increase in utilization rates, which suggests high volume growth in FY08.

1QFY08 EBITDA in-line; PAT boosted by higher other income and tax reversal

Dollar revenues of US\$929m are higher than the upper end of the management guidance of US\$908m but are lower than our estimate of US\$932m. However, due to higher than guided rupee appreciation for 1QFY08, Infosys reported flat revenues in rupee terms at Rs37.73b v/s guided sales of Rs38.96-39.13b and our estimate of Rs38.37b. Services volume growth was in line with expectations at 6.9% QoQ. Services saw a blended pricing up-tick of 1% QoQ, driven by an increase of 1.4% in onsite realizations and an increase of 1% in offshore realizations. EBITDA margins for 1QFY08 were down 300bp to 28.7% v/s our estimate of 28.3% due to higher than estimated SG&A leverage. The margin decline should be viewed in the context of 700bp impact due to salary hikes / visa costs and rupee appreciation during the quarter.

EBITDA MARGINS DOWN 300BP IN 1QFY08

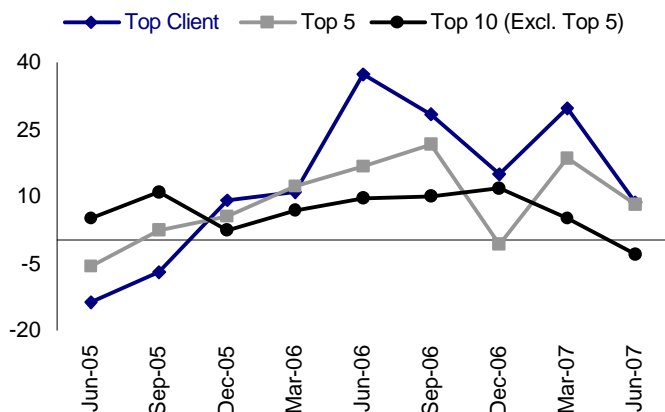
FACTOR	MARGIN IMPACT
Rupee	-350
Salary Hikes	-250
Visa Costs	-100
Utilization Rates	150
Pricing	100
Subsidiary Profitability & Other	150
Total	-300

Source: Company/Motilal Oswal Securities

High yield on investments (11% v/s 8% in 4QFY07) and forex gains (US\$18m) pushed other income to Rs2.53b v/s our estimate of Rs1.75b. The quarter also saw a tax reversal of Rs510m. Decline in net profit at 5.7% QoQ was, therefore, lower than expected (14.5%). The company reported net profit of Rs10.79b v/s our expectation of Rs9.78b.

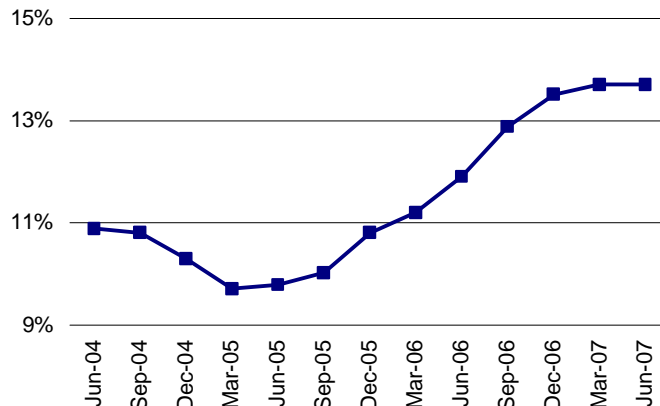
Top-5 clients grew strongly at 8.1% QoQ, while top 6-10 clients declined 3.1% QoQ due to client churn during the quarter. Other operational metrics were healthy, with strong growth across major verticals and service lines. Account mining also improved, with the number of US\$80m clients doubling to 8 from 4 in the previous quarter.

TOP-5 CLIENTS TURN IN ROBUST PERFORMANCE



Source: Company/Motilal Oswal Securities

ATTRITION LEVELS HOLD STEADY DURING 1QFY08



Source: Company/Motilal Oswal Securities

CLIENT MINING CONTINUES TO BE IMPRESSIVE

CLIENT MIX	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07
Clients> US\$1m	221	232	256	275	285
Clients> US\$5m	94	97	108	107	113
Clients> US\$10m	56	61	67	71	75
Clients> US\$20m	28	29	35	36	40
Clients> US\$30m	19	20	22	25	26
Clients> US\$40m	15	16	17	16	18
Clients> US\$50m	11	12	11	12	13
Clients> US\$60m	7	8	10	11	11
Clients> US\$70m	3	6	8	9	9
Clients> US\$80m	3	3	4	4	8
Clients> US\$90m	2	3	2	4	4
Clients> US\$100m	2	2	2	3	3
Clients> US\$200m	0	0	0	1	1

