Prabhudas Lilladher

Infosys Technologies

Covers down, breakthrough

Visit Update

March 5, 2010

Rating	BUY
Price	Rs2,263
Target Price	Rs3,250
Implied Upside	23.9%
Sensex	16,972

(Prices as on March 4, 2010)

Trading Data

Market Cap. (Rs bn)	1,498.2
Shares o/s (m)	571.2
Free Float	83.94%
3M Avg. Daily Vol ('000)	1,315.2
3M Avg. Daily Value (Rs m)	3,328.8

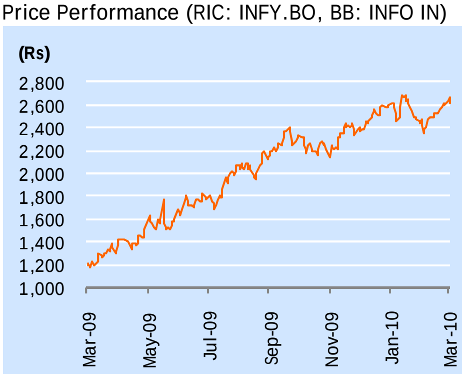
Major Shareholders

Promoters	16.06%
Foreign	36.52%
Domestic Inst.	8.57%
Public & Others	38.85%

Stock Performance

(%)	1M	6M	12M
Absolute	8.3	19.2	119.0
Relative	3.7	11.1	18.1

Price Performance (RIC: INFY.BO, BB: INFO IN)



Source: Bloomberg

We met the management of Infosys to take an update on the company's business and demand environment. The management was optimistic about the improved demand environment. We believe that Infosys would continue to outperform its peers in the improved demand environment.

- **Positive surprises on IT budget:** According to the management, IT budget is expected to be flat with a positive bias. The management, though, was positively surprised by the final outcome of the IT budget since they last spoke about it in the quarterly result. We believe that the current momentum in the strong demand would help the company to deliver revenue growth in mid single-digit in the US dollar term. We expect the company to take a conservative stance for the guidance of FY11 and guide a growth of 10-12%.
- **Unfazed from the European trouble:** Infosys has got the smallest exposure to Europe as compared to its peers and ~90% of that is from UK. The company is unfazed by trouble in Europe and hence, not witnessing any weakening in deals pipe-line. The company continues to ramp-up team with local hires in its European operation as they hired CEO for Germany and in the process to hire one for France.
- **Deal pipeline healthy - large deals in the vicinity:** The management was optimistic as the deal pipeline has improved over the last quarters. The company gained due to vendor consolidation and continues to see good traction in large business transformational deals. According to our channel check, the company is in the process of winning one large contract from leading telecom players in New Zealand (NZ) and two contracts on cloud computing in the range of US$70-80m. Australia and NZ contributes about 5% of total revenue and continues to deliver strong growth opportunities.
- **Valuation and Recommendation:** We continue to remain optimistic about improved demand environment for Indian IT Services, wherein the Tier-1 company would be benefitted. We rollover our model to FY12 and revise the target price to Rs3,250, a target multiple of 24x FY12e. We upgrade Infosys to **'BUY'** from **'Accumulate'**.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	216,930	225,241	256,716	288,831
Growth (%)	*30.0*	*3.8*	*14.0%*	*12.5*
EBITDA (Rs m)	71,950	78,577	86,433	95,789
PAT (Rs m)	59,880	62,976	72,154	77,460
EPS (Rs)	104.5	110.1	126.3	135.6
Growth (%)	*28.5*	*5.4*	*14.8%*	*7.4*
Net DPS (Rs)	43.5	25.2	25.2	25.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	*33.2*	*34.9*	*33.7*	*33.2*
RoE (%)	*32.8*	*26.2*	*24.2*	*21.4*
RoCE (%)	*35.2*	*28.8*	*25.9*	*23.6*
EV / sales (x)	6.5	6.0	5.1	4.3
EV / EBITDA (x)	19.5	17.2	15.0	13.0
PE (x)	25.1	23.8	20.7	19.3
P / BV (x)	8.2	6.2	5.0	4.1
Net dividend yield (%)	*1.7*	*1.0*	*1.0*	*1.0*

