

Country: India

Sector: IT Services

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Key Data

Market cap	Rs702 bn/US\$14,487 mn
Shares in issue (mn)	572.4
Diluted share (mn)	573.6
3-mon avg daily val (mn)	Rs2,843.5/US\$58.7
52-week range	Rs2,140/1,040
BSE Sensex (10/10/08)	10,528
Nifty (10/10/08)	3,280
Rs/US\$	48.5

Shareholding Pattern (%)

	2QFY 09	2Q FY08
Promoters	16.5	16.5
FII's	32.5	32.8
MFs/FIs/Banks	8.4	6.5
ADR Trust	19.2	19.1
Others	23.4	25.0

Price Performance (%)

	1M	3M	12M
Absolute	(30.3)	(32.1)	(42.3)
Relative	(0.9)	(7.5)	0.1

* To the BSE Sensex

Daily Performance



(As of 10 October 2008)

10 October 2008

Result Update

Infosys Technologies

Bloomberg: INFO IB

Buy

Price: Rs1,227

Target Price (Oct 09): Rs1,515

Favourable risk reward

- **FY09 dollar guidance revised downwards to 13.1-15.2% YoY:** Infosys revised its dollar revenue guidance for FY09 downwards by ~5% to US\$4.72-4.81 bn which implies a 13.1-15.2% YoY growth (vs. earlier guidance of 19-21% YoY) and 16-18% YoY in constant currency terms. Further, the company has guided for US\$1,175-1,220 mn in 3Q FY09E, an implied growth of -3.4% to 0.3%. Management comments on not witnessing any negative indicators on the ground seemed to belie the distress implied in the earnings revision. Rupee EPS has been maintained at Rs101.06, thanks to favourable rupee movements.
- **Top 2-10 clients showed signs of trouble in an otherwise strong quarter:** 2Q FY09 revenues at US\$1.22 bn grew by 5.3% QoQ, marginally lower than our expectation of 5.4% QoQ. However, performance across other top clients excluding BT has been a sharp deterioration in 2Q FY09 (-3.3% QoQ) including one client which ramped down from the US\$100 mn bucket. The growth for the quarter was powered by non top 10 clients, which grew 8.4% QoQ.

Exhibit 1: Top 2-10 clients

Growth (%)	1Q FY08	2Q FY08	3Q FY08	4Q FY08	1Q FY09	2Q FY09
Top 2-10 clients	2.4	2.2	10.9	-0.7	3.5	(3.3)

Source: Company data

Other metrics remained healthy – both onsite (+0.6%) and offshore (+0.1%) pricing saw increase, while most service lines grew robustly.

- **Guidance remains under threat:** Given the demand uncertainty as reflected in the current macro environment, we expect FY09E dollar revenue growth of 12.2% YoY vs. guidance of 13.1-15.2% YoY. In FY10E, we have factored decline of 2.6% in dollar revenues on the back of flat volume growth and decline in realizations (-2.6% YoY). We now expect FY09E and FY10E EPS at Rs100.5 (+23.3% YoY) and Rs96.9 (-3.6% YoY).
- **Maintain Buy with a target price of Rs1,515:** We believe that revenue retention will be primary focus for IT vendors over the next 2-3 quarters given the ongoing consolidation in the industry. We believe that Infosys with its strong client relationships and diversified service mix is better positioned to retain and grow its existing client portfolio post consolidation. Our DCF based target price of Rs1,515 implies an upside of 24% from current levels. While demand concerns are likely to remain over the near term, we believe that the risk reward at the current price is favourable. Maintain Buy with a reduced target price of Rs1,515.

Exhibit 2: Quarterly results
(Rs mn)

Y/E March	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	QoQ %	YoY%	FY08	FY09E	YoY%
Revenues	37,730	41,060	42,710	45,420	48,540	54,180	11.6	32.0	166,920	210,347	26.0
Software development expenses	21,690	22,310	23,250	24,820	27,540	28,910	5.0	29.6	92,070	114,655	24.5
Gross profit	16,040	18,750	19,460	20,600	21,000	25,270	20.3	34.8	74,850	95,691	27.8
Selling and marketing expenses	2,050	2,830	2,050	2,230	2,570	3,030	17.9	7.1	9,160	11,272	23.1
General and administration expenses	3,150	3,080	3,490	3,590	3,640	4,300	18.1	39.6	13,310	16,488	23.9
EBITDA	10,840	12,840	13,920	14,780	14,790	17,940	21.3	39.7	52,380	67,931	29.7
EBITDA margin	28.7	31.3	32.6	32.5	30.5	33.1	264	184	31.4	32.3	91.4
Depreciation	1,440	1,440	1,530	1,570	1,690	1,770	4.7	22.9	5,980	7,116	19.0
Other income	2,530	1,540	1,580	1,390	1,170	660	-43.6	-57.1	7,040	6,008	-14.7
PBT	11,930	12,940	13,970	14,600	14,270	16,830	17.9	30.1	53,440	66,824	25.0
Tax	1,650	1,940	2,160	2,310	1,560	2,510	60.9	29.4	8,060	9,590	19.0
PAT before Minority interest and EO	10,280	11,000	11,810	12,290	12,710	14,320	12.7	30.2	45,380	57,233	26.1
Minority interest	0	0	0	0	0	0			0	0	
EO	510	0	500	200	310	0			1,210	310	
PAT after Minority interest and EO	10,790	11,000	12,310	12,490	13,020	14,320	10.0	30.2	46,590	57,543	23.5

Source: Company data, JM Financial

Exhibit 3: Financial summary
(Rs mn)

Y/E March	FY07	FY08	FY09E	FY10E
Net Sales	138,930	166,920	210,347	199,321
Sales growth (%)	45.9	20.1	26.0	(5.2)
EBITDA	43,910	52,380	67,931	60,113
EBITDA (%)	31.6	31.4	32.3	30.2
Adjusted Net Profit	37,250	45,380	57,233	55,518
EPS (Rs)	68.5	81.5	100.5	96.9
EPS Growth (%)	207.0	18.9	23.3	(3.6)
ROCE (%)	46.4	42.7	41.7	33.1
ROE (%)	42.3	37.2	35.9	27.3
PE (x)	17.9	15.1	12.2	12.7
Price/Book Value (x)	6.1	5.0	3.8	3.1
EV/EBITDA (x)	14.3	11.7	8.6	9.1

Source: Company data, JM Financial, Note: Valuations as of 10 October 2008.

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