

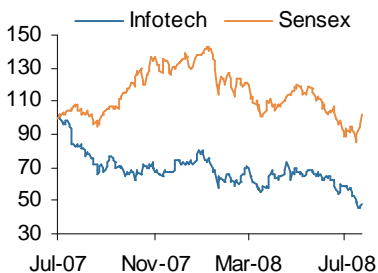
Infotech Enterprises Ltd (Q1 FY09)

July 24, 2008
Stock data

Sensex:	14,942
CMP (Rs):	190
Target price (Rs):	224
Upside (%):	17.9
52 Week h/l (Rs):	365/175
Market cap (Rs cr)	990
6m Avg vol BSE&NSE ('000 nos):	35
No of o/s shares (mn):	52
FV (Rs):	5
Bloomberg code:	INFTC IN
Reuters code:	INFE.BO
BSE code:	532175
NSE code:	INFOTECENT

Shareholding pattern

March 2008	(%)
Promoters	25.0
FII's	19.0
Indian institutions	13.7
Public & others	42.3

Share price trend


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- ⚡ Dollar revenue growth of 3.2% qoq was below expectations
- ⚡ OPM remains stable despite material decline in gross margin
- ⚡ Net profit decline 5% qoq due to lower other income; client and employee additions strong
- ⚡ Management expects 30-35% dollar growth in FY09
- ⚡ Upgrade Infotech to BUY with one-year price target of Rs224 implying 18% upside

Result table

Period	Q4 FY08	Q1 FY09	QoQ	YoY
(Rs mn)	(3)	(3)	(%)	(%)
Net sales	1,874	2,006	7.0	34.8
Total Expenditure	(1,532)	(1,637)	6.8	33.8
Operating Profit	342	369	8.0	39.6
OPM (%)	18.2	18.4	-	-
Depreciation	(103)	(108)	4.4	41.6
Interest	(12)	(10)	(9.6)	131.1
Other income	92	33	(64.3)	(208.3)
PBT	319	284	(11.0)	84.9
Tax	(86)	(59)	(32.0)	73.7
PAT	233	225	(3.2)	88.1
IASI profit share	27	21	(23.2)	105.0
APAT	259	246	(5.3)	89.4
Number of shares (Mn)	52.1	52.1	-	-
EPS (Rs) - Quarterly	5.0	4.7	(5.3)	67.7

Source: Company, India Infoline Research

Dollar revenue growth of 3.2% qoq was below expectations

Infotech delivered a lower than anticipated revenue growth of 7.1% in rupee terms and 3.2% in dollar terms. Volume growth was muted 1.9% qoq while pricing improvement was marginal at 0.5% qoq. The growth in Q1 FY09 was driven by the EMI segment which witnessed a resurgent growth of 14.8% qoq after modest growth in the previous two quarters. Revenues in the UTG segment declined 5% qoq due to completion of few large projects during the quarter and slow ramp-ups in new projects. Muted performance in the UTG segment has followed strong growth in the previous two quarters. The revenue mix shifted significantly towards EMI on qoq basis from 41:59 to 36:64. The revenue growth in the quarter was driven by customers in the Top 5-10 bracket. Revenues from these clients grew 31.7% qoq. Amongst geographies, growth was solely driven by North America which grew 16.8% qoq.

OPM remains stable despite material decline in gross margin

The gross margin declined by 266bps qoq to 32.9% as company implemented annual salary hikes effective start of April 2008. However, SG&A level declined sharply by 282bps qoq to 14.5% as the previous quarter component included several seasonal (AMC and professional expenses) and non-recurring (consulting and due-diligence for acquisitions) charges. Net-net, OPM improved by 20bps qoq to 18.4%.

Net profit decline 5% qoq due to lower other income; client and employee additions strong

Other income was 64% lower qoq at Rs33mn on account of forex loss of Rs82mn on the forward cover. It also included dividend worth ~Rs18mn from the German subsidiary. IASI profit share declined 23% qoq to Rs21mn. The net profit decline of 5% qoq was lower than estimate as we were expecting a higher forex loss and lower IASI profit share. The employee addition at 298, 4.2% of Q4 FY08 base, was healthy and client addition was highest-ever at 24.

Management expects 30-35% dollar growth in FY09

Based on the current order book, COE (Centres of Excellence) run-rate and business pipeline, management expects dollar revenue growth between 30-35% in FY09. Infotech is very confident about achieving this target with visibility for ~80% of revenues. On segmental basis, company expects 25-30% growth in UTG and 35-40% growth in EMI. Revenue growth in the UTG segment is expected to bounce-back strongly in remaining quarters of the year. Annual OPM is expected to remain stable or higher than 18.4% recorded in Q1 FY09. Infotech plans to add net ~2,000 people and incur a capex of Rs1.6bn in FY09.

Upgrade Infotech to BUY with one-year price target of Rs224 implying 18% upside

Since our earlier SELL recommendation on Infotech in the Q4 FY08 update, the stock has corrected by 33% and valuations have fallen to reasonably attractive levels. Further, post better-than-estimated profit performance in Q1 FY09, we are more confident about company achieving our FY09 and FY10 earnings estimate. We therefore upgrade Infotech to BUY. While assigning the P/E multiple, we factor a premium for the huge cash balance (Rs3.37bn, ~34% of market cap) in the balance sheet. As a significant portion of the capex would be financed from internal cash flow, existing cash balance is likely to drive earnings upside through inorganic growth. Based on 9.5x FY10E EPS, we arrive at a target price of Rs224 implying 19% upside.

Projected financials

y/e Mar (Rs mn)	FY07	FY08	FY09E	FY09E
Revenues	5,425	6,741	8,887	1,1088
yoy growth (%)	49.7	24.3	31.8	24.8
Operating Profit	1,135	1,220	1,659	1,940
OPM (%)	20.9	18.1	18.7	17.5
PAT	837	856	1,119	1,285
yoy growth (%)	66.2	2.3	30.8	14.8
EPS (Rs)	18.1	15.7	20.6	23.6
P/E (x)	10.4	12.0	9.1	8.0
P/BV (x)	3.0	2.2	1.9	1.9
EV/EBITDA (x)	10.8	9.4	7.3	7.3
ROE (%)	28.5	12.8	13.9	13.9
ROCE (%)	29.7	15.5	17.4	17.5

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