

October 15, 2010

### ACCUMULATE

Price Rs 3,080	Target Price Rs 3,300
Sensex	20,125

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	16	14	41
Rel. to Sensex	1	2	(2)	19

Source: Bloomberg

#### Stock Details

Sector	IT Services
Reuters	INFY.BC
Bloomberg	INFO@IN
Equity Capital (Rs mn)	2870
Face Value(Rs)	5
No of shares o/s (mn)	574
52 Week H/L	3,228/2,127
Market Cap (Rs bn/USD mn)	1,828/41,390
Daily Avg Volume (No of sh)	980919
Daily Avg Turnover (US\$m)	64.1

#### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	16.1	16.1	16.1
FII/NRI	55.3	55.8	56.1
Institutions	8.2	7.9	8.6
Private Corp	6.0	5.4	4.3
Public	14.5	14.8	15.0

Source: Capitaline

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- **Revenues at US\$ 1,496 mn (+10.2% QoQ) beat high expectations. Op mgns expanded by ~170 bps QoQ to 33.3% (V/s exp of ~190 bps increase)**
- **Co wide vol growth at 7.1% QoQ (onsite vols up by ~15% QoQ) Broad based growth across verticals/service lines with Europe joining the party with a ~16% QoQ growth**
- **FY11 Revenue guidance raised to ~24-25% YoY growth now, however EPS raise muted and a tad disappointing at Rs 115-117 ( V/s Rs 112-117 earlier)**
- **Marginal change in FY11/12E EPS despite higher currency reset helped by ~2.4%/6% increase in revenues. Retain ACCUMULATE with a March'12 TP of Rs 3,300**

#### Strong show beats heightened expectations

Infosys reported a +10.2% QoQ increase in revenues to US\$ 1,496 mn, helped by ~7.1% vol growth and a 3.2% QoQ increase (led by change in business mix and a higher % of onsite business as onsite vols up by ~15% QoQ, a double digit QoQ growth for the 1<sup>st</sup> time since Sep'06 qtr). Mngs were up by ~170 bps QoQ to 33.3% with hiring remaining strong at ~7,600 net adds. Profits at Rs 17.4 bn met est driven by higher revenue/ op profits despite higher than expected taxes. Revenues from top 5/top 10 clients were up by ~13% QoQ while revenues from fin svcs/ manufacturing/retail grew by ~8%/7%/20% QoQ. Growth surge from Consulting/ P.I and Testing Svcs at ~14%/15% QoQ confirms the pickup in discretionary spending (also evident from the increase in subcontracting exp being up by ~70 bps QoQ).

#### Efforts in European geography showing early signs of success

Revenues from Europe were up by ~16% in constant currency terms driven by ramp ups in manufacturing, retail and insurance clients, which we believe could be early indicators of success from the senior talent investments made over the past 4-6 quarters. Co indicated that it has won 9 large deals (TCV > US\$ 100 mn+) in H1 FY11 with some success in Europe as well. Infosys indicated that it was seeing bigger transformation deals coming back to the market and saw itself as a more credible competition for US\$ 300-500 mn deals. Mgmt indicated that although core M&A related work was trending down, however more transformational deals were seeing a pickup.

#### INR EPS outlook raise a tad disappointing

Despite the strong increase in US\$ revenue guidance to US\$ 5.95- 6 bn (~24-25% YoY growth V/s ~19-21% earlier), INR EPS outlook was raise was limited to Rs 115-117 (V/s 112-117 earlier) and is a tad disappointing, however we see co erring on conservatism given (1) strong revenue traction evident from co's quarterly show and (2) improvement in margins that should kick in as engagements shift offshore ( note that onsite % of business was up by ~220 bps to 50.2%)

#### Retain ACCUMULATE with an increased TP of Rs 3,300

We increase our FY11/FY12 US\$ revenue assumptions by ~2.2%/6% respectively as we build in ~27.4%/23% YoY growth in revenues thereby leading to a marginal increase in our FY12E earnings to Rs 148 (while FY11E earnings cut by ~2% to Rs 122) on a/c of higher reset in US\$/INR to Rs 44/\$ (V/s Rs 45/\$ earlier). Maintain ACCUMULATE with a revised March'12 target price of Rs 3,300. (V/s Rs 3,200 earlier)

#### Financials

Year end Mar. (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	227,426	78,616	34.6	62,666	109.3	30.3	28.2	21.1	7.7
FY11E	275,564	91,918	33.4	70,084	122.7	27.7	25.1	17.6	6.4
FY12E	330,525	110,224	33.3	84,774	148.4	28.0	20.7	14.3	5.3
FY13E	392,744	126,393	32.2	99,342	173.9	27.4	17.7	12.1	4.5

