

October 9, 2009

Rating	Accumulate
Price	Rs2,178
Target Price	Rs2,400
Implied Upside	10.0%
Sensex	16,643

(Prices as on October 9, 2009)

### Trading Data

Market Cap. (Rs bn)	1,248.6
Shares o/s (m)	572.5
Free Float	83.5%
3M Avg. Daily Vol ('000)	182.8
3M Avg. Daily Value (Rs m)	374.1

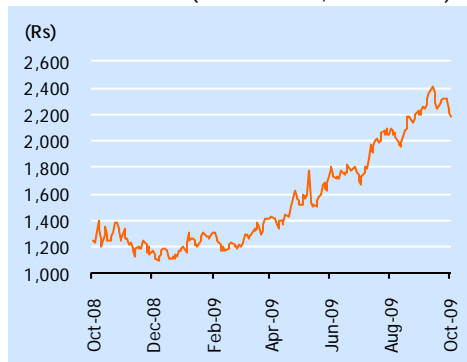
### Major Shareholders

Promoters	16.5%
Foreign	36.1%
Domestic Inst.	26.5%
Public & Others	20.9%

### Stock Performance

(%)	1M	6M	12M
Absolute	(0.7)	52.7	73.7
Relative	(3.5)	(1.3)	26.8

### Price Performance (RIC: INFY.BO, BB: INFO IN)



Source: Bloomberg

Infosys reported better-than-expected Q2FY10 results beating their top end of the guidance and our estimate. Due to improved business environment and earning visibility, we upgrade Infosys to Accumulate with a price target of Rs2400.

- Infosys Q2FY10 results - ahead of our expectation:** Infosys revenue grew by 2.1% QoQ to Rs55.9bn for Q1FY10 (guidance of Rs53.7bn) in Indian rupee term, whereas revenue grew by 2.9% QoQ to US\$1,154m (guidance of USD1,120mn) in US\$ terms. The company reported an EBITDA margin expansion of 47bp QoQ to 34.6% due to currency tailwind of 1.5% QoQ on blended basis, 40bp increase in offshore-mix and 30bp improvement in utilization. EPS grew by 0.9% QoQ to Rs26.86.
- Pricing improvement, salary hike, and lateral hiring - indicating improved environment:** Infosys guided for margin erosion of 200bp in H2FY10 due to offshore salary hike of 8% and onsite of 2%. The company continued its sales and marketing efforts and we believe that it would improve the revenue visibility. Pricing improved by 0.4% QoQ on blended basis. We believe that salary hike, up-tick in pricing and lateral hiring is an indication of improved business improvement.
- Outlook - conservative and cautious:** The Company has revised its rupee revenue guidance upward to growth 1.5% YoY to Rs220.1bn (upward revision of 2%) and revised USD revenue guidance to de-growth of 1.1% (an upward revision of 2.8%). Infosys guided for EPS of Rs99.8, de-growth of 4.7% YoY largely on account of higher employee cost and currency appreciation. We believe that guidance provides lots of cushion for upward revision as it factors flat next two quarters despite better than expected Q2FY10 and improved visibility.
- Valuations and Recommendation:** We upgrade Infosys to Accumulate with a price target of Rs 2400, a target PE of 19x FY11E. We believe that in the current environment which remains cautious, clients continue to look for opportunities to reduce costs, a positive in for off-shoring industry.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	166,920	216,930	221,052	256,145
Growth (%)	20.1	30.0	1.9	15.9
EBITDA (Rs m)	52,380	71,950	72,457	85,412
PAT (Rs m)	46,590	59,880	60,984	72,083
EPS (Rs)	81.3	104.5	106.4	125.7
Growth (%)	20.7	28.5	1.8	18.2
Net DPS (Rs)	14.6	43.5	25.1	25.1

