

HOLD

Price	Target Price
Rs 1,227	Rs 1,443
Sensex	10,528

Price Performance

(%)	1M	3M	6M	12M
Absolute	(30)	(32)	(14)	(38)
Rel. to Sensex	(3)	(10)	29	11

Source: Capitaline

Stock Details

Sector	IT Services
Reuters	INFY.BO
Bloomberg	INFO@IN
Equity Capital(Rs mn)	2863
Face Value(Rs)	5
52 Week H/L	2,140/1,040
Market Cap(Rs bn//US\$ mn)	702/14,531
Daily Avg Volume (No of shares)	2318040
Daily Avg Turnover (US\$)	76.8

Shareholding Pattern (%)

(30 th June'08)	
Promoters	16.5
FII/NRI	53.3
Institutions	7.9
Private Corp.	3.1
Public	19.2

Manik Taneja
manik.taneja@emkayshare.com

+91 22 6612 1253

Sweta Sinha
sweta.sinha@emkayshare.com

+91 22 6612 1282

Infosys Technologies

Cautiousness reflects in guidance reset

Result
Update

Q2FY09 Results; Impressive performance despite macro weakness

Infosys Technologies reported US\$ revenues of US\$ 1216 mn (+5.5% QoQ), Rs 54.2 bn (+11.2% QoQ) slightly ahead of expectations driven by currency weakness. EBITDA margins improved impressively by ~260 bps sequentially V/s our expectations of only 170 bps increase. Net profits at Rs 14.3 bn (+10% QoQ) were in line with our estimates driven by lower than expected other income. **Operating metrics performance remained impressive with revenues from North America/ Europe grew sequentially by 3.5%/8.4% while revenues from even troubled financial services vertical were up by ~2% QoQ.** Volume growth at 6.5% QoQ was in line though **YoY volume growth was lowest ever** while blended pricing dipped marginally by 0.3% QoQ helped by ~13% growth in package implementation revenues. Net addition for the quarter was 5,927. **Infy maintained its gross annual hiring target of 25,000 for FY09 and expects to make gross additions of 4,500 for Q3FY09.**

US\$ guidance reset lower than our expectations

Infosys management reduced its annual revenue growth expectations from 19-21% YoY increase to 13-15.1% YoY increase, much lower than our expectations from the company of reducing annual revenue growth guidance to 17.5-19.5%. Further the company has guided for revenues of US\$ 1175 -1215 mn for Q3FY09. The company is guiding for flat revenues during Q3FY09 and Q4FY09 at the upper end of the guidance and a decline at the lower end of the guidance. INR based revenue guidance was tweaked to Rs 21.3-21.7 bn (+27.7-30.2% YoY) from 27.5-29.5% increase. **INR based earnings guidance was maintained at Rs 101.06 with company citing worrisome economic environment for reduction in US\$ outlook despite comments like 'Infosys has seen no impact of meltdown till now', 'Our business is doing quite well', 'pricing has been stable' etc.**

In our view a historically conservative management might have thought it prudent to bring down investor expectations in the current uncertain times. However we believe investors would be unwilling to give any benefit of doubt given the macro weakness and thus would view the guidance cut as a big negative.

Stock lacks immediate upside triggers given negative news flow

We believe that Infy's stock lacks any immediate upside triggers given continuous negative news flow of fall of several financial institutions across both US and Europe and the fears of a prolonged recession thereby impacting technology spends from verticals other than financial services. We believe that although off shoring would benefit in the longer run, the negative news flow could delay decision making for technology spends thereby impacting growth for at least the next 2-3 quarters.

