

Infosys Technologies Ltd

BUY
CMP Rs2,588
TP Rs3,035

12 Jan 2010

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Infosys has exhibited good operational performance in Q3FY10 by reporting better than guided and consensus revenues and profits. The EBIDTA margin improved by ~90bpsQoQ on the back of higher utilisation and pricing. The guidance for FY10 has been revised upwards which indicate an improvement in the business environment. The improved deal pipeline and robust demand for IT services in US and BFSI will help Infosys surpass its FY10 guidance.

• **Infosys Q3FY10 results – positive surprises galore**

Infosys revenues grew by 2.8%QoQ (3.1%YoY) to Rs57.4bn for Q3FY10 (guidance of Rs54.5bn) whereas dollar revenues surged by 6.8%QoQ to USD1,232mn (guidance of USD1,160mn). **The EBIDTA margin expanded by 90bpsQoQ (40bpsYoY) to 35.5%** despite currency appreciation of 3.7% QoQ and salary increments. EPS grew 2.7%QoQ to Rs27.72 (guidance of Rs23.45).

• **US, BFSI and ADM business outperform**

The revenues from US grew 7.9%QoQ across verticals. In terms of verticals, BFSI grew 10.3%QoQ because of a marginal uptick in pricing and closure of new deals. The traditional Application maintenance business grew 15.2%QoQ largely due to improved decision making, the application development grew 5.2%QoQ because of a slight shift towards the discretionary spend.

• **Hiring guidance raised to meet the increased demand**

Infosys will hire 24,000 (gross) this year instead of their earlier guidance of 20,000. The company will hire 6,000 (gross) in Q4FY10. It plans to give 15,000 new offers for FY11 which demonstrates the sustained demand environment.

• **Large transformational deals to maintain growth**

The top 5 clients have grown by 13.9%QoQ. Clients are slowly shifting towards discretionary spend which was lagging behind since the past few quarters. The offshoring budgets for CY10 are expected to further boost the growth.

We reiterate our 'BUY' rating on Infosys with a revised price target of Rs3,035. We believe that the cyclical shift in IT spend will benefit large Indian IT vendors like Infosys and with the best margins among peers Infosys will continue to outperform.

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-09	Sep-09	Dec-09
Net sales	54,720	55,850	57,410
YoY Gr.(%)	12.7	3.1	3.1
Op.Profit	18,680	19,330	20,380
OPM(%)	34.1	34.6	35.5
Adj.Net Profit	15,270	15,400	15,820
YoY Gr. (%)	17.3	17.3	-3.6

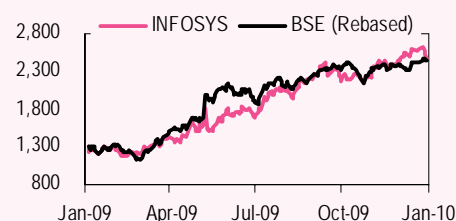
STOCK DATA

Market cap	Rs1,485bn
Book Value per share	Rs391
Shares O/S (F.V. Rs5)	574mn
Free Float	85%
Avg Trade Value (6 months)	Rs4,155mn
52 week High/Low	2,630/1,101
Bloomberg Code	INFO IN
Reuters Code	INFY BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	3.6	15.6	123.3
Relative	1.7	13.0	16.8

RELATIVE PERFORMANCE



Q3 FY 2010 Update

KEY FINANCIALS (Rs mn)

	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	166,920	216,930	228,285	266,343	312,892
YoY Gr.(%)	20.1	30.0	5.2	16.7	17.5
Op. Profit	52,380	71,950	79,358	88,121	100,430
Op. Marg.(%)	31.4	33.2	34.8	33.1	32.1
Adj. Net Profit	46,590	59,880	63,252	72,492	82,921
YoY Gr.(%)	20.8	28.5	5.6	14.6	14.4

KEY RATIOS

Dil. EPS (Rs)	81.3	104.5	110.2	126.3	144.5
ROCE (%)	33.6	35.2	31.1	28.6	26.7
RoE (%)	33.8	32.8	28.0	26.2	24.5
PER (x)	31.7	24.7	23.5	20.5	17.9
EV/ Net Sales (x)	8.5	6.4	6.2	5.1	4.2
EV/EBIDTA (x)	30.5	21.6	20.1	17.3	14.7

