

RESULTS REVIEW
Infosys Technologies Limited
Hold
Share Data

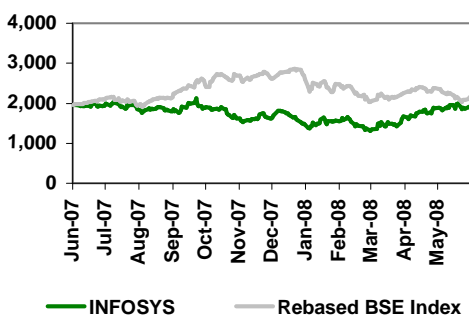
| | |
|-----------------------|-------------------------|
| Market Cap | Rs. 1,067.2 bn |
| Price | 1,865.70 |
| BSE Sensex | 15,422.31 |
| Reuters | INFY.BO |
| Bloomberg | INFO IN |
| Avg. Volume (52 Week) | 0.3 mn |
| 52-Week High/Low | Rs. 2,140.00 / 1,212.20 |
| Shares Outstanding | 572 mn |

Valuation Ratios (Consolidated)

| Year to 31 March | 2009E | 2010E |
|------------------|-------|-------|
| EPS (Rs.) | 97.5 | 125.6 |
| EPS Growth (%) | 20.0% | 28.8% |
| PER (x) | 19.1x | 14.9x |
| EV/ Sales (x) | 4.7x | 3.7x |
| EV/ EBITDA (x) | 14.8x | 11.4x |

Shareholding Pattern (%)

| | |
|-----------------|------|
| Promoters | 16.5 |
| FII's | 33.4 |
| Institutions | 7.1 |
| Public & Others | 43.0 |

Relative Performance

Smooth operating performance but a conservative guidance

Infosys top line grew a modest 6.3% qoq to 45.4 bn, driven by a moderate increase in volumes. Due to the slowdown in the US economy, the Company might face problems in the near term, as several clients are delaying their budgets. However, the Company has not seen any order cancellation and clients look likely to increase their off-shore budgets. Thus, we believe that top-line growth will continue to remain robust although there may be some jitters in the short term.

EBITDA margin remained flat at 32.5% as the increase in software development and selling & marketing expenses was offset by a decrease in the general & administrative expenses. Also, the Company maintained its margin for FY08 at 31.4% despite a more than 11% rupee appreciation. Infosys has given stable operating margin guidance; however, we believe that enhanced utilization and an improved off-shore contribution will help in maintaining the margins around 32-33% in the next 2-3 years.

The Company hired 5,947 employees in Q4'08, totalling 33,177 employees for FY08, but has given a relatively lower gross hiring guidance of 25,000 employees for FY09. As the Company does not see any price improvement in the near future, we believe that it will focus on volumes.

We have revised our FY09E gross employee addition to 25,000, based on the Company's initial guidance. Revenues have been revised upwards marginally by 0.5% to Rs. 209 bn, after accounting for rupee depreciation against the USD, the GBP, and the EUR.

Key Figures (Consolidated)

| Quarterly Data | Q4'07 | Q3'08 | Q4'08 | YoY% | QoQ% | FY'07 | FY'08 | YoY% |
|--|--------|--------|--------|-------|------|---------|---------|-------|
| (Figures in Rs. mn, except per share data) | | | | | | | | |
| Net Sales | 37,720 | 42,710 | 45,420 | 20.4% | 6.3% | 138,930 | 166,920 | 20.1% |
| EBITDA | 11,970 | 13,920 | 14,780 | 23.5% | 6.2% | 43,910 | 52,380 | 19.3% |
| Net Profit | 11,440 | 12,310 | 12,490 | 9.2% | 1.5% | 38,560 | 46,590 | 20.8% |

Margins(%)

| | | | | | | | |
|--------|-------|-------|-------|--|--|-------|-------|
| EBITDA | 31.7% | 32.6% | 32.5% | | | 31.6% | 31.4% |
| NPM | 30.3% | 28.8% | 27.5% | | | 27.8% | 27.9% |

