

## Company

26 May 2010 | 7 pages

# Infosys Technologies (INFY.BO)

 Equity 

## Takeaways from India Investor Conference, May 26-28

- Takeaways from Mumbai** — Infosys spoke at our India Investor Conference on May 26-28. Below are key takeaways:
- Demand update** — BFSI has driven growth over the last couple of quarters and demand remains strong. Retail/energy/healthcare continue to see good demand trends, while manufacturing/telecom are relatively slower. In manufacturing, hitech is doing well while some other segments are not doing as well.
- Europe update** — Infosys has ~15 pc billing in EUR/GBP. The Eurozone concerns are not showing up in clients' plans. South European exposure is very small. However, Infosys management also indicated that other parts of Europe may not be disconnected for too long (if things worsen). However, there is no impact at this point on business - however, cross-currency headwinds remain.
- Telecom bottoming** — In response to a query, management indicated that telecom has been impacted by client-specific issue over the past few quarters. However, the impact is largely over now.
- "Non-linear" models at ~8.5 pc of revenues** — Last year, in the downturn, Infosys made a big push towards output based pricing and now has ~8.5 pc of revenues from non-linear pricing models (including products). However, management indicated that the focus is now on delivery and execution this year.
- Pricing trends** — Infosys does not see any big pricing change except in BFSI where industry confidence has gone up meaningfully. Over a slightly longer term, management expects platforms/new business models to drive realization improvements.

<b>Hold/Low Risk</b>	<b>2L</b>
Price (26 May 10)	Rs2,583.00
Target price	Rs2,935.00
Expected share price return	13.6%
Expected dividend yield	1.2%
<b>Expected total return</b>	<b>14.8%</b>
Market Cap	Rs1,482,190M
	US\$31,194M

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



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	59,880	104.42	28.5	24.7	8.1	37.4	0.9
2010A	62,660	109.31	4.7	23.6	6.4	30.3	1.0
2011E	70,290	123.04	12.6	21.0	5.2	27.4	1.2
2012E	82,027	143.58	16.7	18.0	4.3	26.1	1.4
2013E	95,556	167.26	16.5	15.4	3.5	25.1	1.6

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
<b>Valuation Ratios</b>					
P/E adjusted (x)	24.7	23.6	21.0	18.0	15.4
EV/EBITDA adjusted (x)	19.4	17.3	14.6	12.0	9.9
P/BV (x)	8.1	6.4	5.2	4.3	3.5
Dividend yield (%)	0.9	1.0	1.2	1.4	1.6
<b>Per Share Data (Rs)</b>					
EPS adjusted	104.42	109.31	123.04	143.58	167.26
EPS reported	104.42	109.31	123.04	143.58	167.26
BVPS	318.71	403.77	495.91	603.60	729.00
DPS	23.50	25.00	31.00	36.00	42.00
<b>Profit &amp; Loss (RsM)</b>					
Net sales	216,930	227,420	264,970	311,517	363,923
Operating expenses	-152,590	-157,860	-183,933	-216,140	-252,987
<b>EBIT</b>	<b>64,340</b>	<b>69,560</b>	<b>81,038</b>	<b>95,376</b>	<b>110,936</b>
Net interest expense	4,730	9,910	11,273	14,368	16,935
Non-operating/exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>69,070</b>	<b>79,470</b>	<b>92,311</b>	<b>109,745</b>	<b>127,871</b>
Tax	-9,190	-16,810	-22,021	-27,718	-32,315
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>59,880</b>	<b>62,660</b>	<b>70,290</b>	<b>82,027</b>	<b>95,556</b>
Adjusted earnings	59,880	62,660	70,290	82,027	95,556
Adjusted EBITDA	71,950	78,610	90,249	105,930	123,000
<b>Growth Rates (%)</b>					
Sales	30.0	4.8	16.5	17.6	16.8
EBIT adjusted	38.7	8.1	16.5	17.7	16.3
EBITDA adjusted	37.4	9.3	14.8	17.4	16.1
EPS adjusted	28.5	4.7	12.6	16.7	16.5
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>50,670</b>	<b>57,270</b>	<b>67,006</b>	<b>72,708</b>	<b>84,472</b>
Depreciation/amortization	7,610	9,050	9,211	10,554	12,065
Net working capital	-12,020	-1,470	-1,222	-5,504	-6,213
<b>Investing cash flow</b>	<b>-13,380</b>	<b>-9,060</b>	<b>-16,505</b>	<b>-19,909</b>	<b>-22,633</b>
Capital expenditure	-13,380	-9,060	-16,505	-19,909	-22,633
Acquisitions/disposals	0	0	0	0	0
<b>Financing cash flow</b>	<b>-15,290</b>	<b>-12,390</b>	<b>-20,016</b>	<b>-20,550</b>	<b>-23,975</b>
Borrowings	0	2,320	-2,320	0	0
Dividends paid	-13,456	-14,294	-17,696	-20,550	-23,975
<b>Change in cash</b>	<b>22,000</b>	<b>35,820</b>	<b>30,485</b>	<b>32,248</b>	<b>37,865</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>221,260</b>	<b>277,360</b>	<b>331,319</b>	<b>403,402</b>	<b>484,542</b>
Cash & cash equivalent	96,950	105,560	147,318	193,934	248,734
Accounts receivable	36,720	34,940	41,070	49,843	58,228
Net fixed assets	53,540	53,550	60,844	70,200	80,768
<b>Total liabilities</b>	<b>38,720</b>	<b>46,870</b>	<b>48,236</b>	<b>58,842</b>	<b>68,401</b>
Accounts payable	20,040	23,430	28,377	34,708	40,256
Total Debt	0	0	0	0	0
<b>Shareholders' funds</b>	<b>182,540</b>	<b>230,490</b>	<b>283,084</b>	<b>344,560</b>	<b>416,141</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	33.2	34.6	34.1	34.0	33.8
ROE adjusted	37.4	30.3	27.4	26.1	25.1
ROIC adjusted	73.1	62.0	65.5	66.5	66.9
Net debt to equity	-53.1	-45.8	-52.0	-56.3	-59.8
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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## Infosys Technologies

