

Sanjeev Hota
sanjeev.hota@relianceada.com
022-30443304

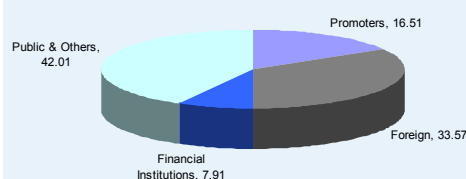
Price: **Rs. 1676**
12M Target Price: **Rs. 2022**
% Upside / (Downside) **21%**

Stock details

BSE Code	500209
NSE code	INFOSYSTCH
Market Cap (Rs bn)	1170.00
Free Float (%)	64.30
52-wk Hi/Lo (Rs)	2439 / 1745
Avg Daily Vol (BSE)	364756
Avg Daily Vol (NSE)	1940385
Shares o/s (mn) FV Rs 5	573.00

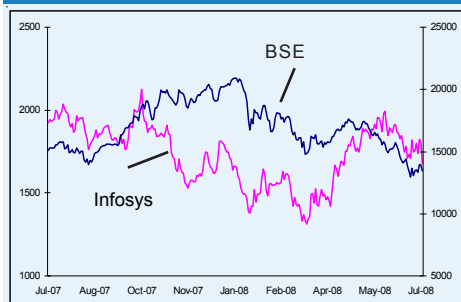
Source: Reliance Money Research

Shareholding pattern (30th June 2008)



Source: Reliance Money Research

Stock Performance (Rel to sensx)



Source: Capitaline

Infosys Technologies

BUY

Rupee Depreciation save the day....

On the backdrop of difficult industry environment, bellwether of Indian IT sector Infosys's performance for Q1FY09 was inline with the market expectations, however there was no special surprise in this quarter performance, which could cheer the market sentiments. As a matter of fact, the Q1FY09 performance was more overshadowed by the 7.5% rupee depreciation during the quarter, which helped Infosys to report a sequential growth in the net profit in the rupee terms. Otherwise, in the dollar term the performance was quite muted, with 1% sequential growth in the topline to \$1155 mn and 6.4% decline in the operating profit to \$308 mn, net profit in dollar term was down by 1.6% qoq to \$306 mn.

However, in the rupee term revenues were up by 6.9% qoq to Rs 48540 mn largely on the back of 7.5% rupee depreciation during the quarter, with blended volume growth was 0.5% and pricing increase of 0.2% sequentially. EBITDA margins declined by 200bps qoq to 30.5%, on the back of wage hikes coupled with visa cost and lower utilization, the decline in margins would have been higher but rupee depreciation has restricted the fall to the extent of 2.5% during the quarter. Net profit was higher by 3.5% to Rs 12720 mn (without tax writeback of Rs 310 mn). Net profit numbers would have been lower but for the decline in the effective tax rate to 11% (as against 15.8% in Q4FY08) come to rescue.

Dollar guidance remains unchanged for FY09...

Infosys has kept the dollar guidance for FY09E unchanged at 19%-21% revenues growth in USD term. However, raised the rupee based revenues and EPS guidance for FY09e to 27.5%-29.8% in revenues (as against 19%-21%) and EPS to 22%-24% Rs 99.3-101.1 (as against Rs 92.3-93.9) earlier.

Upgrade to Buy, with of Target price Rs 2022

Given the prevailing challenging industry environment coupled with weak domestic market sentiments will prevent any major spurt in the stock performance in the medium term. Nevertheless, we feel that once the dust settles down in US region and some definitive trend and positive newsflows evolve in the Industry, Infosys with its proactive and proven business model will first to get the benefits. We have revised our estimates for FY09E and FY10E to factor in the depreciating rupee vis a vis dollar, we have taken a rupee rate Rs 42.5 as compared to Rs 40.0 in our earlier estimates. However, we have revised our target one year forward multiple for Infosys from 21x to 20x to factor the weak industry sentiments. We now upgrade Infosys from HOLD to BUY with a 12M target price of Rs 2022, at our target price stock will be valued at 20x FY09E and 18x FY10E earning.