Exhibit 1 - Revision of our estimates

(Rs mn, Except EPS)	Earlier		Revised		% change	
	FY11	FY12	FY11	FY12	FY11	FY12
Sales	265,687	315,514	266,343	312,892	0.2%	-0.8%
EBIDTA	84,064	97,753	88,121	100,430	4.8%	2.7%
PAT	69,656	80,160	72,492	82,921	4.1%	3.4%
EPS	121.5	139.8	126.3	144.5	3.9%	3.3%
USD/INR	47.5	47.5	46.5	46.0	-2.1%	-3.2%
Target price (Rs)	2,936		3,035		3.4%	

Source: PINC Research, Company

Exhibit 2 - Quarterly performance

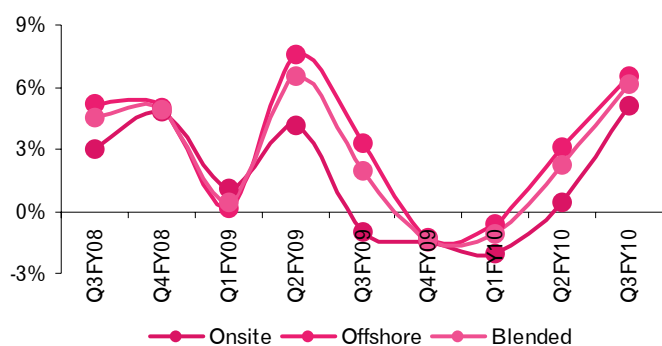
(Rs mn)	Q3FY09	Q2FY10	Consensus	PINC (E)	Q3FY10	QoQ	YoY	Variance(PINC VS ACTUAL)
Total Operating Income (USD)	1,171.3	1,154.0			1232	6.8%	5.2%	
Total Operating Income	57,860	55,850	55,884	56,001	57,410	2.8%	-0.8%	2.5%
EBITDA	20,310	19,330	18,377	18,144	20,380	5.4%	0.3%	12.3%
EBITDA Margin	35.1%	34.6%	32.9%	32.4%	35.5%	89 bps	40 bps	310 bps
Pre Tax Income	18,820	19,370	18,468	18,464	20,370	5.2%	8.2%	10.3%
Tax	2,410	3,970	3,712	3,600	4,550	14.6%	88.8%	26.4%
Tax Rate	13%	20%	20%	19%	22%	184 bps	953 bps	284 bps
PAT	16,410	15,400	14,756	14,863.9	15,820	2.7%	-3.6%	6.4%
EPS (Rs)	28.62	26.83	25.53	26.00	27.72	3.3%	-3.2%	6.6%

Source: PINC Research, Company

Estimates revised upwards on the back of improved demand environment for IT services and stellar margin performance...

Margins improved due to increase in utilisation and pricing...

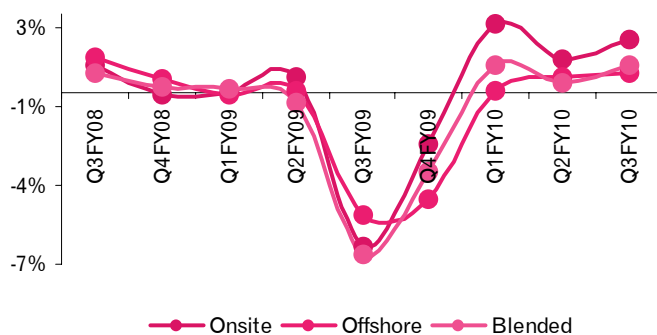
Exhibit 3 - Volume (QoQ growth)



Source: PINC Research, Company

Pleasant surprise with 6.1% volume growth despite lower working days...

Exhibit 4 - Pricing (QoQ growth)



Source: PINC Research, Company

Onsite pricing and offshore pricing increased 2.1% and 0.7%QoQ, respectively. In constant currency, blended pricing increased 0.2%QoQ...

Exhibit 5 - Insurance drives growth in BFSI

By Verticals (USD mn)	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
BFSI	409	387	426	10.3%	4.3%
Manufacturing	230	223	238	6.8%	3.6%
Telecom	196	187	200	6.8%	2.0%
Retail	148	163	161	-0.8%	9.4%
Others	190	195	207	6.1%	9.1%
Total	1,171	1,154	1,232	6.8%	5.2%