## Key Financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11E	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>55,850</b>	<b>57,416</b>	<b>59,440</b>	<b>61,980</b>	<b>69,470</b>	<b>24.4</b>	<b>12.1</b>	<b>131,450</b>	<b>110,570</b>	<b>18.9</b>
<b>Operating Expenditure</b>	<b>36,520</b>	<b>37,030</b>	<b>39,220</b>	<b>42,360</b>	<b>46,320</b>	<b>26.8</b>	<b>9.3</b>	<b>88,680</b>	<b>72,560</b>	<b>22.2</b>
Cost of revenues	29,630	30,090	31,840	34,410	37,540	26.7	9.1	71,950	58,780	22.4
as % of sales	53.1	52.4	53.6	55.5	54.0			54.7	53.2	
SG&A expenses	6,890	6,940	7,380	7,950	8,780	27.4	10.4	16,730	13,780	21.4
as % of sales	12.3	12.1	12.4	12.8	12.6			12.7	12.5	
<b>EBITDA</b>	<b>19,330</b>	<b>20,386</b>	<b>20,220</b>	<b>19,620</b>	<b>23,150</b>	<b>19.8</b>	<b>18.0</b>	<b>42,770</b>	<b>38,010</b>	<b>12.5</b>
Depreciation	2,320	2,310	2,200	2,050	2,170	(6.5)	5.9	4,220	4,540	(7.0)
<b>EBIT</b>	<b>17,010</b>	<b>18,076</b>	<b>18,020</b>	<b>17,570</b>	<b>20,980</b>	<b>23.3</b>	<b>19.4</b>	<b>38,550</b>	<b>33,470</b>	<b>15.2</b>
Other Income	2,360	2,310	2,080	2,390	2,670	13.1	11.7	5,060	5,050	0.2
<b>PBT</b>	<b>19,370</b>	<b>20,386</b>	<b>20,100</b>	<b>19,960</b>	<b>23,650</b>	<b>22.1</b>	<b>18.5</b>	<b>43,610</b>	<b>38,520</b>	<b>13.2</b>
Total Tax	3,970	3,970	4,550	5,060	6,280	58.2	24.1	11,340	7,850	44.5
<b>Adjusted PAT</b>	<b>15,400</b>	<b>16,416</b>	<b>15,550</b>	<b>14,900</b>	<b>17,370</b>	<b>12.8</b>	<b>16.6</b>	<b>32,270</b>	<b>30,670</b>	<b>5.2</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>15,400</b>	<b>16,416</b>	<b>15,550</b>	<b>14,900</b>	<b>17,370</b>	<b>12.8</b>	<b>16.6</b>	<b>32,270</b>	<b>30,670</b>	<b>5.2</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>480</b>	<b>0</b>	<b>0</b>			<b>0</b>	<b>-</b>	
<b>Reported PAT</b>	<b>15,400</b>	<b>16,416</b>	<b>16,030</b>	<b>14,900</b>	<b>17,370</b>	<b>12.8</b>	<b>16.6</b>	<b>32,270</b>	<b>30,670</b>	<b>5.2</b>
<b>Reported EPS</b>	<b>26.9</b>	<b>27.6</b>	<b>28.2</b>	<b>26.0</b>	<b>30.4</b>	<b>13.2</b>	<b>17.0</b>	<b>56.4</b>	<b>53.5</b>	<b>5.4</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	34.6	35.5	34.0	31.7	33.3	(129)	167	32.5	34.4	(184)
EBIT	30.5	31.5	30.3	28.3	30.2	(26)	185	29.3	30.3	(94)
EBT	34.7	35.5	33.8	32.2	34.0	(64)	184	33.2	34.8	(166)
PAT	27.6	28.6	27.0	24.0	25.0	(257)	96	24.5	27.7	(319)
Effective Tax rate	20.5	19.5	22.6	25.4	26.6	606	120	26.0	20.4	562

