

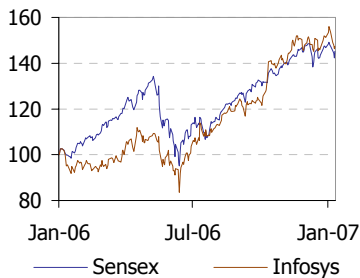
# Infosys Technologies

 Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

 No. of shares : 557mn  
 Market cap : Rs.1,218bn  
 52 week high/low : 2,401 / 1,225  
 Avg. daily vol. (6mth): 1.6mn  
 Bloomberg code : INFO IN  
 Reuters code : INFY.BO

## Shareholding (%) Sep-06 QoQ chg

Category	Sep-06 (%)	QoQ chg
Promoters	19.3	(0.1)
FII's	36.2	0.7
MFs / UTI	3.9	(0.1)
Banks / FIs	2.8	(0.5)
Others	37.8	(0.1)

## GROWTH INTACT DESPITE CURRENCY WOES

Infosys' Q3FY07 result with 5.9% QoQ topline growth was lower than our estimates due to a higher bench strength (7.5%+ employee base on training), and more than expected hit from INR appreciation (~4% for topline). However, an increase of 1.5% in blended billing rates and G&A savings (~50bps) cushioned the OPM sequentially. PAT at Rs9.8 bn, was marginally higher than our expectations. Another quarter of steady performance from the Top 25 clients (up 12.6% QoQ), blended volume growth (up 7.4%), and strong business momentum in its core BFSI domain (38.6% revenue share), corroborates our optimism on business momentum.

## Guidance Revision: Implications

- **Q4FY07 QoQ run-rate:** The implied QoQ EPS growth of 1.4% is largely driven by strong INR appreciation (guidance based on Rs44.11 / USD), and lower topline growth (3.7-3.9% QoQ).
- **FY08 growth:** Our FY08E topline and bottomline growth of ~34% and ~29% YoY respectively do not change materially from our earlier estimates with ~35%+ YoY growth in volumes absorbing the strong business momentum.
- **Key factors driving growth:**
  - ▶ Business strategy on client mining and higher offshore revenue growth
  - ▶ Strategic focus on USD10mn accounts (v/s USD5mn earlier).
  - ▶ Top client and Top 2-5 clients are currently at an annual run rate of USD225+mn and ~ USD100mn+ respectively.

**Valuations:** With our FY08E earnings of Rs87.6 being intact, we retain our sector **Outperformer** rating. Key risks to our earnings upside would be additional large deal wins (~6-7 USD100mn deals in the pipeline), further pricing uptrend and higher than expected client ramp-ups among the strategic accounts.

## Financial summary

Y/E Mar	Sales (Rs. mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)	Sales/NWC (x)
2005	71,296	18,465	-	34.2	49.5	32.2	42.6	24.9	27.5
2006	95,216	24,385	-	45.0	28.6	33.1	39.5	25.0	12.9
2007E	140,458	37,871	67.5	67.9	50.8	32.1	44.7	25.7	16.1
2008E	187,926	48,835	87.6	87.6	29.0	24.9	41.8	18.6	14.4

Source: Company, ENAM estimates; \*Consensus broker estimates; FY07E and FY08E average INR / USD rate assumed at Rs.45.0 and Rs.44.1 respectively.

