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Private Limited+

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Stock Rating
Equal-weight

Industry View
Cautious

Infosys Technologies

Currency drags revenues but helps margins; Maintain EW

What's Changed

Price Target **Rs1,285.00 to Rs1,351.00**
FY09e-FY11e Rupee EPS **Up by 0.5%-1.6%**

Investment conclusion: Infosys' 4Q revenue guidance implies a QoQ volume decline. We believe increasing training time for employees from 16 weeks to 24 is also an indication of management expectations of lower volume growth in the near-medium term. Given the macro uncertainty, we would not chase the stock at current levels. In the current environment, we believe ~Rs1,050-1,100 would be a reasonable entry price for investors with a long-term view. Maintain EW.

What's new: Management indicated that overall spending at clients could be down 4-5% in 2009 and pricing could get tougher if the macro environment worsens. Overall hiring guidance was raised to 27,000 employees for FY09e, with 20,000 campus offers (implying net adds of 5,000-7,000) in FY10e. (See *result details on page 4-5*). US\$ revenue run-rate for F4Q09 is now back to F4Q08 levels with 2009 budgets likely to be lower than 2008.

Where we differ: We believe revenue growth for Infosys in FY10e is likely to trend down to single digits. However, a key surprise for Infosys in F2H10 could be lower-than-expected pricing pressure post the Satyam issue as clients now may not be able to lower rates significantly by playing large vendors against their smaller peers, in our view.

What's next: MS economists now expect US GDP to contract by -2.4% in 2009. Travel and budget delays could further prolong decision cycles over the coming quarters. We would wait for the macro environment to stabilize before accumulating the stock.

Key Ratios and Statistics

Reuters: **INFY.BO** Bloomberg: **INFO IN**

India Software

Price target	Rs1,351.00
Upside to price target (%)	10
Shr price, close (Jan 13, 2009)	Rs1,230.20
52-Week Range	Rs2,017.00-1,040.00
Sh out, dil, curr (mn)	572
Mkt cap, curr (mn)	Rs703,453
EV, curr (mn)	Rs633,233
Avg daily trading volume (mn)	Rs527

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	81.27	102.86	107.02	111.62
Prior ModelWare EPS (Rs)	-	101.16	106.48	110.27
Consensus EPS (Rs)§	80.27	102.94	109.24	112.09
Revenue, net (Rs mn)	166,920	218,107	235,505	263,914
EBITDA (Rs mn)	52,380	70,564	72,917	80,405
ModelWare net inc (Rs mn)	46,590	58,971	61,427	64,070
P/E	17.6	12.0	11.5	11.0
P/BV	5.9	3.7	3.0	2.5
RNOA (%)	75.4	82.4	72.3	72.0
ROE (%)	41.4	42.7	32.3	27.1
EV/EBITDA	14.3	8.4	7.5	6.4
Div yld (%)	0.3	3.5	2.2	2.7
FCF yld ratio (%)	4.7	7.3	8.5	8.0
Leverage (EOP) (%)	(50.4)	(58.5)	(65.2)	(67.5)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Financial Summary: Infosys Technologies

Consolidated P&L Statement (Rs m)

Year to 31 March	FY07	FY08	FY09E	FY10E	FY11E
REVENUES	138,930	166,920	218,107	235,505	263,914
% chg YoY	45.9	20.1	30.7	8.0	12.1
Cost of Services	74,580	92,070	119,429	130,088	145,486
GROSS PROFIT	64,350	74,850	98,678	105,417	118,428
Gross Margin (%)	46.3	44.8	45.2	44.8	44.9
S, G & A	20,440	22,470	28,114	32,500	38,023
% of sales	14.7	13.5	12.9	13.8	14.4
EBITDA	43,910	52,380	70,564	72,917	80,405
EBITDA margin (%)	31.6	31.4	32.4	31.0	30.5
Depreciation	5,140	5,980	7,274	8,182	9,037
EBIT	38,770	46,400	63,290	64,734	71,368
EBIT margin (%)	27.9	27.8	29.0	27.5	27.0
Other income	3,700	7,040	3,554	6,612	7,828
PBT	42,470	53,440	66,844	71,346	79,196
Tax	5,100	6,850	7,874	9,920	15,126
Eff. Tax Rate (%)	12.0	12.8	11.8	13.9	19.1
NET PROFIT	37,260	46,590	58,971	61,427	64,070
% chg YoY	51.5	25.0	26.6	4.2	4.3
Net Margin (%)	26.8	27.9	27.0	26.1	24.3
Basic EPS (Rs)	69.2	81.5	103.0	107.0	111.6
FD EPS (Rs)	67.7	81.3	102.9	107.0	111.6
EPADS (US\$)	1.52	2.04	2.22	2.25	2.43
Growth (US\$) (%)	49.5	33.7	9.0	1.5	4.3
Growth (Rs EPS) (%)	54.7	20.0	26.6	4.0	4.3

Consolidated Cash Flow (Rs m)

Year to Mar 31	FY07	FY08	FY09E	FY10E	FY11E
PAT	37,260	46,590	58,971	61,427	64,070
Depreciation	5,140	5,980	7,274	8,182	9,037
Changes in working Capital	(10,170)	(2,530)	(2,287)	(753)	(8,658)
OP CASH FLOW	32,230	50,040	63,957	68,856	64,449
Capital Expenditure	(15,030)	(11,560)	(12,359)	(8,895)	(8,197)
Investments	(20)	720	(1,260)	-	-
INV CASH FLOW	(20,610)	(10,840)	(13,619)	(8,885)	(8,187)
Free Cash Flow	17,120	39,200	50,338	59,970	56,262
Issue of shares	1,480	-	-	-	-
Reserve Adjustments	14,120	(13,610)	17,814	970	883
Dividends paid	(15,520)	(7,580)	(24,354)	(16,492)	(19,661)
FX/Others	(60)	(7,470)	(2,000)	(1,610)	(1,610)
FIN CASH FLOW	20	(28,660)	(8,540)	(17,132)	(20,389)
NET CASH FLOW	17,140	10,540	41,798	42,838	35,873
Cash & Eq at Yr Beg	41,820	58,960	69,500	111,298	154,136
Cash & Eq at Yr End	58,960	69,500	111,298	154,136	190,009

