

Expect in line results, currency could play spoil sport

5th April'2010

Ratings

Company Name	Rating	CMP	Target Price
Infosys	ACCUM	2670	3100
TCS	ACCUM	807	860
Wipro	REDUCE	719	700
HCL Tech	ACCUM	358	400
Tech M	REDUCE	860	950
Mphasis	HOLD	640	650
eClerx	BUY	504	540
Patni	n.a	550	n.a
Hexaware	n.a	69	n.a

Price Performance

(%)	1M	3M	6M	12M
Infosys				
Absolute	1	4	15	94
Rel. to Sensex	(4)	2	11	9
TCS				
Absolute	6	9	28	197
Rel. to Sensex	0	7	24	66
Wipro				
Absolute	3	6	19	187
Rel. to Sensex	(2)	4	15	60
HCLT				
Absolute	(2)	(4)	6	254
Rel. to Sensex	(7)	(6)	3	98
Tech Mahindra				
Absolute	(4)	(13)	(9)	215
Rel. to Sensex	(9)	(15)	(12)	76
Mphasis				
Absolute	(4)	(11)	(4)	215
Rel. to Sensex	(9)	(13)	(7)	76
Patni				
Absolute	17	12	22	331
Rel. to Sensex	11	10	18	141
eClerx				
Absolute	11	21	35	313
Rel. to Sensex	6	19	31	131

Source: Capitaline

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We expect ~2-4.8% QoQ growth in US\$ revenues for our IT services coverage universe. Cross currency movements would impact growth negatively by ~80-250 bps after helping reported growth over the past 3 quarters.

Expect 14-15% YoY revenue growth guidance for FY11, EPS outlook at Rs 112-114 could disappoint near term (given street expectations pegged at ~Rs 120).

Look out for (1) comments on pickup in business from manufacturing and telecom verticals, (2) outlook on continuation of uptick seen in financial services over the past 2-3 quarters, (3) Margin levers (given currency appreciation, wage increments and near high utilization levels posing downside risks).

Maintain Infosys as the top pick in the large cap IT services space. However would not rule out near term stock weakness on account of weak earnings guidance.

Expect 2-4.8% sequential growth across our coverage universe

We expect ~2-4.8% QoQ growth in US\$ revenues for our coverage universe with cross currency movements playing spoilsport after lending help over the past 3 quarters. We expect Infosys to report the highest QoQ growth amongst our large cap coverage universe and expect March'10 revenues at US\$ 1292 mn (+4.8% QoQ, +15.2% YoY) ahead of co. guidance of 0.6-1.5% QoQ growth. HCL Tech will lag peers for the 2nd quarter in a row in terms of sequential growth driven by cross currency hit of ~150 bps QoQ

Expect Infosys to guide for ~14-15% YoY revenue growth, EPS outlook at Rs 112-114

We believe that Infosys could guide for FY11 revenue growth at 14-15% which would entail a 2.4-2.7% sequential growth rate on our March'10 quarterly revenue expectations of US\$ 1292 mn. We believe Infosys management could err on the conservative side despite resurge in spending at top clients citing (1) uncertainty in the global environment and especially the European geography, (2) lack of pickup in discretionary spending for now and (3) adverse cross currency movements (GBP, Euro have depreciated by ~5.5-6% since Dec'09 quarter end). On account of the recent currency appreciation and the upcoming wage increments to be implemented from April'10 onward, we expect Infosys to guide for earnings of Rs 112-114 (+2-3.8% YoY), which could spook street given investor expectations (Emkay FY11 EPS estimate at Rs 121.2, based at Rs 45/\$) pegged at Rs 120+.

