

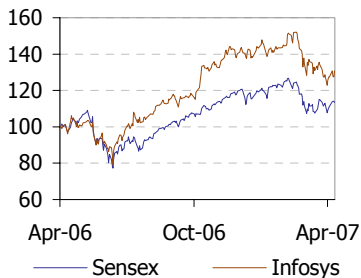
Infosys Technologies

 Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 557mn
 Market cap : Rs 1,193bn
 52 week high/low : 2,439 / 1,225
 Avg. daily vol. (6mth): 1.6mn
 Bloomberg code : INFO IN
 Reuters code : INFY.BO

Shareholding (%) Dec-06 QoQ chg

Promoters	: 16.9	(2.4)
FII's	: 33.9	(2.3)
MFs / UTI	: 3.5	(0.4)
Banks / FIs	: 2.9	0.1
Others	: 42.8	5.0

BACK-LOADED GROWTH

Infosys' topline growth of 3.2% QoQ in Q4FY07 was lower than our estimates due to lower utilization rates (-280 bps excluding trainees) and a subdued performance in its core BFSI domain. A blended pricing increase of 1.7% QoQ partly offset the impact of 2.3% INR appreciation. Blended volume growth at 3.6% QoQ was lower than our expectations. Adjusting for tax reversal provision of Rs1.24 bn, PAT grew at ~3.8% QoQ.

Guidance implications *(based on exchange rate Rs 43.1)*

FY08 : Infosys' topline guidance of ~USD4bn (implied YoY growth of 28-30% in USD terms), indicates robust business momentum. However, gross employee additions at ~24,500 in FY08 and ~6,700 for Q1FY08 (v/s ~ 25,000 employee additions planned at the start of FY07) appear conservative. We believe Infosys will have to tweak utilization rates upwards for higher topline growth (expected to rise from 73% excl. trainees to higher end, 76-78%). PAT growth guidance, at 20-22% YoY (INR terms), is lower than our expectations.

Implied QoQ growth: With Q1FY08 topline guidance of 3.3 % - 3.7% QoQ, and a sequential decline in PAT, the implied growth is back-ended in nature. The implied topline QoQ revenue run-rate is 6-6.8% for the remaining quarters of FY08 and 8-9% for EPS. Around 3% dilution has been due to the exercise of ESOPs. Infosys China and Infosys Consulting would be in the investment phase for the next 2-3 quarters.

Valuations: Our FY08E estimates largely remain intact – topline and PAT growth of ~33% & ~25%, respectively. In our view, upside in EPS estimate is quiet remote. Additionally, the current valuations at 24.4x FY08E and 19.8x FY09E earnings factor in the buoyancy in topline. Maintain our sector **Neutral** rating on the stock. Higher than expected client ramp-ups, inorganic initiatives, if any, addl. large deal wins are the key risks to our EPS estimates.

Financial summary

Y/E Mar	Sales (Rs mn)	Rep.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)
2006	95,216	24,585	-	45.0	28.6	33.1	39.5	25.0
2007	138,930	38,544	66.8	68.5	52.1	29.4	44.0	24.4
2008E	184,667	48,145	86.7	85.5	24.9	24.4	40.5	18.7
2009E	235,379	59,410	109.6	105.6	23.4	19.8	36.6	14.1

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	37,720	26,240	43.8	36,550	3.2	184,667	138,930	32.9
EBIDTA	11,970	8,330	43.7	11,960	0.1	57,916	43,904	31.9
Other income	1,190	720	65.3	590	101.7	4,242	3,720	14.0
PBIDT	13,160	9,050	45.4	12,550	4.9	62,158	47,624	30.5
Depreciation	1,450	1,440	0.7	1,410	2.8	7,211	5,140	40.3
PBT	11,710	7,610	53.9	11,140	5.1	54,947	42,484	29.3
Tax	1,510	810	86.4	1,300	16.2	6,752	5,100	32.4
Minority Interest	-	70	-	10	-	49	80	-
Adjusted PAT	10,200	6,730	51.6	9,830	3.8	48,145	37,304	29.1
Extra ordinary income/ (exp.)	1,240	200	520.0	-	-	-	1,240	-
Reported PAT	11,440	6,930	65.1	9,830	16.4	48,145	38,544	24.9
No. of shares (mn)	563	542	-	557	-	563	563	-
EBIDTA margin (%)	31.7	31.7	-	32.7	-	31.4	31.6	-
PBIDT margin (%)	34.9	34.5	-	34.3	-	33.7	34.3	-
EPS - (Rs.)	18.1	12.4	46.0	17.6	2.7	85.5	68.5	24.9

Source: Company, ENAM Research

FY08 Guidance -

- FY08 guidance, at 28-30% amidst expectations of US slowdown (if any), indicates strong business pipeline. Nonetheless, INR appreciation of ~4.2% (FY07 effective realized rupee rate – Rs45.0, FY08 guidance at Rs43.1) restricts the topline growth (in INR terms) to 22.6-24.6%.
- ESOP dilution of 3% is likely to weigh upon EPS growth of ~20-22%.

