

16<sup>th</sup> April 2008**ACCUMULATE**

Price	Target Price
<b>Rs 1,510</b>	<b>Rs 1836</b>

<b>Sensex</b>	<b>16,154</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	10	(1)	(19)	(29)
Rel. to Sensex	8	27	(5)	(40)

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	INFY.BO
Bloomberg	INFO@IN
Equity Capital(Rs mn)	2858
Face Value(Rs)	5
52 Week H/L	2,156/1,212
Market Cap(Rs bn//US\$ mn)	864/21,616
Daily Avg Volume (No of shares)	1744010
Daily Avg Turnover (US\$)	64.7

**Shareholding Pattern (%)**

(31 <sup>st</sup> Dec'07)	
Promoters	16.5
FII/NRI	55.4
Institutions	7.1
Private Corp.	2.6
Public	18.4

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**Infosys Technologies**Result  
Update**Guidance brings initial cheers; Hopes for 2H recovery****Q4FY08 Result Highlights**

Infosys Technologies reported US\$ revenues of US\$ 1142 mn (+5.4% QoQ), Rs 45.4 bn (+6.3% QoQ) in line with expectations. EBITDA margins were down ~6 bps QoQ while net profits at Rs 12.5 bn came in line with expectations helped by one time tax write back of Rs 200 mn. Revenues from the BFSI vertical (ex products) were down ~4% QoQ while North American geography growth slowed down to <3%. The growth was once again led by the top client, which grew by ~14% QoQ. **(Ex top client, Top 2 - 10 revenue contribution was flat)**. Volume growth continued to be soft at <5% QoQ and ~26% YoY increase **(marks the 3<sup>rd</sup> successive quarter of <30% YoY volume growth)**. Besides the price realization improvement during the quarter was a mere 0.2%QoQ **(the lowest ever in the past 8 quarters, please refer to 'Would price be the next frontier to fall?')**. **DSO days moved up sharply to 72 days at the end of Q4FY08 from 60 days at the end of Q3FY08.**

**Guidance 'hopeful' of 2H recovery, 6.5%+CQGR post flattish June quarter**

The Infosys management has guided for 19-21% revenue growth (in US\$ terms) to US\$ 4.97 -5.05 bn slightly ahead of our expectations of ~18-20% YoY growth (Rs revenue growth at 19.2-21% to Rs 198.9-202.1bn, Rs guidance based at a US\$/Rs exchange rate of Rs 40/\$). Besides the company has guided for earnings of Rs 92.3-93.9, translating into an earnings growth guidance of 16.3-18.3%, stripped of tax write back of Rs 1.2 bn.

We note that though the positive guidance **( ahead of ours as well as the street expectations)** caused the stock to move up by ~6%, the guidance by itself implies material improvement post the flattish performance expected in June quarter **( a 'stiff though not unrealistic' 6.5% QoQ growth for the next 3 quarters after the June quarter for annual guidance to be met) which makes us cautious that if the situation in US were to worsen, this guidance could be at risk (our fears further supported by management comments during the call that 'annual guidance assumes improvement in business prospects after June)**. We further note that the risk to this guidance arises from (1) US\$/Re Exchange rate movement **(Guidance assumes Rs 40.02/\$)**, (2) Management expects significant volumes pick up over the next 5-6 months within the BFSI segment **(Q1FY09 guidance assumes flat revenues/volumes, expecting significant project ramp-up post that, any further delay in the same could pose downside risk)** and (3) Delay in projects at the top client **( we note that the top client contribution has moved up 450 bps from 5.8% in Q1FY07 to 10.3% in Q4FY08)**.

We have revised our revenue and earnings estimates for FY09E and FY10E by ~6% and ~3% respectively to build in (1) a slower H1FY09, (2) lower employee addition (the Company has guided for gross employee addition of 25k for FY09, we build in net employee addition of 16k employees) and (3) lower wage increments **(company has guided for offshore salary increments in the range of 11-13%, onsite increments of 4-5%)** coupled with higher utilization levels besides basing them at US\$/RE exchange rate of Rs 39/\$ from Rs 38/\$ earlier. We expect Infosys to record revenue, EBITDA and earnings CAGR of 20%, 17.7% and 13.4% over FY08-10E. **(we build in 21% tax rates in FY10, any tax benefit extension under Section 10A/10B as is being suggested by recent news flow , may be an upside risk to our estimates)** Our 12 month price target stands revised at Rs 1836, based on 18x FY10E earnings of Rs 102.2.

In Rs mn	Q4FY08	Q3FY08	QoQ (%)	Q4FY07	YoY (%)
<b>Net sales</b>	45420	<b>42,710</b>	<b>6.3%</b>	<b>37,720</b>	<b>13.2%</b>
Operating expenses	30640	28,790		25,750	
<b>EBITDA</b>	<b>14,780</b>	<b>13,920</b>	<b>6.2%</b>	<b>11,970</b>	<b>16.3%</b>
Margins (%)	32.5	32.6		31.7	
Depreciation	1570	1,530		1,450	
<b>EBIT</b>	<b>13,210</b>	<b>12,390</b>	<b>6.6%</b>	<b>10,520</b>	<b>17.8%</b>
Margins (%)	29.1	29.0		27.9	
Other income	1390	1,580		1,190	
Pre-tax profit	14,600	13,970	<b>4.5%</b>	11,710	
Tax provided	2110	1660		270	
Profit after tax	12,490	12,310		11,440	
<b>Emkay Net profit</b>	<b>12490</b>	<b>12,310</b>	<b>1.5%</b>	<b>11,440</b>	<b>7.6%</b>
EPS, Rs	21.78	21.6		20.4	

Source: Company, Emkay Research

## Other result highlights

### Quarterly Results in line

Infosys reported revenues of 1142 mn (+5.4% QoQ) and Rs 45.4 bn in Rs terms (+6.3% QoQ). EBITDA margins were down ~6 bps QoQ while net profits at Rs 12.5 bn were in line with expectations, helped by one time tax write-back of Rs 200 mn.

DSO days moved up sharply to 72 days at the end of Q4FY08 from 60 days at the end of Q3FY08. Though the management indicated that it was nothing to feel alarmed about (some sales collection got pushed off to April), we note that of the two major IT companies to report results today, both Infosys as well as HCL Tech have reported increase in DSO days. **(HCL Tech reported DSO of 77 days V/s 72 at the end of December quarter)**

### BFSI revenues decline ~4% QoQ; North America slows down

The revenues from the BFSI vertical (ex products) declined by ~4% QoQ to US\$ 344.9 mn marking the 1st quarter of a sequential decline in over 16 quarters. Besides revenues from the North American geography also showed a muted growth at 2.6% QoQ increase **(V/s 6.8% CQGR over the past 4 quarters)**.

	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
BFSI, %	38.6	37	36.1	36.5	36.8	33.90%
BFSI (in US\$ mn)	316.8	319.3	335.0	373.0	398.9	387.1
QoQ growth, %	13.6	0.8	4.9	11.3	6.9	-3.0%
BFSI ex products	281.5	286.5	304.4	335.2	358.8	344.9
QoQ growth, %	12.1	1.8	6.2	10.1	7.0	-3.9%
North America	63.2%	62.6%	62.60%	62.6%	62.30%	60.70%
North America (in US\$ mn)	519	540	581	640	675	693
QoQ growth, %	9.2%	4.1%	7.5%	10.1%	5.6%	2.6%

Source: Company, Emkay Research

### Top client continue to drive revenue momentum; Is it sustainable?

Infosys reported a 5.4% QoQ growth in revenues to US\$ 1142 mn, with the growth once again led by the top client. We note that the top client growth has contributed significantly to the growth over the past 8 quarters with the top client contribution having increased 450 percentage points from 5.8% in Q1FY07 to 10.3% in Q4FY08. However the growth led majorly by top client continues to concern us given that Infosys may be reaching the saturation level in increasing the top client contribution as well as vendor rationalization/IT spend cut at the top client.

