

January 12, 2011

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Rating	BUY
Price	Rs3,377
Target Price	Rs4,200
Implied Upside	24.4%
Sensex	19,534

(Prices as on January 13, 2011)

Trading data

Market Cap. (Rs bn)	1,978.2
Shares o/s (m)	572.0
3M Avg. Daily value (Rs m)	3585.9

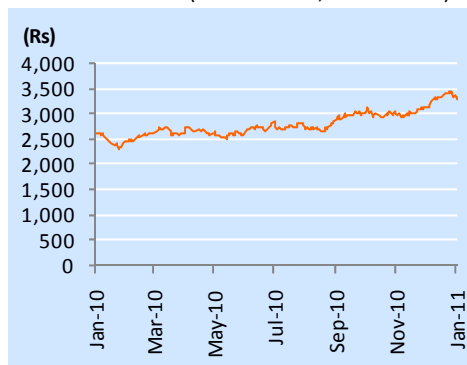
Major shareholders

Promoters	16.04%
Foreign	35.78%
Domestic Inst.	7.95%
Public & Other	40.23%

Stock Performance

(%)	1M	6M	12M
Absolute	7.4	17.8	31.9
Relative	7.3	8.9	19.7

Price Performance (RIC: INFY.BO, BB: INFO IN)



Source: Bloomberg

Infosys reported Q3FY11 results touch below our expectation in a seasonally weak quarter. However, the guidance for FY11 was largely in-line with our expectation. The management maintained its cautious stance.

- Results in-line with expectation:** Infosys' revenue grew by 2.3% QoQ to Rs71.06bn for Q3FY11 (Guid.: Rs69.2bn, PL: Rs71.7bn, Cons: Rs71.8) in Indian rupee term, whereas revenue in USD term grew by 5.9% to US\$1585m (Guid.: \$1555m, PL: \$1593m). The company reported an operating margin expansion of 1bps QoQ to 30.2% despite currency headwinds of 3.5% and utilization going down by 200bps for Q3FY11 compared to Q2FY11. The company reported EPS of Rs31.15 (Guid: Rs29.63, PL: Rs31.89, Cons: Rs31.84), growth of 2.5% QoQ.
- Geography and segments – NA and India; BFSI and Manufacturing shines:** Revenue for NA and India grew by 4.3% and 11% QoQ, respectively, whereas in terms of vertical, BFSI and Manufacturing grew by 8.3% (@cc 7.1%) and 9.8% (@cc 8.6%) QoQ, respectively.
- Pricing and employee addition – pricing increase in-line with expectation:** The pricing (blended) improved by 1.6% QoQ (Onsite: +1.4%, Offshore: 2.6%). The company added 11,067 new employees in Q3FY11, a growth of 27% YoY.
- Outlook – Guidance revised upward ahead of expectation:** Infosys revised its growth for FY11; USD revenue upward by 1.3% to US\$6.05bn (25.7-26.1% YoY growth), against our expectation of 25-27% YoY growth. Infosys has revised its rupee EPS guidance by 2.3% (PL: 1-3%) to Rs118.68-118.90, a growth of 9% YoY in-line with our expectation. For Q4FY11, Infosys guided for 1.5% QoQ revenue growth to US\$1609 and EPS guidance of Rs31.17 in rupee terms.
- Valuations and Recommendation:** We reiterate “BUY” rating with a target price of Rs4,200. The company maintained cautious stance in-line with expectation.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Revenues (Rs m)	227,420	278,527	345,944	436,755
Growth (%)	4.8	22.5	24.2	26.3
EBITDA (Rs m)	78,610	92,467	110,777	135,095
PAT (Rs m)	62,660	69,982	84,669	106,507
EPS (Rs)	109.5	122.3	148.0	186.2
Growth (%)	4.6	11.7	21.0	25.8
Net DPS (Rs)	23.5	26.4	31.4	37.9

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
EBITDA margin (%)	34.6	33.2	32.0	30.9
RoE (%)	30.3	26.6	25.7	26.3
RoCE (%)	30.1	26.6	25.7	26.3
EV / sales (x)	8.2	6.6	5.1	3.9
EV / EBITDA (x)	23.8	19.8	16.0	12.7
PE (x)	31.6	28.3	23.4	18.6
P / BV (x)	8.6	6.7	5.5	4.4
Net dividend yield (%)	0.7	0.8	0.9	1.1

