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Q1 FY08
Result Update

Infosys Technologies

Outperformer

Rs 1,930

July 12, 2007

Results in line, guidance revision disappointing

Company Details

Market Cap: Rs 1,092,424m
52 Week High/Low: Rs 2,439/1,568
Bloomberg Code: INFO@IN
Reuters Code: INFY.BO / NS
Shares O/s: 566m
Average Volume
(3 months): 1.8m

Price Performance

(%)	1m	3m	12m
Absolute	(2.9)	(7.6)	14.0
Relative to Sensex	(8.4)	(19.0)	(22.5)

Result Snapshot

Infosys' Q1FY08 results were largely in line with our expectations. Revenue was flat sequentially and net profit (excl. tax write back in Q407 and Q108) grew marginally by 0.8% QoQ. However the volume growth improved to 6.9% QoQ as compared to 3.6% in Q407. EBITDA margins declined 300bps sequentially due to a strong rupee.

The company has increased \$-guidance for FY08 by 0.8% for revenue and 2.6% for EPS. However the rupee guidance has been lowered by 5.1% for revenues and 3.2% for EPS, considering the rupee appreciation.

We believe given the fairly strong volume growth, steady upward trend in pricing and a forward cover of US\$925mn, Infosys will be able to beat its guidance as long as the Rupee doesn't appreciate too sharply going forward. We maintain our OUTPERFORMER rating on the stock with a 12-month target price of Rs 2,251 (22x FY09 earnings), though the stock will languish in the near-term due to lack of apparent trigger.

Q1 FY08 Result Overview

(Rs m)

Y/e March	Q1FY08	Q4FY07	qoq gr. (%)	Q1FY07	yoy gr. (%)
Net Sales	37,730	37,720	0.0	30,150	25.1
Total Expenses	26,890	25,750	4.4	21,260	26.5
Operating Profits / EBITDA	10,840	11,970	(9.4)	8,890	21.9
Depreciation	1,440	1,450	(0.7)	1,060	35.8
EBIT	9,400	10,520	(10.6)	7,830	20.1
Other Income	2,530	1,200	110.8	1,280	97.7
PBT	11,930	11,720	1.8	9,110	31.0
Tax	1,140	270	322.2	1,060	7.5
Tax rate (%)	9.6	2.3		11.6	
PAT before Extraordinaries	10,790	11,450	(5.8)	8,050	34.0
Extraordinaries	-	(10)		(50)	
PAT after Extraordinaries	10,790	11,440	(5.7)	8,000	34.9
Key Ratios					
GPM (%)	42.5	46.4	(3.9)	44.7	(2.2)
OPM (%)	28.7	31.7	(3.0)	29.5	(0.8)
EBITM (%)	24.9	27.9	(3.0)	26.0	(1.1)
NPM (%)	28.6	30.3	(1.7)	26.5	2.1
EPS (Rs.)	18.9	20.1	(5.7)	14.0	34.9
Adjusted EPS before Extras (Rs.)	18.9	20.1	(5.8)	14.1	34.0

(Stock price as on July 11, 2007)



Result Highlights

Revenues flat and net profit declines sequentially (in Re terms)

Infosys' revenues were flat sequentially, at Rs 37.7bn, operating profits declined by 9.4% qoq to Rs 10.8bn and net profits before tax write back grew marginally by 0.8% to Rs 10.3bn.

The rupee appreciation had a negative impact of 7.9% in revenues, which was offset by volume growth of 6.9% and improvement of 1% in the billing rates.

During the quarter EBITDA margins declined by 300bps to 28.7% largely due to rupee appreciation, salary hikes and visa costs, which had a negative impact of 700bps. However improved utilisation (+150bps), up tick in pricing (100bps), scale benefits & positive contribution from subsidiaries (+150bps) helped it to mitigate the margin erosion to a certain extent.

Revenue and earnings guidance for FY08 revised downwards (in Re terms)

Infosys revised downwards its earnings guidance for FY08 by 5.1% to Rs 164.3bn and its EPS by 3.2% to Rs 79 (assuming 1 US\$ = Rs 40.58). This guidance translates into an 18.3% revenue growth and a 16.0% earnings growth for FY08, taking into account a 3% dilution in equity.

In US\$ terms, the company has raised its revenue guidance marginally by 0.8% to \$4.05bn and EPS by 2.6% to \$1.94 which translates into a 31% topline growth and a 29.3% bottomline growth for FY08. We believe that a marginal increase in revenue guidance in US \$ terms is a disappointment.

Q208 guidance - good on topline, but weak on margins

Infosys has guided for a 5.8% revenue growth to Rs 39.9bn and a flat EPS of Rs 18.9 for Q2, in Re terms. The growth rate guided for in US\$ terms is 6.0% for revenues (\$984m) and flat for EPS (\$0.46). The management has stated that the guidance neither assume any improvement in pricing nor any major deals. It is only based on business as they see from existing clients. We think that the management may have been excessively cautious in providing the guidance given this quarters miss in Rupee-terms (first time ever).

Other highlights

The company is witnessing strong growth in consulting, engineering services and package implementation.

The company won three large deals (\$50m) during the quarter.

35 clients added during the quarter taking the total active no. of clients to 509.

No. of \$80m customers increased from 4 in Q407 to 8 in Q108.

Utilization rate including trainees improved to 70.5% from 67.9% in the previous quarter, whereas excluding trainees it improved to 73.9% from 73.0% in the previous quarter.

Added 3,730 (net) employees during the quarter, taking the total no. of employees to 75,971.

Plans to add 26,000 (gross) employees during the FY 2008.



Financials & Valuations

We expect Infosys to report revenues of Rs 170.1bn and Rs 217.4bn and net profit of Rs 46.8bn and Rs 599.9bn for FY08 and FY09, respectively. At the CMP of Rs 1,930, the stock quotes at 24.0x FY08E and 18.9x FY09E earnings. We maintain our **Outperformer** rating with a target price of Rs 2,251 (22x FY09E earnings).

Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenues (Rs m)	95,216	138,930	170,143	217,425
EBITDA (Rs m)	30,918	43,910	52,099	67,094
<i>Margins (%)</i>	<i>32.5</i>	<i>31.6</i>	<i>30.6</i>	<i>30.9</i>
PAT (Rs m)	24,610	38,560	46,799	59,944
EPS (Rs)	43.5	68.1	80.5	102.3
PER (x)	44.4	28.3	24.0	18.9
EV / EBITDA (x)	34.2	23.5	19.8	14.8
EV / Sales (x)	11.1	7.4	6.1	4.6
<i>RoCE (%)</i>	<i>50.1</i>	<i>48.0</i>	<i>43.6</i>	<i>45.2</i>
<i>RoE (%)</i>	<i>40.4</i>	<i>42.3</i>	<i>39.2</i>	<i>40.4</i>

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