Source: Company Data; PL Research

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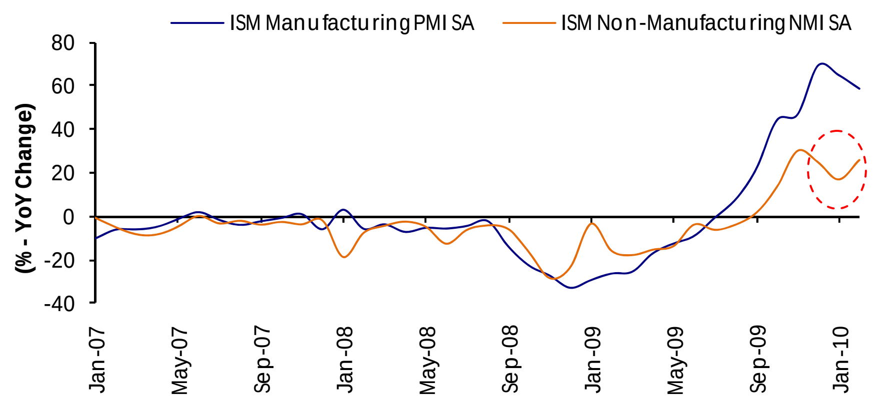
US continue to drive demand engine

Improved economic condition in the US has increased the revenue visibility of Infosys. The company management was positively surprised by the end of the budgeting session and expected the budget to have a positive bias. We continue to believe that the company would continue the strong volume momentum wherein the pricing power could be back in H2CY10. The company is seeing some positive momentum building in the US for BFSI, manufacturing, along with little activity in retail.

US non-manufacturing (Services) sector witnessing sharp rebound in the US

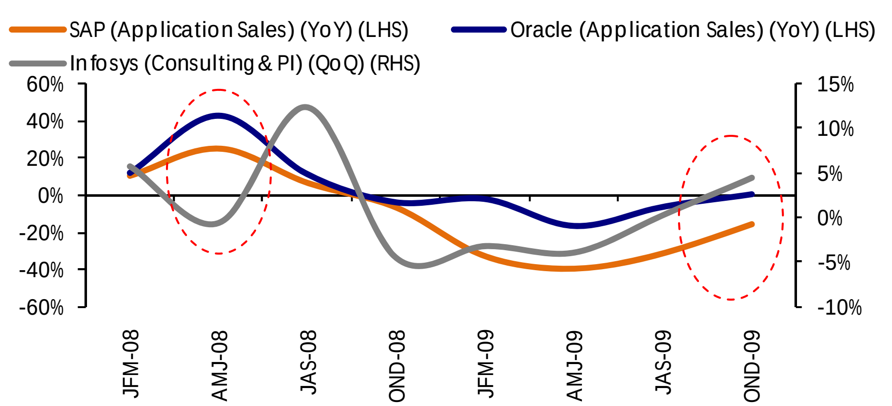


Source: Bloomberg, PL Research

Pent-up demand in package implementation

A decline in the package implementation (PI) came earlier than decline in the license sales for Oracle and SAP. We believe that there are corporates who bought the licenses and didn't implement it. In the improved market environment, we expect corporates to start implementing these licenses to improve efficiencies. We anticipate the revival in PI is likely to continue despite the sluggish sales in the licenses for Oracle and SAP.

Pent-up demand in package implementation would drive growth



Source: Company Data, PL Research

Europe contribution, lowest among its peers

Infosys drives only 22% (Q3FY10) from Europe, the lowest among its peers. The company looked unfazed with the current troubles in Europe. However, the company drives about ~90% of its European revenue from UK, which is facing some economic crisis. The company is looking for expansion in Germany and France, the second and the third largest IT market in Europe. We expect that the current crisis would pursue local companies to take cost-control measures and embrace outsourcing, a positive connotation for Infosys. We expect any small decline in UK to be offset by new geographies.