Financials Summary

Rs. Mn

	FY07A	FY08A	FY09E	FY10E
Total Revenue	13893.0	16692.0	22317.4	27069.8
EBITDA margin %	31.6%	31.4%	31.9%	30.2%
Net Profit	3856.0	4538.0	5866.4	6482.1
EPS (Rs)	67.6	81.5	102.7	113.1
CEPS (Rs)	76.40	91.91	117.14	131.08
EV/EBITDA	20.5	17.2	12.3	10.3
ROE %	40.8%	36.2%	37.1%	32.2%
ROCE %	46.5%	42.7%	43.4%	38.3%
P/E (x)	24.8	20.6	16.3	14.8
Market cap/Sales (x)	6.9	5.8	4.3	3.6
Dividend Yeild	0.23	0.68	0.55	0.56

Source: Company / Reliance Money Research

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Q1FY09 Performance

(Rs Mn)

Consolidated revenues up by 1.1% QoQ in \$ term and 6.9% in rupee term...

EBITDA Margins declined by 200bps to 30.5%..

Net profit before tax reversal higher by 3.5% QoQ...

	Q1FY08	Q4FY08	Q1FY09	chg.	
				QoQ	YoY
Net sales	37,730	45,420	48,540	6.9%	28.7%
Cost of goods sold	(21,690)	(24,820)	(27,540)	11.0%	27.0%
Gross profit	16,040	20,600	21,000	1.9%	30.9%
Total SG&A expenses	(5,200)	(5,820)	(6,210)	6.7%	19.4%
EBITDA	10,840	14,780	14,790	0.1%	36.4%
Depreciation and amortization	(1,440)	(1,570)	(1,690)	7.6%	17.4%
EBIT	9,400	13,210	13,100	(0.8%)	39.4%
Total non-oper. income	2,530	1,390	1,170	(15.8%)	(53.8%)
Pre-tax income	11,930	14,600	14,270	(2.3%)	19.6%
Income tax exp/(gains)	(1,650)	(2,310)	(1,550)	(32.9%)	(6.1%)
Net income	10,280	12,290	12,720	3.5%	23.7%
Tax Write Backs	510	200	310	55.0%	(39.2%)
Adjusted net income	10,790	12,490	13,030	4.3%	20.8%
EPS	18.0	21.76	22.7	4.4%	26.4%
Margins Analysis					
Gross Margin	42.5	45.4	43.3		
Operating Margin	28.7	32.5	30.5		
EBIT margins	24.9	29.1	27.0		
Net Income Margin	28.6	27.5	26.8		
Tax rate (%)	13.8	15.8	10.9		
Ex Tax ReveR I eff tax rate (%)	9.6	14.5	8.7		

Source: Company

Guidance (Consolidated)

Dollar guidance for FY09E remains unchanged, rupee guidance revised upward primarily on the back of higher rupee rate vis a vis dollar...

	Q2FY09		FY2009E	
	Lower end	Upper end	Lower end	Upper end
Revenues (Rs Mn)	52290.0	52720.0	21278.0	21662.0
Growth (%)	7.7%	8.6%	27.5%	29.8%
Revenues (US\$ mn)	1215.0	1225.0	4970.0	5050.0
Growth (%)	6.4%	7.3%	19%	21%
EPS	23.5	24.0	99.3	101.1
Growth (%)	3.5%	22.6%	25.8%	27.9%

Guidance based on Re/ US\$ rate of 43.04

Source: Company

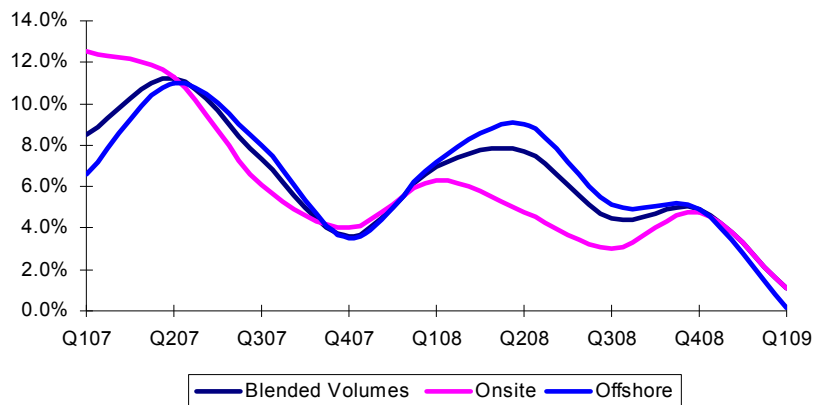
Revenue:

Muted revenues growth in dollar term...

