

January 12, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 2,589	Rs 2,850
EPS change FY12E/13E (%)	(0.7)/(2.5)
Target Price change (%)	(1.3)
Nifty	4,831
Sensex	16,038

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(3)	(6)	(23)
Rel. to Nifty	(2)	6	14	(3)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	INFO@IN
Equity Capital (Rs mn)	2871
Face Value(Rs)	5
No of shares o/s (mn)	574
52 Week H/L	3,388/2,169
Market Cap (Rs bn/USD mn)	1,486/28,759
Daily Avg Volume (No of sh)	1400235
Daily Avg Turnover (US\$mn)	74.1

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	16.0	16.0	16.0
FII/NRI	51.1	52.4	54.6
Institutions	10.7	9.8	9.0
Private Corp	8.1	7.8	6.7
Public	14.1	13.9	13.7

Source: Capitaline

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- Infy's Dec'11 qtr op performance came in line. While rev at US\$ 1,806 mn met expectations, margins improved by ~260 bps QoQ to 33.7% (Emkay est of ~250 bps QoQ increase)
- Vol growth at 3% QoQ while pricing improved by ~0.8% QoQ in c.c terms. New logo wins strong, however growth within top clients drags (top 1/5 rev down by ~8%/2.4% QoQ)
- Disappointed by the co's flattish revenue guidance for March'11 qtr at US\$ 1,806-1,810 mn. FY13 revenue guidance lowered to 16.4% YoY growth V/s 17-19% earlier
- Tweak FY13/14E EPS lower by ~2.5/2% to Rs 165/182 driven by mgnl cuts in rev est. Maintain ACCUMULATE with a TP of Rs 2,850 (V/s Rs 2,900 earlier), given attractive valuations

In line operating performance, top clients performance remains worrying

Infosys reported an inline Dec'11 qtr results with revenues at US\$ 1,806 mn (+3.4% QoQ, +4.4% QoQ in constant currency terms with ~100 bps cross currency hit) while op margins expanded by ~260 bps sequentially to 33.7% aided by ~11% currency depreciation. Profits at Rs 23.7 bn (+24% QoQ) came in line with expectations. **While revenues from Europe grew strongly by ~13.7% QoQ (16.8% QoQ in constant currency terms), revenues from North America were up by 0.9% QoQ.**

While client addition continued to be robust for the 2nd quarter in a row (highest in the past 7 quarters) along with improvement in client buckets, we are clearly disappointed by decline in business from top clients (note that while revenues from top 1/5/ declined by ~8%/2.4%, growth outside of top 10 clients was much more impressive at ~4.4% QoQ). Net hiring during the quarter was ~3,266 with qtrly annualized attrition down ~360 bps to 18%. Amongst verticals while financial services grew by ~ 3% QoQ, growth was relatively stronger in manufacturing at ~4.5% sequentially. Infosys announced that it has won 5 large deals during the quarter which include 2 with TCV of US\$ 500 mn from Europe (one within financial services and the other from manufacturing)

March'12 guidance inspires little confidence on street's FY13 estimates

While Dec'11 quarter results were largely in line with consensus, aflat revenue guidance for March'12 qtr of US\$ 1,806 -1,810 mn inspires little confidence on a 14-15% YoY revenue growth for FY13. **In that context, we believe TCS's commentary (results due Jan 17'2012) and Wipro's March'12 qtr guidance will gain significant in assessing near term demand for the sector.**

Marginal cut in FY13/14E earnings, ACCUMULATE stays

We cut our FY13/14E revenues moderately (we now build in a 13%/15.8% US\$ revenue growth V/s 14.3%/16.6% earlier) which drive a 2.5%/2% cut in our FY13/14E earnings to ~Rs 165/182. **We would advise investors to add positions in the stock on any further weakness in the stock price given attractive valuations at ~15.7x/14.2x FY13/14E P/E ACCUMULATE, TP Rs 2,850 (V/s Rs 2,900 earlier)**