Source: Company Data; PL Research

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Q3FY11 Results – inline with expectation (Rs m)

	Q3FY11	Q2FY11	Q3FY11(PL e)	Consensus	QoQ	Q3FY10	YoY	Variance (PL e VS ACTUAL)
INR/US\$ (Average)	44.83	46.44	45.00		-3.5%	46.60	-3.8%	
Total Operating Income (US\$)	1,585.0	1,496.0	1,593.2		5.9%	1,232.0	28.7%	-0.5%
Total Operating Income	71,060	69,470	71,696	71,803	2.3%	57,410	23.8%	-0.9%
Operating Profit	21,470	20,980	21,654	21,822	2.3%	18,070	18.8%	-0.9%
<i>EBITDA Margin</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.4%</i>	<i>1 bps</i>	<i>31.5%</i>	<i>-126 bps</i>	<i>1 bps</i>
Pre Tax Income	24,370	23,650	24,678	24,441	3.0%	20,370	19.6%	-1.2%
Tax	6,570	6,280	6,466	6,238	4.6%	4,550	44.4%	1.6%
<i>Tax Rate</i>	<i>27.0%</i>	<i>26.6%</i>	<i>26.2%</i>	<i>25.5%</i>	<i>41 bps</i>	<i>22.3%</i>	<i>462 bps</i>	<i>76 bps</i>
PAT	17,800	17,370	18,212	18,202	2.5%	15,820	12.5%	-2.3%
EPS (Rs)	31.15	30.40	31.89	31.84	2.5%	27.70	12.5%	-2.3%

Source: Company Data, Bloomberg, PL Research

Guidance – US\$ revenue revision and EPS revision is in-line with expectation

FY Rev (INR)	PL E	278,527		
	Guidance (FY11)	274,445	274,080	274,810
	<i>YoY growth</i>	<i>20.7%</i>	<i>20.5%</i>	<i>20.8%</i>
	<i>Guidance revision %</i>	<i>1.4%</i>		
FY Rev (USD)	Guidance (FY11)	6,050	6,040	6,060
	<i>YoY growth</i>	<i>25.9%</i>	<i>25.7%</i>	<i>26.1%</i>
	<i>Guidance revision %</i>	<i>1.3%</i>		
FY EPS (INR)	PL E	122.6		
	Guidance (FY11)	118.8	118.7	118.9
	<i>YoY growth</i>	<i>9.0%</i>	<i>8.9%</i>	<i>9.1%</i>
	<i>Guidance revision %</i>	<i>2.3%</i>		
FY EPS (USD)	Guidance (FY11)	2.61	2.60	2.61
	<i>YoY growth</i>	<i>13.3%</i>	<i>13.0%</i>	<i>13.5%</i>
	<i>Guidance revision %</i>	<i>1.8%</i>		
Next Q guidance	INR revenue guidance next Q	39,400	71,570	7,230
	<i>QoQ growth</i>	<i>-44.6%</i>	<i>0.7%</i>	<i>-89.8%</i>
	USD revenue guidance next Q	1,609	1,601	1,617
	<i>QoQ growth</i>	<i>1.5%</i>	<i>1.0%</i>	<i>2.0%</i>
	INR EPS guidance next Q	31.17	31.06	31.28
	<i>QoQ growth</i>	<i>0.1%</i>		

Source: Company Data, PL Research



Europe boosted by cross currency benefit, NA and India steady

By Geography	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
North America	1,025	984	4.2%	821	25.0%
Europe	346	326	5.9%	270	28.1%
India	35	31	11.0%	15	135.9%
Rest of World	179	154	16.2%	127	41.1%
Total	1,585	1,496	5.9%	1,232	28.7%
as % of Total					
North America	64.7%	65.8%	-110 bps	66.6%	-190 bps
Europe	21.8%	21.8%	0 bps	21.9%	-10 bps
India	2.2%	2.1%	10 bps	1.2%	100 bps
Rest of World	11.3%	10.3%	100 bps	10.3%	100 bps