Guidance Analysis

	FY08	Implied YoY Growth (INR Terms)	Implied YoY Growth (USD Terms)
Topline (Rs bn)	170.4 - 173.1	22.6% - 24.6%	28.0% - 30.0%
EPS (Rs)	80.3 - 81.6	20.0% - 22.0%	25.7% - 27.7%

Source: Company, ENAM Research

- With subdued QoQ topline growth of ~3.3 - 3.7% in Q1FY08, the implied topline QoQ growth rate for the remaining quarters of FY08 stands at 6.0% to 6.8%. Visa costs, salary hikes and lower utilization rates in Q1FY08 are likely to lead to higher QoQ EPS run-rate at 8-9% for the remaining quarters of FY08.

Guidance Analysis

	Q1FY08	Implied QoQ Growth (INR Terms)	Implied QoQ Growth (INR Terms) for Q2FY08, Q3FY08 and Q4FY08
Topline (Rs bn)	39.0 - 39.1	3.3% - 3.7%	6.0% - 6.8%
EPS (Rs)	17.8	20.0% - 22.0%	8.0% - 9.0%

Source: Company, ENAM Research

Guidance so far

(%)	Topline Growth	PAT Growth
FY03	18.5 - 21.8	15.5 -18.7
FY04	23.2 - 25.4	12.3 -13.7
FY05	23.5 - 24.5	20.0
FY06	24.7 - 26.6	23.0 - 24.9
FY07	28.7 - 30.7	26.4 - 28.4
FY08E	22.6 - 24.6	20.0 - 22.0

Source: Company, ENAM Research

Client Profile

Top 10 clients led the revenue performance at ~11.2% QoQ.

(Rs mn)	Q4FY07	Q3FY07	Q4FY06
Clientele Performance			
Active Client Base (nos)	500	488	460
Additions This quarter (nos)	34	43	38
Repeat Business (%)	93	95	92
Evaluation: Quality of Clients			
<i>No : of \$ 1 mn clients</i>	<i>275</i>	<i>256</i>	<i>221</i>
No : of \$ 5 mn clients	107	108	81
No : of \$ 10 mn clients	71	67	54
No : of \$ 20 mn clients	36	35	26
No : of \$ 30 mn clients	25	22	19
No : of \$ 40 mn clients	16	17	14
<i>No : of \$ 50 mn clients</i>	<i>12</i>	<i>11</i>	<i>9</i>
No : of \$ 60 mn clients	11	10	0
<i>No : of \$ 70 mn clients</i>	<i>9</i>	<i>8</i>	<i>4</i>
No : of \$ 80 mn clients	4	4	0
No : of \$ 90 mn clients	4	2	1
<i>No : of \$ 100 mn clients</i>	<i>3</i>	<i>2</i>	<i>0</i>
% of clients that contribute greater than USD1mn	55	52	48
% of clients that contribute greater than USD5 mn	21	22	18

Source: Company, ENAM Research

Q4FY07 Result Analysis

	Q4FY07	% change		Remarks
		QoQ	YoY	
Topline (Rs mn)	37,720	3.2	43.8	Lower than our expectations largely due to lower utilization rates
Operating Profit	11,970	0.1	43.7	Operating Profit lower than our expectations
Rep. PAT	11,440	16.4	70.0	Better than our expectations largely due to tax reversal of Rs1240mn. Excluding the tax reversal, PAT would grown at 3.76% QoQ
Rep. EPS (Rs.)	20.3			
OPM (%)	31.7	(100 bps)	flat	Rupee appreciation, lower utilization rates impacted OPM
Volumes (person-months)				
Onsite	36,584	4.0	37.8	Moderated utilization rates and lower QoQ growth in BFSI impacted volume growth rate QoQ
Offshore	75,003	3.4	32.5	
Blended	111,587	3.6	34.2	
Pricing*				New Client signings have been at 3-4% higher than the company average. Blended pricing increase of 1.7% QoQ
Blended				
Utilisation Rates (%)				
Including Trainees	67.9	40	(180)	Management expects to leverage the utilization rates to offset the impact of rupee appreciation, Salary hikes (impact of 300 bps)
Excluding Trainees	73.0	(280)	(400)	
Employee base (nos)				
Total Employees	72,241	4.0	37.0	Planned gross additions of 24,500 is a cause of concern. We believe this could be conservative. Q1FY08 would add ~6,700 v/s 8,097 gross additions in Q1FY07
Net Additions	2,809			
Clientele Performance (Rs mn)				
Top Client	3,206	27.1	160.0	Top 10 clients led the revenue performance at ~11.2% QoQ
Top 2-5 Clients	4,828	10.1	32.4	
Top 6-10 Clients	4,564	3.2	40.3	
Top 10 Clients	12,598	11.2	54.9	
Remaining Clients	25,122	(0.4)	38.8	
Avg. Realization per active client (USDmn)	7.0	4.1	36.5	
Clientele Performance - Annual Run Rates (USD mn)				
Top Client	298			With annual run rate of ~ USD300 mn for top client and ~ USD 110 mn+ for client 2-5, Infosys client quality continues to reflect favourably v/s peers. The strategic focus on USD10mn accounts (71 clients in Q4FY07, + 4 QoQ) is gaining momentum.
Top 2-5 Clients	112			
Top 6-10 Clients	85			
Remaining Clients	5			
Vertical Performance				Core BFSI domain degrew QoQ. Telecom, Manufacturing and Retail led the growth
Horizontal Performance				Consulting, Engineering Services and BPM continue to maintain steady momentum.
Geography Performance				Europe and RoW maintained their steady performance. US geography had a subdued 2.2% QoQ growth

Source: Company, ENAM Research Note: * - assuming 160 hours per month

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