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	31.4	33.2	32.8	33.3
RoE (%)	33.8	32.8	25.8	24.5
RoCE (%)	33.6	35.2	27.1	26.0
EV / sales (x)	7.1	5.3	5.1	4.2
EV / EBITDA (x)	25.4	17.9	17.4	14.0
PE (x)	26.7	20.9	20.5	17.3
P / BV (x)	6.8	5.3	4.2	3.4
Net dividend yield (%)	0.7	2.0	1.2	1.2

Source: Company Data; PL Research

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**Q2FY10 Result Overview: Positive surprise on margin due to currency tail-wind**

(Rs m)

Y/e March	Q2FY10	Q1FY10	QoQ gr. (%)	Q2FY09	YoY gr. (%)	H1FY10	H1FY09	YoY gr. (%)
Total Operating Income (US\$)	1,154	1,122	2.9	1,215	(5.0)	2,276	2,371	(4.0)
Total Operating Income	55,850	54,720	2.1	54,180	3.1	110,570	102,720	7.6
EBITDA	19,330	18,680	3.5	17,940	7.7	38,010	32,730	16.1
<i>EBITDA Margin (%)</i>	<i>34.6</i>	<i>34.1</i>	<i>47.3</i>	<i>33.1</i>	<i>149.9</i>	<i>34.4</i>	<i>31.9</i>	<i>251.3</i>
Pre Tax Income	19,370	19,150	1.1	16,830	15.1	38,520	31,100	23.9
Tax	3,970	3,880	2.3	2,510	58.2	7,850	3,760	108.8
<i>Tax Rate (%)</i>	<i>20.5</i>	<i>20.3</i>		<i>14.9</i>		<i>20.4</i>	<i>12.1</i>	
PAT	15,400	15,270	0.9	14,320	7.5	30,670	27,340	12.2
EPS (Rs)	26.9	26.6	0.9	25.0	7.6	53.50	47.67	12.2

**Conservative guidance - Factoring modest volume growth in Q3FY10E**

Y/e March	Q1FY10	Q2FY10	Q3FY10E	Q4FY10E	FY10E
Revenue (Rs m)	54,720	55,850	54,525	54,985	220,080
<i>QoQ (%) (Guidance)</i>	<i>(2.9)</i>	<i>2.1</i>	<i>(2.4)</i>	<i>0.8</i>	<i>1.5</i>
Revenue (Rs m) PLe	54,720	55,850	55,442	55,039	221,052
<i>QoQ (%) (implied)</i>	<i>(2.9)</i>	<i>2.1</i>	<i>(0.7)</i>	<i>(0.7)</i>	
Revenue (US\$ m)	1,122	1,154	1,160	1,174	4,610
<i>QoQ (%) (Guidance)</i>	<i>0.0</i>	<i>2.9</i>	<i>0.5</i>	<i>1.2</i>	



**NA shows sign of recovery, India and rest of world steady on growth path (Rs m)**

NA, Europe and Rest of World grew 4.6%, -7%, and -4% QoQ at constant currency.

Good traction from NA business but Europe is lagging behind in the recovery, a trend similar to the downturn. Expecting recovery in the UK earlier than rest of Europe

Looking for M&A opportunity in Germany, France or Japan.

By Geography	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
North America	33,321	35,404	36,805	4.0%	10.5%
Europe	15,225	13,516	12,957	-4.1%	-14.9%
India	704	492	670	36.1%	-4.8%
Rest of World	4,930	5,308	5,417	2.1%	9.9%
<b>Total</b>	<b>54,180</b>	<b>54,720</b>	<b>55,850</b>	<b>2.1%</b>	<b>3.1%</b>
<b>as % of Total</b>					
North America	61.5%	64.7%	65.9%	120 bps	440 bps
Europe	28.1%	24.7%	23.2%	-150 bps	-490 bps
India	1.3%	0.9%	1.2%	30 bps	-10 bps
Rest of World	9.1%	9.7%	9.7%	0 bps	60 bps

**Infrastructure management and system integration lead the growth pack (Rs m)**

Traction in System Integration business largely due to M&A activity in BFSI sector.