Source: Company Data, PL Research

PI momentum still strong whereas PES and BPM delivered strongest quarter

By Service Offerings	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Application Development	247	233	5.9%	219	12.8%
Application Maintenance	357	352	1.4%	302	18.2%
Business Process Management	92	84	9.7%	73	26.5%
Consulting and Package Implementation	411	386	6.4%	287	43.0%
Infrastructure Management	95	93	2.5%	87	8.7%
Product Engineering Services	41	37	10.2%	30	39.4%
System Integration	89	85	4.1%	51	75.7%
Testing Services	120	114	5.9%	80	50.4%
Others	52	49	5.9%	55	-5.7%
Total (excl. Products)	1,452	1,384	4.9%	1,129	28.7%
Products	81	63	28.7%	48	68.2%
Total	1,585	1,496	5.9%	1,232	28.7%
as % of Total					
Application Development	15.6%	15.6%	0 bps	17.8%	-220 bps
Application Maintenance	22.5%	23.5%	-100 bps	24.5%	-200 bps
Business Process Management	5.8%	5.6%	20 bps	5.9%	-10 bps
Consulting and Package Implementation	25.9%	25.8%	10 bps	23.3%	260 bps
Infrastructure Management	6.0%	6.2%	-20 bps	7.1%	-110 bps
Product Engineering Services	2.6%	2.5%	10 bps	2.4%	20 bps
System Integration	5.6%	5.7%	-10 bps	4.1%	150 bps
Testing Services	7.6%	7.6%	0 bps	6.5%	110 bps
Others	3.3%	3.3%	0 bps	4.5%	-120 bps
Total (excl. Products)	94.9%	95.8%	-90 bps	96.1%	-120 bps
Products	5.1%	4.2%	90 bps	3.9%	120 bps

Source: Company Data, PL Research

**FPP continues to inch forward**

Revenue by Project Type	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Fixed Price	29,277	27,719	5.6%	21,988	33.1%
Time & Material	41,783	41,751	0.1%	35,422	18.0%
Total	71,060	69,470	2.3%	57,410	23.8%
% of Total Revenue					
Fixed Price	41.2%	39.9%	130 bps	38.3%	290 bps
Time & Material	58.8%	60.1%	-130 bps	61.7%	-290 bps

Source: Company Data, PL Research

Telecom benefitted due to currency benefit but still a laggard –BFSI and Manufacturing continues to look good (US\$ m)

By Segment	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Financial Services	574	530	8.3%	426	34.6%
Manufacturing	311	283	9.9%	238	85.3%
Telecom	198	199	-0.4%	200	-0.7%
Retail	230	215	6.7%	161	42.4%
Others	143	269	-47.0%	207	-31.1%
Total	1,585	1,496	5.9%	1,232	28.7%
as % of Total					
Financial Services	36.2%	35.4%	80 bps	34.6%	160 bps
Manufacturing	19.6%	18.9%	70 bps	19.3%	850 bps
Telecom	12.5%	13.3%	-80 bps	16.2%	-370 bps
Retail	14.5%	14.4%	10 bps	13.1%	140 bps
Others	9.0%	18.0%	-900 bps	16.8%	-780 bps

Source: Company Data, PL Research

Employee addition strong

Employee metrics	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Total employees	127,779	122,468	4.3%	109,882	16.3%
S/W professionals	121,144	115,972	4.5%	103,476	17.1%
- Billable	103,617	99,667	4.0%	89,086	16.3%
- Banking product group	5,721	5,178	10.5%	4,345	31.7%
- Trainees	11,806	11,127	6.1%	10,045	17.5%
Sales & support	6,635	6,496	2.1%	6,406	3.6%
Gross addition	11,067	14,264	-22.4%	8,719	26.9%
Net addition	5,212	7,646	-31.8%	4,429	17.7%
Lateral employees	5,756	4,138	39.1%	1,420	305.4%
Attrition	17.5%	17.1%	40 bps	11.6%	590 bps