Financial Snapshot

	Rs Mn								
Y/E Marh	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/ EBITDA	P/B (x)
FY11	275,010	89,600	32.6	68,270	119.5	27.1	21.7	14.6	5.4
FY12E	343,818	109,691	31.9	83,933	146.9	27.9	17.6	11.6	4.5
FY13E	393,844	122,502	31.1	94,074	164.6	26.2	15.7	10.0	3.8
FY14E	442,642	134,822	30.5	104,196	182.4	24.7	14.2	8.7	3.2

Key Financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY(%)
Revenues(in US\$ mn)	1,496	1,585	1,602	1,671	1,746	1,806	13.9	3.4	5,223	4,439	17.7
Revenue	69,470	71,060	72,500	74,850	80,990	92,980	30.8	14.8	248,820	202,510	22.9
Operating Expenditure	46,360	47,430	49,260	53,100	55,830	61,630	29.9	10.4	170,560	136,150	25.3
Cost of revenues	37,540	38,470	40,120	43,540	45,090	50,460	31.2	11.9	139,090	110,420	26.0
as % of sales	54.0	54.1	55.3	58.2	55.7	54.3			55.9	54.5	
SG&A expenses	8,820	8,960	9,140	9,560	10,740	11,170	24.7	4.0	31,470	25,730	22.3
as % of sales	12.7	12.6	12.6	12.8	13.3	12.0			12.6	12.7	
EBITDA	23,110	23,630	23,240	21,750	25,160	31,350	32.7	24.6	78,260	66,360	17.9
Depreciation	2,150	2,150	2,190	2,220	2,350	2,360	9.8	0.4	6,930	6,350	9.1
EBIT	20,960	21,480	21,050	19,530	22,810	28,990	35.0	27.1	71,330	60,010	18.9
Other Income	2,670	2,900	4,150	4,430	3,870	4,220			12,520	7,960	57.3
PBT	23,630	24,380	25,200	23,960	26,680	33,210	36.2	24.5	83,850	67,970	23.4
Total Tax	6,280	6,570	6,990	6,730	7,620	9,490	44.4	24.5	23,840	17,910	33.1
Adjusted PAT	17,350	17,810	18,210	17,230	19,060	23,720	33.2	24.4	60,010	50,060	19.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0			0	0	
APAT after MI	17,350	17,810	18,210	17,230	19,060	23,720	33.2	24.4	60,010	50,060	19.9
Extra ordinary items	0	0	0	0	0	0			0	0	
Reported PAT	17,350	17,810	18,210	17,230	19,060	23,720	33.2	24.4	60,010	50,060	19.9

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	33.3	33.3	32.1	29.1	31.1	33.7	46	265	31.5	32.8	(132)
EBIT	30.2	30.2	29.0	26.1	28.2	31.2	95	301	28.7	29.6	(97)
EBT	34.0	34.3	34.8	32.0	32.9	35.7	141	278	33.7	33.6	14
PAT	25.0	25.1	25.1	23.0	23.5	25.5	45	198	24.1	24.7	(60)
Effective Tax rate	26.6	26.9	27.7	28.1	28.6	28.6	162.7	1.5	28.4	26.3	208

Source: Company, Emkay Research

Guidance Analysis

Revenues	June'11	Sep'11E	Dec'11	March'12E	FY12E
Lower end	1,671	1,746	1,806	1,806	7,029
QoQ growth		4.5%	3.4%	0%	
Upper end	1,671	1,746	1,806	1,810	7,300
QoQ growth		4.5%	3.4%	0.2%	

Source: Company, Emkay Research

After maintaining an aggressive appearing guidance post Sep'11 results, Infosys is now building in flat revenues for March'12 qtr.