Consolidated Balance Sheet (Rs m)

Year to Mar 31	FY07	FY08	FY09E	FY10E	FY11E
APPLICATION OF FUNDS					
Gross Fixed Assets	46,420	54,390	70,989	79,384	85,081
Less: Dep and Amort	18,360	19,860	25,134	31,716	39,153
Net Fixed Assets	28,060	34,530	45,855	47,668	45,928
Add: Capital WIP	9650	13240	9000	9500	12000
Total Fixed Assets	37,710	47,770	54,855	57,168	57,928
DEF TAX ASSETS	920	1,190	1,380	1,380	1,380
CURRENT ASSETS	95,460	130,900	174,735	219,864	267,169
Sundry Debtors	24,360	32,970	34,674	35,926	42,174
Cash & Bank Bal	58,960	70,220	111,298	154,136	190,009
Loans and Advances	12,140	27,710	28,763	29,802	34,985
TOTAL ASSETS	134,090	179,860	232,951	280,393	328,457
SOURCES OF FUNDS					
Current liab & prov	21,500	41,910	42,570	44,107	46,880
Current Liabilities	14,690	19,120	22,436	23,246	25,889
Provisions	6,810	22,790	20,134	20,861	20,991
Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves and Surplus	109,690	135,090	187,521	233,425	278,717
SH FUNDS	112,550	137,950	190,381	236,285	281,577
TOTAL LIABILITIES	134,090	179,860	232,951	280,393	328,457

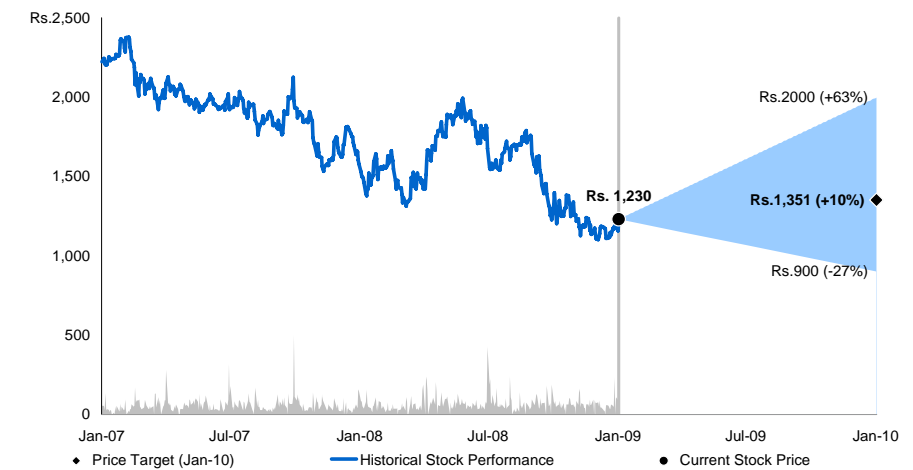
Key Ratios & Assumptions

Yr to Mar31	FY07	FY08	FY09E	FY10E	FY11E
RoAE (%)	40.7	37.2	35.9	28.8	24.7
P/E	18.2	15.1	12.0	11.5	11.0
Volume (% YoY)	38.6	26.0	17.2	9.0	15.2
Avg Price Reazn(%YoY)	4.5	6.2	-2.4	-3.4	0.3
Avg FX Rate (Rs/US\$)	45.5	40.0	46.4	47.5	45.9
change (%yoy)	2.8	-12.0	15.9	2.4	-3.4
Emp Costs as % of Rev	47.4	49.8	49.6	51.3	52.5
SG&A as % of Revenue	14.7	13.5	12.9	13.8	14.4
Effective Tax Rate (%)	12.0	12.8	11.8	13.9	19.1

E = Morgan Stanley Research estimates; NA = Not Applicable; NM = Not Meaningful
EPS includes extraordinary items and minority interest
Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: Infosys Technologies (INFY.BO, Rs1,230, EW, PT Rs1,351)

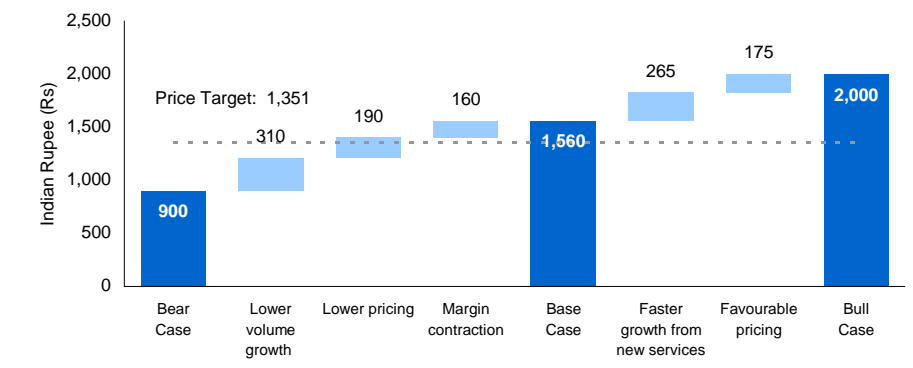
Risk-Reward View: Macro Environment Remains the Key Risk



Source: Company data, Morgan Stanley Research

Price Target Rs1,351		Derived from the probability-weighted average of our bull-, base-, and bear case scenarios
Bull Case Rs2,000	19x Base Case Dec 09e EPS	Better-than-expected growth: Our bull case assumes pricing holds and the company continues to get business with better-than-expected volume growth. We forecast ~10% revenue and earnings growth with stable margins in US\$ terms in F2010e. [Probability = 0.05]
Base Case Rs1,560	15x Base Case Dec 09e EPS	Steady growth: Pricing pressure partly offset by rupee depreciation in F2010. Lower volume growth could lead to a single-digit revenue growth and flattish/marginally lower profits in F2010 in US\$ terms. [Probability = 0.6]
Bear Case Rs900	9x Base Case Dec 09e EPS	Tougher macro environment: Pricing pressure and lower volume of new businesses could lead to revenue decline of ~4-5% in USD terms in F2010. A ~150bp margin contraction could lead net profits to decline ~10-15% in US\$ terms in F2010. [Px = 0.35]

Bear to Bull: Tech Spending Could Slow Down in US in C2009



Source: FactSet, Morgan Stanley Research

Investment Thesis

- Overall market contraction, prospects of increasing pricing pressure and lack of certainty on budgets for 2009 could lead to challenging outlook for F2010 revenue growth in the near term.
- In a recession, clients of large offshore vendors could delay spending on moving work offshore.
- Infosys continues to see a tough environment and is likely to add 25,000 employees for F2009.

