

September 10, 2012

 Shashi Bhusan
 shashibhusan@plindia.com
 +91-22-66322300

 Pratik Shah
 pratikshah@plindia.com
 +91-22-66322256

Rating	BUY
Price	Rs2,422
Target Price	Rs2,850
Implied Upside	17.7%
Sensex	17,346
Nifty	5,238

(Prices as on September 7, 2012)
Trading data

Market Cap. (Rs bn)	1,385.4
Shares o/s (m)	572.0
3M Avg. Daily value (Rs m)	2901.3

Major shareholders

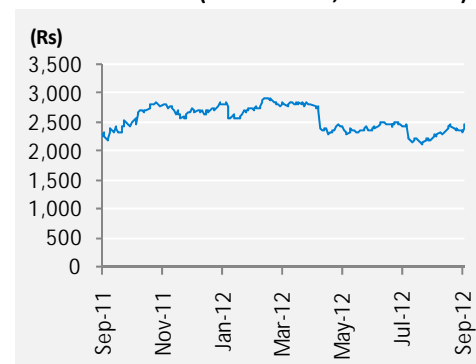
Promoters	16.04%
Foreign	37.89%
Domestic Inst.	18.29%
Public & Other	27.78%

Stock Performance

(%)	1M	6M	12M
Absolute	9.3	(14.7)	5.6
Relative	9.6	(15.7)	2.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	167.5	164.6	1.8
2014	191.4	178.2	7.4

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


Source: Bloomberg

Infosys announced acquisition of Lodestone, a Switzerland based management consulting company. The company has paid an enterprise value of CHF330m (\$349m) in cash for the acquisition. We see the acquisition as a step towards Infosys 3.0. This will enhance consulting and system integration practise of Infosys. The transaction is expected to close by the end of October, 2012.

■ **About Lodestone – Strength in C&SI:** Lodestone, headquartered in Zurich (Switzerland), current has ~850 employees, including 750 SAP consultants in the company. Lodestone Management Consultants is founded on August 1, 2005, by Ronald Hafner, Jürgen Bauer and Peter Ödman. All three founders have broad consulting and industry experience. It has more than 200 clients across industries including Manufacturing, automotive, life sciences, chemicals, and consumer goods sector. Post acquisition Infosys would have Consulting and Package Implementation revenue of \$1bn+.

■ **Lodestone reported steady growth:** Lodestone had reported revenue of CHF207mn for 2011, growing from CHF181mn in 2010. Lodestone has presence in 17 countries across five continents, with the headcount growing steadily since 2005. It has in its kitty marquee clients like Allianz, BMW, Kimberly Clark, Sandoz SHAPE, Warner Chilcott, Munich Re, AGCO System and Roche. The acquisition will enhance the presence of Infosys in Europe and emerging markets like Latin America and Asia Pacific. **Revenue for the Lodestone has grown at CAGR of 45% (2005-11), whereas employee strength has grown steadily by 57% (2005-12).**

■ **Valuation & Recommendation – Much needed inorganic booster, Reiterate BUY:** Infosys has been looking for acquisition from a long time to strengthen its presence in Consulting and Package Implementation domain. After loosing-out on Axon acquisition, Infosys organically grew its C&SI revenue to \$525m (5% CQGR over last 20 quarters). We see this acquisition as much needed inorganic booster for the company. We reiterate **“BUY”** rating with a target price of Rs2,850.

Key financials (Y/e March)

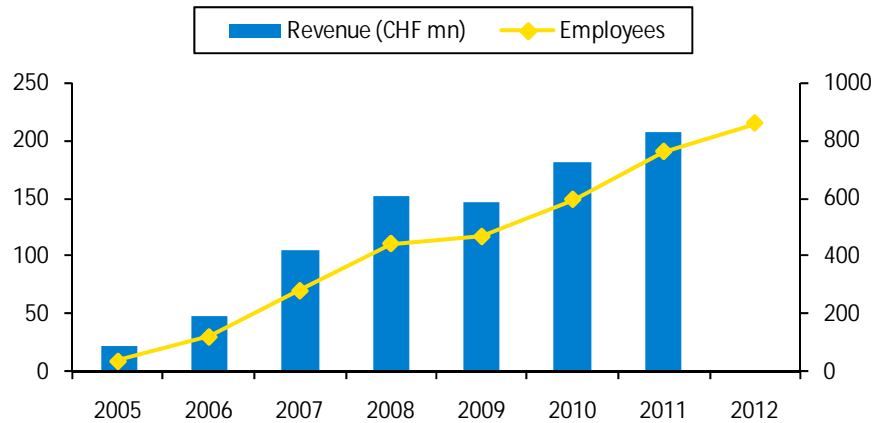
	2011	2012	2013E	2014E
Revenues (Rs m)	275,010	337,340	386,420	433,711
Growth (%)	20.9	22.7	14.5	12.2
EBITDA (Rs m)	89,640	107,160	124,780	139,119
PAT (Rs m)	68,230	83,160	95,821	109,463
EPS (Rs)	119.3	145.4	167.5	191.4
Growth (%)	8.9	21.9	15.2	14.2
Net DPS (Rs)	26.5	31.5	37.9	44.9