Looking for M&A opportunity in platform BPO, business platform and government.

By Service Offerings	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
Application Development	11,161	10,561	10,109	-4.3%	-9.4%
Application Maintenance	11,974	12,695	12,678	-0.1%	5.9%
Business Proc. Management	3,251	3,338	3,463	3.7%	6.5%
Consulting and PI	13,708	13,352	13,292	-0.4%	-3.0%
Infrastructure Management	3,197	3,612	4,356	20.6%	36.3%
Product Engg. Services	1,138	1,313	1,285	-2.2%	12.9%
System Integration	1,896	2,079	2,457	18.2%	29.6%
Testing Services	3,793	3,393	3,463	2.1%	-8.7%
Others	2,113	2,189	2,457	12.3%	16.3%
<b>Total (excl. Products)</b>	<b>50,117</b>	<b>50,342</b>	<b>51,103</b>	<b>1.5%</b>	<b>2.0%</b>
Products	1,950	2,189	2,290	4.6%	17.4%
<b>Total</b>	<b>54,180</b>	<b>54,720</b>	<b>55,850</b>	<b>2.1%</b>	<b>3.1%</b>
<b>as % of Total</b>					
Application Development	20.6%	19.3%	18.1%	-120 bps	-250 bps
Application Maintenance	22.1%	23.2%	22.7%	-50 bps	60 bps
Business Process Man	6.0%	6.1%	6.2%	10 bps	20 bps
Consulting and PI	25.3%	24.4%	23.8%	-60 bps	-150 bps
Infrastructure Management	5.9%	6.6%	7.8%	120 bps	190 bps
Product Engg Services	2.1%	2.4%	2.3%	-10 bps	20 bps
System Integration	3.5%	3.8%	4.4%	60 bps	90 bps
Testing Services	7.0%	6.2%	6.2%	0 bps	-80 bps
Others	3.9%	4.0%	4.4%	40 bps	50 bps
<b>Total (excl. Products)</b>	<b>96.4%</b>	<b>96.0%</b>	<b>95.9%</b>	<b>-10 bps</b>	<b>-50 bps</b>
Products	3.6%	4.0%	4.1%	10 bps	50 bps



**Fixed Price projects provide room for margin expansion** (Rs m)

Project Type	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
Fixed Price	18,475	20,848	21,223	1.8%	14.9%
Time & Material	35,705	33,872	34,627	2.2%	-3.0%
<b>Total</b>	<b>54,180</b>	<b>54,720</b>	<b>55,850</b>	<b>2.1%</b>	<b>3.1%</b>
<b>% of Total Revenue</b>					
Fixed Price	34.1%	38.1%	38.0%	-10 bps	390 bps
Time & Material	65.9%	61.9%	62.0%	10 bps	-390 bps

**BFSI and Retail marches ahead whereas telecom continues to lag** (Rs m)

By Segment	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
Financial Services	18,096	18,058	18,710	3.6%	3.4%
Manufacturing	10,890	11,218	10,779	-3.9%	-1.0%
Telecom	10,294	9,248	9,048	-2.2%	-12.1%
Retail	6,556	7,223	7,875	9.0%	20.1%
Others	8,344	8,974	9,439	5.2%	13.1%
<b>Total</b>	<b>54,180</b>	<b>54,720</b>	<b>55,850</b>	<b>2.1%</b>	<b>3.1%</b>
<b>as % of Total</b>					
Financial Services	33.4%	33.0%	33.5%	50 bps	10 bps
Manufacturing	20.1%	20.5%	19.3%	-120 bps	-80 bps
Telecom	19.0%	16.9%	16.2%	-70 bps	-280 bps
Retail	12.1%	13.2%	14.1%	90 bps	200 bps
Others	15.4%	16.4%	16.9%	50 bps	150 bps

*BFSI improvement largely on account of IT requirement for M&A integration, risk-management, and increased regulation.*

*Witnessing good traction in retail from discount retail chain and grocery stores.*