Key Value Drivers

- Management execution and focus on maintaining profitability.
- Scale and scalability.
- Diversified client base.
- Strong operating cash flows.

Potential Catalyst

- Higher-than-expected technology spending budgets for C2008-09.
- Any pricing improvement will drive margins positively.
- Rupee depreciation, if any, can be a positive catalyst.
- Any upward guidance revision over the coming quarters.

Key Risks

- Significant rupee appreciation is a key risk.
- A sudden and significant slowdown in the US could hurt demand.
- Slowdown in the US with significant impact on spending budget of clients]

Investment Case

Summary & Conclusions

Infosys reported better-than-expected Dec08 results.

Revenue of Rs57.8bn (+6.8% QoQ, +35.5% YoY) was ahead of guidance and in line with our expectation. Strong EBIT margins at 31.9% (+203bps QoQ, +286bps YoY) driven by rupee depreciation against US\$. Net income of Rs16.4bn (+14.6% QoQ, +33.3% YoY) was also ahead of our expectations. Infosys met its US\$ revenue and net profit guidance in constant currency terms. FY09e US\$ revenue and EPS guidance at US\$4.67-4.71bn and US\$2.23 were revised down marginally to reflect cross currency movements and emerging pricing pressure.

Key Result Positives: 1) Infosys met its US\$ revenue and EPS guidance on constant currency basis. 2) Added 6k (gross) employees and hiring target increased to 27,000 (from 25,000 earlier) for FY09e. 3) Despite a challenging environment, BFSI and Retail verticals grew ahead of the company average at 4.1% and 2.9% QoQ, respectively (on constant currency basis). 4) Attrition rates improved to 11.8%, lowest in the last 10 quarters. 5) Management indicated no material cancellation of projects. 6) Top 10 clients grew faster than non top 10 at 3.2% QoQ on constant currency basis. 7) Secured 4 large deals (~US\$50-100m) during the quarter and has 10 more such deals in the pipeline.

Key Result Negatives: 1) Pricing declined by -1.8% QoQ on a constant currency basis and could fall further if the environment continues to worsen. 2) Subsidiaries continue to drag performance: Revenue of US\$116m (-10.3% QoQ) and net income of US\$7.4m (-20.4% QoQ). 3) New client additions (net) remained weak. 4) Weakness in Manufacturing (-3.7% QoQ), Telecom (-3.4% QoQ) and Europe (-1.2% QoQ) on constant currency basis. 5) Infosys consulting to break even next year as against in F2009 earlier.

Other Call Highlights: 1) Clients' budgets to be finalized by mid Feb-March. Budget may not be delayed this year but a likely to be lower YoY. 2) Multiple clients up for pricing renegotiation led to -1.8% QoQ price declines during the quarter. 3) Cash balance of US\$1.98bn and hedge position of US\$576m as on 31 December, 2008. Management does not expect any rupee appreciation in the near term. 4) Utilization improved from 74.1% to 74.8%.

Valuations: We maintain our Equal-weight rating on Infosys with a new price target of Rs1,351 (from Rs1,285) based on a probability-weighted average of our bull-, base-, and bear-case

scenarios. The stock has moved up 11% in the last month against the broad market (Sensex) correction of 6% over the same period. We do not see any near-term triggers for the stock. We are adjusting our FY10e/FY11e earnings estimates by ~1% (in rupee terms) post F3Q09 results. Given the worsening macro environment, we see limited upside for the stock in the near-medium term. We are raising our price target to factor in a higher probability for our base and a lower probability for our bear case for Infosys in the current environment, where vendors with good corporate governance, and credible track record (like Infosys) could command premium valuations over peers, in our view. We now assume a probability of 60% for our base case, 35% for our bear-case scenario, and 5% for our bull-case scenario, or (Rs1,351 = 0.05*2,000 + 0.6*1,560 + 0.35*900).

The stock currently trades at a ~12x F2009e EPS, which is near the lower end of its historical trading range. We believe that P/E comparisons remain the most appropriate valuation measure for Infosys, given the company's profitable track record and strong earnings visibility. Infosys has traded at an average one-year rolling P/E of 22x with a low of 11x. Another measure we use to support our price target is price/sales multiple comparison. Over the past two years, Infosys has traded at price/sales of ~3-7.5x, with an average of 5.5x. Our 12-month forward price target implies a price/sales multiple of ~3.5x.

Key risks include: 1) Infosys has high exposure to the banking, financial services, and insurance (BFSI) sectors (~34.9% of total), and any slowdown in this sector may adversely affect earnings. 2) Any significant rupee appreciation against the US dollar could impair operating margins and earnings. 3) If the US economy slows and corporates come under pressure to trim their technology spending on offshore activities, this could have an adverse impact on Infosys' revenue and earnings growth. 4) Any cut in the H1B visa quota would impair the onsite business.