**Results update**

(Rs. mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-07E	Mar-06	% Chg
<b>Net Sales</b>	<b>36,550</b>	<b>25,320</b>	<b>44.4</b>	<b>34,510</b>	<b>5.9</b>	<b>140,458</b>	<b>95,216</b>	<b>47.5</b>
EBIDTA	11,960	8,610	38.9	11,090	7.8	44,914	30,918	45.3
Other income	590	(50)	NM	660	(10.6)	3,233	1,375	135.1
<b>PBIDT</b>	<b>12,550</b>	<b>8,560</b>	<b>46.6</b>	<b>11,750</b>	<b>6.8</b>	<b>48,147</b>	<b>32,293</b>	<b>49.1</b>
Depreciation	1,410	1,170	20.5	1,220	15.6	5,210	4,371	19.2
<b>PBT</b>	<b>11,140</b>	<b>7,390</b>	<b>50.7</b>	<b>10,530</b>	<b>5.8</b>	<b>42,937</b>	<b>27,922</b>	<b>53.8</b>
Tax	1,300	830	56.6	1,230	5.7	4,983	3,332	49.6
Minority Interest	10	70	(85.7)	10	0.0	83	206	(59.7)
<b>Adjusted PAT</b>	<b>9,830</b>	<b>6,490</b>	<b>51.5</b>	<b>9,290</b>	<b>5.8</b>	<b>37,871</b>	<b>24,385</b>	<b>55.3</b>
Extra ordinary income/ (exp.)	-	200	-	0	-	0	200	-
<b>Reported PAT</b>	<b>9,830</b>	<b>6,690</b>	<b>46.9</b>	<b>9,290</b>	<b>5.8</b>	<b>37,871</b>	<b>24,585</b>	<b>54.0</b>
No. of shares (mn)	557	542	-	555	-	558	550	-
EBIDTA margin (%)	32.7	34.0	-	32.1	-	32.0	32.5	-
PBIDT margin (%)	34.3	33.8	-	34.0	-	34.3	33.9	-
<b>EPS (Rs.)</b>	<b>17.6</b>	<b>12.0</b>	<b>47.4</b>	<b>16.7</b>	<b>5.4</b>	<b>67.9</b>	<b>45.0</b>	<b>50.8</b>

Source: Company, ENAM Research

**FY07 guidance Analysis -**

- FY07 guidance has been revised insignificantly to Rs 139.1 - 139.2bn with an implied YoY growth of 46.1 - 46.2% (v/s earlier guidance of 45.5 - 46.0%). This is owing to the slight seasonal weakness in the Jan-March quarter coupled with the recent strength in INR.

**Guidance Analysis: FY07**

	FY07 - Revised	FY07- Previous	Revision Upwards (%)	Revised YoY Growth (%)	Earlier YoY Growth (%)
Topline (Rs.bn)	139.1 to 139.2	138.5 - 139.0	0.1 - 0.4	46.1 - 46.2	45.5 - 46.0
EPS (Rs)	66.6	66.0	1.0	48.0	46.6

Source: Company, ENAM Research

- Q4FY07 implied topline guidance at 3.7-3.9% QoQ and EPS guidance of 1.4% QoQ imply reasonable targets, given that Q4 is a time when clients finalize and reallocate budgets, employee additions are slower (and that too mostly in the lateral space) and visa renewals and costs crop up.

**Guidance Analysis: Q4FY07**

	Q4FY07E	Implied Growth (%)	
		QoQ	YoY
Topline (Rs.bn)	37.9 - 38.0	3.7 - 3.9	44.4 - 44.7
EPS (Rs.)	17.9	1.4	46.3

Source: Company, ENAM Research

## Implied Growth for Q4FY07

### Topline Guidance Evaluation

(Rs.mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07E	FY2007E
<b>Lower End</b>	<b>30,150</b>	<b>34,510</b>	<b>36,550</b>	<b>37,890</b>	<b>139,100</b>
<i>% change QoQ</i>	-	14.5	5.9	3.7	-
<b>Higher End</b>	<b>30,150</b>	<b>34,510</b>	<b>36,550</b>	<b>37,980</b>	<b>139,190</b>
<i>% change QoQ</i>	-	14.5	5.9	3.9	-

Source: Company, ENAM Research

### EPS Guidance Evaluation

(Rs.)	Q1FY07	Q2FY07	Q3FY07	Q4FY07E	FY2007E
EPS	14.5	16.7	17.6	17.8	66.6
<i>% change QoQ</i>	-	15.8	5.4	1.4	-