*Looking for M&A opportunity in platform BPO, business platform and government.*



**Business from top client continues to de-grow**

*New client addition includes 7 new clients in BFSI vertical out of which 5 clients because of M&A integration.*

*Won 9 large deals of which 3 vendor consolidation deals and lost 1 in H1FY10.*

*Top 10 clients grew by 3.5% at constant currency.*

*Repeat business from the existing clients grew by 2.1% and bulk of volume growth came from the existing clients.*

Client Concentration	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
<b>Number of Clients</b>					
Active	586	569	571	0.4%	-2.6%
Added during the period	40	27	35	29.6%	-12.5%
Acc. for > 5% of revenue	1	0	0	NA	-100.0%
Net New Clients Added	19	-10	33		
US\$ 50m +	20	19	21	10.5%	5.0%
US\$ 60mn +	16	15	15	0.0%	-6.3%
US\$ 70m +	12	12	11	-8.3%	-8.3%
US\$ 80mn +	12	11	9	-18.2%	-25.0%
US\$ 90m +	8	6	6	0.0%	-25.0%
US\$ 100mn +	5	4	5	25.0%	0.0%
US\$ 200m +	1	1	1	0.0%	0.0%
<b>US\$ mn</b>					
Top client	92	50	53	5.1%	-42.5%
Top 5 clients	226	183	190	4.1%	-15.7%
Top 10 clients	340	289	302	4.4%	-11.1%
Non Top 10	1,215	1,122	1,154	2.9%	-5.0%
<b>Total</b>	<b>1,215</b>	<b>1,122</b>	<b>1,154</b>	<b>2.9%</b>	<b>-5.0%</b>
<i>Top client</i>	<i>7.6%</i>	<i>4.5%</i>	<i>4.6%</i>	<i>-300 bps</i>	<i>-300 bps</i>
<i>Top 5 clients</i>	<i>18.6%</i>	<i>16.3%</i>	<i>16.5%</i>	<i>-210 bps</i>	<i>-210 bps</i>
<i>Top 10 clients</i>	<i>28.0%</i>	<i>25.8%</i>	<i>26.2%</i>	<i>-180 bps</i>	<i>-180 bps</i>
<i>Repeat Business (US\$ m)</i>	<i>99.80%</i>	<i>98.70%</i>	<i>98.00%</i>	<i>-70 bps</i>	<i>-180 bps</i>
Repeat Business	1,212	1,107	1,131	2.1%	-6.7%
New Business	2	15	23	58.2%	850.2%
Account Receivables	59.5	57.0	56.0		
INR/US\$ (Average)	44.60	48.77	48.40	-0.8%	8.5%



**Low utilisation provide room for volume growth and margin improvement**

Utilisation improved marginally including trainees as 6k new campus hire joined. The utilisation including trainees could further decline in the next quarter as more campus hire joined.

The worst of the pricing negotiation is behind. But the effect of pricing cut till the last quarter would have head-wind effect on overall pricing for the next two quarters.

Overall Revenue	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
<b>Revenue (US\$ m)</b>					
- Onsite	641	601	531	-11.7%	-17.2%
- offshore	575	521	623	19.7%	8.3%
<b>Total</b>	<b>1,216</b>	<b>1,122</b>	<b>1,154</b>	<b>2.9%</b>	<b>-5.1%</b>
<b>Revenue</b>					
Onsite	47.3%	46.4%	46.0%	-40 bps	-130 bps
Offshore	52.7%	53.6%	54.0%	40 bps	130 bps
<b>Utilization</b>					
Include Trainees	69.4%	67.0%	67.3%	30 bps	-210 bps
Exclude Trainees	73.7%	70.9%	73.2%	230 bps	-50 bps
<b>Effort - Service (Person months) (Billed)</b>					
- Onsite	46,526	44,458	44,804	0.8%	-3.7%
- offshore	147,547	151,267	153,707	1.6%	4.2%
<b>Total</b>	<b>194,073</b>	<b>195,725</b>	<b>198,511</b>	<b>1.4%</b>	<b>2.3%</b>
<b>Non Billable</b>					
Trainee	16,445	16,085	23,785	47.9%	44.6%
Sales & Support	14,148	17,575	17,253	-1.8%	21.9%
<b>Total</b>	<b>293,933</b>	<b>309,696</b>	<b>312,309</b>	<b>0.8%</b>	<b>6.3%</b>
<b>Pricing</b>					
Onsite	13.77	13.53	11.85	-12.4%	-14.0%
Offshore	3.90	3.44	4.05	17.8%	4.0%
<b>Total</b>	<b>6.27</b>	<b>5.73</b>	<b>5.81</b>	<b>1.4%</b>	<b>-7.2%</b>