Source: Company/Motilal Oswal Securities

CORE IT SERVICES PICK UP PACE, NEW SERVICE LINES CONTINUE MOMENTUM

	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07
Core IT	367	406	439	456	488
Change (%)	8.3	10.7	8.1	3.8	7.0
New Service Lines *	197	238	272	304	336
Change (%)	11.2	20.5	14.3	11.8	10.6

* Consulting, Package Implementation, BPO, Testing

Outlook and view

While 1QFY08 results were boosted by high other income, the marginal upgrade in guidance has been disappointing. We do not foresee any slowdown in demand in FY08. However, we are downgrading our EPS estimates for FY08 and FY09 by 2.3% and 1%, respectively to factor in the higher rupee appreciation. On our revised EPS estimates of Rs80.9 and Rs98.6, the stock trades at a P/E of 23.8x FY08E and 19.6x FY09E. We remain positive on the business prospects for Infosys and believe that it is best placed to tackle supply side pressures as well as rupee appreciation in a robust demand environment. We maintain **Buy**.

Infosys Technologies: an investment profile

Company description

Infosys is the second largest IT company in India with revenues of more than US\$3b and employing over 75,000 people. It provides IT / ITES services to over 500 clients and is a preferred vendor for a majority of the Fortune 500/ Global 1000 companies. Its top clients include BT, DHL, Telstra, American Express, Goldman Sachs, Cisco, Fidelity, and Bank of America.

Key investment arguments

- ✍ Excellent project execution skills make it a preferred vendor for most clients.
- ✍ Differentiates itself by innovating offshore delivery of services in various forms.
- ✍ Sustained competitive advantage enables it to maintain leadership position.

Key investment risks

- ✍ Weak R&D services and infrastructure management services practice could result in losing out on large outsourcing deals.
- ✍ Higher mix of freshers in overall employee base could impact quality of services.

Recent developments

- ✍ Ranked top ADM service provider in terms of Delivery Model, Industry Focus, Schedule Compliance, and Agility in a client survey conducted by Performance Monitor LLC, a provider of fact-based research and advisory focused on monitoring the field performance of professional services firms.
- ✍ Became the first Indian company to enter the NASDAQ-100 Index on 9 December 2006.

Valuation and view

- ✍ CAGR of 26% and 23% in revenue and profit respectively, over FY07-FY09E.
- ✍ Valuations at 19.6x FY09E still offer room for upside
- ✍ We maintain **Buy** with a price target of Rs2,465.

Sector view

- ✍ Various CIO surveys indicate increasing share of offshore spending in IT budgets. Any slowdown in the US economy could impact discretionary spending.
- ✍ Sharp rupee appreciation continues to be cause for concern over the near term.
- ✍ We prefer large companies, as bulk of volumes are going to them; niche players are benefiting due to lack of offshore competition.

COMPARATIVE VALUATIONS

		INFOSYS	TCS	WIPRO
P/E (x)	FY08E	23.8	22.3	20.9
	FY09E	19.6	18.2	17.8
P/BV (x)	FY08E	7.3	9.0	5.8
	FY09E	5.6	6.7	4.5
EV/Sales (x)	FY08E	5.8	4.5	3.5
	FY09E	4.3	3.5	2.7
EV/EBITDA (x)	FY08E	19.1	17.0	16.3
	FY09E	14.5	13.4	12.7

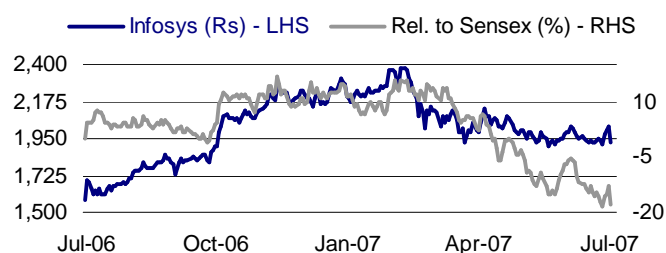
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	80.9	83.4	-3.0
FY09	98.6	105.6	-6.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,930	2,465	27.7	Buy

STOCK PERFORMANCE (1 YEAR)



SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	16.5	16.9	19.5
Domestic Inst	6.3	6.4	6.5
Foreign	54.9	56.5	56.4
Others	22.3	20.2	17.7

INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Sales	71,296	95,216	138,930	172,162	221,895
Change (%)	49.8	33.5	45.9	23.9	28.9
Software Develop. Exp.	37,647	50,654	74,580	95,890	125,818
Selling and Mktg. Exp.	4,610	6,005	9,290	10,009	13,366
Administration Exp.	5,690	7,639	11,150	13,968	16,309
EBITDA	23,350	30,918	43,910	52,294	66,402
% of Net Sales	32.8	32.5	31.6	30.4	29.9
Depreciation	2,869	4,371	5,140	6,548	8,543
Other Income	1,239	1,396	3,700	6,504	7,225
PBT	21,720	27,943	42,470	52,250	65,084
Tax	3,256	3,132	5,110	6,740	8,461
Rate (%)	15.0	11.2	12.0	12.9	13.0
Minority Interest		210	110	1	2
Adjusted PAT	18,464	24,601	37,250	45,508	56,620
Extraordinary Items	-452	18	-1,310	-510	0
Reported PAT	18,916	24,583	38,560	46,018	56,620
Change (%)	51.0	30.0	56.9	19.3	23.0

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	1,353	1,380	2,860	2,868	2,874
Share Premium	8,999	15,430	27,680	28,669	29,362
Reserves	41,900	52,850	82,010	118,875	164,234
Net Worth	52,251	69,660	112,550	150,413	196,470
Preference Capital	935	0	0	0	0
Minority Interest	0	680	40	41	44
Loans	0	0	0	0	0
Capital Employed	53,188	70,340	112,590	150,454	196,513
Gross Block	22,873	29,830	46,420	64,420	84,420
Less : Depreciation	10,308	13,280	18,360	24,908	33,451
Net Block	12,565	16,550	28,060	39,512	50,969
CWIP	3,177	5,710	9,650	7,000	5,000
Investments	12,108	7,550	250	10,000	15,000
Curr. Assets	39,664	63,990	96,130	125,120	177,364
Debtors	13,220	16,080	24,360	27,996	40,700
Cash & Bank Balance	15,756	34,290	58,710	68,326	100,934
Loans & Advances	10,244	12,970	12,140	25,736	29,738
Other Current Assets	444	650	920	3,062	5,991
Current Liab. & Prov	14,326	23,460	21,500	31,176	51,818
Creditors	5,354	7,320	11,540	11,572	18,217
Other liabilities	1,207	2,020	3,150	2,876	4,003
Provisions	7,766	14,120	6,810	16,729	29,599
Net Current Assets	25,338	40,530	74,630	93,944	125,546
Application of Funds	53,187	70,340	112,590	150,455	196,514

E: M0St Estimates

RATIOS *					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	34.5	44.6	68.4	80.9	98.6
Cash EPS	40.7	52.5	77.5	92.5	113.5
Book Value	97.6	126.4	199.7	264.5	342.2
DPS	6.4	22.5	11.5	13.8	16.8
Payout %(Incl.Div.Taxes)	20.6	57.4	19.5	19.9	19.9
Valuation (x)					
P/E		43.2	28.2	23.8	19.6
Cash P/E		36.7	24.9	20.9	17.0
EV/EBITDA		33.5	23.2	19.1	14.5
EV/Sales		10.9	7.3	5.8	4.3
Price/Book Value		15.3	9.7	7.3	5.6
Dividend Yield (%)		1.2	0.6	0.7	0.9
Profitability Ratios (%)					
RoE	44.6	40.3	42.3	35.0	32.6
RoCE	50.2	45.2	46.4	39.7	37.5
Turnover Ratios					
Debtors (Days)	68	62	64	59	67
Fixed Asset Turnover (x)	3.1	3.2	3.0	2.7	2.6
Leverage Ratio (x)					
Debt/Equity Ratio(x)	0.0	0.0	0.0	0.0	0.0

* 1:1 bonus in FY07, accordingly ratios are adjusted

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
CF from Operations	23,450	30,190	44,370	47,697	60,870
Cash for Working Capital	-9,755	-9,856	-5,840	-12,151	-2,976
Net Operating CF	13,696	20,334	38,530	35,546	57,894
Net Purchase of FA	-8,298	-10,890	-14,960	-15,350	-18,000
Net Purchase of Invest.	-1,059	6,660	4,010	-3,246	2,225
Net Cash from Invest.	-9,357	-4,230	-10,950	-18,596	-15,775
Proceeds from Equity & other	4,408	6,460	12,160	998	698
Proceeds from LTB/STB	0	0	0	0	0
Dividend Payments	-10,206	-4,030	-15,320	-8,332	-10,207
Cash Flow from Fin.	-5,798	2,430	-3,160	-7,334	-9,509
Free Cash Flow	21,187	605	23,241	12,560	29,153
Net Cash Flow	-1,459	18,534	24,420	9,616	32,609
Opening Cash Balance	17,215	15,756	34,290	58,710	68,326
Add: Net Cash	-1,459	18,534	24,420	9,616	32,609
Closing Cash Balance	15,756	34,290	58,710	68,326	100,935



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Disclosure of Interest Statement	Infosys Technologies
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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