### Company description

Infosys is the second-largest Indian IT services company with more than 110,000 professionals, and is a leader in the offshore services space. Infosys provides business consulting, application development & maintenance and engineering services to ~570 active clients across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. Infosys also sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa and Europe. Its subsidiary, Infosys BPO, which employs about 18,000 people, is a provider of BPO services.

### Investment strategy

We rate Infosys shares as Hold/Low Risk (2L) for valuation reasons. We are positive on the company's fundamentals. Offshore IT outsourcing has become a mainstream option, and we think that scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. We expect Infosys to deliver a revenue CAGR of ~21% (\$ terms) and an earnings CAGR of ~15% for FY10-13E. Unlike other high-growth firms in other industries, Infosys continues to generate solid FCF and its RoE of ~30% remains well above its cost of capital.

### Valuation

Our Rs2,935 target price for Infosys is based on 22x the average of FY11-12E EPS. This is around the mid-point of the last 3-year trading band of 11x-30x 12-month forward earnings and factors in some deceleration in growth. Our estimates continue to assume a certain P/E premium to the market; this is justified, in our view, given the strong FCF and ROIC for Infosys vs. the overall market. We believe P/E remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

### Risks

We rate Infosys Low Risk given its superior branding, management quality and cost optimization abilities. This is in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price include: 1) any significant appreciation of the rupee against the USD/EUR/GBP; 2) pressure on billing rates (as Infosys still continues to enjoy a 10-15% premium in its billing rates); 3) a prolonged slowdown in the US economy; and 4) limited H1B visas. Key upside risks include: 1) any significant depreciation of the rupee against the USD/EUR/GBP; and 2) a pickup in the US/global economy.

# Appendix A-1

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#### Ratings and Target Price History

#### Fundamental Research

Analyst: Surendra Goyal, CFA



Chart current as of 22 May 2010

	Date	Rating	Target Price	Closing Price
1	10-Jun-07	1L	*2,440.00	1,951.05
2	7-Nov-07	1L	*2,190.00	1,743.85
3	13-Feb-08	*1M	*2,060.00	1,549.15
4	26-Jun-08	1M	*2,175.00	1,781.85

	Date	Rating	Target Price	Closing Price
5	23-Jul-08	1M	*1,910.00	1,603.70
6	19-Nov-08	1M	*1,420.00	1,172.00
7	4-Jan-09	1M	*1,350.00	1,130.95
8	28-Apr-09	*1L	*1,650.00	1,431.55

	Date	Rating	Target Price	Closing Price
9	10-Jun-09	1L	*2,060.00	1,803.25
10	26-Aug-09	*2L	*2,290.00	2,181.35
11	7-Jan-10	2L	*2,785.00	2,525.25
12	23-Apr-10	2L	*2,935.00	2,728.10

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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