Source: Company Data, PL Research



Strong client addition with focus on lower client attrition

Client Concentration	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Number of Clients					
Active	612	592	3.4%	568	7.7%
Added during the period	40	27	48.1%	32	25.0%
Accounting for > 5% of revenue	0	0	NA	0	NA
Net New Clients Added	20	2	900.0%	-3	-766.7%
US\$ 50mn +					
US\$ 50mn +	29	27	7.4%	22	31.8%
US\$ 60mn +	22	18	22.2%	14	57.1%
US\$ 70mn +	17	15	13.3%	12	41.7%
US\$ 80mn +	12	12	0.0%	9	33.3%
US\$ 90mn +	11	11	0.0%	7	57.1%
US\$ 100mn +	11	10	10.0%	6	83.3%
US\$ 200mn +	2	2	0.0%	2	0.0%
US\$ mn					
Top client	73	70	3.7%	58	25.9%
Top 5 clients	244	236	3.3%	217	12.6%
Top 10 clients	407	399	2.0%	339	20.2%
Non Top 10	1,178	1,097	7.4%	893	31.8%
Total	1,585	1,496	5.9%	1,232	28.7%
Top client	4.6%	4.7%	-10 bps	4.7%	-10 bps
Top 5 clients	15.4%	15.8%	-40 bps	17.6%	-220 bps
Top 10 clients	25.7%	26.7%	-100 bps	27.5%	-180 bps
Repeat Business	97.60%	98.40%	-80 bps	97.00%	60 bps
Repeat Business (in USD)	1,547	1,472	5.1%	1,195	29.4%
New Business (in USD)	38	24	58.9%	37	2.9%
Account Receivables	62.0	63.0	-1.6%	57.0	8.8%

Source: Company Data



Onsite steady due to holiday season

Overall Revenue	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Revenue (\$ mn)					
- Onsite	781	751	4.0%	568	37.6%
- offshore	804	745	7.9%	664	21.0%
Total	1,585	1,496	5.9%	1,232	28.7%
Revenue					
Onsite	49.3%	50.2%	-90 bps	46.1%	320 bps
Offshore	50.7%	49.8%	90 bps	53.9%	-320 bps
Utilization					
Include Trainees	72.6%	74.3%	-170 bps	68.8%	380 bps
Exclude Trainees	80.7%	81.2%	-50 bps	76.2%	450 bps
Effort - Service (Person months) (Billed)					
- Onsite	63,259	61,396	3.0%	46,925	34.8%
- offshore	195,042	189,043	3.2%	162,055	20.4%
Total	258,301	250,439	3.1%	208,980	23.6%
Non Billable	61,864	57,834	7.0%	65,234	-5.2%
Trainee	35,524	28,863	23.1%	29,603	20.0%
Sales & Support	20,102	19,765	1.7%	16,803	19.6%
Total	375,791	356,901	5.3%	320,620	17.2%
Pricing					
Onsite	12.35	12.23	1.0%	12.10	2.1%
Offshore	4.12	3.94	4.5%	4.10	0.5%
Total	6.14	5.97	2.7%	5.90	4.1%

Source: Company Data, PL Research

Pricing seeing respite

Consolidated IT Services	Q3FY11	Q2FY11	QoQ	Q3FY10	YoY
Efforts- (Person Months)					
Onsite	59,991	58,650	2.3%	46,686	28.5%
Offshore	143,685	138,828	3.5%	116,069	23.8%
Total	203,676	197,478	3.1%	162,755	25.1%
Revenue (\$ Million)					
Onsite	764	736	3.7%	565	35.1%
Offshore	649	611	6.2%	545	18.9%
Total	1,412	1,347	4.8%	1,111	27.2%
Pricing (\$/month)					
Onsite	12.7	12.6	1.4%	12.1	5.1%
Offshore	4.5	4.4	2.6%	4.7	-3.9%
Total	6.9	6.8	1.6%	6.8	1.6%

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011E	2012E	2013E
Net Revenue	227,420	278,527	345,944	436,755
Raw Material Expenses	120,710	149,754	190,604	245,735
Gross Profit	106,710	128,773	155,339	191,021
Employee Cost	—	—	—	—
Other Expenses	28,100	36,305	44,563	55,926
EBITDA	78,610	92,467	110,777	135,095
Depr. & Amortization	9,050	9,731	11,042	12,557
Net Interest	—	—	—	—
Other Income	9,430	11,199	13,158	15,783
Profit before Tax	78,990	93,936	112,892	138,321
Total Tax	16,810	23,954	28,223	31,814
Profit after Tax	62,180	69,982	84,669	106,507
Ex-Od items / Min. Int.	(480)	—	—	—
Adj. PAT	62,660	69,982	84,669	106,507
Avg. Shares O/S (m)	572.0	572.0	572.0	572.0
EPS (Rs.)	109.5	122.3	148.0	186.2