- Consolidated revenue grew by 1.1% sequentially in \$ term to \$ 1155 mn and 6.9% in rupee term to Rs 48540 mn.
- On blended basis, pricing were up by marginally up 0.2% sequentially. Onsite pricing up by 2% qoq, whereas offshore pricing drops by 4% sequentially.
- Onsite revenue contribution stood at 47.5% and offshore revenue contribution stood at 52.5% for Q1FY09.
- In terms of geographies, Europe accounted for 27.3% of the revenues as against 29.3% in Q4FY08, was lower by 6.8% and US accounted for 62.6%, as against 60.7% in Q4FY08 up by 4.3% sequentially. The decline in revenues from the European region was largely on the back of drop in the top clients revenues in the Telecom vertical.
- Infosys's BPO business revenues grew by 6% QoQ to \$72.7 mn, EBITDA margins in the BPO segment was around 24%, excluding Phillips BPO. Including Phillips BPO margins was around 18%. There was a MTM loss of \$4.7 mn in the BPO segment, which lowered the net margins to 10% as against 13% in Q4FY08. Net profit in the BPO segment was down by 22% qoq to \$7 mn.

Blended volume growth of 0.5% sequentially...

Volumes Movement



Source: Company / Reliance Money Research

	Q1 08	Q2 08	Q3 08	Q408	Q109
Service Offerings					
Application Development and Maintenance	47.0%	44.2%	46.3%	45.2%	43.4%
Application development	21.6%	21.8%	21.5%	21.8%	21.4%
Application maintenance	24.4%	22.4%	24.8%	23.4%	22.0%
Business Process Management	5.4%	5.2%	5.9%	6.0%	6.3%
Consulting Services and Package Implementation	23.3%	23.6%	24.0%	24.1%	23.7%
Infrastructure Management	5.1%	5.5%	4.5%	4.6%	5.7%
Product Engineering Services	1.4%	1.6%	1.7%	1.8%	2.2%
System Integration	2.9%	2.8%	2.7%	3.0%	3.1%
Testing Services	7.5%	7.8%	7.4%	7.2%	7.4%
Others	5.1%	5.6%	3.8%	4.4%	4.3%
Total services	96.7%	96.3%	96.3%	96.3%	96.1%
Product revenues	3.3%	3.7%	3.7%	3.7%	3.9%
Total services	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company

Infrastructure Management Services up by 25% QOQ respectively...

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Client's Industry class / Vertical Domain	Q1 08	Q2 08	Q3 08	Q408	Q109
Insurance, Banking and Financial services	36.1%	36.5%	36.8%	33.9%	34.5%
Manufacturing	13.6%	13.9%	14.6%	16.4%	18.4%
Retail	10.8%	12.5%	12.0%	11.9%	12.2%
Telecom	22.0%	20.6%	21.1%	22.5%	19.7%
Utilities	4.9%	5.3%	5.2%	5.2%	5.4%
Transportation & Logistics	2.3%	2.3%	2.4%	2.8%	2.4%
Services	7.6%	7.7%	6.0%	5.5%	5.5%
Others	2.7%	1.2%	1.9%	1.8%	1.9%
Total	100%	100%	100%	100%	100%

Source: Company

BFSI up by 2.9% sequentially, Telecom vertical down by 11.4% sequentially largely on the back declined in the revenues of largest client...

	Q407	Q108	Q208	Q308	Q408	Q109
Client Concentration:						
Top Client's contribution to revenue	8.5%	8.6%	7.9%	9.5%	10.3%	7.9%
Top 5 clients' contribution to revenue	21.3%	21.4%	19.5%	21.6%	22.0%	19.9%
Top 10 clients' contribution to revenue	33.4%	32.3%	29.9%	32.5%	32.0%	30.1%
Gross clients Added	34	35	48	47	40	49
Total Clients	500	509	520	530	538	567
Net Clients Added	12	9	11	10	8	29
Repeat Business	93.3%	99.5%	97.7%	96.3%	95.0%	99.6%

Source: Company

Top clients declined by 22% sequentially, excluding top client decline top 10 client grew by 3.5% qoq...