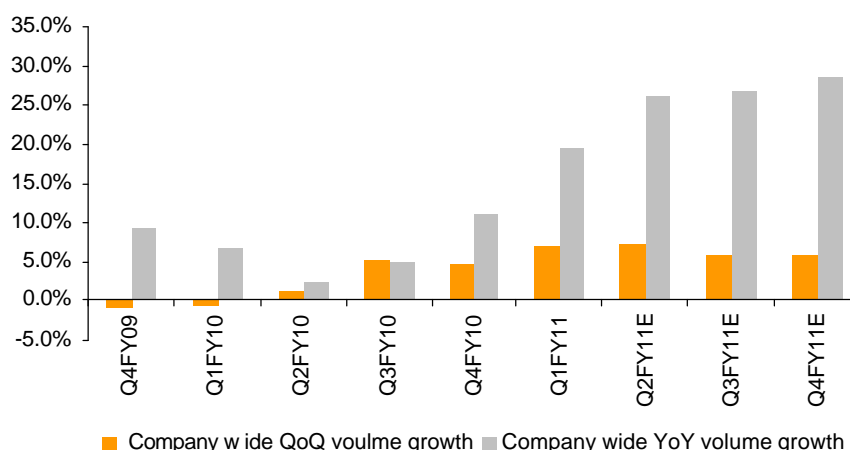
Source: Company, Emkay Research

Infosys continues to err on conservatism despite strong volume traction

Revenues	March'10	June'10	Sep'10	Dec'10E	March'11E	FY11E
Lower end	1296	1358	1496	1547	1549	5950
<b>QoQ growth</b>		<b>4.8%</b>	<b>10.2%</b>	<b>3.4%</b>	<b>0.1%</b>	
Upper end	1296	1358.0	1496	1562	1584	6000
<b>QoQ growth</b>		<b>4.8%</b>	<b>10.2%</b>	<b>4.4%</b>	<b>1.4%</b>	

Source: Company, Emkay Research

YoY volume growth heading to 25%+ after almost 9 quarters.



Source: Company, Emkay Research

Non Top 10 client revenues growing by ~9.3% sequentially, highest since Sep'08 quarter.

Client concentration	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Top client contribution to revenues	4.50%	4.60%	4.70%	4.60%	4.90%	4.70%
<b>Top client ( in US\$ mn)</b>	50.5	53.1	57.9	59.6	66.5	<b>70.3</b>
QoQ growth, %	-21.0%	5.1%	9.1%	3.0%	11.6%	5.7%
Top 5 client contribution to revenues	16.30%	16.50%	17.60%	15.80%	15.40%	15.80%
<b>Top 5 clients ( in US\$ mn)</b>	182.9	190.4	216.8	204.8	209.1	<b>236.4</b>
QoQ growth, %	-5.1%	4.1%	13.9%	-5.6%	2.1%	13.0%
Top 10 client contribution to revenues	25.80%	26.20%	27.50%	25.80%	26.10%	26.70%
<b>Top 10 clients ( in US\$ mn)</b>	289.5	302.3	338.8	334.4	354.4	399.4
QoQ growth, %	-3.6%	4.4%	12.1%	-1.3%	6.0%	12.7%
<b>Non Top 10 clients</b>	832.5	851.7	893.2	961.6	1003.6	1096.6
QoQ growth, %	1.5%	2.3%	4.9%	7.7%	4.4%	9.3%

Source: Company, Emkay Research

FY12E earnings upped by ~1.4% to Rs 148.4 despite a higher reset in US\$/INR reset to Rs 44/\$

(All fig in Rs mn except EPS)	FY11E			FY12E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	5,966	6,129	2.7%	7,197	7,512	4.4%
Revenues	274,244	275,564	0.5%	331,081	330,525	-0.2%
EBITDA	90,947	91,918	1.1%	109,082	110,224	1.0%
Net profits	71,218	70,084	-1.6%	83,988	84,774	0.9%
EPS	124.2	122.7	-1.3%	146.3	148.4	1.4%

Source: Company, Emkay Research

**Key Financials**

**Income Statement**

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	227,426	275,564	330,525	392,744
Growth (%)		21.2	19.9	18.8
<b>Total Expenditure</b>	(148,810)	(183,646)	(220,301)	(266,350)
Growth (%)		23.4	20.0	20.9
<b>EBIDTA</b>	78,616	91,918	110,224	126,393
Growth (%)		16.9	19.9	14.7
<b>EBIDTA %</b>	34.6	33.4	33.3	32.2
Other Income	-	-	-	-
Depreciation	(9,050)	(8,649)	(9,215)	(10,037)
<b>EBIT</b>	<b>69,566</b>	<b>83,269</b>	<b>101,009</b>	<b>116,357</b>
Interest				
<b>EBT</b>	<b>69,566</b>	<b>83,269</b>	<b>101,009</b>	<b>116,357</b>
Tax	(16,810)	(23,945)	(28,258)	(33,114)
<b>EAT</b>	<b>62,666</b>	<b>70,084</b>	<b>84,774</b>	<b>99,342</b>
Growth (%)		11.8	21.0	17.2
EAT (%)	27.6	25.4	25.6	25.3