Infosys – least exposed to Europe (as per Q3FY10)

	US	Europe	Rest of World
Infosys	66.6%	21.9%	11.5%
TCS	57.4%	26.4%	16.2%
Wipro	57.1%	26.3%	16.6%
HCLT	57.0%	29.5%	13.5%

Source: Company Data, PL Research

IT Outsourcing – opportunities for strong growth in new European market (€ m)

	2008	2009e	2010e	CAGR(08-10)
EU25	62,650	65,791	69,592	5.4%
UK	21,359	22,035	23,009	3.8%
Germany	13,524	14,365	15,407	6.7%
France	8,649	9,216	9,882	6.9%

Source: EITO (2009), PL Research

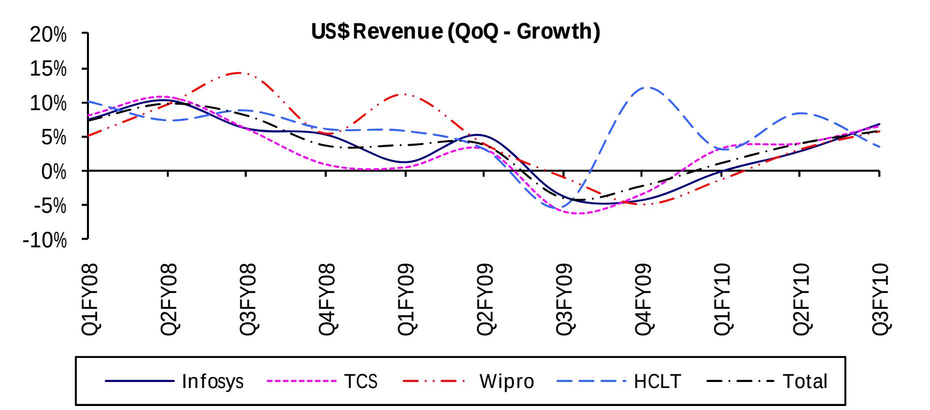
Offshoring continues to shine

We expect IT budget for CY10 to be flat with a positive bias, but we expect offshoring to increase. According to Gartner, offshoring is expected to grow by 7.1% YoY for CY10. We expect discretionary spend to be back from Q2CY10, slightly earlier than anticipated. We anticipate strong volume momentum for two consecutive quarters could put an upward bias for pricing in H2CY10. The under-investment in technology by clients for last two years due to onset of credit crisis would open a flood gate of opportunity for Indian IT companies.

Steady improvement in demand environment

Infosys reported 6.8% QoQ growth in Q3FY10, a significant out-performance when compared to its peers (TCS: 6.5%, Wipro: 5.8%, Cognizant: 5.8%). Strong existing client mining helped Infosys report stronger than its peer growth and we believe that the new engagement model would help Infosys to get favorable business growth from the existing clients. We anticipate strong volume momentum to continue, going forward, but we expect margin momentum to slow down. We are factoring in mid single digit growth on QoQ basis for Q4FY10.

Steady growth in US$ revenue, expect mid single digit growth for Q4FY10

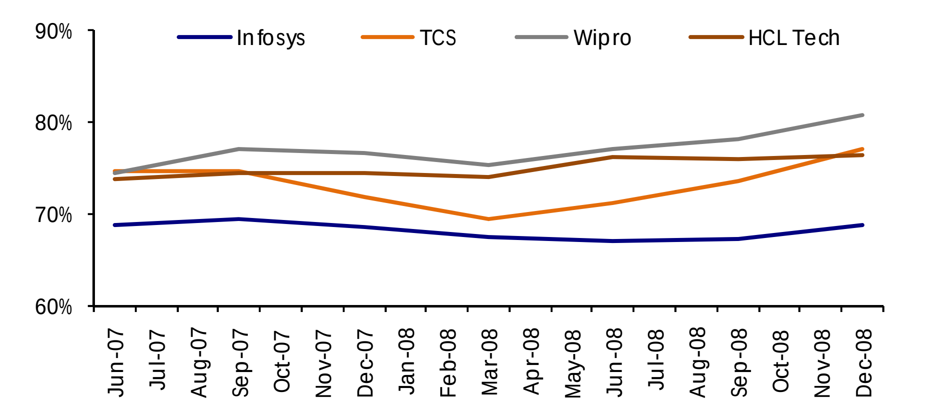


Source: Company Data, PL Research

Best preparedness for accelerated growth

Infosys is best placed for accelerated recovery. The diversified geographical presence, services and vertical mix would help Infosys reap the benefit of improved visibility from any of these segments. The lowest utilization rate (68.8% including trainees), when compared to its peers, give headroom for delivering volume growth in case of accelerated demand pick-up without denting margins.