Exhibit 1

Infosys: Income Statement (US\$ m, %)

Year ending March 31st	Dec-07	Sep-08	Dec-08	QoQ	YoY
Revenue	1,084	1,216	1,171	-3.7%	8.0%
Operating Profit	312	359	371	3.3%	18.9%
Operating Margins (%)	28.8%	29.5%	31.7%	215 bps	290 bps
PAT	310	318	330	3.6%	6.5%
EPADS	0.54	0.56	0.58	3.6%	7.4%

Source: Company data, Morgan Stanley Research; As per US GAAP

Exhibit 2

Infosys: Trends in Quarterly Income Statement (Rs m,%)

Year ending March 31st	Dec-07	Sep-08	Dec-08	QoQ	YoY	Comments
Revenue	42,710	54,180	57,860	6.8%	35.5%	Vol (+2%), Px(-6%), Re (+11%); Constant currency growth of 1% qoq in US\$ terms
Cost of Goods	23,250	28,910	30,750	6.4%	32.3%	
Gross Profit	19,460	25,270	27,110	7.3%	39.3%	
Gross Margins (%)	45.6%	46.6%	46.9%	21 bps	129 bps	
SG&A	5,540	7,330	6,800	-7.2%	22.7%	
EBIDTA	13,920	17,940	20,310	13.2%	45.9%	
EBIDTA Margins (%)	32.6%	33.1%	35.1%	199 bps	251 bps	
Depreciation	1,530	1,770	1,870	5.6%	22.2%	
Operating Profit	12,390	16,170	18,440	14.0%	48.8%	
Operating Margins (%)	29.01%	29.8%	31.9%	203 bps	286 bps	Re dep (+4.7%), Cross currency (-1%), Utilizn(-1.3%), Others(-0.4%)
Other Income	1,580	660	380	-42.4%	-75.9%	Include Fx loss of Rs2,180m
PBT	13,970	16,830	18,820	11.8%	34.7%	
Tax	1,660	2,510	2,410	-4.0%	45.2%	
Tax rate (%)	11.7%	14.9%	12.8%	-211 bps	114 bps	Include a tax reversal of Rs620m pertaining to earlier years
PAT	12,310	14,320	16,410	14.6%	33.3%	

Source: Company data, Morgan Stanley Research

Exhibit 3

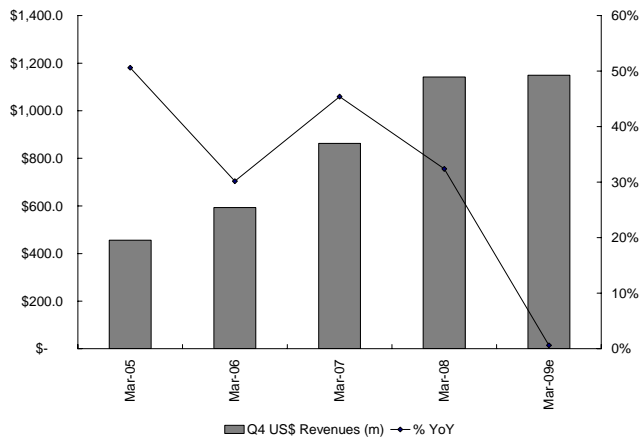
Infosys Guidance for 4Q09 and F2009

	Rs m					USD m				
	F1Q09	F2Q09	F3Q09	F4Q09e	F2009e	F1Q09	F2Q09	F3Q09	F4Q09e	F2009e
Revenue	48,540	54,180	57,860	54,940- 56,990	215,520-217,570	1,155	1,216	1,171	1,128-1,170	4,670-4,710
% qoq	6.9	11.6	6.8	-5 to -1.5	29.1-30.3	1.1	5.3	-3.7	-3.7 to -0.1	11.8-12.8
EPS/EPADS	22.8	25.0	28.7	26.5	102.9	0.54	0.56	0.58	0.55	2.23
% qoq	4.2	10.0	14.5	-7.6	26.2	-1.8	3.7	3.6	-5.2	9.9

Source: Company data, Morgan Stanley Research, *EPS of Rs101.3 (+27.6%/yoy) exclud tax reversals at Rs930m in F2009. US\$ earnings of US\$2.20(+11.1%/yoy) exclud tax reversals of US\$19m in F2009; Assumed currency rates for AUD, GBP and EUR are 0.69/USD, 1.45/USD and 1.41/USD. If currencies (except INR) depreciate further against USD, it is negative for the guidance

Exhibit 4

Q4 Revenue run rate back to FY08 levels with 2009 budgets likely to be lower than 2008



Source: Company data, Morgan Stanley Research

Exhibit 5

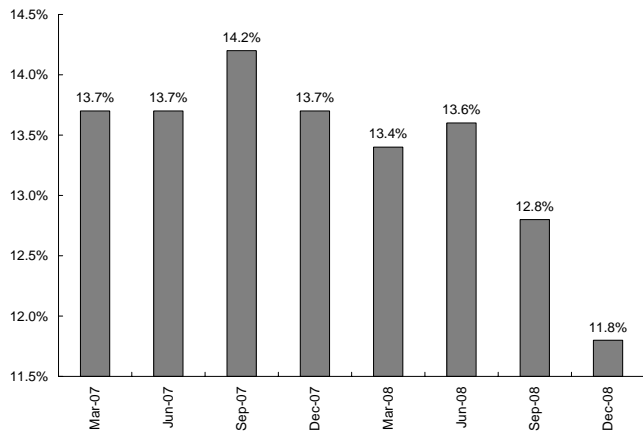
Infosys: Subsidiaries continue to drag performance (US\$m, %)

Revenues US \$m	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	% qoq	% yoy
Infy BPO	44.7	49.2	52.7	64.0	69.4	72.6	72.6	67.1	-7.6%	4.8%
Infy Australia	32.0	35.4	34.4	32.6	36.6	34.1	30.8	26.0	-15.6%	-20.2%
Infy Consulting	13.5	12.8	16.3	16.6	15.9	17.7	17.7	13.5	-23.6%	-18.5%
Infy China	2.5	3.8	5.1	5.0	5.3	5.8	5.8	6.7	15.2%	32.7%
Infy Mexico			-	0.2	0.5	1.2	2.0	2.3	17.3%	1252.9%
Total	92.6	101.2	108.5	118.3	127.7	131.4	128.8	115.6	-10.3%	-2.4%
<i>% of Consolidated Revenues</i>	<i>10.7</i>	<i>10.9</i>	<i>10.6</i>	<i>10.9</i>	<i>11.2</i>	<i>11.4</i>	<i>10.6</i>	<i>9.9</i>		
Net profit/ (loss) US \$m										
Infy BPO	8.7	8.1	10.3	7.3	9.1	7.3	11.0	10.9	-1.1%	48.4%
Infy Australia	7.5	5.7	7.4	4.6	7.7	3.4	2.1	1.6	-22.1%	-64.5%
Infy Consulting	(11.0)	(0.8)	(12.0)	-	(0.1)	(1.5)	(1.1)	(2.7)	NM	NM
Infy China	(2.3)	(1.1)	(0.0)	(0.4)	(0.1)	(0.1)	(1.9)	(2.0)	NM	NM
Infy Mexico			(0.1)	(0.9)	(0.8)	(0.3)	(0.8)	(0.5)	NM	NM
Total	2.9	11.9	5.6	10.5	15.9	8.8	9.3	7.4	-20.7%	-30.1%
<i>% of Consolidated Net Profit</i>	<i>1.1</i>	<i>4.5</i>	<i>2.1</i>	<i>3.4</i>	<i>5.1</i>	<i>2.9</i>	<i>2.9</i>	<i>2.2</i>		

