

CMP : Rs.2,778

Reco : BUY

Target : Rs.3,400

STOCK INFO

BSE	500209
NSE	MPS
Bloomberg	MPS
Reuters	INFY. BO
Sector	IT- Software
Face Value (Rs)	5
Equity Capital (Rs Mn)	2870
Mkt Cap (Rs Mn)	1,595,000
52w H/L (Rs)	3494 / 2660
Avg Daily Vol (BSE+NSE)	1,045,418

SHAREHOLDING PATTERN

(as on 30th June 2011)

	%
Institutions	46.71
Others, Incl Public	37.24
Promoters	16.05

Source: Company, BSE

STOCK PERFORMANCE (%)	1m	3m	12m
INFY	1	-10	1
SENSEX	1	-4	4

Source: IndiaNivesh Research

INFY v/s BSE SENSEX



Source: IndiaNivesh Research, Capitaline

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Underperformance continues because of the over expectation by street after re-organization. We agree that Q2 FY12 guidance does not give any upward revision in yearly earning. But we remain confident about the company's long-term performance. The slow-down in global economy may lead to delay in the decision making. But still the demand exists and Infosys has the capability to grab that demand.

Revenue performance....below our estimate

- Infosys Ltd reported Q1 FY12 revenue of Rs.74.8 bn, up 3.2% Q-o-Q and 20.8% Y-o-Y, below our estimate of Rs.75.3 bn. The revenue growth was primarily driven by pricing (Up 1.2% in IT, Up 0.8% in BPO and Up 5.0% in Product) and volume (Up 3.2%) increase. (See Charts; Page 2)

De-growth in EBITDA, lead by higher employee and operating cost

- The company EBITDA declined 7.8% Q-o-Q to Rs. 21.9 bn, below our estimate of Rs.23.3 bn due to higher employee (Up 9.6%) and operating expenditure (Up 8.6%).
- As a result, its EBITDA margin contracted 352 bps to 29.4% in Q1 FY12 as compared to 32.9% in Q4 FY11.

Trickledown effect, net profit de-growth continues

- Due to lower EBITDA the company's net profit declined 5.3% Q-o-Q to 17.2 bn, below our estimate of Rs. 17.9 bn, partially offset by higher other income.
- Its adjusted net profit declined 8.8% Q-o-Q to Rs. 12.7 bn in Q1 FY11 as compared to 14.0 bn in Q4 FY11.
- Net margin contracted 207 bps to 23.0% in Q1 FY11 as compared to 25.1% in Q4 FY11.

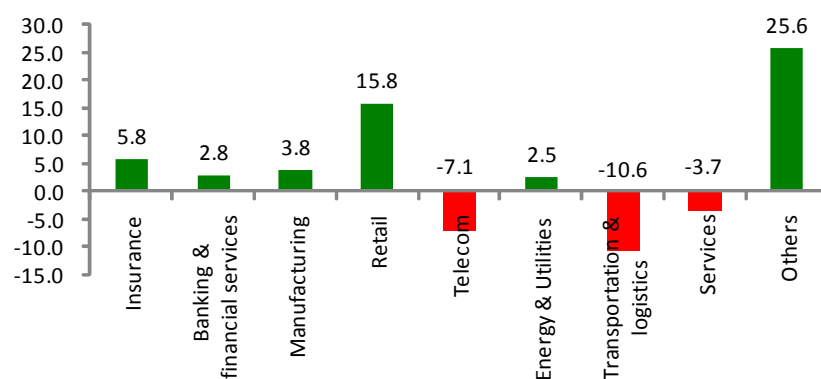
Muted Guidance...below expectations

- In Q2 FY12 the company guided the revenue growth of 4.3% Q-o-Q to Rs. 78.1 bn, below our estimate of Rs.79.5 bn.
- Guided net profit of Rs. 17.2 bn (EPS of Rs.30.1), Up 0.15% Q-o-Q, below our estimate of Rs. 18.8 bn.
- Infosys is likely to hire 12,000 employees in Q2 FY12.