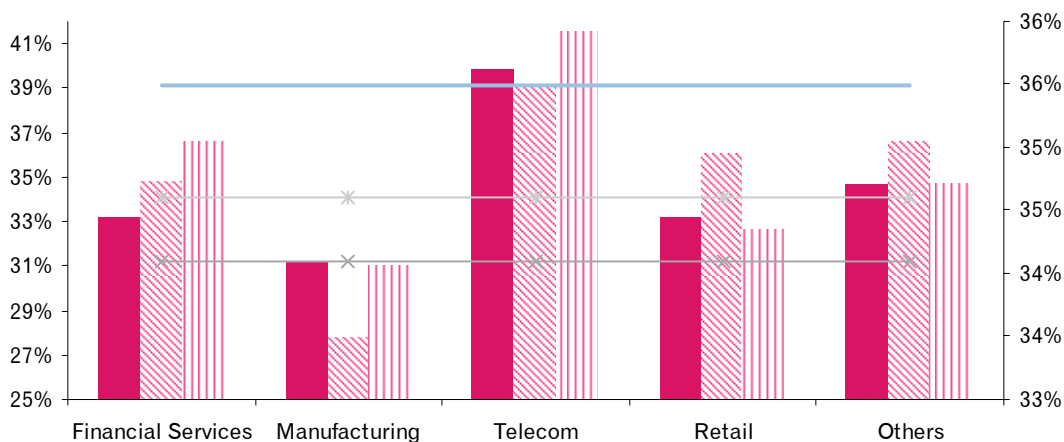
as % of Total

BFSI	34.9%	33.5%	34.6%	110 bps	-30 bps
Manufacturing	19.6%	19.3%	19.3%	0 bps	-30 bps
Telecom	16.7%	16.2%	16.2%	0 bps	-50 bps
Retail	12.6%	14.1%	13.1%	-100 bps	50 bps
Others	16.2%	16.9%	16.8%	-10 bps	60 bps

Source: PINC Research, Company

Exhibit 6 - EBIDTA margins across verticals

■ Q1FY10 ▨ Q2FY10 ▩ Q3FY10 —x— Q1FY10 overall —*— Q2FY10 overall — Q3FY10 overall



Source: PINC Research, Company

Exhibit 7 - Improved traction in North America

By Geography (USD mn)	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
North America	755	760	821	7.9%	8.6%
Europe	299	268	270	0.8%	-9.7%
India	14	14	15	6.8%	5.2%
Rest of World	103	112	127	13.4%	23.1%
Total	1,171	1,154	1,232	6.8%	5.2%

as % of Total	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
North America	64.5%	65.9%	66.6%	70 bps	210 bps
Europe	25.5%	23.2%	21.9%	-130 bps	-360 bps
India	1.2%	1.2%	1.2%	0 bps	0 bps
Rest of World	8.8%	9.7%	10.3%	60 bps	150 bps

Source: PINC Research, Company

Management continues to be cautious about recovery in manufacturing and telecom verticals...

Telecom and BFSI have the highest margins among other verticals...

Recovery in Europe will be led by improved traction in France and Germany...

Exhibit 8 - Traditional application maintenance business leads the pack

By Service Offerings (USD mn)	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
Application Development	244	209	219	5.0%	-10.0%
Application Maintenance	254	262	302	15.2%	18.8%
Business Process Management	67	72	73	1.6%	8.9%
Consulting Services and Package Implementation	294	275	287	4.5%	-2.4%
Infrastructure Management	76	90	87	-2.8%	14.9%
Product Engineering Services	25	27	30	11.4%	20.2%
System Integration	47	51	51	-0.5%	7.8%
Testing Services	76	72	80	11.9%	5.2%
Others	40	51	55	9.2%	39.2%
Total (excl. Products)	1,082	1,056	1,129	6.9%	4.3%
Products	49	47	48	1.6%	-2.3%
Total	1,171	1,154	1,232	6.8%	5.2%
as % of Total					
Application Development	20.8%	18.1%	17.8%	-30 bps	-300 bps
Application Maintenance	21.7%	22.7%	24.5%	180 bps	280 bps
Business Process Management	5.7%	6.2%	5.9%	-30 bps	20 bps
Consulting Services and Package Implementation	25.1%	23.8%	23.3%	-50 bps	-180 bps
Infrastructure Management	6.5%	7.8%	7.1%	-70 bps	60 bps
Product Engineering Services	2.1%	2.3%	2.4%	10 bps	30 bps
System Integration	4.0%	4.4%	4.1%	-30 bps	10 bps
Testing Services	6.5%	6.2%	6.5%	30 bps	0 bps
Others	3.4%	4.4%	4.5%	10 bps	110 bps
Total (excl. Products)	95.8%	95.9%	96.1%	20 bps	30 bps
Products	4.2%	4.1%	3.9%	-20 bps	-30 bps

Source: PINC Research, Company

Exhibit 9 - Shift towards FPP continues

Revenue by Project Type (USD mn)	Q3FY09	Q2FY10	Q3FY10	QoQ	0.0%
Fixed Price	425.2	439.7	471.9	7.3%	11.0%
Time & Material	746.1	714.3	760.1	6.4%	1.9%
Total	1,171.3	1,154.0	1,232.0	6.8%	5.2%
% of Total Revenue					
Fixed Price	36%	38%	38%	20 bps	200 bps
Time & Material	64%	62%	62%	-20 bps	-200 bps
INR/USD (Average)	49.40	48.40	46.60		

Source: PINC Research, Company

ADM growth led by increased velocity of decision making...

