

UBS Investment Research

First Read: Infosys Technologies

Read through from Cognizant 1Q CY10

■ Full year revenue guidance revision to 25% YoY not a surprise

Cognizant raised full year 2010 revenue guidance to at least US\$4.1bn, implying 25% YoY, up from 20% YoY guided earlier. This was not unexpected, given the 16-18% dollar revenue growth guidance from Infosys in April 2010. Our US analyst notes that the guidance still looks conservative as it implies average QoQ revenue growth of just 2.9% in 2H vs. +6% in 1H 2010.

■ Our 25% revenue growth estimate for Infosys looks optimistic

Cognizant will need a quarterly revenue run rate of 9.5% in order to touch 35% YoY growth in 2010. Assuming that Cognizant continue to outpace Infosys by a similar margin as seen in the last 5 years, we believe that the probability that Infosys will beat our 25% YoY dollar revenue growth assumptions remains low.

■ Await commentary from Cognizant on pricing, wage hikes

While we await commentary from Cognizant's management in the earnings call (8 AM EST +1 (706) 679-3288 / Conf ID: 50233460), we note that the management has cited 'improving pricing environment' among the margin levers to absorb wage hikes in the current fiscal period. This seems to echo TCS' commentary on pricing improvement in another 3-4 quarters contingent to demand pick up in 2010.

■ Valuation: Neutral rating; DCF-based PT

We believe that the cyclical recovery in the sector is fully priced in, while the structural slowdown in the sector, on account of slower demand growth and increased competition, are yet to be priced in. We remain cautious on the sector with a Neutral rating on Infosys.

Highlights (Rsm)	03/08	03/09	03/11E	03/11E	03/12E
Revenues	166,920	216,930	227,420	269,416	315,791
EBIT (UBS)	46,400	64,340	69,560	79,465	90,314
Net Income (UBS)	45,380	58,800	62,090	69,737	79,033
EPS (UBS, Rs)	79.99	102.75	108.84	122.16	138.41
Net DPS (UBS, Rs)	33.53	23.50	27.00	30.54	34.60

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	28.3	29.7	30.6	29.5	28.6
ROIC (EBIT) %	67.5	64.8	63.4	67.8	68.0
EV/EBITDA (core) x	-	10.5	17.9	15.0	12.7
PE (UBS) x	25.3	14.3	24.5	21.8	19.3
Net dividend yield %	1.6	1.6	1.0	1.1	1.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs2,666.95 on 04 May 2010 19:32 BST

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Global Equity Research

India

Software

12-month rating **Neutral**
Unchanged

12m price target **Rs2,770.00/US\$62.30**
Unchanged

Price **Rs2,666.95/US\$60.75 (ADR)**

RIC: INFY.BO BBG: INFO IB

4 May 2010

Trading data (local/US\$)

52-wk range	Rs2,805.60-1,502.65/US\$63.00-30.85
Market cap.	Rs1,527bn/US\$34.8bn
Shares o/s	572m (ORD)/572m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	65%
Avg. daily volume ('000)	699/245
Avg. daily value (Rsm)	1,905.8/14.7

Balance sheet data 03/10E

Shareholders' equity	Rs256bn
P/BV (UBS)	6.0x
Net Cash (debt)	Rs143bn

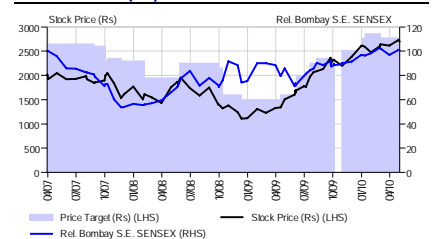
Forecast returns

Forecast price appreciation	+3.9%
Forecast dividend yield	1.0%
Forecast stock return	+4.9%
Market return assumption	12.9%
Forecast excess return	-8.0%

EPS (UBS, Rs)

	03/10E	03/09	Actual
Q1	26.77	26.66	22.21
Q2	27.00	-	25.02
Q3E	27.73	-	27.59
Q4E	27.50	-	27.92
03/10E	108.84	108.87	
03/11E	122.16	121.44	

Performance (Rs)



Source: UBS

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This report has been prepared by UBS Securities India Private Ltd
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4.

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Infosys Technologies Ltd.