Valuations

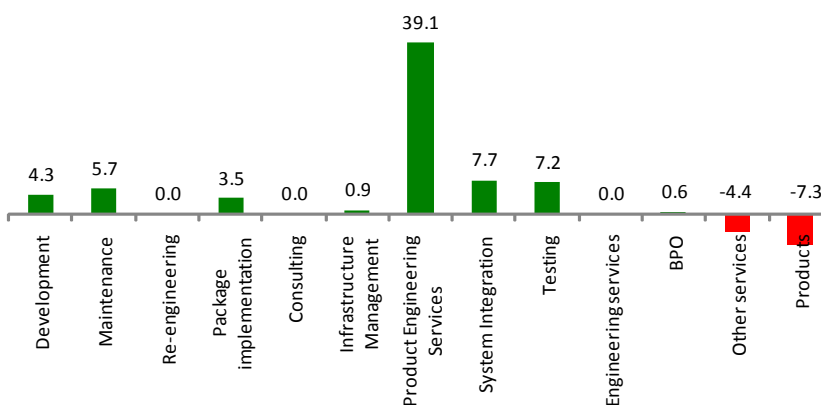
At CMP of Rs. 2778/share the stock is trading at 20.5x and 15.7x in FY12e and FY13e EPS estimate. The current sell-off in the stock is primarily due to the muted guidance and below street expectation performance. However, we believe the recent re-organization and realignment of verticals should yield good growth going-forward. In current quarter the company bagged 3 large transformational deals and few large deals are in the pipeline. We are confident about long-term (FY12) growth outlook of the company maintain BUY with Rs. 3400/share target price.

Revenue Growth (Q-o-Q) - As Per Verticals



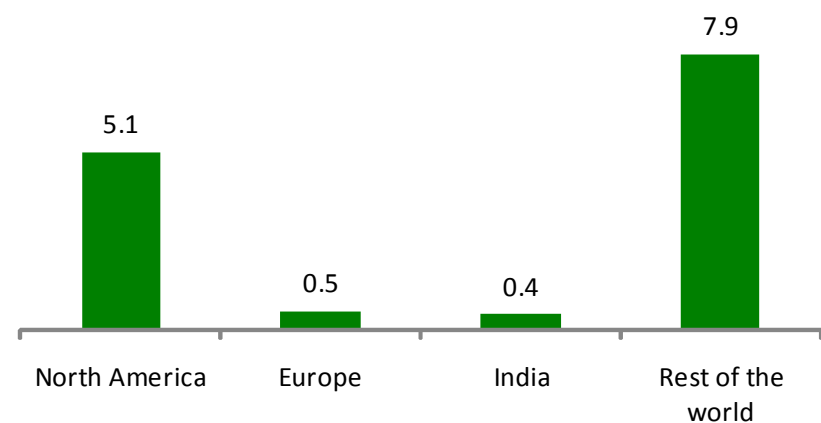
Source: Company Filings; IndiaNivesh Research

Revenue Growth (Q-o-Q) - As Per Service



Source: Company Filings; IndiaNivesh Research

Revenue Growth (Q-o-Q) - As Per Geographies



Source: Company Filings; IndiaNivesh Research

Income Statement (Rs. Mn)	Q1 FY12E	Q4 FY11A	Q1 FY11A	Q-o-Q %	Y-o-Y %
Revenues	74,850	72,500	61,980	3.2	20.8
Staff Costs (Soft.dev.exp.)	43,314	39,520	34,410	9.6	25.9
Selling expenses	3,980	4,000	3,390	-0.5	17.4
General and Admin expenses	5,580	5,140	4,560	8.6	22.4
EBIDTA	21,976	23,840	19,620	-7.8	12.0
Depreciation	2,456	2,820	2,070	-12.9	18.6
EBIT	19,520	21,020	17,550	-7.1	11.2
Other Income	4,430	4,150	2,390	6.7	85.4
PBT bef. Extraordinary	23,950	25,170	19,940	-4.8	20.1
Provision for tax	6,730	6,990	5,060	-3.7	33.0
PAT after extra-ordinary	17,220	18,180	14,880	-5.3	15.7
EPS (Rs)	30	32	26	-5.3	15.7
Equity	2,860	2,860	2,860	0.0	0.0
No. of shares	572	572	572	0.0	0.0
Margin %				basis points (bps)	
EBITDA	29.4	32.9	31.7	-352.3	-229.5
EBIT	26.1	29.0	28.3	-291.4	-223.7
PBT	32.0	34.7	32.2	-272.0	-17.4
Net Profit	23.0	25.1	24.0	-207.0	-100.2