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	32.6	31.8	32.3	32.1
RoE (%)	27.1	27.4	25.8	24.3
RoCE (%)	26.9	27.2	25.7	24.2
EV / sales (x)	4.4	3.5	2.9	2.4
EV / EBITDA (x)	13.6	11.0	9.0	7.5
PE (x)	20.3	16.7	14.5	12.7
P / BV (x)	5.1	4.1	3.4	2.8
Net dividend yield (%)	1.1	1.3	1.6	1.9

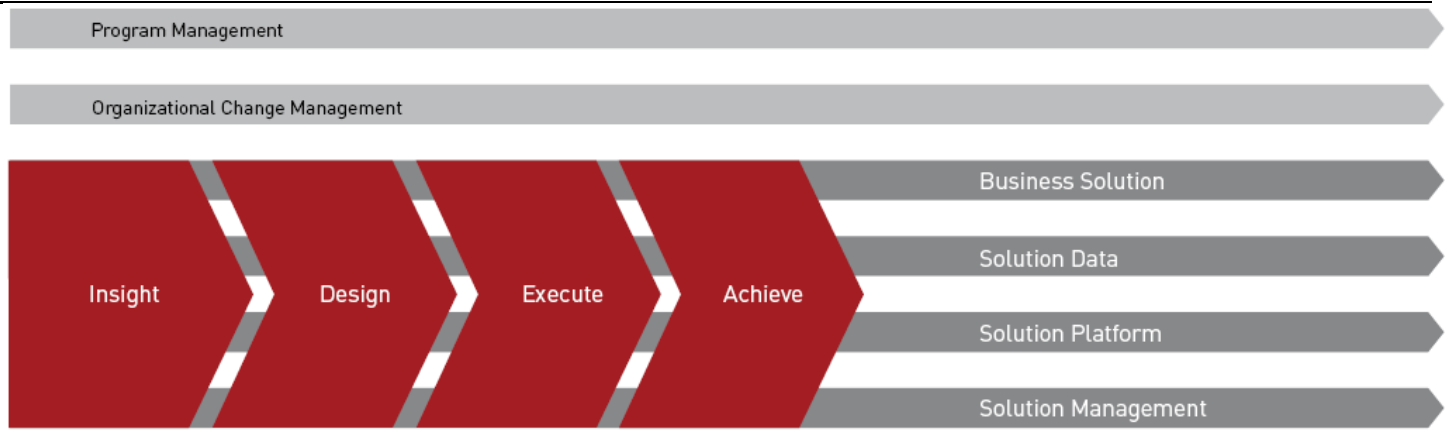
Source: Company Data; PL Research

Exhibit 1: Revenue grew at CAGR of 45% (2005-11), Employees at a CAGR of 57% (2005-12)



Source: Company Data, PL Research

Exhibit 2: Lodestone Methodology



Source: Company Data, PL Research

Exhibit 3: Lodestone



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	275,010	337,340	386,420	433,711
Raw Material Expenses	150,540	188,710	214,137	241,319
Gross Profit	124,470	148,630	172,283	192,392
Employee Cost	—	—	—	—
Other Expenses	34,830	41,470	47,503	53,273
EBITDA	89,640	107,160	124,780	139,119
Depr. & Amortization	8,620	9,370	11,913	13,129
Net Interest	—	—	—	—
Other Income	12,110	19,040	20,218	21,933
Profit before Tax	93,130	116,830	133,085	147,923
Total Tax	24,900	33,670	37,264	38,460
Profit after Tax	68,230	83,160	95,821	109,463
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	68,230	83,160	95,821	109,463
Avg. Shares O/S (m)	572.0	572.0	572.0	572.0
EPS (Rs.)	119.3	145.4	167.5	191.4