Clients are slowly shifting their focus towards discretionary spend which will further drive growth ...

FPP is expected to increase further due to client's focus on cost control...

Exhibit 10 - Large transformational deal worth USD200 nm added

Client Concentration	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
USD 50mn +	20	21	22	4.8%	10.0%
USD 60mn +	17	15	14	-6.7%	-17.6%
USD 70mn +	13	11	12	9.1%	-7.7%
USD 80mn +	11	9	9	0.0%	-18.2%
USD 90mn +	7	6	7	16.7%	0.0%
USD 100mn +	4	5	6	20.0%	50.0%
USD 200mn +	1	1	2	100.0%	100.0%
(USD mn)					
Top client	73	53	58	9.1%	-20.3%
Top 5 clients	203	190	217	13.9%	7.0%
Top 10 clients	319	302	339	12.1%	6.3%
Clients (Top 2-5)	130	137	159	15.7%	22.2%
Clients (Top 6-10)	116	112	122	9.0%	5.2%
Non Top 10	853	852	893	4.9%	4.8%
Total	1,171	1,154	1,232	6.8%	5.2%
Top client	6.2%	4.6%	4.7%	10 bps	-150 bps
Top 5 clients	17.3%	16.5%	17.6%	110 bps	30 bps
Top 10 clients	27.2%	26.2%	27.5%	130 bps	30 bps
Repeat business	97.1%	98.0%	97.0%	-100 bps	-10 bps
DSO	62.0	56.0	57.0		

Top clients register double digit growth; grow faster than company's average growth rate in this quarter...

Source: PINC Research, Company

Exhibit 11 - Hiring guidance for FY10 revised upwards

Employee metrics	Q3FY09	Q2FY10	Q3FY10	QoQ	YoY
Total employees	103,078	105,453	109,882	4.2%	6.6%
SW professionals	95,910	97,594	103,476	6.0%	7.9%
- Billable	85,918	87,798	89,086	1.5%	3.7%
- Banking product group	2,283	2,800	4,345	55.2%	90.3%
- Trainees	7,709	6,996	10,045	43.6%	30.3%
Sales & support	7,168	7,859	6,406	-18.5%	-10.6%
Gross addition	5,997	6,069	8,719	43.7%	45.4%
Net addition	2,772	1,548	4,429	186.1%	59.8%
Lateral employees	1,388	1,064	1,420	33.5%	2.3%
Attrition	11.8%	10.9%	11.6%	70 bps	-20 bps
Utilisation					
Include Trainees	68.5%	67.3%	68.8%	150 bps	30 bps
Exclude Trainees	74.5%	73.2%	76.2%	300 bps	170 bps

The company will hire 6,000(gross) in Q4FY10 and plans to give 15,000 campus offers for FY11...

Further scope for improvement in the utilisation rate after the IT budgets are finalised and demand picks up...

Source: PINC Research, Company

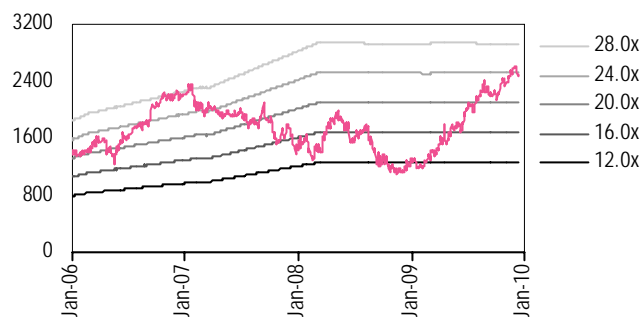
Income Statement					
Year ended 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Net sales	166,920	216,930	228,285	266,343	312,892
Growth (%)	20.1	30.0	5.2	16.7	17.5
Gross profit	74,850	99,280	107,135	121,075	139,241
Other operating charges	22,470	27,330	27,777	32,954	38,810
EBITDA	52,380	71,950	79,358	88,121	100,430
Growth (%)	19.3	37.4	10.3	11.0	14.0
Depreciation	5,980	7,610	9,259	8,943	10,232
Other income	7,040	4,730	9,979	13,761	18,909
EBIT	53,440	69,070	80,069	92,939	109,107
Interest paid	0	0	0	1	2
Pre-tax profit (before E/o items)	53,440	69,070	80,069	92,939	109,107
Tax Provision	7,070	9,360	16,817	20,447	26,186
E/o loss / (Income)	0	0	0	0	0
Net profit	46,590	59,880	63,252	72,492	82,921
Adjusted net profit	46,590	59,880	63,252	72,492	82,921
Growth (%)	20.8	28.5	5.6	14.6	14.4
Diluted EPS (Rs)	81.3	104.5	110.2	126.3	144.5
Diluted EPS Growth (%)	20.7	28.5	5.5	14.6	14.4

