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COMPANY ALERT

Infosys Technologies

3QFY11 results - first cut

Price (INR)	3,374.95
Price target (INR)	3,800.00
52-week range (INR)	3,475.85 - 2,352.20
Market cap (USDm)	42,712
Shares outstanding (m)	571.1
Net debt/equity (%)	-58.6
Book value/share (INR)	490.23
Price/book (x)	6.9

FYE 3/31	2010A	2011E	2012E
Sales (INRm)	227,420	284,376	361,539
Net Profit (INRm)	61,860.0	75,830.9	98,448.0
DB EPS (INR)	108.30	132.77	171.18
PER (x)	19.9	25.4	19.7
Yield (net) (%)	1.1	1.2	1.5

Results

Buy

Reuters:INFY.BO Exchange:BSE Ticker:INFY

Dec-Q below our expectation

Overall volume growth of 3.1% qoq (vs DBE of 7%) and a 2.7% increase in reported pricing contributed to 5.9% qoq growth in US\$ revenues (vs DBE 8.5%). EBIT margins at 30.2% were flat qoq. This was 115bps lower than our expectation, predominantly on account of lower volume induced drop in utilisation (including trainees) by 170bps qoq. Key positives- impressive growth in the discretionary services like package implementation, product engineering services, etc. BFSI and manufacturing verticals lead growth. Key negatives - no growth in the telecom vertical.

Below par Dec-Q leads to lower than expected guidance revision

Infosys' management now expects FY11E US\$ revenues to grow 25.7-26.1% yoy vs 24-25% yoy earlier. Given the below par Dec-Q and muted growth guidance for the Mar-Q, the INR EPS guidance has been only marginally increased to INR118.7-118.9 vs INR 115-117 earlier. We believe, better utilisation led operating leverage will be the key lever to mitigate the impact of an appreciating rupee.

Mar-Q guidance is conservative

Infosys 4Q guidance of 1-2% qoq growth in USD revenue indicates a fairly conservative revenue growth expectation. We believe that Infosys is well placed to beat its FY11 guidance given the strong recovery in demand. Maintain Buy and top pick status.

Infosys Q3FY11 Snapshot (Rs.mn)	Q3FY11	Var over		YoY
		Dbe	QoQ	
Income from software services and products	71060	-2.6%	2.3%	23.8%
Gross profit	32580	-4%	2.0%	19.3%
EBITDA	23620	-5.7%	2.0%	15.9%
EBIT	21470	-6.2%	2.3%	18.8%
Net Income	17800	-7.1%	2.5%	12.5%
EPS				
Basic	31.15	-7.2%	2.4%	12.3%
Diluted	31.14	-7.2%	2.4%	12.2%
Margins(%)		bps	bps	bps
EBITDA margin	33.2%	-109	(8)	(226)
EBIT Margin	30.2%	-115	1	(126)
PAT margin	25.0%	-122	5	(251)

Aniruddha Bhosale

Research Analyst
(+91) 22 6658 4037
aniruddha.bhosale@db.com

Deutsche Bank AG/Hong Kong

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