Infosys - lowest utilization (incl. trainees) gives headroom for accelerated demand



Source: Company Data, PL Research

Hiring and salary hikes – Margin still looks resilient

Infosys is expected to add about 6k in Q4FY10, increasing its earlier hiring guidance 20k to 24k. The company is on track to give about 15k campus offers for FY11. The company has already given ~11k offers across campuses.

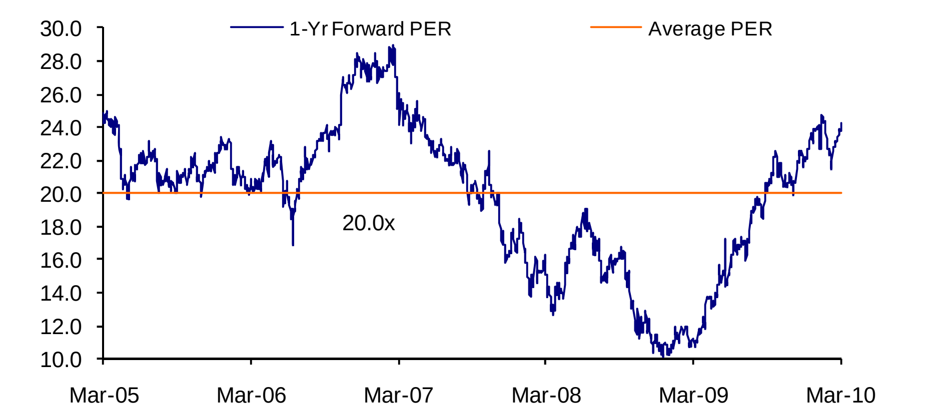
The company is planning to give a salary hike of 7-8% (much lower than 13-15% hike of FY06-07) for FY11 in Q1FY11. We deem this news as a positive outlook on the industry, as companies are trying to curb attrition by giving hikes. We believe that a sharp turnaround in the demand environment has taken companies by surprise and a sudden increase in lateral hiring is an evidence of that.

We believe that the current salary hike would have little-to-no impact on margins due to multiple margin levers like improvement in utilization, increase in offshoring, increased fixed-price projects and above all we are anticipating pricing improvement in H2CY10. We believe that a margin impact of 150-200bps because of the salary hike would be offset by the multiple margin levers. We are factoring in margin erosion of 120bps, but we anticipate a potential upside to our estimates.

Valuation and Recommendation

We believe that the ability of Infosys to command price premium and maintain margins despite volatility would help the company command multiple premium. We continue to remain optimistic about the improved demand environment for Indian IT Services, wherein the Tier-1 company would be benefitted. We rollover our model to FY12 and revise the target price to Rs3,250, a target multiple of 24x FY12e. We upgrade Infosys to '**BUY**' from '**Accumulate**'.

Scope of earning upgrade gives room for multiple re-rating



Source: Bloomberg, PL Research

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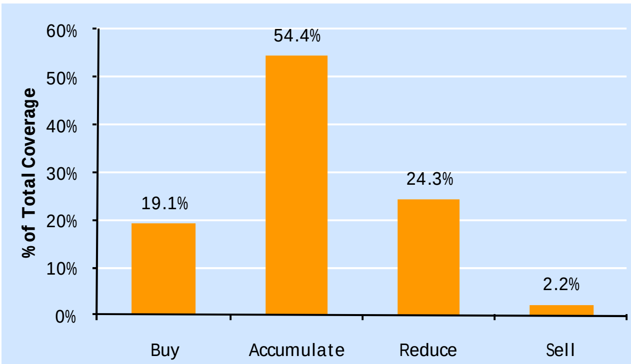
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly