

- TP 11% below Street.
- FY09 INR revenue estimate higher than Street on likely weaker USD/INR assumption.

Net Profit 09 ..... INR59.4b  
..... (Unchanged)

Diff from consensus ..(0.7%)  
Consensus (mean) ..... INR59.8b  
Consensus (momentum) ..... ↑

Target Price . INR1,720.00  
..... (Unchanged)

Diff from consensus (11.4%)  
Consensus (median) ..INR1942.00  
Consensus (momentum) ..... ↓

Current Price INR1,220.00  
Upside/(Downside).....41.0%

**BUY**  
(Unchanged)

Recs in the Market

Positive .....19  
Neutral .....8  
Negative .....1  
Consensus (momentum) .....↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Reduced guidance sets a floor for FY09, but FY10 consensus estimates are now at risk and could be cut further.
- Inexpensive valuation, but catalysts for re-rating are nearly absent with a weakening macro environment.
- TP: INR1720 based on 0.71x FY08-10E PEG (one SD below historical mean), translates to FY09E P/E of 16.6x.

## Budgeting for the unforeseen

Guidance sets FY09 floor, consensus cuts for FY10 likely Infosys cut its FY09 USD revenue growth guidance by ~6ppts- 3ppts of which is on cross currency fluctuations and another 3ppts due to a weakening macro environment. The guidance implies flat next two quarters in USD revenue terms. With management reiterating its 25,000 hiring target and a stable pricing outlook, at least part of the guidance cut appears preemptive, and factors in an increased risk to the revenue pipeline rather than project cancellations that have already occurred. The company noted that it was yet to see any direct negative impact on its business which our recent checks also confirmed. The revised guidance sets a floor, in our view, and barring a much further deterioration in the demand situation, looks achievable. The steep forecast cut is a negative, however, and consensus FY10 USD revenue growth projections could likely be cut to low double digits.

### Fairly solid 2Q results

Infosys' 2Q INR revenue and EPS beat guidance and consensus expectations, but the USD revenue came in only at the lower end of guidance due to a 1.8% cross currency movement. Revenue rose 7.1% q-q on a constant currency basis (5.3% in USD terms, 11.6% in INR terms) and was almost entirely volume driven. The guidance for relatively flat y-y FY09 EBIT margins implies that the company will reinvest a significant portion of the gains from the weak INR into SG&A.

Catalysts pushed further away, macro risk remains At 12x FY09 guided EPS, the stock looks inexpensive. That said, there are no visible triggers for stock re-rating and speculation on FY10 IT budgets will likely persist. We expect the shares to be range bound in the near term with a worsening environment remaining the key risk. Our estimates, target price and rating are under review.

"Constant currency" now official lingo in Indian IT Infosys has started reporting revenue on a constant currency basis. This figure best reflects the operating performance of the company, in our view. With the USD appreciating sharply against other major currencies recently, the USD-based number no longer adequately serves that purpose. The new reporting is inline with the practice already followed by leading global technology companies such as IBM and SAP.

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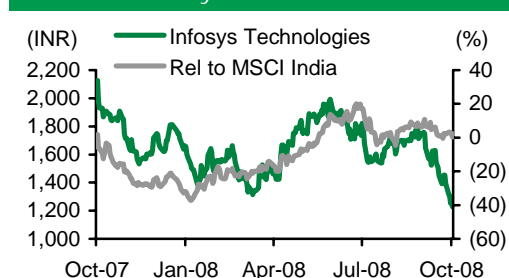
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### Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	166,920	223,869	263,496	296,606
Reported net profit	46,590	59,410	68,968	72,902
Recurring net profit	46,590	59,410	68,968	72,902
Previous rec net profit	46,590	59,410	68,968	72,902
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	79.15	103.58	120.25	127.10
Prev rec EPS (INR)	79.15	103.58	120.25	127.10
Rec EPS growth (%)	21.0	30.9	16.1	5.7
Recurring P/E (x)	15.4	11.8	10.1	9.6
Dividend yield (%)	2.7	2.6	3.0	3.1
EV/EBITDA (x)	11.8	8.7	7.2	6.1
Price/book (x)	5.1	3.9	3.1	2.6
ROE (%)	37.2	37.7	34.6	29.7
Net debt/equity (%)	(59.7)	(48.5)	(54.5)	(58.4)