Source: Company, ENAM Research

## Q3FY07 Result Analysis

	Q3FY07	% change		Remarks
		QoQ	YoY	
<b>Topline (Rs.mn)</b>	<b>36,550</b>	<b>5.9</b>	<b>44.4</b>	Lower than our expectations, as higher base of employees on training at 7.5%+ compared to our estimates. INR appreciation impacts the topline by Rs1.45bn, i.e 3.8% lower
Operating Profit	11,960	7.8	38.9	Operating profit in line with expectations
PAT	9,830	5.8	51.5	Marginally better than our expectations. 2.6% net margin loss because of INR appreciation
EPS (Rs.)	17.6	-	-	
OPM (%)	32.7	+58bps	-128bps	SG&A savings and revenue productivity improved the OPM % which was better than our expectations
<b>Volumes (person-months)</b>				
Onsite	35,175	6.1	41.7	Blended volume growth would have been better but for the Dec quarter seasonality and lower utilization rates. On a like-to-like basis, volume basis at 10%+ QoQ is impressive
Offshore	72,504	8.0	35.3	
Blended	107,679	7.4	37.3	
<b>Pricing*</b>				
Onsite	71.6	1.9	5.1	New Client signings have been at 3-4% higher than the company average. With rate re-negotiations with existing clients incorporating 2-3% hike in billing rates. New Service offerings lead the pricing uptrend
Offshore	29.5	1.7	3.3	
Blended	43.3	1.4	5.3	
<b>Utilisation Rates (%)</b>				
Including Trainees	67.5	Flat	-250bps	The management expects to maintain the utilization rates in the 76-80% range
Excluding Trainees	75.8	-170bps	-290bps	
<b>Employee base (nos)</b>				
Total Employees	69,432	5.0	40.5	The company has made 13,000+ offers at campuses for FY08 hiring. Planned additions for FY07E stands at 30,000 with Q4 to add ~5,050+ personnel. Attrition rate increase to 13.5% is not a cause of concern as involuntary attrition was 12.2%. BPO attrition at 26% is relatively lower than some of its peers
Net Additions	3,282	-	-	
<b>Clientele Performance (Rs. mn)</b>				
Top Client	2,522	10.7	121.3	Churn among one of the Top 5 clients led to subdued performance among the Top 10 clients. Top 25 clients recorded higher than company average growth of 12.6% QoQ
Top 2-5 Clients	4,386	(11.7)	32.2	
Top 6-10 Clients	4,423	7.7	42.0	
Top 10 Clients	11,331	(0.2)	49.7	
Remaining Clients	25,220	8.9	42.1	
<b>Avg. Realization per active client (USDmn)</b>	<b>6.7</b>	<b>7.4</b>	<b>34.2</b>	
<b>Clientele Performance - Annual Run Rates (USDmn)</b>				
Top Client	227	-	-	With an annual run rate of USD 225mn+ for top client and ~ USD100mn+ for client 2-5, Infosys client quality continues to reflect favourably v/s peers. The strategic focus on USD 10 mn accounts (67 clients in Q3FY07, +6 QoQ) is gaining momentum
Top 2-5 Clients	98	-	-	
Top 6-10 Clients	79	-	-	
Remaining Clients	5	-	-	
<b>Vertical Performance</b>				
BFSI (especially Insurance, Banking & Capital Markets) and Retail led the topline growth				
<b>Horizontal Performance</b>				
While growth has been all-round, Package Implementation, Testing, and BPM continue to maintain steady momentum. License fees in banking product segment led the 23% growth in banking product segment				
<b>Geography Performance</b>				
Europe leads the YoY performance with higher than company average growth (10.0 % v/s company average of 5.9%)				

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

**Client Profile**

	Q3FY07	Q2FY07	Q3FY06
<b>Clientele Performance</b>			
Active Client Base (nos)	488	476	454
Additions This quarter (nos)	43	45	36
Repeat Business (%)	95	95	93
<b>Evaluation: Quality of Clients</b>			
<i>No : of \$ 1 mn clients</i>	<i>256</i>	<i>232</i>	<i>206</i>
No : of \$ 5 mn clients	108	97	78
No : of \$ 10 mn clients	67	61	51
No : of \$ 20 mn clients	35	29	25
No : of \$ 30 mn clients	22	20	18
No : of \$ 40 mn clients	17	16	14
<i>No : of \$ 50 mn clients</i>	<i>11</i>	<i>12</i>	<i>7</i>
No : of \$ 60 mn clients	10	8	5
<i>No : of \$ 70 mn clients</i>	<i>8</i>	<i>6</i>	<i>2</i>
No : of \$ 80 mn clients	4	3	2
No : of \$ 90 mn clients	2	3	1
<i>No : of \$ 100mn clients</i>	<i>2</i>	<i>2</i>	<i>0</i>
<b>% of clients that contribute greater than \$1mn</b>	52	49	45
<b>% of clients that contribute greater than \$5 mn</b>	22	20	17

Source: Company, ENAM Research

- ▶ Top Client portrayed relatively strong growth once again in Q3FY07 with a ~11% QoQ growth (though much lesser than in the previous 2 quarters).
- ▶ There has been a substantial ramp up in USD5mn and USD10mn accounts (30 and 16 YoY additions respectively) in this quarter as well (as compared to 21 and 13 additions in the last quarter).

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