	Q407	Q108	Q208	Q308	Q408	Q109
\$1 Mn Clients	275	285	295	305	310	325
\$5 Mn Clients	107	113	122	128	141	146
\$10 Mn Clients	71	75	77	81	89	91
\$20 Mn Clients	36	40	44	45	47	53
\$30 Mn Clients	25	26	30	30	32	33
\$40 Mn Clients	16	18	22	22	22	25
\$50 Mn Clients	12	13	16	17	18	18
\$60 Mn Clients	11	11	11	12	13	16
\$70 Mn Clients	9	9	9	12	12	12
\$80 Mn Clients	4	8	9	9	10	12
\$90 Mn Clients	4	4	5	6	6	8
\$100 Mn Clients	3	3	3	4	6	6
\$300 Mn Clients	1	1	1	1	1	1
\$200 Mn Clients				1	1	2

Source: Company

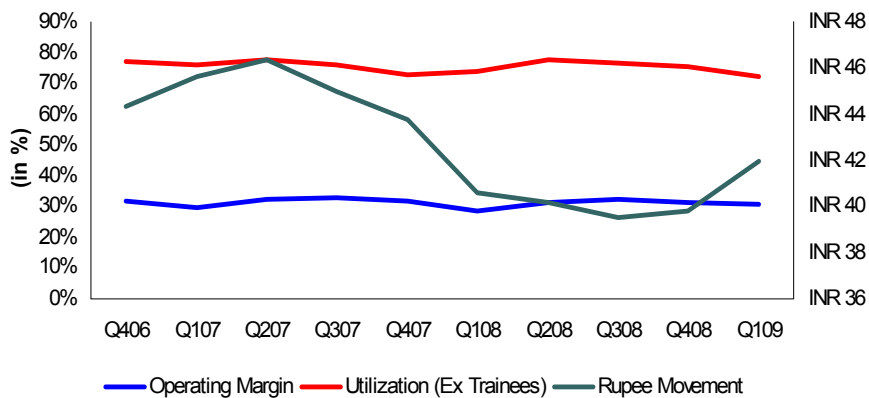
Added 2 clients added in \$90 mn run rate, taking the total to 8...

Margins impacted by wage hikes coupled with lower utilization rate....

Margins: Declined by 200 bps qoq....

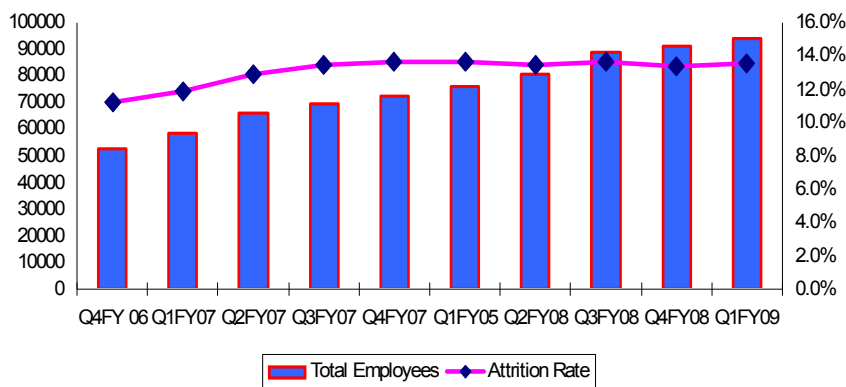
Impacted by wage increase (-2.2%) coupled with higher visa cost (\$15 mn, -0.7%) and lower utilization (-1.5) EBITDA margins for Q1FY09 was lowered by 200bps to 30.5%, however rupee depreciation during the quarter close to 7.5%, restricted the fall in margins to the extent of +2.5%. Going forward, for FY09E management indicated at maintaining the margins around 31.5%-31%, with a narrow movement of 40-50bps.

EBITDA margins movement



Source: Company / Reliance Money Research

Employees-Attrition



Source: Company / Reliance Money Research

Other Key Highlights:

Q1FY09 Performance (USD term)

Muted performance in usd term for Q1FY09....

	Q1FY08	Q4FY08	Q1FY09	qoq	yoy
Revenues	928	1142	1155	1.1%	24%
Gross Profit	359	478	458	(4.2)%	28%
Operating Income	229	329	308	(6.4)%	34%
Net Income	263	311	306	(1.6)%	16%
EPS	0.46	0.54	0.53	(1.6)%	16%
Gross Margins	39%	42%	40%	-	-
EBITDA Margins	25%	29%	27%	-	-

Source: Company / Reliance Money Research

- Total hedge position at the end of Q1FY09 stood at \$811 mn as against \$760 mn in Q4FY08.
- DSO stood at 69 (LTM) at the end of Q1FY09.
- Total cash at the end of Q1FY09 stood at Rs 61450 mn.
- Added 49 clients during the quarter, 20 clients in the Manufacturing space.