Sources: Infosys Technologies; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	15,082
12m avg daily turnover (USD m)	80.5
Free float (%)	80
Major shareholder	Life Insurance Corp. Of India (4%)
12m high/low (INR)	2,102.82/1,254.25
ADR (USD)	25.02
Avg daily turnover (USD m)	128.9
Discount/premium (%)	(1.0)
Disc/premium vs 52-wk avg (%)	3.2

Source: Datastream



**Exhibit 1: Infosys Key Operating Metrics**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Revenue growth (INR, %)	0.0	8.8	4.0	6.3	6.9	11.6
Revenue growth (USD, %)	7.5	10.1	6.1	5.4	1.1	5.3
Revenue growth (constant currency, %)	6.5	9.7	5.4	5.3	0.8	7.1
EBIT margin, chg (bps)	(298)*	285	125	7	(210)*	286
EPS growth (%) **	0.7	7.0	7.4	4.1	3.4	12.7
Pricing, chg (%) #	1.0	1.9	0.8	0.2	0.2	(0.3)
Volume, chg (%) #	6.9	7.7	4.5	4.9	0.5	6.5
Utilization, chg (bps) @	90	390	(150)	(90)	(320)	150
Offshore revenue share, chg (%)	0.1	0.9	1.0	0.3	0.0	0.2
Net headcount addition ***	3730	4530	8100	2586	3192	5927
Attrition (%)	13.7	14.2	13.7	13.4	13.6	12.8

\* EBIT margin lower on annual wage hikes given in the quarter, \*\* excludes tax reversal gains, \*\*\* includes support staff, # only IT services, @ excludes trainees  
Source: Company reports

USD revenue growth was adversely affected by a 1.8% move in the USD versus the EUR, GBP, AUD and other major currencies. The blended pricing was negative due to an increased share of offshore revenue.

**Exhibit 2: Growth Rates Implied By Guidance (Q-Q For Quarters, Y-Y For Annual)**

	1Q09	2Q09	3Q09E	4Q09E	FY09E
Revenue (USD)	1.1	5.3	(3.4)-0.3	(0.1)	13.0-15.2
Revenue (INR)	6.9	11.6	1.9-5.8	0.0	27.7-30.2
EPS (INR)	3.4	12.7	6.4	0.1	26.6

Source: Company reports

The upper end of the revised guidance calls for flat 3Q and 4Q

**Exhibit 3: Comparable Company Valuation**

Company	BBG code	Share price# (INR)	Market cap (USD m)	P/E		EPS growth rate		Two-year PEG*	
				FY09E	FY10E	FY09E	FY10E	FY09E	P/BV
				(x)	(x)	(%)	(%)	(x)	(x)
Infosys Technologies	INFO IN	1,220.00	15,082	11.8	10.1	30.9	16.1	0.51	4.4
Satyam Computer Services	SCS IN	252.00	3,746	7.7	6.5	32.0	19.4	0.30	2.2
Wipro Ltd	WPRO IN	263.85	8,687	10.1	8.8	17.9	15.1	0.61	2.9
Tata Consultancy Services	TCS IN	523.15	11,235	8.9	7.9	14.6	12.8	0.65	3.8
<b>Median</b>				<b>9.5</b>	<b>8.3</b>	<b>24.4</b>	<b>15.6</b>	<b>0.56</b>	<b>3.4</b>
<b>Mean</b>				<b>9.6</b>	<b>8.3</b>	<b>23.8</b>	<b>15.8</b>	<b>0.52</b>	<b>3.3</b>

# Prices as of 10 October, 2008, \*calculated on FY08-10E EPS CAGR  
Sources: Company data; Thomson Financial; BNP Paribas estimates