Per Share Data (Rs.)

| | | | | | | | | |
|-----|------|------|------|------|------|------|------|-------|
| EPS | 20.0 | 21.5 | 21.8 | 9.2% | 1.4% | 67.6 | 81.3 | 20.2% |
|-----|------|------|------|------|------|------|------|-------|

Valuation

The Company's stock has appreciated 19% since our last report. At the current market price (CMP) of Rs. 1,865.7, the stock is trading at a forward P/E of 19.1x and 14.9x for FY09E and FY10E, respectively, which is almost 33% premium to Industry multiple for FY09E. Based on DCF valuation, we have arrived at a target price of Rs. 1,961 for the next 9 months. Hence, we downgrade our rating to Hold.

Result Highlights

Improved segmental performance

The Company improved its performance across all the segments. Application Development and Maintenance (ADM) grew by 5.4% qoq in absolute terms. Infrastructure Management Services (IMS), which saw a downtrend last quarter, grew by 7.7% qoq. System Integration grew strongly by 17.1% qoq. Infosys is focusing on expanding its service base and is planning to launch two new services this year.

Aerospace, Manufacturing, and Telecom witness decent growth

The Banking, Financial services and Insurance (BFSI) industry vertical's revenue growth and contribution slipped 3% and 2.9% qoq, respectively, as certain clients are delaying their budgets. However, there are no signs of order cancellations, and clients are looking at increasing their off-shore budgets. In the face of the slowdown in the BFSI segment, the Company is eyeing the Aerospace, Manufacturing, and Communications Industry verticals. Meanwhile, Transport and Logistic, with a small revenue contribution, surged 22.9% qoq in absolute terms. Manufacturing and Telecom grew by 18.3% and 12.3% qoq, respectively, in absolute terms.

Increasing presence in emerging markets

In order to reduce dependence on the US market, the Company has further increased its presence in Europe (up 7.9% qoq in revenue). It is focusing on the UK, which contributes over two-thirds of its European revenue, and is also trying to acquire clients in Germany and Switzerland. In addition, the

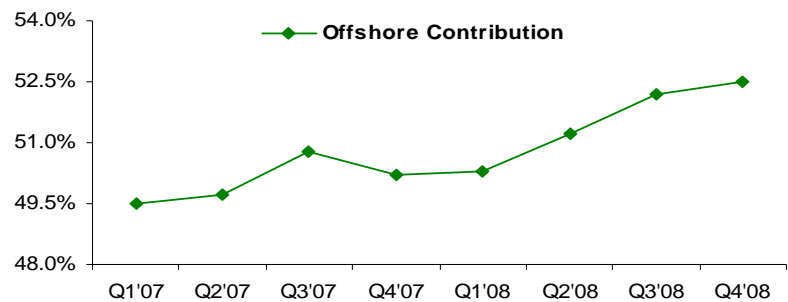
IMS revenue back on track: Two new services to be launched this year

Infosys plans to derive value from the non-US IT markets

Company has gained traction in growing IT markets such as Japan, China, and Australia.

Offshore businesses growing steadily

Infosys continues to focus on off-shoring, which is apparent from the fact that contribution from off-shore businesses has improved steadily from 49.5% in Q1'07 to 52.5% in Q4'08. Going forward, the offshore mix is likely to improve further as many clients want to increase their percentage spend on off-shoring.



Key Events

- Infosys BPO has set up a knowledge and resource centre in Bangalore in a partnership with the private equity and venture capital firm 3i. The center will focus on provide investment business-related support and deliver a centralised service for 3i's accounts payable.
- The Company has signed an memorandum of understanding with Nihon Unisys, Japan, for alliances related of strategic business deployment and joint development for sales and solution service offering.
- The Company opened a new centre in Monterrey, Mexico, to enhance the quality of IT services being provided to clients in the US, Latin America, and Europe.
- Infosys has launched version 10 of Finacle. The new version is expected to enable banks to transform their multi-country operations through a standard platform and processes. It includes Islamic banking, wealth management, and a mobile banking solution.