Company Background

Infosys Technologies Limited is one of the fastest growing IT Company, with more than 90000 employees. The Company provides end-to-end business solutions that leverage technology, enabling its clients to enhance business performance. Its service offerings include custom application development, maintenance and production support, software re-engineering, package evaluation and implementation, IT consulting and other solutions, including testing services, engineering services, business process management. In addition, the Company offers software products for the banking industry and business process management services. Its primary client markets are financial services, manufacturing, telecommunications and retail, as well as utilities and logistics.

Risk and Concern

- Significant rupee appreciation Vis a Vis US dollar, Euro and Pound could lead to revision in earning growth.
- Any significant US economy slowdown, would possibly lead to IT budget cut, which inherently dampen Infosys's growth.

Valuation

Infosys's performance for the quarter gone by was inline with market expectation, however there was no surprise to cheer the market sentiments and headline numbers in USD terms are quite below the expectations with muted volume and pricing growth of 1% and 0.2% respectively. Further the sentiments are not helped by cautious outlook statement from the Infosys's management.

Upgrade to BUY from HOLD with a target price of Rs 2022....

Given the prevailing challenging industry environment coupled with weak domestic market sentiments will prevent any major spurt in the stock performance in the medium term. Nevertheless, we feel that once the dust settles down in US region and some definitive trend and positive newsflows evolve in the Industry, Infosys with its proactive and proven business model will first get the benefits out of it. We have revised our estimates for FY09E and FY10E to factor in the depreciating rupee vis a vis dollar, we have taken a rupee rate Rs 42.5 as compared to Rs 40.0 in our earlier estimates. However, we have revised our target one year forward multiple for Infosys from 21x to 20x to factored the weak industry sentiments. We now upgrade Infosys from HOLD to BUY with a 12M target price of Rs 2022, at our target price stock will be valued at 20x FY09E and 18x FY10E earning.

Profit & loss statement (Rs mn)

Year to Mar	FY07A	FY08A	FY09E	FY10E
Net Sales	138930.0	166920.0	223174.2	270698.4
% Growth	46%	20%	34%	21%
EBIDTA	43910.0	52380.0	71085.9	81840.7
% Growth	42%	19%	36%	15%
Other Income	3720.0	7040.0	5785.0	5613.5
Depreciation	5140.0	5980.0	8257.4	10286.5
PBT	42530.0	53440.0	68613.4	77167.6
% Growth	52%	26%	28%	12%
Tax	5110.0	8060.0	9948.9	12346.8
Adj PAT	37420.0	45380.0	58664.5	64820.8
% Growth	51%	21%	29%	10%
Extra-ordinary	1250	1210	200	0
Reported PAT	38560.0	46590.0	58864.5	64820.8
% Growth	57%	21%	26%	10%
Dividend (%)	230.0	230.0	230.0	230.0
EPS (Rs)	67.6	81.5	102.7	113.1
BVPS (Rs)	196.8	238.7	308.2	388.3

Balance sheet (Rs mn)

Year to Mar	FY07A	FY08A	FY09E	FY10E
Equity Cap	2860.0	2860.0	2890.0	2890.0
Reserves	109690.0	135090.0	175228.8	221575.7
Networth	112590.0	137950.0	178118.8	224465.7
Total Liability	112590.0	137950.0	178118.8	224465.7
Net Block	46420.0	54390.0	69390.0	84390.0
Investments	250.0	720.0	936.0	1216.8
Deffered Tax Assets	920.0	1190.0	1190.0	1190.0
Debtors	24360.0	32970.0	44014.9	53387.7
Cash balance	58340.0	69500.0	93602.0	120949.8
Other CA	12510.0	27710.0	33252.0	39902.4
Current Liabilities	14690.0	19120.0	25348.1	31476.3
Provisions	6810.0	22790.0	28674.6	30820.8
NCA	73710.0	88270.0	116846.2	151942.9
Total Assets	112590.0	137950.0	178118.8	224465.6