Source: Company data, Morgan Stanley Research

Exhibit 6

Infosys: Improving trend in attrition rates (%)



Source: Company data, Morgan Stanley Research

Exhibit 7

Infosys: Forward PE Band Chart

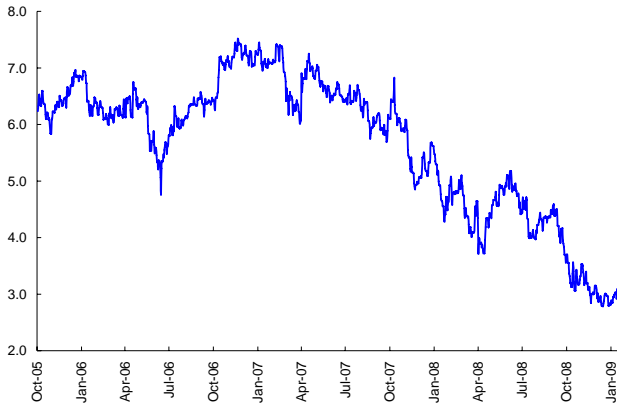


Source: Bloomberg, Company data, Morgan Stanley Research

January 14, 2009
Infosys Technologies

Exhibit 8

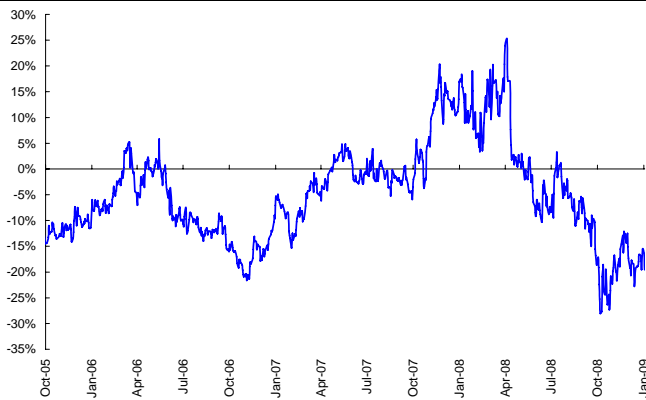
Infosys: Price to Sales Chart



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 9

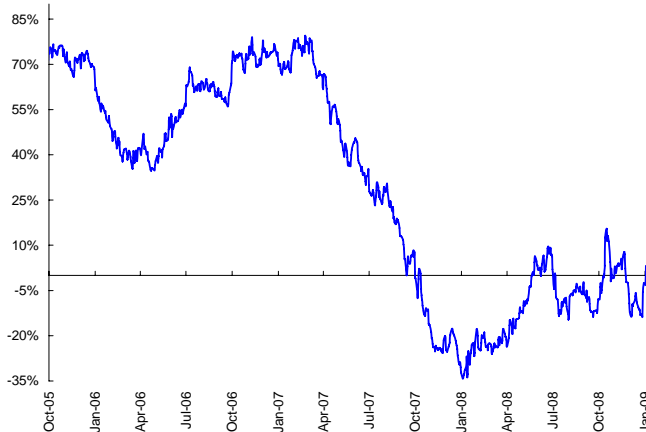
TCS PE relative discount to Infosys



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 10

Infosys PE relative to Sensex



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 11

Infosys: Comparative Price Performance

Comp Peers/Index	1d	1w	1m	3m	6m	1yr	Ytd
INFOSYS	5.9	4.7	11.2	-6.9	-26.8	-21.5	10.1
HCL TECH	0.8	-13.7	1.5	-35.9	-54.4	-62.3	-5.6
SATYAM	-9.7	-81.4	-85.9	-88.5	-93.0	-92.4	-81.8
TCS	2.6	2.0	9.2	-8.2	-34.2	-46.9	10.0
WIPRO	5.7	-2.2	1.0	-15.4	-41.7	-50.8	3.0
I-FLEX	-1.5	-7.0	6.8	-15.1	-65.7	-69.2	-0.2
MPHASIS	0.2	-10.8	-2.3	-7.5	-26.2	-47.0	-3.6
POLARIS	-8.1	-26.6	-16.0	-30.1	-56.0	-72.4	-22.1
PATNI	-2.1	-14.9	-11.3	-22.8	-51.6	-61.6	-8.6
HEXAWARE	-1.3	-14.5	-3.7	-18.2	-62.3	-75.4	-6.4
TECH MAHINDRA	-5.1	-17.8	-10.6	-44.9	-66.5	-77.0	-5.7
MINDTREE	0.3	-6.8	-7.1	-8.2	-41.1	-52.1	-5.2
E-CLERX	-1.6	-5.8	-8.6	2.6	-54.1	-74.4	-2.7
EDUCOMP	-2.5	-26.7	-7.1	-11.1	-29.2	-57.2	-19.3
HCL INFO	-5.5	-15.0	1.5	-20.6	-40.7	-70.4	-17.8
INFOEDGE	-0.4	-0.8	2.2	-9.6	-54.4	-68.2	0.3
KPIT CUMMINS	-1.5	-16.1	-18.1	-14.3	-62.9	-81.0	-15.2
MASTEK	1.5	-6.3	-3.9	-33.3	-55.5	-53.2	-3.2
NIIT LTD	-1.7	-20.9	-6.8	-23.1	-77.1	-82.8	-12.6
NUCLEUS SOFT	5.8	-0.7	5.0	-41.6	-73.8	-85.2	10.6
SASKEN	-3.4	-21.9	-6.0	-44.0	-62.6	-82.4	-14.5
SUBEX	-4.7	-20.0	-16.8	-55.1	-69.4	-92.3	-16.6
TANLA	-16.8	-49.1	-44.0	-56.9	-79.8	-86.7	-34.9
BSE SENSEX	-0.4	-11.7	-6.4	-19.8	-32.7	-56.4	-6.0
MSCI INDIA IT IND	-3.5	-9.7	-7.7	-23.4	-43.5	-43.4	-5.3
NASDAQ COMP	0.5	-6.4	0.4	-16.1	-30.9	-36.6	-1.9

