

Infotech Enterprises delivered a poor operational performance in the quarter, contrary to our expectations. The revenues and net profit before IASI share grew sequentially by 5.7% and 3.7% respectively with operating margin declining by sharp 220 bps qoq to 20.4%. Operating profit growth was negative 4.5% qoq which was pushed up by higher other income and lower tax provision. The high IASI profit share (entire of which was exceptional) v/s a negative contribution last quarter led to phenomenal 32.6% qoq growth in adjusted net profit. For the full year FY08, company's performance stood robust with revenue growth of 49.7% and adjusted profit growth of 66.3%. Management is confident of maintaining the growth momentum with stable operating margin in FY08.

Key highlights of the quarter

Financials

Period	Growth			Growth		Growth			Growth	
	03/07	12/06	(%)	03/06	h (%)	03/07	03/06	h (%)	03/08E	h (%)
Rs mn	(3)	(3)	qoq	(3)	yoy	(12)	(12)	yoy	(12)	yoy
Sales	1,512	1,430	5.7	1,078	40.3	5,425	3,625	49.7	7,495	38.1
Operating Profit	308	323	(4.5)	199	55.2	1,134	658	72.4	1,533	35.2
OPM (%)	20.4	22.6	-	18.4	-	20.9	18.1	-	20.4	-
APAT	249	188	32.6	166	50.0	837	503	66.3	1,056	26.2
NPM (%)	16.5	13.1	-	15.4	-	15.4	13.9	-	14.1	-
EPS (Rs)										
Annualized	21.7	16.4	-	14.5	-	18.2	11.0	-	23.0	26.2
P/E (x), CMP Rs360	16.6	-	-	-	-	19.7	-	-	15.6	-

- ✓ The modest volume-led sequential revenue growth of 5.7% was lowest of the past six quarters. During the quarter, the Top 5 and Top 10 client bracket recorded their lowest growth rate of past 8-9 quarters at 2.1% and 5.2% qoq. Given their high contribution to revenues at 48.9% and 67.8% respectively, company growth was impacted in the quarter. For the full year FY07, revenue growth was strong at 49.7% yoy led by strong traction from its key customers Bobardier, Alstom Transport, P&W Canada, Hamilton Sundstrand, KPN Telecom and GE Swisscom.
- ✓ In terms of segmental growth, company witnessed higher growth in GSD than EMI for a second consecutive quarter. GSD division grew by healthy 7.3% qoq from Rs543mn to Rs583mn led by fast ramp-up in GE Swisscom account. EMI vertical recorded its lowest growth in past 8-9 quarters of 4.5% qoq due to slow growth in main accounts here except for Bobardier. The revenue mix tilted towards GSD by 70 bps to 38.6:61.4 (GSD:EMI).
- ✓ Europe led growth in the quarter by registering a strong 13.1% qoq jump with its revenue share increasing 330 bps qoq to 50.3%. The two European subsidiaries, Infotech Enterprises Europe Ltd and Infotech Enterprises GmbH registered 38% and 9.2% growth respectively. Revenues from North America de-grew marginally qoq with continuation of difficult business environment for the GSD division of its regional subsidiary, Infotech Enterprises America Inc.
- ✓ OPM declined substantial 220 bps to 20.4% impacted by salary rationalization exercise implemented for many employees across company and higher SG&A level due to higher investments made towards developing offerings for newer verticals of Marine and Avionics. Operating profit de-grew by 4.5% qoq.
- ✓ Other income was sequentially higher at Rs19mn and tax provisions were lower at 17.3% against 20.7% in the previous quarter. Pushed by above, the net profit recorded modest growth of 3.7% qoq.

- ✓ Contribution from the Puerto Rico JV, IASI, stood high at Rs41 against a negative Rs12mn in the previous quarter. During the quarter, the JV received substantial grant from the country Government which made up almost its entire earnings. In the previous quarter, the profitability here was impacted by distribution of one-time bonus to employees (on the entity crossing the US\$25mn mark in CY06) and making provisions for receivables outstanding for greater than 365 days.
- ✓ After adding more than 400 people in the previous two quarters, company added net 188 people in Q4 FY07 taking the total headcount to 5,131 at the end of the year comprising 2,652 in GSD, 2,355 in EMI and 124 in support functions.
- ✓ Management is confident about continuation of the strong growth momentum in FY08 with operating margin in the range of 20-22%. Confidence stems from about 70% visibility for achieving similar to FY07 growth in FY08. It expects between 20-25% growth in GSD vertical and between 55-60% growth in EMI business. IASI profit share is anticipated at between Rs15-20mn per quarter and tax rate is expected to be more or less similar.

Outlook

Though the actual EPS for FY07 was higher than forecasted (Rs17.9), we revise our FY08 EPS estimate marginally downward by 1.2% to Rs23 mainly to factor the expected substantially lower IASI profit share yoy. We maintain our Market Performer stance on the company with a one-year target price of Rs391 based on 17x FY08E EPS. Despite lower potential share price upside, we remain positive on the company for its exhibition of consistent strong revenue growth and margin improvement over past 8-10 quarters and strong visibility, unlike any other mid-cap company. Further, our estimates have upside risk from inorganic growth on which the company is very keen.

Published in April 2007. © India Infoline Ltd 2007-08.

This report is for information purposes only and does not constitute to be any investment, legal or taxation advice. It is not intended as an offer or solicitation for the purchase and sale of any financial instrument. Any action taken by you on the basis of the information contained herein is your responsibility alone and India Infoline Ltd (hereinafter referred as IIL) and its subsidiaries or its employees or directors, associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained herein, but do not represent that it is accurate or complete. IIL or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this publication. The recipients of this report should rely on their own investigations. IIL and/or its subsidiaries and/or directors, employees or associates may have interests or positions, financial or otherwise in the securities mentioned in this report.