

Company

17 February 2010 | 6 pages

Infosys Technologies (INFY.BO)

Equity

Notes from CEO on the Road

- On the road with CEO** — We hosted S. Gopalakrishnan, CEO & MD of Infosys, for investor meetings in NY. Key points of investor interaction are summarized below.
- Outlook improving but still some underlying "unease"** — Infosys CEO suggested that outlook was better for most verticals (manufacturing being an exception) but there was still some "unease" around the sustainability of the recovery, sovereign debt issues etc. BFSI was leading the way with merger related integration spends helping. Discretionary spend is recovering partly. While there were a lot of queries on growth, management highlighted NASSCOM's projections of 13-15% industry growth next year and 11% over longer term.
- Where are incremental investments being made?** — (1) Verticals like Healthcare, Public Sector, Energy and Utilities. (2) Geographies like Germany/France. (3) Longer term focus on emerging markets. (4) Platforms/Solutions and Non-linearity – short term positive outlook on BPO/Infrastructure Services/Consulting. Management expects India business to ramp up and contribute to reasonable (mid single digit) proportion of revenues over the next three years.
- Confidence on margins high** — Infosys CEO reiterated their commitment to be the margin leader in the industry. Confidence remains high given that Infosys delivered margin improvement last year in the downturn. However, wage pressures and INR appreciation are challenges which are likely to remain.
- Competitive intensity** — Tier-I players in the industry (Global and Indian) have gained market share from other competition rather than taking share from each other meaningfully. However, competitive intensity remains high – management did suggest that each player has its own strategy and there are players who are ready to discount on pricing/make upfront payments. Infosys continues to focus on "profitable growth".

Hold/Low Risk	2L
Price (16 Feb 10)	Rs2,535.65
Target price	Rs2,785.00
Expected share price return	9.8%
Expected dividend yield	1.4%
Expected total return	11.2%
Market Cap	Rs1,454,285M US\$31,646M

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)	(%)	(%)
2008A	46,590	81.26	19.9	31.2	10.5	37.2	1.3
2009A	59,880	104.42	28.5	24.3	8.0	37.4	0.9
2010E	62,137	108.27	3.7	23.4	6.4	30.3	1.3
2011E	69,480	121.04	11.8	20.9	5.3	27.6	1.4
2012E	80,360	140.00	15.7	18.1	4.4	26.4	1.7

Source: Powered by dataCentral

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Infosys Technologies

Company description

Infosys is the second-largest Indian IT services company with more than 100,000 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 more than 16,000 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 ~11% (\$ terms) and an earnings CAGR of ~9% for FY09-12E. 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 Rs2,785 target price is based on 23x-24x FY11E 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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Infosys Technologies (INFY.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Surendra Goyal, CFA

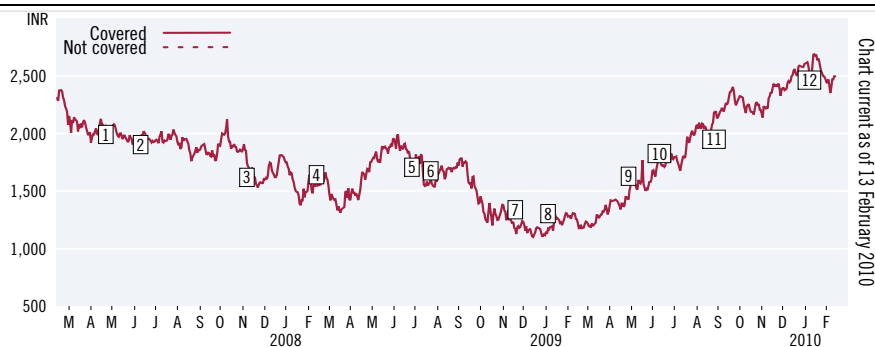


Chart current as of 13 February 2010

	Date	Rating	Target Price	Closing Price
1	23-Apr-07	1L	*2,580.00	2,067.55
2	10-Jun-07	1L	*2,440.00	1,951.05
3	7-Nov-07	1L	*2,190.00	1,743.85
4	13-Feb-08	*1M	*2,060.00	1,549.15

	Date	Rating	Target Price	Closing Price
5	26-Jun-08	1M	*2,175.00	1,781.85
6	23-Jul-08	1M	*1,910.00	1,603.70
7	19-Nov-08	1M	*1,420.00	1,172.00
8	4-Jan-09	1M	*1,350.00	1,130.95

	Date	Rating	Target Price	Closing Price
9	28-Apr-09	*1L	*1,650.00	1,431.55
10	10-Jun-09	1L	*2,060.00	1,803.25
11	26-Aug-09	*2L	*2,290.00	2,181.35
12	7-Jan-10	2L	*2,785.00	2,525.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	48%	45%	37%

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