Ratio Analysis

Year to Mar	FY07A	FY08A	FY09E	FY10E
OPM %	31.6%	31.4%	31.9%	30.2%
NPM %	26.9%	27.2%	26.3%	23.9%
ROE %	40.8%	36.2%	37.1%	32.2%
ROCE %	46.5%	42.7%	43.4%	38.3%
Asset Turnover (x)	5.0	4.8	5.4	5.9
Avg. Coll Per (Days)	63.1	71.1	71.0	71.0
Valuation ratios				
P/CF per share (x)	21.9	18.2	14.3	12.8
EV/Cash Profit (x)	20.6	17.1	13.0	11.3
EV/EBIDTA (x)	20.5	17.2	12.3	10.3
EV/Sales (x)	6.5	5.4	3.9	3.1
Mkt Cap/Sales(x)	6.9	5.8	4.3	3.6
CEPS (Rs)	76.4	91.9	117.1	131.1
P/ BV (x)	8.5	7.0	5.4	4.3

Cash Flow Statement (Rs mn)

Year to Mar	FY07A	FY08A	FY09E	FY10E
PAT	38560.0	46590.0	58864.5	64820.8
Depreciation	5140.0	5980.0	8257.4	10286.5
Change in WC	(4770.0)	(6100.0)	(4474.2)	(7748.9)
Operating CF	38930.0	46470.0	62647.7	67358.5
Capex	(20530.0)	(11560.0)	(19634.0)	(21255.9)
Investing CF	(12520.0)	(27070.0)	(24233.3)	(25793.4)
Dividends	(15320.0)	(8350.0)	(14126.4)	(13936.5)
Equity	12160.0	580.0	30.0	0.0
Investments	800.0	(470.0)	(216.0)	(280.8)
Financing CF	(2360.0)	(8240.0)	(14312.4)	(14217.3)
Net Change	24050.0	11160.0	24102.0	27347.8
Opening Cash	34290.0	58340.0	69500.0	93602.0
Closing Cash	58340.0	69500.0	93602.0	120949.8

Source: Reliance Money Research

Reliance Money Research and Sales

Research	Sectors	Telephone	EmailID
Avinash Gorakshakar	Head of Research	91-22-3044 3302	avinash.gorakshakar@relianceada.com
Analyst			
Umesh Karne	Autos, Auto Components, Capital Goods & Power Equip	91-22-3044 3305	umesh.karne@relianceada.com
Sanjeev Hota	IT, Media and Education	91-22-3044 3304	sanjeev.hota@relianceada.com
Surya Patra	Pharma, FMCG & Liqour	91-22-3044 3303	surya.patra@relianceada.com
Rabindranath Nayak	Power Utilities & Telecom	91-22-3044 3309	rabindra.nayak@relianceada.com
Sirish Hisaria	Real Estate, Construction & Infrastructure	91-22-3044 3308	sirish.hisaria@relianceada.com
Associates			
Gaurant Dadwal	Autos & Auto Components	91-22-3044 3321	gaurant.dadwal@relianceada.com
Atul Pandit	Engineering	91-22-3044 3316	atul.pandit@relianceada.com
Priyadarshini Dembla	FMCG	91-22-3044 3315	priyadarshini.dembla@relianceada.com
Poonam Bisht	Liquor	91-22-3044 3318	poonam.bisht @relianceada.com
Vinod Pushpanathan	Pharma	91-22-3044 3320	vinod.pushpanathan@relianceada.com
Anwit Goswami	Power Utilities, Construction	91-22-3044 3317	anwit.goswami@relianceada.com
Technical & Derivatives Desk			
Nilesh Kulkarni	Sr. Derivatives Analyst	91-22-3044 3312	nilesh.kulkarni@relianceada.com
Bhavin Mehta	Technical Analyst	91-22-3044 3311	bhavin.y.mehta@relianceada.com
India Equity Sales Desk			
Suresh Parmar	AVP - Institutional Equity	91-22-30864655	suresh.parmar@relianceada.com
Rajesh Menon	Sales Trader	91-22-30864650	rajesh.menon@relianceada.com
Asia Pacific Sales Desk			
Ankur Sharma	Country Head - Hong Kong	+852 9528 2165	ankur.sharma@relianceada.com ankur@goldride.com

Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

Reliance Money :

Reliance Money House, Plot No - 250 - A - 1, Baburao Pendharkar Marg,
Off Annie Besant Road, Behind Doordarshan Tower, Worli, Mumbai - 400025
Tel.: 91-22-30443301, Fax No.: 30443306

Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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