Key Risks

Key concerns to our rating include a recession in the US economy, a further slowdown in the BFSI segment, currency fluctuations, stronger competition from global players in the offshore arena, and a greater-than-anticipated wage inflation.

Company Guidance

Infosys has given a very conservative outlook for Q1'09 and FY09. For Q1'09, revenue in dollar terms is expected to be in the range of USD 1,142 mn - USD 1,145 mn, with a 23.1% – 23.4% yoy growth. EPADS is expected to be USD 0.52, an 18.2% yoy growth. In rupee terms, revenue is expected to be in the range of Rs. 45.7 bn – Rs. 45.8 bn, with a growth of 21% yoy. EPS is expected to be Rs 20.73, a growth of 15.2%. For FY09, revenue in dollar terms is expected to be in the range of USD 4.97 bn - USD 5.05 bn, a 19.0% – 21.0% yoy growth. EPADS is expected to be between USD 2.31 - USD 2.35, a yoy growth of 16.7% – 18.7%. In rupee terms, revenue is expected to be in the range of Rs. 198.9 bn to Rs. 202.1 bn. EPS is expected to be in the range of Rs. 92.3 to Rs. 93.9. In addition, the Company has given a very cautious outlook with a gross hiring target for FY'09 at 25,000.

Outlook

In the face of the slowdown in the US economy, several clients are delaying their budgets, which might affect Infosys' top line in the next few quarters. However, long-term revenue growth is likely to remain strong largely driven by volume growth. Besides, it will be able to maintain the EBITDA margin in the range of 32-33% for the next 2-3 years on account of enhanced utilization and an improved off-shore contribution, offsetting the impact of wage inflation.

Furthermore, Infosys is increasing its presence in regions such as Australia, China, and Mexico in a bid to reduce dependency on the US markets.

We have revised our FY09E gross employee addition to 25,000, based on the Company's initial guidance. Revenues have been revised upwards marginally by 0.5% to Rs. 209 bn, after accounting for rupee depreciation against the USD, the GBP, and the EUR. EBITDA margin should remain around 32% in FY09.

The Company's stock has appreciated 19% since our last report. At the current market price (CMP) of Rs. 1,865.7, the stock is trading at a forward P/E of 19.1x and 14.9x for FY09E and FY10E, respectively, which is 33% premium to Industry multiple for FY09E. Based on DCF valuation, we have arrived at a target price of Rs. 1,961 for the next 9 months. Hence, we downgrade our rating to Hold.

Key Figures (Consolidated)

| Year to March | FY06 | FY07 | FY08 | FY09E | FY10E | CAGR (%) |
|--|------|------|------|-------|-------|------------|
| (Figures in Rs. mn, except per share data) | | | | | | (FY08-10E) |

| | | | | | | |
|------------|--------|---------|---------|---------|---------|-------|
| Net Sales | 95,210 | 138,930 | 166,920 | 208,999 | 265,089 | 26.0% |
| EBITDA | 30,910 | 43,910 | 52,380 | 66,566 | 86,154 | 28.2% |
| Net Profit | 24,580 | 38,560 | 46,590 | 55,912 | 72,028 | 24.3% |

Margins(%)

| | | | | | |
|--------|-------|-------|-------|-------|-------|
| EBITDA | 32.5% | 31.6% | 31.4% | 31.9% | 32.5% |
| NPM | 25.8% | 27.8% | 27.9% | 26.8% | 27.2% |

Per Share Data (Rs.)

| | | | | | | |
|---------|-------|-------|-------|-------|-------|-------|
| EPS | 43.8 | 67.6 | 81.3 | 97.5 | 125.6 | 24.3% |
| PER (x) | 68.1x | 29.8x | 23.0x | 19.1x | 14.9x | |

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