**Increasing sales and marketing effort...**

*Lateral hires were a positive surprise to the business. The company has raised their hiring guidance from 18k to 20k of which they expect 2k lateral hiring.*

*The lateral hiring of 2k would be for BPO and Infosys technologies combined. The company is running low on bench strength for BPO business.*

Employee metrics	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
Total employees	100,306	103,905	105,453	1.5%	5.1%
S/W professionals	93,624	96,334	97,594	1.3%	4.2%
- Billable	83,412	88,061	87,798	-0.3%	5.3%
- Banking prod. Grp.	2,093	2,664	2,800	5.1%	33.8%
- Trainees	8,119	5,609	6,996	24.7%	-13.8%
Sales & support	6,682	7,571	7,859	3.8%	17.6%
Gross addition	10,117	3,538	6,069	71.5%	-40.0%
Net addition	5,927	(945)	1,548	-263.8%	-73.9%
Lateral employees	1,736	390	1,064	172.8%	-38.7%
Attrition	12.8%	11.1%	10.9%	-20 bps	-190 bps

**Volume growth contributed by existing clients**

*Pricing declined 1.1% QoQ at constant currency terms. But the volume increase this quarter was a positive surprise. The volume growth was largely due to NA clients in BFSI vertical for System Integration work.*

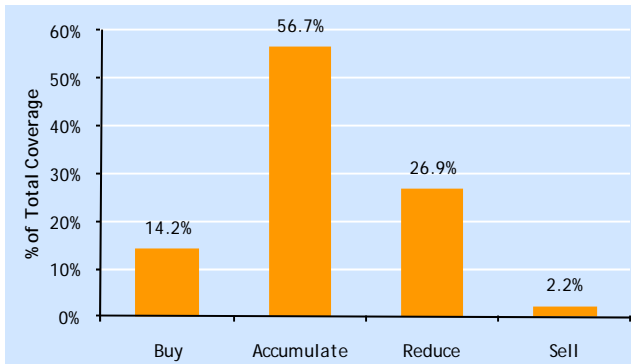
Consolidated IT Services	Q2FY09	Q1FY10	Q2FY10	QoQ	YoY
<b>Efforts- (Person Months)</b>					
Onsite	46,314	44,231	44,435	0.5%	-4.1%
Offshore	104,355	105,730	108,953	3.0%	4.4%
<b>Total</b>	<b>150,669</b>	<b>149,961</b>	<b>153,388</b>	<b>2.3%</b>	<b>1.8%</b>
<b>Revenue (US\$ m)</b>					
Onsite	573	518	527	1.8%	-7.9%
Offshore	528	490	508	3.6%	-3.8%
<b>Total</b>	<b>1,101</b>	<b>1,009</b>	<b>1,036</b>	<b>2.7%</b>	<b>-6.0%</b>
<b>Pricing (\$/month)</b>					
Onsite	12.4	11.7	11.9	1.3%	-4.0%
Offshore	5.1	4.6	4.7	0.6%	-7.9%
<b>Total</b>	<b>7.3</b>	<b>6.7</b>	<b>6.8</b>	<b>0.4%</b>	<b>-7.6%</b>

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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