

INITIATING COVERAGE

Infosys Technologies Limited

Buy

Share Data

Market Cap	Rs. 1,117.57 bn
Price	Rs. 1,956.5
BSE Sensex	14,499.24
Reuters	INFY.BO
Bloomberg	INFO IN
Avg. Volume (52 Week)	0.31 mn
52-Week High/Low	Rs. 3,400/1,572.1
Shares Outstanding	571.21 mn

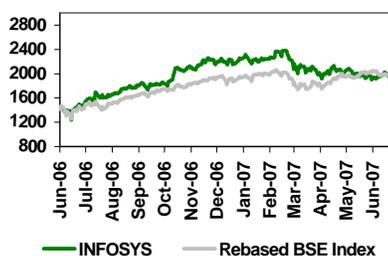
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	76.2	97.3
+/- (%)	10.3%	27.6%
PER (x)	25.6x	20.1x
EV/ Sales (x)	6.0x	4.7x
EV/ EBITDA (x)	19.9x	15.5x

Shareholding Pattern (%)

Promoters	17
FII's	33
Institutions	6
Public & Others	45

Relative Performance



Equipped for the future

Infosys Technologies Limited is a global leader in providing IT consulting and software services. Infosys, with its Global Delivery Model, is in a strong position to make use of its international presence for growth in revenues. Despite the weak dollar, revenues are expected to grow at a CAGR of 27% due to increased off-shoring, a growing client base and a rising penetration rate within existing customers. Infosys has large employee strength for meeting future business needs. Infosys has also planned to increase the utilization rate of employees to offset the mounting wage rates in the industry. The aforementioned factors indicate that the company is in a favourable position for long-term growth.

Key Figures

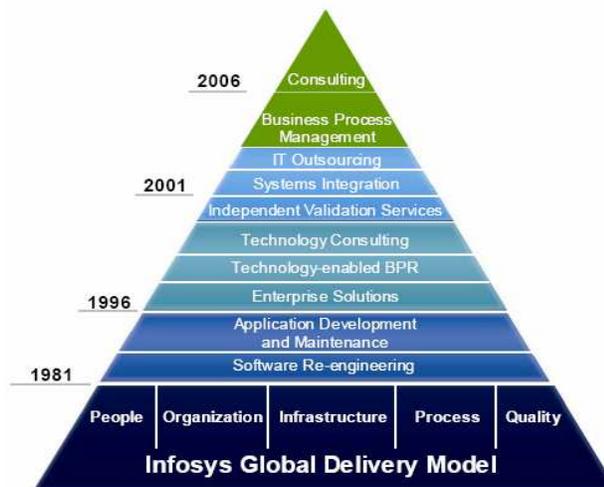
Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	71,297	95,210	138,930	175,052	224,066	27.0%
EBITDA	23,350	30,910	43,910	53,325	68,185	24.6%
Net Profit	18,464	24,580	38,500	43,541	55,555	20.1%
Margins(%)						
EBITDA	32.8%	32.5%	31.6%	30.5%	30.4%	
NPM	25.9%	25.8%	27.7%	24.9%	24.8%	
Per Share Data (Rs.)						
EPS	68.8	45.0	69.1	76.2	97.3	18.6%
PER (x)	28.4x	43.4x	28.3x	25.6x	20.1x	

- As a result of Infosys' global presence and increasing off-shoring activities world-wide, we expect a growth in revenues from Rs. 138.9 bn in FY07 to Rs. 224.1 bn in FY09E at a CAGR of 27%.
- EBITDA margins are expected to fall by 120bps from 31.6% in FY07 to 30.4% in FY09E due to the increasing wage rates in the industry.
- Our target price is Rs. 2,381, showing an upside of nearly 21.7% from the current market price of Rs. 1,956.5. We initiate coverage with a **Buy**.

Investment Rationale

Global Delivery Model: a competitive advantage

Infosys applies its Global Delivery Model (GDM) as a next generation business model with the objective to strengthen its brand and provide a diversified portfolio of services. This diversification leads to the generation of new clients and increases the penetration rate among the existing customers. In FY07, 160 new clients were added and new services accounted for 43.7% of total revenues. We expect that the GDM will lead to future growth in revenues.



Positioned to capitalize on off-shoring trend

Off-shore spending on IT and BPO services is estimated to grow to USD 65 bn (from USD 24 bn in 2005), with a CAGR of 28%. Taking into consideration the offshore business growth rates of 35% and 40% of Infosys in FY06 and FY07 respectively, and increasing off-shoring activities, we expect company's revenues to grow further.

Geographical expansion to drive growth

Infosys is expanding world-wide with the help of its 44 global development centres across India and North America. The company is expanding its presence globally through subsidiaries like Infosys China, Infosys BPO, Infosys Australia and Infosys Consulting. In FY07, revenues from these subsidiaries grew by nearly 58%. Going forward, this is expected to further boost revenues.

Global presence through subsidiaries

Changed strategy to face increasing wage rates

Increased utilization to improve bottom line

According to a report by NASSCOM, the wage hike last year was nearly 15% and is expected to rise further due to greater demand for skilled professionals. As a result, Infosys is planning to reduce recruitments and emphasize on efficient utilization of employees. We expect the utilization rate to increase from current levels of 69.5% to 73% in FY08. An upside of utilization rate of employees by 1% leads to improvement in NPM by 60bps.

Rupee appreciation may hurt revenues

Key Risks

Rupee appreciation

Nearly 63% of Infosys' revenues come from North America. Historically, fluctuations in exchange rates have impacted revenues. Exchange rate fluctuations have been taken into consideration but any unexpected appreciation in INR is a risk to our rating.

Competition

Infosys operates in a highly competitive industry and its major competitors include big firms such as Accenture, HP, IBM, Cognizant, Satyam and TCS. Increase in competition or any unforeseen steps taken by its competitors may lead to pressure on the company's earnings thereby having an impact on our rating.

Wage hikes to effect margins

Unexpected wage hikes

While estimating the profits, a wage hike of 13% (expected) has been considered but any further hike in wage rates may lead to lower margins thus having an impact on profits and valuation.

Macro-economic environment

Changes in the macro-economic environment like a slow down in the US economy or reduced IT spending may lead to a fall in revenues of the company.

Outlook

Infosys has a diversified portfolio of services for different industries such as financial institutions, telecom and retail, and has shown consistent growth in the past. As a result of Infosys' global presence and a ramp up in off-shoring activities world-wide, we expect the company to leverage its global delivery model to add to its top line.

We expect growth in revenues at a CAGR of 27% for the period of FY07-FY09E. Net profit margins are expected to be at 24.9% and 24.8% for FY08E and FY09E respectively. EBITDA margins are expected to fall by 120bps by FY09E due to a rise in wage rates of the industry. Based on relative valuation, our target price for the share is Rs. 2,381 showing an upside of nearly 21.6%. We initiate coverage with a buy.

Company Background

Infosys Technologies Limited, formerly known as Infosys Consultants Private Limited was incorporated in 1981. The company is headquartered in Bangalore and is a world leader in providing IT consulting and software services.

Infosys offers various offshore and on-site software services including application development, software maintenance and internet consulting. The company has an international presence through 44 development centres across India and North America. It provides solutions to a wide range of industries including financial institutions, insurance, retail, telecommunications, utilities and manufacturing. Infosys has 4 subsidiaries, Infosys BPO, Infosys Australia, Infosys China and Infosys Consulting.

In FY07, the total number of employees grew to nearly 72,200 (from 52,000 at the end of FY06) reflecting management's confidence on future prospects of the company.

*World leader in providing
IT services*

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