## FINANCIAL STATEMENTS

## Infosys Technologies

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	138,930	166,920	223,869	263,496	296,606
Cost of sales ex depreciation	(74,580)	(92,070)	(124,456)	(147,108)	(167,806)
<b>Gross profit ex depreciation</b>	<b>64,350</b>	<b>74,850</b>	<b>99,413</b>	<b>116,388</b>	<b>128,800</b>
Other operating income	-	-	-	-	-
Operating costs	(20,440)	(22,470)	(29,032)	(34,046)	(37,339)
<b>Operating EBITDA</b>	<b>43,910</b>	<b>52,380</b>	<b>70,382</b>	<b>82,342</b>	<b>91,461</b>
Depreciation	(5,140)	(5,980)	(7,503)	(8,739)	(9,732)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>38,770</b>	<b>46,400</b>	<b>62,878</b>	<b>73,603</b>	<b>81,729</b>
Net financing costs	3,700	7,040	5,969	8,016	10,552
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>42,470</b>	<b>53,440</b>	<b>68,847</b>	<b>81,619</b>	<b>92,281</b>
Tax	(3,860)	(6,850)	(9,437)	(12,651)	(19,379)
<b>Profit after tax</b>	<b>38,610</b>	<b>46,590</b>	<b>59,410</b>	<b>68,968</b>	<b>72,902</b>
Minority interests	(50)	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>38,560</b>	<b>46,590</b>	<b>59,410</b>	<b>68,968</b>	<b>72,902</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>38,560</b>	<b>46,590</b>	<b>59,410</b>	<b>68,968</b>	<b>72,902</b>
<b>Per share (INR)</b>					
Recurring EPS *	65.43	79.15	103.58	120.25	127.10
Reported EPS	69.25	81.54	103.83	120.53	127.41
DPS	11.65	33.29	31.25	36.16	38.22
<b>Growth</b>					
Revenue (%)	45.9	20.1	34.1	17.7	12.6
Operating EBITDA (%)	42.1	19.3	34.4	17.0	11.1
Operating EBIT (%)	46.1	19.7	35.5	17.1	11.0
Recurring EPS (%)	49.5	21.0	30.9	16.1	5.7
Reported EPS (%)	53.8	17.7	27.3	16.1	5.7
<b>Operating performance</b>					
Gross margin inc depreciation (%)	42.6	41.3	41.1	40.9	40.1
Operating EBITDA margin (%)	31.6	31.4	31.4	31.2	30.8
Operating EBIT margin (%)	27.9	27.8	28.1	27.9	27.6
Net margin (%)	27.8	27.9	26.5	26.2	24.6
Effective tax rate (%)	9.1	12.8	13.7	15.5	21.0
Dividend payout on recurring profit (%)	17.8	42.1	30.2	30.1	30.1
Interest cover (x)	na	na	na	na	na
Inventory days	na	na	na	na	na
Debtor days	53.1	62.7	60.0	57.1	54.3
Creditor days	58.8	67.0	64.3	62.1	58.1
Operating ROIC (%)	69.6	58.6	58.7	52.3	52.3
Operating ROIC - WACC (%)	54.9	43.9	44.0	37.6	37.6
ROIC (%)	61.8	56.9	56.8	50.8	50.9
ROIC - WACC (%)	47.0	42.2	42.1	36.1	36.2
ROE (%)	42.3	37.2	37.7	34.6	29.7
ROA (%)	31.7	26.7	28.7	27.7	23.7

\* Pre exceptional, pre-goodwill and fully diluted

<b>Key Assumptions (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Total employees	72,241	91,187	99,463	113,058	130,233
USD/INR exchange rate (end-of-period)	43.10	40.02	45.75	44.75	43.75
USD/INR exchange rate (period average)	45.06	40.00	44.24	45.13	44.13

Sources: Infosys Technologies; BNP Paribas estimates

Translates to a 20.9%, 15.6% and 15.1% y-y growth in USD revenue for FY09, FY10 and FY11, respectively

Modelling a 29bp improvement in EBIT margin due to the depreciating INR. Management guidance is for a change within a 40-50bp range