Source: Bloomberg, Company data, Morgan Stanley Research; Based on close price as at 13th January 2009

January 14, 2009
Infosys Technologies

Exhibit 12

Infosys: Quarterly Metrics for Dec08

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Comments
Geographical (% of Revenues)									
North America	62.6	62.6	62.6	62.3	60.7	62.6	61.5	64.5	
Europe	26.6	26.8	27.4	28.6	29.3	27.3	28.1	25.5	
India	1.5	1.8	1.0	1.2	1.3	1.3	1.3	1.2	
Others	9.3	8.8	9.0	7.9	8.7	8.8	9.1	8.8	
Onsite Offshore (% of revenues)									
Offshore	50.2	50.3	51.2	52.2	52.5	52.5	52.7	54.2	
Onsite	49.8	49.7	48.8	47.8	47.5	47.5	47.3	45.8	
Industry Verticals (% of Revenues):									
BFSI	37.0	36.1	36.5	36.8	33.9	34.5	33.4	34.9	
Manufacturing	12.9	13.6	13.9	14.8	16.4	18.4	20.1	19.6	
Telecom	21.9	22.0	20.6	21.1	22.5	19.7	19.0	16.7	
Retailing	10.8	10.8	12.5	12.0	11.9	12.2	12.1	12.6	
Others	17.4	17.5	16.5	15.5	15.3	15.2	15.4	16.2	
Client Concentration:									
Gross Clients Added	34	35	48	47	40	49	40	30	9 in BFSI, 6 in Manufacturing, 4 in Retail Declined for the first time since F2002
Total Clients	500	509	520	530	538	567	586	583	
Net Clients Added	12	9	11	10	8	29	19	(3)	
Top client's (%)	8.5	8.6	7.9	9.5	10.3	7.9	7.6	6.2	
Top 5 clients' (%)	21.3	21.4	19.5	21.6	22.0	19.9	18.6	17.3	
Top 10 clients' (%)	33.4	32.3	29.9	32.5	32.0	30.1	28.0	27.2	
Repeat Business (%)	93.3	99.5	97.7	96.3	95.0	99.6	99.8	97.1	
Client Size:									
\$1 Mn clients	275	285	295	305	310	325	325	323	
\$5 Mn clients	107	113	122	128	141	146	151	150	
\$10 Mn clients	71	75	77	81	89	91	94	102	
\$20 Mn clients	36	40	44	45	47	53	56	58	
\$30 Mn clients	25	26	30	30	32	33	34	37	
\$40 Mn clients	16	18	22	22	22	25	26	26	
\$50 Mn clients	12	13	16	17	18	18	20	20	
\$100 Mn clients	3	3	3	4	6	6	5	4	
Billing Rates (US\$/Person-Month):									
Onsite Billing Rate	11,652	11,817	12,165	12,295	12,289	12,291	12,370	11,649	
Offshore Billing Rate	4,792	4,842	4,969	5,036	5,063	5,060	5,064	4,830	
Blended Billing Rate	7,041	7,115	7,251	7,306	7,321	7,334	7,331	6,864	
Utilization Rates (%)									
Including Trainees	66.9	70.5	70.3	70.1	70.2	69.8	69.4	68.5	Lower utilization impacted margins
Excluding Trainees	72.5	73.9	77.8	77.4	75.7	72.3	73.7	74.5	
Contract Type (% of Revenues)									
Fixed Price	25.9	27.5	29.8	32.8	33.2	32.8	34.1	36.3	
Time & Materials	74.1	72.5	70.2	67.2	64.6	64.8	63.8	63.7	
DSO (US GAAP)	67	67	65	62	72	64	60	56	Lowest in last 12 quarters
Employees:									
IT and Consulting employees	61,015	63,649	67,528	73,206	74,892	77,095	82,979	86,137	FY09 Hiring target raised to 27,000 from 25,000
Infosys BPO	11,226	12,322	12,973	15,395	16,295	17,284	17,327	16,941	Declined for the first time
No of Employees	72,241	75,971	80,501	88,601	91,187	94,379	100,306	103,078	
Attrition Rates (%)	13.7	13.7	14.2	13.7	13.4	13.6	12.8	11.8	Lowest in last 10 quarters
Net Addition	2,809	3,730	4,530	8,100	2,586	3,192	5,927	2,772	To add 3,700(gross) in 4Q

Source: Company data, Morgan Stanley Research

January 14, 2009
Infosys Technologies

Exhibit 13

Infosys: Trends in Revenue Distribution (USD m, %)