**Balance Sheet**

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	227,630	272,659	327,210	391,686
Minority Interest	-	-	-	-
<b>Networth</b>	<b>230,490</b>	<b>275,519</b>	<b>330,070</b>	<b>394,546</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Tax Liabilities	2,320	2,320	2,320	2,320
<b>Total Liabilities</b>	<b>232,810</b>	<b>277,839</b>	<b>332,390</b>	<b>396,866</b>
Goodwill				
Gross Block	78,390	90,390	102,390	117,390
Less: Depreciation	28,930	37,579	46,794	56,831
<b>Net block</b>	<b>49,460</b>	<b>52,811</b>	<b>55,596</b>	<b>60,559</b>
<b>Capital WIP</b>	<b>4,090</b>	<b>4,090</b>	<b>4,090</b>	<b>4,090</b>
<b>Investment</b>	<b>37,120</b>	<b>37,120</b>	<b>37,120</b>	<b>37,120</b>
<b>Current Assets</b>	<b>182,370</b>	<b>235,366</b>	<b>300,085</b>	<b>373,629</b>
Inventories	-	-	-	-
Sundry debtors	34,940	43,033	51,616	61,333
Cash & bank balance	105,560	140,995	185,081	233,748
Loans & advances	41,870	51,338	63,388	78,549
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>44,550</b>	<b>55,868</b>	<b>68,822</b>	<b>82,853</b>
Current liabilities	23,430	29,444	36,222	43,040
Provisions	21,120	26,424	32,600	39,812
<b>Net current assets</b>	<b>137,820</b>	<b>179,498</b>	<b>231,264</b>	<b>290,777</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>4,320</b>	<b>4,320</b>	<b>4,320</b>	<b>4,320</b>
<b>Total Assets</b>	<b>232,810</b>	<b>277,839</b>	<b>332,390</b>	<b>396,866</b>

Cash Flow	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	62,666	70,084	84,774	99,342
Add : Depreciation	9,050	8,649	9,215	10,037
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(5,830)</b>	<b>(11,318)</b>	<b>(12,954)</b>	<b>(14,031)</b>
<b>Operational Cash Flows</b>	<b>62,040</b>	<b>72,490</b>	<b>86,309</b>	<b>98,534</b>
<b>Capital expenditure</b>	<b>(9,060)</b>	<b>(12,000)</b>	<b>(12,000)</b>	<b>(15,000)</b>
Investments	-	-	-	-
<b>Investing Cash Flows</b>	<b>(9,060)</b>	<b>(12,000)</b>	<b>(12,000)</b>	<b>(15,000)</b>
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
dividend paid	(16,740)	(24,597)	(29,753)	(34,866)
Issue of shares	1,020	(0)	(0)	(0)
Share Premium	540	-	(470)	-
<b>Financing Cash Flows</b>	<b>(44,370)</b>	<b>(25,054)</b>	<b>(30,223)</b>	<b>(34,865)</b>
changes in cash	<b>8,610</b>	<b>35,435</b>	<b>44,086</b>	<b>48,668</b>
Opening balance	<b>96,950</b>	<b>105,560</b>	<b>140,995</b>	<b>185,081</b>
<b>Closing balance</b>	<b>105,560</b>	<b>140,995</b>	<b>185,081</b>	<b>233,748</b>

Key ratios	FY10	FY11E	FY12E	FY13E
EPS (Rs)	109.3	122.7	148.4	173.9
CEPS (Rs)	125.0	137.8	164.5	191.4
Book Value Per Share (Rs)	401.9	482.2	577.7	690.5
Dividend Per Share (Rs)	25.0	36.8	44.5	52.2
<b>Valuations Ratios (x)</b>				
PER	28.2	25.1	20.7	17.7
P/CEPS	15.0	13.6	11.4	9.8
P/BV	7.7	6.4	5.3	4.5
EV/EBIDTA	21.1	17.6	14.3	12.1
EV/Sales	7.3	5.9	4.8	3.9
M-Cap/sales	7.8	6.4	5.3	4.5
<b>Profitability Ratios (%)</b>				
RoCE	33.5	32.6	33.1	31.9
RoNW	30.3	27.7	28.0	27.4
EBITDA Margin	34.6	33.4	33.3	32.2
EBIT Margins	30.6	30.2	30.6	29.6
Net Profit Margin	27.6	25.4	25.6	25.3

**Recommendation History: Infosys Technologies – INFO@IN**

Date	Reports	Reco	CMP	Target
13/07/2010	<a href="#">Infosys Technologies Q1FY11 Result Update</a>	Accumulate	2,795	3,200
13/04/2010	<a href="#">Infosys Technologies Q4FY10 Result Update</a>	Accumulate	2,781	3,200
16/03/2010	<a href="#">Infosys Technologies Co Update</a>	Accumulate	2,701	3,100
12/01/2010	<a href="#">Infosys Technologies Q3FY10 Result Update</a>	Accumulate	2,581	3,100

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
11/10/2010	<a href="#">Mahindra Satyam Re-Initiating Coverage</a>	Reduce	86	81
26/08/2010	<a href="#">Mphasis Result Update</a>	Hold	626	630
12/08/2010	<a href="#">Patni Computers Company Update</a>	Not Rated	453	NA
30/07/2010	<a href="#">eClerx Q1FY11 Result Update</a>	Accumulate	445	465

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