Reduce estimates; Maintain 'HOLD' with a revised target of Rs 1443

We have reduced our FY09 and FY10 US\$ revenue estimates to 15.1% and 11.2% respectively and build in some form of pick up during FY11 (we base our INR based estimates at Rs 46/\$ for 2HFY09 and Rs 45 for FY10 respectively) to build in macro demand weakness now. We expect Infosys to report earnings of Rs 100 in FY09 and Rs 107 in FY10 respectively. Post the reduction in estimates we expect Infosys to report revenue, EBITDA and net profit CAGR of 18%, 16.6% and 13.1% over FY08-11E **(though wish to highlight that we build enough prudence in these estimates and thus see no downside to these estimates).** We believe that although stock price could remain depressed near term driven by negative news flow, **valuations might have corrected significantly for a company with free cash flow at ~20% of revenues.** We maintain 'HOLD' with a revised price target of Rs 1443, based on 13x 1 year rolling forward P/E multiple.

In Rs mn	Q2FY09	Q1FY09	QoQ (%)	Q2FY08	YoY (%)
Net sales	54180	48540	11.6%	41060	32.0%
Operating expenses	36240	33750		28,220	
EBITDA	17,940	14,790	21.3%	12,840	39.7%
Margins (%)	33.1	30.5		31.3	
Depreciation	1770	1690		1,440	
EBIT	16,170	13,100	23.4%	11,400	41.8%
Margins (%)	29.8	27.0		27.8	
Other income	660	1170		1,540	
Pre-tax profit	16,830	14,270		12,940	
Tax provided	2510	1250		1,940	
Profit after tax	14,320	13,020		11,000	
Emkay Net profit	14320	13020	10.0%	12,540	14.2%
EPS, Rs	25.0	22.7		21.9	

Source: Company, Emkay Research

In our view, a historically conservative management has been prudent in lowering investor expectations in uncertain times.

Revenues	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09
(At lower end)	1155	1216	1175	1174	4720
QoQ increase		5.3%	-3.4%	-0.1%	
(At upper end)	1155	1216	1220	1219	4810
QoQ increase		5.3%	0.3%	-0.1%	

Source: Company, Emkay Research

YoY volume growth slipped to lowest ever in company's history.

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Company wide QoQ volume growth	6.8%	7.3%	5.1%	7.8%	1.7%	5.7%
Company wide YoY volume growth	35%	31%	25.2%	30.0%	23.8%	21.9%
Onsite QoQ volume growth	7.1%	8.2%	5.9%	8.8%	2.0%	6.2%
Offshore QoQ volume growth	6.2%	4.8%	3.1%	4.8%	1.0%	4.1%

Source: Company, Emkay Research

Manufacturing vertical continued its strong performance with 15% QoQ growth. Revenues from the troubled financial services also were up by 1.9% sequentially.

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
BFSI, %	36.1	36.5	36.8	33.9	34.5	33.4
BFSI (in US\$ mn)	335.0	373.0	398.9	387.1	398.4	406.1
QoQ growth, %	4.9	11.3	6.9	-3.0	2.9	1.9
Manufacturing, %	13.6	13.9	14.6	16.4	18.4	20.1
Manufacturing (in US\$ mn)	126.2	142.1	158.3	187.3	212.5	244.4
QoQ growth, %	13.4	12.6	11.4	18.3	13.5	15.0
Telecom, %	22	20.6	21.1	22.5	19.7	19
Telecom (in US\$ mn)	204	211	229	257	228	231
QoQ growth, %	8.0	3.1	8.6	12.3	-11.5	2.0

Source: Company, Emkay Research

Our revised earnings estimates

(All fig in Rs mn except EPS)	FY09E			FY10E		
	Old	New	% change	Old	New	% change
Revenues	211923	214704	1.3%	255864	240364	-6.1%
EBITDA	67807	67979	0.3%	81297	73769	-9.3%
Net profits	58692	57203	-2.5%	67301	61179	-9.1%
EPS	102.6	100.0	-2.5%	117.3	107.0	-9.1%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
Net Sales	138,930	166,920	214,704	240,364
Growth (%)		20	29	12
Total Expenditure	(95,020)	(114,540)	(146,725)	(166,595)
Growth (%)		21	28	14
EBIDTA	43,910	52,380	67,979	73,769
Growth (%)		19	30	9
EBIDTA %	31.6	31.4	31.7	30.7
Other Income	3,760	7,040	5,584	8,771
Depreciation	(5,140)	(5,980)	(7,286)	(7,932)
EBIT	42,530	53,440	66,277	74,608
Interest				
EBT	42,530	53,440	66,277	74,608
Tax	(3,860)	(6,850)	(9,074)	(13,429)
EAT	38,560	46,590	57,203	61,179
Growth (%)		21	23	7
EAT (%)	27.8	27.9	26.6	25.5

Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	109,690	135,090	171,995	211,702
Minority Interest	40	-	-	-
Networth	112,590	137,950	174,855	214,561
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Total Liabilities	112,590	137,950	174,855	214,562
Goodwill				
Gross Block	46,420	54,390	70,852	79,320
Less: Depreciation	18,360	19,860	27,146	35,078
Net block	28,060	34,530	43,706	44,242
Capital WIP	9,650	13,240	18,000	20,000
Investment	-	-	-	-
Current Assets	95,460	130,900	165,418	208,986
Inventories	-	-	-	-
Sundry debtors	24,360	32,970	41,176	44,780
Cash & bank balance	58,710	69,500	90,947	127,773
Loans & advances	12,140	27,710	31,764	34,902
Other current assets	250	720	1,530	1,530
Current Liab & Prov	21,500	41,910	53,529	59,926
Current liabilities	14,690	19,120	24,117	27,000
Provisions	6,810	22,790	29,411	32,927
Net current assets	73,960	88,990	111,889	149,059
Misc exps	-	-	-	-
Deferred Tax	920	1,190	1,260	1,260
Total Assets	112,590	137,950	174,855	214,562

Cash Flow	FY07	FY08	FY09E	FY10E
Net Profit after Tax	38,560	46,590	57,203	61,179
Add : Depreciation	5,140	5,980	7,286	7,932
Add : Misc exp w/off				
Net changes in WC	(33,830)	(14,560)	(22,089)	(37,171)
Operational Cash Flows	23,000	43,531	57,057	59,223
Capital expenditure	(20,590)	(16,040)	(21,222)	(10,468)
Investments	14,600	(940)	(1,620)	-
Investing Cash Flows	(5,990)	(16,980)	(22,842)	(10,468)
Borrowings	-	-	-	-
dividend paid	(7,510)	(22,251)	(20,077)	(21,472)
Issue of shares	15,670	6,530	7,309	9,543
Share Premium		10	-	-
Financing Cash Flows	7,410	(15,761)	(12,768)	(11,929)
changes in cash	24,420	10,790	21,447	36,827
Opening balance	34,290	58,710	69,500	90,947
Closing balance	58,710	69,500	90,947	127,773

Key ratios	FY07	FY08	FY09E	FY10E
EPS (Rs)	67.6	81.3	99.7	106.7
CEPS (Rs)	76.7	91.7	112.4	120.5
Book Value Per Share (Rs)	197.5	240.6	304.9	374.1
Dividend Per Share (Rs)	11.4	33.2	29.9	32.0
Valuations Ratios (x)				
PER	18.1	15.1	12.3	11.5
P/CEPS	24.5	20.5	16.7	15.6
P/BV	6.2	5.1	4.0	3.3
EV/EBIDTA	24.9	20.7	15.6	13.9
EV/Sales	7.9	6.5	4.9	4.3
M-Cap/sales	7.7	6.4	5.0	4.5
Profitability Ratios (%)				
RoCE	37.3	34.0	32.5	29.7
RoNW	42.2	37.2	36.6	31.4
EBITDA Margin	31.6	31.4	31.7	30.7
EBIT Margins	30.6	32.0	30.9	31.0
Net Profit Margin	27.8	27.9	26.6	25.5

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Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor,
Pandurang Budhkar Marg, Worli, Mumbai – 400 013.
Tel no. 6612 1212. Fax: 6624 2410