Cash Flow Statement					
Year ended 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	53,440	69,070	80,069	92,939	109,107
Depreciation	5,980	7,610	9,259	8,943	10,232
Total tax paid	(5,490)	(9,020)	(16,817)	(20,447)	(26,186)
Chg in working capital	(6,100)	(4,600)	(9,185)	(12,171)	(12,869)
Other operating activities	(7,000)	(9,810)	240	0	0
Cash flow from oper. (a)	40,830	53,250	63,566	69,264	80,285
Capital expenditure	(15,950)	(13,270)	(10,684)	(12,651)	(14,549)
Chg in investments	(710)	560	(52,730)	0	0
Other investing activities	5,460	10,560	0	0	0
Cash flow from inv. (b)	(11,200)	(2,150)	(63,414)	(12,651)	(14,549)
Free cash flow (a+b)	29,630	51,100	152	56,613	65,736
Equity raised/(repaid)	580	640	600	0	0
Debt raised/(repaid)	0	0	0	0	0
Change in Minorities Interest	0	0	0	0	0
Dividend (incl. tax)	(8,350)	(24,940)	(21,464)	(21,464)	(21,464)
Other financing activities	(11,110)	910	0	0	0
Cash flow from fin. (c)	(18,880)	(23,390)	(20,864)	(21,464)	(21,464)
Net chg in cash (a+b+c)	10,750	27,710	(20,712)	35,149	44,272

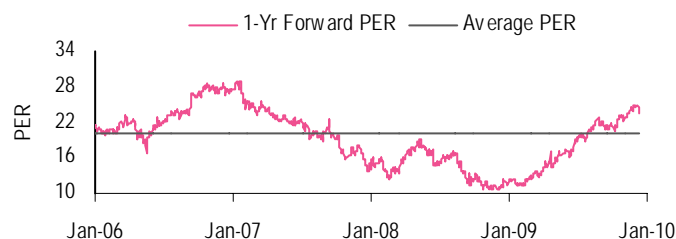
Balance Sheet					
Year ended 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Equity Share capital	2,860	2,860	2,860	2,860	2,860
Reserves & surplus	135,090	179,680	222,891	273,919	335,377
Shareholders' funds	137,950	182,540	225,751	276,779	338,237
Minorities interests	0	0	0	0	0
Total Debt	0	0	0	0	1
Capital Employed	137,950	182,540	225,751	276,779	338,238
Net fixed assets	47,770	53,540	49,944	54,355	59,531
Net Other Current Assets	18,770	30,790	42,530	53,998	66,007
Cash & Cash Eq.	69,500	96,950	77,688	112,837	157,109
Investments	720	0	52,730	52,730	52,730
Net Deferred Tax Assets	1,190	1,260	2,860	2,860	2,860
Total assets	137,950	182,540	225,752	276,780	338,238

Key Ratios					
Year ended 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
OPM (%)	31.4	33.2	34.8	33.1	32.1
Net margin (%)	27.9	27.6	27.7	27.2	26.5
Yield (%)	0.6	1.7	1.4	1.4	1.4
Net debt/Equity (x)	0.0	0.0	0.0	0.0	1.0
Net Working Capital (days)	70	63	75	81	84
Asset turnover (x)	0.9	1.0	0.9	0.9	0.8
ROCE (%)	33.6	35.2	31.1	28.6	26.7
RoE (%)	33.8	32.8	28.0	26.2	24.5
EV/Net sales (x)	8.5	6.4	6.2	5.1	4.2
EV/EBITDA (x)	27.0	19.3	17.7	15.6	13.2
PER (x)	31.7	24.7	23.5	20.5	17.9
Price/Book (x)	11	8	7	5	4

P/E Band



Avg PER



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