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	71,296	95,216	138,930	166,920	216,930	227,420	4.8	269,416	18.5	315,791	17.2
Operating expenses (ex depn)	(47,947)	(64,298)	(95,020)	(114,540)	(144,980)	(148,810)	2.6	(178,706)	20.1	(212,214)	18.7
EBITDA (UBS)	23,350	30,918	43,910	52,380	71,950	78,610	9.3	90,709	15.4	103,578	14.2
Depreciation	(2,869)	(4,371)	(5,140)	(5,980)	(7,610)	(9,050)	18.9	(11,245)	24.3	(13,263)	17.9
Operating income (EBIT, UBS)	20,481	26,547	38,770	46,400	64,340	69,560	8.1	79,465	14.2	90,314	13.7
Other income & associates	483	22	730	230	(4,030)	530	-	706	33.2	1,075	52.3
Net interest	756	1,374	2,970	6,810	8,760	8,810	0.6	11,589	31.5	15,411	33.0
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	21,720	27,943	42,470	53,440	69,070	78,900	14.2	91,759	16.3	106,801	16.4
Tax	(3,256)	(3,132)	(5,110)	(8,060)	(10,270)	(16,810)	63.7	(22,022)	31.0	(27,768)	26.1
Profit after tax	18,464	24,811	37,360	45,380	58,800	62,090	5.6	69,737	12.3	79,033	13.3
Abnormal items (post-tax)	452	(18)	1,310	1,210	1,080	480	-55.6	0	-	0	-
Minorities / pref dividends	0	(210)	(110)	0	0	0	-	0	-	0	-
Net income (local GAAP)	18,916	24,583	38,560	46,590	59,880	62,570	4.5	69,737	11.5	79,033	13.3
Net Income (UBS)	18,464	24,601	37,250	45,380	58,800	62,090	5.6	69,737	12.3	79,033	13.3
Tax rate (%)	15	11	12	15	15	21	43.3	24	12.6	26	8.3
Pre-abnormal tax rate (%)	15	11	12	15	15	21	43.3	24	12.6	26	8.3
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	35.13	44.61	68.52	82.13	104.63	109.68	4.9	122.16	11.5	138.41	13.3
EPS (UBS)	34.29	44.64	66.19	79.99	102.75	108.84	5.9	122.16	12.2	138.41	13.3
Net DPS	6.45	22.46	11.53	33.53	23.50	27.00	14.9	30.54	13.1	34.60	13.3
Cash EPS	39.62	52.57	75.32	90.53	116.04	124.70	7.5	141.85	13.8	161.64	13.9
BVPS	114.61	157.57	218.11	284.47	355.19	448.04	26.1	548.41	22.4	669.51	22.1
Balance sheet (Rsm)	03/05	03/06	03/07	03/11	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	15,742	22,260	37,710	47,770	53,540	53,550	0.0	54,715	2.2	54,952	0.4
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	18,111	21,730	25,330	44,500	52,850	59,530	12.6	66,542	11.8	89,277	34.2
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	33,852	43,990	63,040	92,270	106,390	113,080	6.3	121,257	7.2	144,229	18.9
Investments	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	33,852	43,990	63,040	92,270	106,390	113,080	6.3	121,257	7.2	144,229	18.9
Shareholders' equity	61,716	86,510	121,670	162,490	203,340	255,760	25.8	313,076	22.4	382,297	22.1
Minority interests	0	(680)	(40)	0	0	0	-	0	-	0	-
Total equity	61,716	85,830	121,630	162,490	203,340	255,760	25.8	313,076	22.4	382,297	22.1
Net debt / (cash)	(27,864)	(41,840)	(58,590)	(70,220)	(96,950)	(142,680)	47.2	(191,819)	34.4	(238,068)	24.1
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	33,852	43,990	63,040	92,270	106,390	113,080	6.3	121,257	7.2	144,229	18.9
Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	20,481	26,547	38,770	46,400	64,340	69,560	8.1	79,465	14.2	90,314	13.7
Depreciation	2,869	4,371	5,140	5,980	7,610	9,050	18.9	11,245	24.3	13,263	17.9
Net change in working capital	(9,755)	(9,856)	(9,230)	(11,590)	(4,600)	(400)	-91.3	1,787	-	(10,790)	-
Other (operating)	3,356	2,404	5,700	8,100	(3,830)	640	-	0	-	0	-
Operating cash flow	16,952	23,466	40,380	48,890	63,520	78,850	24.1	92,496	17.3	92,788	0.3
Net interest received / (paid)	756	1,374	2,970	6,810	8,760	8,810	0.6	11,589	31.5	15,411	33.0
Dividends paid	(10,206)	(4,030)	(15,320)	(8,350)	(24,940)	(15,740)	-36.9	(19,209)	22.0	(21,758)	13.3
Tax paid	(3,256)	(3,132)	(5,110)	(8,060)	(10,270)	(16,810)	63.7	(22,022)	31.0	(27,768)	26.1
Capital expenditure	(8,298)	(10,890)	(15,180)	(14,940)	(13,250)	(8,460)	-36.2	(12,410)	46.7	(13,500)	8.8
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(124)	6,454	8,770	(5,930)	8,170	(26,730)	-	13,001	-	17,562	35.1
Share issues	4,408	6,460	12,160	580	640	890	39.1	0	-	0	-
Cash flow (inc)/dec in net debt	232	19,702	28,670	19,000	32,630	20,810	-36.2	63,444	204.9	62,735	-1.1
FX / non cash items	962	(5,725)	(11,920)	(7,370)	(5,900)	24,920	-	(14,305)	-	(16,487)	15.3
Balance sheet (inc)/dec in net debt	1,194	13,976	16,750	11,630	26,730	45,730	71.1	49,139	7.5	46,249	-5.9
Core EBITDA	23,350	30,918	43,910	52,380	71,950	78,610	9.3	90,709	15.4	103,578	14.2
Maintenance capital expenditure	(2,869)	(4,371)	(5,140)	(5,980)	(7,610)	(9,050)	18.9	(11,245)	24.3	(13,263)	17.9
Maintenance net working capital	(9,755)	(9,856)	(9,230)	(11,590)	(4,600)	(400)	-91.3	1,787	-	(10,790)	-
Operating free cash flow, pre-tax	10,727	16,691	29,540	34,810	59,740	69,160	15.8	81,251	17.5	79,525	-2.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