Do not rule out near term stock weakness, Infosys remains the preferred pick in the large cap universe

We would not rule out near term stock price weakness in the run up to Infosys's results on April 13'10. However maintain Infosys as the preferred pick in the large cap IT services universe with our confidence emanating from (1) higher exposure to discretionary IT spending (Infosys derives ~41% of revenues from App Development / Enterprise Apps), (2) more operational levers (Infosys still has room to improve utilization as compared to peers TCS and Wipro who are operating near peak utilization levels) and (3) superior cash flow generation profile as compared with peers (refer table below). A special dividend also remains in the offing in April'10 as has been the historical trend of giving a special dividend every alternate year. *(also refer to our note 'Infosys: Expect 14-15% YoY growth for FY11' dated March'16'2010).*

March'10 result expectations

Co Name	Revenues	Revenue growth		EBITDA	EBITDA growth		Net profits	Profit growth	
	(in US\$ mn)	QoQ	YoY	(in Rs mn)	QoQ	YoY	(in Rs mn)	QoQ	YoY
Infosys	1,292	4.8	15.2	20,914	2.6	10.6	16,169	2.1	0.2
TCS	1,704	4.2	18.9	22,963	1.1	22.2	18,445	2.6	40.3
Wipro	1,170	3.8	11.8	13,682	1.1	1.3	12,303	2.4	11.9
HCL Tech	664	2.0	17.7	5,761	-6.2	-2.4	3,064	11.8	56.3
Tech M	261	2.7	23.3	2,614	-6.9	-8.0	1,764	2.0	-23.4
Patni	174	2.4	11.4	1,695	1.2	18.8	1,381	1.3	81.6
eClerx	15	4.0	44.9	277	-0.7	15.7	263	23.3	62.7
Hexaware	50	-4.9	-7.3	258.8	-42.5	-34.0	141	-60.7	-18.3

Source: Emkay Research

Revenue guidance(in US\$ mn)	March'10 guidance	QoQ growth
Infosys		
Lower end	1,240	0.6
Upper end	1,250	1.5
Wipro		
Lower end	1,161	3.0
Upper end	1,183	5.0
Patni		
Lower end	170	-0.1
Upper end	174	2.2

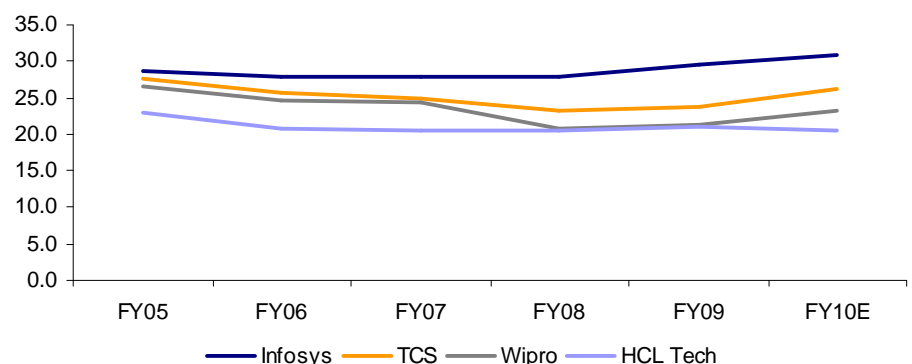
Source: Companies, Emkay Research

GBP and Euro have appreciated by 5%/6% on an average during the March'10 quarter

	Dec'08	March'09	June'09	Sep'09	Dec'10	March'10
US\$/INR						
Average	49.4	50.2	48.8	48.4	46.6	45.9
Quarter end	48.7	50.7	47.9	48.1	46.5	45.1
GBP/US\$						
Average	1.57	1.44	1.56	1.64	1.64	1.56
Quarter end	1.45	1.43	1.67	1.59	1.61	1.51
Euro/US\$						
Average	1.32	1.31	1.36	1.43	1.48	1.39
Quarter end	1.41	1.32	1.41	1.46	1.44	1.35

Source: RBI, Emkay Research

Infosys is the only company whose EBIT mgns have trended up over the past 5 years in the large cap IT universe



Source: Companies, Emkay Research

Infy enjoys a far superior cash flow generation profile as compared to peers

CFO, as % of revenues	Infosys	TCS	Wipro
FY07	27.9	17.8	14.4
FY08	27.8	16.5	12.5
FY09	30.2	23.0	14.1
9M FY10	32.6	25.3	19.8

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