Cash Flow Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
C/F from Operations	79,970	103,666	123,935	150,878
C/F from Investing	(36,200)	(12,255)	(14,876)	(18,780)
C/F from Financing	(17,420)	(15,127)	(17,982)	(21,692)
Inc. / Dec. in Cash	26,350	76,284	91,078	110,405
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	62,780	49,322	70,284	88,294
FCFE	62,780	49,322	70,284	88,294

Key Financial Metrics

Y/e March	2010	2011E	2012E	2013E
Growth				
Revenue (%)	4.8	22.5	24.2	26.3
EBITDA (%)	9.3	17.6	19.8	22.0
PAT (%)	4.6	11.7	21.0	25.8
EPS (%)	4.6	11.7	21.0	25.8
Profitability				
EBITDA Margin (%)	34.6	33.2	32.0	30.9
PAT Margin (%)	27.6	25.1	24.5	24.4
RoCE (%)	30.1	26.6	25.7	26.3
RoE (%)	30.3	26.6	25.7	26.3
Balance Sheet				
Net Debt : Equity	(0.5)	(0.5)	(0.6)	(0.6)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	31.6	28.3	23.4	18.6
P / B (x)	8.6	6.7	5.5	4.4
EV / EBITDA (x)	23.8	19.8	16.0	12.7
EV / Sales (x)	8.2	6.6	5.1	3.9
Earnings Quality				
Eff. Tax Rate	21.3	25.5	25.0	23.0
Other Inc / PBT	11.9	11.9	11.7	11.4
Eff. Depr. Rate (%)	11.5	9.6	9.5	9.3
FCFE / PAT	100.2	70.5	83.0	82.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
Shareholder's Funds	230,490	296,060	362,748	447,563
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	230,490	296,060	362,748	447,563
Net Fixed Assets	53,550	67,709	72,755	80,612
Goodwill	—	—	—	—
Investments	37,120	37,120	37,120	37,120
Net Current Assets	137,820	189,231	250,873	327,831
<i>Cash & Equivalents</i>	<i>105,560</i>	<i>149,550</i>	<i>200,640</i>	<i>265,609</i>
<i>Other Current Assets</i>	<i>76,810</i>	<i>77,835</i>	<i>94,779</i>	<i>118,462</i>
<i>Current Liabilities</i>	<i>44,550</i>	<i>38,154</i>	<i>44,546</i>	<i>56,240</i>
Other Assets	2,000	2,000	2,000	2,000
Total Assets	230,490	296,060	362,748	447,563

Quarterly Financials (Rs m)

Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11E
Net Revenue	59,440	61,980	69,470	71,696
EBITDA	20,220	19,620	23,150	24,032
<i>% of revenue</i>	<i>34.0</i>	<i>31.7</i>	<i>33.3</i>	<i>33.5</i>
Depr. & Amortization	2,200	2,070	2,170	2,378
Net Interest	—	—	—	—
Other Income	2,080	2,390	2,670	3,024
Profit before Tax	20,100	19,940	23,650	24,678
Total Tax	4,410	5,060	6,280	6,466
Profit after Tax	15,690	14,880	17,370	18,212
Adj. PAT	15,690	14,880	17,370	18,212

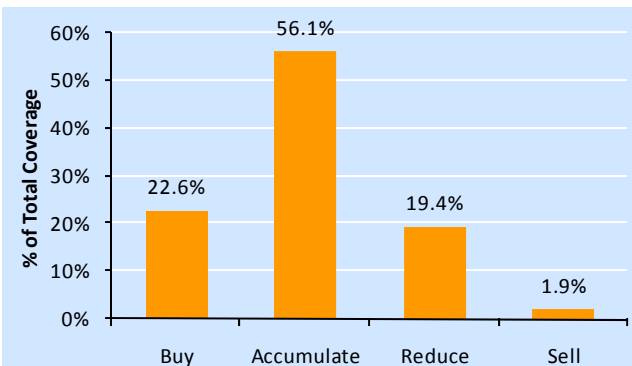
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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