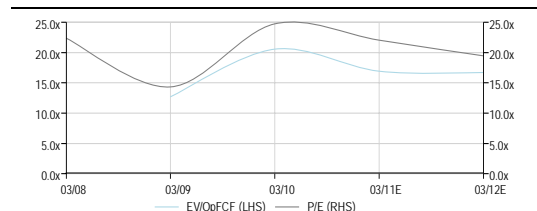
Company profile

Infosys is the second largest IT services company in India with US\$4.7bn revenue and around 105,000 employees in FY09 . Its services include application development and maintenance, consulting services and package implementation, business process management, infrastructure management, and testing services. It provides these services to international clients through offshore development facilities in India and other global centres. Infosys derives 63% of its revenue from the US, 27% from Europe, and the rest from Asia Pacific.

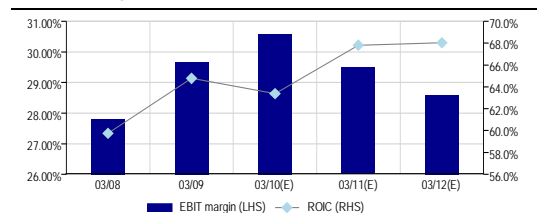
Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	24.9	22.0	14.1	24.4	21.8	19.3
P/E (UBS)	25.3	22.4	14.3	24.5	21.8	19.3
P/CEPS	21.9	19.8	12.7	21.4	18.8	16.5
Net dividend yield (%)	1.6	1.9	1.6	1.0	1.1	1.3
P/BV	7.3	6.3	4.1	6.0	4.9	4.0
EV/revenue (core)	-	-	3.5	6.2	5.0	4.2
EV/EBITDA (core)	-	-	10.5	17.9	15.0	12.7
EV/EBIT (core)	-	-	11.8	20.2	17.1	14.5
EV/OpFCF (core)	-	-	12.7	20.3	16.7	16.5
EV/op. invested capital	-	-	7.6	NM	NM	9.9

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,022,704	841,204	1,526,803	1,526,803	1,526,803
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(64,405)	(83,585)	(119,815)	(167,250)	(214,944)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	-	757,619	1,406,988	1,359,553	1,311,859

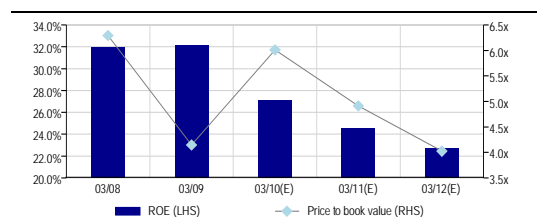
Value (EV/OpFCF & P/E)



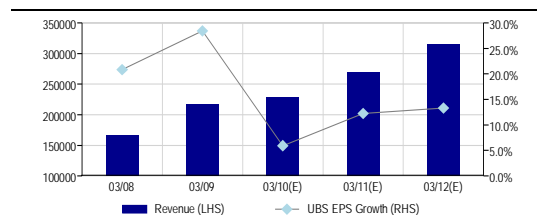
Profitability



ROE v Price to book value



Growth (UBS EPS)



Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	36.5	20.1	30.0	4.8	18.5	17.2
EBITDA (UBS)	34.0	19.3	37.4	9.3	15.4	14.2
EBIT (UBS)	35.1	19.7	38.7	8.1	14.2	13.7
EPS (UBS)	34.7	20.9	28.4	5.9	12.2	13.3
Cash EPS	33.4	20.2	28.2	7.5	13.8	13.9
Net DPS	20.0	190.7	-29.9	14.9	13.1	13.3
BVPS	34.5	30.4	24.9	26.1	22.4	22.1

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	32.4	31.4	33.2	34.6	33.7	32.8
EBIT / revenue	28.3	27.8	29.7	30.6	29.5	28.6
Net profit (UBS) / revenue	26.5	27.2	27.1	27.3	25.9	25.0

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	67.5	59.8	64.8	63.4	67.8	68.0
ROIC post tax	-	50.7	55.1	49.9	51.5	50.3
Net ROE	33.5	31.9	32.1	27.0	24.5	22.7

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	3.4	2.4	4.4	4.0	4.0	4.0
Div. payout ratio (% , UBS EPS)	39.0	41.9	22.9	24.8	25.0	25.0
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	2.4	2.1	2.2	2.1	2.3	2.4
Revenue / fixed assets	4.6	3.9	4.3	4.2	5.0	5.8
Revenue / net working capital	5.1	4.8	4.5	4.0	4.3	4.1

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	0.7	0.8	0.9	1.0	1.0	0.9
Capex / revenue (%)	10.2	9.0	6.1	3.7	4.6	4.3
Capex / depreciation	2.6	2.5	1.7	0.9	1.1	1.0

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	(47.1)	(43.2)	(47.7)	(55.8)	(61.3)	(62.3)
Net debt / (net debt + equity)	(88.9)	(76.1)	(91.1)	NM	NM	NM
Net debt (core) / EV	-	-	(11.0)	(8.5)	(12.3)	(16.4)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs2,666.95 on 04 May 2010 19:32 BST Market cap(E) may include forecast share issues/buybacks.

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■ Infosys Technologies Ltd.

Infosys is the second largest IT services company in India with US\$4.7bn revenue and around 105,000 employees in FY09 . Its services include application development and maintenance, consulting services and package implementation, business process management, infrastructure management, and testing services. It provides these services to international clients through offshore development facilities in India and other global centres. Infosys derives 63% of its revenue from the US, 27% from Europe, and the rest from Asia Pacific.

■ Statement of Risk

A sharp decline in IT Services spending could result in downward revision of our earnings estimates.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	50%	39%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	11%	24%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	29%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities India Private Ltd: Diviya Nagarajan.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Infosys Technologies Ltd. ¹⁶	INFY.BO	Neutral	N/A	Rs2,694.50	03 May 2010

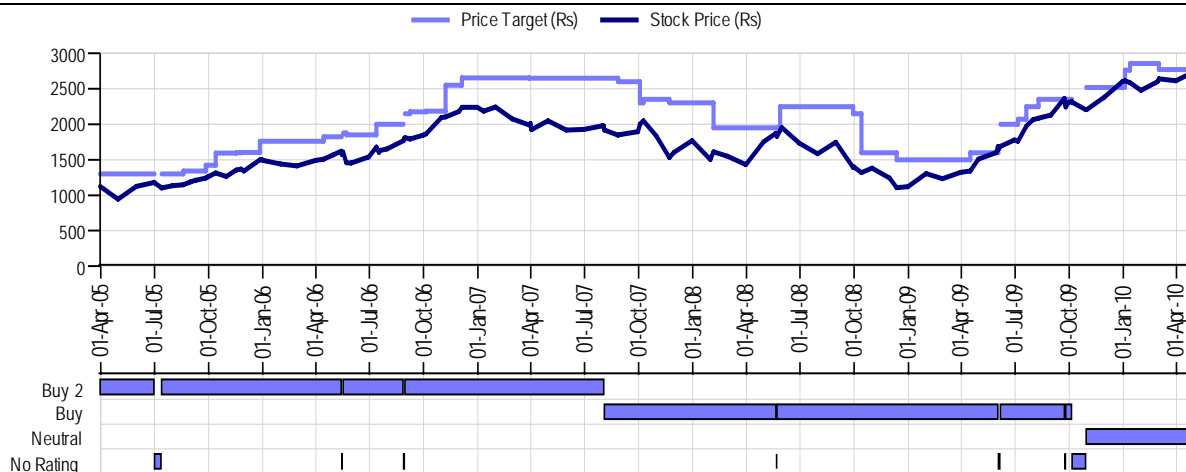
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Infosys Technologies Ltd. (Rs)



Source: UBS; as of 03 May 2010

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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