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Comments
Geographical (USDm)									
North America	540	581	640	675	693	723	748	756	
Europe	229	249	280	310	335	315	342	299	
Total	863	928	1,022	1,084	1,142	1,155	1,216	1,171	
QoQ growth (%)									
North America	4.1	7.6	10.1	5.6	2.6	4.3	3.4	1.0	+1.5% in Constant currency
Europe	4.3	8.4	12.6	10.7	7.9	-5.8	8.4	-12.6	-1.2% in Constant currency
Total	5.1	7.6	10.1	6.1	5.4	1.1	5.3	-3.7	+5.8% in Constant currency
YoY growth (%)									
North America	40.0	37.5	34.7	30.2	28.4	24.4	16.9	11.9	
Europe	51.7	43.8	45.6	40.9	45.8	26.8	22.0	-3.7	
Total	45.4	40.6	37.1	32.1	32.4	24.4	19.0	8.1	
Key Verticals (USDm)									
BFSI	319	335	373	399	387	398	406	409	
Manufacturing	111	126	142	160	187	213	244	230	
Telecom	189	204	211	229	257	228	231	196	
Retailing	93	100	128	130	136	141	147	148	
QoQ growth (%)									
BFSI	14.5	5.0	11.3	6.9	-3.0	2.9	1.9	0.7	+4.1% in Constant currency
Manufacturing	6.6	13.4	12.5	12.9	16.7	13.5	15.0	-6.1	-3.7% in Constant currency
Telecom	34.1	8.1	3.1	8.6	12.3	-11.4	1.5	-15.3	-3.4% in Constant currency
Retailing	38.9	7.6	27.5	1.8	4.5	3.7	4.4	0.3	+2.9% in Constant currency
YoY growth (%)									
BFSI	49.4	39.4	33.8	25.9	21.3	18.9	8.9	2.5	
Manufacturing	29.4	31.9	36.1	52.7	68.3	68.4	72.0	43.1	
Telecom	95.4	74.7	49.4	52.3	36.0	11.4	9.7	-14.5	
Retailing	54.0	56.5	90.4	50.9	45.9	40.6	15.2	13.5	
Growth in Billing Rates									
QoQ growth (%)									
Onshore	1.7	1.4	2.9	1.1	0.0	0.0	0.6	-5.8	
Offsite	1.4	1.0	2.6	1.3	0.5	0.0	0.1	-4.6	
Blended Rate	1.7	1.0	1.9	0.8	0.2	0.2	0.0	-6.4	-1.8% in Constant currency
YoY growth (%)									
Onshore	6.3	6.7	8.3	7.4	5.5	4.0	1.7	-5.3	
Offsite	4.4	5.3	6.9	6.5	5.6	4.5	1.9	-4.1	
Blended Rate	6.3	5.5	6.2	5.5	4.0	3.1	1.1	-6.0	

Source: Company data, Morgan Stanley Research

Exhibit 14

Infosys: Top Clients Metrics (USDm, %)

Top Clients (% of revenue)	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Sep-08	Comments
Top 1	8.5	8.6	7.9	9.5	10.3	7.9	7.6	6.2	
Top 2-5	12.8	12.8	11.6	12.1	11.7	12.0	11.0	11.1	
Top 5	21.3	21.4	19.5	21.6	22.0	19.9	18.6	17.3	
Top 6-10	12.1	10.9	10.4	10.9	10.0	10.2	9.4	9.9	
Top 10	33.4	32.3	29.9	32.5	32.0	30.1	28.0	27.2	
Non Top 10	66.6	67.7	70.1	67.5	68.0	69.9	72.0	72.8	
Revenue (USDm)									
Top 1	73	80	81	103	118	91	92	73	Largely due to appreciation of USD vs UKP
Top 2-5	110	119	119	131	134	139	134	130	
Top 5	184	199	199	234	251	230	226	203	
Top 6-10	104	101	106	118	114	118	114	116	
Top 10	288	300	306	352	365	348	340	319	
Non Top 10	575	628	716	732	777	807	875	853	
QoQ Growth %									
Top 1	29.5	8.8	1.2	27.5	14.2	-22.4	1.3	-21.4	
Top 2-5	12.1	7.6	-0.2	10.6	1.9	3.7	-3.5	-2.8	
Top 5	18.5	8.1	0.3	17.5	7.3	-8.5	-1.6	-10.4	
Top 6-10	5.1	-3.1	5.1	11.2	-3.3	3.2	-3.0	1.5	
Top 10	13.2	4.0	1.9	15.3	3.7	-4.9	-2.1	-6.4	
Non Top 10	1.4	9.4	14.0	2.1	6.1	4.0	8.4	-2.6	
YoY Growth %									
Top 1	163.0	108.4	64.1	81.8	60.4	14.3	14.5	-29.5	
Top 2-5	33.9	31.3	10.4	33.2	21.0	16.7	12.8	-0.9	
Top 5	66.5	54.3	27.3	50.9	36.7	15.7	13.5	-13.4	
Top 6-10	41.9	25.6	19.8	19.0	9.4	16.5	7.5	-1.9	
Top 10	56.7	43.2	24.6	38.5	26.8	16.0	11.4	-9.6	
Non Top 10	40.3	39.3	43.2	29.2	35.2	28.5	22.2	16.5	