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	59,070	82,120	99,483	114,090
C/F from Investing	22,310	(20,610)	(16,616)	(17,782)
C/F from Financing	(35,830)	(22,260)	(21,705)	(25,703)
Inc. / Dec. in Cash	45,550	39,250	61,162	70,605
Opening Cash	121,110	166,660	205,910	267,072
Closing Cash	166,660	205,910	267,072	337,677
FCFF	74,800	69,810	84,836	98,214
FCFE	74,800	69,810	84,836	98,214

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	20.9	22.7	14.5	12.2
EBITDA (%)	14.0	19.5	16.4	11.5
PAT (%)	8.9	21.9	15.2	14.2
EPS (%)	8.9	21.9	15.2	14.2
Profitability				
EBITDA Margin (%)	32.6	31.8	32.3	32.1
PAT Margin (%)	24.8	24.7	24.8	25.2
RoCE (%)	26.9	27.2	25.7	24.2
RoE (%)	27.1	27.4	25.8	24.3
Balance Sheet				
Net Debt : Equity	(0.6)	(0.6)	(0.7)	(0.7)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	20.3	16.7	14.5	12.7
P / B (x)	5.1	4.1	3.4	2.8
EV / EBITDA (x)	13.6	11.0	9.0	7.5
EV / Sales (x)	4.4	3.5	2.9	2.4
Earnings Quality				
Eff. Tax Rate	26.7	28.8	28.0	26.0
Other Inc / PBT	13.0	16.3	15.2	14.8
Eff. Depr. Rate (%)	10.6	10.4	11.1	10.5
FCFE / PAT	109.6	83.9	88.5	89.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	273,030	334,610	408,726	492,486
Total Debt	—	—	—	—
Other Liabilities	3,190	1,210	1,210	1,210
Total Liabilities	276,220	335,820	409,936	493,696
Net Fixed Assets	48,440	54,090	60,763	67,322
Goodwill	8,730	11,660	11,660	11,660
Investments	2,100	3,770	3,770	3,770
Net Current Assets	198,380	251,030	318,473	395,674
<i>Cash & Equivalents</i>	<i>166,660</i>	<i>205,910</i>	<i>267,072</i>	<i>337,677</i>
<i>Other Current Assets</i>	<i>68,130</i>	<i>92,780</i>	<i>103,751</i>	<i>114,666</i>
<i>Current Liabilities</i>	<i>36,410</i>	<i>47,660</i>	<i>52,350</i>	<i>56,669</i>
Other Assets	18,570	15,270	15,270	15,270
Total Assets	276,220	335,820	409,936	493,696

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	80,990	92,980	88,520	96,160
EBITDA	25,160	31,350	28,900	29,460
<i>% of revenue</i>	<i>31.1</i>	<i>33.7</i>	<i>32.6</i>	<i>30.6</i>
Depr. & Amortization	2,350	2,360	2,430	2,530
Net Interest	—	—	—	—
Other Income	3,870	4,220	6,520	4,760
Profit before Tax	26,680	33,210	32,990	31,690
Total Tax	7,620	9,490	9,830	8,800
Profit after Tax	19,060	23,720	23,160	22,890
Adj. PAT	19,060	23,720	23,160	22,890

Key Operating Metrics

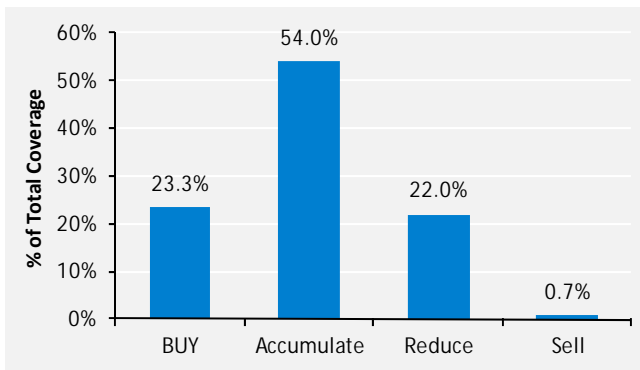
Y/e March	2011	2012	2013E	2014E
Volume (persons month)	998,425	1,106,473	1,222,653	1,393,824
Pricing (US\$ / Hr)	34	36	36	36
Currency (USDINR)	45.5	48.2	50.0	48.5
SW Devp. Cost (% of sales)	54.7	55.9	55.4	55.6
SG&A (% of sales)	12.7	12.3	12.3	12.3
Revenue (US\$ m)	6,041	6,994	7,728	8,943
EBITDA Margin Expansion/(Erosion) (bps)	(197.1)	(82.9)	52.5	(21.5)
Tax Rate (%)	26.7	28.8	28.0	26.0

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.