

Company

26 May 2010 | 7 pages

Infosys Technologies (INFY.BO)

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.

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

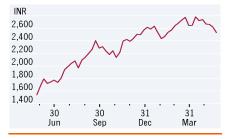


Hold/Low Risk2LPrice (26 May 10)Rs2,583.00Target priceRs2,935.00Expected share price return13.6%Expected dividend yield1.2%

Equity 🗹

Expected dividend yield1.2%Expected total return14.8%Market CapRs1,482,190MUS\$31,194M

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



See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
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
Per Share Data (Rs)					
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
Profit & Loss (RsM)					
Net sales	216,930	227,420	264,970	311,517	363,923
Operating expenses	-152,590	-157,860	-183,933	-216,140	-252,987
EBIT	64,340	69,560	81,038	95,376	110,936
Net interest expense	4,730	9,910	11,273	14,368	16,935
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	69,070	79,470	92,311	109,745	127,871
Тах	-9,190	-16,810	-22,021	-27,718	-32,315
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	59,880	62,660	70,290	82,027	95,556
Adjusted earnings	59,880	62,660	70,290	82,027	95,556
Adjusted EBITDA	71,950	78,610	90,249	105,930	123,000
Growth Rates (%)					
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
Cash Flow (RsM)					
Operating cash flow	50,670	57,270	67,006	72,708	84,472
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
Investing cash flow	-13,380	-9,060	-16,505	-19,909	-22,633
Capital expenditure	-13,380	-9,060	-16,505	-19,909	-22,633
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-15,290	- 12,390 2,320	-20,016	- 20,550 0	-23,975
Borrowings Dividends paid	0 -13,456	-14,294	-2,320 -17,696	-20,550	0 -23,975
Change in cash	22,000	35,820	30,485	-20,330 32,248	37,865
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Balance Sheet (RsM)	001 000	077 000	001 010	400 400	404 540
Total assets	221,260	277,360	331,319	403,402	484,542
Cash & cash equivalent Accounts receivable	96,950 36,720	105,560	147,318	193,934	248,734
Net fixed assets	53,540	34,940 53,550	41,070 60,844	49,843 70,200	58,228 80,768
Total liabilities	33,340 38,720	46,870	48,236	58,842	68,401
Accounts payable	20,040	23,430	28,377	34,708	40,256
Total Debt	20,010	20,100	0	0 1,7 00	0
Shareholders' funds	182,540	230,490	283,084	344,560	416,141
Profitability/Solvency Ratios (%)					
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

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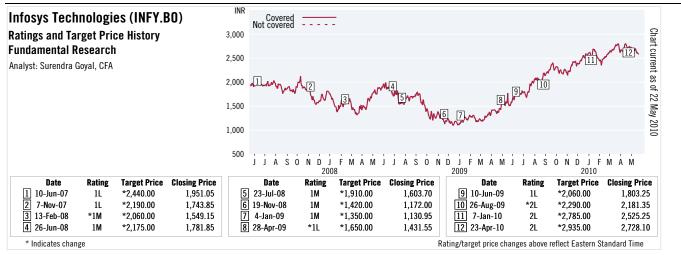
We rate Infosys Low Risk given its superior branding, management quality and cost optimization abilities. This is in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price include: 1) any significant appreciation of 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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