Operational performance at a glance

	Q3FY12 (% Contri to Rev)	% QoQ	% YoY
Revenue breakup-Geography			
North America	63.7%	0.9%	12.2%
Europe	22.6%	14.0%	18.1%
India	2.1%	-1.3%	8.8%
ROW	11.6%	0.0%	17.0%
Revenue by industry groups			
FSI (Financial Services and Insurance)			
Banking & financial services	27.9%	2.3%	14.1%
Insurance	7.4%	7.8%	0.8%
Manufacturing			
RCL (Retail, Logistics, CPG and Life Sciences)			
Retail & CPG	15.2%	0.8%	19.5%
Transport & Logistics	2.0%	21.7%	25.2%
Life Sciences	4.1%	11.6%	30.2%
Healthcare	1.8%	3.4%	102.7%
ECS (Energy & Utilities, Communications and Services)			
Energy & Utilities	6.0%	8.9%	12.1%
Communication and Services	9.8%	-2.5%	-10.5%
Others	5.4%	1.6%	30.8%
Revenue by service offerings			
Business Operations			
Application Development	17.1%	3.4%	24.9%
Application Maintenance	21.8%	4.4%	10.2%
Infrastructure Management Services	6.1%	8.8%	16.1%
Testing Services	7.9%	-0.3%	18.0%
Business Process Management	5.2%	-0.4%	6.1%
Others	2.6%	-4.0%	7.3%
Product Engg Services	3.6%	9.5%	64.1%
Consulting & Systems Integration			
	30.6%	1.4%	13.9%
Products, Platforms and Solutions			
Products	4.8%	18.2%	3.2%
Others	0.3%	3.4%	9.4%
Client concentration			
Top Client	4.1%	-7.8%	11.3%
Top 5 Clients	15.0%	-2.4%	29.5%
Top 10 Clients	24.5%	0.6%	24.8%
Non Top 10 Clients	75.5%	4.4%	35.9%
	Q3 FY12	Q2 FY12	Q3 FY11
Onsite-Offshore Effort Split			
Onsite	30.2%	30.7%	29.5%
Offshore	69.8%	69.3%	70.5%
Utilization measures (IT Services and Consulting)			
Including trainees			
Excluding trainees	67.6%	68.5%	70.9%
	76.4%	76.3%	80.5%
Revenue by Project Type			
Fixed Price			
T & M	40.9%	37.7%	41.2%

Source: Company, Emkay Research

Growth was strong within Europe with a 14% QoQ growth led by ramp up in recent wins.

North America and ROW were muted with a 1%/0% growth during the quarter

Amongst verticals, financial services continued to do well with a 3.1% QoQ growth along with manufacturing which grew by ~4.5% QoQ

While non top 10 client revenue growth was decent at ~4.4% QoQ , higher than co average, drags at top clients was disappointing

New logo addition was strong for the 2nd quarter in a row

Change in estimates

(All fig in Rs mn except EPS)	FY12E			FY13E			FY14		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenues(US\$ mn)	7,078	7,050	-0.4%	8,087	7,965	-1.5%	9,289	9,222	-0.7%
Revenues	344,396	343,818	-0.2%	399,923	393,844	-1.5%	445,876	442,642	-0.7%
EBITDA	110,214	109,691	-0.5%	125,826	122,452	-2.7%	137,759	134,774	-2.2%
EBITDA margins,	32.0	31.9		31.5	31.1		30.9	30.4	
Net profits	84,479	83,933	-0.6%	96,478	94,024	-2.5%	106,365	104,148	-2.1%
EPS	147.9	146.9	-0.7%	168.8	164.6	-2.5%	186.2	182.3	-2.1%

Source: Emkay Research

FY13/14E lowered by ~2.5%/2% respectively as we lower our US\$ revenue growth assumptions moderately. We now build in a 13%/15.6% US\$ revenue growth V/s 14.3%/16.6% earlier

Financials

Income Statement

Y/E, Mar (Rs. m)	FY11	FY12E	FY13E	FY14E
Net Sales	275,010	343,818	393,844	442,642
Growth (%)		25.0	14.5	12.4
Total Expenditure	(185,410)	(234,127)	(271,342)	(307,820)
Growth (%)		26.3	15.9	13.4
EBIDTA	89,600	109,691	122,502	134,822
Growth (%)		22.4	11.7	10.1
EBIDTA %	32.6	31.9	31.1	30.5
Other Income	12,110	16,728	18,486	21,016
Depreciation	(8,540)	(9,344)	(10,330)	(11,121)
EBIT	93,170	117,076	130,658	144,717
Interest				
EBT	93,170	117,076	130,658	144,717
Tax	(24,900)	(33,143)	(36,584)	(40,521)
EAT	68,270	83,933	94,074	104,196
Growth (%)		22.9	12.1	10.8
EAT (%)	24.8	24.4	23.9	23.5