Source: Company data, Morgan Stanley Research

Exhibit 15

Global Software Valuations: P/E and PEG Ratio

Company	Ticker	Curr	Price (Local)	M Cap (\$mil)	EPS (Respective Currency)			P/E (x)			EPS Growth			EPS CAGR 08-10	PEG
					FY08	FY09e	FY10e	FY08	FY09e	FY10e	FY08	FY09e	FY10e		
US Listed															
Accenture	ACN	USD	33	20,061	2.7	2.9	3.1	12.5	11.5	10.7	34.5%	8.7%	6.9%	7.8%	1.5
Amdocs*	DOX	USD	20	3,993	2.1	2.2	2.4	9.4	9.1	8.2	25.1%	3.1%	10.6%	6.8%	1.3
BearingPoint *	BE	USD	2	7	-84.0	-13.6	-1.0	NM	NM	NM	66.3%	NM	NM	NM	NM
Cognizant Solutions	CTSH	USD	20	5,739	1.2	1.4	1.5	17.1	13.6	12.9	49.2%	25.2%	6.0%	15.2%	0.9
Computer Sciences *	CSC	USD	36	5,462	3.8	4.2	4.3	9.4	8.5	8.4	11.6%	10.1%	1.0%	5.5%	1.6
Infosys - ADR	INFY	USD	26	14,820	2.0	2.1	2.2	12.7	12.2	11.6	32.7%	4.2%	5.9%	5.0%	2.4
Patni - ADR	PTI	USD	5	325	1.7	1.3	1.2	3.0	4.0	4.2	15.0%	NM	NM	NM	NM
Satyam - ADR	SAY	USD	1	492	1.2	1.4	1.3	1.2	1.1	1.1	32.4%	11.3%	NM	3.5%	0.3
Wipro - ADR	WIT	USD	7	10,758	0.6	0.5	0.6	13.1	13.9	12.7	25.1%	NM	9.6%	1.5%	9.4
European Listed															
Cap Gemini	CAP	EUR	27	5,253	2.4	2.9	2.9	11.4	9.3	9.4	54.2%	22.6%	NM	10.1%	0.9
Logica PLC	LOG	GBp	72	1,677	10.4	9.7	8.8	6.8	7.3	8.2	24.4%	NM	NM	NM	NM
India Listed															
HCL Tech	HCLT	INR	109	1,525	19.9	21.2	21.0	5.5	5.1	5.2	25.5%	6.7%	NM	2.9%	1.8
Hexaware	HEXW	INR	20	58	7.7	5.2	6.2	2.6	3.8	3.2	NM	NM	19.3%	NM	NM
Infosys - Local	INFO	INR	1,230	14,471	81.3	102.9	107.0	15.1	12.0	11.5	23.8%	26.6%	4.0%	14.8%	0.8
Mphasis @	MPHL	INR	150	644	14.1	14.1	23.3	10.6	10.6	6.4	15.7%	NM	65.3%	28.6%	0.4
Patni - Local	PATNI	INR	119	340	33.3	25.5	30.0	3.6	4.6	4.0	29.5%	NM	17.5%	NM	NM
Satyam - Local	SCS	INR	31	439	24.7	34.0	34.5	1.3	0.9	0.9	17.8%	37.4%	1.5%	18.1%	0.1
TCS	TCS	INR	523	10,525	51.3	52.9	56.9	10.2	9.9	9.2	21.5%	3.2%	7.6%	5.4%	1.8
Tech Mahindra	TECHM	INR	233	626	58.9	75.0	72.3	3.9	3.1	3.2	18.9%	27.4%	NM	10.8%	0.3
Wipro - Local	WPRO	INR	241	7,233	22.5	26.8	28.3	10.7	9.0	8.5	10.3%	19.0%	5.7%	12.2%	0.7
BPO															
Genpact	G	USD	9	1,851	0.46	0.72	0.73	18.7	12.0	11.8	6.4%	55.9%	1.8%	26.0%	0.5
WNS	WNS	USD	7	309	0.87	1.11	1.13	8.3	6.6	6.4	11.4%	27.2%	2.0%	13.9%	0.5
Convergys	CVG	USD	7	891	1.23	1.05	0.83	5.9	7.0	8.8	4.9%	NM	NM	NM	NM
Teletech	TTEC	USD	8	537	1.05	1.21	0.96	7.9	6.8	8.6	40.9%	16.1%	NM	NM	NM
EXL*	EXLS	USD	9	246	0.93	0.38	0.42	9.2	22.5	20.3	132.5%	NM	10.9%	NM	4.2
ADP*	ADP	USD	39	19,584	2.18	2.38	2.58	17.7	16.2	15.0	8.5%	9.2%	8.3%	8.7%	1.9
ACS*	ACS	USD	45	4,136	3.53	3.67	4.25	12.9	12.4	10.7	33.2%	4.0%	15.8%	9.7%	1.6

Prices as on January 13, 2009 for India listed stocks and 12th January 2009 for others

E = Morgan Stanley Research estimates, except for those marked with an asterisk (*), which are consensus estimates as provided by FactSet

NM = Not Meaningful

@ Mphasis EPS include EDS India from F2007; Mphasis FY09e represent actual EPS for the period of 7 months from April08-October08; FY10e represent our estimates for the period of Nov08-Oct09

#, Amdocs, ACS, ADP, Teletech, Convergys F2008 EPS numbers represent estimates.

WNS EPS represent company-adjusted numbers; Genpact EPS represent MS adjusted numbers (GAAP EPS adjusted for formation-related expense and FBT costs).

Estimates for Indian ADRs are taken from FactSet.

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Bearing Point, Cognizant, EDS, Cap Gemini, Logica, Hexaware and Patni have a December-ending fiscal year, Accenture has an August-ending FY, Amdocs has a September-ending FY, HCL Tech has a June-ending FY, and the rest have a March-ending FY. For companies with a December-ending fiscal year, F2008 represents their actual CY07 numbers.

Sources: Company data, FactSet, Morgan Stanley Research

Company Description

Infosys Technologies provides IT consulting and software services to global organizations. It offers offshore-based software services such as application development, software maintenance, consulting, and BPO, and establishes software centers for its customers. Infosys's solutions cover a wide range of business areas.


India Software

Industry View: Cautious

MSCI Country: India

Asia Strategist's Recommended Weight: 2.9%

MSCI Asia/Pac All Country Ex Jp Weight: 6.7%

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	811	34%	240	40%	30%
Equal-weight/Hold	1060	45%	271	45%	26%
Not-Rated/Hold	33	1.4%	8	1.3%	24.2%
Underweight/Sell	463	20%	87	14%	19%
Total	2,367		606		

January 14, 2009

Infosys Technologies

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated/Hold (NA or NAV) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months. Please note that NA or NAV may also be used to designate stocks where a rating is not currently available for policy reasons. For the current list of Not-Rated/Hold stocks as counted above in the Global Stock Ratings Distribution Table, please email morganstanley.research@morganstanley.com.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Other Important Disclosures

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Industry Coverage:India Software

Company (Ticker)	Rating (as of)	Price (01/12/2009)
Vipin Khare		
Genpact Limited (G.N)	E (08/26/2008)	US\$8.63
HCL Technologies (HCLT.BO)	U (09/29/2008)	Rs108.6
Hexaware Technologies Limited (HEXT.BO)	E (02/22/2008)	Rs19.8
Infosys Technologies (INFY.BO)	E (07/14/2008)	Rs1,230.2
Mindtree Ltd. (MINT.BO)	NA (06/29/2008)	Rs224.05
Mphasis Limited (MBFL.BO)	E (11/09/2007)	Rs149.75
Patni Computer Systems (PTNI.BO)	E (05/01/2008)	Rs118.5
Satyam Computer Services (SATY.BO)	U (12/17/2008)	Rs31.25
Tata Consultancy Services (TCS.BO)	E (04/22/2008)	Rs522.8
Tech Mahindra Limited (TEML.BO)	E (01/29/2008)	Rs232.6
WNS Global Services (WNS.N)	U (08/05/2008)	US\$7.26
Wipro Ltd. (WIPR.BO)	E (01/29/2008)	Rs241.1

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