Contract Type	Q1 FY12	Q4 FY11	Q1 FY11
Fixed Price	39.1	41.0	39.0
Time & Materials	60.9	59.0	61.0

Contract Type	Q1 FY12	Q4 FY11	Q1 FY11
	0	628	620.0
Fixed Price	26	34.0	38.0
Repeat Business(P%)	99.2	97.0	99.4
New Business(P%)	0.8	3.0	0.6
IT Repeat Business - PAC(Rs. Mn)	113	107	104
IT New Business - PNC(Rs. Mn)	22	61	10
IT Total Revenue - PAC(Rs. Mn)	113	111	105
IT Total Revenue - PAC (Excl. Tel)(Rs. Mn)	113	111	86
IT Cost Per Active Client (Rs. Mn)	76	70	64
IT EBIT Per Active Client (Rs. Mn)	38	41	41
IT Revenue - Repeat Buisness(Rs. Mn)	70,687	66,527	58,713
Accounting for > 5% of revenue	0	0	0
Number of million dollar clients(No's)			
1 Million dollar +	374	366	341
5 Million dollar +	183	187	170
10 Million dollar +	125	126	103
20 Million dollar +	80	73	60
30 Million dollar +	54	53	43
40 Million dollar +	44	41	34
50 Million dollar +	32	28	26
60 Million dollar +	23	24	17
70 Million dollar +	21	19	13
80 Million dollar +	15	15	11
90 Million dollar +	12	11	10
100 Million dollar +	11	11	8
200 Million dollar +	2	2	1
300 Million dollar+	0	0	0

Client Contribution to revenue(%)	Q1 FY12	Q4 FY11	Q1 FY11
Top Client	4.5	4.7	4.9
Top 5 Clients	15.9	15.4	15.4
Top 10 Clients	25.2	24.9	26.1
%Others	74.8	75.1	73.9

Source: Company Filings; IndiaNivesh Research

Billable Volume (Person man Months)	Q1 FY12	Q4 FY11	Q1 FY11	Q-o-Q %	Y-o-Y%
IT	2,08,692	2,00,744	1,84,279	4.0	13.2
IT + BPO + Products	2,64,056	2,55,929	2,33,756	3.2	13.0

Employee Addition	Q1 FY12	Q4 FY11	Q1 FY11	Q-o-Q %	Y-o-Y%
Gross Additions (No's):					
Fresher Hiring	5,878	5,339	5,917	10.1	-0.7
Lateral Hiring	4,044	3,591	2,942	12.6	37.5
Total	9,922	8,930	8,859	11.1	12.0
Attrition Rate (P%):					
LTM (Excl BPO Empl)	15.8	17.0	15.8		
QTR Calculated (Incl BPO Empl)	5.4	4.6	6.9		
IT segment Utilization Rate (P%):					
Including Trainees	69.6	68.4	71.9		
Excluding Trainees	74.9	75.2	78.0		

Pricing (Per Man Months U\$)	Q1 FY12	Q4 FY11	Q1 FY11	Q-o-Q %	Y-o-Y%
IT	7,192	7,108	6,604	1.2	8.9
BPO	2,316	2,297	2,079	0.8	11.4
Product	5,633	5,365	5,368	5.0	4.9

Source: Company Filings; IndiaNivesh Research

Consolidated Financial Statements

Income statement

Y E March (Rs m)	FY10	FY11	FY12e	FY13e	FY14e
Net sales	227,420	275,010	329,009	406,562	491,189
Growth %	4.8	20.9	19.6	23.6	20.8
Employee cost	120,710	149,632	185,389	227,268	272,610
SG&A	28,100	34,830	42,855	53,260	64,346
EBITDA	78,610	90,548	100,765	126,034	154,233
Growth %	9.3	15.2	11.3	25.1	22.4
EBITDA Margin %	34.6	32.9	30.6	31.0	31.4
Depreciation	9,050	9,528	10,860	10,846	10,717
EBIT	69,560	81,020	89,905	115,189	143,517
EBIT Margin %	30.6	29.5	27.3	28.3	29.2
Other Income	9,250	12,110	16,931	24,056	26,808
Interest	0	0	0	0	1
PBT	78,810	93,130	106,836	139,244	170,325
Tax	16,810	24,900	29,524	38,292	46,839
Effective tax rate %	21.3	26.7	27.6	27.5	27.5
Extraordinary items	480	0	0	0	0
Minority Interest	0	0	0	0	0
Adjusted PAT	62,480	68,230	77,312	100,952	123,486
Growth%	4.3	9.2	13.3	30.6	22.3
PAT margin %	27.5	24.8	23.5	24.8	25.1
Reported PAT	62,480	68,230	77,312	100,952	123,486
Growth%	4.3	9.2	13.3	30.6	22.3