<b>Cash Flow (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	38,560	46,590	59,410	68,968	72,902
Depreciation	5,140	5,980	7,503	8,739	9,732
Associates & minorities	110	-	-	-	-
Other non-cash items	(3,170)	(7,000)	(6,799)	(8,016)	(10,552)
<b>Recurring cash flow</b>	<b>40,640</b>	<b>45,570</b>	<b>60,115</b>	<b>69,691</b>	<b>72,082</b>
Change in working capital	(5,430)	(4,740)	(7,306)	(1,145)	(2,270)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(15,100)	(14,940)	(15,643)	(17,391)	(18,390)
<b>Free cash flow to equity</b>	<b>20,110</b>	<b>25,890</b>	<b>37,166</b>	<b>51,155</b>	<b>51,422</b>
Net acquisitions & disposals	(6,600)	(1,250)	(90)	-	-
Dividends paid	(15,320)	(8,350)	(39,133)	(24,208)	(25,588)
Non recurring cash flows	10,490	4,990	4,889	8,016	10,552
<b>Net cash flow</b>	<b>8,680</b>	<b>21,280</b>	<b>2,832</b>	<b>34,964</b>	<b>36,386</b>
Equity finance	12,160	580	260	-	-
Debt finance	-	-	-	-	-
<b>Movement in cash</b>	<b>20,840</b>	<b>21,860</b>	<b>3,092</b>	<b>34,964</b>	<b>36,386</b>

**Per share (INR)**

Recurring cash flow per share	72.98	79.75	105.06	121.80	125.97
FCF to equity per share	36.11	45.31	64.95	89.40	89.87

<b>Balance Sheet (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	35,130	47,830	62,219	64,268	70,048
Working capital liabilities	(21,500)	(41,910)	(29,843)	(30,747)	(34,256)
<b>Net working capital</b>	<b>13,630</b>	<b>5,920</b>	<b>32,376</b>	<b>33,521</b>	<b>35,791</b>
Tangible fixed assets	37,710	47,770	56,030	64,681	73,338
<b>Operating invested capital</b>	<b>51,340</b>	<b>53,690</b>	<b>88,406</b>	<b>98,202</b>	<b>109,130</b>
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	250	720	1,530	1,530	1,530
Other assets	920	1,190	1,260	1,260	1,260
<b>Invested capital</b>	<b>52,510</b>	<b>55,600</b>	<b>91,196</b>	<b>100,992</b>	<b>111,920</b>
Cash & equivalents	(60,080)	(82,350)	(85,762)	(120,726)	(157,111)
Short term debt	-	-	-	-	-
Long term debt *	-	-	-	-	-
<b>Net debt</b>	<b>(60,080)</b>	<b>(82,350)</b>	<b>(85,762)</b>	<b>(120,726)</b>	<b>(157,111)</b>
Deferred tax	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total equity	112,550	137,950	176,957	221,718	269,031
Minority interests	40	-	-	-	-
<b>Invested capital</b>	<b>52,510</b>	<b>55,600</b>	<b>91,196</b>	<b>100,992</b>	<b>111,920</b>

\* Includes convertibles and preferred stock which is being treated as debt

**Per share (INR)**

Book value per share	202.12	241.43	309.26	387.48	470.17
Tangible book value per share	202.12	241.43	309.26	387.48	470.17

**Financial strength**

Net debt/equity (%)	(53.4)	(59.7)	(48.5)	(54.5)	(58.4)
Net debt/total assets (%)	(44.8)	(45.8)	(41.5)	(47.8)	(51.8)
Current ratio (x)	4.4	3.1	5.0	6.0	6.6
CF interest cover (x)	na	na	na	na	na

<b>Valuation</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	18.6	15.4	11.8	10.1	9.6
Recurring P/E @ target price (x) *	26.3	21.7	16.6	14.3	13.5
Reported P/E (x)	17.6	15.0	11.8	10.1	9.6
Dividend yield (%)	1.0	2.7	2.6	3.0	3.1
P/CF (x)	16.7	15.3	11.6	10.0	9.7
P/FCF (x)	33.8	26.9	18.8	13.6	13.6
Price/book (x)	6.0	5.1	3.9	3.1	2.6
Price/tangible book (x)	6.0	5.1	3.9	3.1	2.6
EV/EBITDA (x) **	14.2	11.8	8.7	7.2	6.1
EV/EBITDA @ target price (x) **	20.5	17.2	12.8	10.7	9.2
EV/invested capital (x)	11.8	11.1	6.7	5.7	4.8

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Infosys Technologies; BNP Paribas estimates

Increasing cash balance despite a healthy ~30% dividend payout ratio due to Infosys's conservative use of cash

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All share prices are as at market close on 10 October 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as  $(\text{target price} - \text{current price}) / \text{current price}$ . If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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