Balance Sheet

Y/E, Mar (Rs. m)	FY11	FY12E	FY13E	FY14E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	270,170	325,017	386,041	453,637
Minority Interest	-	-	-	-
Networth	273,030	327,876	388,901	456,496
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Deferred Tax Liabilities	0	0	0	0
Total Liabilities	273,030	327,876	388,901	456,496
Goodwill				
Gross Block	89,710	109,710	123,710	139,710
Less: Depreciation	32,540	41,884	52,213	63,334
Net block	57,170	67,826	71,497	76,376
Capital WIP	-	-	-	-
Investment	1,670	1,670	1,670	1,670
Current Assets	250,010	307,350	372,380	442,583
Inventories	-	-	-	-
Sundry debtors	46,530	58,402	66,899	75,189
Cash & bank balance	166,660	203,734	251,529	306,758
Loans & advances	36,820	45,214	53,951	60,636
Other current assets	-	-	-	-
Current Liab & Prov	39,600	52,750	60,425	67,912
Current liabilities	34,130	43,331	49,635	55,785
Provisions	5,470	9,420	10,790	12,127
Net current assets	210,410	254,600	311,954	374,670
Misc exps	-	-	-	-
Deferred Tax	3,780	3,780	3,780	3,780
Total Assets	273,030	327,877	388,901	456,496

Cash Flow

Y/E, Mar (Rs. m)	FY11	FY12E	FY13E	FY14E
Net Profit after Tax	68,270	83,933	94,074	104,196
Add : Depreciation	8,540	9,344	10,330	11,121
Add : Misc exp w/off				
Net changes in WC	4,950	(13,150)	(7,675)	(7,487)
Operational Cash Flows	63,540	86,160	94,845	107,830
Capital expenditure	(12,160)	(20,000)	(14,000)	(16,000)
Investments	(35,450)	-		
Investing Cash Flows	(47,610)	(20,000)	(14,000)	(16,000)
Borrowings	-	-		
dividend paid	(23,961)	(29,458)	(33,000)	(36,553)
Issue of shares	550	(0)	(0)	(0)
Share Premium	(470)	-	-	-
Financing Cash Flows	(23,411)	(29,458)	(33,049)	(36,601)
changes in cash	(7,481)	36,702	47,796	55,229
Opening balance	105,560	166,660	203,734	251,529
Closing balance	166,660	203,734	251,529	306,758

Key Ratios

Y/E, Mar	FY11	FY12E	FY13E	FY14E
EPS (Rs)	119.5	146.9	164.6	182.4
CEPS (Rs)	134.4	163.2	182.7	201.8
Book Value Per Share (Rs)	477.9	573.8	680.6	798.9
Dividend Per Share (Rs)	35.8	44.1	49.4	54.7
Valuations Ratios (x)				
PER	21.7	17.6	15.7	14.2
P/CEPS	23.8	19.6	17.5	15.9
P/BV	5.4	4.5	3.8	3.2
EV/EBIDTA	14.6	11.6	10.0	8.7
EV/Sales	4.8	3.7	3.1	2.6
M-Cap/sales	5.4	4.3	3.8	3.4
Profitability Ratios (%)				
RoCE	32.0	33.4	31.3	29.3
RoNW	27.1	27.9	26.2	24.7
EBITDA Margin	32.6	31.9	31.1	30.5
EBIT Margins	29.5	29.2	28.5	27.9
Net Profit Margin	24.8	24.4	23.9	23.5

Recommendation History: Infosys Ltd. – INFO IN

Date	Reports	Reco	CMP	Target
12/10/2011	Infosys Technologies Q2FY12 Result Update	Accumulate	2,681	2,800
12/07/2011	Infosys Technologies Q1FY12 Result Update	Accumulate	2,794	3,250
15/04/2011	Infosys Technologies Q4FY11 Result Update	Accumulate	2,989	3,250
13/01/2011	Infosys Technologies Q3FY11 Result Update	Accumulate	3,205	3,400

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/01/2012	IT Services Sector Update			
12/12/2011	Mphasis Company Update	Reduce	326	325
01/12/2011	Mphasis Oct'11 Result Update	Reduce	325	325
15/11/2011	Tech Mahindra Q2FY12 Result Update	Hold	616	650

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