	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Top client contribution to revenues	6.9%	8.50%	8.60%	7.90%	9.50%	10.30%
<b>Top client ( in US\$ mn)</b>	56.6	73.4	79.8	80.7	103.0	117.6
QoQ growth, %	15%	30%	9%	1%	27.5%	14.2%
Top 5 client contribution to revenues	18.9%	21.3%	21.40%	19.50%	21.60%	22%
<b>Top 5 clients (in US\$ mn)</b>	155.1	183.8	198.6	199.3	234.1	25124%
QoQ growth, %	-1%	18%	8%	0%	17.5%	7.3%
Top 10 client contribution to revenues	31.0%	33.40%	32.30%	29.90%	32.50%	32.00%
Top 10 clients ( in US\$ mn)	254.4	288.2	299.7	305.6	352.3	365.4
QoQ growth, %	4%	13%	4%	2%	15.3%	3.7%

Source: Company, Emkay Research

### Would pricing be the next frontier to fail?

Infosys reported a mere 0.2% growth in blended price improvement (*V/s improvements of ~1%+ witnessed over the past few quarters*). We note that we had already raised concerns in our quarterly preview about the sustainability of price increases and believe that price could be the next victim if the situation in the US continues to worsen. Though management indicated that pricing remained firm, they also acknowledged that BFSI clients were approaching them for price re-negotiations.

### Per-capita Billed revenue productivity (IT Services and Consulting)

	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Onsite	\$ 137,418	\$ 139,818	\$141,806	\$ 145,985	\$147,540	\$147,466
QoQ increase, %		1.7%	1.4%	2.9%	1.1%	-0.1%
Offshore	\$ 56,727	\$ 57,510	\$58,107	\$ 59,633	\$60,432	\$60,752
YoY increase, %		1.4%	1.0%	2.6%	1.3%	0.5%
Blended	\$ 83,086	\$ 84,495	\$85,381	\$ 87,019	\$87,672	\$87,848
YoY increase, %		1.7%	1.0%	1.9%	0.8%	0.2%

Source: Company, Emkay Research

### Guidance brings cheers; 'stiff not unrealistic' 6.5% CQGR post June '08

Infosys's FY09E revenue guidance of 19-21% growth in US\$ terms to US\$ 4.97 bn-5.05 bn and earnings guidance of Rs 92.3-93.9 (translating into an EPS growth of 16.1-18% in Rs terms) came in ahead of ours as well as street expectations and caused initial cheers with stocks under our IT services coverage up between 6%-10%. We point out that investors need to be cautious of the fact that the guidance implies a 6.5% CQGR over the next 3 quarters after the flattish June'09 performance (*management acknowledged during the investor call that things need to improve materially for the annual guidance to be met*)

Besides investors need to take into cognizance of (1) the guidance is based at US\$/Re of Rs 40.02/\$ (*we base our estimates at Rs 39/\$*), (2) *Volume growth pick up from Q2FY09 onwards ( the company has guided for a flat Q1FY09 and expects volumes to pick up from Q2FY09 onwards, any further delay in the same may pose downside risk), and (3) price remaining stable ( Pricing has held firm until now , however we note that price improvements at 0.2% QoQ was the lowest ever over the past few quarters. ( besides the company acknowledged during the investor call that BFSI clients were seeking re-negotiation on pricing, which makes up believe that pricing could face some near term pressure)*

We have revised our revenue and earnings estimates for FY09E and FY10E by ~6% and ~3% respectively to build in (1) lower volume growth during H1FY09, (2) lower employee addition though compensated to some extent by higher utilization assumptions, and (3) lower wage increments (company guided for offshore increments of 11-13% and onshore increments of 4-5% for FY09E). We expect Infosys to record revenue, EBITDA and earnings CAGR of 20%, 17.7% and 13.4% over FY08-10E. **(We build in a tax rate of 21% for FY10E, any tax benefit extension by a year as is being suggested by recent news flow might provide upside risk to our estimates).** Our revised price target stands at Rs 1836, based on 18x FY10E earnings of Rs 102.

### Our revised earnings estimates

( All fig in Rs mn except EPS)	FY09E			FY10E		
	Old	New	% change	Old	New	% change
Revenues	211392	198925	-5.9%	255065	240539	-5.7%
EBITDA	63554	61505	-3.2%	74789	72616	-2.9%
Net profits	55405	53347	-3.7%	59928	58567	-2.3%
EPS	96.6	93.4	-3.3%	104.5	102.2	-2.2%

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