Source: Company filings; IndiaNivesh Research

Balance sheet

Y E March (Rs m)	FY10	FY11	FY12e	FY13e	FY14e
Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves & Surplus	227,630	270,170	311,616	384,617	473,946
Net Worth	230,490	273,030	314,476	387,477	476,806
Deferred tax liability	0	600	5460	5460	5460
Total Liabilities	230,490	273,630	319,936	392,937	482,266
Gross Block	78,390	95,628	116,600	132,863	147,598
Less Depreciation	28,930	38,458	46,861	57,707	68,424
Net Block	49,460	57,170	69,739	75,156	79,175
Capital Work in Progress	4,090	0	0	0	0
Investments	37,120	14,790	9,000	9,000	9,000
Deferred tax assets	2000	1190	3780	3780	3780
Current Assets	182,370	236,890	297,277	377,739	477,889
Sundry Debtors	34,940	58,960	67,073	81,484	98,184
Cash & Bank Balance	105,560	166,660	210,583	272,404	350,715
Loans & advances	41,870	11,270	19,622	23,850	28,990
Current Liabilities	23,430	15,410	35,839	43,540	52,088
Provisions	21,120	21,000	24,021	29,197	35,490
Net Current Assets	137,820	200,480	237,417	305,001	390,311
Total assets	230,490	273,630	319,936	392,937	482,266

Source: Company filings; IndiaNivesh Research

Cash Flow

Y E March (Rs m)	FY10	FY11	FY12e	FY13e	FY14e
PAT	62410	68230	77312	100952	123485
Depreciation	9310	9220	10860	10846	10717
Others	15153	28500	46455	62348	73647
Other non cash charges	-284	6880	2270	0	0
Changes in working capital	-717	-4520	6987	-5763	-7000
Tax	-17589	-29680	-46454	-62348	-73647
Cash flow from operations	68283	78630	97430	106035	127202
Capital expenditure	-8265	-13390	-20972	-16262	-14736
Free Cash Flow	60018	65240	76458	89772	112467
Other income	-43223	-19080	0	0	0
Investments	7126	34970	5791	0	0
Cash flow from investments	-44361	2500	-15181	-16262	-14736
Equity capital raised	-389	-5010	1	0	0
Dividend paid (incl tax)	-14380	-42850	-21776	-27951	-34156
Cash flow from Financing	-14769	-47860	-21775	-27951	-34156
Net change in cash	9152	33270	60474	61821	78310
Cash at the beginning of the year	96408	133390	150109	210584	272405
Cash at the end of the year	105560	166660	210584	272405	350715

Source: Company filings; IndiaNivesh Research

Key ratios

Y E March	FY10	FY11	FY12e	FY13e	FY14e
EPS (Rs)	109.0	119.3	135.2	176.5	215.9
Cash EPS (Rs)	124.8	135.9	154.1	195.5	234.6
DPS (Rs)	25.1	74.9	38.1	48.9	59.7
BVPS	402.3	477.3	549.8	677.4	833.6
ROCE %	37.4	34.2	34.6	36.0	36.4
ROE %	27.1	25.0	24.6	26.1	25.9
ROIC %	20.9	9.3	17.7	18.8	18.7
EBITDA Margin %	34.6	32.9	30.6	31.0	31.4
Net Margin %	27.5	24.8	23.5	24.8	25.1
PER (x)	25.5x	23.3x	20.5x	15.7x	12.9x
P/BV (x)	6.9x	5.8x	5.1x	4.1x	3.3x
P/CEPS (x)	22.2x	20.4x	18.0x	14.2x	11.8x
EV/EBITDA (x)	18.3x	15.9x	14.3x	11.4x	9.3x
Dividend Yield %					
m cap/sales (x)	7.0x	5.8x	4.8x	3.9x	3.2x
net debt/equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
net debt/ebitda (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: Company filings; IndiaNivesh Research



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